

29 January 2024

Financial Services | Banks

Bank Negara Indonesia (BBNI IJ)

Buy (Maintained)

Best "Bank" For The Buck And Still a Preferred Pick

- **Keep BUY, with new IDR6,400 TP from IDR6,250, 18% upside and c.5% yield.** 4Q23 results met expectations. Near-term, while tight liquidity may continue to pressure NIM, we think Bank Negara Indonesia has sufficient levers to underpin growth. It also aspires to lift ROE to 18% by 2025 vs 2023's 14.9% and 20% in 2028, with NII, better efficiency, and asset quality doing the heavy lifting. While not without challenges, recent achievements suggest some of the assumptions are reasonable. At 1.2x 2024F P/BV, we believe the market has yet to reflect these aspirations.
- **4Q23 in line.** Net profit of IDR5.2trn (-5% QoQ, +12% YoY) brought FY23 net profit to IDR21trn (+14% YoY), at 99% of our and consensus FY23F earnings. FY23 reported ROAE (bank only) ticked higher to 16.8% vs 16.4% in FY22, while CET-1 capital ratio (bank only) was a robust 20.2% (FY22: 17.5%). 4Q23 PPOP was flat QoQ (+7% YoY) with stronger non-II (+32% QoQ and YoY) from fees offset by seasonally higher opex (+20% QoQ/+1% YoY). Group credit cost (CoC) was higher at 1.5% (3Q23: 1.3%), which dragged overall bottomline growth. Group NIM was down an estimated 28bps QoQ – partly due to the subsidised micro loans (KUR) subsidy received in 3Q23.
- **Loan growth momentum sustained,** with loan base expanding by 4% QoQ/8% YoY. Corporate loans, both to private (+5% QoQ/+14% YoY) and SOEs (+5% QoQ/+12% YoY), as well as consumer (+4% QoQ/+14% YoY) were key drivers. By sector, sequential growth was led by resources, manufacturing and general trading. Meanwhile, deposits rose 5% YoY (+8% QoQ) thanks to time deposits (+10% YoY/flat QoQ) while CASA rose 4% YoY (+13% QoQ). Overall, LDR was 85.8% vs 4Q22: 84.2% (3Q23: 90.1%) while CASA ratio was 71.2% vs 4Q22: 72.4% (3Q23: 68.6%).
- **Asset quality stayed benign** with loans at risk (LAR) and NPL ratios lower at 12.9% (Sep 2023: 14.4%) and 2.1% (Sep 2023: 2.3%) while LAR coverage rose further to 53% (3Q23: 51%). NPL coverage dipped slightly but was still healthy at 319% (3Q23: 324%). BBNI plans to hold on to its provision buffers until LAR falls below 10%, where it will then reassess the levels needed.
- **FY23 targets met, now for FY24F.** BBNI met its FY23 targets, ie loan growth of 7-9% (FY23: 7.6%), NIM ≥4.6% (FY23: 4.6%) and CoC <1.5% (FY23: 1.4%). For FY24F, it targets: i) loan growth to accelerate to 9-11%; ii) NIM ≥4.5%; and iii) CoC <1.4%. BBNI is positive on its consumer book while demand for working capital should be resilient. Given the progress of its loan rebalancing efforts, it is now comfortable to regrow the SME/commercial book. It does not expect to reprice loans, and barring a spike in funding cost, NIM target looks fair. CoC should also continue to ease amid better asset quality.
- **We lower our FY24F-25F earnings by 2-3% but raise our TP to IDR6,400** after updating for the full-year results and ROE assumption in our GGM. Our intrinsic value of IDR6,133 is based on a GGM-derived 1.42x P/BV and includes a 4% ESG premium.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	18,312	20,909	23,036	25,367	28,495
Net profit growth (%)	68.0	14.2	10.2	10.1	12.3
Recurring net profit (IDRb)	18,316	20,903	23,029	25,359	28,486
Recurring EPS (IDR)	491.09	560.44	617.45	679.93	763.75
BVPS (IDR)	3,580.92	3,964.74	4,322.92	4,761.36	5,253.29
DPS (IDR)	196.39	224.25	247.06	272.06	305.59
Recurring P/E (x)	11.05	9.68	8.79	7.98	7.10
P/B (x)	1.51	1.37	1.25	1.14	1.03
Dividend Yield (%)	3.6	4.1	4.6	5.0	5.6
Return on average equity (%)	14.4	14.9	14.9	15.0	15.3

