

31 July 2024

Financial Services | Banks

Bank CIMB Niaga (BNGA IJ)

Buy (Maintained)

Solid 1H24, Improved Asset Quality; BUY

Target Price (Return): IDR2,300 (+24%)
Price (Market Cap): IDR1,850 (USD2,825m)
ESG score: 3.3 (out of 4)
Avg Daily Turnover (IDR/USD) 10,360m/0.64m

- **Maintain BUY and IDR2,300 TP (GGM), 24% upside with c.9% FY25F yield.** Bank CIMB Niaga's 1H24 earnings rose 5.4% YoY, driven by higher loan exposure and a lower CIR. Loans grew by 5.9% YoY, and NIM widened slightly. Asset quality improved, with LAR down to 10.2% in June (vs 10.9% in March) and solid growth in consumer and SME loans. Our TP includes a 6% premium to its fair value due to its ESG score of 3.3, which is above the country median. Key risks: Increased mortgage loan competition and slower loan growth.

- **1H24 earnings in line.** 2Q24 earnings increased by 2.7% QoQ (+5.9% YoY) to IDR1.7trn, resulting in a 5.4% YoY rise in the metric for 1H24 to IDR3.4trn. This is in line, being at 49% and 48% of our and Street full-year forecasts. 2Q24 earnings growth was driven by higher loan exposure and a lower CIR ratio. Loans grew by 2.6% QoQ (+5.9% YoY). Note: Despite the Bank Indonesia rate increase in April, the bank's NM widened to 4.22% in 2Q24 from 4.20% in 1Q24, likely due to a change in asset mix from a shift from cash to government securities. Funding costs (CoF) remained relatively stable at 3.43% in 2Q24 compared to 3.41% in 1Q24. BNGA continues to invest in acquiring retail customers as a key strategy for securing future stable and low-cost funding sources. During this period, its CIR decreased to 43.3% in 2Q24 from 44.5%, from cost efficiencies such as reducing the number of branches and ATMs.

- **Healthy asset quality and coverage ratio.** Loans at risk (LAR) decreased to 10.2% at the end of June from 10.9% at the end of March. This improvement was due to a reduction in special mention loans to 4.5% from 4.8%, and a decline in category-1 restructured loans to 3.6% from 4.0%. LAR coverage ratio rose to 52.5% in June from 49.9% in March, while the loan impairment coverage ratio remained steady at 113.4% in June. We believe this is sufficient to manage loan risk. BNGA reported a cost of credit (CoC) of 0.9% in 1H24, slightly below its full-year guidance range of 1.0%-1.1%.

- **Solid loan growth despite selectivity:** In 1H24, loans saw solid growth, driven primarily by consumer loans, which increased by 5.8% YoY. Notable segments included auto loans which grew by 13.1% YoY, and credit cards and personal loans which rose by 12.4% YoY. However, BNGA maintained a more selective approach to mortgage loans, resulting in flat growth in that area. Consumer loans made up 34% of the total loan portfolio at the end of June. Additionally, SME loans, which represented 11% of the total loan portfolio, expanded by a robust 10.0% YoY. *Shariah* financing also exhibited strong growth, increasing by 11.6% YoY.

- **Key risks.** The primary risks to our outlook include increased competition in mortgage loans, which could narrow the net interest margin (NIM), and a potential slowdown in loan growth.

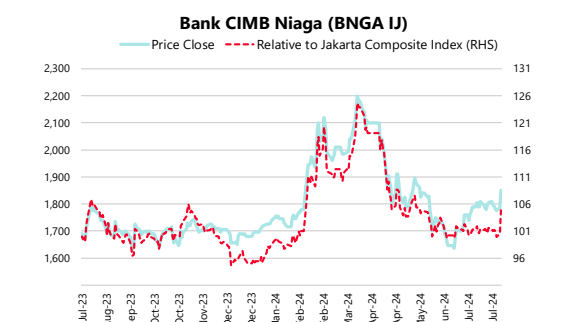
Analyst

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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-----|-----|-------|-------|-------|
| Absolute | 9.1 | 5.1 | (3.2) | 5.7 | 14.9 |
| Relative | 9.5 | 2.6 | (3.3) | 5.0 | 9.9 |
| 52-wk Price low/high (IDR) | | | | 1,630 | 2,200 |



