PT Bank Amar Indonesia Tbk (AMAR)

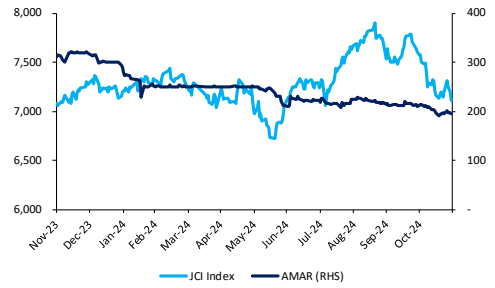
Initiating Coverage | **Wednesday, December 4, 2024**

Unlocking Opportunities through digital technology for underserved communities through accessible loan solutions

Overweight

Current Price (IDR) (3/12)	194
Target price (IDR)	**288**
Upside/Downside (%)	48.5%
52 Week High (IDR)	332
52 Week Low (IDR)	185
Major Share holders:	
Tolaram Pte., Ltd.	70.95%
Investree Singapore Pte., Ltd.	12.22%
Public and Others	16.83%

Stock Price Movement



Source: Bloomberg, Shinhan Sekuritas Indonesia

Being in a growing industry is a supporting factor for Amar bank's future growth. The growth of digital banks in Indonesia will still be prospective considering the overall demographic and economic conditions which are quite large. Demographically, the potential for digital growth in banks is driven by the composition of the young generation (youthful population) with a high level of smartphone penetration. High smartphone penetration is a prerequisite for achieving growth in bank digital penetration in Indonesia. Consumers will look for more convenience in transactions than traditional transactions, efficiency in financial solutions and ease of use features. There opportunities will be formed. Even though Bank Amar is not a digital bank, it has penetration in Indonesia in collecting and distributing funds using digital channels. Being in a growing industry is a supporting factor for Amar bank's future growth.

Strong loan growth. The loan performance has improved as shown in the loan disbursement in 2024 that increased by 26.4% to IDR13.4tn yoy in 9M vs IDR 10.6tn. This was come from "Tunaiku" as the platform app of Bank Amar. The loan outstanding has also increased by 14.9% to IDR2.84tn. Most of the loan or 66% of the loan was attributed to the micro, retail and small medium enterprise while the rest is attributed to the corporate segment. The penetration to the underserve segment through the digital financial service is believed as the value proposition that differentiate it from its competitor in conventional bank.

Well capitalized to support the growth. Amid the growing loan disbursement, the company is supported by the capital that posted at above 100%. The strong capital buffer and the allowance for provisioning shows its commitment to manage the risk and to protect the capital amid the penetration through the digital channel to tap the underserve bank segment with unsecured loan characteristic.

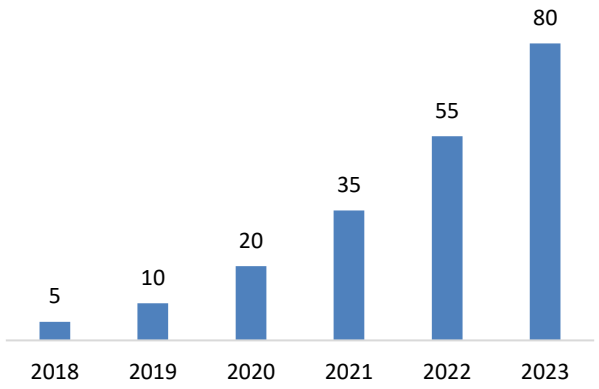
Valuation. We use the residual income approach to calculate the fair value of the company by assuming several parameters such as WACC at 10%, cost of equity at 9.4% and terminal growth at 3%. This implying the fair value at Rp288 or 48% upside from the current level. This also reflecting the 2024 and 2025 PE at 22x and 19x or the implied PBV of 2024 and 2025 at 1.3x and 1.2 respectively. The PE level is below its peers that traded at 34x with the median ROE of the peers at 2,17% compare to the company's ROE at 5%. Risk to our call: Deterioration of the asset quality more than expected, the shock in the interest rate, and the shock in the economic environment that move to the unfavorable condition.

