INDOPREMIER

Bank Negara Indon. (BBNI IJ)

24 April 2015

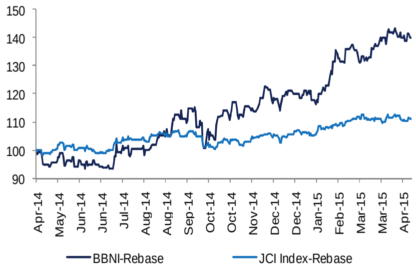
Results Note

BUY (Unchanged)

Equity | Indonesia | Banks

Stock Data	
Target price (Rp)	Rp8,000
Prior TP (Rp)	*Rp7,000*
Share price (Rp)	Rp7,100
Upside/downside (%)	*+12.7*
Shares outstanding (m)	18,649
Market cap. (US$ m)	10,226
Free float (%)	40.0
Avg. 6m daily T/O (US$ m)	10.4

Price Performance	**3M**	**6M**	**12M**
Absolute (%)	16.4	24.6	47.5
Vs. JCI (%)	14.2	16.3	35.0
52w high/low (Rp)			7,100 - 4,745



Major Shareholders	
Republic of Indonesia	60.0%

Estimate Change; Vs. Consensus	2015F	2016F
Latest EPS (Rp)	646	731
Vs. Prior EPS (%)	6.2	2.7
Vs. Consensus (%)	5.8	5.3

Source: Bloomberg

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Still delivering robust earnings

- **Net profit was up 18% yoy in 1Q15, ahead of our expectation**
- **Widening NIMs, strong fee growth offset slower loan expansion**
- **Credit cost was stable although special mention loans are rising**
- **We upgraded earnings and TP (to Rp8,000). Reiterate Buy.**

Strong results. BBNI's profit of Rp2.82tn in 1Q15 (+18% yoy; -11% qoq) was slightly ahead of our expectation, accounting for 24.8% of our full year forecast. The bank's robust earnings growth, which was achieved despite macro headwinds in Indonesia, was driven by its widening NIMs and strong fee income (+22% yoy), which offset its slower loan expansion (9% yoy), while cost/income ratio was stable at 45%. Loan provisioning was flat vs. a year ago but NPL recovery income fell further (-24% yoy), contributing only 9.4% to 1Q earnings, down from 14.7% a year ago, and peak of 33% in FY10. However, we view this positively as this has improved BBNI's earnings growth visibility for the coming years. Meanwhile, ROAA was sustained at a high of 2.74% (ROAE: 18.9%) in 1Q15.

NIMs widened further. Although BBNI's loan growth has slowed to 9% yoy in 1Q (deposits: +11%), its negative impact was offset by a further NIM widening to 6.76% (+41bps yoy; +23bps qoq). We believe this is a testament of the bank's strong deposit franchise as reflected in its low cost of funds of 3.4% in 1Q, which was the second lowest in Indonesia after BCA (BBCA IJ; Rp13,325; Hold), and its high CASA ratio of 63%. With the bank's new management guiding for CASA ratio to be maintained at 63-65%, we expect BBNI to continue to focus on maintaining its profitability rather than asset growth, which seems in contrast to peers such as Bank Rakyat (BBRI IJ; Rp13,175; Buy).

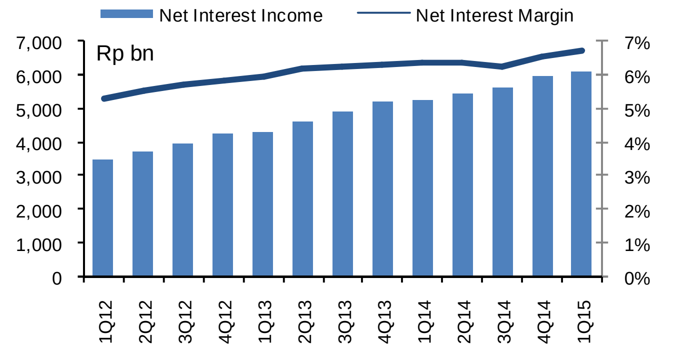
Stable credit cost. BBNI's net credit cost (after recoveries) was stable at 132bps in 1Q (vs. 127bps last year), with lower NPL ratio of 2.1% (vs. 2.3%) and higher provisions/NPL coverage of 130% (vs. 128%). This was better than we previously expected although this was already evident since 4Q14. There were signs of asset quality pressure from its rising special mention loans (+37% yoy), particularly affecting the bank's medium commercial borrowers and consumer loans, although this appears to be an industry-wide trend which is also seen at other major banks in Indonesia in the past two years.

