

We raise our rating on PT Bank Rakyat Indonesia (Persero) Tbk (BBRI) from NEUTRAL to ADD with 52-week TP of IDR 4,700, implying 2.5x FY20F P/BV. As of 1H19, BBRI's bank-only net profit came in at IDR 16.3tn (up 12 ppt YoY; 44.0% of our consolidated FY19E). Loan and deposit portfolio rose by 11 ppt YoY and 13 ppt YoY respectively, bringing LDR to 94.0% (dn 123 bps YoY). At the operating level, provision continued to decline (dn 20 ppt YoY) as bank-only credit cost normalized to below 200 bps in Jun-19 (dn 40 bps YoY). To note, reversal in the provisioning trend has offset the 11.7% YoY increase in operating expense (ex-provisioning) which was driven by changes in fair value of financial assets as well as promotion and other expenses. In all, bank-only net interest income and PPOP stood at IDR 38.7tn (up 5 ppt YoY) and IDR 28.9tn (up 2 ppt YoY) respectively.

Less NPL surprise for the rest of the year. While NPL formation has become the current interest for banking system in 2H19, especially after KRAS and Duniatex downgrades, we expect less volatile credit cost due booking for BBRI due to various reasons. Firstly, ticket size for both debtors are relatively small compared to total loan portfolio and to its peers. As for KRAS, BBRI has an exposure of IDR 2.5tn (collectability 1; 60% coverage), while for Duniatex, we heard unconfirmed figure for bank's exposure (BBRI + BRIS) amounting to ~IDR 1tn or equivalent to 12 bps CoC. Second, current CoC stands at 1.9%, or at the lower end of management guidance of 1.9-2.1% for FY19E. This CoC projection already bakes in additional provisioning for IFRS 9 implementation and has been built up since FY17. Thus, we see provisioning to be more subtle in 2H19. Lastly, with ~35% of total loan portfolio in Micro segment and only ~5.5% of total loan portfolio related to CPO sector, we see NPL formation should be more measured and less volatile in 2H19.

Key beneficiary of 7DRRR cut. As easing cycle begins, pressure on CoF is expected to ease greatly for BBRI considering deposit portfolio comprised of ~40% TD while two-thirds of it uses special rate. Subsequently, as capital cost declines, liquidity have room to improve from current reading of 94.0%, which is positive catalyst for opex as well. NIM, however, may normalize to ~680 bps in FY19E according to our calculation. While we are still waiting for company to release audited 2Q19 result, we see current share price offers buying opportunity given our expectation of solid 2H19 performance and tailwind from 7DRRR cut.

Evan Lie Hadiwidjaja

Head of Research

+62 21 392 5550 ext. 615

evan.hadiwidjaja@sinarmassekuritas.co.id

Stock Information

Sector	Banking
Bloomberg Ticker	BBRI IJ
Market Cap. (IDR tn)	509.4
Share Out./Float (mn)	123,346/53,344
Current Price	4,130
52-week Target Price	4,700
Upside (%)	13.8%

Share Price Performance

52W High (04/18/19)	4,730
52W Low (10/11/18)	2,870
52W Beta	1.18
YTD Change (%)	12.8%

Relative Valuations

Trailing P/E	15.3x
Forward P/E	12.2x
Trailing P/BV	2.6x
Forward P/BV	2.2x

Highlights (IDR bn)	2017	2018	2019E	2020F	2021F
Total Loans	736,848	840,189	952,967	1,075,560	1,212,663
Total Deposits	841,656	944,269	1,061,652	1,202,937	1,348,474
Net Interest Income	73,018	77,666	82,604	90,700	101,263
Pre-provision Op. Profit	53,801	59,519	66,666	74,578	84,646
Net Income	28,997	32,351	36,946	41,643	47,800
Net Interest Margin	7.5%	7.1%	6.8%	6.7%	6.8%
Gross NPL	2.1%	2.1%	2.0%	1.9%	1.9%
Credit Cost	2.4%	2.3%	2.1%	2.1%	2.0%
Return on Equity	18.4%	18.4%	18.8%	18.9%	19.3%
Return on Asset	2.7%	2.7%	2.7%	2.8%	2.9%

