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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
July 19, 2024

Price:	\$51.50	EPS*	2022A:	\$6.82	P/E	2022A:	7.6 x
52 Wk. Range:	\$45.00 - \$57.70	(FY: DEC)	2023A:	\$5.60		2023A:	9.2 x
Annualized Div/Div Yld:	\$1.04 / 2.02%		2024E:	\$5.75		2024E:	9.0 x
Shrs/Mkt Cap:	1.1 mm / \$57 mm	Book Value:		\$39.29	Price/Book Value:		1.31 x

* EPS are diluted.

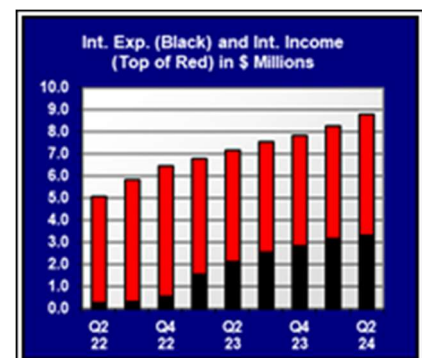
Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$669 million in assets as of June 30, 2024. KS Bank, Inc., a state-chartered savings bank, is KS Bancorp's sole subsidiary. The Bank conducts its operations through ten full-service branch offices that are located in Kenly, Goldsboro, Wilson, Garner, Selma, Clayton, Wendell, Four Oaks and Smithfield, North Carolina, including the newest branch opened June, 2024 in Dunn, NC. 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 Earnings Grew 6% And Beat Estimates by \$0.13 Per Share

KS Bancorp reported excellent results in the second quarter of 2024. Earnings, after being under pressure for several quarters due to tighter margins, were up significantly, and EPS exceeded our estimate by \$0.13 per share. All of the growth came from fundamentals (as opposed to nonrecurring items or credits to the credit loss provision), with revenues showing a notable increase. The balance sheet expansion was also quite commendable, and asset quality improved. Consistent with those results, the Board of Directors announced an increase in the quarterly cash dividend.

In terms of specifics, earnings were \$1,657,000, or \$1.50 per diluted share, in the second quarter of 2024, up 6% from \$1,559,000, or \$1.41 per diluted share, in the year-ago quarter. The primary contributor to this growth was net interest income, which increased 8% to \$5,458,000 in 2024's second quarter from \$5,067,000 in the year-ago quarter. The rapid growth in interest expense (it is up ten-fold from only two years ago) appears to be tapering off, as evidenced by the linked quarter increases over the past few quarters. Meanwhile, interest income has continued to increase, as shown by the top of the red bar in the adjacent chart, which has helped sustain net interest income. Essentially all of this growth came from higher average earning assets, as



SYMBOL: KSBI

TOTAL ASSETS: \$669 MM

HQ: SMITHFIELD, NC

CONTACT:
EARL W. WORLEY, JR.,
PRESIDENT/CEO

REGINA J. SMITH, CFO

(919) 938-3101

2ND QUARTER HIGHLIGHTS:

NET INCOME INCREASED 6% AND EPS EXCEEDED ESTIMATES

EPS: \$1.50 vs. \$1.41

NET INTEREST INCOME WAS UP 8%

EARNING ASSET GROWTH OFFSET LOWER MARGINS, AND INTEREST INCOME ACCELERATED

NONINTEREST INCOME GREW 4%

SIX MONTHS HIGHLIGHTS:

EPS: \$2.75 vs. \$2.96

NET INTEREST INCOME GREW 3%

FROM JUNE 30, 2023 TO JUNE 30, 2024, TOTAL ASSETS AND DEPOSITS WERE UP 14%, WHILE NET LOANS GREW 14%

KS BANCORP IS CELEBRATING 100 YEARS OF BANKING

THE DIVIDEND HAS MORE THAN DOUBLED OVER THE PAST FIVE YEARS

THE QUARTERLY DIVIDEND INCREASED 30% FROM Q1 2023

KSBI SHARES HAVE OUTPERFORMED THE NC PEER GROUP ON A SHORT- AND LONG-TERM BASIS

NPAS-TO-ASSETS: 0.12%

THE ALLOWANCE FOR LOAN LOSSES GREW 15%

RESERVES-TO-LOANS: 0.80%

**EPS:
2022A: \$6.82
2023A: \$5.60
2024E: \$5.75**

margins are still under pressure relative to year-ago levels. Noninterest income grew 4% to \$863,000 in the second quarter of 2024 from \$829,000 in the year-ago quarter, with increases in trust services fees (+11%) and other income (+15%) offsetting a decrease in deposit service charges. Noninterest expense was \$4,129,000 in 2024's second quarter, up 8% from \$3,808,000 in the year-ago quarter, while the provision for credit losses was \$114,000 versus \$110,000 over this period.

For the first six months of 2024, KS Bancorp reported net income of \$3,043,000, or \$2.75 per diluted share, as compared to \$3,278,000, or \$2.96 per diluted share, in the first six months of 2023. Net interest income increased 3%, noninterest income was up 8% and noninterest expense grew 7% compared to the year-ago period. The provision for credit losses increased to \$283,000 for the six months ended June 30, 2024, from \$110,000 in the year-ago period. Balance sheet growth was also excellent. From June 30, 2023 to June 30, 2024, total assets and deposits increased 14% while net loans were up 15%. We would also note that core deposits (comprised of savings, demand, CDARs and CDs under \$250,000) had a solid increase of 13% compared to the year-ago date. The Company remains well capitalized, with shareholders' equity of \$43.5 million, or 6.51% of total assets, as of June 30, 2024, and all of the Bank's regulatory ratios exceeded "well capitalized" minimums.

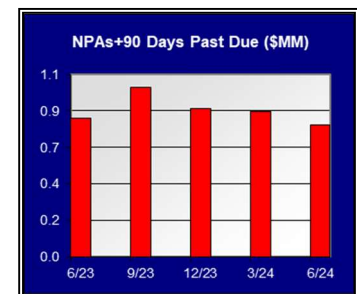
Dividend Increased, Stock Performance Has Been Excellent

Throughout the first half of 2024, KS Bancorp has been proudly celebrating its 100th anniversary in business. This significant milestone is a testament to the Company's commitment to excellence and dedication to its customers and community over the past century. The Company has also done an excellent job, financially speaking, for its shareholders. The Company's Board of Directors recently declared a quarterly dividend of \$0.26 per share, a 30% increase from the dividend paid in the first quarter of 2023. Over the past five years, the annual dividend has more than doubled, reflecting the Company's strong profitability. Shareholders have also been rewarded with exceptional stock performance, as the total return of KSBI shares has outperformed the majority of the Company's NC peer group, both on a short- and long-term basis, as can be seen in the above table.

KSBI ANNUAL DIVIDEND (\$)				
2020	2021	2022	2023	2024
0.40	0.56	0.72	0.95	1.03
TOTAL RETURN VS. NC PEERS (%)				
	YTD	1-Year	3-Year	5-Year
KSBI	6.8	11.8	42.7	112.6
NC Peer Group Median	5.6	6.1	27.9	41.7

Asset Quality Continued to Improve with NPAs Trending Downward

Asset quality continued to improve at the end of 2024's first half, with nonperforming assets steadily trending downward. Nonperforming assets (NPAs, all of which were nonaccrual loans) totaled \$797,000, or 0.12% of total assets, at June 30, 2024, which was down 9% from \$875,000, or 0.13% of total assets, at March 31, 2024 and 5% from \$839,000, or 0.14% of total assets, at the year-ago date. At the same time that NPAs declined, the reserve position increased 15% to \$4.0 million, or 0.80% of total loan, at June 30, 2024, versus an allowance for loan losses of \$3.5 million (0.80% of gross loans), at June 30, 2023. The increase in the allowance was the result of loan growth.



Projections Increased

For the year 2024, we are raising our earnings estimates to \$6.4 million, or \$5.75 per diluted share, from our previous projections of \$6.3 million, or \$5.68 per diluted share. These projections may change depending on varying economic trends.

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