

**November 7, 2022**

**CURRENT PRICE: \$13.38**

**RATING: HOLD**

**PRICE TARGET: N/A**

**CURRENT YIELD: 4.2%**

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

	DEC 21A	DEC 22E
1Q	\$0.35	\$0.50A
2Q	\$0.43	\$0.43A
3Q	\$0.45	\$0.45A
4Q	\$0.43	\$0.47
	<b>\$1.66</b>	<b>\$1.85</b>

### **Trading Data**

52-WEEK PRICE RANGE: **\$17.68-\$12.48**

SHARES OUTSTANDING: **119.5(M)**

MARKET CAP: **\$1,599(M)**

AVG. DAILY TRADING VOLUME: **0.73(M)**

S&P 500: **3,807**

### **Valuation Data**

BOOK VALUE: **\$12.65**

PRICE TO BOOK: **1.06x**

DIVIDEND: **\$0.56**

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

*Flat Earnings results - Maintain HOLD rating*

### **Highlights**

- 3Q22 earnings of \$0.43/share vs. \$0.43/share during 3Q22
- Rising interest rates help revenues & hurt expenses
- Loan growth of 15%
- Credit monitoring team becoming more conservative
- Maintain HOLD rating

### **Investment Thesis**

Many US banks recovered from loan portfolio credit deterioration created by the 2008-2009 recession. However, all banks are dealing with a similar situation created by Covid-19's affects on the US economy. One such bank, which duplicated a similar recovery, achieved after the 2008-2009 downturn, is HOPE Bancorp. This bank's unique customer-niche, recent acquisitions, and balance sheet generated an earnings recovery in 2021. Due to improving profitability during 2021, this stock recently appreciated towards our \$16.00 price target earlier this year. As a result, we lowered our rating to HOLD.

### **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.*



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 12/31/21 HOPE had total assets of \$17.9 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. 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.



**CAPITOL  
SECURITIES**  
MANAGEMENT, INC.

**EQUITY  
RESEARCH**

## Recent Earnings

HOPE reported 3Q22 earnings of \$0.45/share vs. \$0.45/share during 3Q21. The rise in total interest income (\$189.2 million vs. \$142.9 million), when comparing the two quarters, was offset by an increase in total interest expense (\$36.0 million vs. \$12.6 million). These resulted from recent Federal Reserve efforts to increase US interest rates. HOPE did see an increase in total non-interest income (\$13.4 million vs. \$10.6 million) and total non-interest expense rose to \$83.9 million from \$75.5 million. Several profitability measures, influence by higher interest rates, were mixed as ROA decreased to 1.17% from 1.25%, and ROE fell to 10.58% from 10.61%. Meanwhile, net interest margins increased to 3.49% from 3.07%, due to a favorable shift in mix of earnings assets and higher loan yields, while the efficiency ratio improved to 50.39% from 53.58% as revenue increases outpaced higher expenses. Total assets grew 7% to \$19.1 billion helped by a 15% growth in net loans. Tangible book value decreased to \$12.60/share from \$13.33/share.

### 3Q22 vs. 3Q21 COMPARISONS

**LOANS/DEPOSITS:** Total assets increased to \$19.08 billion from \$17.80 billion as HOPE benefitted from growth in its loan portfolio. Net loans grew 15% to \$15.3 billion as new loan originations increased to \$1.35 billion from \$1.01 billion. The increase was attributable to higher Commercial business loans (\$732.3 million vs. \$329.7 million), Commercial Real estate loans (\$500.8 million vs. \$489.0 million), and consumer loans (\$1.02 million vs. \$500,000). HOPE attributed the large increase in commercial business loans to its corporate banking group's increased production. SBA loans and residential mortgage loans declined to \$47.2 million from \$155.0 million, and to \$67.1 million from \$75.0 million, respectively. The weighted average loan yield improved to 4.65% from 3.97% due to repricing of variable rate loans in HOPE's portfolio generated by rising rates, in addition to new loans originated during 3Q22.

Deposits rose to \$15.5 billion from \$15.06 billion. The weighted average deposit cost rose to 0.79% from 0.26% due to the rising interest rate environment. HOPE's deposits are comprised of Money market accounts (38%), non-interest bearing accounts (36.1%), time deposits (23.9%), and savings deposits (2%).

**CREDIT QUALITY:** Total non-performing loans declined to \$96.99 million from \$113.67 million due to accruing troubled restructured loans falling to \$25.63 million from \$39.51 million while non-accrual loans rose to \$64.57 million from \$54.38 million and 90-day delinquents increased to \$5.31 million from \$4.57 million. Net charge offs decreased to \$21,000 from \$42.68 million. Declines were seen in non-performing loans/loans receivable (0.62% vs. 0.73%) and ACL/non-accrual loans (248.66% vs. 251.52%). Increases were seen in ACL/loans receivable (1.04% vs. 1.02%), ACL/non-performing assets (165.6% vs. 120.3%), and provisions for credit losses (-\$9.2 million vs. +\$10.0 million).

