Bank Negara Indonesia (Persero) Tbk PT

7 Jan 2020

BUY With 12 Months Target Price IDR 9,320

Key Highlights:

- Weak revenue and net income growth in the last TTM.
- Corporate banking loan growth is in line with stable GDP growth
- Strong Undervalued with Stable Long-Term Prospect
- **Potential Catalyst**: Strong loan demand in corporate and consumer segments.

Maintain BUY on attractive valuation. BBNI remains one of our top picks in the domestic banking sector. Our BUY call is premised on BBNI's attractive price-to-value. Based on our calculation, the company now trades at a 25.30% discount to its estimated intrinsic valuation. BBNI offers an attractive entry into a vibrant domestic banking industry. BBNI is now traded at PBV 1.19 which is 25% discount around its 5-year PBV mean.

Weak revenue and net income growth in the last TTM. BBNI net income growth is lower in recent years is due to industry-wide liquidity issue which causes the cost of fund rise. This condition is expected to rebound to a normal level according to the OJK and company forecast guide.

Corporate banking loan growth is in line with stable GDP growth. High loan growth, especially corporate loan is expected to persist in the future due to strong prospects in Indonesia economic growth.

Valuation:

Valuation according to our FCFE and market price multiple PBV generate target price for BBNI in the next 12 months period is IDR 9,320 at PBV 1.48.

Key Risks to Our View:

Extended liquidity problem. Low third-party deposit growth with imbalance loan growth causes liquidity problem while increasing cost of funds.

NIM shrinkage. Inability to manage NIM could cause topline growth to deteriorate. Intensified competition in the consumer segment, especially with Bank Central Asia, might pressure asset ssyield.

Analyst

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BNI

Melayani Negeri, Kebanggaan Bangsa

Price Performance



Source: Bloomberg

BBNI Key Figures (As of 7 Jan 2020)	
Current Price (IDR):	7,575
Market Cap (Tn IDR):	141
Shares O/S (Bn):	18.8
EPS (Annualized):	856
EPS (TTM):	833
P/E Ratio (Annualized):	8.82
P/E Ratio (TTM):	9.05
Price/Book Ratio:	1.19

Source: Company data, Wanteg Sekuritas

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

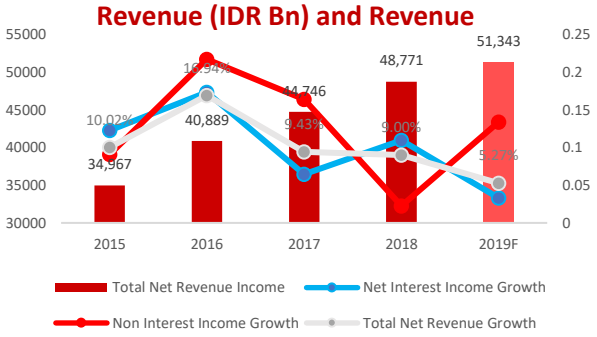
Total revenue grows thinly caused by slowing interest income growth. Net interest income contributes more than 70% of total revenue but experiencing lower growth in 2019. Total revenue decrease from 9% in 2019 to 5.27% 3Q 2019 YoY. Lower net interest income growth is due to lower net interest margin dropping from 5.3% in 2018 to 4.9% in 3Q2019. Furthermore, net interest margin plunge is due to rising cost of funds from 2.8% in 2018 to 3.2% in 3Q2019.

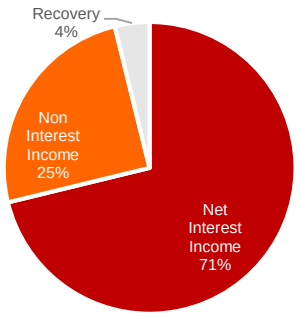
Non-interest income is the growth driver. However, this income category contributes 25% of total revenue. Non-interest income (or so-called fee-based income) includes insurance premium as well as recurring fee-based income.

Net income growth plummets as the results of lower revenue growth amid slightly higher operating cost growth. Net income growth tumble from 10.3% in 2018 to 4.7% during 3Q 2019. On the other hand, BOPO is rising up to 71.8% from 70.1%.

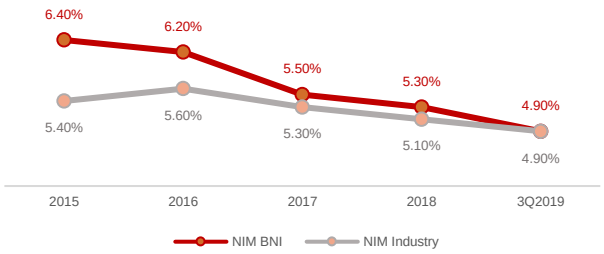
A glimmer of hope comes from total loan growth which is higher than the overall industry yet lower than the previous period . BBNI loan growth during 3Q2019 is 14.7% slightly lower than 16.2% in 2018. However, this number is much higher than the industry loan grow that 8.6%. BBNI loan growth is mainly driven by corporate and business banking loan growth which rise up 15.8% during 3Q 2019 which contributes roughly up to 80% of the total loan disbursed during that period.