Source: Company data, RHB

Target Price (Return): IDR6,400 (+18%)
Price (Market Cap): IDR5,425 (USD12,786m)
ESG score: 3.2 (out of 4)
Avg Daily Turnover (IDR/USD) 242,001m/15.5m

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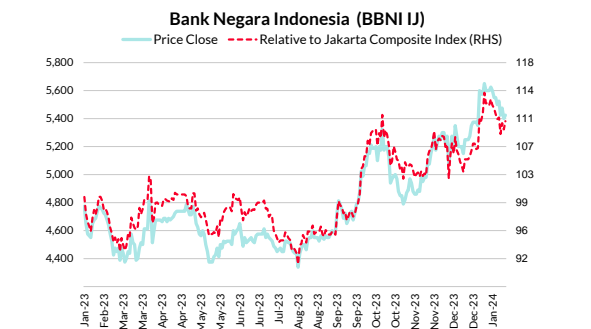


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.9	3.3	11.2	21.2	14.5
Relative	2.8	4.7	4.9	18.5	10.5
52-wk Price low/high (IDR)				4,338	–5,650



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: GOOD

BBNI has a 5-pillar comprehensive sustainability strategy that supports the achievement of the goals of sustainable development. The bank has a credit policy for no exposure in 10 areas. Total sustainable business financing stood at IDR182.9trn, or 28.5% of total loans at end-2022.

S: GOOD

BBNI has been active in providing assistance during COVID-19. The bank is active in its support of the Government's People's Business Credit or KUR. The bank believes in employee diversity, with women accounting for 52% of total workforce and 30% of top management.

G: EXCELLENT

BBNI actively provides education related to sustainability and governance to its stakeholders. The bank's composition of board of commissioners and board of directors is in line with the recommendations of the Financial Services Authority.

