

2 December 2021

Financial Services | Banks

## Bank Raya Indonesia (AGRO IJ)

**Buy**

**Captive Market + Right Platform; Initiate BUY**

Target Price (Return): IDR4,000 (+93%)  
Price (Market Cap): IDR2,070 (USD3,202m)  
ESG score: 3.00 (out of 4)  
Avg Daily Turnover (IDR/USD) 149,985m/10.7m

- **Initiate BUY with IDR4,000 TP, 93% upside.** Bank Raya Indonesia's new business model should boost 2022F earnings after NPLs are cleaned this year. We see 2021F-2025F loans growing at 5% CAGR with higher contributions from consumer loans and CASA to expand NIMs. The hybrid model should facilitate easier reach to the informal and gig economy clients via online and offline presences. AGRO's three channelling spectrums: BRILink agents, parent's host-to-host offices, and community branches.
- **Backed by Bank Rakyat Indonesia's (BBRI IJ, BUY, TP: IDR4,800)** 9,200 branches and 220,000 e-channels, AGRO – vs other digital banks – has a competitive advantage in expanding nationally by tapping into its main target market – the 45m informal workforce. Potential customers can be reached via BBRI's branches or 465,000 BRILink agents. AGRO has a host-to-host strategy too, which enables customers to do bank transactions at BBRI offices. It is also transforming its branches into community outlets that act as marketing points for digital lending and savings services.
- **Focusing on small ticket size customers with higher loan yields.** The new business strategy targets ultra-micro loans (the bulk with ticket sizes of <IDR20m with shorter tenors) from BRILink agents, informal workers, and fintech borrowers. This strategy's double impact: Higher yields from consumer loans (1.24%/month interest rates) and low deposit costs (borrowers need to open AGRO savings accounts). We expect NIMs to improve as contributions from consumer loans and CASA increase.
- **In line with its business model transformation,** AGRO is cleaning its NPLs – mainly from the plantation sector due to low CPO prices in the past. Expecting to book a massive 2021 loss, future asset quality is likely to be healthier in our view. AGRO is partnering with corporates to provide buy now, pay later (BNPL) offerings backed by employee payroll, which should keep NPLs low. Additional capital from rights issuances should also strengthen its capital adequacy ratio (CAR).
- **Valuation.** As AGRO is a digital bank with strong offline presence, we deem it fair to combine conventional and digital banking valuations. We use Gordon Growth Model (GGM) with Beta of 1.92x, risk premium of 4%, risk-free rate of 6%, and sustainable ROEs of 19% – expecting digitalisation to reach its maximum potential in 2025. Calculating the average valuation/customer of global digital banks of USD975.00 results in a 93% upside.
- **Key downside risks:** Digital platform launch delays, competition from digital banks targeting the same market, and slower economic growth on rising COVID-19 cases. We give an ESG score 3.0 with neutral impact. As part of a state-owned enterprise (SOE) bank, it has prudent risk management and sustainable financing. 2021's expected losses are from balance sheet cleaning for AGRO's new business transformation.

### Analysts

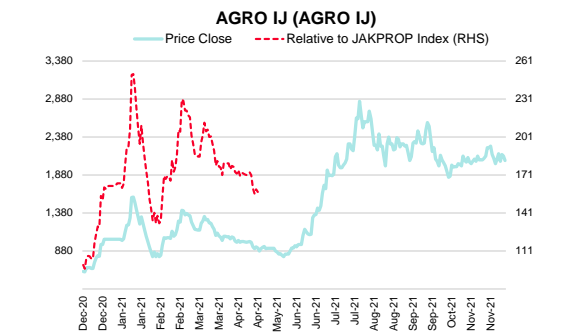
Ryan Santoso  
+6221 5094 0983  
[ryan.santoso@rhbgroup.com](mailto:ryan.santoso@rhbgroup.com)



Indonesia Research Team  
+6221 5093 9888  
[rhb.id.research@rhbgroup.com](mailto:rhb.id.research@rhbgroup.com)

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	100.0	1.0	(8.0)	125.0	239.3
Relative	111.4	1.0	(8.0)	125.0	246.1
52-wk Price low/high (IDR)				605 – 2,850	



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (IDRb)	52	37	(2,859)	160	543
Net profit growth (%)	(74.6)	(28.4)	(7,808.1)	-	240.2
Recurring net profit (IDRb)	52	37	(2,859)	160	543
Recurring EPS (IDR)	2.53	1.74	(132.32)	7.14	23.48
BVPS (IDR)	209.98	200.89	118.53	185.85	202.27
DPS (IDR)	na	na	na	na	na
Recurring P/E (x)	819.07	1,191.17	na	290.01	88.17
P/B (x)	9.86	10.30	17.46	11.14	10.23
Dividend Yield (%)	na	na	na	na	na
Return on average equity (%)	1.2	0.8	(83.1)	4.7	12.1

Source: Company data, RHB

### Overall ESG Score: 3.00 (out of 4)

#### E: Good

AGRO green financing disbursement accounted for 6.9% of its total loan portfolio, and financing to Sustainable Palm Oil accounted for 7.4% of total loans.

#### S: Good

AGRO spent IDR391.6m of its CSR budget and IDR509.4m on its Employee Care Programme. Employee turnover is at 1.8%, which is considerably low.

#### G: Good

As part of BBRI, AGRO has continuously improving its corporate governance, led by the Director of Enterprise Risk Management to implement sustainable financing.

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## Financial Exhibits

<b>Asia</b> Indonesia Financial Services <b>Bank Raya Indonesia</b> AGRO IJ Buy	<b>Financial summary (IDR)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	EPS	2.53	1.74	(132.32)	7.14	23.48
	Recurring EPS	2.53	1.74	(132.32)	7.14	23.48
	BVPS	209.98	200.89	118.53	185.85	202.27
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Recurring P/E (x)	819.07	1,191.17	na	290.01	88.17
	P/B (x)	9.9	10.3	17.5	11.1	10.2
	Dividend Yield (%)	na	na	na	na	na
<b>Valuation basis</b>						
GGM with Beta of 1.92x, risk premium of 4%, risk-free rate of 6%, and sustainable ROE of 19%. Combined with valuation per customer method with global average of USD975/customer.						
<b>Key drivers</b>						
i. Double digit growth from digitalisation; ii. Low cost of fund; iii. Efficient operations.						
<b>Key risks</b>						
i. Digital platform launch delays; ii. Competition from digital banks targeting the same market; iii. Slower economic growth on rising COVID-19 cases.						
<b>Company Profile</b>						
Bank Raya Indonesia, previously known as Bank BRI AGRO, was established by PTPN Plantation Pension Fund (DAPENBUN), established in 1989. BRI Agro was focused on becoming the best agriculture banks. Proven with 50%-70% of the loan disbursed to agriculture sector, both on-farm and off-farm. Bank Raya Indonesia recently went through another transformation in becoming a digital bank attacker for BRI group. The company released PINANG (Pinjaman Tenang) in 2019 for digital banking and loan services, partnerships with other FinTech players.						
	<b>Income statement (IDRb)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Interest income	2,055	1,932	1,765	1,972	2,569
	Interest expense	(1,362)	(1,307)	(1,194)	(1,088)	(1,048)
	<b>Net interest income</b>	<b>693</b>	<b>625</b>	<b>571</b>	<b>883</b>	<b>1,521</b>
	Non interest income	73	70	75	88	103
	<b>Total operating income</b>	<b>767</b>	<b>695</b>	<b>646</b>	<b>971</b>	<b>1,624</b>
	Overheads	(312)	(314)	(363)	(413)	(471)
	<b>Pre-provision operating profit</b>	<b>455</b>	<b>381</b>	<b>282</b>	<b>559</b>	<b>1,153</b>
	Loan impairment allowances	(383)	(317)	(3,148)	(320)	(325)
	Other exceptional items	3	6	7	7	7
	<b>Pre-tax profit</b>	<b>75</b>	<b>70</b>	<b>(2,859)</b>	<b>246</b>	<b>836</b>
	Taxation	(23)	(33)	-	(86)	(293)
	<b>Reported net profit</b>	<b>52</b>	<b>37</b>	<b>(2,859)</b>	<b>160</b>	<b>543</b>
	<b>Recurring net profit</b>	<b>52</b>	<b>37</b>	<b>(2,859)</b>	<b>160</b>	<b>543</b>
	<b>Profitability ratios</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Return on average assets (%)	0.2	0.1	(10.8)	0.6	2.0
	Return on average equity (%)	1.2	0.8	(83.1)	4.7	12.1
	Return on IEAs (%)	8.1	6.9	6.6	7.6	9.3
	Cost of funds (%)	6.6	5.7	5.3	5.0	4.7
	Net interest spread (%)	1.4	1.2	1.3	2.6	4.6
	Net interest margin (%)	2.7	2.2	2.1	3.4	5.5
	Non-interest income / total income (%)	9.6	10.1	11.6	9.1	6.3
	Cost to income ratio (%)	40.6	45.2	56.3	42.5	29.0
	Credit cost (bps)	219	163	1,775	200	200
	<b>Balance sheet (IDRb)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total gross loans	19,366	19,492	15,980	16,009	16,451
	Other interest earning assets	8,135	9,020	9,317	10,815	12,010
	Total gross IEAs	27,501	28,512	25,297	26,824	28,461
	Total provisions	(834)	(1,013)	(1,186)	(1,383)	(1,420)
	Net loans to customers	18,533	18,486	14,802	14,635	15,041
	Total net IEAs	26,668	27,498	24,111	25,441	27,041
	Total non-IEAs	400	517	591	680	782
	Total assets	27,068	28,015	24,702	26,121	27,822
	Customer deposits	21,145	22,995	21,413	21,203	22,461
	Other interest-bearing liabilities	1,244	469	446	423	402
	Total IBLs	22,389	23,464	21,859	21,627	22,863
	Total non-IBLs	198	263	250	238	226
	Total liabilities	22,586	23,728	22,109	21,865	23,089
	Share capital	3,960	3,962	5,122	6,622	6,622
	Shareholders' equity	4,482	4,288	2,592	4,256	4,733
	<b>Asset quality and capital</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Reported NPLs / gross cust loans (%)	7.7	5.0	6.0	5.5	4.0
	Total provisions / reported NPLs (%)	56.2	103.9	122.9	156.1	214.3
	CET-1 ratio (%)	11.3	12.1	14.3	14.2	13.7
	Tier-1 ratio (%)	23.4	23.5	8.8	11.6	14.4
	Total capital ratio (%)	23.4	23.5	8.8	11.6	14.4

Source: Company data, RHB

## Investment Thesis

### Digital bank with largest access points

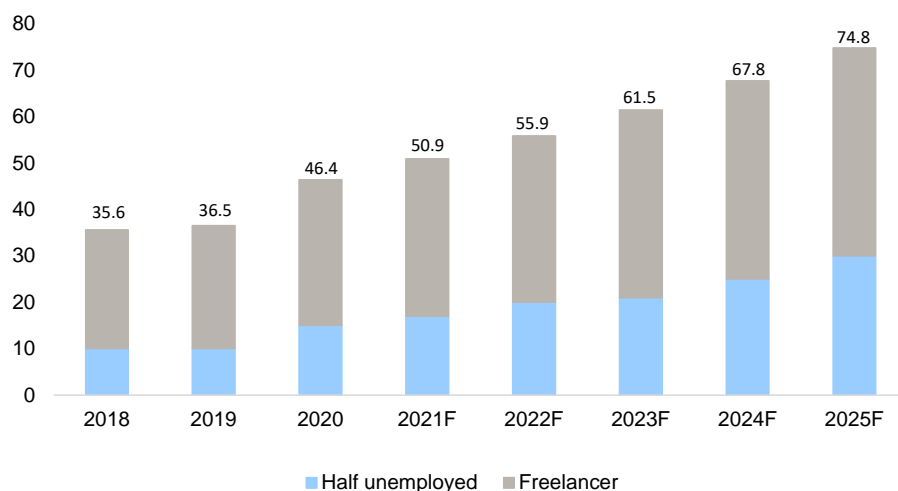
Supported by holding company BBRI, Indonesia's largest SOE bank in terms of retail customer base, we are of the view that AGRO has the largest access points to its parent's potential customers via digital financial services – an area that BBRI has not tapped into yet.

