

We initiate coverage on PT Bank CIMB Niaga Tbk (BNGA) with a BUY rating and a 52-week target price of IDR 1,460, which implies 1.0x FY17E P/BV. BNGA is currently trading at a 0.89x P/BV. We consider this valuation to be attractive given the bank's profitability going forward. With the improving economic condition and stable NPL condition, we see Bank Niaga to have a healthier balance sheet and better profitability in the future. Be that as it may, transition to BUKU IV is another catalyst for the bank.

Excellent FY16 Results. BNGA posted excellent results for the year 2016. Net interest income and NPAT increased to IDR 12.1 tn and IDR 2.1 tn (up by 6.2% YoY and 386.4% YoY respectively). Meanwhile, CASA ratio surged to 50.8% from 46.8%. We expect CASA ratio to stabilize in the coming years, meaning that BNGA will have better access to low cost funding along with their exposure in consumer banking. On asset quality, NPL slightly deteriorated to 3.9% in FY16 (up 16 bps YoY), though we see it is still inline with the industry, which went up by 44 bps YoY. Moreover, we expect NPL to decrease by 60 bps in FY17, due to stronger economic recovery.

Healthier balance sheet going forward. While we forecast liquidity to remain tight, thanks to the healthier balance sheet, the bank will be able to book solid earnings going forward. The company had spent a substantial amount of provisioning expense in FY14 as asset quality deteriorated. As we forecast credit cost to stabilize, we view profit margin to improve as well for the bank.

Consumers banking as main growth driver. On our valuation, we use FY17E credit growth assumption of 4.7% YoY, which mostly driven by consumer loans, given the bank's exposure in medium to high income segment and rising consumer spending post Tax Amnesty program. Nevertheless, we do have concern on liquidity as the bank is running at a 99.8% LDR as of FY16. We view LDR to slightly tighten as we expect loans growth to outperform deposit collection by 80 bps.

One off. In 2016, there was a one off gain of IDR 256 bn from their Bancassurance strategic alliance. However, there is also a IDR 571 bn one off expense from its mutual separation scheme. Excluding these one off events, the company's profit stood at IDR 1.9 tn, which is still a very respectable amount.

Promotion to BUKU IV. Management is confident that BNGA will be promoted to BUKU IV this year. We view transition to BUKU IV as another positive catalyst for Bank CIMB Niaga.

Highlights (IDR bn)	2015	2016	2017E	2018F	2019F
Total Loans	177,357	180,194	188,753	194,422	199,530
Total Deposits	178,533	180,571	185,951	190,888	195,412
Net Interest Income	11,386	12,094	11,211	13,150	13,958
Pre-provision Op. Profit	5,771	4,973	4,745	4,806	4,874
Net Income	428	2,081	2,499	2,722	2,886
Net Interest Margin (%)	5.4%	5.7%	5.6%	5.8%	6.0%
Gross NPL (%)	3.7%	3.9%	3.5%	3.3%	3.3%
Credit Cost (%)	4.3%	4.7%	4.3%	4.2%	4.2%
Return on Equity (%)	1.5%	6.1%	6.8%	6.9%	6.8%
Return on Assets (%)	0.2%	0.9%	1.0%	1.1%	1.1%

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Sector	Banking
Bloomberg Ticker	BNGA IJ
Market Cap. (IDR tn)	29.94
Share Out./Float (mn)	25,130
Current Price	IDR 1,190
52-week Target Price	IDR 1,460
Upside (%)	22.7%

Share Price Performance

52W High (04/10/2017)	1,240
52W Low (05/23/2016)	480
52W Beta	0.714
YTD Change (%)	36.5%

