



**July 1, 2016**

**CURRENT PRICE: \$14.63**

**RATING: BUY**

**PRICE TARGET: \$19.00**

**CURRENT YIELD: 3.0%**

**EPS Estimates - Non-GAAP**

|    | DEC 15A       | DEC 16E       |
|----|---------------|---------------|
| 1Q | \$0.27        | \$0.30A       |
| 2Q | \$0.29        | \$0.30        |
| 3Q | \$0.32        | \$0.32        |
| 4Q | \$0.29        | \$0.33        |
|    | <b>\$1.16</b> | <b>\$1.25</b> |

**Trading Data**

52-WEEK PRICE RANGE: **\$19.63-\$13.59**

SHARES OUTSTANDING: **79.61(M)**

MARKET CAP: **\$1,165(M)**

AVG. DAILY TRADING VOLUME: **0.50(M)**

S&P 500: **2,102**

**Valuation Data**

BOOK VALUE: **\$12.09**

PRICE TO BOOK: **1.21x**

DIVIDEND: **\$0.44**

**BBCN Bancorp (Nasdaq: BBCN)**

*Maintain BUY rating*

**Highlights**

- 1Q16 earnings of \$0.30/share vs. \$0.27/share during 1Q15
- Loan and deposit growth
- Improving metrics in loan portfolio
- Positioning for earnings growth in 2016-2017
- Rated BUY & price target of \$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 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-\$14.68), 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. Another merger was completed with Wilshire Bank this past May.

*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 12/31/15 BBCN had total assets of \$7.9 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.

Another acquisition was made during 4Q15 as BBCN announced it was merging with Wilshire Bancorp and received regulatory approval for the merger on 5/17/16. The resulting company will produce the largest Korean-American oriented bank in the US.

**FUTURE GROWTH/ACQUISITIONS:** BBCN has stated its intent to grow total assets from its current base of \$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.



# EQUITY RESEARCH

## Recent Earnings

BBCN reported 1Q16 operating earnings of \$0.30/share vs. \$0.27/share during 1Q15. The improved results came from higher total interest income (\$83.5 million vs. \$74.6 million) offsetting higher interest expense (\$11.9 million vs. \$9.4 million), non-interest expense (\$40.1 million vs. \$39.1 million), and lower non-interest income (\$8.8 million vs. \$11.1 million). Total assets rose to \$8.09 billion from \$7.27 billion as net loans grew 12% to \$6.30 billion from \$5.64 billion primarily from increases in the C&I area. BBCN saw loan growth in commercial (+4%), real estate (+13%), and consumer/other loans (+42%). Total deposits grew 11% to \$6.47 billion from \$5.80 billion. The net interest margin, after acquisition accounting adjustments, decreased to 3.84% from 3.87%. ROA and ROE rose to 1.20% from 1.19%, and to 9.99% from 9.60%, respectively.

1Q16's Net interest income, after loan loss provision, increased 12% to \$71.1 million from \$63.6 million during 1Q15. Net interest income, before loan loss provision, rose 10% to \$71.6 million and the loan loss provision declined to \$500,000 from \$1.5 million. The overall improvement occurred as an increase in total interest income surpassed an increase in total interest expense.

Total interest income improved 12% to \$83.5 million from \$74.6 million as interest/fees grew 11% to \$77.1 million and interest on securities rose 35% to \$5.67 million. These gains were partly offset by a 6% decrease on interest on fed funds sold/other investments to \$666,000.

Total interest expense rose 26% to \$11.9 million from \$9.4 million due to an increase in deposits. Interest on deposits increased 28% to \$9.9 million from \$7.8 million while interest on other borrowings rose 16% to \$2.0 million.

Total non-interest income declined 21% to \$8.78 million from \$11.05 million. Service fees on deposit accounts fell 12% to \$2.68 million, net gains on SBA loan sales decreased 40% to \$1.83 million, and other income fees declined 2% to 4.27 million. Additionally, net gains on sales of other loans were \$0 vs. \$182,000 and net gains on sales of securities available for sales were \$0 vs \$424,000.

