

10 May 2023

Financial Services | Banks

Bank BJB (BJBR IJ)

Buy (Maintained)

1Q23 Earnings Below Estimates; BUY At Lower TP

Target Price (Return):	IDR1,600 (+31%)
Price (Market Cap):	IDR1,220 (USD873m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (IDR/USD)	7,905m/0.53m

- **Still BUY, new GGM-based IDR1,600 TP from IDR1,800, 31% upside, c.12% yield.** Our TP implies 1.0x FY24F P/BV. Despite booking slightly lower-than-expected loan growth (+10.8% YoY) in 1Q23, Bank BJB expects to meet its FY23 target of $\pm 12\%$ YoY. Loan yields are expected to rise as a result of repricing. 1Q23 earnings were lower than expected, due to higher-than-expected CoC, lower-than-expected loan yields, and higher CoF. We cut FY23-24F earnings by 14.1% and 14.4%.
- **Expects to meet FY23 loan growth target, despite lower-than-expected 1Q23 growth.** At end-Mar 2023, BJBR's loans rose to IDR116.5trn (+10.8% YoY, +0.6% QoQ), ie slightly below expectations as management was more selective in disbursing loans in early 2023. However, it remains optimistic about meeting its FY23 $\pm 12\%$ YoY loan growth target. Management expects commercial loans from regional government-related projects and consumer loans to drive loan growth. It also expects consumer loans to pick up in 2H23, in line with the expected increase in low-to-mid income levels ahead of the general election.
- **Loan yields to rise from loan repricing.** According to management, BJBR has a 5-year loan cycle for the repricing of loans, with c.IDR10trn in loan yields or about 9% of total loans to be repriced this year. As a result, loan yields are expected to rise. BJBR said it would be selective in repricing loans to reduce the risk of higher NPLs. So far, the bank has been able to keep its NPL at 1.21% as of Mar 2023 (Mar 2022: 1.2%, Dec 2022: 1.2%).
- **1Q23 earnings were lower than expected,** owing to higher-than-expected CoC, lower-than-expected loan yields, and higher COF. BJBR's 1Q23 earnings of IDR360bn (-39.2% YoY, -22.2% QoQ) accounted for only 15% of our and Street full-year estimates. While loan growth (+10.8% YoY) led to higher interest income, loan yields declined due to increased competition – especially in the consumer and mortgage loan segments. 1Q23 COF rose to 4.3% (1Q22: 3.0%, 4Q22: 3.2%), resulting in a lower net interest income of IDR1.7trn (-15.7% YoY, -23.4% QoQ). 1Q23 CoC of 0.12% (1Q22: 0.62%, 4Q22: 0.10%) was above expectations.
- **FY23-24F earnings revised downwards** by 14.1% and 14.4% to IDR2.1trn and 2.4trn on loan growth and NIM adjustments. FY23F and FY24F loan growth estimates were both revised to 12% YoY (from 15% YoY and 10% YoY previously).
- **ESG framework update.** As there is now greater focus on the E pillar due to critical climate change issues, we have tweaked our ESG weightage. We now assign a 50% weightage to the E pillar, followed by 25% each to the S and G pillars. See our [2 May thematic research](#) for more details. Our TP includes a 0% ESG premium/discount, as BJBR's ESG score is at the country median.

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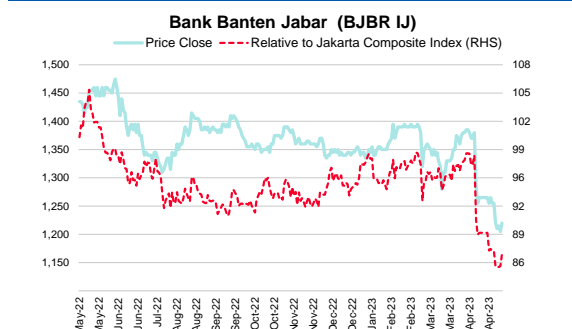


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.3)	(11.9)	(12.2)	(11.9)	(17.3)
Relative	(8.1)	(11.5)	(9.7)	(7.9)	(10.9)
52-wk Price low/high (IDR)				1,205 – 1,475	



