



# 2023FY FINANCIAL RESULTS

ZENITH | UBA | GTCO | ACCESSCORP

**PERFORMANCE HEADLINED BY  
SUPERNORMAL PROFIT**

1ST MAY 2024

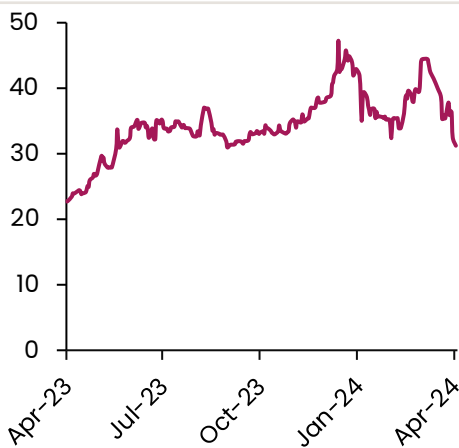
BANKING | EQUITY RESEARCH

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|---------------|-------------------|
| Price         | NGN32.10          |
| 52-week range | NGN23.6-NGN47.35  |
| <b>TP</b>     | <b>NGN44.04</b>   |
| <b>Rating</b> | <b>STRONG BUY</b> |
| Market Cap    | NGN1.01trn        |

### ZENITH-Share Price Trend



### Analyst

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## ZENITH BANK PLC | High Profitability Amid Spiraling Interest & Non-Interest Income

Zenith Bank released the audited Full-year results for 2023, revealing a robust topline performance. Gross Earnings, which exceeded our 2023FY estimates, grew by 125.45% YoY to NGN2.13trn on the wheels of increased interest and non-interest income. For context, Interest Income climbed 111.91% YoY to NGN1.15trn while Non-Interest Income grew significantly by 143.49% YoY to NGN987.08bn. On the flip side, Operating Expenses surged 32.32% YoY to NGN449.47bn owing to rising personnel, regulatory and energy costs. We should recall in 2022FY, PBT only grew marginally by 1.83% while PAT declined by 8.44% amid huge impairment charges recognized, related to Ghana debt securities. However, in 2023FY, bottom-line performance took a different turn following the impact of the FX revaluation policy implemented in the period. Profit Before Tax (PBT) jumped by 179.63% YoY to NGN795.96bn while Profit After Tax (PAT) increased by 202.31% YoY to NGN676.91bn. As a result, Net Profit Margin improved by 8.07% to 31.75% in the period.

### Income from Customer Loans and T-Bills Spurs Impressive Outing

Interest income advanced 111.91% YoY to NGN1.15trn as income from loans spiked 81.38% YoY to NGN671.92bn following a 63.35% YoY expansion in customer loans to NGN6.56trn. Income from treasury bills also supported interest income with a 310.39% YoY jump to NGN178.97bn, reflecting the high yield environment in the fixed income market.

### Rising Cost of Fund Amid Declining Cheap Deposits

Interest expense surged 135.39% YoY to NGN408.49bn reeling from a 149.98% YoY surge in interest on deposits in line with a 68.99% YoY increase in total customer deposits and a decline in cheap deposits (CASA: 78.60% in 2023 Vs 84.65% in 2022). Hence, Cost of funds rose by 72bps to 2.46%. The higher Interest on borrowed funds (+103.43% YoY to NGN99.17bn) also supported the overall rise in interest expense. This correlates with the surge in borrowings (+46.44% YoY to NGN1.41trn) in the period. Net Interest Margin (NIM) improved by 44bps to 3.11% in 2023FY due to higher asset yields (+219bps). Overall, net interest income grew by 100.80% YoY to NGN736.18bn in 2023FY.

### Remarkable Growth in Non-Interest Income – Supported by Trading Income and FX Revaluation Gains

Non-Interest Income increased notably by 143.49% YoY to NGN987.08bn. We traced this to a surge in Trading income, rising by 166.59% YoY to NGN566.97bn. Breaking this further, we observed a remarkable gain on other trading books of NGN463.37bn, a sharp contrast from a loss of NGN1.33bn in 2022FY. In the same vein, other income rose sharply by 583.46% YoY to NGN242.59bn. This follows the significant spike in gains from foreign currency revaluation gains (+808.59% to NGN228.98bn), mirroring the FX revaluation policy implemented in H2:2023 as well as further devaluation of the Naira later in the year. Elsewhere, Fee & Commission income grew by 12.91% YoY to NGN177.52bn spurred by fees on electronic products (+13.29% YoY to NGN51.82bn), income from financial guaranteed contracts issue (+54.20% YoY to NGN16.25bn) and current account maintenance (+13.58% YoY to NGN47.20bn).

