Access Bank Plc

PAC Research
| Ideas | Partnerships | Solutions |

Profit After Tax Rises by 42% to ₦87 Billion in H1-2021, Driven by Higher Interest Income

Oluwole Adeyeye
oluwole.adeyeye@panafricancapitalholdings.com

Price:	
- Current	**₦9.60**
- Target	**₦13.55**
Recommendation:	**STRONG BUY**

** As at Thursday October 14, 2021*

INVESTMENT SUMMARY

Access Bank continued with impressive performance in the first half of 2021 as gross earnings improved by 13.58% to ₦450.62 billion, from ₦396.78 billion reported in the first half of 2020. The improvement in the gross earnings could be attributed to the significant growth recorded in the total interest income which rose by 29.59% to ₦319.73 billion in H1'21 (vs. ₦246.72 billion in H1'20). The bank attributed the growth in interest income to improved yield environment. However, the total non-interest income of the bank fell by 12.76% to ₦130.89 billion in H1'21 (vs. ₦150.04 billion in H1'20) - driven by significant fall in net trading income and depressed other operating income. Impressively, the total interest expense of the bank fell marginally by 0.70% to ₦119.67 billion in H1'21 (vs. ₦120.52 billion in H1'20), mainly as a result of lower interest expense on deposit from customers and financial institutions. However, the total operating expenses of the bank increased by 8.90% to ₦189.80 billion in H1'21 (vs. ₦174.29 billion reported in H1'20), driven by the enlarged franchise following the acquisitions in South Africa, Kenya, Zambia and Mozambique. As a result of higher expected credit losses on loans & advances, the bank's net loan impairment charge increased significantly by 74.11% to ₦28.67 billion in H1'21 (H1'20: ₦16.47 billion).

Despite the higher net loan impairment charge, profit before tax rose by 31.21% to ₦97.50 billion in H1'21 (vs. ₦74.31 billion in H1'20). The bank made a lower provision of ₦10.56 billion for tax in H1'21 billion (H1'20: ₦13.27 billion). Consequently, profit after tax improved significantly by 42.44% to ₦86.94 billion (vs. ₦61.04 billion in H1'20) and this translated to a 12-month trailing EPS of ₦3.71 (H1'20: ₦2.62). Impressively the bank rewarded the shareholders with interim dividend of ₦0.30 per share (H1'20: ₦0.25). Based on the figures released and positive outlook, we recommend a **BUY** rating on the stock at the current price of ₦9.60 as present forward estimate places the company share price at ₦13.55.

Table. 1: Quarterly results highlights

	2Q2021	1Q2021	2Q2020	Q/q Δ	Y/y Δ
Gross Earnings (₦'mn)	228,480	222,141	186,962	+2.85%	+22.21%
PBT (₦'mn)	37,445	60,050	28,013	-37.64%	+33.67%
Net profit (₦'mn)	34,388	52,547	20,106	+34.56%	+71.03%

Source: NSE, PAC Research

Table 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+13.61%/22.29%
52-week range	₦7.05 - ₦10.50
30-day Average vol.	18,699,402
Shares Outstanding ('mn)	35,545
Market Cap. (₦bn)	341.23
EPS (₦) - 12months trailing	3.71
DPS (₦) - FY2020	0.80

Source: NSE, Bloomberg, PAC Research

Table 3: Key ratios

	H1'21	H1'20
Net Interest Margin	6.40%	4.9%
Net profit margin	19.29%	15.38%
Equity multiplier	12.97x	11.59x
Cash/ total Assets	13.57%	8.55%

