



**CAPITOL
SECURITIES**
MANAGEMENT, INC.

**EQUITY
RESEARCH**

October 23, 2015

CURRENT PRICE: \$17.39

RATING: BUY

PRICE TARGET: \$19.00

CURRENT YIELD: 2.5%

EPS Estimates - Non-GAAP

	DEC 14A	DEC 15E
1Q	\$0.28	\$0.27A
2Q	\$0.28	\$0.29A
3Q	\$0.27	\$0.32A
4Q	\$0.29	\$0.33
	\$1.11	\$1.21

Trading Data

52-WEEK PRICE RANGE: **\$17.41-\$12.77**

SHARES OUTSTANDING: **79.59(M)**

MARKET CAP: **\$1,384(M)**

AVG. DAILY TRADING VOLUME: **0.42(M)**

S&P 500: **2,075**

Valuation Data

BOOK VALUE: **\$11.68**

PRICE TO BOOK: **1.49x**

DIVIDEND: **\$0.44**

BBCN Bancorp (Nasdaq: BBCN)

3Q15 Earnings Report – Raising Target Price to \$19

Highlights

- 3Q15 earnings increased to \$0.32/share from \$0.27/share
- Loan originations grew 13%
- Improving metrics in loan portfolio
- Positioning bank for earnings growth in 2015-2016
- Rated BUY & raising price target to \$19/share

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 \$19.00 target price. Additionally, BBCN pays a 2.5% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, BBCN Bancorp Inc. (BBCN-\$17.39), 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 expanding, BBCN's existing service territories.



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Recent Earnings

BBCN reported 3Q15 earnings of \$0.32/share vs. \$0.27/share during 3Q14 and net income of \$25.09 million vs. \$21.42 million. The improved results were due to higher total interest income (+3%), increased net interest income (+7%), higher total non-interest income (+16%), and a decrease in non-interest expense (-2%). These were partly offset by higher total interest expense (+12%). BBCN's results benefitted from lower provisions for loan losses, decreasing to \$600,000 from \$4.3 million. Net loans receivables grew to \$5.90 billion from \$5.36 billion as loan originations grew 13% to \$432 million. Commercial real estate accounted for 80% of loan originations and commercial loans was 18%. 54% of 3Q15's loan originations were fixed rate and 46% were variable rate loans, with the average rate on new loan originations declining to 4.23% from 4.29%. Deposits grew 9% to \$6.03 billion from \$5.51 billion. ROE and ROA increased to 1.35% from 1.25%, and 10.96% from 9.97%, respectively. Net interest margin decreased to 3.87% from 4.15% due to the low interest rate environment.

Net interest income (after loan loss provisions) improved 7% to \$68.16 million from \$63.65 million as total interest income rose 3%, to \$79.06 million from \$77.08 million. The improvement in total interest income resulted from higher interest/fees on loans (+2%), interest on securities (+17%), and interest on fed funds sold/other investments (+14%). Net interest income's improvement offset an increase in total interest expense of \$10.3 million vs. \$9.2 million generated by higher interest on deposits (+13%), and interest on other borrowings (+9%). The largest contributor towards higher net interest income (after loan loss provisions) was the decrease of loan loss provisions (\$600,000 vs. \$4.3 million) driven by credit recoveries.

Total non-interest income rose 16% to \$13.23 million from \$11.37 million. These results were produced by higher Other income/fees (\$6.31 million vs. \$4.31 million), net gains on OREO sales (\$334,000 vs \$29,000) and net gains on other loan sales (\$26,000 vs. \$0). These positives were partly offset by lower deposit account service fees (\$3.17 million vs. \$3.46 million), and net gains on SBA loan sales (\$3.39 million vs. \$3.58 million).

Total interest expense increased 12% to \$10.3 million from \$9.18 million. This resulted from higher interest on deposits (\$8.39 million vs. \$7.42 million) as BBCN's deposits rose to \$6.03 billion from \$5.51 billion. Additionally, interest on other borrowings rose to \$1.91 million from \$1.76 million.

Total non-interest expense decreased 2% to \$38.8 million from \$39.4 million. The decrease was due to lower credit related expenses (-60%), professional fees (-18%), other expenses (-17%), advertising/marketing expenses (15%), FDIC assessment (-10%), and data processing communications expense (-1%). These were partly offset by increases in furniture/equipment (+22%), salaries/employee benefits (+11%), and occupancy expense (+5%).

The credit metrics for BBCN portfolio showed improvement when comparing 3Q15 with 3Q14. The improvements were in non-performing assets/total assets (1.43% vs. 1.71%), non-performing assets/loans receivables & OREOs (1.80% vs. 2.18%), non-performing assets/total capital (11.63% vs. 13.74%), non-accrual loans (\$32.5 million vs. \$39.6 million), ALLL-to-loan receivable (1.19% vs. 1.26%), and provision for loan losses (\$600,000 vs. \$4.26 million), and net charge off/recoveries (\$392,000 vs. -\$2.89 million). There were increases in ALLL-to-nonaccrual loans (219.16% vs. 172.46%) and ALLL-to-nonperforming assets (65.80% vs. 57.44%).



