

Bank Rakyat Indonesia Tbk. (BBRI)

Switching Focus for a Moment: Improving Asset Quality

As of 1H24, BBRI posted a net profit of IDR 29.90T, which experienced a significant slowdown on a quarterly basis and posted a profit of IDR 13.91T in 2Q24 (+1.1% YoY 1H23: IDR 29.56T & -12.9% QoQ 1Q24: IDR 15.98T). The weakening performance was also evident from BBRI's Net Interest Margin (NIM) which contracted by -28Bps YoY to 7.64% 1H24 (1H23: 7.92%), where tight liquidity policy which triggered a stronger increase in Cost of Fund (CoF) eroded BBRI's asset yield. Despite this, BBRI's Net Interest Income still grew +6.7% YoY to IDR 69.93T in 1H24, and PPOP still grew +11.7% in 1H24 to IDR 57.04T. What is still a challenge for BBRI is the asset quality of BBRI, where BBRI's provisioning costs still increased +33.8% YoY to IDR 18.5T in 1H24. However, on QoQ basis, provisioning cost has started to flatten -27.3% QoQ to IDR 7.8T in 2Q24 (1Q24: IDR 10.71T). We see, BBRI's shift in focus to more conservative corporate loans and improvement in asset quality as seen from Cost of Credit (CoC) that has started to flatten is a good first step to recovery amidst tight liquidity.

Loans Disbursement: Solid Growth, with Wise Strategies & Actions to Shift to Corporate Segment

- Total loans disbursed by BBRI (Consolidated) in 1H24 rose by +11.2% YoY & +2.1% QoQ to IDR 1,336.8T (1H23: IDR 1,202T & 1Q24: 1,308.7T), which is still inline with BBRI's guidance (Guidance Loan Growth for FY24: 11-12%). Speaking of loan growth, there is one strategy that BBRI management is currently focusing on, which is shifting loan growth to the Corporate Segment which tends to be more stable and conservative, which is very visible in the last two quarters. BBRI does not force the Micro segment to grow, but rather focuses on improving the asset quality of the Micro segment. Corporate Segment posted significant growth of +10% QoQ and +29.2% YoY to IDR 241T in 1H24, while Micro Segment posted growth of +7.8% YoY and flat +0.06% to IDR 623T in 1H24. Another segment that experienced slowing growth was the Small Segment, which only grew +2% YoY and -0.98% QoQ to IDR 232.3T in 1H24. As for the outlook for the next quarter, 3Q24 the pace of credit will slow down further.

BBRI Asset Quality: Early Signs of Recovery

- One of BBRI's challenges in 2024 is to overcome asset quality, where the impact of BBRI's asset quality exposure is quite influenced by the quality of assets from the Micro and SME segments. BBRI's NPL as of 1H24 stood at 3.05% (1Q24: 3.11%), which is still above BBRI's Guidance (FY4 Guidance: <3%).
- By business segment, NPL from Micro segment did improve to 2.95% in 1H24 (1H23: 2.23% & 1Q24: 2.69%) and SME (Small) segment improved quarter-on-quarter to 5.05% in 1H24 (1H23: 4.88% & 1Q24: 5.44%). As for the Micro asset segment, food price inflation that has slowed down and decreased has helped the customer base in the low-middle income category and loan restructuring with tenor extension has helped BBRI to recover assets. In addition, strategies undertaken by BBRI to mitigate the impact of the Micro segment asset quality risk include limiting the loan ceiling with a risk-regional profile and tightening credit approval policies.
- From other metrics, what has begun to be seen from the above initiatives regarding BBRI's Asset recovery is the CoC footprint which started to decline where as of the 1H24 period perched at 3.48%, as BBRI has begun to reserve provisions for the Micro and SME segments in advance to mitigate future risks. If we look on a quarterly basis, BBRI's CoC experienced a significant decline of -70 Bps QoQ to 3.13% in 2Q24 (1Q24: 3.83%).

