

Bank of Hawaii (BOH)

\$92.93 (As of 01/21/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

Summary

Shares of Bank of Hawaii have outperformed the industry, over the past six months. While earnings estimates have remained stable ahead of fourth-quarter results, the company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate in two of the trailing four quarters. With improving non-interest bearing deposits, the company's net interest income is expected to grow, aiding top-line growth. Rising loans and deposits balances with support from improving economy is a tailwind for the company. Also, its steady capital-deployment activities are commendable. However, rising costs, due to expanding franchise, might impede bottom-line growth. Further, declining fee income, due to lack of diversifying efforts to expand sources of revenues might restrict the top-line growth. Also, stretched valuation remains a headwind.

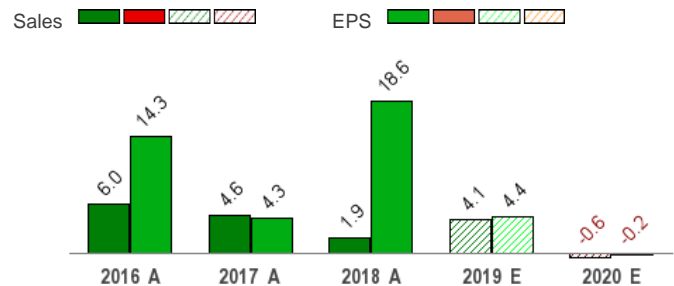
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.68 - \$74.78
20 Day Average Volume (sh)	135,197
Market Cap	\$3.7 B
YTD Price Change	-2.3%
Beta	0.94
Dividend / Div Yld	\$2.68 / 2.9%
Industry	Banks - West
Zacks Industry Rank	Top 44% (113 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.5%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-0.9%
Expected Report Date	01/27/2020
Earnings ESP	0.4%
P/E TTM	17.2
P/E F1	17.1
PEG F1	2.3
P/S TTM	4.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	169 E	171 E	173 E	175 E	678 E
2019	169 A	170 A	171 A	173 E	682 E
2018	163 A	162 A	164 A	166 A	655 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.32 E	\$1.35 E	\$1.36 E	\$1.37 E	\$5.45 E
2019	\$1.43 A	\$1.40 A	\$1.29 A	\$1.36 E	\$5.46 E
2018	\$1.28 A	\$1.30 A	\$1.36 A	\$1.30 A	\$5.23 A

*Quarterly figures may not add up to annual.

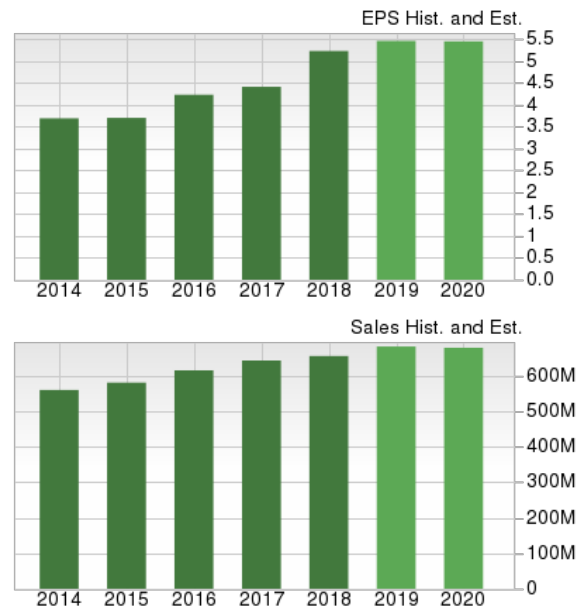
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

Overview

Headquartered at Honolulu, Hawaii, Bank of Hawaii Corporation is a bank holding company, which provides a broad array of products and services in Hawaii, Guam and other Pacific Islands having a principal operating subsidiary — Bank of Hawaii (the "Bank"). Directly and through its subsidiaries, Bank of Hawaii provides financial services and products to businesses, consumers and governments. As of Sep 30, 2019, Bank of Hawaii had consolidated total assets worth \$17.7 billion.