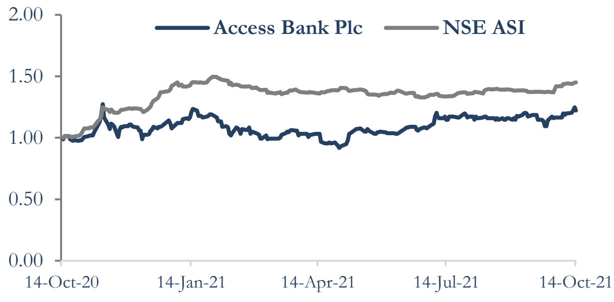
Source: NSE, PAC Research

Table 4: Valuation

	FY2019	FY2020	FY2021F	FY2022F
P/E	3.63x	3.22x	2.38x	1.82x
P/B	0.56x	0.45x	0.42x	0.38
Div Yield (%)	6.77	8.33	9.38	10.94
Payout Ratio	24.56%	26.82%	22.32%	19.94%
Ev/Revenue	0.57x	0.78x	0.86x	0.86x
Rev per share	18.76	21.51	23.67	26.98
ROE	15.50%	14.12%	17.52%	20.72%
ROA	1.32%	1.22%	1.50%	1.72%

Source: NSE, PAC Research

Fig. 1: Access Bank vs NSE, 52-wk Movement (Rebased)



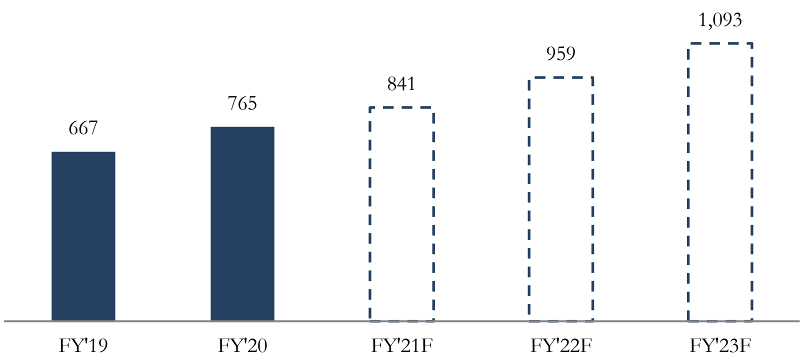
Source: Bloomberg, PAC Research

Gross earnings improved by 13.58% year-on-year, driven by higher interest income: Access Bank ended the first half year of 2021 with impressive top-line as gross earnings improved by 13.58% to ₦450.62 billion (vs ₦396.76 billion reported in H1'20), mainly as a result of higher interest income recorded during the period. The interest income of the bank improved by 29.59% to ₦319.73 billion in H1'21 (vs. ₦246.72 billion in H1'20), boosted by high yield environment in the second quarter of the year. However, the non-interest income line of the bank declined by 12.76% to ₦130.89 billion in H1'21 (vs. ₦150.04 billion recorded in H1'20), due to significant reduction in net trading income and fall in other operating income. The contribution of total interest income to gross earnings improved significantly to 70.95% (vs. 62.18% in H1'20) while the share of total non-interest income fell to 29.05% in H1'21 (vs. 37.82% in H1'20).

The contribution of total interest income to gross earnings improved significantly to 70.95% (vs. 62.18% in H1'20) while the share of total non-interest income fell to 29.05% in H1'21…

The impressive growth recorded in interest income in the first half of 2021 may extend to the second half of 2021 as we expect the increase to be driven by relatively high yields (when compared to the lower yields in the second half of 2020). In addition, we may likely see a reversal of negative growth in the non-interest income line of the bank as we expect to see few recoveries from written off loans due to assumption of improved economic activities in the second half of 2021.

Fig. 2: Grosss Earnings – FY'19 – FY'23F (Billion NGN)



