

Still Room for Improvement

Outlook for Gross Earnings Remains Positive

Access Bank Plc (**ACCESS**)'s gross earnings growth moderated to 22.31% YoY in H1:2020 (from 31.02% in Q1:2020) due to a relatively weak second quarter outing. Interest income underperformed in Q2:2020 by 29.15% YoY due to a 14.99% decline in investment securities and lower investment assets yield. The growth (+191.45% YoY to NGN150.03bn) in non-interest was however sufficient to push gross earnings up 22.31% to NGN396.76bn. The group's robust and growing retail business has proved invaluable in shielding fee-based income from adverse regulations as fee-based income (net) grew 8.16% YoY to NGN4.59bn. The main drivers of non-interest income however were gains on financial instruments, particularly derivative instruments which grew by 5,695.81% and accounted for 68.81% of total non-interest income in H1:2020. **This implies that a significant portion of non-interest income is exposed to high risk instruments, a potentially negative situation.** As we expected, foreign exchange losses worsened relative to H1:2019 due to the devaluation of the Naira as its USD position was short. **The outlook for interest income is modest in view the low yield environment and the bank's restructuring programme, which covered 17% of loan book in H1:2020. On the other hand, we expect fee-based income to continue to gain traction owing to the pick-up of business activities and the bank's growing retail strength. For other non-interest income lines such as derivative gains and FX losses, the outlook is uncertain given the volatility in the FX environment the relatively stable outlook for FX H2:2020. Hence, we maintain a moderately bullish outlook for gross earnings in 2020FY.**

For Costs, A Lot More Needs to be Done

Net interest margin declined significantly to 4.90% from 7.70% in H1:2020, as lower yields offset the impact of lower cost of funds. High operating costs continue to limit the bank's EPS, and although management claims to have realized NGN54.50bn in cost synergies since its merger with the defunct Diamond Bank Plc, the impact on overall cost profile remains to be seen. However, the sharp growth (+40.04% YoY) in OPEX recorded in H1:2020 is partly explained by high inflationary pressures and the impact of the unconsolidated period in H1:2019 financial results. Higher impairment charges (+237.43% YoY) in H1:2020 owing to volatile economic business outlook, and higher regulatory costs also contributed in keeping cost profile high. Cost-to-Income ratio thus climbed 420bps to 65.80% while Profit after tax (PAT) declined marginally by 1.36% to NGN61.03bn. **In H2:2020, we expect a decline in impairment charges on the back of improving business environment. This should ease the pressure of elevated OPEX on bottom line, pushing it up 3.29% in 2020FY.**

Cashflows Impacted by the Pandemic

Significant increase in operating assets during the period drove operating cashflow deficits by 957.87% to NGN525.76bn in H1:2020 from NGN49.70bn in H1:2019. This was compounded by slowdown in collections during the period. Liquidity ratio thus fell to 44.70% from 47.00%. On a positive note, asset quality improved significantly by 140bps to 4.40% driven by repayments and write-offs. Other prudential ratios remained firmly within regulatory guidelines.

Recommendation

We maintain our December 2020 expected EPS at **NGN2.81** and target P/E at **2.64x**, yielding a target price of **NGN7.42**. This implies an upside potential of **9.12%**, hence, we place a recommend a **HOLD** on the ticker.

Company	ACCESS
Valuation	
Trailing EPS	2.72
BVPS	18.86
P/E	2.50x
P/BV	0.36x
Target PE	2.64x
Dec-2020 Exp. EPS	2.81
Dec 2020 Target price	7.42
Current Price	6.80
Up/Downside Potential	+9.12%
Ratings	HOLD
Key metrics	
ROE	19.10%
ROA	1.60%
Net margin	15.38%
Asset Turnover	0.10
Leverage	11.59x
Share/Share Price Statistics	
Yr Hi	NGN11.60
Yr Lo	NGN5.40
YTD return	-32.00%
Beta	1.20
Adjusted Beta	1.13
52-wk average volume	22,594,854
Shares outstanding	35.55bn
Market cap [NGN]	241.71bn
Financial year end	December
Most Recent Period (MRP)	H1:2020

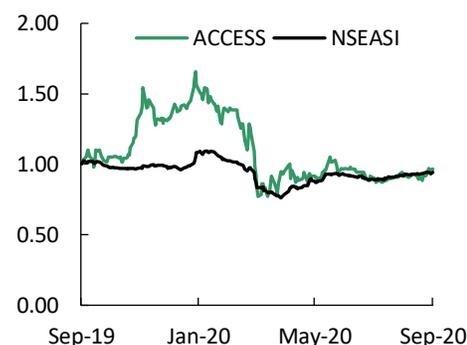


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs							Min	4.20			
							Max	10.57			
							EPS				
							2.47	2.52	2.81	2.62	2.67
Target PE	1.70x	4.20	4.28	4.78	4.45	4.54					
	2.17x	5.36	5.47	6.10	5.69	5.79					
	2.64x	6.52	6.65	7.42	6.92	7.05					
	3.30x	8.15	8.32	9.27	8.65	8.81					
	3.96x	9.78	9.98	11.13	10.38	10.57					

Financial Highlights (NGN billion) ACCESS BANK PLC H1:2020

<i>Profit & Loss Account</i>	H1:2020	H1:2019	y/y Growth
Gross Earnings	396.76	324.38	22.31%
Interest Income	246.72	272.90	-9.59%
Interest Expense	120.52	117.75	2.35%
Loan Loss Expense	16.47	4.88	237.43%
Net Interest income after impairment charges	109.74	150.27	-26.97%
Non-Interest Income	150.03	51.48	191.45%
Operating Income	259.78	201.75	28.76%
OPEX	174.29	124.45	40.04%
PBT	74.31	72.96	1.84%
PAT	61.03	61.87	-1.36%
<i>Balance Sheet</i>	H1:2020	2019FY	
Cash and short-term funds	663.92	723.06	-8.18%
Loans and Advances to customers	2999.82	2911.58	3.03%
Investment Securities	1,364.61	1,605.29	-14.99%
Property and Equipment	208.37	211.21	-1.35%
Other Assets	2,529.80	1,692.01	49.51%
Total Assets	7,766.51	7,143.16	8.73%
Deposits from customers	4,667.66	4,255.84	9.68%
Financial Liabilities	757.08	744.59	1.68%
Other Liabilities	1,671.41	1,535.99	8.82%
Total Liabilities	7,096.15	6,536.42	8.56%
Shareholders' fund	670.36	606.74	10.49%

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Movements in Price Target

Company Name: Access Bank Plc.

Date	Price (NGN)	Previous Target Price (NGN)	New Target Price (NGN)	Previous Recommendation	New Recommendation
30-Apr-2020	6.35	9.41	7.42	BUY	BUY
16-Sep-2020	6.80	7.42	7.42	BUY	HOLD

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Access Bank Plc	

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