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KS Bancorp, Inc. (KSBI – OTC BB)

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Price:	\$24.00	EPS*	2019A:	\$3.29	P/E	2019A:	7.3 x
52 Wk. Range:	\$22.00 - \$31.95	(FY: DEC)	2020E:	\$3.72		2020E:	6.5 x
Annualized Div/Div Yld:	\$0.40 / 1.7%		2021E:	\$4.00		2021E:	6.0 x
Shrs/Mkt Cap:	1.1 mm / \$26 mm	Book Value:		\$27.71	Price/Book Value:		0.87 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 \$478 million in assets as of September 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."

Earnings Increased 17%, EPS Surpassed Estimates by \$0.27

KS Bancorp reported strong results for the third quarter and first nine months of 2020, with quarterly EPS that were \$0.27 above projections and net income that grew in the double digits. (Actual results beat projections due to a lower than anticipated provision for loan losses and higher than expected revenues.) Balance sheet growth remained excellent and was in the 18% to 21% range. Also, overall asset quality remained good, with NPAs as a percentage of total assets lower (better) than the Company's peer group median.

In terms of specific results, net income was \$1,145,000, or \$1.03 per diluted share, in the third quarter of 2020, which was up 17% from \$976,000, or \$0.88 per diluted share, in the year-ago quarter. Total revenues were up 11% from the year-ago quarter, with strong growth in net interest income offsetting lower noninterest income. Net interest income increased 15% to \$3,796,000 for 2020's third quarter from \$3,287,000 in the year-ago quarter, with the growth mainly due to strength in average earning asset growth. Noninterest income (excluding security gains and losses) was down 9% to \$741,000 in 2020's third quarter from \$810,000 in the year-ago quarter, but was up 9% on a linked quarter basis, with the decrease from the third quarter of 2019 reflecting lower account activity due to COVID-19. Noninterest expense grew 6% from the year-ago quarter. Finally, there was a provision of \$45,000 in the third quarter of 2020 versus no provision for the third quarter of 2019.

For the nine months ended September 30, 2020, KS Bancorp reported net income of \$3,038,000, or \$2.74 per diluted share, which was up 12% from \$2,703,000, or \$2.44 per diluted share, in the year-

SYMBOL: KSBI

TOTAL ASSETS: \$478 MM

HQ: SMITHFIELD, NC

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EARL W. WORLEY, JR., COO
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3RD QUARTER HIGHLIGHTS:

EPS BEAT PROJECTIONS DUE TO LOWER THAN EXPECTED PROVISION AND HIGHER THAN ANTICIPATED REVENUES

EPS: \$1.03 VS. \$0.88

NET INTEREST INCOME WAS UP 15% DUE TO AVERAGE EARNING ASSET GROWTH

NONINTEREST EXPENSE WAS UP 6%

YTD HIGHLIGHTS:**NET INCOME UP 12%****EPS: \$2.74 vs. \$2.44****BALANCE SHEET GROWTH:
LOANS 21%, DEPOSITS 20%,
TOTAL ASSETS 18%****KS BANCORP'S PROFITABILITY
RATIOS (ROAA, ROAE AND
NET INTEREST MARGIN) WERE
ALL BETTER THAN THE PEER
GROUP MEDIAN****THE SHARES HAVE A HIGHER
DIVIDEND YIELD AND MUCH
HIGHER FIVE-YEAR TOTAL
RETURN****KSBI SHARES TRADE AT A
DISCOUNT TO THE MAJORITY
OF PEERS ON A P/E BASIS AND A
SLIGHT PREMIUM BASED ON
THE PRICE TO BOOK VALUE****NPAS DECREASED 6% FROM
SEPTEMBER 30, 2019****NPAS-TO-ASSETS: 0.24% VS.
0.30% AT THE YEAR-AGO DATE****RESERVES-TO-LOANS: 1.16%****EPS:
2019A: \$3.19
2020E: \$3.72
2021E: \$4.00**

ago period. Net interest income growth of 13% offset a decline of 10% in noninterest income (excluding security gains and losses), and noninterest expense grew a modest 5% compared to the first nine months of 2019. The provision for loan losses increased to \$160,000 year-to-date in 2020, compared to \$25,000 in the year-ago period. Balance sheet growth over the past year was exemplary, in the double-digits and better than the majority of the Company's peers. To be specific, from September 30, 2019 to September 30, 2020, loans were up 21%, deposits increased 20% and total assets were up 18%. Shareholders' equity totaled \$30.7 million, or 6.42% of total assets, at September 30, 2020, which was up 18% from \$26.0 million, or 6.43% of total assets, at the year-ago date. All of the Company's bank regulatory ratios at September 30, 2020 were above the regulatory minimums to be considered "well capitalized."

KSBI's Overall Performance Is Better Compared to its Southeast Peers

As displayed in the below table, KS Bancorp has continued to outperform comparable Southeast financial institutions, which included 24 publicly traded banks and savings institutions located in NC, SC and VA. (Note that ROAA, ROAE and the margin are estimated for KS Bancorp.) For the third quarter of 2020, the Company had an annualized ROAA of 0.97%, which was above the peer group median of 0.92%, and its annualized return on average equity of 15.15% was better than the peer group median 9.08%. We would also note that KS Bancorp's net interest margin was higher than the peer group median. Moreover, KS has a higher dividend yield compared to the peer group, and it has an excellent historical total return on its stock, as the five-year total return was 99%, the second best of the peer group, which had a median total return of 31%. The Company's asset quality is also far superior to its peers, as is discussed in more detail below. Despite the excellent performance, the shares are trading at a discount to its peers on a price-to-LTM earnings per share basis, and slightly above on a price-to-book value basis (which we believe is warranted given the strong ROAE). Given these favorable metrics, we regard KSBI shares as having excellent long-term upside potential.

PEER GROUP COMPARISON: KSBI VS. SOUTHEAST PEERS *							
	ROAA MRQtr	ROAE MRQtr	Net Int. Mrgn. MRQtr.	Price/ EPS	Price/ Book Value	Dividend Yield	5 Year Total Return
KSBI	0.97%	15.15%	3.47%	6.7x	0.87x	1.74%	98.6%
Peer Median	0.92%	9.08%	3.34%	10.0x	0.79x	1.36%	31.1%

- ROAA, ROAE and net interest margin are all estimated.

Asset Quality Remains Better Compared to the Majority of Peers

Nonperforming assets (NPAs) were down compared to the year-ago quarter and up slightly from June 30, 2020. To be specific, NPAs totaled \$1,152,000, or 0.24% of total assets, at September 30, 2020, versus \$1,148,000, or 0.24% of total assets, at June 30, 2020, and \$1,224,000, or 0.30% of total assets, at the year-ago date. The allowance for loan losses was \$4.3 million, or 1.16% of gross loans, at September 30, 2020, up from \$4.1 million, or 1.35% of total loans, at the year-ago date. Per the adjacent table, KS's NPAs/assets ratio was lower than the peer group median, while its reserve ratios were better than the median.

ASSET QUALITY VS. NC PEERS		
	KSBI	SE Peer Group Median
NPAs/Assets (%)	0.24	0.56
Reserves/NPAs (x)	3.69	0.81
Reserves/Loans (%)	1.16	1.02

Projections Increased

We are projecting earnings of \$4.1 million, or \$3.72 per diluted share, for 2020, and are estimating earnings of \$4.5 million, or \$4.00 per diluted share, for 2021. 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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