

Premier Insight

29 July 2015

Bank BTN (BBTN IJ; Hold)

Profit recovery, low provisioning

- Profit recovery in 1H15 (+54% yoy), partly due to low provisioning.
- Strong mortgage loan growth, stable NIMs are also key drivers.
- Low provision/NPL coverage, even excluding mortgage/KUR loans.
- We maintain our Hold rating despite low valuation.

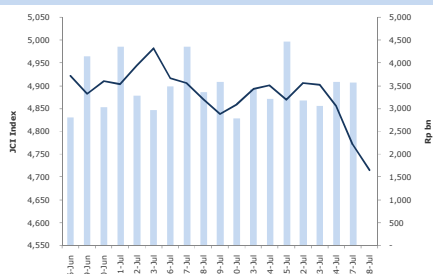
Earnings recovery. BBTN's profit of Rp831bn in 1H15 (+54% yoy) came in line with consensus expectation but it was ahead of our forecast, largely due to lower loan provision. Excluding provision, core earnings (PPOP) was still in line with our forecast (1H: 51% of our FY15F). Contributing to the bank's strong earnings recovery this year, after a 29% drop in 2014, are strong loan growth (+18% yoy) and better NIMs – in turn, improving profitability ratios in 1H15 (ROAA: 1.13%; ROAE: 13%) although these metrics were still below 2013 levels of 1.32% and 14.5%, respectively. However, the bank's low provision/NPL coverage of 30%, which it has sustained since 2012, remained our key concern.

Strong loan growth. BBTN's loan growth of 18% was well above industry growth (10% yoy as of May 2015) as a result of its focus on low-cost housing financing, whose demand is strong and less affected by economic cycle. BBTN's mortgage loans (70% of loans) grew by 20% yoy while its construction and non-housing consumer loans by 26% and 19%, respectively, except for its commercial loans (8% of loans), which were barely growing due to asset quality problem (NPL ratio: 12.5%). The government's new subsidized mortgage scheme, with lower lending rate of 5.0% (vs. 7.25%), contributed to this product's strong loan disbursements of Rp3tn in 2Q15 (+36% qoq), albeit with a lower NIM. In spite of this, overall NIM improved to 4.38% in 2Q (1Q: 4.28%), due to lower cost of funds.

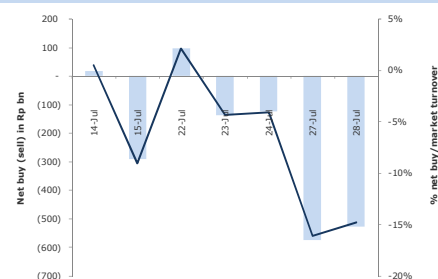
NPLs underprovisioned. BBTN's credit cost fell to 16bps in 2Q (1Q: 54bps), in part reflecting lower new NPLs formation. However, NPL ratio remained elevated at 4.70%, albeit an improvement from 5% a year earlier. We believe the bank is under-provisioned given its low provision/NPL coverage of only 30%. Although a majority of the bank's NPLs have strong collateral backing (mortgage: 61% of NPLs) while the KUR loans are 70%-insured (KUR: 3.5% of NPLs), we estimate BBTN's loan provisions covered only 83% of its NPLs outside of its mortgage and KUR loans. Our earnings forecasts assume provision/NPL coverage of 36% in 2015, rising to 40% in 2016.

Reiterate Hold. We maintain our TP of Rp1,150 (derived from Gordon Growth Model with assumptions: 13% LT ROE, 9% LT growth, 13.5% cost of equity). Our TP implied a target FY16F P/E of 7.8x, which is below those of peer major banks, reflecting our view of BBTN's lower earnings quality due to rising contribution of its lower-margin subsidized home mortgages and low provision coverage.

JCI Index



Foreign net buy (sell)



Index	Closing	1 day	1 year	YTD
JCI	4,715	-1.2%	-7.4%	-9.8%
LQ45	796	-1.5%	-8.3%	-11.4%
DJI	17,630	1.1%	4.2%	-1.1%
SET	1,408	-0.3%	-7.4%	-6.0%
HSI	24,504	0.6%	-0.6%	3.8%
NKY	20,329	-0.1%	30.2%	16.4%
FTSE	6,555	0.8%	-3.7%	-0.2%
FSSTI	3,281	-1.0%	-2.2%	-2.5%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	48.0	1.2%	-52.8%
CPO/tonne	559.2	-0.4%	-5.9%
Soy/bushel	9.8	1.4%	-21.8%
Rubber/kg	1.6	-1.7%	-11.4%
Nickel/tonne	11,278	2.7%	-39.8%
Tins/tonne	16,320	3.5%	-27.8%
Copper/tonne	5,287	2.2%	-25.9%
Gold/try.oz (Spot)	1,096	0.1%	-15.7%
Coal/tonne*	61.8	-1.0%	-25.4%
Corn/bushel	3.7	0.5%	2.4%
Wheat/bushel**	209.9	-2.5%	-31.5%

*: 1 week change

**: 1 month change

Source : Bloomberg

Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Operating income (RpBn)	6,087	6,172	7,204	8,120	9,186
PPOP (RpBn)	2,377	2,131	2,651	2,980	3,378
Net profit (RpBn)	1,562	1,116	1,319	1,560	1,764
Net profit growth (%)	14.5	-28.6	18.2	18.3	13.0
FD EPS (Rp)	149	105	124	147	166
P/E (x)	7.9	11.2	9.5	8.0	7.1
P/B (x)	1.1	1.0	0.9	0.9	0.8
Dividend yield (%)	2.3	1.6	1.9	2.2	2.5
ROAA (%)	1.3	0.8	0.9	0.9	0.9
ROAE (%)	14.5	9.5	10.3	11.2	11.5

