

Reasonable soften growth with solid risk metrics

7 December 2022

## OVERWEIGHT (Maintain)

### TOP PICK

Company	Ticker	Rec	Share Price (IDR)	Target Price (IDR)
Bank Rakyat Indonesia	BBRI	Buy	4,860	5,550
Bank Negara Indonesia	BBNI	Buy	9,550	10,600

**Solid earnings and loan growth this year should continue, yet likely to be softened in 2023 due to high base effect in 2022. Global uncertainty, spiking inflation and rising policy rates are the main headwinds. We might see 2023 NII and NIM to arrive within the same figure with 2022 underpin by ample liquidity which could resulting in a reasonable uptick on CoF. Front load provisions and declining trends on LAR and restructured loan will act as another sector catalyst and could benefit banks to continue reporting solid asset quality and earnings growth. Maintain Overweight with top picks BBRI and BBNI.**

#### Improving loan growth

Total loan in banking system grew by 11.6% yoy in Oct '22 to IDR6,314.4 tn, backed by investment loans growth at 14.2% yoy, working capital and consumption loan growth at 12.2% yoy and 8.7% yoy. Bank Indonesia forecasts loan growth could hover between 9%-11%, while Indonesia Financial Authority (OJK) projected at 11% yoy. We believe four banks under our coverage's loan growth will remain solid and could reach an average growth of 10% yoy in 2022.

#### Bank only solid earnings remain intact in 10M22

Net interest income (NII) of banks under our coverage posted an average growth of 11.3% yoy as a result of 7.4% yoy growth in interest income and 8.0% yoy decrease in interest expenses. Net profit surged 56.5% yoy amidst declining provisions by 36.9% yoy. Loan growth hovers at 11.3% yoy or only 28bp below the banking industry loan growth of 11.6% yoy. Liquidity remains ample with TPF saw solid growth at 11.7% yoy. We believe banks under our coverage monthly solid earnings growth to continue and could reach 40.1% yoy in 2022, which will be supported by 11.7% yoy growth in NII, 16.3% yoy growth in PPOP and with the help by lower provisions of 17.4% yoy.

#### 14.4% net income growth in 2023

We think 2023 earnings growth will remain solid but at slower pace amid high-base effect in '22F. The transmission of rising policy rate to earnings asset yield and cost of fund will become as one of the keys. We expect a gradual increase in earnings asset yield which will not dent loan demand, while continuing ample liquidity and solid CASA will maintain CoF to accelerate slower than the loan yield. Our earnings expectations for 4 banks under our coverage is at 14.4% yoy, supported by 12.2% yoy growth in interest income, and 11.5% yoy growth in PPOP.

#### Expecting loan growth to continue, yet at a slower pace

The continuing global economic uncertainty, spiking inflation and rising policy rates at certain point could change spending attitudes and thus will likely to soften loan demand. We expect banks under our coverage to record an average loan growth at 9% yoy, or around 100bps lower vs 10% yoy in 2022. Aside from economic and business-related concern, our conservative forecast on loan demand for banks under our coverage also accommodating the upcoming election in 2024 which we think will start to take effect in the late 2023.

#### The extension on credit relaxation

OJK has extended credit relaxation which will be ended in March '24 from March '23 previously. Despite only applied to several sectors, the relaxation could remain bring benefit and more cushion to banks loan quality when pressures on debtor getting harder in 2023.

#### Maintain our Overweight stance

Aside from the transmission of rising policy rates to banks system as the key role, we believe key risk metrics on the industry should remain manageable. On profitability side, NIM and earnings growth could still arrive within the similar figure with 2022, while Tier-1 CAR of banks under our coverage will remain provide ample of room to offering an attractive dividend yield. Risks to our call includes: 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.

