

Solid 3Q23 earnings growth; In-line 9M23

30 November 2023



BBTN IJ	BUY
Sector	Banks
Price at 29 Nov 2023 (IDR)	1,280
Price target (IDR)	1,770
Upside/Downside (%)	38.3

Stock Information

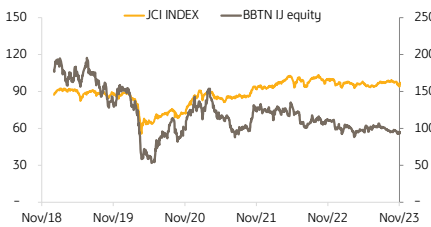
PT Bank Tabungan Negara (Persero) Tbk is a state-owned enterprise bank providing banking services (consumer banking, commercial and sharia banking). It has a strong business presence in subsidized mortgage. The bank has the continuing support from government in channeling housing subsidy which make market share stand out among its competitor.

Market cap (IDR bn)	17,964
Shares outstanding (mn)	14,034
52-week range (IDR)	1,150 - 1,508
3M average daily vol. ('000)	11,827
3M average daily val. (IDR mn)	14,697

Shareholders (%)

Republic of Indonesia	55.0
Public	45.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	4.9	2.4	(13.2)

BBTN recorded flattish 9M23 earnings growth, yet increasing sharply on quarterly basis. In all, 9M23 results arrives in-line with our projection while below street forecast at a run rate of 72%/70% (5yr hist. average excl. covid: 74%). Loan growth arrives within BBTN's guidance, while key metrics are reported better qoq. We believe asset bulk sales will play key role to NPL improvement in 4Q23, while latest VAT incentives could positively impact to non-subsidized loan performance. BBTN's plan to acquire one of major sharia bank in Indonesia is expected to turn into reality soon. Maintain BUY with GGM-based TP of IDR1,770, pegged at 0.6x '24F P/B, while it trades at 0.4x '24F P/B or slightly above -2SD hist mean.

Flat 9M23 earnings growth, yet sturdy quarterly performance

BBTN's 9M23 earnings grew flat at 1.7% yoy to IDR2.3 tn, amid mounting cost of funds which translated to 43.9% yoy rise on interest expenses. Soaring non-interest income by 67.4% yoy and improving cost to income does not help much as provisioning rose 12.3% yoy. Yet, on quarterly basis, the bank booked a solid result, whereas PATMI surged 24.5% qoq on the back of soft increase in cost of fund and better NIM qoq as well as a sharp drop in provision expenses by 17.4% qoq. In all, 9M23 results arrives in-line with our projection yet below street forecast at a run rate of 72%/70% compared to 5yr historical average (excl. covid) of 74%.

Loan growth beats industry yet within guidance range

Loan and financing growth stood at 10% yoy to IDR318.3 tn, arriving above industry loan growth and within management range expectation of 10-11% yoy. The growth was mainly driven by subsidized-mortgages (11.9% yoy) which outpaced the non-subsidized mortgage (6.7% yoy). Worth noting that corporate loan grew very strong at 39% yoy, with total non-housing loan growth at 23.1% yoy and improve significantly from the previous cumulative period in 1H23 of only 11.5% yoy. On the liability side, third party fund poor growth was acceptable in our view, as the industry and several banks are booked around the same figure amid the tight liquidity situation. We like BBTN's CASA which remain solid, growing by 11.6% yoy.

Better key metrics on quarterly basis

Key performance metrics struggling on yoy, yet recorded much better result on quarterly basis. NIM inched up by 14bps qoq to 3.76% while NPL slightly better from 3.66% to 3.53% and closed to '23F BBTN's guidance of <3.5%. CIR also showed an improvement by 170bp yoy and to 46.7%

Asset bulk sales execution to reduce NPL

We expect an immediate impact on lower NPL following the execution of BBTN's bulk asset sales in 4Q23 amounting IDR900 bn with all of the NPL has been fully provisioned and green-light from various stakeholders have been pocketed. BBTN also aim for another round of bulk asset sales next year which will significantly drive NPL improvement.

