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UB Bancorp (UBNC – OTCQX)

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August 6, 2021

Price:	\$18.00	EPS*	2019A:	\$ 1.19	P/E	2018A:	15.1 x
52 Wk. Range:	\$9.30 - \$18.00		2020A:	\$ 0.84		2019A:	21.4 x
Div/Div Yld:	\$0.21 / 1.2%		TTM 6/30/21A:	\$ 1.43		TTM 6/30/21A:	12.6 x
Shrs/Mkt Cap:	6.0 mm / \$107 mm	Tangible Book Value:	\$ 13.80		Price/Tang. Book Value:	1.30 x	

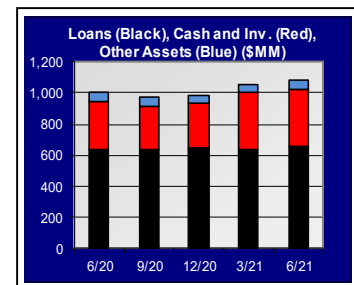
* EPS are diluted. Book value per share is \$16.05.

Background

UB Bancorp (the “Company”) is the holding company for Union Bank. Union Bank (the “Bank”) is the resulting Bank from the 2017 merger of the little bank with Union Banc Corp. Headquartered in Greenville, NC, it currently has \$1.1 billion in total assets and primarily serves central and eastern NC through 14 full-service offices located in Lenoir, Granville, Wayne, Franklin, Vance, Onslow, Person, Pitt, Craven, New Hanover, and Wake Counties. The Bank provides banking and financial services to individuals and small to medium-sized businesses, with an emphasis on providing its customers with “modern day technology combined with old-fashioned personal customer service.” Products offered include personal and business checking, savings, and money market accounts, personal, mortgage and business loans, and personal and business credit cards. The Bank also provides options for mobile and online banking, e-statements and digital wallets. The Company’s stock is traded on the OTCQX marketplace under the symbol UBNC.

Second Quarter Earnings Improved Significantly Due to Multiple Factors

UB Bancorp reported earnings for the second quarter of 2021 that increased sharply from the year-ago quarter. While some of the factors leading to the earnings strength were the result of items such as the loan loss provision and net fees on Payroll Protection Program (“PPP”) loans, the earnings strength was also due to favorable core fundamentals, like strong trends in average earning assets and solid



expense control. Balance sheet growth was also commendable (as seen in the adjacent chart), both relative to the linked quarter as well as the year-ago level. As evidenced in the adjacent chart, liquidity also improved, as seen by the growing position in cash and investments (red bar). Asset quality remained quite good. Although NPAs were up from the year-ago level, they declined relative to March 31, 2021. Finally, we would also note the Board of Directors increased the repurchase authorization under the Company’s stock buyback program

Net income for the second quarter of 2021 totaled \$2,909,000, or \$0.48 per diluted share, up from \$612,000, or \$0.10 per diluted share, in the year-ago quarter. Net interest income was up 10% to \$8,224,000 in 2021’s second quarter from \$7,447,000 in the year-ago quarter, with most of that growth coming from \$682,000 in net PPP revenue. Another contributor to the earnings strength was the absence of a provision for loan losses in the second quarter of 2021 (versus a provision of \$2.2 million in the year-ago quarter), reflecting the Bank’s strong reserve position and solid asset quality metrics. Noninterest income was \$881,000 in 2021’s second quarter, down from \$1,033,000 in the year-ago quarter, although it actually increased 26% excluding nonrecurring gains in the year-ago quarter. Finally, cost containment was good, as noninterest expense decreased 2% to \$5,466,000 in 2021’s second quarter from \$5,594,000 in the year-ago quarter.

SYMBOL: UBNC

TOTAL ASSETS: \$1.1 B

HQ: GREENVILLE, NC

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2ND QUARTER HIGHLIGHTS:

DILUTED EPS: \$0.48 VS. \$0.10

THERE WAS NO PROVISION IN Q2 21 VS. A PROVISION OF \$2.2 MILLION IN Q2 20

ROUGHLY \$682,000 IN PPP NET REVENUES WERE RECOGNIZED IN 2021’S SECOND QUARTER

NET INTEREST INCOME INCREASED 10%

NONINTEREST INCOME EXCLUDING YEAR-AGO GAINS INCREASED 26%

NONINTEREST EXPENSE DECREASED AS WELL

Record Earnings Achieved In the First Half of 2021

Results were also strong in the first six months of 2021. Specifically, net income reached a first-half record of \$5,885,000, or \$0.98 per diluted share, more than double the \$2,345,000, or \$0.39 per diluted share reported for the first half of 2020. As was the case with the quarterly results, there were some items that impacted earnings, such as no provision in the first half of 2021 versus a provision of \$2,555,000 in the year-ago quarter, \$1.8 million in pre-tax revenue from PPP loans in the first half of 2021 versus none in the year-ago period, and there were no nonrecurring gains in 2021's first half, versus \$454,000 for 2020's first half. Backing out all of these items (even PPP net revenue) still resulted in an increase in pretax earnings of about 28%.

