



Equity Research | Access Bank Plc

ARM Research

research@armsecurities.com.ng

+234 1 270 1652

4 April 2013

Full Year Earnings Report

12 months ended 31st December, 2012

Recommendation: BUY

- Access Bank (Access) reported 54% YoY growth in gross earnings to N208.3bn for the 12 months ended December 2012. PBT and PAT rose 86% and 125% YoY to N44.9bn and N38.4bn respectively—the latter featuring an even lower tax rate of 4.5% compared to 10.3% as at 9M 12.
- The results included a discontinued operations loss of N4.5bn excluding which PAT rose 151% YoY to N42.9bn.
- Access also announced a N0.85 dividend which translates into a 45% payout ratio, in line with our estimate.

Liquidity boost fails to materialise

- After rediscounting AMCON bonds in Q3, we expected the improvement in liquidity to help Access capture higher yields on securities and loans. Hence, we limited our expected moderation in asset yields in Q4 to 30bps at 12% in spite of the downtrend in yields that quarter. However, asset yield contraction was a much stronger 110bps, with Q4 12 interest income of N38bn 14% below our estimate. Interest income was flat QoQ as total earning assets grew 8% (twice our estimate) to N1.45 trn in Q4 12. Incidentally, though interest expense rose 8% QoQ to N18.6bn (Q3: +19%)--16% above our estimates--deposits grew an even faster 12% QoQ (vs our 11% forecast) raising questions about how improved funding failed to significantly materialize on revenues.

Income Statement Data

	2012- FY 'm	2011 - FY 'm	%chg
Revenue	208,309	135,635	54%
PBT	44,880	24,107	86%
Tax	(2,018)	(7,029)	-71%
PAT	38,405	17,078	125%

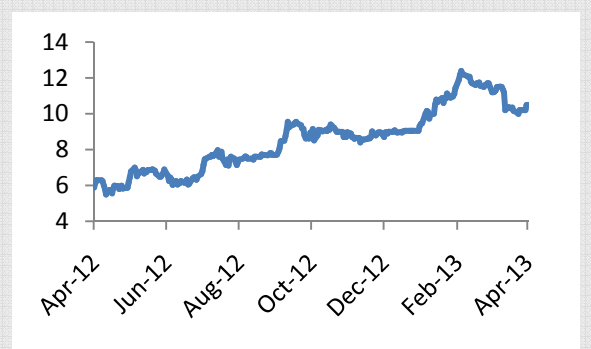
Balance Sheet Data

	2012-Dec 'm	2011 -Dec 'm	%chg
Cash	296,185	191,518	55%
Loans	604,073	576,229	5%
Deposits	1,201,482	1,102,000	9%
Fixed Asset	64,566	67,648	-5%
Net Assets	240,990	192,065	25%

Stock Data

Price	N10.5
52 week range	N5.5 - N12.39
Market Cap. (N'm)	240,327.15
1-month Avg. Vol	25,860,619
Curr. PE	5.6x
Bloomberg Ticker	ACCESS NL
Reuters Ticker	ACCESS.LG

Access Plc - Share Price Trend



Analyst(s)

Adeolu Omotola

adeolu.omotola@arm.com.ng

-
- After rising strongly through 9M 12, non-interest revenue (NIR) was particularly disappointing in Q4 12, falling 54% QoQ and short of our estimates by a similar margin. The decline was surprising since we expected disposal of ~10branches/month through Sept-Dec 2012 to augment NIR, per management guidance. Given these are audited results, we entertain the possibility that components were restated from prior quarters (as was the case in audited Q2 12 results) especially as other NIR items excluding fee income are lower than 9M levels.

Sharp reversals in opex trend as provisions weigh on earnings

- A sharp drop in staff costs in Q4 12 to N2.5bn compared with quarterly average of N9.4bn through 9M 12 also suggests restatement. Depreciation & amortization as well as 'other opex' showed similar trends driving Q4 12 CIR to 43% versus 9M average of 65% and our Q4 12 64% estimate.
 - Conversely, Access booked a charge of N10bn in Q4 12 in sharp contrast to a N1.1bn write-back in the preceding quarter that had led us to cut our Q4 12 forecasts back to a N2.6bn charge. Whilst the N4bn Q4 portion of the N8bn rediscounting loss on the Q3 AMCON bond sale may possibly have been reclassified as a charge rather than being added to opex as was done in Q3 12, this does not fully explain the significant divergence in both items.
 - Largely due to weaker revenue, Q4 12 PBT came in 36% lower QoQ at N5.8bn. Q4 PBT was however 54% below our estimates with provisioning accounting for much of the disparity. PAT was a moderate 9% lower QoQ at N7.8bn boosted by a N2bn tax write-back in Q4 12. Accordingly, while Q4 PBT margin was 11ppt lower than the 9M avg of N24%, PAT margin of 17% was 5ppt below the 9M avg and slightly ahead of our 16% estimate which had factored in a 29% tax charge for Q4 12.
-

