Overweight

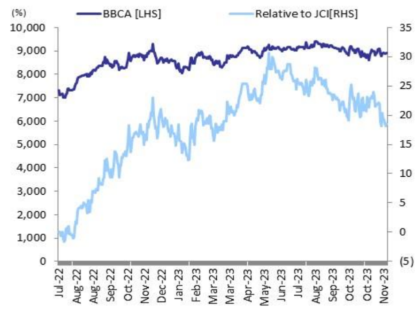
(Initiation)

Banks

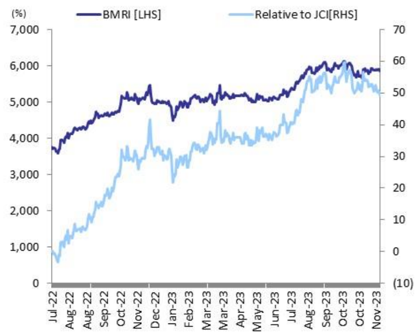
Moderating FY24 growth, but intact fundamentals shall support high growth to resume in FY25

- **We expect a temporary deceleration in banks' FY24 earnings growth, driven by slower loan growth, in-line with past trend in election year.**
- **With NIM, CIR and CoC remain in check, and healthy asset quality, we expect big-4 banks' to resume robust net profit growth in FY25.**
- **We reinitiate the banking sector coverage with Overweight rating and BBCA as our top pick in FY24, followed by BMRI.**

BBCA relative to JCI Index



BMRI relative to JCI Index



Source: Bloomberg

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Expect moderating growth in FY24F, with potential re-acceleration in FY25

We project loan growth for the big-4 banks to moderate in FY24F to 8.8% from 10.7% in FY23F. Our expectation is predicated on 1) tight liquidity condition, 2) banks' relatively high LDR and low secondary reserve ratio, and 3) election sentiment, especially in 1H24. Our liquidity tightening assumption is based on low M2 growth, gap between JIBOR and 7DRR rate, and tight mandatory reserve requirement. The slowing loan growth is inline with the trend in the past election years, and thus, we expect higher loan growth (11.1%) to resume post election.

NIM to remain robust driven by higher yield

We believe the big-4 banks shall remain well positioned in the market on the back of their pricing power and CASA franchise during rate hike (refer to p.17-20). Amid higher interest rate, BBNI has the biggest advantage since it has the highest portion (82%) of floating rate loan and BBCA has the advantage of having the highest CASA ratio of 80%. In view of the potential rate cut, which might come as soon as 2H24, BBRI will be the main beneficiaries as it has the lowest CASA ratio and highest fixed rate loans.

Healthy asset quality and steadily declining CIR to support LT growth

Despite our expectation for loan growth moderation, we believe the banks will continue to book decent net profit growth of 8.7% in FY24F (albeit normalizing from FY23F 21.6% yoy). We expect net profit growth will be supported by improvement in cost-to-income-ratio (at 32.3-43.8% vs. 31.8-43.0% in FY24F), partly reflecting growing use of mobile banking transactions, and stable provisions (at 0.5-1.3%), reflecting an overall healthy asset quality. These should allow the banks to resume high earnings growth in FY25 and beyond.

Reinitiate banking sector coverage with Overweight rating

Our initial banking sector universe includes the big 4 banks i.e., BBCA (Buy, TP Rp12,100), BBRI (non-rated), BMRI (Buy, TP Rp7,300), and BBNI (Buy, TP Rp7,100). We expect the moderation in loan growth and higher cost of fund to result in earnings growth to slow to 8.7% in FY24F, before it re-accelerates to 11.1% in FY25F. We derived our TP valuation from 5-year inverse COE GGM. Our top pick is BBCA given its higher liquidity, strong CASA, and potential higher ROE, followed by BMRI. Risks to our view are lower-than-expected loan growth and higher-than-expected CoF.

			Target Price	Market Cap.	P/E (x)		P/BV (x)		ROE (%)
Company	Ticker	Rec	(Rp)	(RpBn)	2023F	2024F	2023F	2024F	2024F
Bank Central Asia	BBCA IJ	BUY	12,100	1,103,311.7	22.2	20.1	4.5	4.1	21.5
Bank Rakyat Indonesia	BBRI IJ	Non-Rated	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bank Mandiri	BMRI IJ	BUY	7,300	550,666.7	10.8	10.0	2.2	2.0	20.8
Bank Negara Indonesia	BBNI IJ	BUY	7,100	195,810.9	9.3	8.6	1.3	1.2	14.7

Table of Contents

Moderating FY24 growth, but intact fundamentals shall support high growth to resume in FY25; re-initiate coverage with an OW rating

Moderation in loans growth and deposits growth

We expect loans growth for the big-4 banks to moderate in FY24F to 8.8% from 10.7% in FY23F, and project deposits growth to also slightly slow to 7.8% from 8.0%. This is based on: 1) tight liquidity conditions, 2) banks' relatively high LDR, and 3) election sentiment, especially in 1H24. The slower loan growth is inline with the trend in the past election years, and thus, we expect higher loan growth (11.1%) to resume post election.

Despite the slowing loan and deposit growth in FY24, we expect fundamentals to remain solid, backed by strong NIM, opex efficiencies, and stable provision which leads to net profit growth of 7.5-10.1%.

In view of the current conditions, we believe BBCA's earnings growth will outperform its peers due to its lower LDR, higher secondary reserve balances, and higher CAR.

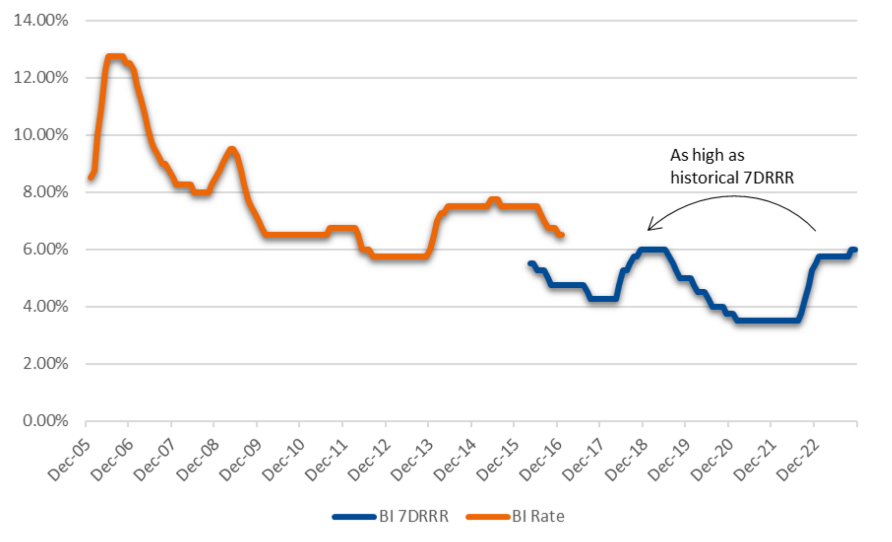
Liquidity tightening started in 2023 and will continue in 2024

Several data points have shown tightening of liquidity in the banking system. We believe this has mainly been driven by the high interest rates environment as the central bank, Bank Indonesia (BI), increased its rates by 250bps since Jul22. The current tightening of liquidity is reflected in broad money (M2) growth which hovered at around 3% in Oct23 (a historic low), the gap between JIBOR (Jakarta Interbank Offered Rate) and the BI 7DRR (7-day Reverse Repo) rate, and low mandatory reserve balances.

Tight liquidity caused by the high interest rates environment

To curb inflation and maintain Rupiah stability, Bank Indonesia (BI) opted to increase the 7-day reverse repo rate (7DRRR) from 3.50% in Jul22 to 5.75% in Jan23. Post the long pause and despite easing inflationary pressures, BI increased its rate once again (by 25bps) to 6.00% in Oct23 in a bid to prevent Rupiah depreciation owing to continuous FED rate hikes.

Exhibit 1. Historical benchmark rate

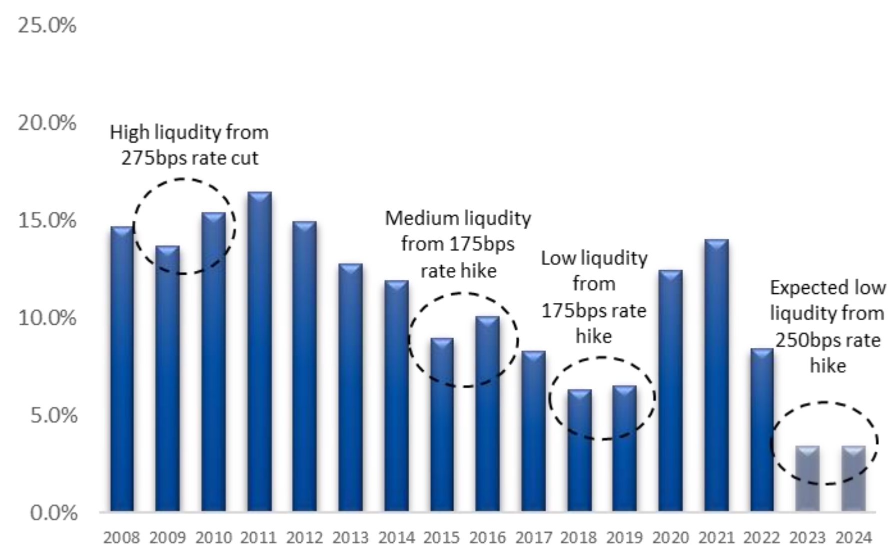


Source: BI

Low M2 growth caused by rate hikes

Tight money supply is also reflected in the broad money (M2) growth of 6.0% as of Sep23 and 3.4% as of Oct23. The growth of M2, which represents a broader measure of money supply including both narrow money (M1) and near-money components, may have several implications on banking liquidity and the process of disbursing loans and obtaining deposits. We believe liquidity will remain tight, especially during 1H24, as we expect BI to maintain the current high benchmark rate.

Exhibit 2. Broad money (M2) growth impacted by higher interest rates

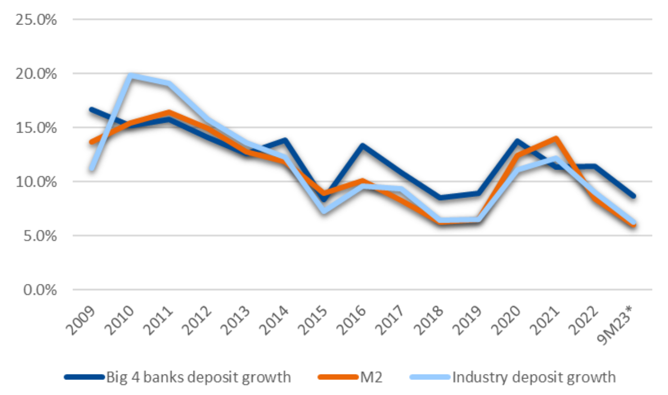


Source: BI, BRIDS Estimates

Strong correlation between M2 and loans and deposits

Demonstrating a high correlation in past years, the current tightening of liquidity as reflected in M2 growth will affect both the deposits and loans growth of the big 4 banks and the banking industry in general. Based on our analysis, growth in M2 has a high correlation with the deposits growth of the big 4 banks (0.85) and the industry (0.92) as well as the loans growth of the big 4 banks (0.73) and the industry (0.76).

Exhibit 3. M2 growth vs deposits growth



Source: Company, OJK, BRIDS Estimates

**industry as of 8M23*

Exhibit 4. M2 growth vs loans growth

Source: Company, OJK, BRIDS Estimates

**industry as of 8M23*

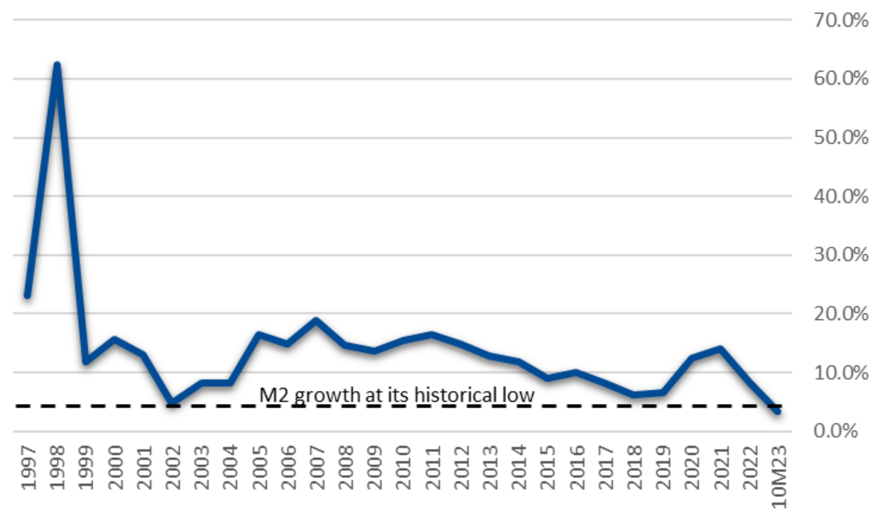
Tight liquidity with M2 growth nearly at its lowest point

With the lower growth of M2, banks' liquidity is getting tighter. As banking liquidity declines, banks will be less inclined to meet the growing demand for loans which will affect both individuals and businesses that seek credit for various purposes, such as investments, working capital, or consumption. Historically, M2 has a strong correlation with the loans growth of the banking industry and the big 4 banks.

Despite the m-o-m improvement in Sep23, M2 growth remains at a low level. The 6.0% level in 9M23 is slightly lower than the level in FY18-FY19 at 6.3-6.5% but higher than the historic low in FY02 of 4.7%. Nonetheless, the M2 growth declined again, partly due to the high base last year, in Oct23.

In Oct23, broad money (M2) reached Rp8,505.4tr, growing by 3.4% (yoy), compared to the previous month's growth of 6.0% (yoy). This was primarily driven by the decline in rupiah demand deposits, down by 5.5% (yoy), partly offset by quasi money growth of 7.8%.

Exhibit 5. Historic M2 growth



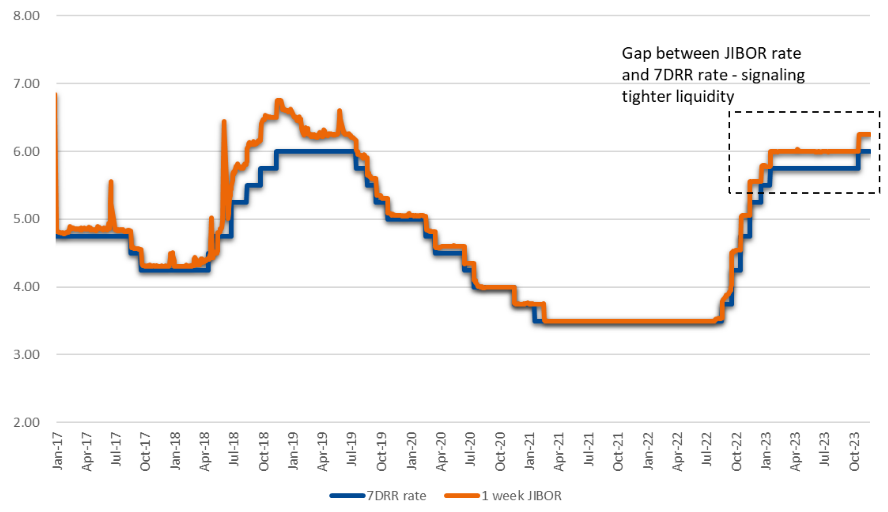
Source: BI

JIBOR is consistently higher than BI 7DRR rates, signaling a tightening of liquidity

Interbank interest rates refer to the interest rates at which banks lend to each other in the short-term money market. These rates are influenced by the overall liquidity conditions in the banking system. By observing interbank interest rates, such as overnight rates (JIBOR), we can gain insights into the liquidity conditions in the banking system. When the banks are more reluctant to lend to each other, this will lead to an increase in interbank interest rates.

Since early 2023, we note that the 1-week JIBOR (Jakarta Interbank Offered Rate) has been consistently higher than the central bank benchmark rate, 7-day reverse repo rate. Higher interbank interest rates may suggest that banks are facing challenges in obtaining short-term funds, indicating liquidity stress. We use 1-week JIBOR as the proxy for the overnight JIBOR rate as the data has been discontinued.

Exhibit 6. BI 7DRR rate vs 1-week JIBOR



Source: BI, BRIDS Estimates

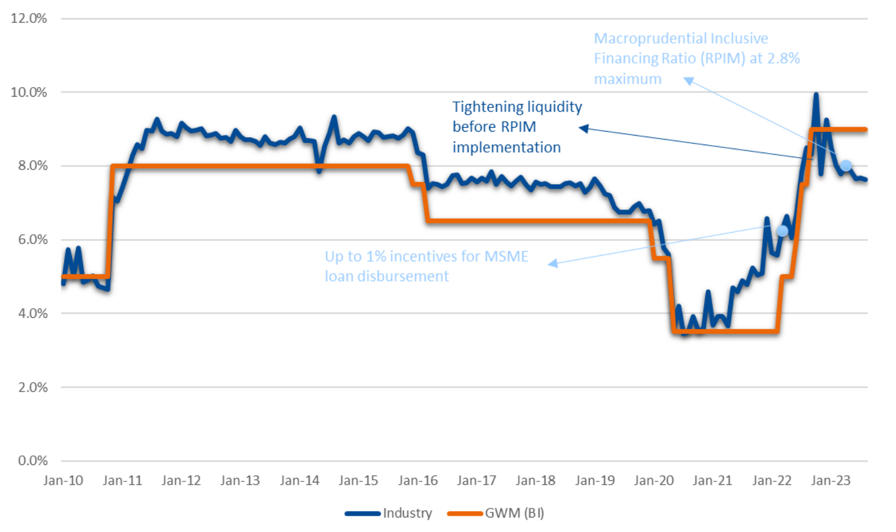
Mandatory reserve requirements are tight

Reserve requirements are the amount of funds that banks are required to hold in reserve with the central bank. These reserves act as a buffer to ensure that banks can meet withdrawal demands and maintain financial stability. BI set a specific percentage of deposits or liabilities that banks must keep as reserves. This is known as Giro Wajib Minimum (GWM) in Indonesia and was set at 9.0%, the highest level historically.

By monitoring whether Indonesian banks are maintaining reserves close to the required levels, we can assess the liquidity position of the banking system. If banks consistently meet or exceed reserve requirements, it indicates a healthier liquidity position. However, if banks fall below the required levels, it may signal potential liquidity challenges.

Our estimates on the banking industry reserve requirements, based on monthly data of demand deposit to BI divided by total customer deposits, reveals that the balances were lower than the GWM (excluding MSME incentives) in late 2022. This continued until Apr23, which we believe prompted BI to set Macroprudential Inclusive Financing Ratio (RPIM) incentives for priority sectors, MSME, and green property and vehicle financing of 2.8% maximum.

Exhibit 7. Reserve requirements vs GWM



Source: BI, OJK, BRIDS Estimates

More incentives as liquidity remains tight

To prevent loans growth from decelerating, BI has incorporated more incentives in the RPIM. The new RPIM, which was set in Oct23, provides an additional reserve requirement ratio for up to 4.0% (from 2.8%). The details are as follows:

1. Disbursed loans to priority sectors (mineral and coal downstream, non-mineral and coal downstream which include agriculture, livestock, and fisheries, housing including subsidized mortgage, and tourism) at 2.0%.
2. Disbursed loans to MSME including KUR at 1.0%.
3. Disbursed loans to the ultra micro segment at 0.5%.
4. Disbursed loans to green property or green vehicle loans at 0.5%.

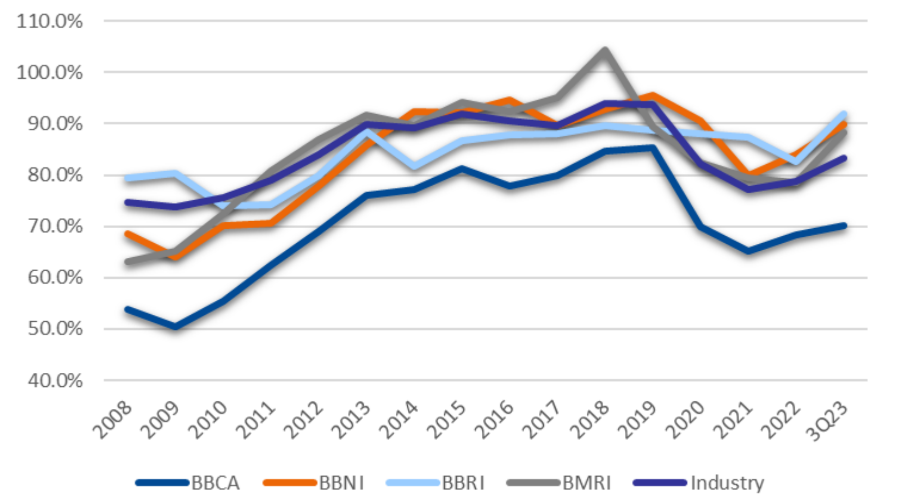
High loans to deposits (LDR) ratio and low secondary reserve ratio

As of 9M23, we note that the LDR of the big 4 banks had risen to c. 90% (excluding BBCA). On the other hand, despite the higher secondary reserve, its ratio to total loans is declining due to the high loans growth in the past two years. Except for BBCA, the secondary reserve to total loans for the big 4 banks has been below its historical average (since 2010).

High LDR will affect loans growth and the cost of funds

Excluding BBCA, the LDR ratio of the aggregate big 4 banks reached 89.9% in 3Q23. The LDR is still below OJK's upper guidance of 92% but ahead of the industry average LDR of 83.4% (based on Aug23 data). Hence, we do not expect a steep increase in the cost of deposits but instead expect slightly lower CASA ratios in favor of more time deposits.

Exhibit 8. Loans-to-deposits ratio (LDR)



Source: Company, OJK, BRIDS Estimates

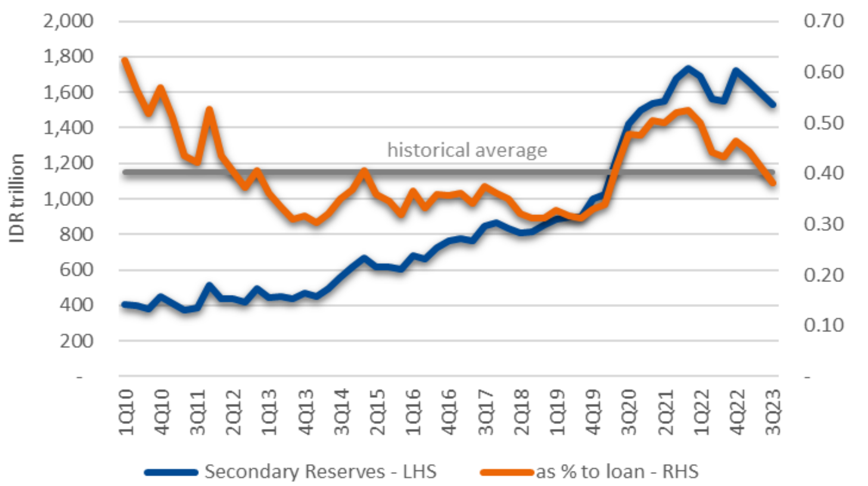
**industry as of 8M23*

Declining secondary reserves compared to the total loans ratio

Secondary reserves typically refer to highly liquid and marketable assets that a bank holds, often as part of its liquidity management strategy. These assets can include government securities, high-quality corporate bonds, and other easily tradable instruments.

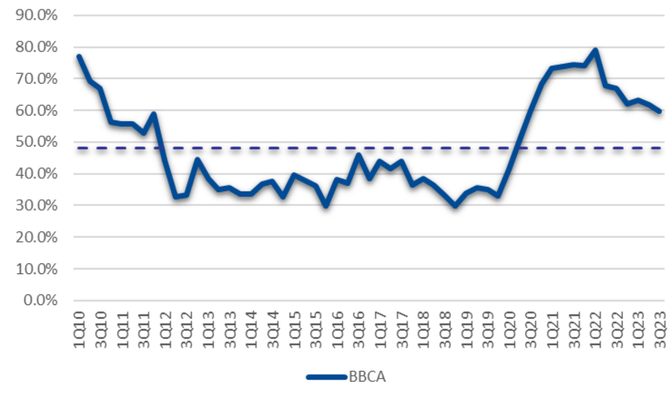
In the past five years aggregate secondary reserves increased by 13% CAGR to Rp1,529tr. Compared to total loans, the secondary reserve to loans ratio has declined from its peak of 0.52 in 4Q21 to 0.38 in 3Q23. While the ratio currently stands below its historic mean, we believe the current level is still safe so as to not lead to steep increases in the cost of funds of banks.

Exhibit 9. Big 4 banks secondary reserve to total loans ratio



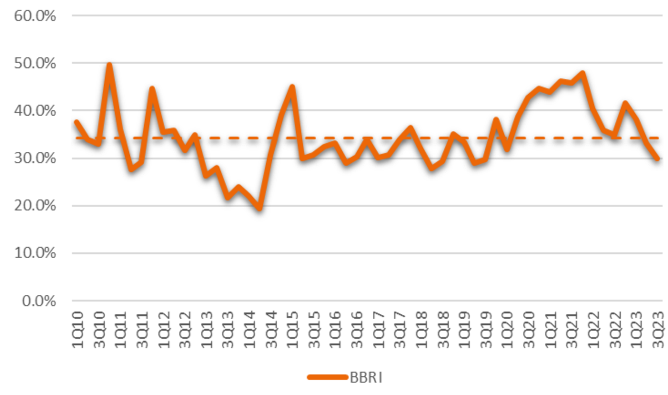
Source: Company, BRIDS Estimates

Exhibit 10. BBCA secondary reserve to loans ratio



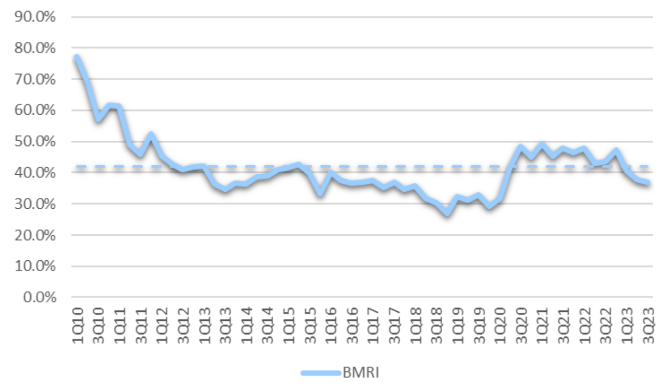
Source: Company, BRIDS Estimates

Exhibit 11. BBRI secondary reserve to loans ratio



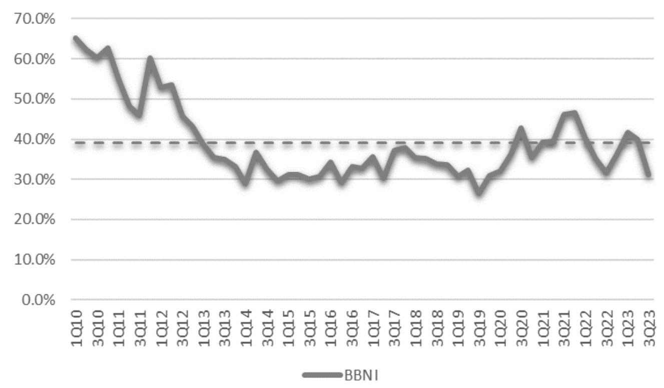
Source: Company, BRIDS Estimates

Exhibit 12. BMRI secondary reserve to loans ratio



Source: Company, BRIDS Estimates

Exhibit 13. BBNI secondary reserve to loans ratio



Source: Company, BRIDS Estimates

Election year associated with lower loans growth and higher TD

Facing the election year in 2024, we look at the historical pattern in past election years. We found that during the election years, loans growth tends to be slower, driven by lower disbursement of working capital type loans. This pattern is evident in the big 4 banks and the overall banking industry.

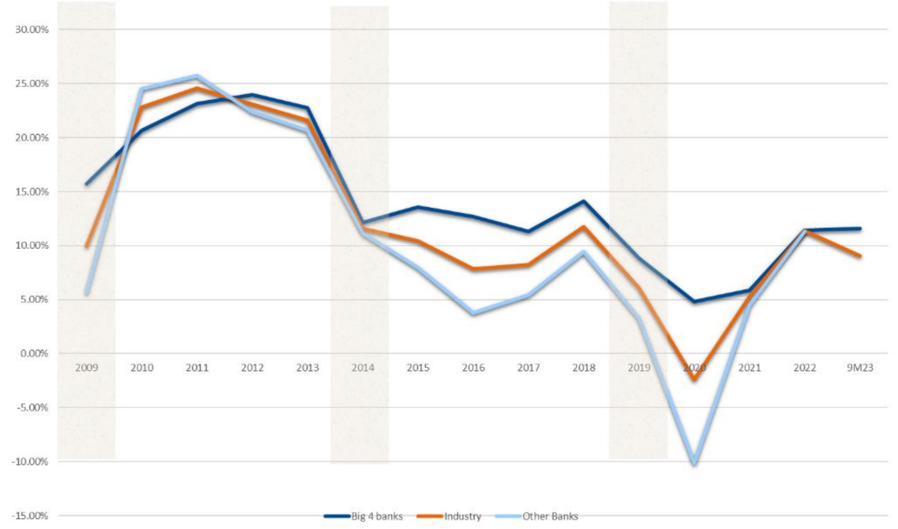
The deposits of the big 4 banks and the banking industry, on the other hand, have shown differing patterns. The big 4 banks tend to be aggressive in gaining time deposits during election years, whereas smaller banks, except in 2014, showed higher CASA growth.

