Bank Tabungan Negara Tbk
(BBTN)
Welcomes Fair Growth

Company Report | Mar 08, 2018

4Q17 Review

BBTN booked the interest income of IDR5.4 trillion growing by 11.7% y-y, but the net interest income only grew by 8.9% y-y into IDR2.9 trillion. The net profit was only IDR1.0 trillion growing slightly by 2.5% y-y and affected by the hike of 26.3% y-y in the provision cost.

High Dependence on Subsidized KPR

In 2017, BBTN booked the credit distribution of IDR199.0 trillion growing 21% y-y. The average growth of around 20% was consistently maintained since 2015. However, **the double-digit growth higher than the banking industry's growth was heavily affected by the surge of 32.5% in 2017's subsidized mortgage loan (KPR)**. The subsidized KPR portion of IDR75.3 trillion or 37.5% of the total credit constituted as the main contributor to the credit.

We are aware of the high dependency on the subsidized KPR impacting on flat profit growth. In 2015, the government launched **the subsidized KPR program boosting the growth of 65.9% and 41.5% in 2015 and 2016's net profit**.

However we project that in 2018, the profit will only grow slightly compared to the growth of 15.6% in 2017's profit. **The government intervention in the subsidized KPR rate and the high funding portion of time deposit** is setback in achieving the spectacular growth.

Target Price of IDR3,790

We use an assumption of forward P/B of 1.4x (2SD higher than the last 4 years average) as the basis for valuation method. The target price implies a 2018E P/B of 1.6x (vs 1.6x at the present time)

Bank Tabungan Negara Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Interest Income	17,139	19,272	22,639	26,877
growth	*14.5%*	*12.4%*	*17.5%*	*18.7%*
Operating Revenue	9,446	10,945	12,558	14,692
Net profit	2,619	3,027	3,561	4,215
EPS (IDR)	247	286	336	398
EPS growth	*41.5%*	*15.6%*	*17.6%*	*18.4%*
BVPS (IDR)	1,806	2,046	2,328	2,661
Net Interest Margin	*4.4%*	*4.1%*	*3.8%*	*3.7%*
Loan/Deposits	*100.5%*	*100.5%*	*101.0%*	*101.2%*
NPL	*2.8%*	*2.7%*	*2.5%*	*2.3%*
ROE	*15.9%*	*14.8%*	*15.4%*	*16.0%*
ROA	*1.4%*	*1.3%*	*1.2%*	*1.2%*
ROIC	*8.0%*	*7.6%*	*7.3%*	*7.2%*
P/E	5.4x	12.5x	11.2x	9.5x
P/BV	0.7x	1.7x	1.6x	1.4x
DPS (IDR)	49	57	67	80
Dividend yield	*3.7%*	*1.6%*	*1.8%*	*2.1%*

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Hold

Dec 2018 TP (IDR)	**3,790**
Consensus Price (IDR)	3,825
TP to Consensus Price	-0.9%
vs. Last Price	+0.5%

Shares data

Last Price (IDR)	3,770
Price date as of	Mar 06, 2018
52 wk range (Hi/Lo)	3,850 / 2,020
Free float (%)	40.0
Outstanding sh.(mn)	10,590
Market Cap (IDR bn)	39,818
Market Cap (USD mn)	2,891
Avg. Trd Vol - 3M (mn)	17.58
Avg. Trd Val - 3M (bn)	63.23
Foreign Ownership	21.2%

Finance
Bank

Bloomberg	**BBTN IJ**
Reuters	**BBTN.JK**

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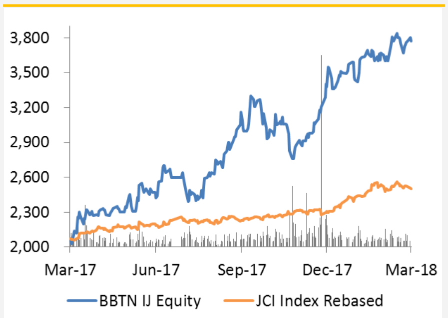
Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	5.6%	4.7%	11.5%	82.1%
Rel. Ret.	2.6%	3.7%	3.1%	61.1%

BBTN at A Glance

BBTN is a state owned banking focusing on the distribution of KPR. In 2017, it distributed KPR of IDR144.6 trillion or 73% from the total credit distribution. Its KPR service targets the housing financing for the low to middle income classes.

It becomes the government's major partner in promoting the subsidized KPR program aiming to the vision of providing 1 billion houses. The program targets Indonesian having income lower than IDR4 million per month.

