

Pressures continue intact, amid solid 1Q24 and 4M24 inline results

6 June 2024

**OVERWEIGHT**  
(Maintain)

TOP PICK

Company	Ticker	Rec	Share	Target
			Price (IDR)	Price (IDR)
Bank Rakyat Indonesia	BBRI	Buy	4,400	6,830
Bank Negara Indonesia	BBNI	Buy	4,610	6,530

Despite successfully pocketing solid 1Q24 earnings and an inline 4M24 PATMI growth, we believe pressure on Indo banking remains, especially following the latest +25 bps benchmark rate hike. Our main concerns lie in (1) CoF adjustment and (2) AQ improvement stability. The room for loan repricing is wider, in our view. Assuming it will only have a soft impact, we still expect the overall EA yield to continue to offset the unescapable higher deposit cost. We also expect a small hiccup once the higher yield is implemented, despite the focus on yield adjustment likely only on the corporate segment. Our worst-case scenario analysis revealed that average '24F bank earnings under our radar could drop significantly. Nonetheless, assuming stronger topline and provision improvements, '24 earnings will continue to arrive within our base range forecast. Maintain our OW stance for banks, with BBRI and BBNI as our top picks.

**Expect a stronger top line despite limited room to reprice loan yields.**

Following the 1Q24 earnings result, banks under our coverage continue to record an inline PATMI growth which mostly driven by stable LLR (4M24). We might still witness a higher top line figure in the upcoming quarters, backed by steady loan growth and higher EA yield. At the same time, we also expect a mild hiccup once the higher yield is implemented. Across the segment, consumer loans tend to be more sensitive, and thus, we think room to adjust loan yields will be limited. Likewise, we believe banks would not reprice the yield in the retail/SME segment due to worsening loan quality concern. As such, the corporate related segment will become the '24F main key driver in our view. Moreover, we also expect to see other earnings assets to overall support '24F earnings. BBRI and BBRI saw the highest earnings growth of 11.6%/15.1% yoy. In all, 4M24 results largely came in in line with KBVS and street expectation at a run-rate of 28.7%/29.7%.

**Solid deposit mixed with the main catalyst.**

A higher cost of funds is unavoidable, especially with the impact of the latest +25 bps benchmark rate hike. We expect to see the adjustment equally spread in the 2Q24 and 3Q24 due to: (1) The bank will carefully adjust its deposit cost to maintain NIM. (2) Depositors are likely to continue to prefer KBMI IV banks, despite the significant basis point gap compared to mid-size and smaller banks. The main key to deposit rate pressure is the continuing tight liquidity environment. This condition will increase price competition and is likely to make banks pass through the cost sooner than we anticipated. The main catalyst is banks' ability to maintain solid deposits mixed with a lesser corporate/wholesale segment and a better retail portion.

**Provisions to continue play a crucial role.**

Among the banks under our coverage, several have revised their key metrics and performance guidance. BBRI has revised down its cost of credit guidance, while BMRI has revised down its NIM guidance by 30-20 bps to 5.5.3% from 5.3-5.5% previously. We believe the higher cost of funds will continue to jeopardize NIM. Nevertheless, most banks seem to be signalling their confidence to maintain healthy asset quality, and thus we expect to witness provisions to continue at a low level. As such, we might witness limited pressures on '24F earnings growth. It is worth noting that average provisions (excl. BBRI) recorded an improvement of 14.7% yoy and an average of 6.2% if we include BBRI.

**Our worst-case scenario.**

We try to measure banks under our coverage's '24F earnings growth resiliency. Our worst-case scenario revealed that six banks under our radar's '24F earnings could drop to an average of 3.1% yoy vs. 11.4% yoy of our base case scenario, using the assumption that (1) the +25bps benchmark rate is fully transmitted to the '24F cost of funds, (2) equal top line growth (with our '24F base case) on the back of limited room for loan repricing yield, (3) healthy AQ still intact, and (4) other things being equal. Additionally, using another scenario of fully transmission of +25bps will take place and provisions arrive at an average of 3yr in the Covid era, banks under our radar earnings average growth will flat or -0.1% yoy. As such, it is worth noting that assuming all banks under our radar top line and provisions will improve stronger than our base scenario '24F, the average worst-case bank earnings scenario will be closer to our base case '24F earnings.

