

23 April 2021

Financial Services | Banks

## Bank Tabungan Negara (BBTN IJ)

### Buy (Maintained)

### CoF Cut Lifts Earnings; Keep BUY

Target Price (Return): IDR2,450 (+44%)  
Price: IDR1,700  
Market Cap: USD1,173m  
Avg Daily Turnover (IDR/USD) 113,617m/7.86m

• **Maintain BUY and IDR2,450 TP, 44% upside and c.2% yield.** 1Q21 earnings were IDR625bn (+36.8% YoY) – above our and Street estimates at 29% and 26%. The main driver was lower CoF and provisions. Loan growth remained slow but gradually rose from +1.6% YoY in Dec 2020 to +3.2% YoY in Mar 2021. NIM also improved to 3.3% from 3.7% due to CoF cut of 159bps. Management expects further savings in CoF and acceleration in loan growth for the year.

• **Earnings lifted by 159bps cut in CoF.** Despite the strong increase in third party funds (+33% YoY), which were dominated by time deposits (TDs) (+41.4% YoY), its cut in CoF of 159bps YoY lowered interest expense to 10.3% YoY (-12.3% QoQ). This brought NII to IDR2.7trn, up 27% YoY (+15.8% QoQ). Its PPOP also grew 36% YoY in 1Q21. Management expects further cuts in CoF especially with the repricing in TDs and IDR11trn borrowings that are due this year. Another reason for its outperformance in earnings was the lower provision expense, which came in at IDR320bn (-51.7% QoQ, -27.7% YoY), implying a mere 0.5% CoC – below expectations. Hence, this resulted in earnings growth of 36.8% YoY (+29.7% QoQ) to IDR625bn in 1Q21.

• **Loan growth still slow, should accelerate.** Loan growth came in still slow at 3.2% YoY to IDR261trn, although showing constant growth since Dec 2020 at 1.6% YoY. This was mainly driven by its main segment, subsidised mortgage, which grew 9% YoY. Management targets 7-9% loan growth for the year. In our view, this may be boosted by the rise of non-subsidised mortgage loan growth, which is aligned with the pick-up in property marketing sales. Bank Tabungan Negara is also sitting on a much more ample 88% LDR – its lowest in the past 15 years.

• **Slight improvement in NPL.** NPL fell to 4.25% vs 4.37% in 4Q20, and 4.91% in 1Q20. Coverage ratio is also at a comfortable level of 115%, according to management. However, concerns lie with the IDR58.9trn of restructured loans, which is estimated at 85% of total loans. The remaining 7.5% is expected to be upgraded while the remaining 7.5% is expected to downgrade to NPL. Looking at the current CoC level, we may see an increase in the coming quarters to its guided 1.2%.

• **Maintain BUY on BBTN as a proxy to rising mortgage and revival of property sales.** With expectations of rising property sales from March-August (with the VAT exemption) this year, we believe the bank's loan growth will accelerate. Combined with lower CoF, earnings should gradually normalise to its 2018 level. It is currently trading at 0.9x P/BV, still below its mean level of 1x.

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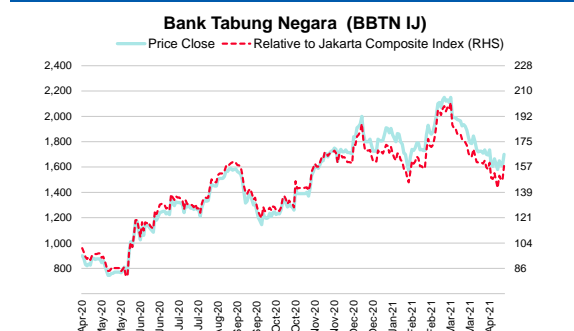


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.5)	(10.1)	(5.6)	34.9	88.9
Relative	(1.8)	(5.2)	(0.6)	17.2	57.7
52-wk Price low/high (IDR)	745 – 2,150				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (IDRb)	209	1,602	2,142	2,567	3,243
Net profit growth (%)	(92.6)	666.8	33.7	19.8	26.4
Recurring net profit (IDRb)	265	1,638	2,185	2,615	3,296
Recurring EPS (IDR)	25.05	154.67	206.35	246.90	311.25
BVPS (IDR)	2,268.12	1,899.69	1,985.05	2,104.55	2,278.62
DPS (IDR)	53.03	45.14	30.25	40.44	48.47
Recurring P/E (x)	67.87	10.99	8.24	6.89	5.46
P/B (x)	0.75	0.89	0.86	0.81	0.75
Dividend Yield (%)	3.1	2.7	1.8	2.4	2.9
Return on average equity (%)	0.9	7.3	10.4	11.9	14.0

