



Equity Research | Access Bank Plc

ARM Research

[research@armsecurities.com.ng](mailto:research@armsecurities.com.ng)

+234 1 270 1652

10 October 2014

Initial View

9 months ended 30<sup>th</sup> September, 2014

**Recommendation: STRONG BUY**

- Access Bank Plc (Access) reported 17% YoY growth in gross earnings to ₦181.4 billion for the 9 months to September 2014, an improvement on 13% YoY growth as at H1 14. PBT of ₦42.2 billion is 20% higher YoY (H1: +4%) while PAT of ₦35.8 billion is 29% higher YoY (H1: +11%).

### ***Loan focus sustains top-line improvement***

- Gross earnings of ₦63.7 billion were in line with our estimates and 6% higher QoQ as Access' improved balance sheet flexibility reflects in stronger asset creation. The major balance sheet change was a rotation out of cash (-23% QoQ) into loans (+14% QoQ) as the bank continued to deploy improved liquidity. The pickup in asset yields (+40bps QoQ) was wholly responsible for a 3% QoQ rise in interest income which at ₦48.1 billion was 4% ahead of our estimates. That upside was offset by non-interest revenue (NIR) which fell 13% short of our estimates but was nonetheless a 16% QoQ improvement on a particularly weak Q2 14 (-35% QoQ). In particular, while fee income recovered from a loss position in Q2 to ₦4.9 billion, the recovery was not as strong as we had envisaged, even after adjusting for the outlier nature of Q1 14 (₦20.6 billion). Hence, much of QoQ gain in NIR came from other income which at ₦10.7 billion compares favourably with ₦14.6 billion in H1.

#### Income Statement Data

	2014 – 9M'm	2013 – 9M'm	%chg
Gross Earnings	181,798	154,426	18%
PBT	42,156	35,086	20%
Tax	(4,044)	(7,368)	-45%
PAT	35,833	27,718	29%

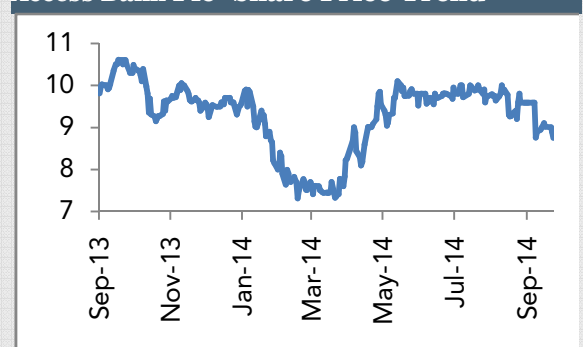
#### Balance Sheet Data

	2014-Sept 'm	2013 -Dec 'm	%chg
Cash	413,937	439,460	-6%
Loans	1,056,130	810,750	30%
Deposits	1,479,020	1,331,419	11%
Fixed Asset	68,087	67,243	1%
Net Assets	265,208	244,483	8%

#### Stock Data

Price	₦8.77
52 week range	₦7.22 – ₦10.70
Market Cap. (N'm)	201,598.52
1-month Avg. Vol	15,8463,715
Curr. PE	4.5x
Bloomberg Ticker	ACCESS: NL
Reuters Ticker	ACCESS.LG

#### Access Bank Plc- Share Price Trend



#### Analyst(s)

Adeolu Omotola

[adeolu.omotola@arm.com.ng](mailto:adeolu.omotola@arm.com.ng)

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- Mild increment in deposits (+2% QoQ to ₦1.48 trillion) combined with higher interbank takings (+25% QoQ) to push funding base 3% higher to ₦1.77 trillion. In response, interest expense rose 7% QoQ to ₦20.9 billion, 4% ahead of our estimates. We believe the rise mainly reflects higher costs on interbank exposure with annualized WACF pushing up 20bps from H1 to 4.2%.

### ***Cost containment underpins profit outperformance***

- Opex moderated a further 4% QoQ (Q2: -7% QoQ) to ₦24.4 billion, 11% behind our estimates. However, in contrast to Q2 when ‘other opex’ was the driver, current decline came on the back of a 20% reduction in personnel expenses. Combined with revenue improvements, annualized cost-to-income ratio declined 220bps from H1 level, marking the 5th straight quarter of improvement.
- On the flip side, impairment charges remain on the ascendancy, rising 73% QoQ (Q2: +32% QoQ) to ₦3.45 billion, 28% ahead of our estimates. Whilst we had expected a rise in provisioning would be part and parcel of recent loan creation, further QoQ jumps of this magnitude would be of concern. Notwithstanding, annualized cost of risk is 20bps higher QoQ at 0.9% and remains moderate in our view.
- Different directional movements in opex and provisioning largely evened out QoQ and helped top-line improvements percolate to PBT which at ₦15 billion was 10% higher QoQ and 7% ahead of our estimates, on lower aggregate costs. Tax charges which were moderately lower QoQ and relative to our estimates widened PAT improvement on both fronts with Q3 PAT of ₦12.8 billion 16% higher QoQ and 10% ahead of our estimates. 9M PBT margin remained unchanged from H1 and YoY at 23% while PAT margin was 200bps higher YoY at 20% but also unchanged from H1.

