

21 October 2019

Financial Services | Banks

## Bank Negara Indonesia (BBNI IJ)

### Attractive Valuation But Pressure Still On

**Buy** (Maintained)

Target Price (Return) IDR9,125 (22%)  
Price: IDR7,475  
Market Cap: USD9,847m  
Avg Daily Turnover (IDR/USD) 165,886m/11.7m

- **Maintain BUY, TP drops to IDR9,125 from IDR11,500, 22% upside with 4% yield.** Ahead of Bank Negara Indonesia's 3Q analyst meeting on 23 Oct, we cut our TP to IDR9,125 amidst a challenging economic outlook. We expect profit growth to moderate in FY19 on tapering loan growth, pressure from CoF due to tight liquidity, and an expected deterioration in asset quality from Duniatex and Krakatau Steel ahead. This report also marks the transfer of coverage to Andre Benas.
- **Moderating loan growth in 3Q19.** Yesterday, a news report said that BNI expects loans to grow by 14% YoY in 9M19, vs a 20% increase in 1H19. We believe this is a wise decision from management to cool down loan growth, as Indonesia's economic growth is not expected to ramp up in 3Q and in the near future. If we look back at 8M19 banks-only results, the Big-4 banks' loan growth was only 12.3%, which means BNI's was above the industry average. That said, we expect its loan growth to moderate in the coming quarters.
- **CoF will continue to be a challenge.** BNI's LDR in 1H19 already reached 92.3%, vs the industry's 93.8%. Furthermore, we believe it cannot maintain its 1H loan growth rate for the rest of the year, while deposits increased by only 9.5% in 8M19. Although, we are expecting one more rate cut in 4Q19, we do not expect BNI to cut its deposit rate so fast – since LDR is expected to remain high. We only expect a marginal cut in banks' funding in 4Q19.
- **Asset quality could deteriorate in 4Q.** Based on discussions with some credit directors in few banks, we believe there will not be much improvement in asset quality, as Indonesia's economic growth remains muted. Duniatex and Krakatau Steel loans might be downgraded to collectability 3 in 3Q, and we think every bank that has exposure to those two accounts will have to make provisions in line with these downgrades. BNI will also have to increase provisions by year-end to prepare for IFRS 9 implementation in FY20. We increase our credit cost target to 1.7% from 1.5%, which should drag earnings lower in FY19.
- **NPL to stabilise?** In 1H19, BNI's NPL stood at 1.8% vs 2.1% in 1H18, on the back of 20% YoY loan growth in 1H19. As loan growth is expected to decelerate in 3Q-4Q, BNI's NPL may worsen slightly to 2% by the end of the year. There were concerns of rising NPL from agriculture-related loans, mainly on the CPO theme, but this should moderate up ahead, as the CPO price recently recovered to MYR2,200/tonne, from MYR1,900/tonne in 1H19.
- **We maintain our BUY call** on the back of its attractive valuation. BNI's P/BV is lower than that of Bank Mandiri (BMRI IJ, BUY, TP: IDR10,000), and Bank Rakyat Indonesia (BBRI IJ, BUY, TP: IDR5,000), due to its asset size and pressure on asset quality. Although the market has already priced in the increase in credit cost, if the recorded credit cost is lower than expected, loan growth can be maintained, and the stock may enjoy a share price rally. Also, we believe the CoC outlook should improve in 1Q20. BNI is trading at 1.1x FY20F PBV, -1SD from its 5-year mean. Our IDR9,125 TP is based on 1.4x P/BV, and backed by a GGM valuation.

#### Analysts

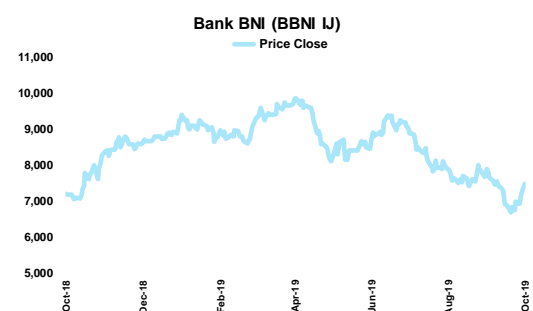
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.1)	(5.4)	(15.8)	(24.1)	3.8
Relative	(14.8)	(4.5)	(12.5)	(19.3)	(1.5)
52-wk Price low/high (IDR)	6,650 – 10,250				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Reported net profit (IDRbn)	13,616	15,015	15,998	19,503	22,467
Net profit growth (%)	20.1	10.3	6.5	21.9	15.2
EPS (IDR)	730	805	858	1,046	1,205
BVPS (IDR)	5,166	5,674	5,982	6,736	7,583
DPS (IDR)	213	256	282	300	366
P/E (x)	10.2	9.3	8.7	7.1	6.2
P/B (x)	1.4	1.3	1.2	1.1	1.0
Dividend Yield (%)	2.8	3.4	3.8	4.0	4.9
Return on average equity (%)	15.0	14.9	14.7	16.4	16.8
Return on average assets (%)	2.1	2.0	1.9	2.0	2.1

Source: Company data, RHB

21 October 2019

Financial Services | Banks

## Financial Exhibits

Financial model updated on: 2019-10-16.

