OVERWEIGHT

Return (%)	-1D	-1W	-1M
JCI	+0.9	+1.7	-0.6
BBCA IJ	+1.1	-1.0	-2.3
BBRI IJ	+0.4	+3.6	-14.3
BMRI IJ	-0.4	+1.2	-7.0
BBNI IJ	+3.5	+10.6	-3.7
BRIS IJ	0.0	-5.9	-5.9

EPS Growth (%)	FY24E	FY25F
BBCA IJ	+10.3	+10.5
BBRI IJ	+11.7	+16.3
BMRI IJ	+14.7	+18.7
BBNI IJ	+11.1	+9.0
BRIS IJ	+12.0	+12.7

Banking Sector
Steady Loan Growth Amidst External Headwinds

Industry loan growth still expanded by 12.4% YoY in Mar-24

Aligned with the upward trajectory of the global economy, the Indonesian banking industry sustained robust loan expansion, registering an 12.4% YoY increase in Mar-24, surpassing the FY24E OJK target. This growth was buoyed by a 14.8%/12.3% YoY rise in investment & working capital loans. Concurrently, Third-Party Funds (TPFs), commonly experienced a 7.4% YoY uptick, driven mainly by the growth in demand deposits. These dynamics resulted in a LDR position of 84.2%. Profitability indicators for the banking sector remained steady, with a NIM of 4.6% in Mar-24 (vs 4.5% in Feb-24) and a ROA of 2.6%. Moreover, credit risk remained under control, with gross and net NPLs standing at 2.3% and 0.8%, respectively, below the 5% threshold.

Is the bad downtrend era fully priced in?

Lately, we have observed a MoM downturn in banking stocks, particularly among the Big 4 banks like BBRI (-14.3%), BMRI (-7.0%), BBNI (-3.7%), and BBCA (-2.3%), stems from several underlying factors. Firstly, the cautious stance adopted by the Fed in response to inflation and labor market considerations, has prompted an increase in UST yields and strengthened the USD, leading to a rapid outflow of foreign capital from the market, particularly impacting large-cap stocks in the banking sector. Additionally, disappointing financial results in 1Q24, falling short of consensus targets and exhibiting sequential declines, have contributed to this downturn. Furthermore, banks are adjusting their expectations for 2Q24, anticipating a more moderate performance due to revisions in key metrics. Amidst these challenges, the possibility of continued foreign outflows persists in short-term, influenced by the lack of positive sentiment, upcoming normalization of earnings, declining momentum of dividend payouts, and the end of Covid restru-era. However, for long-term investors, despite BI's rate hike, banks are confident about NIM enhancement through CASA improvement, making now a favorable time to gradually accumulate in bank stocks considering banks as one of the defensive options.

Big 4 banks display varying 1Q24 performances

BBCA stands out with robust growth, marked by significant increases in net profit (+11.7% YoY), PPOP (+8.5% YoY), and NII, alongside stable NIM (5.6%) and substantial loan (+17.1% YoY) and deposit growth. BBRI, despite achieving strong PPOP growth, faced challenges with higher CoC (3.8%) and NPL (3.1%). BMRI experienced marginal YoY profit growth but a notable QoQ decrease, attributed to fluctuating PPOP and NII. BBNI demonstrated modest profit growth amidst declining NII/PPOP, while maintaining stable CoC. We anticipate a moderate earnings growth of 11%-12% in FY24E, reflecting a slight decrease of 100-120bps from our previous target. This adjustment is likely to prompt downgrades, especially among major SOE banks. Overall, we expect NIM to remain relatively stable or face slight pressure due to higher cost of funds. Many banks in our coverage have preemptively factored in these conditions and have guided for a flat NIM for the entire year, assuming a rate cut in the 2H24.

Maintain Overweight Outlook with selective stocks

We maintain our Overweight rating for the banking sector amidst rising benchmark rates and higher credit cost. We continue to like BBCA & BRIS, benefiting from strong growth outlook, improving asset quality, and steady NIM. Risk to our call: 1) slower-than- expected economic recovery; 2) rising NPL due to slower economic growth; 3) unexpected hike in the BI rate.