AGRO acts as BBRI's first line of defence in improving customer stickiness to the latter's products via digital financial services and products. At the same time, it also acts as a "digital attacker" that targets micro financing to the gig/informal economy with loan ticket sizes of below IDR1bn and a maximum 12-month term. Note, based on Central Bureau of Statistics data, there are 62m business classified as being part of the micro and ultra-micro loans segments while the gig economy – consisting of the half-unemployed and freelancers – has a population of 45m. Business-to-consumer (B2C) and business-to-business (B2B) intraday loans will be disbursed exclusively via smartphones.

AGRO's target customers include the 90m middle-class people with assets of IDR50-500m and aforementioned 62m micro and ultra-micro businesses, of which 57m are eligible for ultra-micro loans. One of the bank's main target consumers are gig workers, a segment that is not optimally tapped into by its holding company. These potential customers include:

- i. **The half-unemployed:** People who work less than 35 hours per week and are still taking side jobs, eg online and conventional taxi drivers, contract-based teachers, farmers, etc;
- ii. **Specialised freelancers:** Content creators, freelance designers, and event organisers;
- iii. **Agents:** *Warung* owners, e-commerce, and other store owners.

Figure 1: The gig economy in Indonesia



Source: Central Bureau of Statistic, Company data, RHB

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AGRO's holding company BBRI aims to penetrate untapped potential customers to increase its market via a digital strategy framework. Its digital transformation consists of three strategies:

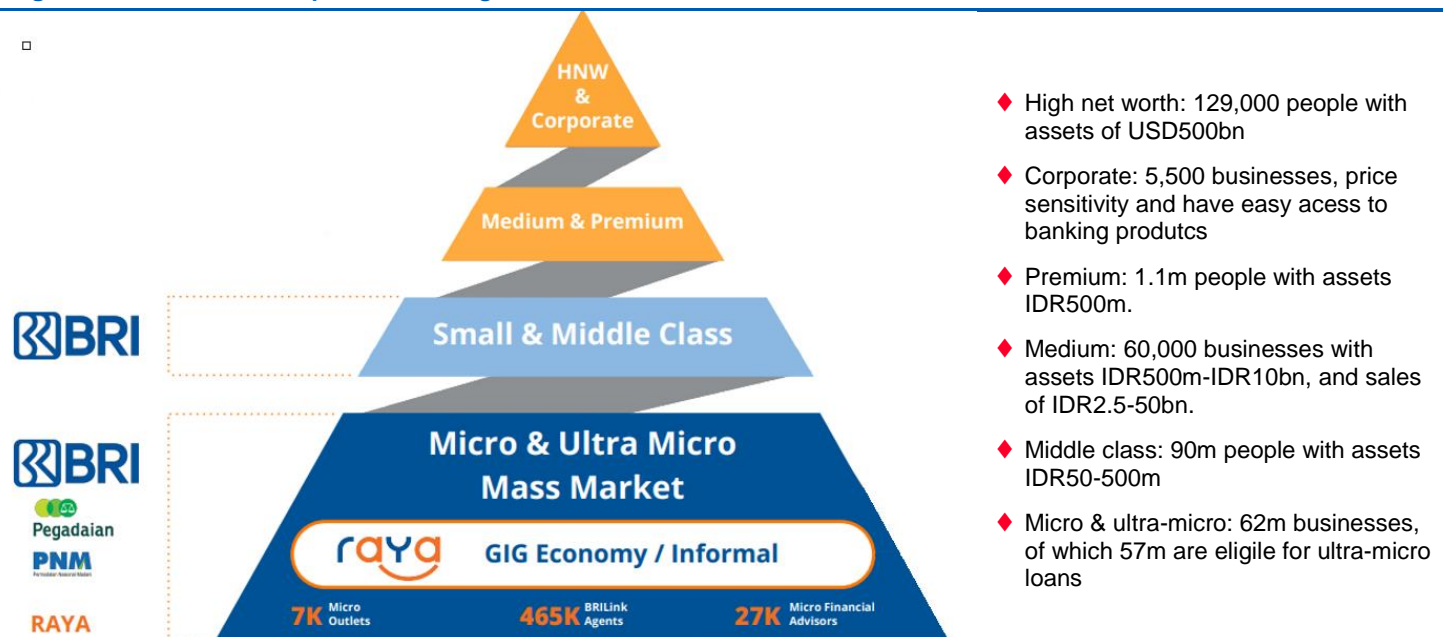
- Digitalising its core business by providing digital apps for its existing services and transactions – BRISPOT for credit application and BRIMO for its mobile banking services;
- Building a digital ecosystem through BRIAPI (Application Programming Interfaces), which allows the integration between the customer's application and BRI services.
- Creating new digital initiative to enter the greenfield digital banking business in Indonesia through AGRO, which is strengthened by the development of BRIBRAIN, an artificial intelligence used for credit scoring.

Figure 2: BBRI's digital strategy framework



Source: Company, RHB

Figure 3: BBRI's coherent portfolio management



Source: Company, RHB

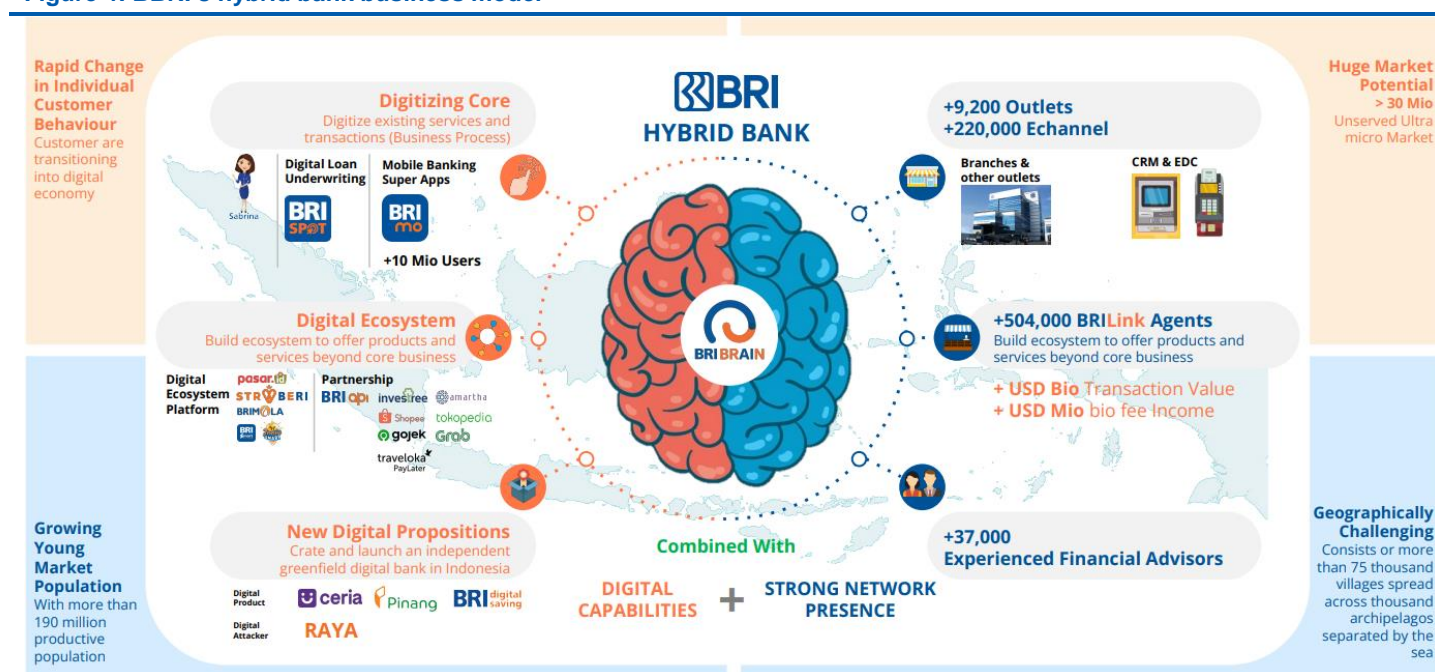


### Hybrid bank model to support digital platform

AGRO is backed by BBRI – one of the largest conventional banks in Indonesia with a hybrid bank business model. Digital banks are divided into three categories: i) backed by conventional banks, ii) backed by tech players, and iii) independent digital bank. AGRO, as a digital bank, gets the best of both worlds: digital capabilities and strong conventional bank network presence. From digitalisation, AGRO is able to operate efficiently with lower opex, as financial services are given online without any branches needed. Moreover, it is also partnering with BBRI's other digital ecosystems that have a collaboration with Investree, Amarta, Shopee, Tokopedia, Gojek, and Traveloka.

Backed by the parent company, AGRO also has a strong offline presence supported by 9,200 outlets and 220,000 e-channels. This helps it to expand in a geographically challenging market, which comprises more than 75,000 villages across the archipelago. Additionally, with 465,000 BRILink agents spread nationally, the bank will be able to build an offline ecosystem to offer products and services. This should ease AGRO in expanding its business to geographically challenging markets.

