

## HOLD (Maintain)

|                          |       |
|--------------------------|-------|
| Target Price (IDR)       | 2,400 |
| Potential Upside (%)     | 11.1  |
| Cons. Target Price (IDR) | 4,889 |
| SSI vs. Cons. (%)        | 49.1  |

### Stock Information

|                              |              |
|------------------------------|--------------|
| Last Price (IDR)             | 2,160        |
| Shares Issued (Mn)           | 13,856       |
| Market Cap. (IDR Bn)         | 30,761       |
| 52-Weeks High/Low (IDR)      | 15,825/2,110 |
| 3M Avg. Daily Value (IDR Bn) | 94.7         |
| Free Float (%)               | 45.6         |

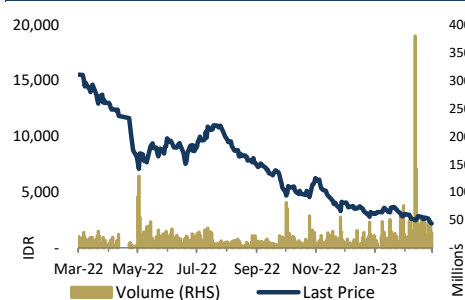
### Shareholder Structure:

|   |      |
|---|------|
| PT Metamorfosis Ekosistem Indonesia (%) | 29.8 |
| Public (%)                              | 27.9 |
| Others (%)                              | 42.3 |

### Stock Performance

| (%)        | YTD    | 1M     | 3M     | 12M    |
|------------|--------|--------|--------|--------|
| Absolute   | (40.1) | (25.2) | (45.1) | (85.7) |
| JCI Return | (2.8)  | (3.5)  | (2.3)  | (4.4)  |
| Relative   | (37.2) | (21.7) | (42.8) | (81.2) |

### Stock Price & Volumes, 12M



### Company Background

PT Bank Jago Tbk (Jago) is a life-centric finance application which makes money management simple, collaborative and innovative. It aspires to be a strong tech-based bank embedded in Indonesia's digital ecosystem, to fulfill the needs of the middle and mass market segment, including the small and medium enterprises.

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## Building up provisions

### 4Q22 results came below ours and cons

ARTO recorded -IDR 25bn net loss in 4Q22, mainly due to the loan loss provision of IDR 127bn (+29.8% QoQ, and +151% YoY) and opex for the quarter (IDR 12bn), which brought its full-year net profit to IDR 16bn (-81.5% YoY), falling way short of ours (30.7%) and consensus (30.9%). The bank's NII went up +7.7% QoQ and +35.6% YoY to IDR 369bn in 4Q22, supported by strong loan growth (+15.6% QoQ). On the funding side, deposits went up by +13.6% QoQ, as the bank saw improvements in its take-up rate. The number of KYC-ed customers reached 6.9mn in Dec-22 (3Q22: 5.7mn).

### Diverse partnership portfolio

ARTO has a diverse portfolio of partnerships. As of FY22, the bank has 38 partners; three ecosystem partners, three securities companies, and 32 lending institutions. Going forward, the bank will continue to disburse more of its own lending products and develop its business banking app aimed at small and medium-sized businesses, providing them with the tools and platform to operate their businesses more efficiently. ARTO will also continue collaborating with BFIN and GoTo to disburse more joint financing loans.

### What to expect in 2023F.

ARTO's management remains confident that the bank will book loan growth of 50% in 2023, supported by its own lending products as well as the joint financing with its partners. We expect the bank's NIM to decline slightly in 2023, as the bank plans to increase its CoF by ~75bps this year. Meanwhile, the increase in average loan yield will be relatively limited as joint financing will remain the primary driver of ARTO's loan growth this year, while the portion of direct lending products, which offer higher yields, will still be less than 10% of ARTO's total loan portfolio in 2023. Regarding asset quality, the bank believes that an NPL ratio of 2-3% is still manageable (the bank's current NPL ratio is below the range), while the cost of credit is expected to reach around 5% in 2023F, as the bank plans to raise its NPL coverage ratio to more than 200% going forward.