The corporation is managed under an organizational structure with four primary business segments:

- **Retail Banking** (contributes 40% of total net income in 2018): This segment offers a broad range of financial products and services to consumers and small businesses. It also offers consumer insurance products. The segment's products and services are served to customers through 67 branch locations and 379 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center and a mobile banking service.
- **Commercial Banking** (43%): This segment offers products including corporate banking, commercial real estate loans, commercial lease financing, auto dealer financing and deposit products to middle-market and large companies in Hawaii and the Pacific Islands. Deposit products are also offered to government entities in Hawaii. The segment also includes international banking and provides merchant services to its customers.
- **Investment Services and Private Banking** (10.3%): This segment includes private banking and international client banking services, trust services, investment management and institutional investment advisory services.
- **Treasury and Other** (6.7%): This segment consists of corporate asset and liability management activities, including interest rate risk management and a foreign currency exchange business. The net residual effect of the transfer pricing of assets and liabilities is included in Treasury, along with the elimination of intercompany transactions.



Reasons To Buy:

- ▲ Organic growth remains a key strength at Bank of Hawaii, as reflected by its revenue growth story. Revenues witnessed a CAGR of 4% over the last five years (2014-2018) on increasing net interest income, aided by rising rates. Moreover, the low-cost funding source — non-interest bearing deposits — representing over 32% of total deposits, are expected to boost the net interest income and margin. Notably, revenues increased in the first nine months of 2019 as well. Hence, we believe the company is well positioned to maintain its increasing revenue trend, going forward.
- ▲ Bank of Hawaii exhibits a strong liquidity position. Notably, the company's deposit base recorded a five-year CAGR of 4.4% (2014-2018) while loans witnessed a CAGR of 10.9%, during the same time frame. Notably, both increased in the first nine months of 2019 as well. Thus, strong deposit balances will help the company generate higher loans and meet other general business purposes.
- ▲ We remain encouraged by Bank of Hawaii's steady capital-deployment activities. In April 2019, the company hiked its quarterly stock dividend by 4.8%. Also, from the beginning of share-repurchase program in July 2001, the company has repurchased a total of 56.6 million shares of common stock for a total cost of \$2.3 billion as of Sep 30, 2019. This reflects the company's commitment to return value to its shareholders, backed by a strong capital position. In addition, the company's earnings stability reflects the fact that such activities are sustainable for the long run.
- ▲ Bank of Hawaii's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 17.33% compares favorably with the industry's 11.25%.

Bank of Hawaii's growth story has been aided by impressive revenue growth, high loans and deposit balances. Moreover, robust capital position supports its steady capital-deployment measures.

Reasons To Sell:

- ▼ Bank of Hawaii's expanding cost base exposes the company to operational risks. Notably, non-interest expenses recorded a CAGR of 3.3% over the last five years (2014-2018), with the rising trend continuing in the nine months of 2019, primarily due to increase in salaries expenses. Therefore, mounting expenses will likely remain a near-time headwind as the company focuses on growing its franchise.
- ▼ Slowdown in mortgage banking activities due to rising interest rates kept Bank of Hawaii's non-interest income under pressure. Over the three-year period (ended 2018), fee income declined at a CAGR of 7.5%. Though fee income improved in the first nine months of 2019 owing to reversal of trend in mortgage banking on interest rate cuts, lack of diversifying efforts to expand sources of revenues might keep restricting top-line growth.
- ▼ Shares of Bank of Hawaii have outperformed the industry in the past six months. Despite this favorable trend, the company's 2019 earnings estimates have been revised slightly downward, over the past 30 days. Also, the stock seems overvalued when compared with the broader industry. Its current price-to-book and price-earnings (F1) ratios are higher than the respective industry averages. Therefore, given the above concerns and lack of positive estimates revision, the stock has limited upside potential.

Escalating expenses remain a key concern for the company's bottom-line growth. Further, declining fee income restricts top-line expansion. Also, stretched valuation is a headwind for the company.

Last Earnings Report

Bank of Hawaii Q3 Earnings Disappoint, Costs Escalate

Bank of Hawaii reported a negative earnings surprise of 6.5% in third-quarter 2019. Earnings per share of \$1.29 lagged the Zacks Consensus Estimate of \$1.38. Further, the reported figure compares unfavorably with \$1.36 earned in the prior-year quarter.

