

15 March 2024

Financial Services | Banks

**Bank Neo Commerce (BBYB IJ)****Trading Buy (Maintained)****Performance Should Improve This Year**

Target Price (Return): IDR360 (+34%)  
 Price (Market Cap): IDR268 (USD206m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (IDR/USD) 35,684m/2.20m

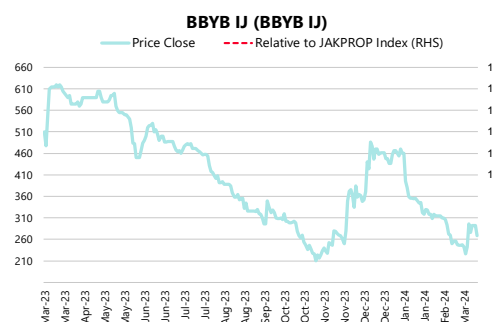
- **Maintain BUY, GGM-based TP drops to IDR360 from IDR400, 34% upside.** Our TP also implies 1.3x FY24-25F P/BV. Bank Neo Commerce should book a stronger performance in FY24, premised on improved loan growth and its emphasis on product diversification. It also aims to be in the black this year, following positive data chalked in Jan 2024. While it continued to be in the red in FY23, that year marked a major improvement from its 2022 performance – so we revise our earnings estimates accordingly as well. The stock is trading at 1.0x and 0.9x FY24-25F P/BV, ie significantly lower than the peer average.
- **Expect a better performance in 2024.** The bank aims to reduce its CIR while increasing profitability. Note that its earnings for January were positive, at IDR5.3bn. Key areas of expansion include the launch of the Lazada cash loan feature as part of BBYB's continued ecosystem, as well as a focus on loan products such as Neo Loan, MSME Loan, and Commercial Innovative Loans. This strategic move is in line with its objective to diversify revenue streams and meet the changing needs of customers.
- **Akulaku Finance Indonesia (AFI) is returning to operation.** In end-February, the Financial Services Authority (OJK) revoked its business activity restriction penalties on AFI, which runs the Buy Now Pay Later (BNPL) programme. This should benefit BBYB because, as of Dec 2023, 46% of its total loans were from either AFI or Akulaku Silvr Indonesia (ASI) – of which yields are higher than that of BBYB's own standard loans.
- **Significant improvement in 4Q23.** BBYB's PPOP rose to IDR805bn (+54.2% QoQ, +248.5% YoY), while provision expenses ticked up to IDR813bn (+6.6% QoQ, +96.3% YoY). 4Q23 net loss was IDR7bn, down from IDR239bn in 3Q23. BBYB still booked a net loss of IDR573bn in FY23, but it was significantly better than in 2022, when it recorded net loss IDR789bn. This is better than our and consensus expectations. Its stronger FY23 results were driven by a 86% YoY surge in operating income and a 16% YoY drop in opex.
- **Revisited earnings estimates, TP.** We revise our FY24F and FY25F earnings to -IDR70bn and IDR207bn, from -IDR76bn and IDR841bn. We also raised loan growth estimates, but expect BBYB's CoC to be higher than previously estimated. As a result, our GGM-based TP decreases to IDR360, which also implies 1.3x FY24-25F P/BV. BBYB is trading at 1.0x and 0.9x FY24-25F P/BV, which is lower than its peers' 4.4x FY24F P/BV (for Bank Jago (ARTO IJ, NR)) and 5.6x FY24F P/BV (for Bank Aladin (BANK IJ, NR)).