Lower loans growth during election years led by working capital loans

In the past three presidential elections, i.e., 2009, 2014, and 2019, we found that the big four banks' loans growth tended to be lower during the election year and higher post-election, except for 2020 when the covid-19 pandemic hit. In 2020, industry loans growth declined by 2.4% led by the non-big 4 banks negative loans growth of 10.1%, partly offset by the big 4 banks positive loans growth of 4.8%.

The industry loans growth did not pick up post the 2014 election. The banking industry loans growth was recorded at 10.4% in 2015, slightly lower than 2014`s loans growth of 11.6%, as the smaller banks only booked loans growth of 7.3%. The industry growth in 2015 was propelled by the big 4 banks with loans growth of 13.6% (led by BBNI with loans growth of 17.5%) which we believe partly owed to the high deposits growth in the previous year.

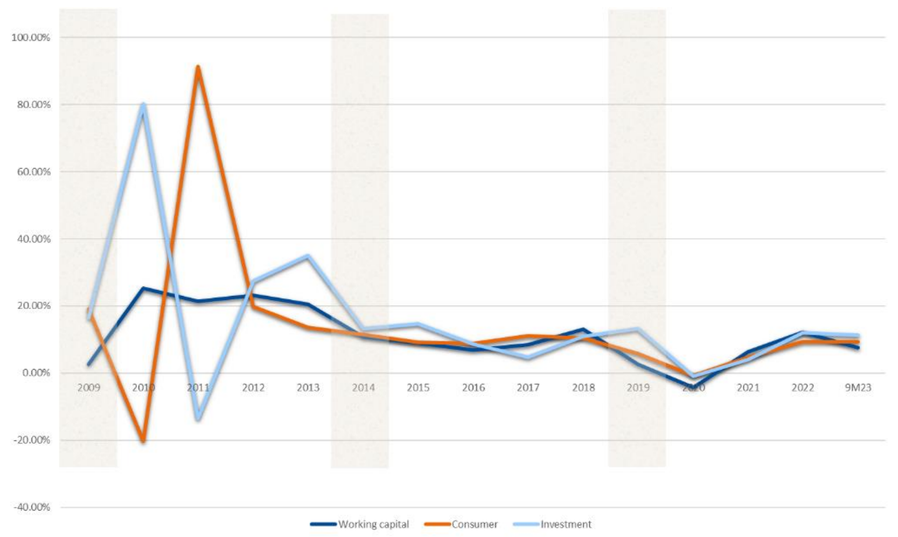
Exhibit 14. Loans growth of the banking industry



Source: Company, OJK, BRIDS Estimates

Contrary to the common view that investment loans are lower during election years, we found that investment type loans grew at a higher rate on average during the 2009, 2014, and 2019 elections. In our view, this might reflect the long-term nature of such loans i.e., maintenance capex to keep operations ongoing. Meanwhile, the wait-and-see approach relates more to the business cycle and was reflected more in the working capital loans which tended to be lower during the election years.

Exhibit 15. Loans growth of the banking industry by type of loan

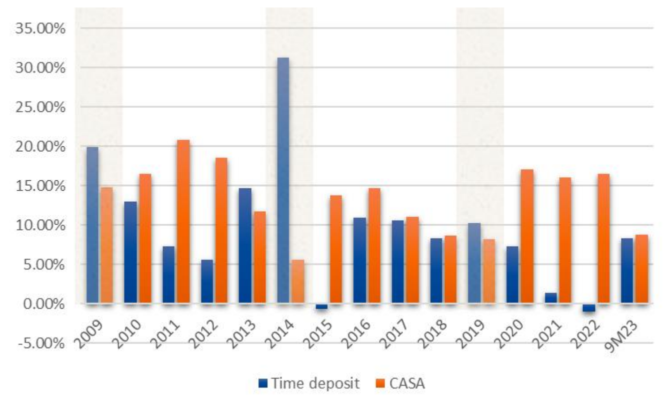


Source: Company, OJK, BRIDS Estimates

Higher TD growth for the big 4 banks

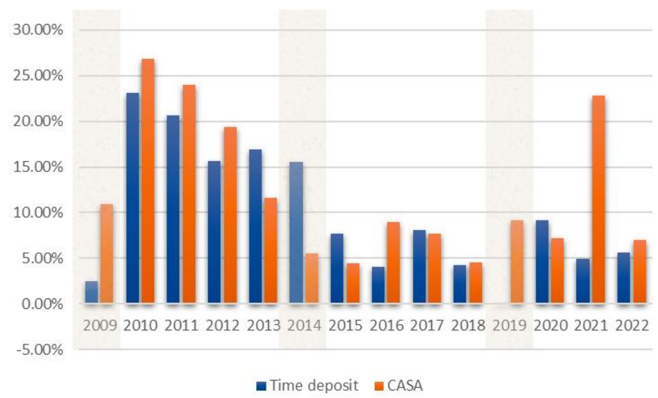
In past election years, we note that the big-4 banks tended to be aggressive in raising their time deposits. In 2009, 2014, and 2019 the big 4 banks reported TD growth of 19.9/31.3/10.3% and CASA growth of 14.8/5.6/8.3%, respectively. Except for 2014, the smaller banks showed slower TD growth (at 2.5% yoy in 2009 and flat in 2019) which, we think, might partly reflect the more competitive TD rates offered by the big-4 banks in those periods.

Exhibit 16. Big 4 banks deposits growth



Source: Company, BRIDS Estimates

Exhibit 17. Other banks deposits growth

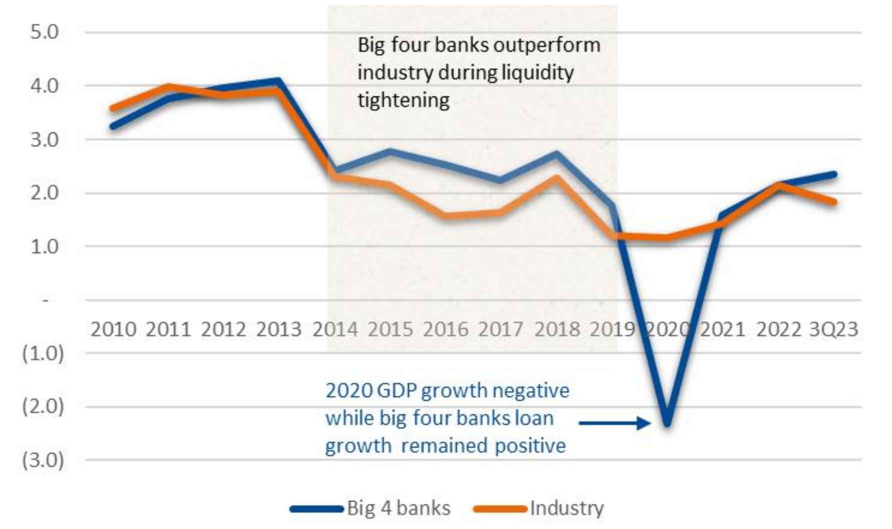


Source: Company, BRIDS Estimates

Positive loans growth albeit moderating

We remain upbeat on the big 4 banks` loans growth in FY24F, noting our economist's prediction for Indonesia GDP growth of 5.0-5.2%. In the past ten years (excluding 2020), the big-4 banks` loans growth ratio to GDP growth hovered between 1.6 – 2.8x. We also note that during the previous liquidity tightening, big-4 banks tended to outperform in terms of loans growth compared to the industry.

Exhibit 18. Loans growth to GDP growth ratio

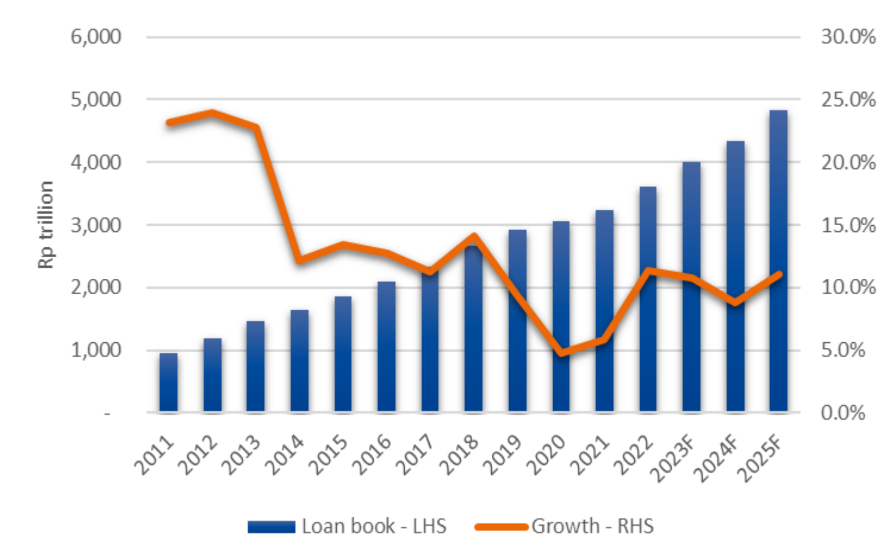


Source: Company, OJK, BRIDS Estimates

**industry as of 8M23*

We expect loans growth to moderate slightly to 8.8% in FY24F from 10.7% in FY23F for the big-4 banks, before rebounding to 11.1% in FY25F.

Exhibit 19. Loans book and growth of the big 4 banks



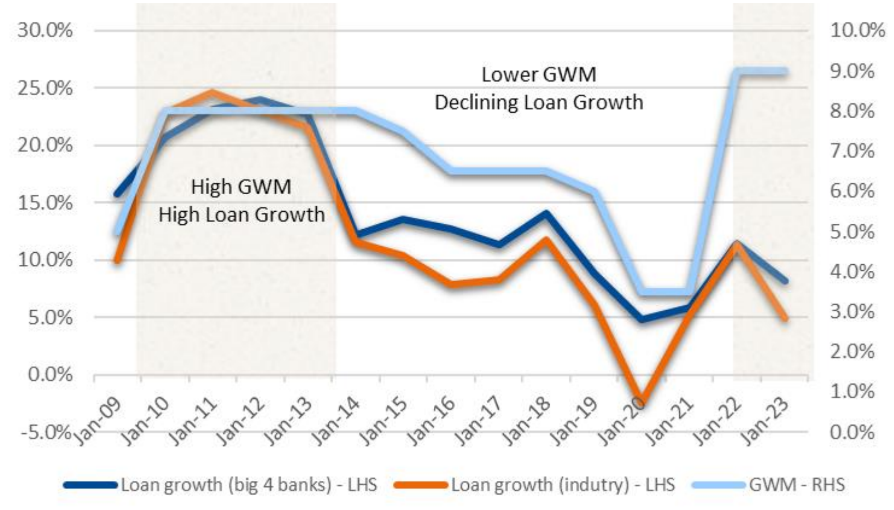
Source: BRIDS Estimates

**BRI use average growth number of the other banks*

GWM might not be a solution to the potential declining loans growth

Contrary to the market expectations on potential lower minimum statutory reserves (GWM) to support loans growth, our analysis suggests that GWM and loans growth are positively correlated. Hence, in our view, BI's lowering of GWM will only happen if loans growth has seen a sharp decline.

Exhibit 20. GWM movement vs loans growth



Source: Company, OJK, BRIDS Estimates

**industry as of 8M23*

We note that historically GWM is positively correlated to loans growth, and not the other way around. This can be seen during 2010-2013 when loans growth was above 20% p.a. despite the 8.0% GWM. This was followed by periods of declining loans growth of 5-15% during the 2014-2019 financial years amid relaxation of the GWM from 8.0 to 6.0%.

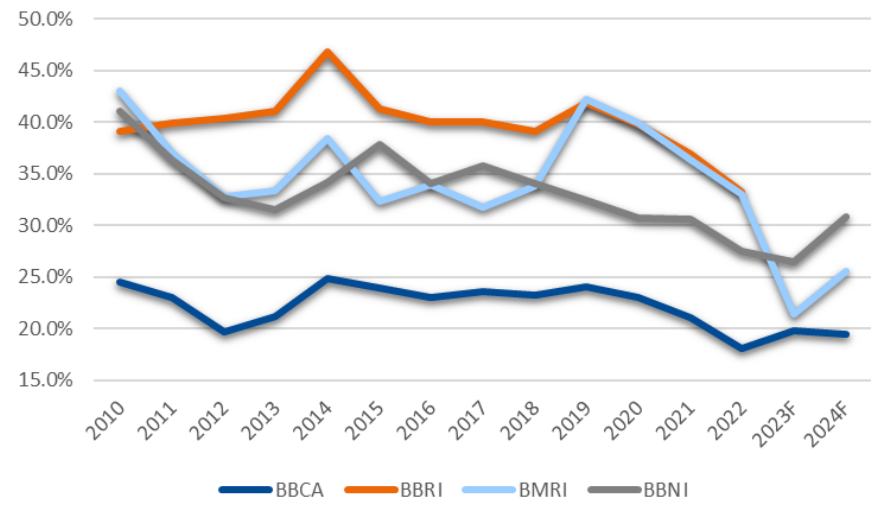
In 2020, as the banking industry was hit by the covid-19 pandemic, the GWM was cut to its lowest level at 3.5%. Despite that, industry loans growth was reported at negative 2.4% in 2020, while the big 4 banks were still able to grow their loans by 4.8% in the same year, albeit the lowest growth rate since 2009.

Higher TD portion to address tightening liquidity

As liquidity tightens, financial institutions strategically pivot towards the allure of time deposits, drawn by the stability and commitment that these instruments offer. The tightening of liquidity is akin to a tightening string, creating an environment where traditional banking instruments such as time deposits become increasingly attractive. This shift is propelled by the fundamental characteristics of time deposits, which lock in funds for a specified period.

In FY24F, we expect potentially higher growth in TD compared to CASA deposits amid tightening liquidity. Among the big-4 banks, we see the SOE banks will be keener to secure TD as their average LDR has reached c. 90%, compared to BBCA`s LDR of 70% in 3Q23.

Exhibit 21. TD portion in customer deposits

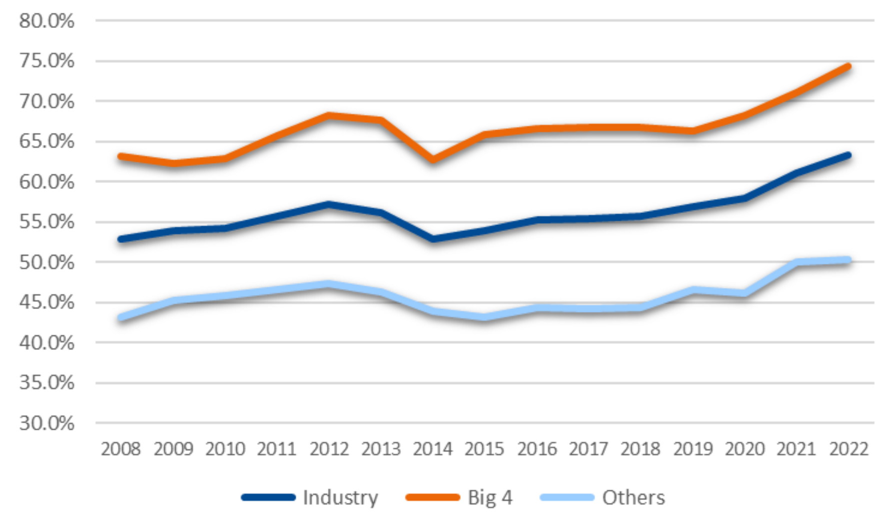


Source: Company, BRIDS Estimates

The big-4 banks are in a better position from the CASA ratio standpoint

During 2008-2019, the big four banks` CASA ratio ranged between 62.2-68.2%, higher than the other banks at 43.2-47.4%. The big four banks` CASA ratio elevated sharply amid the covid-19 pandemic reaching its highest level at 74.3% in 2022. As CASA is less sensitive to the benchmark rate compared to time deposits, the big-4 banks will be less impacted by the rising 7DRRR as only a fourth of customer deposits are exposed to interest rate hikes, compared to half for smaller banks.

Exhibit 22. CASA ratio of Indonesian banks

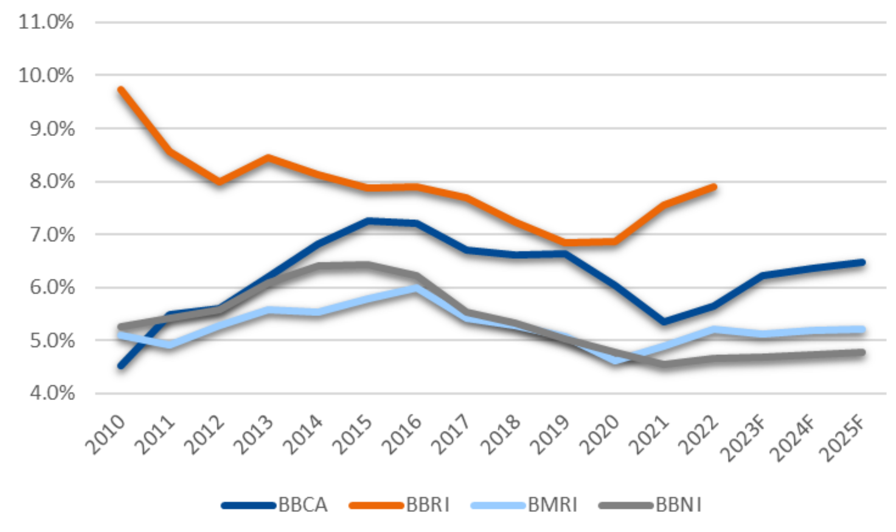


Source: Company, OJK, BRIDS Estimates

Continued margins expansion from higher asset yields outpacing a higher cost of funds

In the face of rising interest rates, the Big 4 banks are poised to benefit from a phenomenon where the higher earnings yield on their loan portfolios outpaces the elevated cost of funds. This positive scenario arises as the interest income generated from loans, especially in an environment of rising rates, provides a lucrative avenue for these banks. The higher yields on their loans and other earning assets contribute to expanding NIM, serving as a financial buffer against the increased costs associated with obtaining funds.

Exhibit 23. Big 4 banks net interest margin (NIM)



Source: Company, OJK, BRIDS Estimates

<u>Potential rate cut with BBRI as the main beneficiary</u>

In the ever-evolving landscape of global economics, the prospect of falling interest rates in Indonesia looms on the horizon, with expectations pointing towards the second half of 2024 at the earliest. Albeit impact might be lagging, among the big 4 banks poised to emerge as winners in this scenario is Bank Rakyat Indonesia (BBRI), strategically positioned with the lowest CASA ratio and a portfolio of high fixed-rate loans (see exhibit 24 and 25).

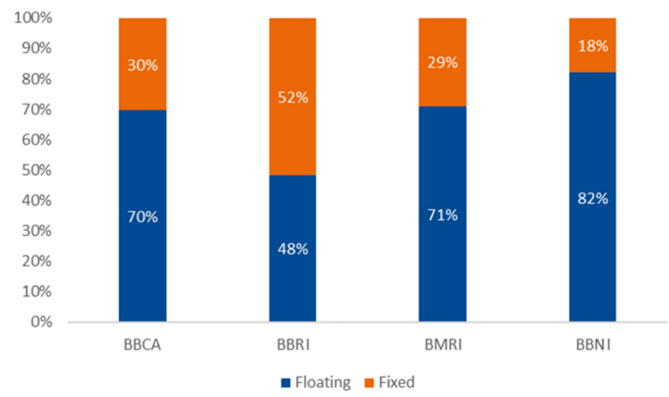
In an environment where interest rates are expected to decrease, loans with fixed interest rates become more valuable for the bank. As market rates decline, the fixed-rate loans continue to generate interest income at a rate higher than prevailing market rates. On the other hand, bank with high TD portion will benefit from the falling interest rate due to its interest-sensitive nature type of deposits.

Higher NIMs are expected

We expect the big 4 banks` NIM to expand from 4.7-6.2% in FY23F to 4.7-6.4% in FY24F. This mainly reflects the higher benchmark rate which allows the banks to re-price their floating rate loans. As of 9M23, BBNI has the highest portion of such loans, followed by BMRI and BBCA. BBRI has the least amount of floating rate loans due to its fixed-nature KUR (Kredit Usaha Rakyat) or micro loans.

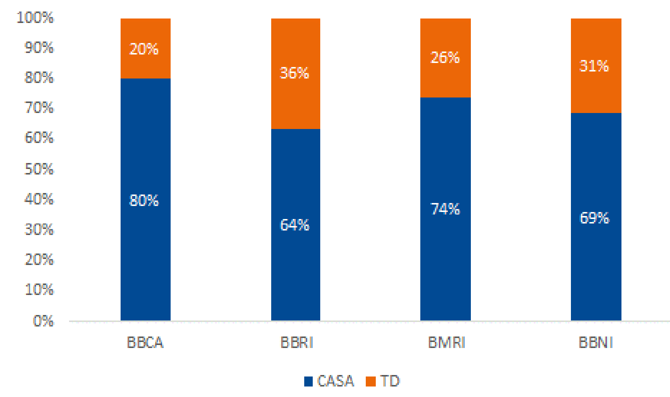
On the costs side, we expect a slight increase in the cost of funds to 1.1-2.5% in FY24F on the back of our expectation of an increase in the cost of deposits due to the higher benchmark rate. In this regard, banks with a higher portion of TD (Time Deposits) will be affected more due to their interest-sensitive nature. BBCA has the highest CASA ratio of 79.9%, and hence it is the least affected by rising benchmark rates, followed by BMRI (73.7%), BBNI (68.6%), and BBRI (73.7%).

Exhibit 24. Portion of floating vs fixed rate loans (9M23)



Source: Company, BRIDS Estimates

Exhibit 25. Portion of CASA vs TD (9M23)



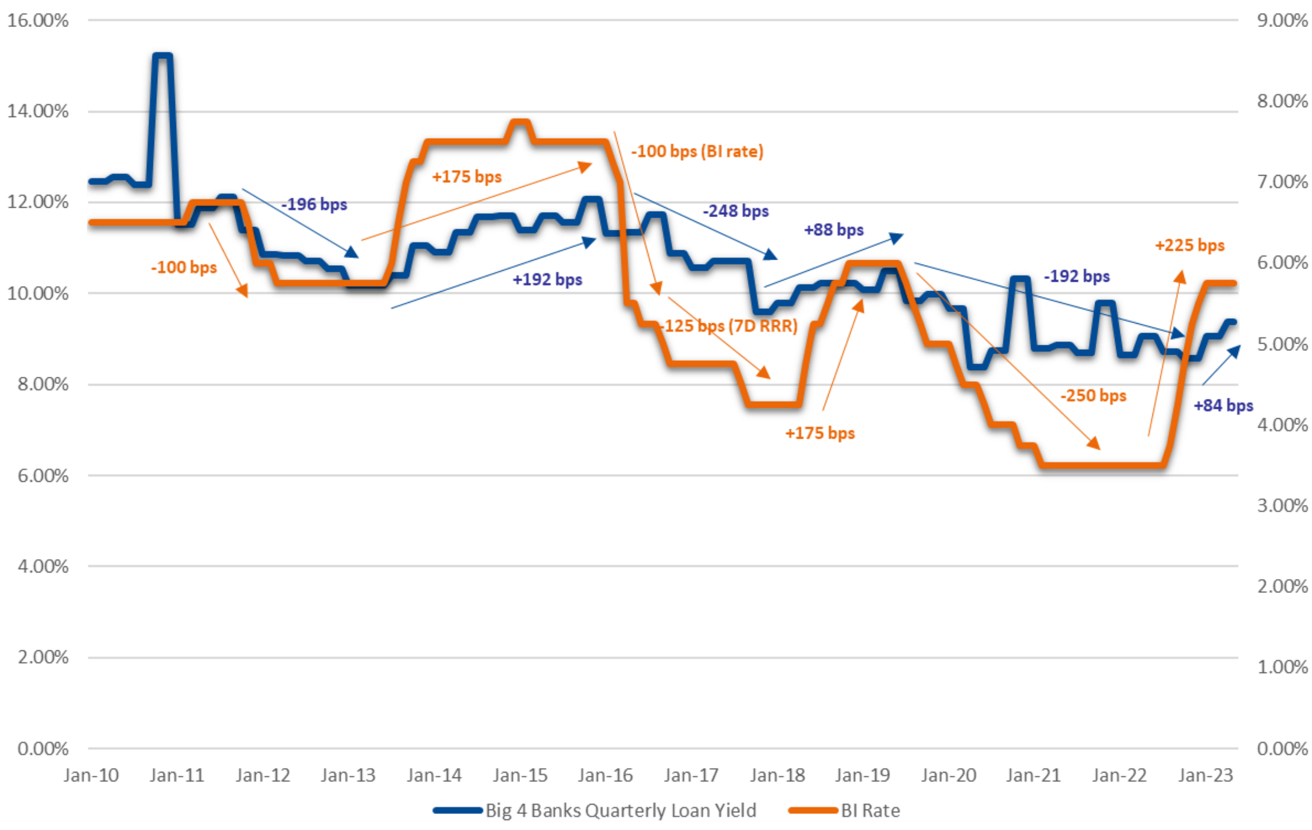
Source: Company, BRIDS Estimates

Loan repricing to continue driving asset yields

Historically, the big 4 banks' loan yields had a strong positive correlation to the benchmark rate (both the BI rate and BI 7DRR rate). Depending on the magnitude and duration of the change in the benchmark rate and the floating-rate loan portion at the time, the big-4 banks have demonstrated the ability to increase/decrease their loan yield by 50-196% of the benchmark rate since 2010.

As of 3Q23, the annualized quarterly loan yield of the big 4 banks has increased by 84bps, or only 37% of the benchmark rate increase of 225bps since Jul-22. In addition to another 25bps rate hike in Oct23, we believe the big 4 banks will continue to reprice their loan rate in FY24F, which should provide a higher NIM amid a rising cost of funds.

Exhibit 26. Annualized quarterly loan yield movement vs benchmark rate



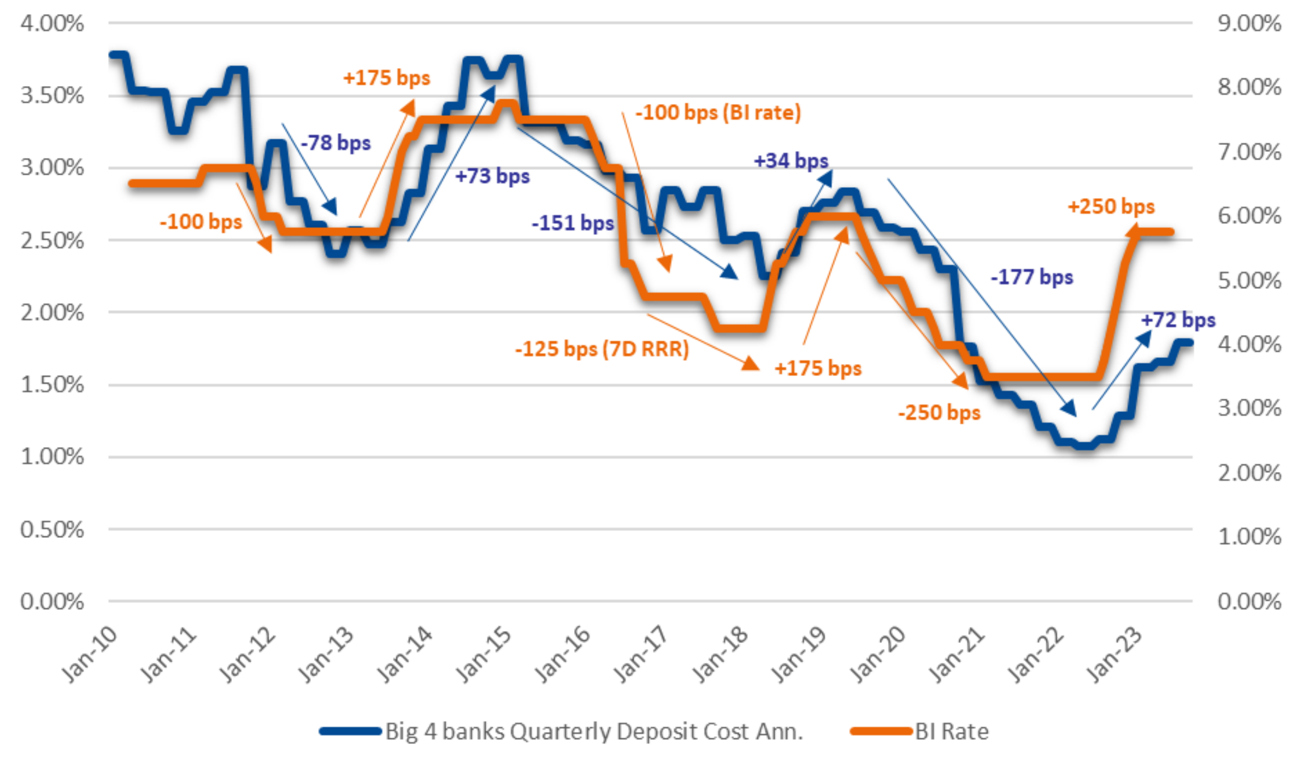
Source: Company, OJK, BI, BRIDS Estimates

<u>Higher cost of deposits driven by higher TD rates</u>

Albeit less sensitive to benchmark rates compared to loan yields, the big-4 banks cost of deposits is also highly correlated to the changing benchmark rate. This is reflected in the cost of deposits which typically changes by 34-78% of the benchmark rate change (vs. loan rates at 50-196%). The more resilient cost of deposits can be attributed to the higher CASA ratio of the big 4 banks.

