

28 April 2023

Financial Services | Banks

## Bank Central Asia (BCA IJ)

**Buy** (Maintained)

### Strong Fundamentals Shining Through; Stay BUY

Target Price (Return): IDR10,700 (+17%)  
 Price (Market Cap): IDR9,150 (USD76,696m)  
 ESG score: 3.30 (out of 4)  
 Avg Daily Turnover (IDR/USD) 599,216m/39.7m

- Stay BUY, new IDR10,700 TP, from IDR9,800, 17% upside with c.2% yield.** Bank Central Asia's 1Q23 results are within expectations, with robust NII growth and lower provisions being key earnings drivers. The bank is poised for healthy business growth, underpinned by its superior transaction franchise and solid balance sheet. Its robust capital and provision buffers also support the above-trend P/BV valuation.
- 1Q23 in line.** Net profit of IDR11.53trn (-2% QoQ, +43% YoY) accounted for 25% of our and Street FY23F earnings. At the bank level, ROE rose to 22.3% (FY22: 21.7%) while capital adequacy ratio was a solid 28.9% (4Q22: 25.8%).
- Results highlights.** Operating income was up 21.5% YoY in 1Q23, driven by robust NII, which rose 28% YoY on 12% loan growth and 70bps NIM expansion. Non-II increased 6% YoY, with higher fees and commission (+7%) and other income (+25%) offsetting the drop in trading income (-12.5%). Opex was up 19% YoY on a sharp 20% jump in personnel costs (higher bonus and increased headcount for its SME business). The 48% decline in provisions powered the 23% rise in PPOP, to a 43% jump in the bottomline.
- On track for 10-12% YoY loan growth.** Having got off to a good start, management is confident of achieving its 10-12% YoY loan growth target for FY23F. Besides the corporate segment (45% of group loans), BBKA aims to increase its market share in the SME and retail sectors. The bank has increased the headcount for its SME business to tap lending opportunities within the supply chain of its corporate customers. BBKA's consumer exhibitions (BCA Expoversary) has also helped boost sales of mortgages and vehicle loans. In 1Q23, new bookings of consumer loans are up 21% YoY.
- Underlying NIM expanded QoQ.** NIM (bank only) was 5.6% in 1Q23, a drop of 30bps QoQ. Management attributed the lower margin to the inclusion of placements with Bank Indonesia (BI) as interest earnings assets (IEA) for NIM computation. Excluding placements with BI, NIM would have expanded 20bps QoQ. With the added component in IEA, FY23F NIM guidance has been revised to 5.3-5.4% from 5.7-5.8%. NIM improvement would come from higher yields from placements with BI, holdings of government bonds, and repricing of corporate loans that are pegged to the Jakarta Interbank Offered Rate.
- Sustained decline in loans at risk (LAR).** LAR ticked down to 9.5% of total loans from 10% in Dec 2022. More importantly, there was a meaningful increase in LAR coverage to 57.9%, vs 53.8% at end-2022. With the sustained asset quality improvement, management expects credit cost to stay at 0.7-0.8% in FY23F (1Q23: 0.8%; FY22: 0.7%).
- TP raised.** With 1Q23 performance tracking guidance, we make no changes to FY23-24F earnings. Still, our TP rises to IDR10,057 (from IDR9,800) on refreshed GGM assumptions. Our intrinsic value at IDR9,275 is based on a GGM-derived 4.9x P/BV (Figure 3). Our TP incorporates a 6% ESG premium, based on our in-house ESG methodology. Downside risks: Weaker-than-expected NIM due to intense competition and sharper-than-expected CoC.

#### Analysts

Fiona Leong  
 +603 9280 8886  
[fiona.leong@rhbgroup.com](mailto:fiona.leong@rhbgroup.com)

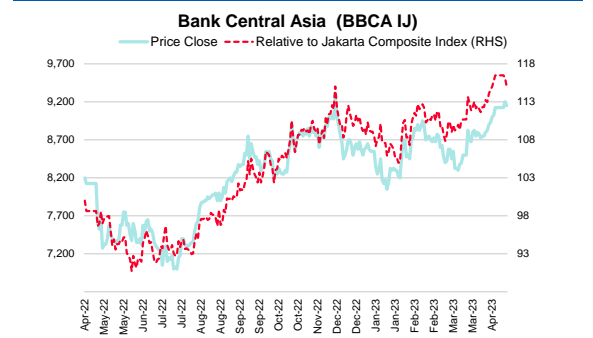


Andrey Wijaya  
 +6221 5093 9846  
[andrey.wijaya@rhbgroup.com](mailto:andrey.wijaya@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.0	5.2	5.2	5.2	11.6
Relative	5.6	1.7	4.5	7.3	15.1
52-wk Price low/high (IDR)	7,000 – 9,300				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Reported net profit (IDRb)	31,423	40,736	45,670	50,867	56,005
Net profit growth (%)	15.8	29.6	12.1	11.4	10.1
Recurring net profit (IDRb)	31,664	40,713	45,646	50,843	55,981
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)	35.62	27.71	24.71	22.19	20.15
P/B (x)	5.56	5.10	4.63	4.23	3.85
Dividend Yield (%)	1.6	1.9	2.2	2.5	2.7
Return on average equity (%)	16.2	19.2	19.7	19.9	20.0