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**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	(38.5)	(13.6)	(36.8)	(15.7)	(54.2)
Relative	(38.5)	(13.6)	(36.8)	(15.7)	(54.2)
52-wk Price low/high (IDR)	210 – 620				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	(786)	(573)	(70)	207	463
Net profit growth (%)	(20.1)	(27.1)	(87.8)	-	123.6
Recurring net profit (IDRb)	(786)	(574)	(71)	206	462
Recurring EPS (IDR)	(89.96)	(56.99)	(6.21)	17.13	38.39
BVPS (IDR)	397.42	304.47	265.67	283.02	321.64
DPS (IDR)	na	na	na	na	na
Recurring P/E (x)	na	na	na	15.65	6.98
P/B (x)	0.67	0.88	1.01	0.95	0.83
Dividend Yield (%)	na	na	na	na	na
Return on average equity (%)	(23.9)	(16.3)	(2.2)	6.3	12.7

Source: Company data, RHB

**Overall ESG Score: 3.0 (out of 4)****E: GOOD**

BBYB applies the principle of being responsible to society and the environment. It continues to carry out corporate social responsibility activities related to sustainable development.

**S: GOOD**

During the COVID-19 pandemic, the company provided personal protective equipment to healthcare frontliners. More importantly, it maintains a healthy and safe working environment for its employees.

**G: GOOD**

The bank is categorised as a Rank 3 company, ie "quite good" in good corporate governance. Weaknesses would stem from potential risks associated with the execution of its business plans and guidance from management.

**Note:**

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (IDR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Indonesia	EPS	(90.07)	(56.89)	(6.13)	17.20	38.47
Financial Services	Recurring EPS	(89.96)	(56.99)	(6.21)	17.13	38.39
<b>Bank Neo Commerce</b>	BVPS	397.42	304.47	265.67	283.02	321.64
BBYB IJ						
Trading Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
GGM with beta of 1.83x, risk premium of 4.5%, risk-free rate of 6.3%, and sustainable ROE of 15%.	Recurring P/E (x)	na	na	na	15.65	6.98
	P/B (x)	0.7	0.9	1.0	0.9	0.8
	Dividend Yield (%)	na	na	na	na	na
<b>Key drivers</b>	<b>Income statement (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Rapid user growth;	Interest income	2,162	3,847	4,092	5,241	6,779
ii. Release of digital lending products;	Interest expense	(714)	(945)	(961)	(1,042)	(1,142)
iii. Additional transactional features.	<b>Net interest income</b>	<b>1,448</b>	<b>2,902</b>	<b>3,132</b>	<b>4,198</b>	<b>5,637</b>
	Non interest income	455	637	577	547	540
	<b>Total operating income</b>	<b>1,903</b>	<b>3,540</b>	<b>3,709</b>	<b>4,746</b>	<b>6,177</b>
	Overheads	(1,616)	(1,353)	(1,291)	(1,286)	(1,330)
	<b>Pre-provision operating profit</b>	<b>287</b>	<b>2,187</b>	<b>2,418</b>	<b>3,459</b>	<b>4,846</b>
	Loan impairment allowances	(963)	(2,665)	(2,457)	(3,185)	(4,280)
	Other impairment allowances	(106)	(97)	(39)	(45)	(53)
	Other exceptional items	(1)	1	1	1	1
	<b>Pre-tax profit</b>	<b>(783)</b>	<b>(574)</b>	<b>(78)</b>	<b>230</b>	<b>515</b>
	Taxation	(3)	1	8	(23)	(51)
	<b>Reported net profit</b>	<b>(786)</b>	<b>(573)</b>	<b>(70)</b>	<b>207</b>	<b>463</b>
	<b>Recurring net profit</b>	<b>(786)</b>	<b>(574)</b>	<b>(71)</b>	<b>206</b>	<b>462</b>
<b>Key risks</b>	<b>Profitability ratios</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Limited low-cost funding that may impact fund-raising capabilities;	Return on average assets (%)	(5.1)	(3.0)	(0.4)	1.0	2.2
ii. NPLs likely to rise from digital lending products.	Return on average equity (%)	(23.9)	(16.3)	(2.2)	6.3	12.7
	Return on IEAs (%)	15.3	21.6	23.0	27.7	33.1
	Cost of funds (%)	6.1	6.5	6.6	6.7	6.8
	Net interest spread (%)	9.2	15.1	16.3	21.0	26.4
	Net interest margin (%)	10.2	16.3	17.6	22.2	27.5
	Non-interest income / total income (%)	23.9	18.0	15.6	11.5	8.7
	Cost to income ratio (%)	84.9	38.2	34.8	27.1	21.5
	Credit cost (bps)	1,327	2,535	2,000	2,000	2,000
<b>Company Profile</b>	<b>Balance sheet (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Bank Neo Commerce was founded in 1989 as Bank Yudha Bhakti by the Ministry of Defence. Its shares were then acquired by Akulaku Silvr through a capital increase without pre-emptive rights. It began its transformation into a digital bank in 2019.	Total gross loans	10,244	10,783	13,791	18,059	24,736
	Other interest earning assets	8,059	6,545	4,508	1,445	(3,293)
	Total gross IEAs	18,303	17,328	18,300	19,505	21,443
	Total provisions	(211)	(625)	(807)	(1,013)	(1,211)
	Net loans to customers	10,034	10,158	12,984	17,047	23,525
	Total net IEAs	18,093	16,702	17,492	18,492	20,232
	Total non-IEAs	1,601	1,467	1,686	1,938	2,228
	Total assets	19,694	18,170	19,179	20,430	22,461
	Customer deposits	14,450	13,872	14,998	16,087	17,696
	Other interest-bearing liabilities	873	25	24	22	21
	Total IBLs	15,324	13,897	15,022	16,109	17,717
	Total non-IBLs	626	949	902	857	814
	Total liabilities	15,950	14,847	15,924	16,966	18,531
	Share capital	5,469	5,563	5,563	5,563	5,563
	Shareholders' equity	3,744	3,267	3,198	3,407	3,872
	<b>Asset quality and capital</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Reported NPLs / gross cust loans (%)	2.6	3.7	3.7	3.7	3.7
	Total provisions / reported NPLs (%)	321.3	364.8	442.2	0.0	0.0
	CET-1 ratio (%)	9.5	10.5	8.3	6.3	4.7
	Tier-1 ratio (%)	35.5	49.3	33.6	27.0	21.6
	Total capital ratio (%)	35.5	49.3	33.6	27.0	21.6

