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KS Bancorp, Inc. (KSBI – OTC BB)

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John A. (Buddy) Howard, CFA
April 14, 2023

Price:	\$48.50	EPS*	2021A:	\$5.50	P/E	2021A:	8.8 x
52 Wk. Range:	\$44.05 - \$59.00	(FY: DEC)	2022A:	\$6.82		2022A:	7.1 x
Annualized Div/Div Yld:	\$0.80 / 1.65%		2023E:	\$6.00		2023E:	8.1 x
Shrs/Mkt Cap:	1.1 mm / \$54 mm	Book Value:		\$33.81	Price/Book Value:		1.43 x

* EPS are diluted. Earnings in 2021 include roughly \$1.0 (pretax) in nonrecurring PPP income, whereas there is none projected for 2022.

Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$582 million in assets as of March 31, 2023. 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 loan production office in Dunn. Additionally, it has received regulatory approval to build a full-service office in Dunn, NC to be completed by the first quarter of 2024. 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."

First Quarter of 2023 Earnings Grew 26%

KS Bancorp reported excellent results in the first quarter of 2023. Earnings posted a double-digit increase and were led by strong comparisons in net interest income, which benefitted from a significant increase in margins. Balance sheet growth was commendable as well, with margins benefitting from a favorable shift in the earning asset mix. In terms of asset quality, it remains good as well, with nonperforming assets lower than the year-ago levels. Finally, we would note that the stock has been holding up well. Although many bank stocks have weakened significantly in recent weeks, KSBI shares are up slightly on a year-to-date and one-year basis, as well as being up significantly on a 3- and 5-year basis.

In terms of specific results, net income was \$1,719,000, or \$1.55 per diluted share, in the first quarter of 2023, up 26% from \$1,367,000, or \$1.23 per diluted share, in the first quarter of 2022. As mentioned above, the growth was primarily due to higher net interest income, which was \$5,198,000 in 2023's first quarter, up 23% from \$4,234,000 in the year-ago quarter. (There was no PPP fee income in either quarter.) The strong increase in net interest income was almost entirely due to the margin improvement, as KS Bancorp's strong loan growth (largely funded by deploying lower-yielding cash) shifted earning assets to a higher yielding mix. Specifically, the net interest margin increased to 3.85% in 2023's first quarter from 3.02% in the year-ago quarter. While the margin increase is encouraging, we would note that we expect some margin compression going forward, as the higher market interest rates are leading to higher costs on deposit accounts. Noninterest income was \$738,000 in 2023's first

SYMBOL: KSBI

TOTAL ASSETS: \$582 MM

HQ: SMITHFIELD, NC

CONTACT:
HAROLD T. KEEN,
PRESIDENT

EARL W. WORLEY, JR., EVP

REGINA J. SMITH, CFO

(919) 938-3101

1ST QUARTER HIGHLIGHTS:

EPS: \$1.55 VS. \$1.23

**NET INTEREST INCOME
GROWTH OFFSET LOWER
NONINTEREST INCOME**

**THERE WAS NO PROVISION IN
Q1 2022 OR Q1 2023**

**NET INTEREST INCOME
INCREASED 23%, DUE TO
MARGIN IMPROVEMENT**

quarter, down 8% from \$802,000 in the year-ago quarter, while noninterest expense was up 13% to \$3,757,000 from \$3,316,000 in the year-ago quarter, mainly due to higher compensation and benefits. There was no provision for loan losses in either quarter.

We would also note that the key profitability metrics were quite impressive for the Bank. ROAA, ROAE the margin and efficiency ratio all improved from the year-ago quarter and were superior to the bank's peer group, which consisted of 26 banks and savings institutions in the Carolinas and Virginia with assets between \$250 million and \$1 billion. The strong financial performance at KS Bancorp has contributed to a strong stock performance. Although the shares are up only modestly on a year-to-date and one-year

THE ROAA, ROAE, MARGIN AND EFFICIENCY RATIO ALL IMPROVED FROM THE YEAR-AGO QUARTER...