Source: NSE, PAC Research

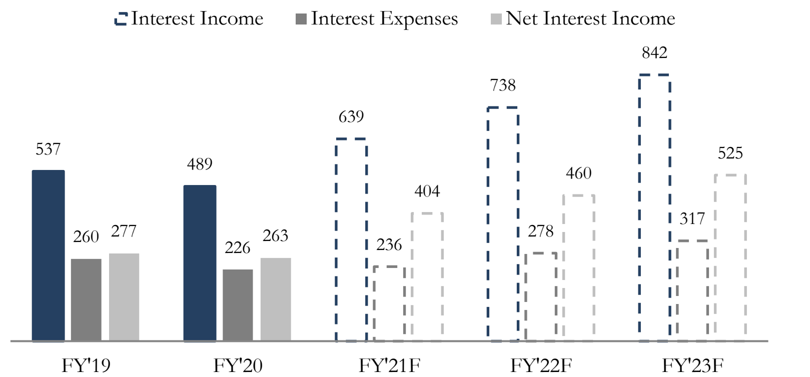
Interest income rises by 29.59% year-on-year, driven mainly by improved yield environment: The total interest income line of the bank witnessed a significant improvement in the first half of 2021 as it grew by 29.59% to ₦319.73 billion (vs. ₦246.72 billion in H1'20), mainly as a result of relatively high yield in the second quarter of 2021. The high yield translated to 78.63% year-on-year (y/y) growth in income from investment securities which increased to ₦132.19 billion (vs. ₦74.0 billion in H1'20) and 8.99% (y/y) growth in interest on loans and advances to customers, which increased to ₦182.38 billion (H1'20: ₦167.33 billion). This offset the 4.44% (y/y) decline in interest income from cash and balances with banks during the period.

With the current high yields, when compared with lower yields in the second half of the previous year, the growth in the interest income line of the bank is expected to continue in the second half of 2021.

However, the bank experienced a marginal decline in the interest expenses which fell by 0.70% to ₦119.67 billion in the first half of 2021 (vs. ₦120.52 billion in the first half of 2020), driven by changes in interest paid on savings account deposits which is indexed to Monetary Policy Rate (MPR) when the Apex Bank adjust interest rate paid on savings deposit from 30% to 10% of MPR, having adjusted MPR downward to 11.5% in September 2020 (from 12.5%). This resulted in a lower cost-of-fund of 2.9% in H1'21 (H1'20: 3.7%). Specifically, the lower cost-of-fund is mainly noticed in interest expense on deposits from customers which fell by 11.05% to ₦56.77 billion in H1'21 (H1'20: ₦63.83 billion). With a stellar performance in interest income and interest expense lines, the net-interest income rose significantly by 58.52% to ₦200.07 billion in H1'21 (vs. ₦126.21 billion). We maintain that the second half of 2021 will witness upward repricing of rates in the banking sector as we expect the yields during this period to be higher than the yields recorded in the second half of 2020. This may lead to higher interest expense in the coming quarters.

… the second half of 2021 will witness upward repricing of rates in the banking sector as we expect the yields during this period to be higher than the yields recorded in the second half of 2020.

Fig. 3: Interest Income and Interest Expenses: FY'19 – FY'23F (Billion NGN)



Source: NSE, PAC Research

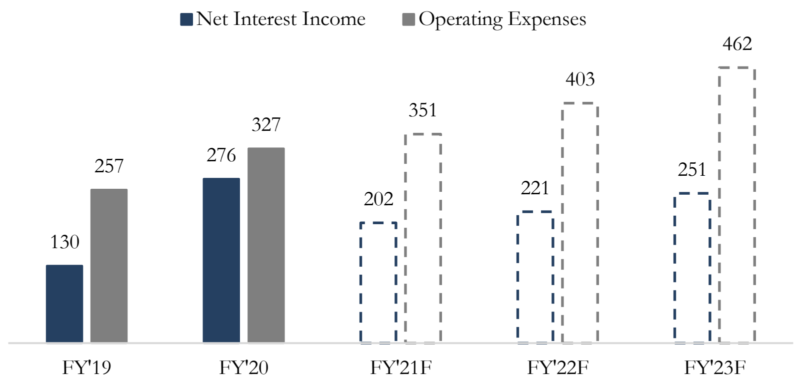
Significant fall in net trading income and other operating income weigh down non-interest income, receding by 12.76% year-on-year: In H1'21, the non-interest income of Access Bank fell by 12.76% to ₦130.89 billion (vs. ₦150.04 billion in H1'20). This was driven mainly by the significant fall in net trading income and other operating income during the period. The net trading income declined by 41.0% to ₦40.7 billion in H1'21 (vs. ₦68.6 billion reported in H1'20) due to the impact of the Naira devaluation during the period. In addition, other operating income fell by 53.43% to ₦13.81 billion in H1'21 (H1'20: ₦29.64 billion) mainly driven by the reduction in recoveries from written-off loans.

