



COMPANY UPDATE/ ESTIMATE CHANGES

Key Metrics

HFBC - NASDAQ (as of 07/28/17)	\$14.75
Price Target	NA
52-Week Range	\$11.00-\$15.45
Shares Outstanding (mm)	6.7
Market Cap. (\$mm)	\$99
3-Mo. Average Daily Volume (000)	2.7
Institutional Ownership	46.4%
Tangible Equity / Tangible Assets	9.5%
ROE	3.3%
Tangible Book Value Per Share	\$13.22
Price/Tangible Book Value	111.6%
Dividend Yield	1.4%
Price/LTM Earnings	22.0x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.05	\$0.12A	\$0.12A	\$0.12	\$0.16
2Q	\$0.03	\$0.15	\$0.18A	\$0.15	\$0.19
3Q	\$0.14	\$0.15	\$0.20	\$0.17	\$0.19
4Q	\$0.16	\$0.15	\$0.19	\$0.17	\$0.19
Year	\$0.38	\$0.57	\$0.70	\$0.60	\$0.73
P/E	38.9x		21.2x		20.1x

Common Dividends

	2016A	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.04	\$0.04A	0.0	\$0.05
2Q	\$0.04	\$0.04A	0.0	\$0.05
3Q	\$0.04	\$0.05	25.0	\$0.05
4Q	\$0.04	\$0.05	25.0	\$0.05
Year	\$0.16	\$0.18	12.5	\$0.20

Company Description – HopFed Bancorp, Inc. (HFBC) is a commercial banking organization headquartered in Hopkinsville, Kentucky with operations in western Kentucky and middle Tennessee. The company's banking subsidiary converted from a thrift charter to a Kentucky commercial bank charter in June 2013 and its name was changed to Heritage Bank USA, Inc. In addition to traditional retail and commercial banking products and services, HopFed offers securities brokerage and mortgage banking services.

Banks

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HopFed Bancorp, Inc.

HFBC – NASDAQ – Neutral – 3

Robust Loan Growth and NIM Expansion; Reaffirming Neutral Rating

- **Earnings Results:** HFBC reported 2Q17 GAAP and operating EPS of \$0.18, which were \$0.03 ahead of our estimate and the Street consensus.
- **Positive Highlights:** End-of-period (EOP) loans grew 2.9% sequentially, while average loans rose 0.5%.

Net interest income rose 3.1% linked-quarter (LQ) to \$7.0 million driven by eight bps of net interest margin (NIM) expansion to 3.39%, a 0.1% increase in average earning assets and an extra day in the quarter. We had projected net interest income of \$6.9 million and a margin of 3.30%.

Operating noninterest expense fell 5.9% LQ to \$7.2 million, which was below our estimate of \$7.5 million. The primary drivers of the decrease were lower salaries & benefits and data processing expense.

The provision for loan losses was \$59K versus our estimate of \$100K. Nonperforming Assets/Assets (excluding performing restructured loans) decreased eleven bps LQ to 1.09%, while the net charge-off ratio was -0.62% due to substantial recoveries realized during the quarter.

- **Negative Highlights:** Operating noninterest income dropped 10.8% sequentially to \$1.8 million primarily due to decreases in mortgage origination income and “other” operating income. We had modeled noninterest income of \$2.0 million.
- **Estimates & Valuation:** We are revising our 2017 and 2018 operating EPS estimates to \$0.72 and \$0.73 from \$0.57 and \$0.60, respectively. We reaffirm our Neutral rating.

Note Important Disclosures on pages 4 and 5

Note Analyst Certification on page 4

OTHER KEY TAKEAWAYS

- The NIM expansion was driven by an 11 bp increase in the yield on average earning assets which was partially offset by a three bp rise in the cost of interest bearing liabilities. HFBC made some adjustments to its securities portfolio in 2Q17, which contributed to the increase in the yield on earning assets. The company should realize a full quarter effect of this repositioning in 3Q17.
- The strong loan growth was primarily attributable to robust production in Nashville, TN.
- Management stated that the loan pipeline remains stable, which should continue to provide solid loan production in 2H17. HFBC hopes to resolve a \$6.7 million nonaccrual loan in Q3, which would dampen growth in the current quarter.
- Salaries & benefits expense declined largely as the result of lower payroll taxes and reduced vacation accruals, while data processing expense benefited from a one-time reimbursement of previously paid expenses.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, continued flattening of the yield curve and a 28% corporate tax rate in 2018. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

