



**CAPITOL
SECURITIES**
MANAGEMENT, INC.

**EQUITY
RESEARCH**

MAY 12, 2015

CURRENT PRICE: \$14.43

RATING: BUY

PRICE TARGET: \$15.90

CURRENT YIELD: 2.8%

EPS Estimates - Non-GAAP

	DEC 14A	DEC 15E
1Q	\$0.28	\$0.27
2Q	\$0.28	\$0.32
3Q	\$0.27	\$0.33
4Q	\$0.29	\$0.33
	\$1.11	\$1.25

Trading Data

52-WEEK PRICE RANGE: **\$16.48-\$12.77**

SHARES OUTSTANDING: **79.60(M)**

MARKET CAP: **\$1,149(M)**

AVG. DAILY TRADING VOLUME: **0.27(M)**

S&P 500: **2,099**

Valuation Data

BOOK VALUE: **\$11.34**

PRICE TO BOOK: **1.27x**

DIVIDEND: **\$0.40**

BBCN Bancorp (Nasdaq: BBCN)

1Q15 Earnings Report - Maintain BUY Rating

Highlights

- 1Q14 earnings increases to \$0.27/share from \$0.28/share
- 15% loan growth during 1Q15
- New product offering to customers
- Positioning bank for earnings growth in 2015-2016
- Rated BUY & \$15.90/share price target

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 \$15.90 target price. Additionally, BBCN pays a 2.8% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, BBCN Bancorp Inc. (BBCN-\$14.43), 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 12/31/14 BBCN had total assets of \$7.1 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.

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 help expand, BBCN's existing service territories.



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Recent Earnings

BBCN reported 1Q15 earnings of \$0.27/share vs. \$0.28/share during 1Q14. When comparing the two quarters, net income decreased to \$21.4 million, from \$22.2 million, as an increase in total interest income was offset by a rise in interest expense and noninterest expense. ROA and ROE both declined, to 1.19% from 1.36%, and to 9.6% from 10.8%, respectively. Net interest margin decreased to 3.87% from 4.29% and BBCN's efficiency ratio rose to 51.4% from 47.69%. Total assets increased 9% to \$7.27 billion, loans grew 10% to \$5.71 billion, and deposits rose 9% to \$5.80 billion.

Net interest income, before loan loss provisions, increased slightly to \$65.1 million from \$65.0 million. Diminishing acquisition accounting adjustments caused lower net addition to increase BBCN's pre-tax income, totaling \$3.87 million during 1Q15 versus \$6.16 million during 1Q14. Provision for loan losses fell by 50% to \$1.5 million from \$3.0 million.

Net interest margin decreased to 3.87% from 4.29%. Results were affected by diminishing acquisition accounting adjustments and lower yields on interest bearing assets. Acquisition accounting adjustments increased BBCN's net interest margins by 26 basis points during 1Q15 compared to improving it 47 basis points during 1Q14. Factoring these out, net interest margin rose fell to 3.61% from 3.82%.

Overall average loans receivable for 1Q15 increased 8% versus 2Q14's level. The weighted average contractual rate on fixed loans declined to 4.72% from 4.90% and variable loans decreased to 4.14% from 4.33%. BBCN stated the lower rate on fixed and variable loans was due to a very competitive lending environment. During 1Q15 BBCN extended \$129 million in commitments to commercial customers and funded \$99 million in new C&I loans. Overall, \$351 million in new loan originations occurred during 1Q15, which represented a 15% increase over 1Q14, and SBA loan originations increased 52% to \$65 million.

Non-interest income increased 1% to \$11.2 million from \$11.1 million. The improvement was driven by the amount of gain on SBA loan sales increasing to \$3.0 million from \$2.7 million. Net sales on sales of other loans rose (\$182,000 vs. \$0), as did net gains on sales of securities available for sale (\$424,000 vs. \$0). These positives were partly offset by decreases in deposit account service fees (\$3.1 million vs. \$3.5 million), other income/fees (\$4.4 million vs. \$4.5 million), and net gains on OREO sales (\$110,000 vs. \$406,000).

