

TRIM Company Update

BDMN: Margin Concern Ease on Rights Issue

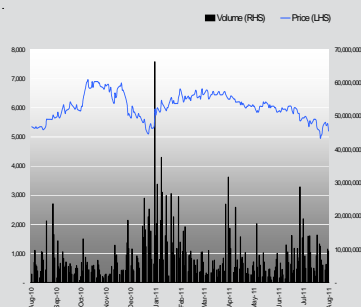
Maintained

HOLD

Share Price : Rp5,200
Sector : Bank
Price Target Rp6,600 (26,9%)

Stock Data

Reuters Code : BDMN.JK
Bloomberg Code : BDMN IJ
Issued Shares (m) : 8,422
Mkt Cap (Rpbn): 43,794
Average Daily T/O : 6.9m
52-Wk range Rp4,600/ Rp7,100



Company Description:

PT Bank Danamon Indonesia Tbk is a commercial bank provides a general banking services. BDMN specializing in auto loans and mass market.

BDMN has announced to sell 1.1bn new shares at Rp4300/shares on its rights issue, raise Rp5tr new 1st tier capital. We see the new fundraising should ease the margin concern in the near term, while the longer term trend remains intact.

New Capital to Sustain Short Term Profitability. The rights issue will increase a bank only CAR ratio from 12.2% on 2Q11 to ~17% and consolidated CAR to 18.3%. The new capital raising could ease the 0.5% NIM contraction which comes from RR-LDR linked regulation and higher deposit CoF, as the higher capital will allow Danamon to operates with above 100% LDR in near future and ease the needs of funding in higher competition era.

...But LT Margin Contraction Threat Remain. On a longer term perspectives, however, we believe Danamon business performance biggest threat of margin contraction remains intact. As big boys comes to car and motorcycle markets and BRI aggressively expand its Teras BRI, a direct competitors of Danamon DSP, we expect easing NIM to continue to 9.3% - 9.1% on 2011 - 2013.

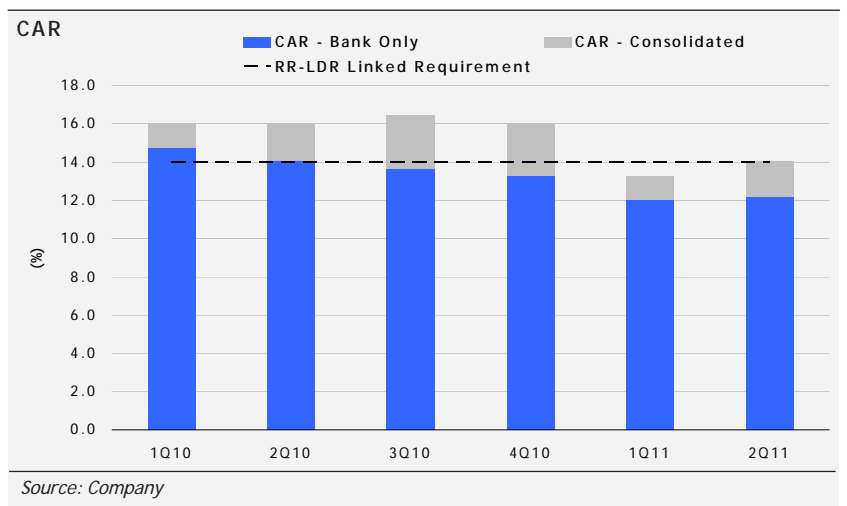
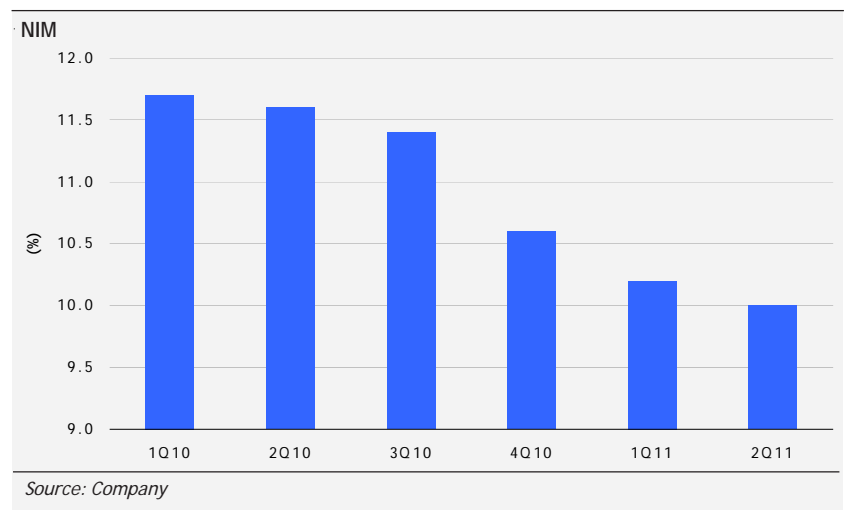
Maintained Neutral, TP 6600. We maintain our Neutral recommendation and TP of 6600 (14.2% WACC, 19% ROE, 11.3% growth), reflects 2.3x 2012 PBV and 13.9x 2012 PE. However, the stock which is currently traded at 1.9x 2012 PBV and 11x 2012 PE should provide a considerable upside potential as the market pricing in the stronger capital going forward.