However, the fee and commission income of the bank grew significantly by 42.38% to ₦73.72 billion in H1'21 (H1'20: ₦51.78 billion) largely bolstered by higher credit-related fees & commissions and improved income from channels and other e-business income.

The operating expenses of the Group increased by 8.90% to ₦189.80 billion in H1'21 (vs. ₦174.29 billion in H1'20), mainly driven by the enlarged franchise following the acquisitions in Kenya, Mozambique, South Africa and Zambia. Meanwhile, the operating expenses at the Bank level was flat despite the increase in regulatory costs (+17% y/y), depreciation and amortization (+16% y/y). Notwithstanding the increase in the operating expenses of the group, the cost-to-income ratio declined to 60.1% in H1'21 (H1'20: 65.8%). In our own opinion, the cost-minimisation strategy of the bank is yielding positive result which reflected in the lower cost-to-income ratio during the period. Also, 8.90% increase in the OPEX is significantly lower than Nigeria's inflation rate of 17.75% recorded in June 2021.

… 8.90% increase in the OPEX is significantly lower than Nigeria's inflation rate of 17.75% recorded in June 2021.

Fig. 4: Non-Int. Income and Operating Expenses: FY'19 – FY'23F (Billion NGN)



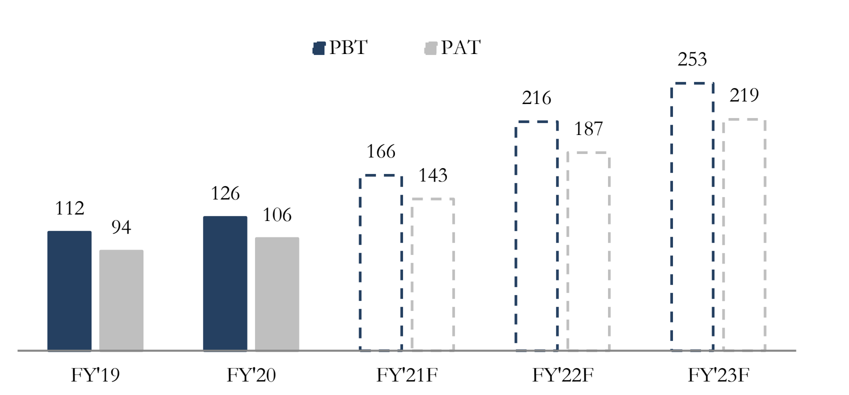
Source: NSE, PAC Research

Despite the significant rise in the net impairment charge, PBT improves significantly by 31.21% year-on-year: As a result of higher expected credit loss on loans and advances to customers, the net loan impairment charge on financial assets of the bank rose significantly by 74.11% to ₦28.67 billion in the first half of 2021 (vs. ₦16.47 billion in the first half of 2020). However, the progress recorded in the non-interest income line outweighed the setback reported in the net loan impairment charge and operating expenses as profit before tax improved by 31.21% to ₦97.50 billion in H1'21 (vs. ₦74.31 billion reported in H1'20). The bank made a lower provision of ₦10.56 billion for tax during the period (H1'20: ₦13.27 billion) and this resulted in a record-breaking profit after tax which increased by 42.44% to ₦86.94 billion in H1'21 (vs. ₦61.04 billion in H1'20). This translated to higher 12-month trailing earnings per share (EPS) of ₦3.71 (vs. ₦2.62 recorded in previous period).

With the expectation of improved interest income and slight improved non-interest income in H2'21, we expect the impressive growth in the bottom-line of the bank to continue in the second half of 2021.

