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## West Town Bancorp, Inc. (WTWB - OTC Pink)

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North Carolina  
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**John A. (Buddy) Howard, CFA**  
**November 22, 2017**

<b>Price:</b>	\$25.35	<b>EPS</b>	<b>2016A:</b>	\$ 1.24	<b>P/E</b>	<b>2016A:</b>	20.4 x
<b>52 Wk. Range:</b>	\$22.00 - \$25.75	(FY: DEC)	<b>2017E:</b>	\$ 1.48		<b>2017E:</b>	17.1 x
<b>Div/Div Yld:</b>	\$0.00 / 0.0%		<b>2018E:</b>	\$ 2.10		<b>2018E:</b>	12.1 x
<b>Shrs/Mkt Cap:</b>	2.6 mm / \$66 mm	<b>Book Value:</b>	*	\$ 24.65	<b>Price/Book Value:</b>		1.03 x

\* Tangible book value is \$20.90 per share, and the price multiple of tangible book value is 1.21x. Book value figures include 698,580 shares issued in October 2017 that relate to the Sound Banking Company acquisition, the equity from which was included in West Town's September 30, 2017 financial statements.

### Background

With \$488 million in assets, West Town Bank & Trust is a North Riverside, IL based state chartered bank. The Bank provides banking services through its offices in Illinois and North Carolina and also maintains loan production offices in North Carolina. Its primary deposit products are checking, savings, and time certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. The Bank also engages in originating and selling government guaranteed loans (SBA, USDA) in multiple states. The Bank's primary regulators are the Illinois Department of Financial and Professional Regulation and the FDIC. The Company recently completed the acquisition of Sound Banking Company, which was based in Morehead City, NC.

### The Third Quarter of 2017 Included Several Positive Developments

The third quarter of 2017 was a significant one for West Town Bancorp. To begin, the Company completed the acquisition of Sound Banking Company, which nearly doubled the asset base of the Company. Among other things, the addition of Sound Banking Company provides a strong, five-branch presence within several attractive coastal markets in North Carolina, as well as a solid base of earning assets (i.e., loans) that are well seasoned and of high quality. Moreover, Sound Banking Company's revenues mainly consist of highly stable net interest income and noninterest income, the result being that a smaller percentage of West Town's resulting revenues will be dependent upon its highly profitable (but highly variable) specialty lines of business, such as mortgage banking and SBA/USDA lending. It was also a significant quarter in that the Company completed a private placement (which related to the acquisition), whereby it issued roughly \$10 million in common stock (453,490 shares at \$23.00 per share) and \$7 million in nonvoting convertible preferred stock (30,738 shares at \$230.00 per share). As a result of the private placement, as well as the common stock that was issued as part of the acquisition, West Town's equity base has more than doubled in the last 90 days, leaving the Bank in an excellent capital position to maintain its rapid growth.

It was also a good quarter from a financial standpoint. Net income in the third quarter of 2017 was \$947,000, or \$0.56 per diluted share, versus \$837,000, or \$0.58 per diluted share, in the year-ago quarter. (We had projected EPS of \$0.40.) The Sound Banking Company transaction closed on August 31, 2017, so one month's worth of its operation was included in the results. Net interest income increased 40% to \$3,551,000 in 2017's third quarter, versus \$2,536,000 in 2016's third quarter. While some of this growth obviously came from the inclusion of Sound Banking Company, net interest income still grew an impressive 18% purely from the legacy West Town operation. The net interest margin held up well, increasing to 4.58% in 2017's third quarter from 4.47% in the year-ago quarter, although higher average earning assets (+36%) was the principal driver of the net interest income growth. The provision for loan losses increased to \$491,000 in 2017's third quarter from \$225,000 in the year-ago quarter. Noninterest income was down, reflecting the Company's decision to deemphasize its national mortgage operation (it recently closed five of its out-of-market loan

**ASSETS: \$488 MM**

**HQ: NORTH RIVERSIDE, IL**

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**PRESIDENT & CEO**  
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**3<sup>RD</sup> QUARTER HIGHLIGHTS:**

**ACQUISITION OF SOUND  
BANKING COMPANY WAS  
COMPLETED**

**THE TRANSACTION WILL  
PROVIDE MANY BENEFITS TO  
WEST TOWN**

**WEST TOWN COMPLETED THE  
PRIVATE PLACEMENT OF  
ROUGHLY \$17 MILLION IN  
CAPITAL, LEAVING THE  
COMPANY IN GREAT SHAPE TO  
CONTINUE ITS GROWTH**

