Home Bancshares, Inc. (HOMB)

Updated May 9th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$5.36 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	05/14/2024
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Dividend Payment Date:**	06/05/2024
Dividend Yield:	2.9%	**5 Year Price Target**	$34	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**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 April 18th, 2024, the company announced results for its first quarter and full year 2024. HOMB showed a robust financial performance with a net income of $100.1 million or $0.50 per diluted share, a slight adjustment from non-fundamental items resulted in a net income of $99.2 million or $0.49 per share. This was beat market estimates by $0.03.

Chairman and CEO John Allison expressed optimism about the year's outlook, citing improvements across major financial metrics, including net interest income, revenue, earnings per share, and margins after adjusting for excess liquidity.

Additionally, the bank demonstrated strong liquidity management with $2.67 billion in net available internal liquidity and $3.11 billion in external liquidity sources as of March 31, 2024. Significant external liquidity included $4.75 billion from the Federal Home Loan Bank, with $2.91 billion net available after adjustments. Financial growth was also supported by a $3 million reduction in non-interest expenses quarter-over-quarter. Total loans increased to $14.51 billion, and total deposits rose to $16.87 billion. Lastly, the bank maintained a stable asset quality with non-performing loans at 0.55% of total loans.

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	***$2.00***	***$3.08***
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***

Asset quality remained broadly stable in what continues to be a challenging interest rate environment in Q1 for HOMB. Non-performing loans increased to 0.55% of total loans from 0.44% at the end of Q4 and translated to a slight rise in nonperforming assets to 0.48% of total assets from 0.42%. Net charge-offs came in at $3.4 million, relatively higher than $3.0 million for the previous quarter, and remained at a very manageable level of credit loss. Against this background, HOMB experienced a period of high interest rates and compression in its income and expenses. Loan yields moved up 17 basis points from 7.20% to 7.37%, the lift from higher interest rates assisted by a modest increase in average loan balances. On the flip side of the story, the cost of interest-bearing deposits also increased from 2.80% to 2.93%, indicative of interest expenses coming under upward pressure. Overall, net interest income was up, with a boost coming

[1] In millions.

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.

Home Bancshares, Inc. (HOMB)

Updated May 9th, 2024, by Yiannis Zourmpanos

in from higher interest rates on loans and bank interest-earning balances. However, the long-maintained policy of keeping a cushion of about $500.0 million in excess liquidity reduced the net interest margin by ten basis points to stand at 4.13%. HOMB's response to the high-interest rate environment and careful asset quality management clearly indicate resilience and proactivity toward maintaining strong financial performance.

Thus, we have upwardly revised our EPS forecast for 2024, matching the midpoint of analysts' estimates at $2.00, but 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 $3.08 by 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	Now	2029
Avg. P/E	18.6	18.4	17.4	28.0	12.6	10.8	12.5	12.5	14.8	11.5	***12.5***	***11.0***
Avg. Yld.	1.1%	1.5%	1.6%	1.6%	2.1%	2.7%	3.3%	2.3%	2.8%	3.1%	***2.9%***	***3.1%***

Home Bancshares is trading at a forward P/E of 12.5, lower than its 10-year average P/E of 15.7 and nearly in-line with its five-year average P/E of 12.4. Thus, 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 $34.