Source: Bloomberg

| Forecasts and Valuation | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|------------------------------|----------|----------|----------|----------|----------|
| Reported net profit (IDRb) | 5,042 | 6,474 | 6,996 | 7,354 | 8,173 |
| Net profit growth (%) | 23.0 | 28.4 | 8.1 | 5.1 | 11.1 |
| Recurring net profit (IDRb) | 5,042 | 6,474 | 6,996 | 7,354 | 8,173 |
| Recurring EPS (IDR) | 202.21 | 259.66 | 280.59 | 294.93 | 327.80 |
| BVPS (IDR) | 1,812.50 | 1,972.96 | 2,103.06 | 2,235.44 | 2,392.48 |
| DPS (IDR) | 94.08 | 115.18 | 147.90 | 159.83 | 167.99 |
| Recurring P/E (x) | 9.15 | 7.12 | 6.59 | 6.27 | 5.64 |
| P/B (x) | 1.02 | 0.94 | 0.88 | 0.83 | 0.77 |
| Dividend Yield (%) | 5.1 | 6.2 | 8.0 | 8.6 | 9.1 |
| Return on average equity (%) | 11.4 | 13.7 | 13.8 | 13.6 | 14.2 |

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

BNGA supports environmental preservation and the improvement of people's welfare. Although its business is not directly related to nature, financing provided to businesses can have a direct impact on the environment, and it is important that it encourages sustainable businesses. Its environmental efforts are also implemented within its own operations, in terms of managing the paper and energy used in its banking activities.

S: EXCELLENT

As a company engaged in the banking industry, its CSR involves delivering financial literacy and inclusion.

G: EXCELLENT

The bank has included climate change and its mitigation measures in the job description for its Good Corporate Governance (GCG) & Sustainability Unit, supervised by the director responsible for sustainability. This unit, which is responsible for implementing sustainability activities, also ensures the implementation of climate change initiatives/studies and carries out mitigation actions.

