



August 15, 2016

CURRENT PRICE: \$15.59

RATING: BUY

PRICE TARGET: \$19.00

CURRENT YIELD: 2.8%

EPS Estimates - Non-GAAP

	DEC 15A	DEC 16E
1Q	\$0.27	\$0.30A
2Q	\$0.29	\$0.29A
3Q	\$0.32	\$0.32
4Q	\$0.29	\$0.33
	\$1.16	\$1.24

Trading Data

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

SHARES OUTSTANDING: **79.64(M)**

MARKET CAP: **\$1,242(M)**

AVG. DAILY TRADING VOLUME: **0.61(M)**

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

Valuation Data

BOOK VALUE: **\$12.21**

PRICE TO BOOK: **1.28x**

DIVIDEND: **\$0.44**

HOPE Bancorp (Nasdaq: HOPE)

Merger/name change & Maintain BUY rating

Highlights

- 2Q16 earnings of \$0.27/share vs. \$0.27/share during 2Q15
- Loan and deposit growth
- Name change due to merger with Wilshire Bank
- Positioning for earnings growth in 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 HOPE 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, HOPE pays a 2.8% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$15.59), 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.



Upon completing the merger with Wilshire Bank, BBCN Bancorp changed its name to HOPE Bancorp. When it was known as BBCN Bancorp, this bank purchased Seattle-based Pacific International Bancorp (PIB) during 2013. 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 6/30/16 HOPE had total assets of \$8.34 billion.

Business Overview/Operating Strategy

HOPE'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. HOPE provides cash management services to its business customers. Its website offers internet banking services/applications in both Korean and American.

The 2013 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 produced the largest Korean-American oriented bank in the US and BBCN Bancorp changed its name to HOPE Bancorp (HOPE-\$15.59)

FUTURE GROWTH/ACQUISITIONS: HOPE 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, HOPE's existing service territories.



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Recent Earnings

HOPE reported 2Q16 earnings of \$0.29/share vs. \$0.29/share during 2Q15. When comparing the two quarters, total interest income and total non-interest income rose 8% and 2%, respectively, while total interest expense and total non-interest expense increased 29% and 4%, respectively. Total assets improved 14% (\$8.34 billion vs. \$7.33 billion), as net loans grew 13% (\$6.51 billion vs. \$5.75 billion) primarily from increases in commercial loans (+2%), real estate loans (+15%), and consumer/other loans (+66%). Total deposits grew 15% to \$6.64 billion from \$5.76 billion. The net interest margin, after adjusting for acquisition accounting, decreased to 3.67% from 3.91%. ROE fell to 1.15% from 1.26% while ROA declined to 9.67% from 10.13%.

2Q16's net interest income, net of loan loss provision, improved 5% to \$69.86 million, from \$66.39 million during 2Q15. Net interest income, before loan loss provision, rose 5% to \$71.06 million, from \$67.39 million, driven by new loan originations (+13%). The loan loss provision increased to \$1.2 million from \$1.0 million.

Total interest income improved 8% to \$83.53 million from \$77.08 million as interest on fees/loans increased 8% to \$77.09 million and interest on securities rose 36% to \$5.73 million. Meanwhile interest on fed funds sold/other investments decreased to \$719,000 from \$1.62 million.

Total non-interest income for 2Q16 rose 2% to \$10.71 million from \$10.48 million during 2Q15. The increase occurred as other income/fees rose (+10% to \$4.73 million) and offset declines in deposit account service fees (-4% to \$2.90 million), SBA loan sale net gains (-3% to \$3.03 million), and net gains on other loan sales (-4% to \$43,000).

Total interest expense increased 29% to \$12.47 million from \$9.68 million due mainly to deposit growth/acquisitions during the past year. Interest on deposits rose 30% to \$10.35 million from \$7.97 million and interest on other borrowings climbed 24% to \$2.12 million from \$1.95 million.

