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KS Bancorp, Inc. (KSBI – OTC BB)

107 Windel Dr., Suite 211

Raleigh
North Carolina
27609

919-876-8868 ph

www.equityresearch.com

John A. (Buddy) Howard, CFA
October 25, 2023

Price:	\$51.50	EPS*	2022A:	\$6.82	P/E	2022A:	7.6 x
52 Wk. Range:	\$45.50 - \$59.00	(FY: DEC)	2023E:	\$5.52		2023E:	9.3 x
Annualized Div/Div Yld:	\$1.00 / 1.94%		2024E:	\$5.90		2024E:	8.7 x
Shrs/Mkt Cap:	1.1 mm / \$57 mm	Book Value:		\$32.87	Price/Book Value:		1.57 x

* EPS are diluted.

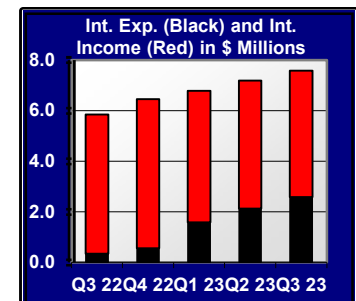
Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$606 million in assets as of September 30, 2023. 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 in Dunn. Additionally, it has received regulatory approval to build a full-service office in Dunn, NC to be completed by the end of the second quarter of 2024. 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."

Third Quarter Results Reflected Industry Wide Pressure on Margins

As we had expected, KS Bancorp reported lower earnings for the third quarter of 2023, reflecting lower net interest revenues from a sharp rise in funding costs. Despite the drop in earnings, the Company had several strong aspects of performance in the quarter, including solid balance sheet growth which was led by loans, sound asset quality that was superior to peers, a strong ROAE of 15.42% (which outperformed the NC peer group median of 11.94%) and an excellent stock performance, as is discussed in more detail on the next page. So, on balance, it was still an encouraging quarter despite the drop in profitability.

In terms of specific results, earnings were \$1,431,000, or \$1.29 per diluted share, for the third of 2023, versus \$2,062,000, or \$1.86 per diluted share, in the year-ago quarter. The earnings decline was mainly due to a 9% decrease in net interest income to \$4,996,000 in 2023's third quarter from \$5,496,000 in the year-ago quarter. Margins have tightened significantly over the past year, reflecting higher rates on deposit accounts, as can be seen in the adjacent chart. (In the chart the height of the line is interest income, the black bar is interest expense, and the red bar is the difference, or net interest income.) Adding to the pressure from the drop in net interest income was an increase in the provision for loan losses, reflecting the Bank's ongoing progress in building the loan portfolio. Specifically, the provision for credit losses was \$180,000 in 2023's third quarter, versus none in the year-



SYMBOL: KSBI

TOTAL ASSETS: \$606 MM

HQ: SMITHFIELD, NC

CONTACT:
EARL W. WORLEY, JR.,
PRESIDENT

REGINA J. SMITH, CFO

(919) 938-3101

3RD QUARTER HIGHLIGHTS:

EPS: \$1.29 VS. \$1.86

**EARNINGS WERE DOWN
MAINLY DUE TO LOWER NET
INTEREST INCOME**

**THERE WAS SOLID BALANCE
SHEET GROWTH AND THE
STOCK'S PERFORMANCE HAS
BEEN EXCELLENT**

**NET INTEREST INCOME WAS
DOWN 9%, DUE TO LOWER
MARGINS; INTEREST EXPENSE
HAS INCREASED RAPIDLY**

**EARNINGS WERE ALSO
AFFECTED BY A HIGHER
PROVISION**

NONINTEREST INCOME GREW 10%

YEAR-TO-DATE HIGHLIGHTS:

EPS: \$4.25 vs. \$4.71

FROM 9/30/22 TO 9/30/23:

LOANS CONTINUED TO LEAD OVERALL BALANCE SHEET GROWTH

DEPOSITS GREW 7%, TOTAL ASSETS WERE UP 8% AND NET LOANS INCREASED 15%

DEPOSITS AND MARKET SHARE HAVE HAD COMMENDABLE GROWTH IN THE TOP 2 MARKETS OF JOHNSTON AND WAYNE COUNTY

EQUITY/ASSETS: 6.01%

RETURNS ON KSBI SHARES HAVE SIGNIFICANTLY EXCEEDED PEERS

NPAS-TO-ASSETS: 0.17%, ALL NPAS WERE NONACCRUAL LOANS

RESERVES-TO-LOANS: 0.81%

EPS:
2022A: \$6.82
2023E: \$5.52
2024E: \$5.90

ago quarter. The trend in noninterest income was more encouraging, as it was up 10% to \$812,000 in the third quarter of 2023, versus \$740,000 in the year-ago quarter. Noninterest expense rose 6% over this same period, mainly from higher compensation and benefits and advertising costs.

