

26 July 2024

Financial Services | Banks

## Bank Rakyat Indonesia (BBRI IJ)

**Buy** (Maintained)

### 1H24 In Line, To Focus On Improving Microloans; BUY

- **BUY, new GGM-based TP of IDR5,900 from IDR6,300, 26% upside with c.7% FY24F yield.** Bank Rakyat Indonesia's 1H24 earnings rose 1% YoY, ie in line. However, 2Q24 earnings fell 13% QoQ on higher CIR and narrower NIM. QoQ, NPL and LAR slightly improved, while CoC decreased but remained above guidance. Loans grew 11.2% YoY, driven by corporate and medium-sized loans, while microloan growth lagged. BBRI is taking steps to enhance its microloans quality. We trim FY24-26F earnings by 4%, 2% and 2%, due to our higher CIR assumption. Despite minor blips, BBRI's long-term outlook remains upbeat.
- **1H24 earnings are in line.** BBRI's 1H24 earnings rose by 1% YoY to IDR29.7trn – at 47% and 48% of our and consensus full-year projections. 2Q24 earnings fell 13% QoQ (-0.8% YoY) to IDR13.8trn, due to higher operational expenses and a narrower NIM, driven by increased funding costs. Despite tighter liquidity following Bank Indonesia's 7-day reverse repo rate hike in April, BBRI's NIM only dipped to 7.64% in 1H24 from 7.84% in 1Q24, which is within its FY24 guided range of 7.6-8.0%. CIR rose to 41% in 1H24, from 37.43% in 1Q24. 1H24 pre-provision operating profit rose 11.7% YoY to IDR57trn, driven by loan growth and higher non-interest income.
- **Quarterly improvement in loans at risk (LAR) and NPL.** NPL ratio slightly improved to 3.05% in June, from 3.11% in March. Similarly, LAR ratio decreased to 12% in June, from 12.68% in March. Its LAR coverage ratio rose to 53.86% in June from 52.45% in March, while the NPL coverage ratio was at 211.6% in June, vs 214.26% in March. CoC dropped to 3.48% in 1H24, from 3.83% in 1Q24, which remains above the bank's FY24 guidance of a maximum of 3%. BBRI maintained its CoC guidance, with downside risks associated with slower loan growth and loan restructuring progress.
- **Solid 1H24 loan growth...** Loans grew by 11.2% YoY in June, driven by a 29.2% increase in corporate loans, a 31.6% increase in medium-sized loans, and an 11.5% increase in consumer loans. BBRI remains cautious on microloans, therefore its growth will focus on extending Kupedes (microcredit) loans to existing borrowers with good track records. As a result, microloans grew by only 7.8% YoY, ie lagging behind other loan segments. BBRI anticipates it may take about two years to improve its microloans asset quality back to normal level. Microloans accounted for 46.6% of BBRI's loan portfolio in June.
- **...but still cautious on microloans.** BBRI noted that the poorest asset quality in Kupedes loans disbursed in 2023 came from new borrowers, while existing borrowers with top-up loans performed better. To improve the asset quality of microloans, BBRI has implemented several tactics: Limiting loan ceilings based on regional risk profiles, tiering loan approvals, tightening policies for loan top-ups, hiring additional loan officers and business support assistants, and focusing loan officers' KPIs on asset quality and loan recovery.

Target Price (Return): IDR5,900 (+26%)  
 Price (Market Cap): IDR4,700 (USD43,836m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (IDR/USD) 1,354,051m/83.5m

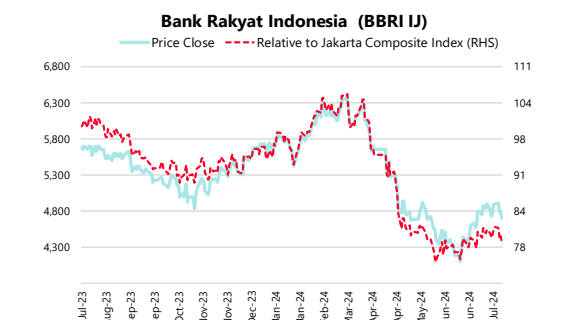
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.9)	7.3	(8.7)	(14.9)	(16.8)
Relative	(17.4)	2.1	(9.9)	(15.8)	(21.5)
52-wk Price low/high (IDR)				4,100	–6,400



Source: Bloomberg

#### Overall ESG Score: 3.3 (out of 4)

##### E: EXCELLENT

BBRI has calculated its greenhouse gas (GHG) emissions and determined its emissions baseline. Its Peduli Indonesia Lestari initiative also aims to support marine sustainability via initiatives like re-planting mangrove seeds. BBRI has also re-engineered its credit card application process to make it paperless by moving everything online. To accelerate the revitalisation of rivers in a number of areas, its Clean the River CSR programme was carried out in 19 rivers at 19 regional offices throughout Indonesia.

