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Maybank Sekuritas Indonesia

Banks

Indonesia

Indonesia Banks

2H23 outlook: resilient earnings growth

POSITIVE *[Unchanged]*

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Expect earnings growth to remain robust

We maintain a POSITIVE outlook for Indonesia's banking sector as 8M23 earnings growth remains high, despite rising cost of funds and moderating profit growth. We believe the big four banks (BMRI, BBCA, BBRI and BBNI) will be able to deliver consistent annual profit growth due to higher yields and/or lower cost of credit. Our Top Picks are BMRI and BBCA due to their stronger loan growth outlooks and relatively low LDRs. Although we still like BBNI, we recommend to buy on weakness as it has outperformed the market by 10% in the past three weeks.

Earnings growth momentum sustainable

The combined 8M23 net profit of BMRI, BBCA, BBRI and BBNI rose 18% YoY to IDR111.7t as provisioning fell by 17% YoY and PPOP rose by a moderate 10% YoY. 8M23 ROE also rose from 18% in FY22 to 20%, helped by NIM expansion to 5.13% in 8M23 (vs 5.02% in FY22). We forecast strong profit growth momentum to continue in 2H23 as backend-loaded government investments and pre-election campaign spending boosts loan growth.

Strong economic growth boosts loan quality

Credit costs should continue to fall as we expect loan quality to improve in 2H23. This positive trend is mainly attributed to the more optimistic GDP growth forecast for the latter half of 2023, which was recently reaffirmed by Bank Indonesia which projects growth of 4.5-5.3%. It's also worth noting that the major banks have high loan-loss coverage ratio exceeding 200%.

Big banks are less impacted by the interest rate hikes

Bank Indonesia has raised interest rates from 350bps to 575bps from Jul'22 to Jan'23, but so far the impact on the big banks has been minimal. For 8M23, the four big banks' deposits grew by 8.8%, outpacing the system's growth of 6.2% as they have a better funding franchise, evident also by their larger CASA market share of 62% in Jun'23 (vs 59% in Jun'22). Consequently, compared with their smaller peers, they are better positioned to withstand rising interest rates; and therefore they benefit from improved yields on their assets.

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							23E	24E	23E	24E	23E	24E
BCA	BBCA IJ	69,922	Buy	8,925	10,450	17	21.9	19.7	4.5	4.0	2.3	2.5
BRI	BBRI IJ	49,845	Buy	5,175	6,450	25	12.9	11.4	2.5	2.2	4.9	4.7
Bank Mandiri	BMRI IJ	35,589	Buy	6,000	6,400	7	11.1	9.8	2.2	2.0	4.8	5.5
BNI	BBNI IJ	12,325	Buy	5,200	5,500	6	9.2	8.2	1.3	1.2	3.9	4.4

SEE PAGE 17 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

1. Strong 8M23 results

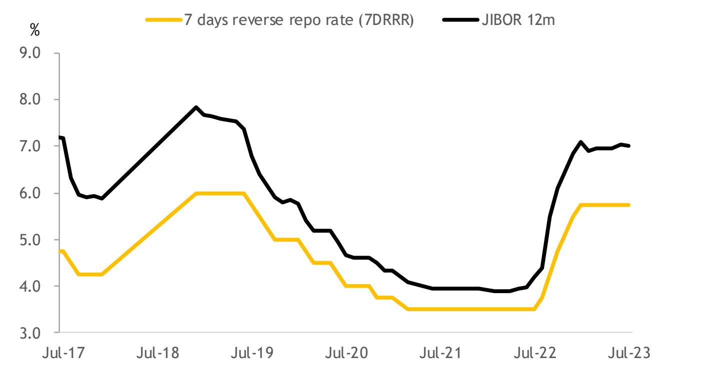
Indonesia's banking sector continued to rally on the back of strong 8M23 earnings. Overall, the earnings of banks under our coverage remained robust as they grew 18% YoY in aggregate. Moreover, with robust loan growth of 11% YoY and 17% less provisioning YoY for 8M23, we believe our FY23E aggregate NPAT growth forecast of 21% YoY is within range.

Fig 1: 8M23 earnings for banks under our coverage (IDRt)

	22-Aug	23-Aug	YoY chg	23-Jul	MoM chg	8M22	8M23	YoY chg	MIBG FY23E
Net interest income									
BBCA	5,171	5,990	16%	5,689	5%	38,093	46,468	22%	74,267
BBNI	3,445	3,298	-4%	3,813	-14%	26,701	27,436	3%	46,592
BBRI	9,031	9,413	4%	9,110	3%	72,213	71,564	-1%	141,362
BMRI	5,550	6,209	12%	6,407	-3%	41,930	47,650	14%	98,037
	23,197	24,910	7%	25,019	0%	178,937	193,118	8%	360,257
PPOP									
BBCA	4,074	4,802	18%	5,020	-4%	33,546	40,468	21%	66,062
BBNI	2,688	2,698	0%	3,125	-14%	22,843	22,903	0%	35,725
BBRI	7,391	8,476	15%	7,491	13%	60,435	61,645	2%	105,821
BMRI	4,619	5,436	18%	5,817	-7%	37,695	44,407	18%	84,545
	18,772	21,412	14%	21,453	0%	154,519	169,423	10%	292,153
Provision									
BBCA	44	139	216%	-156	189%	3,470	1,722	-50%	11,764
BBNI	793	840	6%	805	4%	8,018	6,158	-23%	9,644
BBRI	1,760	3,244	84%	1,735	87%	19,467	17,766	-9%	28,944
BMRI	859	382	-56%	449	-15%	7,041	5,732	-19%	15,661
	3,456	4,605	33%	2,833	63%	37,996	31,378	-17%	66,013
NPATMI									
BBCA	3,263	3,767	15%	4,195	-10%	24,547	31,709	29%	50,126
BBNI	1,530	1,511	-1%	1,882	-20%	12,177	13,635	12%	21,082
BBRI	4,782	3,960	-17%	4,601	-14%	33,569	34,827	4%	60,914
BMRI	3,010	4,072	35%	4,437	-8%	24,708	31,512	28%	50,303
	12,585	13,310	6%	15,115	-12%	95,001	111,683	18%	182,426

