

19 February 2021

Financial Services | Banks

Bank Danamon (BDMN IJ)

Sell (from Neutral)

Sluggish Performance; D/G To SELL

Target Price (Return): IDR2,400 (-24.3%)
 Price: IDR3,170
 Market Cap: USD2,209m
 Avg Daily Turnover (IDR/USD) 14,743m/1.05m

- **D/G SELL from Neutral, with new IDR2,400 TP from IDR3,700, 24% downside and 1% yield.** Bank Danamon reported a 4Q20 loss of IDR469bn, bringing FY20 net profit down 75.3% YoY – at 49% and 51% of our and Street estimates. Its performance was impacted by higher credit costs in 4Q20, while improvements in funding could not offset its lacklustre loan growth. We downgrade to SELL, as we expect the next 2-3 quarters to be challenging.

- **Funding improvements unable to help topline.** Strong improvements in its funding structure – as CASA ratio improved to 52.3% from 49.7% last year – could not help BDMN's topline, as most of its loan engines declined significantly in FY20 due to COVID-19. Loan growth declined by 6% YoY, as its SME business, as well as 4-wheeler (4W) and 2-wheeler (2W) segments declined 15% and 20% YoY respectively. Management guided for a low, single-digit growth in FY21, likely to be contributed by strong financing for its 4W and 2W loan segment. Management has not indicated any strong plans for its SME business, which we believe could be a drag for its FY21 performance. BDMN reported 7.4% NIM in FY20 – its lowest ever – as its mass market segment declined, and its SME business was weaker than expected. Management guided that NIM will be at similar levels in FY21, despite indications of strong FY21 performance by Adira Finance (ADMJ IJ, NOT RATED).

- **Enough provisions for now, but asset quality will remain a challenge.** BDMN booked more provisions in 4Q20, as its credit cost ratio reached 7.1% during the quarter, bringing FY20's credit cost ratio to 4.7%. However, loan loss coverage hit 199.9%, which is the highest we have seen for BDMN. We expect the significant provisions to cover its mass market and SME businesses, which have been struggling since the start of COVID-19 last year. Loans under risk-coverage also remain high at 38.6 in FY20, as management has much to do in terms of restructuring of its portfolio. In terms of COVID-19-related restructured loans, we saw a significant decline in 4Q20 – which is good for its asset quality. COVID-19-related restructured loans were down to IDR17.2tn from IDR29.3tn in the previous quarter. While it is enough for now, we expect more provisions from its SME business, as management has not revealed its FY21 strategies.

- **Given its gloomy outlook and unclear FY21 strategy,** we revise our net profit forecast downwards by 5%, as the single-digit loan growth outlook, and potential upset from its asset quality, could be risky for its share price. However, we expect BDMN to maintain its funding and strong capital structures. Our GGM-based TP implies 0.5x PBV, set at around -2SD to its mean.

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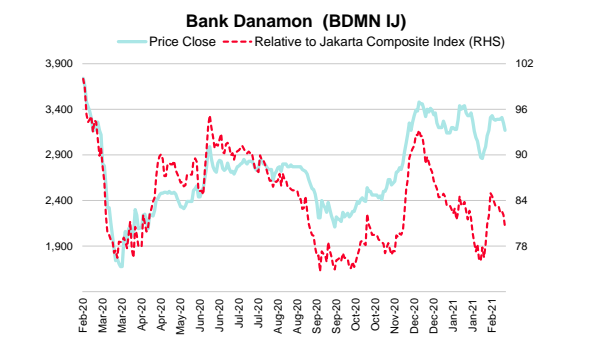


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.0	(4.8)	16.5	13.6	(10.7)
Relative	(2.7)	(1.8)	4.9	(3.5)	(16.0)
52-wk Price low/high (IDR)	1,675 – 3,740				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (IDRb)	4,073	1,170	3,084	3,755	4,483
Net profit growth (%)	3.9	(71.3)	163.7	21.8	19.4
Recurring net profit (IDRb)	2,202	1,556	3,272	3,942	4,669
Recurring EPS (IDR)	229.71	162.31	341.38	411.32	487.15
BVPS (IDR)	4,688.45	4,747.77	5,137.38	5,521.34	5,965.24
DPS (IDR)	143.22	170.00	42.07	128.70	156.72
Recurring P/E (x)	13.80	19.53	9.29	7.71	6.51
P/B (x)	0.68	0.67	0.62	0.57	0.53
Dividend Yield (%)	4.5	5.4	1.3	4.1	4.9
Return on average equity (%)	9.4	2.6	6.5	7.4	8.1