Challenges from DPK & Funding: High CoF Due to Tight Liquidity Policy

- BBRI's third party funds (DPK) still grew +11.6% YoY (QoQ: -1.9%) and CASA still grew +7.7% YoY (QoQ: +0.5%). Based on BBRI's fund combination structure, currently BBRI's CASA Ratio has increased by +150 Bps QoQ to 63.2% in 1H24 (1Q24: 61.7%). The significant increase in CASA Ratio was due to the significant reduction in Time Deposits QoQ to IDR 511.8T in 1H24 (QoQ Growth: -5.7% & 1Q24: IDR 542.9T). Therefore, the growth of CASA, especially Savings deposits is still a challenge for BBRI to obtain a cheaper funding structure.
- However, what becomes a concern is that the challenging conditions of high interest rate liquidity still continue to push up BBRI's CoF. If we look at BBRI's CoF (Bank Only), it still increased by +10 Bps QoQ to 3.53% in 1Q24 due to an increase in non-deposit funding costs. As for the 1H24 period, BBRI's CoF stood at 3.64% (1Q24: 3.59%). The ongoing increase in CoF in this high interest rate era is one of the factors that contributed to BBRI's NIM contraction in 1H24.

Buy Recommendation with Lower TP at IDR 5,550 Level (+18.3% Upside)

- NHKS Research recommends Buy for BBRI but with a lower Target Price of IDR 5,550 (+18.3% Upside) which reflects an F P/BV of 2.16x FY24, as an act of being cautious for BBRI's quality of assets going forward. The catalyst that can support the performance of BBRI is the improvement in BBRI's asset quality, the increase in CoF which can begin to be minimized resulting in an expansionary NIM. As for the risks in BBRI's potential downside, among others, the unfavorable macro situation that has an impact on the lower middle segment, NIM that does not meet expectations (contraction), loan growth expectations that do not grow, slowing asset quality improvement and increasingly intense and competitive funding competition in the era of high interest rates.

Bank Rakyat Indonesia Tbk | Summary (IDR Bn)

	2023/12A	2024/12F	2025/12F	2026/12F
Interest Income	178,996	187,200	219,069	254,685
Interest Income growth	17.9%	4.6%	17.0%	16.3%
Operating Revenue	183,290	201,864	235,241	264,543
Net profit	60,100	61,269	69,639	73,446
EPS (IDR)	397	404	459	485
EPS growth	17.5%	1.9%	13.7%	5.5%
BVPS (IDR)	2,088	2,201	2,380	2,579
Net Interest Margin	8.0%	7.8%	8.2%	8.3%
Loan/Deposits	93.2%	91.4%	89.2%	86.5%
NPL	2.7%	2.7%	2.7%	2.7%
ROE	19.8%	19.2%	20.1%	19.5%
ROA	3.3%	3.0%	3.0%	2.8%
Non-Int. Inc. /Op. Rev	26.2%	27.2%	27.2%	26.9%
P/E	11.8x	13.7x	13.7x	13.7x
P/BV	2.2x	2.5x	2.6x	2.6x
DPS (IDR)	317	323	322	339
Dividend yield	6.76%	5.83%	5.10%	5.10%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Target Price (IDR)	5,550
Consensus Price (IDR)	5,712
TP to Consensus Price	-2.8%
Potential Upside	+18.3%

Shares data

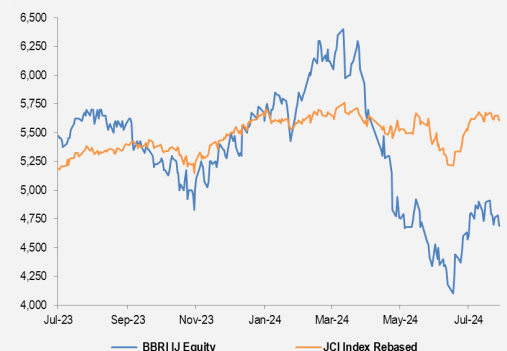
Last Price (IDR)	4,690
Price date as of	July, 29 2024
52 wk range (Hi/Lo)	6,300 / 4,640
Free float (%)	46.3
Outstanding sh.(mn)	151,559
Market Cap (IDR bn)	748,701
Market Cap (USD mn)	46,958
Avg. Trd Vol - 3M (mn)	254.64
Avg. Trd Val - 3M (bn)	1,378.21
Foreign Ownership	26.88%

