

Expecting solid results to continue

22 May 2023

OVERWEIGHT (Maintain)

TOP PICK

Company	Ticker	Rec	Share Price (IDR)	Target Price (IDR)
Bank Rakyat Indonesia	BBRI	Buy	5,400	5,550
Bank Negara Indonesia	BBNI	Buy	8,825	11,160

Indo banking sector's key metrics remain strong, while our coverage's 1Q23 results mostly beating ours and street expectations. We expect earnings to remain solid in the following quarters, aside from expectations on flat benchmark rates and peaked CoF in 1Q23. Stable loan growth and loan yield could overall underpinned NIM to remain within 1Q23 level, while continuing asset quality improvement should maintain earnings growth to arrive within forecasts. We maintain our Overweight stance, with BBRI and BBNI as top picks.

Loan demand appetite remains

Amidst lingering fears on potential headwind from US financial system health uncertainty, Indo banking sector loan growth in Mar '23 (+9.93% yoy) seems confirming that domestic loan growth remains resilient. The total outstanding credits of IDR6,446 tn, were driven mainly by investment loan demand appetite which still intact and grew by 11.4% yoy. Working capital loan recorded 9.5% yoy, while consumer spending has overall underpinned the consumer credit which grew 9.2% yoy.

Expectations on solid credit growth in 2Q23 remain intact

Mar '23 loan growth was arrived within BI and OJK '23F loan growth range expectation between 10%-12% (KBVS: 9% yoy). We might see solid loan demand to continue as the survey on demand and supply of bank financing (SBT) from Bank Indonesia as of Mar '23 seems confirming that domestic banking loan demand likely to continue moving within the positive growth trajectory. The survey also revealed that loan disbursement growth in 2Q23 is expected to be stable, with SBT amounting 99.7% (2Q23) or higher vs 63.7% in 1Q23, while in '23F the total outstanding credit could reach 10.4% yoy higher. The slower loan growth by 100bps vs. '22's 11.4% yoy seems tolerable due to the recovery momentum and low base effect from '21's loan growth at 5.2%yoy.

Expecting stronger confidence

We expect the ongoing US financial system uncertainty will continue to be softened going forward and thus could help investor, debtors and creditors confidences to improve. Indonesia's well capitalized position and strong Tier-1 capital seems more than enough to cushion any latent negative impact, aside from solid LDR which should be translated as ample liquidity room as well as big banks expectation to witness manageable and even softer credit cost in 2023.

Latest data from Bank Indonesia also strengthening the robustness of domestic banking sector, whereas loans continue to take as the largest chunked of total asset and marketable securities only made up around 17.3% of the banks asset or less than a third to loans composition of 58.5% and improves around 82bps compared to Jan '22 of 18.1%.

NPL remain well behave with lesser restructured loans

Aside from its ample liquidity at IDR8,005 tn or grew by 7% yoy, NPL also become less riskier at 2.49% as asset quality improvement trend remain unbroken. Likewise, the amount of Covid-19 credit restructured which continue to decrease, dropped by IDR22.28 tn to IDR405.42 tn.

Maintain our Overweight stance

Following the 1Q23 result, we expect banks under our coverage to record another solid result. Should transmission on benchmark hikes to CoF remain needed in the following months, we view expectations on muted rate hikes coupled with ongoing solid loan demand as well as similar loan yield rates figure on qoq basis might overall cushioned NIM to fall into a contraction zone. 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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Figure 1: Stock under coverage

Ticker	Market Cap (IDR tn)	Closing Price Fri, 19/5/23 (IDR)	Target Price (IDR)	Upside Potential (%)	P/E		P/B		ROE		Dividend Yield	
					2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (%)
BBCA	1,109.5	9,000	8,920	-0.9	24.6	21.5	4.6	4.1	19.5	20.1	1.9	2.2
BBRI	818.4	5,400	5,550	2.8	14.1	13.1	2.6	2.5	18.9	19.4	5.3	6.5
BMRI	485.3	5,075	6,110	20.4	10.5	10.0	1.9	1.9	19.3	19.5	6.7	6.0
BBNI	172.5	8,825	11,160	26.5	8.5	7.3	1.1	1.0	14.1	14.6	2.9	3.4
BBTN	18.0	1,320	1,770	34.1	4.4	3.9	0.5	0.4	11.7	11.3	4.6	5.1
Average					12.4	11.2	2.1	2.0	16.7	17.0	4.3	4.6