##### S: EXCELLENT

BBRI implements labour rights in accordance with local laws. It also continuously looks out for labour issues like the use of children and/or forced labour. The bank strives for freedom of association and gender equality, while fighting against discrimination. It carries out community empowerment activities such as education and training activities on green businesses.

##### G: GOOD

As the first mover in the implementation of sustainable finance, BBRI continues to strengthen a. its sustainability governance structure under the Director of Risk Management.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	51,170	60,100	61,459	71,122	78,914
Net profit growth (%)	66.4	17.5	2.3	15.7	11.0
Recurring net profit (IDRb)	50,939	60,415	61,790	71,470	79,280
Recurring EPS (IDR)	355.99	401.96	409.71	473.09	524.78
BVPS (IDR)	1,994.72	2,068.08	2,308.65	2,415.11	2,547.56
DPS (IDR)	233.33	373.02	318.26	325.46	376.63
Recurring P/E (x)	13.20	11.69	11.47	9.93	8.96
P/B (x)	2.36	2.27	2.04	1.95	1.84
Dividend Yield (%)	5.0	7.9	6.8	6.9	8.0
Return on average equity (%)	17.4	19.7	18.6	19.9	21.1

Source: Company data, RHB

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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	357.61	399.87	407.51	470.79	522.37
Financial Services	Recurring EPS	355.99	401.96	409.71	473.09	524.78
<b>Bank Rakyat Indonesia</b>	DPS	233.33	373.02	318.26	325.46	376.63
BBRI IJ	BVPS	1,994.72	2,068.08	2,308.65	2,415.11	2,547.56
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>
P/BV backed by GGM. Assumptions include:	Recurring P/E (x)	13.20	11.69	11.47	9.93	8.96
i. COE of 12.4%;	P/B (x)	2.4	2.3	2.0	1.9	1.8
ii. ROE of 21.0%;	Dividend Yield (%)	5.0	7.9	6.8	6.9	8.0
iii. 6.7% long-term growth.						
<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. Faster-than-expected loan growth;	Interest income	151,875	178,996	193,652	207,099	223,217
ii. Lower cost of funds;	Interest expense	(27,278)	(43,813)	(49,615)	(56,193)	(63,778)
iii. Improvements in asset quality	<b>Net interest income</b>	<b>124,597</b>	<b>135,183</b>	<b>144,037</b>	<b>150,906</b>	<b>159,439</b>
	Non interest income	48,880	48,107	52,701	57,755	63,315
	<b>Total operating income</b>	<b>173,477</b>	<b>183,290</b>	<b>196,738</b>	<b>208,661</b>	<b>222,754</b>
	Overheads	(82,192)	(76,782)	(77,106)	(75,527)	(75,468)
	<b>Pre-provision operating profit</b>	<b>91,285</b>	<b>106,508</b>	<b>119,632</b>	<b>133,135</b>	<b>147,286</b>
	Loan impairment allowances	(27,522)	(30,021)	(38,562)	(36,567)	(40,224)
	Other impairment allowances	543	342	376	414	455
	Other exceptional items	291	(399)	(419)	(440)	(462)
	<b>Pre-tax profit</b>	<b>64,597</b>	<b>76,430</b>	<b>81,027</b>	<b>96,541</b>	<b>107,055</b>
	Taxation	(13,188)	(16,005)	(16,967)	(20,216)	(22,418)
	Minority interests	(238)	(325)	(2,601)	(5,203)	(5,723)
	<b>Reported net profit</b>	<b>51,170</b>	<b>60,100</b>	<b>61,459</b>	<b>71,122</b>	<b>78,914</b>
	<b>Recurring net profit</b>	<b>50,939</b>	<b>60,415</b>	<b>61,790</b>	<b>71,470</b>	<b>79,280</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>
Rapid inflation caused by higher input costs, which may have a short-term impact on the economic recovery.	Return on average assets (%)	2.9	3.1	2.9	3.0	3.0
	Return on average equity (%)	17.4	19.7	18.6	19.9	21.1
	Return on IEAs (%)	11.4	13.8	13.5	12.2	12.5
	Cost of funds (%)	2.2	3.3	3.4	3.4	3.3
	Net interest spread (%)	9.2	10.5	10.1	8.9	9.1
	Net interest margin (%)	9.4	10.4	10.1	8.9	8.9
	Non-interest income / total income (%)	28.2	26.2	26.8	27.7	28.4
	Cost to income ratio (%)	47.4	41.9	39.2	36.2	33.9
	Credit cost (bps)	263	261	296	250	250
<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 Rakyat Indonesia is the largest bank in the country, with assets totalling IDR1,678trn. It focuses on loans in the MSME segment.	Total gross loans	1,089,789	1,211,421	1,393,040	1,532,344	1,685,578
	Other interest earning assets	295,871	-	259,238	203,029	159,007
	Total gross IEAs	1,385,660	1,211,421	1,652,278	1,735,373	1,844,585
	Total provisions	(89,610)	(81,018)	(72,825)	(74,025)	(78,299)
	Net loans to customers	1,000,179	1,130,403	1,320,215	1,458,319	1,607,279
	Total net IEAs	1,296,050	1,130,403	1,579,453	1,661,348	1,766,286
	Total non-IEAs	569,589	834,604	630,304	802,535	992,475
	Total assets	1,865,639	1,965,007	2,209,757	2,463,883	2,758,761
	Customer deposits	1,307,884	1,358,329	1,543,102	1,753,010	1,991,472
	Other interest-bearing liabilities	9,335	11,958	19,144	30,648	49,065
	Total IBLs	1,317,219	1,370,287	1,562,246	1,783,659	2,040,538
	Total non-IBLs	245,025	278,248	293,121	309,189	326,562
	Total liabilities	1,562,244	1,648,535	1,855,367	2,092,848	2,367,099
	Share capital	7,578	7,578	7,578	7,578	7,578
	Shareholders' equity	299,294	311,364	348,770	364,853	384,862
	Minority interests	4,101	5,109	5,619	6,181	6,800
	<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 (%)	2.7	2.7	2.6	2.6	2.6
	Total provisions / reported NPLs (%)	210.2	197.3	202.8	179.3	171.2
	CET-1 ratio (%)	25.1	24.2	23.2	23.7	23.7
	Tier-1 ratio (%)	26.0	25.0	24.0	24.6	24.6
	Total capital ratio (%)	27.1	26.1	25.1	25.6	25.7

