Home Bancshares, Inc. (HOMB)

Updated October 21st, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$5.8 B
Fair Value Price:	$22.80	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	11/15/2024[1]
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Dividend Payment Date:**	12/06/2024[2]
Dividend Yield:	3.0%	**5 Year Price Target**	$35	**Years Of Dividend Growth:**	14
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 October 16th, 2024, the company announced results for its third quarter of 2024. FFIN reported non-GAAP EPS of $0.50, beating the market's estimates by $0.03, and revenues of $258 million that were up 5.1% year-over-year.

Despite facing $18.9 million in credit loss expense, primarily driven by $16.7 million in reserves for Hurricane Helene-impacted areas, the company maintained solid performance. The net interest margin improved slightly to 4.28%, and loan yields rose to 7.60%, reflecting favorable loan growth. HOMB also continued to limit exposure to uninsured deposits, which represented 27.6% of total deposits as of September 30, 2024. Importantly, the company's available liquidity exceeded uninsured and uncollateralized deposits by $1.04 billion.

During the quarter, total loans grew to $14.82 billion, while total deposits saw a slight decline to $16.71 billion. HOMB also managed to enhance shareholder value, with stockholders' equity increasing by $104.3 million, driven by a reduction in accumulated other comprehensive loss and higher retained earnings. Additionally, the company repurchased $26.9 million in stock. Non-performing loans rose slightly to 0.68% of total loans, though credit loss provisions ensured robust risk management as the company navigates potential headwinds in its credit portfolio.

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[3]	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.

Thus, we maintain 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

[1] The ex-dividend date is estimated based on historical data.
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[3] In millions.

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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%	***3.0%***	***3.3%***

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 by 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

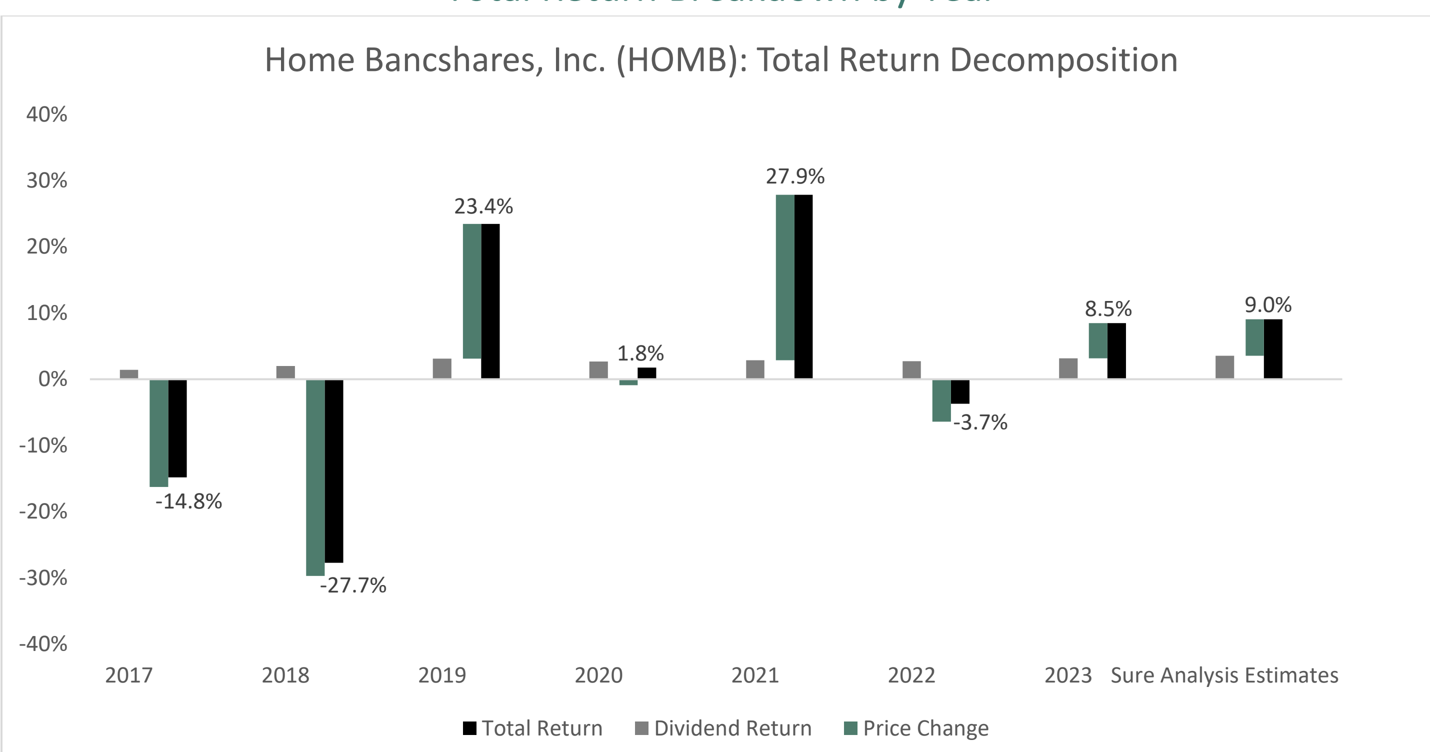
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	28%	27%	45%	27%	29%	41%	29%	42%	36%	***38%***	***36%***

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 15.6% of its assets in Q3, 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 9.0% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 9.0%, the 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	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.