

28 July 2022

Financial Services | Banks

## Bank Rakyat Indonesia (BBRI IJ)

**Buy** (Maintained)

### Sustainable 2Q22 Earnings Expansion; Still BUY

- **Keep BUY and IDR5,500 TP, 27% upside.** Bank Rakyat Indonesia's 1H22 earnings grew 98.4% YoY, exceeding expectations at 66% and 57% of our and Street's estimates. 1H22 NIM widened to 8.2% (1H21: 7.4%) on a higher CASA ratio which rose to 65.1% (1H21: 59.6%). Loan quality continues to improve, as evidenced by lower LAR – however, BBRI still increased its coverage ratio. There is still room to cut opex, particularly with the newly acquired Permodalan Nasional Madani (PNM). BBRI raised its FY22F guidance by increasing NIM and decreasing CoC.
- **Stellar 2Q22 earnings, above expectation.** BBRI booked 2Q22 net profit of IDR12.7trn (+3.6% QoQ, +122.8% YoY), bringing 1H22 bottomline to IDR24.9trn (+98.4% YoY) – above expectations at 66% and 57% of our and Street's estimates. It booked 8.7% YoY loan growth, outpacing the industry's 6.7%, driven by the micro segment which grew 15.1% YoY.
- **1H22 NIM expanded** to 8.2% (1Q22: 7.7%, 1H21: 7.4%) thanks to a higher CASA ratio which improved to 65.1% (1H21: 59.6%). This was the main reason interest expenses declined 18.3% YoY. COF fell slightly to 1.7% in 1H22 (1Q22: 1.73%, FY21: 2.05%). BBRI also managed to optimise interest income from its rural credit programme Kupedes, and People's Business Credit (KUR) 1H22 disbursement which grew 25.2% YoY and 41.8% YoY – strengthening its 1H22 NII by 17.6% YoY to IDR64.6trn.
- **Still room to reduce opex.** Operating expenses on the consolidated level rose 7.9% YoY, partly impacted by the integration of PNM and Pegadaian. Opex to operational income ratio slightly declined to 63.98% in 1H22 (1Q22: 64.3%, FY21: 74.8%). Going forward, BBRI will focus on reducing PNM's opex which is still high (1H22 opex to operational income ratio is 89.7%).
- **Although LAR declined,** BBRI increased LAR coverage. NPL remains manageable at 3.26%, while LAR improved to 20.1% (1H21: 26.0%). However, BBRI raised LAR coverage ratio to 42.39% in 1H22 (FY21: 35.56%). To prepare for the end of the FSA Restructured Loan Policy Relaxation in Mar 2023, BRI adopted the Soft Landing Strategy, which entails being more selective in COVID-19 loan restructuring while maintaining adequate provisions to mitigate loan deterioration.
- **Higher NIM, lower CoC.** BBRI raised its FY22F NIM guidance to 7.7-7.9%. This is higher than the previous guidance of 7.6-7.8%, but lower than the actual 1H22 figure of 8.2%. It also lowered CoC guidance to 2.7-2.9%, which is lower than both the previous 7.6-7.8% guidance and actual 1H22 figure of 3.1%.
- **Our TP includes an 8% ESG premium,** based on BBRI's 3.4 ESG score, which is above the country median. Key risk: Expected accelerated inflation may have a short-term impact on economic recovery.

Target Price (Return): IDR5,500 (27.0%)  
 Price (Market Cap): IDR4,330 (USD43,770m)  
 ESG score: 3.40 (out of 4)  
 Avg Daily Turnover (IDR/USD) 668,236m/45.4m

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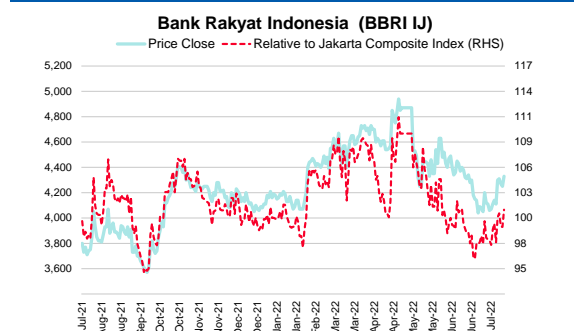


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.4	(0.2)	(12.4)	5.9	13.1
Relative	1.0	2.2	(7.4)	1.8	0.6
52-wk Price low/high (IDR)	3,570 – 4,940				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Reported net profit (IDRb)	18,660	30,756	37,496	44,300	53,398
Net profit growth (%)	(45.7)	64.8	21.9	18.1	20.5
Recurring net profit (IDRb)	18,510	30,879	37,360	44,158	53,248
Recurring EPS (IDR)	151.43	252.62	305.64	361.25	435.61
BVPS (IDR)	1,852.26	2,366.19	2,778.44	3,015.60	3,253.54
DPS (IDR)	na	99.20	100.64	122.70	144.97
Recurring P/E (x)	28.59	17.14	14.17	11.99	9.94
P/B (x)	2.34	1.83	1.56	1.44	1.33
Dividend Yield (%)	na	2.3	2.3	2.8	3.3
Return on average equity (%)	8.6	11.9	11.9	12.5	13.9

