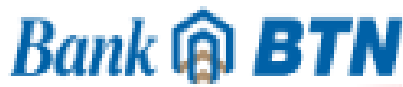


Bank Tabungan Negara

Flat 1H23 earnings; expects stronger 2H23

24 July 2023



BBTN IJ	BUY
Sector	Banks
Price at 24 July 2023 (IDR)	1,325
Price target (IDR)	1,770
Upside/Downside (%)	33.6

Stock Information

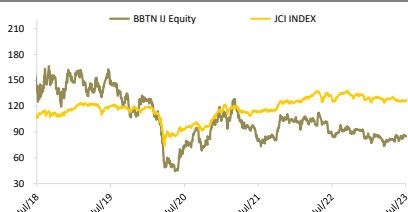
PT Bank Tabungan Negara (Persero) Tbk is a state-owned enterprise bank providing banking services (consumer banking, commercial and sharia banking. It has a strong business presence in subsidized mortgage. The bank has the continuing support from government in channeling housing subsidy which make market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

Market cap (IDR bn)	18,596
Shares outstanding (mn)	14,034
52-week range (Rp)	1,150 - 1,570
3M average daily vol. ('000)	101,886
3M average daily val. (Rp mn)	527,140

Shareholders (%)

Republic of Indonesia	60.0
Public	40.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(0.)4	6.0	(6.2)

Analyst(s)

Akhmad Nurcahyadi

akhmad.nurcahyadi@kbvalbury.com

Despite noted flattish growth, 1H23 earnings is in line with both KBVS and cons. expectation. Ceteris paribus, to reach ours and street 2023 PATMI expectation, BBTN need to book 2H23 earnings growth of 5.5% yoy (KBVS) and 8.8% yoy (consensus) or likely to remain inline as it equal to 51.3%/52.1% compared to 5yr historical average of 53.3%. We expect stronger result in the following month backed by continuing focus on high yield, low-cost funding and steady healthy loan growth, aside from our expectation on continuing AQ improvement and lower provisions as well as manageable CoC. Maintain BUY, with target price of IDR1,770 pegged at 0.7x '23F P/B (cons. IDR1,800), while it is currently trading at 0.5x '23F P/B, or below its -1SD of 5-yr hist. mean of 0.6x.

Flattish earnings growth, prompted by mounting 1H23 CoF

Taking at a glance look, BBTN's 1H23 earnings considerably weak. Yet, net income in 1H23 is inline with KBVs and consensus expectation at 46%/45% (versus excl. pandemic era historical avg. of 47%). PATMI arrives at IDR1.47tn, or grew by only 0.23% yoy, mainly driven by mounting CoF by 42.59% yoy as transmission on benchmark rate increased remain in place. The flattish growth was also helped by 70.26% yoy growth in other operating income and lower provisions by 6.18% yoy to IDR1.94tn.

Inline 2Q23 with KBVS and below consensus

On quarterly basis, lower interest expenses (1.9% qoq) have made net interest income grew much better vs year on year basis, with PPOP noted a double-digit growth (16.9% qoq) to IDR2.1tn. In the same period, rising provisions has made earnings tanked to IDR673bn. Yet, the figure is inline with our 2Q23F for BBTN amounting IDR680bn and below consensus expectation of IDR733bn. Ceteris paribus, to achieve ours and consensus expectation for 2023 earnings, BBTN need to book 2H23 earnings growth of 5.5% yoy (KBVS) and 8.8% yoy (consensus) or likely to remain inline as it equal to 51.3%/52.1% compared to 5yr historical average of 53.3%.

Healthy loan growth with 23.84% growth in CASA

Loan continues to grow well in 1H23 (7.52% yoy, 2.6% qoq) to IDR307.6tn helped by subsidized mortgage and non-housing loan which grew by 10.9% yoy and 23.15% yoy, respectively. TPF stood at IDR313.25tn, with CASA grew strongly by 23.8% yoy (2.0% qoq). We also like wholesale funding steady amount and we expect will remain motionless in the following quarter as it will overall benefit BBTN's interest expense. Worth noting that wholesale funding CoF has softened by 16bps to 6.23% from 6.39% in the previous quarter.

