

25 July 2024

Financial Services | Banks

Bank Central Asia (BBCA IJ)

Humming Along Nicely; Stay BUY

Buy (Maintained)

Target Price (Return): IDR12,060 (+20%)
Price (Market Cap): IDR10,075 (USD76,596m)
ESG score: 3.2 (out of 4)
Avg Daily Turnover (IDR/USD) 792,303m/48.9m

- **BUY, new IDR12,060 TP from IDR11,100, 20% upside with c.3% yield.** Bank Central Asia's 2Q24 results are in line. Despite its premium valuation, we believe BBKA is among the best options for those looking to stay invested in Indonesia banking sector amidst the current uncertainties and volatility, and should the higher-for-longer rates environment drag on. This is mainly on its strong deposit franchise (funding cost advantage) and solid borrower quality (ability to reprice up lending rates while keeping asset quality intact).
- **2Q24 results in line**, with net profit of IDR14trn (+9% QoQ, +11% YoY) bringing 1H24 PATMI to IDR26.9trn (+11% YoY) – at 50% of our and consensus' full-year figures. At the bank level, 1H24 ROE stood at 24.8% (FY23: 23.5%) while capital adequacy ratio was still a solid 27.8% (1Q24: 26.3%). Although its 1H24 key financial metrics were trending in line or better than guidance, BBKA has kept these unchanged.
- **Results highlights.** Apart from the dip in other non-II, line item trends were generally positive. 2Q24 PPOP rose 5% QoQ (+10% YoY) thanks to a 1% QoQ (+8% YoY) NII growth and lower opex (-10% QoQ, flat YoY) on tight cost control (consolidated CIR of 32.3% vs 1Q24: 35.6%; 2Q23: 34.3%). NIM expanded by about 20bps QoQ as initiatives to cut time deposit rates earlier filtered through, coupled with the shift in asset mix but the volume (interest-earning assets) was flat QoQ. Bottomline growth was further boosted by a lower CoC (consolidated) of 0.2% vs 1Q24: 0.5% (2Q23: 0.2%).
- **Loan growth robust.** 2Q loan growth was healthy at 1.7% QoQ or 15.5% YoY (1Q24: +3% QoQ, +17% YoY). YTD growth was 4.9%, ie tracking the 8-10% full-year guidance, with drivers being the consumer (+5.6%), SME (+6.1%) and corporate (+5.4%) segments. Corporate loan demand was mainly for investment loans from sectors such as minerals, power generation, transport and logistics. Meanwhile, commercial loans were flat YTD, given BBKA's more cautious stance towards the segment. Deposit growth trailed that of loans, ie flat QoQ or +5% YoY – CASA was up 1% QoQ (+6% YoY) but time deposits contracted by 3% QoQ (+2% YoY). Group CASA mix was broadly steady at 81% but LDR rose further to 75.5% from 74.6% in 1Q24 and 68.7% a year ago.
- **Asset quality – some movements but loans at risk (LAR) down overall.** Special mention loans rose 6% QoQ due to the downgrades on some textile, commercial and SME names while NPL increased 16% QoQ on downgrades in some mortgage, SME, and commercial accounts. LAR, however, dropped by 2% QoQ due to an improvement in the restructured book. As such, its LAR ratio eased further to 6.4% of total loans from 6.6% in Mar 2024 (2Q23: 8.7%) while LAR coverage was broadly stable QoQ at 71.2% (1Q24: 71.9%; 2Q23: 61.5%).
- **Earnings forecasts unchanged but TP rises to IDR12,060** (includes a 4% ESG premium) from IDR11,100 after we roll forward our valuation base year to FY25F.

