

2 August 2024

Financial Services | Banks

Bank Neo Commerce (BBYB IJ)

Optimistic About 2H24 Despite Risks; TRADING BUY

Trading Buy (Maintained)

Target Price (Return): IDR360 (40.6%)
Price (Market Cap): IDR256 (USD196m)
ESG score: 3.0 (out of 4)
Avg Daily Turnover (IDR/USD) 10,794m/0.67m

- **Maintain TRADING BUY with IDR360 TP (GGM-based), 41% upside.** In 1H24, Bank Neo Commerce's net loss narrowed to IDR6bn from a loss of IDR327bn in 1H23, with pre-provision operating profit (PPOP) rising 47% YoY to IDR1.3trn, driven by a widened NIM and reduced marketing expenses. Despite weak loan growth in 1H24, BBYB is optimistic about 2H24, focusing on commercial and direct Neoloan segments. BBYB plans to reduce cost of funds (CoF), with LDR and CASA ratios improving. Key risks include accelerating loan growth, especially in new loan segments.
- **In line 1H24.** 2Q24 was in the red with a net loss of IDR20bn from a net profit of IDR14bn in 1Q24, but showed improvement from the loss of IDR258bn in 2Q23. This resulted in 1H24 reporting a small loss of IDR6bn, a significant improvement from the IDR327bn loss in 1H23, achieving 9% and 26% of our/consensus full-year estimates (RHB FY24F net loss: IDR70bn, consensus FY24F net loss: IDR24bn). Notably, 1H24 PPOP surged 47% YoY to IDR1.3trn, reaching 52% of our full-year forecast. This increase was driven by a widened NIM of 18.8% in 1H24 (1H23: 16.2%, 1Q24: 19.9%). BBYB reduced marketing and promotion expenses, lowering 1H24 CIR to 32% (1H23: 45%, 1Q24: 31.8%). Credit costs in 1H24 remained stable at around 26.6% (1H23: 27.7%, 1Q24: 25.9%).
- **Despite weak loan growth in 1H24, management is optimistic about 2H24.** Loans declined to IDR9.02trn (-10.8% YoY, -4% QoQ) as BBYB became more selective in issuing loans, and certain unsecured consumer loans that matured were not renewed. The bank anticipates accelerated loan growth in 2H24 – aiming to diversify its loan portfolio with more stable assets and improve credit scoring to mitigate risks. BBYB will focus on the commercial segment and its direct Neoloan as key drivers for loan growth. Notably, direct Neoloan provides a higher yield to BBYB compared to channeling loans. In disbursing direct Neoloan, the bank holds a competitive advantage over new digital bank entrants, as it is backed by majority shareholder Akulaku, which has a long track record of seven years in Indonesia's microloan segment.
- **BBYB plans to lower its CoF,** which we see may slower deposit expansion. Management stated that deposit acquisition is not a current focus, as the liquidity ratio is adequate. LDR decreased to 61.1% by the end of June (Jun 2023: 66.4%, Mar 2024: 65.5%). CASA ratio significantly increased to 29.7% at the end of June (Jun 2023: 24.9%, Mar 2024: 27.6%).
- **A key risk to our outlook** is BBYB's ability to accelerate loan growth, especially through its strategy to increase the proportion of commercial loans, which may necessitate expanding loan distribution channels, such as opening new branches. We apply a 0% premium/discount to our TP as BBYB's ESG score is at the median level.

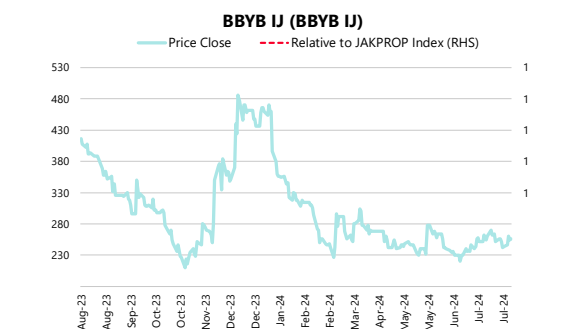
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(41.3)	6.7	4.1	(19.5)	(40.8)
Relative	(41.3)	6.7	4.1	(19.5)	(40.8)
52-wk Price low/high (IDR)				210	-486



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	14.95	6.67
P/B (x)	0.64	0.84	0.96	0.90	0.80
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 responsibility to society and environment, and continues to carry out CSR activities to participate in sustainable development.

S: GOOD

During the pandemic, the company provided personal protective equipment (PPE) to health workers. More importantly, it maintains a healthy and safe working environment for its employees.

G: GOOD

The bank is categorised as Rank 3 or "quite good" in terms of Good Corporate Governance (GCG). The weaknesses are from the fulfilment of business plans and guidance by management.

