



**August 9, 2021**

**CURRENT PRICE: \$13.79**

**RATING: BUY**

**PRICE TARGET: \$16.00**

**CURRENT YIELD: 4.1%**

### **EPS Estimates - Non-GAAP**

	DEC 20A	DEC 21E
1Q	\$0.21	\$0.35A
2Q	\$0.22	\$0.43A
3Q	\$0.25	\$0.39
4Q	\$0.23	\$0.38
	<b>\$0.90</b>	<b>\$1.55</b>

### **Trading Data**

**52-WEEK PRICE RANGE: \$16.61-\$7.03**

**SHARES OUTSTANDING: 124.3(M)**

**MARKET CAP: \$1,714(M)**

**AVG. DAILY TRADING VOLUME: 0.83(M)**

**S&P 500: 4,432**

### **Valuation Data**

**BOOK VALUE: \$13.10**

**PRICE TO BOOK: 1.05x**

**DIVIDEND: \$0.56**

## **HOPE Bancorp (Nasdaq: HOPE)**

*Raising Price Target due to Potential 2021 Earnings Rebound*

### **Highlights**

- 2Q21 earnings of \$0.43/share vs. \$0.22/share during 2Q20
- Results boosted by lower interest expense
- Improvement in net interest margin, ROA, & ROE
- Potential of new share buyback program
- Maintain BUY rating & raising price target to \$16

### **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, achieved after the 2008-2009 downturn, is HOPE Bancorp. This bank's unique customer-niche, recent acquisitions, and balance sheet offer a potential earnings recovery in 2021. Under an improving profitability scenario, this stock could appreciate towards our \$16.00 price target. Additionally, HOPE pays a 4.1% dividend yield and offers the potential of future increases based on earnings growth.

### **Company Summary**

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$10.56), 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 12/31/20 HOPE had total assets of \$17.1 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.



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## Recent Earnings

HOPE reported 2Q21 earnings of \$0.43/share vs. \$0.22/share during 2Q20. Earnings improved due to lower total interest expense (\$13.6 million vs. \$35.7 million) and higher net interest income after provision for credit losses (\$133.6 million vs. \$92.3 million). Lower interest expense came from the increase in non-interest deposits, now totaling 75% of all deposits. Higher interest income after credit losses was the result of decreased deposit costs and a \$7 million reverse of credit reserves. Given these factors, the total cost of deposits fell to 0.30% from 0.87%, and net interest margin rose to 3.11% from 2.79%, when comparing the two quarters.

### INTEREST & NON-INTEREST INCOME:

2Q21's total interest income decreased to \$140.2 million from \$145.1 million as interest/fees on loans fell to \$131.8 million from \$134.2 million, interest on securities dropped to \$7.7 million from \$9.9 million, and interest on fed funds sold/other investments declined to \$668,000 from \$980,000. Total non-interest income fell slightly to \$11.1 million from \$11.2 million as decreases in deposit account service fees (-31%), net gains on other loan sales (-39%), and other income/fees (-26%) were almost negated by increases in gains on SBA loan sales (+100%), international service fees (+19%), and wire fees (+13%).

### INTEREST & NON-INTEREST EXPENSE:

Total interest expense's decrease resulted from lower deposit interest costs of \$10.7 vs. \$29.5 million as many existing, and new deposits, were placed into non-interest bearing deposit accounts. Additionally, interest on other borrowings/convertible notes fell to \$2.9 million from \$5.8 million. These decreases were a product of the current low-interest rate environment.

Total non-interest expense rose to \$73.1 million from \$67.0 million. The increase was due to higher professional fees (+191%), advertising/marketing (+59%), salaries/employee benefits (+9%), data processing/communications (+6%), and furniture equipment (+4%). These were partly offset by lower credit related expenses (-97%), net OREO expense (-78%), FDIC assessment (-22%), and other expenses (-11%).

### LOAN PORTFOLIO:

Net loans increased to \$13.2 billion from \$12.7 billion due to an improving US economy and HOPE's loan pipeline as new commercial business relationships generated \$30 million in commercial loan production. HOPE's loan portfolio, when comparing 2Q21 to 1Q21, was comprised of commercial loans (\$4.0 billion vs. \$4.2 billion), real estate (\$8.8 billion vs. \$8.8 billion), and consumer/other loans (\$590,602 vs. \$633,292). New loan originations rose to \$894.1 million from \$832.0 million and the weighted average yield on loans rose to 3.98% during 2Q21, from 1Q21's 3.94% level, however, it decreased from 2Q20's weighted loan yield of 4.23%.

