



May 11, 2020

CURRENT PRICE: \$8.94

RATING: BUY

PRICE TARGET: \$14.00

CURRENT YIELD: 6.3%

EPS Estimates - Non-GAAP

	DEC 19A	DEC 20E
1Q	\$0.34	\$0.21A
2Q	\$0.34	\$0.24
3Q	\$0.34	\$0.25
4Q	\$0.34	\$0.26
	\$1.35	\$0.96

Trading Data

52-WEEK PRICE RANGE: \$15.51-\$7.06

SHARES OUTSTANDING: 124.7(M)

MARKET CAP: \$1,115(M)

AVG. DAILY TRADING VOLUME: 1.0(M)

S&P 500: 2,930

Valuation Data

BOOK VALUE: \$12.52

PRICE TO BOOK: 0.71x

DIVIDEND: \$0.56

HOPE Bancorp (Nasdaq: HOPE)

1Q20 results & Covid-19 update

Highlights

- 1Q20 earnings of \$0.21/share vs. \$0.34/share during 1Q19
- Earnings decline due to \$28 million CECL charge
- Maintains current dividend
- Management adjusts to Covid-19
- Maintain BUY rating & lowering price target to \$14

Investment Thesis

Many US banks recovered from loan portfolio credit deterioration created by the 2008-2009 recession. However, now all banks are dealing with a similar situation created by Covid-19's affects on the US economy. One such bank, which may duplicate a similar recovery, it achieved from the 2008-2008 downturn, is HOPE Bancorp. This bank's unique customer-niche, recent acquisitions, and balance sheet offer a potenital earnings recovery in 2021. Under an improving profitability scenario, this stock could appreciate towards our \$14.00 price target. Additionally, HOPE pays a 6.3% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$12.26), 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 12/31/19 HOPE had total assets of \$15.7 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.

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. This 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 1Q20 earnings of \$0.21/share vs. \$0.34/share during 1Q19 as the effects of Covid-19 negatively impacted results. Implementation of a new bank accounting methodology, called Current Expected Credit Losses (CECL) was implemented just as Covid-19 began to descend upon business conditions. This new accounting methodology caused HOPE to take a 1Q20 quarterly provision of \$28 million for anticipated credit losses vs. \$3.0 million during 1Q19. Factoring out the charge, operating earnings showed progress from management's recent initiatives to lower costs and benefit from the current low interest rate environment.

The low interest rate environment helped decrease HOPE's deposit costs but hurt yields on variable rate loans. Total deposit costs decreased by 15 basis points and caused HOPE's net interest margin to increase 15 basis points, to 3.31% from 3.16%, when compared to the preceding quarter (4Q19). When compared to 1Q19 results, net interest margins decreased, to 3.31% from 3.38%. The weighted average yield on loans during 1Q20 rose slightly to 5.06%, from 5.04% during 4Q19, and declined from 5.31%, when compared to 1Q19. New loan originations increased 2.5% to \$625 million, on a quarter-to-quarter basis. Net loans grew to \$12.4 billion, from \$12.0 billion, and deposits increased to \$12.8 billion from \$12.3 billion.

When comparing 1Q20 to 1Q19, total interest income decreased to \$166.9 million from \$173.1 million and total interest expense fell to \$47.6 million from \$53.5 million. Net interest income, after the loan loss provision of \$28 million, declined to \$91.3 million from \$116.6 million. Non-interest income rose to \$13.3 million from \$11.4 million and non-interest expense rose to \$72.1 million from \$70.8 million.

Given the items mentioned above, HOPE's return on assets declined to 0.67% from 1.12% and return on equity fell to 5.12% from 8.91%. Common Equity Tier 1 capital decreased to 11.44% from 11.59% and the Tier 1 leverage ratio rose to 10.88% from 10.66%. Tangible common equity per share increased to \$12.52/share from \$11.59/share.

EARNINGS CONFERENCE CALL & COVID-19 UPDATE

During HOPE's earnings call, management discussed operating results and its response to the effect of Covid-19 on its business model. The biggest factor to HOPE's earnings decline was the inclusion of new CECL guidelines causing a \$28 million charge towards overall earnings. Given loan deterioration and Covid-19 related uncertainties, HOPE's allowance for credit losses increased to 1.15% from 0.77% when comparing 1Q20 to 4Q19.

