



December 10, 2019

CURRENT PRICE: \$14.78

RATING: BUY

PRICE TARGET: \$19.00

CURRENT YIELD: 3.8%

EPS Estimates - Non-GAAP

	DEC 18A	DEC 19E
1Q	\$0.35	\$0.34A
2Q	\$0.36	\$0.34A
3Q	\$0.36	\$0.34A
4Q	\$0.35	\$0.34
	\$1.44	\$1.36

Trading Data

52-WEEK PRICE RANGE: **\$14.95-\$11.37**

SHARES OUTSTANDING: **126.7(M)**

MARKET CAP: **\$1,873(M)**

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

S&P 500: **3,153**

Valuation Data

BOOK VALUE: **\$12.27**

PRICE TO BOOK: **1.21x**

DIVIDEND: **\$0.56**

HOPE Bancorp (Nasdaq: HOPE)

3Q19 Earnings Results

Highlights

- 3Q19 earnings of \$0.34/share vs. \$0.36/share during 3Q18
- Earnings decline due to higher non-interest & interest expense
- Fed lowering rates could lower 2020 interest expense
- Management anticipates lower costs from synergies
- Rated BUY & lowering price target to \$19/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 \$19.00 price target. Additionally, HOPE pays a 3.8% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$14.78), 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, it 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 58 full service branches in CA, WA, TX, IL, NY, NJ, VA, GA, and AL. The bank also has SBA offices in CA, CO, GA, NY, OR, TX, WA, and a representative office in Seoul, Korea. As of 9/30/19 HOPE had total assets of \$15.4 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 3Q19 earnings of \$0.34/share vs. \$0.36/share during 3Q18. When comparing the two quarters, the decrease in earnings was due to higher non-interest expense and interest expense. These factors offset increases in interest income and lower loan loss provisions. When sequentially comparing quarters, 3Q19 reported earnings of \$0.34/share vs. \$0.34/share during 2Q19, as lower non-interest expense was offset by lower interest income non-interest income and interest expense.

When comparing 3Q19's results to 3Q18's, interest income rose 3% to \$172.4 million as interest/fees on loans increased to \$158.1 million from \$153.4 million, interest on fed funds sold/other investments improved to \$2.9 million from \$2.5 million, and offset a decrease in interest on securities of \$11.4 million vs. \$12.0 million. Net interest income, after loan loss provisions, fell to \$114.2 million from \$115.9 million as deposit interest decreased to \$116.3 million from \$123.2 million, while loan loss provisions dropped to \$2.1 million from \$7.3 million.

Non-interest income decreased to \$13.0 million from \$13.5 million due to the absence of \$2.3 million gain on SBA loans in 3Q18. The decrease more than offset increases in deposit account service fees (\$4.7 million vs. \$4.6 million), net gains on sales of other loans (\$804,000 vs. \$477,000), net gains on sales of securities available for sale (\$153,000 vs. \$0), and other incomes/fees (\$7.4 million vs. \$6.1 million).

3Q19's interest expense, due to rising interest rates from the Federal Reserve, rose to \$56.2 million from \$44.7 million during 3Q18. The increase was the result of higher interest paid on deposits (\$49.1 million vs. \$37.0 million), and was partly offset by lower interest on other borrowings/convertible notes (\$7.1 million vs. \$7.7 million). HOPE's deposits increased to \$12.2 billion from \$12.0 billion and the weighted average cost of deposits rose to 1.62% during 3Q19 from 1.24% during 3Q18, following Fed rate increases earlier in the year.

Non-interest expense increased to \$70.0 million from \$67.5 million. This resulted from higher salaries/employee benefits (\$41.6 million vs. \$37.0 million), professional fees (\$5.2 million vs. \$4.0 million), furniture equipment (\$5.2 million vs. \$4.0 million), advertising/marketing (\$2.4 million vs. \$2.0 million), and credit related (\$1.0 million vs. \$658,000). These were partly offset by decreases in occupancy (\$7.7 million vs. \$7.8 million), other fees (\$6.1 million vs. \$7.1 million), data processing/communications (\$2.8 million vs. \$3.5 million), OREO net gain (+\$743,000 vs. +\$56,000), and the absence of a FDIC assessment fee during 3Q19.