Source: Company data, RHB

#### Overall ESG Score: 3.40 (out of 4)

##### E: EXCELLENT

Calculation of BRI's GHG emissions and the emission baseline determination. The BRI Peduli – Indonesia Lestari aims to support marine sustainability. Re-engineering the credit card application process to make it paperless by moving it entirely online. Accelerating river revitalisation efforts in a number of areas. BRI's CSR program "Clean the Rivers" is carried out in 19 rivers, at 19 BRI Regional Offices throughout Indonesia.

##### S: EXCELLENT

BRI implements labour rights in accordance with local labour laws and continuously monitors labour issues such as child labour, forced labour, freedom of association, discrimination, and gender equality. It carries out community empowerment activities such as education and training activities on green businesses.

##### G: EXCELLENT

As a first mover in the implementation of sustainable finance, BRI continues to strengthen its sustainability governance structure under the Director of Risk Management who is responsible for the implementation of sustainable finance.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (IDR)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Indonesia	EPS	152.66	251.61	306.75	362.41	436.84
Financial Services	Recurring EPS	151.43	252.62	305.64	361.25	435.61
<b>Bank Rakyat Indonesia</b>	DPS	-	99.20	100.64	122.70	144.97
BBRI IJ	BVPS	1,852.26	2,366.19	2,778.44	3,015.60	3,253.54
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
P/BV backed by GGM. Assumptions include:	Recurring P/E (x)	28.59	17.14	14.17	11.99	9.94
i. COE of 12.5%;	P/B (x)	2.3	1.8	1.6	1.4	1.3
ii. ROE of 16%;	Dividend Yield (%)	na	2.3	2.3	2.8	3.3
iii. 9.6% long-term growth.						
<b>Key drivers</b>	<b>Income statement (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Faster-than-expected loan growth;	Interest income	135,765	143,523	149,706	159,622	174,794
ii. Lower cost of funds;	Interest expense	(42,180)	(29,429)	(40,732)	(43,660)	(46,895)
iii. Improvements in asset quality.	<b>Net interest income</b>	<b>93,584</b>	<b>114,094</b>	<b>108,974</b>	<b>115,961</b>	<b>127,900</b>
	Non interest income	38,978	42,259	48,598	55,707	61,158
	<b>Total operating income</b>	<b>132,563</b>	<b>156,353</b>	<b>157,572</b>	<b>171,669</b>	<b>189,058</b>
	Overheads	(67,504)	(75,918)	(78,955)	(82,113)	(85,398)
	<b>Pre-provision operating profit</b>	<b>65,059</b>	<b>80,435</b>	<b>78,617</b>	<b>89,556</b>	<b>103,660</b>
	Loan impairment allowances	(33,123)	(35,970)	(23,898)	(25,421)	(27,092)
	Other impairment allowances	(2,157)	(3,321)	(3,354)	(3,690)	(4,059)
	Other exceptional items	215	(152)	175	184	193
	<b>Pre-tax profit</b>	<b>29,993</b>	<b>40,992</b>	<b>51,540</b>	<b>60,628</b>	<b>72,703</b>
	Taxation	(8,952)	(7,836)	(11,523)	(13,555)	(16,255)
	Minority interests	(2,381)	(2,401)	(2,521)	(2,773)	(3,050)
	<b>Reported net profit</b>	<b>18,660</b>	<b>30,756</b>	<b>37,496</b>	<b>44,300</b>	<b>53,398</b>
	<b>Recurring net profit</b>	<b>18,510</b>	<b>30,879</b>	<b>37,360</b>	<b>44,158</b>	<b>53,248</b>
	<b>Profitability ratios</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Return on average assets (%)	1.2	1.9	2.1	2.3	2.6
	Return on average equity (%)	8.6	11.9	11.9	12.5	13.9
	Return on IEAs (%)	11.4	12.4	9.8	9.4	10.3
	Cost of funds (%)	3.9	2.6	3.4	3.4	3.4
	Net interest spread (%)	7.6	9.8	6.4	6.0	6.9
	Net interest margin (%)	7.9	9.8	7.1	6.8	7.6
	Non-interest income / total income (%)	29.4	27.0	30.8	32.5	32.3
	Cost to income ratio (%)	50.9	48.6	50.1	47.8	45.2
	Credit cost (bps)	349	360	230	230	230
	<b>Balance sheet (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total gross loans	992,853	1,003,576	1,070,636	1,139,917	1,215,868
	Other interest earning assets	53,625	267,643	718,522	480,539	546,355
	Total gross IEAs	1,046,478	1,271,219	1,789,158	1,620,456	1,762,223
	Total provisions	(69,392)	(86,245)	(85,829)	(81,255)	(79,950)
	Net loans to customers	923,461	917,331	984,807	1,058,662	1,135,918
	Total net IEAs	977,086	1,184,974	1,703,329	1,539,201	1,682,273
	Total non-IEAs	632,980	493,123	121,825	422,342	426,017
	Total assets	1,610,065	1,678,098	1,825,154	1,961,543	2,108,290
	Customer deposits	1,120,922	1,138,743	1,229,843	1,328,230	1,434,488
	Other interest-bearing liabilities	23,786	13,329	7,470	4,186	2,346
	Total IBLs	1,144,708	1,152,073	1,237,312	1,332,416	1,436,834
	Total non-IBLs	235,891	234,238	245,408	257,422	270,357
	Total liabilities	1,380,598	1,386,311	1,482,720	1,589,838	1,707,191
	Share capital	6,167	7,578	7,578	7,578	7,578
	Shareholders' equity	226,415	289,236	339,629	368,618	397,703
	Minority interests	3,052	2,551	2,806	3,087	3,395
	<b>Asset quality and capital</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Reported NPLs / gross cust loans (%)	3.1	2.8	2.6	2.6	2.6
	Total provisions / reported NPLs (%)	187.2	264.4	224.6	217.3	210.1
	CET-1 ratio (%)	20.3	22.9	24.9	26.8	29.2
	Tier-1 ratio (%)	21.2	24.0	26.0	27.9	30.3
	Total capital ratio (%)	22.3	25.1	27.1	29.0	31.4