Source: Company data, RHB

#### Overall ESG Score: 3.30 (out of 4)

##### E: GOOD

BBKA's sustainability agenda is embedded in its 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

It embraces gender diversity, with 64% of the total workforce consisting of women. Women also make up 56.7% of its branch heads, and 16.7% of its Board of Directors. BBKA is actively involved in financial literacy education, and the provision of scholarships and assistance to schools. It has been active in provision of assistance during the COVID-19 pandemic.

##### G: EXCELLENT

It has not had any material data security or privacy issues over the past few years. BBKA actively provides education related to the sustainability to its stakeholders. Its Board of Directors comprises twelve Directors while the Board of Commissioners comprises a President Commissioner, one Commissioner and three Independent Commissioners.

## 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
<b>Bank Central Asia</b>	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						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Recurring P/E (x)	35.62	27.71	24.71	22.19	20.15
	P/B (x)	5.6	5.1	4.6	4.2	3.8
	Dividend Yield (%)	1.6	1.9	2.2	2.5	2.7
<b>Valuation basis</b>						
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions:						
	i. COE of 8.07%					
	ii. ROE of 20%					
	iii. Long-term growth of 5%					
<b>Key drivers</b>						
Our forecasts are most sensitive to changes in:						
	i. Credit costs;					
	ii. Net interest margin;					
	iii. Volatility in trading and investment gains.					
<b>Key risks</b>						
Key downside risks are:						
	i. Macroeconomic headwinds from rising inflation and geopolitical tensions;					
	ii. Hiccups in government stimulus programmes;					
	iii. Asset quality pressures.					
<b>Company Profile</b>						
Bank Central Asia is Indonesia's third largest bank by asset, and the leading consumer bank due to its unrivalled transactional banking franchise.						
	<b>Income statement (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Interest income	65,980	72,459	83,841	92,240	100,383
	Interest expense	(9,509)	(8,315)	(9,906)	(11,258)	(12,820)
	<b>Net interest income</b>	<b>56,471</b>	<b>64,143</b>	<b>73,934</b>	<b>80,982</b>	<b>87,563</b>
	Non interest income	21,427	22,673	24,529	26,331	27,929
	<b>Total operating income</b>	<b>77,897</b>	<b>86,817</b>	<b>98,463</b>	<b>107,314</b>	<b>115,493</b>
	Overheads	(29,434)	(31,851)	(35,940)	(38,634)	(40,818)
	<b>Pre-provision operating profit</b>	<b>48,464</b>	<b>54,966</b>	<b>62,523</b>	<b>68,680</b>	<b>74,675</b>
	Loan impairment allowances	(9,324)	(4,527)	(6,004)	(5,804)	(5,445)
	Other exceptional items	(597)	56	60	60	60
	<b>Pre-tax profit</b>	<b>38,841</b>	<b>50,467</b>	<b>56,549</b>	<b>62,906</b>	<b>69,260</b>
	Taxation	(7,401)	(9,711)	(10,857)	(12,015)	(13,229)
	Minority interests	(17)	(20)	(22)	(24)	(26)
	<b>Reported net profit</b>	<b>31,423</b>	<b>40,736</b>	<b>45,670</b>	<b>50,867</b>	<b>56,005</b>
	<b>Recurring net profit</b>	<b>31,664</b>	<b>40,713</b>	<b>45,646</b>	<b>50,843</b>	<b>55,981</b>
	<b>Profitability ratios</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Return on average assets (%)	2.7	3.2	3.3	3.4	3.5
	Return on average equity (%)	16.2	19.2	19.7	19.9	20.0
	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
	<b>Balance sheet (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total gross loans	795,197	843,808	928,507	1,015,525	1,104,835
	Other interest earning assets	561,794	573,669	603,425	639,003	678,191
	Total gross IEAs	1,192,448	1,277,232	1,384,674	1,498,251	1,614,836
	Total provisions	(34,094)	(35,462)	(38,559)	(40,622)	(34,924)
	Net loans to customers	597,415	668,722	743,341	819,301	902,420
	Total net IEAs	1,158,354	1,241,769	1,346,115	1,457,629	1,579,912
	Total non-IEAs	69,991	72,962	72,621	76,481	86,752
	Total assets	1,228,345	1,314,732	1,418,736	1,534,110	1,666,664
	Customer deposits	975,949	1,039,718	1,120,600	1,209,156	1,312,093
	Other interest-bearing liabilities	49,547	53,832	54,388	57,823	61,202
	Total IBLs	1,025,496	1,093,550	1,174,988	1,266,979	1,373,296
	Total liabilities	1,025,496	1,093,550	1,174,988	1,266,979	1,373,296
	Share capital	7,090	7,090	7,090	7,090	7,090
	Shareholders' equity	202,713	221,019	243,583	266,957	293,183
	Minority interests	136	163	165	173	185
	<b>Asset quality and capital</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	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