Financial Summary

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Net Interest Income	9,462	9,908	10,216	11,609	13,339
NII Growth (%)	13.3	4.7	3.1	13.6	14.9
PPOP	5,705	6,764	7,134	8,719	10,524
Net Profit	1,533	2,883	3,315	4,186	4,840
Net Profit Growth (%)	0.2	18.6	5.5	22.2	20.7
EPS Growth	-33	87.6	15.0	26.3	15.6
ROE (%)	11.6	17.1	17.2	18.9	19.1
DPS (Rp)	91	91	120	138	175
Div Yield (%)	1.8	1.8	2.3	2.7	3.4
P/E (x)	28.4	15.1	13.2	10.4	9.0
P/BV (x)	2.75	2.43	2.12	1.85	1.62

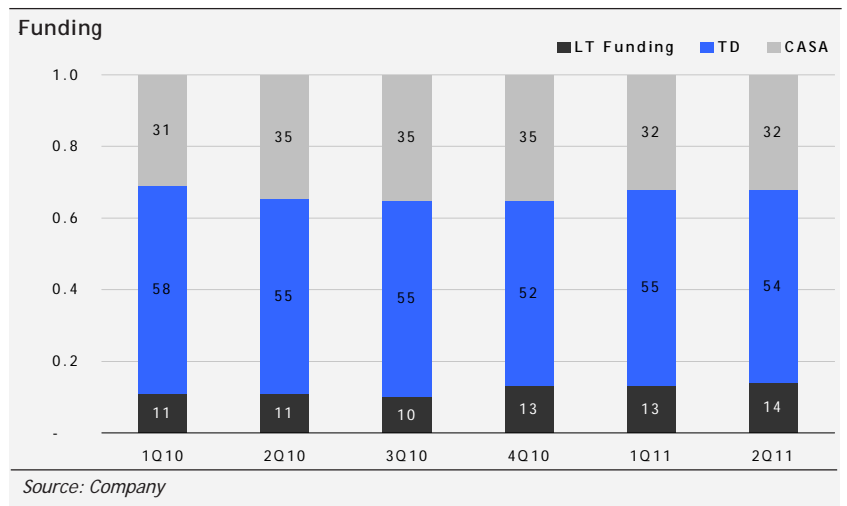
New Capital to Sustain Short Term Profitability

Danamon has seen NIM contraction ranging 0.4% - 0.5% on the back of higher deposit CoF, lower LDR, and higher reserve requirement in the past 3 quarters. The bank only CAR ratio, which stood at 12.2% as of 2Q11, has pushed Danamon to lower its LDR to avoid posting 0.2% additional reserve requirements as required by LDR-RR linked regulations.



Capital Infusion Will Ease the Margin Concern on ST

We expect the new capital infusion to ease the margin compression issue in short term period, as it allow Danamon to boost its LDR while easing the needs to boost its funding which comes at higher cost during highly competitive era. The ability to maintain CoF at current level of 5.7% - 6.0% will help Danamon to sustain profitability amid big boys hit on pricing.



