

Bank Central Asia Tbk (BBCA)

Provision as Key Performance Driver

Company Report | August 12, 2020

Hold

Target Price (IDR)	34,000
Consensus Price (IDR)	32,464
TP to Consensus Price	+4.7%
vs. Last Price	+10.0%

Shares data

Last Price (IDR)	30,900
Price date as of	August 7, 2020
52 wk range (Hi/Lo)	35,300 / 21,625
Free float (%)	44.8
Outstanding sh.(mn)	24,655
Market Cap (IDR bn)	764,922
Market Cap (USD mn)	51,687
Avg. Trd Vol - 3M (mn)	19.67
Avg. Trd Val - 3M (bn)	551.78
Foreign Ownership	25.3%

Finance

Bank

Bloomberg	BBCA IJ
Reuters	BBCA.JK

Provision Presses Net Income

BBCA recorded a decrease in net income to IDR12.2 trillion in 1H20 from the previous IDR12.8 trillion in 1H19. As an effort to maintain credit quality, BBCA booked bad debt provision significantly higher to 167.3% YoY, valued at IDR6.5 trillion, which then pressed the net income down 4.8% YoY. Without the significant increase of provision, BBCA would book almost 16% increase in net income supported by net interest income and other operational income which each grew 10.6% YoY and 9.6% YoY. This growth is in line with the decrease in the cost of funds and the slowing increase in operating expenses. In addition, restrictions on economic activities also reduce the demand for corporate credit, which is the largest segment of BBCA. During the 1H20 period, BBCA was still able to record corporate credit growth of 17.7% YoY, surpassing the commercial & SME and consumer segments which fell by 0.9% YoY and 5.1% YoY respectively.

Optimism in 4Q20

Credit restructuring projected to be up to 30% of BBCA credit portfolio total means NIM pressure to continue into the 3Q20 period. Until mid-July 2020, BBCA credit restructuring reached IDR116 trillion or 20% coming from 121 thousand debtors. In 1H20, BBCA NIM was at level 6% or lower by 20bps in the 1H19 period. This NIM pressure is a combination of benchmark interest rate BI 7-DRRR by 75% during the 1H20 period, and BBCA credit restructuring. NHKSI research sees the end of restructuring process, which reduces reserves, will be a new hope for BBCA's performance in the 4Q20 period.

Upgrading Target Price to IDR34,000

NHKSI Research is upgrading the target price for BBCA to IDR34,000 with forward P/B assumption of 4.5x or above the three-year average of 3.7x. Meanwhile, BBCA's role in the government working capital credit (KMK) program may help the bank to improve its performance. Guarantees from the government for lower cost of funds under this program, will keep BBCA's healthy NIM which is currently maintained at a level of 6%.

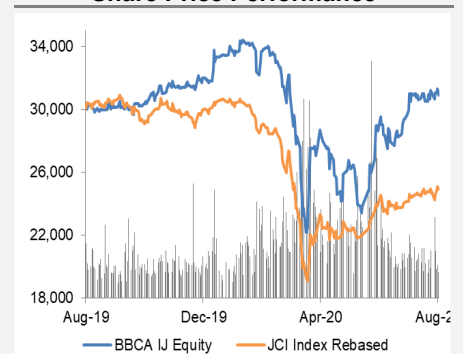
Bank Central Asia Tbk | Summary (IDR bn)

	2018/12A	2019/12A	2020/12E	2021/12E
Interest Income	56,767	63,838	64,423	69,294
<i>Interest Income growth</i>	5.6%	12.5%	0.9%	7.6%
Operating Revenue	63,034	71,623	71,598	77,900
Net profit	25,848	28,565	27,548	28,434
EPS (IDR)	1,048	1,159	1,117	1,153
<i>EPS growth</i>	10.9%	10.5%	-3.6%	3.2%
BVPS (IDR)	6,155	7,063	7,593	8,573
Net Interest Margin	6.0%	6.1%	5.6%	5.5%
Loan/Deposits	86.0%	84.9%	82.7%	88.0%
NPL	1.4%	1.3%	2.0%	2.0%
ROE	18.3%	17.5%	15.2%	14.3%
ROA	3.3%	3.3%	2.9%	2.7%
Non-Int. Inc. /Op. Rev	28.1%	29.5%	27.9%	27.9%
P/E	24.8x	28.8x	30.4x	29.5x
P/BV	4.2x	4.7x	4.5x	4.0x
DPS (IDR)	340	555	458	473
<i>Dividend yield</i>	1.3%	1.7%	1.3%	1.4%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Share Price Performance



