

20 October 2023

Financial Services | Banks

Bank Central Asia (BBCA IJ)

Buy (Maintained)

Loan Growth Ticks Up But Opex Dampens; BUY

- **Stay BUY, with new IDR10,900 TP from IDR10,700, 25% upside and c.3% FY24F yield.** Bank Central Asia's 3Q23 results were broadly in line, despite higher opex dampening the sequential earnings trend. The bank is poised for healthy business growth, underpinned by its superior transaction franchise and solid balance sheet. Its robust capital and provision buffers should continue to support the above-trend P/BV valuation, in our view.
- **3Q23 in line**, with net profit of IDR12.2trn (-3% QoQ, +12% YoY) bringing 9M23 net profit to IDR36.4trn (+26% YoY), at 77% and 75% of our and consensus FY23F earnings. 9M23 PPOP accounted for 75% of our estimate, but credit cost was tamer than expected. At the bank level, 9M ROE (annualised) rose to 23.5% (FY22: 21.7%) while capital adequacy ratio was stable QoQ at a solid 29.5%.
- **Results highlights.** The sequential decline in net profit was due to higher opex (+12% QoQ) – for manpower as well as general and administrative costs. These relate to, among others, headcount for IT and business, investments in IT and banking network, as well as increasing volume of activities returning to offline from online. The growth rate should ease towards end-2023 and into 2024 as some of the investments are completed, eg headcount. Otherwise, operating income inched up 2% QoQ with NII increasing 1% while Non-II rose 3% on higher FX. CIR deteriorated to 38% (2Q: 34%) but loan provision and credit cost were broadly stable QoQ.
- **Loans growth momentum improved.** As expected, sequential loans growth improved to +4% (+12% YoY) vs 2Q (+3% QoQ, +9% YoY). Commercial/SME and consumer loans were up 3% QoQ while the corporate segment rose 5% QoQ on robust credit demand from sectors such as telecommunications, fast moving consumer goods (FMCG), and edible oils. Annualised loans growth was 10% and BBCA expects to meet the 10-12% growth target. Deposits growth was slightly behind that of loans at 2% QoQ (+6% YoY) – CASA was up 1% while time deposits (TD) rose 6% as its high net worth and affluent depositor base continued to shift away in search of higher yields. Recall that BBCA said that this shift should normalise when interest rates start to ease, possibly in 2024.
- **Underlying NIM still healthy.** NIM (bank only) was broadly stable QoQ at 5.5%, in line with the NIM guidance of 5.5-5.6%. BBCA should be well positioned to meet the guidance given: i) Its ample liquidity (LDR: 70%), ii) ongoing redeployment to higher yielding loans from placements with Bank Indonesia (BI), and iii) repricing of TD down by 35-50bps in August. BBCA does not expect yesterday's BI rate hike to impact NIM significantly.
- **Loans at risk (LAR) ticked down further** to 7.6% of total loans from 8.7% in Jun 2023, while LAR coverage rose to 67% from 62% at end-2Q23. 9M23 credit cost was 0.4%, which management thinks can be sustained for the full year. This will be slightly lower than the 0.5-0.6% guidance.
- **We maintain earnings forecasts, tweak TP to IDR10,900 (includes 4% ESG premium)**, mainly after rolling forward our valuation to end-2024. Our intrinsic value of IDR10,500 is based on a GGM-derived 4.9x P/BV.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Reported net profit (IDRb)	31,423	40,736	47,186	51,873	56,372
Net profit growth (%)	15.8	29.6	15.8	9.9	8.7
Recurring net profit (IDRb)	31,664	40,713	47,162	51,849	56,348
Recurring EPS (IDR)	256.86	330.26	382.57	420.59	457.09
BVPS (IDR)	1,644.39	1,792.89	1,952.74	2,142.88	2,353.71
DPS (IDR)	145.00	205.00	204.88	237.32	252.47
Recurring P/E (x)	34.07	26.49	22.87	20.80	19.14
P/B (x)	5.32	4.88	4.48	4.08	3.72
Dividend Yield (%)	1.7	2.3	2.3	2.7	2.9
Return on average equity (%)	16.2	19.2	20.4	20.5	20.3

Source: Company data, RHB

Target Price (Return): IDR10,900 (+25%)
 Price (Market Cap): IDR8,750 (USD68,205m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (IDR/USD) 606,082m/39.5m

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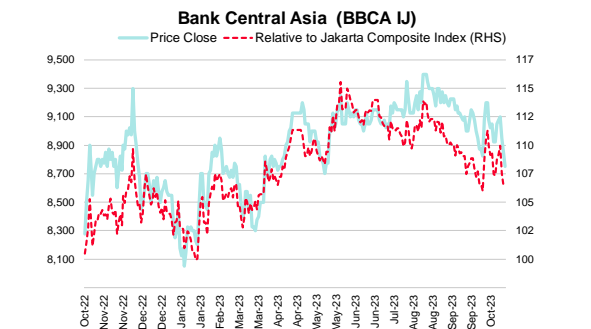


