

## Access Bank Plc. (ACCESS.NL)

Rating	BUY
Price	₦6.2
FVE	₦7.9
52-week range	₦5.30-12.0
Market Cap. (₦bn)	220,380
1-month Avg. Vol	22,012,410
Curr. PB	0.35x

### ACCESS:NL - Share Price Trend



### Analyst

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### Stock Report

#### Earnings outlook tilting towards the downside

- Last week, Access Bank released unaudited Q1 20 results showing a slight expansion in PBT (+2.6% YoY) while PAT moderated by 0.5% YoY following a higher effective tax. Despite sizable increases in interest income (+19% YoY) and NIR (+56% YoY) over the period, sharp expansion in opex (+64% YoY) and impairment charge (+154% YoY) weighed heavily on the performance. Growth in opex continued to reflect the merger integration costs across board. On a quarterly basis, PBT and PAT were higher by 277% QoQ and 505% QoQ largely mirroring expansion in derivative gain following new positions in its derivative book.
- Going into the rest of the year, we think costs from the integration with Diamond bank would still surface as seen in Q1. Elsewhere, we note our concern and reservation on the volatility of the bank earnings, particularly on derivative gains. Although, management has mentioned its intention to plan the maturity of its derivative book in order to avoid volatility, we are however not convinced. Also, given Access bank net short dollar exposure (circa \$2.6 billion vs \$1.2 billion in FY 2018), we expect more FX revaluation loss on the back of further naira devaluation. Lastly, while management's strategy on expanding its footprint across Africa looks positive in the long term, we think this won't result into immediate gains and thus, pressure return on equity in the interim.
- We expect NIM to contract by 95 bps reflecting faster decline in asset yield and sticky decline in funding cost. On balance, we forecast Net Interest Income to expand slightly by 4.8% YoY. Elsewhere, we anticipate increase in NIR (+15.2% YoY) largely reflecting derivative gains. For context, most of the maturity in its derivative book is expected to occur from Q4 20 up till 2021. Lastly, we envisage a higher Cost of Risk over 2020 (+41 bps YoY) due to the impact of Covid-19 on the economy, lower oil price as well as FX devaluation. Thus, we forecast impairment charge to expand by 63% YoY. Overall, we expect PAT to decline marginally by 0.9% YoY.
- We have cut our target price for ACCESS from ₦11.8/share to ₦7.93/share reflecting the pressures highlighted. However, we maintain our BUY rating on ACCESS with an upside of 48.8%. We think there is potential for some upside given sell offs over the past weeks. Access trades at a forward p/b of 0.32x compared to peer average of 0.45x. On regulatory metrics, Access bank maintains CAR and loan to funding ratio of 20% and 62.9% respectively compared to benchmarks of 15% and 65%.

## Summary of Results

N'million	Q1 20	Q1 19	YoY (pps)	Q1 20	Q4 19	QoQ
Gross Earnings	209,795	160,123	31.02%	209,795	153,098	37.03%
Net interest income	72,212	56,838	27.05%	72,212	67,011	7.76%
Non-interest revenue	72,982	46,786	55.99%	72,982	14,364	408.09%
Operating expenses	-90,319	-55,148	63.77%	-90,319	-59,522	51.74%
Impairment charges	-8,582	-3,375	154.28%	-8,582	-9,579	-10.40%
PBT	46,293	45,101	2.64%	46,293	12,275	277.15%
PAT	40,929	41,148	-0.53%	40,929	6,770	504.55%
<b>EPS</b>	<b>1.15</b>	<b>1.16</b>	-0.53%	<b>1.15</b>	<b>0.19</b>	504.55%
-	Q1 20	Q1 19	YoY (pps)	Q4 19	QoQ	
Loans	2,916,763	2,600,151	12.18%	2,911,580	0.18%	
Investment Securities	1,450,535	1,582,579	18.21%	1,690,160	-3.72%	
Total Assets	7,280,787	6,427,327	13.28%	7,146,610	1.88%	
Deposits	4,456,633	3,920,301	13.68%	4,255,837	4.72%	
Total liabilities	6,641,838	5,848,237	13.57%	6,532,808	1.67%	
Net Assets	638,948	579,090	10.34%	610,193	4.71%	
BVPS	18.0	16.3	10.34%	17.3	4.10%	
-	Q1 20	Q1 19	YoY (pps)	Q1 20	Q4 19	YoY (pps)
Asset Yields	11.22%	10.99%	0.23%	11.22%	12.59%	-1.38%
WACF	3.85%	4.16%	-0.31%	3.85%	4.31%	-0.46%
Net interest margins	5.99%	5.92%	0.07%	5.99%	5.80%	0.19%
Cost-income ratio	62.21%	53.22%	8.99%	62.21%	65.18%	-2.97%
Cost of risk	1.18%	0.52%	0.66%	1.18%	0.69%	0.48%
ROAE	26.14%	30.71%	-4.57%	26.14%	15.83%	10.30%

<b>Balance Sheet (N<sup>3</sup>million)</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Assets</b>					
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
<b>Total assets</b>	<b>7,145,683</b>	<b>4,954,160</b>	<b>7,145,683</b>	<b>7,722,569</b>	<b>8,134,470</b>

<b>Liabilities</b>					
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
<b>Shareholders' Equity</b>	<b>612,875</b>	<b>492,851</b>	<b>612,875</b>	<b>691,094</b>	<b>785,548</b>

<b>Income Statement (N<sup>3</sup>million)</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Interest Income	536,847	546,105	578,874	598,682	624,873
Interest Expense	(259,618)	(255,705)	(274,909)	(301,348)	(319,630)
Net Interest Income	277,229	290,400	303,965	297,334	305,243
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	112,332	131,960	138,492	150,638
Provision Charge	(20,189)	(32,836)	(34,220)	(25,519)	(26,413)
Tax	(17,869)	(15,726)	(18,474)	(19,389)	(21,089)
Minorities	0	1	2	3	4
Net Profit	97,510	96,605	113,486	119,103	129,549
Dividend Paid	(23,104)	(19,321)	(22,697)	(23,821)	(25,910)

<b>Per-share data (N)</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
No of common shares (mn)	35,545,226	35,545,226	35,545,226	35,545,226	35,545,226
EPS	2.74	2.72	3.19	3.35	3.64
DPS	0.65	0.54	0.64	0.67	0.73
BVPS	17.24	19.44	22.10	24.89	28.00

<b>Balance-sheet ratios (%)</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Loan/Assets	40.75%	38.65%	38.24%	37.13%	36.32%
Deposit/Liabilities	65.15%	66.58%	66.89%	66.96%	66.95%
Loans/Deposits	68.41%	63.77%	63.29%	61.80%	60.92%
Assets/Equity	11.66	11.17	10.36	9.71	9.13

<b>Asset Quality</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
NPLs	179,972	191,764	164,597	167,889	136,997
NPLs/Gross Loans (%)	5.80%	6.00%	5.00%	5.00%	4.00%

<b>Margins (%)</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Asset Yield	13.23%	11.07%	11.37%	11.30%	11.34%
WACF	5.20%	4.08%	4.12%	4.30%	4.35%
NIM	6.83%	5.89%	5.97%	5.61%	5.58%

<b>Costs (%)</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Cost/Income	65.18%	65.40%	62.98%	63.76%	61.88%
Effective tax rate	15.49%	14.00%	14.00%	14.00%	14.00%

<b>Profitability ratios (%)</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
RoAE	17.64%	14.82%	15.37%	14.26%	13.78%
RoAA	1.61%	1.30%	1.43%	1.42%	1.47%

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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