

11th of April 2012

BANK RAKYAT INDONESIA TBK

Loan growth is expected to recover

ACCUMULATE

BRI's ability to sustain its net interest margin (NIM), improvement in asset quality which results in lower provision and its operating efficiency, contributed to its strong bottom line growth of 31.9% in FY 2011 YoY, even though FY 2011 credit grew only by 14.9% YoY. BRI's strong bottom line result beats both our FY2011 net profit estimate by 13.5% and also consensus.

Micro segment is still BRI main business

Slower loan growth was evident in 2011 due to the bank's strategy to consolidate its portfolio to improve asset quality and its revitalization program of its infrastructure and network to gear for future growth. Micro segment (+19.6% YoY) and corporate segment (+28.3% YoY)- 57.3% driven by SOEs' loan, are the major driver of loan growth. Micro lending is still BRI main business as it composes 31.8% of BRI total loan portfolio. The growth in SOEs' loans and asset consolidation helped improved BRI's loan quality reflected by declining NPL from 2.8 in 2010 to 2.3 in 2011.

Loan growth to recover

We expect BRI loan growth to recover. We forecast that loan will grow by 20.3% CAGR by 2014. Our forecast is supported by the expectation of strong GDP growth, which will push lending higher. The revitalization program rolled in 2011, along with the continue expansion of BRI outlets, especially its Teras outlet (1,304 units as of 2011) which will reach new areas and smaller borrowers.

Risk of inflation & low interest rate environment

Threat of higher inflation due to the possibility of the government increasing subsidized fuel price still remains, however, it should not raise excessive concern, as loan made up 69% of BRI earnings asset, whereas only 10.2% is made up of securities (including government recap bonds), and it has almost equal mix of fixed and variable rate. On the other hand, escalated competition and low interest rate environment will put pressure on BRI's margin. We forecast that BRI's NIM will decline further in 2012 to 8.6% and is expected to remain within 8.5%-9% range for the next few years. BRI's business mix which focuses on micro segment should provide support to its NIM.

Upgrading our valuation to IDR 7,500

As a result of our change in forecast for BRI's loan growth and NIM, we have updated our valuation for BRI to IDR 7,500. At this price, BRI will be trading at 3x 2012F P/B multiple, which is justified due to BRI's consistent high ROE, averaging 31.1% for the past 5 years.

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Ticker: BBRI

Stock Data	
Sector	Banks
Price (11th of April 2012)	6,900
Target Price 2012	7,500
EPS 2011A	612
EPS 2012E	683
EPS 2013F	842
Market Cap (IDR trillion)	169
Issued Shares (mil)	24,669.2
Earnings multiple:	
P/E 2011	11.3
P/E 2012—Estimate	10.1
P/E 2013—Forecast	8.2
Five Years Average (CAGR)	
Loan Growth (%)	25.7%
Deposit Growth (%)	24.5%
Interest Income (%)	17.4%
Net Income (%)	29.2%
Shareholders	
Government of Indonesia	56.75%
Public	43.25%



Source: www.corporateinformation.com

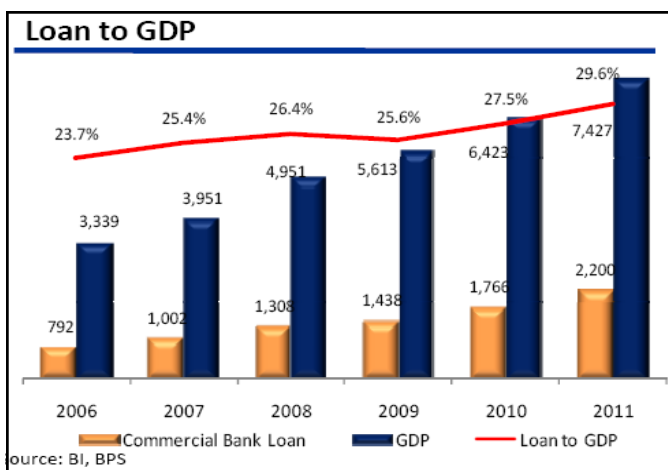
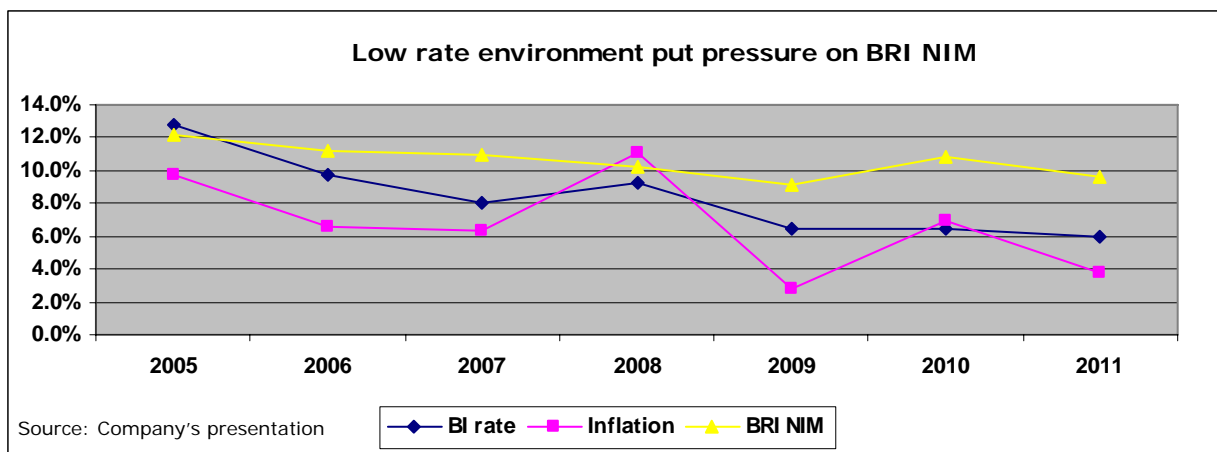
REVENUE FORECAST	2012F	2013F	2014F
Loans Growth (%)	18.5	20	22.7
Net Interest Margin (%)	8.6	8.5	8.9
Net Interest Income (In Rp bn)	38	45.2	57.8

