



August 7, 2017

CURRENT PRICE: \$17.49

RATING: BUY

PRICE TARGET: \$24.00

CURRENT YIELD: 3.0%

EPS Estimates - Non-GAAP

	DEC 16A	DEC 17E
1Q	\$0.30	\$0.27A
2Q	\$0.29	\$0.30A
3Q	\$0.22	\$0.30
4Q	\$0.30	\$0.31
	\$1.11	\$1.18

Trading Data

52-WEEK PRICE RANGE: **\$22.99-\$15.00**

SHARES OUTSTANDING: **135.6(M)**

MARKET CAP: **\$2,371(M)**

AVG. DAILY TRADING VOLUME: **0.55(M)**

S&P 500: **2,481**

Valuation Data

BOOK VALUE: **\$10.52**

PRICE TO BOOK: **1.66x**

DIVIDEND: **\$0.52**

HOPE Bancorp (Nasdaq: HOPE)

2Q17 Earnings Results

Highlights

- 2Q17 earnings of \$0.30/share vs. \$0.29/share during 2Q16
- Earnings benefitted from recent mergers
- Positioning for earnings growth in 2H17-2018
- Annual dividend increased to \$0.52/share from \$0.48/share
- Rated BUY & price target of \$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 3.0% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$17.49), 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. Since then, the company merged with Wilshire Bancorp, Pacific International, Foster Bankshares, and changed its name to Hope Bancorp.

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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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 63 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 6/30/17 HOPE had total assets of \$13.9 billion.

Business Overview

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 2Q17 earnings of \$0.30/share vs. \$0.29/share during 2Q16. 2Q17's results reflect the combined results of HOPE's combined operations, but not for 2Q16 results. Total interest income when reflecting these two quarters rose to \$138.5 million from \$83.5 million, and from \$132.7 million when compared to 1Q17. Total interest expense increased to \$21.7 million from \$12.5 million during 2Q16, and from \$17.8 million during 1Q17. Net interest income, before loan loss provisions, improved to \$116.8 million compared to \$69.7 million during 2Q16 and \$115.0 million during 1Q17. Net interest income, for these three quarters, totaled \$114.0 million, \$70.0 million, and \$109.4 million, respectively. 2Q17's tangible book value per share decreased to \$10.52/share from \$10.85/share during 2Q16.

Total assets rose 3% to \$13.86 billion, from \$14.44 billion during 2Q16, and 3% when compared to \$13.48 billion during 1Q17. Net loans grew 3% during 2Q17 from 2Q16 (\$10.74 billion vs. \$10.46 billion) and 3% from 1Q17's levels (\$10.74 billion vs. \$10.47 billion). New loans grew to \$725 million from \$587 million from the preceding quarter. Commercial real estate loans made of 63% of total loan production, commercial loans were 27%, and residential loans comprised 10%. The average loan rate on new loans during 2Q17 was 4.56%, a 31 basis point increase from 1Q17.

Total liabilities in 2Q17 amounted to \$11.95 billion, rising 3% from 2Q16's level of \$11.59 billion and 1Q17's level of \$11.60 billion. The largest increase came from a rise in deposits to \$10.96 billion from \$10.64 billion during 2Q16 and from \$10.70 billion during 1Q17.

2Q17's net interest income, before loan loss provisions, rose to \$116.82 million from \$71.06 million during 2Q16, and from \$114.90 million during 1Q17. Loan charge-offs for each of these three quarters totaled \$2.76 million, \$1.20 million, and \$5.60 million, respectively. Total Interest income increased to \$138.5 million during 2Q17 from \$83.53 million during 2Q16, and \$132.74 million in 1Q17.

Total non-interest income for 2Q17 increased to \$16.12 million from \$10.71 million during 2Q16 but decreased from \$17.60 million during 1Q17. The decline, when compared to 1Q17, was due primarily to lower other income/fees of \$7.32 million vs. \$8.60 million when unusual swap income fell to \$481,000 from \$963,000. Additionally, 1Q17 recognized \$1.1 million of other income recoveries, from pre-merger fully charged-off loans, of \$1.1 million vs. \$210,000 during 2Q17.

Total interest expense during 2Q17 rose to \$21.71 million from \$12.47 million, during 2Q16, and \$17.84 million in 1Q17. 2Q17's deposit interest expense rose when compared to 2Q16 (+75%) and 1Q17 (+25%) while other interest on borrowings increased when compared to 2Q16 (+70%) and 1Q17 (+8%). Total non-interest expense saw a similar rise when comparing 2Q17 to 2Q16 (+59%) but lower when compared to 1Q17 (-5%). The decrease when compared to 1Q17 was due to ongoing cost synergies from the recent merger.

2Q17's net interest margin improved to 3.75% from 3.67% when compared to 2Q16, however, decreased when compared to 3.77% result from 1Q17. HOPE believes net interest margins, going forward, could decrease due to declining affects of purchase accounting. The ROA ratio improved during 2Q17 to 1.21% compared to 1.15%



during 2Q16 and 1.09% during 1Q17. Return on equity decreased to 8.60% from 9.67% when comparing 2Q17 to 2Q16, but rose when compared to 7.75% during 1Q17.