LT Margin Contraction Threat Remain

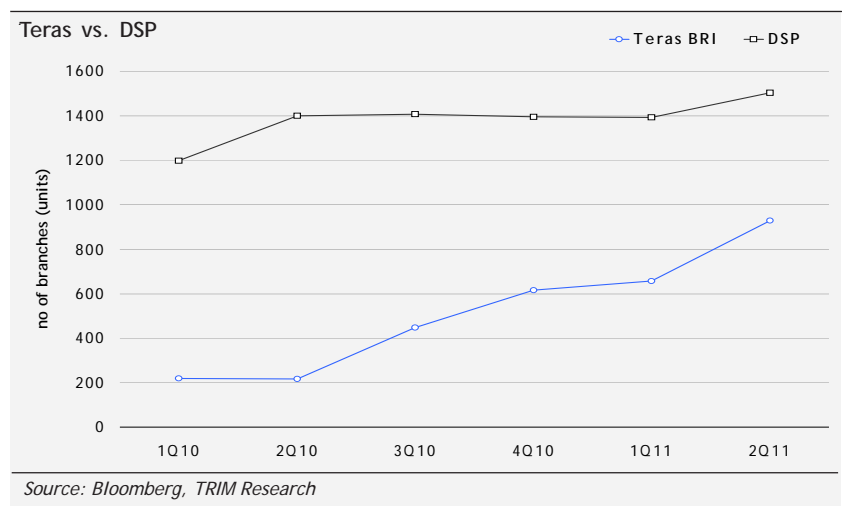
We believe the overall impact of new capital is neutralizing the margin threat at best, while we maintain our forecast which expects NIM to ease to 9.3% - 9.1% going forward. Our considerations are based on (1) pricing wars on loans to continue (2) asset quality might deteriorate along with industry.

Pricing Wars on Loans

Big boys are coming in both auto financing and mass market. Danamon currently charge 14% - 20% for car financing, much higher compared to big boys of 9% - 12%. The management will face a trade off between price/asset quality/market shares. We believe the management will only be able to boost its profitability profile by taking riskier loans as its funding structure will not allow Danamon to compete on enter the pricing war.

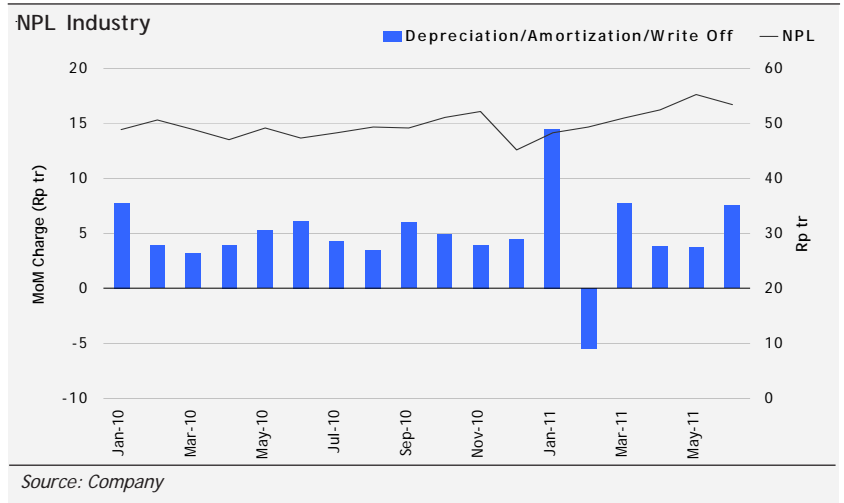
Teras BRI vs. Danamon Simpan Pinjam

The second biggest threat for Danamon fundamental comes from BRI with its Teras branches which compete directly with Danamon Simpan Pinjam chain. Teras BRI aims the very same market segment of wet market traders only with better coverage as BRI will easily expand to third tier cities which is Danamon is lacking network. Teras BRI network expand exponentially since 1Q10 of 218 branches to 929 branches currently vs. 1503 of Danamon Simpan Pinjam which contributes ~18% to total loans.