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	EPS	490.98	560.62	617.64	680.14	763.98
Financial Services	Recurring EPS	491.09	560.44	617.45	679.93	763.75
Bank Negara Indonesia	DPS	196.39	224.25	247.06	272.06	305.59
BBNI IJ	BVPS	3,580.92	3,964.74	4,322.92	4,761.36	5,253.29
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
GGM with key assumptions:	Recurring P/E (x)	11.05	9.68	8.79	7.98	7.10
i. COE of 12.2%;	P/B (x)	1.5	1.4	1.3	1.1	1.0
ii. ROE of 15%; and	Dividend Yield (%)	3.6	4.1	4.6	5.0	5.6
iii. Long term growth of 5.5%						
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	54,659	61,472	65,560	69,073	71,957
i. Provision charges;	Interest expense	(13,338)	(20,196)	(22,452)	(22,551)	(21,318)
ii. Net interest margin; and	Net interest income	41,321	41,276	43,108	46,521	50,639
iii. Loan growth.	Non interest income	20,151	21,472	23,257	24,757	26,470
	Total operating income	61,472	62,747	66,365	71,278	77,109
	Overheads	(27,362)	(27,611)	(28,025)	(29,550)	(31,027)
	Pre-provision operating profit	34,110	35,137	38,340	41,728	46,082
	Loan impairment allowances	(11,211)	(9,363)	(9,853)	(10,387)	(10,886)
	Other exceptional items	(212)	(134)	(142)	(141)	(155)
	Pre-tax profit	22,687	25,640	28,345	31,200	35,040
	Taxation	(4,205)	(4,534)	(5,102)	(5,616)	(6,307)
	Minority interests	(170)	(197)	(207)	(217)	(239)
	Reported net profit	18,312	20,909	23,036	25,367	28,495
	Recurring net profit	18,316	20,903	23,029	25,359	28,486
Key risks	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key downside risks are:	Return on average assets (%)	1.8	2.0	2.0	2.1	2.2
i. Sharply higher inflation impacting loan growth and asset quality;	Return on average equity (%)	14.4	14.9	14.9	15.0	15.3
ii. NIM pressure from competition and higher cost of funds	Return on IEAs (%)	5.6	6.0	6.0	5.9	5.7
	Cost of funds (%)	1.6	2.3	2.4	2.3	2.0
	Net interest spread (%)	4.0	3.6	3.6	3.7	3.7
	Net interest margin (%)	4.2	4.0	4.0	4.0	4.0
	Non-interest income / total income (%)	32.8	34.2	35.0	34.7	34.3
	Cost to income ratio (%)	44.5	44.0	42.2	41.5	40.2
	Credit cost (bps)	182	140	135	130	125
Company Profile	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Bank Negara Indonesia is Indonesia's fourth largest bank by asset size and is majority controlled by the Government. The bank has strong exposure in corporate and SME banking, particularly towards SOE-linked infra projects.	Total gross loans	796,602	839,158	914,300	988,560	1,069,212
	Other interest earning assets	362,559	358,350	357,119	374,015	391,767
	Total gross IEAs	1,008,747	1,053,435	1,121,712	1,207,422	1,300,181
	Total provisions	(51,535)	(48,503)	(39,966)	(40,353)	(22,192)
	Net loans to customers	595,854	647,927	725,971	794,398	887,565
	Total net IEAs	957,212	1,004,932	1,081,746	1,167,069	1,277,988
	Total non-IEAs	72,625	81,732	90,701	84,551	86,950
	Total assets	1,029,837	1,086,664	1,172,447	1,251,620	1,364,938
	Customer deposits	769,269	810,730	879,642	932,421	1,016,339
	Other interest-bearing liabilities	82,135	78,340	79,930	85,298	91,209
	Total IBLs	851,404	889,070	959,573	1,017,719	1,107,547
	Total non-IBLs	38,235	42,861	44,576	49,033	53,937
	Total liabilities	889,639	931,931	1,004,148	1,066,752	1,161,484
	Share capital	26,065	26,325	26,325	26,325	26,325
	Shareholders' equity	133,559	147,874	161,233	177,586	195,934
	Minority interests	6,639	6,859	7,065	7,282	7,521
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	2.8	2.2	2.0	1.9	1.7
	Total provisions / reported NPLs (%)	164.4	174.1	150.2	151.5	163.5
	CET-1 ratio (%)	18.4	21.1	20.8	21.3	21.8
	Tier-1 ratio (%)	18.4	21.1	20.8	21.3	21.8
	Total capital ratio (%)	19.5	22.3	22.0	22.4	23.0

