

Bank Rakyat Indonesia (BRI)

Banking on sustainable micro growth

1 August 2022



BBRI IJ	BUY
Sector	Banks
Price at 29 July 2022 (Rp)	4,360
Price target (Rp)	5,400
Upside/Downside (%)	23.9

Stock Information

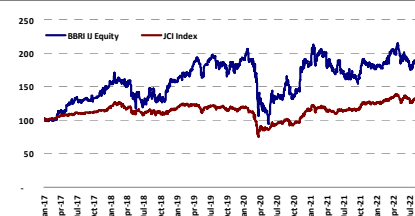
Bank Rakyat Indonesia (BRI) established in 1895 is the oldest bank in Indonesia. BRI plays an important role in developing grass root economy of Indonesia, focusing in Micro, Small and Medium Enterprises (MSMEs) segments. Nowadays, BRI is the largest micro-banking in the world.

Market cap (Rp bn)	660,797
Shares outstanding (mn)	151,559
52-week range (Rp)	4,980-3,500
3M average daily vol. ('000)	173,189
3M average daily val. (Rp mn)	752,936

Shareholders (%)

Republic of Indonesia	53.2
Public	46.8

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	5.1	(10.5)	20.5

- **BBRI's 1H22 net profit rose 98.7% YoY to Rp24.79tn, representing 56.3% of our FY forecast**
- **We expect loans to grow 9% YoY in 2022. BBRI focuses on funding sustainability, asset quality, selective growth, and optimizing ultra-micro ecosystem. The bank has secured KUR allocation of Rp330tn in 2023. We also anticipate that NIM will be at c.8%, credit cost to hover around 3.0%, and NPL will stand at 3.0% by year-end**
- **Reiterate BUY with 23.9% upside potential on a 12-month view, backed by 1) robust micro loan growth amid economic recovery, higher KUR allocation, ultra-micro synergy; 2) NIM improvement; 3) increasing fee based income and CASA following digitalization; 4) solid liquidity and capital; as well as 5) manageable asset quality with high coverage ratio**

Above expectations

BBRI's net profit jumped 98.7% YoY to Rp24.79tn in 1H22, accounting for 56.3%/56.1% of our/consensus FY estimates. Net interest income increased 17.6% YoY to Rp64.61tn in 1H22 as interest income grew 9.9% YoY to Rp76.86tn and interest expenses were down 18.3% YoY to Rp12.25tn. NIM improved from 7.41% in 1H21 to 8.24% in 1H22, driven by lower CoF by 47bps YoY to 1.91%. Furthermore, fees and commissions rose 7.8% YoY to Rp9.37tn in 1H22, particularly sourced from e-channel, insurance, and deposit admin fees. Recovery income escalated 19.2% YoY to Rp5.08tn in 1H22. Nevertheless, gain from sales of securities declined 53.3% YoY to Rp895bn in 1H22. Moreover, opex increased 7.9% YoY to Rp38.23tn in 1H22 with CIR went down to 44.3% from 40.7% in 1H21. In addition, provision decreased 24.2% YoY to Rp16.93tn in 1H22 amid economic recovery, while NPL coverage ratio expanding from 258.4% in 1H21 to 265.2% in 1H22.

Strong loan growth with improving LAR

BBRI's loans and financing grew 8.7% YoY to Rp1,104.8tn in 1H22, driven by micro segment that rose 16.0% YoY to Rp425.3tn with contribution to total portfolio increased from 40.2% in 1H21 to 42.4% in 1H22. Furthermore, NPL was up slightly from 3.27% in 1H21 to 3.32% in 1H22, mainly came from medium, micro, and small. Restructured loans to total portfolio declined from 24.5% in 1H21 to 17.8% in 1H22. Loan at risk (LAR) also decreased from 27.3% in 1H21 to 20.8% in 1H22 with coverage expanding from 31.0% in 1H21 to 42.4% in 1H22 as the bank has built sufficient provision amid pandemic impacts. Meanwhile, we deem liquidity remained ample despite higher LDR from 84.6% in 1H21 to 88.5% in 1H22. Moreover, CASA ratio rose from 59.6% in 1H21 to 65.1% in 1H22, driven by growing demand deposits and lower time deposits. Capital was robust with CAR increased from 19.1% in 1H21 to 25.1% in 1H22 to support sustainable growth.