Finance

Bank

Bloomberg	BBRI IJ
Reuters	BBRI.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-17.4%	2.0%	-5.1%	-17.7%
Rel. Ret.	-16.2%	-0.5%	-5.1%	-21.9%

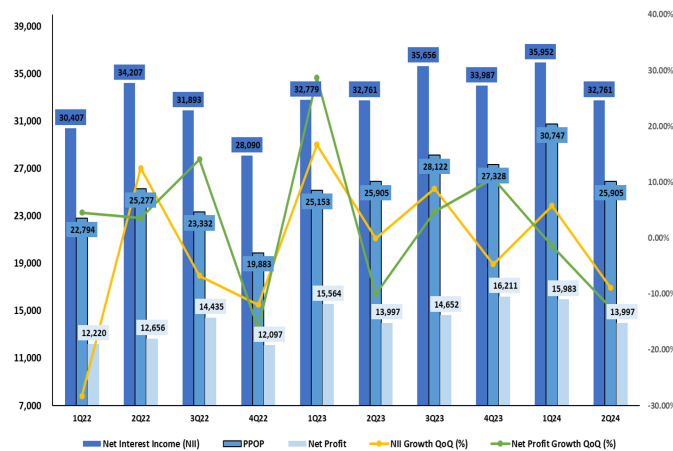
Leonardo Lijuwardi

(021) 5088 9127

Leonardo.lijuwardi@nhsec.co.id

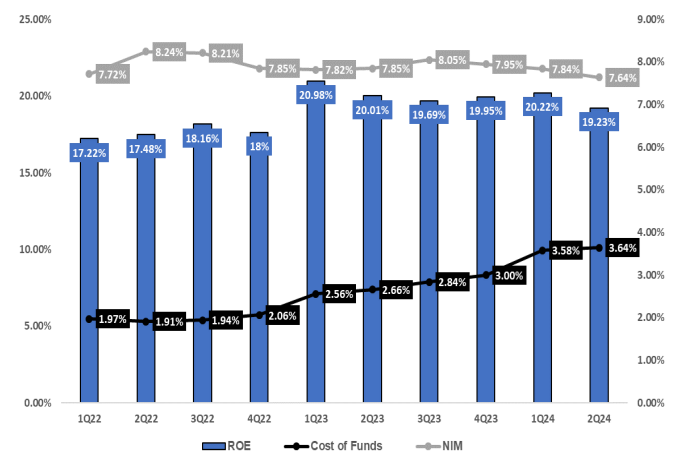
Performance Highlights

Financial Performance (IDR Bn)



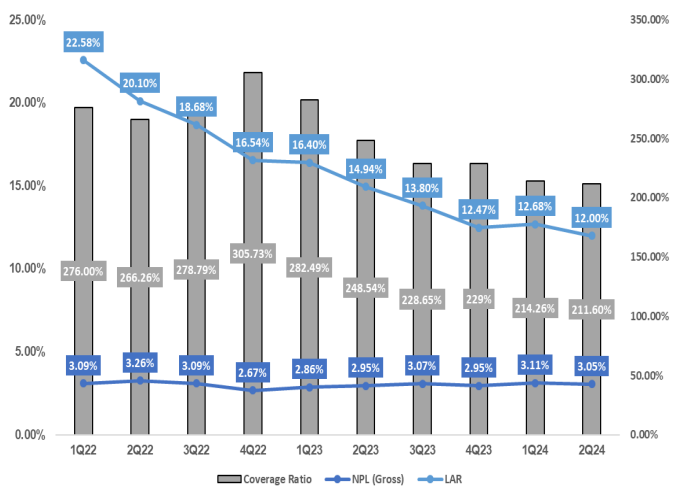
Source: Company, NHKSI Research

Profitability Ratios (In %)



