

Premier Financial Bancorp (PFBI)

Overview 100MM market cap. Dividend yield at 3.5%. P/B at 0.75. Regional, Southeast bank.

The stock has made a tremendous run since early 2012, from \$4 to the current \$12.60. 35 retail branches in Kentucky, W. Virginia, Ohio, Virginia, Maryland, D.C. \$1.1BB in assets and \$930MM in deposits. The Bank made a string of acquisitions, expanding it beyond its traditional Kentucky border. They wait a few years to incorporate the new branches under the Co's operations and then restart their acquisitions.

Premier owns the affiliated banks which pays dividends to the Premier Bank. The affiliated banks are 1) Traders Bank (merger between Citizens First \$11.7MM/\$60MM asset and Traders \$18.1MM/\$108MM asset in 2008) and 2) Abigail Adams National Bancorp (Adams National and Consolidated Bank & Trust for \$11MM/\$436MM in asset). The Co. historically paid \$180K/\$1MM in assets, but the Abigail Adams acquisition was at a discount because Adams National was struggling, and Premier ultimately sought to turn around the ailing operations by participating in the TARP program.

To participate in the program, on Oct. 2009, the Co. issued perpetual cumulative preferred shares to the US gov't in the amount of \$22.2MM, along with warrants with an exercise price of \$5.31, equivalent to 15% of the preferred shares value, or \$3MM. The warrants are exercisable at the current price of \$12.60, which would dilute the ownership by the \$3MM in outstanding common shares. On July 2012, the US gov't decided to redeem their preferred shares and the Co. repurchased \$10.25MM for 90% to par, thereby saving \$1MM and paying out less in interest. The dividends in arrears were fully paid in early 2012 and no longer affiliated with the gov't. The prefs have received \$1MM annually in dividends since 2011, which is nearly a 10% yield.

On Sept. 1, 2010 5 subsidiaries (inclusive of Traders, Abigail Adams, and 2 other subs), were merged into and known as Premier Bank. On August 2012 Ohio River bank and Famers Deposit Bank merged to form Citizens Deposit Bank and Trust (CD&T). Premier owns 22 locations and leases 7. CD&T owns 6 and leases 1.

The Co. enjoys a 16%, 17% Tier I and II ratios. Tier I is essential common equity and preferred stock. Tier II also includes convertible securities. The equity acts as a cushion to depositors, who will not recoup their deposit, aside from FDIC provisions, should losses exceed loss provisions.

The Co. has 2,387 shareholders. Dividends are subject to approval from the local regulators. The Co. has paid out 2 dividends in Q3 and Q4, which helped propel the stock higher. The dividend would imply a 1.5% annual rate, or a 3% annualized, if the dividends were consistent, but Q1 2013 was zero payment.

\$300MM in interest earning assets, primarily MBS, earning 2.5% interest, while \$680MM in loans to primarily commercial earnings 6.3%, or a weighted 4.9%. Total interest bearing liabilities of \$780MM costs 0.82%, or a 4% spread. 6% of assets, or \$57MM is nonperforming, but we have to consider the Abigail Adams acquisition considerable raised this figure from the prior 1.88%. The non-performance to asset ratio has been on a downward trend from 8.4%. Allowance for loans loss is \$11MM.

Assessment Goodwill of \$30MM brings the tangible book value to \$100, so P/B is closer to 1. Bank makes close to \$50MM in interest income, \$40MM in net income, \$7MM in non-interest income, \$33MM in non-interest expense, EBT of \$15MM and \$10MM in NI. With \$1MM to prefs dividend, leaves \$9MM for common shares. So, op. cash flow is near \$10MM. With 8 years on top of the tangible book value, we are looking at \$180MM in 5 years, or 12% annualized growth in book value

We like how management has 1) consolidated stranded subsidiaries under 2 names, 2) took a risk to purchase a larger, but struggling bank at a discount and is now free from US gov't contributions, 3) serving a niche local community 4) implemented third party vendor services. We will include the stock in our portfolio.

SN Valuation FIG Portfolio

As of 2013-08-07

Buy

Name	Ticker	Market Price*	Entry Price	Date	Gain/(Loss)
Premier Financial	PFBI	12.61	12.61	08/07/2013	0.00%

Average Total Return

0.00%

Follow

Name	Ticker	Market Price*	Entry Price	Date	Gain/(Loss)
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*Intraday Market Price