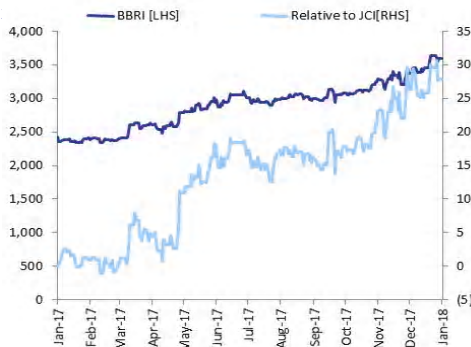


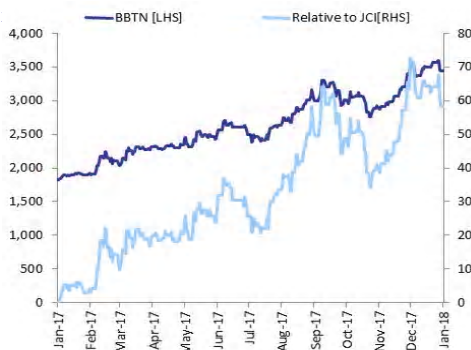
Tuesday, 09 January 2018

## OVERWEIGHT Maintain

### BBRI relative to JCI Index



### BBTN relative to JCI Index



Source : Bloomberg



**Eka Savitri**

(62-21) 2955 5888 ext 3506

eka.savitri@danareksa.co.id

## Banking

### Rise and Shine

The expectation of higher consumer spending in the pre-election year and substantial government-infrastructure projects are two key drivers for a pick-up in loans growth this year. In addition, we expect limited downside on assets quality considerations as most banks have already undertaken aggressive loans restructuring and conservatively employed a higher LLC ratio in the past two years. This will provide more room for lower credit costs in FY18F in our view. All in all, 13.5% loans growth and 174bps credit cost expectations for our banking universe should translate into 16% net profits growth and a decent ROAE of 16.1%. BBRI and BBTN are our top picks in the sector. **OVERWEIGHT.**

**Expect a pick-up in loans growth.** Given its proxy to economic health, the banking sector still faced some challenges in 2017 to push loans growth amid the rather modest GDP growth pace. This is reflected in the 11.5% yoy loans growth as of September 2017. However, we expect loans growth in 2018 to be higher at 13.5% in our banking universe, still mainly driven by lending for the development of government infrastructure projects. Consumer loans, meanwhile, should gain momentum – driven by mortgages in our view.

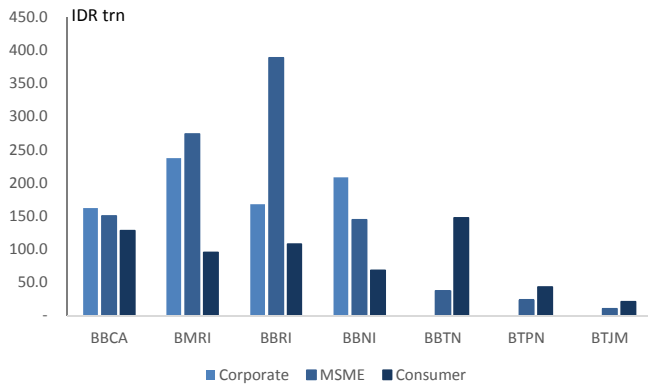
**Minimal downside risk on assets quality considerations.** After the lifting of the relaxation policy in August 2017 and stable commodity prices, we foresee no major downside risk on assets quality going forward. Credit costs already declined to 197bps in 9M17 with a higher LLC ratio of 151.4%. As such, we project 174bps credit costs for FY18F. Assuming a 2.4% gross NPLs ratio, the LLC ratio should stand at a modest level of 150.3% as of December 2018F.

**Stable NIM outlook.** The recent 50bps policy rate cuts should provide more room for banks to lower their TD rates. Lending rates should follow with a six months lag-time. In addition, the government's request for lower lending rates for several infrastructure projects also creates more pressure. As such, the NIM is expected to touch 6.5% with around a 12bps dip in the assets yield to 9.5% and 6bps reduction in the blended CoF in FY18F.

**OVERWEIGHT: BBRI and BBTN as our top picks.** We maintain our positive view on the sector given the expected acceleration in loans growth and less pressure on assets quality. Our top picks are: 1) BBRI given its resilient micro lending business - should translate into superior NIM - along with its potentially higher fee-income contribution, and 2) BBTN given its strong focus on mortgages - should translate into predictable credit costs and net profits.

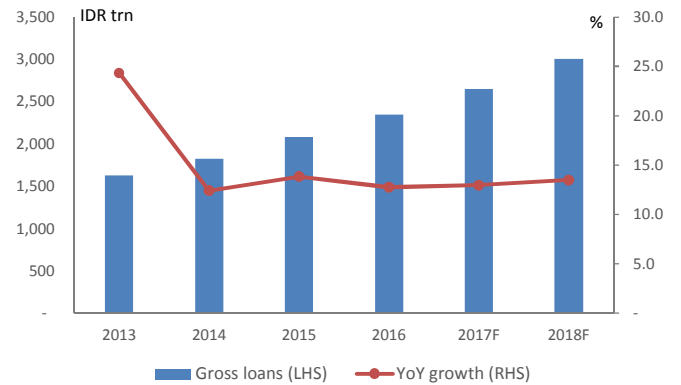
Company	Ticker	Rec	Target Price (IDR)	Market Cap. (IDRbn)	P/E (x)		P/BV (x)		ROE (%)
					2017F	2018F	2017F	2018F	2018F
BRI	BBRI IJ	BUY	3,900	442,811.5	16.1	14.0	2.7	2.4	18.2
BTN	BBTN IJ	BUY	4,000	36,218.1	11.6	10.0	1.7	1.5	15.8
BTPN	BTPN IJ	BUY	2,800	15,397.4	11.6	9.0	0.9	0.8	9.4
BPD Jatim	BJTM IJ	BUY	830	10,557.3	8.2	8.0	1.4	1.3	16.3
BNI	BBNI IJ	HOLD	8,500	173,432.5	13.2	11.6	1.8	1.6	14.6
Mandiri	BMRI IJ	HOLD	7,700	369,833.2	18.7	15.5	2.3	2.1	14.0
BCA	BBCA IJ	HOLD	21,000	557,516.3	23.2	20.3	4.1	3.5	18.8

**Exhibit 1. LOANS PORTFOLIO AS OF SEPTEMBER 2017**



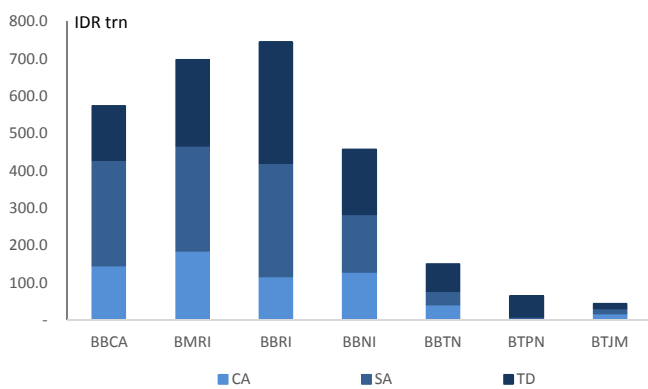
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. LOANS AND GROWTH**



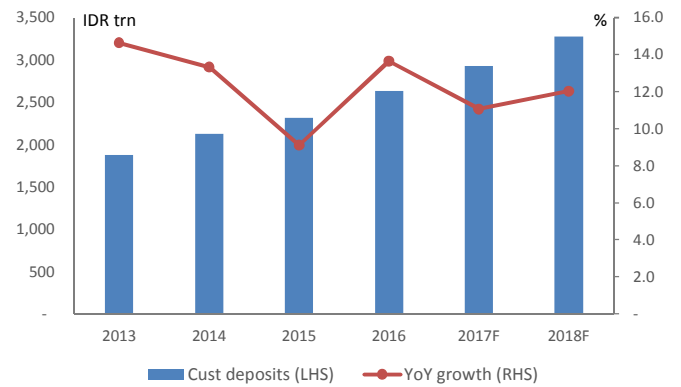
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. CUST. DEPOSITS BREAKDOWN AS OF SEPTEMBER 2017**



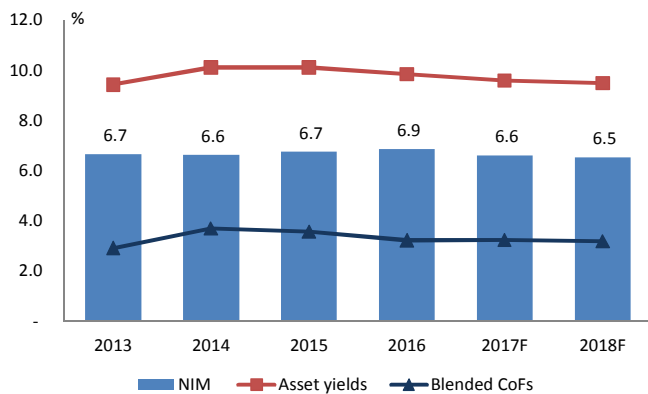
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. CUSTOMER DEPOSITS AND GROWTH**



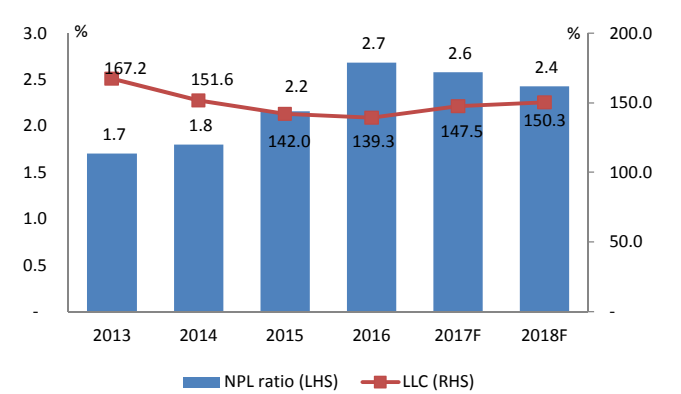
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. ASSET YIELDS, NIMS AND COFS**



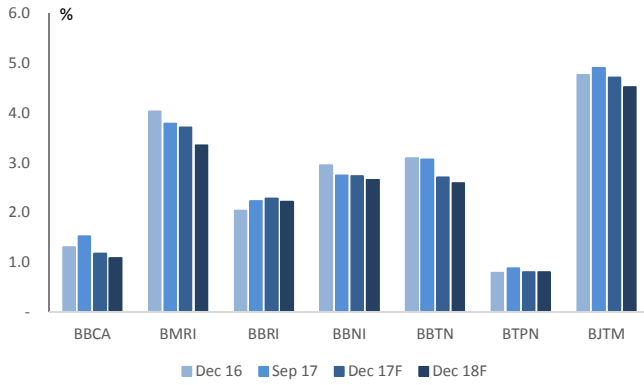
Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. NPLS AND LLC RATIO**



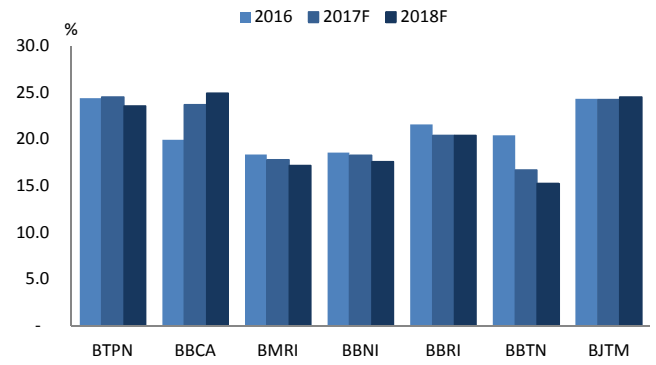
Source: Bloomberg, Danareksa Sekuritas estimates

**Exhibit 7. NPLS FOR OUR BANKING UNIVERSE**



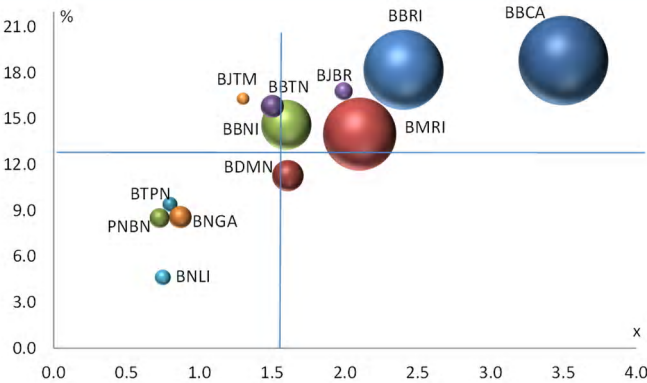
Source: Bloomberg, Company, Danareksa Sekuritas estimates

**Exhibit 8. CAPITAL ADEQUACY RATIO**



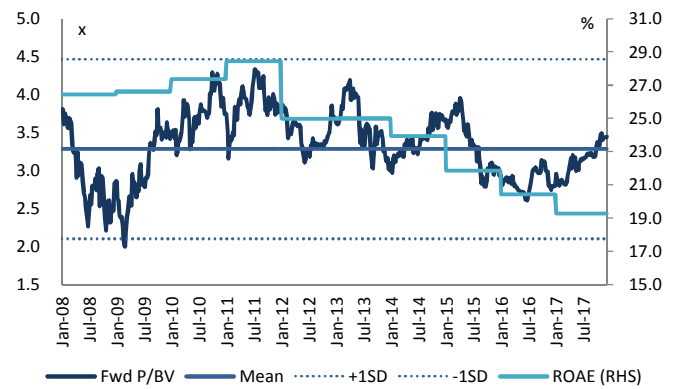
Source: Company, Danareksa Sekuritas estimates

**Exhibit 9. PBV ROAE MATRIX**



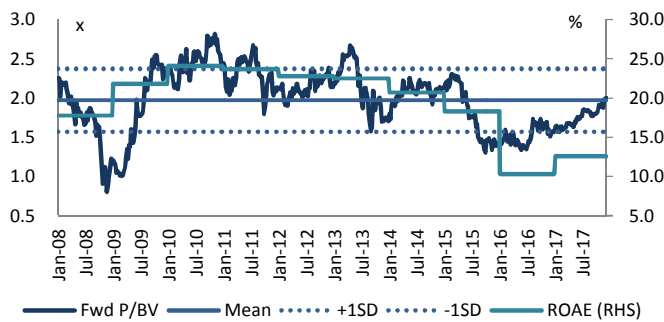
Source: Company, Danareksa Sekuritas estimates

**Exhibit 10. BBCA PBV ROAE**



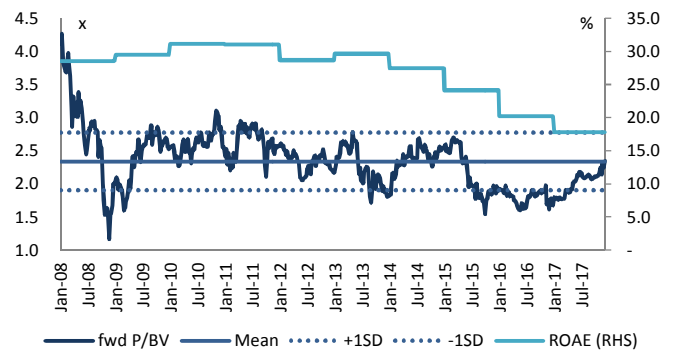
Source: Company, Danareksa Sekuritas estimates

**Exhibit 11. BMRI PBV ROAE**



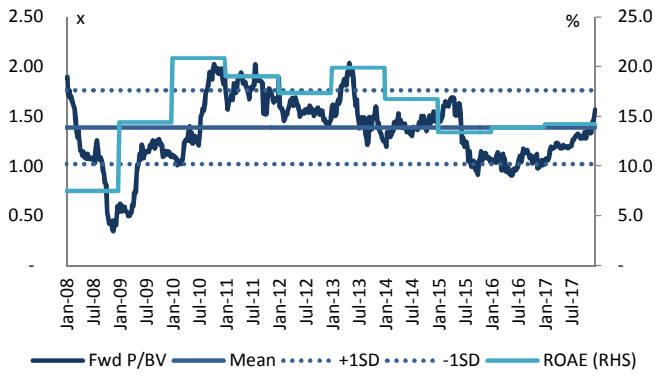
Source: Company, Danareksa Sekuritas estimates

**Exhibit 12. BBRI PBV ROAE**



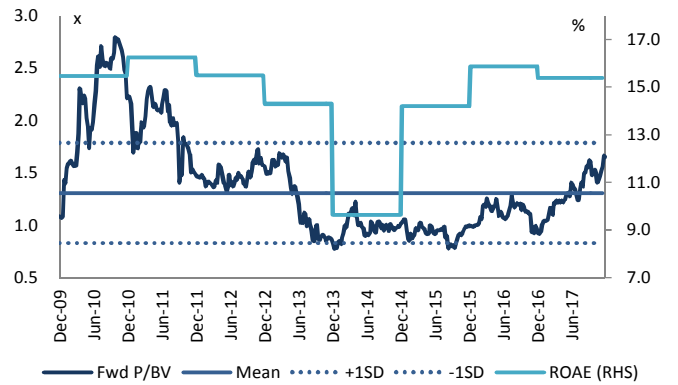
Source: Company, Danareksa Sekuritas estimates

**Exhibit 13. BBNI PBV ROAE**



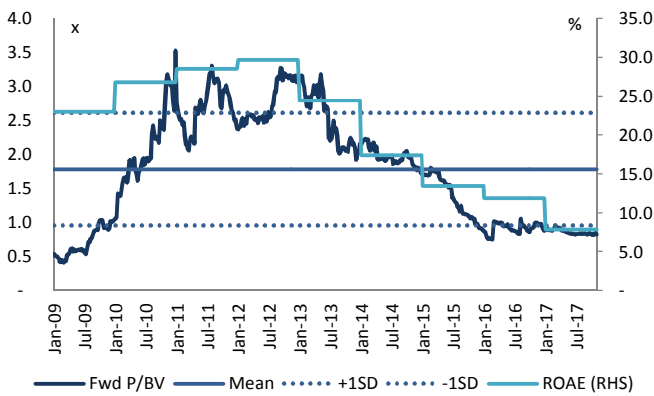
Source: Company, Danareksa Sekuritas estimates

**Exhibit 14. BBTN PBV ROAE**



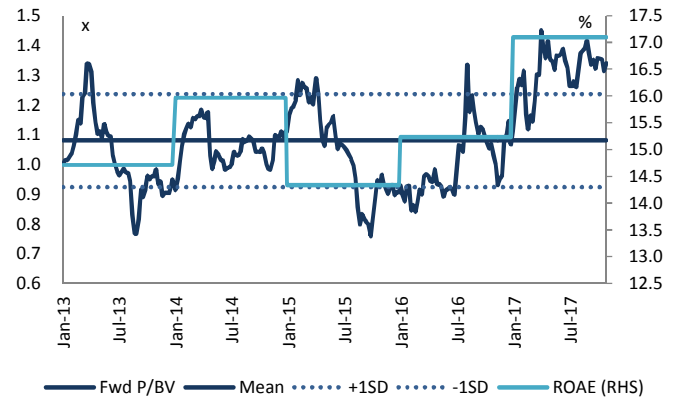
Source: Company, Danareksa Sekuritas estimates

**Exhibit 15. BTPN PBV ROAE**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 16. BJTM PBV ROAE**



Source: Company, Danareksa Sekuritas estimates

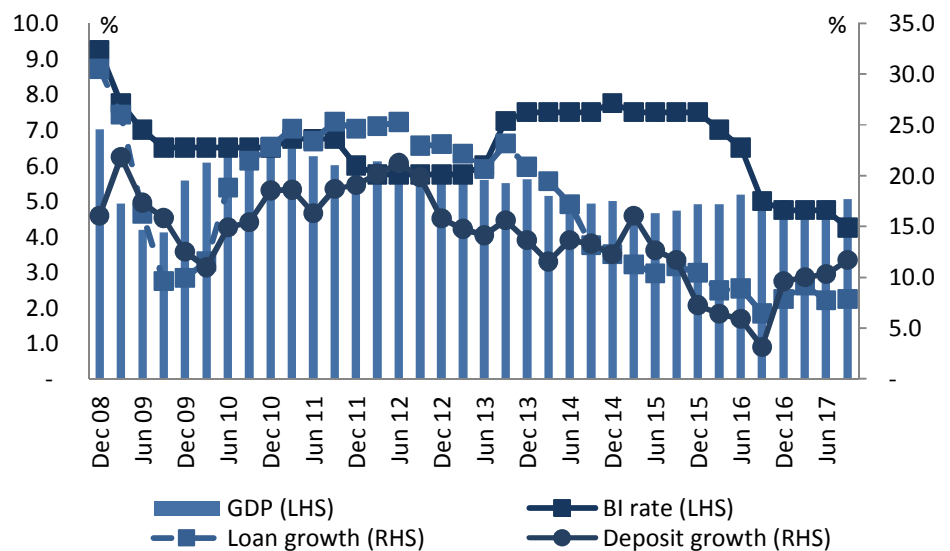
## Expect higher loans growth

### 2017: Slow loans growth

At the beginning of 2017, both industry and related regulators expected that loans would grow by 10-12%. Yet with the modest pace of GDP growth, regulators trimmed their loans growth targets to 8-10% for the industry later in the year. In addition, Bank Indonesia's decision to cut its policy rate by a total of 50bps in 2H17 was not enough to support loans demand in our view. Some banks argued that certain sectors were still reluctant to take on new loans given the sluggish performance of the economy.