Source: Company data, RHB

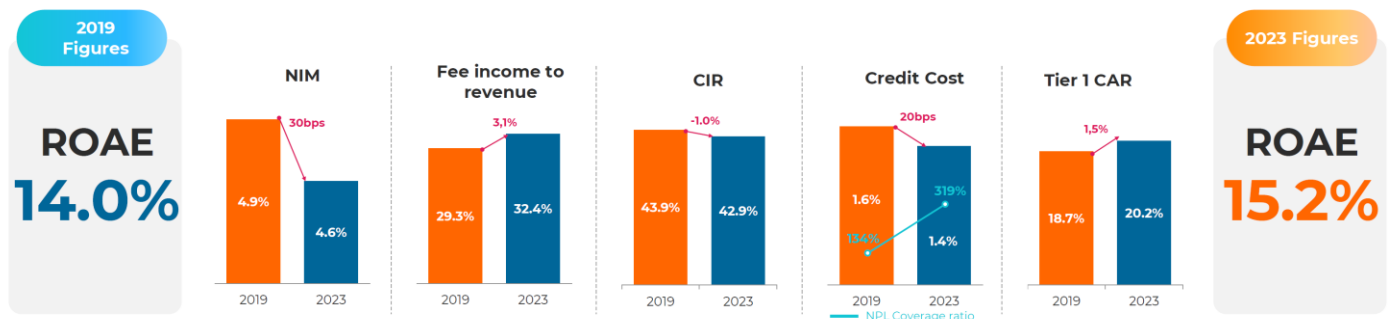
Results at a Glance

Figure 1: BBNI – summary of 4Q23 and FY23 results

FYE Dec (IDRbn)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	% of RHB	% of cons.
Interest income	15,388	15,924	15,253	-4.2%	-0.9%	54,659	61,472	12.5%		
Interest expense	4,267	5,389	5,114	-5.1%	19.9%	13,338	20,196	51.4%		
Net interest income	11,122	10,535	10,139	-3.8%	-8.8%	41,321	41,276	-0.1%		
Non-interest income	5,159	5,159	6,822	32.2%	32.2%	19,939	21,338	7.0%		
Total operating income	16,280	15,694	16,961	8.1%	4.2%	61,260	62,614	2.2%		
Operating expenses	7,974	6,750	8,085	19.8%	1.4%	27,362	27,611	0.9%		
PPOP	8,306	8,943	8,876	-0.7%	6.9%	33,898	35,003	3.3%		
Provision expense	2,310	2,201	2,635	19.7%	14.1%	11,211	9,363	-16.5%		
Operating profit	5,996	6,742	6,241	-7.4%	4.1%	22,687	25,640	13.0%		
Net profit	4,620	5,452	5,156	-5.4%	11.6%	18,312	20,909	14.2%	99%	99%
Balance sheet (IDRbn)	Dec-22	Sep-23	Dec-23	QoQ (%)	YoY (%)					
Loans	646,188	671,371	695,085	3.5%	7.6%					
Deposit	769,269	747,595	810,730	8.4%	5.4%					
- CASA	557,320	512,890	577,478	12.6%	3.6%					
- Time deposits	211,949	234,705	233,253	-0.6%	10.1%					
Ratios – Bank Only	FY22	9M23	FY23							
ROAA (%)	2.5%	2.6%	2.6%							
ROAE (%)	16.4%	17.2%	16.8%							
NIM (%)	4.81%	4.64%	4.58%							
CoC (%)	1.9%	1.4%	1.4%							
CASA (%)	72.4%	68.6%	71.2%							
LDR (%)	84.2%	89.8%	85.7%							
CIR (%)	42.6%	42.6%	19.4%							
NPL (%)	2.81%	2.27%	2.14%							
CAR (%)	19.3%	21.9%	22.0%							
Loan loss coverage (%)	278.3%	324.5%	319.0%							

Source: Company data, RHB

Figure 2: BBNI 's transformation journey has lifted ROE by 120bps on higher fees, better efficiency and improved asset quality



