

## The End of High NIM Era: Implications and Consequences

Sector: Banking



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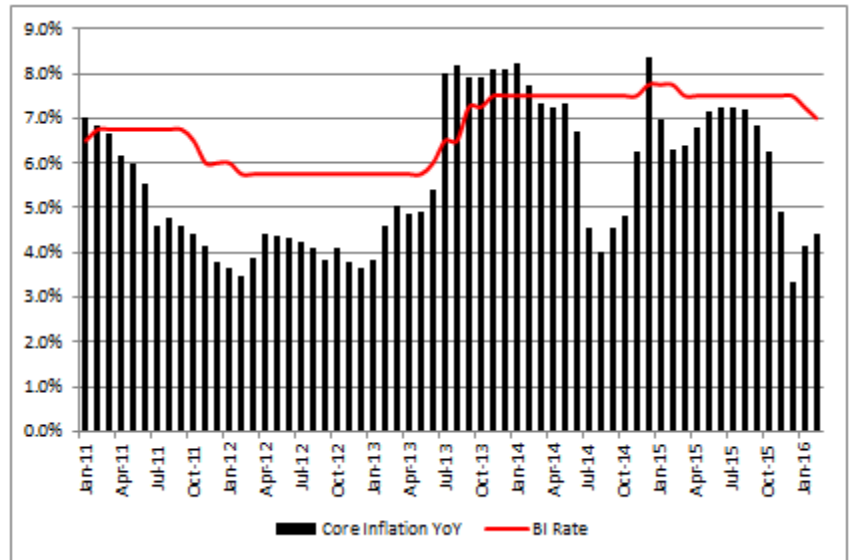
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Interest rate cuts have always been one of the most-awaited catalysts for banks. A combination of lower credit pricing and lower CoF to stimulate demand, while preserving NIM, is a win-win solution for both government and banks to ensure economic recoveries. This argument is especially true during disinflationary cycles. However, is capping lending and deposit rates while liquidity is tight good for the economy?

If we gather macroeconomic pointers, Indonesia's core inflation went down by 187 bps YoY by February 2016, which stretched the real interest rate from 1.46% to 2.58%. On another note, currency strengthening from a 52-week high of IDR 14,828/USD to slightly below IDR 13,000/USD is another room to lower benchmark rate. We believe these two indicators drive Bank Indonesia's decision to lower the BI rate.

BI also lowered the primary reserve requirement as an addition to the three BI rate cuts this year (January, February, and March), indicating our banking system's liquidity issue is more serious than it was before and that BI is cautious of the possibility of capital outflow. With current industry-wide LDR at ~94%, we believe the decision to lower the primary reserve requirement is more effective than cuts in BI rate as it adds to liquidity. Moreover, recent 100 bps cut in primary reserve requirement translates to approximately IDR 35 Tn in added liquidity. Going forward, we view that BI rate cuts must continue to go together with primary reserve requirement easing given tightening liquidity. Aggressive BI rate cuts can distort the dynamics of Indonesian banking system and poses risks of excessive capital outflow.

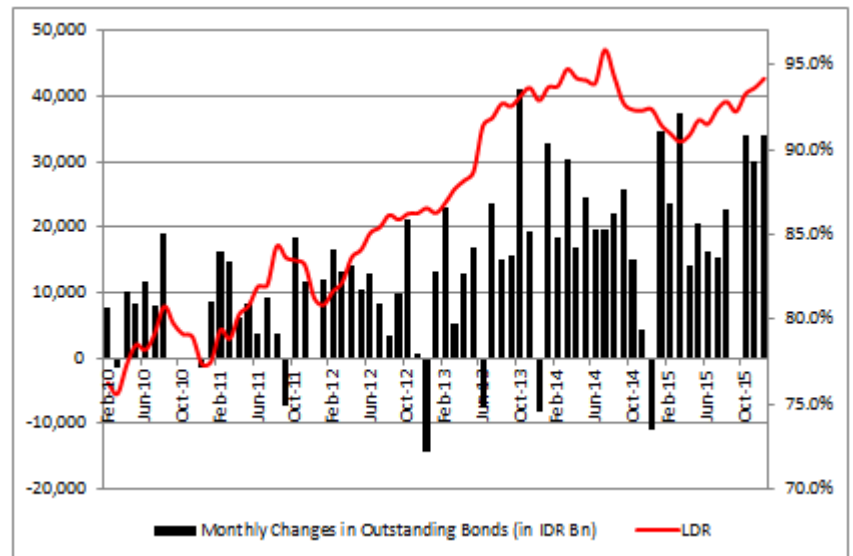
Taking these factors into account, we initially turned bullish on the Indonesian Banking Sector. However, our stance changed following the government and OJK's statements in capping lending rate to single digits. We view that Banking sector will be under immense regulatory pressure at least in the near future given the circumstances. Lending and deposit rate caps could work if liquidity is abundant. We highlight the risks that liquidity will be even more stretched, as deposit growth seems timid at 8% YoY as of 12M15. Outflows from time deposits seem to be around the corner if TD rates keep going down, adding to liquidity concerns, given the elastic demand in TD. Moreover, with lending rates being capped at single digits, banks are more likely to maintain asset quality rather than disburse more credit, which further suppress profitability.



Source: Bloomberg, Sinarmas Investment Research

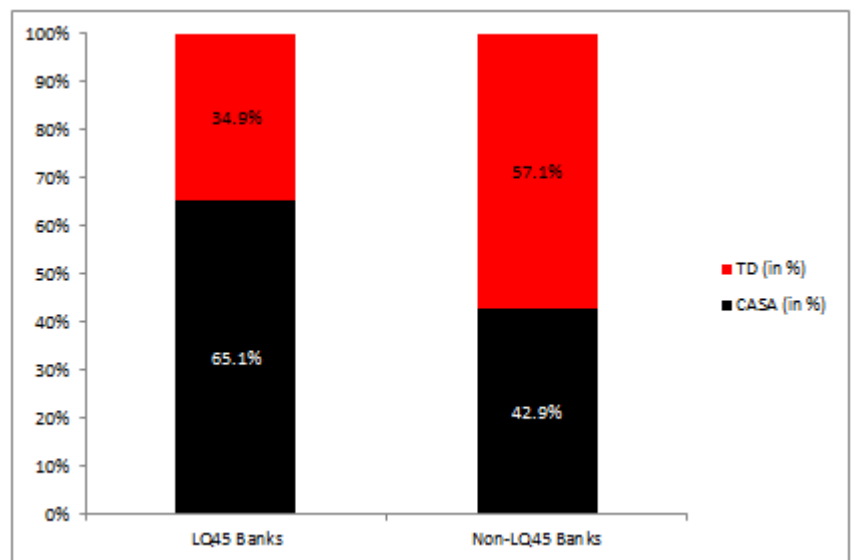
Thirty years ago, deregulation in the banking system through Pakto 88 was done so that our banking system could be more market-oriented. Before Pakto 88, government had full control of lending and deposit rates, which were both 12% by that time. With the intention to cap rates, we are virtually going back to the situation pre-Pakto 88.

To add to these issues, government projects in pipeline could potentially tighten liquidity even more. While good for the economy, government frontloading in bonds in order to fulfill the capital needs in infrastructure projects will inevitably harm banks' liquidity. Moreover, the KUR program (Kredit Usaha Rakyat) will draw additional IDR 100 Tn from the banking system in FY16.



Source: Bank Indonesia, Sinarmas Investment Research

Capping NIM at 4% is also hard to execute, in our view, as it has to be done systematically and gradually. For NIM to be below 4%, risk-free rate has to be 150-200 bps down and banks have to emphasize more on transactional basis to support profitability. Once risk-free rate is lowered, the risk on capital outflow will be reduced and liquidity will be better as TDs become more competitive. Be that as it may, TDs currently contribute ~45% of total customer deposits. Meanwhile, LQ45 banks have relatively higher CASA ratio than those of non-LQ45. While benefiting from the lower CoF, higher CASA levels are also associated with higher operating expenses. Hence, CASA-reliant banks are more efficient in terms of interest spending, while TD-reliant banks are better off operational wise as the operating expense will be less than those of high CASA.



