

AVAILABLE ON THE WEB AT [www.equityresearch.com](http://www.equityresearch.com)  
**blueharbor bank (BLHK – OTC Pink)**

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**John A. (Buddy) Howard, CFA**  
**November 22, 2019**

<b>Price:</b>	\$12.63	<b>EPS *</b>	<b>2018A:</b>	\$ 0.83	<b>Price/ EPS</b>	<b>2018A:</b>	15.2 x
<b>52 Wk. Range:</b>	\$10.02 - \$13.00	(FY: DEC)	<b>2019E:</b>	\$ 0.94		<b>2019E:</b>	13.4 x
<b>Div/Div Yld:</b>	\$0.00 / 0.0%		<b>2020E:</b>	\$ 1.05		<b>2020E:</b>	12.0 x
<b>Shrs/Mkt Cap:</b>	2.9 mm / \$37 mm	<b>Book Value:</b>		\$10.70	<b>Price/Book Value:</b>		1.18 x

\* Earnings per share are diluted.

### Background

With \$240 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](http://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."

### Third Quarter Earnings Grew 31% and Were \$0.06 Ahead of Estimates

For the third quarter of 2019, blueharbor bank reported excellent results, with earnings increasing 31% and earnings per share exceeding our estimates by \$0.06. Revenue growth was strong, especially in terms of noninterest income, the balance sheet had double-digit increases and the Bank's overall asset quality improved, with a significant drop in nonperforming assets. Reflecting the solid trends, blueharbor's profitability and efficiency ratios also improved. Due to the strong earnings in the quarter, we have raised our earnings estimates for 2019.

Net income was \$869,000, or \$0.29 per diluted share, in the third quarter of 2019, up 31% from \$661,000, or \$0.22 per diluted share, in the year-ago quarter and up 24% on a linked quarter basis. Net interest income increased 12% to \$2,141,000 in 2019's third quarter from \$1,915,000 in the year-ago quarter, due to both improvement in the margin (to 4.03% in the third quarter of 2019 from 4.00% in the year-ago quarter) and 11% growth in average earning assets. The growth in noninterest income was excellent, and it has accelerated for the past two quarters, as can be seen from the adjacent chart. Specifically, noninterest income totaled \$321,000 in 2019's third quarter, which was up 66% from \$194,000 in the year-ago quarter, while noninterest expense grew 12% to \$1,376,000 in 2019's third quarter from \$1,231,000 in the year-ago quarter. There was no provision for loan losses in 2019's third quarter, versus a provision of \$32,000 in 2018's third quarter. Annualized ROAA was 1.49% in the quarter (up from 1.28% in the year-ago quarter), while annualized ROAE was 11.22% (up from 9.74%). Finally, the efficiency ratio improved to 55.9% from 58.4% over this period.



**ASSETS: \$240 MM**

**HQ: MOORESVILLE, NC**

**CONTACT:**  
**JIM MARSHALL**  
**PRESIDENT & CEO**

**(704) 662-7700**

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

**EPS: \$0.29 vs. \$0.22**

**NET INTEREST INCOME GREW 12%, DUE TO IMPROVED MARGINS AND 11% GROWTH IN AVERAGE EARNING ASSETS**

**NONINTEREST INCOME INCREASED 66% FROM THE YEAR-AGO QUARTER AND 29% ON A LINKED QUARTER BASIS**

**NONINTEREST EXPENSE WAS UP 12%**

**ROAA, ROAE AND THE EFFICIENCY RATIO ALL IMPROVED**

## Year-to-Date Results Were Likewise Strong

### YEAR-TO-DATE HIGHLIGHTS:

EPS: \$0.71 vs. \$0.64

NET INCOME WAS UP 15%

NONINTEREST INCOME GREW 37%

DEPOSITS INCREASED 18%

blueharbor likewise reported strong earnings growth for the first nine months of 2019, despite a higher provision for loan losses. In the first nine months of 2019, net income was \$2,164,000, or \$0.71 per diluted share, which was an increase of 15% from \$1,887,000, or \$0.64 per diluted share, in the year-ago period. Net interest income grew 11%, noninterest income increased a strong 37%, and noninterest expense was up 12% over this period. The provision for loan losses increased to \$121,000 year-to-date in 2019 from \$41,000 in the year-ago period. As we alluded to earlier in the report, balance sheet growth has been excellent over the past year and was led by deposits. From September 30, 2018 to September 30, 2019, net loans and total assets increased 15% and deposits were up 18%. The capital position also remains quite strong, with shareholders' equity at \$31.0 million, or 13.0% of total assets at September 30, 2019, up from \$27.3 million, or 13.1% of assets, at the year ago date. The leverage ratio was 13.4%, the tier 1 risk-based capital ratio was 15.0% and the total risk-based capital ratio was 15.9% as of the same date.