Asia  
Indonesia  
Financial Services  
**Bank Negara Indonesia**  
Bloomberg BBNI IJ  
Buy

### Valuation basis

P/BV backed by GGM. Assumptions include:

- i. COE of 12.7%;
- ii. ROE of 14%;
- iii. 9.1% long-term growth.

### Key drivers

- i. Attractive valuation;
- ii. Moderating loan growth but still above the industry average;
- iii. Lower cost of funds.

### Key risks

- i. Deteriorating asset quality;
- ii. Lower-than-expected loan growth;
- iii. Still-high cost of funds.

### Company Profile

Bank Negara Indonesia is a state-owned bank that offers corporate, commercial, as well as consumer banking services. It is the fourth largest bank in Indonesia by asset.

Financial summary	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
EPS	730	805	858	1,046	1,205
Core EPS	730	805	858	1,046	1,205
DPS	213	256	282	300	366
BVPS	5,166	5,674	5,982	6,736	7,583

Valuation metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Recurring P/E (x)	10.2	9.3	8.7	7.1	6.2
P/B (x)	1.4	1.3	1.2	1.1	1.0
Dividend yield (%)	2.8	3.4	3.8	4.0	4.9

Balance sheet (IDRbn)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Gross loans & advances	417,717	484,392	567,195	627,744	695,155
Loan impairment allowances	(13,939)	(14,072)	(18,044)	(18,990)	(21,029)
Net loans & advances	403,778	470,320	549,151	608,754	674,126
Total assets	709,330	808,572	916,970	1,014,189	1,122,192
Deposits from customers	492,748	552,172	640,721	709,351	785,390
Total liabilities	608,427	698,198	800,626	883,556	975,515
Shareholders' funds	100,903	110,374	116,344	130,632	146,677
Total equity	100,903	110,374	116,344	130,632	146,677

Income statement (IDRbn)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Net interest income	31,938	35,446	38,124	42,239	47,632
Non-interest income	13,275	13,324	15,133	17,193	18,568
Operating income	45,212	48,771	53,256	59,432	66,200
Overhead expenses	19,986	20,812	22,130	23,900	25,812
Pre-provision operating profit	25,226	27,959	31,127	35,532	40,388
Loan impairment allowances	7,126	7,388	9,278	9,093	10,072
Pretax profit	17,165	19,821	21,121	25,736	29,640
Reported net profit	13,616	15,015	15,998	19,503	22,467
Recurring net profit	13,616	15,015	15,998	19,503	22,467

Profitability	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
ROA (%)	2.1	2.0	1.9	2.0	2.1
ROE (%)	15.0	14.9	14.7	16.4	16.8
Yield on IEAs (%)	8.3	8.1	8.1	7.9	7.9
Cost of funds (%)	3.0	3.0	3.0	2.7	2.6
Net interest margin (%)	5.5	5.3	5.3	5.3	5.4
Non-II / Total income (%)	29.4	27.3	28.4	28.9	28.0
CIR (%)	44.2	42.7	41.6	40.2	39.0
Credit cost (%)	1.7	1.5	1.6	1.5	1.4
PPOP growth (%)	10.3	10.8	11.7	14.6	14.1
Net profit growth (%)	20.1	10.3	6.5	21.9	15.2

Asset quality	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Gross impaired loans/Gross loans (%)	4.0	3.5	3.7	3.5	3.4
Loan loss coverage ratio (%)	138.0	140.2	150.0	150.0	150.0
NPL formation (bps)	229	196	208	200	198

Liquidity	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Loan growth (%)	12.2	16.2	12.9	9.5	11.9
Customer deposits growth (%)	18.6	17.5	10.7	10.7	10.7
LDR(%)	84.8	87.7	88.5	88.5	88.5

Capital	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
CET1 ratio (%)	17.6	17.5	15.6	16.5	16.8
Tier-1 ratio(%)	17.6	17.5	15.6	16.5	16.8
Total capital ratio (%)	18.6	18.6	16.6	17.5	17.8

