



COMPANY UPDATE / ESTIMATES CHANGE

Banks

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J.J.B. Hilliard, W.L. Lyons, LLC
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Key Metrics

SYBT - NASDAQ (as of 07/27/17)	\$36.30
Price Target	\$38.00
52-Week Range	\$29.05-\$48.05
Shares Outstanding (mm)	22.7
Market Cap. (\$mm)	\$823
3-Mo. Average Daily Volume (000)	53.3
Institutional Ownership	49.4%
Tangible Equity / Tangible Assets	9.5%
ROE	13.5%
Tangible Book Value Per Share	\$14.32
Price/Tangible Book Value	253.5%
Dividend Yield	2.2%
Price/LTM Earnings	19.6x

Operating EPS CY 12/31

		Prior	Curr.	Prior	Curr.
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.44	\$0.47A	\$0.47A	\$0.52	\$0.54
2Q	\$0.45	\$0.49	\$0.46A	\$0.56	\$0.54
3Q	\$0.46	\$0.51	\$0.51	\$0.59	\$0.58
4Q	\$0.46	\$0.50	\$0.51	\$0.59	\$0.57
Year	\$1.80	\$1.97	\$1.95	\$2.25	\$2.23
P/E	20.1x		18.6x		16.3x

Common Dividends

		Curr.	Prior	Curr.
	2016A	2017E	%chg.	2018E
1Q	\$0.17	\$0.19A	14.0	\$0.20
2Q	\$0.18	\$0.19A	5.6	\$0.21
3Q	\$0.18	\$0.19	5.6	\$0.21
4Q	\$0.19	\$0.20	5.3	\$0.21
Year	\$0.72	\$0.77	7.4	\$0.83

Company Description - Stock Yards Bancorp is a commercial banking organization headquartered in Louisville, Kentucky. In addition to the Louisville MSA, the company has operations in greater Cincinnati and Indianapolis. SYBT is active in trust and wealth management services, with assets under management being similar in size to balance sheet assets.

Stock Yards Bancorp, Inc.

SYBT -- NASDAQ -- Neutral -- 3

Net Interest Margin Disappoints; Noninterest Income Surges; Reiterating Neutral

- **Earnings Results:** SYBT reported GAAP and operating EPS of \$0.46, which was \$0.03 below our estimate and \$0.02 behind the Street consensus.
- **Positive Highlights:** Noninterest income surged 8.1% sequentially to \$11.7 million primarily on higher bankcard transaction income (7.7%), mortgage banking (27.8%) and “other” noninterest income (39.8%). Results were in line with our estimate.

End-of-period loans (EOP) rose 1.6% linked-quarter (LQ), while average loans slipped 0.6%. While growth was below historical standards, it exceeded expectations.

The loan loss provision decreased \$0.3 million LQ to \$0.6 million versus our estimate of \$0.7 million. Asset quality metrics remained pristine with Nonperforming Assets/Assets falling three bps to 0.30% and a net charge-off ratio of (0.01%).

- **Negative Highlights:** Net interest income rose 0.2% LQ to \$25.2 million as an extra day in the quarter offset three bps of net interest margin (NIM) contraction to 3.60% and a 0.3% decrease in average earning assets. We had projected net interest income of \$25.7 million and a 3.63% margin.

Noninterest expense rose 0.9% to \$21.3 million LQ primarily driven by higher data processing costs (13.5%) and “other” noninterest expense (19.9%). We had projected noninterest expense of \$21.1 million.

- **Estimates:** We are modestly revising our 2017 and 2018 operating EPS estimates to \$1.95 and \$2.23 from \$1.97 and \$2.25, respectively. We are maintaining our 12-month price target at \$38.00 and retaining our Neutral rating.

Note Important Disclosures on pages 4 and 5

Note Analyst Certification on page 4

OTHER TAKEAWAYS & VALUATION

- The sequential contraction in the net interest margin was primarily attributable to higher deposit costs. The core NIM, excluding the impact of prepayment penalties and excess liquidity, declined two bps to 3.62%.
- The preponderance of variable rate loans pierced their interest rate floors with the June rate hike. Accordingly, these floors should move in tandem with any future increases in short-term rates, thereby enhancing the company's interest sensitivity. However, given that approximately 61% of loans are fixed rate, we do not believe that benefits associated with coming rate hikes will be highly significant.
- The company noted that significant principal repayments related to commercial construction projects and commercial real estate, as well as increasing uncertainty surrounding business-friendly legislation, constrained loan growth during the quarter.
- Management anticipates the effective tax rate will be lower in 2H17 due to the company's investments in tax credit partnership investments.
- Our price target is derived through our discounted dividend model and the application of a 15X forward multiple to our 3Q18-2Q19 EPS estimates. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, continued flattening of the yield curve and a 28% corporate tax rate in 2018. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

SUITABILITY

Our suitability rating on SYBT is 3 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISK FACTORS

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are clustered in a few states. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Real Estate** – A significant percentage of the company's loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.
- **Competition** – The industry is highly competitive and many of the company's competitors have greater resources.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

