



FEBRUARY 11, 2014

CURRENT PRICE: \$13.24.

RATING: BUY

PRICE TARGET: \$15.90

CURRENT YIELD: 3.0%

EPS Estimates - Non-GAAP

	DEC 14A	DEC 15E
1Q	\$0.28	\$0.29
2Q	\$0.28	\$0.32
3Q	\$0.27	\$0.33
4Q	\$0.29	\$0.33
	\$1.11	\$1.27

Trading Data

52-WEEK PRICE RANGE: **\$18.43-\$12.77**

SHARES OUTSTANDING: **79.61(M)**

MARKET CAP: **\$1,054(M)**

AVG. DAILY TRADING VOLUME: **0.64(M)**

S&P 500: **2,068**

Valuation Data

BOOK VALUE: **\$11.10**

PRICE TO BOOK: **1.19x**

DIVIDEND: **\$0.30**

BBCN Bancorp (Nasdaq: BBCN)

4Q14 Earnings Report - Maintain BUY Rating

Highlights

- 4Q14 earnings increases to \$0.29/share from \$0.23/share
- 10% new loan growth
- Operating results benefitted from recent acquisitions
- Potential of earnings growth acceleration in 2015-2016
- Rated BUY & \$15.90/share price target

Investment Thesis

Many US banks suffered from loan portfolio credit deterioration created by the 2008-2009 recession. However, since then an improving economy has allowed many to repair loan portfolios and balance sheets. As a result many banks appear poised for an earnings recovery and potential share price appreciation. One such bank is BBCN Bancorp. This bank's unique customer-niche, recent acquisitions, and improving balance sheet augur well for earnings growth during the next two-three years. Under an improving profitability scenario, this stock could appreciate towards our \$15.90 target price. Additionally, BBCN pays a 3.0% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, BBCN Bancorp Inc. (BBCN-\$15.41), formerly known as Nara Bancorp, Inc. originally began its operations in June 1989 operating under the name of "United Citizens National Bank". The name was changed to Nara Bank, National Association in 1994. In January 2005 the bank's name changed to Nara Bancorp after converting to a California state-chartered bank in conjunction with the holding company's reorganization transaction. Nara merged with Center Financial Corporation, on November 30, 2011, and changed its name to BBCN Bancorp Inc. The merger with Center Financial added 21 full-service branches (18 in CA) and loan production offices in Seattle WA and Denver CO.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last two pages of this report.

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BBCN purchased Seattle-based Pacific International Bancorp (PIB) during 1Q13. PIB had total assets of \$185 million and four bank locations in the Seattle metro area. On a combined basis, BBCN now has 45 total operating branches with 27 in Southern CA (Los Angeles metro area), 3 in Northern CA (San Francisco metro area), 6 in Seattle WA, 2 in Chicago IL, and 7 in the New York/New Jersey metro area. A total of five loan production offices operate in Northern CA (1), Seattle WA (1), Denver CO (1), Dallas TX (1), and Atlanta GA (1). As of 12/31/14 BBCN had total assets of \$7.1 billion.

Business Overview/Operating Strategy

BBCN's primary focus is serving the Korean-American communities in Southern/Northern CA, Seattle, Chicago, and the New York City/New Jersey metropolitan areas. The bank offers deposit services, money markets, certificates of deposits, and a variety of loans to customers comprised mainly of small-to-mid size businesses and individuals in its service territories. The loan business consists of commercial business/real estate, trade finance, and SBAs. BBCN provides cash management services to its business customers. Its website offers internet banking services/applications in both Korean and American.

The recent acquisition of Pacific International Bank (PIB) increased BBCN's banking footprint by adding 4 branches in Seattle WA. Additionally, it added \$130 million in loans and \$143 million in deposits to BBCN's balance sheet. Management believes this makes BBCN the dominant Korean-American Bank in the Seattle metro area, which is a key area for the trans-Pacific trade lane between North America and eastern Asia. Additionally, the PIB acquisition is accretive to BBCN's earnings by \$0.02-\$0.04/share on an annual basis.