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (IDR)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Indonesia	EPS	19.73	151.27	202.22	242.35	306.25
Financial Services	Recurring EPS	25.05	154.67	206.35	246.90	311.25
<b>Bank Tabungan Negara</b>	DPS	53.03	45.14	30.25	40.44	48.47
BBTN IJ	BVPS	2,268.12	1,899.69	1,985.05	2,104.55	2,278.62
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
P/BV backed by GGM. Assumptions include:	Recurring P/E (x)	67.87	10.99	8.24	6.89	5.46
i. COE of 15.3%;	P/B (x)	0.7	0.9	0.9	0.8	0.7
ii. ROE of 14%; and	Dividend Yield (%)	3.1	2.7	1.8	2.4	2.9
iii. 11.4% long-term growth.						
<b>Key drivers</b>	<b>Income statement (IDRb)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
i. Better-than-expected loan growth;	Interest income	25,720	25,167	27,278	29,733	32,744
ii. Better than expected operational efficiency;	Interest expense	(16,758)	(16,045)	(17,372)	(18,955)	(21,087)
iii. Higher-than-expected increase in CASA.	<b>Net interest income</b>	<b>8,962</b>	<b>9,122</b>	<b>9,906</b>	<b>10,778</b>	<b>11,656</b>
	Non interest income	2,110	2,515	2,823	3,154	3,550
	<b>Total operating income</b>	<b>11,072</b>	<b>11,637</b>	<b>12,729</b>	<b>13,932</b>	<b>15,206</b>
	Overheads	(7,063)	(7,053)	(7,444)	(7,859)	(8,299)
	<b>Pre-provision operating profit</b>	<b>4,008</b>	<b>4,584</b>	<b>5,284</b>	<b>6,073</b>	<b>6,907</b>
	Loan impairment allowances	(3,487)	(2,262)	(2,483)	(2,721)	(2,681)
	Other exceptional items	(111)	(51)	(56)	(62)	(68)
	<b>Pre-tax profit</b>	<b>411</b>	<b>2,271</b>	<b>2,746</b>	<b>3,290</b>	<b>4,158</b>
	Taxation	(202)	(669)	(604)	(724)	(915)
	<b>Reported net profit</b>	<b>209</b>	<b>1,602</b>	<b>2,142</b>	<b>2,567</b>	<b>3,243</b>
	<b>Recurring net profit</b>	<b>265</b>	<b>1,638</b>	<b>2,185</b>	<b>2,615</b>	<b>3,296</b>
<b>Company Profile</b>	<b>Profitability ratios</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Bank Tabungan Negara is an SOE bank focusing on housing loans. Nearly 80% of its loan book consists of housing related loans such as subsidised and non-subsidised mortgage loans.	Return on average assets (%)	0.1	0.5	0.6	0.8	0.9
	Return on average equity (%)	0.9	7.3	10.4	11.9	14.0
	Return on IEAs (%)	8.6	8.5	9.4	9.4	9.1
	Cost of funds (%)	6.1	5.3	5.6	6.3	6.2
	Net interest spread (%)	2.5	3.3	3.8	3.1	2.8
	Net interest margin (%)	3.0	3.1	3.4	3.4	3.2
	Non-interest income / total income (%)	19.1	21.6	22.2	22.6	23.3
	Cost to income ratio (%)	63.8	60.6	58.5	56.4	54.6
	Credit cost (bps)	156	92	91	90	80
	<b>Balance sheet (IDRb)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total gross loans	232,213	260,114	286,838	317,823	352,514
	Other interest earning assets	72,551	24,956	9,433	20,511	32,418
	Total gross IEAs	304,763	285,070	296,271	338,334	384,932
	Total provisions	(6,145)	(13,066)	(24,786)	(34,413)	(43,902)
	Net loans to customers	226,787	248,577	262,118	283,481	308,689
	Total net IEAs	298,618	272,004	271,484	303,921	341,031
	Total non-IEAs	13,159	89,204	42,508	46,759	51,435
	Total assets	311,777	361,208	313,992	350,680	392,465
	Customer deposits	225,383	279,130	252,052	284,411	320,995
	Other interest-bearing liabilities	50,322	54,991	33,243	35,524	38,023
	Total IBLs	275,705	334,121	285,296	319,936	359,018
	Total non-IBLs	12,236	7,099	7,809	8,590	9,449
	Total liabilities	287,941	341,220	293,105	328,526	368,467
	Share capital	7,349	7,349	7,349	7,349	7,349
	Shareholders' equity	24,019	20,118	21,022	22,287	24,131
	<b>Asset quality and capital</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Reported NPLs / gross cust loans (%)	5.3	5.2	3.5	2.9	2.8
	Total provisions / reported NPLs (%)	50.0	55.3	0.0	0.0	0.0
	CET-1 ratio (%)	11.7	10.2	10.2	10.4	10.7
	Tier-1 ratio (%)	15.6	13.2	12.8	12.7	12.9
	Total capital ratio (%)	17.3	18.8	17.9	17.4	17.3