Revenue (IDR Bn) and Revenue

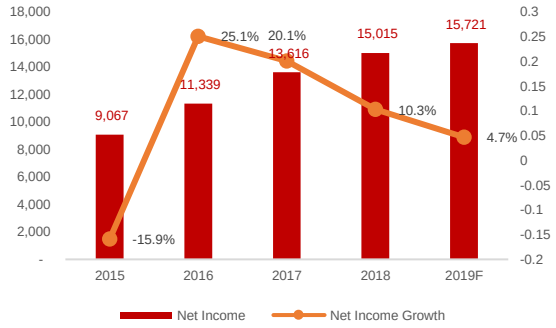




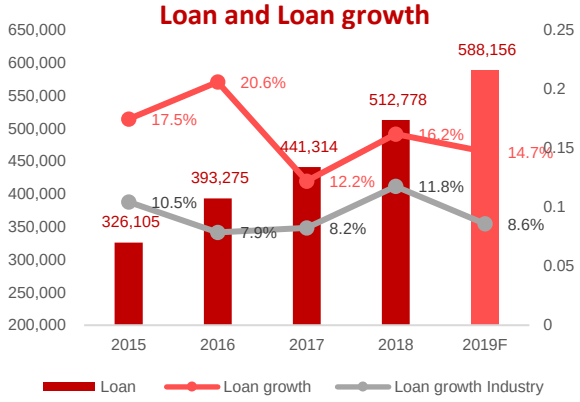
Net Interest Margin



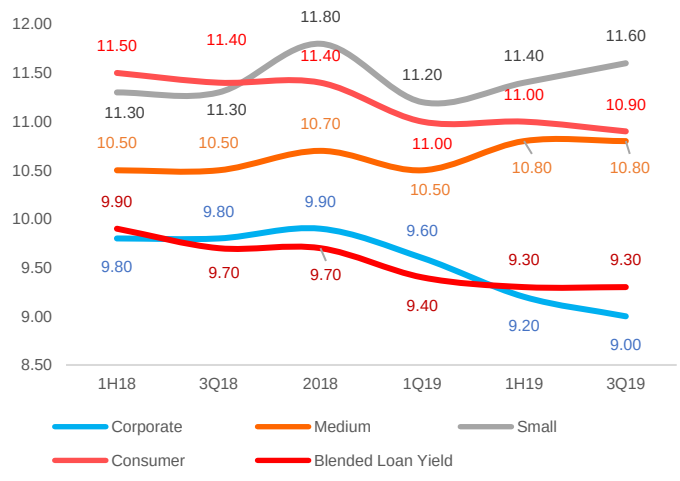
Net Income



Loan and Loan growth

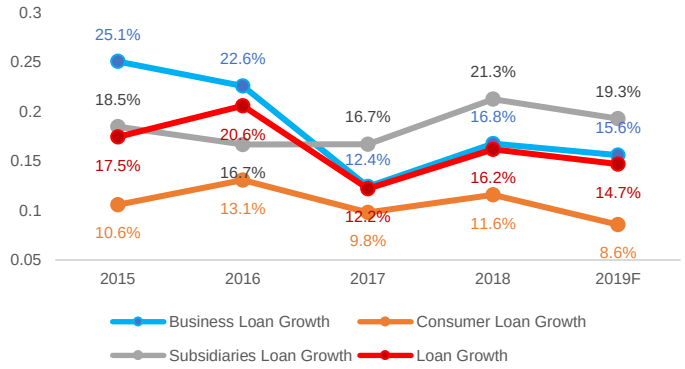


Loan Yield by Segment

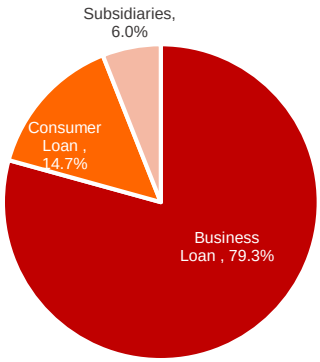


Source: Company data, Wanteg Sekuritas.