31 July 2024

Financial Services | Banks

Financial Exhibits

| | | | | | | |
|---|--|---------------|---------------|----------------|----------------|----------------|
| Asia Indonesia Financial Services Bank CIMB Niaga BNGA IJ Buy | Financial summary (IDR) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | EPS | 202.21 | 259.66 | 280.59 | 294.93 | 327.80 |
| | Recurring EPS | 202.21 | 259.66 | 280.59 | 294.93 | 327.80 |
| | DPS | 94.08 | 115.18 | 147.90 | 159.83 | 167.99 |
| | BVPS | 1,812.50 | 1,972.96 | 2,103.06 | 2,235.44 | 2,392.48 |
| Valuation basis P/BV backed by GGM. Assumptions include: i. COE of 11.3%; ii. ROE of 11.5%; iii. 3% long-term growth. | Valuation metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Recurring P/E (x) | 9.15 | 7.12 | 6.59 | 6.27 | 5.64 |
| | P/B (x) | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| | Dividend Yield (%) | 5.1 | 6.2 | 8.0 | 8.6 | 9.1 |
| | | | | | | |
| Key drivers i. Promising CASA outlook for better CoF; ii. Higher NIM trend; iii. Improving asset quality. | Income statement (IDRb) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Interest income | 19,114 | 22,306 | 24,231 | 25,100 | 26,598 |
| | Interest expense | (5,638) | (8,954) | (9,854) | (10,129) | (10,413) |
| | Net interest income | 13,476 | 13,352 | 14,376 | 14,971 | 16,185 |
| | Non interest income | 5,390 | 5,433 | 5,433 | 5,433 | 5,433 |
| Key risks i. Lower-than-expected loan growth; ii. Deteriorating asset quality; iii. Higher-than-expected cost of funds (CoF). | Total operating income | 18,866 | 18,786 | 19,810 | 20,405 | 21,618 |
| | Overheads | (8,484) | (8,584) | (8,584) | (8,584) | (8,584) |
| | Pre-provision operating profit | 10,382 | 10,202 | 11,226 | 11,821 | 13,035 |
| | Loan impairment allowances | (3,814) | (2,007) | (2,192) | (2,312) | (2,449) |
| | Other exceptional items | 11 | 162 | 162 | 162 | 162 |
| Company Profile Bank CIMB Niaga is majority-owned by Malaysia-based CIMB Group (91.5% stake). Its loan book largely comprises corporate and consumer loans. The bank is ramping up the development of its digital channels to improve efficiency. | Pre-tax profit | 6,579 | 8,357 | 9,196 | 9,671 | 10,748 |
| | Taxation | (1,483) | (1,806) | (2,115) | (2,224) | (2,472) |
| | Minority interests | (55) | (77) | (85) | (93) | (103) |
| | Reported net profit | 5,042 | 6,474 | 6,996 | 7,354 | 8,173 |
| | Recurring net profit | 5,042 | 6,474 | 6,996 | 7,354 | 8,173 |
| | Profitability ratios | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Return on average assets (%) | 1.6 | 2.0 | 2.1 | 2.1 | 2.3 |
| | Return on average equity (%) | 11.4 | 13.7 | 13.8 | 13.6 | 14.2 |
| | Return on IEAs (%) | 6.5 | 7.3 | 7.5 | 7.7 | 8.1 |
| | Cost of funds (%) | 2.3 | 3.5 | 3.6 | 3.6 | 3.6 |
| | Net interest spread (%) | 4.3 | 3.8 | 3.9 | 4.1 | 4.4 |
| | Net interest margin (%) | 4.6 | 4.4 | 4.5 | 4.6 | 4.9 |
| | Non-interest income / total income (%) | 28.6 | 28.9 | 27.4 | 26.6 | 25.1 |
| | Cost to income ratio (%) | 45.0 | 45.7 | 43.3 | 42.1 | 39.7 |
| | Credit cost (bps) | 207 | 101 | 102 | 99 | 98 |
| | Balance sheet (IDRb) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Total gross loans | 190,692 | 205,917 | 225,807 | 240,943 | 257,429 |
| | Other interest earning assets | 98,069 | 113,038 | 97,374 | 86,124 | 74,435 |
| | Total gross IEAs | 288,761 | 318,954 | 323,181 | 327,067 | 331,864 |
| | Total provisions | (13,225) | (12,095) | (9,896) | (7,558) | (5,849) |
| | Net loans to customers | 177,605 | 194,011 | 216,124 | 233,625 | 251,850 |
| | Total net IEAs | 275,536 | 306,859 | 313,284 | 319,509 | 326,016 |
| | Total non-IEAs | 31,218 | 27,511 | 31,539 | 36,160 | 41,460 |
| | Total assets | 306,754 | 334,369 | 344,823 | 355,669 | 367,475 |
| | Customer deposits | 227,189 | 235,862 | 244,041 | 252,533 | 261,351 |
| | Other interest-bearing liabilities | 13,927 | 30,929 | 30,311 | 29,704 | 29,110 |
| | Total IBLs | 241,116 | 266,791 | 274,351 | 282,237 | 290,461 |
| | Total non-IBLs | 20,362 | 18,241 | 17,876 | 17,519 | 17,168 |
| | Total liabilities | 261,478 | 285,032 | 292,228 | 299,756 | 307,630 |
| | Share capital | 8,646 | 8,681 | 8,681 | 8,681 | 8,681 |
| | Shareholders' equity | 45,192 | 49,193 | 52,436 | 55,737 | 59,653 |
| | Minority interests | 84 | 145 | 159 | 175 | 193 |
| | Asset quality and capital | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Reported NPLs / gross cust loans (%) | 2.8 | 2.0 | 2.7 | 2.7 | 2.7 |
| | Total provisions / reported NPLs (%) | 245.1 | 295.5 | 0.0 | 0.0 | 0.0 |
| | CET-1 ratio (%) | 20.0 | 21.8 | 18.0 | 17.8 | 9.4 |
| | Tier-1 ratio (%) | 20.0 | 21.8 | 18.0 | 17.8 | 9.4 |
| | Total capital ratio (%) | 21.4 | 23.1 | 19.3 | 19.1 | 10.7 |

