

## Bank of Hawaii (BOH)

**\$53.96** (As of 03/20/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

### Summary

Shares of Bank of Hawaii have underperformed the industry, over the past six months. However, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three 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, involvement in steady capital deployment activities continues to enhance shareholders' confidence in the stock. Nonetheless, elevated expenses, due to expanding franchise and rising compensation costs, might impede bottom-line growth. Further, a declining fee income, due to lack of diversifying efforts to expand sources of revenues, might clip Bank of Hawaii's top-line growth.

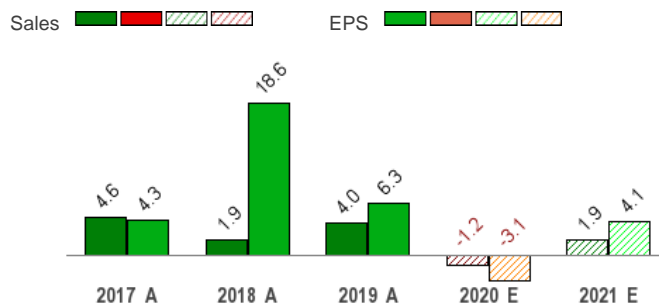
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$95.68 - \$48.38</b>
20 Day Average Volume (sh)	<b>351,694</b>
Market Cap	<b>\$2.2 B</b>
YTD Price Change	<b>-43.3%</b>
Beta	<b>1.03</b>
Dividend / Div Yld	<b>\$2.68 / 5.0%</b>
Industry	<b><u>Banks - West</u></b>
Zacks Industry Rank	<b>Bottom 20% (202 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>6.6%</b>
Last Sales Surprise	<b>-0.8%</b>
EPS F1 Est- 4 week change	<b>-1.8%</b>
Expected Report Date	<b>04/27/2020</b>
Earnings ESP	<b>-2.3%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	166 E	169 E	171 E	173 E	686 E
2020	167 E	167 E	168 E	169 E	673 E
2019	169 A	170 A	171 A	172 A	681 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.27 E	\$1.32 E	\$1.33 E	\$1.34 E	\$5.61 E
2020	\$1.32 E	\$1.30 E	\$1.29 E	\$1.28 E	\$5.39 E
2019	\$1.43 A	\$1.40 A	\$1.29 A	\$1.45 A	\$5.56 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>9.7</b>
P/E F1	<b>10.0</b>
PEG F1	<b>1.3</b>
P/S TTM	<b>2.8</b>

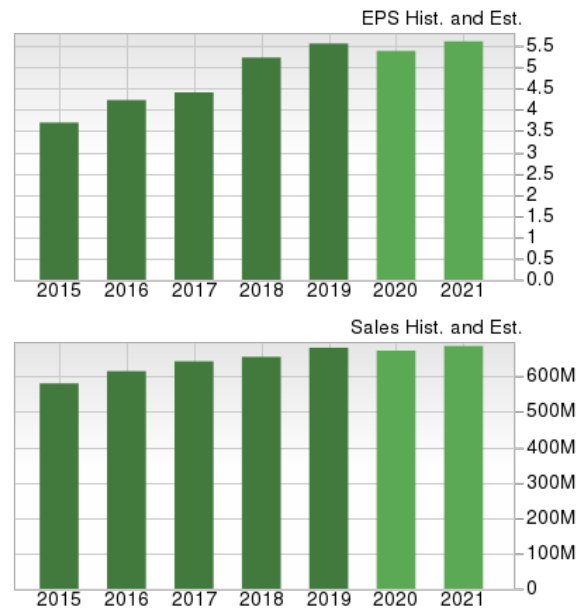
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/20/2020. The reports text is as of 03/23/2020.

## 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 Dec 31, 2019, Bank of Hawaii had consolidated total assets worth \$18.1 billion.

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

- **Retail Banking** (contributes 41% of total net income in 2019): 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** (46%): 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%): This segment includes private banking and international client banking services, trust services, investment management and institutional investment advisory services.
- **Treasury and Other** (3%): 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.



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## 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 4.1% over the last five years (2015-2019) on increasing net interest income. Moreover, the low-cost funding source — non-interest bearing deposits — representing over 29% of total deposits, are anticipated to boost the net interest income and margin. Hence, we believe the company is well positioned to maintain its increasing revenue trend in the days to come.
- ▲ Bank of Hawaii exhibits a strong liquidity position. Notably, the company's deposit base recorded a five-year CAGR of 4.4% (2015-2019) while loans witnessed a CAGR of 9.5%, during the same time frame. 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 56.9 million shares of common stock for a total cost of \$2.3 billion as of Dec 31, 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 17.60% compares favorably with the industry's 11.08%.

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.

