Home Bancorp, Inc. (HBCP)

By: Nancy A. Bush, CFA
NAB Research, LLC
Distributed by Banks Street Partners, LLC

Price: $40.77
52-week price range: $34.12 - $48.47

EPS Estimates: 2017A: $2.28
2018E: $3.46
2019E: $3.53
Q318E: **$0.89** (versus **$0.56** in 3Q17)

Tangible Book Value: $23.56
Price/TBV: 1.73X
Dividend/Yield: $0.76/1.86%
Market Capitalization: $385.7 million

This is a stable and conservative bank for volatile times...

Home Bancorp has shown itself to be an able acquirer, and there will be more deals to come…

The stock is not overly expensive and management is returning capital to shareholders at every opportunity...

It's getting crazy out there…
If you can't bear to hear or watch the news these days, then come on over and join the club. It seems that the U.S. is caught in the perfect storm of societal change, political division, geopolitical turmoil, an economy in transition back toward "normalcy"—you name it, and it's happening. And predictably, with the banking industry's prominence in the economy and in society, the banks are caught amidst this circus, as are their regulators. Layer onto this chaos the nearly endless dissection of the causes and after-effects of the Financial Crisis, occasioned by the 10-year anniversary of the collapse of **Lehman Brothers**, and the debate about banking

safety and soundness has bubbled to the surface yet once again.

Our opinion—in these times, boring is good. And that particularly extends to bank stocks, where the timing of rate hikes and the possibility (and meaning) of an inverted yield curve remain topics of hot debate and aggravators of angst. While we have the greatest regard for the management of banks like **J.P. Morgan Chase (JPM)** and **Bank of America (BAC)**, we feel that these banks will absorb the bulk of regulatory concern should the economy begin to slow and/or credit quality begin to show signs of deterioration from its present benign state. We would also point out the obvious—that the large banks will be squarely in the sights of the Democrats should control of the Senate and the House change hands in the midterm elections, and that the present more benign regulatory posture toward the banks may be subject to a sudden and dramatic reversal.

The smaller community banks are likely to continue to enjoy a high degree of regulatory forbearance. We believe that the trends that have been set in motion in the community banking industry in the last few years—most notably, very dramatic consolidation that is creating a class of "mega-community" banks that will increasingly provide competition for regional lenders—will remain intact and will likely intensify as this economic cycle continues to move toward its inevitable conclusion. We also see the "100/300" rule (first introduced in 2006) that stipulates the amount of capital that can be "trapped" in construction and other commercial real estate loans as both a brake on some of community banking's past tendencies to become over-concentrated in CRE, as well as an incentive for some community banks to sell should they begin to approach these levels. **Home Bancorp is well within the regulatory guidelines for CRE, at 87% and 222% respectively, and retains an advantageous liquidity profile with a 91% loan-to-deposit ratio.** Both these measures should enable the bank to take advantage of lending opportunities that may come its way, and these important guideposts place it within our "conservatively managed" segment of banks.

Home Bancorp's management already knows how to deal with economic adversity…

When it comes to dealing with regional economic struggles, this management team has had a lot of experience. It's hard to think of any part of the nation that has experienced more hard times in recent years than has southern Louisiana. When we first visited two years ago, we found the region still recovering from the multiple and profound impacts of **Hurricane Katrina in 2005** and the **BP Gulf Blowout in 2010**, both of which impacted both businesses and residents along a vast stretch of the Gulf Coast. Then shortly after our visit, Baton Rouge (which had absorbed a large chunk of the evacuees from New Orleans in the aftermath of Katrina) got ripped by 20-plus inches of rain in 48 hours, damaging 60,000 homes and numerous businesses in HBCP's area of operations. Adding insult to the injury inflicted by natural forces was the **profound slowdown in the Oil Patch that occurred from 2015-2017**, which hit the region's employment base and had ripple effects on credit quality throughout the entire banking industry.

The economy of southern Louisiana has stabilized—but it's not roaring. We've done a bit of reading in recent days on the state of the Louisiana economy, and it seems that there are a number of countervailing forces at play in southern Louisiana. The oil rig count in the Gulf of Mexico finally began to turn up last spring, signaling an end to the rig recession that had been in place for several years. The recent move in oil prices above the $80 mark should lead to better employment trends in the Oil Patch; however, as we learned two years ago, that silver lining comes with a cloud—as those oil "feedstock" prices rise, the chemical industry that has experienced such strong growth in the area in the last few years gets hit with higher costs. In addition, the agricultural sector in southern Louisiana is beginning to experience some pressure from higher interest rates and the impact of lessened demand from some of America's key trading partners as tariffs on agricultural products begins to bite.