Figure 4: BBRI's hybrid bank business model



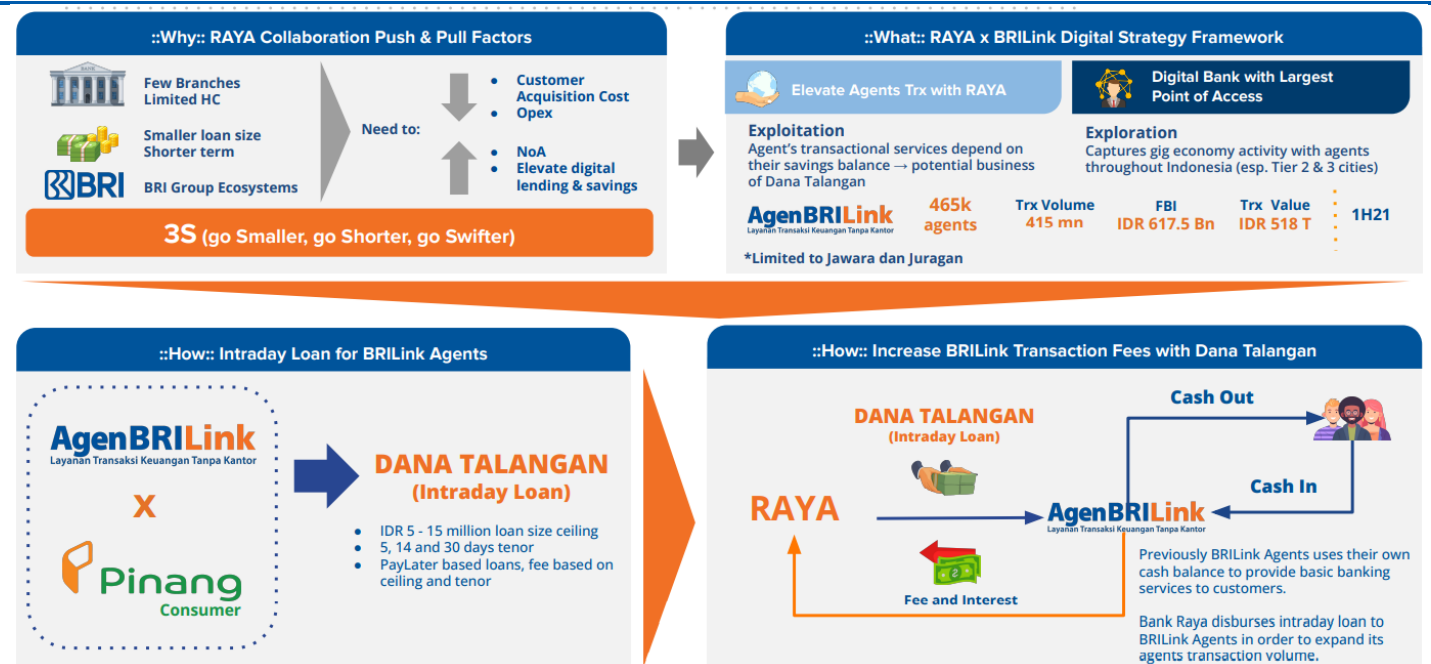
Source: Company, RHB

### The only digital bank with three channelling spectrums

To extend its reach to different customers, AGRO has three different channels via: banking agents, host-to-host, and community branches.

A total of 465,000 BRILink agents across the country act as branch/ATM replacements, providing transactional services based on their savings balance. Customers are able to withdraw, deposit, and transfer money from BRILink agents. In 1H21, total transaction value was recorded at IDR518trn and received fee-based-income of IDR617.5bn. To increase transaction fee from BRILink, AGRO is providing Dana Talangan (intraday loan) for its agents with a total loan ceiling of IDR5-15m, from previously being only able to use their own cash balance. This is expected to increase agent transaction volume, and the intraday loan has a tenure of five, 14, and 30 days.

Figure 5: AGRO x BRILink: Intraday loan to BRILink agents

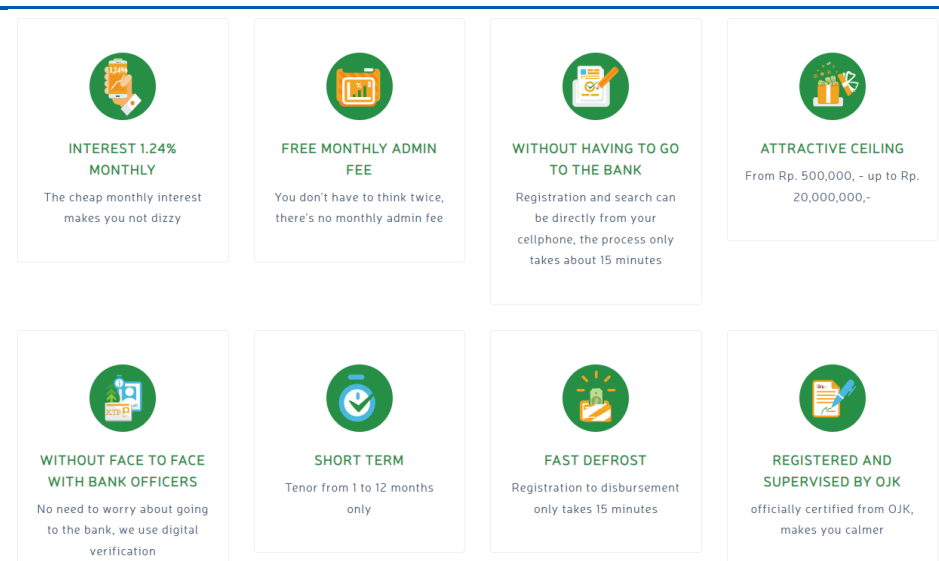


Source: Company, RHB

A host-to-host system integrates AGRO's connectivity with BBRI, which allows data exchange and transactions to be done in real time. AGRO's customers are able to access BBRI's network in BBRI offices across Indonesia. The goal is to form a partnership with corporates that would enable AGRO to access merchants' and suppliers' data, and provide a PO-backed supply chain financing.

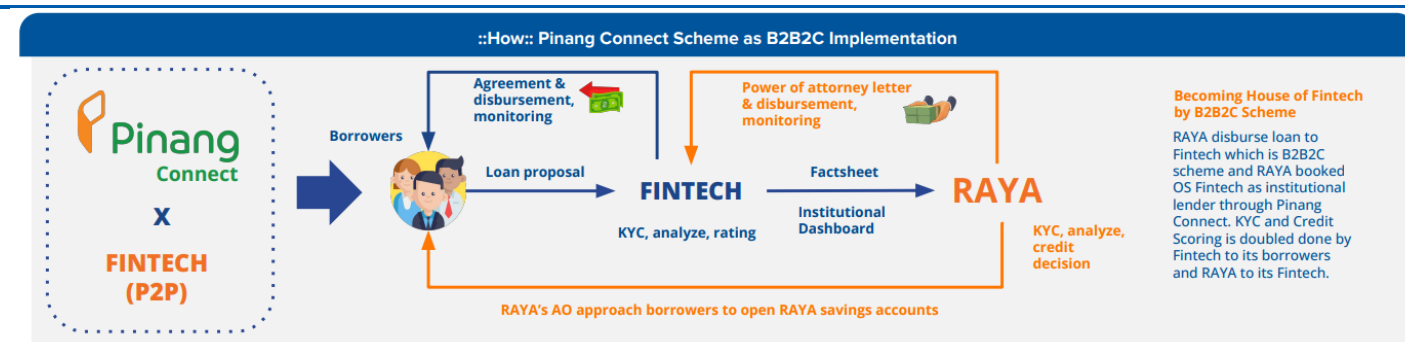
Lastly, AGRO is transforming its branches to "Community Branches" – acting as marketing points for digital lending and savings as well as disbursing loans through "Pinang Connect". Pinang (*Pinjaman Tenang*) is digital lending platform by AGRO, with an application process (from registration-to-disbursement) only taking 15 minutes via smartphone. Loan ceiling ranging from IDR500,000-IDR20m with a flat interest rate at 1.24% per month or maximum APR of 14.88%. The requirements to apply for Pinang are simple: Indonesia identification card (KTP), age ranging from 21-54 years old, a stable income, and also a smartphone. The application is reviewed based on several factors including credit scoring, personal data accuracy, Bank Indonesia (BI) checking, mobile phone usage, social media, psychometric, among others.

Figure 6: Pinang product features



Source: Company, RHB

Figure 7: Pinang connect scheme as B2B and B2C implementation



Source: Company data, RHB

In addition, the collaboration with BRI Ventures will strengthen both AGRO's funding and loan disbursement. AGRO, as a house of fintech, is disbursing loans through the BRI Venture ecosystem, (PayFazz, AwanTunai, Investree, TaniFund, Modalku, iGrow) to increase loan disbursement. On the other hand, AGRO's account officers will also encourage borrowers to open saving accounts, which will strengthen the funding side. Moreover, it can also reduce the risk of NPL as borrowers will go through double KYC and credit scoring analysis, which will be done by the Fintech and AGRO.

### To book profit in 2022 with healthier balance sheet

This year, AGRO's strategy is to clean up its balance sheet from NPLs stemming from the expected IDR3trn loss in FY21F. However, next year, with a healthier balance sheet, we believe it will be easier to expand its business. Furthermore, additional capital from holding company injection and a rights issue should strengthen its CAR.

We believe AGRO's earnings growth will accelerate, driven by widening NIM, lower cost-to-income ratio (CIR), and accelerated loan growth. This is supported by a good digital ecosystem, as well as its holding company's network

### Reinforcing capital through rights issue

The additional capital injection via a rights issue should strengthen AGRO's balance sheet and ease in the expanding of its business. The company announced that 1,055m new shares will be issued with an exercise price at IDR1,100. This gives it an additional IDR1.2trn capital to partially compensate the expected net loss in 2021 from cleaning up NPLs from its balance sheet.

BBRI has stated that it will exercise fully the pre-emptive rights issue, with BRI Danareksa Sekuritas as the standby buyer to absorb a maximum of 150.8m shares. This rights issue is scheduled to be completed in December.

## Valuation

We combine the valuation methods of a conventional bank and digital bank ie GGM and Valuation Per Customer. This is because AGRO is transforming into digital banking, with a strong offline presence from BBRI's branches, which should lead to faster growth, more efficient operations, and higher ROE.

Our calculation derives a TP of IDR4,000 based on average fair value using GGM, which is c.IDR2,000 per share, as well as valuation per customer, which is c.IDR6,000 per share.

### GGM

Our valuation is derived by using a risk free rate at 6%, risk premium at 4%, and beta 1.97x, as well as dividend payout ratio of 30%, and sustainable ROE at 19%. We expect AGRO to start paying dividends in 2023, after its retained earnings are back in positive territory. It is likely to book huge losses in 2021F from balance sheet cleaning.

Figure 8: AGRO's valuation

Risk premium	4%									
Risk free rate	6%									
Beta	1.97									
CoE	14%									
Payout ratio	30%									
Sustainable ROE	19%									
Sustainable growth, g	13%									
	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
DPS (IDR/share)	-	-	1	5	8	14	17	19	21	23
Discount factor (x)	1	1.00	0.88	0.77	0.68	0.59	0.52	0.46	0.40	0.35
NPV of dividends (IDR)	52									
Terminal value (IDRbn)	5,948									
NPV of terminal value (IDR)	2,103									
Target Price (IDR)	2,100									

Source: Company data, RHB

### Valuation per customer

The average digital bank's valuation per customer based on our calculation is at USD975. Being able to tap into BBRI's existing customers and further reaching the unbanked/underbanked population (at least 140m people), we expect AGRO's total customers to reach 10m people. We place the valuation at IDR5,919 per share.



