

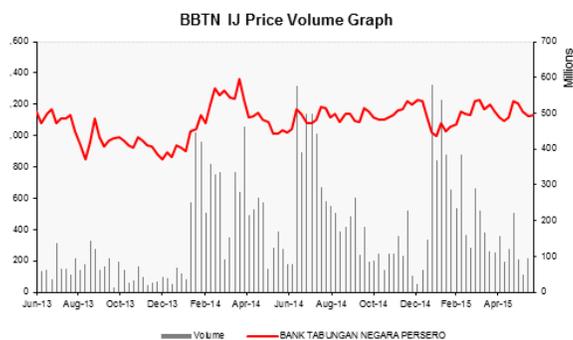
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PT Bank Tabungan Negara (Persero) Tbk is a State-Owned Enterprise Bank in Indonesia that provides commercial banking services with primary focus on housing loans.

Current Price: IDR 1,195

52-Week Target Price: IDR 1,380



Source: Bloomberg, Sinarmas Investment Research

Share Price Performance

| | |
|-------------------------|--------------|
| Price (IDR) | 1,195 |
| 52-Week High (05/30/14) | 1,270 |
| 52-Week Low (05/11/15) | 980 |
| 52-Week Beta | 1.45 |
| YTD Change/% | 30.00/-2.44% |

Stock Information

| | |
|------------------------|--------------------|
| Market Cap (IDR) | 12,047.2B |
| Shares Out/Float (IDR) | 10,567.7M/4,112.7M |
| IPO | 12/17/2009 |

Source: Bloomberg, Sinarmas Investment Research

Initiating Coverage

PT Bank Tabungan Negara (Persero) Tbk NPL Recovery Amidst Economy Slowdown

BUY

We initiate coverage on PT Bank Tabungan Negara (Persero) Tbk (BBTN) as a BUY with 52-week target price of IDR 1,380, deriving via Gordon Growth Model (DDM) valuation. The bank is currently trading at 10.8x P/E and 1.0x P/BV. At current market price of IDR 1,195, our 52-week target price offers a potential upside of 15.5%, implying 10.7x 2015 P/E and 1.1x 2015 P/BV. Despite challenging macro economic condition that puts banking sector in an unfavorable cycle, Bank Tabungan is benefited from the government's "One Million Houses" program and new FLPP scheme that offers 0% NPL's.

Not only "One Million Houses" boosts demand for mortgages, it offers 0% NPL's for some. While we have negative view on banking sector in general, we believe the government's "One Million Houses" project will cushion Bank Tabungan's performance. The project will boost demand for mortgages while the new FLPP scheme for subsidized mortgages will tighten the bank's NPL through volume. The bank has been trading at 1.0x P/BV due to its NPL, which stood at 4.78% as of 1Q15 (3.47% net NPL). However, with the volume coming in from subsidized mortgages, we view the NPL will shrink gradually.

BPJS Ketenagakerjaan to support Bank Tabungan's funding. Looking at the bank's LDR, there is a concern as to how the bank will enlarge its portfolio. As of 1Q15, the bank's LDR stood at 109.71% while LFR was recorded at 91.67%. Though the numbers are undeniably high, it is inevitable considering 88.99% of its portfolio is allocated to housing loans, which have maturity periods ranging from 10 to 20 years. As for the government housing project this year, Bank Tabungan will get funding from BPJS Ketenagakerjaan amounted to IDR 48.5 Tn, along with the government bonds of IDR 6Tn that the bank plans to issue this year. Hence, we see the bank is in a good position this year even though national lending growth is still weak.

| Financial Highlights | 12/13 | 12/14 | 12/15E | 12/16F | 12/17F |
|-------------------------|--------|---------|---------|---------|---------|
| Total Loans (IDR bn) | 99,330 | 114,339 | 146,231 | 182,274 | 216,557 |
| Total Deposits (IDR bn) | 96,208 | 106,471 | 124,464 | 148,183 | 173,794 |
| Net Profit (IDR bn) | 1,562 | 1,116 | 1,536 | 1,971 | 2,550 |
| NIM | 5.4 | 4.5 | 4.1 | 3.8 | 3.7 |
| CASA | 45.1 | 46.6 | 50.8 | 53.4 | 55.7 |
| LFR | 86.3 | 90.0 | 97.5 | 101.2 | 103.7 |
| Net NPL | 3.1 | 2.8 | 2.6 | 2.3 | 2.2 |
| COF | 4.8 | 6.0 | 5.6 | 5.7 | 5.4 |
| ROE | 14.3 | 9.4 | 11.9 | 13.5 | 15.1 |
| ROA | 1.3 | 0.8 | 1.0 | 1.0 | 1.1 |

