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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
January 26, 2021

Price:	\$27.00	EPS*	2019A:	\$3.29	P/E	2019A:	8.2 x
52 Wk. Range:	\$22.00 - \$31.95	(FY: DEC)	2020A:	\$3.95		2020A:	6.8 x
Annualized Div/Div Yld:	\$0.40 / 1.5%		2021E:	\$4.05		2021E:	6.7 x
Shrs/Mkt Cap:	1.1 mm / \$30 mm	Book Value:		\$28.91	Price/Book Value:		0.93x

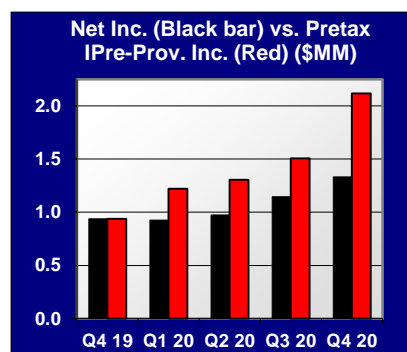
* EPS are diluted. Earnings are expected to vary greatly from projections based on the uncertainties of the COVID-19 crisis.

Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$486 million in assets as of December 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."

Fourth Quarter EPS Were \$0.22 Above Projections, Pretax Income Before Provision Grew 78%

The fourth quarter of 2020 was one of KS Bancorp's best, as earnings had significant growth and EPS exceeded projections, despite a substantial increase in the provision for loan losses. Balance sheet growth was excellent (the composition of which improved) and nonperforming assets decreased to the lowest they have been in the past couple of years. Net income for the fourth quarter of 2020 was \$1,333,000, or \$1.20 per diluted share, up 42% (41% on a per share basis) from \$939,000, or \$0.85 per diluted share, in the year-ago quarter. (Actual results beat projections by \$0.22 per share.) As mentioned above, the provision for loan losses increased to \$401,000 in 2020's fourth quarter, compared to no provision in the year-ago quarter. This increase was not in reaction to higher loan delinquencies, but instead was intended to more conservatively position the Company during this period of economic uncertainty. Pretax income excluding the provision grew an impressive 78% from the fourth quarter of 2019. The majority of the earnings growth came from higher net interest



income, which benefited from significantly higher interest income and lower interest expense, as well as growth in average earning assets. Interest income specifically grew 17% from the year-ago quarter, boosted by \$359,000 in deferred fee income and an SBA loan being moved to accruing status, while interest expense declined 39% over this period. Net interest income totaled \$4,513,000 in the fourth quarter of 2020, up 38% from \$3,281,000 in the year-ago quarter.

SYMBOL: KSBI

TOTAL ASSETS: \$486 MM

HQ: SMITHFIELD, NC

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

4TH QUARTER HIGHLIGHTS:

THERE WAS A PROVISION FOR LOAN LOSSES OF \$401,000 IN 2020'S FOURTH QUARTER VS. NO PROVISION IN THE YEAR-AGO QUARTER

NET INCOME WAS UP 42%, WHILE PRETAX INCOME BEFORE THE PROVISION INCREASED 78%

EPS: \$1.20 vs. \$0.85

NET INTEREST INCOME GREW 38% DUE TO AVERAGE EARNING ASSET GROWTH

NONINTEREST INCOME GREW 6%

ROAA: 1.11%
ROAE: 17.00%
(BOTH ESTIMATED)

YEAR 2020 HIGHLIGHTS:

NET INCOME UP 20%, PRETAX INCOME BEFORE PROVISION GREW 32%

EPS: \$3.95 vs. \$3.29

LOANS AS A PERCENTAGE OF TOTAL ASSETS INCREASED TO 76% AT 12/31/20 FROM 73% AT THE END OF 2019

CASH AND EQUIVALENTS AND OTHER ASSETS AS A PERCENTAGE OF TOTAL ASSETS DECLINED OVER THIS PERIOD

BALANCE SHEET GROWTH: NET LOANS AND TOTAL ASSETS UP 20%, WHILE DEPOSITS GREW 23%

EQUITY/ASSETS: 6.59%

NPAS WERE DOWN FROM BOTH 9/30/20 AND 12/31/19

NPAS WERE ENTIRELY NONACCRUAL LOANS

NPAS-TO-ASSETS: 0.19%

RESERVES-TO-LOANS: 1.24%

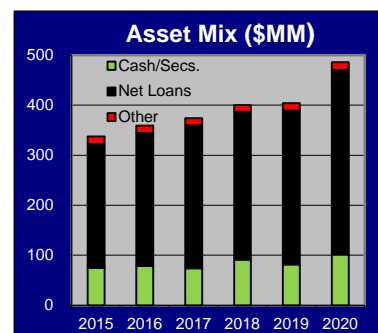
EPS:
2019A: \$3.29
2020A: \$3.95
2021E: \$4.05