*Source: Bank Indonesia, Sinarmas Investment Research*

We are quite concerned that a reduction in net interest income due to lower lending and deposit rates cannot be supported by the operating expenses needed to keep the business running. There are two main components in banks' operating expense; overhead costs such as G&A and salaries which are fixed costs, and provision expenses which are variables depending on NPL levels. Though lower lending rates do not directly mean lower NPLs, we believe provisioning expense could be curbed, as banks will have to be more conservative in facing current liquidity condition. With narrower NIMs, we also believe banks will have to redefine the threshold level between bankable and non-bankable. Thus, lowering lending rate to stimulate banks' penetration to improve economy is a little bit tricky in current situation. Meanwhile, it will all boil down to how banks manage its overhead costs. Some operating efficiencies efforts have been made by some banks, whether it is through SOE Banks' ATM Himbara or BBKA's ATM "Recycle".

**Conclusions.** We believe lower BI rate and primary reserve requirement could potentially spur growth in the economy. Nevertheless, aggressive moves in lending and deposit rates cap could do more harm than good in our banking system as liquidity is still very tight.

**Assumptions.** In our models, we assume BI rate will stay at 6.75% for the rest of the year, and we assume that lending rates are single digits (except for subsidized loans) and TD rates are lowered to inflation + 1% for SOE Banks, 75 bps above BI rate for BUKU IV, and 100 bps above BI rate for BUKU III. While on asset quality, we view that NPL cycle is not over yet and we inserted 50 bps increase in NPL across all loan sectors except subsidized loans, given assurance from Jamkrindo and Askrindo. Taking those considerations into account, we project flat net profit growth for most banks, except PT Bank Tabungan Negara (Persero) Tbk, which is benefited by the massive volumes coming from the One Million Housing program.

Nonetheless, we downgrade Indonesian Banking Sector from Overweight to Neutral until further clarifications concerning lending, deposit and NIM cap. As for banks under our coverage, our top pick is PT Bank Tabungan Negara (Persero) Tbk (BBTN) with 52-week target price of IDR 1,865 per share.

### Recommendations

Ticker ID	CP	TP	Call	P/E	P/BV
BMRI IJ / BMRI JK	10,075	10,640	NEUTRAL	11.6	2.0
BBRI IJ / BBRI JK	11,175	11,830	NEUTRAL	10.8	2.4
BBCA IJ / BBKA JK	13,675	14,035	NEUTRAL	18.7	3.8
BBNI IJ / BBNI JK	5,375	5,890	NEUTRAL	11.1	1.3
BBTN IJ / BBTN JK	1,755	1,865	NEUTRAL	10.0	1.3

## Site Visit “One Million Housing”



Source: Sinarmas Investment Research



Source: Sinarmas Investment Research



Source: Sinarmas Investment Research

We recently had a chance to conduct site visit with some of our clients to the One Million Housing project in Tangerang, and had to hear testimonials from one of the subsidized housing developers. When we arrived at BTN’s Tangerang Branch, we were astonished by the number of potential borrowers who were queuing to apply mortgages. There were some customers who were waiting to pay the monthly installments too. With 5% interest rate, the government has made buying a house possible for citizens with monthly salary of less than IDR 4 Mn.

In our meeting, the Tangerang Branch Management Team explained some of the efficiency steps that the bank has been preparing to anticipate demands that are overflowed. Whether it was through online application, or by adding some divisions to shorten the steps needed before. Having heard their views, we believe that demand for mortgages will always be there, and the only thing that is lacking right now is the number of developers to build the houses. Thus, BBTN tries to support the program by construction loans as well. Normally following the construction loans, mortgages for that very same site will go to BBTN as well.

In Tangerang, the bank currently sees that demand for mortgages almost doubled the number of housing that is ready. Thus, we believe that the government’s One Million Housing program will continue to benefit BBTN for the next few years.

**Company Update**
**Evan Lie Hadiwidjaja**

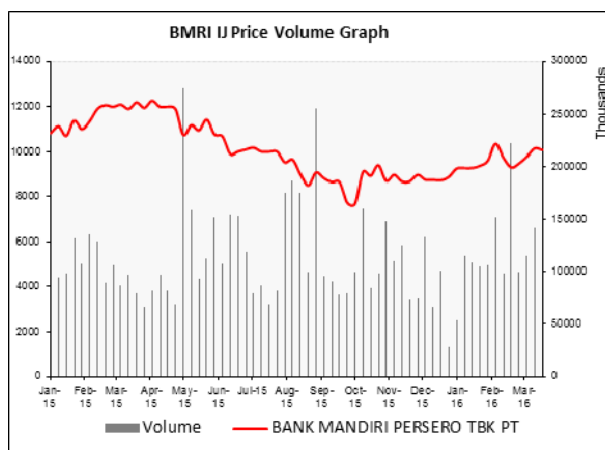
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PT Bank Mandiri (Persero) Tbk is formed by the merger of four state-owned banks, namely PT Bank Bumi Daya, PT Bank Dagang Negara, PT Bank Ekspor Import Indonesia (Bank Exim), PT Bank Pembangunan Indonesia (Bank Bapindo). The bank operates in the commercial banking services.

**Current Price: IDR 10,075**
**52-Week Target Price: IDR 10,640**
*Previous Target Price: IDR 8,215*

**PT Bank Mandiri (Persero) Tbk (BMRI)**
**FY15 Earnings Update and a Glimpse of 2016**
**NEUTRAL**

We maintain our **NEUTRAL** call on **PT Bank Mandiri (Persero) Tbk** with **52-week target price of IDR 10,640, deriving via GGM**. We raised our TP due to improvement in CASA and NIM, as well as accelerating government projects in 2016. At macro level, lending and deposit rate cap will pressure profitability. Unless risk-free rate can be pushed further down from current level of 7.75%, TDs will be less competitive.

**FY15 Net profit after tax was recorded at IDR 21.2 Tn (up 2.4% YoY)**. Net interest income grew by 15.9% YoY, driven by declining trend in TD. Total loans grew by 12.2% YoY, with the biggest contributions coming from Micro and Commercial (up 17.8% YoY and 15.4% YoY respectively). Meanwhile, total customer deposits were recorded at IDR 676.4 Tn (up 6.3% YoY), despite negative growth of 9.1% YoY in TD, bringing CASA to 65.6% as of FY15.

**Asset quality remains to be under pressure due to the economic slowdown**. As of December 2015, gross NPL ratio stood at 2.6% (up 45 bps YoY). With the deterioration in asset quality, Bank Mandiri held its coverage ratio at 146.1% and booked IDR 11.7 Tn (up 104.0% YoY) in provisioning expense as of FY15. We view the NPL cycle for banking industry is not over and will continue to worsen, at least until 2Q16, given the time lag in economy recovery.

**There are two major events happening in 2016; management changes and IDR 22 Tn asset revaluation**. We remain cautious on BMRI as there will be management changes this year, which raises a possibility of a surprise in the provisioning expense. On our model, we raised NPL by 50 bps on each sector to anticipate possible balance sheet restructuring. Although, we lowered coverage ratio from 146.1% in FY15 to 136.5% in FY16E as we see some of the restructuring had been done in 2015. As for the asset revaluation, we see additional capital into BMRI will help the bank facing current liquidity condition, especially given the downtrend in BI rate that poses risk to capital outflow in TD.

