



## COMPANY UPDATE / ESTIMATES CHANGE

### Key Metrics

SYBT - NASDAQ (as of 10/26/17)	\$39.60
Price Target	NA
52-Week Range	\$31.90-\$48.05
Shares Outstanding (mm)	22.7
Market Cap. (\$mm)	\$898
3-Mo. Average Daily Volume (000)	46.8
Institutional Ownership	59.8%
Tangible Equity / Tangible Assets	9.5%
ROE	13.5%
Tangible Book Value Per Share	\$14.66
Price/Tangible Book Value	270.1%
Dividend Yield	2.0%
Price/LTMEarnings	20.8x

### Operating EPS CY 12/31

		Prior	Curr.	Prior	Curr.
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.44	\$0.47A	\$0.47A	\$0.52	\$0.52
2Q	\$0.45	\$0.46A	\$0.46A	\$0.52	\$0.54
3Q	\$0.46	\$0.49	\$0.51A	\$0.55	\$0.57
4Q	\$0.46	\$0.49	\$0.51	\$0.55	\$0.55
Year	\$1.80	\$1.91	\$1.94	\$2.15	\$2.17
P/E	22.0x		20.4x		18.2x

### 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	\$0.20
3Q	\$0.18	\$0.19A	5.6	\$0.20
4Q	\$0.19	\$0.20	5.3	\$0.21
Year	\$0.72	\$0.77	7.4	\$0.81

**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.

### Banks

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## Stock Yards Bancorp, Inc.

SYBT -- NASDAQ -- Neutral -- 3

### Loan Growth Slows; Reiterating Neutral

- **Earnings Results:** SYBT reported GAAP and operating EPS of \$0.51, which was \$0.02 above both our estimate and the Street consensus.
- **Positive Highlights:** Net interest income rose 3.7% linked-quarter (LQ) to \$26.0 million on six bps of net interest margin expansion to 3.66%, a 1.1% increase in average earning assets and an extra day in the quarter. We had projected net interest income of \$26.7 million and a 3.61% margin.

Noninterest expense was essentially flat LQ and was in line with expectations.

The loan loss provision decreased \$0.5 million LQ to \$0.2 million versus our estimate of \$0.9 million. Asset quality metrics remained pristine with Nonperforming Assets/Assets falling two bps to 0.28% and a net charge-off ratio of 0.05%. We had projected a provision of \$0.8 million and net charge-offs of 0.07%.

- **Negative Highlights:** Noninterest income fell 4.9% sequentially to \$11.1 million primarily on declines in wealth management (2.5%), mortgage banking (12.9%), bank-owned life insurance (63.3%) and "other" noninterest income (20.1%). We had modeled noninterest income of \$11.4 million.

End-of-period loans rose 1.1% LQ, while average loans were up 1.3%. We had modeled period end loan growth of 2.3%.

- **Estimates:** We are increasing our 2017 and 2018 operating EPS estimates to \$1.94 and \$2.17 from \$1.91 and \$2.15, respectively. We reiterate our Neutral rating.

