

25 July 2023

Financial Services | Banks

Bank Central Asia (BBCA IJ)

Buy (Maintained)

Lower Opex And Provisions Drive QoQ Growth; BUY

- **Stay BUY and IDR10,700 TP, 18% upside with c.2% yield.** Bank Central Asia's (BBCA) 2Q23 results were broadly in line, with lower opex and cost of credit underpinning sequential bottomline growth. 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. This report marks the transfer of coverage to David Chong.
- **2Q23 in line**, with net profit of IDR12.7trn (+10% QoQ, +27% YoY) bringing 1H23 net profit to IDR24trn (+34% YoY), 53% of our and 51% of Street's FY23F earnings. 1H23 PPOP accounted for 51% of our estimate, but credit cost trailed estimates as asset quality held up. At the bank level, 1H ROE (annualised) rose to 24.2% (FY22: 21.7%) while capital adequacy ratio was a solid 29.5% (1Q23: 28.9%).
- **Results highlights.** Operating income was flat QoQ. NII was flat with 3% QoQ loan growth offset by a slight moderation in NIM to 5.5% (1Q23: 5.6%) while Non-II was down 5% QoQ on lower trading (-14% QoQ) and other income (-34% QoQ). Opex, however, fell 9% QoQ on lower personnel costs (higher bonus expenses in 1Q), which lifted PPOP 3% QoQ. Coupled with credit cost of just 0.5% (1Q23: 0.8%), given stable asset quality trends, pre-tax and net profit rose 10-11% QoQ.
- **Loan growth momentum improved; 10-12% growth target kept.** As expected, sequential loan growth improved to 3% (+9% YoY) vs 1Q: flat QoQ. Commercial/SME was up 4% QoQ (+11% YoY) while consumer was up 5% QoQ (+14% YoY), which was broad-based. The corporate segment, however, remained muted (+2% QoQ; +5% YoY) as the rollout for some infra projects has been slow. Deposit growth (+3% QoQ) kept pace with loans but - due to rate differentials - BBCA has seen its high net worth depositors shift away from CASA in search of higher yields. CASA rose 3% QoQ (+6% YoY) vs +6% QoQ (+7% YoY) for time deposits. That said, management thinks this shift should normalise when interest rate starts to ease, possibly in 2024.
- **Underlying NIM still healthy.** NIM (bank only) was 5.5% in 2Q23 vs 5.6% in 1Q23 due to a higher interest cost. Nevertheless, given that 1H23 NIM has stayed healthy at 5.6%, ample liquidity (LDR: 69%) and the ongoing redeployment to higher yielding loans from placements with Bank Indonesia (BI), BBCA raised its NIM guidance to 5.5-5.6% (5.3-5.4% previously).
- **Sustained decline in loans at risk (LAR).** LAR ticked down to 8.7% of total loans from 9.5% in Mar 2023. More importantly, there was a meaningful increase in LAR coverage to 62% vs 58% at end-1Q23. With the sustained asset quality improvement, management now expects credit cost to come in at 0.5-0.6% in FY23F vs 0.7-0.8% previously (1H23: 0.5%; FY22: 0.7%).
- **With 1H23 performance largely in line, we make no changes to our earnings forecasts and IDR10,700 TP.** Our intrinsic value at IDR10,057 is based on a GGM-derived 4.9x P/BV (Figure 3).

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Reported net profit (IDRm)	31,422,660	40,735,722	45,669,756	50,866,968	56,004,935
Net profit growth (%)	15.8	29.6	12.1	11.4	10.1
Recurring net profit (IDRm)	31,664,217	40,713,024	45,645,516	50,842,698	55,980,665
Recurring EPS (IDR)	256.86	330.26	370.27	412.43	454.11
BVPS (IDR)	1,644.39	1,792.89	1,975.93	2,165.54	2,378.28
DPS (IDR)	145.00	169.51	204.88	229.69	247.58
Recurring P/E (x)	35.43	27.55	24.58	22.06	20.04
P/B (x)	5.53	5.08	4.61	4.20	3.83
Dividend Yield (%)	1.6	1.9	2.3	2.5	2.7
Return on average equity (%)	16.2	19.2	19.7	19.9	20.0