So the management of Home Bancorp is not banking on the economy for growth…
While the local economy may be unpredictable, the actions of HBCP's management are not—they will continue to be an acquirer of other community banks. We wrote in our initial report on HBCP of our admiration for the "gutsy" way that this bank does deals, and nothing has happened to change that impression in the intervening months. The fact that HBCP has evolved from a thrift charter, that its first deal after its public offering was about 35% of its (then) size—and that all that was done in the 2008-2010 period—is a testament to this management's ability to accurately gauge the risks inherent in deal-doing and to maintain strong capital levels even as they go through an active program of acquiring and consolidating.

They have now done the same with a significantly larger deal. In that same vein of gutsy acquisitions, Home Bancorp in August 2017 acquired **St. Martin Bancshares**, a (roughly) $600 million bank with 12 branches located mostly around Lafayette and in the I-10 corridor area toward Lake Charles. This was HBCP's largest and most expensive deal to date, done at 1.83x St. Martin's tangible book value and structured with both stock (80%) and cash, as opposed to the all-cash nature of HBCP's prior deals. The acquisition produced 9% TBV dilution for HBCP's shareholders, but the 30%+ reduction in St. Martin's cost base has helped HBCP push its own efficiency ratio from a stubbornly high 60%-plus level to 57% currently—an especially admirable achievement given the 67% average overhead ratio for HBCP's peer banks in our latest quarterly survey.

There has been a learning curve with the St. Martin deal that should serve Home's management well in the future. Despite the fact that John Bordelon and his management team had a long acquaintance with the management of St. Martin Bancshares, there nonetheless have been "challenges" in integrating this deal. The biggest challenge was in the area of credit quality, where there was a credit culture that proved to be "less disciplined" than that of HBCP, with the result of an increase in nonperforming assets and a higher-than-normal loan loss provision in 4Q17. In addition, St. Martin was not as far along the curve of mobile and digital delivery capability as was HBCP, and management has had to devote time and money to standardizing and upgrading product delivery capabilities across the new franchise.

They will obviously take the experience of doing these five deals since 2010 and do more with it. While we do not yet see Home Bancorp as an out-of-state acquirer—at least not yet—there are still places in Louisiana that we believe they would like to go. The St. Martin deal advanced their expansion into the Lake Charles area, where there is a lively industrial base of chemical and energy companies and a generally more vigorous economic outlook than that of the Lafayette area. There is still additional room for the bank to expand in both Baton Rouge and suburban New Orleans, and select markets north of Lafeyette may hold some attraction. **In any case, we see HBCP continuing to expand toward that important $5 billion-in-assets mark over the next several years, and the St. Martin deal will prove to have been an important building block in that process.**

After a couple of "blips" in quarterly results, HBCP seems to be resuming an earnings pattern of stability and predictability. The quality and steady predictability of HBCP's earnings stream has always been the attribute of the bank that we most admired, and we're happy to see that quality has returned in the wake of the completion of the St. Martin deal. The aforementioned credit issues in 4Q17 as well as the need to write down the deferred tax asset (a charge of $1.8 million) in the wake of the Tax Act of 2017 resulted in a messy quarter and a reported result of $0.41, which was a departure from the $0.60+ quarterly EPS trend line. In the wake of the tax cut, and with both a contained expense base and with more normal loan loss provisions, the company has established a $0.90 (plus or minus) earnings trend line upon which we expect it to build.

These earnings are being achieved with solid loan growth and exemplary net interest margins. While the southern Louisiana economy may not be booming, Home Bancorp is obviously moving market share, with core loan growth rates (excluding acquired loans) in the 10% range. Their areas of portfolio concentration—diversified commercial real estate and 1-4 family residential loans—together present a low-risk combination with good yields (5.53% for core loans in 2Q18, which is roughly 50 bps higher than HBCP's community peers.) **Add to these high yields Home's advantageous cost of funding in 2Q18 (57 bps versus a roughly 75 bps peer average) and the result was a 4.59% net interest margin—the highest in our monitored group of 18 Southeastern banks.**

And we like that they keep giving earnings back to shareholders. With tangible common equity of 10.6% (of tangible assets) and with total risk-based capital exceeding 15%, HBCP management can afford to give some capital back to shareholders, and they have increased the dividend five times since announcing earnings in January 2017 (from $0.52 annually at year-end 2016 to $0.76 presently.) The last two dividend increases were 13% and 12% respectively, in April and July of this year, and we expect Home Bancorp management to be similarly generous with future capital returns in the absence of other opportunities for lending and bank deals.