Though the official numbers have not been released yet, 9% loans growth for the industry should be achievable in 2017 in our view. In particular, loans growth will be supported by double-digit loans growth in four SOE banks (BBRI, BMRI, BBNI and BBTN) as well as at BBKA. These banks were still able to post solid loans growth thanks to lending to large-scale government-infrastructure projects and certain government related programs (KUR and subsidized mortgages). By comparison, medium-size banks only participated on infrastructure projects with a minor portion due to their limited size (syndication schemes).

**Exhibit 17. GDP, policy rate, loans and deposits growth**



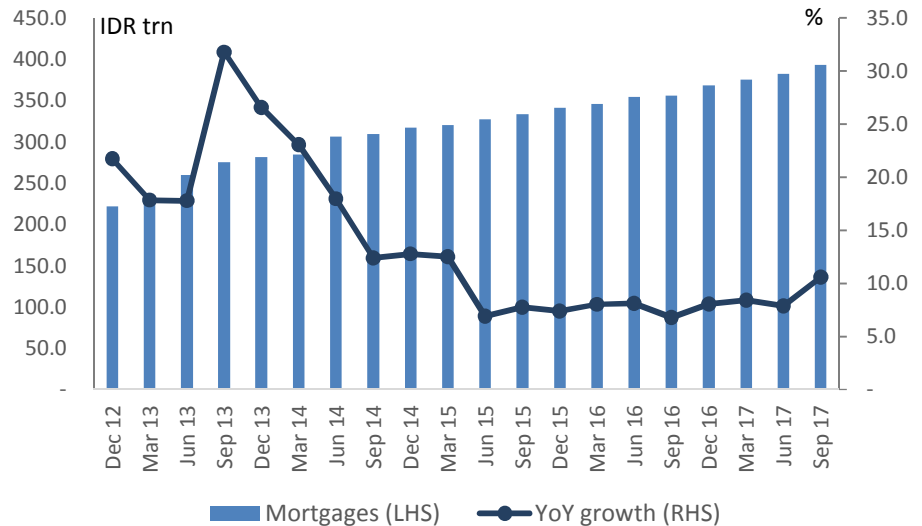
Source : Bank Indonesia, Central Statistics Bureau, Financial Services Authority (OJK)

Aside from that, despite the weak marketing sales of property developers, mortgage lending could still grow by a solid 10.8% yoy in October 2017. The lending was supported by the abundant supply of property in the secondary market and segmented subsidized houses in our view. Additionally, some banks offered promotional rates through a fix and cap program for particular tenors. Most notably, BBKA aggressively expanded its mortgage lending using this strategy. Other banks, by comparison, such as BNGA, BMRI and BBRI pushed their mortgage lending by either partnering with some major property developers or cross-selling to existing customers.

Meanwhile, some other banks focused on payroll-based loans, since this segment is lower risk and offers decent yields. BBRI, aside from regional banks (BJBR, BJTM), remained the leader in this segment supported by its extensive network infrastructure throughout Indonesia. In particular, this segment targets civil servants (including teachers), military personnel, and members of the police force.

As for BBNI, the bank focused more on the staff of SOE institutions as a way to grow its payroll-based loans. Other key players in this segment are BTPN and BMRI through its subsidiary Bank Mantap. They yet focus more on the pension loans segment. We have some concerns on this segment, however, noting that the segment is more crowded than before, an indication that a pricing war may be emerging, in our view.

### Exhibit 18. Mortgages growth

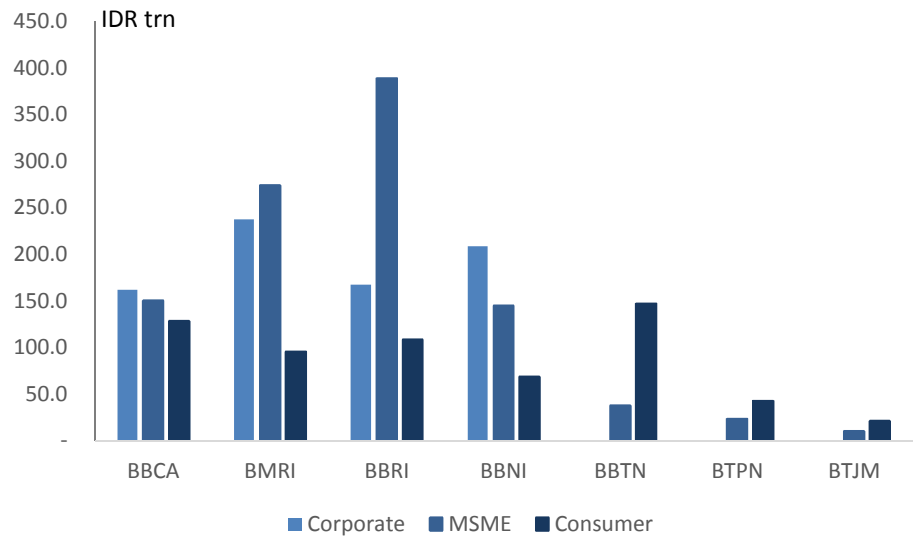


Source : Bank Indonesia, Financial Services Authority (OJK)

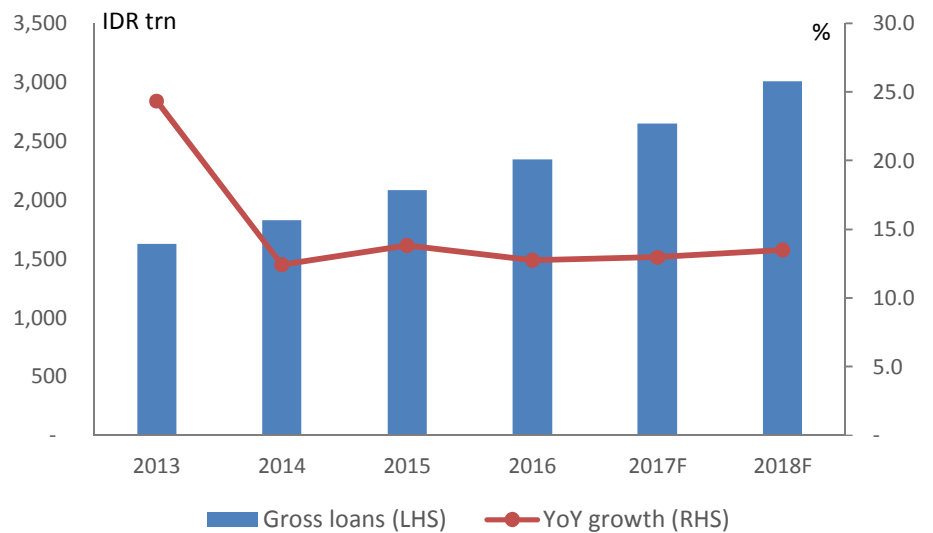
### Expect higher loans growth this year

We foresee 13.5% yoy loans growth this year supported by infrastructure spending and government-related projects. The LRT in Jakarta and several toll roads as well as electricity projects are major infrastructure projects that will need financing. BMRI and BBNI are expected to be the primary SOE bank lenders for infrastructure financing. By comparison, BBRI will only participate in a limited capacity as the bank will focus more on channelling KUR. Meanwhile, medium private banks will play a minor role in financing infrastructure projects under syndication schemes.

We also see that the government's IDR120tn KUR program will be one of the main catalysts for BBRI's loans growth of 13.1% based on our estimation. We assume BBRI's KUR loans book grows by 32% yoy given that the government has targeted KUR lending of IDR80tn for BBRI. For subsidized mortgages, BBTN will only provide them through the interest rate subsidy scheme (SSB) with a total allocation of IDR2.5tn in the 2018 government budget. Thus, BBTN's subsidized mortgages should grow by 19.5% yoy resulting in a 36.4% contribution to the bank's total loans book based on our forecast.

**Exhibit 19. Pick-up in loans growth**


Source : Bank Indonesia, Financial Services Authority (OJK)

**Exhibit 20. Pick-up in loans growth**


Source : Bank Indonesia, Financial Services Authority (OJK)

## Minimal downside risk on assets quality

### 2017: Lower quarterly credit costs

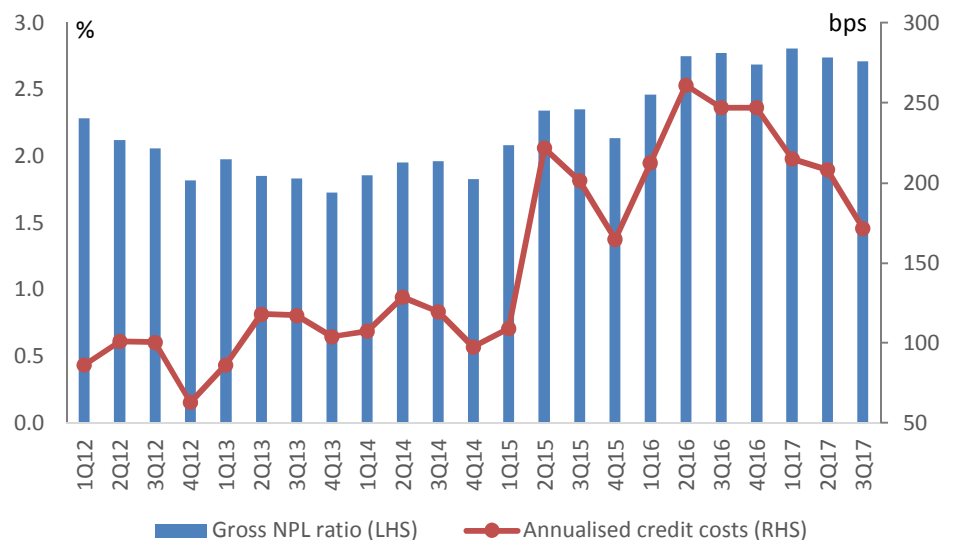
Most banks focused more on the issue of assets quality in 2017 given the lacklustre economic growth. Moreover, medium-sized banks faced more challenges as some of them have substantial exposure to commodity-related sectors or areas. Although commodity prices have been stable recently, banks have tended to limit exposure to the sector awaiting a more positive outlook from stronger global demand.

Loans restructuring relaxation policy over a period of two years since August 2015 by Indonesia's Financial Services Authority (OJK) has helped somewhat to keep the gross NPLs ratio deflated. The restructuring process resulted in high credit costs, which reached a peak in 2Q16 of 261bps in our banking universe. This was mainly driven by banks with significant corporate lending exposure given the substantial amount of provisions that they needed to allocate. BMRI, BBNI and BBCA are three banks under our coverage with significant corporate lending exposure. In 2Q16, the credit costs of BMRI and BBNI climbed to 355bps and 394bps as the two banks had to handle several corporate names: Krakatau Steel and Bayan Resources for BMRI; Trikonsel for BBNI. BBCA, another bank with major corporate lending exposure, also struggled with its corporate lending segment.

At the same time, the credit costs of BBRI and BBTN remained manageable given the limited exposure of these two banks to the corporate segment. Additionally, BTPN and BJTM had stable gross NPL ratios but for different reasons. BTPN's gross NPLs could be maintain at a low level given the bank's decent risk management team while BJTM's management opted to limit its write-offs, particularly in commercial lending.

The higher credit costs should provide banks with an ample buffer for any deterioration in assets quality. Nonetheless, we view that the peak in high credit costs should already have passed as the gross NPLs ratio for our banking universe stood at 2.7% with a higher LLC ratio of 150.1% as of September 2017. Credit costs have also already fallen significantly by c.76bps to 172bps in 3Q17 from the same period in the previous year. This should be a proxy for stabilised assets quality, though we believe that the improvement will take place gradually over the following three quarters assuming a pick-up in loans growth.

**Exhibit 21. Stabilised NPLs ratio and lower credit costs**



Source : Company, Danareksa Sekuritas estimates

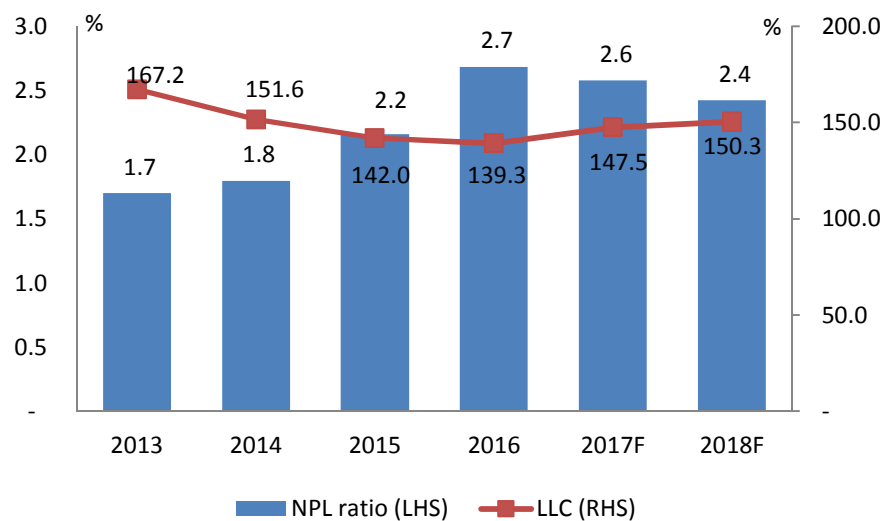


### 2018: A better year

For 2018, we do not expect assets quality to be a main concern for banks given normalisation following aggressive loans restructuring in 2015-2016. Yet, we see that some sectors might still face pressure from the uncertainty in the respective sectors. In addition, banks are more focused on providing loans to finance infrastructure-related projects. We believe that infrastructure will continue to be the key growth driver in Indonesia even though there is a lag in the trickledown effect in nearby areas.

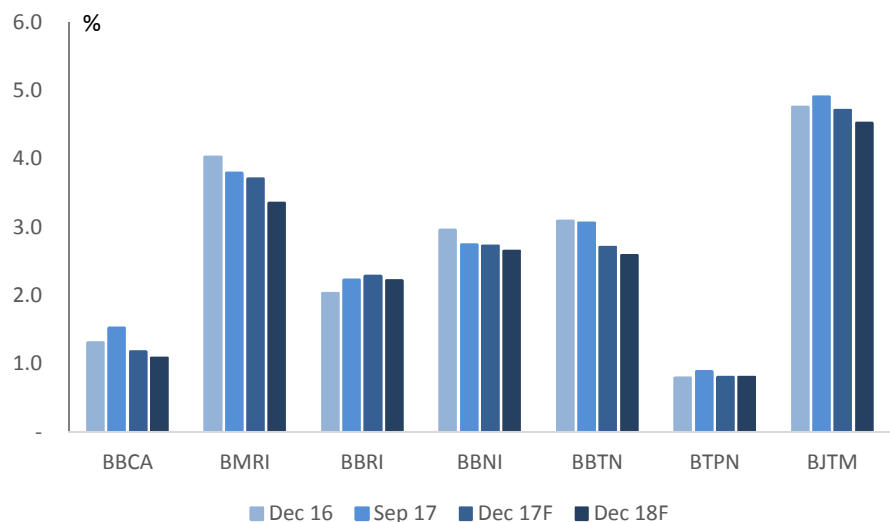
All in, with a 13.5% loans growth assumption in our model, the gross NPLs ratio will reach 2.4% by the end of 2018. We also expect lower credit costs at 174bps on the back of a pick-up in loans growth driven by lending to finance infrastructure-related projects and low-risk consumer lending (mortgages, payroll-based loans). With a lower gross NPLs ratio and lower credit cost expectations, the LLC ratio will climb to 150.3% as of December 2018F.

### Exhibit 22. Improvement in assets quality with an ample LLC ratio



Source : Company, Danareksa Sekuritas estimates

### Exhibit 23. Gross NPLs ratio for our banking universe



Source : Company, Danareksa Sekuritas estimates

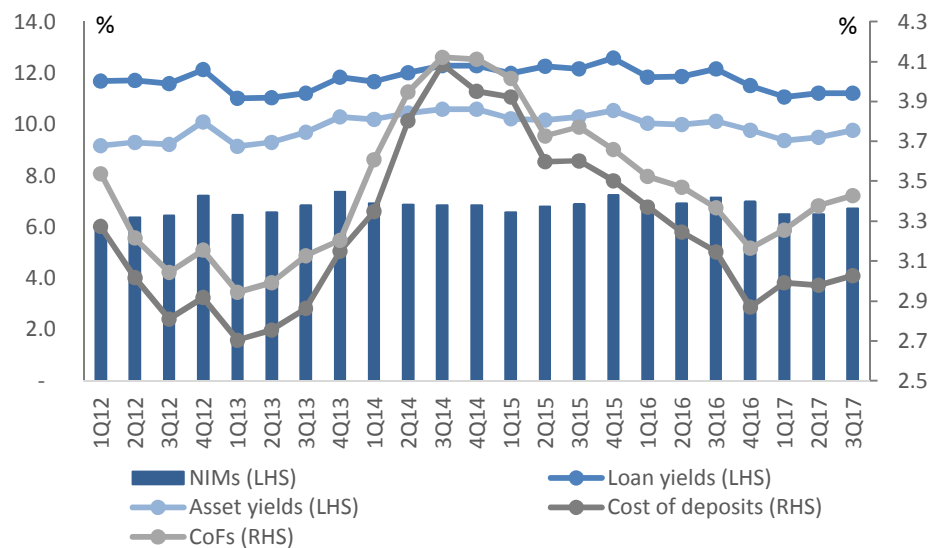
## Stable NIM outlook

### 2017: NIM starts to fall

Aggressive policy rate cuts by BI back in 2016 helped the expanded NIM by 10bps to 6.85% in FY16 in our banking universe. The NIM expansion was minimal, however, given that lending rates had started to fall following the lower funding costs and ample liquidity in the industry. Banks with sizeable exposure to floating rate loans were the banks to record margins compression, ie BMRI and BBNI.

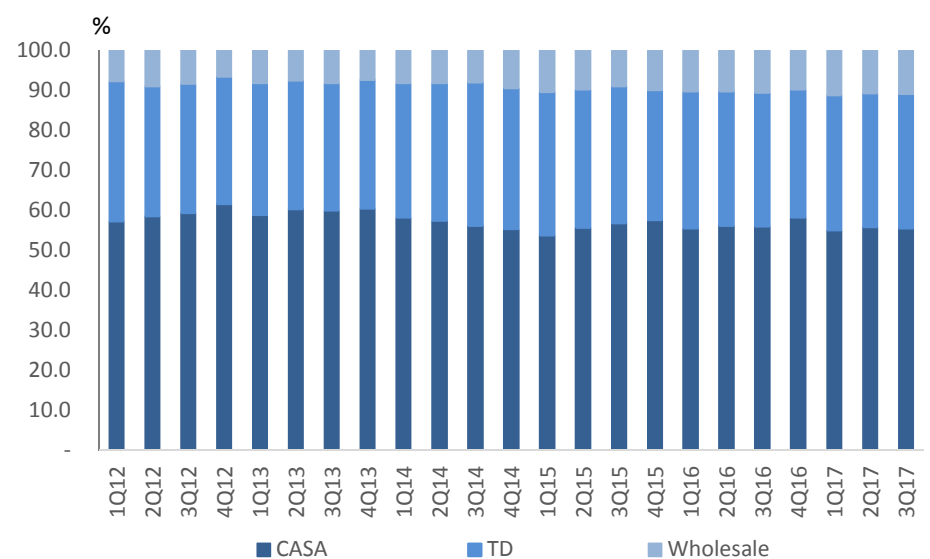
Indeed, the 3Q17 NIM for our banking universe declined to 6.7% as the assets yield fell by c.30bps to 9.8% from the same period in the previous year. This mainly driven by the fall in loan yields by c.100bps to 11.2% from their level in 3Q16. On the other side, the blended CoF was flattish at 3.4% as some big banks actively issued wholesale funding instruments with longer maturity profiles despite a higher CoF. NCD, bonds and MTN are examples of wholesale funding instruments aimed at diversifying the funding structure.