Source: Company data, RHB

Management guidance and targets –FY24

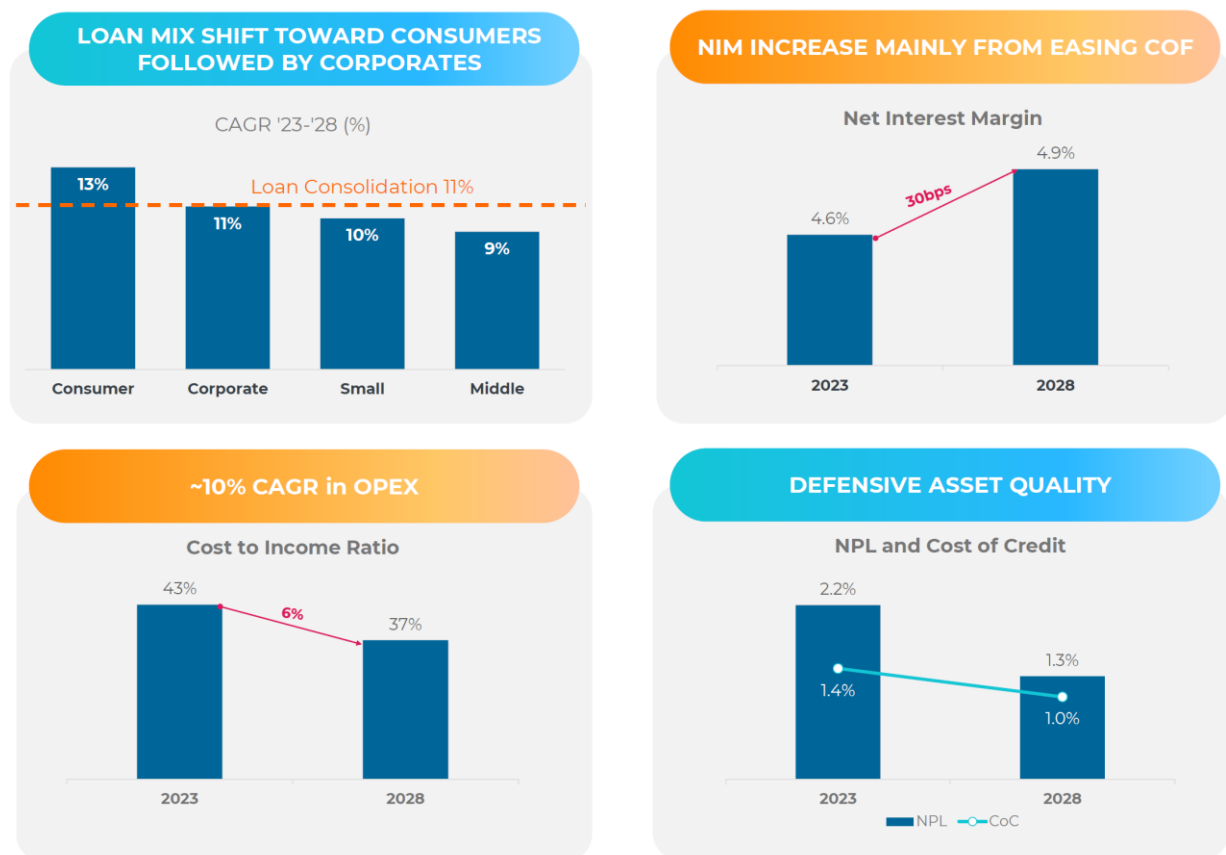
Figure 3: BBNI met its FY23 targets, now for FY24

	FY22 achieved	FY23 achieved	FY23 guidance	FY24 guidance	Comments
Loans growth	10.9%	7.6%	7-9%	9-11%	Corporate and consumer will continue to drive growth. BBNI does not rule out the possibility that the elections could impact loan growth with investment loan demand likely most vulnerable while the consumer segment is expected to be the most resilient. As for its commercial/SME loan book, BBNI will continue to monitor closely the performance but thinks asset quality has reached a level that is comfortable enough for management to halt its contraction and resume growing the book.
NIM	4.81%	4.6%	≥4.60%	>4.5%	
Credit cost	1.9%	1.4%	<1.5%	<1.4%	2023 NIM squeeze on higher funding cost arising from tighter liquidity. Management does not expect any meaningful repricing of loans this year and instead, thinks potential BI rate cuts in 2H24 should help lift some of the funding cost pressures the industry has been going through last year.

Source: Company data, RHB

Beyond that, BBNI aspires to lift ROE to 18% by 2025 vs 2023's 14.9%, and ultimately to 20% in 2028. Key assumptions and drivers are: i) loan growth of 11% CAGR led by consumer (13% CAGR) and corporate (11% CAGR); ii) NIM recovers to pre-COVID-19 level of 4.9%; iii) continued improvement in cost efficiency, with CIR falling to 37%; and iv) portfolio derisking efforts result in CoC stabilising at 1%.