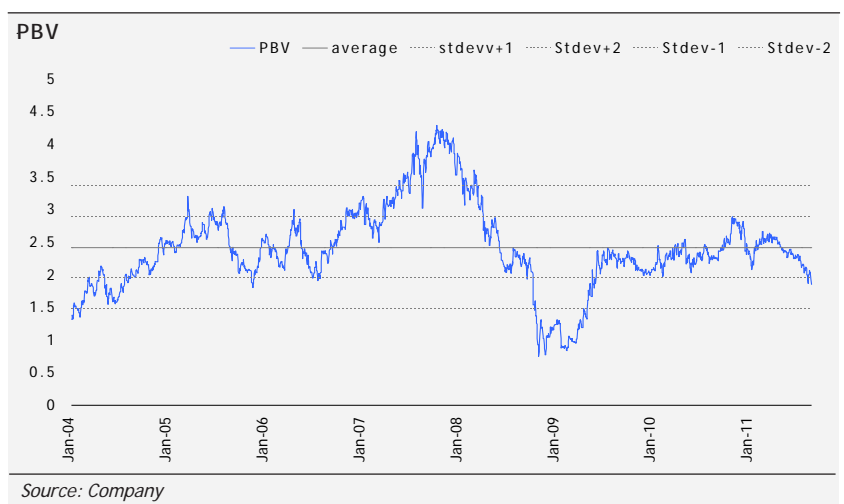
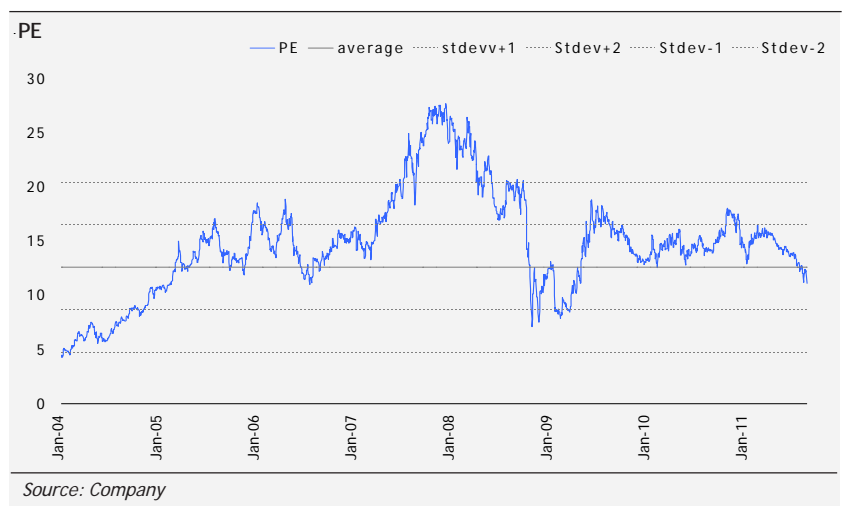
Asset Quality to Deteriorate Along with Industry

We believe Danamon will follow the industry trend of deteriorating credit quality. Despite the industry NPL fell 18bps MoM to 2.7% and the absolute figures down by Rp2tr to Rp53tr, the depreciation/amortization/write off cost jump by Rp7.5tr MoM, above Rp3tr - Rp4tr MoM average, which we believe is a sign of deterioration of credit quality. We expect Danamon to follow the industry trend as the micro segment is generally more sensitive customer based. Deteriorating loans quality should post some threat on interest income and hence bank's NIM.



Maintain Neutral, TP 6600

We maintain our Neutral recommendation on BDMN with TP6600. Despite recent stock market correction and stock underperformance due to unexciting result should provide Danamon with considerable upside potential as market pricing in the stronger capital attached, we do not put our buy recommendation as we consider the LT margin concern still the main theme for the stock performance going forward. Danamon currently traded at 1.9x 2012 PBV and 10.4x 2012 PE vs. our TP which reflects 2.3x 2012 PBV and 13.9x 2012 PE.



Income Statement (Rpbn)

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Interest Income	15,683	14,418	17,901	19,660	22,618
Interest Expense	(6,221)	(4,509)	(7,685)	(8,051)	(9,279)
NII	9,462	9,908	10,216	11,609	13,339
Non Interest Income	2,560	2,883	3,584	4,803	5,264
Operating Expense	(6,635)	(6,936)	(7,101)	(8,311)	(8,739)
Loan Loss Provision	(1,777)	(2,842)	(2,134)	(2,853)	(3,111)
PPOP	5,705	6,764	7,134	8,719	10,524
Profit Before Tax	2,371	4,002	4,282	5,608	6,551
Tax Expense	(876)	(757)	(1,018)	(867)	(1,331)
Net Profit	1,533	2,883	3,315	4,186	4,840
No of Shares	8.4	8.4	8.4	8.4	8.4
EPS	183	343	395	499	577
EPSg (%)	-	87.6	15.0	26.3	15.6
Dividend Per Share	91	91	120	138	175
BVPS	1,889	2,139	2,452	2,812	3,214
ROE (%)	11.6	17.1	17.2	18.9	19.1
ROA (%)	1.5	2.7	2.6	2.8	2.8

