



**CAPITOL
SECURITIES**
MANAGEMENT, INC.

**EQUITY
RESEARCH**

June 9, 2017

CURRENT PRICE: \$19.63

RATING: BUY

PRICE TARGET: \$24.00

CURRENT YIELD: 2.5%

EPS Estimates - Non-GAAP

	DEC 16A	DEC 17E
1Q	\$0.30	\$0.27A
2Q	\$0.29	\$0.29
3Q	\$0.22	\$0.30
4Q	\$0.30	\$0.31
	\$1.11	\$1.17

Trading Data

52-WEEK PRICE RANGE: **\$22.99-\$13.99**

SHARES OUTSTANDING: **135.7(M)**

MARKET CAP: **\$2,664(M)**

AVG. DAILY TRADING VOLUME: **0.65(M)**

S&P 500: **2,432**

Valuation Data

BOOK VALUE: **\$10.32**

PRICE TO BOOK: **1.90x**

DIVIDEND: **\$0.48**

HOPE Bancorp (Nasdaq: HOPE)

1Q17 Earnings Results

Highlights

- 1Q17 earnings of \$0.27/share vs. \$0.30/share during 1Q16
- Earnings hurt by merger expenses & additional shares
- Merger creates cost cutting opportunities
- Positioning for earnings growth in 2H17-2018
- Rated BUY & 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 2.5% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$19.63), 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.

100 Concourse Boulevard, Suite 101
Glen Allen, Virginia 23059

804.612.9700 ■ 800.612.1484
804.527.1104

www.CapitolSecurities.com

Member
FINRA
SIPC

Offices: Glen Allen, VA ■ Reston, VA ■ Charlottesville, VA ■ Silver Spring, MD ■ Baltimore, MD ■ Tampa, FL ■ Boston, MA ■ Florham Park, NJ



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 3/30/17 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 1Q17 earnings of \$0.27/share vs. \$0.30/share during 1Q16. The decrease was due to a higher number of outstanding shares and increased expenses, both due to the recent merger with Wilshire Bank. When comparing the two quarters noninterest expense rose to \$66.3 million from \$40.1 million and outstanding shares increased to 135.69 million from 79.61 million. Interest income, before provisions, and noninterest income rose to \$114.9 million from \$71.6 million and to \$17.6 million from \$8.8 million respectively. Tangible book value per share declined to \$10.32/share from \$10.73/share.

Total assets increased 67% to \$13.47 billion from \$8.07 billion due to the merger and some organic loan growth. The largest increases came from net loans receivables (\$10.5 billion vs. \$6.3 billion) and goodwill (\$463.9 million vs. \$105.4 million). Total liabilities increased 63% to \$11.6 billion from \$7.1 billion also due mainly to the merger with Wilshire Bank, as deposits grew to \$10.7 billion from \$6.5 billion.

Net interest income, before loan loss provisions, increased to \$114.9 million from \$71.6 million due mainly to the recent merger. Total interest income improved to \$132.7 million from \$83.5 million from increases in interest/fees on loans (+60%), interest on securities (+43%), and interest on federal funds sold and other investments (+101%). Total interest expense rose to \$17.8 million from \$11.9 million following higher expenses in deposit interest (+46%) and interest on borrowings (+71%). The provision for loan losses moved to \$5.6 million from \$500,000.

Total non-interest income more than doubled to \$17.6 million from \$8.8 million. The increase resulted primarily from the merger. As a result, higher figures were produced in deposit account service fees (+99%), net gains on SBA loan sales (+78%), net gains on other loan sales (+100%), and other income/fees (+101%). Non-interest income during 1Q17 included a \$3.3 million SBA loan sale gain vs. \$1.8 million during 1Q16.

Total non-interest expense rose to \$66.3 million from \$40.1 million due mainly to the merger. In the expense categories there were increases in salaries/employee benefits (+58%), occupancy (+49%), furniture/equipment (+49%), advertising/marketing (+201%), data processing/communications (+66%), professional fees (+141%), credit related expenses (+347%), and other (+143%). These were partly offset by FDIC assessments (-3%), OREO expense (-30%), and merger related expenses (-22%). Excluding merger expenses, total non-interest expense would have been \$65.3 million vs. \$38.8 million.