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.

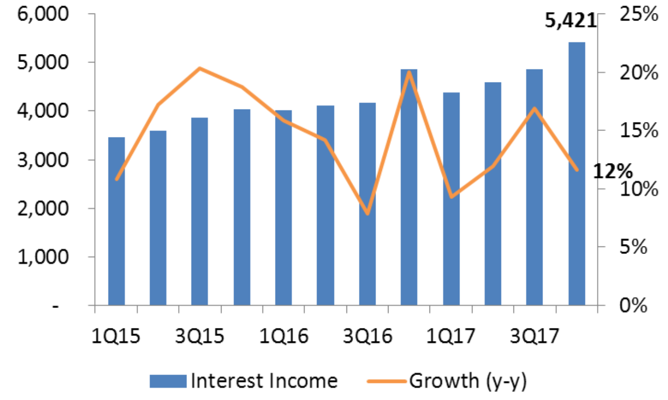
ASEAN Banks

Company	Market Cap (USD mn)	Total Asset (USD mn)	Net Profit Growth	Net Interest Margin	ROE	P/E	P/BV	Dividend Yield
BBTN	2,891	19,235	15.6%	4.1%	14.8%	12.5x	1.7x	1.6%
BBRI	33,496	82,886	10.7%	7.6%	18.5%	15.5x	2.7x	2.6%
BMRI	27,362	82,772	49.7%	5.3%	12.8%	18.1x	2.2x	2.5%
BBCA	41,712	49,981	12.9%	6.7%	18.9%	25.7x	4.5x	0.9%
BBNI	12,525	52,203	20.1%	5.4%	14.3%	13.6x	1.8x	2.6%
Singapore								
DBS	54,859	387,334	3.1%	1.8%	9.5%	16.4x	1.5x	2.2%
UOB	35,412	268,287	9.5%	1.8%	10.4%	13.8x	1.4x	2.5%
OCBC	42,258	340,370	19.4%	1.6%	11.1%	13.6x	1.4x	2.7%
Malaysia								
CIMB	16,885	124,711	25.6%	2.5%	9.6%	14.4x	1.4x	3.5%
Malayan Banking	29,110	188,433	11.5%	1.9%	10.6%	14.4x	1.5x	5.2%
Hong Leong	5,550	50,939	5.9%	1.6%	9.8%	13.3x	2.5x	2.0%
Thailand								
Bangkok Bank	12,684	94,446	3.8%	2.4%	8.5%	12.0x	1.0x	3.1%
Siam Commercial	15,999	92,841	-9.4%	2.7%	12.4%	11.6x	1.4x	3.7%
Bank of Ayudhya	10,104	64,128	8.4%	3.8%	10.7%	13.6x	1.4x	2.0%
Philippine								
BDO Unibank	12,645	46,868	7.6%	3.9%	10.8%	23.5x	2.3x	0.8%
Metropolitan Bank	5,866	37,818	4.2%	3.9%	9.1%	16.3x	1.5x	1.0%
Philippine Island Bank	8,879	38,084	1.7%	3.4%	13.0%	20.7x	2.6x	1.5%

Source: Bloomberg, NHKS research

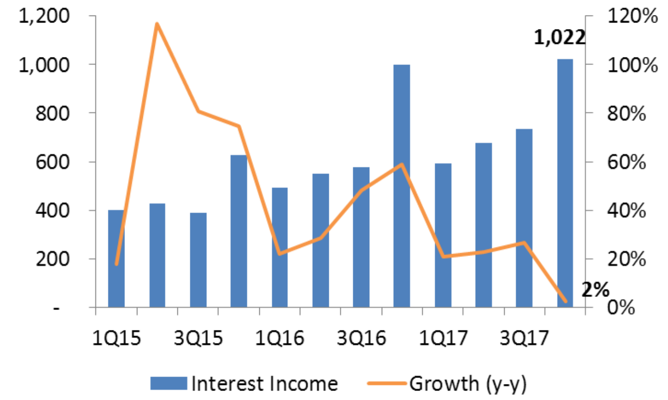
Performance Highlights

Interest Income (IDR bn)



