Home Bancshares, Inc. (HOMB)

Updated July 26th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	7.4%	**Market Cap:**	$6.0 B
Fair Value Price:	$22.80	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	08/14/2024
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.0%	**Dividend Payment Date:**	09/04/2024
Dividend Yield:	2.8%	**5 Year Price Target**	$35	**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 July 17th, 2024, the company announced results for its second quarter of 2024. FFIN reported Q2 non-GAAP EPS of $0.52, beating the market's estimates by $0.03, and revenues of $254.6 million that were down 1.0% year-over-year.

The company recorded an all-time high book value per common share of $19.30 and another all-time high tangible book value per common share of $12.08. Adjusted earnings were higher than the exceptional results shown in 2023, producing net income of $101.5 million or $0.51 diluted earnings per share. Net income, excluding non-fundamental items, was $103.9 million or $0.52 per diluted share. Chairman John Allison praised the solid financial performance for the quarter and further outlined that the company remains focused on liquidity and maintenance of funding sources.

As of June 30, 2024, HOMB reported $2.67 billion in net available internal liquidity and $3.15 billion in net available external liquidity for a total of $5.82 billion in net available liquidity. The company had improved its net interest margin by 4.27 percent, with the yield on loans increasing to 7.54 percent. Net interest income rose to $214.5 million on a fully taxable equivalent basis on an increase in interest income on loans and interest-bearing balances. Non-interest income was $42.8 million for the quarter, primarily derived from service charges, gains on the sale of assets, and mortgage lending activity. A strong liquidity position and astute management of assets portray the ability of the company to withstand stress and achieve long-term growth. The company maintained strong asset quality in Q2 2024, with a reduced provision for credit losses at $4.3 million and minimal net charge-offs of $339,000. Nonperforming loans remained stable at $57.5 million, or 0.40% of total loans, and delinquencies decreased, reflecting effective risk management.

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	***$2.08***	***$3.19***
DPS	$0.18	$0.28	$0.34	$0.40	$0.46	$0.51	$0.53	$0.56	$0.66	$0.72	***$0.78***	***$1.15***
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***

Looking forward, HOMB is optimistic about growth prospects, supported by a robust liquidity position of $5.82 billion. Chairman John Allison emphasized the company's record book values and strong adjusted earnings despite additional FDIC assessments. With an improving net interest margin and strategic asset management, HOMB is well-positioned to navigate economic uncertainties and seize growth opportunities in the coming quarters.

[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 July 26th, 2024, by Yiannis Zourmpanos

Thus, we have upwardly revised our EPS forecast for 2024, matching the midpoint of analysts' estimates at $2.08, 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 $3.19 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	***13.5***	***11.0***
Avg. Yld.	1.1%	1.5%	1.6%	1.6%	2.1%	2.7%	3.3%	2.3%	2.8%	3.1%	***2.8%***	***3.3%***

Home Bancshares is trading at a forward P/E of 13.5, 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 $35.

Safety, Quality, Competitive Advantage, & Recession Resiliency

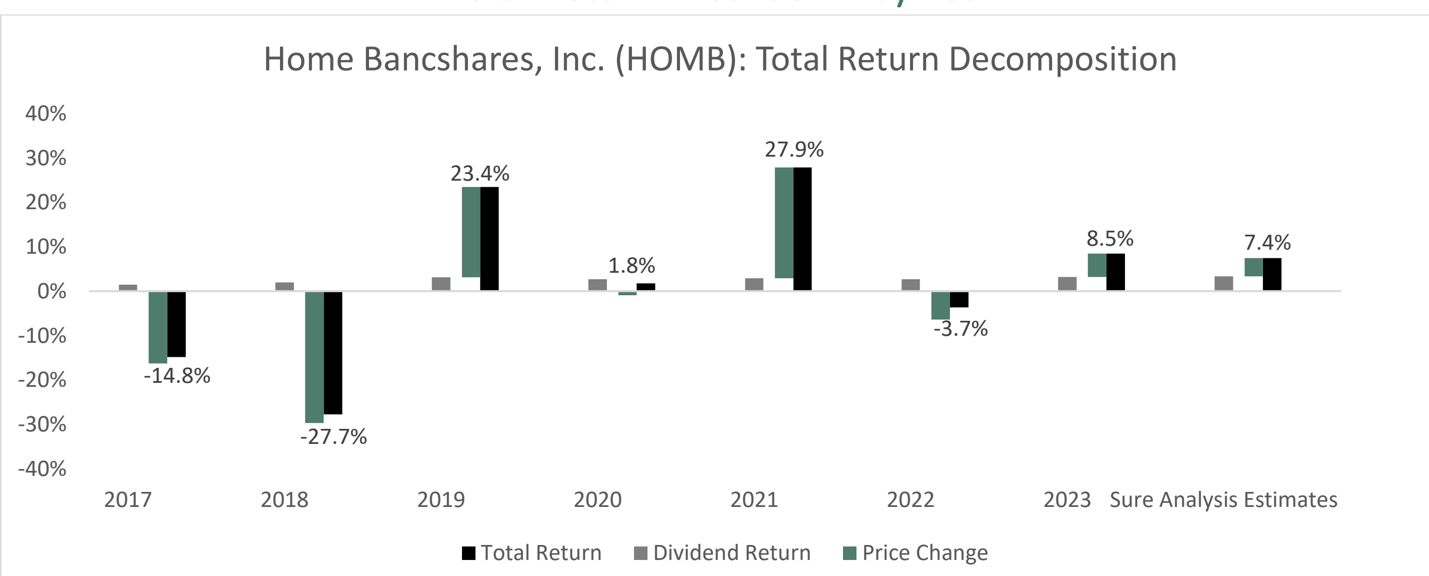
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	28%	27%	45%	27%	29%	41%	29%	42%	36%	***38%***	***36%***

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 18.0% of its assets in Q2, which makes it one of the best-capitalized banks in the country.

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 7.4% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 9.0%, the 2.8% 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.

Home Bancshares, Inc. (HOMB)

Updated July 26th, 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.