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## KS Bancorp, Inc. (KSBI – OTC BB)

**John A. (Buddy) Howard, CFA**  
**January 13, 2023**

107 Windel Dr., Suite 211

Raleigh  
North Carolina  
27609

919-876-8868 ph

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<b>Price:</b>	\$48.00	<b>EPS*</b>	<b>2021A:</b>	\$5.50	<b>P/E</b>	<b>2021A:</b>	8.7 x
<b>52 Wk. Range:</b>	\$44.05 - \$59.00	(FY: DEC)	<b>2022A:</b>	\$6.82		<b>2022A:</b>	7.0 x
<b>Annualized Div/Div Yld:</b>	\$0.80 / 1.67%		<b>2023E:</b>	\$7.16		<b>2023E:</b>	6.7 x
<b>Shrs/Mkt Cap:</b>	1.1 mm / \$53 mm	<b>Book Value:</b>		\$30.05	<b>Price/Book Value:</b>		1.60 x

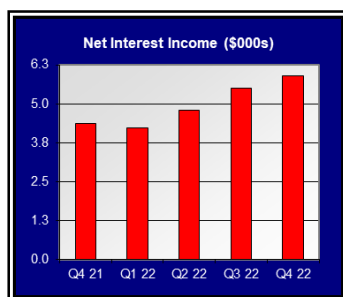
\* EPS are diluted. Earnings in 2021 include roughly \$1.0 (pretax) in nonrecurring PPP income, whereas there is none projected for 2022.

### Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$548 million in assets as of December 31, 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."

### Fourth Quarter of 2022 Earnings Before Provision and PPP Fee Income Grew 80%

For the fourth quarter of 2022, KS Bancorp reported excellent earnings that were well above our projections. The excellent growth was mainly due to net interest income, which as can be seen from the adjacent chart, has had excellent momentum in the last three quarters. What made the increase in earnings even more impressive was that the year-ago quarter included \$141,000 in net PPP fees, whereas there were no such fees in 2022's fourth quarter. Excluding those PPP fees, pretax income before the provision (which was zero for both quarters) increased 80% between



the two periods. Loans continued to be the leader of overall balance sheet growth, with deposits relatively flat and total assets contracting due to the repayment of about \$32.0 million in FHLB borrowings. Finally, KS Bancorp's asset quality remained quite good, with nonperforming assets dropping significantly from the year-ago date.

Quarterly Results (\$000s)	2021 Q4	2022 Q4
Net Income	1,431	2,333
Pretax Income	1,793	2,968
Adjustments:		
Provision (Add/Deduct Credits)	-	-
Net PPP Loan Fee Accretion	(141)	-
<b>Pretax Inc. Bef. Provision/PPP</b>	<b>1,652</b>	<b>2,968</b>

In terms of specifics, KS Bancorp reported net income of \$2,333,000, or \$2.11 per diluted share, for 2022's fourth quarter, up from \$1,431,000, or \$1.29 per diluted share, in the year-ago quarter. Net interest income totaled \$5,893,000 in 2022's fourth quarter, which grew 35% from \$4,364,000 in the