**Indo-banking valuations remain attractive.**

Despite the selling pressure, we believe appetite for banking stocks is likely to continue soft on the back of rising concern over NIM and '24F earnings growth. The latest foreign ownership data showed that BBRI has become the least wanted stock (YTD: -1.7%). Interestingly, regardless of the sentiment, BBTN as well as BRIS recorded an anomaly pattern and saw higher ownership by 0.6% yoy and 1.4% yoy, respectively. Key confidence would be in the May24 and 2Q24 earnings results. Nevertheless, regardless of all the mixed catalysts and drawbacks, the silence of YTD bank capital gains has made Indo banking remain attractive, in our view. All six banks still arrive at the buy rec. zone, even using our simple GGM worst-case scenario.

**Maintain OW for the banking sector, with BBRI and BBNI as our top picks.**

2Q24 plays a vital role for banks to reach ours and the consensus '24F banks earnings. Low provision levels play a crucial role and become the main key to overall earnings growth amid the foreseeable NIM contraction. Maintain our overweight rating for the banking sector, with BBRI and BBNI as our top picks. Risks to our call: a) lower-than-expected loan growth; b) prolonged tight liquidity environment; c) worsening NIM d) higher-than-expected cost of funds and provisions; e) insignificant impact of loan yield repricing; f) deteriorating asset quality; g) mounting inflation and slowing down economic activity; h) continuing global uncertainty; i) worsening Middle East tension; j) prolonging higher for longer.

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Exhibit 1: Indo banking stocks under our coverage

Ticker	Closing	Target	Upside	Market	P/E		P/B		ROE		Dividend Yield		
	Price (IDR)	Price (IDR)	Potential (%)		Rec	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
BBCA	9,450	11,070	17.1%	Buy	1,164.9	21.5	19.9	4.2	3.7	20.8	21.2	3.3	3.6
BBRI	4,400	6,830	55.2%	Buy	666.9	10.0	9.0	1.9	1.8	20.4	20.6	6.6	7.9
BMRI	6,000	8,100	35.0%	Buy	560.0	9.6	8.8	1.9	1.7	22.8	23.1	4.8	5.1
BBNI	4,610	6,530	41.6%	Buy	171.9	7.2	6.5	1.0	0.9	15.0	15.3	3.8	4.2
BBTN	1,270	1,770	39.4%	Buy	17.8	3.6	3.1	0.4	0.4	12.0	12.7	5.1	5.6
BRIS	2,260	2,970	31.4%	Buy	104.3	15.8	13.1	2.4	2.1	16.9	17.1	1.4	1.6
Average						11.3	10.1	2.0	1.8	18.0	18.3	4.2	4.7

Source : Company, KBVS research

Exhibit 2: Bank under coverage 4M24 Profit and Loss results

Profit and Loss YoY (%)	BBCA	BBRI	BMRI	BBNI	BBTN	BRIS	Average YoY (%)
	YoY (%)	YoY (%)	YoY (%)	YoY (%)	YoY (%)	YoY (%)	
Interest income	7.9	16.5	13.7	5.5	15.0	10.9	11.6
Interest expense	17.4	50.2	38.8	38.4	27.0	43.9	35.9
Net interest income	6.5	5.6	5.0	(9.6)	1.4	0.6	1.6
Non Int Inc & others	6.8	27.3	(1.8)	12.8	20.6	28.8	15.8
Total Income	6.6	11.1	3.0	(2.9)	4.9	4.7	4.6
Opex	(2.2)	4.0	3.6	0.7	16.6	8.2	5.2
PPOP	11.0	14.6	2.7	(5.6)	(9.4)	1.7	2.5
Provision	2.8	36.4	1.5	(19.0)	(26.7)	(32.1)	(6.2)
Net Profit	11.6	4.5	2.7	1.6	5.2	15.1	6.8

Source: Company, KBVS Research

Exhibit 3: Bank under coverage 4M24 Balance Sheet results

Selected Key Balance Sheet (IDRbn)	BBCA	BBRI	BMRI	BBNI	BBTN	BRIS	Average YoY (%)
	YoY	YoY	YoY	YoY	YoY	YoY	
Total Loan	16.5	12.0	21.5	12.9	14.4	18.0	15.9
Total Assets	5.8	11.5	12.5	10.2	11.1	11.9	10.5
Total Liability	5.6	13.5	13.2	10.6	11.3	11.5	10.9
Total Equity	7.2	1.7	8.6	7.6	9.1	15.7	8.3
Total deposits	5.4	10.9	15.1	11.5	11.4	9.4	10.6
Demand deposits	5.2	20.5	21.5	20.5	3.5	6.6	13.0
Savings deposits	4.7	2.5	10.0	3.1	4.4	6.9	5.3
Time deposits	7.6	19.0	12.8	8.9	20.1	13.8	13.7
CASA	4.9	9.0	15.7	12.7	3.7	6.8	8.8