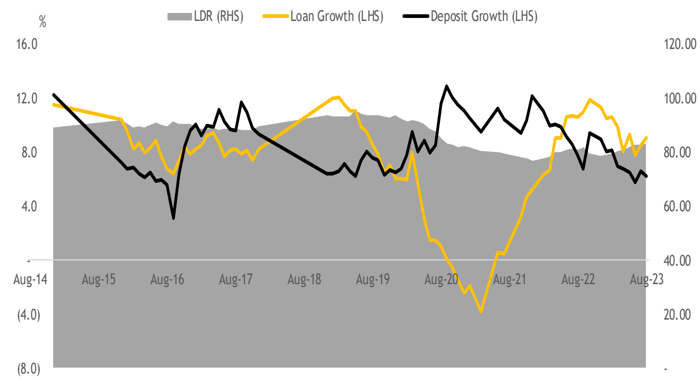
Source: Companies, Maybank IBG Research

Fig 2: BI7DRRR vs JIBOR 12m rate



Source: Bloomberg, Maybank IBG Research

Fig 3: loan and deposit growth with LDR



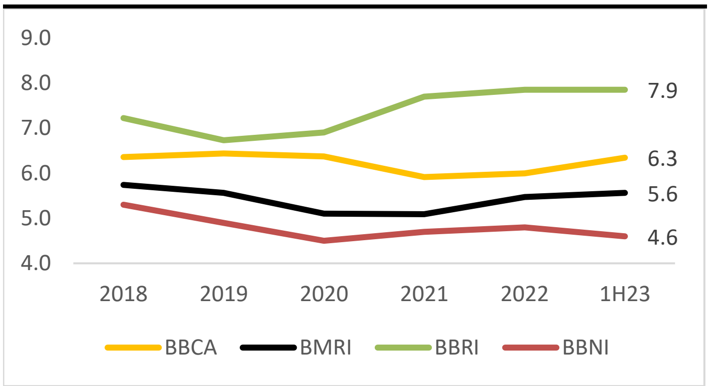
Source: OJK, Maybank IBG Research

Additionally, provisioning costs have fallen significantly as loan quality improves. We observed that loans-at-risks (LAR) continued to decline to 13.2% in 1H23 (vs 17.0% 1H22), while loan-loss coverage remains ample at well over 200%. As a result, we believe lower provision cost will be sustainable throughout 2H23E.

Moreover, the banks under our coverage as of 8M23 can still maintain a stable bank-only NIM of 5.13% on average despite the rise in cost of funds, with the exception of BBNI. BMRI and BBCA were able to increase their NIM by 16bps and 50bps respectively from Dec'22 due to higher interest yield and relatively lower cost of fund due to a high CASA ratio. BBRI's NIM fell to 6.22% from 6.78% in 8M22, although it remained the highest among its peers.

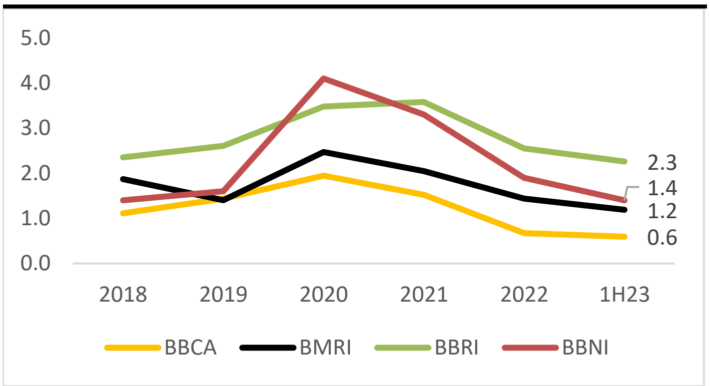
Given these factors, we believe FY23E BBCA and BMRI will experience bigger NIM improvements of 24bps YoY and 8bps YoY respectively compared with BBRI and BBNI. However, BBRI should still see a modest increase of 3bps YoY as its high-yielding loans should make up for the higher cost of funding. Meanwhile, we forecast BBNI's focus on increasing its loan book may cause its margins to shrink by 16bps YoY for FY23E.

Fig 4: NIM trend of big banks (%)



Source: Companies, Maybank IBG Research

Fig 5: Cost of credit trend of big banks (%)

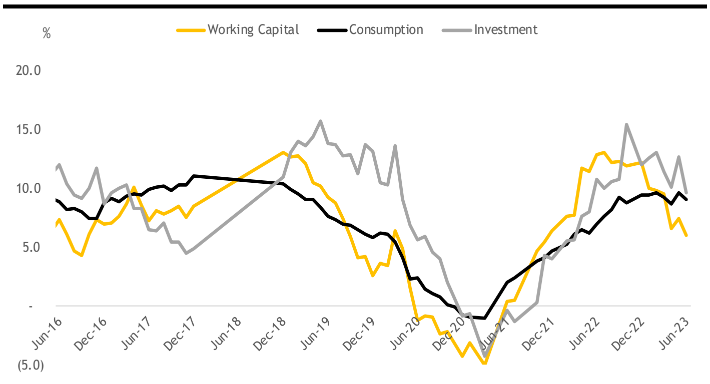


Source: Companies, Maybank IBG Research

Furthermore, at +10.9% YoY, 8M23 loan growth remained strong for the four big banks as most of them consistently outpaced the sector growth of 9.1% YoY. We see growth to be mainly driven by consumer loans (+9.1% YoY) and investment loans (+10.0% YoY), while working-capital loans (+8.2% YoY) grew only modestly. We think the growth slowed down as businesses adopted a wait-and-see approach ahead of the elections in Feb'24.

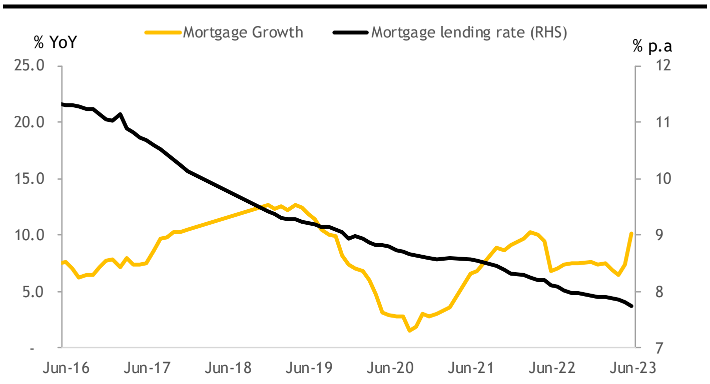
However, consumer loans in particular have been growing intensively since FY20. We see a huge pickup in growth in mortgages (+12.3% YoY) and auto loans (+14.6% YoY), mainly due to: 1) lower lending rates; and 2) pent-up demand caused by supply shortages during Covid-19. We believe this growth in consumer loans will keep NIM higher in FY23E.