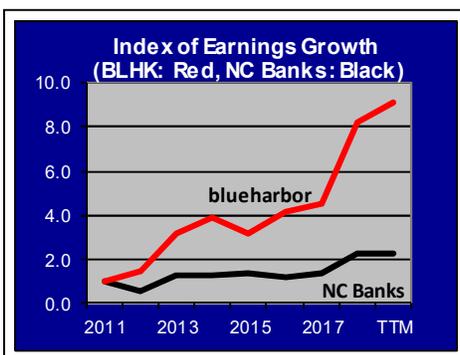
## Long-Term Earnings Growth at blueharbor bank Has Been Exceptional

One of the most important drivers of long-term value is the ability to sustain strong earnings,

BLUEHARBOR BANK HAS CONSISTENTLY GROWN ITS EARNINGS AT A RAPID RATE

IN THE MOST RECENT 12 MONTHS, EARNINGS ARE NINE TIMES THE LEVEL THEY WERE AT IN 2011 AND ARE TWICE THE LEVEL THEY WERE IN 2017

THIS HAS FAVORABLE IMPLICATIONS FOR THE LONG-TERM VALUATION OF THE COMPANY



particularly over time. If we look at blueharbor bank, we see that management has been able to consistently grow earnings (with one brief dip in 2015) since 2011. What is even more striking than that, though, is the rate of earnings growth, as earnings in the most recent 12 months are nine times the level from 2011 and twice the level they were two years ago. Obviously, that level of growth is likely to moderate over time. However, what it shows is that blueharbor has consistently grown earnings at a rapid rate, and certainly much faster than the typical North Carolina publicly traded bank, which is shown in the lower part of the chart (the black line is the median

earnings growth for all public NC banks, using a base year of 2011). This obviously has favorable implications for the long-term returns in the value of the Company.

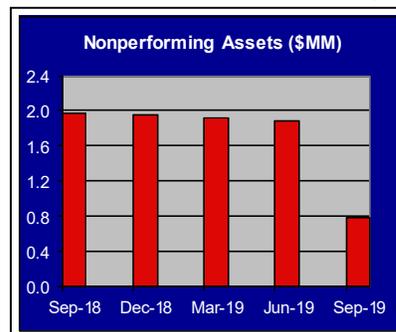
## Nonperforming Assets Decreased 58% from June 30, 2019

blueharbor's nonperforming assets declined significantly at September 30, 2019, and were actually the lowest they have been since the fourth quarter of 2009. NPAs (including nonaccruing loans and OREO) were \$782,000, or 0.33% of total assets, at September 30, 2019, which was down 58% from \$1,881,000, or 0.80% of assets, at June 30, 2019 and down 60% from \$1,975,000, or 0.95% of total assets, at September 30, 2018. The Bank's reserve position also substantially improved, and as of September 30, 2019, the allowance for loan losses was \$2.0 million, or 1.00% of loans, versus \$1.7 million, or 0.98% of loans, at the year-ago date. There were net recoveries (0.03% of loans) during the first nine months of 2019.

NONPERFORMING ASSETS REACHED THE LOWEST SINCE THE FOURTH QUARTER OF 2009

NPAS/ASSETS: 0.33%

RESERVES/LOANS HFI: 1.00%



## Projections Increased

Based on the third quarter results, we are increasing our 2019 earnings estimate to \$2.8 million, or \$0.94 per diluted share, up from \$2.7 million, or \$0.90 per diluted share projected previously. We are projecting 2020 earnings at \$3.2 million, or \$1.05 per diluted share. These projections may vary considerably based on changing economic conditions.

REPORTED EPS:  
2018A: \$0.83  
2019E: \$0.94  
2020E: \$1.05

### ADDITIONAL INFORMATION UPON REQUEST

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