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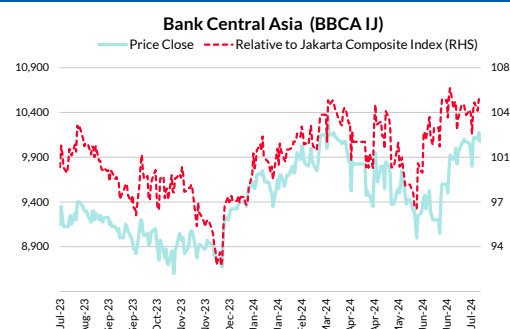


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.2	4.9	1.3	5.8	10.7
Relative	7.3	(0.5)	0.1	5.3	5.4
52-wk Price low/high (IDR)	8,600 – 10,325				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	40,736	48,639	53,544	57,679	61,981
Net profit growth (%)	29.6	19.4	10.1	7.7	7.5
Recurring net profit (IDRb)	40,736	48,639	53,544	57,679	61,981
Recurring EPS (IDR)	330.45	394.56	434.35	467.89	502.79
BVPS (IDR)	1,792.89	1,965.98	2,136.54	2,315.03	2,502.24
DPS (IDR)	205.00	270.00	295.00	320.00	342.00
Recurring P/E (x)	30.49	25.53	23.20	21.53	20.04
P/B (x)	5.62	5.12	4.72	4.35	4.03
Dividend Yield (%)	2.0	2.7	2.9	3.2	3.4
Return on average equity (%)	19.2	21.0	21.2	21.0	20.9

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

BBKA has set out ESG policies for five sectors and begun integrating ESG risk assessments into financing for them. These sectors are palm oil, coal-mining, toll road development, wood and forest products, as well as the cement and basic steel industry sectors. In 2023, sustainable business financing made up 25% of its total loan portfolio.

S: EXCELLENT

BBKA embraces gender diversity, with women making up 61% of the total workforce as well as managerial positions, and 16.7% of its Board of Directors. It is actively involved in financial literacy education, the provision of scholarships, and gives assistance to schools.

G: EXCELLENT

It has not had any material data security or privacy issues over the past few years. BBKA actively provides education related to sustainability to stakeholders. Its Board of Directors comprises 12 directors, while the Board of Commissioners comprises a president commissioner, one commissioner and three independent commissioners.

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	EPS	330.45	394.56	434.35	467.89	502.79
Financial Services	Recurring EPS	330.45	394.56	434.35	467.89	502.79
Bank Central Asia	DPS	205.00	270.00	295.00	320.00	342.00
BBCA IJ	BVPS	1,792.89	1,965.98	2,136.54	2,315.03	2,502.24
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions:	Recurring P/E (x)	30.49	25.53	23.20	21.53	20.04
i. COE of 8.2%;	P/B (x)	5.6	5.1	4.7	4.4	4.0
ii. ROE of 21%;	Dividend Yield (%)	2.0	2.7	2.9	3.2	3.4
iii. Long term growth of 5%.						
Key drivers	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Our forecasts are most sensitive to changes in:	Interest income	72,459	87,722	93,542	96,628	99,555
i. Credit costs;	Interest expense	(8,315)	(12,353)	(12,258)	(9,469)	(6,163)
ii. Net interest margin;	Net interest income	64,143	75,369	81,285	87,159	93,392
iii. Volatility in trading and investment gains.	Non interest income	22,673	23,911	25,290	26,828	28,460
	Total operating income	86,817	99,280	106,574	113,987	121,852
	Overheads	(31,851)	(36,675)	(37,408)	(39,508)	(41,735)
	Pre-provision operating profit	54,966	62,605	69,166	74,479	80,117
	Loan impairment allowances	(4,527)	(2,263)	(2,985)	(3,273)	(3,566)
	Other exceptional items	56	(325)	60	60	-
	Pre-tax profit	50,467	60,180	66,212	71,236	76,551
	Taxation	(9,711)	(11,522)	(12,646)	(13,535)	(14,545)
	Minority interests	(20)	(19)	(21)	(23)	(25)
	Reported net profit	40,736	48,639	53,544	57,679	61,981
	Recurring net profit	40,736	48,639	53,544	57,679	61,981
Key risks						
Key downside risks are:	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Macroeconomic headwinds from rising inflation and geopolitical tensions;	Return on average assets (%)	3.2	3.6	3.7	3.6	3.6
ii. Hiccups in government stimulus programmes;	Return on average equity (%)	19.2	21.0	21.2	21.0	20.9
iii. Asset quality pressures.	Return on IEAs (%)	5.9	6.7	6.6	6.3	6.0
	Cost of funds (%)	0.8	1.1	1.0	0.7	0.4
	Net interest spread (%)	5.1	5.6	5.6	5.6	5.6
	Net interest margin (%)	5.2	5.7	5.7	5.7	5.6
	Non-interest income / total income (%)	26.1	24.1	23.7	23.5	23.4
	Cost to income ratio (%)	36.7	36.9	35.1	34.7	34.3
	Credit cost (bps)	67.9	30.1	35.4	35.4	35.4
Company Profile						
Bank Central Asia is Indonesia's third largest bank by asset and the leading consumer bank, due to its unrivalled transactional banking franchise.	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	843,808	904,673	994,927	1,082,763	1,180,583
	Other interest earning assets	573,669	557,680	590,959	627,328	675,979
	Total gross IEAs	1,277,232	1,358,918	1,476,144	1,591,892	1,727,109
	Total provisions	(35,462)	(34,899)	(42,042)	(35,406)	(36,258)
	Net loans to customers	668,722	767,178	844,011	930,058	1,015,771
	Total net IEAs	1,241,769	1,324,019	1,434,101	1,556,487	1,690,851
	Total non-IEAs	72,962	84,088	85,591	90,412	95,367
	Total assets	1,314,732	1,408,107	1,519,692	1,646,899	1,786,218
	Customer deposits	1,039,718	1,101,673	1,188,785	1,290,039	1,399,946
	Other interest-bearing liabilities	53,832	63,897	67,351	71,290	77,605
	Total IBLs	1,093,550	1,165,569	1,256,136	1,361,329	1,477,551
	Total liabilities	1,093,550	1,165,569	1,256,136	1,361,329	1,477,551
	Share capital	7,090	7,090	7,090	7,090	7,090
	Shareholders' equity	221,019	242,356	263,383	285,385	308,464
	Minority interests	163	181	173	185	204
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.7	1.6	1.5	1.4	1.4
	Total provisions / reported NPLs (%)	279.5	259.9	252.9	252.8	237.7
	CET-1 ratio (%)	25.9	28.3	27.9	27.7	27.5
	Tier-1 ratio (%)	25.9	28.3	27.9	27.7	27.5
	Total capital ratio (%)	26.8	29.4	29.0	28.8	28.6

