

25 October 2022

Financial Services | Banks

Bank Negara Indonesia (BBNI IJ)

Buy (Maintained)

Lower Provisions To Mitigate Softer FY23 Outlook; Keep BUY

Target Price (Return): IDR11,600 (24.1%)
 Price (Market Cap): IDR9,350 (USD11,187m)
 ESG score: 3.20 (out of 4)
 Avg Daily Turnover (IDR/USD) 226,315m/15.1m

- **Maintain BUY with a higher IDR11,600 TP from IDR10,400, 24% upside and c.2% yield.** Bank Negara Indonesia's 9M22 net profit beat expectations. The bank is on track to achieving FY22 targets while guidance for FY23F points to improving asset quality being the key earnings driver. We believe the stock would continue to see positive re-rating as ROE remains on an upward trajectory while valuation is undemanding.
- **9M22 beat expectations.** Net profit of IDR4.89trn (+1% QoQ, +80% YoY) in 3Q22 lifted 9M22 earnings to IDR13.69trn (+77% YoY), which is above expectations at 79% of our and 82% of consensus' FY22F earnings. 9M22 ROE (bank only) improved to 15.2% vs 9.2% in 9M21, while Tier-1 capital ratio (bank only) was healthy at 17%. In 3Q22 PPOP dipped 1% YoY mainly on the 7% QoQ jump in opex and 2% QoQ drop in non-II (FX trading income fell 48% QoQ). Still, with provision charges down 10% QoQ, net profit edged up 1% QoQ. See Figure 1.
- **Expects decent loan growth in FY23.** BNI's loans grew 6.9% YTD up to September or an annualised 9%. Growth was led by lending to private corporates (+17.5% YTD with strong demand from the manufacturing, natural resources, transport, warehouse & communication), large commercial (+20.8% YTD), and payroll loans (+15.6% YTD). Loans to state-owned enterprises (SOE) dipped 8.9% YTD by design. Management maintained loan growth target at 7-10% for FY22F and expects growth to be a touch softer at 7-9% in FY23 as the domestic economy stays resilient.
- **NIM to narrow slightly.** NIM ticked up 10bps QoQ to 5.0% in 3Q22 mainly on higher loan yields, particularly foreign currency loans, as loans were flattish QoQ. Management expects NIM to slip slightly to 4.5-4.7% for FY23, from the guidance of 4.6-4.8% for FY22 (9M22: 4.80%). Despite expectations for policy rate to rise to 5.25% in 2023, management believes NIM would remain under pressure. Cost of funds is expected to rise from 4Q22 but BNI would re-price only some portion of loan portfolio as the bank continues to focus on building loans from top-tier clients.
- **Expects meaningful reduction in credit cost.** While the focus on quality clients would be mildly negative for NIM, this will be compensated by lower credit costs as asset quality improves. COVID-19 restructured loans have declined to 9.6% of total loans (Jun 2022: 10.2%) while gross NPL ratio was a lower 3.0% (2Q22: 3.2%), and LLR a stronger 270.8% (2Q22: 263%). The improved asset quality saw credit cost falling to 1.6% in 3Q22 and 2.0% for 9M22. Management expects credit cost to fall below 1.5% in FY23F vs guidance of 1.9-2.1% for FY22.
- **Earnings and TP.** After taking into account guidance for FY23F and 3Q22 results, our forecasts are fine-tuned by 2-3% for FY22F-24F (Figure 3). Our TP is raised to IDR11,600 (from IDR10,400) based on an intrinsic value of IDR11,153 (GGM-derived 1.37x P/BV) and a 4% ESG premium (Figure 4).

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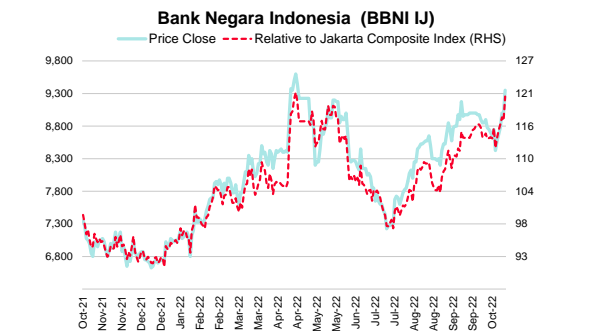


