

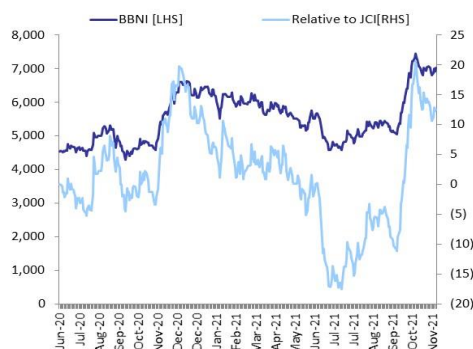
Tuesday, 23 November 2021

**OVERWEIGHT**  
**Maintain**

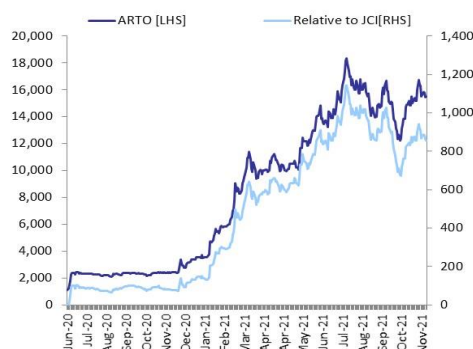
**Banking**

**A defining year ahead**

**BBNI relative to JCI Index**



**ARTO relative to JCI Index**



Source : Bloomberg



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**2022F should be the spring year for most banks backed by ample liquidity.** Banks which have made aggressive cuts in TD rates since 2020 will benefit the most as they will have an ample buffer in their CoF given the outlook for higher policy rates. 2022F will also be a key year for digital banks as some of them are set to launch direct lending products. All in all, we estimate 23.9% yoy earnings growth driven by 7.1% yoy loans growth and lower credit costs of 201bps. BBNI (BUY, TP of IDR9,000) is our top pick given its attractive valuation with a better risk management profile. ARTO (BUY, TP IDR20,000) is our top pick in the digital banks space backed by its partnership with the GoTo ecosystem. **OVERWEIGHT.**

**Ample room for growth.** The recent easing of social mobility restrictions should lead to a gradual recovery in economic activities. We therefore expect a pick-up in loans demand in 2022F. Positively, most banks have sufficient liquidity (marketable securities) sitting in their balance sheets given the abundant customer deposits since 2020. On the liabilities side, meanwhile, banks can manage their CoF quite well from aggressive TD rate cuts and the lower exposure to TD instruments. Combining those factors with potential policy rate hikes in 2022F by 50bps max to 4.0% based on our economists' forecasts, we forecast 7.1% yoy loans growth in 2022F.

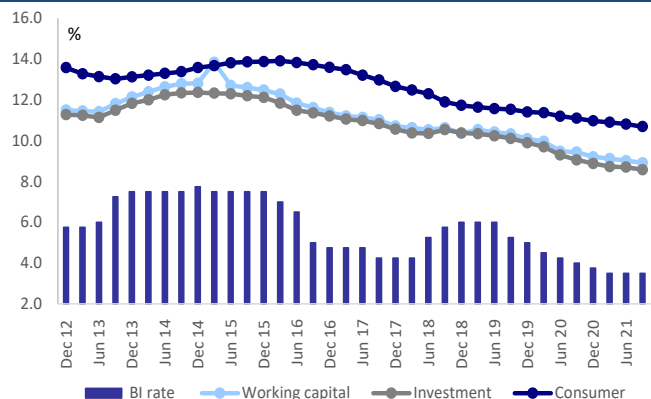
**Digital banks: 2022 is the leap year.** In the digital banking space, we believe few digital banks will start to book meaningful interest income in FY22F as the direct lending products would start to be launched in 1Q22 at the soonest. For the digital banks that offer premium TD rates (higher than the LPS threshold), they will be in a riskier position given potential policy rate hikes. This, consequently, should put some pressure on their CoF and NIM, in our view. ARTO is expected to remain the pioneer in the digital banking landscape backed by its GoTo partnership and strategy to provide well-diversified products and services to create CASA deposits stickiness in its customer deposits.

