

Signs of Operating Efficiency, At Last

Interest Income Bucks Industry Trend, Sustains Topline Growth

ACCESS Bank Plc's gross earnings in H1:2021 were 13.58% higher (at NGN450.62bn) relative to H1:2020 mainly due to a strong funded income performance. Although the growth in interest income was a deviation from the general industry trend, it was well within our expectations. Recall from our earlier [earnings report for 2020FY](#), where we noted that the bank's robust earning assets (which grew by 44.23% YoY) base places it in a good position to benefit from loan repricing (as guided by Management) and the uptrend in yields which occurred during H1:2021. **Our position on interest income remains unchanged although investment assets yield could be pressured by the moderating yield outlook in H2:2021. In addition, the planned issuance of Eurobonds worth USD375mn should help boost the creation of foreign currency risk assets upon the maturity of existing Eurobonds in October 2021.** Non-funded income on the other hand declined by 12.77% YoY, dragged mainly by trading income (which fell by 40.66% YoY) and substantially lower recoveries of delinquent loans (-84.92% YoY). However, fee-related income grew strongly by 42.38% YoY owing to higher transaction volume and value on electronic banking channels. **Trading losses could moderate in H2:2021 given the current uptrend in asset prices, however, we are more optimistic about transaction volumes and the attendant fee incomes.**

Bottom Line Supported by Stronger Margins

From an operational standpoint, Access Bank Plc achieved encouraging levels of efficiency. First, net interest margin (NIM) increased by 157bps to 6.40%. While the strong growth in interest income was pivotal to NIM performance, the decline in cost of funds (by 80bps to 2.90%) is also noteworthy especially given that CASA mix increased during the period. **The general outlook for interest rates in H2:2021 points to a sustained moderation in funding costs. Furthermore, the new Eurobonds are expected to be issued at a lower coupon rate than the maturing Eurobonds. This should minimize overall funding costs in H2:2021.** Meanwhile, Cost-to-Income ratio (CIR) fell to its lowest (at 60.38%) since H1:2017 as operating income (+19.21% YoY) rose faster than operating expenses (+8.90% YoY). Moreover, the higher operating expenses were due mainly to the bank's expansion into other African countries, as well as higher regulatory cost during the review period. On the other hand, a one-off COVID-19 induced provisioning from the UK subsidiary led to a 74.11% YoY increase in impairment charges, pushing Cost of Risk to 1.40% (vs. 0.9% in H1:2020). That notwithstanding, Profit After Tax (PAT) came in higher (+42.44% YoY) at NGN86.94bn. **Overall, we expect the group to close the year with a PAT of NGN130.45bn which translates to +23.05 YoY growth** (vs our earlier projection of NGN125.21bn).

NPL Ratio Flat as FCY Loans Exposure Reduces

While gross loan book expanded by 10.04% YtD to NGN3,705.28bn, efforts to minimize currency risk led to a reduction in foreign currency exposure by 390bps (FCY loans constituted 22.00% of total loan book in H1:2021 vs. 25.90% as at 2020FY). However, Stage 3 Loans increased by 10.75% YtD, which we attribute to the COVID-19 related provisioning earlier alluded to. Thus, Non-Performing Loan (NPL) ratio increased, albeit marginally, by 5bps YtD to 4.34%. Other prudential ratios were within acceptable range.

Recommendation

We have raised our 2021FY expected EPS to NGN3.52 (previously NGN3.40) while we maintain our Target PE of 2.76x. This translates into a December 2021 Target Price of **NGN9.72**, implying an upside potential of 3.44% from its closing price on 09 September 2021. Hence, we rate the ticker **HOLD**.

Company	ACCESS
Valuation	
Trailing EPS	3.73
BVPS	21.82
P/E	2.49x
P/BV	0.43x
Target PE	2.76
Dec-2021 Exp. EPS	3.52
Dec 2021 Target price	NGN9.72
Current Price	9.40
Up/Downside Potential	+3.44%
Ratings	HOLD
Key metrics	
ROE	22.80%
ROA	1.60%
Net margin	16.20%
Asset Turnover	0.09x
Leverage	12.97x
Yr Hi	9.70
Yr Lo	7.20
YTD return	+10.06%
Beta	1.48
Adjusted Beta	1.16
Shares outstanding	35.55bn
Market cap [NGN]	330.57bn
Financial year end	December
Most Recent Period (MRP)	H1:2021

