

FLASH NOTE: Cautiously Optimistic on Indonesian Banks!

We have visited three Indonesian big banks over the past few days on our 2Q16 periodic visit—PT Bank Rakyat Indonesia (Persero) Tbk (BBRI), PT Bank Negara Indonesia (Persero) Tbk (BBNI), and PT Bank Tabungan Negara (Persero)Tbk (BBTN). Continuing our previous flash note, “Short-Term Buy on Indonesian Banks”, **we reiterate our BUY call for short-term investment purposes and remain NEUTRAL for long-term investment purposes.** We view optimism spurred by tax amnesty will outweigh the fundamentals in the short-term, and with tax amnesty bill had successfully being passed today, banking sector becomes attractive as it is lagging compared to Indonesian property sector. **As for the long-term outlook, we view it is still too early to judge whether the tax amnesty bill has the capacity to support current downtrend in lending growth as well as asset quality.** While banking is quite positive in the short-term, we believe market will be back to being EPS-centric after the euphoria.

Among three banks that we visited, we see some concerns on the impact of tax amnesty, as banks are still uncertain regarding the size of repatriated vs declared assets. Additional liquidity to the banking sector will be coming mostly from repatriated assets, as declared assets are already in the system. Thus, the uncertainty still remains. Here are some keynotes from our visit to BBRI, BBNI, and BBTN:

PT Bank Rakyat Indonesia (Persero) Tbk (BBRI)

(in IDR Bn)	5M15	5M16	% YoY
Total Loans	489,696	574,764	17.4%
Demand Deposit	76,020	96,457	26.9%
Saving Deposit	218,012	249,913	14.6%
Time Deposit	252,481	272,496	7.9%
Total Customer Deposit	546,513	618,866	13.2%
Net Interest Income	22,551	26,582	17.9%
Operating Income	5,282	5,257	-0.5%
Provision	3,626	7,371	103.3%
Other Operating Expense	13,288	14,130	6.3%
Net Income	9,096	9,139	0.5%
Loan-to-Deposit Ratio	89.6%	92.9%	3.3%

Source: Company Data, Sinarmas Investment Research

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Disbursement in KUR products are still robust. Demands are still high for the products given the relatively low rates (9% to end borrowers). As of mid-June, disbursement in micro KUR amounted to IDR 31 Tn (51.7% of FY16's budget) and retail KUR amounted to IDR 6 Tn (100% of FY16's budget), though Bank Rakyat has requested additional budget of IDR 6 Tn to be used for retail KUR. While growth in KUR products recorded high, bank sees cannibalization within the segment, as number of borrowers remained flat YTD.

As for asset quality, NPL is still in an uptrend as of 5M16 (2.5% or up 23 bps from 3M16). Bank Rakyat sees profitability may go lower than expected, and full year accomplishment may be flat to FY15 realization. Meanwhile, keeping coverage ratio intact, Bank Rakyat had increased credit cost to 2.9% in May 2016. Management stated that new KUR borrowers need to be watched closely as their monthly income streams are somewhat unstable.

Be that as it may, bank sees 7-day reverse repo as a threat to the liquidity, given increasing bonds issuance lately which offers higher rates. Meanwhile, TD has shifted towards corporates from retail, as retail customers are more sensitive to TD pricing compared to corporates.

PT Bank Negara Indonesia (Persero) Tbk (BBNI)

(in IDR Bn)	5M15	5M16	% YoY
Total Loans	260,555	320,736	23.1%
Demand Deposit	79,807	83,291	4.4%
Saving Deposit	105,053	121,828	16.0%
Time Deposit	100,087	142,147	42.0%
Total Customer Deposit	284,947	347,266	21.9%
Net Interest Income	9,490	10,753	13.3%
Operating Income	2,896	3,682	27.1%
Provision	2,300	2,646	15.0%
Other Operating Expense	5,358	6,487	21.1%
Net Income	3,985	4,293	7.7%
Loan-to-Deposit Ratio	91.4%	92.4%	0.9%

Source: Company Data, Sinarmas Investment Research

Similar to Bank Rakyat, asset quality on Bank Negara is also deteriorating in 2Q16. Bank Negara considers to downgrade TRIO from PL to NPL this month, which may reflect on provision expense for 2Q16. Nevertheless, we see the impact on TRIO should not affect performance too much, as 50% of the outstanding had been booked as impairment loss in FY15. Management also guides that only a small fraction of last year's restructured loans is going to NPL this year, while big portion of it can still be maintained as PL.

