BUY

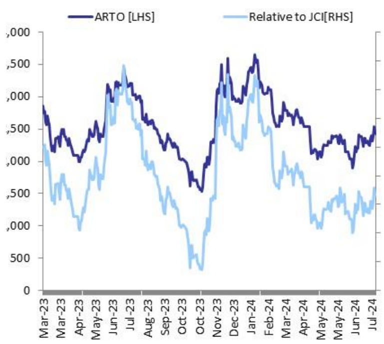
(Maintained)

Last Price (Rp)	**2,570**
Target Price (Rp)	**3,800**
Previous Target Price (Rp)	***4,500***
Upside/Downside	**+47.9%**
No. of Shares (mn)	**13,856**
Mkt Cap (Rpbn/US$mn)	**35,611/2,186**
Avg, Daily T/O (Rpbn/US$mn)	**33.3/2.0**
Free Float (%)	**45.6**
Major Shareholder (%)	
Metamorfosis Ekosistem	**29.8**
Dompet Karya Anak Bangsa	**21.4**

EPS Consensus (Rp)

	2024F	**2025F**	**2026F**
BRIDS	9.0	13.4	25.0
Consensus	10.7	25.2	49.6
BRIDS/Cons (%)	**(16.1)**	**(47.0)**	**(49.7)**

ARTO relative to JCI Index



Source: Bloomberg

Bank Jago (ARTO IJ)

1H24 earnings miss, but solid asset quality to support 2H24 earnings

- **ARTO booked a higher 2Q24 NP (+30% qoq), supported by 10% qoq loan growth which offset the lower NIM and higher CoC.**
- **1H24 NP is below our and consensus FY24F at 39/32%, but we expect higher NIM and steady CoC to improve NP in 2H24.**
- **We lowered our LT ROE from 18.1% to 16.7% as we trimmed our NIM, which is partly offset by lower CoC. Maintain BUY with a TP of Rp3,800.**

2Q24 NP supported by asset quality offsetting the lower NIM

ARTO reported a 2Q24 net profit of Rp28bn (+23% yoy, +30% qoq), bringing its 1H24 NP to Rp50bn (+23% yoy), which formed 39/32% of our/consensus FY24F NP., i.e., below. The lower provisions (-56% yoy) supported the 1H24 NP growth. Despite the robust CoF, NIM fell 330bps yoy to 7.3% in 1H24, mainly due to the lower loan yield as the bank reduced the sharia portion from its loan book and shifted towards higher quality loans.

Asset quality continues to be the main priority

CoC remained manageable at 1.7% in 2Q24 (1Q24/2Q23: 1.5/4.7%), as Sharia portion of the CoC became negligible and asset quality improved, as shown by the NPL decline to 0.4% in 2Q24 (LaR at 3.3%). Management expects a slight uptick in NPL (but still below 1.0% in FY24) to cater to the higher portion of riskier loans in 2H24.

Strong loan and deposit growth in 2Q24

Loans grew 40% yoy to Rp15.7tr in 1H24 (+10% qoq), higher than the initially expected 30% yoy growth. Management reiterates its aim to focus on quality and is comfortable with slowing loan growth to the 30-35% range in FY24. The loan-to-GTF currently stands at approximately Rp3.1tr (from Rp1.7tr in Dec23), which is 80% of the GTF loan book. Management is willing to increase the cash/BNPL portion to around 60% (from 40% currently) in the future, partly supported by future direct lending. Deposits rose 12% qoq to Rp14.8tr (+47% yoy). Management stated that out of 10mn digital bank customers, around 37% are GOTO users, equivalent to c. 10-12% of total GOTO users.

Maintain Buy with a lower TP of Rp3,800

We trimmed our FY24-25F NP by 3.7-23.9% to factor in the lower NIM and lower CoC, and consequently lowered our TP to Rp3,800 (from Rp4,500 previously). Our TP is still based on our 3-stage DDM, with LTG assumption of 8.0% and CoE of 11.0% but with lower LT ROE to 16.7% (from 18.1%). We maintain our Buy rating, as we believe the bank's steady improvement and customer loyalty will remain key drivers for the bank's LT growth. Risks to our view are lower-than-expected loan growth and deteriorating asset quality.