Source: Company data, RHB

Figure 1: BNGA results review

| INCOME STATEMENT (IDRbn) | 2Q23 | 1Q24 | 2Q24 | QoQ | YoY | 1H23 | 1H24 | YoY | 1H24 / FY24F RHB | 1H24 / FY24F Cons. |
|--------------------------|---------|---------|---------|-------|--------|--------|--------|--------|------------------------|--------------------------|
| Interest Income | 5,645 | 5,845 | 6,006 | 2.8% | 6.4% | 11,004 | 11,850 | 7.7% | | |
| Interest Expense | 2,217 | 2,560 | 2,635 | 2.9% | 18.8% | 4,169 | 5,195 | 24.6% | | |
| Net Interest Income | 3,428 | 3,285 | 3,371 | 2.6% | -1.7% | 6,835 | 6,655 | -2.6% | 46% | 33% |
| Non-Interest Income | 1,608 | 1,515 | 1,414 | -6.7% | -12.1% | 3,184 | 2,929 | -8.0% | | |
| Total Operating Income | 5,036 | 4,800 | 4,785 | -0.3% | -5.0% | 10,019 | 9,584 | -4.3% | | |
| Operating Expense | 2,026 | 2,135 | 2,074 | -2.9% | 2.4% | 4,245 | 4,209 | -0.8% | | |
| PPOP | 3,010 | 2,665 | 2,711 | 1.7% | -9.9% | 5,774 | 5,375 | -6.9% | | |
| Provision Expense | 944 | 490 | 492 | 0.4% | -47.9% | 1,693 | 983 | -41.9% | | |
| Operating Profit | 2,137 | 2,174 | 2,218 | 2.0% | 3.8% | 4,152 | 4,392 | 5.8% | | |
| Net Profit | 1,652 | 1,681 | 1,726 | 2.7% | 4.5% | 3,233 | 3,407 | 5.4% | 49% | 48% |
| BALANCE SHEET (IDRbn) | | | | | | | | | | |
| | 1H23 | 1Q24 | 1H24 | QoQ | YoY | | | | | |
| Loan | 205,074 | 211,590 | 217,080 | 2.6% | 5.9% | | | | | |
| Deposit | 235,794 | 248,030 | 249,850 | 0.7% | 6.0% | | | | | |
| CASA | 151,612 | 160,110 | 162,890 | 1.7% | 7.4% | | | | | |
| Time Deposits | 84,181 | 87,920 | 86,960 | -1.1% | 3.3% | | | | | |
| RATIOS | | | | | | | | | | |
| | 1H23 | 1Q24 | 1H24 | | | | | | | |
| ROAE (%) | 15.4% | 14.4% | 14.8% | | | | | | | |
| NIM (%) | 4.6% | 4.2% | 4.2% | | | | | | | |
| CoC (%) | 1.6% | 0.8% | 0.9% | | | | | | | |
| CASA (%) | 64.3% | 64.6% | 65.2% | | | | | | | |
| LDR (%) | 86.0% | 84.2% | 85.7% | | | | | | | |
| CIR (%) | 43.3% | 44.5% | 43.9% | | | | | | | |
| NPL (%) | 2.5% | 2.1% | 2.1% | | | | | | | |
| Tier-1 CAR | 22.1% | 23.4% | 21.6% | | | | | | | |
| Coverage (%) | 261.9% | 257.4% | 253.1% | | | | | | | |