Source: Company data, RHB

Figure 1: BBRI 1H24 results highlights

<b>INCOME STATEMENT (IDRbn)</b>										
	2Q23	1Q23	2Q24	QoQ	YoY	1H23	1H24	YoY	1H24/ RHB	1H24/ Cons.
Interest Income	43,131	50,075	48,572	-3.0%	12.6%	85,591	98,647	15.3%	51%	50%
Interest Expense	10,369	14,123	14,595	3.3%	40.8%	20,050	28,718	43.2%	58%	
<b>Net Interest Income</b>	<b>32,761</b>	<b>35,952</b>	<b>33,977</b>	<b>-5.5%</b>	<b>3.7%</b>	<b>65,540</b>	<b>69,929</b>	<b>6.7%</b>		
Non-Interest Income	11,710	13,184	13,564	2.9%	15.8%	22,175	26,748	20.6%		
<b>Total Operating Income</b>	<b>44,471</b>	<b>49,136</b>	<b>47,541</b>	<b>-3.2%</b>	<b>6.9%</b>	<b>87,715</b>	<b>96,677</b>	<b>10.2%</b>		
Operating Expense	18,566	18,389	21,246	15.5%	14.4%	36,657	39,635	8.1%		
<b>PPOP</b>	<b>25,905</b>	<b>30,747</b>	<b>26,295</b>	<b>-14.5%</b>	<b>1.5%</b>	<b>51,058</b>	<b>57,042</b>	<b>11.7%</b>	<b>47%</b>	
Provision Expense	8,223	10,713	7,784	-27.3%	-5.3%	13,821	18,497	33.8%		
<b>Operating Profit</b>	<b>17,682</b>	<b>20,034</b>	<b>18,511</b>	<b>-7.6%</b>	<b>4.7%</b>	<b>37,237</b>	<b>38,545</b>	<b>3.5%</b>	<b>46%</b>	<b>49%</b>
<b>Net Profit</b>	<b>13,926</b>	<b>15,886</b>	<b>13,816</b>	<b>-13.0%</b>	<b>-0.8%</b>	<b>29,428</b>	<b>29,702</b>	<b>0.9%</b>	<b>47%</b>	<b>48%</b>
<b>BALANCE SHEET (IDRbn)</b>										
	6M23	3M24	6M24	QoQ	YoY					
Loan	1,202,129	1,308,651	1,336,780	2.1%	11.2%					
Deposit	1,245,115	1,416,214	1,389,662	-1.9%	11.6%					
CASA	815,424	873,298	877,895	0.5%	7.7%					
Time Deposits	429,691	542,916	511,767	-5.7%	19.1%					
<b>RATIOS</b>										
	6M23	3M24	6M24							
ROAA - After Tax (%)	3.30%	3.22%	3.01%							
ROAE - B/S (%)	19.87%	20.22%	19.23%							
NIM (%)	7.92%	7.84%	7.64%							
CoC (%)	2.26%	3.83%	3.48%							
CASA (%)	65.49%	61.66%	63.17%							
LDR (%)	96.55%	92.40%	96.19%							
CIR (%)	41.79%	37.43%	41.00%							
NPL (%)	2.95%	3.11%	3.05%							
CAR (%)	26.65%	23.97%	25.13%							
Coverage (%)	248.54%	214.26%	211.60%							

