

BANKING/COMPANY UPDATE

BUY

Target Price, IDR 13,150

Upside 17.1%

BBRIJ/BBRIJK

Last Price, IDR 11,225

No. of shares (mn) 24,422

Market Cap, IDR bn 274,137

(US\$ mn) 22,234

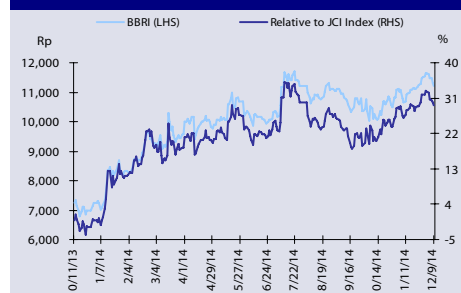
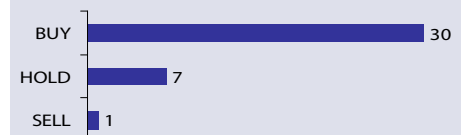
3M T/O, US\$mn 26.3

Last Recommendation

27-Aug-14 BUY IDR 13,150

20-Mar-14 BUY IDR 10,300

17-Feb-14 BUY IDR 10,300

BBRI relative to JCI Index**Market Recommendation****Danareksa vs Consensus**

	Our	Cons	% Diff
Target price, IDR	13,150	12,463	5.5
EPS 2014F, IDR	967	971	-0.4
PBV 2014F, x	2.9	3.0	-3.3

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Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

Bank Rakyat Indonesia

Still in a good figure

We maintain our BUY call on BBRI with an unchanged Target Price of IDR13,150 implying PBV of 2.8-2.3x for 2015-16F, liking its well-managed deposits structure and resilient margins. Note that BBRI is still the market leader in deposits, taking a market share of 13.7% as of September 2014, supported by brisk 32.2% YoY growth in TD although deposits only grew by 19.9% YoY. This translated into a higher blended CoF of 3.9% in 9M14, yet still manageable, in our view, especially given its superior yield on earning assets at 12.6%. As such, the NIM could be maintained at an impressive 8.8% in 9M14 backed by the higher loans yield, particularly from the micro loans segment. In 3Q14 itself, according to our calculations, the micro loans provided a 24.1% yield. Going forward, we expect the NIM to be maintained at 8.6% in FY15-16F as micro loans will grow by 18.5% and 19.4% in 2015-16F. BUY maintained with this highly profitable bank remaining as our top pick in the sector.

Deposits structure still in good shape

Amidst challenging macroeconomic conditions, BBRI has been the market leader in deposits, taking a market share of 13.7%, followed in second place by BMRI with a 13.5% market share. BBRI's impressive achievement owes to high TD growth of 32.2% YoY in September 2014 while deposits only grew 19.9% YoY. As a result, the proportion of TD to customer deposits climbed to 47.0% as of September 2014 from 42.6% as of September 2013. In turn, this translated into a higher blended CoF of 3.9% in 9M14 compared to 3.0% in 9M13, yet still manageable, in our view, given BBRI's superlative margins thanks to a loans portfolio dominated by the micro segment.

Resilient margins

As the deposits structure remains manageable despite a higher blended CoF of 3.9%, margins have held up pretty well. The Net Interest Margin (NIM) could be maintained at an impressive 8.8% in 9M14 supported by a higher loan yield (in 9M14, the loan yield expanded to 14.8% from 9M13's 13.3%). Going forward, we expect the NIM to be maintained at 8.6% in FY15-16F as micro loans will grow by 18.5% and 19.4% in 2015-16F, underpinned by micro lending to traders in traditional wet markets, which is notable for its resiliency in a challenging environment.

Maintain BUY, TP of IDR13,150

Further encouraged by the in-line 9M14 results, we maintain our positive stance on BBRI, particularly liking its manageable deposits structure and resilient margins. Furthermore, BBRI also offers the highest RoAE within the industry at 24.9% for 2015F. Derived from the DBV model with a 16.3% cost of equity and 6.0% terminal growth rate, our Target Price is unchanged at IDR13,150, implying PBV 2015-16F of 2.8-2.3x. BUY maintained with this highly profitable bank remaining as our top pick in the sector.