Source: Company Data, Sinarmas Investment Research

Supportive Catalysts and Key Risks to Valuation

Supportive Catalysts:

- **“One Million Houses” Project**—In order to reduce the housing backlog in Indonesia, the government has prioritized “One Million Houses” project this year. The project is expected to boost mortgage application due to relatively low interests and down payments.
- **New FLPP Scheme**—With the new FLPP scheme, even though rate cut will impeccably bring NIM down, bigger volume will support the bank’s bottom line.
- **IDR 48.5 Tn From BPJS Ketenagakerjaan**—While the bank does not have enough liquidity to support “One Million Houses” project, BPJS Ketenagakerjaan plans to support the bank by allocating IDR 48.5 Tn, split into FLPP deposit and TD.
- **Strengthening e”batarapos Through Increasing Remittance from Indonesia Migrant Workers and “Laku Pandai”**—Though the number of migrant worker has been decelerating, remittances of Indonesian migrant worker have been increasing, not to mention that Rupiah depreciation will enlarge the transaction value and demand deposit collection.
- **Attractive Valuation**—Being valued at 10.8x P/E and 1.0x P/BV, we view that the company is trading at a discount. Considering the bank has upside risks while many others have downside risks, we believe Bank Tabungan will outperform its peers for the next couple of quarters.

Key Risks:

- **The Fed Raising the Rate**—With the likelihood of the Fed raising the rate in the second semester—possibly in September—we remain cautious on the bank’s CoF, as it will lower the margins.
- **Delayed Government Spending in Infrastructure**—As long as the government delays the infrastructure spending, the economy will remain weak as it is and further decline market’s purchasing power.
- **Worsening Asset Quality From Existing Loans**—Given the management’s inability to clean up balance sheet in previous years and challenging macro economic condition where domestic NPL on an upward trend, we see a downside risks on the asset quality, though it is limited due to the new FLPP scheme and the volume it offers.
- **Remarkably High LDR and LFR**—As of 1Q15, the bank’s LDR stood at 109.71% while LFR was recorded at 91.67%. Market might view the bank’s liquidity will limit take-up ratio on government’s “One Million Houses” project.

“One Million Houses” creates different story for Bank Tabungan Negara amidst major setbacks in banking industry..

Not only “One Million Houses” enlarges Bank Tabungan’s portfolio and saves the bank from lackluster lending growth, but will also shrink the bank’s NPL..

BPJS along with 2015 State Budget will provide funding for the bank in order to support “One Million Houses”..

Remittances from IMW and “Laku Pandai” also play a role in strong CASA Collection..

Company in Depth

While other banks are in a pain train this year, Bank Tabungan is having the sweetest time. Amidst the economy slowdown, banks are facing many speed bumps. With macro economic conditions still on a downtrend, and a sign of reversal is not yet to be seen, market has become vigilant and more sensitive. Though many things are pointing south, we view the story is different for Bank Tabungan as it is benefited from the government’s mega project of “One Million Houses”.

| Highlights (IDR bn) | Apr-14 | Apr-15 | % |
|----------------------|-----------|-----------|--------|
| Total Loans | 3,388.776 | 3,745.058 | 10.51% |
| Non-Performing Loans | 68.878 | 92.141 | 33.77% |
| Customer Deposit | 3,694.765 | 4,217.625 | 14.15% |
| Net Income | 37.093 | 36.847 | -0.66% |

