

In-line 1H24 earnings; prudent hope in CoC

30 July 2024



Melayani Dengan Setulus Hati

BBRI IJ	BUY
Sector	Banks
Price at 29 July 2024 (IDR)	4,760
Price target (IDR)	6,830
Upside/Downside (%)	43.5

Stock Information

PT Bank Rakyat Indonesia (BRI) established in 1895 is the oldest bank in Indonesia. BRI plays an important role in developing grass root economy of Indonesia, focusing in Micro, Small and Medium Enterprises (MSMEs) segments.

Market cap (IDR bn)	721,421
Shares outstanding (mn)	151,559
52-week range (IDR)	4,090-6,450
3M average daily vol. ('000)	311,211
3M average daily val. (IDR mn)	1,438,711

Shareholders (%)

Republic of Indonesia	54.9
Public	45.1

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	3.9	(3.2)	(16.1)

Analyst

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1H24 earnings came in within ours and street expectation at a run rate of 44.5%/44.0%. Robust loans remained within management guidance. Total customer deposits still noted a double-digit rate (improving CASA to 63.2% vs. 61.7% and still above its 5-year average of 62.3%). On key ratio NIM squeezed to 7.64% vs. 7.84% in 1Q24. LDR expansion, solid earnings asset yield and stronger CASA portion should provide some cushioning. On the flip of a coin CIR saw an improvement. Likewise, for NPL and CoC. Despite consistently moving closer to '24F guidance, we are cautiously optimistic on BRI's CoC target of Max. 3. The bank kept its '24F guidance. Maintain BUY BRI GGM-TP of IDR6,830 implying 3.0x '24F P/B, while currently traded at its historical average mean.

In-line 1H24 earnings; amidst all the pressure.

BRI 1H24 top line grew strong (15.3% yoy), supported by robust loans and higher yield yoy. Yet, cost of funds was widely expected to be higher and thus made net interest income arrive at a single-digit level of 6.7% yoy (still in line with our 1H24F for BRI). Despite the opex increase (8.1% yoy) PPOP is well managed and grew 11.7% yoy mainly helped fees and commissions (10.1% yoy) as well as a strong growth at consolidated level from recovery of written-off assets (50.5% yoy). Provision expenses recorded 33.8% yoy higher as more front load has been made (1Q24: 91.4% yoy) and we expect it could potentially soften CoC pressure in the 2H24 period. Worth noting that on a quarterly basis, it improves by 27.3% qoq (5.3% yoy), resulting in a lower credit cost. In all, 1H24 PATMI came in within KBVS and consensus forecast with a run rate of 44.5%/44.0% vs. 46%.

Intact robust loan growth.

Solid 1H24 loan growth of 11.2% yoy was came in within management expectation for '24F loan growth of 10%-12% yoy. Yet, considerable flattish compared to last quarter of 10.9% yoy, as micro segment growth slower to 7.8% yoy vs 10.5% yoy in 1Q24. Corporate loans, stood at the second highest growth of 29.2% yoy (one of the drivers from Bulog). BRI believes there are more opportunities in corporate lending. Consumer segment loan growth was also stable, and remained strong at 11.5% YoY. We like BRI which shifting focus to loan recovery. This has become the main reason for slower Kupedes loan growth to 16% yoy compared to Kupedes disbursement in the last quarter of 30.7% yoy. It is worth noting that the majority of disbursement is to new borrowers, and top-up customers are the best performers.

Expect stronger third-party funds mixed.

Third-party funds grew 11.6% yoy, led by demand deposit growth of 19.6% yoy and much stronger by 280 bps vs. 14.4% yoy in 1Q24. BRI time deposits growth is slower to 19% yoy in 1H24 vs. 22%. BRI also saw a much better CASA of 63.2% vs. 61.7% and 90bps compared to the average of the 5-year historical CASA portion (Covid-19 period included). With such significant improvement, we expect to witness milder cost of funds in the following quarters which will make interest expense growth remain soft.

Pressure on NIM continues; risk metrics seem to be showing early improvement.

