

Bank Central Asia (BBCA)

Leveraging recovery momentum

25 April 2022



BBCA IJ	BUY
Sector	Banks
Price at 22 April 2022 (Rp)	7,875
Price target (Rp)	8,700
Upside/Downside (%)	10.5

Stock Information

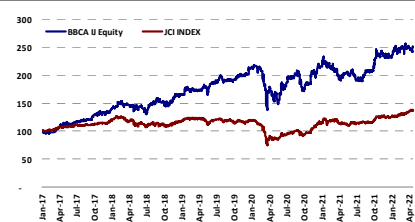
PT Bank Central Asia Tbk has positioned itself as one of the largest transaction banks in Indonesia. The bank provides custodianship, cash management, facilitation for exports and imports, as well as foreign exchange services. Through its subsidiaries, the bank also offers leasing and consumer financing services.

Market cap (Rp bn)	970,791
Shares outstanding (mn)	123,275
52-week range (Rp)	8,300-5,905
3M average daily vol. ('000)	85,552
3M average daily val. (Rp mn)	673,452

Shareholders (%)

PT Dwimuria Invest. Andalan	54.9
Public	45.1

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(0.6)	(0.9)	26.7

- **BBCA's 1Q22 net profit rose 14.6% YoY to Rp8.06tn, representing 23.3% of our FY estimate**
- **We expect BBCA's loans to grow 8% YoY in 2022, supported by corporate, commercial & SME, and consumer segments. Furthermore, we anticipate NIM to stand at 5.5% and CIR at 38%. We also estimate credit cost and NPL to hover around 1.5% and 2.3%, respectively**
- **Reiterate BUY with 10.5% upside potential on a 12-month view, backed by 1) growing loans following economic recovery; 2) robust liquidity and capital; 3) prudent lending practices with solid coverage ratio; 4) improving fee based income and CASA through digital banking**

In line with expectations

BBCA's net profit grew 14.6% YoY to Rp8.06tn in 1Q22, accounting for 23.3%/22.2% of our/consensus FY forecasts. Net interest income edged up 2.6% YoY to Rp14.42tn in 1Q22, supported by higher earning assets coupled with lower cost of funds following robust CASA growth. In the midst of monetary easing, NIM declined 40bps YoY to 4.9% in 1Q22 on the back of reduced earning assets yield in line with competitive loan pricing. Furthermore, fees and commissions surged 15.8% YoY to Rp3.98tn in 1Q22, mainly came from CASA related transactions. Trading income escalated 17.4% YoY to Rp614bn in 1Q22. Moreover, operating expenses increased 7.0% YoY to Rp7.78tn with manageable cost to income ratio (CIR) at 35.8% in 1Q22, thanks to digitalization and efficiency optimization. In addition, provision declined 13.4% YoY to Rp2.82tn in 1Q22 amid economic recovery.

Solid loan growth with high LAR coverage

BBCA's loans increased 8.5% YoY to Rp621.1tn in 1Q22, driven by corporate, commercial & SME, as well as consumer that rose 9.2% YoY, 8.2% YoY, and 7.6% YoY, respectively. Consumer loan growth was mainly derived from mortgage. However, NPL went up from 1.8% in 1Q21 to 2.3% in 1Q22, following a downgrade of debtor in textile sector. As of March 2022, current restructured loans decreased to Rp58.6tn or 9.5% of total loans, with LAR declining to 13.8% from 19.4% in 1Q21. Provision was relatively solid as NPL coverage ratio stood at 224.8% in 1Q22 to anticipate deteriorating asset quality. LAR coverage including off balance sheet rose from 29.7% in 1Q21 to 44.7% in 1Q22. Meanwhile, liquidity was ample with LDR down from 67.9% in 1Q21 to 62.7% in 1Q22. Furthermore, CASA ratio expanded from 77.5% in 1Q21 to 80.3% in 1Q22, reflecting strong transaction banking franchise amid higher mobile and internet banking from digital transactions as well as customer base. Moreover, capital remained robust with CAR stood at 23.9% in 1Q22.

