

# Access Bank Plc.

## First Glance: Declines in Loan Loss Provision and Opex Supported PAT Growth (26.04% q/q)

Access Bank Plc (ACCESS) yesterday released its Q3-17 results, wherein gross earnings (9.31% q/q and 18.26% y/y, in line with our estimate) came in lower relative to Q2-17. This follows lackluster performance across income lines - interest income grew lower than expected (1.69% q/q and 21.84% y/y, 4.32% below our estimate) and non-interest income declined 28.25% q/q (+10.35% y/y), 11.37% above our estimate. However, following significant declines in loan loss provision and opex, PBT (+0.12% q/q and -5.08 y/y - 7.63% below our estimate) grew marginally, while PAT (26.04% q/q and -3.81% y/y - 9.28% below our estimate) grew double-digit, supported by a lower effective tax rate during the quarter.

The marginal q/q growth in interest income during the period was driven by 6.35% q/q (+13.22% y/y) decline in interest on loans and advances, which muted the double-digit growth in interest earned on investment securities - available for sale (+31.84% q/q and 105.90% y/y), held for trading (+2.68% q/q and +152.26% y/y), and held for maturity (+25.54% q/q and +1.73% y/y) - thus supporting a slight expansion in assets yield by 3 bps y/y to 10.35%. Accordingly, net interest margin expanded 10 bps y/y to 5.51%, despite a more-than-expected growth in interest expense (7.735 q/q and 46.91% y/y - 11.78% above our estimate), driven by the elevated interest charges on customers deposit (12.24% q/q), and borrowings - debt securities issue (+4.97% q/q) and other borrowed funds (+304.72% q/q) - 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.

The steep contraction in NIR stemmed from significant declines in fixed income securities and derivative instruments trading, the cumulative impact of which masked the 36.85% q/q growth in foreign exchange trading income and marginal growth in fee income.

On the positive, total opex declined (17.82% q/q and +6.74% y/y, in line with our estimate) in Q3-17, following significant contraction in operating expenses (29.03% q/q and +6.74% y/y), which subdued growth in personnel expenses (8.18% q/q and 13.52% y/y) and depreciation and amortization (10.56% q/q and 24.94% y/y).

Overall, over 9M-17, gross earnings grew double-digit (by 33.05%), in line with our estimate. While PBT grew marginally by 1.26%, PAT declined slightly by 1.23%. The impressive growth in gross earnings over the period broadly reflects robust interest income, on impressive yield on interest earning assets (+190 bps to 12.92%), and the surge in foreign exchange trading income, which supported 27.91% growth in NIR. The bottom-line contraction was due to opex increasing by 34.49% y/y, with cost to income ration expanding 665 bps y/y to 64.32%.

Over 9M-17, asset quality deterioration persists, with NPL ratio rising 41 bps y/y to 2.51% (3 bps above the 2.48% in H1-17), while additional provisioning of N2.46 billion in Q3-17 pushed annualized cost of risk 40 bps y/y higher to 1.22%. The provisioning came in below our estimate of N7.62 billion.

# BUY

Target Price (N)*	12.06
Current Price (N)	9.90
Implied Return (%)	21.82

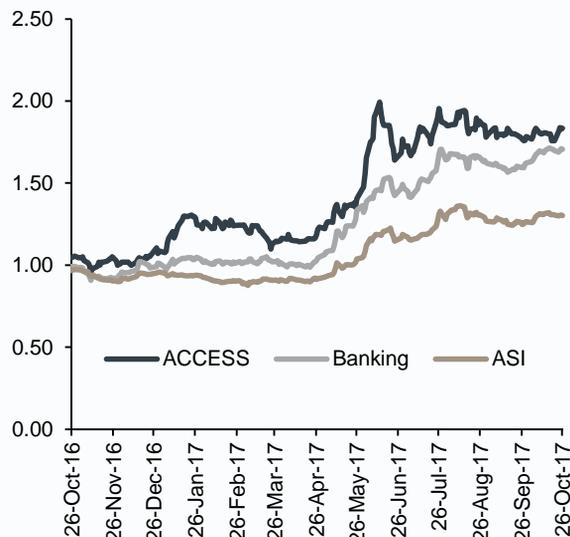
### Company Data

NSE Code	ACCESS
Bloomberg Code	ACCESS.NL
Reuters Code	ACCESS.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	286.38
Free Float (%)	90.08

Ratios	9M-2017	9M-2016	2016FY
Yield on Assets	12.9%	11.0%	11.1%
Cost of Funds	5.6%	4.0%	4.3%
Net Interest Margin	6.4%	6.5%	6.2%
Cost of Risk	0.9%	0.9%	1.2%
Cost to Income	64.3%	59.2%	58.8%
Liquidity Ratio	46.0%	39.0%	43.6%
CAR	20.5%	19.0%	21.2%
NPL/Total Loans	2.5%	2.1%	2.1%
NPL Coverage	199.1%	209.5%	169.0%
Loan-to-Deposit Ratio	72.8%	71.5%	74.0%

\*Under Review \*\*Trailing 12m

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



Source: NSE, Bloomberg, Cordros Research

Given the impressive PAT over Q3, we believe management is still on course to deliver its 2017F ROE guidance of 20.0% (vs. 17.4% in FY-16). While acknowledging the slow growth in interest income in Q3, we believe ACCESS is poised to outperform in 2017F, driven by (1) the significant growth reported in interest income and (2) foreign exchange trading gain booked in 9M-17. Based on our last TP of N12.06, we have a BUY recommendation on the stock.

Management will be hosting a conference call for investors and analysts on Tuesday 31 October, 2017 at 14:00hrs Lagos to discuss the 9M-2017 performance. The dial-in details are as follows:

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Highlight (N'Mn)	9M-2017	9M-2016	Y/Y	Cordros' Estimate	Variance	Q3-2017	Q2-2017	Q/Q	Cordros' Estimate	Variance
Gross Earnings	364,687	274,099	33.05%	363,629	0.29%	118,363	130,510	-9.31%	118,644	-0.24%
Interest Income	245,873	181,211	35.68%	249,596	-1.49%	83,968	82,572	1.69%	87,760	-4.32%
Interest Expense	(124,400)	(74,837)	66.23%	(107,780)	15.42%	(45,536)	(42,268)	7.73%	(40,736)	11.78%
Net Interest Income	121,473	106,374	14.19%	138,314	-12.18%	38,432	40,304	-4.64%	47,024	-18.27%
NIR	118,814	92,888	27.91%	114,033	4.19%	34,395	47,938	-28.25%	30,884	11.37%
Operating Income	240,287	199,262	20.59%	252,347	-4.78%	72,827	88,242	-17.47%	77,908	-6.52%
Provisions	(12,824)	(12,336)	3.96%	(16,429)	-21.94%	(2,461)	(7,166)	-65.66%	(7,623)	-67.71%
OPEX	(154,553)	(114,922)	34.49%	(146,513)	5.49%	(49,503)	(60,237)	-17.82%	(47,698)	3.78%
PBT	72,910	72,004	1.26%	92,907	-21.52%	20,863	20,839	0.12%	22,587	-7.63%
Taxation	(16,514)	(14,908)	10.77%	(15,573)	6.04%	(3,925)	(7,400)	-46.96%	(3,916)	0.23%
PAT	56,396	57,096	-1.23%	77,335	-27.08%	16,938	13,439	26.04%	18,671	-9.28%

# Disclosures.

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- (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.

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Cordros Capital uses the following rating system:

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**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.

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