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## KS Bancorp, Inc. (KSBI – OTC BB)

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**John A. (Buddy) Howard, CFA**  
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<b>Price:</b>	\$42.27	<b>EPS*</b>	<b>2020A:</b>	\$3.95	<b>P/E</b>	<b>2020A:</b>	10.7 x
<b>52 Wk. Range:</b>	\$23.00 - \$44.00	(FY: DEC)	<b>2021E:</b>	\$5.50		<b>2021E:</b>	7.7 x
<b>Annualized Div/Div Yld:</b>	\$0.64 / 1.5%		<b>2022E:</b>	\$5.42		<b>2022E:</b>	7.8 x
<b>Shrs/Mkt Cap:</b>	1.1 mm / \$47 mm	<b>Book Value:</b>		\$32.18	<b>Price/Book Value:</b>		1.31 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 \$559 million in assets as of September 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."

### Earnings Remained Strong; EPS was Up 48%

KS Bancorp reported sharply higher earnings in the third quarter of 2021, with EPS that exceeded our projections by \$0.40 per share. The strong growth was primarily due to higher net interest income, combined with modest growth in expenses, and was achieved despite a higher provision for loan losses. Balance sheet growth was also commendable, with loans showing growth on a linked quarter basis and deposits increasing to an all-time high. Nonperforming assets increased at the end of 2021's third quarter, though overall asset quality remained sound. Finally, as is discussed later in this report, the stock continues to perform quite well.

In terms of specific results, KS Bancorp reported net income of \$1,685,000, or \$1.52 per diluted share, for the third quarter of 2021, which was up 47% (48% on a per share basis) from \$1,145,000, or \$1.03 per diluted share, in the year-ago quarter. Net interest income grew 23% to \$4,683,000 in 2021's third quarter from \$3,796,000 in the year-ago quarter, due to improvement in the net interest margin as well as growth in average earning assets over this period. There was roughly \$421,000 in accretion of deferred PPP fees in 2021's third quarter, versus about \$4,000 in the year ago quarter, so even excluding the accretion, net interest income reflected a commendable 12% increase. (The remaining amount of deferred fees as of September 30, 2021 was roughly \$140,000.) Offsetting some of this increase in net interest income was a higher provision for loan losses, which grew to \$123,000 in 2021's third quarter from \$45,000 in the year-ago quarter. Noninterest income, excluding nominal security gains, totaled \$758,000 in 2021's third quarter, up 2% from \$741,000 in the year-ago quarter, while noninterest expense grew 5% to \$3,184,000 from \$3,035,000 in the year-ago quarter. Finally,

**SYMBOL: KSBI**

**TOTAL ASSETS: \$559 MM**

**HQ: SMITHFIELD, NC**

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**EARL W. WORLEY, JR., COO**  
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**3<sup>RD</sup> QUARTER HIGHLIGHTS:**

**NET INCOME WAS UP 47%**

**EPS: \$1.52 vs. \$1.03**

**NET INTEREST INCOME GREW 23%, WHILE NONINTEREST INCOME, EXCLUDING SECURITY GAINS, WAS UP 2%**

**MARGINS IMPROVED AND AVERAGE EARNING ASSETS INCREASED AS WELL**

NONINTEREST EXPENSE GREW  
5%

PROFITABILITY RATIOS WERE  
EXCELLENT AND EXCEEDED  
THOSE OF PEERS

YEAR-TO-DATE HIGHLIGHTS:

EPS: \$4.21 \$2.74

FROM 9/30/20 TO 9/30/21:

LOANS DECLINED 3%  
TOTAL ASSETS WERE UP 17%  
DEPOSITS GREW 21%

KSBI STOCK IS UP ROUGHLY  
30% FROM OUR Q2 2021  
REPORT

THE SHARES HAVE EXCELLENT  
TOTAL RETURN ON BOTH A  
SHORT- AND LONG-TERM BASIS

THESE RETURNS FAR EXCEED  
THE RETURNS OF OTHER BANKS

NPAS-TO-ASSETS: 0.34%

RESERVES-TO-LOANS: 1.42%

EPS:  
2020A: \$3.95  
2021E: \$5.50  
2022E: \$5.42

we would note that the Company's profitability ratios were quite impressive. As can be seen in the adjacent table, annualized ROAA was 1.23% in 2021's third quarter, up from 0.97% in the year-ago quarter, while annualized ROAE was 19.29%, up from 15.15% in the year-ago quarter (note that 2021's third quarter figures are estimated). These ratios were well above the medians for the Bank's Southeast peer group, which consisted of 31 banks in NC, SC and VA with total assets between \$100 million and \$1 billion.

**PROFITABILITY RATIO\* IMPROVEMENT  
AND VS. SE PEERS (%)**

	KSBI		SE Peer
	Q3 20	Q3 21	Group Median
ROAA	0.97	1.23	0.98
ROAE	15.15	19.29	10.95

\*Q3 2021 is estimated for KSBI

**Year-to-Date Earnings were Likewise Quite Strong**

The Company also reported excellent results on a year-to-date basis, with net income of \$4,663,000, or \$4.21 per diluted share, for the first nine months of 2021, as compared to \$3,038,000, or \$2.74 per diluted share, in the year-ago period. The provision increased to \$369,000 in 2021's year-to-date period from \$160,000 in the year-ago period. Net interest income grew 22%, noninterest income (excluding security gains) increased 1% and noninterest expense was up 2% compared to the first nine months of 2020. Balance sheet growth was also encouraging. Although loans were down 3% from the year-ago level, they increased slightly on a linked quarter basis. Moreover, from September 30, 2020 to September 30, 2021, deposits increased 21% and assets were up 17%. Shareholders' equity also continued to expand and was \$35.6 million, or 6.38% of total assets, at September 30, 2021, versus \$30.7 million, or 6.42% of assets, at the year-ago date.

**A Word About KS Bancorp's Stock Performance and Building Stockholders' Value**

Since our second quarter of 2021 report, KSBI shares have increased roughly 30%. In fact, the stock has achieved excellent returns on both a short- and long-term basis. While some of these returns have come purely from appreciation, they have also come from dividends, which have consistently grown over the past several years. Further, the returns for KSBI shares have also significantly outperformed those of most comparable banks, as can be seen in the adjacent table. (Again, peers include NC, SC and VA banks with assets between \$100 million and \$1 billion.). In the long run, a bank's stock performance is driven mainly by its fundamental performance. In the case of KSBI, this includes the strong cash dividend record, superior profitability ratios that exceed those of peer banks and a conservative underwriting philosophy.

**TOTAL RETURN VS. SOUTHEAST PEERS (%)**

	YTD	1-Year	3-Year	5-year
KSBI	54.6	78.9	53.8	172.2
SE Peer Median	28.9	44.9	9.0	49.7

**ANNUAL DIVIDEND, FIVE YEAR GROWTH**

	2016	2017	2018	2019	2020	2021
	\$0.08	\$0.12	\$0.28	\$0.34	\$0.40	\$0.56

**Although NPAs Increased, They Remain Fairly Low**

Nonperforming assets ("NPAs") were \$1,883,000, or 0.34% of total assets, at September 30, 2021, as compared to \$1,177,000, or 0.22% of total assets, at June 30, 2021, and \$1,152,000, or 0.28% of total assets, at the year-ago date. Reserves were strengthened, with the allowance for loan increasing 18% to \$5.0 million, or 1.42% of gross loans, from \$4.3 million, or 1.16% of total loans, at the year-ago date.

**Projections Increased**

We are increasing our 2021 earnings to \$6.1 million, or \$5.50 per diluted share, up from \$4.80 per diluted share, estimated previously. For 2022, we are projecting earnings of \$6.0 million, or \$5.42 per diluted share. 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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