### The Big Trio: Personnel, Regulatory & Energy Cost

Operating expenses rose by 32.32% YoY to NGN449.47bn on the back of higher personnel expenses, regulatory cost and fuel and maintenance cost. Personnel expenses climbed

43.98% YoY to NGN124.42bn in the period. We suspect this to be associated with closing the year with more staff (+88), especially staff in the management cadre (+123). Furthermore, AMCON levy increased by 30.39% YoY to NGN57.38bn in 2023FY. Elsewhere, Fuel and maintenance rose by 38.87% YoY to NGN41.17bn, an offshoot of higher energy costs in the period, particularly the impact of the removal of petroleum subsidy on fuel cost in Nigeria. However, due to the supernormal noninterest revenue and consequently impressive operating income, Cost-to-Income ratio in 2023FY improved significantly, declining by 18.28% to 27.16%.

### Impairment Charges: Same Headline but Different Story

We should recall that in 2022FY, the bank booked higher impairment provisioning (+105.65% YoY to NGN123.25bn) largely due to impairment on its Ghana debt securities. Coming into 2023FY, we observed that impairment charges spiked 232.34% YoY to NGN409.62bn. Although, this was related to loans and advances, which saw its impairment charge rise significantly in the period (+944.91% YoY to NGN400.65bn), as the bank considers shift in the macroeconomic environment and risk drivers. Consequently, asset quality for the Group deteriorated significantly as Non-Performing Loan (NPL) ratio increased by 4.40% YoY to 7.07% while Cost of Risk (COR) more than doubled to 4.88% (vs. 2.32% in 2022FY). Capital Adequacy Ratio (CAR) improved by 187bps to 21.67%. Meanwhile, Loan-to-Deposit ratio declined by 3.91% to 55.32%, higher than the new regulatory benchmark of 50%.

### Profitability Supercharged

Profit Before Tax (PBT) increased by 179.63% YoY to NGN795.96bn while Profit After Tax (PAT) grew by 202.31% YoY to NGN676.91bn, largely reversing its 2022FY performance. This is following significant improvement in non-interest revenue as well as interest income in the period. Overall, Efficiency ratios increased tremendously as Return on Average Equity (ROAE) and Return on Average Asset (ROAA) grew to 36.57% and 4.15% YoY respectively from 16.84% and 2.06%.

### Outlook: Loan Growth to Boost Interest Income

We expect expansion in loan growth and consequently, increased interest income. We highlight that the increased loan drive might compel higher loan loss provisions and may

further impair asset quality. Elsewhere, we expect to see decent noninterest revenue in 2024.

With respect to the banking recapitalization exercise, we opine that it would help improve the bank's lending capacity and consequently improve interest income. On the flip side, it could likely reduce Return on Equity (ROE) as the influx of new capital will dilute existing shareholders ownership.

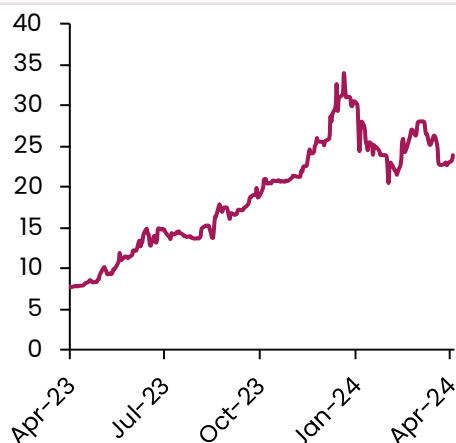
We adjust our target price for Zenith Bank to **NGN44.04** on the back of anticipated higher loan growth, a rise in both interest and non-interest income that would translate to profits. At its current price of NGN32.10, as of 30th April 2024, this translates to an upside prospect of 37%. Overall, we rate ZENITHBANK a **STRONG BUY**.

## Summary of Results

| NGN'million          | 2023FY     | 2022FY     | YoY      |
|----------------------|------------|------------|----------|
| Gross Earnings       | 2,131,750  | 945,554    | 125.45%  |
| Net Interest Income  | 736,182    | 366,627    | 100.80%  |
| Non-Interest Revenue | 987,076    | 405,388    | 143.49%  |
| Operating Expenses   | (449,472)  | (339,692)  | 32.32%   |
| Impairment           | (409,616)  | (123,252)  | 232.34%  |
| PBT                  | 795,962    | 284,650    | 179.63%  |
| PAT                  | 676,909    | 223,911    | 202.31%  |
| EPS                  | 21.55      | 7.14       | 201.82%  |
| NGN'million          | 2023FY     | 2022FY     | YoY      |
| Loans                | 6,556,470  | 4,013,705  | 63.35%   |
| Total Assets         | 20,368,455 | 12,285,629 | 65.79%   |
| Deposits             | 15,167,740 | 8,975,653  | 68.99%   |
| Total Liabilities    | 18,045,075 | 10,906,689 | 65.45%   |
| Net Assets           | 2,323,380  | 1,378,940  | 68.49%   |
| BVPS                 | 74.00      | 43.92      | 68.49%   |
| Ratios               | 2023FY     | 2022FY     | YoY ppts |
| Cost of Funds        | 2.5%       | 1.8%       | 0.7%     |
| Net Interest Margin  | 3.8%       | 3.1%       | 0.7%     |
| Cost-Income Ratio    | 27.2%      | 45.4%      | -18.3%   |
| Cost of Risk         | 4.9%       | 2.3%       | 2.6%     |
| ROAE                 | 36.6%      | 16.8%      | 19.7%    |
| ROAA                 | 4.2%       | 2.1%       | 2.1%     |
| NPL                  | 7.1%       | 2.7%       | 4.4%     |

