

March 10, 2022

CURRENT PRICE: \$16.33

RATING: HOLD

PRICE TARGET: N/A

CURRENT YIELD: 3.4%

EPS Estimates - Non-GAAP

	DEC 21A	DEC 22E
1Q	\$0.35	\$0.44
2Q	\$0.43	\$0.42
3Q	\$0.45	\$0.42
4Q	\$0.43	\$0.42
	\$1.66	\$1.70

Trading Data

52-WEEK PRICE RANGE: **\$17.68-\$12.41**

SHARES OUTSTANDING: **121.0(M)**

MARKET CAP: **\$1,976(M)**

AVG. DAILY TRADING VOLUME: **0.87(M)**

S&P 500: **4,259**

Valuation Data

BOOK VALUE: **\$13.51**

PRICE TO BOOK: **1.21x**

DIVIDEND: **\$0.56**

HOPE Bancorp (Nasdaq: HOPE)

Reaches \$16/share target price-Lowering Rating to a HOLD

Highlights

- 4Q21 earnings of \$0.43/share vs. \$0.23/share during 4Q21
- Earnings rose from low interest rates & improving loan portfolio
- Improvement in net interest margin, ROA, & ROE
- Announced new \$50 million share buyback program
- Lowering rating to HOLD after attaining price target of \$16/share

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. As a result, we are lowering 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.



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Recent Earnings

HOPE reported 4Q21 earnings of \$0.43/share vs. \$0.23/share, as results benefited from increases in interest/fee income, total non-interest income, declining interest expense, and improvement in the credit quality of its loan portfolio. The improvement was generated as the US economy pivoted off of the economic nadir created by the covid pandemic of 2020. Results were aided by the low interest rate environment during 2020-2021 as deposit costs fell and lower total interest expense decreased by 43%. When comparing the two quarters, HOPE's credit loss provisions declined to \$1.5 million from \$27.5 million as its loan portfolio benefited from the economic improvement of borrowers during the economy's rebound in 2021. For FY21, HOPE generated earnings of \$1.66/share vs. \$0.90/share as the same conditions which helped 4Q21s profits, benefited full year results.

PROFITABILITY MEASURES:

Given 2021's low interest rate environment, improving credit quality of the loan portfolio, and HOPE's decreasing interest expense, ROA improved to 1.16% from 0.67% and ROE rose to 9.93% from 5.54% when comparing 4Q21 to 4Q20. Net interest margin improved to 3.13% from 3.02% and the efficiency ratio declined to 50.70% from 53.77%. Book value per share increased to \$17.44/share from \$16.66/share while tangible book value per share rose to \$13.51/share from \$12.81/share.

INTEREST INCOME & NON-INTEREST INCOME:

Total interest improved 2% to \$145.2 million as interest/fees on loans increased 1% to \$133.8 million, securities interest rose 18% to \$10.7 million, and interest on fed funds/other investments increased 16% to \$691,000. Total non-interest income rose 15% to \$13.1 million helped primarily by a 100% increase in net gains on SBA loan sales (+\$3.6 million), 52% rise in international service fees (+\$365,000), 32% improvement in loan servicing fees (+\$181,000), and 6% rise in wire transfer fees (+49,000). These were partly offset by lower deposit account service fees (-\$1.1 million), gains on residential mortgage sales (-\$1.1 million), and other income/fees (-\$342,000).

INTEREST EXPENSE & NON-INTEREST EXPENSE:

Total interest expense decreased 43% to \$11.9 million from \$21.0 million as many higher yielding deposits matured & were renewed at lower rates during the quarter, a result of low interest rates in 2021. As a result, interest on deposits fell 47% to \$8.9 million and interest on other borrowings/convertible notes dropped 27% to \$3.0 million from \$4.0 million.

Total non-interest expense increased 4% to \$74.2 million, with most expense categories rising when comparing the two quarters, as HOPE added new employees, entered new markets, and encountered branch restructuring costs (\$2.4 million). Higher expenses were seen in advertising/marketing (+\$634,000), professional fees (+\$592,000), data processing/communications (+\$554,000), and FDIC assessment (+\$200,000), furniture/equipment (+\$520,000), salaries/employee benefits (+\$3.7 million), and occupancy (+\$191,000). These increases were partly offset by lower credit related expenses (-\$2.4 billion) and other expenses (-\$617,000).