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Key Financials

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
PPOP (Rpbn)	405	488	405	574	891
Net profit (Rpbn)	16	72	125	185	346
EPS (Rp)	1.1	5.2	9.0	13.4	25.0
EPS growth (%)	(82.3)	354.7	72.5	48.3	86.7
BVPS (Rp)	596.4	603.1	612.1	625.5	650.4
PER (x)	2,237.8	492.1	285.2	192.3	103.0
PBV (x)	4.3	4.3	4.2	4.1	4.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	0.2	0.9	1.5	2.2	3.9

Source: ARTO, BRIDS Estimates

Exhibit 1. ARTO 1H24 earnings summary

ARTO - Financial (Rpbn)	2Q23	1Q24	2Q24	qoq, %	yoy, %	1H23	1H24	yoy, %	FY24F	FY24C	A/F	A/C
Interest income	497	442	469	6%	-6%	984	912	-7%	2,227	2,173	41%	42%
Interest expense	87	97	106	9%	21%	152	204	34%	453	457	45%	45%
Net interest income	410	345	363	5%	-11%	832	708	-15%	1,775	1,716	40%	41%
Other operating income	64	60	72	20%	14%	92	133	44%	223		60%	n/a
Operating expenses	315	325	336	4%	7%	618	661	7%	1,379		48%	n/a
PPOP	158	81	99	23%	-37%	307	180	-41%	619		29%	n/a
Provision	129	53	62	18%	-52%	262	115	-56%	461		25%	n/a
Operating Profits	30	28	37	33%	25%	45	65	45%	158	209	41%	31%
Net profits	23	22	28	30%	23%	41	50	23%	130	155	39%	32%
Loans	11,182	14,272	15,671	10%	40%							
Customer deposits	10,093	13,196	14,809	12%	47%							
				qoq, bps	yoy, bps			yoy, bps				
Loan yield (%)	15.4	11.0	10.8	(25)	(463)	16.1	10.9	(521)				
Cost of fund (%)	3.6	3.1	3.0	(5)	(58)	3.3	3.0	(25)				
NIM (%)	10.2	7.4	7.3	(7)	(291)	10.6	7.3	(330)				
CIR (%)	66.6	80.1	77.2	(290)	1,064	66.8	78.6	1,176				
Cost of credit (%)	4.7	1.5	1.7	11	(301)	5.0	1.6	(339)				
ROE (%) - ann	1.1	1.0	1.3	31	24	1.0	1.2	21				
CASA ratio (%)	71.4	62.7	61.2	(153)	(1,020)							
LDR (%)	110.8	108.2	105.8	(234)	(497)							
NPL ratio (%)	1.2	0.6	0.4	(23)	(82)							
LaR ratio (%)	8.3	3.9	3.3	(66)	(498)							

Source: Company, BRIDS Estimates

Exhibit 2. ARTO Changes in Forecast

ARTO - Forecast Changes	2024F (Prev)	2024F (Curr)	Δ%	2025F (Prev)	2025F (Curr)	Δ%
Net Interest Income (Rpbn)	1,775	1,444	(18.6)	2,377	1,758	(26.0)
PPOP (Rpbn)	619	405	(34.5)	915	574	(37.2)
Net profit (Rpbn)	130	125	(3.7)	243	185	(23.9)
BVPS (Rp)	612	612	(0.1)	630	625	(0.7)
Gross Loans (Rpbn)	16,889	16,889	-	21,918	21,918	-
Customer Deposits (Rpbn)	15,174	15,174	-	19,134	19,134	-
Ratios (%)	**2024F (Prev)**	**2024F (Curr)**	**Δ bps**	**2025F (Prev)**	**2025F (Curr)**	**Δ bps**
Net Interest Margin	9.1	7.4	(170)	10.4	7.7	(271)
Gross NPL Ratio	1.0	1.0	-	1.0	1.0	-
Cost/Income Ratio	69.0	75.7	666	65.3	71.5	622
Cost of Credit	3.1	1.7	(141)	3.1	1.8	(137)
ROAE	1.5	1.5	(6)	2.8	2.2	(67)

