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KS Bancorp, Inc. (KSBI – OTC BB)

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John A. (Buddy) Howard, CFA
January 31, 2024

Price:	\$48.75	EPS*	2022A:	\$6.82	P/E	2022A:	7.1 x
52 Wk. Range:	\$45.50 - \$58.80	(FY: DEC)	2023A:	\$5.60		2023A:	8.7 x
Annualized Div/Div Yld:	\$1.00 / 2.05%		2024E:	\$5.90		2024E:	8.3 x
Shrs/Mkt Cap:	1.1 mm / \$54 mm	Book Value:		\$36.54	Price/Book Value:		1.33 x

* EPS are diluted.

Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$614 million in assets as of December 31, 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."

Fourth Quarter Results Exceeded Estimates By \$0.08 Per Share

For the fourth quarter of 2023, KS Bancorp reported earnings that were lower than the year-ago figures, though we had expected that weakness due to the sharp increase in funding costs (interest expense increased five-fold) relative to last year. The big picture, though, was that earnings were still quite impressive, as the annual earnings were the second highest in the Company's history. There were other positives as well. First, the quarterly earnings were \$0.08 above projections. Second, balance sheet growth remained sound with assets, loans and deposits all increasing double-digits. Third, the Company's ROAE remained strong at roughly 15.6% and was better than the peer group median of 13.6%. Finally, we would note that KSBI shares continue to perform quite well, far exceeding the returns of peers on a one-year, three-year and five-year basis, as can be seen from the adjacent table.

	TOTAL RETURN VS. NC PEER GROUP (%)	
	KSBI	NC Peer Group Median
One-Year	3.5	(4.4)
Three-Year	103.9	29.1
Five-Year	102.9	28.2

In terms of specific results, KS Bancorp reported net income of \$1,500,000, or \$1.35 per diluted share, for the fourth quarter of 2023, compared to \$2,333,000, or \$2.11 per diluted share, in the year-ago quarter. This decline in earnings reflected a drop of 15% in net interest income to \$4,994,000 in 2023's fourth quarter from \$5,893,000 in the year-ago quarter, due to the contraction of margins that has been impacting most community bank's results throughout the Nation. Noninterest income had solid

SYMBOL: KSBI

TOTAL ASSETS: \$614 MM

HQ: SMITHFIELD, NC

CONTACT:
EARL W. WORLEY, JR.,
PRESIDENT

REGINA J. SMITH, CFO

(919) 938-3101

4TH QUARTER HIGHLIGHTS:

EARNINGS DECLINED BUT ANNUAL EARNINGS WERE THE SECOND HIGHEST IN THE COMPANY'S HISTORY

EPS: \$1.35 vs. \$2.11

DUE TO A DROP IN NET INTEREST INCOME, REFLECTING A CONTRACTION IN MARGINS

KSBI SHARES HAVE HAD COMMENDABLE PERFORMANCE

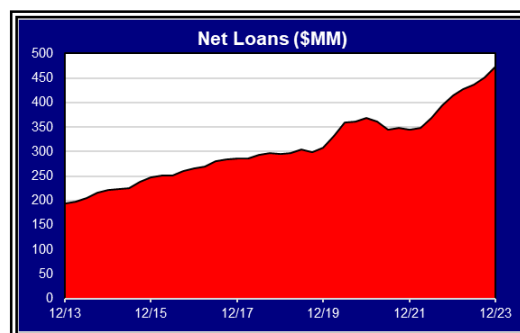
NET INTEREST INCOME DECLINED 15%

growth of 7% to \$840,000 in the fourth quarter of 2023 from \$782,000 in the year-ago quarter, with all components (deposit service charges, fees from presold mortgages and other income) growing over this period. Noninterest expense totaled \$3,949,000 in 2023's fourth quarter, up 7% from \$3,707,000 in 2022's fourth quarter. Partly due to the excellent asset quality and strong reserve position, there was no credit for loan losses in either quarter.

For the twelve months ended December 31, 2023, KS Bancorp had net income of \$6,209,000, or \$5.60 per diluted share (as stated before, this was the second highest level of earnings on record), versus \$7,557,000, or \$6.82 per diluted share, in 2022. The decrease mainly reflected higher noninterest expenses that relate to growth initiatives, as well as an increase in the provision for loan losses in 2023 to \$290,000, versus none in 2022. Net interest income was essentially flat (down less than 1%), while noninterest income was down 2% and noninterest expense grew 9%.

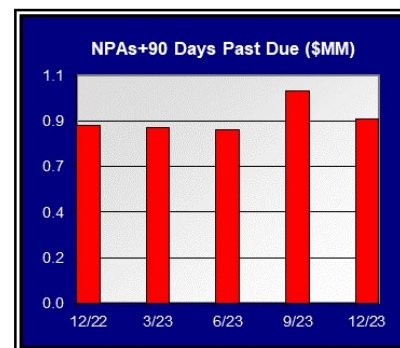
Balance Sheet Growth Remained Robust

As was stated earlier, a bright point for KS Bancorp was balance sheet growth, as all major components had double-digit increases over the past year. Loan growth was particularly strong, with net loans increasing 14% from December 31, 2022 to December 31, 2023. Deposits and assets also had commendable growth over the past year, of 13% and 12%, respectively. Core deposits (which included savings, demand, CDARs and CDs under \$250,000) were up 9%. As can be seen in the chart to the right, the historical growth over the past ten years has also been quite impressive, with loans more than doubling from December 31, 2013 to December 31, 2023 (this represents a 9% annualized growth rate). The Bank remains in a sound capital position to maintain this growth. Specifically, shareholders' equity was \$40.5 million, or 6.60% of total assets, at December 31, 2023, up 26% from \$32.2 million (5.90% of total assets) at the year-ago date. All of the Bank's regulatory ratios exceeded "well capitalized" minimums.



Nonperforming Assets Decreased 10% From the Year-Ago Date

We were encouraged to see the level of nonperforming assets decline at the end of 2023. Nonperforming assets (NPAs, all of which were nonaccrual loans) were \$892,000, or 0.15% of total assets, which was down from \$1,024,000, or 0.17% of total assets, at September 30, 2023 and \$992,000, or 0.18% of total assets, at the year-ago date. The allowance for loan losses totaled \$3.8 million (0.79% of gross loans), as of December 31, 2023, as compared to \$5.1 million (1.21% 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 most of its NC peers.



	ASSET QUALITY VS. NC BANKS	
	KSBI	NC Peer Group Median
NPAs/Assets (%)	0.15	0.18
Reserves/NPAs (x)	4.23	3.16
Reserves/Loans (%)	0.79	1.06

As is displayed in the table to the left, KS Bancorp's asset quality compares favorably to most of its NC peers.

Projections Maintained

We are retaining our earnings projections for 2024 at \$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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THERE WAS NO CREDIT FOR LOAN LOSSES IN EITHER QUARTER

FULL YEAR 2023 HIGHLIGHTS:

EPS: \$5.60 vs. \$6.82

FROM 12/31/22 TO 12/31/23:

NET LOANS GREW 14%, DEPOSITS WERE UP 13% AND TOTAL ASSETS INCREASED 12%

LOANS INCREASED AT AN ANNUALIZED RATE OF 9% OVER THE PAST TEN YEARS

EQUITY/ASSETS: 6.60%

NPAS-TO-ASSETS: 0.15%

NPAS WERE DOWN 13% FROM 9/30/23 AND 10% FROM 12/31/23

RESERVES-TO-LOANS: 0.79%

EPS:
2022A: \$6.82
2023A: \$5.60
2024E: \$5.90