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Banks

Sector Focus

Angga Aditya Assaf
(angga.aditya@trimegah.com)

Improvement On Sight

FY14F Earnings Preview: big banks are likely to be in line with consensus while most of smaller banks would miss estimates

Our FY14F earnings preview analysis shows that big banks' earnings are likely to be in-line with consensus estimates. BBNI is an exception, which might beat consensus expectation by ~10% as the company indicates higher earnings growth than 2013. Meanwhile, most of smaller banks are likely to miss estimates. BJTM is predicted to miss the consensus expectation due to one-off deferred tax payment despite strong 4Q14 operating performance. We also highlight the potential turnaround of BJBR after the appointment of new Board of Commissioners and Management despite its expected weak earnings in FY14. On the other hand, BDMN is also expected to miss the estimates following significant restructuring expense in 4Q14, as indicated by the company.

2015 will be better for Indonesian banking sector

We became more bullish to Indonesian banking sector as we see possible improvement in loan growth due a series of government policies to support industry growth in 2015. Some of them are, among others, 1) possible decline in lending rates as asked by regulators—although it might impair banks' NIM, we also expect more loan disbursement as a result of lower lending rates; 2) lower risk weight for loans to infrastructure, maritime, and agriculture sectors—we view this positively for banks with high exposure to these sectors, e.g., BBNI, BMRI, and BBRI. The improvement in loan growth will be also supported by: 1) improvement in liquidity condition as indicated by lower system's LDR (88.7% in Nov'14 vs 90% in 3Q14) and decline in deposit rates, and 2) expectedly better NPL level as macro conditions become more favorable, i.e., more stable and controlled inflation, BI rate to remain at 7.75% level.

Conclusion: improvement is on sight. Maintain OVERWEIGHT.

We think that worst is going to pass as we overlook a better growth period this year following some policies to be implemented by the government. We recommend to overweight the big banks, since they are proven to be defensive during unfavorable macro conditions. Our top picks are BBNI for its cheap valuation despite best earnings momentum, and BJTM for its attractive dividend yield and bright fundamental outlook. Risks to our call are: 1) possible fed fund rate hike in 2H15, 2) delay in government's infrastructure and maritime program implementation, 3) adverse rise in industry NPL, and 4) slower industry deposit growth.

OVERWEIGHT

Earnings Announcement

Company	Earnings	Remarks
BBRI	01/26/2015 (C)	In-line
BDMN	01/29/2015 (C)	Below
BBNI	01/29/2015 (E)	Above
BMRI	02/10/2015 (E)	In-line
BBTN	02/10/2015 (E)	Below
BTPN	02/18/2015 (E)	Below
BBCA	03/05/2015 (E)	Above
BJBR	03/11/2015 (E)	In-line
BJTM	03/25/2015 (E)	Below

Companies Data

Ticker	Price 01/21/15 (Rp)	TP (Rp)	Ups. (%)	Rec	2015E PBV (x)	2015E PE (x)	2015 EPS Growth (%)	2015E ROE (%)	2015E Div Yield (%)	Mkt Cap (Rp bn)
BBNI	5,975	6,800	14%	BUY	1.6	9.1	13.4	19.0	1.9	111,426
BBRI	11,425	13,200	16%	BUY	2.3	10.2	12.9	23.0	1.7	281,845
BMRI	10,975	10,600	-3%	HOLD	2.1	10.5	14.5	19.5	1.7	256,083
BBCA	13,075	13,900	6%	HOLD	3.5	17.1	19.9	20.2	1.0	322,364
BJTM	515	590	15%	BUY	1.1	6.3	16.5	18.2	8.9	7,683
BBTN	1,010	1,350	34%	BUY	0.8	6.0	49.4	12.6	2.2	10,673
BTPN	4,075	4,500	10%	HOLD	1.7	10.6	11.0	15.9	0.0	23,799
BJBR	780	800	3%	HOLD	1.0	6.9	-12.3	13.6	8.0	7,563
BDMN	4,615	3,600	-22%	HOLD	1.2	11.7	15.0	10.5	2.2	44,569

FY14F Earnings Preview: Big banks to beat consensus, smaller banks mostly will be below

Our earnings preview analysis suggests BBNI is likely to beat our and consensus FY14F estimates by ~5% and ~10% respectively. Meanwhile, BBRI, BMRI, and BBCA is expected to be in line with consensus estimates. We highlight BJTM's expected FY14 net profit to miss the estimates due to one-off deferred tax expenses, despite solid 4Q14 operating results. However, we see no problem on its fundamental and the stock remains to be our top picks in banking sector—its attractive dividend yield makes it attractive for defensive play. BJBR's FY14 earnings is also expected to be in line with consensus estimates following the positive outlook after the appointment of the new commissioners and directors. Thus, we view that BJBR is an attractive recovery play.

Surprising results will likely to come from BBTN, which expected to report ~Rp 1.1tr FY14 net profit (93% of FY14F, roughly in-line with estimates). NPL level is expected to improve significantly following the success of collateral liquidation, collection, and restructuring. On the other hand, we expect BDMN's net profit to miss the estimates following significant restructuring expense, as indicated by the company.

Figure 1. FY14F Earnings Preview

	11M14 Net Profit (Bank Only, Rp bn)	FY14F Net Profit * (in Rp bn)	FY14F Net Profit TRIM (Rp bn)	FY14F Net Profit Cons (Rp bn)	FY14F/ FY14F TRIM	FY14F/ FY14F Cons	Remarks	Earnings Announcement
BBRI	22,608	24,663	24,034	23,901	102.60%	103.20%	In-line	01/26/2015 (C)
BDMN	1,806	2,790	3,286	3,106	84.90%	89.80%	Below	01/29/2015 (C)
BBNI	9,025	11,159	10,645	10,143	104.80%	110.00%	Above	01/29/2015 (E)
BMRI	16,865	19,931	20,806	19,873	95.80%	100.30%	In-line	02/10/2015 (E)
BBTN	970	1,103	1,183	1,183	93.20%	93.20%	Below	02/10/2015 (E)
BTPN	1,694	1,848	2,019	2,006	91.50%	92.10%	Below	02/18/2015 (E)
BBCA	15,087	17,007	15,752	16,478	104.50%	99.90%	Above	03/05/2015 (E)
BJBR	999	1,090	1,184	1,063	92.10%	102.50%	In-line	03/11/2015 (E)
BJTM	886	958	1,049	1,044	91.30%	91.80%	Below	03/25/2015 (E)

