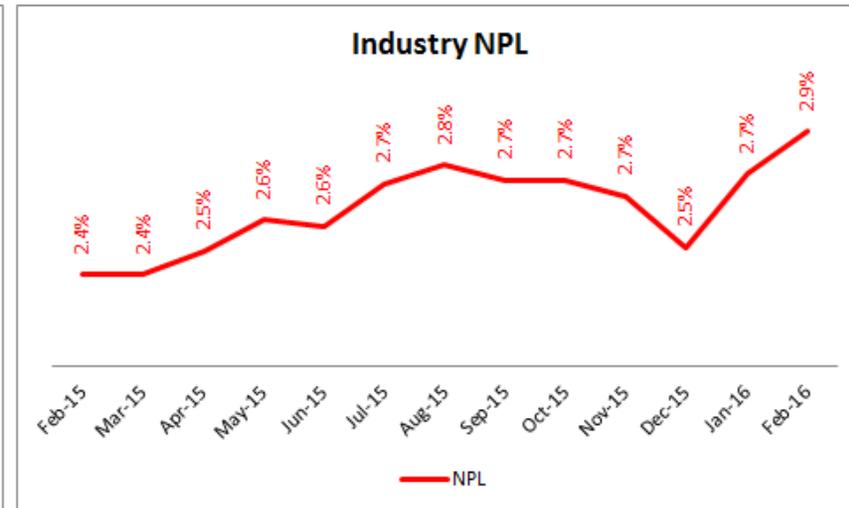
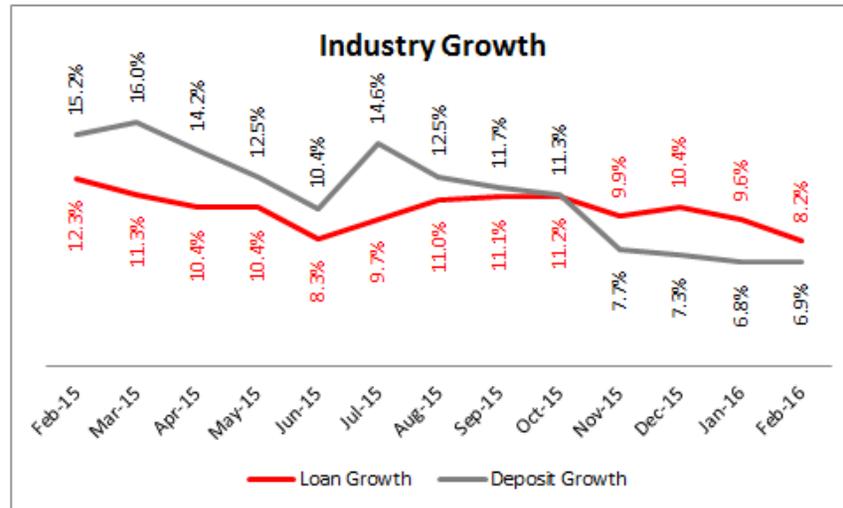


FLASH NOTE: Bottom Fishing or Bear Trap?

Many eyes are currently directed to the banking sector, as it is trading at historically discounted Price-to-Book. Meanwhile, last week’s performance (4/15 - 4/22) was quite positive, where LQ45 banks bounced by 0.2% (BBCA) to 8.5% (BBRI). Is this the time to start bottom fishing? Or is it merely a bear trap?

Judging by the industry, we view that the pressures in banking industry are still on. Credit growth as of 2M16 slowed to 8.2% YoY from 10.4% YoY in FY15, whereas deposit decelerated to 6.9% YoY from 7.3% YoY. Liquidity supply issue has gotten worse with credit outpacing deposit for the last four consecutive months. While the industry may face liquidity or supply bottlenecks, as an addition, NPL surged to 2.9% (up 47 bps YoY / 38 bps from FY15), pressuring profitability even further from asset quality’s point of view.



Source: BTN Company Presentation, Sinarmas Investment Research

Two banks under our coverage have reported their 1Q16 earnings, PT Bank Negara Indonesia (Persero) Tbk (BBNI) and PT Bank Tabungan Negara (Persero) Tbk (BBTN). Both banks reported stand out performances, with credit/deposit/net profit growth of 21.2%/21.8%/5.5% for BBNI and 19.0%/19.8%/22.1% for BBTN. Spurred by accelerating infrastructure projects and one million housing, BBNI and BBTN are benefited and expected to book solid earnings FY16E. Nevertheless, we see NPL cycle is not over yet and there is still a time lag for NPL to stabilize. Although on another hand, we hope by lending rate being trimmed, NPL will soon to come down (possibly in 2H16). We continue to like these two banks due to the catalysts from infrastructure and housing sector, though we view it is still too early to bottom fish banking stocks given the current over-regulated condition with many overhang to encounter in the coming months.

PT Bank Negara Indonesia (Persero) Tbk (BBNI)

(in IDR Bn)	1Q15	1Q16	% YoY
Total Loans	269,513	326,744	21.2%
Total Customer Deposits	305,150	371,556	21.8%
Net Interest Income	6,096	6,908	13.3%
PPOP	4,807	5,232	8.8%
Net Income After Tax	2,817	2,973	5.5%
LDR (%)	88.6%	91.1%	2.5%
NPL (%)	2.1%	2.8%	0.7%
NIM (%)	6.5%	6.1%	-0.4%

PT Bank Tabungan Negara (Persero) Tbk (BBTN)

(in IDR Bn)	1Q15	1Q16	% YoY
Total Loans	120,158	142,944	19.0%
Total Customer Deposits	109,519	131,165	19.8%
Net Interest Income	1,554	1,787	15.0%
PPOP	747	826	10.6%
Net Income After Tax	402	491	22.1%
LDR (%)	109.7%	109.0%	-0.7%
NPL (%)	4.8%	3.6%	-1.2%
NIM (%)	4.7%	4.6%	-0.1%

Source: Company Data, Sinarmas Investment Research

Arbitrating from last week rebound in stock performance, we notice that the optimism in banking sector is still there, though we view many investors are still positioning themselves in wait-and-see stance as they wait for further clarifications on regulations and to witness the impact on single digit rate cap to earnings. In the mean time, any major upsides/capital gains will be taken as exit opportunity. We believe that now is not just a matter of economic recovery issues, but more on overly regulated condition that may pressure profitability. **We maintain our NEUTRAL call on Indonesian Banking Sector as we view past P/BV's merely serve as historical benchmarks that cannot justify valuations to the upcoming changes in the industry. In the mean time, we view current volatility in the share price is more of a bear trap than an opportunity. We continue to advise investors to focus more on sectors that has more promising outlook such as Property (BSDE, SMRA) and Consumer Staples (INDF, GGRM, ROTI). As a reminder, though share price of BIG 4 banks may look "cheap", we are still far from FY15 low (BMRI IDR 7,150, BBRI IDR 7,975, BBKA IDR 11,000, and BBNI IDR 3,800).**

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