

East West Bancorp (EWBC)

\$33.46 (As of 07/14/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: D

Summary

Shares of East West Bancorp have underperformed the industry over the past year. Its earnings have surpassed the Zacks Consensus Estimate in two, matched in one and lagged in one of the trailing four quarters. The company's margins are likely to remain under pressure in the near term amid near-zero interest rates. This will, in turn hurt revenue growth to some extent. Moreover, deteriorating credit quality remains a major near-term concern and will likely hamper financials. Further, persistently increasing operating expenses are expected to hurt the company's bottom line to some extent, going forward. However, continued rise in loan and deposit balances, and robust organic growth strategy are expected to support growth. Additionally, given the strong balance sheet and liquidity position, its capital deployment activities seem sustainable.

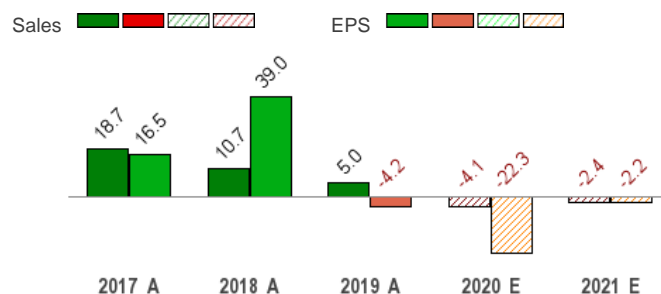
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.88 - \$22.55
20 Day Average Volume (sh)	1,016,064
Market Cap	\$4.7 B
YTD Price Change	-31.3%
Beta	2.03
Dividend / Div Yld	\$1.10 / 3.3%
Industry	Banks - West
Zacks Industry Rank	Top 37% (93 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.4%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	07/23/2020
Earnings ESP	3.5%
P/E TTM	7.1
P/E F1	9.4
PEG F1	0.9
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	379 E	387 E	395 E	401 E	1,570 E
2020	417 A	384 E	406 E	404 E	1,608 E
2019	405 A	420 A	421 A	431 A	1,677 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$0.82 E	\$0.93 E	\$1.06 E	\$3.50 E
2020	\$1.00 A	\$0.67 E	\$0.93 E	\$0.90 E	\$3.58 E
2019	\$1.16 A	\$1.24 A	\$1.17 A	\$1.28 A	\$4.61 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 07/14/2020. The reports text is as of 07/15/2020.

Overview

Headquartered in Pasadena, CA, East West Bancorp is the bank holding company for East West Bank. Incorporated in 1998, the company serves as a financial bridge between the United States and Greater China by providing various personal as well as commercial banking services to small and medium-sized businesses, business executives, professionals, and other individuals.

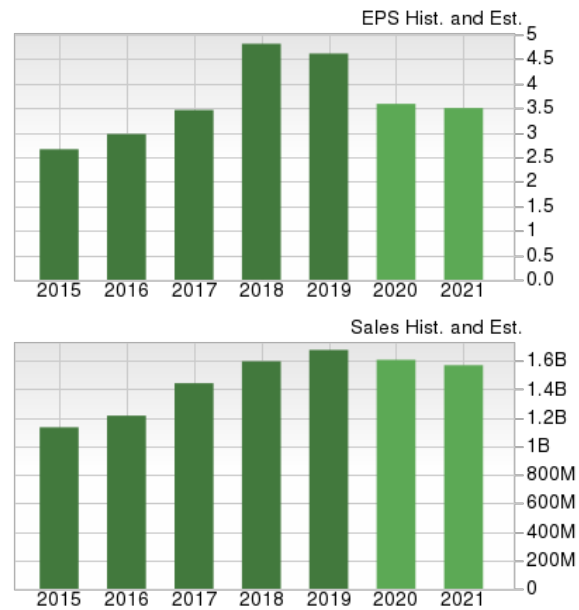
The bank operates through more than 125 locations worldwide. In the United States, the company has branches in California, Texas, New York, Washington, Georgia, Massachusetts and Nevada while in China, it has offices in Hong Kong, Shanghai, Shantou, Shenzhen, Beijing, Chongqing, Guangzhou, Taipei and Xiamen.