**INTEREST INCOME & NON-INTEREST INCOME:** Total interest income improved 32% to \$189.2 million as rising interest rates generated higher fees/interest from loans (\$175.1 million vs. \$132.8 million) and increased interest from investment securities (\$13.5 million vs. \$9.2 million). These improvements more than offset a decrease in interest on fed funds sold/other investments (\$606,000 vs. \$865,000).





# EQUITY RESEARCH

Total non-interest income rose 15% to \$13.5 million due to increases in other income/fees (\$5.2 million vs. \$3.2 million), service fees on deposits (\$2.5 million vs. \$1.8 million), net gains on SBA loan sales (\$2.8 million vs. \$2.5 million), loan servicing fees (\$981,000 vs. \$642,000), wire transfer fees (\$856,000 vs. \$836,000), and net gains on other loan sales (\$117,000 vs. \$0). These were partly offset by decreases in international service fees (\$834,000 vs. \$889,000) and net gains on residential mortgage loan sales (\$29,000 vs. \$781,000).

**INTEREST EXPENSE & NON-INTEREST EXPENSE:** Total interest expense increased 186% to \$40.0 million due mainly to higher interest expense for deposits created by the current rising interest rate environment. Additionally, interest on other borrowings and convertibles rose to \$5.3 million from \$2.9 million. Total non-interest expense rose 11% to \$83.9 million largely because of higher salary/benefit expense that reflected increased higher employee incentive compensation and an earnings credit expense on deposit accounts. HOPE saw increases in salaries/employees benefits (\$53.2 million vs. \$47.0 million), other (\$10.8 million vs. \$6.4 million), furniture/equipment (\$5.0 million vs. \$4.4 million), data processing/communications (\$2.5 million vs. \$2.4 million), and FDIC assessment (\$378,000 vs. \$248,000). These were partly offset by lower expenses from occupancy (\$6.7 million vs. \$7.5 million), advertising/marketing (\$1.7 million vs. \$2.7 million), professional fees (\$1.2 million vs. \$2.4 million), and credit related expenses (\$873,000 vs. \$1.3 million).

## Our Thoughts

A flat earnings report as HOPE reported earnings of \$0.45/share vs. \$0.45/share when comparing 3Q22 vs. 3Q21. While the current environment of rising interest rates, engineered by the Federal Reserve, helped the bank's revenue stream, simultaneously, this caused higher interest expense for deposit/savings accounts from these same forces. HOPE's loan portfolio grew 15% loans due to its corporate banking group's increased production efforts during the past year. Meanwhile, in light of uncertain economic times created by inflation and higher interest rates, the bank's credit management team is taking a more conservative approach to loan issuance and monitoring potential loan problems. We continue to rate this stock a HOLD given the possibility of a US recession created by rising interest rates. Potentially, a US slowdown could cause earnings pressure for banks, including HOPE, and limit forward earnings growth going into 2022-2023. However, existing HOPE shareholders will be rewarded with an attractive current dividend yield of 4.4%.



## 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.

Steve Marascia  
Director of Research  
Capitol Securities Management  
804-612-9715



**CAPITOL  
SECURITIES**  
MANAGEMENT, INC.

# EQUITY RESEARCH

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

	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22	3Q22	4Q22e	2022e
Interest Income	\$138,293	\$140,204	\$142,886	\$145,169	\$566,532	\$144,872	\$157,824	\$189,182	\$191,163	\$683,041
Interest Expense	15,714	13,627	12,570	11,851	53,762	11,696	16,286	35,996	38,832	102,810
Net Interest Income before loan losses	122,579	126,577	130,296	126,426	502,188	133,176	141,538	153,186	152,321	580,221
Provision for loan losses	3,300	7,000	10,000	1,500	12,200	11,000	3,200	9,200	2,600	4,000
Net Interest income net loan loss provisions	119,279	133,577	140,296	131,818	524,970	144,176	138,228	143,986	149,731	576,121
Non-Interest Income	8,804	11,076	10,617	13,097	43,594	13,186	12,746	13,355	13,564	52,851
Non-Interest Expense	70,431	73,123	75,502	74,236	293,292	75,373	80,365	83,914	85,742	325,394
Income before income taxes	57,652	71,530	75,411	70,679	275,272	81,989	70,719	73,427	77,553	303,688
Income taxes	13,965	17,767	19,912	19,056	70,700	21,251	18,631	19,679	20,939	80,770
Net Income	43,687	53,763	55,499	51,623	204,572	60,738	52,088	53,748	56,614	223,188
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$43,687	\$53,763	\$55,499	\$51,623	\$204,572	\$60,738	\$52,088	\$53,748	\$56,614	\$223,188
Diluted Earnings Per Share	\$0.35	\$0.43	\$0.45	\$0.43	\$1.66	\$0.50	\$0.43	\$0.45	\$0.47	\$1.85