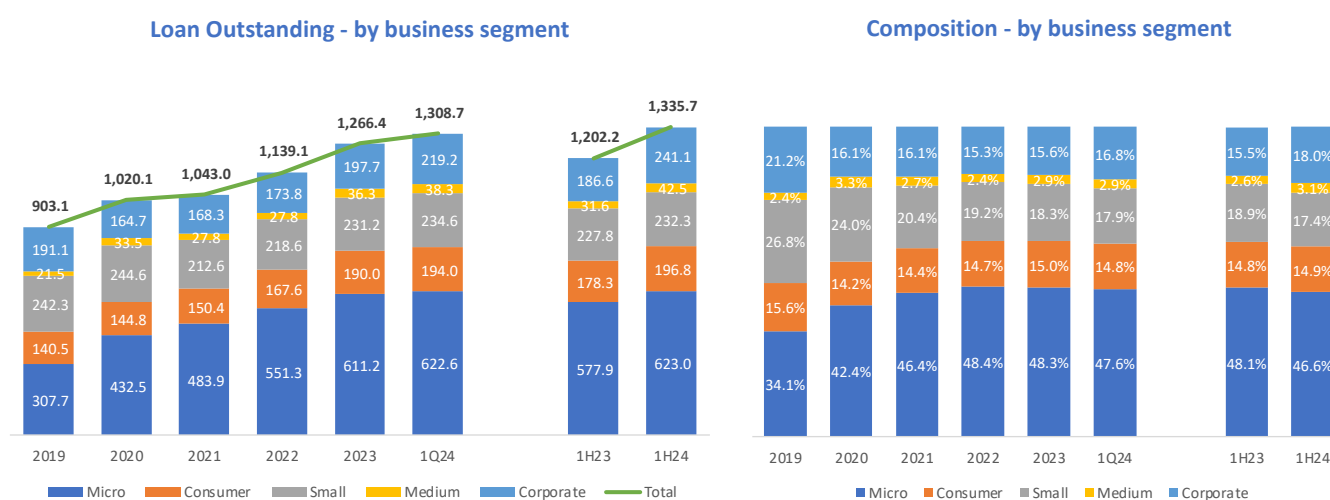
Source: Company data, RHB

Figure 2: BBRI's figures – FY24 guidance, 1H24 actual, 1Q24 actual and FY23 actual

	2023 Actual	2024 Guidance	1Q24 Actual	1H24 Actual
Loan Growth (YoY)	11.20%	10% - 12%	10.90%	11.20%
NIM	7.95%	7.6% - 8.0%	7.84%	7.64%
Credit Cost	2.38%	Max. 3%	3.83%	3.48%
NPL	2.95%	< 3%	3.11%	3.05%
CIR	41.89%	41% - 42%	37.43%	41.00%