**Share Price Performance**

Price (IDR)	10,075
52-Week High (04/01/15)	12,550
52-Week Low (09/29/15)	7,150
52-Week Beta	1.18
YTD Change/%	+825/+8.9%

**Stock Information**

Market Cap (IDR)	235,083.3 Bn
Shares Out/Float (M)	23,333.3/9,333.3

**Financial Highlights**

	2014	2015	2016E	2017F	2018F
Net Interest Income	39,132	45,363	46,577	47,599	47,595
% growth		15.9%	2.7%	2.2%	0.0%
Provision	5,718	11,665	15,179	16,326	11,614
% growth		104.0%	30.1%	7.6%	-28.9%
Net Income After Tax	20,655	21,152	20,098	20,804	23,415
% growth		2.4%	-5.0%	3.5%	12.6%
LDR (%)	82.2%	86.7%	87.3%	88.9%	90.9%
NPL (%)	2.2%	2.6%	3.1%	3.0%	2.9%
NIM (%)	5.4%	5.7%	5.4%	5.1%	4.6%

*Source: Company Data, Sinarmas Investment Research*
**Please see important disclaimer and disclosure at the end of the document**

<b>B/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Cash and Equivalents	20,705	25,109	40,063	48,916	56,596
CA w/ Central Banks	50,599	56,314	62,913	71,236	80,399
CA w/ Other Banks	8,983	10,152	10,238	10,392	9,639
Interbank Placement	61,118	37,321	34,452	31,672	28,991
Total Loans - Net	505,395	564,394	622,918	693,074	766,963
Marketable Securities	60,210	44,318	51,464	56,737	66,239
Government Bonds	86,154	103,869	111,416	121,389	133,804
Fixed Assets	8,929	9,762	35,002	36,052	37,134
Total Assets	855,040	910,063	1,027,041	1,128,832	1,239,592
Demand Deposits	128,067	172,166	195,258	217,786	244,355
Saving Deposits	252,445	271,708	301,032	326,218	348,065
Time Deposits	255,870	232,514	248,907	269,869	287,725
Total Customer Deposits	636,382	676,387	745,196	813,874	880,146
Deposits From Other Banks	17,774	12,954	13,030	12,726	12,740
Marketable Securities	2,010	2,398	2,447	2,745	3,059
Fund Borrowings	24,227	33,765	44,005	61,401	85,943
Sub Debts	3,747	3,738	3,341	3,001	2,717
Total Liabilities	750,195	790,572	868,992	955,943	1,049,098
Total Equity	104,845	119,492	158,048	172,890	190,494

Source: Company Data, Sinarmas Investment Research

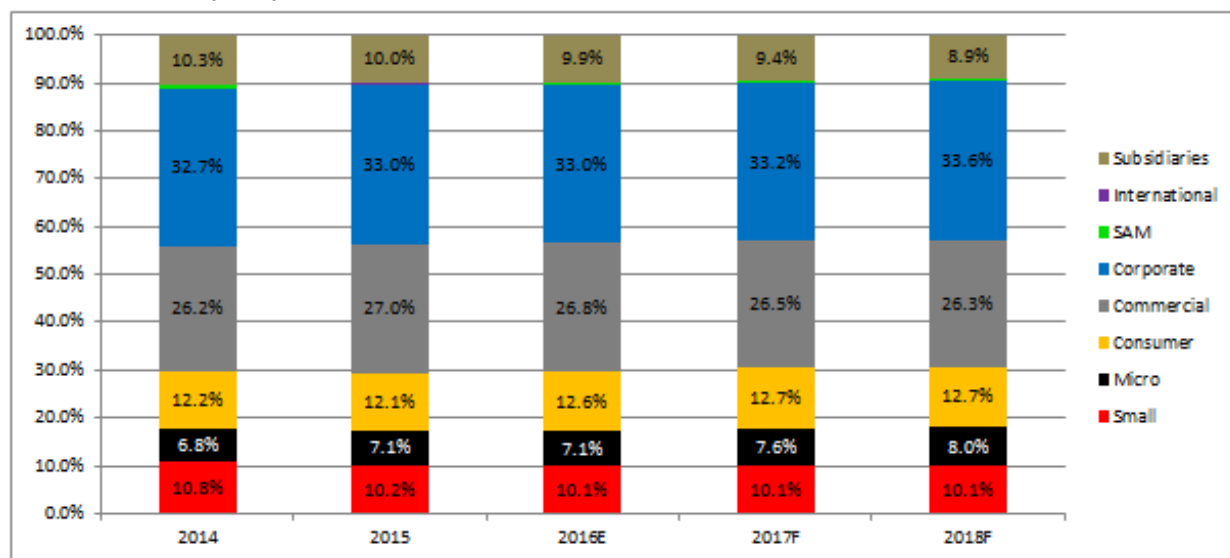
<b>I/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Interest Income	62,638	71,570	70,754	73,347	74,869
% growth		14.3%	-1.1%	3.7%	2.1%
Interest Expense	23,506	26,207	24,176	25,748	27,274
% growth		11.5%	-7.7%	6.5%	5.9%
Net Interest Income	39,132	45,363	46,577	47,599	47,595
% growth		15.9%	2.7%	2.2%	0.0%
Other Operating Income	17,938	21,395	24,636	27,960	31,501
% growth		19.3%	15.1%	13.5%	12.7%
Provision Expense	5,718	11,665	15,179	16,326	11,614
% growth		104.0%	30.1%	7.6%	-28.9%
Other Operating Expense	25,374	28,755	30,911	33,229	38,214
% growth		13.3%	7.5%	7.5%	15.0%
Net Operating Income	25,978	26,339	25,123	26,004	29,269
% growth		1.4%	-4.6%	3.5%	12.6%
Income Before Tax Expense	26,008	26,369	25,123	26,004	29,269
% growth		1.4%	-4.7%	3.5%	12.6%
Tax Expense (%)	21%	20%	20%	20%	20%
Net Income	20,655	21,152	20,098	20,804	23,415
% growth		2.4%	-5.0%	3.5%	12.6%

Source: Company Data, Sinarmas Investment Research

Key Ratios (%)	2014	2015	2016E	2017F	2018F
LDR	82.2%	86.7%	87.3%	88.9%	90.9%
LFR	76.5%	80.5%	80.5%	80.9%	81.3%
CASA	59.8%	65.6%	66.6%	66.8%	67.3%
NIM	5.4%	5.7%	5.4%	5.1%	4.6%
Avg. Loan Yield	11.2%	11.3%	9.8%	9.0%	8.0%
Avg. Deposit CoF	3.6%	3.6%	3.0%	2.8%	2.6%
NPL Gross	2.2%	2.6%	3.1%	3.0%	2.9%
NPL Net	0.8%	0.9%	1.1%	1.1%	1.0%
Credit Cost	3.4%	3.8%	4.2%	4.2%	4.1%
Coverage Ratio	157.4%	146.1%	136.5%	139.4%	142.6%
CIR	67.8%	71.7%	73.7%	74.3%	72.5%
CER	54.5%	60.5%	64.7%	65.6%	63.0%
ROA	2.6%	2.4%	2.1%	1.9%	2.0%
ROE	21.3%	18.9%	14.5%	12.6%	12.9%

Source: Company Data, Sinarmas Investment Research

### Loans Portfolio (in %)



Source: Company Data, Sinarmas Investment Research



**Company Update**
**Evan Lie Hadiwidjaja**

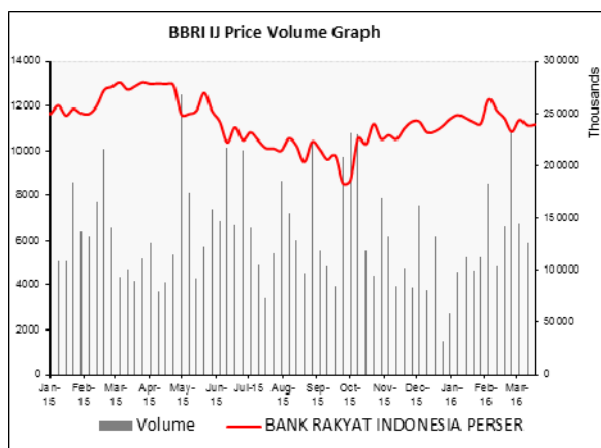
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**PT Bank Rakyat Indonesia (Persero) Tbk provides commercial banking activities and its related services. The bank also provides banking activities based on shariah principles.**

**Current Price: IDR 11,175**
**52-Week Target Price: IDR 11,830**
*Previous Target Price: IDR 13,775*

**PT Bank Rakyat Indonesia (Persero) Tbk (BBRI)**
**FY15 Earnings Update and a Glimpse of 2016**
**NEUTRAL**

**We downgrade PT Bank Rakyat Indonesia (Persero) Tbk to NEUTRAL with 52-week target price of IDR 11,830, deriving via GGM.** We are less enthusiastic on KUR as the government plans to cap deposit rates. Given the current liquidity condition in the industry, it will be quite a challenge for BBRI to fund IDR 60 Tn KUR. At macro level, lending and deposit rate cap will pressure profitability. Unless risk-free rate can be pushed further down from current level of 7.75%, TDs will be less competitive.