In key ratio, NIM continued under pressure, squeezed to 7.64% vs. 7.84% in 1Q24. Downside risk should remain yet we expect some backing up from earnings asset yield, a higher LDR, and a much better customer deposit mix in 2H24. On the flip of a coin cost to income booked an improvement figure to 41% vs. 41.79% and aligned with '24 range guidance of 41%-42%. Likewise on key risk metrics which booked a better number. Gross NPL at 3.05% was improves vs. 3.11% in the previous quarter. Albeit soft we expect the recovery as an early sign of NIM improvement in 2H24, ceteris paribus. Of the NPL boards, small and medium saw a noteworthy improvement. We also witness improving special mention loans across all segments led by small and micro segments 6.26% to 5.98% in 1H24 and from 7.11% in 1Q24 to 6.87%, respectively.

Cautiously optimistic on CoC, albeit improving.

Cost of credit showed a notable improvement from 3.83% to 3.48% in 1H24, thanks to a significant decline to 3.13 in 2Q24. Despite this breakthrough it still arrives above '24F guidance of Max.3%. Management kept the CoC target unchanged, but also alert that it could exceed the expectation on softer loan growth. Uninterrupted restructured loans, softer inflation, and stronger grass-road purchasing power should become several catalysts in our view.

Maintain BUY GGM-TP of IDR6,830.

Our GGM-based TP for BRI of IDR6,830 pegged at 3.0x '24F P/B while currently trading at 2.1x '24F P/B, or at its average historical mean. Downside risks to our call are: 1) slower loan growth; 2) worsening AQ; and 3) higher than expected CoC, CoF, and NPL. 4) slowing economic activity amid the domestic political situation; 5) higher for longer remains; and 6) prolonged tight liquidity and a high interest rate environment.

Exhibit 1: Key Statistics

Year end Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Net Interest income	124,597	135,183	143,947	157,291	174,671
Non int. income	48,880	48,107	49,364	54,300	58,682
Total operating income	173,477	183,290	193,310	211,591	233,353
Pre-provision profit	91,285	106,508	114,885	129,534	146,205
Net income (IDR bn)	51,170	60,100	66,678	73,903	81,691
EPS (IDR)	338	397	440	488	539
EPS growth (%)	64.7	17.5	10.9	10.8	10.5
PER (x)	14.1	12.0	10.8	9.8	8.8
PBV (x)	2.4	2.3	2.1	1.9	1.8
Div. Yield (%)	3.7	4.8	6.7	6.5	7.7
RoE (%)	17.4	19.7	20.4	20.6	20.9

Source: Company, KBVS Research

Exhibit 2: BRI 1H24 result and key performance metrics results

Income Statements (IDR bn)	6M23	6M24	YoY (%)	2Q23	2Q24	YoY (%)	1Q24	QoQ (%)	KBVS '24F	% to '24F	Cons' '24F	% to Cons' '24F
Interest income	85,591	98,647	15.3	43,131	48,572	12.6	50,075	(3.0)				
Interest expenses	(20,050)	(28,718)	43.2	(10,369)	(14,595)	40.8	(14,123)	3.3				
Net interest income	65,541	69,929	6.7	32,762	33,967	3.7	35,962	(5.5)				
Non-interest income	22,175	26,748	20.6	11,711	13,564	15.8	13,184	2.9				
Total operating income	87,716	96,677	10.2	44,473	47,531	6.9	49,146	(3.3)				
Total operating expenses	(36,657)	(39,635)	8.1	(18,566)	(21,246)	14.4	(18,389)	15.5				
PPoP	51,059	57,042	11.7	25,906	26,295	1.5	30,747	(14.5)				
Loan loss provisions	(13,821)	(18,497)	33.8	(8,223)	(7,784)	(5.3)	(10,713)	(27.3)				
Net profit	29,428	29,702	0.9	13,926	13,816	(0.8)	15,886	(13.0)	66,678	44.5%	67,439	44.0%