Relative Valuations

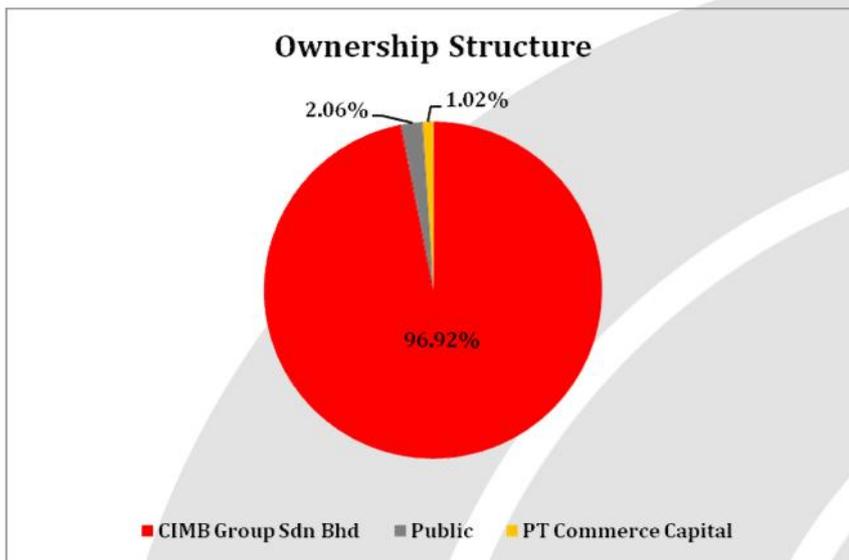
Trailing P/E	13.9x
Forward P/E	11.1x
P/BV	0.885x

Company Background

PT Bank CIMB Niaga Tbk is Indonesia's fifth largest bank by assets. The bank was founded in 1955 as a national private bank. In 1974, Bank Niaga changed their business plan and changed their strategy to become a full service public bank. It also became the first bank to introduce the ATM service in Indonesia in 1987. In June 1989, Bank Niaga was listed on the Indonesian Stock Exchange through an initial public offering. It was a successful IPO as its shares were over subscribed by four-times. In 2002, CIMB Group acquired Bank Niaga and rebranded itself from Bank Niaga Tbk to Bank CIMB Niaga Tbk in 2008.

By the end of 2016, PT Bank CIMB Niaga Tbk has successfully maintained its position as the 5th largest bank in Indonesia. With a total loan book of Rp 165 Tn, total customer deposit of Rp 180tn. PT Bank CIMB Niaga also has the 7th widest network of branches among Indonesian banks with a total of 528 branches across the country. It also has the 5th largest network of ATM machine with 3,704 ATM machines across Indonesia.

PT Bank CIMB Niaga Tbk has significant impact in several different sectors of banking. Firstly, It is the 5th mortgage lender in Indonesia with a market share of 6.6% of the mortgage market. The company is also one of the leaders in the credit card sector with a 13% market share and the 3rd credit card provider after Bank Central Asia and Bank Mandiri. Lastly, it is also one of the most transactional bank in Indonesia



Source: Company Data, Sinarmas Investment Research

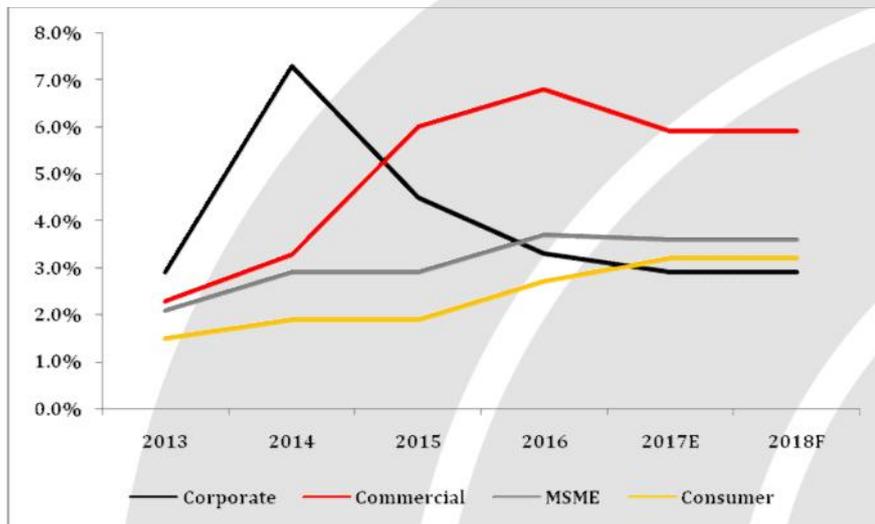
Investment Risks

Potential Liquidity Issues. BNGA's 99.8% LDR is a source of concern. This value is very high for a bank with CASA ratio like BNGA. Furthermore, we expect LDR to increase by 140bps in FY17. This estimation is based on our prediction that loans growth will outperform deposit collection in FY17, 4.7% and 3.9% respectively. With a high LDR ratio, BNGA will have very little liquidity to support loans growth in the future. In order to support loan growth, BNGA would need to find a cheap source of funding or cut down into their NIM by relying on time deposits, which is an expensive source of funding.

