

# PT Bank Tabungan Negara Tbk.

## Navigating Through the Turbulence



NEUTRAL (TP: IDR 2,570)

29 July 2019

**We lower our rating on PT Bank Tabungan Negara (Persero) Tbk (BBTN) from ADD to NEUTRAL with 52-week TP of IDR 2,570, implying 1.0x FY20F P/BV.** As of 1H19, BBTN recorded net profit of IDR 1.3tn (dn 8.2% YoY; 48.9% of our FY19E). Despite robust loan growth of 18.8% YoY, net interest income experienced a decline on a YoY basis as interest expense soared by 36.7% YoY, bringing NIM lower to 3.5% from 4.3% in FY18 and 4.2% in 1H18. From deposit mix, CASA continued to decline as there was a shift from saving to TD stemming from attractive pricing offered by the bank. As of 1H19, TD rose by 25.0% YoY, while CASA only grew by 5.4% YoY. On liquidity front, in addition to higher LDR (114.2% or up 278 bps YoY), LCR contracted by ~50 ppt YoY as liquidity tightened. Aside from pressure in the bank's top line, provisioning expense pressurized earnings as it rose by 15.5% YoY, though it is still not enough to uphold the coverage ratio. To note, gross NPL and coverage ratio came in at 3.3% (up 54 bps YoY) and 37.9% (dn 385 bps YoY) respectively.

**Anticipating weaker top line in 2H19.** While we note that declining 7DRRR will benefit BBTN due to big portion of TD in deposit portfolio, we view current liquidity condition along with management's revised loan growth guidance may bring further pressure on the bank's top line. Despite the 18.8% YoY loan growth in 1H19, management lowered its loan growth expectation to 10-12% YoY for this year. This was driven by liquidity scarcity added with higher NPL formation in non-subsidized mortgages, construction loans, and sharia banking. On the flip side, management guided a 10-12% YoY growth as well for customer deposit in FY19E. Taking into account these two numbers, we anticipate further pressure on top line in 2H19 as 10-12% YoY deposit growth translates to additional room of ~IDR 36.0tn in deposit portfolio, while 10-12% YoY loan growth only leaves room for ~IDR 13.0tn in total outstanding loan.

**Uncertainty in the bottom line.** While management guided a 2.4% NPL for this year, we see IFRS 9 to pressurize bank's CoC. Using management's base case scenario of 11% YoY loan growth, FY19E NPL of 2.4% translates to IDR 6.3tn of bad debt, whereas current reading stands at IDR 8.3tn (131.7% of FY19E). Assuming management successfully brought gross NPL down to 2.4%, they still need to allocate additional ~IDR 1.7tn in 2H19 in order to increase the coverage ratio level from current to 76% (FY19 guidance). Hence, we see uncertainty in the bottom line whether it is from the NPL side or loan loss coverage.

Highlights (IDR bn)	2017	2018	2019E	2020F	2021F
Total Loans	198,991	237,758	268,890	309,284	353,341
Total Deposits	192,474	229,829	256,618	294,550	330,282
Net Interest Income	9,341	10,089	9,783	10,664	11,490
Pre-provision Op. Profit	4,776	5,308	5,233	5,990	6,562
Net Income	3,027	2,808	2,671	3,077	3,319
Net Interest Margin	4.6%	4.0%	3.3%	3.3%	3.1%
Gross NPL	2.7%	2.9%	2.7%	2.6%	2.6%
Credit Cost	0.5%	0.8%	0.7%	0.7%	0.7%
Return on Equity	14.8%	12.3%	10.7%	10.8%	10.4%
Return on Asset	1.3%	1.0%	0.8%	0.8%	0.8%

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### Stock Information

Sector	Banking
Bloomberg Ticker	BBTN IJ
Market Cap. (IDR tn)	25.4
Share Out./Float (mn)	10,590/4,234
Current Price	2,400
52-week Target Price	2,570
Upside (%)	7.1%

### Share Price Performance

52W High (08/30/18)	2,920
52W Low (10/30/18)	2,010
52W Beta	1.48
YTD Change (%)	-5.5%