	2012	2013	2014F	2015F	2016F
Net interest income, IDR bn	36,484	43,980	50,238	56,953	65,285
PPOP, IDR bn	25,382	29,948	33,729	38,346	43,972
PBT, IDR bn	23,860	27,784	30,393	34,568	39,000
Net income, IDR bn	18,681	21,218	23,859	26,617	30,030
EPS, IDR	757	860	967	1,079	1,217
EPS growth, %	23.9	13.6	12.4	11.6	12.8
Dividend yield, %	2.0	2.3	2.2	2.4	2.2
ROAE, %	32.6	29.5	27.1	24.9	23.3
PBV, x	4.3	3.5	2.9	2.4	2.0
PER, x	14.8	13.1	11.6	10.4	9.2
BVPS, IDR	2,627	3,209	3,934	4,744	5,717

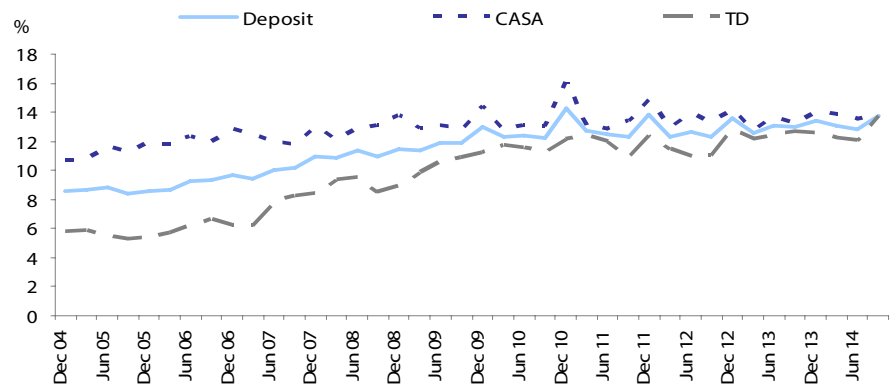
Deposits structure still in good shape

Amidst challenging macroeconomic conditions, BBRI has been the market leader in deposits, taking a market share of 13.7%, followed in second place by BMRI with a 13.5% market share. BBRI’s impressive achievement owes to high TD growth of 32.2% YoY in September 2014 while deposits only grew 19.9% YoY. This gave the bank higher market share in TD of 13.8% as of September 2014 while for CASA its market share was relatively stable at 13.7% (as can be seen in exhibit 1). It is worth noting that back in December 2010 and 2011, the bank’s market share of deposits shot up since idle state budget funds were placed at BBRI, both in current accounts and TD.

As a result, the proportion of TD to customer deposits climbed to 47.0% as of September 2014 from 42.6% as of September 2013. In turn, this translated into a higher blended CoF of 3.9% in 9M14 compared to 3.0% in 9M13, yet still manageable, in our view, given BBRI’s superlative margins thanks to a loans portfolio dominated by the micro segment.

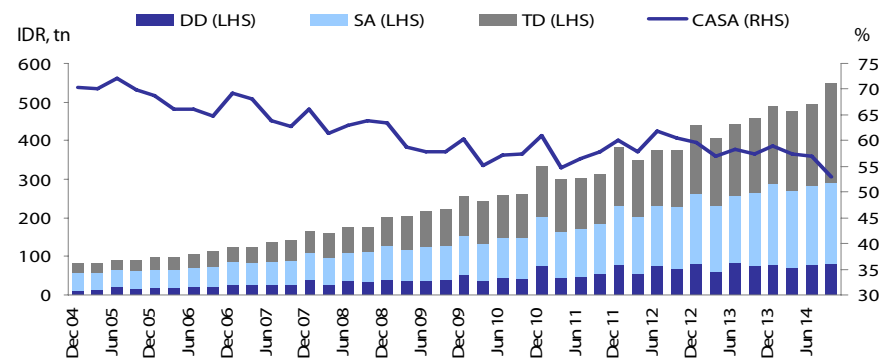
Furthermore, we believe that the bank’s recent increase in its deposits market share was supported by its policy to offer a higher published TD rate for three month tenors at 7.75% compared to the TD rates offered by the other two SoE banks. Please remember that in the May-July 2014 period, when liquidity was relatively tight (LDR of 90.3-92.2%), the other big banks offered lower TD rates than BBRI did (except BBKA with a 9.0% maximum TD rate for three month tenors). In spite of that, given the recent Financial Authority Services’ appeal on the maximum TD rate at 9.75%, we believe that this policy will fully impact the bank’s blended CoF in 2Q15 at the soonest.

