



**August 22, 2014**

**CURRENT PRICE:** \$14.89  
**RATING:** BUY  
**PRICE TARGET:** \$15.90  
**CURRENT YIELD:** 2.7%

**EPS Estimates - Non-GAAP**

	DEC 13A	DEC 14E
1Q	\$0.22	\$0.28
2Q	\$0.29	\$0.28
3Q	\$0.30	\$0.29
4Q	\$0.25	\$0.30
	<b>\$1.05</b>	<b>\$1.15</b>

**Trading Data**

**52-WEEK PRICE RANGE:** \$18.43-\$13.05  
**SHARES OUTSTANDING:** 79.61(M)  
**MARKET CAP:** \$1,185(M)  
**AVG. DAILY TRADING VOLUME:** 0.44(M)  
**S&P 500:** 1,988

**Valuation Data**

**BOOK VALUE:** \$10.72  
**PRICE TO BOOK:** 1.39x  
**DIVIDEND:** \$0.40

**BBCN Bancorp (Nasdaq: BBCN)**

*2Q14 Earnings Report - Maintain BUY Rating*

**Highlights**

- 2Q14 earnings of \$0.28/share vs. \$0.29/share during 2Q13
- \$344 million loan growth
- Dividend increased 33%
- Potential of earnings growth acceleration in 2014-2015
- 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 2.7% dividend yield and offers the potential of future increases based on earnings growth. This small-cap stock is recommended for aggressive/speculative investors seeking above average appreciation potential in the banking sector.

**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 Se 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.*



# EQUITY RESEARCH

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 3/31/14 BBCN had total assets of \$6.7 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. BBCN believes the PIB/Foster Bank acquisitions could be accretive to earnings by as much as \$0.08-\$0.10/share in 2014.

**FUTURE GROWTH/ACQUISITIONS:** BBCN has stated its intent to grow total assets from approximately \$6.7 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.

**RECENT DEVELOPMENTS:** Kevin S. Kim was appointed as President/CEO of BBCN Bank, a position he has held, on an interim basis, since 1/15/14. Given this appointment, Mr. Kim now serves as Chairman/President/CEO of BBCN Bancorp and BBCN Bank. David S. Zuehls was recently appointed to the Board of Directors of BBCN.



# EQUITY RESEARCH

## Recent Earnings

BBCN reported 2Q14 earnings of \$0.28/share vs. \$0.29/share during 2Q13 while net income decreased to \$22.3 million from \$22.7 million. While total interest income improved (+10%), outpacing the increase in total interest expense (+23%), the increase in provisions for loan losses reduced overall earnings per share figures. BBCN's balance sheet showed improvement as total assets (+16%), total deposits (+19%), and total receivable loans (+16%), when comparing the two quarters. Net interest margin declined to 4.20% from 4.49% due to a less favorable mix of earning assets. The weighted average yield on loans decreased to 5.44% from 5.78% and the weighted average cost of deposits rose to 0.54% from 0.49%. ROA decreased to 1.31% from 1.54% and ROE declined to 10.59% from 11.58%. Net charge offs fell to \$1.83 million from \$2.39 million. Book value per share rose to \$10.72 from \$9.86 and tangible book value per share increased to \$9.34 from \$8.65.

Net interest income, before loan loss provisions, rose 9% to \$67.49 million from \$62.10 million as BBCN benefited from loan growth (+65%), recent acquisitions, and lower levels of non-accrual loans. Average interest earning assets increased 16% when comparing 2Q14 vs. 2Q13. Total Interest income rose 10% to \$76.45 million from \$69.38 million resulting from increases in interest/fees on loans (+9% to \$71.69 million), interest on securities (+16% to \$4.08 million), and interest on fed funds sold/other investments (+81% to \$688,000).