**Exhibit 24. Quarterly NIMs, yields and costs**



Source : Company, Danareksa Sekuritas estimates

**Exhibit 25. Interest bearing liabilities structure**



Source : Company, Danareksa Sekuritas estimates

### 2018: Stable NIM outlook

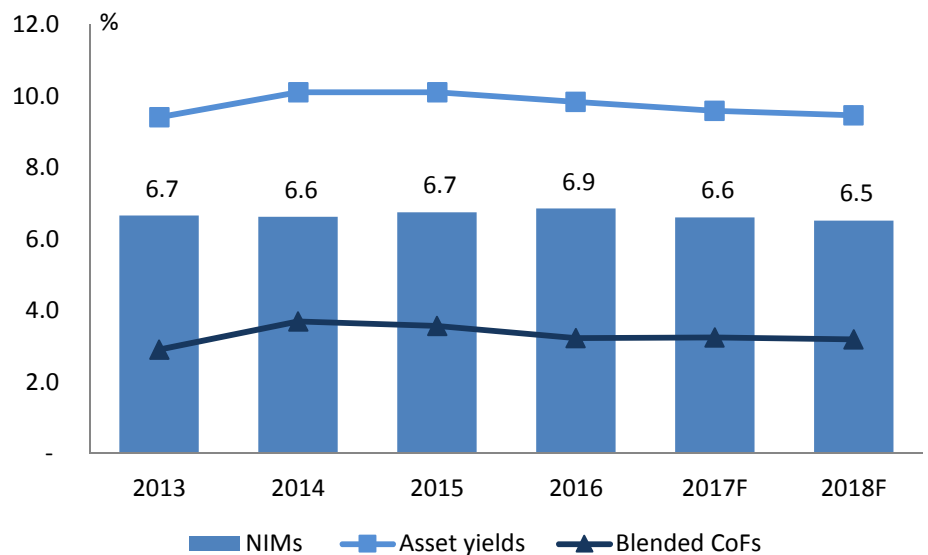
We assume that the NIM will fall by c.9bps to 6.5% this year due to a 12bps reduction in asset yields according to our model. Higher exposure to infrastructure projects with lower lending rates should put more pressure on asset yields in our view. Besides that, a higher proportion of mortgages in the loan portfolios of banks with promotional rates (under fix and cap programs) will contribute to lower loan yields.

Additionally, our fixed-income analyst expects the 10-year government bonds yield to stand at just 6.09% on average this year. Given that, from the corporate perspective, it is more reasonable for companies to raise funding from the issuance of securities (bonds, MTN, subordinated notes, or asset-backed securities) rather than take on bank loans due to the cheaper funding costs and longer maturity profile. As such, we foresee a significant amount of bonds issuance in 2018, mostly coming from banks, multi-finance companies and construction companies.

Amid soft loans growth, OJK and BI are currently holding discussions on whether to include corporate bonds (of non-financial companies) as part of the financing component in the financing-to-funding ratio (FFR) definition. This definition would replace the current loan-to-funding ratio (LFR). For medium-sized banks, this will provide more flexibility to obtain exposure to some big infrastructure projects given the lower risk attached to corporate bonds depend on the rating given by the ratings agency.

Despite the 50bps cuts in the BI rate in 2H17, some banks argued that the impact would not be sufficient to stimulate loans growth given the uneven demand for loans across the business sector. Medium-sized banks share this view with ample liquidity in the industry as loans demand remains soft, particularly from the private sector and non government-infrastructure related sectors. All in, we expect the loan yields to decline by c.52bps to 12.7% in FY18F.

**Exhibit 26. Stable NIM**



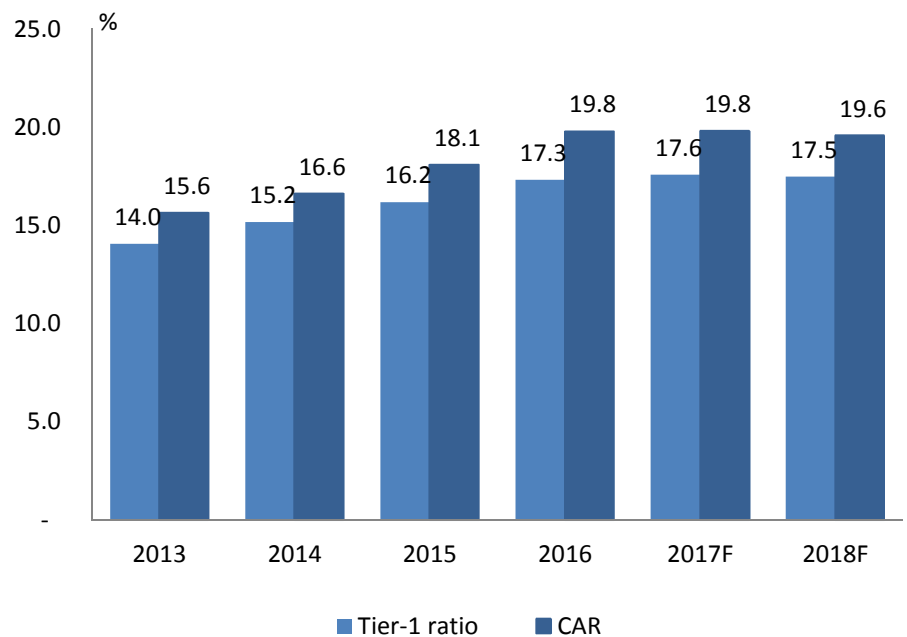
Source : Company, Danareksa Sekuritas estimates

## Capital will remain healthy

### CAR still dominated by tier-1 capital

Capital will remain sufficient in our banking universe with the CAR at 19.6% this year. Capital will continue to be supported by tier-1 capital in our view. We expect stable tier-1 capital of 17.5% on the back of 16% net profits and 13.5% loans growth for the sector. Additionally, most banks will still need to set aside some of their net profits for dividend payments considering their status as either SOE or regional-owned enterprises, i.e. BMRI, BBRI, BBNI, BBTN and BJTM. For private banks, the payout ratio should be flat with the previous year since the banks' management and shareholders will opt for an ample level of capital following the full implementation of BASEL III in January 2019.

### Exhibit 27. CAR will still be dominated by tier-1 capital



Source : Company, Danareksa Sekuritas estimates

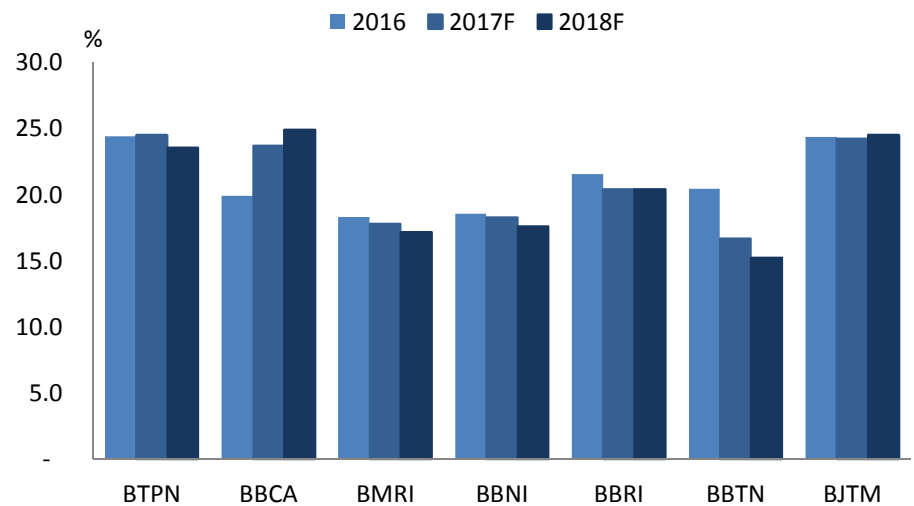
### Safe level of CAR

As BASEL III will be fully implemented next year, some banks are targeting loans growth in the lower risk-weight segment. Mortgages and payroll-based loans would be among the main growth engines as these two segments are secured by property and payroll payments. Furthermore, such loans will also serve to balance the lower loan yield segments such as loans extended for the development of infrastructure-related projects. For infrastructure-related projects, some of the loans have a lower risk-weight provided by the government through the Indonesia Infrastructure Guarantee Fund (Penjaminan Infrastruktur Indonesia/PII). This includes loans extended by BBNI and BMRI given their significant exposure to government-infrastructure projects.

In our banking universe, BBTN has the lowest projected CAR at 15.2% as of December 2018F as we expect aggressive loans growth of 17.2% this year. BBTN's strong loans growth will be driven by subsidized mortgages, which are forecast to grow by 19.5% YoY to IDR82.2tn by the end of the year. Our CAR assumption for BBTN still excludes the bank's plan to issue IDR3tn of subordinated notes as tier-2 capital. If we include these plans, however, the bank's CAR will climb 200bps to 17.2% assuming the same loans growth expectation.

For BBRI, we assume that CAR will remain at a healthy level of 20.5% by the end of the year, noting the bank's significant micro lending exposure, particularly KUR, which will grow by 32% this year and account for 11% of the total loans book by the end of the year based on our model. For the KUR program, the risk weight is considered to be low at 50% vis-à-vis 75% for commercial micro lending, given that it is guaranteed by the appointed SOE insurance companies (Askrindo and Jamkrindo).

### Exhibit 28. CAR position for our banking universe



Source : Company, Danareksa Sekuritas estimates

## OVERWEIGHT: BBRI and BBTN as our top picks

We have an OVERWEIGHT call on the sector. This reflects:

- 1) The acceleration in loans growth to 13.5% this year for our banking universe, driven by stronger consumer demand and lending for the development of government infrastructure-related projects;
- 2) Stable NIM outlook at 6.5% in our universe backed by a 12bps dip in asset yields and 6bps reduction in blended CoFs;
- 3) Minimal downside risks on asset quality considerations as significant restructuring took place in the industry in 2016-2017. As such, we expect 174bps credit costs this year. Assuming a 2.4% gross NPLs ratio, the LLC ratio will touch 150.3%;
- 4) Net profits will grow by 16.0% this year with a higher sector ROAE of 16.1% (2017F: 15.5%) due to the expectation of lower credit costs.

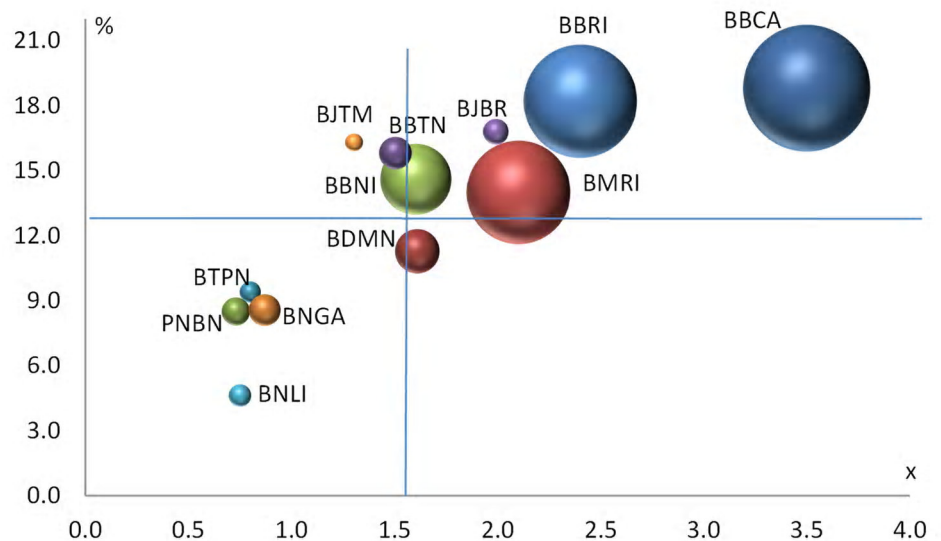
Our top picks in the sector are:

- 1) BBRI due to its resilient micro lending business which should translate into a superior NIM. In addition, the bank's strong retail-based customers should support a higher contribution from fee-income;
- 2) BBTN given its strong focus on mortgages, particularly aimed at the middle-low income segment. With substantial exposure to mortgages, credit costs and net profits should be predictable.

The risks to our calls include but are not limited to:

- 1) Government intervention risk, as some of the big cap banks are SOEs. As such, potential government policy changes should be given consideration;
- 2) Slower-than-expected GDP growth leading to soft loans demand;
- 3) Weak loans growth resulting in higher gross NPL ratios and significant provisions that could dampen bottom line growth;
- 4) Tight liquidity conditions in the industry that would lead to a higher blended CoF.

### Exhibit 29. PBV ROAE matrix



Source :Bloomberg, Danareksa Sekuritas estimates

**Exhibit 30. Danareksa banking universe**

FY End (IDR bn)	Sector 2015	Sector 2016	Sector 2017F	Sector 2018F	Sector 2019F
Interest income	273,655	301,431	331,207	360,311	395,414
Interest expenses	(90,952)	(91,480)	(102,923)	(112,229)	(121,957)
<b>Net interest income</b>	<b>182,702</b>	<b>209,951</b>	<b>228,284</b>	<b>248,082</b>	<b>273,457</b>
Net-II growth (%)	14.9%	14.9%	8.7%	8.7%	10.2%
Loan growth (%)	13.8%	12.8%	13.0%	13.5%	14.5%
Net interest margin (%)	6.75%	6.85%	6.61%	6.52%	6.48%
Fee income	35,744	40,596	46,903	53,919	61,768
Other income	22,284	26,708	28,806	33,219	39,565
<b>Non-interest income</b>	<b>58,028</b>	<b>67,304</b>	<b>75,710</b>	<b>87,137</b>	<b>101,333</b>
Non-II growth (%)	19.7%	16.0%	12.5%	15.1%	16.3%
<b>Total operating income</b>	<b>240,730</b>	<b>277,255</b>	<b>303,993</b>	<b>335,219</b>	<b>374,789</b>
Total income growth (%)	16.1%	15.2%	9.6%	10.3%	11.8%
Non-II/Total income (%)	24.1%	24.3%	24.9%	26.0%	27.0%
<b>Operating costs</b>	<b>(109,556)</b>	<b>(124,259)</b>	<b>(136,515)</b>	<b>(150,346)</b>	<b>(167,397)</b>
Operating cost growth (%)	13.7%	13.4%	9.9%	10.1%	11.3%
CIR (%)	45.5%	44.8%	44.9%	44.9%	44.7%
<b>Pre-provision operating profit</b>	<b>131,174</b>	<b>152,996</b>	<b>167,479</b>	<b>184,873</b>	<b>207,392</b>
PPOP growth (%)	18.1%	16.6%	9.5%	10.4%	12.2%
Loan provisions	(32,770)	(51,938)	(51,566)	(49,223)	(49,903)
Other provisions	(1,293)	(999)	(1,437)	(1,841)	(2,048)
<b>Total provisions</b>	<b>(34,063)</b>	<b>(52,937)</b>	<b>(53,003)</b>	<b>(51,064)</b>	<b>(51,951)</b>
Annualized credit cost (bps)	168	235	207	174	155
NPL ratio (%)	2.16%	2.69%	2.58%	2.42%	2.25%
Loan loss coverage (%)	142.0%	139.3%	147.5%	150.3%	157.5%
Associates & others	2,111	16	231	255	225
<b>Pre-tax profit</b>	<b>99,222</b>	<b>100,076</b>	<b>116,814</b>	<b>135,550</b>	<b>157,638</b>
Taxation	(20,995)	(21,632)	(26,090)	(30,325)	(33,478)
Minority interests	(972)	(1,098)	(1,249)	(1,400)	(1,527)
<b>Net profit</b>	<b>77,255</b>	<b>77,346</b>	<b>89,476</b>	<b>103,824</b>	<b>122,633</b>
Net profit growth (%)	5.0%	0.1%	15.7%	16.0%	18.1%

Source : Company, Danareksa Sekuritas estimates

**DISCLAIMER**

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.

Tuesday, 09 January 2018

**BUY**  
**Maintain**

Last price (IDR) 3,590  
Target Price (IDR) 3,900  
Upside/Downside +8.6%  
Previous Target Price (IDR) 3,600

**Stock Statistics**

Sector Banking  
Bloomberg Ticker BBRI IJ  
No of Shrs (mn) 123,346  
Mkt. Cap (IDRbn/USDmn) 442,811/32,974  
Avg. daily T/O (IDRbn/USDmn) 295.8/22.0

**Major shareholders**

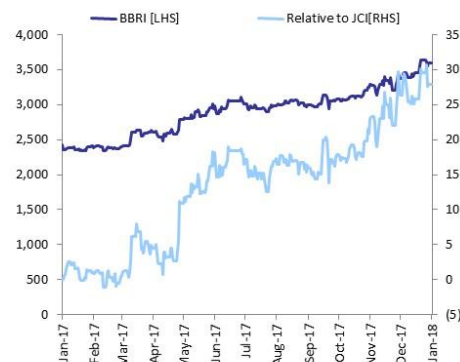
Government of Indonesia 56.8

Estimated free float (%) 43.3

**EPS Consensus (IDR)**

	2017F	2018F	2019F
Danareksa	223.1	255.9	310.9
Consensus	228.4	261.6	291.0
Danareksa/Cons	(2.3)	(2.2)	6.8

**BBRI relative to JCI Index**



Source : Bloomberg



**Eka Savitri**  
(62-21) 2955 5888 ext 3506  
eka.savitri@danareksa.co.id

# Bank Rakyat Indonesia (BBRI IJ)

## The Biggest Micro Lender Story Continues

We reiterate our BUY call on BBRI with an unchanged TP of IDR3,900 as we believe that the government's KUR program will continue to support micro lending growth following the recent decision by the government to provide a higher interest rate subsidy at 10.55%. This is despite a lower KUR lending rate of 7% (previously 9%). We assume BBRI's KUR loans will grow by 32% leading to a higher contribution of 11% in the bank's loans book by the end of year. The bank's NIM, meanwhile, is expected to edge down by c.6bps to 7.8% driven by 8bps lower asset yields with a stable blended CoF of 3.6%. BBRI is one of our top picks in our banking universe. BUY maintained.

**Biggest micro lender.** We view that the government's KUR program should benefit BBRI over the long term. This is because the KUR program will provide BBRI with good quality borrowers for its regular micro loans product, called Kupedes. Note that the ticket size of KUR micro is limited to only IDR25mn with a maximum of four cycles. Thus, if a borrower needs a larger loan, BBRI can offer its Kupedes product. With expected 32% growth in KUR loans, the contribution will reach 32% of the bank's micro loans by the end of year.

**Slight decline in the NIM.** The government's recent unofficial announcement on a higher interest rate subsidy for KUR program should benefit BBRI even with a lower KUR lending rate of 7%. Yet, in a low interest rate environment, we already assume asset yields will fall by c.8bps to 11.1% in FY18F. While on the funding side, we conservatively project a stable blended CoF at 3.6%. All in all, we expect the NIM to slip 6bps to 7.8% in FY18F.

**Stable assets quality.** Significant micro lending exposure in the bank's loans book should translate into stable assets quality in our view. In addition, the government's KUR program is guaranteed by two SOE insurance companies (Askrindo and Jamkrindo). That said, we assume a gross NPLs ratio of 2.2% by the end of year with a 233bps credit cost since we expect milder pressure in the non-SOE corporate segment. This will result in a higher LLC ratio of 172.4% by the end of year.

**Maintain BUY, TP of IDR3,900.** We maintain our GGM-derived TP of IDR3,900 (implying 2.6x 2018F P/BV multiple) assuming ROAE of 19.4%, while maintaining our assumptions of 9.25% CoE and 3% long-term growth.