Helmi Therik, FRM
+622180869900
helmi@shinhan.com

Business sector Outlook

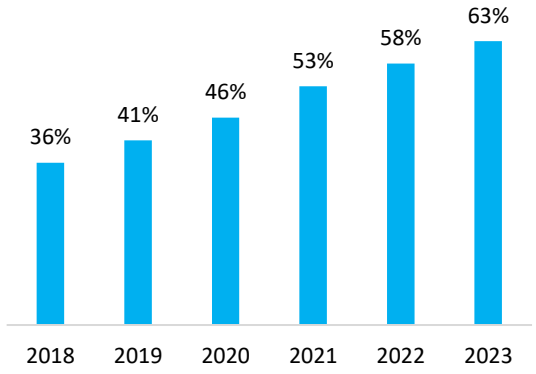
Growth and the opportunity in digital bank. The growth of digital banks in Indonesia will still be prospective considering the overall demographic and economic conditions which are quite large. Demographically, the potential for digital growth in banks is driven by the composition of the young generation (youthful population) with a high level of smartphone penetration. High smartphone penetration is a prerequisite for achieving growth in bank digital penetration in Indonesia. Consumers will look for more convenience in transactions than traditional transactions, efficiency in financial solutions and ease of use features. There opportunities will be formed. Even though Bank Amar is not a digital bank, it has penetration in Indonesia in collecting and distributing funds using digital channels. ***Being in a growing industry is a supporting factor for Amar bank's future growth.***

Indonesia *Digital Banking Users (Million)*



Source: various source, SSI

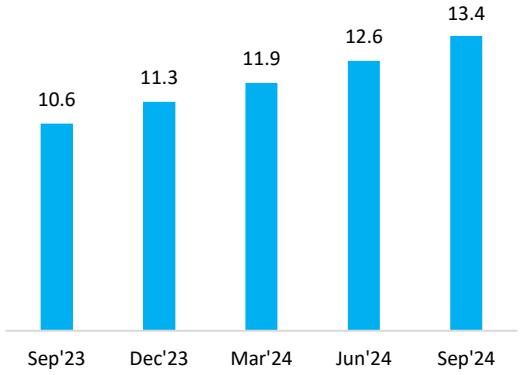
Indonesia Financial Inclusion (% of Adult Population



Source: various source, SSI

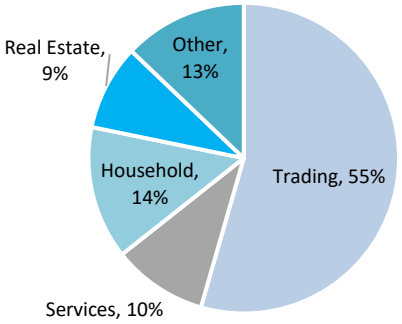
Financial literacy as the challenge for digital bank. Despite digital banking's rapid rise, financial literacy remains a challenge in Indonesia, particularly in rural areas. Many people are unfamiliar with digital financial services, which limits digital banks' reach. Educating customers about digital banking benefits and promoting financial inclusion will be crucial to expanding their user base across all demographics. Financial literacy remains a pressing issue, with many citizens unfamiliar with banking processes, account benefits, or how to manage personal finances. This lack of understanding reduces people's willingness to open bank accounts or engage with formal banking institutions, especially in rural communities where financial literacy programs are scarce. Low awareness about savings, loans, or financial products further deepens the gap, leaving people hesitant to engage with formal banks. Without comprehensive education initiatives, traditional banking services continue to struggle to reach a broader audience, and this gap also limits the potential for digital banking expansion.

Loan outstanding (in tn IDR)