Safety, Quality, Competitive Advantage, & Recession Resiliency

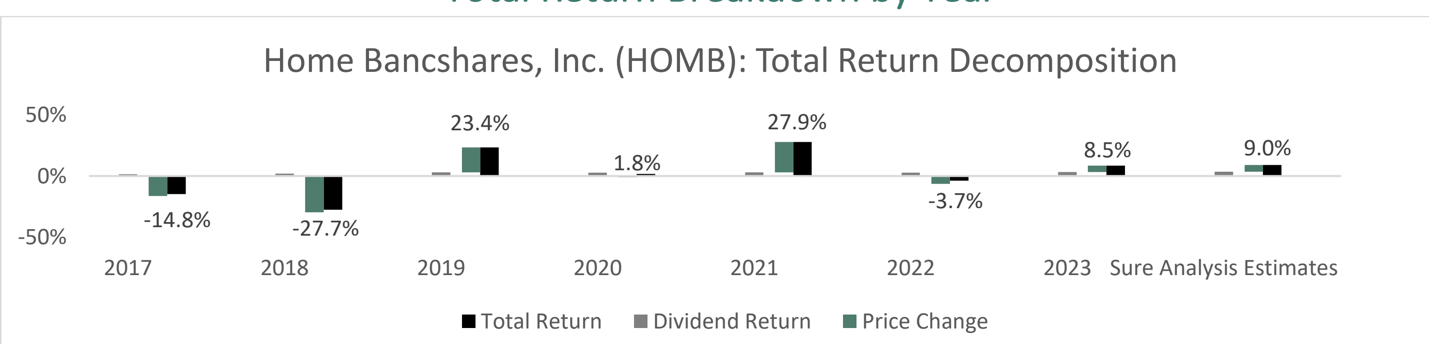
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	28%	27%	45%	27%	29%	41%	29%	42%	36%	***36%***	***34%***

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 17.9% of its assets in Q1, which makes it one of the best-capitalized banks in the country. During Q1, the company executed stock repurchases totaling $24.0 million, consistent with its strategy to enhance shareholder value and optimize its capital structure.

Final Thoughts & Recommendation

Finally, Home Bancshares' strong financial position and capitalization support the bank's position in the market, making it resilient during market cycles. Thus, we maintain our hold rating, premised upon the 9.0% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 9.0%, the 2.9% dividend yield, and the valuation headwind.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.

Home Bancshares, Inc. (HOMB)

Updated May 9th, 2024, by Yiannis Zourmpanos

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	381	423	486	544	655	654	685	700	919	978
SG&A Exp.	100	115	133	148	180	188	179	186	260	297
D&A Exp.	46	32	15	17	19	19	20	19	32	31
Net Profit	113	138	177	135	300	290	214	319	305	393
Net Margin	29.7%	32.7%	36.5%	24.8%	45.8%	44.3%	31.3%	45.6%	33.2%	40.2%
Free Cash Flow	245	195	173	135	296	233	280	379	404	371
Income Tax	64	80	106	136	95	96	63	98	89	119

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,403	9,289	9,808	14,450	15,302	15,032	16,399	18,052	22,884	22,660
Cash & Equivalents	113	256	217	636	658	491	1,264	3,650	725	1,000
Acc. Receivable	24	29	31	46	49	45	61	47	103	119
Goodwill & Int.	346	399	396	977	1,001	995	1,004	998	1,457	1,447
Total Liabilities	6,388	8,089	8,481	12,245	12,953	12,521	13,793	15,286	19,357	18,870
Accounts Payable	29	56	51	42	68	102	128	114	197	---
Long-Term Debt	759	1,467	1,366	1,667	1,841	991	770	771	1,090	1,741
Total Equity	1,015	1,200	1,327	2,204	2,350	2,512	2,606	2,766	3,526	3,791
LTD/E Ratio	0.75	1.22	1.03	0.76	0.78	0.39	0.30	0.28	0.31	0.46

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.6%	1.7%	1.9%	1.1%	2.0%	1.9%	1.4%	1.9%	1.5%	1.7%
Return on Equity	12.2%	12.5%	14.0%	7.6%	13.2%	11.9%	8.4%	11.9%	9.7%	10.7%
ROIC	7.5%	6.2%	6.6%	4.1%	7.5%	7.5%	6.2%	9.2%	7.5%	7.7%
Shares Out.	132.7	137.1	140.7	151.5	174.1	167.8	165.4	164.9	195.0	202.8
Revenue/Share	2.87	3.08	3.45	3.59	3.76	3.90	4.14	4.24	4.71	4.82
FCF/Share	1.85	1.42	1.23	0.89	1.70	1.39	1.69	2.30	2.07	1.83

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