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Indonesia	EPS	425.00	122.03	321.76	391.79	467.68
Financial Services	Recurring EPS	229.71	162.31	341.38	411.32	487.15
Bank Danamon	DPS	143.22	170.00	42.07	128.70	156.72
BDMN IJ	BVPS	4,688.45	4,747.77	5,137.38	5,521.34	5,965.24
Sell						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	13.80	19.53	9.29	7.71	6.51
	P/B (x)	0.7	0.7	0.6	0.6	0.5
	Dividend Yield (%)	4.5	5.4	1.3	4.1	4.9
	Income statement (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Interest income	21,970	22,700	19,613	20,767	22,473
	Interest expense	(7,391)	(9,055)	(6,402)	(6,803)	(7,312)
	Net interest income	14,579	13,645	13,211	13,964	15,161
	Non interest income	3,787	3,322	3,721	4,093	4,502
	Total operating income	18,366	16,967	16,931	18,057	19,663
	Overheads	(10,388)	(8,237)	(8,484)	(8,739)	(9,001)
	Pre-provision operating profit	7,979	8,730	8,447	9,318	10,663
	Loan impairment allowances	(4,705)	(6,523)	(4,137)	(4,101)	(4,463)
	Other exceptional items	4,801	(1,095)	(795)	(795)	(795)
	Pre-tax profit	5,860	1,659	4,062	4,969	5,952
	Taxation	(1,619)	(490)	(978)	(1,214)	(1,470)
	Minority interests	(167)	-	-	-	-
	Reported net profit	4,073	1,170	3,084	3,755	4,483
	Recurring net profit	2,202	1,556	3,272	3,942	4,669
	Profitability ratios	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Return on average assets (%)	2.1	0.6	1.5	1.7	1.9
	Return on average equity (%)	9.4	2.6	6.5	7.4	8.1
	Return on IEAs (%)	10.7	11.5	9.9	9.7	9.8
	Cost of funds (%)	5.5	6.3	4.2	4.1	4.2
	Net interest spread (%)	5.3	5.2	5.8	5.5	5.6
	Net interest margin (%)	7.1	6.9	6.7	6.5	6.6
	Non-interest income / total income (%)	20.6	19.6	22.0	22.7	22.9
	Cost to income ratio (%)	56.6	48.5	50.1	48.4	45.8
	Credit cost (bps)	341	471	304	289	296
	Balance sheet (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total gross loans	141,460	135,786	136,381	147,623	154,246
	Other interest earning assets	66,532	52,273	71,124	74,392	83,435
	Total gross IEAs	207,993	188,059	207,505	222,015	237,680
	Total provisions	(4,707)	(5,242)	(5,182)	(5,610)	(5,861)
	Net loans to customers	136,790	130,544	131,199	142,014	148,384
	Total net IEAs	203,285	182,817	202,322	216,405	231,819
	Total non-IEAs	(9,751)	18,073	13,918	14,614	15,345
	Total assets	193,534	200,890	216,241	231,020	247,164
	Customer deposits	109,792	119,433	127,385	136,635	146,596
	Other interest-bearing liabilities	28,354	29,772	31,260	32,823	34,464
	Total IBLs	138,146	149,205	158,645	169,458	181,061
	Total non-IBLs	9,971	8,577	10,993	11,543	12,120
	Total liabilities	148,117	157,782	169,638	181,001	193,181
	Share capital	13,982	13,982	13,982	13,982	13,982
	Shareholders' equity	44,937	45,506	49,240	52,920	57,175
	Minority interests	480	(2,398)	(2,637)	(2,901)	(3,191)
	Asset quality and capital	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	CET-1 ratio (%)	16.7	18.6	20.1	20.4	21.3
	Tier-1 ratio (%)	20.0	21.9	23.4	23.4	24.1
	Total capital ratio (%)	20.8	22.9	24.3	24.3	25.1

