

We reiterate our ADD rating on PT Bank Negara Indonesia (Persero) Tbk (BBNI) with 52-week TP of IDR 9,675, implying 1.3x FY20F P/BV. As of 1H19, BBNI booked net profit of IDR 7.6tn (up 2.7% YoY; 47.9% of our FY19E). Loan and deposit portfolio rose by 20.0% YoY and 13.0% YoY respectively. Robust growth in loan was attributable to Business Banking as Corporate and Small segments surged by 26.6% YoY and 21.5% YoY respectively. On the flip side, benefiting from strong growth in Corporate, demand deposit grew by 22.4% YoY, maintaining LDR at 92.3%, or ~3 ppt below industry level. NIM, however, contracted from 5.0% in 1Q19 to 4.9% in 2Q19 as loan yield declined by 10 bps QoQ. On asset quality, BBNI's NPL, CoC, and coverage ratio came in at 1.8% (dn 30 bps YoY), 1.4% (dn 30 bps YoY), and 156.5% (up 6 ppt YoY) respectively.

**Slower growth dragged by CoC.** Despite the stable asset quality YTD, we think pressure on CoC may continue to persist in 2H19 due to several names, including KRAS and Duniatex. As of 1H19, provision coverage for KRAS (collectability 1) stood at ~10%, while company plans to raise the coverage from current to 15-20%. As for Duniatex, management stated BBNI has an exposure of IDR 301bn cash loan and IDR 158bn bilateral facility, which are about to be restructured in 2H19. In addition to the two, management expected the introduction of IFRS 9 will require an extra 15% provisioning from what has been budgeted at the beginning of the year. Taking into account our increased FY19 provisioning projection (IDR 9.5tn), we forecast 6.2% YoY EPS growth and 13.6% ROE for this year.

**Bottoming NIM.** While margin compression continued to persist in 2Q19, we expect CoF pressure to ease in 2H19 stemming from better seasonality and CoF environment. In addition to the 35.4% TD composition (sensitive to rate changes), ~20% of company's demand deposit and ~60% company's time deposit use special rate. This, we view, have additional room to go down once liquidity eases. As for loan yield, 175 bps rate hike last year has been fully baked in 1Q19 reading as BBNI repriced ~25% of its loan portfolio by 40-50 bps. To note, corporate loan yield slightly dropped to 9.2% (dn 40 bps QoQ) in 2Q19 due to FX loans, though the decline is compensated through higher fee based income generated. In the meantime, management sees current loan pricing to be appropriate (despite 7DRRR changes) and should not change unless there are significant reductions in CoF. With that being said, we expect NIM to stabilize at 500-510 bps or roughly at par with 1Q19 NIM.

Highlights (IDR bn)	2017	2018	2019E	2020F	2021F
Total Loans	441,314	512,778	591,456	674,812	766,877
Total Deposits	516,095	578,775	647,152	740,374	837,266
Net Interest Income	31,938	35,446	37,936	41,723	46,674
Pre-provision Op. Profit	24,349	26,988	30,551	34,308	38,991
Net Income	13,616	15,015	15,939	18,002	20,517
Net Interest Margin	5.5%	5.3%	5.1%	5.0%	5.0%
Gross NPL	2.3%	2.0%	1.8%	1.8%	1.8%
Credit Cost	1.7%	1.5%	1.7%	1.7%	1.7%
Return on Equity	14.5%	14.3%	13.6%	13.8%	14.0%
Return on Asset	2.1%	2.0%	1.9%	1.9%	1.9%

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Sector	Banking
Bloomberg Ticker	BBNI IJ
Market Cap. (IDR tn)	157.1
Share Out./Float (mn)	18,649/7,676
Current Price	8,425
52-week Target Price	9,675
Upside (%)	14.8%

**Share Price Performance**

52W High (04/18/19)	10,250
52W Low (10/11/18)	6,675
52W Beta	1.18
YTD Change (%)	-4.3%