	STOCK YARDS BANCORP, INC.										SYBT:NEUTRAL			
	\$Millions, Except for Per Share Data										FY 2016 A	FY 2017 E	FY 2018 E	
Balance Sheet Data:														YOY Change
Total Assets	2,824.1	2,909.5	2,938.7	3,038.7	3,033.3	3,126.8	3,184.3	3,248.0	3,248.0	3,038.7	2,817.0	3,248.0	3,523.5	7.9%
Total Gross Loans	2,098.5	2,182.0	2,228.7	2,308.6	2,276.7	2,312.7	2,365.9	2,425.1	2,425.1	2,308.6	2,039.8	2,425.1	2,630.8	13.2%
Average Earning Assets	2,673.8	2,705.4	2,722.3	2,821.4	2,838.5	2,830.2	2,982.7	3,040.0	3,040.0	2,730.5	2,429.6	2,922.8	3,175.8	12.4%
Deposits	2,366.1	2,349.9	2,390.6	2,520.5	2,544.3	2,478.5	2,524.2	2,574.6	2,574.6	2,371.7	2,520.5	2,574.6	2,793.0	6.3%
Equity	296.3	305.1	311.6	313.9	319.7	328.0	337.7	347.3	347.3	313.9	286.4	347.3	390.5	9.6%
Statement of Operations:														
FTE Net Interest Income	23.7	24.2	25.0	25.3	25.4	25.4	27.2	27.6	27.6	98.1	89.2	105.6	115.0	9.9%
Net Interest Income	23.5	24.0	24.8	25.1	25.2	25.2	27.0	27.4	27.4	97.3	88.3	104.8	114.1	10.1%
Provision for Loan Losses	0.5	0.8	1.3	0.5	0.9	0.6	0.8	0.9	0.9	3.0	0.8	3.3	4.8	300.0%
Non-Interest Income:														
Investment Management & Trust	4.6	4.8	4.8	4.9	5.1	5.2	5.0	5.1	5.1	18.0	18.0	20.4	21.4	6.3%
Deposit Service Charges	2.1	2.3	2.5	2.5	2.4	2.4	2.6	2.5	2.5	8.9	9.9	10.0	10.0	6.3%
Bankcard Transaction Revenue	1.3	1.4	1.5	1.5	1.4	1.5	1.5	1.5	1.5	4.9	5.7	6.0	6.3	16.0%
Mortgage Banking	0.8	1.0	1.1	1.0	0.7	0.9	0.9	0.7	0.7	3.5	3.9	3.1	3.6	11.7%
Brokerage Commissions & Fees	0.4	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	2.0	2.1	2.0	2.0	-0.9%
BOI	0.2	0.2	0.2	0.2	0.2	0.6	0.2	0.2	0.2	0.9	0.9	1.2	0.8	-2.0%
Gain on Acquisition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Other	0.6	0.5	0.7	0.6	0.4	0.6	0.7	0.7	0.7	1.8	2.3	2.5	2.9	4.8%
Securities Gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Total Non-Interest Income	10.1	10.8	11.4	11.3	10.8	11.7	11.4	11.3	11.3	40.0	43.5	45.2	47.1	9.0%
Non-Core Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Adjusted Non-Interest Income	10.1	10.8	11.4	11.3	10.8	11.7	11.4	11.3	11.3	40.0	43.5	45.2	47.1	9.0%
Non-Interest Expense:														
Salaries & Benefits	12.2	12.0	12.0	13.0	13.4	12.8	13.1	13.2	13.2	44.7	44.7	52.5	55.8	10.0%
Occupancy	1.5	1.5	1.6	1.6	1.6	1.5	1.6	1.6	1.6	5.9	6.3	6.4	6.5	6.2%
Data Processing	1.5	1.9	1.7	1.9	1.9	2.1	1.9	1.9	1.9	6.3	7.1	7.8	7.7	11.4%
Furniture & Equipment	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.1	1.1	1.1	1.2	6.4%
FDIC Insurance	3.7	4.2	4.4	4.4	4.4	3.7	3.2	3.2	3.2	14.1	16.7	13.3	13.1	-6.1%
Other	19.5	20.2	20.5	21.3	21.1	21.3	21.3	21.4	21.4	73.4	81.5	85.3	89.4	18.2%
Non-Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Non-Core Adjustment	19.5	20.2	20.5	21.3	21.1	21.3	21.3	21.4	21.4	73.4	81.5	85.3	89.4	11.1%
Adjusted Non-Interest Expense	13.5	13.8	14.4	14.6	13.9	15.0	16.2	16.3	16.3	54.1	56.3	61.4	66.9	11.1%
Pretax Core Income	3.7	3.7	3.9	4.0	3.1	4.4	4.4	4.4	4.4	16.9	15.2	16.3	14.9	4.0%
Income Taxes	0.8	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	3.7	4.1	4.5	5.2	-10.0%
Operating Net Income	2.9	2.7	2.9	3.0	2.1	3.4	3.3	3.3	3.3	13.2	11.1	11.8	9.7	10.3%
Share & Per Share Data:														
Diluted EPS	0.44	0.45	0.46	0.46	0.47	0.46	0.51	0.51	0.51	1.66	1.80	1.95	2.23	8.7%
Operating EPS	0.44	0.45	0.46	0.46	0.47	0.46	0.51	0.51	0.51	1.66	1.80	1.95	2.23	8.7%
Dividends	0.17	0.18	0.18	0.19	0.19	0.19	0.19	0.20	0.20	0.64	0.72	0.77	0.83	7.8%
Tangible Book Value	13.08	13.45	13.71	13.79	14.02	14.39	14.78	15.16	15.16	12.70	13.79	15.16	16.89	8.5%
Common Shares Outstanding	22,478	22,510	22,563	22,617	22,661	22,662	22,722	22,782	22,782	22,617	22,617	22,782	23,022	1.1%
Average Diluted Shares	22,592	22,704	22,803	22,952	23,002	23,241	23,150	23,210	23,210	22,432	22,763	23,151	23,360	1.5%
Key Financial Statistics (GAAP):														
Return on Assets	1.40%	1.42%	1.44%	1.41%	1.46%	1.42%	1.49%	1.46%	1.46%	1.45%	1.42%	1.46%	1.55%	(3)
Return on Equity	13.45%	13.53%	13.55%	13.51%	13.59%	13.09%	14.11%	13.76%	13.76%	13.56%	13.51%	13.64%	14.12%	(5)
Net Interest Margin	3.56%	3.59%	3.65%	3.56%	3.63%	3.60%	3.62%	3.60%	3.60%	3.68%	3.59%	3.61%	3.62%	(9)
Fee Income/Operating Rev.	30.05%	31.04%	31.45%	31.10%	30.01%	31.63%	29.66%	29.21%	29.21%	31.15%	30.91%	30.13%	29.21%	(24)
Efficiency Ratio	58.69%	57.96%	56.19%	58.00%	58.32%	57.94%	55.19%	55.04%	55.04%	56.54%	57.72%	56.62%	55.07%	118
Tang. Equity/Tang. Assets	10.42%	10.42%	10.54%	10.48%	10.48%	10.43%	10.55%	10.64%	10.64%	10.09%	10.27%	10.64%	11.04%	17
Dividend Payout Ratio	38.28%	40.43%	39.21%	41.08%	40.50%	41.65%	37.16%	39.09%	39.09%	38.28%	39.75%	39.60%	37.29%	(15)
NCOs/Average Loans	0.10%	0.01%	0.00%	0.15%	0.07%	-0.01%	0.07%	0.07%	0.07%	0.17%	0.07%	0.05%	0.11%	(10)