…we expect the impressive growth in the bottom-line of the bank to continue in second half of 2021

Fig. 5: Profit before Tax and Profit after Tax – FY'19 – FY'23F (Billion NGN)

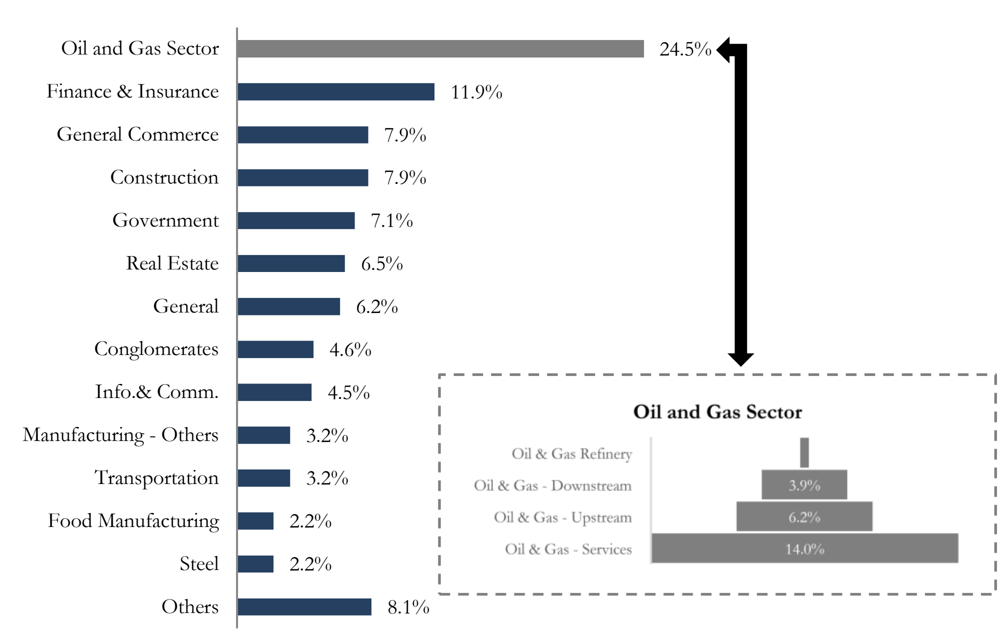


Source: NSE, PAC Research

Balance Sheet remains strong as the bank rewards the shareholders with an interim dividend payment of 30 kobo per share: Access Bank continued to improve its balance sheet as total assets of the bank increased by 29.46% to ₦10.05 trillion in the first half of 2021 (vs. ₦7.77 trillion in the first half of 2020), driven mainly by higher cash & balances with banks and improved loans & advances during the period. The cash & balances with banks increased by 105.53% to ₦1.36 trillion in H1'21 (vs. ₦0.66 trillion in H1'20) while loans & advances also improved by 17.72% to ₦3.99 trillion in H1'21 (vs. ₦3.39 trillion in H1'20) as the bank continue to expand in Africa. Oil and gas sector (services – 14%, Upstream – 6.2%, downstream – 3.9% and refinery – 0.4%) has the largest share of 24.5% of the total gross loans in the first half of 2021, followed by Finance and Insurance (11.9%), General Commerce (7.9%) and Construction (7.9%). **(Fig. 6)**

Oil and gas sector… has the largest share of 24.5% of the total gross loans in the first half of 2021…

Fig. 6: Loan Distribution by Sector – H1'21



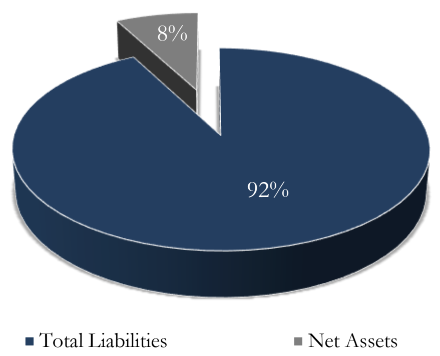
Source: Access Bank PAC Research

However, the total liabilities of the bank increased significantly by 11.33% to ₦9.28 trillion in H1’21 (vs. ₦7.10 trillion in H1’20), mainly as a result of higher deposits during the period. The total deposit of the bank improved by 29.21% to ₦7.73 trillion in H1’21 (vs. ₦5.99 trillion in H1’20). The improvement in the total assets of the bank outweighed the increase in the total liabilities and as a result, the net assets of the bank grew by 15.67% to ₦0.78 trillion in H1’21 (vs. ₦0.67 trillion in H1’20). This translated to a **net asset per share of ₦21.81 in H1’21** (vs. ₦18.86 in H1’20).