Source: Company, SSI

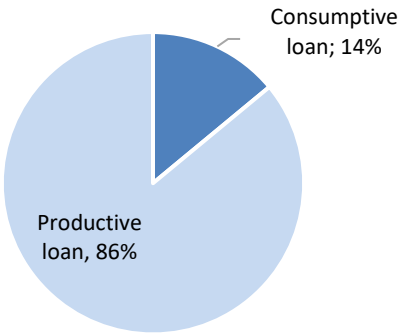
Loan composition by sector



Source: Company, SSI

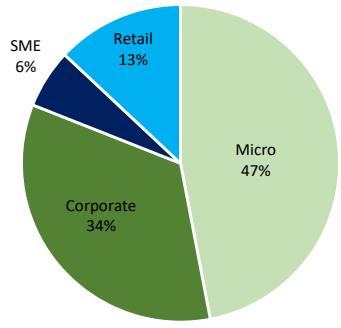
Strong loan growth. The loan performance has improved as shown in the loan disbursement in 2024 that increased by 26.4% to IDR13.4tn yoy in 9M vs IDR 10.6tn. This was come from "Tunaiku" as the platform app of Bank Amar. The loan outstanding has also increased by 14.9% to IDR2.84tn. Most of the loan or 66% of the loan was attributed to the micro, retail and small medium enterprise while the rest is attributed to the corporate segment. The penetration to the underserve segment through the digital financial service is believed as the value proposition that differentiate it from its competitor in conventional bank. In term of loan usage, about 86% of the loan was used for productive activity such as for the working capital while 14% was used for consumption. **The underserve segment with unsecured loan type is expected provide the enough room for the company to accelerate and tap the market through its easiness and seamless processing through its digital platform.** The better risk data dashboard will enable the company to find the opportunity in its loan disbursement with selective approach while adhere the acceptable risk tolerance. The unsecured and underserve bank is the unique segment that differentiate Bank Amar from its peers.

86% of the loan is used for productive purpose



Source: Company g, SSI

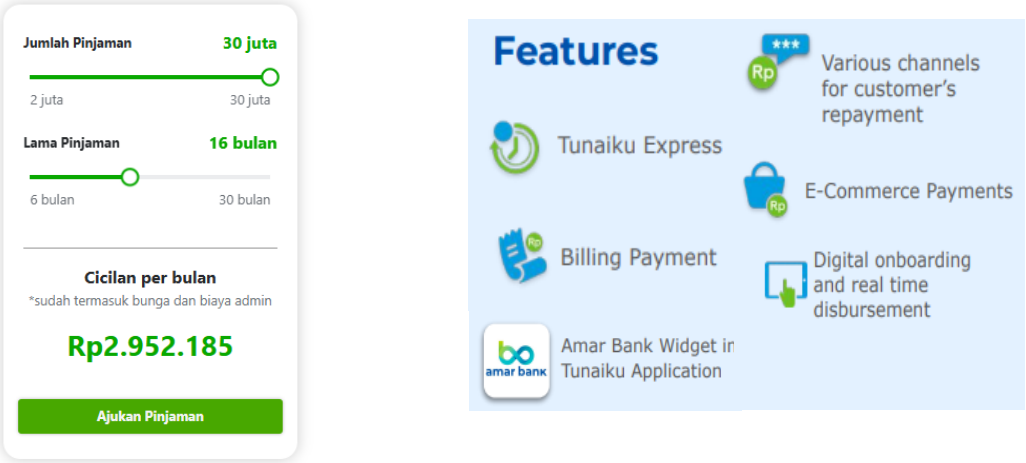
Micro loan, small medium enterprise and retail as the backboned of the loan



Source: Company, SSI

Bank Amar start to penetrate the market by scaling the asset gradually while at the mean time learning and updating its risk data dashboard to tap the unbanked people in Indonesia through the digital technology. The risk behavior is collecting and at the same time calibration is also updated. By doing so the bank manages the NPL at 0.92% in Sep 2024.

"Tunaiku" as digital landing product that offered unsecured loan with only national digital identity as the prerequisite document

