

Access Bank Plc. (ACCESS.NL)

Rating	BUY
Price	₦7.9
FVE	₦12.52
52-week range	₦5.3-12.0
Market Cap. (₦bn)	305,688.9
1-month Avg. Vol	53,042,522.22
Curr. PB	0.41x

ACCESS:NL - Share Price Trend



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Stock Report

Non-interest revenue spurred earnings in 9M 2020

- Access bank released its 9M 2020 unaudited results, showing an expansion in PBT and PAT by 15.69% YoY and 15.68% YoY respectively. Although we saw a decline in net interest income as well as higher loan loss provisioning (+222.7% YoY), higher Non-interest revenue (+106% YoY) spurred earnings during the period.
- Over 9M 2020, interest income moderated by 7.34% YoY to ₦375.3 billion, reflecting lower interest income on loans to customers (-8% YoY) and a decline in interest income on investment securities (-15% YoY) – a fallout of lower yield environment. Unsurprisingly, interest expense declined by 8.11% YoY following a 24% YoY moderation in interest expense on deposit from customers to ₦93.6 billion. Overall, the fall in interest income resulted in a decline in net-interest income by 6.63% YoY. Net interest margin moderated by 170bps YoY to 5.1% in 9M 2020, mirroring faster decline in asset yields by 336bps YoY to 9.7%, relative to cost of funds, which moderated by 160bps YoY to 3.6%.
- Notably, Non-interest revenue rose significantly by 106% YoY to ₦201 billion, anchored by growth in trading income (+2431% YoY to ₦84.2 billion), higher fee and commission (+31% YoY) and foreign exchange gains (+145% YoY to ₦12.6 billion). To shed more light, higher trading income from derivative instruments which printed at ₦43 billion, compared to a loss of ₦19 billion in the prior period, in addition to improved trading income on fixed income securities drove overall trading income higher. Meanwhile, cost to income ratio declined by 175bps YoY to 62.1% due to a faster rise in operating income by 29.2% YoY, compared to operating expense (+25.6% YoY). Similar to other banks, the increase in operating expenses is due to higher regulatory fees as AMCON levy and NDIC rose by 56% and 27% YoY respectively, amongst other line items.
- On asset quality, NPL ratio moderated 160bps YTD to 4.2% (H1 20: 4.4%) on the back of a ₦70.1 billion write-off and restructuring of loans during the review period. Meanwhile, Access bank booked higher loan loss provisioning (+222.7% YoY to ₦34.2 billion), which was evidenced in cost of risk, rising by 78bps YoY to 1.5%. Capital

adequacy ratio improved by 30bps in 9M 2020, printing at 20.3% relative to FY 19: 20%, comfortably above the regulatory limit of 15%.

- The quarterly numbers also showed improvement as PBT rose by 51.1% QoQ, while significant moderation in taxes further supported the bottom line, with PAT expanding by 105% QoQ to ₱41.3 billion. Contrary to the 9M 20 performance, we observed a sturdy rise in net interest income by 29.8% QoQ on the back of higher interest income (+11.9% QoQ) and a fall in interest expense (-3.9% QoQ). Meanwhile, Non-interest revenue moderated by 5% QoQ due to losses on trading instruments (-196% QoQ). On other fronts, operating expenses fell by 13.6% QoQ mirroring the recognition of AMCON levy H1 2020, while loan loss provisioning rose 125.5% QoQ to ₱17.7 billion.
- With NIR running ahead of our full year estimate, we made an upward adjustment to ₱272.5 billion (previously: ₱157.2 billion). We also adjusted operating expenses upwards to ₱342 billion and cost of risk to 1.5%. The impact of our adjustment is an increase in PAT by 10% YoY to ₱106.8 billion over FY 2020 (previously: 3.7% YoY expansion in PAT to ₱101.1 billion). We now have a FVE of ₱12.52/ share (previously: ₱9.8/share) translating to a BUY rating on the stock based on last closing price. However, we are not too optimistic on the stock given the volatile nature of the earnings as well as high operating cost.

