

# Bank Central Asia Tbk (BBCA)

## Challenge of Stability

### 4Q17's Performance Review

BBCA recorded the interest income of IDR13.7 trillion surging by 6.5% y-y aligning with the growth of 6.4% into IDR10.9 trillion in net interest income. It also secured the net profit of IDR6.5 trillion or buoying by 18.1% underlined by the downbeat provision cost of 43.6% y-y.

### Challenge of Margin Contraction

From 2Q17 to 4Q17, the net interest margin (NIM) was unstable; in fact, the trend of NIM consistently standing at around 6.5% in the prior periods hardly carried on; BBCA was capable of posting 4Q17's NIM of 6.15%, for instance. We note **the paradoxical backdrop: the trend of sliding loan yield into 9.6% coupled with the stable cost of deposit at 1.8%.**

The sliding loan yield is a typical given backdrop resulted by the trend of currently accommodative BI's 7-Day Repo Rate. Nonetheless, BBCA experienced that **the surging contribution of 37.9% to the overall loan contributed by the corporation segment** lessened its margin competitiveness.

### Normalization of Provision Cost: Takeaway Key for Sluggish Profit Growth

We estimate the growth in **2018's net profit to slow into 9.3%** caused by the normalization of provision cost. Of note, the takeaway key for the growth of 13.1% in 2017's net profit was the dramatic tumble in the provision cost from IDR4.5 trillion to only IDR2.6 trillion.

### Target Price of IDR24,950

We use an assumption of forward P/B of 3.6x (1SD higher than the last 4-year average of 3.2x) as the basis for valuation method. The target price implies a 2018E P/B of 4.1x (vs the current P/B of 3.8x)

### Bank Central Asia Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Interest Income	50,426	53,768	58,543	65,245
<i>growth</i>	7.1%	6.6%	8.9%	11.4%
Operating Revenue	53,779	56,982	62,393	69,938
Net profit	20,606	23,310	25,473	28,723
EPS (IDR)	836	945	1,033	1,165
<i>EPS growth</i>	14.4%	13.1%	9.3%	12.8%
BVPS (IDR)	4,572	5,330	6,129	7,036
Net Interest Margin	6.6%	6.1%	6.1%	6.0%
Loan/Deposits	80.1%	82.0%	83.7%	85.2%
NPL	1.3%	1.5%	1.3%	1.3%
ROE	20.4%	19.1%	18.0%	17.7%
ROA	3.2%	3.3%	3.2%	3.3%
ROIC	22.9%	20.1%	19.1%	18.6%
P/E	18.5x	23.2x	22.6x	20.1x
P/BV	3.4x	4.1x	3.8x	3.3x
DPS (IDR)	200	226	247	279
<i>Dividend yield</i>	0.8%	0.9%	1.0%	1.1%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

## Hold

Dec 2018 TP (IDR)	24,975
Consensus Price (IDR)	23,727
TP to Consensus Price	+5.3%
vs. Last Price	+6.7%

### Shares data

Last Price (IDR)	23,400
Price date as of	Apr 02, 2018
52 wk range (Hi/Lo)	24,700/16,575
Free float (%)	43.0
Outstanding sh.(mn)	24,655
Market Cap (IDR bn)	576,927
Market Cap (USD mn)	41,916
Avg. Trd Vol - 3M (mn)	16.03
Avg. Trd Val - 3M (bn)	370.33
Foreign Ownership	27.4%

### Finance

#### Bank

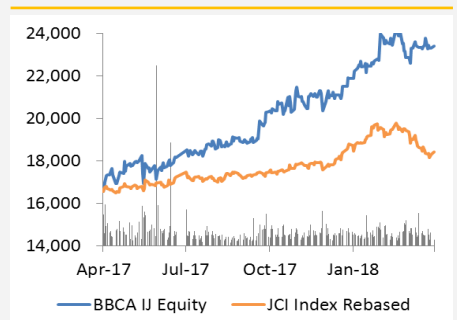
Bloomberg  
Reuters

BBCA IJ  
BBCA.JK

### Raphon Prima

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### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	6.8%	2.3%	6.8%	41.2%
Rel. Ret.	8.7%	7.5%	8.4%	29.9%

### A Glance at BBCA

BBCA is the biggest private bank in Indonesia. Around 38% of its overall credit is distributed to the corporate segment. The contribution of credit distributed to this segment records a significant hike from 35% in 2014. Meanwhile, the contribution of credit distributed to the commercial and small to medium sized enterprises (SME) segments posted a further decline from 39% in 2014 into 36% in 2017.

