



February 16, 2018

CURRENT PRICE: \$18.76

RATING: BUY

PRICE TARGET: \$24.00

CURRENT YIELD: 2.8%

EPS Estimates - Non-GAAP

	DEC 17A	DEC 18E
1Q	\$0.27	\$0.27
2Q	\$0.30	\$0.30
3Q	\$0.33	\$0.33
4Q	\$0.13	\$0.31
	\$1.03	\$1.43

Trading Data

52-WEEK PRICE RANGE: **\$22.24-\$15.10**

SHARES OUTSTANDING: **135.5(M)**

MARKET CAP: **\$2,542(M)**

AVG. DAILY TRADING VOLUME: **0.5(M)**

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

Valuation Data

BOOK VALUE: **\$10.68**

PRICE TO BOOK: **1.76x**

DIVIDEND: **\$0.52**

HOPE Bancorp (Nasdaq: HOPE)

4Q17 Earnings Results

Highlights

- 4Q17 earnings of \$0.13/share vs. \$0.33/share during 3Q17
- \$0.19/share charge for tax related adjustment
- Anticipates 2018 corporate tax rate of 24%-25%
- 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 2.8% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$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 12/30/17 HOPE had total assets of \$14.2 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 4Q17 earnings of \$0.13/share vs. \$0.30/share during 4Q16. The decrease was due to a one-time re-evaluation charge on the bank's tax assets/liabilities and lower income tax credits, hurting 4Q18's results by \$0.19/share. Since 4Q16's results do not reflect the merger of BBCN Bancorp and Wilshire Bancorp (forming HOPE), we believe it is more appropriate to compare earnings sequentially with 3Q17's results, which produced earnings of \$0.33/share.

When comparing sequential results, net income fell to \$17.98 million from \$44.56 million due to the \$23.84 million deferred asset adjustment charge during 4Q18. Excluding the charge, net income decreased to \$43.41 million from \$44.56 million during 3Q17 or \$0.32/share vs. \$0.33/share.

Total interest income rose to \$153.19 million from \$147.54 million. Net interest income, before loan loss provisions, rose to \$126.39 million from \$123.26 million benefitting from higher levels of interest/fee income on loan securities and an increase in the yield on its loan portfolio. Interest/fees on loans rose 3% to \$141.13 million, interest on securities increased 10% to \$10.52 million, and interest on fed funds sold/other investments improved 20% to \$1.53 million. Loan loss provision fell to \$3.6 million from \$5.4 million and net interest income, after loan loss provisions, improved to \$122.79 million from \$117.86 million.

Total non-interest income increased 1% to \$16.45 million from \$16.25 million. This occurred due to higher net gains on sales of other loans (+54%), net gains on sales of securities for sale (+100%), and other income/fees (+10%). These were partly offset by declines in deposit account fees (-4%) and net gains on SBA loan sales (-28%). Total interest expense rose to \$26.79 million from \$24.38 million. The rise came from higher interest expense on deposits (+7%), caused by higher interest rates and interest on other borrowings (+22%).

Total non-interest expense rose to \$73.03 million from \$61.84 million. The largest increase came from salaries/employee benefits (+ \$3.58 million) resulting from 2017's merger activity. There were also increases in credit related expenses (+\$3.56 million), other expenses (+\$2.94 million), professional fees (+\$1.31 million), FDIC assessment (+\$635,000), furniture/equipment (+\$390,000), and advertising/marketing (+\$29,000). These were partly offset by decreases in data processing/communications (-\$545,000), OREO expense (-\$441,000) merger related expenses (-\$276,000), and occupancy (-\$23,000).

Total assets increased 6% to \$14.21 billion from \$14.15 billion as net loans receivable rose to \$11.02 billion from \$10.96 billion. Total new loan originations grew 9% to \$664 million when compared to 3Q17, and residential mortgage operations added \$193 million in new production. Total liabilities increased 1% to \$12.28 billion from \$12.22 billion as FHLB borrowings and other Fed funds purchased grew 21% to \$1.23 billion from \$1.02 billion and was partly offset by lower deposits of \$10.85 billion vs. \$10.99 billion.

4Q17's net interest margin improved slightly to 3.84% from 3.83%. Both the ROA and ROE ratios declined to 0.51% from 1.30% and from 3.70% from 9.26%, respectively. Return on average tangible equity decreased to 4.92% from 12.36%. Book value per share fell to \$10.68/share from \$10.72/share.



EQUITY RESEARCH

Total non-performing assets declined to \$111.69 million from \$125.75 million as total non-performing loans fell to \$100.90 million from \$108.54 million and OREO decreased to \$10.79 million from \$17.21 million. As a result, there were declines in non-performing assets/total loans (0.79% vs. 0.89%), Non-performing assets/total capital (5.79% vs. 6.50%), and non-accrual loans/loan receivables (0.91% vs. 0.99%). However, there were increases in allowance for loan losses/non-performing assets (75.69% vs. 66.51%), allowance for loan losses/non-performing loans (83.78% vs. 77.05%), and allowance for loan losses/non-accrual loans (254.28% vs. 193.05%).

Our Thoughts

HOPE reported 4Q17 earnings of \$0.13/share vs. \$0.33/share during 3Q17. The decrease was due to a one-time re-evaluation charge on the bank's tax assets/liabilities and lower income tax credits, hurting 4Q17's results by \$0.19/share. Factoring this charge back in, earnings would have been \$0.32/share vs. \$0.33/share. Going forward into 2018 management stated it has two strategic priorities: core deposit gathering and driving efficiencies throughout all levels of its organization following last year's merger. Management said the new tax laws will lower its 2018 corporate tax rate to 24%-25%. Also, HOPE expects its net interest margin to decrease to the 3.5%-3.6% level due to a concurrent rise in both deposit costs and loan yields and is targeting an efficiency ratio of the mid-40s.

