

Premier Insight

22 July 2016

Bank BCA (BBCA IJ; Hold)

Good results despite rising NPLs

- Net profit grew 12% in 1H16 (in-line); core profit rose 24% yoy
- Widening NIMs and lower cost ratio offset rising credit cost
- New NPLs remain elevated but NPL ratio may peak in 3Q or 4Q
- TP raised to Rp13,500 due to lower risk-free rate. Reiterate Hold

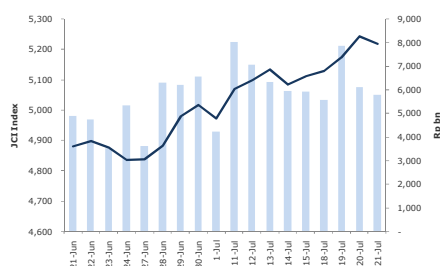
Results in-line. BBKA's net profit of Rp9.6tn in 1H16 (+12% yoy) came in-line with our/market expectations. Core profit (PPOP) grew a robust 24%, better than our forecast, due to higher than expected NIM of 7.34% (+41bps yoy) while cost ratio was below our forecast at 46.2% in 1H16 (1H15: 49.7%). These factors, coupled with strong non-interest income growth, were more than enough to offset the bank's slowing loan growth (11.5% yoy; flat year-to-date) and a sharp rise in its credit cost. Profitability was sustained high, with ROAA/ROAE of 3.15%/19.5% in 1H16, although we expect these ratios to moderate in the coming years on the back of falling interest rates in Indonesia, which tend to narrow BBKA's NIMs given the bank's rate-insensitive liability mix (due to very high CASA ratio).

We expect lower NIMs. BBKA sustained its high NIM of 7.34% in each of the past three quarters (since 4Q15) vs. 6.9-7.0% in the first three quarters of 2015, as improving banking sector liquidity has enabled cuts to its fixed deposit rate to 5.25% (by far the lowest in the sector) while loan repricing has lagged. However, with the bank's SME loan yield of 12.3% expected to fall due to competition from SOE banks, while scope to further reduce its cost of funds of 2.04% in 2Q is likely to be more limited, we forecast NIM to narrow 6.63% in FY17F (FY16F: 7.16%).

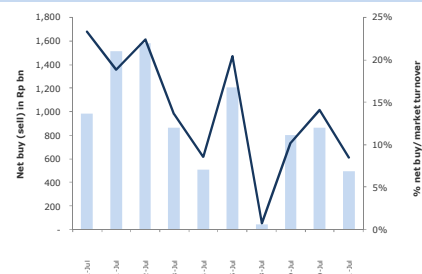
Rising NPLs. BBKA's credit cost tripled to 103bps in 1H16, albeit it was still well below its 4Q15 level of 204bps, as NPL ratio worsened to 1.4%, from 0.7% a year earlier. By loan segment, NPL ratios for corporate loans and commercial/SME rose to 0.9%/2.1% (from 0.1%/0.7%) while consumer NPLs were more stable at 0.9%. More importantly, new NPLs rose to 1.76%/1.47% of loans in 1Q/2Q, from 0.43% in FY15 - in turn, this reduced the bank's provisions/NPL coverage to 193% (FY15: 322%). As management expects the bank's NPL ratio to rise further and peak at 1.5-2.0% in 3Q or 4Q this year, we raise our credit cost forecast to 127bps for FY16F (previously 68bps) although the negative impact on earnings is fully offset by the bank's stronger than expected core profitability.

Reiterate Hold. We raise our FY16F earnings by 2.3% and our TP to Rp13,500 (from Rp11,800) - the latter was due to a sharp fall in 10-yr yields to 7.0% (end-2015: 8.8%) as financial markets anticipate positive impacts from a tax amnesty in Indonesia. Our GGM-derived target FY16F P/B of 3.0x assumes LT ROE of 18%; growth of 9% and cost of equity of 12%. We view stock valuation as demanding, thus we reiterate our Hold rating despite potential upside from tax amnesty.