Dwindling Credit Card Rates. There might be a possibility that credit card rates might decrease by 70 bps to 2.2%. This would be another risk to BNGA as the credit card business is a relatively large portion of BNGA's business. We predict that a 2,2% credit card rate is a loss-making rate as the credit card business need to spend a lot on subsidies and mass marketing

AEIOI (Automatic Exchange of Information). With the new global standard called the Automatic Exchange of Information, banks will be obligated to share information on a customer's account to the government to reduce the possibilities of tax evasion. We view this standard as a threat to business banks like BNGA.

High NPL Ratio in the Commercial Loan Sector. The sector which is performing the least in the loan book is the commercial sector. We view the commercial loans as a risk for future growth and health of the company. We predict that the commercial loan will go down by 150 bps to 5,3% in FY17. However, beyond that, we expect difficulty in decreasing this number as commercial loans NPLs are usually harder to settle.

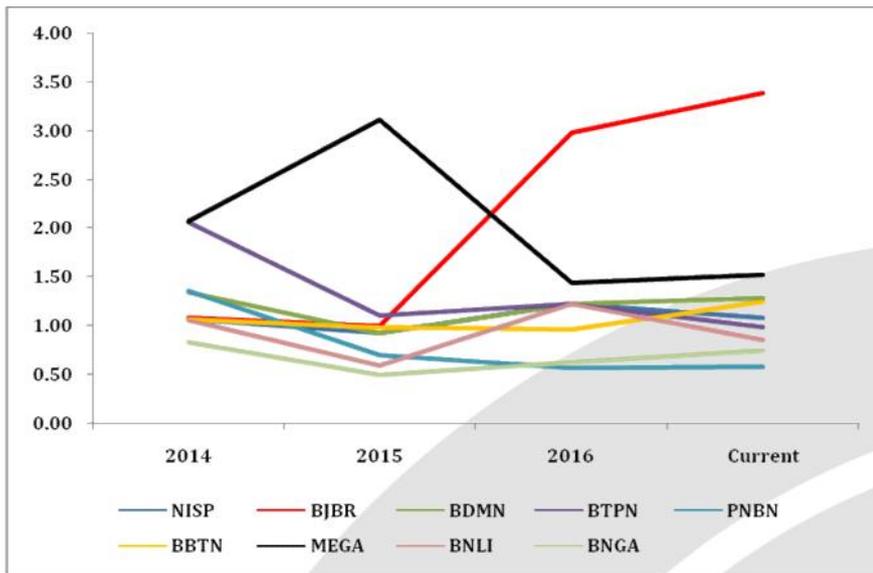


Source: Company Data, Sinarmas Investment Research

Investment Theses

Healthier balance sheet ahead. Since FY14, BNGA has increased provisioning expense. Going forward, we expect NPL to decrease by 30 bps in FY17. As a result, we estimate a decrease in provision expense. Economic revival will also promote loans growth to 4.7% in FY17, which is substantially higher than the modest 1.6% loan growth in FY16. Using PBV as valuation, high provisions prevented book value growth and halting share price increase. With a healthier balance sheet, we expect loan growth to translate more to NPAT and Book Value.