Results were negatively impacted by elevated expenses and provisions. Also, lower net interest margin was on the downside. Yet, higher revenues were a positive factor. Further, strong capital position, along with higher loan balances, was the supporting factor.

The company's net income came in at \$52.1 million, down 8.4% from the \$56.9 million reported in the prior-year quarter.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	1.54%
EPS Surprise	-6.52%
Quarterly EPS	1.29
Annual EPS (TTM)	5.42

Revenues Increase, Expenses Escalate, Loans Improve

The company's total revenues increased 3.6% year over year to \$171.7 million in the quarter. The revenue figure also beat the Zacks Consensus Estimate of \$168.8 million.

The bank's net interest income was recorded at \$125.2 million, up around 1% year over year. NIM shrunk 6 basis points (bps) to 3.01%, year on year.

Non-interest income came in at \$46.5 million, up 12% year over year. This upsurge primarily resulted from rise in almost all components of income.

The bank's non-interest expense flared up 10.8% year over year to \$100.3 million, including legal reserve. This upsurge reflects higher salaries and benefits, occupancy, equipment, as well as data-processing and other expenses.

Efficiency ratio came in at 58.55%, up from the 55.07% recorded in the comparable quarter last year. Notably, a rise in the efficiency ratio reflects lower profitability.

As of Sep 30, 2019, total loans and leases balances inched up 1.1% from the end of the prior quarter to \$10.9 billion, while total deposits edged down 1% to \$15.3 billion.

Credit Quality: A Mixed Bag

As of Sep 30, 2019, allowance for loan and lease losses increased slightly year over year to \$108.9 million, while non-performing assets surged 56.5% year over year to \$21.6 million.

In addition, the company recorded provision for credit losses of \$4.3 million in the reported quarter, up 13.2% year over year. Further, net charge-offs were \$3 million or 11 bps annualized of total average loans and leases outstanding, down from the \$3.3 million or 13 bps recorded in the prior-year quarter.

Strong Capital and Profitability Ratios

Bank of Hawaii was well capitalized with robust profitability ratios during the July-September quarter.

As of Sep 30, 2019, Tier 1 capital ratio was 12.33% compared with 13.2% as of Sep 30, 2018. Total capital ratio was 13.44% compared with 14.38% witnessed in the comparable period last year. The ratio of tangible common equity to risk-weighted assets was 12.10% compared with 12.56% recorded at the end of the year-ago quarter.

Return on average assets were down 16 basis points year over year to 1.17%, while return on average shareholders' equity contracted 204 bps to 16.02%.

Capital Deployment

During the third quarter, the company repurchased 0.4 million shares of common stock, at an average price of \$83.07 and for a total cost of \$29.9 million.

Outlook

Given the current challenging-rate environment, management anticipates net interest margin in the fourth quarter to be down 4-5 basis points from the third-quarter tally. Non-interest income is expected to be around \$45 million in the fourth quarter of 2019, excluding a previously-announced gain of \$3.8 million associated with the early buyout of a leveraged lease.

In 2019, the company predicts non-interest expenses to flare up about 2-3% year over year, excluding legal settlement. Effective tax rate for fourth-quarter 2019 will likely be 22-23%, which includes a one-time increase of \$2.1 million related to tax adjustment items.

Recent News

Dividend Update

On Oct 28, Bank of Hawaii's board of directors announced a quarterly cash dividend of 67 cents per share. The dividend was paid on Dec 13 to shareholders on record as of Nov 29, 2019.

Valuation

Bank of Hawaii's shares are up 22.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 8.1% and 12.2% over the past year, respectively.

The S&P 500 Index is up 25.3% in the past year.

The stock is currently trading at 16.96X forward 12 months earnings, which compares to 13.45X for the Zacks sub-industry, 14.63X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.34X and as low as 11.38X, with a 5-year median of 16.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$98 price target reflects 17.81X forward earnings.

