

Bank of Hawaii (BOH)

\$56.89 (As of 07/30/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: D

Summary

Shares of Bank of Hawaii have underperformed the industry over the past six months. However, the company has an impressive earnings surprise history. It surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The second-quarter results reflected revenue growth, fall in expenses and elevated provisions. Improving non-interest bearing deposits supports net interest income growth of the company. Also, rising loans and deposits balances depicts the company's strong capital position. Steady capital-deployment activities are commendable. Nevertheless, the company's elevated expenses due to expanding franchise and rising compensation costs might impede bottom-line growth. Also, non-diversified fee income might hamper the company's top-line expansion. Additionally, stretched valuation of the company remains a concern.

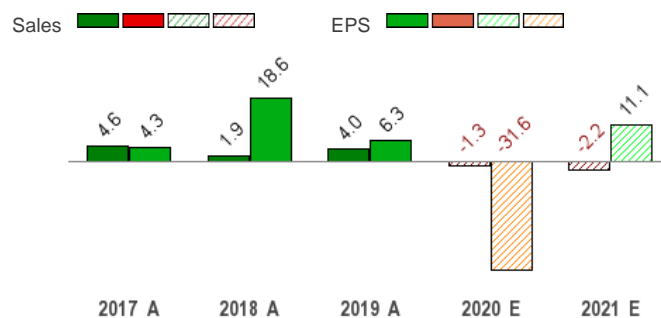
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.68 - \$46.70
20 Day Average Volume (sh)	242,243
Market Cap	\$2.3 B
YTD Price Change	-40.2%
Beta	1.29
Dividend / Div Yld	\$2.68 / 4.7%
Industry	Banks - West
Zacks Industry Rank	Top 33% (83 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	6.2%
EPS F1 Est- 4 week change	-2.4%
Expected Report Date	10/26/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	159 E	162 E	164 E	163 E	657 E
2020	172 A	178 A	166 E	168 E	672 E
2019	169 A	170 A	171 A	172 A	681 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.89 E	\$1.13 E	\$1.17 E	\$1.16 E	\$4.22 E
2020	\$0.87 A	\$0.98 A	\$1.02 E	\$1.07 E	\$3.80 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	12.4
P/E F1	15.0
PEG F1	2.0
P/S TTM	3.0

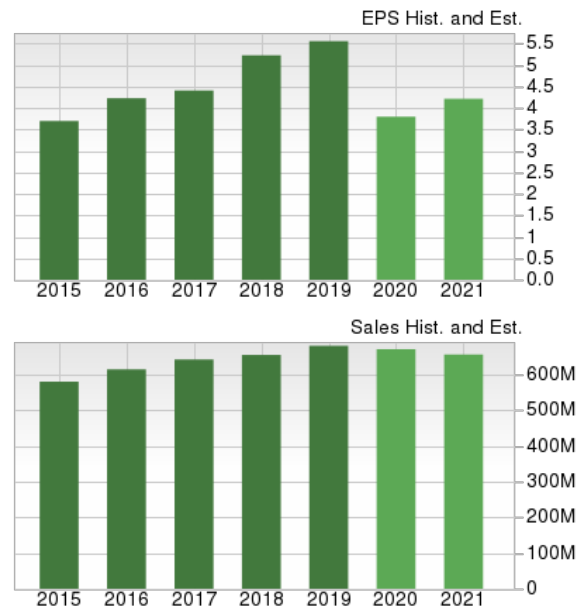
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/30/2020. The reports text is as of 07/31/2020.

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 Jun 30, 2020, Bank of Hawaii had consolidated total assets worth \$19.8 billion.

Effective Jan 1, 2020, the company changed segments based on management structure and strategic focus. The business segments are:

- **Consumer Banking:** 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 382 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.
- **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.



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. The rising trend continued in the first half of 2020. 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.
- ▲ As of Jun 30, 2020, the company held total borrowings worth \$663.7 million. The debt level has remained volatile over the past few quarters. Nevertheless, its earnings before interest and tax are 13.1 times the interest expenses and have been almost stable in the past few quarters. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe Bank of Hawaii has lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ 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. Both metrics continued to rise in first six months of 2020. 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 57.1 million shares of common stock for a total cost of \$2.3 billion as of Jun 30, 2020. This reflects the company's commitment to return value to its shareholders, backed by a strong capital position. Moreover, the company's debt/equity ratio compares favorably with that of the broader industry, which reflects the fact that such activities are sustainable in the future. Notably, it temporarily suspended share-buyback program, following the coronavirus-related slowdown.
- ▲ 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 13.98% compares favorably with the industry's 9.35%.

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. Though non-interest expenses remained stable in the first half of 2020, it 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 and first half of 2020 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 the unfavorable trend, the company's 2020 earnings estimates have been revised slightly downward over the past 30 days. Also, the stock seems overvalued as its current price-to-book (P/B) and price-to-earnings (P/E) (F1) ratios are above the respective industry averages. Therefore, given the above concerns, 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 Q2 Earnings Beat Estimates, Revenues Up

Bank of Hawaii delivered an earnings surprise of 3.2% in second-quarter 2020. Earnings per share of 98 cents surpassed the Zacks Consensus Estimate of 95 cents. However, the bottom line compares unfavorably with the \$1.40 reported in the prior-year quarter.