Figure 4: 2028 ROE aspiration of 20%



Source: Company data, RHB

Earnings forecasts

Our FY24F-25F numbers have been updated for the full-year FY23 results, and to take into account management's targets/guidance. The mild reduction in our FY24F-25F net profit mainly reflects the combination of lower NIM assumptions after updating for FY23 actual and management's 2024 guidance of a slight squeeze coupled with more conservative assumptions on credit cost. On the whole, we project FY24 net profit to rise 10% YoY with key drivers being: i) 6% YoY growth in operating income with contribution from both NII and non-II; ii) improved efficiency with CIR falling to 42% from 44% in 2023; and iii) a slight downtick in CoC to 1.35% from 1.4% in 2023.

Figure 5: BBNI – revisions to earnings forecasts

	Previous FY24F	Previous FY25F	Previous FY26F	Revised FY24F	Revised FY25F	Revised FY26F	% Change FY24F	% Change FY25F	% Change FY26F
FYE Dec (IDRbn)									
NII	46,318	49,616	<i>new</i>	43,108	46,521	50,639	-7%	-6%	<i>n.m.</i>
Operating income	67,980	72,704	<i>new</i>	66,365	71,278	77,109	-2%	-2%	<i>n.m.</i>
PPOP	39,076	42,230	<i>new</i>	38,340	41,728	46,082	-2%	-1%	<i>n.m.</i>
Provision expenses	9,466	9,266	<i>new</i>	9,853	10,387	10,886	4%	12%	<i>n.m.</i>
Net profit	23,648	26,013	<i>new</i>	23,036	25,367	28,495	-3%	-2%	<i>n.m.</i>
EPS (IDR)	634	697	<i>new</i>	618	680	764	-3%	-2%	<i>n.m.</i>
EPS growth (%)	11.6%	10.0%		10.2%	10.1%	12.3%			
Loans	774,780	836,762	<i>new</i>	764,593	833,407	908,413	-1%	0%	<i>n.m.</i>
Loan growth (%)	10.0%	8.0%		10.0%	9.0%	9.0%			
NIM (%)	4.33%	4.32%	<i>new</i>	4.14%	4.18%	4.22%			
CIR (%)	42.5%	41.9%	<i>new</i>	42.2%	41.5%	40.2%			
Credit cost (%)	1.28%	1.15%	<i>new</i>	1.35%	1.30%	1.25%			
BVPS (IDR)	4,534	4,983	<i>new</i>	4,323	4,761	5,253	-5%	-4%	<i>n.m.</i>
DPS (IDR)	227	254	<i>new</i>	247	272	306	9%	7%	<i>n.m.</i>
ROE	14.7%	14.7%	<i>new</i>	14.9%	15.0%	15.3%	-6.9%	-6.2%	<i>n.m.</i>

Source: Company data, RHB

Valuation and TP

Despite the downward revision to our earnings forecasts, we raise our TP to IDR6,400 from IDR6,250. The change reflects the update to book value, coupled with an upgrade to our sustainable ROE assumption to 15% from 14.7%.

Following these revisions, our intrinsic value has been revised to IDR6,133 from IDR6,005, which is based on an updated GGM-derived P/BV of 1.42x (from 1.3x). The TP includes an unchanged ESG premium of 4% applied, given BBNI's ESG score of 3.2 out of 4.0 using our proprietary in-house methodology.

