

Evan Lie Hadiwidjaja
Senior Equity Analyst
evan.hadiwidjaja@sinarmassekuritas.co.id
(021) 392 5550 ext: 610

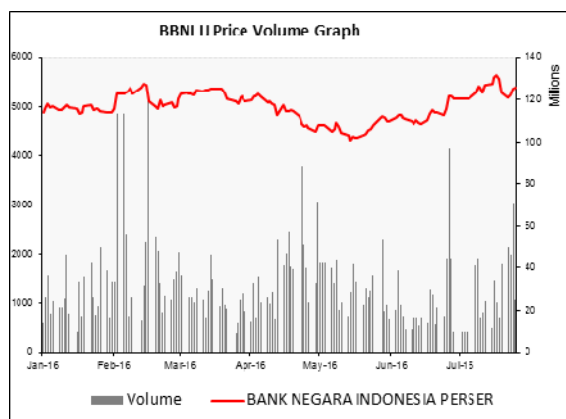


PT Bank Negara Indonesia (Persero) Tbk provides commercial banking activities and its related services. The bank also provides banking activities based on shariah principles.

Current Price: IDR 5,400

52-Week Target Price: IDR 5,725

Previous Target Price: IDR 5,890



Source: Bloomberg, Sinarmas Investment Research

Share Price Performance

Price (IDR)	5,400
52-Week High (07/20/16)	5,700
52-Week Low (09/29/15)	3,800
52-Week Beta	1.25
YTD Change/%	+410/+8.2%

Stock Information

Market Cap (IDR)	100,702.7 Bn
Shares Out/Float (M)	18,648.7/7,458.0

Company Update

PT Bank Negara Indonesia (Persero) Tbk (BBNI)

1H16 Earnings Review

NEUTRAL

We reiterate our **NEUTRAL** call on PT Bank Negara Indonesia (Persero) Tbk with **52-week target price of IDR 5,725, deriving via GGM**. We lowered our 52-week target price due to significant increase in restructured loans, which causes NIM to be compressed. BNI added IDR 7.4 Tn to restructured loans in 2Q16 alone, bringing total restructured loans to IDR 29.9 Tn (or 8.4% to total loan portfolio). Management indicates that restructured loans have a blended yield of 7.3%, much lower than the bank's average lending rate.

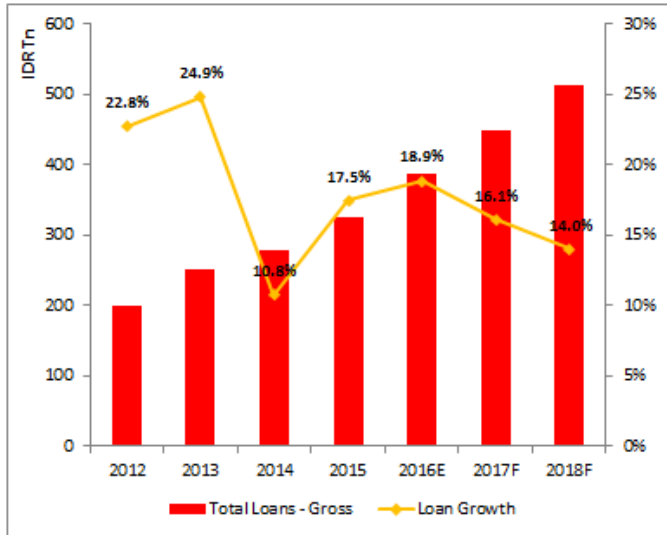
Despite soft recovery in the economy, Bank Negara posted 79.9% increase in net profit, with both credit and deposit growth outpacing the industry. One of the reasons behind 79.9% jump in net profit is weak 1H15 result. Another is robust growth in credit and deposit, in parallel with BI rate cuts, which dampens interest expense booking from aggressive TD collection. As of June 2016, Bank Negara recorded increase of 23.7% and 19.6% YoY for loan portfolio and customer deposit respectively.

NIM compressed by 50 bps YoY; while part of it was because lower lending rates for SME, another reason was because the significant jump in restructured loans. Bank Negara had lowered lending rate for SME in the previous quarter as a response to OJK's single digit lending rate regulation. Though not all SME rates were lowered, lending rate for loans below IDR 5 Bn were cut to below 10% from previously 12%. Meanwhile, lower yield from restructured loans had offset the potential of NIM increase benefiting from BI rate cuts, making it flat QoQ.

