

Bank Tabungan Negara

BUY (previously HOLD)

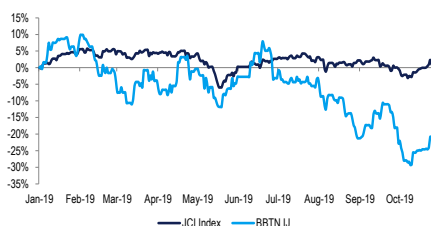
Company Update | Banks | BBTN IJ | 19 November 2019

Stock Data

Target price	Rp2,750
Prior TP	Rp2,200
Current price	Rp2,070
Upside/downside	+33%
Shares outstanding (mn)	10,590
Market cap (Rp bn)	21,921
Free float	40%
Avg. 6m daily T/O (Rp bn)	52

Price Performance

	3M	6M	12M
Absolute	-15.4%	-12.7%	-18.5%
Relative to JCI	-12.8%	-17.8%	-20.4%
52w low/high (Rp)	1,795 – 2,790		



Major Shareholders

Republic of Indonesia	60%
-----------------------	-----

Jovent Muliadi

PT Indo Premier Sekuritas

jovent.muliadi@ipc.co.id

+62 21 5088 7168 ext. 710

Anthony

PT Indo Premier Sekuritas

anthony@ipc.co.id

+62 21 5088 7168 ext. 715

Brighter outlook ahead especially on CoF; valuation also on its side

- We recently met with BBTN management and were surprised that it has taken all the necessary measures to improve its overall fundamental.
- IFRS 9 and drop in 2019 earnings was one-off, its earnings is expected to bounce back strong in 2020 (+147% yoy) despite our conservative est.
- We upgrade our recommendation to Buy from Hold and introduce a new TP of Rp2,750 (based on 1.3x P/BV – at its 10Y avg).

Drop in share price clearly has priced-in all the downside

BBTN share price dropped 12% post our last downgrade note in Sep19 ([link](#)) as we cut our 2019 earnings by 53% on the back of higher CoC. It also saw another drop in late Oct19 amid concerns on MSCI exclusions. Despite the recent rally, we think that the EPS downside has been fully priced-in.

Management has set its priority straight, managing CoF is imperative

Management understands that it's imperative to manage its CoF and thus, they need to lower their loan growth target (now only at 5-7% for 2020, from high teens in previous years), this shall allow them to cut expensive funding (start from wholesale funding at 8.8% cost in 9M19, then TD at 8.3% cost in 9M19 – due to high institutional holding of 80%), then moving to improve its CASA (even by offering higher rate). Its CoF has started to drop in Oct and Nov, note that a 10bp CoF drop shall translate to +8% upside to FY20 EPS.

Clear outlook in provisioning, better balance sheet ahead

By year-end, it may require additional c.Rp4.5tr of provisioning to be taken from its retained earnings to comply with IFRS 9. This shall lower CAR by 250bp but increase ROE by 150bp. However, our provision estimate for FY20/21 is still more conservative than management's (80bp CoC for FY20/21 vs. management's 50bp – in-line with its historical average) which result in higher coverage (150% in FY20/21 vs. management est of 130%). It also has taken all the necessary steps to improve its loan quality (i.e. especially after formation of regional processing centre/RPC).

Upgrade to Buy, valuation also on its side

It trades at 1.1x FY20P/BV and 6.6x FY20 P/E (vs. 10Y avg of 1.3x P/BV and 9.8x P/E) which has reflected most of the downside. Appointment of the new CEO on 27th Nov and improvement on fundamentals shall spark the re-rating, in our view. We fine-tune our forecasts (especially FY20) as we already taken into account the impact of IFRS 9. Risk is deterioration in asset quality.

