

TRIM Sector Update

Bank: Strong Fundamentals Remain Intact

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Strong Loans Growth, Pull Back on Deposit

Banking sector total loans continue grow rapidly at 23.9% YoY, up 36bps MoM, while deposit growth slightly down 55bps to 18.7% YoY. Total loans disbursement reached Rp58tr vs. Rp23tr on Jul' 11, which are contributed by strong investment loans growth and stronger working capital loans disbursement. Some pull back is materialize on deposit, as a mere Rp3.2tr deposit come to the system, one-eight to Jul' 11 figures of Rp24tr. The overall impact reflected on LDR which jumped 228bps to 84%.

Stable NIM and NPL

Commercial banks booked Rp48tr, gain Rp6tr MoM. NIM inched up 5bps to 5.9% while NPL stable at 2.8%. On absolute basis, however, NPL increase Rp1.7tr to Rp56tr while the write off/depreciation/amortization expense jumped to Rp13tr vs. Rp6.3tr a month earlier. This data reading would not provide an exact number of provision expenses, but should provide the picture that the general trend of deterioration asset quality is true.

BI Rate Cut, Bold Moves from Our Central Bank

The central bank cut its benchmark rate by 25bps to 6.5%, an unexpectedly bold move, as it implies that our central bankers believe that our banking sector liquidity is enough to face the crisis. Our banking sector excess liquidity stood at Rp357tr for IDR and Rp24tr for forex denominated, down from Rp388tr for IDR and Rp49tr for forex on Jul' 11. Market has cheered the fact that our central bankers are adaptive in anticipating slower economic growth on 2012. Foreign investors booked Rp2.4tr net buying since 11th Oct' 11 when the central bank cut its rate.

Market Volatility Continue

Market sentiment was improved amid speculation that EU approaching resolution for its crisis. The true answer will need to wait 23rd Oct' 11, when policy makers are expected release its plan to contain the region debt crisis. In the meantime, foreign liquidity has drive our bond market bull market continues. 10yr government bond yield touched its low at 6.3%, along with other longer term of 20yr and 30yr series. Our TRIM Banks valuation has climbed back to 2.8x 2012 PBV.

Maintain Our Pick for BBNI, BMRI, BBKA

We maintain our Buy recommendation with BBNI, BMRI, and BBKA as our top buys. During the global market uncertainty, we recommend to de-risk the portfolio beta and prefer BBKA as a means to preserve capital and collect BBNI and BMRI once it hits an attractive valuation. Despite its high valuation, we believe that market considered BBKA as a government bonds portfolio with growth quality as reflected by its average earnings yield premium of 2.5% to our 10yr government bond yield in the past 2 years.

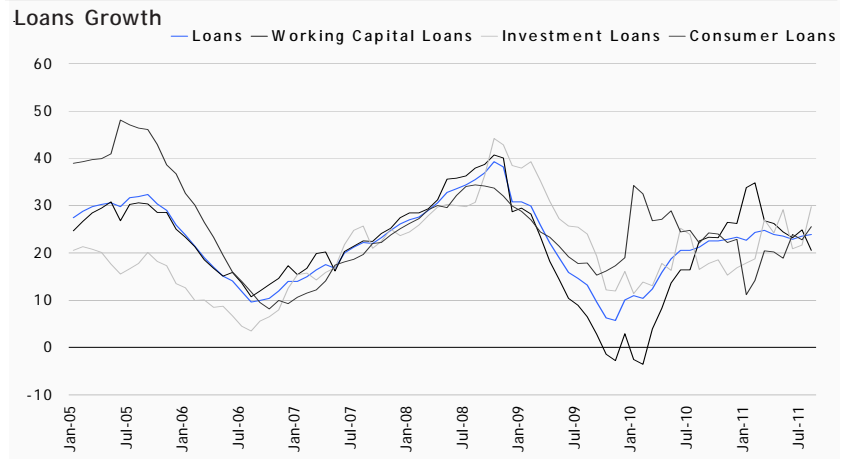
Sector Comparison

TICKER	Price (Rp.)	Mkt. Cap (Rpbn)	(%) to JCI	Rec	TARGET Price	P/E (X)		ROE (%)		EPS g (%)	
	19-Oct-11					11	12	11	12	11	12
BDMN	4,925	46,732.3	1.5	Hold	6,600	34.0	14.1	11.7	17.2	18.2	15.0
BBKA	7,750	189,165.6	6.0	Buy	8,250	6.5	19.9	16.7	25.6	25.6	12.0
BBNI	3,800	70,156.2	2.2	Buy	5,100	34.2	13.7	10.9	14.5	16.2	24.9
BBRI	6,400	156,303.8	5.0	Buy	7,750	21.1	12.9	10.7	29.4	28.1	6.0
BMRI	6,400	147,840.0	4.7	Buy	9,000	40.6	13.2	10.9	21.7	20.3	21.5
Sector		610,197.9	19.3			14.8	12.2	22.4	22.2	14.2	21.0

Strong Loans Growth, Pull Back on Deposit

Loans: Investment Loans Stunning Growth...