Fig 6: Loan growth by type



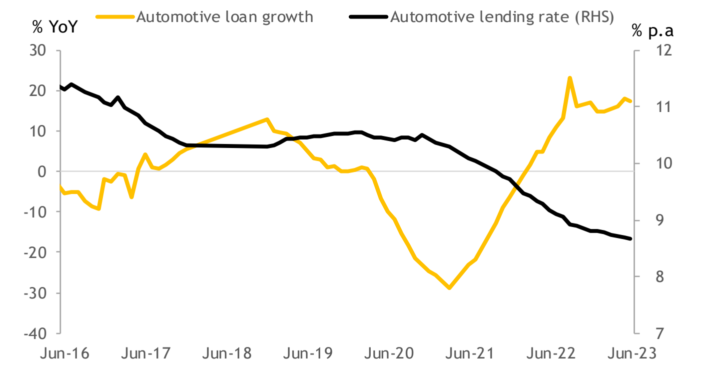
Source: OJK, Maybank IBG Research

Fig 7: Mortgage growth and mortgage rate



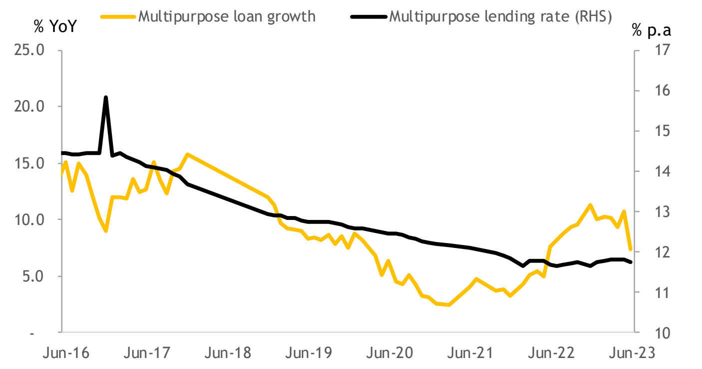
Source: OJK, Maybank IBG Research

Fig 8: Automotive loan growth and lending rate



Source: OJK, Maybank IBG Research

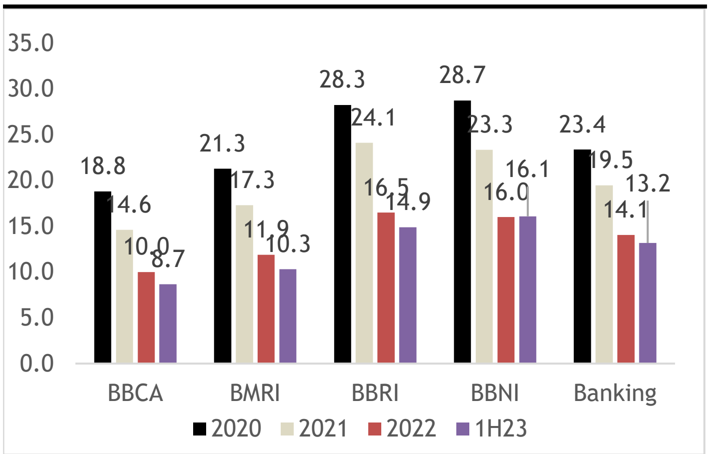
Fig 9: Multipurpose loan growth and lending rate



Source: OJK, Maybank IBG Research

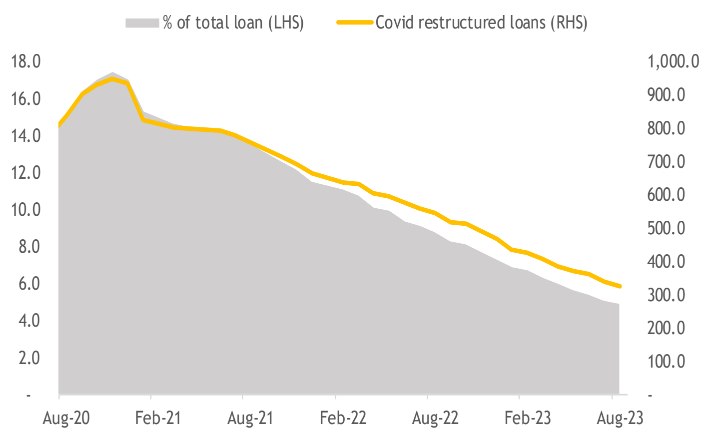
Loan quality also improved significantly since the pandemic. With loans restructured due to Covid-19 impact continuously decreasing to IDR326.2t in Aug'23 from IDR934.8t in Dec'20, as a result, LAR also declined substantially to 12.6% in Aug'23 from 23.4% in Dec'20. Thus, the risk of failure of the Covid-19 loan restructuring scheme is limited.

Fig 10: Banks LAR ratio



Source: Companies, Maybank IBG Research

Fig 11: Loans restructured due to Covid impact declining



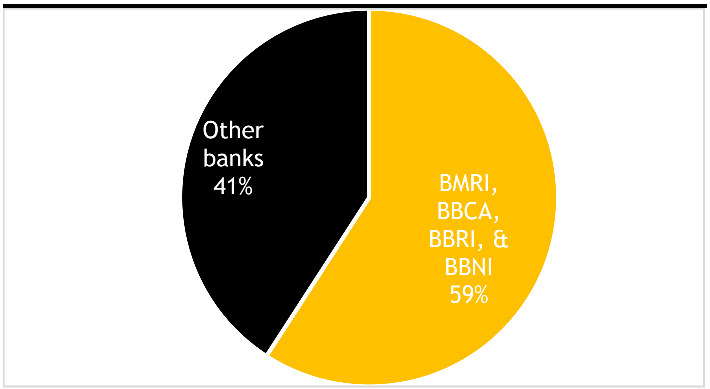
Source: OJK, Maybank IBG Research

2. 2H23 outlook: momentum sustainable

2.1 Big banks to lead

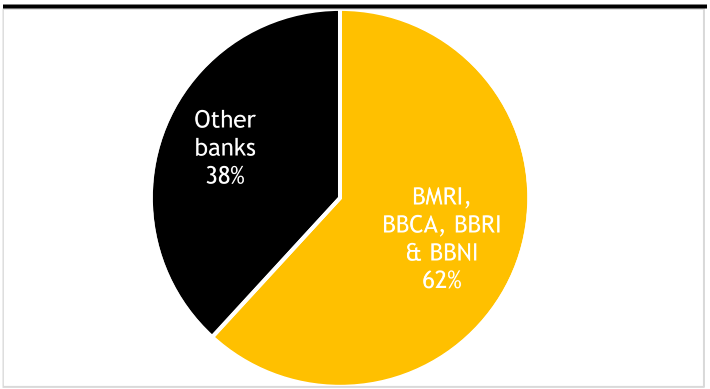
We believe 2H23 earnings momentum to continue for the big four banks, as we expect them to grow by 4% HoH and 17% YoY. Moreover, we forecast NIMs for BMRI, BBCA and BBRI to improve by 23bps, 8bps and 3bps respectively, while BBNI should contract by 16bps due to its inability to increase interest yield. We believe securing a high CASA is integral to mitigating the high interest rate.

Fig 12: CASA market share Jun'22



Source: OJK, Maybank IBG Research

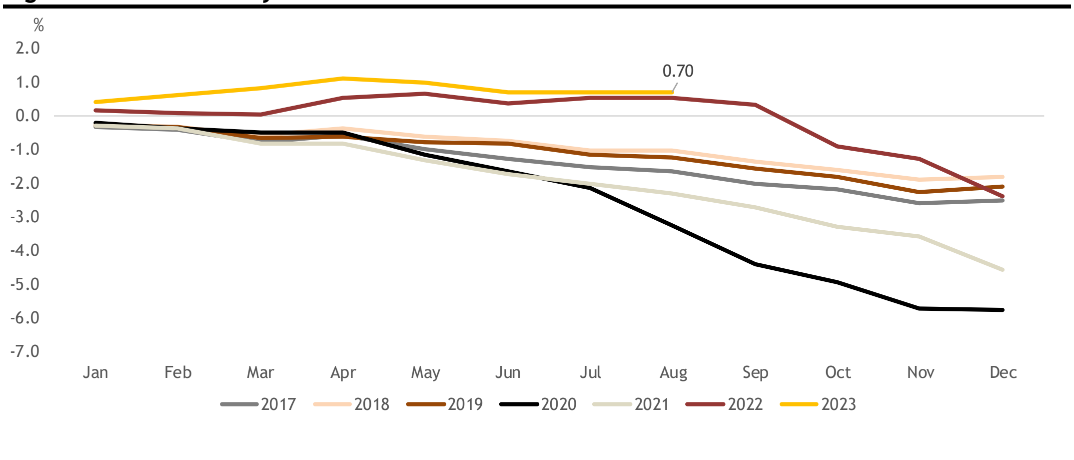
Fig 13: CASA market share Jun'23



Source: OJK, Maybank IBG Research

Moreover, we project that most of the big banks will garner market share going forward, as they can offer a more competitive loan rate sustainably. Hence, we forecast most of the big banks to outpace system loan growth of 9-10% YoY (BBCA 11% YoY, BMRI 11% YoY, BBRI 10.5% YoY, BBNI 8% YoY). Additionally, we believe the backend-loaded fiscal spending should boost loan growth in 2H23 to 9-10% YoY from 1H23's 8.5% YoY.

