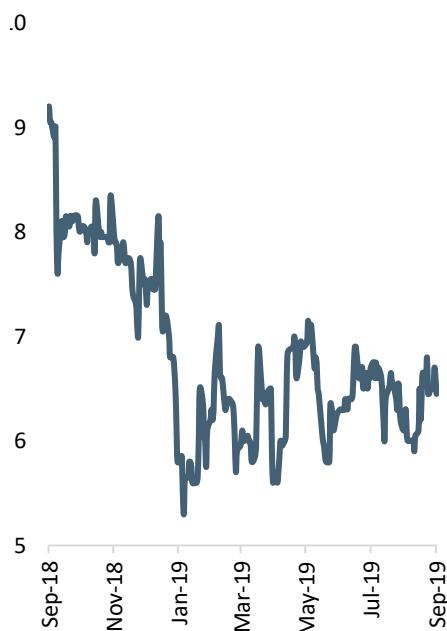


Price	₦6.65
52-week range	₦5.20-9.35
Market Cap. (₦bn)	243,485
1-month Avg. Vol	51,567,117
Curr. PB	0.37x

ACCESS:NL - Share Price Trend



Analyst

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Access Bank Plc. (ACCESS.NL)

Initial View

Q2 performance raises questions

- Access Bank Plc released H1 19 results this morning, with PBT and PAT expanding 62% and 59% YoY respectively, both representing 54% of our full year estimate. Non-interest income declined 29% YoY due to losses on both fixed income and derivative instruments of ₦4.2 billion, compared to a combined gain of ₦33.5 billion in H1 18, thus coming below our prorated full year estimate. Net interest income (+82% YoY, with related margin up 80bps YoY) more than surprised and offset the decline in NIR. The bank declared interim dividend of ₦0.25 (H1 18: ₦0.25). Our expected full year dividend of ₦0.50, translates to dividend yield of 7.5% at current pricing of ₦6.65.
- On interest income, Access grew the line by 46% YoY following higher interest on loans and investment securities. Irrespective, the yields on assets contracted 110bps, as the increases across lines were more reflective of volume play, with interest earning assets expanding 63%. On the other hand, WACF funds contracted 130bps YoY to 4.1%, with related interest expense higher 16% YoY. The increase largely reflects the higher volumes in customers deposit (103% YoY), Although, interest on deposits only expanded 11% YoY as CASA mix improved by 800bps YoY to 55%. Interest on interbank takings remained elevated (72% YoY), but interest on loans moderated 3% YoY.
- Surprisingly, the Q2 numbers came with negative surprises with PBT declining 36% QoQ, a higher effective tax further pushed PAT lower by 47% QoQ. Interestingly, net interest income came in 73% higher QoQ (supported by a higher asset base from the conclusion of the merger), due to faster expansion in interest income (+46% QoQ, with annualised yield expanding 360bps QoQ) compared to interest expense (+18% QoQ, and related margin up 60bps QoQ). On the other hand, most of the gains booked on the FI trading, derivative and foreign exchange gains in Q1 19, were all reversed over the quarter to more than expunge the increase recorded on the net fee income line (168% QoQ).
- Focusing on the NIR in Q2, compared to combined gains of ₦25 billion booked on trading and derivative lines in Q1 19, the bank booked a loss on same lines of ₦41 billion in Q2 due to unrealised FX loss, FX trading and derivative loss, and FI securities. On the positive, the bank recovered ₦14 billion from already impaired loans and booked lower provisioning of ₦1.5 billion (with H1 19 level of ₦4.9 billion), with cost of risk moderating 40bps YoY to 0.37%.

- While we admire the performance on funding income in Q2 and combined H1, the higher operating expense (cost to income ratio of 69% from 53% in Q1) without corresponding support on income leaves a lot of worry. Also, both absolute NPL and Stage 2 loans increased ₦141 billion and ₦194 billion respectively over H1 19. On regulatory ratios, the bank loan to deposit ratio stood at 72% and loan to funding at 54%. Capital adequacy ratio remained flat at 21% with liquidity ratio of 50%.
- Access currently trades at FY 19 P/B multiple of 0.4x, which is at a discount Tier 1 average of 0.8x. With so many questions trailing the released numbers, we do not see a valuation rerating in the short term. Nonetheless, at current levels and based on our FY 19E dividend of ₦0.50, we view expected dividend yield of 7.5% as attractive and could be compelling to investors.

Summary of H1 2019 Results

N'million	H1 19	H1 18	YoY (pps)	Q2 19	Q1 19	QoQ
Gross Earnings	324,376	253,024	28.20%	164,253	160,123	2.58%
Net interest income	155,146	85,296	81.89%	98,308	56,838	72.96%
Non-interest revenue	47,150	66,120	-28.69%	364	46,786	-99.22%
Operating expenses	-123,301	-98,233	25.52%	-68,152	-55,148	23.58%
Impairment charges	-4,880	-7,340	-33.52%	-1,505	-3,375	-55.42%
PBT	74,116	45,843	61.67%	29,015	45,101	-35.67%
PAT	63,025	39,625	59.05%	21,877	41,148	-46.83%
EPS	1.77	1.37	29.44%	0.62	1.16	-46.83%
DPS	0.25	0.25	0.00%			
-	H1 19	H1 18	YoY (pps)	Q1 19	QoQ	
Loans	2,650,322	1,905,022	39.12%	2,600,151	1.93%	
Investment Securities	1,631,220	746,678	18.21%	1,582,579	-3.72%	
Total Assets	6,488,604	4,371,408	48.43%	6,427,324	0.95%	
Deposits	4,182,991	2,408,983	73.64%	3,920,301	6.70%	
Total liabilities	5,904,813	3,911,220	50.97%	5,850,854	0.92%	
Net Assets	583,791	460,188	26.86%	576,470	1.27%	
BVPS	16.4	12.9	26.86%	16.2	1.27%	
-	H1 19	H1 18	YoY (pps)	Q2 19	Q1 19	YoY (pps)
Asset Yields	12.04%	13.13%	-1.10%	12.37%	8.74%	3.64%
WACF	4.13%	5.47%	-1.34%	4.48%	3.91%	0.57%
Net interest margins	6.84%	6.00%	0.84%	10.90%	6.52%	4.38%
Cost-income ratio	60.95%	64.88%	-3.93%	69.07%	53.22%	15.85%
Cost of risk	0.37%	0.77%	-0.40%	0.21%	0.49%	-0.28%
ROAE	10.86%	17.33%	-6.47%	4.48%	3.91%	0.57%

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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