



## Access Financial Services

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### Executive Summary

Access Financial Services Limited is one of the leading institutions in the Microfinance sector, listed on the Junior Market of the Jamaica Stock Exchange. The Company contributes significantly to economic growth by providing funding to the Microfinance Sector, which in turn spurs productivity through job creation. Access' Small and Medium Enterprise (SME) loan recipients are involved in activities across various business sectors such as Service, Manufacturing, Trading and Agriculture. The company operates out of 17 branches covering 80% of the island and serving more than 20,000 individuals and MSME's.

AFS reported net revenues of \$896.91M for the first six months of the 2017/18 financial year, a 21% or \$154.2M increase, year-over-year. **Driving this increase was a 174% or \$125.41M surge in fee & commission income to \$197.32M** while net interest income rose 6% to \$601.34M. Interest expense rose 3% to \$57.06M while other income fell 9% to \$31.71M. A foreign exchange gain of \$8.64M was reported for the period, down 32% from the gain reported for the comparable period of the 2016/17 financial year.

AFS reported total assets of \$3.28B as at Sept. 30, 2017, a \$510.96M or 18% increase year-over-year. Loans and advances grew by 11% or 263.26M to \$2.68B as at quarter-end. Cash & cash equivalents were up 87% or \$216.02M to \$465.35M while intangible assets moved from 518K a year prior to \$59.33M. Property, plant & equipment fell 17% to \$45.66M. Cash provided by operating activities amounted to \$291.06M, up from \$35.79M for the comparable period of the previous year

The first half of the 2017/18 year has seen AFS operating performance slow down significantly relative to previous years. After listing on the Junior Market in 2009, it was inevitable that the rapid growth seen in the earlier years of listing would eventually normalize. Such a momentum would be hard to sustain in an environment of falling interest rates, narrowing credit spreads and increased competition as new players enter the micro-financing industry to fill the void created by traditional financial institutions underserving the sector.

Utilizing AFS's 1-year P/E average of 16.37x and the \$2.29 EPS estimate produces a price of \$37.47. With the 1-year P/B average of 6.35x and the \$7.86 BVPS estimate yields a price of \$49.86. The Dividend Discount Model produces a price of \$41.58 assuming a cost of equity of 10.83%. These estimates yield a price range between \$37.47 and 49.86. The latest traded price for AFS is \$45.01 as at February-19-2018. **This price is within the estimated intrinsic range.**

### Recommendation

***We recommend Access Financial Services Limited at MARKETWEIGHT as the current market price is in line with our estimated intrinsic price range for the company***



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### Company Background

Access Financial Services Limited is one of the leading institutions in the Microfinance sector, listed on the Junior Market of the Jamaica Stock Exchange. The Company contributes significantly to economic growth by providing funding to the Microfinance Sector, which in turn spurs productivity through job creation. Access' Small and Medium Enterprise (SME) loan recipients are involved in activities across various business sectors such as Service, Manufacturing, Trading and Agriculture. The company operates out of 17 branches covering 80% of the island and serving more than 20,000 individuals and MSME's.

### Financial Performance – Six Months ended September 30, 2017

#### *Profitability*

AFS reported net revenues of \$896.91M for the first six months of the 2017/18 financial year, a 21% or \$154.2M increase, year-over-year. **Driving this increase was a 174% or \$125.41M surge in fee & commission income to \$197.32M** while net interest income rose 6% to \$601.34M. Interest expense rose 3% to \$57.06M while other income fell 9% to \$31.71M. A foreign exchange gain of \$8.64M was reported for the period, down 32% from the gain reported for the comparable period of the 2016/17 financial year.

**Operating expenses rose 49%, year-over-year, amounting to \$460.05M.** This increase was driven by a 231% increase in allowances for credit losses to \$122.83M and a 31% increase in staff costs to \$177.98M. Other operating expenses amounted to \$134.3M, a 17% increase year-over-year. Profit before taxation amounted to \$379.81M, relatively unchanged from the amount generated in the previous year. Tax expense amounted to \$33.44M, up 32%, contributing to a 2% decline in net profits, which amounted to \$346.37M.

#### *Solvency & Liquidity*

AFS reported total assets of \$3.28B as at Sept. 30, 2017, a \$510.96M or 18% increase year-over-year. Loans and advances grew by 11% or 263.26M to \$2.68B as at quarter-end. Cash & cash equivalents were up 87% or \$216.02M to \$465.35M while intangible assets moved from 518K a year prior to \$59.33M. Property, plant & equipment fell 17% to \$45.66M. Cash provided by operating activities amounted to \$291.06M, up from \$35.79M for the comparable period of the previous year.

Total liabilities fell 3% or \$1.38B while loans payable rose 27% to \$1.1B. Trade payables fell 10% to \$230.98M and **the balance of 9% Unsecured Notes fell to zero** from \$199.85M a year prior. Shareholders' equity amounted to \$1.57B, up 44% as retained earnings climbed 49% or \$483.86M to

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\$1.48B. Leverage fell as the debt-to-equity ratio moved from 0.98x as at Dec. 31, 2015 to 0.70x as at Dec. 31, 2017.

### Outlook & Valuation

The first half of the 2017/18 year has seen AFS operating performance slow down significantly relative to previous years. After listing on the Junior Market in 2009, it was inevitable that the rapid growth seen in the earlier years of listing would eventually normalize. Such a momentum would be hard to sustain in an environment of falling interest rates, narrowing credit spreads and increased competition as new players enter the micro-financing industry to fill the void created by traditional financial institutions underserving the sector.

