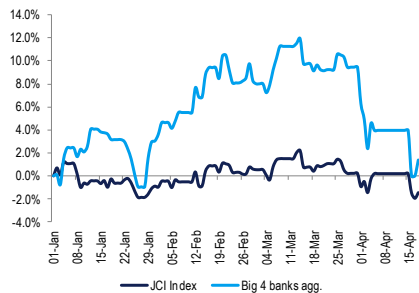


Sector Update | 19 April 2024

Sector Index Performance

	3M	6M	12M
Absolute	-2.2%	8.5%	11.7%
Relative to JCI	-1.7%	5.0%	6.6%



Summary Valuation Metrics

P/E (x)	2024F	2025F	2026F
BBCA IJ	21.4	19.4	17.9
BBRI IJ	12.3	10.9	9.7
BMRI IJ	10.1	9.0	8.1
P/BV (x)	2024F	2025F	2026F
BBCA IJ	4.6	4.2	3.9
BBRI IJ	2.5	2.4	2.2
BMRI IJ	2.0	1.8	1.6
Div. Yield	2024F	2025F	2026F
BBCA IJ	2.7%	3.1%	3.4%
BBRI IJ	5.6%	6.3%	7.0%
BMRI IJ	4.9%	5.6%	6.3%

Jovent Muliadi

PT Indo Premier Sekuritas
jovent.muliadi@ipc.co.id
+62 21 5088 7168 ext. 710

Anthony

PT Indo Premier Sekuritas
anthony@ipc.co.id
+62 21 5088 7168 ext. 715

A seasonal instead of structural correction; 1Q shall be the litmus test

- Big 4 banks have dropped 11% from its peak, this was similar to previous years (2018-2022) trend of -10 to -15% drop during Apr-May period.
- We think this was the combination of: 1) weak 2M24 results, 2) depreciating currency and 3) higher-for-longer rate expectation.
- We think this situation is quite similar to 2019 as: 1) election years, 2) currency depreciation and 3) earnings growth profile. We prefer to wait until 1Q shall there be any earnings downgrade but maintain OW.

Steep correction in the last one month

Big 4 banks have fallen by -11% (SOE was deeper at -14%) from its peak. The initial sell-off trigger was disappointing 2M24 results (especially for BBRI and BBNI - [link](#)), it was exacerbated by depreciation in Rupiah by 2% in the last month along with expectation of higher-for-longer US interest rate given the sticky inflation. However, we have kind of expected this correction following weak Jan24 results ([link](#)) and surprised that the flow continued to remain strong despite the weak set of results.

The correction pattern is keep repeating itself

The mid-year correction pattern has been recurred in the last 5 out of 6 years (except 2023 given the stellar earnings since 1Q23). The average correction during 2018-2022 was between -10 to -15% (Covid at -22%) from peak to trough and comparable to current sell-off at -11%. Hence we think this is just a seasonal recurring pattern and almost all the sell-off coincided with weaker currency. We think the assumption of continuous weakening in Rupiah is unwarranted given: 1) higher FX reserve level, 2) healthier current account deficit and 3) lower exposure on foreign ownership in government bond.

We think the current cycle is more similar to 2019

Our analysis suggest that the current cycle is quite similar to 2019 on 3 fronts: 1) both are election years, 2) currency depreciation (2019 Rupiah depreciated by 3% during the sell-off), 3) tight liquidity condition (LDR at 90% in 2019) and 4) similar earnings profile – the last point is really important to be highlighted as 2019 was the slowest banks' earnings growth in the last 6 years (excluding Covid) at only +8%. For 2024, we/consensus are expecting banks to generate +13/10% earnings growth vs. 2M24 growth of -2%, which we think shall be hard to achieve and thus, we think post 1Q results, we are going to see downgrade across big banks (especially SOE). We believe that overall consensus earnings will be downgrade by around 4-6%, also similar to 2019 downgrades of c.5%.