Source: Company data, RHB

Figure 1: BBRI recorded robust 2Q22 results

Income statement (IDRbn)	2Q21	1Q22	2Q22	QoQ	YoY	6M21	6M22	YoY	% RHB	% Cons
Interest income	35,263	36,732	40,129	9.2%	13.8%	69,951	76,861	9.9%	51%	46%
Interest expense	7,423	6,325	5,922	-6.4%	-20.2%	14,990	12,247	-18.3%		
<b>Net interest income</b>	<b>27,840</b>	<b>30,407</b>	<b>34,207</b>	<b>12.5%</b>	<b>22.9%</b>	<b>54,961</b>	<b>64,614</b>	<b>17.6%</b>		
Non-interest income	10,380	10,752	10,931	1.7%	5.3%	21,235	21,683	2.1%		
<b>Total operating income</b>	<b>38,220</b>	<b>41,159</b>	<b>45,138</b>	<b>9.7%</b>	<b>18.1%</b>	<b>76,196</b>	<b>86,297</b>	<b>13.3%</b>		
Operating expense	17,723	18,365	19,860	8.1%	12.1%	35,420	38,225	7.9%		
<b>PPOP</b>	<b>20,497</b>	<b>22,794</b>	<b>25,278</b>	<b>10.9%</b>	<b>23.3%</b>	<b>40,776</b>	<b>48,072</b>	<b>17.9%</b>		
<b>Provision expense</b>	<b>12,145</b>	<b>7,474</b>	<b>9,452</b>	<b>26.5%</b>	<b>-22.2%</b>	<b>22,326</b>	<b>16,926</b>	<b>-24.2%</b>		
<b>Operating profit</b>	<b>8,352</b>	<b>15,320</b>	<b>15,826</b>	<b>3.3%</b>	<b>89.5%</b>	<b>18,450</b>	<b>31,146</b>	<b>68.8%</b>	<b>57%</b>	<b>58%</b>
<b>Net profit</b>	<b>5,680</b>	<b>12,220</b>	<b>12,656</b>	<b>3.6%</b>	<b>122.8%</b>	<b>12,540</b>	<b>24,876</b>	<b>98.4%</b>	<b>66%</b>	<b>57%</b>
<b>Balance sheet (IDRbn)</b>	<b>6M21</b>	<b>3M22</b>	<b>6M22</b>	<b>QoQ</b>	<b>YoY</b>	<b>6M21</b>	<b>6M22</b>	<b>YoY</b>		
Loan	1,015,917	1,075,927	1,104,785	2.7%	8.7%	1,015,917	1,104,785	8.7%		
Deposit	1,096,377	1,136,982	1,136,982	0.0%	3.7%	1,096,377	1,136,982	3.7%		
CASA	653,027	716,809	740,419	3.3%	13.4%	653,027	740,419	13.4%		
Time Deposits	443,350	409,687	396,563	-3.2%	-10.6%	443,350	396,563	-10.6%		
<b>Ratios</b>	<b>6M21</b>	<b>3M22</b>	<b>6M22</b>			<b>6M21</b>	<b>6M22</b>			
ROAA - Pre Tax	2.4%	3.7%	3.8%			2.4%	3.8%			
ROAE (%)	13.9%	19.0%	5.5%			13.9%	5.5%			
NIM (%)	7.4%	7.7%	8.2%			7.4%	8.2%			
CoC (%)	4.7%	2.9%	3.2%			4.7%	3.2%			
CASA (%)	59.6%	63.0%	65.1%			59.6%	65.1%			
LDR (%)	92.7%	94.6%	97.2%			92.7%	97.2%			
CIR (%)	46.5%	44.6%	44.3%			46.5%	44.3%			
NPL (%)	3.2%	3.1%	3.3%			3.2%	3.3%			
CAR (%)	19.1%	24.6%	5.9%			19.1%	5.9%			
Coverage (%)	252.6%	276.0%	266.3%			252.6%	266.3%			

