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KS Bancorp, Inc. (KSBI – OTC BB)

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John A. (Buddy) Howard, CFA
April 24, 2020

Price:	\$22.25	EPS*	2018A:	\$3.00	P/E	2018A:	7.4 x
52 Wk. Range:	\$22.00 - \$31.95	(FY: DEC)	2019A:	\$3.29		2019A:	6.8 x
Annualized Div/Div Yld:	\$0.40 / 1.8%		2020E:	\$2.92		2020E:	7.6 x
Shrs/Mkt Cap:	1.1 mm / \$26 mm	Book Value:		\$25.59	Price/Book Value:		0.87 x

* EPS are diluted. Earnings are expected to vary greatly from projections based on the uncertainties of the COVID-19 crisis.

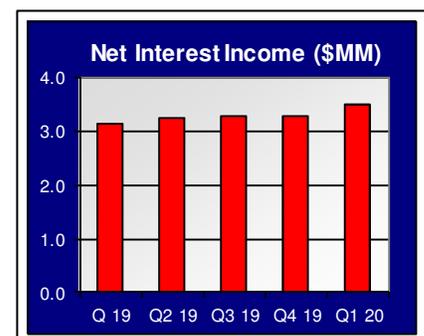
Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$426 million in assets as of March 31, 2020. 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. 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."

First Quarter Earnings Were Up 12%; Loan Growth Was Excellent

Although we expect the impact of COVID-19 to be more apparent as the year progresses, it actually did not have a significant effect on KS Bancorp's first quarter results. As a matter of fact, KS Bancorp's first quarter earnings and balance sheet growth were quite strong. From an operating standpoint, the Bank's offices are open with service at drive-thru and by appointment for account opening and loan applications. In addition, the Bank is continuing to serve customers through its ATM network and online platform. Although it is too early to tell what the full impact of COVID-19 will be on the economy (and KS Bancorp), we are at least heartened that the Company entered the crisis with strong fundamentals and that it is fully engaged (more so than many of the larger banks we believe) in working with customers to negotiate these challenging times, as is discussed in more detail on the opposite page.

In terms of specific results, KS Bancorp reported net income of \$922,000, or \$0.83 per diluted share, up 12% from \$820,000, or \$0.74 per diluted share, in the year-ago quarter. The earnings growth was led by net interest income, which grew 11% to \$3,483,000 in 2020's first quarter from \$3,136,000 in the year-ago quarter (it was up 6% on a linked quarter basis). The increase was mainly due to improvement in the net interest margin, although average earning assets were also up. Noninterest income grew slightly (about 1%) to \$708,000 in the first quarter of 2020 from \$701,000 in the year- ago quarter, with a 5% increase in deposit service



SYMBOL: KSBI

TOTAL ASSETS: \$426 MM

HQ: SMITHFIELD, NC

CONTACT:
HAROLD T. KEEN, PRES.
EARL W. WORLEY, JR., COO
REGINA J. SMITH, CFO
(919) 938-3101

1ST QUARTER HIGHLIGHTS:

EARNINGS GREW 12% AND WERE GENERALLY IN LINE WITH ESTIMATES

EPS: \$0.83 vs. \$0.74

NET INTEREST INCOME WAS UP 11%, WITH MARGINS AND AVERAGE EARNING ASSETS INCREASING

NONINTEREST INCOME GREW 1%, WITH DEPOSIT SERVICE CHARGES UP 5%

THERE WAS A PROVISION OF \$45,000 IN 2020'S FIRST QUARTER, VERSUS NO PROVISION IN THE YEAR-AGO QUARTER

BALANCE SHEET GROWTH WAS EXCELLENT

LOANS WERE UP 12% OVER THE PAST YEAR

STOCKHOLDERS' EQUITY INCREASED 22% OVER THE PAST YEAR AND WAS 6.7% OF ASSETS AT MARCH 31, 2020

KSBI SHARES HAVE HELD UP BETTER THAN MOST INDUSTRY INDICES

DESPITE THE NEGATIVE HEADWINDS THAT ARE LIKELY TO COME FROM THE VIRUS, KS BANCORP IS SERVING ITS CUSTOMERS QUITE WELL IN OUR VIEW