Figure 9: Valuation per customer method

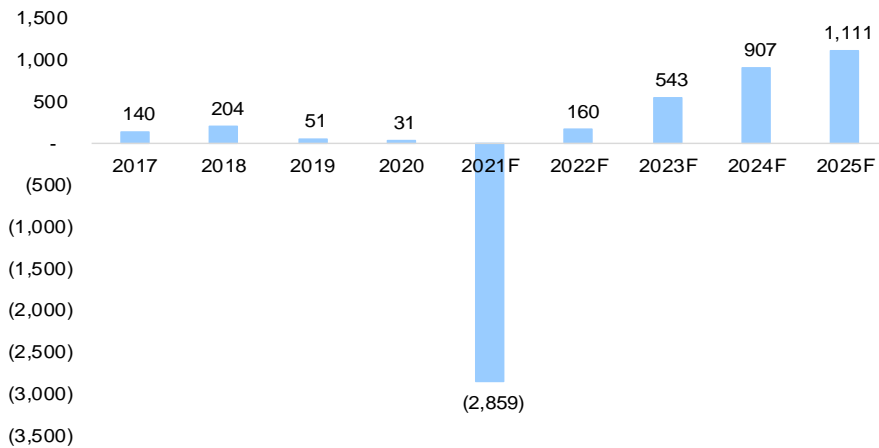
Digital banks	Number of customers (m)	Valuation (USDbn)	Valuation/customer (USD)
Jago*	15	14.0	932
Revolut	15.0	33	2,200
Monzo	5.0	1.1	220
Nu Bank	48.1	30	624
Kakao	17.4	25.9	1,489
Webank	200.0	21	105
N26	7.0	9	1,286
Chime	13.0	25	1,923
Starling Bank	2.5	1.5	600
Wise Bank	10.0	11	1,100
Paytm Payment Bank	64.0	16	250
Rakuten	10.5	15	1,426
Tinkoff	12	6.3	525
Average value per customer (USD)			975
AGRO expected customers (m)			10
AGRO Value (USDm)			9,750
AGRO Value (IDRbn)			138,489
AGRO TP (IDR)			5,900

Source: Company data, RHB

## Financial Outlook

We believe AGRO will start booking positive earnings in 2022, from its expected huge losses in 2021F, driven by cleaning up its NPLs. Earnings are expected to accelerate to IDR1.1trn in 2025, boosted by loan growth, widening NIM, and lower CIR. With the support of its holding company, which is strong in consumer loans, AGRO should see accelerated growth in the micro loan segment, which offers higher loan yields vs larger sized loans. The digital bank system should also help to reduce operational expenses, such as number of headcount and rental expenses.

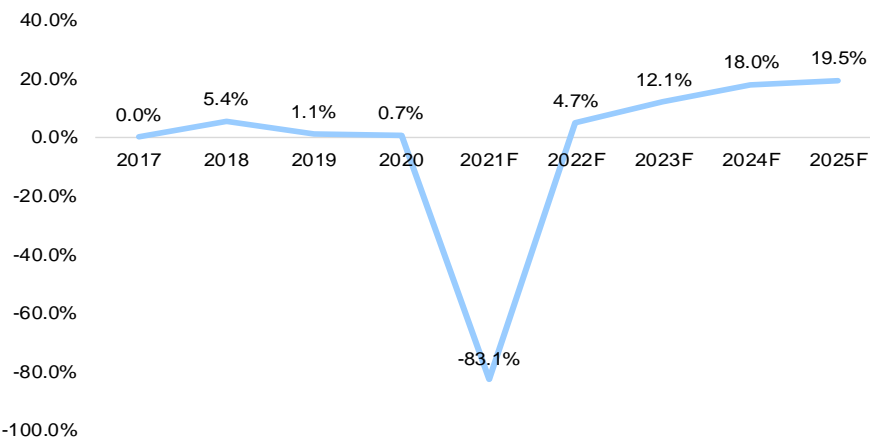
**Figure 10: Net profit (IDRbn)**



Source: Company data, RHB

Given expected strong earnings growth, we estimate equity return to increase to 19.5% in FY25F (from 4.7% in FY22F).

**Figure 11: ROE (%)**

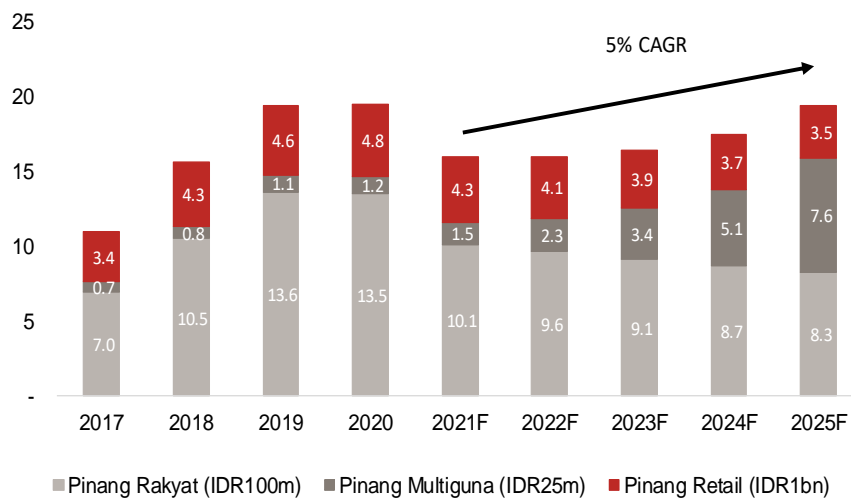


Source: Company data, RHB

We see that gross loans to grow at 5% CAGR in 2021F-2025F, driven by the Pinang Multiguna loan segment. This micro loan segment with a ticket size of below IDR25m is estimated to grow at 50% CAGR, meanwhile loan contribution from bigger size segments, such as Pinang Rakyat (ticket size IDR25-100m) and Pinang Retail (ticket size IDR100m-1bn) is likely to decline.

We estimate that Pinang Multiguna loan segment yields to be around 14-17%, much higher than Pinang Rakyat (estimated yields of 7-10%) and Pinang Retail (estimated yields of 8-12%). Hence, higher Pinang Multiguna loan contribution should raise blended AGRO loan yields.

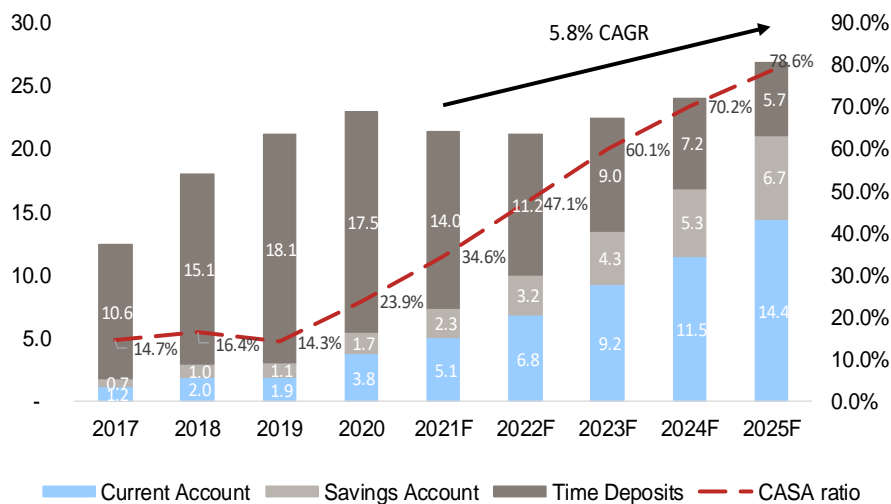
Figure 12: Gross loans by segment (IDRtrn)



Source: Company data, RHB

We estimate total deposits to grow at 5.8% CAGR in 2021F-2025F, driven by low cost savings, which is estimated to grow at 30% CAGR, while time deposit (TD) contribution is likely to decline. In our calculation, CASA ratio is estimated to grow to 78.6% at end 2025 (vs end-2021: 34.6%). The digital bank platform should increase its CASA and lower CoF.

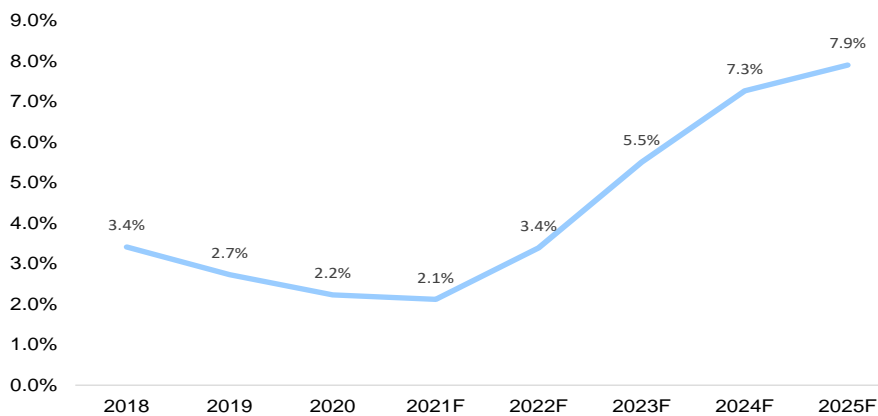
Figure 13: Total deposits (IDRtrn)



Source: Company data, RHB

Both higher loan yields and lower CoF should increase NIM, which is estimated to grow to 7.8% in FY25F (from 2.1% in FY21F). We see NIM sustaining at around 7-8% in the long term.

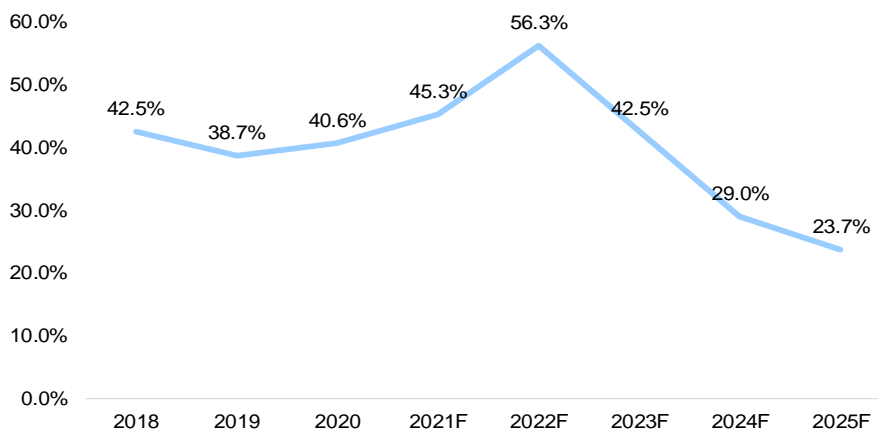
Figure 14: NIM (%)



Source: Company data, RHB

The digital platform system enables AGRO to lower operational expenses, especially the number of headcount, as well as office expenses such rental, electricity, and utilities expenses. This is the main driven of lower CIR, which is estimated to decline to 23.7% in FY25F (from 45.3% in FY21F).