Total non-interest expense during 1Q16 rose 2% to \$40.1 million from \$39.1 million during 1Q15. The rise occurred from higher salaries/employee benefits (\$21.6 million vs. \$21.2 million), occupancy expense (\$4.82 million vs. \$4.69 million), furniture/equipment (\$2.29 million vs. \$2.26), OREO expense (\$1.43 million vs. \$1.18 million), merger costs (\$1.21 million vs. \$52,000), and other expenses (\$2.89 million vs. \$2.58 million). These increases were partly offset by lower advertising/marketing (\$1.14 million vs. \$1.39 million), data processing/communications (\$2.17 million vs. \$2.35 million), professional fees (\$1.08 million vs. \$1.42 million), FDIC assessments (\$1.04 million vs. \$1.11 million), and credit related expenses (\$421,000 vs. \$855,000).



The credit metrics for BBCN's loan portfolios showed some improvement, and despite some declines, when comparing 1Q16 with 1Q15. Non-performing assets/total loans decreased to 1.44% from 1.60%, non-performing assets/loans receivable & OREO dropped to 1.82% from 2.03%, non-performing assets/total capital fell to 12.07% from 12.93%,

non-performing loans/loans receivable declined to 1.51% from 1.69%, and allowance for loan losses/nonaccrual loans decreased to 176.49% from 179.57%. Allowance for loan losses/non-performing loans increased to 79.77% from 72.00% and allowance for loan losses/non-performing assets rose to 68.17% from 59.86%. Allowance for loan losses increased to \$76.41 million from \$67.76 million while the provision for loan losses declined to \$500,000 from \$1.5 million and charge offs decreased to \$821,000 vs. \$1.13 million.

## Our Thoughts

A good earnings report for BBCN as 1Q16 earnings rose to \$0.30/share vs. \$0.27/share during 1Q15. The improvement was due to an increase in total interest income outpacing a rise in both interest and non-interest expense, as well as a lower loan loss provision. Management's goal of growing its loan base through both organic efforts, and recent acquisitions appears to be bearing fruit, with the potential of more to come in the future. BBCN had \$334 million in new loan originations during 1Q16 and has launched the offering of residential mortgages, and credit cards, throughout its core markets. Furthermore, the merger with Wilshire Bancorp offers both additional marketing (income) opportunities and potential cost savings for BBCN going forward, which could generate earnings growth during the next two years.

We continue to recommend BBCN for aggressive/speculative investors seeking both appreciation potential and an attractive 3.0% dividend in a small cap growth stock. These shares appear undervalued trading at 1.2x book value with the potential of increasing earnings during the next 2-3 years, as BBCN increases its market share, grows its loan portfolio, and offers new products to its customer base. BBCN is rated a BUY and our price target is \$19/share, equating to 15.2x our 2016 earnings estimate of \$1.25/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. Negative interest rates could be negative for BBCN's future 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.

Steve Marascia  
Director of Research  
Capitol Securities Management  
804-612-9715