From a balance sheet standpoint, the Company remains in excellent shape. UB Bancorp ended the second quarter of 2021 with total assets of \$1.1 billion, which was up 8% from the year-ago quarter and places the Company among the 10 largest independent community banks headquartered in North Carolina. While some of the Company's strong growth has come from assisting small businesses with PPP funding, organic growth remains solid as well. For example, core loans (excluding PPP) grew \$36 million, or 6%, from March 31, 2021 to June 30, 2021. Relative to year-ago levels, gross loans increased 4% to \$666 million at June 30, 2021, while deposits were up 21% to \$906 million and cash and investments were up 18% to \$367 million. UB Bancorp remains well capitalized with shareholders' equity of \$96 million, or 8.85% of total assets, at June 30, 2021.

UB Bancorp Has Performed Well Relative to Other Comparably Sized Banks in Carolinas

As can be seen in the table below, UB Bancorp performs quite well relative to similarly sized NC banks, which we have defined as NC banks with assets between \$200 million and \$5 billion. While the Company's ROAA is lower than the peers, UB Bancorp has a much higher level of profitability per dollar of tangible equity ("ROATE"), and its efficiency ratio was much better as well. Asset quality was slightly better and its reserve coverage was stronger. Although the stock trades at a premium to the peers, we would argue that this is largely due to these strong performance ratios. We would also note the record of growing shareholder value, which likewise exceeded the ratios of the peers.

	ROAA LTM	ROATE LTM	Efficiency Ratio LTM	NPAs/ Assets	Reserves/ Loans	Price/EPS (LTM)	Price/Tang. Book Value	1 Year Total Return	5 Year Total Return
<i>UBNC</i>	0.85%	11.32%	60.7%	0.27%	1.52%	12.6x	130%	83%	69%
<i>Peer Median</i>	1.02%	9.24%	72.2%	0.29%	1.05%	9.8x	108%	57%	64%

Asset Quality Has Been Holding Up Quite Well

Although nonperforming assets ("NPAs," which include nonaccruing loans, loans more than 90 days past due and still accruing, and OREO) were up from the year-ago level, they improved slightly from March 31, 2021 and are still at reasonable overall levels. Specifically, NPAs were \$2,915,000, or 0.27% of total assets, at June 30, 2021, versus \$3,004,000, or 0.28% of total assets, at March 31, 2021, and \$521,000, or 0.05% of total assets, at the year-ago date. We would also note that UB Bancorp has continued to work with customers in terms of loan modifications related to COVID. Through the first half of 2021, the Bank had granted COVID related loan payment deferrals on 347 loans totaling nearly \$93 million. As of June 30, 2021, only one loan relationship remained with an active payment deferral. In terms of reserves, as of June 30, 2021, the allowance for loan losses increased 35% to \$10.1 million, or 1.52% of total loans, from \$7.5 million, or 1.17% of total loans, at the year-ago date. Net of PPP loans, the allowance was 1.73% of loans at June 30, 2021.

ADDITIONAL INFORMATION UPON REQUEST

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FIRST HALF HIGHLIGHTS:

DILUTED EPS: \$0.98 vs. \$0.39

PRETAX EARNINGS INCREASED EVEN IF WE ELIMINATE THE PROVISION, GAINS AND NET PPP REVENUES

ON A YEAR-OVER-YEAR BASIS, GROSS LOANS GREW 4%, DEPOSITS WERE UP 21% AND TOTAL ASSETS INCREASED 8%

EXCLUDING PPP LOANS, LOANS WERE UP 6% IN THE SECOND QUARTER OF 2021

RELATIVE TO ITS PEERS, UB BANCORP HAS A HIGHER ROATE AND BETTER ASSET QUALITY AND RESERVE COVERAGE METRICS

WHILE IT TRADES AT A PREMIUM TO ITS PEERS BASED ON P/E AND P/TBV MULTIPLES, MUCH OF THIS CAN BE ATTRIBUTED TO ITS OPERATING PERFORMANCE

THE RETURNS ON ITS STOCK HAVE BEEN IMPRESSIVE AS WELL

NPAS-TO-ASSETS: 0.27%

THE ALLOWANCE INCREASED SUBSTANTIALLY

RESERVES-TO-LOANS: 1.52%, OR 1.73% EXCLUDING PPP LOANS