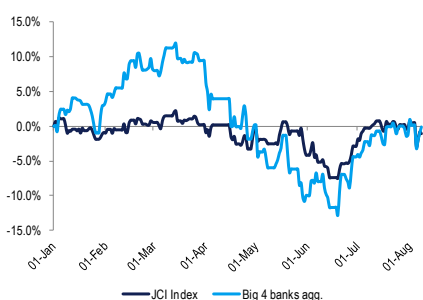


Sector Update | 09 August 2024

Sector Index Performance

	3M	6M	12M
Absolute	6.2%	-5.3%	1.7%
Relative to JCI	4.7%	-4.8%	-3.0%



Summary Valuation Metrics

P/E (x)	2024F	2025F	2026F
BBCA IJ	23.1	20.9	19.3
BBRI IJ	11.3	10.1	9.1
BMRI IJ	11.3	10.0	9.0

P/BV (x)	2024F	2025F	2026F
BBCA IJ	4.8	4.4	4.1
BBRI IJ	2.2	2.1	2.0
BMRI IJ	2.2	2.0	1.8

Div. Yield	2024F	2025F	2026F
BBCA IJ	2.7%	3.1%	3.4%
BBRI IJ	7.2%	7.5%	8.4%
BMRI IJ	5.2%	5.3%	6.0%

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An overview on asset quality: stellar BMRI but budding risk on BNI

- We recently got a lot of queries with regards to asset quality especially post 1Q results. We found that BMRI is much better than other SOEs.
- Other than usual LAR metric, we also use gross NPL formation to gauge the overall asset quality and found BNI is also at risk (other than BBRI).
- As such, we believe is best to stick with BMRI and BBRI despite recent bull case for BBNI ahead of rate cut scenario.

Asset quality risk for BMRI seems to be overblown

Asset quality was the key concern post 1Q results as we have seen myriad of NPL cycles i.e. BTPS, Jago Sharia, BBRI. BMRI was a particular concern for investors given that it has the highest loan growth of c.20% vs. peers of 11-16% and also faster commercial loan growth (NPL cycle in FY15-16); while BBNI was perceived to be safer given the slower loan growth (13% in 5M24) and shift to safer segments i.e. corporate private (from SOE) and consumer. However we found this isn't accurate as: 1) BMRI's gross NPL formation continued to drop (lowest among SOE) and 2) similar LAR between corporate and commercial book at 8% (vs. blended LAR of 7.8% in 1H24).

We found that BMRI gross NPL formation to be superior compared to other SOE banks while we think there is budding risk on BBNI

Other than using usual NPL/LAR metric, we look at the gross NPL formation metric (new NPL and write-offs during that particular year) and found few interesting points: 1) BBRI's gross NPL formation reached 6.2% in FY23 (6.4% in FY24F) from 4.4% in FY22 - 10Y high and even higher during Covid, this was the main reason why the CoC spiked this year; 2) BBNI's gross NPL formation reached 3.7% in FY23 (4.8% in FY24F) up from 2.6% in FY21-22 (second highest after Covid period of 5.3%); 3) BMRI's gross NPL formation was at 2.6% in FY23 (1.8% in FY24F, 2nd best only to BCA at 0.8-0.9%) and this is at 10Y low – note FY16 peak at 5.7%. This raised a concern that BBNI may need to increase its CoC next year, in our view.

Write-off is a good proxy to gauge on how clean the banks' books are

We were pleasantly surprised that BMRI's bank-only write-off target this year only at c.Rp11tr vs. FY21/22/23's Rp13/14/18tr vs. BBNI's write-off target of Rp18tr in FY24F vs. FY22/23's Rp11/14tr. This is counterintuitive as: 1) BMRI's bank-only loan book stood at Rp1,196tr in 1H24 or 69% above BBNI's loan book of Rp709tr in 5M24 and 2) if the overall loan book is clean (or getting better) the absolute amount of write-off is expected to be stable or dropping over time as reflected in BBNI and BMRI write-off number. Note that BBRI write-off stood Rp34tr in FY23 (Rp40tr in FY24F) vs. Rp22tr in FY22. Separately write off to recovery ratio stood at 58/50/35% in FY23 vs. 41/50/30% average FY18-22 for BMRI/BBRI/BBNI.