HOPE is recommended for aggressive/speculative investors seeking appreciation, and dividend income, in the small cap bank sector. Following years of acquisitions, HOPE offers the potential of growing revenue streams generating higher earnings during the next 2 years. Additionally, higher earnings may allow HOPE to continue raising its annual dividend, which it has done since 2008. Our price target is \$24/share, equating to 16.8x our 2018 earnings estimate of \$1.43/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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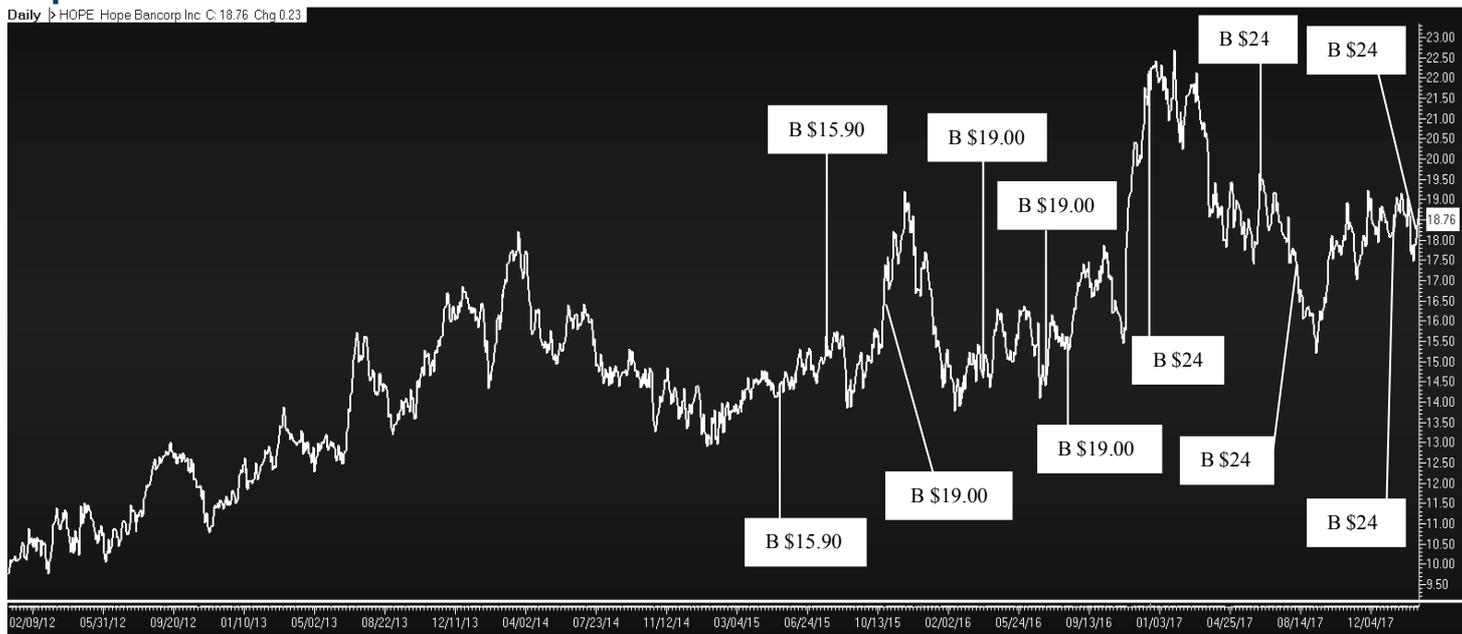
EQUITY RESEARCH

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

	1Q17	2Q17	3Q17	4Q17	2017	1Q18e	2Q18e	3Q18e	4Q18e	2018e
Interest Income	\$132,743	\$101,159	\$147,643	\$153,185	\$572,104	\$154,763	\$155,492	\$157,218	\$157,823	\$625,296
Interest Expense	17,838	21,713	24,380	26,793	90,724	27,089	28,936	31,056	33,115	120,196
Net Interest Income before loan losses	114,905	116,820	123,263	126,392	481,380	127,674	126,556	128,162	124,708	507,100
Provision for loan losses	5,600	2,760	5,400	3,600	17,360	4,100	5,200	5,300	4,200	18,700
Net Interest income net loan loss provisions	109,305	114,060	117,863	122,792	464,020	123,574	121,356	122,862	120,508	488,300
Non-Interest Income	17,603	16,115	16,246	16,461	66,415	16,794	16,618	16,563	16,574	66,548
Non-Interest Expense	66,293	64,037	61,837	73,028	266,601	73,866	74,089	74,188	73,754	295,897
Income before income taxes	60,615	66,138	72,272	66,215	263,834	66,502	63,885	65,237	63,328	258,952
Income taxes	23,655	35,451	27,708	48,231	124,389	16,626	15,971	16,309	15,832	64,738
Net Income	36,960	40,667	44,564	17,984	139,445	49,876	47,914	48,928	47,496	194,214
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$36,960	\$40,667	\$44,564	\$17,984	\$139,445	\$49,876	\$47,914	\$48,928	\$47,496	\$194,214
Diluted Earnings Per Share	\$0.27	\$0.30	\$0.33	\$0.13	\$1.03	\$0.37	\$0.35	\$0.36	\$0.35	\$1.43

Important Disclosures

Daily | HOPE Hope Bancorp Inc. C. 18.76 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

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

Ratings:

Buy: B

Hold: H

Sell: S

\$24.00 px. target equates to 16.8x our 2018 earnings estimate of \$1.43/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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