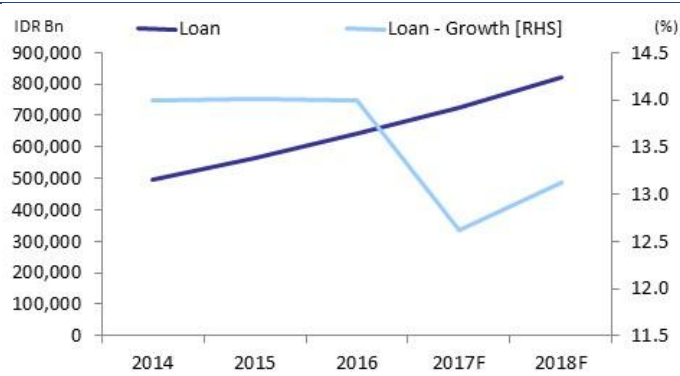
**Key Financials**

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
PPOP, (IDRbn)	39,413	47,755	53,245	59,107	67,654
Net profit (IDRbn)	25,398	26,196	27,521	31,563	38,343
EPS (IDR)	205.9	212.4	223.1	255.9	310.9
EPS growth (%)	4.8	3.1	5.1	14.7	21.5
BVPS, (IDR)	914.8	1,187.1	1,320.9	1,487.3	1,689.3
PER (x)	17.4	16.9	16.1	14.0	11.5
PBV (x)	3.9	3.0	2.7	2.4	2.1
Dividend yield (%)	1.7	2.4	2.5	2.5	3.0
ROAE (%)	24.1	20.2	17.8	18.2	19.6

Source : BBRI, Danareksa Estimates

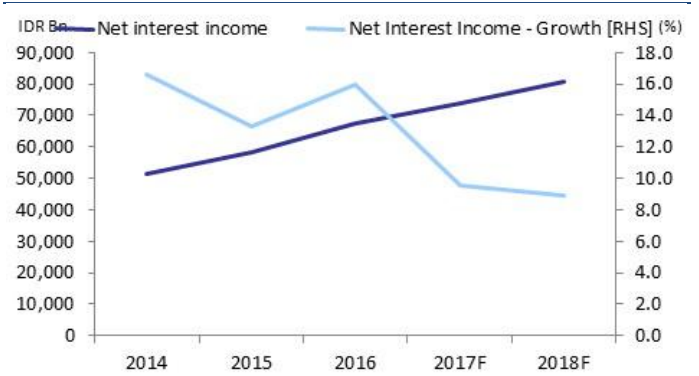


**Exhibit 1. LOAN AND GROWTH**



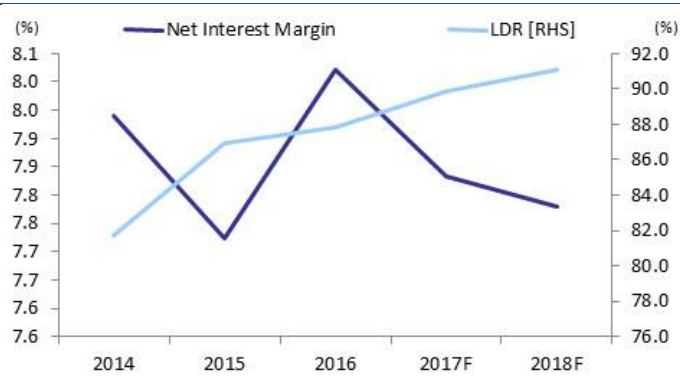
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. NET INTEREST INCOME AND GROWTH**



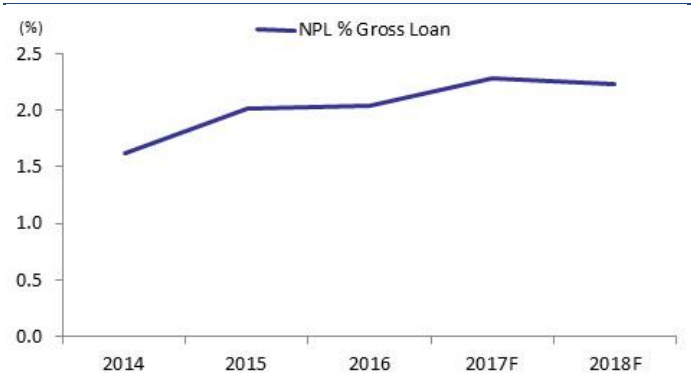
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. NIM AND LDR**



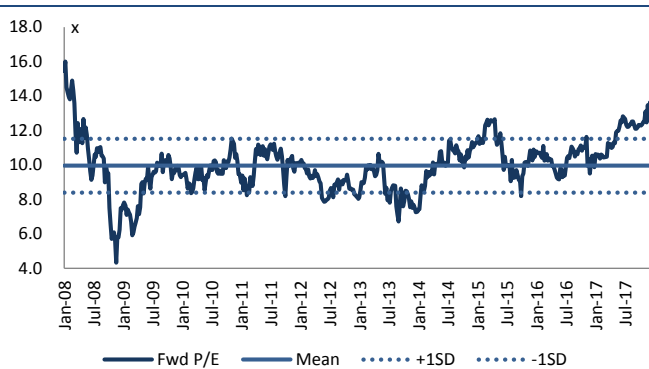
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPL**



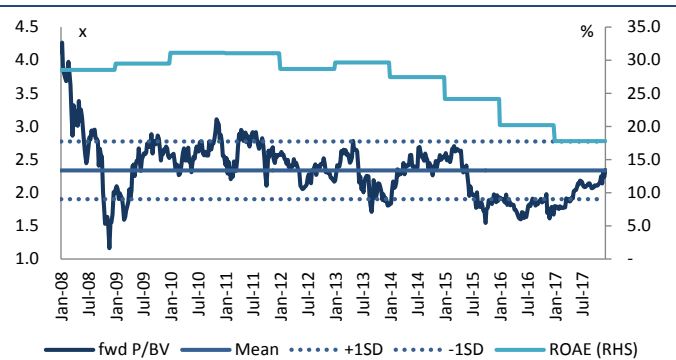
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. PBV BAND CHART**



Source: Company, Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Interest Income	85,434	94,788	105,745	115,073	126,126
Interest Expense	(27,154)	(27,212)	(31,710)	(34,455)	(36,686)
<b>Net Interest Income</b>	<b>58,280</b>	<b>67,576</b>	<b>74,035</b>	<b>80,618</b>	<b>89,440</b>
Non-Interest Income (NII)	12,323	16,799	20,312	24,053	28,447
<b>Oper. Income</b>	<b>70,602</b>	<b>84,375</b>	<b>94,348</b>	<b>104,671</b>	<b>117,887</b>
Oper. Expenses	(31,265)	(37,098)	(41,103)	(45,564)	(50,234)
<b>Pre-provisions profit</b>	<b>39,413</b>	<b>47,755</b>	<b>53,245</b>	<b>59,107</b>	<b>67,654</b>
Provisions & Allowances	(8,900)	(13,791)	(17,533)	(17,969)	(19,192)
<b>Operating Profits</b>	<b>30,513</b>	<b>33,965</b>	<b>35,712</b>	<b>41,138</b>	<b>48,462</b>
Non-Operating Income	1,981	9	75	172	128
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>32,494</b>	<b>33,974</b>	<b>35,787</b>	<b>41,310</b>	<b>48,590</b>
Income Tax	(7,083)	(7,746)	(8,231)	(9,708)	(10,204)
Minorities	(13)	(32)	(35)	(39)	(43)
<b>Net Profit</b>	<b>25,398</b>	<b>26,196</b>	<b>27,521</b>	<b>31,563</b>	<b>38,343</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Gross Loans	564,481	643,471	724,651	819,729	936,684
Provisions	(17,162)	(22,184)	(28,431)	(31,431)	(35,093)
<b>Net Loans</b>	<b>547,318</b>	<b>621,287</b>	<b>696,220</b>	<b>788,298</b>	<b>901,591</b>
Govt. Bonds	3,816	3,318	3,314	2,189	2,189
Securities	124,874	131,483	132,473	131,239	119,319
Other Earnings Assets	16,262	19,327	22,258	25,176	28,511
<b>Total Earnings Assets</b>	<b>781,292</b>	<b>903,452</b>	<b>987,077</b>	<b>1,085,737</b>	<b>1,196,685</b>
Fixed Assets	14,687	32,262	35,838	39,626	43,848
Non-Earnings Assets	13,515	14,491	14,003	14,247	14,125
<b>Total Assets</b>	<b>878,426</b>	<b>1,003,644</b>	<b>1,096,959</b>	<b>1,211,732</b>	<b>1,367,744</b>
Customer Deposits	649,373	732,559	806,631	899,549	1,004,443
Banks Deposits	11,165	2,230	11,380	11,604	11,832
Int. Bearing Liab. - Others	748,344	836,326	914,346	1,009,272	1,140,635
<b>Total Liabilities</b>	<b>765,299</b>	<b>856,832</b>	<b>933,595</b>	<b>1,027,809</b>	<b>1,158,851</b>
Share capital & Reserves	5,558	20,446	20,446	20,446	20,446
Retained Earnings	107,274	125,975	142,487	163,004	187,927
<b>Shareholders' Funds</b>	<b>112,833</b>	<b>146,421</b>	<b>162,933</b>	<b>183,450</b>	<b>208,373</b>
Minority interests	294	391	430	473	521
<b>Total Equity &amp; Liabilities</b>	<b>878,426</b>	<b>1,003,644</b>	<b>1,096,959</b>	<b>1,211,732</b>	<b>1,367,744</b>

### Exhibit 9. Ratios

Year to 31 Dec (%)	2015A	2016A	2017F	2018F	2019F
Yield on Earning Assets	11.3	11.3	11.2	11.1	11.1
Cost of funds	3.8	3.4	3.6	3.6	3.4
Interest Spread	7.6	7.8	7.6	7.5	7.6
Net Interest Margin	7.7	8.0	7.8	7.8	7.8
Cost/Income Ratio	44.2	43.7	43.6	43.5	42.6
Oper. Exp./Oper. Gross Inc.	68.8	69.7	71.7	70.4	68.6
Gross NPL Ratio	2.0	2.0	2.3	2.2	2.1
LLP/Gross NPL	150.5	169.0	171.5	172.4	175.0
Cost of Credit	1.7	2.3	2.6	2.3	2.2
Loan to Deposit Ratio	86.9	87.8	89.8	91.1	93.3
Loan to Funding Ratio	76.5	78.0	80.4	82.4	83.3
CASA Mix	57.8	59.8	59.8	60.4	61.1
ROAE	24.1	20.2	17.8	18.2	19.6
ROAA	3.0	2.8	2.6	2.7	3.0
CAR	18.6	21.6	20.4	20.5	20.4

### Exhibit 10. Dupont and growth

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Dupont</b>					
Pre-Tax ROAA	3.9	3.6	3.4	3.6	3.8
Tax Retention rate	78.2	77.2	77.0	76.5	79.0
Post-Tax ROAA	3.0	2.8	2.6	2.7	3.0
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	8.0	7.3	6.8	6.7	6.6
ROAE	24.1	20.2	17.8	18.2	19.6
<b>Growth (%)</b>					
Interest income	13.7	10.9	11.6	8.8	9.6
Net Interest Income	13.3	16.0	9.6	8.9	10.9
Other Oper. Expenses	17.3	18.7	10.8	10.9	10.2
Fee Based Income	21.1	25.4	22.4	18.4	15.6
Pre-Provision Oper. Profit	15.6	21.2	11.5	11.0	14.5
Net Profit	4.8	3.1	5.1	14.7	21.5
Shareholders' Equity	15.7	29.8	11.3	12.6	13.6
Loan	14.0	14.0	12.6	13.1	14.3
Earnings Asset	7.4	15.6	9.3	10.0	10.2
Deposit	7.5	11.2	11.3	11.4	11.5
Int. Bearing Liab.	7.8	11.8	9.3	10.4	13.0
CASA	18.4	15.2	11.2	12.6	12.8
Total Asset	9.5	14.3	9.3	10.5	12.9

Source : BBRI, Danareksa Estimates

#### DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.

Tuesday, 09 January 2018

**BUY**  
**Maintain**

Last price (IDR) 3,420  
Target Price (IDR) 4,000  
Upside/Downside +17.0%  
Previous Target Price (IDR) 4,000

**Stock Statistics**

Sector Banking  
Bloomberg Ticker BBTN JJ  
No of Shrs (mn) 10,590  
Mkt. Cap (IDRbn/USDmn) 36,218/2,697  
Avg. daily T/O (IDRbn/USDmn) 72.9/5.4

**Major shareholders**

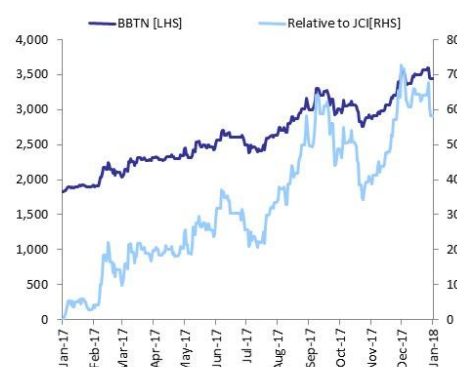
Government of Indonesia 60.0

Estimated free float (%) 40.0

**EPS Consensus (IDR)**

	2017F	2018F	2019F
Danareksa	296.1	345.5	400.6
Consensus	287.5	339.0	386.6
Danareksa/Cons	3.0	1.9	3.6

**BBTN relative to JCI Index**



Source : Bloomberg



**Eka Savitri**  
(62-21) 2955 5888 ext 3506  
eka.savitri@danareksa.co.id

# Bank Tabungan Negara (BBTN JJ)

## A Housing-centric Darling

**We continue to like BBTN, noting its resilient business model on mortgages. Subsidized mortgages will remain the main growth driver with a IDR2.5trn government budget for next year's interest rate subsidy scheme. We believe this should be sufficient to finance around 225K house purchases. Meanwhile, the formation of BP-Tapera should reduce uncertainty in subsidized mortgages funding going forward. BBTN is one of top picks in our banking universe. BUY maintained, TP of IDR4,000.**

**Focusing on the housing-related segment.** The housing-related segment, i.e. mortgages for both subsidized and non-subsidized houses also house construction, will remain its bread and butter business amid a housing backlog of c.11mn units. Furthermore, IDR2.5trn in next year's budget for interest rate subsidies can finance c.225K houses. While, the formation of BP-Tapera should gradually replace the subsidized mortgage funding from the state budget going forward. We thus project 19.5% growth in subsidized mortgages, resulting in a 36.4% contribution to total loans book as of December 2018F.

**More predictable earnings growth.** Given its substantial mortgages exposure, we expect stable credit costs. This is because the mortgages are secured by the physical property themselves. While for construction loans, BBTN focuses more on providing loans for projects with working orders (Surat Perintah Kerja/SPK). All in all, with a stable NIM at 4.4% and 48bps credit costs, we expect 16.7% earnings growth to IDR3.7trn next year.

**More back up plans on capital.** With a 17.2% loans growth projection for next year, the bank's capital level will continue to fall to 15.2%. BBTN's management is also still waiting for a lower risk weight policy on subsidized mortgages as this sub-segment currently has a risk weight of 35%. Additionally, BBTN also aims to issue subordinated notes of IDR2trn to provide supplemental capital. While this amount will boost its CAR by c.200bps, we have not included it in our assumptions.

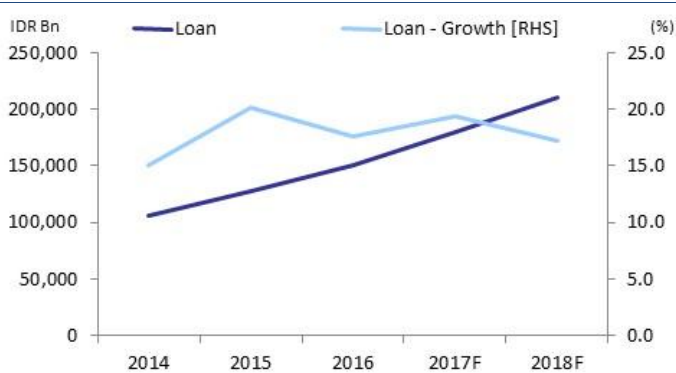
**BUY: IDR4,000TP.** Maintain BUY with a GGM-derived TP of IDR4,000 assuming a lower CoE at 10.7% (lower risk factor of 0.7% from 1%), 16.2% sustainable ROAE and 3% long-term growth. Our new TP implies 1.7x 2018F P/BV. BBTN is one of our top picks in our banking universe

**Key Financials**

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
PPOP, (IDRbn)	3,427	4,060	4,770	5,652	6,474
Net profit (IDRbn)	1,851	2,619	3,135	3,658	4,241
EPS (IDR)	174.9	247.4	296.1	345.5	400.6
EPS growth (%)	61.3	41.5	19.7	16.7	15.9
BVPS, (IDR)	1,309.4	1,806.9	2,043.8	2,320.2	2,648.7
PER (x)	19.7	13.9	11.6	10.0	8.6
PBV (x)	2.6	1.9	1.7	1.5	1.3
Dividend yield (%)	1.0	1.4	1.7	2.0	2.1
ROAE (%)	14.2	15.9	15.4	15.8	16.1

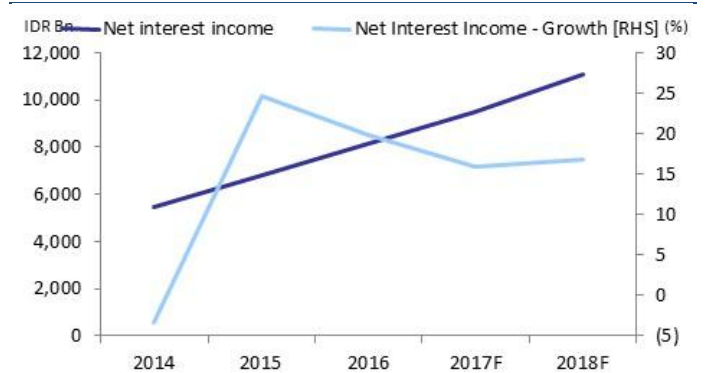
Source : BBTN, Danareksa Estimates

**Exhibit 1. LOAN AND GROWTH**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. NET INTEREST INCOME AND GROWTH**



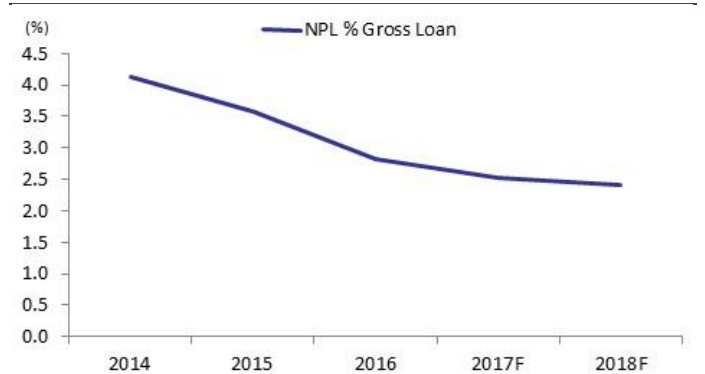
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. NIM AND LDR**



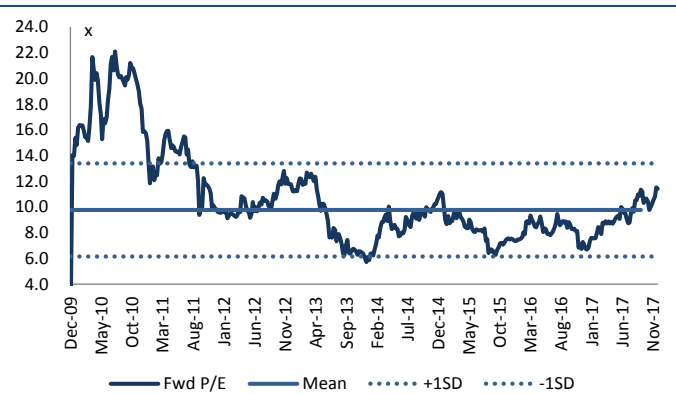
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPL**