Expecting VAT incentive to boost non-subsidizes mortgage

We think BBTN will become as one of the beneficiaries of latest government VAT incentives for houses tag price between IDR2-5 bn, given its non-subsidized mortgage segment accounted around 30% of the total loan and financing. BBTN has introduced sales centre to serve customer demand and supports its double digit non-subsidized mortgage growth. We like these initiatives as better loan yield will overall underpin the bank to record a better NIM. Worth noting that the segment growth has been improving (127 bps) from 5.37% yoy in 1Q23 to 6.64% yoy in 9M23.

Sharia bank acquisition

BBTN plans to acquire one of major sharia bank in Indonesia and has reportedly received the green light from Ministry of SOE, hence we expect this corporate action will be turned into reality soon. The bank recorded a continuing improvement on its sharia business unit, with earnings frog leaped by 70.4% yoy or nearly doubled vs 1Q23 growth of 39% yoy and total asset growth of 17.3% yoy to IDR48.4 tn.

Maintain BUY with target price of IDR1,770

Our target price is based on Gordon Growth Model with fair 2023F P/B of 0.6x. The bank is trading at 0.3x '24F P/B, or slightly above its -2SD of hist mean of 0.3x. Risks to our call are: a) lower-than-expected subsidized, non-subsidized growth and total loan growth, NIM and loan yield, b) mounting CoF and CoC c) higher inflation, and d) deteriorating asset quality.

Exhibit 1: Key Statistics

Year end Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net interest income	12,991	14,997	15,689	16,864	18,581
Non interest income	2,363	2,210	2,273	2,331	2,426
Total operating income	15,354	17,207	17,962	19,194	21,007
Pre provisions operating profit	6,661	7,833	7,909	8,501	9,601
Net income	2,376	3,045	3,234	3,579	4,377
EPS (IDR)	216	277	294	326	398
EPS growth (%)	48.3	28.1	6.2	10.6	22.3
PER (x)	5.9	4.6	4.3	3.9	3.2
PBV (x)	0.7	0.5	0.5	0.4	0.4
Div. Yield (%)	0.0	4.3	4.6	5.1	6.3
RoE (%)	11.5	12.9	11.7	11.3	11.9