Source: Bloomberg, respective companies, KBVS

Figure 2: Total loan and loan growth

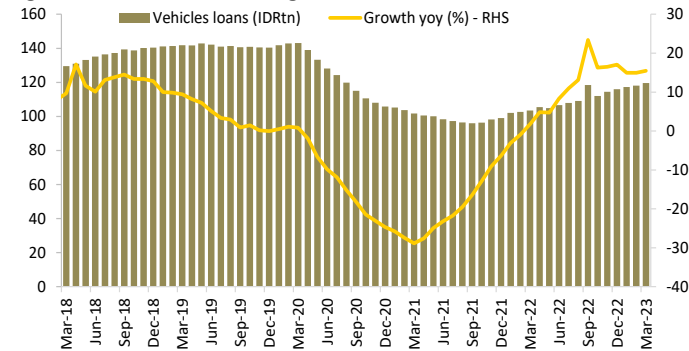
Key 1Q23 Performance	BBCA				BBRI				BMRI			
	1Q22	1Q23	YoY (%)	QoQ (%)	1Q22	1Q23	YoY (%)	QoQ (%)	1Q22	1Q23	YoY (%)	QoQ (%)
Income Statements (IDR bn)												
Net interest income	14,483	18,531	28.0	2.7	30,407	32,779	7.8	16.7	20,478	23,009	12.4	(3.8)
Non-interest income	5,920	6,253	5.6	4.0	350	522	49.1	(36.0)	9,234	10,200	10.5	(7.0)
Total operating income	20,403	24,784	21.5	3.0	30,757	33,301	8.3	15.2	29,712	33,209	11.8	(4.8)
Total operating expenses	(7,722)	(9,204)	19.2	(206.1)	(16,664)	(18,091)	8.6	(15.5)	(12,013)	(12,276)	2.2	(26.1)
PPoP	12,681	15,580	22.9	1.3	22,794	25,153	10.3	26.5	17,699	20,933	18.3	14.5
Loan loss provisions	(2,818)	(1,460)	(48.2)	139.7	(7,474)	(5,599)	(25.1)	26.8	(4,002)	(3,692)	(7.7)	(13.7)
Net profit	8,064	11,530	43.0	(2.1)	12,167	15,502	27.4	29.0	10,032	12,560	25.2	19.4
Balance Sheet (IDR bn)												
Gross loans	637,131	713,822	12.0	0.4	1,075,927	1,180,121	9.7	3.6	1,072,852	1,205,464	12.4	0.3
Current accounts	301,098	320,660	6.5	(1.0)	227,551	309,890	36.2	(11.4)	392,161	483,111	23.2	(10.8)
Saving deposits	497,061	522,674	5.2	(0.3)	489,258	500,201	2.2	(4.3)	500,096	548,637	9.7	(0.7)
Time deposits	199,602	195,416	(2.1)	1.9	409,687	445,362	8.7	2.3	376,751	359,401	(4.6)	(9.3)
Total equity	194,689	211,261	8.5	0.0	1,126,496	1,255,453	11.4	(4.0)	213,360	241,645	13.3	(4.2)
Financial Ratios (%)												
LDR	60.5	65.6	5.1	0.4	95.5	94.0	(1.5)	6.9	84.0	86.2	2.2	6.0
CASA	80.0	81.2	1.2	(0.4)	63.6	64.5	0.9	(2.2)	70.3	74.2	3.9	0.8
NPL gross	2.3	1.8	(0.5)	0.1	3.1	2.9	(0.2)	0.2	2.7	1.8	-0.9	-0.2
NIM	4.9	5.6	0.7	-0.3	7.7	7.8	0.1	-0.03	5.3	5.4	0.1	-0.1
ROE	16.8	22.3	5.5	-2.4	17.2	21.2	3.96	3.55	20.1	22.5	2.4	3.5
ROA	2.5	3.4	0.9	-0.3	2.9	3.4	0.44	0.37	2.3	2.6	0.3	0.4

