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KS Bancorp, Inc. (KSBI – OTC BB)

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July 24, 2020

Price:	\$23.01	EPS*	2018A:	\$3.00	P/E	2018A:	7.7 x
52 Wk. Range:	\$22.00 - \$31.95	(FY: DEC)	2019A:	\$3.29		2019A:	7.0 x
Annualized Div/Div Yld:	\$0.40 / 1.7%		2020E:	\$3.20		2020E:	7.2 x
Shrs/Mkt Cap:	1.1 mm / \$26 mm	Book Value:		\$22.56	Price/Book Value:		1.02 x

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

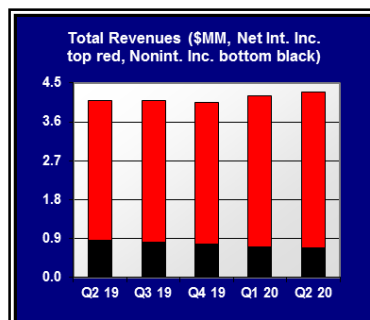
Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$469 million in assets as of June 30, 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."

Second Quarter EPS Exceeded Projections by \$0.14, Earnings Grew 7%

For the second quarter of 2020, KS Bancorp reported commendable results, with net income increasing more than 7% from the year-ago quarter and earnings per share outperforming estimates. COVID-19 did not dramatically affect the bottom-line results, although noninterest income was clearly soft because of it. (There will be significant earnings effects - both positive and negative - as time goes on.) One area where the impact of COVID-19 was apparent, though, was in the balance sheet, as KS Bancorp originated more than \$29 million in U.S. Treasury's Payroll Protection Program ("PPP") loans, resulting in strong overall loan growth. The quarter was also significant in that ROAE exceeded 13% in 2020's second quarter, asset quality remained sound and that the Bank's branches reopened in on June 15, 2020.

In terms of specific results, net income totaled \$971,000, or \$0.88 per diluted share, in the second quarter of 2020, up from \$907,000, or \$0.82 per diluted share, in the year-ago quarter. As can be seen from the adjacent table, total revenues were up 5% compared to the second quarter of 2019, with 12% growth in net interest income more than offsetting a 21% decline in noninterest income. We were not surprised by the drop in noninterest income, as lower account activity resulted in fewer service charges. Looking ahead, we expect a strong resurgence in fee income as PPP origination revenues begin to accrue. We estimate the total origination fees from these loans, which will be recognized over their respective "lives," will exceed \$700,000.



SYMBOL: KSBI

TOTAL ASSETS: \$469 MM

HQ: SMITHFIELD, NC

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

2ND QUARTER HIGHLIGHTS:

BRANCHES REOPENED ON JUNE 15, 2020

EPS WERE \$0.13 AHEAD OF PROJECTIONS; NET INCOME GREW 7% AND EPS WERE UP 6%

EPS: \$0.88 vs. \$0.82

NET INTEREST INCOME GROWTH OF 12% MORE THAN OFFSET A 21% DECREASE IN NONINTEREST INCOME

WE EXPECT NONINTEREST INCOME COMPARISONS TO IMPROVE IN COMING QUARTERS

NONINTEREST EXPENSE WAS UP A MODEST 3%

PROVISION INCREASED TO \$70,000 FROM \$25,000

FIRST HALF HIGHLIGHTS:

NET INCOME GREW 10%

EPS: \$1.71 VS. \$1.56

KS BANCORP FUNDED \$29 MILLION IN PPP LOANS (WHICH WERE 8% OF TOTAL LOANS AT 6/30/20)

TOTAL LOANS INCREASED 18% OVER THE PAST YEAR

TOTAL ASSETS GREW 18% AND DEPOSITS WERE UP 20%

THE CAPITAL POSITION WAS SOUND, WITH EQUITY INCREASING 19%

NPAs-TO-ASSETS: 0.24% VS. 0.32% AT THE YEAR-AGO DATE

RESERVES-TO-LOANS: 1.15%

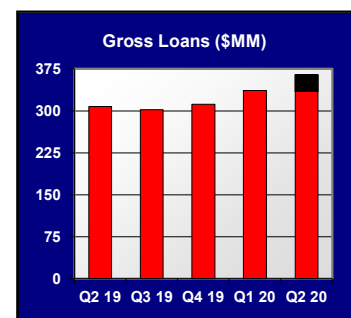
**EPS:
2018A: \$3.00
2019A: \$3.29
2020E: \$3.20**

