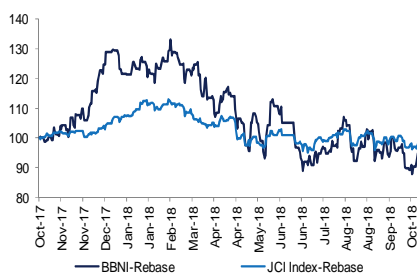


**BUY** (Unchanged)

Stock Data	
Target price (Rp)	Rp8,650
Prior TP (Rp)	Rp8,900
Share price (Rp)	Rp7,200
Upside/downside (%)	+20.1
Shares outstanding (m)	18,649
Market cap. (US\$ m)	8,836
Free float (%)	40.0
Avg. 6m daily T/O (US\$ m)	12.0

Price Performance			
	3M	6M	12M
Absolute (%)	-0.7	-17.5	-5.3
Vs. JCI (%)	-0.2	-10.1	-2.3
52w high/low (Rp)	7,200 - 6,725		



Major Shareholders	
Republic of Indonesia	60.0%

Estimate Change; Vs. Consensus		
	2018F	2019F
Latest EPS (Rp)	802	908
Vs. Prior EPS (%)	-1.0	-1.8
Vs. Consensus (%)	-3.1	-2.0

Source: Bloomberg

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## Slowing growth due to lower NIMs

- **9M18 net profit grew 12.6% driven by strong asset growth.**
- **However, core profit fell in 3Q due to NIM pressure, cost growth.**
- **Credit cost has normalised, thus unlikely to be key earnings driver.**
- **Reiterate Buy albeit with lower TP of Rp8,650 (from Rp8,900).**

**Decent results.** BBNI reported profit of Rp11.4tn in 9M18 (+12.6%), in-line with our FY18F forecast (Rp15.1tn) and consensus estimate (Rp15.4tn). The bank's modest earnings growth was driven by its strong asset growth (loans: +15.6%; deposits: +14.2%), which was well above industry growth, although its operating cost growth has also accelerated (+12% yoy) while loan provisioning was stable (-2.7% yoy). Quarterly profit grew by 5.6% qoq in 3Q but this was largely due to one-off recovery income of Rp400bn from asset sales related to BBNI's 20-year old legacy NPLs and its lower credit cost of 127bps (2Q: 176bps). Excluding this, BBNI's core profit fell by 9% qoq in 3Q due to NIM pressure and strong operating cost growth.

**NIM pressure.** BBNI's core profit growth slowed to 6.3% in 9M18 due to lower NIM of 5.43% (-23bps yoy) and challenging financial markets in Indonesia, which led to the bank's lower trading incomes. More importantly, we estimate BBNI's NIM narrowed to 5.19% in 3Q (2Q: 5.66%; 1Q: 5.44%) due to lower asset yields and rising cost of funds. BBNI's loan yields (bank-only) declined to 9.7% in 9M18 (1H18: 9.9%), indicating steeper falls during the third quarter alone. BBNI's NIM squeeze in 3Q is our key concern in light of rising rates in Indonesia and the bank's lower scope for credit cost improvements in the coming years.

**Asset quality.** BBNI's NPL ratio declined to 2.0% in 3Q (2Q: 2.16%) with the improvements seen across all loan segments except for middle corporate loans, which worsened to 3.0% (from 2.7%), while special mention loans also improved to 150%. In line with this, the bank's credit cost fell to an unusually low of 127bps in 3Q (1H: 167bps) while management is guiding for credit cost of 1.4%-1.7% for 2018, with similar credit costs expected for 2019. As such, with the bank's credit cost already normalising this year, we expect asset quality improvements will no longer be a key earnings growth driver for BBNI in the coming years.

**Valuation.** We trimmed our earnings forecasts by 1-2% and our TP to Rp8,650 (from Rp8,900) due to our lower equity book value forecast arising from declining bond prices in Indonesia, which led to unrealised bond revaluation losses in equity capital of Rp3.9tn for the bank. Our TP is based on GGM-derived FY18F P/B target of 1.5x, assuming LT ROAE of 14.5%, growth of 8.5%, cost of equity of 12.5%. We estimate LT ROAE based on our DuPont analysis, assuming LT ROAA of 1.82% and asset/equity leverage of 8x. Reiterate BUY.