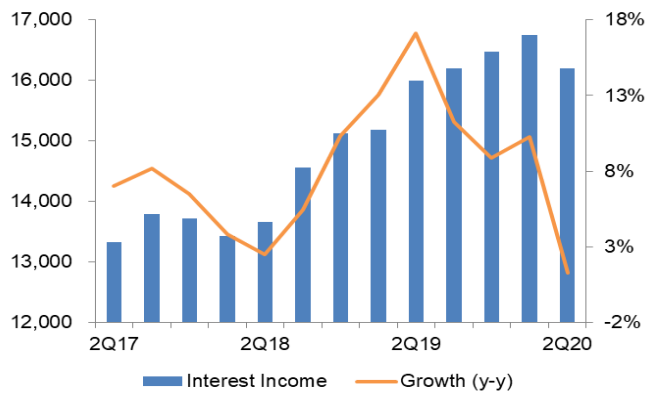
	YTD	1M	3M	12M
Abs. Ret.	-7.6%	3.2%	15.4%	2.8%
Rel. Ret.	10.8%	0.0%	3.8%	19.9%

Arief Machrus

arief.machrus@nhsec.co.id

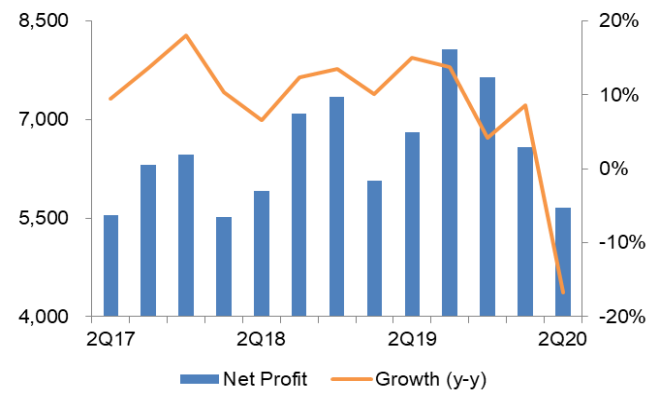
Performance Highlights

Interest Income (IDR bn) | 2Q17 - 2Q20



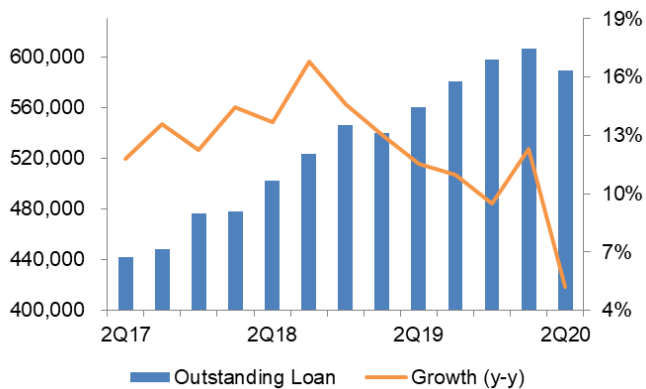
Source: Company, NHKSI Research

Net Profit (IDR bn) | 2Q17 - 2Q20



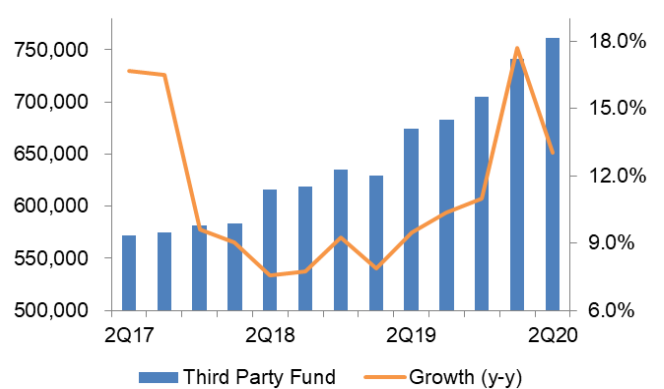
Source: Company, NHKSI Research

Outstanding Loan (IDR bn) | 2Q17 - 2Q20



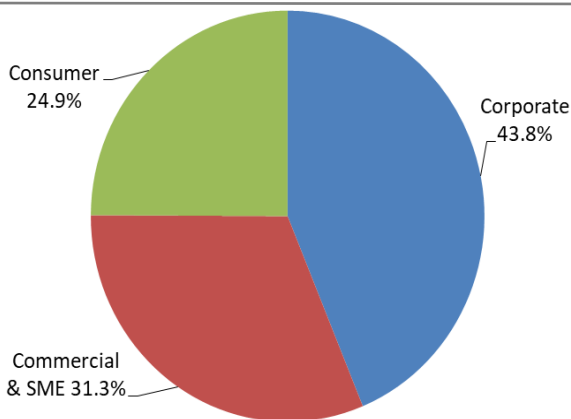
Source: Company, NHKSI Research

Third Party Fund (IDR bn) | 2Q17 - 2Q20



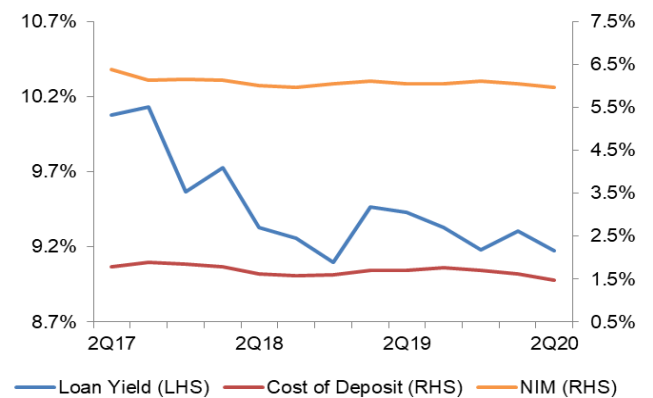
Source: Company, NHKSI Research

Deposit Composition



Source: Company, NHKS Research

Loan Yield, Cost of Deposit, NIM | 2Q17 - 2Q20



Source: Company, NHKS Research

2Q20 review (IDR bn)

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	y-y	q-q	Surprise	
Interest Income	15,996	16,190	16,470	16,741	16,196	12,352	1.3%	-3.3%	31.1%	15,578
Interest Expense	(3,417)	(3,514)	(3,170)	(3,143)	(2,727)	(2,948)	-20.2%	-13.2%	-7.5%	(3,914)
Net Interest Income	12,578	12,676	13,300	13,598	13,469	15,300	7.1%	-1.0%	-12.0%	11,664
Operating Revenue	17,552	18,196	19,185	19,581	18,197	21,437	3.7%	-7.1%	-15.1%	16,057
Pre-Provisioning Operating Profit (PPOP)	9,988	11,239	11,049	10,107	11,424	12,211	14.4%	13.0%	-6.4%	10,860
Loan loss provisions	(1,466)	(1,049)	(1,095)	(2,179)	(4,361)	(2,336)	197.6%	100.1%	86.7%	(659)
Net Profit	6,801	8,060	7,644	6,581	5,659	8,227	-16.8%	-14.0%	-31.2%	8,177

Source: Bloomberg, NHKSI Research

Earnings revision (IDR bn)

