

ACCESS Bank Plc.

Poised to outperform, despite fair performance in H1-18 result

Update: We resume coverage of ACCESS with a BUY recommendation. In its latest result for H1-2018, EPS grew by a marginal by 0.42% vs. H1-17 to NGN1.37. Interest income increased by 15.31%, driven by growth in interest earned on customer loans. However, a faster growth in interest expense by 29%, led to a meagre 3% increase in net interest income. Most non-interest income (NIR) lines – net fee & commission, net trading income and other income – grew, but offset by forex income which dropped by 157%. As a result, NIR in H1-18 was lower by 22% y/y – weighing significantly on the bank's performance. The bottom line, however, was supported by decline in impairment charge provision (-29%), lower opex (-6.5%), and significantly low ETR of 13.6%.

Improved yield on assets: ACCESS recorded impressive growth in asset yield in H1-18 (+86 bps to 12.97% in H1 vs. FY-17), despite the drop in interest rates on fixed income securities – which was largely accountable for the decline in interest income for some of its peers: ZENITHBANK (-12.81%), GUARANTY (-2.41%), and FBNH (-3.00%). The growth emanated from improved yields on customer loans, which, by our estimate, surged 297 bps to 14.54% (vs. 11.56% in FY-17) in the half year, following fx translation impact (H1-18: NGN350/USD, vs. FY-17: NGN331/USD) on FCY loans, which constitutes 39% of its loan book. Also contributing to the improvement in yield is the traction gained by the bank's PayDay Loan product, which involves granting short-term (30-days) loans to retail customers (particularly salary earners). Total turnover on the platform has grown significantly by 2,737% to NGN10.9 billion in H1, and currently attracts up to NGN3 billion worth of transactions monthly. We think this is sustainable and is expected to contribute more significantly to yields going forward. As a result, we estimate yield on customer loans of 15% in 2018E.

Furthermore, with an effective CRR of 40%, we see room for the bank to explore the opportunities inherent in the CBN's new Differentiated CRR guideline, which permits DMBs to take out of their excess CRR, and give out as loans to the specified sectors. Lastly, yields on fixed income instruments have resumed upward trajectory -- as seen in the recent bond, NTB, and OMO auctions -- further supporting our projection of improvement in asset yield in the second half. As a result, we estimate 64 bps y/y increase in asset yield to 12.75% in 2018E. Together, with expected growth in interest-earning assets by 7.80%, we estimate growth in interest income by 20% y/y in 2018E.

Elevated cost of funds: An expensive debt mix, as well as high cost of deposits, were major drivers of the elevated cost of funds (5.49%) recorded in H1-18. Cost of deposits was higher by 133 bps in H1 (vs. FY-17), amidst growth in total deposits by 7.31% in H1, vs. FY-17. The cost of debt securities issued by the bank was also higher by 21 bps in H1, at 12.11% (vs. FY-17), as the bank continued to run its NGN100 billion CP programme, of which three tranches matured in H1, and three others are due for maturity in H2 (valued at NGN56 billion). Also, the bank continues the servicing of its two outstanding Eurobonds, with one of the bonds callable in 2019, and the other due for maturity in 2021. However, there are efforts by management to reduce CoF, by repricing some outstanding CPs in the second half, and this reflected in the most recent tranche issued this month, wherein its implied yield reduced to 13.79%, as against 16.05% in its previous issue in February. However, the recent rise in yields may limit how much room the bank has to reduce its cost of debt. As a result, we expect CoF will be lower by 23 bps (vs. H1-18) in FY-18 at 5.26%, but still higher than our computed CoF of 4.73% recorded in FY-17.

Asset quality: Improvements in macroeconomic fundamentals, following the rise in oil prices, has led to improved servicing of loans by debtors, particularly by in the upstream oil & gas sector. Furthermore, the recent resolution of the sale of 9 mobile assets to Teleology has increased optimism around the repayment of the telco's outstanding loan to the consortium of banks, standing at USD1.2 billion, and of which USD200 million is to be written off by the affected banks. The proceeds from the sale (USD301 million) is to be shared among the banks on pro-rata basis, and c. NGN20 billion (according to management's rough estimate) is expected to be paid to ACCESS in a few weeks and the balance restructured over 7 years. With 9mobile constituting a bulk of the bank's NPL (59.0%, as at H1-18), the resolution of the telco's sale is likely to improve asset quality significantly. It is also worth stating that 37% of the 9 mobile exposure has been provided for. Hence, we project a 86 bps y/y dip in cost of risk to 0.91% in 2018E, but remain conservatively above the 0.73% recorded in H1.