**extrapolation result*

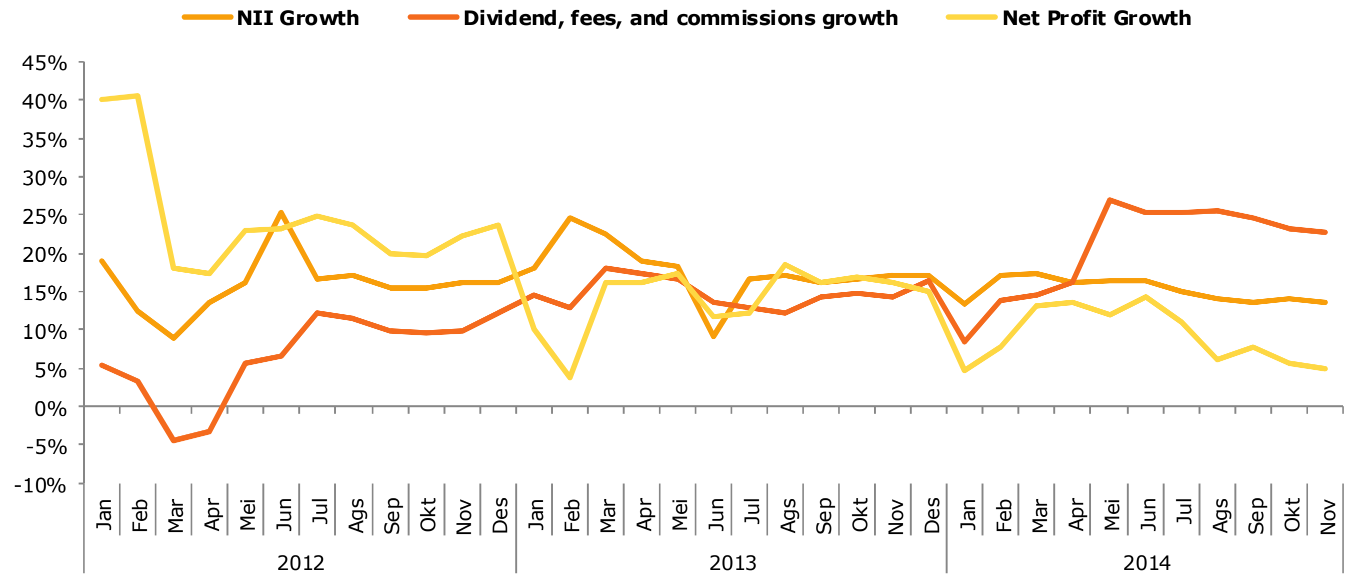
Source: Financial Services Authority (OJK), Bloomberg, TRIM Research

SOME SNAPSHOTS AND OUTLOOK FOR INDONESIA'S BANKING INDUSTRY

Net profit to grow slow but NIM may expand in FY14

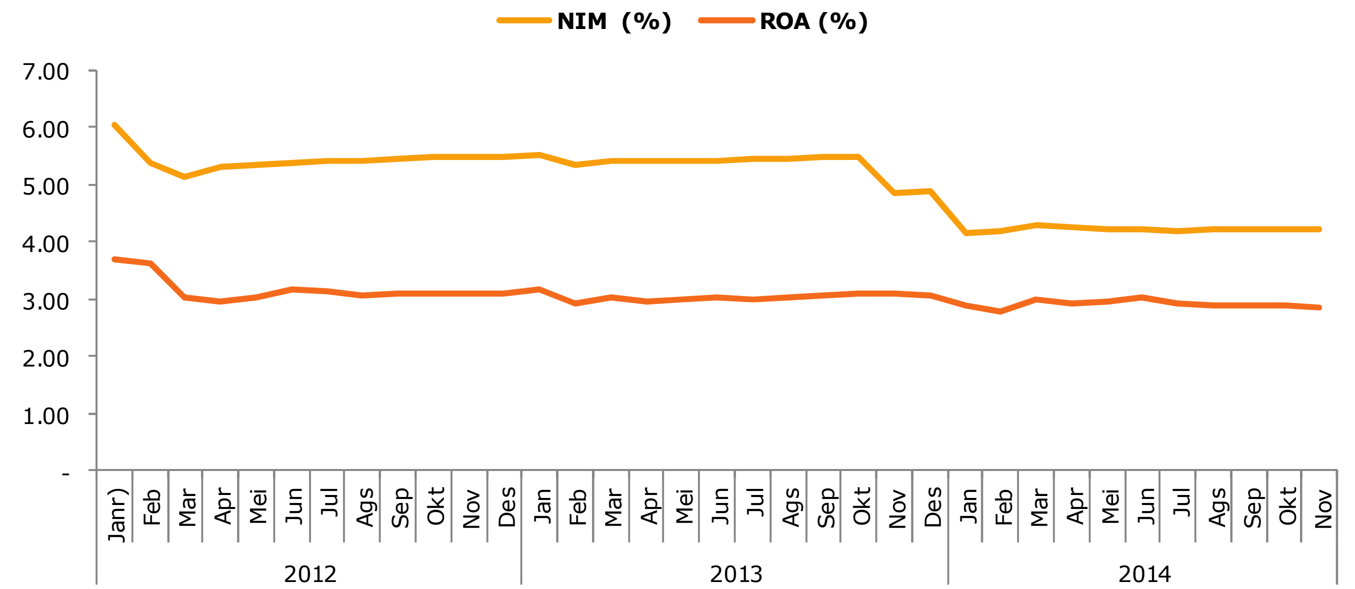
We expect 4-5% YoY industry net profit growth in FY14 due flattish net interest income growth and dividend, fees, and commissions income growth. This notion is supported by the data published by Indonesia's Financial Services Authority (OJK), which illustrates a slower net profit growth of 5.02% YoY (-72bps MoM) to Rp 103.49tr as at November 2014. NII growth is projected to be ~13-14% in FY14, following the slow loan growth in 2014. Going forward, we also see NIM expansion in FY14 as a result of high interest rates in FY14, which is also supported by the NIM expansion of the banks under our coverage. We see some risks of shrinking NIM as the government asks banks to lower lending rates in 2015.

