Equity Research – Sector Report

8 April 2014

Banking Sector - Overweight

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Monetary Tightening Favors Big Banks

Big banks are well-positioned. We are of the view that the impact of tight liquidity would be less pronounced for the larger banks with strong deposit franchise, complemented by better access to funding sources. Conversely, smaller banks with weaker franchise were at a disadvantage, having less and more costly alternative funding sources. As such, a monetary tightening should lead to slower loan growth and larger increase in cost of funding for smaller banks. Tier-1 banks with their ample liquidity and stronger deposit franchises can deal with deposit competition easier, especially in the Time deposit space. Since they also have moderate LDRs, larger banks have ample room to grow credit sufficiently, control deposit mix and hence sustain their NIMs. Although the obvious answer would be to say that only Tier-1 banks will be able to withstand better in FY14', there are still second tier banks that may come up with better deposit collection (as some have proved last year).

NPL might hold better than expected...

NPL of the banking industry is currently at historical lows at 1.9% and all banks of our sector have managed to bring their NPL ratio down barring Bank Jabar and Bank Jatim. The economic slowdown and high interest rate environment will put pressures on NPL in FY14. That said, the potential boost from the upcoming election may provide tailwinds for the economy, which in turn might improve asset quality.

...as banks focus more on asset quality

The challenges on credit growth this year provides opportunity for the banks to consolidate on operating efficiencies and asset quality. NPL will remain manageable as i) pressures from Bank Indonesia to control NPL ratios become tighter, ii) provisions were significantly increased in FY13, iii) risk management is improved through better recovery collection while balancing write-offs, iv) banks will be more selective in credit distribution, v) bank's preference to take a minor toll on profitability rather than asset quality and vi) the resilience of the Indonesian economy as we do not see any major systemic risks.

Target Price and Recommendation Changes. We have raised our target prices across our sector coverage and change the target price methodology derivation to target forward P/B valuation from 2-stage Gordon Growth Model. The change in the methodology is underpinned by our more positive view of the sector's outlook post the putative eventual Jokowi's administration. Our new methodology incorporates average forward P/B of 2014F-2015F and taking account of the short and medium term outlook of the sector as well as historical events occurred in the sector and the market itself. This has changed modestly upwards our target prices. The sector is trading at 1.91x 2014 forward P/B, roughly at the 6-year average. Our preference will be for the larger banks who have moderate LDR's and strong deposit franchises and seem to benefit from the current tightening environment. This provides them more room to: i) grow credit sufficiently by achieving moderate deposit growth, (hence, they are better-equipped to weather any volatility as they are well capitalized and have ample liquidity), and ii) secure earnings and good financial metrics. We have downgraded our rating on BBNI to Hold from Buy and upgrade BBRI to Buy from Hold. We also initiate coverage on BJTM with a Buy call and target price of Rp545.

Figure 1. Valuations Snapshot (based on April 7 closing prices)

Companies	Ticker	Current Price	TP in Rp	Old TP	Rec.	EPS CAGR 2014-16F	Target P/B	P/B (X) 2013	2014F	2015F	2016F
Bank Mandiri	BMRI IJ	10,250	11,325	10,350	Buy	18%	2.56x	2.70	2.29	1.94	1.64
Bank Negara Indonesia	BBNI IJ	5,150	5,300	5,200	Hold	20%	1.81x	2.01	1.76	1.52	1.32
Bank Rakyat Indonesia	BBRI IJ	10,025	11,925	8,700	Buy	13%	3.07x	3.10	2.56	2.14	1.81
Bank Danamon	BDMN IJ	4,640	4,865	4,200	Hold	13%	1.36x	1.38	1.26	1.14	1.04
Bank Tabungan Negara	BBTN IJ	1,335	1,730	1,200	Buy	20%	1.42x	1.13	1.02	0.91	0.80
Bank Jabar	BJBR IJ	1,155	1,055	860	Hold	12%	1.39x	1.66	1.53	1.37	1.23
Bank Bukopin	BBKP IJ	655	920	880	Buy	17%	1.09x	0.81	0.78	0.68	0.59
Bank Jatim (Initiation)	BJTM IJ	479	545	-	Buy	15%	1.35x	1.27	1.19	1.11	1.01

Investment Summary

Monetary policy tightening exerts a direct impact on real-sector activities through reduced supply of bank loans. The higher interest rates reduces the appetite for investment, working capital needs and increases risk aversion but it also might mean better deposit growth for banks (as money will be put aside in the banks). So far, the effect of monetary tightening policy (increase of interest rates by 175bps in FY13) is working its way through the market as liquidity is slowly but effectively tightened. Money supply indicator M2 in Jan14' grew by 11.6% YoY compared to 14.4% from Jan13'-Jan12'. As a result, credit growth is also coming down though not as fast as many expected.

In January 2014 credit was up by 21% YoY, down from 23% in Jan13'-Jan12'. On the other hand deposits in January 2014 are slowing down faster with 12% YoY increase, down from 15% growth in Jan13'-Jan12'. What is interesting is that Time deposits growth are gaining speed at 15% YoY over 12% previous YoY period while CASA is losing significant growth at 9.4% in Jan14' YoY over 18.7% in the previous period.

We expect the sector's liquidity to remain tight while deposit growth lags the loan growth, albeit the growth differential would narrow. Against this backdrop, big banks will handle deposit competition and cost of funds easier, as i) they will be more selective in offering Time deposits (new clients), and ii) they have far better deposit franchises (larger banks also enjoy trend of take over credit and deposit accounts from smaller banks whose products & services are much less), iii) the impact of liquidity tightening would be less pronounced for larger banks as their liquidity and funding sources are more diverse.

In terms of valuation, we note from the historical 6-year average Price-to-Book band valuations that re-rating of the past two months for many banks was sharp enough that moved bands between 0.5std to 1std upwards. We will opt for 1st Tier banks with their strong operational abilities and deposit franchises and as their steady growth prospects are not being gravely conditional on credit expansion and this year see the big banks focus on inorganic growth and building ecosystems. For smaller banks we look for some sort of catalysts/turnaround/stable financial performances.

Figure 2. Time Deposit Competition intensifies as Money Supply is tightened

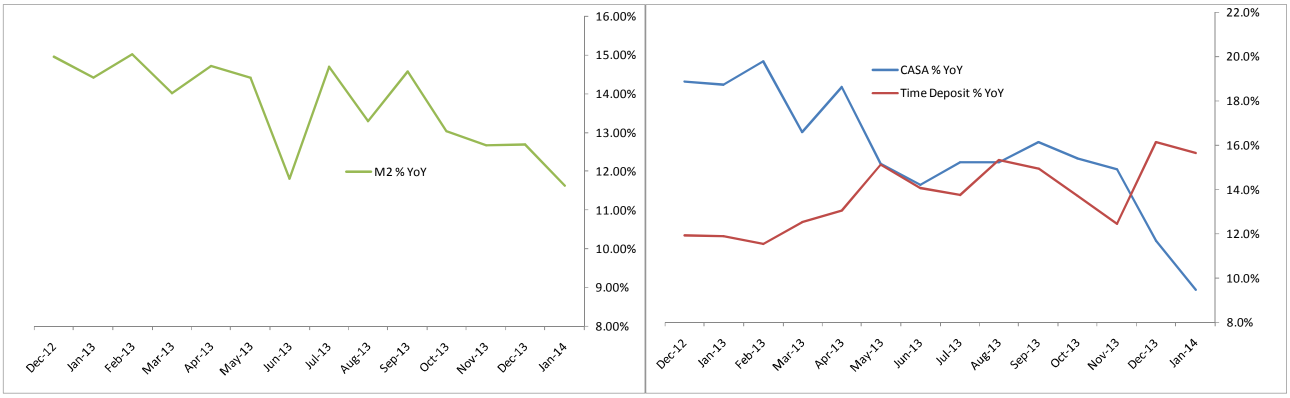


Figure 3……while big banks preserve and enjoy larger share of cheap funding in this environment

Market Share of 4 largest banks in 2013 & 2012				
	FY2012	**FY2013**		
% market share of Total System Deposits	47.2%	46.8%		
% market share CASA	57.7%	58.3%		
% market share Time Deposit	33.1%	32.0%		
BIG 4 benefit % of new additions in Total System Deposits		44.1%		
BIG 4 benefit % of new additions in CASA F12-FY13		63.4%		
BIG 4 only incurred % of new additions in Time Deposits		**25.5%**		
% Market Share of Deposits	**1Q13**	**2Q13**	**3Q13**	**4Q13**
Bank Mandiri (BMRI)	13.09%	13.59%	13.24%	13.89%
Bank Rakyat Indonesia (BBRI)	12.89%	13.49%	13.36%	13.76%
Bank Central Asia (BBCA)	11.34%	11.22%	11.35%	11.18%
Bank Negara Indonesia (BBNI)	7.49%	7.82%	7.82%	7.97%
Total	**44.82%**	**46.11%**	**45.78%**	**46.80%**

That said, we highlight the following key points for each of the banks in our coverage:

- **Bank Mandiri (BMRI) (Top pick Buy; TP Rp11,325):** The bank's Profitability, Efficiency ratios and other key indicators show steady or continuous improvement while maintaining momentum for growth with enhanced capabilities. With such firearm, the bank can sustain the country's most steady deposit franchise with good CASA composition and sufficient credit growth.

- **Bank BBTN (BBTN) (Top Pick Buy; TP Rp1,725):** Our Top pick among smaller cap banks, BBTN remains the largest mortgage provider in the country. The subsidized housing segment is reviving while the non-subsidized segment still has good momentum. Asset quality is improving although slowly. The only worry remains its liquidity as LDR is high which raises the probability that credit growth will take a back seat as the bank focuses on growing its deposit.

- **Bank Negara Indonesia (BBNI) (Hold; TP Rp5,300):** Our Hold rating is mainly driven by the fact that the bank's re-rating is ahead of the bank's fundamentals as we see limited room for the bank's metrics to substantially improve in 2014. Although there will be pressures on profitability, its moderate LDR still provides room for significant credit expansion.

- **Bank Rakyat Indonesia (BBRI) (Buy; TP Rp11,925):** After two slow quarters in FY13 that raised our concerns, the bank showed its prowess with a strong finish in 4Q13 with improvements in metric rates and ratios across the board. We think its deposit growth rate will gain momentum, resulting in sustained good financial performance.

- **Bank Danamon (BDMN) (Hold; TP Rp4,875):** The bank seems attractive based on P/B band valuation (trading **close to –1std**). Although we see little catalysts in the near-term (barring an unexpected divestment being realized) to lift the bank's valuations (given the tepid outlook of its core 2-wheeler financing business), its long term strategic shift seems to be slowly paying off. The bank's new strategy will be seriously tested in the next two years; the success of which would make us more positive on the stock.

- **Bank Jabar (BJBR) (Hold; TP Rp1,050):** Strong results in FY13 especially in terms of credit growth and profitability metrics. Nonetheless concerns increased as i) NPL continued to persist and rose higher, ii) there was little deposit growth, resulting in significant increase in LDR. If deposit growth can pick up significantly, the bank will be able to sustain stronger credit growth and improve its profitability metrics.

- **Bank Jatim (BJTM) (Initiation—Buy; TP Rp550):** The bank continues to impress with its financial and operational performance. As one of the main beneficiary banks in East Java, the bank has immense knowledge and direct exposure to all economic developments in the region. The only concern comes from its rising NPL ratio though going forward NPL ratio seems manageable.

- **Bank Bukopin (BBKP) (Buy; TP Rp875):** The low flight in financial performance continued after a dire FY13. The bank is still at a very early stage of transformation. The injection of capital and support by Bosowa Group will prove beneficial over the medium term for a franchise that has been struggling in the last few years. We consider its current valuation undemanding considering the prospects over the medium term.

Figure 4. Sector P/B Forward

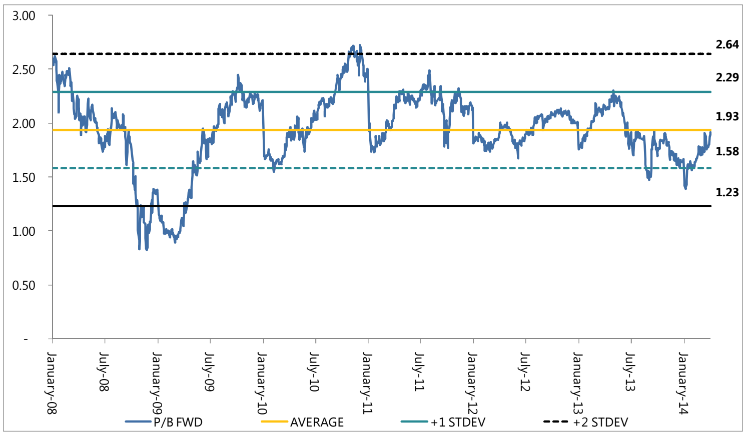


Figure 5. Sector P/E Forward

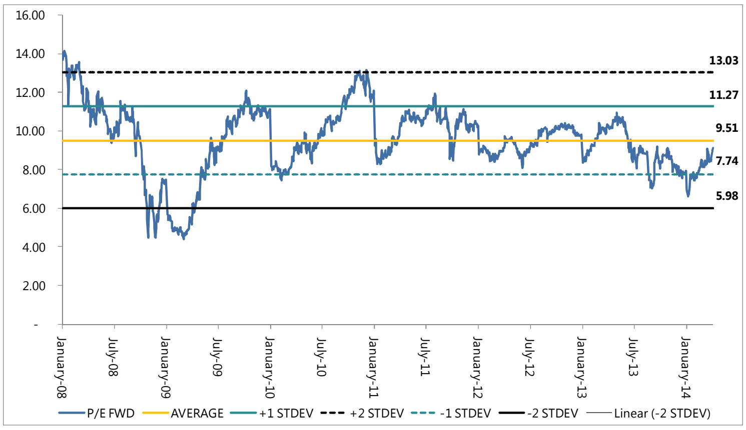


Figure 6. Sector P/B Trailing

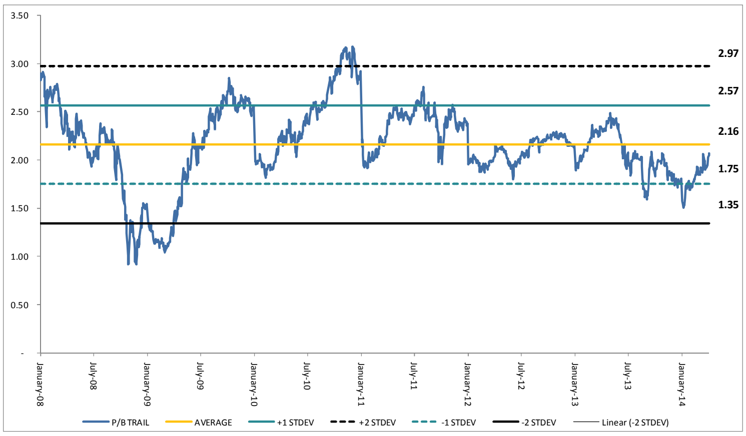
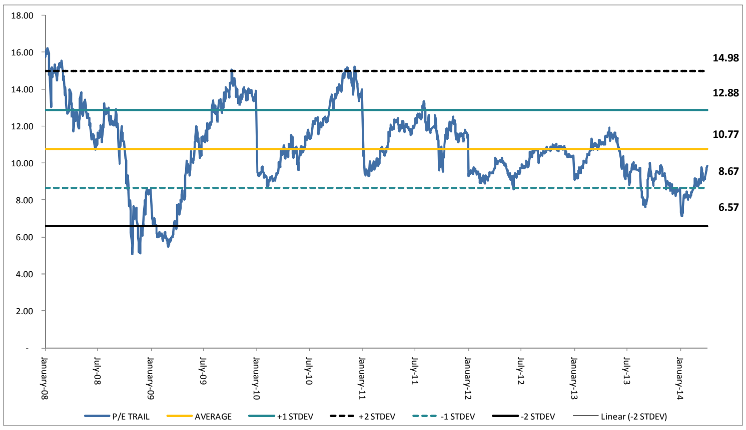