**Relative Valuations**

Trailing P/E	10.3x
Forward P/E	8.7x
Trailing P/BV	1.4x
Forward P/BV	1.2x

Income Statement (IDR bn)	2017	2018	2019E	2020F	2021F
Interest Income	48,178	54,139	61,241	69,529	78,459
% growth		12.4%	13.1%	13.5%	12.8%
Interest Expense	16,240	18,692	23,304	27,806	31,784
% growth		15.1%	24.7%	19.3%	14.3%
<b>Net Interest Income</b>	<b>31,938</b>	<b>35,446</b>	<b>37,936</b>	<b>41,723</b>	<b>46,674</b>
% growth		11.0%	7.0%	10.0%	11.9%
Other Operating Income	17,911	17,610	19,900	21,606	23,181
% growth		-1.7%	13.0%	8.6%	7.3%
Operating Expense	32,627	33,457	36,796	39,565	42,772
% growth		2.5%	10.0%	7.5%	8.1%
<b>Pre-provision Operating Profit</b>	<b>24,349</b>	<b>26,988</b>	<b>30,551</b>	<b>34,308</b>	<b>38,991</b>
% growth		10.8%	13.2%	12.3%	13.7%
Net Operating Income	17,223	19,599	21,041	23,764	27,083
% growth		13.8%	7.4%	12.9%	14.0%
Income Before Tax Expense	17,165	19,821	21,041	23,764	27,083
% growth		15.5%	6.2%	12.9%	14.0%
<b>Net Income</b>	<b>13,616</b>	<b>15,015</b>	<b>15,939</b>	<b>18,002</b>	<b>20,517</b>
% growth		10.3%	6.2%	12.9%	14.0%

Balance Sheet (IDR bn)	2017	2018	2019E	2020F	2021F
Cash and Equivalents	11,578	14,044	10,078	21,738	37,811
CA w/ Central Bank	32,701	35,591	38,174	40,236	43,247
CA w/ Other Banks	21,335	13,134	17,916	21,281	23,409
Interbank Placement	28,593	39,324	29,493	30,968	32,516
<b>Total Loans - Net</b>	<b>426,790</b>	<b>497,887</b>	<b>573,968</b>	<b>654,928</b>	<b>744,332</b>
Marketable Securities	36,050	32,044	33,646	35,329	37,095
Government Bonds	79,849	86,791	98,915	106,334	111,651
Fixed Assets	22,805	26,127	27,433	28,804	30,245
<b>Total Assets</b>	<b>709,330</b>	<b>808,572</b>	<b>901,035</b>	<b>1,019,989</b>	<b>1,150,374</b>
Demand Deposits	143,162	169,274	189,176	217,569	242,709
Saving Deposits	182,295	206,056	224,015	254,220	286,018
Time Deposits	190,638	203,445	233,961	268,585	308,539
<b>Total Customer Deposits</b>	<b>516,095</b>	<b>578,775</b>	<b>647,152</b>	<b>740,374</b>	<b>837,266</b>
Deposits From Other Banks	12,228	14,233	15,593	17,152	19,255
Marketable Securities	2,986	2,987	2,987	2,987	2,987
Fund Borrowings	44,671	52,025	59,828	68,802	83,063
Subordinated Debts	-	-	-	-	-
<b>Total Liabilities</b>	<b>608,427</b>	<b>698,198</b>	<b>776,611</b>	<b>881,250</b>	<b>995,279</b>
<b>Total Equity</b>	<b>100,903</b>	<b>110,374</b>	<b>124,424</b>	<b>138,739</b>	<b>155,096</b>

Source: Company Data, Sinarmas Investment Research

Financial Ratio (%)	2017	2018	2019E	2020F	2021F
Loan to Deposit Ratio	85.5%	88.6%	91.4%	91.1%	91.6%
Loan to Funding Ratio	76.6%	79.1%	81.5%	81.4%	81.4%
CASA Ratio	63.1%	64.8%	63.8%	63.7%	63.1%
Net Interest Margin	5.5%	5.3%	5.1%	5.0%	5.0%
Average Loan Yield	10.5%	10.1%	9.9%	9.9%	9.9%
Average Deposit CoF	3.0%	2.7%	3.1%	3.3%	3.3%
Gross NPL	2.3%	2.0%	1.8%	1.8%	1.8%
Net NPL	0.7%	0.8%	0.5%	0.6%	0.6%
Credit Cost	1.7%	1.5%	1.7%	1.7%	1.7%
Coverage Ratio	143.8%	148.3%	165.5%	160.3%	160.9%
Cost to Income Ratio	73.9%	72.7%	74.1%	73.9%	73.4%
Cost Efficiency Ratio	65.5%	63.1%	63.6%	62.5%	61.2%
Return on Equity	14.5%	14.3%	13.6%	13.8%	14.0%
Return on Asset	2.1%	2.0%	1.9%	1.9%	1.9%
P/E	13.10	11.96	11.26	9.97	8.75
P/BV	1.83	1.67	1.48	1.33	1.19

Source: Company Data, Sinarmas Investment Research

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