|               |                   |
|---------------|-------------------|
| Price         | NGN23.90          |
| 52-week range | NGN23.3-NGN24.7   |
| <b>TP</b>     | <b>NGN29.57</b>   |
| <b>Rating</b> | <b>STRONG BUY</b> |
| Market Cap    | NGN820.79bn       |

#### UBA-Share Price Trend



#### Analyst

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## UNITED BANK FOR AFRICA PLC | Impressive Top-Line and Bottom-Line Supported by Interest & Non-Interest Revenue

United Bank for Africa Plc. audited Full-year results for 2023 showed an impressive topline and bottom-line performance. Gross Earnings grew by 143.25% YoY to NGN2.08trn on the wheels of increased interest and non-interest income. Interest Income grew by 93.01% YoY to NGN1.08trn while Non-Interest Income soared 237.83% YoY to NGN1.00trn. On the other hand, Operating Expenses surged 78.21% YoY to NGN624.44bn owing to rising Employee and contract services, fuel, repairs and maintenance and Bank charges. Profit Before Tax (PBT) and Profit After Tax (PAT) grew by 277.19% YoY and 256.89% YoY respectively to NGN757.68bn and NGN607.70bn. Overall, Net Profit Margin improved by 9.32% to 29.28% in the period.

### Higher Income from Bonds & T-Bills Propel an Increase in Interest Income

Interest income advanced 93.01% YoY to NGN1.08trn mirroring the spike in income from investment securities, which grew by 110.92% YoY to NGN505.23bn. For context, income from investment securities accounted for 51.27% of the total growth in interest income. Specifically, Income from bonds and treasury bills spiked 116.70% YoY and 105.47% YoY each to settle at NGN258.85bn and NGN242.24bn respectively, reflecting the high yield environment in the fixed income market. Furthermore, interest on loans to customers rose 48.97% YoY to NGN391.91bn in the period.

### Interest on Customer Deposits Prompts the Increase in Interest Expense

Interest expense surged by 107.03% YoY to NGN367.81bn reeling from a 89.15% YoY rise in interest on deposits in line with a 90.31% YoY increase in total customer deposits. Although, Cheap deposit improved slightly in the period (85.48% in 2023 Vs 85.15% in 2022). Furthermore, Cost of funds rose by 16bps to 2.02% in 2023FY. Elsewhere, Net Interest Margin (NIM) slipped 1bp to 3.71%. Overall, net interest income grew by 86.45% YoY to NGN707.54bn in 2023FY.

### Non-Interest Income: Impressive Outing in Net Trading and Foreign Exchange Income.

Non-Interest Income grew significantly by 237.83% YoY to NGN1.00trn. This is following a surge in the Net trading and foreign exchange income (+813.73% YoY to NGN659.26bn) and Fees and commission income (+45.98% YoY to NGN307.31bn). The improved net trading and foreign exchange income rode on a surge in net fair value on derivatives (+6,923.94% YoY to NGN457.19bn). Foreign exchange trading income (+181.26% YoY to NGN112.15bn) also contributed to the increase in net trading and FX income.

Furthermore, the growth recorded in Fees and commission mirrors the growth in electronic banking income (+59.07% YoY to NGN125.58bn).

On the expense leg, Fees and commission expense surged by 43.72% YoY to NGN118.25bn, an offshoot of higher E-banking expenses (+65.45% YoY to NGN101.85bn) in the period. Overall, total net non-interest revenue grew by 313.14% YoY to NGN881.79bn.

### Employment Related Expenses and Energy Cost Spikes OPEX

Operating expenses rose by 78.21% YoY to NGN78.21bn on the back of higher Employee benefit expenses (+60.38% YoY to NGN182.81bn), Contract services (+89.27% YoY to NGN65.74bn) and fuel, repairs, and maintenance (+99.79% YoY to NGN59.25bn) in the period. Additionally, Bank charges (+261.62% YoY to NGN22.89bn) and Occupancy and premises maintenance cost (+67.33% YoY to NGN29.95bn) all contributed to the rise in OPEX. However, due to faster growth in operating income, Cost-to-Income ratio in 2023FY improved, declining by 19.81% to 39.29%.



