

**1Q20: broadly inline.** As of 1Q20, total loan portfolio grew by 11.2% YoY, while customer deposits grew by 10.4% YoY. Strong growth in total loans was primarily driven by Business Banking which grew by 11.9% YoY as opposed to Consumer Banking which grew by 7.3%. Meanwhile, NIM remained flat on a YTD basis at 4.9% as the decline in blended loan yield (dn 0.3% YTD) was offset by the change in deposit CoF (dn 0.3% YTD). From asset quality, NPL was relatively stable as of 1Q20 at 2.4% (up 0.1% YTD) as Covid-19 impact lags. Nevertheless, management booked IDR 2.3tn provisioning in 1Q20 (up 31.4% YoY) to anticipate potential default risks going forward. As of 1Q20, consolidated NII, PPOP, and NPAT were recorded at IDR 9.5tn (up 7.7% YoY), IDR 7.6tn (up 10.6% YoY), and IDR 4.3tn (up 4.3% YoY) respectively. To note, Non Interest Income declined by 19.4% YoY due to changes in the mark-to-market in BNI Life.

**Potential damage from Covid-19.** As for FY20E, management lowered its expectation on: 1) loan growth from 10%-12% to 2%-4%, 2) NIM from 4.9%-5.0% to 3.7%-4.0%, 3) NPL from 2.0%-2.2% to 3.7%-4.5%, and 4) credit cost from 1.2%-1.4% to 3.0%-3.5%. Lower FY20E NIM as guided by the management was primarily engineered by a more aggressive credit restructuring to safeguard asset quality. Under the worst case scenario, BNI sees a total of IDR 146.7tn in their loan restructuring pipeline, equivalent to ~25% of total outstanding loans, with the two biggest contributors come from Trading/Resto/Hotel and Manufacturing. To note, total restructured loan due to Covid-19 rose from IDR 6.2tn in Mar-20 to IDR 69.8tn in Apr-20.

**We reiterate our BUY rating on PT Bank Negara Indonesia (Persero) Tbk (BBNI) with 52-week TP of IDR 5,925, implying 0.9x FY21F P/BV.** At current, BBNI is traded at 0.6x FY21F P/BV, -2.6 SD from its mean and is the most laggard big bank YTD. We note that earnings may disappoint this year as it is hard to get the full color on how Covid-19 may affect the balance sheet, nevertheless, we view earnings drag to be more of a transitory event due to: 1) continuous government support and stimulus, 2) OJK relaxation on restructuring, and 3) a more conservative approach on provisioning and loan loss coverage. Thus, as we rollover our valuation to get a better sense of company's outlook, we see an attractive risk-adjusted investment opportunity in BBNI. Lastly, OJK also postponed the Basel III reforms for Indo Banks to Jan-23. This should ease the burden on opex while bank deals with Covid-19.

Highlights (IDR bn)	2018	2019	2020E	2021F	2022F
Total Loans	512,778	556,771	583,496	643,981	723,743
Total Deposits	578,775	614,311	641,104	710,541	797,948
Net Interest Income	35,446	36,602	34,492	38,210	43,128
Pre-provision Op. Profit	26,988	28,325	25,041	30,171	34,964
Net Income	15,015	15,384	10,371	14,690	18,521
Net Interest Margin	5.3%	5.0%	4.5%	4.7%	4.8%
Gross NPL	2.0%	2.3%	2.7%	2.4%	2.2%
Credit Cost	1.5%	1.7%	2.1%	1.9%	1.7%
Return on Equity	14.3%	13.2%	8.6%	12.1%	13.7%
Return on Asset	2.0%	1.9%	1.2%	1.6%	1.9%

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Sector	Banking
Bloomberg Ticker	BBNI JJ
Market Cap. (IDR tn)	71.4
Share Out./Float (mn)	18,649/7,451
Current Price	3,830
52-week Target Price	5,925
Upside (%)	54.7%

**Share Price Performance**

52W High (07/01/19)	9,450
52W Low (03/26/20)	2,970
52W Beta	1.21
YTD Change (%)	-51.2%