Supported with 1,235 official branches, it has broad distribution networks across Indonesia. In term of the third party fund, its savings products contributes 50% to the overall third party fund. This high contribution is underpinned by the fact of BBCA as the most preferred private bank by Indonesian.

### Indonesian's Bank Competitiveness in ASEAN

Banking industry in Indonesia is the investment priority in ASEAN as it offers **higher credit rate** than do its peers in ASEAN. It is the takeaway factor to the excellent characteristic the banking industry in Indonesia has.

Although facing the challenge of decline in reference rate, the Indonesia's banks **are still capable of maintaining NIM topping the NIM achieved by its peers in ASEAN**. The higher NIM is capable of being translated into a higher ROE.

A number of banks in Malaysia and Singapore such as OCBC, CIMB, and Malayan Banking can outpace **the growth of 10%-20% in net profit** posted by the Indonesia's banks. However, those three banks have bigger assets than does the Indonesia's bank have.

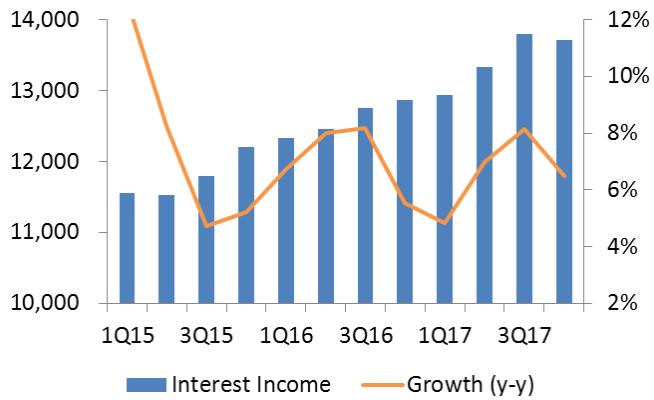
### ASEAN Banks

Company	Market Cap (USD mn)	Total Asset (USD mn)	Net Profit Growth	Net Interest Margin	ROE	P/E	P/BV	Dividend Yield
<b>BBCA</b>	41,916	55,219	13.1%	6.1%	19.1%	23.2x	4.1x	0.9%
BBRI	32,172	82,886	10.7%	7.6%	18.5%	15.5x	2.7x	2.6%
BMRI	26,446	82,772	49.7%	5.3%	12.8%	18.1x	2.2x	2.5%
BBNI	11,686	52,203	20.1%	5.4%	14.3%	13.6x	1.8x	2.6%
BBTN	2,854	19,235	15.6%	4.1%	14.8%	12.5x	1.7x	1.6%
<b>Singapore</b>								
DBS	53,086	387,334	3.1%	1.8%	9.5%	15.8x	1.5x	2.3%
UOB	34,208	268,287	9.5%	1.8%	10.4%	13.3x	1.3x	2.6%
OCBC	40,564	340,370	19.4%	1.6%	11.1%	13.0x	1.4x	2.8%
<b>Malaysia</b>								
CIMB	17,194	124,711	25.6%	2.5%	9.6%	14.5x	1.4x	3.5%
Malayan Banking	29,664	188,433	11.5%	1.9%	10.6%	14.5x	1.6x	5.2%
Hong Leong	5,573	50,939	5.9%	1.6%	9.8%	13.2x	2.5x	2.0%
<b>Thailand</b>								
Bangkok Bank	12,209	94,446	3.8%	2.4%	8.5%	11.5x	0.9x	3.3%
Siam Commercial	15,567	92,841	-9.4%	2.7%	12.4%	11.3x	1.3x	3.8%
Bank of Ayudhya	9,433	64,128	8.4%	3.8%	10.7%	12.7x	1.3x	2.1%
<b>Philippine</b>								
BDO Unibank	11,793	53,371	7.0%	4.2%	11.0%	21.9x	2.1x	0.9%
Metropolitan Bank	6,537	41,612	0.8%	3.7%	9.3%	15.6x	1.5x	1.1%
Philippine Island Bank	8,235	38,084	1.7%	3.4%	13.0%	19.6x	2.4x	1.6%

