

**October 2, 2024**

**CURRENT PRICE: \$12.19**

**RATING: HOLD**

**PRICE TARGET: N/A**

**CURRENT YIELD: 4.6%**

**EPS Estimates - Non-GAAP**

	DEC 23A	DEC 24E
1Q	\$0.33	\$0.21A
2Q	\$0.32	\$0.21A
3Q	\$0.25	\$0.23
4Q	\$0.22	\$0.29
	\$1.11	\$1.14

**Trading Data**

52-WEEK PRICE RANGE:	<b>\$13.59-\$8.16</b>
SHARES OUTSTANDING:	<b>120.7(M)</b>
MARKET CAP:	<b>\$1,471(M)</b>
AVG. DAILY TRADING VOLUME:	<b>0.77(M)</b>
S&P 500:	<b>5,714</b>

**Valuation Data**

BOOK VALUE:	<b>\$13.61</b>
PRICE TO BOOK:	<b>0.90x</b>
DIVIDEND:	<b>\$0.56</b>

**HOPE Bancorp (Nasdaq: HOPE)**

*Potential Turnaround?*

**Highlights**

- 2Q24 earnings of \$0.21/share vs. \$0.32/share during 2Q23
- Higher interest rates impacted results
- Credit quality improvement
- Management discussed earnings turnaround potential
- 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 past year. We currently rate HOPE a hold.

**Company Summary**

Headquartered in Los Angeles CA, HOPE Bancorp Inc. (HOPE-\$12.19), 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. A merger was recently announced with Territorial Bancorp (TBNK).

*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.*



**CAPITOL  
SECURITIES**  
MANAGEMENT, INC.

**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. On 4/6/24, HOPE announced a merger with Hawaii based Territorial Bancorp Inc. (TBNK-\$10.17). It will be an all-stock deal & a YE24 target date for closing. TBNK has \$2.24 billion of total assets and \$1.31 billion of total loans. HOPE believes the merger will add stable/low cost deposits & double the size of its mortgage portfolio.



# EQUITY RESEARCH

## Recent Earnings

HOPE reported 2Q24 earnings of \$0.21/share vs. \$0.32/share during 2Q23. The decline was due to a decrease in revenues (-\$34.6 million), lower non-interest income (-\$5.9 million), and was partly offset by lower non-interest expense (-\$6.2 million) and a decline in interest expense (-\$9.8 million). Provision for credit losses fell to \$1.4 million from \$9.0 million. When comparing these two quarters, several profitability measures were negatively impacted by lower interest income, non-interest income, and the movement of interest rates such, as ROA (0.59% vs. 0.74%), ROE (6.2% vs. 9.5%), and net interest margins (2.62% vs. 2.70%). On a sequential quarterly basis, there was improvement in ROA (0.59% vs 0.54%), net interest margins (2.62% vs. 2.55%), and ROE decreased (4.82% vs. 4.87%) because of a favorable asset mix. 2Q24's total assets decreased to \$17.38 billion from \$20.37 billion during 2Q23, due mainly to lower cash/cash due from banks levels \$654.0 million from \$2.3 billion and lower gross loans held for sale. When comparing these two quarters, tangible book value rose to \$13.61/share from \$13.32/share and HOPE's efficiency ratio increased to 69.26% from 59.05%.

### 2Q24 vs. 2Q23 RESULTS

**LOANS/DEPOSITS:** Gross loans, including those held for sale, declined to \$13.59 billion from \$15.11 billion and the annualized average yield increased to 6.20% from 5.99% benefiting from higher interest rates. 2Q24's loan portfolio composition consisted of \$8.7 billion of commercial real estate (-6%), \$3.9 billion of commercial/industrial loans (-20%), \$1.0 billion of residential mortgages (+19%), and \$61.5 million of loans held for sale (+25%). While residential mortgages grew there were elevated payoffs & paydowns in Commercial/industrial loans.

Total interest-bearing deposits fell 6% to \$14.7 billion from \$15.6 billion. This occurred as an increase in money market/interest bearing demand/ & savings accounts, to \$4.9 billion from \$4.3 billion, was offset by decreases in time deposits, to \$6.1 billion from \$7.0 billion, and non-interest-bearing demand deposits, to \$3.6 billion from \$4.2 billion. HOPE did experience a planned exit of brokered deposits. The average cost of interest-bearing deposits averaged 4.54% vs. 3.87% due to a rise in interest rates since 2023.