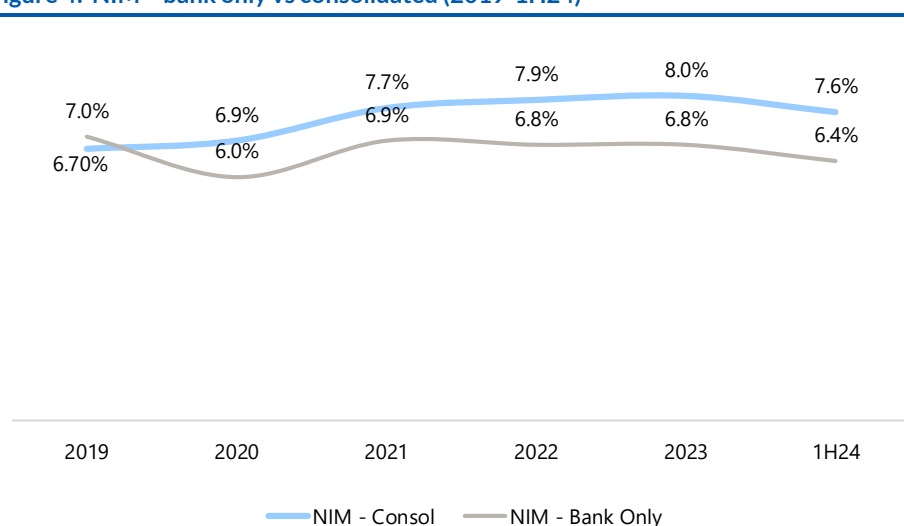
Source: Company data, RHB

Figure 3: Loan and financing portfolio (2019-1H24)



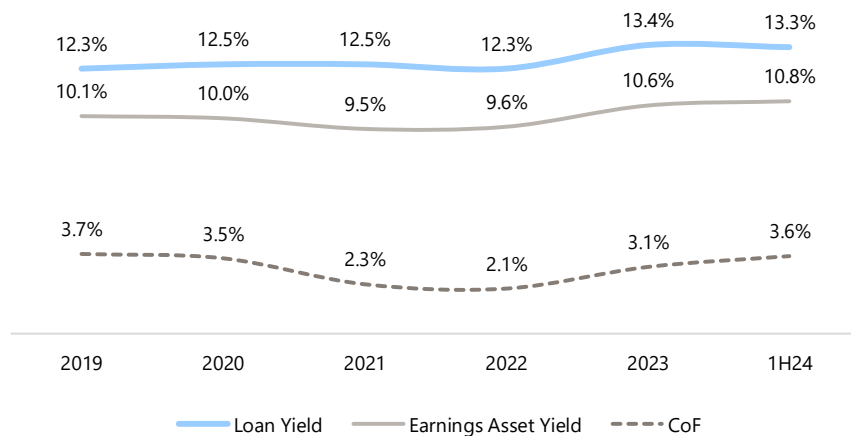
Source: Company data, RHB

Figure 4: NIM – bank only vs consolidated (2019-1H24)



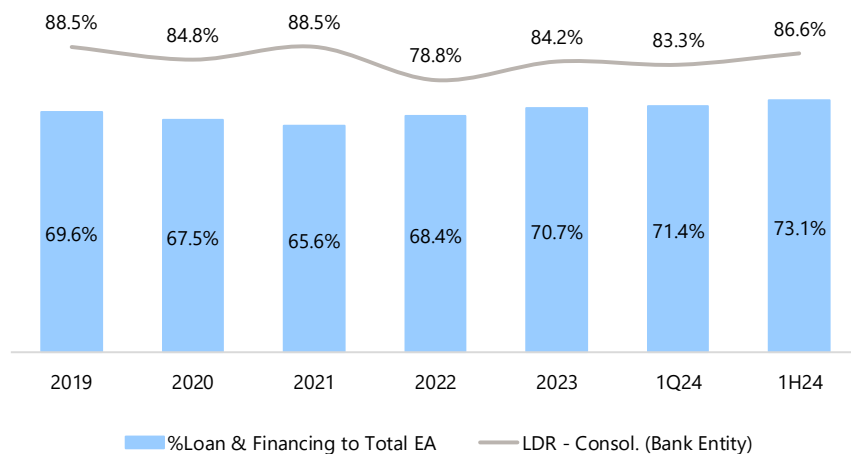
Source: Company data, RHB

Figure 5: Lending yield, earnings assets (EA) yield, and COF trends (2019-1H24)