SUITABILITY

Our suitability rating on HFBC is 3 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISK FACTORS

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are clustered in two states. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Real Estate** – A significant percentage of the company's loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.
- **Competition** – The industry is highly competitive and many of the company's competitors have greater resources.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

	HOPFED BANCORP, INC.					HFBC-NEUTRAL						
	1Q2016 A	2Q2016 A	3Q2016 A	4Q2016 A	1Q2017 A	2Q2017 A	3Q2017 E	4Q2017 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E
\$Millions, Except for Per Share Data Balance Sheet Data:												
Assets	885.8	861.7	871.9	891.5	923.3	912.1	921.2	930.5	903.2	891.5	930.5	958.7
Gross Loans	562.2	568.9	587.4	611.5	622.7	640.8	647.9	655.0	564.8	611.5	655.0	693.0
Average Earning Assets	815.8	811.8	811.5	816.2	841.5	838.7	859.9	868.5	822.6	813.9	852.1	886.4
Deposits	725.0	699.6	712.3	732.9	765.7	745.9	749.7	755.7	739.4	732.9	755.7	780.3
Equity	88.8	89.0	88.9	86.4	87.5	88.8	89.7	90.6	87.6	86.4	90.6	93.9
Statement of Operations												
Net Interest Income	6.7	6.4	6.7	6.6	6.8	7.0	7.2	7.3	26.6	26.4	28.2	29.3
Provision for Loan Losses	0.5	0.5	0.3	0.1	0.3	0.1	0.1	0.1	1.1	1.2	0.5	1.0
Non-Interest Income:												
Service charges	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	2.9	2.8	3.2	3.3
Merchant card income	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.1	1.2	1.3	1.3
Mortgage origination revenue	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	1.2	1.6	1.2	1.3
Income from bank owned life insurance	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.3	0.3	0.5	0.3
Financial services commission	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.7	0.6	0.6	0.6
Other operating income	0.2	0.2	0.2	0.2	0.5	0.2	0.2	0.2	0.7	0.8	1.1	0.9
Securities Gains	0.3	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.7	0.6	0.0	0.0
Total Non-Interest Income	2.0	2.0	1.9	2.0	2.3	1.8	1.9	1.8	7.6	7.9	7.9	7.7
Non-Core Adjustment	-0.3	-0.1	-0.1	-0.2	-0.3	0.0	0.0	0.0	(0.7)	(0.6)	(0.3)	0.0
Adjusted Non-Interest Income	1.7	1.9	1.9	1.8	2.0	1.8	1.9	1.8	6.9	7.3	7.6	7.7
Non-Interest Expense:												
Salaries and benefits	4.0	3.9	3.8	3.8	4.2	4.0	3.9	3.9	15.8	15.4	16.0	16.2
Occupancy	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.8	3.1	3.2	3.1	3.1
Data processing	0.7	0.7	0.7	0.8	0.8	0.5	0.8	0.8	2.8	2.9	2.8	3.1
State deposit tax	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.0	1.0	0.9	1.0
Professional services	0.3	0.3	0.4	0.4	0.3	0.5	0.5	0.5	1.5	1.4	1.9	1.5
Advertising	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.3	1.4	1.5	1.5
Foreclosure, net	1.1	1.0	1.0	1.0	0.8	0.9	0.9	0.9	3.6	4.1	3.5	3.6
Other operating	7.7	7.7	7.4	7.2	7.7	7.2	7.5	7.5	30.4	30.0	29.9	30.5
Total Non-Interest Expense	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Non-Core Adjustment	7.7	7.7	7.4	7.2	7.7	7.2	7.5	7.5	30.4	30.0	29.9	30.5
Adjusted Non-Interest Expense	0.3	0.2	0.9	1.2	0.8	1.5	1.5	1.5	2.0	2.5	5.3	5.6
Pretax Income	-0.1	0.0	0.0	0.2	0.0	0.4	0.3	0.3	0.1	0.1	1.0	1.0
Income Taxes	0.3	0.2	0.2	0.2	0.8	1.1	1.2	1.2	2.0	2.4	4.3	4.6
Oper. Net Income Avail. To Common	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Share & Per Share Data:												
Diluted EPS	0.08	0.05	0.16	0.18	0.15	0.18	0.20	0.19	0.30	0.47	0.72	0.73
Operating EPS	0.05	0.03	0.14	0.16	0.12	0.18	0.20	0.19	0.30	0.38	0.70	0.73
Dividends Per Share	0.04	0.04	0.04	0.04	0.04	0.04	0.05	0.05	0.16	0.16	0.18	0.20
Tangible Book Value	13.05	13.20	13.22	12.87	13.02	14.23	13.36	13.49	12.76	12.87	13.49	13.98
Common Shares Outstanding	6,801	6,738	6,723	6,717	6,717	6,717	6,717	6,717	6,866	6,717	6,717	6,717
Average Diluted Shares	6,298	6,232	6,212	6,193	6,219	6,229	6,229	6,229	6,463	6,235	6,226	6,229
Key Financial Statistics:												
Return on Assets	0.23%	0.14%	0.45%	0.50%	0.41%	0.00%	0.53%	0.52%	0.27%	0.33%	0.37%	0.49%
Return on Equity	2.28%	1.37%	4.43%	5.00%	4.28%	0.00%	5.49%	5.33%	2.66%	3.26%	3.78%	4.95%
Net Interest Margin	3.39%	3.28%	3.41%	3.35%	3.31%	3.39%	3.41%	3.41%	3.35%	3.36%	3.38%	3.37%
Operating Non-Int. Inc./Operating Rev.	20.57%	22.99%	21.81%	21.42%	23.23%	20.74%	20.96%	20.32%	20.64%	21.70%	21.31%	20.87%
Efficiency Ratio	88.71%	86.99%	82.78%	84.15%	84.72%	80.86%	80.72%	80.69%	85.05%	85.68%	81.75%	79.79%
Tangible Common Ratio	10.02%	10.32%	10.19%	9.69%	9.47%	9.73%	9.74%	9.74%	9.70%	9.69%	9.74%	9.80%
Reserves/Loans	1.10%	1.15%	1.16%	1.00%	0.99%	1.12%	1.11%	1.09%	1.01%	1.09%	1.07%	1.07%
NCOs/Average Loans	0.00%	0.07%	-0.02%	0.51%	0.15%	-0.62%	0.07%	0.07%	0.30%	0.14%	-0.08%	0.11%

