

Bank Tabungan (BBTN IJ)

28 July 2015

Results Note

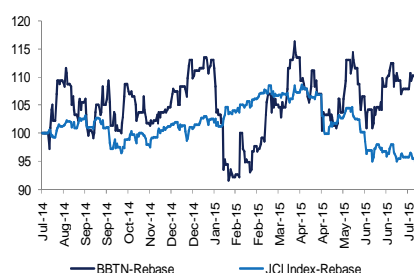
HOLD (Unchanged)

Stock Data

Target price (Rp)	Rp1,150
Prior TP (Rp)	Rp1,150
Share price (Rp)	Rp1,180
Upside/downside (%)	(2.5)
Shares outstanding (m)	10,568
Market cap. (US\$ m)	926
Free float (%)	39.8
Avg. 6m daily T/O (US\$ m)	3.0

Price Performance

	3M	6M	12M
Absolute (%)	5.8	18.6	12.4
Vs. JCI (%)	12.0	28.4	19.2
52w high/low (Rp)	1,180 - 990		



Major Shareholders

Republic of Indonesia	60.1%
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Estimate Change; Vs. Consensus

	2015F	2016F
Latest EPS (Rp)	124	147
Vs. Prior EPS (%)	-	-
Vs. Consensus (%)	(13.6)	(17.1)

Source: Bloomberg

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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.

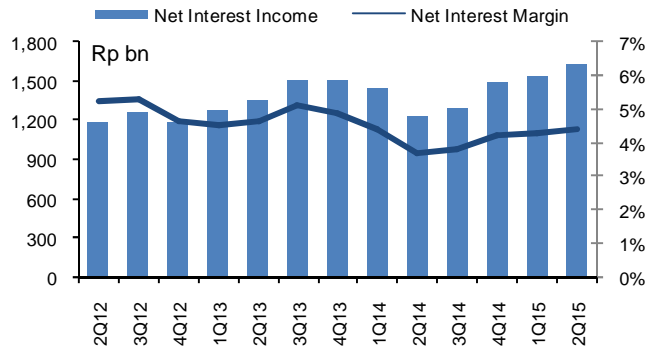
Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Operating income (RpBn)	6,087	6,172	7,204	8,120	9,186
PPOP (RpBn)	2,377	2,131	2,651	2,980	3,378
Net profit (RpBn)	1,562	1,116	1,319	1,560	1,764
Net profit growth (%)	14.5	(28.6)	18.2	18.3	13.0
FD EPS (Rp)	149	105	124	147	166
P/E (x)	7.9	11.2	9.5	8.0	7.1
P/B (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

