

COMPANY RESULTS

Bank Negara Indonesia (BBNI IJ)

4Q22: Steadfast Recovery, Net Profit To Grow 19% In 2023

4Q22 net profit came in at Rp4.6t (-5.5% qoq/+47% yoy), bringing 2022 net profit to Rp18.3t (+68% yoy), exceeding expectations. Despite the reversal in CoF, BBNI could book 4.7% NIM in 2023, which will be driven by loan repricing, while an improvement in LaR and focus on growth on low-risk segments will support the CoC normalisation. We expect 19% NPAT growth in 2023, which will be mainly driven by a 40bp decline in CoC and high single-digit loan growth. We maintain BUY with a target price of Rp11,200.

2022 RESULTS

| Year to 31 Dec (Rpb) | 4Q22 | qoq % chg | 2022 | 2021 | yoy % chg | Comments |
|--------------------------|--------|-----------|-----------|--------|-----------|-----------------------------------|
| Profit & Loss | | | | | | |
| Interest Income | 15,389 | 12.0 | 54,659 | 50,026 | 9.3 | |
| Interest Expenses | 4,267 | 35.5 | 13,338 | 11,779 | 13.2 | |
| Net Interest Income | 11,122 | 5.0 | 41,321 | 38,247 | 8.0 | |
| Non-Interest Income | 3,806 | -21.2 | 14,820 | 13,639 | 8.7 | |
| Total Income | 16,279 | 5.6 | 61,472 | 55,865 | 10.0 | |
| Operating Expenses | 7,698 | 12.7 | 27,059 | 24,801 | 9.1 | |
| PPOP | 8,581 | -0.1 | 34,413 | 31,064 | 10.8 | |
| Provision Expenses | 2,586 | 2.4 | 11,514 | 18,289 | -37.0 | Above our and market expectations |
| Net Profit | 4,620 | -5.5 | 18,312 | 10,898 | 68.0 | |
| Key Metrics (%) | | | | | | |
| | 2022 | 2021 | yoy % chg | 4Q22 | qoq % chg | Comments |
| Loan (Rpt) | 646 | 582 | 10.9 | | 3.8 | Slightly above the guidance |
| Deposit (Rpt) | 769 | 729 | 5.5 | | 12.3 | |
| Loan/Deposit Ratio | 84.0% | 79.9 | 4.1 | | -6.9 | |
| CASA Ratio | 72.4% | 69.4 | 3.0 | | 1.6 | |
| NIM | 4.8% | 4.7% | 0.1 | 4.85% | -0.2 | at upper limit of the guidance |
| Cost of Fund | 1.5% | 1.6% | -0.1 | 1.80% | 0.4 | |
| CIR | 42.6% | 43.3% | -0.7 | 46.10% | 2.9 | |
| NPL Ratio | 2.8% | 3.7% | -0.9 | 2.80% | -0.2 | |
| NPL Coverage Ratio | 278.3% | 233.4% | 44.9 | 278.3% | 7.5 | |
| Credit Cost | 1.9% | 3.3% | -1.4 | 1.60% | 0.0 | at lower limit of the guidance |
| CAR | 19.3% | 19.7% | -0.4 | 19.3% | 0.4 | |
| ROAE | 14.9% | 9.4% | 5.5 | 14.3% | -1.1 | |

Source: BBNI

RESULTS

- 4Q22 net profit down 5.5% qoq, but up 47% yoy and above expectation. Bank Negara Indonesia's (BBNI) 4Q22 net profit fell 5.5% qoq but rose 47% yoy to Rp4.6t. The solid 4Q22 net profit led 2022 net profit to Rp18.3t, growing 68% yoy, higher than the net profit of Rp15.4t in 2019. It was mainly driven by: a) a 15bp increase in NIM, b) strong non-interest income, and c) a 37% decline in provision expenses. 2022 net profit is above our and market expectations, accounting for 104% and 103% of our and market 2022 net profit estimates.

