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Economy/Market

Market is down 1%. Global food prices are controlled by the agricultural juggernaut, the US, which gives the US considerable sway at negotiation tables. Even Iran, a leading member of OPEC, has to bend their knees before the US and the global community which placed sanctions on the country, due to the food shortage in the country. Chicken prices are 3x the average selling price and the country had to resort to bartering fertilizers for food with neighboring countries.

FBSI

Fidelity Bancorp (FSBI) up 60% on news of a M&A with WesBanco. We analyzed the wrong FSBI, First Bancshares (FBSI). We stumbled across a small, \$8 MM market cap Missouri savings and loan bank with 10 retail branches and \$210 MM in assets, and **\$190 MM deposits(bearing near 0.5%-1% interest)**/\$20 MM in equity. Company owns 9 of the 10 buildings occupied for banking activities, of which book value is \$4MM.. Then the operational piece of the bank is only worth \$4 MM. Essentially, this bank is near liquidation value.

In the **\$100 MM loan portfolio (5% interest)**, 56% residential mortgage, 30% commercial real estate, 3% land loan, 4% second mortgage (lien), 5% consumer/ commercial business loan. 70% of loans are ARM. Loan portfolio has been shrinking from \$150 MM to the current \$100 MM since 2007. Bank holds **\$85 MM in securities avail. for sale/cash (1% interest)**. Hit by a \$400K whistleblower lawsuit in 2011 and another pending related to the former CFO in 2012.

Holds about \$5 MM in REO, and \$5 MM in substandard loans, or 5% of loan portfolio. \$2 MM in loan loss allowance, provision was \$1 MM in 2011, and charged off \$1.8 MM. Historically averaged 2% loan loss provision/total loan portfolio, with most allocated to commercial real estate and loans. Company lost \$1.5 MM in book equity from 2011 to 2012.

(9 month basis)

Net interest – provision for loan loss + non-interest income/expense (inclusive of SG&A).

4.5MM - 1MM - 5.5MM = -2MM

From a risk perspective, bank is well funded, but operationally, the company needs to grow asset base to offset the SG&A costs and non-interest expenses.

FSBI

Use (Assets)

How much asset? \$660 MM

How large is the loan portfolio? \$360 MM

Real Estate: \$230 MM

Loans: \$130 MM

Income from loan portfolio? \$20 MM

Yield on portfolio: 5.50%

% of assets: 55%

How much is the cash+ security avail. for sale? \$280 MM

Income from securities? \$6 MM

Yield on securities: 2.10%

% of assets: 45%

Source (Liab. + Equity)

How much deposit? \$450 MM

Deposit expense? \$4 MM

Deposit interest: 0.8%

How much debt? \$160 MM

Deposit expense (including repos)? \$7 MM

Deposit interest: 4.3%

How much equity? \$50 MM

Market cap? \$75 MM

Price to Book? 1.50

Provision for loan loss: \$1.2 MM

% of loan portfolio: 0.33%

Loan loss allowance:

Non-interest income: \$3 MM

Comp. expense: \$9 MM

Office expense: \$1 MM

Total non-interest expense: \$15 MM

Net income: \$1 MM

Operating Cashflow: \$6 MM