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## KS Bancorp, Inc. (KSBI – OTC BB)

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**John A. (Buddy) Howard, CFA**  
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<b>Price:</b>	\$48.50	<b>EPS*</b>	<b>2021A:</b>	\$5.50	<b>P/E</b>	<b>2021A:</b>	8.8 x
<b>52 Wk. Range:</b>	\$44.05 - \$59.00	(FY: DEC)	<b>2022E:</b>	\$6.32		<b>2022E:</b>	7.7 x
<b>Annualized Div/Div Yld:</b>	\$0.80 / 1.65%		<b>2023E:</b>	\$6.76		<b>2023E:</b>	7.2 x
<b>Shrs/Mkt Cap:</b>	1.1 mm / \$54 mm	<b>Book Value:</b>		\$27.32	<b>Price/Book Value:</b>		1.78 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 \$562 million in assets as of September 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 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."

### Third Quarter Earnings Beat Projections, Pre-Provision and PPP Earnings Increased 42%

KS Bancorp reported solid double-digit growth in earnings for the third quarter of 2022, with actual results surpassing our estimates by \$0.54 per share. The strong growth was attributable to an impressive increase in net interest income, though earnings also benefited from the absence of a provision in 2022's third quarter, versus a provision of \$123,000 in the year-ago quarter. We would also note that the year-ago quarter included net PPP-related income of \$421,000, whereas there was no such income in 2022's third quarter. While net income grew 22% relative to the year-ago quarter, if we exclude both the provision and the PPP fees, earnings would have increased 42%. Balance sheet growth was led by 13% growth in loans, with exemplary growth in deposits as well, and asset quality remained excellent, with nonperforming assets declining nearly 50% compared to the year-ago date. Lastly, the Company's Board of Directors announced a cash dividend to be paid during the third quarter of 2022 of \$0.20 per share, which was up 25% from the prior dividend.

Quarterly Results (\$000s)	2021 Q3	2022 Q3
Net Income	1,685	2,062
Pretax Income	2,134	2,612
Adjustments:		
Provision (Add/Deduct Credits)	123	-
Net PPP Loan Fee Accretion	(421)	-
<b>Pretax Inc. Bef. Provision/PPP</b>	<b>1,836</b>	<b>2,612</b>

**SYMBOL: KSBI**

**TOTAL ASSETS: \$562 MM**

**HQ: SMITHFIELD, NC**

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

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

**REGINA J. SMITH, CFO**

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**3<sup>RD</sup> QUARTER HIGHLIGHTS:**

**EPS: \$1.86 VS. \$1.52**

**NET INCOME INCREASED 22%,  
WHILE PRETAX INCOME  
BEFORE THE PROVISION AND  
NET PPP-RELATED INCOME  
INCREASED 42%**

**THERE WAS NO PROVISION IN  
Q3 2022, VERSUS A PROVISION  
OF \$123,000 IN Q3 2021**

**NET INTEREST INCOME GREW  
17%, OR 29% EXCLUDING PPP  
FEES**

Reported net income was \$2,062,000, or \$1.86 per diluted share, for 2022's third quarter, up from \$1,685,000, or \$1.52 per diluted share, for 2021's third quarter. Net interest income was \$5,496,000 in 2022's third quarter, up 17% from \$4,683,000 in the year-ago quarter, though it was up 29% excluding

PPP fees. Noninterest income declined modestly to \$740,000 from \$758,000 over the same period, while noninterest expense totaled \$3,624,000 in the third quarter of 2022, up from \$3,184,000 in the year-ago quarter. Lastly, profitability ratios reflected the strong earnings growth, with ROAA and ROAE both improving from the year-ago quarter, and they were also well above the medians for the Bank's Southeast peer group, which consisted of 32 banks in NC, SC and VA with total assets between \$100 million and \$1 billion. (Note that ROAA and ROAE for 2022's third quarter for KS Bancorp are estimated.)