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F
Reported net profit (IDRb)	1,662	2,005	2,186	2,069	2,407
Net profit growth (%)	9.3	20.7	9.0	(5.4)	16.3
Recurring net profit (IDRb)	1,720	2,014	2,201	2,084	2,421
Recurring EPS (IDR)	177.40	207.71	227.03	214.92	249.69
BVPS (IDR)	1,233.41	1,344.47	1,522.14	1,544.35	1,665.99
DPS (IDR)	95.40	125.69	151.37	142.59	127.06
Recurring P/E (x)	6.88	5.87	5.37	5.68	4.89
P/B (x)	0.99	0.91	0.80	0.79	0.73
Dividend Yield (%)	7.8	10.3	12.4	11.7	10.4
Return on average equity (%)	14.0	16.0	15.7	13.9	15.5

Source: Company data, RHB

Overall ESG Score: 3.00 (out of 4)

E: GOOD

BJBR aims to reduce the use of paper in its operations by developing online systems such as the SP2DOnline, E-Samsat, and E-Form, which enable customers to use online application forms. Its operations division also has other similar programmes.

S: GOOD

Infrastructure development is a material issue for the bank, as improvements in the quality of life and welfare of the surrounding communities would indirectly have a positive impact on the group, such as better access to its products and services, and a higher number of customers.

G: GOOD

The composition of BJBR's corporate governance body is in line with diversity policies. Its Boards of Commissioners and Directors are in line with the recommendations of the Financial Services Authority, in relation to the diversity of their compositions.

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Financial Exhibits

Asia Indonesia Financial Services Bank BJB BJBR IJ Buy	Financial summary (IDR)	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F
	EPS	171.42	206.83	225.47	213.35	248.21
	Recurring EPS	177.40	207.71	227.03	214.92	249.69
	DPS	95.40	125.69	151.37	142.59	127.06
	BVPS	1,233.41	1,344.47	1,522.14	1,544.35	1,665.99
Valuation basis P/BV backed by GGM. Assumptions include: i. COE of 14.1%; ii. ROE of 14.5%; iii. 4.4% long-term growth.	Valuation metrics	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F
	Recurring P/E (x)	6.88	5.87	5.37	5.68	4.89
	P/B (x)	1.0	0.9	0.8	0.8	0.7
	Dividend Yield (%)	7.8	10.3	12.4	11.7	10.4
Key drivers i. Loan growth; ii. Lower cost of funds.	Income statement (IDRb)	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F
	Interest income	12,621	13,214	13,636	15,391	17,491
	Interest expense	(6,123)	(5,314)	(5,228)	(7,292)	(8,243)
	Net interest income	6,497	7,901	8,408	8,099	9,248
	Non interest income	1,458	1,718	1,518	1,692	1,741
Key risks Upside risks: i. Higher-than-expected loan growth; ii. Improving margins; iii. Lower-than-expected credit costs. Downside risks: i. Saturating market and weakening loan growth; ii. Increasing cost of funds; iii. Lack of positive catalysts.	Total operating income	7,955	9,619	9,926	9,791	10,989
	Overheads	(5,604)	(6,394)	(6,860)	(6,864)	(7,207)
	Pre-provision operating profit	2,351	3,225	3,066	2,927	3,781
	Loan impairment allowances	(142)	(626)	(211)	(305)	(550)
	Other impairment allowances	3	-	-	-	-
Company Profile Bank BJB is a regional bank that focuses its operations in West Java and is majority owned by the Government of West Java (75.4% stake). The bank offers varied products, with the majority coming from the consumer segment, especially for the public sector. Other segments also include micro, commercial and <i>shariah</i> .	Other exceptional items	(75)	(11)	(19)	(19)	(19)
	Pre-tax profit	2,137	2,588	2,836	2,603	3,212
	Taxation	(478)	(569)	(590)	(542)	(803)
	Minority interests	3	(13)	(59)	8	(2)
	Reported net profit	1,662	2,005	2,186	2,069	2,407
	Recurring net profit	1,720	2,014	2,201	2,084	2,421
	Profitability ratios	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F
	Return on average assets (%)	1.3	1.3	1.3	1.1	1.2
	Return on average equity (%)	14.0	16.0	15.7	13.9	15.5
	Return on IEAs (%)	10.3	9.4	8.5	8.8	9.3
	Cost of funds (%)	5.2	4.0	3.5	4.4	4.6
	Net interest spread (%)	5.0	5.5	5.1	4.4	4.7
	Net interest margin (%)	5.3	5.6	5.3	4.6	4.9
	Non-interest income / total income (%)	18.3	17.9	15.3	17.3	15.8
	Cost to income ratio (%)	70.4	66.5	69.1	70.1	65.6
	Credit cost (bps)	15.6	63.4	19.3	25.1	40.9
	Balance sheet (IDRb)	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F
	Total gross loans	95,212	102,232	115,756	126,708	141,939
	Other interest earning assets	36,369	46,128	54,920	53,692	54,318
	Total gross IEAs	131,582	148,360	170,675	180,399	196,257
	Total provisions	(1,915)	(1,947)	(1,803)	(1,518)	(1,278)
	Net loans to customers	93,300	100,293	113,964	125,202	140,673
	Total net IEAs	129,666	146,413	168,873	178,882	194,980
	Total non-IEAs	11,268	11,943	12,369	12,987	13,637
	Total assets	140,934	158,356	181,241	191,869	208,616
	Customer deposits	108,649	123,578	135,652	144,522	158,471
	Other interest-bearing liabilities	16,530	17,554	26,165	27,474	28,847
	Total IBLs	125,178	141,131	161,817	171,996	187,319
	Total non-IBLs	3,750	4,141	4,678	4,912	5,158
	Total liabilities	128,928	145,272	166,495	176,908	192,477
	Share capital	3,518	3,518	4,443	4,443	4,443
	Shareholders' equity	11,960	13,036	14,759	14,974	16,154
	Minority interests	46	48	(13)	(14)	(14)
	Asset quality and capital	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F
	CET-1 ratio (%)	7.7	8.5	8.0	7.0	6.5
	Tier-1 ratio (%)	11.0	11.5	10.7	9.5	8.8
	Total capital ratio (%)	13.2	13.7	12.7	11.4	10.6