Improved cost efficiency: As we highlighted earlier, the 6% decline in opex in H1 contributed to the marginal uptick in the bottom line. However, owing to the drop in

BUY

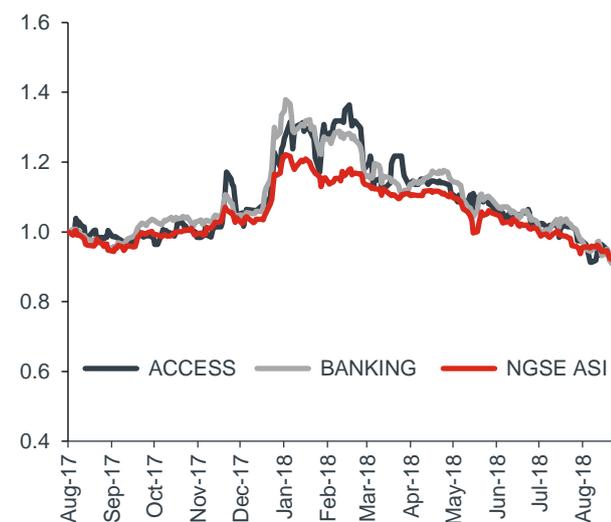
Target Price (N)	13.34
Current Price (N)	8.00
Implied Return (%)	66.69%

Company Data

NSE Code	ACCESS
Bloomberg Code	ACCESS:NL
Reuters Code	ACCESS.LG
Sector	FINANCIAL SERVICES
Market Cap. (NGN' bn)	231.42
Free Float (%)	90.93

Ratios	H1-2018	2017FY
Assets Yield	12.97%	12.11%
Cost of funds	5.49%	4.73%
Net Interest Margin	5.95%	5.66%
Cost of Risk	0.73%	1.77%
NPL/Total Loans	4.70%	4.80%
CAR	20.80%	20.10%
Liquidity Ratio	43.20%	45.72%
Cost to Income	64.88%	62.15%
Loan to Deposit	64.99%	76.59%

Price movement (ACCESS vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

operating income (-9.58% y/y), cost-to-income ratio increased to 64.9% in H1, vs 62.15% in FY-17. In 2018E, we expect opex to inch up by 2% over 2017fy. However, with operating income expected to rise by 6% y/y in 2018E, we estimate cost-to-income ratio of 59.8% for the full year.

Estimate and valuation: Overall, we forecast EPS of NGN3.00 and NGN3.05 in 2018E and 2019E respectively. Our TP of NGN13.34/s translates to 66.69% upside potential from today's closing price of NGN8.75, with BUY rating. On our estimates, ACCESS trades at forward P/E and P/BV multiples of 4.4x and 0.79x, below Bloomberg's Middle East Africa peer average multiple of 10.2x and 1.0x, respectively.

Summary of Results.

Highlight (N'Mn)	H1'2018	H1'2017	y/y	Q2'2018	Q1'2018	Q2'2017	q/q
Gross earnings	252,806	246,324	3%	252,806	137,535	130,510	84%
Interest income	186,686	161,905	15%	91,092	95,594	82,572	-5%
Interest expense	-101,390	-78,864	29%	-50,449	-50,941	-42,268	-1%
Net interest income	85,296	83,041	3%	40,643	44,653	40,304	-9%
Fee and commission income	30,285	25,077	21%	14,423	15,862	13,273	-9%
fee and commission expense	-218	-251	-13%	-74	-144	-124	-49%
Net fee and commission income	30,067	24,826	21%	14,349	15,718	13,149	-9%
Net trading income	59,565	-3,646	-1734%	31,896	27,669	-9,186	15%
Other income	10,267	4,217	143%	5,036	5,231	2,007	-4%
Foreign exchange income	-33,779	59,022	-157%	-26,958	-6,821	41,968	295%
Non-interest income	66,120	84,419	-22%	24,323	41,796	47,938	-42%
Total operating income	151,416	167,460	-10%	64,966	86,450	88,242	-25%
Loan impairment charges	-7,340	-10,363	-29%	-2,379	-4,961	-7,166	-52%
Total operating expenses	-98,233	-105,050	-6%	-44,184	-54,050	-56,624	-18%
Profit before income tax	45,843	52,047	-12%	18,404	27,439	24,452	-33%
Income tax expense	-6,218	-12,589	-51%	-895	-5,323	-7,400	-83%
Profit after tax	39,625	39,458	0%	17,509	22,116	17,052	-21%

Source: Company Accounts, Cordros Research estimates

Financial Statement (N'million).