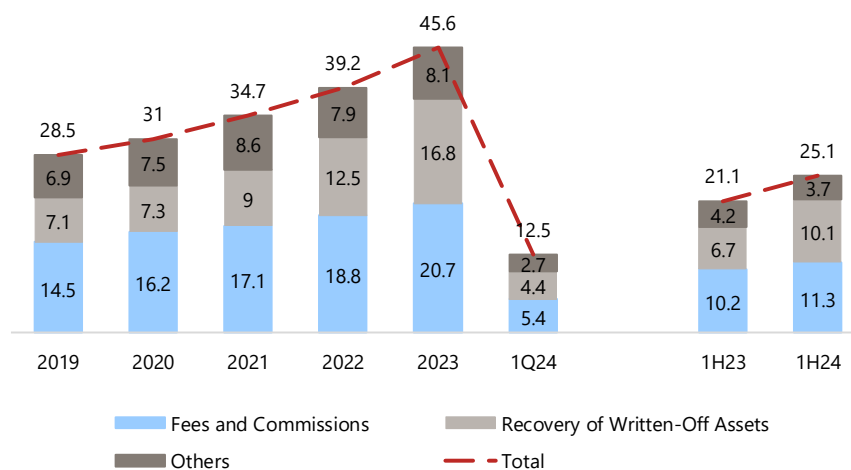
Source: Company data, RHB

Figure 6: Loan and financing to total EA and LDR (2019-1H24)



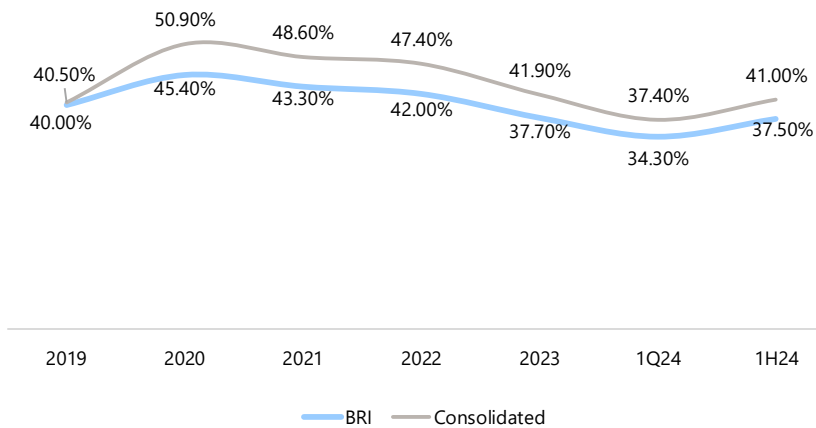
Source: Company data, RHB

Figure 7: Other operating profit - consolidated (2019-1H24)



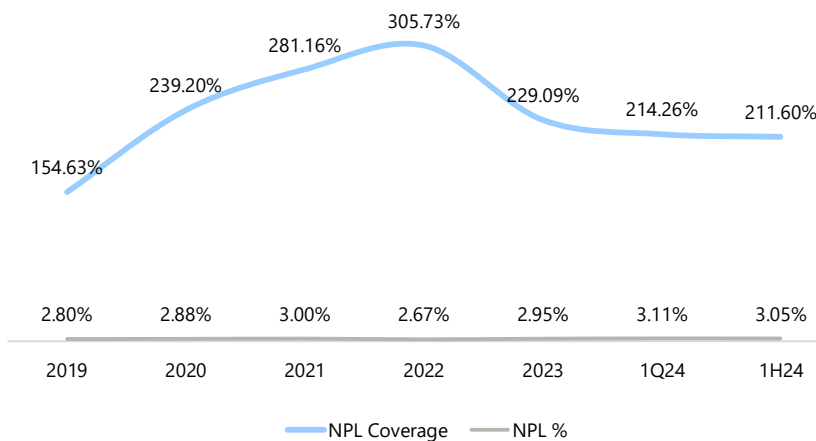
Source: Company data, RHB

Figure 8: Cost-to-income ratio – bank only and consolidated (2019-1H24)



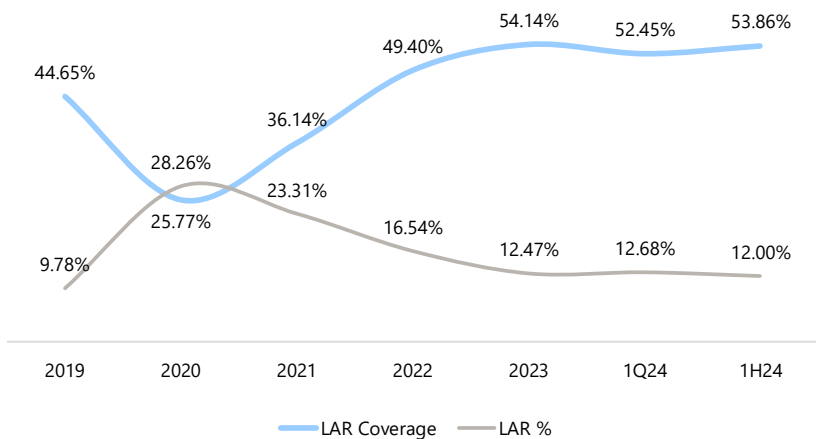
Source: Company data, RHB

Figure 9: NPL and NPL coverage (2019-1H24)