Total non-interest expense rose 4% to \$40.35 million from \$38.61 million with the largest increase coming from merger related costs related to the merger with Wilshire Bank. Merger related expenses rose to \$1.53 million from \$26,000. Additionally, HOPE experienced increases in salaries/employee benefits (\$21.8 million vs. \$20.9 million), Occupancy (\$4.9 million vs. \$4.8 million), furniture/equipment (\$2.34 million vs. \$2.32 million), professional fees (\$1.27 million vs. \$1.25 million), FDIC assessment (\$1.1 million vs. \$909,000), credit related expenses (\$911,000 vs. \$669,000), and other expenses (\$2.86 million vs. \$2.52 million). Partly offsetting these higher expenses were declines in advertising/marketing (\$1.40 million vs. \$1.48 million), data processing/communications (\$2.13 million vs. \$2.46 million), and OREO expense (\$133,000 vs. \$1.22 million).

The credit metrics continue to improve for HOPE when comparing 2Q16 with 2Q15. Total non-performing loans decreased to \$93.38 million, from \$97.41 million, and total non-performing assets fell to \$109.8 million, from



\$117.6 million. There were improvements in non-performing assets/total assets (1.32% vs. 1.60%), non-performing assets/total capital (11.30% vs. 12.94%), non-performing loans/loans receivable (1.42% vs. 1.67%), and allowance for loan losses/loans receivable (1.16% vs. 1.21%). Net charge offs rose to \$1.63 million from \$476,000 due to an increase in charged-off consumer loans.

HOPE management did not provide any revenue/earnings guidance during the 2Q16 earnings conference call for the combined entities of BBCN Bancorp and Wilshire Bank. However, they plan to provide earnings guidance for the combined entities (HOPE) during the next earnings release this fall.

Our Thoughts

HOPE, formerly known as BBCN Bancorp, reported 2Q16 diluted earnings of \$0.27/share vs. \$0.27/share during 2Q15. Total interest income and total non-interest income rose 8% and 2%, respectively, while total interest expense and total non-interest income increased 29% and 4%, respectively. Total assets improved 14% (\$8.34 billion vs. \$7.33 billion), as net loans grew 13% (\$6.51 billion vs. \$5.75 billion) primarily from increases in the commercial loans (+2%), real estate loans (+15%), and consumer/other loans (+66%).

The corporate name change reflects BBCN Bancorp's merger with Wilshire Bank creating the largest Korean-American oriented bank in the US, now called HOPE Bancorp (HOPE-\$15.59). This acquisition, along with other acquisitions during the past 4 years, created a marketing presence for HOPE in the largest US metropolitan areas. Going forward, management's plan is to grow its base of business, and create synergies from recent acquisitions to grow forward earnings by offering credit card services, mortgages, and financial products to its current customers base and seek new customers from mainstream America.

We continue to recommend BBCN for aggressive/speculative investors seeking both appreciation potential and an attractive 2.8% dividend in a small cap growth stock. These shares appear undervalued trading at 1.28x 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 existing and potential new customer base. BBCN is rated a BUY and our price target is \$19/share, equating to 15.3x our 2016 earnings estimate of \$1.24/share.



Risks

There is no guarantee HOPE 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 HOPE's earnings. Negative interest rates could be negative for HOPE's future earnings. HOPE'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 HOPE's stock, any increase in trading volume could significantly accelerate the volatility of its share price movement.

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HOPE Bancorp & all subsidiaries
(in thousands, except per share amounts)

