



**March 3, 2020**

**CURRENT PRICE: \$12.26**

**RATING: BUY**

**PRICE TARGET: \$19.00**

**CURRENT YIELD: 4.6%**

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

	DEC 19A	DEC 20E
1Q	\$0.34	\$0.32
2Q	\$0.34	\$0.32
3Q	\$0.34	\$0.33
4Q	\$0.34	\$0.34
	<b>\$1.35</b>	<b>\$1.31</b>

### **Trading Data**

**52-WEEK PRICE RANGE: \$15.51-\$11.98**

**SHARES OUTSTANDING: 126.9(M)**

**MARKET CAP: \$1,556(M)**

**AVG. DAILY TRADING VOLUME: 0.7(M)**

**S&P 500: 3,003**

### **Valuation Data**

**BOOK VALUE: \$12.40**

**PRICE TO BOOK: 0.98x**

**DIVIDEND: \$0.56**

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

### **4Q19 results & Management Meeting**

### **Highlights**

- 4Q19 earnings of \$0.34/share vs. \$0.35/share during 4Q18
- Earnings decline due to higher deposit & non-interest costs
- 2H20 potential of improvement in net interest margins
- Management goal of doubling total assets
- Rated BUY with a \$19 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, grow balance sheets, and increase market share. One such bank is HOPE 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 \$19.00 price target. Additionally, HOPE pays a 4.6% 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 4Q19 earnings of \$0.34/share vs. \$0.35/share during 4Q18. When comparing the two quarters, the decrease was due to lower net income of \$43.0 million vs. \$44.5 million, mainly from total interest income falling to \$165.8 million from \$172.0 million and interest expense rising to \$52.3 million from \$50.1 million. This occurred following two rate cuts in the Fed Funds rate during this past fall. Additionally, results were helped by a lower tax rate of 21.9%, vs. 26.6% during 4Q18, resulting from adjustments related to FASB Interpretation No. 48, and adding \$1.8 million to 4Q19 earnings. Total non-interest income rose to \$13.0 million from \$11.6 million due primarily to gains on other loan sales. Total non-interest expense increased to \$70.4 million from \$70.2 million from higher salaries/employee benefits resulting from HOPE's recent acquisitions, and the efficiency ratio rose to 55.7% from 52.6%.

Given compression in interest rate spreads, HOPE's net interest margin decreased to 3.16% from 3.41%. Also, both ROA and ROE, declined to 1.13% from 1.17%, and to 8.46% from 9.42%, respectively. HOPE's loan yield also decreased, due to lower rates, to 5.04% from 5.21%.

Total assets grew to \$15.7 billion from \$15.3 billion produced mainly from loan growth of 1% (\$12.2 billion vs. \$12.0 billion) and a 32% increase in other assets (\$267 million vs. \$202 million). New loan production during 4Q19 consisted of commercial real estate (61%), commercial loans (31%), and consumer loans (9%). Total liabilities grew 2% (\$13.6 billion vs. \$13.4 billion) following a 3% increase in deposits (\$12.5 billion vs. \$12.2 billion) and a 42% rise of other liabilities (\$143 million vs. \$98 million). Tangible book value rose to \$12.40/share from \$11.25/share.

Provision for loan losses fell to \$1 million from \$2.8 million, net charge-offs fell to \$738,000 from \$872,000, and non-accrual loans rose to \$54.8 million from \$53.3 million. Non-performing loans to loan receivable declined to 0.80% from 0.87% and ALLL to non-performing loans fell to 77.08% from 81.92%

## MEETING WITH HOPE MANAGEMENT

We recently met with HOPE management to discuss current business conditions and future plans. Currently the company is focused on managing deposit costs/loan yields, improving net interest margins, controlling operating costs, and growing total assets. Management's overriding goal is to improve ROE/ROA and grow future earnings per share. Plans are to complete its \$50 million share repurchase program during 2020-thus far, \$36 million has spent to purchase shares.

HOPE, like most banks, felt the negative impacts of two reductions in the Fed Funds rate last fall, causing a compression in its net interest margin. Expectations are for a further 2 or 3 basis points of compression during 1Q20. However, the bank believes net interest margins could improve during 2H19 as \$5.2 billion of higher interest CDs, averaging 2.18%, will be maturing this year with the possibility of being repriced at lower rates, potentially between 1.8% to 1.9%.