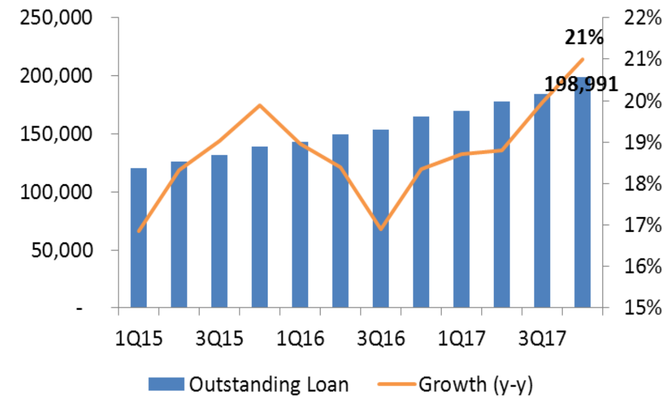
Source: Company, NHKS research

Net Profit (IDR bn)



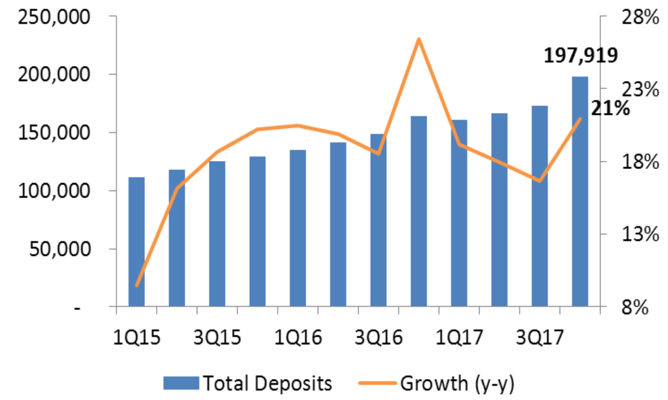
Source: Company, NHKS research

Outstanding Loan (IDR bn)



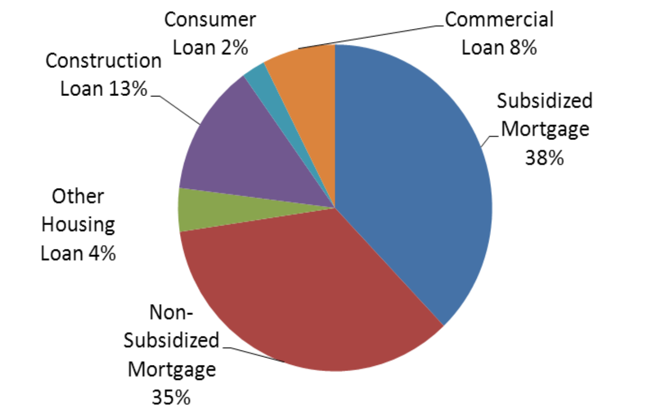
Source: Company, NHKS research

Deposit (IDR bn)



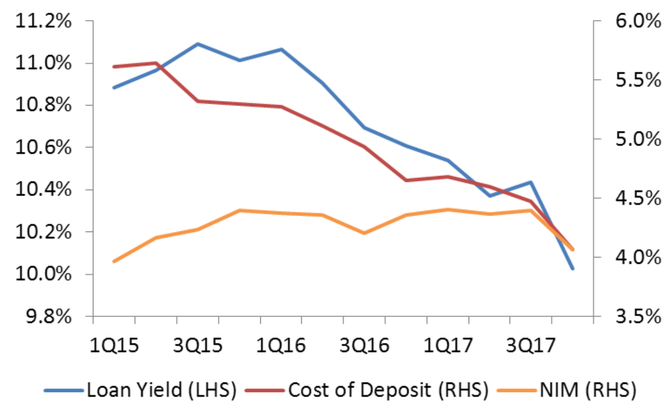
Source: Company, NHKS research

Loan Composition



Source: Company, NHKS research

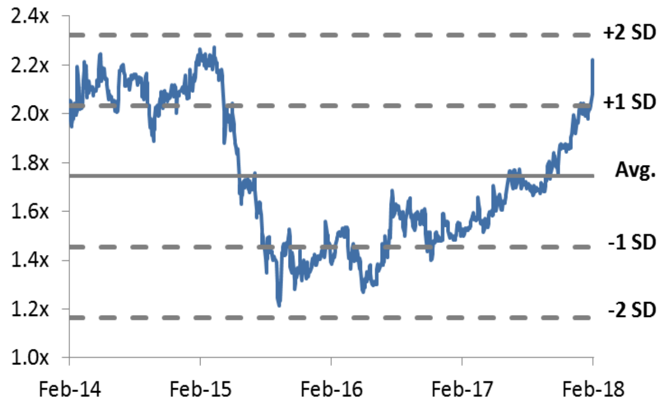
Loan Yield, Cost of Deposit, NIM | 1Q15 - 4Q17