Financial Summary	2017A	2018A	2019F	2020F	2021F
Net interest income (Rp bn)	9,341	10,089	10,449	11,886	13,256
Non-interest income (Rp bn)	1,606	2,072	2,299	2,663	2,702
Total revenue (Rp bn)	10,947	12,161	12,749	14,549	15,958
PPOP (Rp bn)	4,776	5,308	5,150	6,163	6,928
Provision charges (Rp bn)	(884)	(1,714)	(3,578)	(2,275)	(2,480)
Net profit (Rp bn)	3,027	2,808	1,233	3,052	3,491
Net profit growth (%)	16%	-7%	-56%	147%	14%
FD EPS (Rp)	287	266	117	289	330
P/B (x)	1.2	1.0	1.0	1.1	0.9
Dividend yield (%)	2.4%	2.8%	2.6%	1.1%	2.8%
ROAE (%)	15.0%	12.3%	5.1%	12.8%	14.3%
Forecast changes (%)			2%	111%	4%
IPS vs. consensus			92%	111%	103%

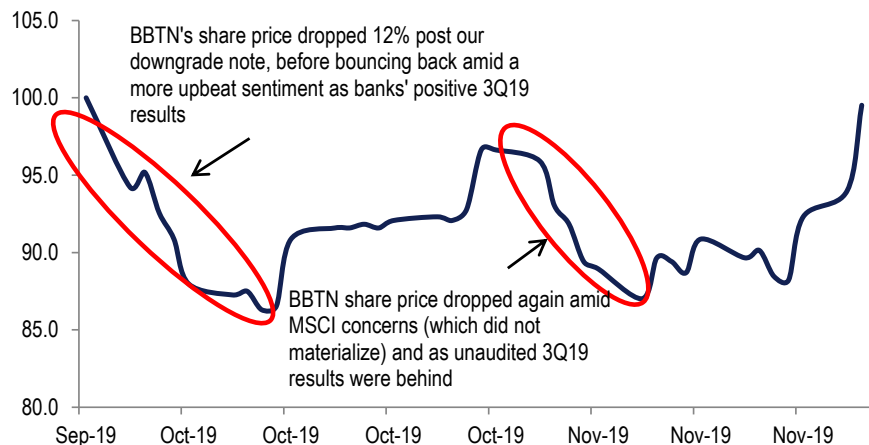
Sources: Company, IndoPremier

Share price closing as of 19 November 2019

Drop in share price clearly has priced-in all the downside

BBTN share price dropped 12% post our last downgrade note in Sep19 ([link](#)) as we cut our 2019 earnings by 53% on the back of higher CoC. It also saw another drop in late Oct19 amid concerns on MSCI exclusions. Despite the recent rally, we think that the EPS downside has been fully priced-in.

Fig. 1: BBTN's share price dropped 12% post our downgrade note in Sep19 – despite recent rally, we think that the Eps downside has been fully priced-in



Sources: Bloomberg, c

Management has set its priority straight, managing CoF is imperative

Management understands that it's imperative to manage its CoF and thus, they need to lower their loan growth target (now only at 5-7% for 2020, from high teens in previous years), this shall allow them to cut expensive funding (start from wholesale funding at 8.8% cost in 9M19, then TD at 8.3% cost in 9M19 – due to high institutional holding of 80%), then moving to improve its CASA (even by offering higher rate).

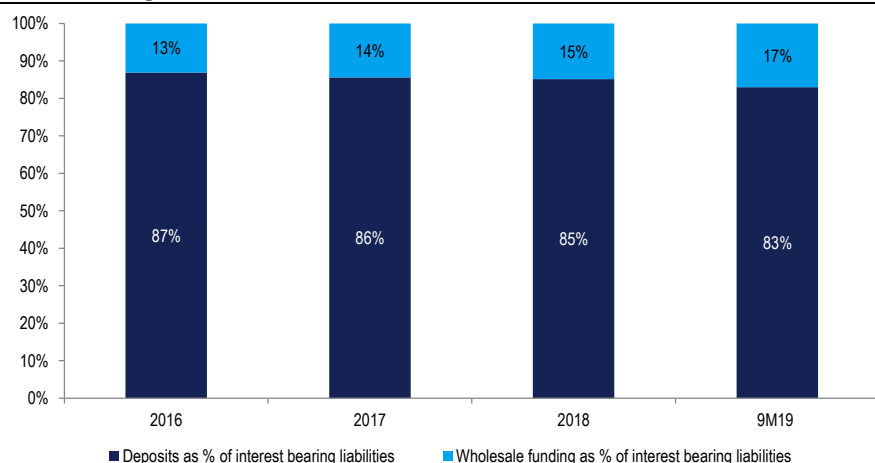
Its CoF has started to drop in Oct and Nov, note that a 10bp drop shall translate to +8% FY20 earnings