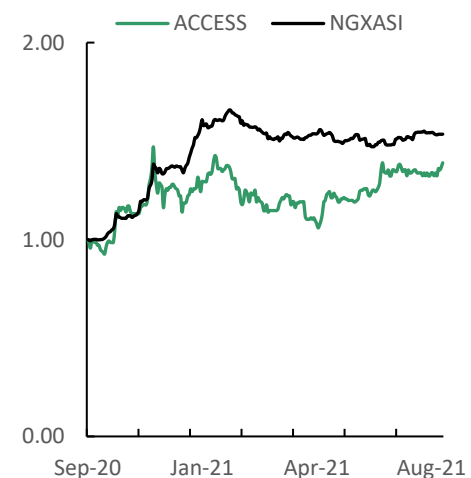


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2021FY Target Price to key model inputs						Min	9.11	
						Max	10.36	
		EPS						
		3.42	3.47	3.52	3.57	3.62		
Target PE	2.66x	9.11	9.24	9.37	9.50	9.64		
	2.71x	9.28	9.41	9.55	9.68	9.82		
	2.76x	9.45	9.59	9.72	9.86	10.00		
	2.81x	9.62	9.76	9.90	10.04	10.18		
	2.86x	9.79	9.93	10.08	10.22	10.36		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2020 A	H1:2021 A	2021F	2022F	2023F	2024F	2025F
Gross Earnings	396.76	450.62	802.11	901.08	988.35	1,058.01	1,134.61
Interest Income	246.72	319.73	560.37	642.84	710.98	767.87	830.22
Interest Expense	120.52	119.67	202.55	210.85	231.54	235.45	266.12
Net Impairment Charges	16.47	28.67	51.89	58.29	60.50	59.15	55.20
Net Interest income after impairment charges	109.74	171.40	305.93	373.71	418.94	473.28	508.89
Non-Interest Income	150.03	130.88	241.74	258.24	277.37	290.13	304.39
Operating Income	265.06	315.97	570.65	655.54	715.19	778.85	822.59
OPEX	174.29	189.80	352.15	400.25	441.39	481.60	519.56
PBT	74.31	97.50	166.61	197.01	213.29	238.10	247.83
PAT	61.03	86.94	130.45	152.40	164.42	181.18	189.86

Balance Sheet	2020FY	H1:2021 A	2021F	2022F	2023F	2024F	2025F
Cash and Balances with Central Banks	723.87	1,364.57	1,272.47	1,516.82	1,469.58	1,452.61	1,156.38
Loans and Advances to customers	3,218.11	3,582.95	3,700.82	4,070.91	4,274.45	4,488.17	4,712.58
Investment Securities	1,749.55	2,039.76	1,736.49	1,889.76	2,047.38	2,244.62	2,461.59
Property and Equipment	226.48	242.20	245.16	273.10	295.34	320.39	344.58
Other Assets	2,761.74	2,825.38	3,173.31	3,363.99	3,709.64	4,019.70	4,489.97
Total Assets	8,679.75	10,054.85	10,128.25	11,114.57	11,796.38	12,525.50	13,165.10
Deposits from customer	5,587.42	5,974.76	6,288.89	6,957.54	7,465.15	7,834.45	8,247.75
Financial Liabilities	1,919.01	2,778.98	2,568.70	2,785.81	2,862.80	3,113.17	3,247.26
Other Liabilities	422.28	525.69	415.75	422.00	427.71	434.09	439.51
Total Liabilities	7,928.71	9,279.42	9,273.34	10,165.34	10,755.66	11,381.71	11,934.52
Shareholders' fund	751.04	775.43	854.91	949.23	1,040.72	1,143.79	1,230.58

Financial Ratios	H1:2020 A	H1:2021 A	2021F	2022F	2023F	2024F	2025F
Asset Yield	9.50%	10.30%	10.18%	10.25%	10.52%	10.84%	11.33%
Cost of Funds	3.70%	2.90%	2.48%	2.47%	2.43%	2.38%	2.28%
Net Interest Margin	4.90%	6.40%	6.94%	7.00%	7.28%	7.45%	7.69%
Cost to Income Ratio	65.80%	60.10%	61.71%	61.06%	61.72%	61.84%	63.16%
Net Margin	15.38%	19.29%	16.26%	16.91%	16.64%	17.12%	16.73%
Return on Asset	1.57%	1.60%	1.77%	1.85%	1.86%	1.96%	1.93%
Return on Equity	18.28%	19.88%	20.94%	22.02%	21.60%	21.95%	21.01%
Earnings Per Share	2.72	3.73	3.52	4.12	4.44	4.89	5.13
Asset Turnover	0.10x	0.09x	0.08x	0.08x	0.08x	0.08x	0.09x
Financial Leverage	11.59x	12.97x	11.85x	11.71x	11.33x	10.95x	10.70x

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

Company Name: Access Bank Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
16-Apr-2021	8.10	8.53	9.39	HOLD	BUY
10-Sep-2021	9.40	9.39	9.72	BUY	HOLD

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Company	Disclosure
Access Bank Plc	

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