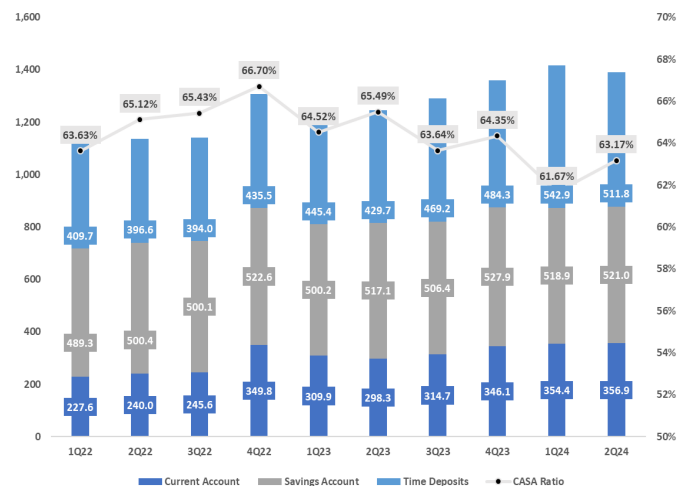
Source: Company, NHKSI Research

Asset Quality (In %)



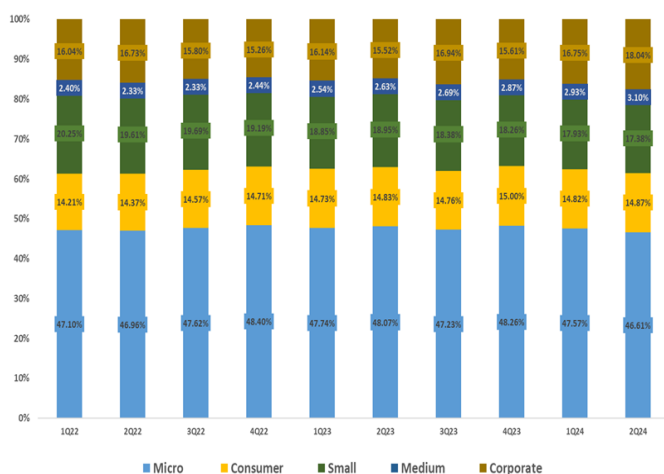
Source: Company, NHKSI Research

Third Party Funds Composition (IDR Tn)



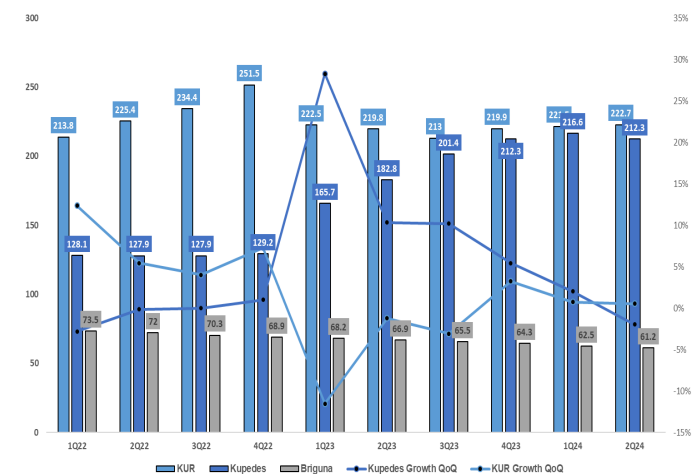
Source: Company, NHKSI Research

Loan Composition Breakdown By Segment (In %)