Source: Company data, RHB

Figure 1: 1Q23 results highlights

Income statement (IDRbn)	1Q22	4Q22	1Q23	QoQ	YoY	1Q23/ RHB	1Q23/ Cons.
Interest Income	3,192	3,757	3,427	-8.8%	7.4%		
Interest Expense	1,176	1,539	1,728	12.3%	47.0%		
Net Interest Income	2,016	2,218	1,699	-23.4%	-15.7%	20%	16%
Non-Interest Income	372	345	431	25.0%	16.0%		
Total Operating Income	2,388	2,563	2,130	-16.9%	-10.8%	21%	N/A
Operating Expense	1,496	2,009	1,579	-21.4%	5.5%		
PPOP	892	554	552	-0.4%	-38.1%	16%	N/A
Provision Expense	151	(80)	100	-225.2%	-33.6%	33%	N/A
Operating Profit	741	634	452	-28.8%	-39.1%	15%	N/A
Non-Operating Income/Expense	(3)	0	(11)	N/A	262.2%		
Profit Before Tax	738	634	441	-30.5%	-40.3%		
Tax Expense	145	152	80	-47.4%	-44.8%		
Net Profit	592	462	360	-22.2%	-39.2%	15%	15%
Balance sheet (IDRbn)	3M22	FY22	3M23	QoQ	YoY		
Loan	105,139	115,756	116,449	0.6%	10.8%		
Deposit	128,264	139,749	129,795	-7.1%	1.2%		
CASA	57,077	69,310	57,430	-17.1%	0.6%		
Time Deposits	71,187	70,439	72,365	2.7%	1.7%		
RATIOS	3M22	FY22	3M23				
ROAE (%)	16.30%	15.50%	11.06%				
NIM (%)	5.70%	5.90%	4.77%				
CoC (%)	0.62%	0.10%	0.12%				
CASA (%)	44.50%	49.60%	44.25%				
LDR (%)	81.97%	82.83%	89.72%				
CIR (%)	62.65%	69.09%	74.10%				
NPL (%)	1.20%	1.20%	1.21%				
Coverage (%)	157.10%	124.30%	121.90%				
CAR (%)	17.10%	19.20%	21.14%				

