

Friday, 27 April 2018

**BUY**  
**Maintain**

Last price (IDR) 690  
Target Price (IDR) 830  
Upside/Downside +20.3%  
Previous Target Price (IDR) 830

#### Stock Statistics

Sector Banking  
Bloomberg Ticker BJTM IJ  
No of Shrs (mn) 14,975  
Mkt. Cap (IDRbn/USDmn) 10,332/742  
Avg. daily T/O (IDRbn/USDmn) 8.9/0.6

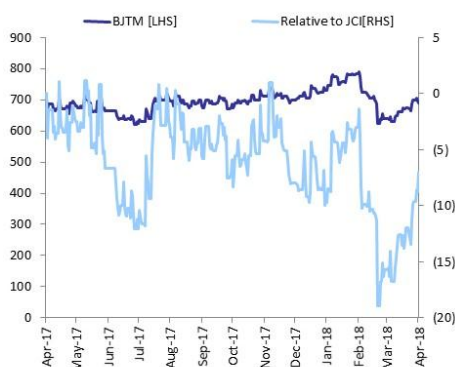
#### Major shareholders (%)

East Java provincial government 51.4  
East Java regencies government 28.5  
Estimated free float 20.3

#### EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	84.3	90.4	98.4
Consensus	87.9	93.4	n/a
Danareksa/Cons	(4.1)	(3.2)	(3.2)

#### BJTM relative to JCI Index



Source : Bloomberg



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## BPD Jatim (BJTM IJ)

### Modest growth

We maintain our BUY call on BJTM with a GGM-derived TP of IDR830, liking the bank for its strong foothold in East Java's civil servants multipurpose lending segment even though more players are competing in this segment. That said, CAR will remain healthy at 24.4% with 7.5% loans growth expected this year. The bank's commercial lending will be driven mainly by the syndicated loans scheme as the bank seeks to achieve a more manageable risk profile. As such, we assume a gross NPLs ratio of 4.4% and a 97% coverage ratio by the end of the year with 77bps credit costs.

**1Q18 highlights.** 1Q18's net profits of IDR377bn are inline with our forecast and its seasonal pattern as the 1Q results were 29.0-30.4% of the full year figure in the past three years. NIM contracted to 6.6% on the back of lower asset yields as BJTM adjusted down its lending rates by 100-200bps in general. The gross NPLs ratio and coverage ratio were flat at 4.8% and 95.4%, respectively, on a yoy comparison, with a 74bps credit cost (vs 132bps in 1Q17). All in all, we maintain our forecasts of 7.5% loans growth and 8.6% net profits growth this year.

**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. As for commercial lending, it may only be driven by the syndicated loans scheme (along with other big SOE banks) on certain infrastructure projects, i.e. the Pasuruan-Banyuwangi toll road. This year, we estimate that consumer loans will grow by 8.6%, thus pushing up the contribution from consumer loans to total loans to 70.8% by the end of the year.

**Lower NIM projection.** Amid 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%). Nonetheless, we still expect the bank's funding structure to remain secure thanks to strong support from the local government, both institutional and retail customer-based. Taking these factors into account, we project a compression in NIM to 7.8% given a lower assets yield of 11.4% for 2018.

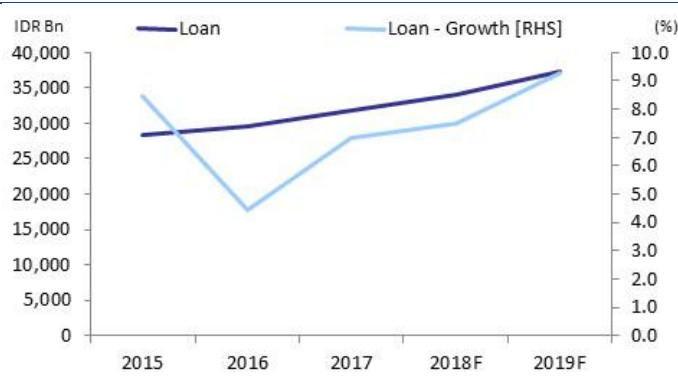
**BUY with a TP of IDR830.** We maintain our BUY call on BJTM with a GGM-derived TP of IDR830 assuming 11% CoE, 14.9% sustainable ROAE and 3% long-term growth. Our TP implies 1.5x 2018F P/BV.

#### Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
PPOP (IDRbn)	1,961	1,860	1,983	2,121	2,290
Net profit (IDRbn)	1,028	1,159	1,259	1,350	1,469
EPS (IDR)	68.9	77.7	84.3	90.4	98.4
EPS growth (%)	16.2	12.8	8.6	7.2	8.8
BVPS (IDR)	483.0	523.6	561.5	602.2	646.5
PER (x)	10.0	8.9	8.2	7.6	7.0
PBV (x)	1.4	1.3	1.2	1.1	1.1
Dividend yield (%)	6.3	5.9	6.7	7.2	7.8
ROAE (%)	15.2	15.4	15.5	15.5	15.8

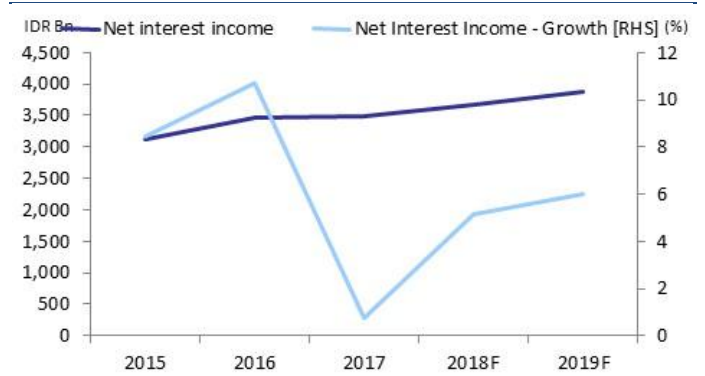
Source : BJTM, Danareksa Estimates

**Exhibit 1. Loans and Growth**



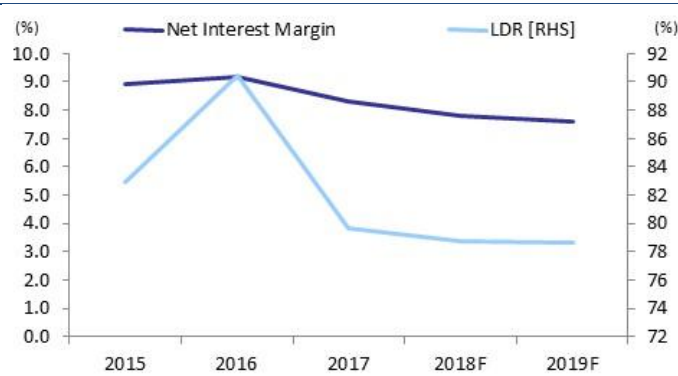
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Interest Income and Growth**



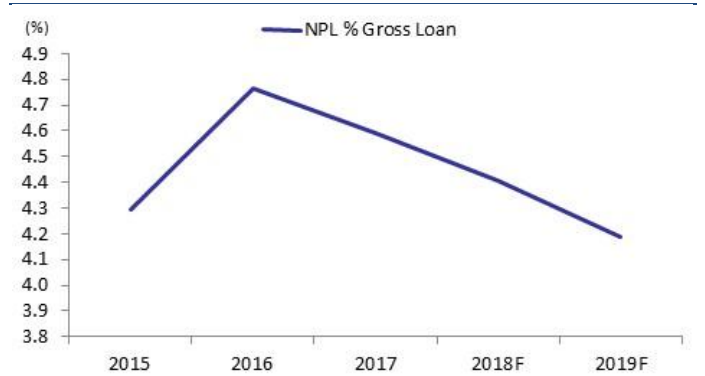
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. NIM and LDR**



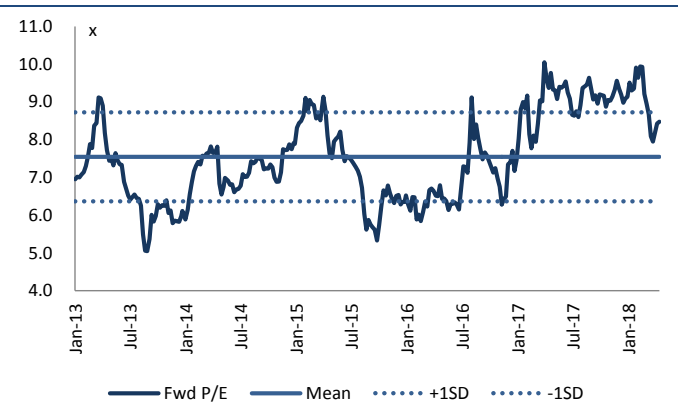
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPLs**