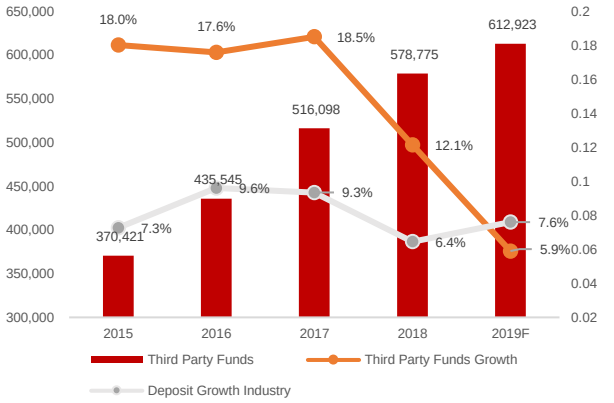
Business Loan leads the Loan Growth



Loan Breakdown



Deposit (IDR Billion)

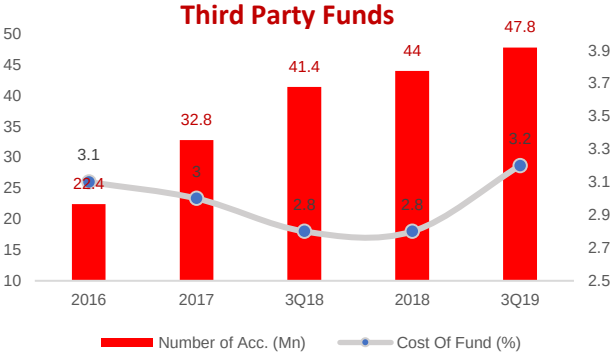


Plunge in third party funds growth and stagnant CASA ratio induced higher cost of funds. Third party funds growth in BBNI has plummeted from 12.1% in 2019 to 5.9% during 3Q2019. This causes rising cost of funds up 3.2% from 2.8% in 2018. Furthermore, CASA ratio is stagnating around 64-65% also contributes to the rise of cost of funds.

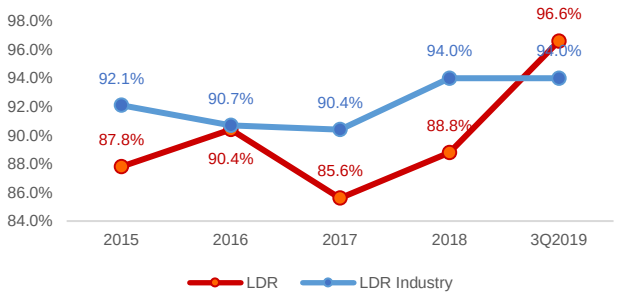
Efficiency:

BBNI has consistently more efficient than the industry average. Operating expense to operating income ratio (BOPO) consistently around 71% during last three years which is below than the industry average at around 80%.

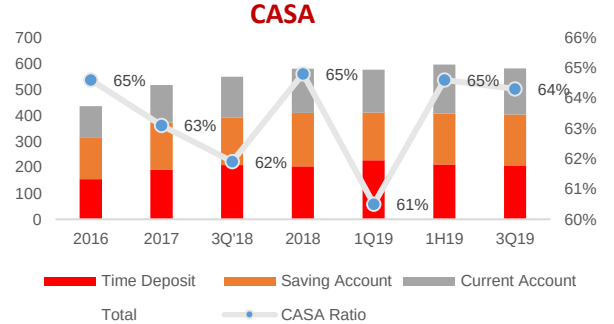
Third Party Funds



LDR



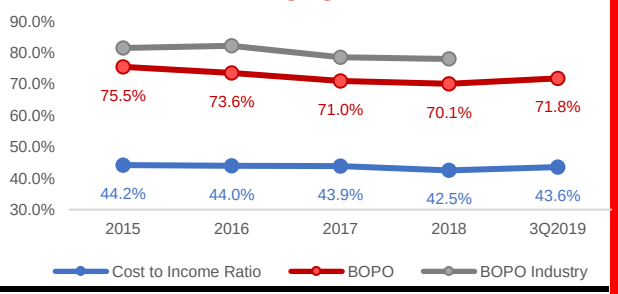
CASA



Liquidity:

Liquidity is mainly the big problem lately in banking industry. Loan to Deposit Ratio of BBNI has increased sharply during the 3Q2019 up to 96% from 88% in the previous year. LDR of BBNI is slightly higher than the industry average at 94%.

BOPO



Asset Quality:

Better asset quality than the previous year but does not beat industry NPL. NPL of BBNI has increased from 2.4% in 2018 to 2.6% for 3Q2019. However, BBNI NPL is much higher than industry which is 1.8%.