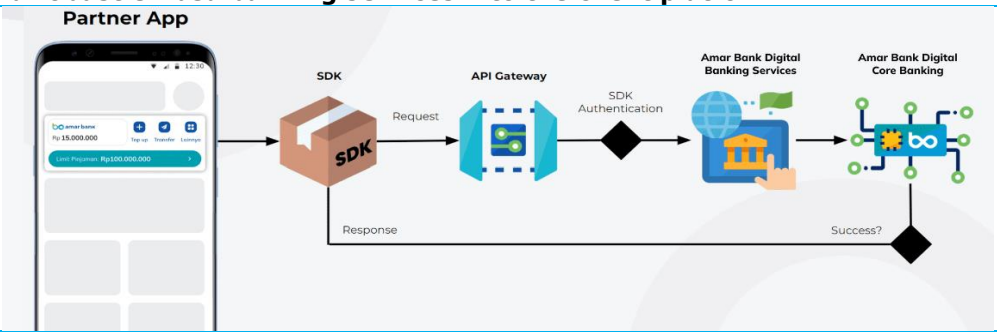


Source: Company

Enhance a robust embed banking services into the client platform to boost the customer loyalty and also a strategy to penetrate the market in digital ecosystem. The quick integration into the client platform is offering easy access to account openings, savings, transfers, payments, and loans. This strategy is also the way to retain the customer saving and also will contribute to the higher loan possibility based on transaction and measurable risk profile to enhance the quality of the risk data. **Several platforms that have embed the bank Amar banking services is: Sahara, Tokban, Koltiva, dan Cashlez**.

Bank Amar can effectively compete with the superapps of larger banks by focusing on niche markets and delivering personalized, customer-centric services. By leveraging advanced data analytics, Bank Amar can tailor its offerings to meet the specific needs of its customers, providing a more customized banking experience compared to generalized superapps. Additionally, investing in user-friendly mobile and online banking platforms that simplify transactions and enhance usability can attract tech-savvy consumers. The bank should also prioritize customer service excellence, offering responsive support through multiple channels, including chatbots and live representatives, ensuring that clients feel valued and supported. Collaborating with fintech companies to integrate innovative features such as budgeting tools, investment advice, and seamless payment solutions can further enhance its competitive edge.

Enhance a robust embed banking services into the client platform



Source: Company

The technology that could support the transaction especially with the innovation in the embed is a supporting factor to increase the growth of saving account. The deposit has increased by 3.8% to IDR858bn. Most of the loan is sourced from the equity that at IDR3.3tn. **The organic growth of saving and time deposit is expected will improve along with the loan penetration and the adoption of the apps by the customer to facilitate its transaction needs**. The innovation of the payment transaction through its mobile banking thus is crucial to retain the saving deposit such as billing payment, "Tunaiku Express", E-commcers payment, digital payment onboard.

Innovative digital product to serve the transaction



Source: Company, SSI

Customize saving feature

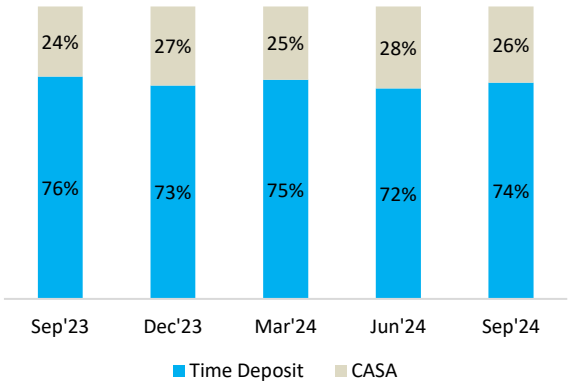


Source: Company

Competitive interest rate and innovative digital solution as marketing strategy to outreach the third party fund. By offering competitive interest rates on savings accounts (around 6%) and fixed deposits, coupled with innovative digital banking solutions, the bank can appeal to tech-savvy clients who prefer convenient online services. Furthermore, launching targeted promotions and loyalty programs can incentivize existing customers to deposit more funds. Additionally, establishing partnerships with local businesses and institutions can foster community trust and encourage referrals, leading to an increase in deposits from a broader customer base. Engaging in financial literacy campaigns can also educate potential clients on the benefits of saving and investing with Bank Amar, further driving third-party fund growth ahead.

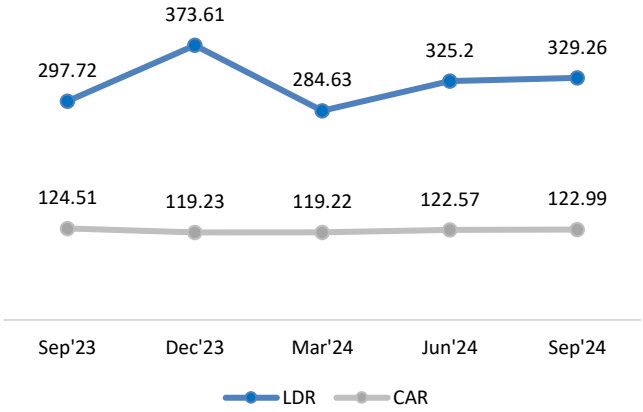
Time deposit as the dominant composition of third party fund. In the early stage of penetration, the third part fund is dominated by time deposit with the composition is more than 70%. The low cost of fund or current account saving account (CASA) ratio is 26%, which implying the higher cost of fund. Along with the loan, we expect that the third party fund will improve. Despite the loan is coming from the equity rather than from deposit as shown in the LDR 1t 329%, the company has anticipated in the beginning by strengthening its capital as seen in the capital adequacy ratio that 122.99% which describe the strong capitalized amid the aggressive loan growth. This was above the regulated CAR at 8%.

