

FLASH NOTES
Bank Central Asia: Cautious outlook but still comfortable (BBCA IJ. IDR17,325. BUY. TP IDR18,300)

- Bank Central Asia (BBCA) reported IDR4,990bn of net profits in 1Q17 (-8.9% qoq; +10.7% yoy). This figure is 22.0% of our FY17F estimate, inline. Although the results are within expectations, there are some surprises such as a sharp decline in assets yield, a higher cost efficiency ratio and an increase in NPLs. The decline in operational performance was offset by lower provisioning. Overall, the message from the management is that the bank will remain cautious.
- Key highlights from the 1Q17 results:
 - The decline in the assets yield was mainly driven by the corporate segment (-100bps yoy to 9.2% from 10.2% in 1Q16). However, the management also said that all corporate loans had been repriced at lower rates. Loans in other segments had also been repriced. For mortgages, the management foresees that further declines are highly likely due to the stiff competition in the market.
 - Operating expenses rose by 19.5% qoq mainly due to accrued bonuses that were paid in April 2017. Hence, the bank's cost efficiency ratio rose to 52.8% in March 2017 from 49.6% in 1Q16 (43.9% in FY17).
 - Loans declined 1.8% ytd as corporate loans and commercial & SME loans slid by 1.5% ytd and 4.7% ytd, respectively.
 - NPLs increased to 1.5% driven by increases in the corporate segment (+40bps) and the commercial & SME segment (+60 bps). The management said that the increase in NPLs in the corporate segment was caused by the deterioration of a transportation company loan that had been restructured last year. The management said that NPLs risk is still high.
- Despite higher NPLs and the decline in NIM, we are comfortable with the bank's outlook, noting its good assets quality and strong franchise in the deposits and consumer segments. The decline in NIM, in our view, reflects the stiff competition in the sector as the NIM of other banks - especially in the corporate segment – had also declined.
- Going forward, we believe that NPLs will decline due to the improvement in the macro economy. Despite this, however, NIM may be squeezed further on intensifying competition. We expect loans growth to accelerate in 3Q17 (after Lebaran) in all segments as government spending may also accelerate in this period.
- We maintain our BUY recommendation on the stock with a TP of IDR18,300, implying 3.5x FY17 PB, (ROE:18.8%; Ke: 12%; and g=9.3%). The bank deserves its premium valuation.

	1Q16	1Q17	YoY (%)	4Q16	1Q17	QoQ (%)	1Q17	FY17F	A/F
in IDR bn									
Net Interest Income	9,768	10,072	3.1	10,262	10,072	(1.9)	10,072	43,285	23.3
Non-Interest Income	2,226	2,379	6.9	2,524	2,379	(5.7)	2,379	14,781	16.1
Total Operating Income	12,827	13,504	5.3	14,110	13,504	(4.3)	13,504	58,067	23.3
Operating Expenses	(6,183)	(6,988)	13.0	(5,848)	(6,988)	19.5	(6,988)	(25,492)	27.4
Pre-Provision Operating Profit	6,644	6,516	(1.9)	8,262	6,516	(21.1)	6,516	32,574	20.0
Provisions and allowances	(989)	(248)	(74.9)	(1,423)	(248)	(82.6)	(248)	(4,277)	5.8
Operating Profit	5,655	6,268	10.8	6,839	6,268	(8.3)	6,268	28,298	22.2
Pre-Tax Profit (EBIT)	5,656	6,268	10.8	6,840	6,268	(8.4)	6,268	28,449	22.0
Reported Net Profit	4,508	4,990	10.7	5,479	4,990	(8.9)	4,990	22,682	22.0
Loan	373,732	408,693	9.4	415,896	408,693	(1.7)	408,693	472,092	86.57
Third Party Funds	470,391	535,145	13.8	530,134	535,145	0.9	535,145	578,058	92.58
In %									
NIM	7.6	6.3		7.1	6.3		6.3	7.2	
NPL-Gross	1.1	1.5		1.3	1.5		1.5	1.2	
NPL Coverage	235.1	203.3		229.4	203.3		203.3	275.0	
LDR	79.5	76.4		78.5	76.4		76.4	81.7	
ROE	19.3	17.10		20.5	17.1		17.1	18.8	

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