Preferred Bank (PFBC)

Updated February 28th, 2025, by Patrick Neuwirth

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	10.9%	**Market Cap:**	$1.2 B
Fair Value Price:	$107	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date[1]:**	04/04/25
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.9%	**Dividend Payment Date[1]:**	04/18/25
Dividend Yield:	3.4%	**5 Year Price Target**	$130	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Preferred Bank (PFBC) is a regional commercial bank serving businesses and individuals across California, New York, and Texas. Headquartered in Los Angeles and founded in 1991, the bank operates twelve branches in California, plus locations in Flushing and Sugar Land. Preferred Bank specializes in commercial real estate, trade finance, and business lending, while also offering a full range of personal and treasury management services. As of December 31st, 2024, Preferred Bank had total assets of $6.92 billion and employed approximately 270 full-time staff.

On January 27th, 2025, Preferred Bank (PFBC) announced its financial results for the fourth quarter and full year ended December 31st, 2024. The bank reported net income of $30.2 million for Q4 2024, down from $35.8 million in Q4 2023, primarily due to a one-time $8.1 million lease expense adjustment related to an ASC 842 accounting correction. Diluted earnings per share (EPS) for the quarter came in at $2.25, compared to $2.60 in the prior year period.

Net interest income totaled $69.2 million for the quarter, down slightly from $69.4 million a year ago, as higher funding costs offset modest loan growth. The bank's net interest margin (NIM) came in at 4.06%, down from 4.24% in Q4 2023, reflecting higher deposit costs. Total loans grew to $5.64 billion, representing a 7.0% year-over-year increase, while total deposits rose to $5.92 billion, up 3.6% from year-end 2023. Preferred Bank's capital position remained strong, with a Tier 1 leverage ratio of 11.33% and a total capital ratio of 15.11%, comfortably exceeding regulatory requirements.

Noninterest income for Q4 2024 increased to $3.6 million, up from $2.1 million a year ago, driven by higher letter of credit fees and the absence of securities losses recorded in the prior year period. Noninterest expenses rose to $28.2 million, compared to $17.9 million in Q4 2023, primarily due to the non-recurring lease adjustment.

For the full year 2024, Preferred Bank reported net income of $130.7 million, down 12.9% from $150.0 million in 2023, with diluted EPS of $9.64, compared to $10.52 in the prior year. Total assets reached $6.92 billion at year-end, up from $6.66 billion in 2023, supported by steady loan growth despite a challenging rate environment..

Preferred Bank's 2025 strategy focuses on preserving profitability, maintaining strong credit quality, and enhancing shareholder returns. The bank expects moderate loan and deposit growth while managing asset sensitivity to protect margins ahead of potential rate cuts. Proactive steps to reduce asset sensitivity should help stabilize net interest margin even if rates decline, reflecting management's focus on protecting profitability across different rate environments. With its strong capital base and efficient operations, Preferred Bank aims to deliver stable results, supported by its fifth straight year of dividend increases.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.14	$2.56	$2.96	$4.64	$5.16	$4.65	$6.41	$8.70	$10.52	$9.64	***$9.75***	***$11.86***
DPS	$0.51	$0.63	$0.80	$1.02	$1.20	$1.20	$1.57	$1.84	$2.35	$2.80	***$3.00***	***$4.21***
Shares[2]	14	14	14	15	15	15	15	15	14	14	***14***	***14***

[1] Estimated date

[2] In millions.

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The company has grown earnings by 18.2% per year in the last decade and 16.0% over the past five years. We expect earnings to grow on average by 4% per year for the next five years. The company has been able to increase its dividend for 5 consecutive years. Over the last five years, the average annual dividend growth rate is 20.1%. In December 2024, the company increased its quarterly dividend by 7.1% from $0.70 to $0.75 per share. There was no share repurchase activity in Q4 2024. For the full year 2024, Preferred Bank repurchased 464,314 shares at an average price of $73.76, totaling $34.3 million.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	15.8	23.1	18.7	11.0	11.9	11.1	12.0	9.6	6.9	8.7	***9.1***	***11.0***
Avg. Yld.	1.4%	1.1%	1.3%	2.2%	2.0%	2.4%	2.0%	2.3%	3.0%	3.2%	***3.4%***	***3.2%***

During the past decade shares of Preferred Bank have traded with an average price-to-earnings ratio of about 12.9 and today, it stands at 9.1. We are using 11 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 3.4% which is above the average yield of 2.1% over the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	24%	25%	27%	22%	23%	26%	24%	21%	22%	29%	***31%***	***35%***