**Note Important Disclosures on pages 4 and 5**

**Note Analyst Certification on page 4**

**OTHER TAKEAWAYS & VALUATION**

- The effective tax rate fell to 25.9% from 29.1% in Q2 and was below our estimate of 28.0%. The decline reflected the tax benefit associated with the wind-down of one tax credit partnership.
- Management noted that the loan production and the pipeline was solid, but loan growth was constrained by payoff activity. Additionally, certain commercial customers remain on the sidelines as they await clarity regarding tax and healthcare reform.
- The sequential expansion in the net interest margin was primarily attributable to a full quarter benefit from the June Fed rate hike. A seven bp rise in the yield on average earning assets was partially offset by a three bp increase in the cost of interest bearing liabilities.
- Management noted that the June hike, which increased the prime rate to 4.25%, pierced the interest rate floors of nearly all of the company's variable rate loans. Management stated that deposit competition is heating up, particularly in Indianapolis and Cincinnati.
- 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				
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 A	3Q17 A	4Q17 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	FY 2016 A	FY 2017 E	FY 2018 E
\$Millions, Except for Per Share Data															
<b>Balance Sheet Data:</b>															
Total Assets	2,824.1	2,909.5	2,938.7	3,038.7	3,033.3	3,126.8	3,155.9	3,203.3	2,817.0	3,038.7	3,203.3	3,382.8	7.9%	5.4%	5.6%
Total Gross Loans	2,098.5	2,182.0	2,228.7	2,308.6	2,276.7	2,312.7	2,340.6	2,375.7	2,039.8	2,308.6	2,375.7	2,558.6	13.2%	2.9%	7.7%
Average Earning Assets	2,673.8	2,705.4	2,722.3	2,821.4	2,838.5	2,830.2	2,861.1	2,988.8	2,429.6	2,730.5	2,879.7	3,074.8	12.4%	5.5%	6.8%
Deposits	2,366.1	2,349.9	2,390.6	2,520.5	2,544.3	2,478.5	2,482.0	2,568.8	2,371.7	2,520.5	2,568.8	2,712.8	6.3%	1.9%	5.6%
Equity	296.3	305.1	311.6	313.9	319.7	328.0	337.6	347.0	286.4	313.9	347.0	389.3	9.6%	10.6%	12.2%
<b>Statement of Operations:</b>															
FTE Net Interest Income	23.7	24.2	25.0	25.3	25.4	25.4	26.4	27.3	89.2	98.1	104.5	113.3	9.9%	6.5%	8.4%
Net Interest Income	23.5	24.0	24.8	25.1	25.2	25.2	26.2	27.1	88.3	97.3	103.6	112.4	10.1%	6.6%	8.4%
Provision for Loan Losses	0.5	0.8	1.3	0.5	0.9	0.6	0.2	0.6	0.8	3.0	2.3	4.3	300.0%	-23.4%	85.9%
<b>Non-Interest Income:</b>															
Investment Management & Trust	4.6	4.8	4.8	4.9	5.1	5.2	5.0	5.1	18.0	19.2	20.4	21.5	6.3%	6.5%	5.6%
Deposit Service Charges	2.1	2.3	2.5	2.5	2.4	2.4	2.5	2.5	8.9	9.5	9.9	10.0	6.3%	4.5%	1.0%
Bankcard Transaction Revenue	1.3	1.4	1.5	1.5	1.4	1.5	1.5	1.5	4.9	5.7	5.9	6.2	16.0%	5.2%	5.0%
Mortgage Banking	0.8	1.0	1.1	1.0	0.7	0.9	0.8	0.7	3.5	3.9	3.0	3.5	11.7%	-21.9%	15.9%
Brokerage Commissions & Fees	0.4	0.5	0.6	0.6	0.5	0.5	0.6	0.5	2.0	2.1	2.1	2.1	7.6%	-1.7%	0.8%
BOLI	0.2	0.2	0.2	0.2	0.2	0.6	0.2	0.2	0.9	0.9	1.2	0.8	-2.0%	34.1%	-30.1%
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	NA	NA	NA
Other	0.6	0.5	0.7	0.6	0.4	0.6	0.5	0.6	1.8	2.3	2.2	2.4	32.3%	-7.6%	12.3%
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	NA	NA	-100.0%
Total Non-Interest Income	10.1	10.8	11.4	11.3	10.8	11.7	11.1	11.2	40.0	43.5	44.8	46.7	9.0%	2.8%	4.3%
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	NA	NA	-100.0%
Adjusted Non-Interest Income	10.1	10.8	11.4	11.3	10.8	11.7	11.1	11.2	40.0	43.5	44.7	46.7	9.0%	2.7%	4.4%
<b>Non-Interest Expense:</b>															
Salaries & Benefits	12.2	12.0	12.0	13.0	13.4	12.8	13.0	13.1	44.7	49.2	52.3	55.6	10.0%	6.4%	6.3%
Occupancy	1.5	1.5	1.6	1.6	1.6	1.5	1.6	1.6	5.9	6.3	6.4	6.6	6.2%	1.8%	3.2%
Data Processing	1.5	1.9	1.7	1.9	1.9	2.1	1.9	1.9	6.3	7.1	7.8	7.7	11.4%	10.7%	-1.3%
Furniture & Equipment	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.1	1.1	1.2	1.3	6.4%	3.1%	9.1%
FDIC Insurance	0.3	0.4	0.4	0.4	0.2	0.2	0.2	0.2	1.3	1.2	1.0	1.0	-6.1%	-18.2%	6.6%
Other	3.7	4.2	4.4	4.4	3.1	3.7	3.6	3.5	14.1	16.7	14.0	14.3	18.2%	-16.1%	2.1%
Non-Interest Expense	19.5	20.2	20.5	21.3	21.1	21.3	21.3	21.3	73.4	81.5	85.1	89.0	11.1%	4.4%	4.5%
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	NA	NA	NA
Adjusted Non-Interest Expense	19.5	20.2	20.5	21.3	21.1	21.3	21.3	21.3	73.4	81.5	85.1	89.0	11.1%	4.4%	4.6%
Pretax Core Income	13.5	13.8	14.4	14.6	13.9	15.0	15.8	16.3	54.1	56.3	60.9	65.8	4.0%	8.3%	8.0%
Income Taxes	3.7	3.7	3.9	4.0	3.1	4.4	4.1	4.6	16.9	15.2	16.1	15.2	-10.0%	5.9%	-5.9%
Operating Net Income	9.8	10.1	10.5	10.6	10.8	10.6	11.7	11.7	37.2	41.0	44.8	50.6	10.3%	9.2%	13.0%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	0.44	0.45	0.46	0.46	0.47	0.46	0.51	0.51	1.66	1.80	1.94	2.17	8.7%	7.7%	12.0%
Operating EPS	0.44	0.45	0.46	0.46	0.47	0.46	0.51	0.51	1.66	1.80	1.94	2.17	8.7%	7.7%	12.0%
Dividends	0.17	0.18	0.18	0.19	0.19	0.19	0.19	0.20	0.64	0.72	0.77	0.81	12.0%	7.4%	5.2%
Tangible Book Value	13.08	13.45	13.71	13.79	14.02	14.39	14.81	15.18	12.70	13.79	15.18	16.88	8.5%	10.1%	11.1%
Common Shares Outstanding	22,478	22,510	22,563	22,617	22,661	22,662	22,669	22,729	22,379	22,617	22,729	22,969	1.1%	0.5%	1.1%
Average Diluted Shares	22,592	22,704	22,803	22,952	23,002	23,241	22,964	23,121	22,432	22,763	23,082	23,271	1.5%	1.4%	0.8%
<b>Key Financial Statistics (GAAP):</b>															
Return on Assets	1.40%	1.42%	1.44%	1.41%	1.46%	1.42%	1.53%	1.46%	1.45%	1.42%	1.47%	1.55%	(3)	5	8
Return on Equity	13.45%	13.53%	13.55%	13.51%	13.59%	13.09%	14.15%	13.58%	13.56%	13.51%	13.60%	13.76%	(5)	9	16
Net Interest Margin	3.56%	3.59%	3.65%	3.56%	3.63%	3.60%	3.66%	3.62%	3.68%	3.59%	3.63%	3.68%	(9)	4	6
Fee Income/Operating Rev.	30.05%	31.04%	31.45%	31.10%	30.01%	31.63%	29.73%	29.25%	31.15%	30.91%	30.16%	29.35%	(24)	(75)	(80)
Efficiency Ratio	58.69%	57.96%	56.19%	58.00%	58.32%	57.94%	56.83%	55.36%	56.54%	57.72%	57.11%	55.57%	118	(61)	(154)
Tang. Equity/Tang. Assets	10.42%	10.42%	10.54%	10.47%	10.48%	10.43%	10.64%	10.78%	10.09%	10.27%	10.78%	11.46%	17	51	68
Dividend Payout Ratio	38.28%	40.43%	39.21%	41.08%	40.50%	41.65%	37.27%	39.47%	38.61%	39.75%	39.72%	37.28%	114	(2)	(245)
NCOs/Average Loans	0.10%	0.01%	0.00%	0.15%	0.07%	-0.01%	0.06%	0.07%	0.17%	0.07%	0.05%	0.11%	(10)	(2)	6

