BancFirst Corp. (BANF)

Updated January 4th, 2020 by Felix Martinez

Key Metrics

Current Price:	$62	**5 Year CAGR Estimate:**	5.4%	**Market Cap:**	$2.039 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	12/30/2019
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	1/15/2020
Dividend Yield:	2.1%	**5 Year Price Target**	$73	**Years Of Dividend Growth:**	26
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	6.7%

Overview & Current Events

BancFirst Corp. (BANF) serves as the financial holding company for BancFirst, a state-chartered bank headquartered in Oklahoma City, Oklahoma. The company was founded in 1984, and the subsequent year proceeded to merge with seven other bank holding companies based in Oklahoma. For the next several years, the company acquired additional banks and bank holding companies. By 1989, the company had consolidated its 12 subsidiary banks under its current name. The company has 107 banking locations serving 58 communities throughout Oklahoma and has over 1,900 employees. BancFirst offers a variety of commercial banking services to retail customers and small and mid-sized businesses. For retail customers, this includes checking, savings, CDs, personal loans, and other services. For commercial customers, the bank offers business lending services, including agricultural and multi-family loans, along with a variety of different business banking services. The company has a market capitalization of $2.039 billion, with a total asset of $8.4 billion.

On October 17, 2019, BancFirst Corporation reported third-quarter earnings. The company reported a net income of $33.4 million, or $1.00 diluted earnings per share (EPS) for 3Q19 compared to net income of $32.9 million, or $0.98 diluted EPS for 3Q18 which is an increase of 2.04% year over year. The company also completed an acquisition of Pegasus bank in Dallas, Texas. A one-time expense, of approximately $3.1 million, was included in the third-quarter report, which reduced diluted EPS by $0.07 for the quarter and the year. For the nine months ending September 30, 2019, the company has a Debt/Equity Ratio of 4.43, which is an improvement from 4.82 YoY.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.04	$1.35	$1.47	$1.68	$1.75	$2.02	$2.09	$2.22	$2.65	$3.76	***$4.02***	***$4.89***
DPS	$0.45	$0.48	$0.52	$0.56	$0.60	$0.65	$0.70	$0.74	$0.80	$1.02	***$1.24***	***$1.66***
Shares[1]	31.0	31.0	31.0	31.0	31.0	31.0	32.0	32.0	33.0	33.0	***33.0***	***34.0***

BancFirst has grown its earnings per share by an average of 15.3% per year over the past ten years, and by an average of 14.8% over the past five years. However, going back to a more extended 15-year period to account for the prior recession, the bank has only grown earnings by an average of 8.8% per year.

The bank's net interest margin has increased in recent years, largely thanks to the Federal Reserve raising key interest rates. In 2019 so far, the Federal Reserve had cut interest rates twice, and this trend may persist. Usually, this would affect the company profit margin, but BANF had grown it from 25.38% in 2017 to 33.05% in 2018. We estimate a 4.0% growth over the next five years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.1	15.3	13.3	12.6	16.5	16.1	14.1	21.8	19.4	14.8	***15.4***	***15.0***
Avg. Yld.	2.4%	2.3%	2.8%	2.6%	2.1%	2.1%	2.4%	1.6%	1.6%	2.0%	***2.1%***	***2.3%***

[1] Share count is in millions.

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BancFirst's P/E ratio has averaged 16.1 over the past ten years, with relatively little change from year-to-year. We feel that a multiple of 15.0 is fair for a company of this size with a moderate growth rate and yield. The stock currently has a price-to-book ratio of 2.07, which is right slightly higher than its five-year average of 1.89.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	43.3%	35.6%	35.4%	33.3%	34.3%	32.2%	33.5%	33.3%	30.2%	27.1%	***31%***	***34%***

