

9 February 2021

Financial Services | Banks

## Bank Central Asia (BBCA IJ)

**Neutral** (from Buy)

### Pricing In Lower Funding Costs; D/G To NEUTRAL

- **Downgrade to NEUTRAL from Buy, IDR38,000 TP, 10% upside with c.1% FY21F yield.** Bank Central Asia's FY20 results are in line with our and above Street projections, at 99% and 108% of full-year estimates. 4Q20 earnings of IDR7trn (-9% QoQ, -7.2% YoY) took FY20 net profit to IDR27trn (-5% YoY). Loans dropped 2.5% YoY but NII still rose 7.3% on hefty funding cost savings. FY20 PPOP grew by a decent 11% YoY. However, the bank's lower NIM and modest loan growth expectations point to a toned-down outlook for FY21.
- **Topline grew despite management's efforts to conservatively manage its portfolio by disbursing less loans.** FY20 NII still grew by 7.3% YoY to IDR54trn, due to savings in funding costs. As a result, NIM slipped to 5.7% in 4Q20, from 5.8% in 9M20 – although this number beat the Street estimate. Management also expects NIM to fall to 5.1-5.4% in 2021, expecting lower yields from its current restructured loans. Of these, some would be restructured again (10-15%), or downgraded to NPL (4-6%). Meanwhile, BBCA's CoF is likely to bottom (being already at the bottom range of its funding cost guidance). Nevertheless, combined with an opex cut of 4.6%, FY20 PPOP still grew by 11.1% YoY to IDR45trn. We expect opex to tick up moderately in FY21, as BBCA should be investing more in digital and marketing efforts to grow its presence in this competitive environment.
- **Loan growth likely to recover, but not by much.** After loans contracted by 2.5% YoY to IDR588trn in FY20, due to slow demand and tight disbursement in small and medium enterprise (SME) and consumer loans, management now expects FY20 loan growth to recover to 4-6% YoY. The main driver should still be corporate loans, which still grew by 7% YoY last year, while SME and consumer loans declined by 7% and 10% YoY. Management noted that greater mobility is needed before businesses and loan demand can return to normal.
- **Restructured loans gradually decreased, while NPL grew moderately.** After restructuring loans worth c.IDR85trn last year (due to the pandemic), this took total restructured loans to IDR97.5trn (at 17% of total loans – the lowest among the big-4 banks). BBCA expects 30-35% of its restructured loans to be repaid, 10-15% to be restructured again, and a loss rate of 4-6%. This implies NPL should rise moderately to 2.4-2.7%. On top of its current restructured loans, management also still expects the bank's restructured loans to rise by a further IDR2-4trn this year.
- **Tweaking estimates from the FY21 guidance.** After imputing its new guidance of single-digit loan growth, 5.1-5.4% in NIM, and 1.3-1.4% in CoC for this year, we trim our NII and earnings estimates by 4% and 9%. Cut to NEUTRAL for now. We will monitor the progress of its restructured loan repayments, as well as its revenue growth in 1Q21.

Target Price (Return): IDR38,000 (+10%)  
 Price: IDR34,600  
 Market Cap: USD60,920m  
 Avg Daily Turnover (IDR/USD) 632,253m/44.9m

#### Analysts

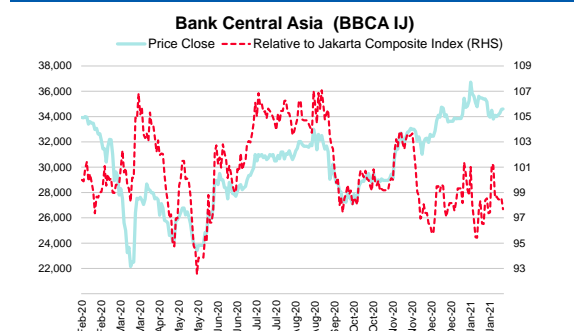
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.2	(1.9)	9.8	12.0	2.4
Relative	(1.6)	(1.1)	(6.6)	(8.7)	(1.1)
52-wk Price low/high (IDR)	22,150 – 36,725				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Reported net profit (IDRm)	28,565,053	27,131,109	27,600,754	31,122,462	34,720,923
Net profit growth (%)	10.5	(5.0)	1.7	12.8	11.6
Recurring net profit (IDRm)	28,565,053	27,334,849	27,600,754	31,122,462	34,720,923
Recurring EPS (IDR)	1,158.59	1,108.69	1,119.48	1,262.32	1,408.27
BVPS (IDR)	7,059.13	7,487.17	8,479.08	9,309.28	10,230.66
DPS (IDR)	355.00	553.00	440.17	447.79	504.93
Recurring P/E (x)	29.86	31.21	30.91	27.41	24.57
P/B (x)	4.90	4.62	4.08	3.72	3.38
Dividend Yield (%)	1.0	1.6	1.3	1.3	1.5
Return on average equity (%)	17.5	15.1	14.0	14.2	14.4

