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Ticker: SDRA

Bank Saudara Tbk

Attractive Valuation

NOT-RATED

Bank Saudara is a regional bank based mostly in West Java and Jakarta. It was established in 1906 and went public in 2006. Bank Saudara is a subsidiary of the established Medco group which gives the bank opportunity to capitalize on group synergy.

Business segment

The core business comes from serving the pensioner & employee segment. As of FY 2010, loan to pensioners accounts for 42.7% of its total loan book, whilst loan to employee accounts for 30.6% of its total loan book. Pensioner segment is the main segment and business is enhanced by its strategic relationship with PT Taspen which is one of several pension agencies, and the post office, in which Bank Saudara is acting as the retiree cashier. The strategic relationship with PT Taspen has contributed to the bank's high loan quality (as loan payment is deducted from the pension payment) and profitability. The bank's decision to focus on these two main segments is fruitful, as reflected by the significant growth of its loan book, by 37.6% CAGR since 2006. Growth outlook is still positive as the number of pensioners are expected to grow by 6% annually, which indicates there are still plenty of room for the bank to boost its customer base. In addition, banking penetration is still considered low in Indonesia, at around 31% of GDP.

Financially sound

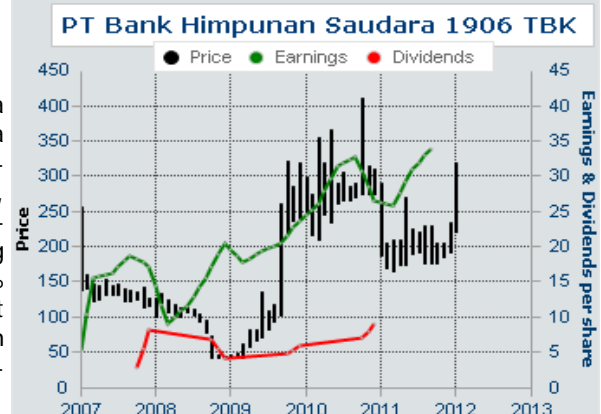
All of the key indicators have shown that Bank Saudara is a well run and well managed bank, which in large part is a tribute to the bank's management team. It is a well capitalized bank with CAR currently stands at 15% as of 3Q2011, far above the required threshold of 8% set by BI. Profitability is also high with 3 years average ROE at 18.5%, along with its ability to generate high NIM at an average of 9.7% since 2006. Furthermore, what is impressive is the fact that asset quality remain clean even with 37.6% CAGR loan growth since 2006. Non performing loan has been kept under 2% consistently since 2006.

Upside potential on valuation

Looking at the potential growth and the target set by the bank, where net profit will reach IDR 100 billion in this year—67% YoY, and loan growth above 30% in 2012, we estimate that the bank's PBV will be around 1.5x 2012F with BVPS of IDR 227. Considering the bank's ROE average of 18.5% for the past three years and historical PBV of 1.8x-1.9x, we think there is still value in the stock.

Stock Data

Sector	Banks
Price (9th February 2012)	340
Target Price 2012	Not-rated
EPS 2009A	24
EPS 2010A	26
EPS 2011E (Annualized)	44
Market Cap (IDR billion)	787
Issued Shares (mil) -	2,317
Earnings multiple	
P/E 2009	14
P/E 2010—Estimate	13
P/E 2011—Forecast	8
Five Years Average (annualized historical)	
Loan Growth (%)	35
Third Party Funds Growth (%)	32
Interest Income (%)	32
Net Income (%)	51
Shareholders (Post IPO)	
Arifin Panigoro	52.9%
PT Medco Intidynamika	11.03%
Public (< 5%)	36.1%