Q4 12 figures reduce clarity in revising forecasts

- Volatility in quarterly revenues in FY 12, with strong suggestions of a second restatement in the course of the year, makes it somewhat difficult to discern a trend. Nevertheless, asset yield have established a definite downward trend in FY 12, leading us to cut our asset yield estimates for Access by 100bps to 11.5% for 2013. Encouraged by deposit growth matching our expectations, we have generally left earning asset volumes unchanged which at current levels imply a 13% YoY growth for FY 13E. Correspondingly, we expect Q1 2013 revenues to come in 32% higher QoQ relative to a weak Q4 12 and while our FY 13E revenue of N243bn is 6% lower than previous, it still implies a 16% YoY growth.
 - FY 12 interest expense of N65 bn is 4% above our estimate on similar funding base which puts WACF at 4.6%, which aligns with the 30bps QoQ improvement we factored into our 4.5% FY 12 estimate. This highlights the potential gains from improvements in Access' funding. We have maintained our NIM (ratio of net interest to interest income) estimates at 63% for FY 13E, trending higher to 65% over our forecast horizon. We expect interest expense to dip 7% QoQ to N17.3 billion in Q1 13.
 - Whilst opex has also shown significant variability in 2012, we maintain our 63% CIR forecast for 2013 affirming our expectations for improvement relative to FY 12 in the belief that its staff restructuring exercise is essentially complete. Notwithstanding, Q1 13E opex , at N27bn is more than double Q4 12 figures which we consider to be abnormally low. Moreover, our model forecasts imply a 100bps decline in CIR in the terminal period as revenues rise.
 - We err on the side of caution on the issue of provisions based on the industry and Access' recent history. Whilst the Q4 charge could very well prove to be a one-off, we have maintained FY 13E cost of risk at 1.3%, which is one of the highest among tier 1 banks.
 - Largely driven by lower revenue estimates our Q1 13E PBT and PAT estimates are 7% and 10% lower than previous at N55 billion and N44 billion respectively, with corresponding margins at 23% and 18%. The sharper reduction in the latter is as a result of a 200bps increment in our tax rate to 20% and translates to EPS of N1.92 for 2013
-

Longer term gains sustain valuation upside

Adjusting for tax variation both 2013 PBT and PAT margins are 100bps higher than FY12 in spite of our revisions. Over our forecast horizon, lower discount rates, funding cost and CIR estimates underpin a 16% upward revision in our fair value estimate to **N14**. Access currently trades at 5.6x current PE which compares favourably with tier 1 average of 10.2x as do forward PE of 5.5x (tier 1 avg: 6.8x) and P/Bv of 1x (tier 1 avg: 1.5x). Current market price implies a 34% upside to our fair value estimate and we maintain a **BUY** rating on the stock.

Summary of forecasts

Quarterly					
Income Statement (N'm)	Q1 2013E	Q2 2013E	Q3 2013E	Q4 2013E	
Net interest income	29,721	28,830	28,040	31,492	
Non-interest income	13,247	13,574	13,302	14,466	
Total Revenue	42,968	42,405	41,342	45,958	
Total Operating Costs	(26,764)	(26,229)	(25,694)	(28,370)	
Operating Profit	16,204	16,176	15,648	17,588	
Impairment Charge	(2,632)	(2,579)	(2,527)	(2,790)	
Pre-tax Profit	13,572	13,597	13,121	14,798	
Tax	(2,754)	(2,699)	(2,644)	(2,920)	
Post-tax Profit	10,818	10,897	10,477	11,879	
Annual					
Income Statement (N'm)	2011A	2012A	2013E	2014E	2015E
Net interest income	60,578	96,378	118,083	132,004	147,374
Non-interest income	41,332	46,266	54,590	69,465	81,045
Total Revenue	101,910	142,644	172,673	201,469	228,419
Total Operating Costs	- 74,191	- 87,517	- 107,057	- 122,896	- 139,335
Operating Profit	27,719	55,126	65,616	78,573	89,083
Impairment Charge	- 9,171	- 10,791	- 10,527	- 15,993	- 13,229
Pre-tax Profit	20,301	44,880	55,088	62,580	75,854
Tax	- 3,593	- 2,018	- 11,018	- 13,768	- 18,964
Post-tax Profit	16,708	42,862	44,071	48,812	56,891
Balance Sheet (N'm)	2011A	2012A	2013E	2014E	2015E
Assets					
Cash & Short term funds	202,330	326,785	293,880	337,052	477,320
Due from banks	2,428	4,565	29,837	34,495	30,990
Net Loans	577,206	604,073	754,384	943,862	1,051,501
Fixed Assets	67,645	64,566	79,565	91,986	90,386
Other Assets	786,356	745,188	831,450	892,261	932,271
Total Asset	1,635,965	1,745,177	1,989,115	2,299,655	2,582,468
Liabilities					
Deposits	1,103,869	1,201,482	1,378,590	1,607,524	1,790,671
Due to banks	146,808	105,171	103,394	90,423	68,000
Borrowings	29,258	97,266	103,394	100,470	172,267
Other liabilities	149,421	100,269	137,859	210,987	235,734
Total liabilities	1,429,356	1,504,187	1,723,237	2,009,404	2,266,672
Shareholders' fund	206,609	240,990	265,878	290,251	315,797
Key Data					
EPS Rep GAAP	0.61	1.86	1.92	2.12	2.47
DPS	-	0.85	0.86	1.06	1.36
BVPS	9.03	10.53	11.62	12.68	13.80
ROE	8%	18%	16%	17%	18%
ROA	1.0%	2.4%	2.2%	2.1%	2.2%
Key Ratios					
Loan to Asset	35%	35%	37%	41%	40%
Cost to income	73%	61%	62%	61%	61%
Net Profit Margin	11%	17%	18%	17%	18%
Liquidity ratio	16%	25%	22%	22%	27%
Capital adequacy ratio	25%	27%	24%	21%	22%

Source: Company financials, ARM Estimates

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6 month period (minimum) to the review date. We adopt a 5 point rating system for this category of stocks and a 3 point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

Copyright © 2013 Asset & Resource Management Company Limited (“ARM”).

All rights reserved. Unauthorised use, reproduction, distribution or disclosure of this document is strictly prohibited.

This material has been issued by Asset & Resource Management Company Limited (“ARM”), a Company regulated by the Nigerian Securities and Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARM and its analysts believe to be reliable. Neither ARM nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.
