

## ACCESS BANK PLC

We rate the counter **BUY – Target Price N7.18**

### Margins boosted by strong non-interest income growth.....

Access Bank Plc's half year result shows significant growth in gross earnings and after tax profit, boosted by non-interest income lines especially from activity in their securities trading business. PBT came in strong at N39.1billion improving ROAE to 21.6 percent.

- Gross Earnings of N168.34billion for the first six-months to June was up 43.12 percent YoY from N117.62billion in HY'14. Growth was driven by an 18 percent increase in interest income (from loan book expansion and sustained yield on investment securities) and non-interest income growth of 101percent (boosted by significant gains in derivative instruments and foreign exchange income). QoQ, gross earnings firmed up by 19.25 percent to N91.56billion from N76.78billion in Q1'15.
- Interest income grew 18.29% YoY to N98.86billion, up from N83.57billion in the corresponding period of 2014. With rising cost of funds across the industry, Interest expense accelerated faster by 45.54 percent to N50.69billion from N34.84billion in HY'14, resulting in a contraction in Net Interest Income by 1.19 percent. Also, interest on borrowings was significantly higher in the six months to June by 155.56 percent to N6.95billion as a result of the US\$400million subordinated notes issued in June 2014 coupled with the regulatory impact of CRR harmonization on public and private sector deposits. Accordingly, cost of funds rose 100bps YoY to 5.3% (June 2014: 4.3%).
- Non-interest income more than doubled, reaching N69.47billion for the half year period, supported by gains in swaps and derivative instruments and net foreign exchange income despite the 11.73 percent YoY decline in fee and commission income to N17.15billion.

### Income Statement

	HY'15	HY'14	Change
Gross E (N'bn)	168,341	117,619	43.12%
Net Int. Inc (N'bn)	48,163	48,743	(1.19%)
Oper. Inc. (N'bn)	117,642	82,796	42.09%
PAT (N'bn)	31,289	22,586	38.52%
EPS (Kobo)	137	101	35.64%

Source: NSE, Planet Capital Research

### Balance Sheet

	HY'15	FY'14	Change
Cash&Equiv. (N'bn)	421,807	405,014	4.15%
Gross Loans (N'bn)	1,280,232	1,122,900	14.01%
Deposits (N'bn)	1,792,596	1,573,464	13.93%
Net Assets (N'bn)	302,644	277,414	9.09%
Sharesout (bn)	22.88	22.88	0.00%
Equity&Liab (N'bn)	2,392,116	2,104,363	13.67%

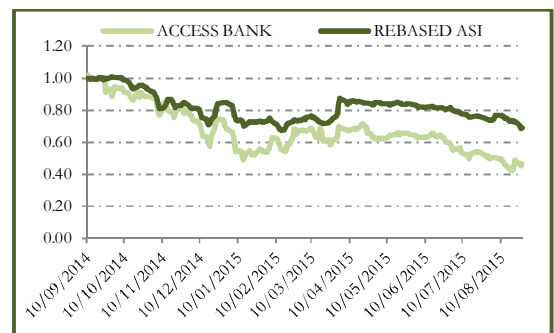
Source: NSE, Planet Capital Research

### Stock Data

Ticker Symbol	ACCESS:NL
Share Price	N4.27
52-week high	N9.47
52-week low	N4.07
1-month average vol. (mn)	46.02
Current P/E	3.5x
Market Cap (bn)	N97.71

Source: Bloomberg, Planet Capital Research

Fig. 1: Share Price Movement



- The decline in fee and commission income was due to a sharp fall in COT by 53 percent (following CBN’s mandatory reduction in COT charges) and a 64 percent reduction in commission earned on other financial services coupled with lower retail account charges.
- Operating income grew 42.09 percent YoY to N117.60billion, up from N82.80billion in HY’14. Operating expense rose 32.74 percent YoY to N69.64billion, from 52.46 billion for the corresponding period of 2014. Increased opex was traced to an uptick in personnel costs (to boost retail market penetration) and other operating expenses (including AMCON surcharge, Administrative expenses and Public relations, marketing expenses and upgrade of IT solutions). Enhanced cost efficiency drove Cost-to-Income ratio down to 59.20 percent (63.37 percent in HY’14), boosted by strong growth in operating income.

