



January 10, 2018

CURRENT PRICE: \$18.54

RATING: BUY

PRICE TARGET: \$24.00

CURRENT YIELD: 2.7%

EPS Estimates - Non-GAAP

	DEC 16A	DEC 17E
1Q	\$0.30	\$0.27A
2Q	\$0.29	\$0.30A
3Q	\$0.22	\$0.33A
4Q	\$0.30	\$0.31
	\$1.11	\$1.21

Trading Data

52-WEEK PRICE RANGE: **\$22.99-\$15.10**

SHARES OUTSTANDING: **135.6(M)**

MARKET CAP: **\$2,514(M)**

AVG. DAILY TRADING VOLUME: **0.48(M)**

S&P 500: **2,748**

Valuation Data

BOOK VALUE: **\$10.72**

PRICE TO BOOK: **1.73x**

DIVIDEND: **\$0.52**

HOPE Bancorp (Nasdaq: HOPE)

Benefiting From Recent Mergers

Highlights

- 3Q17 earnings of \$0.33/share vs. \$0.30/share during 2Q17
- Earnings benefitted from recent mergers & revenue growth
- Key financial ratios improve
- Positioning for EPS growth in 2018
- 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 2.7% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$18.54), 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.



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 3Q17 earnings of \$0.33/share vs. \$0.22/share during 3Q16. While there was some operating improvement, 3Q17's results reflect the combined results of the merger of BBCN Bancorp and Wilshire Bank, completed 7/30/16. 3Q16's results do not reflect these two companies on a combined basis. Thus, sequential quarterly results may be a more genuine way, over a short term basis, to compare HOPE's operating results.

When comparing sequential results, HOPE earnings increased to \$0.33/share from \$0.30/share during 2Q17. The results benefited from a 6% increase in net income before loan losses, an 8 basis points in net interest margin reflecting the Fed's June 2017 interest rate increase, and strong loan growth which materialized at the end of 2Q17. Consequently, HOPE's residential mortgage operations produced strong quarterly results with mortgage originations of \$119 million.

Total interest income rose to \$147.6 million from \$138.5 million and total interest expense increased to \$24.4 million from \$21.7 million. Net interest income, before loan loss provisions, improved to \$123.3 million from \$116.8 million benefitting from higher levels of interest/fee income on larger loan securities, and an 18 basis increase on its average loan yield (5.07% vs. 4.89%). The loan loss provisions increased to \$5.4 million from \$2.8 million and net interest income, after loss provisions, increased to \$117.9 million from \$114.1 million.

Total net interest income's rise of 7% to \$147.6 million was due to a 6% increase in interest/fees on loans to \$136.8 million. Interest on securities improved 9% to \$9.5 million, while interest on fed funds sold/other investments was flat at \$1.28 million.

Total non-interest income improved 1% to \$16.2 million from \$16.1 million. The improvement came from higher net gains on SBA loan sales (\$3.6 million vs. \$3.3 million) and gains on other loan sales (\$847,000 vs. \$352,000). These were partly offset by lower deposit service fees (\$5.15 million vs. \$5.18 million) and other income/fees (\$6.62 million vs. \$7.32 million).

Total interest expense increased 12% to \$24.4 million from \$21.7 million. This was due to increases in deposit interest (\$20.4 million vs. \$18.1 million) and interest on other borrowings (\$4.0 million vs. \$3.6 million). Total non-interest expense decreased 3% to \$61.8 million from \$64.0 million because of a \$2.8 million reversal of an off-balance sheet provision for unfunded loan commitments. The decrease was also attributable to lower OREO net expense (\$678,000 vs. \$1.2 million), advertising/marketing (\$2.2 million vs. \$2.4 million), professional fees (\$3.23 million vs. \$3.26 million), merger related costs (\$260,000 vs. \$562,000), occupancy (\$7.13 million vs. \$7.15 million), and other expenses (\$6.9 million vs. \$7.2 million). These were partly offset by higher salary/employee benefits (\$36.0 million vs. \$35.0 million), furniture/equipment (\$3.64 million vs. \$3.56 million), data processing/communications (\$3.2 million vs. \$2.7 million), and FDIC assessment (\$1.3 million vs. \$1.0 million).

