

## North State Bancorp (Not Publicly Traded)

**John A. (Buddy) Howard, CFA**  
**November 23, 2019**

5003 Falls of Neuse Road

Raleigh  
North Carolina  
27609

919-876-8868 ph

[www.equityresearch.com](http://www.equityresearch.com)

**ASSETS: \$949 MM**

**HQ: RALEIGH, NC**

**CONTACT:**  
**STACY REEDY**  
**(919) 278-2301**

**3<sup>RD</sup> QUARTER HIGHLIGHTS:**

**EPS WERE \$0.05 ABOVE ESTIMATES**

**EPS: \$0.55 vs. \$0.49**

**NET INTEREST INCOME GREW 11%**

|                                   |         |                        |               |        |                          |               |       |
|-----------------------------------|---------|------------------------|---------------|--------|--------------------------|---------------|-------|
| <b>Price: *</b>                   | \$16.00 | <b>EPS **</b>          | <b>2018A:</b> | \$1.65 | <b>P/E</b>               | <b>2018A:</b> | 9.7x  |
| <b>52 Wk. Range:</b>              | N/A     | (FY: DEC)              | <b>2019E:</b> | \$1.88 |                          | <b>2019E:</b> | 8.5x  |
| <b>Distributions (Estimated):</b> | \$1.21  |                        | <b>2020E:</b> | \$1.90 |                          | <b>2020E:</b> | 8.4x  |
| <b>Shares:</b>                    | 5.9 mm  | <b>Book Value: ***</b> |               | \$8.29 | <b>Price/Book Value:</b> |               | 1.93x |

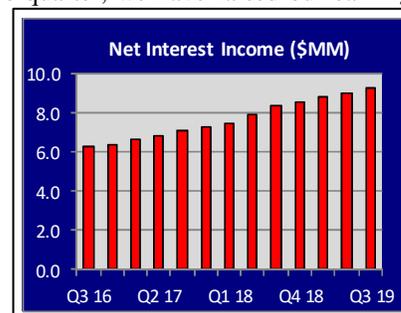
\* Stock is not actively traded. Last known trade. \*\* Earnings per share are diluted. \*\*\* Tangible book value is \$7.94 per share.

### Background

North State Bancorp (the “Company”) is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$949 million in assets as of September 30, 2019. Its bank subsidiary is North State Bank, a commercial bank that began operations on June 1, 2000. North State Bancorp serves Wake and New Hanover Counties through seven full-service offices. The Company focuses on serving the total banking needs of small businesses and individuals, professional firms, professionals, property management companies, churches and non-profits who highly value a mutually beneficial banking relationship. Market areas include Raleigh, Garner, greater Wake County and New Hanover County. Product deposit services include demand deposits, money market accounts, consumer and business time deposits and sweep accounts. Loan products include business products, such as commercial lines of credit, loans for equipment and owner occupied commercial mortgages and other commercial real estate loans and personal lines of credit, such as home equity loans and first and second mortgages. North State Bancorp also offers online mobile banking, digital banking, cash management, payroll and merchant services, in addition to courier services for businesses, same day banking (i.e., transactions are processed on the same day they occur), lockbox and remote deposit capture capabilities. Additional service enhancements include a Mortgage Division, staffed by experienced mortgage professionals; CommunityPLUS, a division serving property management firms throughout North Carolina and other states with companies who have a close working relationship with the Bank, and an SBA and USDA Lending division, which allows the Bank to fund loans for owner-operated businesses, on a nationwide basis. (North State has been granted “preferred lender” status from the SBA, which allows it to have greater flexibility and often expedited processing times when considering a borrower’s risk profile.) Finally, in 2018, the Company created a lease financing group. The Company is an S-Corporation for tax purposes.

### Third Quarter Earnings Increased 14% and Beat Projections

For the third quarter of 2019, North State Bancorp reported strong results, with double-digit earnings growth and earnings per share that exceeded our projections. There were several positives in the quarter, including excellent growth in total revenues, improvement in margins and a significantly lower level of nonperforming assets. Given the strength of the quarter, we have raised our earnings estimates for 2019. Net income was \$3,258,000, or \$0.55 per diluted share in the third quarter of 2019, up 14% from \$2,858,000, or \$0.49 per diluted share, in the year-ago quarter, and up 13% from 2019’s second quarter. We had projected \$0.50 per share, so actual results were \$0.05 above estimates. Net interest income, the primary driver behind the earnings growth, totaled \$9,273,000 in 2019’s third quarter, which was up 11% from \$8,370,000 in the year-ago quarter. North State’s consistency in building upon net interest income has been quite impressive, as can be seen from the adjacent chart (net interest income is up 46% since the third quarter of 2016). Part of the quarterly growth in net interest income was due to improvement in the Company’s net interest margin, which was 4.09%,