Source : Company, KB Valbury Sekuritas

Key 1Q23 Performance	BBNI				BBTN				Average			
	1Q22	1Q23	YoY (%)	QoQ (%)	1Q22	1Q23	YoY (%)	QoQ (%)	1Q22	1Q23	YoY (%)	QoQ (%)
Income Statements (IDR bn)												
Net interest income	9,231	10,404	12.7	(6.5)	3,574	3,121	(12.7)	(13.4)	15,635	17,569	9.6	(0.9)
Non-interest income	5,450	4,751	(12.8)	(7.9)	557	875	57.1	2.0	4,302	4,520	21.9	(9.0)
Total operating income	14,681	15,155	3.2	(6.9)	4,131	3,996	(3.3)	(10.4)	19,937	22,089	8.3	(0.8)
Total operating expenses	(6,145)	(6,503)	5.8	(15.5)	(2,357)	(2,229)	(5.4)	9.6	(8,980)	(9,661)	6.1	(50.7)
PPoP	8,536	8,652	1.4	0.8	1,774	1,767	(0.4)	(27.2)	12,697	14,417	10.5	3.2
Loan loss provisions	(3,600)	(2,149)	(40.3)	(16.9)	(786)	(749)	(4.7)	(47.4)	(3,736)	(2,730)	(25.2)	17.7
Net profit	3,962	5,221	31.8	13.0	774	801	3.5	4.0	7,000	9,123	26.2	12.7
Balance Sheet (IDR bn)												
Gross loans	591,683	634,326	7.2	(1.8)	277,137	299,748	8.2	0.5	730,946	806,696	9.9	0.6
Current accounts	258,135	285,076	10.4	(9.4)	82,749	127,405	54.0	11.8	252,339	305,228	26.1	(4.2)
Saving deposits	221,404	227,466	2.7	(6.3)	45,514	39,405	(13.4)	(6.6)	350,667	367,677	1.3	(3.6)
Time deposits	213,202	231,187	8.4	9.1	162,269	152,798	(5.8)	(7.8)	272,302	276,833	0.9	(0.8)
Total equity	128,540	145,063	12.9	3.5	128,263	166,810	30.1	6.8	358,270	404,046	15.2	0.4
Financial Ratios (%)												
LDR	85.2	85.4	0.2	1.2	95.4	93.8	-1.6	1.1	84.1	85.0	0.9	3.1
CASA	69.2	68.9	-0.3	-3.5	44.2	52.2	8.0	3.7	65.5	68.2	2.7	(0.3)
NPL gross	3.5	2.8	-0.7	0	3.6	3.5	-0.1	0.2	3.0	2.6	(0.5)	0.1
NIM	4.5	4.7	0.17	-0.18	4.3	3.5	-0.8	-0.9	5.3	5.4	0.1	(0.3)
CoF	-	-	0	0	2.4	3.6	1.2	1.0	1.5	2.1	0.6	0.5
CoC	-	-	0	0	-	-	0.0	0.0	1.5	1.2	(0.3)	(0.0)
Loan yield	-	-	0	0	-	-	0.0	0.0	-	-	-	-
ROE	14.3	15.5	1.2	1.2	16.9	13.1	-3.8	-3.3	17.1	18.9	1.8	0.5
ROA	2.3	2.7	0.4	0.3	1.1	1.0	(0.1)	-	2.2	2.6	0.4	0.1

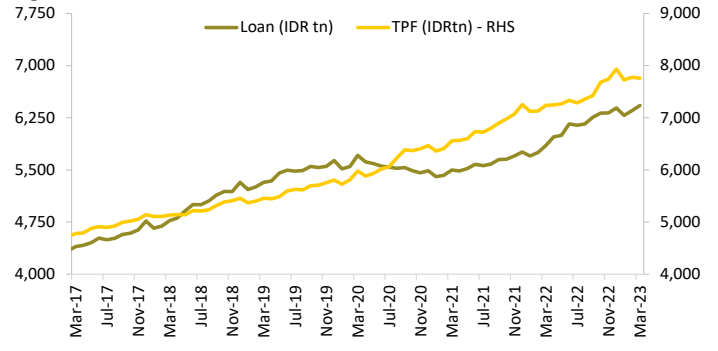
Source: Bloomberg, respective companies, KBVS

Figure 3: Total loan and loan growth



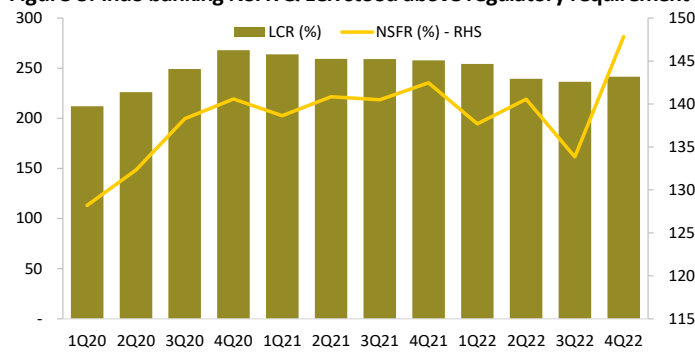
Source: Bank Indonesia, Financial Services Authority, KBVS