As of 3Q23, the annualized quarterly cost of deposits of the big 4 banks had increased by 72bps, representing only 32% of the benchmark rate increase of 225bps since Jul-22. With the benchmark rate having risen by 25bps in Oct23, we expect the big-4 banks to also see their cost of funds increase further in FY24F.

Exhibit 27. Annualized quarterly cost of deposits movement vs the benchmark rate



Source: Company, OJK, BI, BRIDS Estimates

Higher mobile banking transactions as a proxy to stronger CASA franchise

Mobile banking, driven by the ubiquity of smartphones and evolving consumer preferences, has transformed the way individuals and businesses manage their finances. This shift not only signifies a technological revolution but also holds profound implications for the core banking functions tied to CASA accounts. The higher the transactional value, the more active and engaged the customer base tends to be. This heightened activity not only solidifies the CASA franchise but also positions the bank as a preferred choice for modern banking needs.

The transactional value generated through mobile banking channels is a linchpin for sustaining and enhancing the CASA franchise. CASA accounts, being the cornerstone of a bank's deposit base, are a vital source of stable funding. As customers increasingly embrace mobile banking for their day-to-day financial activities, the transactional value becomes an indicator of the bank's customer engagement, operational efficiency, and adaptability in the digital era.

The symbiotic relationship between mobile banking transactions and the CASA franchise extends beyond mere convenience. It underscores the bank's ability to meet the evolving expectations of its customers, offering seamless, secure, and user-friendly digital experiences. A robust mobile banking platform acts as a gateway to retaining existing CASA customers and attracting new ones, especially among the digitally savvy demographic in Indonesia.

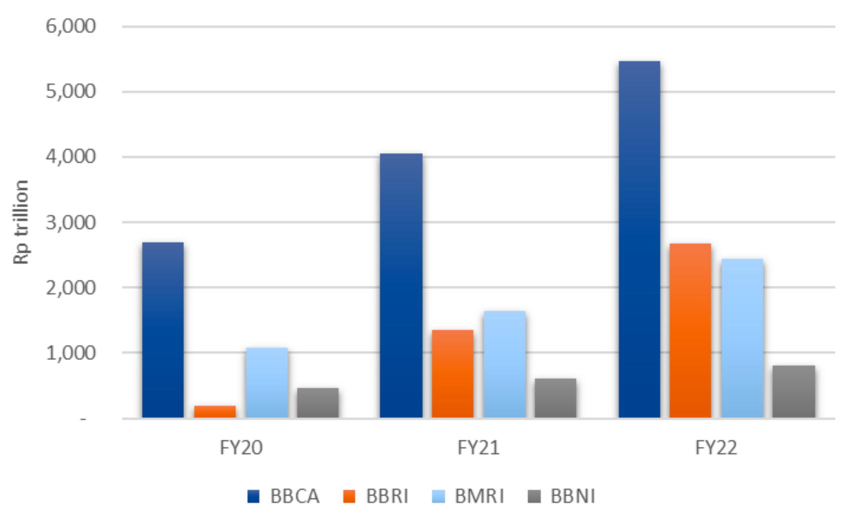
The increasing transactional value in mobile banking serves as a proxy for stickier CASA deposits. During 2020-2022, BBRI recorded the highest growth in mobile banking transactional value (at CAGR of 268%), partly driven by its low base number pre-covid19 in early 2020. Even excluding the low base effect, BBRI's total mobile transactional value reached Rp2,669tr, moving into second place and overtaking BMRI which reported total transactions of Rp2,434tr, depicting the strong traction of the bank's mobile banking system (Brimo).

BMRI, supported by the rebranding of its mobile banking apps, Livin, has gained strong traction with its mobile banking value transactions, with the second faster growth at 51% CAGR during 2020-2022.

BBCA, by maintaining its old app (BCA Mobile), while introducing its newest version (myBCA), garnered a 42% CAGR increase in transactional value. These initiatives solidify its mobile banking transactional value in first place.

BBNI also reported strong growth in transactional value with growth of 31% CAGR, albeit the slowest among the big-4 banks. The bank is planning to rebrand its mobile app (BNI Mobile) in FY24 which is intended to increase the mobile banking transactions of its customers.

Exhibit 28. Mobile banking transactional value



Source: Company, BRIDS Estimates

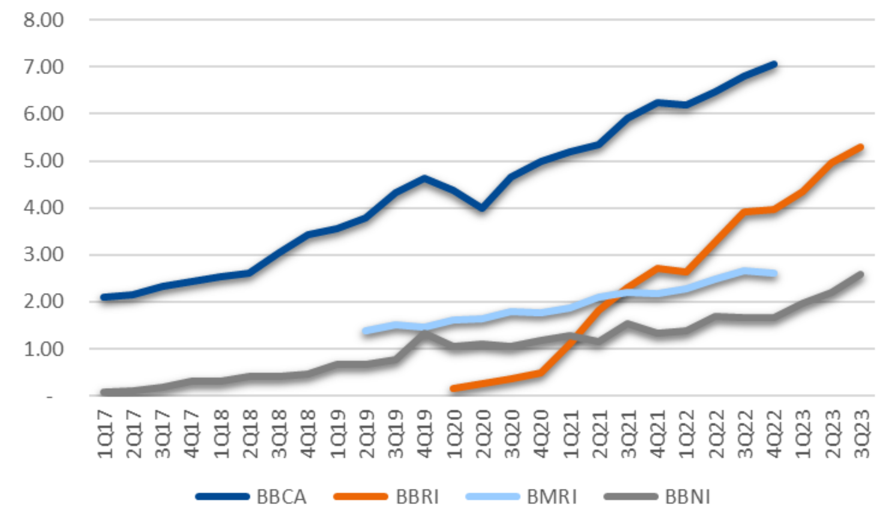
BBCA still leads in terms of the mobile banking transactions usage rate

In the intricate tapestry of modern banking, the ratio of mobile banking transactions value to CASA deposits serves as a powerful metric, providing profound insights into the dynamics of a bank's operations and its customer engagement strategy. This ratio encapsulates not just numerical data but unveils a narrative about the symbiotic relationship between digital transactions and the foundation of a bank's deposit base.

A higher ratio indicates robust customer engagement with the bank's mobile banking services. It signifies that a significant portion of the CASA customer base actively embraces digital channels for their financial transactions. This reflects an alignment with contemporary banking trends and positions the institution as a front-runner in the digital banking landscape. A high ratio can also help the bank to identify cross-selling opportunities and tailor new products and services based on the preferences and behavior of the digitally active CASA customer segment.

BBCA maintained its leading position in terms of the mobile banking transactions value rate to its CASA during the covid-19 pandemic, reaching 7.0x in 4Q22. BBRI, with strong growth in its mobile banking transaction value and partly due to its lower CASA ratio compared to its peers, had a high ratio of 5.3x in 3Q23. The rapid increase in BBRI`s ratio can be attributed to its massive customer base and geographically diverse customer base which means mobile banking transactions are the preferred mode for transactions.

Exhibit 29. Mobile banking transaction value



Source: Company, BRIDS Estimates

Moderating growth but fundamentals remain solid

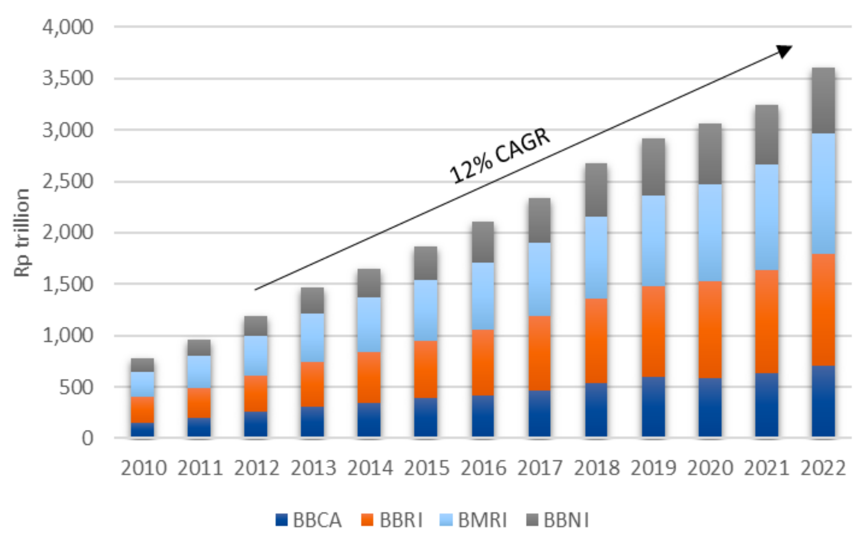
Growing mobile banking transactions to drive opex efficiencies and provisions stability

The growing tide of mobile banking transactions is not merely a technological trend; it is a catalyst for operational evolution. As we navigate the era of digital finance, the synergies between mobile banking growth and operational efficiencies become increasingly evident, reshaping the banking landscape for a more agile, responsive, and cost-effective future.

While we expect moderation in loans growth, we believe the banks will continue to book decent net profit growth of 8.7% in FY24F from 21.6% growth in FY23F. The bottom-line growth will be supported by stable cost-to-income ratios (CIR) and stable provisions.

From FY19F to FY23F, we project the banks to record stellar net profit growth of 14.3% CAGR. Apart from steady loan growth and robust NIM, another driver for the strong growth is the operating expense (opex) efficiencies as shown in the cost-to-income ratio which stood at 36-46% in FY19F and declined to 32-44% in FY23F. We believe the lower CIR does not only reflect greater business scale, as shown in the loan CAGR of 12% in the past ten years, but also driven by the growth in mobile banking transactions.

Exhibit 30. Big 4 banks historical loan books



Source: Company, BRIDS Estimates

Operational efficiencies from growing mobile banking transactions

In recent years, we have witnessed an unprecedented surge in the adoption of mobile banking, with users increasingly relying on the convenience of digital platforms to conduct their financial transactions. This seismic shift presents not only a paradigm change in the way banking services are delivered but also a golden opportunity for the banks to reap operational benefits.

As mobile banking transactions continue to grow, so does the potential for operational efficiency. This can be achieved from streamlined banking processes, cost reduction through automation, the use of digital customer support, scalability and flexibility.

- Streamlined Processes: The surge in mobile transactions necessitates banks to streamline their operational processes to handle the increased volume efficiently. This imperative drives a reevaluation of internal workflows, leading to more agile and streamlined operations.

- Cost Reduction through Automation: The automation of routine and manual processes becomes paramount in managing the burgeoning mobile transaction volume. Automated processes not only reduce the margin for errors but also cut down on the costs associated with manual intervention.

- Digital Customer Support: Growing mobile transactions necessitate an enhanced digital customer support infrastructure. The adoption of artificial intelligence and chatbots can significantly reduce the load on traditional customer support channels, providing timely assistance and freeing up human resources for more complex queries.

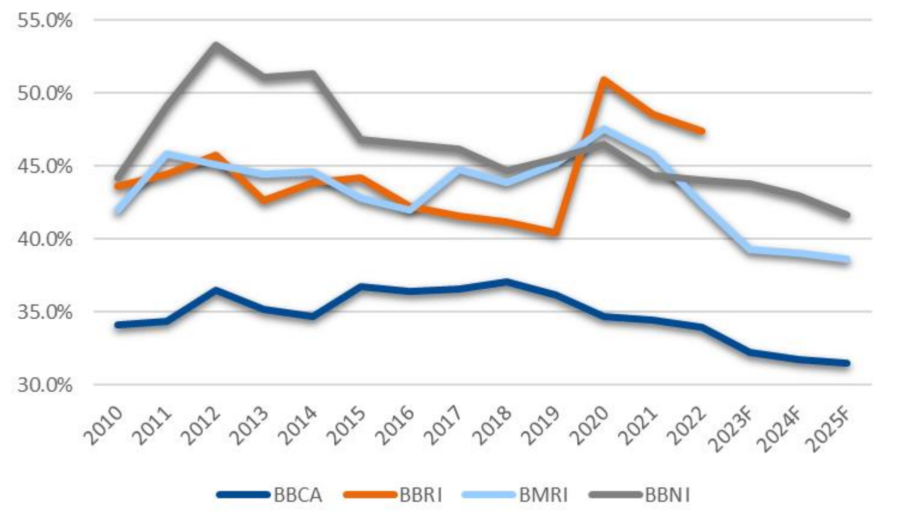
- Scalability and Flexibility: Mobile banking platforms inherently offer scalability and flexibility. As transaction volumes grow, these platforms can seamlessly scale to accommodate increased loads without proportionally increasing operational costs, ensuring a more cost-effective operational structure.

Manageable CIR ratio supported by growing mobile banking transactions

Over recent years, the big 4 banks have displayed a remarkable ability to streamline their operational efficiencies, resulting in a discernible reduction in CIR from 36-46% in 2019 to 32-44% in FY23F. BBRI saw its CIR rise from 40.5% in FY19 to 50.9% in FY20 due to acquisition of Pegadaian and Permodalan Nasional Madani (PNM) which have high CIRs. BRI's CIR has improved since then, however, reaching 47.4% in FY22, but has yet to come back to its pre-acquisition level.

This pivotal metric, reflecting the proportion of costs relative to income, has become a benchmark of the banks' strategic prowess in managing their financial resources. The crux of this narrative lies in the symbiotic relationship between the Big 4 banks and the burgeoning wave of mobile banking transactions. As these financial giants deftly leverage technological advancements, particularly the surging prevalence of mobile banking, a paradigm shift occurs. The cost efficiencies introduced through digital channels contribute significantly to the reduction of CIR, as transactions become more streamlined, swift, and cost-effective.

Exhibit 31. Big 4 banks cost-to-income ratio



Source: Company, BRIDS Estimates

Leveraging digital penetration in managing the non-performing loans and thus manage the cost of credit

The strategic integration of mobile banking transactions into the bank`s credit risk management framework holds immense potential. The agility and immediacy offered by mobile platforms not only empower the bank's customers but also equips the banks with the tools needed to proactively manage and mitigate credit risks, ultimately reducing NPLs and associated credit costs.

- Enhanced Risk Management: The digital nature of mobile transactions provides an opportunity for advanced risk management strategies. The integration of analytics and machine learning will be crucial in detecting and mitigating risks, reducing the financial impact of fraud or operational disruptions.

- Data-Driven Decision-Making: The data-rich environment fostered by mobile transactions is explored for its potential in driving informed decision-making. This investigates the utilization of data insights to inform strategic decisions, optimize processes, and identify areas for continuous improvement.

- Personalized Financial Management: Mobile banking platforms empower customers with the tools for personalized financial management. By encouraging responsible financial behavior and providing resources for better budgeting, it can contribute to a healthier credit environment and reduce the likelihood of borrowers falling into financial distress.

- Proactive Risk Mitigation Strategies: The real-time nature of mobile transactions enables the implementation of proactive risk mitigation strategies. By identifying patterns indicative of potential defaults, banks can implement targeted interventions, such as offering financial counseling or restructuring, to prevent loans from slipping into non-performing status.

Operational efficiencies from growing mobile banking transactions

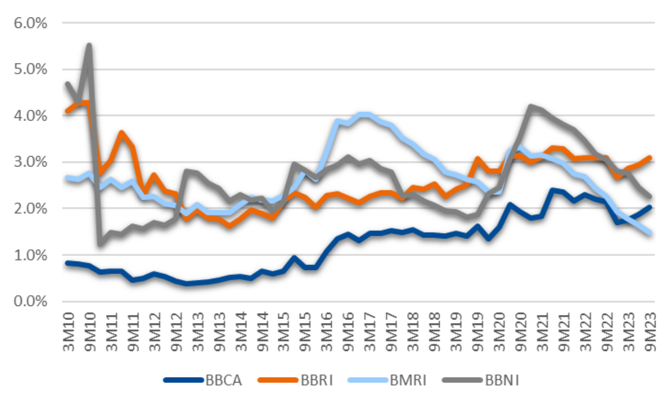
In recent years, the big 4 banks (ex. BBRI) have displayed a remarkable ability to streamline their operational efficiencies, resulting in a discernible reduction in CIR from 36.2-45.5% in FY19 to 33.9-44.0% in FY22. BBRI saw its CIR increase from 40.5% in FY19 to 47.4% in FY22 due to the acquisition of Pegadaian and Permodalan Nasional Madani (PNM) which have high CIRs.

This pivotal metric, reflecting the proportion of costs relative to income, has become a benchmark of the banks' strategic prowess in managing their financial resources. The crux of this narrative lies in the symbiotic relationship between the Big 4 banks and the burgeoning wave of mobile banking transactions. As these financial giants deftly leverage technological advancements, particularly the surging prevalence of mobile banking, a paradigm shift occurs. The cost efficiencies introduced through digital channels contribute significantly to the reduction of CIR, as transactions become more streamlined, swift, and cost-effective.

Exhibit 32. Historical NPL movement in the banking industry and big four banks

Source: Company, OJK, BRIDS Estimates

Exhibit 33. Quarterly NPL movement of the big 4 banks



Source: Company, BRIDS Estimates

Low M2 growth will cap NPLs in 2024

High M2 growth can be associated with increased liquidity in the financial system, potentially leading to a higher risk appetite among banks. Higher liquidity may induce banks to lend more aggressively, which, if not prudently managed, may result in a higher NPL ratio.

Although M2 is not the only driver for NPLS (as the NPL ratio can be influenced by various factors), we found that since 2016, the movement of M2 is highly correlated with the NPL ratio. This also coincides with the change in the BI benchmark rate to the 7DRR rate back in 2016. As we expect M2 growth to remain lackluster in FY24F, we foresee that the NPL ratio will remain manageable.

Exhibit 34. Correlation between NPLs and M2 growth

Source: OJK, BI, BRIDS Estimates

The growth in banking transactions is spearheaded by mobile banking transactions

In recent years, Indonesia has witnessed a remarkable surge in mobile penetration, and this technological wave has significantly impacted the banking sector, particularly for the nation's big four banks. As smartphones become increasingly accessible, the country is experiencing a digital revolution, with mobile devices transforming from communication tools to powerful gateways for financial transactions.

The growing mobile penetration has opened new avenues for banking, leading to a surge in mobile banking transactions. The big four banks in Indonesia, known for their extensive reach and influence, are strategically leveraging this trend to redefine and enhance their customer experiences.

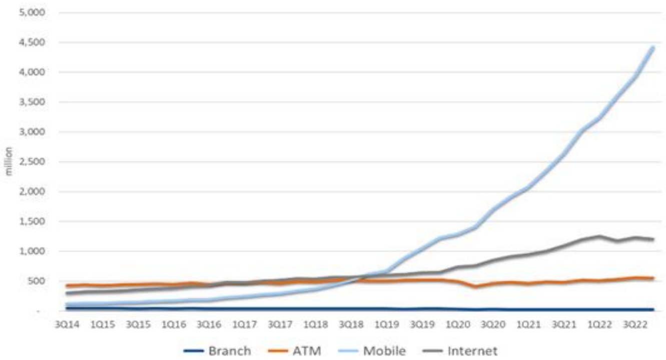
Customers are now able to conduct various banking activities conveniently through mobile applications, reshaping the traditional banking landscape. The ease of access to financial services on mobile devices has not only streamlined routine transactions but has also empowered users to manage their finances more effectively.

With the ubiquitous presence of smartphones, mobile banking becomes a conduit to connect the unbanked and underserved to the formal financial sector. This digital leap enables individuals in remote or underserved areas to access banking services, conduct transactions, and manage finances with unprecedented ease. The simplicity and accessibility of mobile banking dissolve traditional barriers, fostering a more inclusive financial landscape. As mobile banking proliferates, it acts as a catalyst, weaving a tapestry of financial empowerment, ensuring that individuals, irrespective of their geographic location or economic status, can participate in the benefits of a connected and inclusive financial ecosystem.

One key factor contributing to the rise of mobile banking is the increasing trust in digital platforms for financial activities. The big four banks have invested significantly in secure and user-friendly mobile applications, fostering a sense of reliability and security among customers.

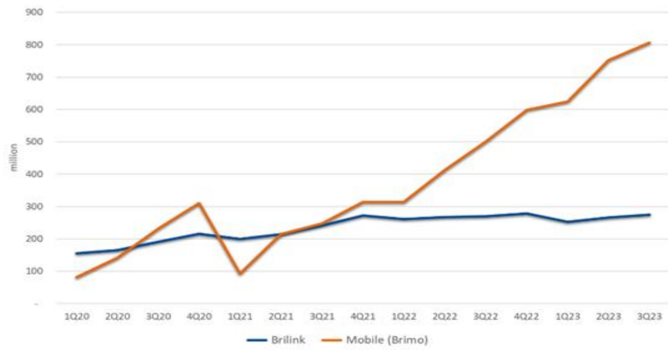
Moreover, the big four banks have adapted their services to align with the preferences of a digitally savvy population. This includes features such as mobile fund transfers, bill payments, account management, and even investment options, all accessible at the touch of a screen. Such innovations cater to the diverse needs of customers, contributing to the growing popularity of mobile banking.

Exhibit 35. BBCA quarterly transaction volume



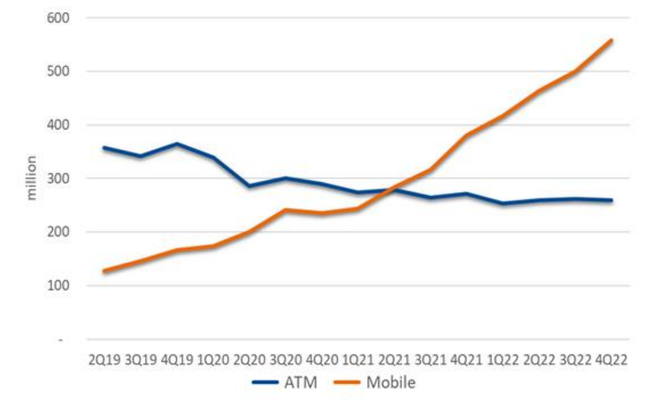
Source: Company, BRIDS Estimates

Exhibit 36. BBRI quarterly transaction volume



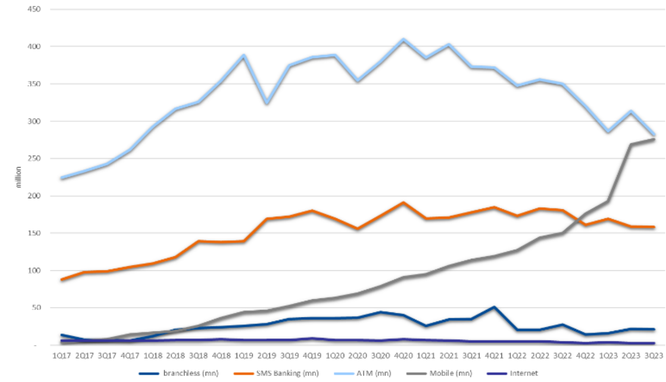
Source: Company, BRIDS Estimates

Exhibit 37. BMRI quarterly transaction volume



Source: Company, BRIDS Estimates

Exhibit 38. BBNI quarterly transaction volume



Source: Company, BRIDS Estimates

The government's initiatives to enhance financial inclusion have further accelerated the adoption of mobile banking. With a focus on providing banking services to previously underserved populations, mobile banking has become a crucial tool for bridging the gap and ensuring financial access for all.

As the big four banks continue to invest in technology and innovation, the mobile banking landscape in Indonesia is expected to evolve further. The seamless integration of mobile banking into the daily lives of Indonesians not only enhances financial accessibility but also propels the country towards a more connected and inclusive digital economy. The story of growing mobile penetration intertwined with the success of mobile banking in Indonesia reflects a promising future where technology plays a pivotal role in shaping the financial landscape of the nation. The government's initiatives to enhance financial inclusion have further accelerated the adoption of mobile banking. With a focus on providing banking services to previously underserved populations, mobile banking has become a crucial tool for bridging the gap and ensuring financial access for all.

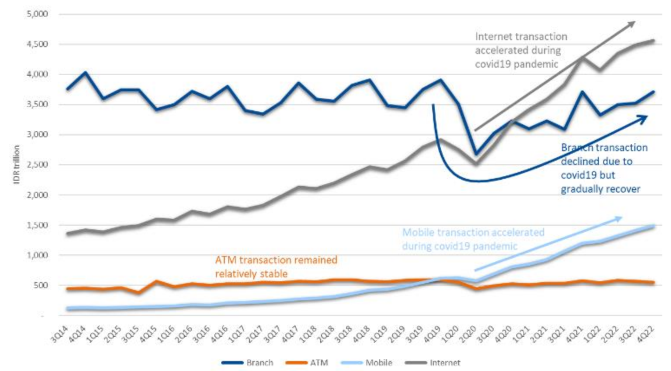
<u>BBCA</u>

From 4Q14 to 4Q22, transaction volume, including branch, ATM, mobile, and internet banking transactions, increased with a CAGR of +26.6%. Moreover, transaction value increased with a CAGR of +7%. It translates to a decrease in value/transaction with a CAGR of -15.5% from 4Q14 to 4Q22. Based on the mode of transaction, mobile banking (CAGR: +55.0%) experienced the most significant increase in transaction volume from 4Q14 to 4Q22, followed by internet banking (CAGR: +17.9%) and ATM (CAGR: +2.9%). However, branch banking experienced a decrease (CAGR: -7.0%) in transaction volume. Moreover, mobile banking (CAGR: +35.6%) also experienced the highest increase in transaction value from 4Q14 to 4Q22, followed by internet banking (CAGR: +15.7%) and ATM (CAGR: +2.5%). In comparison, branch banking experienced a decrease (CAGR: -1.0%) in transaction value as the pattern is also relatively flat on a QoQ basis since 4Q14 compared to other modes that experienced a continuous increasing pattern on a QoQ basis.

There are several possible explanations for these patterns. The increase in mobile banking users has been crucial due to changing customer preferences and needs. On the other hand, the number of branches and ATMs has remained stable over the years, with an overall increasing number but not as significant as the percentage of the increase in mobile banking users. Since 2020, mobile banking users have increased by 103%, which may have been due to the Covid-19 Pandemic. However, BBCA reported an increase of 350% in mobile banking users from 2018 to 2022, suggesting that the increase may not have been significantly driven by Covid-19 alone. The number of BBCA's mobile banking users had been higher in the past compared to its competitors as it has consistently been acknowledged as having a top 3 mobile banking system since 2016. However, the increase in mobile banking transactions was also followed by a decrease in overall value/transaction.

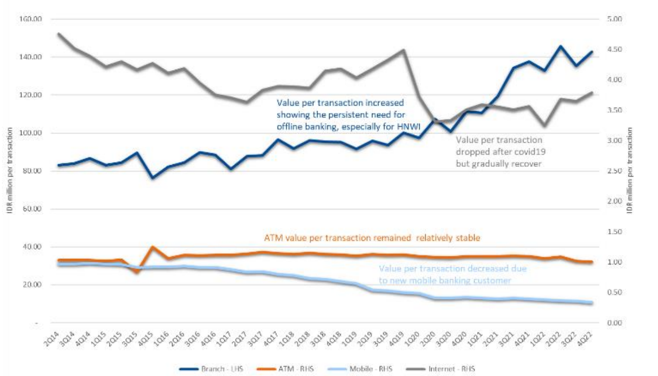
Furthermore, the value/transaction in 4Q22 is still dominated by branch banking with Rp142.88mn/transaction, followed by internet banking (Rp3.79mn/transaction), ATM (Rp1.00mn/transaction), and mobile banking (Rp338,156/transaction). Customers are likely to utilize mobile banking for small transactions. Therefore, the number of transactions increased, although the value decreased. At the same time, branch banking is utilized for transactions with the highest value.

Exhibit 39. BBCA quarterly transaction value



Source: Company, BRIDS Estimates

Exhibit 40. BBCA quarterly value per transaction



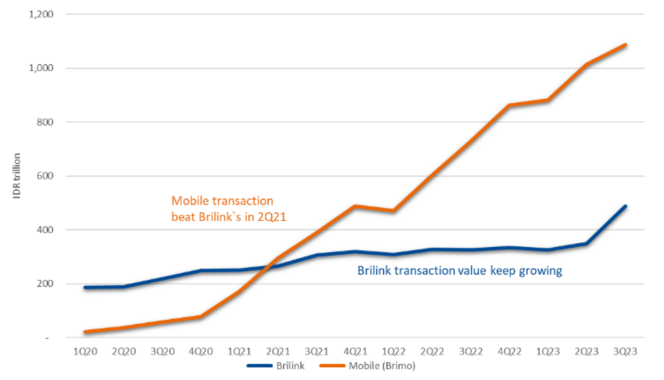
Source: Company, BRIDS Estimates

<u>BBRI</u>

From 1Q20 until 3Q23, the overall Brilink and Mobile banking (Brimo) transaction volume increased with a CAGR of +54.22%. Brilink and Brimo transaction volume increased with a CAGR of +17.60% and +92.53%, respectively. On top of that, overall, Brilink's and Brimo's transaction value grew with a CAGR of +77.81%. This increase is mainly driven by the growth in Brimo transaction value, which amounted to a CAGR of +200.26%, while Brilink transaction value grew with a CAGR of +31.49%. There is a pattern of seasonality from quarter to quarter. As for the three years since 2020, Q1 recorded the least number of transactions and value for each year.