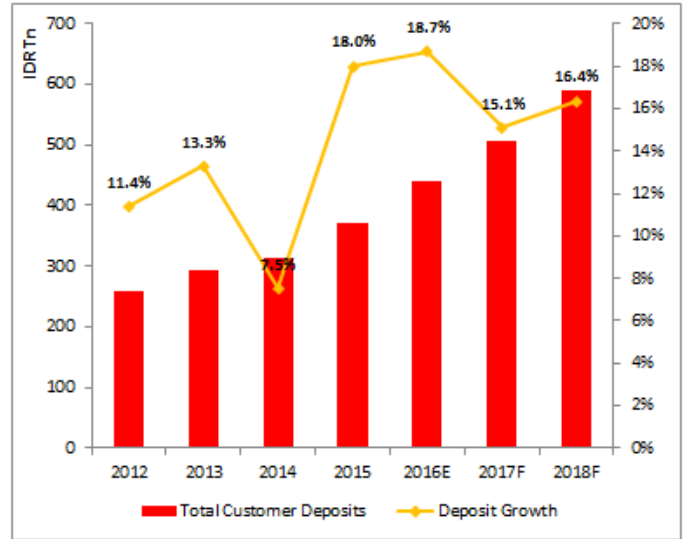
While we believe NPL's movement will not be volatile for the rest of the year, we see margin compression will continue to linger, as restructured loans are projected to rise. We view Bank Negara will be benefited from tax amnesty due to rising demand from infrastructure loans (up 24.0% YoY as of 1H16). However, liquidity will be really tight especially in September, since there is a potential outflow from tax amnesty participants to pay taxes. At the same time, LDR had reached 91.4% as of June 2016, which poses risk to credit growth in 3Q16.

Highlights (in IDR Bn)	1H15	1H16	% YoY	FY15	FY16E	% YoY
Total Loans	288,723	357,218	23.7%	326,105	387,591	18.9%
Total Deposits	327,260	391,490	19.6%	370,421	439,596	18.7%
Net Interest Income	12,454	13,911	11.7%	25,560	27,560	7.8%
Other Op. Income	4,486	5,103	13.8%	12,183	14,841	21.8%
Op. Expense	13,852	13,511	-2.5%	26,331	28,580	8.5%
Net Income	2,430	4,371	79.9%	9,141	11,057	21.0%
LDR (%)	87.6%	91.4%	3.8%	88.0%	88.2%	0.1%
NPL (%)	3.0%	3.0%	0.0%	2.7%	2.6%	-0.1%
NIM (%)	6.6%	6.1%	-0.5%	6.3%	5.7%	-0.5%

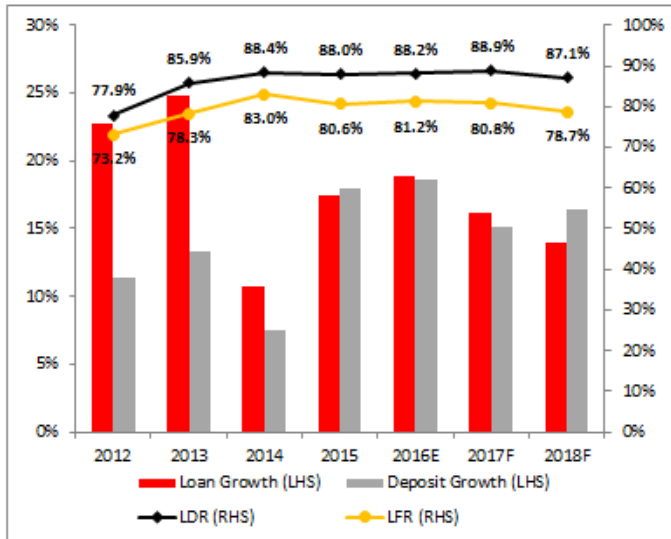
Source: Company Data, Sinarmas Investment Research