KEY FINANCIALS

| Year to 31 Dec (Rpb) | 2021 | 2022 | 2023F | 2024F | 2025F |
|------------------------|--------|--------|---------|---------|---------|
| Net interest income | 38,247 | 41,321 | 44,249 | 47,989 | 51,631 |
| Non-interest income | 17,619 | 20,151 | 21,402 | 22,642 | 23,969 |
| Net profit (rep./act.) | 10,899 | 18,312 | 21,848 | 24,606 | 26,652 |
| Net profit (adj.) | 10,899 | 18,312 | 21,848 | 24,606 | 26,652 |
| EPS (Rp) | 584.4 | 981.9 | 1,171.5 | 1,319.4 | 1,429.2 |
| PE (x) | 15.5 | 9.2 | 7.7 | 6.9 | 6.3 |
| P/B (x) | 1.4 | 1.2 | 1.1 | 1.0 | 0.9 |
| Dividend yield (%) | 1.6 | 3.2 | 3.9 | 4.4 | 4.7 |
| Net int margin (%) | 4.6 | 4.6 | 4.6 | 4.7 | 4.6 |
| Cost/income (%) | 44.4 | 44.0 | 44.0 | 43.9 | 44.1 |
| Loan loss cover (%) | 233.6 | 277.1 | 281.8 | 249.8 | 214.8 |
| Consensus net profit | - | - | 21,151 | 24,038 | 25,182 |
| UOBKH/Consensus (x) | - | - | 1.03 | 1.02 | 1.06 |

Source: Bank Negara Indonesia, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|----------|
| Share Price | Rp9,075 |
| Target Price | Rp11,200 |
| Upside | +23.4% |

COMPANY DESCRIPTION

BBNI is a state-owned bank focusing on corporate and SME loans.

STOCK DATA

| | |
|---------------------------------|------------|
| GICS sector | Financials |
| Bloomberg ticker: | BBNI IJ |
| Shares issued (m): | 18,648.7 |
| Market cap (RMm): | 169,236.6 |
| Market cap (US\$m): | 11,308.8 |
| 3-mth avg daily t'over (US\$m): | 14.7 |
| Price Performance (%) | |

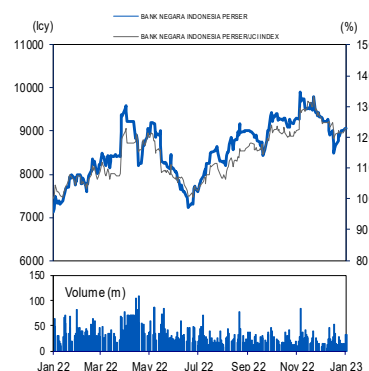
52-week high/low Rp9,900/Rp7,125

| 1mth | 3mth | 6mth | 1yr | YTD |
|-------|-------|------|------|-------|
| (2.7) | (3.7) | 19.4 | 33.5 | (1.6) |

