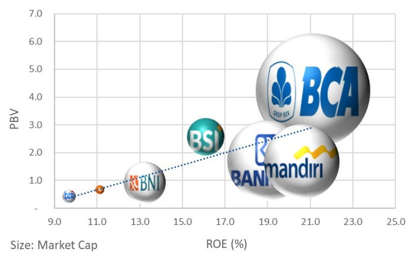
Neutral

(Maintained)

Sector's FY25F PBV-ROE matrix



Sector's implied cost of equity

Source: Company, Bloomberg, BRIDS Estimates

Banks

Liquidity may ease faster, but stable Rupiah is needed for the rally to sustain

- **An early rate cut may ease liquidity pressure faster, while some loans and marketable securities are at risk of lower yield.**
- **Banking sector share prices have a high negative correlation with USD/IDR, which could put the sector under selling pressure once again.**
- **Share price rally provides a window to neutralize position amid our concern on asset quality. We maintain our Neutral rating.**

Liquidity easing may come faster than expected

Bank Indonesia unexpectedly decided to cut its benchmark rate by 25bps (from 6.00% to 5.75%) on January 15, 2025, resulting in a share price rally in the banking sector. The benchmark rate cut will benefit banks with a higher portion of TD, such as BBTN (52%), BRIS (38%), and BBRI (36%). This could also alleviate pressure on BMRI and BBNI, which have c. 40% of their CA deposits in the special rate category. On the other hand, BBCA, with its strong CASA franchise and fewer special rate deposits, will benefit less.

Higher downside risk from floating, managed rate loan, and HQLA

In terms of loan yield, BBCA and BBRI have the upper hand with their fixed/floating rate of 50/12% and 60/7% of total loans, respectively, as of Sep24. The banks believe they can manage the rate of managed-rate loans steady amid a lower benchmark rate. If this does not hold true, this could put BBNI and BMRI at higher risks as they have 54% and 44% managed-rate loan portions, respectively. If the lower benchmark rate translates to lower bond/SRBI yields (unlike in the Sep24 rate cut), this will ease liquidity pressure in the banking system. However, this will negatively impact BBCA as secondary reserves form a third of its EA, while the other big 3 banks form c. 25%.

Risk from weaker Rupiah

On the other hand, we note that the banking sector share price has a high inverse correlation (77%) with USD/IDR in FY24, which was partly due to their high foreign ownership. We believe the rally has to be supported by Rupiah stabilization if it is to continue.

Maintain Neutral, with BBCA remaining as our top pick

Despite a more positive outlook on the liquidity front, our main concern on asset quality remains. We believe the share price rally provides a window to reduce positions to Neutral. We still favor BBCA (Buy, TP: Rp11,800) given its robust asset quality, high fixed-rate loan portion, and underweight local fund position. Upside risks to our view are Rupiah stabilization and further ST rate cuts, while the downside risk is significantly deteriorating asset quality.

BRI Danareksa Sekuritas Analysts

Victor Stefano
(62-21) 5091 4100 ext. 3505
victor.stefano@brids.co.id

Naura Reyhan Muchlis
(62-21) 5091 4100 ext. 3507
naura.muchlis@brids.co.id

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x) 2024F	P/E (x) 2025F	P/BV (x) 2024F	P/BV (x) 2025F	ROE (%) 2025F
Bank Central Asia	BBCA IJ	BUY	11,800	1,209,096.0	22.3	21.0	4.6	4.3	21.1
Bank Rakyat Indonesia	BBRI IJ	Non-Rated	n/a	619,876.3	n/a	n/a	n/a	n/a	n/a
Bank Mandiri	BMRI IJ	BUY	6,400	536,666.6	9.3	8.8	1.9	1.7	20.6
Bank Negara Indonesia	BBNI IJ	BUY	5,100	164,481.1	7.7	7.5	1.0	1.0	13.2
Bank Syariah Indonesia	BRIS IJ	HOLD	2,900	126,855.5	18.8	17.0	2.9	2.6	16.1
Bank Tabungan Negara	BBTN IJ	BUY	1,400	15,367.7	4.8	4.6	0.5	0.4	9.7
Bank BTPN Syariah	BTPS IJ	BUY	1,200	6,971.8	6.6	6.4	0.7	0.7	11.1