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### Reasons To Sell:

- ▼ Bank of Hawaii's expanding cost base exposes the company to operational risks. Notably, non-interest expenses witnessed a CAGR of 2.2% over the last five years (2015-2019), primarily due to rise in salaries expenses. Therefore, mounting expenses will likely remain a near-term 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 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 underperformed the industry in the past six months. With this unfavorable trend, the company's 2020 earnings estimates have been revised 1.8% downward, over the past 60 days. 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 Q4 Earnings Beat Estimates on Higher Revenues

Bank of Hawaii delivered fourth-quarter 2019 positive earnings surprise of 6.6%. Earnings per share of \$1.45 surpassed the Zacks Consensus Estimate of \$1.36. Further, the bottom line improved 11.5% from the prior-year quarter.

Results reflect decline in expenses and rise in non-interest income. Also, strong capital position, along with higher loan and deposit balances, was a supporting factor. However, increasing provisions and lower NIM hurt results to some extent.

The company's net income came in at \$58.1 million, up 7.8% from the prior-year quarter.

For 2019, earnings of \$5.56 per share improved 6.3% from the prior year's figure. Also, the same outpaced the consensus estimate of \$5.46. Net income grew 2.9% to \$225.9 million.

Quarter Ending **12/2019**

Report Date	Jan 27, 2020
Sales Surprise	-0.82%
EPS Surprise	6.62%
Quarterly EPS	1.45
Annual EPS (TTM)	5.57

### Revenues Up, Expenses Decline, Loans & Deposits Rise

The company's total revenues increased 3.3% year over year to \$171.6 million in the quarter. However, the figure missed the Zacks Consensus Estimate of \$173 million.

For 2019, total revenues were \$681.1 billion, up 3.9%. However, the top line missed the consensus estimate of \$682 million.

The bank's net interest income was \$123.9 million, marginally down year over year. NIM shrunk 15 basis points (bps) to 2.95%.

Non-interest income came in at \$47.7 million, up 13.3% year over year. This upsurge primarily resulted from rise in components including trust and asset management, mortgage banking and service charges on deposit accounts.

The bank's non-interest expenses declined 2.9% year over year to \$93.1 million. This fall reflects lower salaries and benefits, net occupancy, data-processing and other expenses.

Efficiency ratio came in at 54.26% compared with 57.75% recorded in the year-ago quarter. Notably, a fall in the efficiency ratio reflects higher profitability.

As of Dec 31, 2019, total loans and leases balances grew 1% from the end of the prior quarter to \$11 billion, and total deposits improved 2.9% to \$15.8 billion.

### Credit Quality: A Mixed Bag

As of Dec 31, 2019, allowance for loan and lease losses increased 3.1% year over year to \$110 million, and non-performing assets surged 55.6% to \$20.1 million. In addition, the company recorded provision for credit losses of \$4.8 million, significantly up from the prior-year quarter.

However, net charge-offs were \$3.7 million or 13 bps annualized of total average loans and leases outstanding, down from the \$4 million or 15 bps recorded in the prior-year quarter.

### Strong Capital and Profitability Ratios

As of Dec 31, 2019, Tier 1 capital ratio was 12.18% compared with 13.07% as of Dec 31, 2018. Total capital ratio was 13.28%, down from 14.21%. The ratio of tangible common equity to risk-weighted assets was 11.85% compared with 12.52% recorded at the end of the year-ago quarter.

Return on average assets were up 3 bps year over year to 1.29%, and return on average shareholders' equity expanded 79 bps to 17.84%.

### Share Repurchase Update

During the fourth quarter, Bank of Hawaii repurchased 336.2K shares of common stock, at an average price of \$89.11 per share and for a total cost of \$30 million. From Jan 2 to Jan 24, the company repurchased 71.5K shares at an average price of \$93.50 per share.

Also, it increased the authorization under the share repurchase program by an additional \$100 million. On Jan 24, \$120.4 million was left under the buyback authorization.

### Outlook

Management anticipates net interest margin in 2020 to be slightly lower than 2019 but up from the fourth quarter run rate as balance sheet growth and an improved asset mix are expected to offset the lower rate environment. Non-interest income is expected to be around \$44 million per quarter in 2020.

In 2020, the company predicts non-interest expenses to flare up about 2-3% year over year. Effective tax rate for the year will likely be 22%. Notably, for the first quarter of 2020, non-interest expenses will include seasonal payroll expenses of about \$3 million.

The company's capital-management strategy in 2020 remain unchanged including pay out approximately 50% of net income in dividends to maintain adequate capital to support the business growth with a minimum Tier 1 leverage ratio of 7% and with the remainder available for share repurchases.

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## Recent News

### Dividend Update

On Jan 27, Bank of Hawaii's board of directors announced a quarterly cash dividend of 67 cents per share. The dividend was paid on Mar 13, to shareholders on record as of Feb 28, 2020.

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## Valuation

Bank of Hawaii's shares are down 43.3% in the year-to-date period and 29.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 40.9% and 36.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 31.4% and 29.5%, respectively.