Fig 14: Fiscal deficit 6-year trend

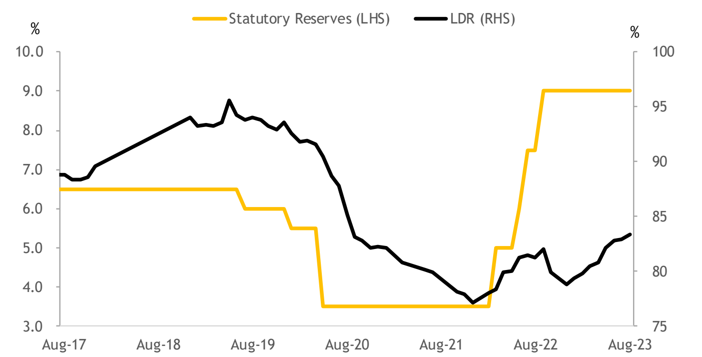


Source: Ministry of Finance, Maybank IBG Research

2.2 Liquidity incentives

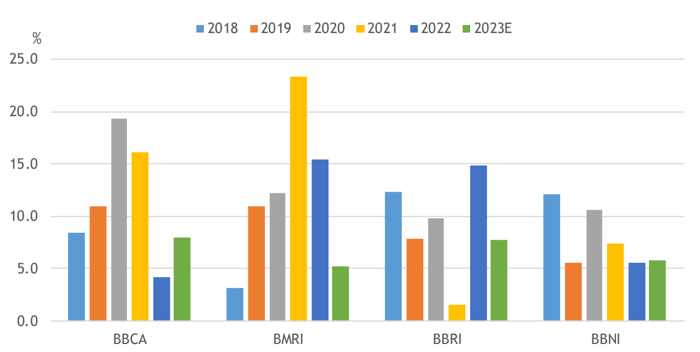
Bank Indonesia lowered the Reserve Requirement Ratio (RRR) to 3.5% in Apr'20 from 6.5% in Jun'19 as part of its monetary stimulus to prevent a liquidity crisis and to cushion the banking sector from the sudden shocks caused by the pandemic. With rising threat of higher Fed Funds rate and commodity-induced inflation last year, Bank Indonesia slowly raised the RRR starting in Mar'22 to 9% in Sep'22 to absorb excess liquidity and to support the Indonesian Rupiah.

Fig 15: RRR vs LDR



Source: Bank Indonesia, OJK, Maybank IBG Research

Fig 16: Big banks deposit growth estimate



Source: Companies, Maybank IBG Research

However, as inflation peaked in Sep'22 at 6% YoY and moderated to 3.3% YoY in Aug'23, Bank Indonesia has steadily increased incentives in term RRR reduction for banks to achieve certain loan disbursement limits to companies operating in sectors with strategic importance. The highest potential incentives given went from 1% in Jul'22 to 2% in Sep'22, this was raised to 2.8% starting in Apr'23, and then increased to 4% starting in Aug'23.

Fig 17: Bank Indonesia's macro-prudential liquidity incentives

Sector	Threshold	Incentive (%)
Mineral and coal downstreaming	>3%-7% YoY	0.20
	>7% YoY	0.30
Horticulture & Agriculture	>3%-7% YoY	0.60
	>7% YoY	0.80
Housing	>3%-7% YoY	0.25
	>7% YoY	0.30
Inclusive credit (including government subsidized loan)	>10%-20% of total	0.10
	>20%-30% of total	0.40
	>30%-50% of total	0.60
	>50% of total	1.00
Ultra micro credit	>0%-3% of total	0.30
	>3% of total	0.50
Green credit	>0%-5% of total	0.30
	>5% of total	0.50

Source: Bank Indonesia, Maybank IBG Research

In these current conditions, we favour banks that have a strong funding base. This particularly applies to BBCA and BMRI as we expect their LDR to reach 71% and 85% in FY23E, respectively, more than adequate to grow despite higher reserve requirement.

2.3 Loan book quality continues to improve

In the current high interest rate environment, we expect banks to maintain margins in two ways: 1) focusing on higher-yielding assets; 2) secure lower cost of funding. The former could potentially affect its asset quality due to higher risks while the latter is dominated by the big banks, especially BMRI and BBCA as they can retain deposit customers.

In general, we expect credit cost to remain lower as banks have ample buffer and as loan quality improves. Using the ample coverage, the banks have room to cut provision expense as loans carry considerably less risk than during the pandemic. Moreover, we expect LAR to improve by YE23, with BBCA, BMRI, BBRI and BBNI reaching 5.5%, 9.0%, 13.2% and 14.4%.

Fig 18: BBCA credit cost impact

BBCA	2022	2023			
(IDRt)		Base	10bps	20bps	30bps
Net interest income	64,143	74,267	74,267	74,267	74,267
PPOP	54,966	66,062	66,062	66,062	66,062
Provision	4,527	4,148	4,900	5,652	6,404
Net profit	40,736	50,126	49,374	48,622	47,870
Gross loans	711,139	793,185	793,185	793,185	793,185
CoC (%)	0.67	0.55	0.65	0.75	0.85

Source: Maybank IBG Research

Fig 19: BMRI credit cost impact

BMRI	2022	2023			
(IDRt)		Base	10bps	20bps	30bps
Net interest income	87,903	98,036	98,036	98,036	98,036
PPOP	72,009	84,545	84,545	84,545	84,545
Provision	15,841	15,661	16,891	18,160	19,430
Net profit	41,171	50,303	49,074	47,804	46,534
Gross loans	1,202,230	1,337,697	1,337,697	1,337,697	1,337,697
CoC (%)	1.41	1.23	1.33	1.43	1.53

Source: Maybank IBG Research

Fig 20: BBNI credit cost impact

BBNI	2022	2023			
(IDRt)		Base	10bps	20bps	30bps
Net interest income	41,321	46,592	46,592	46,592	46,592
PPOP	34,110	35,725	35,725	35,725	35,725
Provision	11,211	9,644	10,316	10,988	11,660
Net profit	18,312	21,082	20,410	19,738	19,066
Gross loans	646,188	697,883	697,883	697,883	697,883
CoC (%)	1.82	1.44	1.54	1.64	1.74