Source: Company data, RHB

Results At a Glance

Figure 1: BBKA – summary of 2Q24 and 1HFY24 results

FYE 31 Dec (IDRbn)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)	% of RHB	% of cons.
Interest income	21,663	23,042	23,085	0.2%	6.6%	42,769	46,128	7.9%		
Interest expense	(3,090)	(3,200)	(2,983)	-6.8%	-3.5%	(5,665)	(6,183)	9.1%		
Net interest income	18,573	19,842	20,103	1.3%	8.2%	37,104	39,945	7.7%		
Non-interest income	5,913	6,406	6,030	-5.9%	2.0%	12,166	12,437	2.2%		
Total operating income	24,486	26,249	26,133	-0.4%	6.7%	49,270	52,382	6.3%		
Operating expenses	(8,396)	(9,345)	(8,452)	-9.6%	0.7%	(17,600)	(17,797)	1.1%		
PPOP	16,090	16,904	17,681	4.6%	9.9%	31,670	34,585	9.2%		
Provision expense	(422)	(1,025)	(381)	-62.8%	-9.7%	(1,882)	(1,406)	-25.3%		
Operating profit	15,669	15,879	17,300	9.0%	10.4%	29,789	33,179	11.4%		
Pre-tax profit	15,669	15,879	17,300	9.0%	10.4%	29,789	33,179	11.4%		
Net profit	12,660	12,879	13,997	8.7%	10.6%	24,190	26,876	11.1%	50%	50%
Balance sheet (IDRbn)	Jun 23	Mar 24	Jun-24							
Loans	735,799	835,571	849,694	1.7%	15.5%					
Deposit	1,071,237	1,120,557	1,125,133	0.4%	5.0%					
- CASA	864,728	904,499	915,192	1.2%	5.8%					
- Time deposits	206,509	216,058	209,940	-2.8%	1.7%					
Ratios – Bank Only	1H23	3M24	1H24							
ROAA (%)	3.7%	3.6%	3.8%							
ROAE (%)	24.2%	22.7%	24.8%							
NIM (%)	5.6%	5.6%	5.7%							
CoC (%)	0.5%	0.4%	0.2%							
CASA (%)	80.7%	81.5%	82.2%							
LDR (%)	68.7%	74.6%	75.5%							
CIR (%)	32.9%	32.4%	29.1%							
NPL (%)	1.9%	2.0%	2.2%							
CAR (%)	29.5%	26.3%	27.8%							
Loan loss coverage (%)	257.1%	220.3%	190.2%							

