

BANKING/COMPANY UPDATE

BUY

Target Price, IDR 6,750
Upside 12.9%

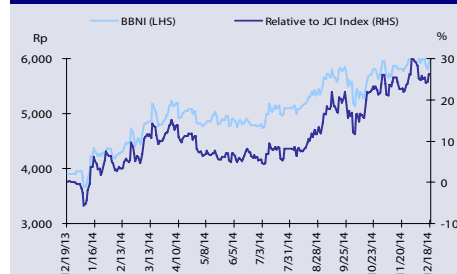
BBNIJ/BBNIIJK

Last Price, IDR 5,975
No. of shares (mn) 18,462

Market Cap, Rp bn 110,311
(US\$ mn) 8,783
3M T/O, US\$mn 12.8

Last Recommendation

05-Sep-14	BUY	IDR 6,300
25-Jul-14	BUY	IDR 5,400
09-May-14	BUY	IDR 5,400

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

	Our	Cons	% Diff
Target price, IDR	6,750	6,356	6.2
EPS 2014F, IDR	533	538	-0.9
PBV 2014F, x	2.0	2.0	0.0

Bank Negara Indonesia**Closing the gap**

Given the closer gap between BBNI and big banks, we believe that BBNI deserves a re-rating in its valuation. Furthermore, post 22.5% 3-year CAGR growth, loans already grew at a softer rate of 14.1% YoY in September 2014 with slower economic growth in 3Q14 at 5.01%. Thus, we project loans will grow at more sustainable figure of 15.1-15.2% in 2015-16F. Apart from that, going forward margin should slightly normalize. In 9M14, NIM stood at 6.1% despite higher blended CoF of 3.3%. Nonetheless, NIM will fall to 5.7% in FY15-16F due to stable blended CoF at 2.9%. We upgrade our target price to IDR6,750 derived from DBV model with lower discount at 25% from previously 30% as BBNI deserves a re-rating. This target price implies PBV 2.0-1.7x for 2015-16F. BUY maintained.

Normalized loans growth

Following 22.5% 3-year CAGR loans growth, BBNI has opted to slow its loans growth in the current macroeconomic landscape marked by tighter liquidity conditions. As a result, in September 2014, loans only grew 14.1% YoY. In addition, BI's LTV regulation led to much slower consumer loans growth of only 3.3% YoY, with mortgages still dominating (they accounted for 62.8% of the total consumer loans as of September 2014). All in all, we forecast loans growth of a more sustainable 15.1-15.2% in 2015-16F with manageable gross NPLs at 2.3% as of December 2015, then slightly down to 2.2% as of December 2016F.

Stable margin

Meanwhile, Net Interest Margin (NIM) also stable at 6.1% in 9M14 from 6.2% in 9M13 despite a higher blended CoF (up 90 bps to 3.3% in 9M14). This achievement was backed by the management's policy to cherry pick special TD rates for selected customers and re-price policy on its loan interest rate by around 50-75 bps in general. Nonetheless, we forecast NIM will slightly fall to 5.7% in FY15F and flat at that figure in FY16F as we believe that blended CoF will stay at 2.9% for FY15-16F due to flat BI rate outlook as well as fed rate increase in 2015.

BUY, TP of IDR6,750

With the normalized loans growth and stable margins as well as the appreciation on BBNI's stock (YtD up by 50.0%) we believe BBNI deserves a re-rating hence lower gap with big banks. Using the Deposit Base Valuation (DBV) model with a 13.7% cost of equity, 6.0% terminal growth rate and lower discount rate of 25% from previously 30%, we arrive at a new Target Price of IDR6,750. Our Target Price translates into PBV 2015-16F of 2.0-1.7x. Maintain BUY.



