

BUY

(Maintained)

Bank Jago (ARTO IJ)

1Q24 earnings below; expect steadier NIM and faster growth amid robust asset quality

Last Price (Rp)	2,040
Target Price (Rp)	4,500
Previous Target Price (Rp)	4,500
Upside/Downside	+120.6%

No. of Shares (mn)	13,856
Mkt Cap (Rpbn/US\$mn)	28,267/1,744
Avg, Daily T/O (Rpbn/US\$mn)	79.9/4.9
Free Float (%)	45.6

Major Shareholder (%)	
Metamorfosis Ekosistem	29.8
Dompet Karya Anak Bangsa	21.4

EPS Consensus (Rp)	2024F	2025F	2026F
BRIDS	9.4	17.6	30.2
Consensus	12.8	28.8	51.4
BRIDS/Cons (%)	(26.9)	(39.1)	(41.4)

- ARTO's 1Q24 earnings missed estimates due to a lower NIM caused by the lower portion of high-yield Sharia financing, amid lower provisions.
- A lower portion of Sharia financing may limit the yield decline and drive brisker loans growth going forward amid robust asset quality.
- We maintain our FY24-25F estimates and TP of Rp4,500; maintain Buy with faster expected loans growth and NIM expansion as key catalysts.

1Q24: still pressured by declining NIM despite lower provisions

ARTO booked net profit of Rp22bn in 1Q24 (+24% yoy, -6% qoq), below our forecast and the consensus (at 17% and 12% of FY24F est.). The earnings miss mainly reflects lower NII, which fell to Rp345bn in 1Q24 (-18% yoy, -3% qoq), though partly offset by lower provisions (-60% yoy). The 1Q24 NIM fell to 7.4% (-360bps yoy, -81 bps qoq vs. our FY24F of 9.1%), dragged down by a lower loan yield (at 9.5% vs. our FY24F of 11.5%) but partly offset by a lower CoF (at 3.1% vs. our FY24F of 3.3%). In 1Q24, the CoF rose 11bps qoq due to the lower CASA ratio which dropped to 63% in 1Q24 from 65% in 4Q23. According to the management, it is comfortable with a CASA ratio of 60-65%.

Limited downside from Sharia financing

ARTO's lending balance grew 32% yoy to Rp14.3tr (+10% qoq) driven by 57% yoy growth in non-Sharia loans, partly offset by a 92% decline in Sharia financing. As of Mar24, Sharia fin. only consisted of c. 1% of the total lending book, down from c. 3% in Dec23 and 17% a year ago. In 1Q24, the loan yield declined to 11.8% (-10% yoy, -2% qoq), partly reflecting the drop in the Sharia portion. As the Sharia fin. portion is getting smaller, we foresee a more limited negative impact on loans growth and a lower blended yield going forward.

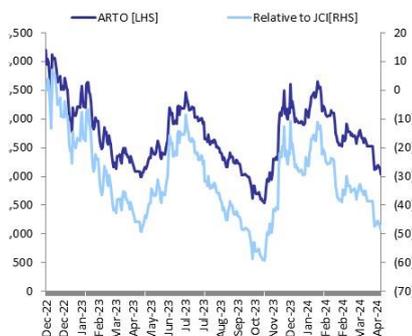
Strong asset quality amid macro uncertainty

Asset quality continued to improve in 1Q24 with the NPL ratio standing at 0.6% (down from 0.8% in 4Q23) and the LaR ratio at 3.9% (down from 5.5%). The management remains confident that asset quality will stay sound amid the potential impact of the recent rate hike. As of Mar24, NPL coverage remained robust at 211%. We have yet to see the realization of the management's strategy to venture into more risky assets to increase the NIM.

Maintain Buy, brisker loans growth and NIM expansion as key catalysts

We maintain our forecasts and TP at Rp4,500 (based on 3-stage DDM based on LTG of 8.0%, CoE of 11.0%, and LT ROE of 18.1%). We believe ARTO is poised for faster growth as the overhang in its Sharia financing is subsiding. Risks to our view are lower loans growth, lower NIM, and a higher CoC.

ARTO relative to JCI Index



Source: Bloomberg

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Key Financials

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
PPOP (Rpbn)	405	488	619	915	1,328
Net profit (Rpbn)	16	72	130	243	418
EPS (Rp)	1.1	5.2	9.4	17.6	30.2
EPS growth (%)	(82.3)	354.7	79.2	87.7	71.7
BVPS (Rp)	596.4	603.1	612.5	630.0	660.2
PER (x)	1,776.3	390.6	218.0	116.1	67.6
PBV (x)	3.4	3.4	3.3	3.2	3.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	0.2	0.9	1.5	2.8	4.7