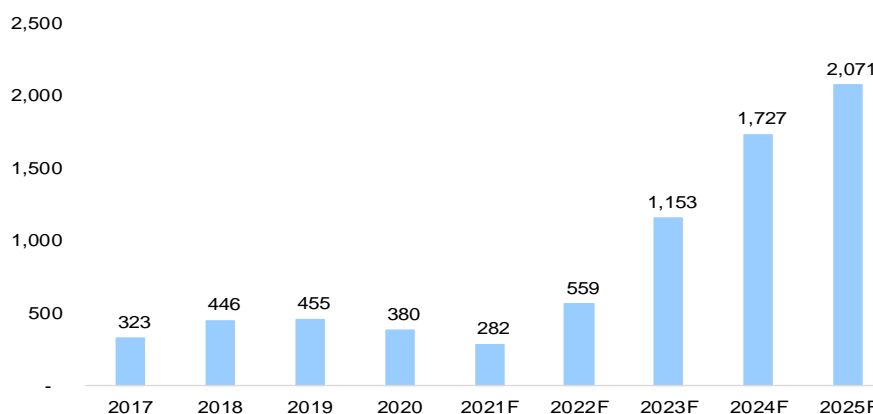
Figure 15: CIR



Source: Company data, RHB

Higher NIM and lower CIR are likely the main drivers of accelerated PPOP, which is estimated to increase to IDR2trn in FY25F (from its lowest level of IDR282bn in FY21F).

Figure 16: PPOP (IDRbn)



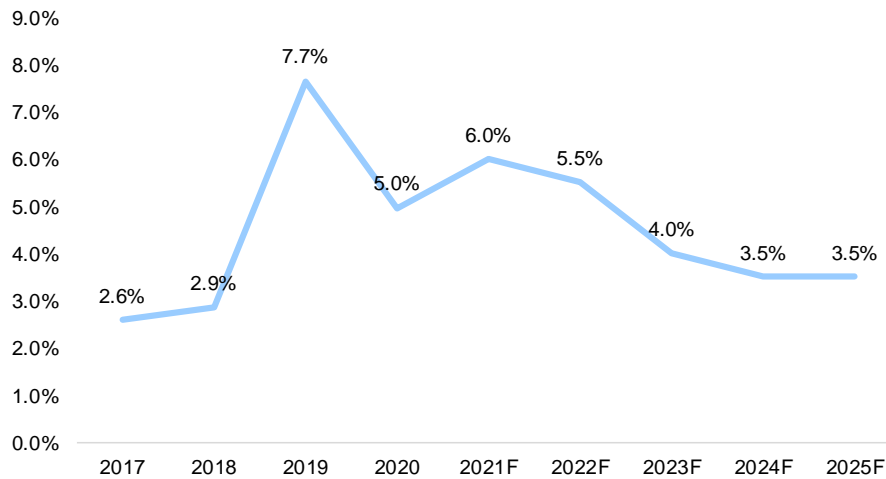
Source: Company data, RHB

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We believe that after being written off in 2021, NPLs will decline to 5.5% in FY22F and 4% in FY23F (from 6% in FY21F). Then it is likely to sustain at 3.5% in the long term. In 2022, AGRO is changing its strategy to disburse more consumer and micro loans to those with low credit risk based on the borrower profile. Hence, we think that its low NPL estimate of 3.5% is achievable.

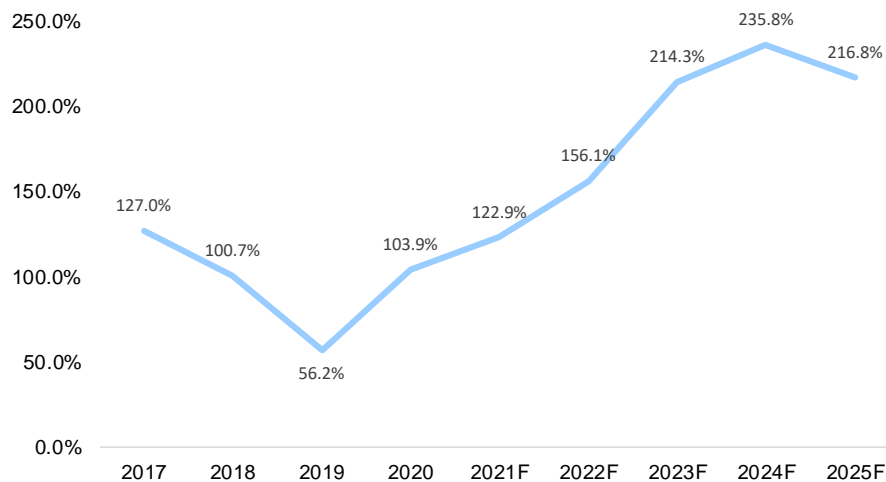
Figure 17: NPL (%)



Source: Company data, RHB

Lower NPL and higher loan coverage ratio provision should boost NPL coverage ratio to 298% at end 2025 (from 121% in FY21F). This should be sufficient to manage risk of uncollectible NPL.

Figure 18: NPL coverage ratio (%)



Source: Company data, RHB



## Company Background

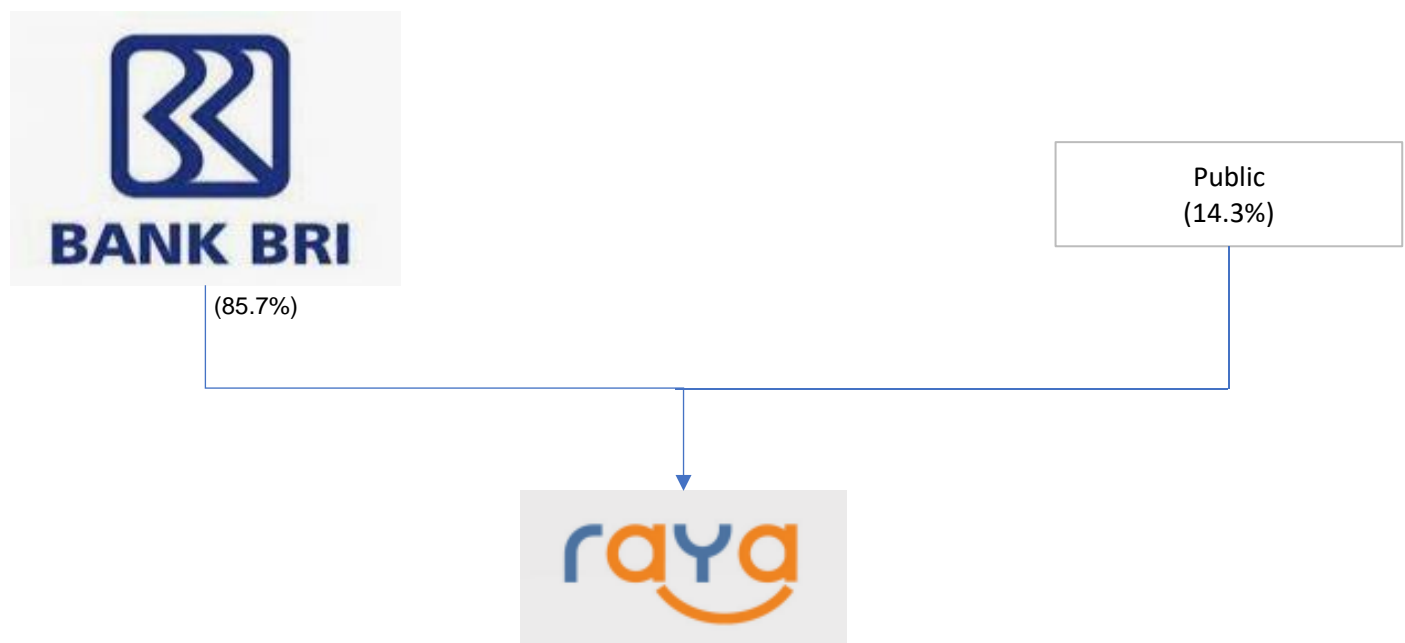
Bank Raya Indonesia (AGRO), previously known as Bank Rakyat Indonesia Agroniaga, was established by PTPN Plantation Pension Fund (DAPENBUN) in 1989. The bank was focused on becoming the best agriculture bank in the country – proven by its 50-70% loan disbursement to the agriculture sector, both on-farm and off-farm.

In 2003, the bank became a publicly listed company with the AGRO stock code. In 2011, BBRI acquired AGRO from Dapenbun, making BBRI its controlling shareholder.

AGRO continues to synergise with BBRI. All AGRO customers can use their ATM card for all transactions at BBRI's ATMs throughout the country without any charges imposed.

AGRO went through another phase of transformation in becoming a digital bank attacker for BBRI by releasing Pinang in 2019 for digital banking and loan services, as well as partnerships with other fintech players.

**Figure 19: Company ownership structure**



Source: Company data, RHB

**Figure 20: Company's milestones**

Year	Description
1989	Established as "Bank Agro" by Dana Pensiunan Perkebunan
2003	Listed on the Stock Exchange and additional capital through a rights issue
2006	Transformed into a foreign exchange bank
2011	Acquired by Bank Rakyat Indonesia (BBRI IJ) as the controlling shareholder
2012	Changed its name and logo into BRI Agro
2015	Implementation of new core banking (BRIAGRONETS)
2019	Launched Pinang, AGRO's digital-based loan, and becomes the first application-based bank loan product
2021	Changed its name and logo to Bank Raya Indonesia






Source: Company, RHB

Figure 21: Board of Commissioners

Name	Position	Description
<p>Budi Satria</p> 	Head Commissioner	<p>Served as President Commissioner since 19 Feb 2020. Obtained a Bachelor's degree in Civil Law from UII, Yogyakarta (1987) and Masters of Management from the International Management University of Indonesia, Jakarta (2001).</p> <p>Previously, he was the Head of BRI's Corporate Secretariat Division (Apr 2014-Sep 2015), BRI Regional Leader Jakarta (Oct 2015-Feb 2017), and Director of Consumer Banking BTN (Mar 2017-Sep 2019).</p>
<p>Eko B. Supriyanto</p> 	Independent Commissioner	<p>Served as Independent Commissioner since 9 Apr 2021. Obtained a Bachelor's degree in Economics from the University of Pembangunan, Jakarta and a Masters of Management Degree from Trisakti University.</p> <p>He is also an Independent Commissioner at Pelindo Investama. Previously, he was Commissioner at Maritim Learning Indonesia Harbour (Jan-Jul 2020). He has been the Chairman Of Infobank Institute since May 2015 .</p>
<p>Rina Saadah</p> 	Independent Commissioner	<p>Served as an Independent Commissioner since 9 Apr 2021. She obtained an Bachelor degree from Al Azhar University Cairo, Egypt then obtained a Masters of Science degree from the University of Indonesia.</p> <p>Rina previously served as a special staff in the Ministry of Youth and Sports (2015-2017), and was an expert consultant in Ministry of Maritime Affairs and Fisheries (2019-2020).</p>
<p>Rama Notowidigdo</p> 	Independent Commissioner	<p>Served as Commissioner since 9 Apr 2021. He obtained a Bachelor's degree in Computer Information Systems from the Missouri State University, US, then obtained an MBA from Saint Louis University.</p> <p>Rama is also the co-founder of AwanTunai, Sayurbox and an advisor of OY! Indonesia since 2017.</p>
<p>Achmad F.C. Barir</p> 	Independent Commissioner	<p>Served as Commissioner since 9 Apr 2021. Obtained a Bachelor's degree in Corporate Economics from Gajah Mada University then obtained a Masters of Management Agribusiness degree from Bogor Agricultural University</p> <p>Previously, he was Deputy Head of BRI Credit Risk Analysis Division (Mar 2016-Dec 2017), Head of BBRI Credit Risk Analysis Division (Jan 2018-Oct 2020). He has been BBRI's Wholesale Credit Risk Analyst Division Head since Nov 2020.</p>