Fig 2: QoQ Gross earnings, Interest Inc., Interest exp growth (N’bn)

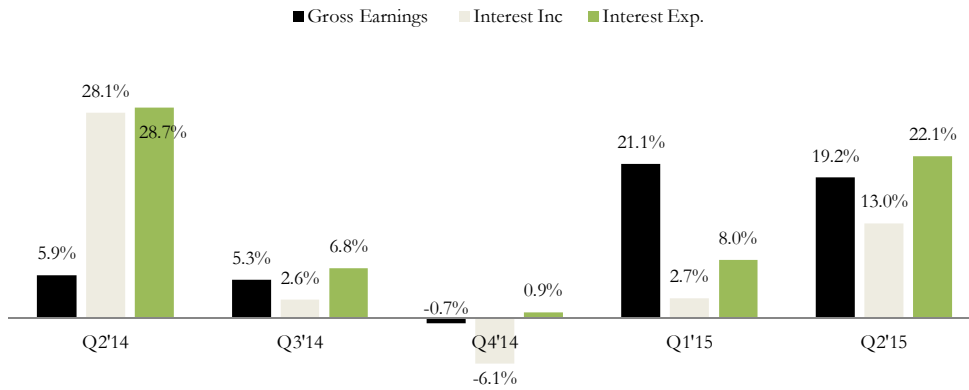
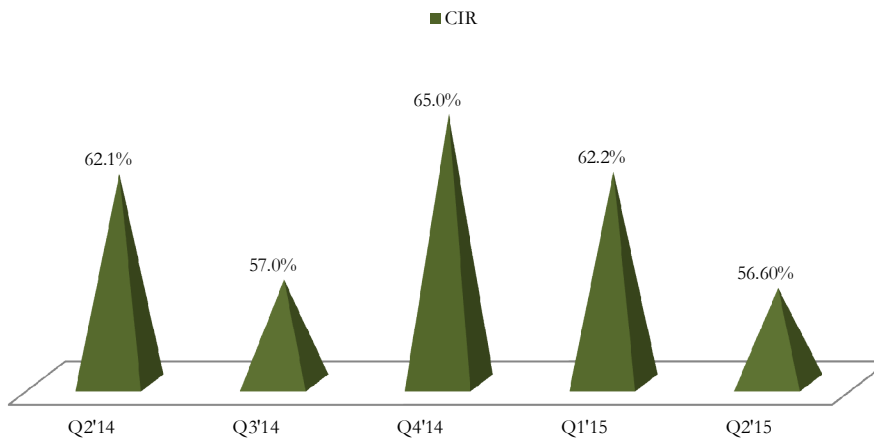


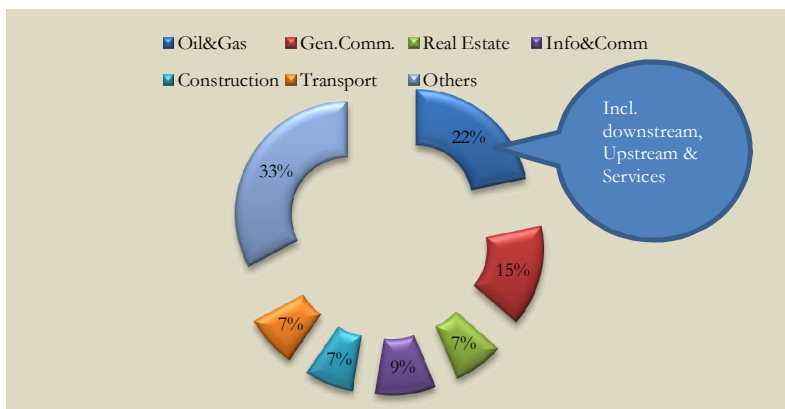
Fig 3: Cost-to-income ratio



## Asset Quality

- Impairment charge on credit losses grew 153.48% to N8.89billion YoY and 29.76 percent QoQ. Management attributed this to macro-economic headwinds particularly with the drop in oil prices. Weaker asset quality was driven by Access bank's exposure to the Oil&Gas downstream sector which accounted for 38.4 percent of NPL's though the bank's continuous risk management drove NPL ratio down to 1.8 percent YtD from 2.2 percent as at December 2014 with a corresponding improvement in Cost-of-Risk by 10bps to 1.1 percent YtD from 1.2 percent in December.

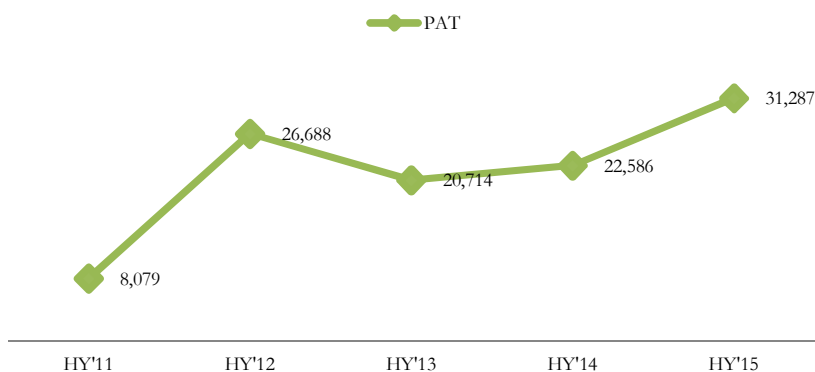
Fig 4: Loan book distribution by sectors – HY'15