Source: Company data, RHB

Figure 1: Highlights of BBYB's results – 4Q23 net loss totalled IDR7bn vs IDR239bn in 3Q23

<u>INCOME STATEMENT</u> (IDRbn)	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	YoY	FY23/ RHB	FY23/ Cons.
Net Interest Income	459	810	871	7.5%	89.8%	1,449	2,902	100.3%	129%	N/A
Non-Interest Income	143	236	209	-11.4%	46.2%	455	637	40.0%		
Total Operating Income	602	1,047	1,081	3.2%	79.6%	1,904	3,540	85.9%	134%	112%
Operating Expense	371	525	275	-47.6%	-25.9%	1,616	1,353	-16.3%		
PPOP	231	522	805	54.2%	248.5%	805	2,187	171.7%		
Provision Expense	420	763	813	6.6%	93.6%	813	2,762	239.7%		
Operating Profit	(189)	(241)	(7)	-97.1%	96.3%	(785)	(575)	N/A	74%	N/A
Net Profit	(188)	(239)	(7)	-97.1%	96.3%	(789)	(573)	N/A		
<u>BALANCE SHEET</u> (IDRbn)	4Q22	9M23	4Q23	QoQ	YoY					
Loan	10,244	10,965	10,783	-1.7%	5.3%					
Deposit	14,523	15,304	15,229	-0.5%	4.9%					
CASA	4,129	4,139	3,995	-3.5%	-3.2%					
Time Deposits	10,322	11,165	9,878	-11.5%	-4.3%					
<u>RATIOS</u>	FY22	9M23	FY23							
ROAE (%)	-24.2%	-22.6%	-17.6%							
NIM (%)	13.8%	17.3%	18.4%							
CoC (%)	2.4%	6.7%	7.6%							
CASA (%)	28.9%	27.0%	28.8%							
LDR (%)	70.5%	71.6%	77.7%							
CIR (%)	83.8%	78.0%	105.4%							
NPL (%)	2.6%	3.9%	3.7%							
CAR (%)	37.0%	26.3%	27.9%							
Coverage (%)	82.0%	133.3%	165.0%							