Our Thoughts

HOPE's 2Q17 earnings results suggest the bank may be benefiting from recent acquisitions when comparing results with the prior quarter. 2Q17's diluted earnings rose to \$0.30/share compared to \$0.27/share during 1Q17. Management believes cost cutting synergies and organic loan growth could lead to higher earnings during the next 6-18 months. HOPE now has assets of approximately \$13.9 billion which could generate higher ROE and ROA going into 2018. We expect management to give clearer guidance on 2018 earnings prospects as its assimilated businesses generate results during 2H17. On a positive note, HOPE's Board of Directors raised the annual dividend to \$0.52/share from \$0.48/share. Given the current dividend yield of 3%, with prospects of increases with future earnings growth, we continue to rate HOPE a BUY for aggressive/speculative investors seeking appreciation and income. Our price target is \$24/share, equating to 20.3x our 2017 earnings estimate of \$1.18/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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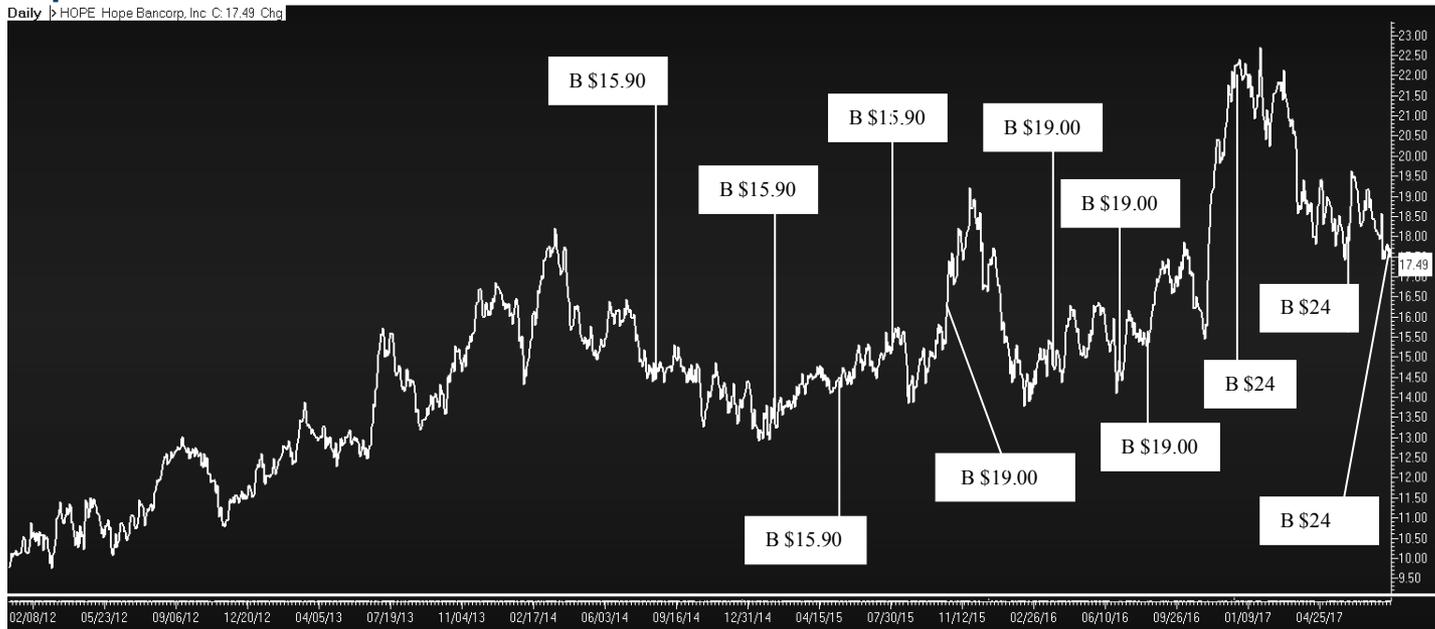
EQUITY RESEARCH

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

	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17e	4Q17e	2017e
Interest Income	\$83,461	\$83,534	\$119,552	\$135,387	\$135,387	\$132,743	\$138,533	\$135,639	\$137,128	\$544,043
Interest Expense	11,854	12,470	16,078	18,178	58,579	17,838	21,713	18,874	19,247	77,672
Net Interest Income before loan losses	71,607	71,064	103,474	117,209	363,355	114,905	116,820	116,765	117,881	466,371
Provision for loan losses	500	1,200	6,500	800	9,000	5,600	2,760	700	3,400	12,480
Net Interest income net loan loss provisions	71,107	69,864	96,974	116,409	354,355	109,305	114,060	116,065	114,481	453,911
Non-Interest Income	8,775	10,707	14,146	18,192	51,819	17,603	16,115	18,247	18,539	70,504
Non-Interest Expense	40,049	40,348	67,846	66,731	214,975	66,293	64,037	67,493	65,218	263,041
Income before income taxes	39,833	40,223	43,274	67,870	191,199	60,615	66,138	66,819	67,802	261,374
Income taxes	16,210	16,833	17,169	27,240	77,452	23,655	35,451	26,060	26,443	111,609
Net Income	23,623	23,390	26,105	40,630	113,747	36,960	40,667	40,759	41,359	159,745
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$23,623	\$23,806	\$26,105	\$40,630	\$113,747	\$36,960	\$40,667	\$40,759	\$41,359	\$159,745
Diluted Earnings Per Share	\$0.30	\$0.29	\$0.22	\$0.30	\$1.10	\$0.27	\$0.30	\$0.30	\$0.31	\$1.18

Important Disclosures

Daily | HOPE Hope Bancorp, Inc. C: 17.49 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 20.3x our 2017 earnings estimate of \$1.18/share

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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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