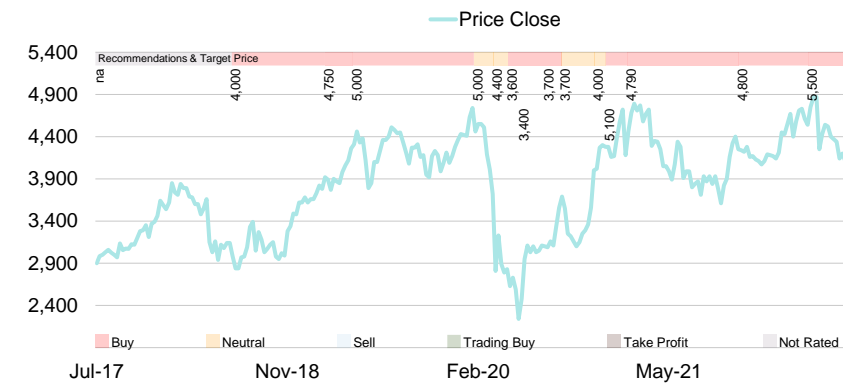
Source: Company data, RHB

Figure 2: BBRI raises NIM and CoC guidance

	FY22 guidance (previous)	1H22 actual (consolidated)	FY22 guidance (revision)
Loan growth (YoY)	9% - 11%	8.7%	9% - 11%
Net Interest Margin	7.6% - 7.8%	8.2%	7.7% - 7.9%
Cost of Credit	2.8% - 3%	3.1%	2.7% - 2.9%
Overhead cost growth	6% - 8%	7.50%	6% - 8%
NPL	2.8% - 3%	3.30%	2.8% - 3%

Source: Company data, RHB

## Recommendation Chart

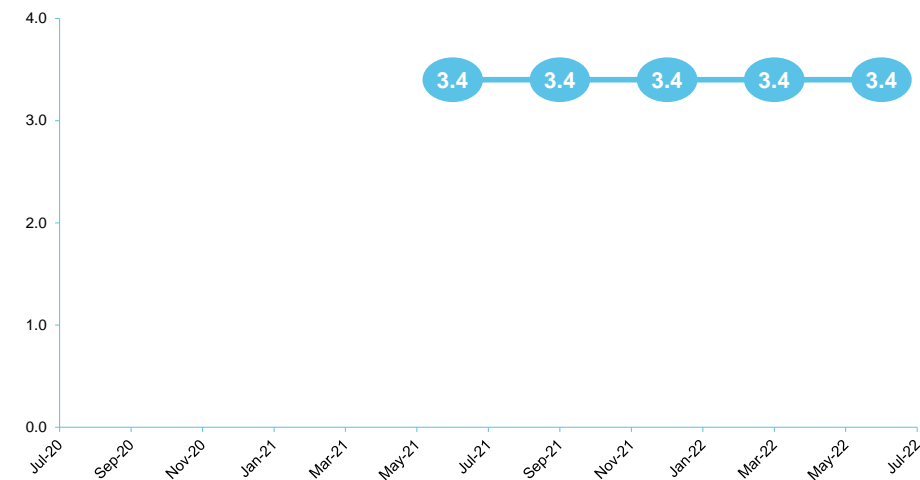


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-04-14	Buy	5,500	4,540
2022-01-09	Buy	4,800	4,190
2021-10-28	Buy	4,800	4,240
2021-02-01	Buy	4,790	4,400
2020-12-10	Buy	5,100	4,330
2020-11-12	Neutral	4,000	3,950
2020-08-23	Neutral	3,700	3,560
2020-07-15	Buy	3,700	3,130
2020-05-15	Buy	3,400	2,240
2020-04-16	Buy	3,600	2,610
2020-03-11	Neutral	4,400	3,910
2020-01-24	Neutral	5,000	4,740
2019-11-14	Buy	5,000	3,940
2019-10-25	Buy	5,000	4,230
2019-08-15	Buy	5,000	4,250

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

<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
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