

Bank Negara Indonesia (BBNI.JK)

Alert: Takeaways from Global Financial Conference

Takeaways from Hong Kong: BBNI presented at our Global Financial Conference on 19 November. Below we highlight the key takeaways:

Outlook remains cautiously optimistic: The two key areas that were the focus of discussions were loan growth and asset quality. On loan growth, guidance now is 15-17%, in line with Bank Indonesia's "preferred range". On credit quality, management is confident that the NPL by end 2013 will be lower than the current 2.4% and similar levels in 2014.

Mortgage to slow down while Corporate to sustain: Regulatory changes will force lower mortgage growth. Construction loans to developers are 7% of the total and are being reclassified as commercial loans (from mortgage). Corporate pipeline is healthy, supported by selected infrastructure. SME growth to remain slow. One potential risk is expansion decisions getting delayed due to macro/election uncertainty.

Stronger risk management will control NPLs: Worse-case scenario is for NPL to touch 3.5%, based on BI rate of 10%, IDR at 12500/USD, GDP growth <5% and inflation 10%. Management is actively monitoring environment. Has mostly first mortgages, for landed houses/single family with 70% LTV that can be foreclosed quickly.

NPL coverage rising and cash recoveries to remain intact: Credit Cost of 1.4% is higher than NPL formation of 1.3%, marginally improving coverage to 126%. Current coverage is adequate under policy/accounting standards. Higher provisions will most likely not be accepted as tax deductible expense by authorities. Recoveries to remain at current Rp1.5-2trn over next 2-3 years. Has been recovering 70% of write offs.

Lending rates rising to pass through cost of funds: Has raised SME rates by 100bps and corporate by 50-75bps. Will continue this in the near future. Policy is to raise rates for existing borrowers by 75bps and for new customers, by 150bps. Mortgages at current fixed rate of 8% will be gradually repriced to variable rate (up to 13%).

Not chasing time deposits: Only selective increase depending on liquidity.

Opex growth to remain in low teens: Having done bulk of network expansion and automation means workforce is adequate. Will book higher promotion-related costs in 4Q13.

No update on Life Insurance JV: Did not confirm the Reuters news. Process ongoing to find JV partners for most subsidiaries.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Bank Negara Indonesia

(BBNI.JK; Rp4,425; 1)

Valuation

We use DDM to value Indonesian bank stocks. Our target price for BBNI of Rp4,950 is based on a theoretical 20% payout ratio. We use 2014F as base year but have discounted it back 1-year due to flat earnings growth outlook. The growth rate is assumed to be 14.6%. Our cost of equity assumption is 16.2%, based on 6% inflation, a 3.3% real rate, an equity risk premium of 6% and beta of 1.15x.

Risks

Downside risks that could impede the stock from reaching our target price include: 1) decline in loan yields, 2) inability to slow operating expenses, 3) a sharp decline in trading income, and 4) renewed credit costs in the SME segment.

Appendix A-1

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Bank Negara Indonesia (BBNI.JK)

Ratings and Target Price History Fundamental Research

Analyst: Salman Ali, CFA



	Date	Rating	Target Price	Closing Price
1	23-Nov-10	3M	*2,938.80	3,460.20
2	3-Dec-10	3M	*3,100.00	4,700.00
3	19-Aug-11	*2L	*4,700.00	4,175.00
4	30-Sep-11	2L	*4,050.00	3,725.00

* Indicates change

	Date	Rating	Target Price	Closing Price
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*1	4,050.00	3,350.00
7	8-Dec-11	1	*4,550.00	3,875.00
8	4-Sep-12	1	*4,700.00	3,775.00

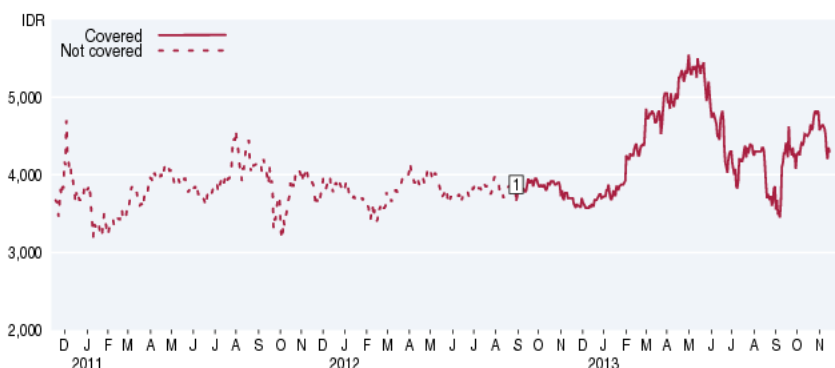
	Date	Rating	Target Price	Closing Price
9	7-Mar-13	1	*5,450.00	4,800.00
10	9-May-13	*2	5,450.00	5,350.00
11	21-Aug-13	*1	*4,700.00	3,750.00
12	18-Nov-13	1	*4,950.00	4,300.00

Rating/target price changes above reflect Eastern Standard Time

Bank Negara Indonesia (BBNI.JK)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Salman Ali, CFA



	Date	Rating	Target Price	Closing Price
1	30-Aug-12	*ADD MP	-	3,675.00

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