Strong CASA and ample liquidity as competitive advantages

We maintain our BBCA's loan growth assumption of 8% YoY in 2022, bolstered by corporate following economic recovery as well as consumer segments particularly from mortgage and credit cards. In addition, management expects use of existing credit limit in commercial and SME to increase as mobility improves. The bank will stay focused on high quality growth by applying prudent risk management. Furthermore, we estimate NIM to stand at c.5.5% by the end of this year in the midst of loan repricing. We anticipate that cost of funds will be manageable despite tight monetary policy given its superior CASA ratio coupled with ample liquidity, thus keeping time deposit rates low. Moreover, we see that fee based income will grow further following digital banking development. We also expect cost to income ratio to be at 38% in 2022 amid improving economy. In addition, we forecast that cost of credit will be at 1.5% with NPL to hover around 2.3% this year. Management anticipates that LAR will improve to c.12% by the end of 2022. Meanwhile, we view that capital will remain robust to support its business expansions and higher dividend payments in the future.

Reiterate BUY on the back of prudent risk management and robust capital

We maintain our BUY call with a higher GGM-based price target of Rp8,700/share, assuming ROE of 16.2% and cost of equity of 10.0%. Note that at our price target, the stock would trade at a 2022F PER of 30.9x and PBV of 4.8x. We remain sanguine on BBCA's outlook, driven by 1) growing loans following economic recovery and soaring commodity prices as well as government's commitment on infrastructure and investment; 2) robust liquidity and capital to cater loan demands; 3) prudent lending practices reflected by lower NPL compared to its peers coupled with solid coverage ratio that put the bank as our top pick during any unexpected headwinds; as well as 4) improving fee based income, efficiency, and CASA through digital banking development. However, we note several downside risks to our recommendation, namely 1) lower loan growth and yields than expected; 2) weak purchasing power pertaining to higher inflation, Rupiah depreciation, and sluggish commodity prices; as well as 3) further NIM and asset quality deterioration.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Net interest income (Rp bn)	54,161	56,136	61,259	66,061	71,163
Inc. from op. before prov. (Rp bn)	45,197	48,165	52,411	57,339	61,553
Income from operations (Rp bn)	33,569	38,841	42,973	47,122	50,467
Net income (Rp bn)	27,131	31,423	34,750	38,115	40,820
EPS (Rp)	220	255	282	309	331
EPS growth (%)	(5.0)	15.8	10.6	9.7	7.1
PER (x)	35.8	30.9	27.9	25.5	23.8
PBV (x)	5.3	4.8	4.4	4.0	3.7
Div. Yield (%)	1.4	1.4	1.6	1.8	1.9
ROE (%)	15.1	16.2	16.4	16.4	16.1
ROA (%)	2.7	2.7	2.7	2.8	2.8

Analyst(s)

Budi Rustanto, CFA, FRM
Devi Harjoto

Bank Central Asia (BBCA)

BBCA's Financial Overview

Income Statements (Rp bn)	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
Net interest income	14,051	14,421	2.6%	14,218	14,421	1.4%
Other operating income	5,155	6,132	18.9%	6,269	6,132	(2.2%)
Other operating expenses	<u>(7,271)</u>	<u>(7,782)</u>	7.0%	<u>(8,611)</u>	<u>(7,782)</u>	(9.6%)
Income from op. before prov.	11,935	12,771	7.0%	11,875	12,771	7.5%
Net provision	<u>(3,254)</u>	<u>(2,818)</u>		<u>(1,675)</u>	<u>(2,818)</u>	
Income from operations	8,681	9,953	14.7%	10,200	9,953	(2.4%)
Non-operating income	-	-		-	-	
Income before tax	8,681	9,953	14.7%	10,200	9,953	(2.4%)
Tax benefit (expense)	<u>(1,638)</u>	<u>(1,886)</u>		<u>(1,972)</u>	<u>(1,886)</u>	
Net income for the year	7,043	8,068	14.5%	8,228	8,068	(2.0%)
Non-controlling interest	<u>3</u>	<u>3</u>		<u>4</u>	<u>3</u>	
Income attributable to parent	7,040	8,064	14.6%	8,224	8,064	(1.9%)