Source: Company data, RHB

Figure 2: Revisions to our forecasts

	Previous			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Net Interest Income	2,836	3,441	N/A	3,132	4,198	5,637	10.4%	22.0%	N/A
Operating Income	3,243	3,860	N/A	3,709	4,746	6,177	14.4%	22.9%	N/A
PPOP	1,957	2,591	N/A	2,418	3,459	4,846	23.5%	33.5%	N/A
Provision	1,286	1,269	N/A	2,418	3,459	4,846	88.0%	172.6%	N/A
Net Income	-76	841	N/A	-70	207	463	-8.2%	-75.4%	N/A
Loans	14,005	16,451	N/A	13,791	18,059	24,736	-1.5%	9.8%	N/A
EPS	-7	70	N/A	-6	17	38	-14.1%	-75.5%	N/A
EPS Growth	N/A	N/A	N/A	N/A	N/A	123.6%			
BVPS	242	313	N/A	270	288	326	11.6%	-7.9%	N/A
ROE	-2.6%	25.4%	N/A	-2.1%	6.2%	12.5%	-18.4%	-75.7%	N/A

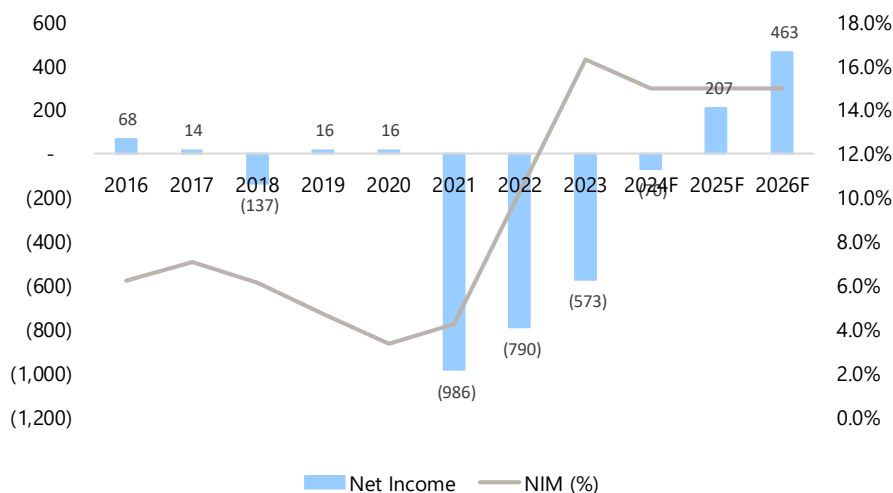
Source: Company data, RHB

Figure 3: RHB vs Street estimates

	RHB			Consensus			RHB vs Consensus		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Net Interest Income	3,132	4,198	5,637	3,840	4,548	5,112	-18.4%	-7.7%	10.3%
Net Income	-70	207	463	-13	267	354	434.9%	-22.3%	31.0%
EPS	-6	17	38	1	21	29	-843.3%	-19.2%	31.1%
BVPS	270	288	326	273	300	329	-0.8%	-3.9%	-0.7%

