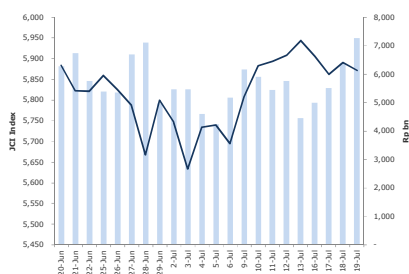


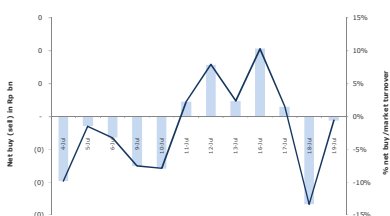
Premier Insight

Bank Negara Indonesia (BBNI IJ; Buy) Steady earnings performance

JCI Index



Foreign net buy (sell)



- **1H18 net profit grew 16% driven by strong asset growth.**
- **Lower NIMs offset by better credit cost, modest opex growth .**
- **NPL ratio improved despite still elevated new NPLs formation.**
- **Maintain Buy with lower TP due to 50bps higher cost of capital.**

Good results. BBNI reported profit of Rp7.4tn in 1H18 (+16%), with 2Q/1Q profits forming 25%/24% of our FY18F forecast of Rp15.1tn (in-line) vs. Rp15.5tn consensus estimate. We view this as good results, driven largely by the bank's strong asset growth of 16% (loans: +11%; deposits: +13%), which was well above industry growth, while its operating cost growth remained modest (+10%) and loan provisions were unchanged in 1H18. BBNI's core profit (PPOP) grew by a robust 12.6% to Rp12.4tn in 1H, forming 49% of our FY18F forecast (also in-line). Despite the strong 1H results, our forecast implies BBNI's moderating earnings growth of 11% in FY18F although this is mainly due to higher base effect from its stronger 2H vs. 1H earnings last year.

Narrower NIMs. On our calculation, BBNI's NIM narrowed by 12bps to 5.55% in 1H18 mainly due to lower asset yields. However, NIMs appear to have improved significantly in 2Q vs 1Q (5.65% vs. 5.44%), due to better asset yields, although cost of funds have also reversed its downtrend. Although interest rates are rising, we have reflected this in our earnings forecast with our NIM assumption of 5.33% for FY18F (-30bps yoy). Meanwhile, BBNI's operating cost growth of 10.4% in 1H remain well controlled (FY17: +8.6%), forming 47% of our full-year assumption (in-line), with cost/income ratio improving to 46.4% (1H17: 46.9%).

Asset quality. BBNI's NPL ratio declined to 2.1% in 2Q vs. 2.3% in 1Q (1H17: 2.9%) with the improvements seen across loan segments due to loan growth and upgrade of corporate loans in finance business services. Special mention loans (SMLs) have also improved to 4.1% in 2Q vs. 4.5% in 1Q due to loan upgrade of a palm oil debtor (Rp673bn). The bank's SMLs included exposure to a cement manufacturer in Central Java (Rp1.6tn), which is in negotiation with a strategic investor (to be completed in 3Q). Despite lower NPL ratio, in our estimate BBNI's new NPL formation remain elevated at 2.16% in 1H18 (FY17: 2.0%) although its provisions/NPL coverage ratio improved slightly to 146%, from 143%.

Valuation. We maintain our earnings forecasts but lower our TP to Rp8,900 (from Rp10,200) due to our 50bps higher cost of capital assumption to reflect the rise in 10-yr yields during the second quarter. Our TP is based on GGM-derived FY18F P/B target of 1.51x, assuming LT ROAE of 14.5%, growth of 8.5%, cost of equity of 12.5% (from 12%). We estimate LT ROAE based on DuPont analysis, assuming LT ROAA of 1.82% and asset/equity leverage of 8x. Reiterate BUY.

Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,871	-0.3%	0.8%	-7.6%
LQ45	921	-0.6%	-5.7%	-14.7%
DJI	25,065	-0.5%	16.0%	1.4%
SET	1,647	0.7%	4.5%	-6.1%
HSI	28,011	-0.4%	4.8%	-6.4%
NKY	22,765	-0.1%	13.0%	0.2%
FTSE	7,684	0.1%	2.6%	0.0%
FSSTI	3,278	1.1%	-0.5%	-3.7%
EIDO	23	-1.3%	-14.6%	-18.6%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	69.5	1.0%	48.5%
CPO/tonne	539.7	-0.8%	-13.1%
Soy/bushel	8.2	0.8%	-15.3%
Rubber/kg	1.5	0.4%	-14.4%
Nickel/tonne	13,249	-2.0%	38.0%
Tins/tonne	19,590	0.1%	-3.3%
Copper/tonne	6,040	-1.4%	1.9%
Gold/try.oz (Spot)	1,223	-0.4%	-1.7%
Coal/tonne	119.3	-0.3%	39.0%
Corn/bushel	3.2	1.3%	-10.4%
Wheat/bushel (USd)	506.8	0.5%	0.2%