Total assets grew to \$15.4 billion from \$15.2 billion as the company benefitted from its recent acquisitions and organic growth as net loans improved (1% to \$12.0 billion). New loan originations during 3Q19 were 50% commercial real estate, 41% commercial, 9% consumer loans, and a 1% increase in receivable loans. Net loans increased to \$12.0 billion from \$11.8 billion. The weighted average yield on loans rose to 5.27% from 5.16%, when comparing 3Q19 to 3Q18.

Comparing 3Q19 internal ratios to those of 3Q18's, showed decreases mainly due to a rise in interest rate environment in the beginning of 2019. There were declines in ROA (1.12% vs. 1.24%), ROE (8.47% vs. 9.76%), and net interest margin (3.25% vs. 3.47%). Due to recent acquisitions, creating a larger employee force, HOPE's efficiency ratio rose to 54.15% from 49.38%.



EQUITY RESEARCH

Total non-performing assets decreased to \$96.7 million from \$118.2 million as loans on nonaccrual declined to \$42.2 million from \$56.3 million and accruing debt restructured loans fell to \$34.7 million from \$52.5 million. As a result, there were declines in nonperforming assets/total assets (0.63% vs 0.78%), nonperforming assets/loans receivables & OREO (0.80% vs. 0.99%), nonperforming assets/total capital (4.76% vs. 6.21%), and nonperforming loans/loans receivables (0.64% vs. 0.92%).

Our Thoughts

In our opinion, HOPE produced a decent 3Q19 earnings report. The bank reported 3Q19 earnings of \$0.34/share vs. \$0.36/share during 3Q18. When comparing the two quarters, the decrease in earnings was due to higher non-interest expense and interest expense. These factors offset increases in interest income and lower loan loss provisions. When sequentially comparing quarters, 3Q19 reported earnings of \$0.34/share vs. \$0.34/share during 2Q19, as lower non-interest expense was offset by lower interest income non-interest income and interest expense.

During the earnings call, HOPE discussed an improvement in its loan credit quality during 3Q19 and said it would be vigilant in protecting its loan portfolio from riskier loan applications. A recent example of this was the 35% reduction in non-accrual loans and a 20% decrease in total criticized assets. Management expects 2019 loan growth of 2%-3% with the possibility of it rising to 4%-6%, assuming an increase in the overall economy.

The Board of Directors authorized a \$50 million stock repurchase program back in July. However, as of this printing, no shares have been repurchased through the program. Our assumption is it may be used to support the share value if there is a decline in HOPE's stock price.

HOPE's 2020 interest expense could decrease following the Federal Reserves lowering of interest rates during 2H19. Given an attractive dividend yield of 3.8%, and the potential of future earnings growth in 2020 based on recent cost saving efforts, asset growth, and lower deposit interest expense, we continue to rate this stock a BUY. We are lowering our price target from \$24/share to \$19/share. Our new price target of \$19/share equates to a price/earnings ratio of 14.0x our 2019 earnings estimate of \$1.36/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 volume in HOPE's stock, any increase in trading volume could significantly accelerate the volatility of its share price movement.