Both ROA and ROE declined to 1.11% from 1.20% and to 7.91% from 9.99%, respectively. These ratios were also impacted by the merger. The efficiency ratio rose slightly to 50.03% from 49.82%. Non-accrual loans decreased to \$37.0 million from \$43.6 million and net charge-offs rose to \$6.3 million from \$52,000. ALLL to loans receivables fell to 0.75% from 1.21%, ALLL to nonaccrual loans increased to 212.54% from 176.49%, and ALL to nonperforming assets rose to 74.65% from 66.17%.



Our Thoughts

HOPE reported 1Q17 earnings of \$0.27/share vs. \$0.30/share as results were impacted by the recent merger with Wilshire Bank and an increase in outstanding shares. Going forward, management expects to begin the assimilation of the two business entities and reduce overall costs. During the 1Q17 earnings conference call HOPE anticipated organic loan growth could be in the high single digit area by the end of 2Q17. Additionally, it was noted the recent uptick in interest rates, benefitting interest earned on loans will be offset going forward by the delayed lag on an increase in interest deposit expense. Potentially, ROA & ROE ratios could begin to show sequential quarterly improvement during 2H17. Given potential earnings growth in 2018, from organic loan growth and merger benefits, we rate HOPE a BUY for growth/income investors seeking appreciation potential from a small cap niche bank stock. Our price target is \$24/share, equating to 20.5x our 2017 earnings estimate of \$1.17/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.