Source: Bloomberg, NHKS research

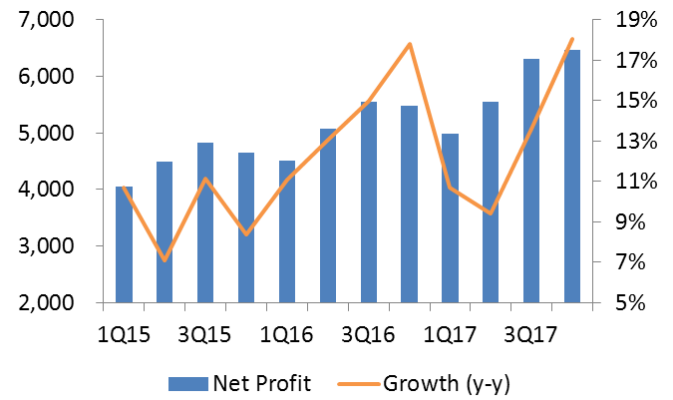
## Performance Highlights

Interest Income (IDR bn)



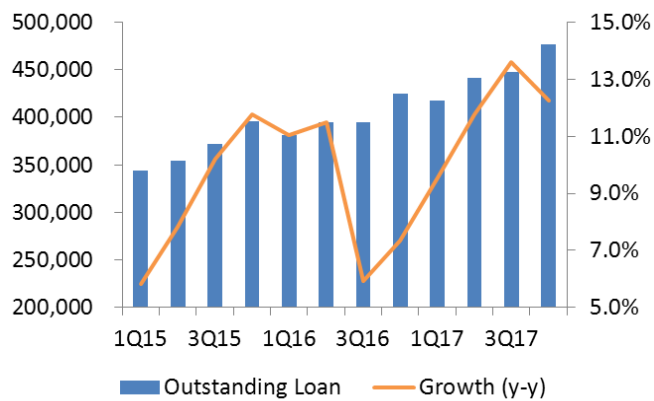
Source: Company, NHKS research

Net Profit (IDR bn)



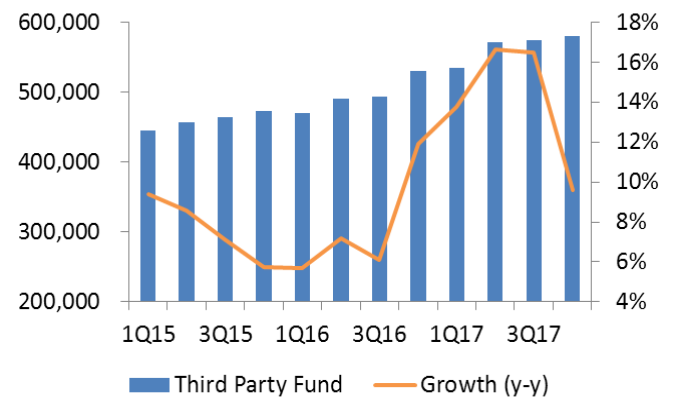
Source: Company, NHKS research

Outstanding Loan (IDR bn)



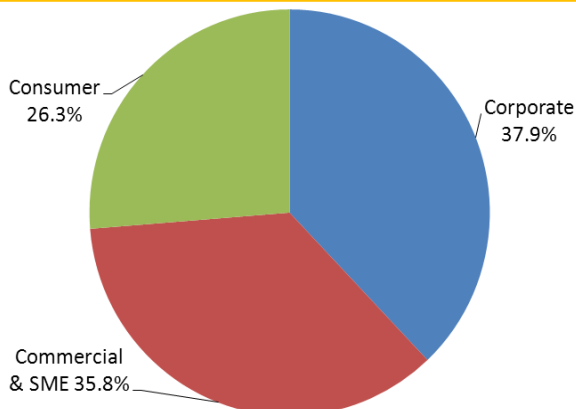
Source: Company, NHKS research

Third Party Fund (IDR bn)