More than 70% is time deposit in third party fund



Source: Company, SSI

Strong capital despite with high loan to deposit ratio

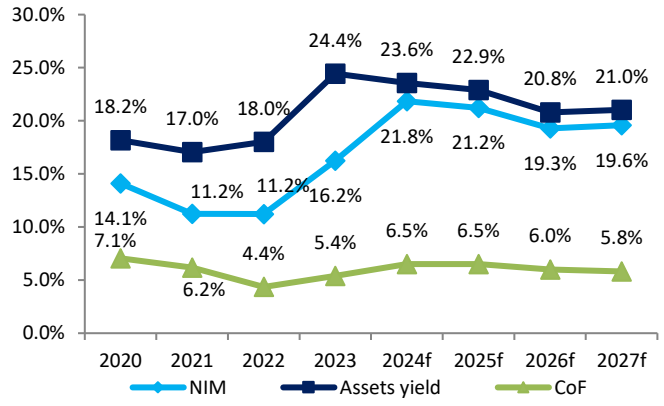


Source: Bloomberg, SSI

Strong NIM at 23% and high profitability margin. Despite the time deposit dominates the saving (higher cost of fund), the company ability to posted higher net increase income (NIM) is strong as reflected in its NIM at 23% or much higher than conventional bank at the range of 5% to 7%. This was due to its nature of loan type that was unsecured loan which rely on the technology and to assess the risk profile rather than collateralize based loan. To get the loan approval the company only used the national identity to serve the underserved segment. The higher NIM as the result of the higher loan yield was set to compensate the risk along with its machine learning to calibrate the parameter and also to find the best fit for measurable and prudent loan approval.

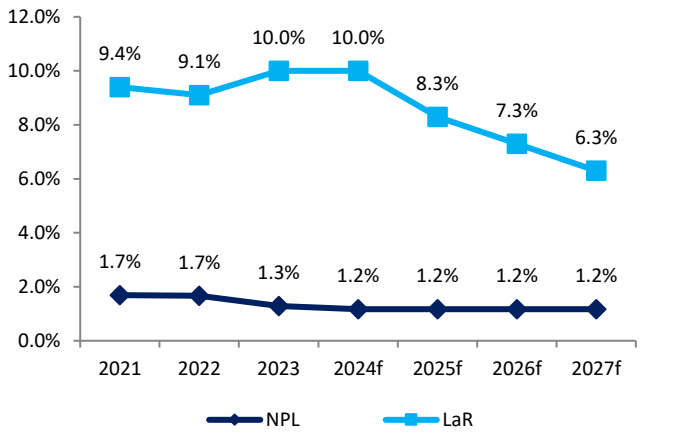
Manageable loan risk. Despite the company is targeting the unsecured and underserve bank, the asset quality was well manage as shown in its low NPL at 0.92% in Sep 24 or lower than the previous year 1.56%. The ability to manage the loan yield prudently was also reflected in the loan at risk that was at 10%. The selective loan targeting and recalibration of the loan risk parameter is a key to post the high loan yield with measurable loan risk ahead. The NPL is projected would be at around 1% while the company has more than sufficient provisioning coverage above 100% to protect the asset from the deterioration on its quality.