**SYMBOL: KSBI**

**TOTAL ASSETS: \$548 MM**

**HQ: SMITHFIELD, NC**

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

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

**REGINA J. SMITH, CFO**

**(919) 938-3101**

**4<sup>TH</sup> QUARTER HIGHLIGHTS:**

**EPS: \$2.11 vs. \$1.29**

**WHILE NET INCOME WAS UP 63%, PRETAX INCOME BEFORE THE PROVISION AND NET PPP-RELATED INCOME INCREASED 80%**

**THERE WAS NO PROVISION IN Q4 2021 OR Q4 2022**

**NET INTEREST INCOME INCREASED 35%, OR 40% EXCLUDING PPP FEES**

**NONINTEREST INCOME GREW 6%, MAINLY DUE TO DEPOSIT SERVICE CHARGES**

**THE QUARTERLY ROAA AND ROAE BOTH HAD SUBSTANTIAL IMPROVEMENT**

**FULL YEAR 2022 HIGHLIGHTS:**

**EPS: \$6.82 vs. \$5.50**

**NET INCOME INCREASED 24%**

**NET INTEREST INCOME GREW 16%**

**BALANCE SHEET WAS LED BY LOAN GROWTH OF 20%, WHILE DEPOSITS WERE DOWN 1% AND TOTAL ASSETS DECLINED 4%**

**EQUITY-TO-ASSETS: 6.08%**

**NPAS-TO-ASSETS: 0.16% VS. 0.27% THE YEAR-AGO DATE**

**RESERVES-TO-LOANS: 1.21%**

**EPS:  
2021A: \$5.50  
2022A: \$6.82  
2023E: \$7.16**

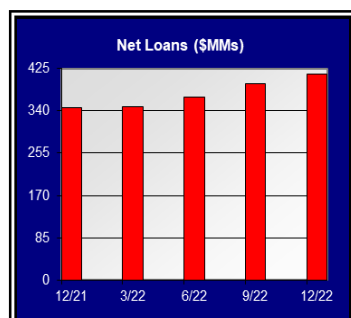
year-ago quarter, and it was up 40% excluding PPP fees. The combination of strong loan growth (which has largely been funded by deploying low-yielding cash), along with the increase in interest rates has led to a sharp rise in the net interest margin, which grew to 4.37% in 2022's fourth quarter from 3.15% in the year-ago quarter. Noninterest income also improved, increasing 6% to \$782,000 in 2022's fourth quarter from \$735,000 in the year-ago quarter. Noninterest expense totaled \$3,707,000 in 2022's fourth quarter, up 12% from \$3,306,000 in the year-ago quarter, mainly due to higher compensation and benefits, some of which was based on additional hires over the past year. Finally, we would note that KS's quarterly profitability ratios were exceptional, with ROAA increasing to 1.68% from 1.01% and ROAE improving to 29.37% from 15.84% in the year-ago quarter. These figures exceed those of most Southeast financial institutions, as is discussed in more detail below.

For the twelve months ended December 31, 2022, KS Bancorp reported earnings of \$7,557,000, or \$6.82 per diluted share, which was up 24% from \$6,094,000, or \$5.50 per diluted share, in the year-ago period. Net interest income increased 16%, noninterest income grew 6% and noninterest expense (excluding a \$230,000 nonrecurring recovery of foreclosed assets expense in the 2022 period) was up 13% over this period. The full year 2022 did not have a provision, whereas the 2021 period had a provision of \$369,000. As was the case with the quarterly results, we were quite impressed by KS Bancorp's profitability ratios for the year 2022, and also with how they compared to the majority of the Company's Southeast peer group, which consisted of 30 banks in NC, SC and VA with total assets between \$100 million and \$1 billion.

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

	KSBI *		SE Peer
	2021	2022	Group Median
ROAA	1.14	1.34	0.95
ROAE	17.82	23.07	10.11

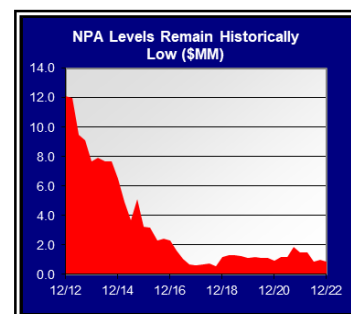
**Loans Increased 20% Over the Past Year**



Balance sheet growth from December 31, 2021 to December 31, 2022 was led by loans, which grew 20%, while deposits were down 1% and total assets declined 4% over this period. (As noted earlier, most of this decline related to \$32 million in repayments to the FHLB.) We expect deposit and asset growth to pick up over time. Encouragingly in terms of deposits, higher cost jumbo certificates of deposit (those over \$250,000) decreased \$5.7 million, or 22% over the past year. The Company remained well capitalized at December 31, 2022, with stockholders' equity of \$33.3 million, or 6.08% of total assets. All of the Bank's regulatory ratios well exceeded the "well capitalized" minimums at December 31, 2022.

**NPAs Declined 46% From the Year-Ago Date**

Asset quality remains sound, with nonperforming assets ("NPAs") remaining at historical lows. NPAs (all of which were nonaccrual loans) totaled \$859,000, or 0.16% of total assets, at December 31, 2022, which was down from \$992,000, or 0.18% of total assets, at September 30, 2022, and 46% from \$1,523,000, or 0.27% of total assets, at the year-ago date. The allowance for loan losses was \$5.1 million, or 1.21% of gross loans, at December 31, 2022, versus \$5.0 million, or 1.43% of total loans, at December 31, 2021.



**Projections Increased**

We are projecting KS Bancorp will earn \$7.9 million, or \$7.16 per diluted share, in 2023, up from our previous estimate of \$7.5 million, or \$6.76 per diluted share.

**ADDITIONAL INFORMATION UPON REQUEST**

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