Selected Key financial ratios (%)	BBCA	BBRI	BMRI	BBNI	BBTN	BRIS	Average YoY (%)
	YoY (%)	YoY (%)	YoY (%)	YoY (%)	YoY (%)	YoY (%)	
CASA (IDRbn)	4.9	9.0	15.7	12.7	3.7	6.8	8.8
CASA	-0.4	-2.0	0.4	0.7	-3.7	-1.5	-1.1
Loan to Deposits	7.1	-0.5	4.9	1.1	2.6	6.2	3.6
CIR	-0.1	-7.1	2.6	-10.6	-4.3	-4.8	-4.0

Source: Company, KBVS Research

Exhibit 4: Bank under coverage '24F earnings scenario analysis for base case and worst-case

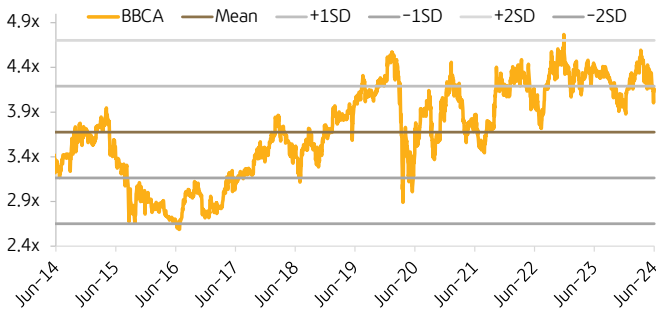
Profit and Loss	BBCA YoY (%)			BBRI YoY (%)			BMRI YoY (%)		
	Inline Base '24F	+25bps CoF only	+25bps CoF & 3yr avg prov. Covid era	Inline Base '24F	+25bps CoF only	+25bps CoF & 3yr avg prov. Covid era	Inline Base '24F	+25bps CoF only	+25bps CoF & 3yr avg prov. Covid era
Interest income	8.9	8.9	8.9	9.0	9.0	9.0	15.3	15.3	15.3
Interest expenses	10.4	33.5	33.5	16.8	24.3	24.3	25.0	33.6	33.6
Net interest income	8.7	4.9	4.9	6.5	4.1	4.1	11.6	8.3	8.3
Operating expenses	7.4	7.4	7.4	2.1	2.1	2.1	8.6	8.6	8.6
PPOP	10.0	5.4	5.4	7.9	4.8	4.8	14.2	10.5	10.5
Net Profit	11.1	6.6	0.7	10.9	5.5	2.3	5.8	1.5	(4.4)

Profit and Loss	BBNI YoY (%)			BBTN YoY (%)			BRIS YoY (%)		
	Inline Base '24F	+25bps CoF only	+25bps CoF & 3yr avg prov. Covid era	Inline Base '24F	+25bps CoF only	+25bps CoF & 3yr avg prov. Covid era	Inline Base '24F	+25bps CoF only	+25bps CoF & 3yr avg prov. Covid era
Interest income	10.1	10.1	10.1	7.2	7.2	7.2	15.1	15.1	15.1
Interest expenses	2.6	13.0	13.0	5.8	10.8	10.8	19.5	34.4	34.4
Net interest income	13.8	8.7	8.7	8.7	3.1	3.1	13.5	8.0	8.0
Operating expenses	3.6	3.6	3.6	6.2	6.2	6.2	6.2	6.2	6.2
PPOP	15.3	9.3	9.3	12.4	3.3	3.3	20.4	11.7	11.7
Net Profit	14.7	4.6	(5.3)	9.9	(0.0)	5.4	16.0	0.3	0.8

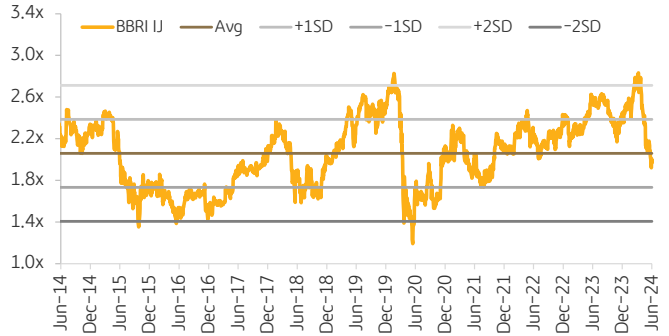
Source: Company, KBVS Research

Exhibit 5: BBCA Forward PB Band (x)