Total interest expense rose 12% to \$9.43 million from \$8.39 million. The increase resulted from a 16% increase in interest on deposits (\$7.75 million vs. \$6.69 million) and was partly offset by a 1% decline in interest on other borrowings (\$1.68 million vs. \$1.7 million). Excluding the effect of premium amortization on time deposits assumed in BBCN's recent acquisitions, the weighted average cost of deposits increased 3 basis points, while the cost of core deposits rose 1 basis point.

Non-interest expense increased to \$39.2 million from \$36.3 million. The increase was mainly due to higher salaries/employees benefits (\$21.2 million vs. \$18.9 million) resulting from BBCN's recent acquisitions. The number of full time employees rose to 933 from 860 and salaries when comparing the two quarters. Additionally,



expenses increased in data processing/communications (\$2.4 million vs. \$2.1 million), credited related expenses (\$2.2 million vs. \$1.4 million), advertising/marketing(\$1.4 million vs. \$1.1 million), professional fees (\$1.4 million vs. \$1.3 million), and FDIC assessments (\$1.1 million vs. \$1.0 million). These were partly offset by decreases in other expenses (\$2.6 million vs. \$3.6 million) and merger/integration (\$52,000 vs. \$173,000).

The credit metrics of BBCN's portfolio produced mixed results. Total non-performing loans rose to \$96.7 million from \$84.8 million as a decline in delinquent loans on non-accrual status (\$38.9 million vs. \$47.3 million) was more than offset by an increase in accruing restructured loans (\$57.9 million vs. \$37.5 million). Total performing assets/total assets rose to 1.6% from 1.57% and allowance for loan losses/non-accrual loans increased to 179.57% from 138.86%. However, there were improvements in non-accrual loans/loans receivable (0.68% vs. 0.91%), allowance for loan losses /loans receivables (1.22% vs. 1.27%), allowance for loan losses/non-performing loans (72% vs. 77.4%), and allowance for loan losses/non-performing assets (59.9% vs. 62.7%).

Our Thoughts

BBCN's earnings of \$0.27/share during 1Q15 were generally in line with expectations as the bank continues to transition into a larger entity from where it was 6 years ago. Recent acquisitions have increased its geographical footprint and the bank's overall size. BBCN has improved the credit metrics of its loan portfolio after the acquisitions added weak loans to its portfolio. Management is now focused on growing loans and offering other services to customers such as equipment leasing, residential mortgages, credit card, and wealth management services. The company anticipates these could generate profits for BBCN by 2017.

Given a scenario of increased cash flow/earnings during the next two years, BBCN's shares appear undervalued trading at 1.27x book value. Our price target is \$15.90/share, equating to 12.7x our 2015 earnings estimate of \$1.25/share. We recommend this stock for growth/income investors based upon earnings growth generated from recent acquisitions and new product offerings to customers. Additionally, this stock pays an attractive dividend yield of 2.8% with the potential of future dividend increases based on earnings growth. BBCN is rated a BUY.