For the first nine months of 2023, net income was \$4,709,000, or \$4.25 per diluted share, versus \$5,224,000, or \$4.71 per diluted share, year-to-date 2022, although there were \$312,000 in nonrecurring gains in the year-ago period. Net interest income was up 5%, noninterest income (excluding nonrecurring items) grew 9% and noninterest expense increased 10%.

Deposits and Deposit Market Share Continue to Grow in KS Bancorp's Top Two Markets

Balance sheet growth over the past year was impressive, with particularly strong loan growth. Specifically, from September 30, 2022 to September 30, 2023, deposits grew 7%, total assets were up 8% and net loans increased 15%. As it relates to deposits, we find it noteworthy that the Bank continues to build market share in its principal markets. Deposit growth has been particularly strong in Johnston and Wayne counties, where the Bank has the largest base of deposits (70% of total). For example, in Johnston County, deposit market share increased from 9.66% at June 2021 to 10.8% at June 2023, while Wayne County deposit share market share grew from 3.7% to 4.6% over the same period. We would also note that these are highly attractive markets. Johnston County, for example, has strong demographics, with projected population growth of 9.3% from 2023 to 2028, compared to 6.3% for the state of NC, and the median household income for 2023 also was higher than the state. A growing market share is often a measure of a bank's franchise value in a market, particularly when the market itself is attractive. Capital wise, the Company remains well capitalized. At the end of 2023's third quarter, stockholders' equity was \$36.4 million, or 6.01% of total assets, and all the Bank's regulatory ratios exceeded "well capitalized" minimums.

KSBI DEPOSITS/DEPOSIT MARKET SHARE

Deposits (\$MM)	6/21	6/22	6/23
Johnston	242	281	302
Wayne	79	99	105
Deposit Share (%)	6/21	6/22	6/23
Johnston	9.66	10.15	10.80
Wayne	3.73	4.38	4.55

Stock Performance Remains Excellent

On both a short- and long-term basis, KSBI shares continue to perform quite well, significantly outperforming the Company's North Carolina peer group. As can be seen in the adjacent table, the shares are up 12% on a year-to-date basis, 125% over the past three years and 108% over the past five years. All of these returns exceed the medians of the peer group and reflect the Company's strong performance.

TOTAL RETURN VS. NC PEER GROUP (%)

	KSBI	NC Peer Group Median
YTD	12.4	(13.5)
One-Year	14.0	(12.2)
Three-Year	125.2	40.3
Five-Year	107.7	17.2

Asset Quality Remains Sound

At September 30, 2023, KS Bancorp had nonperforming assets (NPAs, all of which were nonaccrual loans) of \$1,024,000, or 0.17% of total assets, compared to \$839,000, or 0.14% of total assets, at June 30, 2023 and \$992,000, or 0.18% of total assets, at the year-ago date. The allowance for loan losses was \$3.7 million (0.81% of gross loans), at September 30, 2023, versus \$5.1 million (1.27% of total loans), at the year-ago date. As is displayed in the table to the left, KS Bancorp's asset quality compares favorably to the majority of its NC peers.

ASSET QUALITY VS. NC BANKS

	KSBI	NC Peer Group Median
NPAs/Assets (%)	0.17	0.19
Reserves/NPAs (x)	3.60	1.05
Reserves/Loans (%)	0.81	1.11

Projections Maintained

For the year 2023, we are maintaining our earnings estimates at \$6.1 million, or \$5.52 per diluted share, and for 2024, we are projecting net income of \$6.5 million, or \$5.90 per diluted share. These projections may change depending on varying economic trends.

ADDITIONAL INFORMATION UPON REQUEST

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