

AVAILABLE ON THE WEB AT [WWW.EQUITYRESEARCH.COM](http://www.equityresearch.com)

blueharbor bank (BLHK - OB)

5003 Falls of Neuse Road

Raleigh
North Carolina
27609

919-876-8868 ph

www.equityresearch.com

John A. (Buddy) Howard, CFA
November 14, 2018

Price:	\$12.26	EPS *	2017A:	\$ 0.44	Price/ EPS	2017A:	27.9 x
52 Wk. Range:	\$10.01 - \$14.50	(FY: DEC)	2018E:	\$ 0.84		2018E:	14.6 x
Div/Div Yld:	\$0.00 / 0.0%		2019E:	\$ 0.89		2019E:	13.8 x
Shrs/Mkt Cap:	2.8 mm / \$36 mm	Book Value:		\$ 9.71	Price/Book Value:		1.26 x

* 2017 EPS includes \$0.14 per share in a nonrecurring deferred tax asset charge.

Background

With \$208 million in assets, blueharbor bank (the Bank uses lower case letters in all of its branding) is a community bank headquartered in Mooresville, North Carolina. The Bank currently operates four branch locations in Mooresville, Huntersville and Statesville, which are located in Iredell and Mecklenburg Counties. The Bank offers personal checking, savings, money market accounts, CDs, IRAs, Health Savings Accounts, and personal loans, including HELOCs. Business services offered include checking, savings and business loans, and complete treasury management services including remote deposit capture. The Bank also provides wealth management, investments, estate planning and family office services through blueharbor wealth advisors (www.blueharborwealthadvisors.com), which has offices in Charlotte, NC, Mooresville, NC, and Naples, FL. One unique aspect of the Bank is that its offices are located in and around the affluent Lake Norman area of North Carolina, which has excellent demographics. blueharbor bank's shares are traded on the OTC Bulletin Board under the symbol "BLHK."

Earnings Exceeded Estimates in the Third Quarter; Company Moves into New Building

blueharbor bank's financial performance was good in the third quarter of 2018. Earnings were up 26% and exceeded our projections by several cents per share, and were driven by strong showings in both net interest income and noninterest income. Balance sheet growth was fairly contained and remained in the mid-single digits over the past year. In terms of asset quality, nonperforming assets did increase in the quarter, though the NPA-to-assets ratio remains below 1%. Finally, we would note that one of the more significant non-financial events of the third quarter was the opening of the Company's new main office in Mooresville. The location is an attractive, state-of-the-art facility that should support the Company's growth for many years. Reflecting many of the Company's positive fundamentals, the stock continues to have an excellent performance, nearly doubling in the past three years, which is much better than the Company's peers.

Net income for the third quarter of 2018 was \$661,000, or \$0.22 per diluted share, versus \$524,000, or \$0.17 per diluted share, in the year-ago quarter. We had expected net income to be flat relative to the year-ago figures, so we were pleasantly surprised by the earnings strength. As was stated above, strong net interest income was part of the reason for the earnings growth. The Bank has done an excellent job managing its net interest margin, which was 4.00% in 2018's third quarter, versus 3.76% in the year-ago quarter. Between this improvement and the growth in average earning assets, net interest income increased 8% to \$1,915,000 in 2018's third quarter from \$1,770,000 in the year-ago quarter. Noninterest income was also impressive, as it increased 31% in the quarter, while noninterest expense was up 14%, mainly reflecting expansion-related costs. Finally, earnings benefitted from a slightly lower provision for loan losses, which was \$32,000 in 2018's third quarter, versus \$41,000 in the year-ago quarter. Several of the key performance metrics are reflected in the above table.

	<u>2017</u>	<u>2018</u>
ROAA	1.06	1.28
ROAE	8.34	9.74
Efficiency Ratio	56.4	58.4
NPAs/Assets	0.60	0.95
Equity/Assets	12.7	13.1

ASSETS: \$208 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

3RD QUARTER HIGHLIGHTS:

**THIRD QUARTER EARNINGS
WERE UP 26%**

EPS: \$0.22 VS. \$0.17

**EARNINGS BENEFITTED FROM
HIGHER NET INTEREST
INCOME AND NONINTEREST
INCOME**

**THE NEW MAIN OFFICE
RECENTLY OPENED**

**NET INTEREST INCOME WAS
UP 8%**

**KEY PROFITABILITY METRICS
WERE STRONG**

Nine Month Results Were Also Quite Strong

Net income in the first nine months of the year was \$1,887,000, or \$0.64 per diluted share, up from \$1,302,000, or \$0.43 per diluted share, in the year-ago period. Net interest income grew 12%, noninterest income was up 19% and noninterest expense increased 12%. As was stated earlier, balance sheet growth was generally in the mid-single digits. From September 30, 2017 to September 30, 2018, assets grew 5%, while loans were up 1% and deposits increased 5%. One other point we would make regarding the Bank's deposit growth is that it has been successfully growing its market share for several years. In Iredell County, where the majority of its deposits are located, it controlled 5.08% of the bank deposit market at June 30, 2018, up from 4.70% at June 30, 2017, 3.96% at June 30, 2016 and 3.49% at September 30, 2015. blueharbor bank is in a good position to maintain its balance sheet growth given its strong capital position. Shareholders' equity was \$27.3 million at September 30, 2018, representing a healthy 13.1% of assets. All of the Bank's regulatory capital ratios comfortably exceed the minimums to be considered "well capitalized."