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LOAN PORTFOLIO:

Net loans receivable increased 3% to \$13.8 billion when comparing 4Q21 to 4Q20 and total interest earning assets rose to \$16.9 billion from \$15.9 billion. Real estate loans comprised 65% of the loan portfolio, with commercial and consumer/other loans representing 30%, and 5%, respectively. The average yield on HOPE's interest earnings assets decreased to 3.41% from 3.54%. The overall loan portfolio grew 3%. Commercial loans rose 1%, real estate loans increased 4%, and consumer/other loans improved 1%. Of the 7 real estate loan categories, only hotels/motels declined (-6%). The improving economy allowed credit loss allowances to decline to \$140,550 from \$206,741 as loan borrowers were returning to regularly scheduled payments after respective loan modifications & the US economy's emergence out of the US pandemic economic slowdown of 2020.

Management stated loan growth accelerated during 2021 helped by increased production from the commercial banking group. 4Q21 loan production was \$1.24 billion, representing 15.9% loan growth for the quarter, and the average rate on total loan production was 2 basis points higher than 3Q21. Variable rate loans comprise approximately 41% of the loan portfolio, equating to a 19% increase for 2021. Management's goal is to have loan growth permit a remixing of its balance sheet towards higher yielding earning assets, to potentially grow earnings.

CREDIT METRICS:

HOPE experienced improving strength in its loan portfolio when looking at the credit metrics. Non-accrual loans decreased to \$56.6 million from \$85.2 million and total non-performing loans fell to \$109.2 million from \$123.2 million. Non-accrual loans for real estate decreased to \$39.8 million from \$67.5 million, as commercial fell to \$11.0 million from \$13.9 million, and consumer dropped to \$3.83 million from \$3.88 million. There were reductions in non-performing assets/total assets (0.62% vs. 0.84%), non-performing assets/total capital (5.34% vs. 6.98%), non-performing assets/loans receivable (0.78% vs. 0.91%), and allowance for credit losses/loans receivable (1.01% vs. 1.52%). Allowance for credit losses/ non-accrual loans increased (257.34% vs. 242.55%) while allowance for credit losses/ non-performing assets declined (125.76% vs. 144.24%).

DEPOSITS:

Total deposits increased 5% to \$15.0 billion when comparing 4Q21 to 4Q20. The deposit structure was 41% in money market/other, 38% in non-interest bearing demand deposits, 19% in time deposits, and 2% in savings deposits. Total deposit costs averaged 0.29% vs. 0.81% and total deposit expense rose to \$14.7 million from \$13.7 million.



Our Thoughts

The earnings turnaround at HOPE continued during 4Q21 as the bank reported earnings of \$0.43/share vs. \$0.23/share. Earnings growth came from a rebounding US economy, credit quality improvement of HOPE's loan portfolio, and 2021's low interest rate environment producing lower interest expense from deposits. Sequential quarterly results also showed improvement throughout the year, and all of 2021's quarters showed increased profits when compared to 2020's quarterly earnings results. Overall FY 21 earnings rose to \$1.66/share from \$0.90/share during FY20. Additionally, during 4Q21, HOPE completed its previously announced \$50 million share repurchase program and announced a new \$50 million share repurchase program for 2022.

After achieving our target price of \$16/share, we are lowering our rating on this stock to HOLD. While HOPE did generate improved profitability during 4Q21 & FY21, we are concerned rising inflation/interest rates, and the recent increase in fuel prices, created by the Russian invasion of Ukraine, may cause an economic slowdown in the US. Potentially, a US slowdown could cause earnings pressure for banks, including HOPE, and limit forward earnings growth going into 2022-2023.

