

Secure Trust Bank

Trading update

New tech and lower impairments

Secure Trust Bank (STB) announced that it has acquired AppToPay for an undisclosed 'small amount' and plans to use AppToPay's proprietary technology platform to develop and grow its digital Buy Now Pay Later (BNPL) business. STB has also disclosed that its FY21 loan impairments will be 'materially below' analyst consensus of £12.9m (Edison: £12.7m). This is welcome news, although most investor attention regarding impairments has moved to focus on FY22. We are adjusting our FY21e EPS by 7% to 226.5p due to our now reduced £7.9m impairment estimate. All our other assumptions are unchanged, as detailed in our August 2021 update note, [Good news as flagged](#). Our fair value remains 2,234p.

| Year end | Operating income (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|-----------------------|-----------|----------|---------|---------|-----------|
| 12/19 | 165.5 | 38.7 | 180.2 | 87.2 | 7.4 | 6.6 |
| 12/20 | 166.1 | 20.1 | 85.2 | 44.0 | 15.6 | 3.3 |
| 12/21e | 164.6 | 52.7 | 226.5 | 56.6 | 5.8 | 4.3 |
| 12/22e | 191.3 | 36.3 | 156.6 | 39.1 | 8.5 | 3.0 |

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

AppToPay set to kick-start BNPL business

In its capital markets day earlier in November, STB's management highlighted the opportunities it saw in the growth of BNPL as an alternative payment system and that entering this segment would be a focus for its retail finance business. It believes the acquisition of this working and proven technology will be a more cost-effective and faster solution than fully developing the platform in house. The deal is subject to regulatory approval, which should be helped by the fact that AppToPay is already authorised by the Financial Conduct Authority. STB expects the deal to complete in Q122 and to offer the product (branded as AppToPay) to its network of 1,400 retailers and 840,000 consumers in H122.

FY21e EPS raised by 7%

We have reduced our FY21 impairments assumptions from 53bp to 33bp, with the reductions in the motor finance and retail finance segments, where most of the IFRS 9 provisioning was carried out. After a 9bp annualised net impairment reversion in H121, we now forecast an annualised 75bp (previously 115bp) for the second half of FY21. Our forecast for FY22 remains 157bp (1.6% of average loans).

Valuation: Fair value of 2,234p per share

We obtain a fair value (FV) of 2,234p per share using a net asset value (NAV) approach. We continue to assume a sustainable return on equity (ROE) of 13.5%, a 10% cost of equity (COE) and 2% annual growth. The FV is the present value (PV) of the (ROE-g)/(COE-g) formula at end 2022 discounted to FY21. The 2,234p value implies an FY21e P/BV of 1.4x; STB is currently trading on a 0.8x P/BV ratio.

Banks

30 November 2021

Price 1,325p

Market cap £246m

Net debt/cash (£m) N/M

Shares in issue 18.6m

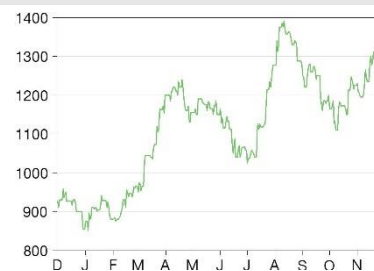
Free float 84.5%

Code STB

Primary exchange LSE

Secondary exchange N/A

Share price performance



| % | 1m | 3m | 12m |
|------------------|------|--------|------|
| Abs | 8.2 | 1.9 | 42.6 |
| Rel (local) | 10.1 | 3.5 | 26.3 |
| 52-week high/low | | 1,390p | 850p |

Business description

Secure Trust Bank is a well-established specialist bank addressing niche markets within consumer and commercial banking.

Next events

Q4 trading update January 2022

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Secure Trust Bank is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