To help with improving its yield on loans, HOPE decided to stop selling its SBA loans in 2019. Given the relatively higher yield of SBAs versus other loans, the intent is to hold these through 2020. Additionally, following a fair amount of loan payoffs during the past few months, management is focusing on defending its existing loan portfolio from further early payoffs. To this end, HOPE has established a new monitoring strategy geared to identify those loans at refi risk.

Regarding the loan portfolio, HOPE is taking a conservative credit stance, given the length of the current US economic expansion. Also, larger banks are moving into some of its lending areas and offering competitive rates, which could potentially lower the overall yield of its loan portfolio. While HOPE will actively pursue new loans they will not sacrifice the credit quality of its loan portfolio to attain new lower yielding loans.

The current non-interest expense level of \$70.4 million, during 4Q19, should be the ongoing run rate going forward. While non-interest expense did rise during the past couple of years, due to recent acquisitions, management feels current staffing and branches will accommodate further growth of HOPE without occurring significant additional expenses. Management believes HOPE's existing expense structure could allow it to gather another \$3 billion-\$5 billion of assets.

During the next 5 years management would like to grow assets to \$30 billion from current levels of \$15.7 billion. HOPE intends to grow by gathering additional assets through its corporate banking group, warehouse line of credit business, the branch system, providing wealth & management services, offering online CDs during 2020, and growing C&I loan market share. Smaller acquisitions, like those done in the past, may be another way for HOPE to grow assets. Additionally, management would like to establish good counter party opportunities with Korean Banks.

Our conversation with management occurred before Corona virus fears hit the US equity markets.



## Our Thoughts

HOPE reported 4Q19 earnings of \$0.34/share from \$0.35/share during 4Q18. When comparing the two quarters, the decrease was due to lower net income of \$43.0 million vs. \$44.5 million, resulting mainly from total interest income falling to \$165.8 million from \$172.0 million and interest expense rising to \$52.3 million from \$50.1 million. After recent acquisitions during the past few years, operating expenses appear to have leveled off in the \$71 million area and could provide HOPE the framework to grow total assets during the next 3-5 years.

Our recent conversation with management occurred before Corona virus fears hit the US equity markets and caused the US Federal Reserve to drop interest rates by 50 basis points. Potentially, lower rates could reinforce the HOPE theme of paying lower interest on renewing CDs during 2H20. However, one potential counter could be delining yields on its variable rate loans, which comprise 39% of HOPE's loan portfolio.

We like the conservative approach HOPE is taking with its credit policies given the potential of a US economic slowdown triggered by the Corona virus scare. Additionally, we continue to recommend this stock for growth/income investors, with a 2-3 year time horizon, given the current dividend yield of 4.5% and believe this stock offers upside potential when HOPE's net interest margins expand potentially later in 2H20 or 2021. Our price target is \$19/share, equating to 14.5x our 2020 earnings estimates of \$1.31/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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HOPE Bancorp & all subsidiaries  
(in thousands, except per share amounts)

	1Q19	2Q19	3Q19	4Q19	2Q19	1Q20e	2Q20e	3Q20e	4Q20e	2020e
Interest Income	\$173,130	\$173,466	\$172,417	\$165,773	\$684,786	\$166,524	\$168,549	\$169,673	\$170,547	\$675,293
Interest Expense	53,522	56,245	56,159	52,265	218,191	53,993	54,672	54,112	53,886	216,663
Net Interest Income before loan losses	119,608	117,221	116,258	113,508	466,595	113,531	113,887	115,561	116,661	459,640
Provision for loan losses	3,000	1,200	2,100	1,000	7,300	1,100	2,000	1,400	1,600	6,100
Net Interest income net loan loss provisions	116,608	116,021	114,158	112,508	459,295	112,431	111,887	114,161	115,061	453,540
Non-Interest Income	11,422	12,287	12,995	12,979	49,683	13,008	13,109	13,086	12,945	52,148
Non-Interest Expense	70,833	71,371	69,995	70,429	282,628	70,495	70,816	70,782	70,894	282,987
Income before income taxes	57,197	56,937	57,158	55,058	226,350	54,944	54,480	56,465	57,112	223,001
Income taxes	14,439	14,256	14,566	12,049	55,310	14,011	13,892	14,400	14,564	56,867
Net Income	42,758	42,681	42,592	43,009	171,040	40,933	40,588	42,065	42,548	166,134
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$42,758	\$42,681	\$42,592	\$43,009	\$171,040	\$40,933	\$40,588	\$42,065	\$42,548	\$166,134
Diluted Earnings Per Share	\$0.34	\$0.34	\$0.34	\$0.34	\$1.35	\$0.32	\$0.32	\$0.33	\$0.34	\$1.31