Fig. 2: BBTN's cost of fund breakdown

BBTN's cost of fund breakdown	2016	2017	2018	9M19
CASA	2.3%	2.1%	2.5%	2.9%
TD	6.9%	5.8%	6.0%	8.4%
Borrowing cost	9.8%	9.6%	8.9%	8.8%
Cost of funds	5.3%	4.7%	5.1%	6.4%

Sources: Company, IndoPremier

Fig. 3: Breakdown of BBTN's funding structure – wholesale funding accounts for c.17% of total funding as of 9M19



Sources: Company, IndoPremier

Fig. 4: Sensitivity of lower cost of funds to BBTN's earnings

Impact of 10bp reduction to EPS to 2020F net profit (Rp bn)	10bp reduction in CASA cost	Impact of 10bp reduction in TD cost	Impact of 10bp reduction in wholesale funding cost	Impact of 10bp reduction in CoF
Base	3,052	3,052	3,052	3,052
Adjusted	3,154	3,172	3,084	3,306
Change	3.4%	3.9%	1.0%	8.3%

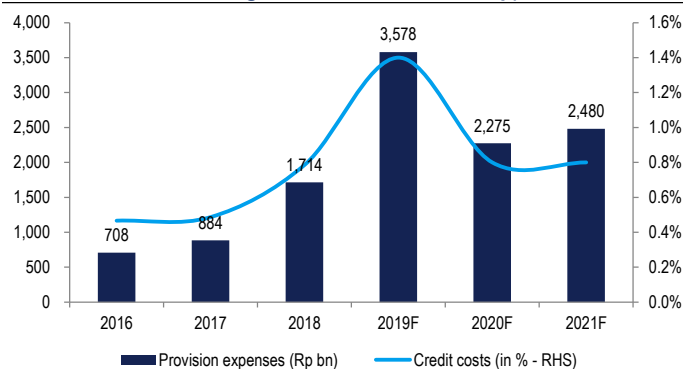
Sources: Company, IndoPremier

Clear outlook in provisioning, better balance sheet ahead

By year-end, it may require additional c.Rp4.5tr of provisioning to be taken from its retained earnings to comply with IFRS 9. This shall lower CAR by 250bp but increase ROE by 150bp.

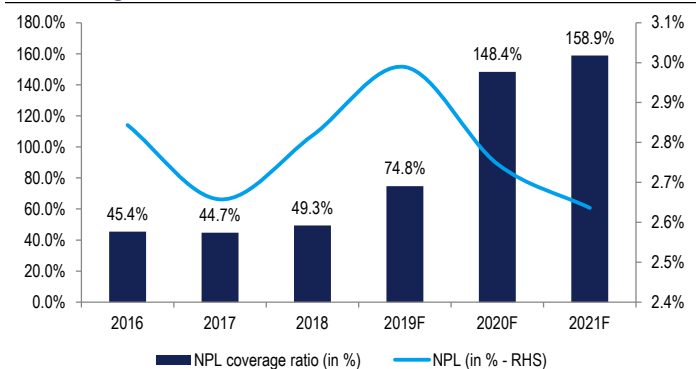
However, our provision estimate for FY20/21 is still more conservative than management's (80bp CoC for FY20/21 vs. management's 50bp – in-line with its historical average) which result in higher coverage (150% in FY20/21 vs. management est of 130%). It also has taken all the necessary steps to improve its loan quality (i.e. especially after formation of regional processing centre/RPC).

Fig. 5: We estimate 2020/21 credit costs of 80bp (still more conservative than management's estimate of 50bp)



Sources: Company, IndoPremier

Fig. 6: We estimate coverage ratio of 148%/159% in 2020/21, higher than management's estimate of 130%



Sources: Company, IndoPremier

Upgrade to Buy, valuation also on its side

IT currently trades at 1.1x FY20 P/BV and 6.6x FY20 P/E (vs. 10-year averages of 1.3x P/BV and 10.4x P/E), which has reflected most of the downside risks.

