BancFirst Corp. (BANF)

Updated August 12th, 2023 by Felix Martinez

Key Metrics

Current Price:	$99	**5 Year CAGR Estimate:**	4.6%	**Market Cap:**	$3.26 B
Fair Value Price:	$94	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	09/29/23[1]
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	10/17/23
Dividend Yield:	1.6%	**5 Year Price Target**	$115	**Years Of Dividend Growth:**	29
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 106 banking locations serving 59 communities throughout Oklahoma and has over 1,900 employees. BancFirst offers retail customers and small and mid-sized businesses various commercial banking services. 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 $3.26 billion market capitalization.

On July 20th, 2023, BancFirst Corporation reported second-quarter results for Fiscal Year (FY)2023. The company demonstrated a noteworthy improvement in net income. The reported net income for this quarter amounted to $55.0 million, equivalent to a diluted earnings per share of $1.64. In comparison, the second quarter of 2022 saw net income at $44.7 million, or $1.34 diluted earnings per share. This positive trend continued over the first six months of the year, where net income for the half-year period ending June 30, 2023, reached $112.5 million, translating to $3.36 per share. This performance notably outstripped the first half of 2022, which reported net income of $80.6 million, or $2.42 per share. The corporation's net interest income, a key financial indicator, experienced a substantial upswing in the second quarter of 2023. It reached $105.9 million, marking a noticeable increase from the $86.9 million recorded for the same quarter of the previous year. This growth was mainly attributed to rising short-term interest rates and modest expansion in loans. The net interest margin for the quarter, a measure of profitability, stood at 3.87%, slightly down from the previous quarter's 3.89%, but significantly higher than the 3.05% reported a year ago. Notably, the Company's provision for credit losses also reflected this growth trajectory. In the second quarter of 2023, a provision of $2.8 million was made, primarily driven by loan growth, in contrast to $501,000 recorded in the same quarter of 2022.

We expect that the company will earn $6.29 per share for 2023. Thus, we will use this as our fair value calculations.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.75	$2.02	$2.09	$2.22	$2.79	$3.76	$4.05	$3.00	$5.03	$5.77	***$6.29***	***$7.65***
DPS	$0.60	$0.65	$0.70	$0.74	$0.80	$1.02	$1.24	$1.32	$1.40	$1.52	***$1.64***	***$2.00***
Shares[2]	31.0	31.0	32.0	32.0	33.0	33.0	33.0	33.0	33.0	33.0	***33.0***	***33.0***

BancFirst has grown EPS, averaging 14.2% per year over the past ten years and 10.8% 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 6.1% per year. With the current interest environment, we expect EPS to grow at around a rate of 4% for the next five years, which is in line with its long-term earnings growth. The bank's net margin has increased in recent

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

[2] Share count is in millions.

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.

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%. Also, we see it increasing this year as the Fed is expected to continue to increase the interest rate this year.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	NOW	2028
Avg. P/E	16.5	16.1	14.1	21.8	19.4	14.8	15.4	19.6	14.0	15.3	***15.7***	***15.0***
Avg. Yld.	2.1%	2.1%	2.4%	1.6%	1.6%	2.0%	2.0%	2.3%	2.0%	1.7%	***1.6%***	***1.7%***

BancFirst's P/E ratio has averaged 16.7 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 15.7x. The stock currently has a price-to-book (PB) ratio of 2.4, higher than its five-year average of 2.0.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34.3%	32.2%	33.5%	33.3%	28.7%	27.1%	30.6%	44.0%	27.8%	26.3%	***26%***	***26%***

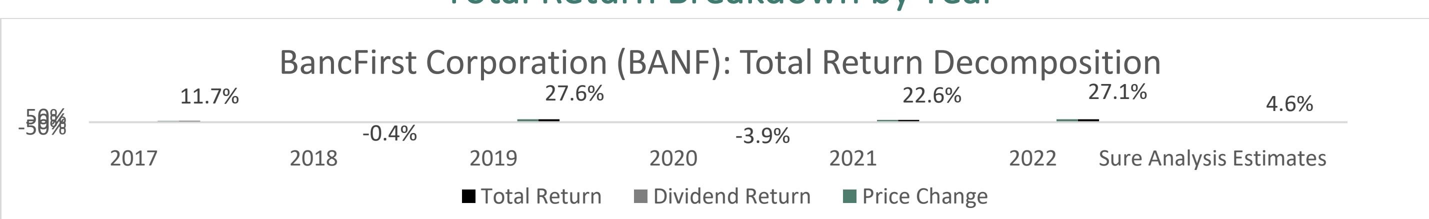
BancFirst is a well-managed bank that has raised its dividend for 27 consecutive years and emerged from the global financial crisis relatively unscathed. Although earnings fell approximately 35% from their peak in 2007 to their bottom in 2009 and then took five years to surpass the 2007 peak, this was 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 their control may be a negative headwind as we advance. Due to the decrease in price since our last report, we expect a five-year annual rate of return of 4.6%. Thus, we rate BancFirst a hold at the current price because of the expected total return.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	254	278	295	311	345	386	419	444	486	557
D&A Exp.	11	11	12	12	12	14	16	18	20	
Net Profit	54	64	66	71	86	126	135	100	168	193
Net Margin	21.4%	23.0%	22.5%	22.7%	25.0%	32.6%	32.2%	22.4%	34.5%	34.6%
Income Tax	27	27	35	37	50	34	35	24	41	44

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,039	6,575	6,693	7,019	7,253	7,574	8,566	9,212	9406	12388
Cash & Equivalents	1,858	1,914	1,598	1,850	1,758	1,424	1,868	1,617	2050	
Accounts Receivable	125	132	133	139	150	168	203	221	234	
Total Liabilities	55	56	70	67	65	96	171	169	167	
Accounts Payable	5,482	5,966	6,037	6,308	6,478	6,671	7,561	8,144	8234	11137
Long-Term Debt	24		32		30	37	49	52	56	
Shareholder's Equity	34	27	32	32	32	27	27	27	86	
LTD/E Ratio	557	609	656	711	776	903	1,005	1,068	1172	1251

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	1.0%	1.0%	1.0%	1.2%	1.7%	1.7%	1.1%	1.8%	1.8%
Return on Equity	10.1%	11.0%	10.5%	10.3%	11.6%	15.0%	14.1%	9.6%	15.0%	15.9%
ROIC	9.5%	10.4%	10.0%	9.9%	11.1%	14.5%	13.8%	9.4%	14.3%	15.4%
Shares Out.	31	31	32	32	33	33	33	33	33	33
Revenue/Share	8.16	9.00	9.27	9.77	10.60	11.54	12.58	13.37	14.58	16.67
FCF/Share	2.06	2.12	2.11	2.50	2.82	2.64	3.96	2.65	4.88	

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