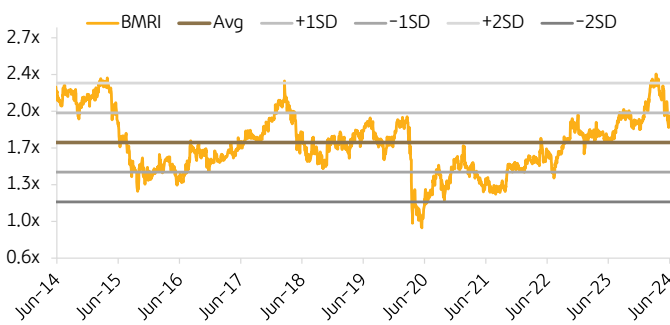
Source: Company, Bloomberg, KBVS Research

Exhibit 6: BBRI Forward PB Band (x)



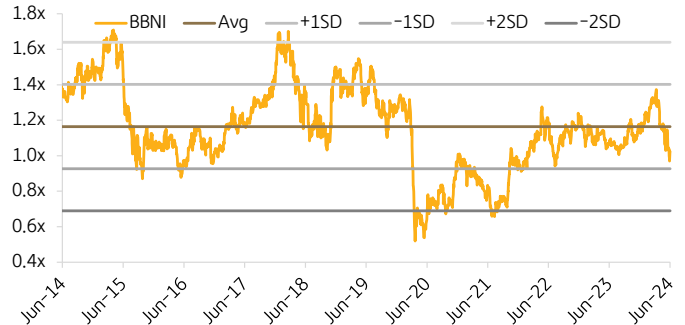
Source: Company, Bloomberg, KBVS Research

Exhibit 7: BMRI Forward PB Band (x)



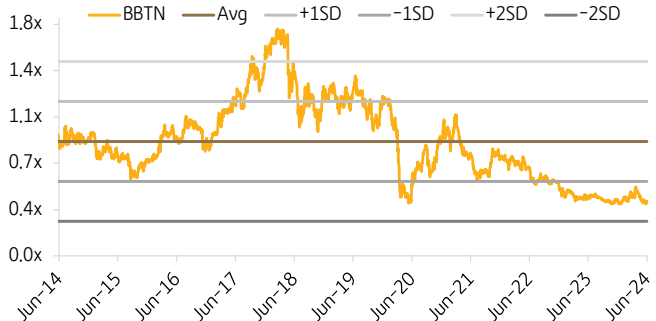
Source: Company, Bloomberg, KBVS Research

Exhibit 8: BBNI Forward PB Band (x)



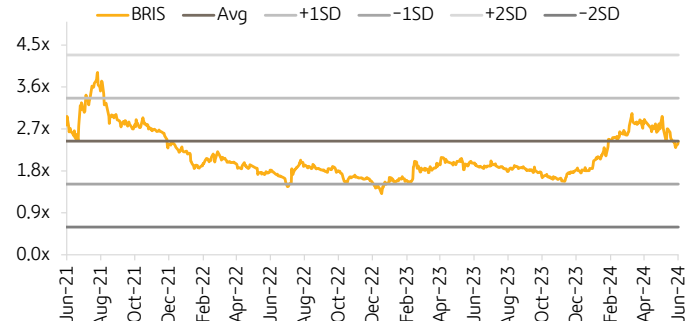
Source: Company, Bloomberg, KBVS Research

Exhibit 9: BBTN Forward PB Band (x)