Figure 2. Commercial Banks' Income Growth



Source: Financial Services Authority (OJK), TRIM Research

Figure 3. Commercial Banks' Margins and Profitability

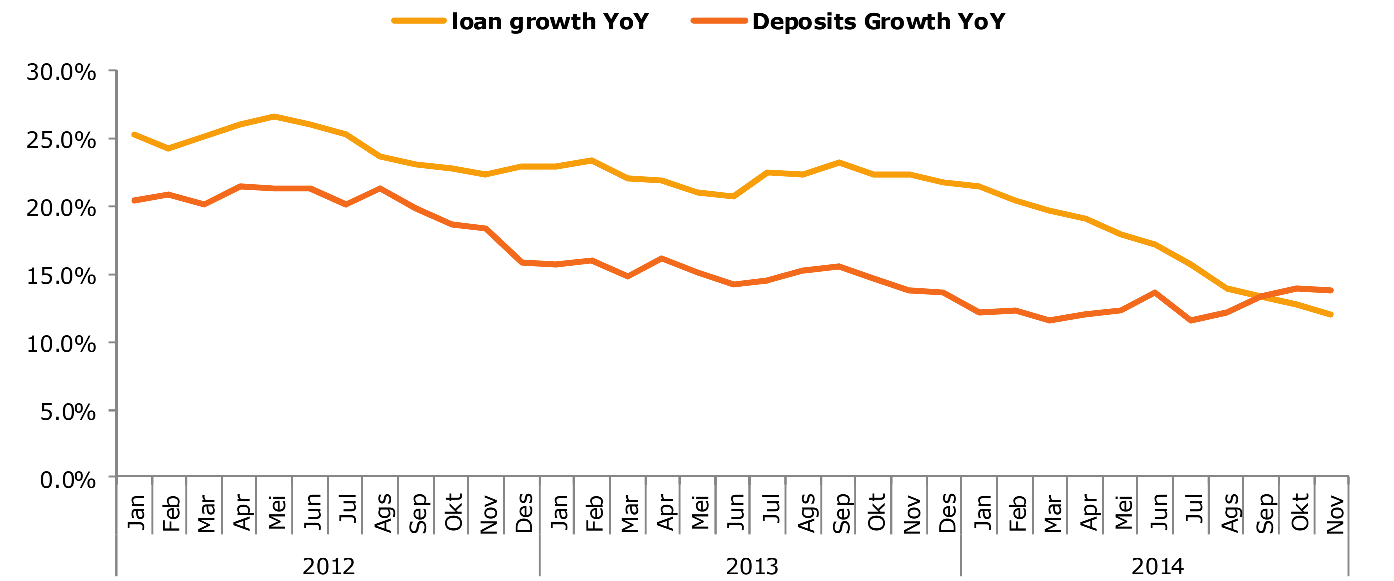


Source: Financial Services Authority (OJK), TRIM Research

Loan growth to rise in 2015 as liquidity improves

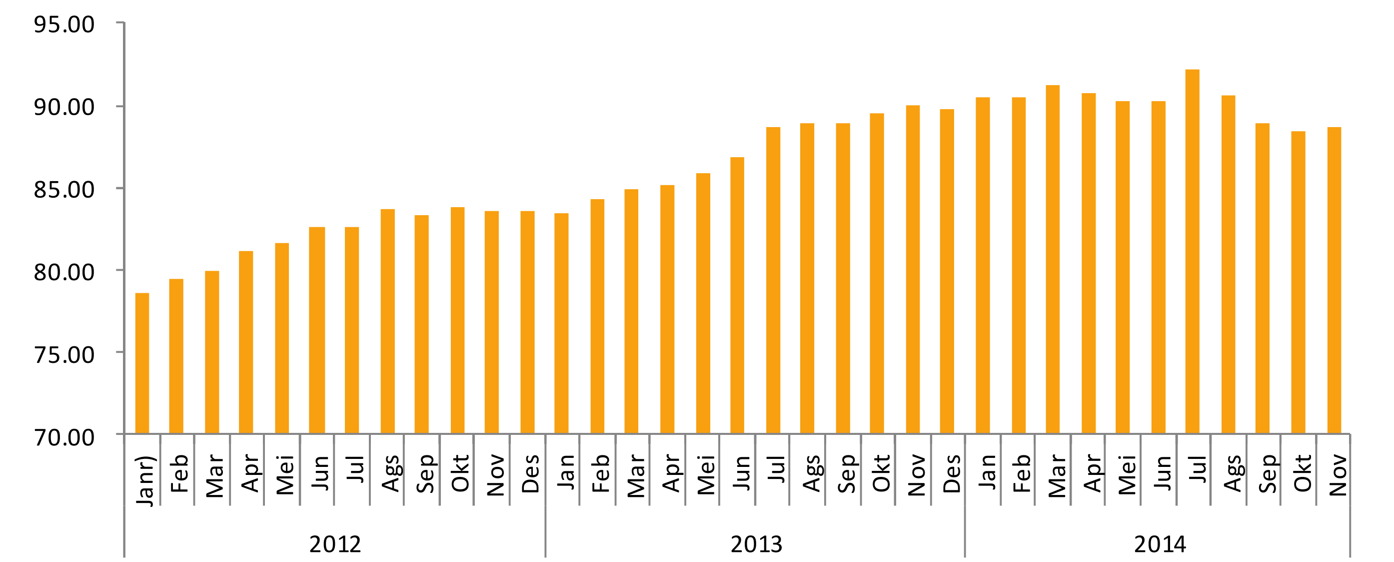
We see improvement in loan growth to ~15-16% YoY in 2015 as the system's liquidity condition improves, reflected by 88.7% industry LDR as at November 2014 (-198bps from August 2014 position). The lower industry LDR was due to higher deposit growth than loan growth in November 2014. The improvement in loan growth is also supported by the potential lower lending rates as promoted by the regulators and a set of policies to be implemented by the government to boost infrastructure spending. The improvement in loan growth will also be supported by higher working capital and investments loan growth in 2015. Data from OJK shows slower loan growth in November 2014 at 11.9% YoY vs October 2014's 12.9% YoY. Meanwhile, deposit growth was stable at 13.8% YoY vs October 2014's 13.9% YoY.

Figure 4. Commercial Banks' Loans and Deposits Growth



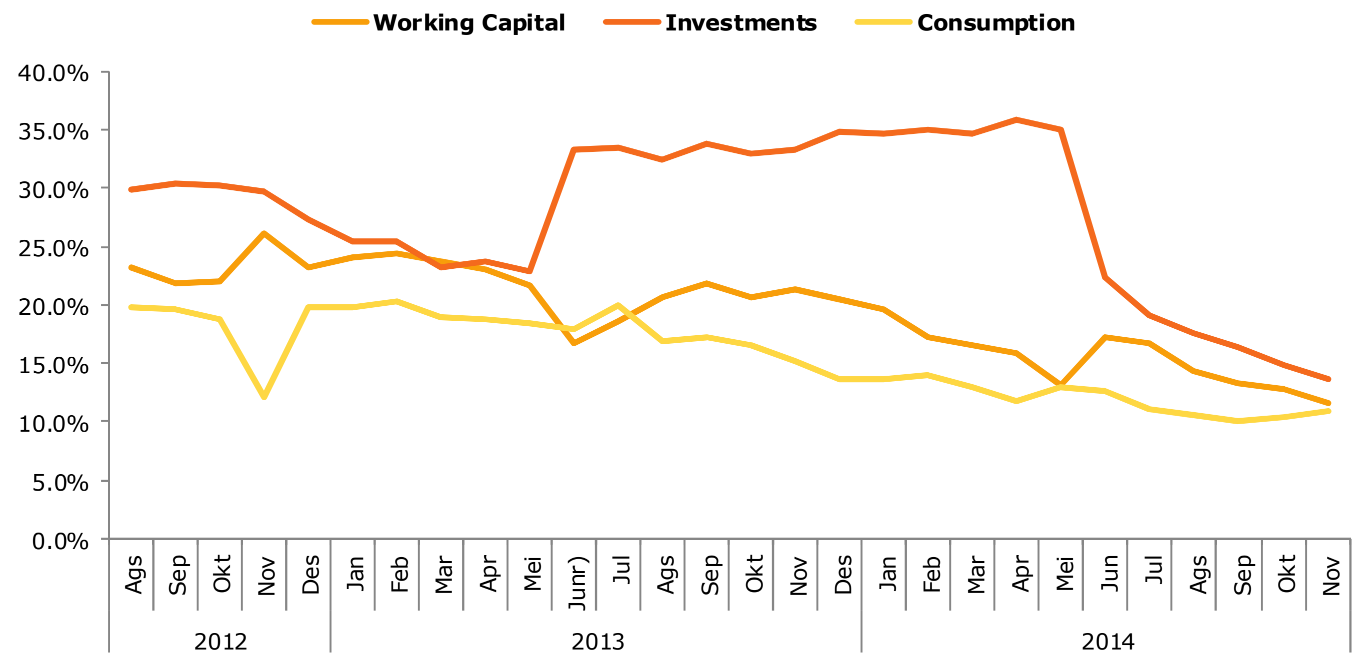
Source: Financial Services Authority (OJK), TRIM Research

Figure 5. Commercial Banks' Loan-to-Deposit Ratio (LDR)