Exhibit 1. Deposits market share leader thanks to the high growth in TD



Source: Bank Indonesia, Company, Danareksa Sekuritas

Exhibit 3. Well-managed deposits structure



Source: Company, Danareksa Sekuritas

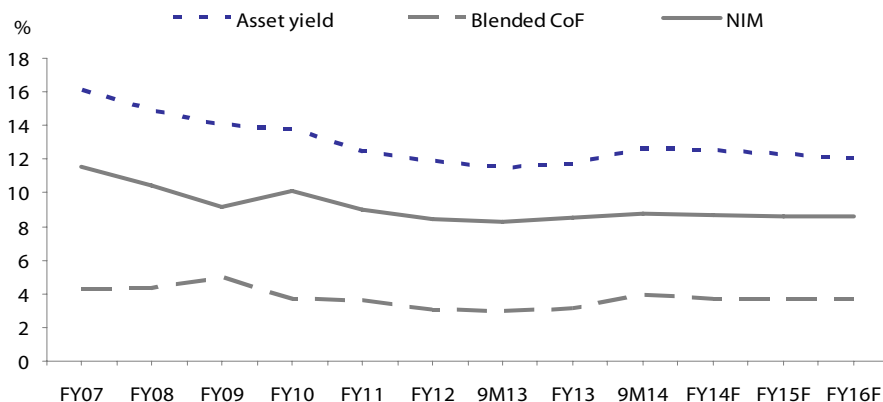
Resilient margins

As the deposits structure remains manageable despite a higher blended CoF of 3.9%, margins have held up pretty well. The Net Interest Margin (NIM) could be maintained at an impressive 8.8% in 9M14 supported by a higher loan yield (in 9M14, the loan yield expanded to 14.8% from 9M13's 13.3%). Moreover, while loans grew by 12.5% YoY overall, micro loans grew a brisker 15.9% YoY, explaining much of the higher loans yield, we believe.

According to our calculations, the yield on micro loans improved on a quarterly basis. In 3Q14, the yield on micro loans rose to 24.1% from 2Q14's 22.7% as around 35K net borrowers migrated from KUR to regular micro loans in 3Q14. In addition, with an average ticket size of only IDR20.9 mn (equivalent to US\$1,713) and supported by the bank's knowledgeable personnel, micro loans can buffer BBRI's loans yield and margins as well as provide a lower capital weighting at 75% compared to 100% for corporate loans.

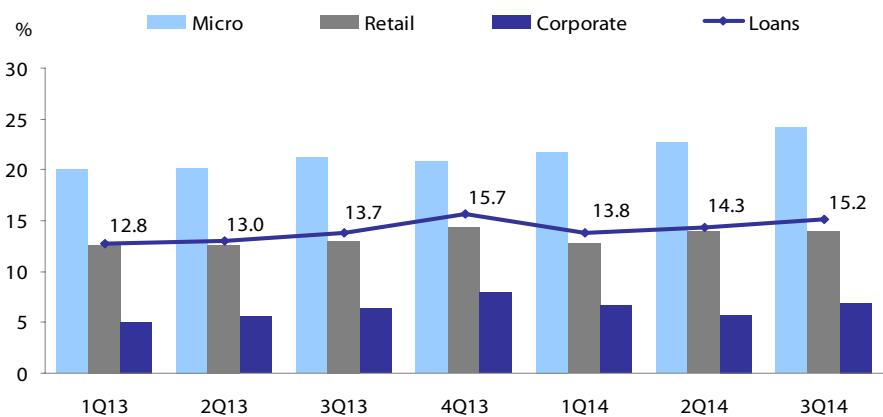
As such, going forward, we expect the NIM to be maintained at 8.6% in FY15-16F as micro loans will grow by 18.5% and 19.4% in 2015-16F, underpinned by micro lending to traders in traditional wet markets, which is notable for its resiliency in a challenging environment.