During 2Q13 BBCN merged with Foster Bank, headquartered in Chicago IL. Foster Bank is another financial institution serving the Korean-American community in Chicago and the Washington DC metropolitan areas. Foster Bank's total assets were \$412.6 million with \$326.9 million in total loans and \$357.4 million in total deposits. Upon completion of the deal, BBCN added 10 branch offices in Chicago and a full service branch in Annandale VA.

FUTURE GROWTH/ACQUISITIONS: BBCN has stated its intent to grow total assets from approximately \$7.1 billion to \$8 billion. Management believes this can be done through organic growth & acquiring other banks serving the Korean-American Community in regions complimenting, or help expand, BBCN's existing service territories.



EQUITY RESEARCH

Recent Earnings

BBCN reported 4Q14 diluted earnings of \$0.29/share vs. \$0.23/share during 4Q14. The improvement was due to increases in interest income, non-interest income, a decline in loan loss provisions, and lower non-interest expense. These positives more than offset a rise in interest expense. Total assets rose to \$6.75 billion from \$5.96 billion and deposits increased to \$4.14 billion from \$3.68 billion. The bank recorded \$304 million in new loan originations, equating new loan growth of 10%. Commercial real estate accounted for 81% and commercial/industrial comprised 18% of loan production during 4Q14. BBCN's 2014 diluted earnings rose to \$1.11/share from \$1.03/share.

When comparing the two quarters, ROA improved to 1.28% from 1.13% and ROE grew to 10.42% from 8.92%. BBCN's net interest margin declined to 3.90% from 4.45%. The decrease came from a shift in earnings assets, current loan production weighed towards lower yielding variable rate loans, the impact of purchase accounting adjustments, and the impact of non-accrual loan income reversal.

Total interest income decreased to \$75.8 million from \$77.1 million. The decline was due to lower interest/fees on loans (\$71.0 million vs. \$72.4 million) and interest on securities (\$3.97 million vs. \$4.0 million). These were partly offset by an increase in interest on fed funds sold/other investments (\$795,000 vs. \$648,000). Total non-interest income increased to \$12.1 million from \$11.4 million. The improvement was due to higher net gains on SBA loan sales (\$4.1 million vs. \$3.6 million), net gains on OREO sales (\$47,000 vs. \$29,000), and other income/fees (\$4.5 million vs. \$4.3 million). This was partly offset by a decrease in deposit account service fees (\$3.4 million vs. \$3.5 million).

Total interest expense increased to \$9.53 million from \$9.18 million as interest deposits rose (\$7.80 million from \$7.42 million) while experiencing a decrease in interest on other borrowings (\$1.74 million vs. \$1.76 million). Total non-interest expense declined to \$39.01 million from \$39.42 million. This resulted from decreases in salaries/employee benefits (\$19.27 million vs. \$19.35 million), FDIC assessment fees (\$1.12 million vs. \$1.14 million), merger/integration expenses (\$32,000 vs. \$66,000), credit related expenses (\$3.0 million vs. \$3.53 million), advertising/marketing expenses (\$1.30 million vs. \$1.54 million), and Other expenses (\$3.08 million vs. \$3.40 million). These were partially offset by increases in occupancy expense (\$5.07 million vs. \$4.72 million), furniture/equipment expense (\$2.19 million vs. \$1.92 million), data processing/communications expense (\$2.27 million vs. \$2.21 million), and professional fees (\$1.69 million vs. \$1.57 million).

The credit metrics of BBCN's loan portfolio was a mixed bag of results. On the positive side, there were decreases in net charge-offs/average gross loans (0.21% vs. 0.75), allowance for loan losses/loans receivables (1.22% vs. 1.33%), allowance for loans/non-performing loans (65.25% vs. 92.14%), allowance for loans/non-performing assets (53.87% vs. 69.15%), and allowance for loan losses/nonaccrual loans (146.2% vs. 171.9%). On the negative side, there were increases in non-performing assets/total assets (1.76% vs. 1.50%), non-performing assets/total capital (14.25% vs. 12.03%), non-accrual loans/loans receivable (1.87% vs. 1.44%), and non-accrual loans/loans receivable (0.83% vs. 0.77%).



