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## KS Bancorp, Inc. (KSBI – OTC BB)

107 Windel Dr., Suite 211

**John A. (Buddy) Howard, CFA**  
**July 22, 2022**

Raleigh  
North Carolina  
27609

919-876-8868 ph

[www.equityresearch.com](http://www.equityresearch.com)

<b>Price:</b>	\$46.00	<b>EPS*</b>	<b>2020A:</b>	\$3.95	<b>P/E</b>	<b>2020A:</b>	11.6 x
<b>52 Wk. Range:</b>	\$38.00 - \$59.00	(FY: DEC)	<b>2021A:</b>	\$5.50		<b>2021A:</b>	8.4 x
<b>Annualized Div/Div Yld:</b>	\$0.64 / 1.4%		<b>2022E:</b>	\$5.50		<b>2022E:</b>	8.2 x
<b>Shrs/Mkt Cap:</b>	1.1 mm / \$51 mm	<b>Book Value:</b>		\$28.78	<b>Price/Book Value:</b>		1.60 x

\* EPS are diluted. Earnings in 2021 include roughly \$1.0 (pretax) in nonrecurring PPP income, whereas there is none projected for 2022.

### Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$555 million in assets as of June 30, 2022. KS Bank, Inc., a state-chartered savings bank, is KS Bancorp's sole subsidiary. The Bank conducts its operations through nine full-service branch offices that are located in Kenly, Goldsboro, Wilson, Garner, Selma, Clayton, Wendell, Four Oaks and Smithfield, North Carolina, as well as a loan production office that was recently opened in Dunn. The Company emphasizes being a community-oriented financial institution and offers a broad range of personal and business banking products and services, mortgage products and trust services. KS Personal Services offers a complete suite of deposit and loan products that are tailored to specific needs, while KS Business Services includes not only deposit and loan products but also payroll services (through Flex Pay), merchant card services, cash management and remote deposit. KS Mortgage Services offers competitive mortgage products through a responsive team of mortgage specialists. Finally, the Company has a Trust Services Division, through which it offers a complete line of trust services, such as money management, IRAs, trust administration and estate administration. The Company also helps clients manage, protect and build upon their financial resources through college savings programs, lifetime charitable giving, investments, business succession planning, insurance and risk management. The Company's stock is traded on the over-the-counter bulletin board under the symbol "KSBI."

**SYMBOL: KSBI**

**TOTAL ASSETS: \$555 MM**

**HQ: SMITHFIELD, NC**

**CONTACT:**  
**HAROLD T. KEEN,**  
**PRESIDENT**

**EARL W. WORLEY, JR., EVP**

**REGINA J. SMITH, CFO**

**(919) 938-3101**

**2<sup>ND</sup> QUARTER HIGHLIGHTS:**

**EPS: \$1.62 VS. \$1.37**

**WHILE SOME OF THAT GROWTH CAME FROM NONRECURRING FACTORS, THE "NORMALIZED" EARNINGS WERE STILL UP ABOUT 17%**

**DUE TO SOLID ASSET QUALITY METRICS, THERE WAS NO PROVISION FOR LOAN LOSSES IN Q2 2022 VS. A PROVISION OF \$123,000 IN THE YEAR-AGO QUARTER**

### Second Quarter Earnings Surpassed Estimates & Reflected Strong Operating Trends

For the second quarter of 2022, KS Bancorp reported excellent results, with earnings per share that were \$0.39 per share above our projections. While it could be argued that some of that strength came from a \$230,000 nonrecurring recovery of foreclosed assets expense, the other side of that argument is that the year-ago earnings had an even larger nonrecurring windfall from PPP fees of \$319,000. If we exclude both of these items, as well as the provision (there was no provision in 2022's second quarter, versus \$123,000 in the year-ago quarter), the pretax, "normalized" earnings were up about 17%, as can be seen in the adjacent table. Balance sheet growth relative to the year-ago level was led by deposits, although loans showed a particularly solid increase in the most recent three months. Moreover, loan growth in coming periods should benefit from the Bank's new loan production office in Dunn, NC, which is discussed in more detail later in this report. A final accomplishment of the quarter was improvement in asset quality, as nonperforming assets have dropped 25% over the past year.

Quarterly Results (\$000s)	2021 Q2	2022 Q2
Net Income	1,519	1,795
Pretax Income	1,937	2,273
Adjustments:		
Provision (Add/Deduct Credits)	123	-
Foreclosed RE Expense	-	(230)
Net PPP Loan Fee Accretion	(319)	-
<b>Pretax Inc. Bef. Provision/PPP</b>	<b>1,741</b>	<b>2,043</b>

In terms of specifics, KS Bancorp reported net income of \$1,795,000, or \$1.62 per diluted share, for 2022's second quarter, versus \$1,519,000, or \$1.37 per diluted share, for 2021's second quarter. Net