The robust balance sheet of Access Bank reflected on the liquidity ratio and capital adequacy ratio as they are well above the regulatory requirement. During the period, liquidity ratio and capital adequacy ratio increased to 50.7% (FY’20: 46.0%) and 21.3% in H1’21 (FY’20: 20.6%) respectively. With the impressive operating performance and strong balance sheet, the bank rewarded the shareholders with an interim dividend of ₦0.30 per share in H1’21 (H1’20: ₦0.25 per share).

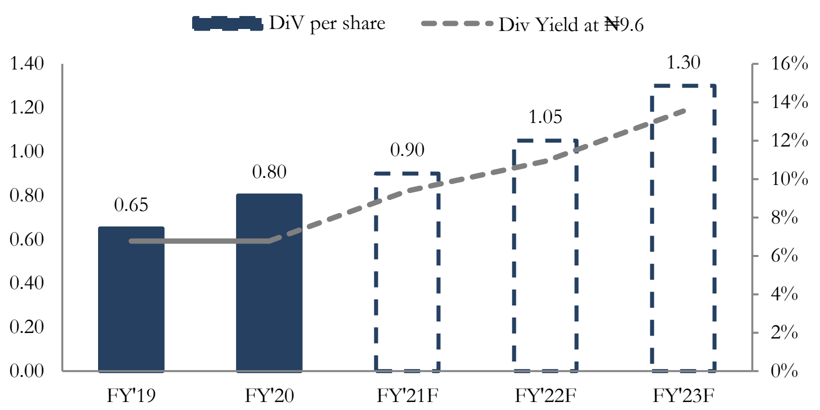
…the bank rewarded the shareholders with an interim dividend of ₦0.30 per share in H1’21 (H1’20: ₦0.25 per share)

Fig. 7: Total Liabilities Vs Net Asset in H1’21



Source: Access Bank Plc, PAC Research

Fig. 8: Dividend Per Share and Dividend Yield (FY’19 - FY’23F)



Source: Access Bank Plc, PAC Research

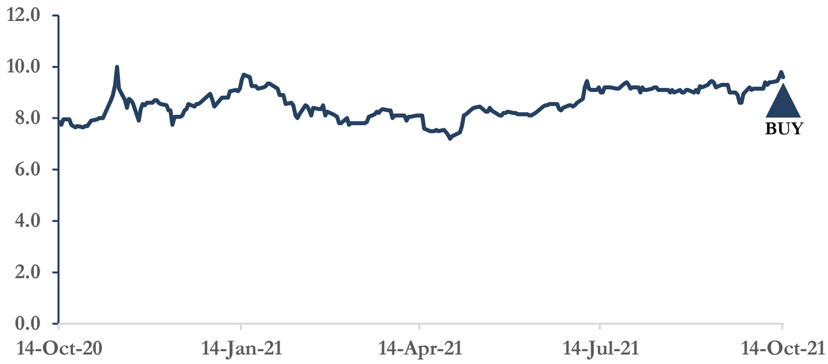
Valuation

Our valuation puts the target price of the stock at ₦13.55, representing an increase of 41.12% from the current price of ₦9.60. In arriving at the target price, we employed Residual Income Valuation Model, Dividend Discount Model and Relative Valuation Model. Consequently, we recomend a **BUY** on the stock of the company.

Our valuation puts the target price of the stock at ₦13.55, representing an increase of 41.12% from the current price of ₦9.60

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the bank, the current figures released by the bank, the performance of the bank in the banking industry and the outlook from Management of the banks.