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

HopFed Bancorp is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

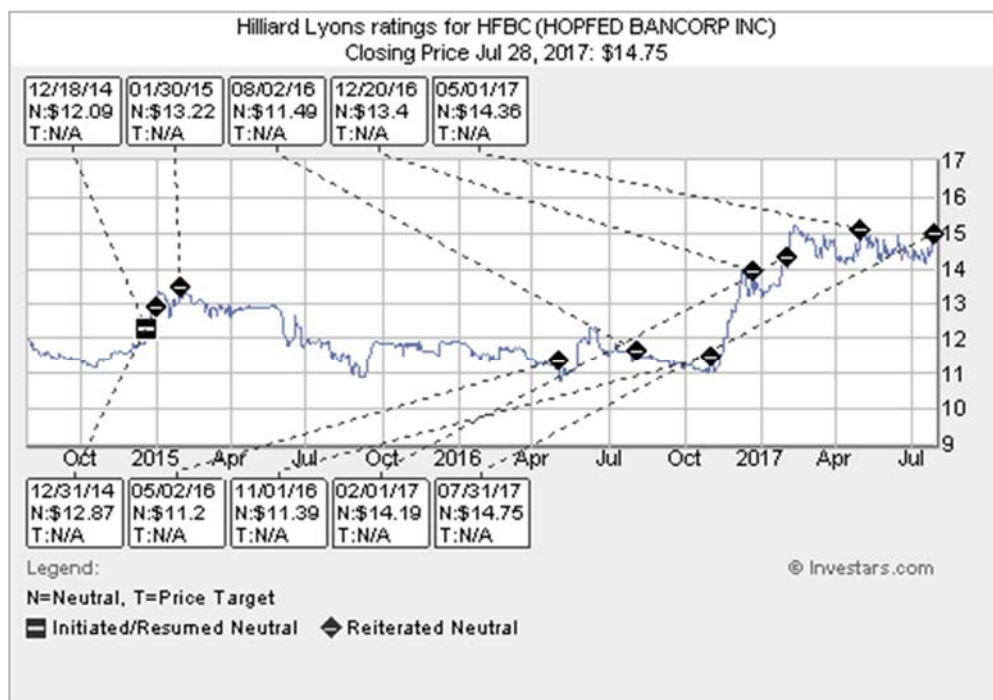
Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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