Going forward, the amount of new loan loss provisions will be based upon the speed of recovery in the US economy from the current recession. The US slowdown hurt the hotel/motel sector, making up 20% of HOPE's total commercial real estate (CRE) loans and 13.6% of total loans. Another affected area, were multi-tenant retail strip malls, accounting for another 20% of CRE loans. These sectors, and other parts of the loan portfolio, may come under further pressure if the economy is slow to recover.

HOPE stated loan modifications made up 2% of its total loan portfolio. Additionally, the bank is participating in the Payment Protection Program (PPP) and expects to earn approximately \$14 million from lender fees at an average



rate of 3.6%. This, along with lower interest rate resets on variable loans, are likely to lower HOPE's net interest margin during 2Q20. HOPE expects new yields on maturing CDs, if renewed during the next few months, to go under 1%. However, lower yields on renewing CDs will not be enough to offset lower loan yields. Thus, further pressure is expected on the net interest margin going forward and could be partly offset by loan growth and additional PPP loan fees.

Measures were taken to counter problems operating in a Covid-19 environment. These included a number of adjustments in branch operations such as reducing hours open to the public, and closing branches with close proximity to other HOPE branches. For corporate and non-branch offices, the majority of employees are working from home and management implemented a 50-50 remote work rotation program.

The bank intends to continue the current dividend rate of \$0.14/quarter. However, the dividend will be evaluated each quarter by the Board of Directors, based upon the health of its loan portfolio and ongoing economic conditions in the US.

Given the uncertainties created by Covid-19 HOPE did not give full year guidance. Management feels they have ample liquidity to deal with current operating difficulties. HOPE stated they have "a significant cushion of excess capital above the minimum amount required to be well-capitalized" with a minimum of 4.61% in cushion or \$651 million in excess capital. Based on its strong capital, liquidity, and credit quality, management believes it can "navigate the difficult landscape".

Our Thoughts

HOPE, along with all US banks, saw a decrease in earnings due to the materialization of Covid-19 during 1Q20. As a result, 1Q20 earnings declined to \$0.21/share from \$0.34/share during 1Q19 due mainly to the \$28 million provision associated with the CECL regulatory requirements regarding potential problem loans. If the economy rebounds during the 2H20, then HOPE's earnings, while lower compared to 2019, could stabilize and potentially rebound in 2021. Given the US business slowdown, we are lowering our 2020 earnings estimate from \$1.31/share to \$0.96/share. This stock's dividend offers investors a current dividend yield of 6%. We maintain a BUY rating on this stock assuming HOPE maintains its \$0.96/share dividend level, continues its strong liquidity position, and does not experience significant loan deterioration in the loan portfolio due to an extended slowdown of the US economy. However, we are lowering our price target to \$14/share, equating to 14.5x our 2020 earnings estimate of \$0.96/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, increased 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

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

	1Q19	2Q19	3Q19	4Q19	2Q19	1Q20	2Q20e	3Q20e	4Q20e	2020e
Interest Income	\$173,130	\$173,466	\$172,417	\$165,773	\$684,786	\$166,868	\$166,832	\$164,249	\$165,124	\$663,073
Interest Expense	53,522	56,245	56,159	52,265	218,191	47,577	54,273	53,846	54,172	209,868
Net Interest Income before loan losses	119,608	117,221	116,258	113,508	466,595	119,291	112,559	110,403	110,952	453,205
Provision for loan losses	3,000	1,200	2,100	1,000	7,300	28,000	19,000	13,200	10,900	71,100
Net Interest income net loan loss provisions	116,608	116,021	114,158	112,508	459,295	91,291	94,559	98,203	100,052	384,105
Non-Interest Income	11,422	12,287	12,995	12,979	49,683	13,264	12,184	11,941	11,743	49,132
Non-Interest Expense	70,833	71,371	69,995	70,429	282,628	72,140	70,116	70,086	70,649	282,991
Income before income taxes	57,197	56,937	57,158	55,058	226,350	32,415	36,627	40,058	41,146	150,246
Income taxes	14,439	14,256	14,566	12,049	55,310	6,462	6,959	8,813	9,052	31,286
Net Income	42,758	42,681	42,592	43,009	171,040	25,953	29,668	31,245	32,094	118,960
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$42,758	\$42,681	\$42,592	\$43,009	\$171,040	\$25,953	\$29,668	\$31,245	\$32,094	\$118,960
Diluted Earnings Per Share	\$0.34	\$0.34	\$0.34	\$0.34	\$1.35	\$0.21	\$0.24	\$0.25	\$0.26	\$0.96

