

August 14, 2023

CURRENT PRICE: \$10.16

RATING: HOLD

PRICE TARGET: N/A

CURRENT YIELD: 5.5%

EPS Estimates - Non-GAAP

	DEC 22A	DEC 23E
1Q	\$0.50	\$0.33A
2Q	\$0.43	\$0.33A
3Q	\$0.45	\$0.31
4Q	\$0.43	\$0.33
	\$1.81	\$1.30

Trading Data

52-WEEK PRICE RANGE: **\$15.73-\$7.42**

SHARES OUTSTANDING: **120.1(M)**

MARKET CAP: **\$1,220(M)**

AVG. DAILY TRADING VOLUME: **0.97(M)**

S&P 500: **4,490**

Valuation Data

BOOK VALUE: **\$13.32**

PRICE TO BOOK: **0.76x**

DIVIDEND: **\$0.56**

HOPE Bancorp (Nasdaq: HOPE)

Rising Interest Rates Impact Earnings

Highlights

- 2Q23 earnings of \$0.32/share vs. \$0.43/share during 2Q22
- Higher interest rates impacted results
- Large increases in interest expense & interest income
- HOPE monitoring existing loan portfolio
- Maintain HOLD rating

Investment Thesis

Many US banks recovered from loan portfolio credit deterioration created by the 2008-2009 recession & recent challenges of the Covid pandemic. One such bank, is HOPE Bancorp. This bank's unique customer-niche, recent acquisitions, and balance sheet generated an earnings recovery in 2021 & 2022. The past year of rising interest rates has been a challenge to HOPE, and all US banks, resulting in lower anticipated earnings during 2023. We currently rate HOPE a HOLD.

Company Summary

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$12.93), 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.



EQUITY RESEARCH

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 59 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 12/31/22 HOPE had total assets of \$19.2 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 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. Also, during 2013 BBCN merged with Foster Bank, headquartered in Chicago IL. Foster Bank was another financial institution serving the Korean-American community in Chicago and the Washington DC metropolitan areas. This added 10 branch offices in Chicago and a full service branch in Annandale VA, as well as \$412.6 million in total assets.

Another acquisition was made during 2015 as BBCN merged with Wilshire Bancorp. 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 2Q23 earnings of \$0.32/share vs. \$0.43/share during 2Q22. Results were negatively impacted by rising interest expense during the past year (+\$120.2 million), an increase in credit loss provisions (+\$6.7 million), and higher non-interest expense (+\$7.0 million). These were partly offset by higher interest income (+\$109.4 million) and non-interest income (+\$4.3 million). When comparing the two quarters, several profitability measures were negatively affected by higher interest rates such as net interest margin (2.70% vs. 3.36%), return on assets (0.74% vs. 1.17%), and return on equity (7.34% vs. 10.3%). HOPE's efficiency ratio rose to 59.13% from 52.09% due primarily to higher FDIC fees. Total assets increased 13% to \$20.37 billion from \$18.09 billion due mainly to growth of net loans receivables and other assets. Tangible book value per share rose to \$13.32/share from \$12.80/share.

2Q23 vs. 2Q22 RESULTS

LOANS/DEPOSITS: Total assets rose 13% to \$20.27 billion from \$18.09 billion. The main contributor to this gain was an increase of cash/cash equivalents to \$2.3 billion. Net loans receivable grew 2% to \$14.7 billion as HOPE funded \$491 million in new loans including \$332 million from commercial/industrial loan production. The weighted average yield rate on these loans was 5.99%. 2Q23's loan portfolio composition consisted of \$4.81 billion of commercial/industrial (+9%), \$867 million of residential mortgage/other loans (+6%), and \$9.19 billion of commercial real estate loans (-2%). Payoff of existing loans during 2Q23 totaled \$647 million and outpaced new loan originations (\$491 million).

Deposits rose 4% to \$15.62 billion from \$15.03 billion. The average cost of total interest bearing deposits increased to 3.87%, from 0.54%, due to higher interest rates. HOPE's current interest bearing deposits consist of time deposits (60.5%), money market/interest bearing demand (37.6%), and savings deposits (1.9%).

CREDIT QUALITY: Total non-performing assets declined to \$77.4 million from \$110.6 million due mainly to a decrease in accruing troubled debt restructured loans (\$0 vs. \$26.6 million) and lower loans on non-accrual status (\$61.3 million vs. \$69.5 million). The amount of non-accrual loans declined in the commercial real estate category but increased for both the commercial industrial and residential mortgage/other loan categories. Net loan recoveries fell to \$552,000 from \$930,000.