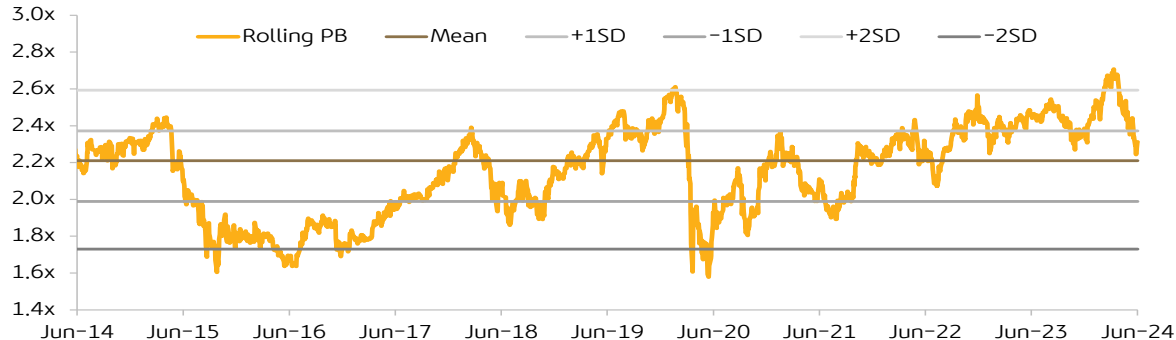
Source: Company, Bloomberg, KBVS Research

Exhibit 10: BRIS Forward PB Band (x)



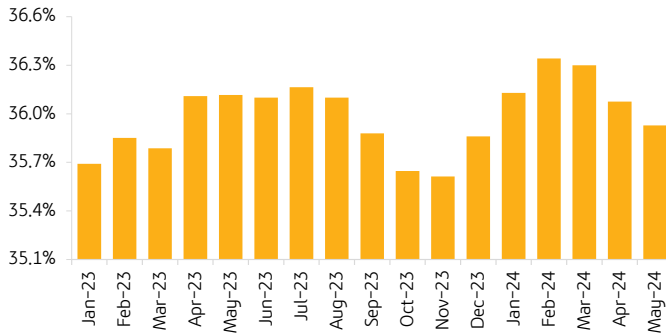
Source: Company, Bloomberg, KBVS Research

Exhibit 11: Four big banks Forward PB Band (x)



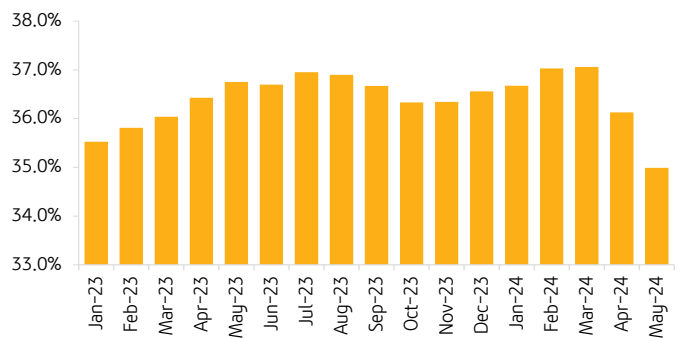
Source: Company, Bloomberg, KBVS Research

Exhibit 12: BBKA stocks foreign ownership (%)



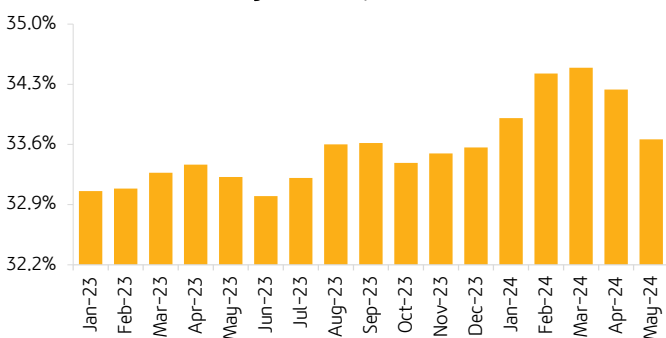
Source: The Indonesia Central Securities Depository (KSEI), KBVS Research

Exhibit 13: BBRI stocks foreign ownership (%)



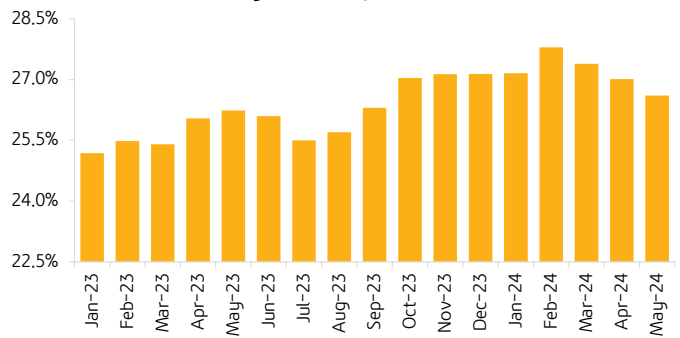
Source: The Indonesia Central Securities Depository (KSEI), KBVS Research

