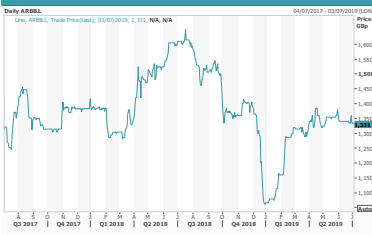




3 July 2019

## Financials



Source: Refinitiv

## Market data

EPIC/TKR	ARBB/ARBN
Price (p)	1,335
12m High (p)	1,640
12m Low (p)	1,065
Shares (m)	15.4
Mkt Cap (£m)	206
Loans to deposits	80%
2020E	
Free Float*	42%
Market	AIM/NEX

\*As defined by AIM Rule 26

## Description

Arbuthnot Banking Group (ABG) has a well-funded and capitalised private bank, and has been growing commercial banking very strongly. It holds a 9.85% stake in Secure Trust Bank (STB).

## Company information

Chair/CEO	Sir Henry Angest
COO/CEO Arb.	Andrew Salmon
Latham	
Group FD,	James Cobb
Deputy CEO AL	

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[www.arbuthnotgroup.com](http://www.arbuthnotgroup.com)

## Key shareholders

Sir Henry Angest	56.1%
Liontrust	6.5%
Miton Asset Mgt.	4.4%
Slater Investments	4.0%
R Paston	3.6%
M&G IM	3.5%

## Diary

17 July	Interim results
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## Analysts

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	<a href="mailto:mt@hardmanandco.com">mt@hardmanandco.com</a>

## ARBUTHNOT BANKING GROUP

## Mortgage portfolio acquisitions

On 3 July, ABG *announced* the acquisition of two mortgage portfolios for £258m (£6m discount to book value). The overall yield on the portfolios is 3.6%, before accounting for the negotiated purchase discount effect. The credit profile is excellent (average loan to value sub-70% and 75% of the loans originated before 2008). 85% of the loans are owner-occupied, with the balance buy-to-let. The loans are of sufficient quality to be included in the pool of assets used by ABG as collateral for the Sterling Monetary Framework at the Bank of England, and so be included in its liquidity resources. ABG's record on such acquisitions has been good. We will review numbers with the results on 17 July.

- ▶ **Portfolio 1:** At 31 March 2019, this book was 1,457 loans, with balances of £201m, of which 20% are buy-to-let and the remainder are owner-occupied, with an average loan to value of 67.4%. It has been in run-off since it was originated by Edeus Mortgages and Victoria Mortgage Funding between 2005 and 2008.
- ▶ **Portfolio 2:** This book has 462 loans, with customer balances of £65m, all of which are owner-occupied, with an average loan to value of 70%. It was originated in 2018 and 2019 by Magellan Homeloans. Like Portfolio 1, it is geographically distributed around the UK.
- ▶ **Valuation:** The average of our approaches is £17.42 (previously £17.46), 1.3x 2020E NAV. Since our last report, there has been a small change in the STB share price, which feeds through to the sum-of-the-parts model. Despite the 2019 year-to-date rally, the current share price is still around the 2018 NAV (1,283p).
- ▶ **Risks:** As with any bank, the key risk is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognizant of the risk and, historically, has been very conservative. Other risks include reputation, regulation and compliance.
- ▶ **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced at book value appears anomalous.

## Financial summary and valuation (numbers will be reviewed post 17 July results)

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Operating income	34,604	41,450	54,616	67,905	76,790	86,903
Total costs	-35,926	-46,111	-54,721	-64,982	-71,795	-77,484
Cost:income ratio	104%	111%	100%	96%	93%	89%
Total impairments	-1,284	-474	-394	-2,731	-1,860	-2,944
Reported PBT	-2,606	-1,966	2,534	6,780	7,332	10,757
Adjusted PBT	2,982	1,864	3,186	7,416	9,332	12,757
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	40.5	59.1
Adjusted EPS (p)	13.5	17.1	47.5	40.3	51.1	69.7
Loans/deposits	82%	76%	75%	71%	77%	80%
Equity/assets	5.5%	18.5%	12.8%	9.0%	8.5%	7.8%
P/adjusted earnings (x)	98.9	78.1	28.1	33.1	26.1	19.2
P/BV (x)	1.67	0.88	0.87	1.04	1.04	1.03

Source: Hardman &amp; Co Research

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