### Impairment & Asset Quality

UBA booked higher impairment provisioning on loans and advances to customers (+558.57% YoY to NGN153.76bn) to serve as a risk buffer amid macro-economic headwinds. This drove cost of risk higher (+251bps YoY) to 3.73%. Similarly, asset quality for the Group deteriorated significantly as NPL ratio increased by 184bps YoY to 4.41% amid expansion in loans (+66.69% YoY). Capital Adequacy Ratio (CAR) also improved, rising by 3.03% to 32.63% which is in line with BASEL III requirements. However, Loan-to-Deposit ratio further worsened by 6.27% to 31.98%, remaining below the new regulatory benchmark of 50%.

### Impressive Bottom-line: Same Story Across Peers

Following spiraling non-interest revenue as well as impressive interest income, the Bank recorded double digit growth in its bottom-line performance. Hence, Profit Before Tax (PBT) grew by 277.19% YoY to NGN757.68bn while Profit After Tax (PAT) grew by 256.89% YoY to NGN607.70bn. Overall, Efficiency ratios improved as ROAE and ROAA rose to 41.17% and 3.86% YoY respectively from 19.72% and 1.76%.

### Outlook: Higher Interest Rate Environment to Drive Interest Income Growth

We expect expansion in loan growth and consequently, increased interest income, particularly in a high interest rate environment to support revenue. We also expect the bank to take advantage of higher rates in the fixed income market. On bank recapitalization, we expect it to help drive expansion in the bank's earnings asset and support overall risk management. However, there are concerns around the likelihood of reduced Return on Equity (ROE) as the influx of new capital will dilute existing shareholders ownership.

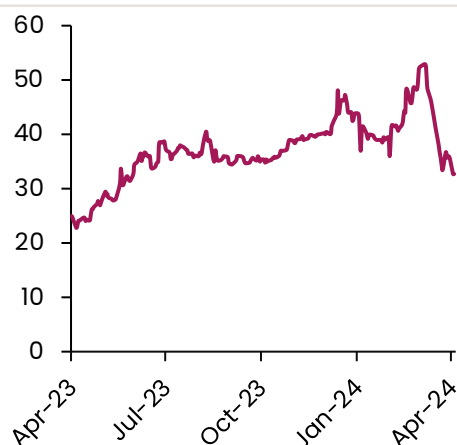
We adjust our target price for UBA to **NGN29.57** on the back of anticipated higher interest amid elevated interest rate environment. At its current price of NGN23.90 as of 30<sup>th</sup> April 2024, this translates to an upside prospect of 24%. Overall, we rate UBA a **STRONG BUY**.

## Summary of Results

| NGN'million          | 2023FY     | 2022FY     | YoY     |
|----------------------|------------|------------|---------|
| Gross Earnings       | 2,075,386  | 853,174    | 143.25% |
| Net Interest Income  | 707,540    | 379,489    | 86.45%  |
| Non-Interest Revenue | 1,000,039  | 296,022    | 237.83% |
| Operating Expenses   | (624,444)  | (350,389)  | 78.21%  |
| Impairment           | (207,201)  | (41,968)   | 393.71% |
| PBT                  | 757,680    | 200,876    | 277.19% |
| PAT                  | 607,696    | 170,277    | 256.89% |
| EPS                  | 17.77      | 4.98       | 256.83% |
| NGN'million          | 2023FY     | 2022FY     | YoY     |
| Loans                | 5,549,581  | 3,440,128  | 61.32%  |
| Total Assets         | 20,653,197 | 10,857,571 | 90.22%  |
| Deposits             | 17,355,721 | 8,995,130  | 92.95%  |
| Total Liabilities    | 18,623,002 | 9,935,467  | 87.44%  |
| Net Assets           | 2,030,195  | 922,104    | 120.17% |
| BVPS                 | 59.36      | 26.96      | 120.18% |
| Ratios               | 2023FY     | 2022FY     | YoY pts |
| Cost of Funds        | 2.0%       | 1.9%       | 0.2%    |
| Net Interest Margin  | 3.7%       | 3.7%       | -0.0%   |
| Cost-Income Ratio    | 39.3%      | 59.1%      | -19.8%  |
| Cost of Risk         | 3.7%       | 1.2%       | 2.5%    |
| ROAE                 | 41.2%      | 19.7%      | 21.5%   |
| ROAA                 | 3.9%       | 1.8%       | 2.1%    |
| NPL                  | 4.4%       | 2.6%       | 1.8%    |

|               |                   |
|---------------|-------------------|
| Price         | NGN32.7           |
| 52-week range | NGN22.75-NGN53.95 |
| <b>TP</b>     | <b>NGN42.29</b>   |
| <b>Rating</b> | <b>STRONG BUY</b> |
| Market Cap    | NGN696.68bn       |

