Home Bancshares, Inc. (HOMB)

Updated February 13th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$24	**5 Year CAGR Estimate:**	8.9%	**Market Cap:**	$5.17 B
Fair Value Price:	$21	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	02/13/2024
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.7%	**Dividend Payment Date:**	03/06/2024
Dividend Yield:	3.0%	**5 Year Price Target**	$32	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

A group of investors led by John W. Allison and Robert H. "Bunny" Adcock Jr. founded Home Bancshares, Inc. (HOMB), 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 prioritizes 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 January 18th, 2024, the company announced results for its fourth quarter and full year 2023. HOMB reported Q4 non-GAAP EPS of $0.48, beating market estimates by $0.02. The company reported revenues of $245.6 million for the quarter, down 9.8% year-over-year.

The net interest margin decreased slightly to 4.17% from 4.19% in the previous quarter due to an increase in the loan yield and a rise in average loans and interest-bearing deposits. Net interest income marginally increased to $203.9 million, driven by a significant rise in interest income mostly from loans in the current high-interest rate environment that was matched with a rise in interest expense. Additionally, non-interest income was $42.8 million, driven largely by service charges, while non-interest expenses were $127.2 million, including a hefty $13.0 million contribution towards the FDIC special assessment. The company's efficiency ratio improved to 50.64% and the adjusted ratio to 46.43%, signaling solid operational standing in clearly a very challenging interest rate environment.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.85	$1.01	$1.26	$0.89	$1.73	$1.73	$1.30	$1.94	$1.57	$2.00	***$1.91***	***$2.93***
DPS	$0.18	$0.28	$0.34	$0.40	$0.46	$0.51	$0.53	$0.56	$0.66	$0.72	***$0.72***	***$1.06***
Shares[1]	132.7	137.1	140.7	151.5	174.1	167.8	165.4	164.9	195.0	204.0	***214.4***	***275.2***

Despite the overall decrease in assets and a challenging high-rate environment that dampens credit demand, the bank achieved substantial growth in both loans and securities portfolios, with increases of 10.60% and 2.03%, respectively, in the most recent quarter. This growth is notable, especially for loans, and was accompanied by significant yield improvements: loans saw a 129-basis point increase, while securities yields rose by 122 basis points, leading to an overall yield on interest-earning assets increase of 163 basis points year-over-year. The cost implications were also evident on the liabilities side, with the cost of interest-bearing deposits escalating by 170 basis points to 2.38%. The period also saw a $224 million increase in loans and a $779 million decrease in non-interest-bearing deposits, impacting the bank's funding costs.

However, the enhanced yields on assets successfully mitigated these higher costs, resulting in a net interest margin expansion of 44 basis points to 4.25%. Consequently, net interest income saw a significant uptick of 8.50%, amounting to $832 million, showcasing Home BancShares' ability to navigate the complexities of a high-interest rate environment

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[1] In millions.

effectively. However, we have downwardly revised our EPS forecast for 2024, matching the midpoint of analysts' estimates at $1.91, and amidst the expected normalization and decline in interest rates in 2024, we expect a slower growth with a projected annual EPS growth of 9.0%, implying an EPS estimate of $2.93 2029. Home Bancshares's DPS had a 10-year and five-year CAGR of 16.7% and 25.1%, respectively. However, the company's approach to managing its capital and liquidity supports the payment of competitive cash dividends. Thus, we have assumed a stable annual DPS growth of at least 8.0%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	18.6	18.4	17.4	28.0	12.6	10.8	12.5	12.5	14.8	11.5	***12.6***	***11.0***
Avg. Yld.	1.1%	1.5%	1.6%	1.6%	2.1%	2.7%	3.3%	2.3%	2.8%	3.1%	***3.0%***	***3.3%***

Home Bancshares is trading at a forward P/E of 12.6, lower than its 10-year and five-year average P/E of 15.7 and 12.4, 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 2029, slightly lower than its historical averages, which accounts for the higher uncertainty attached to the sector, suggesting a target price of $32.

Safety, Quality, Competitive Advantage, & Recession Resiliency

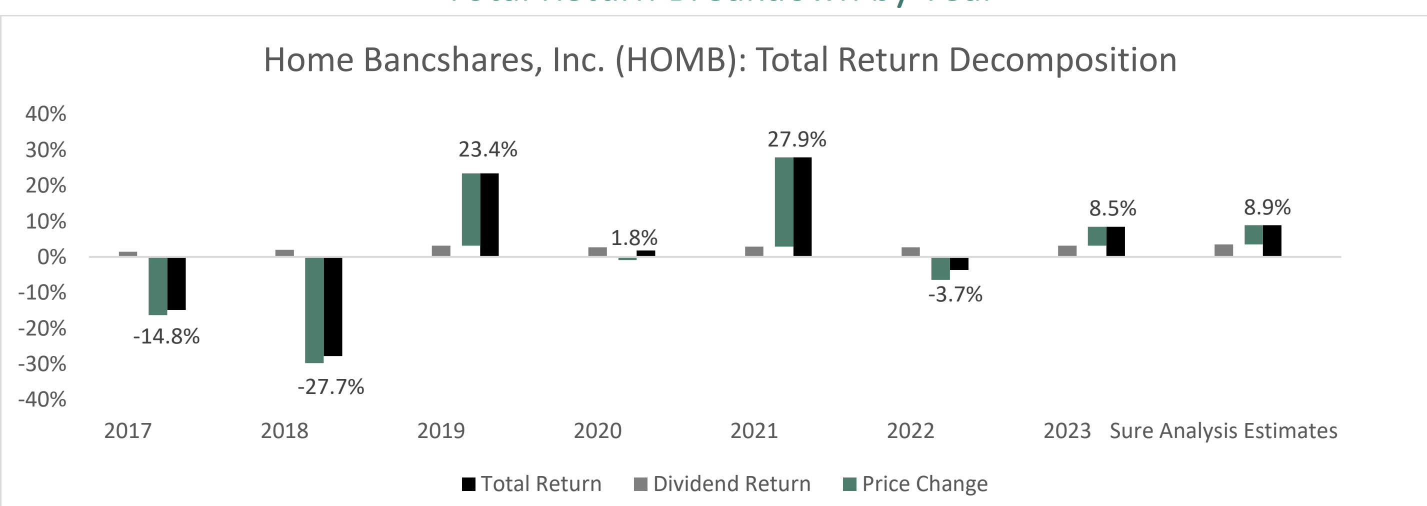
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	28%	27%	45%	27%	29%	41%	29%	42%	36%	***38%***	***36%***

Home Bancshares has proved its resiliency. Despite economic headwinds, the bank's entire franchise delivered a strong performance in 2023. The bank has a fortress balance sheet, with a total risk-based capital of 17.8% of its assets in Q4, 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' strong financial position and capitalization support the bank's position in the market, making it less vulnerable to contagion effects. Thus, we have revised our rating to hold, premised upon the 8.9% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 9.0%, 3.0% dividend yield, and the valuation headwind.

Total Return Breakdown by Year



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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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.