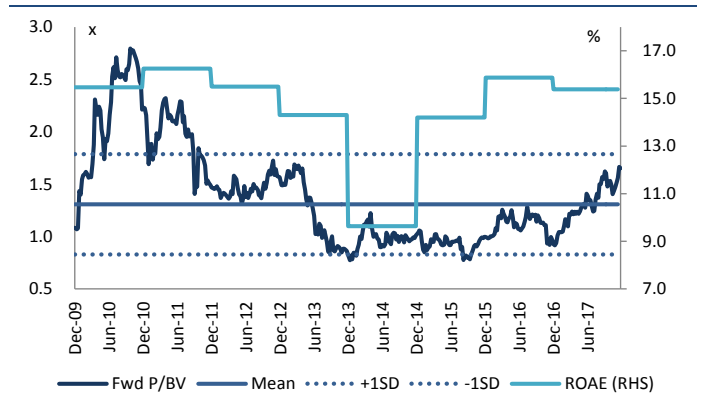
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. PBV ROAE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Interest Income	14,966	17,139	19,835	22,952	26,135
Interest Expense	(8,155)	(8,975)	(10,379)	(11,910)	(13,506)
<b>Net Interest Income</b>	<b>6,811</b>	<b>8,164</b>	<b>9,456</b>	<b>11,042</b>	<b>12,629</b>
Non-Interest Income (NII)	939	1,000	1,481	1,729	2,010
<b>Oper. Income</b>	<b>7,751</b>	<b>9,164</b>	<b>10,937</b>	<b>12,771</b>	<b>14,640</b>
Oper. Expenses	(4,490)	(5,387)	(6,167)	(7,120)	(8,166)
<b>Pre-provisions profit</b>	<b>3,427</b>	<b>4,060</b>	<b>4,770</b>	<b>5,652</b>	<b>6,474</b>
Provisions & Allowances	(894)	(708)	(782)	(998)	(1,106)
<b>Operating Profits</b>	<b>2,534</b>	<b>3,352</b>	<b>3,988</b>	<b>4,654</b>	<b>5,368</b>
Non-Operating Income	8	(22)	0	0	0
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,542</b>	<b>3,330</b>	<b>3,988</b>	<b>4,654</b>	<b>5,368</b>
Income Tax	(691)	(711)	(854)	(996)	(1,127)
Minorities	0	0	0	0	0
<b>Net Profit</b>	<b>1,851</b>	<b>2,619</b>	<b>3,135</b>	<b>3,658</b>	<b>4,241</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Gross Loans	127,732	150,222	179,321	210,094	245,206
Provisions	(1,726)	(1,725)	(1,907)	(2,161)	(2,445)
<b>Net Loans</b>	<b>126,006</b>	<b>148,497</b>	<b>177,413</b>	<b>207,932</b>	<b>242,761</b>
Govt. Bonds	8,231	9,244	6,988	5,069	4,910
Securities	1,808	4,172	7,150	7,500	7,650
Other Earnings Assets	10,899	13,833	13,520	15,335	17,452
<b>Total Earnings Assets</b>	<b>156,710</b>	<b>195,373</b>	<b>231,201</b>	<b>268,259</b>	<b>308,474</b>
Fixed Assets	3,237	6,557	6,841	7,209	7,446
Non-Earnings Assets	3,102	4,157	5,570	7,463	10,001
<b>Total Assets</b>	<b>171,808</b>	<b>214,168</b>	<b>251,901</b>	<b>293,598</b>	<b>339,893</b>
Customer Deposits	127,709	159,988	190,596	225,923	266,197
Banks Deposits	1,721	3,653	2,797	3,356	3,323
Int. Bearing Liab. - Others	153,745	190,026	225,142	263,646	306,181
<b>Total Liabilities</b>	<b>157,947</b>	<b>195,038</b>	<b>230,263</b>	<b>269,033</b>	<b>311,850</b>
Share capital & Reserves	7,207	10,201	10,201	10,201	10,201
Retained Earnings	6,653	8,930	11,438	14,364	17,842
<b>Shareholders' Funds</b>	<b>13,860</b>	<b>19,131</b>	<b>21,638</b>	<b>24,565</b>	<b>28,043</b>
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>171,808</b>	<b>214,168</b>	<b>251,901</b>	<b>293,598</b>	<b>339,893</b>

### Exhibit 9. Ratios

Year to 31 Dec (%)	2015A	2016A	2017F	2018F	2019F
Yield on Earning Assets	10.4	9.7	9.3	9.2	9.1
Cost of funds	5.8	5.2	5.0	4.9	4.7
Interest Spread	4.6	4.5	4.3	4.3	4.3
Net Interest Margin	4.7	4.6	4.4	4.4	4.4
Cost/Income Ratio	56.7	57.0	56.4	55.7	55.8
Oper. Exp./Oper. Gross Inc.	84.2	81.8	81.3	81.1	80.9
Gross NPL Ratio	3.6	2.8	2.5	2.4	2.3
LLP/Gross NPL	34.7	37.1	39.1	39.7	40.2
Cost of Credit	0.8	0.5	0.5	0.5	0.5
Loan to Deposit Ratio	100.0	93.9	94.1	93.0	92.1
Loan to Funding Ratio	84.2	79.9	80.6	80.7	81.1
CASA Mix	48.0	49.3	51.7	52.9	53.3
ROAE	14.2	15.9	15.4	15.8	16.1
ROAA	1.2	1.4	1.3	1.3	1.3
CAR	17.7	20.4	16.7	15.2	15.3

### Exhibit 10. Dupont and growth

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Dupont</b>					
Pre-Tax ROAA	1.6	1.7	1.7	1.7	1.7
Tax Retention rate	72.8	78.6	78.6	78.6	79.0
Post-Tax ROAA	1.2	1.4	1.3	1.3	1.3
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	12.1	11.7	11.4	11.8	12.0
ROAE	14.2	15.9	15.4	15.8	16.1
<b>Growth (%)</b>					
Interest income	16.9	14.5	15.7	15.7	13.9
Net Interest Income	24.6	19.9	15.8	16.8	14.4
Other Oper. Expenses	12.0	20.0	14.5	15.4	14.7
Fee Based Income	13.8	10.8	22.0	18.7	17.4
Pre-Provision Oper. Profit	45.9	18.4	17.5	18.5	14.6
Net Profit	61.6	41.5	19.7	16.7	15.9
Shareholders' Equity	13.1	38.0	13.1	13.5	14.2
Loan	20.2	17.6	19.4	17.2	16.7
Earnings Asset	18.7	24.7	18.3	16.0	15.0
Deposit	20.2	26.4	18.2	18.6	17.6
Int. Bearing Liab.	19.3	23.6	18.5	17.1	16.1
CASA	25.3	29.9	23.8	21.4	18.6
Total Asset	18.8	24.7	17.6	16.6	15.8

Source : BBTN, Danareksa Estimates

#### DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.

Tuesday, 09 January 2018

**BUY**

**Maintain**

Last price (IDR)	2,680
Target Price (IDR)	2,800
Upside/Downside	+4.5%
Previous Target Price (IDR)	2,400

**Stock Statistics**

Sector	Banking
Bloomberg Ticker	BTPN IJ
No of Shrs (mn)	5,745
Mkt. Cap (IDRbn/USDmn)	15,397/1,147
Avg. daily T/O (IDRbn/USDmn)	0.8/0.1

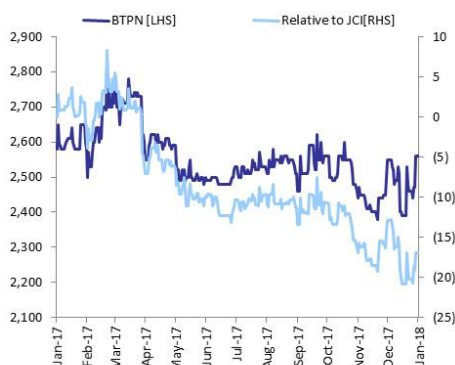
**Major shareholders**

Sumitomo Mitsui	40.0
Summit Global Capital Management BV	20.0
Estimated free float (%)	32.0

**EPS Consensus (IDR)**

	2017F	2018F	2019F
Danareksa	221.6	283.3	338.5
Consensus	217.9	342.0	415.0
Danareksa/Cons	1.7	(17.2)	(18.4)

**BTPN relative to JCI Index**



Source : Bloomberg



**Eka Savitri**

(62-21) 2955 5888 ext 3506

eka.savitri@danareksa.co.id

# Bank Tabungan Pensiunan Nasional (BTPN IJ)

## Business Transformation is Still Ongoing

**At 0.8x 2018 P/BV, BTPN looks undervalued in our view. Furthermore, its ongoing business transformation towards a digitalized business model will support the mass-market segment through optimisation of BTPN Wow! and Jenius initiatives. We also expect the bank's assets quality to remain manageable with a gross NPLs ratio of 0.8% backed by its prudent risk management team. All in all, with opex expected to decline by 1.4% to IDR7.2trn and a stable credit cost of 140bps, net profits should rebound to IDR1.6trn next year. BUY maintained with a GGM-derived TP of IDR2,800.**

**The progress to revamp its business model is on-track.** The business transformation is still ongoing, shifting the bank away from a brick and mortar business model to a more tech savvy business model. Going forward, BTPN will utilize more BTPN Wow! and Jenius digital initiatives for both lending and funding activities. BTPN will also consolidate its conventional outlets to offer comprehensive products and services from previously dedicated outlets for each business line, i.e. BTPN Purna Bakti for its pension loan products and BTPN Sinaya for its funding products.

**Sound assets quality.** Unlike its competitors in the mass-market segment which have struggled with higher NPLs since 2014, BTPN has managed its loans portfolio well. That said, despite the rebalancing in the loans mix towards commercial lending, we assume that the gross NPL ratio can be maintained at 0.8% with a 140bps credit cost in our forecast.

**Decent capital level.** BTPN is well-known for its abundant level of capital due to its 0% payout ratio policy and high-margin business model. In addition, micro lending own lower risk weight compared to other loans segment, ie corporate lending. As such, we expect CAR will still at the healthy level of 23.5% by end of December 2018F assuming 10.4% loans growth.

**BUY maintained, TP of IDR2,800.** We maintain our BUY call on BTPN with an unchanged GGM-derived TP of IDR2,800 (implying 0.9x 2018F P/BV) assuming 11.1% CoE, 10.3% sustainable ROAEs and 3% long-term growth.

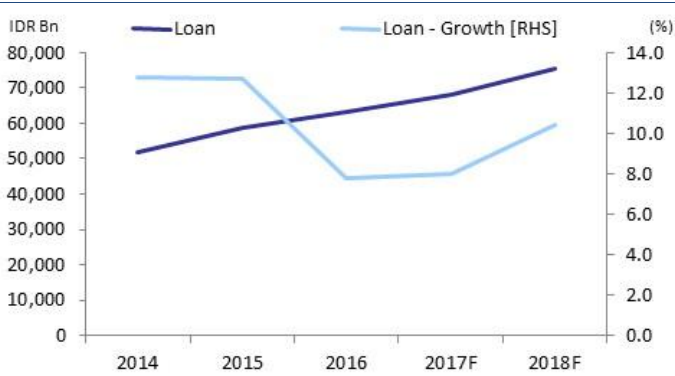
### Key Financials

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
PPOP, (IDRbn)	3,246	3,479	2,919	3,572	4,006
Net profit (IDRbn)	1,702	1,752	1,273	1,628	1,945
EPS (IDR)	291.4	305.0	221.6	283.3	338.5
EPS growth (%)	(8.9)	4.7	(27.3)	27.8	19.5
BVPS, (IDR)	2,367.9	2,797.9	2,900.8	3,099.1	3,346.2
PER (x)	8.8	8.4	11.6	9.0	7.6
PBV (x)	1.1	0.9	0.9	0.8	0.8
Dividend yield (%)	0.0	3.9	3.0	3.3	3.6
ROAE (%)	13.2	11.7	7.8	9.4	10.5

Source : BTPN, Danareksa Estimates

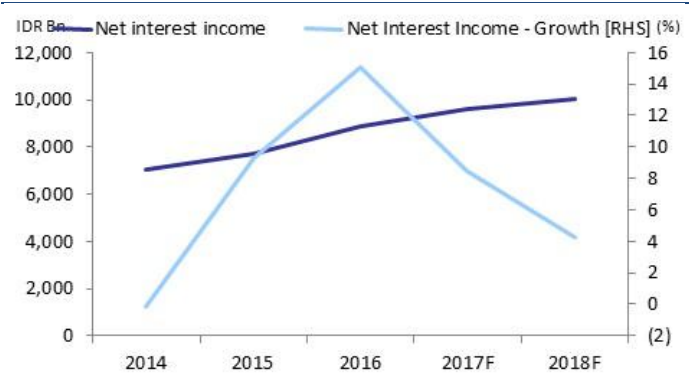


**Exhibit 1. LOAN AND GROWTH**



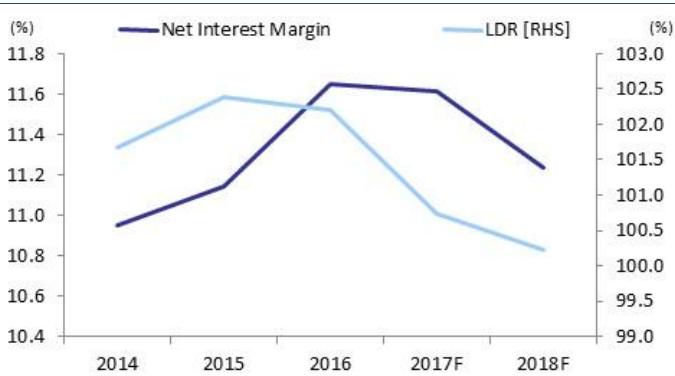
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. NET INTEREST INCOME AND GROWTH**



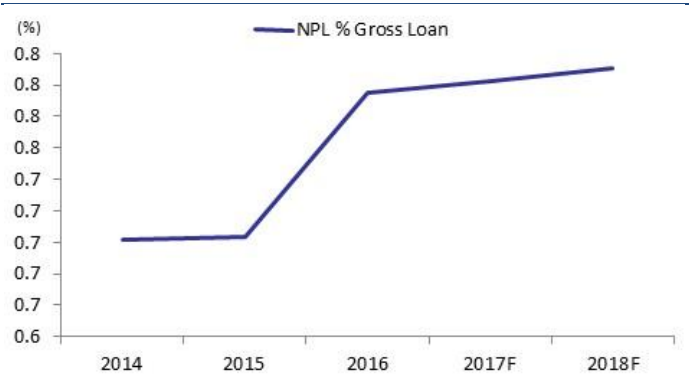
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. NIM AND LDR**



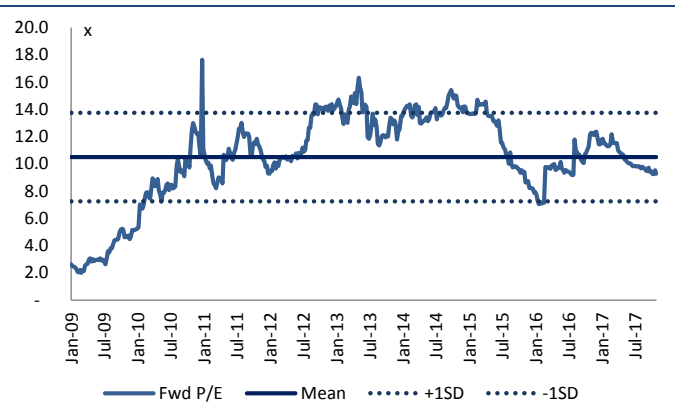
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPL**



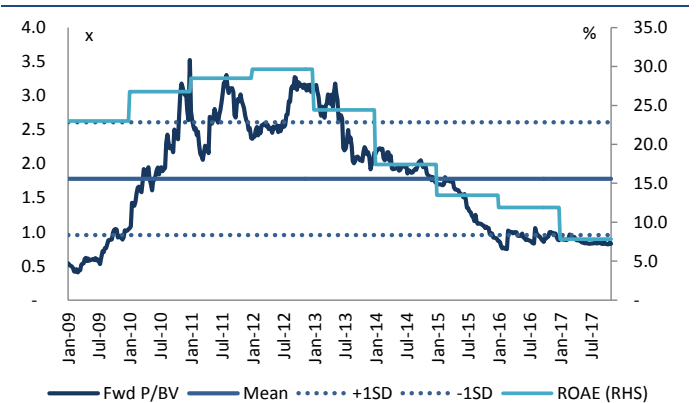
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. PBV ROAE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Interest Income	13,004	13,695	14,369	14,910	15,817
Interest Expense	(5,308)	(4,841)	(4,766)	(4,901)	(4,941)
<b>Net Interest Income</b>	<b>7,696</b>	<b>8,854</b>	<b>9,604</b>	<b>10,009</b>	<b>10,876</b>
Non-Interest Income (NII)	706	689	655	802	962
<b>Oper. Income</b>	<b>8,401</b>	<b>9,543</b>	<b>10,258</b>	<b>10,811</b>	<b>11,838</b>
Oper. Expenses	(5,156)	(6,064)	(7,339)	(7,239)	(7,832)
<b>Pre-provisions profit</b>	<b>3,246</b>	<b>3,479</b>	<b>2,919</b>	<b>3,572</b>	<b>4,006</b>
Provisions & Allowances	(786)	(870)	(938)	(1,037)	(1,099)
<b>Operating Profits</b>	<b>2,460</b>	<b>2,610</b>	<b>1,981</b>	<b>2,536</b>	<b>2,907</b>
Non-Operating Income	(27)	(5)	(15)	(16)	(12)
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,433</b>	<b>2,605</b>	<b>1,966</b>	<b>2,520</b>	<b>2,895</b>
Income Tax	(680)	(729)	(492)	(630)	(637)
Minorities	(51)	(124)	(201)	(262)	(314)
<b>Net Profit</b>	<b>1,702</b>	<b>1,752</b>	<b>1,273</b>	<b>1,628</b>	<b>1,945</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Gross Loans	58,587	63,168	68,214	75,316	83,967
Provisions	(544)	(685)	(759)	(850)	(948)
<b>Net Loans</b>	<b>58,044</b>	<b>62,483</b>	<b>67,455</b>	<b>74,466</b>	<b>83,020</b>
Govt. Bonds	0	0	0	0	0
Securities	4,930	5,953	6,559	7,031	7,393
Other Earnings Assets	667	765	0	0	0
<b>Total Earnings Assets</b>	<b>71,558</b>	<b>80,492</b>	<b>84,865</b>	<b>93,327</b>	<b>102,490</b>
Fixed Assets	1,888	2,880	3,282	3,755	4,262
Non-Earnings Assets	2,931	3,736	3,333	3,535	3,434
<b>Total Assets</b>	<b>81,040</b>	<b>91,371</b>	<b>101,812</b>	<b>111,746</b>	<b>124,544</b>
Customer Deposits	57,222	61,806	67,712	75,151	84,924
Banks Deposits	0	915	729	743	758
Int. Bearing Liab. - Others	65,726	73,490	81,742	90,261	101,117
<b>Total Liabilities</b>	<b>66,863</b>	<b>74,823</b>	<b>84,471</b>	<b>93,003</b>	<b>104,068</b>
Share capital & Reserves	1,693	2,208	2,208	2,208	2,208
Retained Earnings	12,136	13,866	14,457	15,596	17,016
<b>Shareholders' Funds</b>	<b>13,829</b>	<b>16,074</b>	<b>16,666</b>	<b>17,805</b>	<b>19,224</b>
Minority interests	348	475	676	938	1,252
<b>Total Equity &amp; Liabilities</b>	<b>81,040</b>	<b>91,371</b>	<b>101,812</b>	<b>111,746</b>	<b>124,544</b>

### Exhibit 9. Ratios

Year to 31 Dec (%)	2015A	2016A	2017F	2018F	2019F
Yield on Earning Assets	18.8	18.0	17.4	16.7	16.2
Cost of funds	8.3	7.0	6.1	5.7	5.2
Interest Spread	10.5	11.1	11.2	11.0	11.0
Net Interest Margin	11.1	11.6	11.6	11.2	11.1
Cost/Income Ratio	61.4	63.5	71.5	67.0	66.2
Oper. Exp./Oper. Gross Inc.	82.1	81.9	86.8	83.9	82.7
Gross NPL Ratio	0.7	0.8	0.8	0.8	0.8
LLP/Gross NPL	131.8	136.5	138.6	139.3	139.3
Cost of Credit	1.4	1.4	1.4	1.4	1.4
Loan to Deposit Ratio	102.4	102.2	100.7	100.2	98.9
Loan to Funding Ratio	89.2	86.1	83.6	83.6	83.2
CASA Mix	13.6	12.2	14.6	16.8	18.4
ROAE	13.2	11.7	7.8	9.4	10.5
ROAA	2.2	2.0	1.3	1.5	1.6
CAR	24.0	24.4	24.5	23.5	23.3

### Exhibit 10. Dupont and growth

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Dupont</b>					
Pre-Tax ROAA	3.1	3.0	2.0	2.4	2.5
Tax Retention rate	72.0	72.0	75.0	75.0	78.0
Post-Tax ROAA	2.2	2.2	1.5	1.8	1.9
Goodwil, Assoc& Min	0.1	0.1	0.2	0.2	0.3
Leverage	6.1	5.8	5.9	6.2	6.4
ROAE	13.2	11.7	7.8	9.4	10.5
<b>Growth (%)</b>					
Interest income	5.8	5.3	4.9	3.8	6.1
Net Interest Income	9.3	15.1	8.5	4.2	8.7
Other Oper. Expenses	15.1	17.6	21.0	(1.4)	8.2
Fee Based Income	(4.6)	(2.4)	(5.0)	22.5	20.0
Pre-Provision Oper. Profit	(1.7)	7.2	(16.1)	22.4	12.1
Net Profit	(8.9)	3.0	(27.3)	27.8	19.5
Shareholders' Equity	16.2	16.2	3.7	6.8	8.0
Loan	12.7	7.8	8.0	10.4	11.5
Earnings Asset	7.5	12.5	5.4	10.0	9.8
Deposit	11.9	9.6	9.1	10.9	12.9
Int. Bearing Liab.	6.5	11.8	11.2	10.4	12.0
CASA	(1.3)	(1.7)	30.7	27.2	23.9
Total Asset	8.0	12.7	11.4	9.8	11.5

Source : BTPN, Danareksa Estimates

#### DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.

Tuesday, 09 January 2018

**BUY**  
**Maintain**

Last price (IDR)	705
Target Price (IDR)	830
Upside/Downside	+17.7%
Previous Target Price (IDR)	830

**Stock Statistics**

Sector	Banking
Bloomberg Ticker	BJTM IJ
No of Shrs (mn)	14,975
Mkt. Cap (IDRbn/USDmn)	10,557/788
Avg. daily T/O (IDRbn/USDmn)	7.6/0.6

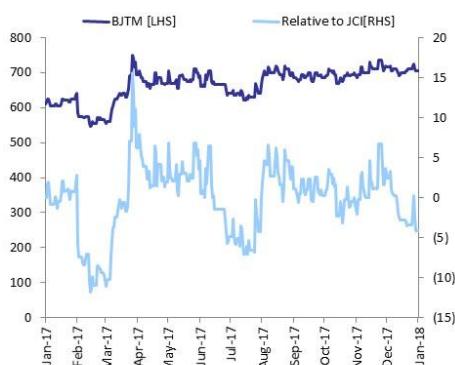
**Major shareholders**

East Java provincial government	51.4
East Java regencies government	28.5
Estimated free float (%)	20.0

**EPS Consensus (IDR)**

	2017F	2018F	2019F
Danareksa	85.9	88.4	93.6
Consensus	80.7	88.6	93.4
Danareksa/Cons	6.4	(0.2)	0.2

**BJTM relative to JCI Index**



Source : Bloomberg



**Eka Savitri**

(62-21) 2955 5888 ext 3506  
eka.savitri@danareksa.co.id

## BPD Jatim (BJTM IJ)

### A Dividend Play

We maintain our BUY call on BJTM with a GGM-derived TP of IDR830, liking the stock for its decent dividend yield of 6.9% for FY18F's net profit assuming a lower payout ratio of 55%. In addition, we also like the bank for its strong foothold in East Java's civil servants multipurpose lending segment with the potential lifting of the government's moratorium on civil servants recruitment. That said, capital will remain healthy at 24.5% due to the low risk weighting on multipurpose loans. Commercial lending, meanwhile, will be driven mainly by the syndicated loans scheme in our view, as the bank is aiming for a more manageable risk profile.