Figure 1: BBKA's 1Q23 results summary

Income statement (IDRbn)	1Q22	4Q22	1Q23	QoQ	YoY	% of RHB	% of cons.
Interest income	16,462	20,252	21,106	4.2%	28.2%		
Interest expense	(1,979)	(2,201)	(2,575)	17.0%	30.1%		
<b>NII</b>	<b>14,483</b>	<b>18,051</b>	<b>18,531</b>	<b>2.7%</b>	<b>28.0%</b>		
Non-II	5,920	6,011	6,253	4.0%	5.6%		
<b>Total operating income</b>	<b>20,402</b>	<b>24,061</b>	<b>24,784</b>	<b>3.0%</b>	<b>21.5%</b>		
Operating expense	7,722	8,675	9,204	6.1%	19.2%		
<b>PPOP</b>	<b>12,680</b>	<b>15,386</b>	<b>15,580</b>	<b>1.3%</b>	<b>22.9%</b>		
Provision expense	2,818	609	1,460	139.9%	-48.2%		
<b>Pre-tax profit</b>	<b>9,862</b>	<b>14,778</b>	<b>14,120</b>	<b>-4.5%</b>	<b>43.2%</b>		
<b>Net profit</b>	<b>8,064</b>	<b>11,781</b>	<b>11,530</b>	<b>-2.1%</b>	<b>43.0%</b>	<b>25%</b>	<b>255%</b>
Balance sheet (IDRbn)	Mar-22	Dec-22	Mar-23	QoQ	YoY		
Loan	637,040	711,139	713,686	0.4%	12.0%		
Deposit	997,761	1,039,718	1,038,750	-0.1%	4.1%		
CASA	798,159	847,938	843,334	-0.5%	5.7%		
Time deposits	199,602	191,780	195,416	1.9%	-2.1%		
RATIOS	3M22	FY22	3M23				
ROAE (%)	16.8%	21.7%	22.3%				
NIM (%)	4.9%	5.3%	5.6%				
CoC (%)	1.9%	0.7%	0.8%				
CASA (%)	80.0%	81.6%	81.2%				
LDR (%)	63.8%	68.4%	68.7%				
CIR (%)	35.8%	33.9%	35.2%				
NPL (%)	2.3%	1.7%	1.8%				
CAR (%)	23.9%	25.8%	28.9%				
Coverage (%)	244.8%	287.3%	285.4%				

Source: Company data, RHB

Figure 2: BBKA's management guidance for FY23

	FY22 achieved	1Q23 achieved	FY23F guidance	FY23F RHB Forecast
Loan growth (% YoY)	11.7	12.0	10-12	11.0
NIM (%)	5.3	5.6	5.3-5.4	5.6
Cost-to-income ratio (%)	33.9	35.2	37-38	36.5
Credit cost (%)	0.7	0.8	0.7-0.8	0.8

Source: Company data, RHB

**Valuation and TP**

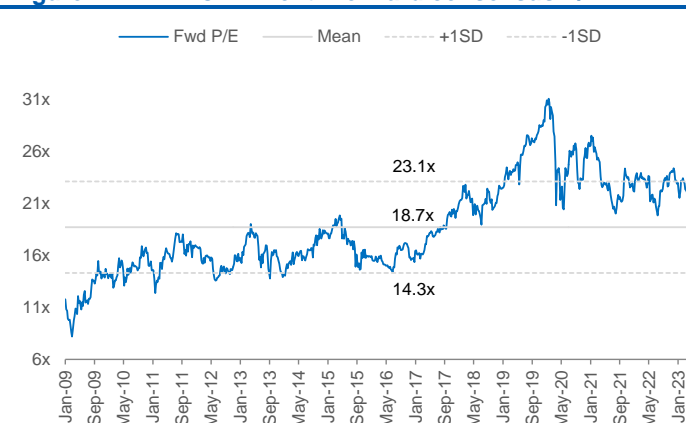
Our TP rises to IDR10,700 from IDR9,800. We also refreshed assumptions on cost of equity (from 8.27% to 8.07%) and BVPS, and increased our GGM-derived intrinsic value to IDR10,057 (4.9x P/BV) from IDR9,275 (4.6x P/BV). Our TP also incorporates a 6% ESG premium, given its ESG score 3.3 (out of 4.0) vs the country median of 3.0.