Note:

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

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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
Bank Neo Commerce	BVPS	397.42	304.47	265.67	283.02	321.64
BBYB IJ						
Trading Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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	14.95	6.67
	P/B (x)	0.6	0.8	1.0	0.9	0.8
	Dividend Yield (%)	na	na	na	na	na
Key drivers	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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.	Net interest income	1,448	2,902	3,132	4,198	5,637
	Non interest income	455	637	577	547	540
	Total operating income	1,903	3,540	3,709	4,746	6,177
	Overheads	(1,616)	(1,353)	(1,291)	(1,286)	(1,330)
	Pre-provision operating profit	287	2,187	2,418	3,459	4,846
	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
	Pre-tax profit	(783)	(574)	(78)	230	515
	Taxation	(3)	1	8	(23)	(51)
	Reported net profit	(786)	(573)	(70)	207	463
	Recurring net profit	(786)	(574)	(71)	206	462
Key risks	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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
Company Profile	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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: 1H24 results highlight

INCOME STATEMENT (IDRbn)	2Q23	1Q24	2Q24	QoQ	YoY	1H23	1H24	YoY	1H24/ FY24F RHB	1H24/ FY24F Cons.
Interest income	924	1,042	948	-9.1%	2.5%	1,857	1,990	7.2%	49%	
Interest expense	237	217	228	4.9%	-3.9%	478	444	-7.0%		
Net interest income (NII)	687	826	720	-12.8%	4.8%	1,379	1,546	12.1%	49%	43%
Non-Interest income (Non-II)	109	158	155	-2.2%	42.6%	185	313	69.0%		
Total operating income (NII and Non-II)	796	984	875	-11.1%	9.9%	1,564	1,859	18.8%	50%	
Operating expense (excl. provision)	401	313	282	-9.8%	-29.7%	704	595	-15.6%		
PPOP	395	671	593	-11.6%	50.3%	860	1,264	47.0%	52%	
Provision expense	653	657	613	-6.6%	-6.1%	1,187	1,270	7.1%		
Operating profit	(259)	14	(20)	-243.8%	-92.2%	(327)	(6)	-98.1%	8%	
Net profit	(258)	14	(20)	-243.3%	-92.1%	(327)	(6)	-98.1%	9%	26%
BALANCE SHEET (IDRbn)	6M23	3M24	6M24	QoQ	YoY					
Loan	10,110	9,396	9,017	-4.0%	-10.8%					
Deposit	15,229	14,346	14,759	2.9%	-3.1%					
CASA	3,797	3,960	4,388	10.8%	15.6%					
Time deposits	11,432	10,387	10,370	-0.2%	-9.3%					
RATIOS	6M23	3M24	6M24							
ROAE (%)	-18.9%	1.7%	-0.4%							
NIM (%)	16.2%	19.9%	18.6%							
CoC (%)	27.7%	25.9%	26.6%							
CASA (%)	24.9%	27.6%	29.7%							
LDR (%)	66.4%	65.5%	61.1%							
CIR (%)	45.0%	31.8%	32.0%							
NPL (%)	3.7%	3.9%	3.9%							
CAR (%)	31.8%	32.0%	32.1%							
Coverage (%)	96.0%	150.8%	146.9%							

Source: Company data, RHB

Emissions And ESG

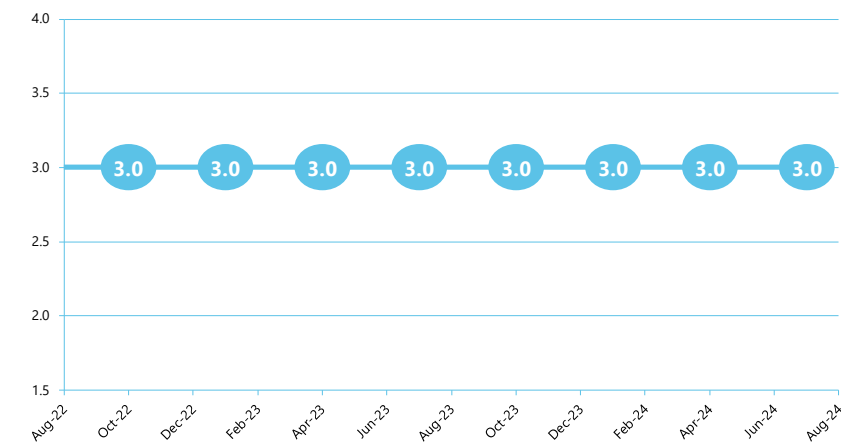
Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
N/A	Scope 1	na	na	na
	Scope 2	na	na	na
	Scope 3	na	na	na
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- The company's sustainability strategy to realise the sustainability targets set in the 2022 RAKB is actualised by implementing a number of strategic initiatives, such as electricity and water efficiency, strengthening internal capacity by providing relevant training activities on sustainable finance topics, and developing innovative loans products and aligned with sustainable finance principles.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-14	Trading Buy	360	262
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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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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