

# Access Bank Plc.

## Poised to Outperform in FY-2017, Despite Downward Revision to EPS

We update our model, following Access Bank Plc's (ACCESS) impressive H1-17 result. In line with the improved yields on interest earning assets (+280 y/y to 13.10% in H1-17), we have raised 2017F assets yield estimate by 125 bps to 12.60%, resulting in interest income growth of 36.71% y/y to N338.06 billion. We believe the high interest rates environment will keep yields on fixed income securities at current levels and drive interest income from repricing of loans to customers over H2-17.

Similarly, we believe the high interest rate environment will impact funding cost (rose 200 bps y/y to 5.6% in H1-17). The surge recorded during in H1 broadly reflected the elevated interest charges on customers deposit, interbank placements, and debt securities issue – from the premium on the USD112 million refinancing of its Eurobond and an additional N59 billion commercial paper issued in H1-17. As a result, we raised our 2017F costs of fund by estimate 120 bps to 5.58%, resulting in 49.19% growth in interest expense to N161.33 billion. However, we believe the strong yields on interest earning assets will offset the expansion in funding cost, thus, we estimate net interest margin to expand marginally by 4 bps y/y to 6.28%.

The surge in NIR over H1-7 was driven by significant gains on foreign exchange trading income from the bank's derivative instruments (forward contracts, swap contracts, non-deliverable forward contracts). But given the improved intervention by the apex bank which has relatively improved dollar liquidity across the FX windows, we expect derivative gains over H2-17 to taper. We forecast NIR growth of 13.40% y/y to N151.34 billion for 2017F. Accordingly, we have raised our gross earnings growth forecast higher to 28.08% y/y (previously 22.26%) for 2017F to N488.38 billion.

On asset quality, over H1-17, cost of risk contracted by 10 bps y/y to 1.00%, despite NPL expanding by 60 bps to 2.50% and marginal growth in credit loss provisioning (+1.48% y/y) from additional collective impairment charge (+56.10% y/y) recognized during the period. We believe the contraction in cost of risk was flattered by the expansion in net loans and advances (rose 16.52% y/y) during the period. On our cost of risk estimate of 1.28% (+9 bps y/y), we forecast a 13.32% y/y growth in loan loss charges to N24.88 billion in FY-17.

While acknowledging the impact of one-off AMCON levy (as against amortization over the full year) on other opex (+65.62% y/y) during the period, the associated administrative, communication, advertising & marketing, and IT & E-business expenses also beat estimates. In the same vein, personnel costs (+25.72% y/y) and depreciation expense (+27.11% y/y, attributed to adjustment in employee compensation) came in far ahead of our estimates. Though we expect some moderation across opex lines over H2-17, overall for 2017F, we forecast 20.05% y/y growth to N192.47 billion, translating to an expansion in operational leverage to 5.4x (compared to 5.3x in FY-16), while cost to income ratio is expected to contract 14 bps y/y to 58.67% (flattered by the growth in operating income).

# BUY

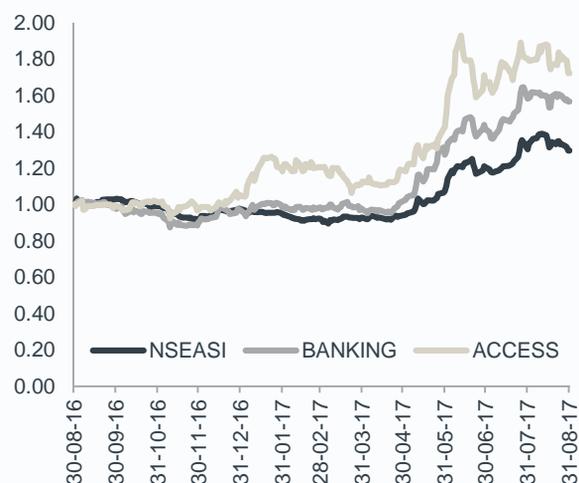
Target Price (N)	12.06
Current Price (N)	9.61
Implied Return (%)	25.47

### Company Data

NSE Code	ACCESS
Bloomberg Code	ACCESS.NL
Reuters Code	ACCESS.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	277.99
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%

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



Source: NSE, Bloomberg, Cordros Research

Overall, the cumulative impact of the elevated funding cost, opex pressure, uptick in costs of risk, and moderate expansion in NIR resulted in a downward revision of our 2017F PAT (+26.44%, previous 39.36% y/y) to N90.33 billion, equating to EPS of N3.05 (previous N3.44) and ROAE of 18.08% (previously 20.01%).