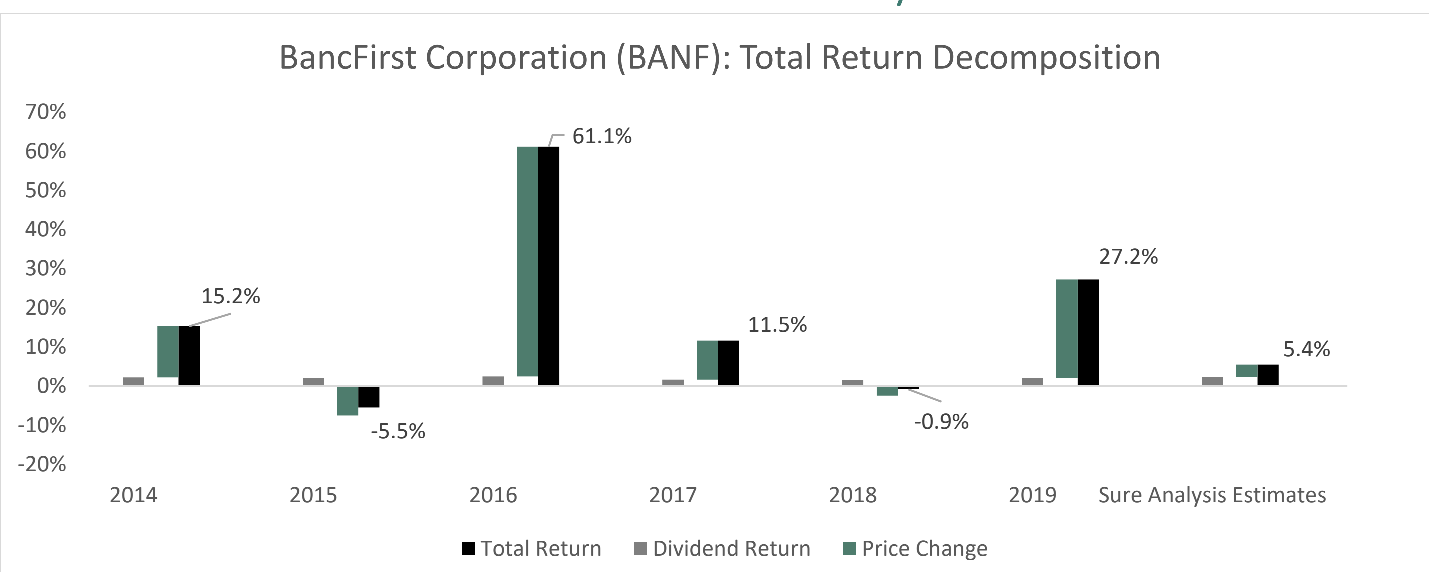
BancFirst is a well-managed bank that has raised its dividend for 26 consecutive years and emerged from the global financial crisis relatively unscathed. Although earnings fell approximately 35% from their peak in 2007 to their bottom in 2009 and then took five years to surpass the 2007 peak, this was very healthy compared to many other banks in the country. At no point did earnings fall enough to put the dividend payout ratio above 50%. Today, the bank has a highly-diversified asset base with commercial loans, real estate loans, and debt securities, and maintains compliance with banking regulations and capital reserve ratios.

Oklahoma's banking industry is diversified, and the company does not have a significant competitive advantage over regional or national banks. However, well-run banks generally enjoy high switching costs, as depositors are unlikely to go through the hassle to switch banks in most scenarios. BancFirst has considerably outperformed the S&P 500 and all of the "Big Four" national banks over the past 25 years in terms of total shareholder returns, which indicates an above-average company culture and management team. David Rainbolt was the CEO for virtually the entirety of this long period of outperformance, but as of two years ago moved on to become the executive chairman, while David Harlow, former BancFirst president, is now the CEO.

Final Thoughts & Recommendation

BancFirst is a small bank with a long stretch of consistent dividend growth, significant resilience through recessions, and history of considerably outperforming the broader banking industry and the stock market more generally. Interest rates and other factors outside of their control may be a negative headwind going forward. We see a modest return of 5.4% annually for the next five years. Thus, we consider BancFirst to be a hold at the current time.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	381	341	306	290	273	249	248	229	213	198
SG&A Exp.	150	135	130	123	119	112	110	102	98	96
D&A Exp.	14	12	12	12	11	11	11	10	9	8
Net Profit	126	86	71	66	64	54	52	46	42	33
Net Margin	79	87	80	67	65	64	47	46	123	-5
Free Cash Flow	34	50	37	35	27	27	27	25	23	16
Income Tax	381	341	306	290	273	249	248	229	213	198

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	7574	7253	7019	6693	6575	6039	6022	5609	5060	4416
Cash & Equivalents	1424	1758	1850	1598	1914	1858	1945	1708	1204	1037
Accounts Receivable	168	150	139	133	132	125	129	19	22	22
Goodwill & Int. Ass.	96	65	67	70	56	55	57	59	56	42
Total Liabilities	6671	6478	6308	6037	5966	5482	5503	5126	4602	3985
Accounts Payable	37	30		32		24	21	3	3	4
Long-Term Debt	27	32	32	32	27	34	36	55	70	27
Shareholder's Equity	903	776	711	656	609	557	520	483	459	431
D/E Ratio	0.03	0.04	0.04	0.05	0.04	0.06	0.07	0.11	0.15	0.06

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.7%	1.2%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	0.8%
Return on Equity	15.0%	11.6%	10.3%	10.5%	11.0%	10.1%	10.4%	9.7%	9.5%	7.7%
ROIC	14.5%	11.1%	9.9%	10.0%	10.4%	9.5%	9.5%	8.6%	8.6%	7.2%
Shares Out.	31.00	30.74	30.23	30.48	30.67	31.01	31.19	31.62	31.90	32.60
Revenue/Share	11.39	10.46	9.62	9.13	8.85	8.00	8.02	7.36	6.79	6.35
FCF/Share	2.37	2.66	2.50	2.11	2.12	2.06	1.52	1.48	3.94	-0.17

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