Source: Company, NHKSI Research

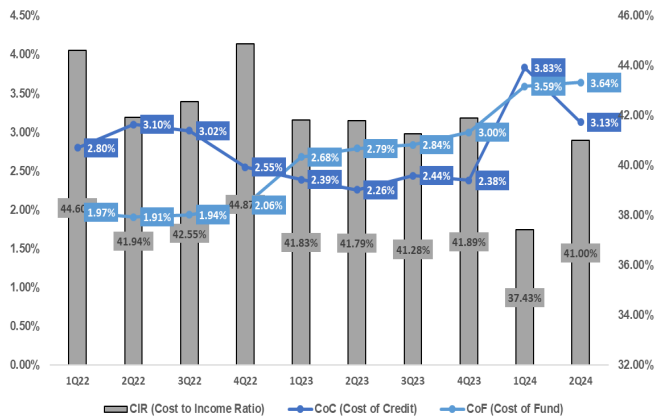
Micro Loan Breakdown (IDR Tn)



Source: Company, NHKSI Research

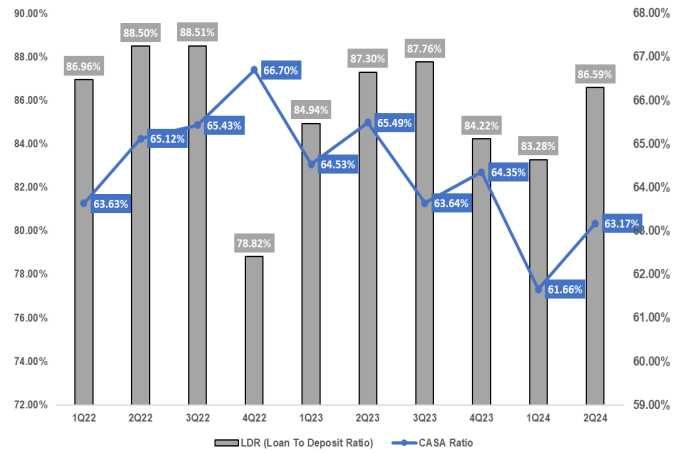
Performance Highlights

BBRI CoF, CIR and CoC (In %)



Source: Company, NHKSI Research

BBRI LDR vs CASA Ratio (In %)



Source: Company, NHKSI Research

BBRI Forward PBV | Last 3 Years (X)



Source: NHKSI Research

Summary of Financials

INCOME STATEMENT				
(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Interest Income	178,996	187,200	219,069	254,685
Growth (%y/y)	17.9%	4.6%	17.0%	16.3%
Interest Expenses	(43,813)	(40,161)	(47,819)	(61,230)
Net Interest Income	135,183	147,040	171,249	193,455
Net Interest Margin	8.01%	7.81%	8.19%	8.27%
Net Fee Income	20,738	22,242	26,002	29,438
Trading Income	2,516	4,283	4,006	4,587
Other Operating Income	24,853	28,299	33,983	37,063
Operating Revenue	183,290	201,864	235,241	264,543
Operating Expenses	(77,280)	(86,801)	(112,916)	(137,562)
Pre-provisioning OP	106,010	115,062	122,325	126,980
Provision for Impairment	(29,181)	(37,844)	(34,209)	(33,869)
EBT	76,430	77,123	88,059	92,898
Income Tax	(16,005)	(15,546)	(18,056)	(19,076)
Non-controlling Interest	(325)	(308)	(364)	(376)
Net Profit	60,100	61,269	69,639	73,446
Growth (%y/y)	17.5%	1.9%	13.7%	5.5%

PROFITABILITY & STABILITY				
	2023/12A	2024/12E	2025/12F	2026/12F
ROE	19.9%	19.2%	20.1%	19.5%
ROA	3.3%	3.0%	3.0%	2.8%
Non-Int. Inc. /Op. Rev	26.2%	27.2%	27.2%	26.9%
Cost/Income	42.2%	43.0%	48.0%	52.0%
Cash Dividend (IDR bn)	48,058	49,015	48,747	51,412
Dividend Yield (%)	6.8%	5.8%	5.1%	5.1%
Payout Ratio (%)	80.0%	80.0%	70.0%	70.0%
Loan/Deposits	93.2%	91.4%	89.2%	86.5%
Loan/Assets	64.4%	64.2%	63.1%	61.9%
NPL	2.70%	2.70%	2.68%	2.70%
Loan Loss Res./Loan	6.8%	6.0%	5.1%	4.5%
CASA/Deposits	64.3%	66.0%	67.6%	69.8%
Time Deposits/Deposits	35.7%	34.0%	32.4%	30.2%
Par Value (IDR)	250	250	250	250
Total Shares (mn)	151,559	151,559	151,559	151,559
Share Price (IDR)	4,690	5,550	6,300	6,625
Market Cap (IDR tn)	710.8	841.2	954.8	1,004.1