We continue to like BCA and BMRI but prefer to wait until 1Q results

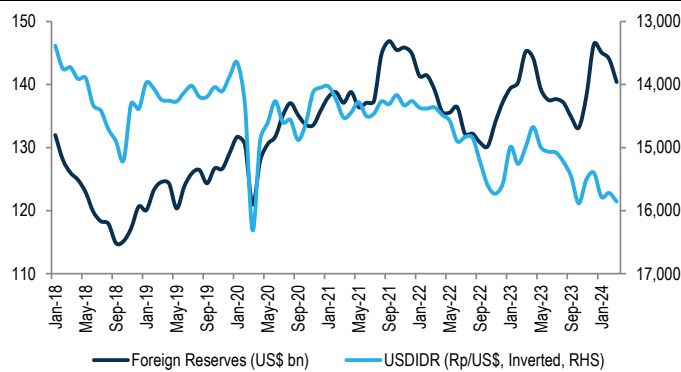
We don't think the current sell-off is structural – even we don't think spike in BRI credit costs to be structural factor, and instead we think this was a seasonal correction. However, we expect most banks (especially SOE, only BCA we expect to book relatively in-line results) will post relatively weaker 1Q results and thus, may be potentially followed by downgrades especially on NIM as all banks expect 50bp rate cut in 2H and to some extent CoC. We have liked BCA and BMRI since the beginning of the year despite differing from consensus given that liquidity was our biggest concern for this year. We continue to like both banks as we the results will be relatively better compared to its peers.

Fig. 1: Banks correction pattern has been recurring in the last 5 out of 6 years

Year	Period	Big 4 banks		Big 3 SOE banks	
		Peak to trough	# of trading days	Peak to trough	# of trading days
2024	Mar - Apr	-10.7%	16	-14.0%	18
2023	Apr - May	-3.2%	12	-1.9%	10
2022	Jun - Jun	-11.4%	5	-12.5%	5
2021	Apr - May	-9.7%	18	-10.8%	18
2020	Apr - May	-22.2%	27	-27.6%	27
2019	Apr - May	-11.4%	19	-13.6%	19
2018	Apr - May	-15.7%	27	-22.0%	22
Average		-12.0%	18	-14.6%	17

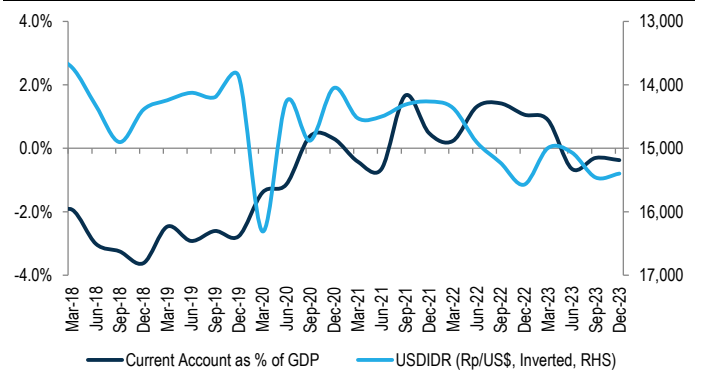
Source: Bloomberg, Indo Premier

Fig. 2: Foreign reserves vs. USDIDR – FX reserve is currently much better than 2019 level