**FY15 Net profit after tax was recorded at IDR 25.4 Tn (up 4.8% YoY).** Net interest income grew by 13.3% YoY, driven by improvement in CASA collection and accelerating KUR disbursement towards the end of the year. Within the last four months of 2015, disbursement in Micro KUR alone was recorded at IDR 12.7 Tn with 900,000 borrowers; Retail KUR disbursement amounted to 3.3 Tn in 2015. Bank Rakyat has been very aggressive in KUR disbursement and is targeting IDR 60 Tn this year. Meanwhile, total customer deposits grew by 7.5% YoY as of FY15 (CASA up 18.5% YoY, TD dn 4.6% YoY).

**Cannibalism within BBRI's products, and against other banks, could not be hindered though it will take longer time.** Though market share war in KUR will inevitably take place, Bank Rakyat is quite resilient, as it has the largest infrastructure and demand will overflow anyway. Meanwhile, we initially judged that cannibalism between KUR and Kupedes could potentially curb the credit growth volume. However, dividing Micro KUR disbursement with the number of customers, average ticket size of KUR is still below IDR 15 Mn, which is still far from Kupedes which is at IDR 30 Mn.

**Despite the attractiveness in KUR, it will be quite a challenge to fund IDR 60 Tn KUR.** Despite the progress made in CASA collection, operating expense will surge along the process. We believe BRI Satellite is the perfect step going forward. While it improves operating expense, it also supports the bank's fee-based income. Nevertheless, we took neutral stance on the bank on the back of our assumptions that liquidity will worsen this year.

**Share Price Performance**

Price (IDR)	11,175
52-Week High (04/01/15)	13,450
52-Week Low (09/29/15)	7,975
52-Week Beta	1.30
YTD Change/%	-250/-2.2%

**Stock Information**

Market Cap (IDR)	275,677.9 Bn
Shares Out/Float (M)	24,669.2/10,669.2

**Financial Highlights**

	2014	2015	2016E	2017F	2018F
Net Interest Income	51,442	58,280	65,574	70,158	72,233
% growth		13.3%	12.5%	7.0%	3.0%
Provision	5,722	8,891	11,286	12,486	13,629
% growth		55.4%	26.9%	10.6%	9.2%
Net Income After Tax	24,254	25,411	26,826	27,656	27,979
% growth		4.8%	5.6%	3.1%	1.2%
LDR (%)	82.1%	86.9%	90.3%	91.0%	90.4%
NPL (%)	1.7%	2.0%	2.2%	2.2%	2.1%
NIM (%)	8.1%	7.7%	7.6%	7.2%	6.7%

*Source: Company Data, Sinarmas Investment Research*
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<b>B/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Cash and Equivalents	22,469	28,772	22,337	36,125	51,347
CA w/ Central Banks	51,184	61,718	72,153	82,349	98,202
CA w/ Other Banks	10,580	8,736	9,793	11,678	12,318
Interbank Placement	62,035	49,835	45,206	41,088	42,379
Total Loans - Net	494,534	563,580	662,020	749,712	839,362
Marketable Securities	84,168	124,874	131,117	137,673	144,557
Government Bonds	4,304	3,816	3,080	2,830	2,519
Fixed Assets	5,917	8,039	19,603	20,583	21,612
Total Assets	801,955	878,426	995,017	1,112,661	1,243,396
Demand Deposits	90,052	114,367	131,522	147,156	169,275
Saving Deposits	236,395	272,471	299,718	334,561	370,544
Time Deposits	295,875	282,157	324,481	368,194	417,255
Total Customer Deposits	622,322	668,995	755,721	849,911	957,074
Deposits From Other Banks	8,655	11,165	11,723	12,309	12,925
Marketable Securities	15,457	11,378	12,516	13,767	15,144
Fund Borrowings	24,987	35,480	37,254	39,117	41,073
Sub Debts	78	56	65	75	86
Total Liabilities	704,218	765,299	855,112	953,607	1,065,195
Total Equity	97,737	113,127	139,906	159,054	178,201

Source: Company Data, Sinarmas Investment Research

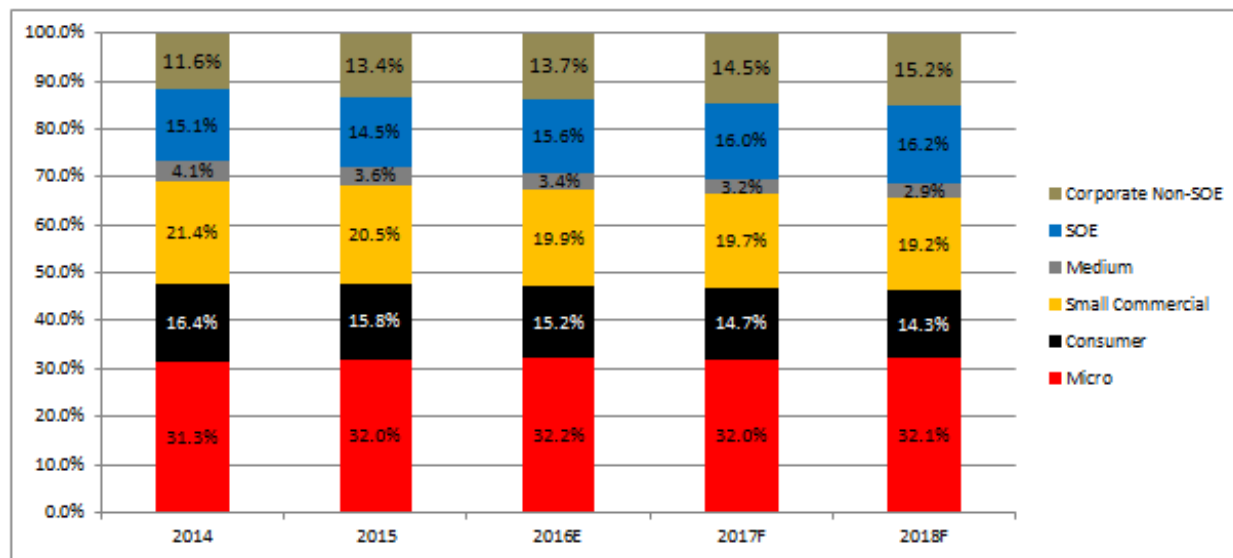
<b>I/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Interest Income	75,122	85,434	89,912	96,189	99,458
% growth		13.7%	5.2%	7.0%	3.4%
Interest Expense	23,680	27,154	24,339	26,031	27,225
% growth		14.7%	-10.4%	7.0%	4.6%
Net Interest Income	51,442	58,280	65,574	70,158	72,233
% growth		13.3%	12.5%	7.0%	3.0%
Other Operating Income	9,299	12,409	14,224	16,020	19,154
% growth		33.4%	14.6%	12.6%	19.6%
Provision Expense	5,722	8,891	11,286	12,486	13,629
% growth		55.4%	26.9%	10.6%	9.2%
Other Operating Expense	26,658	31,285	34,980	39,121	42,784
% growth		17.4%	11.8%	11.8%	9.4%
Net Operating Income	28,362	30,513	33,532	34,570	34,974
% growth		7.6%	9.9%	3.1%	1.2%
Income Before Tax Expense	30,859	32,494	33,532	34,570	34,974
% growth		5.3%	3.2%	3.1%	1.2%
Tax Expense (%)	21%	22%	20%	20%	20%
Net Income	24,254	25,411	26,826	27,656	27,979
% growth		4.8%	5.6%	3.1%	1.2%