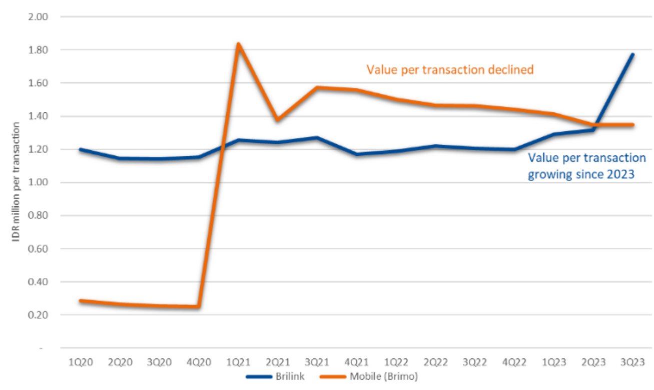
From 4Q19 until 3Q23, mobile banking users increased from 3 million to 29.8 million, CAGR of 84.46%. Before the Covid-19 pandemic, the rate stood at a CAGR of +88.76%, while it stood at +36.38% during and after the pandemic. On the other hand, the number of branches that reached 10,684 in 2017 declined to 7,849 (-26.5%) in 3Q23. Furthermore, the number of ATMs that reached 24,684 in 2017 fell to 13,818 (-44.0%) in 3Q23. Both observations suggest that digitalization and changing customer needs have steered transactions toward mobile banking. This is further demonstrated by the overall value/transaction that has increased with a CAGR of 15.29% since 1Q20 and is mainly driven by growth (CAGR: +55.95%) in mobile banking's value/transaction figure. Brilink's value/transaction grew with a CAGR of +11.8%. In 3Q23, Brilink's value/transaction amounted to Rp1.77mn/transaction, while mobile banking's value/transaction amounted to Rp1.35mn/transaction.

Exhibit 41. BBRI quarterly transaction value



Source: Company, BRIDS Estimates

Exhibit 42. BBRI quarterly value per transaction



Source: Company, BRIDS Estimates

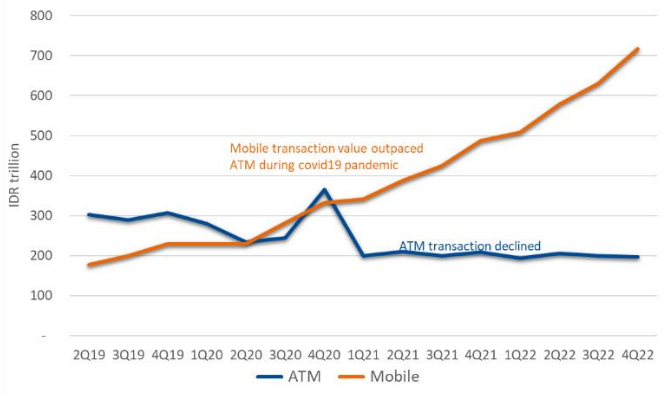
BMRI

From 2Q19 to 4Q22, the overall transaction volume of ATM and Mobile banking increased with a CAGR of 16.1%, mainly driven by an increase in mobile banking transaction volume (CAGR: +52.3%). In comparison, ATM transaction volume decreased (CAGR: -8.8%). Furthermore, the overall transaction value of ATM and Mobile banking increased with a CAGR of 20.2%, mainly driven by an increase in mobile banking transaction volume (CAGR: +49.1%). In comparison, ATM transaction volume decreased (CAGR: -11.6%).

From 4Q17 until 2Q23, mobile banking users increased from 0.4 million to 19.2 million (CAGR: +76.4%). The most significant difference was from 1Q20 to 2Q20 (+52.18% QoQ) and 2Q19 to 2Q20 (+115.02% YoY). Before the Covid-19 pandemic, the rate stood at a CAGR of +95.49%, while it stood at +66.36% during and after the pandemic. It is further supported by the sharp decline in the number of ATMs from 18,291 (2Q20) to 13,800 (3Q20), which amounted to a 24.6% decrease. Customers seem to be moving towards mobile banking, especially with the further development of the 'livin' app.

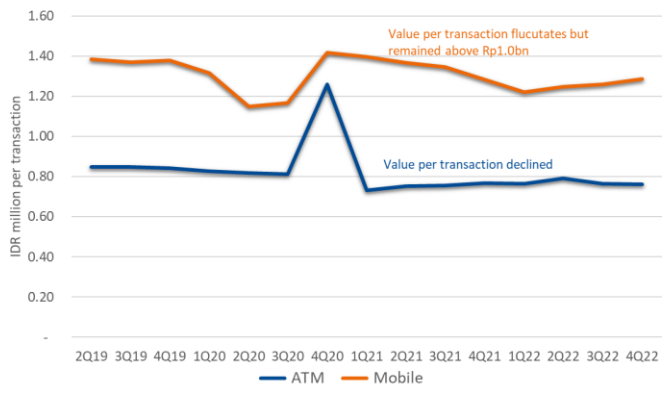
Overall value/transaction increased with a CAGR of +3.6% from 2Q19 to 4Q22. In 4Q22, Mobile banking's value/transaction amounted to Rp1.28mn/transaction, while ATM's value/transaction amounted to Rp760,618/transaction. However, Mobile banking and ATMs experienced a decline in value/transaction with a CAGR of -2.1% and -3.1%, respectively

Exhibit 43. BMRI quarterly transaction value



Source: Company, BRIDS Estimates

Exhibit 44. BMRI quarterly value per transaction



Source: Company, BRIDS Estimates

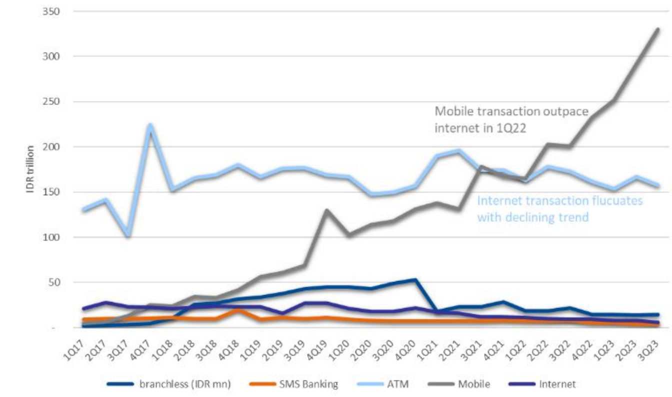
BBNI

Overall, quarterly transaction volume has mostly increased on a YoY basis for the last six years, with the highest percentage from 3Q17 to 3Q18. This pattern holds as the transaction value also increased by 73.14% from 3Q17 to 3Q18, the highest YoY increase for the last six years. It also led to a 20.46% YoY growth in value/transaction. The modes of transactions include branchless, SMS Banking, ATM, Mobile, and Internet Banking. From 1Q17 to 3Q23, mobile banking (CAGR: +92%) experienced the highest growth of transaction volume, followed by SMS banking (CAGR: +9.4%), branchless banking (CAGR: +7.0%), and ATM (CAGR: +3.6%). On the other hand, internet banking experienced a decline (CAGR: -11.0%) in volume. Based on the transaction value, mobile banking recorded the highest growth (CAGR: +93.0%), followed by branchless (CAGR: +40.4%) and ATM (CAGR: +2.9%). Internet banking and SMS banking showed a decline in transaction value of (CAGR: -17.7%) and (CAGR: -12.0%), respectively, since 1Q17.

There has been growth in mobile banking users since 1Q17, with a CAGR of +63.0%. Before the Covid-19 pandemic, the rate stood at a CAGR of 88.76%, while it stood at +36.38% during and after the pandemic. The number of branches throughout Indonesia remained stable. In contrast, the number of ATMs gradually declined, with the highest decline of -17% from 4Q22 to 1Q23 due to the increased focus on digital transactions. This is in line with the observation of BI, which recorded a 4.26% YoY decline in ATM, debit card, and credit card usage as of July 2023. The number of ATMs reached a high of 18,670 in 2Q20 and declined to 13,390 in 3Q23 (-28.3%).

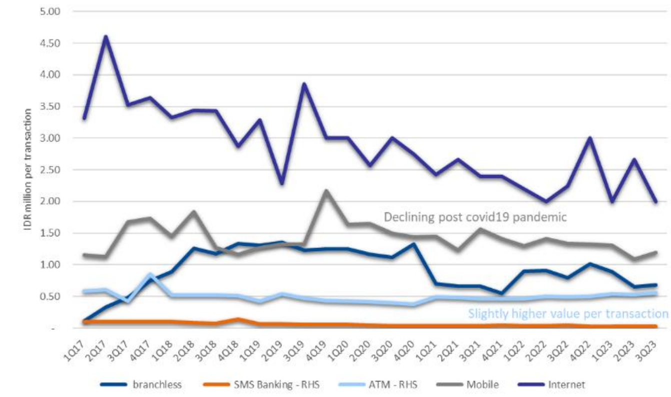
Moreover, the value/transaction in 3Q23 is still led by Internet banking (Rp2mn/transaction), followed by mobile banking (Rp1.2mn/transaction), branch-less banking (Rp679,775/transaction), ATM (Rp558,304/transaction), and SMS Banking (Rp25,316/transaction). Although mobile banking offers more ease in operating and viewing accounts, some customers may still prefer Internet banking for transactions of more significant amounts. There is a perception of increased safety associated with Internet banking compared to mobile banking. Also, for BBNI, internet banking offers a higher transaction limit (Rp1bn) than mobile banking (Rp200mn). However, it is worth noting that value/transaction for mobile banking has been relatively stable since 1Q17, while it has decreased 39.7% for internet banking. As such, with improvements in BBNI's digital ecosystem, mobile banking might overtake Internet banking in the future.

Exhibit 45. BBNI quarterly transaction value



Source: Company, BRIDS Estimates

Exhibit 46. BBNI quarterly value per transaction

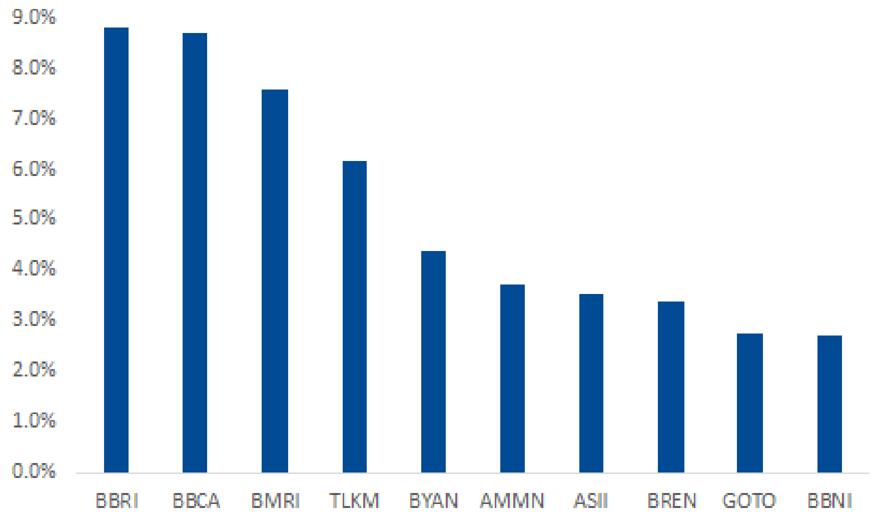


Source: Company, BRIDS Estimates

BRI Danareksa Sekuritas banking universe

We re-initiate our banking sector coverage with the big-4 banks (i.e., BBCA, BBRI, BMRI, BBNI) forming our initial coverage universe. Combined weightings of the big-4 banks form 27.7% of the total Jakarta Composite Index (JCI) marking their significant contribution to the index.

Exhibit 47. Top 10 weightings in the JCI



Source: Bloomberg (as of 29 Nov'23), BRIDS Estimates

Bank Central Asia (BCA)

Bank Central Asia (BCA) is the largest privately owned bank in Indonesia by assets. It was founded in 1957 and is headquartered in Jakarta. BCA has a strong presence in the retail banking sector, with over 1,200 branches and over 20,000 employees. The bank also has a significant presence in the wealth management and investment banking sectors.

Bank Rakyat Indonesia (BRI)

Bank Rakyat Indonesia (BRI) is the largest state-owned bank in Indonesia by assets. It was founded in 1895 and is headquartered in Jakarta. BRI has a strong presence in the retail banking sector, with over 13,000 branches and over 400,000 employees. The bank also has a significant presence in microfinance, serving over 50 million micro, small, and medium-sized enterprises (MSMEs).

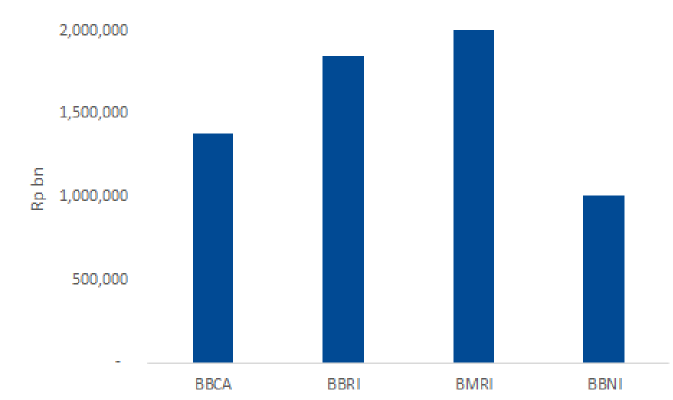
Bank Mandiri

Bank Mandiri is the second-largest state-owned bank in Indonesia by assets. It was founded in 1999 and is headquartered in Jakarta. Bank Mandiri has a strong presence in the corporate and commercial banking sectors, serving over 2 million corporate and commercial clients. The bank also has a significant presence in retail banking, with over 2,500 branches and over 25,000 employees.

Bank Negara Indonesia (BNI)

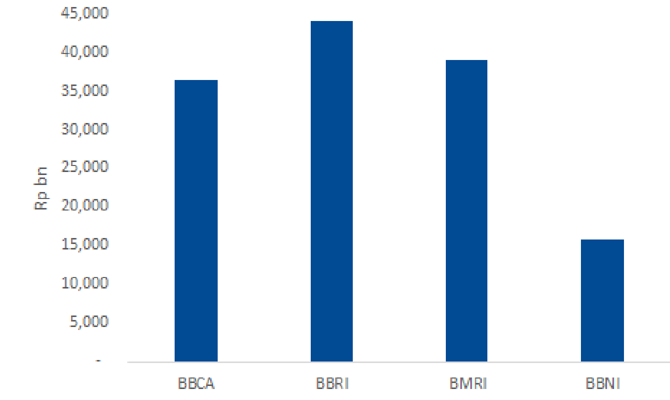
Bank Negara Indonesia (BNI) is the third-largest state-owned bank in Indonesia by assets. It was founded in 1946 and is headquartered in Jakarta. BNI has a strong presence in the international banking sector, with over 150 overseas offices in 19 countries. The bank also has a significant presence in retail banking, with over 2,000 branches and over 20,000 employees.

Exhibit 48. Big 4 banks assets (as of 9M23)



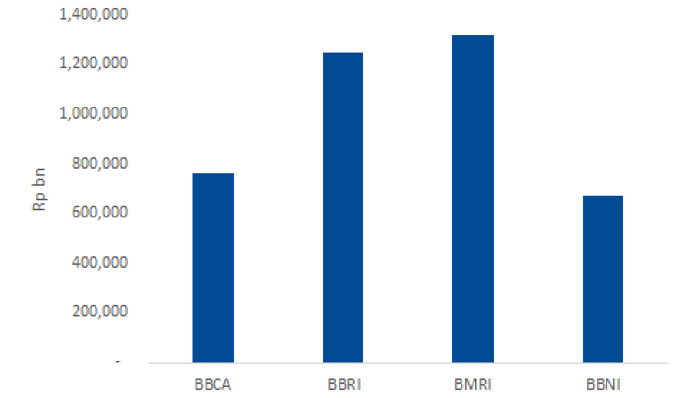
Source: Company, BRIDS Estimates

Exhibit 49. Big 4 banks net profits (as of 9M23)



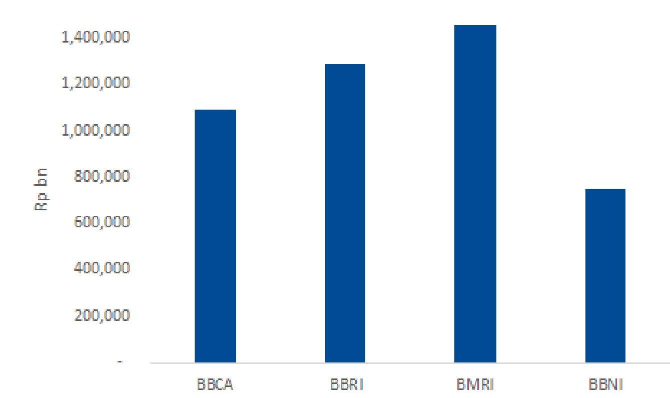
Source: Company, BRIDS Estimates

Exhibit 50. Big 4 banks loans (as of 9M23)



Source: Company, BRIDS Estimates

Exhibit 51. Big 4 banks deposits (as of 9M23)



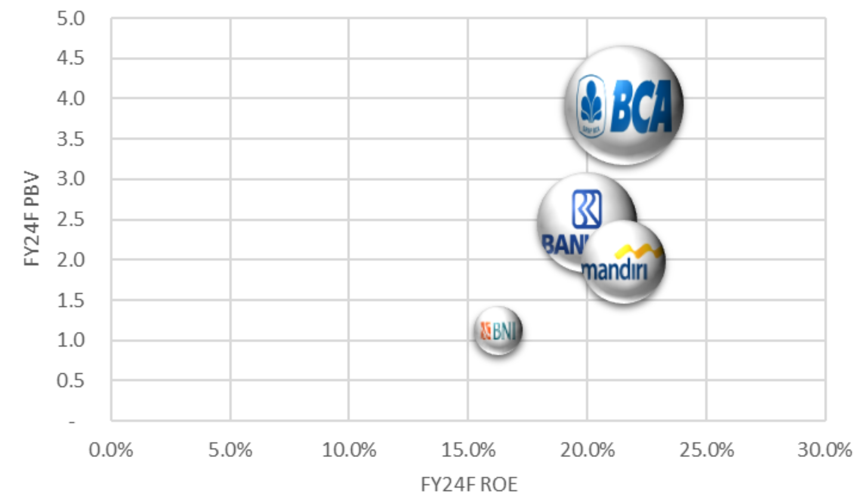
Source: Company, BRIDS Estimates

PBV – ROE matrix

In terms of the PBV valuation, BBCA has the highest PBV ratio of 4.1, followed by BBRI with 2.5 x, BMRI with 1.9x, and BBNI with 1.2x. This suggests that investors are willing to pay a premium for BBCA's shares relative to the other banks which we believe owes to the bank`s prudent approach in managing the operational and less affected by government`s intervention as it is the only private banks among the big 4 banks.

In terms of ROE, BBCA also has the highest FY24F ROE of 21.5%, followed by BMRI with 20.8%, BBRI (9M23) with 19.7%, and BBNI with 14.7%. This indicates that BBCA is generating the highest return on equity out of the four banks, partly justifying its higher PBV ratio compared to its peers.

Exhibit 52. PBV – ROE matrix of the big four banks



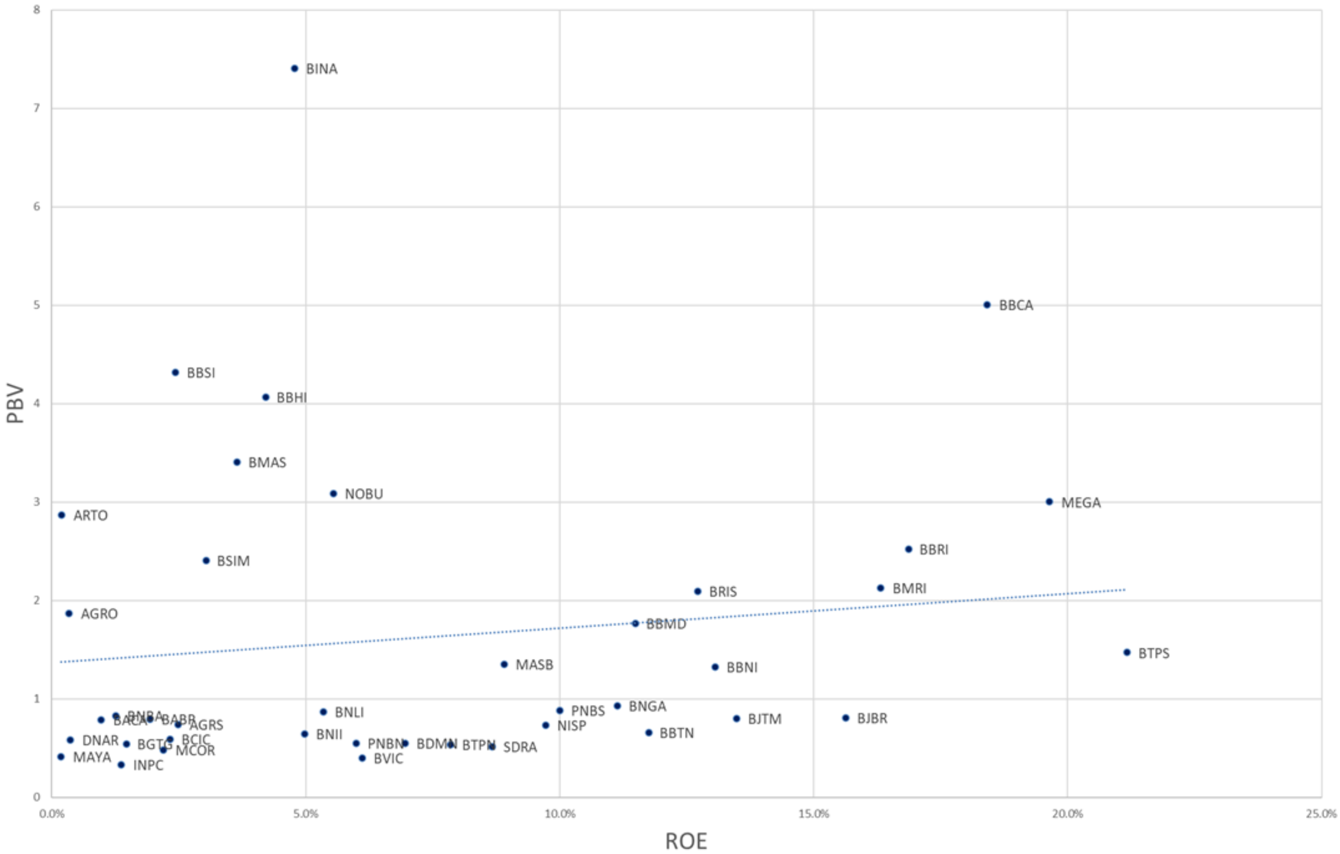
Source: Bloomberg (as of November, 28 2023), BRIDS Estimates

**BBRI as of 9M23*

Valuation of Indonesian banks

By analyzing 40 listed banks in Indonesia, we statistically found that there is minimal correlation between PBV multiple and ROE for Indonesian banks. The low correlation is caused by some low-liquidity stocks and some banks which have low ROE but high PBV as the market expects high growth for these banks, i.e. digital banks.

Exhibit 53. Indonesian banks PBV-ROE matrix



Source: Bloomberg (as of November, 28 2023), BRIDS Estimates

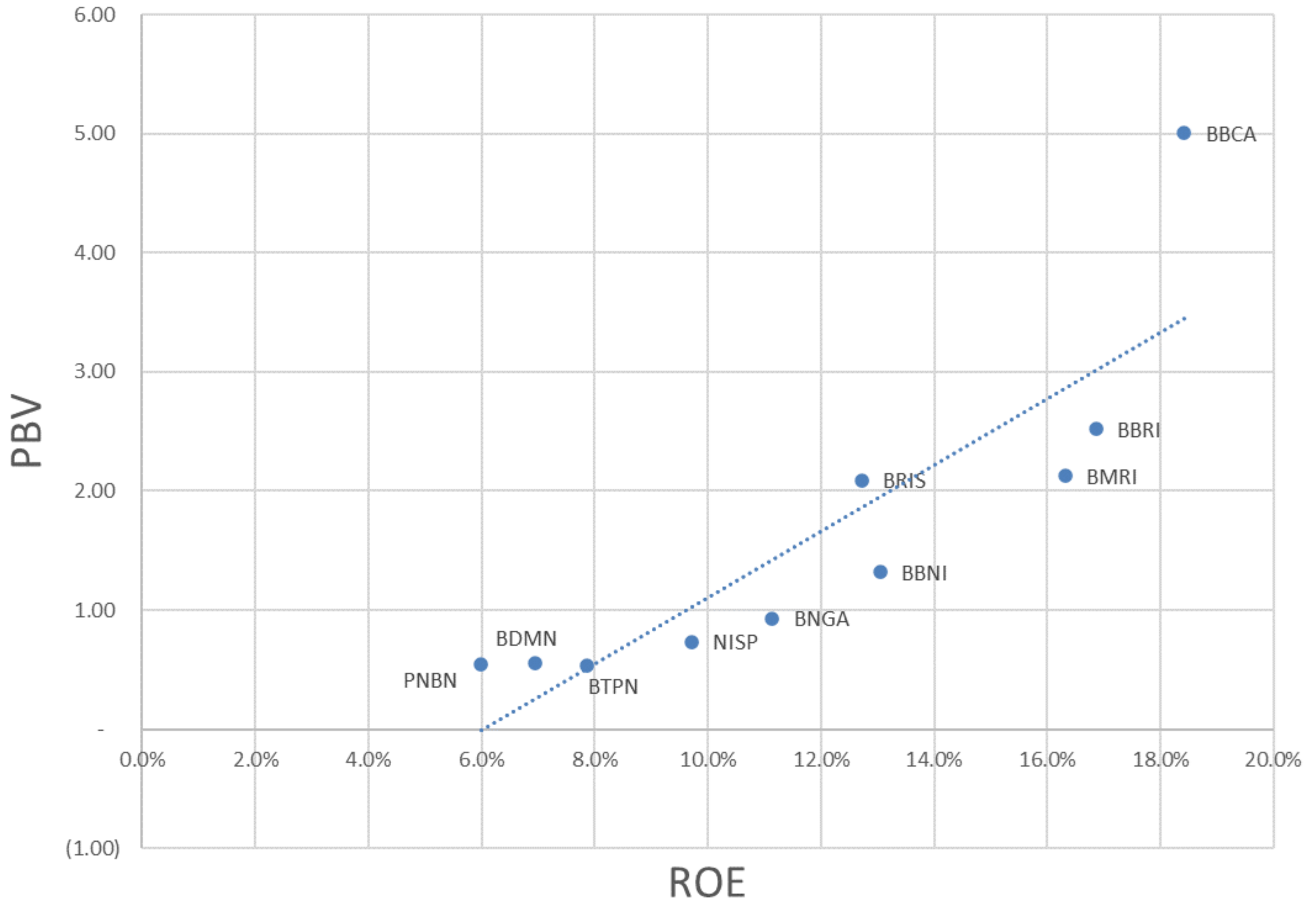
**based on FY22 financials*

Valuation of the top 10 Indonesian banks

In October 2023, Bursa Efek Indonesia (BEI) unveiled a new index named IDX-PEFINDO Prime Bank, encompassing a selection of bank stocks. The IDX-PEFINDO Prime Bank is an index designed to gauge the price performance of 10 banking stocks with an investment-grade rating, along with robust transaction liquidity and financial performance. The launch and management of the IDX-PEFINDO Prime Bank Index was conducted in collaboration with the rating agency PT Pemeringkat Efek Indonesia (PEFINDO). The calculation methodology for the IDX-PEFINDO Prime Bank Index employs the Capped Adjusted Free Float Market Capitalization Weighted method.

Contrary to the general Indonesian banks, the top 10 banks show a high correlation of the ROE and the PBV multiple. Among the big 4 banks, only BBCA is above the regression line which indicates its premium among its closest peers. Other banks with premiums are Bank Syariah Indonesia (BRIS), Bank Panin (PNBP), Bank Danamon (BDMN), and Bank Tabungan Pensiunan Nasional (BTPN).

Exhibit 54. Top 10 Indonesian banks PBV-ROE matrix



Source: Bloomberg (as of November, 28 2023), BRIDS Estimates

**based on FY22 financials*

Moderating growth but fundamentals remain solid

Valuations and recommendations

We value the banks using the fair value of PBV derived from GGM with 5-year mean inverse cost of equity pegged to FY24F ROE and terminal growth of 3%. We have Overweight ratings on the banking sector with Buy ratings on BBCA, BMRI, and BBNI (non-rated for BBRI). Our top pick is BBCA given its higher liquidity, high CASA ratio, and potential higher ROE. Risks to our view are a higher-than-expected cost of funds, slowdown in the economy, and regulatory frameworks.