Ticker	Mkt Cap (IDR tn)	PBV (x)		PE (x)		Rec	TP (IDR/Sh)
		FY24E	FY25F	FY24E	FY25F		
BBCA IJ	1,183.4	4.7	4.3	24.4	22.1	BUY	10,600
BBRI IJ	735.6	2.4	2.3	12.0	10.3	BUY	6,300
BMRI IJ	592.7	2.2	2.0	10.8	9.1	BUY	7,100
BBNI IJ	193.9	1.3	1.2	9.5	8.6	HOLD	5,900
BRIS IJ	117.2	2.6	2.4	18.3	16.5	BUY	3,000

Sources : Bloomberg, MNCS Research

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Industry loan growth still expanded by 12.4% YoY in Mar-24

In Mar-24, the Indonesian banking industry continued its robust expansion, with loan growth reaching 12.4% YoY, exceeding the OJK target for the fiscal year (9%-11%). This growth, fueled by a 14.8% increase in investment loans and a 12.3% rise in working capital loans, was in line with the positive trajectory of the global economy. Concurrently, Third-Party Funds (TPFs) experienced a 7.4% YoY increase, primarily driven by growth in demand deposits. These developments led to a Loan-to-Deposit Ratio (LDR) of 84.2%. The banking sector maintained steady profitability indicators, with a Net Interest Margin (NIM) of 4.6% in Mar-24, up from 4.5% in Feb-24, and a Return on Assets (ROA) of 2.6%. Additionally, credit risk remained well-controlled, with gross and net Non-Performing Loans (NPLs) at 2.3% and 0.8%, respectively, below the 5% threshold.

Mining and quarrying persist as the forerunners in loan expansion

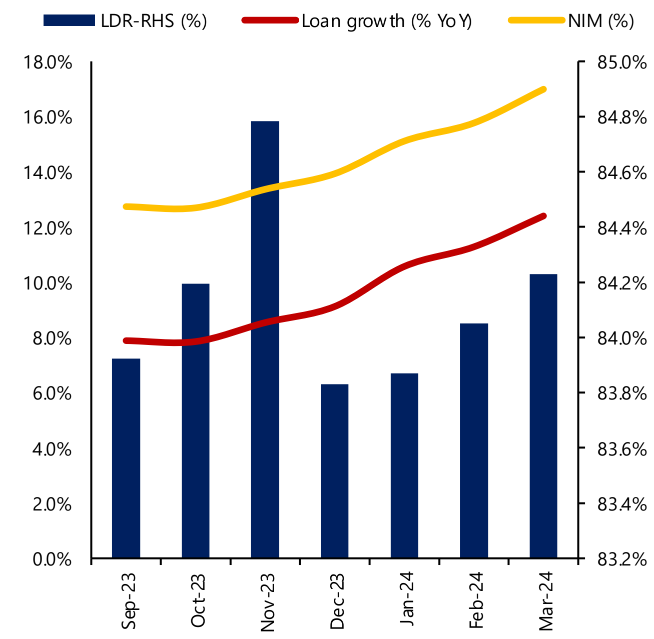
Regarding sectoral dynamics, mining exhibited the most pronounced surge in Feb-24, boasting a remarkable 30.2% YoY upswing. This surge marks the sector's most substantial growth, largely attributed to the downstream policy interventions, particularly within the nickel industry. As of Feb-24, the seven largest sectors stand as follows: wholesale and retail trade (Rp1,135tn), manufacturing (Rp1,101tn), agriculture, forestry, and fisheries (Rp516tn), construction (Rp386tn), financial (Rp377tn). This corresponds with the upward trend in sector-specific loan volumes reported by several banks, notably in the mining, manufacturing, and financial services sectors. The utilization of loans continues to be predominantly allocated to working capital, comprising the largest share at 45%, followed by consumer loans at 29%, and investment loans at 21%.

Exhibit 01. Loan gradually picking up in the banking system

	Mar-23	Dec-23	Feb-24	Mar-24
Loan (IDR tn)	6,445	7,090	7,095	7,245
TPF (IDR tn)	8,006	8,458	8,441	8,601
Loan (% YoY)	9.9%	10.4%	11.3%	12.4%
Loan (% MoM)	1.1%	1.8%	0.5%	2.1%
TPF (% YoY)	7.0%	3.7%	5.7%	7.4%
Segment (% YoY):				
Working Capital	9.5%	10.1%	12.4%	12.3%
Investment	11.4%	12.3%	11.8%	14.8%
Consumption	9.2%	9.1%	9.5%	10.2%
LDR (%)	80.5%	83.8%	84.1%	84.2%
CAR (%)	24.7%	27.7%	27.7%	26.0%
NIM (%)	4.8%	4.8%	4.5%	4.6%
ROA (%)	2.8%	2.7%	2.5%	2.6%
NPL Gross (%)	2.5%	2.2%	2.4%	2.3%
NPL Nett (%)	0.7%	0.7%	0.8%	0.8%