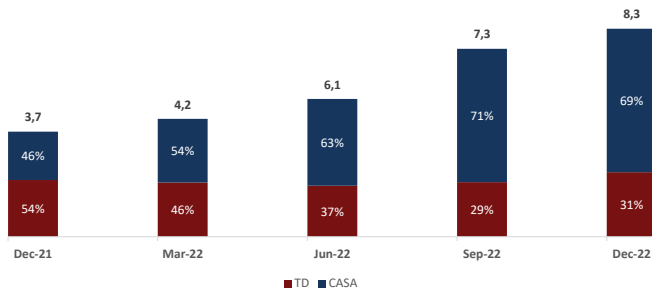
### HOLD, TP of IDR 2,400

We reiterate our HOLD rating on ARTO and set a new TP of IDR 2,400. Since Feb-23, the stock had dropped by 30% following its removal from the MSCI Indonesia index, which triggered a capital outflow from the stock, and the unfavorable sentiment following the failure of Silicon Valley Bank in the United States. The bank is currently trading at 3.7x PBV, and we anticipate that short-term pressure on the stock price will persist. In the long term, we still believe that the bank will be able to push its own lending products and increase its portion in the bank's lending portfolio to more than 40%, thereby improving its NIM ratio and lowering credit costs (3-4%) once they can increase their NPL coverage ratio to more than 200%. Key risks: 1) slower than expected customer base growth, 2) poor technology adoption, and 3) regulatory problems.

### Forecast and Valuation (at closing price IDR 2160 per share)

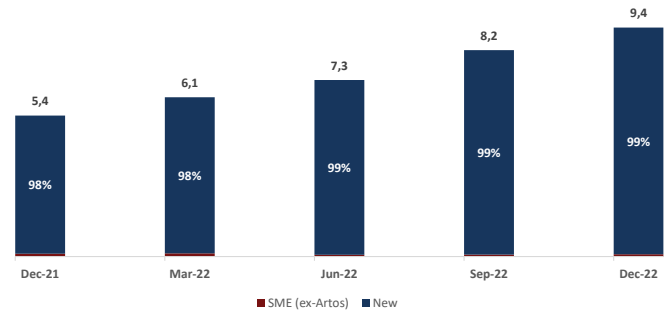
| Y/E Dec (IDR Bn)              | 19A     | 20A     | 21A     | 22A     | 23F     |
|-------------------------------|---------|---------|---------|---------|---------|
| Net Interest Income (IDR Bn)  | 12      | 65      | 590     | 1,353   | 1,603   |
| Pre Provision Profit (IDR Bn) | (37)    | (148)   | 103     | 405     | 517     |
| Operating Profit (IDR Bn)     | (92)    | (186)   | 11      | 13      | 167     |
| Net Profit (IDR Bn)           | (122)   | (190)   | 86      | 16      | 139     |
| EPS (IDR)                     | (101)   | (17)    | 6       | 1.15    | 10      |
| EPS Growth (%)                | n.a.    | n.a.    | n.a.    | (82)    | 167     |
| P/E Ratio (x)                 | (100.9) | (584.1) | 1,643.0 | 1,880.8 | 1,019.4 |
| BVPS (IDR)                    | 565     | 114     | 595     | 596     | 611     |
| P/BV Ratio (x)                | 18.1    | 89.9    | 17.1    | 3.6     | 16.7    |
| DPS (IDR)                     | n.a.    | n.a.    | n.a.    | n.a.    | n.a.    |
| Dividend Yield (%)            | n.a.    | n.a.    | n.a.    | n.a.    | n.a.    |

