# Access Bank Plc.

## First Glance: Impressive Top Line Growth Dashed by Change in AMCON Levy Treatment, PBT (+4.04% y/y) and PAT (-0.08% y/y) Staggered

Access Bank Plc (ACCESS) this afternoon released its H1-17 results, wherein gross earnings (44.45% y/y, 8.00% above our estimate) came in strong. This follows an impressive growth across key line items; interest income (+44.18% y/y) and non-interest income (+36.78% y/y). However, following surge in opex, PBT (+4.04% y/y, 21.06% shy of our estimate) grew marginally, while PAT (-0.08% y/y, 27.27% below our estimate) declined slightly, resulting in EPS of N1.38 (below our estimate of N1.88). Consistent with its dividend payment, ACCESS is proposing an interim dividend of N0.25 (same as previous year) – translating to a payout ratio of 18.33% and a dividend yield of 2.44%.

The growth in interest income, broadly in line with our expectation (with variance of 2.27%), was driven by improved yields on earning assets (+280 bps to 13.10%); loans and advances to customers (+33.48% y/y), and investment securities – available for sale (+64.64% y/y), held for trading (+307.11% y/y), and held for maturity (+14.45% y/y), given ACCESS' large portfolio of fixed income securities, in line with other banks' results released so far. Accordingly, net interest margin expanded 40 bps y/y to 6.70%, despite a more-than-expected surge in interest expense (79.88% y/y, 28.31% above our estimate), driven by the elevated interest charges on customers deposit (63.68% y/y), interbank placements (+107.92% y/y), and debt securities issue (+181.02% y/y) – reflecting the impact of the premium on the USD112 million refinancing of its Eurobond and an additional N59 billion commercial paper issued in H1-17.

ACCESS recorded a marginal (+1.48% y/y) growth in credit loss provisioning in H1-17, with cost of risk contracting by 10 bps y/y to 1.00%, despite NPL expanding by 60 bps to 2.50%. The provisioning came ahead of our estimate by 20.26%, a development we attribute to the additional collective impairment charge (+56.10% y/y), recognized during the period.

Specifically, on the performance in Q2-17, gross earnings grew double-digit by 12.69% q/q (+39.08% y/y), 4.46% above our estimate, while PBT and PAT declined by 33.23% q/q (-24.06% y/y) and 48.35% q/q (-33.03% y/y), respectively. The q/q growth in gross earnings broadly reflects the impressive yield on interest earning assets and surge in foreign exchange trading income (+146.09% q/q) during the period, while the bottom-line contraction was due to opex increasing by 34.42% q/q (+69.41% y/y), which more than offset the growth in NIR of 31.41% q/q (+29.62% y/y)

In line with industry peers, ACCESS recorded a surge in opex (rose 50.215 y/y and 14.09% above our estimate, stemming from a one-off charge of AMCON levy (as against amortization over the full year) impact on other opex (+65.62% y/y), elevated personnel costs (+25.72%y/y), and depreciation expense (+27.11% y/y). As a result, cost-to-income ratio expanded 901 bps y/y to 62.73%, above our estimate of 55.26%, despite a 28.65% y/y growth in operating income.

## HOLD

| | |
|---|---|
| Target Price (N)* | 12.19 |
| Current Price (N) | 10.24 |
| Implied Return (%) | 19.06 |

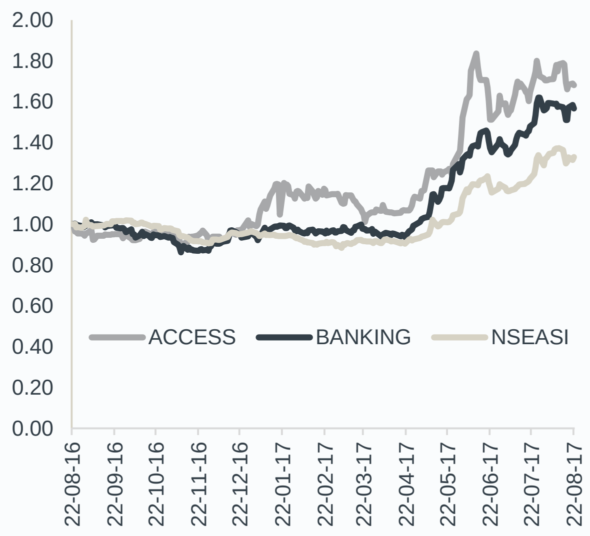
**Company Data**

| | |
|---|---|
| NSE Code | ACCESS |
| Bloomberg Code | ACCESS:NL |
| Reuters Code | ACCESS.LG |
| Sector | FINANCIAL SERVICES |
| Market Cap. (N'bn) | 296.21 |
| Free Float (%) | 90.08 |