...AND THEY ALSO COMPARE FAVORABLY TO THE SE PEER GROUP MEDIANS

THE TOTAL RETURN OF KSBI SHARES IS IMPRESSIVE

TOTAL RETURN VS. SOUTHEAST PEERS (%)				
	YTD	1-Year	3-Year	5-year
KSBI	4.7	3.0	128.4	57.3
SE Peer Median	(4.1)	(8.9)	39.0	6.8

LOANS LED OVERALL BALANCE SHEET GROWTH, AND WERE UP 23% FROM MARCH 31, 2022 TO MARCH 31, 2023

DEPOSITS GREW 2% AND TOTAL ASSETS WERE UP 1% OVER THIS PERIOD

DEPOSITS INCREASED 76% FROM MARCH 2018 TO MARCH 2023

DEPOSITS INCREASED IN EACH MARKET THE BANK SERVES

Loans Were Up 23%, Historical Deposit Growth is Impressive

As has been the case for the past few quarters, KS Bancorp's balance sheet growth was led by loans. Specifically, from March 31, 2022 to March 31, 2023, net loans increased 23%, deposits were up 2% and total assets grew roughly 1%. Though the recent deposit growth was modest, we would note that over a longer period, deposits have shown steady growth, as evidenced by the chart to the right, which displays growth of 76% from the first quarter of 2018 to the first quarter of 2023. We would also note

KSBI DEPOSITS					
Deposits (\$MM)	6/18	6/19	6/20	6/21	6/22
Johnston	197	202	223	242	281
Wayne	40	44	53	79	99
Wake	53	51	83	99	98
Wilson	23	24	28	33	30

Nonperforming Assets Continue to Trend Downward

Asset quality remains excellent. NPAs (all of which were nonaccrual loans) were \$849,000, or 0.15% of total assets, at March 31, 2023, versus \$859,000, or 0.16% of total assets, at December 31, 2022, and \$1,508,000, or 0.26% of total assets, at the year-ago date. At March 31, 2023, the allowance for loan losses totaled \$3.4 million (0.80% of gross loans), compared to \$5.0 million (1.42% of total loans), at March 31, 2022.

Projections

For the year 2023, we are projecting KS Bancorp to have net income of \$6.7 million, or \$6.00 per diluted share. These projections may change depending on varying economic trends.

NPAS-TO-ASSETS: 0.15% VS. 0.16% AT 12/31/22 AND 0.26% THE YEAR-AGO DATE

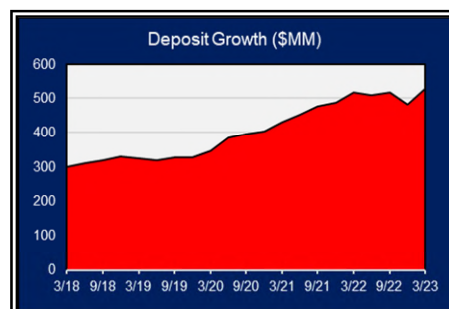
RESERVES-TO-LOANS: 0.80%

**EPS:
2021A: \$5.50
2022A: \$6.82
2023E: \$6.00**

PROFITABILITY/EFFICIENCY RATIOS VS. SE PEERS			
	KSBI *		SE Peer
	Q1 22	Q1 23	Group Median
ROAA	0.95	1.22	1.18
ROAE	15.50	19.44	13.87
Net Int. Mrgn.	3.02	3.85	3.84
Efficiency Ratio	66.7	63.3	66.5

*Q1 23 is estimated for KSBI

basis, that is much better than the typical bank over the same periods. The returns are particularly impressive as we look at longer-term trends. As can be seen from the adjacent table, the shares are up 128% on a three-year basis, compared to 39% for the peer group median, and its five-year total return of 57% is far better than the peer median of 7% for the same period.



that the Bank has increased its deposits in each of the markets in which it operates, as can be seen in the table below. From a capital standpoint, the Company was well capitalized at March 31, 2023, and had stockholders' equity of \$37.5 million, or 6.44% of total assets. All the Bank's regulatory ratios exceeded "well capitalized" minimums.

ADDITIONAL INFORMATION UPON REQUEST

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