Figure 7. Sector P/E Trailing



Equity Research-Flash News

7 April 2014

BMRI - Research Report

TP: 11,325 - CP: 10,250

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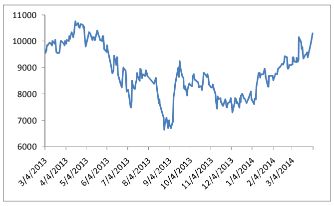
BMRI	**Buy**
Price (7 April 14)	Rp 10,250
Market Cap in b	Rp 239,166



Share Ownership Composition:

1. G.O.I.—60%
2. Public—40%

Solid Sector Leader

High asset quality despite robust loan growth. Gross NPL ratio in FY13 remained low and steady at 1.9%, compared with 1.87% in FY12. Excluding 1Q13 where there was a spike in NPL, the remaining quarters remained relatively steady with 0%/5.4%/4.7% NPL increase QoQ while write-offs increased moderately by 14.7% in FY13. Overall, outstanding NPL increased by 23% in FY13 thus the bank increased provisions by 35% anticipating a more challenging year than 2013's. The NPL ratio of BMRI should be considered notably low considering i) the overall size of portfolio loans of 472.4t ii) aggressive 22% CAGR loan growth in last 5 years (implying the good asset mix and quality), and iii) NPL coming down from 4.73% in 2008. Based on our estimates we expect NPL ratio to remain manageable with a slightly gradual increase over the next three years at 1.93% in FY14 and by 2.1% in FY16.

Deposit franchise is the edge. Bank Mandiri recorded the highest deposit (3rd party) growth among the Top tier 1 banks with 15% YoY increase in FY13, the same clip as in FY12. Whereas other banks seem to struggle to increase overall deposits, Bank Mandiri appears to overcome this issue more effortlessly through its business efforts in its two main pillars in wholesale and retail banking.

Its wholesale banking continues to i) be stronger by deepening and diversifying its asset mix in corporate and commercial lending (no segment within corporate lending dominates loan composition, highest being manufacturing & chemicals with 15.9% followed by plantations with 15.5%, while the rest of other 9 sectors are distributed evenly ranging from 3%-9%), and ii) grow volume of wholesale transactions and value significantly. Cash management's number of transactions surged by 79% in 2013 while value rose by 47%. The wholesale banking transactions allow the bank to tap into cheaper funding source.

On the other hand, the bank's retail banking strategy, demonstrates the strength of the bank's liquidity and abilities to expand, by adding 60 new conventional branches, 292 micro outlets, 50 thousand EDC's and 1,500 new ATM's in 2013.

Figure 1. Financial Summary

Key Financials	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Year to Dec 31 (in Rp b)					
Interest Income	42,550	50,209	59,052	69,677	81,204
PPOP	23,049	28,423	33,924	40,448	47,163
Operating Profit	19,625	23,552	28,068	33,370	38,864
Net Profit	16,044	18,830	22,576	26,766	31,106
Loan growth, %	23.62%	21.47%	16.85%	15.07%	15.07%
Price/book (x)	3.17	2.70	2.29	1.94	1.64
Book Value/Share	3,196	3,747	4,421	5,226	6,165
EPS	664	780	899	1,073	1,252
EPS growth, %	26.6%	17.4%	15.3%	19.3%	16.7%
Net Interest Margin	5.35%	5.49%	5.79%	6.15%	6.45%
NPL ratio	1.88%	1.91%	1.93%	1.97%	2.03%
Consensus EPS			837	975	1,122
BCASekuritas/Consensus			1.07	1.10	1.12

The similar network expansion is intended in 2014. Going forward, we think that the network expansion together with substantial capabilities in wholesale and retail banking can maintain minimum deposit growth of 14% through 2016 and healthy CASA ratio. Considering the ample liquidity of the bank with moderate LDR at 85%, we expect the bank to grow its loan growth as needed to sustain healthy profitability metrics. We expect minimum 17% loan growth without squeezing liquidity through 2016.

Valuation. The bank is currently trading at 2.0x P/B forward 2014 close to its average 6-year mean (2.04x). The industry's leader continues to overwhelm with its stability, resilience and improving metrics that deserves a higher valuation. We revise up our forecasts with higher target price at Rp.11,325 considering that a +1 std above its average is relatively undemanding.

Risks. The main risks to our positive view are i) prolonged macro slowdown, causing loan growth and margins to come in below our expectations, ii) worse than expected asset quality and higher operating expenses due to expansion that can put pressures on profitability.

Figure 2. P/B Forward BMRI

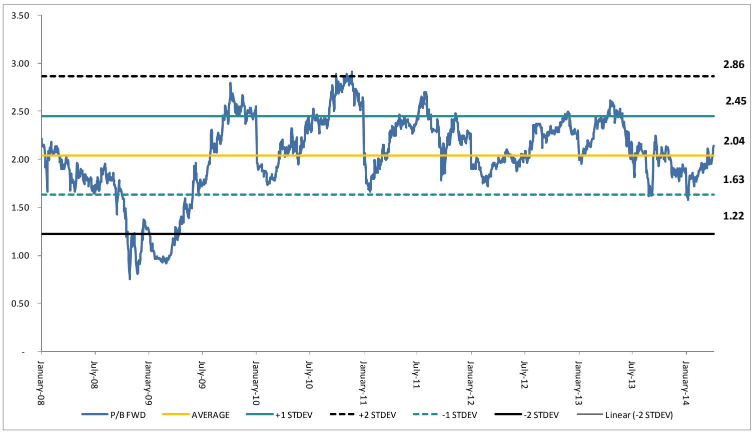


Figure 3. P/E Forward BMRI

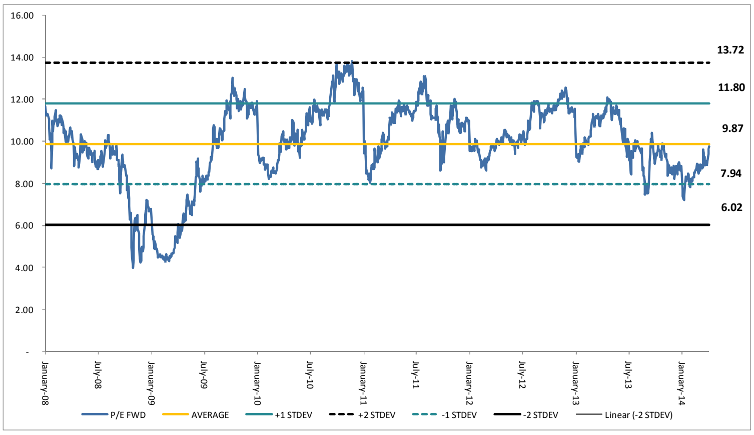


Figure 4. P/B Trailing BMRI

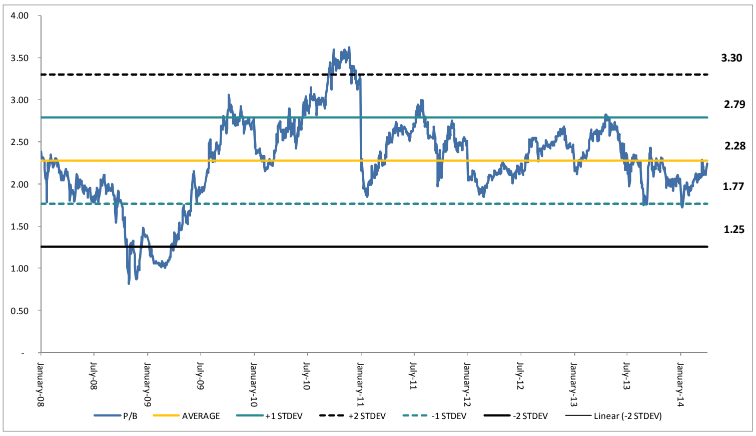
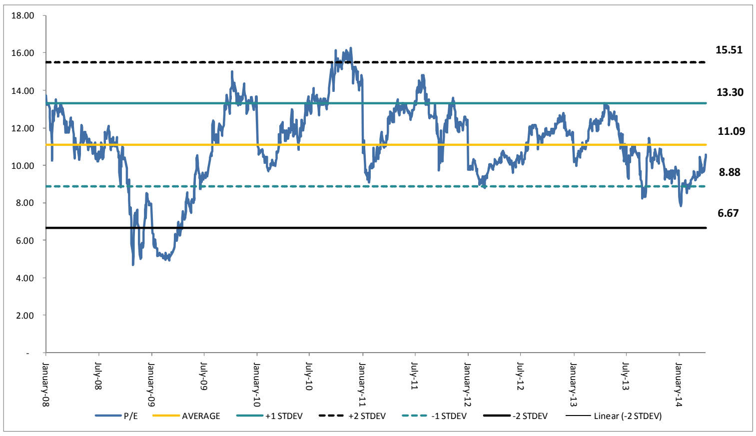


Figure 5. P/E Trailing BMRI



Appendix. 1

Income Statement YTD Dec 31 **in Rp b, unless otherwise stated**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Interest Income	42,550	50,209	59,052	69,677	81,204
Interest Expenses	(15,020)	(17,432)	(19,767)	(22,474)	(25,634)
Net Interest Income	27,531	32,777	39,285	47,203	55,570
Pre-Provision Operating Profit	23,049	28,581	33,924	40,448	47,163
Provisions	(3,423)	(4,871)	(5,857)	(7,078)	(8,299)
Operating Income	19,625	23,552	28,068	33,370	38,864
Taxation	(4,461)	(5,232)	(6,001)	(7,115)	(8,269)
Net Profit	16,044	18,830	22,576	26,766	31,106
Minority interests	540	626	757	902	1,053
Earnings per Share	664	780	899	1,073	1,252
Earnings per Share, %	26.6%	17.4%	15.3%	19.3%	16.7%
Earnings per Share, CAGR 2014F/6F					**18%**

Balance Sheet YTD Dec 31 **in Rp b, unless otherwise stated**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Assets					
Cash	15,286	19,052	21,910	25,196	28,976
Current Accounts with B.I. and other banks	47,918	57,941	63,033	68,854	74,686
Marketable Securities	10,770	26,803	28,143	29,550	31,027
Government Bonds	78,936	82,227	83,872	85,549	87,260
Gross Loans	384,582	467,170	545,907	628,160	722,848
yoy % growth		21%	17%	15%	15%
Allowance for Loan Losses	(14,011)	(16,536)	(18,983)	(22,262)	(26,375)
Net Loans	370,570	450,635	526,924	605,897	696,472
Fixed Assets	7,003	7,646	8,334	9,084	9,901
Total Assets	635,619	733,100	802,070	897,775	1,006,240
Liabilities					
Total Deposits	456,855	521,440	630,208	713,942	809,173
Taxes Payable	2,662	2,127	2,233	2,345	2,462
Fund Borrowings	11,609	15,997	16,797	17,637	18,519
Total Liabilities	518,706	596,735	647,588	722,023	805,952
Shareholder's Equity	76,533	88,791	104,530	123,302	145,216
Total Liabilities and Equity	635,619	733,100	802,070	897,775	1,006,240

<u>Ratios</u>					
NIM		5.49%	5.60%	5.96%	6.25%
ROAA		2.7%	2.7%	2.9%	3.1%
ROAE		22.0%	21.7%	22.0%	21.8%
Loan to Deposit Ratio		83.9%	86.6%	88.0%	89.3%
Loan to Funding Ratio		80.7%	83.5%	85.1%	86.6%
Shareholders equity to total assets		12.1%	13.0%	13.7%	14.4%
Gross NPL		8,930	10,546	12,368	14,653
Allowance for possible loan losses to gross NPL		(16,536)	(18,983)	(22,262)	(26,375)
Coverage Ratio		1.85	1.80	1.80	1.80
Write off (RP billion)		(3,022)	(3,410)	(3,798)	(4,186)

BCAsekuritas

7 April 2014

BBRI - Research Report

TP: 11,925 - CP: 10,025

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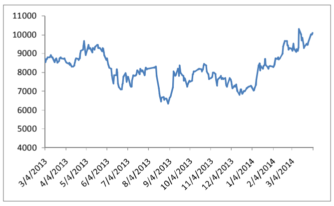
BBRI	**Buy**
Price (7 April 14)	Rp. 10,025
Market Cap in b	Rp 247,308



Share Ownership Composition:

1. G.O.I.— 56.75%
2. Public—43.25%

Convincing trajectory

High NIM to persist. We believe NIM will be able to withstand pressures and remain at high levels despite our earlier concerns. This is because we project slightly higher loan growth 18%/17%/17% for FY2014/15/16 from 17%/17%/16%. The micro and retail segments will remain the main drivers behind loan growth which will support NIM with their higher yields. We project steady increase of deposits with an improvement in CASA composition. As a result, cost of funds will be manageable and NIM improves slightly higher to c. 8.6%.

