Bank Syariah Indonesia (BRIS IJ)

The largest sharia bank in the largest Muslim populated country

Outlook

The merger of three SOE sharia banks creates the biggest sharia bank in Indonesia.
- This February marks BRIS’ first anniversary post the merger of three SOE sharia banks: Bank Syariah Mandiri, BRI Syariah, and BNI Syariah, creating the largest sharia bank in Indonesia by asset.
- As the largest sharia bank in the world’s largest Muslim populated country (229mn people), BRIS has a significant potential to grow its market share from merely 7% currently.
- The merger has resulted in better financing quality by improved risk management standard, competitive financing scheme from reduced CoF, and higher liquidity.
- BRIS currently focuses its financing on high-yield, low-risk consumer segment called payroll financing (+44.7% YoY, 36.0% of consumer financing), targeting civil servants and SOEs’ employees.
- BRIS targets loan growth of 11-13% in 2022 which we think is conservative given its aggressive new customer acquisition, especially the civil servants, SOEs’ employees, and the Islamic ecosystem (hajj, umrah, donation, mosque, and Islamic school).
- On the digital front, aside from common features, its digital app is designed specifically to cater the needs of Muslim people by providing several features ranging from spiritual (prayer time, qiblah), social (Ziswaf and other social transaction), and financial (financial payment and transaction for hajj & umrah).
- BRIS will conduct a rights issue to raise its free float shares from 6.14% to at least 7.5%. The timeline and rights issue size are on the discussion at the moment although the SOE minister mentioned USD600mn or IDR7.2tr last year.

FY21 result

Strong earnings growth, but NPF is still a concern
- In FY21, BRIS posted a net profit of IDR3.0bn, rose by 38.4% YoY, which is attributable to: 1) rising margin income (+4.8% YoY); 2) lower profit sharing expenses (+6.1% YoY), but NPF is still a concern.
- Financed by growing 9.3% YoY to IDR170.8tr with consumer financing growing by 20.0% YoY (48.1% of total financing), followed by pawning (+12.9% YoY, 7.7% of total), and micro financing (+12.8% YoY, 9.5% of total).
- These three segments generate financing yield of 10.7-16.2% YoY. On the other hand, corporate financing (+1.1% YoY, 22.7% of total) generates financing yield of 6.7% YoY.
- On funding, TD and CASA grew by 14.6% YoY and 8.7% YoY, respectively, bringing CASA ratio from 59.2% to 57.9%. While CoF declined (from 2.68% to 2.03%) following lower benchmark rate and ample liquidity, NIM was flat from 6.05% to 6.04% due to declining asset yield. We expect to see further CoF decline as the special rate TD should shift further to normal rate. On a positive note, LDR was ample at 73.4%.
- Gross NPF inched up from 2.88% to 2.93%, while the NPF coverage was raised from 134.3% to 148.9%.

Valuation

Trading at a not so cheap valuation
- Currently, BRIS is trading at forward P/B of 2.3x (+0.35 SD of its 3-year mean P/B).
- Risks include: 1) rising COVID-19 cases; 2) slower loan growth; 3) rising NPF; and 4) dilution effect from the rights issue.

Key data

Share performance

<table>
<thead>
<tr>
<th>(%)</th>
<th>1M</th>
<th>6M</th>
<th>12M</th>
</tr>
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<tbody>
<tr>
<td>Absolute</td>
<td>4.1</td>
<td>-24.0</td>
<td>-42.5</td>
</tr>
<tr>
<td>Relative</td>
<td>2.4</td>
<td>-35.2</td>
<td>-51.1</td>
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Earnings and valuation metrics

