

We reiterate our NEUTRAL rating on PT Bank Central Asia Tbk (BBCA) with 52-week TP of IDR 33,875, implying 4.3x FY20F P/BV.

As of 1H19, BBCA booked net profit of IDR 12.9tn (up 12.6% YoY; 43.7% of our FY19E). Solid performance in 1H19 was attributable to strong top line and non-interest income which, on a YoY basis, increased by 13.1% and 24.5% respectively. While industry liquidity tightened in 2Q19 as LDR surged to 96.2% in May-19 (up 140 bps YTD), BBCA managed to close 2Q19 with bank-only LDR of 79.0% (dn 260 bps YTD). To add, loan portfolio grew by 2.6% YTD/11.5% YoY, while customer deposit grew by 6.1% YTD/8.6% YoY. Given the high CASA ratio of 75.7% (12M Avg.: 77.1%), and majority of earning assets are composed of variable rates, bank benefitted from 175 bps rate hike last year. As of 1H19, NIM was recorded at 6.2% (up 10 bps YTD, up 20 bps YoY). On asset quality, BBCA's NPL, CoC, and coverage ratio came in at 1.4% (unch. YoY), 0.4% (up 30 bps YoY), and 183.7% (dn 4 ppt YoY) respectively.

Building coverage for rainy days. While asset quality remained robust in 2Q19, management stated that they remain cautious on NPL formation especially after recent asset quality deteriorations by several big name companies. As for BBCA, SML spike in 2Q19 was partly due to unfavorable billing date which happened to be on weekend. BBCA, however, has downgraded some loans that are previously in category 2 loans to NPL. Management stated that they have built provision for these downgraded debtors as they have been in the watch list for awhile. To note, some of these downgrades are more to individual names (various industries) and less than 10 debtors in total, with some being downgraded due to asset quality deterioration in other banks. In all, management guided to increase CoC from current average of 40 bps to 50-60 bps for this year.

Normalizing loan growth and NIM. As we mentioned earlier, BBCA tends to benefit during rate hike environment as big portion of its funding came from CASA. Hence, as we enter easing cycle, NIM is expected to normalize. In addition, from the outstanding loan perspective, while YoY loan growth stood at 11.5%, on a YTD basis loan only grew by 2.6%. Meanwhile, most of the loan disbursement last year took place in the second semester with loans to other financial services being one of the main drivers. Thus, loan growth on a YoY basis should normalize in 2H19 due to 2H18's high base and liquidity improvement going forward. This is in -line with management's guidance of 8% - 10% YoY growth for this year.

Highlights (IDR bn)	2017	2018	2019E	2020F	2021F
Total Loans	471,700	542,999	615,455	696,535	776,981
Total Deposits	585,572	635,029	693,762	775,834	864,964
Net Interest Income	41,826	45,291	51,114	56,558	63,168
Pre-provision Op. Profit	31,791	35,383	41,083	46,228	52,130
Net Income	23,310	25,855	29,441	33,114	37,393
Net Interest Margin	6.6%	6.5%	6.7%	6.6%	6.6%
Gross NPL	1.5%	1.4%	1.4%	1.4%	1.4%
Credit Cost	0.6%	0.5%	0.7%	0.7%	0.7%
Return on Equity	19.1%	18.3%	18.1%	17.9%	17.8%
Return on Asset	3.3%	3.3%	3.4%	3.5%	3.5%

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Stock Information

Sector	Banking
Bloomberg Ticker	BBCA IJ
Market Cap. (IDR tn)	770.5
Share Out./Float (mn)	24,665/10,618
Current Price	31,250
52-week Target Price	33,875
Upside (%)	8.4%

Share Price Performance

52W High (07/22/19)	31,450
52W Low (10/25/18)	22,175
52W Beta	0.87
YTD Change (%)	20.2%

