

Bank Rakyat Indonesia (BBRI IJ)

Full speed ahead

Upgrade to BUY; raising TP to IDR5,300

We upgrade BBRI to BUY due to strengthening loan growth and loan quality improvement. Reflecting management's robust loan growth forecast and significant improvement in cost of credit for 4Q22, we upgrade our forecast loan growth for 22E/23E/24E to 11%/11%/12% from 9%/11%/13%, altering our FY22/23/24 earnings growth forecasts to 55%/14%/12%. We roll forward our valuation base to FY23E, resulting in a higher TP of IDR5,300 (from IDR4,600), based on a higher 2.4x 23E P/BV (from 2.3x 22E PBV) with ROE of 17.8%, COE of 12.6%, and a long-term growth rate of 8.9%. Downside risks to our call include: 1) tight funding competition; and 2) weaker loan growth. We transfer coverage to Jefffrosenberg Chen Lim.

Outstanding 9M22 earnings results

BBRI reported 9M22 net profit of IDR39.3t (+106% YoY). This exceeded 75% of our FY22 estimate, driven by strong net interest income (+16.3% YoY) and lower provision expense (-21.3% YoY). 9M22 NIM also improved from 7.4% to 8.2%, while non-interest income grew 6.3% YoY. Furthermore, we have not priced in the potential government reduction of the minimum statutory reserves (GWM) for microloan banks. This will improve efficiency with higher allocation to higher-yielding assets. In addition to raising our loan growth targets, we are raising our NIM targets for 22E/23E/24E from 7.6%/7.4%/7.3% to 7.8%/7.8%/7.7%.

Propelled by govt subsidised micro-loan growth

9M22 loans grew 8% YoY (+0.9% QoQ) to IDR1,112t, driven by micro (14.1% YoY), consumer (7.6% YoY), and small (5.6%), but dragged down by medium (-15.2% YoY) and corporate (-1.2% YoY). Due to the government's ambitious subsidised micro-loan disbursement target for FY23 of IDR450t, up 21% YoY, we raise our 23E/24E loan growth targets to 11.4% and 11.5%. This is higher than our target estimates set for peers like BBNI (8.2% and 8.4%), BMRI (11.3% and 10.3%), and BBKA (11.1% and 10.1%). Moreover, we expect gross NPLs to improve slightly with our 22E/23E/24E NPL ratio forecasts at 3.1%/2.9%/2.9%.

Weak deposit growth, but CASA ratio rising

BBRI's 9M22 deposit growth rose slightly by 0.4% YoY, dragged down by time deposits -14.1% YoY but supported by demand deposits +19.0% and savings +6.4%. Micro segment has been struggling to self-refinance with 9M22 loan book at IDR432.6t and deposits at IDR355t. After being too optimistic with our deposit growth target, we lower our 22E/23E/24E targets to 5%/ 8%/10% from 7%/9%/11%. However, its CASA ratio has been trending higher from 3Q21 at 60% to 3Q22 65.6%.

FYE Dec (IDR b)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	110,726	157,127	173,967	187,018	198,830
Pre-provision profit	57,402	76,962	91,109	98,859	107,204
Core net profit	18,655	31,067	48,204	54,803	61,535
Core EPS (IDR)	148	205	318	362	406
Core EPS growth (%)	(45.8)	38.1	55.1	13.7	12.3
Net DPS (IDR)	89	157	200	212	219
Core P/E (x)	27.4	20.0	15.6	13.7	12.2
P/BV (x)	2.6	2.2	2.4	2.3	2.1
Net dividend yield (%)	2.2	3.8	4.0	4.3	4.4
Book value (IDR)	1,571	1,905	2,046	2,185	2,356
ROAE (%)	9.2	12.8	16.1	17.1	17.9
ROAA (%)	1.3	1.9	2.8	3.0	3.2
Consensus net profit	-	-	48,032	53,834	61,314
MKE vs. Consensus (%)	-	-	0.4	1.8	0.4

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BUY

[Prior:HOLD]

Share Price	IDR 4,970
12m Price Target	IDR 5,300 (+7%)
Previous Price Target	IDR 4,600

Company Description

PT Bank Rakyat Indonesia Tbk engages in the provision of general banking services and other banking activities based on Shariah principles.