Balance Sheet (IDR bn)	6M23	6M24	YoY (%)	2Q23	2Q24	YoY (%)	1Q24	QoQ (%)
Gross loans	1,202,129	1,336,780	11.2	1,202,129	1,336,780	11.2	1,308,651	2.1
Current account	298,310	356,855	19.6	298,310	356,855	19.6	354,386	0.7
Saving account	517,115	521,041	0.8	517,115	521,041	0.8	518,912	0.4
Time deposits	429,691	511,767	19.1	429,691	511,767	19.1	542,916	(5.7)
Total Deposits	1,245,116	1,389,663	11.6	1,245,116	1,389,663	11.6	1,416,214	(1.9)
CASA	815,425	877,896	7.7	815,425	877,896	7.7	873,298	0.5
Total equity	298,492	311,731	4.4	298,492	311,731	4.4	298,898	4.3

Key Metrics (%)	6M23	6M24	YoY (%)	2Q23	2Q24	YoY (%)	1Q24	QoQ (%)
NIM	7.9	7.6	(0.28)	7.9	7.6	(0.3)	7.8	(0.2)
Total CAR	26.7	25.1	(1.5)	26.7	25.1	(1.5)	24.0	1.2
CASA Ratio	65.5	63.2	(2.3)	65.5	63.2	(2.3)	61.7	1.5
CIR	41.8	41.0	(0.8)	41.8	41.0	(0.8)	37.4	3.6
NPL gross	3.0	3.1	0.1	3.0	3.1	0.1	3.1	(0.1)
Cost of Credit	2.3	3.5	1.2	2.3	3.5	1.2	3.8	(0.4)
Cost of Fund	2.8	3.6	0.8	2.8	3.6	0.8	3.6	-
ROA	3.3	3.0	(0.3)	3.3	3.0	(0.3)	3.2	(0.2)
ROE	19.9	19.2	(0.6)	19.9	19.2	(0.6)	20.6	(1.3)
LDR	96.5	96.2	(0.4)	96.5	96.2	(0.4)	83.3	12.9
Loan yield	12.9	13.3	0.4	12.9	13.3	0.4	13.6	(0.3)
NPL Coverage Ratio	248.5	211.6	(36.9)	248.5	211.6	(36.9)	214.3	(2.7)
LAR	14.9	12.0	(2.9)	14.9	12.0	(2.9)	12.7	(0.7)

Source : Company, KB Valbury Sekuritas

Exhibit 3: BBRI 1H24 loan segmentation

Loan segmentation (IDRtn)	2021	2022	2023	1Q24	1H23	1H24
Micro	483.9	551.3	611.2	622.6	577.9	623.0
Consumer	150.4	167.6	190	194	178.3	198.8
Small	212.5	218.6	231.2	234.6	227.8	232.3
Medium	27.8	27.8	36.3	38.3	31.6	41.5
Corporate	168.3	173.8	197.7	219.2	186.6	241.1
Total	1042.9	1139.1	1266.4	1308.7	1202.1	1336.8

Ultra Micro System (IDRtn)	2021	2022	2023	1Q24	1H23	1H24
BRI Micro	397	449.6	496.6	500.7	469.5	496.2
Pegadaian	52.4	59.1	67.6	71.6	62.9	77
PNM	34.5	42.6	47.1	49.8	45.5	49.2
Total	483.9	551.3	611.2	622	577.9	622.3

Micro business (IDRtn)	2021	2022	2023	1Q24	1H23	1H24
KUR	190.3	251.5	219.9	221.5	219.8	222.7
Kupedes	131.8	129.2	212.3	216.6	182.8	212.3
Briguna	74.9	68.9	64.3	62.5	66.9	61.2
Total	397	449.6	496.6	500.7	469.5	496.2

Source : Company, KB Valbury Sekuritas

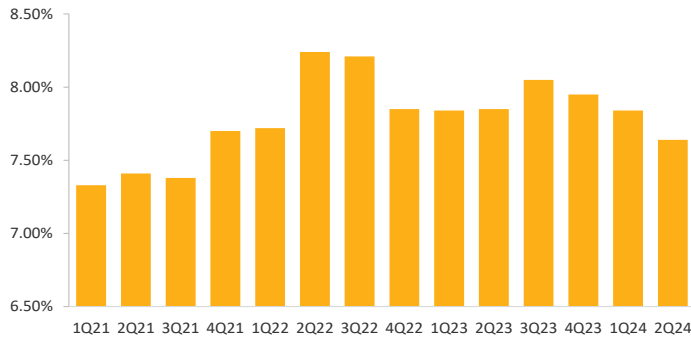
Exhibit 4: BBRI 1H24 non performing loan segmentation