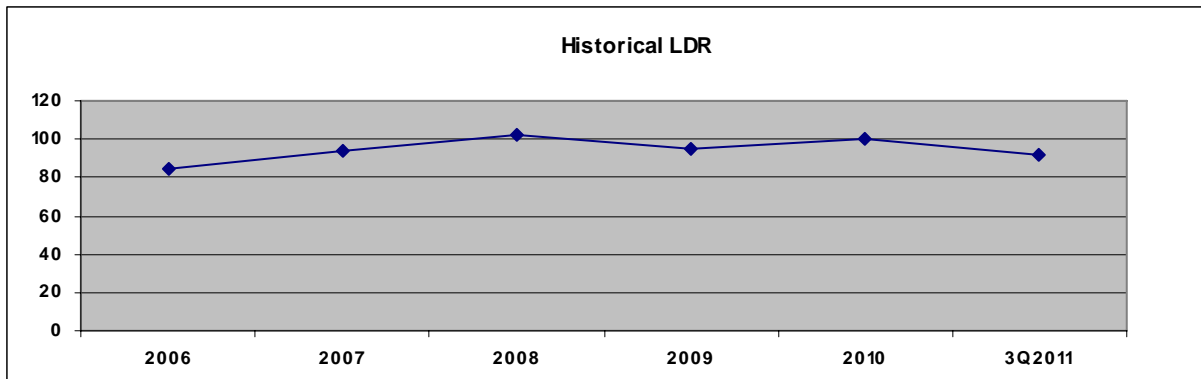
Source: www.corporateinformation.com

Funding could be an issue during period of scarce liquidity

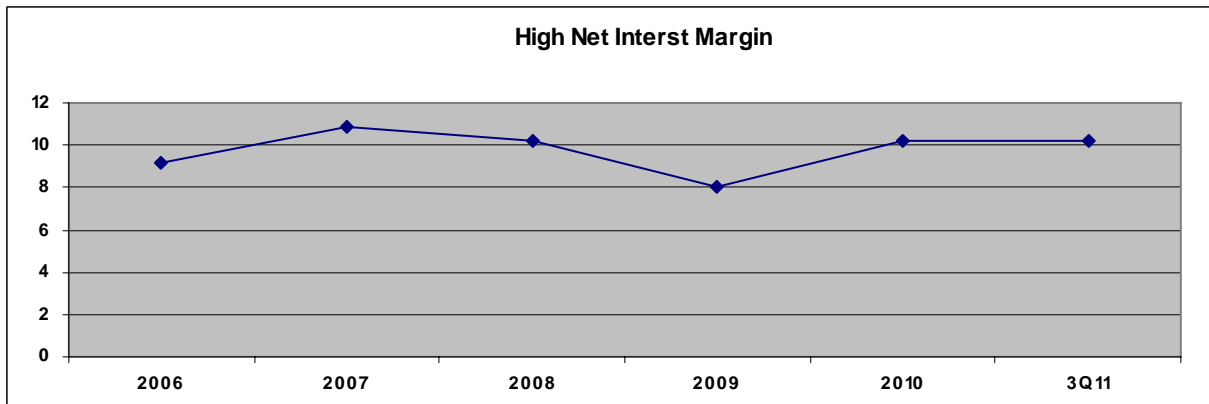
One of the main challenges faced by Bank Saudara is the difficulty in raising third party fund, as the bank does not have a strong funding channel. As of 3Q2011, the bank's LDR stands at 91.3% and has been around the 90%-100% mark for the past few years. Its third party fund is also composed mostly of high cost fund, which made up 83.3% of its third party funding as of 3Q2011. The bank has recently issued IDR 200 billion sub-debt to support its strong loan growth, and in future might need to undertake another round of funding since the rate of its loan growth exceed the growth of its third party fund.

Key banking indicators:

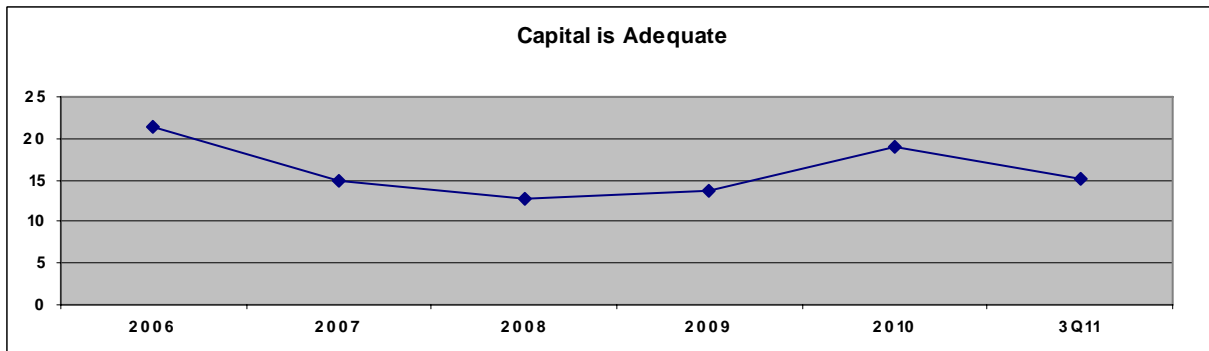
Liquidity:



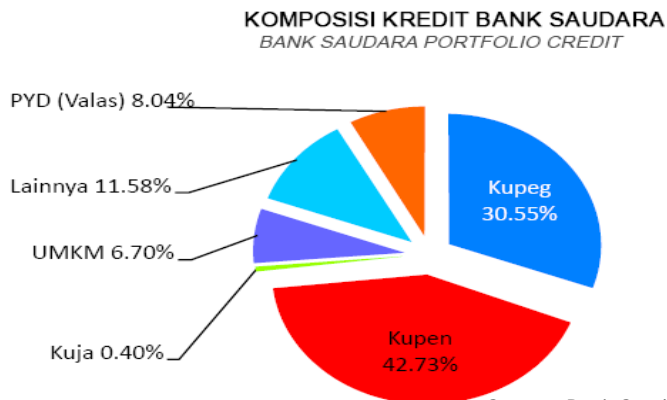
Profitability:



Capital adequacy:



Source: Bloomberg, Bank Saudara annual report 2010

Composition of credit—as of FY2010:


Source: Bank Saudara 2010 annual report

Bank Saudara is faring well in comparison to its competitors (banks with asset under IDR 10T)

<i>Name</i>	<i>NPL</i>	<i>Net Interest Margin</i>	<i>Loan to Deposit</i>	<i>BVPS 3Q11</i>	<i>Trailing P/B (3Q11)</i>	<i>ROE</i>
	(%)	(%)	(%)	(%)		
Bank Saudara	2	10.2	91.4	196	1.8	22
Bank Kesawan	1.2	5.3	67.8	252	2.8	1.8
Bank Bumiputera	8	5.7	86	125	1	-5.9
Bank Agroniaga	4.2	5.7	67.7	95.6	1.4	8.9
Bank Victoria	0.2	1.3	69.2	183.6	0.7	20.4
Bank Capital	0.1	2.5	49.5	122.7	1.3	4.3
Bank Pundi	13.7	-	65.1	31.0	4.3	23.7
Bank Windu	1.8	4.6	78.6	199	1.1	6.4
Bank Bumi Arta	1.6	6.1	66.2	195.4	0.8	6.9

Data is based on 3Q2011 filing. Stock prices are based on 8/2/2012. Source: Bloomberg, Sinarmas Sekuritas

<i>Fiscal Year End</i>	2008A	2009A	2010A	3Q2011
Income Statement (In IDR billion)				
Interest Income	288	326	441	426
Interest Expense	128	166	181	183
Net interest income	160	160	260	243
Fees & Other Operating Income	10	24	1	(31)
Gross operating income	170	184	261	274
Operating Expenses	115	132	178	175
Operating Profit	55	52	84	99
Non-operating Profit/(Loss)	0.6	(1)	(2)	(1)
Profit Before Tax	55	51	82	98
Income Tax Expense	18	15	22	22
Net Income	37	36	60	76
EPS (Rp)	20	24	26	34
Balance Sheet (In IDR billion)				
Cash & Equivalents	128	171	268	363
Loans	1,499	1,897	2,507	3,051
Marketable Securities	18	10	83	106
Other Earning Assets	225	96	188	449
Total Net Earning Assets	1,870	2,174	3,046	3,969
Fixed Asset—Net	36	38	60	70
Other Assets	71	192	139	139
Total Asset	1,977	2,404	3,246	4,179
Total Customer Deposits	1,493	2,028	2,551	3,375
Other Liabilities	283	122	302	350
Total Liabilities	1,777	2,150	2,852	3,725
Capital Stock & Paid In Capital	156	179	278	278
Retained Earnings & Adjustments	44	74	115	176
Total Shareholders' Equity	201	254	394	454
Total Liabilities & Shareholders' Equity	1,977	2,404	3,246	4,179
Key Ratio:				
Capital Adequacy Ratio (%)	12.8	13.8	19.1	15.2
Non Performing Loan (net) (%)	1.2	1.3	1.8	2
Net Interest Margin (NIM) (%)	10.2	8	10.2	10.2
Loan Growth (%)	31	27	32	31
Deposit Growth (%)	20	36	26	45
ROA (%)	2	2	2	3
Loan To Deposit (LDR) (%)	102	95	100	91
ROE (%)	20	16	19	22

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