Source: Company data, RHB

21 October 2019

Financial Services | Banks

Figure 1: Changes to our estimates

	RHB (Prior)			RHB (New)			Change (%)		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Net Interest Income	39,303	44,342	49,621	38,124	42,239	47,632	-3%	-5%	-4%
Operating Income	53,820	59,903	66,302	53,256	59,432	66,200	-1%	-1%	0%
PPOP	30,372	34,656	39,113	30,156	34,561	39,417	-1%	0%	1%
Provision	8,350	9,397	10,549	9,278	9,093	10,072	11%	-3%	-5%
Net Income	17,727	20,329	22,985	15,998	19,503	22,467	-10%	-4%	-2%
Loans	578,785	649,636	729,275	578,785	633,643	709,236	0%	-2%	-3%
Loans Growth	12.9%	12.2%	12.3%	12.9%	9.5%	11.9%			
EPS	951	1,090	1,233	858	1,046	1,205	-10%	-4%	-2%
EPS Growth	18.1%	14.7%	13.1%	6.5%	21.9%	15.2%			
BVPS	6,075	6,840	7,700	5,982	6,736	7,583	-2%	-2%	-2%
DPS	282	333	382	282	300	366	0%	-10%	-4%
ROE	16.2%	16.9%	17.0%	14.7%	16.4%	16.8%	-9%	-3%	-1%

Source: RHB

### What's new?

We lower our loan growth forecasts for 2020F and 2021F on tightening liquidity for the bank, to 9.5% and 11.9%. We also cut our forecasted NIM due to lower estimated yields. This translates to lower NII of 3%, 5% and 4% for 2019F, 2020F and 2021F respectively. We also increase our provision for 2019F by 11%, as a result of downgrades in collectability in several big accounts in 3Q19. This also reflects higher NPL estimates, as well as BNI's plan to increase coverage. All in all, our earnings forecasts are lowered by 10%, 4% and 2% for 2019, 2020 and 2021.

Figure 2: RHB vs Street estimates

	RHB			Consensus			RHB/Street		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Net Interest Income	38,124	42,239	47,632	38,242	43,297	48,597	100%	98%	98%
Operating Income	53,256	59,432	66,200	52,724	58,832	66,066	101%	101%	100%
PPOP	30,156	34,561	39,417	29,106	33,318	37,399	104%	104%	105%
Provision	9,278	9,093	10,072	8,562	9,447	10,779	108%	96%	93%
Net Income	15,998	19,503	22,467	15,780	18,142	20,650	101%	107%	109%
Loans	578,785	633,643	709,236	571,843	647,029	731,928	101%	98%	97%
Loan Growth	12.9%	9.5%	11.9%	6.4%	13.1%	13.1%			
EPS	858	1,046	1,205	845	972	1,106	101%	108%	109%
EPS Growth	6.5%	21.9%	15.2%	5.0%	15.0%	13.8%			
BVPS	5,982	6,736	7,583	6,392	7,058	7,867	94%	95%	96%
DPS	282	300	366	229	254	281	123%	118%	130%
ROE	14.7%	16.4%	16.8%	13.8%	14.3%	14.7%	107%	115%	114%

Source: RHB

### Where are we vs Street estimates

Our provision expense forecast is higher by 8% for 2019F, as we think the Street has not fully increased the provision post downgrades in 3Q19.

### Risks to our call

Risks to our BUY call include worsening asset quality, lower-than-expected loan growth, and the still-high cost of funds.

Figure 3: Forecast of BNI's provisions

	FY18A	FY19F	Change
<b>Loan</b>	<b>512,778</b>	<b>567,195</b>	<b>54,416</b>
Coll 2 Loan	20,248	22,121	1,872
Coll 3 Loan	2,028	2,836	808
Coll 2 CKPN	3,861	4,218	357
Coll 3 CKPN	560	783	223
<b>Total CKPN</b>	<b>14,892</b>	<b>16,891</b>	<b>2,000</b>
Loan provisions booked	7,068	8,017	