**Generous dividend payer.** The dividends paid by BJTM are a key source of revenues for East Java's regional government. With a safe level of capital of 24.5% by the end of next year assuming only 7.5% loans growth, the dividend payout ratio will still be attractive at 55% for next year in our estimate. This translates into dividends per share of IDR49 with only +3% net profits growth.

**Consumer lending will continue to be the driver.** While multipurpose loans will continue to account for most of BJTM's loans, the bank can also leverage its strong customer-base covering regional civil servants to boost its mortgage lending. While for commercial lending, it will only be driven by the syndicated loans scheme (along with other big SOE banks in general) on certain infrastructure projects, i.e. the Pasuruan-Banyuwangi toll road. For 2018F, we estimate consumer loans growth of 8.6%. This will elevate the contribution from consumer loans to total loans to 68.3% by the end of next year.

**Lower NIM projection.** Amidst tight competition in multipurpose lending with BBRI as its closest peer, BJTM recently cut its lending rate in this segment to 11-12% (previously 13-14%). While, we view the funding structure will remain secure thanks to strong support from the local government, both institutional and retail customer-based. All in, we project NIM to dip by c.20bps to 8.8% due to a lower asset yield of 12.4% and the blended CoF will improve to 3.8%.

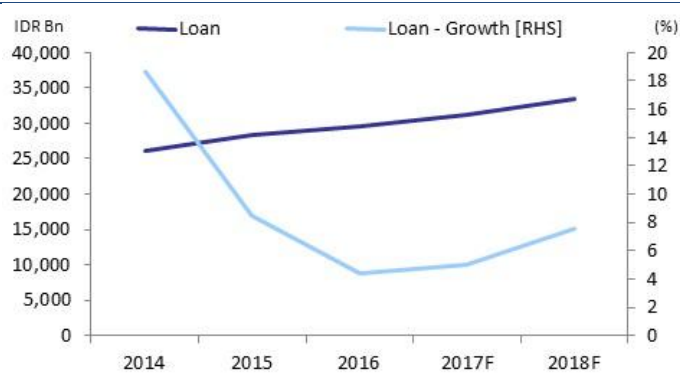
**BUY with a TP of IDR830.** Maintain our BUY call on BJTM with a GGM-derived TP of IDR830 assuming 11% CoE, 15.1% sustainable ROAE and 3% long-term growth. Our TP implies 1.5x 2018F P/BV.

### Key Financials

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
PPOP, (IDRbn)	1,796	1,961	1,968	2,025	2,158
Net profit (IDRbn)	885	1,028	1,282	1,320	1,398
EPS (IDR)	59.3	68.9	85.9	88.4	93.6
EPS growth (%)	(5.8)	16.2	24.7	3.0	5.9
BVPS, (IDR)	422.0	483.0	521.6	561.4	603.5
PER (x)	11.9	10.2	8.2	8.0	7.5
PBV (x)	1.7	1.5	1.4	1.3	1.2
Dividend yield (%)	6.1	6.2	6.7	6.9	7.3
ROAE (%)	14.3	15.2	17.1	16.3	16.1

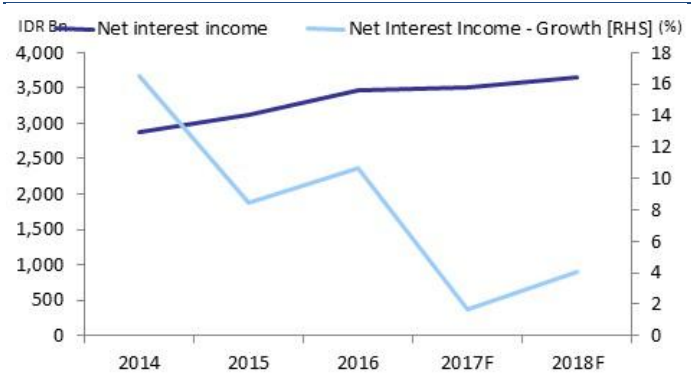
Source : BJTM, Danareksa Estimates

**Exhibit 1. LOAN AND GROWTH**



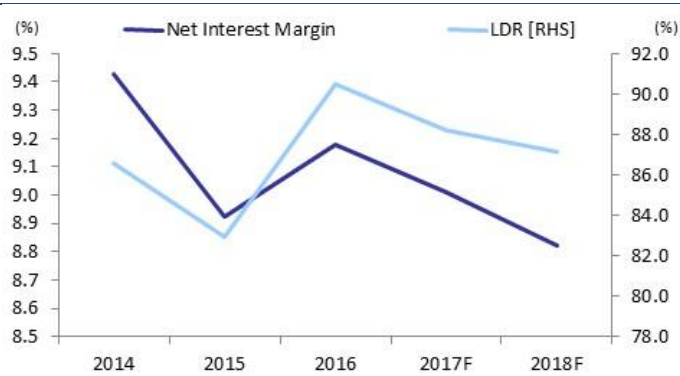
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. NET INTEREST INCOME AND GROWTH**



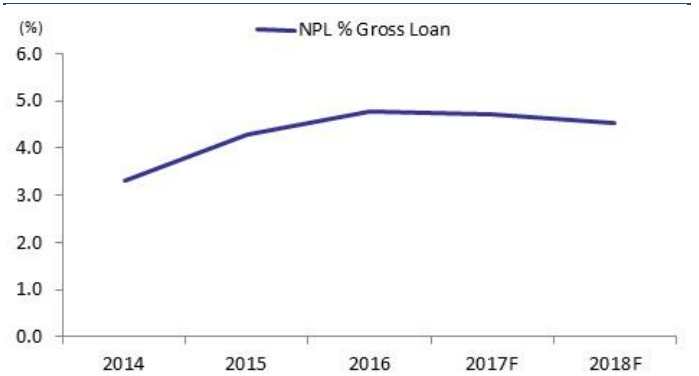
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. NIM AND LDR**



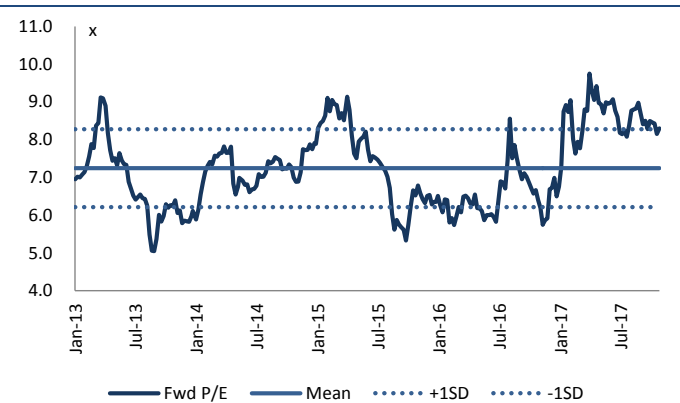
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPL**



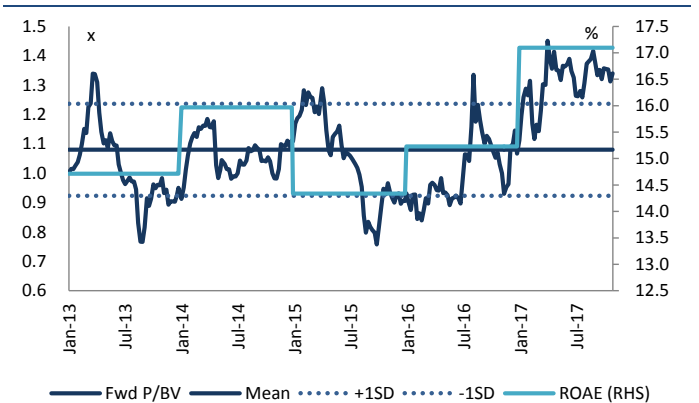
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. PBV ROAE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Interest Income	4,704	4,904	4,951	5,146	5,470
Interest Expense	(1,580)	(1,446)	(1,436)	(1,489)	(1,540)
<b>Net Interest Income</b>	<b>3,124</b>	<b>3,458</b>	<b>3,515</b>	<b>3,657</b>	<b>3,930</b>
Non-Interest Income (NII)	339	350	376	415	464
<b>Oper. Income</b>	<b>3,463</b>	<b>3,808</b>	<b>3,891</b>	<b>4,072</b>	<b>4,394</b>
Oper. Expenses	(1,667)	(1,846)	(1,923)	(2,047)	(2,236)
<b>Pre-provisions profit</b>	<b>1,796</b>	<b>1,961</b>	<b>1,968</b>	<b>2,025</b>	<b>2,158</b>
Provisions & Allowances	(599)	(510)	(205)	(223)	(261)
<b>Operating Profits</b>	<b>1,197</b>	<b>1,452</b>	<b>1,763</b>	<b>1,802</b>	<b>1,897</b>
Non-Operating Income	64	1	30	32	31
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,261</b>	<b>1,452</b>	<b>1,793</b>	<b>1,834</b>	<b>1,928</b>
Income Tax	(377)	(424)	(511)	(513)	(530)
Minorities	0	0	0	0	0
<b>Net Profit</b>	<b>885</b>	<b>1,028</b>	<b>1,282</b>	<b>1,320</b>	<b>1,398</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Gross Loans	28,412	29,675	31,152	33,493	36,607
Provisions	(988)	(1,322)	(1,251)	(1,310)	(1,410)
<b>Net Loans</b>	<b>27,424</b>	<b>28,353</b>	<b>29,901</b>	<b>32,183</b>	<b>35,197</b>
Govt. Bonds	0	0	0	0	0
Securities	5,502	3,528	3,705	3,890	4,085
Other Earnings Assets	0	0	0	0	0
<b>Total Earnings Assets</b>	<b>37,069</b>	<b>38,301</b>	<b>39,713</b>	<b>43,200</b>	<b>47,093</b>
Fixed Assets	696	1,281	1,368	1,460	1,559
Non-Earnings Assets	816	780	450	451	451
<b>Total Assets</b>	<b>42,804</b>	<b>43,033</b>	<b>45,375</b>	<b>49,256</b>	<b>53,683</b>
Customer Deposits	34,264	32,799	35,312	38,439	42,057
Banks Deposits	853	1,218	605	617	629
Int. Bearing Liab. - Others	36,062	35,312	37,450	40,737	44,529
<b>Total Liabilities</b>	<b>36,508</b>	<b>35,823</b>	<b>37,588</b>	<b>40,876</b>	<b>44,673</b>
Share capital & Reserves	4,239	4,766	4,766	4,766	4,766
Retained Earnings	2,057	2,443	3,020	3,614	4,243
<b>Shareholders' Funds</b>	<b>6,295</b>	<b>7,210</b>	<b>7,786</b>	<b>8,380</b>	<b>9,009</b>
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>42,804</b>	<b>43,033</b>	<b>45,375</b>	<b>49,256</b>	<b>53,683</b>

### Exhibit 9. Ratios

Year to 31 Dec (%)	2015A	2016A	2017F	2018F	2019F
Yield on Earning Assets	13.4	13.0	12.7	12.4	12.1
Cost of funds	4.7	4.1	3.9	3.8	3.6
Interest Spread	8.8	9.0	8.7	8.6	8.5
Net Interest Margin	8.9	9.2	9.0	8.8	8.7
Cost/Income Ratio	48.1	48.5	49.4	50.3	50.9
Oper. Exp./Oper. Gross Inc.	76.3	72.4	66.9	67.6	68.0
Gross NPL Ratio	4.3	4.8	4.7	4.5	4.4
LLP/Gross NPL	81.0	93.5	85.1	86.4	87.2
Cost of Credit	2.2	1.8	0.7	0.7	0.7
Loan to Deposit Ratio	82.9	90.5	88.2	87.1	87.0
Loan to Funding Ratio	79.8	84.8	84.2	83.2	83.2
CASA Mix	74.7	75.4	78.3	79.4	80.2
ROAE	14.3	15.2	17.1	16.3	16.1
ROAA	2.2	2.4	2.9	2.8	2.7
CAR	21.4	24.3	24.2	24.5	24.5

### Exhibit 10. Dupont and growth

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Dupont</b>					
Pre-Tax ROAA	3.1	3.4	4.1	3.9	3.7
Tax Retention rate	70.1	70.8	71.5	72.0	72.5
Post-Tax ROAA	2.2	2.4	2.9	2.8	2.7
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	6.5	6.4	5.9	5.9	5.9
ROAE	14.3	15.2	17.1	16.3	16.1
<b>Growth (%)</b>					
Interest income	15.2	4.3	1.0	3.9	6.3
Net Interest Income	8.4	10.7	1.7	4.0	7.5
Other Oper. Expenses	19.2	10.8	4.2	6.4	9.2
Fee Based Income	82.8	25.8	17.5	20.0	17.5
Pre-Provision Oper. Profit	(3.2)	9.2	0.3	2.9	6.5
Net Profit	(5.8)	16.2	24.7	3.0	5.9
Shareholders' Equity	4.2	14.5	8.0	7.6	7.5
Loan	8.5	4.4	5.0	7.5	9.3
Earnings Asset	12.5	3.3	3.7	8.8	9.0
Deposit	13.7	(3.1)	5.6	8.7	9.3
Int. Bearing Liab.	14.4	(2.1)	6.1	8.8	9.3
CASA	15.9	(2.3)	9.6	10.3	10.3
Total Asset	12.6	0.5	5.4	8.6	9.0

Source : BJTM, Danareksa Estimates

#### DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.

Tuesday, 09 January 2018

**HOLD**  
**Maintain**

Last price (IDR) 9,300  
Target Price (IDR) 8,500  
Upside/Downside -8.6%  
Previous Target Price (IDR) 8,500

**Stock Statistics**

Sector Banking  
Bloomberg Ticker BBNI JJ  
No of Shrs (mn) 18,649  
Mkt. Cap (IDRbn/USDmn) 173,433/12,915  
Avg. daily T/O (IDRbn/USDmn) 141.0/10.5

**Major shareholders**

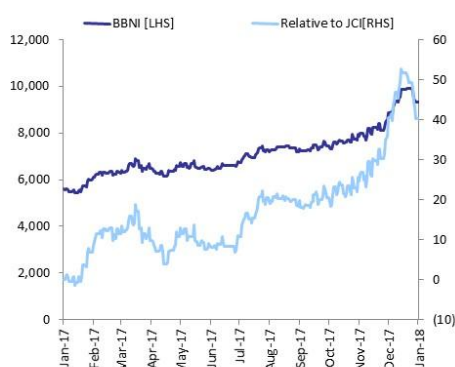
Government of Indonesia 60.0

Estimated free float (%) 40.0

**EPS Consensus (IDR)**

	2017F	2018F	2019F
Danareksa	701.9	804.2	907.8
Consensus	712.5	822.2	916.5
Danareksa/Cons	(1.5)	(2.2)	(0.9)

**BBNI relative to JCI Index**



Source : Bloomberg



**Eka Savitri**

(62-21) 2955 5888 ext 3506  
eka.savitri@danareksa.co.id

## Bank Negara Indonesia (BBNI JJ)

### Wait And See Game

As one of the JCI's big cap best performers in 2017 (+84.9%), BBNI's current share price already entirely prices in the positive outlook for this year, in our view. The narrower valuation gap between BBNI and BMRI is reasonable given the same business model with similar ROAE expectations. Assets quality should be the bank's main focus post aggressive loans growth in the past three years. As such, we conservatively assume a flat gross NPLs ratio of 2.7% by the end of 2018F. **HOLD** with a TP of IDR8,500.

**One of the JCI's big cap best performers.** BBNI's share price has rallied by +84.9% in 2017, outperforming other big cap Indonesian banks such as BBRI (+61.1%) and BMRI (+55%). This might be justified due to its strategy to focus more on significant government-infrastructure projects in Indonesia. We also see a narrower valuation gap between BBNI and BMRI as both banks offer similar ROAE expectations at 14-15%. Nonetheless, the current share price already entirely prices in the positive outlook for this year, in our view.

**Size is the key constraint.** Due to its similar business model with a focus on corporate lending, BBNI and BMRI are facing the same challenges to support government infrastructure projects. In addition, BBNI has already financed quite a substantial amount of loans with few projects in the pipeline, i.e. transportation (IDR3.8trn) and power (IDR3.5trn). Nonetheless, given constraints concerning its size, we assume no further sizeable loans are financed in infrastructure projects by BBNI going forward.

**Should shift its focus toward assets quality.** Post aggressive loans growth with 3-year CAGR of 18.8%, BBNI should shift its focus more towards assets quality, in our view. Note also, there is usually an 18-months lag time until borrowers start facing difficulties in repaying their loans. Despite the requirement of higher collateral value, we still see some downside risks on its non-SOE corporate names risk profile. All in all, we think a gross NPLs ratio of 2.7% by the end of next year looks reasonable.

**Maintain HOLD, TP of IDR8,500.** We maintain our HOLD call on BBNI on valuation call basis. Our TP (implies 1.5x P/BV for 2018F) derived from GGM assumes 10.6% CoE, 14% sustainable ROAE and 3% long-term growth.

