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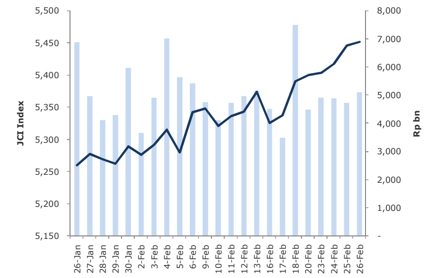
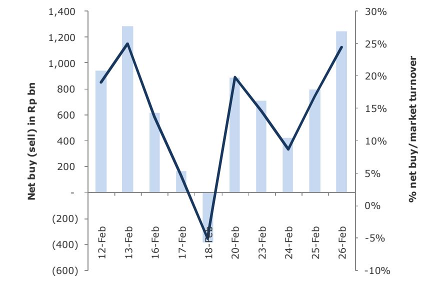
2 March 2015

Equity | Indonesia | Research Daily

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,451	0.1%	19.3%	4.3%
LQ45	950	-0.1%	24.2%	5.7%
DJI	18,214	-0.1%	11.9%	2.2%
SET	1,594	0.3%	20.9%	6.4%
HSI	24,902	0.5%	9.1%	5.5%
NKY	18,786	1.1%	25.9%	7.8%
FTSE	6,950	0.2%	2.0%	5.8%
FSSTI	3,426	-0.4%	10.6%	1.8%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	48.2	-4.4%	-53.0%
CPO/tonne	631.6	1.2%	-19.0%
Soy/bushel	10.2	1.6%	-27.6%
Rubber/kg	1.9	0.4%	-11.8%
Nickel/tonne	14,323	0.0%	1.0%
Tins/tonne	18,068	-0.1%	-23.5%
Copper/tonne	5,918	2.0%	-16.7%
Gold/try.oz (Spot)	1,209	0.4%	-9.2%
Coal/tonne*	61.8	-1.0%	-25.4%
Corn/bushel	3.7	1.2%	-16.7%
Wheat/bushel**	248.5	-7.9%	-9.8%

** : 1 week change*

***: 1 month change*

Source : Bloomberg

Bank Tabungan Negara (BBTN IJ; Hold)

Coping with asset quality issues

- **Weak FY14 results (in-line) despite strong profit recovery in 4Q.**
- **Lower deposit rates helped NIMs to recover in the last quarter.**
- **NPL ratio stays high at 4%; provision coverage still low (34%).**
- **Maintain Hold rating (TP: Rp1,150).**

Weak FY14 results. BBTN's net profit fell 28.6% yoy to Rp1,116bn in FYM14 but this is in line with our forecast (Rp1,100bn). As the bank's weak earnings results had already been evident since 2Q, it was no longer a surprise. Its earnings actually recovered in 4Q (+66% qoq), due to lower cost of funds arising from a deposit rate cap imposed by the OJK (Indonesia's Financial Services Authority) on major banks in the country. ROAA and ROAE dropped significantly to 0.82% and 9.5% in FY14, respectively, by far the lowest among the six major banks in our coverage. We see little scope for profitability ratios to rise significantly in the next two years given rising competition for deposits, possible lending rate cuts on subsidized mortgages (due to government intervention), and the bank's low provisions/NPL coverage of only 34%.

NIMs recovered in 4Q. We estimate BBTN's NIM has narrowed by 74bps yoy to 4.05% in FY14 owing to the bank's weak deposit franchise and rate sensitive loan customers (subprime mortgage loans). In 4Q, NIM recovered to 4.29% in 4Q, from 3.82% in 3Q, although still below 1Q (4.40%) due to the OJK's intervention in the banking industry. With competition for deposit funding expected to remain strong in coming years while the government may put pressure on BBTN to lower its subsidized home mortgage rates (30% of loan portfolio), we see little scope for a sustained NIM recovery in the next two years.