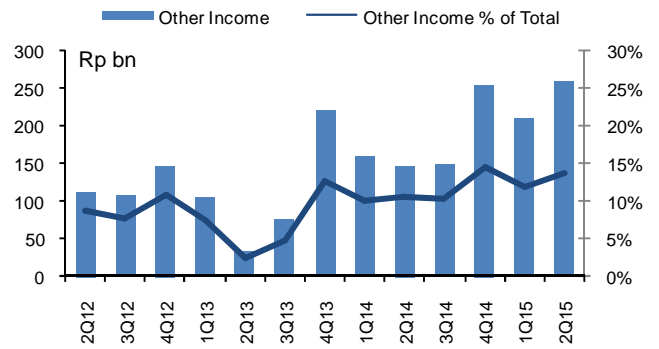
BBTN Results Note

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



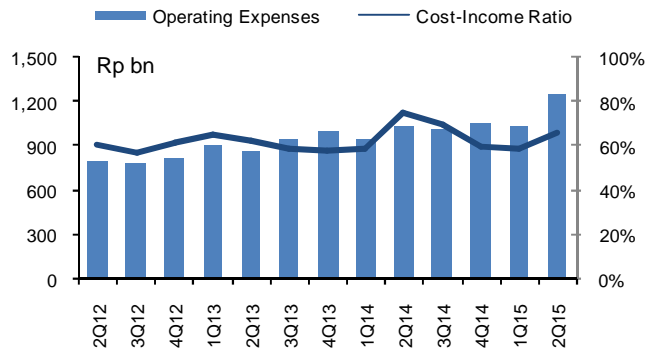
Source: Company, IndoPremier

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



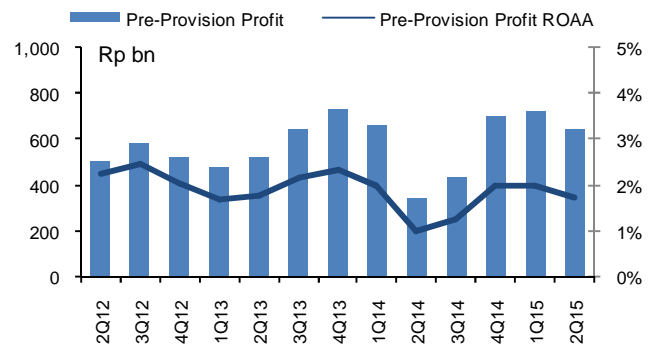
Source: Company, IndoPremier

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



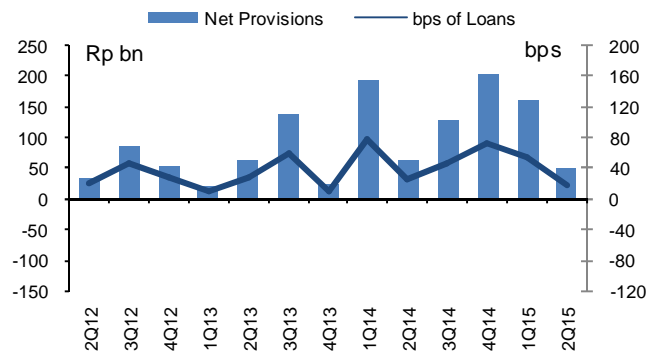
Source: Company, IndoPremier

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



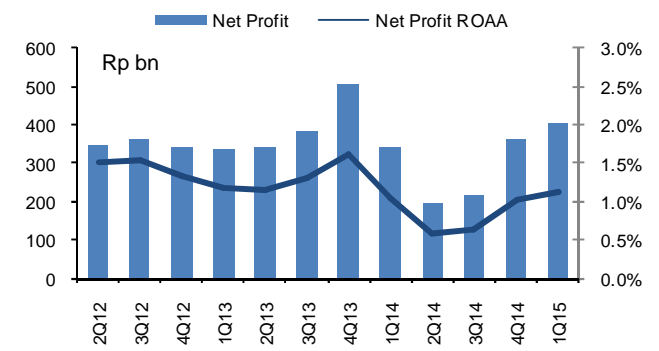
Source: Company, IndoPremier

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

BBTN Results Note

1H15 Results (Rp Bn)	1H15	1H14	% Y-Y	2Q15	1Q15	% Q-Q
Net Interest Income	3,178	2,671	19.0	1,637	1,540	6.3
Fees & Commissions	261	201	29.7	140	121	15.8
Insurance & Other Incomes	100	53	88.8	54	46	18.7
Trading Income	109	51	113.3	65	43	50.9
Operating Income	3,647	2,976	22.5	1,897	1,750	8.4
Operating Expenses	-2,286	-1,979	15.5	-1,254	-1,033	21.4
Pre-Provision Profit	1,361	998	36.4	643	717	-10.3
Provision for Impairment/Losses	-270	-330	-18.3	-81	-189	-57.4
Recovery of Written-Off Loans	59	75	-20.8	30	29	1.9
Operating Profit	1,151	743	54.9	593	558	6.3
Other Non Operating Items	12	-2	n.m.	7	5	53.2
Pre-Tax Profit	1,163	741	56.9	600	563	6.7
Tax	-332	-202	64.1	-172	-160	7.0
Net Profit	831	539	54.2	429	402	6.6
Gross Loans	126,125	106,584	18.3	126,125	120,158	5.0
Customer Deposits	114,719	101,329	13.2	114,719	109,509	4.8
Non-Performing Loans (NPL)	5,928	5,338	11.1	5,928	5,738	3.3
Special Mention Loans	18,825	15,494	21.5	18,825	17,780	5.9
Loan Loss Reserves (LLR)	1,767	1,401	26.2	1,767	1,719	2.8
Total Assets	155,952	135,623	15.0	155,952	149,289	4.5
Risk-Weighted Assets	85,441	72,027	18.6	85,441	81,089	5.4
Shareholders' Funds	12,913	11,619	11.1	12,913	12,384	4.3
BV Per Share	1,222	1,100	11.1	1,222	1,172	4.3

Source: BBTN, IndoPremier

Key Ratios (%)	1H15	1H14	% Y-Y	2Q15	1Q15	% Q-Q
ROAA (annualized)	1.13	0.81	38.7	1.14	1.11	2.6
ROAE (annualized)	13.3	9.4	42.3	13.6	13.1	3.6
Net Interest Margin (bps)	433	404	7.1	438	428	2.3
Credit Cost (bps)	35	50	-29.2	16	54	-69.6
Fee Inc/Operating Income	7.2	6.8	5.8	7.4	6.9	6.9
Non Int Inc/Operating Income	12.9	10.2	25.6	13.7	12.0	14.1
Op. Cost/ Operating Income	62.7	66.5	-5.7	66.1	59.0	12.0
Loan-to-Deposit Ratio (LDR)	109.9	105.2	4.5	109.9	109.7	0.2
NPL/Loan Ratio	4.7	5.0	-6.2	4.7	4.8	-1.6
LLR/NPL Ratio	29.8	26.2	13.6	29.8	30.0	-0.5
Tier-1 Capital Ratio	12.7	14.3	-11.0	12.7	12.9	-1.7
Total Capital Ratio	14.8	15.0	-1.7	14.8	15.0	-1.8