| Ratios | H1-2017 | H1-2016 | 2016FY |
|---|---|---|---|
| Yield on Assets | 13.1% | 10.4% | 11.1% |
| Cost of Funds | 5.6 | 3.6 | 4.3 |
| Net Interest Margin | 6.7% | 6.4% | 6.2% |
| Cost of Risk | 1.0% | 1.1% | 1.2% |
| Cost to Income | 62.7% | 53.7% | 58.8% |
| Liquidity Ratio | 45.4% | 35.8% | 43.6% |
| CAR | 21.6% | 19.6% | 21.2% |
| NPL/Total Loans | 2.5% | 1.9% | 2.1% |
| NPL Coverage | 174.8% | 184.0% | 169.0% |
| Loan-to-Deposit Ratio | 74.3% | 73.1% | 74.0% |

*Under Review **Trailing 12m

**Price movement (ACCESS vs. Benchmark Indices)**




Source: NSE, Bloomberg, Cordros Research

Given that the marginal contraction in PAT was driven by a one-off charge on the opex line, which we expect to moderate in H2-17, we believe management is still on course to deliver on its 2017F ROE of 20.0% (vs. 17.4% in FY-16) and net interest margin of 7.0% (vs. 6.2% in FY-16). Also, given the run rate in interest income (supported by its sizeable fixed income portfolio and quality loan book) and the significant foreign exchange trading gain booked in H1-17, we believe ACCESS is poised to outperform in 2017F. Based on our last TP of N12.19, we have a BUY recommendation on the stock.

Management will be hosting a conference call for investors and analysts on Wednesday 30 August, 2017 at 14:00hrs Lagos to discuss the H1-2017 performance. The dial-in details are as follows:

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| Highlight (N'Mn) | H1-2017 | H1-2016 | Y/Y | Cordros' Estimate | Variance | Q2-2017 | Q1-2017 | Q/Q | Cordros' Estimate | Variance |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross Earnings | 246,324 | 174,013 | 41.55% | 228,087 | 8.00% | 130,510 | 115,814 | 12.69% | 124,944 | 4.46% |
| Interest Income | 161,905 | 112,293 | 44.18% | 165,670 | -2.27% | 82,572 | 79,333 | 4.08% | 88,281 | -6.47% |
| Interest Expense | (78,864) | (43,842) | 79.88% | (61,462) | 28.31% | (42,268) | (36,596) | 15.50% | (30,799) | 37.24% |
| Net Interest Income | 83,041 | 68,451 | 21.31% | 104,207 | -20.31% | 40,304 | 42,737 | -5.69% | 57,482 | -29.88% |
| Provisions | (10,363) | (10,212) | 1.48% | (8,617) | 20.26% | (7,166) | (3,197) | 124.15% | (5,115) | 40.10% |
| NIR | 84,419 | 61,720 | 36.78% | 62,417 | 35.25% | 47,938 | 36,481 | 31.41% | 36,663 | 30.75% |
| Operating Income | 157,097 | 119,959 | 30.96% | 158,007 | -0.58% | 81,076 | 76,021 | 6.65% | 89,030 | -8.93% |
| OPEX | (105,050) | (69,935) | 50.21% | (92,078) | 14.09% | (60,237) | (44,813) | 34.42% | (51,450) | 17.08% |
| PBT | 52,047 | 50,024 | 4.04% | 65,929 | -21.06% | 20,839 | 31,208 | -33.23% | 37,580 | -44.55% |
| Taxation | (12,589) | (10,536) | 19.49% | (11,672) | 7.85% | (7,400) | (5,189) | 42.61% | (8,550) | -13.45% |
| PAT | 39,458 | 39,488 | -0.08% | 54,256 | -27.27% | 13,439 | 26,019 | -48.35% | 29,030 | -53.71% |

# Disclosures.

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