Maintaining solid fundamental metrics

We maintain our BBRI's loan growth assumption of 9% YoY in 2022, supported by strong micro and ultra-micro ecosystem. In response to macro dynamics, management focuses on 1) funding sustainability by increasing CASA and managing liquidity; 2) asset quality; 3) selective growth; and 4) ultra-micro ecosystem optimization as the new source of growth. We believe that KUR disbursement will continuously grow as government plans to raise its allocation from Rp260tn in 2022 to Rp330tn in 2023. Furthermore, we expect NIM to be at c.8% this year as BBRI remains focus on higher yield assets, loan quality, and CoF improvement by enlarging CASA ratio. This will also be supported by interest income adjustment from loan restructuring of SOE transportation and interest rate hikes. Moreover, we estimate credit cost to be manageable at c.3.0% in 2022 following frontloading provision in 1H22. In addition, we anticipate that loan quality will continue to improve with NPL to hover around 3.0% by year-end.

Reiterate BUY on the back of solid micro segment and digitalization

We maintain our BUY call with a GGM-based price target of Rp5,400 per share, assuming ROE of 13.3% and cost of equity of 11.2%. Note that at our price target, the stock would trade at a 2022F PER of 18.2x and PBV of 2.7x. We remain sanguine on BBRI's outlook, driven by 1) robust micro loan growth following economic recovery, higher KUR allocation, ultra-micro ecosystem synergies, coupled with BRILink and BRIMo developments; 2) NIM improvement; 3) increasing fee based income, efficiency, and CASA by focusing on digital and culture transformation, which we believe to be a cushion against economic downturn; 4) solid liquidity and capital to cater growing loans; as well as 5) manageable asset quality with high coverage ratio.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Net interest income (Rp bn)	93,584	114,094	126,469	136,179	146,341
Inc. from op. before prov. (Rp bn)	65,059	80,435	86,617	92,192	97,745
Income from operations (Rp bn)	29,779	41,144	56,616	60,624	64,570
Net income (Rp bn)	18,655	31,067	44,890	48,005	51,063
EPS (Rp)	152	205	296	317	337
EPS growth (%)	(45.8)	34.7	44.5	6.9	6.4
PER (x)	28.7	21.3	14.7	13.8	12.9
PBV (x)	2.4	2.3	2.2	2.1	1.9
Div. Yield (%)	3.9	1.8	4.0	4.4	4.7
ROE (%)	8.6	12.0	15.2	15.4	15.4
ROA (%)	1.2	1.9	2.7	2.7	2.7

Analyst(s)

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Devi Harjoto

Bank Rakyat Indonesia (BBRI)

BBRI's Financial Overview

Consolidated Income Statement (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Net interest income	54,961	64,614	17.6%	30,407	34,207	12.5%
Other operating income	21,236	21,683	2.1%	10,752	10,931	1.7%
Other operating expenses	(35,420)	(38,225)	7.9%	(18,365)	(19,860)	8.1%
Operating income before prov.	40,776	48,071	17.9%	22,794	25,277	10.9%
Net provision	(22,326)	(16,926)		(7,474)	(9,451)	
Operating income	18,450	31,146	68.8%	15,320	15,826	3.3%
Non-operating income	85	79		40	38	
Income before tax	18,535	31,224	68.5%	15,360	15,864	3.3%
Tax benefit (expense)	(4,373)	(6,348)		(3,140)	(3,208)	
Income for the year	14,163	24,876	75.6%	12,220	12,657	3.6%
Net profit from acquisition	(1,623)	-		-	-	
Non-controlling interest	67	90		52	38	
Income attributable to parent	12,473	24,786	98.7%	12,167	12,619	3.7%

Source: Company, KB Valbury Sekuritas

Consolidated Balance Sheet (Rp bn)	1H21	1H22	YoY Change	2021	1H22	YTD Change
Total assets	1,450,907	1,652,839	13.9%	1,678,098	1,652,839	(1.5%)
Outstanding loans (gross)	929,402	1,051,040	13.1%	994,417	1,051,040	5.7%
Third Party Funds	1,096,445	1,136,982	3.7%	1,138,743	1,136,982	(0.2%)
Demand deposits	191,392	240,047	25.4%	220,590	240,047	8.8%
Saving deposits	461,702	500,372	8.4%	497,677	500,372	0.5%
Time deposits	443,351	396,563	(10.6%)	420,476	396,563	(5.7%)
LDR (calculated)	84.8%	92.4%		87.3%	92.4%	
CASA to total deposits	59.6%	65.1%		63.1%	65.1%	

