



**CAPITOL
SECURITIES**
MANAGEMENT, INC.

**EQUITY
RESEARCH**

April 1, 2016

CURRENT PRICE: \$15.08

RATING: BUY

PRICE TARGET: \$19.00

CURRENT YIELD: 2.9%

EPS Estimates - Non-GAAP

	DEC 15A	DEC 16E
1Q	\$0.27	\$0.30
2Q	\$0.29	\$0.30
3Q	\$0.32	\$0.32
4Q	\$0.29	\$0.33
	\$1.16	\$1.25

Trading Data

52-WEEK PRICE RANGE: **\$19.63-\$13.59**

SHARES OUTSTANDING: **79.61(M)**

MARKET CAP: **\$1,201(M)**

AVG. DAILY TRADING VOLUME: **0.54(M)**

S&P 500: **2,072**

Valuation Data

BOOK VALUE: **\$11.68**

PRICE TO BOOK: **1.29x**

DIVIDEND: **\$0.44**

BBCN Bancorp (Nasdaq: BBCN)

4Q15 Earnings Report – Maintain BUY rating

Highlights

- 4Q15 earnings of \$0.29/share vs. \$0.29/share during 4Q14
- Merging with Wilshire Bancorp
- Improving metrics in loan portfolio
- Positioning bank for earnings growth in 2016-2017
- Rated BUY & price target of \$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 BBCN 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 target price. Additionally, BBCN pays a 2.9% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, BBCN Bancorp Inc. (BBCN-\$15.08), 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.

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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BBCN purchased Seattle-based Pacific International Bancorp (PIB) during 1Q13. PIB had total assets of \$185 million and four bank locations in the Seattle metro area. On a combined basis, BBCN now has 45 total operating branches with 27 in Southern CA (Los Angeles metro area), 3 in Northern CA (San Francisco metro area), 6 in Seattle WA, 2 in Chicago IL, and 7 in the New York/New Jersey metro area. A total of five loan production offices operate in Northern CA (1), Seattle WA (1), Denver CO (1), Dallas TX (1), and Atlanta GA (1). As of 12/31/15 BBCN had total assets of \$7.9 billion.

Business Overview/Operating Strategy

BBCN'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. BBCN provides cash management services to its business customers. Its website offers internet banking services/applications in both Korean and American.

The recent 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 (WIBC-\$10.28). The resulting company will produce the largest Korean-American oriented bank in the US.

FUTURE GROWTH/ACQUISITIONS: BBCN has stated its intent to grow total assets from approximately \$7.1 billion to \$8 billion. Management believes this can be done through organic growth & acquiring other banks serving the Korean-American Community in regions complimenting, or expanding, BBCN's existing service territories.



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Recent Earnings

BBCN reported 4Q15 earnings of \$0.29/share vs. \$0.29/share during 4Q14. While total interest income rose to \$83.0 million from \$75.8 million, it was offset by an increase in total interest expense, to \$11.2 million from \$9.5 million, and higher loan loss provisions, when comparing the two quarters. Total assets rose 11% to \$7.91 billion from \$7.14 billion due mainly to net loans receivable growing 12% to \$6.17 billion from \$5.5 billion. There was loan growth in commercial (+4%), real estate (+14%), and consumer/other loans (+14%). Total deposits rose 11% to \$6.34 billion from \$5.70 billion. Net interest margins, after acquisition accounting adjustments, declined to 3.88% from 3.90%. ROA and ROE both fell, to 1.19% from 1.28%, and 9.76% from 10.42%, respectively.

For FY15, BBCN reported earnings of \$1.16/share vs. \$1.11/share during FY14. ROA and ROE both decreased, to 1.25% from 1.30%, and to 10.11% from 10.44%, respectively. Net interest margin declined to 3.88% from 4.13%. Tangible book value/share increased to \$10.43/share from \$9.72/share.

4Q15's net interest income rose 8% to \$71.8 million from \$66.2 million during 4Q14 as total interest income rose by 10% due to higher interest/fees on loans (+8%) and interest on securities (+40%), which were partly offset by a decrease (-23%) in interest on fed funds sold/other investments. Total interest expense increased to \$11.2 million from \$9.5 million due to increases in deposit interest (+19%) and interest on other borrowings (+10%). These increases came from larger amounts of loans and deposits at BBCN generated by recent acquisitions and organic growth. Net interest income, after loan loss provisions improved to \$66.9 million, from \$63.9 million, in spite of a higher loan loss provision incurred in 4Q15 vs. 4Q14 (\$4.90 million vs. \$2.36 million).

