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KS Bancorp, Inc. (KSBI – OTC BB)

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Price:	\$39.80	EPS*	2019A:	\$3.29	P/E	2019A:	12.1 x
52 Wk. Range:	\$22.00 - \$41.99	(FY: DEC)	2020A:	\$3.95		2020A:	10.1 x
Annualized Div/Div Yld:	\$0.48 / 1.2%		2021E:	\$4.80		2021E:	8.3 x
Shrs/Mkt Cap:	1.1 mm / \$44 mm	Book Value:		\$30.92	Price/Book Value:		1.29 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 \$534 million in assets as of June 30, 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."

Second Quarter EPS Beat Projections by \$0.26 Despite Higher Provision

KS Bancorp reported strong results for the second quarter of 2021. Earnings far surpassed our expectations and net income was up more than 55%. The strong earnings growth reflected solid revenue momentum, which was primarily driven by higher net interest income and good cost containment. The earnings growth was also achieved despite a significant increase in the provision for loan losses. Balance sheet growth was solid, with meaningful growth in most key areas. A final bright spot of the quarter was asset quality, as nonperforming assets remained quite low at only 0.22% of assets and asset quality metrics were better than to the majority of the Company's peers.

Net income in 2021's second quarter was \$1,519,000, or \$1.37 per diluted share, up 56% from \$971,000, or \$0.88 per diluted share, in the year-ago quarter. Net interest income grew 22% to \$4,422,000 for the second quarter of 2021 from \$3,616,000 in the year-ago quarter, reflecting solid growth in average earning assets, which more than offset lower margins. Included in net interest income during 2021's second quarter was \$319,000 in accretion of deferred PPP fees, while the year-ago period included accretion of \$126,000. Noninterest income increased 4% to \$708,000 in 2021's second quarter from \$681,000 in the year-ago quarter, while noninterest expense was up a modest 3% to \$3,070,000 in 2021's second quarter from \$2,993,000 in the year-ago quarter. As mentioned earlier, the earnings growth was accomplished despite an increase in the provision (it was \$123,000 in the second quarter of 2021 versus \$70,000 in the year-ago quarter).

Earnings for the first half of 2021 were likewise strong. Net income for the first six months of 2021 was \$2,978,000, or \$2.69 per diluted share, which was up 57% from \$1,893,000, or \$1.71 per diluted

SYMBOL: KSBI

TOTAL ASSETS: \$534 MM

HQ: SMITHFIELD, NC

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

2ND QUARTER HIGHLIGHTS:

EARNINGS INCREASED 56%

**TOTAL REVENUES GREW 19%,
LED BY NET INTEREST INCOME**

EPS: \$1.37 VS. \$0.88

**NET INTEREST INCOME
INCREASED 22% DUE TO
AVERAGE EARNING ASSET
GROWTH**

**NONINTEREST INCOME WAS UP
4%**

**NONINTEREST EXPENSE GREW
A MODEST 3%**

FIRST HALF HIGHLIGHTS:

EPS: \$2.69 vs. \$1.71

THE PROVISION MORE THAN DOUBLED

NET INCOME GREW 57%

KS BANCORP'S PERFORMANCE METRICS ARE MUCH BETTER THAN THE INDUSTRY'S OVERALL

THE SHARES HAVE HIGHER LONG-TERM RETURNS AND A HIGHER DIVIDEND YIELD

KSBI SHARES TRADE AT A DISCOUNT TO THE MAJORITY OF PEERS ON A P/E BASIS AND A PREMIUM BASED ON THE PRICE TO BOOK VALUE

share, in the first half of 2020. Net interest income increased 21%, and noninterest income and noninterest expense were essentially flat. As was the case with the quarterly results, the provision for loan losses increased and was \$246,000 in 2021's first half, versus \$115,000 in the year-ago period. In terms of the balance sheet, deposits led the way in growth, while loans contracted slightly. Specifically, from June 30, 2020 to June 30, 2021, net loans decreased 4% to \$345 million, deposits increased 17% to \$452 million and total assets were up 14% to \$534 million. KS Bancorp continues to maintain a sound capital position. At June 30, 2021, stockholders' equity was \$34.2 million, or 6.42% of total assets, which was up 15% from \$29.8 million, or 6.35% of total assets, at the year-ago date. All of the Bank's regulatory capital ratios exceeded the minimums to be considered "well capitalized."

KSBI's Performance Remains Excellent Relative to Others in the Industry

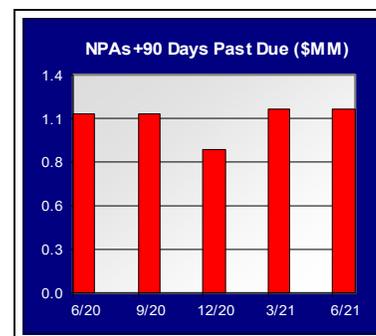
As displayed in the below table, KS Bancorp has continued to outperform most other savings institutions. (For purposes of this comparison, we included all publicly traded banks in NC, SC and VA with assets between \$100 million and \$1 billion.) As can be seen from the table, KS Bancorp had an annualized ROAA of 1.10% in the most recent quarter, which was above the peer group median of 1.02%, and its annualized return on average equity of 17.14% was also much better than the peer group median 9.98%. We would also note that KS Bancorp's asset quality was slightly superior. The strong performance of the Bank has been reflected in the growing value of the stock, as the five-year total return was 209%, versus a median total return of 56%, and the three- and one-year returns were likewise better than the peer group. Despite the excellent performance, the shares are trading at a discount to its peers on a price-to-LTM earnings per share basis. While the shares trade at a premium on the basis of book value, we would argue that a premium is warranted given KS Bancorp's strong ROAE. Although not shown, KS Bancorp's stock also has a commendable dividend yield of 1.2%, whereas the typical savings institution had a yield of 0.8%.

PEER GROUP COMPARISON: KSBI VS. PEERS *								
	ROAA MRQtr	ROAE MRQtr	NPA/Assets MRQtr.	Price/ EPS	Price/ Book Value	1 Year Return	3 Year Return	5 Year Return
KSBI	1.10%	17.14%	0.22%	8.1x	1.29x	75%	50%	209%
Peer Median	1.02%	9.98%	0.25%	10.8x	1.04x	48%	5%	56%

- ROAA and ROAE are estimated.

Asset Quality Has Been Holding Up Well

KS Bancorp continues to have excellent asset quality and quite strong reserve adequacy metrics. Nonperforming assets ("NPAs") totaled \$1,177,000, or 0.22% of total assets, at June 30, 2021, which was down slightly from \$1,182,000, or 0.23% of total assets, at March 31, 2021, but up slightly from \$1,148,000, or 0.24% of total assets, at the year-ago date. At June 30, 2021, the allowance for loan losses was \$4.9 million, or 1.40% of gross loans, which was up 17% from \$4.2 million, or 1.15% of total loans, at the year-ago date.



Projections Increased

Based on the strength of recent results, we are projecting 2021 earnings of \$5.3 million, or \$4.80 per diluted share, up from \$5.0 million, or \$4.55 per diluted share, estimated previously. As stated previously, actual earnings could vary substantially from these projections given the uncertainties of the COVID-19 crisis.

NPAS-TO-ASSETS: 0.22%,
VERSUS 0.24% AT THE YEAR-
AGO DATE

THE ALLOWANCE FOR LOAN
LOSSES INCREASED 17%

RESERVES-TO-LOANS: 1.40%

EPS:
2019A: \$3.29
2020A: \$3.95
2021E: \$4.80

ADDITIONAL INFORMATION UPON REQUEST

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