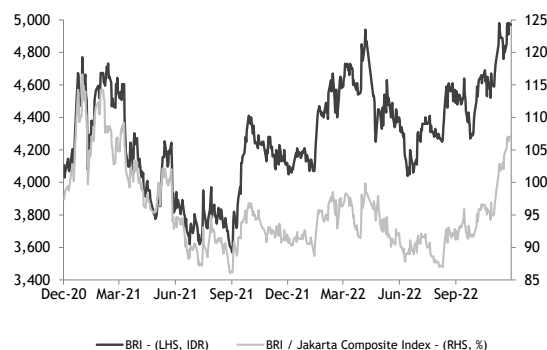
Statistics

52w high/low (IDR)	4,980/4,040
3m avg turnover (USDm)	48.7
Free float (%)	46.8
Issued shares (m)	151,559
Market capitalisation	IDR753.2T
	USD48.3B

Major shareholders:

Government of Indonesia	56.8%
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Price Performance



	-1M	-3M	-12M
Absolute (%)	8	9	21
Relative to index (%)	13	15	18

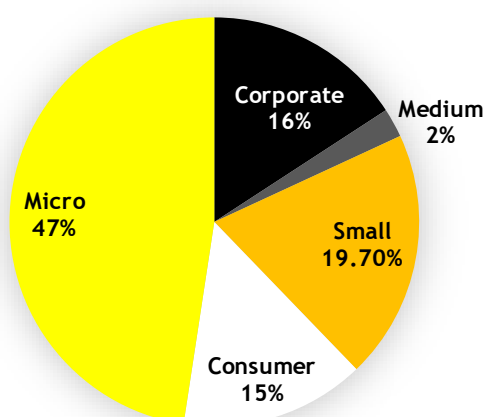
Source: FactSet

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 Tear Sheet Insert

Value Proposition

- BBRI has developed dominance over ultra-micro and micro lending, which is a high-margin segment.
- Has one of the highest provisioning buffers among big banks, providing room for ROE expansion during the economic recovery.
- The widest coverage in a country with low banking penetration is expected to give BBRI an advantage to raise cheap funding to improve its liquidity condition.

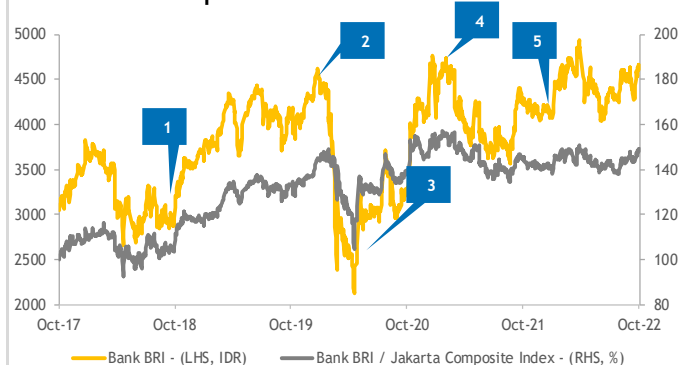
Loan Composition (3Q22)



Source: Company

Price Drivers

Historical share price trend



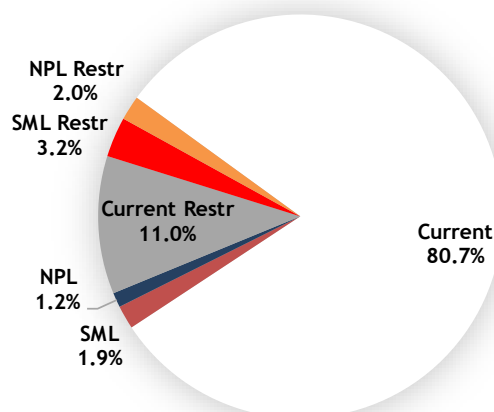
Source: Company, Maybank IBG Research

1. Strong loan growth ahead of election year triggered a rebound in share price.
2. Concern over rising credit cost driven by economic slowdown amidst Covid-19 pandemic.
3. Covid-19 vaccine spurt optimism of a swift recovery in micro segment.
4. High loan restructuring raise concerns on NPL risk post moratorium period
5. Commodity trade windfall produced positive catalyst for banking industry.