RECENT DEVELOPMENTS

During 4Q14 BBCN opened a representative office in Seoul South Korea. This marks the first time a Korean-American Bank has formally expanded into South Korea. BBCN's goal is to increase its commercial and industrial lending with US subsidiaries of Korean national companies.

The company also launched a pilot residential mortgage lending business through a few of its Southern California branches, during 4Q14, creating BBCN's first direct lending opportunity. The goal is to have this program available through all of the nationwide branches by mid-year. Management's goal is to have this unit produce \$100 million per quarter by mid-2016. Additionally, BBCN plans to launch new credit card and wealth management offerings during 2Q15.

Our Thoughts

BBCN is recommended for investors seeking both appreciation and income in a small cap bank stock, given the stock's 3% dividend yield. 4Q14's diluted earnings improved to \$0.29/share vs. \$0.23/share during 4Q13. Over the past two years management has made acquisitions to increase its national footprint and added new products (credit card & wealth management services) in order to grow assets, revenues, and earnings. Potentially, if management is successful in these stated goals, then BBCN's earnings could grow during the next two years and shareholders could see a further increase in the common stock dividend, following a 33% increase in 2014. Additionally, during the recent conference call management stated it may use its growing balance sheet cash levels to repurchase shares of its outstanding shares. Given a scenario of increased earnings/cash flow during the next 24 months, BBCN's shares appear undervalued trading at 1.19x book value. Our price target is \$15.90/share, equating to 12.5x our 2015 earnings estimate of \$1.27/share. We continue to rate BBCN a BUY based on improved operating trends/earnings during the next two years.



Risks

There is no guarantee BBCN will improve earnings/cash flow. An economic slowdown could adversely impact the company's earnings/loan portfolio. Rising interest rates/inflation, increase regulatory compliance expense, tax issues, or rising operating costs could negatively impact BBCN's earnings. BBCN's stock may be adversely impacted by negative equity/credit markets, terrorist attacks, and failure to comply with Sarbanes Oxley guidelines. Additionally, given its small-cap nature, there is limited liquidity in the trading of this stock. Given the relatively small amount of daily trading activity of daily trading in BBCN's stock, any increase in trading volume could significantly accelerate the volatility of its share price movement.