Source: Company Data, Sinarmas Investment Research

Key Ratios (%)	2014	2015	2016E	2017F	2018F
LDR	82.1%	86.9%	90.3%	91.0%	90.4%
LFR	76.1%	79.9%	83.5%	84.5%	84.3%
CASA	52.5%	57.8%	57.1%	56.7%	56.4%
NIM	8.1%	7.7%	7.6%	7.2%	6.7%
Avg. Loan Yield	14.7%	14.5%	13.0%	12.2%	11.2%
Avg. Deposit CoF	3.8%	3.7%	3.0%	2.8%	2.6%
NPL Gross	1.7%	2.0%	2.2%	2.2%	2.1%
NPL Net	0.4%	0.5%	0.5%	0.5%	0.5%
Credit Cost	3.2%	3.0%	3.0%	3.0%	3.0%
Coverage Ratio	187.5%	149.5%	136.7%	139.9%	143.5%
CIR	66.4%	68.8%	67.8%	69.2%	70.5%
CER	53.3%	56.8%	58.0%	59.9%	61.7%
ROA	3.4%	3.0%	2.9%	2.6%	2.4%
ROE	27.4%	24.1%	21.2%	18.5%	16.6%

Source: Company Data, Sinarmas Investment Research

### Loans Portfolio (in %)



Source: Company Data, Sinarmas Investment Research

**Company Update**
**Evan Lie Hadiwidjaja**

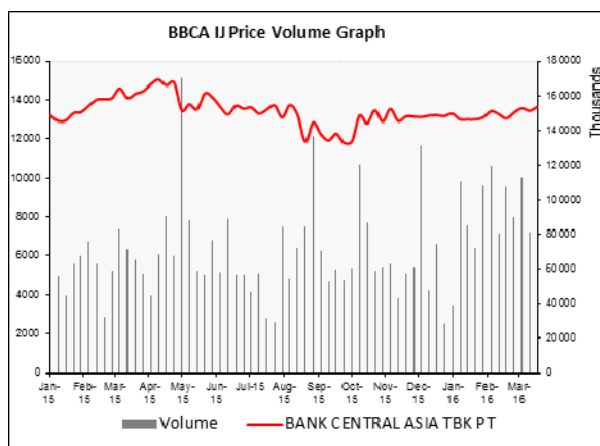
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**PT Bank Central Asia Tbk provides commercial banking activities and its related services. The bank also provides banking activities based on shariah principles.**

**Current Price: IDR 13,675**
**52-Week Target Price: IDR 14,035**
*Previous Target Price: IDR 13,750*

**PT Bank Central Asia Tbk (BBCA)**
**FY15 Earnings Update and a Glimpse of 2016**
**NEUTRAL**

**We maintain our NEUTRAL call on PT Bank Central Asia Tbk with 52-week target price of IDR 14,035, deriving via GGM.** We slightly raise our target price and despite the lending and deposit rate cap by the government. We view that BBCA will be more resilient compared to its peers due to strong fee-based income to support its profitability. Operational wise, BBCA has strong CER, which curbs volatility in earnings.

**FY15 Net profit after tax was recorded at IDR 18.0 Tn (up 9.2% YoY).** Net interest income grew by 12.0% YoY driven by major TD rate cuts in 2015 (eight times 25 bps). As of FY15, lending growth was recorded at 12.0% YoY, while deposit only stood at 5.9% YoY. Lending growth was driven by corporate loans, which grew by 17.4% YoY (some corporate borrowings were converted into IDR). On the liabilities, BBCA cut TD rate by 250 bps (from 7.25% to 5.25%). This has caused some outflows from TD, which then improves the bank's LDR accelerates net interest income. Due to deterioration in asset quality, BBCA kept the coverage ratio above 300% in FY15, though the bank plans to tone it down in 2016.

**Government frontloading in bonds will absorb 20-30% BBCA's funding.** With massive bonds issuance from the government, management says that liquidity in the bank will get tighter, and may absorb 20-30% of its funding. The bank had lowered TD rates from February 2015, which currently puts their TD rates below the cap that government plans to set. As for lending, 62% of its loan portfolio is allocated in corporate loans, which have blended rate of 9.7%, while for the 38% of loan portfolio, commercial and retail, have blended rate of 10.8% and 11.8% respectively.

**BBCA is least affected by the lending and deposit rate cap compared to its peers, though high operating expense coming from CASA may suppress profitability.** Different from TD-reliant banks, BBCA has higher operating expense due to its exposure in CASA. ATM "Recycle" will continue to improve CER, despite high capex to purchase the machines. We rate BBCA as NEUTRAL due to its premium valuation of 3.6x P/BV.

**Share Price Performance**

Price (IDR)	13,675
52-Week High (04/01/15)	15,600
52-Week Low (09/29/15)	11,000
52-Week Beta	0.98
YTD Change/%	+375/+2.8%

**Stock Information**

Market Cap (IDR)	337,157.3 Bn
Shares Out/Float (M)	24,655.0/12,535.0

**Financial Highlights**

	2014	2015	2016E	2017F	2018F
Net Interest Income	32,027	35,869	38,155	40,202	41,418
% growth		12.0%	6.4%	5.4%	3.0%
Provision	2,240	3,505	5,530	5,953	6,292
% growth		56.5%	57.8%	7.6%	5.7%
Net Income After Tax	16,512	18,036	18,109	19,184	19,725
% growth		9.2%	0.4%	5.9%	2.8%
LDR (%)	77.5%	81.9%	83.3%	85.6%	86.8%
NPL (%)	0.6%	0.7%	1.0%	1.0%	0.9%
NIM (%)	7.3%	7.1%	6.8%	6.6%	6.3%

*Source: Company Data, Sinarmas Investment Research*
**Please see important disclaimer and disclosure at the end of the document**

<b>B/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Cash and Equivalents	19,578	17,849	32,938	40,323	51,864
CA w/ Central Banks	38,875	37,775	39,411	40,939	42,494
CA w/ Other Banks	4,614	8,439	9,705	11,160	12,835
Interbank Placement	11,502	56,259	56,259	56,259	56,259
Total Loans - Net	341,971	381,552	424,552	473,593	519,168
Marketable Securities	72,045	51,153	50,938	51,888	52,796
Government Bonds	-	-	-	-	-
Fixed Assets	8,845	9,712	17,016	17,867	18,760
Total Assets	552,424	594,373	663,074	724,878	787,368
Demand Deposits	107,419	115,653	128,444	137,978	148,384
Saving Deposits	229,290	244,960	267,160	286,844	306,519
Time Deposits	113,446	116,207	129,594	145,165	160,632
Total Customer Deposits	450,155	476,820	525,197	569,987	615,536
Deposits From Other Banks	3,754	4,156	4,349	5,083	5,662
Marketable Securities	2,504	2,821	3,314	3,548	3,660
Fund Borrowings	3,081	1,743	2,005	2,306	2,651
Sub Debts	-	-	-	-	-
Total Liabilities	474,503	504,748	554,686	601,418	648,540
Total Equity	77,921	89,625	108,388	123,460	138,827

