

Wednesday, 26 December 2018

BUY
Maintain

Last price (IDR) 3,650
Target Price (IDR) 4,300
Upside/Downside +17.8%
Previous Target Price (IDR) 4,350

Stock Statistics

Sector Banking
Bloomberg Ticker BBRI IJ
No of Shrs (mn) 123,346
Mkt. Cap (IDRbn/USDmn) 450,212/31,107
Avg. daily T/O (IDRbn/USDmn) 375.9/26.0

Major shareholders (%)

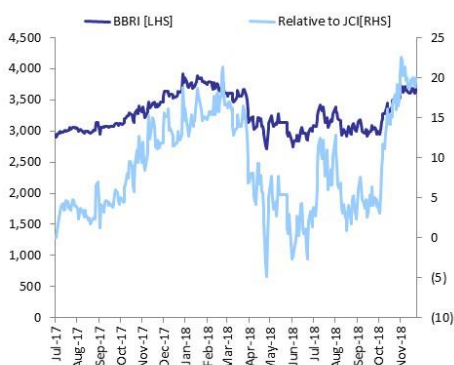
Government of Indonesia 56.8

Estimated free float 43.2

EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	266.9	300.8	356.3
Consensus	263.6	296.0	335.7
Danareksa/Cons	1.3	1.6	6.1

BBRI relative to JCI Index



Source : Bloomberg



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Bank Rakyat Indonesia (BBRI IJ)

Still micro-driven

We maintain our BUY call on BBRI with a GGM-derived TP of IDR4,300, liking the bank's strong core business in micro lending. BBRI's loans portfolio will continue to grow, underpinned by the government's KUR program and multipurpose loans. In our estimate, BBRI's exposure to KUR would increase to 10.2% of total loans book by the end of 2019 from 8.8% as of September 2018. FY19F's NIM is expected to decline to 7.1%, mainly due to a 30bps drop in asset yields to 10.2%.

KUR disbursement target at IDR120tn for 2019. As we already highlighted in our previous report, the projected KUR disbursement for 2019 is flat at IDR120tn with a subsidy allocation of IDR13.2tn. Historically, interest rate subsidies for the KUR program are a substantial proportion (c.70% of the allocation). With the KUR lending rate remaining at 7%, we expect the bank's KUR exposure would reach 10.2% of the total loans portfolio by the end of 2019 (September 2018: 8.8%).

Manageable assets quality. The loan loss coverage (LLC) ratio hovered at 181.9% as of September 2018, above the management's comfortable level of 170%. In 2019, three new corporate borrowers were downgraded to NPLs with sufficient provisions (more than 50%). Two of them, however, are expected to be upgraded to collectible within six months. All in all, we expect a 203bps credit cost for next year. Assuming a 2.1% gross NPLs ratio, the LLC ratio will touch 187.2% by the end of 2019. Furthermore, BBRI does not expect any major corporate borrowers to be downgraded into its NPL portfolio in the near future.

Normalised margins. The bank's significant exposure to micro lending at 32.9% of the bank's total loans book as of September 2018 should provide an adequate buffer for its asset yields in our view. Meanwhile, BBRI's management highlighted its intent to reprice its lending rate for medium and corporate loans as well as mortgages by 25-50bps post the policy rate hikes of 175bps in total. All in all, we expect the NIM to dip to 7.1% next year driven by a 30bps drop in asset yields to 10.2%.

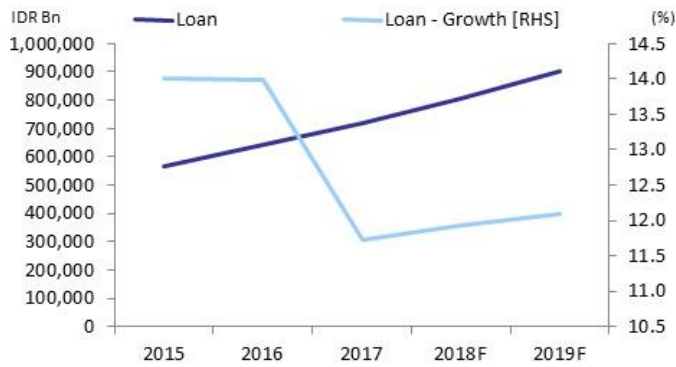
BUY: TP of IDR4,300. We maintain our BUY call on BBRI with a GGM-derived TP of IDR4,300 (implying 2.5x 2019F P/BV) assuming 18.9% ROAE, 9.4% CoE and 3% long-term growth. BBRI is one of our top picks in our banking universe.

Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
PPOP (IDRbn)	47,755	54,040	59,910	64,166	73,272
Net profit (IDRbn)	26,196	28,997	32,924	37,100	43,947
EPS (IDR)	212.4	235.1	266.9	300.8	356.3
EPS growth (%)	3.1	10.7	13.5	12.7	18.5
BVPS (IDR)	1,187.1	1,351.9	1,525.4	1,720.9	1,970.3
PER (x)	17.2	15.5	13.7	12.1	10.2
PBV (x)	3.1	2.7	2.4	2.1	1.9
Dividend yield (%)	2.3	2.6	2.6	2.9	2.9
ROAE (%)	20.2	18.5	18.6	18.5	19.3

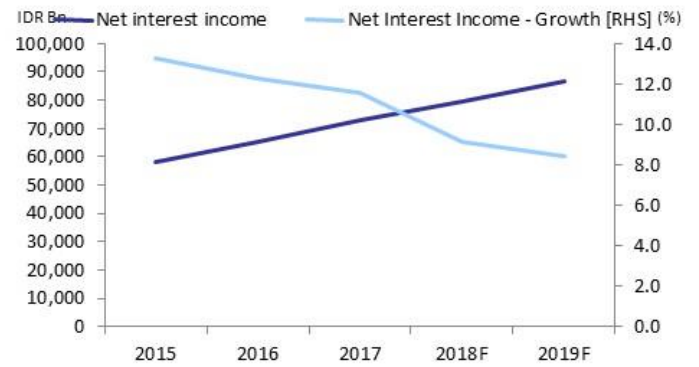
Source : BBRI, Danareksa Estimates

Exhibit 1. Loans and Growth



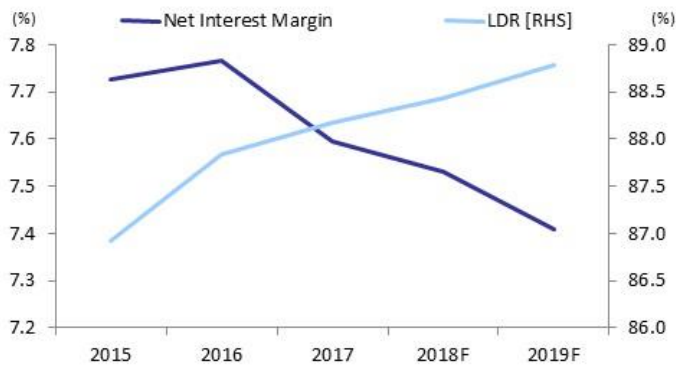
Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Interest Income and Growth



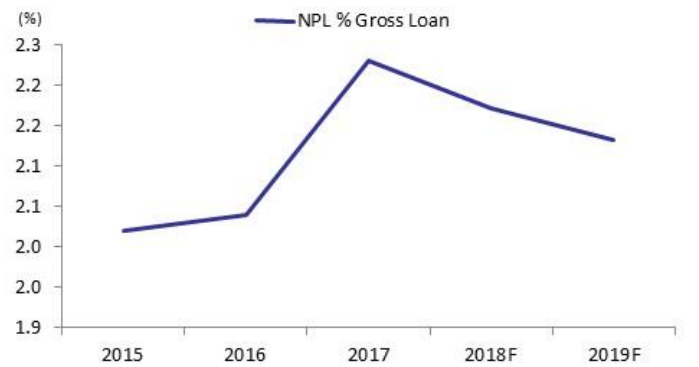
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. NIM and LDR