Exhibit 55. BRIDS banks valuation table

	Market Cap (IDR tr)	Share Price	Target Price	Rec.	Ke FY24F	PBV FY24F	PE FY24F	FV PBV FY24F
BBCA	1,086	8,950	12,100	BUY	7.5%	4.1	19.9	5.6
BBRI	795	5,350	n.a	NR	n.a	n.a	n.a	n.a
BMRI	541	5,900	7,300	BUY	12.0%	2.0	9.9	2.4
BBNI	193	5,250	7,100	BUY	12.8%	1.2	8.5	1.6

Source: Bloomberg (as of December, 1 2023), BRIDS Estimates

The Gordon Growth Model (GGM), often utilized for bank valuation, proves particularly relevant in the Indonesian banking landscape where steady dividend payouts and potential growth are crucial indicators of financial health. This model, also known as the Dividend Discount Model (DDM), evaluates the intrinsic value of a bank's stock based on its expected future dividends. In the context of Indonesian banks, which operate within a dynamic and rapidly growing economy, the Gordon Growth Model becomes a valuable tool for estimating the fair value of Indonesian banks.

The model considers factors such as the bank's ROE, cost of equity, and long-term growth to estimate the fair value of PBV multiple for the banks. We use long-term/terminal growth of 3.0% and FY24F ROE in our valuation. We are not using the commonly used CAPM (Capital Asset Pricing Model) to estimate the bank`s cost of equity. Rather, we calculated the cost of equity inversely using the historical PBV, historical ROE and terminal growth of 3.0% from the fair value of PBV in the GGM model.

Exhibit 56. PBV fair value formula of Gordon Growth Model

$$\frac{P_0}{BV_0} = PBV = \frac{ROE - g_1}{r - g_1}$$

Source: NYU

We found that the cost of equity of the big four banks was rising (higher required return of equity) from its 5-year mean of 7.9% to 8.6% on average in the past 3 years. This signals a lesser premium on the sector amid the covid-19 pandemic and partly due to the high numbers in the pre-covid year, i.e., 2019. The 3-year mean is on par with its long-term (2010-now) cost of equity.

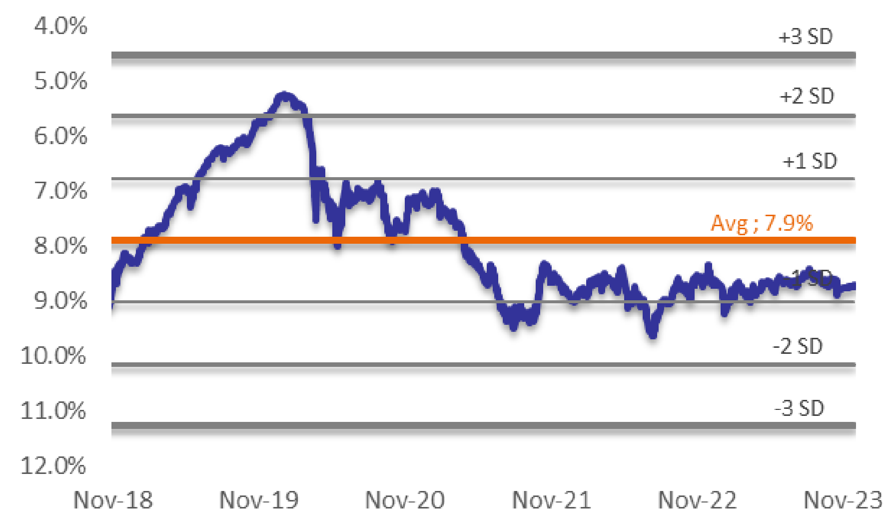
Compared to their respective long-term cost of equity, BBCA and BBRI are getting higher premiums, while BMRI and BBNI premiums are declining as they are trading at a higher implied cost of equity.

Exhibit 57. PBV fair value formula of Gordon Growth Model

Stocks	2010-YTD	5-year	3-year
BBCA	7.2%	6.3%	6.5%
BBRI	9.8%	8.3%	9.1%
BMRI	9.6%	10.3%	11.6%
BBNI	10.8%	10.1%	12.3%
Big 4	8.8%	7.9%	8.6%

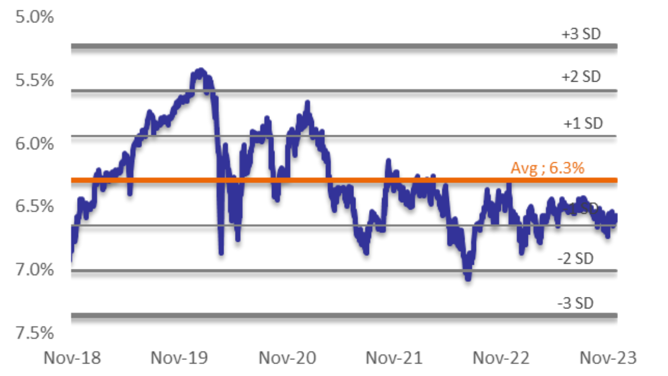
Source: NYU

Exhibit 58. Cost of equity band chart of the big 4 banks (5-year)



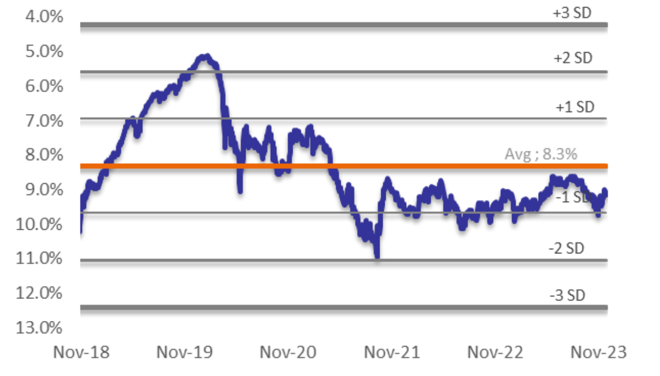
Source: Bloomberg (as of November, 30 2023), BRIDS Estimates

Exhibit 59. BBCA cost of equity band chart (5-year)



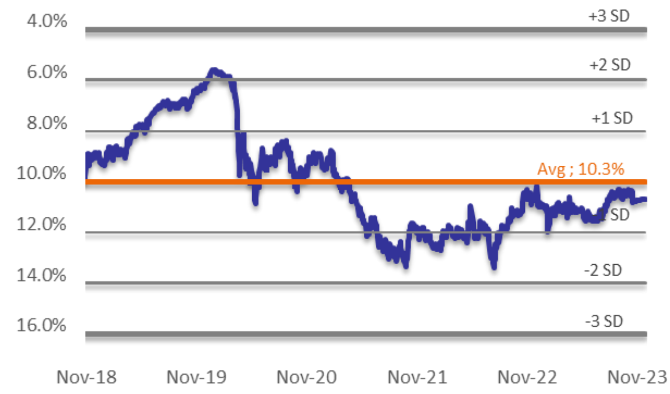
Source: Bloomberg, Company, BRIDS Estimates

Exhibit 60. BBRI cost of equity band chart (5-year)



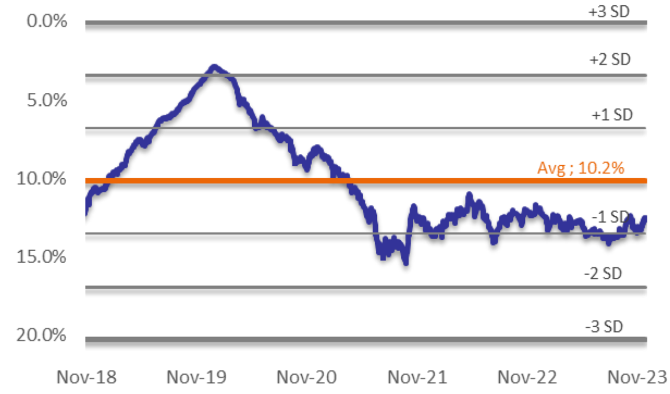
Source: Bloomberg, Company, BRIDS Estimates

Exhibit 61. BMRI cost of equity band chart (5-year)



Source: Bloomberg, Company, BRIDS Estimates

Exhibit 62. BBNI cost of equity band chart (5-year)



Source: Company, Bloomberg, BRIDS Estimates

Company Update

BUY

(Initiate)

Bank Central Asia (BBCA IJ)

The safe Haven of Indonesian Banks

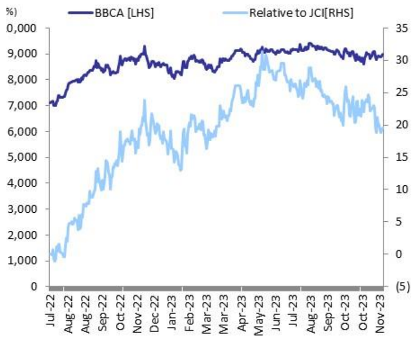
- **With its avg. cost of equity at 6.3% and ADTV of IDR586.8bn in the past 5-year, BBCA represents one of the safest assets in Indonesia.**
- **Despite the premium valuation, we remain bullish on the stock due to its ample liquidity, high CASA, and potential higher dividend payout.**
- **We re-initiate BBCA with BUY rating with GGM based TP of Rp12,100 (6.3% COE, 3.0% LTG, 21.0% ROE), implying fair value PBV of 5.5x.**

Last Price (Rp)	**8,950**
Target Price (Rp)	**12,100**
Previous Target Price (Rp)	***n/a***
Upside/Downside	**+35.2%**
No. of Shares (mn)	**123,275**
Mkt Cap (Rpbn/US$mn)	**1,103,312/71,250**
Avg, Daily T/O (Rpbn/US$mn)	**596.9/38.5**
Free Float (%)	**42.4**
Major Shareholder (%)	
Government of Indonesia	**54.9**

EPS Consensus (Rp)

	2023F	**2024F**	**2025F**
BRIDS	403.4	444.3	484.4
Consensus	396.4	431.5	466.7
BRIDS/Cons (%)	**1.8**	**3.0**	**3.8**

BBCA relative to JCI Index



Source: Bloomberg

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FY24 outlook: Ample liquidity to sustain growth

BBCA's LDR reached 70.3% in 9M23, the lowest amongst its peers. Consequently, BBCA is more liquid, hence increasing its ability to meet its immediate obligations, reducing the risk of financial distress, and providing a buffer against market disruptions or unexpected withdrawals. The strong liquidity was also shown in the secondary reserve ratio to loan ratio, which stood at 59.7%, above its historical average of 48.2% and the other big-4 banks' average of 32.7% in 3Q23. Despite that, we still expect BBCA to remain conservative in its loan disbursement and expect loan growth of 10% in FY24F, slightly lower than FY23F loan growth of 11%.

High CASA ratio to navigate the high interest rate environment

BBCA`s CASA Ratio stood at 79.9% in 9M23, which remains the highest amongst its peers (BBNI: 68.6%, BBRI: 63.6%, and BMRI: 73.7%). Therefore, BBCA has been more resilient to the rising cost of funds compared to its peers, during the tight liquidity environment amid high BI benchmark rate. BI 7-day reverse repo rate currently stood at 6.0%, the highest level which was last seen back in 2019 which will drive liquidity out of the system, in our view. We expect BBCA`s cost of fund to remain stable at 1.1% in FY24F on the back of its high CASA ratio.

Potential higher dividend payout ratio, hence higher ROE

BBCA has continuously built up its CAR from c. 13% in early 2010 to c. 30% in 2023F while distributing c. 20-60% of its profits as dividends during the period. As the bank has robust capital position, we believe it has room to increase its dividend payout, which will potentially drive higher future ROEs.

Initiate with a BUY rating with TP of Rp12,100

We reinitiate our coverage on BBCA with a TP of Rp12,100 with a new valuation method of inverse cost of equity GGM. Our valuation is based on 6.3% cost of equity (5-year average), LT growth of 3%, and FY24F ROE of 21.0%, implying fair value PBV of 5.5x to FY24F. Our TP is based on assumption of FY24F earnings at IDR53.3tr (7% growth) and dividend payout ratio of 67%, implying 35% upside and 3% dividend yield. Key risks are lower-than-expected loan growth and higher-than-expected govt bond yield in FY24F.

Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
PPOP (Rpbn)	48,165	54,994	64,561	71,925	78,460
Net profit (Rpbn)	31,441	40,736	49,734	54,771	59,713
EPS (Rp)	255.0	330.4	403.4	444.3	484.4
EPS growth (%)	(76.8)	29.6	22.1	10.1	9.0
BVPS (Rp)	1,644.4	1,792.9	1,981.8	2,160.0	2,341.0
PER (x)	35.1	27.1	22.2	20.1	18.5
PBV (x)	5.4	5.0	4.5	4.1	3.8
Dividend yield (%)	1.4	1.8	1.9	2.2	2.8
ROAE (%)	16.2	19.2	21.4	21.5	21.5

Source: BBCA, BRIDS Estimates

Reinitiate coverage with a BUY rating, TP: Rp12,100

We reinitiate our coverage on BBCA with a TP of Rp12,100 with a new valuation method of inverse cost of equity GGM. Our valuation is based on 6.3% cost of equity (5-year average), LT growth of 3%, and FY24F ROE of 21.0%, implying fair value PBV of 5.5x to FY24F. Our TP is based on assumption of FY24F earnings at IDR53.3tr (7% growth) and dividend payout ratio of 67%, implying 35% upside and 3% dividend yield. Key risks are lower-than-expected loan growth and higher-than-expected govt bond yield in FY24F.

Exhibit 1. BBCA's evaluation assumptions

BBCA	2020	2021	2022	2023F	2024F
Loan Growth	-2.0%	8.2%	11.7%	11.2%	10.1%
Deposit Growth	19.3%	16.1%	6.5%	6.8%	7.4%
LDR	70.0%	65.3%	68.4%	71.3%	73.1%
Loan Yield	8.5%	7.3%	7.0%	7.6%	7.8%
CoF	1.4%	1.0%	0.8%	1.1%	1.1%
CoC	2.0%	1.5%	0.7%	0.4%	0.5%
CIR	34.7%	34.5%	33.9%	32.3%	31.8%
CASA Ratio	77.0%	78.9%	81.9%	80.2%	80.5%

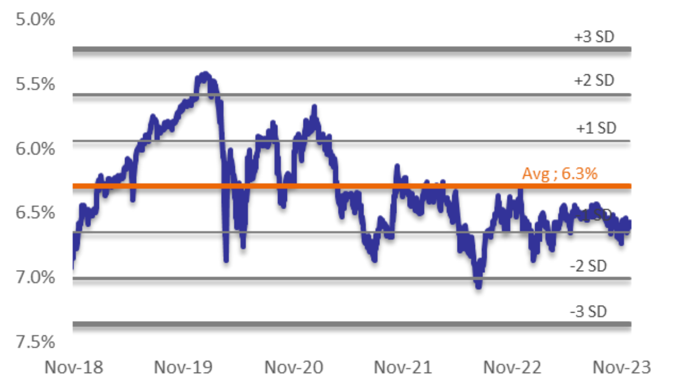
Source: Company BRIDS Estimates

Exhibit 2. BBCA's inverse cost of equity GGM valuation

Gordon Growth Valuation with Inverse Cost of Equity		
Parameters:		**Remarks:**
Cost of equity (%) - Mean	6.3	5-Year average
Cost of equity (%) - SD	0.4	5-Year average
SD used	-	
Cost of equity (%) used	6.3	
Long-term growth (%)	3.0	Long-term GDP growth
Forward ROE (%)	21.5	FY24F ROAE
Fair value P/BV (x)	5.6	**(ROAE - g) / (COC - g)**
BV/share (IDR)	2,160	FY24F Book value per share
Fair value (IDR)	**12,100**	Fair value P/BV multiple x BVPS

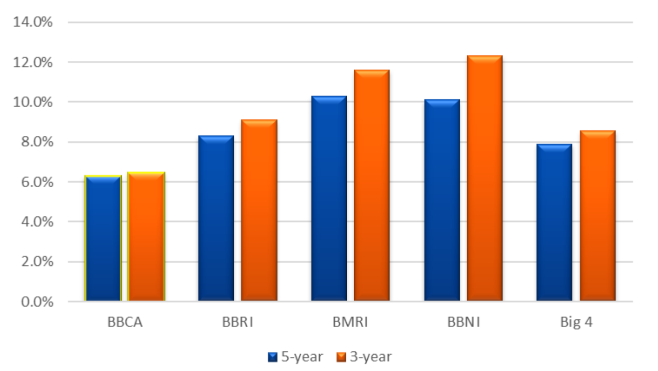
Source: Company BRIDS Estimates

Exhibit 3. BBCA's cost of equity band chart (5-year)



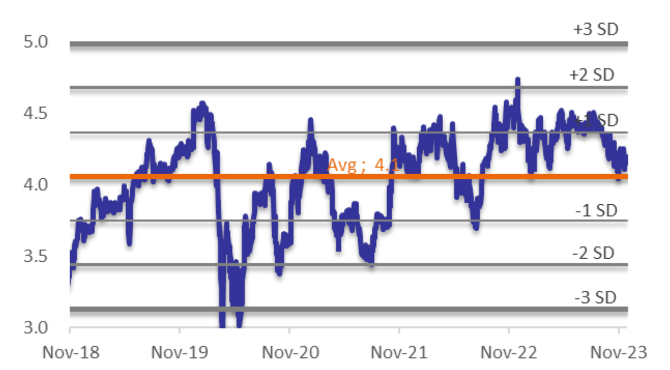
Source: Company, BRIDS Estimates

Exhibit 4. BBCA's cost of equity comparison



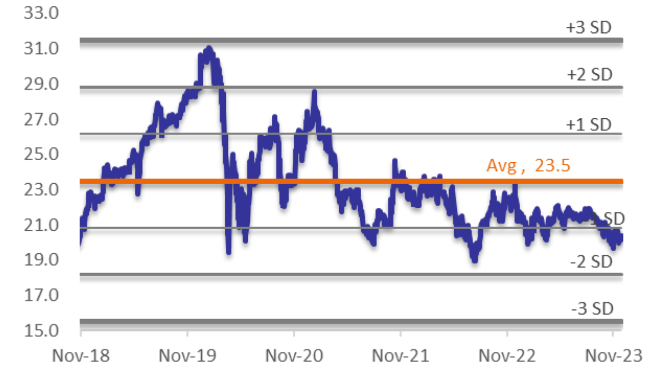
Source: Company, BRIDS Estimates

Exhibit 5. BBCA's PBV band chart (5-year)



Source: Company, BRIDS Estimates

Exhibit 6. BBCA's PE band chart (5-year)

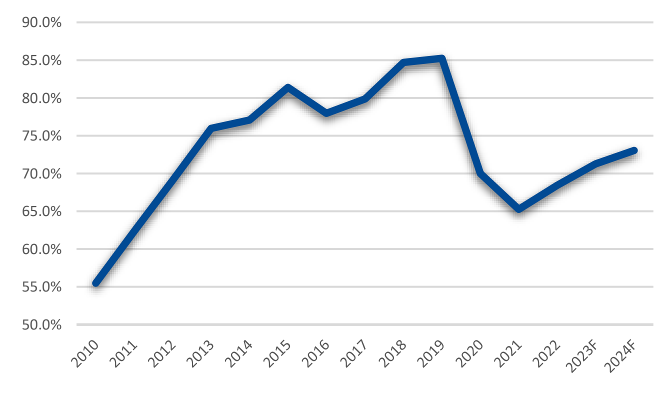


Source: Company, BRIDS Estimates

Ample liquidity to support growth.

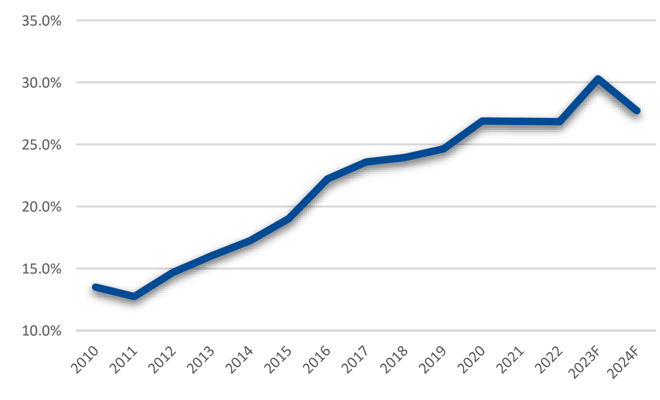
BBCA's LDR reached 70.3% in 9M23, the lowest amongst its peers. Consequently, BBCA is more liquid, increasing its ability to meet its immediate obligations, reducing the risk of financial distress, and providing a buffer against market disruptions or unexpected withdrawals. The strong liquidity was also shown in the secondary reserve ratio to loan ratio, which stood at 59.7% higher than its historical average of 48.2% and the other big 4 banks' average of 32.7% in 3Q23. Despite that, we still expect BBCA to remain conservative in its loan disbursement and expect loan growth of 10% in FY24F, slightly lower than FY23F loan growth of 11%.

Exhibit 7. Loan-to-Deposit Ratio (LDR)



Source: Company, BRIDS Estimates

Exhibit 8. Capital Adequacy Ratio (CAR)

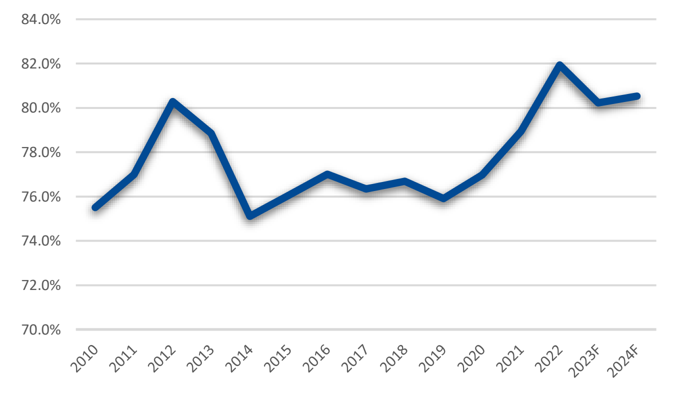


Source: Company, BRIDS Estimates

High CASA ratio to navigate the high interest rate environment.

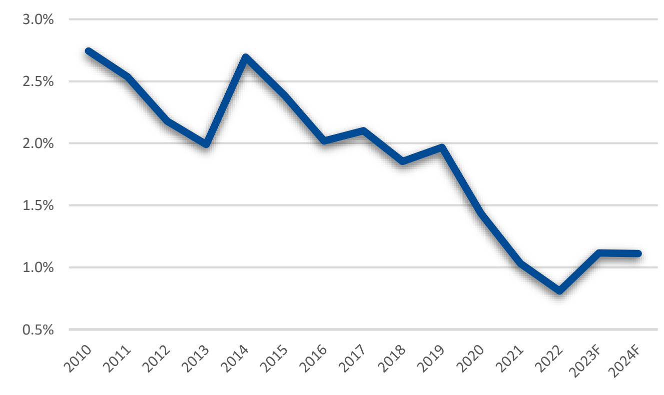
BBCA`s CASA Ratio stood at 79.9% in 9M23, which is the highest amongst its peers (BBNI: 68.6%, BBRI: 63.6%, and BMRI: 73.7%). Therefore, BBCA is more resilient to an increase in cost of funds compared to its peers, during the tight liquidity environment amid high BI benchmark rate. BI 7-day reverse repo rate currently standing at 6.0%, the highest level which was last seen back in 2019. We are expecting BBCA`s cost of fund to remain stable at 1.1% in FY24F.

Exhibit 9. Current account and saving account (CASA) ratio



Source: Company, BRIDS Estimates

Exhibit 10. Cost of funds and cost of customer deposit

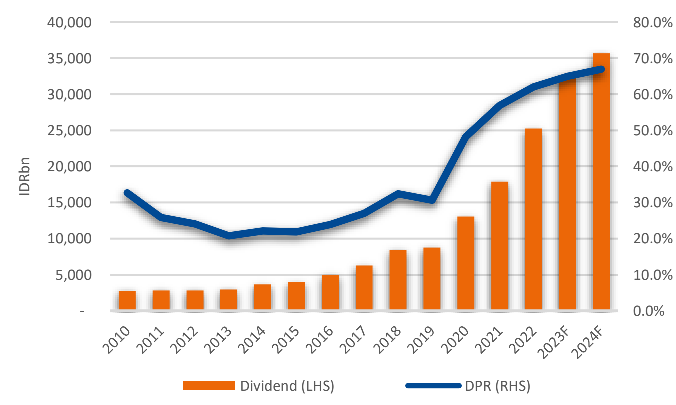


Source: Company, BRIDS Estimates

Potential higher dividend payout ratio, hence higher ROE

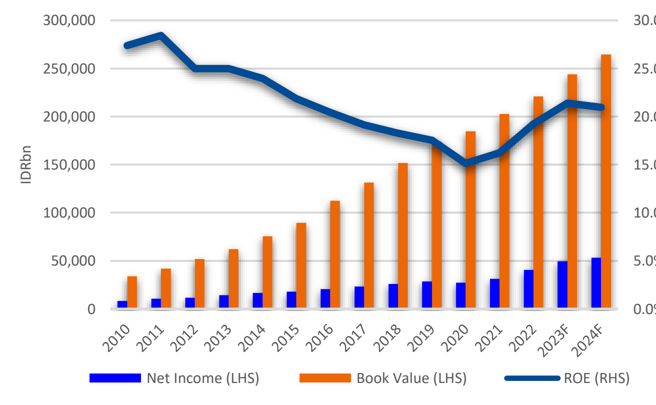
BBCA has continuously built up its CAR from c. 13% in early 2010 to c. 30% in 2023F while distributing c. 20-60% of its profits as dividends during the period. As the bank has robust capital position, it can start to increase its dividend payout ratio which will lead to higher ROEs going forward.

Exhibit 11. Dividend and dividend payout ratio



Source: Company, BRIDS Estimates

Exhibit 12. Net income, equity value and ROE



Source: Company, BRIDS Estimates

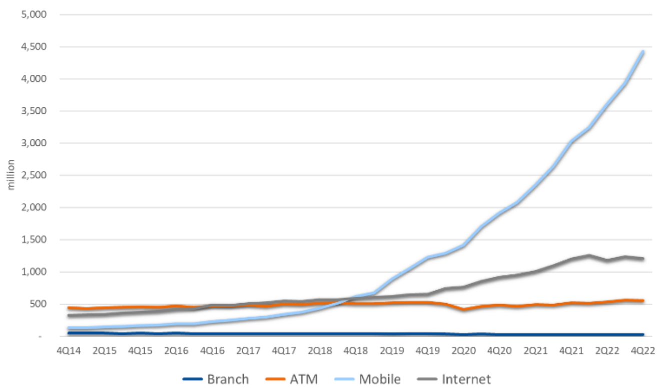
Transaction Analysis

From 4Q14 to 4Q22, transaction volume, including branch, ATM, mobile, and internet banking transactions, increased with a CAGR of +26.6%. Moreover, transaction value increased with a CAGR of +7%. It translates to a decrease in value/transaction with a CAGR of -15.5% from 4Q14 to 4Q22. Based on the mode of transaction, mobile banking (CAGR: +55.0%) experienced the most significant increase in transaction volume from 4Q14 to 4Q22, followed by internet banking (CAGR: +17.9%) and ATM (CAGR: +2.9%). However, branch banking experienced a decrease (CAGR: -7.0%) in transaction volume. Moreover, mobile banking (CAGR: +35.6%) also experienced the highest increase in transaction value from 4Q14 to 4Q22, followed by internet banking (CAGR: +15.7%) and ATM (CAGR: +2.5%). In comparison, branch banking experienced a decrease (CAGR: -1.0%) in transaction value as the pattern is also relatively flat on a qoq basis since 4Q14 compared to other modes that experienced a continuous increasing pattern on a qoq basis.

There are several possible explanations for these patterns. The increase in mobile banking users has been crucial due to changing customer preferences and needs. On the other hand, the number of branches and ATMs remained stable over the years, with an overall increasing number but not as significant as the percentage of the increase in mobile banking users. Since 2020, mobile banking users have increased by 103%, which may have been due to the COVID-19 Pandemic. However, BBCA reported an increase of 350% in mobile banking users from 2018 to 2022, suggesting that the increase may not have been significantly driven by Covid-19 alone. The number of BBCA's mobile banking users had been higher in the past compared to the competition as it had been consistently voted as the top 3 best mobile banking system since 2016. However, the increase in mobile banking transactions was also followed by a decrease in overall value/transaction.

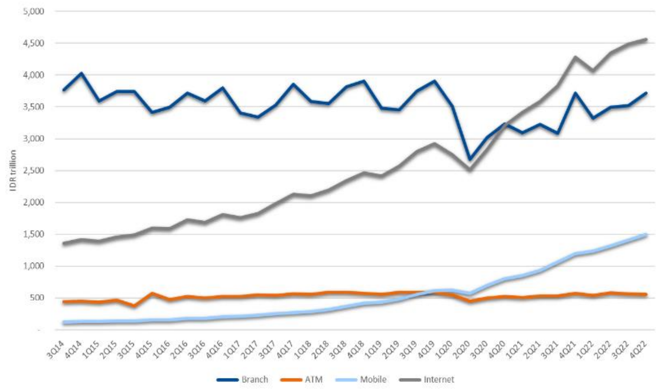
Furthermore, the value/transaction in 4Q22 is still dominated by branch banking with Rp142.88mn/transaction, followed by internet banking (Rp3.79mn/transaction), ATM (Rp1.00mn/transaction), and mobile banking (Rp338,156/transaction). Customers are likely to utilize mobile banking for small transactions. Therefore, the number of transactions increased, although the value decreased. At the same time, branch banking is utilized for transactions with the highest value.