Source: Company

Figure 22: Board of Directors

Name	Position	Description
<b>Kaspar Situmorang</b> 	President Director	<p>Served as President Director since 6 Apr 2021. Obtained a Bachelor's degree in Computer Science from Bogor Agricultural University and then a Master's Degree in Computer Engineering from University of Duisburg-Essen, Germany and a Doctoral Degree in Business and Management from Bogor Agricultural University.</p> <p>Previously, he was the South-East Asia Director of Lotusflare (Nov 2016-Dec 2017), and BBRI's Digital Centre of Excellence Division Head (Sep 2017- Nov 2020). Currently he is also the Digital Banking Development &amp; Operation Division Head, a position he helmed since Dec 2020.</p>
<b>Arif Wicaksono</b> 	Finance & Operational Director	<p>Served as Director of Operations &amp; Finance since 19 Feb 2020. Obtained a Bachelor's degree in Economics from Brawijaya University, Malang (1989) and a Master's Degree majoring in Marketing Management/Information System, UGM &amp; Agder University College, Norway (1999).</p> <p>Previously, he served as Deputy Head of BRI Electronic Network Division (Feb 2014-Feb 2016), Deputy Regional Head for Operations at the BRI Denpasar Regional Office (Mar 2016-Dec 2017), and Head of Retail Payment Division (Jan 2018-Feb 2020).</p>
<b>Ernawan</b> 	Director of Enterprise Risk Management, Compliance and Human Resource	<p>Served as Director of Legal, Compliance &amp; Human Capital since 19 Feb 2020. Obtained a Bachelor's degree in Accounting Economics from Pakuan Bogor University (1990) and a Master's Degree majoring in Agribusiness at the Bogor Agricultural Institute (2001).</p> <p>He was Head of BRI's Management Accounting &amp; Finance Division (Aug 2016-Jun 2018), Head of BRI Asset &amp; Liabilities Management Division (July-Dec 2018), and Director of Operations and Finance BRI Agro (Jan 2019-Feb 2020).</p>
<b>Sigit Murtiyoso</b> 	Director of Retail Agri & Funding	<p>Served as Business Director since 26 Jun 2019. He obtained a Bachelor's degree, majoring in Civil Law from Sebelas Maret University, Surakarta (1988).</p> <p>Previously, he was Deputy Head of Division, BRI Institutional Relations Division (2012-2015). Head of Institutional Division at BRI (2015-2018). Head of BR Special Branch Office (2018-2019)</p>
<b>Bhimo Wikan Hantoro</b> 	Business Digital Director	<p>Served as Director of Digital Business since 9 Apr 2021. Obtained a Bachelor's degree in Electrical Engineering from Bandung Institute of Technology, then proceeded with a Master in Telecommunication Engineering also at Bandung Institute of Technology and M.Sc in Electrical Engineering at Delft University of Technology, Netherlands.</p> <p>Previously, he was a Telco Business Consultant at Accenture in the Netherlands (2014-2018) and Head of Digital Solution Portfolio Telekomunikasi Indonesia International (2018). He is also Senior Vice President of Digital Transformation Leadership at Pegadaian since 2018.</p>

Source: Company data, RHB

## Industry Overview

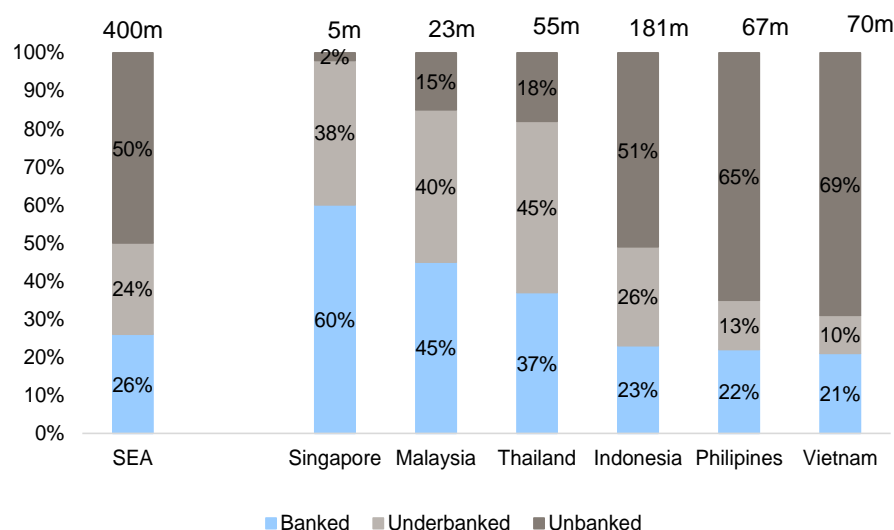
### Big unbanked population points to great growth potential

We believe there is huge growth potential for digital banks in Indonesia, since around 139m people in the country are not well-served by existing banks – and of these, 92m are still unbanked. AGRO estimates the number of potential eligible customers not having been served optimally at 30m. Indonesia has the third-largest number of internet users in Asia-Pacific – this means its 203m internet users could have access to digital bank platforms.

About half the population of Indonesia is 30 years old or younger. Boston Consulting (BCG) estimates Indonesia's middle class growing by 1.3x from 2019 to 2024. The country – which also has the biggest population in South-East Asia – has a growing appetite for digital financial services, and digital transactions have increased by 30-50% pa over 2015-2018. As of end-2019, Indonesia had the second highest e-payment penetration in South-East Asia, next to Singapore.

According to Bain & Company, around 92m Indonesian people still do not have access to banks (unbanked), and around 47m do not have good access to banking services. Hence, the growth potential for digital banks is huge – since there are about 139m people who have not been served optimally by existing banks due to limited access to physical banks and other conventional bank limitations.

**Figure 23: Percentage of underbanked and unbanked population in South-East Asia (2018)**

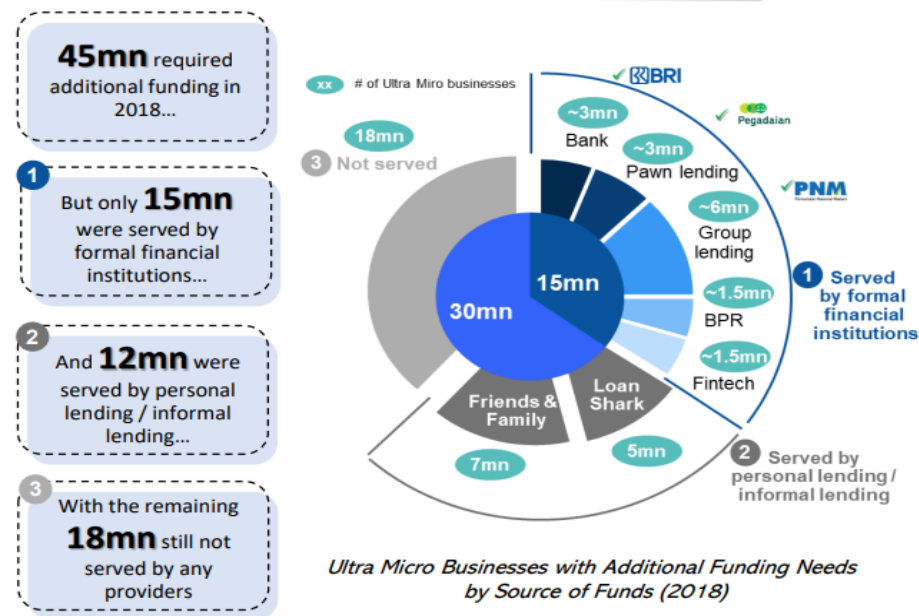


♦ The majority of Indonesians remain underbanked or unbanked (77% of total population)

Source: Bain, RHB

This is in line with BBRI's study, which found that around 30m of its potential customers have not been well-served by the bank. Around 18m potential customers have not been touched at all by any financial providers, and around 12m potential customers' financing are served by personal and informal lenders. While larger conventional banks are focused to acquire High-Net-Worth customers and corporates, smaller digital banks are more agile in adapting to capture the untapped market of customers with uncertain lifetime value.

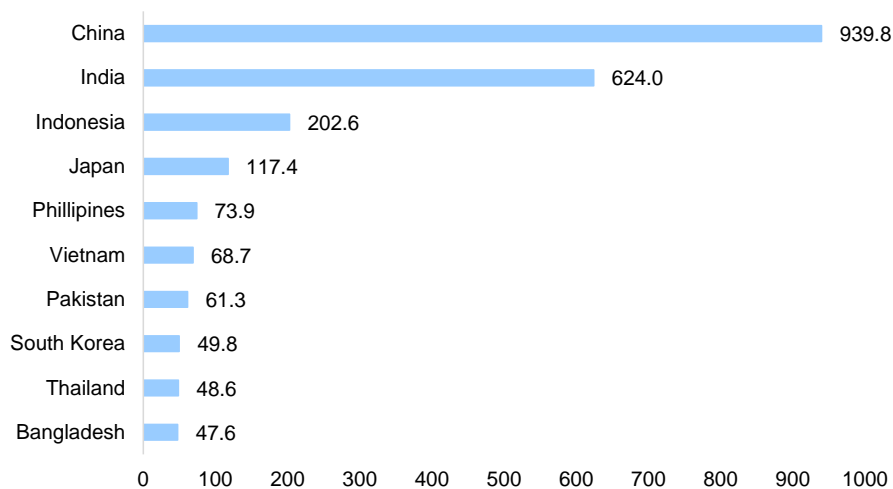
Figure 24: Potential market for digital bank funding



♦ The digital banks' untapped funding market comes up to about 30m people. Of this, 12m are served by personal/informal lenders, and 18m are not served at all

Source: BBRI, RHB

Figure 25: Top 10 internet users in Asia-Pacific as of Jan 2021 (m)

