

Premier Insight

Bank Rakyat Indonesia (BBRI IJ; Buy)

Still growing despite high provisions

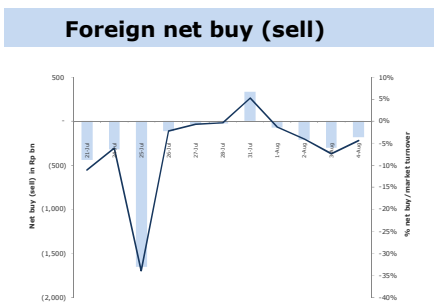
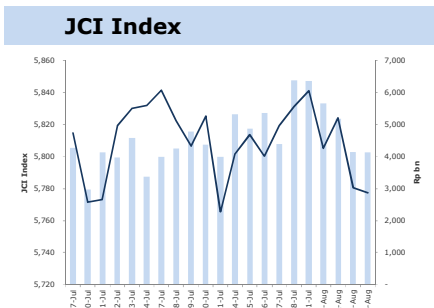
- Profit was up 10% in 1H17 despite front-loading of loan provisions
- Core profit grew a robust 18% as operating cost growth slowed
- Stable NPL ratios but rising special mention loans is a concern
- We cut rating to Hold (from Buy) as the stock has outperformed

Decent results. BBRI reported net profit of Rp13.4tn in 1H17 (+10% yoy), which is in-line with market expectation, with profits of Rp6.8tn in 2Q (1Q: Rp6.6tn) forming 24.3%/23.8% of FY17F consensus (albeit below our forecasts). Key drivers were: 1) loan growth of 11%, partly offset by 29bps lower NIM to 7.73%; 2) strong NPL recovery income (+45%); 3) slow operating cost growth (+4%), and despite high loan provisioning (+44%). Core profit (PPOP) grew a robust 18% as cost/income ratio fell to 43.5% (1H16: 46.6%), while ROAA/ROAE eased to 2.67%/18.4% in 1H, from 2.77%/20.7% a year earlier.

Strong core profit. BBRI's robust PPOP growth was driven by its strong asset growth of 13%, which outpaced growth of its operating cost (only 4.4% in 1H17 vs. 17-19% in 2014-2016) – this appears to be partly due to lower provisions for employee bonuses, defined benefit contribution and LT pension expenses in 1H17. Meanwhile, NIMs declined to 7.73% in 1H (our calculation), due to lower loan yields, but it was marginally higher in 2Q vs. 1Q. Management has revised down NIM guidance by 20bps while also lowering opex growth to 8-10% (from 15-18%) while maintain its NPL and credit cost guidance of 2.2-2.4% for 2017.

Asset quality. The bank's NPL ratio was unchanged at 2.2% in 1H (mostly stable across loan segments), while its new NPLs improved to 1.7%, from 2.1% a year ago. However, special mention (SM) loans jumped to 6.25% in 2Q (1Q: 4.2%), albeit still similar to a year ago. Despite our concern over worsening of SM loans, the bank has front-loaded its loan provisions in 1H to anticipate this - this led to higher credit cost of 313bps in 1H17 (1H16: 250bps) and provision/NPL coverage of 192% (1H16: 153%). Our earnings forecast assumes credit cost of 266bps for FY17F (lower provisioning in 2H) albeit still above guidance of 220-240bps.

Valuation. We raise our TP to Rp16,000 (from Rp14,000), albeit this is largely due to our 50bps lower cost of equity assumption on the back of declining bond yields in Indonesia. Our TP is based on our GGM-derived target FY17F P/B of 2.37x assuming LT ROAE of 17.3%, growth of 9%, cost of equity of 12.5% (from 13%). We estimate BBRI's LT ROAE based on DuPont analysis, assuming LT ROAA of 2.16% and asset/equity leverage of 8x. In spite of this, we lower our rating to HOLD (from BUY) as BBRI has outperformed its major bank peers this year while we still have longer-term concern over its high dependence on the government's KUR micro-credit interest-subsidy program and its impact on future NIMs.