Source: Company Data, Sinarmas Investment Research

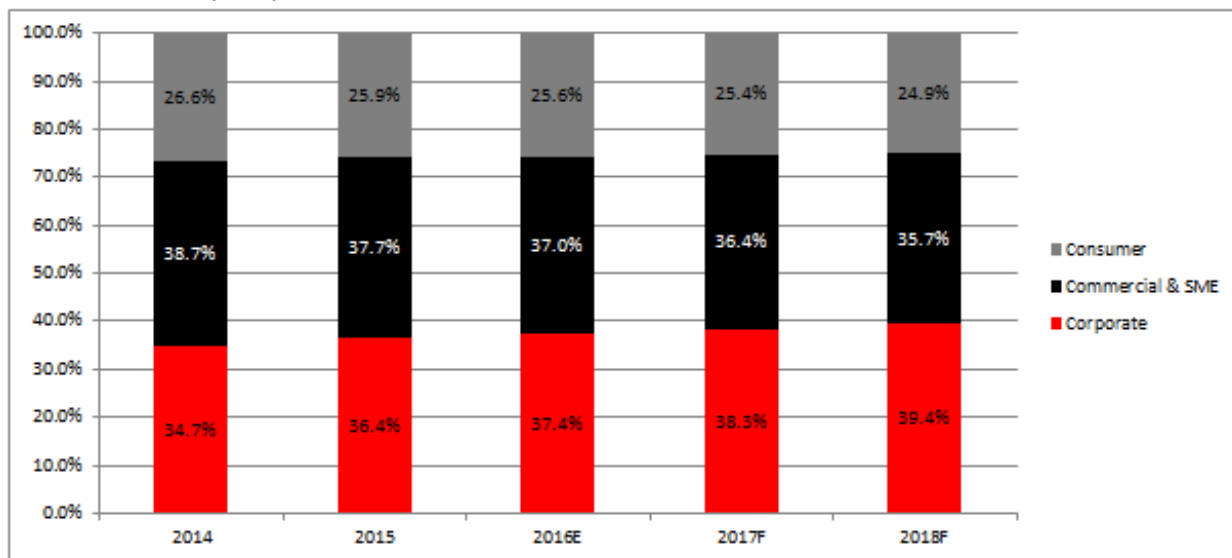
<b>I/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Interest Income	43,771	47,082	50,038	52,855	54,487
% growth		7.6%	6.3%	5.6%	3.1%
Interest Expense	11,745	11,213	11,883	12,653	13,069
% growth		-4.5%	6.0%	6.5%	3.3%
Net Interest Income	32,027	35,869	38,155	40,202	41,418
% growth		12.0%	6.4%	5.4%	3.0%
Other Operating Income	9,024	12,007	13,924	16,067	18,535
% growth		33.1%	16.0%	15.4%	15.4%
Provision Expense	2,240	3,505	5,530	5,953	6,292
% growth		56.5%	57.8%	7.6%	5.7%
Other Operating Expense	18,306	21,714	23,913	26,336	29,005
% growth		18.6%	10.1%	10.1%	10.1%
Net Operating Income	20,505	22,657	22,636	23,980	24,657
% growth		10.5%	-0.1%	5.9%	2.8%
Income Before Tax Expense	20,741	22,657	22,636	23,980	24,657
% growth		9.2%	-0.1%	5.9%	2.8%
Tax Expense (%)	20%	20%	20%	20%	20%
Net Income	16,512	18,036	18,109	19,184	19,725
% growth		9.2%	0.4%	5.9%	2.8%

Source: Company Data, Sinarmas Investment Research

Key Ratios (%)	2014	2015	2016E	2017F	2018F
LDR	77.5%	81.9%	83.3%	85.6%	86.8%
LFR	75.9%	80.5%	81.8%	84.0%	85.1%
CASA	74.8%	75.6%	75.3%	74.5%	73.9%
NIM	7.3%	7.1%	6.8%	6.6%	6.3%
Avg. Loan Yield	10.4%	10.3%	9.7%	9.1%	8.4%
Avg. Deposit CoF	2.4%	2.1%	2.0%	2.0%	1.8%
NPL Gross	0.6%	0.7%	1.0%	1.0%	0.9%
NPL Net	0.2%	0.2%	0.3%	0.3%	0.3%
Credit Cost	1.9%	2.3%	3.0%	2.9%	2.8%
Coverage Ratio	324.2%	322.2%	295.5%	296.8%	298.3%
CIR	61.2%	61.7%	64.6%	65.2%	66.2%
CER	50.1%	52.7%	56.5%	57.4%	58.9%
ROA	3.1%	3.1%	2.9%	2.8%	2.6%
ROE	23.3%	21.5%	18.3%	16.5%	15.0%

Source: Company Data, Sinarmas Investment Research

#### Loans Portfolio (in %)



Source: Company Data, Sinarmas Investment Research

**Company Update**
**Evan Lie Hadiwidjaja**

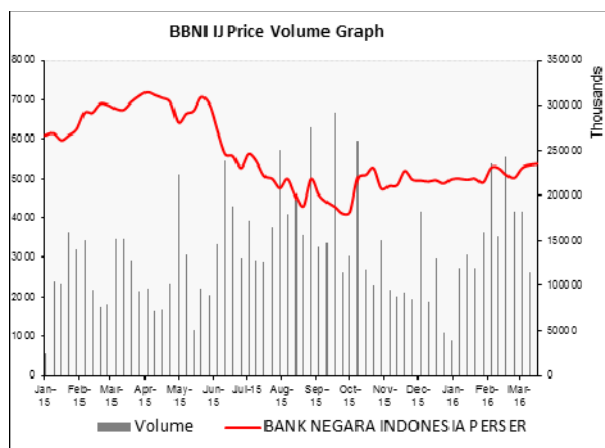
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**PT Bank Negara Indonesia (Persero) Tbk provides commercial banking activities and its related services. The bank also provides banking activities based on shariah principles.**

**Current Price: IDR 5,375**
**52-Week Target Price: IDR 5,890**
*Previous Target Price: IDR 5,845*

**PT Bank Negara Indonesia (Persero) Tbk (BBNI)**
**FY15 Earnings Update and a Glimpse of 2016**
**NEUTRAL**

**We downgrade PT Bank Negara Indonesia (Persero) Tbk to NEUTRAL with 52-week target price of IDR 5,890, deriving via GGM.** While we believe that asset quality is in much better shape after restructuring done in 2015, we view that Bank Negara might face a speed bump as liquidity is getting tighter and the government plans to put a regulation on TD rate. Thus, we remain cautious that TD rate cap might curb the bank's ability to disburse credit this year. While bilateral loans could be an option, high CoF associated does not match with the proposed single digit lending rate.

**FY15 Net profit after tax was recorded at IDR 9.1 Tn (dn 15.6% YoY).** Despite the negative growth in the bottom line, BBNI actually booked sustainable net interest income and PPOP, though balance sheet restructuring had caused profitability to be trimmed. Net interest income grew by 14.2% YoY, driven by the increase in avg. asset yield and lower CoF. Total loans grew by 17.5% YoY, driven by SOE and Medium sectors (up 23.1% YoY and 26.8% YoY respectively). Meanwhile, customer deposits grew by 18.0% YoY, dominated by TD which grew by 29.4% YoY. New management decided to restructured the balance sheet, which caused provision to double (up 104.0% YoY), compared to the previous year.

**While there is still an overhang from TRIO, we believe BBNI is in much better shape this year and will book better performance this year.** Having done the kitchen sinking in 2015, we view earnings will be better this year. Management adopts new mechanism in order to control asset quality. Branches do not have authority on credit approval any longer. Credit approval has to be from credit centers. Since the number of credit centers are still limited, locations wise are still not perfect, the bank plans to add credit centers this year to enlarge the capacity.

**Accelerating in government infrastructure projects will greatly benefit BBNI.** Given the discounted valuation, and infrastructure outlook in 2016, we continue to like BBNI. Nevertheless we remain vigilant on the sector as we view there will be many adjustments made this year.

**Share Price Performance**

Price (IDR)	5,375
52-Week High (04/01/15)	7,275
52-Week Low (09/29/15)	3,800
52-Week Beta	1.23
YTD Change/%	+385/+7.7%

**Stock Information**

Market Cap (IDR)	100,236.5 Bn
Shares Out/Float (M)	18,648.7/7,459.5

**Financial Highlights**

	2014	2015	2016E	2017F	2018F
Net Interest Income	22,376	25,560	28,167	29,702	29,594
% growth		14.2%	10.2%	5.5%	-0.4%
Provision	3,642	7,336	6,955	7,501	8,049
% growth		101.4%	-5.2%	7.8%	7.3%
Net Income After Tax	10,829	9,141	10,740	12,008	12,090
% growth		-15.6%	17.5%	11.8%	0.7%
LDR (%)	88.4%	88.0%	91.6%	93.1%	92.7%
NPL (%)	2.0%	2.7%	2.4%	2.3%	2.2%
NIM (%)	6.2%	6.3%	5.9%	5.4%	4.8%

*Source: Company Data, SinarMas Investment Research*
**Please see important disclaimer and disclosure at the end of the document**

