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KS Bancorp, Inc. (KSBI – OTC BB)

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North Carolina
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Price:	\$19.50	EPS*	2015A:	\$1.08	P/E	2015A:	18.1 x
52 Wk. Range:	\$12.05 - \$20.00	(FY: DEC)	2016A:	\$1.61		2016A:	12.1 x
Div/Div Yld:	\$0.08 / 0.4%		2017E:	\$1.80		2017E:	10.8 x
Shrs/Mkt Cap:	1.3 mm / \$26 mm	Book Value:		\$19.03	Price/Book Value:		1.02 x

* EPS are diluted.

Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$368 million in assets as of March 31, 2017. 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 mortgage origination office in Greenville, NC. 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 wealth management. 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, KS Wealth Management Services offers a broad array of services to help clients manage, protect and build upon their financial resources. Selected wealth management services include investments, college savings programs, lifetime charitable giving, business succession planning, insurance and risk management. In addition, 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. Currently, the Company's stock is traded on the over-the-counter bulletin board under the symbol "KSBI."

First Quarter Results Were Better Than Expected; Projections Increased

KS Bancorp once again reported better than expected results in the most recent quarter, much like it did in the fourth quarter of 2016. Results over the past few quarters have been buoyed by favorable comparisons in most revenue categories, combined with excellent cost control. Moreover, we continue to be particularly encouraged by the Bank's loan growth, which has been fairly consistent. At the same time, asset quality trends remain quite favorable, with levels of nonperforming assets at the lowest level in roughly ten years. Based on the strength in the quarterly earnings, we are increasing our earnings projection for the full year of 2017.

Net income for the first quarter of 2017 was \$603,000, or \$0.46 per diluted share, up from \$435,000, or \$0.33 per diluted share, in the year-ago quarter. We had been projecting the Company would earn \$0.42 per diluted share, so the results were \$0.04 better than we had expected. KS Bancorp's recent results have basically been hitting on all cylinders. For example, net interest income increased 7% to \$2,923,000 for the first quarter of 2017 from \$2,744,000 in the year-ago quarter, with most of that growth coming from higher average earning assets. Good results have also been experienced in noninterest income, as it was up 3%, excluding security gains and losses in both periods. The trust operation continues to perform well and accounted for about 24% of total noninterest income in the quarter. As was stated above, the other major category of progress was in expense control. Specifically, noninterest expense was down 1% in 2017's first quarter to \$2,704,000 from \$2,736,000

SYMBOL: KSBI

TOTAL ASSETS: \$368 MM

HQ: SMITHFIELD, NC

CONTACT:
HAROLD T. KEEN, PRES.
EARL W. WORLEY, JR., COO
REGINA J. SMITH, CFO
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1ST QUARTER HIGHLIGHTS:

EPS: \$0.46 vs. \$0.33

**NET INTEREST INCOME
INCREASED 7%**

**NONINTEREST INCOME WAS UP
3%, WHILE NONINTEREST
EXPENSE ACTUALLY DECLINED**

ANNUALIZED ROAE: 9.8%

ANNUALIZED ROAA: 0.66%

**BALANCE SHEET GROWTH
WAS COMMENDABLE AS WELL**

**KS BANCORP'S STOCK PRICE
HAS BEEN PERFORMING QUITE
WELL**

**THE APPRECIATION HAS
EXCEEDED BROADER
BENCHMARKS IN EACH OF THE
TIME PERIODS CONSIDERED**

**KSBI STOCK IS STILL
TRADING AT REASONABLE
MULTIPLES**

**NPAS ARE AT THE LOWEST
LEVEL IN ROUGHLY TEN
YEARS**

**NPAS-TO-ASSETS: 0.44% VS.
0.92% AT YEAR-AGO DATE**

RESERVES-TO-LOANS: 1.40%

**EPS:
2015A: \$1.08
2016A: \$1.61
2017E: \$1.80**

in 2017's first quarter. Equally notably, all of the major categories of expenses (compensation and benefits, occupancy and equipment, and data processing and outside services) declined in 2017's first quarter relative to the year-ago quarter. Finally, there was no provision in 2017's first quarter, versus a nominal provision of \$5,000 in the year-ago quarter. Annualized return on average equity was an impressive 9.8%, while return on average assets was 0.66%.

Balance Sheet Growth Remains Good

Balance sheet growth has been commendable for the past several quarters. From March 31, 2016 to March 31, 2017, gross loans increased 7%, while deposits were up 7% and assets grew 6%. Stockholders' equity was \$24.9 million, or 6.8% of total assets, at March 31, 2017. All of the Bank's regulatory capital ratios exceed the minimums to be considered "well capitalized."

KS Bancorp's Stock Performance Has Been Impressive

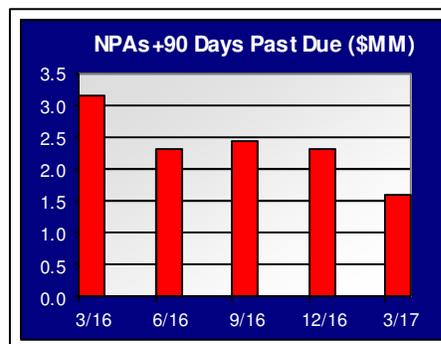
KS Bancorp's stock price continues to perform quite well and has appreciated much more rapidly than the overall market. The total appreciation on a year-to-date, one-year, three-year and five-year basis was 5%, 59%, 77% and 412%, respectively. These rates of appreciation are well above those for comparable indices, such as the SNL Thrift Index and the S&P 500 Index. Notwithstanding the appreciation rates, KSBI shares are still trading at what we consider to be relatively attractive valuation multiples. Whereas KSBI shares are trading at a slight multiple of book value (102%), the typical Southeast savings institution is trading at 120% of book value, well above KSBI's book value multiple. We would also note that the appreciation rates for KSBI do not include the additional returns from the cash dividends the Company has paid over the past five years.

Cumulative Increase Over:	KS Bancorp (KSBI) Price Increase	SNL US Thrift Index Increase	S&P 500 Index
Year to Date	5.4%	-7.9%	4.0%
One Year	59.2%	12.2%	11.8%
Three Years	77.3%	27.5%	28.3%
Five Years	412.0%	75.7%	70.0%



Nonperforming Assets Are Down 50% from the Year-Ago Level

Asset quality remains excellent. Nonperforming assets were \$1.6 million, or 0.44% of assets, at March 31, 2017, versus \$2.3 million, or 0.65% of assets, at December 31, 2016 and \$3.2 million, or 0.92% of assets, as of March 31, 2016. This is the lowest that NPAs have been in roughly ten years. The majority of NPAs consisted of nonaccrual loans (\$1.5 million), followed by other real estate owned (\$0.1 million). The reserve position is strong as well, as the allowance for loan losses was \$3.7 million, or 1.37% of total loans at March 31, 2017, versus \$3.6 million, or 1.40% of total loans at March 31, 2016.



Projections Increased

Based on the strength of the first quarter results, we are increasing our 2017 earnings projections to \$2.4 million, or \$1.80 per diluted share, up from \$2.3 million, or \$1.75 per diluted share previously. These projections could vary widely based on changing economic conditions.

ADDITIONAL INFORMATION UPON REQUEST

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