

Buy

(Maintained)

Bank Jago (ARTO IJ)

3Q24 earnings: Low-risk loans continue to drive growth, offsetting lower NIM with lower CoC

Last Price (Rp)	2,860
Target Price (Rp)	3,900
Previous Target Price (Rp)	3,800
Upside/Downside	+36.4%

No. of Shares (mn)	13,856
Mkt Cap (Rpbn/US\$mn)	39,629/2,534
Avg, Daily T/O (Rpbn/US\$mn)	39.1/2.5
Free Float (%)	45.6

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

EPS Consensus (Rp)	2024F	2025F	2026F
BRIDS	8.9	13.7	25.9
Consensus	9.0	24.3	45.2
BRIDS/Cons (%)	(1.1)	(43.8)	(42.8)

- ARTO posted 3Q24 net profit growth (+36% qoq, +71% yoy), driving 9M24 to form 69%/70% of our/cons (in line), driven by lower provision.
- 3Q24 NIM remained under pressure at 6.8% (-54bps qoq) as EA yield fell and CoF increased due to the higher TD portion.
- We raised our LT ROE from 16.7% to 17.1%, as we increased our FY24 loan growth est. to 49.2%. Maintain Buy with a higher TP of Rp3,900.

Robust 9M24 net profit growth despite margin pressures

ARTO's net profit rose by 71% yoy to Rp86bn in 9M24, primarily driven by lower provision expenses that offset the reduction in PPOP. While net profit reached only 69% of our FY24F and 70% of consensus estimates (up from 40% in 1H24), this aligns with our expectation of a stronger 2H24. Provision expenses decreased by 51% yoy across both conventional and Syariah loans, reducing CoC to 1.5% in 9M24 from 4.4% in 9M23. Despite a relatively stable CoF (-6bps yoy), 9M24 NIM remained under pressure as EA yield declined by 466bps to 10.7% due to a decrease in high-yield Syariah loan balances.

Solid loan growth with stable NII and NPL improvement

In 3Q24, ARTO reported its highest quarterly core net profit at Rp36bn (+27% qoq, +267% yoy), supported by stable NII (+2% qoq, -2% yoy) and reduced provision expenses (-12% qoq, -37% yoy). Loan growth remained strong at 10% qoq, reaching Rp17.3tr (+59% yoy), although NII was flat due to a decreased NIM influenced by a lower LDR of 102% and reduced EA yield. Despite an increase in the LaR ratio, asset quality was held firm, with the NPL ratio improving to 0.2% in 3Q24 from 0.4% in 2Q24.

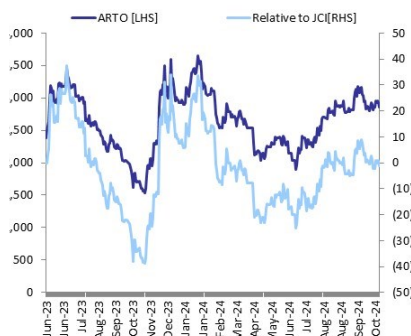
Strategic Lending Initiatives and Segment Expansion

ARTO has launched a direct lending initiative, which it expects to drive future loan portfolio growth. The bank's channeling to GTF now stands at Rp3.6tr (up from Rp3.1tr in 1H24), with ARTO supporting 80% of the GTF loan book. ARTO is also expanding into the SME market, starting with new branches in Surabaya, to diversify into productive lending. Aside from diversification, this expansion reflects ARTO's strategy to leverage regulatory incentives.

Maintain Buy with a higher TP of Rp3,900

We raised our TP to Rp3,900 (from Rp3,800 prev) to reflect the robust loan growth achieved in 9M24. Our TP remains based on a 3-stage DDM, with an LTG assumption of 8.0% and a CoE of 11.0%, now incorporating a higher LT ROE of 17.1% (up from 16.7%). We maintain our Buy rating on the back of its consistent improvement and strong customer loyalty. Risks to our view are lower-than-expected loan growth and 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	434	626	966
Net profit (Rpbn)	16	72	123	189	359
EPS (Rp)	1.1	5.2	8.9	13.7	25.9
EPS growth (%)	(82.3)	354.7	69.8	54.0	89.5
BVPS (Rp)	596.4	603.1	612.0	625.6	651.5
PER (x)	2,490.3	547.6	322.5	209.5	110.5
PBV (x)	4.8	4.7	4.7	4.6	4.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	0.2	0.9	1.5	2.2	4.1