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

	2012	2013	2014F	2015F	2016F
Net interest income, IDR bn	15,459	19,058	20,959	22,960	25,821
PPOP, IDR bn	11,166	13,926	15,386	16,878	19,059
PBT, IDR bn	8,900	11,278	12,432	13,732	15,503
Net income, IDR bn	7,046	9,054	9,942	10,981	12,397
EPS, IDR	378	486	533	589	665
EPS growth, %	21	29	10	10	13
Dividend yield, %	1.9	2.4	2.2	2.5	2.2
ROE, %	17.4	19.9	19.4	18.6	18.2
PBV, x	2.6	2.3	2.0	1.8	1.5
PER, x	15.8	12.3	11.2	10.1	9.0
BVPS, IDR	2,331	2,552	2,952	3,394	3,926

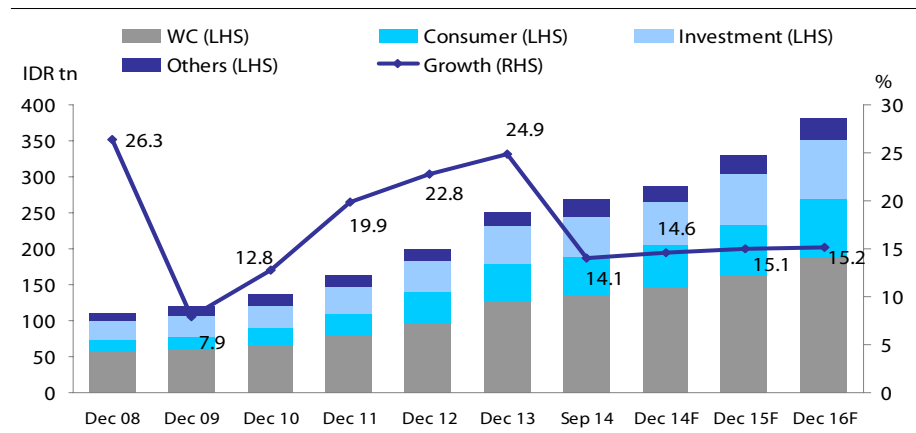
Normalized loans growth

Following 22.5% 3-year CAGR loans growth, BBNi has opted to slow its loans growth in the current macroeconomic landscape marked by tighter liquidity conditions. As a result, in September 2014, loans only grew 14.1% YoY. However, in January until September 2014 period shows higher total approval rate of 66.3% compared to the same period last year of 63.0%, concentrating in eight targeted sectors. Both figures can act as proxies for softer loans demand throughout 16 regions in Indonesia divided by BNI.

In addition, BI's LTV regulation led to much slower consumer loans growth of only 3.3% YoY, with mortgages still dominates the consumer loans portfolio (accounted for 62.8% of the total consumer loans as of September 2014). While the mortgage seems flat, credit card sub-segment shows higher contribution from only 10.5% as of September 2013 to 11.4% as of September 2014 supported by offering premium credit card brand to high net worth individuals.

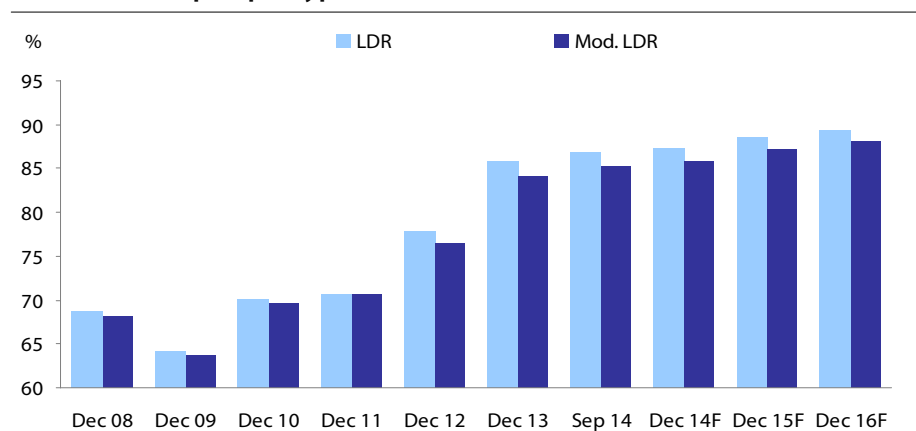
All in all, we forecast loans growth of a more sustainable 15.1-15.2% in 2015-16F with manageable gross NPL at 2.3% as of December 2015, then slightly down to 2.2% as of December 2016F. We believe these forecast figures are reasonable backed by ample liquidity position with modified LDR of 87.2% and 88.1% as of December 2015-16F.