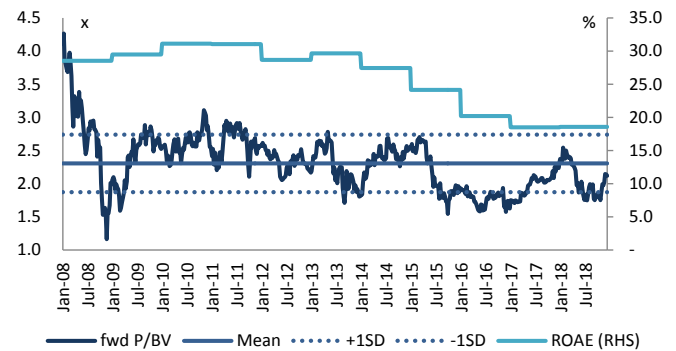
Source: Company, Danareksa Sekuritas estimates

Exhibit 4. NPLs



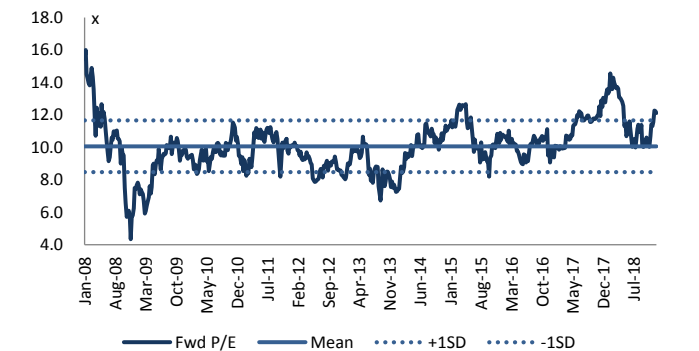
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. PBV ROAE BAND CHART



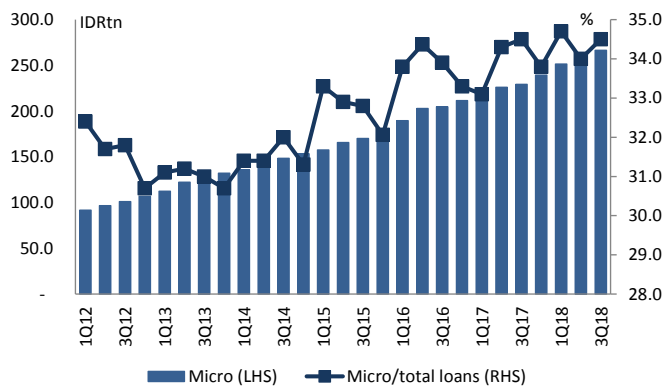
Source: Company, Danareksa Sekuritas estimates

Exhibit 6. PE BAND CHART



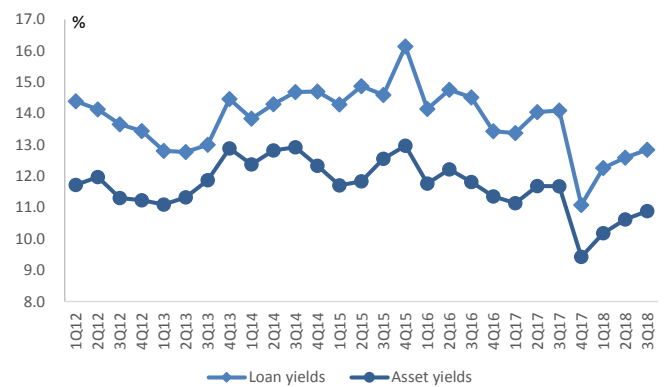
Source: Company, Danareksa Sekuritas estimates

Exhibit 7. BBRI's micro loans exposure



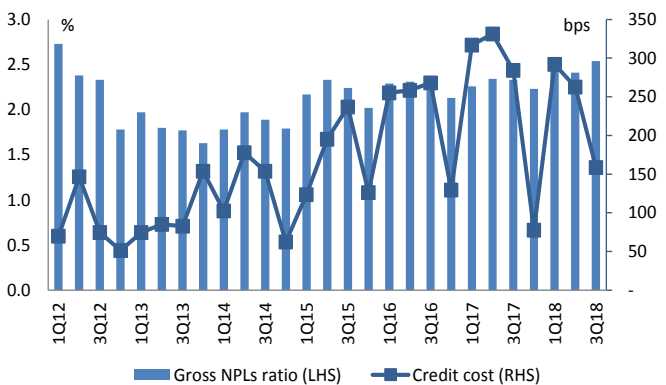
Source: Company, Danareksa Sekuritas estimates