Source: Company, KB Valbury Sekuritas

Balance Sheet (Rp bn)	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
Total assets	1,090,382	1,259,435	15.5%	1,228,345	1,259,435	2.5%
Outstanding loans (gross)	572,735	621,142	8.5%	622,013	621,142	(0.1%)
Third party funds	843,338	990,163	17.4%	968,607	990,163	2.2%
Current accounts	235,801	299,811	27.1%	284,594	299,811	5.3%
Saving deposits	418,169	495,589	18.5%	480,000	495,589	3.2%
Time deposits	189,368	194,764	2.8%	204,013	194,764	(4.5%)
LDR (calculated)	67.9%	62.7%		64.2%	62.7%	
CASA to total deposits	77.5%	80.3%		78.9%	80.3%	

Source: Company, KB Valbury Sekuritas

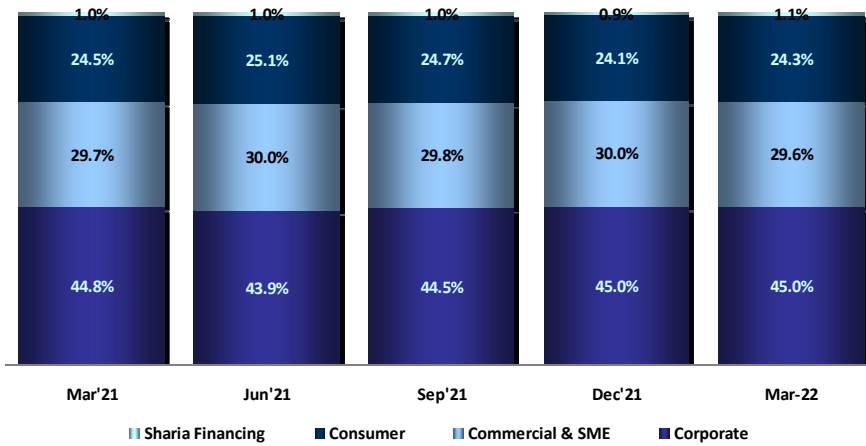
Financial Ratios (Bank Only)	1Q21	1Q22	4Q21	1Q22
ROE	15.8%	16.8%	16.9%	16.8%
NIM	5.3%	4.9%	4.9%	4.9%
CAR	24.5%	23.9%	25.7%	23.9%
LDR	65.2%	60.5%	62.0%	60.5%
Cost to income ratio	35.3%	35.8%	39.4%	35.8%
NPL (gross)	1.8%	2.3%	2.2%	2.3%
Coverage	280.8%	244.8%	240.0%	244.8%

Source: Company

Bank Central Asia (BCA)