As mentioned above, net interest income increased 12% to \$3,616,000 in 2020's second quarter from \$3,236,000 in the year-ago quarter (and was up 4% from the first quarter of 2020), mainly reflecting higher average earning assets. The rate earned on PPP loans is only 1%, so we expect margins to be under pressure in coming quarters, though the higher earning asset balance is likely to more than offset this impact on total net interest income. Noninterest income decreased to \$681,000 in 2020's second quarter from \$860,000 in the year-ago quarter, with all major components having declines (deposit service charges down 15%, fees from presold mortgages decreased 24% and other income was down 26%). However, cost containment was also evident in the quarter, with noninterest expense up a modest 3% to \$2,991,000 in 2020's second quarter from \$2,912,000 in the second quarter of 2019. Finally, we would note that the strong earnings growth was achieved despite an increase in the provision for loan losses to \$70,000 in 2020's second quarter from \$25,000 in the year-ago quarter. Annualized return on average equity was 13.4% in 2020's second quarter.

Results for the first half of 2020 were likewise strong, with net income up 10% to \$1,893,000, or \$1.71 per diluted share, compared to \$1,727,000, or \$1.56 per diluted share, in the year-ago period. As was the case with the quarterly results, noninterest income was negatively affected by the COVID-19 crisis and decreased 11% to \$1,389,000 for the first half of 2020, from \$1,561,000 in the year-ago period, while net interest income grew 13% and noninterest expense was up modestly at 4%.

Balance Sheet Growth Was in the 18% to 20% Range, Loans Benefited from PPP Funding

As was stated earlier, balance sheet growth over the past year was excellent, with loans getting a boost from the additional \$29 million in PPP loans. Specifically, gross loans increased to \$364 million at June 30, 2020, up 18% from the year-ago level. As can be seen from the adjacent chart, the PPP loans accounted for roughly 8% of total loans at June 30, 2020. Total assets and deposits also had strong growth, of 18% and 20%, respectively, over the past year. The Company's capital position remained sound at June 30, 2020 and its bank regulatory ratios were solid. Stockholders' equity was \$29.8 million, or 6.35% of total assets, at June 30, 2020, which was



KSBI Capital Position	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Common Equity (\$MM)	25.0	26.0	26.8	28.4	29.8
Equity/Assets	6.30%	6.43%	6.65%	6.65%	6.35%
Bank Regulatory Ratios:					
Tier 1 Capital Ratio	12.89%	12.99%	12.78%	11.89%	13.16%
Total Capital Ratio	14.15%	14.24%	14.03%	13.10%	14.42%
Tier 1 Leverage Ratio	9.89%	9.76%	9.74%	9.69%	9.07%

up 19% from \$25.0 million (6.30% of assets) at the year-ago date. As can be seen from the adjacent table, the Company's bank regulatory ratios at June 30, 2020 were above the regulatory minimums to be considered "well capitalized."

NPAs Decreased 10% From Year-Ago Level, Reserve Position Remains Good

Asset quality remained good, with nonperforming assets of \$1.1 million, or 0.24% of total assets, at June 30, 2020, which was down slightly from \$1.2 million, or 0.27% of total assets, at March 31, 2020, and down 10% from \$1.3 million, or 0.32% of total assets, at the year-ago date. (NPAs do not include any three-month deferrals, of which there were 153 loans totaling \$70 million.) The allowance for loan losses totaled \$4.2 million, or 1.15% of gross loans, at June 30, 2020, compared to \$4.2 million, or 1.31% of total loans, at the year-ago date.

Projections Increased

We are projecting earnings of \$3.6 million, or \$3.20 per diluted share, for the year 2020, up from our previous estimate of \$3.2 million, or \$2.92 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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