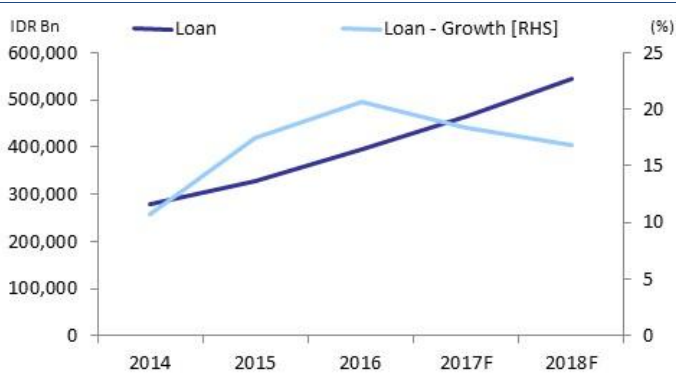
### Key Financials

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
PPOP, (IDRbn)	18,748	22,082	25,371	28,550	32,514
Net profit (IDRbn)	9,067	11,339	13,089	14,997	16,930
EPS (IDR)	486.2	608.0	701.9	804.2	907.8
EPS growth (%)	0.1	25.1	15.4	14.6	12.9
BVPS, (IDR)	4,097.6	4,673.7	5,200.1	5,843.4	6,569.7
PER (x)	19.1	15.3	13.2	11.6	10.2
PBV (x)	2.3	2.0	1.8	1.6	1.4
Dividend yield (%)	1.3	2.3	1.9	1.7	2.0
ROAE (%)	13.4	13.9	14.2	14.6	14.6

Source : BBNi, Danareksa Estimates

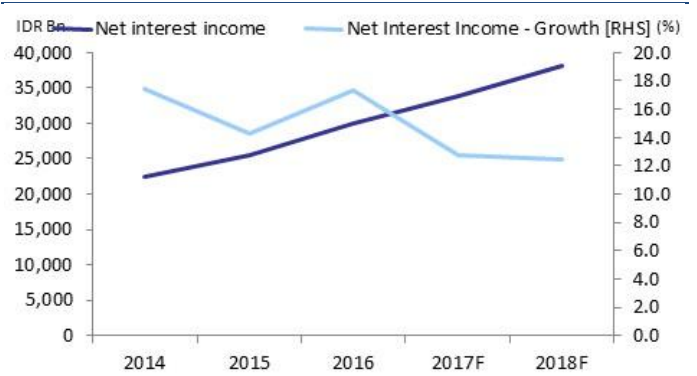


**Exhibit 1. LOAN AND GROWTH**



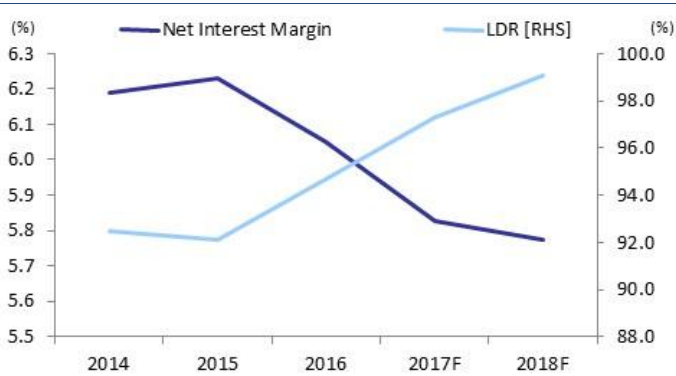
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. NET INTEREST INCOME AND GROWTH**



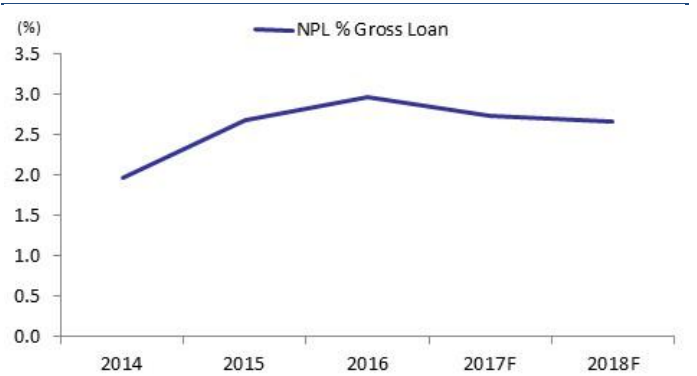
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. NIM AND LDR**



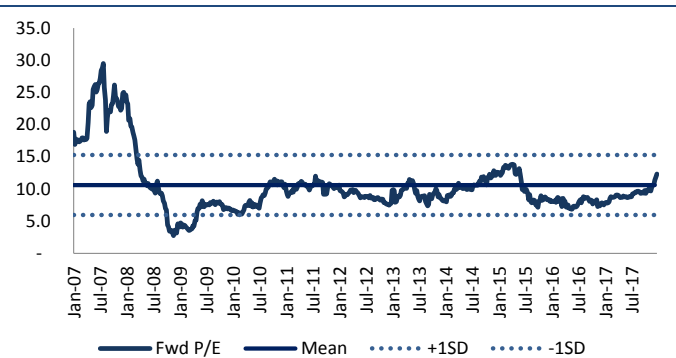
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPL**



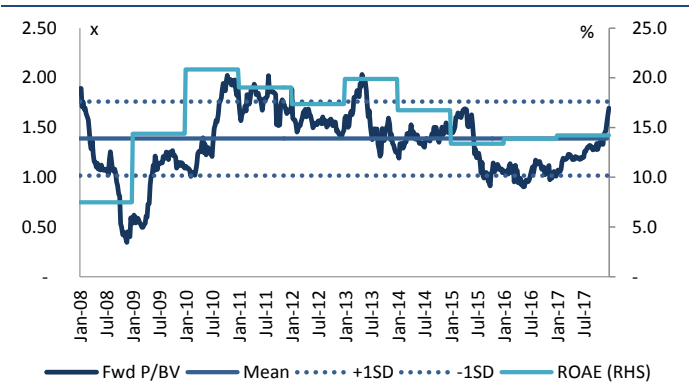
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. PBV BAND CHART**



Source: Company, Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Interest Income	36,895	43,768	49,675	55,673	62,385
Interest Expense	(11,335)	(13,773)	(15,848)	(17,638)	(19,201)
<b>Net Interest Income</b>	<b>25,560</b>	<b>29,995</b>	<b>33,828</b>	<b>38,035</b>	<b>43,184</b>
Non-Interest Income (NII)	9,090	10,702	13,047	15,297	18,144
<b>Oper. Income</b>	<b>34,650</b>	<b>40,697</b>	<b>46,875</b>	<b>53,332</b>	<b>61,329</b>
Oper. Expenses	(16,510)	(19,217)	(21,503)	(24,781)	(28,815)
<b>Pre-provisions profit</b>	<b>18,748</b>	<b>22,082</b>	<b>25,371</b>	<b>28,550</b>	<b>32,514</b>
Provisions & Allowances	(7,336)	(7,853)	(8,882)	(9,715)	(11,248)
<b>Operating Profits</b>	<b>11,412</b>	<b>14,229</b>	<b>16,489</b>	<b>18,835</b>	<b>21,266</b>
Non-Operating Income	54	74	102	80	90
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>11,466</b>	<b>14,303</b>	<b>16,591</b>	<b>18,916</b>	<b>21,355</b>
Income Tax	(2,326)	(2,893)	(3,401)	(3,783)	(4,271)
Minorities	(74)	(71)	(101)	(136)	(154)
<b>Net Profit</b>	<b>9,067</b>	<b>11,339</b>	<b>13,089</b>	<b>14,997</b>	<b>16,930</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Gross Loans	326,105	393,275	465,457	543,715	629,390
Provisions	(12,039)	(16,681)	(18,684)	(21,103)	(23,647)
<b>Net Loans</b>	<b>314,067</b>	<b>376,595</b>	<b>446,773</b>	<b>522,612</b>	<b>605,743</b>
Govt. Bonds	47,222	63,006	81,113	65,278	52,551
Securities	9,927	23,765	15,380	24,670	23,688
Other Earnings Assets	0	0	0	0	0
<b>Total Earnings Assets</b>	<b>446,140</b>	<b>545,213</b>	<b>615,851</b>	<b>701,597</b>	<b>783,225</b>
Fixed Assets	26,349	28,426	33,640	35,585	41,666
Non-Earnings Assets	8,414	9,824	8,663	8,782	8,286
<b>Total Assets</b>	<b>508,595</b>	<b>603,032</b>	<b>681,423</b>	<b>777,250</b>	<b>867,402</b>
Customer Deposits	353,937	415,453	478,487	548,728	628,220
Banks Deposits	4,248	9,735	7,321	7,622	8,027
Int. Bearing Liab. - Others	417,327	497,772	566,920	648,267	742,399
<b>Total Liabilities</b>	<b>430,157</b>	<b>513,778</b>	<b>582,252</b>	<b>665,945</b>	<b>742,399</b>
Share capital & Reserves	34,877	36,359	36,359	36,359	36,359
Retained Earnings	41,538	50,798	60,615	72,613	86,157
<b>Shareholders' Funds</b>	<b>76,415</b>	<b>87,157</b>	<b>96,974</b>	<b>108,972</b>	<b>122,516</b>
Minority interests	2,023	2,097	2,197	2,333	2,488
<b>Total Equity &amp; Liabilities</b>	<b>508,595</b>	<b>603,032</b>	<b>681,423</b>	<b>777,250</b>	<b>867,402</b>

### Exhibit 9. Ratios

Year to 31 Dec (%)	2015A	2016A	2017F	2018F	2019F
Yield on Earning Assets	9.0	8.8	8.6	8.5	8.4
Cost of funds	3.0	3.0	3.0	2.9	2.8
Interest Spread	6.0	5.8	5.6	5.5	5.6
Net Interest Margin	6.2	6.1	5.8	5.8	5.8
Cost/Income Ratio	46.8	46.5	45.9	46.5	47.0
Oper. Exp./Oper. Gross Inc.	75.5	74.2	73.7	73.5	73.6
Gross NPL Ratio	2.7	3.0	2.7	2.7	2.6
LLP/Gross NPL	138.2	143.3	146.8	146.0	145.1
Cost of Credit	2.4	2.2	2.1	1.9	1.9
Loan to Deposit Ratio	92.1	94.7	97.3	99.1	100.2
Loan to Funding Ratio	79.9	80.3	83.2	84.8	85.6
CASA Mix	61.5	64.4	66.1	66.4	66.7
ROAE	13.4	13.9	14.2	14.6	14.6
ROAA	2.0	2.0	2.0	2.1	2.1
CAR	19.5	18.6	18.3	17.6	17.2

### Exhibit 10. Dupont and growth

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Dupont</b>					
Pre-Tax ROAA	2.5	2.6	2.6	2.6	2.6
Tax Retention rate	79.7	79.8	79.5	80.0	80.0
Post-Tax ROAA	2.0	2.1	2.1	2.1	2.1
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	6.8	6.8	7.0	7.1	7.1
ROAE	13.4	13.9	14.2	14.6	14.6
<b>Growth (%)</b>					
Interest income	10.6	18.6	13.5	12.1	12.1
Net Interest Income	14.2	17.4	12.8	12.4	13.5
Other Oper. Expenses	2.5	16.4	11.9	15.2	16.3
Fee Based Income	19.3	16.8	20.6	16.5	15.5
Pre-Provision Oper. Profit	22.9	17.8	14.9	12.5	13.9
Net Profit	0.1	25.1	15.4	14.6	12.9
Shareholders' Equity	29.4	14.1	11.3	12.4	12.4
Loan	17.5	20.6	18.4	16.8	15.8
Earnings Asset	19.2	22.2	13.0	13.9	11.6
Deposit	18.3	18.7	14.3	14.5	14.4
Int. Bearing Liab.	20.7	19.3	13.9	14.3	14.5
CASA	11.3	24.4	17.2	15.1	14.9
Total Asset	22.1	18.6	13.0	14.1	11.6

Source : BBNI, Danareksa Estimates

#### DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.

Tuesday, 09 January 2018

**HOLD**  
**Maintain**

Last price (IDR) 7,925  
Target Price (IDR) 7,700  
Upside/Downside -2.8%  
Previous Target Price (IDR) 7,700

**Stock Statistics**

Sector Banking  
Bloomberg Ticker BMRI IJ  
No of Shrs (mn) 46,667  
Mkt. Cap (IDRbn/USDmn) 369,833/27,540  
Avg. daily T/O (IDRbn/USDmn) 264.8/19.7

**Major shareholders**

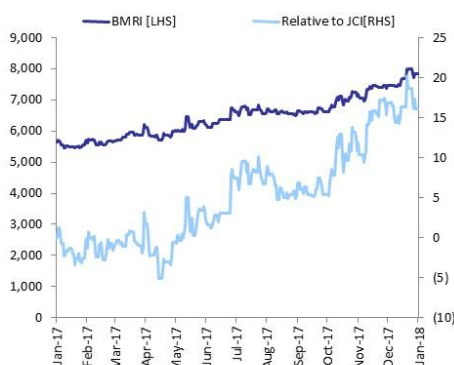
Government of Indonesia 60.0

Estimated free float (%) 40.0

**EPS Consensus (IDR)**

	2017F	2018F	2019F
Danareksa	419.0	505.5	602.0
Consensus	436.6	550.3	637.0
Danareksa/Cons	(4.0)	(8.1)	(5.5)

**BMRI relative to JCI Index**



Source : Bloomberg



**Eka Savitri**  
(62-21) 2955 5888 ext 3506  
eka.savitri@danareksa.co.id

# Bank Mandiri (BMRI IJ)

## All Fair and Square

**We maintain our HOLD call on BMRI as we believe that the current valuation already prices in the positive outlook this year. Given an SOE bank status, we concerns on its lending related to the development of large-scale government-related infrastructure projects. This is because these loans carry low yields with long tenors. Hence, we expect the loan yield to drop by 29bps to 9.9%, translating into a lower NIM of 5.5% assuming a flat blended CoF at 3.1% in FY18F. HOLD maintained.**

**Higher corporate lending exposure.** Given its status as an SOE bank, BMRI is under more pressure to provide financing for government-related infrastructure projects. Note that its peer, BBNI, another major SOE bank with high corporate lending exposure, has size limitations in regard to the amount of financing it can provide. We thus estimate 14.9% yoy growth in BMRI's corporate lending next year, above our loans growth expectation of 11.6%. This will translate to 41% contribution to total loans book by the end of year.

**Further pressure on its NIM.** Given the higher corporate lending exposure, loan yields will continue to drop by c.29bps to 9.9% in FY18F. In addition, we also believe that asset yields compression will stem from BMRI have IDR100.2tn of government recap bonds as of September 2017 given the decline in government bond yields. As such, we assume a 10bps decline in asset yields to 8.4% whilst assuming a flat blended CoF at 3.1%. This should translate into 10bps compression in the NIM to 5.5% in FY18F.

**Gradual improvement in asset quality.** BMRI's asset quality would gradually improve on the back of its recent shifting more towards corporate and consumer lending. Moreover, both segments provide more manageable credit costs in our view, compared to commercial lending segment for example. All in, we expect a major drop in credit cost to 205bps this year (9M17: 244bps) and 3.4% gross NPLs ratio by end of 2018 with 136.6% LLC ratio.

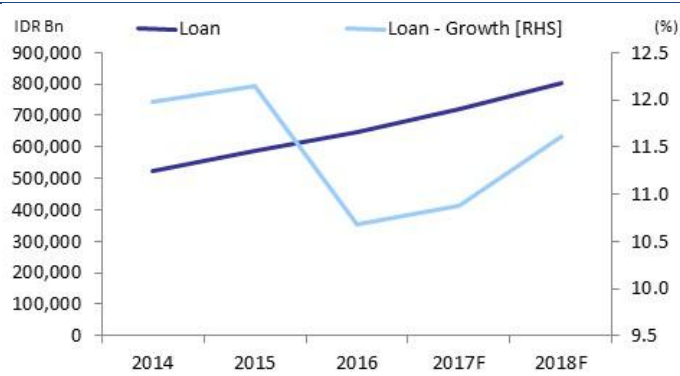
**Maintain HOLD, TP of IDR7,700.** We maintain our HOLD call on BMRI with an unchanged GGM-derived TP of IDR7,700 (implying 2.04x 2018F P/BV) as we view the current valuation already prices in. We assume 9.25% CoE, 15.8% sustainable ROAE and 3% long-term growth.

**Key Financials**

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
PPOP, (IDRbn)	38,382	43,258	45,051	48,088	51,319
Net profit (IDRbn)	20,335	13,807	19,555	23,590	28,094
EPS (IDR)	435.7	295.9	419.0	505.5	602.0
EPS growth (%)	2.3	(32.1)	41.6	20.6	19.1
BVPS, (IDR)	2,508.6	3,221.6	3,452.1	3,755.4	4,176.8
PER (x)	18.0	26.4	18.7	15.5	13.0
PBV (x)	3.1	2.4	2.3	2.1	1.9
Dividend yield (%)	1.7	1.7	2.4	2.6	2.3
ROAE (%)	18.5	10.3	12.6	14.0	15.2

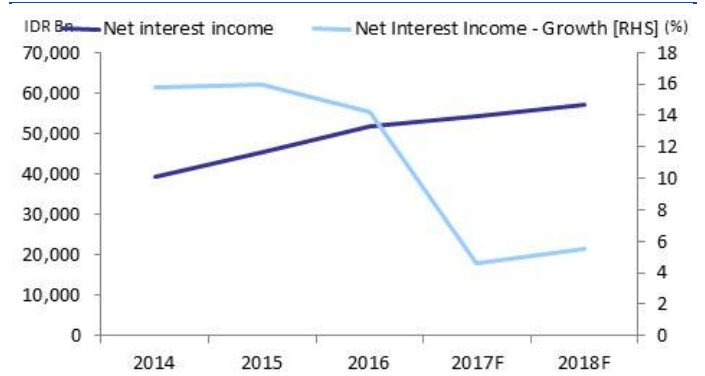
Source : BMRI, Danareksa Estimates

**Exhibit 1. LOAN AND GROWTH**



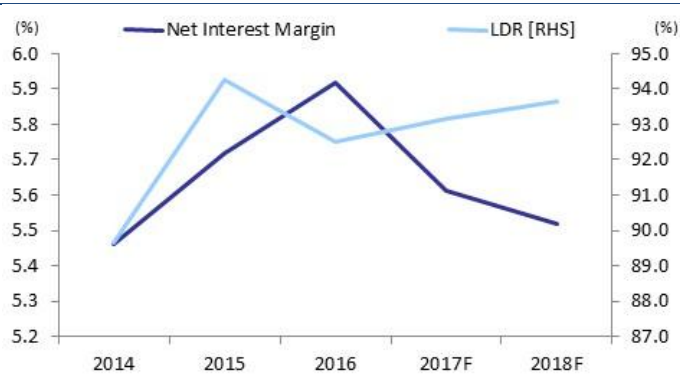
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. NET INTEREST INCOME AND GROWTH**



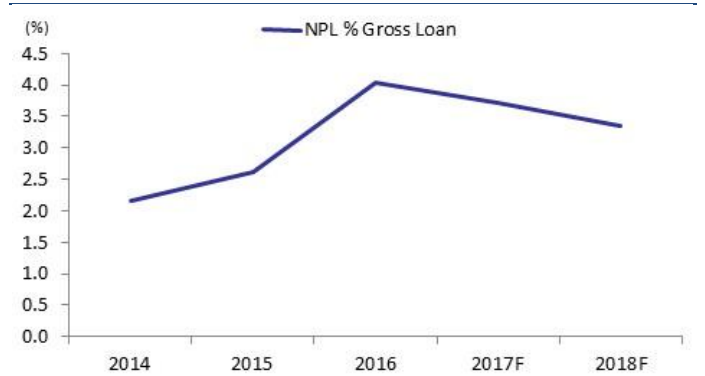
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. NIM AND LDR**



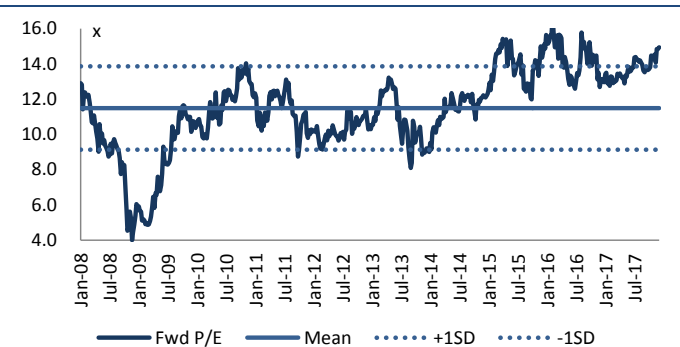
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPL**



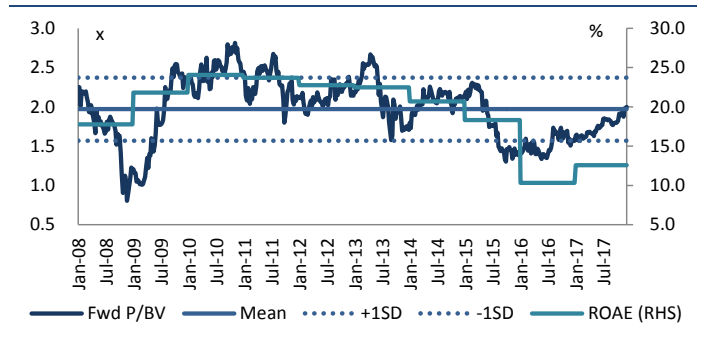
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. PBV BAND CHART**