Source: BBTN, IndoPremier

BBTN Results Note

Year To 31 Dec (RpBn)	2013A	2014A	2015F	2016F	2017F
Income Statement					
Interest income	10,783	12,807	14,551	16,666	19,430
Interest expense	(5,130)	(7,343)	(8,048)	(9,342)	(11,131)
Net interest income	5,653	5,465	6,504	7,324	8,299
Fees and commissions	393	469	516	567	624
Trading income	(95)	116	50	80	100
Other operating income	136	123	135	148	163
Total operating income	6,087	6,172	7,204	8,120	9,186
Personnel expenses	(1,613)	(1,595)	(1,755)	(1,930)	(2,123)
G&A expenses	(1,784)	(2,123)	(2,441)	(2,807)	(3,229)
Other operating expenses	(313)	(323)	(357)	(402)	(456)
Pre-provision operating profit	2,377	2,131	2,651	2,980	3,378
Provisions	(432)	(772)	(994)	(1,043)	(1,212)
Loan recovery income	191	188	150	200	250
Operating profit	2,136	1,546	1,806	2,137	2,416
Non-operating profit	5	2	0	0	0
Exceptional items	0	0	0	0	0
Pre-tax profit	2,141	1,548	1,806	2,137	2,416
Income tax	(579)	(433)	(488)	(577)	(652)
Minority interests	0	0	0	0	0
Reported net profit	1,562	1,116	1,319	1,560	1,764
Balance Sheet					
Cash	924	920	955	1,101	1,273
Current account with BI	9,859	9,372	10,149	11,694	13,522
Placements at BI & other banks	5,239	2,590	6,868	10,857	10,819
Short-term investments	4,202	5,437	5,981	6,579	7,237
Government bonds	8,385	8,238	8,238	8,238	8,238
Gross loans	100,467	115,916	129,625	148,486	174,795
Loan provisions	(1,137)	(1,577)	(2,271)	(3,014)	(3,926)
Other assets	3,230	3,680	3,973	4,293	4,640
Total Assets	131,170	144,576	163,518	188,234	216,598
Customer deposits	96,208	106,480	119,398	137,582	159,086
Deposits from other banks	275	1,179	1,297	1,427	1,570
Securities and borrowings	18,562	19,336	23,577	28,063	32,647
Other liabilities	4,568	5,384	5,922	6,515	7,166
Total Liabilities	119,613	132,379	150,194	173,587	200,468
Share capital	7,319	7,321	7,321	7,321	7,321
Reserves and others	(90)	(90)	(90)	(90)	(90)
Retained earnings	4,328	4,975	6,093	7,415	8,898
Shareholders' equity	11,557	12,206	13,324	14,647	16,130
Minority interest	0	0	0	0	0
Total Liabilities & Equity	131,170	144,585	163,518	188,234	216,598

Source: BBTN, IndoPremier

BBTN Results Note

Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Growth Ratios (% yoy)					
Gross loans	23.4	15.4	11.8	14.6	17.7
Total assets	17.4	10.2	13.1	15.1	15.1
Customer deposits	19.3	10.7	12.1	15.2	15.6
Net interest income	19.6	(3.3)	19.0	12.6	13.3
Non-interest income	(6.7)	63.0	(0.9)	13.6	11.5
Total operating income	14.2	(27.6)	16.8	18.3	13.0
Operating expense	15.5	8.9	12.7	12.9	13.0
PPOP	20.2	(10.4)	24.4	12.4	13.4
Net profit	14.5	(28.6)	18.2	18.3	13.0
Profitability Ratios					
ROAA (%)	1.32	0.82	0.87	0.89	0.88
ROAE (%)	14.5	9.5	10.3	11.2	11.5
NIM (%)	4.79	4.04	4.30	4.22	4.14
Credit cost (bps)	26.4	54.6	68.8	60.6	59.5
Cost/income (%)	61.0	65.5	63.2	63.3	63.2
LDR (%)	104.4	108.9	108.6	107.9	109.9
CAR (%)	15.6	15.1	14.9	14.4	13.5
NPL ratio (%)	4.1	4.0	4.8	5.1	5.3
Provisions/NPL (%)	27.9	33.9	36.1	39.8	42.7

Source: BBTN, IndoPremier

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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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