Source: Company data, RHB

Figure 2: BBKA's guidance for FY24

	FY23 achieved	1H24 achieved	FY24F guidance	Comments
Loans growth	13.9%	15.5%	8-10%	Annualised growth tracking upper end of 8-10% guidance. YoY growth tracking significantly ahead of guidance due to the base effect but is expected to moderate ahead, given that BBKA enjoyed strong loan disbursements in 4Q23.
NIM	5.5%	5.7%	5.6 - 5.8%	Likely to end up at the higher end of its guided range.
Cost-to-income ratio (consolidated)	36.9%	32.3%	33-34%	Guidance unchanged as opex such as that relating to IT tends to pick up in 4Q.
Credit cost	0.3%	0.2%	0.3 - 0.4%	Quarterly fluctuations may not be representative of full year.

Source: Company data, RHB

Valuation and TP

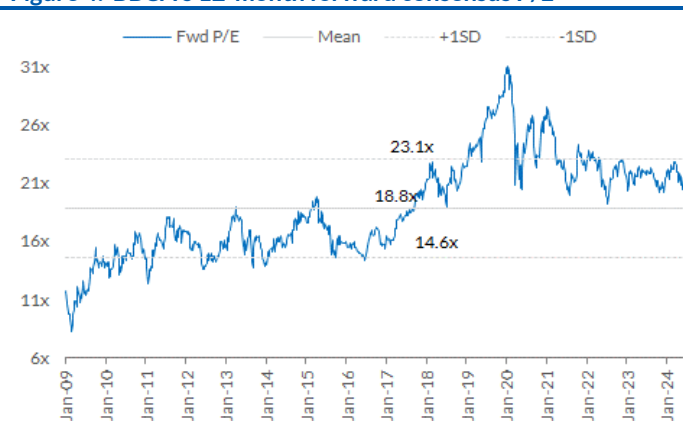
We raise our TP to IDR12,060 from IDR11,100 after rolling forward our valuation base year to FY25F. This resulted in a higher intrinsic value of IDR11,593 (vs IDR10,699 previously). There is no change to our GGM-derived P/BV of 5.0x. Our TP includes an unchanged 4% ESG premium, given BBKA's ESG score of 3.2 (out of 4.0) vs the country median of 3.0.

Figure 3: BBKA - GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	21.0
Risk free rate (%)	6.7	COE (%)	8.2
Equity premium (%)	1.3	Long-term growth (g)	5.0
Beta (x)	1.2	Implied P/BV (x)	5.0
Cost of equity - CAPM (%)	8.2	BVPS - 12-mth rolling forward	IDR2,315
		Intrinsic value	IDR11,593
ESG premium/(discount) (%)	4.0	ESG premium/(discount)	IDR464
		TP (rounded)	IDR12,060

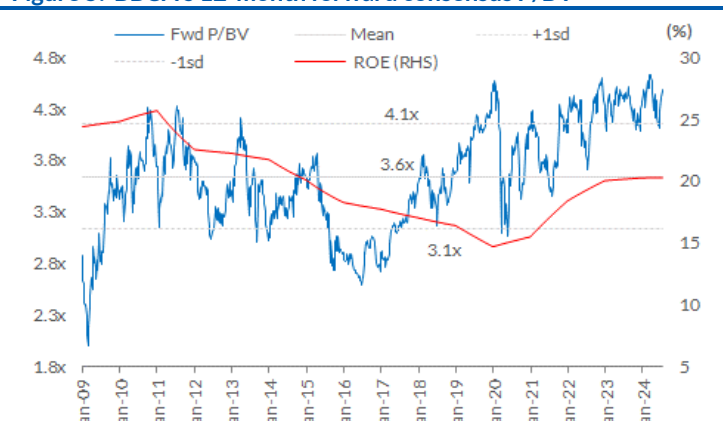
Source: Company data, RHB

Figure 4: BBKA's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 5: BBKA's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

The increase in BBKA's total emissions reflects the broadening in calculation scope for various emissions over the years, ie the number of its branches and Scope 3 emissions.