Manageable asset quality. We expect slightly higher credit costs ahead, as well as lower pre-provision operating profit, but NPL to remain manageable rising to 1.9% through 2016. The bank's NPL ratio FY13 stood at 1.55% (the lowest in its history) noting the bank's efforts to excel. Provisions in the 4Q13 rise drastically by 53,3% YoY and 92.4% QoQ, signaling probably the anticipation for next year's challenges.

Deposit growth rate to pick up.. The bank's impressive network expansion and infrastructure will start paying off in the form of higher deposits and operating income. We project steady minimum 14% annual growth in deposits through 2016. We think the bank will focus further on its deposit collection with better CASA composition this year to support the higher-than-average loan growth without significant increase in interest expenses and cost of funds.

..due to aggressive network expansion. Bank BRI has been particularly aggressive in the last 5 years in expanding its conventional and especially non-traditional network channels. Non conventional channels grew by 63.6% and 78.7% CAGR in the last 2 and 5 years. Bank BRI is in the forefront of innovative and creative strategies to serve its huge customer base especially in the middle low segment. Fee-based income (FBI) contribution to total income at 7.2% in FY13 remains on an upward trend, mostly due to monthly saving fees. E-banking (ATM/SMS/Internet Banking) contribution to FBI rise fast to 14% in FY13 from 9.6% in the previous year.

Figure 1. Financial Summary

Key Financials	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Year to Dec 31 (in Rp b)					
Interest & Syariah Income	49,610	59,461	64,778	73,750	83,952
PPOP	25,382	30,074	34,001	37,403	42,754
Operating Profit	22,683	26,128	30,425	33,819	38,585
Net Profit	18,687	21,354	25,352	28,091	31,909
Loan growth, %	22.90%	23.82%	17.00%	16.75%	16.25%
Price/book (x)	3.79	3.10	2.56	2.14	1.81
Book Value/Share	2,627	3,209	3,884	4,640	5,505
EPS	757	865	969	1,080	1,235
EPS growth, %	23.9%	14.3%	12.0%	11.4%	14.3%
Net Interest Margin	7.84%	8.27%	8.66%	8.77%	8.95%
NPL ratio	1.80%	1.55%	1.43%	1.43%	1.49%
Consensus EPS			937	1,063	1,208
BCASekuritas/Consensus			1.03	1.02	1.02

The growth in e-banking users/transactions/value/fees is superb and does not seem to steam off. Internet banking users number at 1 million remains relatively low, and although coming from a low base, we should expect multiple of this number in the medium term considering a customer base of more than 40 million.

Valuation. The bank is currently trading at 2.3x P/B forward 2014—slightly lower than its 6-year average mean of 2.5x. We revise up our earnings forecast by 9%/4%/4% for FY 14/15/16 and raised our target Price to Rp11,925 from Rp8,700. Our concerns were mitigated by the strong 3Q-4Q13 results, which suggested the resilience of the bank's business model (the first 2 quarters of FY13 that show metrics falling through most of the board but then recovered impressively). Hence, we are more confident to raise our valuation to +1 std considering the bank is trading slightly below its average valuations.

Risks. The main risks to our positive view are: i) prolonged macro weakness, causing loan growth with the bank's main driver, namely the micro segment, to decelerate and hurt margins, ii) the worse-than-expected deterioration of asset quality.

Figure 2. P/B Forward BBRI

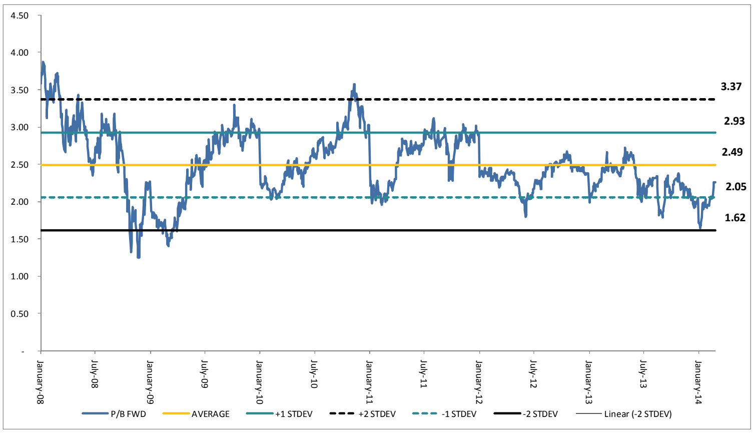


Figure 3. P/E Forward BBRI

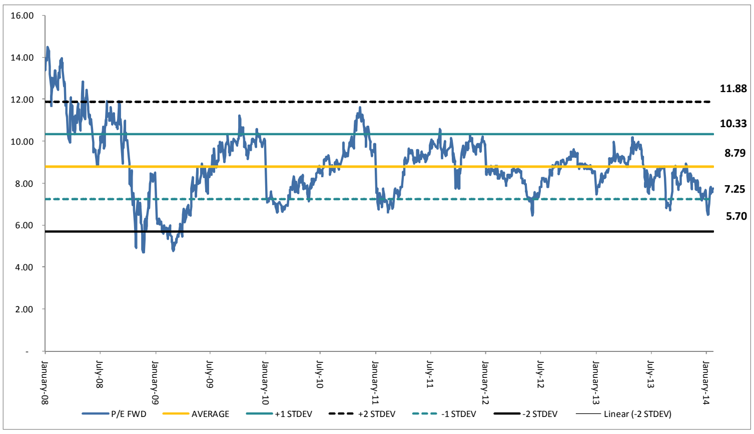


Figure 4. P/B Trailing BBRI

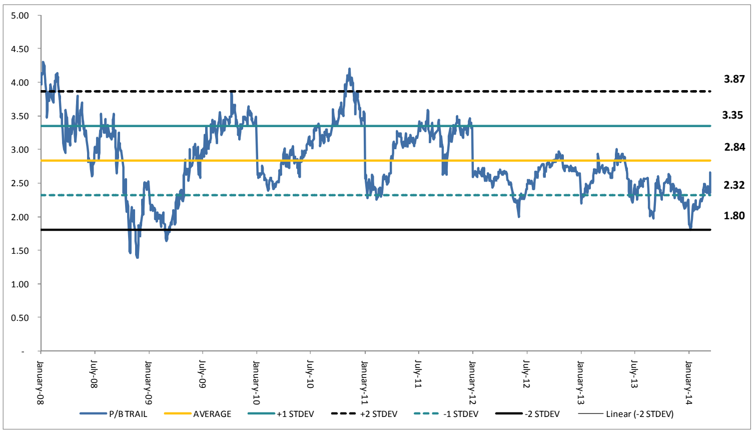
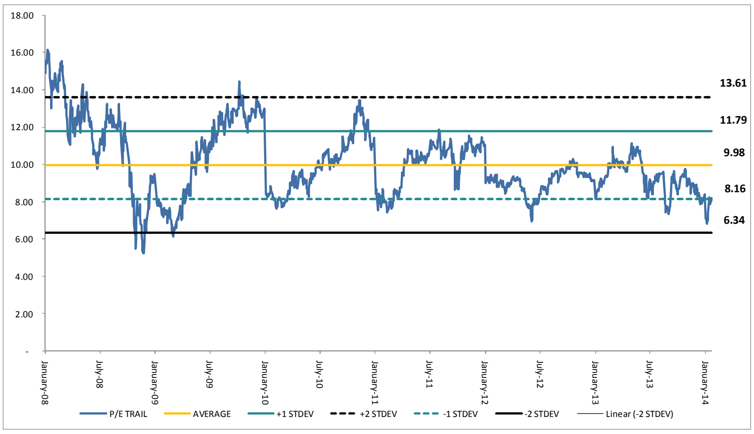


Figure 5. P/E Trailing BBRI



Appendix. 1

Income Statement YTD Dec 31 **in Rp b, unless otherwise stated**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Interest Income	49,610	59,461	64,778	73,750	83,952
Interest Expenses	(13,127)	(15,355)	(19,267)	(21,606)	(24,229)
Net Interest Income	36,484	44,106	45,511	52,144	59,723
Pre-Provision Operating Profit	25,382	30,074	34,001	37,403	42,754
Provisions	(2,700)	(3,946)	(3,576)	(3,585)	(4,169)
Operating Income	22,683	26,128	30,425	33,819	38,585
Taxation	(5,172)	(6,556)	(6,944)	(7,694)	(8,739)
Net Profit	18,687	21,354	25,352	28,091	31,909
Minority interests	6.5	10.2	8.4	9.3	10.7
Earnings per Share	757	865	969	1080	1235
Earnings per Share, %	23.9%	14.3%	12.0%	11.4%	14.3%
Earnings per Share, CAGR 2014F/6F					**13%**

Balance Sheet YTD Dec 31 **in Rp b, unless otherwise stated**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Assets					
Cash	13,895	19,172	16,814	18,495	20,344
Current Accounts with B.I. and other banks	47,366	50,154	52,160	54,246	56,416
Marketable Securities	41,137	42,674	43,954	44,833	45,281
Government Bonds	4,316	4,511	4,647	4,740	4,787
Gross Loans	350,758	434,316	510,873	597,418	694,826
yoy % growth		24%	18%	17%	16%
Allowance for Loan Losses	(14,677)	(15,172)	(16,759)	(19,664)	(23,887)
Net Loans	336,081	419,145	494,114	577,754	670,939
Fixed Assets	2,804	3,973	4,767	5,482	6,030
Total Assets	551,337	626,183	711,477	808,943	914,633
Liabilities					
Total Deposits	452,945	507,973	578,379	658,687	750,619
Taxes Payable	896	1,266	1,329	1,396	1,466
Fund Borrowings	10,889	9,085	9,539	10,016	10,517
Total Liabilities	486,455	546,856	615,654	694,469	778,836
Shareholder's Equity	64,882	79,327	95,823	114,474	135,796
Total Liabilities and Equity	551,337	626,183	711,477	808,943	914,633

Ratios					
NIM		8.27%	8.66%	8.77%	8.95%
ROAA		3.63%	3.57%	3.50%	3.53%
ROAE		29.60%	27.30%	25.34%	24.34%
Loan to Deposit Ratio		88.86%	91.50%	93.70%	95.46%
Loan to Funding Ratio		83.03%	86.90%	89.34%	91.29%
Shareholders equity to total assets		12.67%	13.47%	14.15%	14.85%
Gross NPL		6,736	7,286	8,550	10,386
Allowance for possible loan losses to gross NPL		(15,172)	(16,759)	(19,664)	(23,887)
Coverage Ratio		225%	230%	230%	230%
Write off (RP billion)		(4,318)	(4,188)	(4,059)	(3,929)

BCAsekuritas

Equity Research-Flash News

7 April 2014

Alexander Margaronis
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Kim Kwie Sjamsudin
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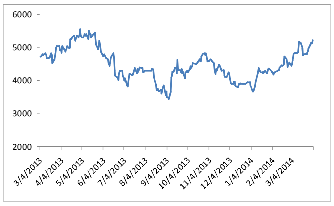
BBNI - Research Report

TP: 5,300 - CP: 5,150

BBNI	**Buy**
Price (7 April 14)	Rp 4,470
Market Cap in b	Rp 96,040



Price Performance BBNI IJ

Share Ownership Composition (Dec13)

1. G.O.I.— 60%
2. Public—Domestic 14.43%
3. Public—Foreign 26.57%

Handling Post–transformation progress

Downgrade to Hold. The re-rating of the bank's valuation to +1 std from slightly below mean in the past few months led us to downgrade our rating to Hold from Buy. We think the re-rating is ahead of the bank's fundamentals as we see limited room for the bank's metrics to substantially improve further in 2014.

NIM to withhold. Although NIM pressures are expected in 2014, NIM can be sustained at around the 6% level given the current momentum and as i) only 90% of loans are already re-priced, and ii) cost of funds to remain stable (interest rates are not expected to rise much higher) and continuous improvement in its deposit composition. CASA composition improved to 68.5% from 64% in 2011 and 58% in 2008. Furthermore, we expect high loan and deposit growth of 18% and 14%, respectively, bringing LDR higher to c.89%. This should be sufficient to sustain NIM at high level and based on our estimates slightly higher by 10bps.

Asset quality to improve further... NPL ratio continued to show improvement, with the ratio at 2.2% in 2013, down from 2.8% in 2012 and 5% in 2008. We expect NPL ratio to come slightly below 2% in FY14. Notable is the trend in the NPL ratio even without write offs, standing at 3.5% down from 8.5% and 4.4% in 2008 and 2012. Going forward, we expect the quality of the portfolio to ameliorate noting that outstanding NPL coming down while write offs remain steady, and the ability of the bank to maintain high recovery vs write off.

Valuation. Due to the strong run-up in the share price, the bank is currently trading at 1.66x P/B forward 2014 roughly 1std above its 6-year average of 1.35x P/B forward. At this point, the bank already commands its long deserved premium valuation given i) the bank's improving fundamentals, ii) improving execution track record and iii) narrower gaps of key metrics with the three largest banks. We see little significant catalysts that can bring the bank's performance much higher. We have slightly revised up our earnings forecast by 3.5%/8%/10% for FY14/15/16 and set Target Price slightly higher at Rp.5,300.

