

African Integration Strategy Drives Growth

Expansion in Income from Other African Countries Reinforces Topline Performance

Access Bank Plc. (ACCESS)'s gross earnings grew by 27.09% YoY in 2021FY to NGN971.89bn as it enters the final year of its 2018-2022 strategic transformation plan. Notably, the share of the group's revenue from Nigeria declined to c. 76% from a five-year average of c. 85% as the lender expands its African operations in furtherance of the strategic plan. Thus, revenue from other African countries advanced by 105.35% YoY to NGN182.79bn in 2021FY while that of Nigeria increased by 15.52% YoY to NGN734.28bn. Overall, topline performance was supported by both funded and non-funded income growth. The 22.99% YoY uptick in interest income came from interest on both investment securities (+31.71% YoY) and customer loans (23.73% YoY). Higher transaction volume and value on e-banking platforms propped up fees-based income by 36.40% YoY. Additionally, for the first time since 2017, the group recorded net foreign exchange gains of NGN101.10bn. Ultimately, non-funded income was higher by 30.56% YoY, contributing 35.38% to topline. **As the lender consolidates on expanding its African operations, we project gross earnings will maintain an upward trajectory, crossing the trillion Naira mark in 2022FY. This is hinged on a further expansion of risk assets which is expected to support interest income, and higher e-banking fees which will support non-funded income especially as digital offerings are available to an enlarged customer base. Thus, we project gross earnings of NGN1,026.96bn in 2022FY.**

Improvement in Operating Efficiency Enhances Profitability

Although interest income rose as we noted earlier, asset yield dropped by 41.10bps to 8.25% as total interest-earning assets expanded by 34.03%. The 12.55bps increase in funding cost to 3.40% resulted from a weakening of the CASA deposit mix to c. 58% (from c. 65% in 2020FY) as high-cost term deposits jumped by +46.57% YoY. Thus, Net Interest Margin (NIM) declined to 4.30% from 4.90% in 2020FY. Deterioration of the quality of the UK subsidiary's asset necessitated a higher (+32.31% YoY) impairment charges. This led to an increase in the cost of risk to 2.17% from 1.80% in 2020FY. That notwithstanding, the group's cost-to-income ratio moderated by 453.84bps YoY to 58.82%. This was due to a higher jump in operating income (+22.44% YoY to NGN630.96bn) relative to operating expenses (+13.67% YoY to NGN371.14bn). We observed a decline in the group's tax expense by 17.21%, leading to a lower effective tax rate (9.33% vs. 15.81% in 2020FY), resulting from the usage of a deferred tax difference. Thus, Profit After Tax (PAT) advanced by 51.13% YoY to NGN160.22bn. **In 2022FY, we expect a moderation in impairment charges to support bottom-line. Thus, we project a PAT of NGN193.12bn representing a 20.54% YoY growth.**

Mixed Performance in Prudential Ratios

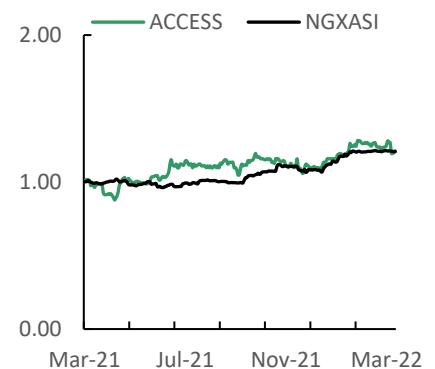
While ACCESS's gross loans increased by 22.22% YoY to NGN4,596.43bn, its NPL decreased to 4.95% from 4.29% in 2020FY. However, we note the decline in its NPL Coverage ratio to 86.50% from 121.60% in 2020FY, which indicates inadequate coverage for risk-assets. Nevertheless, we think this poses minimal risk as the group recorded a strong Capital Adequacy Ratio of 24.52% (vs. 19.57% in 2020FY) and Liquidity Ratio of 51.00%.

Recommendation

We revise our December 2022FY EPS forecast upwards to **NGN5.43** from NGN4.12 while revising downwards our Target PE to 2.21x. This gives us a new Target Price of **NGN11.99**, implying an upside potential of **20.48%** based on the closing price on 24th March 2022. Thus, we upgrade the ticker rating to **BUY**.

We note that the ticker was suspended for trading on 24th March 2022 in view of the delisting of Access Bank Plc shares, and subsequent conversion to Access Holdings Plc.