Index	Closing	1 day	1 year	YTD
JCI	5,777	-0.1%	6.6%	9.1%
LQ45	959	-0.3%	2.9%	8.5%
DJI	22,093	0.3%	19.1%	11.8%
SET	1,578	0.0%	3.9%	2.3%
HSI	27,563	0.1%	24.5%	25.3%
NKY	19,952	-0.4%	22.7%	4.9%
FTSE	7,512	0.5%	10.6%	5.2%
FSSTI	3,327	-0.5%	17.6%	15.5%
EIDO	27	0.0%	0.4%	10.3%

Commodities	Last price	Ret 1 day	Ret 1 year
<i>(in USD)</i>			
Oil/barrel (WTI)	49.6	1.1%	18.2%
CPO/tonne	609.0	0.2%	6.7%
Soy/bushel	9.3	-0.1%	-5.2%
Rubber/kg	1.8	1.3%	-3.5%
Nickel/tonne	10,210	-1.2%	-3.4%
Tins/tonne	20,630	-0.7%	14.6%
Copper/tonne	6,348	0.3%	31.8%
Gold/try.oz (Spot)	1,259	-0.8%	-5.7%
Coal/tonne	95.4	0.8%	46.7%
Corn/bushel	3.4	0.9%	11.1%
Wheat/bushel*	146.5	5.8%	-7.0%

* : 1 month change

Source : Bloomberg

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Operating income (RpBn)	68,336	80,018	89,935	96,583	107,315
PPOP (RpBn)	37,071	43,194	49,869	52,487	58,784
Net profit (RpBn)	25,398	26,119	28,026	31,165	35,041
Net profit growth (%)	4.8	2.8	7.3	11.2	12.4
FD EPS (Rp)	1,030	1,059	1,136	1,263	1,420
P/E (x)	14.5	14.1	13.1	11.8	10.5
P/B (x)	3.3	2.5	2.2	1.9	1.7
Dividend yield (%)	2.1	2.1	2.3	2.5	2.9
ROAA (%)	3.2	2.9	2.6	2.6	2.6
ROAE (%)	24.7	20.2	17.9	17.5	17.4

Source: BBRI, IndoPremier

Share Price Closing as of : 03-August-2017

News & Analysis

Corporates

HERO: Hero Supermarket (HERO IJ; Rp 1,230; Not rated) recorded decrease in earnings by 3.8% yoy in 1H17 due to lower food business revenue by 6.2% yoy which generated by GIANT supermarket and accounts for 85% of HERO's revenue. on the upside, non food revenue still growing at 12% yoy in 1H17. Company is planning to increase its food sales by launching new premium outlet and increase their distribution. (Kontan)

TOTL: Total Bangun Persada (TOTL IJ; Rp 765; Not Rated) acquired total new contract of Rp 2.7tn as of July, cumulating 67% of their FY17 target of Rp4tn. TOTL's new contract comes from the construction of Taman Permata Buana, Thamrin Nine, Green Office Park and Wisma Barito Pacific, which all located in Jakarta. Company is guiding for FY17 revenue of Rp 3.1tn and earnings of Rp 250bn. (Bisnis Indonesia)

Markets & Sector

Tobacco Sector: Japan Tobacco International set to acquire two Indonesia's cigarette company, PT Karyadibya Mahardhika and PT Surya Mustika Nusantara, which is both affiliates of Gudang Garam Group with total acquisition cost estimated to reach US\$ 1bn. Karyadibya Marhardhika is a cigarette company with Apache brand, while Srya Mustika is their distributor. (Kontan)

Economy

Monetary easing: BI signals that it would undertake further easing to stimulate what is an otherwise slowing economy in the 2H17, based on the commentary made by BI governor's Agus Martowardojo. No further detail has been provided as to how the easing will be done through, but Agus made sure the easing will be done once data are reviewed in the upcoming August meeting (which shall due course on 22 Aug 2017). Agus also commented on the current concern, which in spite of sound macroeconomic indicators, corporation and banking consolidation, which remains undergoing, has weakened demand. (CNN Indonesia)

Comment: We have previously highlighted that the slowing demand and a trending shift to saving will underlie BI's further decision to take easing. Having seen Governor Agus' commentary, we are not, however, quite sure that it will do easing through further rate cut this year.

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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