Source: Company, KB Valbury Sekuritas

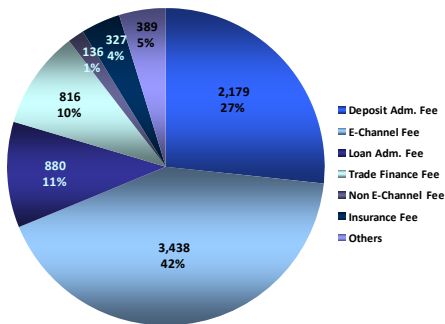
Financial Ratios (Bank Only)	1H21	1H22	2021	1H22
NPL (gross)	3.27%	3.32%	3.08%	3.32%
LDR	84.52%	88.95%	83.67%	88.95%
NIM	7.02%	7.35%	6.89%	7.35%
ROE	12.90%	17.08%	14.09%	17.08%
Cost of funds	2.18%	1.70%	2.05%	1.70%
Op. exp. to op. income (BOPO)	78.30%	63.98%	74.30%	63.98%
Total CAR	19.63%	22.97%	25.28%	22.97%

Source: Company

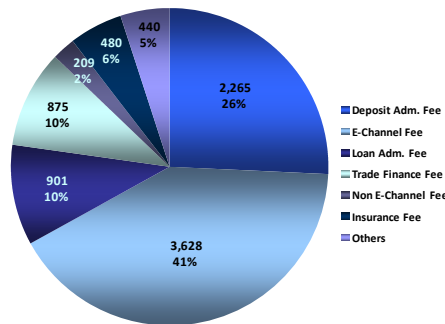
Bank Rakyat Indonesia (BRI)

Fees and commissions increased 7.8% YoY in 1H22

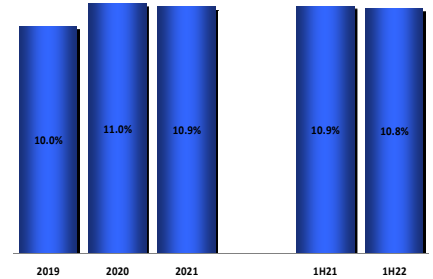
Fee Based Income Composition (Rp bn) 1H21, (Bank Only)



Fee Based Income Composition (Rp bn) 1H22, (Bank Only)



FBI to Total Income (Bank Only)



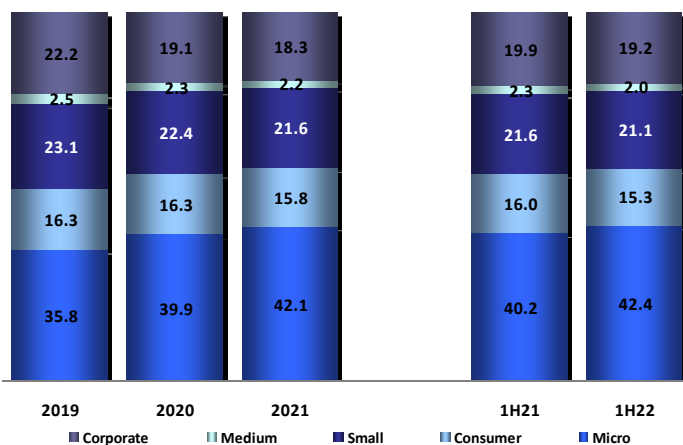
Source: Company

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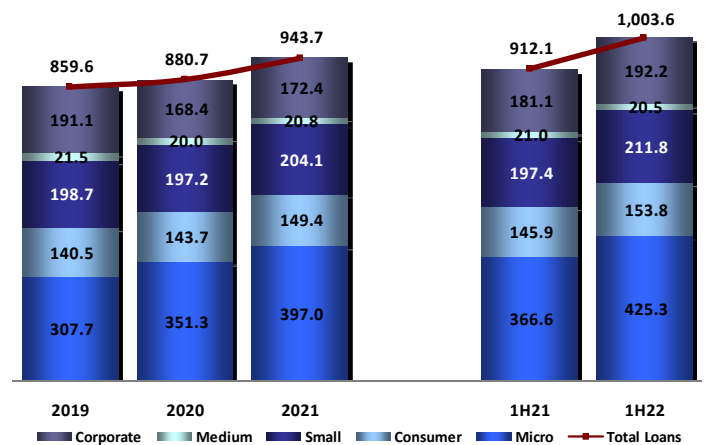
Loan growth was driven by micro, small, and corporate

Loans Composition – by Business Segment (%) (Bank Only)