Exhibit 8. BBRI's loan and asset yields



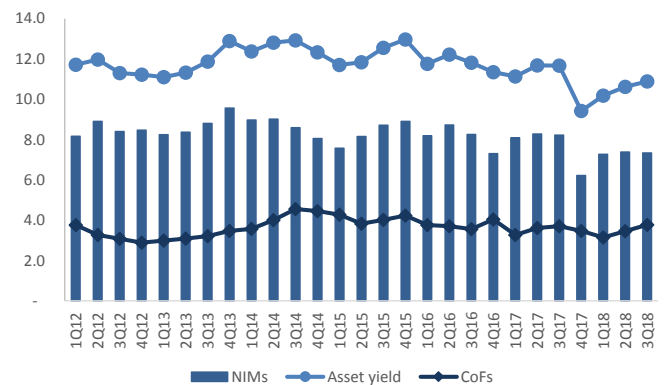
Source: Company, Danareksa Sekuritas estimates

Exhibit 9. BBRI's gross NPLs ratio and credit costs



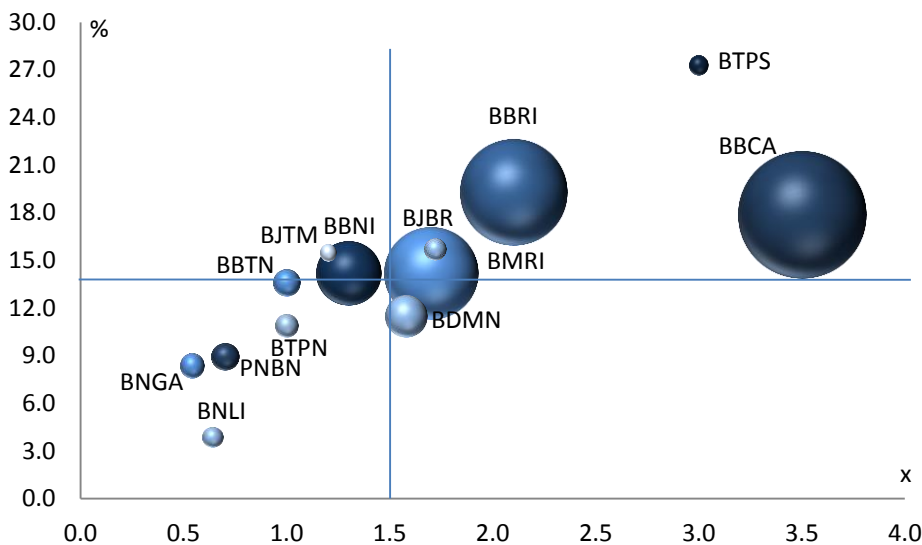
Source: Company, Danareksa Sekuritas estimates

Exhibit 10. BBRI's quarterly NIMs, asset yields and CoFs



Source: Company, Danareksa Sekuritas estimates

Exhibit 11. 2019F PBV ROAE Matrix



Source : Bloomberg as of 20 December 2018, Danareksa Sekuritas estimates

Exhibit 12. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Interest Income	93,995	102,899	111,394	119,305	131,346
Interest Expense	(28,577)	(29,894)	(31,690)	(36,262)	(38,237)
Net Interest Income	65,418	73,005	79,704	83,043	93,109
Non-Interest Income (NII)	16,799	18,641	22,520	26,241	30,890
Oper. Income	82,217	91,646	102,224	109,284	123,999
Oper. Expenses	(34,941)	(38,442)	(42,313)	(45,118)	(50,727)
Pre-provisions profit	47,755	54,040	59,910	64,166	73,272
Provisions & Allowances	(13,791)	(17,234)	(16,987)	(17,336)	(18,460)
Operating Profits	33,965	36,806	42,923	46,830	54,812
Non-Operating Income	9	216	184	205	202
Exceptionals	0	0	0	0	0
Pre-tax Profit	33,974	37,022	43,107	47,035	55,013
Income Tax	(7,746)	(7,978)	(10,130)	(9,877)	(11,003)
Minorities	(32)	(48)	(53)	(58)	(64)
Net Profit	26,196	28,997	32,924	37,100	43,947