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Stock Yards Bancorp is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

Hilliard Lyons customers own at least 5% of the outstanding common stock of Stock Yards Bancorp.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

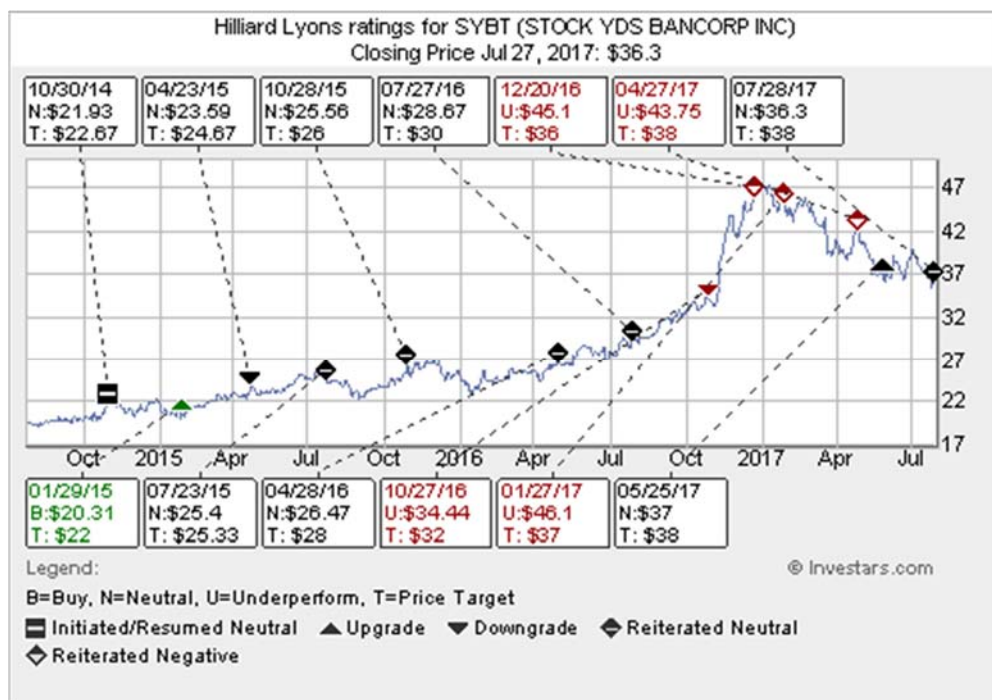
Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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