

Cautiously optimistic

31 March 2023

OVERWEIGHT (Maintain)

TOP PICK

Company	Ticker	Rec	Share Price (IDR)	Target Price (IDR)
Bank Rakyat Indonesia	BBRI	Buy	4,750	5,550
Bank Negara Indonesia	BBNI	Buy	9,350	11,160

We do not underestimate the ongoing fears of the SVB failure contagion effect. Yet, assuming there could be a potential latent from US banking system downfall, so far, we still expect the impact likely to be limited given Indonesia banks' strong durability due to a well-diversified deposit, low LDR, well capitalized and healthy asset quality. Worth noting that government bonds' AFS impact to equity so far is still manageable, while productive assets remain solid with most of assets are channeled to loans. Seeing solid Jan '23 and better Feb '23 loan growth with Mar '23 SBT figures still growing, we think the negative impact will only be on banks de-rating valuation rather on its fundamentals. While we continue very closely watching the latest update, we maintain our Overweight stance, with top picks BBRI and BBNI.

Solid Jan '23 result and improved further in Feb '23

Demand on loan remain robust, BI recorded domestic bank total loan growth at 10.64% yoy which driven by growth across the economic sectors with improving corporate and SME segments as well as better consumer loan growth. Robust Feb '23 industry loan growth which came in above Jan '23 (10.53% yoy) should also translate as better earnings reported by banks under our coverage. Mar '23F industry banking performance is likely to remain solid, before it going to flat in the upcoming month of Ramadhan, in our view, whereas historically data has proven so.

SBT figures remain solid

The survey on demand and supply of bank financing (SBT) from Bank Indonesia as of Feb '23 remains solid. Financing needs by the corporate segment in the next 3 months is still positive at SBT 26.7%. The report also noted that new loan demand will stand still up until Mar '23 period with SBT amounting 78.9%, while in the 1Q23 period, loan growth is forecasted to continue booking positive figures, yet at a slower pace vs 4Q22 (1Q23 SBT at 58.6% vs 4Q22 SBT at 85.4%).

The impact from US banking turmoil seems limited

Despite the shockwaves from SVB collapse has widespread and creating turmoil on US banking system, we believe the impact on domestic banking system likely to be limited. Aside from the fact that banking industry has solid NSFR position, Indonesia banks also equipped with well capitalized positions and stronger Tier-1 capital. Some big banks also expect to witness softer credit cost in 2023 and others even believe to record lower figures. LDR's latest position which is fairly low should also be translated as robust liquidity capability which could cushion any latent negative impact from US and European banking uncertainty.

Banking business as usual

The biggest chunk of Indo banks assets is shaped by loan rather than marketable securities and this becomes as a solid cushion for any unexpected impact, should lingering fears on the contagion effect getting worse and turned into reality. From total banks under our coverage, marketable securities which consist mostly in the form of Indonesia government bond (more AFS than HTM) accounted within the range of only 13.5% - 20%, while loans made up between 52.9% - 66.3% (as of 1M23, BBNI noted as the healthiest, loan: 66.3% and securities: 14%). This composition is clearly pictured on how Indonesia banks is well doing its intermediary function, rather than playing on marketable securities field. With such solid earnings assets formation coupled with our economist expectation on benign Indo bond yield, pressures to banks equity seems to be manageable.

Impact on de-rating may continue

Instead of fundamental, our main concern lies more on the sentiment. As of Jan-Feb '23, foreign ownership holds around an average of 31.5% to total shares from all banks under our coverage. On the flip of coin, the de-rating on valuation could provide more potential upside, under the assumption of Indo banks '23F performance will remain solid. Worth bearing in mind that following the Indo banks stock tumbled, the latest bounce on several bank stocks is triggered more on dividend announcement catalyst. We might see selling pressures on banks' share price could continue as long as the ongoing updated on US banking turmoil remains. On this backdrop our stance remains to focus on domestic big banks with solid fundamental.

Maintain our Overweight stance

In all, 2H23 performance is likely to be better vs 1H23. Dividing our expectation into a shorter period, Indo banks stable performance in 1Q23 could sustain, yet valuation de-rating seems to continue. In 2Q23, we expect things to get better and various rescue plan will prove to be effective and we expect it would not create any new infection to US banking system. With the smooth transmission of rising policy rate, we believe 2Q23 should become another good quarter result for banks. Slight NIM contraction sounds acceptable, while loan growth could arrive within the range of market forecast, ceteris paribus. Risks to our call: a) lower-than-expected loan growth, NIM, loan yield, b) credit cost spikes, c) higher inflation, slowing economic activity, rising bond yield d) deteriorating AQ and e) worsen global banking collapse.

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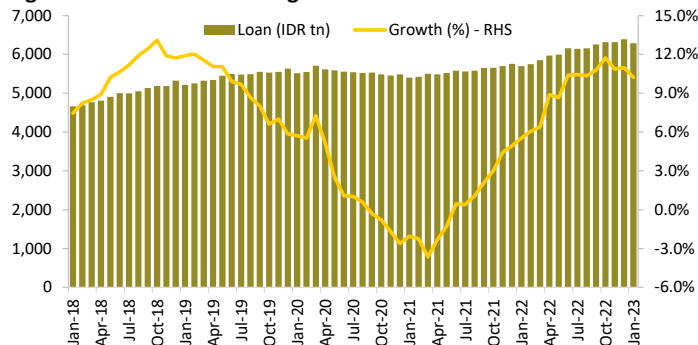
Indonesia Banking

