

East West Bancorp (EWBC)

\$47.80 (As of 02/14/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/15/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: A

Growth: F

Momentum: D

Summary

Shares of East West Bancorp have underperformed the industry over the past year. The company has surpassed the Zacks Consensus Estimate for earnings in only one of the trailing four quarters. Its fourth-quarter 2019 results benefited from higher revenues, partly offset by a rise in expenses. Deteriorating credit quality remains a major near-term concern and could hurt financials. Moreover, because of relatively lower interest rates, the company's margins are likely to remain under pressure, thus hurting revenue growth. Elevated expenses mainly due to investments in technology will likely hurt profitability. Nevertheless, rise in loan and deposit balances are expected to continue supporting top-line growth. Given a solid capital position, the company is expected to continue enhancing shareholder value through efficient capital deployments.

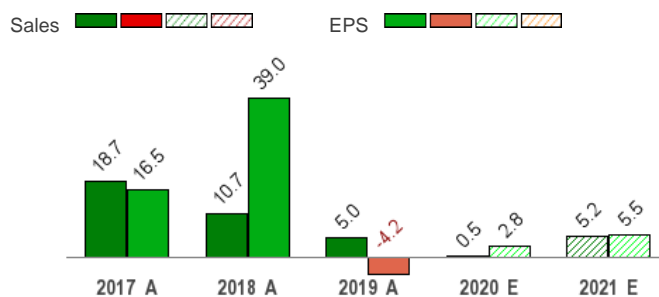
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.09 - \$37.69
20 Day Average Volume (sh)	1,090,158
Market Cap	\$7.0 B
YTD Price Change	-1.9%
Beta	1.70
Dividend / Div Yld	\$1.10 / 2.3%
Industry	Banks - West
Zacks Industry Rank	Top 41% (105 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.3%
Last Sales Surprise	5.6%
EPS F1 Est- 4 week change	1.2%
Expected Report Date	NA
Earnings ESP	0.3%
P/E TTM	9.9
P/E F1	10.1
PEG F1	1.0
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	424 E	436 E	447 E	457 E	1,773 E
2020	408 E	416 E	426 E	435 E	1,685 E
2019	405 A	420 A	421 A	431 A	1,677 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.15 E	\$1.21 E	\$1.26 E	\$1.27 E	\$5.00 E
2020	\$1.15 E	\$1.17 E	\$1.21 E	\$1.24 E	\$4.74 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 02/14/2020. The reports text is as of 02/18/2020.

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.

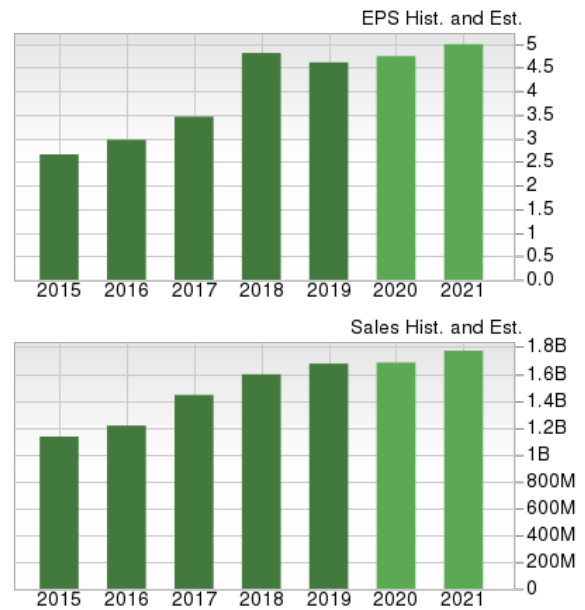
The bank operates through more than 125 locations worldwide. In the United States, the company has branches in California, Texas, New York, Washington, Georgia, Massachusetts and Nevada while in China, it has offices in Hong Kong, Shanghai, Shantou, Shenzhen, Beijing, Chongqing, Guangzhou, Taipei and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

East West Bancorp has three operating segments:

- **Consumer and Business Banking:** The segment mainly offers financial service products and services to consumer and commercial customers through the company's branch network in the U.S.
- **Commercial Banking:** 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 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 Dec 31, 2019, East West Bancorp had \$44.2 billion in total assets, \$34.4 billion in net loans held for investment, \$37.3 billion in total deposits and \$5 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 its revenues, witnessed a CAGR of 11.5% over the last five years (2015-2019). Moreover, persistent 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%.
- ▲ East West Bancorp's capital deployment activities also seem impressive. In April 2019, the company hiked its dividend by 20%, which followed a 15% increase announced in July 2018. Prior to this, it had raised its dividend by 11.1% in January 2015. Given a solid capital position, the company 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 14.73% compares favorably with 11.17% for the industry.
- ▲ Shares of East West Bancorp have underperformed the industry over the past year. However, the company's current-year earnings estimates have moved 1.1% higher over the past 30 days. Further, the stock looks undervalued compared with the broader industry. Its current price/earnings (F1) and price/cash flow ratios are lower than the respective industry averages. Also, it has a Value Score of A. Therefore, given the strength in fundamentals and positive estimate revisions, the stock has upside potential.