NPL – Segment (%)	1H24	1H23	1Q24	2023	2022	2021	2020	2019
Micro	2.95	2.23	2.69	2.47	1.74	1.49	0.83	1.18
Consumer	2.13	2.02	2.2	1.97	1.83	1.78	1.49	1.1
Small	5.05	4.29	5.44	4.88	4.3	4.05	3.61	3.17
Medium	1.75	2.7	2.21	2.56	2.26	3.57	4.61	5.38
Corporate	3.07	4.83	3.33	3.86	4.68	6.68	7.57	5.18
Bank Only – NPL	3.21	3.1	3.27	3.12	2.82	3.08	2.94	2.62
Subsidiaries – NPL	1.49	1.39	1.51	1.2	1.24	2.08	2.49	5.89
Consolidated – NPL	3.05	2.95	3.11	2.95	2.67	3.00	2.88	2.8

SML – Segment (%)	1H24	1H23	1Q24	2023	2022	2021	2020	2019
Micro	6.87	6.17	7.11	5.72	3.95	3.03	2.47	3.51
Consumer	2.77	3.08	2.89	2.84	2.76	2.2	2.69	2.52
Small	5.98	6.3	6.26	5.15	4.3	3.42	3.19	4.63
Medium	2.72	2.35	2.75	2.52	2.55	3.08	3.07	2.97
Corporate	4.11	5.98	4.18	4.67	4.32	6.94	2.85	5.04
Bank Only – SML	5.35	5.58	5.58	4.87	3.87	3.7	2.75	3.93
Subsidiaries – SML	5.51	6.91	6.17	4.84	3.9	4.68	6	4.41
Consolidated – SML	5.41	5.75	5.68	4.9	3.9	3.81	3.13	3.97