Sources : OJK, MNCS Research

Exhibit 02. Loan growth, NIM & LDR trend in the national banking system



Sources : OJK, MNCS Research

Banking 1Q24 Result Recap

BBCA: Steady asset quality

BBCA net profit of Rp12.9tn in 1Q24 (+11.7% YoY /+5% QoQ), inline with our & consensus FY24E estimate. PPOP rose by +8.5% YoY/+9.4% QoQ) driven by NII (+7.1% YoY/+2% QoQ and lower opex (-10.6% YoY/+4.4% QoQ). BBCA booked provisions of Rp1,024bn in 1Q24 (vs Rp1,500bn in 1Q23). This resulted in lower CoC of 0.4% (vs 0.8% in 1Q24). NIM remained stable at 5.6% in 1Q24 (flat YoY/QoQ). Loan grew by +17.1% YoY while deposit grew +7.9% YoY. Management maintained the conservative guidance for FY24, projecting loan growth at 9%-10% YoY and NIM at 5.5%-5.6%.

BBRI: Strong PPOP growth amid higher CoC

BBRI net profit of Rp15.9tn in 1Q24 (+2.7% YoY/-1.4% QoQ) was inline ours and consensus estimates. PPOP grew by +22.2% YoY/+12.5% QoQ. Provision rose by +91.4% YoY/+59.9% QoQ, resulted in higher CoC at 3.82% (vs 2.39% in 1Q23). NIM slightly increased to 7.84% (vs 7.82% in 1Q23). Loan grew by +10.9% YoY/+3.1% QoQ while deposit grew by +12.9% YoY/+4.3% QoQ. BBRI experienced a rise in its NPL ratio to 3.11%, with the corporate segment at 3.33%. However, BBRI maintains a strong NPL coverage ratio of 214.26% and a loan loss reserve of 6.6%, significantly above pre-COVID levels. Key sectors like trading, hotel & restaurant, manufacturing, and agriculture are fully provisioned as necessary. For FY24, management targeted loan growth of +10%-12%, NIM at 7.6%-8%, NPL at <3%, and CoC less than 3%.

BMRI: NPAT decline QoQ, fell below estimate

BMRI net profit of Rp12.7tn in 1Q24 (1.1% YoY/-20.6% QoQ) came below our/consensus estimates. PPOP slightly increased by +1.28% YoY/-5.51% QoQ as non-II dropped -1.56% YoY/27.9% QoQ. NII still rose by +5.11% YoY/+0.67% QoQ. Provision declined -2.6% YoY/+261% QoQ and led to CoC of 1.05% in 1Q24 (vs 1.18% in 1Q23). NIM stood at 4.07% in 1Q24 (vs 5.4% in 1Q23). Loan grew by 20.10% higher than its guidance while deposit grew at 13% YoY entirely driven by CASA (+13.3% YoY). NPL ratio improved to 1.17% in Mar-24, driven by higher provisions in the Consumer and Micro segments, while the Corporate segment showed improved NPL performance at 0.24%. NPL coverage ratio increased to 318%, primarily due to full provisioning in key sectors such as construction, manufacturing, and agriculture. For FY24, management targeted its loan growth of 13%-15%, NIM at 5%-5.3%, and CoC at 1%-1.2%.

BBNI: Flattish NPAT and drop in NII

BBNI net profit of Rp5.3tn in 1Q24 (+2% YoY/+3.3% QoQ). Among a drop in its NII/PPOP growth on YoY basis at -9.8%/-5.4% YoY. Provision declined by -18.8% YoY/-29.9% QoQ and brought 1Q24 CoC to 1.0% (vs. 1.4% in 1Q23). NIM decrease at 4.01% in 1Q24 (vs 4.68% in 1Q23) mainly driven by lower yield and higher CoF at 90bps YoY. Loan only grew at 9.6% YoY (flat QoQ) supported by corporate & consumer segment. Deposit grew at +4.9% YoY/-3.8% QoQ mainly form CASA support. In 2Q24, BBNI aims to adjust loan rates and USD deposit rates to approach its 4.5% NIM target, aided by USD bond issuance and controlled USD loan issuance. Additionally, it plans to tighten SME loan criteria to uphold a low CoC and asset quality. Despite maintaining a 4.5% NIM target for FY24E, we note that achieving it may be challenging due to the current high-rate environment.