		2019A	2020E	2021E
Interest Income	Revised	63,838	64,423	69,294
	Previous	63,838	64,384	69,770
	Change	0.0%	0.1%	-0.7%
Interest Expenses	Revised	(13,360)	(12,766)	(13,089)
	Previous	(13,360)	(11,760)	(10,374)
	Change	0.0%	8.6%	26.2%
Net Interest Income	Revised	50,477	51,658	56,205
	Previous	50,477	52,623	59,396
	Change	0.0%	-1.8%	-5.4%
Operating Revenue	Revised	71,623	71,598	77,900
	Previous	71,623	74,927	83,940
	Change	0.0%	-4.4%	-7.2%
Pre-Provisioning OP	Revised	40,880	43,542	47,374
	Previous	40,880	42,758	47,902
	Change	0.0%	1.8%	-1.1%
Loan Loss Provision	Revised	(4,591)	(9,192)	(12,569)
	Previous	(4,591)	(9,609)	(15,601)
	Change	0.0%	-4.3%	-19.4%
Net Profit	Revised	28,565	27,548	28,434
	Previous	28,565	27,380	27,932
	Change	0.0%	0.6%	1.8%

Source: NHKSI Research

BBCA at A Glance

BBCA is the largest private bank in Indonesia. Nearly 40% of BBCA's total loans are channeled to the corporate segment. The contribution of lending to this segment recorded a significant increase from 35% in 2014. Meanwhile, the contribution of lending to the commercial and SME segments consistently decreased from 39% in 2014 to 34% in 2019. Supported by many branches, BBCA has a distribution network that is quite extensive in Indonesia. In terms of third party funds, the savings products contribute 49% more compared to total third party funds. This high contribution is supported by the fact that BBCA is the main private bank chosen by the Indonesians to save.

Indonesian Banking Competitiveness in ASEAN

The banking industry in Indonesia is a top investment priority in ASEAN because it offers higher lending rates compared to those offered by other banks in ASEAN. It is a major excellence factor of the banking industry in Indonesia. The majority of banks in Indonesia are still able to maintain NIM above 5% despite facing challenges in downward trend of loan interest rates. This NIM superiority can be translated into a higher ROE.

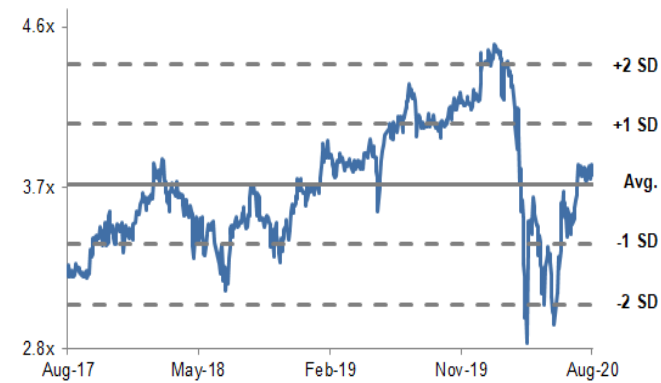
ASEAN Banking Sector

	Market Cap (USD mn)	Asset (USD mn)	Int. Income LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	ROE (LTM)	P/E LTM	P/BV
Indonesia								
BBCA	50,196	66,367	4,074	2,054	10.1%	17.6%	24.9x	4.2x
BBRI	26,182	102,315	8,049	2,428	3.8%	18.6%	10.9x	2.1x
BMRI	16,186	95,201	6,063	1,989	6.7%	15.5%	8.3x	1.3x
BBNI	5,938	61,068	3,839	1,099	0.8%	14.1%	5.5x	0.8x
Singapore								
Oversea-Chinese Banking	29,024	365,678	6,625	3,162	-6.0%	9.5%	6.3x	0.8x
Malaysia								
CIMB Group	8,542	140,141	4,826	931	-29.1%	7.2%	9.3x	0.7x
Malayan Banking	19,983	203,988	4,360	2,027	4.8%	10.8%	10.1x	1.1x
Hong Leong Financial	3,489	57,497	1,275	433	-5.5%	9.2%	8.3x	0.7x
Thailand								
Bangkok Bank	6,727	108,104	3,307	1,114	-2.5%	8.2%	6.1x	0.5x
Siam Commercial Bank	8,251	99,602	3,997	1,310	7.1%	10.3%	6.3x	0.6x
Bank of Ayudhya	5,492	79,298	3,573	874	-13.7%	10.3%	6.3x	0.6x
Philippines								
BDO Unibank	8,868	62,894	2,840	840	18.0%	12.3%	10.2x	1.2x
Metropolitan Bank & Trust	3,549	48,338	1,893	534	19.7%	9.2%	6.8x	0.6x
Bank of the Philippine Island	6,814	43,490	1,732	554	20.9%	10.7%	11.9x	1.2x