During the earnings call management noted low interest rates reduced mortgage refi activity and created a higher level of loan payoffs. Loan payoffs during 2Q21 totaled \$891 million, rising from \$572 million in payoffs during the preceding quarter of 1Q21.





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HOPE said it saw “steady improvement” in its hotel/motel and retail commercial real estate loan portfolios, during 2Q21 with expectations of continued improvement based on an improving US economy during 2H21. The bank feels continued US economic improvement may allow it to potentially upgrade many special mention/substandard loans during 2H21. Management noted, during 2Q21, more of its troubled borrowers were returning to regularly scheduled payment periods after respective loan modifications. In fact, loan modifications decreased to 2.4% of total loans at the end of 2Q21.

## DEPOSITS:

Total deposits rose to \$14.73 billion from \$14.12 billion, when comparing 2Q21 to 2Q20 helped by new commercial deposit relationships and new deposits from existing customers. Interest bearing deposits decreased to \$9.01 billion from \$10.14 billion as the average yield cost fell to 0.48% from 1.17%. Non-interest bearing deposits/money markets increased to \$5.45 billion from \$3.51 billion. On a combined basis, non-interest bearing deposits and money market accounts now total 78% of Hope’s total deposits. Total cost of deposits declined to 0.30% from 0.87%.

HOPE believes gathering of these low cost deposits offers the potential to further lower deposit costs with \$1.2 billion of time deposits maturing during 3Q21 with an average deposit cost of 0.45%. However, management noted the rate of deposit cost decline is likely to slow going forward.

## PROFITABILITY MEASURES:

Given the low interest rate environment, and the growing number of non-interest bearing deposits, HOPE saw its ROE and ROA improve to 10.41% from 5.31%, and to 1.25% from 0.64%, respectively. Net interest margin increased to 3.11%, from 2.79%, and HOPE’s efficiency ratio decreased to 53.12% from 55.37%. Book value per share rose to \$16.92/share from \$16.48/share while tangible book value per share improved to \$13.10/share from \$12.62/share

## CREDIT METRICS:

Non-accrual loans rose to \$111.0 million from \$82.1 million. In this category, real estate non-accruals increased to \$95.6 million vs. \$64.1 million, commercial loan non-accruals moved higher to \$12.2 million vs. \$12.0 million, and consumer loan non-accruals decreased to \$3.2 million. Non-accrual loans to loans receivables increased to 0.83% from 0.64%.

Non-performing loans to loans receivables rose to 1.24% from 0.98% and ACL to loan receivables rose to 1.41% from 1.26%. ACL to non-accrual loans fell to 170.67% from 196.95% and ACL to non-performing assets decreased 103.11% from 109.62%.



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## Our Thoughts

Good earnings results from HOPE as the bank continues to recover from the pandemic downturn during 2020. HOPE reported 2Q21 earnings of \$0.43/share vs. \$0.22/share during 2Q20. Earnings improved due to lower total interest expense (\$13.6 million vs. \$35.7 million) and higher net interest income after provision for credit losses (\$133.6 million vs. \$92.3 million). Lower interest expense came from the increase in non-interest deposits, which have grown during the past year. On a combined basis, non-interest bearing deposits/money market accounts now total 78% of Hope's total deposits. Total cost of deposits declined to 0.30% from 0.87%.

Management believes lower deposit costs could continue with \$1.2 billion of time deposits maturing during 3Q21. Lower deposit costs, and an improvement loan portfolio, based on a recovering US economy during 2H21, could lead to higher earnings for FY21. These shares are recommended for small cap bank investors given HOPE's attractive 4.1% dividend yield and prospects of future dividend increases from forward earnings growth. Additionally, should management unveil a share repurchase program, suggested during the earnings call, there could be a positive response from Wall Street investors. Based upon these factors, we rate this a stock a BUY, and are raising our target price to \$16/share, equating to 10.3x our 2021 earnings estimate of \$1.55/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, US Treasury, or bank accounting standard 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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HOPE Bancorp & all subsidiaries  
(in thousands, except per share amounts)