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)

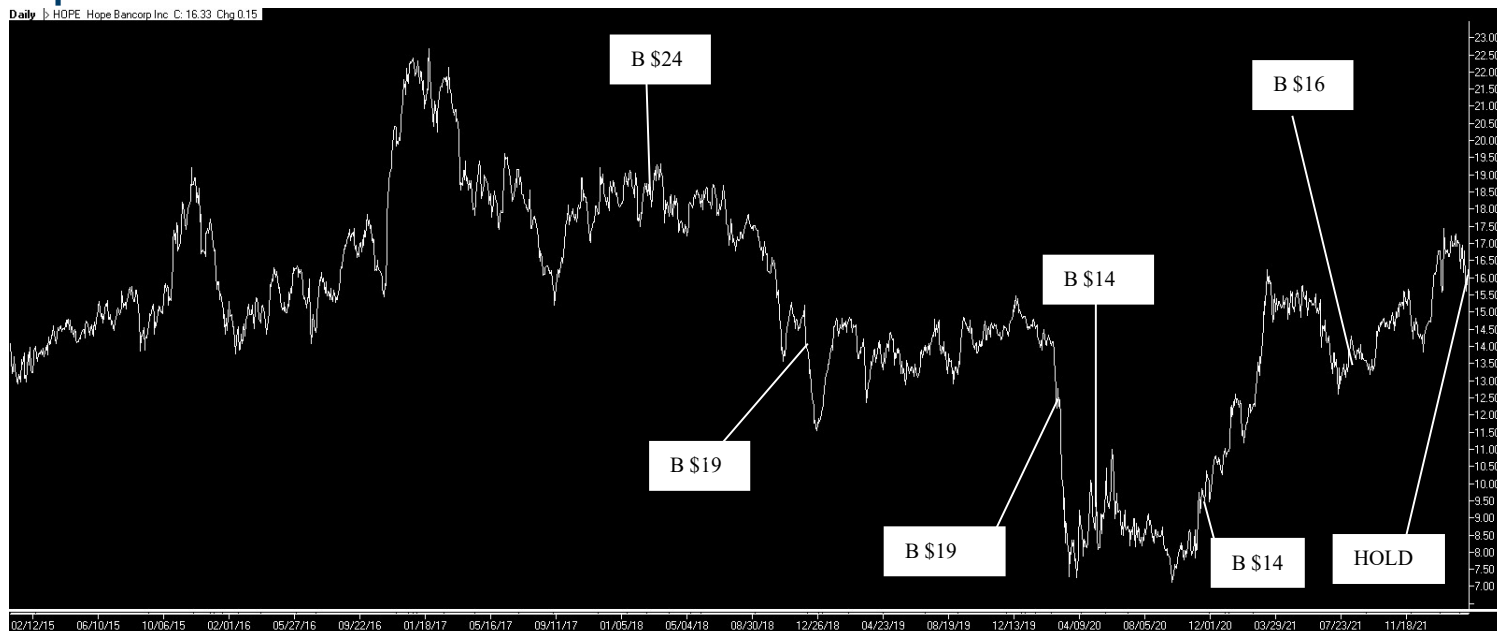
	1Q21	2Q21	3Q21	4Q21	2021	1Q22e	2Q22e	3Q22e	4Q22e	2022e
Interest Income	\$138,293	\$140,204	\$142,886	\$145,169	\$566,532	\$147,663	\$148,141	\$146,439	\$148,343	\$590,586
Interest Expense	15,714	13,627	12,570	11,851	53,762	12,551	13,639	14,351	16,466	57,177
Net Interest Income before loan losses	122,579	126,577	130,296	126,426	502,188	135,112	134,512	132,008	131,877	533,509
Provision for loan losses	3,300	7,000	10,000	1,500	12,200	2,900	3,800	1,600	2,600	10,900
Net Interest income net loan loss provisions	119,279	133,577	140,296	131,818	524,970	132,212	130,712	130,488	129,277	522,689
Non-Interest Income	8,804	11,076	10,617	13,097	43,594	13,763	12,865	12,574	12,135	51,337
Non-Interest Expense	70,431	73,123	75,502	74,236	293,292	74,086	73,879	73,565	72,324	293,854
Income before income taxes	57,652	71,530	75,411	70,679	275,272	71,889	69,698	69,497	69,088	280,172
Income taxes	13,965	17,767	19,912	19,056	70,700	19,051	18,469	18,416	18,308	74,244
Net Income	43,687	53,763	55,499	51,623	204,572	52,838	51,229	51,081	50,780	205,928
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$43,687	\$53,763	\$55,499	\$51,623	\$204,572	\$52,838	\$51,229	\$51,081	\$50,780	\$205,928
Diluted Earnings Per Share	\$0.35	\$0.43	\$0.45	\$0.43	\$1.66	\$0.44	\$0.42	\$0.42	\$0.42	\$1.70



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Important Disclosures



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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- (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.
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