**FY22F net profits estimated to grow 23.9% yoy.** We expect FY22F's earnings to grow by 23.9% on the back of: 1) an uptick in the NIM to 5.6%, 2) increase in the CoF by 8bps to 2.3% thanks to ample liquidity, 3) 5.3% yoy growth in operating expenses resulting in a 44.0% Cost-to-Income Ratio (CIR), 4) lower credit costs of 201bps as most banks have already front-loaded the provisions in FY20-21. If we exclude the impact from the consolidation of PNM with Pegadaian into BBRI's book, FY22F's bottom line for the banking sector will grow by 20.5% yoy.

**OVERWEIGHT: BBNI and ARTO as our top picks.** BBNI (BUY, TP IDR9,000) is our top pick given its attractive valuation with better risk management profile. ARTO (BUY, TP IDR20,000) is our top pick in the digital banking space due to its partnership with the GoTo ecosystem and positive earnings outlook.

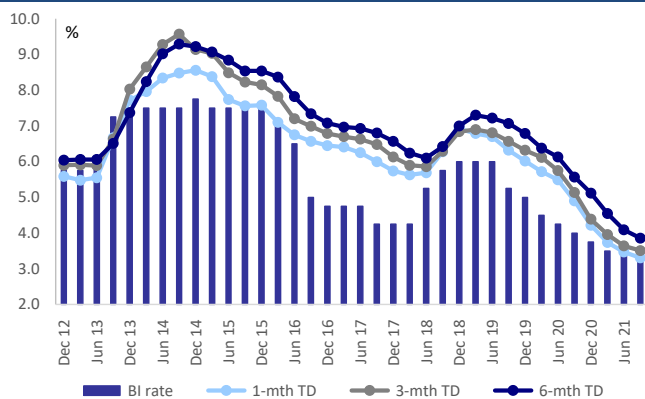
Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			Price (Rp)	Cap. (RpBn)	2021F	2022F	2021F	2022F	2022F
Bank Negara Indonesia	BBNI IJ	BUY	9,000	131,006.8	14.2	9.2	1.1	1.0	11.7
Bank Jago	ARTO IJ	BUY	20,000	214,771.9	(10,303.6)	651.1	23.8	23.0	3.6
Bank Rakyat Indonesia	BBRI IJ	N/A	N/A	529,153.5	19.4	14.4	2.5	2.3	16.7
Bank Mandiri	BMRI IJ	BUY	8,600	327,833.3	13.4	11.0	1.6	1.6	14.6
Bank Tabungan Negara	BBTN IJ	BUY	2,500	18,792.7	9.8	8.6	0.9	0.8	9.7
BTPN Syariah	BTPS IJ	BUY	4,300	28,032.4	20.6	16.7	4.1	3.5	22.6
BPD Jatim	BJTM IJ	BUY	900	11,156.1	8.3	7.4	1.0	1.0	13.5
Bank Central Asia	BBCA IJ	HOLD	7,800	912,235.4	29.5	27.0	4.6	4.2	16.3
BTPN	BTPN IJ	HOLD	3,200	21,825.6	11.2	7.3	0.7	0.7	9.3