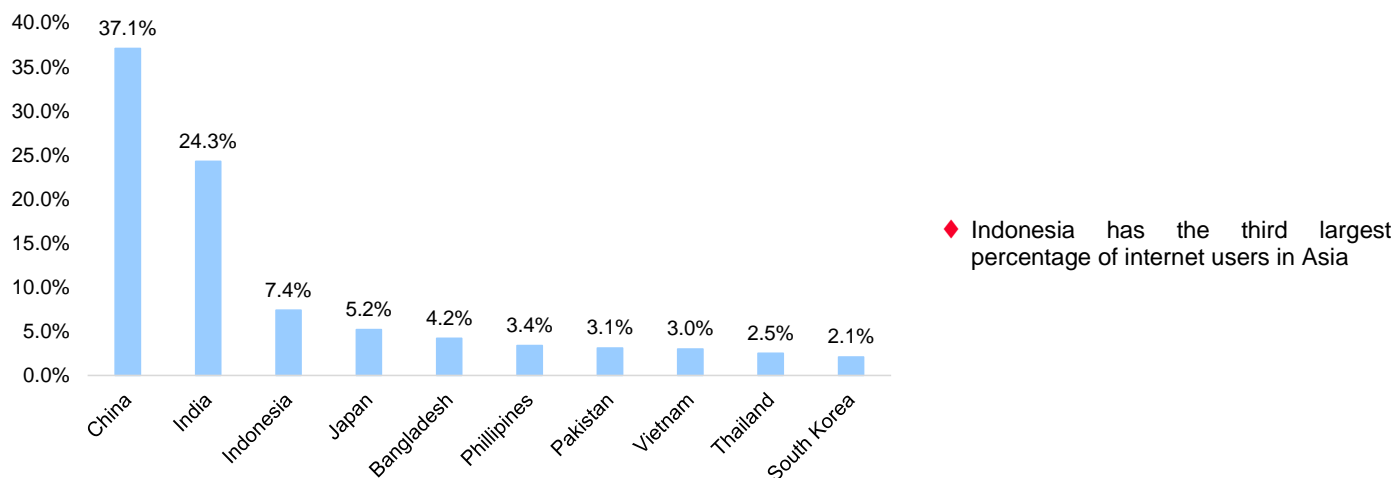


♦ Indonesia has the third largest population of internet users in Asia Pacific with 202.6m users.

Source: Statista, RHB



**Figure 26: Asian countries with the biggest percentage of internet users as of May 2020**



Source: Statista, RHB

### Financial Services Authority (OJK) guidelines

We see the relaxation of the OJK's digital banking guidelines of foreign shareholders of an Indonesian digital bank effectively lowering the barriers to entry into the sector thereby allowing healthy competition. This will provide opportunities for collaboration between established international players and local challengers in an attempt to penetrate the market.

Collaborations are already taking place in the sector, at the time of writing. Shopee, the e-commerce arm of Singapore's Sea Group, acquired Bank Kesejahteraan Ekonomi in February, and intends to transform it into the digital bank, SeaBank. Bank Neo Commerce, and its digital bank Neobank, have Indonesian fintech, Akulaku (which in turn has China's Ant Group as an investor) as their controlling shareholder. These will certainly not be the last of the collaborations, as Malaysian banks BIME (BIME MK, BUY, TP: MYR3.70) and AMMB (AMMB MK, BUY, TP: MYR3.90) have also declared their interest in exploring digital opportunities in the country.

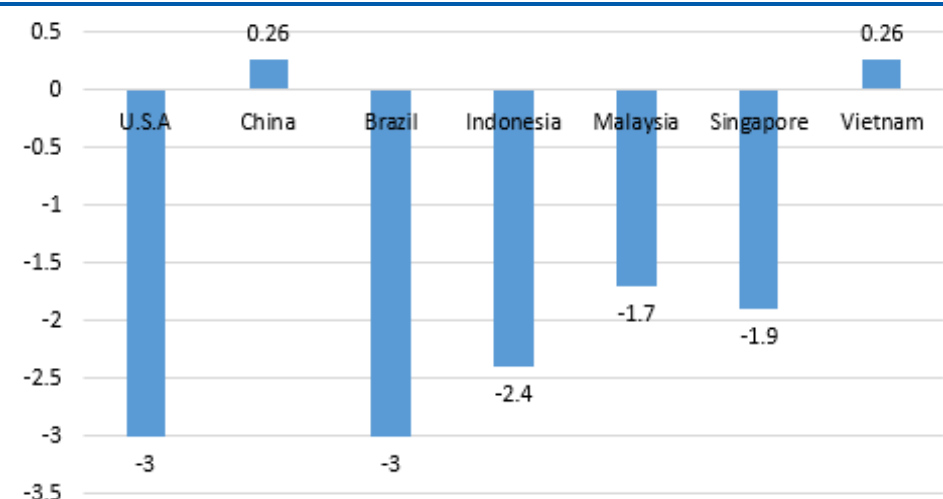
The regulations also commit to making it more convenient for banks to obtain permits for new services – what could have taken 60 days before is now capped at a maximum of 14 days. Further, basic services such as savings and transfers no longer require permits. Instead, the OJK only requires the banks to report the said services to them. Banks are also required to submit a strategic 5-year plan to the regulator.

On the other hand, the OJK requires digital banks to have a minimum paid-up capital of IDR10trn, which is significantly higher than most of its regional peers. Malaysia, for instance, requires a minimum paid-up capital of only RM100m (IDR339bn) unimpaired by losses during the first 3-5 years, after which the amount increases to RM300m (IDR1.02trn). We infer that this may have been done to encourage more partnerships between local and international banks and fintechs in order to leverage upon each other's financial as well as technical capabilities.

### A new age of banking

One key reason for the increasing popularity of digital over conventional banks is the difference in cost structure. As digital banks do not operate brick-and-mortar branches, costs will consist of more variable than fixed elements. This provides an advantage to digital banks, as the increase in fixed costs associated with growth need not be exponentially high. Commercial banks around the world have already started to shut down some of their branches and are moving online. According to the International Monetary Fund (IMF) and MomentumWorks, between 2015 and 2020, Indonesia recorded a -2.4% growth in commercial bank branches per 100,000 adults.

Figure 27: Growth/De-growth rates of commercial bank branches



Source: IMF, Momentum Works, RHB

Another significant difference between digital and conventional banks is the application of big data. More often than not, digital banks possess the appropriate integrated infrastructure to collect and store customer/operational data, due to the use of higher quality mobile applications. This data is then used to design better products and risk models, as well as improve operational efficiency and customer targeting. For instance, Bank Jago (ARTO IJ, NR), part-owned by GoTo (formed by the partnership of Indonesian unicorns Gojek and Tokopedia), offers interest rates of 0.5% and 3.5% on spending and saving pocket accounts. These rates are higher than those offered by Indonesia's bigger banks, and effectively encouraging price competition in the sector.

These differences allow digital banks to access an expanded customer base, often in the traditionally "high-risk" segments. Also, by carefully curating a convenient and meaningful customer journey, these banks can hope to enjoy customer loyalty with time. Eventually, digital banks will be able to serve customers with more targeted products, aided by their ever-growing data bank, which in turn could lead to a growth in interest margins – in China, as of 4Q20, the average NIM among digital banks was 3.7%, compared to 2.4% among conventional banks.

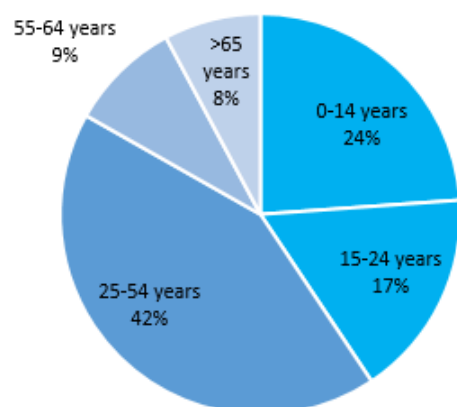
There is also a distinction between the decision-making drivers of conventional and digital banks. While conventional banks tend to focus on maximising profit, digital banks have their eyes set on maximising growth, measured using less conventional metrics such as daily average users (DAU) and monthly average users (MAU). As digital banks, at their core, are internet companies first and banks second, a larger consumer base allows the bank access to more data, which opens up more cross-selling/up-selling opportunities. However, we remain cognisant of the potential change in business direction towards profit seeking, as digital banks slowly capitalise on economies of scale over time.

These differences outline why digital banking may appeal to an entirely different market demographic than in previous generations – a market mainly consisting of internet-savvy youths.

### Indonesian demographics and why digital banking might work

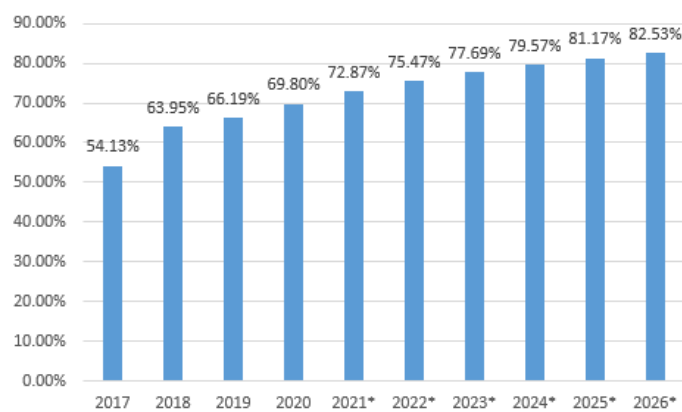
Indonesia currently houses over 275m people, making it the fourth most populous nation in the world. Almost 41% of these 275m people are aged 24 or under, a fact reflected in the relative digital savviness of the average Indonesian. While internet penetration in the country was only at 69.8% as at end 2020, a report by Nikkei Asia in Jan 2019 stated that 76% of Indonesian internet users were making purchases online each month, and this was before the days of the pandemic. Digital banking app downloads also grew 7% in 2020. However, it is worth noting that only 61% of Indonesians have a bank account, while only 6% of adults possess a credit card.

Figure 28: Population of Indonesians by age



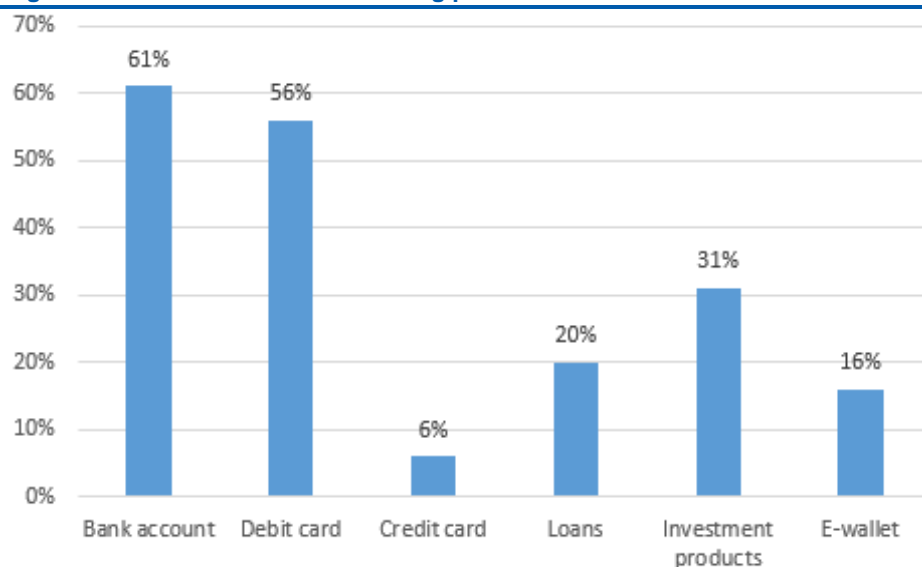
Source: CIA World, Facebook, RHB

Figure 29: Internet penetration rate in Indonesia



Source: Statista, RHB

Figure 30: Use of commercial banking products in Indonesia



Source: Momentum Works, RHB

Indonesians' general proximity to technology is an encouraging factor for digital banks' consumer banking operations. Banks can expand their reach by making basic banking services accessible simply via mobile phone. Forming partnerships with Fintechs such as e-commerce and digital wallet companies provide convenience to customers who are already active users of the fintechs' products. One example of such a partnership is between Bank Jago and GoTo, which allows the former access to Gojek's entire driver fleet as well as Tokopedia's SME vendors and customers, while making Jago's banking services available on the Gojek app.

