

Community Shores Bank Corp.

OTC: BB-CSHB - \$7.49

Richard J. Wayman, CFA

rwayman@researchstock.com

www.communityshores.com

Review of 3Q01 Results

Fast Growing Community Bank On Pace for a Record Year

Current Data		EPS (FYE: Dec.)		EPS	P/E
Current Price	\$ 7.49	2000		\$ (0.58)	-12.9
52-Week Range	7.0-4.88	2001E		\$ 0.37	20.4
Shares Out (Mill)	1.17	2002E		\$ 0.52	14.4
Ave Volume LTM	1,500	Valuation		Current	LTM
Market Capitalization	\$ 8.8	P/E (Next FY)		20.41	na
Equity/Total Assets	6.3%	P/B		1.01	1.0-0.6
Institutional Holdings	na	Operating Data		This Qtr	LTM
Insiders Holdings	32.0%	Net Int. Inc. Growth		33.8%	52.1%
Book Value	\$ 7.43	Net Interest Margin		3.2%	3.1%
10Yr Bond	4.77%	Net Inc. Growth		0.0%	97.8%

Note: CSHB commenced operations January 1999.



Source: Big Charts.com

Key Investment Points

- EPS improved to \$0.14 versus a loss of \$0.09 in 3Q00.
- Net income increased 256% from 3Q00 and 419% from 2Q01.
- We revised our 2001 EPS forecast to \$0.37 from \$0.25
- Our 12-18 month target price is \$8.00.

Company Description

Based in Muskegon, Michigan, Community Shores Bank Corporation ("CSHB") is the holding company for Community Shores Bank ("Bank"), a Michigan chartered bank with FDIC coverage. The Bank commenced operations on January 18, 1999 and had over \$142 million in total assets at 3Q01. CSHB serves the greater Muskegon market with offices in Muskegon (headquarters location), and Grand Haven (Northern Ottawa County), Michigan. A third location was open in the 1st quarter of 2001 in North Muskegon.

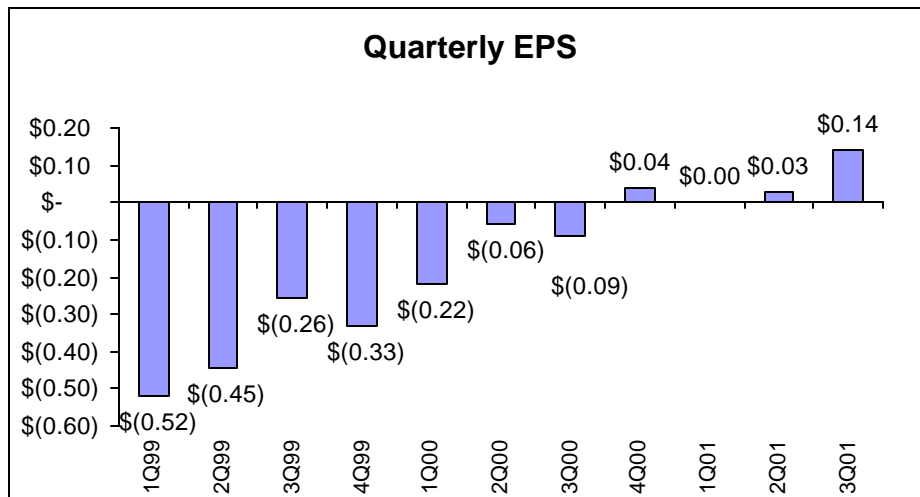
The Bottom Line:

CSHB blew by our EPS forecast as the result of better than expected cost controls and deposit repricing. We expect the trend to continue in 4Q01 as more deposits are repriced at lower rates, offsetting weakness in loan pricing. The Bank continues to gain market share as the result of marketing and as a local competitor was acquired by an out-of-state super-regional bank earlier this year.

Recent Results: 3Q01

EPS for the quarter were \$0.14 versus a net loss of \$0.09 per share in 3Q00 and well above our forecast of \$0.09. In 2Q01 CSHB posted EPS of \$0.03. As shown in Figure 1, this is a continuation of a strong trend toward profitability.