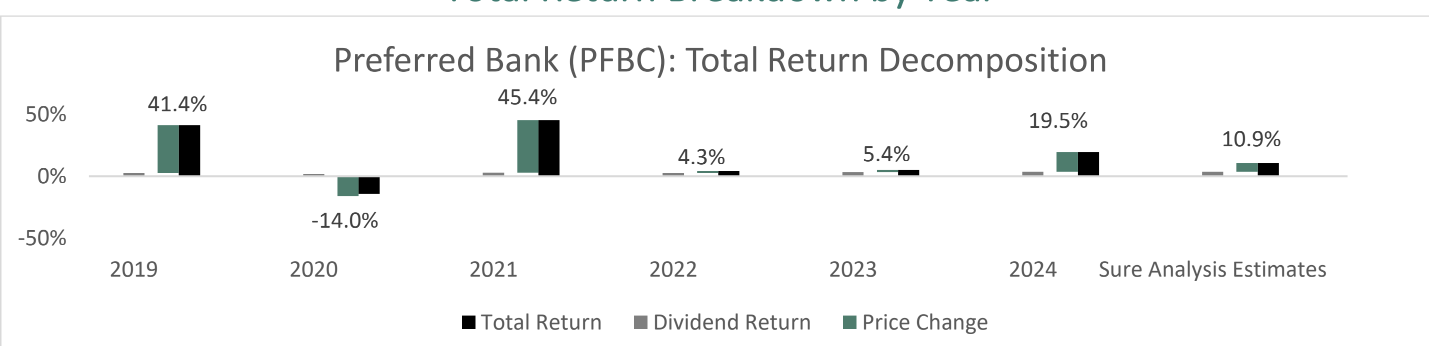
During the past five years, the company's dividend payout ratio has averaged around 24%. Preferred Bank's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Preferred Bank is a well-capitalized regional bank with above-peer profitability, strong asset quality, and industry-leading efficiency. The bank reported a net interest margin of 4.06% in Q4 2024, down from 4.24% a year earlier, reflecting higher funding costs despite efforts to reduce asset sensitivity. Loan growth remained healthy at 7.0% for the year, but deposit growth of 3.6% trailed historical levels, highlighting a competitive funding environment. Preferred Bank's strong capital base, conservative credit culture, and prudent expense management provide a solid foundation, but sustaining profitability in a potentially lower rate environment will depend on managing margin pressure, growing fee income, and maintaining disciplined cost control.

Final Thoughts & Recommendation

Preferred Bank is a commercially focused regional bank recognized for its above-peer profitability, exceptional efficiency, and strong credit management. Balancing margin stability, expanding fee income, and preserving credit quality will be essential for sustained success as the bank navigates a potentially lower rate environment in 2025. We estimate total return potential of 10.9% per year for the stock over the next five years based on a 4% earnings-per-share growth, the dividend yield of 3.4%, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	76	88	109	135	163	171	180	194	254	293
SG&A Exp.	20	23	28	32	37	42	40	43	49	52
D&A Exp.	0	1	1	1	1	1	2	2	2	2
Net Profit	25	30	36	43	71	78	69	95	129	150
Net Margin	32.5%	33.7%	33.4%	32.2%	43.5%	45.9%	38.5%	49.2%	50.6%	51.2%
Free Cash Flow	41	26	52	52	96	80	102	119	143	173
Income Tax	16	20	23	37	28	33	27	39	50	60

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,054	2,599	3,222	3,770	4,216	4,628	5,144	6,046	6,425	6,659
Cash & Equivalents	215	296	306	447	527	499	739	1,031	748	891
Acct. Recv.	6	8	10	11	14	15	24	15	24	34
Goodwill & Int.	1,819	2,335	2,924	3,415	3,800	4,158	4,618	5,460	5,795	5,964
Total Liabilities	1	2	3	4	7	3	1	1	3	16
Long-Term Debt	20	27	125	105	100	99	99	148	148	148
Total Equity	235	264	298	355	417	470	525	587	630	695
LTD/E Ratio	0.09	0.10	0.42	0.30	0.24	0.21	0.19	0.25	0.23	0.21

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.3%	1.2%	1.2%	1.8%	1.8%	1.4%	1.7%	2.1%	2.3%
Return on Equity	11.1%	11.9%	12.9%	13.3%	18.4%	17.7%	14.0%	17.1%	21.2%	22.6%
ROIC	10.2%	10.9%	10.2%	9.8%	14.5%	14.4%	11.6%	14.0%	17.0%	18.5%
Shares Out.	14	14	14	15	15	15	15	15	14	14
Revenue/Share	5.56	6.45	7.78	9.31	10.82	11.35	12.11	13.02	17.18	20.55
FCF/Share	3.03	1.91	3.72	3.58	6.39	5.34	6.87	8.01	9.68	12.13

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