

## Sector: Banking

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### Company Visit Note

## **PT Bank Negara Indonesia (Persero) Tbk, PT Bank Central Asia Tbk, PT Bank Mandiri (Persero) Tbk**

Seeing that Indonesian Banks are facing major corrections as far as 5M15 goes, we decided to meet and greet with BBNI, BBCA, and BMRI to get an update and corporate guidance for the rest of the year. Among the three banks that we have met, BMRI was the most optimistic, while BBNI was the least. As for BBCA, the bank remains neutral as the bank has a conservative target that is feasible or achievable since the year started. While BBNI and BMRI have revised down their credit growth target, BBCA decided to keep it unchanged, although the bank has admitted that asset quality deterioration cannot be hindered this year and bank's profitability has to go down to adjust with the current economic condition.

### **PT Bank Negara Indonesia (Persero) Tbk:**

When the year started, market was very bullish on the infrastructure development, given that the government's allocation on infrastructure for 2015 was all time high. However, as a bank that specializes in corporate loans, Bank Negara says that the demand coming in from infrastructure is still recorded weak as of 5M15, and the bank becomes more pessimistic that the infrastructure projects can run as smooth as it was planned this year. Having set a FY15E credit growth target at 15-17% early this year, the bank plans to revise down the number, seeing the demand in 1H15. **Projecting for this year, we view that it is only normal for the bank to have 0% net profit growth this year, especially with the new management plans to clean up the balance sheet, causing provision to trim bottom line.** As of 5M15, we can see the provision spent by the bank has grown by 36.7% YoY. Though BBNI was quite pessimistic during our visit, evidently, the bank believes that NIM could still be maintained and might only change by a fraction.

As for the \$1bn loan from China, Bank Negara said that it is still under a discussion since the interest rate is still uncertain. Nevertheless, if the deal goes through, the bank plans to use the \$1bn for LRT and fast train connecting Jakarta with Bandung.

### **PT Bank Central Asia Tbk:**

Since the beginning of the year, BBCA only aims a credit growth of 10% for FY15E, which frankly turns to be the fair number for this year. Given the economy has been slowing down in each and every sector, that number seems to be justified and aggressive disbursement will most likely hurt asset quality. As of 5M15, BBCA's loans book has grown by 6.6% YoY. The bank plans to finish the year while maintaining a conservative stance. One of the strategies that BBCA use this year is to limit credit approval to only applications with branch's referral. The bank requires to see cash flow before handing out loans to mitigate the risk of loans turning into NPL's. The management gives a guidance that NIM will be lower than what it was in 1Q15 given that credit growth will not be as high as last year's and TD rate has been cut by a lot early this year. Moreover, NPL might reach a 1.0% level at the end of the year, considering the country is adjusting to a new environment and condition. However, the bank's bottom line might not be impacted as much as many others, given that the bank has spent more than enough provision back in 2013 and 2014, preparing for when the economy turns to be slow. Hence, even if the NPL goes up, the size of provision might not be far from last year's. **We view low teens bottom line growth is still achievable for FY15E, given that provision will not hurt bank's profitability as much as it would to other banks.**

### PT Bank Mandiri (Persero) Tbk:

As of 5M15, BMRI has reported a net profit growth of 20.9% YoY. The bank stated that NIM has been compressed in 1Q15 and should be higher by year-end due to cut down in TD. As of May 2015, the bank has distributed more than IDR10tn loans to infrastructure (mostly to Pelindo for seaports expansion) and reported YoY credit growth of 14.8%. Other than infrastructure, the bank said that strong demand was coming from the micro sector. Meanwhile, the bank remains positive that the deterioration in the asset quality is caused by slower credit growth compared to last year, which triggers the NPL % to be higher. NPL was reported at 2.27% as of 1Q15 and might be in between 2.3-2.4% for FY15E. **Though the bank was quite optimistic as the current condition is just a part of industry cycles, we maintain our neutral stance on BMRI, seeing the special mention loans in 1Q15 was all time high and restructured loan still in an upward trend (highest level since 2012).**

As for the \$1bn loan from China, the bank is still unclear of the mechanism and how it will be used to support infrastructure. However, when we visited, the bank mentioned that they might allocate the \$1bn loan according to the utilization rate of the project.

### Corporate Guidance:

	BBNI		BBCA		BMRI	
	1Q15	FY15E	1Q15	FY15E	1Q15	FY15E
<b>Loan Growth</b>	9.1%	13-15%	5.8%	10.0%	13.3%	12-14%
<b>NIM</b>	6.5%	~6.5%	6.5%	<6.5%	5.62%	5.8-5.9%
<b>Gross NPL</b>	2.1%	>2.1%	0.7%	1.0%	2.27%	2.3-2.4%

### 5M15 Performances:

BBNI	5M14	5M15	%	BBCA	5M14	5M15	%
Total Loans	234,601,029	260,555,361	11.1%	Total Loans	321,055,535	342,177,429	6.6%
Demand Deposit	100,226,744	79,807,153	-20.4%	Demand Deposit	104,045,362	106,823,212	2.7%
Saving Deposit	97,960,367	105,053,113	7.2%	Saving Deposit	217,308,827	231,500,532	6.5%
Time Deposit	103,845,445	100,086,801	-3.6%	Time Deposit	94,747,612	110,012,611	16.1%
Total Customer Deposit	302,032,556	284,947,067	-5.7%	Total Customer Deposit	416,101,801	448,336,355	7.7%
Interest Income	12,004,173	13,829,497	15.2%	Interest Income	16,071,580	17,915,531	11.5%
Interest Expense	3,688,169	4,339,940	17.7%	Interest Expense	4,296,686	4,744,168	10.4%
Net Interest Income	8,316,004	9,489,557	14.1%	Net Interest Income	11,774,894	13,171,363	11.9%
Operating Income	3,193,838	2,896,176	-9.3%	Operating Income	5,902,654	6,415,016	8.7%
Operating Expense	6,805,886	7,657,891	12.5%	Operating Expense	9,967,246	11,049,900	10.9%
<b>Provision</b>	<b>1,671,248</b>	<b>2,284,111</b>	<b>36.7%</b>	<b>Provision</b>	<b>2,169,821</b>	<b>2,105,195</b>	<b>-3.0%</b>
<b>Net Profit</b>	<b>3,827,619</b>	<b>3,985,467</b>	<b>4.1%</b>	<b>Net Profit</b>	<b>6,158,360</b>	<b>6,839,635</b>	<b>11.1%</b>

<b>BMRI</b>	<b>5M14</b>	<b>5M15</b>	<b>%</b>
Total Loans	422,874,085	485,416,472	14.8%
Demand Deposit	110,787,750	145,397,674	31.2%
Saving Deposit	197,166,529	202,571,447	2.7%
Time Deposit	178,551,503	217,379,430	21.7%
Total Customer Deposit	486,505,782	565,348,551	16.2%
Interest Income	21,219,192	25,381,481	19.6%
Interest Expense	7,486,304	9,888,930	32.1%
Net Interest Income	13,732,888	15,492,551	12.8%
Operating Income	5,224,324	6,871,511	31.5%
Operating Expense	9,851,570	11,497,184	16.7%
<b>Provision</b>	<b>2,114,369</b>	<b>2,356,019</b>	<b>11.4%</b>
<b>Net Profit</b>	<b>7,274,193</b>	<b>8,796,456</b>	<b>20.9%</b>

**We maintain our Neutral stance on Banking, seeing that demand for credit is still recorded weak as of 5M15 and upward trend of provision which signals a deterioration in the asset quality.**

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