As such, the company has looked to inorganic means to further its asset base, acquiring two micro-finance companies in the previous financial year: Damark Limited and Micro Credit Limited. The Damark Limited acquisition added \$148.71M to AFS' loan portfolio.

We estimate net revenues of \$1.70B for the 2017/18 financial year, up 20.9% year-over-year and profits attributable to shareholders of \$628.21M, down 7.4% year-over-year (EPS: \$2.29). Shareholders' equity is expected to close the current year at \$2.16B, up 25.6% from the prior year, which corresponds to a BVPS of \$7.86.

Utilizing AFS's 1-year P/E average of 16.37x and the \$2.29 EPS estimate produces a price of \$37.47. With the 1-year P/B average of 6.35x and the \$7.86 BVPS estimate yields a price of \$49.86. The Dividend Discount Model produces a price of \$41.58 assuming a cost of equity of 10.83%. These estimates yield a price range between \$37.47 and 49.86. The latest traded price for AFS is \$45.01 as at February-19-2018. This price is within the estimated intrinsic range.

### Peer Comparison – Junior Market Financial Firms

SYMBOL	Mkt Cap (\$Bn)	Last Traded Price 12/29/31	P/E ratio	P/B ratio	ROA	ROE	Dividend Yield 2017
AFS	\$10.00	\$36.43	14.88x	5.23x	22.2%	39.6%	5.4%
EPPLEY	\$2.31	\$12.00	23.81x	3.31x	4.7%	14.2%	0.1%
ISP	\$1.27	\$12.06	26.17x	4.79x	10.3%	20.1%	0.0%
LASF	\$6.57	\$5.29	25.85x	5.17x	15.9%	21.8%	1.1%
<b>Peer Average</b>	<b>\$20.15</b>		<b>22.68x</b>	<b>4.62x</b>	<b>13.3%</b>	<b>23.9%</b>	<b>2.2%</b>

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### Recommendation

We recommend Access Financial Services Limited at MARKETWEIGHT as the current market price is in line with our estimated intrinsic price range for the company. Year-to-date, AFS has appreciated 15.3% and is up 68.0% from a year prior. We continue to view AFS favourably as since listing on the Junior Market in 2009, the capital raised has allowed the company to expand its branch network and become one of the most dominant and well-known micro financiers. The Company has consistently produced strong financial results averaging a return on average assets of above 20% and return on average equity of above 40%. Competition in the sector is expected to continue to increase as more entities come on stream to meet the needs of the unbanked population. With interest rates expected to hold in the short to medium term AFS is likely to continue to explore M&A strategies to compliment internal strategies to further grow and sustain the high levels of profitability the company enjoys. The stock is also suitable for investors who are seeking income as AFS is a consistent payer of dividends.



### Abridged Financials

J\$000	Year Ended December 31					6M ended Sept 30		Change %
	2013	2014	2015	2016**	2017	2017	2018	
<b>Total Net Revenue</b>	<b>780,505</b>	<b>1,003,341</b>	<b>1,199,112</b>	<b>1,470,742</b>	<b>1,402,149</b>	<b>742,712</b>	<b>896,911</b>	<b>20.8%</b>
Operating Expenses	510,393	691,871	702,756	803,032	651,622	309,554	460,047	48.6%
<b>Profit Before Taxation</b>	<b>270,112</b>	<b>311,470</b>	<b>496,356</b>	<b>667,710</b>	<b>750,527</b>	<b>378,022</b>	<b>379,806</b>	<b>0.5%</b>
Profit for the year	270,112	306,726	434,562	599,881	678,477	352,683	346,367	-1.8%
<b>Total Assets</b>	<b>1,271,486</b>	<b>1,308,706</b>	<b>2,514,501</b>	<b>2,556,943</b>	<b>3,108,166</b>	<b>2,769,783</b>	<b>3,280,747</b>	<b>18.4%</b>
<b>Total Liabilities</b>	<b>665,927</b>	<b>496,618</b>	<b>1,424,895</b>	<b>1,340,450</b>	<b>1,390,885</b>	<b>1,288,450</b>	<b>1,368,078</b>	<b>6.2%</b>
<b>Shareholder's Equity</b>	<b>601,976</b>	<b>812,088</b>	<b>1,089,606</b>	<b>1,216,493</b>	<b>1,717,281</b>	<b>1,481,333</b>	<b>1,912,668</b>	<b>29.1%</b>
EPS (\$)	0.98	1.12	1.58	2.19	2.47	1.28	1.26	
Book Value per Share (\$)	2.19	2.96	3.97	4.43	6.26	5.40	6.97	
<b>Key Ratios</b>								
Pre-tax profit margin	34.6%	31.0%	41.4%	45.4%	53.5%	50.9%	42.3%	
Net Margin	34.6%	30.6%	36.2%	40.8%	48.4%	47.5%	38.6%	
Return on Average Equity	45.0%	43.4%	45.7%	59.1%	46.3%			
Return on Average Assets	25.1%	23.8%	33.7%	31.0%	24.0%			
Debt/Equity (x)	0.90	0.39	0.90	0.85	0.66	0.63	0.57	

\*\* fifteen months ended March 31, 2016. AFS changed its year-end to March 31, in line with Proven Investments Limited, of which it is an associate company for.

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Company Financials

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### APPENDIX

#### IMPORTANT DISCLOSURES

**ABSTRACT**—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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**UNDERWEIGHT**—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

**SELL**—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

**HOLD/MARKETWEIGHT**—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

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