Banking
Solid Earnings on the Cards Amid Challenges

OVERWEIGHT

Return (%)	-1D	-1W	-1M
JCI	+0.2	+0.4	+3.3
LQ45	+0.2	+0.8	+4.1
BBCA IJ	+1.9	+5.4	+1.9
BBRI IJ	+0.0	+3.9	+5.7
BMRI IJ	-0.8	+3.5	-0.4
BBNI IJ	-1.4	+3.3	+5.9
BRIS IJ	-0.3	+0.9	+10.7

EPS Growth (%)	FY23E	FY24F
BBCA IJ	+13.4	+12.5
BBRI IJ	+38.2	+11.7
BMRI IJ	+19.4	+14.7
BBNI IJ	+11.8	+11.1
BRIS IJ	+28.3	+14.1

Liquidity strain persists, hopes for improvement by 2Q24

The current state of national banking liquidity is expected to remain constrained at least until 2Q24. Throughout 2023, BI responded to the significant rise in the USD rate, propelled by the increasing FFR, through a calibrated series of interest rate hikes totaling 250bps from Jul-22, culminating in a 6.0% by Dec-23. As of Oct-23, the LDR stood at 84.1%, reflecting an increase from Jan-23 when it was 79.5%. Loan growth recorded a slight uptick at 8.99% YoY, compared to 8.96% in Sep-23. However, Third Party Funds in Oct-23 weakened to 3.43% YoY, substantively diminished from the 6.54% YoY observed in Sep-23. The rising LDR indicates an increase in the proportion of banking deposits directed towards credit, leading to a tightening of liquidity. Additionally, M2 in Oct-23 was relatively low at IDR8,505 tn, growing by 3.4% YoY, compared to the previous month's growth of 6.0% YoY. The expectation is that new banking liquidity will be sustained in 2Q24 following the potential reduction in FFR.

Big 4 Banks had a solid year, and expect next year to be similar

- Loans in big 4 banks grew 11.6% YoY in Oct-23, higher than industry record. Time deposit increased 3.5% YoY while CASA only expanded 2.9% YoY, causing NII to jump 9.8% YoY during 10M23.
- Combined with operational efficiency, operating profit and net profit of big 4 banks rose 19.6% YoY and 38.7% YoY respectively. Despite projecting a more conservative loan growth estimate of 9%-10% for the upcoming fiscal year, slightly below the BI projection 10%-12% in FY24E, historical election-year trends hint at a temporary deceleration in loan growth, poised for a resurgence 2H24 as elections conclude and monetary policy eases. Nonetheless, there is sanguinity in the business sphere that the banks' overall financial performance is poised for further growth in 2024.

Expect higher NIMs and cost efficiency

- Banks under our coverage are poised for strong performance in FY24E with a 12.8% YoY earnings growth, defying expectations of moderated loan growth. This resilience is fueled by higher NIM and cost efficiency. Anticipate a 6% expansion in the big 4 banks' NIM in FY24F, with a potential 10bps reduction in CoC contributing to earnings upside.
- We also expect a modest reduction in the blended cost of funds to 0.8%-2.9% in FY24F amid abundant liquidity within the banking system in 2H24. NPL challenges are limited, and we foresee further improvement in asset quality with a positive economic outlook.

Recommendation: Overweight with BBCA, BMRI and BRIS as our top pick

We maintain our **Overweight** rating on banking sector due to 10M23 solid performance. While we maintain our optimism on the sector on better overall forward macros, we believe investors may still be highly selective in their long-term picks. Our top picks, identified through a sector matrix, are banks undervalued despite robust growth prospects in dividends and ROEs. We continue to like BBCA, benefiting from NIM expansion through a robust CASA position, and BMRI, driven by strong loan growth and consistent improvement in asset quality. Meanwhile, BRIS is favored for its strategic position in the government's agenda to boost the Sharia economy. Risk to our call: 1) slower-than-expected economic recovery; 2) rising NPL due to slower economic growth.

Ticker	Mkt Cap (IDR tn)	PBV (x)		PE (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
BBCA IJ	1,134.13	4.7	4.1	24.6	21.9	BUY	10,600
BBRI IJ	837.36	2.2	2.1	11.8	10.6	BUY	6,600
BMRI IJ	553.00	2.0	1.8	10.3	8.9	BUY	6,850
BBNI IJ	193.01	1.3	1.2	9.5	8.6	BUY	5,900
BRIS IJ	78.42	2.0	1.8	14.3	12.6	BUY	2,100