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	38.5	3.9	21.4	0.0	25.5
Relative	31.3	5.7	19.0	2.4	19.3
52-wk Price low/high (IDR)	6,625 – 9,600				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Reported net profit (IDRb)	3,280	10,899	17,781	20,182	22,938
Net profit growth (%)	(78.7)	232.2	63.1	13.5	13.7
Recurring net profit (IDRb)	3,275	10,904	17,786	20,188	22,944
Recurring EPS (IDR)	175.60	584.69	953.74	1,082.53	1,230.34
BVPS (IDR)	5,787.84	6,514.22	7,371.89	8,171.04	8,989.70
DPS (IDR)	206.24	43.98	204.54	352.78	422.07
Recurring P/E (x)	53.25	15.99	9.80	8.64	7.60
P/B (x)	1.62	1.44	1.27	1.14	1.04
Dividend Yield (%)	2.2	0.5	2.2	3.8	4.5
Return on average equity (%)	2.9	9.5	13.7	13.9	14.3

Source: Company data, RHB

Overall ESG Score: 3.20 (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 IDR176.4trn, or 28.5% of total loans at Sep 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 29% 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-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Indonesia	EPS	175.91	584.41	953.45	1,082.22	1,230.00
Financial Services	Recurring EPS	175.60	584.69	953.74	1,082.53	1,230.34
Bank Negara Indonesia	DPS	206.24	43.98	204.54	352.78	422.07
BBNI IJ	BVPS	5,787.84	6,514.22	7,371.89	8,171.04	8,989.70
Buy						
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
GGM with key assumptions:	Recurring P/E (x)	53.25	15.99	9.80	8.64	7.60
(i) COE of 11.56%;	P/B (x)	1.6	1.4	1.3	1.1	1.0
(ii) ROE of 13.8%; and	Dividend Yield (%)	2.2	0.5	2.2	3.8	4.5
(iii) Long term growth of 5.5%						
Key drivers	Income statement (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Our forecasts are most sensitive to changes in:	Interest income	56,173	50,026	53,500	54,623	59,129
(i) Provision charges;	Interest expense	(19,021)	(11,779)	(12,350)	(12,964)	(14,059)
(ii) Net interest margin; and	Net interest income	37,152	38,247	41,150	41,659	45,070
(iii) Loan growth.	Non interest income	14,884	17,619	19,023	20,498	21,939
	Total operating income	52,036	55,865	60,173	62,156	67,009
	Overheads	(24,214)	(24,801)	(26,300)	(27,677)	(29,129)
	Pre-provision operating profit	27,822	31,064	33,873	34,479	37,880
	Loan impairment allowances	(22,590)	(18,297)	(11,840)	(9,179)	(9,141)
	Other exceptional items	(119)	(216)	(167)	(181)	(193)
	Pre-tax profit	5,112	12,551	21,867	25,120	28,546
	Taxation	(1,791)	(1,574)	(3,936)	(4,773)	(5,424)
	Minority interests	(41)	(79)	(150)	(165)	(185)
	Reported net profit	3,280	10,899	17,781	20,182	22,938
	Recurring net profit	3,275	10,904	17,786	20,188	22,944
Key risks	Profitability ratios	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key downside risks are:	Return on average assets (%)	0.4	1.2	1.9	2.1	2.2
(i) Sharply higher inflation impacting loan growth and asset quality;	Return on average equity (%)	2.9	9.5	13.7	13.9	14.3
(ii) NIM pressure from competition	Return on IEAs (%)	6.8	5.5	5.7	5.7	5.8
	Cost of funds (%)	2.6	1.5	1.6	1.6	1.7
	Net interest spread (%)	4.2	4.0	4.2	4.1	4.2
	Net interest margin (%)	4.5	4.2	4.4	4.4	4.4
	Non-interest income / total income (%)	28.6	31.5	31.6	33.0	32.7
	Cost to income ratio (%)	46.5	44.4	43.7	44.5	43.5
	Credit cost (bps)	396	313	195	140	130
Company Profile	Balance sheet (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
BNI is Indonesia's 4th largest bank by assets 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	697,420	742,979	734,743	787,279	840,230
	Other interest earning assets	283,550	363,606	289,520	303,996	319,196
	Total gross IEAs	868,461	946,042	921,463	983,335	1,046,089
	Total provisions	(44,268)	(51,640)	(50,855)	(47,534)	(47,175)
	Net loans to customers	541,979	532,141	583,008	633,725	681,638
	Total net IEAs	824,193	894,402	870,608	935,801	998,914
	Total non-IEAs	67,145	70,435	76,163	80,081	94,039
	Total assets	891,337	964,838	946,771	1,015,882	1,092,953
	Customer deposits	679,452	729,169	680,800	731,860	790,409
	Other interest-bearing liabilities	65,187	73,241	82,965	84,422	85,789
	Total IBLs	744,640	802,409	763,765	816,282	876,197
	Total non-IBLs	33,825	35,908	39,000	40,560	42,182
	Total liabilities	778,465	838,318	802,765	856,842	918,380
	Share capital	23,623	26,065	26,065	26,065	26,065
	Shareholders' equity	107,936	121,481	137,476	152,379	167,646
	Minority interests	4,937	5,039	6,530	6,661	6,927
	Asset quality and capital	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Reported NPLs / gross cust loans (%)	4.2	3.7	2.9	2.6	2.5
	Total provisions / reported NPLs (%)	116.0	160.9	184.8	169.6	162.9
	CET-1 ratio (%)	15.7	17.7	0.0	0.0	0.0
	Tier-1 ratio (%)	15.7	17.7	0.0	0.0	0.0
	Total capital ratio (%)	17.0	18.9	0.0	0.0	0.0