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

Reasons To Sell:

- ▼ While East West Bancorp witnessed a rise in net interest margin (NIM) in 2017 and 2018, the same declined in 2019 due to relatively lower interest rates. In fact, 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). Also, management expects provisions in 2020 to be \$90-\$120 million.
- ▼ East West Bancorp has been witnessing a persistent rise in expenses over the past few years. Over the last six years (2014-2019), non-interest expenses witnessed a CAGR of 6.6%. 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 commercial real estate loans (more than 29% of total loans as of Dec 31, 2019) will likely put East West Bancorp in a tight spot. While the housing sector is rebounding, any deterioration in the real estate prices will weigh on the company's financials.

Pressure on margins due to decline in yields and interest rate cuts remains a major near-term concern for East West Bancorp. Further, deteriorating asset quality and higher costs make us apprehensive.

Last Earnings Report

East West Bancorp Q4 Earnings Beat Estimates, Expenses Rise

East West Bancorp's fourth-quarter 2019 adjusted earnings per share of \$1.28 surpassed the Zacks Consensus Estimate of \$1.16. Moreover, the figure was 8.5% higher than the prior-year quarter level.

Results were driven by an increase in revenues. Moreover, loans and deposit balances witnessed growth in the quarter. However, higher expenses and provisions hurt results to some extent.

Net income (GAAP basis) was \$188.2 million, up 8.8% from the year-ago quarter.

For 2019, adjusted earnings per share of \$4.84 surpassed the Zacks Consensus Estimate of \$4.48. Moreover, the figure was higher than \$4.66 reported in 2018. Net income (GAAP basis) for the year was \$674 million, down from \$703.7 million recorded in 2018.

Revenues Improve, Expenses Rise

Net revenues for the quarter were \$431.2 million, up 4.9% year over year. Also, the reported figure beat the Zacks Consensus Estimate of \$408.4 million.

For 2019, net revenues were \$1.68 billion, up 5% year over year. Also, the reported figure beat the Zacks Consensus Estimate of \$1.65 billion.

Quarterly net interest income was \$368.2 million, decreasing marginally year over year. Net interest margin declined 32 basis points (bps) to 3.47%.

Non-interest income was \$63 million, up 51.1% from the year-ago quarter. The rise was driven by an increase in all fee income components, except for foreign exchange income, net gains on sales of loans and net gains on sales of fixed assets.

Non-interest expenses increased 2.8% to \$193.4 million. All cost components, except for occupancy and equipment expenses, legal expenses, other operating expenses, and costs related to amortization of tax credit and other investment, witnessed a rise.

Efficiency ratio was 44.84%, down from 45.75% a year ago. A fall in the efficiency ratio indicates improved profitability.

Loans & Deposits Increase

As of Dec 31, 2019, total loans held-for-investment were \$34.4 billion, up 2.2% sequentially. Total deposits increased 1.8% from the end of the previous quarter to \$37.3 billion.

Credit Quality: Mixed Bag

Annualized quarterly net charge-offs were 0.10% of average loans held for investment, down from 0.20% at the end of the prior-year quarter. As of Dec 31, 2019, non-PCI non-performing assets were \$121.5 million, up 30.7% year over year. Also, provision for credit losses was \$18.6 million, up 3.4% from the prior-year quarter.

Capital Ratios Improve, Profitability Ratios Deteriorate

Common equity Tier 1 capital ratio was 12.9% as of Dec 31, 2019, up from 12.2% in the prior-year quarter. Total risk-based capital ratio was 14.4%, up from 13.7%.

At the end of the quarter, return on average assets was 1.68%, down from 1.69% as of Dec 31, 2018. Further, as of Dec 31, 2019, return on average tangible equity was 16.71%, down from 17.97%.

2020 Outlook

Management provided guidance on the assumption of no change in interest rates.

NII (including the impact of discount accretion) is projected to remain stable or increase 2% year over year. NIM (including the impact of the discount accretion) is projected to be 3.40-3.45%.

Total loans are expected to be up 7-8% year over year.

Non-interest expenses (excluding tax credit investment and core deposit intangible amortization) are projected to increase 4% year over year.

Provision for credit losses is estimated to be \$90-\$120 million.

Effective tax rate is anticipated to be 15%, including the impact of tax credit investments.

Quarter Ending **12/2019**

Report Date	Jan 23, 2020
Sales Surprise	5.60%
EPS Surprise	10.34%
Quarterly EPS	1.28
Annual EPS (TTM)	4.85

Recent News

Dividend Update

On Jan 23, East West Bancorp announced a quarterly cash dividend of 27.5 cents per share. The dividend was paid out on Feb 14 to shareholders of record as of Feb 3.

Valuation

East West Bancorp's shares are down 13.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 1.9% and 9% over the past year, respectively.

The S&P 500 index is up 20.7% in the past year.