BRIS : Best among its industry

BRIS net profit of Rp1.7tn in 1Q24 (+17.07% YoY/ +13.50% QoQ). PPOP rose by +4.26% YoY propelled by NII growth +12.03% YoY. Provisions decreased by -27.95% YoY resulting in lower CoC at 0.88% (vs 1.42% in 1Q23). NIM stood at 5.38% (-60bps YoY) mainly driven by higher CoF. Loans grew +15% YoY/+3% QoQ to Rp244.3tn in 1Q24. The bank remained optimistic that loan growth would achieve 15% YoY in FY24E (vs 15.7% in FY23), NIM at 5.50%-5.86% and TPF to stay moderate at 8.5%-10.0% (vs 12.4% in FY23). Management also target NPF to drop below 2% in FY24 and cash coverage ~200%. Hence, the NPAT is targeted to reach IDR6.3-6.5tn in FY24E.

Exhibit 03. 1Q24 Key highlights for Big Banks

	BBCA	BBRI	BMRI	BBNI	BRIS	BBTN	BNGA
Net interest income (Rp bn)	19,822	35,952	24,186	9,390	6,033	3,227	3,285
Net interest income YoY growth (%)	7.1%	9.7%	5.1%	-9.8%	12.0%	3.4%	-3.6%
Loan YoY growth (%)	17.1%	10.9%	20.1%	9.6%	10.4%	14.8%	6.0%
Net interest margin (%)	5.6%	7.8%	4.9%	4.0%	5.4%	3.3%	4.2%
Total Operating Income (Rp bn)	26,412	62,697	34,313	14,829	5,334	8,677	4,800
Operating Expense (Rp bn)	9,472	18,389	8,507	6,649	1,927	4,445	2,135
CIR (%)	35.9%	37.4%	34.2%	44.8%	47.8%	54.6%	44.5%
PPOP (Rp bn)	15,915	30,747	21,201	8,181	2,820	1,811	2,665
PPOP YoY growth (%)	8.5%	22.2%	1.3%	-5.4%	4.3%	2.4%	-3.6%
Total Provision (Rp bn)	1,024	10,713	3,596	1,744	549	657	490
Annualized credit cost (bps)	75	491	150	150	133	114	138
Net profit (Rp bn)	12,879	15,983	12,702	5,326	1,710	860	1,681
Net profit YoY growth (%)	11.7%	2.7%	1.0%	2.0%	17.1%	7.4%	6.3%
Key Balance Sheet Data (Rp bn)							
Total Assets	1,444,007	1,989,074	2,163,785	1,066,715	358,000	454,019	332,990
Gross Loans	816,240	1,308,651	1,435,487	695,162	247,160	344,200	211,590
CASA deposits	900,680	873,298	1,168,935	543,504	181,000	178,606	160,110
Third Party Funds	1,109,921	1,416,213	1,571,891	780,230	294,000	357,740	248,030
Key ratio							
TPF growth (%)	7.9%	12.8%	13.0%	4.9%	10.4%	11.9%	3.3%
LDR (%)	71.2%	83.3%	89.7%	89.0%	83.7%	96.2%	84.2%
CASA ratio (%)	81.5%	61.7%	79.4%	69.7%	60.9%	49.9%	64.6%
Cost of funds (%)	1.2%	3.6%	2.1%	2.8%	2.6%	4.2%	3.4%
NIM (%)	5.6%	7.8%	4.8%	4.0%	5.4%	3.3%	4.2%
Gross NPL (%)	1.9%	3.1%	1.2%	2.0%	2.0%	3.0%	2.1%
LAR (%)	6.6%	12.7%	9.4%	13.3%	8.6%	21.6%	10.9%

Sources : Companies Data, MNCS Research

Why are banking stocks down?

