

Bank Central Asia (BBCA)

Remains prudent amid headwinds

1 August 2022



BBCA IJ	BUY
Sector	Banks
Price at 29 July 2022 (Rp)	7,350
Price target (Rp)	8,700
Upside/Downside (%)	18.4

Stock Information

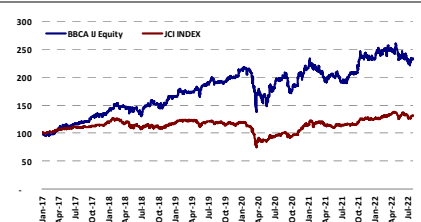
PT Bank Central Asia Tbk has positioned itself as one of the largest transaction banks in Indonesia. The bank provides custodianship, cash management, facilitation for exports and imports, as well as foreign exchange services. Through its subsidiaries, the bank also offers leasing and consumer financing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

Market cap (Rp bn)	906,072
Shares outstanding (mn)	123,275
52-week range (Rp)	8,300-5,905
3M average daily vol. ('000)	105,705
3M average daily val. (Rp mn)	785,146

Shareholders (%)

PT Dwimuria Invest. Andalan	54.9
Public	45.1

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	1.4	(9.5)	23.1

- **BBCA's 1H22 net profit grew 24.9% YoY to Rp18.05tn, representing 51.9% of our FY estimate**
- **We raise BBCA's loan growth assumption to 10% YoY in 2022, supported by corporate, consumer, commercial and SME. The bank stays focused on high quality growth and leverages its ample liquidity and superior CASA ratio. Furthermore, we expect NIM to stand at c.5%, while cost of credit and NPL to hover around 1.5% and 2.2%, respectively**
- **Reiterate BUY with 18.4% 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 surged 24.9% YoY to Rp18.05tn in 1H22, accounting for 51.9%/49.0% of our/consensus FY forecasts. Net interest income went up 5.5% YoY to Rp29.67tn in 1H22, helped by higher earning assets and lower cost of funds in line with robust CASA growth. In the midst of loose monetary policy, NIM declined 30bps YoY to 5.0% in 1H22 on the back of lower earning assets yield following competitive loan pricing. Furthermore, fees and commissions grew 15.0% YoY to Rp8.17tn in 1H22, mainly contributed by CASA related transactions. Trading income decreased 55.3% YoY to Rp450bn in 1H22. Moreover, operating expenses increased 6.1% YoY to Rp15.18tn with manageable cost to income ratio at 34.3% in 1H22, thanks to digitalization and efficiency improvement. In addition, provision plunged 43.1% YoY to Rp3.73tn in 1H22 amid economic recovery.

Strong loan growth supported by superior CASA

Amid rising business activities, BBCA's loans grew 13.8% YoY to Rp658.9tn in 1H22 as corporate, commercial and SME, as well as consumer escalated 19.1% YoY, 10.9% YoY, and 7.6% YoY, respectively. Asset quality improved with NPL declining from 2.4% in 1H21 to 2.2% in 1H22. As of June 2022, current restructured loans decreased to Rp53.4tn or 8.1% of total loans, with LAR shrinking from 19.1% in 1H21 to 12.3% in 1H22. Provision was solid as NPL coverage ratio stood at 246.4% in 1H22 to anticipate deteriorating asset quality. LAR coverage including off balance sheet rose from 32.0% in 1H21 to 47.9% in 1H22. Meanwhile, liquidity remained ample with LDR at 65.7% in 1H22. Furthermore, CASA ratio expanded from 78.2% in 1H21 to 81.2% in 1H22, reflecting strong transaction banking franchise in line with higher mobile and internet banking transactions as well as customer base. Moreover, capital was robust with CAR stood at 24.7% in 1H22.

Riding recovery momentum

We revise up our BBCA's loan growth assumption to 10% YoY in 2022, supported by corporate following improving economy, consumer particularly from mortgage, vehicles, and credit cards, as well as commercial and SME. Investment loans started to recover, while working capital loans have returned to pre-pandemic level. The bank stays focused on high quality growth by applying prudent risk management. In the midst of tight monetary policy, we believe that BBCA will benefit from its ample liquidity and superior CASA ratio that help maintain NIM at c.5%. However, we deem CoF reduction is already limited. As the nature of consumer loans is price sensitive, the bank will refrain from raising lending rates, unless there are significant hikes in benchmark rate. Moreover, we see that fee based income will grow further in line with rapid digital banking development. In addition, we anticipate cost of credit to hover around 1.5% with NPL at 2.2% this year. Management expects LAR will continue to improve. Meanwhile, we view that capital will remain robust to support business expansions, while providing leeway for 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 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 30.7x and PBV of 4.9x. We remain sanguine on BBCA's outlook, driven by 1) growing loans following economic recovery and surging 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) aggressive rate hikes; 3) weak purchasing power pertaining to soaring inflation, Rupiah depreciation, and sluggish commodity prices; as well as 4) 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	59,864	63,995	68,580
Inc. from op. before prov. (Rp bn)	45,197	48,165	51,706	55,824	59,557
Income from operations (Rp bn)	33,569	38,841	43,216	46,485	49,283
Net income (Rp bn)	27,131	31,423	34,947	37,567	39,804
EPS (Rp)	220	255	283	305	323
EPS growth (%)	(5.0)	15.8	11.2	7.5	6.0
PER (x)	33.4	28.8	25.9	24.1	22.8
PBV (x)	4.9	4.5	4.1	3.8	3.5
Div. Yield (%)	1.5	1.5	1.7	1.9	2.0
ROE (%)	15.1	16.2	16.6	16.4	15.9
ROA (%)	2.7	2.7	2.8	2.8	2.7