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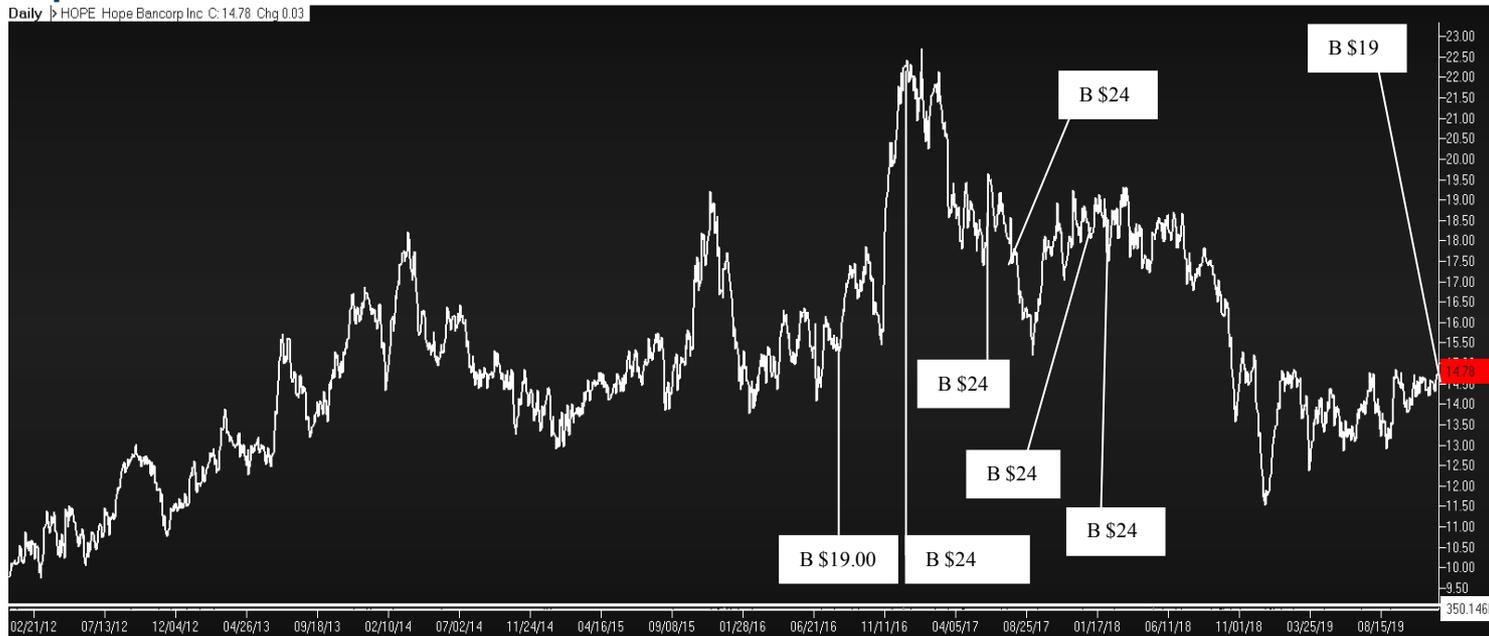
EQUITY RESEARCH

(in thousands, except per share amounts)

	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19e	2019e
Interest Income	\$172,026	\$159,910	\$167,826	\$172,026	\$650,172	\$173,130	\$173,466	\$172,417	\$172,891	\$691,904
Interest Expense	50,133	37,091	44,679	50,133	162,245	53,522	56,245	56,159	55,609	221,535
Net Interest Income before loan losses	121,893	122,819	123,147	121,893	487,927	119,608	117,221	116,258	117,282	470,369
Provision for loan losses	2,800	2,300	7,300	2,800	14,900	3,000	1,200	2,100	1,600	7,900
Net Interest income net loan loss provisions	119,093	120,519	115,847	119,093	473,027	116,608	116,021	114,158	115,682	462,469
Non-Interest Income	11,614	15,269	13,447	11,614	60,180	11,422	12,287	12,995	13,147	49,851
Non-Interest Expense	70,189	71,629	67,455	70,189	277,726	70,833	71,371	69,995	70,815	283,014
Income before income taxes	60,518	64,159	61,839	60,518	255,481	57,197	56,937	57,158	58,015	229,307
Income taxes	16,069	16,629	15,461	16,069	65,892	14,439	14,256	14,566	14,388	57,649
Net Income	44,449	47,530	46,378	44,449	189,589	42,758	42,681	42,592	43,627	171,658
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$44,459	\$47,530	\$46,378	\$44,449	\$189,589	\$42,758	\$42,681	\$42,592	\$43,627	\$171,658
Diluted Earnings Per Share	\$0.35	\$0.36	\$0.36	\$0.35	\$1.44	\$0.34	\$0.34	\$0.34	\$0.34	\$1.36

Important Disclosures

Daily | HOPE Hope Bancorp Inc. C.14.78 Chg 0.03



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

12/10/19 Lower price target to \$19.00

Ratings:

Buy: B

Hold: H

Sell: S

\$19 price target equates to 14.0x our 2019 earnings estimate of \$1.36/share

RISKS TO OUR PRICE TARGET: Failure of HOPE to grow cashflow/earnings, or an economic slowdown could adversely impact the company's earnings/loan portfolio. Rising interest rates, increased regulatory compliance expense, adverse tax or legal issues, or rising operating costs could have a negative impact on our price target. Additionally, negative equity/credit markets, a negative interest rate environment, terrorist attacks, wars, geopolitical issues, US politics, failure to comply with Sarbanes Oxley guidelines, or maintain accepted accounting standards could be risks to our price target for HOPE. Additionally, since HOPE is considered a small cap bank, there is limited liquidity in the trading of its stock. Given the relatively small amount of daily trading volume in HOPE's stock, any increase in trading volume could significantly accelerate the volatility of its stock to the downside, as well as upside.

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