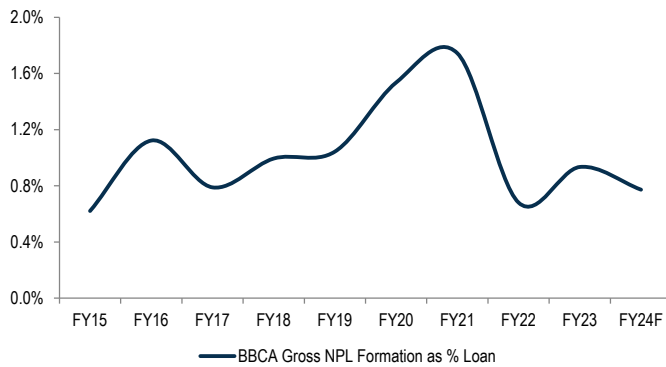
Maintain OW with BMRI and BBRI as our top picks

We continue to like the overall sector and prefer BMRI and BBRI as our top picks. Note throughout 1H we have been consistent with our picks on BBNI and BMRI, both have outperformed the sector. Our reasoning on BBRI is due to the fact most of the risks have been priced-in and any improvement on CoC will result in re-rating. We have all Buy rating for BMRI/BBRI/BBNI but Hold rating on BBNI as we believe the asset quality risk hasn't been priced-in. Risk to our call is that we understand our thesis may not play out in the short-term due to macro play (rate cut shall benefitted bank with tightest liquidity).

Asset quality risk for BMRI seems to be overblown

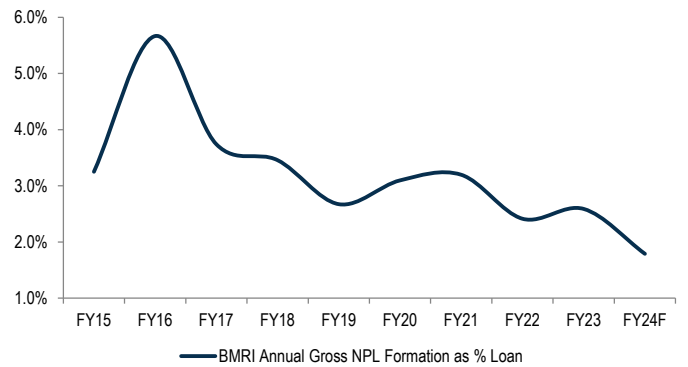
Asset quality was the key concern post 1Q results as we have seen myriad of NPL cycles i.e. BTPS, Jago Sharia, BBRI. BMRI was a particular concern for investors given that it has the highest loan growth of c.20% vs. peers of 11-16% and also faster commercial loan growth (NPL cycle in FY15-16); while BBNI was perceived to be safer given the slower loan growth (13% in 5M24) and shift to safer segments i.e. corporate private (from SOE) and consumer. However we found this isn't accurate as: 1) BMRI's gross NPL formation continued to drop (lowest among SOE) and 2) similar LAR between corporate and commercial book at 8% (vs. blended LAR of 7.8% in 1H24).