Decreases were seen in non-performing assets/total assets (0.38% vs 0.61%), non-performing assets/loans receivables & OREO (0.52% vs. 0.76%), non-performing assets/total capital (3.74% vs. 5.53%), and non-accrual loans/loans receivables (0.41% vs. 0.48%). Increases were seen in allowance for credit losses/loans receivables (1.16% vs. 1.04%) and allowance for credit losses/non-performing loan (226.3% vs. 139.6%).



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INTEREST INCOME & NON-INTEREST INCOME: Total interest income rose 69% to \$267.2 million from \$157.8 million as rising interest rates generated higher interest/fees on loans (\$225.7 million vs. \$145.0 million), interest on cash/deposits at other banks (\$25.3 million vs. \$74,000), investment securities interest (\$15.5 million vs. \$12.3 million), and interest from other investments (\$684,000 vs. \$418,000).

Total non-interest income improved 33% to \$17.0 million from \$13.8 million due mainly to a \$5.8 million cash distribution from a gain associated with an affordable housing partnership investment. This was reflected in higher other income/fees (\$12.7 million vs. \$4.6 million) while increases were also seen from service fees on deposits (\$2.33 million vs. \$2.27 million), net gains residential mortgage loans (\$82,000 vs. \$76,000) and was partly offset by lower net gains on SBA loan sales (\$1.87 million vs. \$5.80 million).

INTEREST EXPENSE & NON-INTEREST EXPENSE: Due to higher interest rates total interest expense rose 738% to \$136.5 million from \$16.3 million. Deposit interest increased to \$109.7 million from \$12.2 million while interest on borrowings moved higher to \$26.8 million from \$4.1 million.

Total non-interest expense increased to \$87.3 million from \$80.4 million. The rise was due to higher salaries/employee benefits (\$52.3 million vs. \$51.1 million), earned interest credit (\$5.1 million vs. \$835,000), FDIC assessment (\$5.1 million vs. \$835,000), furniture/equipment (\$5.4 million vs. \$4.8 million), and data processing/communications (\$2.92 million vs. \$2.89 million). These were partly offset by lower expenses from occupancy (\$6.97 million vs. \$7.19 million) and other (\$9.97 million vs. \$12.17 million).

RECENT DEVELOPMENTS:

This past January CFO, Alex KO, resigned from HOPE. In April, Julianna Balicka, was named then new CFO replacing Alex KO, and the interim CFO, David P. Malone.

HOPE completed the repurchase of its 2.00% convertible senior notes pursuant to an optional put under the securities indenture. Under the agreement, \$197.1 million was surrendered this past May.

Our Thoughts

HOPE's 2Q23 earnings results of \$0.32/share, when compared to \$0.43/share during 2Q22, was not a surprise given the challenges of a rising interest rate environment. Also, negatively affected by the upward move of interest rates, was net interest margin (2.70% vs. 3.36%), return on assets (0.74% vs. 1.17%), and return on equity (7.34% vs. 10.3%).

HOPE is dealing with the challenge of higher interest rates and forward credit concerns-as are all US banks. As a result, HOPE's interest expense rose (+\$120.2 million), had an increase in credit loss provisions (+\$6.7 million), and experienced higher non-interest expense (+\$7.0 million) – due mainly to a higher FDIC assessment (+\$3.24 million). These negatives were partly offset by higher interest income (+\$109.4 million) and non-interest income (+\$4.3 million). Additionally, higher interest rates, during the past year, caused HOPE management to become



more conservative in its lending practices and continued to monitor its existing loan portfolio for early detection of potential emerging problem loans.

Wall Street believes the Federal Reserve may lower interest rates during the next 12 months. However, we are less optimistic on this possibility and believe short-term rates could remain elevated if US economic activity continues to show strength during 2H23 and causes all US banks, including HOPE, to experience rising interest expense and potentially make earnings growth difficult in 2023. Our rating on HOPE is a HOLD.

