



# BancFirst Corp. (BANF)

Updated October 23<sup>rd</sup>, 2021 by Felix Martinez

## Key Metrics

|                             |      |                                            |       |                                  |                       |
|-----------------------------|------|--------------------------------------------|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$64 | <b>5 Year CAGR Estimate:</b>               | 11.0% | <b>Market Cap:</b>               | \$2.11B               |
| <b>Fair Value Price:</b>    | \$74 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Ex-Dividend Date:</b>         | 12/30/21 <sup>1</sup> |
| <b>% Fair Value:</b>        | 86%  | <b>5 Year Valuation Multiple Estimate:</b> | 3.0%  | <b>Dividend Payment Date:</b>    | 01/15/21              |
| <b>Dividend Yield:</b>      | 2.2% | <b>5 Year Price Target</b>                 | \$100 | <b>Years Of Dividend Growth:</b> | 27                    |
| <b>Dividend Risk Score:</b> | A    | <b>Retirement Suitability Score:</b>       | B     | <b>Last Dividend Increase:</b>   | 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 merged 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 \$2.11 billion market capitalization.

On October 21, 2021, BancFirst Corporation's reported third-quarter results for Fiscal Year (FY)2021. The Company reported a net income of \$48.2 million, or \$1.45 diluted earnings per share, compared to net income of \$38.8 million, or \$1.16 diluted earnings per share, for the third quarter of 2020. This is an increase of 84.1% year over year. So far, for the nine months of FY2021, the Company has made \$129.5 million in net income or \$3.88 per share, which compares favorably to \$1.94 per share in the nine months of last year. The Company recorded a net benefit from the reversal of provisions for credit losses of \$8.5 million for the nine months of 2021 compared to a provision for credit losses of \$57.7 million for the first nine months of 2020.

The Company's net interest income for the quarter increased to \$80.2 million compared to \$75.9 million for the third quarter of 2020. Net interest income increased year over year due to loan growth, PPP fee income of about \$6.1 million. The net interest margin for the quarter was 3.09% compared to 3.40% a year ago. The Company's total assets were \$11.3 billion, an increase of \$2.1 billion from the end of last year.

We will use an earnings of \$4.96 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          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.47 | \$1.68 | \$1.75 | \$2.02 | \$2.09 | \$2.22 | \$2.79 | \$3.76 | \$4.05 | \$3.00 | <b>\$4.96</b> | <b>\$6.64</b> |
| <b>DPS</b>                | \$0.52 | \$0.56 | \$0.60 | \$0.65 | \$0.70 | \$0.74 | \$0.80 | \$1.02 | \$1.24 | \$1.32 | <b>\$1.44</b> | <b>\$1.93</b> |
| <b>Shares<sup>2</sup></b> | 31.0   | 31.0   | 31.0   | 31.0   | 32.0   | 32.0   | 33.0   | 33.0   | 33.0   | 33.0   | <b>33.0</b>   | <b>33.0</b>   |

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. 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.

<sup>1</sup> Ex-Dividend and Dividend Payment Date are estimates

<sup>2</sup> Share count is in millions.

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## 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 | 12.9 | 15.0 |
| Avg. Yld. | 2.8% | 2.6% | 2.1% | 2.1% | 2.4% | 1.6% | 1.6% | 2.0% | 2.0% | 2.3% | 2.2% | 1.9% |

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 undervalued based on the average PE. The stock currently has a price-to-book (PB) ratio of 1.9, which aligns with its five-year average of 1.9.

## 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% | 29%  | 29%  |

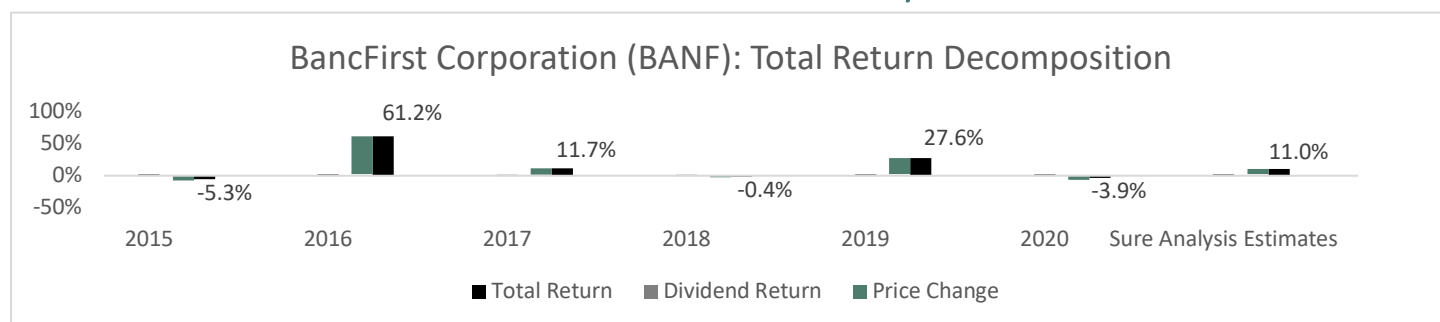
BancFirst is a well-managed bank that has raised its dividend for 27 consecutive years and emerged from the global financial crisis relatively unscathed. Although earnings fell approximately 35% from their peak in 2007 to their bottom in 2009 and then took five years to surpass the 2007 peak, this was 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 all of this extended 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. That said, due to a pullback in the share price, we expect an 11% total annualized return for the next five years. Thus, we rate BancFirst a Buy at the current price because of the higher expected total return.

## Total Return Breakdown by Year



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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   | 444   |
| D&A Exp.   | 10    | 11    | 11    | 11    | 12    | 12    | 12    | 14    | 16    | 18    |
| 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% | 22.4% |
| 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 | 1617 |
| Accounts Receivable  | 19   | 129  | 125  | 132  | 133  | 139  | 150  | 168  | 203  | 221  |
| Total Liabilities    | 59   | 57   | 55   | 56   | 70   | 6308 | 6478 | 6671 | 7561 | 8144 |
| Accounts Payable     | 5126 | 5503 | 5482 | 5966 | 6037 |      | 30   | 37   | 49   | 52   |
| Long-Term Debt       | 3    | 21   | 24   |      | 32   | 32   | 32   | 27   | 27   | 27   |
| 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 | 0.03 |

## 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% | 9.4%  |
| Shares Out.      | 31.0 | 31.0  | 31.0  | 31.0  | 32.0  | 32.0  | 33.0  | 33.0  | 33.0  | 33.2  |
| Revenue/Share    | 7.36 | 8.02  | 8.00  | 8.85  | 9.13  | 9.62  | 10.46 | 11.39 | 12.40 | 13.37 |
| 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.

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