Fig. 1: BBCA gross NPL formation as % of loan



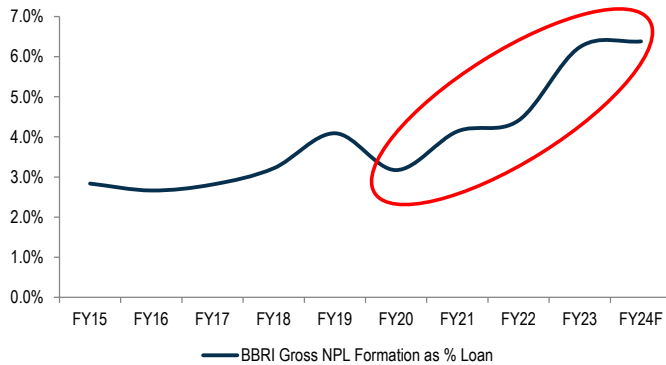
Source: Company, Indo Premier

Fig. 2: BMRI gross NPL formation as % of loan



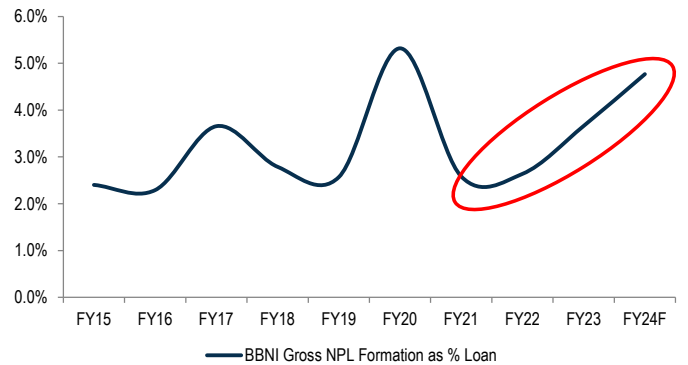
Source: Company, Indo Premier

Fig. 3: BBRI gross NPL formation as % of loan



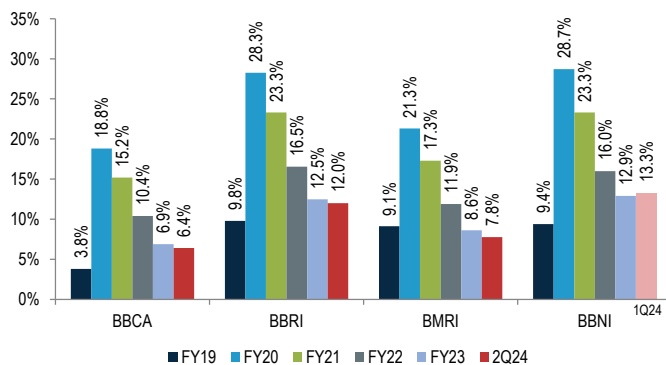
Source: Company, Indo Premier

Fig. 4: BBNI gross NPL formation as % of loan



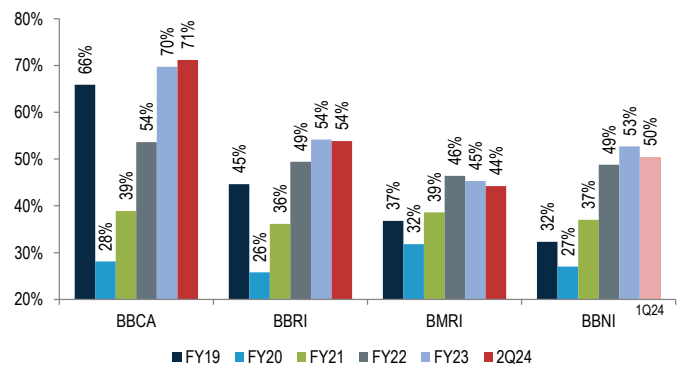
Source: Company, Indo Premier

Fig. 5: Loan at risk (incl. Covid) summary



Source: Company, Indo Premier

Fig. 6: Loan at risk coverage (incl. Covid) summary



Source: Company, Indo Premier

We found that BMRI gross NPL formation to be superior compared to other SOE banks while we think there is budding risk on BBNI

Other than using usual NPL/LAR metric, we look at the gross NPL formation metric (new NPL and write-offs during that particular year) and found few interesting points:

- 1) BBRI's gross NPL formation reached 6.2% in FY23 from 4.4% in FY22 - 10Y high and even higher during Covid. We expect this to slightly increase to 6.4% in FY24F assuming a total write-off budget of Rp40tr, loan growth of 10% and NPL ratio of 2.4% (similar to 2Q24). This was the main reason why the CoC spiked this year;
- 2) BBNI's gross NPL formation reached 3.7% in FY23 and might increase even higher to 4.8% in FY24F (under the assumption of Rp18tr write-off, 10% loan growth, and flattish NPL ratio of 2%), up from 2.6% in FY21-22 (second highest after Covid period of 5.3%);
- 3) BMRI's gross NPL formation was at 2.6% in FY23 and anticipated to decline to 1.8% in FY24F. This is mainly driven by strong loan growth of 16-18% coupled with lower bank-only write-off (Rp11tr vs. Rp18tr in FY23) due to asset quality improvement (LAR at 7.8% in 2Q24 vs. pre-Covid of 9.1% in FY19). Note that this is 2nd best only to BCA at 0.8-0.9% and at 10Y low while its peak was at 5.7% in FY16, post commercial NPL cycle in FY15-16.

This raised a concern that BBNI may need to increase its CoC next year, in our view.

