

Community Shores Bank Corp.

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OTC: BB-CSHB - \$5.06

Richard J. Wayman, CFA
rwayman@researchstock.com

www.communityshores.com

CSHB Continues to Grow Rapidly – Opening New Branch

Current Data		EPS (FYE: February)		P/E
Current Price	\$ 5.06	1999	\$ (1.56)	-3.3
52-Week Range	8.0-4.5	2000E	\$ (0.36)	-13.9
Shares Out (Mill)	1.17	2001E	\$ 0.50	10.2
Ave Volume LTM	1,900	Valuation		Current
Market Capitalization	\$ 5.9	P/E (Next FY)	-13.92	na
Equity/Total Assets	7.1%	P/B	0.72	1.0-0.6
Institutional Holdings	na	Operating Data		This Qtr
Insiders Holdings	31.5%	Net Int. Inc. Growth	90.0%	na
Book Value	\$ 7.00	Net Interest Margin	3.1%	5.3%
10Yr Bond	5.30%	Net Inc. Growth	64.5%	na

Note: CSHB commenced operations January 1999.

Source: Big Charts

Key Investment Points

- Total Assets grew to \$115 million, up 102% versus 3Q99 and 5% over 2Q00.
- Net loss per share improved to \$0.09 versus a loss per share of \$0.26 in 3Q99.
- Operating efficiencies continue to improve.
- We anticipate CSHB to break-even in 4Q.
- Our 12-18 month target price revised down to \$8.00 - \$9.00

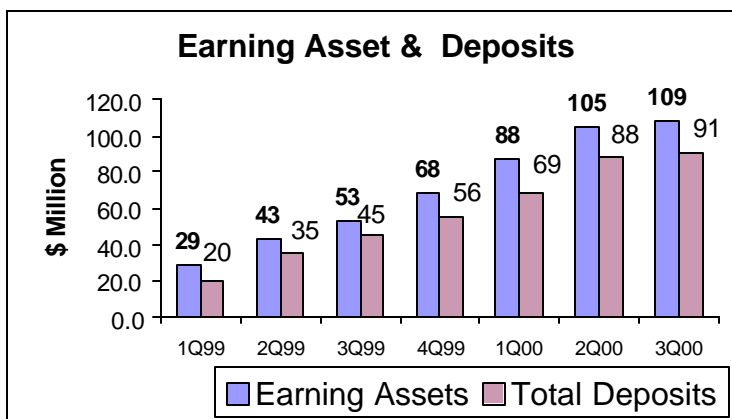
Company Description

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 \$115 million in total assets at September 30, 2000. CSHB serves the greater Muskegon market with offices in Muskegon (headquarters location), and Grand Haven (Northern Ottawa County), Michigan. A third location is planned for January 2001.

Recent Results: 3Q00

While the results were lower than we expected, we feel that CSHB remains on the track to profitability. Loans and deposits continued to grow significantly (up 112% and 101%, respectively, from 3Q99) as CSHB captured more market share (see Figure 1). Loan growth has exceeded Management's original targets and CSHB is garnering more local deposits. This increase in local deposits has allowed CSHB to reduce Brokered deposits which carry higher interest rates. The increase in the local funds also provides, in our opinion, a better foundation for future growth. We think CSHB will continue to capture more of the market as the result of the acquisition of two local banks by Fifth Third Bank (FITB).

Figure 1



The bottom line continued to improve and Management noted that it was profitable for most of the third quarter. The net loss per share was \$0.09 versus our forecast of \$0.00 and a net loss of \$0.26 in 3Q99. As shown in Figure 2, the net loss has steadily improved since the Bank opened in January 1999. The recent dip in the EPS trend is due to the impact of the costs associated with the shareholder loan and as CSHB recorded its first full month of interest expense on that loan.

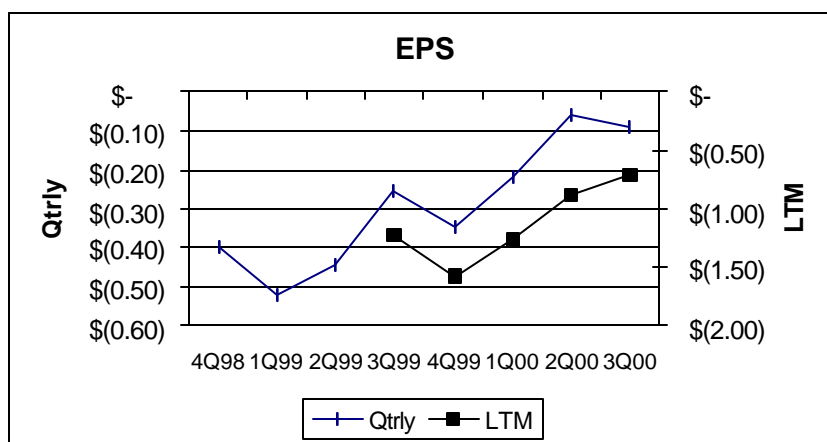


Figure 2

Net interest income increased 90% to \$0.81 million compared to \$0.43 in 3Q99 as the result of the growth in earning assets (+ 103%) and a strong net interest margin (2.6% versus 2.1% in 3Q99). Figure 3 illustrates the trend in net interest income.