Source: Company data, RHB

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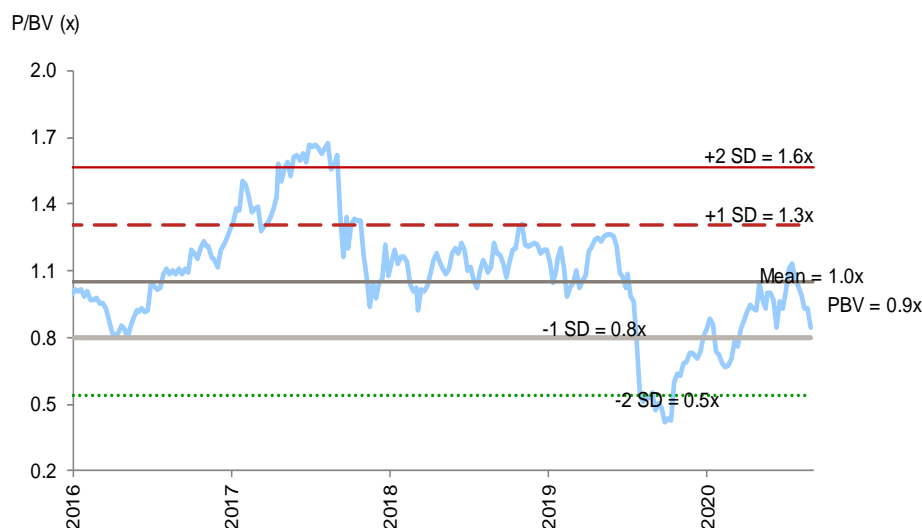
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Figure 1: 1Q21 results review

INCOME STATEMENT (IDRbn)	1Q20	4Q20	1Q21	QoQ	YoY	% of RHB	% of Cons.
Interest Income	6,174	6,484	6,359	-1.9%	3.0%		
Interest Expense	3,995	4,088	3,585	-12.3%	-10.3%		
<b>Net Interest Income</b>	<b>2,179</b>	<b>2,396</b>	<b>2,774</b>	<b>15.8%</b>	<b>27.3%</b>		
Non-Interest Income	475	891	504	-43.4%	6.1%		
<b>Total Operating Income</b>	<b>2,654</b>	<b>3,287</b>	<b>3,278</b>	<b>-0.3%</b>	<b>23.5%</b>		
Operating Expense	1,784	1,720	2,092	21.6%	17.3%		
<b>PPOP</b>	<b>870</b>	<b>1,567</b>	<b>1,186</b>	<b>-24.3%</b>	<b>36.3%</b>		
<b>Provision Expense</b>	<b>439</b>	<b>663</b>	<b>320</b>	<b>-51.7%</b>	<b>-27.1%</b>		
<b>Operating Profit</b>	<b>431</b>	<b>904</b>	<b>866</b>	<b>-4.2%</b>	<b>100.9%</b>		
<b>Net Profit</b>	<b>457</b>	<b>482</b>	<b>625</b>	<b>29.7%</b>	<b>36.8%</b>	<b>29%</b>	<b>26%</b>
BALANCE SHEET (IDRbn)	3M20	FY20	3M21	QoQ	YoY		
Loan	253,252	260,114	261,340	0.5%	3.2%		
Deposit	221,720	279,130	294,910	5.7%	33.0%		
CASA	92,870	114,760	112,660	-1.8%	21.3%		
Time Deposits	128,850	164,370	182,250	10.9%	41.4%		
RATIOS	3M20	FY20	3M21				
ROAA (%)	0.8%	0.7%	0.9%				
ROAE (%)	12.2%	10.0%	15.1%				
NIM (%)	3.1%	3.1%	3.3%				
CoC (%)	0.7%	0.9%	0.0%				
CASA (%)	41.9%	41.1%	38.2%				
LDR (%)	114.2%	93.2%	88.6%				
CIR (%)	67.2%	60.6%	63.8%				
NPL (%)	4.9%	4.4%	4.3%				
CAR (%)	18.7%	19.3%	17.7%				
Coverage (%)	105.7%	115.0%	115.9%				

Source: Company data, RHB

Figure 2: BBTN's discount to P/BV band



Source: RHB

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## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-16	Buy	2,450	1,930
2020-12-11	Buy	2,300	1,705
2020-10-23	Trading Buy	1,580	1,430
2020-08-03	Neutral	1,250	1,210
2020-06-02	Buy	1,190	925
2020-05-17	Neutral	820	745
2020-04-16	Neutral	950	900
2019-11-15	Sell	1,500	1,920
2019-04-23	Neutral	2,150	2,630
2019-03-29	Neutral	2,700	2,440

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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