East West Bancorp has three operating segments:

- **Consumer and Business Banking:** The segment (constituting 45% of total revenues in 2019) mainly offers financial service products and services to consumer and commercial customers through the company's branch network in the U.S.
- **Commercial Banking:** (47%) Through its commercial lending offices in the U.S. and China, the segment mainly focuses on generating commercial loans and deposits. Also, it offers a wide variety of international finance, trade finance, and cash management services and products.
- **Other:** This segment (8%) acts as an administrative support to the above-mentioned segments. All the centralized functions, including treasury activities and other eliminations of inter-segment amounts, have been included in this segment.

In 2014, East West Bancorp acquired MetroCorp Bancshares, Inc. In 2018, the company, through its subsidiary East West Bank, divested eight Desert Community Bank branches and related assets and liabilities.

As of Mar 31, 2020, East West Bancorp had \$45.9 billion in total assets, \$35.3 billion in net loans held for investment, \$38.7 billion in total deposits and \$4.9 billion in stockholders' equity.



Reasons To Buy:

- ▲ East West Bancorp remains focused on its organic growth strategy. The company's net interest income (NII) — which is the primary source of revenues — witnessed a CAGR of 11.5% over the last five years (2015-2019), with the momentum persisting in first-quarter 2020. Also, improvement in loans and deposits are expected to further support top-line growth in the upcoming quarters. Over the last six years (2014-2019), total loans witnessed a CAGR of 9.8% and deposits saw a CAGR of 9.2%. The same trend continued in the first three months of 2020.
- ▲ As of Mar 31, 2020, East West Bancorp had total debt of \$1.32 billion, and cash and cash equivalents & due from banks worth \$3.08 billion. Its first-quarter 2020 total debt to total capital of 14% declined sequentially and is also lower than the industry average of 39.9%. This shows that the company has relatively less credit risk when compared with peers. While its times-interest-earned ratio of 21.4 declined sequentially in the first quarter, the same is higher than the industry average of 3.9. Given the company's record of consistent earnings growth and sufficient liquidity, it has lesser likelihood of default in payment of interest and debt repayments if economic situation worsens.
- ▲ East West Bancorp's capital deployment activities seem impressive. In March, the company authorized the repurchase of up to \$500 million worth of shares. As of Mar 31, 2020, it had \$354.1 million remaining in the stock repurchase authorization. The company has been paying regular dividends. In April 2019, it hiked dividend by 20%, following a 15% increase announced in July 2018. Prior to this, it had raised dividend by 11.1% in January 2015. Given a solid capital position and earnings strength, the capital deployment plan looks sustainable and is expected to continue enhancing shareholder value.
- ▲ East West Bancorp's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 14.00% compares favorably with 9.98% for the industry.
- ▲ East West Bancorp looks undervalued than the broader industry. Its current price/earnings (F1) and price/cash flow ratios are lower than the respective industry averages. The stock has a Value Score of B.

Growth in loans and deposits, and a strong balance sheet position will likely support East West Bancorp's revenues. Its capital deployments are impressive and will enhance shareholder value.

Reasons To Sell:

- ▼ While East West Bancorp's net interest margin (NIM) in 2017 and 2018 registered rise, the same declined in 2019 and first-quarter 2020 due to near-zero interest rates. Despite continued loan growth, NIM growth is likely to remain muted in the near term due to the Federal Reserve's accommodative monetary policy stance.
- ▼ East West Bancorp's asset quality has been deteriorating over the past few years. While provision for credit losses declined year over year in 2015, the same has seen a CAGR of 15% over the past six years (2014-2019). The uptrend continued in first-quarter 2020, as the company built reserves to combat coronavirus-related economic slowdown. As oil & gas and several other sectors — wherein the company has decent exposure — are hit hard by the pandemic, asset quality is likely to worsen in the quarters ahead.
- ▼ East West Bancorp has been witnessing a persistent rise in expenses over the past few years. While expenses declined in the first three months of 2020, the same witnessed a CAGR of 6.6% over the last six years (2014-2019). The increase was mainly due to rise in compensation and employee benefit costs. Costs are expected to remain elevated, due to an increase in headcount and investments in technology to improve non-interest income.
- ▼ High level of total commercial real estate loans (which accounted for almost 40% of total loans as of Mar 31, 2020) will likely put East West Bancorp in a tight spot. While the housing sector is rebounding, any deterioration in real estate prices will weigh on the company's financials.
- ▼ Shares of East West Bancorp have underperformed the industry so far this year. Also, the company's earnings estimates for the current year have moved 3.2% lower over the past seven days. Therefore, given the concerns and lack of positive estimate revisions, the stock has limited upside potential.

