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## KS Bancorp, Inc. (KSBI – OTC BB)

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North Carolina  
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**John A. (Buddy) Howard, CFA**  
**November 1, 2017**

<b>Price:</b>	\$30.50	<b>EPS*</b>	<b>2016A:</b>	\$1.61	<b>P/E</b>	<b>2015A:</b>	18.9 x
<b>52 Wk. Range:</b>	\$18.00 - \$33.00	(FY: DEC)	<b>2017E:</b>	\$2.08		<b>2016A:</b>	14.7 x
<b>Div/Div Yld:</b>	\$0.08 / 0.3%		<b>2018E:</b>	\$2.20		<b>2017E:</b>	13.9 x
<b>Shrs/Mkt Cap:</b>	1.3 mm / \$40 mm	<b>Book Value:</b>		\$20.34	<b>Price/Book Value:</b>		1.50 x

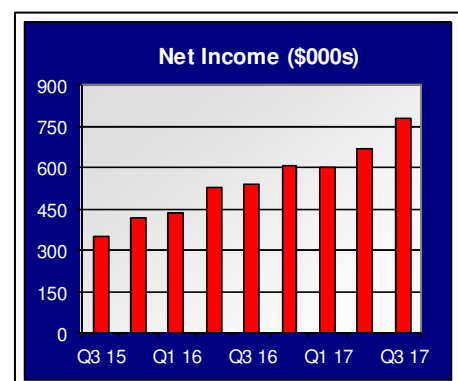
\* EPS are diluted.

### Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$370 million in assets as of September 30, 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."

### Third Quarter Earnings Increased 46%

KS Bancorp reported another solid quarter in the three months ended September 30, 2017. Earnings were up sharply, and exceeded our projections, leading us to increase our earnings projection for the full year. Balance sheet growth was commendable as well, with mid- to upper-single digit increases in most key areas of the balance sheet. And finally, asset quality was excellent, with nonperforming assets dropping to the lowest quarterly level in the past ten years. As can be seen in the adjacent chart, which we have updated from our last report, the trend in earnings has been quite strong, with earnings more than doubling in the past two years.



Net income for the third quarter of 2017 was \$782,000, or \$0.60 per diluted share, up from \$537,000, or \$0.41 per diluted share, in the year-ago quarter. We had only projected the Bank would earn \$0.41 per share, so the results were well above our expectations. While earnings were helped by a credit for loan losses of \$187,000 in 2017's third quarter (versus none in the year-ago quarter), profitability was still strong even excluding the favorable swing in the provision. Most of the strength in earnings came from higher net interest income, which grew 9% to \$3,095,000 in the third quarter of 2017 from

**SYMBOL: KSBI**

**TOTAL ASSETS: \$370 MM**

**HQ: SMITHFIELD, NC**

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

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

**EARNINGS GROWTH WAS QUITE STRONG**

**EPS: \$0.60 vs. \$0.41**

**ALTHOUGH EARNINGS BENEFITTED FROM A CREDIT FOR LOAN LOSSES, PROFITABILITY WAS STILL STRONG EVEN EXCLUDING THE CREDIT**

**NET INTEREST INCOME INCREASED 9%**

**NONINTEREST INCOME DECLINED SLIGHTLY, MAINLY DUE TO A SLOWDOWN IN MORTGAGE RELATED INCOME**

**1<sup>ST</sup> NINE MONTH HIGHLIGHTS:**

**EPS: \$1.57 vs. \$1.14**

**LOANS INCREASED 9% OVER THE PAST YEAR**

**EQUITY/ASSETS: 7.2%**

**KS BANCORP HAS GROWN ITS DEPOSIT BASE IN EACH OF THE FOUR COUNTIES IN WHICH IT OPERATES**

**MARKET SHARE HAS GENERALLY BEEN STABLE OR INCREASED IN ALL OF THEM**

**MARKET SHARE GROWTH HAS BEEN ESPECIALLY STRONG IN JOHNSTON COUNTY**

**ASSET QUALITY IMPROVED SIGNIFICANTLY**

**NPAs-TO-ASSETS: 0.19% vs. 0.68% AT YEAR-AGO DATE**

**RESERVES-TO-LOANS: 1.35%**

**EPS:  
2016A: \$1.61  
2017E: \$2.08  
2018E: \$2.20**

\$2,847,000 in the year-ago quarter. Noninterest income, excluding losses on the sale of securities in the year-ago quarter, declined slightly (about 2%) in the quarter, principally due to a slowdown in fees from presold mortgages. Finally, noninterest expense was up 4% in 2017's third quarter to \$2,810,000 from \$2,708,000 in 2016's third quarter. Annualized return on average equity was an impressive 11.9% for the third quarter of 2017, while annualized return on average assets was 0.85%.