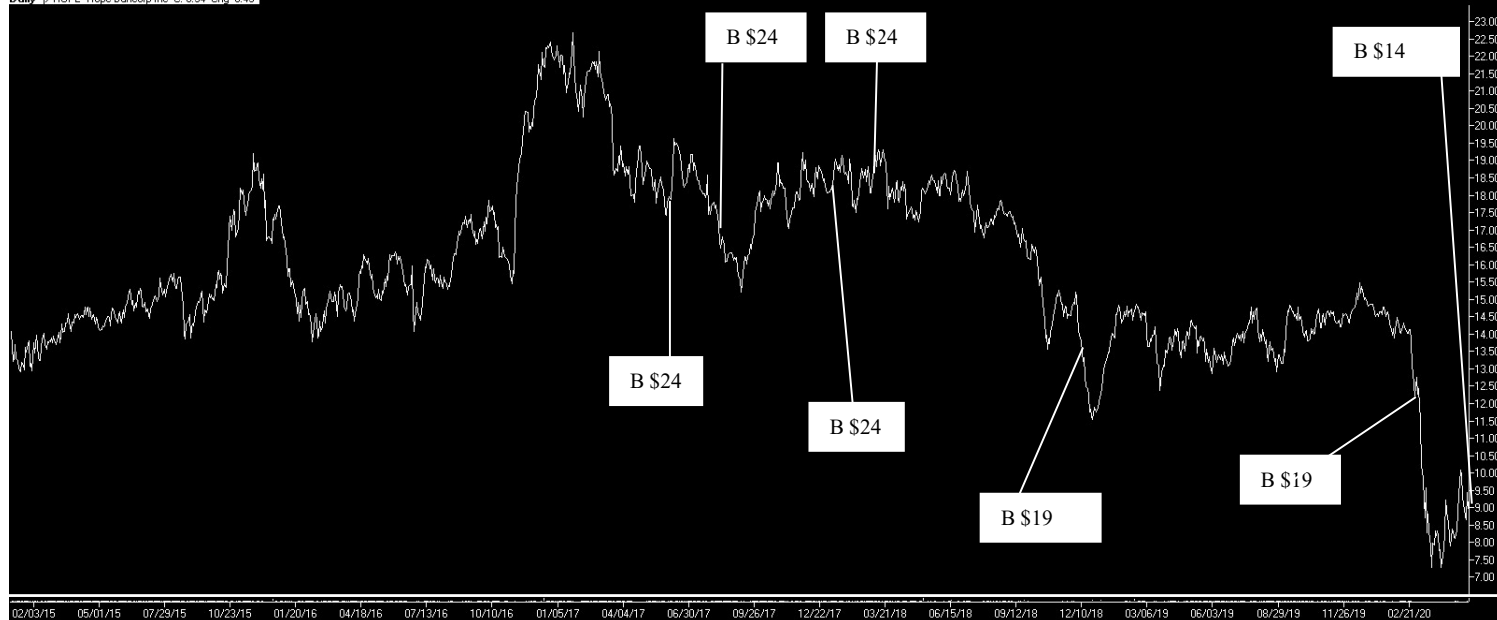


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Important Disclosures

Daily HOPE Hope Bancorp Inc. C: 8.94 Chg: 0.49



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

5/11/20 Lower price target to \$14.00

Ratings:

Buy: B

Hold: H

Sell: S

\$14 price target equates to 14.5x our 2020 earnings estimate of \$0.96/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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