Figure 4: Total loan and TPF



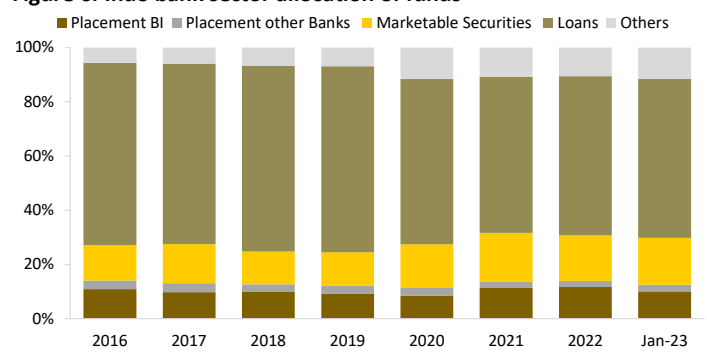
Source: Bank Indonesia, Financial Services Authority, KBVS

Figure 5: Indo banking NSFR & LCR stood above regulatory requirement



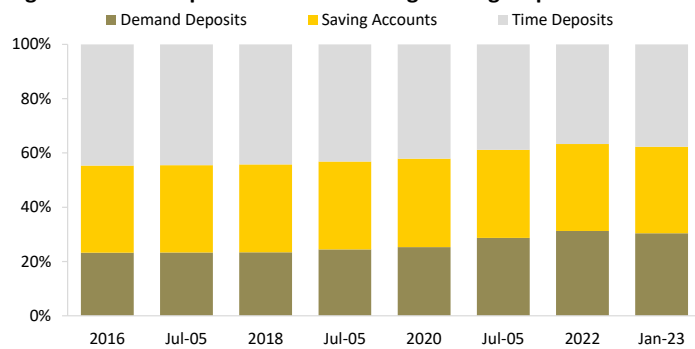
Source: Bank Indonesia, Financial Services Authority, KBVS

Figure 6: Indo bank sector allocation of funds



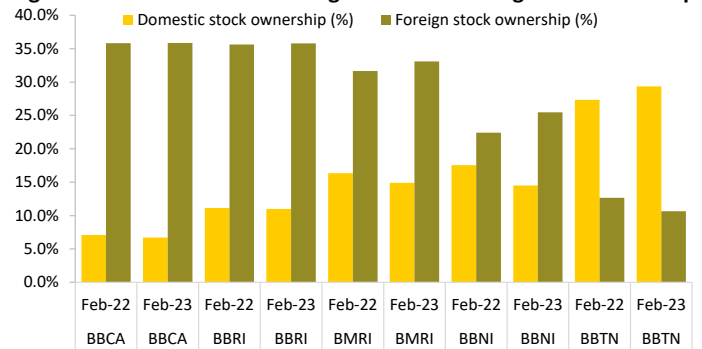
Source: Bank Indonesia, Financial Services Authority, KBVS

Figure 7: Low CoF portion remain making the largest portion



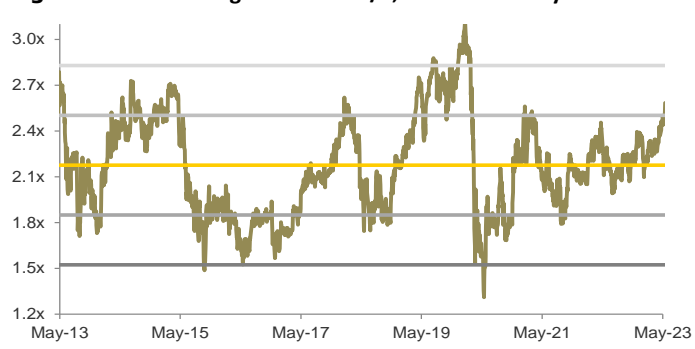
Source: Bank Indonesia, KSEI, respective companies, KBVS

Figure 8: Banks under our coverage domestic & foreign stock ownership



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

Figure 9: BBRI trading at 2.6x '23F P/B, above +1SD 10-year historical



Source: KB Valbury Sekuritas

Figure 10: BBNI trading at 1.1x '23F P/B, below avg 10-year historical



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

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