

Price	₦8.00
FVE ( <i>last communicated</i> )	<b>₦13.46</b>
52-week range	₦7.50 – ₦13.60
Market Cap. (₦'mn)	231,424
1-month Avg. Vol	13,734,450
Curr. P/B	0.50x

#### ACCESS:NL - Share Price Trend



#### Analyst(s)

**Oluwasegun Akinwale**

[Oluwasegun.akinwale@arm.com.ng](mailto:Oluwasegun.akinwale@arm.com.ng)

## Access Bank Plc. (ACCESS.NL)

### Initial View

#### *Lower effective tax saves the day.*

- Yesterday, Access Bank Plc (Access) released unaudited nine-months 2018 results, wherein PAT grew by 11.6% YoY to ₦62.9 billion with EPS of ₦2.17 far exceeding our FY 18 estimate of ₦2.16 on the back of lower than expected loan loss provisions and a significantly lower effective tax rate of 10% (9M 17: 22%, FY 18E: 20%). Consequently, ROAE printed at 18.0%, an increase of 270bps relative to 9M 17.
- NIM Contraction.** Net interest income was flat (-1% YoY) to N119.9 billion on the back of lower asset yield and funding cost pressure. Parsing through the breakdown, asset yield contracted 60bps YoY to 12.9% stemming largely from lower yields on investment securities (-160bps YoY to 12.4%). Further down, the bank's funding cost expanded by 190bps YoY to 7.8% as interest expense rose 21.8% YoY. Particularly, the higher funding expense resulted from 1.0x growth in interbank placements, 18.5% YoY jumps in interest on customers deposits and 73.8% YoY increase in borrowing cost. Consequently, net interest margin (NIM) contracted 252bps YoY to 5.1%. Notably, reported interest income (N274.5 billion) and interest expense (N151.5 billion) translate to 78% and 75% of our FY 18 forecasts.
- Derivative loss takes a toll on NIR.** Non-interest revenue (NIR) declined by 15.5% YoY following loss of N9.3 billion on the Other Income line and 11.6% YoY moderation in trading income due to foreign exchange trading loss of N8.6 billion. On other income, the loss stemmed from N20 billion FX loss on derivative, which we attribute to the unwinding of its derivative position.

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In our thoughts, we believe both the loss of foreign exchange trading and derivative positions are reflections of the convergence of the NIFEX to the NAFEX rate, which limited revaluations gains and remeasurements of previously recorded derivative gains. Overall, the bank recorded a 7.1% YoY decline in operating income to N223.3 billion.

- **Impressive Q3 Result.** In line with Zenith, Access's Q3 stand-alone earnings showed a resilient topline (+5.8% QoQ) and bottom line performance with EPS of N0.80 (+33% QoQ). The performance reflects sizable increase in NIR (+40.9% QoQ to ₦34.3 billion) and lower impairment charge (-57% QoQ to N1.0 billion), the duo of which more than offset the 7.4% QoQ decline in net interest margin and 5.2% QoQ increase in opex.
- Overall, while we acknowledge the strong performance during the period, we remain biased, as we believe the earnings resilience were supported by non-core operations, especially Q3 standalone. However, with current EPS exceeding our FY 18 estimate, we will be revising our estimate after engagement with management. Particularly, we expect lower impairments – with 9M figure translating to 74% of our FY 18 forecast – and resilient NIR as we see limited scope for further losses on both foreign exchange trading and derivative positions.
- Our last communicated FVE on Access Bank is ₦13.46 which translates to a **STRONG BUY** rating on the stock. We will revisit our numbers after further analysis and discussion with management.

## Summary of Results and Forecast

₺million	9M 2018	9M 2017	YoY (pps)	Q3 2018	Q2 2018	QoQ
Gross Earnings	375,230	365,055	2.79%	122,206	118,480	3.15%
Net Interest Income	122,950	121,473	1.22%	37,653	38,431	-2.02%
Non-Interest Revenue	100,394	118,815	-15.50%	34,275	34,395	-0.35%
Operating Expenses	-144,723	-154,554	-6.36%	-46,489	-49,504	-6.09%
Impairment	-8,353	-12,824	-34.86%	-1,013	-2,461	-58.83%
PBT	70,268	72,910	-3.62%	24,426	20,861	17.09%
PAT	62,911	56,396	11.55%	23,286	16,936	37.49%
<b>EPS</b>	<b>2.17</b>	<b>1.95</b>	11.55%	<b>0.80</b>	<b>0.59</b>	37.49%

  

₺million	Q3 2018	Q2 2018	QoQ
Loans	1,975,648	1,905,022	3.71%
Total Assets	4,555,173	4,371,408	4.20%
Deposits	2,474,808	2,408,983	2.73%
Total Liabilities	4,082,489	3,911,220	4.38%
Net Assets	472,683	460,188	2.72%
BVPS	<b>16.34</b>	<b>15.91</b>	2.72%

  

	9M 2018	9M 2017	change (pps)	Q3 2018	Q2 2018	change (pps)
Assets Yields	12.87%	13.13%	-0.27%	8.40%	10.38%	-1.98%
WACF	7.75%	5.47%	2.28%	5.13%	6.43%	-1.30%
Net Interest Margin	5.11%	7.66%	-2.55%	8.40%	10.38%	-1.98%
Cost-Income Ratio	64.80%	64.88%	-0.08%	64.63%	67.98%	-3.34%
Cost of Risk	0.56%	0.77%	-0.21%	0.19%	0.53%	-0.34%
ROE	17.75%	17.22%	0.52%	24.84%	13.74%	11.09%

Source: Company Financials, ARM Research

## 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 reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	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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