

Access Bank

Stronger NIM supports impressive earnings growth

Stock Rating: BUY

Price Target: N12.88

Price (29-Oct-2021): N9.50

Potential Upside / Downside: +35.6%

Tickers: ACCESS NL / ACCESS.LG

Access Bank (ACCESS) released its 9M 21 unaudited results after the close of the market last Friday (29 October). The group reported impressive Pre-tax profit growth of 15.8% y/y and Net profit growth of 18.9% y/y over 9M 21. However, Pre-tax profit (-11.2% y/y) and Net profit (-16.4% y/y) for Q3 21 standalone declined on a year-on-year basis. Nevertheless, on an annualised basis, the bank's earnings are tracking 21.6% and 16.1% ahead of our and consensus forecasts for 2021F, respectively.

On balance, earnings were supported by the growth in Net Interest Income, as Interest on investment securities surged. In our view, this is primarily attributable to the bank's expanded investment securities portfolio and increased portfolio yield, owing to its above-market yielding swap bills with the CBN.

We expect a neutral-to-positive reaction to the results. The stock rose 0.6% in the last trading session and is up 12.4% y-t-d.

Fig 1: Access Bank 9M 2021 results

Income Statement (Naira millions)	9M 2020	9M 2021	y/y	Q3 20	Q2 21	Q3 21	q/q	y/y
Interest income	375,284	470,913	25.5%	128,562	175,936	151,179	-14.1%	17.6%
Interest expense	(179,010)	(203,185)	13.5%	(58,495)	(69,828)	(83,519)	19.6%	42.8%
Net interest income	196,274	267,728	36.4%	70,066	106,109	67,660	-36.2%	-3.4%
Fees & commissions	71,842	88,988	23.9%	31,250	27,997	30,260	8.1%	-3.2%
Trading revenues	96,830	83,910	-13.3%	28,212	7,244	43,191	496.2%	53.1%
Other income	32,789	24,464	-25.4%	3,147	10,527	8,019	-23.8%	154.8%
Total operating expenses	(246,872)	(291,103)	17.9%	(72,584)	(98,306)	(101,301)	3.0%	39.6%
Pre-provision operating profit	150,863	173,986	15.3%	60,091	53,571	47,830	-10.7%	-20.4%
Loan loss provisions	(34,240)	(38,923)	13.7%	(17,775)	(16,134)	(10,254)	-36.4%	-42.3%
Associate	0	8	na	0	8	0	-100.0%	na
Pre-tax profit	116,623	135,072	15.8%	42,316	37,445	37,576	0.3%	-11.2%
Tax	(14,322)	(13,181)	-8.0%	(1,051)	(3,057)	(2,621)	-14.3%	149.5%
Minorities	(1,401)	(1,882)	34.3%	(725)	(198)	(1,047)	428.4%	44.4%
Net profit	100,900	120,008	18.9%	40,541	34,190	33,908	-0.8%	-16.4%
EPS (basic, naira)	2.90	3.46	19.3%	1.17	0.99	0.98	-1.0%	-16.2%
DPS (interim, naira)								

Balance Sheet (Naira millions)	FY 2020	9M 2021	y-t-d
ASSETS			
Net Loans	3,218,107	3,746,028	16.4%
Gross Loans	3,367,161	3,856,284	14.5%
Interbank	392,821	294,938	-24.9%
Securities	1,957,501	2,248,317	14.9%
Interest Earning Assets	6,292,302	7,688,399	22.2%
Total Assets	8,679,748	10,366,585	19.4%
LIABILITIES			
Customer Deposits	5,587,418	6,227,066	11.4%
Interbank Funding	958,397	1,351,546	41.0%
Long-term Funding	960,615	1,495,371	55.7%
Interest Bearing Liabilities	7,520,019	9,089,738	20.9%
Total Liabilities	7,928,706	9,567,227	20.7%
Shareholders' equity	751,041	799,358	6.4%

Ratios	9M 2020	9M 2021	y/y
Net Interest Margin	7.3%	7.7%	38bps
Cost of Funds	3.6%	3.3%	-39bps
Cost to Income	62.1%	62.6%	52bps
Cost of Risk	1.4%	1.4%	0bps
NPL Ratio	4.2%	4.4%	20bps
ROAE	21.2%	21.0%	-24bps
ROAA	1.8%	1.7%	-10bps

Source: Company data, Coronation Research

Income on investment securities, lower CoF, lead to NIM expansion

Net Interest income rose by 36.4% y/y in 9M 21 as interest income from investment securities (+61.4% y/y) surged. In our view, this is primarily attributable to the bank's expanded investment securities portfolio (+14.9% y-t-d) and increased portfolio yield, owing majorly to its above-market yielding swap bills with the CBN. Interest expense grew by 13.5% y/y, on increased funding pressure from customer deposits. Despite

the preceding, the bank was still able to lower its Cost of Funds (CoF) to 3.3% (9M 20: 3.6%). Consequently, Net Interest Margin (NIM) expanded by 38bps to 7.7%, according to our calculations.

Non-interest income comes in flat

Non-interest income was flattish, declining slightly by 2.0% y/y as other income (-25.4% y/y) and net trading revenues (-13.3% y/y) declined. On a positive note, Fees and Commission income surged 23.9% y/y, in line with many of the banks we cover.

Elsewhere, Operating expenses grew by 17.9% y/y, mostly on IT and e-business expenses, with the group's Cost-to-Income ratio settling at 62.6% (9M 20: 62.1%). Consequently, Pre-provision operating profit rose by 15.3% y/y. Further down, the 13.7% y/y increase in Loan Loss Provisions led to a 15.8% y/y growth in Pre-Tax Profit.

Asset quality concerns remain

Asset quality has remained a concern as the bank continues to 'nurture' the loan book inherited from the 2019 Diamond Bank merger. According to management, the NPL ratio in 9M 21 rose to 4.4% from 4.2% in 9M 20. However, despite the ongoing pandemic, the group's Cost of Risk was flat at 1.4% (9M 20: 1.4%). Elsewhere, the bank has written off N77.38bn in loans as of 9M 21. As we mentioned in [Coronation Research Nigerian Banks, Resilience Built In \(25 June\)](#), we expect N100bn in write-offs for 2021E as the bank tries to clean up some of its legacy loans, e.g. Japaul.

Conclusion

The results were impressive overall. With earnings having surpassed our estimates, we expect a solid finish to the year. We highlight the group's retail banking growth strategy, growing agency banking network, and Pan-African expansion as key catalysts for earnings. Accordingly, we maintain our BUY recommendation on the stock.

Analyst:
Ope Ani, Senior Analyst
oani@coronationam.com

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Access Bank	D, E, F, G
FBNH Holdings	E, F, G
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Ratings and Price Target History

	Date	Recommendation	Date	Recommendation	Date	Recommendation	Target price, Naira/s
Zenith	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	30.86
GT Holdco	08-May-19	Hold	08-Jan-20	Buy	15-Jun-21	Buy	36.63
Access	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	12.88
FBNH	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Hold	7.80
UBA	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	9.95
Stanbic IBTC	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	51.72

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Buy	66.7%
Sell	0%
Hold	33.3%
Under Review	0%

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Coronation Asset Management,
10 Amodu Ojikutu Street,
PO Box 74853, Victoria Island
Lagos, Nigeria.