Fig. 7: BCA gross NPL formation as % of loan

BBCA	Beginning NPL	Net NPL formation	Cumulative write-off	Ending NPL	Gross NPL Formation	Gross Loan	Gross NPL Formation as % Loan
FY15	2,068	1,570	(837)	2,802	2,407	387,643	0.6%
FY16	2,802	3,661	(1,007)	5,455	4,668	415,896	1.1%
FY17	5,455	2,589	(1,099)	6,945	3,688	467,509	0.8%
FY18	6,945	2,999	(2,350)	7,594	5,350	538,099	1.0%
FY19	7,594	3,204	(2,921)	7,877	6,125	586,940	1.0%
FY20	7,877	5,636	(3,187)	10,327	8,823	574,590	1.5%
FY21	10,327	6,966	(3,881)	13,412	10,847	622,013	1.7%
FY22	13,412	1,558	(3,171)	11,798	4,729	694,937	0.7%
FY23	11,798	4,900	(2,500)	14,198	7,400	792,197	0.9%
FY24F	14,198	4,415	(2,500)	16,113	6,915	895,182	0.8%
Guidance			Rp2-3tr			9-10%	

Source: Company, Indo Premier

Fig. 8: BBRI gross NPL formation as % of loan

BBRI	Beginning NPL	Net NPL formation	Cumulative write-off	Ending NPL	Gross NPL Formation	Gross Loan	Gross NPL Formation as % Loan
FY15	6,220	8,194	(7,815)	6,599	16,009	564,481	2.8%
FY16	6,599	8,665	(8,473)	6,790	17,138	643,471	2.7%
FY17	6,790	10,674	(9,549)	7,916	20,223	718,983	2.8%
FY18	7,916	13,959	(12,243)	9,631	26,202	814,553	3.2%
FY19	9,631	18,875	(17,006)	11,500	35,882	877,431	4.1%
FY20	11,500	14,279	(14,244)	11,535	28,523	899,458	3.2%
FY21	11,535	23,386	(17,748)	17,173	41,134	994,417	4.1%
FY22	17,173	25,525	(22,060)	20,638	47,585	1,079,275	4.4%
FY23	20,638	40,820	(33,882)	27,576	74,703	1,197,753	6.2%
FY24F	27,576	44,044	(40,000)	31,621	84,044	1,317,528	6.4%
Guidance			Rp40tr				10-11%

Source: Company, Indo Premier

Fig. 9: BMRI gross NPL formation as % of loan

BMRI	Beginning NPL	Net NPL formation	Cumulative write-off	Ending NPL	Gross NPL Formation	Gross Loan	Gross NPL Formation as % Loan
FY15	11,298	11,575	(7,495)	15,377	19,070	586,675	3.3%
FY16	15,377	23,798	(12,991)	26,184	36,789	649,323	5.7%
FY17	26,184	12,741	(13,885)	25,041	26,626	712,037	3.7%
FY18	25,041	12,450	(15,182)	22,309	27,632	799,557	3.5%
FY19	22,309	11,088	(12,589)	20,808	23,677	885,835	2.7%
FY20	20,808	16,633	(10,311)	27,131	26,944	870,145	3.1%
FY21	27,131	16,907	(15,897)	28,140	32,804	1,026,225	3.2%
FY22	28,140	11,421	(16,884)	22,677	28,305	1,172,600	2.4%
FY23	22,677	14,328	(20,872)	16,134	35,200	1,359,832	2.6%
FY24F	16,134	15,117	(13,600)	17,651	28,717	1,604,602	1.8%
Guidance			Rp11tr (bank only)				16-18%

Source: Company, Indo Premier

Fig. 10: BBNI gross NPL formation as % of loan

BBNI	Beginning NPL	Net NPL formation	Cumulative write-off	Ending NPL	Gross NPL Formation	Gross Loan	Gross NPL Formation as % Loan
FY15	5,437	5,553	(2,280)	8,710	7,833	326,105	2.4%
FY16	8,710	5,973	(3,038)	11,644	9,011	393,275	2.3%
FY17	11,644	7,294	(8,841)	10,098	16,135	441,314	3.7%
FY18	10,098	7,119	(7,178)	10,039	14,298	512,779	2.8%
FY19	10,039	8,611	(5,688)	12,962	14,299	556,771	2.6%
FY20	12,962	21,427	(9,759)	24,630	31,186	586,207	5.3%
FY21	24,630	5,969	(9,071)	21,528	15,040	582,436	2.6%
FY22	21,528	6,840	(10,206)	18,161	17,046	646,188	2.6%
FY23	18,161	11,064	(14,390)	14,836	25,455	695,085	3.7%
FY24F	14,836	18,456	(18,000)	15,292	36,456	764,593	4.8%
Guidance			Rp18tr				9-11%