Sources : Bloomberg, MNCS Research

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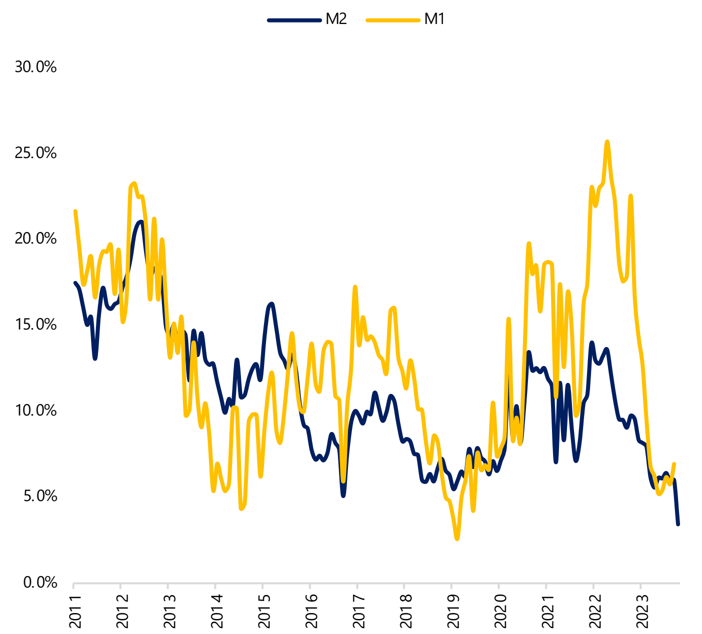
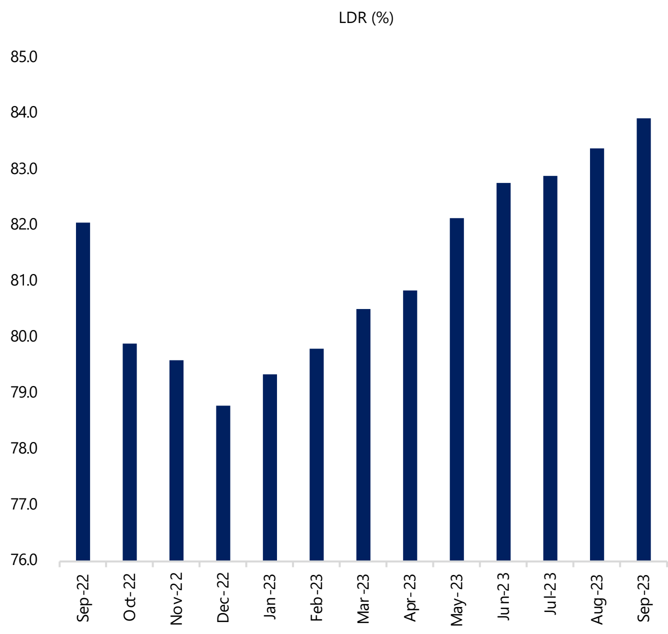
Exhibit 01. M2 in Oct-23 was relatively low at IDR8,505 tn



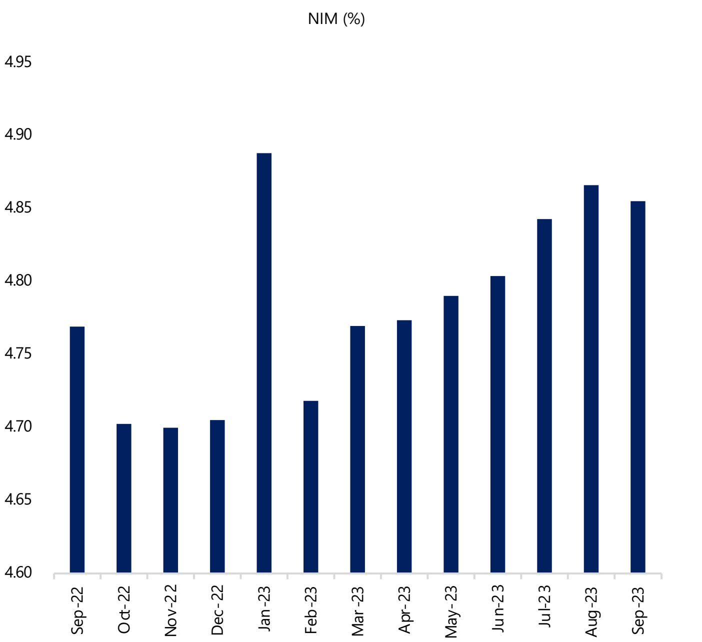
Sources : Bank Indonesia, MNCS Research

Exhibit 02. Liquidity challenges linger as seen in the high LDR in banking system



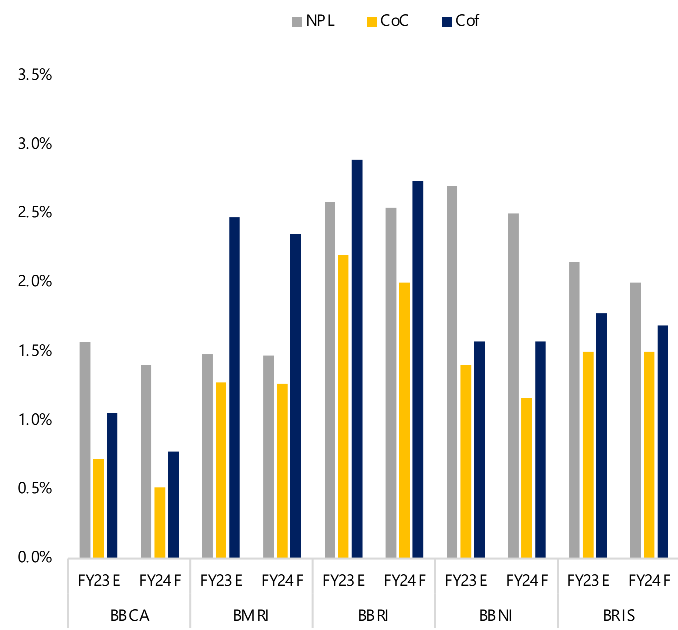
Sources : OJK, MNCS Research

Exhibit 03. NIM gradually picking up in the banking system



Sources : OJK, MNCS Research

Exhibit 04. We anticipate the implementation of efficiency strategies



Sources : Companies, 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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