Figure 6: BBNI – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	15.0
Risk free rate (%)	6.7	COE (%)	12.2
Equity premium (%)	5.0	Long-term growth (g)	5.5
Beta (x)	1.1	Implied P/BV (x)	1.42
Cost of equity - CAPM (%)	12.2	BVPS – Dec '24	IDR4,323
		Intrinsic value	IDR6,133
ESG premium/(discount) (%)	4.0	ESG premium/(discount)	IDR245
		TP (rounded)	IDR6,400

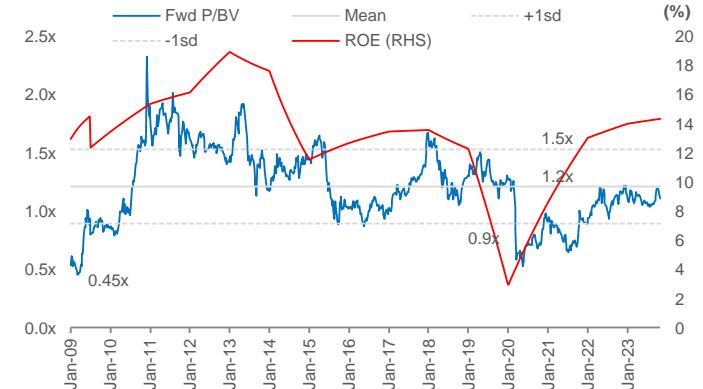
Source: Company data, RHB

Figure 7: BBNI's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 8: BBNI's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

BBNI has made improvements in its emission data over the years, which includes adjusting the calculation methodology in terms of the classification of emission sources to calculate emissions. Scope 2 emissions included electricity use in all BBNI offices from 2022.

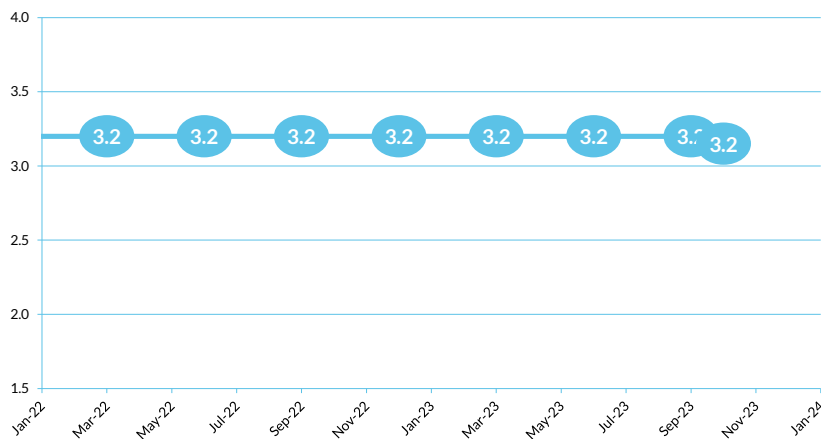
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	1,171	122	na
Scope 2	28,339	295,209	na
Scope 3	-	2,903	na
Total emissions	29,510	298,234	na

Source: Company data, RHB

Latest ESG-Related Developments

- **Net zero roadmap:** BBNI is in the process of establishing short-, mid- and long-term net-zero emissions roadmap as commitment to the path towards net-zero emissions.
- **To adopt TCFD framework:** BBNI will adopt the Task Force on Climate-Related Financial Disclosures (TCFD) framework for climate related voluntary financial disclosure.
- **Financed emissions:** BBNI has started calculating financing emissions for its mid- and corporate borrowers in sectors such as palm oil, coal mining, processing, trading, pulp and paper and construction (47% of entire portfolio).

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-10-31	Buy	6,250	4,790
2023-10-16	Buy	6,250	5,200
2023-04-25	Buy	11,700	4,738
2023-01-25	Buy	12,000	4,538
2022-10-25	Buy	11,600	4,713
2022-08-01	Buy	10,400	3,975
2022-04-26	Buy	11,300	4,800
2022-01-27	Buy	9,000	3,600
2021-10-25	Buy	9,000	3,675
2021-08-17	Buy	7,883	2,575
2021-04-26	Buy	8,050	2,863
2021-03-29	Buy	8,050	3,025
2021-02-01	Buy	8,050	2,925
2020-12-10	Buy	8,400	3,300
2020-11-01	Buy	5,600	2,370

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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