**CREDIT QUALITY:** Total non-performing assets decreased to \$67.3 million from \$77.4 million. While loans on non-accrual status, excluding SBA loans, rose to \$67.0 million from \$61.3 million, accruing delinquent loans past 90 days fell to \$273,000 from \$15.2 million and OREO decreased to \$0 from \$938,000. Provision for credit losses fell to \$1.4 million from \$9.0 million.

Total non-accrual loans were \$67.0 million vs. \$61.3 million. When looking at non-accrual loans by type, there were decreases in commercial real estate loans (\$27.3 million vs. \$29.3 million) and residential mortgages/other loans (\$6.3 million vs. \$8.9 million). However, these were more than offset by an increase in commercial/industrial loans (\$33.5 million vs. \$23.0 million).





# EQUITY RESEARCH

**INTEREST INCOME & NON-INTEREST INCOME:** Total interest income declined 13% to \$232.6 million from \$267.2 million. The decreases came primarily from interest on cash/deposits at other banks (\$5.3 million vs. \$25.3 million) and interest on loans \$209.7 million vs. \$225.7 million). These were partly offset by higher investment securities interest (\$16.9 million vs. \$15.5 million) and interest from other investments/FHLB dividends (\$805,000 vs. \$684,000).

Total non-interest income decreased 35% to \$11.1 million from \$17.0 million. The decline was due to lower other income fees (\$6.0 million vs. \$12.8 million). This decrease was partly offset by higher deposit account service fees (\$2.7 million vs. \$2.3 million), net gains on SBA loan sales (\$1.98 million vs. \$1.87%), and net gains on sales of securities available for sale (\$425,000 vs. \$0).

**INTEREST EXPENSE VS. NON-INTEREST EXPENSE:** Total interest expense fell 7% to \$126.7 million from \$136.5 million. This occurred mainly due to a drop in interest on borrowings (\$4.2 million vs. \$26.8 million) while experiencing a rise of interest paid on deposits (\$122.6 million vs. \$109.7 million).

Total non-interest expense declined 7% to \$81.0 million from \$87.2 million. The decrease came from lower salary/employee benefits (\$44.1 million vs. \$52.3 million), FDIC assessment (\$3.0 million vs. \$4.7 million), FDIC special assessment (+\$309,000 vs. \$0), and occupancy expense (\$6.90 million vs. \$6.97 million). Partly offsetting these decreases were increases in merger-related costs (\$1.6 million vs. \$0), earned interest credit (\$6.1 million vs. \$5.1 million), other non-interest expense (\$10.5 million vs. \$9.9 million), restructuring-related costs (\$576,000 vs. \$0), furniture/equipment (\$5.5 million vs. \$5.4 million), and data processing/communications \$3.0 million vs. \$2.9 million).

## Our Thoughts

HOPE reported 2Q24 earnings of \$0.21/share vs. \$0.32/share during 2Q23. When comparing the two quarters, several profitability measures were negatively impacted by lower interest income, non-interest income, and the movement of interest rates such as ROA (0.59% vs. 0.74%), ROE (6.2% vs. 9.5%), and net interest margins (2.62% vs. 2.70%). However, during the earnings call management emphasized the improvement of its sequential quarterly results of these financial ratios: ROA (0.59% vs 0.54%), net interest margins (2.62% vs. 2.55%), and ROE decreased (4.82% vs. 4.87%) because of a favorable asset mix and recent decline of interest rates.