Earnings also benefited from an increase of 6% in noninterest income (it was \$814,000 in 2020's fourth quarter, versus \$769,000 in the year-ago quarter), with growth in fees from presold mortgages and other income offsetting lower deposit service charges. Noninterest expense was up 12% to \$3,209,000 for the fourth quarter of 2020 from \$2,862,000 in the year-ago quarter. Profitability ratios reflected the strong earnings growth, with ROAA at 1.11% and ROAE at 17.00% for the fourth quarter of 2020 (both are estimated), versus 0.93% and 14.22%, respectively, for the fourth quarter of 2019.

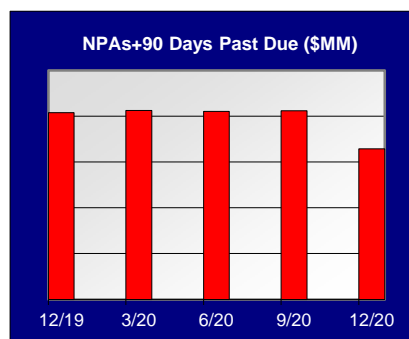
Earnings for the year 2020 were likewise impacted by a higher provision for loan losses, which was \$561,000 versus \$25,000 for the year 2019. Despite the higher provision, there was strong growth (+20%) in net income, which was \$4,371,000, or \$3.95 per diluted share, for the year 2020, as compared to \$3,642,000, or \$3.29 per diluted share, in 2019. Pretax income before the provision grew 32% from 2019 to 2020. The earnings improvement was based on double-digit growth (+19%) in net interest income, which more than offset a 6% decrease in noninterest income (excluding security gains) and 7% growth in noninterest expense from 2019 to 2020.

KS Bancorp's Asset Mix Continued to Improve at the End of 2020

Balance sheet growth over the past year was excellent. From December 31, 2019 to December 31, 2020 net loans and total assets were up 20%, while deposits were up 23%. We would also note that the Company's composition of assets continued to improve over this period, with a larger percentage of assets in loans and less in cash and securities. While part of this shift is obviously the result of the Company's PPP participation, the trend toward loans represents part of a five-year trend. As can be seen from the adjacent chart, the growing black bar (which is net loans) had a substantial sequential increase over the past five years, and as a percentage of total assets, net loans grew to 76% of assets at December 31, 2020, up from 73% at the end of 2015. Over the same period, cash and securities declined as a percentage of assets. KS Bancorp's ability to grow its loan portfolio not only benefits growth in average earning assets but also contributes to margin improvement, given that loans are among the Company's highest yielding assets. The Company also continued to maintain a strong capital position, with stockholders' equity of \$32.0 million, or 6.59% of total assets, up 19% from \$26.8 million, or 6.65% of total assets, at the year-ago date, and all of the Bank's regulatory capital ratios exceeded the minimums to be considered "well capitalized."



NPAs Decreased to the Lowest Since Late 2018, NPAs Down 19% From Year-End 2019



As can be seen from the chart to the left, nonperforming assets (NPAs) dropped at the end of 2020 (in fact, they declined to the lowest since September 2018). Specifically, NPAs were \$920,000, or 0.19% of total assets, at December 31, 2020, down from \$1,152,000, or 0.24% of total assets, at September 30, 2020, and \$1,142,000, or 0.19% of total assets, at the year-ago date. NPAs were entirely nonaccrual loans. The allowance for loan losses totaled \$4.6 million, or 1.24% of gross loans, at year-end 2020, up from \$4.1 million (1.30% of total loans) at the year-ago date.

Projections

For the year 2021, we are projecting earnings of \$4.483 million, or \$4.05 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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