Source: Maybank IBG Research

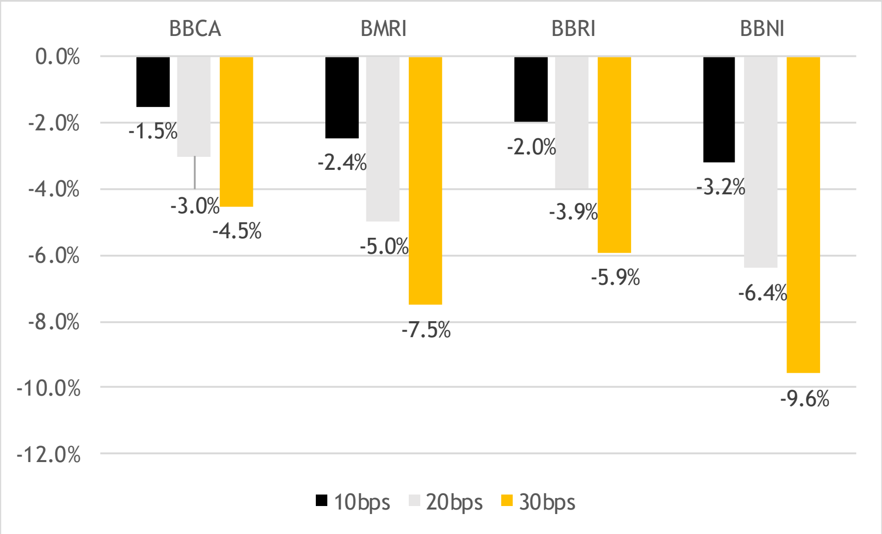
Fig 21: BBRI credit cost impact

BBRI	2022	2023			
(IDRt)		Base	10bps	20bps	30bps
Net interest income	124,597	141,362	141,362	141,362	141,362
PPOP	91,694	105,821	105,821	105,821	105,821
Provision	27,385	28,944	30,144	31,344	32,543
Net profit	51,170	60,914	59,714	58,514	57,315
Gross loans	1,139,077	1,260,640	1,260,640	1,260,640	1,260,640
CoC (%)	2.51	2.4	2.5	2.6	2.7

Source: Maybank IBG Research

Moreover, we conducted an earnings sensitivity to assess how much the big banks would be impacted by higher-than-expected credit costs. From this test we found that BBCA will be the least impacted with up to 4.5% potential decline in earnings. BBRI and BMRI could be impacted heavily if credit cost goes above 20bps of the expected amount. On the other hand, we see BBNI to be the most affected with NPATMI potentially declining by up to 9.6% of our expectation.

Fig 22: Earnings sensitivity for every 10bps rise in credit cost

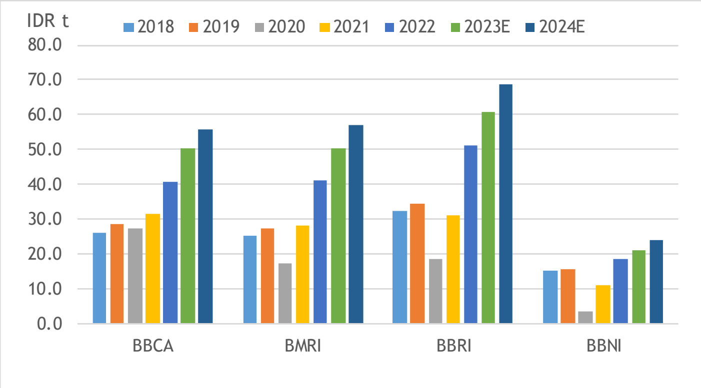


Source: Maybank IBG Research

3. Positive on banks: consistent performance

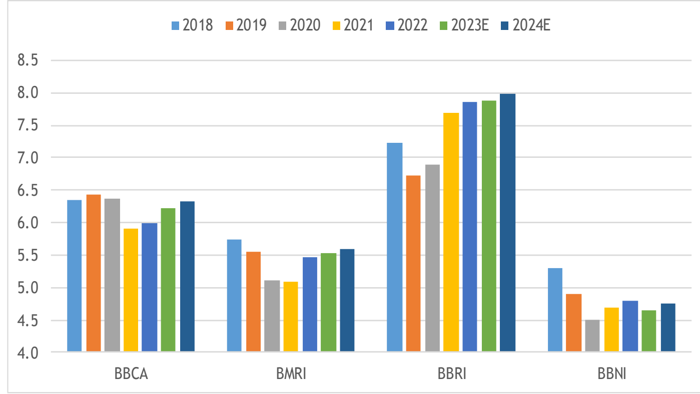
We maintain a POSITIVE view on Indonesia's banking sector as earnings growth remains robust and consistent. Our Top Picks for the sector are BMRI and BBCA due to their earnings resiliency. We remove BBNI as our top pick after it has outperformed the market in the past three weeks by 10%. Main downside risks to our sector calls are: 1) weaker-than-expected economic recovery; 2) worsening of loan quality across the banks; and 3) tightening of liquidity.

Fig 23: NPATMI of the big banks



Source: Companies, Maybank IBG Research

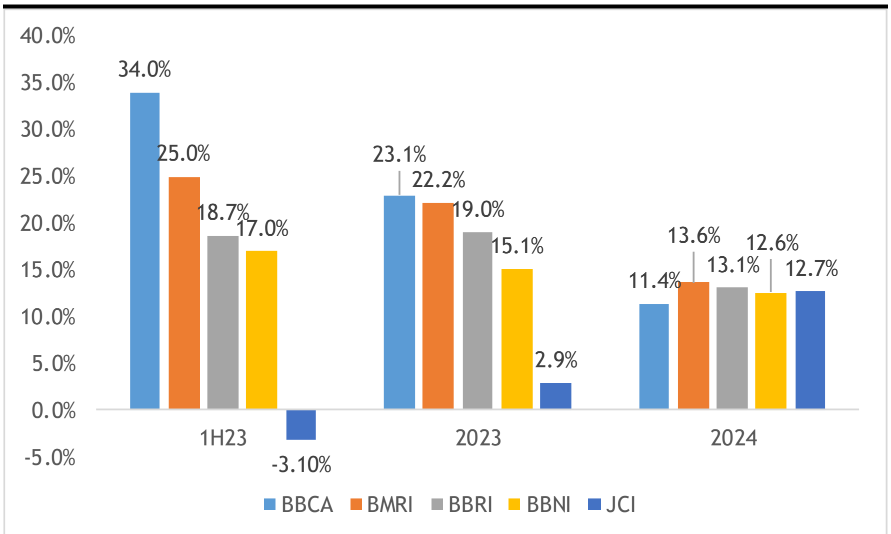
Fig 24: NIM of the big banks



Source: Companies, Maybank IBG Research

Big banks outperformed the market significantly during 1H23, and we expect this to continue well into FY23E. Although we expect earnings growth to slow down, the FY23E earnings of big banks will remain superior versus the market. Furthermore, our expectation of earnings growth in FY24 aligns with market growth and we believe banks will consistently grow.