Figure 1. Financial Summary

Key Financials	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Year to Dec 31 (in Rp b)					
Interest & Syariah Income	22,705	26,451	29,761	33,981	38,324
PPOP	11,166	13,926	16,183	19,420	22,166
Operating Profit	8,641	11,219	13,043	15,844	18,153
Net Profit	7,048	9,058	10,523	12,774	14,628
Loan growth, %	22.75%	24.86%	16.74%	16.73%	16.00%
Price/book (x)	2.20	2.01	1.76	1.52	1.32
Book Value/Share	2,331	2,552	2,917	3,361	3,874
EPS	378	486	514	634	734
EPS growth, %	20.9%	28.5%	5.8%	23.5%	15.7%
Net Interest Margin	5.60%	6.09%	6.20%	6.38%	6.43%
NPL ratio	2.81%	2.16%	1.90%	1.81%	1.84%
Consensus EPS			512	589	681
BCASekuritas/Consensus			1.00	1.08	1.08

Figure 2. P/B Forward BBNI

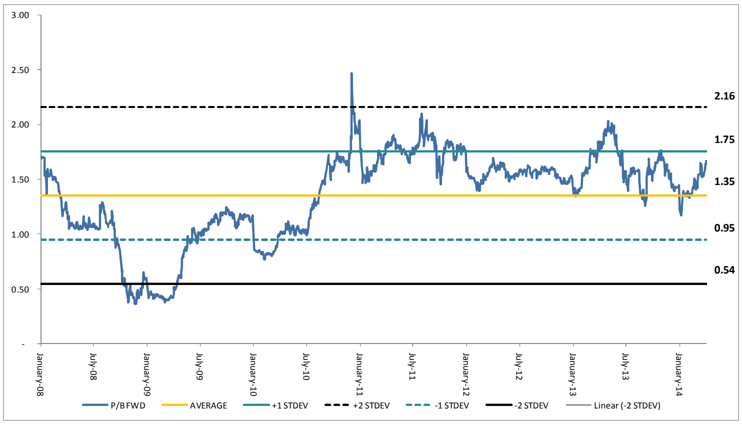


Figure 3. P/E Forward BBNI

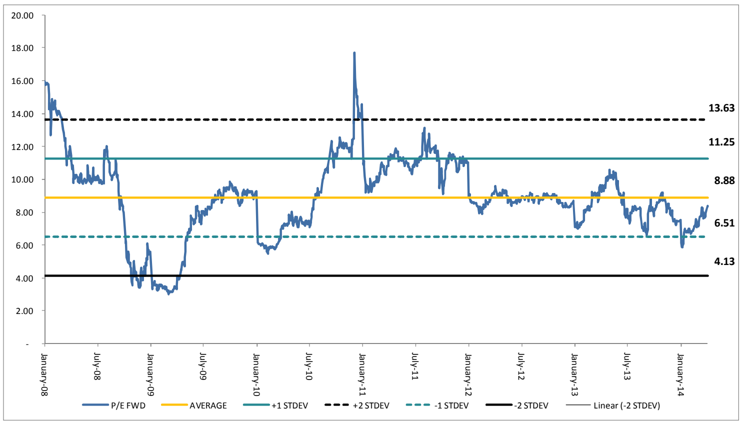


Figure 4. P/B Trailing BBNI

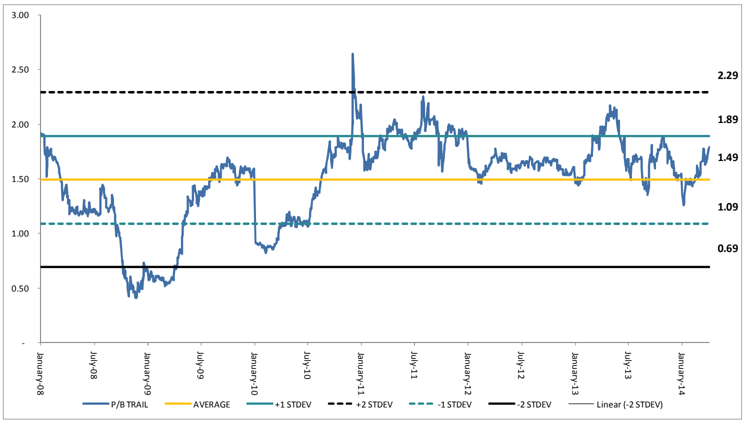
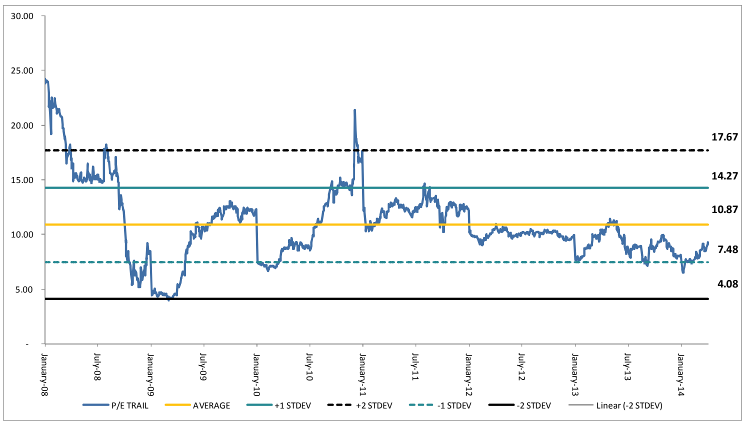


Figure 5. P/E Trailing BBNI



Appendix. 1

Income Statement YTD Dec 31 in Rp b, unless otherwise stated	2012	2013	2014F	2015F	2016F
Interest Income	22,705	26,451	29,761	33,981	38,324
Interest Expenses	(7,246)	(7,392)	(7,726)	(8,049)	(8,724)
Net Interest Income	15,459	19,058	22,035	25,932	29,600
Pre-Provision Operating Profit	11,166	13,926	16,183	19,420	22,166
Provisions	(2,525)	(2,708)	(3,140)	(3,576)	(4,013)
Operating Income	8,641	11,219	13,043	15,844	18,153
Taxation	(1,851)	(2,220)	(2,579)	(3,131)	(3,586)
Net Profit	7,048	9,058	10,523	12,774	14,628
Minority interests	2.2	3.6	2.9	3.6	4.1
Earnings per Share	377.84	485.52	513.85	634.47	733.89
Earnings per Share, %	20.9%	28.5%	5.8%	23.5%	15.7%
Earnings per Share, CAGR 2014F/6F					**20%**

Balance Sheet YTD Dec 31 in Rp b, unless otherwise stated	2012	2013	2014F	2015F	2016F
Assets					
Cash	7,969	10,090	10,897	11,769	12,710
Current Accounts with B.I. and other banks	28,263	27,232	28,337	29,492	30,698
Marketable Securities	9,801	11,966	12,564	13,192	13,852
Government Bonds	10,077	11,479	12,053	12,655	13,288
Gross Loans	200,742	250,638	292,601	341,539	396,185
yoy % growth		25%	17%	17%	16%
Allowance for Loan Losses	(6,908)	(6,880)	(7,065)	(7,858)	(9,259)
Net Loans	193,835	243,758	285,535	333,680	386,925
Fixed Assets	4,592	5,514	5,789	6,079	6,383
Total Assets	333,304	386,655	435,270	490,662	549,308
Liabilities					
Obligations due Immediately	2,726	1,760	1,848	1,940	2,037
Total Deposits	260,906	295,075	336,099	382,852	436,135
Fund Borrowings	8,750	18,951	19,898	20,893	21,938
Total Liabilities	289,778	338,971	380,879	427,988	477,054
Shareholder's Equity	43,525	47,684	54,391	62,674	72,254
Total Liabilities and Equity	333,304	386,655	435,270	490,662	549,308

Ratios					
NIM		6.09%	6.20%	6.38%	6.43%
ROAA		2.52%	2.85%	3.82%	3.80%
ROAE		19.85%	18.78%	20.21%	20.29%
Loan to Deposit Ratio		85.87%	87.93%	90.03%	91.61%
Loan to Funding Ratio		78.31%	80.49%	82.66%	84.32%
Shareholders equity to total assets		12.3%	19.0%	18.8%	18.7%
Gross NPL		5,421	5,563	6,188	7,291
Allowance for possible loan losses to gross NPL		(6,880)	(7,065)	(7,858)	(9,259)
Coverage Ratio		127%	127%	127%	127%
Write off (RP billion)		(3,126)	(2,955)	(2,783)	(2,612)

Equity Research-Flash News

7 April 2014

BDMN - Research Report

TP: 4,865 - CP: 4,640

Alexander Margaronis
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Kim Kwie Sjamsudin
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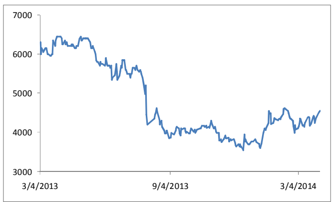
BDMN	**Hold**
Price (7 April 14')	Rp 4,850
Market Cap in b	Rp 44,472



Share Ownership Composition:

1. Asia Financial (Indonesia) —60.14%

2. Public—26.25%

3.JPMCB-Franklin Templeton Inv.—6.38%

Slow recovery, medium term will be better

Slow turnaround from a dire FY13... In contrast to consensus, we believe the bank's profitability to pick up again by 5-6% after a disappointing 1% increase in FY13 results that muted the much improving efforts in asset quality, high deposit growth, and continuous improvement in deposit composition. Bank Danamon's overall strategy to diversify and improve further its asset mix is a good long-term strategy for the bank to follow. The bank's strategic shift to corporate, commercial and retail and slowly reduces its dependency in the mass-market would improve profitability metric over time.

Good strategy but at the expense of NIM in the short-term... The current strategy of the bank to capitalize on corporate and retail segments will in turn ameliorate its funding and deposit composition in the medium term. The impact of course will be felt through persistent pressures on NIM in the short and medium term due to lower yields in corporate and retail compared to High yield mass-market. The only counter balance to pressures in NIM comes from the continuous improvement in deposit composition reaching 48% from 25% in 2008 and significant deposit growth in FY13.

We think the high deposit growth of Bank Danamon in FY13 of 21% is not sustainable going forward. Rather, we expect the bank to post moderate deposit growth of around 11-14% that can support credit growth. The bank should also be able to continue to improve its deposit composition hence taking off some pressures from its declining NIM. LDR (bank only) is still at high levels at 97% while its consolidated LDR is at 122%.

.. **as the bank shifts slowly away from mass market.** The Mass-Market segment has been traditionally the driver behind the bank's loan growth. However, in the last few years, the composition in overall loans, continues to come down. Mass market overall loan composition continues to come down significantly to 52% from 58% in 2011 due to the weak outlook in the mass market segment, namely the auto-market financing and especially the already-saturated 2 Wheeler market. The Mass-Market segment posted a low growth of 6%. Adira finance and DSP comprising 97% of the Mass market loans, recorded 12% and 6% growth in 2013.

Figure 1. Financial Summary

Key Financials	2012	2013	2014F	2015F	2016F
Year to Dec 31 (in Rp b)					
Interest Income	18,858	20,131	22,226	24,905	27,840
PPOP	8,715	8,953	9,797	11,206	12,723
Operating Profit	6,183	5,605	5,931	6,685	7,548
Net Profit	4,117	4,159	4,389	4,951	5,596
Loan growth, %	6.13%	13.65%	16.16%	14.19%	14.30%
Price/book (x)	1.51	1.38	1.26	1.14	1.04
Book Value/Share	2,973	3,261	3,572	3,923	4,321
EPS	419	422	445	502	567
EPS, %	11.9%	0.7%	5.5%	12.8%	13.0%
Net Interest Margin	9.94%	9.19%	8.21%	8.71%	8.68%
NPL ratio	2.62%	1.90%	1.86%	1.81%	1.81%
Consensus EPS			429	498	571
BCASekuritas/Consensus			1.04	1.01	0.99

Although mass-market segment provides higher yields, its contribution to deposits is insignificant in comparison to a greater focus in credit allocation to retail, commercial and corporate that can provide another source of more stable fund in the form of deposits, fee income and potentially lower cost of funds. This strategy reflected in FY13 as Total deposits grew an impressive 21%, and bringing LDR also lower to 95% from 100% in the 3Q13.

On the other hand, the corporate segment recorded impressive loan growth of 49% increase, albeit from a low base. The retail segment comprised of Micro, Syariah and consumer, posted good growth of 31% and the SME & Commercial posted 24%.

High interest environment puts further pressure on expenses. We think credit expansion in the corporate and retail segments, is not a difficult task for the bank as we noted in FY13 credit growth. The difficulty for the bank will be to sustain the slow transition away from mass-market without the bank suffering across the board in terms of profitability. We note the significant endeavors on the bank's other funding abilities besides deposits, such as borrowings (although it is still a small share in proportion to the bank's total funding needs). The bank has been raising its borrowings (50% increase in two consecutive years) to manage funding, asset liability mismatches, and in turn assist cost of funds to balance pressures on NIM. Nevertheless, the current high interest rate environment is not too conducive for raising further borrowings.

Valuation. The bank is currently trading at 1.2x P/B forward 2014. We revise up our earnings forecast by 6%/3% for FY14/15 and we set Target Price Rp.4,825. The stock is trading below its mean for the last 2 years (1.78x average 5 years) and we assign a mere 1.36x P/B in 2014 that can be realized considering this is an election year which can further boost loan growth and thus interest income. Despite having little significant catalysts for the bank (barring an unexpected divestment being realized) we can assign slightly higher valuation to reflect i) the slow improvement in its deposit franchise and CASA composition, ii) slow but successful shift to Corporate segment, iii) Net income picking up after zero growth in FY13 and iv) the focus shift towards corporate, SME and retail segments (this matches well with the bank's existing Branch network all over Indonesia, its large human resources and complete range of services and products. The bank plans to open 100 new branches in through to the medium term.)

Risks. The main risks to our view are the faster-than-expected progress on the bank's strategic shift would mean that our estimates would be too conservative.