NPLs underprovisioned. BBTN's net credit cost (after recoveries) rose to 49bps in FY14 (FY13: 26bps). Its NPL ratio of 4.0% was unchanged from the previous year, albeit improving vs. 4.85% in 3Q. However, we expect credit cost to remain high in the next two years given BBTN's low provisions/NPL coverage of 33.9%. Although the bank has a good track record of getting full recoveries on its home mortgage NPLs in past years (due to rising property prices), BBTN's worsening NPLs also came from its commercial loans (NPL ratio: >10%), including KUR loans. In our estimate, BBTN's loan provisions covered only 73% of its non-mortgage NPLs of Rp2.15tn (46% of total NPLs). Even accounting for 70%-insured KUR NPLs, the bank was only 85% covered for its remaining non-mortgage NPLs (assuming zero provision coverage for its mortgage NPLs).

Reiterate Hold. Our TP of Rp1,150 is derived from Gordon Growth Model with assumptions of LT ROE of 13.5%, LT growth of 9% and cost of equity of 14%, which lead to our target P/B multiple of 1.1x, implying a target FY15F P/E of 9.9x. We retain our Hold rating as we believe the weak results are already priced-in.

Year To 31 Dec	2012A	2013A	2014F	2015F	2016F
Operating income (RpBn)	5,192	6,087	6,034	6,837	8,064
PPOP (RpBn)	1,978	2,377	1,946	2,224	2,856
Net profit (RpBn)	1,364	1,562	1,100	1,231	1,560
Net profit growth (%)	21.9	14.5	(29.6)	11.9	26.7
FD EPS (Rp)	147	149	104	116	147
P/E (x)	6.8	6.7	9.6	8.6	6.8
P/B (x)	1.0	0.9	0.8	0.8	0.7
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
ROAA (%)	1.4	1.3	0.8	0.8	0.9
ROAE (%)	16.9	14.5	9.4	9.5	11.1

Source : BBTN,IndoPremier *Share Price Closing as of : 26-February-2015*

News & Analysis

Corporates

EXCL: XL Axiata (EXCL IJ; Rp4,795; Buy), will maintain the brand name under Axis despite recent acquisition. XL will have two brand name, namely XL and Axis to penetrate different market segments. Axis will be positioned to aim at mid to low end of the market segment probably offering competitive pricing. Meanwhile XL, is position to penetrate the higher-mid that have higher willingness to pay for quality.

Comment: This new business segmentation is a change from the previous business model where XL only used one brand name. Its competitors such as Indosat and Telkomsel have maintained two brand names with one used as fighting brand. Now XL decided to follow such strategy by positioning Axis as a fighting brand. This indicates that despite that market continue to grow, competition remains tight.

Markets & Sectors

Industrial estates: Deltamas, an industrial estate under Sinarmas group, sold 35ha land to Thailand's tire manufacturer; Cheng Shin Rubber Ind, Co, Ltd (Maxxis International). Cheng Shin is the manufacturer of tire products under the brand Maxxis, which will spend USD400mn investment in Deltamas. Cheng Shin will develop its 16th factory in Deltamas in the next 12-18 months, schedule for completion in July 2016. (Kontan, Company)

Property sector: The government will implement luxury tax on luxury housing; based on its selling price. Previously, the luxury tax on is imposed to houses with building area above 350sqm and apartment with area above 150sqm. Halim Alamsyah, Deputy Governor of Bank Indonesia, stated that the current LTV regulation is effective to control mortgage. However, he views that another instrument like tax is required to control the price in property market. (Kontan)

Economic Update

Inflation: Bank Indonesia predicted 0.2% mom deflation or less than 6.5% yoy in Feb15 due to lower transportation tariffs and lower price of some volatile foods. On separate news, the gasoline price increased to Rp.6,800 from Rp.6,600 outside Java, Madura, and Bali and to Rp.6,900 from Rp.6,700 in Java, Madura, and Bali. The price of LPG 12 kg also increased to the initial level of Rp.134,000 before the price hike in January 19.(Kontan, Investor Daily)

Comment: The increase of fuel prices starting from March 1 will contribute to the inflation level this month. The deflation is unlikely to continue in March due to these higher administered prices but the inflation level will still be compensated by the lower prices of volatile foods from harvest season.

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INVESTMENT RATINGS
BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.
The views expressed in this research report accurately reflect the analyst;s personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.