Income Statement (IDR bn)	2017	2018	2019E	2020F	2021F
Interest Income	102,912	111,583	125,386	140,217	156,883
<i>% growth</i>		8.4%	12.4%	11.8%	11.9%
Interest Expense	29,894	33,917	42,783	49,517	55,620
<i>% growth</i>		13.5%	26.1%	15.7%	12.3%
Net Interest Income	73,018	77,666	82,604	90,700	101,263
<i>% growth</i>		6.4%	6.4%	9.8%	11.6%
Other Operating Income	19,657	24,371	27,847	29,852	31,656
<i>% growth</i>		24.0%	14.3%	7.2%	6.0%
Operating Expense	55,868	60,311	62,767	66,806	71,225
<i>% growth</i>		8.0%	4.1%	6.4%	6.6%
Pre-provision Operating Profit	53,801	59,519	66,666	74,578	84,646
<i>% growth</i>		10.6%	12.0%	11.9%	13.5%
Net Operating Income	36,807	41,726	47,684	53,746	61,693
<i>% growth</i>		13.4%	14.3%	12.7%	14.8%
Income Before Tax Expense	37,023	41,754	47,684	53,746	61,693
<i>% growth</i>		12.8%	14.2%	12.7%	14.8%
Net Income	28,997	32,351	36,946	41,643	47,800
<i>% growth</i>		11.6%	14.2%	12.7%	14.8%

Balance Sheet (IDR bn)	2017	2018	2019E	2020F	2021F
Cash and Equivalents	24,798	27,422	21,667	31,570	35,193
CA w/ Central Bank	58,155	71,159	81,833	87,813	98,426
CA w/ Other Banks	6,133	12,677	23,522	24,698	25,933
Interbank Placement	55,157	87,018	73,965	77,664	81,547
Total Loans - Net	706,847	804,673	913,490	1,031,004	1,162,428
Marketable Securities	186,940	184,285	185,206	186,132	187,063
Government Bonds	3,318	1,505	1,581	1,660	1,743
Fixed Assets	24,752	26,915	28,261	29,674	31,157
Total Assets	1,127,447	1,296,898	1,417,712	1,569,130	1,734,468
Demand Deposits	147,436	180,669	212,648	244,747	276,619
Saving Deposits	349,441	387,180	426,285	479,278	537,374
Time Deposits	344,780	376,420	422,720	478,912	534,481
Total Customer Deposits	841,656	944,269	1,061,652	1,202,937	1,348,474
Deposits From Other Banks	5,593	9,131	10,501	10,501	10,501
Marketable Securities	12,137	37,379	14,952	10,466	10,466
Fund Borrowings	29,409	40,457	44,503	44,503	44,503
Subordinated Debts	986	1,474	1,474	1,474	1,474
Total Liabilities	959,440	1,111,623	1,209,332	1,335,418	1,471,328
Total Equity	168,008	185,275	208,380	233,712	263,140

Source: Company Data, Sinarmas Investment Research

Financial Ratio (%)	2017	2018	2019E	2020F	2021F
Loan to Deposit Ratio	87.5%	89.0%	89.8%	89.4%	89.9%
Loan to Funding Ratio	82.8%	81.4%	84.1%	84.7%	85.7%
CASA Ratio	59.0%	60.1%	60.2%	60.2%	60.4%
Net Interest Margin	7.5%	7.1%	6.8%	6.7%	6.8%
Average Loan Yield	13.5%	13.1%	13.1%	13.1%	13.1%
Average Deposit CoF	2.8%	2.8%	3.2%	3.5%	3.6%
Gross NPL	2.1%	2.1%	2.0%	1.9%	1.9%
Net NPL	0.9%	0.9%	0.9%	0.8%	0.8%
Credit Cost	2.4%	2.3%	2.1%	2.1%	2.0%
Coverage Ratio	194.1%	197.3%	197.6%	203.2%	207.9%
Cost to Income Ratio	70.0%	69.3%	68.9%	68.4%	67.3%
Cost Efficiency Ratio	60.3%	59.1%	56.8%	55.4%	53.6%
Return on Equity	18.4%	18.4%	18.8%	18.9%	19.3%
Return on Asset	2.7%	2.7%	2.7%	2.8%	2.9%
P/E	19.96	17.88	15.66	13.89	12.10
P/BV	3.47	3.17	2.82	2.51	2.23

Source: Company Data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

BUY: Share price may rise by more than 15% over the next 12 months.

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

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

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

SELL: Share price may fall by more than 15% over the next 12 months.

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2019). All rights reserved.