Figure 1: Stock under coverage

Ticker	Market Cap (IDR tn)	Price 30/3/23 (IDR)	Target Price (IDR)	P/E		P/B		ROE		Dividend Yield	
				2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (%)
BBCA	1,087.9	8,825	8,920	24.1	21.1	4.5	4.0	18.6	19.1	1.9	2.2
BBRI	720.1	4,750	5,550	12.4	11.5	2.4	2.2	19.1	19.3	6.0	7.4
BMRI	477.2	10,225	11,250	10.3	9.2	1.9	1.8	18.6	19.0	5.8	6.5
BBNI	174.4	9,350	11,160	8.6	7.4	1.1	1.0	13.3	13.8	2.9	3.4
BBTN	17.4	1,240	1,770	4.0	3.4	0.5	0.4	11.9	12.5	5.0	6.0
Average				11.9	10.5	2.1	1.9	16.3	16.7	4.4	5.1

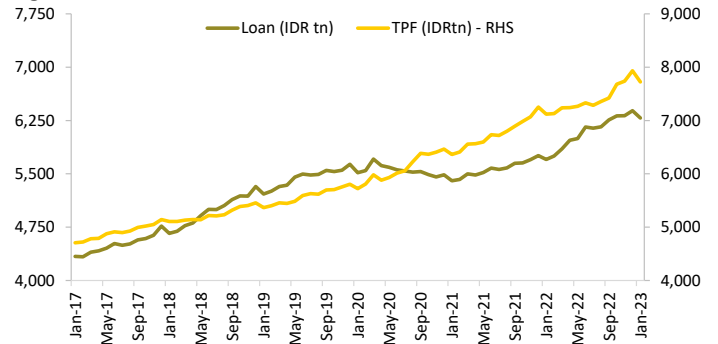
Source: Bloomberg, respective companies, KBVS

Figure 2: Total loan and loan growth



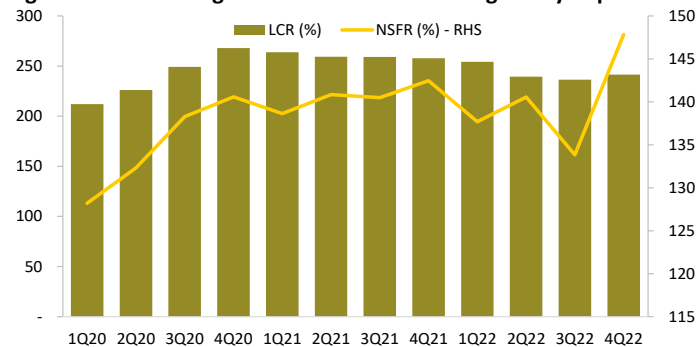
Source: Bank Indonesia, Financial Services Authority, KBVS

Figure 3: Total loan and TPF



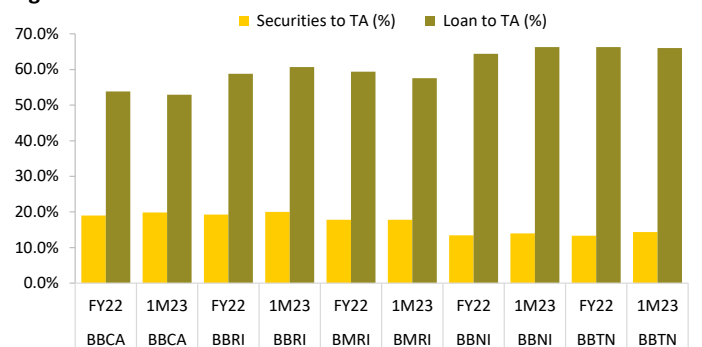
Source: Bank Indonesia, Financial Services Authority, KBVS

Figure 4: Indo banking NSFR & LCR stood above regulatory requirement



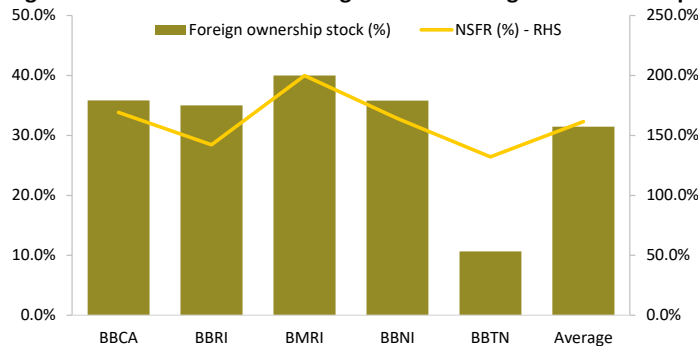
Source: Bank Indonesia, Financial Services Authority, KBVS

Figure 5: Solid marketable securities and loan to total asset



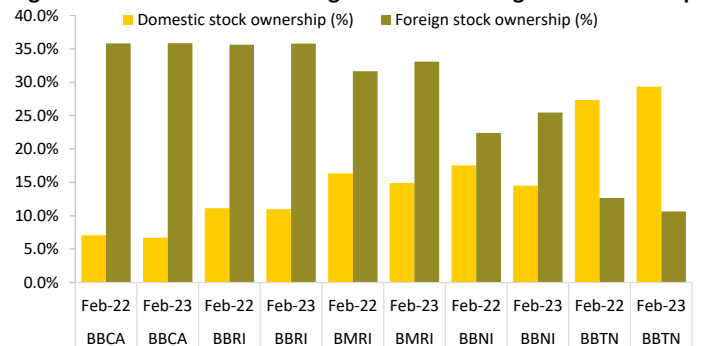
Source: Bank Indonesia, Financial Services Authority, KBVS

Figure 6: KBVs banks under coverage NSFR and foreign stock ownership



Source: Bank Indonesia, KSEI, respective companies, KBVS

Figure 7: Banks under our coverage domestic & foreign stock ownership



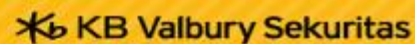
Source: Source: Bank Indonesia, KSEI, respective companies, KBVS

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