Source: Company data, RHB

Figure 2: FY24F guidance and actual numbers for FY23, 1Q24 and 1H24

| Key metrics | FY23 Actual | FY24F Guidance | 1Q24 Actual | 1H24 Actual |
|-------------|-------------|----------------|-------------|-------------|
| Loan growth | 8.50% | 5-7% | 6.00% | 5.90% |
| NIM | 4.40% | 4.2-4.4% | 4.20% | 4.20% |
| CoC | 1.00% | 1.0-1.1% | 0.82% | 0.90% |
| CIR | 44.80% | Below 45% | 44.48% | 43.90% |
| ROE | 15.00% | 15-16% | 14.40% | 14.80% |

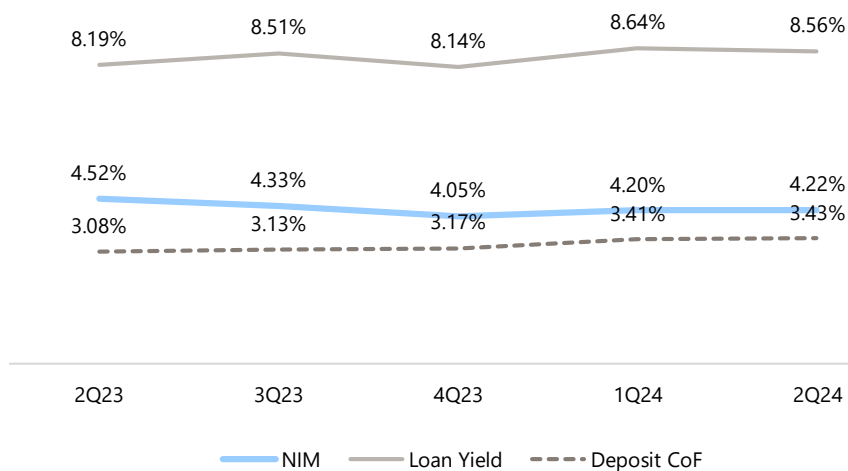
Source: Company data, RHB

Figure 3: Loan growth by segment

| (IDRtrn) | Jun 2023 | Mar 2024 | Jun 2024 | QoQ | YTD | YoY |
|------------------|----------|----------|----------|-------|------|-------|
| Consumer | 69.34 | 72.87 | 73.38 | 0.7% | 2.1% | 5.8% |
| Mortgages | 42.3 | 42.94 | 42.89 | -0.1% | 0.4% | 1.4% |
| Auto loans | 12.64 | 14.22 | 14.29 | 0.5% | 5.0% | 13.1% |
| CC, PL, & Others | 14.41 | 15.71 | 16.2 | 3.1% | 4.5% | 12.4% |
| SME | 23.13 | 24.97 | 25.44 | 1.9% | 2.0% | 10.0% |
| Commercial | 31.93 | 33.09 | 33.19 | 0.3% | 0.2% | 3.9% |
| Corporate | 80.67 | 80.66 | 85.06 | 5.5% | 2.0% | 5.4% |
| Total Loans | 205.07 | 211.59 | 217.08 | 2.6% | 1.7% | 5.9% |
| Sharia Financing | 52.03 | 56.21 | 58.08 | 3.3% | 5.1% | 11.6% |