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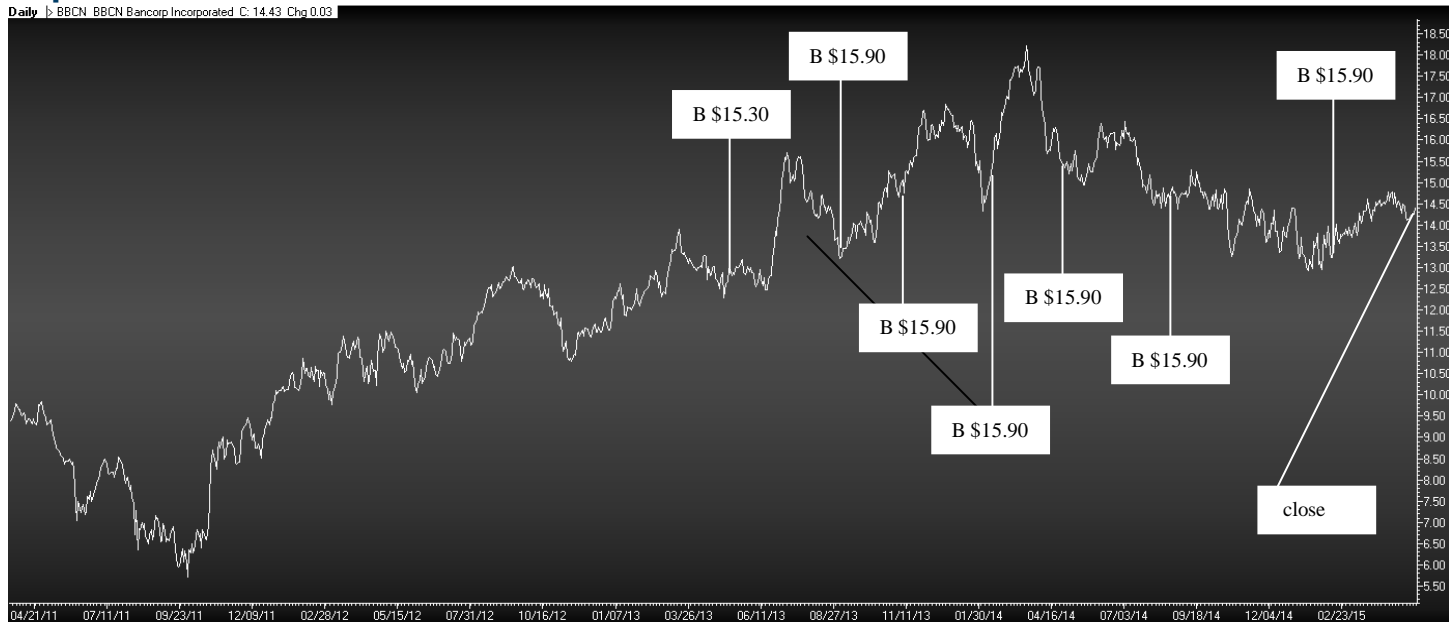
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BBCN Bancorp, Inc. & Subsidiaries
(in thousands, except per share amounts)

	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15e	3Q15e	4Q15e	2015e
Interest Income	\$73,354	\$76,453	\$77,084	\$75,767	\$302,657	\$74,554	\$77,654	\$77,921	\$78,231	\$308,260
Interest Expense	8,338	8,963	9,177	9,533	36,060	9,431	8,569	8,328	8,428	34,756
Net Interest Income before loan losses	64,966	67,490	67,907	66,234	266,597	65,123	69,185	69,593	69,803	273,704
Provision for loan losses	3,026	2,996	4,256	2,360	12,638	1,500	1,358	2,348	2,462	7,668
Net Interest Income net loan loss provisions	61,940	64,494	63,651	63,874	253,959	63,623	67,827	67,345	67,341	266,136
Non-Interest Income	11,095	10,492	11,369	12,050	45,007	11,205	12,589	14,108	15,347	53,249
Non-Interest Expense	36,275	37,739	39,420	39,010	152,444	39,234	39,487	39,588	39,885	158,194
Income before income taxes	36,760	37,247	35,600	36,914	146,522	35,594	40,929	41,765	42,803	161,091
Income taxes	14,564	14,935	14,180	14,227	57,907	14,236	15,553	15,871	16,608	62,268
Net Income	22,196	22,312	21,420	22,687	88,615	21,358	25,376	25,894	26,195	98,823
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$22,196	\$22,312	\$21,420	\$22,687	\$88,615	\$21,358	\$25,376	\$25,894	\$26,195	\$98,823
Diluted Earnings Per Share	\$0.28	\$0.28	\$0.27	\$0.29	\$1.11	\$0.27	\$0.32	\$0.33	\$0.33	\$1.25

Important Disclosures

Daily | BBCN BBCN Bancorp Incorporated C: 14.43 Chg 0.03



5/09/13 \$12.80 Initiate BUY & \$15.30 px target

9/09/13 Raise price target to \$15.90

Ratings:

Buy: B

Hold: H

Sell: S

\$15.90 px. target equates to 12.7x our 2015 earnings estimate of \$1.25

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- (3) Sell – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

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