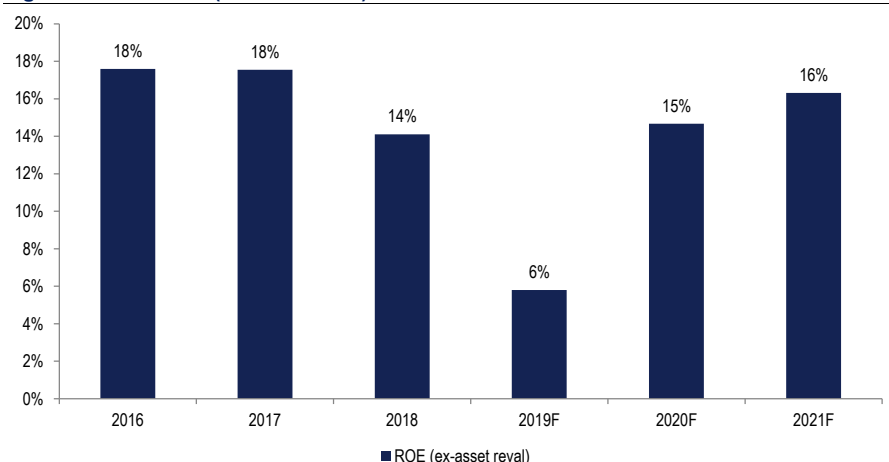
Appointment of the new CEO 27th Nov and improvement on its fundamentals shall spark the re-rating, in our view. We fine-tune our forecasts (especially FY20) as we already taken into account the impact of IFRS 9. Risk is deterioration in asset quality.

Fig. 7: Changes in forecasts

Income Statement (Rp bn)	Previous			New			Changes		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Interest income	25,822	29,630	33,995	25,822	28,715	31,326	0%	-3%	-8%
Interest expense	(15,458)	(17,296)	(19,333)	(15,373)	(16,829)	(18,070)	-1%	-3%	-7%
Net interest income	10,364	12,334	14,662	10,449	11,886	13,256	1%	-4%	-10%
Non-interest income	2,348	2,878	3,113	2,299	2,663	2,702	-2%	-7%	-13%
Total operating income	12,712	15,212	17,775	12,749	14,549	15,958	0%	-4%	-10%
Opex	(7,599)	(8,665)	(9,778)	(7,599)	(8,386)	(9,029)	0%	-3%	-8%
PPOP	5,113	6,547	7,997	5,150	6,163	6,928	1%	-6%	-13%
Provisions	(3,578)	(4,703)	(3,718)	(3,578)	(2,275)	(2,480)	0%	-52%	-33%
Operating profit	1,535	1,844	4,279	1,571	3,888	4,448	2%	111%	4%
Non-operating profit	-	-	-	-	-	-	N/A	N/A	N/A
Pre-tax profit	1,535	1,844	4,279	1,571	3,888	4,448	2%	111%	4%
Income tax	(330)	(396)	(920)	(338)	(836)	(956)	2%	111%	4%
Minority interests	-	-	-	-	-	-	N/A	N/A	N/A
Net profit	1,205	1,448	3,359	1,233	3,052	3,491	2%	111%	4%

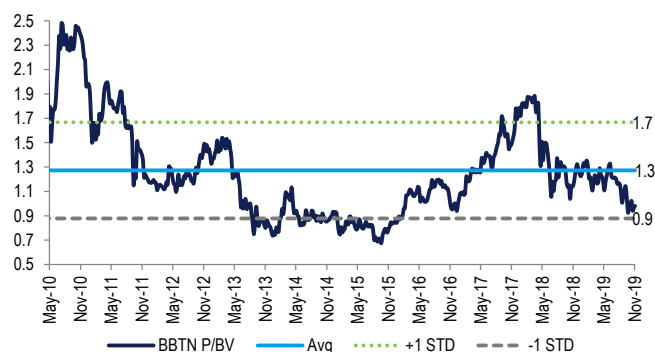
Sources: Company, IndoPremier

Fig. 8: BBTN's ROE (ex-asset reval)



Sources: Company, IndoPremier

Fig. 9: BBTN forward P/BV – now trading at 1.1x FY20 P/BV vs. 10 year average of 1.3x P/BV



Sources: Bloomberg, Company, IndoPremier

Fig. 10: BBTN forward P/E – now trading at 6.6x FY20 P/E vs. 10 year average of 9.8x P/E



Sources: Bloomberg, Company, IndoPremier

Fig. 11: Summary of GGM

Summary of GGM	
Risk free rate	7%
Beta	1
Market risk premium	7%
Cost of equity	14%
Sustainable ROE	15%
Growth rate	10%
Target P/BV multiple (x)	1.3
2021F BVPS (ex-asset reval - in Rp/share)	2,206
Target price (in Rp/share)	2,750

