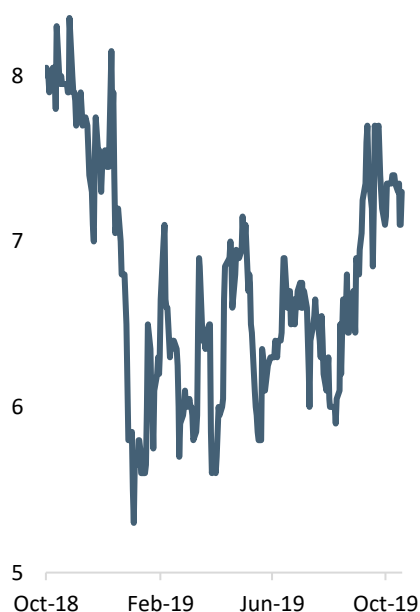


Price	₦7.30
52-week range	₦5.20-8.85
Market Cap. (₦bn)	259,480
1-month Avg. Vol	22,396,767
Curr. PB	0.44x

ACCESS:NL - Share Price Trend



Analyst

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Access Bank Plc. (ACCESS.NL)

Initial View

Funding cost disappoints in Q3

- Access Bank Plc released Q3 19 results on Friday, with PBT largely flat QoQ (-0.09%). However, due to a materially lower tax spend (relative to Q2), PAT expanded 27% QoQ. The flat movement in PBT emanated from decline in net interest revenue (-43% QoQ) and higher credit loss provision, both of which more than outweighed increase in non-interest revenue. On NIR, compared to Q2 wherein the bank booked net trading loss of ₦40 billion, Access recorded net trading profit of ₦26 billion in Q3, which neutered the impact of lower net fee income (-26% QoQ) and Other Income (-71% QoQ). Particularly on the net trading line, the major gains were recorded on FX trading (gain of ₦23 billion, compared to loss of ₦24 billion in Q2) and FI trading income of ₦16 billion (Q2: loss of ₦2.7 billion). Elsewhere, following loan growth of ₦60.8 billion for the bank in Q3 alone, the 12-month expected credit loss drove most of the expansion in impairment for loans by ₦6.9 billion in Q3. On the positive, the bank booked ₦4.6 billion writeback on previous impairment of financial assets, which moderated total provisioning over Q3 to ₦5.7 billion. Over 9M 19, the bank recorded PBT and PAT growth of 47% and 44% YoY.
- On interest income, similar to UBA, the growth in interest on loans over Q3 was largely muted. Particularly, interest income declined 18% QoQ following declines in interest on loans and investment securities, with assets yield moderating 48bps QoQ. While loan yield remained resilient, despite the loan growth, yield on investment securities and cash balance contracted 250bps and 110bps QoQ. On the other hand, WACF expanded 97bps QoQ to 5.6%, with related interest expense higher 21% QoQ. The increase largely reflects the higher interest on interbank takings (+46% QoQ), customer deposit (26% QoQ) with CASA sliding to 54% (55% in Q2) and interest on borrowings (28% QoQ). Overall, NIM contracted 92bps QoQ.
- While we had expressed confidence in the movement on the funding line over in Q2/H1 following moderation in WACF, the line disappointed over Q3. On the positive, cost to income ratio moderated 193bps QoQ to 67%, NPL improved 54bps QoQ to 6.3% and capital adequacy ratio remained strong at 20.3%. On an LDR basis, the bank is ahead of the 65% regulatory minimum effective 31st December, with a 67.4% Loan to funding ratio (H1 19: 65.6%).

- Access currently trades at FY 19 P/B multiple of 0.4x, which is at a discount to Tier 1 average of 0.8x. With funding cost retracing the level prior to merger with Diamond bank, we do not see a valuation rerating in the short term. Nonetheless, at current level and based on our FY 19E dividend of ₦0.60, we view expected dividend yield of 8.3% as attractive and could be compelling to investors, given the lower pressure on LDR relative to peers.s

Summary of Results

N'million	9M 19	9M 18	YoY (pps)	Q3 19	Q2 19	QoQ
Gross Earnings	513,656	375,230	36.89%	189,280	164,253	15.24%
Net interest income	210,218	122,950	70.98%	55,072	98,308	-43.98%
Non-interest revenue	97,745	94,666	3.25%	50,594	364	13795.61%
Operating expenses	-194,248	-138,994	39.75%	-70,947	-68,152	4.10%
Impairment charges	-10,611	-8,353	27.02%	-5,731	-1,505	280.92%
PBT	103,104	70,268	46.73%	28,988	29,015	-0.09%
PAT	90,740	62,911	44.23%	27,715	21,877	26.68%
EPS	2.55	2.17	17.38%	0.78	0.62	26.68%
-	9M 19	9M 18	YoY (pps)	Q2 19	QoQ	
Loans	2,768,270	1,975,648	40.12%	2,650,322	4.45%	
Investment Securities	1,661,566	730,835	18.21%	1,631,220	-3.72%	
Total Assets	6,606,271	4,555,196	45.03%	6,488,607	1.81%	
Deposits	4,239,083	2,474,808	71.29%	4,182,991	1.34%	
Total liabilities	5,988,386	4,079,403	46.80%	5,902,248	1.46%	
Net Assets	617,885	475,792	29.86%	583,791	5.84%	
BVPS	17.4	16.4	5.69%	16.5	5.38%	
-	9M 19	9M 18	YoY (pps)	Q3 19	Q2 19	YoY (pps)
Asset Yields	12.95%	11.84%	1.11%	10.07%	12.57%	-2.50%
WACF	4.68%	5.58%	-0.90%	5.55%	4.58%	0.97%
Net interest margins	6.07%	5.81%	0.26%	6.14%	11.15%	-5.01%
Cost-income ratio	63.08%	63.87%	-0.80%	67.14%	69.07%	-1.93%
Cost of risk	0.51%	0.56%	-0.05%	0.78%	0.21%	0.57%
ROAE	20.09%	17.87%	2.22%	5.55%	4.58%	0.97%

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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