Source: Company data, RHB

Figure 1: BBNI's 3Q22 and 9M22 results summary

Income statement (IDRbn)	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YoY	% of RHB	% of Cons.
Interest income	12,227	13,356	13,740	2.9%	12.4%	37,523	39,270	4.7%		
Interest expense	2,851	2,978	3,150	5.8%	10.5%	8,825	9,071	2.8%		
Net interest income	9,376	10,378	10,589	2.0%	12.9%	28,698	30,199	5.2%		
Non-interest Income	4,328	3,520	3,462	-1.6%	-20.0%	12,806	11,014	-14.0%		
Total operating income	13,704	13,898	14,051	1.1%	2.5%	41,504	41,213	-0.7%		
Operating expense	6,298	6,387	6,829	6.9%	8.4%	17,958	19,361	7.8%		
PPOP	7,407	8,708	8,588	-1.4%	16.0%	23,546	25,831	9.7%		
Provision expense	4,012	2,803	2,525	-9.9%	-37.1%	13,798	8,928	-35.3%		
Operating profit	3,395	5,905	6,063	2.7%	78.6%	9,748	16,903	73.4%		
Net profit	2,720	4,841	4,890	1.0%	79.8%	7,746	13,692	76.8%	79%	82%
Balance sheet (IDRbn)	Sep 21	Jun 22	Sep 22	QoQ	YoY					
Loan	569,735	620,423	622,607	0.4%	9.3%					
Deposit	668,632	691,837	685,235	-1.0%	2.5%					
CASA	465,733	478,983	485,676	1.4%	4.3%					
Time deposits	202,899	212,854	199,559	-6.2%	-1.6%					
RATIOS – Bank Only	9M21	6M22	9M22							
ROAA (%)	1.5%	2.4%	2.5%							
ROAE (%)	9.2%	15.1%	15.2%							
NIM (%)	4.76%	4.70%	4.80%							
CoC (%)	3.3%	2.2%	2.0%							
CASA (%)	69.7%	69.2%	70.9%							
LDR (%)	85.2%	90.1%	91.2%							
CIR (%)	42.1%	42.1%	41.4%							
NPL (%)	3.81%	3.16%	3.04%							
CAR (%)	19.9%	18.4%	18.9%							
Coverage (%)	226.8%	263.3%	270.8%							

Source: Company data, RHB

Figure 2: BBNI's guidance for FY22 and FY23

	FY21 Achieved	9M22 Achieved	FY22F Guidance	FY23F Guidance
Loan growth (% YoY)	5.3	9.1	7.0 - 10.0	7.0 – 9.0
Net interest margin (%)	4.7	4.80	4.6 - 4.8	4.5 – 4.7
Credit cost (%)	3.3	2.0	1.9 - 2.1	<1.5

Source: Company data, RHB

Earnings revisions

We fine-tuned our forecasts by 3% for FY22 and 2% for FY24. Downward revisions in PPOP on lower operating income and higher opex are offset by assumption of more benign credit costs.