The S&P 500 Index is down 28.2% in the year-to-date period and 18.2% in the past year.

The stock is currently trading at 9.92X forward 12 months earnings, which compares to 8.59X for the Zacks sub-industry, 9.76X for the Zacks sector and 13.75X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.34X and as low as 9.92X, with a 5-year median of 16.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57 price target reflects 10.42X 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	9.92	8.59	9.76	13.75
	5-Year High	21.34	18.23	16.21	19.34
	5-Year Low	9.92	8.59	9.76	13.75
	5-Year Median	16.36	14.51	13.97	17.42
P/TB TTM	Current	1.76	1.17	2.09	8.75
	5-Year High	3.49	2.65	3.98	12.81
	5-Year Low	1.76	1.17	2.09	6.02
	5-Year Median	2.84	1.97	3.46	9.14
P/S F12M	Current	3.2	2.56	5.99	2.5
	5-Year High	6.24	4.75	6.64	3.43
	5-Year Low	3.2	2.56	5.39	2.5
	5-Year Median	4.97	3.97	6.04	3

As of 03/20/2020

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## Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 254)



## Top Peers

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

Industry Comparison Industry: Banks - West				Industry Peers		
	BOH Neutral	X Industry	S&P 500	BOKF Underperform	PBCT Neutral	ZION Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>D</b>	<b>F</b>	<b>D</b>
Market Cap	2.16 B	218.44 M	15.82 B	2.63 B	5.12 B	4.22 B
# of Analysts	4	4	13	6	9	13
Dividend Yield	4.97%	3.35%	2.79%	5.48%	6.01%	5.32%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>A</b>
Cash/Price	0.21	0.42	0.06	0.80	0.14	0.44
EV/EBITDA	4.71	3.76	9.77	4.78	10.35	4.61
PEG Ratio	1.17	0.89	1.42	0.98	4.51	0.81
Price/Book (P/B)	1.69	0.72	2.07	0.54	0.61	0.64
Price/Cash Flow (P/CF)	7.85	6.49	8.39	4.48	7.37	4.22
P/E (F1)	8.81	7.68	12.42	5.86	9.02	6.19
Price/Sales (P/S)	2.80	1.99	1.68	1.18	2.22	1.30
Earnings Yield	9.99%	12.98%	7.97%	17.05%	11.09%	16.15%
Debt/Equity	0.07	0.13	0.70	0.99	0.53	0.56
Cash Flow (\$/share)	6.88	2.79	7.01	8.31	1.60	6.07
<b>Growth Score</b>	<b>D</b>	-	-	<b>F</b>	<b>F</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	9.76%	15.58%	10.85%	15.98%	12.67%	30.32%
Proj. EPS Growth (F1/F0)	-3.10%	-6.82%	4.90%	-9.67%	-5.76%	-4.62%
Curr. Cash Flow Growth	3.89%	6.11%	6.03%	7.34%	20.10%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	4.36%	14.20%	8.55%	8.19%	15.70%	17.66%
Current Ratio	0.70	0.91	1.23	0.80	0.98	0.88
Debt/Capital	6.23%	11.54%	42.57%	49.69%	34.13%	33.93%
Net Margin	29.31%	26.46%	11.57%	22.49%	22.51%	25.15%
Return on Equity	17.60%	11.08%	16.74%	10.77%	8.16%	12.19%
Sales/Assets	0.04	0.05	0.54	0.05	0.04	0.05
Proj. Sales Growth (F1/F0)	-1.21%	0.00%	3.13%	-2.14%	8.12%	-3.88%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>D</b>	<b>F</b>	<b>F</b>
Daily Price Chg	-7.48%	-6.13%	-4.39%	-6.62%	-9.98%	-6.13%
1 Week Price Chg	-7.47%	-11.77%	-11.01%	-22.00%	-8.73%	-16.61%
4 Week Price Chg	-40.64%	-39.92%	-36.57%	-54.00%	-27.77%	-44.69%
12 Week Price Chg	-43.37%	-40.68%	-34.28%	-57.40%	-29.95%	-50.48%
52 Week Price Chg	-30.69%	-35.97%	-27.95%	-53.84%	-28.38%	-44.45%
20 Day Average Volume	351,694	29,262	3,981,936	552,770	7,167,739	5,333,461
(F1) EPS Est 1 week change	0.00%	0.00%	-0.01%	-4.22%	-0.33%	-2.19%
(F1) EPS Est 4 week change	-1.82%	-2.79%	-0.85%	-7.42%	-1.81%	-4.82%
(F1) EPS Est 12 week change	-2.05%	-3.08%	-1.70%	-8.90%	-2.72%	-4.87%
(Q1) EPS Est Mthly Chg	-0.19%	-0.73%	-0.88%	-5.83%	0.00%	-2.12%

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## 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	<b>B</b>
Growth Score	<b>D</b>
Momentum Score	<b>B</b>
VGM Score	<b>C</b>

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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