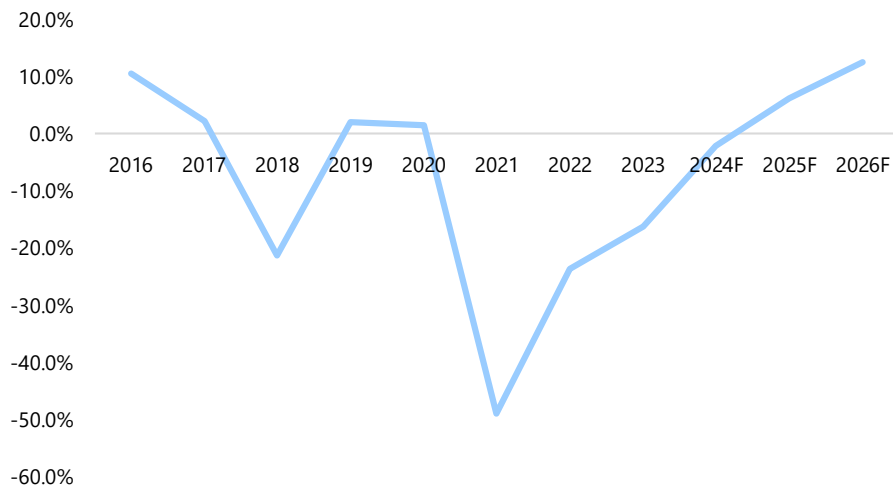
Source: Company data, RHB

Figure 4: Net income and NIM trend (2016-2026F)



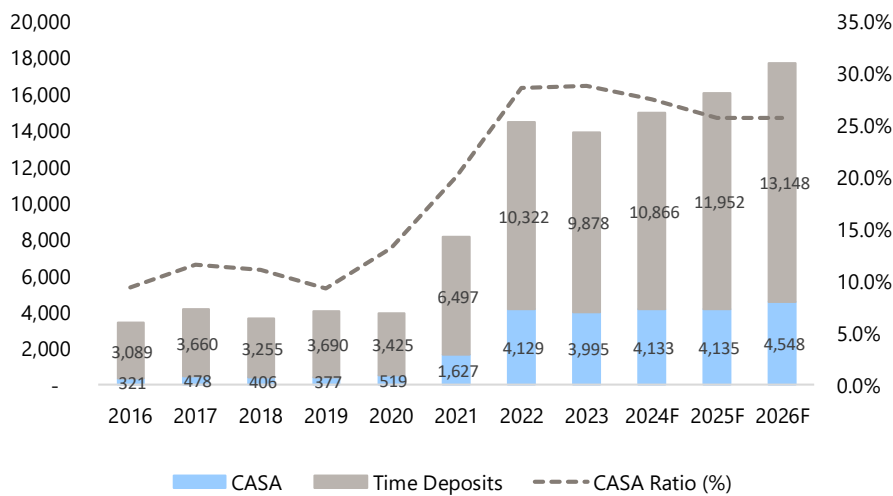
Source: Company data, RHB

Figure 5: ROE trend (%) for 2016-2026F



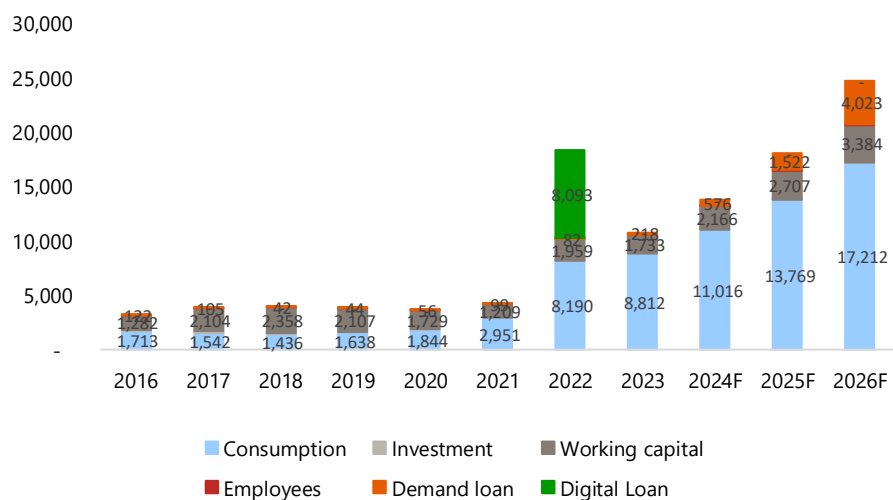
Source: Company data, RHB

Figure 6: Total deposits (IDRbn)



