



Home Bancshares, Inc. (HOMB)

Updated July 24th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	11.2%	Market Cap:	\$4.87B
Fair Value Price:	\$22	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	08/16/2023
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	09/07/2023
Dividend Yield:	3.1%	5 Year Price Target	\$35	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

A group of investors led by John W. Allison and Robert H. "Bunny" Adcock Jr. founded Home Bancshares, Inc., a bank holding company, in 1998. Customers in Arkansas, Florida, Alabama, and New York can access a variety of financial services via Centennial Bank, the company's main subsidiary. More than 300,000 consumers are served by the company's more than 222 branch sites. Home Bancshares holds a competitive position in the banking sector and places a high priority on offering excellent client care and creative financial solutions. The business derives income from several markets, including commercial loans, residential loans, consumer loans, and deposit accounts, and has a market share of about 1% in the US banking industry.

On July 20th, 2023, the company announced results for its second quarter of 2023. HOMB reported Q2 Non-GAAP EPS of \$0.52, beating market estimates by \$0.01. The company reported revenues of \$257.2 million for the quarter, up 5.7% year-over-year. The company also reported a net income of \$105.3 million, up 2.2% from the \$103.0 million profit in the previous quarter, and up 6.6x times compared to the same period last year.

For the three months that ended June 30, 2023, the net interest margin was 4.28%, down from 4.37% for the three months that ended March 31, 2023. The average loan size dropped from \$14.47 billion to \$14.26 billion, and the yield on loans was 6.84% for the three months ending June 30, 2023, and 6.64% for the three months ending March 31, 2023, respectively. In addition, while average interest-bearing balances dropped from \$12.65 billion to \$12.42 billion, the rate on interest-bearing deposits climbed to 2.27% as of June 30, 2023 from 1.90% as of March 31, 2023.

The company has a net position of \$4.93 billion as of June 30, 2023, consisting of about \$7.69 billion in uninsured deposits and \$2.76 billion in collateralized deposits, representing about 29.0% of all deposits.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.57	\$0.85	\$1.01	\$1.26	\$0.89	\$1.73	\$1.73	\$1.30	\$1.94	\$1.57	\$2.00	\$3.22
DPS	\$0.15	\$0.18	\$0.28	\$0.34	\$0.40	\$0.46	\$0.51	\$0.53	\$0.56	\$0.66	\$0.72	\$1.06
Shares	116.5	132.7	137.1	140.7	151.5	174.1	167.8	165.4	164.9	195.0	207.0	279.0

The rising interest rate environment has driven higher interest income in the latest quarter. HOMB reported a \$4.6 million rise in interest income primarily due to an increase of \$6.1 million in loan interest income, which was somewhat offset by a \$1.0 million fall in income from interest-bearing balances due from banks and a \$687,000 decrease in investment income.

Thus, we maintain our forecast of an EPS of \$2.00 in 2023 in-line with analysts' estimates, and amidst the rising interest rate environment, the bank can grow faster in the following years, with a projected annual EPS growth of 10.0%, HOMB's EPS can reach \$3.22 by 2028. Home Bancshares, Inc.'s DPS had a nine-year and five-year CAGR of 17.9% and 28.5%, respectively. However, the company's approach to managing its capital and liquidity supports the payment of competitive cash dividends. Thus, we have assumed an annual DPS growth of at least 8.0%.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	13.2	15.2	15.6	17.4	28.0	12.6	10.8	12.5	12.5	14.8	11.8	11.0
Avg. Yld.	1.2%	1.1%	1.5%	1.6%	1.6%	2.1%	2.7%	3.3%	2.3%	2.8%	3.1%	3.0%

Home Bancshares, Inc. is trading at a forward P/E of 11.0, lower than its nine-year and five-year average P/E of 15.3 and 12.6, respectively. The recent banking crisis and fears of the contagion effect in the sector have suppressed bank stocks' valuations. However, considering the bank's resiliency, we have assumed a stable P/E of 11.0 to value the company in 2028 slightly lower than its historical averages, which accounts for the higher uncertainty attached to the sector. This suggests a target price of \$35, and a 46% upside from current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