JCI Index



Foreign net buy (sell)



Key Indexes

| Index | Closing | 1 day | 1 year | YTD |
|-------|---------|-------|--------|--------|
| JCI | 5,217 | -0.5% | 6.3% | 13.6% |
| LQ45 | 899 | -0.8% | 6.7% | 13.5% |
| DJI | 18,517 | -0.4% | 3.7% | 6.3% |
| SET | 1,503 | -0.5% | 3.8% | 16.7% |
| HSI | 22,000 | 0.5% | -13.0% | 0.4% |
| NKY | 16,674 | -0.8% | -19.0% | -12.4% |
| FTSE | 6,700 | -0.4% | 0.5% | 7.3% |
| FSSTI | 2,940 | -0.2% | -12.5% | 2.0% |
| EIDO | 25 | -1.1% | 9.8% | 21.4% |

Commodity price

| Commodities (in USD) | Last price | Ret 1 day | Ret 1 year |
|-------------------------|------------|-----------|------------|
| Oil/barrel (WTI) | 44.0 | -2.2% | -12.7% |
| CPO/tonne | 581.7 | 0.3% | 10.0% |
| Soy/bushel | 10.3 | 0.5% | -0.1% |
| Rubber/kg | 2.0 | 7.8% | 16.5% |
| Nickel/tonne | 10,727 | 1.7% | -7.8% |
| Tins/tonne | 17,826 | 0.1% | 16.2% |
| Copper/tonne | 4,967 | 0.3% | -8.6% |
| Gold/try.oz (Spot) | 1,331 | 1.2% | 21.7% |
| Coal/tonne | 61.0 | 0.0% | 0.8% |
| Corn/bushel | 3.2 | -1.0% | -17.7% |
| Wheat/bushel* | 157.5 | -3.6% | -18.4% |

* : 1 month change

Source : Bloomberg

| Year To 31 Dec | 2014A | 2015A | 2016F | 2017F | 2018F |
|-------------------------|--------|--------|--------|--------|--------|
| Operating income (RpBn) | 41,287 | 47,853 | 53,405 | 56,545 | 62,814 |
| PPOP (RpBn) | 22,981 | 26,139 | 29,519 | 29,673 | 32,567 |
| Net profit (RpBn) | 16,486 | 17,996 | 19,265 | 20,530 | 23,331 |
| Net profit growth (%) | 15.7 | 9.2 | 7.1 | 6.6 | 13.6 |
| FD EPS (Rp) | 669 | 730 | 781 | 833 | 946 |
| P/E (x) | 21.6 | 19.8 | 18.5 | 17.4 | 15.3 |
| P/B (x) | 4.7 | 4.0 | 3.2 | 2.8 | 2.4 |
| Dividend yield (%) | 0.9 | 1.0 | 1.1 | 1.2 | 1.3 |
| ROAA (%) | 3.2 | 3.1 | 3.1 | 3.0 | 3.0 |
| ROAE (%) | 23.3 | 22.2 | 19.2 | 17.2 | 17.0 |

Source: BBKA, IndoPremier

Share Price Closing as of : 20-July-2016

Refer to Important disclosures on the last of this report

Economic Update

Biding time

- **Bank Indonesia maintains interest rate at 6.50%**
- **Term structure remains at existing level**
- **Global growth is challenging but domestic economy outlook considered positive**
- **Another rate cut is expected to materialise after Aug16**

Interest rate maintained. The central bank maintains its reference rate (BI rate) this year after four rate cuts were undertaken in the 1H16. BI rate now stands at 6.50%, or 100 bps lower than when the year started. BI's measure was against market expectation, which foresaw another cut this month, but in line with ours. We highlight the importance of the central bank's vigilance in our previous report in consideration of few domestic factors such as the inflation (3.5% yoy in Jun16), the plan to shift to 7-day (reverse) repo rate, as well as liquidity concern from the tax amnesty (read: *Weak purchasing power*). Along with the maintained rate, the whole term structure remains operating at its Jun16's curve (Table 1).