Figure 2. P/B Forward BDMN

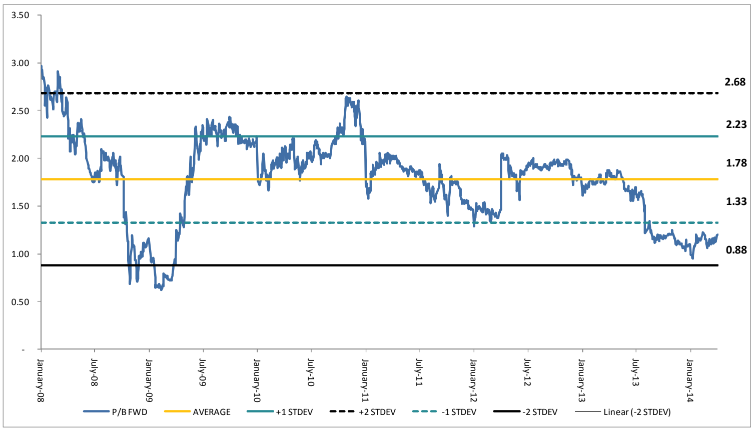


Figure 3. P/E Forward BDMN

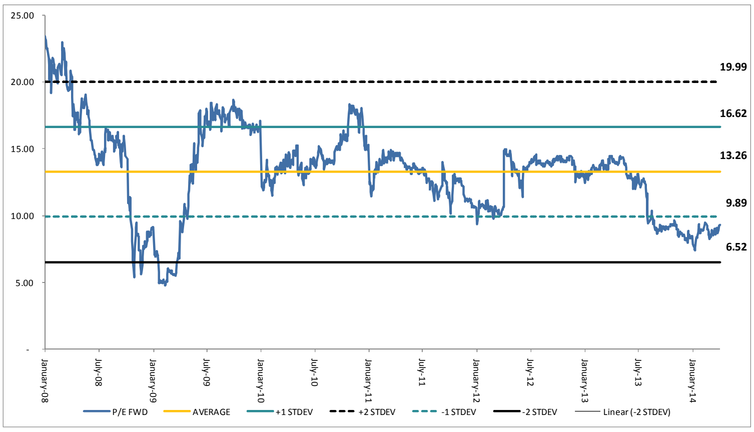


Figure 4. P/B Trailing BDMN

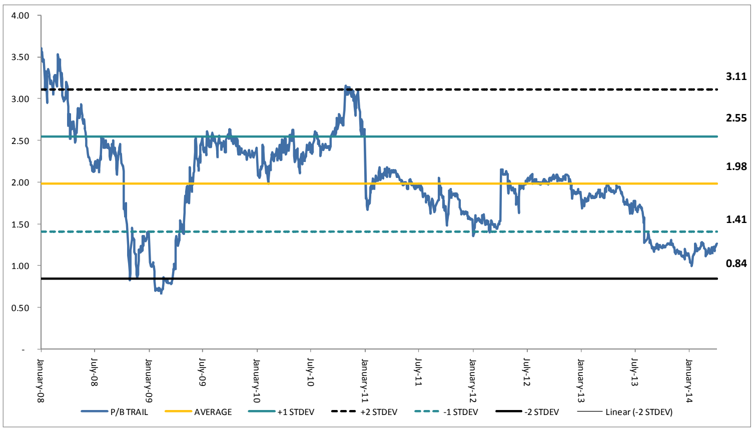
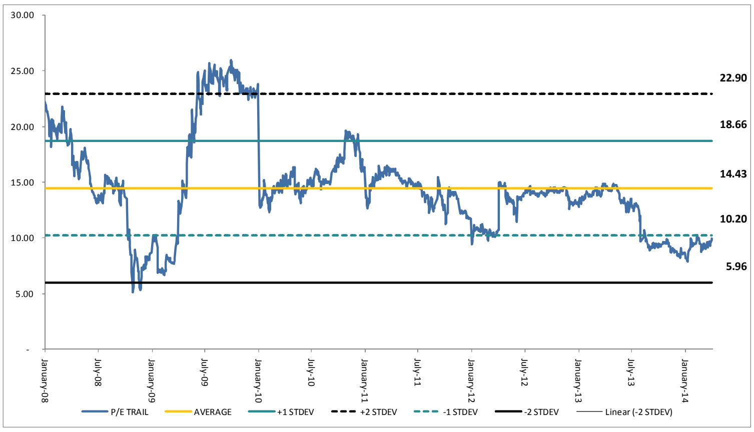


Figure 5. P/E Trailing BDMN



Appendix. 1

Income Statement YTD Dec 31 in Rp b, unless otherwise stated	2012	2013	2014F	2015F	2016F
Interest Income	18,858	20,131	22,226	24,905	27,840
Interest Expenses	(5,936)	(6,600)	(7,443)	(8,266)	(9,193)
Net Interest Income	12,922	13,531	14,783	16,639	18,647
Pre-Provision Operating Profit	8,715	8,953	9,797	11,206	12,723
Provisions	(2,532)	(3,348)	(3,867)	(4,521)	(5,175)
Operating Income	6,183	5,605	5,931	6,685	7,548
Taxation	(1,370)	(1,371)	(1,463)	(1,650)	(1,865)
Net Profit	4,117	4,159	4,389	4,951	5,596
Minority interests	105	118	124	140	158
Earnings per Share	419	422	445	502	567
Earnings per Share, %	11.9%	0.7%	5.5%	12.8%	13.0%
Earnings per Share, CAGR 2014F/6F					**13%**

Balance Sheet YTD Dec 31 in Rp b, unless otherwise stated	2012	2013	2014F	2015F	2016F
Assets					
Cash	2,457	2,944	2,708	2,844	2,986
Current Accounts with B.I. and other banks	10,616	14,596	15,034	15,335	15,642
Marketable Securities	7,307	7,727	7,959	8,118	8,280
Government Bonds	4,063	5,598	5,766	5,882	5,999
Gross Loans	93,075	105,781	122,874	140,307	160,366
yoy % growth	6.1%	13.7%	16.2%	14.2%	14.3%
Allowance for Loan Losses	(2,247)	(2,312)	(2,464)	(2,736)	(3,126)
Net Loans	90,828	103,468	120,410	137,571	157,240
Fixed Assets	2,096	2,199	2,309	2,355	2,402
Total Assets	155,791	184,237	210,629	233,424	259,015
Liabilities					
Third Party Deposits	89,898	109,161	122,261	136,932	153,364
Taxes Payable	304	234	254	264	251
Fund Borrowings	11,020	16,068	17,675	19,443	21,387
Total Liabilities	127,058	152,684	176,091	195,517	217,303
Shareholder's Equity	28,733	31,553	34,538	37,906	41,712
Total Liabilities and Equity	155,791	184,237	210,629	233,424	259,015

Ratios				
NIM	9.19%	8.21%	8.71%	8.68%
ROAA	2.38%	2.16%	2.17%	2.21%
ROAE	13.41%	12.91%	13.28%	13.66%
Loan to Deposit Ratio (consolidated)	122.64%	126.07%	128.49%	130.82%
Loan to Deposit Ratio (bank only)	96.90%	100.50%	102.46%	104.57%
Loan to Funding Ratio	95.76%	98.95%	101.38%	103.73%
Shareholders equity to total assets	17.13%	16.40%	16.24%	16.10%
Gross NPL	2,133	2,282	2,533	2,895
Allowance for possible loan losses to gross NPL	2,312	2,464	2,736	3,126
Write off (RP billion)	(2,811)	(2,944)	(3,076)	(3,209)

Equity Research-Flash News

BBTN - Research Report

TP: 1,730 - CP: 1,335

7 April 2014

Alexander Margaronis
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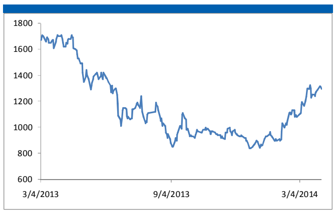
Kim Kwie Sjamsudin
kim.sjamsudin@bcasekuritas.co.id

BBTN	**BUY**
Price (7 April 14')	Rp 1,335
Market Cap in b	Rp 14,104



Share Ownership Composition:

1. G.O.I.—60.14%
2. Public—39.86%

Firing on All Cylinders

NPL to continue to improve albeit slowly. NPL halted its upward trajectory, reaching 4.05% in 2013, slightly lower than 4.09% in 2012, down as well from the 4.88% level in 9M13. We expect NPL ratio to come down sooner than previously assumed, to the range of 3.9% as NPL formation is on a downward trend. While provisions may remain high according to our estimates, we would like to note that NPL ratio for subsidized housing (2nd largest in loan composition), is to our opinion inherently higher to other loan segments due to income sensitivity to lower income levels that drags overall NPL ratio higher. Thus we would be surprised to see NPL for this type of bank (social mandate) coming down fast or in very low levels.

Gaining momentum in subsidized housing segment… We think BBTN is reaching a good momentum as i) First, the subsidized housing market recorded 11% growth in 2013, showing the revival of the market vs very little growth in 2012 and the bank has raised further the target number of subsidized housing from current 86k to 110k, ii) Second to that, BTN is the least affected by LTV regulations amongst commercial banks as the bank only provides subsidized mortgage for finished houses (96% of BTN's total mortgage loans are provided for finished houses) thus avoiding investment risks associated with property. Further to that, BTN's 99% of mortgage loans are extended for first-time home-owners with an average mortgage size below Rp 300 mio (affordable housing for the middle-low income whose demand is enormous).

…while Non-subsidized mortgage also getting stronger. The bank has successfully proved that it can compete directly with 1st tier banks even in the non-subsidized segment and recorded impressive loan growth with 36.3% CAGR growth in the last three years. This concurred at a good time as the subsidized mortgage segment was facing a difficult time with slower credit growth, due mostly to the previous complicated government financing scheme. In FY13, the bank recorded another good year with 35.77% growth in the non-subsidized segment. This growth, also quiet down even the hardest skeptics as to whether the bank can establish itself as a mortgage player in the non-subsidized market due to its smaller branch network. The non-subsidized segment

Figure 1. Financial Summary

Key Financials	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Year to Dec 31 (in Rp b)					
Interest Income	8,819	10,783	12,794	14,903	17,222
PPOP	2,084	2,574	2,921	3,557	4,335
Operating Profit	1,871	2,138	2,262	2,675	3,253
Net Profit	1,364	1,564	1,786	2,112	2,569
Loan growth, %	28%	23%	0%	0%	0%
Price/book (x)	1.12	1.13	1.02	0.91	0.80
Book Value/Share	1,113	1,097	1,216	1,366	1,549
EPS	148	149	170	201	244
Net Interest Margin	5.17%	5.16%	5.16%	5.23%	5.24%
NPL ratio	3.66%	4.05%	3.88%	3.73%	3.62%
Consensus EPS			161	193	234
BCASekuritas/Consensus			1.05	1.04	1.04

now accounts for around 40% of BBTN's overall loan composition overtaking the subsidized segment since 2012.

In overall, the bank has a less diversified portfolio than other major banks with a focus mainly on mortgages (85% loan composition). Although this can be its Achilles point, the prospects for increased residential demand credit remain very strong through to the long term. This is supported as long as the economy remains healthy, and given as well the bank's social mandate from the government to provide affordable subsidized financing to the low-middle income levels of society.

Liquidity Concerns. Our main concern now lies with the bank's liquidity as Loan to Deposit ratio has reached 104.4%. This is despite the bank's good efforts to increase deposits by an impressive 19.2% growth (attributed mainly to the 44% growth in current accounts), and efforts to improve CASA composition (increase to 45% from 43% in 2012). We think this deposit growth is not sustainable as i) deposit competition intensifies, and ii) the lowered loan growth target set at 16-18% down from 20-25% reflects the increasing pressures on the bank's liquidity as LDR is at a high level of 104.5%. Thus the lowered loan growth target may appeal not to Bank Indonesia's guidance but rather to the bank's attention to capitalization (CAR is at 15.6% in 2013 down from 17.7% in 2012), leverage and liquidity.

Valuation. The bank is currently trading at 1.1x P/B forward 2014. We slightly revise up our earnings forecast by 3.5%/4.5% in FY14/15 and set Target Price at Rp1,725. Our target price is revised upwards to reflect the momentum in mortgage funding and the still relatively low valuation. The valuation of BBTN is still very attractive, trading below its mean for the last 2 years and we set target P/B at a mere 1.4x or at its average mean P/B forward. With or without an acquisition scenario, BBTN remains our Top pick among small-cap banks.

Risks. The main risks to our positive view are i) inability to sustain moderate growth in deposit, ii) a downturn cycle in the subsidized and non-subsidized housing market.