Corporate business banking loan lead the lowest NPL while medium is in the opposite side. NPL on corporate banking loan has fall outstandingly to 1.1% the lowest level since 2016 at 2.7%. While medium banking loan rise significantly from 3% in 2018 to 3.9% in 3Q2019.

Loan at Risk has been well managed due to aggressive selectively loan disbursement. Total loan at risk has increased slightly from 6% to 7% from the previous period. Most of loan at risk consistently comes from medium business banking loan which is reflected higher NPL metrics.

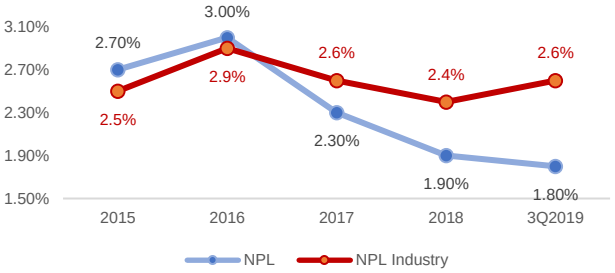
Capital:

Slightly higher equity base indicates better financial health yet lower than industry average. CAR of BBNI has faintly increase to 19.3% although this is lower than industry average at 23.9%. At the same time, equity to assets has increase thinly to 14.9% in 3Q2019.

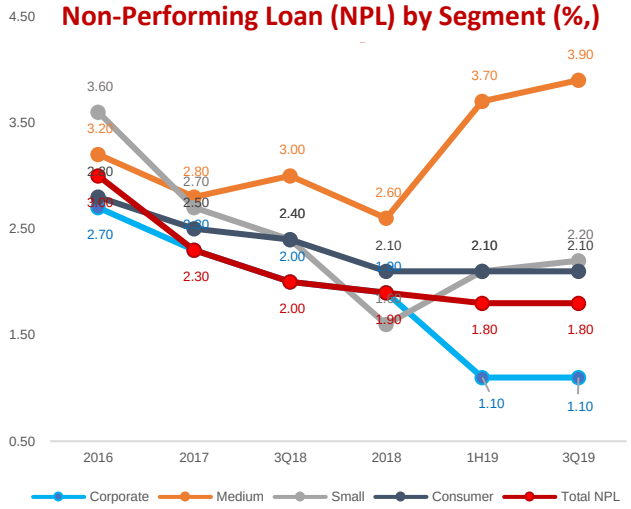
RENTABILITY

Lower ROE caused by lower ROA with constant leverage. ROE of BBNI has decrease to 14.7% during 3Q2019 lower than 16.8% for the same period in 2019. Lower ROE and ROA is a new trend among its peers in banking industry recently.

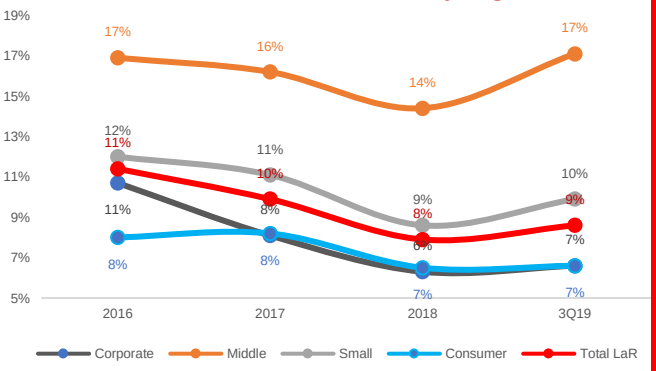
Non-Performing Loan (NPL)



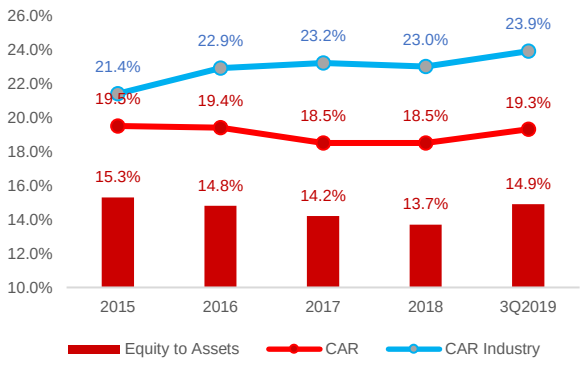
Non-Performing Loan (NPL) by Segment (%,)



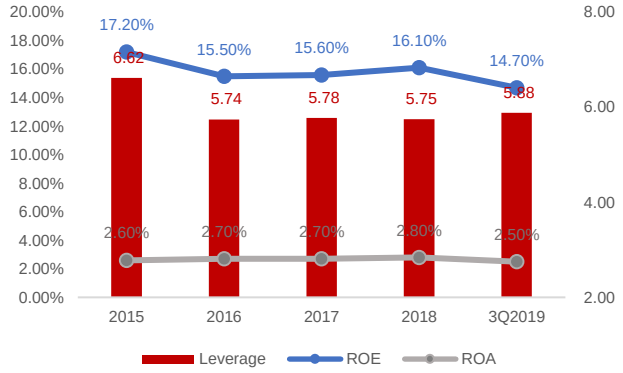
Loan at Risk to Loan Ratio by Segment



Equity to Assets and CAR



ROA ROE Leverage



Share Price Drivers:

Source: Company data, Wanteg Sekuritas.