Source: BBTN, IndoPremier

Share Price Closing as of : 27-July-2015

News & Analysis

Corporates

AUTO: 1H15 Result – below expectation

Astra Otoparts (AUTO IJ; Rp2,195; Buy) result was well below expectation as reflected in the weak sales of 4W and 2W of -18.2% yoy and -24.5% yoy respectively. Result highlights are:

- Weak topline as sales decline by 8.1% yoy but only fell by 0.8% qoq, representing only 40% of our total estimates for FY15.
- Gross margin was relatively maintained, showing restored pricing power on the manufacturing side especially for OEM. Nevertheless, with less volume operating margins were affected to fall to 2.8% in 1H15 vs 4.8% in 1H14. As a result operating profit fell 46.6% yoy to Rp161bn.
- Equity income declined drastically by 70.3% yoy to Rp72bn, which could be affected by a combination of weak operating result with weaker Rupiah. QoQ numbers has improved by 90.4%, but we doubt that this trend could be sustainable.
- Net profit was down by 72.7% yoy to Rp143bn contributed by weak sales, depressed margins and declining contribution from subsidiaries.

	1H15	1H14	+/- %	2Q15	1Q15	+/- %	FY15F	% of forecast
Total sales	5,724	6,227	(8.1)	2,850	2,874	(0.8)	14,229	40.2
Gross profit	824	922	(10.6)	407	417	(2.5)	2,242	36.8
Operating profit	161	302	(46.6)	9	92	(25.1)	783	20.6
Equity income	72	243	(70.3)	47	25	90.4	774	9.3
Net interest	(37)	19	(297.4)	(23)	(13)	76.9	(149)	24.7
Tax	(47)	(106)	(55.8)	(22)	(25)	(13.8)	(159)	29.7
Net profit	143	526	(72.7)	64	79	(18.5)	1,249	11.5
GPM (%)	14.4	14.8		14.3	14.5			
OPM (%)	2.8	4.8		2.4	3.2			
NPM (%)	2.5	8.4		2.3	2.8			

Source: Indopremier, Company

BDMN: Bank Danamon (BDMN IJ; Rp4,085; Hold) reported net profit of Rp1.25tn in 1H15 (-16% yoy), due to further earnings drop in 2Q (-18% qoq), on the back of declining NIM to 7.8% (1Q: 8.3%) and rising credit cost to 3.5% (1Q: 3.3%). Loan portfolio declined 3% yoy, particularly in high-yield mass-market segments such as microlending (-15% yoy) and consumer auto finance (-4% yoy), with SME and retail loans were the only growing segments with 7% and 16% yoy growth, respectively. The loan mix shift led to narrowing NIMs despite 20bps qoq lower cost of funds in 2Q. Asset quality weakened further as NPL ratio rose to 2.9% in 2Q (1Q: 2.5%), from 2.1% a year earlier, due to weakness accross all loan segments, particularly wholesale loans (NPL ratio: 1.8% in 2Q vs. 1.1% in 1Q) although mass-market NPL ratio also rose to 3.6% (1Q: 3.2%). In turn, this led to a 22% yoy rise in credit cost in 1H15. (Company)

Comment: BDMN's results came in line with our full-year forecast of Rp2.5tn (1H: 50% of our FY15F) but were sharply below consensus estimate of Rp3.2tn for FY15F. However, we view visibility for an earnings recovery next year is low, despite the bank's efforts to lower operating costs (1H: -6% yoy), as much depends on asset quality trends. We maintain our Hold rating on the stock.

JPFA: Japfa Comfeed (JPFA IJ; Rp481; Not rated) reported 1H15 net sales of Rp12.15tn, down -0.36% yoy, triggered by falling sales in DOC and animal feeds. With higher input costs and low selling prices, gross profit margin eroded to 12.37% (from 15% yoy). JPFA booked 1H15 net loss of Rp272.13bn (-183.5%yoy) derived from loss on forex. JPFA's net profit was below consensus estimates. We believe the results reflect the down-cycle in Indonesian poultry industry on the back of weak consumer purchasing power, depreciating Rupiah, and an oversupply of DOCs. (Kontan)

Markets & Sectors

Property Sector: Agung Podomoroland (APLN IJ; Rp349; Buy) and Summarecon (SMRA IJ; Rp1,710; Sell) stated that they were facing difficulties to meet the government requirement to develop a total 4,770unit low income apartment due to difficulties to acquire the land. Reportedly, SMRA has completed a tower in Rawa Bebek in local government's land. Based on the governor regulation No.540/1990, property developers are required to develop 20% of their commercial area for low-cost housing/apartment. On separate news, the Minister of Agrarian and Spatial issued a new regulation no.5/2015 that limits the land ownership by property developers/industrial estates to a maximum 400ha in each province and a total 4,000ha in Indonesia. However, this regulation exempts listed property developers and SOEs. Below is the summary from the new regulation:

	Maximum for each province	Maximum in Indonesia
Residential/township development	400ha	4,000ha
Resorts/Hotel	200ha	4,000ha
Industrial estates	400ha	4,000ha
Plantation – Sugar Cane	60,000ha	150,000ha
Other plantation	20,000ha	100,000ha
Fishpond – in Java island	100ha	1,000ha
Fishpond – Outer Java	200ha	2,000ha

Source: (Kontan, Business Indonesia)

Comment: While no details provided on how much property developers would spend to meet the local government regulation, this would increase companies' development cost and trim margins going forward.

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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

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