Mixed key metrics result

NIM contracted by 0.96% yoy to 3.62% in 1H23, yet improving on quarterly basis by around 28bps to 3.8% (2Q23). Cost of fund surged by 1.2% yoy to 3.58%, yet improves vs 1Q23 of 3.62%. CoC improves yoy from 1.48% to 1.29% in 1Q23. Meanwhile, NPL increased by 11bps yoy to 3.66% and by 12bps qoq from 3.54% (1Q23) caused by a downgrade on several debtors which categorized as high-risk profile. We like BBTN step to strengthened its NPL by forming a special task force which focus on what so called with early bucket, to overcome with potential reclassing coll. to NPL as earliest as possible. Tier-1 CAR remain strong at 17.14% (440bps yoy), while cov. ratio continues solid at 140%.

Expect weakening risk to remain intact

LAR continue to improves to IDR71.2tn, backed by better consistent decrease both in LAR BAU and Covid restructured loans. As of 1H23 LAR (inc. Covid) is around 23.1% from total BBTN's loan, or 321bps better yoy and 105bps on qoq basis. Aside from LAR, going forward we expect asset quality to remain on its improvement track and thus will overall underpinned NPL to remain well behaved.

Maintain BUY with target price of IDR1,770

Our target price is based on Gordon Growth Model-derived fair P/B of 0.7x. BBTN is currently trading at 0.5x '23F P/B, or below its -1SD of 5-year historical mean at 0.6x. Risks to our call are: a) lower-than-expected loan growth, NIM and loan yield, b) higher than expected credit cost and c) higher inflation, slowing economic activity and d) deteriorating asset quality.

Key Statistics

Year-end Dec	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-provision operating profit	6,661	7,833	7,909	8,501	9,601
Net profit	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)	6.1	4.8	4.5	4.1	3.3
PBV (x)	0.7	0.6	0.5	0.4	0.4
Div. Yield (%)	0.0	4.2	4.4	4.9	6.0
ROE (%)	11.5	12.9	11.7	11.3	11.9

Source: Company, KB Valbury Sekuritas

Exhibit 1: BBTN's 1H23 Results

Income statements (IDRbn)	6M22	6M23	YoY (%)	2Q22	2Q23	YoY (%)	1Q23	QoQ (%)	KBVS '23F	% to '23F	Cons. '23F	% to Cons.
Interest Income	12,677	13522	6.7	6,625	6,846	3.3	6,676	2.5				
Interest Expenses	-4,940	-7044	42.6	-2,462	-3,489	41.7	-3,555	-1.9				
Net interest income	7,737	6,478	(16.3)	4,163	3,357	(19.4)	3,121	7.6				
Non-interest income	1,009	1718	70.3	452	843	86.5	875	-3.7				
Total operating income	8,746	8,196	(6.3)	4,615	4,200	(9.0)	3,996	5.1				
Operating expenses	-4,734	-4364	(7.8)	-2,376	-2,135	(10.1)	-2,229	-4.2				
Pre-provision operating profit	4,011	3,832	(4.5)	2,239	2,065	(7.8)	1,767	16.9				
Provision expenses	-2,068	-1941	(6.2)	-1,284	-1,192	(7.2)	-749	59.1				
Net profit	1,471	1474	0.2	955	673	(29.5)	801	-16.0	3,234	46	3,286	45

