

Wednesday, 05 July 2023

## OVERWEIGHT

Maintain

## Banking

Profits outlook remains intact

### BMRI relative to JCI Index



### BBRI relative to JCI Index



Source : Bloomberg

We maintain our **OVERWEIGHT** call on the sector with inline 5M23 monthly results at the bank only level (38.8% of our FY23F). Loans growth started to pick up with mom growth of 2.0% for our bank universe with flattish growth in deposits. We expect 2Q23 performance to be inline as a few SOE banks will allocate higher provisions on WIKA translating into a flat or slight uptick in the CoC on a qoq basis. **BMRI (BUY, TP IDR6,000)** remains our top pick in the sector given its decent NIM outlook with an expected 19.6% ROAE this year.

**5M23 tracker: inline.** The 5M23 net profits for our universe (+17.5% yoy) reached 38.8% of our FY23F thanks to manageable opex growth (+1.4% yoy) and lower credit costs of 156bps (5M22: 189bps). Loans growth remained intact at 10.0% yoy in May 2023 and it is expected to rise in 2H23F ahead of the elections. The annualised NIM touched 5.5% with a 1.9% blended CoF, up by 53bps from 2M22's figure. On a May only basis, the blended CoF declined slightly by 10bps to 2.3% from April's figure of 2.4% with a supportive LDR position of 82.8% as of May 2023.

**Establishing higher coverage on exposure to WIKA.** Based on our recent discussions with several banks under our coverage, most of them have already allocated higher provisions since May 2023 on their respective exposure to WIKA, particularly SOE banks. Nonetheless, each bank adopts a different approach and BMRI will likely front-load its CoC and seek to have 30% coverage by June 2023 on IDR5.9tn of cash loans (May-23: 4%). BBNI, meanwhile, may opt for a gradual build-up in its coverage and target a 20% coverage ratio by the end of 2023F (May-23: 9.2%). BBRI will add coverage to WIKA's non-cash loans up to 20%, translating to additional provisions of ~IDR700bn until September 2023. Our FY23F CoC estimates for BMRI and BBNI stand at 145bps and 149bps (~IDR17.8tn and ~IDR10tn, respectively), providing ample room for possible additional provisions on exposure to WIKA, in our view.

**2Q23 preview: expect inline figures.** We thus expect our coverage's 2Q23 bottom line to be broadly inline with our forecast. The CoC should be either flat or slightly higher vs 1Q23 mainly due to the higher CoC on exposure to WIKA for a few big SOE banks. BTPS will book the highest CoC on a quarterly basis this year (above 10%), as the bank is looking to write off IDR1tn of bad character customers in FY23F. Most of the banks will likely release their 2Q23 results starting in the third week of July 2023 with BBRI and BRIS to release their results later in August due to a limited review process.

**OVERWEIGHT: BMRI is our top pick in the sector.** BMRI remains our top pick in the sector given its attractive ROAE outlook of 19.6% with a decent dividend payout policy (~60% payout) and sound risk management.



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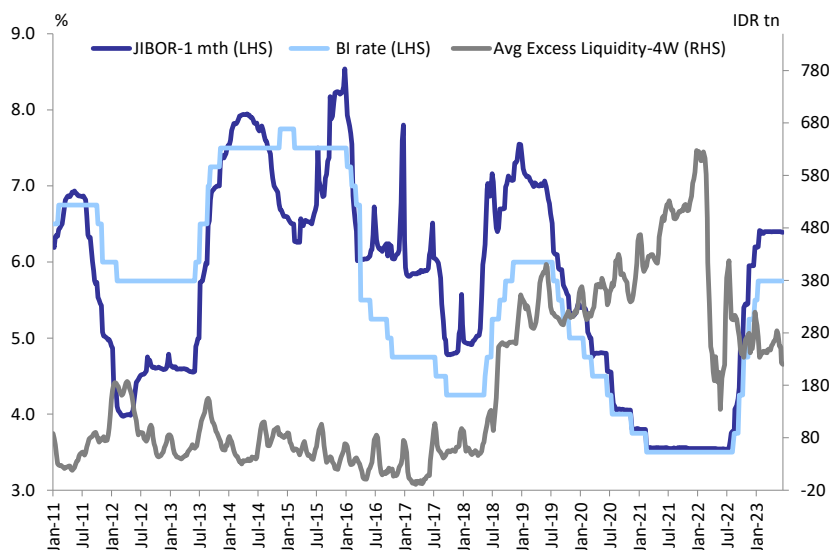
Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			Price (Rp)	Cap. (RpBn)	2023F	2024F	2023F	2024F	2024F
Bank Mandiri	BMRI IJ	BUY	6,000	490,000.0	10.4	9.1	2.0	1.8	20.3
Bank Rakyat Indonesia	BBRI IJ	NOT RATED	n/a	825,996.6	14.7	13.1	2.6	2.5	19.5
Bank Negara Indonesia	BBNI IJ	BUY	11,500	169,702.8	7.8	6.7	1.1	1.0	16.3
Bank Tabungan Negara	BBTN IJ	BUY	2,000	18,455.3	4.6	4.5	0.6	0.6	13.3
Bank Syariah Indonesia	BRIS IJ	BUY	2,000	82,571.4	15.8	13.5	2.2	2.0	15.6
BTPN Syariah	BTPS IJ	BUY	2,800	17,641.5	8.3	7.1	1.8	1.6	23.8
BPD Jatim	BJTM IJ	BUY	850	9,658.6	6.1	5.5	0.8	0.7	13.8
Bank Central Asia	BBCA IJ	HOLD	8,800	1,115,639.2	24.3	21.2	4.5	4.0	20.0

