



## COMPANY UPDATE/ ESTIMATE CHANGES

### Key Metrics

|                                   |                 |
|-----------------------------------|-----------------|
| HFBC - NASDAQ (as of 04/28/17)    | \$14.36         |
| Price Target                      | NA              |
| 52-Week Range                     | \$10.82-\$15.45 |
| Shares Outstanding (mm)           | 6.7             |
| Market Cap. (\$mm)                | \$96            |
| 3-Mo. Average Daily Volume (000)  | 5.0             |
| Institutional Ownership           | 46.4%           |
| Tangible Equity / Tangible Assets | 9.5%            |
| ROE                               | 3.3%            |
| Tangible Book Value Per Share     | \$13.02         |
| Price/Tangible Book Value         | 110.3%          |
| Dividend Yield                    | 1.1%            |
| Price/LTM Earnings                | 26.6x           |

### Operating EPS CY 12/31

|      | 2016A  | Prior 2017E | Curr. 2017E | Prior 2018E | Curr. 2018E |
|------|--------|-------------|-------------|-------------|-------------|
| 1Q   | \$0.05 | \$0.10      | \$0.12A     | \$0.13      | \$0.12      |
| 2Q   | \$0.04 | \$0.15      | \$0.15      | \$0.17      | \$0.15      |
| 3Q   | \$0.14 | \$0.17      | \$0.15      | \$0.18      | \$0.17      |
| 4Q   | \$0.16 | \$0.16      | \$0.15      | \$0.18      | \$0.17      |
| Year | \$0.40 | \$0.59      | \$0.57      | \$0.65      | \$0.60      |
| P/E  | 36.3x  |             | 25.1x       |             | 24.1x       |

### Common Dividends

|      | 2016A  | Curr. 2017E | Prior % chg. | Curr. 2018E |
|------|--------|-------------|--------------|-------------|
| 1Q   | \$0.04 | \$0.04A     | 0.0          | \$0.04      |
| 2Q   | \$0.04 | \$0.04      | 0.0          | \$0.04      |
| 3Q   | \$0.04 | \$0.04      | 0.0          | \$0.04      |
| 4Q   | \$0.04 | \$0.04      | 0.0          | \$0.04      |
| Year | \$0.16 | \$0.16      | 0.0          | \$0.16      |

**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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May 1, 2017

## HopFed Bancorp, Inc.

HFBC – NASDAQ – Neutral – 3

### Robust Loan Growth Continues; Reaffirming Neutral Rating

- **Earnings Results:** Excluding \$0.03 of non-core items, HFBC reported 1Q17 operating EPS of \$0.12, which were \$0.02 ahead of our estimate and \$0.01 above the Street consensus. We estimate that a death benefit paid on bank-owned life insurance (BOLI) benefitted Q1 results by approximately 2.5 cents.
- **Positive Highlights:** End-of-period loans grew 1.8% sequentially, while average loans rose 3.0%.

Net interest income rose 1.7% linked-quarter (LQ) to \$6.8 million as a 3.2% increase in average earning assets more than offset four bps of net interest margin contraction to 3.31% and two fewer days in the quarter. We had projected net interest income of \$6.9 million and a margin of 3.38%.

Operating noninterest income surged 12.9% sequentially to \$2.0 million primarily due to increases in income from BOLI and service charges. BOLI income benefitted from the aforementioned death benefit payment during the quarter. Results were above our projection for noninterest income of \$1.8 million.

Excluding performing restructured loans, Nonperforming Assets/Assets decreased nine bps LQ to 1.20%.

Operating noninterest expense rose 6.6% LQ to \$7.7 million, but was in line with our estimate. The primary drivers of the increase were higher salaries & benefits and net foreclosure expense.

- **Negative Highlights:** The provision for loan losses was \$291K versus our estimate of \$200K.
- **Estimates & Valuation:** We are revising our 2017 and 2018 operating EPS estimates to \$0.57 and \$0.60 from \$0.59 and \$0.65, respectively. We reaffirm our Neutral rating.