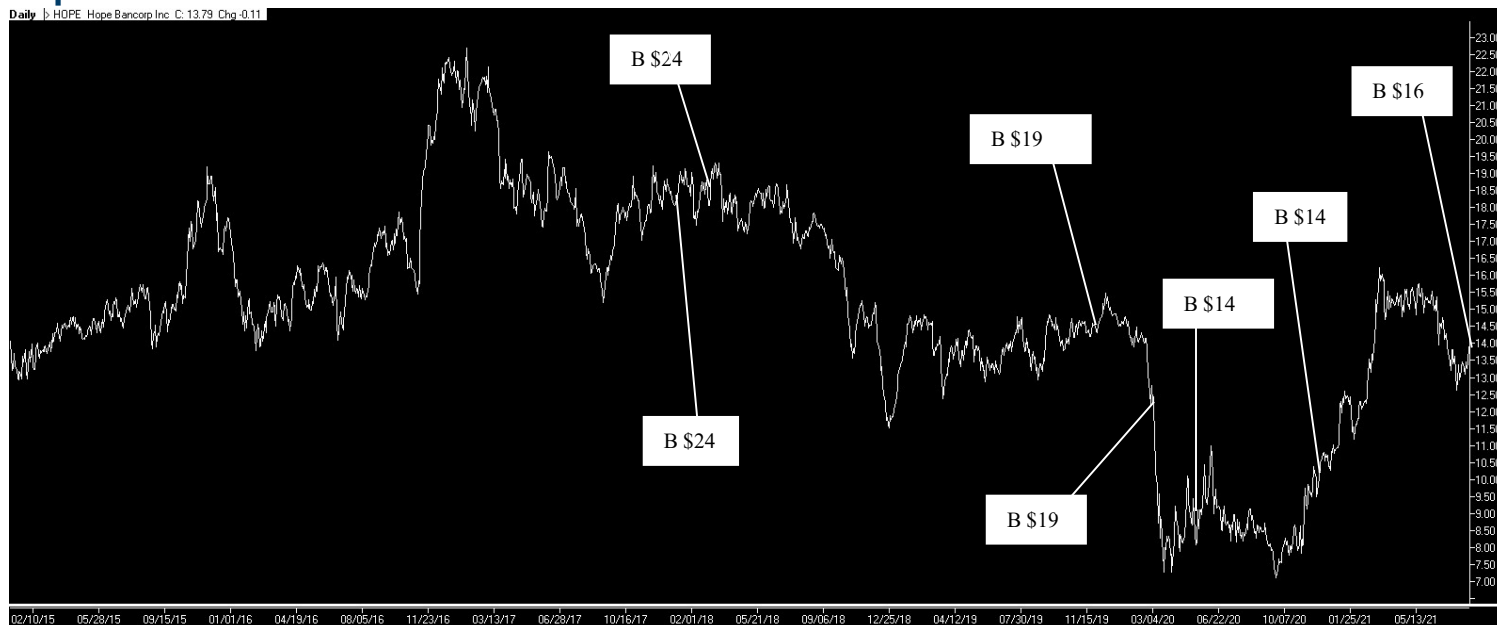
	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21e	4Q21e	2021e
Interest Income	\$166,868	\$145,061	\$145,220	\$141,729	\$598,878	\$138,293	\$140,204	\$141,069	\$140,621	\$560,187
Interest Expense	47,577	35,247	27,583	20,973	131,380	15,714	13,627	14,283	14,375	57,999
Net Interest Income before loan losses	119,291	109,814	117,637	120,756	467,498	122,579	126,577	126,786	126,426	502,188
Provision for loan losses	28,000	17,500	22,000	27,500	95,000	3,300	7,000	2,100	2,400	900
Net Interest income net loan loss provisions	91,291	92,314	95,637	93,256	372,498	119,279	133,577	124,686	123,846	501,088
Non-Interest Income	13,264	11,240	17,513	11,415	53,432	8,804	11,076	10,516	11,027	41,423
Non-Interest Expense	72,140	67,030	73,406	71,063	283,639	70,431	73,123	71,246	71,158	285,958
Income before income taxes	32,415	36,524	39,744	33,608	142,291	57,652	71,530	63,956	63,715	256,853
Income taxes	6,462	9,771	9,254	5,289	30,776	13,965	17,767	15,989	15,929	63,650
Net Income	25,953	26,753	30,490	28,319	111,515	43,687	53,763	47,967	47,786	193,203
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$25,953	\$26,753	\$30,490	\$28,319	\$111,515	\$43,687	\$53,763	\$47,967	\$47,786	\$193,203
Diluted Earnings Per Share	\$0.21	\$0.22	\$0.25	\$0.23	\$0.90	\$0.35	\$0.43	\$0.39	\$0.38	\$1.55



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## Important Disclosures



05/09/13 \$12.80 Initiate BUY & \$15.30 px target

09/09/13 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

05/11/20 Lower price target to \$14.00

08/09/21 Raise price target to \$16.00

Ratings:

Buy: B

Hold: H

Sell: S

\$16 price target equates to 10.3x our 2021 earnings estimate of \$1.15/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 & US Treasury 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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