Figure 2. P/B Forward BBTN

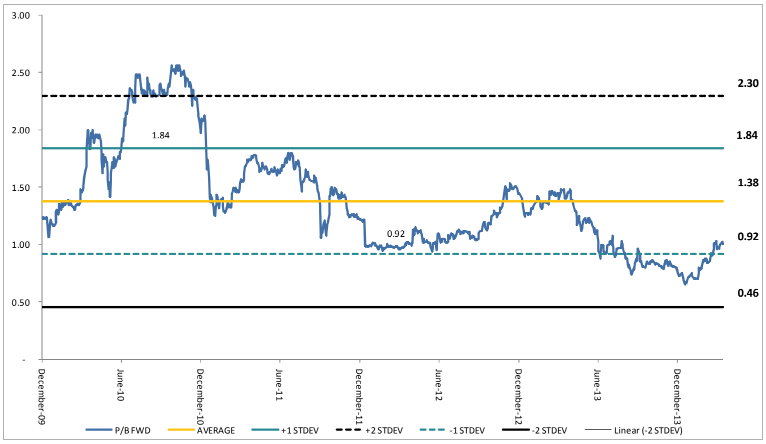


Figure 3. P/E Forward BBTN

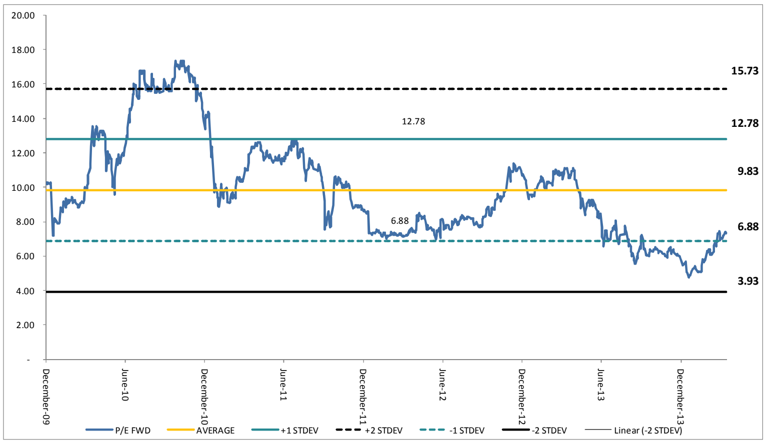


Figure 4. P/B Trailing BBTN

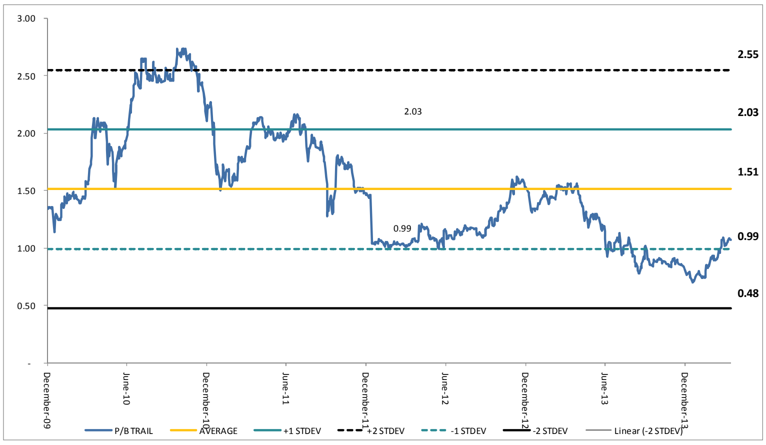
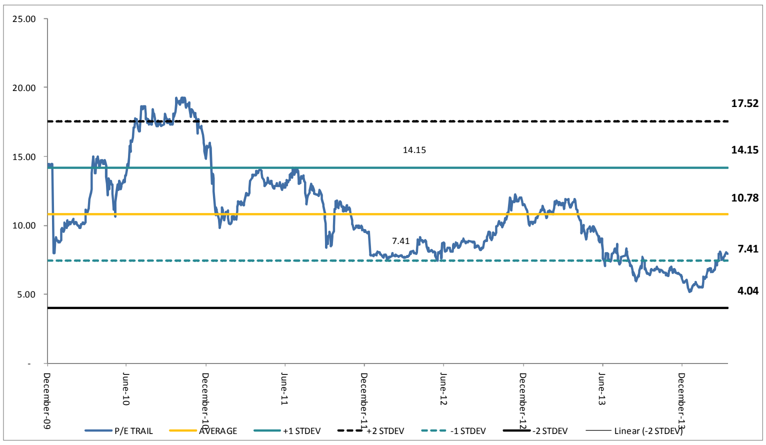


Figure 5. P/E Trailing BBTN



Appendix. 1 Financial Statements

Income Statement YTD Dec 31 **in Rp b, unless otherwise stated**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Interest Income	8,819	10,783	12,794	14,903	17,222
Interest Expenses	(4,092)	(5,130)	(6,223)	(7,148)	(8,181)
Net Interest Income	4,727	5,653	6,571	7,756	9,041
Pre-Provision Operating Profit	2,084	2,574	2,921	3,557	4,335
Provisions	(213)	(430)	(659)	(882)	(1,083)
Operating Income	1,871	2,138	2,262	2,675	3,253
Taxation	(393)	(579)	(475)	(562)	(683)
Net Profit	1,364	1,564	1,786	2,112	2,569
Earnings per Share	148	149	170	201	244
Earnings per Share, %	20.1%	0.6%	14.2%	18.2%	21.6%
Earnings per Share, CAGR 2014F/6F					**20%**

Balance Sheet YTD Dec 31 **in Rp b, unless otherwise stated**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Assets					
Cash	695	924	1,035	1,160	1,299
Current Accounts with B.I. and other banks	7,298	9,859	11,338	13,038	14,994
Marketable Securities	1,014	4,202	4,412	4,632	4,864
Government Bonds	7,469	8,385	8,804	9,244	9,707
Gross Loans	81,411	100,467	117,553	138,429	163,448
yoy % growth		23%	17%	18%	18%
Allowance for Loan Losses	(981)	(1,137)	(1,461)	(2,064)	(2,895)
Net Loans	80,430	99,330	116,092	136,365	160,552
Fixed & other Assets	2,343	2,306	2,491	2,690	2,906
Total Assets	111,749	131,170	150,913	174,504	202,389
Liabilities					
Obligations due Immediately	1,201	1,284	1,349	1,416	1,487
Total Deposits	80,668	96,208	110,639	127,235	146,320
Fund Borrowings	6,737	7,073	7,780	8,558	9,414
Total Liabilities	101,470	119,613	138,105	160,112	186,071
Shareholder's Equity	10,279	11,557	12,807	14,392	16,318
Total Liabilities and Equity	111,749	131,170	150,913	174,504	202,389

Ratios				
NIM	5.16%	5.16%	5.23%	5.24%
ROAA	1.29%	1.27%	1.30%	1.36%
ROAE	14.33%	14.66%	15.53%	16.73%
Loan to Deposit Ratio	104%	106%	109%	112%
Loan to Funding Ratio	88%	89%	91%	94%
Shareholders equity to total assets	8.81%	8.49%	8.25%	8.06%
Gross NPL	4,066	4,567	5,160	5,909
Allowance for possible loan losses to gross NPL	(1,137)	(1,461)	(2,064)	(2,895)
Coverage Ratio	28%	32%	40%	49%
Write off (RP billion)	(281)	(337)	(281)	(254)

Equity Research-Flash News

BJBR - Research Report

TP: 1,055 - CP: 1,155

7 April 2014

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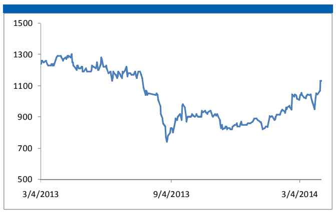
BJBR	Hold
Price (7 April 14')	Rp 1,155
Market Cap in b	Rp 11,199



Share Ownership Composition:

1. G.O.I.—75%
2. Public—25%

Focus on NPL and Liquidity

Mixed 4Q13 results. BJBR announced a set of mixed results for FY13. Net profit increased in FY13 amounting to 1.37t or 15.3% YoY, 2.7% higher than the consensus estimate and matching our forecasts. The results were driven by very strong growth 27.5% in consumer loans its primary driver segment. Net interest income rise significantly by 31% as interest expenses were controlled due to significant decrease in time deposits. As we previously said, our concern remains on the rising trend of the NPL ratio. This year will most probably see the bank focusing on deposit growth and the NPL issue after the very strong loan growth in FY13 and the deterioration in asset quality. We believe though the bank would be able to respond to the difficult challenges and achieve moderate deposit growth and handle NPL.

NIM could be under-pressure. If the bank can continue to improve or maintain its current CASA composition then the bank's high NIM can be sustained. We think this is unlikely as i) CASA might return to previous lower levels and as time deposits might increase again to support funding hence putting pressure on cost of funds (if CASA does not increase significantly), ii) the bank's already high LDR, iii) and potential high dividend payout to major shareholder. The bank might have to sacrifice substantial loan growth as the corporate and the Micro loan growth slows down due to asset quality issues. However, there are upside risks to NIM if the growth for its consumer and Mortgage could continue at the current rate.

Liquidity under pressure. We think the bank will need to significantly increase deposits in FY14 if the bank still has high expectations on loan growth (Management Target Credit growth of minimum 20%). Loan to Deposit ratio has risen significantly to 96.5% from 74.1% as deposit recorded negative -1.2% growth while Loans recorded 28% increase. CASA composition improved to 60% but this was mostly due to intentionally lowering time deposits to improve cost of funds and NIM. We think this is temporary which also the bank has clearly stated believing that CASA in FY14 will be around the 50% range. We also note CAR ratio is also under pressure as CAR ratio came down to 16.5% from 18.1% in FY12. Thus going forward, the bank will need to be in a tight line trying to balance its credit and deposit growth while keeping an eye on its liquidity.

Figure 1. Financial Summary

Key Financials	2012	2013	2014F	2015F	2016F
Year to Dec 31 (in Rp b)					
Interest Income	6,796	8,133	9,166	10,564	12,024
PPOP	1,823	2,368	2,855	3,489	3,997
Operating Profit	1,419	1,752	1,849	2,273	2,572
Net Profit	1,193	1,376	1,454	1,753	1,968
Loan growth, %	33%	28%	15%	16%	16%
Price/book (x)	1.86	1.66	1.53	1.37	1.23
Book Value/Share	620	693	753	838	935
EPS	123	142	150	181	203
EPS growth, %		15.3%	5.6%	20.6%	12.2%
Net Interest Margin	5.3%	6.6%	7.8%	8.2%	8.4%
NPL ratio	2.1%	2.8%	3.2%	3.0%	2.8%
Consensus EPS			148	169	172
BCASekuritas/Consensus			1.01	1.07	1.18

Rising NPL remains the main issue… Pressures on asset quality continued to persist throughout FY13 and are likely to continue into 2014. The Corporate/Commercial segment NPL ratio remained high at 7.4% from 7.3% in 2012 with its Special mention at 5.4% (lower NPL ratio though than 2011 at 11%). On the other hand the Micro segment temporarily seems to went unchecked as NPL ratio climbed to 11.3% while its Special mention ratio is at a notable 16.8%. The bank attributes this to outsourcing partners and practices that turned to be less prudent than own permanent staff. According to management, this situation can be corrected with improvements and changes on contracts/ penalties/fees that will ameliorate the situation in Micro. On the positive side, the NPL ratio in Consumer loans which is its primary loan segment remained the same at a remarkable 0.12% while the NPL ratio in Mortgage segment stands at 3% slightly up from 2.8%.

..as the bank focused more on credit growth. We think the bank in FY13 focused on rapid loan growth as the market provided opportunities, nonetheless at the expense of worse than expected asset quality performance. Going forward, just like in the corporate segment, the bank will need to step on the brakes on the growth of the micro credit segment until it corrects the situation. Moreover it means that i) operating expenses (30% increase in FY13) and provisions (52.7% increase in FY13) may remain high to handle asset quality and prudency reasons. We incorporate higher credit costs and estimate NPL ratio to increase further to the range of 3.3% before coming down in FY15.

Valuation. The bank is currently trading at 1.5x P/B forward 2014 or slightly above –1std above mean. We have revised our earnings forecast up for FY14 by 12% and set Target Price slightly higher, considering its undemanding valuation and believe that the bank will achieve moderate deposit growth. Nevertheless, we will hold steady in our concerns over a possible declining profitability and the quality of its asset portfolio.

Risks. The risks to our view are i) lower metrics across the board due to worsening in the quality of its asset portfolio thus hurting significantly profitability, ii) significant increase in Time deposits or low deposit growth, iii) lower than expected credit growth. While the upside risks to our view is i) deposit growth rebounding significantly and NPL ratio coming down better than expected.

Figure 2. P/B Forward BJBR

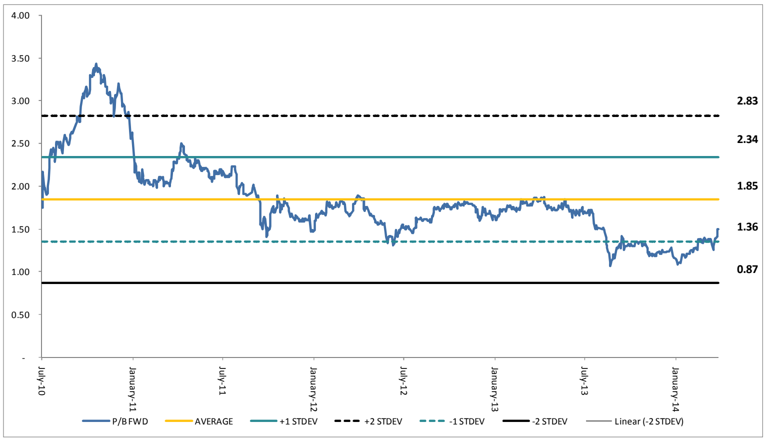


Figure 3. P/E Forward BJBR

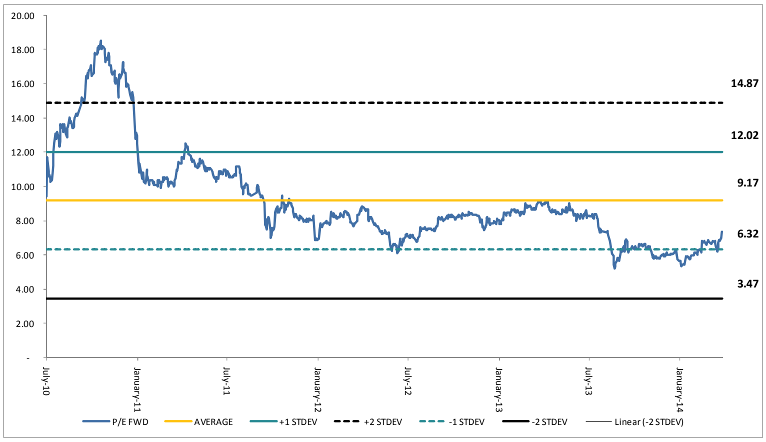


Figure 4. P/B Trailing BJBR

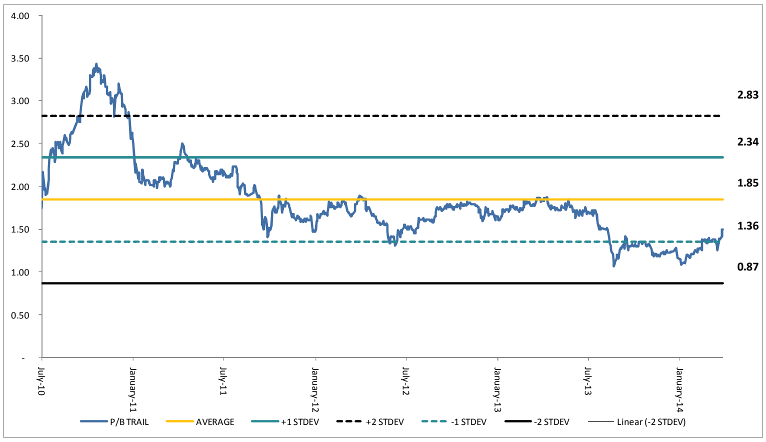
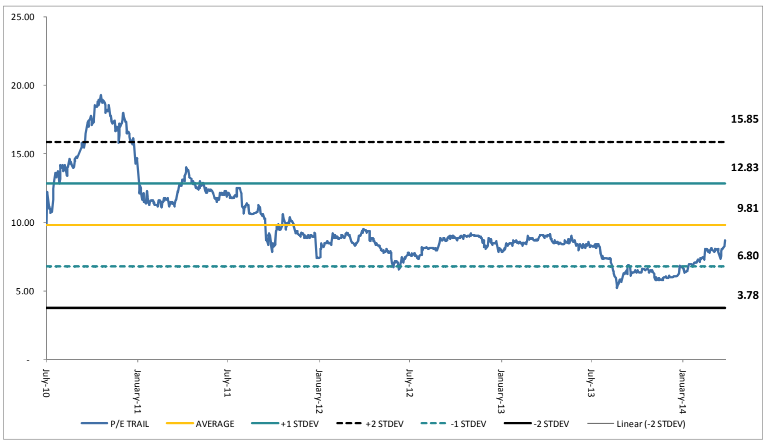