### Relative Valuations

Trailing P/E	8.9x
Forward P/E	9.5x
Trailing P/BV	1.0x
Forward P/BV	1.0x

<b>Income Statement (IDR bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
Interest Income	20,092	22,852	26,468	29,278	32,502
<i>% growth</i>		13.7%	15.8%	10.6%	11.0%
Interest Expense	10,751	12,763	16,685	18,614	21,012
<i>% growth</i>		18.7%	30.7%	11.6%	12.9%
<b>Net Interest Income</b>	<b>9,341</b>	<b>10,089</b>	<b>9,783</b>	<b>10,664</b>	<b>11,490</b>
<i>% growth</i>		8.0%	-3.0%	9.0%	7.8%
Other Operating Income	1,606	2,072	2,618	2,930	3,176
<i>% growth</i>		29.0%	26.4%	11.9%	8.4%
Operating Expense	7,055	8,567	8,967	9,638	10,399
<i>% growth</i>		21.4%	4.7%	7.5%	7.9%
<b>Pre-provision Operating Profit</b>	<b>4,776</b>	<b>5,308</b>	<b>5,233</b>	<b>5,990</b>	<b>6,562</b>
<i>% growth</i>		11.1%	-1.4%	14.5%	9.6%
Net Operating Income	3,892	3,594	3,434	3,956	4,267
<i>% growth</i>		-7.7%	-4.4%	15.2%	7.9%
Income Before Tax Expense	3,862	3,610	3,434	3,956	4,267
<i>% growth</i>		-6.5%	-4.9%	15.2%	7.9%
<b>Net Income</b>	<b>3,027</b>	<b>2,808</b>	<b>2,671</b>	<b>3,077</b>	<b>3,319</b>
<i>% growth</i>		-7.3%	-4.9%	15.2%	7.9%

<b>Balance Sheet (IDR bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
Cash and Equivalents	1,028	1,244	2,579	3,685	2,094
CA w/ Central Bank	12,555	15,418	18,075	20,471	22,519
CA w/ Other Banks	556	1,587	1,111	1,111	1,111
Interbank Placement	24,698	26,465	26,465	26,465	26,465
<b>Total Loans - Net</b>	<b>196,635</b>	<b>234,460</b>	<b>264,846</b>	<b>304,696</b>	<b>348,149</b>
Marketable Securities	7,706	5,848	5,929	6,226	6,537
Government Bonds	8,184	9,393	10,781	12,374	13,611
Fixed Assets	4,837	5,018	5,205	5,399	5,600
<b>Total Assets</b>	<b>261,365</b>	<b>306,436</b>	<b>343,272</b>	<b>390,042</b>	<b>434,954</b>
Demand Deposits	54,655	58,049	60,952	69,210	76,716
Saving Deposits	40,947	41,877	39,783	43,087	46,031
Time Deposits	96,872	129,902	155,883	182,252	207,534
<b>Total Customer Deposits</b>	<b>192,474</b>	<b>229,829</b>	<b>256,618</b>	<b>294,550</b>	<b>330,282</b>
Deposits From Other Banks	5,445	3,010	7,525	7,525	7,525
Marketable Securities	20,480	20,645	20,810	20,977	21,146
Fund Borrowings	7,991	15,499	18,599	22,319	26,783
Subordinated Debts	-	-	-	-	-
<b>Total Liabilities</b>	<b>239,702</b>	<b>282,596</b>	<b>317,132</b>	<b>359,414</b>	<b>401,623</b>
<b>Total Equity</b>	<b>21,663</b>	<b>23,840</b>	<b>26,140</b>	<b>30,628</b>	<b>33,331</b>

Source: Company Data, Sinarmas Investment Research

Financial Ratio (%)	2017	2018	2019E	2020F	2021F
Loan to Deposit Ratio	103.4%	103.4%	104.8%	105.0%	107.0%
Loan to Funding Ratio	87.4%	88.1%	88.1%	89.1%	91.1%
CASA Ratio	49.7%	43.5%	39.3%	38.1%	37.2%
Net Interest Margin	4.6%	4.0%	3.3%	3.3%	3.1%
Average Loan Yield	10.6%	10.2%	10.2%	9.9%	9.6%
Average Deposit CoF	4.6%	4.6%	5.2%	5.2%	5.2%
Gross NPL	2.7%	2.9%	2.7%	2.6%	2.6%
Net NPL	1.7%	1.8%	1.7%	1.7%	1.7%
Credit Cost	0.5%	0.8%	0.7%	0.7%	0.7%
Coverage Ratio	43.6%	48.4%	56.2%	56.4%	56.5%
Cost to Income Ratio	82.1%	85.6%	88.2%	87.7%	88.0%
Cost Efficiency Ratio	64.4%	70.4%	72.3%	70.9%	70.9%
Return on Equity	14.8%	12.3%	10.7%	10.8%	10.4%
Return on Asset	1.3%	1.0%	0.8%	0.8%	0.8%
P/E	8.99	9.69	10.19	10.17	9.43
P/BV	1.26	1.14	1.04	1.02	0.94

Source: Company Data, Sinarmas Investment Research

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