Source: ARTO, BRIDS Estimates

Exhibit 1. ARTO 3Q24 earnings summary

ARTO - Financial (Rpbn)	3Q23	2Q24	3Q24	qoq, %	yoy, %	9M23	9M24	yoy, %	FY24F	FY24C	A/F	A/C
Interest income	452	469	500	7%	11%	1,437	1,412	-2%	1,854	2,048	76%	69%
Interest expense	76	106	131	24%	74%	227	335	47%	409	426	82%	79%
Net interest income	377	363	369	2%	-2%	1,209	1,077	-11%	1,444	1,622	75%	66%
Other operating income	43	72	78	8%	81%	136	211	56%	222		95%	n/a
Operating expenses	316	336	347	3%	10%	934	1,007	8%	1,261		80%	n/a
PPOP	104	99	101	1%	-4%	411	281	-32%	405		69%	n/a
Provision	86	62	55	-12%	-37%	348	170	-51%	253	294	67%	58%
Operating Profits	18	37	46	24%	156%	63	111	77%	152	147	73%	75%
Net profits	10	28	36	27%	267%	50	86	71%	125	122	69%	70%
Loans	10,871	15,671	17,256	10%	59%	10,871	17,256	59%	16,889		102%	n/a
Customer deposits	10,305	14,809	16,943	14%	64%	10,305	16,943	64%	15,174		112%	n/a
				qoq, bps	yoy, bps			yoy, bps				
Loan yield (%)	13.5	10.8	10.3	↓ (47)	↓ (318)	15.3	10.7	↓ (466)				
Cost of fund (%)	3.0	3.0	3.3	↓ 28	↓ 35	3.2	3.1	↓ (6)				
NIM (%)	9.2	7.3	6.8	↓ (54)	↓ (244)	10.2	7.1	↓ (306)				
CIR (%)	75.1	77.2	77.5	↓ 29	↓ 236	69.4	78.2	↓ 879				
Cost of credit (%)	3.1	1.7	1.3	↑ (33)	↑ (181)	4.4	1.5	↑ (289)				
ROE (%) - ann	0.5	1.3	1.7	↑ 35	↑ 123	0.8	1.4	↑ 55				
CASA ratio (%)	73.2	61.2	56.7	↓ (452)	↓ (1,655)							
LDR (%)	105.5	105.8	101.8	↑ (397)	↑ (365)							
NPL ratio (%)	1.1	0.4	0.2	↑ (15)	↑ (92)							
LaR ratio (%)	8.5	3.3	3.5	↓ 20	↑ (498)							

Source: Company, BRIDS Estimates, Bloomberg

Exhibit 2. ARTO Changes in Forecast

ARTO - Forecast Changes	2024F (Prev)	2024F (Curr)	Δ%	2025F (Prev)	2025F (Curr)	Δ%
Net Interest Income (Rpbn)	1,444	1,487	3.0	1,758	1,853	5.4
PPOP (Rpbn)	405	434	7.0	574	626	9.0
Net profit (Rpbn)	125	123	(1.6)	185	189	2.2
BVPS (Rp)	612	612	(0.0)	625	626	0.0
Gross Loans (Rpbn)	16,889	18,791	11.3	21,918	24,387	11.3
Customer Deposits (Rpbn)	15,174	18,291	20.5	19,134	23,814	24.5
Ratios (%)	2024F (Prev)	2024F (Curr)	Δ bps	2025F (Prev)	2025F (Curr)	Δ bps
Net Interest Margin	7.4	7.3	(14)	7.7	7.4	(30)
Gross NPL Ratio	1.0	1.0	-	1.0	1.0	(0)
Cost/Income Ratio	75.7	75.5	(15)	71.5	71.3	(16)
Cost of Credit	1.7	1.8	4	1.8	1.8	(0)
ROAE	1.5	1.5	(2)	2.2	2.2	5