Total assets improved 2% to \$14.15 billion as new loans increased \$146.6 million to \$10.96 billion from \$10.82 billion. Total new loan originations were \$610.9 and included SBA loan production of \$67.9 million and residential mortgage originations of \$119.9 million. Total liabilities rose 2% to \$12.21 billion from \$11.95 billion as total



deposits increased to \$10.99 billion from \$10.95 billion. 3Q17's non-interest bearing deposits were 27.7% of deposits vs. 27.5% during 2Q17.

3Q17's net interest margin improved to 3.83% from 3.75% during 2Q17. The ROA and ROE ratios rose, to 1.30% from 1.21%, and to 9.26% from 8.60%, respectively. The return on average tangible equity increased to 12.36%, from 11.54%, and the efficiency ratio decreased to 44.32% from 48.17%. Book value per share rose to \$10.72/share from \$10.52/share.

Total non-performing assets increased to \$125.8 million from \$124.3 million, when comparing to 3Q17 to 2Q17. There were declines in non-performing assets/total loans (0.89% vs. 0.90%), non-performing assets/total capital (6.50% vs. 6.52%), non-accrual loans/loans receivables (0.40% vs. 0.44%), and allowance for loan losses/non-performing assets (77.05% vs. 78.12%). However, there were increases in non-performing loans/loans receivables (0.99% vs. 0.95%), allowance for loan losses/loans receivables (0.76% vs. 0.74%), and allowance for loan losses/non-accrual loans (193.05% vs. 169.07%).

Our Thoughts

When comparing 3Q17's to 2Q17's earnings results it appears HOPE may be emerging from its earnings nadir following 2 years' worth of mergers. HOPE reported 3Q17 earnings of \$0.33/share vs. \$0.30/share during 2Q17. Results benefited from a 6% increase in net income before loan losses, net interest margin rose reflecting the Fed's June 2017 interest rate increase, and strong loan growth which materialized at the end of 2Q17. Several internal performance/financial ratios showed improvement indicating the potential of solid earnings growth in 2018- assuming continued growth in the US economy. Net interest margin improved to 3.83% from 3.75%, ROA increased to 1.30% from 1.21%, ROE rose to 9.26% from 8.60%, return on average tangible equity moved to 12.36%, from 11.54%, average loan yields rose 18 basis points, and the efficiency ratio decreased to 44.32% from 48.17%.