As for their view on tax amnesty, Bank Negara states that they still have to figure out the vehicles for repatriate assets, though there are numbers of people who already asked the procedures of tax amnesty and how to bring home their money.

Bank Negara also sees the shift in TD from retail towards corporates. As of 5M16, LDR of the bank reached 92.4%, the highest in Bank Negara's history. As of now, TD structure on Bank Negara is split evenly, 50% corporates and 50% retail. If the government insists on issuing bonds, once 7-day reverse repo is implemented, bank sees possible outflow from retail TD. Nevertheless, management stated that it will form a new equilibrium point for credit, deposit, as well as NIM from changes in benchmark rate. Meanwhile, Indonesian banks will be benefited in terms of NIM due to lower CoF.

We sees Bank Negara may offer a surprise in 1H16 earnings, judging from 5M16 accomplishment. Even with NPL projected to balloon with TRIO being acknowledged as NPL in June, we view bottom line will continue to grow strongly.

Net Income Realization

(in IDR Bn)	January	February	March	April	May	June
2015	731	1,742	2,747	3,248	3,985	2,285
2016	1,072	1,709	2,869	3,789	4,293	
% YoY	46.7%	-1.9%	4.4%	16.7%	7.7%	

Source: Company Data, Sinarmas Investment Research

PT Bank Tabungan Negara (Persero) Tbk (BBTN)

(in IDR Bn)	5M15	5M16	% YoY
Total Loans	113,422	134,068	18.2%
Demand Deposit	25,845	32,572	26.0%
Saving Deposit	25,078	27,163	8.3%
Time Deposit	53,105	61,797	16.4%
Total Customer Deposit	104,028	121,532	16.8%
Net Interest Income	2,624	3,062	16.7%
Operating Income	421	467	10.9%
Provision	234	311	33.1%
Other Operating Expense	1,864	2,082	11.7%
Net Income	678	853	25.8%
Loan-to-Deposit Ratio	109.0%	110.3%	1.3%

Source: Company Data, Sinarmas Investment Research

As of 5M16, Bank Tabungan still recorded high growth in profitability, thanks to One Million Housing. Bank Tabungan booked net income of IDR 853 Bn as of 5M16 (up 25.9% YoY; 1Q16 was at IDR 491 Bn or up by 22.1% YoY). While consolidated credit growth still above 18%, bank sees demand has been weakening for the non-subsidized segment. However, being BUKU III, Bank Tabungan could offer better TD pricing compared to other LQ45 banks, which causes less outflow to government bonds.

Different from the industry, NPL remains stable for BBTN (3.67% as of 5M16 vs 3.59% as of 3M16). Management stated that NPL guidance still remains intact with current position and asset quality should improve in 2H16.

On another note, the bank guides that it should go to SSB (Subsidi Selisih Bunga) scheme soon, given that disbursement for One Million Housing almost reaches the quota (IDR 9.2 Tn).

Despite the outperformance in credit growth and net income compared to the industry, we see some concerns on the liquidity. Main drivers on customer deposits for the bank are demand deposit and time deposit. Once 7-day reverse repo is implemented, we view Bank Tabungan might lose some power to gain TD, as the rate becomes less competitive. Meanwhile, FLPP fund from the government has not been disbursed to the bank as well, making it an overhang to the liquidity. With ongoing rate of 5% for subsidized mortgages, and average CoF of 7%, bank suffers from negative yield on their subsidized mortgages until FLPP fund being disbursed.

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