Fig. 9: Share Price History (Naira)



Source: NSE, PAC Research

Table 5: Statement of Profit or Loss, N'mn

	2019	2020	2021E	2022F
Gross Earnings	666,754	764,717	841,189	958,956
Change		14.69%	10.00%	14.00%
Interest and Similar Income	536,847	489,217	639,304	738,396
Change		-8.87%	30.68%	15.50%
Interest and Similar Expenses	-259,618	-226,267	-235,533	-278,097
Change		-12.85%	4.10%	18.07%
Net Interest Income	277,229	262,950	403,771	460,299
Change		-5.15%	53.55%	14.00%
Impairment Charge for credit losses	-20,189	-62,893	-69,819	-81,511
Change		211.52%	11.01%	16.75%
Fees and Commission Income	91,845	116,700	143,002	172,612
Change		27.06%	22.54%	20.71%
Trade gains	66,102	122,690	-25,236	86,306
Change		85.61%	-120.57%	-442.00%
Personnel expenses	-76,964	-73,173	-86,642	-98,772
Change		-4.93%	18.41%	14.00%
Profit Before Taxation	111,926	125,922	165,714	216,340
Change		12.51%	31.60%	30.55%
Taxation	-17,869	-19,912	-22,371	-29,206
Change		11.44%	12.35%	30.55%
Profit After Taxation	94,057	106,010	143,343	187,134
Change		12.71%	35.22%	30.55%

Table 6: Statement of Fin. Position, N'mn

	2019	2020	2021E	2022F
Cash and balances	723,064	723,873	715,011	767,165
Investment under management	28,292	30,451	31,965	35,961
Non pledged trading assets	129,819	207,952	235,533	268,508
Derivative financial assets	143,521	251,113	277,592	316,455
Loans and advances to banks	152,825	392,821	437,418	498,657
Loans and advances to customers	2,911,580	3,218,107	3,532,995	4,046,793
Investment securities	1,084,604	1,749,549	1,934,735	2,205,598
Investment in subsidiaries	0	0	0	0
Deferred tax assets	8,808	4,240	4,627	5,274
Property and equipment	211,214	226,479	257,824	293,920
Total Assets	7,143,157	8,679,748	9,566,256	10,876,283
Deposits from financial institutions	1,186,356	958,397	1,051,486	1,198,695
Derivative financial liabilities	6,886	20,881	25,236	28,769
Deferred tax liabilities	11,273	14,877	16,824	19,179
Debt securities issued	157,988	169,160	193,474	220,560
Interest-bearing borrowings	586,603	791,455	883,249	1,006,903
Retirement benefit obligation	3,609	4,941	5,888	6,713
Total Liabilities	6,536,417	7,928,706	8,748,199	9,972,947
Net Assets	606,740	751,041	818,056	903,336
Total equity and liabilities	7,143,157	8,679,748	9,566,256	10,876,283

Table 7: Profitability Ratio

	2019	2020	2021E	2022F
Return on Equity	19.36%	15.50%	17.52%	20.72%
Return on Assets	1.92%	1.32%	1.50%	1.72%
Net int. income to Rev.	32.83%	41.58%	48.00%	48.00%
PBT margin	19.52%	16.79%	19.70%	22.56%
Net Profit Margin	17.96%	14.11%	17.04%	19.51%
ROCE	2.60%	1.89%	2.09%	2.39%

Table 8: Asset Utilisation

	2019	2020	2021E	2022F
Cash/Revenue	108.45%	94.66%	85.00%	80.00
Revenue to total assets (x)	9.33%	8.81%	8.79%	8.82%
Interest Income / Total Assets	7.52%	5.64%	6.68%	6.79%
Other Income/ Total Assets	0.78%	0.51%	0.31%	0.26%
Revenue to total fixed assets	315.68%	337.66%	326.26%	326.26
fixed asset turnover	31.68%	29.62%	30.65%	30.65%