Exhibit 13. Transaction volume by modes of transaction



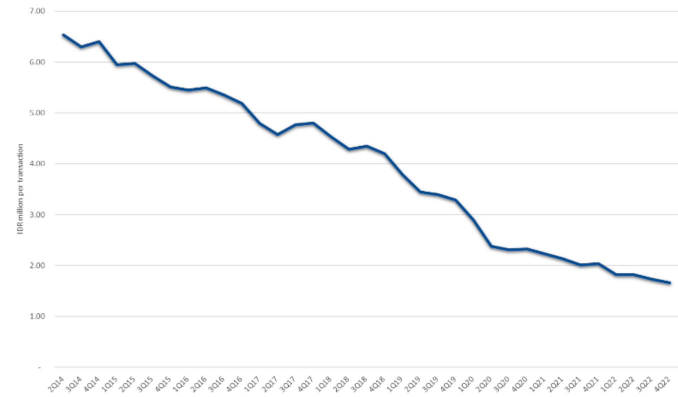
Source: Company, BRIDS Estimates

Exhibit 14. Transaction value by modes of transaction



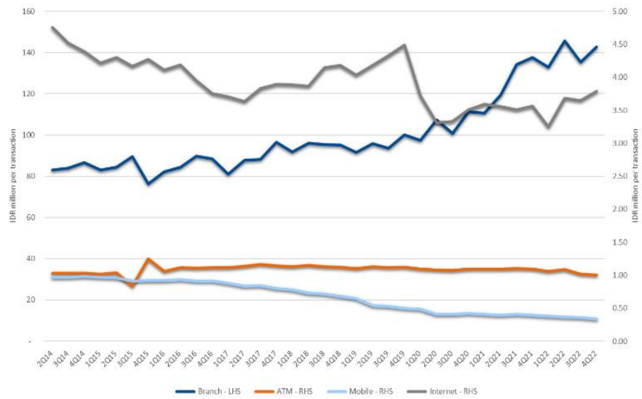
Source: Company, BRIDS Estimates

Exhibit 15. Overall value/transaction



Source: Company, BRIDS Estimates

Exhibit 16. Value/transaction by modes of transaction



Source: Company, BRIDS Estimates

Exhibit 17. Income Statement

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Interest Income	65,627	72,241	87,137	95,733	104,118
Interest Expense	(9,491)	(8,252)	(12,101)	(12,896)	(13,964)
Net Interest Income	**56,136**	**63,990**	**75,036**	**82,837**	**90,154**
Non-Interest Income (NII)	22,338	23,487	26,033	28,554	30,728
Oper. Income	**78,473**	**87,476**	**101,069**	**111,391**	**120,882**
Oper. Expenses	(30,308)	(32,483)	(36,508)	(39,466)	(42,422)
Pre-provisions profit	**48,165**	**54,994**	**64,561**	**71,925**	**78,460**
Provisions & Allowances	(9,324)	(4,527)	(2,950)	(4,074)	(4,487)
Operating Profits	**38,841**	**50,467**	**61,611**	**67,850**	**73,973**
Non-Operating Income	0	0	0	0	0
Exceptionals	0	0	0	0	0
Pre-tax Profit	**38,841**	**50,467**	**61,611**	**67,850**	**73,973**
Income Tax	(7,401)	(9,711)	(11,856)	(13,057)	(14,235)
Minorities	1	(19)	(21)	(23)	(25)
Net Profit	**31,441**	**40,736**	**49,734**	**54,771**	**59,713**

Exhibit 18. Balance Sheet

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Gross Loans	622,013	694,937	772,798	851,135	937,751
Provisions	(32,200)	(33,948)	(34,102)	(35,405)	(37,144)
Net Loans	**589,814**	**660,989**	**738,697**	**815,730**	**900,608**
Govt. Bonds	0	0	0	0	0
Securities	226,680	251,128	314,103	320,404	322,601
Other Earnings Assets	13,934	15,432	16,953	18,780	20,635
Total Earnings Assets	**1,119,387**	**1,166,791**	**1,270,631**	**1,359,504**	**1,455,086**
Fixed Assets	31,108	34,781	35,415	35,530	36,675
Non-Earnings Assets	24,062	24,388	24,929	24,460	24,592
Total Assets	**1,228,345**	**1,314,732**	**1,406,776**	**1,513,392**	**1,643,284**
Customer Deposits	968,607	1,030,452	1,099,535	1,180,622	1,285,101
Banks Deposits	10,017	7,936	8,333	8,750	9,187
Int. Bearing Liab. - Others	7,342	9,266	10,480	11,854	13,407
Total Liabilities	**1,025,496**	**1,093,550**	**1,162,306**	**1,246,954**	**1,354,539**
Share capital & Reserves	23,133	20,060	20,060	20,060	20,060
Retained Earnings	179,580	200,959	224,247	246,215	268,522
Shareholders' Funds	**202,713**	**221,019**	**244,307**	**266,275**	**288,582**
Minority interests	136	163	163	163	163
Total Equity & Liabilities	**1,228,345**	**1,314,732**	**1,406,776**	**1,513,392**	**1,643,284**

Exhibit 19. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Yield on Earning Assets	6.2	6.3	7.1	7.3	7.4
Cost of funds	1.0	0.8	1.1	1.1	1.1
Interest Spread	5.2	5.5	6.0	6.2	6.3
Net Interest Margin	5.3	5.6	6.2	6.3	6.4
Cost/Income Ratio	38.6	37.1	36.1	35.4	35.1
Oper. Exp./Oper. Gross Inc.	55.8	47.3	45.6	45.4	45.1
Gross NPL Ratio	2.2	1.7	1.9	1.7	1.6
LLP/Gross NPL	240.1	287.7	230.2	238.8	241.5
Cost of Credit	1.6	0.7	0.4	0.5	0.5
Loan to Deposit Ratio	64.2	67.4	70.3	72.1	73.0
Loan to Funding Ratio	64.2	67.4	70.3	72.1	73.0
CASA Mix	78.1	81.3	79.6	79.9	80.3
ROAE	16.2	19.2	21.4	21.5	21.5
ROAA	2.7	3.2	3.7	3.8	3.8
CAR	23.5	25.7	29.0	26.6	25.1

Exhibit 20. Dupont and Growth

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Dupont					
Pre-Tax ROAA	3.4	4.0	4.5	4.6	4.7
Tax Retention rate	80.9	80.8	80.8	80.8	80.8
Post-Tax ROAA	2.7	3.2	3.7	3.8	3.8
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	5.9	6.0	5.8	5.7	5.7
ROAE	16.2	19.2	21.4	21.5	21.5
Growth (%)					
Interest income	0.3	10.1	20.6	9.9	8.8
Net Interest Income	3.6	14.0	17.3	10.4	8.8
Other Oper. Expenses	1.1	7.2	12.4	8.1	7.5
Fee Based Income	11.5	13.0	10.1	9.3	8.8
Pre-Provision Oper. Profit	6.6	14.2	17.4	11.4	9.1
Net Profit	15.9	29.6	22.1	10.1	9.0
Shareholders' Equity	9.8	9.0	10.5	9.0	8.4
Loan	8.3	11.7	11.2	10.1	10.2
Earnings Asset	12.2	4.2	8.9	7.0	7.0
Deposit	15.9	6.1	6.7	7.4	8.8
Int. Bearing Liab.	16.0	6.5	6.5	7.4	8.9
CASA	19.1	10.4	4.5	7.8	9.3
Total Asset	14.2	7.0	7.0	7.6	8.6

Source: BBCA, BRIDS Estimates

Non Rated

Bank Rakyat Indonesia (BBRI IJ)

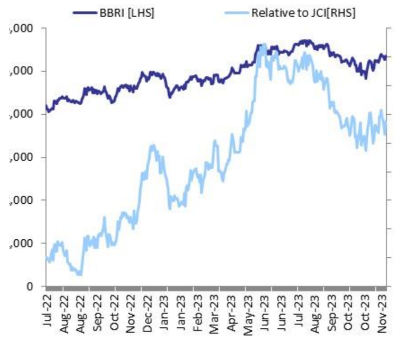
Solid exposure in MSME, with strong traction in the consumer segment

Last Price (Rp)	**5,350**
Target Price (Rp)	**n/a**
Previous Target Price (Rp)	***n/a***
Upside/Downside	**n/a**
No. of Shares (mn)	**151,559**
Mkt Cap (Rpbn/US$mn)	**810,841/52,363**
Avg, Daily T/O (Rpbn/US$mn)	**614.7/39.7**
Free Float (%)	**46.8**
Major Shareholder (%)	
Government of Indonesia	**53.2**

EPS Consensus (Rp)

	2023F	2024F	2025F
BRIDS	n/a	n/a	n/a
Consensus	391.1	440.5	488.2
BRIDS/Cons (%)	**n/a**	**n/a**	**n/a**

BBRI relative to JCI Index



Source: Bloomberg

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- **BBRI`s 2.6x PBV (9M23) is backed by its high NIM (8.8% in 3Q23) and ROE (19.7% in 9M23).**
- **BBRI's growth in FY24-FY25F will be supported by its cost efficiency, potential rate cuts, and strong traction in its mobile banking app, Brimo.**
- **With a 5-year avg COE of 8.3%, BBRI has the second highest premium vs its peers, noting its high ROE and unique value proposition in MSME.**

Potential cost efficiencies post PNM and Pegadaian acquisitions

In 2010-19 (pre-acquisition of PNM, Pegadaian), BBRI`s cost to income ratio (CIR) has fallen to 40.5% (from 43.7% in 2010), reflecting the bank's efficiency initiatives, combined with its strong loans growth. In 2020, the bank`s CIR rose to 50.9% due to the acquisition of Permodalan Nasional Madani (PNM) and Pegadaian which both have high CIRs. Some collaboration has been undertaken to make operations more efficient, one of them being the launch of Senyum (Sentra Layanan Ultra Mikro) which employs a co-location concept, where customers can access the Ultra Micro ecosystem services from three company entities within a shared service location. BBRI's CIR has dropped to 47.4% by FY22 but potential collaboration may offer room to further trim operational redundancies.

Potentially benefitting from rate cuts

As around half of the bank`s loans are fixed rate, BBRI stands to benefit if the rate cut materializes as it does not have to reprice its KUR loans. On the other hand, BBRI also has the lowest CASA ratio among its big-4 bank peers, hence a higher TD portion, which should also benefit if the benchmark rate is lowered. Hence, rate cuts shall drive NIM expansion for BBRI as the gains in a lower cost of funds (from lower TD rates) will outpace lower loan yields.

Strong traction in mobile banking transactions

Despite being perceived as one of the traditional banks (due to its business model of disbursing to MSME), BBRI has shown its digital prowess in the development of its mobile app, Brimo. BBRI's mobile transaction value rose from Rp197tr in FY20 to Rp2,669tr in FY22, making its transaction value the second highest after BBCA.

Unique industry position with a solid ROE

BBRI`s 2.6x PBV (9M23) is backed by its high NIM (8.8% in 3Q23) and ROE (19.7% in 9M23). Its unique position in developing the MSME sector is the bank`s key competitiveness. Additionally, the growth in mobile banking transactions also looks encouraging for the bank to cater to the consumer segment.

Key Financials

Year to 31 Dec	2019A	2020A	2021A	2022A
PPOP (Rpbn)	66,192	65,059	80,435	91,285
Net profit (Rpbn)	34,373	21,036	33,467	51,170
EPS (Rp)	279	171	220.8	337.6
EPS growth (%)	6.2	(38.8)	29.5	52.9
BVPS (Rp)	1,673	1,840	1,905.1	1,974.8
PER (x)	19.5	31.9	23.4	15.3
PBV (x)	3.2	3.0	2.7	2.6
Dividend yield (%)	3.1	1.4	3.4	5.5
ROAE (%)	17.7	9.7	13.0	17.4

Source: BBRI, BRIDS Estimates

Solid exposure in MSME, with strong traction in the consumer segment

Unique industry position with a solid ROE

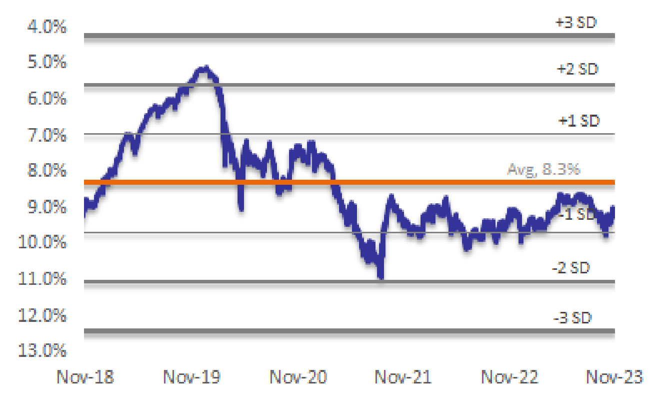
BBRI`s 2.6x PBV (9M23) is backed by its high NIM (8.8% in 3Q23) and ROE (19.7% in 9M23). Its unique position in developing the MSME sector is the bank`s key competitiveness. Additionally, the growth in mobile banking transactions also looks encouraging for the bank to cater to the consumer segment.

Exhibit 1. BBRI key ratios

BBRI	2018	2019	2020	2021	2022
Loan Growth	14.1%	7.0%	7.6%	5.4%	8.5%
Deposit Growth	12.3%	7.9%	8.6%	6.2%	14.9%
LDR	89.6%	88.9%	88.0%	87.3%	82.5%
Loan Yield	11.7%	11.9%	11.5%	11.7%	11.0%
CoF	3.6%	3.9%	3.7%	2.5%	1.8%
CoC	2.3%	2.6%	3.7%	3.9%	2.6%
CIR	41.2%	40.5%	50.9%	48.6%	47.4%
CASA Ratio	61.0%	58.2%	60.2%	63.1%	66.7%

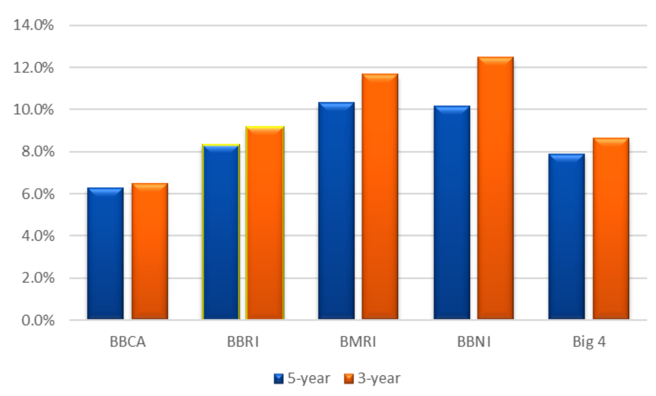
Source: Company, BRIDS Estimates

Exhibit 2. BBRI's cost of equity band chart (5-year)



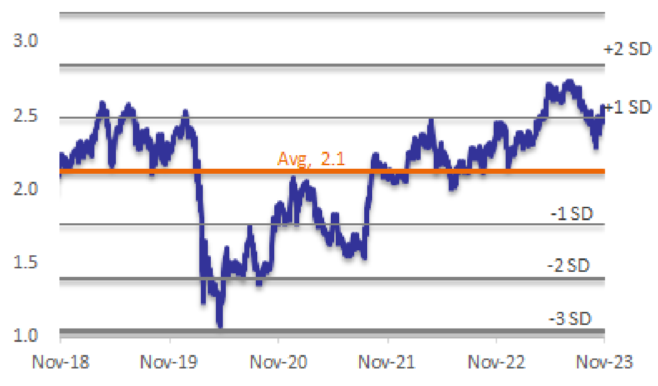
Source: Company, Bloomberg, BRIDS

Exhibit 3. BBRI's cost of equity comparison



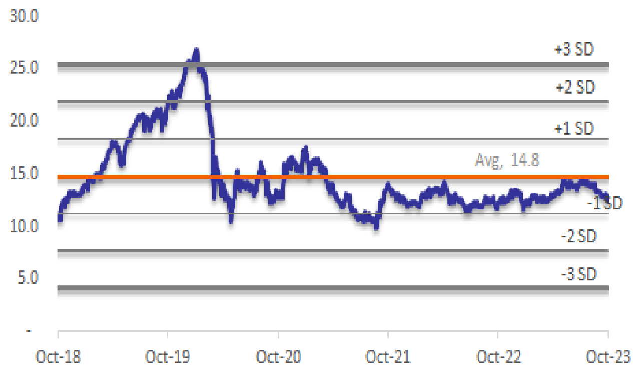
Source: Company, Bloomberg, BRIDS

Exhibit 4. BBRI's PBV band chart (5-year)



Source: Company, Bloomberg, BRIDS

Exhibit 5. BBRI's PE band chart (5-year)



Source: Company, Bloomberg, BRIDS

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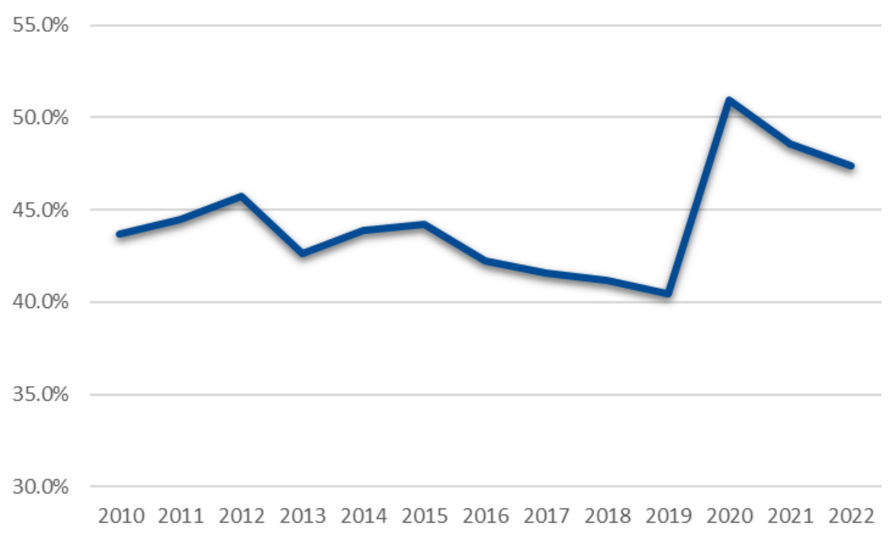
Exhibit 6. BBRI's cost to income ratio (CIR)

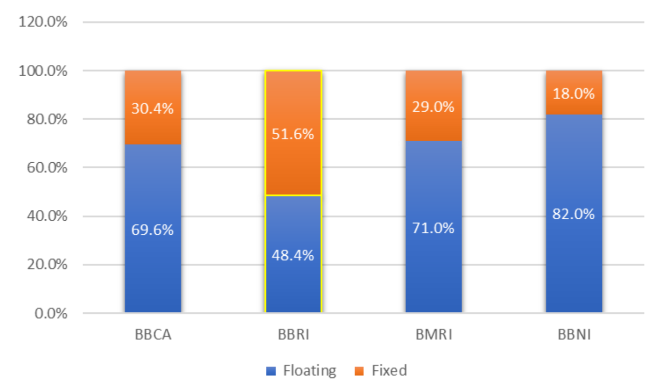


Source: Company, BRIDS Estimates

Potentially benefitting from rate cuts

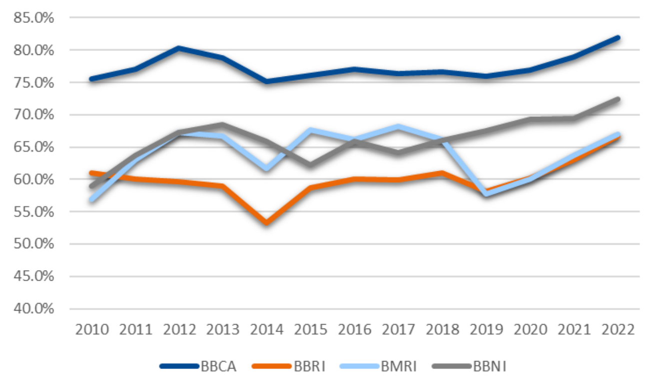
As around half of the bank`s loans are fixed rate, BBRI stands to benefit if the rate cut materializes as it does not have to reprice its loans. On the other hand, BBRI also has the lowest CASA ratio among its big-4 bank peers, hence a higher TD portion, which should also benefit if the benchmark rate is lowered. Hence, rate cuts shall drive NIM expansion for BBRI as the gains in a lower cost of funds (from lower TD rates) will outpace lower loan yields.

Exhibit 7. Floating vs fixed rate of the big 4 banks



Source: Company, BRIDS

Exhibit 8. CASA ratio of the big 4 banks

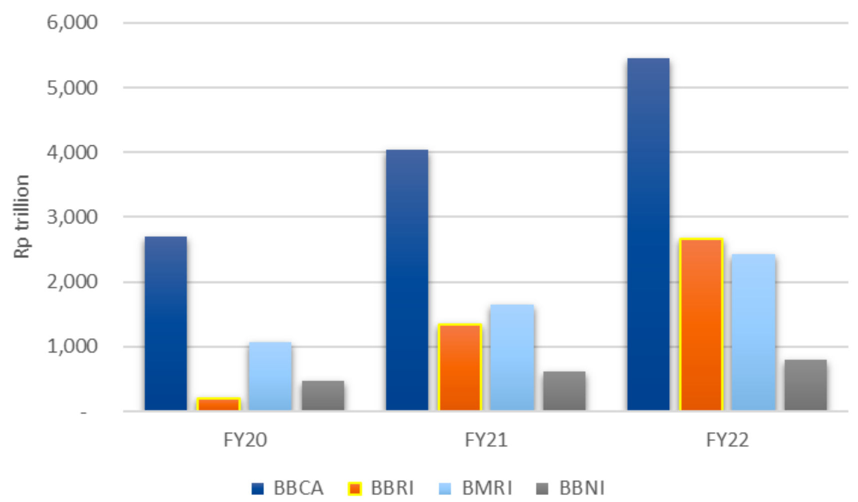


Source: Company, BRIDS

Strong traction in mobile banking transactions

Despite being perceived as one of the traditional banks (due to its business model of disbursing to MSME), BBRI has shown its digital prowess in the development of its mobile app, Brimo. BBRI's mobile transaction value rose from Rp197tr in FY20 to Rp2,669tr in FY22, making its transaction value the second highest after BBCA.

Exhibit 9. Mobile banking transaction value



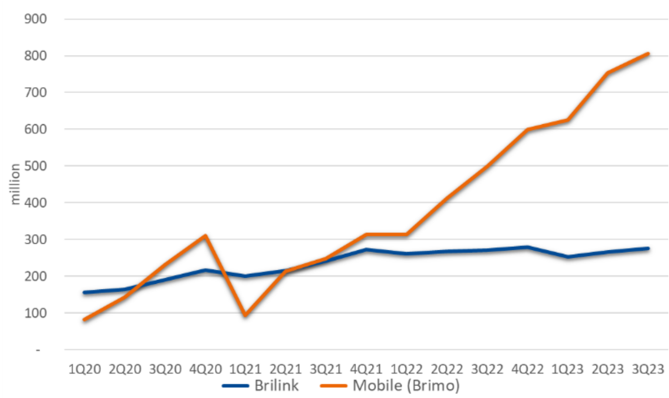
Source: Company, BRIDS Estimates

Brimo, spearheaded the growth in transaction value

From 1Q20 until 3Q23, the overall Brilink and Mobile banking (Brimo) transaction volume increased with a CAGR of +54.22%. Brilink and Brimo transaction volume increased with a CAGR of +17.60% and +92.53%, respectively. On top of that, overall, Brilink's and Brimo's transaction value grew with a CAGR of +77.81%. This increase was mainly driven by the growth in Brimo transaction value, which amounted to a CAGR of +200.26%, while Brilink transaction value grew with a CAGR of +31.49%. There is a pattern of seasonality from quarter to quarter. As for the three years since 2020, Q1 recorded the least number of transactions and value for each year.

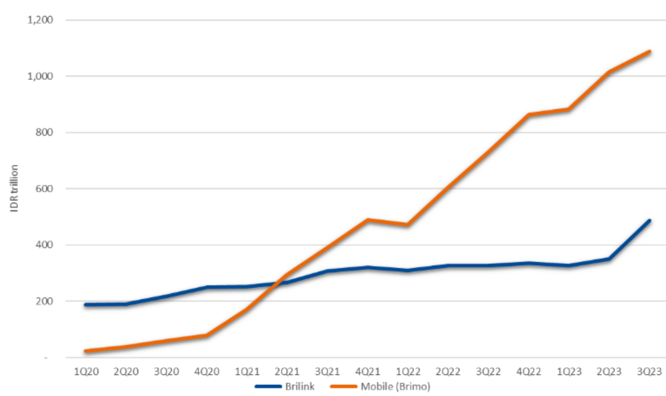
From 4Q19 until 3Q23, mobile banking users increased from 3 million to 29.8 million, a CAGR of 84.46%. Before the COVID-19 pandemic, the rate stood at a CAGR of +88.76%, while it stood at +36.38% during and after the pandemic. On the other hand, the number of branches that reached 10,684 in 2017 declined to 7,849 (-26.5%) in 3Q23. Furthermore, the number of ATMs that reached 24,684 in 2017 fell to 13,818 (-44.0%) in 3Q23. Both observations suggest that digitalization and changing customer needs have steered transactions toward mobile banking. This is further reflected in the overall value/transaction that has increased with a CAGR of 15.29% since 1Q20 and is mainly driven by growth (CAGR: +55.95%) in mobile banking's value/transaction. Brilink's value/transaction grew with a CAGR of +11.8%. In 3Q23, Brilink's value/transaction amounted to IDR1.77mn/transaction, while mobile banking's value/transaction was IDR1.35mn/transaction.

