

Expanding to leverage the AfCTA

Equity Research | Earnings Update
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Risk Rating: Low


Note: Refer to disclosure appendix for complete description of risk rating

Key Data

Last Price (₦)	6.75
52 week High/Low (₦)	10.5/ 6
1M Price Change (%)	-6.2
3M Price Change (%)	-18.4
6M Price Change (%)	-5.0
12M Price Change (%)	12.7
YTD Change (%)	-10.7
Beta	1.1
Market Capitalization (₦'m)	266,589.2
Market Capitalization (\$'m)	650.6
Shares Outstanding. (Units'm)	35,545.20
Float (%)	95.6
12M Dividend Yield (%)	9.3

Price Performance Chart


Sources: Bloomberg, United Capital Research

Stock Rating	Target Price	Upside
BUY	Old: N10.5	13.9%
	New: N8.60	

Access Bank Plc ("ACCESS" or "The Bank") released its FY-2020 results earlier, showing a 14.7%y/y growth in Gross Earnings (GE) to N764.7bn despite the challenging operating environment. PBT and PAT also grew by 12.5% and 12.7% to N125.9bn and N106.0bn, respectively. Similarly, Loans and deposits expanded by 17.8% and 20.3% to N3.6tn and N5.6tn. We update our estimates and review our expectations.

Net trading income explosion counteracts weaker interest income:

ACCESS reported a 14.7% y/y expansion in GE despite an 8.9%y/y decline in Interest Income to N489.2bn amid pressure on asset yields (which slid to 9.0% from 12.8% in 2019) and increased uncertainties in the macroeconomic environment. Specifically, the increase in GE was driven by Non-interest income (NII) which jumped 112.1% to N275.5bn, essentially boosted by a 743.0% y/y surge in net trading income to N114.3bn (vs. -N17.8bn in 2019), traceable to Net gain on derivatives, FX and treasury activities. Also, with expansion in its retail banking services, payments, remittance and aggressive customer acquisition, Fees and commission income increased 27.1% to N116.7bn, significantly supported by a upsurge in E-banking charges.

Net Interest Margin (NIM) declined 170bps to 4.9% despite reduction in funding cost to 3.3% (vs. 5.0% in 2019) amid an industry wide decline in interest expense. Expectedly, impairment charges jumped 211.5% to N62.9bn due to COVID-19 worries, pushing cost of risk to 1.8%. Similarly, OPEX increased by 26.9% to N326.5bn. As such, Cost to income Ratio ticked northwards to 63.4% (vs. 66.1% in 20-19). An inspection of the OPEX component indicated a jump in regulatory levy - AMCON (up 56.0% to N35.4bn), Outsourcing costs (+50.0% N25.bn) and IT & E-business expenses (+92.0% to 18.7bn), accounted for the pressure on OPEX. Against this backdrop, PBT and PAT growth improved by over 12.0% to N125.bn and N106.0bn respectively, with ROE and net margin settling at 15.6% and 13.9% respectively.

Asset quality remains intact: ACCESS's total assets stood at N8.7tn as of FY-2020, up 21.5% from N7.1tn in Dec-19. Loans and advances represented N3.6tn, up 18.8%, while Investment Assets surged by

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61.3% to N1.7trn. Cash balances, however, stood flattish at 0.1% to N723.9bn, a sharp contrast to peers. Also, deposits expanded by 21.5% to 6.5%. Also worthy of note, derivative assets expanded 75.0% to N251.1bn, buttressing the jump in non-interest income. Loan to funding ratio stood at 50.7%. Despite asset quality issues across the market, ACCESS' NPL ratio improved to 4.3% (previously 5.8%), thanks to a well-diversified loan book, though the loan to funding ratio came in at 50.7% (from 62.9% in 2019). Overall, Capital Adequacy Ratio (CAR) was flattish at 20.6% while liquidity ratio settled at 46.0% for the period.

Update on recent acquisitions and business reorganization

In a string of acquisitions/expansion across the African continent - including Cameroon (operating license), Kenya (Transnational Bank), Zambia (Cavmont Bank) and the latest being South Africa's Grobank - management hinted that the group intends to leverage the African Continental Free Trade Area agreement to expand its footprint to 20 countries across Africa. As such, in addition to the already concluded acquisitions, plans are currently in place to enter Morocco, Algeria, Egypt, Ivory Coast, Senegal, Angola, Namibia and Ethiopia. A sum of \$60.0mn was paid to acquire south Africa's Grobank, a major milestone in the Bank's foray into the south African market and a critical factor in driving intra-African trade by widening its trade finance operations. On the proposed reorganization into a HoldCo, management noted that the bank would also accomplish an expansion plan outside Africa by setting up representative offices in China, India and Lebanon, using its London operation as an "anchor for growth.". Furthermore, the Group will be organized into Access Bank Group (divided into Nigeria, Rest of Africa and international), Payment Business, Consumer Lending/Agency Banking and Insurance Brokerage. The overall objective of the structure will be to create new revenue lines at minimal risk, diversify earnings, and support international expansion.

Outlook & Valuation: We expect ACCESS to sustain top and bottom-line expansion in 2021. While non-interest income growth should taper going forward, as the economy stabilizes, we imagine that rebounding asset yields, supported by massive balance sheet size and gains from expansion activities, should spur interest income growth. Again, the well-diversified nature of the loan book is expected to sustain asset quality and thus keep NPL and COR within prudential limits. Accordingly, we expect PBT and PAT to remain broadly stable in FY-2021. By valuation, ACCESS's PB and PE ratio currently stands at 0.36x and 2.5x, below peer averages at 3.1x and 0.6x. However, we revise our TP for ACCESS from prior N10.5/share to N8.6/share, amid retracement in the yield environment which has resulted in a significant spike in our risk-free rate assumption thus reducing the appetite for riskier assets such as equities. Accordingly, this translates to a 13.9% upside compared to market price of N7.6 as of April 16th 2021, thus we maintain a BUY rating on ACCESS.

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Financial Highlights (N'Mn)

Headlines	FY 2020	FY 2019	Change
Gross Earnings	764,717	666,754	14.7%
Interest Income	489,217	536,847	-8.9%
Interest Expense	-226,267	-259,618	-12.8%
Net Interest Income	262,950	277,229	-5.2%
Impairment Loss	-62,893	-20,189	211.5%
Non-Interest Income	275,501	129,907	112.1%
Operating Expenses	-326,509	-257,223	26.9%
Profit/Loss Before Tax	125,922	111,926	12.5%
Taxation	-19,912	-17,869	11.4%
Profit/Loss After Tax	106,010	94,057	12.7%
	FY 2020	FY 2019	
Cash and Balances with Banks	723,873	723,064	0.1%
Net Loans & Advances to customers	3,610,928	3,064,405	17.8%
Investment Securities	1,749,549	1,084,604	61.3%
Total Assets	8,679,748	7,146,610	21.5%
Deposits from customers	6,545,815	5,442,194	20.3%
Net Assets	751,041	610,193	23.1%
Cost to Income Ratio	63.40%	66.10%	-2.7%
Loan to Deposits	55.20%	56.30%	-1.1%
12M ROAE	15.60%	19.00%	-3.5%

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Disclosure Appendix

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United Capital Research adopts a 3-tier recommendation system for assets under our coverage: Buy, Hold and Sell. These generic ratings are defined below:

Buy: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).

Sell: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at December 31st is less than zero.

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