Corporate loans grew 9.2% YoY to Rp286.9tn in 1Q22

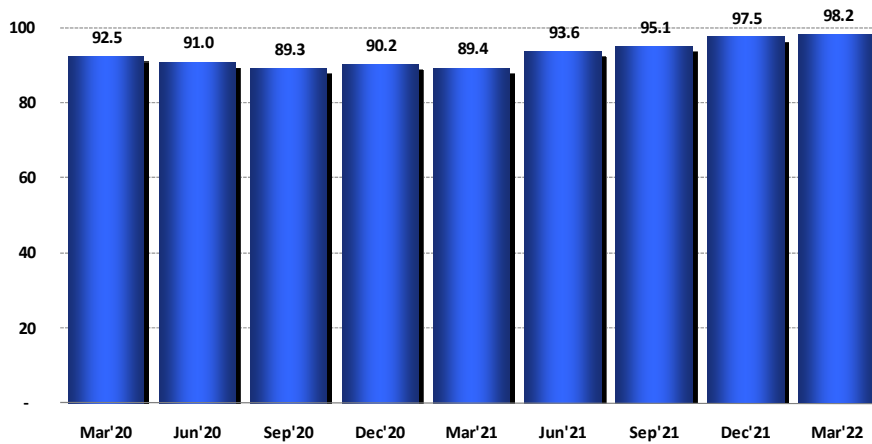
Loan Portfolio



Source: Company

Mortgage portfolio increased 9.8% YoY to Rp98.2tn in 1Q22

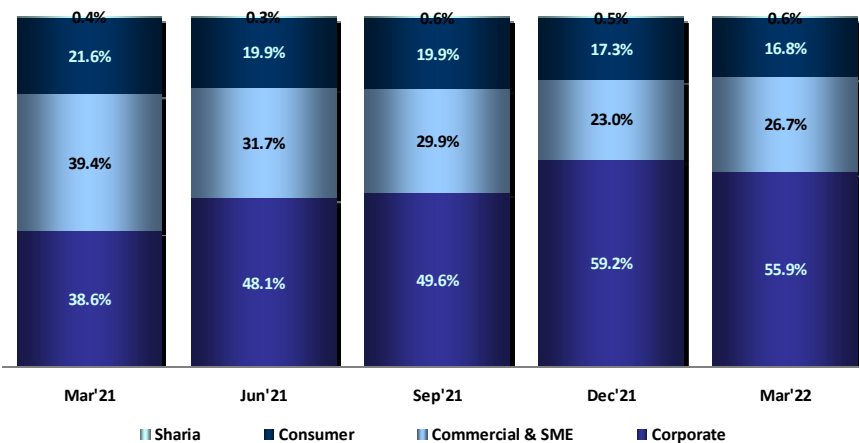
Total Mortgage Portfolio (Bank only, Rp tn)



Source: Company

Deteriorating loan quality in corporate segment

NPL Composition (% of Total NPL)

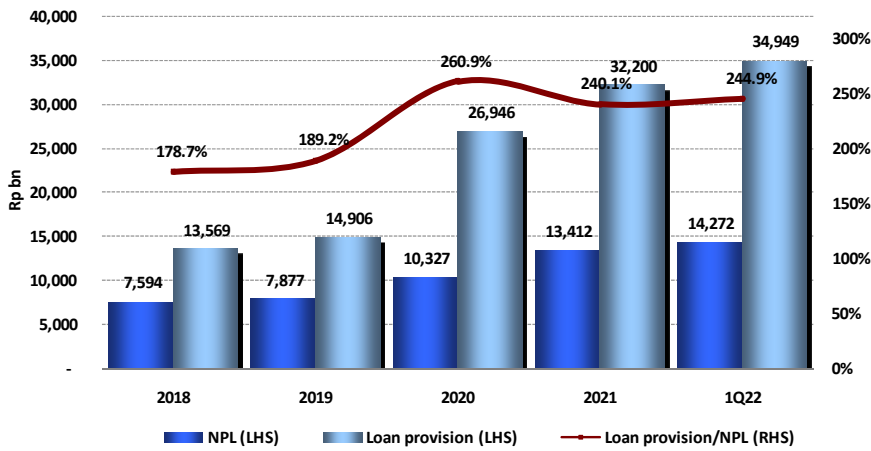


Source: Company

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NPL coverage stood at 244.9%, while NPL was at 2.3% in 1Q22

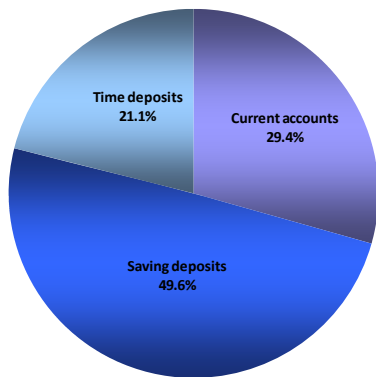
NPL and Loan Provision (Rp bn)



Source: Company, KB Valbury Sekuritas

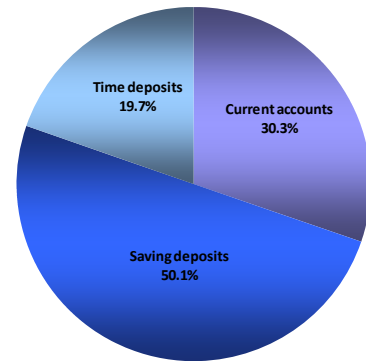
CASA ratio remained robust at 80.3% in 1Q22

Third Party Funds (as of December 2021) – Rp968.6tn



Source: Company, KB Valbury Sekuritas

Third Party Funds (as of March 2022) – Rp990.2tn



Source: Company, KB Valbury Sekuritas

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