Source: Company, BRIDS Estimates

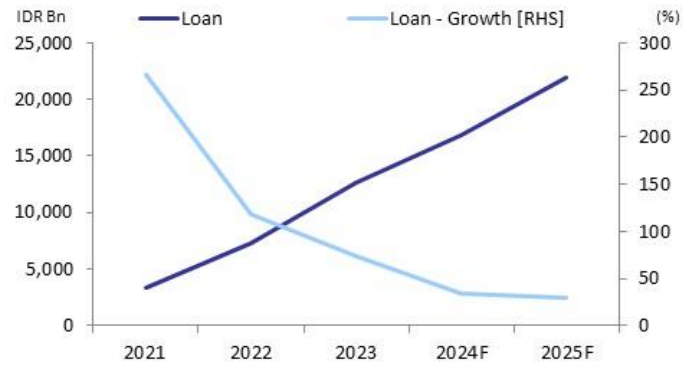
Exhibit 3. ARTO's Valuation

Phase	High-growth	Transitory	Mature
Risk free rate (Rf)	7.0%	7.0%	7.0%
Market return rate (Rm)	13.6%	12.3%	11.0%
Beta (ß)	1.50	1.25	1.00
Risk premium (Rm-Rf)	6.6%	5.3%	4.0%
Ke = Rf+ß(Rm-Rf)	16.8%	13.6%	11.0%
Return on equity (average)	2.4%	12.8%	16.7%
Growth rate (CAGR)	36.8%	30.1%	8.0%
Expected dividend payout ratio (average)	0.0%	30.5%	52.2%

	0	1	2	3	4	5	6	7	8	9	10	11	12
Forecast year	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Equity book value/share	595	596	603	612	625	650	691	745	816	905	992	1083	1177
Return on equity	*1.0%*	*0.2%*	*0.9%*	*1.5%*	*2.1%*	*3.8%*	*5.9%*	*7.9%*	*10.6%*	*13.2%*	*13.4%*	*15.0%*	*16.7%*
Earnings per share	6.2	1.1	5.2	9.0	13.4	25.0	40.6	58.7	86.9	119.9	132.9	162.1	197.2
growth		*-82%*	*355%*	*73%*	*48%*	*87%*	*63%*	*45%*	*48%*	*38%*	*11%*	*22%*	*22%*
Payout ratio	0%	0%	0%	0%	0%	0%	0%	8.7%	17.4%	26.1%	34.8%	43.5%	52%
Dividend per share	-	-	-	-	-	-	-	5.1	15.1	31.3	46.3	70.5	103.0
Cost of equity	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%	15.9%	14.9%	13.9%	12.9%	12.0%	11.0%
Cumulative cost of equity	0.856	0.856	0.733	0.627	0.537	0.459	0.393	0.339	0.295	0.259	0.229	0.205	0.185
TP	IDR 3,800												

