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KS Bancorp, Inc. (KSBI – OTC BB)

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Price:	\$57.17	EPS*	2020A:	\$3.95	P/E	2020A:	14.5 x
52 Wk. Range:	\$25.11 - \$59.00	(FY: DEC)	2021A:	\$5.50		2021A:	10.4 x
Annualized Div/Div Yld:	\$0.64 / 1.1%		2022E:	\$5.00		2022E:	11.4 x
Shrs/Mkt Cap:	1.1 mm / \$63 mm	Book Value:		\$33.08	Price/Book Value:		1.73 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 \$571 million in assets as of December 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."

Net Income Increased 7% from the Year-Ago Quarter; Annual Earnings Grew 39%

KS Bancorp reported strong results for the fourth quarter and full year 2021 that were right in line with our projections. Earnings growth benefitted from a drop in the provision for loan losses (there was no provision in 2021's fourth quarter, versus \$401,000 in the year-ago quarter), although that was largely offset by a drop in PPP related income (\$141,000 in 2021's fourth quarter, versus \$358,000 in the year-ago quarter). Balance sheet growth was led by deposits, with loans down slightly (as anticipated) due to PPP payoffs. Asset quality also remained sound. Finally, we would note that KS Bancorp's stock has continued to advance, and has achieved some of the highest long-term returns of all public banks in the Southeast.

In terms of specifics, net income was \$1,431,000, or \$1.29 per diluted share, in the fourth quarter of 2021, up 7% from \$1,333,000, or \$1.20 per diluted share, in the fourth quarter of 2020. Net interest income was \$4,364,000 in 2021's fourth quarter, versus \$4,513,000 in the year-ago quarter, although excluding PPP related income, net interest income would have increased. Noninterest income was \$735,000 versus \$814,000 over the same respective periods, with the decrease primarily reflecting lower deposit service charges and a drop in fees from presold mortgages. Cost containment was excellent, with noninterest expense totaling \$3,306,000 for the fourth quarter of 2021, up only 3% from \$3,209,000 in the year-ago quarter. Profitability measures were strong, with annualized ROAA for the quarter at 1.10% and ROAE at an impressive 15.84%.

SYMBOL: KSBI

TOTAL ASSETS: \$571 MM

HQ: SMITHFIELD, NC

CONTACT:
HAROLD T. KEEN,
PRESIDENT

EARL W. WORLEY, JR., EVP

REGINA J. SMITH, CFO

(919) 938-3101

4TH QUARTER HIGHLIGHTS:

EPS: \$1.29 VS. \$1.20

**NET INCOME GREW 7% FROM
THE FOURTH QUARTER OF 2020**

**THERE WAS NO PROVISION FOR
LOAN LOSSES IN 2021'S
FOURTH QUARTER, VERSUS A
PROVISION OF \$401,000 IN THE
YEAR-AGO QUARTER**

**THE BENEFIT FROM THE
LOWER PROVISION WAS
PARTLY OFFSET BY A DROP IN
PPP RELATED INCOME**

**NONINTEREST EXPENSE GREW
A MODEST 3%**

YEAR 2021 HIGHLIGHTS:

EPS: \$5.50 vs. \$3.95

FROM 12/31/20 TO 12/31/21:

**NET LOANS DECREASED 6%,
ASSETS GREW 18% AND
DEPOSITS INCREASED 21%**

**CASH AND SECURITIES
GROWTH HAVE BEEN
ESPECIALLY STRONG, WHICH
PUTS THE BANK IN EXCELLENT
SHAPE FOR FUNDING FUTURE
LOAN GROWTH**