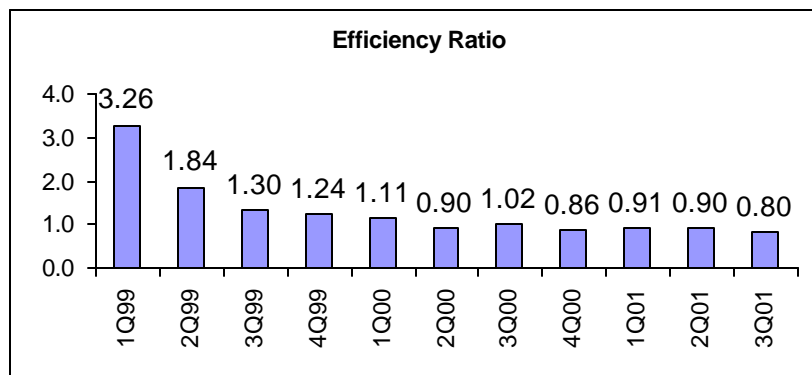
Figure 1



The key factors for this performance were:

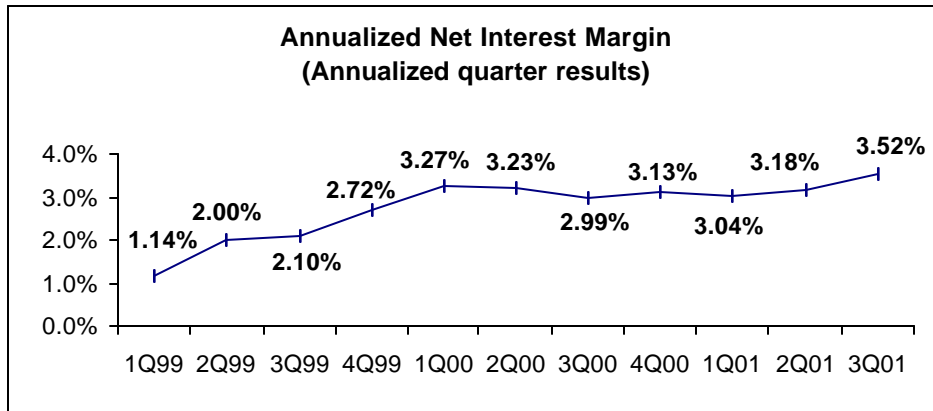
- Increased operating efficiencies resulting from cost controls (the efficiency ratio improved to 0.80 from 1.02) as shown in Figure 2.

Figure 2



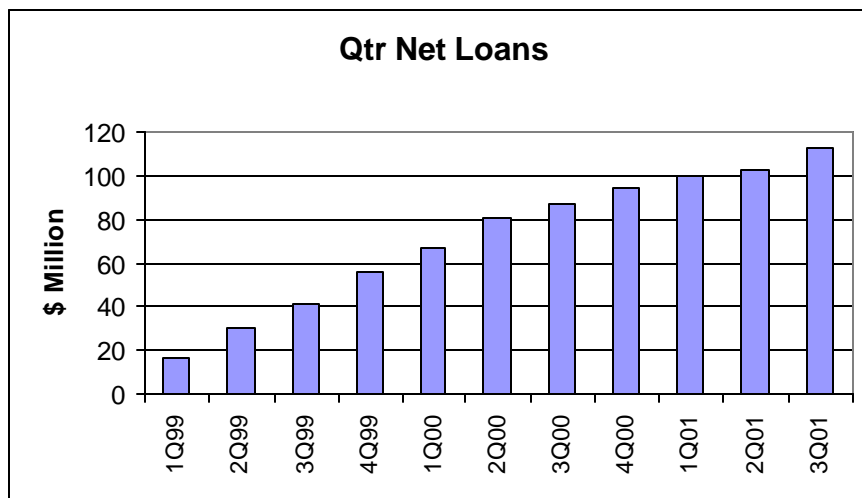
- The net interest margin increased to 3.52% from 2.99% as a large portion of CSHB's deposits was repriced during the last two quarters (see Figure 3).

Figure 3



- Continued loan growth.

Figure 4



The significant improvement in operating performance is shown in Table 1.