Reiterate Buy. We raised our FY15F earnings by 6.2% (2.7% for FY16F) on the back of our lower credit cost assumption, and upgraded our TP (GGM-derived) to Rp8,000 on the back of our 50bps lower cost of equity assumption (13.5%) due to lower bond yields. Our TP implies a FY16F P/E target of 10.9x, which in our view is not demanding in comparison to 15x for the market. Reiterate Buy.

Year To 31 Dec	**2013A**	**2014A**	**2015F**	**2016F**	**2017F**
Operating income (RpBn)	25,273	29,892	33,635	37,071	41,779
PPOP (RpBn)	11,789	15,132	17,387	19,437	22,765
Net profit (RpBn)	9,054	10,783	12,042	13,634	15,806
Net profit growth (%)	28.5	19.1	11.7	13.2	15.9
FD EPS (Rp)	486	578	646	731	848
P/E (x)	14.6	12.3	11.0	9.7	8.4
P/B (x)	2.8	2.2	1.9	1.6	1.4
Dividend yield (%)	1.4	1.6	1.8	2.0	2.4
ROAA (%)	2.5	2.7	2.7	2.7	2.8
ROAE (%)	20.1	20.2	18.7	18.0	17.9

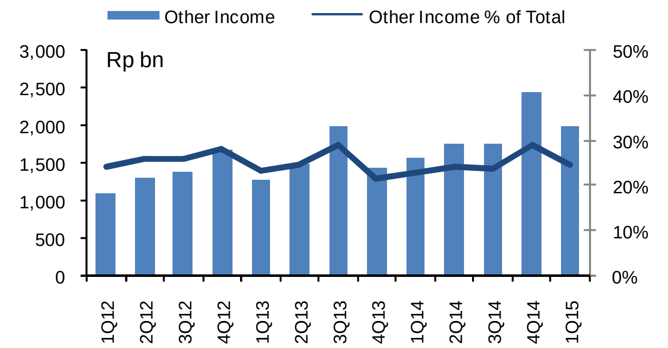
Source : BBNI,IndoPremier *Share Price Closing as of : 22-April-2015*

Fig. 1: Net Interest Income (Rp bn) and NIMs (%)



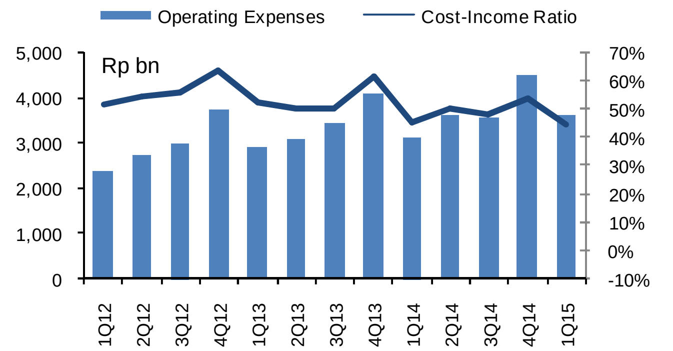
Source : Company, IndoPremier

Fig. 2: Non-Interest Income (Rp bn; % of Gross Income)



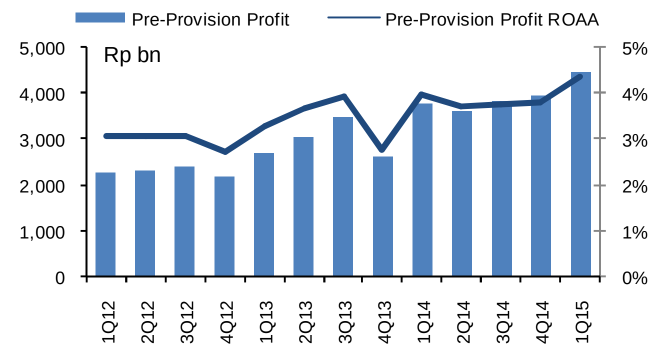
Source : Company, IndoPremier

Fig. 3: Operating Expense (Rp bn) and Cost/Income Ratio (%)



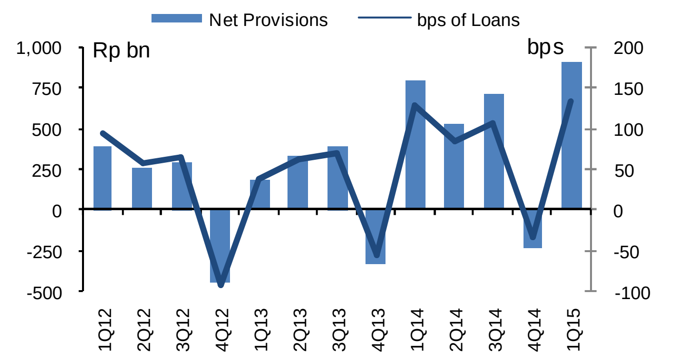
Source : Company, IndoPremier

Fig. 4: Pre-Provision Profit (Rp bn; % of Average Assets)