Source: Company data, RHB

Target Price (Return):	IDR10,700 (17.6%)
Price (Market Cap):	IDR9,100 (USD74,652m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (IDR/USD)	571,602m/38.4m

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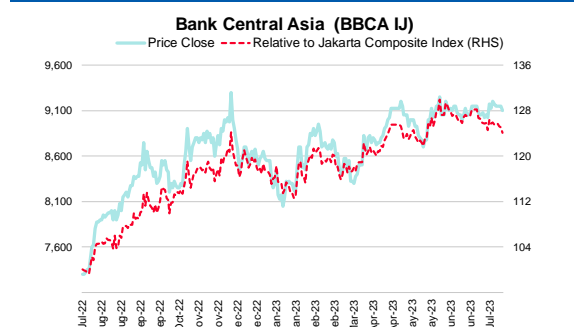


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.4	0.6	(0.3)	10.6	24.2
Relative	5.7	(3.3)	(1.4)	10.0	24.0
52-wk Price low/high (IDR)	7,300 – 9,300				



Source: Bloomberg

Overall ESG Score: 3.3 (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. 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

Did not have 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	370.47	412.63	454.31
Financial Services	Recurring EPS	256.86	330.26	370.27	412.43	454.11
Bank Central Asia	DPS	145.00	169.51	204.88	229.69	247.58
BBCA IJ	BVPS	1,644.39	1,792.89	1,975.93	2,165.54	2,378.28
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)	35.43	27.55	24.58	22.06	20.04
(i) COE of 8.07%	P/B (x)	5.5	5.1	4.6	4.2	3.8
(ii) ROE of 20%	Dividend Yield (%)	1.6	1.9	2.3	2.5	2.7
(iii) Long term growth of 5%						
Key drivers	Income statement (IDRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Our forecasts are most sensitive to changes in:	Interest income	65,979,796	72,458,787	83,840,562	92,240,472	100,383,152
(i) Credit costs;	Interest expense	(9,509,175)	(8,315,434)	(9,906,293)	(11,258,166)	(12,819,822)
(ii) Net interest margin; and	Net interest income	56,470,621	64,143,353	73,934,268	80,982,306	87,563,330
(ii) Volatility in trading and investment gains.	Non interest income	21,426,711	22,673,377	24,529,017	26,331,392	27,929,353
	Total operating income	77,897,332	86,816,730	98,463,285	107,313,698	115,492,684
	Overheads	(29,433,744)	(31,851,185)	(35,940,298)	(38,634,139)	(40,818,071)
	Pre-provision operating profit	48,463,588	54,965,545	62,522,987	68,679,559	74,674,613
	Loan impairment allowances	(9,323,995)	(4,526,619)	(6,003,988)	(5,803,519)	(5,444,594)
	Other exceptional items	(596,838)	56,214	60,000	60,000	60,000
	Pre-tax profit	38,841,174	50,467,033	56,548,999	62,906,040	69,260,018
	Taxation	(7,401,015)	(9,711,461)	(10,857,408)	(12,015,054)	(13,228,664)
	Minority interests	(17,499)	(19,850)	(21,835)	(24,019)	(26,420)
	Reported net profit	31,422,660	40,735,722	45,669,756	50,866,968	56,004,935
	Recurring net profit	31,664,217	40,713,024	45,645,516	50,842,698	55,980,665
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	3.3	3.4	3.5
(ii) Hiccups in government stimulus programmes; and	Return on average equity (%)	16.2	19.2	19.7	19.9	20.0
(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	81	71	61
Company Profile	Balance sheet (IDRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
BBCA is Indonesia's 3rd largest bank by asset and the leading consumer bank due to its unrivalled transactional banking franchise.	Total gross loans	795,197,208	843,807,747	928,506,593	1,015,524,664	1,104,835,318
	Other interest earning assets	561,794,479	573,669,374	603,425,154	639,002,763	678,190,654
	Total gross IEAs	1,192,448,017	1,277,231,552	1,384,673,900	1,498,250,848	1,614,835,534
	Total provisions	(34,093,869)	(35,462,188)	(38,559,329)	(40,621,880)	(34,923,868)
	Net loans to customers	597,414,882	668,722,343	743,341,467	819,301,076	902,419,505
	Total net IEAs	1,158,354,148	1,241,769,364	1,346,114,571	1,457,628,968	1,579,911,667
	Total non-IEAs	69,990,532	72,962,310	72,621,407	76,480,583	86,752,044
	Total assets	1,228,344,680	1,314,731,674	1,418,735,978	1,534,109,550	1,666,663,711
	Customer deposits	975,948,771	1,039,718,018	1,120,599,665	1,209,156,440	1,312,093,225
	Other interest-bearing liabilities	49,546,975	53,832,001	54,388,246	57,822,883	61,202,359
	Total IBLs	1,025,495,746	1,093,550,019	1,174,987,911	1,266,979,323	1,373,295,584
	Total liabilities	1,025,495,746	1,093,550,019	1,174,987,911	1,266,979,323	1,373,295,584
	Share capital	7,089,915	7,089,915	7,089,915	7,089,915	7,089,915
	Shareholders' equity	202,712,762	221,018,606	243,583,067	266,957,227	293,183,126
	Minority interests	136,172	163,049	165,000	173,000	185,000
	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	25.0	24.6	24.5	24.6
	Tier-1 ratio (%)	25.2	25.0	24.6	24.5	24.6
	Total capital ratio (%)	26.2	26.0	25.6	25.5	25.7