Major Shareholders

| | % |
|-----------------------|-------|
| Republic of Indonesia | 60.0 |
| - | - |
| - | - |
| FY23 NAV/Share (Rp) | 8,368 |
| FY23 CAR Tier-1 (%) | 18.18 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **NIM down 16bp qoq to 4.85% due to higher CoF.** Anticipating FED rate hikes and 7DRR, management raised its deposit rates in 4Q22, bringing the cost of fund (CoF) higher to 35bp qoq. It tapered off the 25bp qoq yield improvement due to the loan repricing and loan at risk (LaR) reduction and led to a 16bp decline in NIM. Despite a declining trend in NIM in 4Q22, management believes NIM could go higher than 4.7% in 2023 which will be supported by the repricing of loans. The first phase of repricing was in 4Q22 and the impact could be seen in 1Q23 while the second phase of repricing would be in 1H23.
- **Healthy loan growth derived from lower-risk segments continues to de-risk its balance sheet.** Loans grew 10.9% yoy (+3.8% qoq) which were supported by lower risk segments; corporate private: +28.9% yoy (+9.8% qoq), large commercial: +29.9% yoy (+7.6% qoq), Kredit Usaha Rakyat- government program (KUR): +19.8% yoy (+2.8% qoq), and personal loan: +20.3% yoy (+4.1% qoq). The lower-risk segment contributed 59% of total loans in Dec 22, up from 52% in Dec 21 while the corporate private segment which comprise of mostly top tier corporate clients contributed 36% of total loans in Dec 22 (Dec 21:31%).
- **De-risking balance sheet and declining LaR, expect CoC to go down.** LaR continued to decline to 16% of loan in Dec 22 (Dec 21:23.3%). The nominal LaR dropped 24.2% yoy (-13.9% qoq) as the restructured loans, special mention loan (SML), and non-performing loan (NPL) were down 25.6% yoy, 17.2% yoy, and 16.2% yoy respectively. Aside from this, BBNI is focusing on lower risk segments which improve the bank's risk-adjusted-NIM, which stood at 3.5% in 2022 (2021: 2.4%). The LaR and NPL coverage came in at 49% and 278% respectively. The economic reopening supports the improvement in its restructured loans for certain industries such as tourism and textiles, which would result in improved loan collectibility. The declining LaR, robust coverage, and de-risking of its balance sheet could lead to lower credit cost (CoC).
- **Fee-based income from business banking grew strongly to support non-interest income.** Non-interest income grew 8.7% yoy, accounting for 24% of operating income. Consumer and business banking posted solid yoy growth of 4.6% and 15.2% respectively. The top contributors in business came from syndication fee (+100.6% yoy), share investment, custodial, and co-operative bank fees (+32.7% yoy) and forex trading, derivatives & revaluation and derivatives (+20.4% yoy). Meanwhile, cost to income ratio (CIR) declined to 42.6% in 2022 from 43.3% in 2021.

EARNINGS REVISION/RISKS

- **No significant earnings revisions.** A minor change in our earnings estimates is due to adjustment of 2022 results to our financial model. Assuming a high single-digit loan growth, NIM of 4.7% and CoC of 1.5%, we project BBNI to deliver 19% net profit growth to Rp21.8t in 2023. In the last three months, market revised up BBNI's 2023 net profit estimate by 4%. Our 2023 net profit estimate is 4% above market's net profit estimate.
- **Risks:** Adverse macro development, worsening asset quality, lower NIM and higher expenses.

NEW AND OLD EARNINGS ESTIMATES

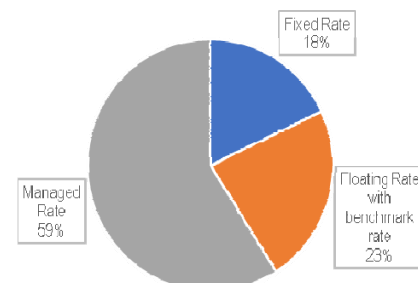
| | New | | Old | | Changes | |
|------------------|--------|--------|--------|--------|---------|-------|
| (Rpb) | 2023F | 2024F | 2023F | 2024F | 2023F | 2024F |
| Operating Income | 65,651 | 70,631 | 65,113 | 69,826 | 0.8% | 1.2% |
| PPOP | 36,762 | 39,613 | 37,206 | 39,853 | -1.2% | -0.6% |
| Net Profit | 21,848 | 24,606 | 21,959 | 24,459 | -0.5% | 0.6% |

Source: UOB Kay Hian

VALUATION/RECOMMENDATION

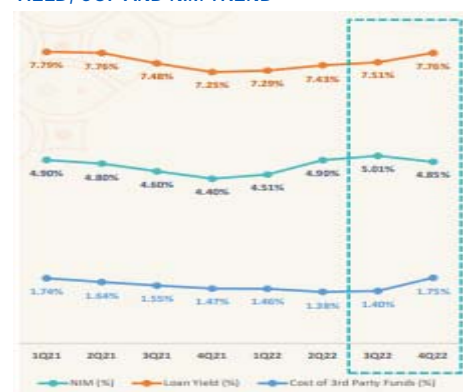
- **Maintain BUY with a target price of Rp11,200.** We arrive at 1.3x 2023F P/B by using GGM and assumptions of ROE: 15%, cost of equity: 12.5%, and long-term growth: 5%. BBNI's ROE could recover faster than we expected. ROAE reached 15.2% in 9M22 (9M21:9.2%). Currently, BBNI is trading at 1.1x forward P/B, close to its five-year mean historical forward P/B. BBNI is the cheapest among the Big Four banks, trading at almost 40% discount to Bank Mandiri's (BMRI) P/B. BBNI experiences continuous transformation and aspires to bring back its ROE to 18% from current ROAE of 14.9%. It is higher than 9.4% in 2021 and 13% in 2019.