EQUITY/ASSETS: 6.42%

**KS BANCORP'S ROAE FOR
2021 IS THE THIRD BEST OF THE
PEER GROUP**

**THE ROAA FOR 2021 WAS
ALSO SUPERIOR**

**KSBI SHARES HAVE
EXCELLENT TOTAL RETURN ON
A ONE-YEAR, THREE-YEAR AND
FIVE-YEAR BASIS**

**KSBI STOCK IS UP ROUGHLY
31% FROM OUR Q3 2021
REPORT**

**NPAS-TO-ASSETS: 0.27%,
DOWN FROM 0.34% AT 9/30/21**

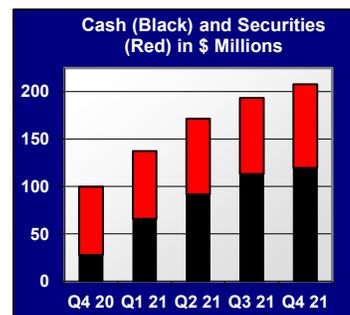
RESERVES-TO-LOANS: 1.43%

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

In terms of annual results, the Company had 2021 earnings of \$6,094,000, or \$5.50 per diluted share, up 39% from \$4,371,000, or \$3.95 per diluted share, for the year 2020. Net interest income increased 15%, noninterest income was up 10% and noninterest expense grew 5% over this period.

Balance Sheet Growth Has Been Good; Liquidity is Ample to Support Future Loan Growth

KS Bancorp's balance sheet growth has been quite solid, particularly in terms of deposits, total assets and, within the asset category, cash and securities. For example, from December 31, 2020 to December 31, 2021, deposits increased 21%, while total assets were up 18%. (Net loans decreased roughly 6% over this period, mainly as a result of payoffs of PPP loans.) The deposit growth has greatly accelerated as a result of the infusion of customers' funds (from their PPP loans), one result being that the Bank's cash and securities balances have swelled (see adjacent chart). In fact, there was roughly \$120 million in cash on the books (21% of assets) at December 31, 2021, versus \$28 million at the year-ago date. The result is that the Bank is in excellent shape from a liquidity standpoint and, as loan demand picks up, is in a great position to redeploy these funds into higher yielding assets. Finally, thanks to the high ROAE, capital ratios continue to improve. As of December 31, 2021, shareholders' equity was \$36.6 million, or 6.42% of total assets.



KSBI Continues to Have Excellent Performance and Returns of its Stock

We continue to be impressed with KS Bancorp's performance, particularly relative to its peers, which consisted of 33 publicly traded banks in NC, SC and VA with assets between \$100 million and \$1 billion. As displayed below, KS Bancorp's ROAA for the year 2021 was 1.12% and was higher than the peer group median of 0.98%, while its ROAE was 17.52% and was well above the peer group median of 10.25%. (In fact, it was the third best of the 33 banks). KS Bancorp's level of NPAs/assets was slightly higher than the peer group median, though we would note that its reserve coverage, though not shown in the table, was better than the peer median. (The reserves/loans ratio was 1.43% for KS Bancorp, versus 1.14% for the peer group median.) The strong performance at the Bank has been duly noted by the market, as evidenced by superior total returns in the stock. Despite the strong performance, the shares are trading generally in line with the peers on a price-to-LTM earnings per share basis, and though the shares are trading at a premium on the basis of book value, we would argue that a premium is warranted given KS Bancorp's strong ROAE.

	KSBI: Peer Group Comparison			ROAA & ROAE		Estimated f for KSBI)		
	ROAA LTM	ROAE LTM	NPA/Assets MRQtr.	Price/EPS	Price/Book Value	1 Year Return	3 Year Return	5 Year Return
KSBI	1.12%	17.52%	0.27%	10.0x	1.67x	123%	122%	217%
Peer Median	0.98%	10.25%	0.21%	9.9x	0.98x	30%	30%	44%

Asset Quality Remains Good

While nonperforming assets ("NPAs") increased relative to the year-ago date, they improved on a linked quarter-end basis. Specifically, NPAs totaled \$1,523,000, or 0.27% of total assets, at December 31, 2021, versus \$1,883,000, or 0.34% of total assets, at September 30, 2021, and \$299,000, or 0.06% of total assets, at December 31, 2020. The allowance for loan losses increased 8% to \$5.0 million, or 1.43% of gross loans, at the end of 2021, compared to \$4.6 million, or 1.24% of total loans, at the year-ago date.

Projections Maintained

For the year 2022, we are estimating KS Bancorp will have earnings 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.

ADDITIONAL INFORMATION UPON REQUEST

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