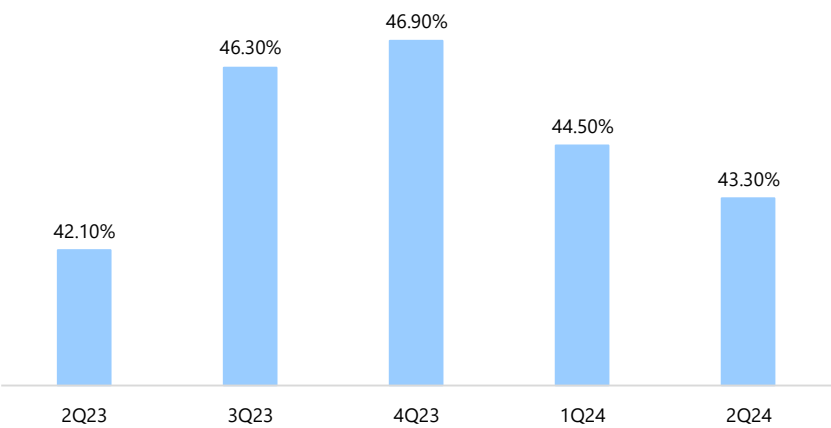
Source: Company data, RHB

Figure 4: Loan yield, deposit COF and NIM trends (%)



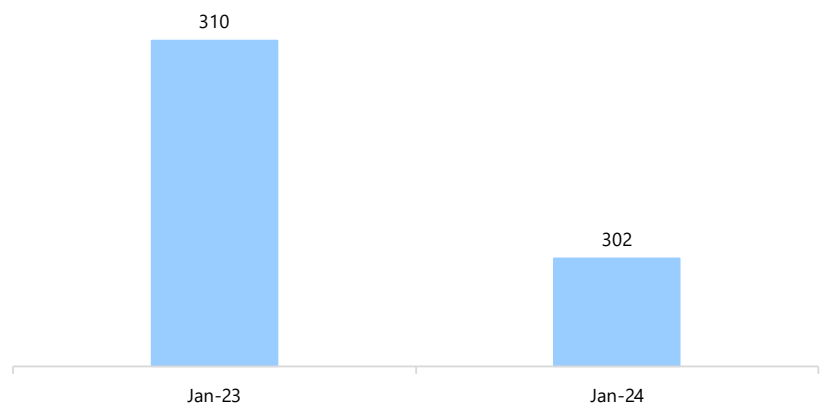
Source: Company data, RHB

Figure 5: CIR trend (%)



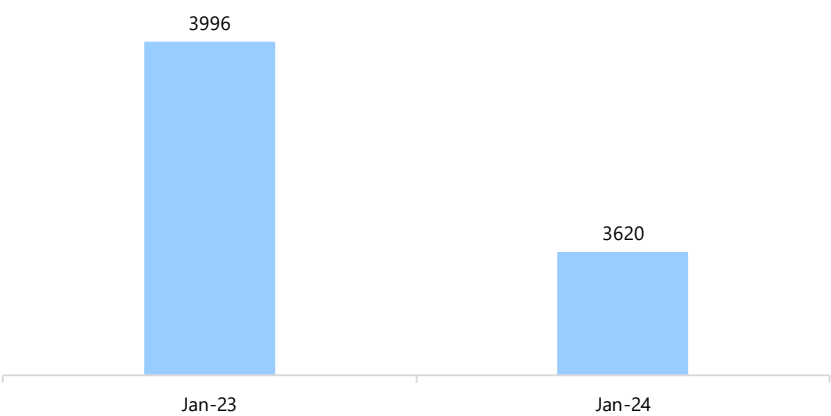
Source: Company data, RHB

Figure 6: Number of BNGA branches (Jan 2023 vs Jan 2024)