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (IDR)</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Indonesia	EPS	1,158.59	1,100.43	1,119.48	1,262.32	1,408.27
Financial Services	Recurring EPS	1,158.59	1,108.69	1,119.48	1,262.32	1,408.27
<b>Bank Central Asia</b>	DPS	355.00	553.00	440.17	447.79	504.93
BBCA IJ	BVPS	7,059.13	7,487.17	8,479.08	9,309.28	10,230.66
Neutral						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
GGM-backed P/BV	Recurring P/E (x)	29.86	31.21	30.91	27.41	24.57
	P/B (x)	4.9	4.6	4.1	3.7	3.4
	Dividend Yield (%)	1.0	1.6	1.3	1.3	1.5
<b>Key drivers</b>	<b>Income statement (IDRm)</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
i. Better-than-expected loan growth;	Interest income	64,351,925	65,875,355	64,153,882	69,513,989	75,751,461
ii. Wider-than-estimated NIM;	Interest expense	(13,528,031)	(11,328,697)	(11,691,930)	(14,713,552)	(16,101,912)
iii. Lower-than-expected credit cost due to better asset quality.	<b>Net interest income</b>	<b>50,823,894</b>	<b>54,546,658</b>	<b>52,461,951</b>	<b>54,800,437</b>	<b>59,649,549</b>
	Non interest income	20,799,783	20,210,061	21,634,621	23,107,152	25,417,867
	<b>Total operating income</b>	<b>71,623,677</b>	<b>74,756,719</b>	<b>74,096,573</b>	<b>77,907,589</b>	<b>85,067,416</b>
	Overheads	(30,743,336)	(29,336,803)	(31,239,210)	(33,265,715)	(35,424,461)
	<b>Pre-provision operating profit</b>	<b>40,880,341</b>	<b>45,419,916</b>	<b>42,857,363</b>	<b>44,641,875</b>	<b>49,642,955</b>
	Loan impairment allowances	(4,591,343)	(11,599,476)	(7,916,177)	(5,242,996)	(5,689,057)
	Other exceptional items	-	(512,697)	-	-	-
	<b>Pre-tax profit</b>	<b>36,288,998</b>	<b>33,568,507</b>	<b>34,941,186</b>	<b>39,398,879</b>	<b>43,953,899</b>
	Taxation	(7,719,024)	(6,421,398)	(7,322,832)	(8,257,057)	(9,211,679)
	Minority interests	(4,921)	(16,000)	(17,600)	(19,360)	(21,296)
	<b>Reported net profit</b>	<b>28,565,053</b>	<b>27,131,109</b>	<b>27,600,754</b>	<b>31,122,462</b>	<b>34,720,923</b>
	<b>Recurring net profit</b>	<b>28,565,053</b>	<b>27,334,849</b>	<b>27,600,754</b>	<b>31,122,462</b>	<b>34,720,923</b>
<b>Key risks</b>	<b>Profitability ratios</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
i. Lower-than-expected GDP growth that could slow down loan growth;	Return on average assets (%)	3.3	2.7	2.4	2.5	2.5
ii. NIM pressure from competition;	Return on average equity (%)	17.5	15.1	14.0	14.2	14.4
iii. Worsening asset quality.	Return on IEAs (%)	7.8	7.7	7.5	7.6	7.7
	Cost of funds (%)	1.9	1.4	1.2	1.4	1.4
	Net interest spread (%)	5.9	6.4	6.2	6.2	6.3
	Net interest margin (%)	6.2	6.4	6.1	6.0	6.1
	Non-interest income / total income (%)	29.0	27.0	29.2	29.7	29.9
	Cost to income ratio (%)	42.9	39.2	42.2	42.7	41.6
	Credit cost (bps)	81.6	198.3	130.6	80.0	80.0
<b>Company Profile</b>	<b>Balance sheet (IDRm)</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Bank Central Asia is Indonesia's third largest bank by asset, and the leading consumer bank due to its unrivalled transactional banking franchise.	Total gross loans	676,708,938	669,912,952	723,752,463	784,450,059	852,750,525
	Other interest earning assets	281,583,216	248,934,752	257,559,361	266,972,490	277,249,294
	Total gross IEAs	868,522,799	831,936,600	886,760,733	948,520,028	1,017,965,910
	Total provisions	(15,768,732)	(28,562,638)	(24,503,282)	(25,654,483)	(26,997,598)
	Net loans to customers	572,033,999	555,088,397	605,347,277	656,542,241	714,368,205
	Total net IEAs	852,754,067	803,373,962	862,257,451	922,865,545	990,968,312
	Total non-IEAs	66,235,245	272,196,034	334,646,843	402,048,818	476,051,398
	Total assets	918,989,312	1,075,569,996	1,196,904,294	1,324,914,362	1,467,019,710
	Customer deposits	698,980,068	840,752,000	933,108,020	1,035,693,340	1,149,650,135
	Other interest-bearing liabilities	45,866,088	50,221,666	54,744,567	59,700,538	65,132,544
	Total IBLs	744,846,156	890,973,666	987,852,587	1,095,393,879	1,214,782,679
	Total liabilities	744,846,156	890,973,666	987,852,587	1,095,393,879	1,214,782,679
	Share capital	7,089,915	7,089,915	7,089,915	7,089,915	7,089,915
	Shareholders' equity	174,042,931	184,596,326	209,051,707	229,520,483	252,237,030
	Minority interests	100,225	-	-	-	-
	<b>Asset quality and capital</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Reported NPLs / gross cust loans (%)	1.4	1.5	1.8	1.6	1.6
	Total provisions / reported NPLs (%)	190.9	0.0	0.0	0.0	0.0
	CET-1 ratio (%)	23.5	25.9	29.6	30.0	30.4
	Tier-1 ratio (%)	23.5	25.9	29.6	30.0	30.4
	Total capital ratio (%)	24.4	26.9	30.6	31.0	31.4

