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Deal or no deal in '16, Pacific Premier to stand out in SoCal

By Kevin Dobbs *September 14, 2015*

Pacific Premier Bancorp Inc., the high-growth Southern California community bank that has nearly tripled in size over the past five years via acquisitions and steady organic growth, finished 2015 with the most profitable quarter in company history.

"Across the board, we were able to execute on both our acquisitive and organic growth strategies, which led to positive trends in virtually all of our key metrics," President and CEO Steven Gardner told analysts on a Jan. 20 call after the Irvine, Calif.-based bank posted fourth-quarter net income of $8.1 million, or 37 cents per diluted share, an increase of 61% from a year earlier.

Despite global economic uncertainty that has rippled through U.S. stock markets and raised doubts about bank mergers-and-acquisitions as well as concerns about whether Federal Reserve policymakers will further push up interest rates, Gardner struck an upbeat tone when addressing the year ahead.

He expects "another strong year of earnings and balance sheet growth." And he added, "We believe we are well-positioned to generate strong organic growth and to supplement that growth with additional accretive acquisitions."

Pacific Premier ended 2015 with nearly $2.8 billion in assets, up from just over $2 billion only a year before.

The bank stands out, analysts say, because it debunks a widespread notion that small lenders cannot consistently grow both their balance sheets and their earnings in an era defined by fierce competition, low interest rates and modest economic expansion.

"For Pacific Premier, it's all about growth," analyst Tim Coffey of FIG Partners told SNL. "They've shown how it can be done. ... And I think their prospects continue to be very good."

Pacific Premier said it originated $252 million of new loans in the fourth quarter, a 7% increase over the prior quarter and a 16% jump from a year earlier. The growth was driven by steady demand for credit throughout the bank's Southern California footprint, Gardner said, with notable strength in commercial-and-industrial, construction and Small Business Administration lending.

Gardner credited relatively healthy economic conditions in Southern California, a Pacific Premier lending culture aimed at high rates of contact with would-be customers, and a diverse product set for a bank its size.

With "our consistent, proactive calling efforts and the wide array of lending products that we can offer, we continue to have good success in attracting new customers to the bank," he said.

At the same time, credit quality has held up nicely, Gardner said. Net charge-offs in the fourth quarter were just 2 basis points of average loans.

"Our underwriting and credit analysis has been and continues to be highly focused on our borrowers' global cash flow," he said. "Over the years, we have not loosened our credit standards or our loss mitigation practices, and that has served us well."

Strong inflows of low-cost core deposits have helped Pacific Premier fund much of its growth inexpensively. At the close of 2015, deposits totaled $2.2 billion, up 2.6% from Sept. 30, 2015, and up 34.6% from a year earlier. The weighted average cost of deposits for the fourth quarter was 0.31%, a decrease from 0.32% for the third quarter and down from 0.36% a year earlier.

Low-cost deposits coupled with strong loan growth and increased interest income helped Pacific Premier expand its net interest margin despite the low-rate environment that dominated the fourth quarter. Its NIM of 4.43% widened by 19 basis points during the quarter.

Deposit expansion last year was boosted in part by M&A, specifically the acquisition of Independence Bank in early 2015. That deal added $336 million in deposits. Gardner said Pacific Premier's latest deal, expected to close this quarter, should further fortify its funding base. Its planned $119 million acquisition of Security California Bancorp would give it more than $650 million in additional deposits. When that deal was announced last fall, Gardner said the seller's noninterest bearing deposits and non-CD deposits accounted for 43.3% and 81.8%, respectively, of its total deposits.

Given the liquidity Pacific Premier will add with the Security Bank acquisition, the bank is moving ahead in 2016 with a plan to wind down a warehouse lending arm. The business proved volatile for Pacific Premier, and with core operations charging ahead and generating consistent growth, Gardner said it was time to eliminate that volatility and focus more exclusively on traditional business lines.

Security California would also give Pacific Premier nearly $470 million in loans, instantly bolstering its balance sheet and helping it to continue to generate higher levels of interest income. Pacific Premier also said it can build off of Security California's commercial lending platforms to expand product offerings and deepen business relationships, adding to organic growth.

That should help it to continue to prop up its margin and profitability as 2016 wears on, even if interest rates do not rise, analysts said. Federal Reserve policymakers hiked rates by a modest 25 basis points last month, marking the first such increase of this decade. They said at the time that additional increases were on the table for 2016, a potential development that asset-sensitive banks such Pacific Premier would welcome because it could help boost lending profitability. But with global economic sluggishness weighing on markets, the Fed's next move is uncertain.

"We don't have really any good visibility on that in the near term," Coffey said of rates. But with Pacific Premier, "I'm more interested in their loan growth," he continued, adding that its expansion prospects are considerably more surefire than the Fed's next steps. "Higher rates would be good, but that's out of their control. They are focused well, I think, on what they can control."

That could include additional acquisitions in the year ahead. "We regularly have constructive conversations with potential targets, and we believe we can continue to effectively execute on our M&A strategy and add value to the franchise," Gardner said.

Andrew Liesch, a Sandler O'Neill & Partners analyst, told SNL that Pacific Premier's organic growth has been "solid" and that it does not need a deal in the near term to continue driving earnings upward. "But deals are a nice complement for them," he said.

Liesch noted that bank stocks broadly have suffered in recent weeks amid the global uncertainty and its potential impact on the rate environment. Pacific Premier has not been immune. Through Jan. 19, its stock was off about 10% in 2016. That affects the strength of its M&A currency and could convince some sellers into a wait-and-see mode, he said.

But, Liesch added, Pacific Premier's stock has held up better than the sector overall; the SNL U.S. Bank Index was down more than 13% through Jan. 19.

And, over the past 52 weeks, shares of Pacific Premier are up more than 20%. After its earnings report on Jan. 20, its stock edged up 0.58% on the day.

Given that backdrop, Liesch said that Pacific Premier is likely in a better position than most to pursue acquisitions. But, even if M&A does not pan out in coming months, "I think they are set up nicely for the year."