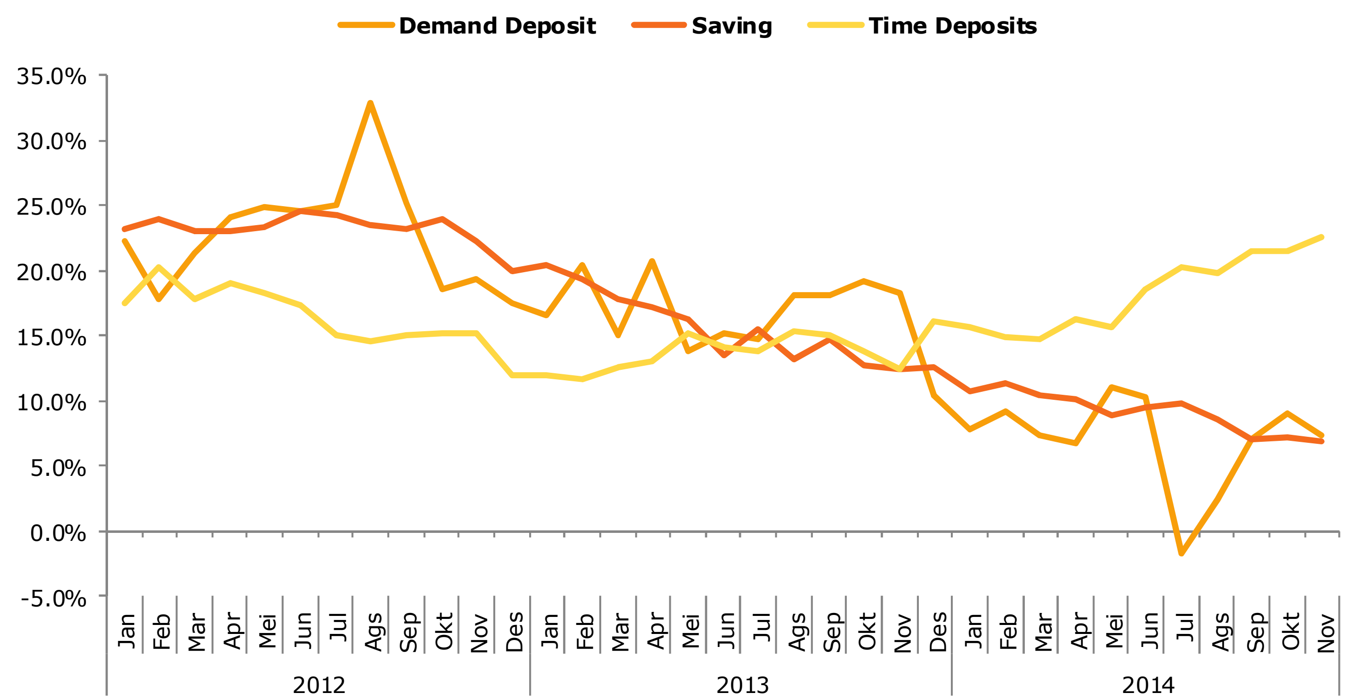
Source: Financial Services Authority (OJK), TRIM Research

Figure 6. Detailed Loan Growth



Source: Financial Services Authority (OJK), TRIM Research

Figure 7. Detailed TPF Growth

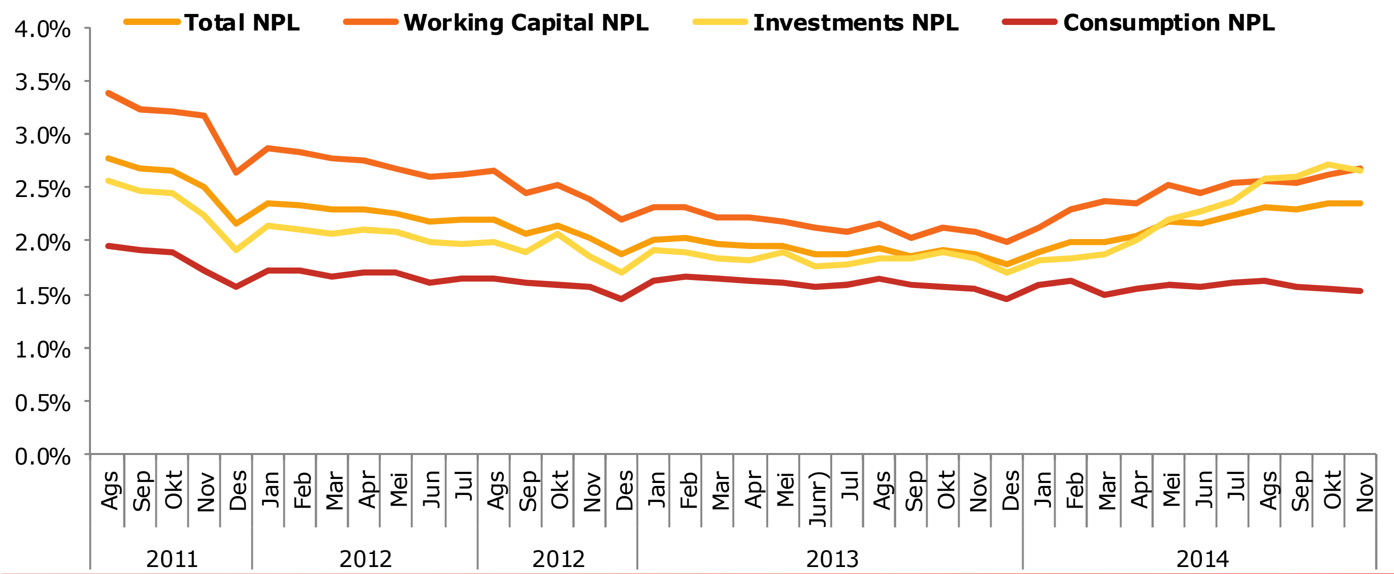


Source: Financial Services Authority (OJK), TRIM Research

Industry NPL to improve in 1Q15

Although industry NPL is showing an increasing trend, we expect further improvement in 4Q14 and in 2015 due to seasonality and more favorable macro conditions, i.e., stable and controlled inflation level after fuel price decline, and BI rate to remain at 7.75% level during 1H15. Thus, banks asset quality should be better in 1Q15 and therefore can support loan growth. Data from OJK shows industry NPL as per November 2014 was 2.36% (+7bps from September 2014 position), which was due to increase in working capital NPL to 2.68% (+6bps MoM).