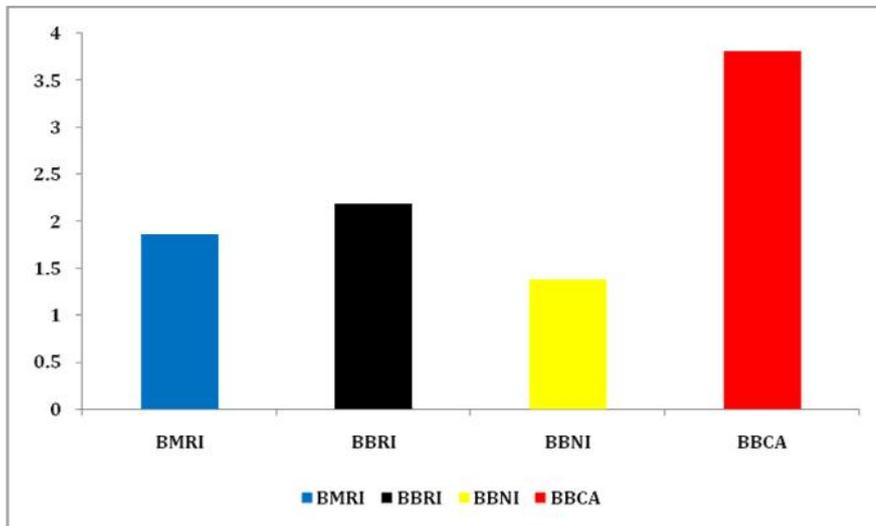
Cheap valuation as the source share price growth. We identified that the cheap valuation as the main source of growth for its share price as there are a huge potential upside. BNGA is currently trading at a PBV of 0.753x. The company is categorized as a BUKU III and a PBV of 0.753x is a very cheap valuation for a BUKU III bank.



Source: Company Data, Sinarmas Investment Research

As we can see from the chart above, BNGA has the 2nd cheapest valuation among the BUKU III banks in Indonesia. We believe that the valuation will increase as it has reached the end of its restructuring process. We believe that it will be more valuable in the future due to healthier balance sheet, lower NPLs and higher margins due to lower provision levels. We set a target price of IDR 1,342 based on a Price-to-Book Value of 0.918x, which is the fair PBV of the company. We believe that our valuation is fair as the mean PBV of BUKU III banks is 1.29x. However, this mean is a misinterpretation as BJBR is an anomaly. We calculated the mean PBV without BJBR and we arrived at the number 1.03x. Therefore, our valuation of 0.918x PBV is reasonable for BNGA.

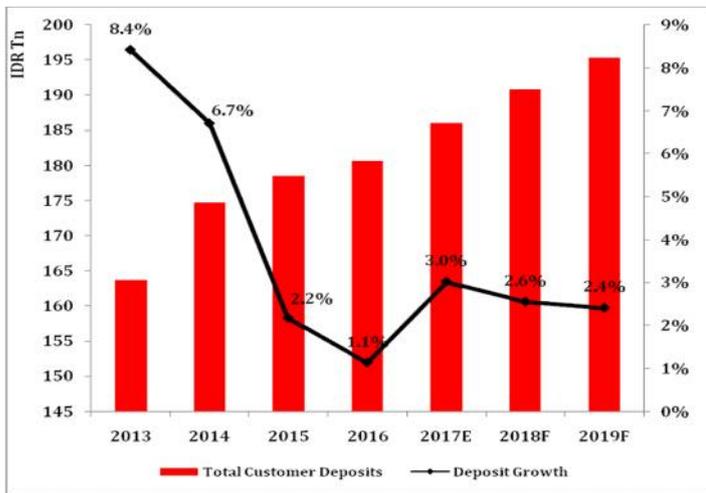
High possibility of rerating if upgraded to BUKU IV. According to the latest financial statement, BNGA core capital is more than Rp 30tn, which meets the requirement of being a BUKU IV bank (banks with core capital of at least Rp 30tn). If a rerating happens, we believe that BNGA's valuation will undergo a rerating. Without a rerating, if BNGA is promoted to BUKU IV, it will be severely undervalued compared to its BUKU IV counterparts.



Source: Company Data, Sinarmas Investment Research

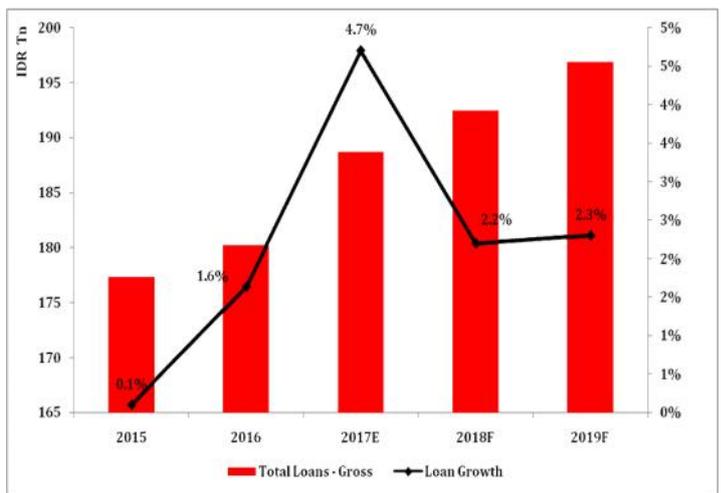
Steady loans growth. Our second main source of share price growth is the fundamentals of the company itself, we estimated a 4.7% growth in loans FY17. We identified that most of the growth will come from the consumer sector which we expect to grow by 8,3%. We also predict a respectable net income growth of 20.0% percent to IDR 2.49tn in FY17. This growth in net income is supported by the decrease in provisioning expense in FY17 due to a healthier balance sheet.