LOAN COMPOSITION BY PRICING



Source: BBNI

YIELD, COF AND NIM TREND



Source: BBNI

ASSET QUALITY BREAKDOWN

| (Rpb) | Dec-22 | Sep-22 | Dec-22 | yoy | qoq |
|-------------------------|--------|--------|--------|--------|--------|
| Current | 532.7 | 573.6 | 601.9 | 13.0% | 4.9% |
| Special Mention | 27.3 | 26.6 | 22.6 | -17.2% | -15.0% |
| NPL | 21.5 | 18.8 | 18 | -16.3% | -4.3% |
| Restructured Loan | | | | | |
| Current | 86.9 | 74 | 62.2 | -28.4% | -15.9% |
| COVID-19 | 64.2 | 49.4 | 42.6 | -33.6% | -13.8% |
| Non COVID-19 | 22.7 | 24.6 | 19.6 | -13.7% | -20.3% |
| Special Mention | 24.7 | 22.6 | 19.1 | -22.7% | -15.5% |
| NPL | 11.3 | 10.5 | 10.1 | -10.6% | -3.8% |
| Total Restructured Loan | 122.9 | 107.1 | 91.4 | -25.6% | -14.7% |
| Total LaR | 135.7 | 119.4 | 102.8 | -24.2% | -13.9% |
| LaR Ratio | 23.3% | 19.3% | 16.0% | -3.3% | -7.3% |
| LaR Coverage | 37% | 42% | 49% | 6.5% | 11.8% |
| NPL Coverage | 233% | 271% | 278% | 7.5% | 44.9% |

Source: BBNI

FIVE-YEAR FORWARD P/B



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (Rpb) | 2022 | 2023F | 2024F | 2025F |
|----------------------------|---------------|---------------|---------------|---------------|
| Interest income | 54,659 | 60,661 | 66,608 | 72,737 |
| Interest expense | (13,338) | (16,412) | (18,619) | (21,106) |
| Net interest income | 41,321 | 44,249 | 47,989 | 51,631 |
| Fees & commissions | 9,738 | 10,615 | 11,464 | 12,381 |
| Other income | 10,413 | 10,787 | 11,179 | 11,588 |
| Non-interest income | 20,151 | 21,402 | 22,642 | 23,969 |
| Total income | 61,472 | 65,651 | 70,631 | 75,600 |
| Staff costs | (12,456) | (13,702) | (15,072) | (16,579) |
| Other operating expense | (14,603) | (15,187) | (15,947) | (16,744) |
| Pre-provision profit | 34,413 | 36,762 | 39,613 | 42,277 |
| Loan loss provision | (11,514) | (9,110) | (8,420) | (8,496) |
| Other provisions | 0 | 0 | 0 | 0 |
| Associated companies | (0) | n.a. | n.a. | n.a. |
| Other non-operating income | (212) | (89) | (151) | (157) |
| Pre-tax profit | 22,686 | 27,563 | 31,042 | 33,624 |
| Tax | (4,205) | (5,513) | (6,208) | (6,725) |
| Minorities | (170) | (202) | (228) | (247) |
| Net profit | 18,312 | 21,848 | 24,606 | 26,652 |
| Net profit (adj.) | 18,312 | 21,848 | 24,606 | 26,652 |