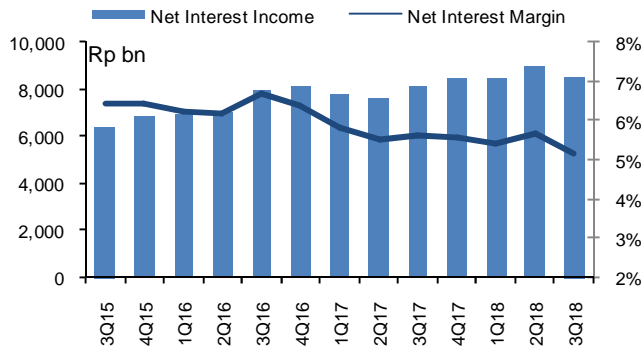
Year To 31 Dec	2016A	2017A	2018F	2019F	2020F
Operating income (RpBn)	39,921	43,480	46,663	51,929	58,647
PPOP (RpBn)	20,705	22,617	23,785	27,148	31,322
Net profit (RpBn)	11,339	13,616	14,958	16,940	19,012
Net profit growth (%)	25.1	20.1	9.8	13.3	12.2
FD EPS (Rp)	608	730	802	908	1,020
P/E (x)	11.8	9.9	9.0	7.9	7.1
P/B (x)	1.5	1.3	1.2	1.1	0.9
Dividend yield (%)	1.7	3.5	2.8	3.2	3.5
ROAA (%)	2.0	2.1	2.0	1.9	1.9
ROAE (%)	13.9	14.9	14.5	14.6	14.3