High net interest margin and asset yield



Source: Company, SSI

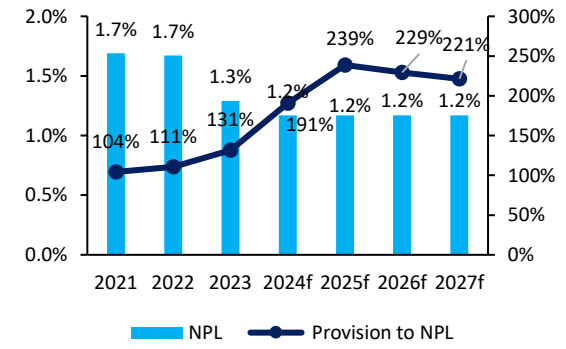
Loan at risk and manageable non-performing loan



Source: Bloomberg, SSI

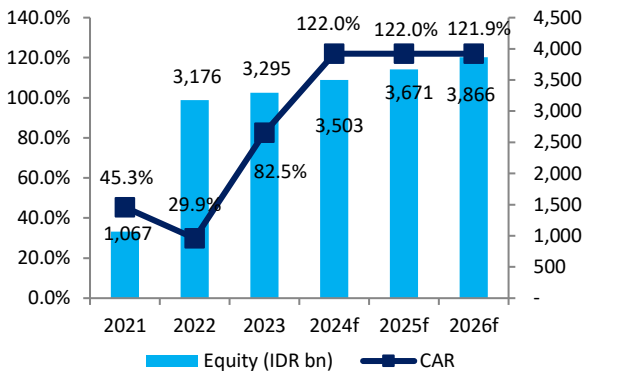
Well capitalized to support the growth. Amid the growing loan disbursement, the company is supported by the capital that posted at above 100%. The strong capital buffer and the allowance for provisioning shows its commitment to manage the risk and to protect the capital amid the penetration through the digital channel to tap the underserve bank segment with unsecured loan characteristic. Along with the loan growth the data calibration is estimated will improve and the company will be able to calculate the better risk profiling and risk recalibration. This will improve its loan pricing according to the risk behavior. The company believes in the technology to manage its operational cost efficiently. The penetration through the digital campaign as the tools to improves its business rather than building costly physical evidence in that was a costly investment.

Manageable NPL and strong coverage



Source: Company, SSI

Strong capital despite with high loan to deposit ratio



Source: Bloomberg, SSI

Valuation

We use the residual income approach to calculate the fair value of the company by assuming several parameters such as WACC at 10%, cost of equity at 9.4% and terminal growth at 3%. This implying the fair value at Rp288 or 48% upside from the current level. This also reflecting the 2024 and 2025 PE at 22x and 19x or the implied PBV of 2024 and 2025 at 1.3x and 1.2 respectively. The PE level is below its peers that traded at 34x with the median ROE of the peers at 2,17% compare to the company's ROE at 5%. **Risk to our call**: Deterioration of the asset quality more than expected, the shock in the interest rate, and the shock in the economic environment that move to the unfavorable condition.

Assumption	
Cost of equity	10%
Terminal growth	3%
WACC	9%

Output	**2023f**	**2024f**	**2025f**	**2026f**	**2027f**	**2028f**	**2029f**	**2030f**
Net Income	182	211	243	311	421	507	605	702
Book value (t-1)	3.295	3.503	3.671	3.866	4.115	4.452	4.858	5.342
Cost of Equity	330	350	367	387	411	445	486	534
Residual Income	(148)	(140)	(124)	(76)	10	62	119	168
PV of Residual Income	(148)	(128)	(104)	(58)	7	40	70	91
Terminal value of Residual Income								1.401

NPV	4.674
# of Shares	16
Equity Value	**288**

Balance Sheet

Year-end 31 Dec (Rp bn)	2023	2024f	2025f	2026f	2027f
Cash	73	94	79	91	150
Interbanking Assets	1.161	803	940	1.046	1.157
Short-Term & LT. Investments	587	803	940	1.046	1.157
Loan - gross	2.666	3.066	3.373	3.878	4.460
Allowance for Losses	321	536	738	816	905
Net Loans	2.345	2.656	2.674	2.792	3.026
Net Fixed Assets	16	18	-7	-50	-127
Other Assets	198	204	196	215	218
Total Assets	**4.379**	**4.579**	**4.823**	**5.140**	**5.581**
Customer Deposits	709	730	752	775	798
ST Borrowings & Repos	203	111	74	45	28
Long-Term Borrowings	25	25	25	25	25
Other Liabilities	147	210	301	430	615
Total Liabilities	**1.084**	**1.076**	**1.151**	**1.274**	**1.466**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Shareholders' Equity	**3.295**	**3.503**	**3.671**	**3.866**	**4.115**
Total Liabilities & Equity	**4.379**	**4.579**	**4.823**	**5.140**	**5.581**