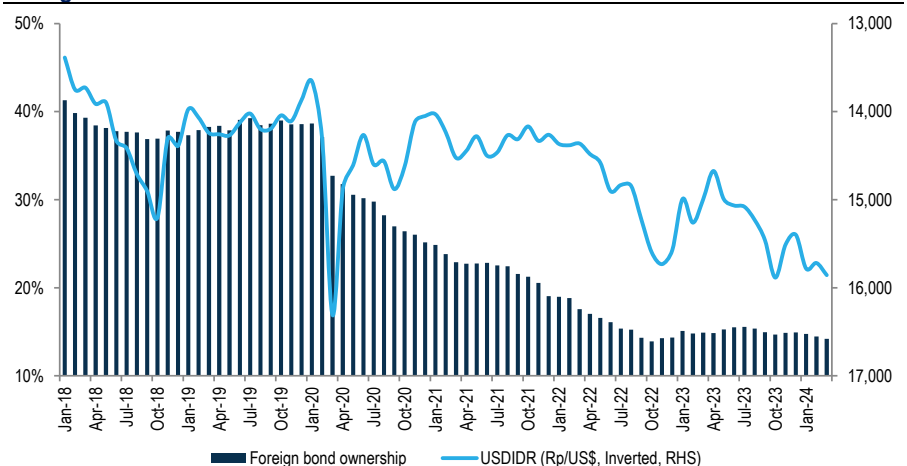
Source: CEIC, Bloomberg, Indo Premier

Fig. 3: CAD vs. USDIDR – current account deficit have also improved a lot since 2019



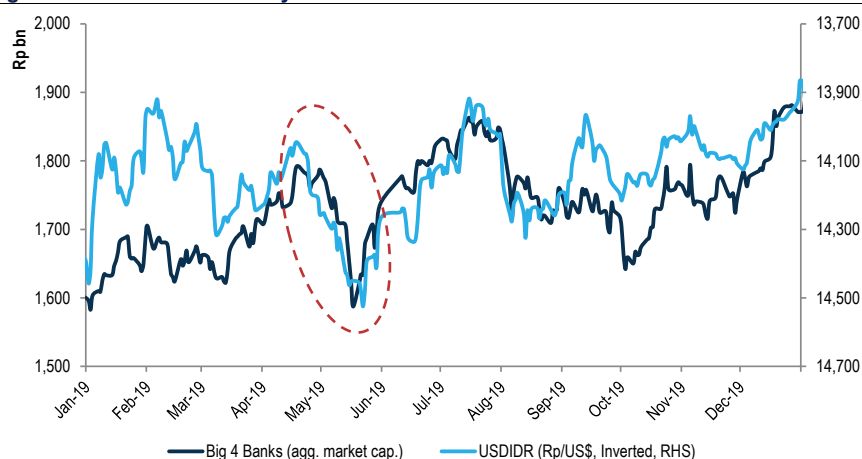
Source: CEIC, Bloomberg, Indo Premier

Fig. 4: Foreign bond ownership vs. USDIDR – low FX ownership on bonds also suggest manageable outflow