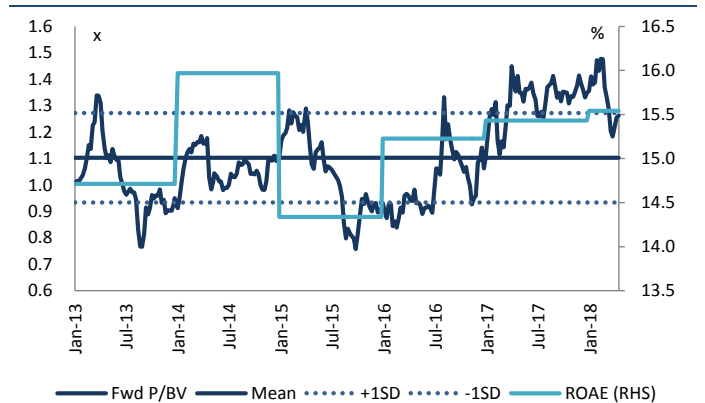
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. PBV ROAE BAND CHART**



Source: Company, Danareksa Sekuritas estimates

### Exhibit 7. BJTM's result

FYE Dec (IDR bn)	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)	Comments
Net interest income	852	861	874	1.6	2.6	
<i>Net interest margin (%)</i>	7.2	6.5	6.6			
Non-interest income	83	97	115	18.5	37.9	
<b>Operating income</b>	<b>935</b>	<b>957</b>	<b>989</b>	3.3	5.7	
Overhead expenses	(382)	(618)	(414)	(33.0)	8.3	
<i>Cost-Income Ratio (%)</i>	40.9	64.5	41.9			
<b>Pre-Provisions profit</b>	<b>553</b>	<b>340</b>	<b>575</b>	69.3	4.0	
Provisions allowance	(97)	(74)	(58)	(20.5)	(39.5)	
<i>Credit cost - annualized (bps)</i>	132	93	74			
<b>Pretax profit</b>	464	249	519	108.7	11.9	
Tax	(124)	(103)	(142)	37.9	14.7	
<i>Effective tax rate (%)</i>	26.8	41.5	27.4			
<b>Net Profit</b>	<b>340</b>	<b>146</b>	<b>377</b>	158.8	10.8	
<b>Other Key Data and Ratios</b>						
Gross loans	29,292	31,754	31,407	(1.1)	7.2	Supported by +11.6% yoy growth in consumer lending.
Customer deposits	41,479	39,845	44,998	12.9	8.5	
Gross non-performing loans	1,418	1,458	1,520	4.3	7.2	
Total assets	50,317	51,519	55,313	7.4	9.9	
Shareholders' funds	6,925	7,816	7,533	(3.6)	8.8	
ROAA (%)	3.1	1.3	2.8			
ROAE (%)	21.0	8.4	19.6			
LDR (%)	70.6	79.7	69.8			
Gross NPLs ratio (%)	4.8	4.6	4.8			
Loan loss coverage (%)	95.4	95.6	95.4			
Total capital ratio (%)	22.3	24.6	22.9			

Source : Company, Danareksa Sekuritas estimates

### Exhibit 8. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Interest Income	4,904	4,890	5,385	5,697	6,277
Interest Expense	(1,446)	(1,405)	(1,721)	(1,814)	(2,011)
<b>Net Interest Income</b>	<b>3,458</b>	<b>3,485</b>	<b>3,664</b>	<b>3,884</b>	<b>4,266</b>
Non-Interest Income (NII)	350	371	414	461	522
<b>Oper. Income</b>	<b>3,808</b>	<b>3,856</b>	<b>4,078</b>	<b>4,345</b>	<b>4,787</b>
Oper. Expenses	(1,846)	(1,996)	(2,095)	(2,224)	(2,497)
<b>Pre-provisions profit</b>	<b>1,961</b>	<b>1,860</b>	<b>1,983</b>	<b>2,121</b>	<b>2,290</b>
Provisions & Allowances	(510)	(217)	(254)	(266)	(271)
<b>Operating Profits</b>	<b>1,452</b>	<b>1,643</b>	<b>1,728</b>	<b>1,855</b>	<b>2,019</b>
Non-Operating Income	1	(6)	20	7	7
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,452</b>	<b>1,637</b>	<b>1,748</b>	<b>1,862</b>	<b>2,026</b>
Income Tax	(424)	(478)	(489)	(512)	(557)
Minorities	0	0	0	0	0
<b>Net Profit</b>	<b>1,028</b>	<b>1,159</b>	<b>1,259</b>	<b>1,350</b>	<b>1,469</b>

