

Price	₦6.05
FVE (last communicated)	₦11.80
52-week range	₦5.20 – ₦11.35
Market Cap. (₦' Mn)	215,048
1-month Avg. Vol	4,095,607
Curr. PE	1.54x

ACCESS:NL - Share Price Trend



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Access Bank Plc. (ACCESS.NL)

Initial View

Regulatory capital still strong, but worrisome NPL

- Opening the Q1 earnings season, Access bank at the close of market yesterday released its Q1 2019 numbers with consolidated balance sheet number of the acquired Diamond Bank. However, given that the merger was concluded on the 19th of March, the gains from earnings of Diamond bank during the period was accounted for as part of acquired reserves. Irrespective, the released number was quite strong, with EPS expanding 28% QoQ, following double-digit growth across income lines (net interest income: +12.3% QoQ and non-interest revenue: +23.7%) as well as lower loan-loss provisioning (-46.5% QoQ to ₦3.4 billion). However, reflecting the consolidation of the balance sheet, the combined entity's NPL ratio expanded to 10% from Access' reported FY 18 of 2.5%.
- Some CASA synergy from consolidation.** From a low of 50% share of total deposits, current and savings account (CASA) share of deposits expanded to 57% over Q1 19. Surprisingly, in value terms, the increases in both demand and savings account was higher than the expected additions from consolidation with Diamond. For context, the CASA reported by Diamond bank over 9M 18 printed at ₦836.7 billion which adjusted for full year CASA position of Access in FY 18 of ₦1.28 trillion, suggest combined CASA of ₦2.11 trillion. However, the reported CASA is ₦125 billion ahead of estimate at ₦2.24 trillion.
- Regulatory position still strong, but worrisome NPL.** In line with guidance during the merger update conference call, additional ₦155 billion in loan loss provision was transferred from Diamond to Access, with total provisioning expanding to ₦243

billion (Access FY 18: ₦88.2 billion), which coupled with the increase in NPL book by more than fourfold to ₦284 billion, the enlarged Access coverage ratio weakened to 85% (Access FY 18:160%). Post consolidation of the balance sheet, capital adequacy ratio (CAR) adjusted for the CBN forbearance on the full impact of IFRS 9 stood at of 22.51% (FY 18: 20.78%). However, adjusting for the full impact of IFRS 9, CAR settled at 19.00% (FY 18: 19.90%).

- ***Strong performance across income lines.*** On net interest income, the gains stemmed largely from decline in interest income of (+3.3% QoQ) and slower growth in interest income (+4.1% QoQ). On the former, the moderation emanated from lower interest on interbank takings (-19% QoQ) and slower growth on interest on customers deposit, which is reflective of the organic growth in deposits over the quarter, in our view. On interest income, we are however worried, given that most of the gains was propelled by interest on financial assets measured at fair value through profit and loss (FVPL). For context, while interest on loans grew by just 1.2% QoQ, investment securities surged 31% QoQ, with gains largely from Financial assets at FVPL which came in at ₦15.6 billion compared to ₦1.0 billion in Q4 18.
- NIR remained resilient, expanding 24.4% QoQ to ₦46.8 billion stemming largely from lower unrealized FX on derivative instruments of ₦4.7 billion, compared to loss of ₦18.7 billion in the prior quarter. However, we note that net fee income (-16% QoQ) declined – due to lower credit related fees, commission on financial service, virtual products, FX transactions and E-business income.
- The stock currently trades at a current P/B of 0.36x which is at a discount to peers of 0.74x. Our last communicated FVE on ACCESS is ₦11.80, however, we have a **HOLD** rating on the stock. We will revisit our numbers after further analysis and discussion with management.

Summary of Results and Forecast

N' million	Q1 19	Q1 18	YoY growth	Q4 18	QoQ
Gross Earnings	160,123	137,535	16.4%	153,514	4.3%
Net Interest Income	56,838	44,653	27.3%	50,628	12.3%
Non-Interest Revenue	46,786	40,003	17.0%	37,834	23.7%
Operating Expenses	(55,148)	(52,256)	5.5%	(49,240)	12.0%
Impairment	(3,375)	(4,961)	-32.0%	(6,303)	-46.5%
PBT	45,101	27,439	64.4%	32,919	37.0%
PAT	41,148	22,116	86.1%	32,070	28.3%
EPS	1.39	0.76	81.4%	1.11	25.1%
N' million	Q1 19	Q4 18	QoQ		
Loans	2,600,151	1,993,606	30.4%		
Total Assets	6,427,324	4,954,157	29.7%		
Deposits	3,920,301	2,564,908	52.8%		
Total Liabilities	5,850,854	4,463,645	31.1%		
Net Assets	576,470	490,512	17.5%		
BVPS	19.93	16.96	17.5%		
	Q1 19	Q1 18	change (pps)	Q4 18	change (pps)
Assets Yields	11.0%	12.4%	-1.40%	10.7%	0.34%
WACF	4.4%	5.8%	-1.40%	5.3%	-0.91%
Net Interest Margin	5.6%	5.8%	-0.20%	6.9%	-1.29%
Cost-Income Ratio	53.2%	62.0%	-8.80%	55.7%	-2.46%
Cost of Risk	1.1%	1.0%	0.10%	1.2%	-0.08%
ROE	30.9%	18.2%	12.61%	26.6%	4.22%
CAR	19.1%	19.3%	-0.20%	19.9%	-0.80%

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 reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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