(\$Million)	3Q00	3Q01	Change	YTD 00	YTD 01	Change
Net Interest Inc	0.813	1.171	44.1%	2.218	3.146	42%
Loan Loss Prov	-0.086	-0.101	17.8%	-0.409	-0.294	-28%
Dep. Service Chrgs	0.062	0.054	-12.5%	0.159	0.263	65%
Othr Non-Int Inc	0.044	0.080	81.1%	0.133	0.224	68%
Tot. Non-Int Inc	0.106	0.134	26.4%	0.292	0.487	67%
Comp & bennies	0.505	0.560	10.9%	1.403	1.666	19%
% Tot Revs	55.0%	42.9%	-21.9%	55.9%	45.8%	-18%
Occ & Equip	0.154	0.186	20.6%	0.446	0.536	20%
Other Non-Int Exp	0.280	0.293	4.6%	0.678	0.936	38%
Tot. Non-Int Exp	0.939	1.039	10.6%	2.527	3.138	24%
Net Before Taxes	-0.106	0.165	255.9%	-0.426	0.201	147%
Taxes	0.00	0.00		0.000	0.000	
Net After Tax	-0.106	0.165	255.9%	-0.426	0.201	147%
EPS	\$ (0.09)	\$ 0.14	255.9%	\$ (0.36)	\$ 0.17	-147%
Eff Tax Rate	0%	0%		0%	0%	
Shares	1.17	1.17	0.00%	1.17	1.17	0%
NIM	2.99%	3.52%		3.14%	3.25%	
Eff Ratio	1.02	0.80		1.01	0.87	

Compared to a peer group of similarly sized Michigan banks (\$40-\$200 million in assets), CSHB performed relatively well for a young bank. CSHB outperformed the group in terms of EPS growth and return on average equity, but lagged its peers in net interest margins and operating efficiencies. CSHB will be three years old at the end of 2001 versus an average of nine years for the peers. We expect both the NIM and operating efficiencies to improve during the coming quarters.

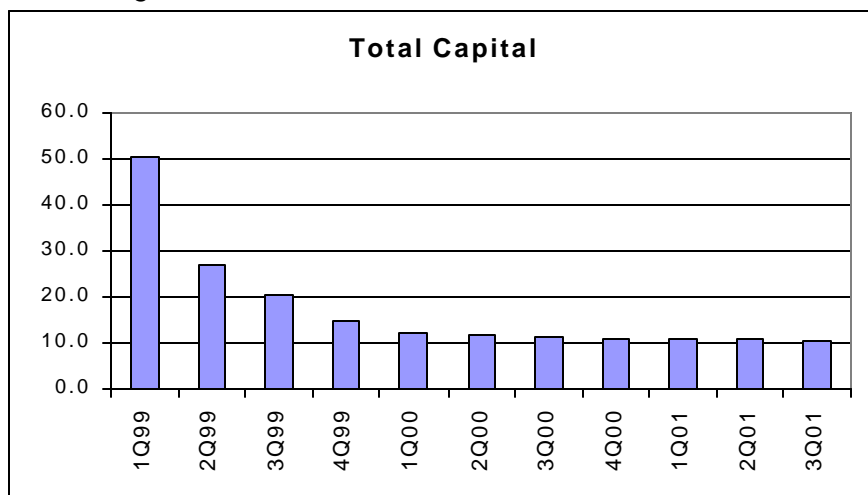
Ticker	Assets (\$000)	EPS		NIM	Eff. Ratio	ROAA	ROAE	Resrvs/ Loans	Deps/ Branch *	
		\$	Growth							
Community Shores	CSHB	142,370	\$ 0.14	256%	3.52	79.58	0.47	7.44	1.33	\$35,150
Peer Group Ave. (\$50-200mm)		146,443		-26%	3.88	73.79	0.76	6.02	1.24	\$33,445
Peer Group										
	Dearborn Bancorp, Inc DEAR	204,115	\$ 0.17	31%	3.87	68.06	0.79	5.70	1.02	\$43,586
	Michigan Heritage Bnc MHBC	137,789	\$(0.01)	-113%	3.68	103.45	-0.05	-0.57	1.49	\$35,071
	Capital Directions, Inc. CTDN	117,091	\$ 0.73	3%	4.10	49.84	1.54	12.94	1.21	\$22,469

* Deposit data as of June reporting quarter.