Following the downward adjustment to 2017F EPS, we lowered our target price marginally by 1.09% to N12.06 (previous: N12.19) and rolled forward our valuation to 2018. Our current 12-month TP implies upside potential of 25.47% from current levels; consequently, we recommend a BUY on the stock. ACCESS is currently trading at 2017F P/BVPS of 0.5x (below the peer average of 0.9x and the 5-year average of 0.6x) and 2017 FP/E of 3.2x (below the peer average of 5.5x and the 5-year average of 3.7x).

Highlight (N'Mn)	Q1-2017A	Q2-2017A	H1-2017A	Q3-2017F	Q4-2017F	H2-2017F
Gross Earnings	115,814	130,510	246,324	118,644	124,441	243,085
Interest Income	79,333	82,572	161,905	87,760	88,402	176,162
Interest Expense	(36,596)	(42,268)	(78,864)	(40,736)	(41,736)	(82,472)
Net Interest Income	42,737	40,304	83,041	47,024	46,666	93,690
NIR	36,481	47,938	84,419	30,884	36,039	66,923
Operating Income	79,218	88,242	167,460	77,908	82,705	160,613
Provisions	(3,197)	(7,166)	(10,363)	(7,623)	(6,891)	(14,514)
OPEX	(44,813)	(60,237)	(105,050)	(44,324)	(43,095)	(87,419)
PBT	31,208	20,839	52,047	25,961	32,719	58,680
Taxation	(5,189)	(7,400)	(12,589)	(3,916)	(5,924)	(9,840)
PAT	26,019	13,439	39,458	22,045	26,796	48,841