Results reflect revenue growth on rise in net interest as well as non-interest income. Fall in expenses reflected prudent cost management. Also, higher loan and deposit balances supported the results. However, contraction of the NIM was a major drag. Further, a substantial rise in provisions was a headwind.

The company's net income came in at \$38.9 million, down 31.6% from the prior-year quarter.

Revenues Up, Loans & Deposits Rise

The company's total revenues increased 5% year over year to \$178 million in the quarter. Also, the figure surpassed the Zacks Consensus Estimate of \$167.6 million.

The bank's net interest income was \$126.7 million, up 2.1% year over year, including an interest recovery. NIM shrunk 21 basis points (bps) to 2.83% on low rates and elevated levels of liquidity.

Non-interest income came in at \$51.3 million, up 12.7% year over year. This upsurge primarily resulted from a rise in investment securities gains and mortgage banking revenues. This was partly offset by lower service charges on deposit accounts and trust and asset management income.

The bank's non-interest expenses declined 4.1% year over year to \$88.9 million. This fall mainly reflects lower salaries and benefits and other expenses, partly negated by higher net occupancy, net equipment and professional fees.

Efficiency ratio came in at 49.95% compared with the 54.69% recorded in the year-ago quarter. Notably, a fall in the efficiency ratio reflects higher profitability.

As of Jun 30, 2020, total loans and leases balance grew 3.5% from the end of the prior quarter to \$11.8 billion and total deposits improved 8.1% to \$17.4 billion.

Credit Quality Deteriorates

As of Jun 30, 2020, allowance for credit losses jumped 61% year over year to \$173.4 million and non-performing assets climbed 4.1% to \$22.7 million. In addition, the company recorded provision for credit losses of \$40.4 million, significantly up from the prior-year quarter.

Also, net charge-offs were \$5.1 million, up from the \$2.4 million recorded in the prior-year quarter.

Strong Capital and Profitability Ratios

As of Jun 30, 2020, Tier 1 capital ratio was 12.04% compared with 12.46%, as of Jun 30, 2019. Total capital ratio was 13.29%, down from 13.57%. The ratio of tangible common equity to risk-weighted assets was 12.07% compared with the 12.17% reported at the end of the year-ago quarter.

Return on average assets was down 49 bps year over year to 0.82%. Return on average shareholders' equity was 11.58% compared with 17.97%, as of Jun 30, 2019.

Outlook

Including the interest recovery, management expects net interest margin to shrink approximately six-seven basis points in the third quarter on the continued impact of lower rates and additional liquidity. However, net interest income is expected to be approximately flat with the second quarter, net of the interest recovery as loan growth and asset mix change are expected to mitigate the impact of the lower margin.

Management anticipates moderate loan growth for the remaining of 2020.

For the third quarter, non-interest revenues are expected to be about \$37-\$38 million. Challenges continued due to lower levels of customer activity during the COVID pandemic.

For the rest of 2020, quarterly non-interest expenses are likely to be flat with the second quarter at around \$89 million.

Effective tax rate is estimated to be 20-21% for the remainder of 2020.

Quarter Ending 06/2020

Report Date	Jul 27, 2020
Sales Surprise	6.17%
EPS Surprise	3.16%
Quarterly EPS	0.98
Annual EPS (TTM)	4.59

Recent News

Dividend Update

On Jul 27, Bank of Hawaii's board of directors announced a quarterly cash dividend of 67 cents per share. The dividend will be paid on Sep 15 to shareholders of record as of Aug 31, 2020.

Valuation

Bank of Hawaii's shares are down 40.2% in the year-to-date period and 31.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 24.6% and 18.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 14.7% and 12.9%, respectively.

The S&P 500 Index is up 1.3% in the year-to-date period and 9.8% in the past year.

The stock is currently trading at 13.44X forward 12 months earnings, which compares to 13.33X for the Zacks sub-industry, 16.35X for the Zacks sector and 22.69X for the S&P 500 Index.

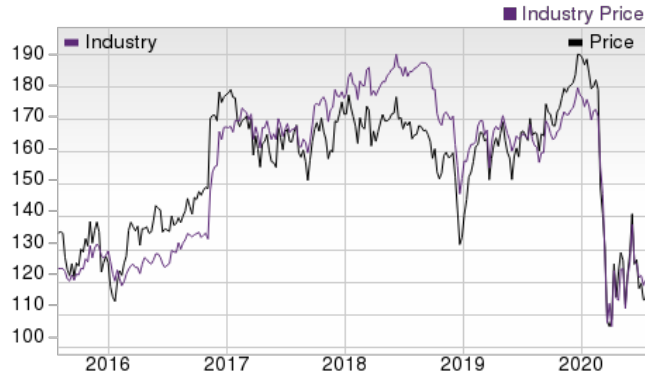
Over the past five years, the stock has traded as high as 21.34X and as low as 8.71X, with a 5-year median of 16.23X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$60 price target reflects 14.18X earnings per share.