Exhibit 1. Moderate loans growth



Source: Company, Danareksa Sekuritas

Exhibit 2. with ample liquidity position



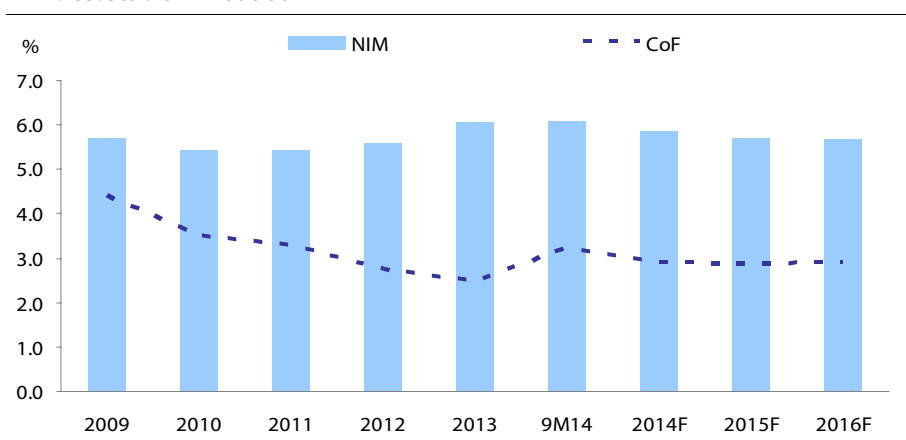
Source: Company, Danareksa Sekuritas

Stable Margin

Meanwhile, Net Interest Margin (NIM) stable at 6.1% in 9M14 despite a higher blended CoF (up 90 bps to 3.3% in 9M14). This achievement was backed by the management’s policy to cherry pick special TD rates for selected customers and re-price policy on its loan interest rate by around 50-75 bps in general. As of September 2014, the CASA proportion still can be managed at 62.0% of total customer deposits.

Nonetheless, we forecast NIM will slightly fall to 5.7% in FY15F and flat at that figure in FY16F as we believe that blended CoF will stay at 2.9% for FY15-16F due to the manageable deposits structure with moderate growth figure of 13.5% for 2015F also CASA proportion above 60.0% level.

