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PT Verdhana Sekuritas Indonesia

Indonesia Banks - Assessing funding and room for repricing

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Banks

Assessing funding (and room for repricing)

Below, we present two charts (*Fig. 1* and *Fig. 2*) depicting the loan-to-CASA and loan-to-saving trends across Indonesia banks over the past two years (we use Jul-23 and Jul-24 for reference). CASA is typically associated with low funding costs. However, in recent years, we have seen in some cases current accounts (CA), which are typically associated with corporates/enterprises accounts, have become increasingly rate sensitive. Meanwhile, saving accounts (SA) are typically associated with individual deposits, which are NOT rate sensitive in nature.

Comparing banks' loan-to-CASA would provide us with some color on how much of a bank's loan portfolio is funded by CASA. As shown in *Fig. 1*, only BBCA has a loan-to-CASA ratio of less than 100% (which suggests that the bank typically would benefit from a higher rate environment). Meanwhile, BMRI has the second-lowest loan-to-CASA ratio. On the other hand, BBRI is the only bank that has seen a lower loan-to-CASA trend, suggesting its healthier loan funding, and implying that the bank should be relatively less impacted from the recent rate increases. This is also reflected in BBRI's bank-only YTD Aug-24 results, which demonstrated that despite having relatively lower loan growth of ~7% y-y, the bank reported NII growth of ~3% y-y (similar to BMRI but it posted loan growth of ~21% y-y).

In terms of loan-to-savings ratio trend, BBCA had the lowest ratio of 149% in Jul-24, followed by BRIS at 197% and BBRI at 232%. Having said that, BMRI was the only bank with the least increase in the loan-to-savings ratio of 245% (vs 244% in Jul-23). We attribute this to the bank's growing importance as a transactional bank in Indonesia, which we think will continue in the medium term.

Another conclusion that we can draw from here is that overall liquidity remains tight. Thus, in our opinion, despite recent BI rate cuts, we see limited scope for banks to reduce overall funding costs. For these reasons, it is possible that lending rates may not come down. On the contrary, we won't be surprised to see some upward loan repricing.

On the back of these, we retain BBCA as our top pick. In the syariah space, BRIS remains our preferred stock.

Valuations and risks

BBCA (Buy) — Our TP of IDR13,200 is based on DuPont analysis with key parameters as follows: a risk-free rate of 6.5%, an equity risk premium of 7.8%, beta of 0.8x and a CAR-adjusted ROAE of 24.5%. Our TP implies 5.4x FY25F P/B (vs current price valuation of 4.2x) and 26.9x FY25F P/E (vs current price valuation of 21.0x). Risks are worsening economic trends, tighter liquidity competition, and/or higher credit cost and opex growth.

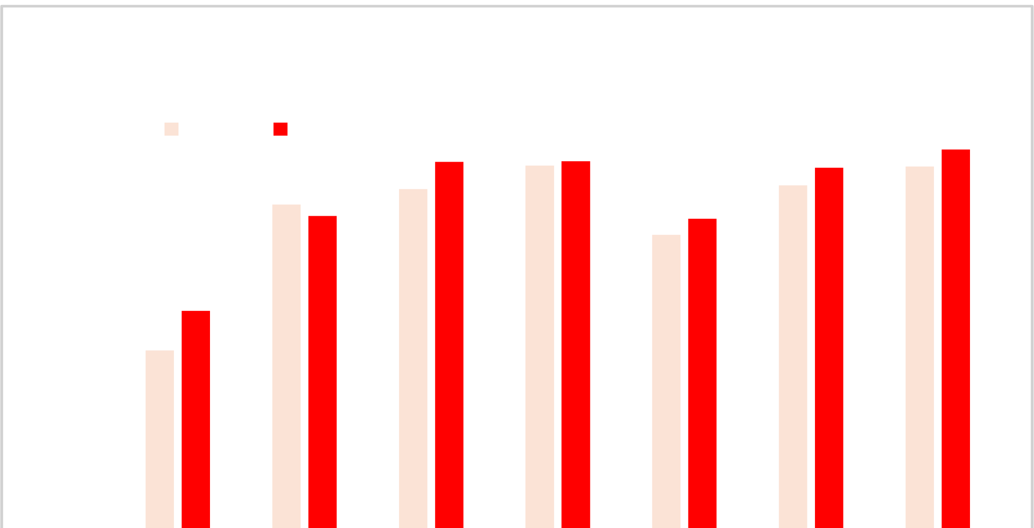
BMRI (Buy) — Our TP of IDR8,450 is based on DuPont methodology. Key parameters are a risk-free rate of 6.5%, an equity risk premium of 7.8%, a CAR-adjusted ROAE of 19.8% and beta of 1.03x. We have also used 2025F book as reference. Our TP implies a 2.5x FY25F P/B and a 12.4x FY25F P/E – compared to current price valuations of a 2.1x and a 10.6x, respectively. Key downside risks are worse-than-expected macroeconomic trends, government intervention, tight liquidity competition, and higher credit cost and opex growth.

BBRI (Buy) — Our TP of IDR6,300 is based on DuPont methodology, assuming a risk-free rate of 6.5%, an equity risk premium of 7.8%, growth of 10.0%, beta 0.8x and a CAR-adjusted ROAE of 18.0%. We also use 2025F book as reference. The implied multiples at our TP are 2.9x 2025F book and 14.8x 2025F earnings (compared to current multiples of 2.0x and 10.7x, respectively). Key risks to our view are worsening macroeconomic trends, unfavorable regulatory changes, and tighter liquidity competition (which would increase funding cost), and worsening credit quality (which would raise credit costs), and higher opex.

BBNI (Buy) — Our TP of IDR6,600 based on DuPont analysis, assuming a risk-free rate of 6.5%, an equity risk premium of 7.8%, growth of 8.5%, beta 1.0x and a CAR-adjusted ROAE of 16.5%. We also use 2025F book as reference. The implied multiples at our TP are 1.4x 2025F book and 10.7x 2025F earnings (compared to current multiples of 1.2x and 9.3x, respectively). Key risks to our view are worsening macroeconomic trends, unfavorable regulatory changes, and tighter liquidity competition (which would increase funding cost), and worsening credit quality (which would raise credit costs), and higher opex.

BRIS (Buy) — Our TP of IDR3,800 is based on DuPont methodology, with key parameters as follows: a risk-free rate of 6.5%, an equity risk premium of 7.8%, beta of 1.2x and a CAR-adjusted ROAE of 18.1%. We have also used 2025F book value in deriving our TP. Our TP implies a FY25F P/B of 3.3x and a FY25F P/E of 22.0x. Risks are worsening macroeconomic trends, unfavorable regulatory changes, tighter liquidity competition that could increase funding costs, worsening credit quality that could raise credit costs, material management changes, and/or persistently high opex.

Fig. 1: Indonesia banks loan-to-CASA ratio (%)



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