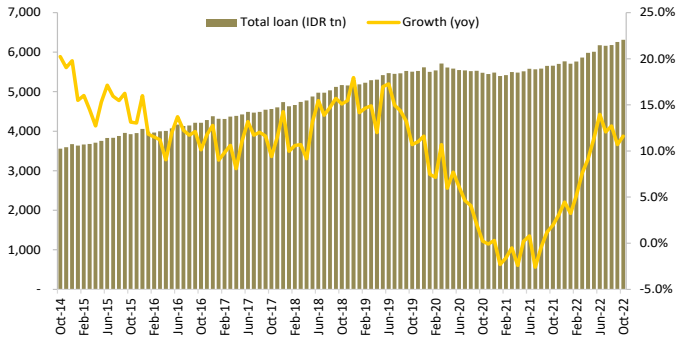
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#### PEER COMPARISON

Ticker	Rec	Price	Target	Market Cap (IDR tn)	Price Earnings		Price to Book		Return on Equity		Dividend Yield	
		6-Dec -22 (IDR)	Price (IDR)		2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)	2022F (%)	2023F (%)
BBCA	HOLD	8,675	8,700	1,069	30.5	26.9	4.9	4.5	16.6	17.3	1.9	2.1
BBRI	BUY	4,860	5,550	737	15.8	13.6	2.4	2.3	15.5	17.0	1.8	1.8
BMRI	BUY	10,900	11,250	509	12.9	11.5	2.2	2.1	18.3	18.7	5.4	5.2
BBNI	BUY	9,550	10,600	178	10.3	8.9	1.3	1.1	13.1	13.6	2.4	2.8
Average					17.4	15.2	2.7	2.5	15.9	16.6	3.2	3.4

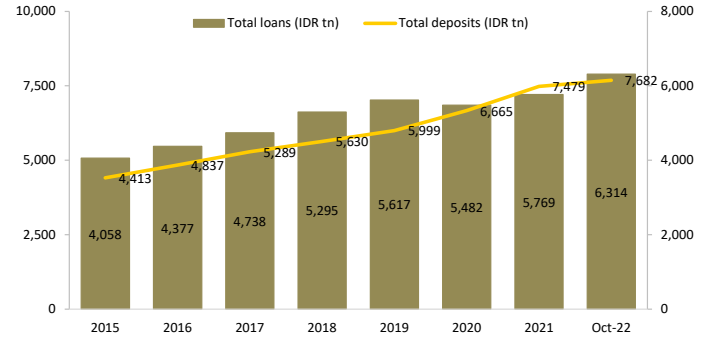
Source: Bloomberg, Company, KB Valbury Sekuritas

### Total loan and loan growth



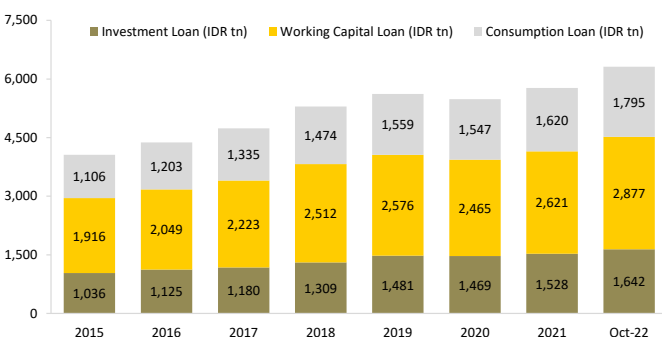
Source: Bank Indonesia, Financial Services Authority

### Total loan and TPF



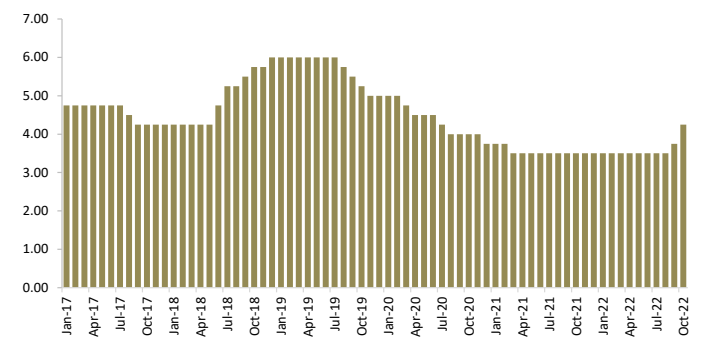
Source: Bank Indonesia, Financial Services Authority

