BancFirst Corp. (BANF)

Updated January 31st, 2022 by Felix Martinez

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	3.5%	**Market Cap:**	$2.45 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/30/22[1]
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.4%	**Dividend Payment Date:**	04/15/22
Dividend Yield:	1.9%	**5 Year Price Target**	$80	**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 merged with seven other bank holding companies based in Oklahoma. The company acquired other banks and bank holding companies for the next several years. BancFirst has 107 banking locations serving 58 communities throughout Oklahoma and has over 1,900 employees. BancFirst offers various commercial banking services to retail customers and small and mid-sized businesses. This includes checking, savings, CDs, personal loans, and other services for retail customers. The bank offers business lending services for commercial customers, including agricultural and multi-family loans and various business banking services. The company has a $2.45 billion market capitalization.

On January 20, 2022, BancFirst Corporation's reported fourth-quarter and Full-year results for Fiscal Year (FY)2021. The company reported a net income of $38.2 million, or $1.15 diluted earnings per share for the quarter, compared to net income of $35.4 million, or $1.06 diluted earnings per share, for the fourth quarter 2020. This is an increase of 8.5% year over year. For the entire year of FY2021, the company earned $167.6 million in net income or $5.03 per share, which compares favorably to $3.00 per share in 2020. This represents an increase of 67.7% year-over-year. The company recorded a net benefit from the reversal of provisions for credit losses of $8.7 million for 2021 compared to a provision for credit losses of $62.6 million for the entire year of 2020. The company's net interest income for the quarter decreased to $75.9 million compared to $79.5 million for the fourth quarter of 2020. Net interest income decreased year over year primarily due to a decrease of $3.3 million in fee income from the Paycheck Protection Program (PPP). The net interest margin for the quarter was 3.09% compared to 3.40% a year ago. The company's total assets were $9.4 billion, an increase of $193.3 million from the end of 2020.

We will use earnings of $3.99 per share in 2022, for our fair value calculation and our total return projections.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.68	$1.75	$2.02	$2.09	$2.22	$2.79	$3.76	$4.05	$3.00	$5.03	***$3.99***	***$5.34***
DPS	$0.56	$0.60	$0.65	$0.70	$0.74	$0.80	$1.02	$1.24	$1.32	$1.40	***$1.44***	***$1.93***
Shares[2]	31.0	31.0	31.0	32.0	32.0	33.0	33.0	33.0	33.0	33.0	***33.0***	***33.0***

BancFirst has grown EPS, averaging 13.0% per year over the past ten years and 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 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%. However, we see it increasing more this year as the Fed is expected to be increasing the interest rate this year.

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[1] Ex-Dividend and Dividend Payment Date are estimates

[2] Share count is in millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	NOW	2027
Avg. P/E	12.6	16.5	16.1	14.1	21.8	19.4	14.8	15.4	19.6	14.0	***18.8***	***15.0***
Avg. Yld.	2.6%	2.1%	2.1%	2.4%	1.6%	1.6%	2.0%	2.0%	2.3%	2.0%	***1.9%***	***2.4%***

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 overvalued based on the average PE with a current PE of 18.8. The stock currently has a price-to-book (PB) ratio of 2.1, higher than its five-year average of 1.9.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	33.3%	34.3%	32.2%	33.5%	33.3%	28.7%	27.1%	30.6%	44.0%	27.8%	***36%***	***36%***

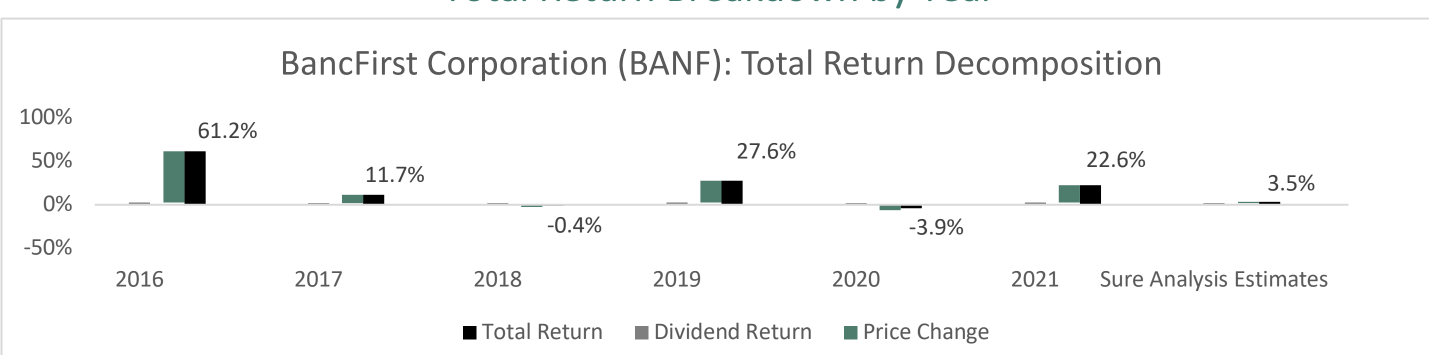
BancFirst is a well-managed bank that has raised its dividend for 27 consecutive years and emerged from the global financial crisis relatively unscathed. Although earnings fell approximately 35% from their peak in 2007 to their bottom in 2009 and then took five years to surpass the 2007 peak, this was 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 a 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. Due to the increase in price since our last report, we expect a five-year annual rate of return of 3.5%. Thus, we rate BancFirst a Sell at the current price because of the low expected total return.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	253	254	278	295	311	345	386	419	444	486
D&A Exp.	11	11	11	12	12	12	14	16	18	
Net Profit	52	54	64	66	71	86	126	135	100	168
Net Margin	20.6%	21.4%	23.0%	22.5%	22.7%	25.0%	32.6%	32.2%	22.4%	34.5%
Income Tax	27	27	27	35	37	50	34	35	24	41

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,022	6,039	6,575	6,693	7,019	7,253	7,574	8,566	9,212	9,406
Cash & Equivalents	1,945	1,858	1,914	1,598	1,850	1,758	1,424	1,868	1,617	
Accounts Receivable	129	125	132	133	139	150	168	203	221	
Total Liabilities	57	55	56	70	67	65	96	171	169	
Accounts Payable	5,503	5,482	5,966	6,037	6,308	6,478	6,671	7,561	8,144	8,234
Long-Term Debt	21	24		32		30	37	49	52	
Shareholder's Equity	36	34	27	32	32	32	27	27	27	0
LTD/E Ratio	520	557	609	656	711	776	903	1,005	1,068	1,172

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.9%	0.9%	1.0%	1.0%	1.0%	1.2%	1.7%	1.7%	1.1%	1.8%
Return on Equity	10.4%	10.1%	11.0%	10.5%	10.3%	11.6%	15.0%	14.1%	9.6%	15.0%
ROIC	9.5%	9.5%	10.4%	10.0%	9.9%	11.1%	14.5%	13.8%	9.4%	14.8%
Shares Out.	31.0	31.0	31.0	32.0	32.0	33.0	33.0	33.0	33.0	33.0
Revenue/Share	8.18	8.16	9.00	9.27	9.77	10.60	11.54	12.58	13.37	14.58
FCF/Share	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.