#### GTCO-Share Price Trend



#### Analyst

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## Guaranty Trust Holding Company Plc | Impressive Performance Spurred by Higher Interest & Non-Interest Income

GTCO's audited Full-year results for 2023FY revealed a strong top-line and bottom-line performance. Gross Earnings grew by 120.03% YoY to NGN1.19trn on the back of increased interest and non-interest income. Interest Income climbed 69.25% YoY to NGN550.76bn while Non-Interest Income grew by 197.29% YoY to NGN635.71bn. On the other hand, Operating Expenses rose by 26.54% YoY to NGN250.42bn following a spike in outsourcing services, provision for litigation, personnel expenses and communications, technological related expense, and administrative expenses in the period. Net impairment charge on other financial assets grew from NGN35.95bn in 2022FY to NGN94.99bn following impairment charges on contingent (NGN62.95bn) as well as other asset (NGN25.48bn) Overall, Profit Before Tax (PBT) and Profit After Tax (PAT) grew by 184.52% YoY and 218.99% YoY each, to settle at NGN609.31bn and NGN539.66bn respectively. As a result, Net Profit Margin increased by 14.11% to 45.48% in the period.

### Investment Securities and Income from Customer Loans Buoy Performance

Interest income advanced 69.25% YoY to NGN550.76bn. We attribute this to improved income from investment securities (+127.99% YoY to NGN176.54bn) and loans and advances to customers (+32.16% YoY to NGN290.67bn). This is following an expansion in investment securities (+101.57% YoY to NGN2.47trn) and on customer loans (+31.52% YoY to NGN2.48trn) in 2023FY. We suspect that loan repricing may have also contributed to the increase in interest from loans to customers, an offshoot of the elevated interest rate environment in 2023FY. The increase in yields offered on fixed income securities also supported the higher income on investment securities.

### Customer Deposits Spurs Interest Expense

On the expense leg, Interest expense spiked 72.56% YoY to NGN114.06bn reflecting the jump in interest paid on customers deposits (+71.98% YoY to NGN105.67bn). This in line with a 31.52% YoY increase in customer deposits. Although, while low-cost CASA deposits improved in the period (88.58% in 2023 Vs 87.09% in 2022), we opine that the eventual surge in interest expense reflects the higher interest rate environment in Nigeria. Hence, Cost of funds rose by 10bps to 1.50%. Elsewhere, Net Interest Margin (NIM) increased by 69bps to 5.90% in 2023FY. Overall, net interest income grew by 68.41% YoY to NGN436.70bn in 2023FY.

### Non-Interest Income Spurred by FX Revaluation gains.

Non-Interest Income advanced 197.29% YoY to NGN635.71bn on the back of spiraling foreign exchange revaluation unrealized gain (+662.54% YoY to NGN441.79bn). Furthermore, fees and commission income grew by 18.08% YoY to NGN124.16bn following increases in commission on foreign exchange deals (+70.29% YoY to NGN14.86bn), account maintenance charges (+17.88% YoY to NGN22.81bn), transfers related charges (+57.71% YoY to NGN9.40bn) and E-business income (+8.20% YoY to NGN40.83bn). Overall, Net non-interest income increased by 219.29% YoY to NGN525.98bn, despite a sizeable provision for impairment charge on other financial assets (+164.27% YoY to NGN94.99bn). Although, the growth did not match 2022's net impairment charge on other financial assets (+4,624.61% YoY) related to Ghana's sovereign bond. We believe the Bank took a conservative

approach by booking significant impairment charges amid uncertainties in the macroeconomic environment.

#### OPEX Continues its Uptrend.

Operating expenses increased by 26.54% YoY to NGN250.42bn. This was an offshoot of a surge in outsourcing services (+100.16% YoY to NGN21.60bn), provision for litigation (NGN9.10bn in 2023 Vs. negative NGN34.51mn), personnel expenses (+25.00% YoY to NGN45.10bn) and communications, technological related expenses, and admin expenses (+18.50% YoY to NGN50.24bn). The cost-to-Income ratio in 2023FY improved significantly, declining by 20.66% YoY to 26.01%. This was because of higher operating income relative to operating expenses in the period.

#### Asset Quality Slightly Declined

Elsewhere, asset quality for the Group deteriorated as NPL ratio increased by 75bps YoY to 5.14% amid the expansion in customers loans (+31.52% YoY) in the period. Similarly, Capital Adequacy Ratio (CAR) decreased by 211bps to 21.94% based on approved CBN half-year retained earnings in calculating its Tier-1 Capital. However, taking into consideration 2023FY retained earnings, CAR increased by 239bps, to 26.47%. Furthermore, the Loan-to-Deposit ratio declined by 8.04% to 32.86%, remaining below the new regulatory benchmark of 50%.

