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FLASH NOTE: BBTN Signed MOU With ICBC Amounted to RMB 5 Bn to Support One Million Houses

PT Bank Tabungan Negara (Persero) Tbk (BBTN IJ) has just signed an MOU (Memorandum of Understanding) with ICBC amounted to RMB 5 Bn (translated to IDR 11.4 Tn using current spot rate). As a starter, Bank Tabungan drew IDR 1 Tn from ICBC. While the credit facility amounts to RMB 5 Bn, the bilateral loan between Bank Tabungan and ICBC will be in Rupiah, as a request from Bank Tabungan, since the bank disburses loans in Rupiah. Both banks agreed to set the interest rate for this loan at 9% and will be reviewed every year. Given that BBTN's bonds are normally at 10.5%, and this bilateral loan exempts the bank from currency risk, the RMB 5 Bn credit facility is a good deal for the bank.

Furthermore, the bank plans to use the RMB 5 Bn to support One Million Houses, from both subsidized mortgage loans and from construction's point of view to increase the supply, since currently demand is exceeding supply for subsidized houses.

While growth in other segments have seen to be slowed, Bank Tabungan is still optimistic that One Million Houses will cushion their performance this year and still maintains their FY15E target to support 200,000 units of subsidized houses (as of July, the bank has disbursed subsidized mortgages for 80,000 units).

In conclusion, we maintain our BUY recommendation for the bank with end of 2016 TP of IDR 1,380.

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