**Note Important Disclosures on pages 4 and 5**

**Note Analyst Certification on page 4**

**OTHER KEY TAKEAWAYS**

- The seasonally strong loan growth was primarily attributable to strong production in the greater Hopkinsville, KY area and Nashville, TN. The primary driver was commercial real estate.
- Management stated that the loan pipeline compares well to where it stood at year-end, which should continue to provide solid loan growth for the remainder of 2017.
- Reported noninterest income benefitted from a one-time licensing fee of \$250K stemming from the transfer of the company's debit card relationship to Visa (V-\$91.22). We have excluded this item from our computation of operating EPS.
- HFBC has introduced new checking account products that will boost deposit service charges moving forward.
- Salaries & benefits expense increased 12.8% LQ due to merit pay increases, higher vacation accruals and increased claims in the company's self-insured health insurance program.
- The company repurchased 693 shares of its common stock in 1Q17, down from 6,001 shares in 4Q16.
- Major model assumptions include one additional Fed rate hike this year and another next year, continued flattening of the yield curve, slower loan growth in 2017 and a 28% corporate tax rate in 2018.

**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 |         |         |           |           |           |           |           |
|--|----------------------|---------|---------|---------|---------|--------------|---------|---------|-----------|-----------|-----------|-----------|-----------|
|  | 1Q016 A              | 2Q016 A | 3Q016 A | 4Q016 A | 1Q017 A | 2Q017 E      | 3Q017 E | 4Q017 E | FY 2018 E | FY 2017 E | FY 2016 A | FY 2017 E | FY 2018 E |
| <p><b>Balance Sheet Data:</b></p> <p>\$Millions, Except for Per Share Data</p> |                      |         |         |         |         |              |         |         |           |           |           |           |           |
| Assets   | 885.8                | 861.7   | 871.9   | 891.5   | 923.3   | 912.2        | 921.3   | 930.6   | 903.2     | 891.5     | 930.6     | 930.6     | 962.5     |
| Gross Loans  | 562.2                | 568.9   | 587.4   | 611.5   | 622.7   | 634.2        | 645.6   | 657.2   | 564.8     | 611.5     | 657.2     | 657.2     | 694.0     |
| Average Earning Assets   | 815.8                | 811.8   | 811.5   | 816.2   | 841.5   | 849.7        | 852.6   | 872.3   | 822.6     | 813.9     | 854.0     | 854.0     | 888.8     |
| Deposits   | 725.0                | 699.6   | 712.3   | 732.9   | 765.7   | 733.2        | 736.9   | 742.8   | 739.4     | 732.9     | 742.8     | 742.8     | 766.9     |
| Equity   | 88.8                 | 89.0    | 88.9    | 86.4    | 87.5    | 88.2         | 88.9    | 89.6    | 87.6      | 86.4      | 89.6      | 89.6      | 92.5      |
| <p><b>Statement of Operations:</b></p>   |                      |         |         |         |         |              |         |         |           |           |           |           |           |
| Net Interest Income  | 6.7                  | 6.4     | 6.7     | 6.6     | 6.8     | 6.9          | 6.9     | 7.0     | 26.6      | 26.4      | 27.5      | 27.5      | 28.7      |
| Provision for Loan Losses  | 0.5                  | 0.5     | 0.3     | 0.1     | 0.3     | 0.1          | 0.2     | 0.2     | 1.1       | 1.2       | 0.8       | 0.8       | 1.1       |
| 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       | 3.2       | 3.2       |
| 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       | 1.4       | 1.4       |
| Mortgage origination revenue   | 0.4                  | 0.4     | 0.4     | 0.4     | 0.4     | 0.4          | 0.4     | 0.3     | 1.2       | 1.6       | 1.5       | 1.5       | 1.5       |
| 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       | 0.3       |
| Financial services commission  | 0.1                  | 0.1     | 0.1     | 0.1     | 0.2     | 0.1          | 0.1     | 0.1     | 0.7       | 0.6       | 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       | 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       | 0.0       |
| Total Non-Interest Income  | 2.0                  | 2.0     | 2.0     | 2.0     | 2.3     | 2.0          | 2.0     | 1.9     | 7.6       | 7.9       | 8.1       | 7.9       | 7.9       |
| 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)     | (0.3)     | 0.0       |
| Adjusted Non-Interest Income   | 1.7                  | 1.9     | 1.9     | 1.8     | 2.0     | 2.0          | 2.0     | 1.9     | 6.9       | 7.3       | 7.8       | 7.6       | 7.9       |
| Non-Interest Expense:  |                      |         |         |         |         |              |         |         |           |           |           |           |           |
| Salaries and benefits  | 4.0                  | 3.9     | 3.8     | 3.8     | 4.2     | 3.9          | 3.8     | 3.8     | 15.8      | 15.4      | 15.8      | 15.8      | 15.9      |
| Occupancy  | 0.8                  | 0.8     | 0.8     | 0.8     | 0.8     | 0.8          | 0.8     | 0.8     | 3.1       | 3.2       | 3.2       | 3.2       | 3.2       |