## PAT softened by rising higher opex, impairment charges.....

- After tax profit rose to N31.29billion, a 38.52 percent YoY increase compared to N22.51billion in HY'14 and a QoQ growth of 28.92 percent to N17.62billion. The company's bottom line was pressured by the uptick in opex and higher loan impairment charges which weakened net profit margin to 18.59percent in HY'15 from 19.20 percent for the corresponding period of 2014.

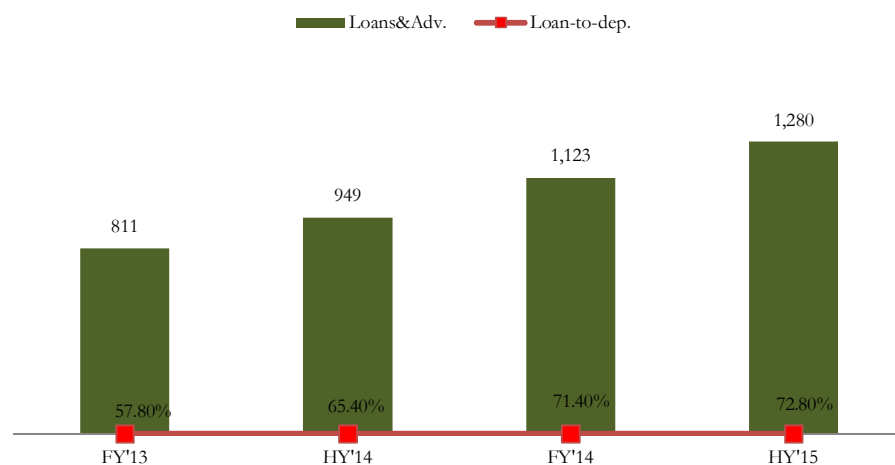
Fig 5: Half Year PAT trend (N'mn)



## Balance sheet analysis

- Total assets grew 13.67 percent to N2.10trillion YtD majorly from gains in foreign exchange derivatives and assets pledged as collateral by way of treasury bills and government bonds. The bank's loan book expanded by 14.01percent for the half year period to N1.28trillion, up from N1.12 trillion in December 2014 and accounts for 60.95percent of total assets. We are unlikely to see a significant loan book expansion in the second half of the year based on management guidance of a 10.00percent loan book growth for 2015 which is likely to pressure interest income growth.
- Customer deposits at N1.64trillion rose 12.72 percent YtD from N1.45trillion at the end of 2014 and accounts for 78.46 percent of the bank's total liabilities currently at N2.09trillion. In terms of funding, low-cost deposits (current/demand and savings) accounted for 56 percent of total deposits while term deposits constituted 44 percent. Based on management guidance, deposit drive of 15.00percent for 2015 is on track. Loan-to-deposit ratio of 72.80 percent was marginally higher than 71.4 percent recorded in December.
- Net assets grew 9.09 percent YtD to N302.64billion billion from N277.41billion in December 2014, boosted by an increase in retained earnings (up 63.9% to N55.9billion). Access bank achieved an ROAE of 21.6 percent for HY'15, up from 16.5 percent for FY'14.

Fig 6: Gross loans/Loan-to-dep. ratio



## Capital and Liquidity

- Access bank in compliance with BASEL II achieved a CAR of 19.1 percent at the end of June, up from 18.1 percent in December 2014 (above regulatory minimum). With the just concluded rights issue which raised N41.8billion, the bank's CAR is expected to hit 22 percent by the end of 2015 going by management's guidance.
- Liquidity ratio of 37 percent rose 100bps YtD from 36 percent in December and 200bps QoQ from 35 percent in March.

### We maintain our BUY recommendation

Management strategy of gradually reducing loan book exposure to the oil&gas sector will see a notable improvement in asset quality going forward which should keep CoR within its current threshold. Sustaining non-interest income growth through treasury activity will continue to support the bank's earnings growth as loan book expansion in the second half is likely to be subdued giving management guidance of a 10 percent expansion for FY'15. Taking into consideration management's guidance on full year forecasts for ROE, CIR, NIM and deposit growth which we applied in our model, our FY'15E EPS came in at N2.39 though we note that additional shares from the recently concluded rights issue will likely be listed which should reduce FY'15 EPS to N1.79. We therefore maintain our BUY recommendation on Access bank at an estimated target price of N7.18 which gives an upside potential of 68.15 percent based on the current price of N4.27. In arriving at our target price, we took an average of the Earnings Multiples and Dividend Discount methods of valuation.