Source: Bloomberg

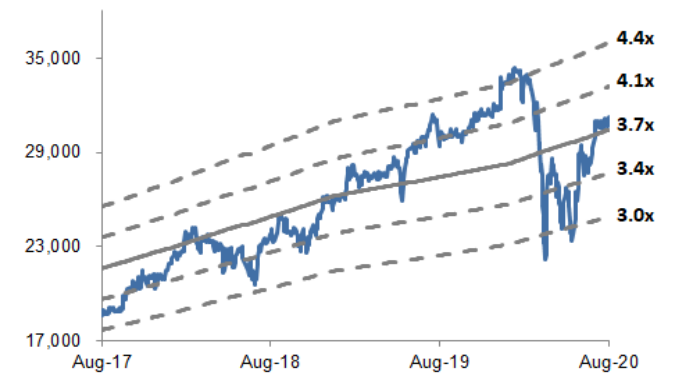
Multiple Valuation

Forward P/B band | Last 3 years



Source: NHKSI research

Dynamic Forward P/B band | Last 3 years



Source: NHKSI research

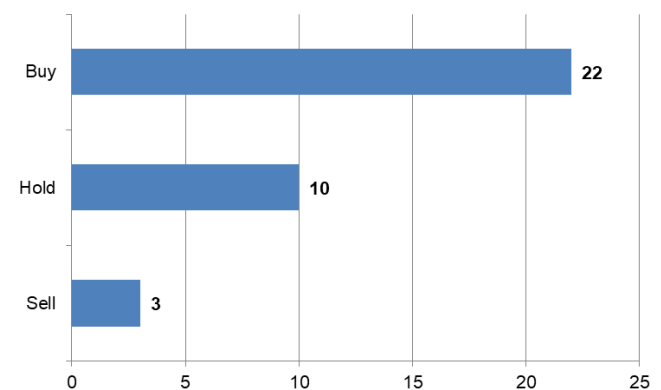
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
5/14/2018	Hold	25,400 (Dec 2018)	22,900	24,077	+10.9%	+5.5%
8/23/2018	Buy	27,650 (Dec 2018)	23,900	24,500	+15.7%	+12.9%
11/14/2018	Buy	28,825 (Dec 2019)	24,075	25,201	+19.7%	+14.4%
07/03/2020	Hold	30,100 (12 Month)	28,475	30,057	+5.7%	+0.1%
07/12/2020	Hold	34,000 (12 Month)	30,900	32,464	+10.0%	+4.7%

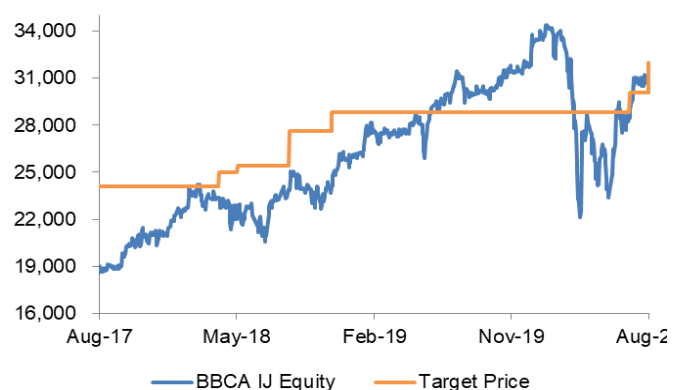
Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