Exhibit 3. Stable NIM outlook

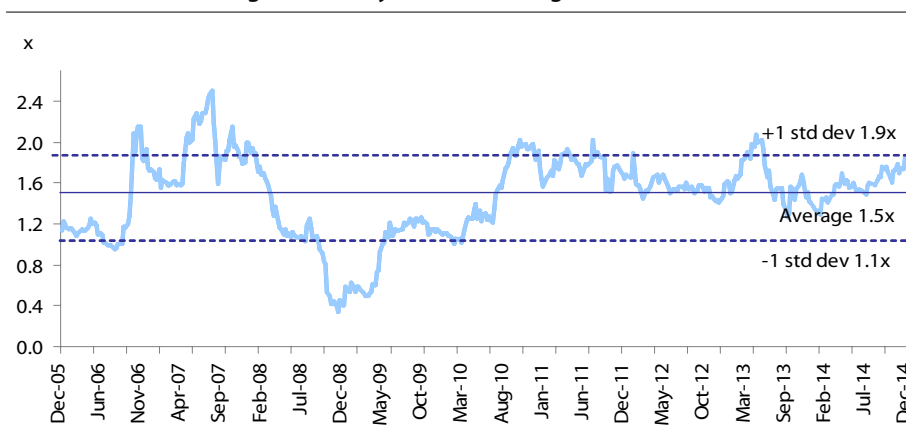


Source: Company, Danareksa Sekuritas

BUY, TP of IDR6,750

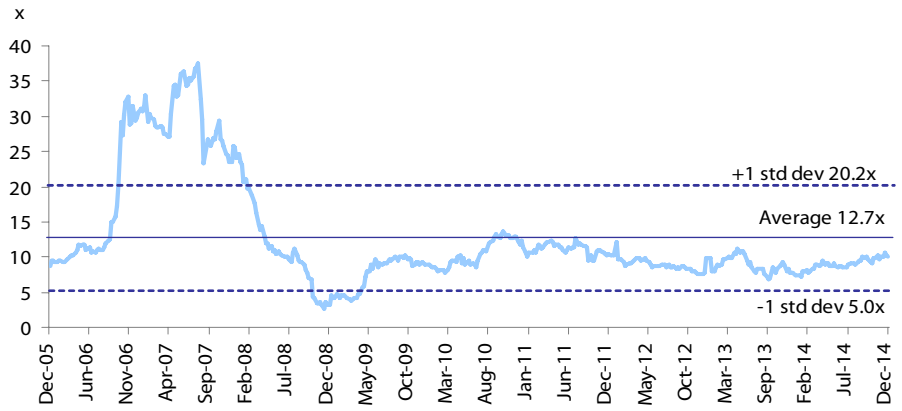
Given the normalized loans growth with stable margins as well as the appreciation on BBNI’s stock (YtD up by 50.0%) should indicated that the stock’s deserves a re-rating. Using the Deposit Base Valuation (DBV) model with a 13.7% cost of equity, 6.0% terminal growth rate and lower discount rate of 25% (previously 30%), we arrive at a new Target Price of IDR6,750. Our Target Price translates into PBV 2015-16F of 2.0-1.7x. BUY maintained.

Exhibit 4. Current rolling PBV already above its average



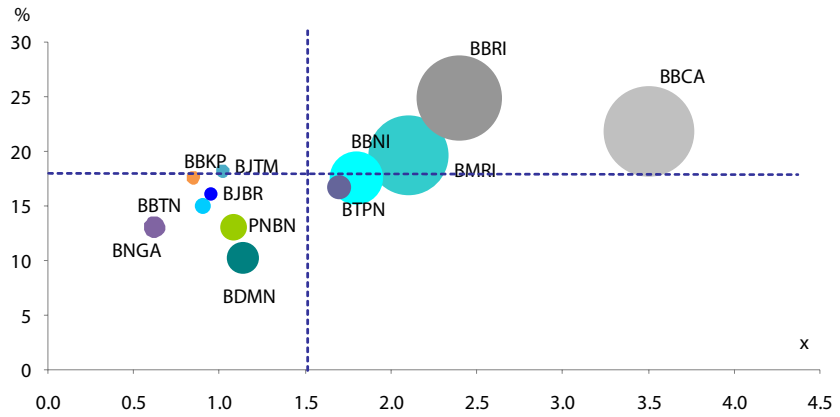
Source: Bloomberg, Danareksa Sekuritas

Exhibit 5. Current rolling PE at lower range



Source: Bloomberg, Danareksa Sekuritas

Exhibit 6. PBV/ROE matrix



Source: Bloomberg, Danareksa Sekuritas

Exhibit 7. Balance sheet (IDR bn)

