



Access Bank Plc. (ACCESS.NL)

Rating	BUY
Price	₦6.4
FVE	₦9.8
52-week range	₦5.3-12.0
Market Cap. (₦bn)	231,044
1-month Avg. Vol	13,927,680
Curr. PB	0.37x

ACCESS:NL - Share Price Trend



Analyst

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[Access Bank Plc Q1 2020 - Earnings outlook tilting towards the downside](#)

Stock Report

Derivative gain masks pressures on earnings

- Access bank released its audited H1 2020 results, showing a modest expansion of 3.0% YoY in PBT while PAT declined marginally by 0.03% YoY. Though Non-Interest Revenue expanded by 194% YoY, moderation in Net Interest Income, as well as expansion in operating expense and loan loss provision suppressed earnings over the period. The result came in ahead of our estimate largely due to the sharp growth in Non-Interest Revenue. Excluding the volatile line items (gains on derivative instruments and FX revaluation loss), PAT would have declined by 76.7% YoY. Access bank declared an interim dividend of ₦0.25/share (same as last year) which translates to a dividend yield of 3.9% based on last closing price.
- Given the volatile nature of the earnings, we choose to maintain our estimates save the potential impact of the revised savings deposit rate on interest expense. Meanwhile, we expect operating expense to moderate going into the rest of the year as integration cost with Diamond bank fades out. We expect PAT to expand moderately by 3.7% YoY to ₦101.1 billion over FY 2020. Our target price of ₦9.8/share (previously ₦7.9/share) translates 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. We continue to favour GTB and Zenith among the banks given their adequate buffers to withstand the prevailing pressures. Precisely, Zenith and GTB continue to command a better Return on Equity (Zenith – 21.5%, GTB – 26.8%) and operating efficiency (Zenith - CIR: 54.3%, GTB – 43.2%) compared to most other banks.
- Non-interest revenue expanded significantly by 194.5% YoY largely reflecting trading gains on fixed income instruments and gains on derivative instruments, masking a FX revaluation loss of N57.7 billion over the same period. Meanwhile, E-business fee expanded by 151% YoY, a big contrast to other banks.
- Despite a lower rate environment, interest expense expanded by 2.35% YoY reflecting higher borrowing cost (+44% YoY) and interest expense paid on deposits from other banks (+49% YoY).

- On the other hand, interest income faltered, owing to lower interest income on investment securities – a fallout of lower treasury rates. On balance, Net Interest Income declined by 18.7% YoY.
- Further down, loan loss provision expanded by 237% YoY reflecting the impact of covid-19 on the bank loans. Lastly, operating expense also expanded by 39% YoY. As mentioned in our last report, the increased cost continued to reflect integration costs with Diamond Bank.
- On the quarterly numbers, both PBT and PAT declined by 39.55 QoQ and 50.9% QoQ respectively. In a similar trend with the H1 20 performance, Net Interest Income also declined on the back of lower interest income (-12.9% QoQ) and higher interest expense (+2.0% QoQ). Elsewhere, Non- Interest Revenue moderated by 9.7% QoQ following lower gains on derivative instruments. On other fronts, both operating expense and loan loss provision moderated by 7.0% QoQ and 8.1% QoQ¹ respectively.
- Given the volatile nature of the earnings, we choose to maintain our estimates save the potential impact of the revised savings deposit rate on interest expense. Meanwhile, we expect operating expense to moderate going into the rest of the year as integration cost with Diamond bank fades out. We expect PAT to expand moderately by 3.7% YoY to ₱101.1 billion over FY 2020. Our FVE of ₱9.8/share (previously ₱7.9/share) translates 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. We continue to favour GTB and Zenith among the banks given their adequate buffers to withstand the prevailing pressures. Precisely, Zenith and GTB continue to command a better Return on Equity (Zenith – 21.5%, GTB – 26.8%) and operating efficiency (Zenith - CIR: 54.3%, GTB – 43.2%) compared to most other banks.

¹ Reflecting a gradual end to the impact of integration costs

Summary of Results

N'million	H1 20	H1 19	YoY (pps)	Q2 20	Q1 19	QoQ
Gross Earnings	396,757	324,376	22.31%	186,962	209,795	-10.88%
Net interest income	126,207	155,146	-18.65%	53,995	72,212	-25.23%
Non-interest revenue	138,852	47,150	194.49%	65,870	72,982	-9.74%
Operating expenses	-174,288	-125,274	39.13%	-83,969	-90,319	-7.03%
Impairment charges	-16,466	-4,880	237.43%	-7,884	-8,582	-8.14%
PBT	74,306	72,143	3.00%	28,013	46,293	-39.49%
PAT	61,035	61,052	-0.03%	20,106	40,929	-50.88%
EPS	1.72	1.72	-0.03%	0.57	1.15	-50.88%
-	H1 20	H1 19	YoY (pps)	Q1 19	QoQ	
Loans	2,999,818	2,650,322	13.19%	2,916,763	2.85%	
Investment Securities	1,462,258	1,631,220	18.21%	1,450,535	-3.72%	
Total Assets	7,766,507	6,488,607	19.69%	7,280,787	6.67%	
Deposits	4,667,656	4,182,991	11.59%	4,456,633	4.74%	
Total liabilities	7,092,157	5,902,248	20.16%	6,641,838	6.78%	
Net Assets	674,350	586,360	15.01%	635,537	6.11%	
BVPS	19.0	16.5	15.01%	18.0	5.54%	
-	H1 20	H1 19	YoY (pps)	Q2 20	Q1 19	YoY (pps)
Asset Yields	10.06%	13.43%	-3.38%	8.28%	9.84%	-1.56%
WACF	3.66%	4.23%	-0.56%	3.70%	3.85%	-0.15%
Net interest margins	5.30%	6.88%	-1.58%	5.29%	7.39%	-2.10%
Cost-income ratio	65.75%	61.93%	3.83%	70.05%	62.21%	7.85%
Cost of risk	1.10%	0.37%	0.73%	0.93%	1.09%	-0.16%
ROAE	18.59%	20.95%	-2.36%	12.25%	26.21%	-13.96%

Balance Sheet (N ³ million)	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	7,142,230	4,954,160	7,142,230	7,722,819	8,144,634
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	609,422	492,851	609,422	691,344	795,712

Income Statement (N ³ million)	2019	2020E	2021E	2022E	2023E
Interest Income	536,847	546,105	578,874	598,682	624,873
Interest Expense	(259,618)	(250,459)	(261,059)	(286,113)	(302,871)
Net Interest Income	277,229	295,646	317,815	312,569	322,001
Non Interest Revenue	112,109	129,198	144,918	155,256	166,421
Gross Earnings	648,956	675,302	723,791	753,938	791,294
Staff Costs	(76,964)	(84,853)	(87,865)	(88,480)	(89,100)
Other Costs	(176,806)	(189,576)	(194,837)	(200,099)	(205,514)
Total Costs	(253,770)	(274,429)	(282,703)	(288,580)	(294,613)
PBT	115,379	117,578	145,810	153,727	167,397
Provision Charge	(20,189)	(32,836)	(34,220)	(25,519)	(26,413)
Tax	(17,869)	(16,461)	(20,413)	(21,522)	(23,436)
Minorities					
Net Profit	97,510	101,117	125,397	132,205	143,961

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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