Figure 3: BBNI – revisions to earnings forecasts

FYE Dec	Previous FY22F	Previous FY23F	Previous FY24F	Revised FY22F	Revised FY23F	New FY24F	% Change FY22F	% Change FY23F	% Change FY24F
(IDRbn)									
NII	41,552	45,496	48,441	41,150	41,659	45,070	-1.0%	-8.4%	-7.0%
Operating income	61,281	66,698	71,192	60,173	62,156	67,009	-1.8%	-6.8%	-5.9%
PIOP	33,944	37,779	41,019	33,873	34,479	37,880	-0.2%	-8.7%	-7.7%
Provision expenses	12,144	12,457	12,656	11,840	9,179	9,141	-2.5%	-26.3%	-27.8%
Net profit	17,268	20,071	22,489	17,781	20,182	22,938	3.0%	0.6%	2.0%
EPS (IDR)	926	1,076	1,206	953	1,082	1,230	3%	1%	2%
EPS growth (%)	58.4%	16.2%	12.0%	63.1%	13.5%	13.7%			
Loans	631,943	679,339	726,893	631,943	679,339	726,893	0%	0%	0%
Loan growth (%)	8.5%	7.5%	7.0%	8.5%	7.5%	7.0%			
NIM (%)	4.41%	4.59%	4.61%	4.56%	4.58%	4.65%			
CIR (%)	44.6%	43.4%	42.4%	43.7%	44.5%	43.5%			
Credit cost (%)	2.00%	1.90%	1.80%	1.95%	1.40%	1.30%			
BVPS (IDR)	7,736	8,618	9,563	7,372	8,171	8,990	-5%	-5%	-6%
DPS (IDR)	146	231	269	205	353	422	40%	52%	57%
ROE	13.0%	13.2%	13.3%	13.7%	13.9%	14.3%			

Source: Company data, RHB

Valuation and TP

Our new TP of IDR11,600 (from IDR10,400) is based on an intrinsic value of IDR11,153 (from IDR9,981) and a 4% ESG premium, based on RHB's in-house ESG methodology.

The new intrinsic value is based on a revised GGM-derived P/BV of 1.37x (from 1.2x) following revisions of the following key assumptions:

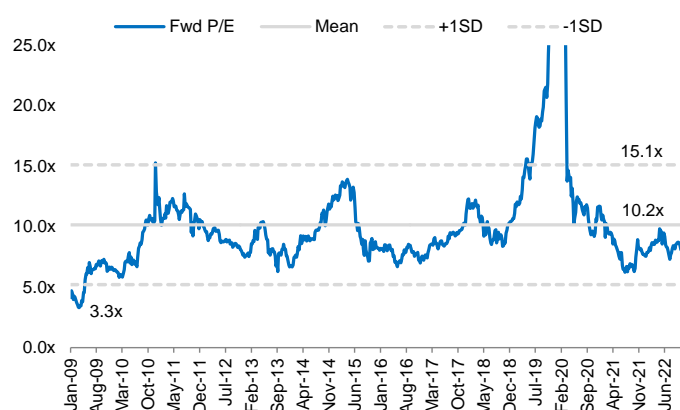
- Higher ROE of 13.8% (from 12.9%) on roll forward of base year; and
- Lower cost of equity of 11.6% (from 11.7%).

Figure 4: BBNI – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	13.8
Risk free rate (%)	7.50	COE (%)	11.56
Equity premium (%)	3.69	Long-term growth (g)	5.5
Beta (x)	1.1	Implied P/BV (x)	1.37
Cost of equity - CAPM (%)	11.56	BVPS – 12-mth rolling	IDR8,145
		Intrinsic value	IDR11,153
ESG premium/(discount) (%)	4.0	ESG premium/(discount)	IDR446
		TP (rounded)	IDR11,600