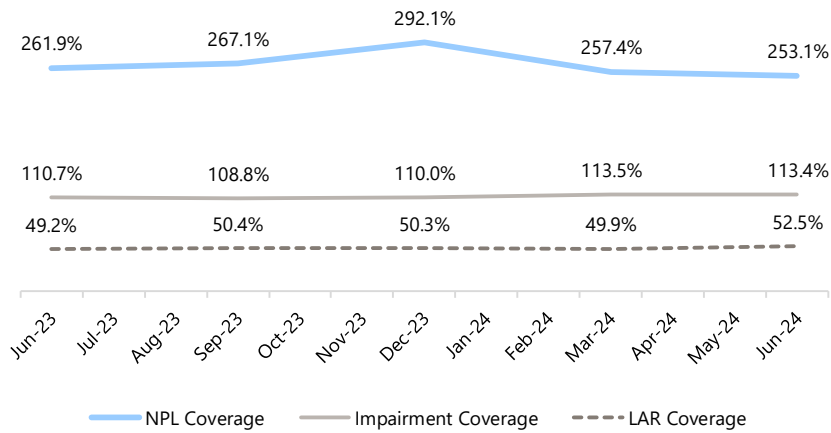
Source: Company data, RHB

Figure 7: The number of BNGA ATMs has decreased



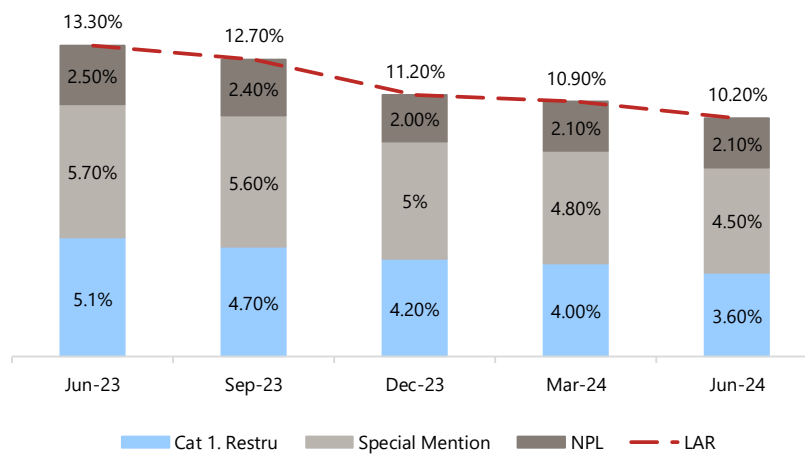
Source: Company data, RHB

Figure 8: NPL coverage, impairment coverage, and LAR coverage trends (%)



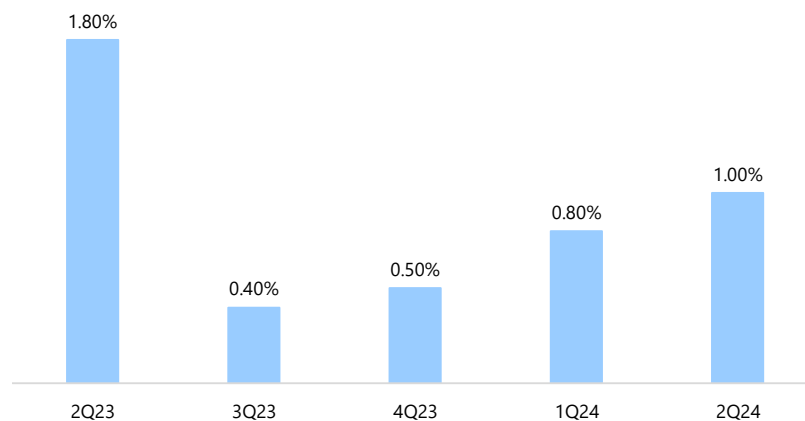
Source: Company data, RHB

Figure 9: LAR trends (%)



Source: Company data, RHB

Figure 10: Credit cost (CoC) trend (%)



Source: Company data, RHB

Emissions And ESG

Trend analysis

CIMB Niaga is committed to integrating and harmonising ESG factors into its business activities, as well as promoting the Sustainable Development Goals (SDGs). Total gas emissions under Scope 1, 2, and 3 classifications fell 16% YoY in 2023.