**Relative Valuations**

Trailing P/E	4.6x
Forward P/E	4.8x
Trailing P/BV	0.7x
Forward P/BV	0.6x

Income Statement (IDR bn)	2018	2019	2020E	2021F	2022F
Interest Income	54,139	58,532	54,114	60,661	69,627
% growth		8.1%	-7.5%	12.1%	14.8%
Interest Expense	18,692	21,930	19,622	22,451	26,499
% growth		17.3%	-10.5%	14.4%	18.0%
<b>Net Interest Income</b>	<b>35,446</b>	<b>36,602</b>	<b>34,492</b>	<b>38,210</b>	<b>43,128</b>
% growth		3.3%	-5.8%	10.8%	12.9%
Other Operating Income	17,610	19,871	18,001	20,481	21,860
% growth		12.8%	-9.4%	13.8%	6.7%
Operating Expense	33,457	36,986	39,424	40,180	41,650
% growth		10.5%	6.6%	1.9%	3.7%
<b>Pre-provision Operating Profit</b>	<b>26,988</b>	<b>28,325</b>	<b>25,041</b>	<b>30,171</b>	<b>34,964</b>
% growth		5.0%	-11.6%	20.5%	15.9%
Net Operating Income	19,599	19,487	13,068	18,510	23,338
% growth		-0.6%	-32.9%	41.6%	26.1%
Income Before Tax Expense	19,821	19,369	13,068	18,510	23,338
% growth		-2.3%	-32.5%	41.6%	26.1%
<b>Net Income</b>	<b>15,015</b>	<b>15,384</b>	<b>10,371</b>	<b>14,690</b>	<b>18,521</b>
% growth		2.5%	-32.6%	41.6%	26.1%

Balance Sheet (IDR bn)	2018	2019	2020E	2021F	2022F
Cash and Equivalents	14,044	15,362	10,331	16,043	22,405
CA w/ Central Bank	35,591	37,104	37,967	40,221	42,357
CA w/ Other Banks	13,134	14,963	15,311	16,220	17,081
Interbank Placement	39,324	47,777	50,010	52,670	56,010
<b>Total Loans - Net</b>	<b>497,887</b>	<b>539,862</b>	<b>554,720</b>	<b>613,735</b>	<b>691,559</b>
Marketable Securities	32,044	27,162	31,047	31,824	32,619
Government Bonds	86,791	81,029	86,884	91,506	97,308
Fixed Assets	26,127	26,525	26,525	27,188	28,547
<b>Total Assets</b>	<b>808,572</b>	<b>845,605</b>	<b>865,743</b>	<b>948,388</b>	<b>1,056,603</b>
Demand Deposits	169,274	207,035	221,528	248,922	284,731
Saving Deposits	206,056	202,266	202,266	217,436	244,615
Time Deposits	203,445	205,010	217,310	244,183	268,601
<b>Total Customer Deposits</b>	<b>578,775</b>	<b>614,311</b>	<b>641,104</b>	<b>710,541</b>	<b>797,948</b>
Deposits From Other Banks	14,233	11,926	12,316	13,316	14,545
Marketable Securities	2,987	2,985	2,983	2,980	2,978
Fund Borrowings	52,025	57,236	59,108	63,909	69,805
Subordinated Debts	-	-	-	-	-
<b>Total Liabilities</b>	<b>698,198</b>	<b>720,601</b>	<b>749,011</b>	<b>819,346</b>	<b>912,443</b>
<b>Total Equity</b>	<b>110,374</b>	<b>125,004</b>	<b>116,732</b>	<b>129,042</b>	<b>144,160</b>

Source: Company Data, Sinarmas Investment Research

Financial Ratio (%)	2018	2019	2020E	2021F	2022F
Loan to Deposit Ratio	88.6%	90.6%	91.0%	90.6%	90.7%
Loan to Funding Ratio	79.1%	81.1%	81.5%	81.4%	81.8%
CASA Ratio	64.8%	66.6%	66.1%	65.6%	66.3%
Net Interest Margin	5.3%	5.0%	4.5%	4.7%	4.8%
Average Loan Yield	10.1%	10.0%	8.6%	9.1%	9.5%
Average Deposit CoF	2.7%	3.1%	2.5%	2.7%	2.9%
Gross NPL	2.0%	2.3%	2.7%	2.4%	2.2%
Net NPL	0.8%	1.2%	1.1%	1.1%	1.0%
Credit Cost	1.5%	1.7%	2.1%	1.9%	1.7%
Coverage Ratio	148.3%	130.5%	184.3%	197.8%	200.2%
Cost to Income Ratio	72.7%	75.1%	81.9%	77.2%	74.5%
Cost Efficiency Ratio	63.1%	65.5%	75.1%	68.5%	64.1%
Return on Equity	14.3%	13.2%	8.6%	12.1%	13.7%
Return on Asset	2.0%	1.9%	1.2%	1.6%	1.9%
EPS	809.3	831.6	560.6	794.1	1,001.2
BVPS	5,795.4	6,569.7	6,134.9	6,781.9	7,576.5

Source: Company Data, Sinarmas Investment Research

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**REDUCE:** Share price may range between -10% to -15% over the next 12 months.

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