

Wednesday, 26 June 2019

**Not Rated**

## Bank Rakyat Indonesia (BBRI IJ)

### KL NDR Key takeaways

Last price (IDR)	4,330
Target Price (IDR)	N/A
Upside/Downside	N/A
Previous Target Price (IDR)	N/A

#### Stock Statistics

Sector	Banking
Bloomberg Ticker	BBRI IJ
No of Shrs (mn)	123,346
Mkt. Cap (IDRbn/USDmn)	534,087/37,811
Avg. daily T/O (IDRbn/USDmn)	474.0/33.6

#### Major shareholders (%)

Government of Indonesia	56.8
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Estimated free float	43.2
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#### EPS Consensus (IDR)

	2019F	2020F	2021F
Consensus	298.8	343.8	388.7

#### BBRI relative to JCI Index



Source : Bloomberg

We accompanied BBRI's management with Pak Haru Koesmahargyo as the key person on a one-day NDR to KL. The key takeaways are: 1) the micro lending segment will remain BBRI's core business with 40% target exposure by 2022 yet with a decline in NIM; 2) the near-term M&A target is to acquire a general insurance business; 3) the IDR2.5tn outstanding loans of Krakatau Steel (KRAS IJ, Not Rated) are still undergoing restructuring. BBRI expects KRAS to eventually turn a profit supported by the government's recent policy to limit steel imports and the sizeable infrastructure development in Indonesia. BBRI currently trades at 2.6x 2019F PBV based on the consensus.

**Micro lending remains its core business.** BBRI will maintain its focus on its micro lending business with 40% target exposure by 2022. Despite cannibalization from the government's KUR loans scheme toward its regular micro lending product (Kupedes), BBRI argues this is preferable to potential customers obtaining loans from other banks. BBRI also expects its KUR exposure to decline going forward given the limited government budget to provide interest rate subsidies. While for nano loans, similar with BTSP's product, BBRI is currently developing the proper business processes and infrastructure to tap into this segment.

**General insurance is the next M&A target.** Post the acquisition of Danareksa Sekuritas, BBRI is looking to acquire a general insurance business. BBRI is on the way to cross-selling more products and services to its c.11mn customers. One of the example is the micro life insurance products attached to Kupedes product with a fairly affordable premium. BBRI also highlighted that its sharia subsidiary, BRI Syariah (BRIS IJ, Not Rated), will benefit from the Aceh local government's recent policy to convert all conventional banks into sharia banks with a transition period of 18 months from the end of 2018. As a result, BBRI expects IDR11tn to be added to BRIS' assets instantly. While, BRI Agro (AGRO IJ, Not Rated), will still focus on the agriculture sector and consumer lending to blue-collar workers through its Pinang (Pinjaman Tenang) product.

**KRAS: minimal exposure.** BBRI's IDR2.5tn exposure to KRAS is minimal with a 60% coverage ratio. The loans are currently undergoing a restructuring process with other banks. BBRI also highlighted that the collateral assets cover 150% of the outstanding loans whilst also stressing that a debt to equity swap scheme is not an option for all the participant banks. Substantial infrastructure development and the government's recent policy to limit steel imports should help to protect KRAS' business going forward, we believe.

#### Key Financials

Year to 31 Dec	2016A	2017A	1Q18	2018A	1Q19
PPOP (IDRbn)	47,755	54,040	14,516	60,047	14,730
Net profit (IDRbn)	26,196	28,997	7,401	32,351	7,949
EPS (IDR)	212.4	235.1	60.1	262.3	64.5
EPS growth (%)	3.1	10.7	11.4	11.6	7.4
BVPS (IDR)	1,187.1	1,351.9	1,309.1	1,483.4	1,575.4
PER (x)	20.3	18.3	17.9	16.4	16.7
PBV (x)	3.6	3.2	3.3	2.9	2.7
Dividend yield (%)	2.0	2.2	N/A	3.0	N/A
ROAE (%)	20.2	18.5	18.3	18.5	16.9