Source: Company data, RHB

Figure 10: LAR and LAR coverage (2019-1H24)

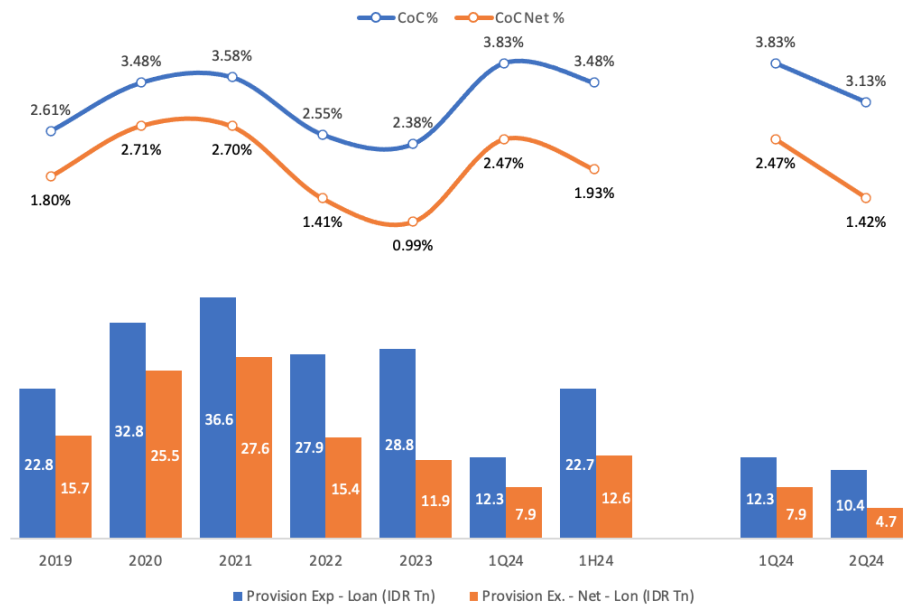


Source: Company data, RHB

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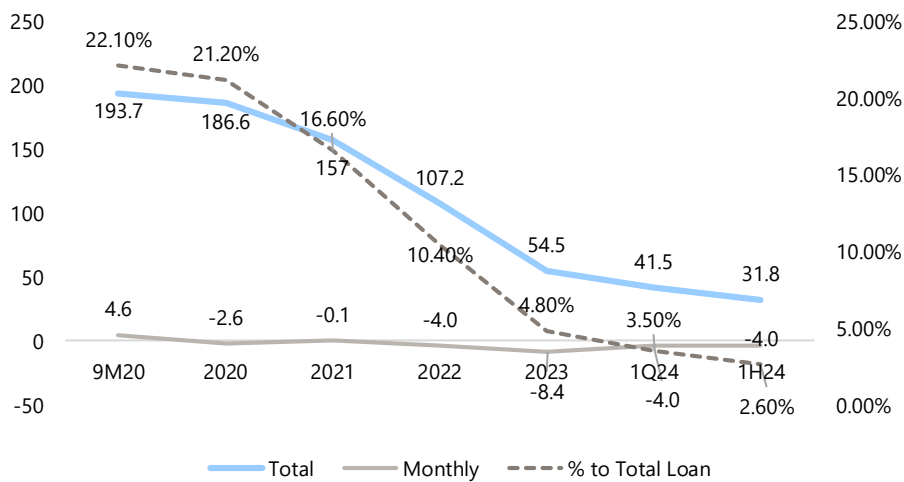
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Figure 11: Credit cost (2019-1H24)



Source: Company data, RHB

Figure 12: COVID-19-related restructured loans trend (bank only)



Source: Company data, RHB

Figure 13: Revisions to our forecasts

	Previous			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Operating Income	196,738	208,661	222,754	196,738	208,661	222,754	0%	0%	0%
PPOP	122,632	135,396	149,045	119,632	133,135	147,286	-2%	-2%	-1%
Provision	38,186	36,153	39,769	38,186	36,153	39,769	0%	0%	0%
Net Income	63,830	72,910	80,305	61,459	71,122	78,914	-4%	-2%	-2%
Loans	1,393,040	1,532,344	1,685,578	1,393,040	1,532,344	1,685,578	0%	0%	0%
Loans Growth	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%			