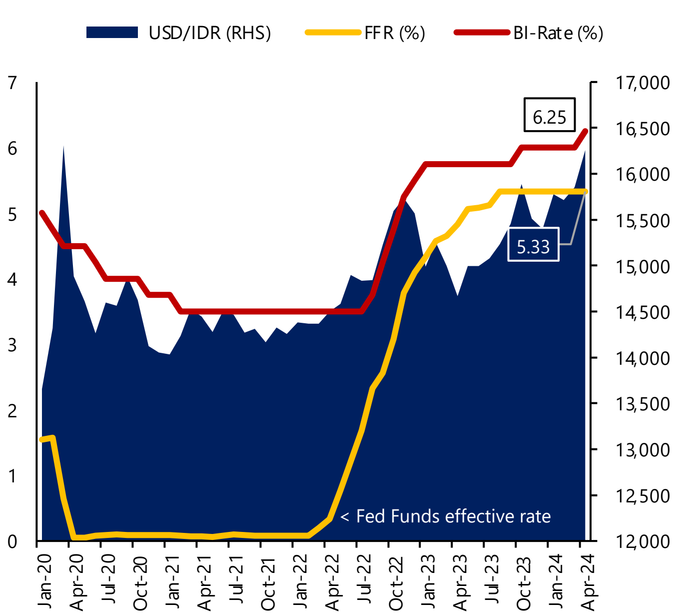
Big 4 banks have a significant decline in stock prices since reaching their peak in 2024. Particularly, BBRI (-15.3%), BMRI (-8.4%), BBNI (-6.9%), and BBCA (-3.1%) have all seen notable MoM decreases.

We observe that several factors underpin this downturn:

1) The Fed's cautious stance, marked by its "higher for longer" stance in response to ongoing considerations regarding inflation and labor market indicators. This stance has led to an uptick in UST yields and bolstered the USD, prompting a swift exodus of foreign capital from the JCI. Meanwhile, net foreign sales of the JCI totaled Rp22.1 tn (MoM), predominantly impacting large-cap stocks, including those in the banking sector.
2) Disappointing financial results in 1Q24, falling short of consensus targets (22%-23% of FY24E), with sequential declines evident on a QoQ basis.
3) Banks are making anticipatory adjustments to their expectations for the 2Q24, forecasting a more moderate performance. These adjustments come in response to revisions to key metrics such as NIM guidance and expectations of higher costs of funds due to rising interest rates. As a result, many banks are revising their FY24E earnings targets downward.

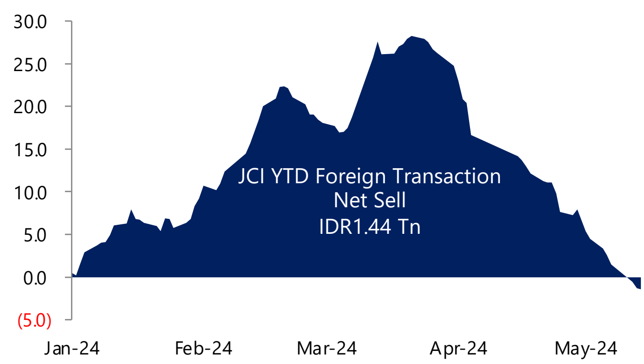
We anticipate that possibility of foreign outflows in short-term may continue amidst the lack of positive sentiment, the upcoming normalization of earnings, the declining momentum of dividend payouts, and the end of Covid-related leniency on credit. However, for long-term investors, despite BI's rate hike, banks are confident about NIM enhancement through CASA improvement, making now a favorable time to gradually accumulate in bank stocks considering banks as one of the defensive options.

Exhibit 04. IDR weakens as hopes of Fed rate cuts fade



Sources : Bloomberg, MNCS Research

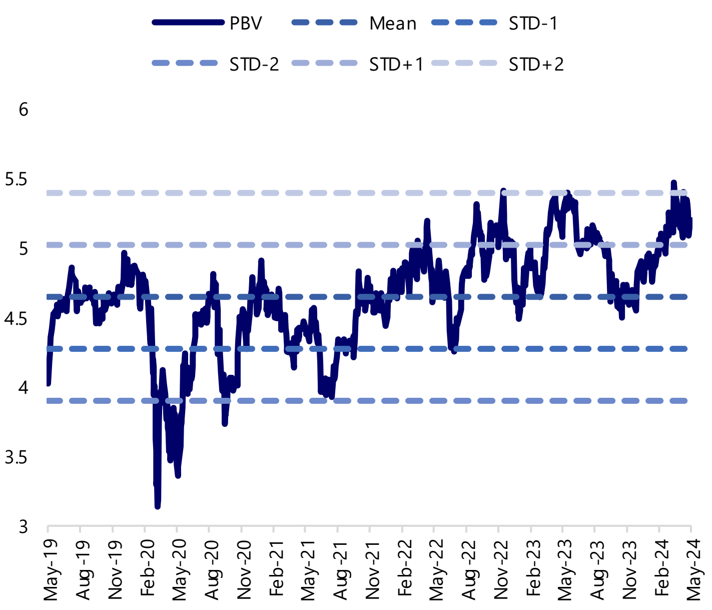
Exhibit 05. Foreign flow in banking YTD 2024



