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KS Bancorp, Inc. (KSBI – OTC BB)

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John A. (Buddy) Howard, CFA
April 21, 2022

Price:	\$48.00	EPS*	2020A:	\$3.95	P/E	2020A:	12.2 x
52 Wk. Range:	\$26.98 - \$59.00	(FY: DEC)	2021A:	\$5.50		2021A:	8.7 x
Annualized Div/Div Yld:	\$0.64 / 1.3%		2022E:	\$5.00		2022E:	9.6 x
Shrs/Mkt Cap:	1.1 mm / \$53 mm	Book Value:		\$30.60	Price/Book Value:		1.57 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 \$574 million in assets as of March 31, 2022. 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 Beat Our Projections By \$0.05 Per Share

KS Bancorp reported better than expected results in the first quarter of 2022. Earnings exceeded our projections and benefitted from favorable comparisons in net interest income and noninterest income. Balance sheet growth was also commendable and was led by deposits (particularly core deposits). In terms of specific results, net income was \$1,367,000, or \$1.23 per diluted share, in 2022's first quarter, as compared to \$1,459,000, or \$1.32 per diluted share, in the first quarter of 2021. (We had estimated the Company would earn \$1.18 per diluted share.) Part of the reason for the lower earnings compared to the year-ago quarter was the decline in PPP fee income, which was zero in the first quarter of 2022 (all of the PPP deferred have now been recognized), versus \$110,400 in the year-ago quarter. Finally, asset quality remained excellent. Although nonperforming assets increased relative to the year-ago level, they dropped for the past two linked quarters and remain low by historical measures.

There was no PPP fee income in the first quarter of 2022, versus \$110,400 in the year-ago quarter, although this headwind was offset by the fact that there was no provision for loan losses in 2022's first quarter, versus a \$123,000 provision in the year-ago quarter. This drop in PPP fee income also impacted net interest income comparisons. Net interest income was \$4,234,000 in the first quarter of 2022, which was up 1% from \$4,192,000 in the year-ago quarter, but it was up a healthier 4% if we exclude PPP fee income from the year-ago quarter. As can be seen from the following table, PPP fee income was particularly strong in the second and third quarters of 2021, so earnings comparisons (to

SYMBOL: KSBI

TOTAL ASSETS: \$574 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: \$1.23 VS. \$1.32

THERE WAS NO PROVISION FOR LOAN LOSSES IN 2022'S FIRST QUARTER, VERSUS A PROVISION OF \$123,000 IN THE YEAR-AGO QUARTER

THIS BENEFIT WAS LARGELY OFFSET BY THE LACK OF PPP FEE INCOME IN 2022'S FIRST QUARTER, VERSUS \$110,400 IN PPP FEES IN THE YEAR-AGO QUARTER

NET INTEREST INCOME WAS UP ROUGHLY 1%, OR 4% EXCLUDING PPP FEES

NONINTEREST INCOME GREW 19%, OR 9% EXCLUDING A NONRECURRING GAIN

NONINTEREST INCOME BENEFITTED FROM STRONG WEALTH MANAGEMENT FEES, WHICH OFFSET LOWER MORTGAGE-RELATED INCOME

KSBI'S ROAA AND ROAE WERE BOTH HIGHER (BETTER) THAN THE NC PEER GROUP MEDIAN...

...WHILE THE EFFICIENCY RATIO WAS LOWER (BETTER) VERSUS THE PEER GROUP MEDIAN

OVER THE PAST 12 MONTHS:

NET LOANS DECLINED 3% DUE TO PPP LOAN PAYOFFS

TOTAL ASSETS GREW 11%

DEPOSITS WERE UP 20%

CORE DEPOSITS CONTINUE TO TREND UPWARDS

EQUITY/ASSETS: 5.90%

NPAS-TO-ASSETS: 0.26%, DOWN FROM 0.27% AT 12/31/21

THE ALLOWANCE FOR LOAN LOSSES INCREASED 6%

RESERVES-TO-LOANS: 1.42%

**EPS:
2020A: \$3.95
2021A: \$5.50
2022E: \$5.00**

year-ago figures) will be slightly more challenging for the next couple of quarters. Noninterest income totaled \$802,000 in 2022's first quarter, which was up 19% from \$675,000 in the year-ago quarter and up 9% on a linked quarter basis, though some of this was due to nonrecurring items. Specifically, there was a \$65,000 gain on a payoff of \$24 million in FHLB advances, but even excluding that gain, core noninterest income was still up a commendable 9%. Some of this strength came from solid comparisons in wealth management, where fees increased \$34,000, more than offsetting a drop in fees from presold mortgages. Noninterest expense increased 15% to \$3,316,000 in 2022's first quarter from \$2,896,000 in the year-ago quarter, reflecting higher compensation and benefits, occupancy and equipment, and other income (FDIC insurance was up \$22,500). Finally, we would note that KS Bancorp's profitability and efficiency measures were strong in the first quarter of 2022, with ROAA and ROAE both being higher than the NC peer group medians, and the efficiency ratio being lower (better) compared to the majority of the peers (note figures for 2022's first quarter are estimated for KSBI).

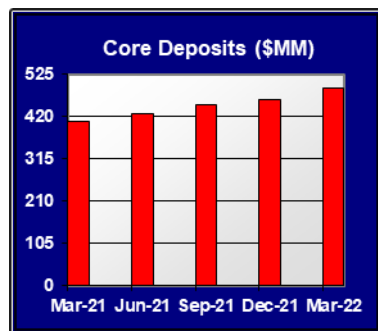
NET INTEREST INCOME AND PPP FEE INCOME (\$ IN MILLIONS)					
	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22
Net Int. Income	4.192	4.422	4.683	4.364	4.234
PPP Fee Inc.	0.11	0.319	0.414	0.138	0
<i>Net Int. Inc. Exclu. PPP Fee Inc.</i>	<i>4.082</i>	<i>4.103</i>	<i>4.269</i>	<i>4.226</i>	<i>4.234</i>

KSBI PROFITABILITY/EFFICIENCY RATIOS VS. NC PEERS (%)*		
	KSBI	NC Peer Group Median
ROAA	0.95	0.91
ROAE	15.50	8.53
Efficiency	65.8	69.8

*Q1 '22 ratios are annualized and estimated

Core Deposits Increased 20% Over the Past Year

Balance sheet growth over the past year continued to be led by deposits, with loans under pressure from PPP loan payoffs, as we had anticipated. In terms of specifics, from March 31, 2021 to March 31, 2022, net loans declined 3%, deposits increased a strong 20% and total assets were up 11%. Core deposits, which include savings, demand, CDARs and CDs under \$250,000, have steadily trended up over the past year, as can be seen from the adjacent chart, increasing 21% over this period. From a capital standpoint, KS Bancorp remains in solid condition, especially given the excellent ROAE, which helps to sustain capital ratios going forward, and our expectation that growth will moderate somewhat. As of March 31, 2022, shareholders' equity was \$33.9 million, or 5.90% of total assets, versus \$32.6 million, or 6.32% of total assets, at the year-ago date.



Nonperforming Assets Declined for the Second Sequential Quarter-End

KS Bancorp's level of nonperforming assets ("NPAs") were up compared to March 31, 2021, but decreased for the second quarter-end in a row. NPAs were \$1,508,000, or 0.26% of total assets, at March 31, 2022, versus \$1,523,000, or 0.27% of total assets, at December 31, 2021, and \$1,182,000, or 0.23% of total assets, at the year-ago date. The majority of NPAs were nonaccrual loans (\$888,000) followed by \$621,000 in OREO. The allowance for loan losses totaled \$5.0 million, or 1.42% of gross loans, as of March 31, 2022, up 6% from \$4.8 million, or 1.30% of total loans, at the year-ago date, and compared to 1.13% for the NC peer group median.

Projections Maintained

For the year 2022, we are maintaining our earnings estimates of \$5.5 million, or \$5.00 per diluted share. It should be noted that there was nearly \$1.0 million (pretax) in nonrecurring PPP income included in 2021's results, whereas none is projected for 2022.

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