Financial Metrics

- Strong demand and improving quality in micro lending should play an integral part to ROE resilience expected economic contraction.
- Current account growth has accelerated throughout the year, while time deposits have gradually declined leading to a higher CASA of 71%. However, a stronger deposit base remains essential for growth sustainability.

Loan Quality (3Q22)



Source: Company

Swing Factors

Upside

- Faster NIM improvement compared to peers as BBRI expands coverage in rural areas.
- Successful restructuring of big-ticket loans that reduces the need to set aside higher provisions.
- Government's target to increase subsidized loans for small, micro, and super micro segment to IDR450t (+20.6% YoY) for 2023.

Downside

- Government intervention in KUR lending rates to a level that makes this subsidized loan programme no longer profitable for participating banks.
- Inability to improve liquidity in time to accommodate the anticipated recovery in loan demand.

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Risk Rating & Score ¹	Low (18.8)
Score Momentum ²	-2.1
Last Updated	05 Oct 2022
Controversy Score ³ (Updated: Aug 2022)	2 (Moderate)

Business Model & Industry Issues

- BBRI received a rating of "BBB" in the MSCI ESG Rating and a score of 52 in S&P Global corporate sustainability assessment.
- In March 2019, BBRI issued the first Sustainability Bond in Indonesia with Baa2 rating by Moody's and BBB- rating by Fitch. The total value is USD500m with 3.95% coupon and tenor of 5 years. This is an important funding channel for projects that have both social and environmental impacts.
- In 2021, BBRI reached its 126th year of successfully providing banking and financial services to the micro, small, and medium enterprises in Indonesia. Risk of government intervention exists in determining lending rates for the subsidized micro (KUR), which constitutes 20% of the loan portfolio.
- The banking sector is being used as a transmission mechanism for government stimulus programs under Covid-19 relief schemes which elevates social priorities over shareholders returns in the near term.
- BBRI displays no exceptional risks not typical of a big bank for ESG. That the bank's operations are predominantly domestic significantly reduces ESG risks.

Material E issues

- Green lending initiatives are carried out by establishing ESG Policy in financing the palm oil industry. Debtors are required to be registered or certified by Roundtable Sustainable Palm Oil or Indonesia Sustainable Palm Oil. The same approach applies to financing for other plantation industries, other sectors that require extensive land management and in the manufacturing sector.
- As of 9M22, corporate green financing reached 7.6% of total loan portfolio or IDR76.1t.
- Its emission reduction activities include providing assistance by handing out tree seedlings and productive trees in Kupang and planting 2,000 trees in Gresik.

Material S issues

- In 2021, BBRI employed 66 disabled people in the bank's Head Office and regional offices.
- The bank has 34,364 female employees, or 42% of the 82,718 total permanent employees, contract, and trainees.
- BBRI has succeeded in disbursing a total IDR163.2t subsidized micro loans (KUR) in 2021 to more than 5.3 million borrowers throughout Indonesia.
- The bank's CSR budget realization in FY21 was IDR270b or 0.7% of its consolidated PBT.
- CSR activities include renovation/construction schools, natural disaster relief and medical equipment donation to hospitals across Indonesia.