Total non-interest income decreased 8% to \$11.0 million from \$12.0 million due to lower deposit account service fees (-13%) and net gains on sales of SBA loans (-23%). These were partly offset by higher net gains on sales on securities available for sale (+100%) and other income/fees (+8%).

Total interest expense rose 18% to \$11.2 million from \$9.5 million due to the growth of BBCN's deposit base to \$6.34 billion from \$5.70 billion. Interest on deposits rose 19% and interest on other borrowings grew 10%. Total non-interest expense was flat at \$38.9 million when comparing the two quarters. There were expense increases in salaries/employee benefits (+11%), furniture/equipment (+6%), and merger related expenses (+4,394%). These were offset by lower occupancy (-2%), other expenses (-3%), data processing/communications (-4%), professional fees (-4%), FDIC assessment (-7%), advertising/marketing (-30%), credit related expenses (-75%), and OREO (income) expense (-109%).

The credit metrics for BBCN's loan portfolio showed improvement when comparing 4Q15 and 4Q14. Total nonperforming loans decreased to \$89.2 million from \$103.8 million and total nonperforming assets fell to \$110.2 million from \$125.8 million. There were improvements in the following categories: nonperforming assets/total assets (1.39% vs. 1.76%), nonperforming assets/loans receivables & OREO (1.76% vs. 2.25%), nonperforming assets/total capital (11.75% vs. 14.25%), nonperforming loans/loans receivables (1.43% vs. 1.87%), and nonaccrual loans/loans receivable (0.65% vs. 0.83%), and allowance for loan losses/nonperforming loans (85.7% vs. 65.25%), and allowance for loan losses/nonaccrual loans (187.27% vs. 146.18%). There was a decline in allowance for loan



losses/nonperforming assets (69.34% vs. 53.87%) and allowance for loan losses/loans receivable was unchanged (1.22% vs. 1.22%).

Our Thoughts

BBCN reported 4Q15 earnings of \$0.29/share vs. \$0.29/share during 4Q14. Although earnings were flat this bank is positioning itself to grow earnings during 2016-2017 as it benefits from the recent acquisition/assimilations of smaller banks. This past December, BBCN announced it was merging/acquiring Wilshire Bancorp (WIBC-\$10.28), another Korean-American bank headquartered in Los Angeles. The merger with WIBC will create the largest bank geared towards serving Korean-American customers in the US. Buffeting its recent growth strategy, BBCN rolled its wealth management and credit card services which could accelerate earnings growth. It appears the infrastructure is in place for BBCN to be the leader in its niche market and grow earnings during the next two years. If successful in this strategy, then BBCN could see appreciation in its stock price and continued increases of its common stock dividend. We maintain a BUY rating on this stock and maintain our price target is \$19.00/share, equating to 15.2x our 2016 earnings estimate of \$1.25/share.



Risks

There is no guarantee BBCN 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 BBCN's earnings. BBCN'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 BBCN's stock, any increase in trading volume could significantly accelerate the volatility of its share price movement.