Analyst(s)

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Bank Central Asia (BBCA)

BBCA's Financial Overview

Income Statements (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Net interest income	28,124	29,667	5.5%	14,421	15,246	5.7%
Other operating income	10,604	11,534	8.8%	6,132	5,402	(11.9%)
Other operating expenses	(14,307)	(15,176)	6.1%	(7,782)	(7,394)	(5.0%)
Income from op. before prov.	24,421	26,025	6.6%	12,771	13,254	3.8%
Net provision	(6,546)	(3,727)		(2,818)	(909)	
Income from operations	17,875	22,298	24.7%	9,953	12,345	24.0%
Non-operating income	-	-		-	-	
Income before tax	17,875	22,298	24.7%	9,953	12,345	24.0%
Tax benefit (expense)	(3,411)	(4,242)		(1,886)	(2,356)	
Net income for the year	14,464	18,056	24.8%	8,068	9,989	23.8%
Non-controlling interest	8	7		3	4	
Income attributable to parent	14,456	18,049	24.9%	8,064	9,985	23.8%

Source: Company, KB Valbury Sekuritas

Balance Sheet (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Total assets	1,129,497	1,264,468	11.9%	1,259,435	1,264,468	0.4%
Outstanding loans (gross)	578,782	658,878	13.8%	621,142	658,878	6.1%
Third party funds	888,652	1,003,268	12.9%	990,163	1,003,268	1.3%
Current accounts	247,073	303,299	22.8%	299,811	303,299	1.2%
Saving deposits	447,704	511,500	14.2%	495,589	511,500	3.2%
Time deposits	193,874	188,468	(2.8%)	194,764	188,468	(3.2%)
LDR (calculated)	65.1%	65.7%		62.7%	65.7%	
CASA to total deposits	78.2%	81.2%		80.3%	81.2%	

Source: Company, KB Valbury Sekuritas

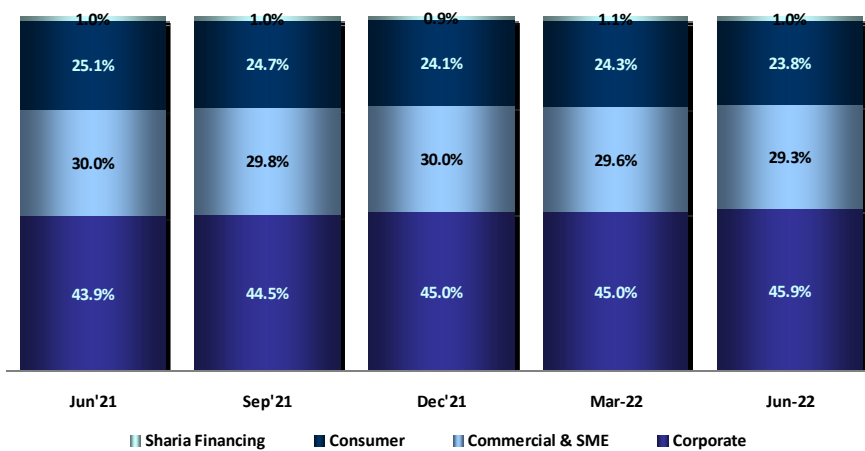
Financial Ratios (Bank Only)	1H21	1H22	1Q22	2Q22
ROE	16.6%	19.6%	16.8%	22.4%
NIM	5.3%	5.0%	4.9%	5.0%
CAR	25.3%	24.7%	23.9%	24.7%
LDR	62.4%	63.5%	60.5%	63.5%
Cost to income ratio	34.4%	34.3%	35.8%	32.9%
NPL (gross)	2.4%	2.2%	2.3%	2.2%
Coverage	230.6%	246.4%	244.8%	246.4%

Source: Company

Bank Central Asia (BCA)