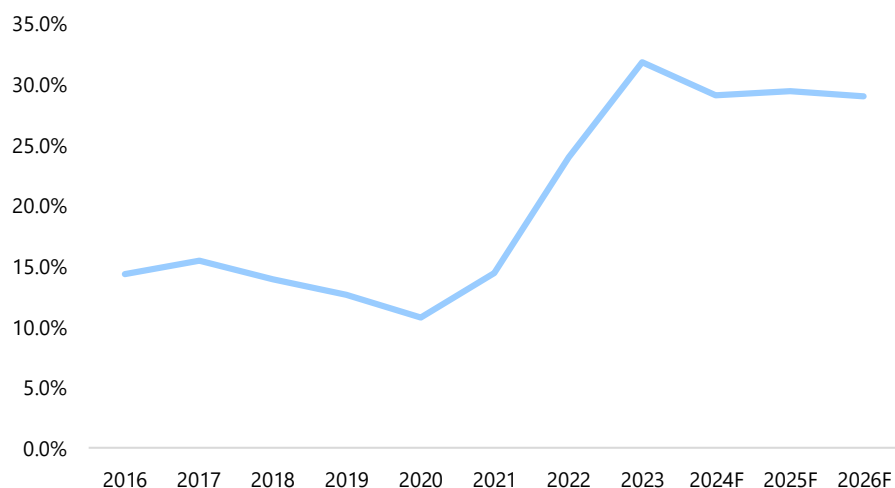
Source: Company data

Figure 7: Breakdown of loans by type (IDRbn)



