BancFirst Corp. (BANF)

Updated August 3rd, 2024 by Felix Martinez

Key Metrics

Current Price:	$101	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$3.5 B
Fair Value Price:	$91	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	09/28/24[1]
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	10/16/24
Dividend Yield:	1.7%	**5 Year Price Target**	$111	**Years Of Dividend Growth:**	30
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 $3.5 billion market capitalization.

On July 18th, 2024, BancFirst Corporation reported second-quarter results for Fiscal Year (FY)2024. The company reported a net income of $50.6 million, or $1.51 per diluted share, for Q2 2024, compared to $55.0 million, or $1.64 per diluted share, for Q2 2023. The company's net interest income rose to $109.9 million from $105.9 million in the same period of the previous year, driven primarily by increased loan volume, though partially offset by changes in the deposit mix. The net interest margin for the quarter ended June 30 was 3.76% in 2024, down from 3.87% in 2023. Additionally, the provision for credit losses increased to $3.4 million from $2.8 million year-over-year. Noninterest income for the second quarter was $43.9 million, down from $48.0 million in the previous year, largely due to a $5.7 million reduction in interchange fees attributed to the Durbin Amendment. Despite this decline, trust revenue, treasury income, sweep fees, and insurance commissions all saw increases. Noninterest expense rose to $85.3 million from $81.1 million, primarily due to a $2.1 million increase in salaries and employee benefits. The effective tax rate for the period was 22.3%, compared to 21.4% in Q2 2023.

As of June 30, 2024, BancFirst's total assets were $12.7 billion, marking an increase of $365.3 million since December 31, 2023. Loans grew by $394.7 million to $8.1 billion, and deposits increased by $315.5 million to $11.0 billion. Sweep accounts totaled $4.5 billion, up $153.9 million from year-end 2023. Net charge-offs for the quarter were $1.0 million, compared to $664,000 in Q2 2023. CEO David Harlow highlighted the strong loan growth and the return of deposits to pre-March 2023 banking crisis levels, despite changes in the deposit mix. He noted that recent economic data might support Federal Reserve rate cuts by year-end, though the outlook on credit remains uncertain.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.02	$2.09	$2.22	$2.79	$3.76	$4.05	$3.00	$5.03	$5.77	$6.34	***$6.09***	***$7.41***
DPS	$0.65	$0.70	$0.74	$0.80	$1.02	$1.24	$1.32	$1.40	$1.52	$1.66	***$1.76***	***$2.14***
Shares[2]	31.0	32.0	32.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	***33.0***	***33.0***

BancFirst has grown EPS, averaging 13.6% per year over the past ten years and 8.5% 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

[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.

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 years, from 22.4% in FY2020 to 34.6% in FY2022. For 2023, the net margin was 34.8%. Also, we see it decreasing this year as the Fed is expected to decrease the interest rate this year.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.1	14.1	21.8	19.4	14.8	15.4	19.6	14.0	15.3	15.4	***16.6***	***15.0***
Avg. Yld.	2.1%	2.4%	1.6%	1.6%	2.0%	2.0%	2.3%	2.0%	1.7%	1.7%	***1.7%***	***1.9%***

BancFirst's P/E ratio has averaged 16.6x over the past ten years, with relatively little change from year to year. We feel that a multiple of 15.0x 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 16.6x. The stock currently has a price-to-book (PB) ratio of 2.2, higher to its five-year average of 1.9.

Safety, Quality, Competitive Advantage, & Recession Resiliency

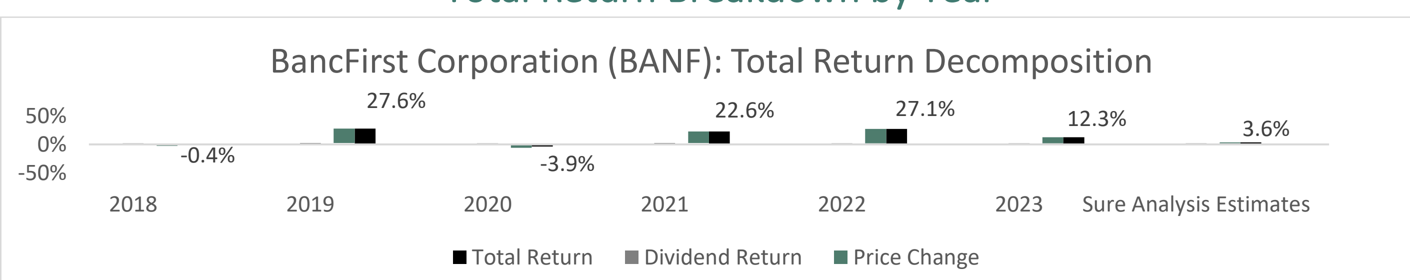
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32.2%	33.5%	33.3%	28.7%	27.1%	30.6%	44.0%	27.8%	26.3%	26.2%	***29%***	***29%***

BancFirst is a well-managed bank that has raised its dividend for 30 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. We expect a five-year annual rate of return of 3.6%. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	278	295	311	345	386	419	444	486	557	610
D&A Exp.	11	12	12	12	14	16	18	20		
Net Profit	64	66	71	86	126	135	100	168	193	212
Net Margin	23.0%	22.5%	22.7%	25.0%	32.6%	32.2%	22.4%	34.5%	34.6%	34.8%
Income Tax	27	35	37	50	34	35	24	41	44	57

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,575	6,693	7,019	7,253	7,574	8,566	9,212	9406	12388	12370
Cash & Equivalents	1,914	1,598	1,850	1,758	1,424	1,868	1,617	2050		
Accounts Receivable	132	133	139	150	168	203	221	234		
Total Liabilities	56	70	67	65	96	171	169	167		10940
Accounts Payable	5,966	6,037	6,308	6,478	6,671	7,561	8,144	8234	11137	
Long-Term Debt		32		30	37	49	52	56		
Shareholder's Equity	27	32	32	32	27	27	27	86		1434
LTD/E Ratio	609	656	711	776	903	1,005	1,068	1172	1251	0

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.0%	1.0%	1.2%	1.7%	1.7%	1.1%	1.8%	1.8%	1.7%
Return on Equity	11.0%	10.5%	10.3%	11.6%	15.0%	14.1%	9.6%	15.0%	15.9%	15.8%
ROIC	10.4%	10.0%	9.9%	11.1%	14.5%	13.8%	9.4%	14.3%	15.4%	15.3%
Shares Out.	31	32	32	33	33	33	33	33	33	33
Revenue/Share	9.00	9.27	9.77	10.60	11.54	12.58	13.37	14.58	16.67	18.21
FCF/Share	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.