Exhibit 10. Transaction volume by modes of transaction



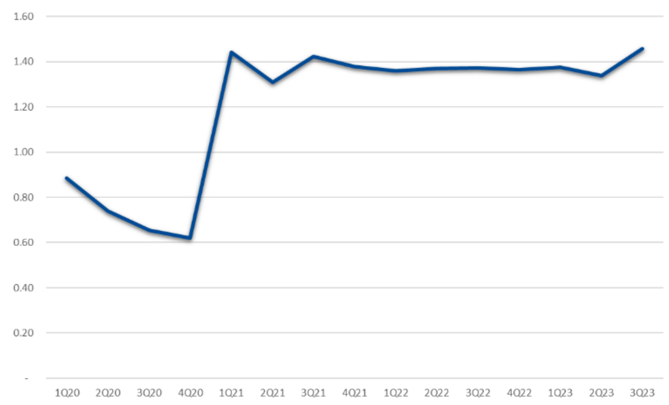
Source: Company, BRIDS Estimates

Exhibit 11. Transaction value by modes of transaction



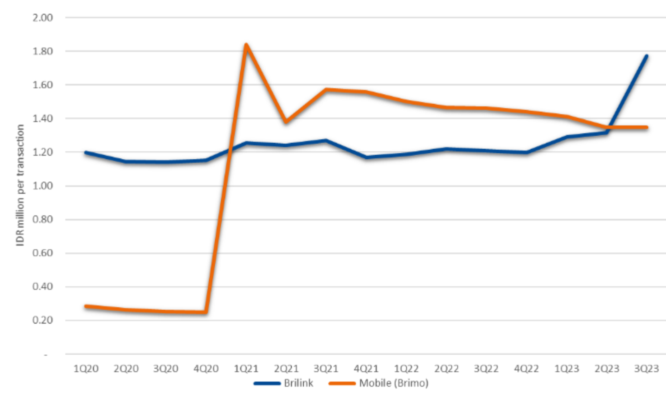
Source: Company, BRIDS Estimates

Exhibit 12. Overall value/transaction



Source: Company, BRIDS Estimates

Exhibit 13. Value/transaction by modes of transaction



Source: Company, BRIDS Estimates

Exhibit 14. Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020A	2021A	2022A
Interest Income	111,583	121,756	135,765	143,523	151,875
Interest Expense	(33,917)	(40,049)	(42,180)	(29,429)	(27,278)
Net Interest Income	**77,666**	**81,707**	**93,584**	**114,094**	**124,597**
Non-Interest Income (NII)	23,498	27,530	35,765	38,686	47,216
Oper. Income	**101,164**	**109,237**	**129,349**	**152,780**	**171,813**
Oper. Expenses	(41,990)	(44,966)	(67,504)	(75,918)	(82,192)
Pre-provisions profit	**60,047**	**66,192**	**65,059**	**80,435**	**91,285**
Provisions & Allowances	(18,321)	(22,760)	(35,280)	(39,291)	(26,979)
Operating Profits	**41,726**	**43,432**	**29,779**	**41,144**	**64,306**
Non-Operating Income	28	(68)	215	(152)	291
Exceptionals	0	0	0	0	0
Pre-tax Profit	**41,754**	**43,364**	**29,993**	**40,992**	**64,597**
Income Tax	(9,335)	(8,950)	(8,952)	(7,836)	(13,188)
Minorities	(67)	(41)	(6)	311	(238)
Net Profit	**32,351**	**34,373**	**21,036**	**33,467**	**51,170**

Exhibit 15. Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020A	2021A	2022A
Gross Loans	820,010	877,431	943,788	994,417	1,079,275
Provisions	(35,018)	(38,364)	(66,810)	(84,834)	(88,324)
Net Loans	**784,992**	**839,067**	**876,977**	**909,583**	**990,951**
Govt. Bonds	1,505	1,130	0	0	0
Securities	184,284	195,840	326,957	371,738	330,242
Other Earnings Assets	23,003	29,125	72,821	45,455	55,038
Total Earnings Assets	**1,177,466**	**1,296,503**	**1,504,484**	**1,577,855**	**1,652,810**
Fixed Assets	37,925	44,076	60,885	65,038	73,951
Non-Earnings Assets	23,380	20,265	33,492	32,023	42,374
Total Assets	**1,296,898**	**1,416,759**	**1,610,065**	**1,678,098**	**1,865,639**
Customer Deposits	915,430	987,405	1,071,919	1,138,743	1,307,884
Banks Deposits	9,131	17,970	23,786	13,329	9,335
Int. Bearing Liab. - Others	28,839	33,791	49,003	0	0
Total Liabilities	**1,111,623**	**1,207,975**	**1,380,598**	**1,386,311**	**1,562,244**
Share capital & Reserves	18,245	24,762	58,642	101,967	98,124
Retained Earnings	164,722	181,561	168,274	186,768	201,170
Shareholders' Funds	**182,968**	**206,323**	**226,916**	**288,735**	**299,294**
Minority interests	2,308	2,461	2,551	3,052	4,101
Total Equity & Liabilities	**1,296,898**	**1,416,759**	**1,610,065**	**1,678,098**	**1,865,639**

Exhibit 16. Key Ratios

Year to 31 Dec	2018A	2019A	2020A	2021A	2022A
Yield on Earning Assets	10.1	9.8	9.7	9.3	9.4
Cost of funds	3.4	3.5	3.4	2.2	1.9
Interest Spread	6.8	6.3	6.3	7.1	7.5
Net Interest Margin	7.1	6.6	6.7	7.4	7.7
Cost/Income Ratio	41.2	40.5	50.9	48.6	47.4
Oper. Exp./Oper. Gross Inc.	69.3	71.3	83.0	77.9	68.0
Gross NPL Ratio	2.3	2.8	3.0	3.1	2.7
LLP/Gross NPL	188.1	156.2	236.8	277.0	306.5
Cost of Credit	2.4	2.7	3.9	4.1	2.6
Loan to Deposit Ratio	89.6	88.9	88.0	87.3	82.5
Loan to Funding Ratio	86.6	85.5	83.5	83.3	78.7
CASA Mix	60.4	57.1	58.9	62.3	66.2
ROAE	18.5	17.7	9.7	13.0	17.4
ROAA	2.7	2.5	1.4	2.0	2.9
CAR	21.1	21.1	19.3	25.3	23.4

Exhibit 17. Dupont and Growth

Year to 31 Dec	2018A	2019A	2020A	2021A	2022A
Dupont					
Pre-Tax ROAA	3.4	3.2	2.0	2.5	3.6
Tax Retention rate	77.6	79.4	70.2	80.9	79.6
Post-Tax ROAA	2.7	2.5	1.4	2.0	2.9
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	6.9	7.0	7.0	6.4	6.0
ROAE	18.5	17.7	9.7	13.0	17.4
Growth (%)					
Interest income	8.4	9.1	11.5	5.7	5.8
Net Interest Income	6.4	5.2	14.5	21.9	9.2
Other Oper. Expenses	9.2	7.1	50.1	12.5	8.3
Fee Based Income	15.1	20.7	11.5	5.4	10.2
Pre-Provision Oper. Profit	11.1	10.2	(1.7)	23.6	13.5
Net Profit	11.6	6.2	(38.8)	59.1	52.9
Shareholders' Equity	9.7	12.8	10.0	27.2	3.7
Loan	14.1	7.0	7.6	5.4	8.5
Earnings Asset	14.9	10.1	16.0	4.9	4.8
Deposit	12.6	8.7	9.0	5.1	14.3
Int. Bearing Liab.	16.2	8.6	13.8	(0.4)	12.7
CASA	14.1	2.9	12.4	11.3	21.5
Total Asset	15.2	9.2	13.6	4.2	11.2

Source: BBRI, BRIDS Estimates

BUY

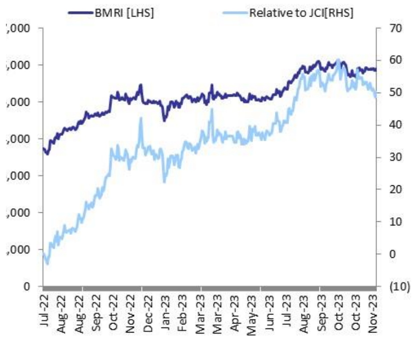
(Initiation)

Last Price (Rp)	**5,900**
Target Price (Rp)	**7,300**
Previous Target Price (Rp)	***n/a***
Upside/Downside	**+23.7%**
No. of Shares (mn)	**93,333**
Mkt Cap (Rpbn/US$mn)	**550,667/35,561**
Avg, Daily T/O (Rpbn/US$mn)	**461.0/29.8**
Free Float (%)	**39.2**
Major Shareholder (%)	
Government of Indonesia	**52.0**
INA	**8.0**

EPS Consensus (Rp)

	2023F	2024F	2025F
BRIDS	546.9	587.2	643.2
Consensus	549.1	602.3	647.9
BRIDS/Cons (%)	**(0.4)**	**(2.5)**	**(0.7)**

BMRI relative to JCI Index



Source: Bloomberg

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Bank Mandiri (BMRI IJ)

Improving fundamentals yet to be fully baked-in

- **With a cost of equity of 11.0%, below its 5-year average, BMRI's valuation has yet to fully bake in the strong fundamental growth.**
- **Strong NIM, high CASA, and a robust credit scoring system will be key drivers for BMRI's re-rating.**
- **We reinitiate coverage on BMRI with a Buy rating and TP of Rp7,300 (10.3% coe, 3.0% LTG, 20.8% ROE), implying fair value PBV of 2.4x.**

High CASA ratio and subsequent lower CoF

BMRI's CASA ratio of 73.7% in 9M23 is the second highest among the big four banks, only behind BBCA (79.9%) exceeding BBNI's (68.6%) and BBRI's (63.6%). The higher CASA ratio, which is supported by the strong traction of its mobile app (Livin), leads to an overall lower cost of funds. As a result, we expect BMRI`s cost of funds to stand at 1.9% in FY24F amid the tight liquidity and higher CoF in the banking industry.

NIM's upward trajectory resulted in a higher earnings yield

BMRI recorded a NIM of 5.5% in 9M23, an increase of 13.5% from a NIM of 4.9% recorded in 9M22. The increase was driven by loans repricing owing to benchmark rate hikes. NIM has been in an upward trajectory from 9M21 until 9M23. Furthermore, this suggests that BMRI earns more from its interest-earning assets, contributing to a higher earnings yield.

Lower NPLs than its peers, indicating effective risk management

BMRI's LaR reached 9.8% in 9M23, the second lowest among its peers (BBCA: 7.6%, BBNI: 14.3%, BBRI: 13.9%). Moreover, BMRI's NPLs of 1.49% in 9M23 are the lowest among its peers (BBCA: 2.0%, BBNI: 2.3% and BBRI: 3.1%). As such, the lower NPLs indicate a robust credit scoring system and also lead to our forecast CoC of 1.0% in FY24F.

Reinitiate coverage with a BUY rating and TP of Rp7,300

We reinitiate coverage on BMRI with a TP of Rp7,300 and a new valuation using inverse cost of equity GGM. Our valuation is based on 10.3% cost of equity (5-year average), LT growth of 3.0%, and FY24F ROE of 20.8%, implying fair value PBV of 2.4x to FY24F. Our TP is based on the assumption of FY24F earnings of Rp54.8tr (7% growth) and a dividend payout ratio of 60%, implying 24% upside and a 6% dividend yield.

Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
PPOP (Rpbn)	57,984	72,291	81,945	89,695	97,638
Net profit (Rpbn)	28,028	41,179	51,044	54,804	60,036
EPS (Rp)	300.3	441.2	546.9	587.2	643.2
EPS growth (%)	66.8	46.9	24.0	7.4	9.5
BVPS (Rp)	2,193.1	2,460.8	2,679.6	2,973.2	3,294.8
PER (x)	19.6	13.4	10.8	10.0	9.2
PBV (x)	2.7	2.4	2.2	2.0	1.8
Dividend yield (%)	3.1	4.5	5.6	5.0	5.5
ROAE (%)	14.2	19.0	21.3	20.8	20.5

Source: BMRI, BRIDS Estimates

Reinitiate coverage with a BUY rating and TP of Rp7,300

We reinitiate coverage on BMRI with a TP of Rp7,300 and a new valuation using inverse cost of equity GGM. Our valuation is based on 10.3% cost of equity (5-year average), LT growth of 3.0%, and FY24F ROE of 20.8%, implying fair value PBV of 2.4x to FY24F. Our TP is based on the assumption of FY24F earnings of Rp54.8tr (7% growth) and a dividend payout ratio of 60%, implying 24% upside and a 6% dividend yield.

Exhibit 1. BMRI's evaluation assumptions

BMRI	2020	2021	2022	2023F	2024F
Loan Growth	6.3%	8.9%	14.3%	12.1%	8.8%
Deposit Growth	15.6%	12.8%	15.5%	9.9%	8.5%
LDR	82.3%	79.5%	78.6%	80.2%	80.4%
Loan Yield	8.2%	7.5%	7.3%	7.8%	8.0%
CoF	2.9%	1.9%	1.7%	2.0%	1.9%
CoC	2.5%	1.9%	1.4%	1.0%	1.0%
CIR	47.5%	45.9%	42.4%	39.3%	39.0%
CASA Ratio	60.1%	63.7%	67.0%	68.7%	65.2%

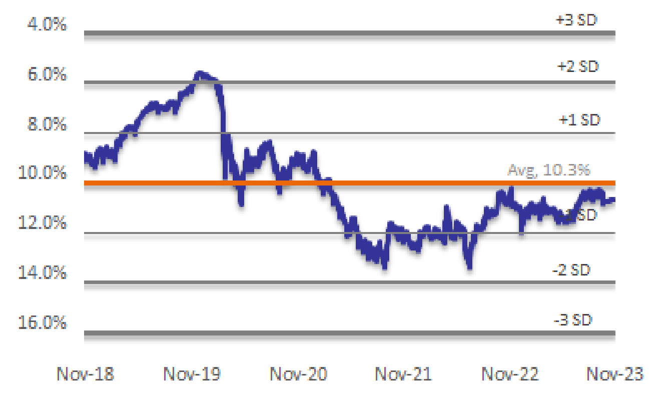
Source: Company BRIDS Estimates

Exhibit 2. BMRI's inverse cost of equity GGM valuation

Gordon Growth Valuation with Inverse Cost of Equity (ike)		
Parameters:		**Comment:**
Cost of equity (%)	10.30	5-Year average
Cost of equity (%) - SD	2.00	5-Year average
SD used	-	
Cost of equity (%) used	10.30	
Long-term growth (%)	3.00	Long-term nominal GDP growth
Forward ROE (%)	20.8	FY24F ROAE
Fair value P/BV (x)	2.44	**(ROAE - g) / (COC - g)**
BV/share (IDR)	2,974	FY24F Book value per share
Fair value (IDR)	7,300	Fair value P/BV multiple x BVPS

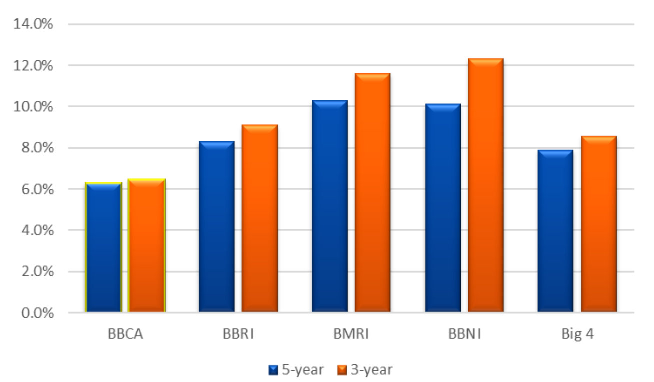
Source: Company BRIDS Estimates

Exhibit 3. BMRI's cost of equity band chart (5-year)



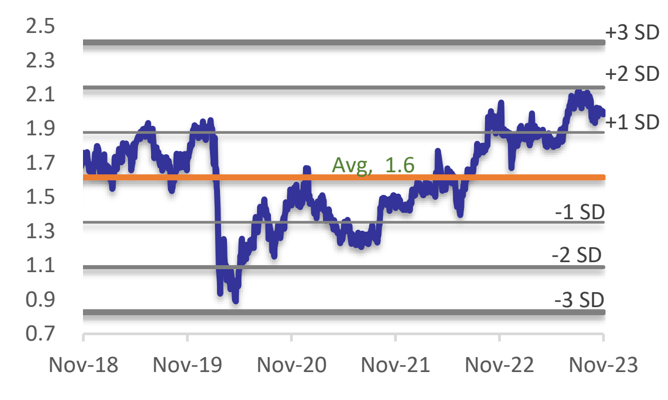
Source: Company, BRIDS Estimates

Exhibit 4. BMRI's cost of equity comparison



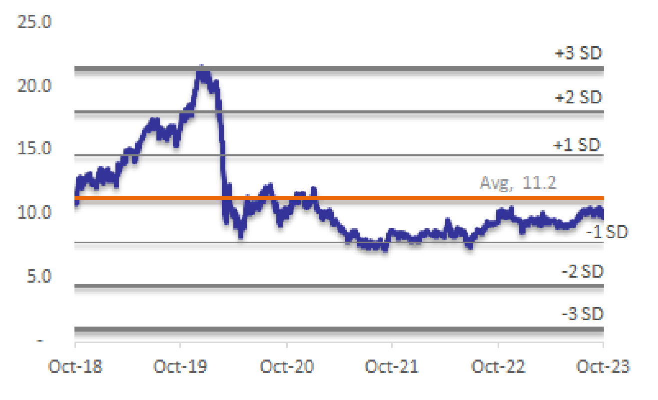
Source: Company, BRIDS Estimates

Exhibit 5. BMRI's PBV band chart (5-year)



Source: Company, BRIDS Estimates

Exhibit 6. BMRI's PE band chart (5-year)

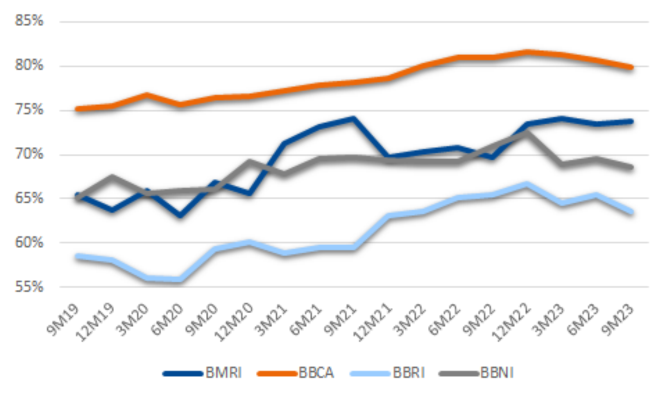


Source: Company, BRIDS Estimates

High CASA ratio and subsequent lower CoF

BMRI's CASA ratio of 73.7% in 9M23 is the second highest among the big four banks, only behind BBCA (79.9%) exceeding BBNI's (68.6%) and BBRI's (63.6%). The higher CASA ratio leads to an overall lower cost of funds. As a result, we expect BMRI`s cost of funds to stand at 1.9% in FY24F.

Exhibit 7. Current account and saving account (CASA) ratio



Source: Company, BRIDS Estimates

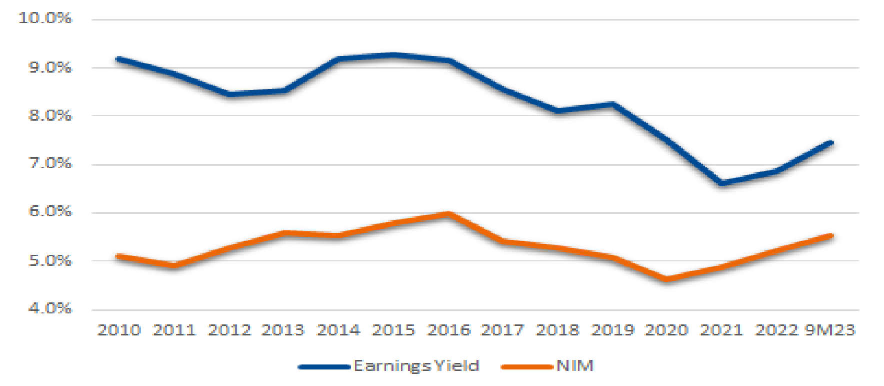
Exhibit 8. Cost of funds

Source: Company, BRIDS Estimates

NIM's upward trajectory resulted in a higher earnings yield

BMRI recorded a NIM of 5.5% in 9M23, an increase of 13.5% from a NIM of 4.9% recorded in 9M22. The increase was driven by loans repricing owing to benchmark rate hikes. NIM has been in an upward trajectory from 9M21 until 9M23. Furthermore, this suggests that BMRI earns more from its interest-earning assets, contributing to a higher earnings yield.

Exhibit 9. BMRI's NIM and earnings yield

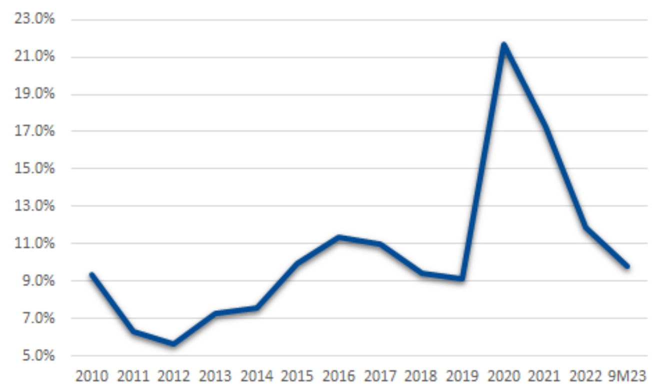


Source: Company BRIDS Estimates

Lower NPLs than its peers, indicating effective risk management

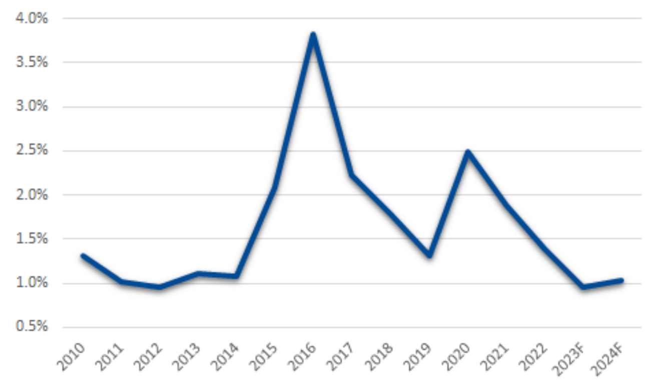
BMRI's LaR reached 9.8% in 9M23, the second lowest among its peers (BBCA: 7.6%, BBNI: 14.3%, BBRI: 13.9%). Moreover, BMRI's NPLs of 1.49% in 9M23 are the lowest among its peers (BBCA: 2.0%, BBNI: 2.3% and BBRI: 3.1%). As such, the lower NPLs indicate a robust credit scoring system and also lead to our forecast CoC of 1.0% in FY24F.

Exhibit 10. Loans-at-Risk (LaR) ratio



Source: Company, BRIDS Estimates

Exhibit 11. Cost of credit



Source: Company, BRIDS Estimates

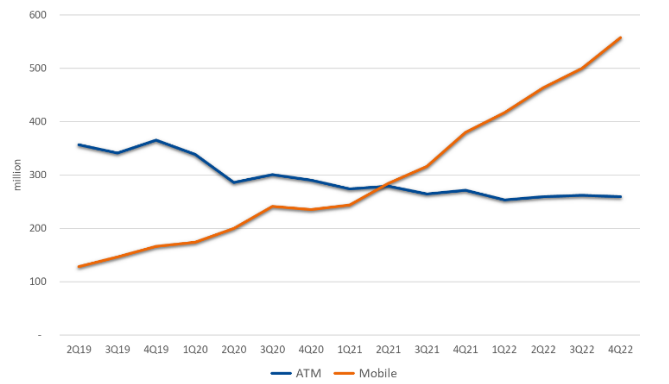
Transaction Analysis

From 2Q19 to 4Q22, the overall transaction volume of ATM and Mobile banking increased with a CAGR of 16.1%, mainly driven by an increase in mobile banking transaction volume (CAGR: +52.3%). In comparison, ATM transaction volume decreased (CAGR: -8.8%). Furthermore, the overall transaction value of ATM and Mobile banking increased with a CAGR of 20.2%, mainly driven by an increase in mobile banking transaction volume (CAGR: +49.1%). In comparison, ATM transaction volume decreased (CAGR: -11.6%).

From 4Q17 until 2Q23, mobile banking users increased from 0.4mn to 19.2 mn (CAGR: +76.4%). The most significant difference was from 1Q20 to 2Q20 (+52.18% QoQ) and 2Q19 to 2Q20 (+115.02% YoY). Before the Covid-19 pandemic, the rate stood at a CAGR of +95.49%, while it stood at +66.36% during and after the pandemic. This is further supported by the sharp decline in the number of ATMs from 18,291 (2Q20) to 13,800 (3Q20), which amounted to a 24.6% decrease. Customers seem to be moving towards mobile banking, especially with the further development of the 'livin' app.

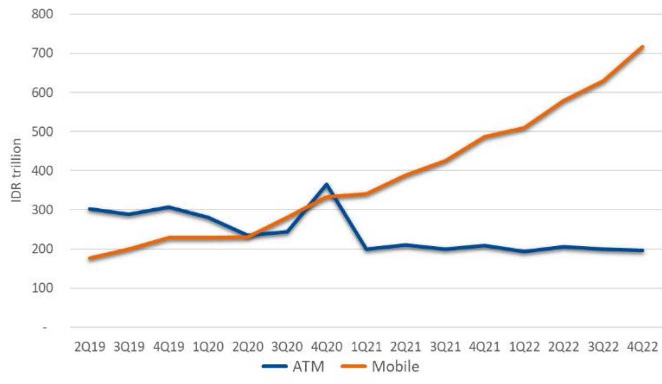
Overall value/transaction increased with a CAGR of +3.6% from 2Q19 to 4Q22. In 4Q22, Mobile banking's value/transaction amounted to IDR1.28mn/transaction, while ATM's value/transaction amounted to IDR760,618/transaction. However, Mobile banking and ATMs experienced a decline in value/transaction with a CAGR of -2.1% and -3.1%, respectively.

Exhibit 12. Transaction volume by mode of transaction



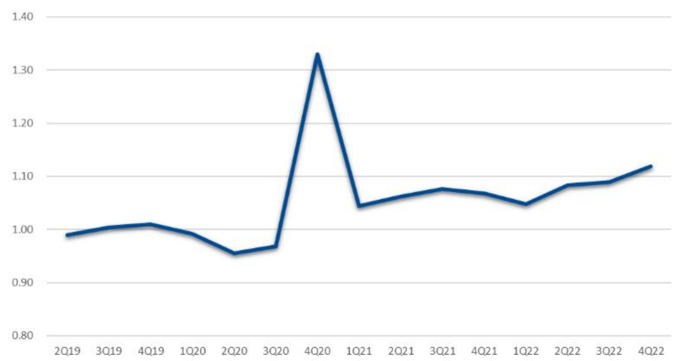
Source: Company, BRIDS Estimates

Exhibit 13. Transaction value by mode of transaction



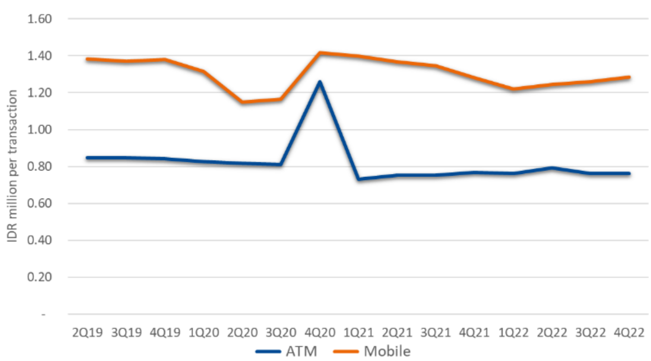
Source: Company, BRIDS Estimates

Exhibit 14. Overall value/transaction



Source: Company, BRIDS Estimates

Exhibit 15. Value/transaction by mode of transaction



Source: Company, BRIDS Estimates

Exhibit 16. Income Statement

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Interest Income	97,749	112,382	130,669	143,333	153,668
Interest Expense	(24,687)	(24,479)	(34,610)	(38,376)	(39,946)
Net Interest Income	**73,062**	**87,903**	**96,059**	**104,957**	**113,722**
Non-Interest Income (NII)	26,878	33,254	32,984	36,598	39,723
Oper. Income	**99,941**	**121,157**	**129,043**	**141,554**	**153,445**
Oper. Expenses	(49,140)	(53,260)	(53,071)	(57,376)	(61,551)
Pre-provisions profit	**57,984**	**72,291**	**81,945**	**89,695**	**97,638**
Provisions & Allowances	(19,543)	(16,114)	(12,533)	(14,853)	(15,709)
Operating Profits	**38,440**	**56,177**	**69,412**	**74,842**	**81,930**
Non-Operating Income	(82)	210	210	210	210
Exceptionals	0	0	0	0	0
Pre-tax Profit	**38,358**	**56,386**	**69,621**	**75,052**	**82,139**
Income Tax	(7,807)	(11,425)	(13,825)	(15,055)	(16,477)
Minorities	(2,523)	(3,782)	(4,752)	(5,193)	(5,626)
Net Profit	**28,028**	**41,179**	**51,044**	**54,804**	**60,036**

Exhibit 17. Balance Sheet

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Gross Loans	1,026,225	1,172,600	1,314,774	1,429,923	1,597,491
Provisions	(68,589)	(64,613)	(69,967)	(70,667)	(71,374)
Net Loans	**957,636**	**1,107,987**	**1,244,806**	**1,359,256**	**1,526,117**
Govt. Bonds	289,055	329,212	295,501	273,284	251,067
Securities	98,104	82,800	87,425	104,909	115,400
Other Earnings Assets	23,327	28,881	28,049	32,874	37,659
Total Earnings Assets	**1,576,793**	**1,814,469**	**1,967,489**	**2,118,784**	**2,297,269**
Fixed Assets	67,503	77,970	81,337	84,710	87,741
Non-Earnings Assets	32,503	36,852	33,345	34,191	34,796
Total Assets	**1,725,611**	**1,992,545**	**2,144,643**	**2,327,920**	**2,583,387**
Customer Deposits	1,291,176	1,491,779	1,639,683	1,779,053	1,993,234
Banks Deposits	13,811	14,847	15,962	17,079	18,275
Int. Bearing Liab. - Others	0	0	0	0	0
Total Liabilities	**1,503,500**	**1,740,299**	**1,867,228**	**2,017,910**	**2,237,733**
Share capital & Reserves	62,099	62,684	62,684	62,684	62,684
Retained Earnings	142,588	166,995	187,413	214,815	244,833
Shareholders' Funds	**204,687**	**229,679**	**250,096**	**277,498**	**307,516**
Minority interests	17,425	22,567	27,319	32,512	38,138
Total Equity & Liabilities	**1,725,611**	**1,992,545**	**2,144,643**	**2,327,920**	**2,583,387**

Exhibit 18. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Yield on Earning Assets	6.5	6.6	6.9	7.0	7.0
Cost of funds	1.8	1.6	2.0	2.1	2.0
Interest Spread	4.6	5.0	4.9	5.0	5.0
Net Interest Margin	4.8	5.2	5.1	5.1	5.2
Cost/Income Ratio	45.9	42.4	39.3	39.0	38.7
Oper. Exp./Oper. Gross Inc.	70.8	62.6	59.1	59.6	58.9
Gross NPL Ratio	2.7	1.9	1.9	1.8	1.8
LLP/Gross NPL	243.7	284.9	280.8	278.3	245.2
Cost of Credit	2.0	1.5	1.0	1.1	1.0
Loan to Deposit Ratio	79.5	78.6	80.2	80.4	80.1
Loan to Funding Ratio	76.8	76.3	79.2	79.5	79.4
CASA Mix	63.0	66.3	68.1	64.6	69.4
ROAE	14.2	19.0	21.3	20.8	20.5
ROAA	1.7	2.2	2.5	2.5	2.4
CAR	19.5	19.5	19.4	19.6	18.8

Exhibit 19. Dupont and Growth

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Dupont					
Pre-Tax ROAA	2.3	3.0	3.4	3.4	3.3
Tax Retention rate	79.6	79.7	80.1	79.9	79.9
Post-Tax ROAA	1.9	2.4	2.7	2.7	2.7
Goodwil, Assoc& Min	0.2	0.2	0.2	0.2	0.2
Leverage	8.3	8.6	8.6	8.5	8.4
ROAE	14.2	19.0	21.3	20.8	20.5
Growth (%)					
Interest income	2.2	15.0	16.3	9.7	7.2
Net Interest Income	16.9	20.3	9.3	9.3	8.4
Other Oper. Expenses	10.4	8.4	(0.4)	8.1	7.3
Fee Based Income	14.9	23.7	4.4	9.0	6.3
Pre-Provision Oper. Profit	18.1	24.7	13.4	9.5	8.9
Net Profit	66.8	46.9	24.0	7.4	9.5
Shareholders' Equity	8.1	12.2	8.9	11.0	10.8
Loan	8.9	14.3	12.1	8.8	11.7
Earnings Asset	9.6	15.1	8.4	7.7	8.4
Deposit	13.2	15.5	9.9	8.5	12.0
Int. Bearing Liab.	12.8	16.4	7.7	8.3	11.3
CASA	19.6	21.6	12.7	2.9	20.3
Total Asset	11.9	15.5	7.6	8.5	11.0

Source: BMRI, BRIDS Estimates

BUY

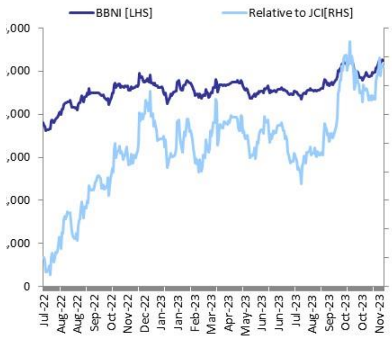
(Initiation)

Last Price (Rp)	**5,250**
Target Price (Rp)	**7,100**
Previous Target Price (Rp)	***n/a***
Upside/Downside	**+35.2%**
No. of Shares (mn)	**37,297**
Mkt Cap (Rpbn/US$mn)	**195,811/12,645**
Avg, Daily T/O (Rpbn/US$mn)	**265.2/17.1**
Free Float (%)	**39.8**
Major Shareholder (%)	
Government of Indonesia	**60.0**

EPS Consensus (Rp)

	2023F	**2024F**	**2025F**
BRIDS	564.1	610.5	644.9
Consensus	573.1	645.2	712.9
BRIDS/Cons (%)	**(1.6)**	**(5.4)**	**(9.5)**

BBNI relative to JCI Index



Source: Bloomberg

BRI Danareksa Sekuritas Analysts

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Bank Negara Indonesia (BBNI IJ)

Improving quality to navigate 2024 with potential acceleration in its mobile banking apps

- **We believe BBNI's current 1.2x FY24F PBV, lower than its peers, prices in its lower ROE and slower growth in mobile app transactions.**
- **Expect loans repricing, robust credit scoring, and rollout of its new mobile apps to drive a re-rating in 2024.**
- **We reinitiate coverage on BBNI with a Buy rating and TP of Rp7,100 (10.1% coe, 3.0% LTG, 14.7% ROE), implying fair value PBV of 1.6x.**

High floating rate loans portion to support loans repricing
Following a further 25bps rate hike in Oct23, we expect the current high interest rate environment to continue benefiting BBNI as it has the highest portion of floating-rate loans among the big-4 banks. As of 9M23, 82% of the bank`s loans were floating, higher than BMRI's 71% (in second place). BBNI`s loans yield rose to 7.9% in 3Q23 (from 7.6% in 2Q23 and 7.4% in 3Q22), depicting the bank`s ability to reprice its loans. BBNI's management indicated that the higher loans yield mainly comes from its IDR loans and provided guidance that the bank will continue to selectively reprice its loans while maintaining its cost of credit (CoC) in FY24.