Source: BBNI, IndoPremier

Share Price Closing as of: 18-October-2018

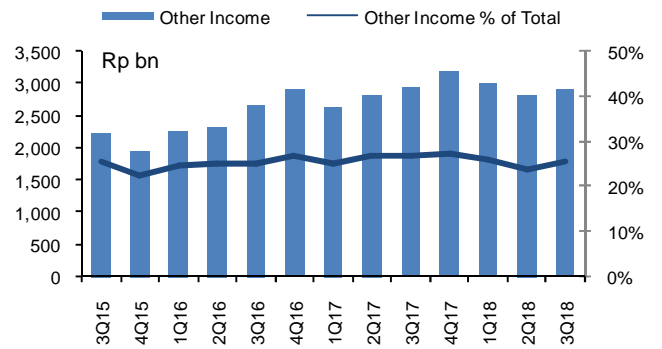
# BBNI Results Note

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



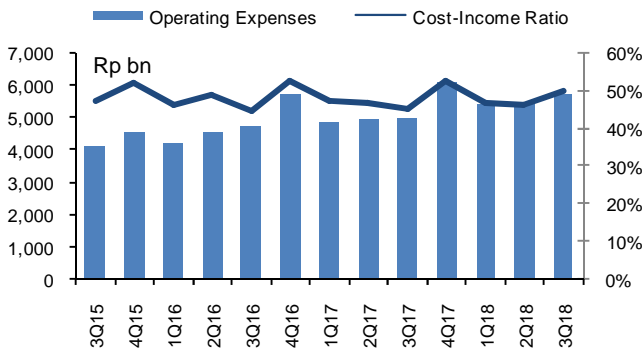
Source: Company, IndoPremier

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



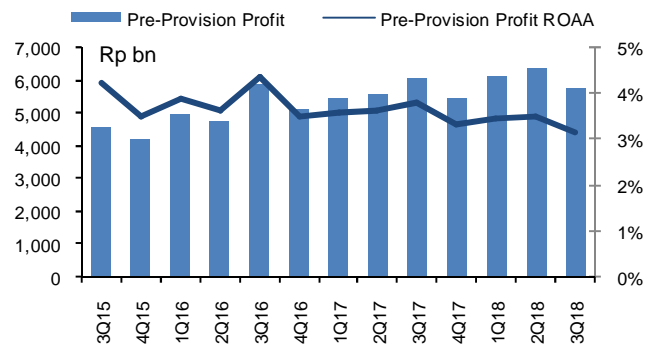
Source: Company, IndoPremier

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



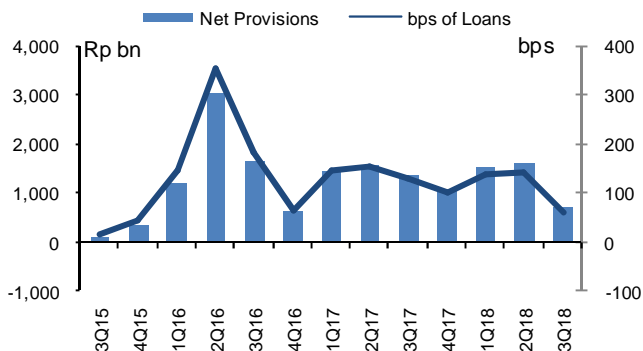
Source: Company, IndoPremier

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



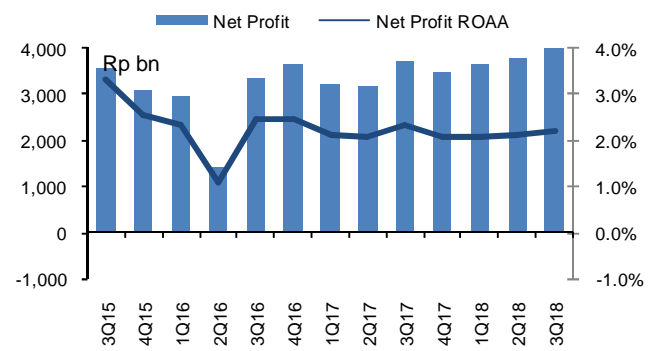
Source: Company, IndoPremier

**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

**Third-Quarter 2018 Results**

<b>(Rp Bn)</b>	<b>9M18</b>	<b>9M17</b>	<b>% Y-Y</b>	<b>3Q18</b>	<b>2Q18</b>	<b>% Q-Q</b>
<b>Net Interest Income</b>	<b>26,005</b>	<b>23,511</b>	<b>10.6</b>	<b>8,560</b>	<b>8,949</b>	<b>-4.4</b>
Fees & Commissions	5,902	5,333	10.7	2,303	1,722	33.7
Insurance & Other Incomes	1,918	1,814	5.7	779	576	35.2
Trading Income	896	1,224	-26.8	-163	500	n.m
<b>Operating Income</b>	<b>34,720</b>	<b>31,882</b>	<b>8.9</b>	<b>11,479</b>	<b>11,748</b>	<b>-2.3</b>
Operating Expenses	-16,514	-14,751	12.0	-5,721	-5,406	5.8
<b>Pre-Provision Profit</b>	<b>18,206</b>	<b>17,131</b>	<b>6.3</b>	<b>5,758</b>	<b>6,341</b>	<b>-9.2</b>
Provision for Impairment	-5,340	-5,489	-2.7	-1,471	-1,960	-24.9
Recovery of Written-Off Loans	1,536	1,176	30.6	755	380	98.8
<b>Operating Profit</b>	<b>14,402</b>	<b>12,819</b>	<b>12.4</b>	<b>5,042</b>	<b>4,762</b>	<b>5.9</b>
Other Non Operating Items	-84	-55	52.0	-39	-23	67.3
<b>Pre-Tax Profit</b>	<b>14,318</b>	<b>12,763</b>	<b>12.2</b>	<b>5,003</b>	<b>4,738</b>	<b>5.6</b>
Tax	-2,873	-2,515	14.2	-1,007	-945	6.6
<b>Net Profit</b>	<b>11,438</b>	<b>10,157</b>	<b>12.6</b>	<b>4,001</b>	<b>3,791</b>	<b>5.6</b>
<b>Gross Loans</b>	<b>487,042</b>	<b>421,405</b>	<b>15.6</b>	<b>487,042</b>	<b>457,807</b>	<b>6.4</b>
Customer Deposits	548,593	480,532	14.2	548,593	526,482	4.2
Non-Performing Loans (NPL)	9,741	11,701	-16.7	9,741	9,868	-1.3
Special Mention Loans	19,312	15,298	26.2	19,312	19,312	0.0
Loan Loss Reserves (LLR)	14,647	16,777	-12.7	14,647	14,369	1.9
Total Assets	763,524	668,208	14.3	763,524	734,189	4.0
Risk-Weighted Assets	226,062	192,759	17.3	226,062	207,306	9.0
<b>Shareholders' Funds</b>	<b>101,819</b>	<b>95,085</b>	<b>7.1</b>	<b>101,819</b>	<b>98,067</b>	<b>3.8</b>
<b>BV Per Share</b>	<b>5,460</b>	<b>5,099</b>	<b>7.1</b>	<b>5,460</b>	<b>5,259</b>	<b>3.8</b>

Source: Company, IndoPremier

<b>Key Ratios (%)</b>	<b>9M18</b>	<b>9M17</b>	<b>% Y-Y</b>	<b>3Q18</b>	<b>2Q18</b>	<b>% Q-Q</b>
<b>ROAA (annualized)</b>	<b>2.12</b>	<b>2.17</b>	<b>-2.3</b>	<b>2.19</b>	<b>2.10</b>	<b>4.1</b>
<b>ROAE (annualized)</b>	<b>15.5</b>	<b>15.1</b>	<b>2.9</b>	<b>16.0</b>	<b>15.6</b>	<b>2.9</b>
Net Interest Margin (bps)	543	566	-4.1	519	566	-8.2
Credit Cost (bps)	150	170	-12.1	116	176	-34.2
Fee Inc/Operating Income	17.0	16.7	1.6	20.1	14.7	36.9
Non Int Inc/Operating Income	25.1	26.3	-4.4	25.4	23.8	6.8
Op. Cost/ Operating Income	47.6	46.3	2.8	49.8	46.0	8.3
Loan-to-Deposit Ratio (LDR)	88.8	87.7	1.2	88.8	87.0	2.1
NPL/Loan Ratio	2.0	2.8	-28.0	2.0	2.2	-7.2
LLR/NPL Ratio	150.4	143.4	4.9	150.4	145.6	3.3
Tier-1 Capital Ratio	16.7	17.3	-3.5	16.7	16.4	1.9
Total Capital Ratio	17.8	18.3	-2.9	17.8	17.5	1.8