While having a strong focus on the consumer banking segment, the lending side should also be a point of consideration. For the next few years, we expect digital banks to be paying particular attention to SME, retail consumer and B2B customers. On top of that, some banks, including Bank Jago, are exploring a partnership lending business model – lending to established partners after a thorough due diligence is conducted. In the near future, we also anticipate digital banks' wealth management and *shariah* compliant products to grow.

### Major categories of digital banks

Digital banks in Indonesia are divided into three major categories:

- Conventional supported;
- Tech players backed;
- Independent.

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Digital banks supported by large conventional banks have a strong offline and online presence with the ability to utilise the latter's office branches. The synergy with their respective holding companies will allow them to operate efficiently and access existing customers for swift growth. Eg: BLU and AGRO

Digital banks acquired by giant tech players – ARTO, Seabank, BNBA, BBYB, and BBSI – already have an ecosystem, and will be able to integrate their banking system with the e-commerce applications. Moreover, they can access the user database and analyse the customer's credit scoring with high accuracy.

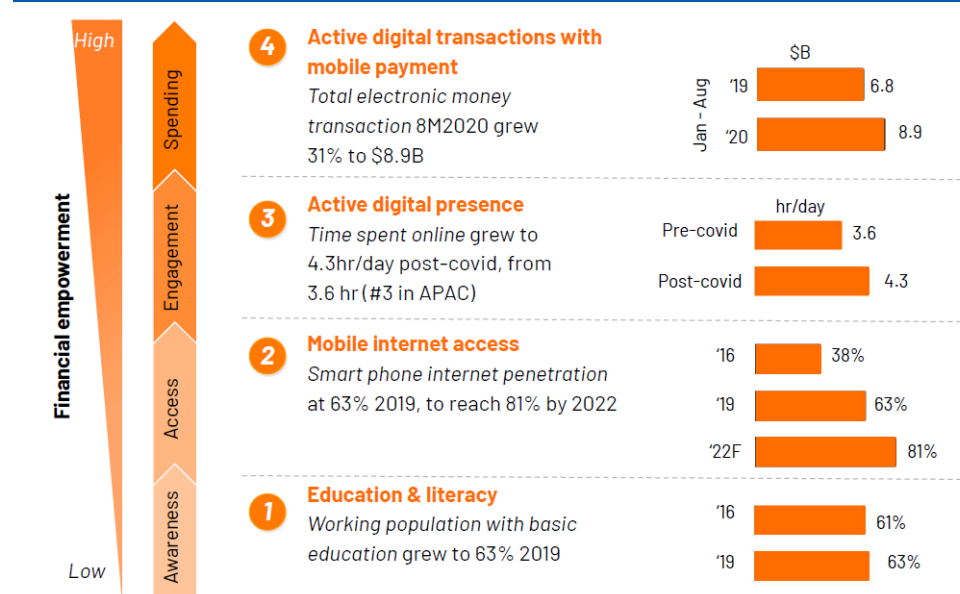
However, we believe independent digital banks will likely face the most challenges compared to digital banks in the other two categories as customer acquisition and maintenance cost can be higher.

### Fintech development paved the road for digital banking

The financial technology boom that began in 2015 created a better landscape for digital financial services in Indonesia. More than 150 fintech startups were founded in 2016, growing 78% YoY, and in 2019, there were 249 fintech companies.

In 2016, more than 17.4m credit cards were issued, and in 2017, digital payment total transactions reached USD18m – indicating the level of trust in the security of digital financial services in Indonesia. Increasing digital transactions have been supported by the growth of ecommerce and food delivery. The emergence of COVID-19 further accelerated the digital adoption in Indonesia.

Figure 31: Digital awareness, access, active engagement and adoption



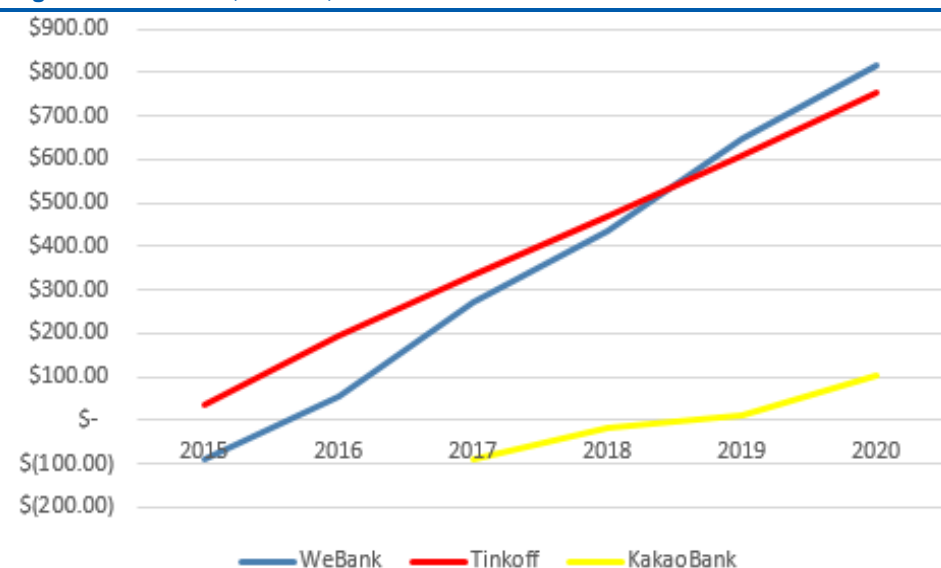
Source: Momentum Works, RHB

### Sector risks

Further relaxation in regulatory requirements will mean more digital banks are likely to be introduced in Indonesia over the next few years. Currently, there are seven banks in the pipeline awaiting licenses, including the digital arm of big Indonesian commercial banks Bank Central Asia (BBCA IJ, BUY, TP: IDR8,700) and BBRI. On top of that, foreign banks already in the market, such as Singapore's DBS (DBS SP, BUY, TP: SGD40.40) and United Overseas Bank (UOB SP, BUY, TP: SGD33.50), will inspire more international banks to set up shop in Indonesia. The sheer number of digital banks over the next few years might make it difficult to establish customer loyalty in the sector, as millennials, evidenced from the e-wallet sector, will be open to giving different banks a try.

Profitability will also be a major point of concern, especially over the next few years, in our view. As the digital banking space in Indonesia is still in its early days, most players will not be making a profit or paying out shareholder dividends, at least, for the next few years, as excess capital is pumped back into the bank in pursuit of growth. However, success stories in China, Russia and South Korea (WeBank, Tinkoff and Kakaobank) show that with strong use cases and a friendly ecosystem, profitability should follow in time.

Figure 32: WeBank, Tinkoff, KakaoBank PBT over time



Source: Momentum Works, RHB

### Sector opportunities

The competition for customer loyalty will push digital banks to create entire ecosystems built around the bank. Evolving simple banking apps into one-stop “superapps” would be a step in this direction. As mentioned, Gojek, Tokopedia and Bank Jago are already making headway in this regard, and looking at tapping into the *shariah* compliant and wealth management product markets in the near future.

A low incremental transactional cost for digital banks might also mark the end of CASA, as these banks can now offer interest rates on CASA deposits that rival those of TDs. While interest rates on CASA deposits are still relatively low, the steady arrival of competition will force banks to compete on the pricing front. In the next few years, we will perhaps be able to open an account with all the CASA features while receiving TD-level interest.

Further, a commitment to serve the unbanked and under-banked will likely bear more fruit over the next few years, as internet coverage in the country slowly increases. We can expect the internet penetration rate to exceed 80% in 2025, with a large proportion of the marginal increase likely to belong to the unbanked or under-banked categories. We anticipate digital banks will be the first to reach out to these people and compete for their signatures.

### An optimistic look forward

The digital banking sector in Indonesia will likely improve other sectors across the whole country, as consumers and businesses deemed “high-risk” by traditional banks should be large-scale beneficiaries of the digital banking boom. The extent to which low internet penetration will limit the progress of digital banks remains to be seen. However, we are optimistic on the increase in internet penetration being in line with the digital bank growth rate such that when the internet becomes accessible to the masses, the banks will be ready.

At the same time, we expect the generous regulations set by the OJK to be a catalyst for competition and collaboration, as banks and fintechs locally and globally come together to penetrate the market. We see the potential of many new banks being established in Indonesia, with the aim of attracting many of the unbanked/underbanked with the best banking experience or face losing to their competitors. Creativity and innovation will thus be key in the industry, where the only way is up, and up fast.

To that end, the biggest winners will not just be consumers and SMEs, but also the innovators, visionaries and disrupters alike.



Recommendation Chart

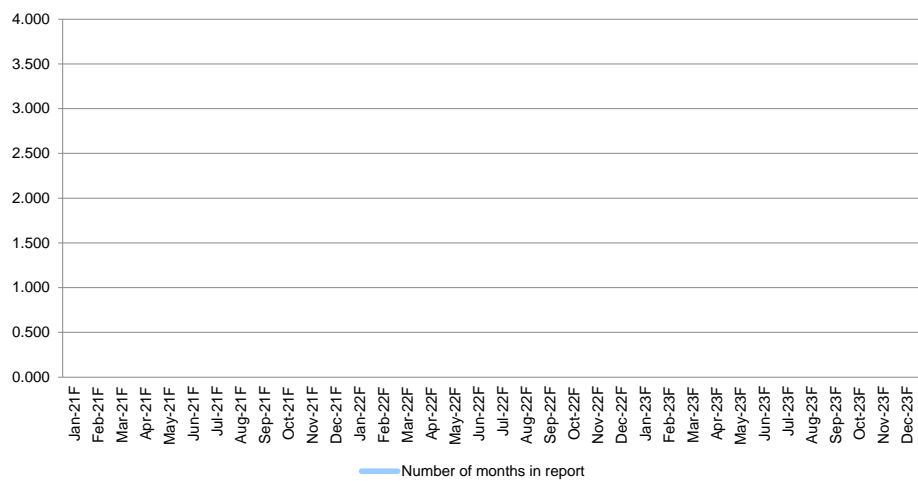


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-12-01			

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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<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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#### KUALA LUMPUR

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### JAKARTA

**PT RHB Sekuritas Indonesia**  
Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

#### BANGKOK

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### SINGAPORE

**RHB Bank Berhad (Singapore branch)**  
90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470