Source: Company data, RHB

Figure 2: Revisions to our estimates

	Old		New		% change	
	2023E	2024E	2023E	2024E	2023E	2024E
Net Interest Income	8,528	9,798	8,099	9,248	-5.0%	-5.6%
Operating Income	10,220	11,538	9,791	10,989	-4.2%	-4.8%
PPOP	3,356	4,331	2,927	3,781	-12.8%	-12.7%
Provision	308	557	305	550	-1.1%	-1.4%
Net Income	2,390	2,818	2,053	2,411	-14.1%	-14.4%
Loans	130,191	143,476	126,708	141,939	-2.7%	-1.1%
Loans Growth	15.3%	10.2%	12.2%	12.0%		
EPS	246	291	212	249	-14.1%	-14.4%
EPS Growth	3.7%	17.9%	-10.9%	17.4%		
BVPS	1,578	1,720	1,543	1,665	-2.2%	-3.2%
DPS	143	148	143	127	0.0%	-14.1%
ROE	15.9%	17.6%	13.8%	15.5%	-13.1%	-12.0%

Source: Company data, RHB

Figure 3: GGM valuation

Cost of Equity	14.1%
Risk-Free Rate (Rf)	7.4%
Beta (x)	1.0
Expected Market Return (Rm)	13.9%
Risk Premium (Rm-Rf)	6.6%
Sustainable Growth Rate (SGR)	4.4%
Sustainable ROE (%)	14.5%
Dividend Payout Ratio (%)	70.0%
Sustainable ROE (%)	14.0%
Implied PBV (x)	1.0
BVPS Average FY24E (IDR)	1,665
Premium (discount) on ESG	0
TP Fair Value (IDR)	1,600

Source: Company data, RHB

Recommendation Chart

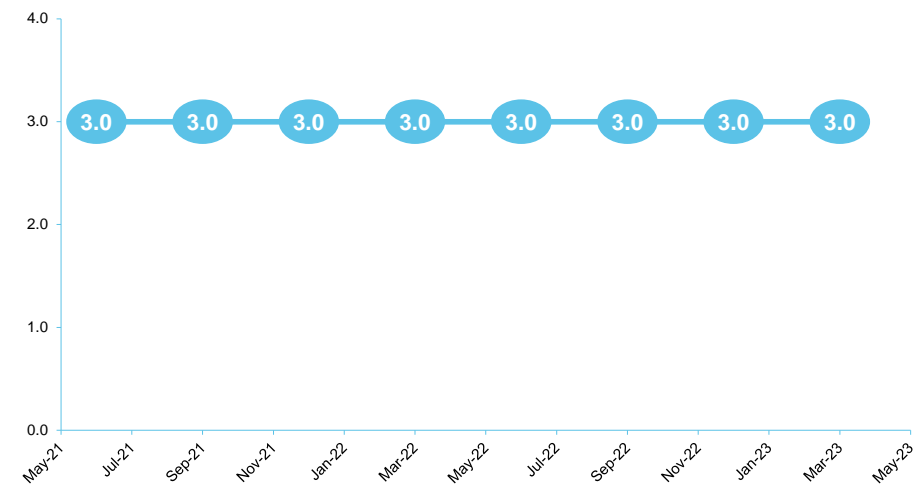


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-02-28	Buy	1,800	1,320
2022-10-04	Buy	1,800	1,360
2021-10-26	Buy	1,900	1,430
2021-07-27	Buy	1,900	1,250
2021-04-28	Buy	2,050	1,390
2020-07-29	Buy	1,215	965
2020-04-28	Neutral	810	800
2020-03-02	Buy	1,200	885
2019-07-26	Sell	1,400	1,615
2019-07-12	Sell	1,400	1,690
2019-04-29	Sell	1,400	2,000
2018-10-26	Sell	1,400	1,805
2018-10-15	Sell	1,400	1,920

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Not Rated:	Stock is not within regular research coverage

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