Preferred Bank (PFBC)

Updated July 29th, 2025, by Sure Dividend Analyst

Key Metrics

Current Price:	$93	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$1.2 B
Fair Value Price:	$108	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date[1]:**	10/03/25
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date[1]:**	10/17/25
Dividend Yield:	3.2%	**5 Year Price Target**	$132	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Sector:**	Financials	**Rating:**	Hold

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 June 30th, 2025, Preferred Bank had total assets of $7.28 billion and employed approximately 270 full-time staff.

On July 21st, 2025, Preferred Bank (PFBC) announced its financial results for the second quarter ended June 30th, 2025. The bank reported net income of $32.8 million, up from $30.0 million in Q1 2025, but down slightly from $33.6 million in Q2 2024, primarily reflecting changes in net interest income and noninterest expense trends. Diluted earnings per share (EPS) for the quarter came in at $2.52, compared to $2.23 in Q1 2025 and $2.48 in the prior year period.

Net interest income totaled $66.9 million for the quarter, up from $62.7 million in Q1, driven by both loan and investment growth despite continued deposit cost pressures. The bank's net interest margin (NIM) improved to 3.85%, compared to 3.75% in Q1 2025, though still down from 3.96% in Q2 2024, reflecting the challenging rate environment. Total loans grew to $5.74 billion, a 1.9% increase on a linked-quarter basis, while total deposits rose slightly to $6.08 billion, up from $6.07 billion in Q1 2025. Preferred Bank's capital position remained solid, with a Tier 1 leverage ratio of 10.73% and a total capital ratio of 14.43%, both modestly lower than the prior quarter but still comfortably exceeding regulatory requirements.

Noninterest income for Q2 2025 totaled $3.8 million, compared to $4.0 million in Q1, with lower SBA loan sale activity and other fee income partially offset by stronger LC fees. Noninterest expenses declined to $22.5 million, down from $23.4 million in Q1, driven by lower compensation-related costs and payroll taxes. However, expenses were elevated on a year-over-year basis due to a $1.3 million write-down related to the Bank's Santa Barbara OREO property. Total assets reached $7.28 billion at quarter-end, up from $7.10 billion in Q1 2025, reflecting continued growth in both loans and securities.

Preferred Bank's 2025 strategy centers on preserving profitability, maintaining strong credit quality, and enhancing shareholder returns. The bank anticipates moderate loan growth, while deposit balances may remain under pressure. With a solid Tier 1 leverage ratio of 10.73% and strong pre-provision earnings, Preferred Bank is well-capitalized to navigate market shifts. The bank remains committed to delivering stable results and has raised its dividend for five consecutive years.

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	***$9.85***	***$11.98***
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	***13***	***13***

[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 16.2% 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 Q2 2025. 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	***9.4***	***11.0***
Avg. Yld.	1.4%	1.1%	1.3%	2.2%	2.0%	2.4%	2.0%	2.3%	3.0%	3.2%	***3.2%***	***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 9.4. 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 3.2% 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%	***30%***	***35%***

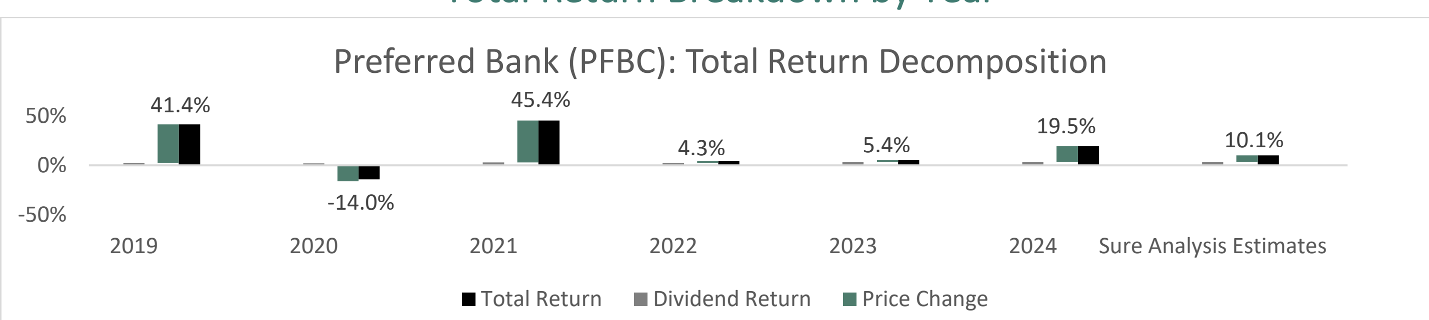
During the past five years, the company's dividend payout ratio has averaged around 24%. Preferred Bank's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the 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 3.85% in Q2 2025, down from 3.96% a year earlier, reflecting ongoing deposit pricing pressure despite efforts to reduce asset sensitivity. Loan growth remained positive with total loans rising 1.9% quarter-over-quarter, while deposit balances rose slightly, highlighting a still competitive but stabilizing 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-based income, and maintaining disciplined cost control and operational efficiency, as reflected in the improved efficiency ratio of 31.79%.

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 10.1% per year for the stock over the next five years based on a 4% earnings-per-share growth, the dividend yield of 3.2%, and a valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	88	109	135	163	171	180	194	254	293	284
SG&A Exp.	23	28	32	37	42	40	43	49	52	55
D&A Exp.	1	1	1	1	1	2	2	2	2	2
Net Profit	30	36	43	71	78	69	95	129	150	131
Net Margin	33.7%	33.4%	32.2%	43.5%	45.9%	38.5%	49.2%	50.6%	51.2%	46.1%
Free Cash Flow	26	52	52	96	80	102	119	143	173	164
Income Tax	20	23	37	28	33	27	39	50	60	53

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,599	3,222	3,770	4,216	4,628	5,144	6,046	6,425	6,659	6,923
Cash & Equivalents	296	306	447	527	499	739	1,031	748	891	766
Acct. Recv.	8	10	11	14	15	24	15	24	34	34
Goodwill & Int.	2,335	2,924	3,415	3,800	4,158	4,618	5,460	5,795	5,964	
Total Liabilities	2	3	4	7	3	1	1	3	16	6,160
Long-Term Debt	27	125	105	100	99	99	148	148	148	148
Total Equity	264	298	355	417	470	525	587	630	695	763
LTD/E Ratio	0.10	0.42	0.30	0.24	0.21	0.19	0.25	0.23	0.21	0.19

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.3%	1.2%	1.2%	1.8%	1.8%	1.4%	1.7%	2.1%	2.3%	1.9%
Return on Equity	11.9%	12.9%	13.3%	18.4%	17.7%	14.0%	17.1%	21.2%	22.6%	17.9%
ROIC	10.9%	10.2%	9.8%	14.5%	14.4%	11.6%	14.0%	17.0%	18.5%	14.9%
Shares Out.	14	14	15	15	15	15	15	14	14	14
Revenue/Share	6.45	7.78	9.31	10.82	11.35	12.11	13.02	17.18	20.55	20.95
FCF/Share	1.91	3.72	3.58	6.39	5.34	6.87	8.01	9.68	12.13	12.07

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