BALANCE SHEET				
(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Cash	31,604	35,232	35,046	31,794
Placement in Banks	189,454	231,928	336,081	418,365
Net Loans	1,180,927	1,314,755	1,484,257	1,681,662
Investment	371,911	428,836	458,015	518,189
Fixed Asset	59,678	66,576	73,197	81,317
Other Assets	131,433	99,897	94,495	116,076
Total Assets	1,965,007	2,177,224	2,481,090	2,847,403
Deposits	1,358,329	1,531,154	1,753,979	2,036,111
Debt	180,023	196,770	228,932	263,709
Other liabilities	110,183	115,686	137,399	156,669
Total Liabilities	1,648,535	1,843,610	2,120,311	2,456,489
Capital Stock & APIC	83,431	83,431	83,431	83,431
Retained Earnings	213,711	225,965	246,857	268,891
Shareholders' Equity	316,472	333,614	360,779	390,914

VALUATION INDEX				
	2023/12A	2024/12E	2025/12F	2026/12F
Price /Earnings	11.83x	13.73x	13.71x	13.67x
Price /Book Value	2.25x	2.52x	2.65x	2.57x
Price/Op. Revenue	3.88x	4.17x	4.06x	3.80x
PE/EPS Growth	0.68x	7.06x	1.00x	2.50x
EV/Operating Revenue	4.72x	5.00x	4.93x	4.73x
EV/PPOP	8.15x	8.78x	9.47x	9.84x
EV (IDR bn)	864,339	1,009,842	1,158,721	1,250,012
Op. Rev. CAGR (3-Yr)	18.1%	22.6%	14.6%	15.1%
EPS CAGR (3-Yr)	20.4%	48.6%	27.7%	12.8%
Basic EPS (IDR)	396.5	404.3	459.5	484.6
Diluted EPS (IDR)	397	404	459	485
BVPS (IDR)	2,088	2,201	2,380	2,579
Op. Revenue PS (IDR)	1,209	1,332	1,552	1,745
DPS (IDR)	317	323	322	339

CASH FLOW STATEMENT				
(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Operating Cash Flow	118,048	105,265	152,397	91,628
Investing Cash Flow	(181,077)	(310,470)	(305,098)	(268,477)
Financing Cash Flow	67,225	208,834	152,514	173,597
Net Changes in Cash	4,196	3,629	(187)	(3,252)

OWNERSHIP			
By Geography	% Shareholders		%
Indonesia	74.58	Republic of Indonesia	53.19
United States	13.10	BlackRock Inc	1.70
United Kingdom	3.47	Vanguard Co.	1.42
Others	8.85	Others	43.69

Source: NHKSI Research, Company, Bloomberg

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to 15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

DISCLAIMER

This document is strictly confidential and is being supplied to you solely for your information. The recipients of this report must make their own independent decisions regarding any securities or financial instruments mentioned herein. This document may not be quoted, reproduced, exhibited, redistributed, transmitted, edited, translated, or published, in whole or in part, for any purpose without notice. Any failure to comply with this restriction may constitute a violation of civil or criminal laws.

This report and any electronic access hereto are restricted and intended only for the clients and related entities of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not be suitable for all investors. Although the information hereof is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, and agents are held harmless from any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents are liable for errors, omissions, misstatements, negligence, inaccuracy contained herein.

All rights reserved by PT NH Korindo Sekuritas Indonesia