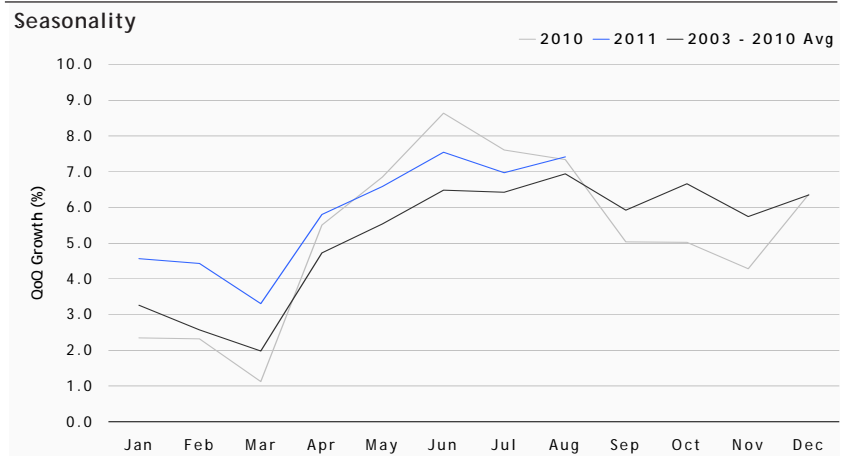
Indonesian banking sector total loans grew 1.0% MoM (23.9% YoY) on Aug' 11, reach Rp2054tr. Working capital loans growth fell to 434bps to 21%, while investment and consumer loans growth jumped 809bps and 279bps to 30% and 26% respectively.



Source: Bank Indonesia, TRIM Research

As Stronger Seasonality Comes

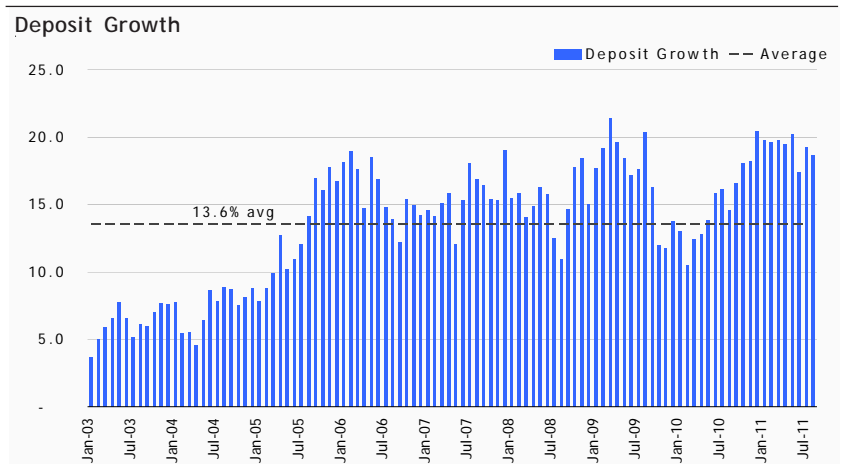
Fasting month and led holiday has drive up demand for loans of which disbursement grew 2.6x to Rp58tr vs. Rp23tr a month earlier. The disbursement still dominated by working capital loans of Rp32tr, followed by Rp16tr of consumer loans, and Rp10tr of investment loans. Our seasonality tracker suggests that banking sector still in the midst of a strong year currently.