| Data processing  | 0.7                  | 0.7     | 0.7     | 0.8     | 0.8     | 0.8          | 0.8     | 0.8     | 2.8       | 2.9       | 3.1       | 3.1       | 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       | 1.0       |
| Professional services  | 0.3                  | 0.3     | 0.4     | 0.4     | 0.3     | 0.4          | 0.4     | 0.4     | 1.5       | 1.4       | 1.4       | 1.4       | 1.4       |
| 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       | 1.5       |
| Foreclosure, net   | 0.0                  | 0.0     | 0.0     | -0.1    | 0.1     | 0.1          | 0.1     | 0.1     | 0.7       | (0.0)     | 0.4       | 0.4       | 0.4       |
| Other operating  | 1.1                  | 1.1     | 1.1     | 0.8     | 1.0     | 1.0          | 1.0     | 1.0     | 3.6       | 4.0       | 3.7       | 3.8       | 3.8       |
| Total Non-Interest Expense   | 7.7                  | 7.6     | 7.4     | 7.2     | 7.7     | 7.5          | 7.4     | 7.4     | 30.4      | 29.9      | 30.0      | 30.0      | 30.7      |
| Non-Core Adjustment  | 0.0                  | 0.0     | 0.1     | 0.0     | 0.0     | 0.0          | 0.0     | 0.0     | 0.0       | 0.1       | 0.0       | 0.0       | 0.0       |
| Adjusted Non-Interest Expense  | 7.7                  | 7.6     | 7.4     | 7.2     | 7.7     | 7.5          | 7.4     | 7.4     | 30.4      | 29.9      | 30.0      | 30.0      | 30.7      |
| Pre-tax Income   | 0.3                  | 0.3     | 0.9     | 1.2     | 0.8     | 1.2          | 1.3     | 1.2     | 2.0       | 2.6       | 4.5       | 4.5       | 4.8       |
| Income Taxes   | -0.1                 | 0.0     | 0.0     | 0.2     | 0.0     | 0.2          | 0.2     | 0.2     | 0.1       | 0.1       | 0.7       | 0.7       | 0.8       |
| Oper. Net Income Avail. To Common  | 0.3                  | 0.3     | 0.9     | 1.0     | 0.8     | 1.0          | 1.0     | 1.0     | 2.0       | 2.5       | 3.8       | 3.8       | 4.0       |
| <p><b>Share &amp; Per Share Data:</b></p>                                      |                      |         |         |         |         |              |         |         |           |           |           |           |           |
| Diluted EPS  | 0.08                 | 0.05    | 0.16    | 0.18    | 0.15    | 0.15         | 0.15    | 0.15    | 0.30      | 0.47      | 0.60      | 0.60      | 0.60      |
| Operating EPS  | 0.05                 | 0.04    | 0.14    | 0.16    | 0.12    | 0.15         | 0.15    | 0.15    | 0.30      | 0.40      | 0.57      | 0.57      | 0.60      |
| Dividends Per Share  | 0.04                 | 0.04    | 0.04    | 0.04    | 0.04    | 0.04         | 0.04    | 0.04    | 0.16      | 0.16      | 0.16      | 0.16      | 0.16      |
| Tangible Book Value  | 13.05                | 13.20   | 13.22   | 12.87   | 13.02   | 13.13        | 13.35   | 13.35   | 12.76     | 12.87     | 13.35     | 13.35     | 13.79     |
| Common Shares Outstanding  | 6,801                | 6,738   | 6,723   | 6,717   | 6,717   | 6,716        | 6,715   | 6,714   | 6,866     | 6,717     | 6,714     | 6,712     | 6,712     |
| Average Diluted Shares   | 6,298                | 6,232   | 6,212   | 6,193   | 6,219   | 6,716        | 6,716   | 6,715   | 6,463     | 6,235     | 6,591     | 6,713     | 6,713     |
| <p><b>Key Financial Statistics:</b></p>  |                      |         |         |         |         |              |         |         |           |           |           |           |           |
| Return on Assets   | 0.23%                | 0.14%   | 0.45%   | 0.50%   | 0.41%   | 0.43%        | 0.45%   | 0.43%   | 0.27%     | 0.33%     | 0.43%     | 0.43%     | 0.43%     |
| Return on Equity   | 2.28%                | 1.37%   | 4.43%   | 5.00%   | 4.28%   | 4.50%        | 4.61%   | 4.50%   | 2.66%     | 3.26%     | 4.47%     | 4.47%     | 4.40%     |
| Net Interest Margin  | 3.39%                | 3.28%   | 3.41%   | 3.35%   | 3.31%   | 3.30%        | 3.30%   | 3.30%   | 3.35%     | 3.36%     | 3.30%     | 3.30%     | 3.30%     |
| Operating Non-Int. Inc./Operating Rev.   | 20.57%               | 22.99%  | 21.81%  | 21.42%  | 23.23%  | 22.22%       | 22.18%  | 21.12%  | 20.64%    | 21.70%    | 22.19%    | 22.19%    | 21.52%    |
| Efficiency Ratio   | 88.71%               | 86.99%  | 82.78%  | 84.15%  | 84.72%  | 82.17%       | 81.26%  | 80.73%  | 85.05%    | 85.68%    | 82.22%    | 80.52%    | 80.52%    |
| Tangible Common Ratio  | 10.02%               | 10.32%  | 10.19%  | 9.69%   | 9.47%   | 9.67%        | 9.65%   | 9.63%   | 9.70%     | 9.69%     | 9.63%     | 9.61%     | 9.61%     |
| Reserves/Loans   | 1.10%                | 1.15%   | 1.16%   | 1.00%   | 0.99%   | 0.98%        | 0.97%   | 0.97%   | 1.01%     | 1.00%     | 0.97%     | 0.97%     | 0.97%     |
| NCOs/Average Loans   | 0.00%                | 0.07%   | -0.02%  | 0.51%   | 0.15%   | 0.04%        | 0.08%   | 0.08%   | 0.30%     | 0.14%     | 0.09%     | 0.09%     | 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.