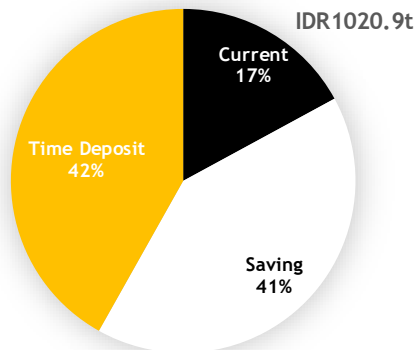
Key G metrics and issues

- The government owns 56.75% of BBRI's series B shares.
- The government also owns one series A share, which gives it privileges including: 1) the right to approve the following matters in an AGM/EGM: a. amendment to the Articles of Association, b. changes to equity, c. appointment and dismissal of members of the BOD and the BOC, d. M&A, consolidation, splits and dissolution, e. the remuneration of the BOD and BOC, f. the use of profits; 2) the right to propose candidates for the BOD and BOC; 3) the right to propose AGM/EGM agenda; 4) the right to request and access company data and documents, with the mechanism for the use of such rights being in accordance with provisions in the Articles of Association, and applicable laws and regulations.
- Shareholders' meeting is BBRI's highest decision-making body. The BOD is an executive body responsible for BBRI's daily operations. Meanwhile, the BOC is a non-executive shareholder representative body, with the main objective of supervising and monitoring the BOD's activities.
- In 9M22, BBRI's BOC comprised 10 members (7 male, 3 female): 7 Independent Commissioners (IC), and 3 Non-IC and the President Commissioner.
- Its BOD comprised 12 members (10 male, 2 female): 11 Non-ID and the CEO.
- The bank's BOC and BOD's bonus for FY21 was IDR476b, or 1.2% of its consolidated PBT.
- BBRI has not had any material accounting, tax or regulatory issues in the past 5 years. Additionally, there were no material deals in the past which were against the interests of public shareholders.
- BBRI is audited by Ernst & Young, which has audited the bank for at least the past ten years.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