Total Deposits and Deposit Growth



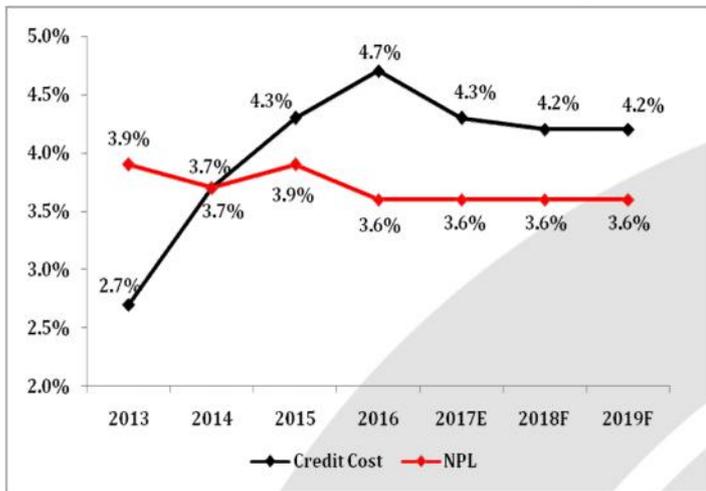
Source: Company Data, Sinarmas Investment Research

Total Loans and Loans Growth



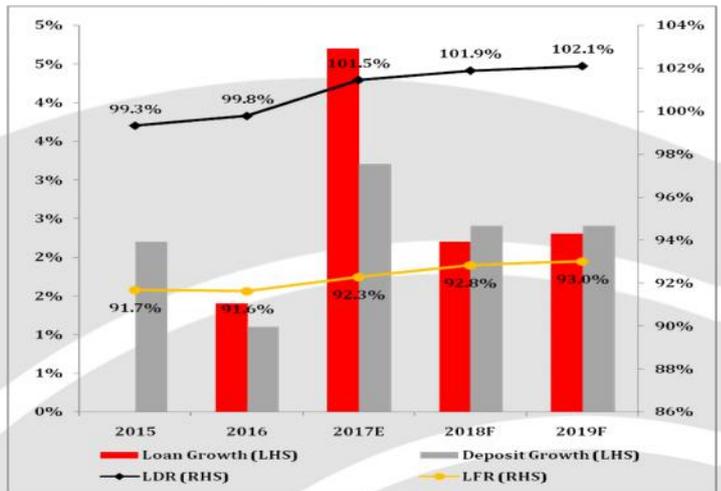
Source: Company Data, Sinarmas Investment Research

Credit Cost and NPL



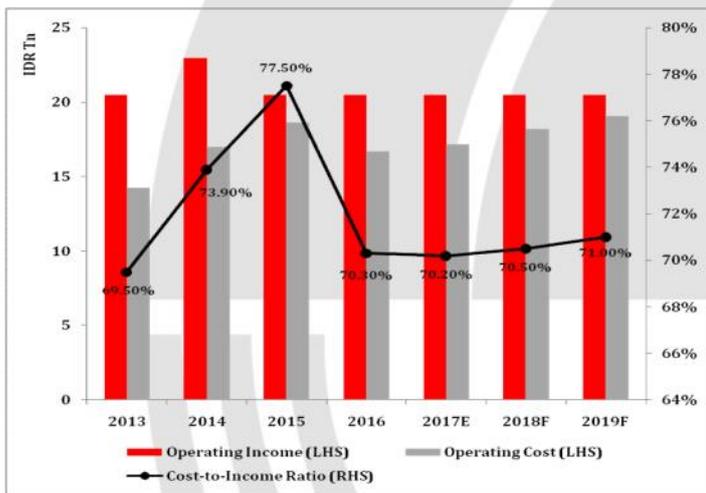
Source: Company Data, Sinarmas Investment Research

