



February 27, 2023

CURRENT PRICE: \$12.93

RATING: HOLD

PRICE TARGET: N/A

CURRENT YIELD: 4.3%

EPS Estimates - Non-GAAP

	DEC 22A	DEC 23E
1Q	\$0.50	\$0.45
2Q	\$0.43	\$0.45
3Q	\$0.45	\$0.43
4Q	\$0.43	\$0.43
	\$1.81	\$1.76

Trading Data

52-WEEK PRICE RANGE:	\$17.10-\$12.06
SHARES OUTSTANDING:	120.1(M)
MARKET CAP:	\$1,553(M)
AVG. DAILY TRADING VOLUME:	0.69(M)
S&P 500:	3,982

Valuation Data

BOOK VALUE:	\$12.96
PRICE TO BOOK:	0.99x
DIVIDEND:	\$0.56

HOPE Bancorp (Nasdaq: HOPE)

Flat Earnings - Maintain HOLD rating

Highlights

- 4Q22 earnings of \$0.43/share vs. \$0.43/share during 4Q21
- Higher interest rates help revenues & raise expenses
- Management cautious about US economy
- Becoming more conservative in loan issuance area
- 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 last year. As a result, we lowered our rating to 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.



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 (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 4Q22 earnings of \$0.43/share vs. \$0.43/share during 4Q21. Results were affected by interest rate increases during the past 12 months. While total interest income rose (+54%), it was offset by higher total interest expense (+522%) and total non-interest expense (+14%), while total noninterest income decreased (-8%), when comparing the two quarters. Provisions for credit losses rose to \$8.2 million from \$1.5 million. Several profitability measures, influenced by higher interest rates, were mixed as ROA declined to 1.10% from 1.16%, and ROE rose to 10.35% from 9.93%. Meanwhile, net interest margins increased to 3.36% from 3.13% due to a favorable shift in the mix of earning assets and higher loan yields. HOPE's efficiency ratio rose to 51.97% from 50.70%. Total assets rose 7% to \$19.2 billion from \$17.9 billion helped by 10% growth of its loan portfolio. Tangible book value per share fell to \$12.96 from \$13.51. FY22 earnings improved to \$1.81/share from \$1.66/share during FY21.

4Q22 vs. 4Q21 COMPARISONS

LOANS/DEPOSITS: Total assets rose 7% to \$19.16 billion from \$17.89 billion due mainly to an increase in net loans receivables (+\$1.4 billion). New loan originations decreased to \$793.4 million from \$1.24 billion b/c of declines in commercial real estate, commercial, and residential loans, with a partial offset in consumer loans. The decrease was due to HOPE's conservative approach to loan underwriting given the recent increase in rising interest rates and concerns over a potential US recession. Of the \$793.4 million of new loan originations during 4Q22 commercial accounted for 53%, commercial real estate comprised 38%, with residential mortgage and SBA making up 5% and 4%, respectively. The weighted average yield on loans rose to 5.36% from 3.95% because of the recent increase in interest rates and the repricing of variable loans, which comprise 46% of HOPE's current loan portfolio.

Total deposits rose to \$15.74 billion from \$15.04 billion. The weighted average cost of deposits rose to 1.62% from 0.23% due to the rising interest rate environment. HOPE's deposits are currently comprised of money market/others (35.7%), time deposits (31.7%), noninterest bearing demand deposits (30.8%), and savings deposits (1.8%).

CREDIT QUALITY: Total non-performing assets declined to \$69.4 billion from \$111.8 million because of decreases in accruing troubled debt restricting loans (\$16.9 million vs. \$52.4 million), loans on non-accrual status (\$49.7 million vs. \$54.6 million), and delinquent loans of 90 days or longer (\$401,000 vs. \$2.1 million). Non-accrual loans declined in real estate and commercial categories but increased in the consumer area. Management attributed the improvement to its borrowers exhibiting financial improvement as they recovered from the covid pandemic and HOPE's de-risking of its portfolio through loan sales.

