



**December 27, 2016**

**CURRENT PRICE: \$22.41**

**RATING: BUY**

**PRICE TARGET: \$24.00**

**CURRENT YIELD: 2.1%**

**EPS Estimates - Non-GAAP**

	DEC 15A	DEC 16E
1Q	\$0.27	\$0.30A
2Q	\$0.29	\$0.29A
3Q	\$0.32	\$0.22A
4Q	\$0.29	\$0.26
	<b>\$1.16</b>	<b>\$1.07</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$22.50-\$13.59**

SHARES OUTSTANDING: **116.7(M)**

MARKET CAP: **\$2,615(M)**

AVG. DAILY TRADING VOLUME: **0.74(M)**

S&P 500: **2,269**

**Valuation Data**

BOOK VALUE: **\$10.12**

PRICE TO BOOK: **2.21x**

DIVIDEND: **\$0.48**

**HOPE Bancorp (Nasdaq: HOPE)**

*Merger, Maintain BUY rating & raising price target*

**Highlights**

- 3Q16 earnings of \$0.22/share vs. \$0.32/share during 2Q16
- Earnings hit by merger expenses & additional shares
- Assimilating operations/accounting with Wilshire
- Positioning for earnings growth in 2017
- Rated BUY & raising price target to \$24/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 \$24.00 price target. Additionally, HOPE pays a 2.1% dividend yield and offers the potential of future increases based on earnings growth.

**Company Summary**

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$22.41), 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. 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, HOPE now has 85 branches in CA, WA, TX, IL, NY, NJ, VA, GA, and AL. The bank also has SBA offices in CA, CO, TX, GA, and OR. As of 9/30/16 HOPE had total assets of \$13.5 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.



# EQUITY RESEARCH

## Recent Earnings

HOPE reported 3Q16 earnings of \$0.22/share vs. \$0.28/share during 3Q15. The decline in earnings was due mainly to expenses (\$0.06/share) associated with the merger between BBCN Bancorp and Wilshire Bank. Additionally, the amount of outstanding shares rose to 116.7 million from 79.6 million. When comparing the two quarters, total interest income increased 51%, non-interest income improved 26%, while total interest expense and non-interest expense rose 56% and 85%, respectively. These increases were due mainly to the merger of Wilshire and BBCN. Tangible book value per share decreased to \$10.12/share from \$10.32.

Total assets rose 71% (\$13.51 billion vs. \$7.91 billion) as net loans grew 70% (\$10.48 billion vs. \$6.17 billion). Total liabilities increased 67% (\$11.66 billion vs. \$8.97 billion) due to higher deposits (\$10.70 billion vs. \$6.34 billion), FHLB borrowings (\$754.7 million vs. \$530.6 million), subordinated debentures (\$99.6 million vs. \$42.3 million), other liabilities (\$89.9 million vs. \$54.7 million), and accrued interest payable (\$9.71 million vs. \$6.0 million). HOPE's 3Q16 results included one month's results of BBCN Bancorp and two months of the combined entities of BBCN & Wilshire Banks (pro-forma basis).

Net interest income, before loan loss provisions of \$6.5 million, rose 50% to \$103.5 million from \$68.8 million. Higher net interest income was driven by total interest income rising to \$119.6 million from \$79.1 million and outdistanced an increase in total interest expense of \$97.0 million vs. \$68.2 million. Net interest income, after loan loss provision, totaled \$96.7 million vs. \$68.2 million. The \$6.5 million loan loss provision includes a \$3 million charge-off related to a business deterioration at one company, and increased reserves reflecting borrowers' connections to the bankruptcy filing of Hanjin Shipping.

Total non-interest income increased 26% to \$14.2 million from \$11.2 million due to organic growth as well as the merger of Wilshire Bank/BBCN Bancorp. Service fees rose to \$4.78 million from \$3.17 million, net gains on loan sales increased to \$1.47 million from \$28,000, net gains on security sales was \$948,000 vs. \$0, and other income/fees improved to \$6.7 million from \$4.6 million. These positives were partly offset by net gains on SBA loan sales declining to \$230,000 from \$3.39 million.

Total non-interest expense rose 85% to \$67.9 million from \$36.8 million. This occurred, mainly due to the merger, as all sub-categories experienced increases such as salaries/employee benefits (+42% to \$30.5 million), occupancy (+39% to \$6.9 million), furniture/equipment (+42% to \$3.3 million), advertising/marketing (+76% to \$2.3 million), data processing/communications (+46% to \$3.2 million), professional fees (+47% to \$2.0 million), FDIC assessment (+52% to \$1.6 million), credit related expenses (+980% to \$810,000), higher merger related expenses (\$1.2 million vs. \$24,000) and other expenses (\$6.6 million vs. \$2.8 million). These expenses were partly offset by positive OREO expense net totaling \$423,000 vs. \$721,000.



Both return on assets and return on equity declined to 0.89% from 1.35%, and to 6.60% from 10.96%, respectively. These figures were both impacted by the merger as was the efficiency ratio which rose to 57.68% from 45.98%. Non-accrual loans increased to \$40.6 million from \$32.5 million and net charge offs rose to \$2.57 million from a gain of \$392,000. ALLL to loans receivables decreased to 0.76% from 1.19%, ALLL to non-accrual loans declined to 196.98% from 219.16%, and ALLL to non-performing assets rose to 68.38% from 65.80%.

## Our Thoughts

HOPE, formerly known as BBCN Bancorp, reported 3Q16 diluted earnings of \$0.22/share vs. \$0.32/share during 3Q15. Results were negatively impacted by merger related expenses (-\$0.06/share) and an increase in outstanding shares, now totaling approximately 116.7 million shares, vs. 79.6 million shares during 2Q16. These results reflect two months worth of contributions from Wilshire Bank. Total assets, based on the merged entities and organic growth, total \$13.5 billion. This compares to \$6 billion in assets when we first started coverage of HOPE (BBCN Bancorp) back in 2013. Going forward, management plans to generate synergistic cost savings, continue to offer new financial services to its customers, and selectively expand its market presence throughout the US. The end goal of these objectives is to generate earnings growth beginning in 2017.