Source : BBRI and Bloomberg

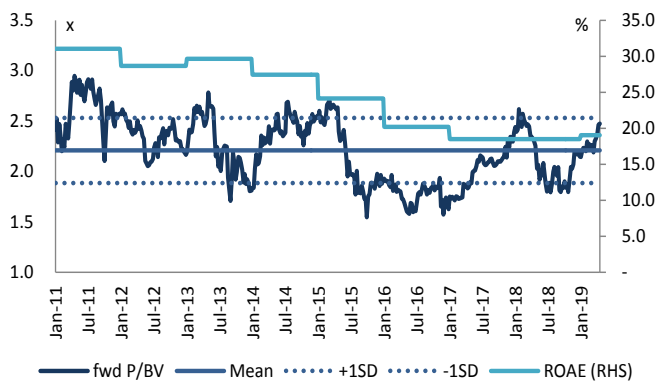


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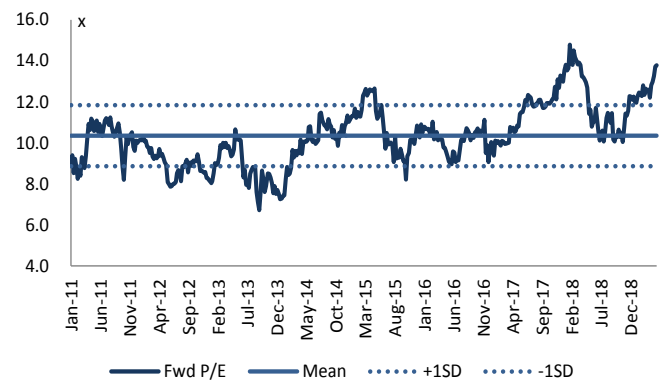
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**Exhibit 1. PBV ROAE BAND CHART**



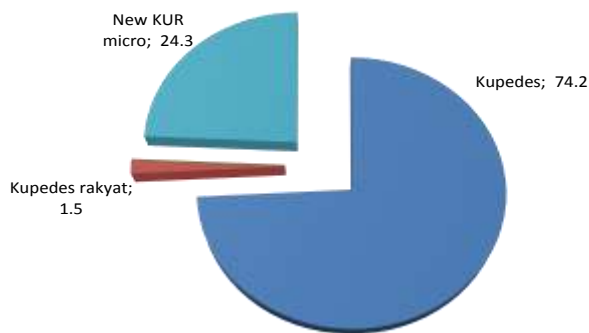
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. PE BAND CHART**



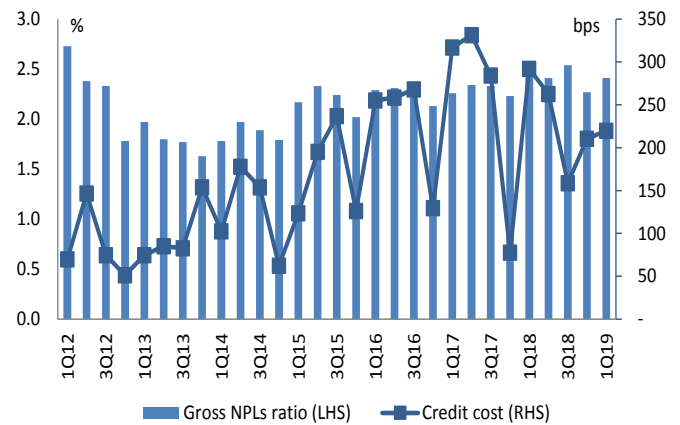
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. BBRI'S MICRO LOANS PORTFOLIO**