Figure 5. P/E Trailing BJBR



Appendix. 1 Financial Statements

Income Statement YTD Dec 31	**2012**	**2013**	**2014F**	**2015F**	**2016F**
in Rp b, unless otherwise stated					
Interest Income	6,796	8,133	9,166	10,564	12,024
Interest Expenses	(3,140)	(3,351)	(3,636)	(4,071)	(4,536)
Net Interest Income	3,655	4,782	5,530	6,494	7,488
Pre-Provision Operating Profit	1,823	2,368	2,855	3,489	3,997
Provisions	(403)	(616)	(1,007)	(1,216)	(1,425)
Operating Income	1,419	1,752	1,849	2,273	2,572
Taxation	(319)	(376)	(386)	(466)	(523)
Net Profit	1,193	1,376	1,454	1,753	1,968
Earnings per Share	123	142	150	181	203
Earnings per Share, %	23.9%	15.3%	5.6%	20.6%	12.2%
Earnings per Share, CAGR 2014F/6F					**12%**

Balance Sheet YTD Dec 31	**2012**	**2013F**	**2014F**	**2015F**	**2016F**
in Rp b, unless otherwise stated					
Assets					
Cash	1,795	2,595	2,621	2,647	2,674
Current Accounts with B.I. and other banks	4,956	4,631	4,677	4,724	4,771
Marketable Securities	15,710	10,292	10,395	10,499	10,604
Gross Loans	38,333	48,902	55,999	65,162	75,294
yoy % growth		28%	15%	16%	16%
Allowance for Loan Losses	(684)	(1,082)	(1,751)	(2,620)	(3,762)
Net Loans	37,649	47,821	54,248	62,542	71,532
Fixed & other Assets	735	699	706	720	735
Total Assets	70,841	70,958	74,618	84,490	95,665
Liabilities					
Obligations due Immediately	1,761	1,946	2,043	2,145	2,252
Total Deposits	47,928	47,221	51,943	59,734	68,694
Fund Borrowings & Debt Issues	2,626	2,721	2,857	3,000	3,150
Total Liabilities	64,832	64,240	67,169	75,994	86,066
Shareholder's Equity	6,009	6,718	7,300	8,124	9,068
Total Liabilities and Equity	70,841	70,958	74,469	84,117	95,134

Ratios				
NIM	6.55%	7.83%	8.22%	8.42%
ROAA	1.94%	2.00%	2.20%	2.18%
ROAE	21.63%	20.74%	22.74%	22.89%
Loan to Deposit Ratio	96%	100%	102%	103%
Loan to Funding Ratio	85%	93%	95%	96%
Shareholders equity to total assets	9.47%	9.78%	9.62%	9.48%
Gross NPL	1,282	1,658	1,820	1,968
Allowance for possible loan losses to gross NPL	(1,082)	(1,824)	(2,730)	(3,937)
Coverage Ratio	84%	110%	150%	200%
Write off (RP billion)	(130)	(267)	(335)	(199)

Equity Research-Flash News

BBKP - Earnings Year End Results

TP: 920- CP: 655

7 April 2014

Alexander Margaronis
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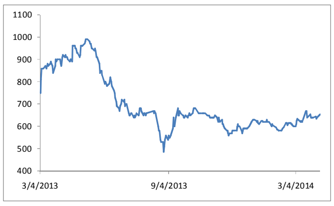
Kim Kwie Sjamsudin
kim.sjamsudin@bcasekuritas.co.id

BBKP	BUY
Price (7 April 14')	Rp 655
Market Cap in b	Rp 5,951



Share Ownership Composition: (as of Dec 13')

1. Kopelindo— 31.55%
2. Bosowa—13.13%
3. G.O.I.— 12.22%
4. Public — 43.1%

Bosowa— Long-Awaited White Knight

Downbeat 4Q13 Results. Bank Bukopin announced a set of downbeat results for FY13. Net profit increased in FY13 amounting to 934.bio or 12% YoY, slightly higher than consensus by 2.7% and 9.4% higher from our estimates (as provisions did not materialize). Overall Loans grew by 6.6% in 2013 to 48.5t while deposits record low growth of 3.3% hence LDR slightly rise to 85.8% from 83.8%. Loan growth was lower than expected due to decrease in BULOG's overall loans balance in the 4th quarter by almost 4t. Profitability as well fell in comparison to FY 12. NIM fell to 3.82% from 4.56% while ROE and ROA also decrease to 19.1% and 1.75% from 19.47% and 1.83% respectively.

More optimistic outlook. On the outlook, we remain optimistic due to i) the new injection of capital from the January's right issue that will support capitalization and enable the bank down the road to expand and increase credit growth, ii) the new ability to raise equity easier (due to the back up of major investor), iii) an another unexpected significant capital injection from Bosowa group (long term plan to become majority shareholder), iv) synergies with Bosowa Group to start materializing sooner that will push credit and deposit growth higher. The only concern remains as to whether the bank can indeed increase its deposits and improve CASA to safeguard liquidity, control cost of funds hence improve NIM. We expect NIM to continue its recovery as loan and deposit growth pick up again, at 10%/10% in FY14 and loan growth minimum 14% in FY15/16.

Bosowa brings much needed support to the franchise. At a time where majority of banks experienced strong credit growth, Bank Bukopin logged very low loan growth of 6.5% and 12%, much lower compared to the Banking industry's loan growth of 21% and 23% in 2013 and 2012. Moreover, its NIM has been experiencing a downward trend from 1Q13'quarter even before the general rise in the level of interest rates, falling significantly from 4.56% in 2012 to as low as 3.55% in June 2013 before slightly recovering at 3.82% in the last quarter FY13.

Figure 1. Financial Summary

Key Financials	2012	2013	2014F	2015F	2016F
Year to Dec 31 (in Rp b)					
Interest Income	5,126	5,950	6,643	7,557	8,476
PPOP	1,223	1,075	1,548	1,923	2,180
Operating Profit	1,066	1,174	1,416	1,718	1,937
Net Profit	835	935	1,128	1,363	1,537
Loan growth, %	11.7%	6.4%	11.1%	14.6%	15.6%
Price/book (x)	1.00	0.81	0.78	0.68	0.59
Book Value/Share	628	781	805	925	1,060
EPS	105	118	124	150	169
Net Interest Margin	4.2%	3.8%	4.4%	4.7%	4.7%
NPL ratio	2.8%	2.4%	2.3%	2.1%	1.9%
Consensus EPS			112	131	
BCASekuritas/Consensus			1.11	1.14	

ratio as well has been on a upward trend since 1Q12 and the bank's capitalization is very dependent on issuance of bonds and other means of raising capital.

Valuation. The bank is currently trading at 0.74x P/B forward 2014 slightly above –1std and below its average mean of 0.9x, still attractive considering the outlook prospects in i) better financial performance in the short and medium term, ii) synergy with a promising and rising conglomerate group. We have slightly revised our target price at Rp920 and earnings forecast for FY15/16 by 5.5%/7.2% higher.

Risks. The main risks to our positive view are i) continuous financial and operating under -performance indicating significant operating weaknesses in the bank.

Figure 2. P/B Forward BBKP

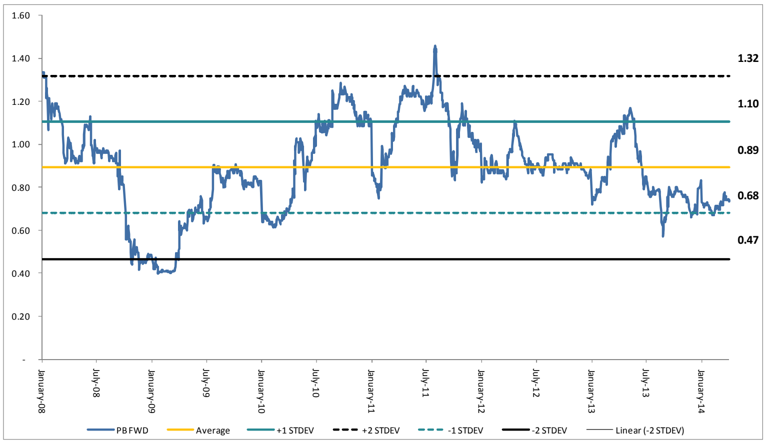


Figure 3. P/E Forward BBKP

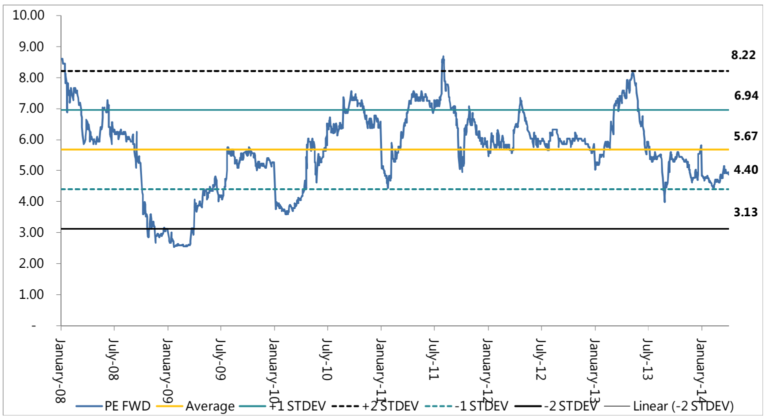


Figure 4. P/B Trailing BBKP

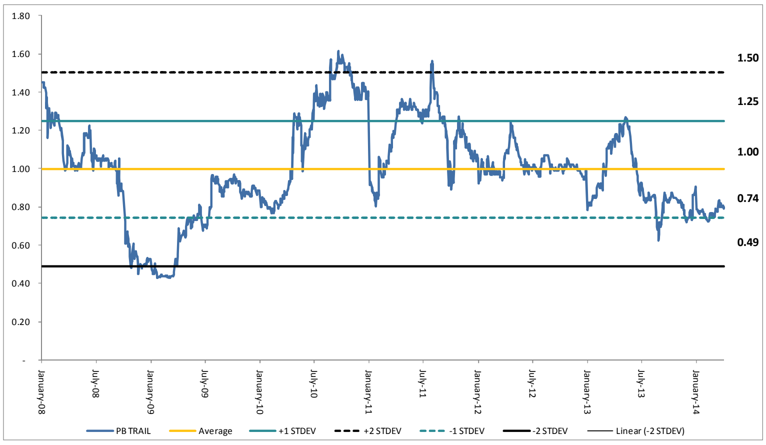
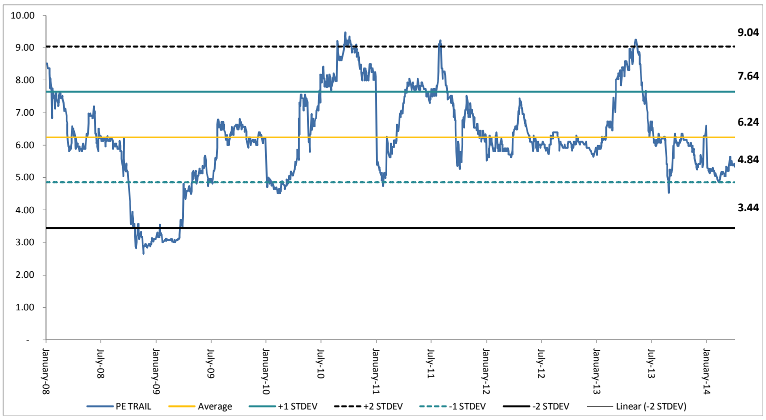


Figure 5. P/E Trailing BBKP



Appendix. 1 Financial Statements

Income Statement YTD Dec 31 **in Rp b, unless otherwise stated**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Interest Income	5,126	5,950	6,643	7,557	8,476
Interest Expenses	(2,665)	(3,506)	(3,591)	(3,960)	(4,368)
Net Interest Income	2,462	2,444	3,052	3,597	4,108
Pre-Provision Operating Profit	1,223	1,075	1,548	1,923	2,180
Provisions	(156)	100	(132)	(206)	(243)
Operating Income	1,066	1,174	1,416	1,718	1,937
Taxation	(225)	(259)	(303)	(367)	(414)
Net Profit	835	935	1,128	1,363	1,537
Earnings per Share	105	118	124	150	169
Earnings per Share, %		12.0%	5.6%	20.8%	12.8%
Earnings per Share, CAGR 2014F/6F					**16.7%**