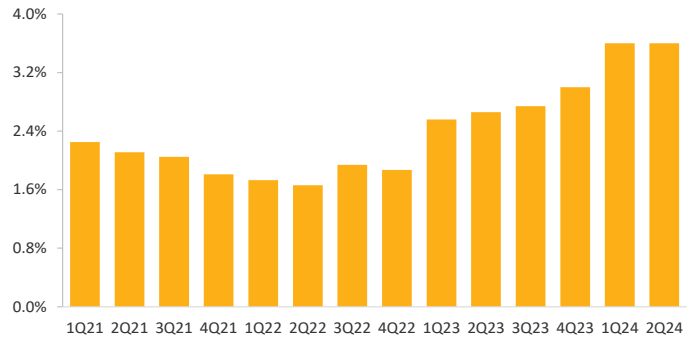
Source : Company, KB Valbury Sekuritas

Exhibit 5: Expecting NIM to be well managed amid the enduring uncertainty



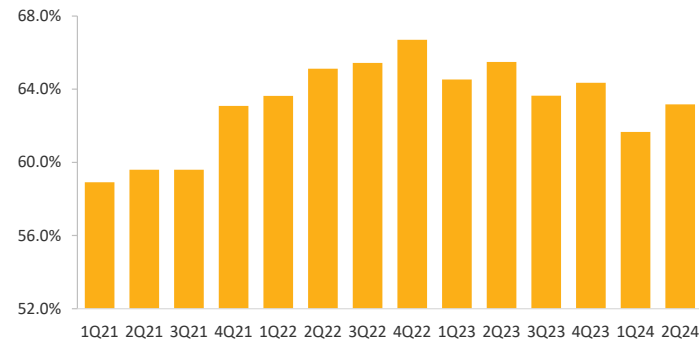
Source: Company, KBVS Research

Exhibit 6: Increasing CoF likely to offset by stable CASA growth



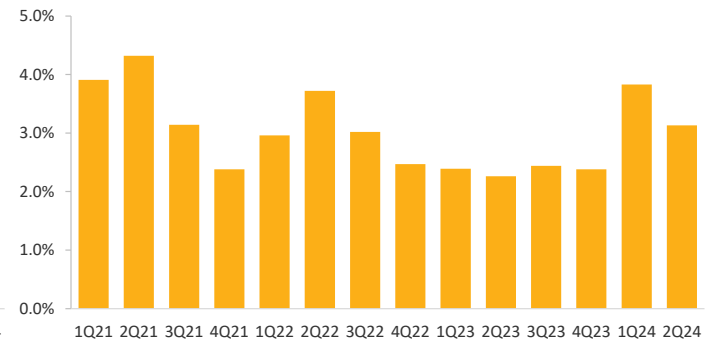
Source: Company, KBVS Research

Exhibit 7: Solid CASA remains and better than Pre Covid historical average



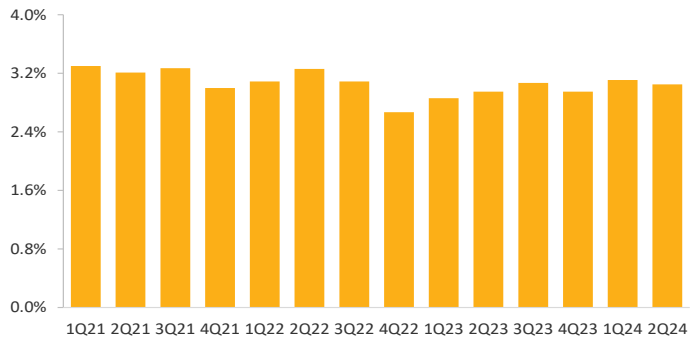
Source: Company, KBVS Research

Exhibit 8: Rising CoC on several downgrade



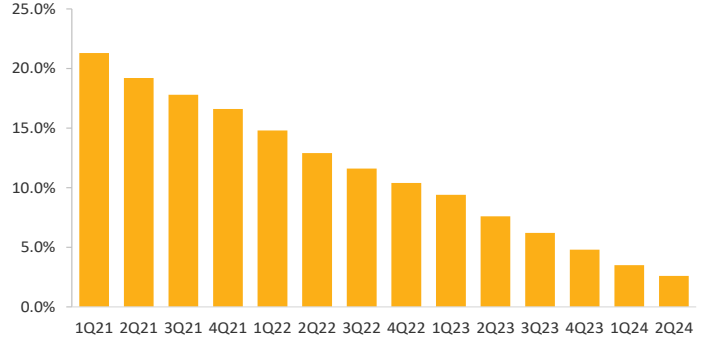
Source: Company, KBVS Research

Exhibit 9: Well behaved NPL



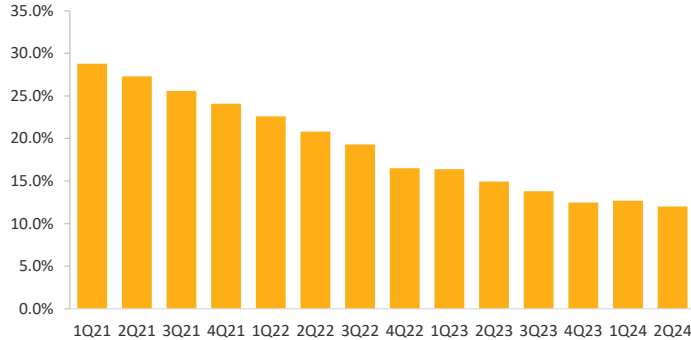
Source: Company, KBVS Research

Exhibit 10: Restru Covid continue to walk in the downhill track



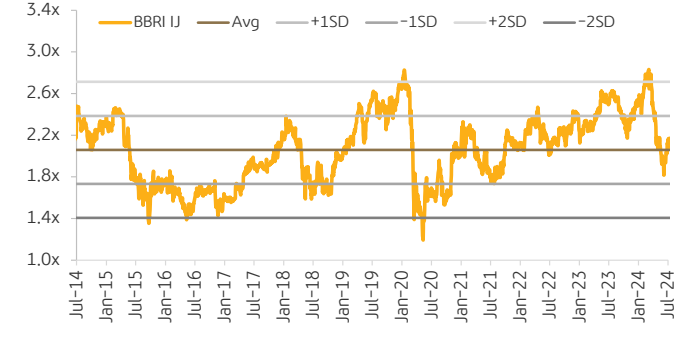
Source: Company, KBVS Research

Exhibit 11: LAR and LAR coverage getting better and stronger



Source: Company, KBVS Research

Exhibit 12: Currently trading at 2.1x '24F P/B, at its historical average



Source: Company, Bloomberg, KBVS Research

FINANCIAL TABLES
Exhibit 13: Profit & Loss

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Interest income	151,875	178,996	195,125	215,595	240,583
Interest expenses	(27,278)	(43,813)	(51,178)	(58,305)	(65,911)
Net interest income	124,597	135,183	143,947	157,291	174,671
Non-interest income	48,880	48,107	49,364	54,300	58,682
Total operating income	173,477	183,290	193,310	211,591	233,353
Operating expenses	(82,192)	(76,782)	(78,425)	(82,057)	(87,148)
Pre-provision operating profit	91,285	106,508	114,885	129,534	146,205
Loan loss provision	(26,979)	(29,679)	(29,691)	(35,151)	(41,919)
Pretax profit	64,597	76,430	84,795	93,984	103,887
Net profit	51,170	60,100	66,678	73,903	81,691