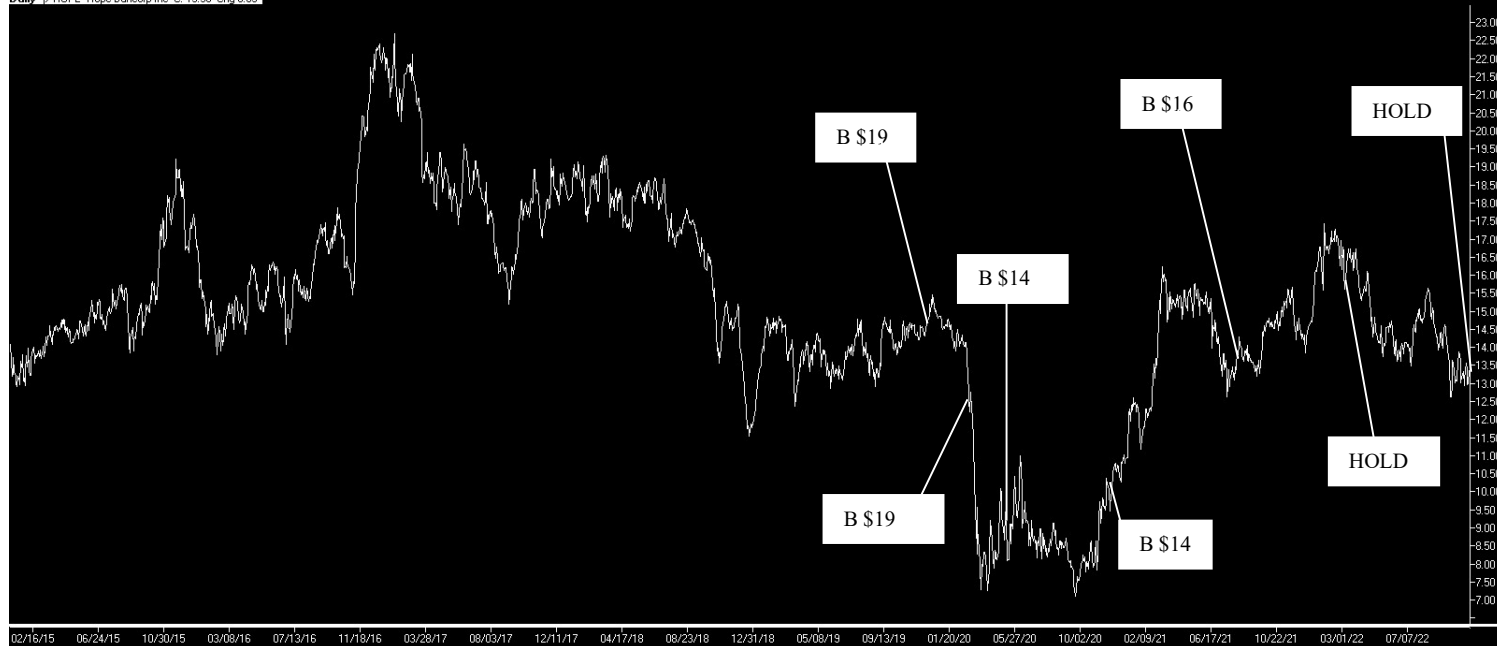


**CAPITOL  
SECURITIES**  
MANAGEMENT, INC.

# EQUITY RESEARCH

## Important Disclosures

Daily HOPE Hope Bancorp Inc. C:13.38 Chg:0.03



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.

Steven Marascia certifies, with respect to the companies or securities that he analyzes, that (1) the views expressed in this report accurately reflect his personal views about all of the subject companies and securities and (2) no part of his compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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%.

Capitol Securities Management's Investment Banking/Public Finance unit has not received compensation for investment banking services from the subject company in the past 12 months. Nor does it expect to receive, or intend to seek compensation for, investment banking services from the subject company in the next 3 months.





No affiliate of Capitol Securities Management, or Capitol Securities Management, received compensation from the subject company for products or services during the past 12 months.

The subject company is not, or during the past 12 months, was not, a client of Capitol Securities Management's Investment Banking/Public Finance unit.

## Other Disclosures

This report is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Capitol Securities or its affiliates to any registration or licensing requirement within such jurisdiction. The information presented in this report is provided to you for information purposes only and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. Capitol Securities may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. Capitol Securities will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Capitol Securities does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. Information and opinions presented in this report have been obtained or derived from sources believed by Capitol Securities to be reliable, but Capitol Securities

makes no representation as to their accuracy or completeness. This report is not to be relied upon in substitution for the exercise of independent judgment. Capitol Securities may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Capitol Securities and are subject to change without notice. The price, value of and income from any of the securities mentioned in this report can fall as well as rise.

**For more information on this report, please contact us at 800.612.1484 or write to Capitol Securities, 4050 Innslake Dr., Suite 250, Glen Allen, Virginia 23060**