Summary of Results

N'million	9M 20	9M 19	YoY (pps)	Q3 20	Q2 20	QoQ
Gross Earnings	592,787	513,656	15.41%	196,030	186,962	4.8%
Net interest income	196,274	210,218	-6.63%	70,066	53,995	29.8%
Non-interest revenue	201,461	97,745	106.11%	62,609	65,870	-5.0%
Operating expenses	-246,872	-196,550	25.60%	-72,584	-83,969	-13.6%
Impairment charges	-34,240	-10,611	222.70%	-17,775	-7,884	125.5%
PBT	116,623	100,802	15.69%	42,316	28,013	51.1%
PAT	102,300	88,438	15.68%	41,266	20,106	105.2%
EPS	2.88	2.49	15.68%	1.16	0.57	105.2%
-	9M 20	9M 19	YoY (pps)	Q2 20	QoQ	
Loans	3,087,482	2,768,270	11.53%	2,999,818	2.92%	
Investment Securities	1,537,934	1,661,566	18.21%	1,462,258	-3.72%	
Total Assets	7,924,816	6,606,271	19.96%	7,766,507	2.04%	
Deposits	5,263,435	4,239,083	24.16%	4,667,656	12.76%	
Total liabilities	7,241,182	5,988,386	20.92%	7,092,157	2.10%	
Net Assets	683,634	617,885	10.64%	670,362	1.98%	
BVPS	19.2	17.4	10.64%	19.0	1.38%	
-	9M 20	9M 19	YoY (pps)	Q3 20	Q2 20	YoY (pps)
Asset Yields	9.64%	12.95%	-3.31%	8.89%	8.28%	0.60%
WACF	5.32%	4.68%	0.64%	3.48%	3.70%	-0.22%
Net interest margins	5.00%	6.07%	-1.07%	6.60%	5.29%	1.31%
Cost-income ratio	62.07%	63.82%	-1.75%	54.71%	70.05%	-15.34%
Cost of risk	1.48%	0.51%	0.97%	2.03%	0.93%	1.10%
ROAE	20.09%	19.58%	0.51%	24.31%	12.25%	12.06%

Balance Sheet (N³million)	2019	2020E	2021E	2022E	2023E
Assets					
Inv. Securities	1,690,160	1,055,125	1,690,160	1,811,306	1,901,871
Net loans	2,911,580	1,993,606	2,911,580	2,985,120	3,110,885
Gross loans					
Interest-earning assets	4,884,384	3,230,038	4,884,384	4,979,816	5,205,315
Total assets	7,142,322	4,954,160	7,142,322	7,727,545	8,157,775
Liabilities					
Interbank	1,186,356	994,573	1,186,356	1,245,674	1,307,958
Borrowings	586,603	388,417	586,603	592,469	610,243
Deposits	4,255,837	2,564,908	4,255,837	4,681,421	4,915,492
Interest-bearing liabilities	6,028,796	3,947,898	6,028,796	6,519,564	6,833,693
Total liabilities	6,532,808	4,461,309	6,532,808	7,031,475	7,348,922
Shareholders' Equity	609,513	492,851	609,513	696,070	808,853
Income Statement (N³million)					
	2019	2020E	2021E	2022E	2023E
Interest Income	536,847	489,185	578,874	598,682	624,873
Interest Expense	(259,618)	(250,459)	(261,059)	(286,113)	(302,871)
Net Interest Income	277,229	238,726	317,815	312,569	322,001
Non Interest Revenue	112,109	272,508	224,432	238,509	253,575
Gross Earnings	648,956	761,692	803,306	837,191	878,447
Staff Costs	(76,964)	(85,661)	(88,702)	(89,323)	(89,948)
Other Costs	(176,806)	(256,615)	(261,759)	(269,028)	(276,510)
Total Costs	(253,770)	(342,276)	(350,461)	(358,351)	(366,459)
PBT	115,379	124,181	157,567	167,207	182,704
Provision Charge	(20,189)	(44,777)	(34,220)	(25,519)	(26,413)
Tax	(17,869)	(17,385)	(22,059)	(23,409)	(25,579)
Net Profit	97,510	106,796	135,507	143,798	157,126
Dividend Paid	(23,104)	(21,359)	(27,101)	(28,760)	(31,425)

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
STRONG 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 reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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