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KS Bancorp, Inc. (KSBI – OTC BB)

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April 26, 2021

Price:	\$31.80	EPS*	2019A:	\$3.29	P/E	2019A:	9.7 x
52 Wk. Range:	\$22.00 - \$34.00	(FY: DEC)	2020A:	\$3.95		2020A:	8.1 x
Annualized Div/Div Yld:	\$0.48 / 1.5%		2021E:	\$4.55		2021E:	7.0 x
Shrs/Mkt Cap:	1.1 mm / \$35 mm	Book Value:		\$29.42	Price/Book Value:		1.08 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 \$516 million in assets as of March 31, 2021. 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."

First Quarter Earnings Were Up Sharply, EPS Beat Projections

KS Bancorp reported excellent results for 2021's first quarter, with net income continuing its momentum and earnings per share exceeding our estimates. The strong earnings growth was driven by higher net interest income and excellent cost containment, and led to marked improvement in key profitability metrics. Balance sheet growth remained strong and was led by deposits, partly reflecting the inflows from PPP loans. Encouragingly, the mix of deposits also improved. From an asset quality standpoint, nonperforming assets did increase slightly at the end of the first quarter of 2021, although the Company's overall asset quality remains superior to the majority of its peers. Finally, a bright spot of the quarter was that KS Bancorp increased its quarterly cash dividend to \$0.12, up 20% from the prior level of \$0.10 per share.

KSBI PROFITABILITY/EFFICIENCY RATIOS (%)*		
	<u>Q1 '20</u>	<u>Q1 '21</u>
ROAA	0.89	1.17
ROAE	13.37	18.07
Efficiency	70.9	59.5

*Q1 '21 ratios are annualized and estimated

Finally, a bright spot of the quarter was that KS Bancorp increased its quarterly cash dividend to \$0.12, up 20% from the prior level of \$0.10 per share.

Net income totaled \$1,459,000, or \$1.32 per diluted share, for 2021's first quarter, which was up 58% from \$922,000, or \$0.83 per diluted share, in the year-ago quarter. We had projected \$1.00 per share, so the results were well above our estimate. This growth was primarily attributable to an increase of 20% in net interest income to \$4,192,000 for the first quarter of 2021 from \$3,483,000 in the year-ago quarter, which benefited from solid average earning asset growth, as well as from roughly \$100,000 in net deferred fee income related to PPP loans. Offsetting some of this improvement was a higher provision for loan losses, which was \$123,000 in 2021's first quarter, versus \$45,000 in the year-ago quarter, as well as a drop in noninterest income, which was mainly due to lower service charge income.

SYMBOL: KSBI

TOTAL ASSETS: \$516 MM

HQ: SMITHFIELD, NC

CONTACT:
HAROLD T. KEEN, PRES.
EARL W. WORLEY, JR., COO
REGINA J. SMITH, CFO
(919) 938-3101

1ST QUARTER HIGHLIGHTS:

ACTUAL REPORTED RESULTS WERE \$0.32 PER SHARE ABOVE ESTIMATES

EARNINGS GROWTH WAS DUE TO HIGHER NET INTEREST INCOME AND EXPENSE CONTAINMENT

EPS: \$1.32 VS. \$0.83

NET INTEREST INCOME WAS UP 20% DUE TO AVERAGE EARNING ASSET GROWTH AND DEFERRED FEE RECOGNITION

NONINTEREST EXPENSE DECREASED FROM THE YEAR-AGO QUARTER AND ON A LINKED QUARTER BASIS

THE STOCK CONTINUES TO PERFORM WELL

FROM 3/31/20 TO 3/31/21:

NET LOANS GREW 9%, DEPOSITS GREW 25% AND 21%

TOTAL CDS DECLINED AS A PERCENTAGE OF TOTAL DEPOSITS

EQUITY/ASSETS: 6.32%

QUARTERLY CASH DIVIDEND WAS INCREASED TO \$0.12 PER SHARE, OR \$0.48 ON AN ANNUALIZED BASIS

NPAS-TO-ASSETS: 0.23%

RESERVES-TO-LOANS: 1.30%

**EPS:
2019A: \$3.29
2020A: \$3.95
2021E: \$4.55**

One of the other notable areas of progress in the quarter was cost control. Specifically, noninterest expense totaled \$2,896,000 for the first quarter of 2021, down 3% from the year-ago quarter and down 10% from 2020's fourth quarter. The Company's tight management of expenses resulted in solid improvement in its efficiency ratio, which was matched by strong comparisons in other key profitability metrics. Not surprisingly, KSBI's stock price has been holding up well, and is up 10% from our fourth quarter of 2020 report and 36% over the past year.



Deposits Increased 25% Over Past Year, Composition Improved

As mentioned earlier, KS Bancorp had excellent double-digit balance sheet growth over the past year, with particularly strong growth in deposits. Specifically, from March 31, 2020 to March 31, 2021, net loans grew 9%, deposits increased 25% and total assets were up 21%. In addition to the strong momentum in deposits, which can be seen in the chart to the right, we would note that the deposit mix has likewise improved, with higher cost CDs dropping to 23% of total deposits at March 31, 2021 from 33% at March 31, 2020. ("Jumbo" CDs, which are more than \$250,000, decreased as a percentage of total deposits to 5.6% from 9.3% million over this period.) The Company's capital position remains in good shape. At the end of 2021's first quarter, stockholders' equity was \$32.6 million, or 6.32% of total assets, up from \$28.4 million, or 6.65% of total assets, at the year-ago date. All of the Bank's regulatory capital ratios exceeded the minimums to be considered "well capitalized."



KS Bancorp Increased the Quarterly Cash Dividend by 20%

As we mentioned earlier, KS Bancorp's Board of Directors declared a quarterly dividend of \$0.12 per share for stockholders of record as of February 1, 2021, which was payable February 11, 2021. This dividend represents an annual dividend of \$0.48 per share, and is an increase from the previous quarterly level of \$0.10 per share. As can be seen from the adjacent table, the Company has been boosting its cash dividends over the past several years (it suspended cash dividends for several years following the 2008 credit crisis.)

KS BANCORP ANNUAL DIVIDEND (\$)							
2015	2016	2017	2018	2019	2020	2021	
0.06	0.08	0.12	0.28	0.34	0.40	0.48	

NPAs/Assets Were 0.23%, Compared to 0.47% for the U.S. Peer Group Median

Asset quality remains quite good. Nonperforming assets ("NPAs") were \$1,182,000, or 0.23% of total assets, at March 31, 2021, compared to \$920,000, or 0.19% of total assets, at December 31, 2020, and \$1,154,000, or 0.27% of total assets, at the year-ago date. The Company's NPAs/assets ratio of 0.23% was far superior to 0.47% for the U.S. peer group median. (The peer group includes all savings institutions in the United States with assets between \$100 million and \$2 billion.) The allowance for loan losses was \$4.8 million, or 1.30% of gross loans, at March 31, 2021, up from \$4.1 million (1.22% of total loans) at the year-ago date.

Projections Increased

Due to the strong quarterly results, we are increasing our 2021 earnings projections to \$5.0 million, or \$4.55 per diluted share, up from \$4.5 million, or \$4.05 per diluted share, estimated previously. 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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