Decreases were seen in non-performing assets/total assets (0.36% vs. 0.62%), non-performing assets/total capital (3.44% vs. 5.34%), non-performing assets/loans receivable (0.44% vs. 0.78%), and non-accrual loans/loans receivable (0.32% vs. 0.39%). Increases were seen in ACL/loans receivable (1.05% vs. 1.01%) and ACL/non-performing assets (233.8% vs. 125.8%).



INTEREST INCOME & NON-INTEREST INCOME: Total interest income rose 54% to \$224.2 million from \$145.2 million as rising interest rates generated higher fees/interest from loans (\$208.0 million vs. \$133.8 million), investment securities interest (\$14.8 million vs. \$10.7 million), and interest on fed funds sold/other investments (\$1.5 million vs. \$691,000).

Total non-interest income fell 8% to \$12.1 million from \$13.1 million due mainly to lower gains on a decline in SBA loan sales and lower swap fee income. There were increases in other income/fees (\$4.6 million vs. \$4.3 million), service fees on deposit accounts (\$2.2 million vs. \$1.9 million), loan servicing fees (\$928,000 vs. \$747,000), and net gains on other loan sales (\$623,000 vs. \$0). These were more than offset by declines in net gains on SBA loan sales (\$2.2 million vs. \$3.6 million), wire transfer fees (\$863,000 vs. \$916,000), international service fees (\$762,000 vs. \$1.1 million), and net gains on residential mortgage loan sales (\$20,000 vs. \$530,000).

INTEREST EXPENSE & NON-INTEREST EXPENSE: Total interest expense rose 522% to \$73.7 million from \$11.9 million due to higher deposit interest expense created by the recent rise in interest rates. Deposit interest expense increased to \$63.3 million from \$8.9 million and interest on other borrowings/convertible notes rose to \$10.4 million from \$3.0 million.

Total non-interest expense increased 14% to \$84.5 million from \$74.2 million. The increase came from higher salaries/employee benefits (\$52.7 million vs. \$44.6 million), other (\$6.4 million vs. \$0), earnings credit rebates (\$5.0 million vs. \$555,000), furniture/equipment (\$5.1 million vs. \$4.6 million), data processing communications (\$2.9 million vs. \$2.8 million), FDIC assessment (\$1.6 million vs. \$1.4 million), and credit related expenses (\$1.0 million vs. \$873,000). These were partly offset by lower expenses from occupancy (\$7.1 million vs. \$7.4 million), advertising/marketing (\$1.9 million vs. \$2.3 million), professional fees (\$1.3 million vs. \$2.4 million), and OREO income (\$425,000 vs. -\$811,000).



Our Thoughts

A flat earnings report for HOPE as it reported 4Q22 earnings of \$0.43/share vs. \$0.43/share during 4Q21. While the effect of rising interest rates was positive on interest income (\$224.2 million vs. \$145.2 million) it also caused a rise in interest expense (\$73.7 million vs. \$11.9 million). The credit quality of the loan portfolio currently appears sound given management's decision to become more conservative in new loan issuance and improvement of its existing loan portfolio when looking at credit metrics. HOPE reported net interest margins improved to 3.36% from 3.13%. However, during the 4Q22 earnings call, management warned 1H23 net interest margins could compress due to a potential increase in deposit costs resulting from higher interest rates. Given the Federal Reserve's statements of fighting US inflation with higher interest rates, it is likely HOPE, and all US banks, may have difficulty growing earnings in 2023. We continue to rate HOPE 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	1Q23e	2Q23e	3Q23e	4Q23e	2023e
Interest Income	\$144,872	\$157,824	\$189,182	\$224,237	\$716,115	\$232,417	\$238,296	\$242,765	\$245,892	\$959,370
Interest Expense	11,696	16,286	35,996	73,716	137,694	83,670	85,787	97,106	98,357	364,920
Net Interest Income before loan losses	133,176	141,538	153,186	150,521	578,421	148,747	152,509	145,659	147,535	594,450
Provision for loan losses	11,000	3,200	9,200	8,200	9,600	4,100	6,300	3,200	4,500	18,100
Net Interest income net loan loss provisions	144,176	138,228	143,986	142,321	568,821	144,647	146,209	142,459	143,035	576,350
Non-Interest Income	13,186	12,746	13,355	12,110	51,307	12,625	13,278	13,855	14,080	53,838
Non-Interest Expense	75,373	80,365	83,914	84,518	324,170	85,246	85,868	86,546	86,788	344,448
Income before income taxes	81,989	70,719	73,427	69,913	296,048	72,026	73,619	69,768	70,327	285,740
Income taxes	21,251	18,631	19,679	18,210	77,771	18,511	19,141	18,140	18,285	74,077
Net Income	60,738	52,088	53,748	51,703	218,277	53,515	54,478	51,628	52,042	211,663
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$60,738	\$52,088	\$53,748	\$51,703	\$218,277	\$53,515	\$54,478	\$51,628	\$52,042	\$211,663
Diluted Earnings Per Share	\$0.50	\$0.43	\$0.45	\$0.43	\$1.81	\$0.45	\$0.45	\$0.43	\$0.43	\$1.76