Relative Valuations

Trailing P/E	28.2x
Forward P/E	23.3x
Trailing P/BV	4.8x
Forward P/BV	3.9x

Income Statement (IDR bn)	2017	2018	2019E	2020F	2021F
Interest Income	53,768	56,767	65,218	73,133	81,544
% growth		5.6%	14.9%	12.1%	11.5%
Interest Expense	11,941	11,476	14,105	16,575	18,376
% growth		-3.9%	22.9%	17.5%	10.9%
Net Interest Income	41,826	45,291	51,114	56,558	63,168
% growth		8.3%	12.9%	10.7%	11.7%
Other Operating Income	15,155	17,744	19,670	21,582	23,268
% growth		17.1%	10.9%	9.7%	7.8%
Operating Expense	27,823	30,328	33,541	36,253	39,136
% growth		9.0%	10.6%	8.1%	8.0%
Pre-provision Operating Profit	31,791	35,383	41,083	46,228	52,130
% growth		11.3%	16.1%	12.5%	12.8%
Net Operating Income	29,159	32,706	37,242	41,888	47,301
% growth		12.2%	13.9%	12.5%	12.9%
Income Before Tax Expense	29,159	32,706	37,242	41,888	47,301
% growth		12.2%	13.9%	12.5%	12.9%
Net Income	23,310	25,855	29,441	33,114	37,393
% growth		10.9%	13.9%	12.5%	12.9%

Balance Sheet (IDR bn)	2017	2018	2019E	2020F	2021F
Cash and Equivalents	16,754	21,691	15,319	18,158	27,544
CA w/ Central Bank	43,473	43,548	44,802	46,754	48,434
CA w/ Other Banks	9,094	8,498	8,923	9,369	9,837
Interbank Placement	18,970	31,683	32,475	34,099	35,377
Total Loans - Net	458,391	529,354	599,966	678,875	756,907
Marketable Securities	131,091	109,081	118,353	133,147	147,127
Government Bonds	-	-	-	-	-
Fixed Assets	16,869	19,337	20,304	21,319	22,385
Total Assets	750,320	824,788	904,741	1,011,205	1,126,609
Demand Deposits	151,250	166,822	180,335	202,575	228,154
Saving Deposits	292,895	316,803	343,098	380,787	423,166
Time Deposits	141,427	151,404	170,330	192,472	213,644
Total Customer Deposits	585,572	635,029	693,762	775,834	864,964
Deposits From Other Banks	5,758	6,494	5,845	6,313	6,685
Marketable Securities	610	240	240	252	264
Fund Borrowings	3,041	2,093	1,570	1,649	1,731
Subordinated Debts	-	-	-	-	-
Total Liabilities	618,918	673,035	731,933	814,985	903,907
Total Equity	131,402	151,753	172,808	196,221	222,702

Source: Company Data, Sinarmas Investment Research

Financial Ratio (%)	2017	2018	2019E	2020F	2021F
Loan to Deposit Ratio	80.6%	85.5%	88.7%	89.8%	89.8%
Loan to Funding Ratio	79.3%	84.3%	87.7%	88.8%	88.9%
CASA Ratio	75.8%	76.2%	75.4%	75.2%	75.3%
Net Interest Margin	6.6%	6.5%	6.7%	6.6%	6.6%
Average Loan Yield	9.4%	8.9%	9.3%	9.3%	9.3%
Average Deposit CoF	1.8%	1.6%	1.8%	2.0%	2.0%
Gross NPL	1.5%	1.4%	1.4%	1.4%	1.4%
Net NPL	0.4%	0.4%	0.4%	0.4%	0.4%
Credit Cost	0.6%	0.5%	0.7%	0.7%	0.7%
Coverage Ratio	190.7%	178.7%	181.5%	183.1%	187.1%
Cost to Income Ratio	57.7%	56.1%	56.1%	55.8%	54.9%
Cost Efficiency Ratio	48.8%	48.1%	47.4%	46.4%	45.3%
Return on Equity	19.1%	18.3%	18.1%	17.9%	17.8%
Return on Asset	3.3%	3.3%	3.4%	3.5%	3.5%
P/E	35.81	32.31	28.37	25.23	22.34
P/BV	6.36	5.51	4.84	4.26	3.75

Source: Company Data, Sinarmas Investment Research

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