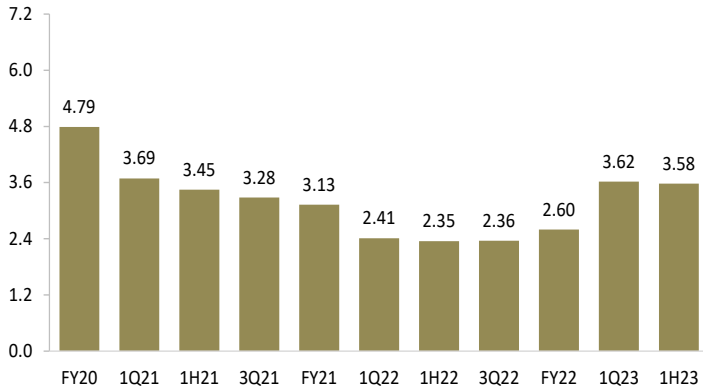
Balance sheets (IDRbn)	6M22	6M23	YoY (%)	2Q22	2Q23	YoY (%)	1Q23	QoQ (%)
Loans	286,152	307669	7.5	286,152	307,669	7.52	299,748	2.6
Current accounts	90,409	128677	42.3	90,409	128,677	42.33	127,405	1.0
Saving deposits	47,044	41541	(11.7)	47,044	41,541	(11.70)	39,405	5.4
Time deposits	169,855	143038	(15.8)	169,855	143,038	(15.79)	152,798	-6.4
CASA	137,453	170,218	23.8	137,453	170,218	23.84	166,810	2.0
Total TPF	307,308	313,256	1.9	307,308	313,256	1.94	319,608	-2.0
Total equity	20,985	28395	35.3	20,985	28,395	35.31	27,624	2.8

Key metrics (%)	6M22	6M23	YoY (%)	2Q22	2Q23	YoY (%)	1Q23	QoQ (%)
NIM	4.6	3.6	-1.0	4.6	3.8	-0.8	3.5	0.3
Cost of Fund	2.4	3.6	1.2	2.4	3.6	1.2	3.6	0.0
Cost of Credit	1.5	1.3	-0.2	1.5	1.3	-0.2	1.1	0.2
LDR	93.1	98.2	5.1	93.1	98.2	5.1	93.8	4.4
CASA	44.7	54.3	9.6	44.7	54.3	9.6	52.2	2.1
NPL gross	3.5	3.7	0.1	3.5	3.7	0.1	3.5	0.1
CIR	46.1	47.8	1.7	46.1	47.8	1.7	47.4	0.4
Tier 1 CAR	12.7	17.1	4.4	12.7	17.1	4.4	17.5	-0.4
CAR	17.4	20.4	3.1	17.4	20.4	3.1	21.2	-0.8
ROE	16.4	12.0	-4.5	16.4	12.0	-4.5	13.1	-1.1
ROA	1.0	0.9	-0.1	1.0	0.9	-0.1	1.0	-0.1

Source : Company, KB Valbury Sekuritas

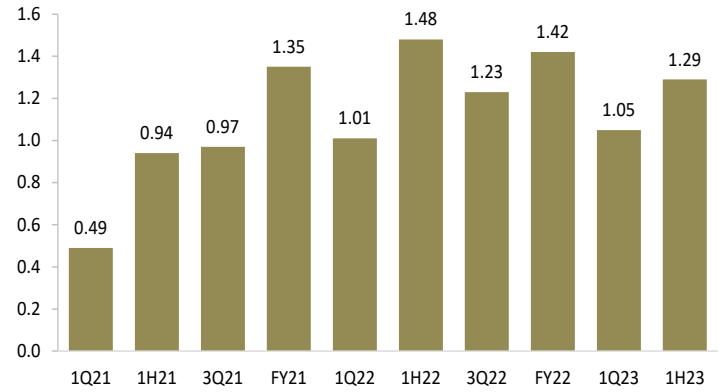
Bank Tabungan Negara

Exhibit 2: Expecting more softened CoF in the remaining quarters (%)