NINE MONTHS HIGHLIGHTS:

EPS: \$0.64 vs. \$0.43

BALANCE SHEET GROWTH WAS GENERALLY IN THE MID-SINGLE DIGITS

DEPOSIT MARKET SHARE HAS BEEN INCREASING

THE COMPANY'S PROFITABILITY METRICS ARE HIGHER THAN ITS PEERS

WHILE ITS NPAS-TO-ASSETS RATIO WAS HIGHER THAN ITS PEER GROUP, THE RATIO IS STILL BELOW 1%

DESPITE THE SUPERIOR PROFITABILITY RATIOS, THE STOCK TRADES AT ONLY A MODEST PREMIUM TO THE MARKET

DEPOSIT MARKET SHARE				
Iredell County	6/30/15	6/30/16	6/30/17	6/30/18
blueharbor Deposits	89 MM	110 MM	134 MM	151 MM
Market Share	3.49%	3.96%	4.70%	5.08%
Market Share Rank	7th	7th	5th	5th

Relative Value is Highly Compelling in Our View

We mentioned in the opening section of this report that the Company's stock price had nearly doubled in the past three years. Although that may lead some investors to conclude that the shares might be overpriced, the recent appreciation actually reflects the fact that it was *undervalued* when we first began writing on the Company in early 2017. In terms of relative performance, if we compare the Company to a broader group of NC peers (with assets between \$250 million and \$750 million), we see that BLHK's return on average assets was much higher than the peers, as was its return on tangible common equity (ROATCE). Its efficiency ratio was among the best in the group (lower is better) and its assets per employee was among the best as well. Although NPAs were higher, we would note that having an NPA-to-assets ratio below 1% is still respectable, particularly given the Bank's low historical charge-offs. Despite the far superior profitability metrics, the stock only trades at a slight premium to the group.

PEER GROUP COMPARISON: BLHK vs. NC PUBLIC BANKS FROM \$250 MM TO \$750 MM IN ASSETS							
	ROAA MRQ	ROATCE MRQ	Efficiency Ratio	Assets Per Employee (\$)	NPAs/ Assets	Price/ LTM EPS *	Price/Tang. Book Value
BLHK	1.28%	9.74%	58.4%	8.0 mm	0.95%	15.3x	1.26x
Peer Median	0.89%	8.67%	74.0%	3.8 mm	0.46%	15.2x	1.20x

* LTM EPS excludes \$0.14 per share in deferred tax charge.

Nonperforming Assets Increased but NPA/Assets is Still Reasonable

Nonperforming assets (including nonaccruing loans and OREO) were \$2.0 million, or 0.95% of assets, at September 30, 2018, versus \$1.0 million, or 0.50% of assets, at June 30, 2018 and \$1.2 million, or 0.60% of assets, at September 30, 2017. A significant portion of the current NPAs is in one OREO that is on the books well below appraised value. The allowance for loan losses totaled \$1.7 million, or 0.98% of loans, at September 30, 2018, versus \$1.8 million, or 1.03% of loans, at the year-ago date.

NPAs/ASSETS: 0.95%

RESERVES/LOANS HFI: 0.98%

Projections Increased

Based on the strength of the third quarter results, we are increasing our 2018 earnings projections to \$2.5 million, or \$0.84 per diluted share, up from \$2.3 million, or \$0.75 per diluted share, projected previously. For 2019, we are projecting earnings of \$2.7 million, or \$0.89 per diluted share. These projections may vary considerably based on economic conditions.

REPORTED EPS:

2017A: \$0.44 *

2018E: \$0.84

2019E: \$0.89

*2017 EPS INCLUDES \$0.14 PER SHARE IN A DEFERRED TAX ASSET CHARGE

ADDITIONAL INFORMATION UPON REQUEST

Copyright © 2018 Equity Research Services, Inc. All rights reserved. This material is for your information only and is not a solicitation, or an offer, to buy or sell securities mentioned. Equity Research Services, Inc. ("ERS") is a firm involved in financial advisory, equity research, valuation and investor relations services. All reports generated by ERS for the purpose of investor relations are designated "Investor Relations Report," and ERS receives a fee (from the company whose securities are described) for producing such reports. ERS may also act in a financial advisory role to the company. The information contained herein has been obtained from sources we believe reliable but in no way is guaranteed by us. Furthermore, this report contains forward-looking statements and projections that are based on certain assumptions and expectations. Accordingly, actual results may differ considerably from those reflected in this report due to such factors as those which are listed in the Company's SEC filings. Any non-factual information in the report is our opinion and is subject to change without notice.