Figure 8. NPL trend

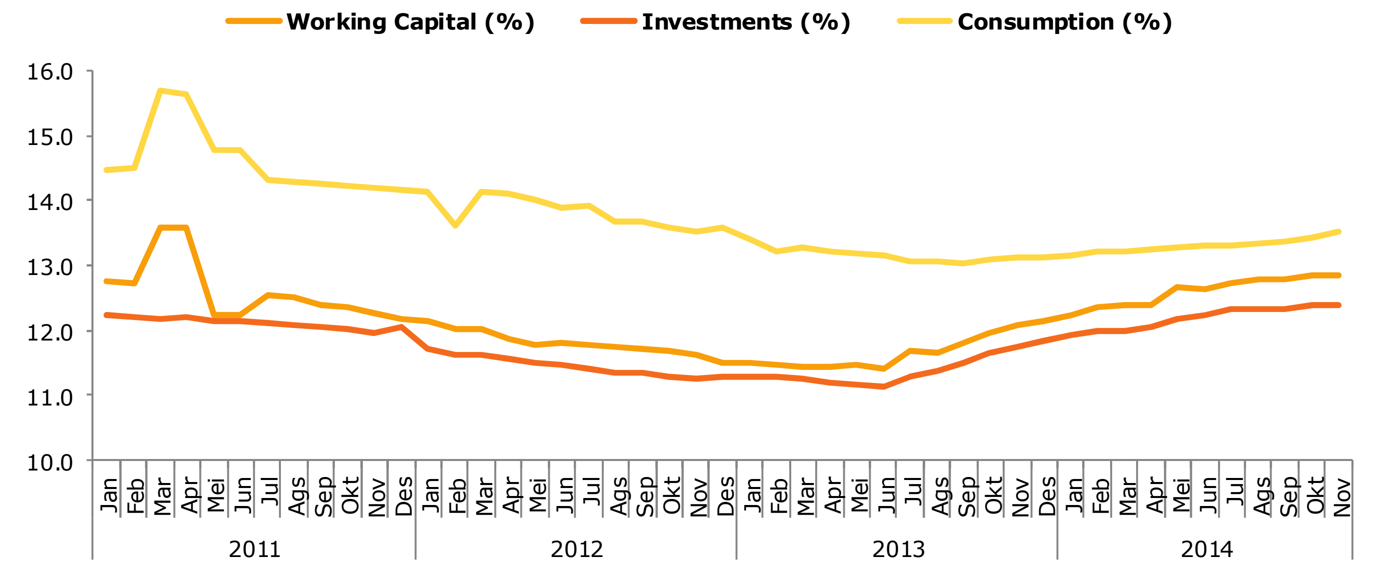


Source: Financial Services Authority (OJK), TRIM Research

Lending rates may go down as the government intervenes

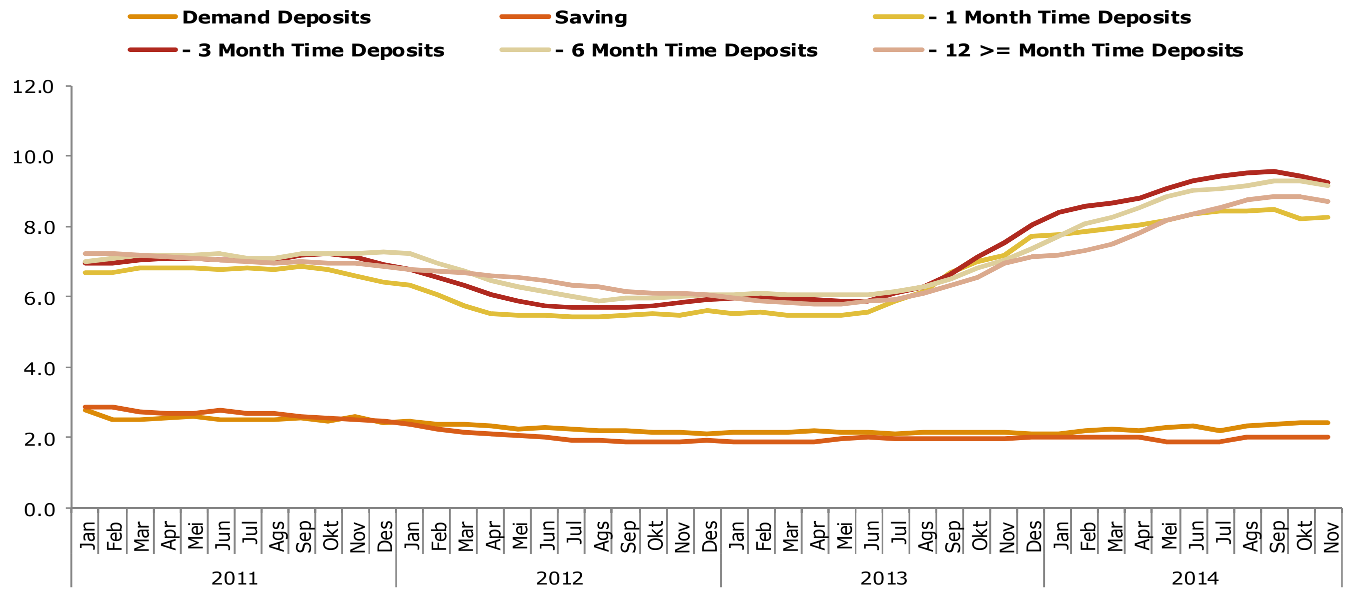
Recent news mentioned that BI/OJK asks banks to lower lending rates as a series of policies to boost industry loan growth this year. Both regulators expect banks to start lowering their prime lending rates in February 2015. Data from OJK shows that working capital and investments lending rates tend to stabilize at 12.9% and 12.4% in November 2014, while consumption-based lending rate were still showing an increasing trend to 13.5% (+10bps YoY). The expected lower lending rates in 2015 is supported by the decline in IDR 3-months, 6-months, and 12-months deposit rates by 19bps MoM, 15bps MoM, and 16bps MoM respectively (Figure 10).

Figure 9. IDR lending rates trend per type of loan



Source: Financial Services Authority (OJK), TRIM Research

Figure 10. Deposits interest rates trend



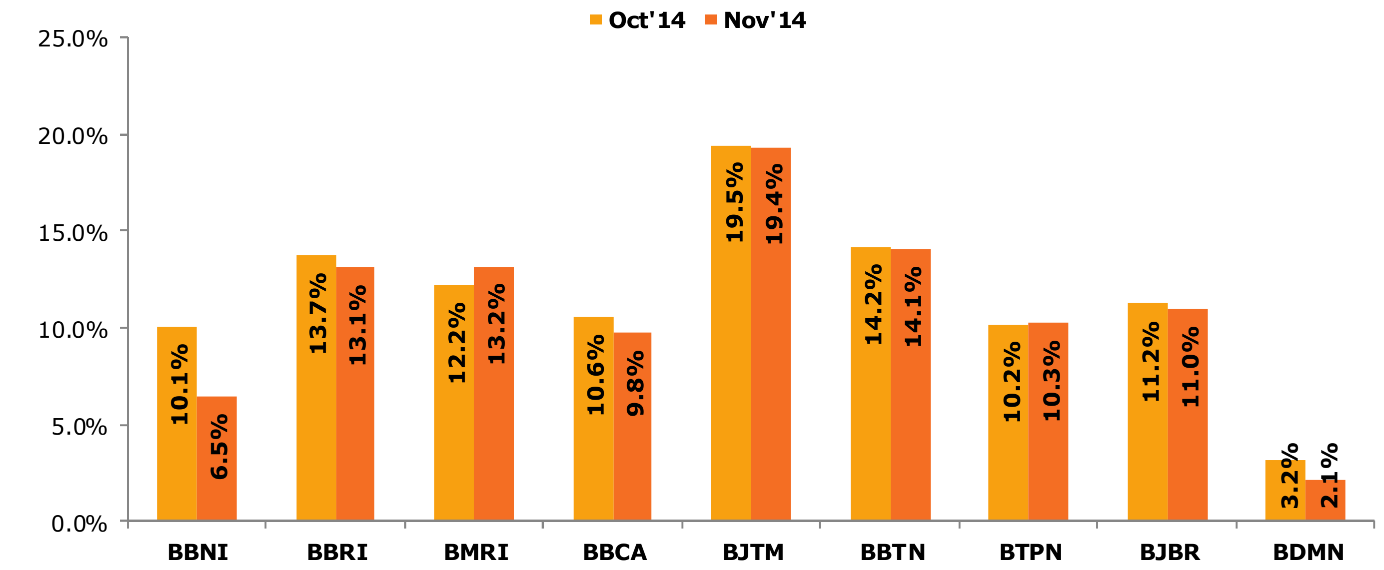
Source: Financial Services Authority (OJK), TRIM Research