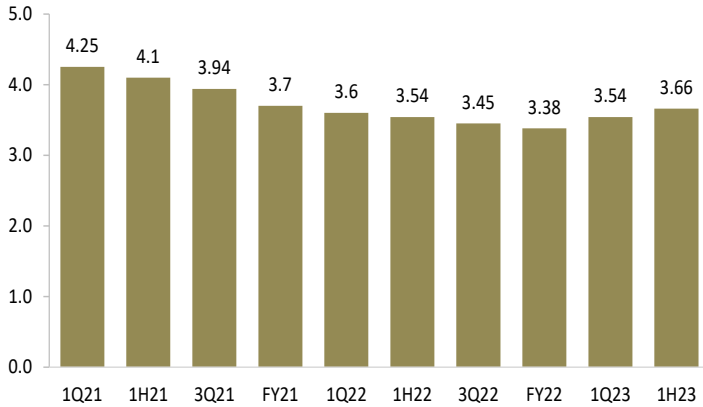
Source: Company, KB Valbury Sekuritas

Exhibit 3: Manageable CoC likely to remain intact (%)



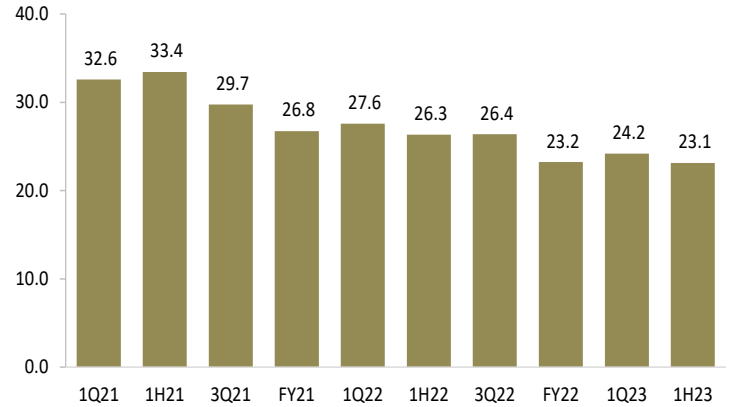
Source: Company, KB Valbury Sekuritas

Exhibit 4: Expecting better NPL on early bucket steps (%)



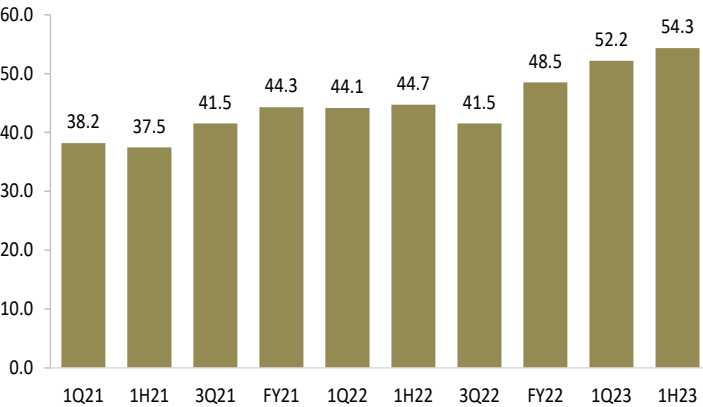
Source: Company, KB Valbury Sekuritas

Exhibit 5: LAR to total loan became riskier (%)



Source: Company, KB Valbury Sekuritas

Exhibit 6: Low-cost funding to limit rising interest expense (%)



Source: Company, KB Valbury Sekuritas

Exhibit 7: Trading at 0.5x '23F P/B, below its -1SD 5-year hist of 0.6x



Source: Company, KB Valbury Sekuritas

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FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Interest income	25,795	25,907	28,658	30,954	33,924
Interest expenses	(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
Total operating income	15,354	17,207	17,962	19,194	21,007
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

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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
Marketable Securities	46,080	51,965	56,945	64,692	66,979
Gov Bond	2,231	1,721	2,523	1,814	1,968
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

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	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
ROAE (%)	11.5	12.9	11.7	0111.3	11.9
ROAA (%)	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)	6.1	4.8	4.5	4.1	3.3
PBV (x)	0.7	0.6	0.5	0.4	0.4
Div. Yield (%)	0.0	4.2	4.4	4.9	6.0