Table 1. Term Structure Jan16-Jul16

| | BI Rate | 1-week | 2-week | 1-month | 3-month | 6-month | 9-month | 1-year |
|---------------|---------|--------|--------|---------|---------|---------|---------|--------|
| 16-Jan | 7.25% | 5.95% | 6.00% | 6.10% | 6.50% | 6.55% | 6.65% | 6.70% |
| 16-Feb | 7.00% | 5.70% | 5.75% | 5.90% | 6.35% | 6.45% | 6.55% | 6.65% |
| 16-Mar | 6.75% | 5.50% | 5.60% | 5.80% | 6.20% | 6.45% | 6.60% | 6.75% |
| 16-Apr | 6.75% | 5.50% | 5.60% | 5.80% | 6.20% | 6.45% | 6.60% | 6.75% |
| 16-May | 6.75% | 5.50% | 5.60% | 5.80% | 6.20% | 6.45% | 6.60% | 6.75% |
| 16-Jun | 6.50% | 5.25% | 5.45% | 5.70% | 6.10% | 6.30% | 6.40% | 6.50% |
| 16-Jul | 6.50% | 5.25% | 5.45% | 5.70% | 6.10% | 6.30% | 6.40% | 6.50% |

Source: Bank Indonesia

Challenging global growth. The central bank also laid emphasis on the challenging global growth. A few days before the BI rate decision, the International Monetary Fund (IMF) revised down global growth outlook to 3.1% in FY16 and 3.4% in FY17 (-0.1% revision to both FY16's and FY17's growth) on Brexit concerns. BI highlighted that the Brexit impact has arguably affected the Federal Funds Rate (FFR) to be raised only by one time this year given the continued USD appreciation.

Positive domestic outlook. BI, in our view, has taken the reduced uncertainty positively. Less external uncertainty added by the positive sentiment against the tax amnesty program brought the rupiah to appreciate by 3.4% mom in Jun16 (5.6% ytd). Domestically, inflation outlook is stable within the band of expectation of 4±1%, but with recent updated statistics, we think inflation would be in the lower band of BI's expectation at 3.4-3.9%. The central bank also expects 2Q16's growth to improve and maintains projected FY16 growth at 5-5.4%.

Rate cut expected after Aug16. Given the positive outlook, we are positive that BI has room to lower rate further in the 2H16. Spread of BI rate to headline and core inflation now stands somewhere around 300 bps. After the August 19th shift to the 7-day (reverse) repo rate – now at 5.25%, the spread will narrow to 180 bps. Given price stability and steady global conditions, we think another rate cut could materialise after August 19th.

News & Analysis

Corporates

AKRA: Freeport Indonesia submitted principal investment permit of smelter development to the East Java regional office of Indonesia Investment Coordinating Board. On the proposal, Freeport stated that it will build the smelter in JIPE (Java Integrated Industrial and Port Estate), which owned by AKR Corporindo (AKRA IJ; Rp6,525; Not Rated). (Bisnis Indonesia)

Comment: This is very positive for AKRA, in our view, as Freeport will likely buy 100 hectares of industrial land from AKRA, which is very significant. This news is the confirmation of industrial land sales to Freeport which has been awaited by the investors.

SMRA: Summarecon Agung (SMRA IJ; Rp1,730; Sell) booked marketing sales of Rp1.7tn in 1H16 or 38% of FY16 target. In next couple months, company will launch housing cluster in Bandung, Serpong and Kerawang. In Serpong, company will launch new cluster called Thomson with selling price below Rp2bn/unit. In Kerawang, company will start selling Summarecon Emerald Kerawang which is tagged at Rp690mn-Rp1.4bn. Company will not do any expansion this year due to weak buying appetite in Indonesia. (Kontan)

Comment: SMRA's achievement was 42% of our forecast. With more housing sales this year, SMRA's gross margin should improve. Company expects Bandung and Serpong to contribute Rp1.5tn each for this year marketing sales, respectively.

TBIG: Provident Capital, a major shareholder of Tower Bersama (TBIG IJ; Rp6,600; Not Rated), plans to sell 61.5mn shares of TBIG at Rp6,400. Total holding of Provident Capital before this transaction is 1.18bn shares or 24.6% of total shares outstanding. Provident capital has option to increase the divestment by another 20.5mn shares. UBS is the book runner for this transaction. (Investor Daily)

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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.

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