BANKS UNDER OUR COVERAGE

Loan growth tend to be slower in FY14 but expected to pick up in 2015

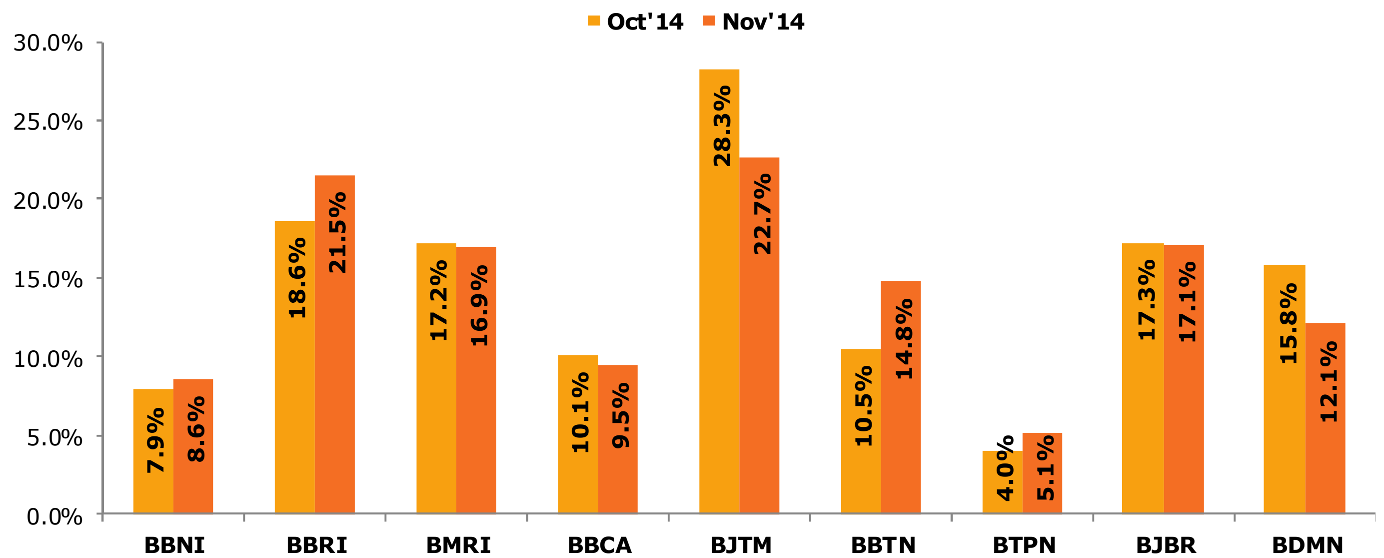
Banks under our coverage tend to exhibit slower loan growth in November 2014 compared to the prior month as shown in Figure 10. This is in-line with the industry slowing loan trend in November 2014. We highlight BMRI as the only bank with higher loan growth in November 2014 compared to its previous month's. Thus, we believe that BMRI will book ~14% YoY loan growth in FY14. We also highlight BBNI as the company reports seemed to lower its loan growth in November 2014, which we find interesting as its NIM is also expanded (details in the following page). This support our estimates for BBRI and BMRI to book at least 14% YoY loan growth in FY14, while BBNI and BBCA are likely to miss our loan growth forecast (both 14% at FY14). BJTM is still the bank with the highest loan growth among all, and we expect its loan growth to be in line with our estimates (20%). At the same time, TPF growth of banks under our coverage were mixed with BJTM (one of our top picks) with the highest TPF growth among all banks in our universe.

Figure 10. Oct'14 vs Nov'14 Loan growth (Bank Only)



Source: Financial Services Authority (OJK), TRIM Research

Figure 11. Oct'14 vs Nov'14 Third Party Fund growth (Bank Only)

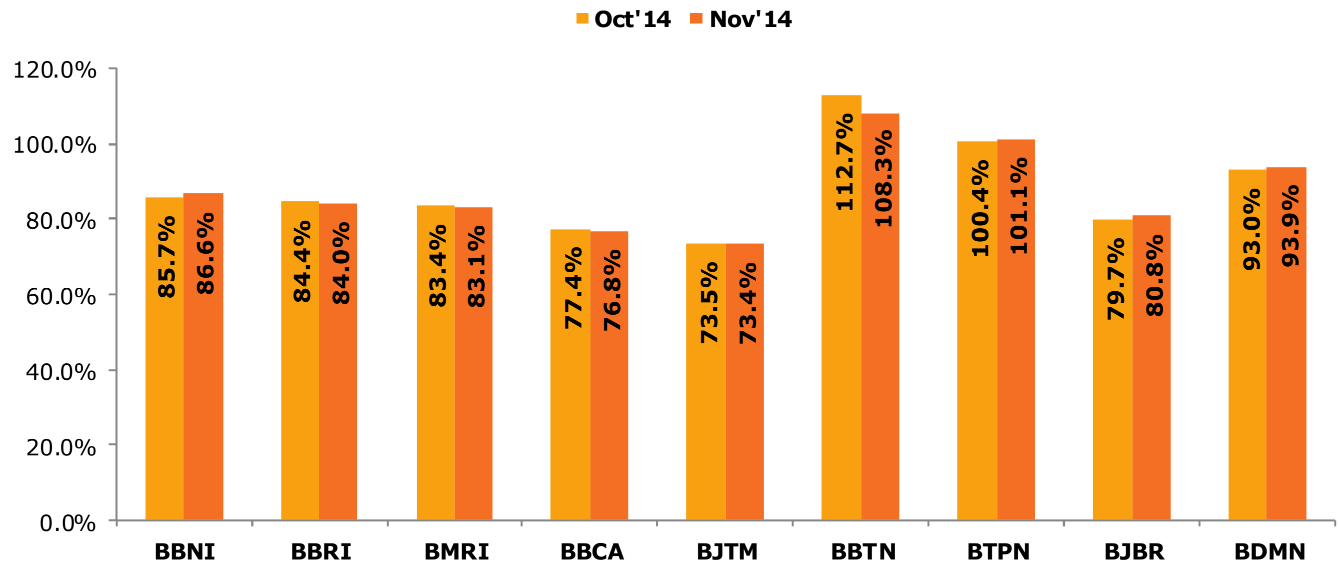


Source: Financial Services Authority (OJK), TRIM Research

Liquidity condition stabilizes and capitalization to remain ample

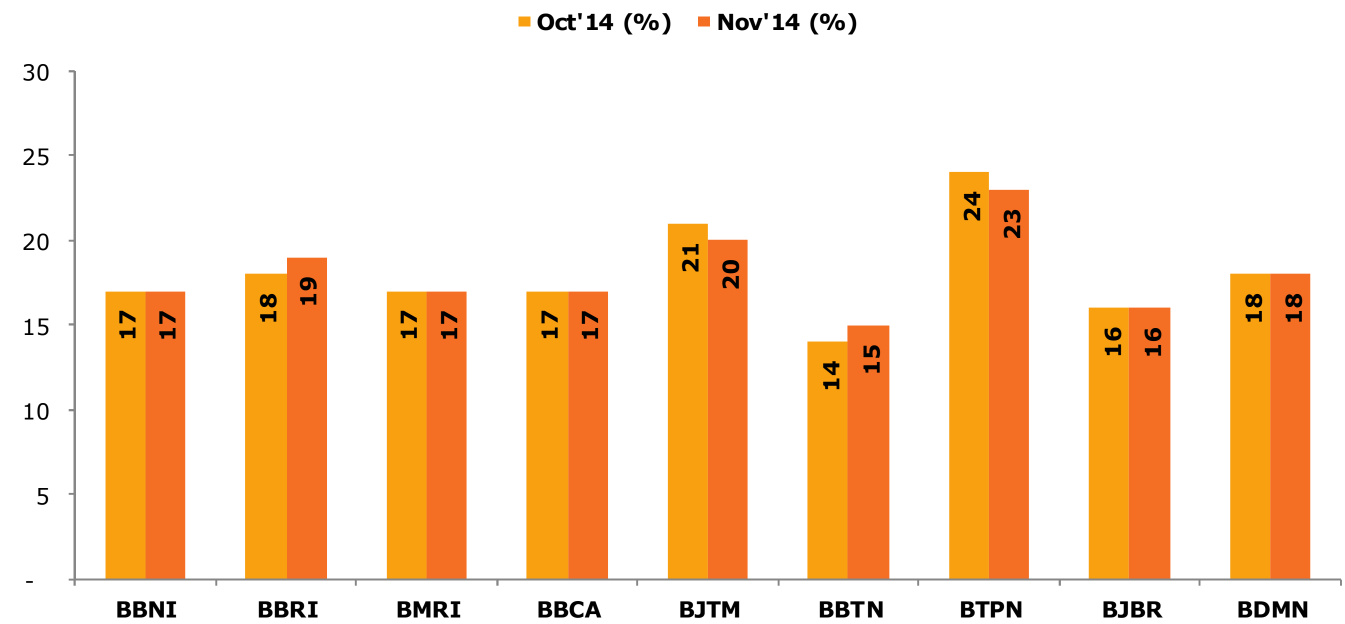
We expect an improvement in liquidity condition among banks under our coverage in FY14 as reflected by stabilizing LDR in November 2014. This is in line with the stable industry LDR level in November 2014. Bank only data from OJK also shows that most of banks under our coverage tends to show an improvement in their liquidity condition as reflected by slightly lower LDR level in November 2014 compared to previous months. In terms of capitalization, we see no problems in banks under our coverage. We highlight BBTN's lower LDR and higher CAR level in November 2014, illustrates improvement in its liquidity and capitalization condition after previously it was prone to regulatory breach.