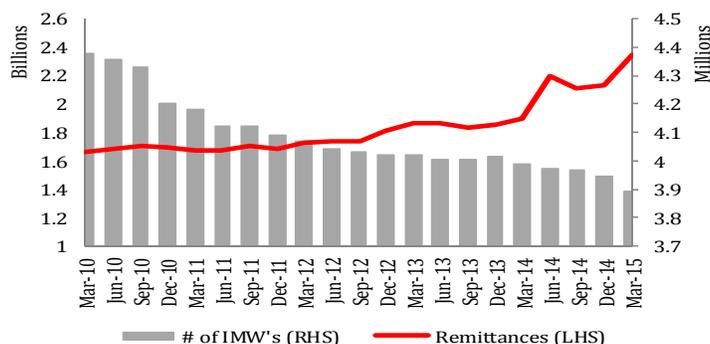
| Ratios (%) | Apr-14 | Apr-15 | Δ |
|------------|--------|--------|-------|
| CAR | 19.33 | 20.79 | 1.46 |
| OER | 77.19 | 79.94 | 2.75 |
| NIM | 4.26 | 5.30 | 1.04 |
| LDR | 90.79 | 87.94 | -2.85 |
| NPL | 2.03 | 2.46 | 0.43 |

Source: Otoritas Jasa Keuangan, Sinarmas Investment Research

We view that the government project of “One Million Houses” will cushion Bank Tabungan from lackluster demand in credit. Despite the upward trend in NPL, credit to the project can be considered risk-free due to the new FLPP scheme (0% NPL). We notice that there are many government projects that are currently delayed, however, we remain optimistic that the development of “One Million Houses” will be smooth, given that the land needed for “One Million Houses” are already owned by the government.

As for the bank’s funding, BPJS Ketenagakerjaan plans to support the bank by allocating IDR 48.5 Tn, split into FLPP deposit and TD. Nevertheless, BPJS Ketenagakerjaan is still waiting for the upper limit placement in property sector to be changed from 5% to 30%. Once the regulation is landed, the fund is ready to be injected. Besides the IDR 48.5 Tn from BPJS Ketenagakerjaan, BBTN also received IDR 3.5 Tn from last year’s budget and somewhere around IDR 5.1 Tn from this year’s budget. This has been BBTN’s backbone in CASA collection in 1H15.

Apart from the external funding, BBTN has established a working partnership with PT Pos Indonesia in handling remittance from Indonesian Migrant Workers (IMW). This has been one of the reasons behind strong demand deposit collection for the bank. As of June 2015, demand deposit was reported at IDR 26.96 Tn (up 36.2 YoY). Though the number of IMW has continued to decelerate, remittances have been somewhat against the pattern and even accelerated. Furthermore, the depreciation of Rupiah could further boost the remittances coming from IMW, given the transaction values will be increased. Apart from remittances from IMW, strong demand deposit collection was coming from “Laku Pandai” as well, government’s program to support education.



Source: Bank Indonesia, Sinarmas Investment Research

High level of LDR should not be an issue, given Bank Tabungan is highly exposed to mortgages, meanwhile, the addition of “One Million Houses” and OJK’s new regulation on RWA will strengthen the bank’s CAR..

We view that the high level of LDR reported by the bank would not be a problem, seeing it is natural to have high LDR considering the bank’s primary exposure is in mortgages. However, Capital Adequacy Ratio will be much better with new bookings from “One Million Houses” which could be categorized as risk-free assets, and relaxation on RWA coming from OJK. As for the percentage of NPL, it will shrink along with new bookings in FLPP mortgages as loan portfolio being boosted through volume. Not to mention that the bank plans to hold an auction on NPL’s and aims to receive IDR 1.5 Tn by the end of this year (15% YoY), which will place the bank’s NPL somewhere around 3% by year-end.

Highlight from 1H15 Performances

| Highlights (IDR bn) | 1H14 | 1H15 | % |
|----------------------|---------|---------|--------|
| Total Loans | 106,584 | 126,125 | 18.33% |
| Non-Performing Loans | 5,337 | 5,928 | 11.07% |
| Customer Deposit | 101,345 | 114,719 | 13.20% |
| Net Income | 539 | 831 | 54.17% |

As of June 2015, Bank Tabungan posted a Net Income of IDR 831 bn (54.2% YoY). While credit growth in banking industry has been slowing down, the bank still managed to achieve a credit growth of 18.3% YoY. On customer deposit collection, BBTN booked a 13.2% YoY growth, driven by demand deposit, which has grown by 36.2% YoY. Meanwhile, other forms of deposit grew by merely a single digits, causing NIM to improve to 4.72% (up 19 bps YoY).