The company's shares are currently trading on a P/B and forward P/E of 0.3x (peer average 0.9x) and 2.4x respectively with YtD return at -35.30 percent compared to market return of -14.17 percent.

Fig 7: Summary of forecasts

	2010	2011	2012	2013	2014	2015E
Gross Earnings	90,644	138,358	197,082	206,785	245,180	268,228
Interest income	69,241	107,609	165,293	145,961	176,918	197,338
Net interest income	47,421	70,583	100,234	77,724	100,017	115,625
Operating income	68,824	101,332	141,438	138,548	168,279	186,515
Operating Expense	48,467	69,593	85,518	101,182	104,605	109,160
PAT	15,676	14,499	39,328	36,297	42,976	54,659
EPS	0.69	0.63	1.72	1.59	1.88	2.39

Fig 8: Net Interest Margin/Cost of Funds trend

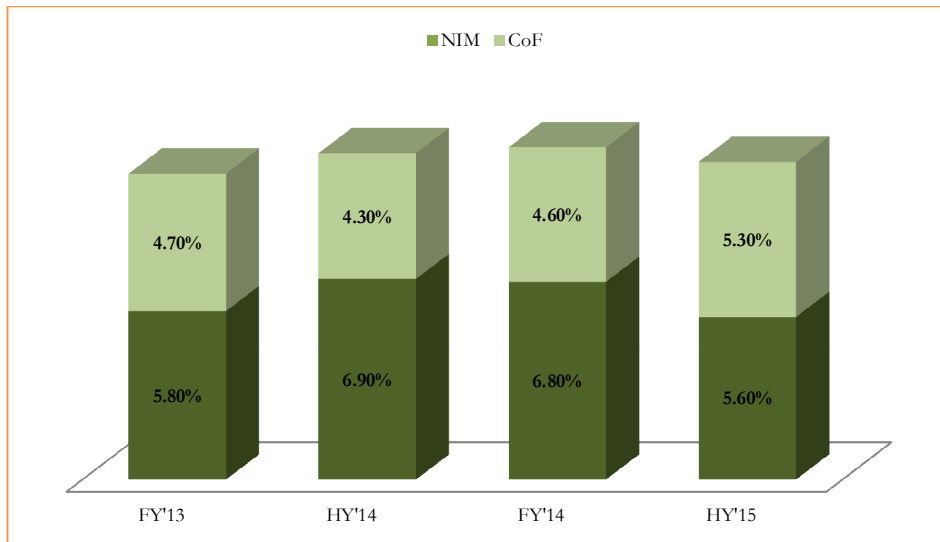
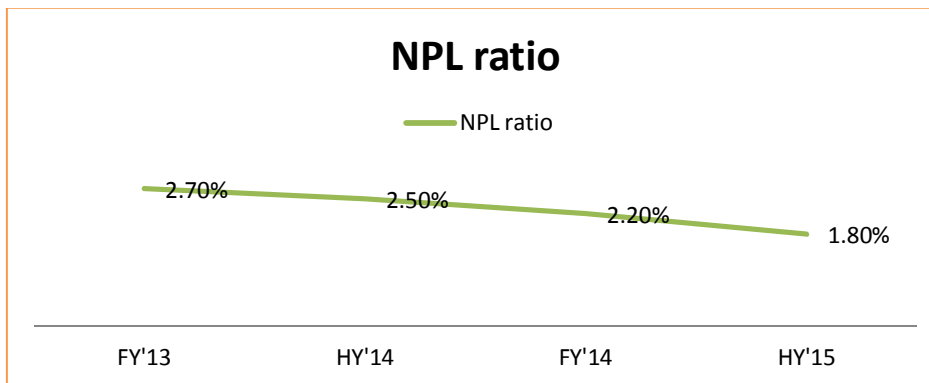


Fig 9: NPL Ratio movement



Major developments in the banking sector:

- ❖ One of the notable policies that will impact the banking sector in the coming quarters is the full implementation of the Treasury Single Account (TSA) by all Federal Ministries, Departments and Agencies.
- ❖ The downward revision of spending limits on naira denominated cards for international transactions which was previously \$150,000 per annum but now \$50,000 per annum.
- ❖ Harmonization of the CRR on public and private sector deposits to 31 percent from 75 percent and 20 percent respectively.
- ❖ FX restrictions to encourage local production and reduce speculative attacks on the naira which resulted in the exclusion of 41 import items from accessing the FX market.

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