Total non-interest income declined 1% to \$10.49 million from \$10.61 million. This lower result was due to declines in net gains on SBA loan sales (-15% to \$2.81 million), net gains on other loan sales (-100% to \$0), and lower other income/fees (-2% to \$4.29 million). Offsetting these were higher deposit account service fees (+15% to \$3.36 million), and net gains on OREO sales (+382% to \$31,000).

Total interest expense rose 23% to \$8.96 million from \$7.28 million. The increase occurred as interest on deposits grew 29% to \$7.27 million and interest on other borrowings rose 4% to \$1.69 million from \$1.63 million. Total non-interest expense increased 10% to \$37.74 million from \$34.43 million. The rise reflected the addition of Fosters Bank and higher credit related costs. These higher costs occurred in salaries/employee benefits (+12% to \$18.14 million), furniture equipment (+25% to \$2.01 million), data processing communications (+24% \$2.30 million), FDIC assessments (+26% to \$1.08 million), and credit related expenses (+37% to \$3.02 million). The higher credit related expenses came from increased property taxes and insurance payments paid to protect the bank's interest in underlying loan collateral. Advertising/marketing expenses rose (+27% to \$1.51 million) due to the timing of spending versus indications of increased levels in the future.

The provision for loan losses rose to \$3.0 million from \$800,000 because of the addition of \$344 million of new loans. Non-performing assets/total loans rose slightly to 1.56% from 1.55% and non-performing assets/total capital rose to 12.57% from 11.66%. Non-performing loans/loans receivables declined to 1.62% from 1.80% and allowance for loan losses/loans receivables decreased to 1.25% from 1.59%. Allowance for loan losses/non-accrual loans fell to 156.78% from 159.23% and allowance for loan losses/non-performing assets declined to 62.40% from 78.71%.

During the 2Q14 earnings conference call management said they are focused on three areas: 1) organic loan growth, 2) acquisitions, and 3) dividend increases. In fact, BBCN recently raised its annual dividend 33% to \$0.40/share.



# EQUITY RESEARCH

## Our Thoughts

2Q14 earnings were \$0.28/share vs. \$0.29/share as a higher loan loss provision (\$3.0 million vs. \$800,000) negatively affected its bottom line. The higher loan loss provision was due to new loan growth of 65%, or \$344 million, recorded during 2Q14 vs. 2Q13. Overall, BBCN continues to grow evidenced by 1H14 increases in loans receivable (+5%), total deposits (+6%), and total assets (+6%). These increases came from both organic growth and the addition of last year's two bank acquisitions. The credit metrics for the loan portfolio continued to strengthen given improvements in non-accrual loans (\$42.7 million vs. \$45.0 million), ALLL to loans receivables (1.25% vs. 1.59%), ALL to non-accrual loans (156.78% vs. 159.32%), and ALLL to non-performing loans (62.40% vs. 78.71%). Net interest margins, adversely affected by the low interest rate environment, decreased to 4.20% from 4.49%. ROA and ROE declined to 1.31% from 1.54% and to 10.59% from 11.59%, respectively.

BBCN's guidance anticipates the Foster's Bank/PIB acquisitions could add \$0.10-\$0.14/share during the next two years. Based on this assumption, and the potential of additional earnings from organic growth, BBCN may experience an acceleration of earnings during 2015. Based on this scenario we rate BBCN a BUY. These shares are recommended for aggressive/speculative investors seeking appreciation potential in a small cap bank stock, as well as an attractive 2.7% dividend yield which could increase as EPS improve during the next 2 years. Our price target is \$15.90/share, based on a 13.8x multiple of our 2014 earnings estimate of \$1.15/share.