Our Thoughts

BBCN reported 3Q15 earnings of \$0.32/share vs. \$0.27/share during 3Q14 as the improvement was driven by higher total interest income (+3%), increased net interest income (+7%), higher total non-interest income (+16%), and a decrease in non-interest expense (-2%). These were partly offset by higher total interest expense (+12%). Results benefitted from lower provisions for loan losses, decreasing to \$600,000 from \$4.3 million. Moreover, the loan portfolio's credit metrics continue to improve given 3Q15's increasing ratios highlighting a strengthening trend in this area. Recent acquisitions, along with organic revenue/asset growth are beginning to generate higher profits for this bank, and offer the potential of continued improvement going into 2016, assuming the US economy avoids a recession. During 3Q15's earnings conference call management said additional acquisitions may be made if it fits into its strategic growth plans. BBCN is recommended for growth/income investors. We maintain a BUY rating on this stock and have raised our price target is \$19.00/share, equating to 15.7x our 2015 earnings estimate of \$1.21/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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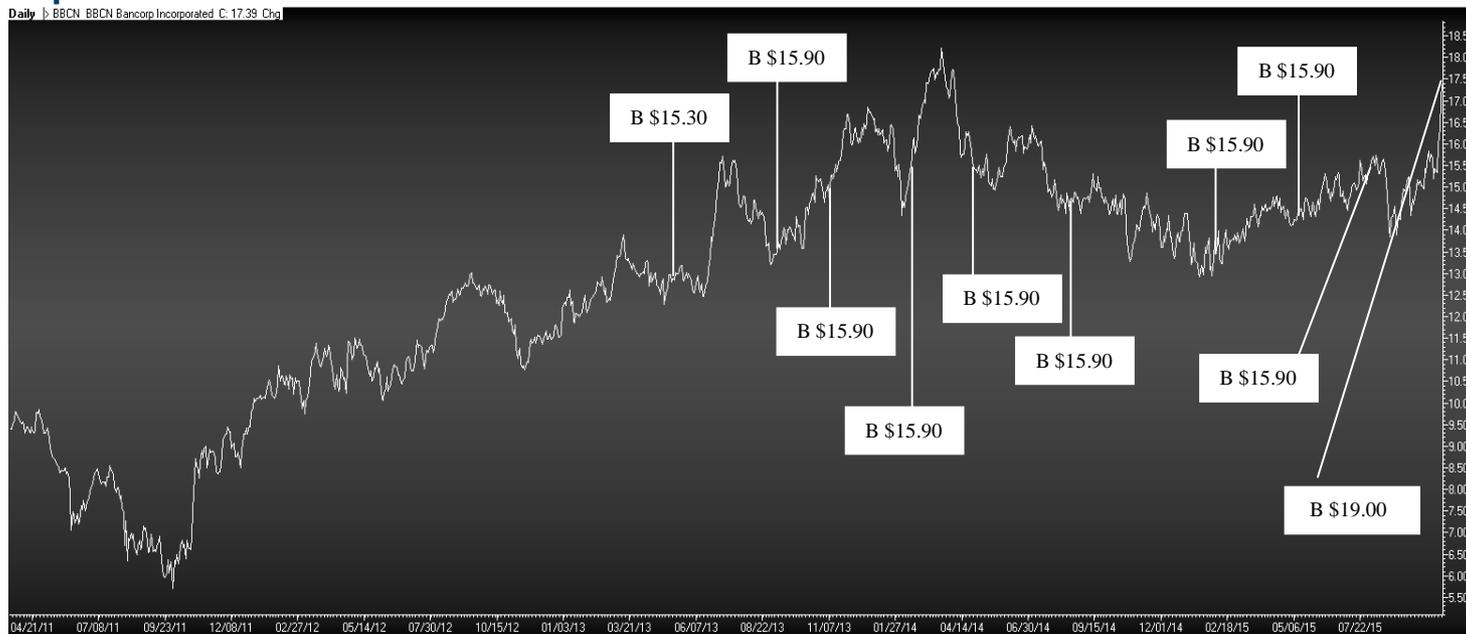
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BBCN Bancorp, Inc. & Subsidiaries
(in thousands, except per share amounts)

	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15e	2015e
Interest Income	\$73,354	\$76,453	\$77,084	\$75,767	\$302,657	\$74,554	\$77,075	\$79,059	\$78,231	\$308,919
Interest Expense	8,338	8,963	9,177	9,533	36,060	9,431	9,684	10,298	8,428	37,841
Net Interest Income before loan losses	64,966	67,490	67,907	66,234	266,597	65,123	67,391	68,761	69,803	271,078
Provision for loan losses	3,026	2,996	4,256	2,360	12,638	1,500	1,000	600	2,462	5,562
Net Interest Income net loan loss provisions	61,940	64,494	63,651	63,874	253,959	63,623	66,391	68,161	67,341	265,516
Non-Interest Income	11,095	10,492	11,369	12,050	45,007	11,205	10,568	13,227	15,347	50,347
Non-Interest Expense	36,275	37,739	39,420	39,010	152,444	39,234	38,698	38,799	39,885	156,616
Income before income taxes	36,760	37,247	35,600	36,914	146,522	35,594	38,261	42,589	42,803	159,427
Income taxes	14,564	14,935	14,180	14,227	57,907	14,236	15,320	17,497	16,608	63,661
Net Income	22,196	22,312	21,420	22,687	88,615	21,358	22,941	25,092	26,195	95,586
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$22,196	\$22,312	\$21,420	\$22,687	\$88,615	\$21,358	\$22,941	\$25,092	\$26,195	\$95,586
Diluted Earnings Per Share	\$0.28	\$0.28	\$0.27	\$0.29	\$1.11	\$0.27	\$0.29	\$0.32	\$0.33	\$1.21

Important Disclosures

Daily | BBN Bancorp Incorporated C: 17.39 Chg



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

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

10/23/15 Raise price target to \$19.00

Ratings:

Buy: B

Hold: H

Sell: S

\$19.00 px. target equates to 15.7x our 2015 earnings estimate of \$1.21

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- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
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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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