

October 11, 2023

## Sustained Earnings Growth Despite High Operating Costs

### Interest Income Revs Up Revenue in H1:2023

In H1:2023, Access Holdings Plc. (**ACCESSCORP**) reported impressive financial results, recording a 58.86% growth in gross earnings to settle at NGN939.93bn. This remarkable growth is credited to improvements in both income and non-income streams. The 62.99% growth in interest income can be attributed to the improvement in asset yield to 10.40% (vs 8.60% in H1:2022), fueling growth in interest earned on loans and advances (+38.05% YoY) and investment securities (+243.67% YoY). Furthermore, asset repricing and a YtD growth of 31.54% in the group's loan portfolio added momentum to this growth trajectory. On the other hand, non-interest income increased by 52.85% YoY to NGN296.10bn owing to higher fees and commission income (+54.16% YoY) driven by increased volume of transactions across the group's digital channels and e-business income and higher trading income and net FX gain (+49.74% YoY). **Anticipated expansion in the bank's loan portfolio and improved yields from investment securities are expected to drive an upswing in interest income. Additionally, the expected growth in transaction volume through the bank's digital platforms, increased trading income, and FX revaluation gains are poised to propel non-funded income to higher levels. Consequently, our projection points toward a 28.89% YoY growth in gross earnings, reaching NGN1.79trn in 2023FY.**

### FCY Dynamics: Steering the Course of Interest Expenses

The notable 170bps uptick in the cost of funds to 4.90% can be primarily attributed to the current high-interest rate environment affecting local deposits and the hawkish stance in advanced economies on FCY deposits (c.44% of total deposits). Specifically, interest paid to customers and financial institutions spiked by 245.23% YoY and 91.06% YoY, respectively. This, coupled with a YtD increase of 48.85% in other interest-bearing liabilities, led to a 118.88% increase in interest expenses to NGN382.60bn. Reflecting the ongoing inflationary trend, various costs, including regulatory expenses (+30.43% YoY), premises and equipment costs (+8.10% YoY), and IT-related expenditures (+30.89% YoY), witnessed an uptrend, pushing total operating expenses up by 23.00% YoY to NGN315.56bn. Despite these factors, the cost-to-income ratio improved, dropping to 60.65% (vs 65.58% in H1:2022), reflecting the strong growth in operating income. We highlight the limited impact of the exchange rate unification on the group's impairment charges (NGN37.18bn vs NGN36.86bn in H1:2022), owing to the group's net FX short position. Overall, Profit After Tax (PAT) grew by +152.61% YoY to NGN135.44bn and declared a NGN0.30 interim dividend.

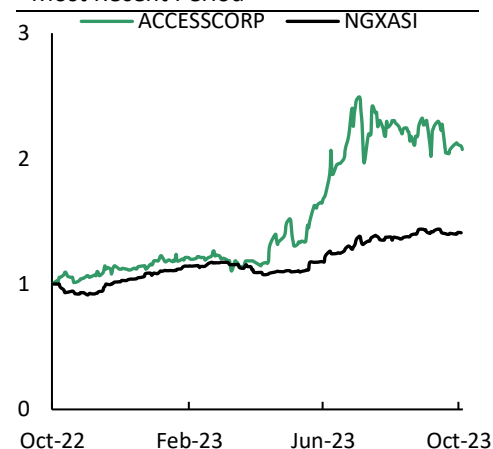
**Considering our outlook for persistent inflationary pressures in the operating landscape, we foresee a continued rise in operating expenses. Also, a projection of a substantial jump in impairment charge (NGN98.71bn) in 2023FY was made owing to the group's exposure to Ghana's Eurobond. Nonetheless, we believe the substantial rise in operating income will offset the impact of increased personnel expenses, impairment charges, and operational costs. Thus, our forecast points to a 71.77% YoY growth in PAT, reaching NGN262.99bn in 2023FY.**

### Proactive Risk Management, Strong Prudential Ratios

**ACCESSCORP** achieved a substantial 45.25% growth in its loan book, totaling NGN6.71trn. Proactive measures in maintaining a well-diversified loan portfolio led to a commendable 30bps and 121bps improvement in the group's Non-Performing Loans (NPL) and NPL coverage ratios to 2.80% and 98.56%. Furthermore, **ACCESSCORP** maintains a robust liquidity position, with the liquidity ratio comfortably exceeding the regulatory threshold at 49.90%. However, we highlight the decline in the group's Capital Adequacy Ratio (CAR), from 19.65% to 18.73%, attributable to the 9.82% growth in Tier 1 capital being outpaced by a 15.20% growth in risk-weighted assets.