BALANCE SHEET

| Year to 31 Dec (Rpb) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Cash with central bank | 82,922 | 58,104 | 63,375 | 69,128 |
| Govt treasury bills & securities | 121,292 | 121,882 | 124,087 | 125,695 |
| Interbank loans | 69,511 | 123,678 | 135,128 | 147,649 |
| Customer loans | 595,854 | 637,348 | 698,683 | 766,064 |
| Investment securities | 28,556 | 40,221 | 43,874 | 47,861 |
| Derivative receivables | 19,597 | 698 | 717 | 797 |
| Associates & JVs | 609 | 639 | 671 | 705 |
| Fixed assets (incl. prop.) | 26,549 | 25,035 | 24,259 | 23,399 |
| Other assets | 84,946 | 82,732 | 99,499 | 115,647 |
| Total assets | 1,029,837 | 1,090,338 | 1,190,294 | 1,296,945 |
| Interbank deposits | 15,245 | 16,021 | 17,476 | 19,064 |
| Customer deposits | 769,269 | 812,548 | 886,339 | 966,885 |
| Derivative payables | 775 | 2,137 | 2,244 | 2,356 |
| Debt equivalents | 57,764 | 54,921 | 58,205 | 61,791 |
| Other liabilities | 46,586 | 45,036 | 46,852 | 48,746 |
| Total liabilities | 889,639 | 930,663 | 1,011,117 | 1,098,843 |
| Shareholders' funds | 135,816 | 156,047 | 174,938 | 195,089 |
| Minority interest - accumulated | 4,382 | 3,628 | 4,240 | 3,013 |
| Total equity & liabilities | 1,029,837 | 1,090,338 | 1,190,294 | 1,296,945 |

OPERATING RATIOS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|--|--------|-------|-------|-------|
| Capital Adequacy | | | | |
| Tier-1 CAR | 19.0 | 18.2 | 18.7 | 19.1 |
| Total CAR | 17.9 | 19.4 | 20.0 | 20.4 |
| Total assets/equity (x) | 7.6 | 7.0 | 6.8 | 6.6 |
| Tangible assets/tangible common equity (x) | 7.6 | 7.0 | 6.8 | 6.6 |
| Asset Quality | | | | |
| NPL ratio | 2.9 | 2.5 | 2.5 | 2.5 |
| Loan loss coverage | 277.1 | 281.8 | 249.8 | 214.8 |
| Loan loss reserve/gross loans | 8.0 | 7.1 | 6.2 | 5.4 |
| Increase in NPLs | (15.6) | (4.3) | 7.2 | 8.6 |
| Credit cost (bp) | 195.0 | 150.0 | 130.0 | 120.0 |
| Liquidity | | | | |
| Loan/deposit ratio * | 84.0 | 84.5 | 84.1 | 83.7 |
| Liquid assets/short-term liabilities | 34.5 | 36.3 | 35.4 | 34.4 |
| Liquid assets/total assets | 26.6 | 27.9 | 27.1 | 26.4 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|------|-------|-------|-------|
| Growth | | | | |
| Net interest income, yoy chg | 8.0 | 7.1 | 8.5 | 7.6 |
| Fees & commissions, yoy chg | 8.9 | 9.0 | 8.0 | 8.0 |
| Pre-provision profit, yoy chg | 10.8 | 6.8 | 7.8 | 6.7 |
| Net profit, yoy chg | 68.0 | 19.3 | 12.6 | 8.3 |
| Net profit (adj.), yoy chg | 68.0 | 19.3 | 12.6 | 8.3 |
| Customer loans, yoy chg * | 12.0 | 7.0 | 9.6 | 9.6 |
| Customer deposits, yoy chg | 5.5 | 5.6 | 9.1 | 9.1 |
| Profitability | | | | |
| Net interest margin | 4.6 | 4.6 | 4.7 | 4.6 |
| Cost/income ratio | 44.0 | 44.0 | 43.9 | 44.1 |
| Adjusted ROA | 1.8 | 2.1 | 2.2 | 2.1 |
| Reported ROE | 14.1 | 15.0 | 14.9 | 14.4 |
| Adjusted ROE | 14.1 | 15.0 | 14.9 | 14.4 |
| Valuation | | | | |
| P/BV (x) | 1.2 | 1.1 | 1.0 | 0.9 |
| P/NTA (x) | 1.2 | 1.1 | 1.0 | 0.9 |
| Adjusted P/E (x) | 9.2 | 7.7 | 6.9 | 6.3 |
| Dividend Yield | 3.2 | 3.9 | 4.4 | 4.7 |
| Payout ratio | 30.0 | 30.0 | 30.0 | 30.0 |

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