HOPE believes results could improve during the 2H24 based on lower interest rates, potential loan growth in the mortgage and commercial loan areas, and benefits from 2023's structural reorganization efforts. Additionally, during the earnings call, management stated its goals were to generate high single digit loan growth, 10% revenue growth, efficiency ratio under 50%, and ROA of 1.2%. HOPE's stock recently rallied 49.6% from its 52-week low as Wall Street became more bullish on banks due to falling interest rates. Whether this stock continues to rally will depend on further interest rate decreases and management's ability to grow earnings in 2025 and 2026. 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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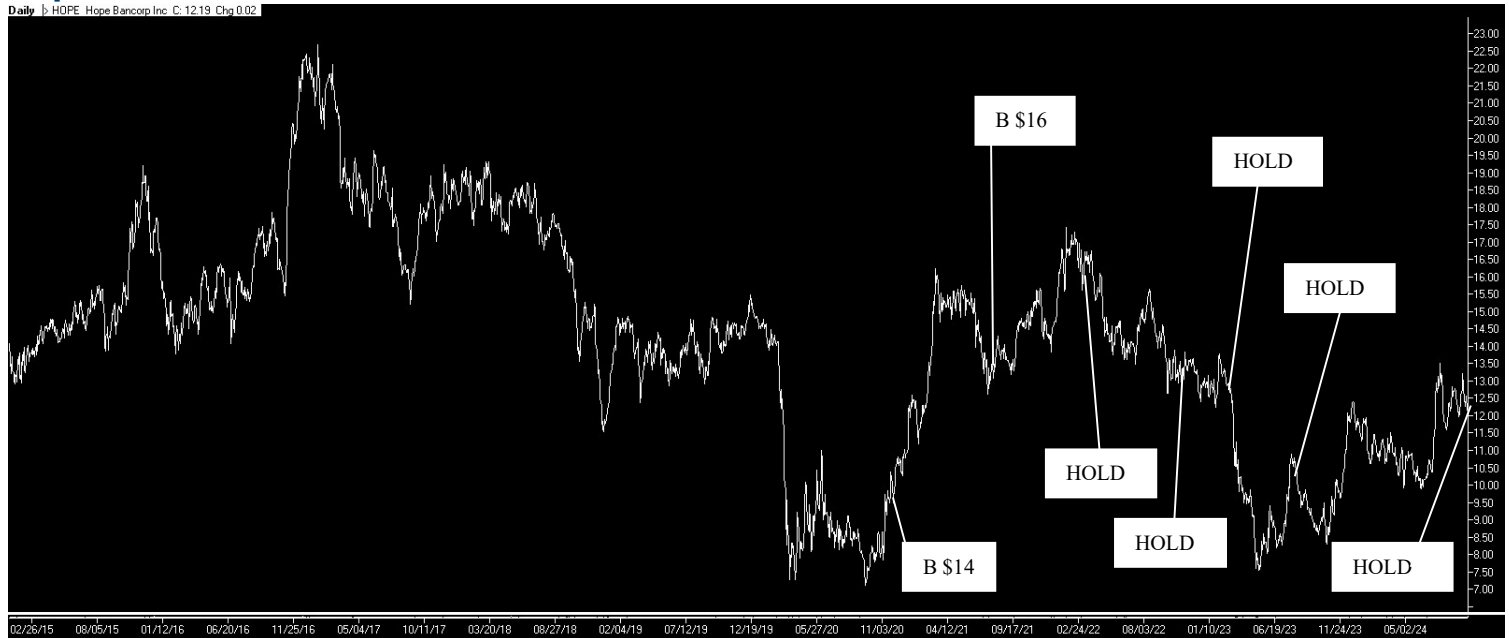
# EQUITY RESEARCH

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

	1Q23	2Q23	3Q23	4Q23	2023	1Q24	2Q24	3Q24e	4Q24e	2024e
Interest Income	\$238,396	\$267,184	\$275,793	\$269,224	\$1,048,878	\$259,674	\$232,601	\$243,278	\$285,892	\$1,021,445
Interest Expense	104,518	136,495	140,415	143,308	523,017	144,627	126,741	131,686	136,247	509,301
Net Interest Income before loan losses	133,878	130,689	135,378	125,916	525,861	115,047	105,860	111,592	119,645	452,144
Provision for loan losses	1,700	8,900	16,800	1,700	29,100	2,600	1,400	3,700	3,500	11,200
Net Interest income net loan loss provisions	132,178	121,789	118,578	124,216	496,761	112,447	104,460	107,892	116,145	440,944
Non-Interest Income	10,978	17,014	8,305	9,280	45,577	8,286	11,071	9,754	9,427	38,538
Non-Interest Expense	90,354	87,333	86,873	99,891	364,451	84,839	80,987	80,121	79,653	325,600
Income before income taxes	52,082	51,470	40,010	33,605	177,887	35,894	34,544	37,525	45,919	153,882
Income taxes	13,681	13,448	9,961	7,124	44,214	10,030	9,274	9,757	11,480	40,451
Net Income	39,121	38,022	30,049	26,481	133,673	25,864	25,270	27,768	34,439	113,341
Dividends/disc. accretion on pref stock										
Net Income available to common stock	\$39,121	\$38,022	\$30,049	\$26,481	\$133,673	\$25,864	\$25,270	\$27,768	\$34,439	\$113,341
Diluted Earnings Per Share	\$0.33	\$0.32	\$0.25	\$0.22	\$1.11	\$0.21	\$0.21	\$0.23	\$0.29	\$1.14

## Important Disclosures

Daily HOPE Hope Bancorp Inc. C:12.19 Ctry:0.02



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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