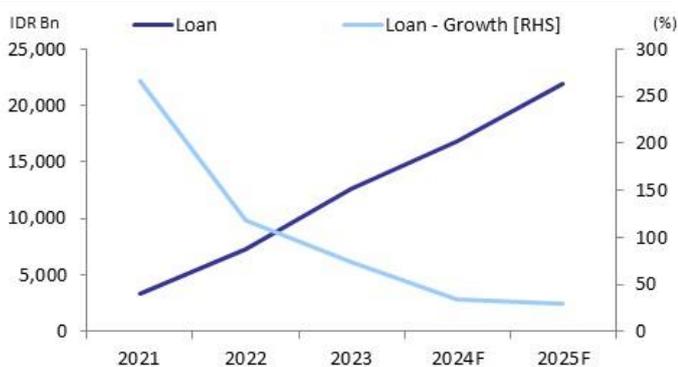
Source: ARTO, BRIDS Estimates

Exhibit 1. ARTO 1Q24 results summary

ARTO (IDR bn)	1Q23	4Q23	1Q24	y-o-y	q-o-q	3M23	3M24	y-o-y	FY24F	FY24C	A/F	A/C
Interest income	487	438	442	-9%	1%	487	442	-9%	2,227	2,264	20%	20%
Interest expense	64	82	97	51%	19%	64	97	51%	453	447	22%	22%
Net interest income	423	356	345	-18%	-3%	423	345	-18%	1,775	1,817	19%	19%
Other operating income	29	61	60	110%	-2%	29	60	110%	223		27%	n/a
Operating expenses	303	341	325	7%	-5%	303	325	7%	1,379		24%	n/a
PPOP	148	77	81	-46%	5%	148	81	-46%	619	677	13%	12%
Provision	133	53	53	-50%	0%	133	53	-50%	461	465	11%	11%
Operating Profit	15	24	28	86%	16%	15	28	86%	158	212	18%	13%
Net profit	18	22	22	24%	-2%	18	22	24%	130	178	17%	12%
Loans	10,843	13,020	14,272	32%	10%							
Customer deposits	8,732	11,892	13,006	49%	9%							
				yoy, bps	qoq, bps							
Loan yield (%) - ann	21.8	13.8	11.8	(998)	(200)							
Cost of fund (%) - ann	2.8	2.8	2.9	8	11							
NIM (%) - ann	11.0	8.2	7.4	(360)	(81)							
CR (%) - ann	67.1	81.6	80.1	1,298	(148)							
Cost of credit (%) - ann	5.3	1.8	1.5	(372)	(22)							
LDR (%)	116.8	107.9	108.2	(867)	26							
NPL ratio (%)	1.5	0.8	0.6	(90)	(23)							
LoR ratio (%)	7.2	5.5	3.9	(328)	(180)							