Fig 25: EPS growth of banks under our coverage vs JCI



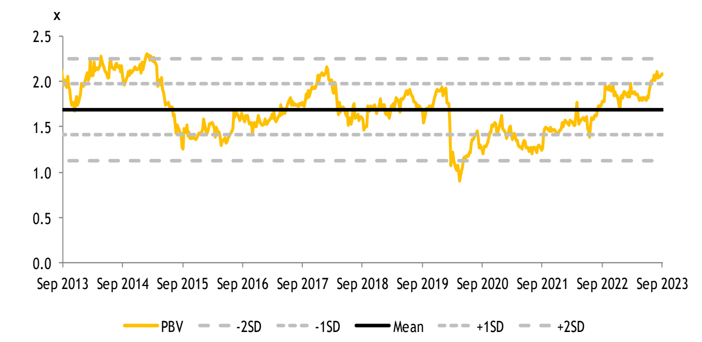
Source: Bloomberg, Maybank IBG Research

3.1 BMRI IJ: striving for excellence

BMRI has continued to enhance its operating metrics, accelerate its loan growth while maintaining its loan book quality. These will sustain its robust earnings growth going forward. Additionally, its CASA ratio is consistently improving, offering cheaper funding to grow its loan book. We believe its growing ROE will result in the stock re-rating to a higher P/BV target. Our TP of IDR6,400 aims for 2.1x FY24E P/BV and 19.8% sustainable ROE.

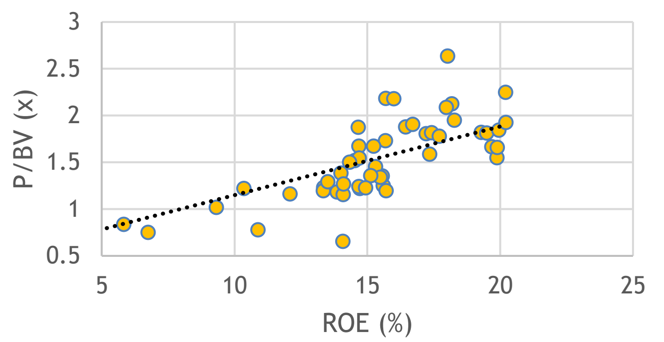
We believe BMRI still offers attractive yield and growth. Its loan growth has consistently beaten the sector this year, along with a continuous increase in profitability. Moreover, its yield remains attractive (even though the share price has rallied) as we expect dividend yield of 5.4%. Coupled with a higher ROE, this will continue to drive the stock higher.

Fig 26: BMRI forward P/BV



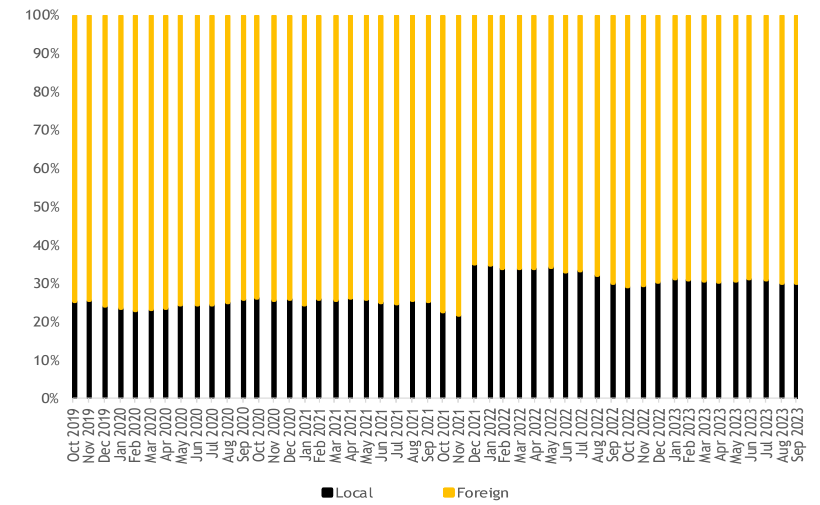
Source: Bloomberg, Maybank IBG Research

Fig 27: BMRI's ROE vs P/BV



Source: Bloomberg, Maybank IBG Research

Fig 28: BMRI's foreign and local holdings



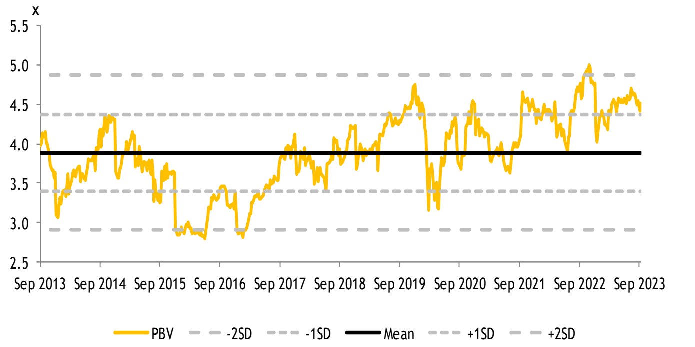
Source: KSEI, Maybank IBG Research

3.2 BBCA IJ: sustainable earnings growth

For BBCA, it benefits from having superior asset quality and a high CASA ratio, reigning in higher interest rate pressure. In 2H23, we expect accelerating interest income due to loan repricing. We anticipate BBCA's ample liquidity to be beneficial in the current tightening cycle as they are able to disburse loans more aggressively. Our TP of IDR10,450 implies 4.4x FY24E P/BV and 20.0% sustainable ROE.

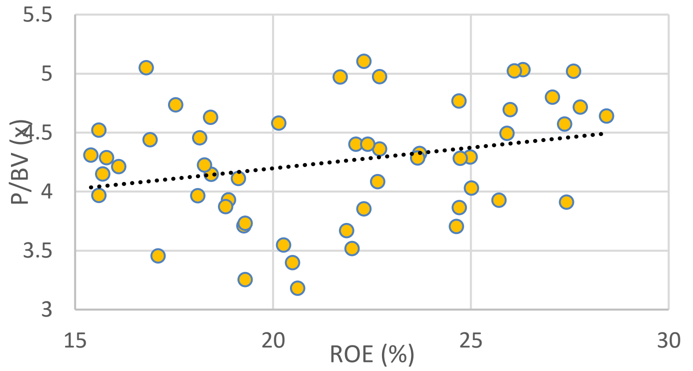
In terms of earnings growth, BBCA has led the big banks. With its strategy to capture loan market share, we believe the earnings growth outlook will be more consistent despite interest rate changes. Moreover, its superior asset quality will enable higher sustainable growth.