- Period: End of year target price
- Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2018/12A	2019/12A	2020/12E	2021/12E		2018/12A	2019/12A	2020/12E	2021/12E
Interest Income	56,767	63,838	64,423	69,294	ROE	18.3%	17.5%	15.2%	14.3%
<i>Growth (% y/y)</i>	5.6%	12.5%	0.9%	7.6%	ROA	3.3%	3.3%	2.9%	2.7%
Interest Expenses	11,476	13,360	12,766	13,089	Non-Int. Inc. /Op. Rev	28.1%	29.5%	27.9%	27.9%
Net Interest Income	45,291	50,477	51,658	56,205	Cost/Income	43.9%	42.9%	39.2%	39.2%
<i>Net Interest Margin</i>	6.0%	6.1%	5.6%	5.5%	Cash Dividend (IDR bn)	8,383	13,684	11,295	11,658
Net Fee Income	11,996	13,608	12,541	13,645	Dividend Yield (%)	1.3%	1.7%	1.3%	1.4%
Trading Income	2,807	3,456	4,227	4,599	Payout Ratio (%)	32.4%	47.9%	41.0%	41.0%
Other Operating Income	2,940	4,080	3,173	3,452	Loan/Deposits	86.0%	84.9%	82.7%	88.0%
Operating Revenue	63,034	71,623	71,598	77,900	Loan/Assets	66.2%	65.1%	64.5%	66.3%
Operating Expenses	(27,652)	(30,742)	(28,057)	(30,526)	NPL	1.4%	1.3%	2.0%	2.0%
Pre-provisioning OP	35,383	40,880	43,542	47,374	Loan Loss Res./Loan	2.6%	2.6%	4.7%	4.6%
Provision for Impairment	(2,677)	(4,591)	(9,192)	(12,569)	CASA/Deposits	76.2%	75.5%	74.5%	74.6%
EBT	32,706	36,289	34,350	34,806	Time Deposits/Deposits	23.8%	24.5%	25.5%	25.4%
Income Tax	(6,854)	(7,719)	(6,794)	(6,365)	Par Value (IDR)	63	63	63	63
Non-controlling Interest	(3)	(5)	(8)	(7)	Total Shares (mn)	24,655	24,655	24,655	24,655
Net Profit	25,848	28,565	27,548	28,434	Share Price (IDR)	26,000	33,425	34,000	34,000
<i>Growth (% y/y)</i>	10.9%	10.5%	-3.6%	3.2%	Market Cap (IDR tn)	641.0	824.1	838.3	838.3

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2018/12A	2019/12A	2020/12E	2021/12E		2018/12A	2019/12A	2020/12E	2021/12E
Cash	21,691	25,421	19,046	20,546	Price /Earnings	24.8x	28.8x	30.4x	29.5x
Placement in Banks	83,729	89,375	89,756	88,834	Price /Book Value	4.2x	4.7x	4.5x	4.0x
Net Loans	532,318	582,716	614,645	682,414	Price/Op. Revenue	10.2x	11.5x	11.7x	10.8x
Investment	126,196	161,390	219,301	222,092	PE/EPS Growth	2.3x	2.7x	-8.5x	9.2x
Fixed Asset	19,337	20,852	22,973	24,504	EV/Operating Revenue	9.9x	11.2x	11.5x	10.6x
Other Assets	41,517	39,236	34,010	40,534	EV/PPOP	17.6x	19.7x	18.9x	17.4x
Total Assets	824,788	918,990	999,730	1,078,922	EV (IDR bn)	622,925	803,773	821,273	823,574
Deposits	641,524	711,512	787,997	817,475	Op. Rev. CAGR (3-Yr)	9.6%	10.0%	7.9%	7.3%
Debt	3,493	5,000	1,936	5,723	EPS CAGR (3-Yr)	12.8%	11.5%	5.7%	3.2%
Other liabilities	28,018	28,334	22,586	44,354	Basic EPS (IDR)	1,048	1,159	1,117	1,153
Total Liabilities	673,034	744,846	812,518	867,552	Diluted EPS (IDR)	1,048	1,159	1,117	1,153
Capital Stock & APIC	1,541	1,541	1,541	1,541	BVPS (IDR)	6,155	7,063	7,593	8,573
Retained Earnings	135,569	155,114	160,745	145,074	Op. Revenue PS (IDR)	2,557	2,905	2,904	3,160
Shareholders' Equity	151,754	174,144	187,212	211,370	DPS (IDR)	340	555	458	473

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