Figure 12. Oct'14 vs Nov'14 Loan-to-Deposit Ratio (Bank Only)



Source: Financial Services Authority (OJK), TRIM Research

Figure 13. Oct'14 vs Nov'14 CAR (in %, Bank Only)

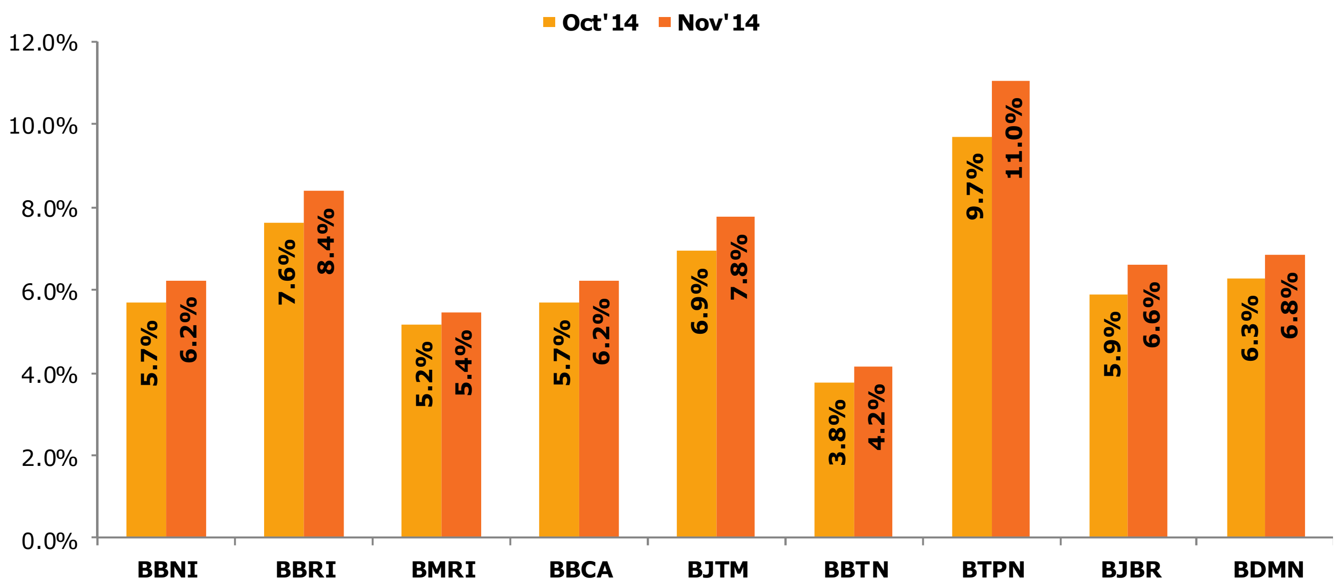


Source: Financial Services Authority (OJK), TRIM Research

NIM expanded but we see some government intervention risks...

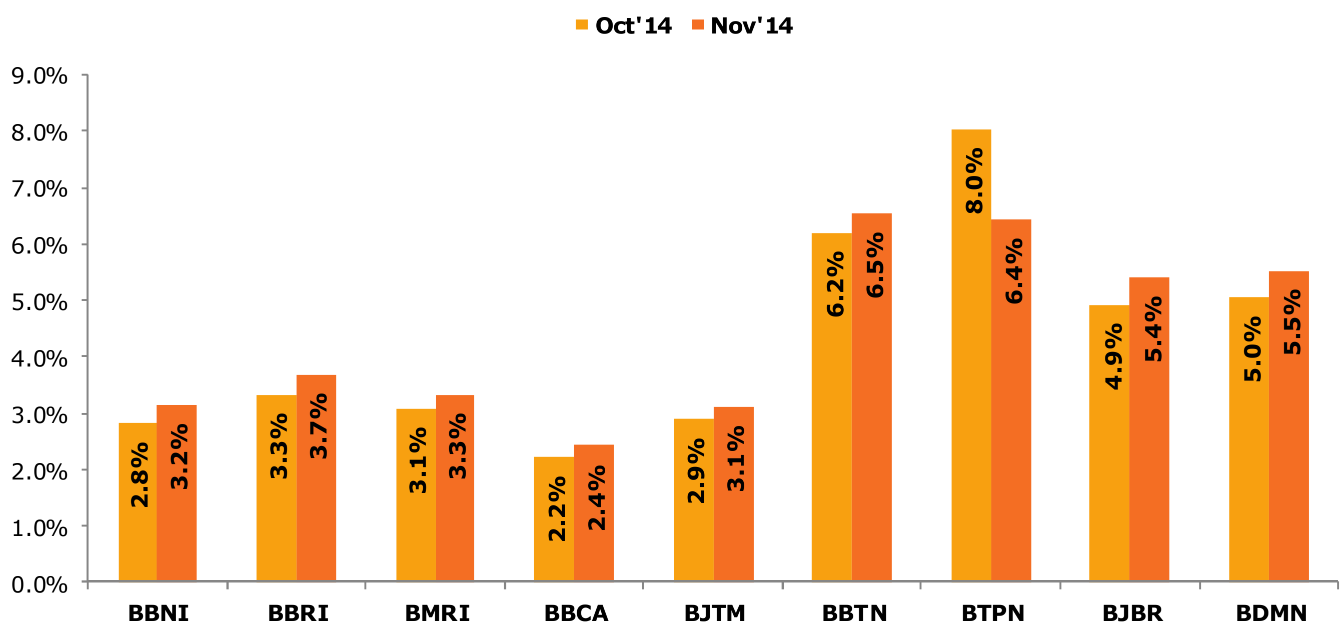
As aforementioned, BI and OJK asks banks to lower lending rates in 1Q15 to support loan growth this year. Hence, we see some government intervention risks in a form of potential NIM pressure. However, since OJK has capped the deposit rates, cost of funds should stabilize. However, for banks with active earning assets management (such as BMRI and BBNI, which have sizable marketable securities and government bonds in their balance sheet), no need to concern about potential NIM pressure in 2015. Data from OJK shows that NIM of banks under our coverage expanded in November 2014 despite higher cost of funds. We believe this is the result of high interest rates in 4Q14.