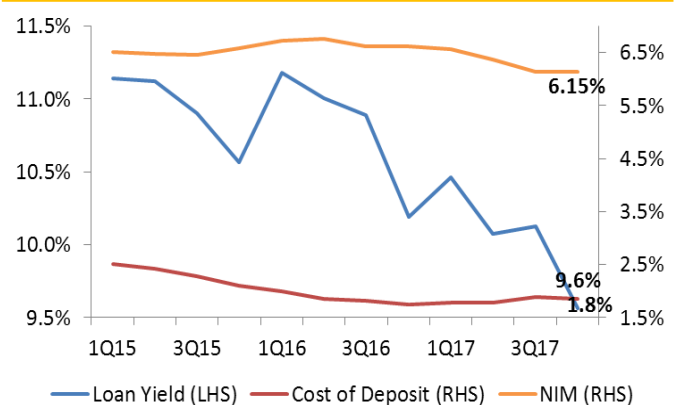
Source: Company, NHKS research

Loan Composition



Source: Company, NHKS research

Loan Yield, Cost of Deposit, NIM | 1Q15 - 4Q17



Source: Company, NHKS research

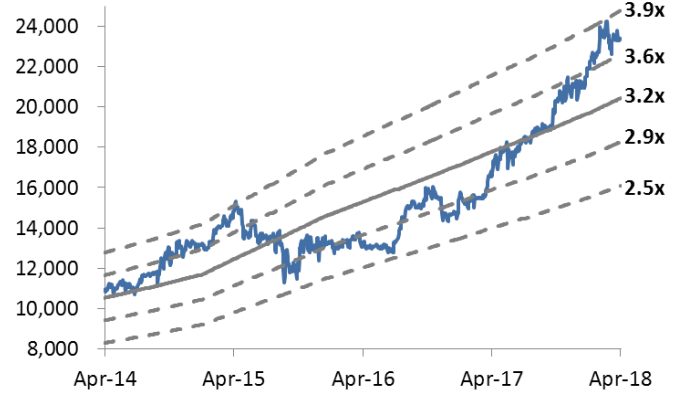
## Multiple Valuation

Forward P/B band | Last 4 years



Source: NHKS research

Dynamic Forward P/B band | Last 4 years



Source: NHKS research

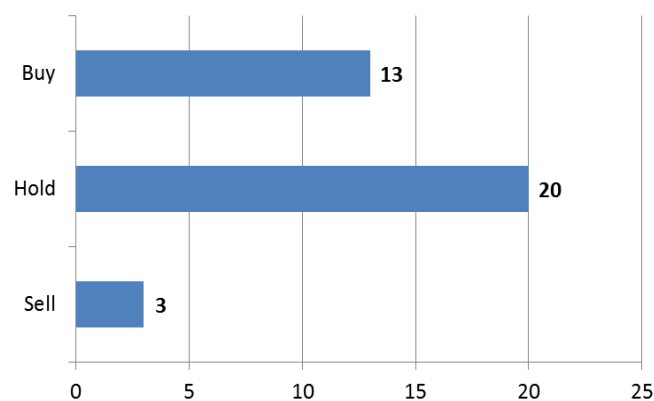
## Rating and target price update

### Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
10/04/2017	Buy	24,100 (Dec 2018)	20,325	19,622	+18.6%	+22.8%
4/03/2018	Hold	24,975 (Dec 2018)	23,400	23,727	+6.7%	+5.3%