Liquidity may ease faster, but stable Rupiah is needed for the rally to sustain

Liquidity easing may come faster than expected

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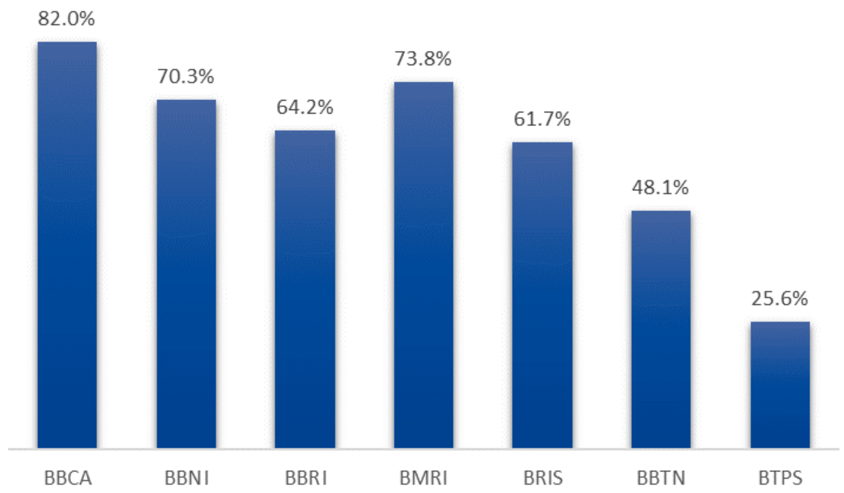
Exhibit 1. CASA ratio as of 9M24



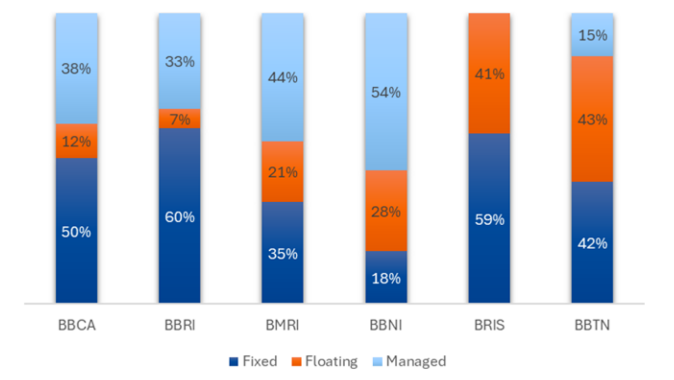
Source: Company, BRIDS

Higher downside risk from floating, managed rate loan, and HQLA

In terms of loan yield, BBCA and BBRI have the upper hand with their fixed/floating rate of 50/12% and 60/7% of total loans, respectively, as of Sep24. The banks believe they can manage the rate of managed-rate loans steady amid a lower benchmark rate. If this does not hold true, this could put BBNI and BMRI at higher risks as they have 54% and 44% managed-rate loan portions, respectively.

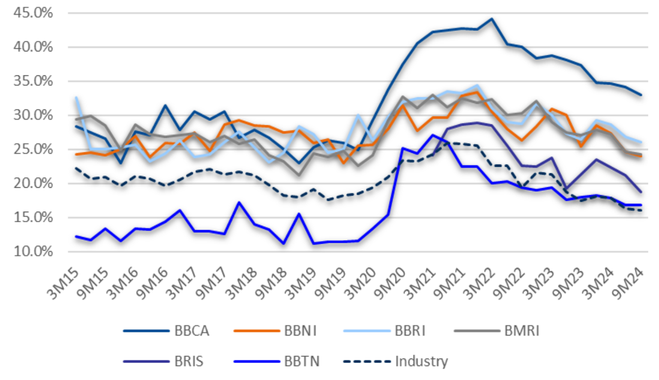
If the lower benchmark rate translates to lower bond/SRBI yields (unlike in the Sep24 rate cut), this will ease liquidity pressure in the banking system. However, this will negatively impact BBCA as secondary reserves form a third of its EA, while the other big 3 banks form c. 25%.