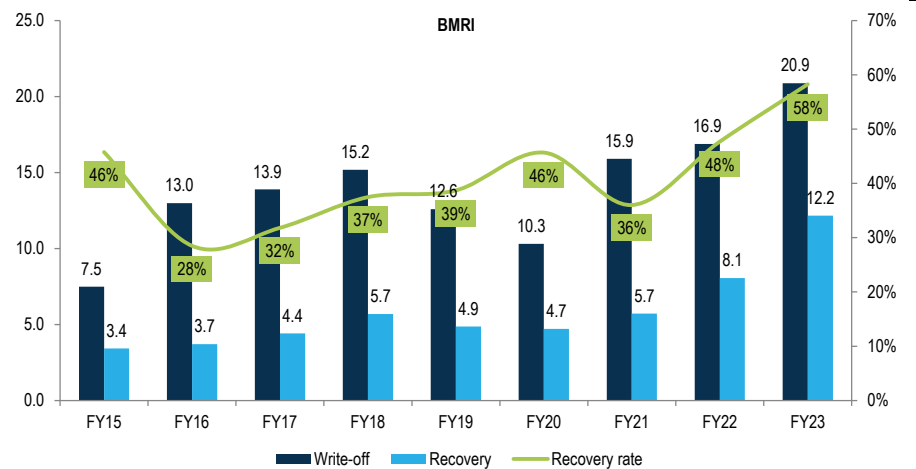
Source: Company, Indo Premier

Write-off is a good proxy to gauge on how clean the banks' books are
We were pleasantly surprised that BMRI's bank-only write-off target this year only at c.Rp11tr vs. FY21/22/23's Rp13/14/18tr vs. BBNI's write-off target of Rp18tr in FY24F vs. FY22/23's Rp11/14tr. This is counterintuitive as:

- 1) BMRI's bank-only loan book stood at Rp1,196tr in 1H24 or 69% above BBNI's loan book of Rp709tr in 5M24 and
- 2) if the overall loan book is clean (or getting better) the absolute amount of write-off is expected to be stable or dropping over time as reflected in BBNI and BMRI write-off number.

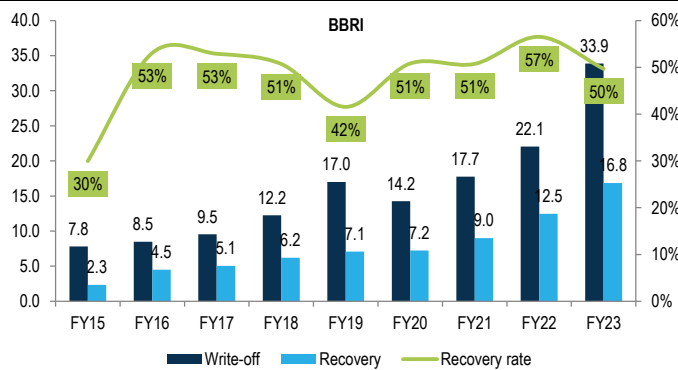
Note that BBRI write-off stood Rp34tr in FY23 (Rp40tr in FY24F) vs. Rp22tr in FY22. Separately write off to recovery ratio stood at 58/50/35% in FY23 vs. 41/50/30% average FY18-22 for BMRI/BBRI/BBNI.