| Year end 31 December | 2018 | 2019 | 2020 | 2021e | 2022e |
|--|----------------|----------------|----------------|----------------|----------------|
| £m except where stated | | | | | |
| PROFIT & LOSS | | | | | |
| Net interest income | 133.7 | 145.4 | 150.9 | 149.0 | 169.8 |
| Net commission income | 17.9 | 20.1 | 15.2 | 15.6 | 21.5 |
| Total operating income | 151.6 | 165.5 | 166.1 | 164.6 | 191.3 |
| Total G&A expenses (excluding non-recurring items below) | (84.5) | (94.2) | (91.6) | (105.3) | (113.8) |
| Operating profit pre impairments & exceptionals | 67.1 | 71.3 | 74.5 | 59.3 | 77.5 |
| Impairment charges on loans | (32.4) | (32.6) | (51.3) | (7.9) | (42.2) |
| Losses on modification of financial assets | 0.0 | 0.0 | (3.1) | 1.3 | 1.0 |
| Other income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit before tax | 34.7 | 38.7 | 20.1 | 52.7 | 36.3 |
| Corporation Tax | (6.4) | (7.6) | (3.9) | (10.2) | (6.9) |
| Tax rate | 18.4% | 19.6% | 19.4% | 19.4% | 19.0% |
| Profit after tax | 28.3 | 31.1 | 16.2 | 42.5 | 29.4 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income attributable to equity shareholders | 28.3 | 31.1 | 16.2 | 42.5 | 29.4 |
| Company reported pre-tax earnings adjustments | 2.0 | 2.4 | 0.0 | 0.0 | 0.0 |
| Reported underlying earnings after tax | 29.9 | 33.5 | 16.2 | 42.5 | 29.4 |
| Average basic number of shares in issue (m) | 18.5 | 18.5 | 18.6 | 18.6 | 18.6 |
| Average diluted number of shares in issue (m) | 18.6 | 18.6 | 18.8 | 18.8 | 18.8 |
| Reported diluted EPS (p) | 152.2 | 167.3 | 85.2 | 226.5 | 156.6 |
| Underlying diluted EPS (p) | 161.0 | 180.2 | 85.2 | 226.5 | 156.6 |
| Ordinary DPS (p) | 83.0 | 87.2 | 44.0 | 56.6 | 39.1 |
| Special DPS (p) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest/average loans | 7.32% | 6.44% | 6.32% | 6.26% | 6.28% |
| Impairments incl losses on loan modifications /average loans | 1.79% | 1.46% | 2.26% | 0.28% | 1.53% |
| Cost income ratio | 55.7% | 56.9% | 55.1% | 64.0% | 59.5% |
| BALANCE SHEET | | | | | |
| Net customer loans | 2,028.9 | 2,450.1 | 2,358.9 | 2,400.0 | 2,985.0 |
| Other assets | 415.4 | 232.7 | 305.2 | 327.3 | 331.7 |
| Total assets | 2,444.3 | 2,682.8 | 2,664.1 | 2,727.3 | 3,316.7 |
| Total customer deposits | 1,847.7 | 2,020.3 | 1,992.5 | 2,000.0 | 2,487.5 |
| Other liabilities | 359.5 | 408.4 | 401.1 | 425.8 | 507.2 |
| Total liabilities | 2,207.2 | 2,428.7 | 2,393.6 | 2,425.8 | 2,994.7 |
| Net assets | 237.1 | 254.1 | 270.5 | 301.5 | 322.0 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shareholders' equity | 237.1 | 254.1 | 270.5 | 301.5 | 322.0 |
| Reconciliation of movement in equity | | | | | |
| Opening shareholders' equity | 249.1 | 237.1 | 254.1 | 270.5 | 301.5 |
| Profit in period | 28.1 | 31.1 | 16.2 | 42.5 | 29.4 |
| Other comprehensive income | (25.8) | 0.0 | (0.2) | (0.1) | 0.0 |
| Ordinary dividends | (14.8) | (15.5) | 0.0 | (11.9) | (10.5) |
| Special dividend | 0.0 | 1.2 | 0.0 | 0.0 | 0.0 |
| Share based payments | 0.5 | 0.3 | (0.7) | 0.5 | 0.0 |
| Issue of shares | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 |
| Share issuance costs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Closing shareholders' equity | 237.1 | 254.1 | 270.5 | 301.5 | 320.3 |
| OTHER SELECTED DATA AND RATIOS | | | | | |
| Period end shares in issue (m) | 18.5 | 18.5 | 18.6 | 18.6 | 18.6 |
| NAV per share (p) | 1,283 | 1,375 | 1,453 | 1,619 | 1,721 |
| Tangible NAV per share (p) | 1,230 | 1,326 | 1,412 | 1,586 | 1,691 |
| Return on average equity | 11.6% | 12.7% | 6.2% | 14.9% | 9.4% |
| Return on average TNAV | 13.3% | 14.8% | 6.7% | 17.3% | 11.5% |
| Average loans | 1,826.4 | 2,258.9 | 2,389.0 | 2,379.5 | 2,692.5 |
| Average deposits | 1,655.4 | 1,967.8 | 2,010.3 | 2,002.8 | 2,243.8 |
| Loans/deposits | 109.8% | 121.3% | 118.4% | 120.0% | 120.0% |
| Risk exposure | 1,824.6 | 2,118.1 | 2,001.5 | 2,101.3 | 2,565.3 |
| Common equity tier 1 ratio | 13.8% | 12.7% | 14.2% | 14.4% | 12.3% |

Source: Secure Trust Bank, Edison Investment Research

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