Source: Company, KBVS Research

Analyst

Akhmad Nurcahyadi

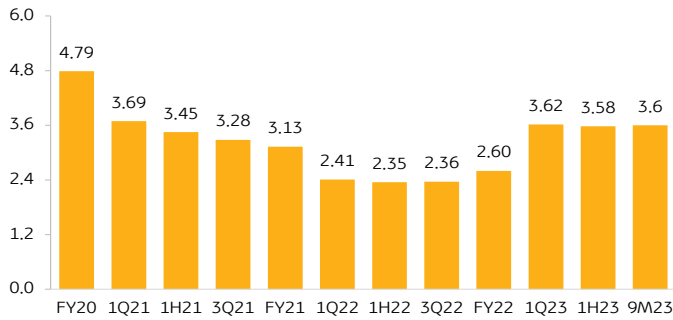
akhmad.nurcahyadi@kbvalbury.com

Exhibit 2: BBTN 9M23 financial and key performance metrics results

BBTN 9M23 Results (IDRbn)	9M22	9M23	YoY (%)	3Q22	3Q23	YoY (%)	2Q23	QoQ (%)	KBVS '23F	% to '23F	Cons. '23F	% to Cons.
Income statements												
Interest Income	18,977	20,833	9.8	6,300	7,311	16.0	6,846	6.8				
Interest Expenses	(7,431)	(10,691)	43.9	(2,491)	(3,647)	46.4	(3,489)	4.5				
Net interest income	11,546	10,142	(12.2)	3,809	3,664	(3.8)	3,357	9.1				
Non-interest income	1,411	2,362	67.4	402	646	60.7	840	(23.1)				
Total operating income	12,957	12,504	(3.5)	4,211	4,310	2.4	4,197	2.7				
Operating expenses	(7,408)	(6,601)	(10.9)	(2,675)	(2,246)	(16.0)	(2,128)	5.5				
Pre-provision operating profit	5,549	5,903	6.4	1,536	2,064	34.4	2,070	(0.3)				
Provision expenses	(2,616)	(2,937)	12.3	(546)	(989)	81.1	(1,197)	(17.4)				
Net profit	2,275	2,313	1.7	804	838	4.2	673	24.5	3,234	72	3,286	70
Balance Sheets												
Loans	289,693	318,300	9.9	289,693	318,300	9.9	307,669	3.5				
Current accounts	97,882	118,061	20.6	97,882	118,061	20.6	128,677	(8.3)				
Saving deposits	45,709	42,199	(7.7)	45,709	42,199	(7.7)	41,541	1.6				
Time deposits	169,255	163,648	(3.3)	169,255	163,648	(3.3)	143,038	14.4				
CASA	143,591	160,260	11.6	143,591	160,260	11.6	170,218	(5.9)				
Total TPF	312,846	323,908	3.5	312,846	323,908	3.5	313,256	3.4				
Total equity	21,597	29,054	34.5	21,597	29,054	34.5	28,395	2.3				
Key Ratio (%)												
NIM	4.5	3.8	(0.8)	4.5	3.8	(0.8)	3.6	0.1				
Cost of Fund	2.5	3.8	1.3	2.5	3.8	1.3	3.6	0.2				
Cost of Credit	1.2	1.3	0.1	1.2	1.3	0.1	1.3	(0.0)				
LDR	92.6	98.3	5.7	92.6	98.3	5.7	98.2	0.0				
CASA	45.9	49.5	3.6	45.9	49.5	3.6	54.3	(4.9)				
NPL gross	3.5	3.5	0.1	3.5	3.5	0.1	3.7	(0.1)				
CIR	48.4	46.7	(1.70)	48.4	46.7	(1.7)	47.8	(1.1)				
Tier 1 CAR	13.0	16.7	3.6	13.0	16.7	3.6	17.1	(0.5)				
CAR	17.3	19.6	2.3	17.3	19.6	2.3	20.4	(0.8)				
ROE	16.8	12.4	(4.5)	16.8	12.4	(4.5)	12.0	0.4				
ROA	1.0	1.0	(0.1)	1.0	1.0	(0.1)	0.9	0.0				

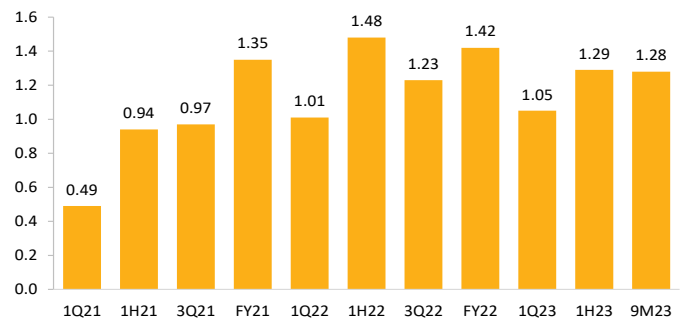
Source : Company, KBVS Research

Exhibit 3: Expecting more softened CoF in the remaining quarters (%)



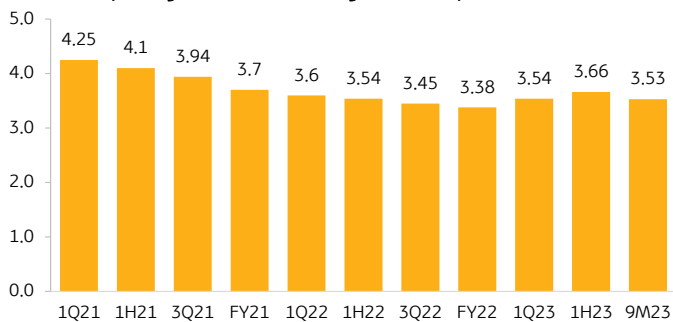
Source: Company, KBVS Research

Exhibit 4: Manageable CoC likely to remain intact (%)



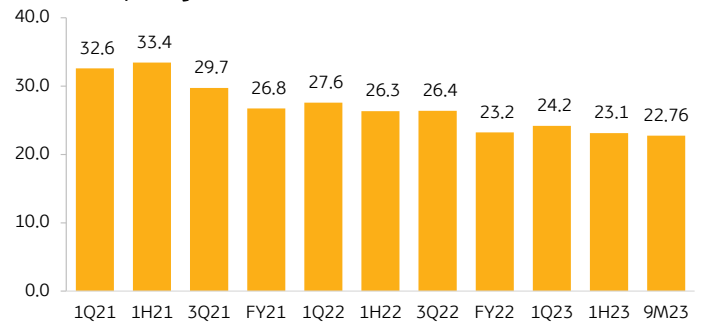
Source: Company, KBVS Research

Exhibit 5: Expecting better NPL on early bucket steps (%)