Source: Company data, RHB

Figure 1: 4Q20 results review

Income statement (IDRbn)	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY	12M20/ RHB	12M20/ Cons.
Net interest income	3,656	3,474	2,839	-18.3%	-22.3%	14,369	13,645	-5.0%		
Non-interest income	1,114	622	737	18.5%	-33.8%	3,679	3,322	-9.7%		
Total operating income	4,840	4,096	3,576	-12.7%	-26.1%	18,119	16,967	-6.4%		
Operating expense	2,590	2,006	1,953	-2.6%	-24.6%	9,319	8,237	-11.6%		
PPOP	2,248	2,090	1,623	-22.3%	-27.8%	8,800	8,730	-0.8%		
Provision expense	1,901	1,120	1,790	59.8%	-5.8%	4,719	6,523	38.2%		
Operating profit	347	970	-167	-117.2%	-148.1%	4,081	2,207	-45.9%		
Net profit	1,477	632	-469	-174.2%	-131.8%	4,073	1,008	-75.3%	49%	51%
Balance sheet (IDRbn)	FY19	9M19	FY20	QoQ	YoY	FY19	FY20	YoY		
Loan	144,253	140,373	135,786	-3.3%	-5.9%	144,253	135,786	-5.9%		
Deposit	112,294	119,077	126,211	6.0%	12.4%	112,294	126,211	12.4%		
CASA	55,829	61,334	65,999	7.6%	18.2%	55,829	65,999	18.2%		
Time deposits	56,465	57,743	60,212	4.3%	6.6%	56,465	60,212	6.6%		
Ratios	FY19	9M19	FY20			FY19	FY20			
ROAE (%)	10.3%	5.2%	2.6%			10.3%	2.6%			
ROAA (%)	2.1%	1.0%	0.5%			2.1%	0.5%			
NIM (%)	8.3%	7.9%	7.4%			8.3%	7.4%			
CoC (%)	0.0%	4.4%	0.8%			0.0%	0.8%			
CASA (%)	49.7%	51.5%	52.3%			49.7%	52.3%			
LDR (%)	128.5%	117.9%	107.6%			128.5%	107.6%			
CIR (%)	51.4%	46.9%	48.5%			51.4%	48.5%			
NPL (%)	3.0%	3.2%	2.8%			3.0%	2.8%			
CAR (%)	24.2%	24.9%	25.0%			24.2%	25.0%			

Source: Company data, RHB

Figure 2: RHB vs Street estimates

	RHB (New)		Consensus		RHB/Cons	
	2021E	2022E	2021E	2022E	2021E	2022E
Net interest income	13,211	13,964	15,266	16,148	87%	86%
Operating income	16,931	18,057	19,346	21,734	88%	83%
PPOP	8,447	9,318	8,953	9,306	94%	100%
Provision	4,137	4,101	4,630	4,164	89%	98%
Net income	3,084	3,755	3,200	3,867	96%	97%
EPS	322	392	325	408	99%	96%
EPS growth	205.9%	21.8%	48.0%	25.6%		
BVPS	5,137	5,521	4,787	5,102	107%	108%
DPS	42	129	88	125	48%	103%
ROE	6.5%	7.4%	7.5%	8.4%	87%	88%

Source: RHB

Figure 3: Changes to our estimates

	RHb (Old)		RHB (New)		Old vs New	
	2021E	2022E	2021E	2022E	2021E	2022E
Net interest income	14,800	15,780	13,211	13,964	-11%	-12%
Operating income	19,923	21,416	16,931	18,057	-15%	-16%
PPOP	9,119	10,288	8,447	9,318	-7%	-9%
Provision	4,676	4,687	4,137	4,101	-12%	-12%
Net income	3,248	4,084	3,084	3,755	-5%	-8%
Loans	155,599	169,258	135,373	147,623	-13%	-13%
Loans growth	5.7%	8.8%	-0.3%	9.0%		
EPS	339	426	322	392	-5%	-8%
EPS growth	59.1%	25.7%	205.9%	21.8%		
BVPS	5,219	5,631	5,137	5,521	-2%	-2%
DPS	85	136	42	129	-51%	-5%
ROE	6.7%	7.9%	6.5%	7.4%	-3%	-7%

Source: RHB

Figure 4: BDMN's discount to P/BV band



Source: RHB

Figure 5: GGM valuation

Cost of equity calculation		Sustainable ROE (%)	8.0%
Risk free rate (%)	6.5%	COE (%)	14.6%
Equity premium (%)	5.5%	Long-term growth (g)	2.4%
Beta (x)	1.5	Implied P/BV (x)	0.5x
Cost of equity; COE (CAPM)	14.6%	FY21F BVPS	5,137
		TP (IDR/share)	2,400

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-10	Neutral	3,700	3,400
2020-08-03	Neutral	2,900	2,620
2020-05-03	Buy	2,900	2,490
2020-04-16	Buy	3,900	2,090
2020-02-20	Buy	4,700	3,740
2020-02-20	Buy	5,300	3,740
2019-10-24	Trading Buy	5,300	4,530
2019-07-25	Neutral	5,000	5,175
2019-05-17	Neutral	4,550	4,840
2019-02-21	Neutral	8,500	9,175

Source: RHB, Bloomberg

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