LDR & LFR



Source: Company Data, Sinarmas Investment Research

CIR



Source: Company Data, Sinarmas Investment Research

Income Statement (IDR bn)	2015	2016	2017E	2018F	2019F
Interest Income	22,318	21,324	21,940	23,140	24,166
% growth	7.2%	-4.5%	2.9%	5.5%	4.4%
Interest Expense	(10,932)	(9,231)	(9,609)	(9,990)	(10,208)
% growth	8.0%	-15.6%	4.1%	4.0%	2.2%
Net Interest Income	11,386	12,094	12,331	13,150	13,959
% growth	6.5%	6.2%	2.0%	6.6%	6.1%
Other Operating Income	1,686	2,384	2,523	2,616	2,707
% growth	-20.8%	41.4%	5.8%	3.7%	3.5%
Other Operating Expenses	(7,682)	(7,432)	(7,555)	(8,178)	(8,868)
% growth	12.5%	-3.3%	1.6%	8.2%	8.4%
Profit Before Income Tax	570	2,850	3,400	3,703	3,926
% growth	-82.2%	400.1%	19.3%	8.9%	6.0%
Net Profit For the Year	428	2,081	2,498	2,722	3,047
% growth	-81.7%	386.5%	20.0%	8.9%	6.0%

Source: Company Data, Sinarmas Investment Research

Balance Sheet (IDR bn)	2015	2016	2017E	2018F	2019F
Cash and Equivalents	4,240	3,261	521	2,700	4,029
CA w/ All Other Banks	16,953	14,969	14,865	14,446	13,811
Interbank Placement	26,046	28,071	32,142	35,329	38,731
Total Loans – Net	163,684	165,923	173,776	177,550	181,572
Receivables	11,281	11,085	11,404	12,028	12,561
Fixed Assets	2,023	5,269	5,348	5,428	5,510
Other Assets	57,622	56,032	58,538	60,284	63,012
Total Assets	238,849	241,571	257,991	266,685	276,040
Demand Deposits	40,433	44,597	46,292	47,357	48,446
Saving Deposits	43,123	47,210	48,768	49,646	50,540
Time Deposits	94,966	88,762	91,247	93,802	96,429
Total Customer Deposits	178,533	180,571	186,309	190,806	195,416
Deposits From Other Banks	5,654	4,557	5,924	6,517	7,168
Marketable Securities	4,467	3,237	3,399	4,113	4,524
Total Payables	5,231	4,763	2,738	2,846	2,908
Other Liabilities	26,405	22,028	23,835	24,910	26,046
Total Liabilities	210,169	207,364	212,882	218,563	224,371
Total Equity	28,679	34,206	36,705	39,427	42,313

Source: Company Data, Sinarmas Investment Research

Financial Ratio	2015	2016	2017E	2018F	2019F
LDR	99,3%	99,8%	101,2%	101,9%	102,1%
LFR	91,8%	91,7%	92,3%	92,8%	93,0%
NIM	5,4%	5,7%	5,6%	5,8%	6,0%
Avg. Loan Yield	11,6%	10,8%	10,5%	10,5%	10,5%
Avg. Deposit CoF	5,3%	4,4%	4,5%	4,6%	4,6%
NPL Gross	3,7%	3,9%	3,5%	3,3%	3,3%
NPL Net	1,6%	2,2%	2,1%	2,1%	2,1%
CIR (BOPO)	77,5%	70,3%	70,2%	70,5%	71,0%
% of Provision	69,5%	66,9%	62,8%	58,8%	55,0%
CER	58,8%	51,3%	50,9%	51,9%	53,2%
ROA	0,2%	0,9%	1,0%	1,1%	1,1%
ROE	1,5%	6,1%	6,8%	6,9%	6,8%
Coverage Ratio	115,8%	120,0%	114,9%	115,9%	116,9%
Credit Cost	4,3%	4,7%	4,3%	4,2%	4,2%

Source: Company Data, Sinarmas Investment Research

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