**Exhibit 1. BI rate and lending rate movements**



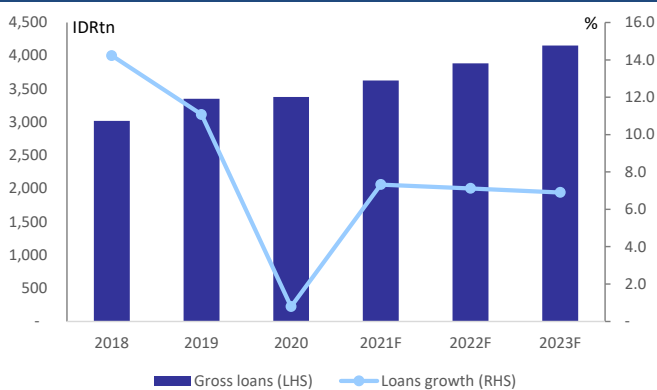
Source: OJK, BI

**Exhibit 2. BI rate and TD rate movements**



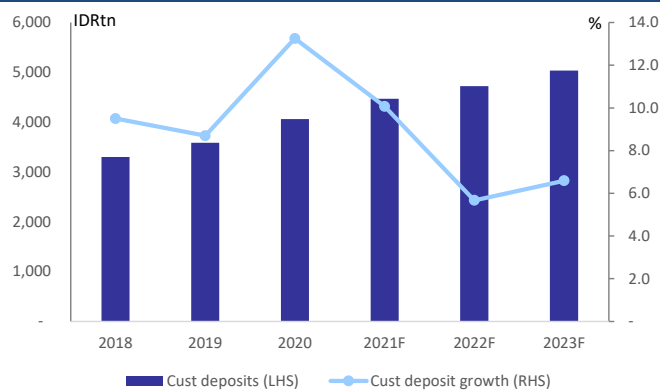
Source: OJK, BI

**Exhibit 3. Loans and growth**



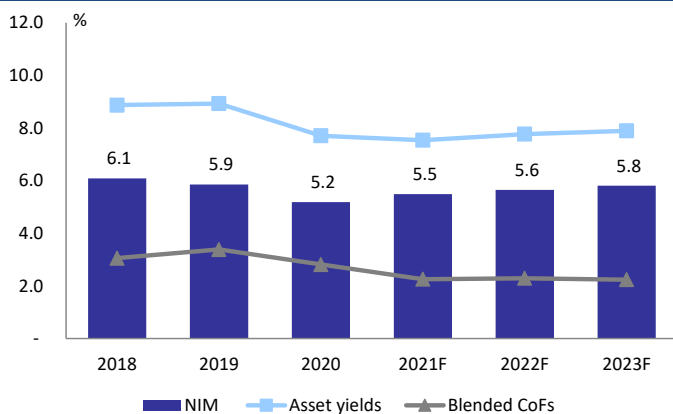
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Customer deposits and growth**



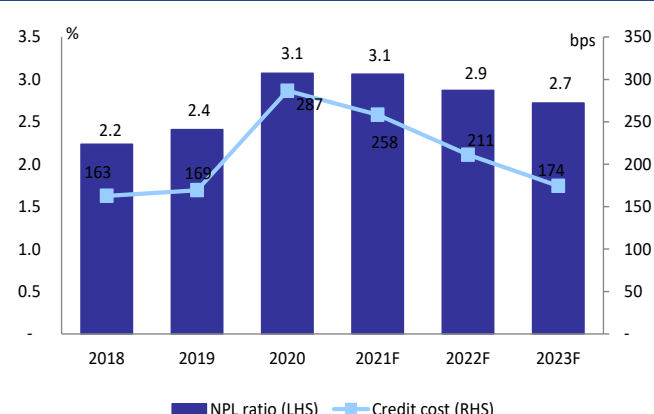
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. NIMs, asset yields and blended CoFs**



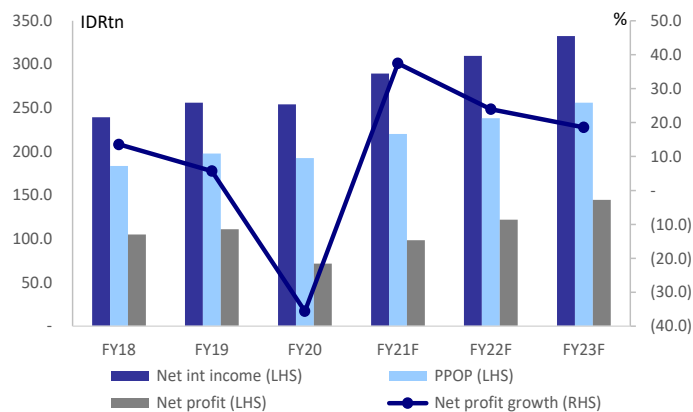
Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. NPLs and credit costs**