We continue to recommend BBCN for aggressive/speculative investors seeking both appreciation potential and an attractive 2.1% dividend in a small cap financial growth stock. These shares could appreciate during the next few years based on the potential of increasing earnings/dividends during the next 2-3 years, as HOPE increases its market share, grows its loan portfolio, and offers new products to its existing and potential new customer base. HOPE is rated a BUY and we are raising our price target to \$24/share, equating to 22.4x our 2016 earnings estimate of \$1.07/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	3Q16*	4Q16e*	2016e
Interest Income	\$74,554	\$77,075	\$79,059	\$82,973	\$313,680	\$83,461	\$83,534	\$119,552	\$132,447	\$418,994
Interest Expense	9,431	9,684	10,298	11,205	40,618	11,854	12,470	16,078	23,667	64,069
Net Interest Income before loan losses	65,123	67,391	68,761	71,768	273,042	71,607	71,064	103,474	108,780	354,925
Provision for loan losses	1,500	1,000	600	4,900	8,000	500	1,200	6,500	3,100	11,300
Net Interest Income net loan loss provisions	63,623	66,391	68,161	66,868	265,042	71,107	69,864	96,974	105,680	343,625
Non-Interest Income	11,205	10,568	13,227	10,977	43,691	8,775	10,707	14,146	15,765	49,393
Non-Interest Expense	39,234	38,698	38,799	38,938	153,384	40,049	40,348	67,846	71,391	219,634
Income before income taxes	35,594	38,261	42,589	38,907	155,349	39,833	40,223	43,274	50,054	173,384
Income taxes	14,236	15,320	17,497	16,038	63,091	16,210	16,833	17,169	20,145	70,357
Net Income	21,358	22,941	25,092	22,869	92,258	23,623	23,390	26,105	29,879	102,997
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	\$26,105	\$29,879	\$102,997
Diluted Earnings Per Share	\$0.27	\$0.29	\$0.32	\$0.29	\$1.16	\$0.30	\$0.29	\$0.22	\$0.26	\$1.07

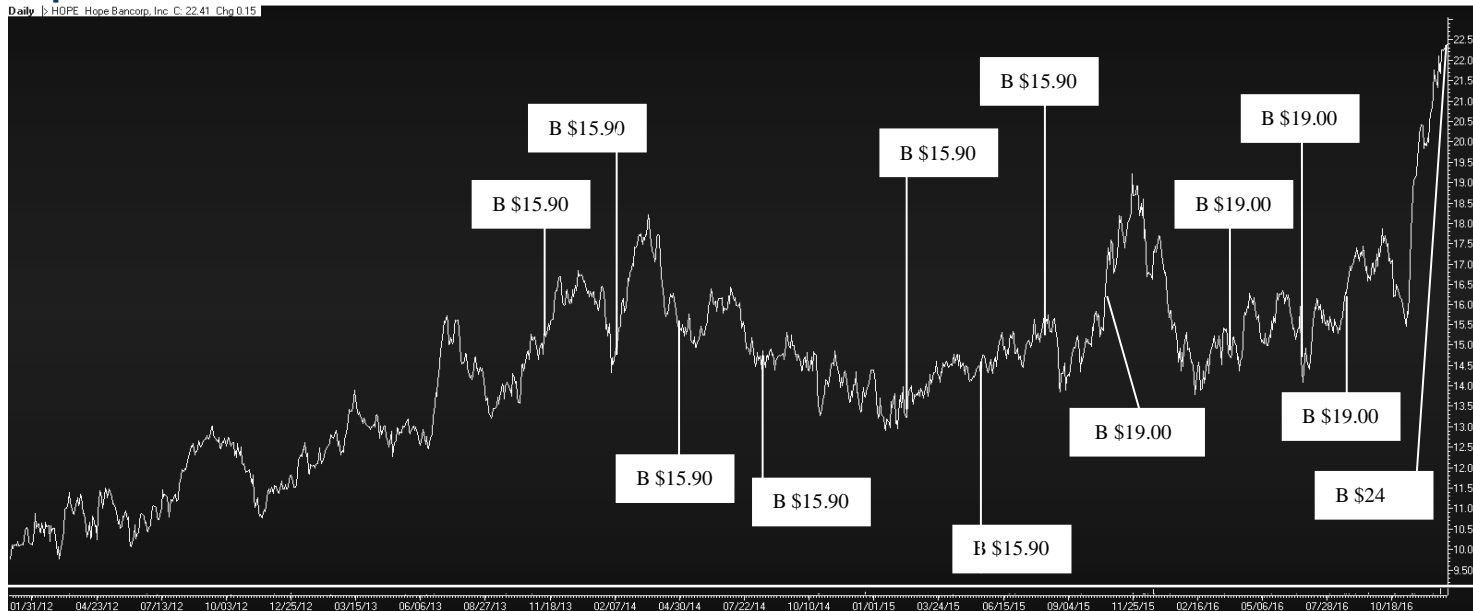
\* Pro forma reporting combining Hope Bancorp & Wilshire Bank



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## Important Disclosures

Daily | HOPE Bancorp, Inc. | C: 22.41 | Chp 0.15



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

12/27/16 Raise price target to \$24.00

Ratings:

Buy: B

Hold: H

Sell: S

\$24.00 px. target equates to 22.4x our 2016 earnings estimate of \$1.07

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The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are (1) 100%, (2) 0%, (3) 0%

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