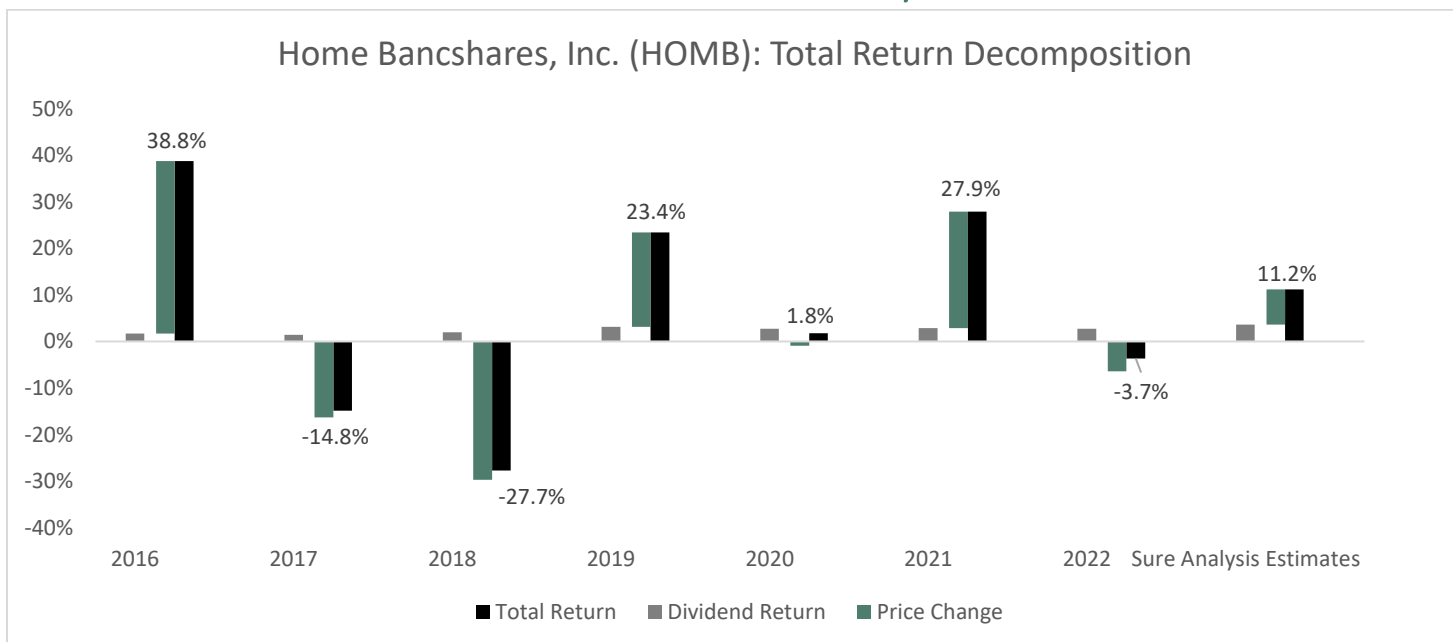
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26%	21%	28%	27%	45%	27%	29%	41%	29%	42%	36%	33%

Home Bancshares, Inc. has proved its resiliency. Despite economic headwinds, the bank's entire franchise delivered a strong performance in 2022, as seen in its \$115.7 million net income for the fourth quarter and \$305.3 million for the year. The bank has a fortress balance sheet, with a total risk-based capital of 17.3% of its assets in Q2, which makes it one of the best-capitalized banks in the country. We believe HOMB is well-positioned to navigate a banking crisis without a material impact on its operations.

Final Thoughts & Recommendation

Following the banking crisis, the sector outlook remains uncertain. However, Home Bancshares, Inc.'s strong financial position and well capitalization supports the bank's position in the market, making it less vulnerable to contagion effects. Thus, following the pullback, we maintain our buy rating, premised upon the 11.2% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 10.0%, 3.1% dividend yield, and the valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	248	381	423	486	544	655	654	685	700	919
SG&A Exp.	75	100	115	133	148	180	188	179	186	260
D&A Exp.	6	46	32	15	17	19	19	20	19	32
Net Profit	67	113	138	177	135	300	290	214	319	305
Net Margin	26.8%	29.7%	32.7%	36.5%	24.8%	45.8%	44.3%	31.3%	45.6%	33.2%
Free Cash Flow	100	245	195	173	135	296	233	280	379	404
Income Tax	38	64	80	106	136	95	96	63	98	89

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,812	7,403	9,289	9,808	14,450	15,302	15,032	16,399	18,052	22,884
Cash & Equivalents	166	113	256	217	636	658	491	1,264	3,650	725
Acc. Receivable	23	24	29	31	46	49	45	61	47	103
Goodwill & Int.	324	346	399	396	977	1,001	995	1,004	998	1,457
Total Liabilities	5,971	6,388	8,089	8,481	12,245	12,953	12,521	13,793	15,286	19,357
Accounts Payable	5	29	56	51	42	68	102	128	114	197
Long-Term Debt	411	759	1,467	1,366	1,667	1,841	991	770	771	1,090
Total Equity	841	1,015	1,200	1,327	2,204	2,350	2,512	2,606	2,766	3,526
LTD/E Ratio	0.49	0.75	1.22	1.03	0.76	0.78	0.39	0.30	0.28	0.31

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.2%	1.6%	1.7%	1.9%	1.1%	2.0%	1.9%	1.4%	1.9%	1.5%
Return on Equity	9.8%	12.2%	12.5%	14.0%	7.6%	13.2%	11.9%	8.4%	11.9%	9.7%
ROIC	6.9%	7.5%	6.2%	6.6%	4.1%	7.5%	7.5%	6.2%	9.2%	7.5%
Shares Out.	116.5	132.7	137.1	140.7	151.5	174.1	167.8	165.4	164.9	195.0
Revenue/Share	2.13	2.87	3.08	3.45	3.59	3.76	3.90	4.14	4.24	4.71
FCF/Share	0.86	1.85	1.42	1.23	0.89	1.70	1.39	1.69	2.30	2.07

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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