Pressure on margins due to near-zero interest rates remains a major near-term concern for East West Bancorp. Further, deteriorating asset quality and higher operating expenses make us apprehensive.

Last Earnings Report

East West Bancorp Q1 Earnings & Revenue Beat, Costs Down

East West Bancorp's first-quarter 2020 adjusted earnings per share of \$1 surpassed the Zacks Consensus Estimate of 94 cents. However, the figure was lower than the prior-year quarter's level of \$1.16 per share.

An increase in revenues and a decline in expenses drove the performance. Moreover, loans and deposit balances witnessed growth in the quarter. However, higher provisions hurt results to some extent.

Net income (GAAP basis) was \$144.8 million, down 11.7% from the year-ago quarter.

Revenues Improve, Expenses Decline

Total revenues were \$416.8 million, up 3% year over year. Also, the reported figure beat the Zacks Consensus Estimate of \$401.8 million.

NII was \$362.7 million, increasing marginally year over year. NIM declined 35 basis points (bps) to 3.44%.

Non-interest income was \$54 million, up 28.3% from the year-ago quarter. The rise was driven by an increase in all fee income components, except for net gains on sales of AFS debt securities.

Non-interest expenses declined 4.3% to \$178.9 million. All cost components, except for deposit insurance premiums and regulatory assessments, legal expenses, data processing, deposit related expenses, and computer software expenses, witnessed a fall.

Efficiency ratio was 42.92%, down from 46.20% a year ago. A decline in the efficiency ratio indicates improved profitability.

Loans & Deposits Increase

As of Mar 31, 2020, total loans held for investment were \$35.9 billion, up 3.2% sequentially. Total deposits increased 3.7% from the end of the previous quarter to \$38.7 billion.

Credit Quality: Mixed Bag

Annualized quarterly net charge-offs were 0.01% of average loans held for investment, down from 0.18% at the end of the prior-year quarter.

As of Mar 31, 2020, non-PCI non-performing assets were \$150.9 million, up 9.3% year over year. Also, provision for credit losses was \$73.9 million up significantly from \$22.6 million in the prior-year quarter.

Capital Ratios Improve & Profitability Ratios Deteriorate

Common equity Tier 1 capital ratio was 12.4% as of Mar 31, unchanged year over year. Total risk-based capital ratio was 14%, up from 13.9%.

At the end of the quarter, return on average assets was 1.30%, down from 1.63% as of Mar 31, 2018. Further, as of Mar 31, 2020, return on average tangible equity was 12.93%, down from 16.53%.

Share Repurchase Update

During the first quarter, the company repurchased shares worth \$145.9 million.

2020 View

Management has temporarily withdrawn its guidance due to economic uncertainties arising due to the coronavirus pandemic.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	3.74%
EPS Surprise	6.38%
Quarterly EPS	1.00
Annual EPS (TTM)	4.69

Recent News

Dividend Update

On Apr 23, East West Bancorp announced a quarterly cash dividend of 27.5 cents per share. The dividend was paid out on May 15 to shareholders of record as of May 4.

Valuation

East West Bancorp's shares are down 31.3% in the year-to-date period and 26.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 27.2% and 20.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 17.4% and 15.9%, respectively.

The S&P 500 index is down 1.7% in the year-to-date period but up 5.8% in the past year.

The stock is currently trading at 9.46X forward 12 months earnings, which compares to 13.48X for the Zacks sub-industry, 16.08X for the Zacks sector and 22.45X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.71X and as low as 5.56X, with a 5-year median of 12.77X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$36 price target reflects 10.17X forward earnings.