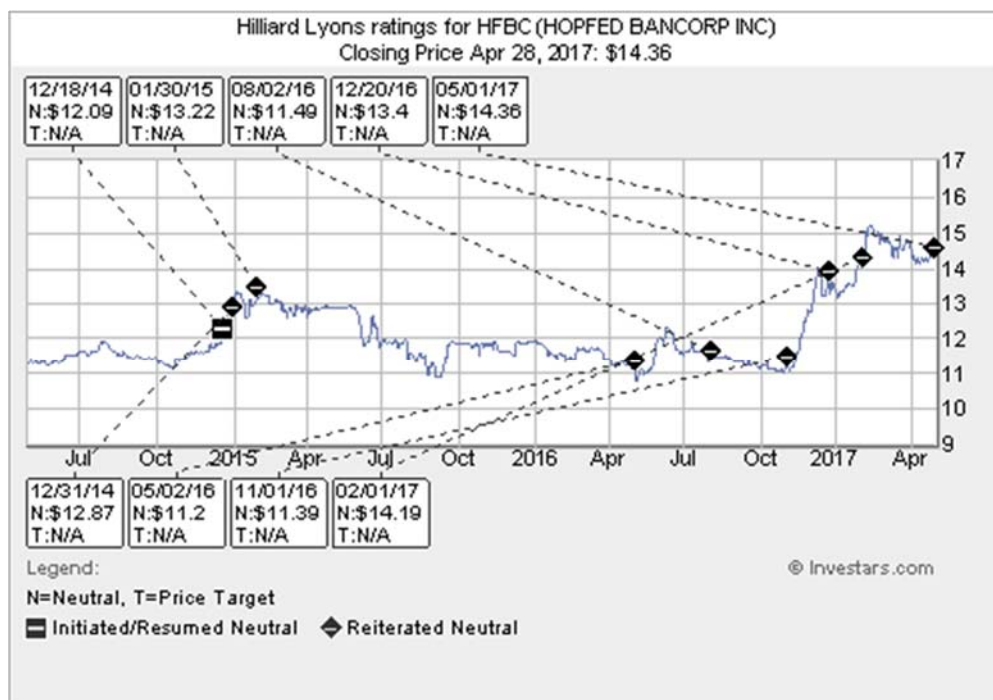
### **Definitions of Suitabilities:**

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<br>Recommended Issues |                        | Investment Banking<br>Provided in Past 12 Mo. |            |
|--------------|--------------------------------------|------------------------|---|------------|
|              | # of<br>Stocks Covered               | % of<br>Stocks Covered | Banking                                       | No Banking |
| Buy          | 36                                   | 30%                    | 14%   | 86%        |
| Hold/Neutral | 71                                   | 58%                    | 6%  | 94%        |
| Sell         | 15                                   | 12%                    | 7%  | 93%        |

As of 5 April 2017

### Other Disclosures

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