Total Loans & Loan Growth


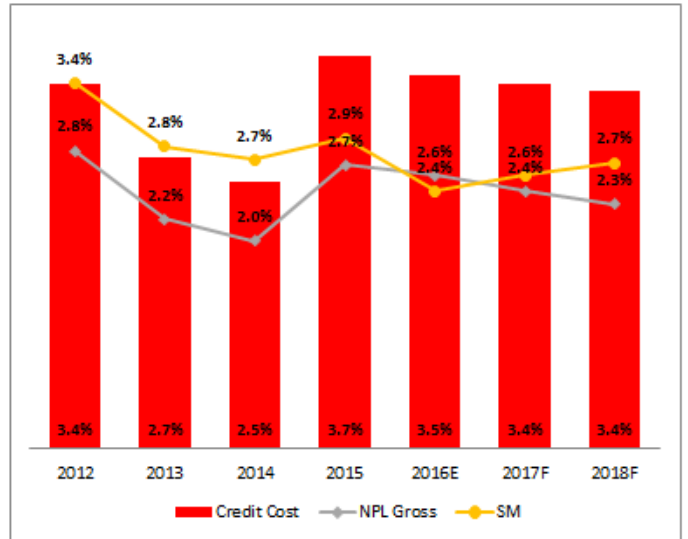
Source: Company Data, Sinarmas Investment Research

Total Deposits & Deposit Growth


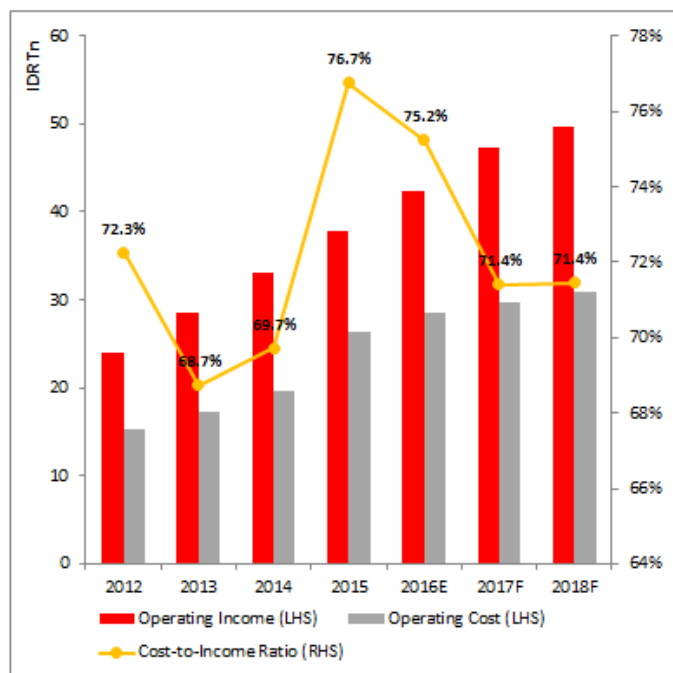
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LDR & LFR


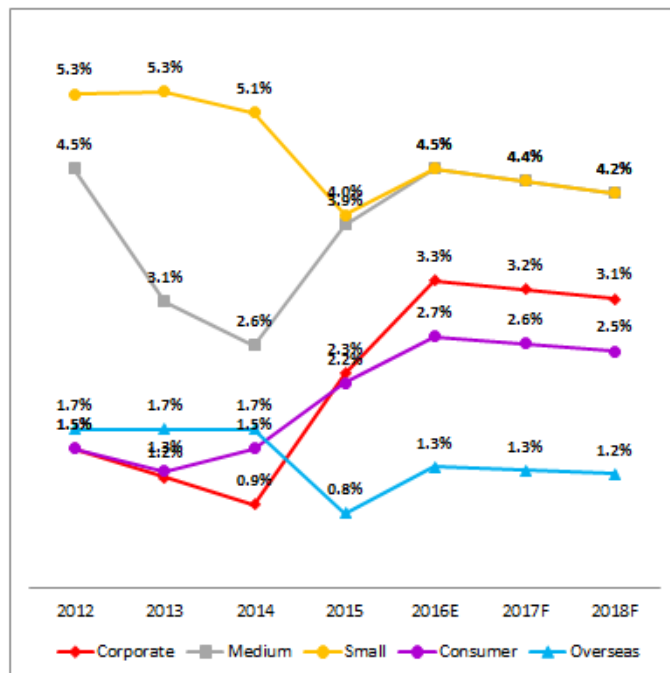
Source: Company Data, Sinarmas Investment Research

