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

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Price:	\$28.65	EPS *	2016A:	\$ 1.24	P/E	2016A:	23.1 x
52 Wk. Range:	\$23.75 - \$29.00	(FY: DEC)	2017A:	\$ 1.54		2017A:	18.6 x
Div/Div Yld:	\$0.00 / 0.0%		2018E:	\$ 2.44		2018E:	11.7x
Shrs/Mkt Cap:	3.0mm / \$85 mm	Book Value: **		\$ 23.02	Price/Book Value:		1.24 x

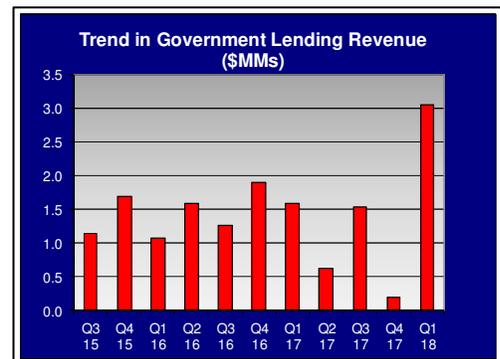
* EPS in 2017 includes a nonrecurring tax benefit of \$0.22 per diluted share. ** Tangible book value is \$19.94 per share; price/tangible book value is 1.44x.

Background

With \$549 million in assets, West Town Bancorp, Inc. is the Raleigh, NC based multi-bank holding company for West Town Bank & Trust, a North Riverside, IL based state-chartered bank and Sound Bank, a Morehead City, NC based state-chartered bank. West Town Bank & Trust provides banking services through its offices in Illinois and North Carolina, while Sound Bank provides banking services through its offices in North Carolina. Primary deposit products are checking, savings, and time certificate accounts, and primary lending products are residential mortgage, commercial, and installment loans. Additionally, both banks engage in Government Guaranteed Lending (SBA and USDA) activities as well as mortgage banking activities and, as such, originate and sell loans from multiple states into the secondary markets. The Company is registered with, and supervised by, the Federal Reserve. West Town Bank & Trust's primary regulators are the Illinois Department of Financial and Professional Regulation and the FDIC. Sound Bank's primary regulators are the North Carolina Commissioner of Banks and the FDIC.

First Quarter Results Exceeded Estimates; Key Profitability Metrics Were Impressive

West Town Bancorp reported strong results in the first quarter of 2018 that comfortably exceeded our estimates. As we mentioned in our previous report, the Company began implementing an "originate and hold" strategy on the government guaranteed lending portion of its business late last year, whereby it deferred selling those loans in order to boost net interest income, manage liquidity and capital levels and optimize gains. The Bank began selling the government guaranteed portion of those loans in 2018's first quarter, the result being that government lending revenue surged in 2018's first quarter after having dropped off in the fourth quarter of 2017. [Given that the government guaranteed lending division has continued to originate loans at a brisk level (originations were \$81 million in 2018's first quarter, versus \$90 million in the fourth quarter of 2017), we expect future levels of government lending revenue to remain elevated, though it will likely be lower than the "catch up" level in 2018's first quarter.]



But bottom line, the strength of this government guaranteed area pretty much carried the quarter. Not that the other areas were not strong (many of them were), but the scale of the increase in government lending pretty much overshadowed everything else. Some of those other fundamentals included good asset quality, impressive balance sheet growth and commendable expense containment.

In terms of the specific earnings results, net income in the first quarter of 2018 was \$2,481,000, or \$0.80 per diluted share, versus \$879,000, or \$0.57 per diluted share, in the year-ago quarter. Net interest income was quite strong, benefitting from the addition of Sound Bank's operations, as it

ASSETS: \$549 MM

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1ST QUARTER HIGHLIGHTS:

EARNINGS WERE STRONGER THAN EXPECTED

THE GOVERNMENT LENDING SECTOR WAS PARTICULARLY STRONG DUE TO THE "ORIGINATE AND HOLD" STRATEGY

THIS STRATEGY LED TO A DROP IN REVENUE IN 2017'S FOURTH QUARTER BUT A SURGE IN REVENUE IN 2018'S FIRST QUARTER

WHILE GOVERNMENT LENDING REVENUES WILL LIKELY DROP FROM FIRST QUARTER LEVEL, WE EXPECT THEM TO REMAIN ELEVATED

EPS: \$0.80 vs. \$0.57

NONINTEREST INCOME MORE THAN DOUBLED, SUPPORTED BY THE STRONG GOVERNMENT LENDING REVENUES

NONINTEREST EXPENSE WAS UP 31%, MAINLY DUE TO THE ADDITION OF SOUND BANK

KEY PROFITABILITY METRICS WERE QUITE STRONG AS WELL

BALANCE SHEET GROWTH HAS BEEN QUITE GOOD

ORGANIC LOAN GROWTH OVER THE PAST YEAR WAS 51%

THE CAPITAL POSITION REMAINS STRONG AND HAS BENEFITTED FROM THE EQUITY BUILD UP FROM THE COMPANY'S HIGH ROAE

ASSET QUALITY TRENDS ARE FAVORABLE

NPAS/ASSETS: 1.26%

RESERVES/LOANS HFI: 0.97%

**EPS:
2016A: \$1.24
2017A: \$1.54
2018E: \$2.44**

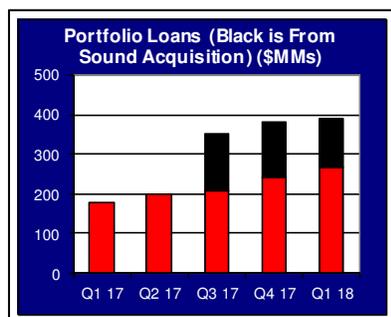
was acquired August 31, 2017. Specifically, net interest income nearly doubled to \$5,071,000 in 2018's first quarter from \$2,713,000 in 2017's first quarter. While much of that increase came from Sound Bank's inclusion, West Town Bancorp's organic net interest income growth was positive as well, as the year-ago net interest income (pre-Sound acquisition) was \$2,713,000, whereas net interest income in the current quarter from the legacy operation was \$3,145,000, representing a 16% organic growth rate. The growth in earnings also occurred despite an increase in the provision for loan losses, which grew to \$469,000 in 2018's first quarter from \$276,000 in the year-ago quarter. Noninterest income, reflecting the strong government revenue, was \$4,521,000 in the first quarter of 2018, versus \$1,546,000 in 2017's fourth quarter and \$3,556,000 in 2017's first quarter. Finally, noninterest expense was up 31% to \$5,795,000 in 2018's first quarter, versus \$4,422,000 in the year ago, with that increase mainly due to the addition of Sound Bank. We would also note that West Town Bancorp's key profitability metrics were quite impressive. As can be seen from the adjacent table, annualized ROAA was nearly 2% in 2018's first quarter, while annualized ROAE was over 15%, the net interest margin was 4.26% and the efficiency ratio was roughly 60%. All of those figures are significantly better than the typical NC community bank.

Performance Ratios at a Glance (%)

	Q1 17	Q1 18
ROAA (Annualized)	1.31	1.88
ROAE (Annualized)	12.40	15.02
Net Int. Margin	4.46	4.26
Efficiency Ratio	70.5	60.4

Balance Sheet Growth Has Remained Strong, Partly Due to Rapid Organic Growth

Balance sheet growth has been holding up quite well, bolstered by strong loan origination activity.

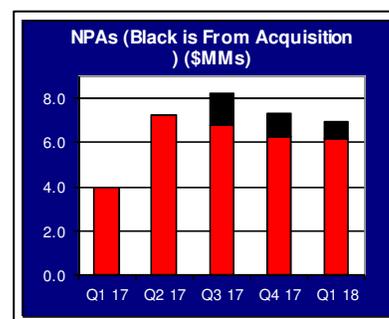


One thing that has actually tempered the overall loan portfolio growth rates has been paydown activity at Sound Bank. This can be seen graphically in the slightly smaller black (top) bars in the adjacent chart, though the more important trend, we would argue, is the growing lower bar, which demonstrates West Town Bancorp's ability to expand its legacy loan portfolio. While net loans from March 31, 2017 to March 31, 2018 increased 123% to \$387 million from \$173 million, the legacy loan portfolio grew 51% to \$266 million from \$175 million. Over the same time period, total deposits were up 72% to \$385 million (with the fastest category of growth being

in noninterest bearing deposits) and assets grew 100% to \$549 million. The tangible common equity-to-tangible assets ratio was 10.9% as of March 31, 2018, unchanged from the year-ago level.

Recent Asset Quality Trends Remain Encouraging

At March 31, 2018, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) were \$6.9 million, or 1.26% of assets, versus \$7.3 million, or 1.35% of assets, at December 31, 2017 and \$4.0 million, or 1.45% of assets, at March 31, 2017. The allowance for loan losses totaled \$3.8 million, or 0.97% of loans held for investment, at March 31, 2018, as compared to \$2.5 million, or 1.42% 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.)



Projections Increased

Based on the strength of the first quarter results, we are increasing our 2018 earnings estimate to \$7.3 million, or \$2.44 per diluted share. 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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