

Secure Trust Bank

Selling debt purchase loan book

Sale of a loan portfolio

Banks

14 March 2022

Price 1,197.5p
Market cap £223m

| | |
|-----------------------|-------|
| Net cash/debt at date | N/M |
| Shares in issue | 18.6m |
| Free float | 84.5% |
| Code | STB |
| Primary exchange | LSE |
| Secondary exchange | N/A |

Share price performance



Business description

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

Analysts

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Secure Trust Bank (STB) disclosed on 11 March that it is exiting the debt purchase market by agreeing to sell its Debt Managers Service (DMS) portfolio to Intrum UK Finance, a debt purchase specialist. The deal is expected to complete towards the end of Q222. DMS accounts for 4% of STB's loans balance and STB disclosed that DMS made a small £0.5m loss in 2021. The deal looks to be earnings enhancing. STB estimates that £72m of risk weighted assets will be released (about 50bp of capital), which is useful – our forecast FY22 pre-deal CET 1 was 12.3%. The sale seems consistent with the new management team's aim to focus on 'specialist lending segments that have the strongest prospects for delivering sustainable and profitable medium to long-term growth'. STB will report its FY21 results on 24 March and update its medium-term targets to reflect the sale (STB expects a better cost income ratio, but with a reduced net interest margin due to the loan mix change), having already released an upbeat pre-close statement on 14 January.

| 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 | 6.6 | 7.3 |
| 12/20 | 166.1 | 20.1 | 85.2 | 44.0 | 14.1 | 3.7 |
| 12/21e | 164.6 | 52.7 | 226.5 | 56.6 | 5.3 | 4.7 |
| 12/22e | 191.3 | 36.3 | 156.6 | 39.1 | 7.6 | 3.3 |

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

The final cash price of the DMS disposal will be determined by the portfolio's financial position at completion. STB has guided for a cash price of £79.7m if the deal completes on 31 May 2022. DMS's loan portfolio had a gross and consideration value of £84.7m and £94.0m respectively on 31 September 2021. STB estimates 'that in FY2022 the sale will (taking into account anticipated market exit costs) generate a net PBT benefit'.

Completion is subject to approvals from loan originators. STB also disclosed a forward flow agreement with Intrum, which allows STB to sell consumer and vehicle finance loans.

DMS's loan portfolio consists of 650,000 customer loans, both transferred internally and acquired from third parties. STB estimates that it will take up to six months to fully migrate the loans to Intrum and all DMS employees are expected to move to Intrum.

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