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KS Bancorp, Inc. (KSBI – OTC BB)

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John A. (Buddy) Howard, CFA
July 25, 2023

Price:	\$49.59	EPS*	2022A:	\$6.82	P/E	2022A:	7.3 x
52 Wk. Range:	\$45.50 - \$59.00	(FY: DEC)	2023E:	\$5.52		2023E:	9.0 x
Annualized Div/Div Yld:	\$1.00 / 2.02%		2024E:	\$5.90		2024E:	8.4 x
Shrs/Mkt Cap:	1.1 mm / \$55 mm	Book Value:		\$34.15	Price/Book Value:		1.45 x

* EPS are diluted.

Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$587 million in assets as of June 30, 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."

Despite Higher Funding Costs, "Core" Adjusted Earnings Increased in 2023's Second Quarter

For the second quarter of 2023, KS Bancorp reported another solid performance. Although earnings were below the year-ago level, that shortfall was attributable to an increase in the provision for credit losses, as well as a large gain on foreclosed real estate in the year-ago quarter. If we exclude those factors as highly variable or nonrecurring, we can see that the "core" adjusted earnings were slightly higher. The quarter was also good in that the Bank continued to have excellent loan growth and its asset quality improved. Consistent with the strong results, the Board of Directors increased the quarterly cash dividend to \$0.25 per share, a 25% increase from the \$0.20 per share paid previously.

	2022 Q2	2023 Q2
Quarterly Results (\$000s)		
Net Income	1,795	1,559
Pretax Income	2,273	1,978
Adjustments:		
Provision (Add/Deduct Credits)	-	110
Foreclosed RE Expense	(230)	(5)
Net PPP Loan Fee Accretion	-	-
Pretax Inc. Bef. Provision/PPP	2,043	2,083

In terms of specifics, net income was \$1,559,000, or \$1.41 per diluted share, for the second quarter of 2023, compared to \$1,795,000, or \$1.62 per diluted share, in the year-ago quarter. Net interest income was up 6% to \$5,067,000 in 2023's second quarter, versus \$4,780,000 in the year-ago quarter, with the growth reflecting both an increase in the net interest margin (3.57% in 2023's second quarter from 3.47% in the year-ago quarter), as well as growth (+3%) in average earning assets. Noninterest income

SYMBOL: KSBI

TOTAL ASSETS: \$587 MM

HQ: SMITHFIELD, NC

CONTACT:
EARL W. WORLEY, JR.,
PRESIDENT

REGINA J. SMITH, CFO

(919) 938-3101

2ND QUARTER HIGHLIGHTS:

EPS: \$1.41 vs. \$1.62

**THERE WAS A CREDIT FOR
LOAN LOSSES IN Q2 23 VS.
NONE IN Q2 22, AND DIFFERING
FORECLOSED REAL ESTATE
EXPENSES IN BOTH QUARTERS**

**EXCLUDING THESE FACTORS,
PRETAX ADJUSTED INCOME
GREW 2%**

**NET INTEREST INCOME GREW
6%, DUE TO MARGIN
IMPROVEMENT AND HIGHER
AVERAGE EARNING ASSETS**

NONINTEREST INCOME WAS DOWN DUE TO LOWER FEES FROM PRESOLD MORTGAGES

THE ROAA, ROAE, MARGIN AND EFFICIENCY RATIO ALL WERE BETTER THAN THE SE PEER GROUP MEDIANS

FIRST HALF HIGHLIGHTS:

EPS: \$2.96 vs. \$2.85

NET INTEREST INCOME GREW 14%

LOANS INCREASED 19% OVER THE PAST YEAR, AND CONTINUED TO LEAD OVERALL BALANCE SHEET GROWTH

EQUITY/ASSETS: 6.45%

HAROLD T. KEEN RETIRES

HE OVERSAW A LONG, SUCCESSFUL 30+ YEAR CAREER LEADING THE BANK

EARL W WORLEY, JR. IS TAKING OVER HIS ROLE

NPAs-TO-ASSETS: 0.14% vs. 0.16% AT THE YEAR-AGO DATE

RESERVES-TO-LOANS: 0.80%

EPS:
2022A: \$6.82
2023E: \$5.52
2024E: \$5.90

totalled \$829,000 in the second quarter of 2023, up 15% from \$722,000 (excluding a \$230,000 gain on the sale of foreclosed assets) in the year-ago quarter, due to higher deposit service charges and other income. Noninterest expense, excluding foreclosed real estate and repossession expenses, grew 10% to \$3,808,000 in 2023's second quarter from \$3,459,000 in the year-ago quarter. Lastly, we would note the Company had excellent profitability ratios, as can be seen in the adjacent table. All of the metrics shown compare favorably to the medians for the Company's Southeast peer group.

	PROFITABILITY/EFFICIENCY RATIOS VS. SE PEERS	
	KSBI *	SE Peer
	Q1 23	Group Median
ROAA	1.07	1.01
ROAE	16.57	10.17
Net Int. Mrgn.	3.85	3.73
Efficiency Ratio	64.6	70.3

*Q2 23 is estimated for KSBI

For the first six months of 2023, KS Bancorp reported net income of \$3,278,000, or \$2.96 per diluted share, which was up 4% from \$3,162,000, or \$2.85 per diluted share. Net interest income increased 14%, noninterest income grew 2% and noninterest expense (excluding foreclosed real estate and repossession expenses) was up 12%. As was the case with the quarterly results, there was a credit for loan losses of \$110,000 in 2023's first half, versus none in the year-ago period.

Loan Growth Remains Impressive

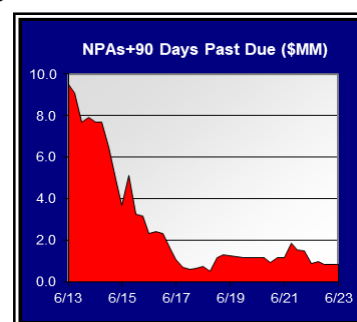
Loans continue to lead overall balance sheet growth. Loans totaled \$441 million as of June 30, 2023, up 18% from \$373 million as of June 30, 2022, while assets grew 6% and deposits were up 5% over this period. Because of the rapid loan growth, they accounted for 75% of assets at June 30, 2023, up from 67% at the year-ago date. From a capital standpoint, the Company remains in good shape. Stockholders' equity was \$37.8 million, or 6.45% of total assets, as of June 30, 2023, and all the Bank's regulatory ratios exceeding "well capitalized" minimums.

Retirement of Harold T. Keen

One other notable recent event was the retirement of Harold T. Keen, effective May 19, 2023. Mr. Keen had been serving as President since 1990, and over that period, oversaw the growth of the Company from roughly \$60 million in assets and less than \$5 million in equity to nearly \$587 million in assets and more than \$37 million in equity. Shareholder value has also grown significantly. The Company's IPO in 1993 was at a split adjusted price of \$4.80, versus roughly \$50.00 today. Earl W. Worley, Jr., who has served as President and CEO of KS Bank, as well as the Chief Operating Officer of KS Bancorp, will move into the role of President and CEO of the holding company.

Nonperforming Assets Were Down 5% From the Year-Ago Date

KS Bancorp's overall asset quality continued to improve at the end of the second quarter of 2023, with nonperforming assets (NPAs) remaining at historical lows. NPAs (all of which were nonaccrual loans) totaled \$839,000, or 0.14% of total assets, which were down slightly from \$849,000, or 0.15% of total assets, at March 31, 2023, and \$878,000, or 0.16% of total assets, at the year-ago date. The excellent asset quality translated into a lower level of required reserves. Specifically, at June 30, 2023, the allowance for loan losses was \$3.5 million (0.80% of gross loans), as compared to \$5.0 million (1.35% of total loans), at the year-ago date.



Projections

For the year 2023, we are projecting earnings of \$6.1 million, or \$5.52 per diluted share. For 2024, we project net income of \$6.5 million, or \$5.90 per diluted share. These projections may change depending on varying economic trends.

ADDITIONAL INFORMATION UPON REQUEST

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