Improving credit quality but conservatively maintaining the cost of credit
The improvement in the bank`s credit scoring system has been reflected in the NPLs that fell to 2.3% in 3Q23 from 2.5% in 2Q23 and 3.0% in 3Q22. Subsequently, the bank`s annualized CoC dropped to 1.3% in 3Q23 (2Q23/3Q22: 1.5/1.6%) supporting net profit growth. Despite NPLs and LaR coverage reaching 324% and 51%, respectively, the bank will remain prudent in its provisioning because of the high uncertainties in the global economy.

Potential acceleration in mobile banking transactions
Despite reporting 31% CAGR in mobile banking transaction value during 2020-2022, BBNI`s growth in this space is the slowest compared to its big 4 bank peers. The bank is currently planning to launch its new mobile application (similar to BBCA's MyBCA, BMRI's Livin', and BBRI's Brimo) in 2024, which we expect to boost the mobile banking transaction growth going forward.

Reinitiate coverage with a BUY rating and TP of Rp7,100
Our TP valuation is based on 10.1% cost of equity (5-year avg), LT growth of 3%, and FY24F ROE of 14.7%, implying fair value PBV of 1.6x to FY24F. Our TP is based on the assumption of FY24F earnings of Rp22.8tr (8% growth) and a dividend payout ratio of 67%, implying 36% upside and 5% dividend yield. Risks to our view are a higher-than-expected NPL ratio and weak acceptance of its new mobile app.

Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
PPOP (Rpbn)	31,064	34,413	35,414	38,069	41,811
Net profit (Rpbn)	10,899	18,312	21,041	22,769	24,054
EPS (Rp)	584.4	491.0	564.1	610.5	644.9
EPS growth (%)	232.2	(16.0)	14.9	8.2	5.6
BVPS (Rp)	6,635.2	3,641.4	3,979.9	4,346.2	4,733.2
PER (x)	9.0	10.7	9.3	8.6	8.1
PBV (x)	0.8	1.4	1.3	1.2	1.1
Dividend yield (%)	2.8	3.7	4.3	4.7	4.9
ROAE (%)	9.3	14.1	14.8	14.7	14.2

Source: BBNI, BRIDS Estimates

Improving quality to navigate 2024 with potential acceleration in its mobile banking apps

Reinitiate coverage with a BUY rating and TP of Rp7,100
Our TP valuation is based on 10.1% cost of equity (5-year avg), LT growth of 3%, and FY24F ROE of 14.7%, implying fair value PBV of 1.6x to FY24F. Our TP is based on the assumption of FY24F earnings of Rp22.8tr (8% growth) and a dividend payout ratio of 67%, implying 36% upside and 5% dividend yield. Risks to our view are a higher-than-expected NPL ratio and weak acceptance of its new mobile app.

Exhibit 1. BBNI's valuation assumptions

BBNI	2020	2021	2022	2023F	2024F
Loan Growth	5.3%	-0.6%	10.9%	7.7%	7.2%
Deposit Growth	11.2%	12.6%	5.5%	5.9%	7.0%
LDR	90.5%	79.9%	84.0%	85.5%	85.7%
Loan Yield	7.7%	7.4%	7.1%	8.0%	8.0%
CoF	2.7%	1.6%	1.7%	2.4%	2.5%
CoC	3.8%	3.0%	1.8%	1.3%	1.3%
CIR	46.5%	44.4%	44.0%	43.8%	43.0%
CASA Ratio	69.2%	69.4%	72.4%	73.5%	69.2%

Source: Company BRIDS Estimates

Exhibit 2. BBNI's inverse cost of equity GGM valuation

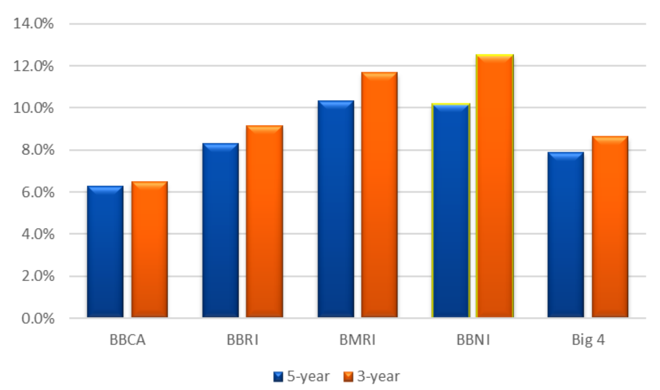
Gordon Growth Valuation with Inverse Cost of Equity		
Parameters:		**Comment:**
Cost of equity (%) - Mean	10.10	5-Year average
Cost of equity (%) - SD	3.30	5-Year average
SD used	-	
Cost of equity (%) used	10.10	
Long-term growth (%)	3.00	Long-term nominal GDP growth
Forward ROE (%)	14.5	FY24F ROAE
Fair value P/BV (x)	1.62	**(ROAE - g) / (COC - g)**
BV/share (IDR)	4,406	FY24F Book value per share
Fair value (IDR)	7,100	Fair value P/BV multiple x BVPS

Source: Company BRIDS Estimates

Exhibit 3. BBNI's cost of equity band chart (5-year)

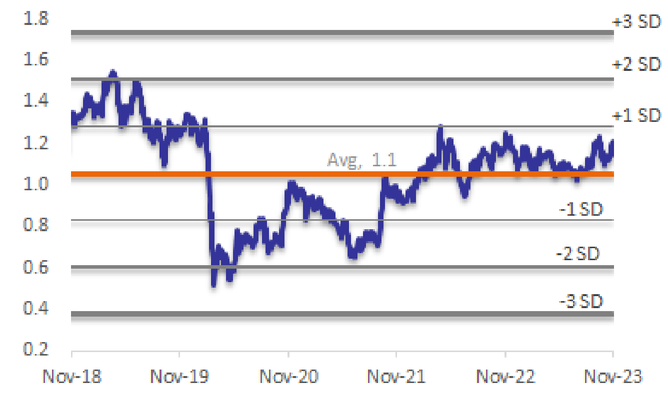
Source: Company, Bloomberg, BRIDS

Exhibit 4. BBNI's cost of equity comparison



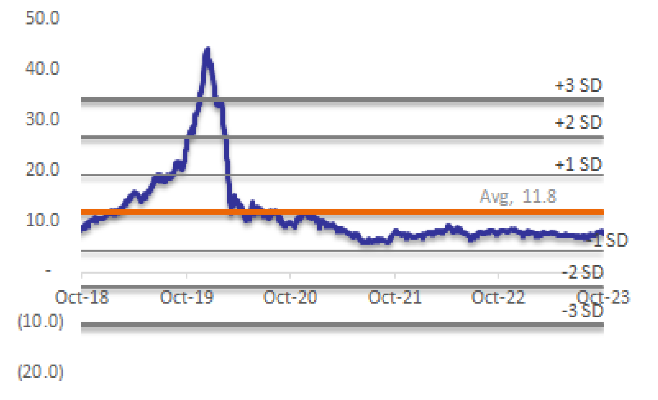
Source: Company, Bloomberg, BRIDS

Exhibit 5. BBNI's PBV band chart (5-year)



Source: Company, Bloomberg, BRIDS

Exhibit 6. BBNI's PE band chart (5-year)

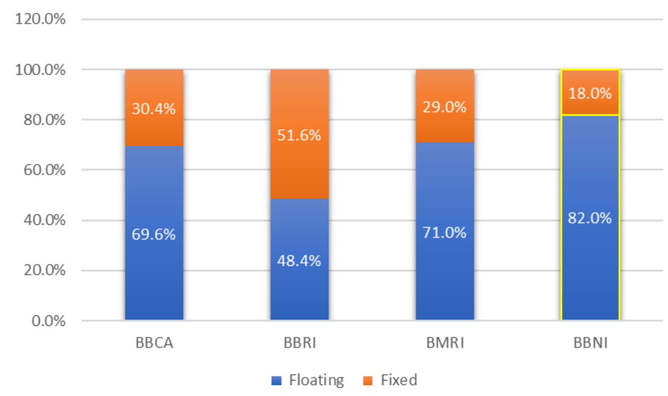


Source: Company, Bloomberg, BRIDS

High floating rate loans portion to support loans repricing

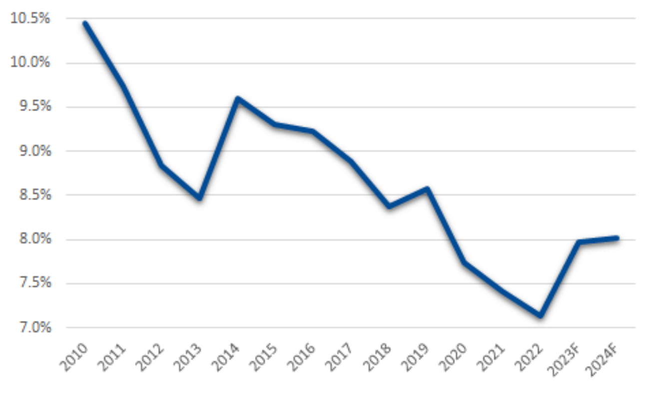
Following a further 25bps rate hike in Oct23, we expect the current high interest rate environment to continue benefiting BBNI as it has the highest portion of floating-rate loans among the big-4 banks. As of 9M23, 82% of the bank`s loans were floating, higher than BMRI's 71% (in second place). BBNI`s loans yield rose to 7.9% in 3Q23 (from 7.6% in 2Q23 and 7.4% in 3Q22), depicting the bank`s ability to reprice its loans. BBNI's management indicated that the higher loans yield mainly comes from its IDR loans and provided guidance that the bank will continue to selectively reprice its loans while maintaining its cost of credit (CoC) in FY24.

Exhibit 7. Floating vs fixed rate of the big 4 banks



Source: Company, BRIDS

Exhibit 8. BBNI`s loans yield

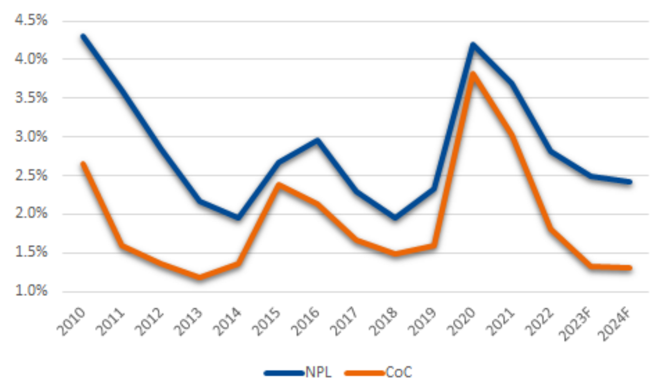


Source: Company, BRIDS

Improving credit quality but conservatively maintaining the cost of credit

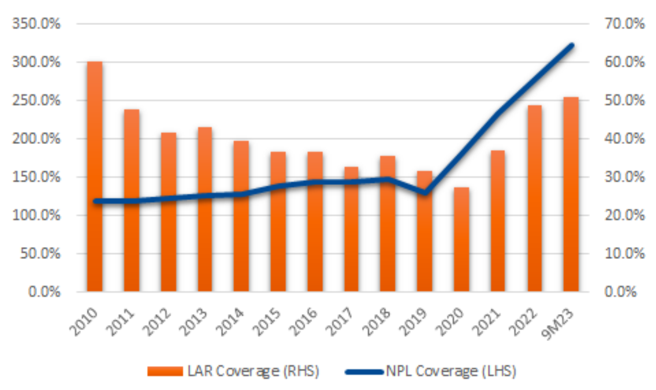
The improvement in the bank`s credit scoring system has been reflected in the NPLs that fell to 2.3% in 3Q23 from 2.5% in 2Q23 and 3.0% in 3Q22. Subsequently, the bank`s annualized CoC dropped to 1.3% in 3Q23 (2Q23/3Q22: 1.5/1.6%) supporting net profit growth. Despite NPLs and LaR coverage reaching 324% and 51%, respectively, the bank will remain prudent in its provisioning because of the high uncertainties in the global economy.

Exhibit 9. BBNI`s NPLs and CoC



Source: Company, BRIDS

Exhibit 10. BBNI`s NPLs coverage and LaR coverage

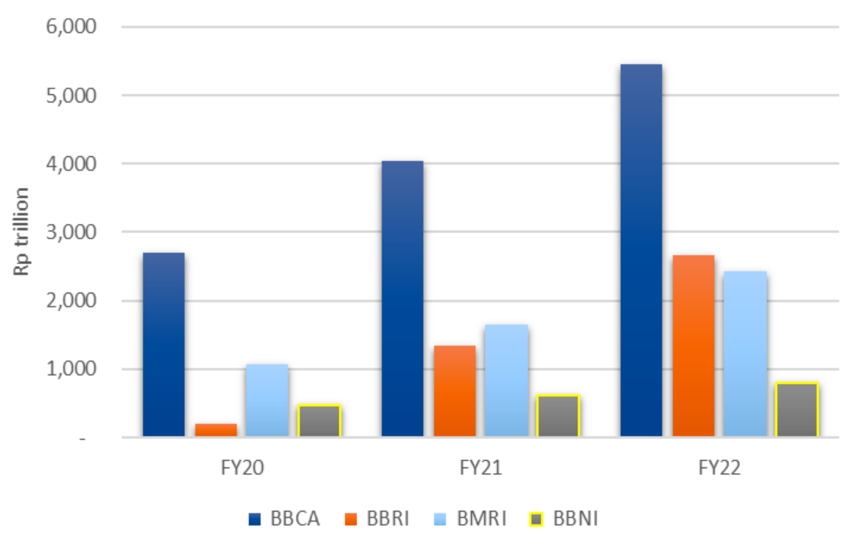


Source: Company, BRIDS

Potential acceleration in mobile banking transactions

Despite reporting 31% CAGR in mobile banking transaction value during 2020-2022, BBNI`s growth in this space is the slowest compared to its big 4 bank peers. The bank is currently planning to launch its new mobile application (similar to BBCA's MyBCA, BMRI's Livin', and BBRI's Brimo) in 2024, which we expect to boost the mobile banking transaction growth going forward.

Exhibit 11. Mobile banking transaction value



Source: Company BRIDS Estimates

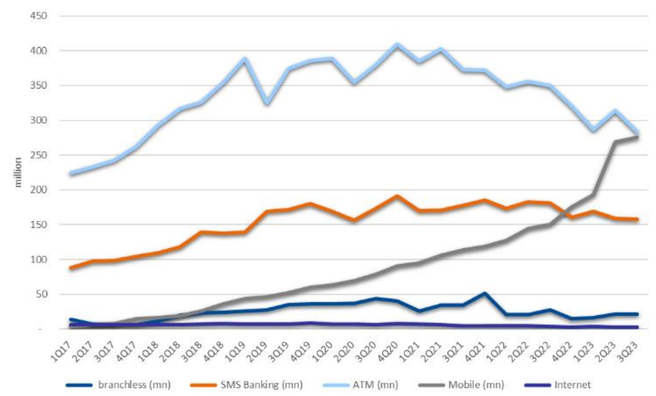
Potential acceleration in mobile banking transactions

Overall, quarterly transaction volume has mostly increased on a YoY basis for the last six years, with the highest percentage from 3Q17 to 3Q18. This pattern holds as the transaction value also increased by 73.14% from 3Q17 to 3Q18, the highest YoY increase for the last six years. It also led to 20.46% YoY growth in value/transaction. The modes of transactions include branchless, SMS Banking, ATM, Mobile, and Internet Banking. From 1Q17 to 3Q23, mobile banking (CAGR: +92%) experienced the highest growth of transaction volume, followed by SMS banking (CAGR: +9.4%), branchless banking (CAGR: +7.0%), and ATM (CAGR: +3.6%). On the other hand, internet banking experienced a decline (CAGR: -11.0%) in volume. Based on the transaction value, mobile banking recorded the highest growth (CAGR: +93.0%), followed by branchless (CAGR: +40.4%) and ATM (CAGR: +2.9%). Internet banking and SMS banking showed a decline in transaction value since 1Q17 (CAGR: -17.7% and CAGR: -12.0%, respectively).

There has been growth in mobile banking users since 1Q17, with a CAGR of +63.0%. Before the Covid-19 pandemic, the CAGR was 88.76%, while it stood at +36.38% during and after the pandemic. The number of branches throughout Indonesia remained stable. In contrast, the number of ATMs gradually declined, with the highest decline of -17% from 4Q22 to 1Q23 due to the increased focus on digital transactions. This is in line with the observation of BI, which recorded a 4.26% YoY decline in ATM, debit card, and credit card usage as of July 2023. The number of ATMs reached the highest number of 18,670 in 2Q20 and declined to 13,390 in 3Q23 (-28.3%).

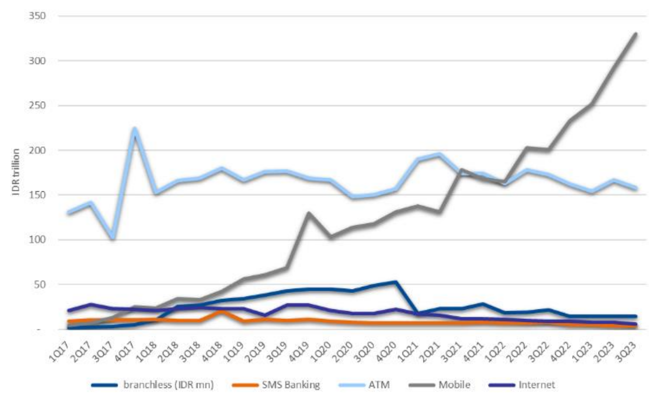
Moreover, the value/transaction in 3Q23 is still led by Internet banking (Rp2mn/transaction), followed by mobile banking (Rp1.2mn/transaction), branch-less banking (Rp679,775/transaction), ATM (Rp558,304/transaction), and SMS Banking (Rp25,316/transaction). Although mobile banking offers more ease in operating and viewing accounts, some customers may still prefer Internet banking for transactions with more significant amounts. There is a perception of increased safety associated with Internet banking compared to mobile banking. Also, for BBNI, internet banking offers a higher transaction limit (Rp1bn) than mobile banking (Rp200mn). However, it is worth noting that value/transaction for mobile banking has been relatively stable since 1Q17, while it has decreased 39.7% for internet banking. Therefore, with the improvements in BBNI's digital ecosystem, mobile banking might overtake Internet banking in the future.

Exhibit 12. Transaction volume by modes of transaction



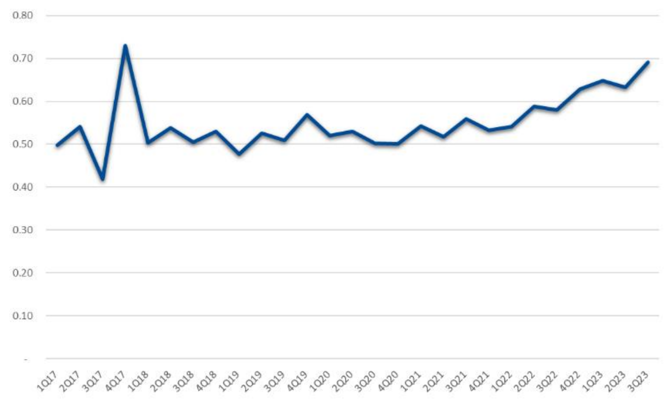
Source: Company, BRIDS

Exhibit 13. Transaction value by modes of transaction



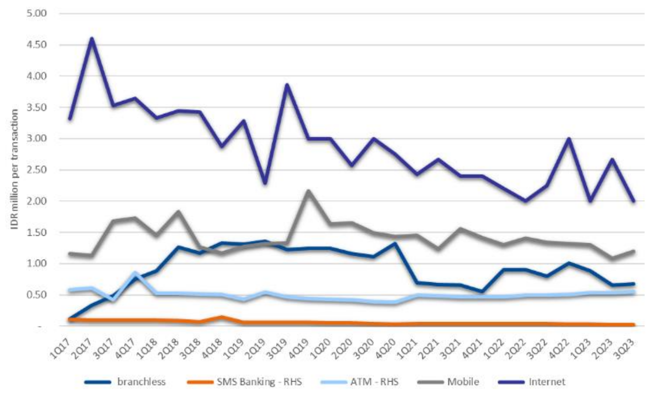
Source: Company, BRIDS

Exhibit 14. Overall value/transaction



Source: Company, BRIDS

Exhibit 15. Value/transaction by modes of transaction



Source: Company, BRIDS

Exhibit 16. Income Statement

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Interest Income	50,026	54,659	63,804	67,398	69,851
Interest Expense	(11,779)	(13,338)	(20,811)	(22,471)	(22,266)
Net Interest Income	**38,247**	**41,321**	**42,993**	**44,928**	**47,585**
Non-Interest Income (NII)	15,903	18,804	20,060	21,829	24,062
Oper. Income	**54,150**	**60,125**	**63,052**	**66,756**	**71,647**
Oper. Expenses	(24,801)	(27,059)	(27,639)	(28,687)	(29,836)
Pre-provisions profit	**31,064**	**34,413**	**35,414**	**38,069**	**41,811**
Provisions & Allowances	(18,297)	(11,514)	(9,188)	(9,689)	(11,840)
Operating Profits	**12,767**	**22,899**	**26,226**	**28,381**	**29,971**
Non-Operating Income	(216)	(212)	(192)	(217)	(217)
Exceptionals	0	0	0	0	0
Pre-tax Profit	**12,551**	**22,687**	**26,034**	**28,164**	**29,753**
Income Tax	(1,574)	(4,205)	(4,816)	(5,210)	(5,504)
Minorities	(79)	(170)	(177)	(185)	(195)
Net Profit	**10,899**	**18,312**	**21,041**	**22,769**	**24,054**

Exhibit 17. Balance Sheet

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Gross Loans	582,436	646,188	696,055	746,473	827,801
Provisions	(50,295)	(50,334)	(52,695)	(54,909)	(58,617)
Net Loans	**532,141**	**595,854**	**643,360**	**691,563**	**769,184**
Govt. Bonds	111,428	121,291	97,039	77,635	62,112
Securities	25,803	28,556	31,501	30,133	28,843
Other Earnings Assets	0	0	0	0	0
Total Earnings Assets	**894,139**	**920,484**	**948,432**	**976,901**	**1,042,315**
Fixed Assets	39,835	41,755	43,813	46,167	48,833
Non-Earnings Assets	15,996	18,496	16,384	16,568	15,652
Total Assets	**964,838**	**1,029,837**	**1,088,614**	**1,158,252**	**1,240,906**
Customer Deposits	729,169	769,269	814,476	871,281	938,769
Banks Deposits	14,377	15,245	15,309	15,374	15,440
Int. Bearing Liab. - Others	0	0	0	0	0
Total Liabilities	**838,318**	**889,639**	**935,615**	**991,407**	**1,059,434**
Share capital & Reserves	45,488	41,756	41,756	41,756	41,756
Retained Earnings	78,250	94,060	106,684	120,346	134,778
Shareholders' Funds	**123,738**	**135,816**	**148,440**	**162,102**	**176,534**
Minority interests	2,782	4,382	4,559	4,743	4,939
Total Equity & Liabilities	**964,838**	**1,029,837**	**1,088,614**	**1,158,252**	**1,240,906**

Exhibit 18. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Yield on Earning Assets	5.8	6.0	6.8	7.0	6.9
Cost of funds	1.5	1.6	2.4	2.4	2.2
Interest Spread	4.3	4.4	4.5	4.6	4.7
Net Interest Margin	4.4	4.6	4.6	4.7	4.7
Cost/Income Ratio	44.4	44.0	43.8	43.0	41.6
Oper. Exp./Oper. Gross Inc.	81.1	69.4	68.7	68.2	68.1
Gross NPL Ratio	3.7	2.8	2.5	2.4	2.3
LLP/Gross NPL	233.6	277.1	304.9	304.9	304.9
Cost of Credit	3.1	1.9	1.4	1.3	1.5
Loan to Deposit Ratio	79.9	84.0	85.5	85.7	88.2
Loan to Funding Ratio	79.6	83.5	84.9	85.2	87.7
CASA Mix	68.1	71.0	72.2	68.0	68.7
ROAE	9.3	14.1	14.8	14.7	14.2
ROAA	1.2	1.8	2.0	2.0	2.0
CAR	19.7	19.4	19.9	19.5	19.3

Exhibit 19. Dupont and Growth

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Dupont					
Pre-Tax ROAA	1.4	2.3	2.5	2.5	2.5
Tax Retention rate	87.5	81.5	81.5	81.5	81.5
Post-Tax ROAA	1.2	1.9	2.0	2.0	2.0
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	7.9	7.7	7.5	7.2	7.1
ROAE	9.3	14.1	14.8	14.7	14.2
Growth (%)					
Interest income	(10.9)	9.3	16.7	5.6	3.6
Net Interest Income	2.9	8.0	4.0	4.5	5.9
Other Oper. Expenses	2.4	9.1	2.1	3.8	4.0
Fee Based Income	7.6	8.9	4.0	4.5	5.9
Pre-Provision Oper. Profit	11.7	10.8	2.9	7.5	9.8
Net Profit	232.2	68.0	14.9	8.2	5.6
Shareholders' Equity	12.3	9.8	9.3	9.2	8.9
Loan	(0.6)	10.9	7.7	7.2	10.9
Earnings Asset	7.4	2.9	3.0	3.0	6.7
Deposit	13.2	5.5	5.8	6.9	7.6
Int. Bearing Liab.	7.6	6.1	5.5	6.1	7.1
CASA	12.9	10.1	7.4	0.7	8.8
Total Asset	8.2	6.7	5.7	6.4	7.1

Source: BBNI, BRIDS Estimates

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INVESTMENT RATING	
BUY	Expected total return of 10% or more within a 12-month period
HOLD	Expected total return between -10% and 10% within a 12-month period
SELL	Expected total return of -10% or worse within a 12-month period