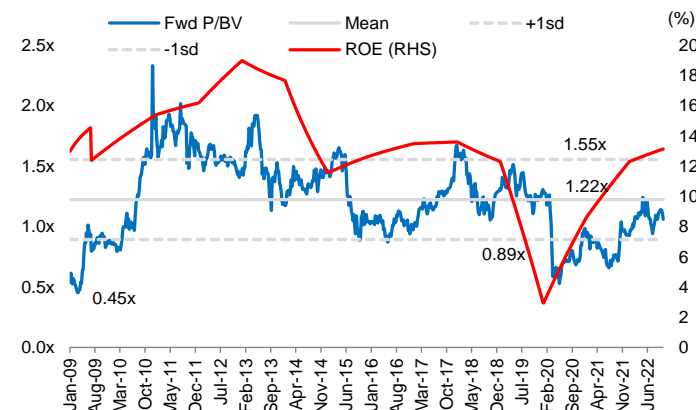
Source: Company data, RHB

Figure 5: BBNI's 12-month forward consensus P/E



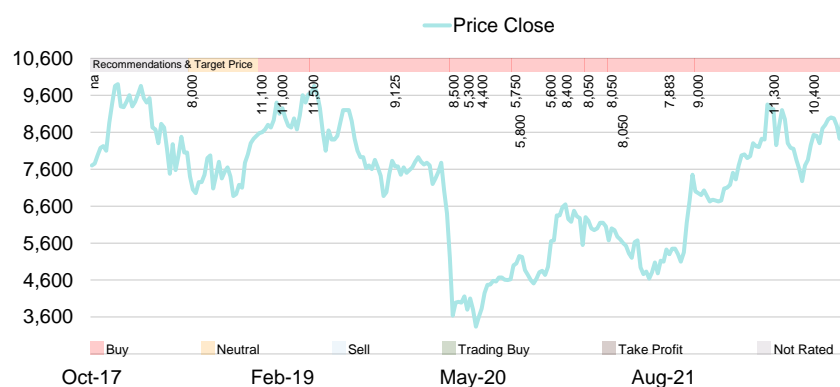
Source: Bloomberg, RHB

Figure 6: BBNI's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Recommendation Chart

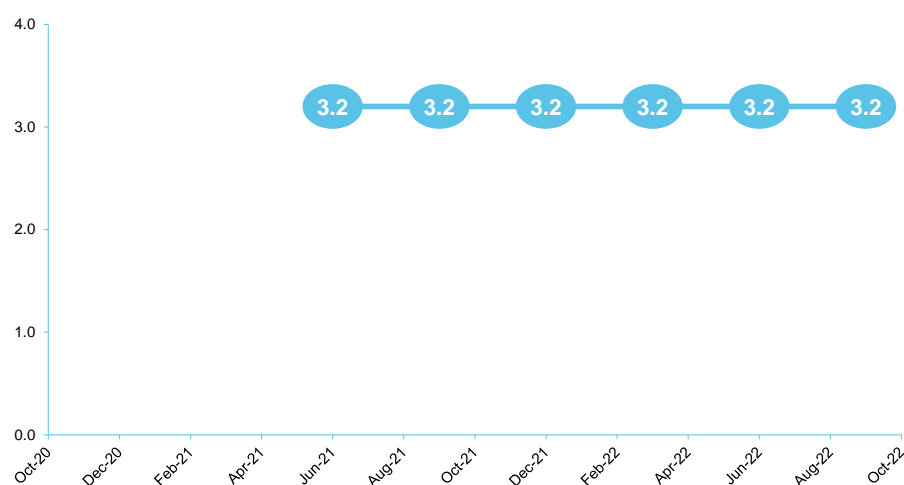


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-01	Buy	10,400	7,950
2022-04-26	Buy	11,300	9,600
2022-01-27	Buy	9,000	7,200
2021-10-25	Buy	9,000	7,350
2021-08-17	Buy	7,883	5,150
2021-04-26	Buy	8,050	5,725
2021-03-29	Buy	8,050	6,050
2021-02-01	Buy	8,050	5,850
2020-12-10	Buy	8,400	6,600
2020-11-01	Buy	5,600	4,740
2020-08-18	Buy	5,800	5,050
2020-08-07	Buy	5,750	4,620
2020-05-20	Buy	4,400	3,600
2020-04-16	Buy	5,300	3,980
2020-03-10	Buy	8,500	5,675

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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