Exhibit 14: BMRI stocks foreign ownership (%)



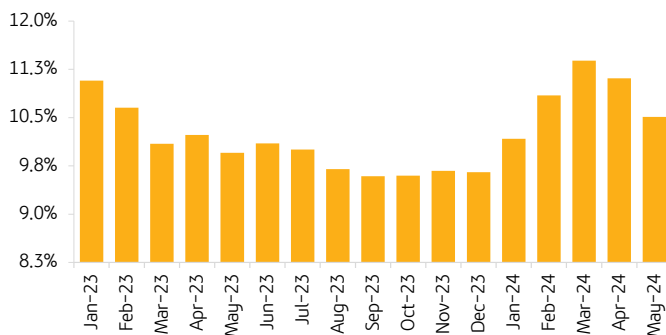
Source: The Indonesia Central Securities Depository (KSEI), KBVS Research

Exhibit 15: BBNI stocks foreign ownership (%)



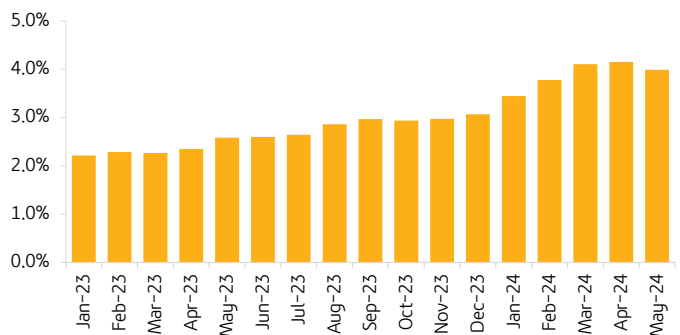
Source: The Indonesia Central Securities Depository (KSEI), KBVS Research

Exhibit 16: BBTN stocks foreign ownership (%)



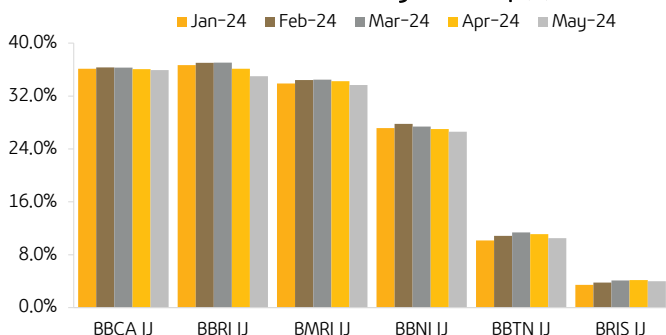
Source: The Indonesia Central Securities Depository (KSEI), KBVS Research

Exhibit 17: BRIS stocks foreign ownership (%)



Source: The Indonesia Central Securities Depository (KSEI), KBVS Research

Exhibit 18: Bank under our radar stocks foreign ownership (%)



Source: The Indonesia Central Securities Depository (KSEI), KBVS Research

Exhibit 19: BRIS stocks foreign ownership (%)

Ticker	Jan-24	Feb-24	Mar-24	Apr-24	May-24	YTD 2024	YTD 2023	May-23	May-24	YoY (chg)
BBKA IJ	36.1%	36.3%	36.3%	36.1%	35.9%	-0.2%	0.4%	36.1%	35.9%	-0.2%
BBRI IJ	36.7%	37.0%	37.1%	36.1%	35.0%	-1.7%	1.2%	36.8%	35.0%	-1.8%
BMRI IJ	33.9%	34.4%	34.5%	34.2%	33.7%	-0.2%	0.2%	33.2%	33.7%	0.4%
BBNI IJ	27.2%	27.8%	27.4%	27.0%	26.6%	-0.6%	1.1%	26.2%	26.6%	0.4%
BBTN IJ	10.2%	10.8%	11.4%	11.1%	10.5%	0.3%	-1.1%	10.0%	10.5%	0.6%
BRIS IJ	3.4%	3.8%	4.1%	4.2%	4.0%	0.5%	0.4%	2.6%	4.0%	1.4%
Average	24.6%	25.0%	25.1%	24.8%	24.3%	-0.3%	0.4%	24.1%	24.3%	0.1%

Source: The Indonesia Central Securities Depository (KSEI), KBVS Research

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