Source: Company, NHKS research

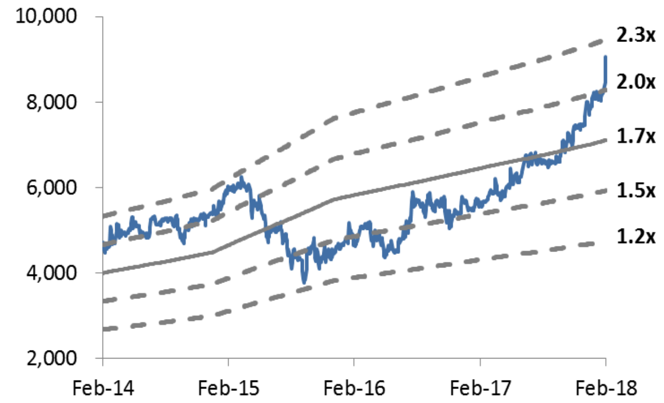
Multiple Valuation

Forward P/B band | Last 4 years



Source: NHKS research

Dynamic Forward P/B band | Last 4 years



Source: NHKS research

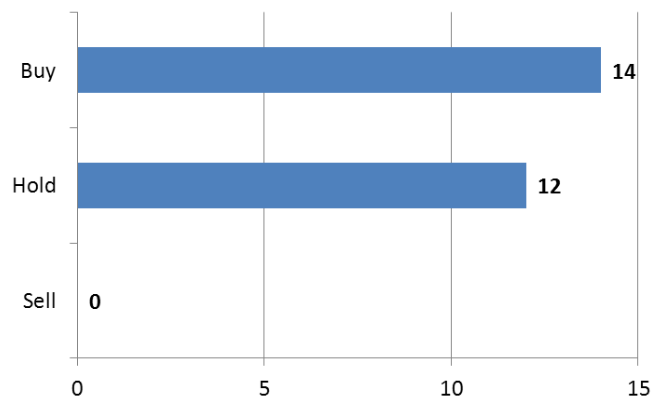
Rating and target price update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
03/08/2018	Hold	3,790 (Dec 2018)	3,770	3,825	+0.5%	-0.9%

Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price

Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. 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

BBTN Summary		
Last Price (IDR)	March 6, 2018	3,770
Target Price (IDR)	Dec 2018	3,790
Analyst: Raphon Prima	Rating:	Hold

INCOME STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Interest Income	17,139	19,272	22,639	26,877
Growth (% y/y)	14.5%	12.4%	17.5%	18.7%
Interest Expenses	(8,975)	(9,931)	(11,996)	(14,396)
Net Interest Income	8,164	9,341	10,643	12,481
Net Interest Margin	4.4%	4.1%	3.8%	3.7%
Net Fee Income	591	750	884	1,037
Trading Income	282	403	459	538
Other Operating Income	409	451	571	636
Operating Revenue	9,446	10,945	12,558	14,692
Operating Expenses	(5,387)	(6,169)	(7,078)	(8,281)
Pre-provisioning OP (PPOP)	4,060	4,776	5,480	6,412
Provision for Impairment	(708)	(884)	(934)	(1,026)
EBT	3,330	3,862	4,535	5,372
Income Tax	(711)	(834)	(974)	(1,157)
Non-controlling Interest	-	-	-	-
Net Profit	2,619	3,027	3,561	4,215
Growth (% y/y)	41.5%	15.6%	17.6%	18.4%

PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	15.9%	14.8%	15.4%	16.0%
ROA	1.4%	1.3%	1.2%	1.2%
ROIC	8.0%	7.6%	7.3%	7.2%
Operating ROA	4.9%	4.6%	4.4%	4.2%
Pre-Provision ROA	2.1%	2.0%	1.9%	1.8%
Non-Interest Income/Op. Rev	13.6%	14.7%	15.2%	15.1%
Cost/Income	57.0%	56.4%	56.4%	56.4%
Cash Dividend (IDR bn)	524	605	712	843
Dividend Yield (%)	3.7%	1.6%	1.8%	2.1%
Payout Ratio (%)	20.0%	20.0%	20.0%	20.0%
Equity/Assets	8.9%	8.3%	7.8%	7.3%
Loan/Deposits	100.5%	100.5%	101.0%	101.2%
Loan/Assets	76.8%	76.1%	77.1%	77.8%
NPL	2.8%	2.7%	2.5%	2.3%
Loan Loss Reserves/Loans	1.3%	1.2%	1.1%	1.0%
Deposits/Liabilities	83.9%	82.6%	82.8%	82.9%
CASA/Deposits	49.3%	48.3%	48.7%	48.7%
Time Deposits/Deposits	48.5%	48.9%	48.8%	48.7%
Par Value (IDR)	500	500	500	500
Total Shares (mn)	10,590	10,590	10,590	10,590
Share Price (IDR)	1,340	3,570	3,770	3,770
Market Cap (IDR tn)	14.2	37.8	39.9	39.9