Exhibit 3. Margins are still at superior levels



Source: Company, Danareksa Sekuritas

Exhibit 4. Yield in each loans segment

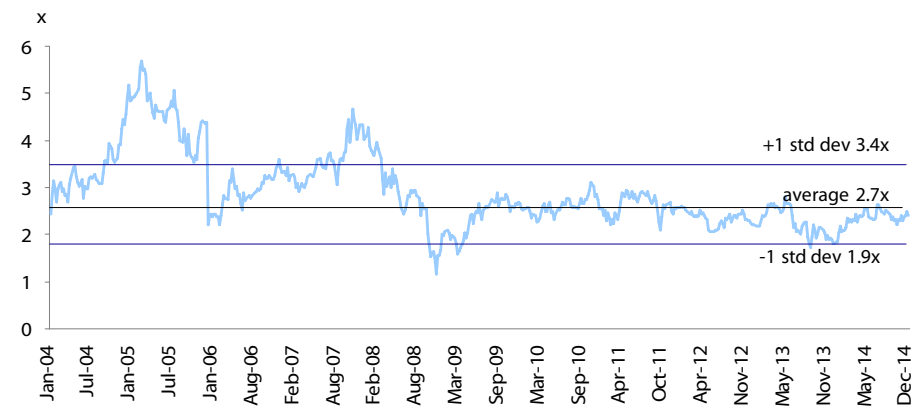


Source: Bloomberg, Danareksa Sekuritas

Maintain BUY, TP of IDR13,150

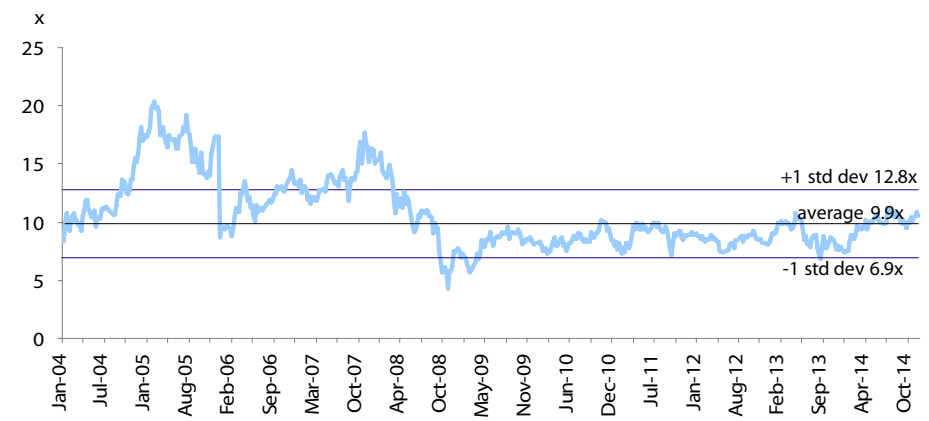
Further encouraged by the in-line 9M14 results, we maintain our positive stance on BBRI, particularly liking its manageable deposits structure and resilient margins. Furthermore, BBRI also offers the highest RoAE within the industry at 24.9% for 2015F. Derived from the DBV model with a 16.3% cost of equity and 6.0% terminal growth rate, our Target Price is unchanged at IDR13,150, implying PBV 2015-16F of 2.8-2.3x. BUY maintained with this highly profitable bank remaining as our top pick in the sector.

Exhibit 5. Current rolling PBV still below the average



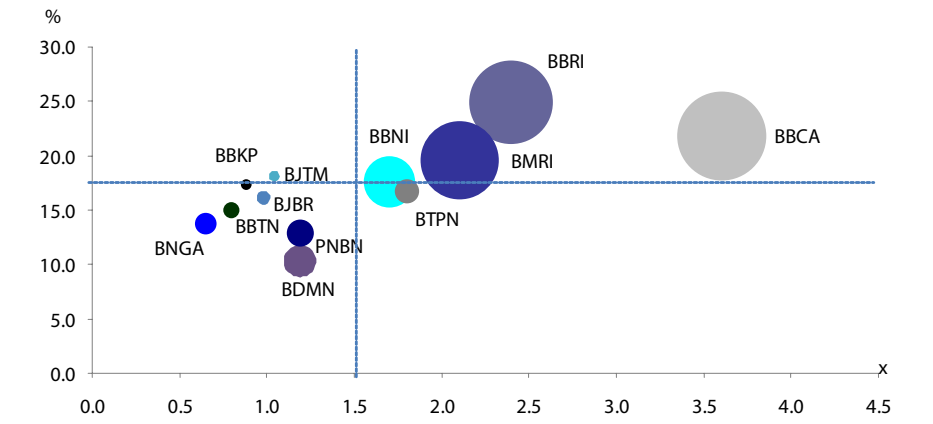
Source: Bloomberg, Danareksa Sekuritas

Exhibit 6. Current rolling PE still below its average



Source: Bloomberg, Danareksa Sekuritas

Exhibit 7. PBV/ROE matrix



Source: Bloomberg, Danareksa Sekuritas

Exhibit 8. Balance sheet (IDR bn)