#### Growth in Profitability: A Rebound

GTCO recorded significant improvement in its profit, a rebound from the previous year. For context, Profit Before Tax (PBT) and Profit After Tax (PAT) increased by 184.52% YoY and 218.99% YoY each, to settle at NGN609.31bn and NGN539.66bn respectively. Overall, Efficiency ratios improved as ROAE and ROAA increased to 44.82% and 6.69% YoY respectively from 18.65% and 2.85%.

#### Highlight from Management Call

- Bank Recapitalization Exercise: GTCO planned capital raise of USD750mn, while raising up to a maximum of NGN500bn by way of an Offer for Sale.

- Forward Guidance of 30% loan growth and concerns around higher cost of risk: The Group planned to grow loan book by 30% in 2024. However, the bank took the decision to derisk its balance sheet by writing off NGN129bn in loans as well as set aside NGN103bn for possible credit impairment and NGN93bn for probable financial assets impairment. Hence, cost of risk should reduce in 2024, despite the growth in loan book. Also, there is a possibility of a write-back in 2024.
- 2024FY Forward Guidance of NGN806bn in PBT: The expectation of NGN806bn takes into consideration additional capital of NGN500bn coming in later in the year.
- Thin Dividend: Based on the Central Bank's new rule, GTCO was a bit conservative on dividend payout due to a forbearance loan on its books.
- Ghana's Eurobonds: The bank has no intention on agreeing to a haircut on its Ghanaian Eurobonds holdings.

#### Outlook: Improved Topline Performance

True to our 2023FY expectation, we note a recovery in bottom-line performance largely based on higher interest income as well as support from non-interest income coupled with the higher base effect from impairment costs in 2022.

In 2024, we expect to see improved topline growth as interest rate remains elevated (Monetary Policy Rate has been hiked by 600bps as of Q1:2024).

On recapitalization, we expect it to improve the bank's lending capacity and consequently improve interest income. However, there are concerns around the likelihood of reduced Return on Equity (ROE) as the influx of new capital will dilute existing shareholders ownership.

We arrived at a target price for GTCO at **NGN42.29** for 2024FY. At its current price of NGN32.70 as of 30<sup>th</sup> of April 2024, this translates to an upside prospect of 29%. Thus, we rate the stock a **STRONG BUY**.

## Summary of Results

| NGN' million         | 2023FY       | 2022FY       | YoY      |
|----------------------|--------------|--------------|----------|
| Gross Earnings       | 1,186,465.43 | 539,234.90   | 120.03%  |
| Net Interest Income  | 436,696.59   | 259,303.13   | 68.41%   |
| Non-Interest Revenue | 635,710.30   | 213,835.24   | 197.29%  |
| Operating Expenses   | (250,419.02) | (197,897.60) | 26.54%   |
| Impairment           | (102,953.28) | (11,986.55)  | 758.91%  |
| PBT                  | 609,308.44   | 214,154.09   | 184.52%  |
| PAT                  | 539,654.67   | 169,173.44   | 218.99%  |
| EPS                  | 18.16        | 5.95         | 205.21%  |
| NGN'million          | 2023FY       | 2022FY       | YoY      |
| Loans                | 2,480,250.30 | 1,885,853.40 | 31.52%   |
| Total Assets         | 9,691,254.68 | 6,446,456.43 | 50.33%   |
| Deposits             | 7,546,887.60 | 4,610,343.17 | 63.69%   |
| Total Liabilities    | 8,214,126.61 | 5,515,307.23 | 48.93%   |
| Net Assets           | 1,477,128.07 | 931,149.20   | 58.63%   |
| BVPS                 | 50.19        | 33.23        | 51.04%   |
| Ratios               | 2023FY       | 2022FY       | YoY ppts |
| Cost of Funds        | 1.5%         | 1.4%         | 0.1%     |
| Net Interest Margin  | 5.9%         | 5.2%         | 0.7%     |
| Cost-Income Ratio    | 26.0%        | 46.7%        | -20.7%   |
| Cost of Risk         | 4.2%         | 0.6%         | 3.5%     |
| ROAE                 | 44.8%        | 18.7%        | 26.2%    |
| ROAA                 | 6.7%         | 2.9%         | 3.8%     |
| NPL                  | 5.1%         | 4.4%         | 0.8%     |