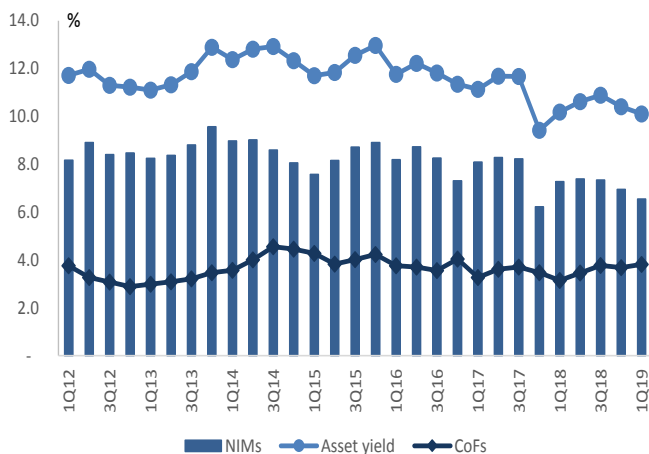
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPLs AND QUARTERLY CREDIT COST**



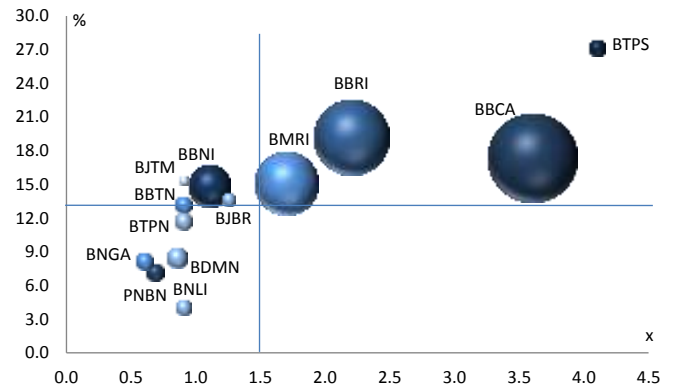
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. QUARTERLY NIM, ASSET YIELDS AND COFS**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. SECTOR PBV ROAE MATRIX**



Source: Bloomberg, Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	1Q18	2018A	1Q19
Interest Income	93,995	102,899	26,231	111,583	29,524
Interest Expense	(28,577)	(29,894)	(7,609)	(33,917)	(10,114)
<b>Net Interest Income</b>	<b>65,418</b>	<b>73,005</b>	<b>18,621</b>	<b>77,666</b>	<b>19,411</b>
Non-Interest Income (NII)	16,799	18,641	5,246	23,498	5,429
<b>Oper. Income</b>	<b>82,217</b>	<b>91,646</b>	<b>23,867</b>	<b>101,164</b>	<b>24,840</b>
Oper. Expenses	(34,941)	(38,442)	(9,351)	(41,990)	(10,109)
<b>Pre-provisions profit</b>	<b>47,755</b>	<b>54,040</b>	<b>14,517</b>	<b>60,047</b>	<b>14,730</b>
Provisions & Allowances	(13,791)	(17,234)	(5,386)	(18,321)	(4,787)
<b>Operating Profits</b>	<b>33,965</b>	<b>36,806</b>	<b>9,130</b>	<b>41,726</b>	<b>9,943</b>
Non-Operating Income	9	216	27	28	(5)
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>33,974</b>	<b>37,022</b>	<b>9,158</b>	<b>41,754</b>	<b>9,938</b>
Income Tax	(7,746)	(7,978)	(1,736)	(9,335)	(1,957)
Minorities	(32)	(48)	(21)	(67)	(32)
<b>Net Profit</b>	<b>26,196</b>	<b>28,997</b>	<b>7,401</b>	<b>32,351</b>	<b>7,949</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	1Q18	2018A	1Q19
Gross Loans	643,471	718,983	736,988	820,010	830,865
Provisions	(22,184)	(29,423)	(31,855)	(35,018)	(37,076)
<b>Net Loans</b>	<b>621,287</b>	<b>689,559</b>	<b>705,133</b>	<b>784,992</b>	<b>793,789</b>
Govt. Bonds	3,318	3,318	3,318	1,505	1,505
Securities	131,483	186,919	182,101	184,284	185,133
Other Earnings Assets	125,180	19,673	77,918	23,003	121,215
<b>Total Earnings Assets</b>	<b>903,452</b>	<b>1,024,428</b>	<b>997,006</b>	<b>1,177,466</b>	<b>1,137,213</b>
Fixed Assets	32,262	33,972	34,253	37,925	38,179
Non-Earnings Assets	67,930	20,200	87,981	23,380	104,468
<b>Total Assets</b>	<b>1,003,644</b>	<b>1,126,248</b>	<b>1,119,240</b>	<b>1,296,898</b>	<b>1,279,861</b>
Customer Deposits	732,559	815,368	798,811	915,430	907,609
Banks Deposits	2,230	5,593	7,126	9,131	11,760
Int. Bearing Liab. - Others	122,043	137,940	152,669	187,062	165,580
<b>Total Liabilities</b>	<b>856,832</b>	<b>958,901</b>	<b>958,606</b>	<b>1,111,623</b>	<b>1,084,949</b>
Share capital & Reserves	20,446	22,215	21,213	18,245	20,085
Retained Earnings	125,975	144,534	138,808	164,722	172,486
<b>Shareholders' Funds</b>	<b>146,421</b>	<b>166,749</b>	<b>160,021</b>	<b>182,968</b>	<b>192,571</b>
Minority interests	391	599	613	2,308	2,341
<b>Total Equity &amp; Liabilities</b>	<b>1,003,644</b>	<b>1,126,248</b>	<b>1,192,240</b>	<b>1,296,898</b>	<b>1,279,861</b>