IDR Bn	Jan-24	Feb-24	Mar-24	Apr-24	YTD
BBCA	2,825.5	2,285.0	589.2	(2,081.6)	3,618.1
BBNI	200.1	1,248.2	92.8	(762.3)	778.7
BBRI	874.2	3,392.0	1,054.7	(8,771.7)	(3,450.8)
BMRI	2,399.7	2,756.3	120.2	(987.1)	4,289.2
BRIS	494.2	194.0	356.7	91.6	1,136.5

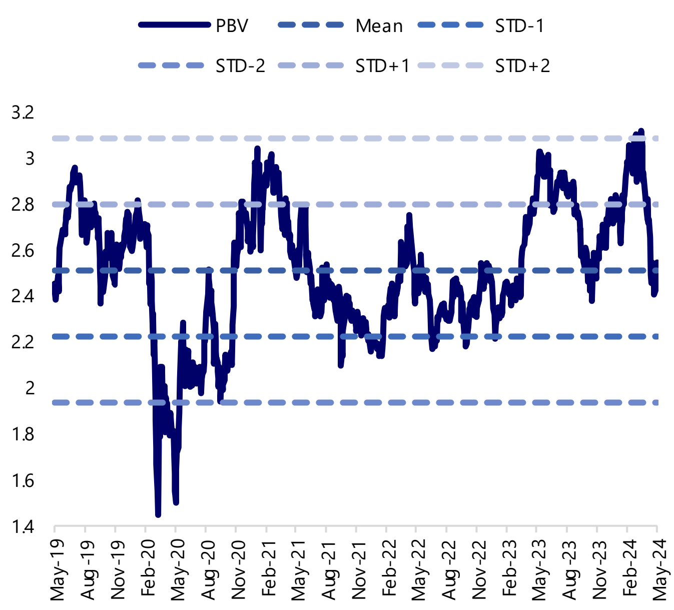
Sources : MNCS Research

Exhibit 06. BBCA forward PBV band



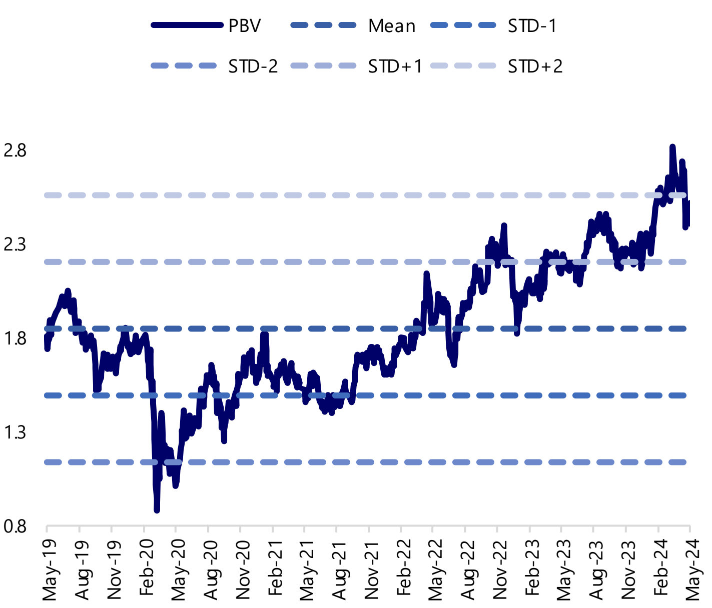
Sources : Bloomberg, MNCS Research

Exhibit 07. BBRI forward PBV band



Sources : Bloomberg, MNCS Research

Exhibit 08. BMRI forward PBV band



Sources : Bloomberg, MNCS Research

Exhibit 09. BRIS forward PBV band

Sources : Bloomberg, MNCS Research

MNC Research Industry Ratings Guidance

- **OVERWEIGHT :** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL :** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT :** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
- **SELL** : Share price may fall by more than 10% over the next 12 months
- **Not Rated** : Stock is not within regular research coverage

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