The table below shows summary valuation data for BOH

Valuation Multiples - BOH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.96	13.45	14.63	19.13
	5-Year High	21.34	18.23	16.21	19.34
	5-Year Low	11.38	10.42	12.01	15.17
	5-Year Median	16.3	14.52	13.98	17.44
P/B TTM	Current	2.9	1.53	2.84	4.54
	5-Year High	3.32	2.01	2.89	4.55
	5-Year Low	2.13	1.09	1.83	2.85
	5-Year Median	2.7	1.53	2.51	3.61
P/S F12M	Current	5.5	4.18	6.53	3.56
	5-Year High	6.24	4.75	6.61	3.56
	5-Year Low	3.89	3.05	5.2	2.54
	5-Year Median	4.95	3.97	6.04	3

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 44% (113 out of 255)



Top Peers

BOK Financial Corporation (BOKF)	Neutral
Columbia Banking System, Inc. (COLB)	Neutral
First Financial Bancorp. (FFBC)	Neutral
Peoples United Financial, Inc. (PBCT)	Neutral
Signature Bank (SBNY)	Neutral
Synovus Financial Corp. (SNV)	Neutral
Umpqua Holdings Corporation (UMPQ)	Neutral
Zions Bancorporation, N.A. (ZION)	Neutral

Industry Comparison Industry: Banks - West				Industry Peers		
	BOH Neutral	X Industry	S&P 500	BOKF Neutral	PBCT Neutral	ZION Neutral
VGM Score	F	-	-	F	D	B
Market Cap	3.74 B	351.92 M	24.43 B	6.05 B	6.39 B	8.51 B
# of Analysts	1	3	13	3	9	13
Dividend Yield	2.88%	1.89%	1.75%	2.39%	4.43%	2.73%
Value Score	C	-	-	D	C	A
Cash/Price	0.10	0.31	0.04	0.47	0.13	0.32
EV/EBITDA	10.25	7.26	14.00	12.72	13.47	5.22
PEG Ratio	2.27	1.61	2.06	1.97	5.89	1.36
Price/Book (P/B)	2.90	1.41	3.39	1.25	0.83	1.23
Price/Cash Flow (P/CF)	14.56	11.21	13.69	10.19	10.68	8.90
P/E (F1)	17.05	12.90	19.00	11.82	11.77	11.26
Price/Sales (P/S)	4.90	3.34	2.68	2.77	2.77	2.62
Earnings Yield	5.86%	7.72%	5.26%	8.46%	8.49%	8.88%
Debt/Equity	0.09	0.13	0.72	1.47	0.53	0.18
Cash Flow (\$/share)	6.38	2.68	6.94	8.38	1.50	5.60
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	9.38%	16.09%	10.60%	14.34%	12.67%	29.02%
Proj. EPS Growth (F1/F0)	-0.18%	-1.61%	7.57%	-1.21%	-2.16%	2.34%
Curr. Cash Flow Growth	11.32%	26.53%	14.00%	27.64%	12.28%	30.46%
Hist. Cash Flow Growth (3-5 yrs)	4.11%	12.69%	9.00%	4.87%	14.15%	12.61%
Current Ratio	0.70	0.91	1.23	0.86	0.98	0.84
Debt/Capital	7.89%	11.49%	42.99%	59.47%	34.13%	14.19%
Net Margin	29.05%	26.30%	11.15%	22.88%	22.51%	25.15%
Return on Equity	17.33%	11.25%	17.16%	11.20%	8.16%	12.09%
Sales/Assets	0.04	0.05	0.55	0.05	0.04	0.05
Proj. Sales Growth (F1/F0)	-0.53%	0.63%	4.05%	0.48%	9.63%	-1.22%
Momentum Score	F	-	-	A	B	A
Daily Price Chg	-1.27%	-0.74%	-0.27%	-1.38%	-0.25%	-1.66%
1 Week Price Chg	0.93%	0.47%	2.29%	1.18%	-1.65%	0.14%
4 Week Price Chg	-2.38%	-1.91%	2.13%	-2.10%	-5.04%	-3.16%
12 Week Price Chg	5.59%	1.92%	6.99%	7.64%	-6.86%	1.05%
52 Week Price Chg	23.32%	7.40%	21.25%	5.23%	-1.90%	7.24%
20 Day Average Volume	135,197	14,126	1,415,064	120,606	2,427,948	1,385,389
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.97%	0.00%
(F1) EPS Est 4 week change	-0.91%	0.00%	0.00%	0.44%	-0.27%	0.45%
(F1) EPS Est 12 week change	-2.33%	-2.31%	-0.34%	-2.00%	-4.39%	1.03%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.57%	2.59%	0.14%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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