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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
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Price:	\$12.98	EPS *	2017A:	\$ 0.44	Price/ EPS	2017A:	29.5 x
52 Wk. Range:	\$9.30 - \$14.50	(FY: DEC)	2018A:	\$ 0.83		2018A:	15.6 x
Div/Div Yld:	\$0.00 / 0.0%		2019E:	\$ 0.86		2019E:	15.1 x
Shrs/Mkt Cap:	2.9 mm / \$38 mm	Book Value:		\$ 9.89	Price/Book Value:		1.31 x

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

Background

With \$214 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 Were Excellent in the Fourth Quarter and Year

blueharbor bank reported another solid quarter in the three months ended December 31, 2018. Earnings were up relative to the year-ago figures, although there was a fair amount of "noise" in the numbers that made direct comparisons difficult. Specifically, the year-ago figures included a tax-related charge resulting from the Tax Cut and Jobs Act, whereas this year's fourth quarter had a relatively large provision for loan losses (reflecting strong loan growth as opposed to asset quality slippage), versus a credit for loan losses in the year-ago period. Importantly, though, the underlying fundamentals were positive. It was also a decent quarter in terms of the balance sheet, as loan and deposit growth accelerated in the quarter after having contracted slightly in the third quarter. Progress was also made in terms of building the lending team, as the Bank hired two experienced lenders to serve the Lake Norman, Statesville and Iredell County markets. Finally, we would note that asset quality held up well, with nonperforming assets up from the year-ago level but down from the level at September 30, 2018.

Net income for the fourth quarter of 2018 was \$518,000, or \$0.17 per diluted share, versus \$26,000, or \$0.01 per diluted share, in the year-ago quarter. As was stated above, the year-ago earnings included a nonrecurring deferred tax asset adjustment (totaling \$435,000) that negatively affected earnings.

Excluding this tax adjustment, the year-ago earnings would have been \$462,000, or \$0.15 per diluted share, implying a 12% increase in 2018's fourth quarter earnings from the year-ago earnings before the tax related charge. We would argue that the true operating earnings growth was actually a little higher than that though, as the provision for loan losses was \$133,000 in 2018's fourth quarter versus a *credit* of \$41,000 in the year-

	2017	2018
Quarterly Results (\$000s)	Q4	Q4
Net Income	26	518
Pretax Income	709	658
Adjustments:		
Provision (Add/Deduct Credits)	(41)	133
Pretax Inc. Bef. Provision	668	791

ASSETS: \$214 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

4TH QUARTER HIGHLIGHTS:

EPS: \$0.17 vs. \$0.01

THE YEAR-AGO EARNINGS WERE AFFECTED BY A TAX-RELATED CHARGE, THE ABSENCE OF WHICH WOULD HAVE RESULTED IN EPS OF \$0.15

PRETAX PRE-PROVISION INCOME INCREASED 18%

THE STOCK IS UP ANOTHER 6% SINCE OUR LAST REPORT IN NOVEMBER

ago quarter. Pretax income before the provision for loan losses was \$791,000 in 2018's fourth quarter, up 18% from \$668,000 in the year-ago period. As has been the case for the past several quarters, the main driver behind the earnings growth was strong increases in both net interest income and noninterest income. Higher margins (4.02% in the fourth quarter of 2018 versus 3.76% in 2017's fourth quarter), combined with growth in average earning assets (up roughly 3%), resulted in double digit growth of 10% in net interest income during 2018's fourth quarter. The increase in noninterest income was even higher at 34%. Finally, noninterest expense grew 9% to \$1,373,000 in 2018's fourth quarter, versus \$1,260,000 in the year-ago quarter, with much of that increase due to expansion related costs.

Full Year Earnings Were Also Impressive

Net income in the full year of 2018 was \$2,405,000, or \$0.83 per diluted share, up from \$1,328,000, or \$0.44 per diluted share, in 2017. Net interest income grew 11%, noninterest income was up 23% and noninterest expense increased 11%. As was the case with the quarterly results, the year-ago figures included the deferred tax asset adjustment, the absence of which would have made 2017's earnings \$1,763,000, or \$0.58 per diluted share. Balance sheet growth was relatively modest but did reflect an acceleration from 2018's third quarter. From December 31, 2017 to December 31, 2018, assets grew 5%, while loans were up 4% and deposits increased 2%. Shareholders' equity was \$28.7 million at December 31, 2018, representing a healthy 13.4% of assets.

Key to High ROAA Is Expense Control

Key profitability metrics were commendable as well, as can be seen in the adjacent table. Return on average assets was well above peer numbers, as were return on average equity and the efficiency ratio. One of the things that makes the ROAE particularly impressive is the fact that the capital base is as large as it is, as evidenced by blueharbor bank's high capital ratios. In order to better measure the source of the Bank's higher profitability metrics (using pretax ROAA), we calculated key items of its income statement as a percentage of average assets and compared those to the percentages for its peers. What the analysis shows is that blueharbor has comparable levels of net interest income and provision as a percentage of average assets, a lower amount of noninterest income as a percentage of average assets, but a *much* lower level of noninterest expense as a percentage of average assets. This reflects an inherent advantage the bank has in terms of long-term earnings growth.

Latest 12 Months Ratios (%)		
	Peers	BLHK
ROAA	0.77	1.17
ROAE	8.51	9.04
Efficiency Ratio	74.6	60.6
Equity/Assets	10.5	13.1

NET INTEREST INCOME WAS UP 10%

NONINTEREST INCOME WAS UP 34%

FULL YEAR HIGHLIGHTS:

EPS: \$0.83 vs. \$0.44

EQUITY/ASSETS: 13.4%

BLUEHARBOR BANK HAS ACHIEVED HIGHER THAN AVERAGE PROFITABILITY METRICS

ITS ROAE IS PARTICULARLY NOTEWORTHY GIVEN ITS LARGE CAPITAL BASE

THE REAL KEY TO THE HIGH PROFITABILITY METRICS HAS BEEN EXPENSE CONTROL

NPAs/ASSETS: 0.91%

RESERVES/LOANS HFI: 1.02%

REPORTED EPS:
2017A: \$0.44 *
2018A: \$0.83
2019E: \$0.86

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

Nonperforming Assets Held Relatively Stable

Nonperforming assets (including nonaccruing loans and OREO) were \$1.9 million, or 0.91% of assets, at December 31, 2018, versus \$2.0 million, or 0.95% of assets, at September 30, 2018 and \$1.1 million, or 0.52% of assets, at December 31, 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 \$1.8 million, or 1.02% of loans, at December 31, 2018, versus \$1.7 million, or 1.00% of loans, at the year-ago date.

Projections

Based on the fourth quarter results, we are estimating 2019 earnings at \$2.6 million, or \$0.86 per diluted share, for 2019. These projections may vary considerably based on economic conditions.

ADDITIONAL INFORMATION UPON REQUEST

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