Financial Condition

The Bank's financial condition remains strong and within the required limits for a "well capitalized" bank. At the end of the quarter, CSHB's Total Capital ratio was 10.4% versus the required 10.0% limit. As shown in Figure 5, the ratio of capital (equity, FHLB borrowings and the Subordinated loan from the Board of Directors) to assets has generally improved since 3Q00. Most of this improvement was due to the subordinated loan from the Board of Directors that financed CSHB's growth during the last year.

Figure 5



Outlook

We raised our 2001 EPS forecast to \$0.37 from \$0.25 to reflect the 3Q01 results and our expectation of another quarter of NIM margin expansion as deposits reprice at lower rates. We maintained our 2002 forecast of \$0.52 (see Table 3).

(\$Million)	1999	2000	2001 e	2002 e
Net Interest Inc	1.458	3.095	4.391	5.085
Loan Loss Prov	-0.852	-0.505	-0.374	-0.284
Dep. Service Chrgs	0.065	0.233	0.333	0.466
Othr Non-Int Inc	0.088	0.185	0.299	0.428
Tot. Non-Int Inc	0.153	0.418	0.632	0.894
Comp & bennies	1.425	1.855	2.242	2.646
% Tot Revs	88%	53%	45%	44%
Occ & Equip	0.449	0.606	0.729	0.743
Other Non-Int Exp	0.687	0.926	1.249	1.274
Tot. Non-Int Exp	2.561	3.688	4.220	4.843
Net Before Taxes	-1.802	-0.680	0.429	0.853
Taxes	0.000	0.000	0.000	-0.245
Net After Tax	-1.802	-0.680	0.429	0.608
EPS	\$ (1.55)	\$ (0.58)	\$ 0.37	\$ 0.52
Eff Tax Rate	0%	0%	0%	29%
Shares	1.16	1.17	1.17	1.17

During the next 12-18 months, CSHB will face difficult comparisons as its growth rate slows to a more sustainable (although still rapid) level and as EPS growth is reduced as CSHB starts paying taxes. As shown in Table 3, we estimate that the net loss carryforward will be completely used by 1Q02, and taxes in 2002 will be about \$245,000 (equivalent to \$0.21 per share).

Valuation Analysis

We maintained our 12-18 month target price of \$8.00 because our 2002 forecast remain unchanged. We based our assumed valuation multiples for CSHB on the trailing 12-month range with a slight increase to reflect the expectation that the multiples will increase as CSHB continues to build a track record of positive EPS. Table 4 illustrates our methodology.

		Multiples			2002	Target
		LTM	Current	Assumed	Ests.	Range
Price/Book	High	0.94	0.89	1.30	\$ 8.46	\$ 11.00
	Low	0.70		0.64		\$ 5.41
P/E (LTM)	High	-8.65	18.1	25.0	\$ 0.52	\$ 13.00
	Low	-303.48		10.0		\$ 5.20
Weighted Ave. High					\$	11.40
Low					\$	5.37
Average					\$	8.38

As shown in Table 5, CSHB shares have lower price/book multiple than its peer group, which is understandable because it is not even two years old versus an average of about nine years for the peers. We expect the multiple to rise if CSHB performs in line with our expectations. A price/earnings comparison is not possible because there are no EPS estimates for banks in the peer group.

Table 5: Valuation Comparison		Assets	P/E	P/B	Price Chng	
	Ticker	(\$000)	2001	(%)	3 mo	1 yr
Community Shores	CSHB	138,563	20.4	100.8	2.3	23.7
Peer Group Ave. (\$50-200mm)		146,443	NA	109.3	-5.2	25.4
All Michigan Banks		3,507,187	12.9	154.6	-5.6	24.1
Peer Group*						
	Dearborn Bancorp, Inc.	DEAR	201,031	NA	96.9	0.9
	Michigan Heritage Bncrp,	MHBC	127,725	NA	58.6	-16.7
	Capital Directions, Inc.	CTDN	110,574	NA	172.5	0.3

*Valuations as of 11/20/01

Investment Risks

Investors need to consider the following risks when investing in these shares:

The Bank has only existed for three years and faces the challenges of building a brand name and reputation in a very competitive market. However, we have found that in banking, the community banks often succeed in the face of larger competitors.

The shares are not very liquid due to the high percentage of insider ownership and the lack of information on CSHB available to investors.

Operating results are dependent upon the economic health of the western Michigan market.

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