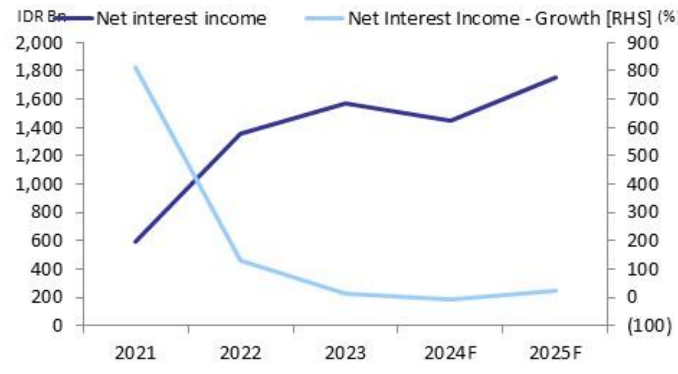
Source: Company, BRIDS Estimates

Exhibit 4. Loans and Growth



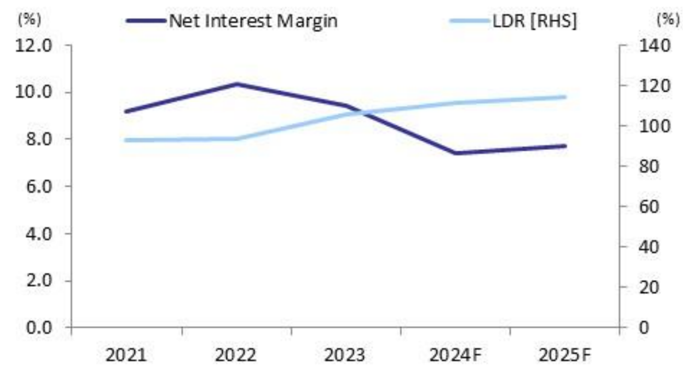
Source: Company, BRIDS Estimates

Exhibit 5. Net Interest Income and Growth



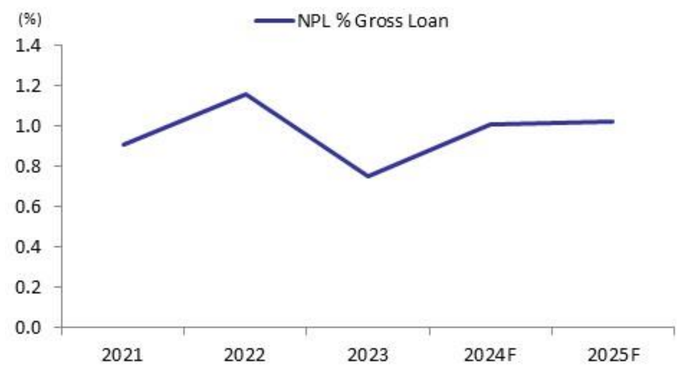
Source: Company, BRIDS Estimates

Exhibit 6. NIM and LDR



Source: Company, BRIDS Estimates

Exhibit 7. NPLs



Source: Company, BRIDS Estimates

Exhibit 8. Income Statement

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Interest Income	1,500	1,875	1,854	2,229	2,911
Interest Expense	(147)	(309)	(409)	(470)	(578)
Net Interest Income	**1,353**	**1,565**	**1,444**	**1,758**	**2,333**
Non-Interest Income (NII)	78	197	222	257	303
Oper. Income	**1,431**	**1,762**	**1,666**	**2,016**	**2,635**
Oper. Expenses	(1,026)	(1,274)	(1,261)	(1,441)	(1,744)
Pre-provisions profit	**405**	**488**	**405**	**574**	**891**
Provisions & Allowances	(393)	(401)	(253)	(345)	(456)
Operating Profit	**13**	**87**	**152**	**229**	**435**
Non-Operating Income	8	7	8	8	8
Exceptionals	0	0	0	0	0
Pre-tax Profit	**20**	**94**	**160**	**237**	**443**
Income Tax	(5)	(21)	(35)	(52)	(98)
Minorities	0	0	0	0	0
Net Profit	**16**	**72**	**125**	**185**	**346**

Exhibit 9. 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)	(344)	(495)	(700)
Net Loans	**6,955**	**12,349**	**16,545**	**21,423**	**27,745**
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**	**24,812**	**29,126**	**36,009**
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)	(40)	145	491
Shareholders' Funds	**8,264**	**8,357**	**8,482**	**8,667**	**9,013**
Minority interests	0	0	0	0	0
Total Equity & Liabilities	**16,965**	**21,296**	**24,812**	**29,126**	**36,009**

Exhibit 10. Key Ratios

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Yield on Earning Assets	11.5	11.3	9.5	9.8	10.2
Cost of funds	2.4	2.9	2.8	2.6	2.5
Interest Spread	9.1	8.4	6.7	7.2	7.8
Net Interest Margin	10.3	9.4	7.4	7.7	8.2
Cost/Income Ratio	71.7	72.3	75.7	71.5	66.2
Oper. Exp./Oper. Gross Inc.	99.2	95.8	92.7	90.8	86.5
Gross NPL Ratio	1.2	0.7	1.0	1.0	1.0
LLP/Gross NPL	322.4	257.0	201.8	221.3	239.0
Cost of Credit	7.4	4.1	1.7	1.8	1.8
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	2.2	3.9
ROAA	0.1	0.4	0.5	0.7	1.1
CAR	73.5	56.0	37.3	30.5	25.3

Exhibit 11. Dupont and Growth

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Dupont					
Pre-Tax ROAA	0.1	0.5	0.7	0.9	1.4
Tax Retention rate	77.9	77.3	78.0	78.0	78.0
Post-Tax ROAA	0.1	0.4	0.5	0.7	1.1
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	1.8	2.3	2.7	3.1	3.7
ROAE	0.2	0.9	1.5	2.2	3.9
Growth (%)					
Interest income	130.0	25.0	(1.1)	20.2	30.6
Net Interest Income	129.4	15.7	(7.7)	21.7	32.7
Other Oper. Expenses	89.0	24.3	(1.0)	14.3	21.0
Fee Based Income	298.5	147.9	13.1	15.8	17.3
Pre-Provision Oper. Profit	294.2	20.4	(17.0)	41.7	55.1
Net Profit	(81.5)	354.7	72.5	48.3	86.7
Shareholders' Equity	0.2	1.1	1.5	2.2	4.0
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	16.5	17.4	23.6

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