<b>B/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Cash and Equivalents	11,436	12,890	3,137	9,244	11,673
CA w/ Central Banks	24,598	30,932	34,988	39,105	44,591
CA w/ Other Banks	4,496	8,999	11,925	13,673	17,274
Interbank Placement	14,527	33,417	33,688	37,999	52,357
Total Loans - Net	270,652	314,067	368,851	425,197	481,645
Marketable Securities	12,738	9,927	10,604	10,814	11,481
Government Bonds	43,830	47,222	50,206	53,630	56,071
Fixed Assets	6,222	20,757	21,691	22,667	23,687
Total Assets	416,574	508,595	566,970	645,680	732,740
Demand Deposits	82,743	91,194	98,899	106,565	111,730
Saving Deposits	119,779	135,065	153,287	170,526	189,509
Time Deposits	111,371	144,161	165,025	195,252	235,726
Total Customer Deposits	313,893	370,421	417,211	472,344	536,965
Deposits From Other Banks	3,177	4,698	5,314	6,303	7,919
Marketable Securities	6,158	6,871	7,760	8,438	9,372
Fund Borrowings	11,212	22,524	24,555	36,339	46,157
Sub Debts	-	-	-	-	-
Total Liabilities	355,552	430,157	480,010	549,238	627,056
Total Equity	61,021	78,438	86,960	96,442	105,683

Source: Company Data, Sinarmas Investment Research

<b>I/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Interest Income	33,365	36,895	39,642	42,342	43,464
% growth		10.6%	7.4%	6.8%	2.6%
Interest Expense	10,989	11,335	11,475	12,640	13,869
% growth		3.2%	1.2%	10.2%	9.7%
Net Interest Income	22,376	25,560	28,167	29,702	29,594
% growth		14.2%	10.2%	5.5%	-0.4%
Other Operating Income	10,715	12,183	13,054	14,692	16,543
% growth		13.7%	7.1%	12.5%	12.6%
Provision Expense	3,642	7,336	6,955	7,501	8,049
% growth		101.4%	-5.2%	7.8%	7.3%
Other Operating Expense	16,103	18,995	20,841	21,883	22,977
% growth		18.0%	9.7%	5.0%	5.0%
Net Operating Income	13,346	11,412	13,425	15,010	15,112
% growth		-14.5%	17.6%	11.8%	0.7%
Income Before Tax Expense	13,524	11,466	13,425	15,010	15,112
% growth		-15.2%	17.1%	11.8%	0.7%
Tax Expense (%)	20%	20%	20%	20%	20%
Net Income	10,829	9,141	10,740	12,008	12,090
% growth		-15.6%	17.5%	11.8%	0.7%

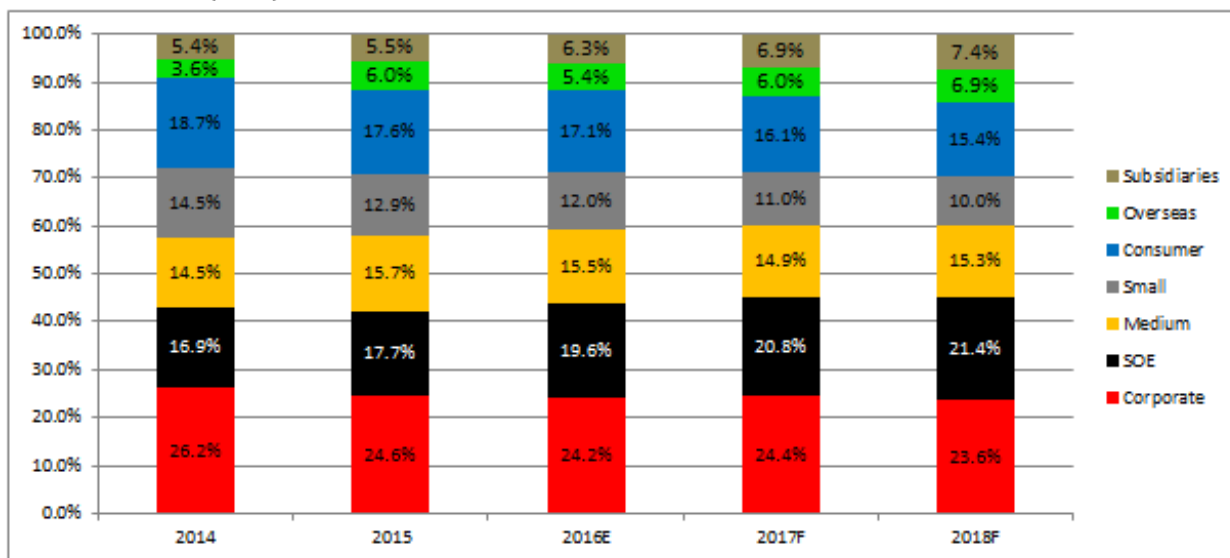
Source: Company Data, Sinarmas Investment Research



Key Ratios (%)	2014	2015	2016E	2017F	2018F
LDR	88.4%	88.0%	91.6%	93.1%	92.7%
LFR	83.0%	80.6%	84.0%	84.0%	82.9%
CASA	64.5%	61.1%	60.4%	58.7%	56.1%
NIM	6.2%	6.3%	5.9%	5.4%	4.8%
Avg. Loan Yield	11.1%	11.2%	10.3%	9.5%	8.5%
Avg. Deposit CoF	3.4%	3.0%	2.6%	2.5%	2.3%
NPL Gross	2.0%	2.7%	2.4%	2.3%	2.2%
NPL Net	0.4%	0.9%	0.6%	0.6%	0.6%
Credit Cost	2.5%	3.7%	3.4%	3.3%	3.3%
Coverage Ratio	128.2%	138.2%	141.5%	147.2%	152.0%
CIR	69.7%	76.7%	74.5%	73.7%	74.8%
CER	59.7%	69.8%	67.4%	66.2%	67.2%
ROA	2.7%	2.0%	2.0%	2.0%	1.8%
ROE	19.9%	13.1%	13.0%	13.1%	12.0%

Source: Company Data, Sinarmas Investment Research

### Loans Portfolio (in %)



Source: Company Data, Sinarmas Investment Research

**Company Update**
**Evan Lie Hadiwidjaja**

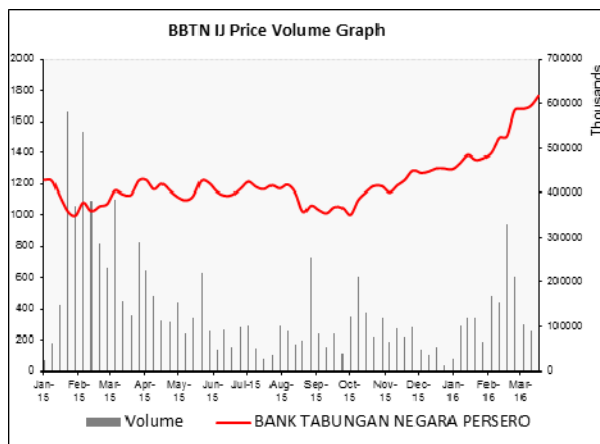
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**PT Bank Tabungan Negara (Persero) Tbk is a State-Owned Enterprise Bank in Indonesia that provides commercial banking services with primary focus on housing loans.**

**Current Price: IDR 1,755**
**52-Week Target Price: IDR 1,865**
*Previous Target Price: IDR 1,565*

**PT Bank Tabungan Negara (Persero) Tbk (BBTN)**
**FY15 Earnings Update and a Glimpse of 2016**
**NEUTRAL**

**We downgrade PT Bank Tabungan Negara (Persero) Tbk to NEUTRAL with 52-week target price of IDR 1,865, deriving via 2-stage GGM.** We changed our method of valuation from GGM to 2-stage GGM due to promising outlook on subsidized housing. While it is our top pick in Indonesian Banking sector, we view at current market price, the bank is almost fairly valued and has limited upside potential. Thus, we raise our valuation but changed our call from BUY to NEUTRAL.

**FY15 Net profit after tax was recorded at IDR 1.9 Tn (up 65.9% YoY).** Driven by One Million Housing, total loans grew by 19.9% YoY, matched with customer deposits YoY growth. Supported by the FLPP scheme, customer deposits growth was driven by CASA, which grew by 25.3% YoY, while TD grew by 15.3% YoY. Net interest income stood at IDR 6.8 Tn (up 24.6% YoY). Having done kitchen sinking in the previous year, provision remained low and asset quality improved. With another One Million Housing program, we view growth in the earnings will still be above the industry.