Source: Company data, RHB

Figure 14: GGM valuation

<b>Key Parameters</b>	
Cost of Equity	12.4%
Risk-Free Rate (Rf)	6.6%
Beta (x)	1.071
Expected Market Return (Rm)	12%
Risk Premium (Rm-Rf)	5.4%
Sustainable Growth Rate (SGR)	6.3%
Sustainable ROE (%)	21.0%
Dividend Payout Ratio (%)	70.0%
Implied P/BV (x)	2.4
BVPS FY24E (IDR)	2,309
Fair Value (IDR)	5,581
ESG premium (discount)	319
Target price (IDR)	5,900

Source: Company data, RHB



## Emissions And ESG

### Trend analysis

BBRI decreased its Scope 1, 2 and 3 emissions by 6% YoY overall in 2023.

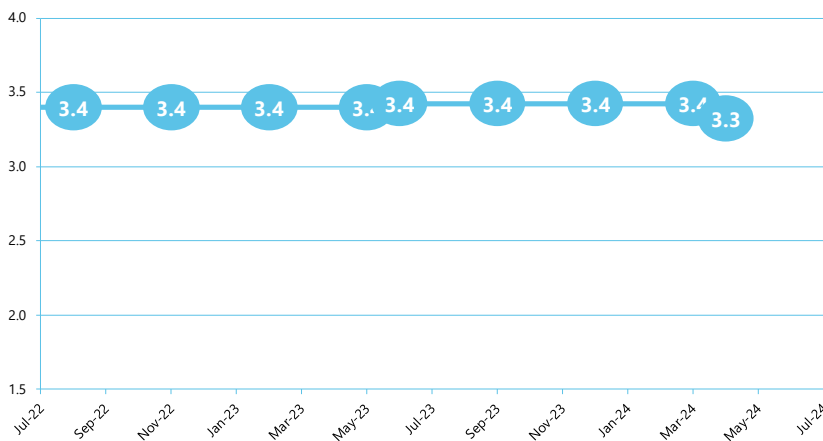
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	133,727	132,235	130,529
Scope 2	320,066	360,135	355,742
Scope 3	na	11,134,854	10,434,550
Total emissions	453,792	11,627,224	10,920,821

Source: Company data, RHB

## Latest ESG-Related Developments

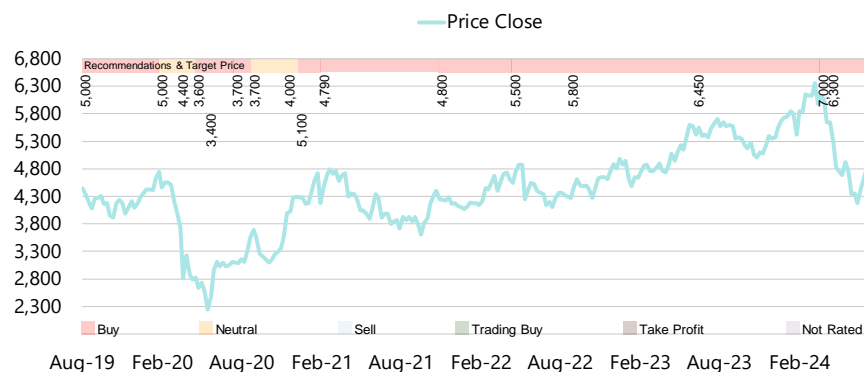
- As of Dec 2023, BBRI's total sustainable financing activities amounted IDR777.28trn (equivalent to 67.11% of the bank's total credit and corporate bond investment portfolio).
- BBRI has assessed, managed, and disclosed climate-related risks and opportunities in accordance with the IFRS S2 Climate-related Disclosure standards. The bank has set a net-zero emissions target that is currently in the Science-Based Targets initiative (SBTi) validation process.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-26	Buy	6,300	4,830
2024-03-20	Buy	7,000	6,100
2023-12-07	Buy	6,450	5,475
2023-06-09	Buy	6,450	5,425
2023-02-09	Buy	5,800	4,810
2022-11-17	Buy	5,800	4,670
2022-10-10	Buy	5,800	4,370
2022-08-24	Buy	5,800	4,290
2022-07-28	Buy	5,500	4,360
2022-04-14	Buy	5,500	4,540
2022-01-09	Buy	4,800	4,190
2021-10-28	Buy	4,800	4,240
2021-02-01	Buy	4,790	4,400
2020-12-10	Buy	5,100	4,330
2020-11-12	Neutral	4,000	3,950

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<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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