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KS Bancorp, Inc. (KSBI – OTC BB)

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John A. (Buddy) Howard, CFA
October 25, 2019

Price:	\$25.45	EPS*	2018A:	\$3.00*	P/E	2018A:	8.5 x
52 Wk. Range:	\$25.00 - \$29.99	(FY: DEC)	2019E:	\$3.33		2019E:	7.6 x
Div/Div Yld:	\$0.36 / 1.41%		2020E:	\$3.50		2020E:	7.3 x
Shrs/Mkt Cap:	1.1 mm / \$28 mm	Book Value:		\$23.46	Price/Book Value:		1.08 x

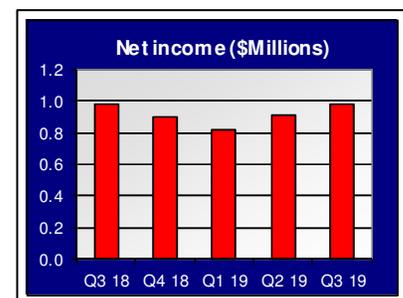
* EPS are diluted.

Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$404 million in assets as of September 30, 2019. 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 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 Showed Strong Linked Quarter Growth, EPS \$0.06 Ahead of Estimates

For the third quarter of 2019, KS Bancorp reported earnings that increased sequentially for the second quarter in a row, and results beat our projections. As we had expected, balance sheet growth remained in the low single digits, although the deposit mix continues to shift to a more favorable (less expensive) mix and stockholders' equity grew a strong 28% due to a high return on equity and a favorable swing in Accumulated Other Comprehensive Loss (i.e., unrealized losses on securities) over the past year. KS Bancorp's asset quality remained good and was better than the majority of its peers, with NPAs up from the year-ago level but lower than the level at June 30, 2019.



Net income was \$976,000, or \$0.88 per diluted share, in the third quarter of 2019, compared to \$985,000, or \$0.89 per diluted share, in the year-ago quarter. Net interest income was up 3% to \$3,287,000 in 2019's third quarter from \$3,189,000 in the year-ago quarter, with growth in average earning assets offsetting slightly lower margins. Noninterest income was down 6% to \$810,000 in 2019's third quarter from \$865,000 in the year-ago quarter, although we would note that deposit service charges and fees from presold mortgages both had solid increases of 18% and 49%, respectively. Noninterest expense was up a modest 2% to \$2,856,000 in the third quarter of 2019 from \$2,799,000 in the year-ago quarter, but was down 2% on a linked quarter basis. There was no provision for loan losses for either period.

SYMBOL: KSBI

TOTAL ASSETS: \$404 MM

HQ: SMITHFIELD, NC

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

3RD QUARTER HIGHLIGHTS:

EARNINGS INCREASED 8% ON A LINKED QUARTER BASIS

EPS: \$0.88 vs. \$0.89

NET INTEREST INCOME WAS UP 3%

NONINTEREST INCOME DECLINED 6%, THOUGH DEPOSIT SERVICE CHARGES AND FEES FROM PRESOLD MORTGAGES BOTH HAD STRONG GROWTH

NINE MONTH HIGHLIGHTS:

EPS INCREASED 12%

EPS: \$2.44 vs. \$2.18

NET INTEREST INCOME WAS UP 3%

CDS ABOVE \$250MM DECLINED 20% FROM THE YEAR-AGO DATE

KSBI HAD THE BEST ROATCE OF ITS PEER GROUP

ASSET QUALITY WAS SUPERIOR TO THE SOUTHEAST PEER GROUP AS WELL

THE SHARES ARE TRADING AT A DISCOUNT TO THE MULTIPLES BASED ON EARNINGS AND TANGIBLE BOOK VALUE

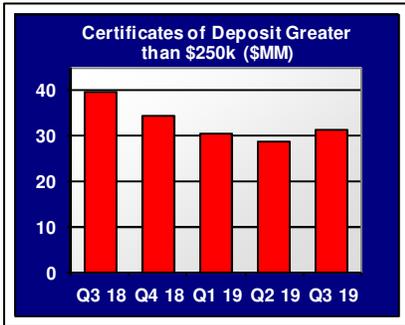
NPAS-TO-ASSETS: 0.30%

RESERVES-TO-LOANS: 1.34%

**EPS:
2018A: \$3.00
2019E: \$3.33
2020E: \$3.50**

Earnings for the First Nine Months of 2019 Increased 3%

For the nine months ended September 30, 2019, KS Bancorp reported net income of \$2,703,000, or \$2.44 per diluted share, which was up 3% from \$2,636,000, or \$2.18 per diluted share, in the year-ago period. Net interest income grew 3% and noninterest income decreased 2%. Noninterest expense was up 1% to \$8,566,000 year-to-date in 2019, compared to \$8,469,000 in the year-ago period. Finally,



there was a provision for loan losses of \$25,000 in the first nine months of 2019, versus none in the year-ago period. From September 30, 2018 to September 30, 2019, net loans grew 1%, deposits were up 3% and total assets increased 4%. In terms of deposits, we were pleased to see that the mix continues to shift towards less expensive core deposits, with higher cost CDs (over \$250,000) decreasing 20% from the year-ago date. Finally, shareholders' equity increased 28% to \$26.0 million, or 6.43% of total assets, at September 30, 2019, from \$20.3 million (5.22% of total assets) at the year-ago date.

KSBI Compares Favorably to Peers Based on Performance

As can be seen from the table below, KS Bancorp continues to perform very well compared to similar Southeast financial institutions, which we have defined as publicly traded banks and savings institutions located in NC, SC and VA with assets between \$100 million and \$750 million (38 total). KS Bancorp had an annualized ROAA of 0.97% in the third quarter of 2019, which was higher than the peer group median of 0.95%, and its annualized return on average tangible common equity ("ROATCE") of 15.32% was much higher than the peer group median 9.25% (it was, in fact, the best of the group). The Company's asset quality also was better relative to the peer group, with the NPAs-to-assets ratio of 0.30% being lower than the peer median of 0.42%, and its reserve coverage of reserves-to-gross loans of 1.34% was likewise superior to 0.98% for the peer median. Although the Company's performance is better than the majority of its peers, KSBI shares are currently trading at a discount to its Southeast peers based on price to latest twelve months earnings and price to tangible book value. We therefore continue to regard the shares as having excellent long-term upside potential. From a historical standpoint, KSBI shares have a three-year total return of 66%, compared to 35% for the peer median, and a five-year total return of 209%, versus 70% for the peer group median.

PEER GROUP COMPARISON: KSBI VS. PEERS							
	ROAA MRQtr	ROATCE MRQtr	NPAs/ Assets	Reserves/ Loans	Dividend Yield	Price/ EPS	Price/Tang. Book Value
KSBI	0.97%	15.32%	0.30%	1.34%	1.41%	7.8x	1.08x
Peer Median	0.95%	9.25%	0.42%	0.98%	2.18%	13.2x	1.11x

While NPAs Increased From the Year-ago Level, Asset Quality Remains Sound

Nonperforming assets totaled \$1,224,000, or 0.30% of total assets, at September 30, 2019, down slightly from \$1,279,000, or 0.32% of total assets, at June 30, 2019 and compared to \$534,000, or 0.14% of total assets, at the year-ago date. The allowance for loan losses was \$4.1 million, or 1.34% of gross loans at September 30, 2019, compared to \$4.1 million, or 1.35% of total loans, at the year-ago date.

Projections

We are increasing our estimates for the year 2019 to net income of \$3.7 million, or \$3.33 per diluted share, which is up from our prior estimate of \$3.5 million, or \$3.20 per diluted share. We are projecting earnings of \$3.9 million, or \$3.50 per diluted share, for 2020.

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