Price NGN16.85

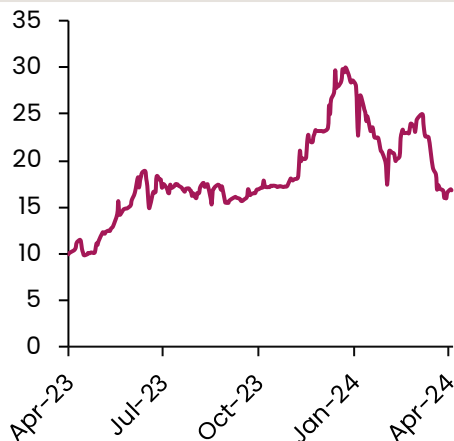
52-week range NGN9.6-NGN30.7

**TP** **NGN25.88**

**Rating** **STRONG BUY**

Market Cap NGN1.68trn

#### ACCESSCORP-Share Price Trend



#### Analyst

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## ACCESS HOLDINGS PLC | Interest & Non-Interest Income Drives Performance

In its 2023FY results, Access Holdings Plc posted a 87.01% YoY growth in Gross Earnings to NGN2.60trn, crossing the NGN2trn mark. Interest Income grew significantly by 99.93% YoY to NGN1.65trn while non-Interest revenue climbed 67.90% YoY to NGN939.48bn. On the other hand, Operating Expenses surged 38.85% YoY to NGN692.53bn following an increase in personnel expenses, IT and e-business expenses, admin expenses, AMCON levy and business travel expenses in the period. Net impairment charge on financial assets declined by 29.46% YoY to NGN139.53bn largely on account of high base effect from 2022FY (impairment recognized on Ghana's sovereign debt) Overall, bottom-line performance quadrupled its previous year size. For context, Profit Before Tax (PBT) surged by 334.76% YoY to NGN729.00bn while Profit After Tax (PAT) increased by 305.05% YoY to NGN619.32bn. As a result, Net Profit Margin improved by 12.85% to 23.87% in the period.



### Income from Investment Securities & Customers Loans to the Rescue

Interest income grew by 99.93% YoY to NGN1.65trn as income from investment securities spiked 145.04% YoY to NGN818.00bn, following an increase in investment securities (+93.48% YoY to NGN5.34trn) in the period, amid high yield environment in the fixed income market. Furthermore, income from interest on customers loans grew by 62.02% YoY to NGN747.22bn following an expansion in loans and advances to customers (+57.58% YoY to NGN8.04trn).

### Customer Deposits Pushes Interest Expense Upward

Interest expenses spiraled 104.98% YoY to NGN958.99bn reflecting the jump in interest paid on customers deposits (+85.16% YoY to NGN505.59bn) and deposit from financial institutions (+170.61% to NGN320.76bn). The rise in interest on customer deposits and deposit from financial institutions is in line with a 65.63% YoY and 121.27% YoY expansion in customer deposits and deposits from financial institutions respectively. CASA deposits slightly improved in the period (62.82% in 2023 Vs 62.57% in 2022). Cost of funds rose by 70bps to 4.31%. However, Net Interest Margin (NIM) improved by 51bps to 3.97% in 2023FY. Overall, net interest income grew by 93.35% YoY to NGN695.36bn in 2023FY.

### Non-Interest Income Spurred by Fair Value and FX gains.

Non-Interest Income grew remarkably by 67.90% YoY to NGN939.48bn, an offshoot of impressive fair value and foreign exchange gain (+87.44% YoY to NGN628.93bn). Specifically, fair value gains on equity investments surged 91x to NGN192.62bn. Additionally, net gain on fair value hedge (+403.06% YoY to NGN99.31bn), fair value gains on non-hedging derivatives (+35.61% YoY to NGN225.51bn) and Channels and other E-business income (+70.34% YoY to NGN101.62bn) also supported the growth in non-interest income.

### Higher OPEX amid Rising Personnel and IT Related Cost

Operating expenses spiked 38.85% YoY to NGN697.53bn following a surge in personnel expenses (+43.97% YoY to NGN167.90bn), IT and e-business expenses (+74.90% YoY to NGN78.05bn), administrative expenses (+85.40% YoY to NGN58.68bn), AMCON levy (+30.48% YoY to NGN68.81bn) and business travel expenses (+139.76% YoY to NGN28.05bn).

However, due to higher operating income relative to operating expenses, Cost-to-Income ratio improved in the period, declining by 13.35% to 44.57% in 2023FY.

### Improved Asset Quality amid Macroeconomic Headwinds

Elsewhere, asset quality for the Group improved as NPL ratio declined to 2.8% from 3.1% despite the significant increase in customers loans (+57.58% YoY) in the period. However, Capital Adequacy Ratio (CAR) declined by 65bps to 19.01%, although still in line with BASEL III requirements. Similarly, the Loan-to-Deposit ratio declined by 4.23% to 45.13%, remaining below the new regulatory benchmark of 50%.