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.3	(3.6)	(4.4)	(4.1)	5.7
Relative	2.4	(1.7)	(4.6)	(4.5)	5.9
52-wk Price low/high (IDR)	8,050 – 9,400				



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: GOOD

BBCA's sustainability agenda is embedded in the bank's strategic priorities. It has developed a Sustainable Finance Policy and mapped the Sustainable Business Activity Category as a guideline for implementing its business activities. Total sustainable business financing stood at IDR181trn or 25% of total loans at end-Mar 2022.

S: EXCELLENT

Embraces gender diversity with 64% of total workforce comprised of women, 56.7% of its branch feeds, and 16.7% of its Board of Directors. Actively involved in financial literacy education, provision of scholarships and assistance to schools. Has been active in provision of assistance during COVID-19 pandemic.

G: EXCELLENT

Has not had any material data security or privacy issues over the past few years. BBCA actively provides education related to sustainability to its stakeholders. Its Board of Directors comprises 12 Directors while the Board of Commissioners comprises a President Commissioner, one Commissioner and three Independent Commissioners.

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	EPS	254.90	330.45	382.77	420.79	457.29
Financial Services	Recurring EPS	256.86	330.26	382.57	420.59	457.09
Bank Central Asia	DPS	145.00	205.00	204.88	237.32	252.47
BBCA IJ	BVPS	1,644.39	1,792.89	1,952.74	2,142.88	2,353.71
Buy						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions:	Recurring P/E (x)	34.07	26.49	22.87	20.80	19.14
i. COE of 8.07%;	P/B (x)	5.3	4.9	4.5	4.1	3.7
ii. ROE of 20%;	Dividend Yield (%)	1.7	2.3	2.3	2.7	2.9
iii. Long term growth of 5%.						
Key drivers	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Our forecasts are most sensitive to changes in:	Interest income	65,980	72,459	83,841	92,240	100,383
i. Credit costs;	Interest expense	(9,509)	(8,315)	(9,906)	(11,258)	(12,820)
ii. Net interest margin;	Net interest income	56,471	64,143	73,934	80,982	87,563
iii. Volatility in trading and investment gains.	Non interest income	21,427	22,673	24,529	26,331	27,929
	Total operating income	77,897	86,817	98,463	107,314	115,493
	Overheads	(29,434)	(31,851)	(35,940)	(38,634)	(40,818)
	Pre-provision operating profit	48,464	54,966	62,523	68,680	74,675
	Loan impairment allowances	(9,324)	(4,527)	(4,128)	(4,560)	(4,991)
	Other exceptional items	(597)	56	60	60	60
	Pre-tax profit	38,841	50,467	58,425	64,150	69,714
	Taxation	(7,401)	(9,711)	(11,218)	(12,253)	(13,315)
	Minority interests	(17)	(20)	(22)	(24)	(26)
	Reported net profit	31,423	40,736	47,186	51,873	56,372
	Recurring net profit	31,664	40,713	47,162	51,849	56,348
Key risks						
Key downside risks are:	Profitability ratios	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Macroeconomic headwinds from rising inflation and geopolitical tensions;	Return on average assets (%)	2.7	3.2	3.5	3.5	3.5
ii. Hiccups in government stimulus programmes;	Return on average equity (%)	16.2	19.2	20.4	20.5	20.3
iii. Asset quality pressures.	Return on IEAs (%)	5.9	5.9	6.3	6.4	6.4
	Cost of funds (%)	1.0	0.8	0.9	0.9	1.0
	Net interest spread (%)	4.9	5.1	5.4	5.5	5.5
	Net interest margin (%)	5.1	5.2	5.6	5.6	5.6
	Non-interest income / total income (%)	27.5	26.1	24.9	24.5	24.2
	Cost to income ratio (%)	37.8	36.7	36.5	36.0	35.3
	Credit cost (bps)	154	68	56	56	56
Company Profile						
Bank Central Asia is Indonesia's third largest bank by asset size and the leading consumer bank due to its unrivalled transactional banking franchise.	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total gross loans	795,197	843,808	928,507	1,015,525	1,104,835
	Other interest earning assets	561,794	573,669	603,425	639,003	678,191
	Total gross IEAs	1,192,448	1,277,232	1,384,674	1,498,251	1,614,836
	Total provisions	(34,094)	(35,462)	(38,559)	(40,622)	(34,924)
	Net loans to customers	597,415	668,722	743,341	819,301	902,420
	Total net IEAs	1,158,354	1,241,769	1,346,115	1,457,629	1,579,912
	Total non-IEAs	69,991	72,962	69,762	73,687	83,722
	Total assets	1,228,345	1,314,732	1,415,877	1,531,316	1,663,634
	Customer deposits	975,949	1,039,718	1,120,600	1,209,156	1,312,093
	Other interest-bearing liabilities	49,547	53,832	54,388	57,823	61,202
	Total IBLs	1,025,496	1,093,550	1,174,988	1,266,979	1,373,296
	Total liabilities	1,025,496	1,093,550	1,174,988	1,266,979	1,373,296
	Share capital	7,090	7,090	7,090	7,090	7,090
	Shareholders' equity	202,713	221,019	240,724	264,164	290,153
	Minority interests	136	163	165	173	185
	Asset quality and capital	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Reported NPLs / gross cust loans (%)	2.2	1.7	1.6	1.5	1.4
	Total provisions / reported NPLs (%)	237.2	279.5	266.0	259.2	258.3
	CET-1 ratio (%)	25.2	24.5	24.3	24.2	24.4
	Tier-1 ratio (%)	25.2	24.5	24.3	24.2	24.4
	Total capital ratio (%)	26.2	25.5	25.3	25.2	25.4