Exhibit 2. Loan breakdown as of 9M24



Source: Companies, BRIDS

Exhibit 3. Secondary reserve to EA ratio

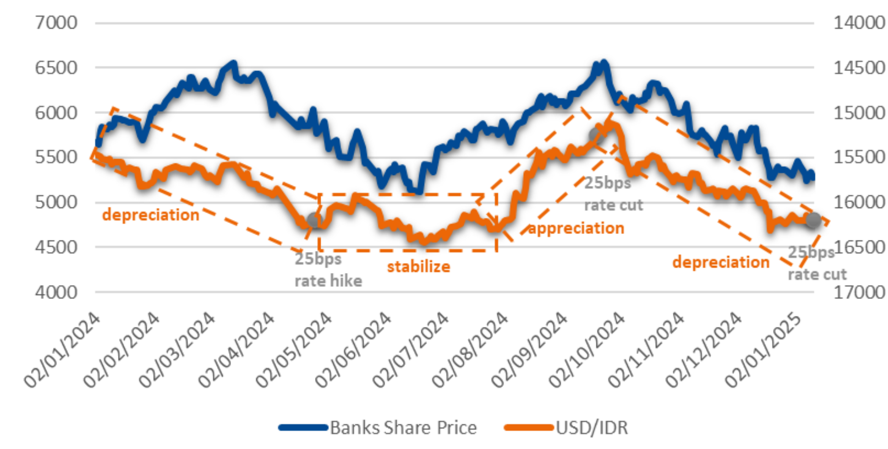


Source: Companies, BRIDS

Risk from weaker Rupiah

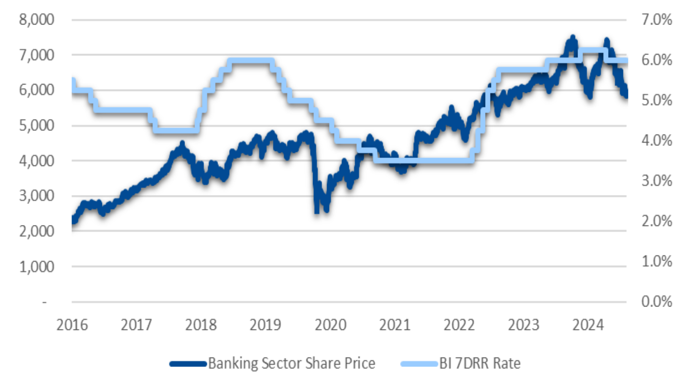
On the other hand, we note that the banking sector share price has a high inverse correlation (77%) with USD/IDR in FY24, which was partly due to their high foreign ownership. We believe the rally has to be supported by Rupiah stabilization if it is to continue.