NPAS-TO-ASSETS: 0.27% VS. 0.51% FOR THE SE SAVINGS INSTITUTION PEER GROUP MEDIAN

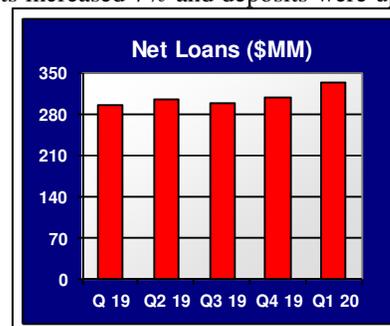
RESERVES-TO-LOANS: 1.22%

**EPS:
2018A: \$3.00
2019A: \$3.29
2020E: \$2.92**

charges and a 12% increase in other noninterest income offsetting a substantial decline in fees from presold mortgages. Noninterest expense grew 6% to \$2,971,000 in 2020's first quarter, compared to \$2,798,000 in the year-ago quarter, with the growth primarily due to increases in compensation and benefits from key staff and lender additions. Finally, there was a provision for loan losses of \$45,000 in the first quarter of 2020 versus no provision in the first quarter of 2019.

Balance Sheet Growth Has Been Excellent; Stock Price Has Been Holding Up Well

As we stated earlier, KS Bancorp had excellent balance sheet growth in the quarter. From March 31, 2019 to March 31, 2020, net loans were up 12%, while total assets increased 7% and deposits were up 6%. Much of the loan growth occurred in the past three months and was partly the result of the hiring of a new key lender in 2019's fourth quarter. Loan growth should remain strong in the current quarter should remain strong given the Bank's participation in the U.S. Treasury's Payroll Protection Program ("PPP"). Stockholders' equity was \$28.4 million, or 6.7% of assets, as of March 31, 2020, and all of the Bank's regulatory capital ratios exceeded "well capitalized" minimums as of that date. We would also note that the stock has also been holding up much better than broader indices. KSBI shares had a three-year total return of 14% and a five-year total return of 71%, versus *negative* returns of 33% and 20%, respectively for the SNL US Thrift Index. While KSBI shares are down 13% over the past year, the SNL US Thrift index dropped 30%.



A Few Comments About COVID-19 and Its Possible Implications For KS Bancorp

At this stage, there is no way to accurately assess the likely impact of COVID-19 on KS Bancorp and its operations. The Bank is assisting customers affected by COVID-19 by offering payment deferrals and interest only loans as warranted and on a case by case basis. Management has also indicated it is actively serving its business customers in obtaining relief through the PPP, and has been actively processing the collection and submission of applications. In total, it expects to lend about \$20 million under the program. Anecdotally, we would make the point that many of the larger banks have stumbled in terms of getting these applications in on a timely basis; the nimbleness and responsiveness of smaller banks like KS Bancorp to get these processed for its customers is a reminder of the advantage community banks have relative to many of the mega institutions.

NPAs Decreased 13% from March 31, 2019, NPAs/Assets Better than Peers

As of March 31, 2020, KS Bancorp had nonperforming assets totaling \$1.2 million, or 0.27% of total assets, as compared to \$1.1 million, or 0.28% of total assets, at December 31, 2019, and \$1.3 million, or 0.33% of total assets, at the year-ago date. All of NPAs were nonaccrual loans. We would note that the Company's ratio of NPAs-to-assets of 0.27% was far superior to the median figure of 0.51% for the SE Savings Institution peer group median. The allowance for loan losses was \$4.1 million, or 1.22% of gross loans, at March 31, 2020, up 2% from \$4.0 million, or 1.33% of total loans, at the year-ago date.

Projections Lowered

We are assuming that asset quality for most banks may deteriorate in coming quarters and that the provisions for loan losses will trend higher as the year progresses. On the positive side, the Bank is likely to earn additional fee income from its participation in the PPP. At this juncture, we are projecting 2020 earnings of \$3.2 million, or \$2.92 per diluted share. As stated previously, actual earnings could vary substantially from these projections given the uncertainties of the COVID-19 crisis.

ADDITIONAL INFORMATION UPON REQUEST

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