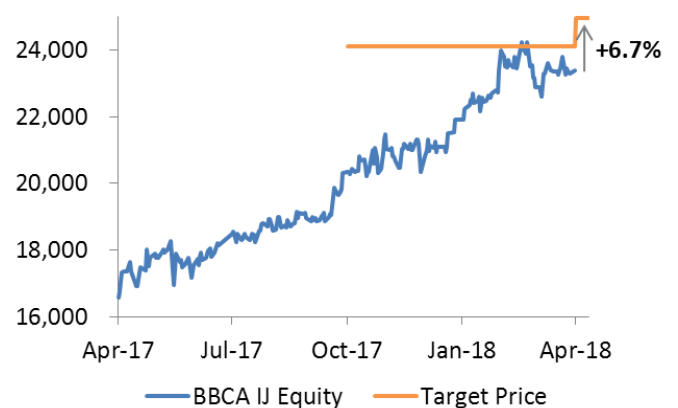
Source: NHKS research, Bloomberg

### Analyst Coverage Rating



Source: Bloomberg

### Closing and Target Price



Source: NHKS research

### NH Korindo Sekuritas Indonesia (NHKS) stock ratings

- Period: End of year target price
- Rating system based on a stock's absolute return from the date of publication
  - Buy : Greater than +15%
  - Hold : -15% to +15%
  - Sell : Less than -15%

## Summary of Financials

BBCA Summary		
Last Price (IDR)	April 2, 2018	23,400
Target Price (IDR)	Dec 2018	24,975
Analyst: Raphon Prima	Rating:	Hold

### INCOME STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
<b>Interest Income</b>	50,426	53,768	58,543	65,245
Growth (% y/y)	7.1%	6.6%	8.9%	11.4%
Interest Expenses	10,347	11,941	12,630	14,103
<b>Net Interest Income</b>	40,079	41,826	45,913	51,142
Net Interest Margin	6.6%	6.1%	6.1%	6.0%
Net Fee Income	9,401	10,386	11,085	12,523
Trading Income	2,346	1,804	2,140	2,647
Other Operating Income	1,954	2,966	3,256	3,626
<b>Operating Revenue</b>	53,779	56,982	62,393	69,938
Operating Expenses	(23,379)	(25,190)	(27,707)	(31,025)
<b>Pre-provisioning OP (PPOP)</b>	30,400	31,791	34,686	38,913
Provision for Impairment	(4,561)	(2,633)	(2,786)	(2,962)
<b>EBT</b>	25,839	29,159	31,901	35,951
Income Tax	(5,207)	(5,838)	(6,407)	(7,209)
Non-controlling Interest	(27)	(11)	(20)	(19)
<b>Net Profit</b>	20,606	23,310	25,473	28,723
Growth (% y/y)	14.4%	13.1%	9.3%	12.8%

### BALANCE SHEET

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	15,944	16,754	18,236	16,491
Placement in Banks	88,427	71,536	80,682	91,436
Net Loans	411,761	462,953	523,020	593,761
Investment	116,384	146,365	156,484	172,604
Fixed Asset	16,991	16,869	17,320	17,678
Other Assets	27,233	35,842	36,810	41,755
<b>Total Assets</b>	676,739	750,320	832,553	933,724
Deposits	538,866	591,330	652,005	726,226
Debt	5,378	3,801	4,287	4,859
Other liabilities	19,780	23,787	25,148	29,173
<b>Total Liabilities</b>	564,024	618,918	681,439	760,258
Capital Stock	1,541	1,541	1,541	1,541
Retained Earnings	98,503	115,998	135,710	158,063
<b>Shareholders' Equity</b>	112,715	131,402	151,114	173,466

### CASH FLOW STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	20,606	23,310	25,473	28,723
Deprec & Provision	6,449	4,012	1,860	1,988
Chg. In Working Capital	(8,372)	(13,040)	370	(932)
<b>CFO</b>	18,682	14,283	27,703	29,780
Net Changes in Loan	(30,904)	(57,087)	(70,073)	(82,402)
<b>CFI</b>	(91,501)	(77,708)	(81,620)	(99,949)
Dividends Paid	(4,315)	(5,178)	(5,761)	(6,371)
Net Changes in Deposit	57,145	51,606	60,674	74,222
<b>CCF</b>	54,477	45,808	55,399	68,423
<b>Net Changes in Cash</b>	(18,341)	(17,617)	1,482	(1,746)