Source: Company, KB Valbury Sekuritas

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KB Valbury Sekuritas

Headquarters

Menara Karya, 9th Floor
Jl. H.R. Rasuna Seld Blok X-5 Kav 1-2
Jakarta 12950, Indonesia
T +62 21 255 33 600
F +62 21 255 33 778

Branch Office

Jakarta - Kelapa Gading

Rukan Plaza Pacific
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta 13670
T +62 21 - 29451577

Jakarta - Puri Indah

Rukan Grand Aries Niaga
Blok E.1 No. 1 V.J. Taman Aries, Kebangsaan,
Jakarta 14450
T +62 21 - 22542390
F +62 21 - 29164330

Jakarta - Pluit

Jl. Mufti Putra Raya No. 2
Jakarta 14240
T +62 21 - 29164300
F +62 21 - 22542391

Bandung

Jl. HOS Cokroaminoto No. 82
Bandung 40171
T +62 22 - 87255888
T +62 22 - 87255800
F +62 22 - 87255811

Semarang

Cardi Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T +62 24 - 3523888
T +62 24 - 8501122
F +62 24 - 8507450

Yogyakarta

Jl. Magelang KM 5.5 no. 75
Yogyakarta 55284
T +62 274 - 8469500
T +62 274 - 623111
F +62 274 - 623222

Galeri Investasi

Padang

Jl. Kumpang Rias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Manado

Kawasan Megamas, Ruko Megaprofit
Blok IF2 No. 38 Manado, 95254
T +62 431 7917 836
F +62 431 880 2129

Surabaya

Pakuwon Center Tanjung Plaza Lantai 21
Jl. Embong Malang No.1
Surabaya 60161
T +62 31 - 2955777
T +62 31 - 2955788
F +62 31 - 2955716

Denpasar

Komplek Bali Styles Hotel
Jl. Teuku Umar No. 177
Denpasar Bali 80134
T +62 361 - 254888
T +62 361 - 225229
F +62 361 - 225339

Bandjarmasin

Jl. Gatot Subroto No.33 Kel. Kebun Bunga
Kec. Banjarmasin Timur
Sajidimendan Selatan 70235
T +62 511 - 8269918
F +62 511 - 8253432

Solo

Jl. Ronggo Wansito no. 34
Solo 57118
T +62 271 532888
F +62 271 659888

Makassar

Manulangj Point-11. 3
Jl. Dr Sam Ratulangi No. 2 Korjungmas, Mariso
Makassar, Sulawesi Selatan 90125
T +62 411 8955999

Malang

Jl. Paksiwan Trip no. 7
Malang 65112
T +62 341 - 585888
F +62 341 - 580056

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118
T +62 271 - 652888

Palembang

Korp. PTC Mall Blok I No. 7 & R. Sukanto Kel. 8 Iir
Kec. Bt Timur II Palembang 30114
T 07115700281

Medan

Komplek Jati Junction No. P5-5A
Jl. Pemrita Kemerdakaan
Medan 20218
T +62 61 - 88816222
F 62 61 - 88816333

Pekanbaru

Jl. Tazanu Tambusai
Korplek CBN Blok A No.3 Pekanbaru 28291
T +62 761 - 839993
Galeri Investasi

Padang

Jl. Kumpang Rias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Manado

Kawasan Megamas, Ruko Megaprofit
Blok IF2 No. 38 Manado, 95254
T +62 431 7917 836
F +62 431 880 2129

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118
T +62 271 - 652888

Palembang

Korp. PTC Mall Blok I No. 7 & R. Sukanto Kel. 8 Iir
Kec. Bt Timur II Palembang 30114
T 07115700281

Galeri Investasi REI - KBVS

Yogyakarta
Universitas Kristen Duta Wacana
T +62 274 - 544052

Manado
Universitas Prima Manado
T 0431 8800850

Jakarta
Universitas Gunadarma
T +62 21 - 8727541