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)

	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23e	4Q23e	2023e
Interest Income	\$144,872	\$157,824	\$189,182	\$224,237	\$716,115	\$238,396	\$267,184	\$293,256	\$307,765	\$1,106,601
Interest Expense	11,696	16,286	35,996	73,716	137,694	104,518	136,495	167,154	182,677	590,844
Net Interest Income before loan losses	133,176	141,538	153,186	150,521	578,421	133,878	130,689	126,102	125,088	515,757
Provision for loan losses	11,000	3,200	9,200	8,200	9,600	1,700	8,900	7,800	4,200	22,600
Net Interest income net loan loss provisions	144,176	138,228	143,986	142,321	568,821	132,178	121,789	118,302	120,888	493,157
Non-Interest Income	13,186	12,746	13,355	12,110	51,307	10,978	17,014	18,655	19,234	65,881
Non-Interest Expense	75,373	80,365	83,914	84,518	324,170	90,354	87,333	86,988	86,082	350,757
Income before income taxes	81,989	70,719	73,427	69,913	296,048	52,082	51,470	49,969	54,040	207,561
Income taxes	21,251	18,631	19,679	18,210	77,771	13,681	13,448	12,992	14,050	54,171
Net Income	60,738	52,088	53,748	51,703	218,277	39,121	38,022	36,997	39,990	118,130
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$60,738	\$52,088	\$53,748	\$51,703	\$218,277	\$39,121	\$38,022	\$36,997	\$39,990	\$118,130
Diluted Earnings Per Share	\$0.50	\$0.43	\$0.45	\$0.43	\$1.81	\$0.33	\$0.33	\$0.31	\$0.33	\$1.30

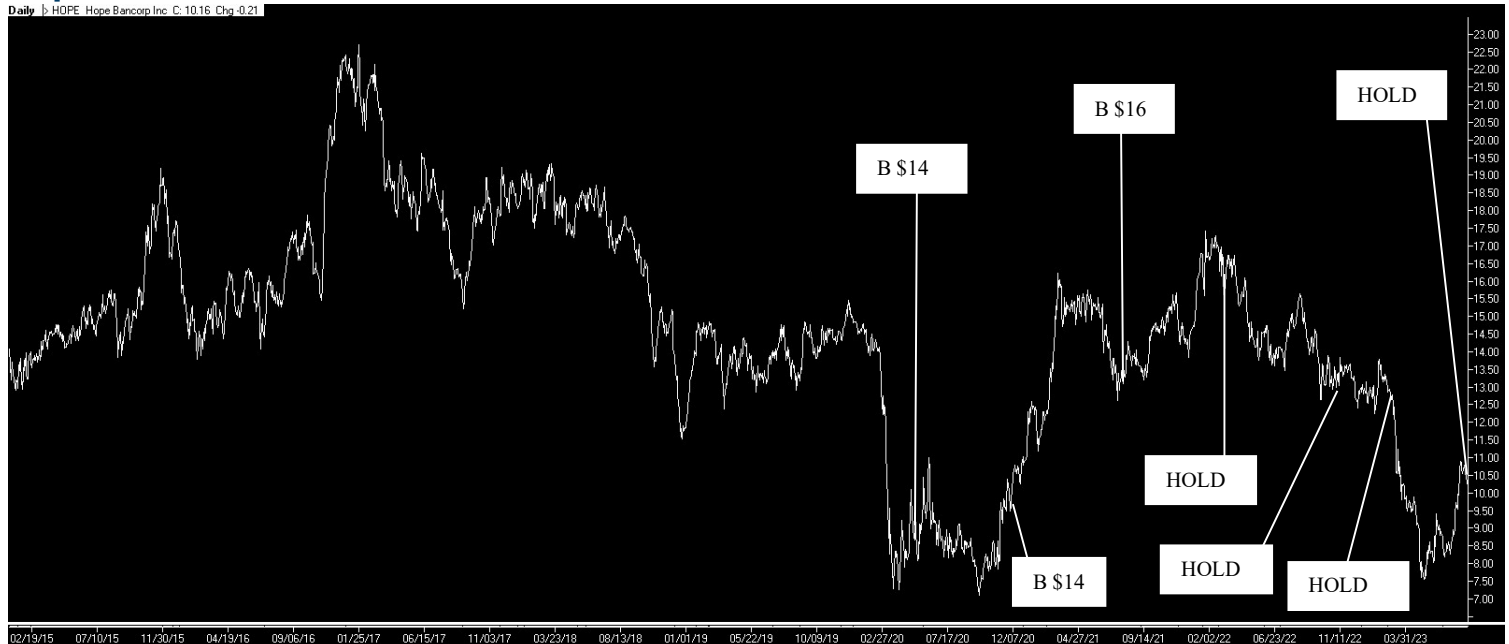


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Important Disclosures

Daily HOPE Hope Bancorp Inc. C:10.16 Ctg:Q21



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
 8/09/21 Raise price target to \$16.00
 3/10/22 Lowered rating to a HOLD
 Ratings:
 Buy: B
 Hold: H
 Sell: S

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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Stock ratings used in this report are defined as follows:

- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) Hold – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (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.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 33.3%, (2) 66.7%, (3) 0%.

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