Source: Company data, RHB

Results At a Glance

Figure 1: BBKA – summary of 2Q23 and 1HFY23 results

FYE 31 Dec (IDRbn)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)	% of RHB	% of cons.
Interest income	17,288	21,106	21,663	2.6%	25.3%	33,750	42,769	26.7%		
Interest expense	(1,997)	(2,575)	(3,090)	20.0%	54.7%	(3,976)	(5,665)	42.5%		
Net interest income	15,291	18,531	18,573	0.2%	21.5%	29,773	37,104	24.6%		
Non-interest income	5,203	6,253	5,913	-5.4%	13.6%	11,123	12,166	9.4%		
Total operating income	20,494	24,784	24,486	-1.2%	19.5%	40,896	49,270	20.5%		
Operating expenses	7,331	9,204	8,396	-8.8%	14.5%	15,054	17,600	16.9%		
PPOP	13,163	15,580	16,090	3.3%	22.2%	25,843	31,670	22.6%		
Provision expense	909	1,460	421	-71.2%	-53.7%	3,727	1,882	-49.5%		
Operating profit	12,254	14,120	15,670	11.0%	27.9%	22,116	29,789	34.7%		
Pre-tax profit	12,254	14,120	15,670	11.0%	27.9%	22,116	29,789	34.7%		
Net profit	9,985	11,530	12,662	9.8%	26.8%	18,049	24,190	34.0%	53%	51%
Balance sheet (IDRbn)	Jun-22	Mar-23	Jun-23	QoQ (%)	YoY (%)					
Loans	675,269	713,686	735,799	3.1%	9.0%					
Deposit	1,011,043	1,038,750	1,071,237	3.1%	6.0%					
- CASA	817,812	843,334	864,728	2.5%	5.7%					
- Time deposits	193,231	195,416	206,509	5.7%	6.9%					
Ratios – Bank Only	6M22	1Q23	6M23							
ROAA (%)	3.5%	3.4%	3.7%							
ROAE (%)	19.6%	22.3%	24.2%							
NIM (%)	5.0%	5.6%	5.6%							
CoC (%)	1.2%	0.8%	0.5%							
CASA (%)	80.9%	81.2%	80.7%							
LDR (%)	66.8%	68.7%	68.7%							
CIR (%)	34.3%	35.2%	32.9%							
NPL (%)	2.2%	1.8%	1.9%							
CAR (%)	24.7%	28.9%	29.5%							
Loan loss coverage (%)	246.4%	285.4%	257.1%							

Source: Company data, RHB

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Management guidance and targets – FY23F

Figure 2: BBKA's guidance for FY23

	FY22 achieved	1H23 achieved	FY23F guidance
Loans growth	11.7%	9%	10-12%
NIM	5.3%	5.56%	5.5-5.6% (from 5.3-5.4%)
Cost-to-income ratio	33.9%	32.9%	36-37%
Credit cost	0.7%	0.5%	0.5-0.6% (from 0.7-0.8%)