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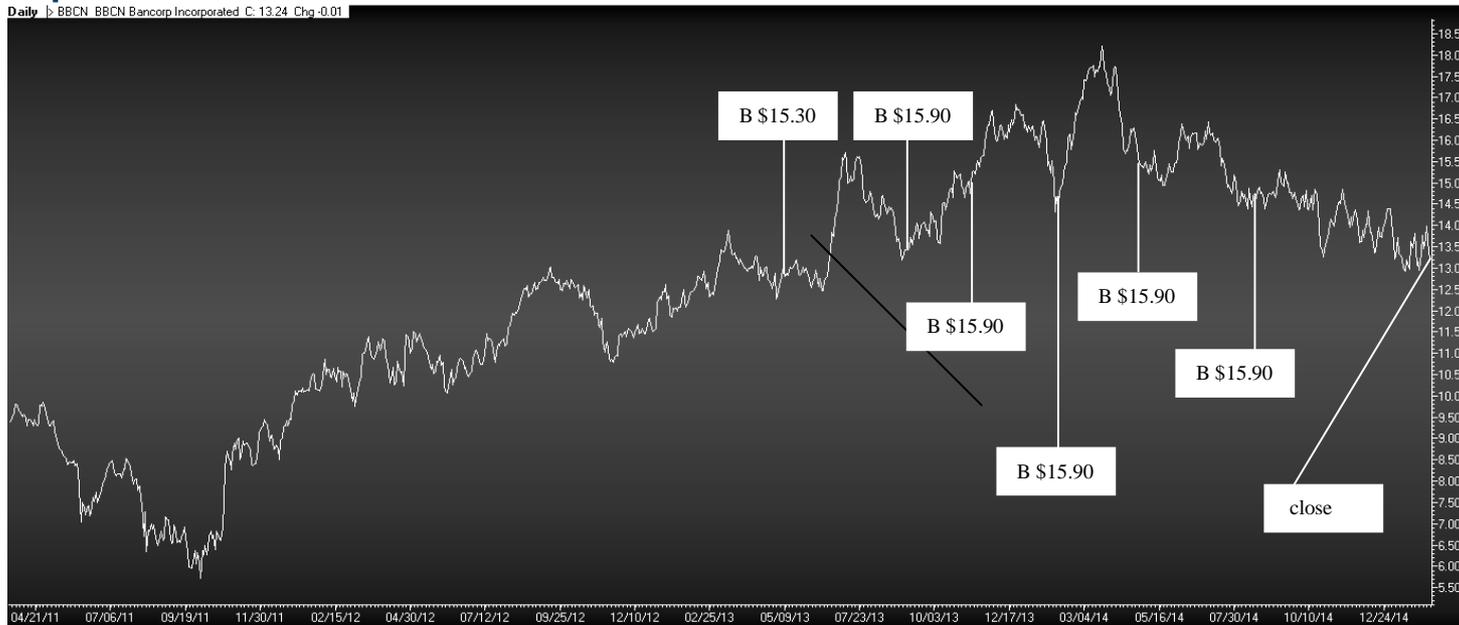
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BBCN Bancorp, Inc. & Subsidiaries
(in thousands, except per share amounts)

	1Q14	2Q14	3Q14	4Q14	2014	1Q15e	2Q15e	3Q15e	4Q15e	2015e
Interest Income	\$73,354	\$76,453	\$77,084	\$75,767	\$302,657	\$76,787	\$77,654	\$77,921	\$78,231	\$310,593
Interest Expense	8,338	8,963	9,177	9,533	36,060	9,648	8,569	8,328	8,428	34,973
Net Interest Income before loan losses	64,966	67,490	67,907	66,234	266,597	67,139	69,185	69,593	69,803	275,720
Provision for loan losses	3,026	2,996	4,256	2,360	12,638	2,615	1,358	2,348	2,462	8,783
Net Interest Income net loan loss provisions	61,940	64,494	63,651	63,874	253,959	64,524	67,827	67,345	67,341	267,037
Non-Interest Income	11,095	10,492	11,369	12,050	45,007	12,188	12,589	14,108	15,347	54,232
Non-Interest Expense	36,275	37,739	39,420	39,010	152,444	39,426	39,487	39,588	39,885	158,386
Income before income taxes	36,760	37,247	35,600	36,914	146,522	37,286	40,929	41,765	42,803	162,783
Income taxes	14,564	14,935	14,180	14,227	57,907	14,169	15,553	15,871	16,608	62,201
Net Income	22,196	22,312	21,420	22,687	88,615	23,117	25,376	25,894	26,195	100,582
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$22,196	\$22,312	\$21,420	\$22,687	\$88,615	\$23,117	\$25,376	\$25,894	\$26,195	\$100,582
Diluted Earnings Per Share	\$0.28	\$0.28	\$0.27	\$0.29	\$1.11	\$0.29	\$0.32	\$0.33	\$0.33	\$1.27

Important Disclosures

Daily | BBCN | BBCN Bancorp Incorporated | C: 13.24 | Chg: -0.01



5/09/13 \$12.80 Initiate BUY & \$15.30 px target

9/09/13 Raise price target to \$15.90

Ratings:

Buy: B

Hold: H

Sell: S

\$15.90 px. target equates to 12.5x our 2015 earnings estimate of \$1.27

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- (3) Sell – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

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