The stock is currently trading at 10.01X forward 12 months earnings, which compares to 13.35X for the Zacks sub-industry, 15.02X for the Zacks sector and 19.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.71X and as low as 7.60X, with a 5-year median of 13.48X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$52 price target reflects 10.88X 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	10.01	13.35	15.02	19.35
	5-Year High	17.71	18.23	16.21	19.35
	5-Year Low	7.6	10.42	12.01	15.18
	5-Year Median	13.48	14.52	14.15	17.47
P/B TTM	Current	1.39	1.53	2.86	4.68
	5-Year High	2.66	2.01	2.89	4.68
	5-Year Low	1.16	1.09	1.83	2.85
	5-Year Median	1.98	1.53	2.51	3.62
P/S F12M	Current	4.1	4.16	6.55	3.58
	5-Year High	6.48	4.75	6.65	3.58
	5-Year Low	3.2	3.05	5.39	2.54
	5-Year Median	5.07	3.98	6.04	3

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 255)



Top Peers

BOK Financial Corporation (BOKF)	Neutral
Commerce Bancshares, Inc. (CBSH)	Neutral
Cullen/Frost Bankers, Inc. (CFR)	Neutral
Comerica Incorporated (CMA)	Neutral
Peoples United Financial, Inc. (PBCT)	Neutral
SVB Financial Group (SIVB)	Neutral
Synovus Financial Corp. (SNV)	Neutral
Webster Financial Corporation (WBS)	Neutral

Industry Comparison Industry: Banks - West				Industry Peers		
	EWBC Neutral	X Industry	S&P 500	CBSH Neutral	CFR Neutral	SIVB Neutral
VGM Score	C	-	-	D	F	D
Market Cap	6.96 B	347.79 M	24.61 B	7.91 B	5.87 B	13.69 B
# of Analysts	6	4	13	8	8	11
Dividend Yield	2.30%	1.89%	1.78%	1.48%	3.03%	0.00%
Value Score	A	-	-	D	C	B
Cash/Price	0.59	0.31	0.04	0.22	0.66	0.51
EV/EBITDA	3.86	7.11	14.06	10.00	3.48	5.67
PEG Ratio	0.96	1.53	2.09	6.85	1.61	1.70
Price/Book (P/B)	1.39	1.32	3.29	2.64	1.56	2.18
Price/Cash Flow (P/CF)	8.77	11.15	13.65	16.48	9.57	15.53
P/E (F1)	10.08	12.63	19.21	20.54	15.29	13.59
Price/Sales (P/S)	3.33	3.23	2.70	5.45	3.92	3.88
Earnings Yield	9.92%	7.92%	5.19%	4.87%	6.54%	7.36%
Debt/Equity	0.18	0.13	0.71	0.00	0.06	0.06
Cash Flow (\$/share)	5.45	2.53	6.92	4.26	9.78	17.09
Growth Score	F	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	17.10%	15.67%	10.85%	15.65%	13.60%	38.74%
Proj. EPS Growth (F1/F0)	2.89%	-3.64%	7.17%	-4.58%	-10.53%	-10.10%
Curr. Cash Flow Growth	-0.88%	24.84%	8.56%	30.57%	1.26%	91.61%
Hist. Cash Flow Growth (3-5 yrs)	23.55%	12.69%	8.36%	8.38%	10.10%	34.23%
Current Ratio	1.01	0.91	1.23	0.73	0.63	0.67
Debt/Capital	15.18%	11.49%	42.91%	0.08%	5.67%	4.99%
Net Margin	32.22%	26.02%	11.81%	29.06%	29.62%	32.20%
Return on Equity	14.73%	11.17%	16.86%	14.18%	12.19%	19.33%
Sales/Assets	0.05	0.05	0.54	0.06	0.05	0.05
Proj. Sales Growth (F1/F0)	0.47%	0.00%	3.85%	-0.69%	1.79%	-0.28%
Momentum Score	D	-	-	B	F	D
Daily Price Chg	-1.30%	-0.34%	0.06%	-0.76%	-0.21%	-0.20%
1 Week Price Chg	3.99%	1.47%	2.47%	2.97%	2.97%	7.00%
4 Week Price Chg	1.27%	-1.09%	0.59%	4.05%	-2.83%	5.20%
12 Week Price Chg	7.46%	0.64%	6.98%	11.01%	0.48%	16.45%
52 Week Price Chg	-9.96%	2.53%	16.62%	20.61%	-7.29%	10.41%
20 Day Average Volume	1,090,158	16,775	2,020,569	496,541	346,128	471,037
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.55%	0.00%
(F1) EPS Est 4 week change	1.21%	0.24%	-0.05%	0.53%	0.12%	0.38%
(F1) EPS Est 12 week change	1.11%	-0.49%	-0.17%	1.18%	-1.01%	-0.24%
(Q1) EPS Est Mthly Chg	-0.22%	-2.16%	-0.24%	3.22%	-2.43%	-3.19%

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	A
Growth Score	F
Momentum Score	D
VGM Score	C

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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