BALANCE SHEET

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	1,007	1,028	1,559	981
Placement in Banks	28,600	37,808	42,213	50,821
Net Loans	162,330	196,635	240,083	298,280
Investment	13,415	15,890	19,595	24,194
Fixed Asset	4,659	4,837	5,003	5,157
Other Assets	4,157	5,167	6,301	7,819
Total Assets	214,168	261,365	314,755	387,252
Deposits	163,640	197,919	240,348	297,814
Debt	24,304	32,856	38,870	47,744
Other liabilities	7,094	8,927	10,888	13,515
Total Liabilities	195,038	239,702	290,107	359,073
Capital Stock	5,295	5,295	5,295	5,295
Retained Earnings	9,008	11,512	14,467	17,970
Shareholders' Equity	19,131	21,663	24,648	28,180

VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	5.4x	12.5x	11.2x	9.5x
Price /Book Value	0.7x	1.7x	1.6x	1.4x
Price/Op. Revenue	1.5x	3.5x	3.2x	2.7x
PE/EPS Growth	0.1x	0.8x	0.6x	0.5x
EV/Operating Revenue	2.5x	2.9x	3.0x	3.2x
EV/PPOP	5.7x	6.7x	6.8x	7.3x
EV (IDR bn)	23,311	31,866	37,351	46,802
Op. Revenue CAGR (3-Yr)	13.8%	19.8%	16.6%	15.9%
EPS CAGR (3-Yr)	18.8%	39.5%	24.4%	17.2%
Basic EPS (IDR)	247	286	336	398
Diluted EPS (IDR)	247	286	336	398
BVPS (IDR)	1,806	2,046	2,328	2,661
Op. Revenue PS (IDR)	892	1,034	1,186	1,387
DPS (IDR)	49	57	67	80

CASH FLOW STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	2,619	3,027	3,561	4,215
Deprec & Provision	924	1,099	497	578
Chg. In Working Capital	111	(2,875)	828	1,108
CFO	3,655	1,252	4,886	5,901
Net Changes in Loan	(26,150)	(35,210)	(48,132)	(67,152)
CFI	(28,124)	(34,377)	(52,222)	(72,135)
Dividends Paid	(370)	(524)	(605)	(712)
Net Changes in Deposit	32,279	32,859	42,429	57,466
CFF	33,867	42,355	47,867	65,656
Net Changes in Cash	9,398	9,229	531	(577)

DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	3,193	3,745	4,303	5,031
+Depr./Amor.	924	1,099	497	578
-Chg. in Loan	(26,150)	(35,210)	(48,132)	(67,152)
-Incr. (Decr.) in Working Cap.	111	(2,875)	828	1,108
(Unlevered) FCFF	(21,921)	(33,241)	(42,505)	(60,435)
WACC				
Cost of Debt (Tax Adj.)	8.2%	5.7%	6.2%	6.4%
Cost of Equity (COE)	9.5%	10.2%	11.3%	11.6%
WACC (%)	8.7%	8.1%	8.8%	8.8%
RIM				
Spread (FROE-COE) (%)	9.4%	5.7%	5.1%	5.5%
Residual Income (IDR bn)	1,307	1,081	1,106	1,358
Equity Charge	1,312	1,947	2,455	2,857
EVA				
Invested Capital (IDR bn)	36,214	43,434	54,519	63,518
ROIC-WACC (%)	0.2%	0.5%	-0.9%	-0.9%
EVA (IDR bn)	54	219	(483)	(548)

OWNERSHIP

By Geography	%	Shareholders	%
Indonesia	78.8	Republic of Indonesia	60.0
United States	9.4	Dimensional Fund	1.9
Luxembourg	5.0	Svenska Handelsbank	1.2
Sweden	2.5	Vanguard	1.2