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KS Bancorp, Inc. (KSBI – OTC BB)

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John A. (Buddy) Howard, CFA
April 25, 2024

Price:	\$47.00	EPS*	2022A:	\$6.82	P/E	2022A:	6.9 x
52 Wk. Range:	\$45.00 - \$57.70	(FY: DEC)	2023A:	\$5.60		2023A:	8.4 x
Annualized Div/Div Yld:	\$1.00 / 2.13%		2024E:	\$5.68		2024E:	8.3 x
Shrs/Mkt Cap:	1.1 mm / \$52 mm	Book Value:		\$38.01	Price/Book Value:		1.24 x

* EPS are diluted.

Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$658 million in assets as of March 31, 2024. 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 end of the second 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 Earnings Benefited From Solid Noninterest Income Growth

As we had anticipated, KS Bancorp's earnings for the first quarter of 2024 were down compared to the year-ago quarter, mainly due to the continued rise in funding costs from higher interest rates and an increase in the provision for credit losses. The sharp increase in the cost of funds (the Company's interest expense more than doubled from the year-ago quarter) negatively impacted net interest income and the margin. On the bright side, however, we believe margins may be bottoming out (see the black line in the adjacent chart). Moreover, there were additional encouraging signs in the quarter, such as the strength in noninterest income, as well as excellent balance sheet growth, with assets, loans and deposits increasing in the 13% to 14% range. Finally, we were impressed with the Company's ROAE, which was 13.43% in the first quarter of 2024, which was superior to the NC peer group median of 12.54%.



In terms of specific results, KS Bancorp reported net income of \$1,386,000, or \$1.25 per diluted share, for the first quarter of 2024, as compared to \$1,719,000, or \$1.55 per diluted share, in the year-ago quarter. Net interest income totaled \$5,102,000 for 2024's first quarter, versus \$5,198,000 in the year-

SYMBOL: KSBI

TOTAL ASSETS: \$658 MM

HQ: SMITHFIELD, NC

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

REGINA J. SMITH, CFO
(919) 938-3101

1ST QUARTER HIGHLIGHTS:

EARNINGS WERE AFFECTED BY THE HIGHER COST OF FUNDS, AS WELL AS FROM GROWTH ORIENTED INVESTMENTS

EPS: \$1.25 VS. \$1.55

A CONTRACTION IN MARGINS WAS PARTIALLY OFFSET BY 10% GROWTH IN AVERAGE EARNING ASSETS

NET INTEREST INCOME DECREASED 2%

NONINTEREST INCOME WAS UP 12%, WITH ALL COMPONENTS INCREASING

THE PROVISION FOR CREDIT LOSSES WAS \$169K VS. NO PROVISION FOR CREDIT LOSSES IN THE YEAR-AGO QUARTER

FROM MARCH 31, 2023 TO MARCH 31, 2024:

NET LOANS AND DEPOSITS INCREASED 14%, WHILE TOTAL ASSETS WERE UP 13%

THE COMPANY'S ANNUAL BALANCE SHEET GROWTH OUTPACED THE MAJORITY OF ITS NC PEERS

HISTORICAL LOAN AND DEPOSIT GROWTH HAS BEEN EXCELLENT AS WELL

EQUITY/ASSETS: 6.40%

NPAS-TO-ASSETS: 0.13%

NPAS DECREASED 2% FROM 12/31/23

RESERVES-TO-LOANS: 0.81%

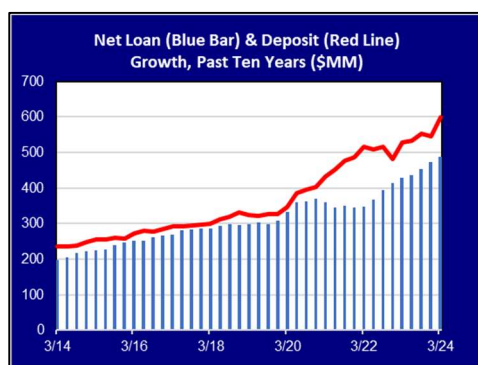
**EPS:
2022A: \$6.82
2023A: \$5.60
2024E: \$5.68**

ago quarter. The net interest margin was 3.40% in 2024's first quarter, versus 3.79% in the year-ago quarter, although positive growth in average earning assets offset most of the effects of this contraction. As was stated above, noninterest income was up a strong 12% to \$829,000 in the first quarter of 2024, versus \$738,000 in the year-ago quarter, with increases in deposit service charges (+1%), trust services fees (+13%) and other income (+34%) all contributing to the increase. Noninterest expense totaled \$3,982,000 in 2024's first quarter, up 6% from \$3,757,000 in the year-ago quarter, and there was a provision for credit losses of \$169,000 versus no provision for credit losses in the year-ago quarter.

Annual Balance Sheet Growth Was Better Than Most NC Peers

KS Bancorp continues to have excellent balance sheet growth. From March 31, 2023 to March 31, 2024, net loans and deposits increased 14%, while total assets grew 13%. Also notable was the increase in core deposits (comprised of savings, demand, CDARs and CDs under \$250,000) which increased 13% from the year-ago date. This rate of growth compares favorably to the majority of the

BALANCE SHEET GROWTH, LTM (%) VS. NC PEERS			
	Assets	Loans	Deposits
KSBI	13.2	13.8	13.7
NC Peer Group Median	5.5	9.0	4.4

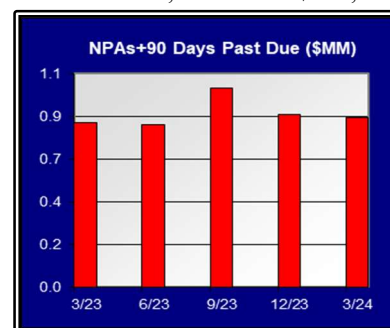


Company's peers. As can be seen from the adjacent table, KS Bancorp's growth over the past year was far better than the medians of the NC peer group. The long-term growth of KS Bancorp's loans and deposits has also been quite impressive, and there has been a notable ramp up over the past couple of years, as can be seen in the chart to the left. From March 2014 to March 2024, the Company's loans increased 146% and deposits were up 155%, or 9% and 10% annualized, respectively. The Company's capital position remained sound at March 31, 2024, with shareholders' equity of \$42.1 million, or 6.40% of total assets, at March 31, 2024, and all of the Bank's regulatory ratios exceeded "well capitalized" minimums.

Asset Quality Remains Quite Good

Nonperforming assets (NPAs, all of which were nonaccrual loans) as of March 31, 2024 were \$875,000, or 0.13% of total assets, versus \$891,000, or 0.15% of total assets, at December 31, 2023 and \$849,000, or 0.15% of total assets, at the year-ago date. The Company had an allowance for loan losses of \$3.9 million, or 0.81% of gross loans, at March 31,

	ASSET QUALITY VS. NC BANKS	
	KSBI	NC Peer Group Median
NPAs/Assets (%)	0.13	0.15
Reserves/NPAs (x)	4.50	2.46
Reserves/Loans (%)	0.81	1.06



2024, which was up from \$3.4 million (0.80% of total loans) at the year-ago date. As is displayed in the table to the left, KS Bancorp's asset quality compares favorably to the majority of its NC peers.

Projections

For the year 2024, we are estimating KS Bancorp will earn \$6.3 million, or \$5.68 per diluted share. These projections may change depending on varying economic trends.

ADDITIONAL INFORMATION UPON REQUEST

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