Lower BI rate and long-term prospect of Indonesia economy is expected to be a positive driver for BBNI share price. Recently Bank Indonesia has lowered its BI rate several time which drives optimism to share price several times.

Regional issues are significantly increasing the volatility of banking stocks. Both trade war and other regional geopolitics dynamics in the area is highly affecting the investment nuances as well as the broad regional capital market.

Key Risks:

Extended liquidity problem. Low third-party deposit growth with imbalance loan growth causes liquidity problem while increasing cost of funds.

NIM shrinkage. Inability to manage NIM could cause topline growth to deteriorate. Intensified competition in the consumer segment, especially with Bank Central Asia, might pressure asset yield.

Company Background

PT Bank Negara Indonesia (Persero) Tbk is an Indonesia-based company primarily engaged in banking sector. It operates under the name Bank BNI or BNI. The Company's major products and services include credit cards, saving accounts, current accounts and fixed deposits, as well as various types of loans, such as housing loans and other consumer loans. Besides conventional banking, it also offers Shariah-compliant banking services through its subsidiary, PT Bank BNI Syariah. Its other subsidiaries include PT BNI Life Insurance, which provides life insurance; PT BNI Multi-finance, which is engaged in financing business; PT BNI Securities, which provides securities underwriting and brokering services, and BNI Remittance Ltd, which offers money remittance services.

Shareholders

BBNI is mainly owned by Indonesia government at 60.5% stake which does not change in many years. The rest is owned by public investors both domestic (14.5%) and foreign (25%). This shareholders composition, especially the floating share held by public, is dynamically changing over time.

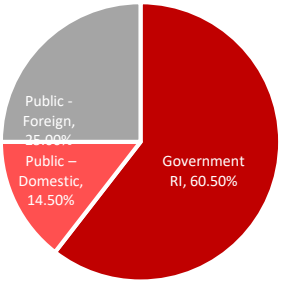
BNI & Peers

Mostly concentrated on corporate banking loan compared to its peers. In 2019, 51.9% of total loan disbursed by BBNI is corporate business banking loan. This indicates BBNI has the most concentrated loan on corporate banking borrowers than its peers. This loan composition both BBNI and its peers does not change dramatically over time.

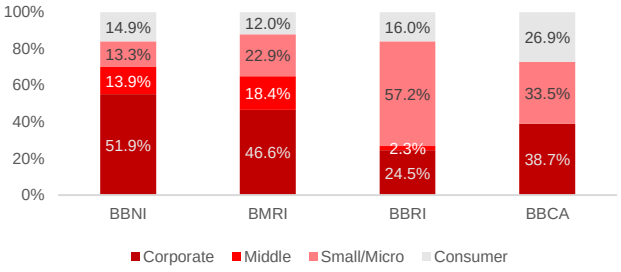
BNI & Peers NPL

Lower NPL group among its peers. BBNI has lower NPL 1.8% for 1H19 than in 2018 at 1.9. Furthermore, NPL BBNI is consistently lower than its SOE banks since 2018. However, its NPL is still higher than BBCA which has the lowest NPL for many years historically.