**NET INTEREST INCOME INCREASED 8%, OR 17% EXCLUDING PPP FEES**

**NONINTEREST INCOME WAS UP 2%, WITH 13% DEPOSIT SERVICE CHARGE GROWTH OFFSETTING LOWER FEES FROM PRESOLD MORTGAGES**

**THE ROAA AND ROAE BOTH IMPROVED**

interest income was up 8% to \$4,780,000 in 2022's second quarter from \$4,422,000 in the year-ago quarter, with the growth reflecting significantly lower interest expense and benefiting from average earning asset growth. The 8% net interest income growth was all the more impressive given that the second quarter of 2021 included the aforementioned \$319,000 in net PPP fees. The increase excluding those fees was closer to 17%. (All PPP deferred fees have now been recognized.) Noninterest income totaled \$722,000 in 2022's second quarter, which was up 2% from \$708,000 in the year-ago quarter, with 13% growth in service charges on deposits offsetting a decline in fees from presold mortgages. Noninterest expense, excluding net foreclosed real estate/repossessions recovery, totaled \$3,459,000 in the second quarter of 2022, up 13% from \$3,070,000 in the year-ago quarter. Finally, we would note that the Company's profitability ratios were quite impressive: ROAA increased to 1.27% in 2022's second quarter from 1.16% in the second quarter of 2021, while ROAE improved to 21.83% from 18.18% over the same respective periods.

**FIRST HALF HIGHLIGHTS:**

**EPS: \$2.85 vs. \$2.69**

**NET INTEREST INCOME GREW 10%**

**BALANCE SHEET GROWTH WAS STRONG**

Earnings for the first half of 2022 were likewise strong, with net income of \$3,162,000, or \$2.85 per diluted share, which was up 6% from \$2,978,000, or \$2.69 per diluted share, in the first half of 2021. As was the case with the quarterly results, there was no provision in the first half of 2022 compared to a provision of \$246,000 in the year-ago period. Net interest income grew 5%, noninterest income increased 10% and noninterest expense (excluding the net foreclosed real estate/repossessions recovery) was up 14%. Balance sheet growth over the past year was led by 12% growth in deposits (core deposits, which include savings, demand, CDARs and CDs under \$250,000, were up 13%). Net loans had surprisingly commendable growth of 7% despite PPP loan payoffs, and actually increased 6% (23% annualized) from March 31, 2020 to June 30, 2022. Stockholders' equity at June 30, 2022 was \$31.9 million, or 5.75% of total assets, and all of the Bank's regulatory capital ratios exceeded the minimums to be considered "well capitalized."

**LOAN PRODUCTION OFFICE RECENTLY OPENED IN DUNN, NC**

**DUNN AND HARNETT COUNTY MARKETS ARE ATTRACTIVE MARKETS TO ENTER**

### **KS Bancorp Has Entered Dunn & Harnett County Markets With New Loan Production Office**

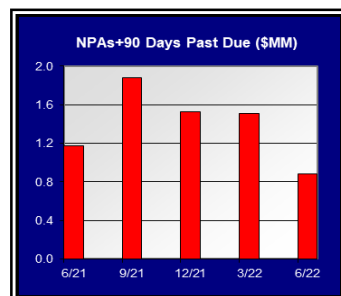
KS Bancorp recently opened a loan production office in Dunn, NC, and hired Judy Page as a Commercial Relationship Manager, SVP of the new LPO. Mrs. Page brings 20 years of lending experience in the Dunn and Harnett County markets and has a proven track record, particularly in the Dunn market. From the Bank's standpoint, it is a good time to enter the Dunn and Harnett County markets, which are served by a number of banks that have been merged and where there are a number of branch closures.

**NPAS-TO-ASSETS: 0.16% vs. 0.26% AT 3/31/22 AND 0.22% AT 6/30/21**

**NPAS HAVE DECLINED FOR THE PAST THREE QUARTER-ENDS**

**RESERVES-TO-LOANS: 1.35%**

### **Nonperforming Assets Dropped to the Lowest Since September 2018**



KS Bancorp continues to do an excellent job of managing its problem loans, with nonperforming assets ("NPAs") down for the third quarter-end in a row. Notably, NPAs reached the lowest they have been since the end of 2018. NPAs (all of which were nonaccrual loans) totaled \$878,000, or 0.16% of total assets, at June 30, 2022, versus \$1,508,000, or 0.26% of total assets, at March 31, 2022, and \$1,177,000, or 0.22% of total assets, at the year-ago date. The allowance for loan losses was \$5.0 million, or 1.35% of gross loans, at June 30, 2022, up 3% from \$4.9 million, or 1.40% of total loans, at the year-ago date.

### **Projections Increased**

**EPS:  
2020A: \$3.95  
2021A: \$5.50  
2022E: \$5.50**

For the year 2022, we are increasing our earnings estimate to \$6.1 million, or \$5.50 per diluted share, from our previous projection of \$5.5 million, or \$5.00 per diluted share. It should be noted that there was nearly \$1.0 million (pretax) in nonrecurring PPP income included in 2021's results, whereas none is projected for 2022.

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