**Better portion of subsidized housing will benefit Bank Tabungan Negara this year.** In 2015's One Million Housing, 60% of the housing was subsidized, while the remaining 40% were not. This year, the government slightly increased the proportion of subsidized housing to 70%. Having the biggest market share for subsidized mortgages, we view Bank Tabungan will have another year of superb performance. One of the speed bumps that the bank may have is funding to accommodate demand for mortgages. The government had allocated ~IDR 9.7 Tn this year, with more than IDR 2 Tn for subsidized interest margin, once the FLPP fund spent. Despite tight liquidity issue, we view the implementation of Tapera will solve funding issue for the bank. Another bottleneck for the bank is the readiness of housing for the bank to fund, given number of low cost housing developers in Indonesia is still limited. We continue to like the bank, and choose BBTN as our top pick, though at current market price the bank is almost fairly valued and upside potential is limited. Hence, we rate BBTN as NEUTRAL.

**Share Price Performance**

Price (IDR)	1,755
52-Week High (04/01/15)	1,770
52-Week Low (09/29/15)	935
52-Week Beta	0.75
YTD Change/%	+460/+35.5%

**Stock Information**

Market Cap (IDR)	18,585.5 Bn
Shares Out/Float (M)	10,590.0/4,229.2

**Financial Highlights**

	2014	2015	2016E	2017F	2018F
Net Interest Income	5,465	6,811	7,994	9,474	10,935
% growth		24.6%	17.4%	18.5%	15.4%
Provision	771	901	1,045	1,182	1,327
% growth		16.8%	16.0%	13.0%	12.3%
Net Income After Tax	1,116	1,851	2,188	2,737	3,215
% growth		65.9%	18.2%	25.1%	17.5%
LDR (%)	108.9%	108.8%	107.0%	108.1%	109.0%
NPL (%)	4.0%	3.4%	3.2%	3.0%	2.8%
NIM (%)	4.1%	4.5%	4.4%	4.5%	4.4%

*Source: Company Data, Sinarmas Investment Research*
**Please see important disclaimer and disclosure at the end of the document**

<b>B/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Cash and Equivalents	920	1,181	5,123	5,977	7,323
CA w/ Central Banks	9,372	10,986	13,207	15,318	17,101
CA w/ Other Banks	1,093	201	200	210	179
Interbank Placement	1,496	7,839	7,418	6,653	7,204
Total Loans - Net	114,339	136,905	161,682	193,475	230,103
Marketable Securities	5,437	1,808	2,264	2,768	2,494
Government Bonds	8,238	8,231	8,539	8,829	8,944
Fixed Assets	1,488	1,553	1,631	1,713	1,798
Total Assets	144,576	171,808	203,324	238,469	278,928
Demand Deposits	23,423	31,368	38,984	51,037	65,238
Saving Deposits	26,168	30,758	36,920	42,244	48,538
Time Deposits	56,880	65,583	77,286	88,060	100,047
Total Customer Deposits	106,471	127,709	153,190	181,340	213,822
Deposits From Other Banks	1,179	1,721	1,979	2,276	2,618
Marketable Securities	8,520	12,492	15,379	18,633	22,454
Fund Borrowings	6,998	7,727	8,499	9,349	10,284
Sub Debts	-	-	-	-	-
Total Liabilities	132,370	157,947	187,649	220,494	258,285
Total Equity	12,206	13,860	15,675	17,975	20,643

Source: Company Data, Sinarmas Investment Research

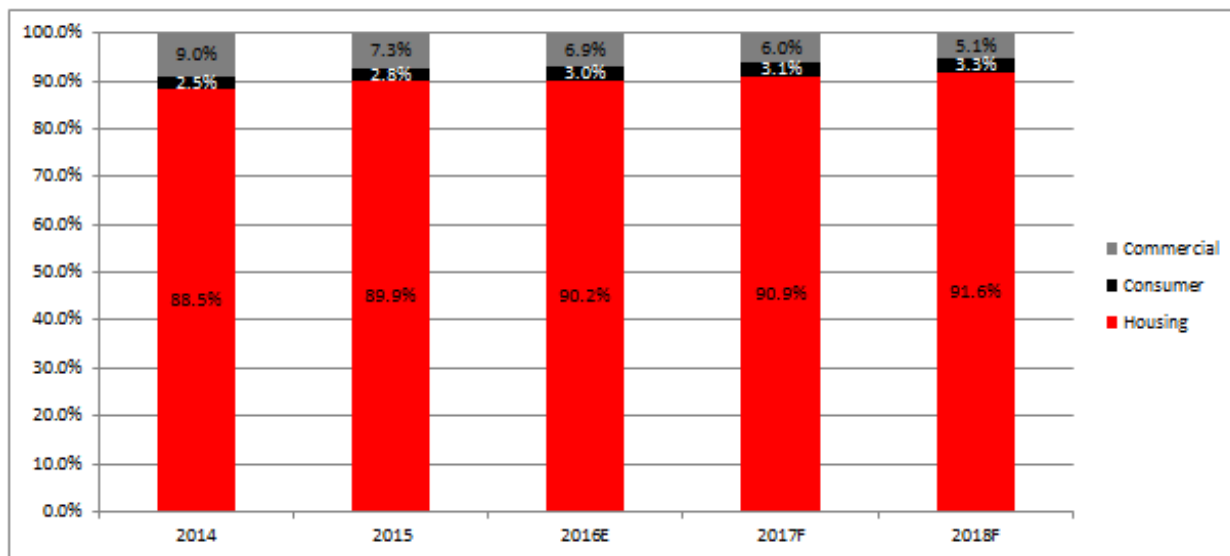
<b>I/S (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Interest Income	12,807	14,966	16,497	19,071	21,530
<i>% growth</i>		16.9%	10.2%	15.6%	12.9%
Interest Expense	7,343	8,155	8,503	9,597	10,595
<i>% growth</i>		11.1%	4.3%	12.9%	10.4%
Net Interest Income	5,465	6,811	7,994	9,474	10,935
<i>% growth</i>		24.6%	17.4%	18.5%	15.4%
Other Operating Income	895	1,107	1,227	1,397	1,555
<i>% growth</i>		23.7%	10.9%	13.8%	11.4%
Provision Expense	771	901	1,045	1,182	1,327
<i>% growth</i>		16.8%	16.0%	13.0%	12.3%
Other Operating Expense	4,042	4,483	5,179	5,938	6,757
<i>% growth</i>		10.9%	15.5%	14.7%	13.8%
Net Operating Income	1,546	2,534	2,997	3,751	4,407
<i>% growth</i>		63.9%	18.3%	25.2%	17.5%
Income Before Tax Expense	1,548	2,542	3,005	3,759	4,416
<i>% growth</i>		64.2%	18.2%	25.1%	17.5%
Tax Expense (%)	28%	27%	27%	27%	27%
Net Income	1,116	1,851	2,188	2,737	3,215
<i>% growth</i>		65.9%	18.2%	25.1%	17.5%

Source: Company Data, Sinarmas Investment Research

Key Ratios (%)	2014	2015	2016E	2017F	2018F
LDR	108.9%	108.8%	107.0%	108.1%	109.0%
LFR	91.3%	91.5%	90.5%	91.8%	93.0%
CASA	46.6%	48.6%	49.5%	51.4%	53.2%
NIM	4.1%	4.5%	4.4%	4.5%	4.4%
Avg. Loan Yield	11.0%	11.2%	10.4%	10.2%	9.7%
Avg. Deposit CoF	5.7%	5.3%	4.4%	4.1%	3.8%
NPL Gross	4.0%	3.4%	3.2%	3.0%	2.8%
NPL Net	2.8%	2.1%	2.0%	1.9%	1.8%
Credit Cost	1.4%	1.5%	1.4%	1.3%	1.3%
Coverage Ratio	33.9%	43.2%	43.5%	43.8%	44.1%
CIR	88.7%	84.2%	83.1%	81.7%	80.9%
CER	75.7%	68.0%	67.5%	65.5%	64.7%
ROA	0.8%	1.2%	1.2%	1.2%	1.2%
ROE	9.4%	14.2%	14.8%	16.3%	16.7%

Source: Company Data, Sinarmas Investment Research

### Loans Portfolio (in %)



Source: Company Data, Sinarmas Investment Research

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