**EPS: \$0.56 VS. \$0.58**

**NET INTEREST INCOME  
INCREASED 40%, NEARLY  
HALF OF WHICH CAME FROM  
WEST TOWN'S LEGACY  
OPERATION**

**NET INTEREST INCOME ACCOUNTED FOR MORE THAN HALF OF REVENUES IN THE QUARTER, VERSUS ABOUT 22% IN EARLY 2015**

**WE BELIEVE THIS HAS FAVORABLE IMPLICATIONS FROM A VALUATION STANDPOINT**

**NONINTEREST EXPENSE DECLINED 14%**

**NINE MONTH HIGHLIGHTS:**

**EPS: \$1.47 vs. \$1.62**

**BALANCE SHEET GROWTH WAS QUITE GOOD, EVEN EXCLUDING THE ADDITION OF SOUND BANKING COMPANY**

**ASSETS ARE NEARING THE \$500 MILLION MILESTONE**

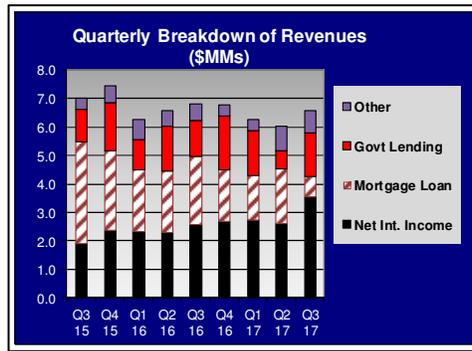
**THE CAPITAL POSITION IS STRONG, WITH A TANGIBLE EQUITY-TO-TANGIBLE ASSETS RATIO OF 11.5%**

**NPAS/ASSETS: 1.68%**

**RESERVES/LOANS HFI: 0.81%**

**EPS:  
2016A: \$1.24  
2017E: \$1.48  
2018E: \$2.10**

production offices) in favor of building its in-market realtor relationships, which have the benefit of

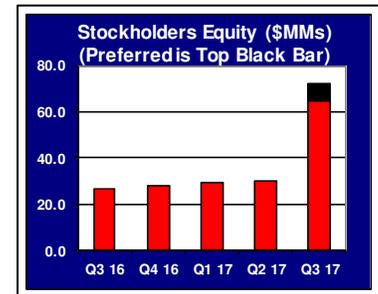


cross selling opportunities and being less sensitive to refinancing trends (most of the in-market realtor mortgage activity is focused on purchase activity). And although mortgage income remained weak, there were other areas that held up well, one being government lending. As a result of the weakness in the mortgage area, noninterest income “only” accounted for about 46% of total revenues in 2017’s third quarter, down from 78% at the beginning of 2015. Finally, cost containment was excellent, as noninterest expense was \$4,454,000 in 2017’s third quarter, a drop of 14% from

\$5,161,000 in the year-ago quarter.

For the first nine months of 2017, West Town Bancorp reported earnings of \$2,340,000, or \$1.47 per diluted share, versus \$2,337,000, or \$1.62 per diluted share, in the year-ago period. Net interest income increased 27%, noninterest income was down 20% and noninterest expense declined 7% from the first nine months of 2016. Reflecting the addition of Sound Banking Company, balance sheet growth was quite strong. From September 30, 2016 to September 30, 2017, loans held for investment

more than doubled to \$351 million from \$174 million, with excellent growth coming from the legacy West Town operation as well, where organic loan growth was an impressive 18%. Deposits nearly doubled to \$389 million from \$199 million, with particularly notable growth in noninterest bearing accounts. Also, assets nearly doubled to \$489 million, which has favorable implications from a valuation standpoint (in general, banks with assets between \$500 million to \$1 billion tend to trade at higher multiples than those with assets below \$500 million). Finally, we would note that West Town Bancorp remains in solid shape from a capital standpoint. As was stated earlier, the additional capital it raised provides it with a strong base from which to continue its growth. The tangible common equity-to-tangible assets ratio was 11.5% as of September 30, 2017, versus 10.3% at the year-ago date. Moreover, all of the Bank’s regulatory capital ratios comfortably exceed the regulatory minimums to be considered “well capitalized.”



**Asset Quality Is Holding Up Fairly Well**

At September 30, 2017, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) increased to \$8.2 million, or 1.68% of assets, versus \$7.2 million, or 2.55% of assets, at June 30, 2017, and \$3.3 million, or 1.26% of total assets, at September 30, 2016. The allowance for loan losses totaled \$2.8 million, or 0.81% of loans held for investment, at September 30, 2017, as compared to \$2.2 million, or 1.25% of loans held for investment, at the year-ago date. The Sound Banking Company loans were marked to market, so the effective allowance for them was zero, making the allowance look lower than normal.

**Projections**

Management has indicated its intention to hold its SBA/USDA whole loans in 2017’s fourth quarter for the incremental interest income, with the intention of resuming the sale of the guaranteed portion of those loans in early 2018. This will likely result in a weak fourth quarter, particularly given any residual costs from the acquisition, such as the conversion of Sound Banking Company’s computer system, which occurred in October. Our projections are for net income to be \$2.8 million, or \$1.48 per diluted share, in 2017, and \$5.5 million, or \$2.10 per diluted share, in 2018. These projections are subject to wide variation given the large amount of income coming from the Bank’s specialty lines of business.

ADDITIONAL INFORMATION UPON REQUEST

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