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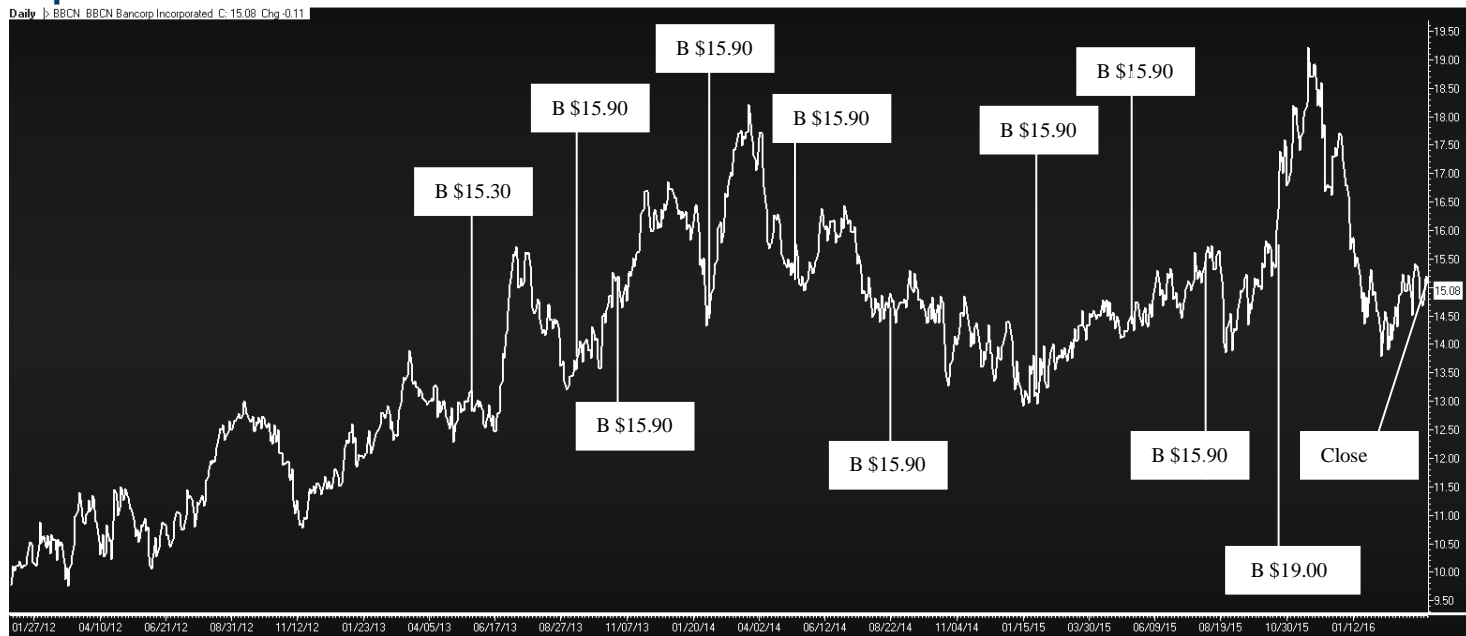
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BBCN Bancorp, Inc. & Subsidiaries
(in thousands, except per share amounts)

	1Q15	2Q15	3Q15	4Q15	2015	1Q16e	2Q16e	3Q16e	4Q16e	2016e
Interest Income	\$74,554	\$77,075	\$79,059	\$82,973	\$313,660	\$83,088	\$83,920	\$85,153	\$85,717	\$337,878
Interest Expense	9,431	9,684	10,298	11,205	40,618	11,313	11,628	11,906	12,106	46,953
Net Interest Income before loan losses	65,123	67,391	68,761	71,768	273,042	71,775	72,292	73,247	73,611	290,325
Provision for loan losses	1,500	1,000	600	4,900	8,000	2,800	2,300	1,600	900	7,600
Net Interest Income net loan loss provisions	63,623	66,391	68,161	66,868	265,042	68,975	69,992	71,647	72,711	283,325
Non-Interest Income	11,205	10,568	13,227	10,977	43,691	10,627	10,283	11,487	11,665	44,062
Non-Interest Expense	39,234	38,698	38,799	38,938	153,384	39,756	39,926	41,069	41,128	161,879
Income before income taxes	35,594	38,261	42,589	38,907	155,349	39,846	40,349	42,065	43,248	165,508
Income taxes	14,236	15,320	17,497	16,038	63,091	15,938	16,543	16,831	17,303	66,615
Net Income	21,358	22,941	25,092	22,869	92,258	23,908	23,806	25,234	25,945	98,893
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$21,358	\$22,941	\$25,092	\$22,869	\$92,258	\$23,908	\$23,806	\$25,234	\$25,945	\$98,893
Diluted Earnings Per Share	\$0.27	\$0.29	\$0.32	\$0.29	\$1.16	\$0.30	\$0.30	\$0.32	\$0.33	\$1.25

Important Disclosures

Daily | BBDN Bancorp Incorporated C:15.08 Chg:0.11



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

Ratings:

Buy: B

Hold: H

Sell: S

\$19.00 px. target equates to 15.2x our 2015 earnings estimate of \$1.21

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