Corporate loans grew 19.1% YoY to Rp310.2tn in 1H22

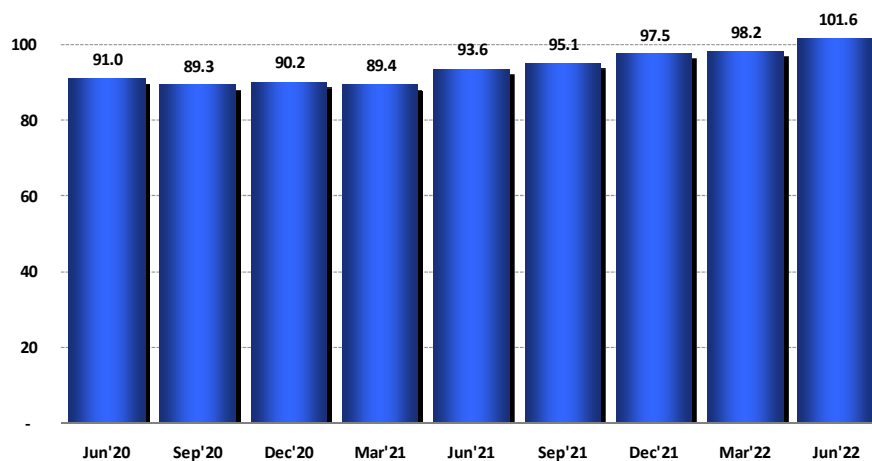
Loan Portfolio



Source: Company

Mortgage portfolio increased 8.5% YoY to Rp101.6tn in 1H22

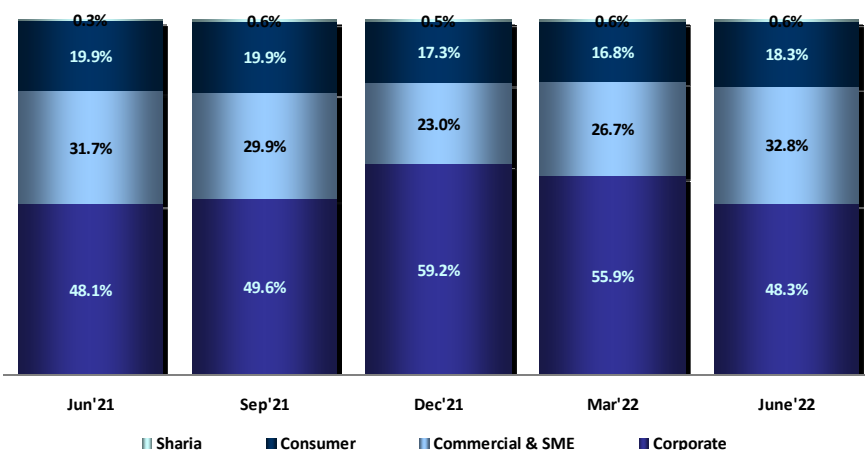
Total Mortgage Portfolio (Bank only, Rp tn)



Source: Company

Deteriorating loan quality in commercial and SME segment

NPL Composition (% of Total NPL)

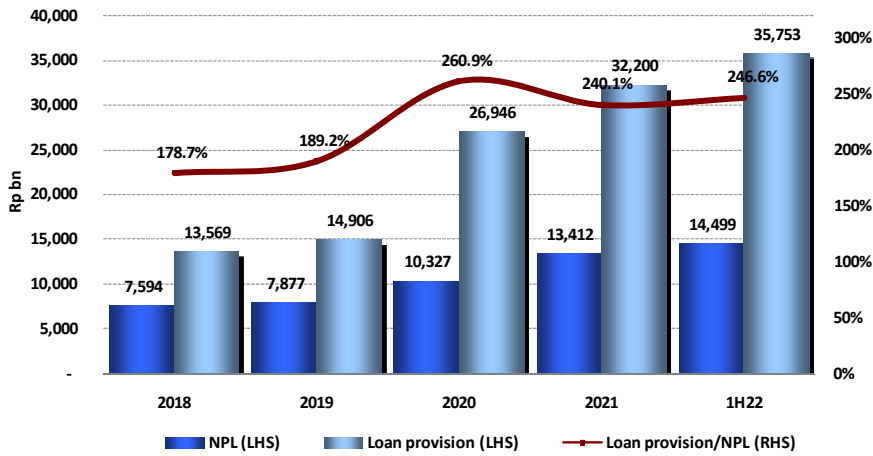


Source: Company

Bank Central Asia (BCA)

NPL coverage stood at 246.6%, while NPL was at 2.2% in 1H22

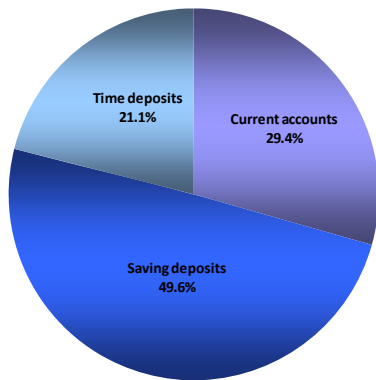
NPL and Loan Provision (Rp bn)



Source: Company, KB Valbury Sekuritas

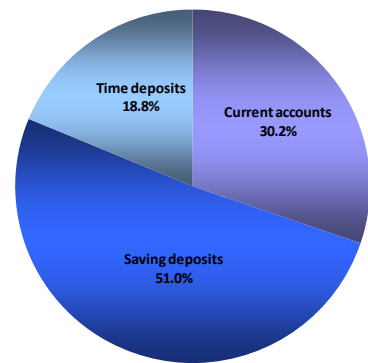
CASA ratio remained robust at 81.2% in 1H22

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



Source: Company, KB Valbury Sekuritas

Third Party Funds (as of June 2022) – Rp1,003.3tn



Source: Company, KB Valbury Sekuritas

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