### ***Upside opens up on recent price movements***

- We continue to see burgeoning economies of scale as a critical value driver for Access going forward. While this faltered somewhat on the funding synergy front in recent times with 20bps WACF increment in each of Q2 and Q3 14, we expect such pressure from interbank exposure to be temporary. Positively, the revenue side remains intact with Q3 14 marking 4th consecutive quarterly rise. On balance, while we continue to expect liquidity and scale enhancement to be more moderate going forward,
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improvement in cost profile is proving to be a positive surprise and reductions to opex mark the major revision to our estimates. The bank has announced a 1 for 3 rights issue which, along with recent \$400 million tier II capital raise, we believe bodes well for capital level and ability to sustain asset creation drive going forward. Despite the positive connotation, in our view, the implicit dilution appears to have influenced recent price declines which only makes valuation multiples of 4.5x current PE (last report: 5.6x) and 0.8x P/Bv (last report: 0.9x) even more attractive relative to peers' respective 6x and 1x. Based on significant upside potential relative to last FVE (₱12.6), we maintain our **STRONG BUY** rating on Access.

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## Summary of forecasts

Quarterly Forecasts	4QE 2014	1QE 2015	2QE 2015	3QE 2015	
Net interest income	26,773	27,311	27,477	27,807	
Non-interest income	16,669	18,066	18,175	18,394	
<b>Total Revenue</b>	<b>43,442</b>	<b>45,377</b>	<b>45,652</b>	<b>46,201</b>	
Total Operating Costs	(26,229)	(28,014)	(28,184)	(28,523)	
<b>Operating Profit</b>	<b>17,213</b>	<b>17,363</b>	<b>17,468</b>	<b>17,678</b>	
Impairment Charge	(4,147)	(2,995)	(3,013)	(3,049)	
<b>Pre-tax Profit</b>	<b>13,066</b>	<b>14,368</b>	<b>14,455</b>	<b>14,629</b>	
Tax	(3,097)	(2,586)	(2,602)	(2,633)	
<b>Post-tax Profit</b>	<b>10,160</b>	<b>11,782</b>	<b>11,853</b>	<b>11,996</b>	
<b>Income Statement</b>	<b>2013A</b>	<b>3QA 2014</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Net interest income	77,724	75,945	102,718	110,127	133,699
Noninterest income	60,825	49,634	66,303	72,846	86,196
<b>Total Revenue</b>	<b>138,549</b>	<b>125,579</b>	<b>169,021</b>	<b>182,973</b>	<b>219,895</b>
Total Operating Costs	(101,182)	(76,874)	(103,103)	(112,961)	(137,395)
<b>Operating Profit</b>	<b>37,367</b>	<b>48,705</b>	<b>65,918</b>	<b>70,012</b>	<b>82,500</b>
Impairment Charge	6,164	(6,959)	(11,106)	(12,076)	(12,991)
Exceptional income	1,466	411	602	0	0
<b>Pre-tax Profit</b>	<b>44,997</b>	<b>42,157</b>	<b>55,414</b>	<b>57,935</b>	<b>69,509</b>
Tax	(7,499)	(6,323)	(9,420)	(10,428)	(13,902)
<b>Post-tax Profit</b>	<b>37,498</b>	<b>35,834</b>	<b>45,994</b>	<b>47,507</b>	<b>55,607</b>
Minority interest	210	227	(230)	(238)	(278)
<b>Profit Attributable to</b>	<b>37,708</b>	<b>36,061</b>	<b>45,764</b>	<b>47,270</b>	<b>55,329</b>
<b>Balance Sheet</b>	<b>2013A</b>	<b>3QA 2014</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Assets</b>					
Cash & Short term funds	443,338	436,700	453,438	410,049	503,646
Due from banks	-	23,667	21,367	25,198	53,590
Net Loans	810,750	1,056,130	1,089,261	1,182,444	1,389,861
Fixed Assets	67,243	68,087	64,101	100,791	104,202
Other Assets	514,136	490,047	508,535	801,286	925,912
<b>Total Asset</b>	<b>1,835,467</b>	<b>2,074,631</b>	<b>2,136,702</b>	<b>2,519,767</b>	<b>2,977,211</b>
<b>Liabilities</b>					
Deposits	1,331,419	1,479,020	1,551,910	1,827,883	2,182,500
Due to banks	72,148	115,767	65,442	55,728	53,232
Borrowings	122,100	177,204	158,931	178,330	242,204
Other liabilities	65,317	37,433	93,489	167,184	183,649
<b>Total liabilities</b>	<b>1,590,984</b>	<b>1,809,424</b>	<b>1,869,771</b>	<b>2,229,125</b>	<b>2,661,585</b>
<b>Shareholders' fund</b>	<b>244,483</b>	<b>265,207</b>	<b>266,931</b>	<b>290,642</b>	<b>315,626</b>
<b>Key Metrics</b>	<b>2013A</b>	<b>3QA 2014</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
EPS adj	1.58	1.56	1.97	2.07	2.42
DPS	0.60	-	0.90	1.03	1.33
BVPS	10.68	11.59	11.66	12.70	13.79
ROE	15%	14%	17%	16%	18%
ROA	2.1%	1.7%	2.1%	1.9%	1.9%
Loan to Asset	44%	51%	50%	46%	46%
Cost to income	73%	61%	61%	62%	62%
Liquidity ratio	32%	40%	41%	38%	41%
Capital adequacy ratio	26%	21%	21%	17%	18%

Source: Company financials, ARM Estimates

### 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	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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