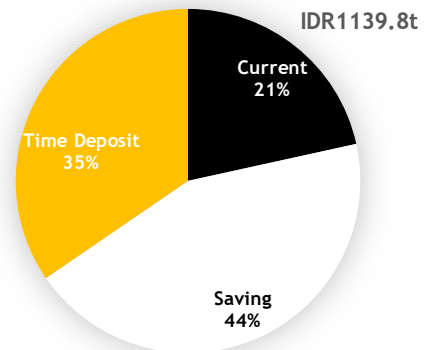
Focus Charts

Fig 1: Third party funds FY2019



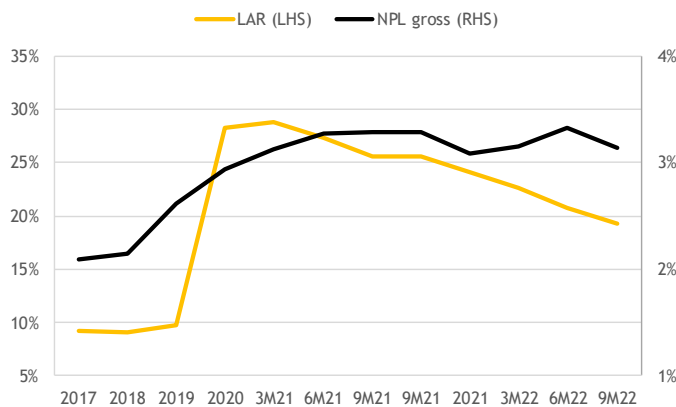
Source: Company, Maybank IBG Research

Fig 2: Third party funds 3Q22



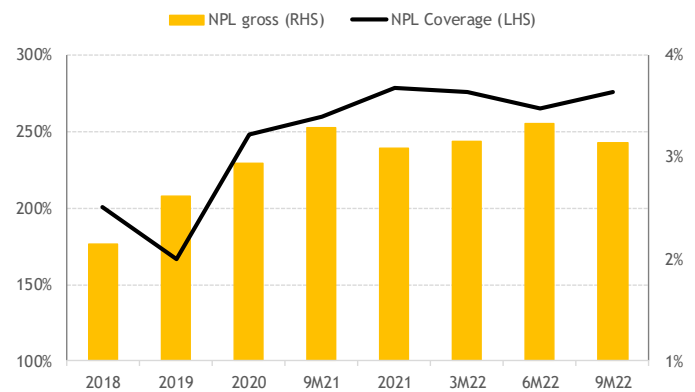
Source: Company, Maybank IBG Research

Fig 3: Bank only LAR ratio and gross NPLs



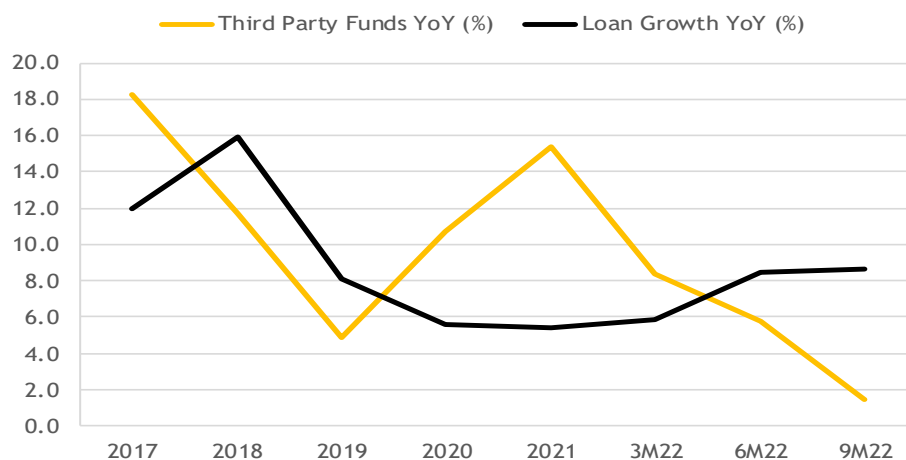
Source: Company, Maybank IBG Research

Fig 4: Bank only gross NPLs and NPL coverage



Source: Company, Maybank IBG Research

Fig 5: Bank only third party funds and loan growth



Source: Company, Maybank IBG Research

Fig 6: Consolidated performance highlight

Consolidated (IDRb)	3Q21	4Q21	1Q22	2Q22	3Q22	YoY (%)	QoQ (%)
Net Interest Income	24,704	42,706	30,685	34,783	31,869	29.0	-8.4
Operating Income	8,887	16,378	10,474	10,355	12,174	37.0	17.6
Operating Expenses	24,599	43,293	25,836	29,307	26,323	7.0	-10.2
PPOP	17,749	23,998	23,247	25,401	24,853	40.0	-2.2
Provision	8,757	8,208	7,923	9,571	7,134	-18.5	-25.5
Pre-tax Income	8,992	15,791	15,324	15,830	17,720	97.1	11.9
Net Profit	6,530	14,086	12,220	12,656	14,435	121.1	14.1
Loans & Financing	1,029,203	1,039,872	1,072,596	1,101,122	1,111,478	8.0	0.9

Source: Company, Maybank IBG Research

Fig 7: 9M consolidated highlight comparison

Consolidated (IDRb)	9M21	9M22	YoY (%)
Net Interest Income	82,958	96,507	16.3
Operating Income	25,611	33,002	28.9
Operating Expenses	72,678	81,466	12.1
PPOP	59,756	73,501	23.0
Provision	31,285	24,627	-21.3
Pre-tax Income	28,527	49,238	72.6
Net Profit	19,070	39,311	106.1
Loans & Financing	1,029,203	1,111,478	8.0