### Exhibit 9. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Gross Loans	29,675	31,754	34,141	37,316	41,247
Provisions	(1,322)	(1,394)	(1,460)	(1,532)	(1,566)
<b>Net Loans</b>	<b>28,353</b>	<b>30,360</b>	<b>32,681</b>	<b>35,784</b>	<b>39,681</b>
Govt. Bonds	0	0	0	0	0
Securities	3,528	4,742	4,505	5,167	4,909
Other Earnings Assets	0	0	0	0	0
<b>Total Earnings Assets</b>	<b>38,301</b>	<b>45,550</b>	<b>48,602</b>	<b>53,434</b>	<b>58,203</b>
Fixed Assets	1,281	1,425	1,460	1,495	1,532
Non-Earnings Assets	780	689	412	392	402
<b>Total Assets</b>	<b>43,033</b>	<b>51,519</b>	<b>54,806</b>	<b>60,118</b>	<b>66,292</b>
Customer Deposits	32,799	39,845	43,373	47,455	52,300
Banks Deposits	1,218	1,449	662	675	689
Int. Bearing Liab. - Others	35,312	43,002	46,291	50,989	56,641
<b>Total Liabilities</b>	<b>35,823</b>	<b>43,703</b>	<b>46,424</b>	<b>51,128</b>	<b>56,641</b>
Share capital & Reserves	4,766	4,839	4,839	4,839	4,839
Retained Earnings	2,443	2,978	3,544	4,151	4,812
<b>Shareholders' Funds</b>	<b>7,210</b>	<b>7,816</b>	<b>8,382</b>	<b>8,990</b>	<b>9,651</b>
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>43,033</b>	<b>51,519</b>	<b>54,806</b>	<b>60,118</b>	<b>66,292</b>

### Exhibit 10. Ratios

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Yield on Earning Assets	13.0	11.7	11.4	11.2	11.2
Cost of funds	4.1	3.6	3.9	3.7	3.7
Interest Spread	9.0	8.1	7.6	7.4	7.5
Net Interest Margin	9.2	8.3	7.8	7.6	7.6
Cost/Income Ratio	48.5	51.8	51.4	51.2	52.2
Oper. Exp./Oper. Gross Inc.	72.4	68.8	70.2	69.9	70.3
Gross NPL Ratio	4.8	4.6	4.4	4.2	3.9
LLP/Gross NPL	93.5	95.6	97.0	98.0	98.0
Cost of Credit	1.8	0.7	0.8	0.7	0.7
Loan to Deposit Ratio	90.5	79.7	78.7	78.6	78.9
Loan to Funding Ratio	84.8	74.6	74.6	74.0	73.7
CASA Mix	75.4	67.4	69.7	70.4	71.6
ROAE	15.2	15.4	15.5	15.5	15.8
ROAA	2.4	2.5	2.4	2.3	2.3
CAR	24.3	24.7	24.4	24.2	24.2

### Exhibit 11. Dupont and growth

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
<b>Dupont</b>					
Pre-Tax ROAA	3.4	3.5	3.3	3.2	3.2
Tax Retention rate	70.8	70.8	72.0	72.5	72.5
Post-Tax ROAA	2.4	2.5	2.4	2.3	2.3
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	6.4	6.3	6.6	6.6	6.8
ROAE	15.2	15.4	15.5	15.5	15.8
<b>Growth (%)</b>					
Interest income	4.3	(0.3)	10.1	5.8	10.2
Net Interest Income	10.7	0.8	5.1	6.0	9.8
Other Oper. Expenses	10.8	8.1	5.0	6.2	12.3
Fee Based Income	25.8	25.9	20.0	17.5	16.5
Pre-Provision Oper. Profit	9.2	(5.2)	6.6	7.0	8.0
Net Profit	16.2	12.8	8.6	7.2	8.8
Shareholders' Equity	14.5	8.4	7.2	7.2	7.4
Loan	4.4	7.0	7.5	9.3	10.5
Earnings Asset	3.3	18.9	6.7	9.9	8.9
Deposit	(3.1)	21.4	6.6	9.3	10.1
Int. Bearing Liab.	(2.1)	21.8	7.6	10.1	11.1
CASA	(2.3)	8.6	10.3	10.3	11.9
Total Asset	0.5	19.7	6.4	9.7	10.3

Source : BJTM, Danareksa Estimates

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