Figure 14. Oct'14 vs Nov'14 Net Interest Margin (bank only)



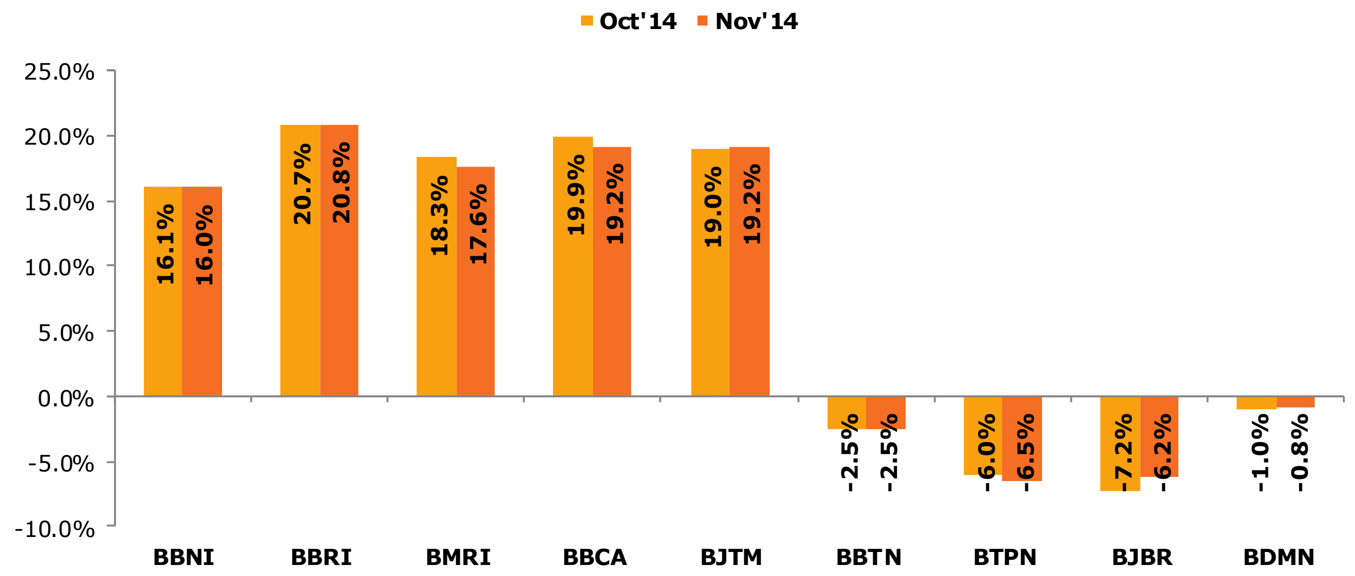
Source: Financial Services Authority (OJK), TRIM Research

Figure 15. Oct'14 vs Nov'14 Cost of Funds



Source: Financial Services Authority (OJK), TRIM Research

Figure 16. Oct'14 vs Nov'14 Net Interest Income Growth (Bank Only)

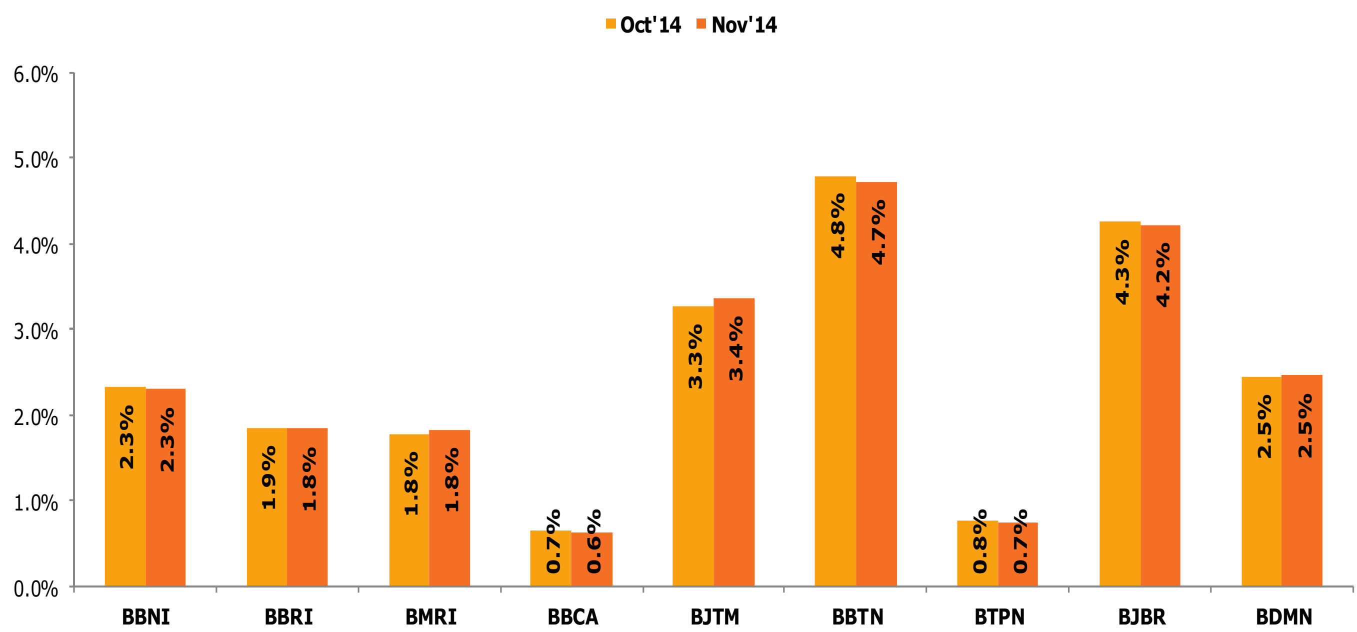


Source: Financial Services Authority (OJK), TRIM Research

Asset quality remains stable but tend to improve in 2015

Following the improving macro condition and possible decline in interest rates, we expect banks' asset quality to get better. Data from OJK shows that NPL level of banks under our coverage remains stable, with an improvement in some banks. We highlight the improving NPL in BBTN and BJBR as both banks were struggling with their asset quality in 4Q14—we view this positively for both banks. BBCA and BBRI's asset quality also improved as reflected by around 10bps decline in its NPL. BJTM surprisingly reported higher NPL level in November 2014, which we view that was due to rise in fuel price at that time. The company indicated better NPL level in 4Q14, which is a good start to expand its loan in 2015.

Figure 15. Oct'14 vs Nov'14 Non-Performing Loans (NPL) (Bank Only)



Source: Financial Services Authority (OJK), TRIM Research

Conclusion: 2015 should be better. Maintain OVERWEIGHT.

With the improving macro condition as marked by lower fuel price, stable and controlled inflation, and more budget allocation to infrastructure-related sectors, Indonesia's banking industry is expected to enjoy better growth this year. The government has prepared a series of policies to boost loan growth in 2015, among others, 1) asking banks to lower their lending rates—NIM will possibly erode but may lead to more loan growth, 2) lowering risk weight for loans to infrastructure, maritime, and agriculture sectors—may be positive for banks with high exposures to those sectors such as BBNI, BBRI, and BMRI, and 3) defining new LDR calculation to include marketable securities as an alternative source of funds. These policies should therefore lead to better industry environment. Thus, we expect 15-16% YoY loan growth by the end of 2015, and maintain our OVERWEIGHT call to this sector.

Our recommendation is to overweight with the big banks since they are proven to be defensive during slowing period of 2014. Our top picks are BBNI with TP Rp 6,800, and BJTM with TP Rp 590. Risks to our call, among others, are: 1) possible fed fund rate hike in 2H15, 2) delay in infrastructure and maritime projects implementation, 3) adverse rise in industry NPL, and 4) lower industry deposit growth.

Figure 16. Companies Valuation Table

Ticker	Price 01/21/15 (Rp)	TP (Rp)	Ups. (%)	Rec	2015E PBV (x)	2015E PE (x)	2015 EPS Growth (%)	2015E ROE (%)	2015E Div Yield (%)	Mkt Cap (Rp bn)
BBNI	5,975	6,800	14%	BUY	1.6	9.1	13.4	19.0	1.9	111,426
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PT Trimegah Securities Tbk
Gedung Artha Graha 18th Floor
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190, Indonesia
t. +62-21 2924 9088
f. +62-21 2924 9150
www.trimegah.com