Bottom Line: Bank stocks have been a little crazy lately…
The last few weeks have not been the happiest for bank stock investors. The causes for the underperformance in bank stocks—both those of the major banks and those of the community banks—are being hotly debated presently, and there are a host of theories. Chief among these are the aggressive interest rate posture of the Federal Reserve, rising deposit betas as the Fed pushes rates higher, a lack of commercial loan demand as potential borrowers remain liquid, the increasing incursion of non-banks into traditional banking markets, and on and on. **And the biggest concern—the possibility of a recession a couple of years down the road—is getting increased discussion in the press as equity markets gyrate and the global economy slows.**

Our posture as an analyst has to remain one of calm in the eye of the storm and a continued focus on individual banks. While equity markets may do what they do—which is to go up and to go down—we think that investors would be better advised to look for the stocks of banks that are steady and predictable growers, maintain strong capital hoards and pay attention to credit quality, and return cash to shareholders as the opportunity arises. Investors are fortunate indeed that there are a number of such companies in the community banking sector, and should also remember that these banks are of a size where they can more easily determine their own fates than can some of their larger and less nimble competitors.

The fears in the bank stock market in recent weeks have created opportunities. The jitters in the stock market in recent days have hit the bank stocks particularly hard, and most of these stocks have declined on both a year-over-year and year-to-date basis. Home Bancorp has taken one of the milder hits in this tumultuous period (down 2.8% and 5.7% for the past year and for the year-to-date, respectively), due we think to investor recognition that this is a bank that has both a long track record of banking in tough economic times and the strong capital base that allows it to take advantage of opportunities in all economic environments.

It's not the cheapest bank stock around, but it is very reasonably valued for what it is. Presently selling at about 12x this year's earnings and 1.73x tangible book value, this is by no means an expensive stock. Indeed, we would point out that the stocks of the larger community banks—which is the segment where HBCP will eventually reside—generally sell well in excess of 2x TBV and offer skinnier (and sometimes nil) dividend yields. In our scenario for HBCP, this bank will have opportunities to do the accretive deals that will put it in this select group of growth community banks. **We'd rather get in on the ground floor and ride the elevator to the top—than to do it the other way around.**

Nancy A. Bush, CFA
706-438-3098

To read NAB Research's disclosures for the preceding commentary, please follow this link:

http://www.BushOnBanks.com/disclosure.shtml

Table 1
Home Bancorp, Inc.
Earnings Estimates
($ Thousands, Except Per Share Data)