<table>
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<tr>
<th>FY (Dec.)</th>
<th>12/17</th>
<th>12/18</th>
<th>12/19</th>
<th>12/20</th>
<th>12/21</th>
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<tbody>
<tr>
<td>Margin Income (IDRbn)</td>
<td>1,810.1</td>
<td>2,401.3</td>
<td>2,488.2</td>
<td>15,297.1</td>
<td>16,562.1</td>
</tr>
<tr>
<td>PPOP (IDRbn)</td>
<td>377.7</td>
<td>691.0</td>
<td>800.8</td>
<td>7,082.6</td>
<td>7,840.8</td>
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<tr>
<td>Net Profit (IDRbn)</td>
<td>101.1</td>
<td>106.6</td>
<td>74.0</td>
<td>2,187.6</td>
<td>3,028.2</td>
</tr>
<tr>
<td>EPS (IDR)</td>
<td>25.5</td>
<td>12.8</td>
<td>7.6</td>
<td>53.5</td>
<td>73.7</td>
</tr>
<tr>
<td>BPS (IDR)</td>
<td>657.6</td>
<td>604.2</td>
<td>523.7</td>
<td>531.8</td>
<td>608.5</td>
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<td>P/E (x)</td>
<td>64.6</td>
<td>128.8</td>
<td>216.6</td>
<td>30.8</td>
<td>22.4</td>
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<td>P/B (x)</td>
<td>2.5</td>
<td>2.7</td>
<td>3.2</td>
<td>3.1</td>
<td>2.7</td>
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<tr>
<td>ROE (%)</td>
<td>4.1</td>
<td>2.5</td>
<td>1.6</td>
<td>11.2</td>
<td>13.7</td>
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<td>ROA (%)</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
<td>1.4</td>
<td>1.6</td>
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</tbody>
</table>
Figure 1. Financing growth

- Total financing (L)
- Total financing growth (R)

Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 2. Deposit growth

- Current account (L)
- Savings account (L)
- Time deposit (L)
- Total deposit growth (R)

Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 3. PPOP and net profit growth

- PPOP (L)
- Net profit (L)
- PPOP growth (R)
- Net profit growth (R)

Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 4. NM, NPF, & Financing to deposit ratio

- NFM (L)
- NPF (L)
- LDR (R)

Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 5. ROA & ROE

- ROA (L)
- ROE (R)

Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 6. Forward P/B band

- P/B
- Mean
- -1 StDev
- +1 StDev
- +2 StDev

Source: Company data, Mirae Asset Sekuritas Indonesia Research
Table 1. Key financial highlights (IDRbn)

<table>
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<tr>
<th>Financial highlights</th>
<th>1Q20</th>
<th>2Q20</th>
<th>3Q20</th>
<th>4Q20</th>
<th>1Q21</th>
<th>2Q21</th>
<th>3Q21</th>
<th>4Q21</th>
<th>(QoQ)</th>
<th>(YoY)</th>
<th>FY20</th>
<th>FY21</th>
<th>(YoY)</th>
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<tbody>
<tr>
<td>Margin income</td>
<td>4,384.7</td>
<td>4,185.8</td>
<td>4,422.0</td>
<td>4,768.5</td>
<td>4,628.1</td>
<td>4,860.8</td>
<td>4,337.4</td>
<td>4,781.7</td>
<td>10.2%</td>
<td>0.3%</td>
<td>17,760.8</td>
<td>18,608.0</td>
<td>4.8%</td>
</tr>
<tr>
<td>Profit sharing expense</td>
<td>1,258.4</td>
<td>1,148.2</td>
<td>1,164.5</td>
<td>1,204.2</td>
<td>1,150.5</td>
<td>1,120.0</td>
<td>1,112.1</td>
<td>996.1</td>
<td>-10.4%</td>
<td>-17.3%</td>
<td>4,775.4</td>
<td>4,378.8</td>
<td>-8.3%</td>
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<tr>
<td>Net margin income</td>
<td>3,126.3</td>
<td>3,037.5</td>
<td>3,257.4</td>
<td>3,564.3</td>
<td>3,477.6</td>
<td>3,740.8</td>
<td>3,225.2</td>
<td>3,785.6</td>
<td>17.4%</td>
<td>6.2%</td>
<td>12,985.5</td>
<td>14,229.2</td>
<td>9.6%</td>
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<tr>
<td>Non margin income</td>
<td>924.1</td>
<td>204.4</td>
<td>602.1</td>
<td>580.9</td>
<td>784.8</td>
<td>311.1</td>
<td>717.2</td>
<td>519.8</td>
<td>-27.5%</td>
<td>-10.5%</td>
<td>2,311.6</td>
<td>2,332.9</td>
<td>0.9%</td>
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<tr>
<td>Operating income</td>
<td>4,050.4</td>
<td>3,241.9</td>
<td>3,859.6</td>
<td>4,145.2</td>
<td>4,262.4</td>
<td>4,051.9</td>
<td>3,942.4</td>
<td>4,305.4</td>
<td>9.2%</td>
<td>3.9%</td>
<td>15,297.1</td>
<td>16,562.1</td>
<td>8.3%</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>1,793.1</td>
<td>1,746.9</td>
<td>2,192.0</td>
<td>2,482.5</td>
<td>1,952.0</td>
<td>2,532.2</td>
<td>1,933.4</td>
<td>2,303.6</td>
<td>19.1%</td>
<td>-7.2%</td>
<td>8,214.5</td>
<td>8,721.3</td>
<td>6.2%</td>
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<tr>
<td>PPOP</td>
<td>2,257.3</td>
<td>1,495.0</td>
<td>1,667.6</td>
<td>1,662.7</td>
<td>2,310.4</td>
<td>1,519.7</td>
<td>2,009.0</td>
<td>2,001.7</td>
<td>-0.4%</td>
<td>20.4%</td>
<td>7,082.6</td>
<td>7,840.8</td>
<td>10.7%</td>
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<td>Provision expenses</td>
<td>1,372.4</td>
<td>825.0</td>
<td>936.6</td>
<td>859.0</td>
<td>1,222.2</td>
<td>482.3</td>
<td>982.0</td>
<td>1,061.8</td>
<td>8.1%</td>
<td>23.6%</td>
<td>3,993.0</td>
<td>3,748.3</td>
<td>-6.1%</td>
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<tr>
<td>Pretax profit</td>
<td>884.9</td>
<td>670.1</td>
<td>731.0</td>
<td>803.6</td>
<td>1,088.2</td>
<td>1,037.4</td>
<td>1,027.0</td>
<td>939.9</td>
<td>-8.5%</td>
<td>17.0%</td>
<td>3,089.6</td>
<td>4,092.5</td>
<td>32.5%</td>
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<tr>
<td>Net profit</td>
<td>657.2</td>
<td>445.3</td>
<td>545.0</td>
<td>540.1</td>
<td>741.6</td>
<td>738.9</td>
<td>776.8</td>
<td>770.9</td>
<td>-0.8%</td>
<td>42.7%</td>
<td>2,187.6</td>
<td>3,028.2</td>
<td>38.4%</td>
</tr>
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Source: Company data, Mirae Asset Sekuritas Indonesia Research
Appendix 1