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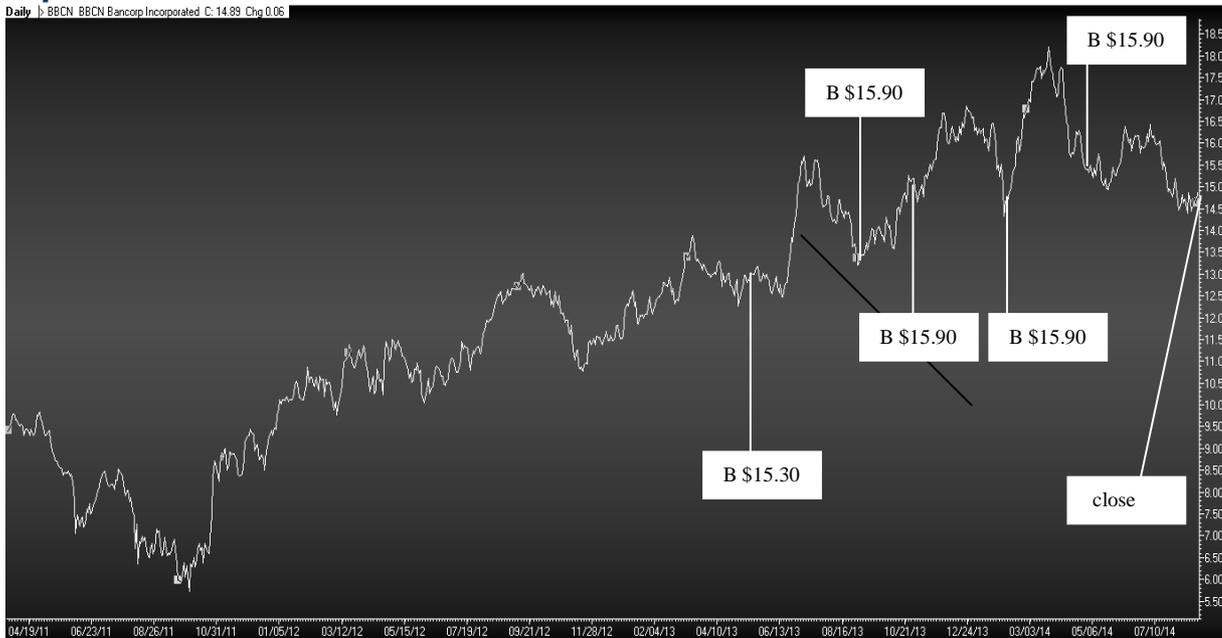
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BBCN Bancorp, Inc. & Subsidiaries  
(in thousands, except per share amounts)

	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14e	4Q14e	2014e
Interest Income	\$66,743	\$69,379	\$72,035	\$74,916	\$283,073	\$73,354	\$76,453	\$76,243	\$76,527	\$302,577
Interest Expense	7,027	7,276	7,675	8,040	30,018	8,338	8,963	8,692	8,594	34,587
Net Interest Income before loan losses	59,716	62,103	64,360	66,876	253,055	64,966	67,490	67,551	67,933	267,940
Provision for loan losses	7,506	800	744	8,450	17,500	3,026	2,996	2,212	1,572	9,806
Net Interest Income net loan loss provisions	52,210	61,303	63,616	58,426	235,555	61,940	64,494	65,339	66,361	258,134
Non-Interest Income	9,940	10,618	10,799	11,238	42,595	11,095	10,492	11,686	10,024	43,297
Non-Interest Expense	33,275	34,429	35,746	37,785	141,235	36,275	37,739	38,812	37,122	149,948
Income before income taxes	28,875	37,492	38,669	31,879	136,915	36,760	37,247	38,213	39,263	151,483
Income taxes	11,414	14,821	15,117	12,080	53,432	14,564	14,935	15,285	15,705	60,489
Net Income	17,461	22,671	23,552	19,799	83,438	22,196	22,312	22,928	23,558	90,994
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$17,461	\$22,671	\$23,552	\$19,799	\$83,438	\$22,196	\$22,312	\$22,928	\$23,558	\$90,994
Diluted Earnings Per Share	\$0.22	\$0.29	\$0.30	\$0.25	\$1.05	\$0.28	\$0.28	\$0.29	\$0.30	\$1.15

## Important Disclosures

Daily | BBDN BBDN Bancorp Incorporated C: 14.99 Chg 0.08



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

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