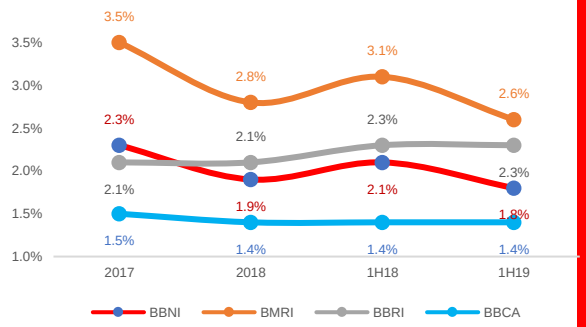
Shareholders composition of BBNI



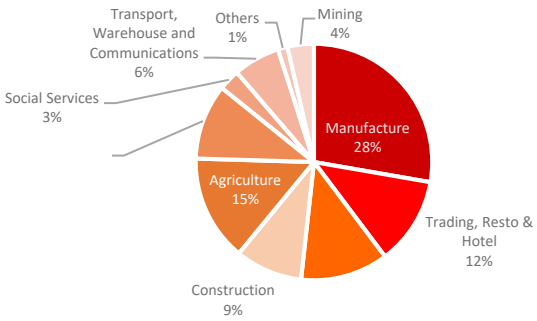
BNI & Peers Loan Composition



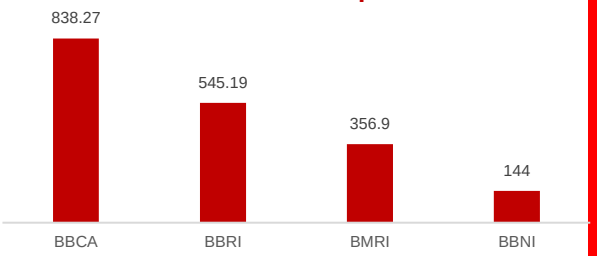
BNI & Peers NPL



Corporate Business Sectors



Market Cap



Source: Company data, Wanteg Sekuritas.

A Glimpse to Business Environment in Indonesia

Vibrant and great prospect economy

Lower economy growth for the 1H2019 than the previous period. As an emerging market, Indonesia economy is growing at 5.05% during 1H2019 which is slightly lower than the same period in the last year at 5.07%.

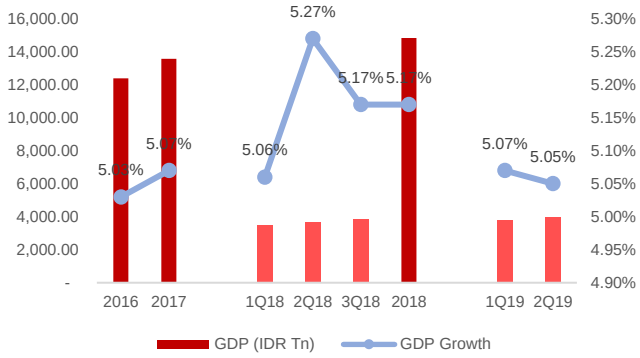
Private consumption is growth driver of GDP. More than half (55%) of Indonesia GDP growth is contributed by private consumption. With the growing and young population, private consumption is expected to continue growing in the long term. Furthermore, business investment spending lead the second place with 31.3% contribution also will attractively growing in the future due to vibrant business environment in Indonesia as the largest market in South East Asia.

Historically, GDP loan growth is in line with loan growth. Higher loan growth expected due to higher expected GDP growth. Higher GDP growth in the near future can be expected due to less uncertainty in Indonesia political dynamics as well as clearer government budget both in infrastructure as well as in other government program.

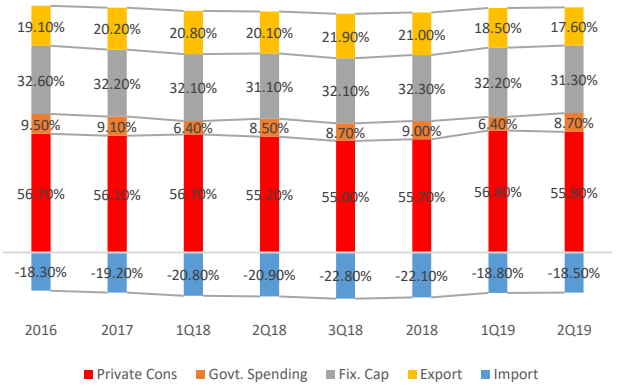
Recent lower BI rate and historically low inflation will boost economic growth. Bank Indonesia as central bank authority in the country, has recently lower its BI rate several time to 5.25% in Q32019. Inflation is consistently lower in recent years helps maintain consumer purchasing power which will boost the consumption and, at the end, economic growth and loan growth.

Challenging commodity business environment. CPO price has been declining during since 2017 but a spike has happened in recent months especially after B30 implementation which is government policy to mix 30% of CPO to biodiesel composition. This B30 will increase domestic CPO consumption and demand. On the other hand, Coal price still waiting a positive sentiment to move the price up.