P/B vs ROE comparison between BRI vs its peers

BRI has the best profitability compared to its competitors as can be seen by its consistently high ROE, therefore with our valuation of IDR 7,500, BRI, at present will be valued at 3x 2012F P/B. This valuation is justified by the high ROE.

Name	ROE (%)	P/B
Bank Mandiri	20.7	2.3
Bank BCA	25.2	4.1
Bank Negara Indonesia	15.9	1.8
Bank Danamon	15	2.1
Bank BTPN	25.4	2.9
Bank CIMB Niaga	14.9	1.7
Bank Panin	13	1.5
Bank Rakyat Indonesia	29.8	3
Average	19.9	2.4

Source: Bloomberg. Data based on 2012 consensus & Sinarmas Sekuritas estimate, and closing price as of 3/4/2012



We remain confident that the prospect of Indonesia's strong economic growth will help propel lending growth. In addition, lending growth is supported by banking penetration to GDP ratio, which is still relatively low at 29.6% per FY2011. Therefore there are still plenty of room for growth, and BRI as the king of micro credit with the most extensive network and infrastructure, should benefit from such condition.

<i>Fiscal Year End</i>	2010A	2011A	2012E	2013F	2014F
Income Statement (IDR trillion)					
Interest Income	44.6	48.2	54.5	69.0	84.6
Interest Expense	(11.7)	(13.7)	(16.5)	(23.8)	(26.9)
Net interest income	32.9	34.4	38.0	45.2	57.8
Fees & Other Operating Income	5.5	5.8	6.6	8.6	10.7
Gross operating income	38.4	40.2	44.6	53.8	68.5
Operating Expenses	(16.1)	(17.1)	(18.7)	(21.7)	(26.1)
Pre-provision Operating Profit	22.3	23.1	25.9	32.0	42.4
Provision	(7.9)	(5.5)	(6.2)	(7.4)	(8.1)
Non-operating Profit/Loss	0.5	1.2	1.4	1.3	1.3
Profit Before Tax	14.9	18.8	21.1	26.0	35.6
Income Tax Expense	(3.4)	(3.7)	(4.2)	(5.2)	(7.1)
Net Income	11.5	15.1	16.9	20.8	28.5
Balance Sheet (IDR trillion)					
Cash & Equivalents	10.0	10.5	10.9	14.5	12.7
Gross Loans	252.5	294.5	336.0	403.2	494.7
Government Bonds	13.6	9	22.5	23.2	20.5
Other Earning Assets	113.6	129.1	143.0	175.4	223.1
Total Earning Assets	379.7	432.6	501.5	601.8	738.3
Earning Asset provision	(14.1)	(16.1)	(17.1)	(21.5)	(25.5)
Total Net Earning Assets	365.6	416.5	484.4	580.3	712.8
Fixed Asset—Net	1.6	1.9	2.3	2.8	3.4
Other Assets	27.1	41	58.0	70.0	85.1
Total Asset	404.3	469.9	555.5	667.6	814.1
Total Customer Deposits	333.7	384.3	445.7	540.5	655.0
Other Interest Bearing Liabilities	17.3	19.4	17.0	15.6	20.4
Other Liabilities	16.7	16.5	29.5	31.0	34.1
Total Liabilities	367.6	420.1	492.2	587.1	709.5
Capital Stock & Paid In Capital	8.9	8.9	8.9	8.9	8.9
Retained Earnings & Adjustments	27.8	40.9	54.3	71.6	95.7
Total Shareholders' Equity	36.7	49.8	63.2	80.5	104.6
Total Liabilities & Shareholders' Equity	404.3	469.9	555.5	667.6	814.1
Key Ratio:					
Capital Adequacy Ratio (%)	13.8	15.0	13.9	14.2	14.8
Non Performing Loan (Gross) (%)	2.8	2.3	2.5	3.2	2.7
Net Interest Margin (NIM) (%)	10.8	9.6	8.6	8.5	8.9
DPS (1+actual year)	98.5	85.1	122.4	136.7	168.4
Payout Ratio (%)	20.5	18	20	20	20
NPL Coverage Ratio (%)	205.5	244	199.8	169.1	190.4
Loan Growth (%)	20.1	14.9	18.5	20	22.7
Deposit Growth (%)	29.3	13.3	19.8	21.3	21.2
ROA (%)	4.6	4.9	3.3	3.5	4
Loan To Deposit (LDR) (%)	75.2	76.2	75.4	74.6	75.5
ROE (%)	35.9	35.1	29.8	28.9	30.8
P/E	15.1	11.3	10.1	8.2	6.1
P/BV	4.7	3.5	2.7	2.1	1.6

Historical recommendation and valuation: PT Bank Rakyat Indonesia Tbk

Date	Coverage	Recommendation	Valuation
5/5/2010	Initiation	Buy	IDR 9,650
1/6/2011	Update	Accumulate	IDR 6,900
4/4/2012	Update	Accumulate	IDR 7,500

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