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.

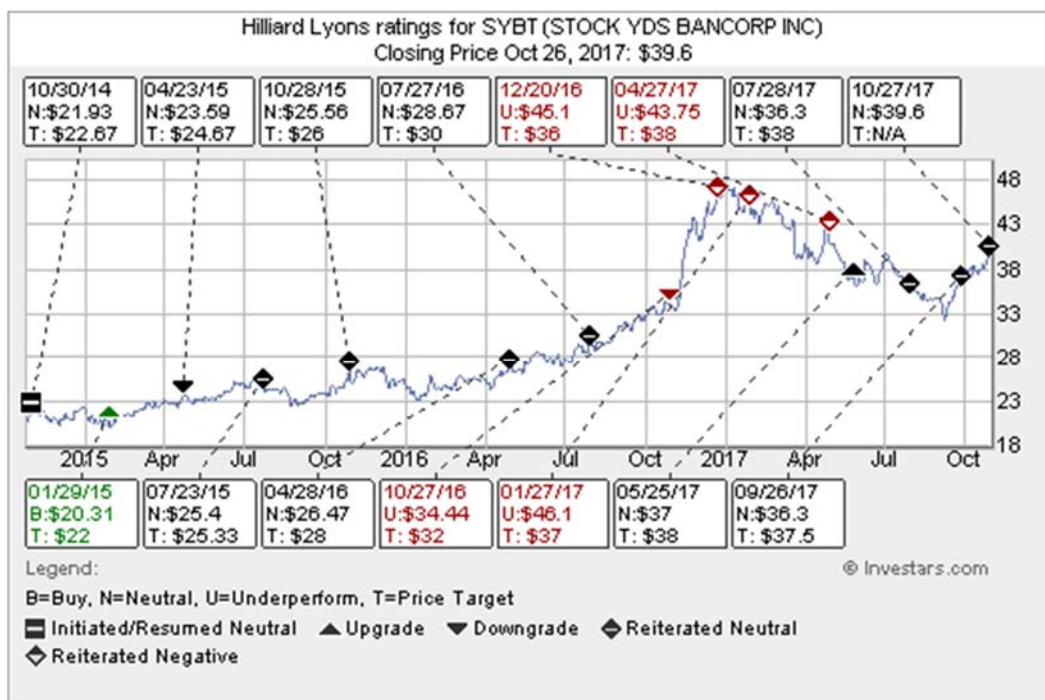
### **Definitions of Suitabilities:**

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

**Other Disclosures**

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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