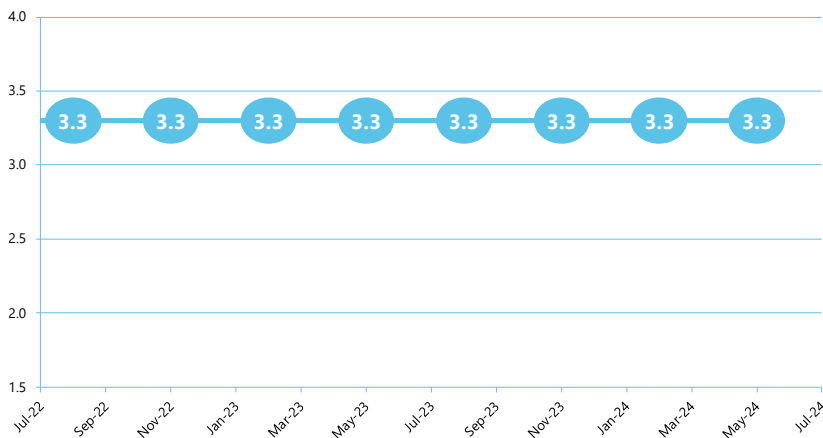
| Emissions (tCO ₂ e) | Dec-21 | Dec-22 | Dec-23 |
|--------------------------------|--------|--------|--------|
| Scope 1 | 39,091 | 36,507 | 30,004 |
| Scope 2 | na | na | na |
| Scope 3 | 635 | 1,017 | 1,476 |
| Total emissions | 39,726 | 37,524 | 31,481 |

Source: Company data, RHB

Latest ESG-Related Developments

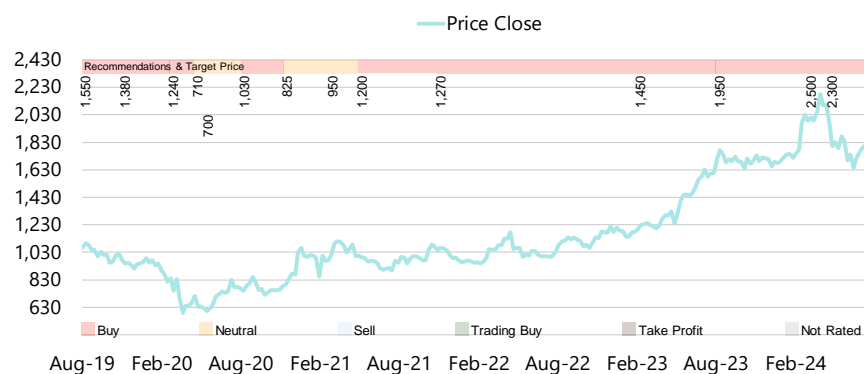
- BNGA booked a c.18% YoY reduction in total Scope 1 and 2 greenhouse gas emissions in 2023. The management of its sustainable financial portfolio aligns with the Green, Social, Sustainable Impact Products and Services framework established by CIMB Group.
- Results of the debtor identification process according to the Indonesian Green Taxonomy showed that 18% of BNGA's top 450 debtors are classified as green or yellow, based on their loans outstanding.
- The bank continues to implement its sustainable financial product and programme initiatives developed previously, such as the Mapan iB savings programme with *waqf*, green mortgage, and solar panel financing.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2024-07-02 | Buy | 2,300 | 1,740 |
| 2024-04-05 | Buy | 2,500 | 2,100 |
| 2024-03-21 | Buy | 2,500 | 2,040 |
| 2024-02-27 | Buy | 2,500 | 2,120 |
| 2023-08-01 | Buy | 1,950 | 1,670 |
| 2023-02-19 | Buy | 1,450 | 1,235 |
| 2023-01-30 | Buy | 1,450 | 1,180 |
| 2022-10-27 | Buy | 1,270 | 1,140 |
| 2021-10-28 | Buy | 1,270 | 1,030 |
| 2021-04-30 | Buy | 1,200 | 1,005 |
| 2021-02-22 | Neutral | 950 | 970 |
| 2020-11-08 | Neutral | 825 | 785 |
| 2020-08-02 | Buy | 1,030 | 770 |
| 2020-05-11 | Neutral | 700 | 640 |
| 2020-04-16 | Neutral | 710 | 700 |

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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