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**blueharbor bank (BLHK - OB)**

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**John A. (Buddy) Howard, CFA**  
**August 9, 2017**

<b>Price:</b>	\$8.20	<b>EPS</b>	<b>2015A:</b>	\$ 0.33	<b>Price/ EPS</b>	<b>2015A:</b>	24.8 x
<b>52 Wk. Range:</b>	\$7.50 - \$8.85	(FY: DEC)	<b>2016A:</b>	\$ 0.41	<b>2016A:</b>	20.0 x	
<b>Div/Div Yld:</b>	\$0.00 / 0.0%		<b>2017E:</b>	\$ 0.52	<b>2017E:</b>	15.8 x	
<b>Shrs/Mkt Cap:</b>	2.7 mm / \$22 mm	<b>Book Value:</b>		\$ 9.05	<b>Price/Book Value:</b>	0.91 x	

**Background**

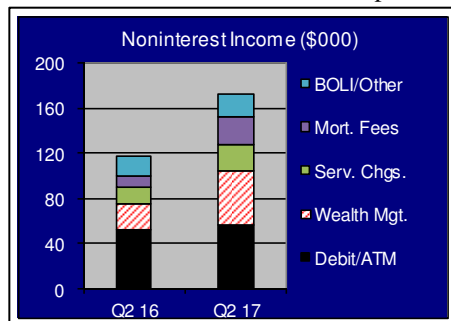
With \$192 million in assets, blueharbor bank (the Bank uses lower case letters in all of its branding) is a community bank headquartered in Mooresville, North Carolina. The Bank currently operates three branch locations in Mooresville, Huntersville and Statesville, which are located in Iredell and Mecklenburg 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 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."

**Second Quarter Earnings Increased 49%; Projections Increased**

blueharbor bank reported outstanding results in the second quarter of 2017. Earnings were strong and came in well above our expectations, leading us to boost our 2017 earnings projections. Balance sheet growth also remained quite robust, with particularly solid increases in loans. Finally, asset quality held up quite well, with the overall level of nonperforming assets dropping from both the year-ago and linked quarters. Selected performance metrics are summarized in the table to the right.

	Q2 16	Q2 17
ROAA	0.72	0.90
ROAE	4.95	6.97
Efficiency Ratio	69.6	59.4
NPAs/Assets	0.83	0.62
Equity/Assets	14.4	12.8

Net income for the second quarter of 2017 was \$424,000, or \$0.14 per diluted share, which was up 49% from \$284,000, or \$0.09 per diluted share, in the year-ago quarter. The strength in earnings resulted from a combination of impressive increases in net interest and noninterest income, combined with excellent cost containment. Net interest income was unusually strong, increasing 20% to \$1,649,000 in 2017's second quarter from \$1,376,000 in the year-ago quarter, all of which was due to a robust increase (+23%) in average earning assets. (The net interest margin was 3.71% in the second quarter of 2017, versus 3.82% in the second quarter of 2016.) Noninterest income was even more impressive, increasing 48% to \$172,000 in 2017's second quarter from \$116,000 in the year-ago quarter. As can be seen in the adjacent chart, essentially every major category of noninterest income increased from the year-ago levels. The other point that is worth



ASSETS: \$192 MM

HQ: MOORESVILLE, NC

CONTACT:  
JIM MARSHALL  
PRESIDENT & CEO

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2<sup>ND</sup> QUARTER HIGHLIGHTS:

KEY PERFORMANCE METRICS WERE IMPRESSIVE, PARTICULARLY FOR A BANK ITS SIZE

EPS: \$0.14 vs. \$0.09

NET INTEREST INCOME WAS UP AN IMPRESSIVE 20%

NONINTEREST INCOME WAS EVEN STRONGER, GROWING 48%, WITH NEARLY EVERY MAJOR CATEGORY INCREASING FROM THE YEAR-AGO LEVEL

NONINTEREST INCOME IS ALSO QUITE WELL DIVERSIFIED

NONINTEREST EXPENSE WAS ONLY UP 4% IN THE QUARTER

SIX MONTHS HIGHLIGHTS:

EPS: \$0.26 vs. \$0.18

LOANS INCREASED 26% IN THE PAST YEAR

CAPITAL RATIOS ARE STRONG

THE VALUE OF BLHK SHARES APPEARS QUITE ATTRACTIVE FROM A LONG-TERM APPRECIATION STANDPOINT

THE COMPANY'S PROFITABILITY METRICS ARE HIGHER THAN ITS PEERS, ITS ASSET QUALITY IS SUPERIOR AND ITS BALANCE SHEET GROWTH RATES (NOT REFLECTED IN THE TABLE) COMPARE FAVORABLY AS WELL

ASSET QUALITY WAS QUITE GOOD

NPAS/ASSETS: 0.62%

RESERVES/LOANS HFI: 1.03%

EPS:  
2015A: \$0.33  
2016A: \$0.41  
2017E: \$0.52

noting from the chart is blueharbor bank's diversity in noninterest income, as none of the categories, such as mortgage fees or wealth management, represent a disproportionately high percentage of the total. As was mentioned earlier, blueharbor bank also did a great job containing costs. Despite the rapid growth in net interest and noninterest income, noninterest expense only increased 4% to \$1,081,000 in the second quarter of 2017, versus \$1,039,000 in the second quarter of 2016. Finally, we would note that the provision for loan losses was \$99,000 in the second quarter of 2017, up from \$17,000 in the year-ago quarter.

### Six Month Results Were Likewise Impressive; Balance Sheet Growth Has Been Robust

blueharbor bank's six months results were likewise quite impressive. Net income for the first half of 2017 was \$778,000, or \$0.26 per diluted share, compared to \$563,000, or \$0.19 per diluted share, in the year-ago period. Net interest income grew 16%, noninterest income was up 28% (there were no security gains) and noninterest expense increased a modest 3%. As was mentioned earlier, balance sheet growth from June 30, 2016 to June 30, 2017 was exceptional. Over the past year, gross loans increased 26%, deposits grew 17% and assets increased 19%. The Company remains in great shape to maintain that growth, as shareholders' equity was \$24.6 million, or 12.8% of assets, at June 30, 2017.

### Relative Value is Highly Compelling in Our View

We reflected in our initial report on blueharbor bank a summary table reflecting its performance and valuation metrics. We are repeating that table again, as we believe the shares are quite compelling from a valuation standpoint, particularly given the recent earnings and balance sheet momentum. To start, we would note that, in our view, blueharbor bank shares should be trading at least in excess of book value. We base that on a number of factors: 1) its relatively high profitability metrics; 2) its superior recent and forecasted growth rates; 3) its solid asset quality, 4) the demographics of its markets, and 5) the multiples of similar NC banks. Several of blueharbor bank's performance metrics, relative to its peers, are reflected in the adjacent table. Its peers consist of publicly traded NC banks with assets between \$100 million and \$2 billion. We found blueharbor bank's efficiency ratio of 59.1% especially impressive, particularly for a bank its size. For all of these reasons, we believe blueharbor bank shares appear attractive from a long-term appreciation standpoint.

PEER GROUP COMPARISON: BLHK vs. NC PUBLIC BANKS FROM \$100 MM TO \$2.0 BB IN ASSETS							
	ROAA MRQ	ROAE MRQ	Efficiency Ratio	Assets Per Employee (\$)	NPAs/ Assets	Price/ LTM EPS	Price/Tang. Book Value
BLHK	0.90%	6.97%	59.4%	7.7 mm	0.62%	17.1x	0.91x
Peer Median	0.58%	6.80%	76.1%	4.9 mm	0.74%	19.9x	1.28x

### Asset Quality Improved

Nonperforming assets (including nonaccruing loans and OREO) were \$1.2 million, or 0.62% of assets, at June 30, 2017, versus \$1.4 million, or 0.78% of assets, at March 31, 2017 and \$1.3 million, or 0.83% of assets, at June 30, 2016. A significant portion of the current NPAs (over half of the total) is in one OREO that is on the books well below appraised value. The allowance for loan losses totaled \$1.7 million, or 1.03% of loans, at June 30, 2017, as compared to \$1.5 million, or 1.15% of loans, at the year-ago date.

### Projections Increased

Based on the recent results, we are boosting our 2017 earnings projection to \$1.6 million, or \$0.52 per diluted share, up from \$1.5 million, or \$0.50 per share, projected earlier. We will publish our 2018 earnings estimate in our next report. These projections may vary considerably based on economic and other conditions.

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