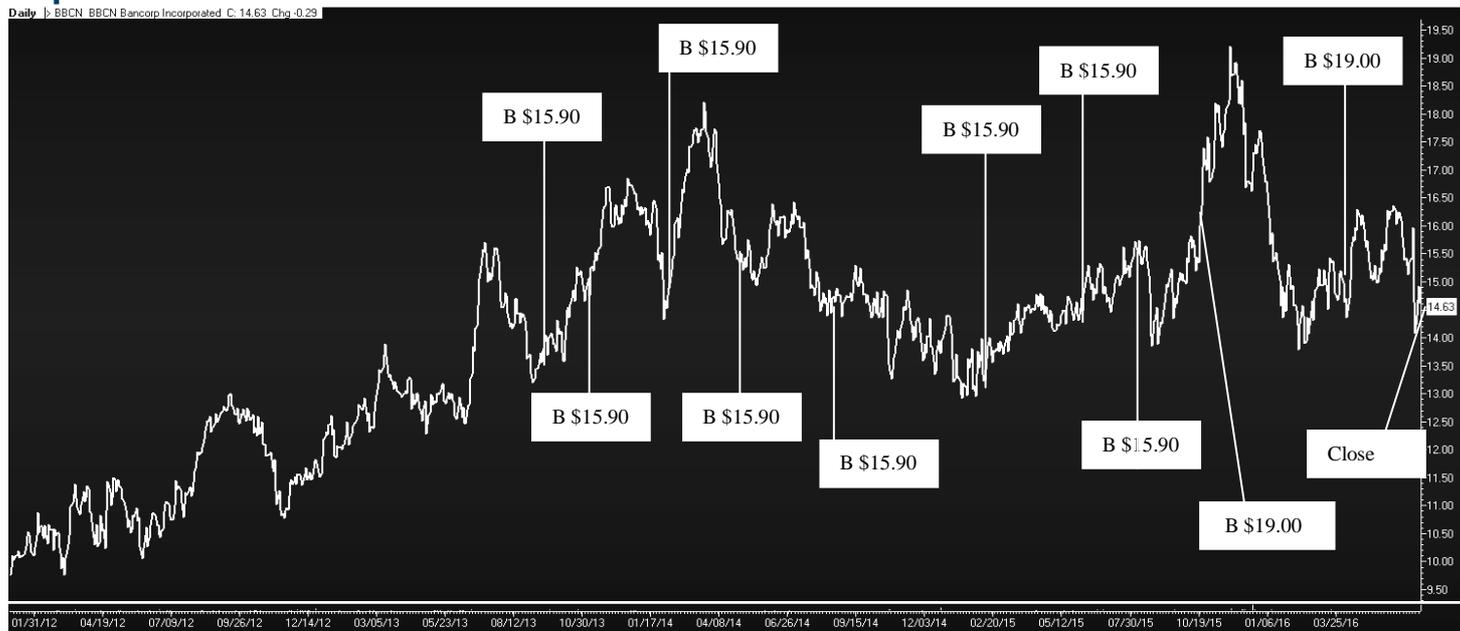
# EQUITY RESEARCH

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

|  | 1Q15     | 2Q15     | 3Q15     | 4Q15     | 2015      | 1Q16     | 2Q16e    | 3Q16e    | 4Q16e    | 2016e     |
|--|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|
| Interest Income                              | \$74,554 | \$77,075 | \$79,059 | \$82,973 | \$313,660 | \$83,461 | \$83,920 | \$85,153 | \$85,717 | \$338,251 |
| Interest Expense                             | 9,431    | 9,684    | 10,298   | 11,205   | 40,618    | 11,854   | 11,628   | 11,906   | 12,106   | 47,494    |
| Net Interest Income before loan losses       | 65,123   | 67,391   | 68,761   | 71,768   | 273,042   | 71,607   | 72,292   | 73,247   | 73,611   | 290,757   |
| Provision for loan losses                    | 1,500    | 1,000    | 600      | 4,900    | 8,000     | 500      | 2,300    | 1,600    | 900      | 5,300     |
| Net Interest Income net loan loss provisions | 63,623   | 66,391   | 68,161   | 66,868   | 265,042   | 71,107   | 69,992   | 71,647   | 72,711   | 285,457   |
| Non-Interest Income                          | 11,205   | 10,568   | 13,227   | 10,977   | 43,691    | 8,775    | 10,283   | 11,487   | 11,665   | 42,210    |
| Non-Interest Expense                         | 39,234   | 38,698   | 38,799   | 38,938   | 153,384   | 40,049   | 39,926   | 41,069   | 41,128   | 162,172   |
| Income before income taxes                   | 35,594   | 38,261   | 42,589   | 38,907   | 155,349   | 39,833   | 40,349   | 42,065   | 43,248   | 165,495   |
| Income taxes                                 | 14,236   | 15,320   | 17,497   | 16,038   | 63,091    | 16,210   | 16,543   | 16,831   | 17,303   | 66,887    |
| Net Income                                   | 21,358   | 22,941   | 25,092   | 22,869   | 92,258    | 23,623   | 23,806   | 25,234   | 25,945   | 98,608    |
| Dividends/disc. accretion on pref stock      |          |          |          |          |           |          |          |          |          |           |
| Net Income available to common stock         | \$21,358 | \$22,941 | \$25,092 | \$22,869 | \$92,258  | \$23,623 | \$23,806 | \$25,234 | \$25,945 | \$98,608  |
| Diluted Earnings Per Share                   | \$0.27   | \$0.29   | \$0.32   | \$0.29   | \$1.16    | \$0.30   | \$0.30   | \$0.32   | \$0.33   | \$1.25    |

## Important Disclosures

Daily | BBCN BBCN Bancorp Incorporated C:14.63 Chg:-0.23



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 15.2x our 2015 earnings estimate of \$1.21

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