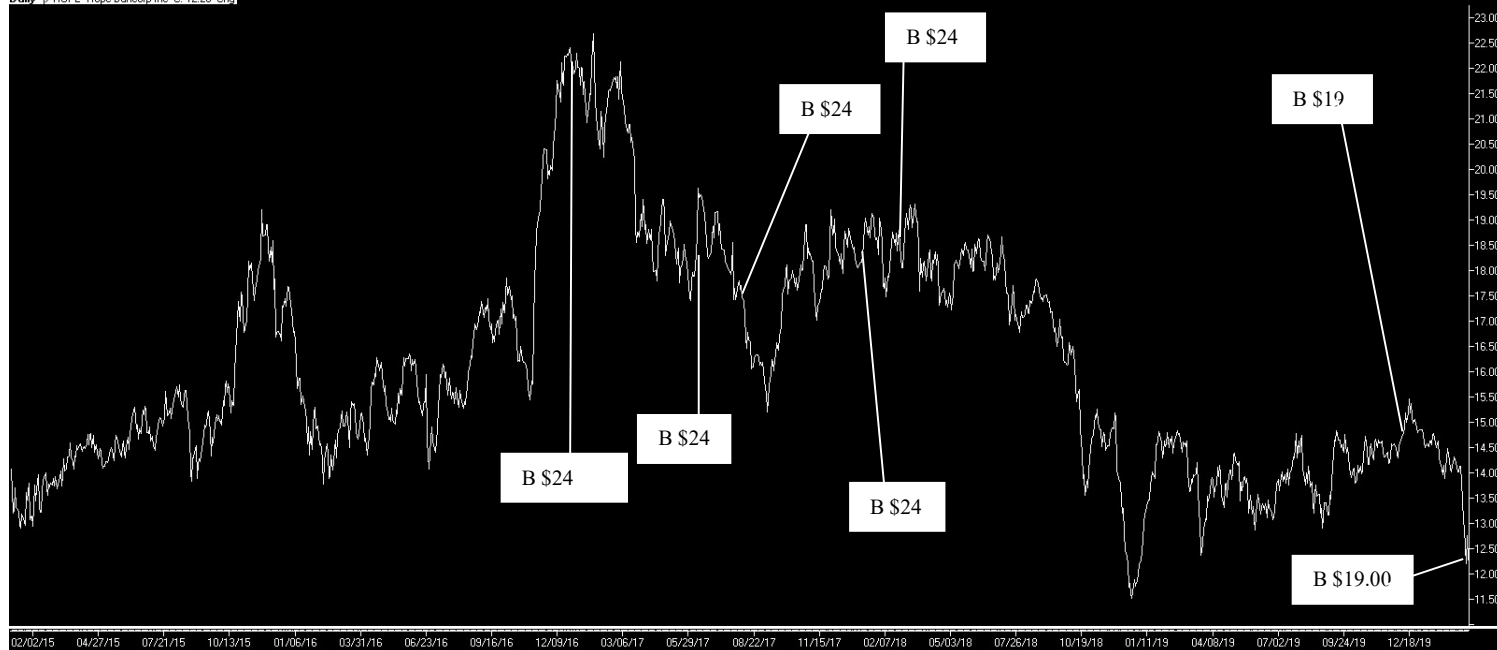


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# EQUITY RESEARCH

## Important Disclosures

Daily | HOPE Bancorp Inc. C:12.26 Ctr



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

Ratings:

Buy: B

Hold: H

Sell: S

\$19 price target equates to 14.5x our 2019 earnings estimate of \$1.31/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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