Source: Company

Loans Outstanding – by Business Segment (Rp tn) (Bank Only)



Source: Company

NPL inched up from 3.27% in 1H21 to 3.32% in 1H22

Non Performing Loan – Gross (%), Bank Only

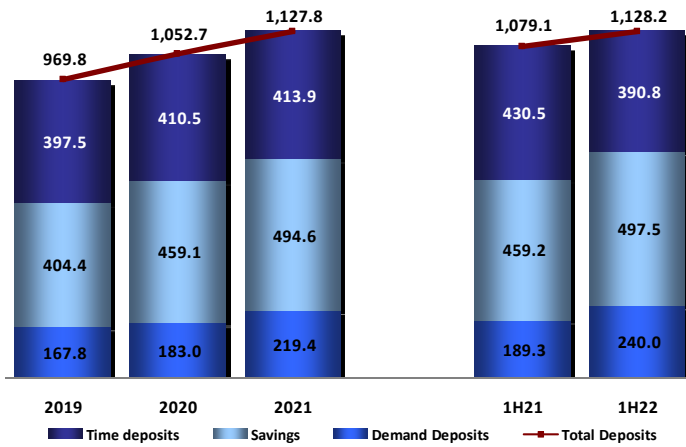
NPL by Segment (%)	2019	2020	2021	1H21	1H22
Micro	1.18	0.83	1.49	1.53	2.21
Consumer	1.10	1.49	1.78	1.79	2.00
Small	3.17	3.61	4.05	4.14	4.71
Medium	5.38	4.61	3.57	2.99	3.83
Corporate	5.18	7.57	6.68	7.06	5.25
Total NPL	2.62	2.94	3.08	3.27	3.32

Source: Company

Bank Rakyat Indonesia (BRI)

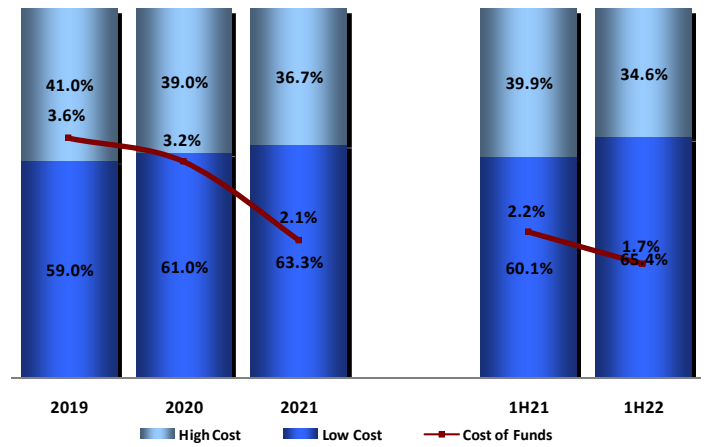
CASA ratio rose from 60.1% in 1H21 to 65.4% in 1H22

Deposits Trend (Rp tn)
(Bank Only)



Source: Company

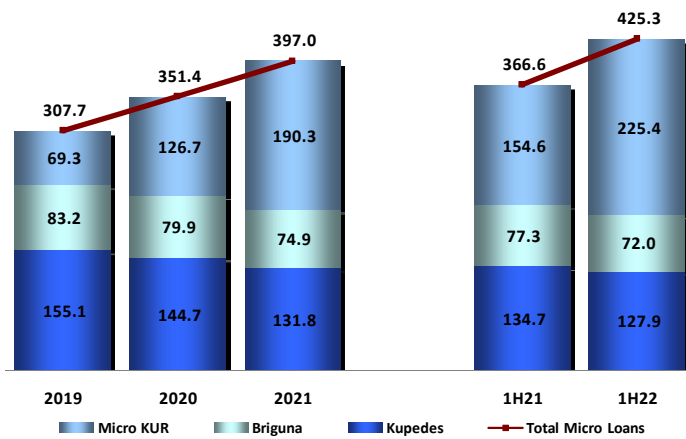
Deposits Composition and Cost of Funds
(Bank Only)