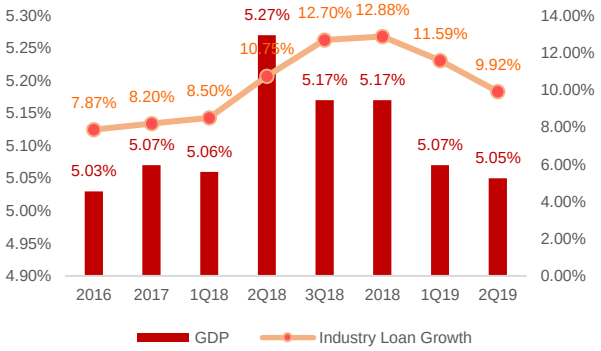
Indonesia GDP growth



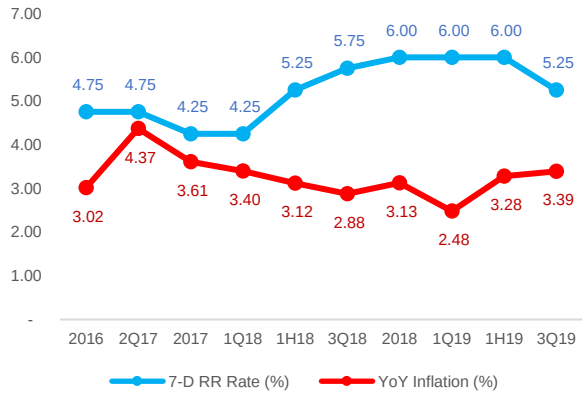
GDP and GDP Contribution



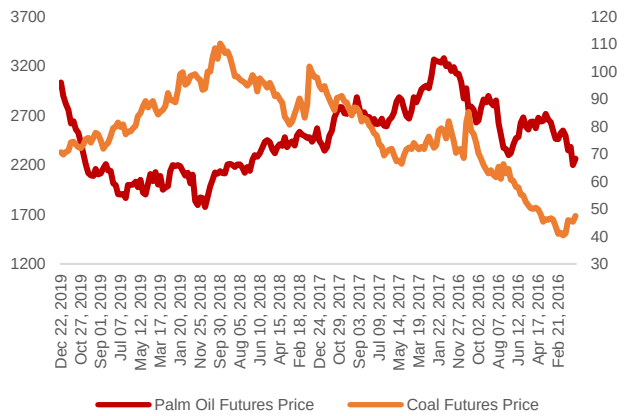
GDP Growth and Loan growth



Manageable inflation and lower policy



Challenging commodity business



Better Indonesia Sovereign Ratings lead to better perception of Indonesia investment climate. Three major rating agencies give stable rating to various Indonesia financial instruments which become an evidence of conducive business environment in recent years. This optimism in investment rating is expected to continue in long term future as indicated by many macro indicators.

Indonesia Sovereign Ratings

Fitch Rating	Outlook	Stable
	LT Issuer Default Rating	BBB
	LT LC Issuer Default	BBB
	Foreign Currency Long Term Debt	BBB
	Local Currency Long Term Debt	BBB
Standard & Poor's	Outlook	Stable
	CC LT Foreign Bank Debt	Baa2
	Long Term Rating	Baa3
	LC Curr. Issuer Rating	Baa4
	FC Curr. Issuer Rating	Baa5
	Foreign Currency LT Debt	Baa6
	Local Currency LT Debt	Baa7
	Senior Unsecured Det	Baa8
Moody's	Outlook	Stable
	Foreign Currency LT Debt	BBB
	Local Currency LT Debt	BBB

Source: Company data, Wanteg Sekuritas.

Key Assumptions

FY Dec	2017 A	2018 A	2019 F	2020 F	2021 F
Gross Loans Growth (%)	13.33%	16.66%	14.90%	12.00%	12.38%
Customer Deposits Growth (%)	18.60%	12.06%	6.00%	9.78%	10.89%
Yld. On Earnings Assets (%)	11.29%	10.87%	11.08%	10.98%	11.03%
Avg Cost of Funds (%)	3.30%	3.39%	3.33%	3.34%	3.35%

Income Statement (IDR Bn)

FY Dec	2017 A	2018 A	2019 F	2020 F	2021 F
Revenue					
Interest and Shariah Inco...	48,178	54,139	63,392	70,335	79,414
Fees & Commissions Income					
Premium Income	6,871	5,997	8,742	11,197	13,311
Total Revenue	55,049	60,136	72,134	81,532	92,725
Cost of revenue					
Interest and Shariah Expense	(16,240)	(18,692)	(19,503)	(21,446)	(23,881)
Claims Expense	(5,104)	(4,286)	(6,462)	(8,199)	(9,700)
Others					
Total Cost of revenue	(21,344)	(22,978)	(25,965)	(29,645)	(33,581)
Operating Income	**33,705**	**37,158**	**46,169**	**51,887**	**59,144**
Total Operating Expense	(16,483)	(17,559)	(22,553)	(24,570)	(28,003)
Income from Operations	**17,223**	**19,599**	**23,616**	**27,317**	**31,141**
Non-operating Income/expense	(57)	221	73	78	79
Income Before Tax	17,165	19,821	23,689	27,395	31,220
Tax Expense	(3,395)	(4,729)	(5,043)	(5,929)	(6,950)
Net Income	**13,771**	**15,092**	**15,922**	**17,833**	**21,399**