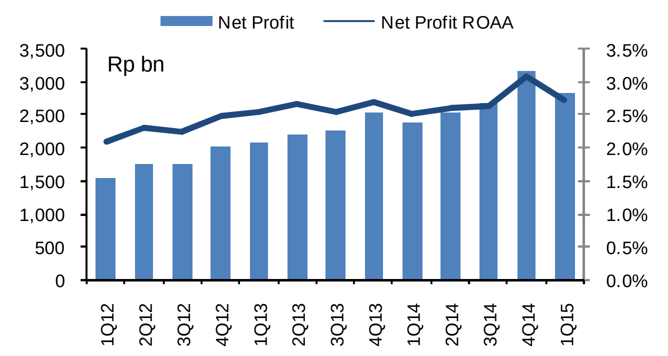
Source : Company, IndoPremier

Fig. 5: Net Loan Provisioning (Rp bn; bps of Average Loans)



Source : Company, IndoPremier

Fig. 6: Net Profit (Rp bn) and ROAA (%)



Source : Company, IndoPremier

1Q15 Results (Rp Bn)	1Q15	1Q14	% Y-Y	1Q15	4Q14	% Q-Q
Net Interest Income	**6,097**	**5,289**	**15.3**	**6,097**	**5,982**	**1.9**
Fees & Commissions	1,311	1,116	17.5	1,311	1,440	-9.0
Insurance & Other Incomes	223	141	58.2	223	325	-31.4
Trading Income	462	317	45.8	462	674	-31.4
Operating Income	**8,093**	**6,863**	**17.9**	**8,093**	**8,421**	**-3.9**
Operating Expenses	-3,622	-3,096	17.0	-3,622	-4,489	-19.3
Pre-Provision Profit	**4,471**	**3,767**	**18.7**	**4,471**	**3,932**	**13.7**
Provision for Impairment	-1,241	-1,233	0.7	-1,241	-334	271.1
Recovery of Written-Off Loans	335	444	-24.5	335	569	-41.1
Operating Profit	**3,565**	**2,978**	**19.7**	**3,565**	**4,166**	**-14.4**
Other Non Operating Items	-5	34	n.m	-5	-235	n.m
Pre-Tax Profit	**3,560**	**3,011**	**18.2**	**3,560**	**3,931**	**-9.4**
Tax	-733	-615	19.1	-733	-743	-1.4
Net Profit	**2,817**	**2,393**	**17.7**	**2,817**	**3,171**	**-11.2**
Gross Loans	**269,513**	**247,120**	**9.1**	**269,513**	**277,622**	**-2.9**
Customer Deposits	305,150	273,966	11.4	305,150	313,893	-2.8
Non-Performing Loans (NPL)	5,772	5,706	1.1	5,772	5,437	6.2
Special Mention Loans	11,598	8,442	37.4	11,598	7,564	53.3
Loan Loss Reserves (LLR)	7,354	7,214	1.9	7,354	6,970	5.5
Total Assets	407,215	371,461	9.6	407,215	416,574	-2.2
Risk-Weighted Assets	226,062	192,759	17.3	226,062	207,306	9.0
Shareholders' Funds	**59,912**	**51,034**	**17.4**	**59,912**	**59,072**	**1.4**
BV Per Share	**3,213**	**2,737**	**17.4**	**3,213**	**3,168**	**1.4**

Source: BBNI, IndoPremier

Key Ratios (%)	1Q15	1Q14	% Y-Y	1Q15	4Q14	% Q-Q
ROAA (annualized)	**2.74**	**2.53**	**8.3**	**2.74**	**3.08**	**-11.1**
ROAE (annualized)	**18.9**	**19.4**	**-2.4**	**18.9**	**22.1**	**-14.2**
Net Interest Margin (bps)	676	635	6.4	676	653	3.4
Net Credit Cost (bps)	132	127	4.5	132	-34	n.m
Fee Inc/Operating Income	16.2	16.3	-0.4	16.2	17.1	-5.3
Non Int Inc/Operating Income	24.7	22.9	7.5	24.7	29.0	-14.8
Op. Cost/ Operating Income	44.8	45.1	-0.8	44.8	53.3	-16.0
Loan-to-Deposit Ratio (LDR)	88.3	90.2	-2.1	88.3	88.4	-0.1
NPL/Loan Ratio	2.1	2.3	-7.3	2.1	2.0	9.4
LLR/NPL Ratio	130.5	128.2	1.8	130.5	128.2	1.8
Tier-1 Capital Ratio	15.6	14.5	7.4	15.6	15.2	2.7
Total Capital Ratio	17.8	15.6	14.1	17.8	16.3	9.0

