

Secure Trust Bank

New CEO

CEO change in seamless transition

Paul Lynam, Secure Trust Bank's (STB's) CEO, is stepping down to become Equiniti Group's CEO. David McCreadie, who joined STB as a non-exec board member a year ago, will replace him. McCreadie is a banker with 30 years of experience at RBS, Kroger Personal Finance and Tesco Bank. The transition should be seamless, with the growth strategy (organic expansion and M&A opportunities) expected to remain the same. Lynam leaves the bank with a well-capitalised balance sheet (we forecast 13.9% CET1 for FY20), resilient business, a good franchise and well positioned to react when the economy improves. STB will make its pre-close trading update on 21 January, but has reiterated its October 2020 statement that it is trading ahead of consensus FY20 PBT of £7.3m.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	151.6	36.7	161.0	83.0	5.6	9.3
12/19	165.5	41.1	177.3	87.2	5.1	9.7
12/20e	167.0	13.0	54.3	0.0	16.5	N/A
12/21e	172.9	31.6	134.7	0.0	6.7	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Paul Lynam is leaving STB after 10 years to seek a new challenge. The Equiniti Group is an outsourcing company providing technology-led services and is a payments specialist to businesses; it is not a competitor of STB. Although Lynam stepped down on 5 January, he will remain in an executive capacity until 31 March to help with the handover.

Lynam and McCreadie have known each other for years. McCreadie part of the management team that built Tesco Bank and was executive director and managing director from 2015 to 2019. His appointment to STB is subject to regulatory approval by the Financial Conduct Authority and the Prudential Regulation Authority, which have been notified. STB has started to look for a non-executive director to replace McCreadie.

STB issued an upbeat Q3 trading update in October and it is reassuring for this to be confirmed in the latest statement. Although the COVID-19 pandemic and its economic ramifications are still not over, credit book quality has been better than anticipated.

Our fair value for STB is 1,756p per share, implying a FY20e PBV of 1.23x. We assume a sustainable return on equity (ROE) of 13.5%, 10% in cost of equity (COE) and 2% annual growth. Our model assumes no value creation or dividends in 2020 and 2021 (although we believe a dividend is likely to be paid in 2021) and the fair value is the present value of the $(ROE-g)/(COE-g)$ formula at the end of 2022.

Financial services

6 January 2021

Price 896p

Market cap £167m

Net debt/cash (£m)	N/M
Shares in issue	18.6m
Free float	84.5%
Code	STB
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(3.7)	40.0	(44.0)
Rel (local)	(4.9)	24.2	(36.7)
52-week high/low	1,675p	562p	

Business description

Secure Trust Bank is a well-established specialist bank addressing niche markets within consumer and commercial banking. It is launching a non-standard mortgage business. Former parent Arbutnot Banking Group's shareholding is now less than 20%.

Next events

Pre-close update	21 January 2021
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