Table 9: Liquidity Ratios

	2019	2020	2021E	2022F
Current ratio	1.09	1.09	1.09	1.09
Cash ratio	0.11	0.09	0.08	0.08
Interest Coverage ratio	0.43	0.56	0.70	0.78
Liquid Assets/Total Deposit	1.55	2.61	2.55	2.51
Loans&Advances/Total Deposit	0.56	0.55	0.55	0.55
Liquid Assets/Total Assets	0.26	0.29	0.28	0.28
Debt/net income	7.92	9.06	7.51	6.56
Debt to asset	0.10	0.11	0.11	0.11
Debt to equity	1.23	1.28	1.32	1.36
Total Liabilities / Total Asset	0.92	0.91	0.91	0.92
Cost to income ratio	0.66	0.69	0.64	0.61
net interest margin AVERAGED	0.05	0.05	0.06	0.06
Total liabilities/equities	10.77	10.56	10.69	11.04

Table 10: Shareholders' Investment Ratios

	2019	2020	2021E	2022F
Earnings per share	2.65	2.98	4.03	5.26
DiV per share	0.65	0.80	0.90	1.05
NAVPS	17.07	21.13	23.01	25.41
Earnings yield	27.56%	31.07%	42.01%	54.84%

Table 11: Capital Adequacy Ratios

	2019	2020	2021E	2022F
Loans and Advances/Equity	4.80	4.28	4.32	4.48
Equity/Total Assets	0.08	0.09	0.09	0.08
Loan Loss Expense/ Equity	0.03	0.08	0.09	0.09

Source: Company's Annual Reports, PAC Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

IMPORTANT DISCLOSURES

This research report has been prepared by the analyst(s), whose name(s) appear on the front page of this document, to provide background information about the issues which are the subject matter of this report. It is given for information purposes only.

Each analyst hereby certifies that with respect to the issues discussed herein, all the views expressed in this document are his or her own and reflect his or her personal views about any and all of such matters. These views are not necessarily held or shared by PanAfrican Capital Holdings or any of its affiliate companies. The analyst(s) views herein are expressed in good faith and every effort has been made to base our opinion on reliable comprehensive information but no representation is made as to its accuracy or completeness. The opinions and information contained in this report are subject to change and neither the analysts nor PanAfrican Capital is under any obligation to notify you or make public any announcement with respect to such change.

This report is produced independently of PanAfrican Capital Holdings and the recommendations (if any), forecasts, opinions, estimates, expectations and views contained herein are entirely those of the analysts. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the recommendations, forecasts, opinions, estimates, expectations and views contained herein are fair and reasonable, none of the analysts, PanAfrican Capital Holdings nor any of its directors, officers or employees has verified the contents hereof and accordingly, none of the analysts, PanAfrican Capital Holdings nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof.

With the exception of information regarding PanAfrican Capital Holdings, reports prepared by PanAfrican Capital Holdings analysts are based on public information. Facts and views presented in this report have not been reviewed and may not reflect information known to professionals on other PanAfrican Capital Holdings business areas including investment banking. This report does not provide individually tailored investment advice. Reports are prepared without regard to individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. It is recommended that investors independently evaluate particular investments and strategies. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances or objectives. Neither the analyst(s), PanAfrican Capital Holdings, any of its respective directors, officers nor employees accepts any liability whatsoever for any loss so ever arising from any use of this report or its contents or otherwise arising in connection therewith. Each analyst and/or any person connected with any analyst may have acted upon or used the information herein contained, or the research or analysis on which it is based prior to its publication date. This document may not be relied upon by any of its recipients or any other person in making investment decisions.

Each research analyst certifies that no part of his or her compensation was, or will be directly or indirectly related to the specific recommendations (if any), opinions, forecasts, estimates or views in this report. Analysts" compensation is based upon activities and services intended to benefit clients of PanAfrican Capital Holdings. As with other employees of PanAfrican Capital Holdings, analysts' compensation is impacted by the overall profitability of PanAfrican Capital Holdings, which includes revenues from all business areas of PanAfrican Capital Holdings.

PanAfrican Capital Holdings Ltd
8A, Elsie Femi Pearse Street
Victoria Island
Lagos, Nigeria
Tel: +234 (1) 2716899, 2718630
www.panafricancapitalholdings.com