Source: Company

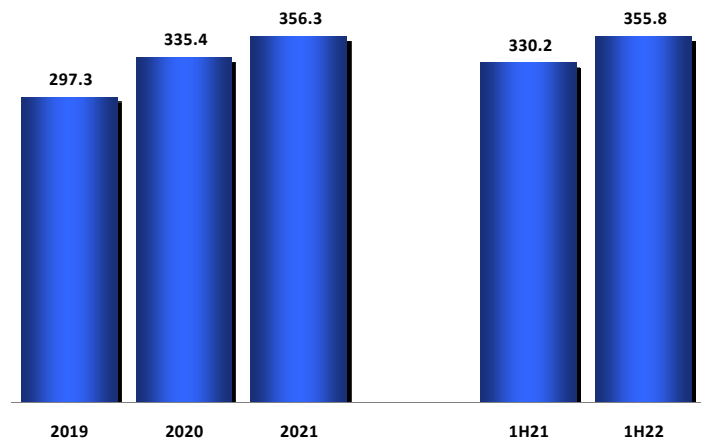
Micro loans escalated 16.0% YoY in 1H22 on the back of solid growth in KUR

Micro Loans (Rp tn)
(Bank Only)



Source: Company

Micro Deposits (Rp tn)
(Bank Only)



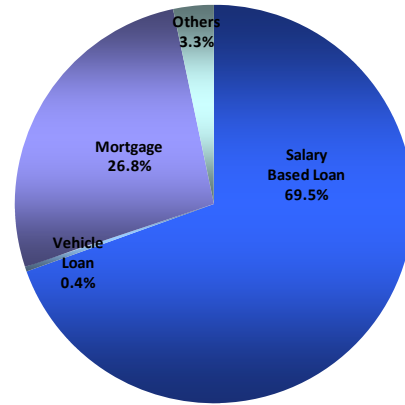
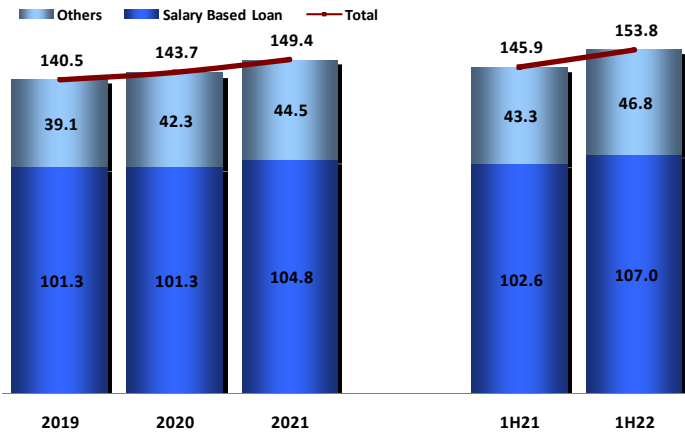
Source: Company

Bank Rakyat Indonesia (BRI)

Consumer loans increased 5.4% YoY with salary based loan contribution at 69.5% in 1H22

Consumer Loans Growth Trend (Rp tn)
(Bank Only)

Consumer Loans Composition
(Bank Only)



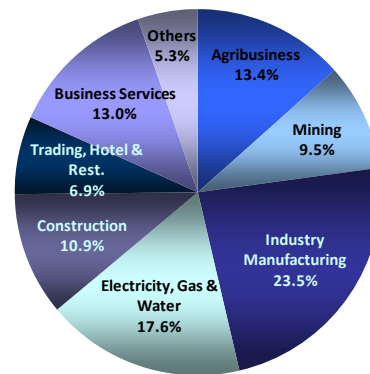
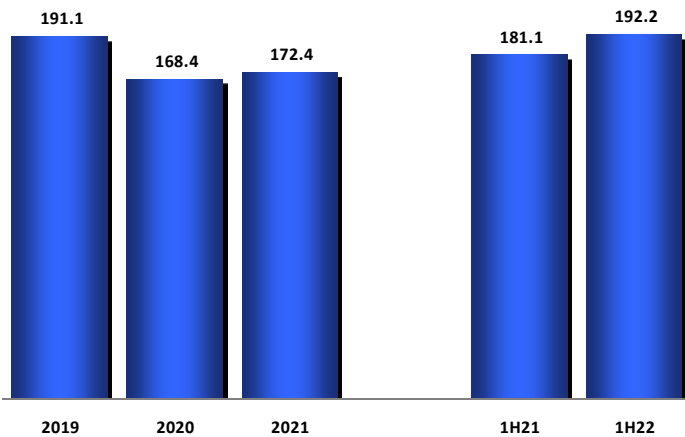
Source: Company

Source: Company

Corporate loans went up 6.1% YoY in 1H22

Corporate Loans Growth Trend (Rp tn)
(Bank Only)

Corporate Loans by Business Sectors
(Bank Only)



Source: Company

Source: Company

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