HOPE is recommended for aggressive/speculative investors seeking appreciation, and dividend income, in the small cap bank sector. This bank's recent mergers, assimilation efforts, and potentially higher operating revenues could produce earnings growth over the next 2 years. Additionally, HOPE has been raising its annual dividend since 2008 and further earnings growth could generate another dividend hike in 2018. Our price target is \$24/share, equating to 19.8x our 2017 earnings estimate of \$1.21/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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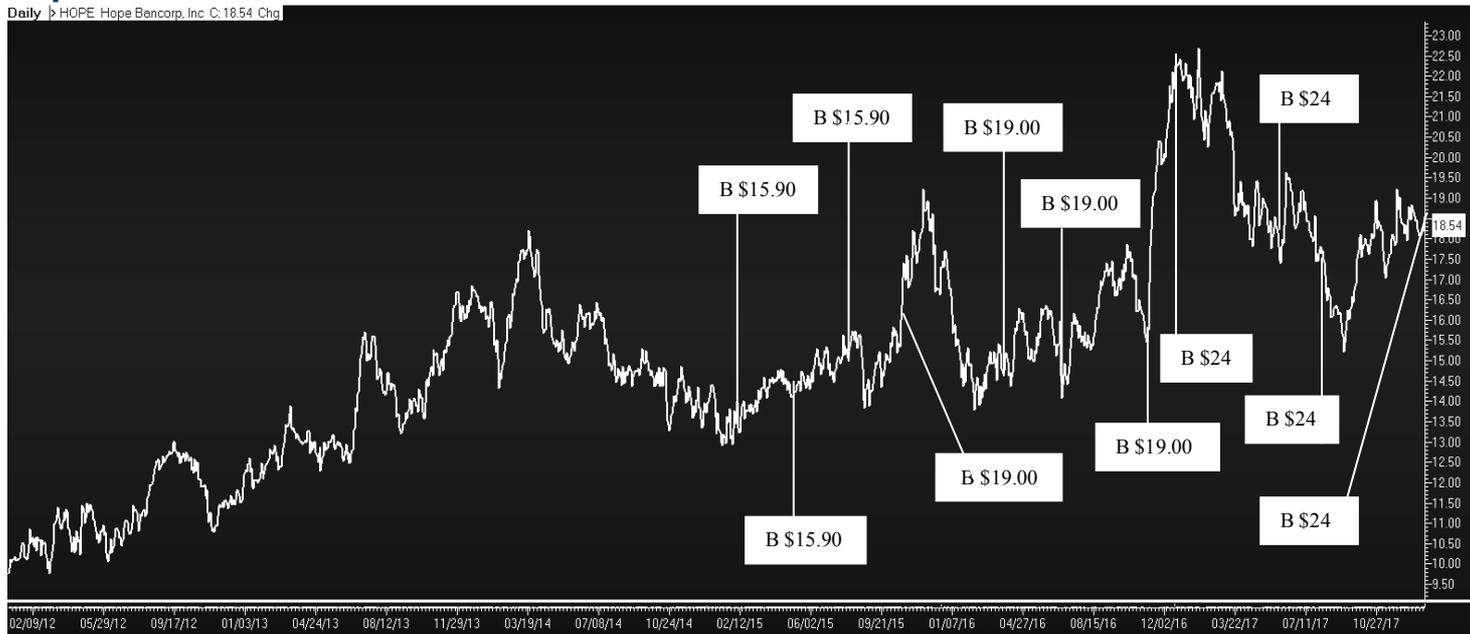
EQUITY RESEARCH

(in thousands, except per share amounts)

	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17	4Q17e	2017e
Interest Income	\$83,461	\$83,534	\$119,552	\$135,387	\$135,387	\$132,743	\$138,533	\$147,643	\$148,154	\$567,073
Interest Expense	11,854	12,470	16,078	18,178	58,579	17,838	21,713	24,380	24,876	88,807
Net Interest Income before loan losses	71,607	71,064	103,474	117,209	363,355	114,905	116,820	123,263	123,278	478,266
Provision for loan losses	500	1,200	6,500	800	9,000	5,600	2,760	5,400	5,600	19,360
Net Interest income net loan loss provisions	71,107	69,864	96,974	116,409	354,355	109,305	114,060	117,863	117,678	458,906
Non-Interest Income	8,775	10,707	14,146	18,192	51,819	17,603	16,115	16,246	16,455	66,419
Non-Interest Expense	40,049	40,348	67,846	66,731	214,975	66,293	64,037	61,837	65,218	257,385
Income before income taxes	39,833	40,223	43,274	67,870	191,199	60,615	66,138	72,272	68,915	267,940
Income taxes	16,210	16,833	17,169	27,240	77,452	23,655	35,451	27,708	26,463	113,277
Net Income	23,623	23,390	26,105	40,630	113,747	36,960	40,667	44,564	42,452	164,643
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	\$44,564	\$42,452	\$164,643
Diluted Earnings Per Share	\$0.30	\$0.29	\$0.22	\$0.30	\$1.10	\$0.27	\$0.30	\$0.33	\$0.31	\$1.21

Important Disclosures

Daily | HOPE Hope Bencorp, Inc. C:18.54 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 19.8x 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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