	2012	2013	2014F	2015F	2016F
Cash	7,969	10,090	11,020	12,391	13,301
Placement BI and banks	60,880	50,705	55,579	59,081	66,784
Marketable securities	9,801	11,966	13,162	12,088	12,901
Government bond	38,561	41,432	43,545	46,710	50,093
Net loan	193,835	243,758	279,176	321,254	370,237
Fixed assets - net	4,592	5,514	5,481	5,389	5,251
Others	17,666	23,191	24,777	28,110	29,121
Total assets	333,304	386,655	432,740	485,023	547,687
Demand deposit	73,366	88,183	91,775	107,221	128,490
Saving deposit	100,083	111,800	115,788	134,934	159,128
Time deposit	84,212	91,907	121,425	131,186	138,799
Deposit from customers	257,661	291,890	328,988	373,342	426,417
Deposit from other banks	3,245	3,185	2,496	2,321	2,403
Securities issued	4,769	6,037	5,918	5,799	5,683
Borrowings	8,750	18,951	19,898	17,908	16,117
Other liabilities	15,354	18,909	20,297	22,269	23,759
Total liabilities	289,778	338,971	377,597	421,639	474,380
Minority	52	83	87	92	96
Equity	43,473	47,600	55,056	63,292	73,210
Earning assets	290,438	337,125	380,014	427,049	484,255
Interest bearing liabilities	277,150	321,822	359,771	402,046	453,517

Source: Company, Danareksa Sekuritas

Exhibit 8. Profit and loss (IDR bn)

	2012	2013	2014F	2015F	2016F
Interest income	22,705	26,451	30,798	33,827	38,215
Interest expense	7,246	7,392	9,839	10,867	12,394
Net interest income	15,459	19,058	20,959	22,960	25,821
% yoy growth	17	23	10	10	12
Fee based income	3,155	4,000	4,556	5,154	5,846
Other opr. inc.	5,290	5,441	5,793	6,281	7,144
Non interest income	8,446	9,441	10,349	11,435	12,990
Total operating income	23,905	28,499	31,308	34,396	38,811
% yoy growth	15	19	10	10	13
G&A exp.	3,921	4,540	5,194	5,714	6,464
Personnel exp.	5,578	6,084	6,820	7,417	8,243
Other opr. exp.	3,241	3,949	3,908	4,386	5,045
Total operating expense	12,739	14,573	15,922	17,518	19,752
% yoy growth	14	14	9	10	13
Pre-provisioning profit	11,166	13,926	15,386	16,878	19,059
Provision	2,525	2,708	3,150	3,334	3,712
Operating profit	8,641	11,219	12,235	13,543	15,347
% yoy growth	19	30	9	11	13
Other inc./exp.	259	59	197	189	156
Profit before tax	8,900	11,278	12,432	13,732	15,503
% yoy growth	19	27	10	10	13
Tax	1,851	2,220	2,486	2,746	3,101
Minority interest	2	4	4	4	5
Net profit	7,046	9,054	9,942	10,981	12,397
% yoy growth	21	29	10	10	13
No of share, mn	18,649	18,649	18,649	18,649	18,649
EPS	378	486	533	589	665

Source: Company, Danareksa Sekuritas

Exhibit 9. Selected ratios (%)

	2012	2013	2014F	2015F	2016F
NIM	5.6	6.1	5.8	5.7	5.7
Fee based/total income	13.2	14.0	14.6	15.0	15.1
BOPO	72.3	68.7	70.3	70.1	70.0
CIR	53.3	51.1	50.9	50.9	50.9
ROAE	17.4	19.9	19.4	18.6	18.2
ROAA	2.2	2.5	2.4	2.4	2.4
CAR	16.6	14.6	15.2	15.5	15.9
Avg yield on earning assets	8.2	8.4	8.6	8.4	8.4
Loans/earning assets	66.7	72.3	73.5	75.2	76.5
Earning assets/total asset	87.1	87.2	87.8	88.0	88.4
Loan growth	22.8	24.9	14.6	15.1	15.2
Avg cost of fund	2.8	2.5	2.9	2.9	2.9
Deposit/int bearing liab.	93.0	90.7	91.4	92.9	94.0
Deposit growth	11.4	13.3	12.7	13.5	14.2
Int bearing liab./total asset	83.2	83.2	83.1	82.9	82.8
NPL - gross	2.8	2.2	2.3	2.3	2.2
Coverage	122.5	126.9	122.2	124.2	127.3
LDR	77.9	85.9	87.3	88.5	89.3
Mod. LDR	76.5	84.1	85.8	87.2	88.1

Source: Company, Danareksa Sekuritas

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