Sources: Bloomberg, Company, IndoPremier

Fig. 12: Peer comparison table

Ticker	Closing Price (Rp/share)	TP (Rp/share)	P/BV multiple target (x)	Upside	Recommendation	P/E (x)		P/BV (x)	
						2019F	2020F	2019F	2020F
BMRI	7,150	8,000	1.9	12%	Buy	12.3	11.1	1.9	1.7
BBRI	4,190	4,600	2.5	10%	Buy	14.8	13.2	2.6	2.3
BBCA	31,575	31,000	4.0	-2%	Hold	27.5	24.1	4.7	4.0
BBNI	7,600	8,500	1.3	12%	Buy	9.2	8.2	1.3	1.2
BBTN	2,070	2,750	1.3	33%	Buy	17.7	6.6	1.0	1.1

Sources: Bloomberg, Company, IndoPremier

Share price closing as of 19 November 2019

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Interest income	19,272	22,852	25,822	28,715	31,326
Interest expense	(9,931)	(12,763)	(15,373)	(16,829)	(18,070)
Net interest income	9,341	10,089	10,449	11,886	13,256
Non-interest income	1,606	2,072	2,299	2,663	2,702
Total operating income	10,947	12,161	12,749	14,549	15,958
Opex	(6,171)	(6,853)	(7,599)	(8,386)	(9,029)
PPOP	4,776	5,308	5,150	6,163	6,928
Provisions	(884)	(1,714)	(3,578)	(2,275)	(2,480)
Operating profit	3,892	3,594	1,571	3,888	4,448
Non-operating profit	(30)	16	-	-	-
Pre-tax profit	3,862	3,610	1,571	3,888	4,448
Income tax	(834)	(802)	(338)	(836)	(956)
Minority interest	-	-	-	-	-
Net profit	3,027	2,808	1,233	3,052	3,491

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash + CA with BI	13,582	16,661	19,005	20,496	22,214
Secondary reserves	41,137	43,293	48,248	51,143	53,700
Gross loans	198,991	237,758	273,421	295,295	324,825
Loan provisions	(2,356)	(3,298)	(6,110)	(12,034)	(13,609)
Other assets	10,011	12,022	12,022	12,022	12,022
Total Assets	261,365	306,436	346,586	366,922	399,151
Total deposits	197,919	232,839	272,209	293,986	323,385
Securities and borrowings	20,973	21,275	21,275	21,275	21,275
Other liabilities	20,810	28,482	28,482	28,482	28,482
Total liabilities	239,702	282,596	321,966	343,743	373,142
Shareholders' equity	21,663	23,840	24,620	23,179	26,010
Total liabilities & equity	261,365	306,436	346,586	366,922	399,151

Sources: Company, IndoPremier

Growth YoY	2017A	2018A	2019F	2020F	2021F
Gross loans	21.0%	19.5%	15.0%	8.0%	10.0%
Total assets	22.0%	17.2%	13.1%	5.8%	8.8%
Total deposits	20.9%	17.6%	16.9%	8.0%	10.0%
Net interest income	14.4%	8.0%	3.6%	13.7%	11.5%
Non-interest income	25.2%	29.0%	11.0%	15.8%	1.5%
Total operating income	15.9%	11.1%	4.8%	14.1%	9.7%
Operating expense	14.6%	11.1%	10.9%	10.4%	7.7%
PPOP	17.6%	11.1%	-3.0%	19.7%	12.4%
Net profit	15.6%	-7.3%	-56.1%	147.4%	14.4%

Key Ratios	2017A	2018A	2019F	2020F	2021F
ROAA	1.3%	1.0%	0.4%	0.9%	0.9%
ROAE	14.8%	12.3%	5.1%	12.8%	14.2%
NIM	4.3%	3.9%	3.5%	3.6%	3.8%
Credit cost	0.5%	0.8%	1.4%	0.8%	0.8%
Cost/income	56.4%	56.3%	59.6%	57.6%	56.6%
LDR	100.5%	102.1%	100.4%	100.4%	100.4%
CAR	18.9%	18.2%	16.8%	14.6%	15.2%
NPL ratio	2.7%	2.8%	3.0%	2.7%	2.6%
Provisions/NPL	44.6%	49.2%	74.8%	148.4%	158.9%

Sources: Company, IndoPremier

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.

DISCLAIMERS

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have any regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT Indo Premier Sekuritas or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.