Exhibit 1. 5M23's results highlights (bank only)

FY End (IDR bn)	4 Big Banks		BRI Danareksa universe			
	5M22	5M23	5M22	5M23	A/F (%)	yoy growth (%)
Interest income	132,103	155,176	155,082	180,991		
Interest expense	(22,539)	(36,831)	(29,181)	(46,130)		
<b>Net interest income</b>	<b>109,564</b>	<b>118,345</b>	<b>125,901</b>	<b>134,861</b>	34.6	7.1
Net-II growth (%)		8.0		7.1		
Loan growth (%)		9.6		10.0		
Net interest margin (%)	5.5	5.5	5.5	5.5		
Non-interest income	40,849	43,187	42,878	46,150	30.7	7.6
<b>Total operating income</b>	<b>150,413</b>	<b>161,532</b>	<b>168,780</b>	<b>181,011</b>	33.5	7.2
Operating costs	(55,906)	(56,711)	(65,455)	(66,348)	28.1	1.4
CIR (%)	37.2	35.1	38.8	36.7		
<b>Pre-provision operating profit</b>	<b>94,508</b>	<b>104,821</b>	<b>103,325</b>	<b>114,663</b>	37.7	11.0
PPOP growth (%)		10.9		11.0		
Total provisions	(25,528)	(22,713)	(28,913)	(26,426)	39.3	(8.6)
Credit costs (bps)	194	156	189	156		
<b>Pre-tax profit</b>	<b>69,231</b>	<b>81,983</b>	<b>74,572</b>	<b>88,015</b>	37.2	18.0
<b>Net profit</b>	<b>56,400</b>	<b>66,391</b>	<b>60,518</b>	<b>71,085</b>	38.8	17.5
Net profit growth (%)		17.7		17.5		
Gross loans	3,097,489	3,393,791	3,613,470	3,974,485		10.0
Total assets	5,027,626	5,415,216	5,804,024	6,243,738		7.6
CASA deposits	2,796,480	3,026,231	3,119,041	3,401,727		9.1
Customer deposits	3,820,471	4,126,538	4,465,637	4,799,772		7.5

Source: Company, BRI Danareksa Sekuritas

Exhibit 2. Excess liquidity within the system as of June 21, 2023



Source: Bank Indonesia, BRI Danareksa Sekuritas

**Exhibit 3. Selected banks' exposure to WIKA and WSKT (all on a consolidated level)**

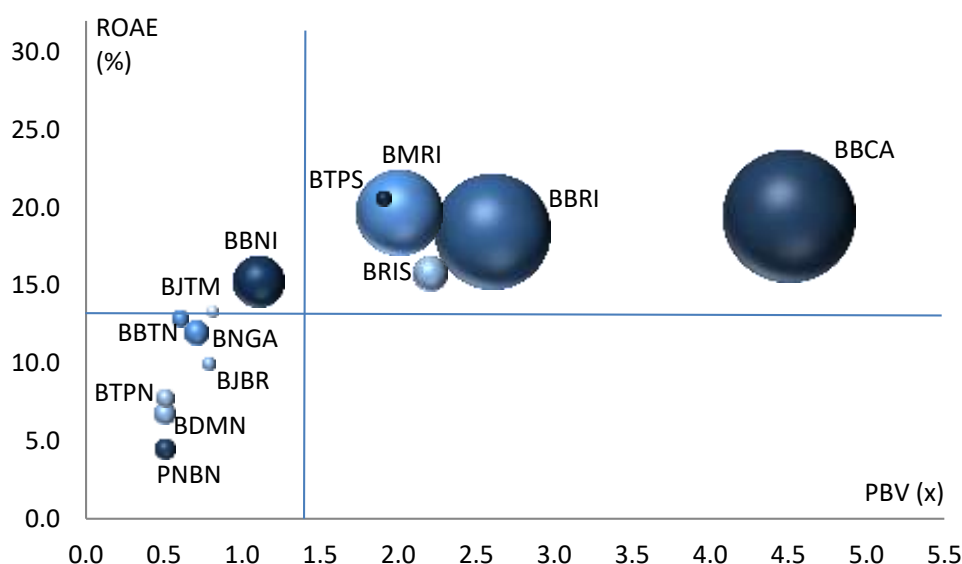
	O/S as of May-23 (IDRbn)^		Coverage as of May-23 (%)		Coverage as of Apr-23 (%)		5M23 CoC (bps)	OD FY23F CoC (bps)
	WIKA	WSKT	WIKA	WSKT	WIKA	WSKT		
	BMRI	5,910	6,954	4.0	28.8	4.0		
BBNI	1,600	11,500	9.2	46.0	6.0	46.0	132	149
BBRI	523	4,500	90.0	75.0	90.0	75.0	302	N/A
BRIS	1,490	3,300	3.2	38.2	3.2	38.0	148	148
BBTN*	272	1,075	0.3	11.1	0.3	11.1	131	125

\* mostly to subsidiaries on housing/property

^ exclude non-cash loans

Source: Company, BRI Danareksa Sekuritas estimates

**Exhibit 4. PBV ROAE Matrix**



Source: Bloomberg, BRI Danareksa Sekuritas estimates

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