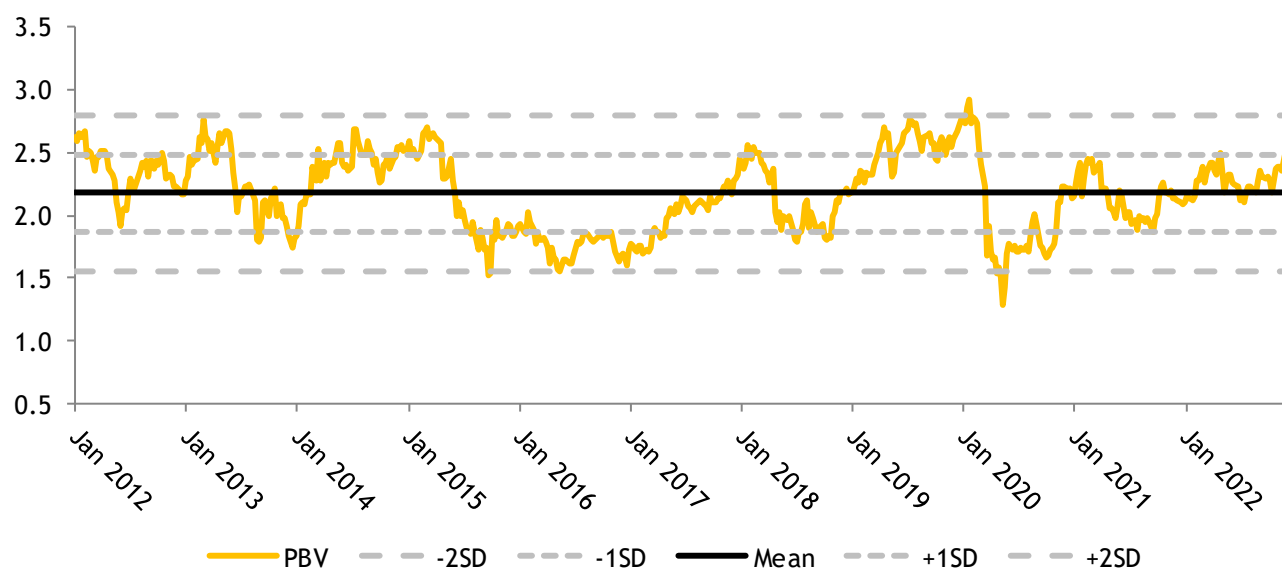
Source: Company, Maybank IBG Research

Fig 8: Bank only key metrics

Bank Only (%)	Sep'21	Dec'21	Mar'22	Jun'22	Sep'22	YoY Δ	QoQ Δ
NIM	6.86	7.70	7.72	7.35	7.23	0.4	-0.1
Gross NPL	3.29	3.08	3.15	3.32	3.14	-0.2	-0.2
NPL Coverage	259.7	278.1	275.7	265.2	275.9	16.2	10.7
CASA	60.1	63.3	63.8	65.4	65.7	5.6	0.3
LDR	83.1	83.7	87.1	89.0	88.9	5.9	0.0
CAR	24.4	25.3	22.4	23.0	24.0	-0.4	1.0

Source: Company, Maybank IBG Research

Fig 9: BBRI P/BV over 10 Years



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	27.4	20.0	15.6	13.7	12.2
Core FD P/E (x)	27.4	20.0	15.6	13.7	12.2
P/BV (x)	2.6	2.2	2.4	2.3	2.1
P/NTA (x)	0.3	0.4	0.4	0.4	0.4
Net dividend yield (%)	2.2	3.8	4.0	4.3	4.4

INCOME STATEMENT (IDR b)

Interest income	123,141.2	150,513.1	170,171.9	185,310.8	198,099.7
Interest expense	(43,049.7)	(35,375.6)	(41,221.0)	(46,386.4)	(49,974.2)
Net interest income	80,091.6	115,137.5	128,950.9	138,924.3	148,125.5
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	15,122.7	17,062.1	19,641.7	21,249.2	23,463.9
Other income	15,512.1	24,926.9	25,374.9	26,844.2	27,240.9
Total non-interest income	30,634.7	41,989.0	45,016.6	48,093.4	50,704.8
Income from depositors' funds	0.0	0.0	0.0	0.0	0.0
Income from shareholders' funds	0.0	0.0	0.0	0.0	0.0
Income distributable to depositors	0.0	0.0	0.0	0.0	0.0
Operating income	110,726.3	157,126.5	173,967.5	187,017.8	198,830.4
Staff costs	(26,319.8)	(38,047.1)	(39,569.0)	(41,547.5)	(44,040.3)
Other operating expenses	(27,004.6)	(42,117.4)	(43,289.4)	(46,611.4)	(47,585.8)
Operating expenses	(53,324.4)	(80,164.5)	(82,858.4)	(88,158.8)	(91,626.1)
Pre-provision profit	57,401.9	76,962.0	91,109.1	98,858.9	107,204.3
Loan impairment allowances	(30,617.5)	(35,806.3)	(30,384.6)	(29,821.7)	(29,686.4)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	26,724.8	40,992.1	60,724.5	69,037.2	77,517.8
Income tax	(8,064.5)	(7,835.6)	(12,345.5)	(14,035.5)	(15,759.6)
Minorities	(5.6)	(2,089.9)	(175.2)	(199.1)	(223.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	18,654.8	31,066.6	48,203.8	54,802.6	61,534.6
Core net profit	18,654.8	31,066.6	48,203.8	54,802.6	61,534.6

BALANCE SHEET (IDR b)