### Improvement in Profitability

Like its peers, ACCESSCORP's bottom-line increased significantly in the period following impressive non-interest revenue, largely based on FX gains and increased income from investment securities. Consequently, Profit Before Tax (PBT) and Profit After Tax (PAT) grew by 334.76% YoY and 305.05% YoY each, to settle at NGN729.00bn and NGN619.32bn respectively. Overall, Efficiency ratios increased as ROAE and ROAA grew to 37.32% and 2.97% YoY from 13.62% and 1.14% in 2022FY.

### Highlight from Management Call

In 2023, ACCESS successfully concluded the following deals and transactions.

- Completed the USD3mn capital investment facility from Afrexim Bank into access bank via access holdings plc, the banking group acquired 99.8% shareholding in the Finibanco Angola.
- The banking group also signed a share purchase agreement to acquire majority shareholding in selected Standard Chartered Bank assets across Africa. They include Angola, Cameroon, Gambia, Sierra Leone and then what they did was the consumer private and business banking business in Zambia.
- Additionally, the banking group entered into an agreement to acquire African banking corporation limited in Tanzania.
- The banking group through access UK subsidiary commenced operations in Paris and has also obtained regulatory approval to set up a banking subsidiary in Hong Kong. This is consistent with the strategy of investing in strong markets.

- Access Pension crossed the 1 trillion mark in assets under management during the period.
- Access holdings plc also completed acquisition of mega tech insurance with access insurance brokerage limited.

#### Other Highlights

- FX revaluation gain: Management mentioned that the bulk of the gains have been realized, the FX gains were from trading position.
- Net Open Position: Following the CBN's guideline, the bank is now short at about 3-4%.
- Bank Recapitalization: The exercise is in line with management's 5-year strategy plan. Right issue of NGN365bn is expected to be raised at the first instance. Guidance will be given for additional capital likely to be raised.

#### Outlook: Profitability to Improve in 2024FY

We expect Management to continue its loan growth drive amid high interest rate environment, feeding into higher interest income for 2024FY. We expect the Bank to post decent growth in its bottom line barring any shocks from the macroeconomic environment.

Banking recapitalization exercise is expected to help drive expansion in the bank's earnings assets and support overall risk management. Although, there are concerns around the likelihood of reduced Return on Equity (ROE) as the influx of new capital will dilute existing shareholders' ownership.

We arrived at a target price for ACCESSCORP at **NGN25.88** for 2024FY. At its current price of NGN16.85 as of 30th April 2024, this translates to an upside prospect of 54%. Thus, we put a **STRONG BUY** rating on the stock.

## Summary of Results

| NGN'million          | 2023FY     | 2022FY     | YoY     |
|----------------------|------------|------------|---------|
| Gross Earnings       | 2,594,739  | 1,387,514  | 87.01%  |
| Net Interest Income  | 695,360    | 359,632    | 93.35%  |
| Non-Interest Revenue | 939,477    | 559,535    | 67.90%  |
| Operating Expenses   | (697,531)  | (502,359)  | 38.85%  |
| Impairment           | (139,528)  | (197,790)  | -29.46% |
| PBT                  | 729,001    | 167,680    | 334.76% |
| PAT                  | 619,324    | 152,202    | 306.91% |
| EPS                  | 17         | 4          | 304.97% |
| NGN'million          | 2023FY     | 2022FY     | YoY     |
| Loans                | 8,918,258  | 5,556,517  | 60.50%  |
| Total Assets         | 26,688,831 | 14,998,400 | 77.94%  |
| Deposits             | 19,759,940 | 11,256,554 | 75.54%  |
| Total Liabilities    | 24,503,197 | 13,767,010 | 77.98%  |
| Net Assets           | 2,185,634  | 1,231,390  | 77.49%  |
| BVPS                 | 61.49      | 34.64      | 77.49%  |
| Ratios               | 2023FY     | 2022FY     | YoY pts |
| Cost of Funds        | 4.3%       | 3.6%       | 0.7%    |
| Net Interest Margin  | 4.0%       | 3.5%       | 0.5%    |
| Cost-Income Ratio    | 44.6%      | 57.9%      | -13.4%  |
| Cost of Risk         | 1.6%       | 3.6%       | -2.0%   |
| ROAE                 | 37.3%      | 13.6%      | 23.7%   |
| ROAA                 | 3.0%       | 1.1%       | 1.9%    |
| NPL                  | 2.8%       | 3.1%       | -0.3%   |

## 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%       | BUY        | >20%      |
| <b>OVERWEIGHT</b>  | 10% – 20 % | NEUTRAL    | 5% – 20 % |
| <b>NEUTRAL</b>     | 0% – 10 %  | SELL       | <5%       |
| <b>UNDERWEIGHT</b> | -5% – 0%   | N/A        |           |
| <b>SELL</b>        | <-5%       |            |           |

| Ratings            | 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  |

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