Balance Sheet (Rpbn)

Year end 31 Dec	2009	2010	2011E	2012F	2013F
ASSETS					
Cash and CA with BI	5,938	7,260	10,232	11,991	14,046
Interbank Placement	6,097	10,916	8,784	10,134	11,900
Marketable Securities	4,432	5,324	3,163	3,655	4,185
Loans-net	61,022	79,936	95,162	110,465	131,903
Government Bonds	11,011	6,138	5,696	5,401	4,550
Net Fixed Assets	1,550	1,855	1,764	1,898	2,019
Other Assets	8,549	6,866	12,546	14,914	17,470
Total Assets	98,598	118,295	137,348	158,458	186,074
Total Earning Assets	84,111	104,169	114,569	131,553	154,558
LIABILITIES AND SHAREHOLDERS EQUITY					
Total Third Party Fund	67,216	78,571	93,582	111,242	130,306
Marketable					
Securities Issued	2,051	6,300	4,675	3,316	2,397
Fund Borrowings	2,394	2,482	-	-	-
Interbank and Repo	5,192	4,728	10,422	10,792	15,356
Others	5,343	5,945	7,348	8,735	10,231
Subordinated Loans	500	500	500	500	500
Total Liabilities	82,696	98,526	116,528	134,586	158,791
Shareholders Equity	15,806	17,953	20,581	23,606	26,982
Total Liabilities and Shareholders Equity	98,598	118,295	137,348	158,458	186,074

Interim Results (Rpbn)

	2Q10	3Q10	4Q10	1Q11	2Q11
Total Loans	68,528	74,645	79,931	76,377	80,483
Total Deposit	67,015	69,285	79,643	80,685	82,239
Total Asset	100,447	105,221	118,207	122,804	125,922
Net Interest Income	2,539	2,662	2,607	2,609	2,849
Non Interest Income	984	989	890	985	845.89
Operating Expense	(1,847)	(1,816)	(1,867)	(1,876)	(1,975.50)
Loan Loss Provision	(509)	(611)	(504)	(506)	(597.90)
Net Profit	733	770	680	789	737.96

Key Ratios

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Earning Asset Yield	15.0	15.3	13.7	14.1	14.2
Cost of Funds	8.2	5.3	7.6	6.9	6.8
NIM	10.8	10.5	9.3	9.4	9.3
LDR	96.4	97.7	97.0	99.0	99.7
Cost Income Ratio	54.9	51.2	53.8	50.1	47.2
Asset/Equity	6.2	6.6	6.7	6.7	6.9
CAR	20.6	16.1	17.1	16.4	15.4
NPL	4.6	3.2	3.3	3.4	3.5
Loan Loss Coverage	80.5	110.4	110.9	106.0	105.7

Key Assumption (%)

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Loans Growth	(6.8)	25.1	20.7	17.9	19.6
Loans Market Share	4.4	4.6	4.5	4.4	4.3
Deposit Growth	(9.1)	16.9	19.1	18.9	17.1
Deposit Market Share	3.5	3.5	3.6	3.6	3.7
Valuation					
Risk Free Rate	8.5				
Beta	1.0				
Risk Premium	6.0				
WACC	14.2				
Dividend Payout Ratio	35.0				
ROE	18				
Growth Rate	11.3				

PT Trimegah Securities Tbk
18thFl, Artha Graha Building
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190, INDONESIA
Tel : (6221) 2924-9088 Fax : (6221) 2924-9163

DISCLAIMER

This report has been prepared by PT Trimegah Securities Tbk on behalf of itself and its affiliated companies and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. This report has been produced independently and the forecasts, opinions and expectations contained herein are entirely those of Trimegah Securities.

While all reasonable care has been taken to ensure that information contained herein is not untrue or misleading at the time of publication, Trimegah Securities makes no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of clients of Trimegah Securities who are expected to make their own investment decisions without reliance on this report. Neither Trimegah Securities nor any officer or employee of Trimegah Securities accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. Trimegah Securities and/or persons connected with it may have acted upon or used the information herein contained, or the research or analysis on which it is based, before publication. Trimegah Securities may in future participate in an offering of the company's equity securities.
