

# Access Bank Plc.

## First Glance: Unimpressive Q1-2018 performance; higher opex and impairment charges outweigh topline growth.

Access Bank plc released Q1-2018 results yesterday, showing a decline in its pre and post-tax profits from the same period in the previous year, by 0.57% and 1.30%, to NGN27.44 billion and NGN22.12 billion, respectively. **Notably, following revision in operating expenses in the previous year, 2017's PBT and PAT were restated lower. Ex the revision, Q1-2018's pre-tax and post-tax profits would have been much lower, by 12.08% and 15.00% respectively.** Quarter-on-quarter, the bank recorded significant increase in PBT (+283.09%) and PAT (+259.29%), from the low based Q4-17 performance (which was its worst quarterly performance since Q4-2012).

Interest income grew by 20.5% y/y and 29.21% q/q to NGN95.59 billion, while asset yield declined by 10 bps y/y to 12.40%, despite a 28.27% jump in our computed interest-earnings assets – implying a lower yielding mix of assets. However, interest earned on customer loans (which makes up 77.6% of total interest income) rose by 28.66%, even as customer loans rose slower by 10.99% y/y (+0.34% q/q).

On the other hand, Interest expense recorded an upturn of 39.20% y/y (+59.18% q/q), owing to 30.44% y/y increase in interest paid on customer deposits (NGN33.37 billion) and 30.40% y/y increase in interest paid on borrowings (NGN2.22 billion). Notably, customer deposits and borrowings in the quarter were higher by 24.39% y/y (11.63% q/q) and 11.89% y/y (+10.43% q/q) respectively. On balance, net interest income was higher (4.48% y/y and 6.37% q/q) at NGN44.65 billion. Also, cost of funds was 70 bps higher y/y at 5.80%, causing the NIM (whilst also noting the decline in asset yield) to shed 90 bps to 5.80%.

Growth in NIR (+14.578% y/y, +105.59% q/q) was also positive at NGN41.80 billion, driven largely by the 399.44% y/y (+253.83% q/q) surge in net trading income. Gains on derivative instruments was 4.3x its value last year at NGN26.67 billion, while returns on fixed income instruments turned positive (NGN959.50 million), from a loss position (-NGN620.14 million) in the previous year. Net fee and commission income also grew 34.60% y/y (-11.27% q/q) to NGN15.86 billion, following a 55.12% y/y rise in credit related fees and commissions. These muted the significant 140% drop in forex income to a deficit of NGN6.82 billion, owing to a 30.43% decline in forex trading income.

**Unlike its tier 1 peers so far (GUARANTY: -51.96% to NGN1.64 billion, ZENITHBANK: -42.01% to NGN4.57 billion, and UBA: -53.14% to NGN1.45 billion), ACCESS' impairment charges increased y/y by 55.19%** but was 77.08% lower than the high-based Q4-17 value at NGN4.96 billion. Coupled with the slower rise in customer loans, by 10.99% y/y, cost of risk also increased 20 bps to 0.90%.

Total Opex increased by 11.61% y/y and 61.32% q/q to NGN54.05 billion, following a 17.27% rise in other operating expenses. **Other operating expenses, as stated earlier, was the sole revision in 2017 figures, following an 87.57%**

# HOLD

Target Price (N)*	11.58
Current Price (N)	11.45
Implied Return (%)	1.1

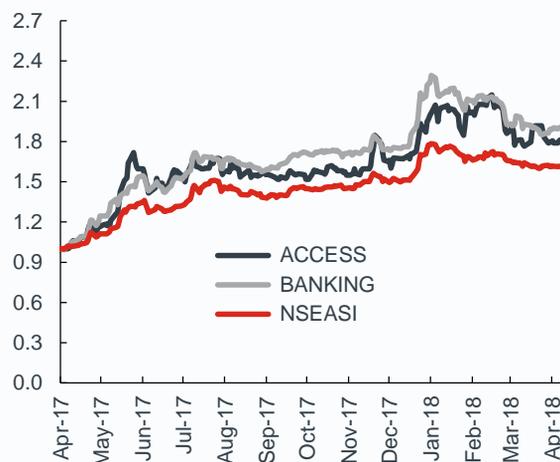
### Company Data

NSE Code	ACCESS
Bloomberg Code	ACCESS.NL
Reuters Code	ACCESS.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	328.33
Free Float (%)	90.08

Ratios	Q1:2018	Q1:2017
Yield on Assets	12.40%	12.50%
Cost of Funds	5.80%	5.10%
Net Interest Margin	5.80%	6.70%
Cost of Risk	0.90%	0.70%
Cost to Income	62.50%	61.10%
Liquidity Ratio	41.30%	46.30%
CAR	19.30%	21.00%
NPL/Total Loans	4.70%	2.20%
Loan-to-Deposit Ratio	60.70%	73.40%

\*Under Review

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



Source: NSE, Bloomberg, Cordros Research

**increase in AMCON fees to NGN7.74 billion. Ex the revision, opex would have been higher 20.61%.** The rise in opex, and the slower pace of growth in operating income (+9.13% y/y), translated to the increase in cost-to-income ratio by 40 bps to 62.15% -- highest among its Tier 1 peers so far after UBA's 64.06% (ZENITH: 54.20% and GUARANTY: 38.46%).

CAR dropped by 170 bps to 19.30%, following IFRS 9 implementation, wherein NGN78.32 billion was deducted from Retained earnings' opening balance. However, the CAR remains well above the CBN's 15% requirement, but ranks behind GUARANTY'S 24.57% and slightly below ZENITHBANK's 19.9%.

Overall, ACCESS' performance was unimpressive in our view. The stock has gained 9.57% YtD at NGN11.45, implying a 1.1% potential upside from our last-reviewed TP of NGN11.58. **Our estimates are under review.**

Highlight (N'Mn)	Q1-2018	Q1-2017*	Y/Y	Q4-2017	Q/Q
Gross earnings	137,535	115,814	18.75%	94,389	45.71%
Interest income	95,594	79,333	20.50%	73,981	29.21%
Interest expense	-50,941	-36,596	39.20%	-32,003	59.18%
Net interest income	44,653	42,737	4.48%	41,979	6.37%
NIR	41,796	36,481	14.57%	20,330	105.59%
Total Operating Income	86,450	79,218	9.13%	62,309	38.74%
Loan impairment charges	-4,961	-3,197	55.19%	-21,643	-77.08%
OPEX	-54,050	-48,426	11.61%	-33,504	61.32%
PBT	27,439	27,595	-0.57%	7,162	283.09%
Taxation	-5,323	-5,189	2.58%	-1,568	239.55%
PAT	22,116	22,406	-1.30%	5,595	295.29%

\*Restated

# Disclosures.

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