Source: Company, BRIDS Estimates

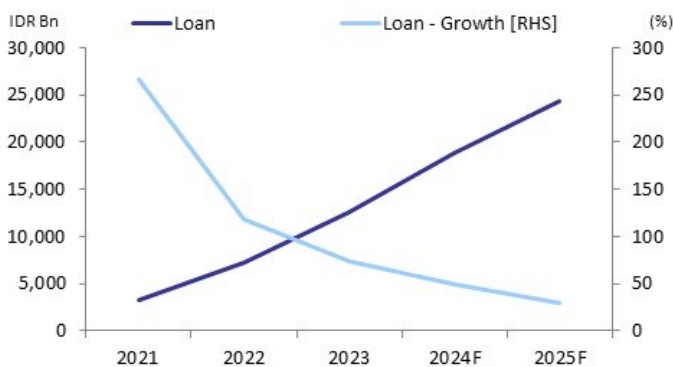
Exhibit 3. ARTO's Valuation

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 (β)	1.50	1.25	1.00
Risk premium (Rm-Rf)	6.6%	5.3%	4.0%
Ke = Rf+β(Rm-Rf)	16.8%	13.6%	11.0%
Return on equity (average)	2.5%	13.1%	16.7%
Growth rate (CAGR)	37.7%	30.0%	8.0%
Expected dividend payout ratio (average)	0.0%	30.5%	52.2%

Forecast year	0	1	2	3	4	5	6	7	8	9	10	11	12
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Equity book value/share	595	596	603	612	626	652	694	750	825	917	1007	1102	1200
Return on equity	1.0%	0.2%	0.9%	1.4%	2.2%	4.0%	6.1%	8.2%	11.0%	13.7%	13.7%	15.2%	17.1%
Earnings per share	6.2	1.1	5.2	8.9	13.7	25.9	42.4	61.2	90.7	125.2	137.6	167.9	205.0
growth		-82%	355%	70%	54%	90%	64%	44%	48%	38%	10%	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	-	-	-	-	-	-	-	5.3	15.8	32.7	47.9	73.1	107.1
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 3,900												