Source: Company data, RHB

Emissions And ESG

Trend analysis

Increase in total emissions reflects the broadening in calculation scope for various emissions over the years, especially from branches.

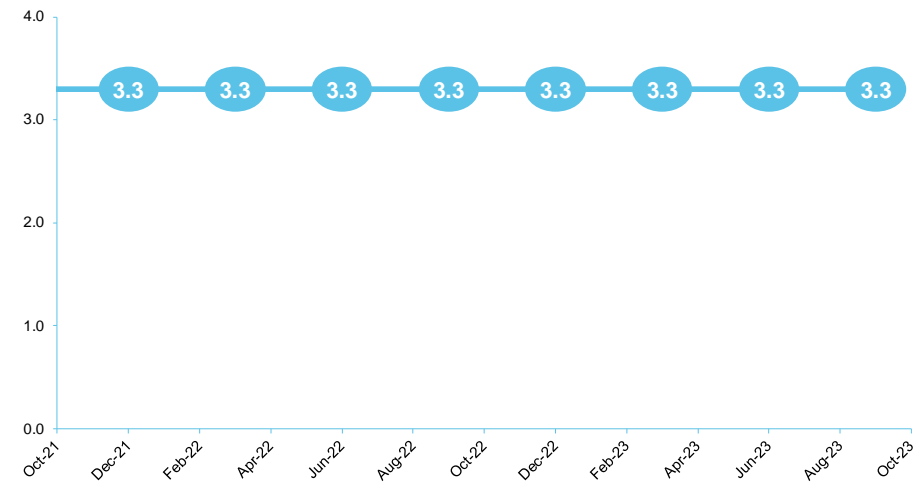
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	na	401	806
Scope 2	70,202	102,503	136,996
Scope 3	844	1,538	4,918
Total emissions	71,046	104,442	142,720

Source: Company data, RHB

Latest ESG-Related Developments

- **Adopts TCFD's recommendations:** BBKA adopts the Task Force on Climate-related Financial Disclosures recommendations in its Climate Change Roadmap.
- **Expanding emission calculations:** BBKA intends to include GHG from 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

Results At a Glance

Figure 1: BBKA – summary of 3Q23 and 9M23 results

FYE Dec (IDRbn)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	% of RHB	% of Cons
Interest income	18,457	21,663	22,116	2.1%	19.8%	52,207	64,885	24.3%		
Interest expense	(2,138)	(3,090)	(3,313)	7.2%	55.0%	(6,114)	(8,978)	46.8%		
Net interest income	16,319	18,573	18,803	1.2%	15.2%	46,093	55,907	21.3%		
Non-interest income	5,540	5,913	6,105	3.2%	10.2%	16,663	18,271	9.7%		
Total operating income	21,859	24,486	24,908	1.7%	13.9%	62,755	74,178	18.2%		
Operating expenses	8,123	8,396	9,420	12.2%	16.0%	23,176	27,020	16.6%		
PPOP	13,737	16,090	15,488	(3.7%)	12.7%	39,579	47,158	19.1%		
Provision expense	(191)	(422)	(410)	(2.8%)	+>100%	(3,918)	(2,292)	(41.5%)		
Operating profit	13,546	15,669	15,078	(3.8%)	11.3%	35,661	44,867	25.8%		
Pre-tax profit	13,546	15,669	15,078	(3.8%)	11.3%	35,661	44,867	25.8%		
Net profit	10,905	12,660	12,230	(3.4%)	12.2%	28,955	36,420	25.8%	77%	75%
Balance sheet (IDRbn)	Sep-22	Jun-23	Sep-23							
Loans	681,877	735,799	765,905	4.1%	12.3%					
Deposit	1,025,528	1,071,237	1,088,773	1.6%	6.2%					
- CASA	830,447	864,728	869,768	0.6%	4.7%					
- Time deposits	195,081	206,509	219,005	6.1%	12.3%					
Ratios – Bank Only	9M22	6M23	9M23							
ROAA (%)	3.0%	3.7%	3.6%							
ROAE (%)	20.6%	24.2%	23.5%							
NIM (%)	5.1%	5.6%	5.5%							
CoC (%)	0.8%	0.5%	0.4%							
CASA (%)	81.0%	80.7%	79.9%							
LDR (%)	66.5%	68.7%	70.3%							
CIR (%)	34.5%	32.9%	33.6%							
NPL (%)	2.2%	1.9%	2.0%							
CAR (%)	25.4%	29.5%	29.5%							
Loan loss coverage (%)	247.9%	257.1%	226.9%							