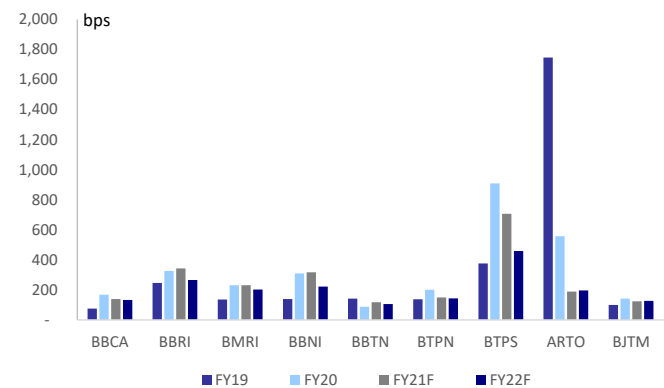
Source: Company, Danareksa Sekuritas estimates

**Exhibit 7. Net interest income, PPOP and net profits**



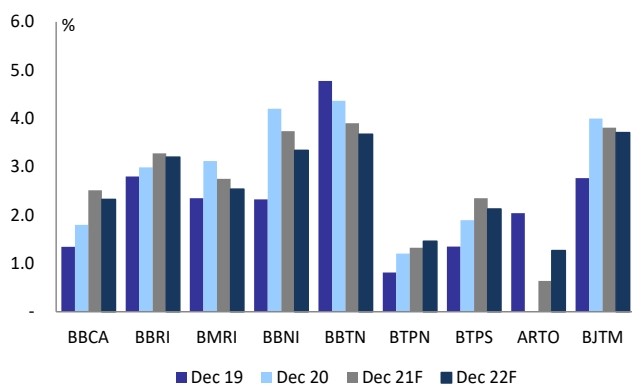
Source: Company, Danareksa Sekuritas estimates

**Exhibit 8. Credit costs on our coverage**



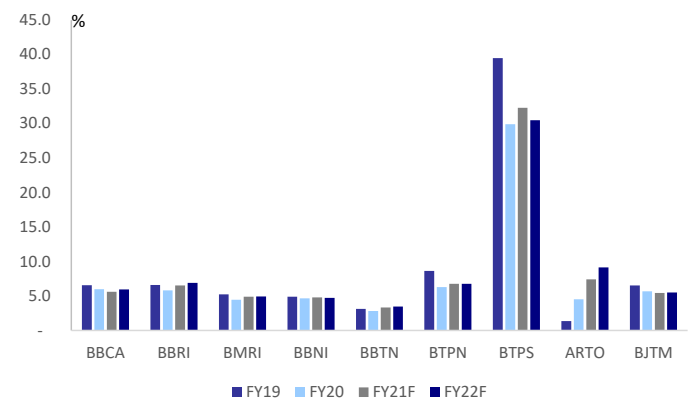
Source: Company, Danareksa Sekuritas estimates

**Exhibit 9. Gross NPLs on our coverage**



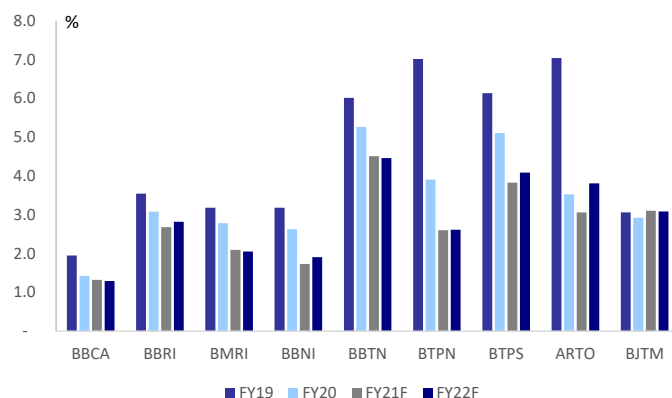
Source: Company, Danareksa Sekuritas estimates

**Exhibit 10. NIMs on our coverage**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 11. Blended CoFs on our coverage**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 12. ROAEs on our coverage**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 13. Company outlook 2022**