Fig 29: BBCA forward P/BV



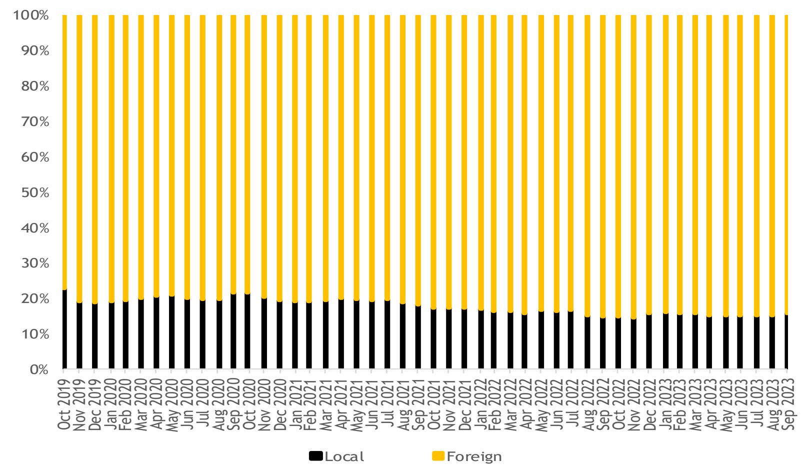
Source: Bloomberg, Maybank IBG Research

Fig 30: BBCA's ROE vs P/BV



Source: Bloomberg, Maybank IBG Research

Fig 31: BBCA ownership



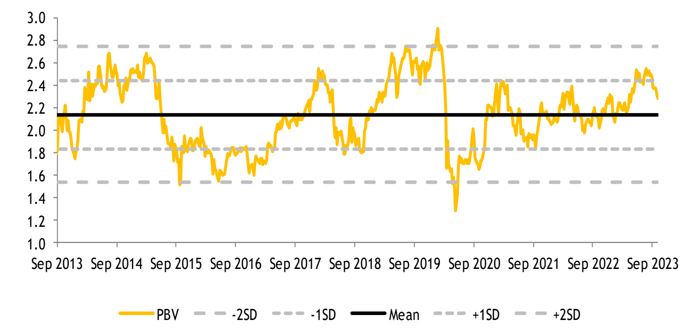
Source: KSEI, Maybank IBG Research

3.3 BBRI IJ: optimising growth

For BBRI, moving to high interest-yielding loans will help to reign in rising interest expense. Additionally, transitioning to non-subsidized micro loans will help sustain growth over the long term. However, we note that this transition will slightly decelerate loan growth in the short term as we expect subsidized micro loans to contract slightly. Our TP of IDR6,450 implies 2.8x FY24E P/BV and 19.5% sustainable ROE.

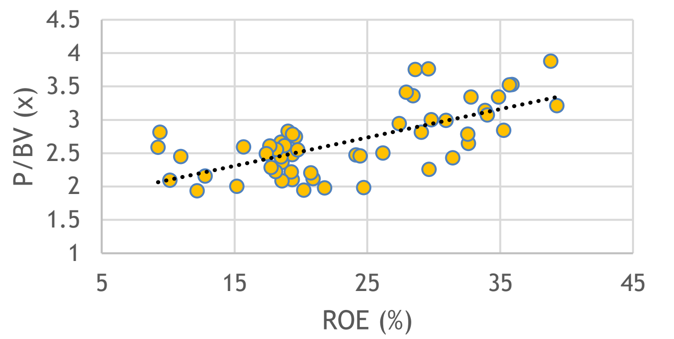
Although we still like BBRI, we note that its 8M23 performance may cause concerns. Its weaker-than-expected earnings resulted in the share price moderating in the past few weeks. However, we believe this negative sentiment is an opportunity to enter the stock as we believe its growth next year remains intact.

Fig 32: BBRI forward P/BV



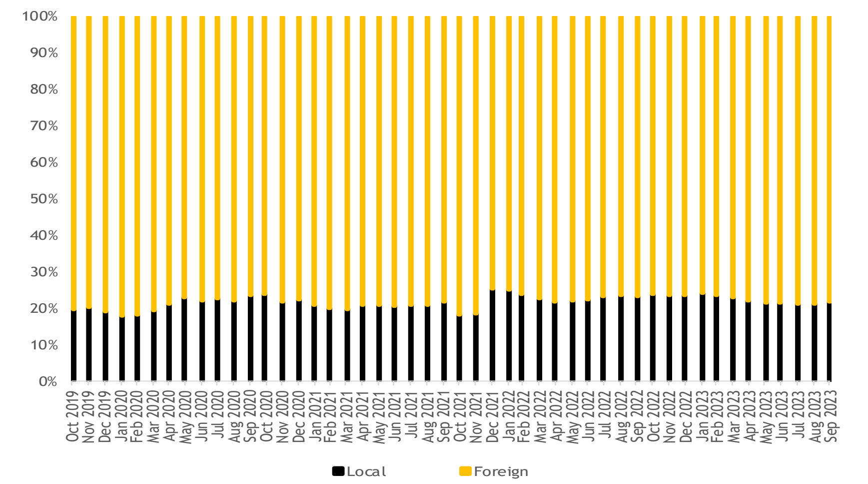
Source: Bloomberg, Maybank IBG Research

Fig 33: BBRI's ROE vs P/BV



Source: Bloomberg, Maybank IBG Research

Fig 34: BBRI ownership



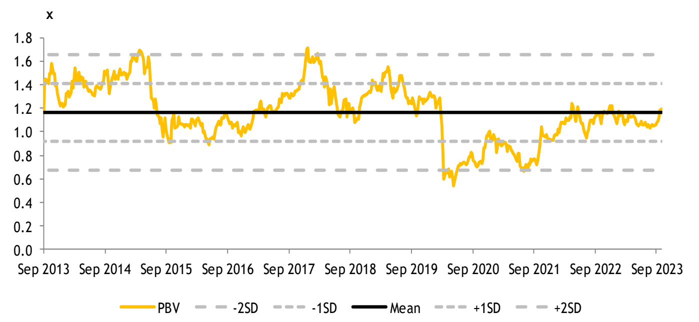
Source: KSEI, Maybank IBG Research

3.4 BBNI IJ: on a roll

On the other hand, BBNI is focusing on improving loan quality at the expense of slowing down loan growth. However, we assume the market's low expectation on BBNI has been priced in, hence, it has limited downside risk. Furthermore, we noticed upside risk for loan growth after a number of years of consolidation. Moreover, it's trading at a significant discount to other big banks, while offering attractive dividend yield and ROE is recovering. Our TP of IDR11,000 implies 1.2x FY24E P/BV and 14.6% sustainable ROE.

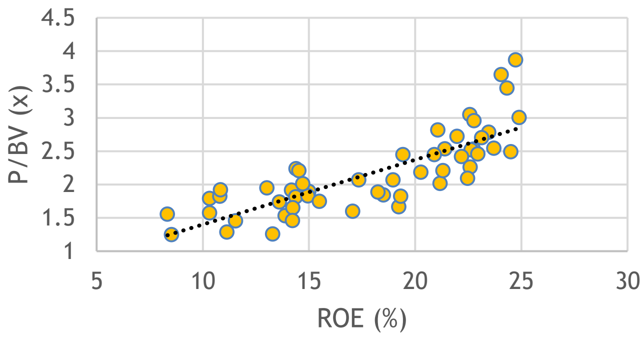
We still favour the stock despite the recent share price rally. With ROE slowly expanding we remain optimistic that BBNI will re-rate, as shown in figure 36; ROE of around 15% is generally reflected by a 1.8-2.0x P/BV for BBNI but it's trading at only 1.1x FY24E P/BV. Not to mention, assuming the same payout ratio as last year, BBNI offers more than 4.8% dividend yield.