**Figure 1. Growing deposits with good CASA ratio (IDR, tn)**



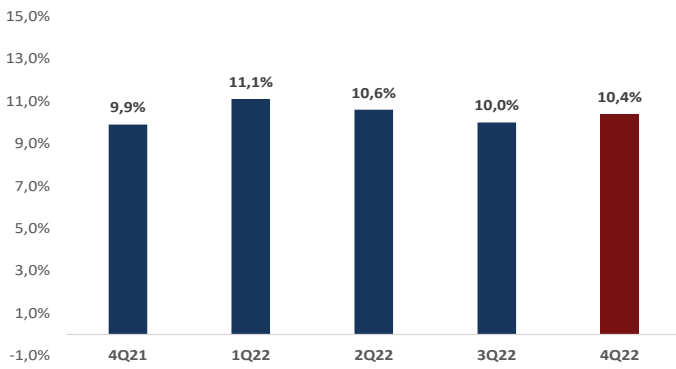
Source: Company, SSI research

**Figure 2. ARTO's lending balances**



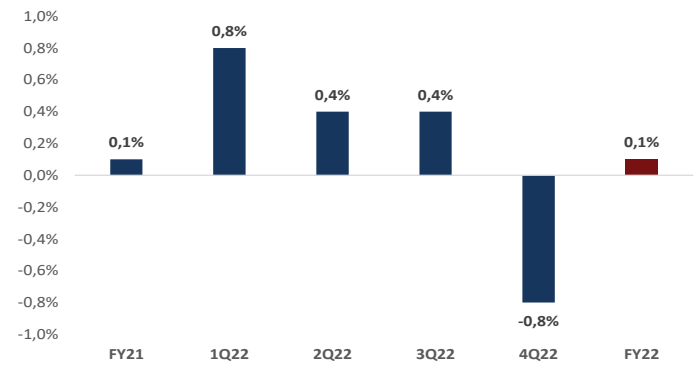
Source: Company, SSI research

**Figure 3. ARTO's NIM**



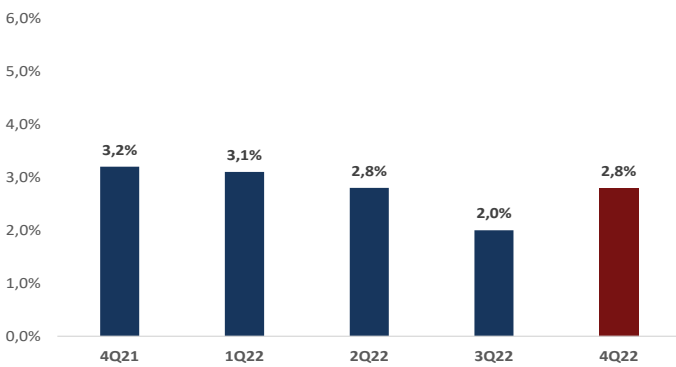
Source: Company, SSI research

**Figure 4. ARTO's ROA**



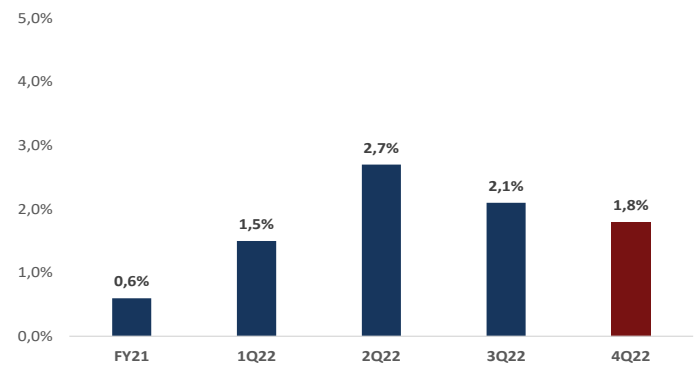
Source: Company, SSI research

**Figure 5. ARTO's CoF**



Source: Company, SSI research

**Figure 6. ARTO's NPL**



Source: Company, SSI research

Figure 9. ARTO's 4Q22 results

| <b>ARTO IJ 4Q22 Result<br/>(IDRbn)</b> | <b>4Q21</b> | <b>3Q22</b> | <b>4Q22</b> | <b>QoQ<br/>(%)</b> | <b>YoY<br/>(%)</b> | <b>12M21</b> | <b>12M22</b> | <b>YoY<br/>(%)</b> | <b>12M22/<br/>2022F</b> | <b>12M22/<br/>Cons.</b> |
|--|-------------|-------------|-------------|--------------------|--------------------|--------------|--------------|--------------------|-------------------------|-------------------------|
| Interest Income                        | 297         | 379         | 416         | 9.6                | 40.0               | 652          | 1,500        | 130.0              |                         |                         |
| Interest expense                       | 25          | 37          | 47          | 27.1               | 88.4               | 63           | 147          | 135.3              |                         |                         |
| <b>Net interest income</b>             | <b>272</b>  | <b>343</b>  | <b>369</b>  | <b>7.7</b>         | <b>35.6</b>        | <b>590</b>   | <b>1,353</b> | <b>129.4</b>       |                         |                         |
| Non-interest income                    | 26          | 36          | 24          | (32.6)             | (8.1)              | 56           | 78           | 40.1               |                         |                         |
| <b>Total operating income</b>          | <b>298</b>  | <b>378</b>  | <b>393</b>  | <b>3.9</b>         | <b>31.8</b>        | <b>645</b>   | <b>1,431</b> | <b>121.7</b>       | <b>105.8</b>            | <b>97.1</b>             |
| Operating expense                      | 206         | 268         | 302         | 12.7               | 46.2               | 543          | 1,026        | 89.0               |                         |                         |
| Impairment of fin. assets              | 51          | 98          | 127         | 29.8               | 151.0              | 92           | 393          | 325.2              |                         |                         |
| <b>Operating profit</b>                | <b>41</b>   | <b>13</b>   | <b>(36)</b> | <b>n.a.</b>        | <b>n.a.</b>        | <b>11</b>    | <b>13</b>    | <b>21.1</b>        |                         |                         |
| Pretax profit                          | 42          | 15          | (32)        | n.a.               | n.a.               | 9            | 20           | 123.6              |                         |                         |