Source: Company data, RHB

Figure 1: 4Q20 results review

INCOME STATEMENT (IDRbn)	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY	% of RHB	% of Cons.
Net Interest Income	13,393	13,555	13,744	1.4%	2.6%	50,824	54,547	7.3%		
Non-Interest Income	5,793	4,560	5,119	12.3%	-11.6%	20,800	20,210	-2.8%		
Total Operating Income	19,186	18,115	18,863	4.1%	-1.7%	71,624	74,757	4.4%		
Operating Expense	8,137	5,839	7,250	24.2%	-10.9%	30,744	29,337	-4.6%		
PPOP	11,049	12,276	11,613	-5.4%	5.1%	40,880	45,420	11.1%		
Provision Expense	1,094	2,588	2,471	-4.5%	125.9%	4,591	11,600	152.7%		
Pre-Tax Profit	9,955	9,688	9,142	-5.6%	-8.2%	36,289	33,820	-6.8%		
Net Profit	7,644	7,795	7,096	-9.0%	-7.2%	28,565	27,131	-5.0%	99%	108%
BALANCE SHEET (IDRbn)	FY19	9M20	FY20	QoQ	YoY	FY19	FY20	YoY		
Loan	603,743	581,851	588,672	1.2%	-2.5%	603,743	588,672	-2.5%		
Deposit	704,791	780,678	840,752	7.7%	19.3%	704,791	840,752	19.3%		
CASA	532,013	596,558	643,862	7.9%	21.0%	532,013	643,862	21.0%		
Time Deposits	172,778	184,120	196,890	6.9%	14.0%	172,778	196,890	14.0%		
RATIOS	FY19	9M20	FY20			FY19	FY20			
ROAE (%)	18.0%	16.9%	16.5%			18.0%	16.5%			
NIM (%)	6.2%	5.8%	5.7%			6.2%	5.7%			
CoC (%)	0.8%	2.1%	1.9%			0.8%	1.9%			
CASA (%)	75.5%	76.4%	76.6%			75.5%	76.6%			
LDR (%)	85.7%	74.5%	70.0%			85.7%	70.0%			
CIR (%)	42.9%	39.5%	39.2%			42.9%	39.2%			
NPL (%)	1.3%	1.9%	1.8%			1.3%	1.8%			
CAR (%)	23.8%	24.7%	25.8%			23.8%	25.8%			
Coverage (%)	189.2%	243.5%	260.9%			189.2%	260.9%			