**THE NET INTEREST MARGIN IMPROVED 13 BASIS POINTS AND WAS BETTER THAN THE PEER GROUP MEDIAN**

**MOST KEY COMPONENTS OF NONINTEREST INCOME POSTED LARGE INCREASES**

**TOTAL NONINTEREST INCOME INCREASED 23%**

**THERE WAS A PROVISION OF \$260,000 IN 2019'S THIRD QUARTER VERSUS A CREDIT OF \$60,000 IN THE YEAR-AGO QUARTER**

**YEAR-TO-DATE HIGHLIGHTS:**

**EPS: \$1.44 vs. \$1.36**

**NET INTEREST INCOME GREW 14%; NONINTEREST EXPENSE WAS DOWN 1%**

**NPAs DROPPED SIGNIFICANTLY**

**NPAs/ASSETS: 0.07%, COMPARED TO AN NC PEER GROUP MEDIAN OF 0.27%**

**RESERVES/LOANS: 0.64%**

up 13 basis points from the level in the year-ago quarter. North State's margins are far better than most other banks (its NC peer group had a median margin of 3.80%), partly based on the Bank's increasing focus on yield as opposed to the maximization of loan growth. The increase in noninterest income was also quite high, with especially strong growth in fees from mortgage operations. Specifically, fees from mortgage operations, which encompassed 59% of total noninterest income, increased 28% from the third quarter of 2018. All other noninterest income components also had strong growth compared to the year-ago quarter, with only service charges remaining unchanged. Core noninterest income was up 23% to \$4,009,000 in 2019's third quarter, from \$3,260,000 in the year-ago quarter. Noninterest expense increased 11% to \$9,764,000 in the third quarter of 2019 from \$8,832,000 in the year-ago quarter, with the increase mainly attributable to higher personnel expense and data processing and other outsourced services. Finally, we would note that the earnings growth was achieved despite a large increase in the provision for loan losses (based on loan growth, not any slippage in quality), as the provision for loan losses was \$260,000 in 2019's third quarter, versus a credit of \$60,000 in the year-ago quarter.

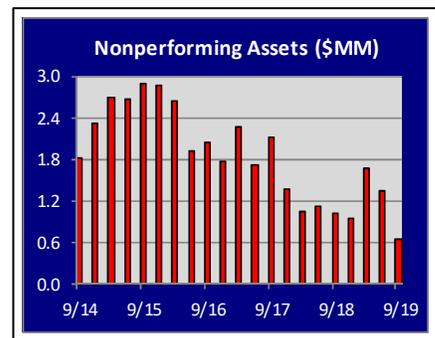
|                      | Q3 18 | Q3 19 | Qtr. over Qtr.<br>Q3 18-Q3 19 |
|----------------------|-------|-------|-------------------------------|
| Merchant Card        | 142   | 277   | 59.9%                         |
| Dep. Svc. Chrgs/Fees | 145   | 145   | 0.00%                         |
| Mortgage Operations  | 1,836 | 2,347 | 27.8%                         |
| SBA fees/Gns on Sale | 848   | 977   | 15.2%                         |
| BOLI                 | 68    | 69    | 1.5%                          |
| Other                | 221   | 244   | 10.4%                         |

**Year-to-Date Earnings Increased 9%**

Year-to-date earnings in 2019 were likewise excellent, with net income at \$8,579,000, or \$1.44 per diluted share, up 9% from \$7,874,000, or \$1.36 per diluted share, in the year-ago period. Noninterest income was down 20% compared to the first nine months of 2018, but strong growth of 14% in net interest income and a decrease of 1% in noninterest expense completely offset this decline. The provision for loan losses totaled \$680,000 year-to-date in 2019, compared to \$500,000 in the year-ago period. Balance sheet growth was commendable from September 30, 2018 to September 30, 2019, with total assets and deposits increasing 8% and net loans up 6%. The Company's capital position also increased; shareholders' equity was \$49.3 million, or 5.19% of total assets, at September 30, 2019, up from \$44.6 million, or 5.05%, at the year-ago date.

**NPAs Decreased 51% from June 30, 2019**

North State Bancorp's asset quality improved substantially at September 30, 2019 and was better than the majority of its NC peers. Total nonperforming assets were \$0.7 million, or 0.07% of total assets, at September 30, 2019, which was down 51% from \$1.3 million, or 0.15% of assets at June 30, 2019, and down 35% from \$1.0 million, or 0.11% of assets, at September 30, 2018. The Company's NPAs/assets ratio of 0.07% was the lowest of its peer group, which had a median figure of 0.27%. The allowance for loan losses was \$4.9 million, or 0.64% of total loans, at September 30, 2019, up 20% from \$4.1 million, or 0.57% of total loans, at the year-ago date.



**Projections Increased**

We are increasing our 2019 earnings projections to \$11.2 million, or \$1.88 per diluted share (our previous estimate was \$10.5 million, or \$1.78 per diluted share.) Based on our expectation of tighter margins, we are projecting that 2020 net income will increase modestly to \$11.3 million, or \$1.90 per diluted share. Actual results may obviously vary significantly from these figures.

**EPS:**  
**2018A: \$ 1.65**  
**2019E: \$ 1.88**  
**2020E: \$ 1.90**

**ADDITIONAL INFORMATION UPON REQUEST**

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