Source: Company, IndoPremier

## BBNI Results Note

Year To 31 Dec (RpBn)	2016A	2017A	2018F	2019F	2020F
<b>Income Statement</b>					
Interest income	43,768	48,178	52,807	61,865	73,524
Interest expense	(13,773)	(16,240)	(18,316)	(23,204)	(29,352)
Net interest income	29,995	31,938	34,491	38,660	44,172
Fees and commissions	6,473	7,314	8,192	9,011	9,912
Trading income	1,288	1,590	1,200	1,200	1,200
Other operating income	2,166	2,638	2,779	3,057	3,363
Total operating income	39,921	43,480	46,663	51,929	58,647
Personnel expenses	(8,834)	(9,277)	(10,019)	(10,821)	(11,903)
G&A expenses	(6,212)	(6,923)	(7,615)	(8,224)	(9,046)
Other operating expenses	(4,171)	(4,664)	(5,243)	(5,736)	(6,375)
Pre-provision operating profit	20,705	22,617	23,785	27,148	31,322
Provisions	(7,853)	(7,126)	(7,038)	(7,744)	(9,119)
Loan recovery income	1,378	1,732	2,100	1,800	1,600
Operating profit	14,229	17,223	18,847	21,203	23,803
Non-operating profit	74	(57)	(125)	0	0
Exceptional items	0	0	0	0	0
Pre-tax profit	14,303	17,165	18,722	21,203	23,803
Income tax	(2,893)	(3,395)	(3,744)	(4,241)	(4,761)
Minority interests	(71)	(154)	(20)	(22)	(30)
Reported net profit	11,339	13,616	14,958	16,940	19,012
<b>Balance Sheet</b>					
Cash	11,168	11,578	15,103	17,459	20,265
Current account with BI	30,147	32,701	45,098	51,767	59,675
Placements at BI & other banks	39,960	49,929	50,421	50,923	51,435
Short-term investments	33,997	52,430	53,650	54,993	56,470
Government bonds	63,006	79,849	100,268	100,268	100,268
Gross loans	393,275	441,314	515,404	602,297	704,242
Loan provisions	(16,681)	(14,524)	(15,512)	(18,156)	(22,076)
Other assets	48,160	56,053	60,032	64,327	68,966
Total Assets	603,032	709,330	824,464	923,877	1,039,244
Customer deposits	435,545	516,098	590,665	678,772	783,308
Deposits from other banks	10,224	12,177	13,394	14,734	16,207
Securities and borrowings	43,957	50,595	53,444	56,468	59,678
Other liabilities	24,052	29,558	57,589	47,748	37,040
Total Liabilities	513,778	608,427	715,093	797,722	896,234
Share capital	23,623	23,623	23,623	23,623	23,623
Reserves and others	12,736	14,656	10,633	12,633	12,633
Retained earnings	50,798	60,314	73,115	87,899	104,754
Shareholders' equity	87,157	98,592	107,371	124,155	141,011
Minority interest	2,097	2,311	2,000	2,000	2,000
Total Liabilities & Equity	603,032	709,330	824,464	923,877	1,039,244

Source: BBNI, IndoPremier

## BBNI Results Note

Year To 31 Dec	2016A	2017A	2018F	2019F	2020F
<b>Growth Ratios (% yoy)</b>					
Gross loans	20.6	12.2	16.8	16.9	16.9
Total assets	18.6	17.6	16.2	12.1	12.5
Customer deposits	17.6	18.5	14.4	14.9	15.4
Net interest income	17.4	6.5	8.0	12.1	14.3
Non-interest income	22.4	16.3	5.4	9.0	9.1
Total operating income	24.7	21.0	9.4	12.5	12.3
Operating expense	16.4	8.6	9.7	8.3	10.3
PPOP	20.7	9.2	5.2	14.1	15.4
Net profit	25.1	20.1	9.8	13.3	12.2
<b>Profitability Ratios</b>					
ROAA (%)	2.04	2.08	1.95	1.94	1.94
ROAE (%)	13.9	14.9	14.5	14.6	14.3
NIM (%)	6.38	5.63	5.20	5.14	5.19
Credit cost (bps)	183.0	131.0	103.2	106.4	115.1
Cost/income (%)	48.1	48.0	49.0	47.7	46.6
LDR (%)	90.3	85.5	87.3	88.7	89.9
CAR (%)	19.2	18.8	18.0	17.4	16.7
NPL ratio (%)	3.0	2.3	1.9	1.8	2.0
Provisions/NPL (%)	143.3	143.8	159.1	163.1	158.4

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

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