Source: Company data, RHB

Valuation and TP

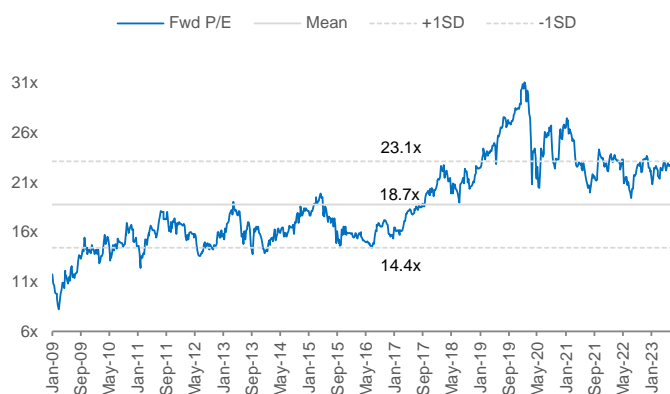
Our TP stays at IDR10,700 and is based on our GGM-derived intrinsic value to IDR10,057 (4.9x P/BV) together with a 6% ESG premium, given its ESG score 3.3 (out of 4.0) vs the country median of 3.0.

Figure 3: BBKA – 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	IDR2,055
		Intrinsic value	IDR10,057
ESG premium/(discount) (%)	6.0	ESG premium/(discount)	IDR603
		TP (rounded)	IDR10,700

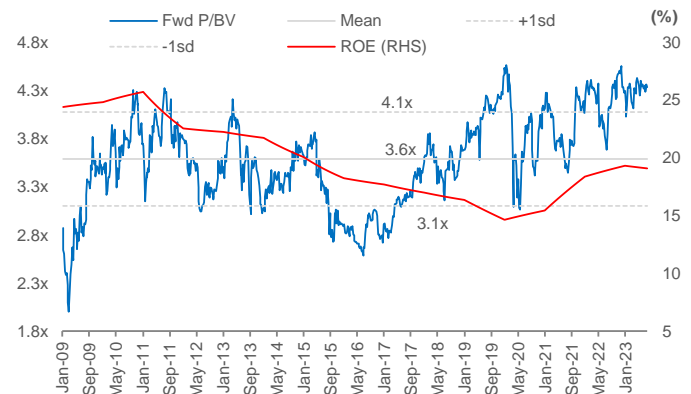
Source: Company data, RHB

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



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

Recommendation Chart

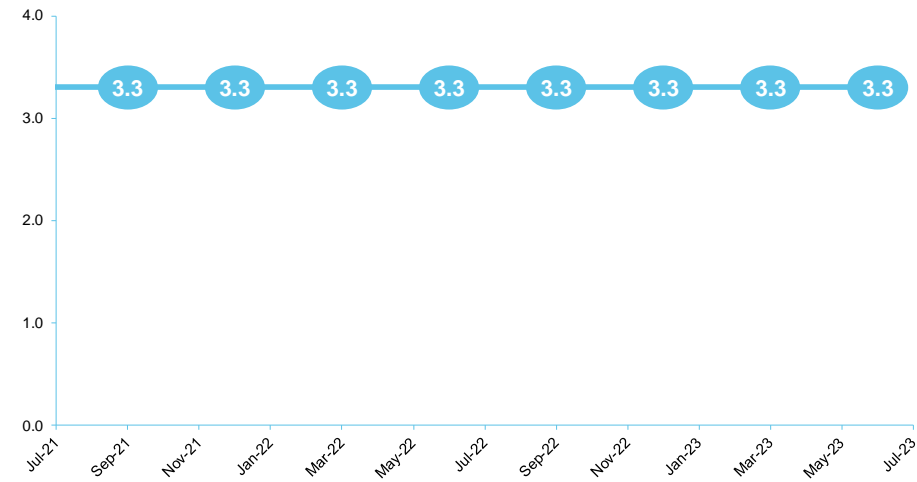


Source: RHB, Bloomberg

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

ESG Rating History



Source: RHB

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