### OWNERSHIP

By Geography	% Shareholders	%
Indonesia	72.6	Dwimuria Investama 54.9
United States	13.2	Salim Anthoni 1.8
Luxembourg	4.3	Blackrock 1.7
Britain	1.6	Capital Group 1.7

### PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	20.4%	19.1%	18.0%	17.7%
ROA	3.2%	3.3%	3.2%	3.3%
ROIC	22.9%	20.1%	19.1%	18.6%
Operating ROA	8.5%	8.0%	7.9%	7.9%
Pre-Provision ROA	4.8%	4.5%	4.4%	4.4%
Non-Interest Income/Op. Rev	25.5%	26.6%	26.4%	26.9%
Cost/Income	43.5%	44.2%	44.4%	44.4%
Cash Dividend (IDR bn)	4,931	5,578	6,096	6,874
Dividend Yield (%)	0.8%	0.9%	1.0%	1.1%
Payout Ratio (%)	23.9%	23.9%	23.9%	23.9%
Equity/Assets	16.7%	17.5%	18.2%	18.6%
Loan/Deposits	80.1%	82.0%	83.7%	85.2%
Loan/Assets	62.7%	63.5%	64.6%	65.2%
NPL	1.3%	1.5%	1.3%	1.3%
Loan Loss Reserves/Loans	3.0%	2.9%	2.7%	2.5%
Deposits/Liabilities	1.5%	1.7%	1.5%	1.5%
CASA/Deposits	77.0%	76.3%	75.9%	75.6%
Time Deposits/Deposits	23.0%	23.7%	24.1%	24.4%
Par Value (IDR)	63	63	63	63
Total Shares (mn)	24,655	24,655	24,655	24,655
Share Price (IDR)	15,500	21,900	23,400	23,400
Market Cap (IDR tn)	382.2	539.9	576.9	576.9

### VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	18.5x	23.2x	22.6x	20.1x
Price /Book Value	3.4x	4.1x	3.8x	3.3x
Price/Op. Revenue	7.1x	9.5x	9.2x	8.2x
PE/EPS Growth	1.3x	1.8x	2.4x	1.6x
EV/Operating Revenue	6.9x	9.3x	9.0x	8.1x
EV/PPOP	12.2x	16.6x	16.2x	14.5x
EV (IDR bn)	371,868	527,090	563,076	565,393
Op. Revenue CAGR (3-Yr)	16.8%	11.6%	9.2%	9.2%
EPS CAGR (3-Yr)	13.1%	12.2%	12.2%	11.7%
Basic EPS (IDR)	836	945	1,033	1,165
Diluted EPS (IDR)	836	945	1,033	1,165
BVPS (IDR)	4,572	5,330	6,129	7,036
Op. Revenue PS (IDR)	2,181	2,311	2,531	2,837
DPS (IDR)	200	226	247	279

### DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
<b>DCF (IDR bn)</b>				
NOPAT	24,274	25,427	27,719	31,110
+Depr./Amor.	6,449	4,012	1,860	1,988
-Chg. in Loan	(30,904)	(57,087)	(70,073)	(82,402)
-Incr. (Decr.) in Working Cap.	(8,372)	(13,040)	370	(932)
(Unlevered) FCFF	(57,267)	(97,722)	(122,896)	(49,303)
<b>WACC</b>				
Cost of Debt (Tax Adj.)	7.8%	5.9%	6.2%	6.6%
Cost of Equity (COE)	9.9%	10.4%	10.7%	11.0%
WACC (%)	9.9%	10.1%	10.1%	10.0%
<b>RIM</b>				
Spread (FROE-COE) (%)	13.0%	10.3%	8.7%	8.0%
Residual Income (IDR bn)	11,692	11,621	11,450	12,113
Equity Charge	8,914	11,689	14,023	16,610
<b>EVA</b>				
Invested Capital (IDR bn)	94,302	118,093	135,203	155,401
ROIC-WACC (%)	15.8%	11.4%	10.4%	10.0%
EVA (IDR bn)	14,924	13,490	14,087	15,528

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