| Ratios (%) | 1H14 | 1H15 | Δ |
|------------|--------|--------|-------|
| CAR | 14.29 | 12.72 | -1.57 |
| NIM | 4.53 | 4.72 | 0.19 |
| LDR | 105.17 | 109.94 | 4.77 |
| NPL | 5.01 | 4.70 | -0.31 |
| ROE | 10.19 | 15.62 | 5.43 |
| ROA | 1.11 | 1.55 | 0.44 |

While the bank recorded remarkable performance in terms of profitability (ROE up by 375 bps YoY and ROA up by 30 bps YoY), Capital Adequacy Ratio has decelerated to 12.7% from 14.3% a year before, due to FLPP being excluded from the tier 1 capital. We view while current CAR is worrying, it will get better over time, with assumptions of KIK EBA (IDR 1.5 Tn), mortgages securitization (IDR 1.5 Tn), and relaxation on RWA from OJK.

Source: Company Data, Sinarmas Investment Research

Furthermore, the bank posted 1H15’s NPL at 4.70% (dn 31 bps YoY). While the NPL in subsidized mortgages is experiencing an improvement, NPL in commercial loans is still high and in an upward trend. However, the bank is trying to hold the growth in commercial loans in order to maintain the asset quality.

Conclusion

In conclusion, while other banks are having issues in i) loan demand, ii) increasing CoF’s from last year’s pricing war, iii) idle funding in customer deposits, and iv) upward trend in NPL, on the other hand, Bank Tabungan has the leisure to enjoy a sweet ride from “One Million Houses”, cheap funding collection, and NPL shrinkage due to massive volume coming in through the new FLPP scheme. Thus, we recommend BUY for BBTN with 52-week target price of IDR 1,380, deriving via DDM.

Valuations and Forecasts

| Balance Sheet (IDR Bn) | 2013 | 2014 | 2015E | 2016F | 2017F |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Current Accounts w/ BI | 9,859 | 9,372 | 8,200 | 7,380 | 6,705 |
| Current Accounts w/ Other Banks | 1,093 | 957 | 861 | 1,185 | 1,245 |
| Interbank Placement | 4,839 | 1,496 | 2,658 | 2,222 | 2,163 |
| Total Loans | 99,330 | 114,339 | 146,231 | 182,274 | 216,557 |
| Total Assets | 131,170 | 144,576 | 175,796 | 210,361 | 242,714 |
| Demand Deposits | 19,116 | 23,423 | 34,999 | 47,591 | 61,512 |
| Saving Deposits | 24,238 | 26,168 | 28,252 | 31,600 | 35,258 |
| Time Deposits | 52,854 | 56,880 | 61,214 | 68,992 | 77,024 |
| Deposits From Other banks | 275 | 1,179 | 2,948 | 4,717 | 5,189 |
| Total Liabilities | 119,613 | 132,370 | 162,237 | 194,798 | 224,607 |
| Total Equity | 11,557 | 12,206 | 13,559 | 15,562 | 18,107 |

| Income Statement (IDR Bn) | 2013 | 2014 | 2015E | 2016F | 2017F |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest Income | 10,783 | 12,807 | 13,838 | 16,170 | 18,327 |
| Interest Expense | 5,130 | 7,343 | 7,768 | 9,369 | 10,551 |
| Net Interest Income | 5,653 | 5,465 | 6,071 | 6,801 | 7,776 |
| Operational Income | 764 | 895 | 1,034 | 1,216 | 1,393 |
| Operational Expense | 4,281 | 4,813 | 4,975 | 5,284 | 5,632 |
| Provision | 432 | 772 | 732 | 828 | 954 |
| Net Operational Income | 2,136 | 1,546 | 2,130 | 2,734 | 3,537 |
| Income Before Tax Expense | 2,141 | 1,548 | 2,131 | 2,735 | 3,538 |
| Tax Expense | 579 | 433 | 596 | 764 | 989 |
| Net Income | 1,562 | 1,116 | 1,536 | 1,971 | 2,550 |

Source: Company Data, Sinarmas Investment Research

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