### Exhibit 9. Ratios

Year to 31 Dec (IDRbn)	2016A	2017A	1Q18	2018A	1Q19
Yield on Earning Assets	11.2	10.7	10.5	10.1	10.4
Cost of funds	3.6	3.4	2.6	3.4	3.1
Interest Spread	7.6	7.3	7.9	6.8	7.3
Net Interest Margin	7.8	7.6	7.4	7.1	6.8
Cost/Income Ratio	42.3	41.6	39.2	41.2	40.7
Gross NPL Ratio	2.0	2.2	2.5	2.3	2.4
LLP/Gross NPL	169.0	183.5	182.4	188.1	191.5
Cost of Credit	2.3	2.5	2.9	2.4	2.2
Loan to Deposit Ratio	87.8	88.2	88.3	89.6	91.0
Loan to Funding Ratio	85.0	85.0	88.5	86.6	87.5
CASA Mix	59.8	59.6	56.9	60.4	57.0
ROAE	20.2	18.5	18.3	18.5	16.9
ROAA	2.8	2.7	2.6	2.7	2.5
CAR	21.6	21.7	20.7	21.1	21.7

### Exhibit 10. Dupont and growth

Year to 31 Dec	2016A	2017A	1Q18	2018A	1Q19
<b>Dupont</b>					
Pre-Tax ROAA	3.6	3.5	3.4	3.4	3.1
Tax Retention rate	77.2	78.5	62.0	77.6	61.9
Post-Tax ROAA	2.8	2.7	2.7	2.7	2.5
Goodwil, Assoc& Min	0.0	0.0	0.0	0.0	0.0
Leverage	7.3	6.8	6.8	6.9	6.8
ROAE	20.2	18.5	18.3	18.5	16.9
<b>Growth (%)</b>					
Interest income	10.0	9.5	6.4	8.4	12.6
Net Interest Income	12.2	11.6	4.0	6.4	32.9
Other Oper. Expenses	11.8	10.0	6.9	9.2	8.1
Fee Based Income	25.4	13.2	5.4	15.1	16.5
Pre-Provision Oper. Profit	21.2	13.2	9.5	11.1	1.5
Net Profit	3.1	10.7	11.4	11.6	7.4
Shareholders' Equity	29.8	13.9	11.4	9.7	20.3
Loan	14.0	11.7	11.4	14.1	12.7
Earnings Asset	15.6	13.4	12.8	14.9	14.1
Deposit	11.2	11.7	12.4	12.6	13.6
Int. Bearing Liab.	11.8	11.5	12.5	16.2	12.8
CASA	15.2	11.2	14.0	14.1	13.9
Total Asset	14.3	12.2	12.4	15.2	14.4

Source : BBRI, Danareksa Estimates

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