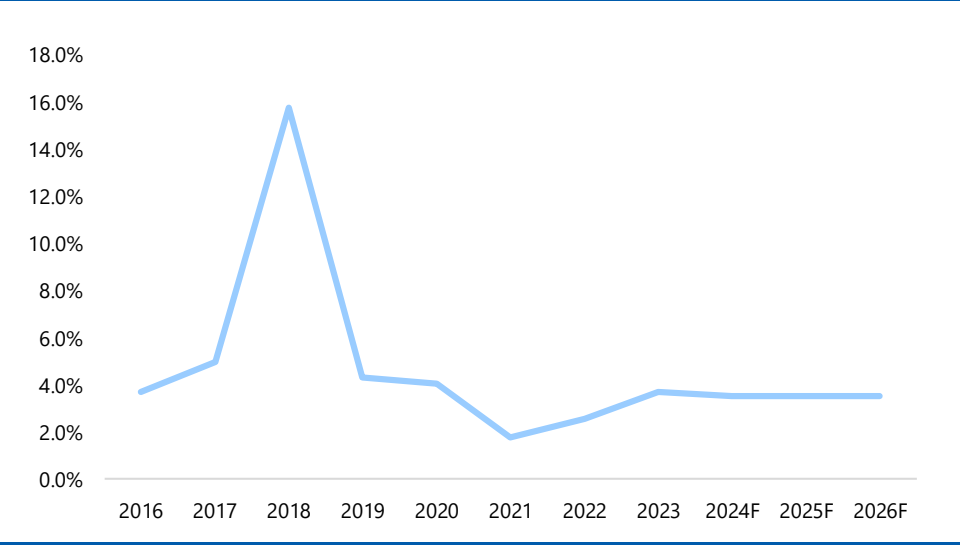
Source: Company data

Figure 8: BBYB's loan yield trend (%) for 2016-2026F



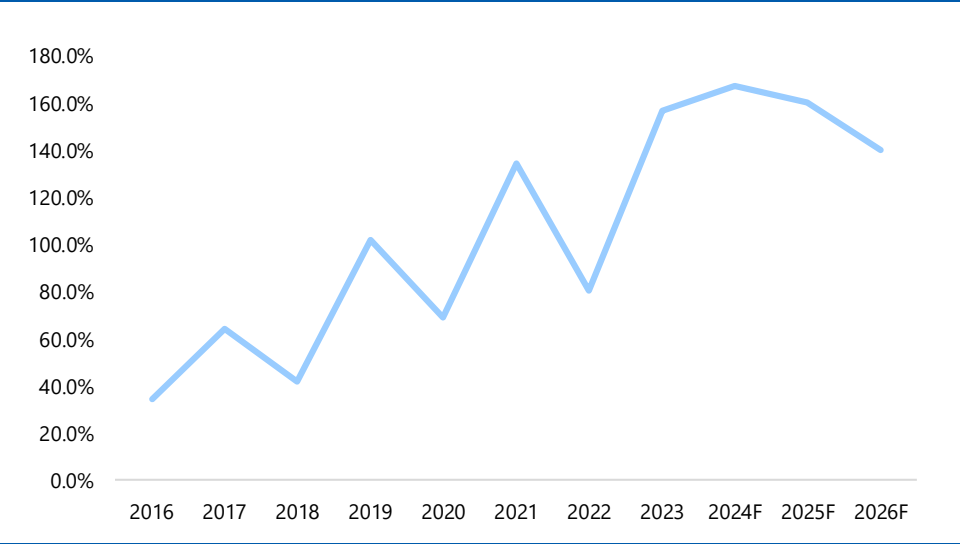
Source: Company data, RHB

Figure 9: BBYB's NPL trend (%) for 2016-2026F



Source: Company data, RHB

Figure 10: NPL coverage (%)



Source: Company data, RHB

Figure 11: GGM-derived TP for BBYB

Risk premium	4.5%										
Risk free rate	6.3%										
Beta	1.83										
CoE	14.6%										
Payout ratio	45.0%										
Sustainable ROE	15.0%										
Sustainable growth, g	5.0%										
	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
	0	1	2	3	4	5	6	7	8	9	10
DPS (IDR/share)	-	-	-	-	15	6	16	30	45	63	99
Discount factor (x)	1.00	0.87	0.76	0.66	0.58	0.51	0.44	0.39	0.34	0.29	0.26
NPV of dividends	90										
Terminal value	1,084										
NPV of terminal value	278										
Fair value	360										
ESG Premium (Discount)	-										
Target Price	360										

Source: Company data, RHB



## Emissions And ESG

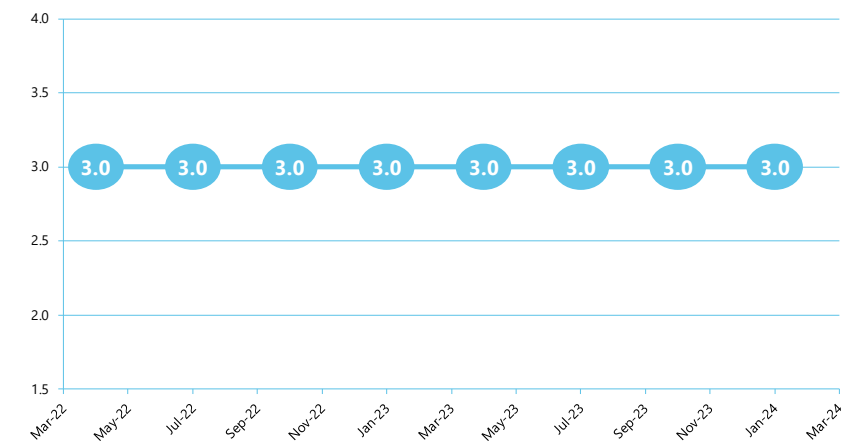
Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
N/A	Scope 1	na	na	na
	Scope 2	na	na	na
	Scope 3	na	na	na
	Total emissions	na	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

- BBYB's strategy to realise its sustainability targets set in the 2022 RAKB is actualised by implementing initiatives related to the usage of electricity and water, strengthening its internal capacity by providing relevant training activities on sustainable finance topics, and developing innovative loan products while aligning its business practices with the principles of sustainable finance.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-30	Trading Buy	400	334
2023-09-06	Trading Buy	400	326
2023-01-02	Buy	2,000	655
2022-10-28	Buy	2,000	822
2022-07-29	Buy	2,900	1,233
2022-07-18	Buy	2,900	1,261
2022-06-10	Buy	2,900	1,303
2022-04-21	Buy	3,100	1,765

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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