BancFirst Corp. (BANF)

Updated May 5th, 2020 by Felix Martinez

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$1.3 B
Fair Value Price:	$45	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	6/27/20[1]
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.5%	**Dividend Payment Date:**	7/15/20
Dividend Yield:	3.5%	**5 Year Price Target**	$52	**Years Of Dividend Growth:**	26
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**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. BancFirst 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 $1.3 billion, with a total asset of $8.7 billion, which is an increase of $103 million from last quarter.

On April 21, 2020, BancFirst Corporation reported first-quarter earnings. The company reported a net income of $22.6 million, or $0.68 diluted earnings per share, compared to net income of $31.8 million, or $0.96 diluted earnings per share, for the first quarter of 2019. The results were negatively impacted primarily by a higher provision for loan losses. The net income also includes Pegasus Bank in Dallas, Texas, which was acquired on August 15, 2019. Net interest income increased to $74.1 million compared to $66.9 million YoY. The net interest margin for the quarter was 3.82% compared to 3.85% a year ago. BANF is also part of the Paycheck Protection Program (PPP) through the Small Business Administration, which BANF approved 5,268 loans totaling approximately $829 million.

On March 5, 2020, BancFirst purchased assets and assumed liabilities of The Citizens State Bank, Okemah, Oklahoma. BANF purchased $47.9 million in assets and $23.5 million in loans and assumed $47.9 million in deposits.

Because of the COVID-19 economic shutdown, we lower our EPS estimate from $4.04 to now $2.99, which is a decrease of (26)%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.35	$1.47	$1.68	$1.75	$2.02	$2.09	$2.22	$2.65	$3.76	$4.05	***$2.99***	***$3.47***
DPS	$0.48	$0.52	$0.56	$0.60	$0.65	$0.70	$0.74	$0.80	$1.02	$1.24	***$1.28***	***$1.80***
Shares[2]	31.0	31.0	31.0	31.0	31.0	32.0	32.0	33.0	33.0	33.0	***33.0***	***33.0***

BancFirst has grown its earnings per share by an average of 13.0% per year over the past ten years, and by an average of 7.4% 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 8.22% per year. With the low-interest environment, we are expecting EPS to grow at a much lower rate of 3.0% for the next five years.

[1] Ex-dividend date and dividend payment date are estimates.

[2] Share count is in millions.

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The bank's net interest margin has increased in recent years, from 25.38% in FY2017 to 33.05% in FY2018, but it reduced slightly to 32.6% in FY2019. We see it lowering more as the Fed as drop the interest's rate to 0% because of the COVID-19 economic shutdown.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	NOW	2025
Avg. P/E	15.3	13.2	12.6	16.5	16.1	14.1	21.8	19.4	14.8	15.4	***12.6***	***15.00***
Avg. Yld.	2.3%	2.8%	2.6%	2.1%	2.1%	2.4%	1.6%	1.6%	2.0%	2.0%	***3.5%***	***3.5%***

BancFirst's P/E ratio has averaged 15.9 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 low estimated growth rate and yield. Thus, the company looks to be undervalued based on the average PE. The stock currently has a price-to-book ratio of 1.18, which is lower than its five-year average of 1.88.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	35.6%	35.4%	33.3%	34.3%	32.2%	33.5%	33.3%	30.2%	27.1%	30.6%	***43%***	***52%***

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. BANF stock price drop since our last report. We see a 9.6% annual return for the next five years, which will mostly come from dividends and valuation multiple expansion. Thus, we change our last BancFirst report recommendation from sell to now Buy at the current price because of the expected total return.

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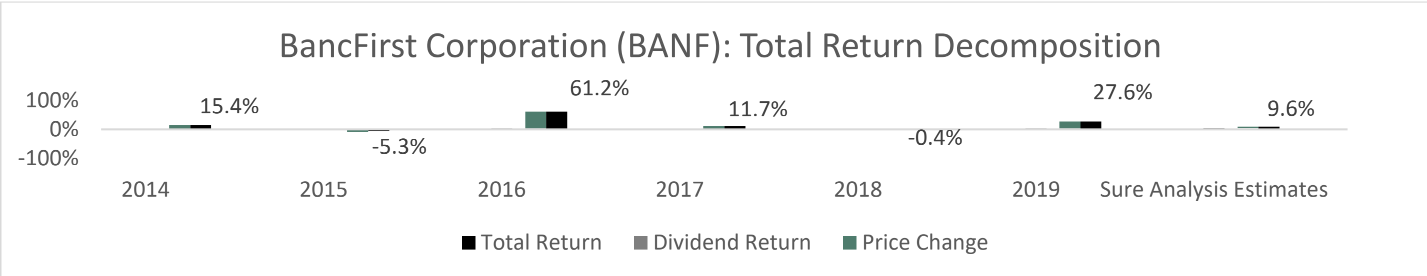
Total Return Breakdown by Year



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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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	213	229	248	249	273	290	306	341	381	413
D&A Exp.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Profit	98	102	110	112	119	123	130	135	150	163
Net Margin	9	10	11	11	11	12	12	12	14	
Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5,060	5,609	6,022	6,039	6,575	6,693	7,019	7,253	7,574	8,566
Cash & Equivalents	1,204	1,708	1,945	1,858	1,914	1,598	1,850	1,758	1,424	
Accounts Receivable	22	19	129	125	132	133	139	150	168	
Total Liabilities	56	59	57	55	56	70	67	65	96	
Accounts Payable	4,602	5,126	5,503	5,482	5,966	6,037	6,308	6,478	6,671	7,561
Long-Term Debt	3	3	21	24		32		30	37	
Shareholder's Equity	70	55	36	34	27	32	32	32	27	-
D/E Ratio	459	483	520	557	609	656	711	776	903	1,005

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.2%	1.7%	1.7%
Return on Equity	9.5%	9.7%	10.4%	10.1%	11.0%	10.5%	10.3%	11.6%	15.0%	14.1%
ROIC	8.6%	8.6%	9.5%	9.5%	10.4%	10.0%	9.9%	11.1%	14.5%	13.9%
Shares Out.	31.0	31.0	31.0	31.0	31.0	32.0	32.0	33.0	33.0	33.0
Revenue/Share	6.79	7.36	8.02	8.00	8.85	9.13	9.62	10.46	11.39	12.40
FCF/Share	3.94	1.48	1.52	2.06	2.12	2.11	2.50	2.66	2.37	

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