Cash & deposits with banks	51,876.9	50,600.7	48,785.1	48,674.0	50,671.8
Sec. under resale agreements	46,818.6	54,915.5	15,264.8	15,264.8	15,264.8
Derivatives financial assets	1,576.7	730.1	730.1	730.1	730.1
Dealing securities	0.0	0.0	26,967.8	26,906.4	28,010.8
Available-for-sale securities	0.0	0.0	217,519.5	230,177.2	178,007.1
Investment securities	0.0	0.0	123,905.4	65,764.9	68,464.3
Loans & advances	940,341.2	1,039,871.8	1,148,538.7	1,280,025.0	1,427,098.4
Financing and advances	0.0	0.0	0.0	0.0	0.0
Central bank deposits	107,489.1	105,149.8	104,875.0	113,363.1	125,057.4
Investment in associates/JVs	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	32,185.2	47,970.2	51,191.1	54,900.6	59,140.8
Intangible assets	820.9	806.4	806.4	806.4	806.4
Other assets	330,696.2	378,053.3	14,424.2	35,219.3	79,133.4
Total assets	1,511,804.6	1,678,097.7	1,753,008.2	1,871,831.8	2,032,385.2
Deposits from customers	1,121,102.1	1,138,743.2	1,192,130.3	1,289,694.9	1,424,111.7
Deposits from banks & FIs	25,394.6	13,329.4	13,329.4	13,329.4	13,329.4
Derivatives financial instruments	407.8	199.7	199.7	199.7	199.7
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	33,639.1	55,306.7	55,306.7	55,306.7	55,306.7
Other borrowings	77,897.4	98,352.8	98,352.8	98,352.8	98,352.8
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	53,452.2	80,379.1	80,379.1	80,379.1	80,379.1
Total liabilities	1,311,893.3	1,386,310.9	1,439,698.0	1,537,262.6	1,671,679.5
Share capital	9,231.7	85,763.0	85,310.7	85,310.7	85,310.7
Reserves	188,145.8	202,972.0	224,772.5	245,832.4	271,745.3
Shareholders' funds	197,377.6	288,735.0	310,083.2	331,143.1	357,056.0
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	2,533.8	3,051.8	3,227.0	3,426.1	3,649.7
Total equity	199,911.4	291,786.8	313,310.2	334,569.2	360,705.7
Total liabilities & equity	1,511,804.6	1,678,097.7	1,753,008.2	1,871,831.8	2,032,385.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	(3.2)	43.8	12.0	7.7	6.6
Non-interest income	7.4	37.1	7.2	6.8	5.4
Operating expenses	15.3	50.3	3.4	6.4	3.9
Pre-provision profit	(11.7)	34.1	18.4	8.5	8.4
Core net profit	(45.7)	66.5	55.2	13.7	12.3
Gross loans	3.7	10.6	10.5	11.4	11.5
Customer deposits	13.6	1.6	4.7	8.2	10.4
Total assets	6.7	11.0	4.5	6.8	8.6
Profitability (%)					
Non-int. income/Total income	27.7	26.7	25.9	25.7	25.5
Average lending yields	9.62	9.78	10.33	10.42	10.31
Average financing yields	0.00	0.00	0.00	0.00	0.00
Average cost of funds	6.00	2.77	3.10	3.25	3.20
Net interest margin	6.00	7.70	7.83	7.81	7.71
Net income margin	0.00	0.00	0.00	0.00	0.00
Cost/income	48.2	51.0	47.6	47.1	46.1
Liquidity (%)					
Loans/customer deposits	74.4	73.3	83.7	85.7	85.9
Asset quality (%)					
Net NPL	0.0	0.0	0.0	0.0	0.0
Gross NPL	3.0	3.1	3.1	2.9	2.9
Net NPF	0.0	0.0	0.0	0.0	0.0
Gross NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	3.3	3.6	3.6	2.8	2.5
(SP+GP)/average gross financing	0.0	0.0	0.0	0.0	0.0
Loan loss coverage	231.8	291.6	291.6	300.8	307.1
Capital adequacy (%)					
CET1	20.1	26.2	25.0	23.5	22.1
Tier 1 capital	20.1	26.2	25.0	23.5	22.1
Risk-weighted capital	21.2	27.2	26.1	24.6	23.2
Returns (%)					
ROAE	9.2	12.8	16.1	17.1	17.9
ROAA	1.3	1.9	2.8	3.0	3.2
Shareholders equity/assets	13.1	17.2	17.7	17.7	17.6

Source: Company; Maybank IBG Research

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