Fig. 11: BMRI write-off and recovery trend – consol, in Rp tr



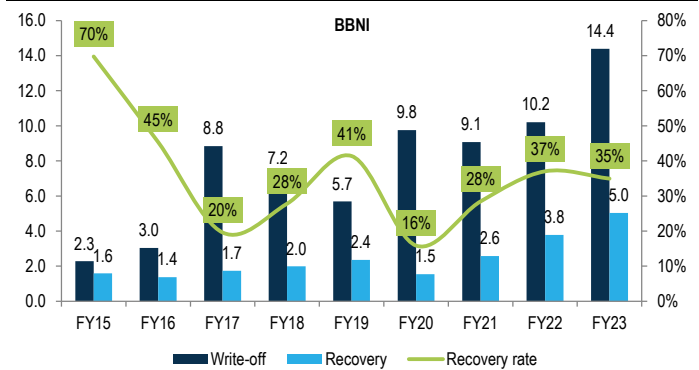
Source: Company, Indo Premier

Fig. 12: BBRI write-off and recovery trend – consol, in Rp tr



Source: Company, Indo Premier

Fig. 13: BBNI write-off and recovery trend – consol, in Rp tr



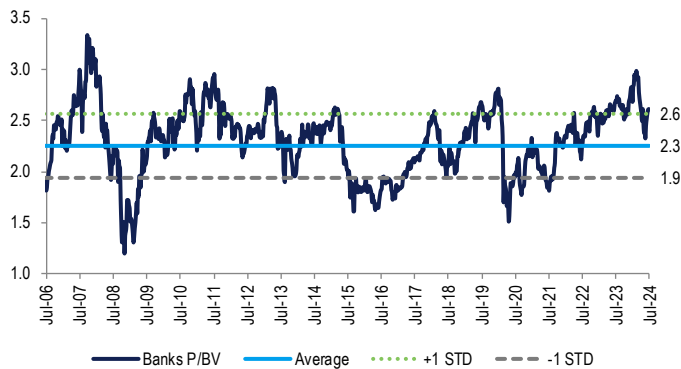
Source: Company, Indo Premier

Maintain OW with BMRI and BBRI as our top picks

We continue to like the overall sector and prefer BMRI and BBRI as our top picks. Note throughout 1H we have been consistent with our picks on BBKA and BMRI, both have outperformed the sector. Our reasoning on BBRI is due to the fact most of the risks have been priced-in and any improvement on CoC will result in re-rating.

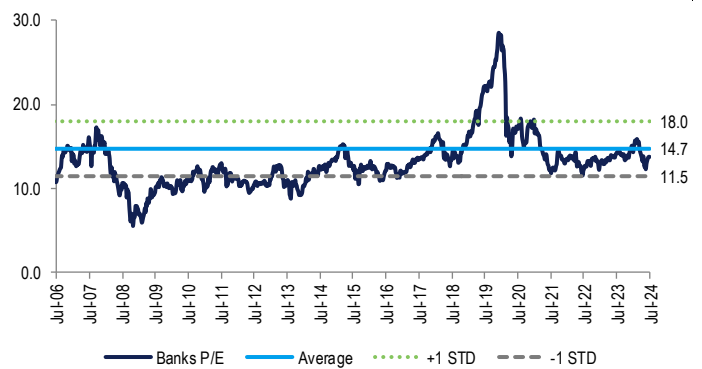
We have all Buy rating for BMRI/BBRI/BBKA but Hold rating on BBNI as we believe the asset quality risk hasn't been priced-in. Risk to our call is that we understand our thesis may not play out in the short-term due to macro play (rate cut shall benefitted bank with tightest liquidity)

Fig. 14: Banks' forward P/BV – now trading at 2.7x FY24F P/BV vs. 10-year average of 2.3x P/B



Source: Bloomberg, Company, Indo Premier

Fig. 15: Banks' forward P/E – now trading at 14.6x FY24F P/E vs. 10-year average of 14.7x P/E



Source: Bloomberg, Company, Indo Premier

Fig. 16: Peer comparison table

Ticker	Closing Price	Target Price	P/BV multiple target (x)	Upside	Recommendation	P/E (x)			P/BV (x)		
						FY24F	FY25F	10Y Avg	FY24F	FY25F	10Y Avg
BBKA	10,225	10,400	4.7	2%	Buy	23.1	20.9	21.0	4.8	4.4	3.7
BBRI	4,660	5,800	2.6	24%	Buy	11.3	10.1	14.7	2.2	2.1	2.4
BMRI	6,800	7,800	2.4	15%	Buy	11.3	10.0	11.9	2.2	2.0	1.7
BBNI	5,025	5,600	1.1	11%	Hold	8.9	8.1	10.7	1.2	1.1	1.1
BBTN	1,260	1,580	0.7	25%	Buy	5.7	4.8	6.9	0.5	0.5	0.8
BRIS*	2,520	2,600	2.4	3%	Buy	17.3	15.6	16.1	2.6	2.3	2.2

Source: Bloomberg, Company, Indo Premier
*3Y avg

Share price closing as of: 08 August 2024

SECTOR RATINGS

- OVERWEIGHT** : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL** : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT** : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY RATINGS

- 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

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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