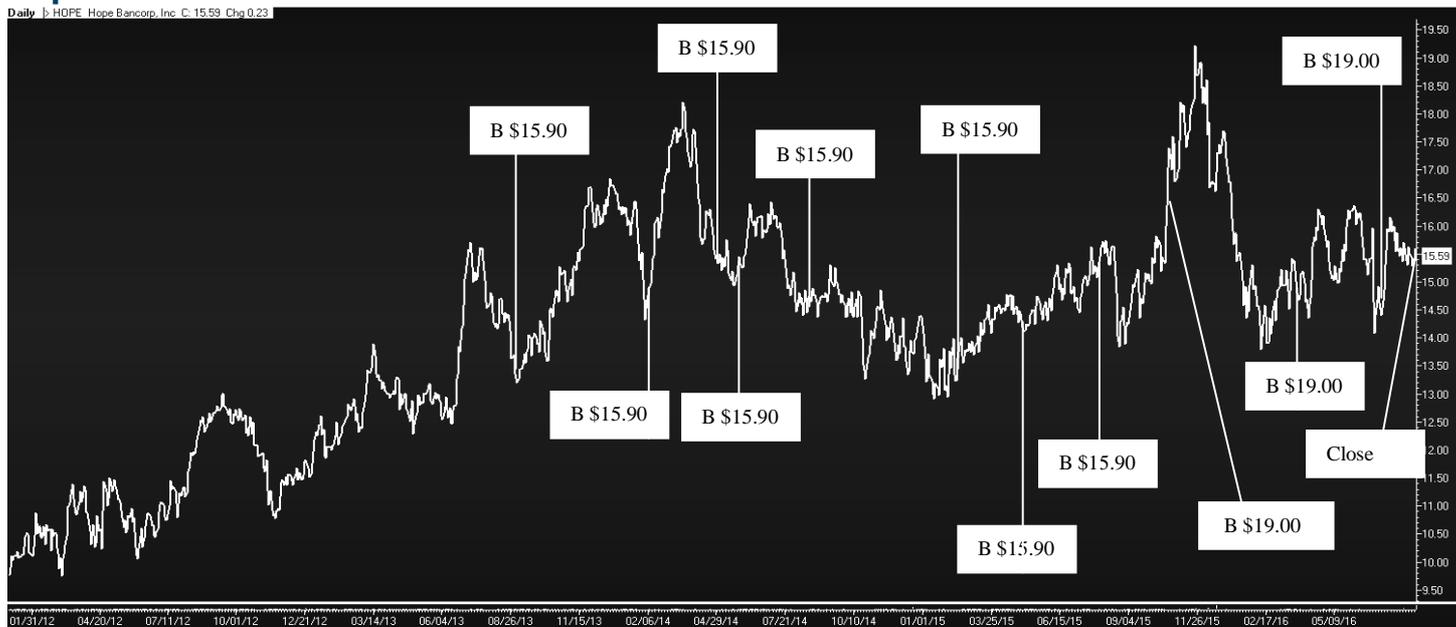
	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16e	4Q16e	2016e
Interest Income	\$74,554	\$77,075	\$79,059	\$82,973	\$313,660	\$83,461	\$83,534	\$85,153	\$85,717	\$337,865
Interest Expense	9,431	9,684	10,298	11,205	40,618	11,854	12,470	11,906	12,106	48,336
Net Interest Income before loan losses	65,123	67,391	68,761	71,768	273,042	71,607	71,064	73,247	73,611	289,529
Provision for loan losses	1,500	1,000	600	4,900	8,000	500	1,200	1,600	900	4,200
Net Interest Income net loan loss provisions	63,623	66,391	68,161	66,868	265,042	71,107	69,864	71,647	72,711	285,329
Non-Interest Income	11,205	10,568	13,227	10,977	43,691	8,775	10,707	11,487	11,665	42,634
Non-Interest Expense	39,234	38,698	38,799	38,938	153,384	40,049	40,348	41,069	41,128	162,594
Income before income taxes	35,594	38,261	42,589	38,907	155,349	39,833	40,223	42,065	43,248	165,369
Income taxes	14,236	15,320	17,497	16,038	63,091	16,210	16,833	16,831	17,303	67,177
Net Income	21,358	22,941	25,092	22,869	92,258	23,623	23,390	25,234	25,945	98,192
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	\$0.29	\$0.32	\$0.33	\$1.24



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Important Disclosures

Daily | HOPE Bancorp. Inc. C: 15.59 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 15.3x our 2016 earnings estimate of \$1.24

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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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