Source : Bloomberg

Year To 31 Dec	2016A	2017A	2018F	2019F	2020F
Operating income (RpBn)	39,921	43,480	48,207	53,274	58,799
PPOP (RpBn)	20,705	22,617	25,468	28,643	32,106
Net profit (RpBn)	11,339	13,616	15,115	17,251	19,399
Net profit growth (%)	25.1	20.1	11.0	14.1	12.5
FD EPS (Rp)	608	730	811	925	1,040
P/E (x)	12.1	10.1	9.1	8.0	7.1
P/B (x)	1.5	1.4	1.2	1.1	0.9
Dividend yield (%)	1.6	3.5	2.7	3.1	3.5
ROAA (%)	2.0	2.1	2.0	2.0	2.0
ROAE (%)	13.9	14.9	14.5	14.6	14.5

Source: BBNI, IndoPremier

Share Price Closing as of : 18-July-2018

Bank Tabungan Negara (BBTN IJ; Buy)

Slowing profit growth as rate rises

- **1H18 earnings growth of 12% was below market expectations.**
- **Strong asset growth was offset by lower NIMs, high opex growth.**
- **Stable asset quality, credit cost and provision/NPL coverage.**
- **We cut earnings and TP, due to rising rates, but keep BUY rating.**

Modest results. BBTN reported net profit of Rp1.4tn in 1H18 (+12%), with its 2Q/1Q profits forming only 21%/19% of our FY18F forecast of Rp3.5tn. As such, its earnings came well below our and market expectations. For comparison, 1H profit contributed 45% to FY17 profit (excluding extraordinary incomes in 4Q17). BBTN's lower than expected profit was due to: 1) its declining NIMs (-29bps yoy); and 2) high operating cost growth (+17%), which offset its strong asset growth of 20% while its provisions grew modestly by 13%. Meanwhile, the bank's core profit (PPOP) grew modestly by 11% to Rp2.2tn in 1H, forming 42% of our full-year forecast (also below our expectation).

NIM pressure. BBTN's strong loan growth of 19% (vs. industry growth of 10%) was driven by growth of subsidized mortgages (+30%) vs. 13% for commercial mortgages. We believe the growth outlook for low cost housing in Indonesia will remain robust in the coming years given strong government support in the form of liquidity loans (KPR FLPP), interest subsidy (KPR SSB) and Tapera housing loans. We expect further NIM pressure to be mitigated by new subsidy schemes such as KPR SSB (where its interest subsidy is linked to 12mth SBI rate) while the new KPR FLPP scheme (75%:25%) to be implemented from 2H18 should also lower the bank's vulnerability to rising rates and reduce operating cost despite the new FLPP scheme's potentially lower NIMs vs. previous 90%:10% scheme.

Asset quality. BBTN's asset quality is stable with NPL ratio of 2.78% in 1Q & 2Q (1H17: 3.2%), with NPL ratios improving for housing loans (2.54% vs. 2.83%) and commercial loans (6.62% vs. 9.28%). Credit cost was also stable at 41bps in 1Q & 2Q vs. (1H17: 44bps), in-line with our assumption, while provision/NPL coverage improved to 42%, from 39%.

Valuation. We cut our earnings forecasts by 4-5% for FY18-20F, due to lower NIMs and higher opex, and reduce our TP to Rp3,075 (from Rp4,175) due to: 1) our 50bps higher cost of capital assumption to reflect the rise in 10-yr yields during the second quarter; 2) our lower LT ROAE assumption. Our TP is based on GGM-derived target FY18F P/B of 1.33x, assuming LT ROAE of 13.8% (from 14.8%), LT growth of 8.5%, cost of equity of 12.5% (from 12%). We estimate LT ROAE based on DuPont analysis, assuming LT ROAA of 1.15% and asset/equity leverage of 12x. However, we keep our BUY rating given the steep fall in share price, the stock's low valuation and its still robust earnings growth outlook.

Year To 31 Dec	2016A	2017A	2018F	2019F	2020F
Operating income (RpBn)	9,268	10,805	12,051	13,736	15,509
PPOP (RpBn)	3,881	4,637	4,962	5,776	6,713
Net profit (RpBn)	2,619	3,027	3,410	3,956	4,549
Net profit growth (%)	41.5	15.6	12.6	16.0	15.0
FD EPS (Rp)	247	286	322	374	430
P/E (x)	10.1	8.7	7.8	6.7	5.8
P/B (x)	1.4	1.2	1.1	1.0	0.8
Dividend yield (%)	1.8	2.3	2.6	3.0	3.4
ROAA (%)	1.4	1.3	1.2	1.2	1.2
ROAE (%)	15.7	15.1	14.8	15.2	15.4

Source: BBTN, IndoPremier

Share Price Closing as of : 18-July-2018

News & Analysis

Corporates

BMRI: Bank Mandiri (BMRI IJ; Rp6,375; Buy) reported strong 1H18 result (in-line) helped by tax-provision reversal:

- Strong 1H profit (+28%) with 2Q/1Q profit forming 25/23% of our FY18F forecast of Rp25.2tn (in-line) vs. Rp24.5tn consensus, helped by Rp1tn tax provision reversal past supreme court win vs. tax authority
- Key drivers: NII grew only 3.4% in 1H, as modest asset growth (+8%) was offset by lower NIM of 5.74% (-14bps yoy), controlled opex growth (+8%), lower provisions (-15%).
- Core profit (PPOP) grew 8%, forming 50% of our FY18F forecast of Rp43.5tn (in-line). Excluding tax-case, we view results as in-line with market expectations given potentially lower 2H credit costs.
- NPL ratio of 3.1% in 2Q vs. 3.3% in 1Q (vs. 3.8% last year), with credit cost of 2.17% in 1H18 (1H17: 3.47%) in-line with guidance of 2.0-2.2% and stable provision coverage (136%). However, new NPLs of 2.5% (stable qoq) remained elevated (FY17: 2.6%). Management is guiding for steady-state credit cost of 150bps by 2020. Maintain BUY. (Company).

BSDE: We met with Bumi Serpong Damai (BSDE IJ; Rp1,395; Buy) and here some key takeaways:

- Strong sales in 1H18 (Rp3.8tn) was supported by Easy Deal program from April to July, which offers down payment as low as 5% (from: 15%) with the rest of DP recognized as price cut. The special program was done in 2Q as marketing strategy before presidential election in early 2019.
- 1H18 marketing sales was mainly contributed (70%) by products with price tag Rp1-2bn, followed by product with prices Rp2-4bn (20%) and Rp4bn< 10%.
- BSDE plans to make the new toll road exits to BSDE phase 2 to improve access to their township and manage traffic between phase 1 & 2. BSDE has acquired around 500ha land for BSDE phase 3 which expected to start the development in 2020-2035.
- Apple R&D and apps development center has started their operational activity in GOP 9. Going forward, BSDE will develop Digital Hub in the surrounding area which expected to be Indonesian Silicon Valley with total investment of Rp7tn. (Company).

HMSP: HM Sampoerna (HMSP IJ; Rp3,640; Hold) reported vol. growth of 0.8% yoy in 2Q18 (vs. industry -0.7% yoy). In cumulative basis, 1H18 vol. declined by 0.4%, but still better than industry which recorded 1.4% decline in volume in 1H18. Overall, HMSP's market share improved slightly to 33.2% in 1H18, from 32.9% in 1H17. (Company).

JRPT: Jaya Real Property (JRPT IJ; Rp605; Buy) increase capital of Rp33.7bn to PT Jakarta Toll road Development which is JRPT's subsidiary who was working on inner city six segment toll roads. The capital increase is intended to maintain JRPT share portion of 28.85% after the issuance of new shares. For the construction of A section, Kelapa Gading-Pulo Gebang is expected to be completed by September 2018, with land acquisition reached to 80% as of 1H18. (Kontan).

TLKM: Telkom Indonesia (TLKM IJ; Rp3,910; Buy) Telkomsel aiming startups in East Indonesia. This is the 1st time the startup event (named "On the Mission") held in Kupang and Ambon in form of 1 month digitap app training and development, also as part of preparation for Telkomsel's startup competition. (Viva).

Comment: Neutral impact in the short term as majority of TLKM's revenue came from cellular business. More digital startups might drive data growth in the long term along with higher usage of smartphone in outer Java, in our view.

Markets & Sector

Construction Sector: Minister of public work and housing (PUPR) asked SOE contractor to not participate in construction project with contract value below Rp100bn. This prohibition is meant to improve competitiveness for local private contractor which has lower capabilities compare to SOE contractors. In addition, PUPR also prohibited SOE contractor to form a partnership (KSO) with other SOE to participate in construction project above Rp100b, with the exception of Adhi Karya (ADHI IJ; Rp1,625; Buy) given lower company scale. (Investor Daily).

Comment: We believe this regulation will negatively impact SOE contractors if implemented. The regulation will restrain SOE contractors' ability to acquire new contract both through KSO with other SOE and contract below Rp100bn. However, ADHI might be benefited form the regulation as ADHI will be the only SOE contractor which will be able to take projects through KSO. Maintain Buy on ADHI with TP of Rp2,700.

Oil and gas sector: Saudi Arabia's representative to OPEC on Thursday said the kingdom's oil exports will be little changed this month. July exports from OPEC's top producer will be roughly in line with last month's total, Meanwhile, Saudi crude oil exports are poised to drop by 100,000 bpd in August compared with July. Al Aama said Saudi Arabia will not substantially oversupply the market, Saudi exports were about 7.2mn bpd in June. (CNBC).

Economics

Reference rate: BI set 7DRRR at its current level 5.25% along with deposit and lending facility rates at 4.5% and 6%, respectively as expected. It acknowledges uncertainty remain high externally and that recovery in the US as well as trade tension between the US and China have propped up USD position, which would likely be seen going forward as the risk continues. (BI).

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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.

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