

North State Bancorp (Not Publicly Traded)

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May 15, 2020

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ASSETS: \$995 MM

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1ST QUARTER HIGHLIGHTS:

EPS WAS GENERALLY IN LINE
WITH ESTIMATES

EPS: \$0.45 vs. \$0.41

NET INTEREST INCOME WAS
ESSENTIALLY UNCHANGED,
WITH EARNING ASSET GROWTH
OFFSETTING A TIGHTER
MARGIN

Price: *	\$16.00	EPS	2018A:	\$1.65	P/E	2018A:	9.7x
52 Wk. Range:	N/A	(FY: DEC)	2019A:	\$1.95		2019A:	8.2x
Distributions (Estimated):	\$1.32		2020E:	\$1.70		2020E:	9.4x
Shares:	6.0 mm	Book Value:		\$8.58	Price/Book Value:		1.86x

* Stock is not actively traded. Last known trade.

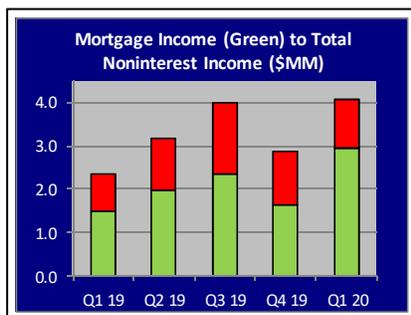
Background

North State Bancorp (the “Company”) is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$995 million in assets as of March 31, 2020. 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.

First Quarter Earnings Were Up 11%

In some ways, the most significant aspect of North State’s performance in 2020’s first quarter occurred in the latter part of the quarter and had more to do with the Company’s response to COVID-19 and less to do with earnings. North State has been highly active in assisting its customers in this crisis, from quickly processing Paycheck Protection Program (“PPP”) applications to waiving fees and granting deferrals of loan payments where appropriate. While there is little doubt that the crisis will have a negative effect on financial results in future periods (just as it will at essentially all banks), we believe North State is building a considerable amount of goodwill as a key partner with its customers, many of whom are enduring the most trying times in their careers or the histories of their businesses. Customers tend to remember the institutions who “stuck with them” in such times, and we suspect this time will be no different.

In terms of specific financial results, net income was \$2,702,000, or \$0.45 per share, for 2020’s first quarter, up 11% from \$2,428,000, or \$0.41 per share, in the year-ago quarter. Net interest income was essentially flat at \$8,796,000 in 2020’s first quarter, as compared to \$8,836,000 in the year-ago quarter, with a drop in the net interest margin (to 3.78% in 2020’s first quarter from 4.04% in the year-ago quarter) offsetting 6% earning assets growth. While net interest income was relatively unchanged,



**NONINTEREST INCOME
INCREASED 75%**

**MORTGAGE OPERATIONS FEE
INCOME NEARLY DOUBLED**

**SBA RELATED INCOME GREW
50%**

FROM 3/31/19 TO 3/31/20:

**NET LOANS, DEPOSITS AND
TOTAL ASSETS ALL GREW 6%**

EQUITY/ASSETS: 5.20%

**THE COMPANY FUNDED
APPROXIMATELY \$115 MILLION
IN PPP LOANS**

NPAs/ASSETS: 0.38%

RESERVES/LOANS: 0.65%

**EPS:
2018A: \$ 1.65
2019A: \$ 1.95
2020E: \$ 1.70**

noninterest income growth was excellent, increasing 75% to \$4,067,000 in 2020's first quarter from \$2,330,000 in the year-ago quarter, none of which was from security gains or losses. The majority of this increase came from higher mortgage operations fees, which were 73% of total noninterest income, and nearly doubled from the first quarter of 2019. Fees from SBA operations and Merchant and other loan fees also had strong growth (50% and 59%, respectively). With the large amount of PPP

loans North State has made (see further discussion below), such fees will likely swell further in the next few quarters. Noninterest expense was \$9,936,000 in the first quarter of 2020, up 17% from \$8,468,000 in the year-ago quarter, while the provision for loan losses totaled \$225,000 compared to \$270,000 for the same periods. We would note that North State's profitability ratios remained good and were generally in line with the year-ago figures. As can be seen in the adjacent table, ROAA in the most recent quarter was 1.10%, while ROAE was 20.9%.

PROFITABILITY RATIOS (%)		
	Q1 19	Q1 20
ROAA	1.06	1.10
ROAE	20.75	20.86

Balance Sheet Growth Surged in the First Quarter of 2020

Balance sheet growth from March 31, 2019 to March 31, 2020 was commendable, with net loans, deposits and total assets all increasing 6%. Linked quarter growth (from December 31, 2019 to March 31, 2020) actually surged a good bit, with particularly notable increases in deposits and assets. Looking ahead, we expect loan demand to moderate, although North State's growing presence in government lending gives them an edge over many community banks without that expertise. Shareholders' equity totaled \$51.8 million, or 5.20% of total assets, at March 31, 2020, which was up 10% from \$47.1 million, or 5.00% of total assets, at the year-ago date.

North State Bancorp and COVID-19

Although it is difficult to fully anticipate the full impact of COVID-19 on North State Bancorp, it is logical to assume delinquencies will rise, as will the provision, while the margin is likely to be under pressure given the drop in rates. Offsetting some of these negative impacts, however, should be the additional fees associated with some of the PPP lending. The Bank has received nearly 1,000 PPP applications and funded roughly \$115 million at the start of the second quarter. From an operating standpoint, the Bank has been limiting lobby access and encouraging drive-through service and plans to continue monitoring conditions as it considers when to reopen lobby areas.

NPAs Increased, though Asset Quality Remains Sound

North State Bancorp's nonperforming assets ("NPAs") increased at March 31, 2020, though asset quality figures are still good. NPAs were \$3.7 million, or 0.38% of total assets, at March 31, 2020, compared to \$1.1 million, or 0.11% of total assets, at December 31, 2019, and \$1.7 million, or 0.18% of total assets, at the year-ago date. The majority of NPAs were nonaccrual loans (\$3.5 million), followed by OREO (\$0.2 million). The allowance for loan losses totaled \$5.2 million, or 0.65% of total loans, at March 31, 2020, which was up 16% from \$4.4 million, or 0.59% of total loans, at the year-ago date.

Projections

For at least the next few quarters, we expect the provision for loan losses to be higher than normal, though the fees from PPP loans are likely to offset part of this increase. While projections remain difficult to gauge, we are tentatively projecting 2020 earnings of \$10.2 million, or \$1.70 per 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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