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2-Year Stock Price History

<table>
<thead>
<tr>
<th>Company (Code)</th>
<th>Date</th>
<th>Rating</th>
<th>Target Price</th>
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<tbody>
<tr>
<td>BRIS II</td>
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<td></td>
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<tr>
<td></td>
<td>Feb-20</td>
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<td></td>
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<tr>
<td></td>
<td>Feb-21</td>
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<tr>
<td></td>
<td>Feb-22</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Stock Ratings
- Buy: Relative performance of 20% or greater
- Trading Buy: Relative performance of 10% or greater, but with volatility
- Hold: Relative performance of -10% and 10%
- Sell: Relative performance of -10%

Industry Ratings
- Overweight: Fundamentals are favorable or improving
- Neutral: Fundamentals are steady without any material changes
- Underweight: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (▲), Target price (●), Not covered (●), Buy (▲), Trading Buy (■), Hold (●), Sell (●))

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Mirae Asset Securities International Network

Mirae Asset Securities Co., Ltd. (Seoul)
One-Asia Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea
Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.
810 Seventh Avenue, 37th floor
New York, NY 10019
USA
Tel: 1-212-407-1000

PT. Mirae Asset Sekuritas Indonesia
District 8, Treasury Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-54 Jakarta Selatan
12190
Indonesia
Tel: 62-21-5088-7000

Mirae Asset Securities Mongolia UTsk LLC
#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia
Tel: 976-7011-0806

Shanghai Representative Office
38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area
Shanghai 200120
China
Tel: 86-21-5013-6392

Mirae Asset Securities (HK) Ltd.
Units 8501, 8507-8508, 85/F
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong
Tel: 852-2845-6332

Mirae Asset Wealth Management (USA) Inc.
555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA
Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.
6 Battery Road, #11-01
Singapore 049909
Republic of Singapore
Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd
2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China
Tel: 86-10-6567-9699

Ho Chi Minh Representative Office
7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam
Tel: 84-8-3910-7715

Mirae Asset Securities (UK) Ltd.
41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom
Tel: 44-20-7982-8000

Mirae Asset Wealth Management (Brazil) CCTVM
Rua Funchal, 418, 18th Floor, E-Tower Building
Vila Olimpia
Sao Paulo - SP
04551-060
Brazil
Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC
7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam
Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office
2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China
Tel: 86-10-6567-9699 (ext. 3300)

Mirae Asset Capital Markets (India) Private Limited
Unit No. 506, 5th Floor, Windsor Bldg., Off CST Road,
Kalina, Santacruz (East), Mumbai – 400098
India
Tel: 91-22-62661336