Source: Company data, RHB

Figure 2: Changes to our estimates

	RHB (Prior)		RHB (New)		Change (%)	
	2021E	2022E	2021E	2022E	2021E	2022E
Net Interest Income	54,759	50,477	52,462	54,800	-4%	9%
Operating Income	78,673	71,622	74,097	77,908	-6%	9%
PPOP	46,936	40,860	42,857	44,642	-9%	9%
Provision	8,736	4,738	7,916	5,243	-9%	11%
Net Income	30,188	29,062	27,601	31,122	-9%	7%
Loans	632,695	590,230	629,201	681,548	-1%	15%
Loans Growth	2.8%	-3.5%	6.9%	8.3%		
EPS	1,224	1,180	1,119	1,262	-9%	7%
EPS Growth	10.7%	12.5%	1.7%	12.8%		
BVPS	8,413	7,059	8,479	9,309	1%	32%
DPS	387	401	440	448	14%	12%
ROE	15.3%	18.0%	14.0%	14.2%	-8%	-21%

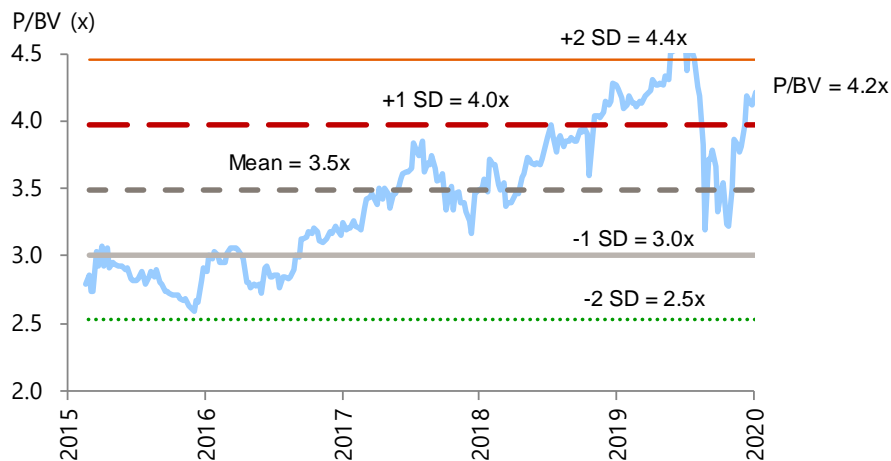
Source: RHB

Figure 3: RHB vs Street estimates

	RHB		Consensus		RHB/Cons	
	2021E	2022E	2021E	2022E	2021E	2022E
Net Interest Income	52,462	54,800	57,026	62,551	92%	88%
Operating Income	74,097	77,908	89,688	102,574	83%	76%
PPOP	42,857	44,642	40,735	48,393	105%	92%
Provision	7,916	5,243	9,777	7,511	81%	70%
Net Income	27,601	31,122	25,138	30,974	110%	100%
Loans	629,201	681,548	577,472	627,901	109%	109%
Loans Growth	6.9%	8.3%	-1.2%	8.7%		
EPS	1,119	1,262	1,011	1,249	111%	101%
EPS Growth	1.7%	12.8%	3.5%	23.5%		
BVPS	8,479	9,309	7,399	8,232	115%	113%
DPS	440	448	464	468	95%	96%
ROE	14.0%	14.2%	14.0%	15.9%	100%	89%

Source: RHB

Figure 4: BBKA's discount to P/BV band



Source: RHB

Figure 5: GGM valuation

Cost of equity calculation		Sustainable ROE (%)	14.2%
Risk free rate (%)	6.5%	COE (%)	7.0%
Equity premium (%)	0.5%	Long-term growth (g)	5.0%
Beta (x)	1.1	Implied P/BV (x)	4.5
Cost of equity; COE (CAPM)	7.0%	FY21F BVPS	8,479
		<b>TP (IDR/share)</b>	<b>38,000</b>

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-02	Buy	38,000	32,250
2020-07-28	Neutral	33,500	30,925
2020-05-28	Buy	31,900	26,475
2020-04-16	Buy	32,500	26,200
2020-03-10	Buy	36,000	29,625
2019-09-17	Buy	40,000	30,150
2019-07-25	Neutral	32,500	31,250
2019-04-08	Neutral	28,400	27,575
2018-10-26	Neutral	23,700	23,600
2018-07-27	Neutral	na	23,225

Source: RHB, Bloomberg

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