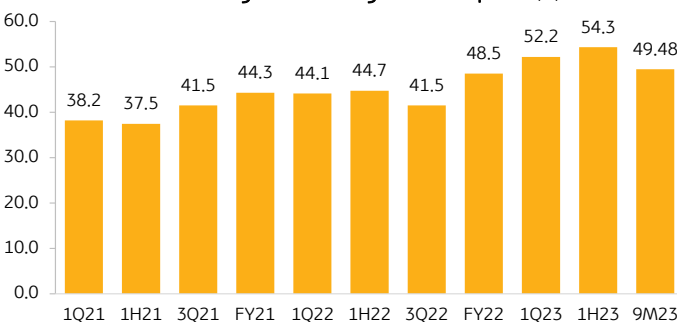
Source: Company, KBVS Research

Exhibit 6: Improving LAR remain intact (%)



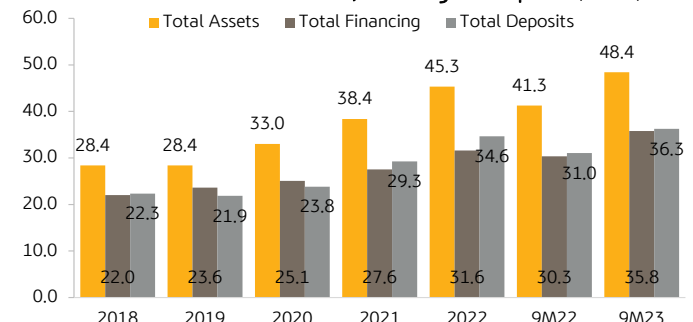
Source: Company, KBVS Research

Exhibit 7: Low-cost funding to limit rising interest expense (%)



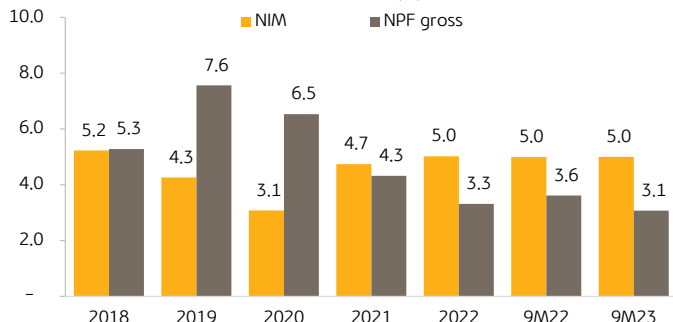
Source: Company, KBVS Research

Exhibit 8: Sharia business units Assets, Financing and Deposits (IDR tn)



Source: Company, KBVS Research

Exhibit 9: Sharia business unit NIM and NPF (%)



Source: Company, KBVS Research

Exhibit 10: Currently trades at 0.4x '24F P/B slightly above its -2SD of 0.3x



Source: Company, Bloomberg, KBVS Research

FINANCIAL TABLES
Exhibit 11: Profit & Loss

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Interest income	25,795	25,907	28,658	30,954	33,924
Interest expense	(12,804)	(10,910)	(12,969)	(14,090)	(15,342)
Net interest income	12,991	14,997	15,689	16,864	18,581
Non-interest income	2,363	2,210	2,273	2,331	2,426
Operating expenses	(8,692)	(9,374)	(10,052)	(10,693)	(11,406)
Pre-provision operating profit	6,661	7,833	7,909	8,501	9,601
Loan loss provision	(3,625)	(4,018)	(3,658)	(3,791)	(3,827)
Pretax profit	2,993	3,876	4,313	4,772	5,835
Tax expenses	(617)	(831)	(1,078)	(1,193)	(1,459)
Net profit	2,376	3,045	3,234	3,579	4,377