Source: Company Accounts, Cordros Research

A – Actual  
F – Forecast

## Financial Statement (N'million).

Income Statement (N'M)	2015A	2016A	2017F	2018F	2019F	2020F	2021F
GROSS EARNINGS	337,401	381,322	489,725	500,592	505,511	544,628	609,841
Interest income	207,802	247,287	338,059	368,317	382,127	418,226	464,992
Interest expense	(102,421)	(108,139)	(161,331)	(149,872)	(138,429)	(147,761)	(167,092)
Net interest income	105,381	139,148	176,728	218,445	243,698	270,464	297,899
Non-interest income	129,448	133,458	151,339	131,910	122,952	125,916	144,288
Total Income	234,829	272,606	328,067	350,355	366,650	396,380	442,187
Total Operating Expenses	(145,567)	(160,314)	(192,465)	(204,782)	(219,232)	(238,720)	(265,664)
Net Operating Income	89,262	112,292	135,602	145,573	147,419	157,660	176,524
Loan impairment charges	(14,224)	(21,953)	(24,878)	(29,585)	(25,036)	(28,185)	(26,796)
Profit before Income tax	75,038	90,339	110,724	115,988	122,383	129,475	149,727
Income tax expense	(9,169)	(18,900)	(22,429)	(23,778)	(24,517)	(27,122)	(30,187)
Profit after Tax	65,869	71,439	88,295	92,210	97,866	102,353	119,540
Financial Position (N'M)	2015A	2016A	2017F	2018F	2019F	2020F	2021F
Cash and Cash Equivalents	478,409	713,889	790,827	812,193	862,869	960,034	1,132,553
Gross Loans	1,408,563	1,854,662	1,906,628	2,065,240	2,264,912	2,475,867	2,707,815
Assets pledged as collateral	203,715	314,948	396,885	408,099	447,756	474,716	538,647
Investment securities	186,223	229,114	265,571	307,977	368,351	424,111	525,234
Property and equipment	73,329	84,109	91,221	96,518	102,344	107,474	115,348
<b>Total Assets</b>	<b>2,591,323</b>	<b>3,483,867</b>	<b>3,678,267</b>	<b>4,004,897</b>	<b>4,411,394</b>	<b>4,819,448</b>	<b>5,365,009</b>
Interest Earning Assets	1,908,274	2,552,223	2,813,791	3,032,503	3,346,912	3,670,298	4,111,989
Total deposits	1,756,158	2,256,554	2,348,064	2,502,109	2,744,682	2,963,690	3,284,190
Other liabilities	69,355	113,571	125,609	158,318	179,196	135,006	140,847
Debt securities issued	149,853	316,545	241,434	291,101	353,538	414,288	544,608
Other borrowed funds	231,467	299,544	320,334	352,386	427,457	484,411	459,652
<b>Total liabilities</b>	<b>2,223,523</b>	<b>3,029,372</b>	<b>3,156,000</b>	<b>3,404,693</b>	<b>3,733,245</b>	<b>4,030,038</b>	<b>4,471,328</b>
Interest Bearing Liabilities	2,137,478	2,872,643	2,909,832	3,145,595	3,525,677	3,862,389	4,288,450
Statutory Reserve	37,079	50,098	54,734	65,302	75,614	88,809	99,646
Total equity	367,799	454,495	522,267	600,204	678,149	789,409	893,682
Key Ratios	2015A	2016A	2017F	2018F	2019F	2020F	2021F
EPS (N)	2.28	2.47	3.05	3.19	3.38	3.54	4.13
P/E (x)	1.66	2.51	3.95	7.08	2.41	3.49	2.27
BVPS (N)	12.71	15.71	18.05	20.75	23.44	27.29	30.89
P/BVPS (x)	0.30	0.39	0.67	1.09	0.35	0.45	0.30
Earnings yield	60.08%	39.90%	25.31%	14.12%	41.52%	28.62%	44.13%
Dividend Paid (N)	0.55	0.65	0.70	0.80	0.90	1.00	1.00
Dividend Yield	14.51%	10.50%	5.81%	3.54%	11.04%	8.09%	10.68%
RoAA	2.81%	2.35%	2.47%	2.40%	2.33%	2.22%	2.35%
RoAE	20.42%	17.38%	18.08%	16.43%	15.31%	13.95%	14.20%
Cost to income	61.99%	58.81%	58.67%	58.45%	59.79%	60.23%	60.08%
Operational Leverage	6.20	5.28	5.37	5.33	5.21	5.17	5.22
Assets Yield	11.95%	11.09%	12.60%	12.60%	11.98%	11.92%	11.95%
Cost of Funds	5.21%	4.32%	5.58%	4.95%	4.15%	4.00%	4.10%
Net Interest Margin	6.06%	6.24%	6.28%	7.20%	7.28%	7.37%	7.24%
Cost of Risk	1.02%	1.19%	1.32%	1.45%	1.12%	1.15%	1.00%
LTD Ratio	80.21%	82.19%	81.20%	82.54%	82.52%	83.54%	82.45%
NPL Ratio	1.70%	2.10%	2.20%	2.35%	2.15%	1.95%	1.75%

Source: Company Accounts, Cordros Research

A – Actual,  
F – Forecast

# Disclosures.

**Analyst:**

**Oluwasegun Akinwale** (*Oluwasegun.akinwale@cordros.com*)

**Analyst's Certification and Disclaimer**

The research analyst(s) whose name(s) appear(s) on the cover of this report certifies (y) that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers;
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report; and
- (3) all analysis made by the analyst(s) were in good faith and the views expressed reflect their opinion, without undue influence or any intervention.

**Rating Summary & Definitions**

Cordros Capital uses the following rating system:

**BUY (OVERWEIGHT)** - Over the next twelve months, we expect the stock to return at least 20% above the current market price.

**HOLD (NEUTRAL)** - Over the next twelve months, we expect the stock to range between <-10% and <+20% from the current market price.

**SELL (UNDERWEIGHT)** - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

**Important Disclosure**

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.