Source: Company, Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Interest Income	71,570	76,710	81,842	87,045	93,520
Interest Expense	(26,207)	(24,885)	(27,627)	(29,817)	(33,123)
<b>Net Interest Income</b>	<b>45,363</b>	<b>51,825</b>	<b>54,215</b>	<b>57,228</b>	<b>60,397</b>
Non-Interest Income (NII)	21,516	21,939	24,307	26,932	30,220
<b>Oper. Income</b>	<b>66,879</b>	<b>73,764</b>	<b>78,522</b>	<b>84,160</b>	<b>90,617</b>
Oper. Expenses	(28,755)	(31,268)	(33,471)	(36,072)	(39,297)
<b>Pre-provisions profit</b>	<b>38,382</b>	<b>43,258</b>	<b>45,051</b>	<b>48,088</b>	<b>51,319</b>
Provisions & Allowances	(12,043)	(24,645)	(17,884)	(15,607)	(13,423)
<b>Operating Profits</b>	<b>26,339</b>	<b>18,613</b>	<b>27,167</b>	<b>32,481</b>	<b>37,896</b>
Non-Operating Income	30	(40)	(40)	(40)	(40)
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>26,369</b>	<b>18,573</b>	<b>27,127</b>	<b>32,441</b>	<b>37,857</b>
Income Tax	(5,217)	(3,923)	(6,690)	(7,920)	(8,780)
Minorities	(817)	(844)	(882)	(932)	(983)
<b>Net Profit</b>	<b>20,335</b>	<b>13,807</b>	<b>19,555</b>	<b>23,590</b>	<b>28,094</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Gross Loans	586,675	649,323	719,942	803,550	912,200
Provisions	(22,282)	(32,617)	(34,667)	(36,828)	(41,049)
<b>Net Loans</b>	<b>564,394</b>	<b>616,706</b>	<b>685,275</b>	<b>766,721</b>	<b>871,150</b>
Govt. Bonds	103,869	98,933	103,513	98,727	93,941
Securities	43,642	56,552	50,545	50,815	48,275
Other Earnings Assets	8,506	12,362	14,037	17,651	20,086
<b>Total Earnings Assets</b>	<b>815,952</b>	<b>935,156</b>	<b>996,649</b>	<b>1,076,654</b>	<b>1,181,358</b>
Fixed Assets	17,470	44,737	73,104	103,005	134,602
Non-Earnings Assets	20,325	18,877	18,434	19,016	18,775
<b>Total Assets</b>	<b>910,063</b>	<b>1,038,594</b>	<b>1,103,526</b>	<b>1,206,386</b>	<b>1,338,232</b>
Customer Deposits	622,332	702,060	772,646	857,957	966,340
Banks Deposits	12,636	9,339	7,439	7,960	8,517
Int. Bearing Liab. - Others	746,892	837,515	916,895	1,006,313	1,119,213
<b>Total Liabilities</b>	<b>790,572</b>	<b>885,336</b>	<b>938,631</b>	<b>1,026,405</b>	<b>1,137,603</b>
Share capital & Reserves	27,846	53,523	53,523	53,523	53,523
Retained Earnings	89,225	96,818	107,574	121,728	141,393
<b>Shareholders' Funds</b>	<b>117,070</b>	<b>150,341</b>	<b>161,097</b>	<b>175,251</b>	<b>194,916</b>
Minority interests	2,422	2,916	3,798	4,730	5,713
<b>Total Equity &amp; Liabilities</b>	<b>910,063</b>	<b>1,038,594</b>	<b>1,103,526</b>	<b>1,206,386</b>	<b>1,338,232</b>

### Exhibit 9. Ratios

Year to 31 Dec (%)	2015A	2016A	2017F	2018F	2019F
Yield on Earning Assets	9.0	8.8	8.5	8.4	8.3
Cost of funds	3.6	3.1	3.1	3.1	3.1
Interest Spread	5.4	5.6	5.3	5.3	5.2
Net Interest Margin	5.7	5.9	5.6	5.5	5.3
Cost/Income Ratio	42.8	42.0	42.6	42.9	43.4
Oper. Exp./Oper. Gross Inc.	71.8	81.3	74.4	71.5	69.4
Gross NPL Ratio	2.6	4.0	3.7	3.4	2.9
LLP/Gross NPL	144.9	124.6	129.8	136.6	154.4
Cost of Credit	2.2	4.0	2.6	2.0	1.6
Loan to Deposit Ratio	94.3	92.5	93.2	93.7	94.4
Loan to Funding Ratio	79.9	79.1	79.5	80.7	82.4
CASA Mix	66.3	65.2	66.5	66.9	66.1
ROAE	18.5	10.3	12.6	14.0	15.2
ROAA	2.3	1.4	1.8	2.0	2.2
CAR	18.6	21.4	17.8	17.2	16.9

### Exhibit 10. Dupont and growth

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Dupont</b>					
Pre-Tax ROAA	3.0	1.9	2.5	2.8	3.0
Tax Retention rate	80.2	78.9	75.3	75.6	76.8
Post-Tax ROAA	2.4	1.5	1.9	2.1	2.3
Goodwil, Assoc& Min	0.1	0.1	0.1	0.1	0.1
Leverage	8.0	7.3	6.9	6.9	6.9
ROAE	18.5	10.3	12.6	14.0	15.2
<b>Growth (%)</b>					
Interest income	14.3	7.2	6.7	6.4	7.4
Net Interest Income	15.9	14.2	4.6	5.6	5.5
Other Oper. Expenses	13.3	8.7	7.0	7.8	8.9
Fee Based Income	11.3	7.2	8.4	12.0	13.5
Pre-Provision Oper. Profit	21.8	12.7	4.1	6.7	6.7
Net Profit	2.3	(32.1)	41.6	20.6	19.1
Shareholders' Equity	14.0	28.4	7.2	8.8	11.2
Loan	12.2	10.7	10.9	11.6	13.5
Earnings Asset	5.8	14.6	6.6	8.0	9.7
Deposit	5.7	12.0	9.7	11.0	12.6
Int. Bearing Liab.	6.0	12.1	9.5	9.8	11.2
CASA	17.1	10.2	11.8	11.7	11.2
Total Asset	6.4	14.1	6.3	9.3	10.9

Source : BMRI, Danareksa Estimates

#### DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.

Tuesday, 09 January 2018

**HOLD**  
**Maintain**

Last price (IDR) 22,350  
Target Price (IDR) 21,000  
Upside/Downside -6.0%  
Previous Target Price (IDR) 21,000

**Stock Statistics**

Sector Banking  
Bloomberg Ticker BBKA JJ  
No of Shrs (mn) 24,945  
Mkt. Cap (IDRbn/USDmn) 557,516/41,516  
Avg. daily T/O (IDRbn/USDmn) 286.2/21.3

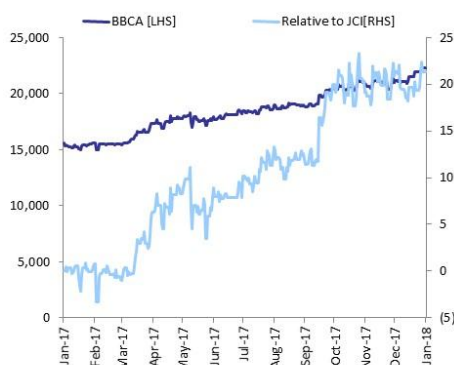
**Major shareholders**

PT Dwimuria Investama 54.9  
Anthony Salim 1.8  
Estimated free float (%) 43.3

**EPS Consensus (IDR)**

	2017F	2018F	2019F
Danareksa	958.0	1,097.9	1,285.0
Consensus	936.6	1,050.5	1,200.1
Danareksa/Cons	2.3	4.5	7.1

**BBCA relative to JCI Index**



Source : Bloomberg



**Eka Savitri**  
(62-21) 2955 5888 ext 3506  
eka.savitri@danareksa.co.id

# Bank Central Asia (BBKA JJ)

## How High Can It Go?

We reiterate our HOLD call on BBKA, noting its premium valuation at 3.5x 2018F P/BV, far above the average for our universe of banks at 2.2x P/BV for 2018F. At the same time, we also foresee limited room for a lower blended CoF going forward as its TD rate already stands at 4.5%, far below its peers. As compression in asset yields is inevitable in a low interest rates environment and due to participation in government-infrastructure projects, we expect the assets yield to decline to 8.6% due to 18bps loan yields reduction in FY18F.

**Limited room for a lower blended CoF.** Given BBKA's status as the transactional bank of choice, the bank benefits from substantial CASA deposits in its funding structure. In addition, its current maximum TD rate is currently 4.5%, giving the bank the lowest blended CoF in the industry at 2.2% in 3Q17. As a result, we view limited room for further declines in its blended CoF going forward. We thus project a stable blended CoF of 1.9% in 2018 with a 78% CASA deposits proportion of total customer deposits by the end of year.

**More infrastructure projects in its loans book.** BBKA seeks to participate in several infrastructure projects that match with its risk appetite – namely toll roads and the Jabodetabek LRT project, yet with longer maturity profile and the lower yields. Lending for government infrastructure projects will be the main growth driver in 2018, we believe. In addition, mortgages will serve to balance BBKA's loans portfolio going forward given that the bank can offer one of the lowest rates in the market through its fix and cap program.

**Expect lower asset yields.** With total loans in the pipeline of IDR15-20tn dedicated to infrastructure projects, we expect further loans yields compression. In addition, bigger exposure on mortgages should also put more pressure due to its fix and cap program. All in all, we expect loan yields to drop by 18bps to 9.8% resulting to lower asset yields of 8.6% this year.

**HOLD maintained with a TP of IDR21,000.** We reiterate our HOLD call on BBKA with an unchanged GGM-derived TP of IDR21,000 assuming 7.8% CoE, 19% sustainable ROAE and 3% long-term growth. Our TP implies 3.3x 2018F P/BV multiple, its 15-years mean forward P/BV.

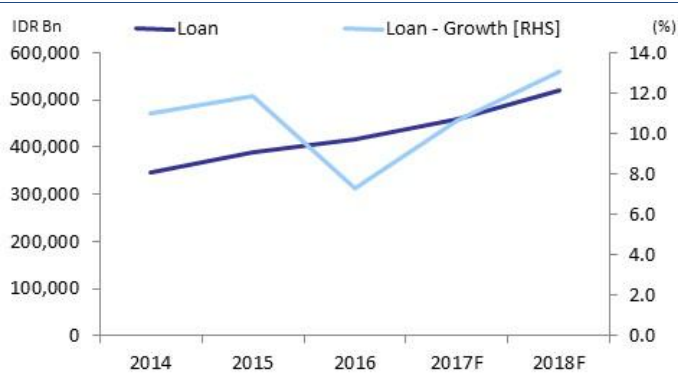
**Key Financials**

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
PPOP, (IDRbn)	26,162	30,400	34,155	37,878	43,267
Net profit (IDRbn)	18,019	20,606	23,620	27,068	31,682
EPS (IDR)	730.8	835.8	958.0	1,097.9	1,285.0
EPS growth (%)	9.3	14.4	14.6	14.6	17.0
BVPS, (IDR)	3,624.8	4,560.3	5,371.7	6,310.6	7,429.3
PER (x)	30.4	26.6	23.2	20.3	17.3
PBV (x)	6.1	4.9	4.1	3.5	3.0
Dividend yield (%)	0.6	0.6	0.7	0.7	0.8
ROAE (%)	21.9	20.4	19.3	18.8	18.7

Source : BBKA, Danareksa Estimates

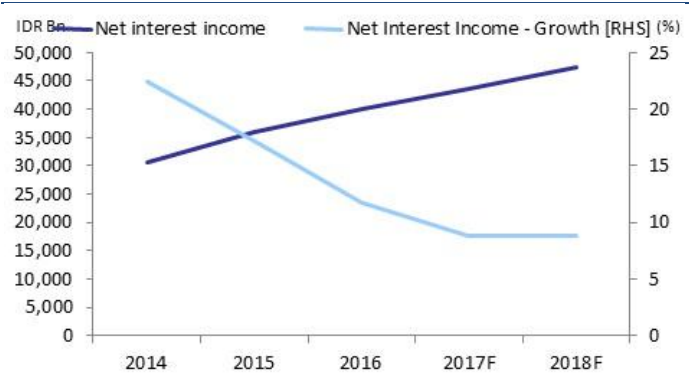


**Exhibit 1. LOANS AND GROWTH**



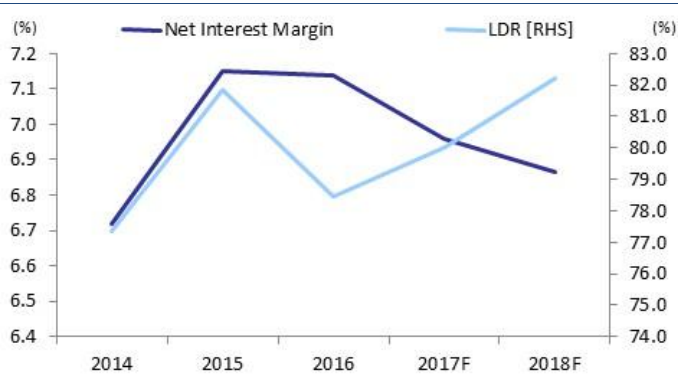
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. NET INTEREST INCOME AND GROWTH**



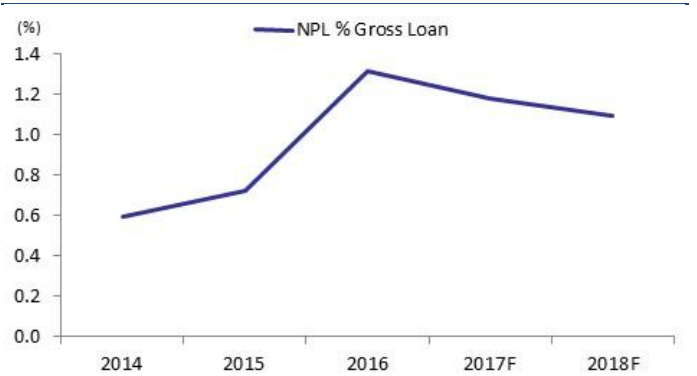
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. NIM AND LDR**



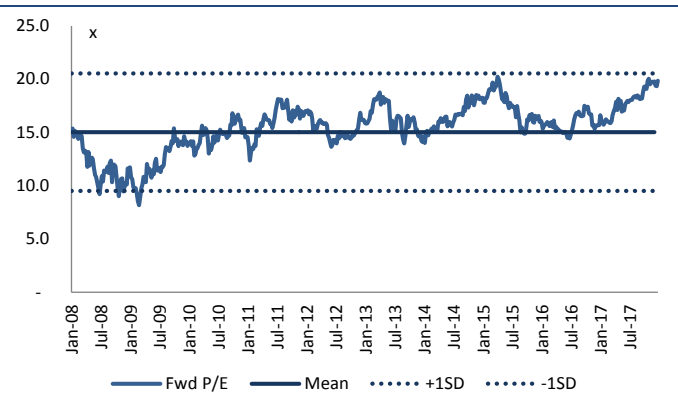
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPLs**



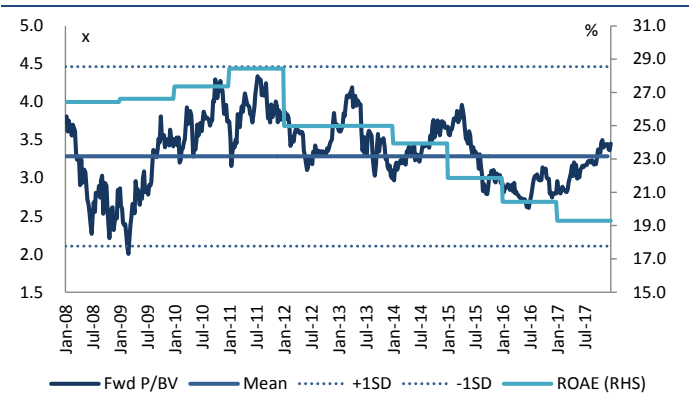
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. PBV AND ROAE CHART**



Source: Company, Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Interest Income	47,082	50,426	54,789	59,512	65,961
Interest Expense	(11,213)	(10,347)	(11,159)	(12,020)	(12,962)
<b>Net Interest Income</b>	<b>35,869</b>	<b>40,079</b>	<b>43,630</b>	<b>47,492</b>	<b>53,000</b>
Non-Interest Income (NII)	12,007	13,700	15,532	17,909	21,085
<b>Oper. Income</b>	<b>47,876</b>	<b>53,779</b>	<b>59,163</b>	<b>65,402</b>	<b>74,085</b>
Oper. Expenses	(21,714)	(23,379)	(25,008)	(27,524)	(30,818)
<b>Pre-provisions profit</b>	<b>26,162</b>	<b>30,400</b>	<b>34,155</b>	<b>37,878</b>	<b>43,267</b>
Provisions & Allowances	(3,505)	(4,561)	(4,672)	(4,030)	(3,650)
<b>Operating Profits</b>	<b>22,657</b>	<b>25,839</b>	<b>29,483</b>	<b>33,848</b>	<b>39,617</b>
Non-Operating Income	0	0	79	26	28
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>22,657</b>	<b>25,839</b>	<b>29,561</b>	<b>33,874</b>	<b>39,645</b>
Income Tax	(4,621)	(5,207)	(5,912)	(6,775)	(7,929)
Minorities	(17)	(27)	(29)	(31)	(34)
<b>Net Profit</b>	<b>18,019</b>	<b>20,606</b>	<b>23,620</b>	<b>27,068</b>	<b>31,682</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Gross Loans	387,643	415,896	460,163	520,253	598,289
Provisions	(9,026)	(12,505)	(15,115)	(15,881)	(17,267)
<b>Net Loans</b>	<b>378,616</b>	<b>403,391</b>	<b>445,048</b>	<b>504,372</b>	<b>581,022</b>
Govt. Bonds	0	0	69	35	17
Securities	52,937	113,836	127,839	139,811	159,201
Other Earnings Assets	10,516	11,788	11,769	12,838	13,817
<b>Total Earnings Assets</b>	<b>523,676</b>	<b>599,065</b>	<b>654,695</b>	<b>728,773</b>	<b>829,101</b>
Fixed Assets	16,758	25,234	27,801	30,474	33,516
Non-Earnings Assets	11,161	13,099	11,540	11,933	12,191
<b>Total Assets</b>	<b>594,373</b>	<b>676,739</b>	<b>743,602</b>	<b>825,787</b>	<b>928,840</b>
Customer Deposits	473,666	530,134	574,955	632,664	706,846
Banks Deposits	4,156	4,901	5,585	5,380	5,318
Int. Bearing Liab. - Others	490,028	548,431	595,303	654,059	729,522
<b>Total Liabilities</b>	<b>504,748</b>	<b>564,024</b>	<b>610,880</b>	<b>669,918</b>	<b>745,388</b>
Share capital & Reserves	7,374	13,930	13,977	13,981	14,001
Retained Earnings	81,995	98,503	118,462	141,606	169,169
<b>Shareholders' Funds</b>	<b>89,369</b>	<b>112,433</b>	<b>132,440</b>	<b>155,587</b>	<b>183,170</b>
Minority interests	256	282	282	282	282
<b>Total Equity &amp; Liabilities</b>	<b>594,373</b>	<b>676,739</b>	<b>743,602</b>	<b>825,787</b>	<b>928,840</b>

### Exhibit 9. Ratios

Year to 31 Dec (%)	2015A	2016A	2017F	2018F	2019F
Yield on Earning Assets	9.4	9.0	8.7	8.6	8.5
Cost of funds	2.4	2.0	2.0	1.9	1.9
Interest Spread	7.0	7.0	6.8	6.7	6.6
Net Interest Margin	7.2	7.1	7.0	6.9	6.8
Cost/Income Ratio	45.4	43.5	42.3	42.1	41.6
Oper. Exp./Oper. Gross Inc.	61.7	59.7	58.1	56.3	54.5
Gross NPL Ratio	0.7	1.3	1.2	1.1	1.0
LLP/Gross NPL	322.2	229.4	278.4	279.7	285.9
Cost of Credit	1.0	1.1	1.1	0.8	0.7
Loan to Deposit Ratio	81.8	78.5	80.0	82.2	84.6
Loan to Funding Ratio	79.8	76.4	78.0	80.3	82.8
CASA Mix	75.4	76.3	76.9	78.0	78.5
ROAE	21.9	20.4	19.3	18.8	18.7
ROAA	3.1	3.2	3.3	3.4	3.6
CAR	19.0	22.2	23.7	24.9	26.2

### Exhibit 10. Dupont and growth

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Dupont</b>					
Pre-Tax ROAA	3.9	4.1	4.2	4.3	4.5
Tax Retention rate	79.6	79.8	80.0	80.0	80.0
Post-Tax ROAA	3.1	3.2	3.3	3.5	3.6
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	7.0	6.3	5.8	5.4	5.2
ROAE	21.9	20.4	19.3	18.8	18.7
<b>Growth (%)</b>					
Interest income	11.2	7.1	8.7	8.6	10.8
Net Interest Income	17.2	11.7	8.9	8.9	11.6
Other Oper. Expenses	18.6	7.7	7.0	10.1	12.0
Fee Based Income	14.7	12.5	17.1	13.7	13.6
Pre-Provision Oper. Profit	15.0	16.2	12.3	10.9	14.2
Net Profit	9.3	14.4	14.6	14.6	17.0
Shareholders' Equity	18.4	25.8	17.8	17.5	17.7
Loan	11.9	7.3	10.6	13.1	15.0
Earnings Asset	9.2	14.4	9.3	11.3	13.8
Deposit	5.8	12.0	8.5	9.9	11.6
Int. Bearing Liab.	5.6	11.9	8.5	9.9	11.5
CASA	7.1	13.3	9.4	11.5	12.3
Total Asset	7.5	13.9	9.9	11.1	12.5

Source : BBCA, Danareksa Estimates

#### DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.