### Earnings for the Nine Months Were Likewise Strong

For the first nine months of 2017, KS Bancorp reported net income of \$2,053,000, or \$1.57 per diluted share, versus \$1,499,000, or \$1.14 per diluted share, in the year-ago period. Net interest income increased 8% to \$9,032,000 in the first nine months of 2017 from \$8,364,000 in the year-ago period, while noninterest income, excluding securities losses, was up less than 1%. Noninterest expense increased 2%. From a balance sheet standpoint, the Company continues to achieve steady mid- to upper-single digit growth. From September 30, 2016 to September 30, 2017, gross loans increased 9%, while deposits were up 6% and assets grew 5%. Stockholders' equity was \$26.6 million, or 7.2% of total assets, at September 30, 2017, and all of the Bank's regulatory capital ratios exceed the minimums to be considered "well capitalized."

### KS Bancorp Has Done an Outstanding Job of Growing Deposits

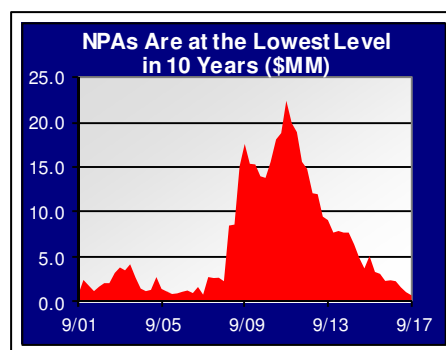
The ability to grow deposits is one of the most critical functions of a bank, as it provides a key source of funding for earning asset growth but also leads to important fee generating customer relationships. KS Bancorp has done an excellent job of growing deposits in each of the four counties in which it operates. In Johnston County, where the majority of its deposits are located, total deposits have

Market	KS Bancorp Deposits (\$MM)				KS Bancorp Market Share (%)			
	Q2 '14	Q2 '15	Q2 '16	Q2 '17	Q2 '14	Q2 '15	Q2 '16	Q2 '17
Johnston County	131	143	163	173	8.62%	9.65%	10.44%	10.65%
Wake County	51	56	53	57	0.23%	0.24%	0.21%	0.22%
Wilson County	18	20	24	25	1.73%	1.90%	2.09%	2.23%
Wayne County	35	37	40	37	2.50%	2.64%	2.77%	2.48%
<b>Total Deposits</b>	<b>235</b>	<b>256</b>	<b>280</b>	<b>292</b>				

increased 32% in only four years, and it commands a consistently growing market share. The trends in total deposits are also positive in the other markets, with market shares generally either stable or growing.

### NPAs Are at a Quarterly 10-Year Low

Asset quality improved significantly in the past quarter. Nonperforming assets were \$697,000, or 0.19% of assets, at September 30, 2017, versus \$1,072,000, or 0.29% of assets, at June 30, 2017, and \$2,401,000, or 0.68% of total assets, as of September 30, 2016. This is the lowest that NPAs have been in ten years. The reserve position is strong as well, as the allowance for loan losses was \$3.9 million, or 1.35% of total loans at September 30, 2017, versus \$3.7 million, or 1.40% of total loans, as of September 30, 2016. Charge-offs have been quite low for the Bank as well (they have actually been recoveries).



### Projections Increased

Based on the strong results, we are increasing our 2017 earnings estimate to \$2.7 million, or \$2.08 per diluted share, and are projecting 2018 earnings to grow to \$2.9 million, or \$2.20 per diluted share. These projections could vary widely based on changing economic conditions.

ADDITIONAL INFORMATION UPON REQUEST

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