**Figure 3: BBKA – GGM valuation with ESG overlay**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	20.0
Risk free rate (%)	6.70	COE (%)	8.07
Equity premium (%)	1.30	Long-term growth (g)	5.00
Beta (x)	1.05	Implied P/BV (x)	4.89
Cost of equity - CAPM (%)	8.07	BVPS – 12-mth rolling forward	IDR2,055
		Intrinsic value	IDR10,057
<b>ESG premium/(discount) (%)</b>	6.0	ESG premium/(discount)	IDR603
		<b>TP (rounded)</b>	<b>IDR10,700</b>

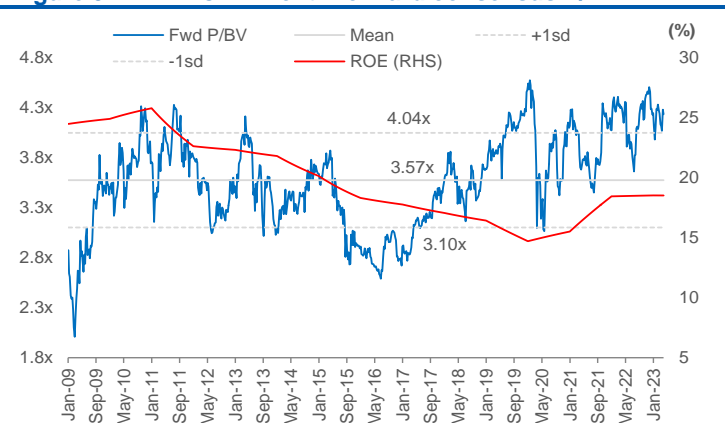
Source: Company data, RHB

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



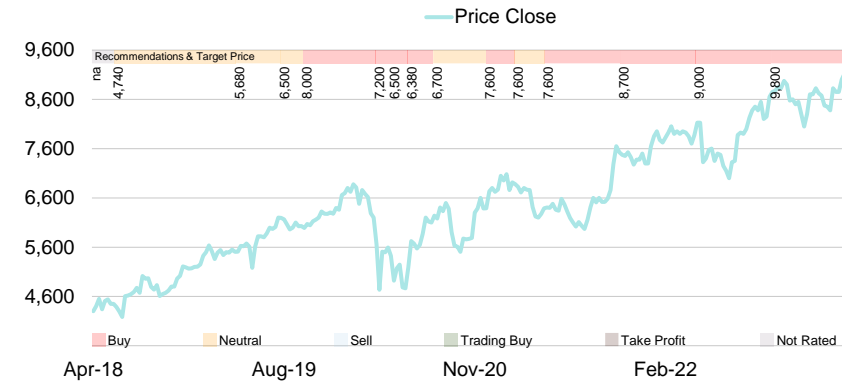
Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

## Recommendation Chart

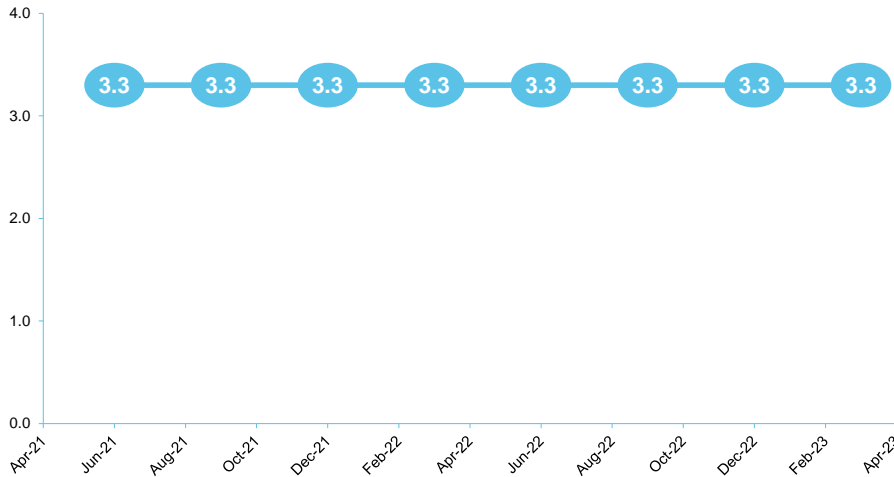


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-01-27	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
2019-10-29	Buy	8,000	6,220

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
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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