Exhibit 12: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Assets					
Cash	1,540	1,662	1,772	1,805	2,005
Current Account BI	10,692	25,417	13,469	14,528	15,760
Interbank	28,996	14,446	20,201	21,789	23,638
Gov Bond	2,231	1,721	2,523	1,814	1,968
Marketable Securities	46,080	51,965	56,945	64,692	66,979
Loan	260,400	282,607	311,277	344,220	385,308
Fixed assets	5,737	6,354	7,036	7,688	8,310
Other assets	16,193	17,873	13,151	9,206	6,444
Total Asset	371,868	402,044	426,374	465,740	510,411
Liabilities					
Interbank Deposit	71	175	136	136	136
Deposit from customer	295,952	321,923	336,713	363,190	393,994
Debts Sec and Subordinates	43,194	42,631	46,670	50,870	57,870
Other Liabilities	11,245	11,405	13,673	17,328	19,060
Total liabilities	350,462	376,135	397,193	431,524	471,061
Equity					
Capital Stock	5,295	5,295	5,295	5,295	5,295
Additional Paid-in Capital	2,054	2,054	2,054	2,054	2,054
Retained Earnings	11,140	13,947	16,572	19,504	23,165
Other Equity	2,918	4,613	5,259	7,362	8,835
Shareholder's Equity	21,407	25,909	29,181	34,216	39,349
Non-controlling Interest	-	-	-	-	-
Total Equity	21,407	25,909	29,181	34,216	39,349

Exhibit 13: Key performance metrics

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
NIM (%)	3.6	4.0	3.9	3.8	3.8
LDR (%)	92.9	92.7	97.4	99.9	102.8
CASA (%)	44.3	48.5	45.9	43.5	41.4
NPL (%)	4.4	3.5	3.6	3.5	3.4
ROE (%)	11.5	12.9	11.7	11.3	11.9
ROA (%)	0.6	0.8	0.8	0.8	0.9
CAR (%)	19.1	19.0	20.0	20.0	20.2
BVPS (IDR)	1,949	2,359	2,657	3,115	3,583
PER (x)	5.9	4.6	4.3	3.9	3.2
PBV (x)	0.7	0.5	0.5	0.4	0.4
Div. Yield (%)	0.0	4.3	4.6	5.1	6.3

Source: Company, KBVS Research

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KB Valbury Sekuritas Head Office

Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,
Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia
T. +62 21 – 250 98 300
F. +62 21 – 255 33 778

Branch Office

Jakarta – Sudirman

Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Karet Tengsin,
Tanah Abang, Jakarta Pusat 10220
T. (021) 25098300/301

Jakarta – Kelapa Gading

Rukan Plaza Pasifik
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta Utara 11620
T. (021) 29451577

Jakarta – Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV
Jl. Taman Aries, Kembangan
Jakarta Barat 11620
T. (021) 22542390

Jakarta – Pluit

Jl. Pluit Putra Raya No. 2
Jakarta Utara 14450
T. (021) 6692119

Bandung

Jl. HOS Cokroaminoto No. 82
Bandung 40171
T. (022) 87255800

Malang

Jl. Pahlawan Trip No. 7
Malang 65112
T. (0341) 585888

Banjarmasin

Jl. Gatot Subroto No. 33
Banjarmasin 70235
T. (0511) – 3265918

Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN
Blok A No. 3 Pekanbaru 28291
T. (0761) 839393

Palembang

Komplek PTC Mall Blok I No. 7
Jl. R. Sukamto
Palembang 30114
T. (0711) 5700281

Surabaya

Pakuwon Center Lt 21
Jl. Embong Malang No.1
Surabaya 60261
T. (031) 2955788

Padang

Jl. Kampung Nias II No. 10,
Padang 25211
T. (0751) 8955747

Yogyakarta

Jl. Magelang KM 5.5 No. 75
Yogyakarta 55000
T. (0274) 623111

Semarang

Candi Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T. (024) 8501122

Makassar

Komplek RUKO Citraland City Losari
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard Makassar 90111
T. (0241) 16000818

Medan

Komplek Jati Junction No. P5-5A
Jl. Perintis Kemerdekaan
Medan 20218
T. (061) 88816222

Denpasar

Jl. Teuku Umar No. 177
Komplek Ibis Styles Hotel
Denpasar Bali 80114
T. (0361) 225229

Investment Gallery

Jakarta

Citra Garden 6 Ruko Sixth Avenue
Blok J.1 A/18, Cengkareng
Jakarta Barat 11820
T. (021) 522392181

Semarang

Jl. MT Haryono 637
Semarang 50242
T. (024) 8415195

Salatiga

Jl. Diponegoro No. 68
Salatiga 50711
T. (0298) 313007

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118
T. (0271) 6726306