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KS Bancorp, Inc. (KSBI – OTC BB)

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Price:	\$27.50	EPS*	2018A:	\$3.00	P/E	2018A:	9.2 x
52 Wk. Range:	\$25.00 - \$28.00	(FY: DEC)	2019A:	\$3.29		2019A:	8.4 x
Annualized Div/Div Yld:	\$0.36 / 1.3%		2020E:	\$3.40		2020E:	8.1 x
Shrs/Mkt Cap:	1.1 mm / \$30 mm	Book Value:		\$24.22	Price/Book Value:		1.14 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 December 31, 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. 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 Earnings Increased and Profitability Metrics Remained High

KS Bancorp reported commendable results for the fourth quarter and year ended December 31, 2019. Although earnings were a touch short of our projections, revenues were up and costs were well contained, resulting in an increase in earnings. Moreover, profitability metrics, such as ROAE and ROAA, were impressive. As expected, balance sheet growth was in the low single digits, though the asset composition continues to shift to a more favorable mix (the loans-to-assets percentage has been increasing, as is discussed in more detail on the next page). Asset quality was also quite good, with nonperforming assets decreasing from the year-ago date and on a linked quarter-end basis. Finally, we would note that the stock has been holding up well, as KSBI shares are up 8% since our third quarter of 2019 report and are up 49% over the past three years and 150% over the past five years.

In terms of specific results, KS Bancorp reported net income of \$939,000, or \$0.85 per diluted share, for the fourth quarter of 2019, up from \$906,000, or \$0.82 per diluted share, in the year-ago quarter. Net interest income grew 3% to \$3,281,000 in 2019's fourth quarter from \$3,189,000 in the year-ago quarter, with average earning assets and margins relatively stable. Noninterest income increased 3% to \$769,000 for the three months ended December 31, 2019 from \$747,000 in the year-ago quarter, due primarily to growth in deposit service charges, which more than offset a drop in other income. Earnings also benefited from excellent cost containment, as noninterest expense grew a modest 1% to \$2,862,000 in 2019's third quarter from \$2,821,000 in the year-ago quarter. 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

4TH QUARTER HIGHLIGHTS:

NET INCOME WAS UP 4%

EPS: \$0.85 vs. \$0.82

**NET INTEREST INCOME AND
NONINTEREST INCOME GREW
3%**

**NONINTEREST EXPENSE WAS
UP A MODEST 1%**

**THERE WAS NO PROVISION IN
EITHER PERIOD**

TWELVE MONTHS HIGHLIGHTS:

EPS: \$3.29 vs. \$3.00

NET INCOME WAS UP 3% FROM 2018 AND IT HAS NEARLY TRIPLED OVER THE PAST FIVE YEARS

EARNINGS GREW AT A 23% COMPOUND ANNUAL GROWTH RATE FROM 2014 TO 2019

OVER THE PAST FIVE YEARS, THE ASSET MIX HAS SHIFTED TOWARDS LOANS

AT 12/31/19, LOANS WERE 76% OF TOTAL ASSETS, UP FROM 70% AT 12/31/14

THE ABILITY TO GROW LOANS HAS NOT ONLY FUELED EARNING ASSET GROWTH BUT HAS ALSO CONTRIBUTED TO MARGIN IMPROVEMENT

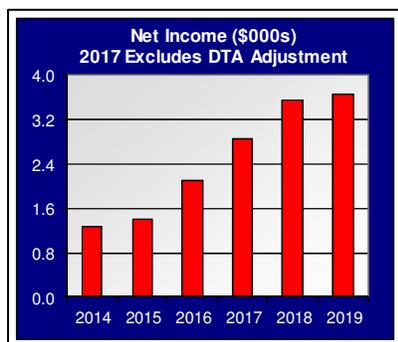
NPAS-TO-ASSETS: 0.28% VS. 0.30% AT 9/30/19 AND 0.29% AT YEAR-AGO DATE

RESERVES-TO-LOANS: 1.30%

**EPS:
2018A: \$3.00
2019A: \$3.29
2020E: \$3.40**

Annual Results Reflected the Continuation of Solid Historical Earnings Growth

For the twelve months ended December 31, 2019, KS Bancorp had net income of \$3,642,000, or \$3.29 per diluted share, which was up from \$3,542,000, or \$3.00 per diluted share, for the year 2018. As can be seen from the adjacent chart, earnings growth over the past five years has been excellent, with 2019 earnings nearly tripling from the level in 2014 (earnings increased at a 23% annualized rate from 2014 to 2019). Importantly, essentially all of this growth in earnings has come from recurring income sources, meaning that there have been minimal nonrecurring gains contributing to the increase. We would also note that the profitability metrics of KS Bancorp remain quite impressive. Its ROAE was 14.76% for 2019, while its ROAA was 0.91%, both of which far exceed the majority of the Company's peers.

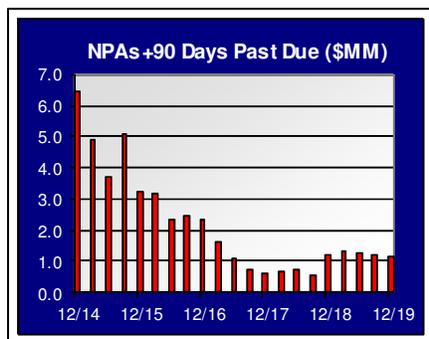


KS Bancorp's Asset Composition Has Become More Favorable and Reflects Solid Loan Growth

As we discussed above, KS Bancorp has been shifting its asset composition to a more profitable mix (i.e., more in loans, less in cash and securities) over the past several years. This can be seen in the growing black bar (loans) in the adjacent chart. Specifically, net loans as a percentage of total assets increased to 76% at December 31, 2019 (while cash and securities were 20%), up (down in the case of cash and securities) from 70% of assets (26% for cash and securities) in 2014. The ability to increase the size of the loan portfolio has not only benefited growth in average earning assets but has also contributed to margin improvement, given that loans are among the Bank's highest yielding assets. In terms of overall balance sheet growth over the past year (from December 31, 2018 to December 31, 2019), net loans grew 4%, deposits were down about 1% and total assets were up 1%. Although overall balance sheet growth is likely to remain modest, we do expect loan growth to slightly outpace most other major balance sheet categories. As of the end of 2019, stockholders' equity was \$26.8 million, or 6.65% of total assets, and all of the Bank's regulatory capital ratios exceeded the minimums to be considered "well capitalized."



NPAs Were Down From the Year-Ago and Linked Quarterly Level



KS Bancorp's asset quality was strong at the end of 2019, with NPAs down from the levels at the year-ago date and September 30, 2019. Nonperforming assets were \$1,142,000, or 0.28% of total assets, at December 31, 2019, down from \$1,224,000, or 0.30% of total assets, at September 30, 2019, and \$1,178,000, or 0.29% of total assets, at December 31, 2018. To put in better perspective the extent of long-term improvement, we have included a post-2014 chart showing the trends in asset quality. The allowance for loan losses was \$4.1 million, or 1.30% of gross loans, at the end of the year 2019, compared to \$4.0 million, or 1.34% of total loans, at the year-ago date.

Projections

We are lowering our projections for 2020 to net income of \$3.8 million, or \$3.40 per diluted share, which is down slightly from our prior estimate of \$3.9 million, or \$3.50 per diluted share.

ADDITIONAL INFORMATION UPON REQUEST

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