Source: Company, Shinhan Sekuritas Indonesia

Income Statement

Year-end 31 Dec (Rp bn)	2023	2024f	2025f	2026f	2027f
Interest Income	987	965	983	998	1.147
Interest Expense	65	70	72	73	80
Net Interest Income	**921**	**895**	**910**	**926**	**1.067**
Other Operating Income	274	80	83	85	88
Net Revenue	**1.196**	**975**	**993**	**1.011**	**1.155**
Provision for loan loases	**513**	**245**	**270**	**310**	**357**
Net Revenue after provision	**682**	**730**	**723**	**700**	**798**
Non interest expense	884	537	483	428	485
Operating Income	**-202**	**193**	**240**	**272**	**313**
Net Non-Operating Losses (Gains)	**422**	**44**	**35**	**45**	**92**
Income before tax	**220**	**237**	**275**	**317**	**405**
Tax	42	55	64	74	95
Net Income	**178**	**182**	**211**	**243**	**311**

Source: Company, Shinhan Sekuritas Indonesia

Key Ratio

Year-end 31 Dec (%)	2023	2024f	2025f	2026f	2027f
Growth					
Assets	5%	5%	7%	9%	11%
Loans	15%	10%	15%	15%	15%
Customer Deposits	3%	3%	3%	3%	3%
Net Interest Income	36%	2%	2%	15%	15%
PPOP	14%	12%	15%	21%	20%
Net Income	-217%	16%	15%	28%	35%
Profitabilty					
Asset Yield	24%	24%	23%	21%	21%
Cost of Fund	5%	7%	7%	6%	6%
Net Interest Margin	16%	22%	21%	19%	20%
ROAA	4%	4%	4%	5%	5%
ROAE	5%	5%	6%	6%	7%
Operational Efficiency Ratio (OER)	85%	77%	74%	71%	68%
CIR	41%	50%	45%	38%	35%
Liquidity					
LDR	420%	448%	501%	559%	624%
CASA Ratio	27%	27%	27%	27%	27%
Capital					
CAR-Bank Only	122%	122%	122%	120%	117%
Assets Quality					
NPL	2,7%	1,0%	0,9%	0,6%	-0,7%
Coverage Ratio	185%	493%	567%	876%	-715%

Source: Company, Shinhan Sekuritas Indonesia

Dupont (as % of average assets)	2023	2024f	2025f	2026f	2027f
Net Interest Income	21%	20%	19%	19%	20%
Net Revenue	27%	22%	21%	20%	22%
Net Revenue after provision	15%	16%	15%	14%	15%
Operating Income	-5%	4%	5%	5%	6%
Net Income	4%	4%	4%	5%	6%
ROAA	4%	4%	4%	5%	5%
multiplier	1	1	1	1	1
ROAE	5%	5%	6%	6%	7%

Source: Company, Shinhan Sekuritas Indonesia

SHINHAN
SEKURITAS INDONESIA

Research Team		
Helmi Therik,FRM	Head of Research	helmi@shinhan.com
Billy Ibrahim Djaya	Research Analyst	billy.ibrahim@shinhan.com
Anissa Septiwijaya	Research Analyst	anissa.septiwijaya@shinhan.com
Muhammad Adra Wijasena	Fixed Income Analyst	adra.wijasena@shinhan.com

Office

PT Shinhan Sekuritas Indonesia
Member of Indonesia Stock Exchange

Head Office:
International Finance Center 2 Floor.30
Jl. Jendral Sudirman Kav.22-23
Karet
Jakarta12920 Indonesia
Telp.:(+62-21)80869900
Fax:(+62-21)22057925

Disclaimer : All opinions and estimates included in this report constitute our judgments as of the date of this report and are subject to changes without notice. This information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. Clients should consider whether it is suitable for their particular circumstances before acting on any opinions and recommendations in this report. This report is distributed to our clients only, and any unauthorized use, duplication, or redistribution of this report is prohibited.