**Notwithstanding, we view ACCESSCORP's key prudential metrics as adequate and are expected to remain above the regulatory limits in 2023FY.**

Company	ACCESSCORP
<b>Valuation</b>	
Trailing EPS	3.74
BVPS	48.71
P/E	2.87
P/BV	0.33
Target PE	2.52x
Dec-2023 Exp. EPS	NGN7.32
Dec 2023 Target price	<b>NGN18.47</b>
Current Price	NGN15.75
Up/Downside Potential	<b>+17.27%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	10.02%
ROA	0.98%
Net margin	14.41%
Asset Turnover	0.06x
Leverage	12.67x
Yr Hi	NGN15.95
Yr Lo	NGN15.70
YTD return	+85.29%
Beta	0.88
Adjusted Beta	0.90
Proposed DPS	NGN0.30
Shares outstanding	35.55bn
Market cap [NGN]	559.84bn
Free Float	94.72%
Financial year end	December
Most Recent Period	H1:2023



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**Recommendation**

Following our PAT forecast, we revised our expected 2023FY EPS upward to NGN7.32. Combining this with a Target PE of 2.52x, we arrive at a target price of NGN18.47. Compared to the closing price on October 10 2023, this translates to an upside potential of **+17.27%**. Thus, we rate the ticker a **BUY**.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	13.80
						Max	23.64
						EPS	
						6.82	7.07
						7.32	7.57
						7.82	
Target PE	2.02x	13.80	14.30	14.81	15.31	15.82	
	2.27x	15.50	16.07	16.64	17.21	17.78	
	2.52x	17.21	17.84	18.47	19.10	19.73	
	2.77x	18.91	19.61	20.30	20.99	21.69	
	3.02x	20.62	21.38	22.13	22.89	23.64	

### Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Gross Earnings	591.69	939.93	1,787.75	2,198.66	2,297.92	2,445.21	2,596.95
Interest Income	372.31	606.84	1,104.74	1,418.21	1,472.98	1,572.49	1,678.97
Interest Expense	174.80	382.60	583.59	841.04	907.43	933.54	979.84
Net Impairment Charges	36.86	37.18	98.70	57.33	61.35	63.76	68.23
Net Interest income after impairment charges	160.64	187.06	422.44	519.84	504.20	575.18	630.90
Non-Interest Income	193.72	296.10	477.47	534.88	586.07	645.94	705.73
Operating Income	391.22	520.34	998.62	1,112.04	1,151.62	1,284.88	1,404.86
OPEX	256.56	315.56	579.20	656.11	679.45	745.23	786.72
PBT	97.80	167.60	320.72	398.61	410.82	475.89	549.91
PAT	88.75	135.44	262.99	326.86	336.87	390.23	450.93

Balance Sheet	2022FY	H1:2023	2023F	2024F	2025F	2026F	2027F
Cash and Balances with Central Banks	1,969.78	2,077.62	2,269.55	3,864.47	4,449.47	4,142.57	4,820.04
Loans and Advances to Banks and customers	5,556.52	7,623.27	8,744.93	9,373.15	10,046.31	10,767.63	11,540.57
Investment Securities	4,531.76	7,470.67	9,608.03	8,836.86	9,374.15	9,947.85	10,560.73
Property and Equipment	298.35	349.37	391.29	438.25	490.84	549.74	615.71
Other Assets	2,642.00	3,332.34	4,278.49	4,491.52	4,711.14	4,941.64	5,183.56
<b>Total Assets</b>	<b>14,998.40</b>	<b>20,853.27</b>	<b>25,292.30</b>	<b>27,004.24</b>	<b>29,071.90</b>	<b>30,349.43</b>	<b>32,720.62</b>
Deposits from Banks and Customers	11,256.55	14,933.25	17,977.11	19,423.38	21,004.60	21,721.87	23,495.05
Financial Liabilities	307.25	473.41	648.58	616.15	646.95	679.30	713.27
Other Liabilities	2,203.20	3,715.12	4,731.90	4,781.64	5,237.26	5,744.08	6,308.13
<b>Total Liabilities</b>	<b>13,767.01</b>	<b>19,121.78</b>	<b>23,357.58</b>	<b>24,821.16</b>	<b>26,888.82</b>	<b>28,145.26</b>	<b>30,516.44</b>
Shareholders' fund	1,231.39	1,731.49	1,934.72	2,183.08	2,183.08	2,204.17	2,204.17

Financial Ratios	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Asset Yield	8.56%	10.43%	9.04%	7.76%	7.83%	7.84%	7.84%
Cost of Funds	3.20%	4.89%	3.00%	2.80%	3.00%	3.20%	3.50%
Net Interest Margin	5.03%	3.78%	6.04%	4.96%	4.83%	4.64%	4.34%
Cost to Income Ratio	57.86%	60.65%	58.00%	59.00%	59.00%	58.00%	56.00%
Net Margin	11.04%	14.41%	14.71%	14.87%	14.66%	15.96%	17.36%
Return on Asset	1.26%	0.98%	1.31%	1.25%	1.20%	1.31%	1.43%
Return on Equity	13.70%	10.02%	16.83%	16.03%	15.58%	17.96%	20.66%
Earnings Per Share	4.29	3.74	7.32	9.10	9.38	10.87	12.56
Asset Turnover	0.10x	0.06x	0.09x	0.08x	0.08x	0.08x	0.08x
Financial Leverage	12.41x	12.67x	13.20x	12.49x	13.45x	13.90x	14.99x

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### Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

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**Company Name:** Access Holdings Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
27-Jan-2023	9.00	-	13.48	-	BUY
07-July-2023	18.35	13.48	17.01	BUY	HOLD
10-Oct-2023	15.75	17.01	18.47	HOLD	BUY

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Access Holdings Plc.	

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