Credit Cost, NPL, and Special Mentions


Source: Company Data, Sinarmas Investment Research

Operating Income, Operating Cost, and CIR (BOPO)


Source: Company Data, Sinarmas Investment Research

NPL per Segment


Source: Company Data, Sinarmas Investment Research

Key Ratios (%)	2014	2015	2016E	2017F	2018F
LDR	88.4%	88.0%	88.2%	88.9%	87.1%
LFR	83.0%	80.6%	81.2%	80.8%	78.7%
CASA	64.5%	61.1%	57.4%	54.8%	51.2%
NIM	6.2%	6.3%	5.7%	5.5%	4.8%
Avg. Loan Yield	11.1%	11.2%	10.6%	9.7%	8.7%
Avg. Deposit CoF	3.4%	3.0%	3.0%	2.6%	2.5%
NPL Gross	2.0%	2.7%	2.6%	2.4%	2.3%
NPL Net	0.4%	0.9%	0.7%	0.7%	0.7%
Credit Cost	2.5%	3.7%	3.5%	3.4%	3.4%
Coverage Ratio	128.2%	138.2%	136.8%	141.6%	145.9%
CIR	69.7%	76.7%	75.2%	71.4%	71.4%
CER	59.7%	69.8%	67.4%	63.0%	62.5%
ROA	2.7%	2.0%	2.0%	2.2%	2.0%
ROE	19.9%	13.1%	13.3%	15.1%	14.2%

Source: Company Data, Sinarmas Investment Research

B/S (IDR Bn)	2014	2015	2016E	2017F	2018F
Cash and Equivalents	11,436	12,890	19,223	32,312	49,279
CA w/ Central Banks	24,598	30,932	34,988	39,105	44,591
CA w/ Other Banks	4,496	8,999	10,950	12,347	15,284
Interbank Placement	14,527	33,417	33,688	37,999	52,357
Total Loans - Net	270,652	314,067	373,942	434,560	495,845
Marketable Securities	12,738	9,927	10,604	10,814	11,481
Government Bonds	43,830	47,222	54,306	59,159	63,387
Fixed Assets	6,222	20,757	20,757	21,691	22,667
Total Assets	416,574	508,595	591,063	682,503	790,381
Demand Deposits	82,743	91,194	98,899	106,565	111,730
Saving Deposits	119,779	135,065	153,287	170,526	189,509
Time Deposits	111,371	144,161	187,410	228,901	287,555
Total Customer Deposits	313,893	370,421	439,596	505,992	588,795
Deposits From Other Banks	3,177	4,698	5,314	6,303	7,919
Marketable Securities	6,158	6,871	7,760	8,438	9,372
Fund Borrowings	11,212	22,524	24,555	36,339	46,157
Sub Debts	-	-	-	-	-
Total Liabilities	355,552	430,157	503,780	583,785	680,092
Total Equity	61,021	78,438	87,283	98,718	110,289

Source: Company Data, SinarMas Investment Research

I/S (IDR Bn)	2014	2015	2016E	2017F	2018F
Interest Income	33,365	36,895	40,975	44,481	46,272
% growth		10.6%	11.1%	8.6%	4.0%
Interest Expense	10,989	11,335	13,415	13,898	15,558
% growth		3.2%	18.4%	3.6%	11.9%
Net Interest Income	22,376	25,560	27,560	30,583	30,714
% growth		14.2%	7.8%	11.0%	0.4%
Other Operating Income	10,715	12,183	14,841	16,731	18,871
% growth		13.7%	21.8%	12.7%	12.8%
Provision Expense	3,642	7,336	7,984	8,181	8,278
% growth		101.4%	8.8%	2.5%	1.2%
Other Operating Expense	16,103	18,995	20,596	21,626	22,708
% growth		18.0%	8.4%	5.0%	5.0%
Net Operating Income	13,346	11,412	13,821	17,507	18,600
% growth		-14.5%	21.1%	26.7%	6.2%
Income Before Tax Expense	13,524	11,466	13,821	17,507	18,600
% growth		-15.2%	20.5%	26.7%	6.2%
Tax Expense (%)	20%	20%	20%	20%	20%
Net Income	10,829	9,141	11,057	14,005	14,880
% growth		-15.6%	21.0%	26.7%	6.2%

Source: Company Data, SinarMas Investment Research

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