	2012	2013	2014F	2015F	2016F
Cash	13,895	19,172	20,612	21,328	22,766
Placement BI and banks	113,609	86,460	96,137	108,948	118,354
Marketable securities	41,137	42,674	45,954	48,979	49,958
Government bond	4,316	4,511	4,314	3,814	3,314
Gross loan - net	336,081	419,145	490,198	578,801	688,690
Fixed assets - net	2,804	3,973	4,595	5,122	5,611
Others	39,494	50,248	40,380	45,121	48,353
Total assets	551,337	626,183	702,189	812,111	937,046
Demand deposit	79,403	78,666	86,700	102,247	118,313
Saving deposit	182,482	210,235	235,326	273,905	316,943
Time deposit	188,281	201,586	241,077	272,776	315,637
Deposit from customers	450,166	490,487	563,103	648,929	750,893
Deposit from other banks	2,779	3,691	3,700	3,442	3,563
Securities issued	0	3,680	4,875	4,875	4,875
Borrowings	10,889	0	6,310	5,265	4,377
Other liabilities	20,504	39,913	26,864	32,283	31,976
Subordinated loan	2,117	9,085	99	99	99
Loan capital	0	1	2	2	2
Total liabilities	486,455	546,856	604,953	694,894	795,785
Equity	64,807	79,164	97,058	117,021	141,045
Earning assets	463,629	525,854	601,857	700,048	815,409
Interest bearing liabilities	470,862	512,008	584,060	669,408	771,720

Source: Company, Danareksa Sekuritas

Exhibit 9. Profit and loss (IDR bn)

	2012	2013	2014F	2015F	2016F
Interest income	49,610	59,361	70,480	79,676	91,423
Interest expense	13,127	15,380	20,242	22,723	26,138
Net interest income	36,484	43,980	50,238	56,953	65,285
% yoy growth	6%	21%	14%	13%	15%
Fee based income	3,930	4,862	5,801	6,753	7,843
Other opr. inc.	4,460	3,486	3,273	3,559	3,787
Non interest income	8,390	8,348	9,074	10,312	11,630
Total operating income	44,873	52,329	59,312	67,265	76,915
% yoy growth	12%	17%	13%	13%	14%
G&A exp.	6,344	7,519	8,673	9,912	11,455
Personnel exp.	9,606	12,232	13,850	15,551	17,604
Other opr. exp.	3,542	2,630	3,060	3,457	3,885
Total operating expense	19,491	22,381	25,583	28,919	32,943
% yoy growth	14%	15%	14%	13%	14%
Pre-provisioning profit	25,382	29,948	33,729	38,346	43,972
Provision	2,700	3,947	4,688	5,171	6,413
Operating profit	22,683	26,001	29,041	33,175	37,559
% yoy growth	29%	15%	12%	14%	13%
Other inc./exp.	1,177	1,782	1,352	1,393	1,441
Profit before tax	23,860	27,784	30,393	34,568	39,000
% yoy growth	27%	16%	9%	14%	13%
Tax	5,172	6,556	6,535	7,951	8,970
Minority interest	1	2	3	3	3
Net profit	18,687	21,228	23,859	26,617	30,030
% yoy growth	24%	14%	12%	12%	13%
No of share, mn	24,669	24,669	24,669	24,669	24,669
EPS	757	860	967	1,079	1,217

Source: Company, Danareksa Sekuritas

Exhibit 10. Selected ratios (%)

	2012	2013	2014F	2015F	2016F
NIM	8.4	8.9	8.7	8.6	8.6
Fee based/total income	8.8	9.3	9.8	10.0	10.2
BOPO	60.9	61.6	63.5	63.1	63.6
CIR	43.4	42.8	43.1	43.0	42.8
ROAE	32.6	29.5	27.1	24.9	23.3
ROAA	3.7	3.6	3.6	3.5	3.4
CAR	16.9	16.6	16.3	16.0	16.2
Tier 1 CAR	13.4	13.6	15.0	14.7	14.9
Avg yield on earning assets	11.5	12.0	12.5	12.2	12.1
Loans/earning assets	74.9	82.3	84.0	85.2	87.0
Earning assets/total asset	84.1	84.0	85.7	86.2	87.0
Loan growth	22.9	23.8	17.1	17.8	18.7
Avg cost of fund	3.0	3.1	3.7	3.6	3.6
Deposit/int bearing liab.	93.3	95.8	96.4	96.9	97.3
Deposit growth	14.3	11.7	14.8	15.2	15.7
Int bearing liab./total asset	85.4	81.8	83.2	82.4	82.4
NPL - gross	1.8	1.6	1.7	1.6	1.5
Coverage	239.6	222.4	217.1	211.9	210.5
LDR	79.9	88.5	90.3	92.3	94.7

Source: Company, Danareksa Sekuritas

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