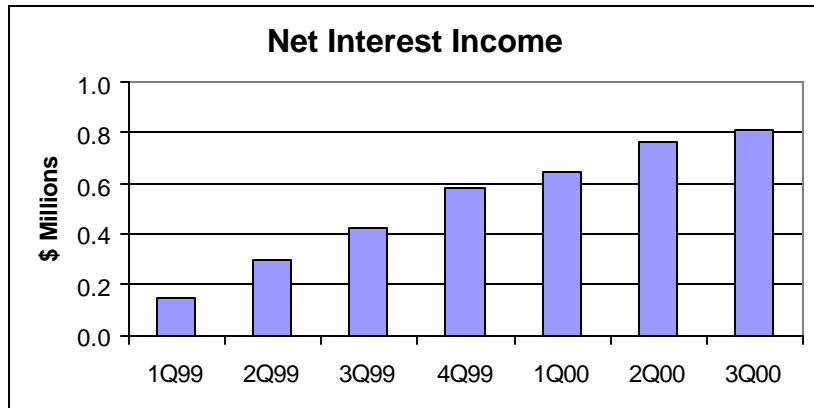


Figure 3

Operating efficiencies improved over 3Q99 as non-interest income growth was fueled by deposit service charges that more than doubled (to \$22,000 from \$1,000). Non-interest expenses increased as the bank added five new employees and incurred expenses related to the \$1.58 million shareholder loan. This caused the efficiency ratio to increase slightly relative to 2Q00, but we feel the overall trend remains intact (see Figure 4).

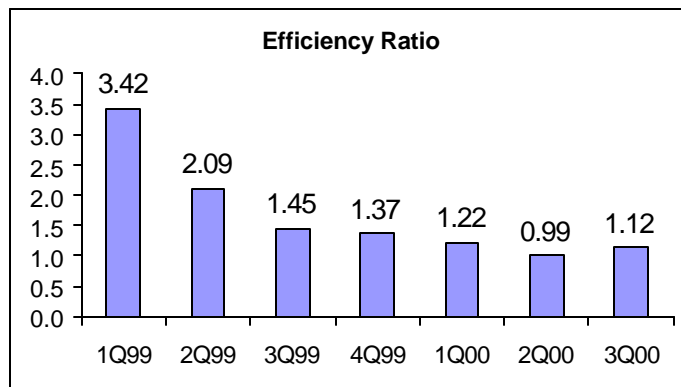


Figure 4

Financial Condition

CSHB remains in the “well capitalized” category (see Table 1). While the ratios are slightly lower than in 2Q00, we feel that the combination of the shareholder loan and profitability trends will result in improved ratios in the future. However, given the bank’s rapid growth, we would not be surprised if the shareholders make another loan in order to maintain the bank’s “well capitalized” status.

(Consolidated)	CSHB	Regulatory Standards	
		Adequately	Well Captlzd
Total Capital	11.2%	8.0%	10.0%
Tier 1 to			
Risk-weighted assetes	8.4%	4.0%	6.0%
Average assets	8.3%	4.0%	5.0%

New Branch Planned for January 2001

CSHB filed to open a second branch on November 17, 2000. If approved, this full-service branch will open in January 2001 in North Muskegon. CSHB currently has banking operations at its headquarters (in Muskegon) and in Grand Haven, Michigan.

Outlook

While CSHB has been steadily improving, recent results were lower than we had forecast. Consequently we are adjusting our earnings model downward. Our revised EPS model continues to assume steady, but slower, growth in earning assets; slower growth in other non-interest income; and slightly higher non-interest expense.

As shown in Table 2, we now expect CSHB to break even (\$0.00-\$0.01 EPS) in 4Q00 and post a net loss of \$0.36 in 2000 and net earnings of \$0.50 in 2001. Our previous forecast was for a loss of \$0.20 in 2000 and EPS of \$0.73 in 2001.

(\$Million)	1999	2000	2001
Net Interest Inc	1.458	3.051	3.999
Loan Loss Prov	0.852	0.489	0.401
Dep. Service Chrgs	0.065	0.221	0.287
Othr Non-Int Inc	0.088	0.183	0.238
Tot. Non-Int Inc	0.153	0.404	0.525
Comp & bennies	1.425	1.908	1.994
% Tot Revs	88%	55%	44%
Occ & Equip	0.449	0.601	0.625
Other Non-Int Exp	0.710	0.878	0.913
Tot. Non-Int Exp	2.584	3.387	3.532
Net Before Taxes	-1.825	-0.421	0.591
Taxes	0.000	0.000	0.012
Net After Tax	-1.825	-0.421	0.579
EPS	\$ (1.57)	\$ (0.36)	\$ 0.50
Eff Tax Rate	0%	0%	2%
Shares	1.16	1.17	1.17
Return/AEA	3.03%	2.94%	3.00%
Earning Assets	67.6	113.6	153.0
Growth		68%	35%

Valuation Analysis

We continue to expect the Fed to start easing interest rates next year, which should boost bank stocks. However, offsetting this optimism is the growing concern that earnings could be under pressure if a “hard landing” results in bad loans and increased loan loss provisions. As shown in the graph below, the net result is that bank stocks have been trading within a band since spring.

Figure 5 (Source: Baseline)



Based upon our revised forecast and the expectations that banks could continue to trade within a band until mid-2001, we reduced our 12-18 month target price to \$8.00-\$9.00 from our previous \$9.00-\$10.00. Table 6 reviews our assumptions and expectations.

Table 4: Valuation Forecast

		2001		Target
	Estimate	Multiple		Range
Book Value	\$ 7.38	1.4	\$	10.18
			0.6	\$ 4.43
EPS	\$ 0.50	15.0	\$	7.43
		10.0	\$	4.95

Average*	High	\$	9.03
	Low	\$	5.03

*weighted formula P/B-80%

We would expect the share to get more attention, and rise, as CSHB posts successive quarters of positive EPS.

Investment Risks

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

The Bank has only existed for one year 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.

Start-up expenses are expected to result in losses for most of the first two years of operations.

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.

The banking sector has been out of favor due to interest rate fears and the potential for greater returns in other "hot" sectors. However, we feel that the market overly discounts the impact of interest rate hikes on bank stocks, thereby creating buying opportunities.

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