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



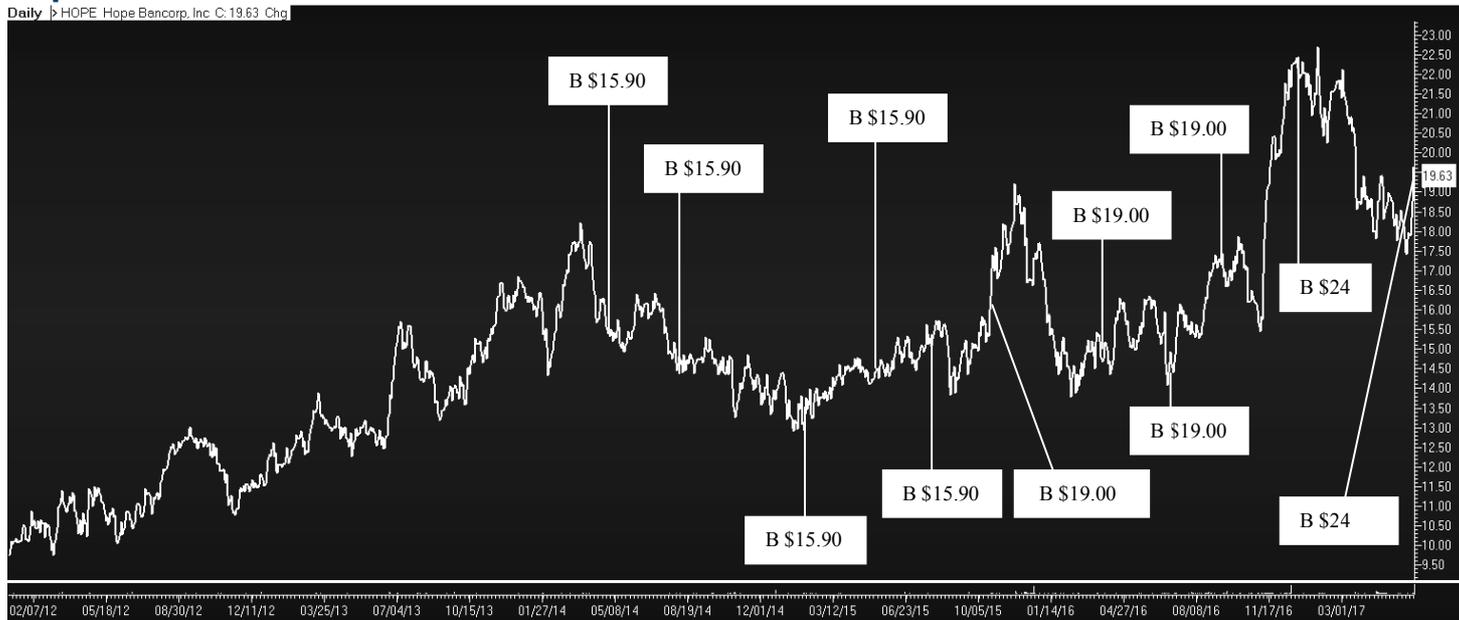
EQUITY RESEARCH

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

	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17e	3Q17e	4Q17e	2017e
Interest Income	\$83,461	\$83,534	\$119,552	\$135,387	\$135,387	\$132,743	\$134,246	\$135,639	\$137,128	\$539,756
Interest Expense	11,854	12,470	16,078	18,178	58,579	17,838	18,016	18,874	19,247	73,975
Net Interest Income before loan losses	71,607	71,064	103,474	117,209	363,355	114,905	116,230	116,765	117,881	465,801
Provision for loan losses	500	1,200	6,500	800	9,000	5,600	3,100	700	3,400	12,800
Net Interest income net loan loss provisions	71,107	69,864	96,974	116,409	354,355	109,305	113,130	116,065	114,481	452,981
Non-Interest Income	8,775	10,707	14,146	18,192	51,819	17,603	17,924	18,247	18,539	72,313
Non-Interest Expense	40,049	40,348	67,846	66,731	214,975	66,293	66,748	67,493	65,218	265,752
Income before income taxes	39,833	40,223	43,274	67,870	191,199	60,615	64,305	66,819	67,802	259,541
Income taxes	16,210	16,833	17,169	27,240	77,452	23,655	25,079	26,060	26,443	101,237
Net Income	23,623	23,390	26,105	40,630	113,747	36,960	39,926	40,759	41,359	159,004
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$23,623	\$23,806	\$26,105	\$40,630	\$113,747	\$36,960	\$39,926	\$40,759	\$41,359	\$159,004
Diluted Earnings Per Share	\$0.30	\$0.29	\$0.22	\$0.30	\$1.10	\$0.27	\$0.29	\$0.30	\$0.31	\$1.17

Important Disclosures

Daily HOPE Hope Bancorp, Inc. C:19.63 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

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

Ratings:

Buy: B

Hold: H

Sell: S

\$24.00 px. target equates to 20.5x our 2016 earnings estimate of \$1.17

Steven Marascia certifies, with respect to the companies or securities that he analyzes, that (1) the views expressed in this report accurately reflect his personal views about all of the subject companies and securities and (2) no part of his compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Stock ratings used in this report are defined as follows:

- (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.
- (2) Hold – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (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.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 50%, (2) 50%, (3) 0% The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are (1) 0%, (2) 0%, (3) 0%

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%

Capitol Securities Management's Investment Banking/Public Finance unit has not received compensation for investment banking services from the subject company in the past 12 months. Nor does it expect to receive, or intend to seek compensation for, investment banking services from the subject company in the next 3 months.

No affiliate of Capitol Securities Management, or Capitol Securities Management, received compensation from the subject company for products or services during the past 12 months.

The subject company is not, or during the past 12 months, was not, a client of Capitol Securities Management's Investment Banking/Public Finance unit.



Other Disclosures

This report is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Capitol Securities or its affiliates to any registration or licensing requirement within such jurisdiction. The information presented in this report is provided to you for information purposes only and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. Capitol Securities may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. Capitol Securities will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Capitol Securities does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. Information and opinions presented in this report have been obtained or derived from sources believed by Capitol Securities to be reliable, but Capitol Securities

makes no representation as to their accuracy or completeness. This report is not to be relied upon in substitution for the exercise of independent judgment. Capitol Securities may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Capitol Securities and are subject to change without notice. The price, value of and income from any of the securities mentioned in this report can fall as well as rise.

For more information on this report, please contact us at 800.612.1484 or write to Capitol Securities, 100 Concourse Boulevard, Suite 101, Glen Allen, Virginia 23059