BancFirst Corp. (BANF)

Updated June 3rd, 2021 by Felix Martinez

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$2.3 B
Fair Value Price:	$68	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	06/29/21
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	07/15/21
Dividend Yield:	2.0%	**5 Year Price Target**	$91	**Years Of Dividend Growth:**	27
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	6.3%

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 other 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. The bank offers business lending services for commercial customers, including agricultural and multi-family loans, and various business banking services. The Company has a $2.3 billion market capitalization.

On April 21, 2021, BancFirst Corporation's first-quarter results for Fiscal Year (FY)2021. The Company reported a net income of $42.5 million, or $1.27 diluted earnings per share, compared to net income of $22.6 million, or $0.68 diluted earnings per share, for the first quarter of 2020. This is an increase of 88% year over year. No provision for credit losses was recorded in the quarter compared to a provision for credit losses of $19.6 million for 1Q20. The Company's net interest income for the quarter increased to $77.2 million compared to $74.1 million for the first quarter of 2020. Net interest income increased year over year due to loan growth, PPP fee income of about $9.5 million, and decreased interest rates paid on deposits. The net interest margin for the quarter was 3.36% compared to 3.82% a year ago. The Company's total assets were $10.5 billion, an increase of $1.3 billion from the end of last year. Debt securities of $520.5 million were down $34.7 million from December 31, 2020. Loans totaled $6.4 billion, a decrease of $68.1 million from December 31, 2020, partially due to approximately $21 million of loans sold with the Company's Hugo, Oklahoma branch.

We estimated that the Company would make about $3.69 in earnings per share for FY2021, a 23% increase vs. 2020 earnings of $3.00 per share in our last report. However, considering the excellent quarter BancFirst had, we will increase our expected EPS for the year to now $4.55. We will use $4.55 per share for our fair value calculation and our total return projections.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.47	$1.68	$1.75	$2.02	$2.09	$2.22	$2.79	$3.76	$4.05	$3.00	***$4.55***	***$6.09***
DPS	$0.52	$0.56	$0.60	$0.65	$0.70	$0.74	$0.80	$1.02	$1.24	$1.32	***$1.36***	***$1.82***
Shares[1]	31.0	31.0	31.0	31.0	32.0	32.0	33.0	33.0	33.0	33.0	***33.0***	***33.0***

BancFirst has grown EPS, averaging 8.2% per year over the past ten years and 15.4% 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 6.1% per year. With the low-interest environment, we expect EPS to grow at around a rate of 6% for the next five years, which is in line with its long-term earnings growth.

[1] Share count is in millions.

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The bank's net 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. For 2020, the net margin was 23%. We see it lowering more as the Fed drops the interest rate to 0% because of the COVID-19 economic recession.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	NOW	2026
Avg. P/E	13.3	12.6	16.5	16.1	14.1	21.8	19.4	14.8	15.4	19.6	***15.2***	***15.0***
Avg. Yld.	2.8%	2.6%	2.1%	2.1%	2.4%	1.6%	1.6%	2.0%	2.0%	2.3%	***2.0%***	***2.0%***

BancFirst's P/E ratio has averaged 16.4 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 overvalued based on the average PE. The stock currently has a price-to-book (PB) ratio of 2.1, which is higher than its five-year average of 1.9. We Would like to see the PB ratio to be lower than its 5-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	35.4%	33.3%	34.3%	32.2%	33.5%	33.3%	28.7%	27.1%	30.6%	44.0%	***30%***	***30%***

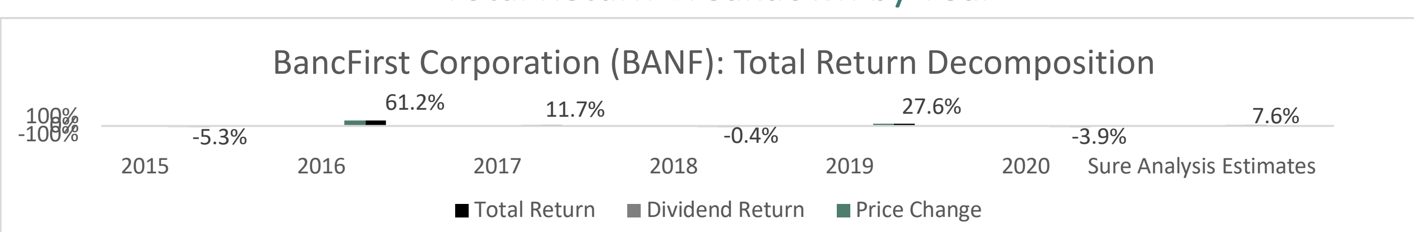
BancFirst is a well-managed bank that has raised its dividend for 27 consecutive years and emerged from the global financial crisis relatively unscathed. Although earnings fell approximately 35% from their peak in 2007 to their bottom in 2009 and then took five years to surpass the 2007 peak, this was 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, maintaining 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 of switching 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 total shareholder returns, indicating an above-average company culture and management team. David Rainbolt was the CEO for virtually the entirety of this long period of outperformance, but two years ago moved on to become the executive chairman. At the same time, 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 as we advance. BANF stock price increased since our second-quarter report over 50%, which we rated it as a BUY. However, we see a 7.6% total annual return for the next five years. Thus, we rate BancFirst HOLD at the current price because of the low expected total return.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	229	248	249	273	290	306	341	381	413	437
D&A Exp.	10	11	11	11	12	12	12	14	16	
Net Profit	46	52	54	64	66	71	86	126	135	100
Net Margin	19.9%	21.0%	21.8%	23.4%	22.8%	23.1%	25.4%	33.0%	32.6%	22.8%
Income Tax	25	27	27	27	35	37	50	34	35	24

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5609	6022	6039	6575	6693	7019	7253	7574	8566	9212
Cash & Equivalents	1708	1945	1858	1914	1598	1850	1758	1424	1868	
Accounts Receivable	19	129	125	132	133	139	150	168	203	
Total Liabilities	59	57	55	56	70	6308	6478	6671	7561	8144
Accounts Payable	5126	5503	5482	5966	6037		30	37	49	
Long-Term Debt	3	21	24		32	32	32	27	27	0
Shareholder's Equity	55	36	34	27	32	711	776	903	1005	1068
D/E Ratio	483	520	557	609	656	0.04	0.04	0.03	0.03	0

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.2%	1.7%	1.7%	1.1%
Return on Equity	9.7%	10.4%	10.1%	11.0%	10.5%	10.3%	11.6%	15.0%	14.1%	9.6%
ROIC	8.6%	9.5%	9.5%	10.4%	10.0%	9.9%	11.1%	14.5%	13.8%	9.5%
Shares Out.	31.0	31.0	31.0	31.0	32.0	32.0	33.0	33.0	33.0	33.0
Revenue/Share	7.36	8.02	8.00	8.85	9.13	9.62	10.46	11.39	12.40	13.16
FCF/Share	1.48	1.52	2.06	2.12	2.11	2.50	2.82	2.64	3.96	2.65

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