Source: Company data, RHB

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Management guidance and targets – FY23F

Figure 2: BBCA's guidance for FY23

	FY22 achieved	9M23 achieved	FY23F guidance
Loans growth	11.7%	12.3%	10-12%
NIM	5.3%	5.5%	5.5-5.6%
Cost-to-income ratio	33.9%	36.4%	35 - 36%
Credit cost	0.7%	0.4%	0.4% (from 0.5 - 0.6%)

Source: Company data, RHB

Valuation and TP

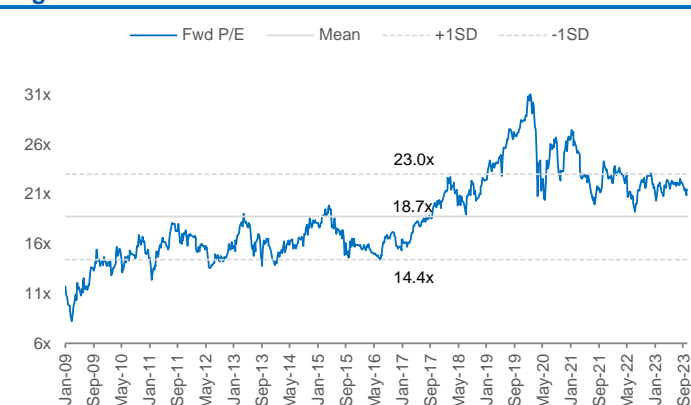
We bumped up our TP to IDR10,900 from IDR10,700, mainly as we roll forward our valuation to end-2024. This is based on an intrinsic value of IDR10,500 (from IDR10,057) derived from our GGM-based P/BV of 4.9x. Our TP includes a 4% ESG premium, given its ESG score 3.2 (out of 4.0) vs the country median of 3.0.

Figure 3: BBCA – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	20.0
Risk free rate (%)	6.7	COE (%)	8.1
Equity premium (%)	1.3	Long-term growth (g)	5.0
Beta (x)	1.1	Implied P/BV (x)	4.9
Cost of equity - CAPM (%)	8.1	BVPS – 12-mth rolling forward	IDR2,145
		Intrinsic value	IDR10,498
ESG premium/(discount) (%)	4.0	ESG premium/(discount)	IDR420
		TP (rounded)	IDR10,900

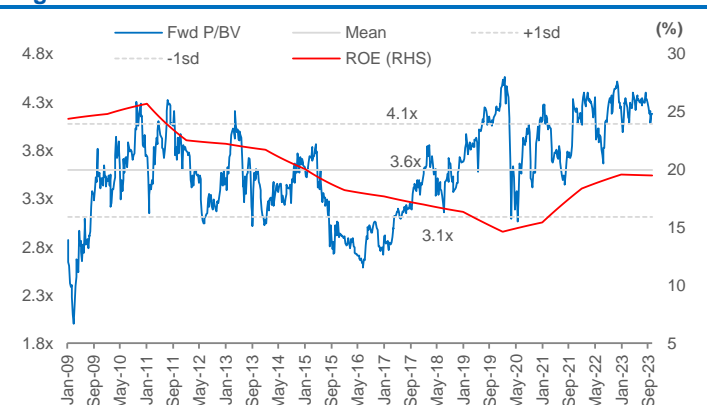
Source: Company data, RHB

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



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

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Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-04-16	Buy	6,500	5,240
2020-03-10	Buy	7,200	5,925
2020-02-21	Buy	8,000	6,615
2020-02-21	Buy	8,000	6,615

Source: RHB, Bloomberg

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