Exhibit 4. Banking sector share price correlation with USD/IDR



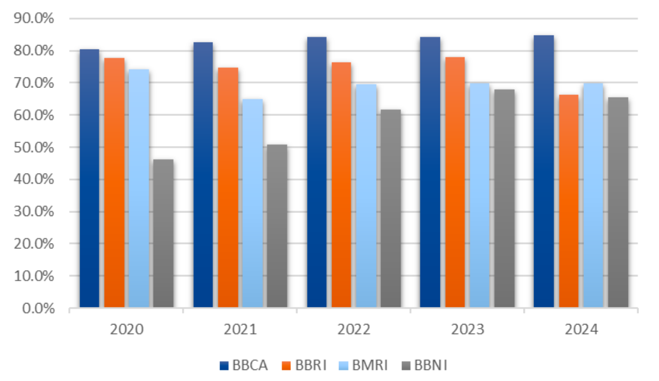
Source: Bloomberg, BRIDS

Exhibit 5. Share price movement vs benchmark rate



Source: BI, Bloomberg, BRIDS

Exhibit 6. Foreign ownership



Source: KSEI, BRIDS

Maintain Neutral, with BBCA remaining as our top pick

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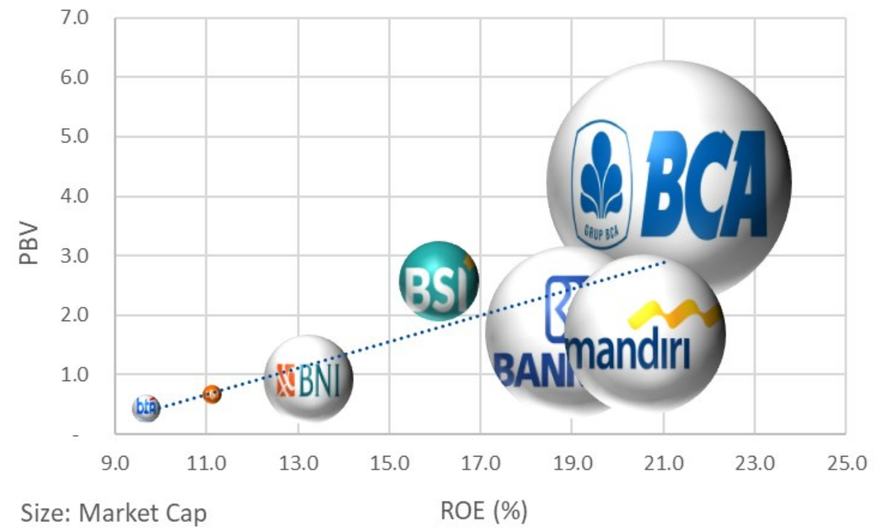
Exhibit 7. Sector's FY25F PBV-ROE Matrix



Source: Bloomberg, BRIDS

BRI Danareksa Equity Research Team		
Erindra Krisnawan, CFA	Head of Equity Research, Strategy, Coal	erindra.krisnawan@brids.co.id
Natalia Sutanto	Consumer, Cigarettes, Pharmaceuticals, Retail	natalia.sutanto@brids.co.id
Niko Margaronis	Telco, Tower, Technology, Media	niko.margaronis@brids.co.id
Timothy Wijaya	Metal, Oil and Gas	timothy.wijaya@brids.co.id
Victor Stefano	Banks, Poultry	victor.stefano@brids.co.id
Ismail Fakhri Suweleh	Healthcare, Property, Industrial Estate	ismail.suweleh@brids.co.id
Richard Jerry, CFA	Automotive, Cement, Infrastructure	richard.jerry@brids.co.id
Ni Putu Wilastita Muthia Sofi	Research Associate	wilastita.sofi@brids.co.id
Naura Reyhan Muchlis	Research Associate	naura.muchlis@brids.co.id
Sabela Nur Amalina	Research Associate	sabela.amalina@brids.co.id
Kafi Ananta Azhari	Research Associate	kafi.azhari@brids.co.id

BRI Danareksa Economic Research Team		
Helmy Kristanto	Chief Economist, Macro Strategy	helmy.kristanto@brids.co.id
Dr. Telisa Aulia Falianty	Senior Advisor	telisa.falianty@brids.co.id
Kefas Sidauruk	Economist	kefas.sidauruk@brids.co.id

BRI Danareksa Institutional Equity Sales Team		
Yofi Lasini	Head of Institutional Sales and Dealing	yofi.lasini@brids.co.id
Novrita Endah Putrianti	Institutional Sales Unit Head	novrita.putrianti@brids.co.id
Ehrliech Suhartono	Institutional Sales Associate	ehrliech@brids.co.id
Yunita Nababan	Institutional Sales Associate	yunita@brids.co.id
Adeline Solaiman	Institutional Sales Associate	adeline.solaiman@brids.co.id
Andreas Kenny	Institutional Sales Associate	andreas.kenny@brids.co.id
Christy Halim	Institutional Sales Associate	christy.halim@brids.co.id
Jason Joseph	Institutional Sales Associate	Jason.joseph@brids.co.id

BRI Danareksa Sales Traders		
Mitcha Sondakh	Head of Sales Trader	mitcha.sondakh@brids.co.id
Suryanti Salim	Sales Trader	suryanti.salim@brids.co.id

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