Ticker	Target Price (IDR)	Rating	Summary
<b>BBNI</b>	9,000	BUY	BBNI remains our top pick in the sector as its valuation remains attractive with 1.0x 2022F PBV (10yrs-mean of 1.3x). We expect BBNI to be able to maintain favorable CoF, the second lowest after BBKA, supported by its 68.4% CASA deposits contribution to deposits by December 2022F.
<b>ARTO</b>	20,000	BUY	ARTO is the frontier name in the digital banking space given its partnership with the GoTo ecosystem and its strategy to offer broad features to attract new customers. The plan to launch a direct lending product in 1Q22 is another key catalyst to support its top line growth in our view.
<b>BMRI</b>	8,600	BUY	BMRI's digital initiatives through Livin 2.0 apps for individual customers with 30mn existing individual customers is one of the positive catalysts amid the digital banking revolution. We also believe BMRI's assets quality will remain manageable given its regular active risk assessment monitoring.
<b>BBTN</b>	2,500	BUY	BBTN will continue to focus on the housing-related segment, particularly subsidized mortgages. BBTN is in need of raising its capital as its tier-1 capital ratio stood at 13.5% in September 2021. As such, a rights issue is planned to be executed in 1H22 with total targeted proceeds of IDR3.3tn (the Government's part is IDR1.98tn).
<b>BTPS</b>	4,300	BUY	The productive poor segment will continue to be BTPS' bread and butter business in our view backed by its initiative in IT improvements. Moreover, BTPS just launched its mobile and internet banking features to tap higher CASA deposits as well as to generate higher fee-income going forward.
<b>BJTM</b>	900	BUY	BJTM's regional bank status means the bank will continue to have a decent dividend payout policy in our view. Its management's recent team decision to write-off some NPLs should provide more upside in assets quality as we assume a 3.7% gross NPLs ratio by December 2022F.
<b>BBKA</b>	7,800	HOLD	We view BBKA's premium valuation is unjustifiable despite its ability to push further the CoF to 1.0% in 3Q21. On the lending side, competition in the corporate segment will continue in 2022F and should put some pressure on asset yields. All in all, FY22F's net profits should grow by 9.4% yoy.
<b>BTPN</b>	3,200	HOLD	BTPN's growth shall depend on BTPS in our view due to tighter competition in corporate loans, i.e. from BBKA, BMRI, BBNI and others. Its Jenius product, the digital bank app, will face a similar threat from new digital bank names such as ARTO, BBYB, and AGRO to name a few of them.

Source: Company, Danareksa Sekuritas estimates

**Exhibit 14. Financial ratios 2022F**

Financial ratios	BBNI	ARTO	BMRI	BBTN	BTPS	BJTM	BBKA	BTPN
<b>Net interest income growth (%)</b>	1.8	168.5	8.6	5.7	6.9	8.0	8.7	0.8
<b>Net profit growth (%)</b>	54.5	N/A	22.1	13.5	23.1	10.8	9.4	6.9
<b>Loans growth (%)</b>	6.9	102.1	7.1	7.3	13.8	7.8	6.6	2.9
<b>Assets yields (%)</b>	6.5	10.8	6.9	8.0	33.8	8.5	7.1	9.0
<b>Cost of funds (%)</b>	1.9	3.8	2.0	4.5	4.1	3.1	1.3	2.6
<b>Net Interest Margin (%)</b>	4.7	9.2	4.9	3.5	30.5	5.5	5.6	6.8
<b>Cost/Income Ratio (%)</b>	42.9	48.9	42.6	59.0	40.6	51.2	39.3	51.4
<b>Gross NPL Ratio (%)</b>	3.3	1.3	2.5	3.7	2.1	3.7	2.3	1.5
<b>LLP/Gross NPL (%)</b>	226.3	284.7	324.8	140.1	323	101.3	257.0	208.4
<b>Cost of Credit (bps)</b>	221	196	201	105	459	126	133	143
<b>Loan to Deposit Ratio (%)</b>	85.3	148.1	72.0	87.7	89.1	58.1	64.1	121.6
<b>CASA Mix (%)</b>	68.4	31.2	65.0	45.6	23.7	66.2	77.5	28.0
<b>ROAE (%)</b>	11.4	3.6	14.2	9.7	22.6	13.5	16.3	8.0
<b>CAR (%)</b>	19.1	129.3	18.8	17.7	43.9	21.6	25.6	27.8

Source: Company, Danareksa Sekuritas estimates