| <b>Net profit</b>                      | <b>119</b>  | <b>12</b>   | <b>(25)</b> | <b>n.a.</b>        | <b>n.a.</b>        | <b>86</b>    | <b>16</b>    | <b>(81.5)</b>      | <b>30.7</b>             | <b>30.9</b>             |
| <b>BS &amp; ratios analysis</b>        | <b>4Q21</b> | <b>3Q22</b> | <b>4Q22</b> | <b>QoQ (%)</b>     | <b>YoY (%)</b>     | <b>12M21</b> | <b>12M22</b> |                    |                         |                         |
| Gross loans (IDRbn)                    | 5,369       | 8,156       | 9,428       | 15.6               | 75.6               | 5,369        | 9,428        |                    |                         |                         |
| Third party funding (IDRbn)            | 3,678       | 7,285       | 8,276       | 13.6               | 125.1              | 3,678        | 8,276        |                    |                         |                         |
| <b>Key ratios</b>                      |             |             |             |                    |                    |              |              |                    |                         |                         |
| Net interest margin (%)                | 7.4         | 10.5        | 10.5        |                    |                    | 7.4          | 10.5         |                    |                         |                         |
| Cost efficiency (%)                    | 69.1        | 70.7        | 76.7        |                    |                    | 84.1         | 71.7         |                    |                         |                         |
| Cost to income (%)                     | 87.2        | 96.9        | 108.1       |                    |                    | 98.5         | 99.2         |                    |                         |                         |
| Loan/deposit (%)                       | 146.0       | 112.0       | 113.9       |                    |                    | 146.0        | 113.9        |                    |                         |                         |
| Loan/funding (%)                       | 132.1       | 112.0       | 113.9       |                    |                    | 132.1        | 113.9        |                    |                         |                         |
| Capital adequacy (%)                   | 169.9       | 97.5        | 82.8        |                    |                    | 169.9        | 82.8         |                    |                         |                         |
| Gross NPL (%)                          | 0.58        | 2.10        | 1.82        |                    |                    | 0.6          | 1.8          |                    |                         |                         |
| LLP/NPL (%)                            | 408.5       | 124.9       | 157.7       |                    |                    | 408.5        | 157.7        |                    |                         |                         |
| ROAE (%)                               | 10.0        | 0.6         | (1.2)       |                    |                    | 1.8          | 0.2          |                    |                         |                         |

Source: Company, Bloomberg, SSI Research

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