

## Exit Secure Trust Bank: Seeing more near-term upside elsewhere

|                  |                                 |                           |                  |
|------------------|---------------------------------|---------------------------|------------------|
| <b>Company:</b>  | Secure Trust Bank (STB LN)      | <b>Market Cap:</b>        | £122mio          |
| <b>Industry:</b> | Specialist lender               | <b>Subordinated Debt:</b> | £90mio (@13%)    |
| <b>Country:</b>  | UK                              | <b>Revenue:</b>           | £203mio          |
| <b>Date:</b>     | 15 <sup>th</sup> September 2023 | <b>Net Income:</b>        | £33.7mio (16.6%) |
| <b>Dividend:</b> | £8.4mio (7.2%)                  | <b>CET1 ratio:</b>        | 14% (21.4%)      |
| <b>Entry:</b>    | £117mio                         | <b>Exit:</b>              | £122mio          |

### Why exit Secure Trust Bank?

- More attractive opportunities elsewhere (EnQuest & Thungela Resources) led me to cut the position where the next update is farthest away (27<sup>th</sup> October 2023)
- Competitor banks, such as Arbuthnot Banking Group, are even more profitable, but are underperforming
- One of the largest shareholders is selling, putting downward pressure on valuation

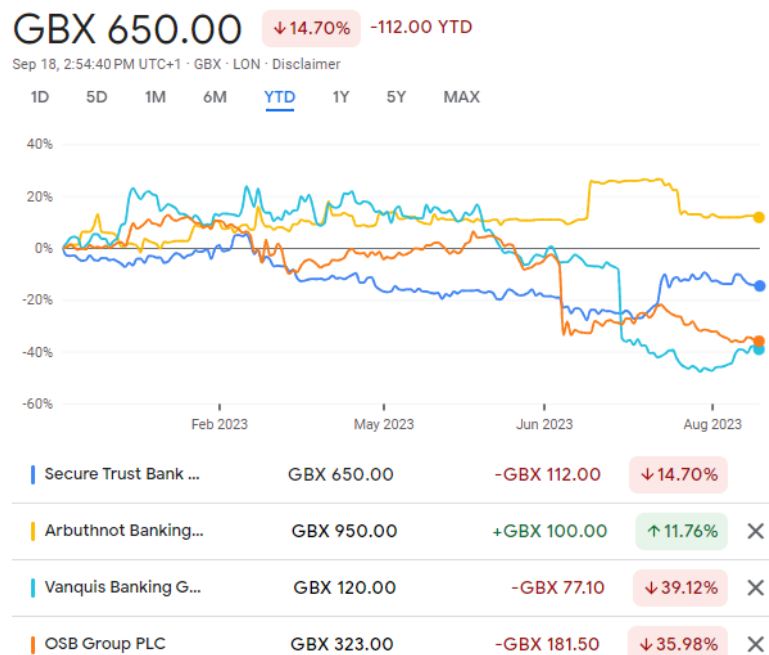
### Near term opportunities

Similar to the decision of selling On The Beach PLC, I sold Secure Trust Bank in order to increase our allocation to EnQuest and Thungela Resources. With the economy slowing, central banks at one point need to stop hiking interest rates and potentially cutting them. With the Fed potentially leading the movement towards lower rates, commodity prices should likely rise in US\$. From all our positions, Secure Trust Bank is providing a market update only as of 27<sup>th</sup> October, nearly a month after all our other holdings. Therefore, it felt like the easiest position to sell, as there appears to be no drivers for a rerating of Secure Trust Bank's valuation.

## Competitive valuation?

At the same time, Secure Trust Bank's competitors have mostly all underperformed, despite in part also showing strong profitability and good capital ratios. For example, Arbuthnot Banking Group reported £26.4mio profit before tax (PBT) and is valued at £155mio compared to Secure Trust Bank's £16.5mio PBT and valued at £125mio. Nevertheless, Secure Trust Bank continues to guide FY PBT to be above £44mio, which makes the shares still too cheap. Similarly to our holdings in Card Factory, Secure Trust Bank also faces a large shareholder selling down their position<sup>1</sup>. If the selling continues, it can impact positive buying flows for Secure Trust Bank shares and keep the valuation depressed. For these reasons and positive pricing developments in oil, gas and coal, I found a reallocation of capital – at least in the short term – to be the right choice.

### Secure Trust Bank Plc



Source: Google Finance



<sup>1</sup> <https://www.securetrustbank.com/investors/news-announcements/corporate-news>

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