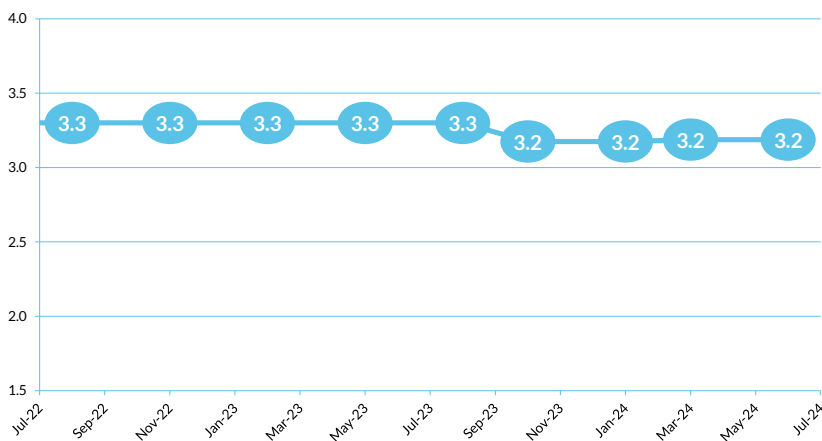
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	401	806	4,840
Scope 2	102,516	137,019	143,260
Scope 3	1,538	4,918	160,924
Total emissions	104,455	142,743	309,024

Source: Company data, RHB

Latest ESG-Related Developments

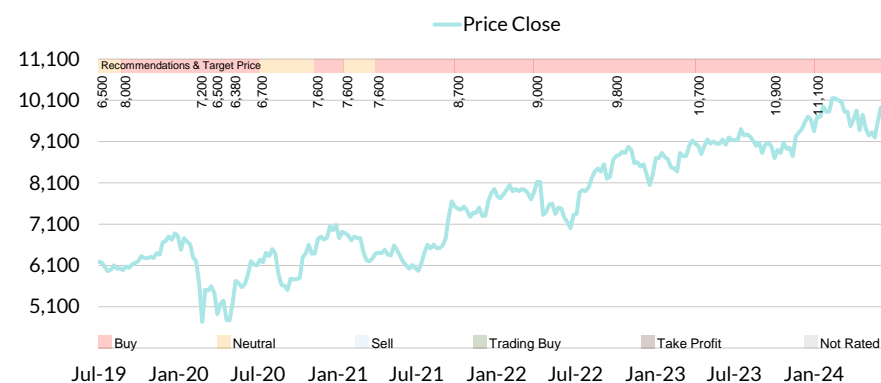
- **Developed Sustainable Finance Action Plan Phase 2 for 2024-2028, which includes three priority areas:** i) Continued sustainable financing growth, ii) internal capacity building, and iii) organisation-wide improvement in efficiency and effectiveness for the implementation of sustainable finance.
- **Expanding emission calculations:** BBKA intends to exclude greenhouse gas aspects in its investment activities by 2025.
- **Climate resilience:** As part of its 2026-2030 roadmap, BBKA plans to develop a climate change risk management framework.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-05	Buy	11,100	9,825
2024-03-21	Buy	11,100	10,125
2024-01-25	Buy	11,100	9,500
2023-10-20	Buy	10,900	8,975
2023-04-27	Buy	10,700	9,150
2023-01-27	Buy	9,800	8,700
2022-10-21	Buy	9,800	8,650
2022-07-28	Buy	9,000	7,350
2022-04-22	Buy	9,000	7,875
2021-10-22	Buy	8,700	7,525
2021-04-23	Buy	7,600	6,390
2021-02-09	Neutral	7,600	6,980
2020-12-02	Buy	7,600	6,450
2020-07-28	Neutral	6,700	6,185
2020-05-28	Buy	6,380	5,295

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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

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