Source: BBNI, IndoPremier

Year To 31 Dec (RpBn)	2013A	2014A	2015F	2016F	2017F
Income Statement					
Interest income	26,451	33,365	37,886	43,061	49,206
Interest expense	(7,392)	(10,989)	(12,833)	(15,992)	(19,149)
Net interest income	19,058	22,376	25,053	27,069	30,057
Fees and commissions	4,000	5,027	6,033	7,239	8,687
Trading income	1,067	1,591	1,500	1,500	1,500
Other operating income	1,148	898	1,050	1,263	1,535
Total operating income	25,273	29,892	33,635	37,071	41,779
Personnel expenses	(6,084)	(6,781)	(7,459)	(8,056)	(8,700)
G&A expenses	(4,540)	(5,091)	(5,600)	(6,048)	(6,532)
Other operating expenses	(2,861)	(2,889)	(3,190)	(3,530)	(3,782)
Pre-provision operating profit	11,789	15,132	17,387	19,437	22,765
Provisions	(2,708)	(3,642)	(3,723)	(3,971)	(4,670)
Loan recovery income	2,138	1,856	1,400	1,600	1,700
Operating profit	11,219	13,346	15,064	17,066	19,795
Non-operating profit	59	178	50	50	50
Exceptional items	0	0	0	0	0
Pre-tax profit	11,278	13,524	15,114	17,116	19,845
Income tax	(2,220)	(2,695)	(3,023)	(3,423)	(3,969)
Minority interests	(4)	(47)	(49)	(59)	(70)
Reported net profit	9,054	10,783	12,042	13,634	15,806
Balance Sheet					
Cash	10,090	11,436	12,533	14,365	16,742
Current account with BI	23,130	24,598	28,445	32,446	37,571
Placements at BI & other banks	27,575	19,023	20,437	19,141	17,990
Short-term investments	13,862	21,277	23,405	25,745	28,320
Government bonds	41,432	43,830	43,830	43,830	43,830
Gross loans	250,638	277,622	317,215	370,706	439,885
Loan provisions	(6,880)	(6,970)	(7,493)	(8,265)	(9,735)
Other assets	21,255	19,497	21,447	23,591	24,771
Total Assets	386,655	416,574	466,706	529,135	607,708
Customer deposits	291,890	313,893	352,588	402,301	466,043
Deposits from other banks	3,185	3,177	3,232	3,424	3,766
Securities and borrowings	24,987	17,370	18,246	18,262	19,183
Other liabilities	18,909	21,112	20,738	21,770	21,687
Total Liabilities	338,971	355,552	394,804	445,756	510,679
Share capital	9,055	9,055	9,055	9,055	9,055
Reserves and others	(3,035)	370	1,315	1,315	1,315
Retained earnings	27,012	35,078	44,964	56,441	70,090
Shareholders' equity	47,600	59,072	69,902	81,379	95,028
Minority interest	83	1,950	2,000	2,000	2,000
Total Liabilities & Equity	386,655	416,574	466,706	529,135	607,708

Source : BBNI,IndoPremier

Year to 31 Dec	2013A	2014A	2015F	2016F	2017F
Growth Ratios (% yoy)					
Gross loans	24.9	10.8	14.3	16.9	18.7
Total assets	16.0	7.7	12.0	13.4	14.8
Customer deposits	13.3	7.5	12.3	14.1	15.8
Net interest income	23.3	17.4	12.0	8.0	11.0
Non-interest income	13.6	20.9	14.2	16.5	17.2
Total operating income	29.8	19.0	12.9	13.3	16.0
Operating expense	14.2	9.5	10.1	8.5	7.8
PPOP	29.2	28.4	14.9	11.8	17.1
Net profit	28.5	19.1	11.7	13.2	15.9
Profitability Ratios					
ROAA (%)	2.52	2.68	2.73	2.74	2.78
ROAE (%)	20.1	20.2	18.7	18.0	17.9
NIM (%)	6.18	6.38	6.39	6.12	5.94
Credit cost (bps)	25.80	68.89	78.11	68.94	73.29
Cost/income (%)	53.4	49.4	48.3	47.6	45.5
LDR (%)	85.9	88.4	90.0	92.1	94.4
CAR (%)	14.9	16.3	17.2	17.4	17.2
NPL ratio (%)	2.2	2.0	1.8	1.7	1.8
Provisions/NPL (%)	126.9	128.2	129.1	128.5	124.9

Source : BBNI,IndoPremier

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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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