Exhibit 13. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Gross Loans	643,471	718,983	804,744	902,018	1,016,975
Provisions	(22,184)	(29,423)	(32,233)	(35,988)	(39,191)
Net Loans	621,287	689,559	772,512	866,031	977,785
Govt. Bonds	3,318	3,318	2,189	2,189	2,189
Securities	131,483	186,919	194,732	221,120	240,142
Other Earnings Assets	19,327	19,673	18,426	19,716	22,443
Total Earnings Assets	903,452	1,024,428	1,097,275	1,236,008	1,378,649
Fixed Assets	32,262	33,972	36,809	39,723	42,759
Non-Earnings Assets	14,491	20,200	17,345	18,773	18,059
Total Assets	1,003,644	1,126,248	1,206,607	1,352,019	1,502,948
Customer Deposits	732,559	815,368	909,939	1,016,045	1,137,403
Banks Deposits	2,230	5,593	4,879	4,975	5,073
Int. Bearing Liab. - Others	836,326	932,874	995,286	1,114,830	1,235,874
Total Liabilities	856,832	958,901	1,017,799	1,139,030	1,259,124
Share capital & Reserves	20,446	22,215	22,215	22,215	22,215
Retained Earnings	125,975	144,534	165,935	190,050	220,813
Shareholders' Funds	146,421	166,749	188,150	212,264	243,027
Minority interests	391	599	659	724	797
Total Equity & Liabilities	1,003,644	1,126,248	1,206,607	1,352,019	1,502,948

Exhibit 14. Ratios

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Yield on Earning Assets	11.2	10.7	10.5	10.2	10.0
Cost of funds	3.6	3.4	3.3	3.4	3.3
Interest Spread	7.6	7.3	7.2	6.8	6.8
Net Interest Margin	7.8	7.6	7.5	7.1	7.1
Cost/Income Ratio	42.3	41.6	41.4	41.3	40.9
Oper. Exp./Oper. Gross Inc.	69.5	69.9	67.9	67.8	66.2
Gross NPL Ratio	2.0	2.2	2.2	2.1	2.1
LLP/Gross NPL	169.0	183.5	184.4	187.2	185.3
Cost of Credit	2.3	2.5	2.2	2.0	1.9
Loan to Deposit Ratio	87.8	88.2	88.4	88.8	89.4
Loan to Funding Ratio	85.0	85.0	85.5	86.1	87.1
CASA Mix	59.8	59.6	60.2	60.9	61.4
ROAE	20.2	18.5	18.6	18.5	19.3
ROAA	2.8	2.7	2.8	2.9	3.1
CAR	21.6	21.7	21.2	21.5	22.0

Exhibit 15. Dupont and growth

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Dupont					
Pre-Tax ROAA	3.6	3.5	3.7	3.7	3.9
Tax Retention rate	77.2	78.5	76.5	79.0	80.0
Post-Tax ROAA	2.8	2.7	2.8	2.9	3.1
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	7.3	6.8	6.6	6.4	6.3
ROAE	20.2	18.5	18.6	18.5	19.3
Growth (%)					
Interest income	10.0	9.5	8.3	7.1	10.1
Net Interest Income	12.2	11.6	9.2	4.2	12.1
Other Oper. Expenses	11.8	10.0	10.1	6.6	12.4
Fee Based Income	25.4	13.2	25.5	13.3	15.8
Pre-Provision Oper. Profit	21.2	13.2	10.9	7.1	14.2
Net Profit	3.1	10.7	13.5	12.7	18.5
Shareholders' Equity	29.8	13.9	12.8	12.8	14.5
Loan	14.0	11.7	11.9	12.1	12.7
Earnings Asset	15.6	13.4	7.1	12.6	11.5
Deposit	11.2	11.7	11.4	11.6	11.9
Int. Bearing Liab.	11.8	11.5	6.7	12.0	10.9
CASA	15.2	11.2	12.7	12.8	12.9
Total Asset	14.3	12.2	7.1	12.1	11.2

Source : BBRI, Danareksa Estimates

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