### Investment, working capital and consumption loan



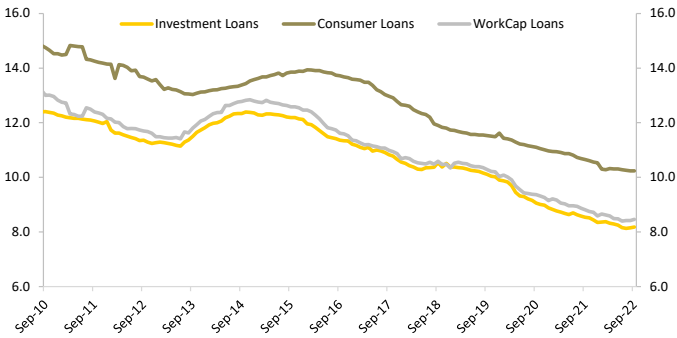
Source: Bank Indonesia, Financial Services Authority

### Indonesia policy rate



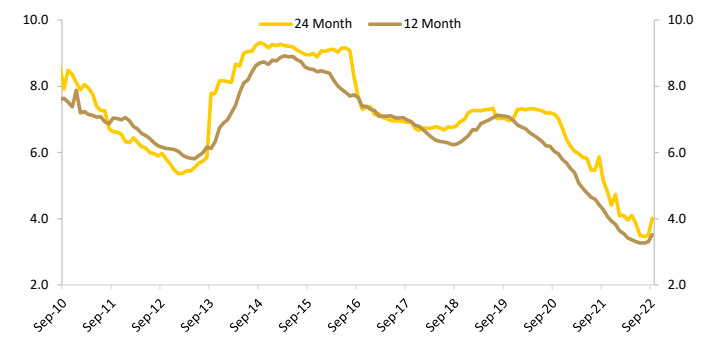
Source: Bank Indonesia, Financial Services Authority

### Investment, working capital and consumption interest rate



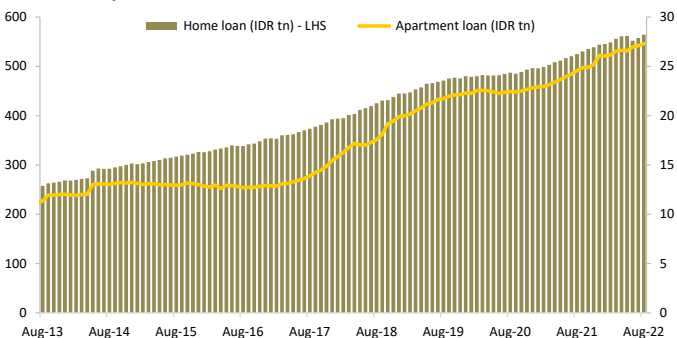
Source: Bank Indonesia, Financial Services Authority

### Time deposits rate in rupiah – 12month and 24month



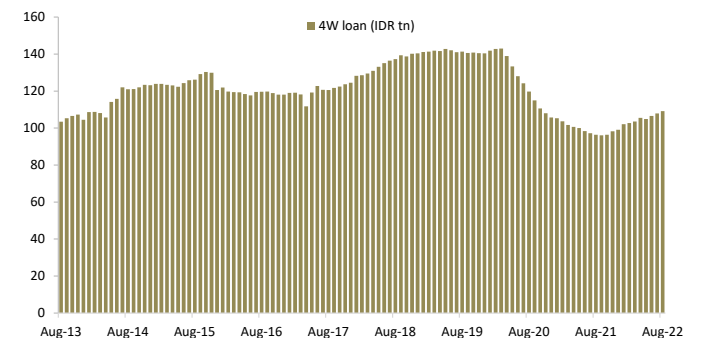
Source: Bank Indonesia, Financial Services Authority

### Home And apartment loan



Source: Bank Indonesia, Financial Services Authority

### Auto loan



Source: Bank Indonesia, Financial Services Authority

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