Source: Bloomberg, Indo Premier

Fig. 5: We think the current cycle is more similar to 2019



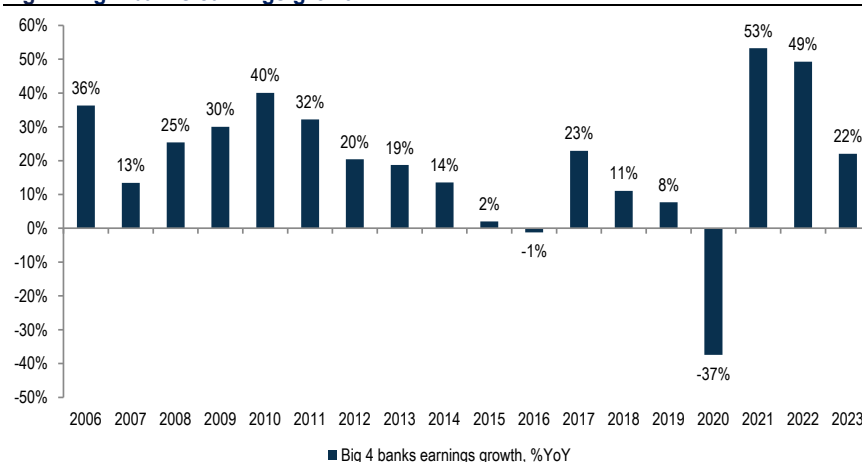
Source: Bloomberg, Indo Premier

Fig. 6: Big 4 banks (bank-only) LDR trend



Source: Company, Indo Premier

Fig. 7: Big 4 banks earnings growth



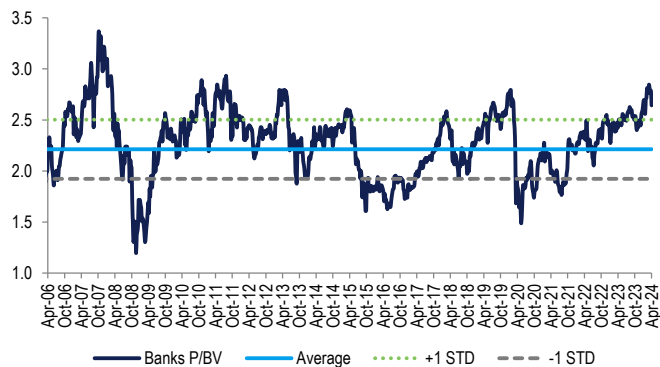
Source: Company, Indo Premier

Fig. 8: Consensus forecast on big 4 banks earnings in FY19

	FY18A	FY19A	%YoY	FY19F Cons				
				After FY18	After 1Q19	After 2Q19	After 3Q19	Before 4Q19
BBCA	25,851	28,566	11%	29,402	29,210	29,058	28,796	28,670
BBRI	32,351	34,372	6%	36,630	37,003	36,722	35,179	34,729
BMRI	25,015	27,482	10%	27,968	28,404	28,035	27,443	27,347
BBNI	15,015	15,384	2%	17,240	17,302	16,323	15,684	15,632
Total	98,232	105,805	8%	111,240	111,919	110,138	107,102	106,378
% downgrade from initial forecast					1%	-1%	-4%	-4%

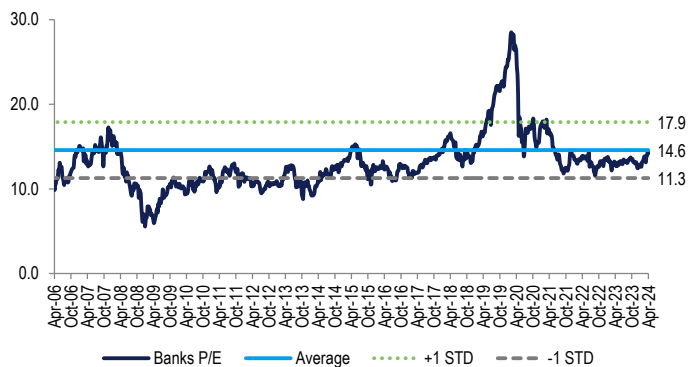
Source: Bloomberg, Company, Indo Premier

Fig. 9: Banks' forward P/BV – now trading at 2.6x FY24F P/BV vs. 10-year average of 2.2x P/B



Source: Bloomberg, Company, Indo Premier

Fig. 10: Banks' forward P/E – now trading at 13.6x FY24F P/E vs. 10-year average of 14.6x P/E



Source: Bloomberg, Company, Indo Premier

Fig. 11: 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
BBCA	9,475	10,400	4.7	10%	Buy	21.4	19.4	20.8	4.6	4.2	3.8
BBRI	5,475	6,500	2.9	19%	Buy	12.3	10.9	14.7	2.5	2.4	2.4
BMRI	6,800	8,000	2.4	18%	Buy	10.1	9.0	11.8	2.0	1.8	1.6
BBNI	5,300	6,000	1.2	13%	Buy	8.5	7.8	10.7	1.2	1.1	1.1
BBTN	1,420	1,750	0.7	23%	Buy	5.1	4.7	7.0	0.6	0.5	0.8
BRIS*	2,600	2,600	2.4	0%	Buy	17.9	16.1	16.0	2.7	2.4	2.2

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

Share price closing as of: 18 April 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

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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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