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018E	2017A	2018E	2019E	Percent Change 18E/17A	19E/18E
Net Interest Income	**$15,897**	**$15,956**	**$20,026**	**$22,507**	**$23,337**	**$23,453**	**$67,849**	**$91,650**	**$93,813**	**35**	**2**
Tax Equivalent Adjustment	0	0	0	0	0	0	0	0	0	(100)	NM
Loan Loss Provision	150	660	1,200	964	581	550	2,317	2,500	3,000	8	20
Subtotal	**15,747**	**15,296**	**18,826**	**21,542**	**22,756**	**22,903**	**65,532**	**89,150**	**90,813**	**36**	**2**
Noninterest Income											
Service Charges	990	1,056	1,246	1,655	1,520	1,550	4,229	6,000	6,200	42	3
Bank Card Fees	767	718	835	1,099	1,196	1,200	3,003	4,800	5,000	60	4
Gains on Sale of Loans	328	303	277	207	201	200	1,196	800	800	(33)	0
BOLI Income	122	121	133	161	164	165	494	600	600	22	0
Gain on Sale of Prop./Eqpt.	(460)	(43)	(15)	145	1	10	(162)	100	100	(162)	0
Other Noninterest Income	418	139	203	215	264	250	1,203	1,000	1,050	(17)	5
Total Noninterest Income	**2,164**	**2,293**	**2,679**	**3,481**	**3,345**	**3,375**	**9,962**	**13,300**	**13,750**	**34**	**3**
Noninterest Expense											
Employment Expenses	6,892	7,062	7,432	8,941	9,222	9,100	28,162	36,000	37,000	28	3
Occupancy Exp.	1,272	1,219	1,354	1,675	1,719	1,650	5,065	6,500	6,700	28	3
Marketing	288	287	206	260	306	250	1,008	1,200	1,300	19	8
DP & Office Expenses	1,228	1,047	1,437	2,036	2,618	2,500	4,923	9,500	9,000	93	(5)
Professional Services	182	406	771	286	306	275	1,590	1,200	1,260	(25)	5
Regulatory fees & franchise tax	504	510	672	745	706	700	2,212	3,000	3,100	36	3
OREO Costs	(101)	(70)	(68)	103	87	100	(298)	400	500	NM	25
Other Expenses	785	879	950	1,545	1,357	1,200	3,515	4,000	4,120	14	3
Total Noninterest Exp.	**11,051**	**11,341**	**12,755**	**15,590**	**16,322**	**15,775**	**46,177**	**61,800**	**62,980**	**34**	**2**
Pretax Income	**6,860**	**6,248**	**8,750**	**9,433**	**9,779**	**10,503**	**29,317**	**40,650**	**41,583**	**39**	**2**
Income Taxes/(Benefit)	2,375	2,158	5,508	1,970	2,003	2,200	12,493	8,500	8,750	(32)	3
Net Income	**4,486**	**4,090**	**3,242**	**7,464**	**7,777**	**8,303**	**16,824**	**32,150**	**32,833**	**91**	**2**
Average Diluted Shares	7,234	7,281	7,799	9,269	9,299	9,300	7,381	9,300	9,300	26	0
Net Income per Dil. Share	**0.62**	**0.56**	**0.42**	**0.81**	**0.84**	**0.89**	**2.28**	**3.46**	**3.53**	**52**	**2**
Tax Rate	34.61	34.54	62.95	20.88	20.48	20.95	42.61	20.91	21.04	(51)	1
Adjusted Tax Rate	34.61	34.54	62.95	20.88	20.48	20.95	42.61	20.91	21.04	(51)	1
Net Interest Margin	**4.35%**	**4.29%**	**4.81%**	**4.49%**	**4.69%**	**4.75%**	**4.47%**	**4.70%**	**4.75%**	**5**	**1**
Average Earning Assets	1,460,644	1,473,743	1,645,847	2,010,668	1,981,710	1,975,000	1,509,008	1,950,000	1,975,000	29	1
Overhead Ratio %	61.2%	62.1%	56.2%	60.0%	61.2%	58.8%	59.3%	58.9%	58.6%	(1)	(1)
Tangible Book Value	**$23.85**	**$24.34**	**$22.33**	**$22.91**	**$23.56**	**$24.40**	**$22.33**	**$25.79**	**$29.32**	**15**	**14**
Revenues	18,061	18,249	22,705	25,987	26,682	26,828	77,811	104,950	107,563		
Fees as % of Total Revenue	**12.0**	**12.6**	**11.8**	**13.4**	**12.5**	**12.6**	**12.8**	**12.7**	**12.8**		

Dated: 10/12/18
NAB Research, LLC

Table 2
Home Bancorp, Inc,
Average Balance Sheet Summary and Analysis
($ Thousands)

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	% Change vs. Last Quarter	% Change vs. Last Year
Interest-Earning Assets							
Loans receivable	$1,222	$1,216	$1,346	$1,648	$1,634	(1)	34
Total Investment Securities	**206**	**213**	**230**	**260**	**282**	**9**	**37**
Other interest-earning assets	**33**	**45**	**71**	**103**	**65**	(37)	100
Total Earning Assets	**1,461**	**1,474**	**1,646**	**2,011**	**1,982**	**(1)**	**36**
Interest-Bearing Liabilities							
Savings, checking & MM	696	727	819	1,011	992	(2)	43
CD's	290	297	320	376	355	(6)	22
Total Interest-Bearing Liabilities	**986**	**1,024**	**1,139**	**1,387**	**1,347**	**(3)**	**37**
FHLB Advances	85	67	68	71	70	(1)	NM
Total Interest-Bearing Liabilities	**1,071**	**1,091**	**1,206**	**1,458**	**1,417**	**(3)**	**32**
Net Interest Spread	**4.20%**	**3.22%**	**4.64%**	**4.32%**	**4.51%**		
Net Interest Margin	**4.35%**	**3.33%**	**4.81%**	**4.49%**	**4.69%**		

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