Exhibit 14: Balance sheet

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Assets					
Cash	27,407	31,604	36,594	40,665	45,343
Current Account at BI	150,935	101,909	79,995	90,845	99,619
Interbank Loans	91,888	87,557	85,339	66,671	63,590
Govt Treas Bills & Sec	264,945	238,102	228,558	230,962	214,182
Investment Securities	116,311	126,503	128,564	132,418	132,660
Loans	1,045,989	1,180,927	1,338,999	1,518,521	1,727,623
Fixed Assets	55,216	59,678	66,231	69,543	70,933
Other assets	112,946	138,726	151,194	157,280	158,610
Total Asset	1,865,639	1,965,007	2,115,474	2,306,903	2,512,562
Liabilities					
Interbank Deposit	9,335	11,958	15,004	16,173	17,440
Customer Deposit	1,307,884	1,358,329	1,428,486	1,539,744	1,660,325
Debts Sec and Subordinates	63,612	49,638	54,630	58,885	63,496
Other Liabilities	181,413	228,611	269,618	312,137	360,073
Total liabilities	1,562,244	1,648,535	1,767,738	1,926,938	2,101,333
Equity					
Capital Stock	7,578	7,578	7,578	7,578	7,578
Additional Paid-in Capital	76,243	75,853	75,853	75,853	75,853
Retained Earnings	201,170	213,711	244,976	272,205	298,468
Other Equity	14,303	14,220	14,220	19,220	24,220
Shareholder's Equity	299,294	311,363	342,628	374,856	406,120
Non-controlling Interest	4,101	5,109	5,109	5,109	5,109
Total Equity	303,395	316,472	347,736	379,965	411,228

Exhibit 15: Key performance metrics

Year End Dec (%)	2022A	2023A	2024F	2025F	2026F
NIM	7.9	8.0	8.0	8.1	8.2
LDR	87	93	99	103	108
CASA	66.7	64.3	63.6	64.5	65.4
NPL	2.7	3.0	2.9	2.9	2.8
ROAE	17.4	19.7	20.4	20.6	20.9
ROAA	2.9	3.1	3.3	3.3	3.4
CAR	23.3	25.2	25.8	25.9	25.7
BVPS (IDR)	1,975	2,054	2,261	2,473	2,680
PER (x)	14.1	12.0	10.8	9.8	8.8
PBV (x)	2.4	2.3	2.1	1.9	1.8
Div. Yield	3.7	4.8	6.7	6.5	7.7

Source: Company, KBVS Research

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