Balance Sheet YTD Dec 31 **in Rp b, unless otherwise stated**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Assets					
Cash	909	1,020	1,071	1,135	1,215
Current Accounts with B.I. and other banks	4,205	4,819	5,301	5,831	6,414
Marketable Securities	2,170	6,387	6,706	7,108	7,606
Gross Loans	45,531	48,461	53,831	61,700	71,350
yoy % growth		6.4%	11.1%	14.6%	15.6%
Allowance for Loan Losses	(936)	(798)	(840)	(911)	(974)
Net Loans	44,595	47,663	52,992	60,789	70,375
Fixed & other Assets	608	802	842	884	929
Total Assets	65,690	69,459	74,592	83,486	96,110
Liabilities					
Obligations due Immediately	532	279	293	308	323
Total Deposits	53,958	55,822	61,405	68,159	75,657
Fund Borrowings & Debt Issues	1,792	1,488	1,488	1,488	1,488
Total Liabilities	60,693	63,244	68,654	77,297	89,418
Shareholder's Equity	4,997	6,213	7,312	8,402	9,631
Total Liabilities and Equity	65,690	69,458	75,966	85,699	99,049

Ratios				
NIM	3.78%	4.42%	4.70%	4.74%
ROAA	1.38%	1.57%	1.72%	1.71%
ROAE	16.68%	16.67%	17.34%	17.04%
Loan to Deposit Ratio	86.8%	87.7%	90.5%	94.3%
Loan to Funding Ratio	83.7%	82.9%	85.9%	89.8%
Shareholders equity to total assets	8.9%	9.8%	10.1%	10.0%
Gross NPL	1,176	1,241	1,300	1,351
Allowance for possible loan losses to gross NPL	798	840	911	974
Coverage Ratio	67.9%	67.7%	70.1%	72.1%
Write off (RP billion)	(123)	(150)	(177)	(204)

Equity Research-Flash News

BJTM - Initiation

TP: 545 - CP: 479

7 April 2014

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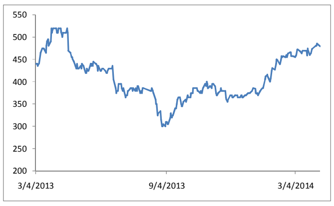
BJTM	BUY
Price (7 April 14')	Rp 479
Market Cap in b	Rp 7,145



Share Ownership Composition:

1. G.O.I.—80%
2. Public—20%

Safe, Solid, Sustainable.

Initiate with BUY. We are initiating coverage of Bank Jatim with a Buy rating and target price of Rp 550 (based on target 1.35x 2014E P/B). We like the bank's high CASA, high NIM and stable deposit growth.

Good 4Q13 Results. Bank Jatim announced a good set of results for FY13. Net Income in 2013 amounted to Rp824.3bio (13.75% YoY growth and –36.6% QoQ), 6.6% lower than consensus estimates of full year 2013F (noting though that estimates would have be almost same to consensus due to difference of opinion in accounting treatment between the bank, public accountant and OJK). Still though, all profitability metrics are rebounding higher with NIM, ROE, ROA up to 7.14%/19.04%/3.82% in 2013 from 6.48%/18.96%/3.34% in 2012.

Capitalization and liquidity remained solid as CAR is at 23.7% (lower though than last year) and LDR at 85%. LDR remained under control as loans grew at Rp22t or 19% growth YoY while deposit grew strongly as well at 17%. CASA composition remained high at 76% and cost of funds at 2.6%. All segments recorded good loan growth with the its main driver the consumer recording good 18% growth (63.5% composition) while commercial grew strong with 30.5% and SME at 11.6%.

Manageable Asset quality despite pressures. On the outlook, we estimate NPL ratio to lower to the range of 2.7% and being manageable going forward. According to the bank, the higher NPL ratio is a result of 2-3 debtors in connection to government projects in Sidoarjo. These projects are expected to continue smoother or completed with enough recoveries. Thus the bank expects an optimist NPL ratio target at below 2.3%.

NPL ratio pre-IPO period was at much lower levels below 1.5%, implying that the rapid credit growth and expansion came with strains in asset quality, while NPL ratio post-IPO of the last 2 years has been hovering in the range of 2.6%-3.3%. FY12 also showed the bank's willingness to handle the deteriorating asset quality at higher costs as prudently needed (Provisions FY12 at Rp300b against Rp1.5b FY11), by increasing provisions significantly in a year where Net Interest income showed no growth and bottom line

Figure 1. Financial Summary

Key Financials	2012	2013	2014F	2015F	2016F
Year to Dec 31 (in Rp b)					
Interest Income	2,883	3,386	3,778	4,195	4,661
PPOP	1,286	1,706	1,960	2,222	2,512
Operating Profit	980	1,110	1,219	1,337	1,554
Net Profit	725	824	947	1,090	1,262
Loan growth, %	15.0%	19.0%	18.1%	17.1%	16.4%
Price/book (x)	1.32	1.27	1.19	1.11	1.01
Book Value/Share	368	383	406	438	480
EPS	49	55	63	73	85
EPS growth, %	-15.8%	13.8%	14.9%	15.1%	15.8%
NPL ratio	2.95%	3.44%	2.70%	2.52%	2.24%
Consensus EPS			64	76	-
BCASekuritas/Consensus			0.99	0.96	

profit decreased by -15.7%. FY13 also sees significant increase in provisions by 94.4%.

Good Financial Performance metrics. The bank's profitability rebounded considerably in FY13 as metrics improved significantly (insignificant 2% growth in Net interest income and a decrease in bottom line income in FY12 by 15%). NIM in 3Q13 stood at 6.9% while ROE and ROA also rebounded higher at 19.6% and 3.8% from 18.8% and 3.2% YoY comparison.

One of the most significant factors of the Bank's good metrics is the bank's competitive edge in its remarkable CASA composition at 76% (2nd highest in Industry after BBCA). This edge keeps interest expenses low and under control hence keep NIM at high levels. Deposit expenses take up minimum 90% of interest expenses over the last 3 years, with FY13/12 only experiencing increase of 1% and 11%.

Noting the bank's high and good CASA composition edge and good deposit growth, we do not see any need for the bank to require additional funding in the form of rights issue or other long funding to support short and medium term liquidity and credit growth. Moreover, NIM pressures are lessened. Capital ratio is among the highest in the industry at 23.7% (although lower from 26.5% in FY12) indicating in overall the bank's sound fundamentals.

Valuation. The bank is currently trading at 1.15x P/B forward 2014 slightly above its average mean. Considering the bank's fundamentals and prospects through the long term, we believe that the bank's valuation based on Target 1.35x P/B forward 2014 at +1std is relatively undemanding.

Risks. The main risks to our positive view are i) macro weakness, causing loan and deposit growth hence margins to come under pressure and ii) worse than expected asset quality.

Figure 2. P/B Forward BJTM

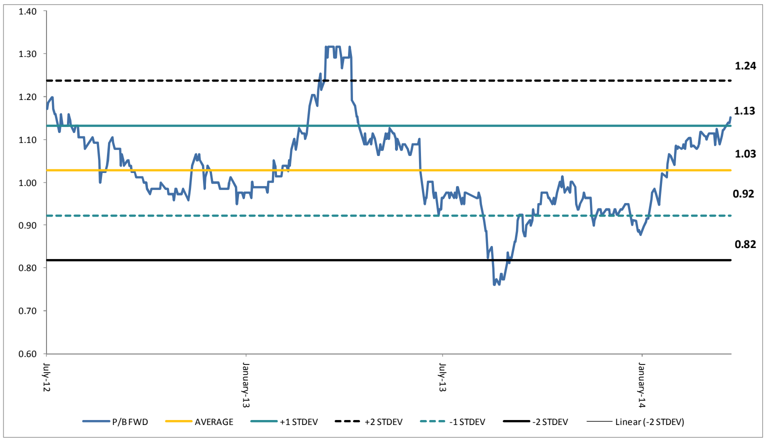


Figure 3. P/E Forward BJTM

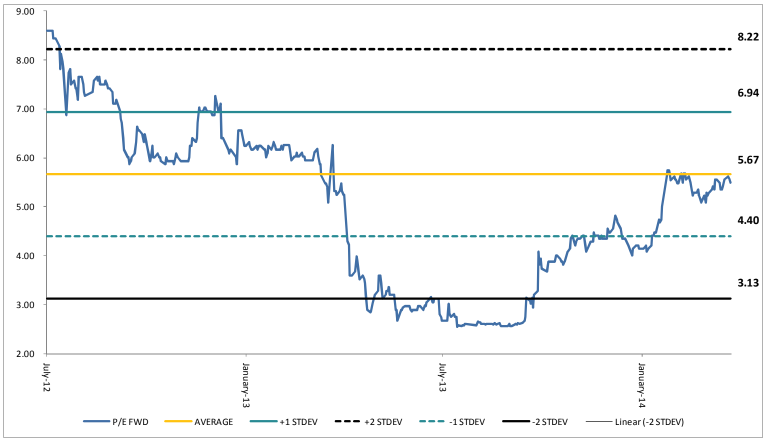


Figure 4. P/B Trailing BJTM

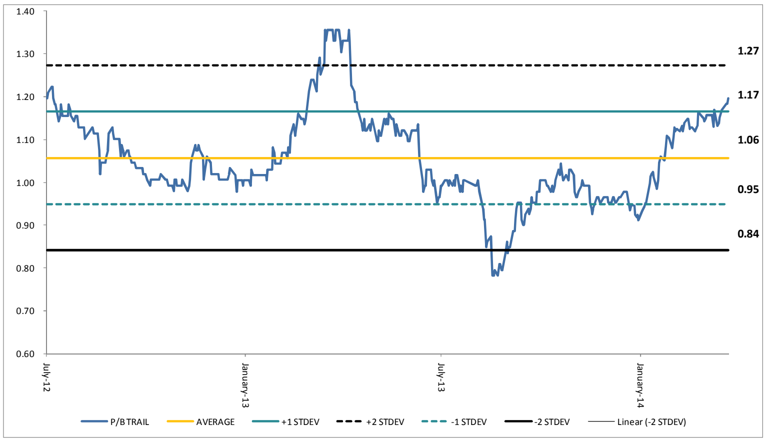
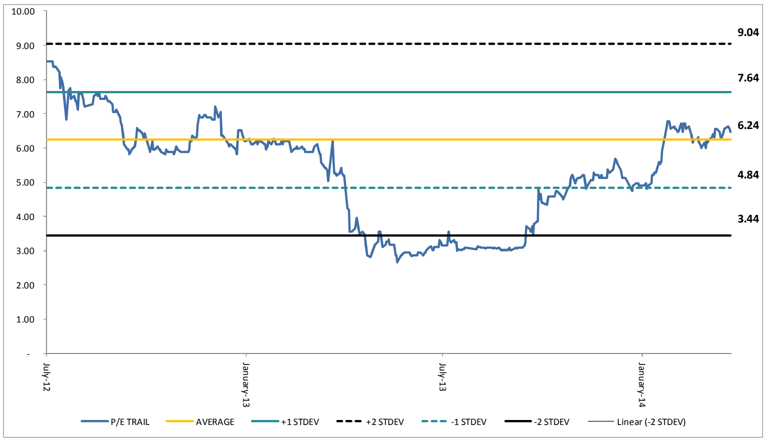


Figure 5. P/E Trailing BJTM



Appendix. 1

Income Statement YTD Dec 31	**2012**	**2013**	**2014F**	**2015F**	**2016F**
in Rp b, unless otherwise stated					
Interest Income	2,883	3,386	3,778	4,195	4,661
Interest Expenses	(905)	(913)	(973)	(1,022)	(1,066)
Net Interest Income	1,978	2,472	2,806	3,173	3,595
Pre-Provision Operating Profit	1,286	1,706	1,960	2,222	2,512
Provisions	(307)	(596)	(741)	(885)	(958)
Operating Income	980	1,110	1,219	1,337	1,554
Taxation	(277)	(329)	(316)	(290)	(336)
Net Profit	725	824	947	1,090	1,262
Earnings per Share	664	780	899	1,073	1,252
Earnings per Share, %	-15.8%	13.8%	14.9%	15.1%	15.8%
Earnings per Share, CAGR 2014F/6F					**15%**

Balance Sheet YTD Dec 31	**2012**	**2013**	**2014F**	**2015F**	**2016F**
in Rp b, unless otherwise stated					
Assets					
Cash	1,961	2,320	2,436	2,557	2,685
Current Accounts with B.I. and other banks	2,009	2,364	2,482	2,606	2,736
Marketable Securities	976	2,907	3,053	3,205	3,366
Gross Loans	18,556	22,084	26,085	30,542	35,559
yoy % growth	14%	19%	18%	17%	16%
Allowance for Loan Losses	(256)	(526)	(853)	(1,500)	(2,306)
Net Loans	18,301	21,559	25,232	29,042	33,253
Fixed Assets	204	263	276	289	304
Total Assets	29,112	33,047	37,294	41,707	46,551
Liabilities					
Obligations due Immediately					
3rd Party Deposits	22,210	25,988	29,886	34,369	39,524
Taxes Payable	21	95	100	106	113
Fund Borrowings	319	316	332	348	366
Total Liabilities	23,625	27,328	31,234	35,172	39,387
Shareholder's Equity	5,487	5,719	6,060	6,535	7,165
Total Liabilities and Equity	29,112	33,047	37,294	41,707	46,551

<u>Ratios</u>					
ROAA		2.7%	2.7%	2.8%	2.9%
ROAE		14.7%	16.1%	17.3%	18.4%
Loan to Deposit Ratio		85.0%	87.3%	88.9%	90.0%
Loan to Funding Ratio		83.0%	85.4%	87.1%	88.3%
Shareholders equity to total assets		17.3%	16.2%	15.7%	15.4%
Gross NPL		759	705	770	798
Allowance for possible loan losses to gross NPL		596	741	885	958
Coverage Ratio		78%	105%	115%	120%
Write off (RP billion)		(326)	(413)	(239)	(152)

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