The table below shows summary valuation data for BOH

Valuation Multiples - BOH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.44	13.33	16.35	22.69
	5-Year High	21.34	18.23	16.35	22.69
	5-Year Low	8.71	10.28	11.59	15.25
	5-Year Median	16.23	14.29	14.16	17.52
P/TB TTM	Current	1.78	1.6	3.34	12.82
	5-Year High	3.49	2.65	4	12.94
	5-Year Low	1.55	1.09	2.01	5.96
	5-Year Median	2.83	1.96	3.48	9.54
P/S F12M	Current	3.37	3.2	6.04	3.59
	5-Year High	6.24	4.75	6.66	3.59
	5-Year Low	2.81	2.7	4.96	2.53
	5-Year Median	4.97	3.95	6.06	3.02

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Top 33% (83 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BOK Financial Corporation (BOKF)	Neutral	3
Columbia Banking System, Inc. (COLB)	Neutral	4
First Financial Bancorp. (FFBC)	Neutral	3
Peoples United Financial, Inc. (PBCT)	Neutral	4
Signature Bank (SBNY)	Neutral	3
Synovus Financial Corp. (SNV)	Neutral	3
Umpqua Holdings Corporation (UMPQ)	Neutral	3
Zions Bancorporation, N.A. (ZION)	Neutral	3

Industry Comparison Industry: Banks - West				Industry Peers		
	BOH	X Industry	S&P 500	BOKF	PBCT	ZION
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	F	-	-	F	B	D
Market Cap	2.28 B	260.82 M	22.57 B	3.98 B	4.77 B	5.37 B
# of Analysts	4	3	14	6	7	7
Dividend Yield	4.71%	2.53%	1.83%	3.61%	6.41%	4.15%
Value Score	C	-	-	D	C	C
Cash/Price	0.24	0.48	0.07	0.78	0.29	0.47
EV/EBITDA	4.97	4.25	12.96	7.03	6.97	3.37
PEG Ratio	1.98	2.00	3.04	NA	NA	4.14
Price/Book (P/B)	1.68	0.91	3.13	0.79	0.63	0.77
Price/Cash Flow (P/CF)	8.27	7.61	12.61	6.81	7.01	5.40
P/E (F1)	14.83	11.46	22.06	11.63	9.82	18.11
Price/Sales (P/S)	2.96	2.21	2.42	1.81	2.02	1.74
Earnings Yield	6.68%	8.73%	4.31%	8.59%	10.14%	5.52%
Debt/Equity	0.04	0.16	0.75	1.15	0.31	0.19
Cash Flow (\$/share)	6.88	2.79	6.94	8.31	1.60	6.07
Growth Score	F	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	9.39%	12.82%	10.85%	15.63%	12.74%	24.41%
Proj. EPS Growth (F1/F0)	-31.65%	-25.99%	-7.75%	-30.80%	-17.68%	-58.20%
Curr. Cash Flow Growth	3.89%	5.43%	5.39%	7.34%	20.10%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	4.36%	14.60%	8.55%	8.19%	15.70%	17.66%
Current Ratio	0.70	0.91	1.31	0.78	0.92	0.86
Debt/Capital	4.28%	13.56%	44.32%	53.56%	22.89%	15.15%
Net Margin	23.91%	22.78%	10.44%	17.26%	20.81%	15.70%
Return on Equity	13.98%	9.35%	14.73%	7.72%	7.39%	7.46%
Sales/Assets	0.04	0.05	0.52	0.05	0.04	0.04
Proj. Sales Growth (F1/F0)	-1.40%	0.00%	-1.95%	5.53%	10.32%	-0.46%
Momentum Score	D	-	-	C	A	C
Daily Price Chg	-1.90%	-0.86%	-0.92%	-1.41%	-2.01%	-1.77%
1 Week Price Chg	3.23%	1.11%	0.37%	8.58%	5.73%	3.29%
4 Week Price Chg	-4.72%	-0.15%	4.14%	5.52%	0.54%	1.14%
12 Week Price Chg	-6.69%	5.77%	12.21%	19.27%	-2.60%	10.86%
52 Week Price Chg	-31.36%	-27.20%	-1.73%	-29.33%	-27.76%	-23.66%
20 Day Average Volume	242,243	16,625	1,887,986	227,860	3,846,771	1,723,276
(F1) EPS Est 1 week change	-3.33%	0.00%	0.00%	-0.07%	1.23%	0.00%
(F1) EPS Est 4 week change	-2.41%	0.74%	0.38%	0.24%	4.82%	7.43%
(F1) EPS Est 12 week change	-2.27%	0.00%	-0.07%	3.04%	2.27%	15.23%
(Q1) EPS Est Mthly Chg	5.35%	2.76%	0.16%	3.95%	0.00%	6.76%

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	D
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.

Disclosures

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