Income Statement (N'M)	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Gross earnings	381,322	459,076	524,092	538,658	586,827	639,268	716,189
Interest income	247,287	319,854	382,576	388,642	429,209	474,298	544,166
Interest expense	(108,139)	(156,403)	(202,780)	(207,895)	(224,593)	(236,407)	(249,478)
Net interest income	139,148	163,452	179,796	180,747	204,616	237,891	294,688
Non-interest income	133,458	139,144	141,433	149,930	157,527	164,875	171,923
Total operating income	272,606	302,596	321,229	330,677	362,144	402,766	466,610
Loan impairment charges	(21,953)	(34,467)	(18,089)	(24,137)	(32,388)	(40,027)	(48,307)
Total operating expenses	(160,314)	(188,057)	(192,095)	(196,753)	(211,854)	(231,590)	(265,968)
Profit before income tax	90,339	80,072	111,046	109,787	117,901	131,148	152,336
Income tax expense	(18,900)	(18,082)	(24,154)	(21,684)	(25,185)	(27,482)	(31,517)
Profit after tax	71,439	61,991	86,892	88,102	92,716	103,666	120,819
Financial Position (N'M)	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Cash and Cash Equivalents	191,518	405,292	439,459	405,014	478,409	713,889	953,944
Total Loans and Advances	577,003	608,637	810,748	1,122,899	1,408,563	1,854,662	2,064,102
Assets pledged as collateral	66,191	60,949	63,409	87,072	203,715	314,948	447,114
Property and equipment	67,647	64,634	67,243	69,659	73,329	84,109	97,115
Total Assets	1,628,996	1,745,462	1,835,458	2,104,353	2,591,323	3,483,867	4,102,243
Total deposit	1,248,511	1,298,374	1,403,565	1,573,464	1,756,158	2,256,554	2,695,076
Debt securities issued	-	54,685	55,828	138,481	149,853	316,545	302,617
Other borrowed funds	29,258	48,369	64,338	79,816	231,467	299,544	311,617
Total liabilities	1,436,936	1,504,181	1,590,978	1,826,947	2,223,523	3,029,372	3,587,306
Total equity	192,063	241,283	244,480	277,408	367,799	454,495	515,448
Key Ratios	2016A	2017A	2018E	2019E	2020E	2021E	2022E
EPS	2.47	2.14	3.00	3.05	3.21	3.58	4.18
P/E	2.51	5.48	4.44	4.38	4.16	3.72	3.19
BVPS	15.71	17.82	16.90	19.78	22.70	24.21	29.96
P/BVPS	0.39	0.66	0.79	0.67	0.59	0.55	0.45
Earnings yield	39.90%	18.24%	22.52%	22.84%	24.03%	26.87%	31.32%
RoAA	2.35%	1.63%	1.98%	1.82%	1.78%	1.87%	2.05%
RoAE	17.38%	12.78%	17.30%	16.61%	15.09%	15.28%	15.42%
Cost to income	58.8%	62.1%	59.8%	59.5%	58.5%	57.5%	57.0%
Asset yield	11.97%	12.11%	12.75%	11.96%	11.97%	11.88%	12.04%
Cost of fund	3.76%	4.73%	5.26%	4.98%	4.89%	4.92%	4.94%
Net Interest Margin	5.81%	5.66%	5.67%	5.34%	5.41%	5.66%	6.09%
Cost of Risk	1.36%	1.77%	0.91%	1.20%	1.45%	1.60%	1.70%
LTD Ratio	82.19%	76.59%	65.00%	64.72%	65.85%	68.73%	74.82%
ROE	15.72%	12.03%	17.78%	15.40%	14.12%	14.80%	13.94%
ROA	2.05%	1.51%	1.86%	1.75%	1.72%	1.81%	1.99%

Disclosures.

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