**PROFITABILITY RATIO IMPROVEMENT  
AND VS. SE PEERS (%)**

	KSBI *		SE Peer
	Q3 21	Q3 22	Group Median
ROAA	1.23	1.48	0.97
ROAE	19.29	26.54	11.30

\*Q3 2022 is estimated for KSBI

**PROFITABILITY RATIOS WERE  
QUITE IMPRESSIVE**

**SPECIFICALLY, THE ROAA  
AND ROAE BOTH IMPROVED  
AND WERE SUPERIOR TO THE  
SE PEER GROUP MEDIANS**

**FIRST HALF HIGHLIGHTS:**

**EPS: \$4.71 vs. \$4.21**

**NET INTEREST INCOME WAS UP  
9%**

**BALANCE SHEET WAS LED BY  
13% LOAN GROWTH**

For the first nine months of 2022, KS Bancorp reported earnings of \$5,224,000, or \$4.71 per diluted share, up 12% from \$4,663,000, or \$4.21 per diluted share, in the year-ago period. Net interest income was up 9%, noninterest income grew 6% and noninterest expense (excluding a \$230,000 nonrecurring recovery of foreclosed assets expense in the 2022 period) increased 14% over this period. There was no provision year-to-date in 2022, versus a provision of \$369,000 year-to-date in 2021. Balance sheet growth was good, with net loans increasing 13%, deposits growing 8% and total assets up roughly 1% over the past year. Stockholders' equity at September 30, 2022 was \$30.3 million, or 5.38% of total.

**Shareholders Continue to Be Rewarded with Increased Dividend, Strong Stock Performance**

As was stated earlier, the Board of Directors recently boosted the quarterly cash dividend to \$0.20 per share, representing a 25% increase over the previous quarter's dividend of \$0.16 per share. KS Bancorp has done an excellent job of building shareholder value over the years, partly by growing its dividend, which it has consistently done since it resumed paying dividends in 2015. For example, the annual dividend has grown from \$0.06 in the year 2015 to \$0.80 (the most recent quarterly dividend, annualized) in 2022. The Company's shareholders have also been rewarded with excellent returns on KSBI shares. Since our second quarter of 2022 report, KSBI shares have appreciated approximately 6%. Moreover, the stock has achieved excellent returns on both a short- and long-term basis and has outperformed those of most comparable banks, as can be seen in the adjacent table.

**QUARTERLY DIVIDEND  
INCREASED 25% TO \$0.20**

**THE ANNUAL DIVIDEND HAS  
CONSISTENTLY INCREASED  
SINCE 2015 WHEN KS BANCORP  
REINITIATED ITS CASH  
DIVIDEND PROGRAM**

**THE RETURN OF KSBI SHARES  
ALSO HAS BEEN STRONG, ON A  
ONE-YEAR, THREE-YEAR AND  
FIVE-YEAR BASIS**

**TOTAL RETURN VS. SOUTHEAST PEERS (%)**

	1-Year	3-Year	5-year
KSBI	22.5	100.9	74.0
SE Peer Median	(1.7)	14.1	14.5

**Nonperforming Assets Were Down 47% From the Year-Ago Date**

Asset quality remains quite good. NPAs (all of which were nonaccrual loans) were \$992,000, or 0.18% of total assets, at September 30, 2022, compared to \$878,000, or 0.16% of total assets, at June 30, 2022, and \$1,883,000, or 0.34% of total assets, at September 30, 2021. The allowance for loan losses was \$5.1 million, or 1.27% of gross loans, at September 30, 2022, versus \$4.9 million, or 1.42% of total loans, at the year-ago date. The Company's level of NPAs/assets was lower (better) than the SE peer group median, while it also has better reserve coverage.

**NPAS-TO-ASSETS: 0.18% vs.  
0.34% THE YEAR-AGO DATE**

**ASSET QUALITY COMPARES  
FAVORABLY TO THE MAJORITY  
OF SE PEERS**

**RESERVES-TO-LOANS: 1.27%**

**ASSET QUALITY VS. SE PEERS**

	SE Peer	
	KSBI	Group Median
NPAs/Assets (%)	0.18	0.21
Reserves/NPAs (x)	5.11	1.46
Reserves/Loans (%)	1.27	1.09

**Projections**

We are increasing our earnings estimate to \$7.0 million, or \$6.32 per diluted share, for the year 2022, from our previous projection of \$6.1 million, or \$5.50 per diluted share. For the year 2023, we are projecting KS Bancorp will earn \$7.5 million, or \$6.76 per diluted share. The increase in 2022 earnings is especially notable in that there was nearly \$1.0 million (pretax) in nonrecurring PPP income included in 2021's results, whereas none is projected for 2022.

**EPS:  
2021A: \$5.50  
2022E: \$6.32  
2023E: \$6.76**

**ADDITIONAL INFORMATION UPON REQUEST**

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