Source: Company data, RHB

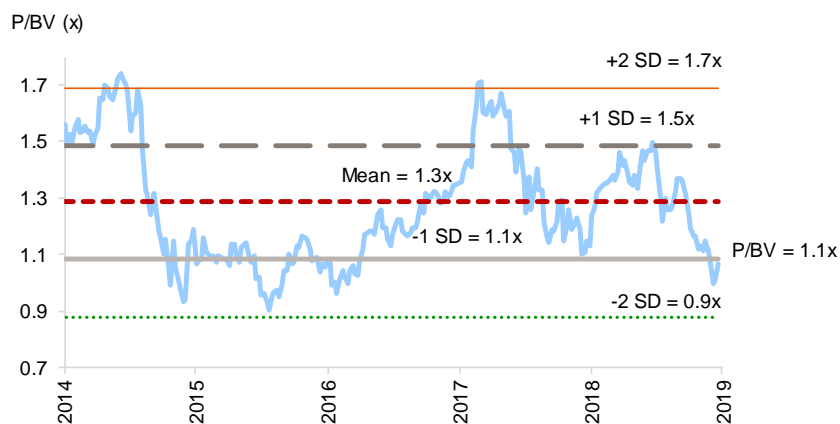
Figure 4: Peer comparison of Indonesian bank stocks

Name	BBG Ticker	Rating	Price	TP	Upside/ Downside	Market Cap	2020F						
			(IDR)	(IDR)	(%)	(USDm)	EPS Growth	P/E	P/BV	PEG	Yield	ROA	ROE
Bank Central Asia	BBCA IJ	Buy	30,800	40,000	29.9	53,658	12.4	23.0	3.8	1.9	1.0	3.5	17.6
Bank Rakyat Indonesia	BBRI IJ	Buy	3,990	5,000	25.3	36,345	15.1	11.2	2.1	0.7	3.1	2.9	19.4
Bank Mandiri	BMRI IJ	Buy	6,625	10,000	50.9	22,341	12.5	9.6	1.4	0.8	4.2	2.3	15.5
Bank Negara Indonesia	BBNI IJ	Buy	7,475	9,125	22.1	9,850	21.9	7.1	1.1	0.3	4.0	2.0	16.4
Bank Danamon	BDMN IJ	Neutral	4,640	5,000	7.8	3,204	14.7	9.5	0.9	0.6	3.2	3.2	9.8
Bank Tabungan Negara	BBTN IJ	Neutral	1,915	2,150	12.3	1,433	22.6	6.0	0.7	0.3	2.7	1.2	12.2
Bank Panin	PNBN IJ	Buy	1,275	1,725	35.3	2,170	9.4	8.2	0.7	0.9	0.0	1.6	8.7
Bank CIMB Niaga	BNGA IJ	Buy	1,005	1,550	54.2	1,785	10.4	5.9	0.5	0.6	3.1	2.0	9.6
Bank BTPN	BTPN IJ	Buy	3,130	4,200	34.2	1,802	12.9	9.2	0.9	0.7	2.9	3.1	9.6
Bank Jabar	BJBR IJ	Sell	1,795	1,400	(22.0)	1,248	6.1	10.9	1.4	1.8	5.2	1.7	13.1
Bank Permata	BNLI IJ	Trading Buy	1,195	1,300	8.8	2,368	12.9	21.0	1.3	1.6	0.0	1.3	6.4
Bank Jawa Timur	BJTM IJ	Buy	670	820	22.4	710	23.7	5.9	1.0	0.2	7.5	3.2	17.7
BTPN Syariah	BTPS IJ	Buy	3,600	4,150	15.3	1,960	22.0	17.5	4.3	0.8	1.9	9.9	27.1
<b>Sector Weighted Average (Big-4 Banks)</b>							<b>14.0</b>	<b>15.8</b>	<b>2.6</b>	<b>1.2</b>	<b>2.4</b>	<b>3.0</b>	<b>17.7</b>
<b>Sector Weighted Average (Small &amp; Mid Banks)*</b>							<b>13.4</b>	<b>10.3</b>	<b>0.9</b>	<b>0.9</b>	<b>2.5</b>	<b>2.2</b>	<b>9.9</b>
<b>Sector Weighted Average</b>							<b>14.0</b>	<b>15.2</b>	<b>2.5</b>	<b>1.2</b>	<b>2.4</b>	<b>3.0</b>	<b>16.9</b>

Note: Prices are as at 18 Oct 2019. \*excluding BTPS

Source: Bloomberg, RHB

Figure 5: BBNI's 5-year average P/BV band



Note: Prices are as at 18 Oct 2019

Source: Bloomberg, RHB

Figure 6: GGM valuation

Cost of equity calculation		Sustainable ROE (%)	14.0
Risk free rate (%)	7.0	COE (%)	12.7
Equity premium (%)	4.0	Long-term growth (g%)	9.1
Beta (x)	1.4	Implied P/BV (x)	1.4
Cost of equity; COE (CAPM)	12.7	FY20F BVPS (IDR)	6,736
		<b>Target Price (IDR)</b>	<b>9,127</b>
		<b>TP (Rounded)</b>	<b>9,125</b>

Source: Bloomberg, RHB

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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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