FY Dec	2017 A	2018 A	2019 F	2020 F	2021 F
Growth (%)					
Net Interest Income Gth	10.08%	12.37%	17.09%	10.95%	12.91%
Net Profit Gth	20.69%	9.59%	5.50%	12.00%	16.00%
Margins, Costs & Efficiency (%)					
Spread	7.99%	7.49%	7.75%	7.64%	7.68%
Net Interest Margin	5.50%	5.30%	4.90%	4.90%	4.90%
Cost-to-Income Ratio	43.90%	42.50%	43.60%	43.60%	43.60%
Business Mix (%)					
Net Int. Inc / Opg Inc.	71.61%	73.10%	73.36%	73.36%	73.36%
Non-Int. Inc / Opg inc.	22.55%	22.36%	23.27%	23.27%	23.27%
Oth Non-Int Inc/Opg Inc	5.84%	4.55%	3.37%	3.37%	3.37%
Profitability (%)					
ROAE	13.65%	13.67%	14.10%	14.10%	14.10%
ROA	1.94%	1.87%	1.97%	1.97%	1.97%

Balance Sheet (IDR Bn)

FY Dec	2017 A	2018 A	2019 F	2020 F	2021 F
Assets					
Cash and Cash Equivalents	11,578	14,044	16,137	18,073	20,310
Current Accounts with Ban...	32,701	35,591	43,276	47,760	53,298
Placements with Bank Indo...	28,593	39,324	44,657	48,190	55,631
Marketable Securities	36,050	32,044	40,384	46,437	50,030
Loans	426,790	497,887	572,072	640,721	720,031
Government Bonds	79,849	86,791	100,958	114,552	127,240
Property. Plant and Equip...	22,805	26,127	31,171	34,290	38,550
Deferred Tax Assets	891	1,676	1,714	1,833	2,198
Others	70,074	75,087	70,074	75,087	75,087
Total Assets	**709,330**	**808,572**	**808,226**	**905,214**	**1,086,256**
Liabilities and Equity					
Liabilities					
Obligations Due Immediate...	4,868	4,160	4,931	5,502	5,842
Deposits from Customers	492,748	552,172	585,302	642,529	712,519
Deposits from Other Bank...	11,683	13,874	14,145	15,648	17,479
Derivatives Liabilities	114	322	282	239	281
Acceptance Payables	4,507	4,417	4,428	4,451	4,432
Taxes Payable	80	481	237	266	328
Accrued Expenses	971	876	1,157	1,253	1,454
Securities Issued	2,986	2,987	4,235	3,403	3,541
Borrowings	44,722	52,025	24,426	42,460	115,829
Subordinated Loans		100	100	100	100
Temporary Syirkah Funds	24,340	26,961	29,008	31,653	35,074
Others	21,407	39,823	31,984	36,739	43,450
Total Liabilities	608,427	698,198	695,304	778,740	934,489
Equity	100,903	110,374	112,922	126,473	151,768
Total Liabilities and Equity	**709,330**	**808,572**	**808,226**	**905,214**	**1,086,256**
Share Outstanding (Bn shares)	18.80	18.80	18.80	18.80	18.80

Source: Company data, Wanteg Sekuritas.

Valuation

BBNI price multiple valuation

Based on average price multiple, the share price of BBNI is currenlt undervalued. According to five year average PBV the price is IDR 9,490. Historically, share price of BBNI is more volatile than its peers due to volatility in expected future performance. This fact provide great opportunity to buy at weakness and sell at strength. Considering price multiple valuation, currently BBNI is traded at 9.14 PER and 1.2 PBV. At its peak, it was traded at PER 12.57 and PBV 1.8.

FCFE Valuation

Our valuation based on DCF (FCFE) by using two-stage growth model generates share price of BBNI is IDR 9,210. Revenue, loan and net income growth is extrapolated to most reasonable business life-cycle model while considering management guidance for 2020 that Net Income growth will be 12.00%. Long term growth is expected to be 3%, ROE will recover to 17% and 14% in the long term while cost of equity is 16%.

Hereby, according to our comprehensive analysis, we conclude as follows:

Target price for BBNI in the next 12 months period is Rp 9320 at PBV 1.48.

PE Standard Deviation Band



PBV Standard Deviation Band



Source: Company data, Wanteg Sekuritas.

Final Equity Value

Equity Value for 2020 (PBV)	9,490
Equity Value for 2020 (DCF)	9,210
Target price for 2020	**9320**

Wanteg Sekuritas recommendations are based an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

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