Fig 35: BBNI forward P/BV



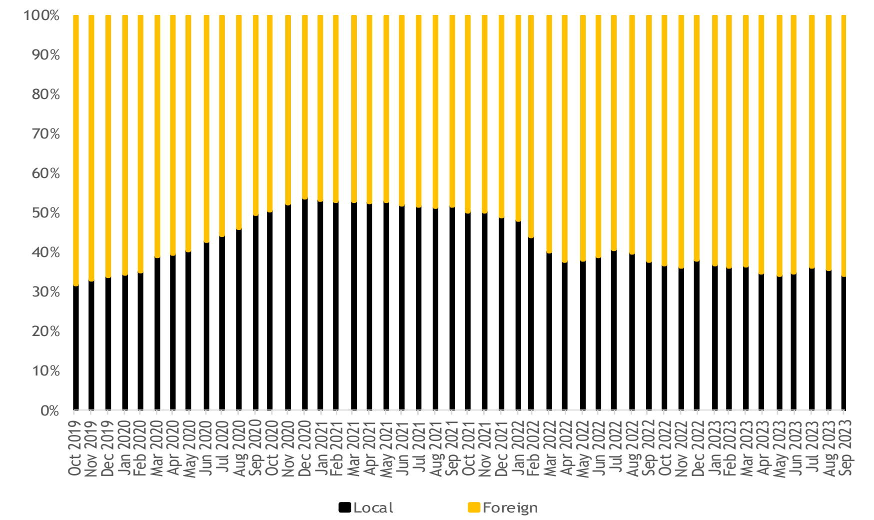
Source: Bloomberg, Maybank IBG Research

Fig 36: BBNI's ROE vs P/BV



Source: Bloomberg, Maybank IBG Research

Fig 37: BBNI's ownership

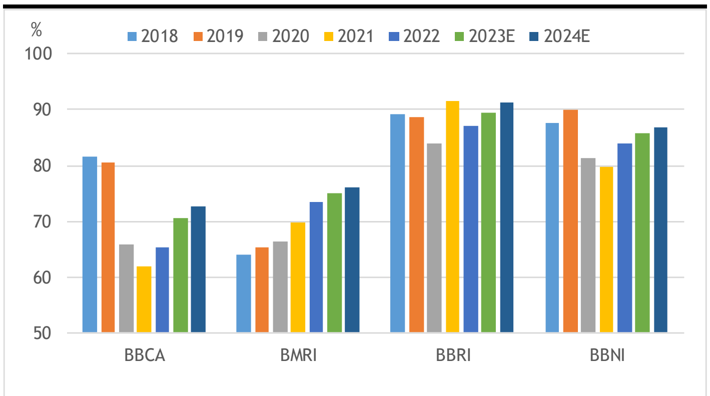


Source: KSEI, Maybank IBG Research

3.5 Downside risks

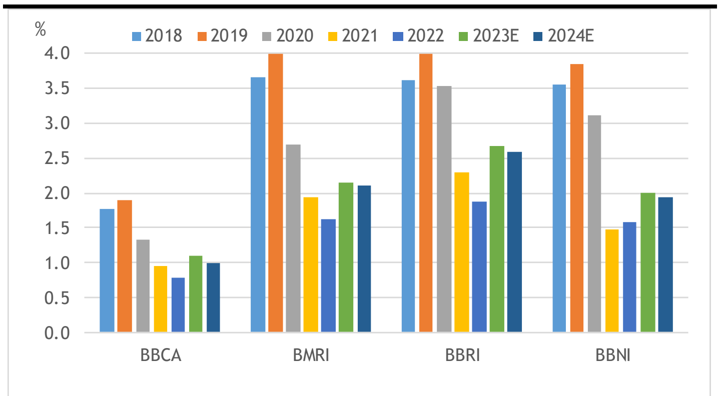
In terms of downside risk, we remain cautious of the threat of liquidity tightening, especially for banks with a higher LDR, such as BBNI and BBRI. These banks with a higher LDR and a lower CASA will have to compete for funding, which may lead to higher cost of funds and potential slowdown in loan growth. However, lending incentives and potential backend-loaded fiscal spending should mitigate the tightening risk.

Fig 38: LDR of the big banks



Source: Companies, Maybank IBG Research

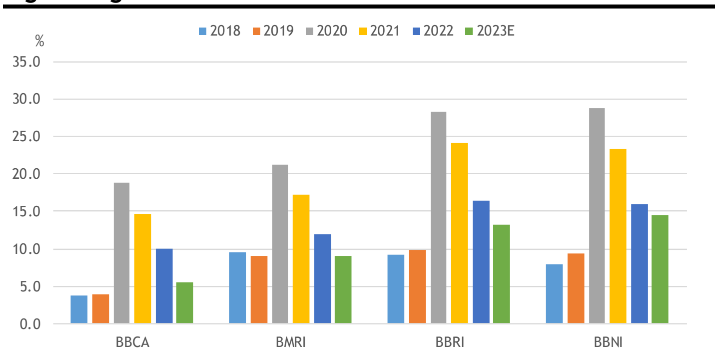
Fig 39: Cost of fund of the big banks



Source: Companies, Maybank IBG Research

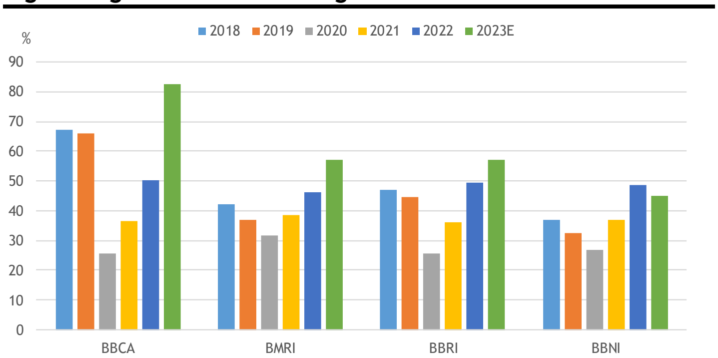
Another potential concern is deterioration of loan quality due to failed loans that were restructured due to the Covid impact. Nevertheless, as mentioned, banks have ample loan-loss coverage and their exposure is now minimal, especially among the big banks. We expect LAR to continue to decline from the peak in FY21 while at the same loan-loss coverage is still at an elevated level. Hence, we believe this risk will not impact our bank universe substantially.

Fig 40: Big banks' LAR ratio



Source: Companies, Maybank IBG Research

Fig 41: Big banks' LAR coverage



Source: Companies, Maybank IBG Research

Globally, with Fed fund rates likely to be higher for longer, we foresee risk of accelerating yields on Indonesian sovereign bonds. This trend may cause banks to incur losses from their fixed-income investments. However, fortunately, according to figure 42, the exposure of the four big banks to bonds are relatively lower than their loans, which are repriced over time, reducing the risk of sudden losses due to reclassification.

Fig 42: Asset positioning and liquidity of banks by Jun'23 (IDRt)

Banks	Marketable securities and cash			**Total asset**	**% of total asset**	**CET1**	**RWA (%)**	**LCR (%)**	**NSFR (%)**
	Fair value through profit & loss	Fair value over comprehensive income	Amortised cost (HTM)						
BBCA	11,517	126,532	292,253	1,356,757	32	216,298	761,795	381	177
BBRI	19,775	144,533	283,385	1,805,146	25	266,050	1,041,316	166	135
BMRI	93,328	118,781	377,166	1,963,987	30	226,411	1,160,378	169	110
BBNI	11,456	106,752	159,827	1,025,091	27	127,892	658,710	205	156
Average	34,019	124,149	278,158	1,537,746	28	209,163	905,550	230	145

Source: Companies

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SELL	Return is expected to be below 0% in the next 12 months (including dividends)

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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