The table below shows summary valuation data for EWBC

Valuation Multiples - EWBC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.46	13.48	16.08	22.45
	5-Year High	17.71	18.23	16.19	22.45
	5-Year Low	5.56	10.28	11.59	15.25
	5-Year Median	12.77	14.3	14.16	17.52
P/TB TTM	Current	1.1	1.4	3.25	12.47
	5-Year High	3.03	2.65	4	12.78
	5-Year Low	0.75	1.09	2	5.96
	5-Year Median	2.05	1.97	3.48	9.5
P/S F12M	Current	2.98	3.1	6.04	3.51
	5-Year High	6.48	4.75	6.66	3.51
	5-Year Low	2.17	2.7	4.96	2.53
	5-Year Median	4.6	3.95	6.06	3.02

As of 07/14/2020

Industry Analysis Zacks Industry Rank: Top 37% (93 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
BOK Financial Corporation (BOKF)	Neutral	3
Commerce Bancshares, Inc. (CBSH)	Neutral	3
CullenFrost Bankers, Inc. (CFR)	Neutral	3
Comerica Incorporated (CMA)	Neutral	3
Peoples United Financial, Inc. (PBCT)	Neutral	3
SVB Financial Group (SIVB)	Neutral	3
Synovus Financial Corp. (SNV)	Neutral	3
Webster Financial Corporation (WBS)	Neutral	3

Industry Comparison Industry: Banks - West				Industry Peers		
	EWBC	X Industry	S&P 500	CBSH	CFR	SIVB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	B	C
Market Cap	4.73 B	257.42 M	21.89 B	6.19 B	4.28 B	10.72 B
# of Analysts	5	4	14	9	5	10
Dividend Yield	3.29%	2.73%	1.86%	1.95%	4.15%	0.00%
Value Score	B	-	-	C	B	B
Cash/Price	0.88	0.44	0.07	0.28	0.99	0.88
EV/EBITDA	1.29	4.78	12.84	8.46	0.42	1.12
PEG Ratio	0.93	2.04	2.92	NA	1.78	2.04
Price/Book (P/B)	0.97	0.89	3.06	2.00	1.12	1.57
Price/Cash Flow (P/CF)	5.87	7.22	11.89	12.75	6.99	9.36
P/E (F1)	9.77	11.52	21.54	22.65	16.95	16.35
Price/Sales (P/S)	2.27	2.20	2.27	4.28	2.68	3.00
Earnings Yield	10.70%	8.65%	4.38%	4.42%	5.90%	6.12%
Debt/Equity	0.16	0.21	0.76	0.24	0.06	0.05
Cash Flow (\$/share)	5.70	2.79	6.94	4.35	9.78	22.23
Growth Score	F	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	16.94%	12.89%	10.85%	15.11%	11.04%	37.90%
Proj. EPS Growth (F1/F0)	-22.26%	-25.44%	-9.64%	-31.59%	-40.99%	-41.43%
Curr. Cash Flow Growth	3.66%	5.43%	5.51%	-1.69%	1.26%	19.94%
Hist. Cash Flow Growth (3-5 yrs)	24.66%	14.60%	8.55%	8.41%	10.10%	34.83%
Current Ratio	0.99	0.91	1.30	0.75	0.66	0.72
Debt/Capital	14.01%	17.60%	44.46%	18.87%	5.79%	4.62%
Net Margin	31.34%	24.25%	10.54%	26.01%	23.89%	27.57%
Return on Equity	14.00%	9.98%	15.75%	12.44%	7.97%	15.82%
Sales/Assets	0.05	0.05	0.54	0.06	0.05	0.05
Proj. Sales Growth (F1/F0)	-4.13%	0.00%	-2.52%	-2.76%	4.07%	-6.13%
Momentum Score	D	-	-	A	A	A
Daily Price Chg	-2.93%	-0.44%	1.60%	-1.16%	-2.13%	-2.95%
1 Week Price Chg	-1.95%	-1.85%	-0.41%	-4.34%	-2.96%	1.76%
4 Week Price Chg	-13.36%	-6.00%	-0.71%	-12.29%	-14.27%	-6.18%
12 Week Price Chg	22.30%	4.92%	15.18%	0.05%	16.26%	25.75%
52 Week Price Chg	-26.40%	-26.96%	-6.45%	-0.52%	-25.61%	-4.38%
20 Day Average Volume	1,016,064	29,847	2,246,780	416,854	395,596	344,131
(F1) EPS Est 1 week change	-2.18%	0.00%	0.00%	3.77%	14.57%	3.21%
(F1) EPS Est 4 week change	-2.18%	0.00%	0.00%	4.75%	2.38%	2.92%
(F1) EPS Est 12 week change	9.32%	-1.47%	-6.22%	-3.29%	-47.70%	-1.50%
(Q1) EPS Est Mthly Chg	1.37%	0.00%	0.00%	8.08%	-10.87%	3.17%

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	B
Growth Score	F
Momentum Score	D
VGM Score	D

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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