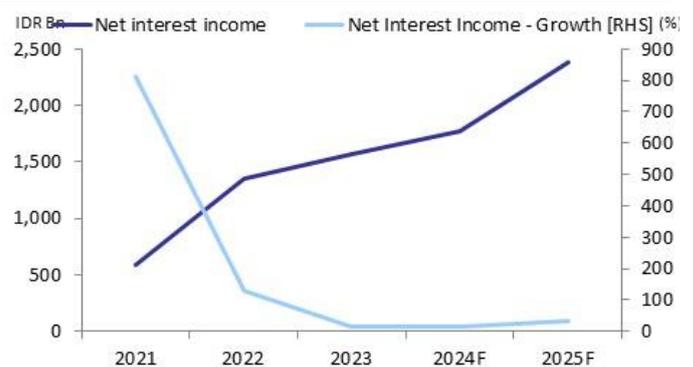
Source: Company, BRIDS Estimates

Exhibit 2. Loans and Growth



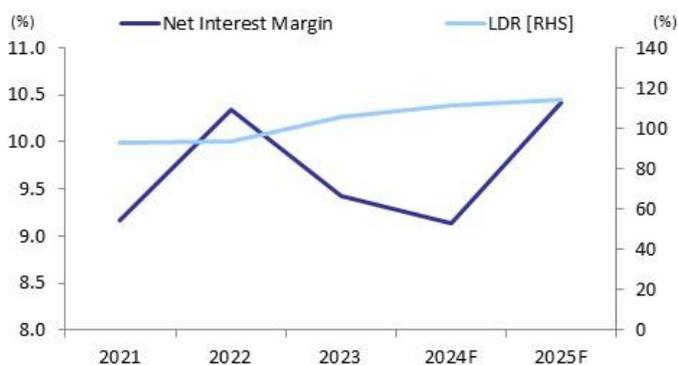
Source: Company, BRIDS Estimates

Exhibit 3. Net Interest Income and Growth



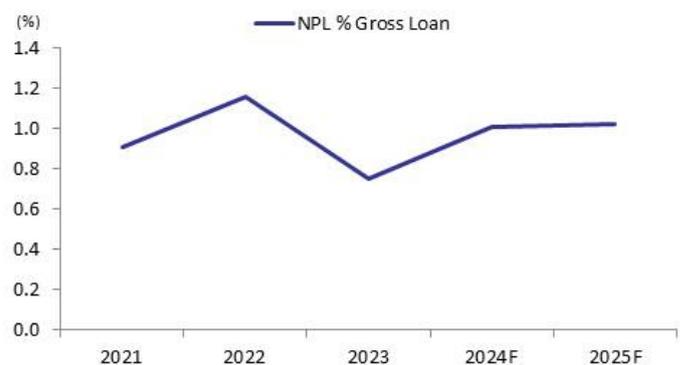
Source: Company, BRIDS Estimates

Exhibit 4. NIM and LDR



Source: Company, BRIDS Estimates

Exhibit 5. NPLs



Source: Company, BRIDS Estimates

Exhibit 6. Income Statement

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Interest Income	1,500	1,875	2,227	2,897	3,710
Interest Expense	(147)	(309)	(453)	(520)	(638)
Net Interest Income	1,353	1,565	1,775	2,377	3,072
Non-Interest Income (NII)	78	197	223	259	305
Oper. Income	1,431	1,762	1,998	2,636	3,377
Oper. Expenses	(1,026)	(1,274)	(1,379)	(1,721)	(2,049)
Pre-provisions profit	405	488	619	915	1,328
Provisions & Allowances	(393)	(401)	(461)	(611)	(800)
Operating Profits	13	87	158	304	528
Non-Operating Income	8	7	8	8	8
Exceptionals	0	0	0	0	0
Pre-tax Profit	20	94	166	312	536
Income Tax	(5)	(21)	(37)	(69)	(118)
Minorities	0	0	0	0	0
Net Profit	16	72	130	243	418

Exhibit 7. Balance Sheet

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Gross Loans	7,225	12,592	16,889	21,918	28,446
Provisions	(270)	(242)	(349)	(502)	(709)
Net Loans	6,955	12,349	16,540	21,417	27,736
Govt. Bonds	0	0	0	0	0
Securities	2,862	2,957	2,070	2,070	2,277
Other Earnings Assets	0	0	0	0	0
Total Earnings Assets	14,974	18,274	20,593	25,053	31,834
Fixed Assets	200	204	219	225	243
Non-Earnings Assets	1,316	1,904	1,529	1,631	1,501
Total Assets	16,965	21,296	24,742	29,077	36,051
Customer Deposits	7,748	11,892	15,174	19,134	25,479
Banks Deposits	0	0	0	0	0
Int. Bearing Liab. - Others	526	175	351	359	368
Total Liabilities	8,702	12,939	16,330	20,459	26,996
Share capital & Reserves	8,502	8,522	8,522	8,522	8,522
Retained Earnings	(239)	(165)	(35)	208	626
Shareholders' Funds	8,264	8,357	8,486	8,730	9,148
Minority interests	0	0	0	0	0
Total Equity & Liabilities	16,965	21,296	24,816	29,189	36,144

Exhibit 8. Key Ratios

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Yield on Earning Assets	11.5	11.3	11.5	12.7	13.0
Cost of funds	2.4	2.9	3.1	2.9	2.7
Interest Spread	9.1	8.4	8.3	9.8	10.3
Net Interest Margin	10.3	9.4	9.1	10.4	10.8
Cost/Income Ratio	71.7	72.3	69.0	65.3	60.7
Oper. Exp./Oper. Gross Inc.	99.2	95.8	93.5	90.4	86.9
Gross NPL Ratio	1.2	0.7	1.0	1.0	1.0
LLP/Gross NPL	322.4	257.0	204.3	224.4	242.0
Cost of Credit	7.4	4.1	3.1	3.1	3.2
Loan to Deposit Ratio	93.3	105.9	111.3	114.6	111.6
Loan to Funding Ratio	93.3	105.9	111.3	114.6	111.6
CASA Mix	73.2	66.3	62.1	64.5	65.5
ROAE	0.2	0.9	1.5	2.8	4.7
ROAA	0.1	0.4	0.6	0.9	1.3
CAR	73.5	56.0	37.3	30.4	25.2

Exhibit 9. Dupont and Growth

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Dupont					
Pre-Tax ROAA	0.1	0.5	0.7	1.2	1.6
Tax Retention rate	77.9	77.3	78.0	78.0	78.0
Post-Tax ROAA	0.1	0.4	0.6	0.9	1.3
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	1.8	2.3	2.7	3.1	3.6
ROAE	0.2	0.9	1.5	2.8	4.7
Growth (%)					
Interest income	130.0	25.0	18.8	30.1	28.1
Net Interest Income	129.4	15.7	13.4	34.0	29.2
Other Oper. Expenses	89.0	24.3	8.2	24.8	19.0
Fee Based Income	298.5	147.9	13.1	15.8	17.3
Pre-Provision Oper. Profit	294.2	20.4	26.8	47.9	45.1
Net Profit	(81.5)	354.7	79.2	87.7	71.7
Shareholders' Equity	0.2	1.1	1.6	2.9	4.8
Loan	117.6	74.3	34.1	29.8	29.8
Earnings Asset	33.8	22.0	12.7	21.7	27.1
Deposit	117.2	53.5	27.6	26.1	33.2
Int. Bearing Liab.	119.0	49.5	26.7	25.5	32.2
CASA	238.2	38.9	19.5	31.0	35.2
Total Asset	37.8	25.5	16.2	17.5	24.0

Source : ARTO, 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

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