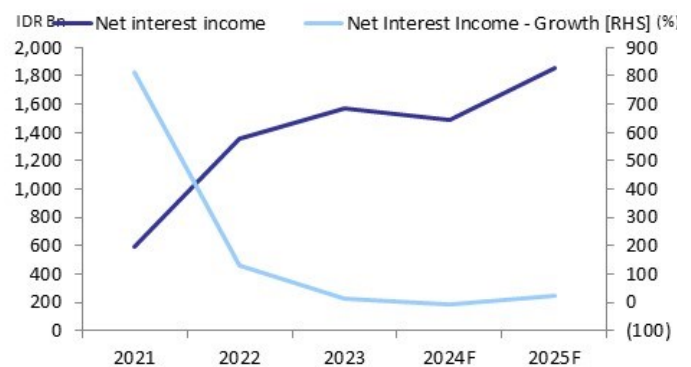
Source: Company, BRIDS Estimates

Exhibit 4. Loans and Growth



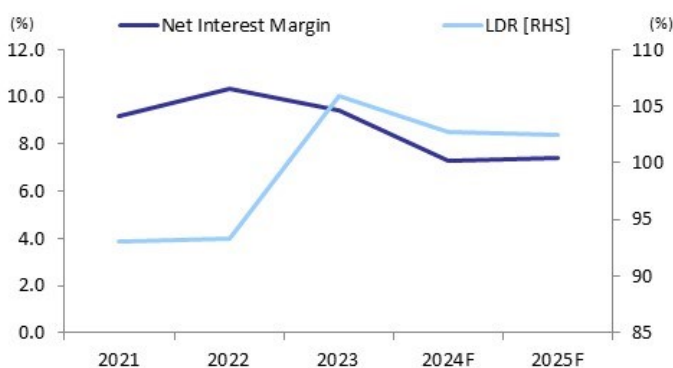
Source: Company, BRIDS Estimates

Exhibit 5. Net Interest Income and Growth



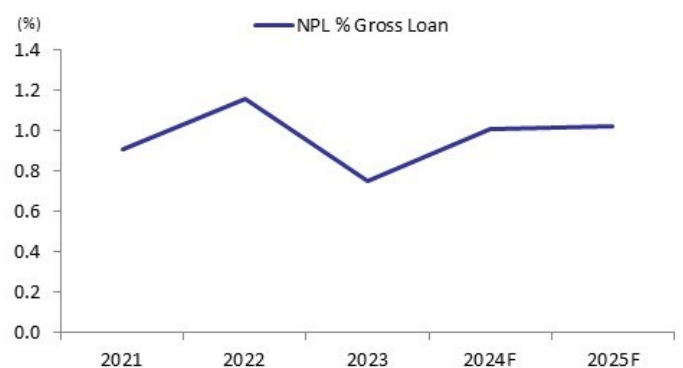
Source: Company, BRIDS Estimates

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	1,956	2,461	3,220
Interest Expense	(147)	(309)	(469)	(608)	(762)
Net Interest Income	1,353	1,565	1,487	1,853	2,458
Non-Interest Income (NII)	78	197	285	331	390
Oper. Income	1,431	1,762	1,772	2,184	2,847
Oper. Expenses	(1,026)	(1,274)	(1,339)	(1,558)	(1,881)
Pre-provisions profit	405	488	434	626	966
Provisions & Allowances	(393)	(401)	(276)	(383)	(506)
Operating Profit	13	87	158	243	460
Non-Operating Income	8	7	0	0	0
Exceptionals	0	0	0	0	0
Pre-tax Profit	20	94	158	243	460
Income Tax	(5)	(21)	(35)	(53)	(101)
Minorities	0	0	0	0	0
Net Profit	16	72	123	189	359

Exhibit 9. Balance Sheet

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Gross Loans	7,225	12,592	18,791	24,387	31,649
Provisions	(270)	(242)	(383)	(551)	(779)
Net Loans	6,955	12,349	18,408	23,836	30,870
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	22,495	27,521	35,037
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	28,044	33,974	42,480
Customer Deposits	7,748	11,892	18,291	23,814	31,725
Banks Deposits	0	0	0	0	0
Int. Bearing Liab. - Others	526	175	351	359	368
Total Liabilities	8,702	12,939	19,564	25,305	33,453
Share capital & Reserves	8,502	8,522	8,522	8,522	8,522
Retained Earnings	(239)	(165)	(42)	147	506
Shareholders' Funds	8,264	8,357	8,480	8,669	9,027
Minority interests	0	0	0	0	0
Total Equity & Liabilities	16,965	21,296	28,044	33,974	42,480

Exhibit 10. Key Ratios

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Yield on Earning Assets	11.5	11.3	9.6	9.8	10.3
Cost of funds	2.4	2.9	2.9	2.7	2.6
Interest Spread	9.1	8.4	6.7	7.1	7.7
Net Interest Margin	10.3	9.4	7.3	7.4	7.9
Cost/Income Ratio	71.7	72.3	75.5	71.3	66.1
Oper. Exp./Oper. Gross Inc.	99.2	95.8	93.0	91.3	87.3
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	1.8	1.8	1.8
Loan to Deposit Ratio	93.3	105.9	102.7	102.4	99.8
Loan to Funding Ratio	93.3	105.9	102.7	102.4	99.8
CASA Mix	73.2	66.3	57.9	58.2	59.4
ROAE	0.2	0.9	1.5	2.2	4.1
ROAA	0.1	0.4	0.5	0.6	0.9
CAR	73.5	56.0	34.6	28.1	23.3

Exhibit 11. Dupont and Growth

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Dupont					
Pre-Tax ROAA	0.1	0.5	0.6	0.8	1.2
Tax Retention rate	77.9	77.3	78.0	78.0	78.0
Post-Tax ROAA	0.1	0.4	0.5	0.6	0.9
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	1.8	2.3	2.9	3.6	4.3
ROAE	0.2	0.9	1.5	2.2	4.1
Growth (%)					
Interest income	130.0	25.0	4.3	25.8	30.8
Net Interest Income	129.4	15.7	(5.0)	24.6	32.7
Other Oper. Expenses	89.0	24.3	5.0	16.4	20.8
Fee Based Income	298.5	147.9	43.8	15.8	17.3
Pre-Provision Oper. Profit	294.2	20.4	(11.2)	44.3	54.4
Net Profit	(81.5)	354.7	69.8	54.0	89.5
Shareholders' Equity	0.2	1.1	1.5	2.2	4.1
Loan	117.6	74.3	49.2	29.8	29.8
Earnings Asset	33.8	22.0	23.1	22.3	27.3
Deposit	117.2	53.5	53.8	30.2	33.2
Int. Bearing Liab.	119.0	49.5	52.0	29.6	32.4
CASA	238.2	38.9	34.4	30.8	36.0
Total Asset	37.8	25.5	31.7	21.1	25.0

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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