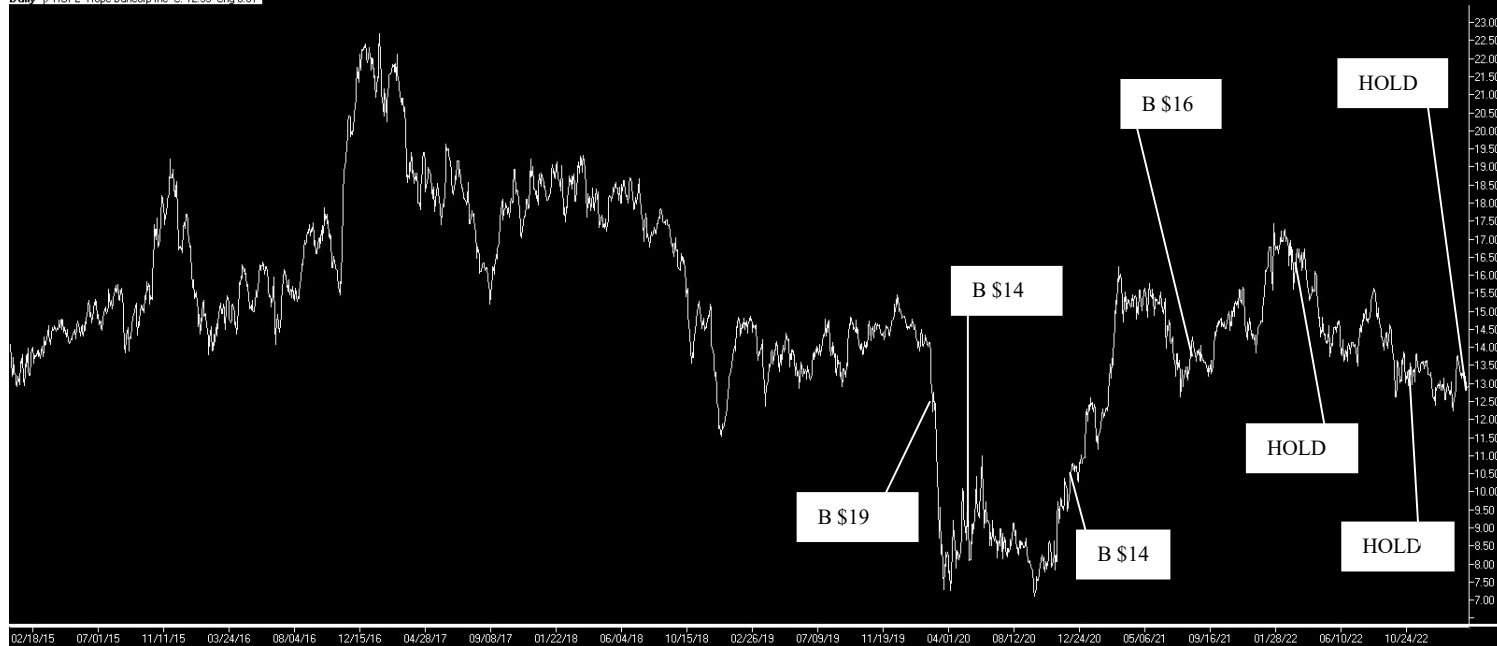


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Important Disclosures

Daily | HOPE | Hope Bancorp Inc. C: 12.93 | Chg: 0.01



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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