Company	ACCESS
Valuation	
Trailing EPS	NGN4.58
BVPS	NGN29.54
P/E	2.17x
P/BV	0.33x
Target PE	2.21x
Dec-2022 Exp. EPS	NGN5.43
Dec 2022 Target price	NGN11.99
Current Price	NGN9.95
Up/Downside Potential	+20.48%
Ratings	BUY
Key metrics	
ROE	15.26%
ROA	1.37%
Net margin	16.49%
Asset Turnover	0.08x
Leverage	11.17x
Yr Hi	NGN10.50
Yr Lo	NGN9.25
YTD return	+6.99%
Beta	0.86
Adjusted Beta	0.91
Proposed DPS	NGN0.70
Shares outstanding	35.55bn
Market cap [NGN]	350.12bn
Financial year end	December
Most Recent Period	2021FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2022FY Target Price to key model inputs						Min	11.23
						Max	12.76
						EPS	
						5.33	5.38
						5.43	5.48
						5.53	
Target PE	2.11x	11.23	11.34	11.44	11.55	11.66	
	2.16x	11.50	11.61	11.72	11.82	11.93	
	2.21x	11.77	11.88	11.99	12.10	12.21	
	2.26x	12.03	12.15	12.26	12.37	12.49	
	2.31x	12.30	12.42	12.53	12.65	12.76	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020 A	2021 A	2022F	2023F	2024F	2025F	2026F
Gross Earnings	764.72	971.79	1,026.96	1,128.52	1,186.08	1,260.25	1,308.33
Interest Income	489.22	601.70	653.17	733.85	772.01	825.74	852.02
Interest Expense	226.27	300.24	345.65	398.82	436.08	460.40	472.94
Net Impairment Charges	62.89	83.21	54.14	53.59	52.85	52.45	50.71
Net Interest income after impairment charges	200.06	218.25	253.38	281.44	283.07	312.89	328.36
Non-Interest Income	275.50	370.09	373.79	394.67	414.07	434.51	456.31
Operating Income	515.32	630.96	681.31	729.70	749.99	799.85	835.39
OPEX	326.51	371.14	399.97	429.66	444.00	465.46	487.28
PBT	125.92	176.70	227.20	246.45	253.15	281.94	297.39
PAT	106.01	160.22	193.12	210.10	217.71	242.47	252.34

Balance Sheet	2020 A	2021 A	2022F	2023F	2024F	2025F	2026F
Cash and Balances with Central Banks	723.87	1,487.67	2,142.02	2,251.09	3,575.29	4,189.81	4,012.77
Loans and Advances to customers	3,610.93	4,445.91	5,368.20	5,890.79	6,428.48	7,435.22	7,944.61
Investment Securities	1,749.55	2,270.34	2,498.44	2,723.06	2,967.91	3,175.92	3,380.82
Property and Equipment	226.48	247.73	231.76	258.68	288.32	317.65	344.12
Other Assets	2,368.92	3,280.32	3,548.03	3,927.39	4,565.26	4,759.79	4,649.80
Total Assets	8,679.75	11,731.96	13,788.46	15,051.00	17,825.27	19,878.39	20,332.11
Deposits from customer	5,587.42	6,954.83	7,906.40	9,372.13	10,938.81	12,321.38	13,578.11
Financial Liabilities	1,919.01	3,132.28	4,196.48	3,846.58	4,828.28	5,356.12	4,307.18
Other Liabilities	422.28	594.83	635.80	605.92	645.37	562.44	696.21
Total Liabilities	7,928.71	10,681.94	12,738.68	13,824.63	16,412.46	18,239.94	18,581.50
Shareholders' fund	751.04	1,050.03	1,049.77	1,226.38	1,412.80	1,638.45	1,750.61

Financial Ratios	2020 A	2021 A	2022F	2023F	2024F	2025F	2026F
Asset Yield	8.66%	8.25%	7.08%	6.97%	6.42%	5.90%	5.61%
Cost of Funds	3.27%	3.40%	3.10%	3.05%	2.90%	2.70%	2.50%
Net Interest Margin	4.90%	4.30%	3.78%	3.72%	3.34%	3.04%	2.95%
Cost to Income Ratio	63.36%	58.82%	58.71%	58.88%	59.20%	58.19%	58.33%
Net Margin	13.86%	16.49%	18.81%	18.62%	18.36%	19.24%	19.29%
Return on Asset	1.59%	1.73%	1.78%	1.71%	1.54%	1.50%	1.48%
Return on Equity	15.62%	17.79%	18.39%	18.46%	16.50%	15.89%	14.89%
Earnings Per Share	3.00	4.58	5.43	5.91	6.12	6.82	7.10
Asset Turnover	0.09x	0.10x	0.08x	0.08x	0.07x	0.07x	0.07x
Financial Leverage	11.56x	11.17x	13.13x	12.27x	12.62x	12.13x	11.61x
NPL Ratio	4.29%	3.95%	3.65%	3.56%	3.54%	3.49%	3.44%

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Movements in Price Target

Company Name: ACCESS Bank Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
25-March-22	9.95	10.69	11.99	HOLD	BUY

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Access Bank Plc	

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