Source: Bank Indonesia, TRIM Research

Deposit: Falling Growth to 18.7% YoY

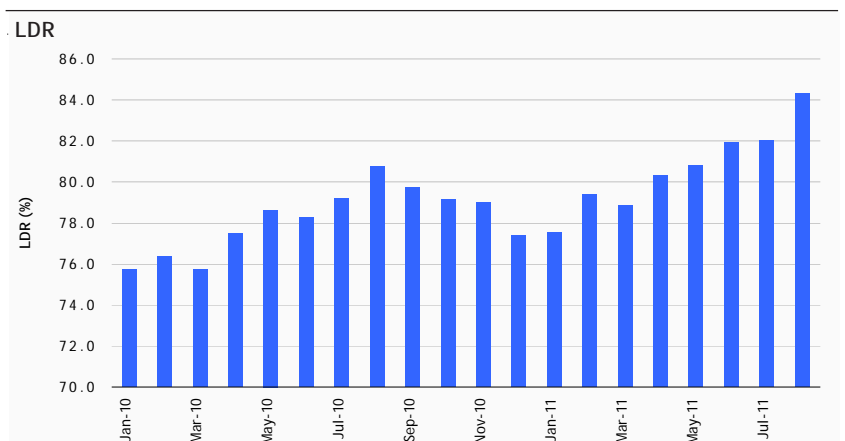
On funding side, total deposit growth dropped 55bps to 18.7% with a mere Rp3.2tr new deposit comes into the system vs. Rp25tr on Jul' 11. Current account drained of Rp37tr offset Rp40tr worth of saving account and time deposit collection. The drained is a natural effect of high season as businessman uses their capital to stock up their inventory during a high season of fasting month and led holiday.



Source: Bank Indonesia, TRIM Research

LDR: Stood at 84% as Deposit Growth Weaken

The combination of strong loans growth and drained in current account drive up the LDR to 84%, gained 228bps MoM. We should expect the LDR to ease going forward, as sales revenue during the month come back into the banking system, and should increase the liquidity supply.

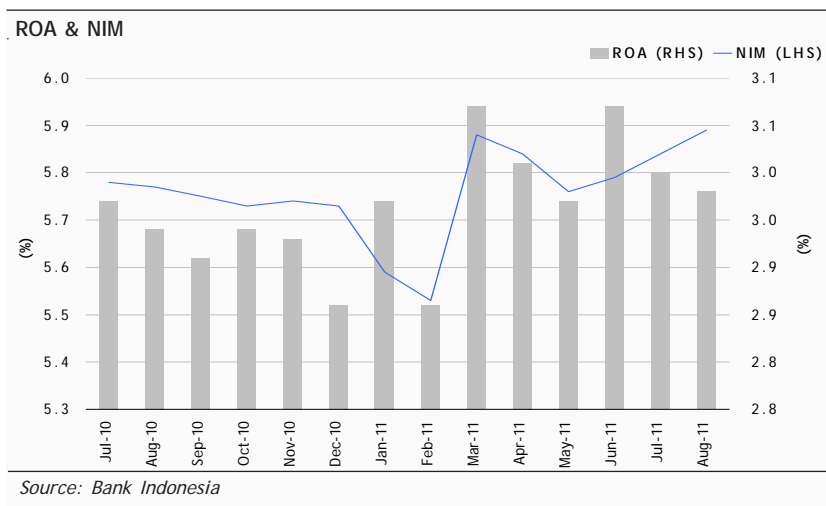


Source: Bank Indonesia, TRIM Research

Stable NIM and NPL

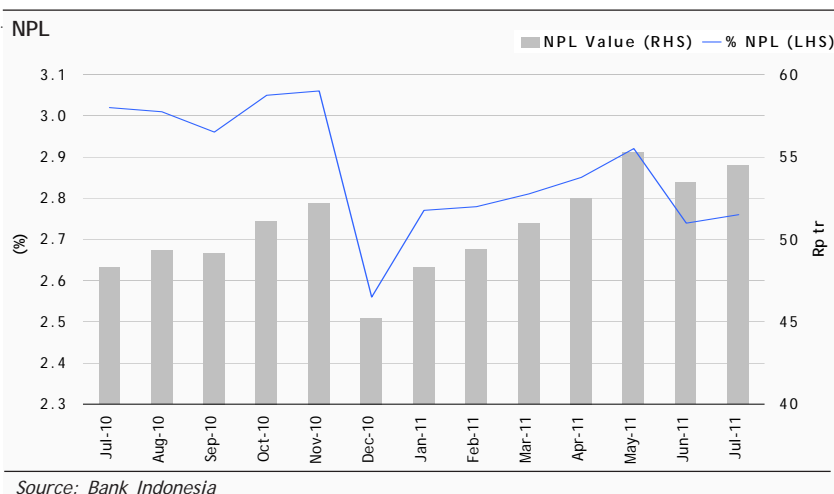
High LDR Drive Up NIM

Commercial banks booked Rp48tr YTD net profit as of Aug' 11, post Rp6tr increase MoM. ROA is stable at 3.0%, while NIM inched up to 5.9% supported by higher LDR profiles. Lending and deposit rate are generally stable.



NPL Stable at 2.8%

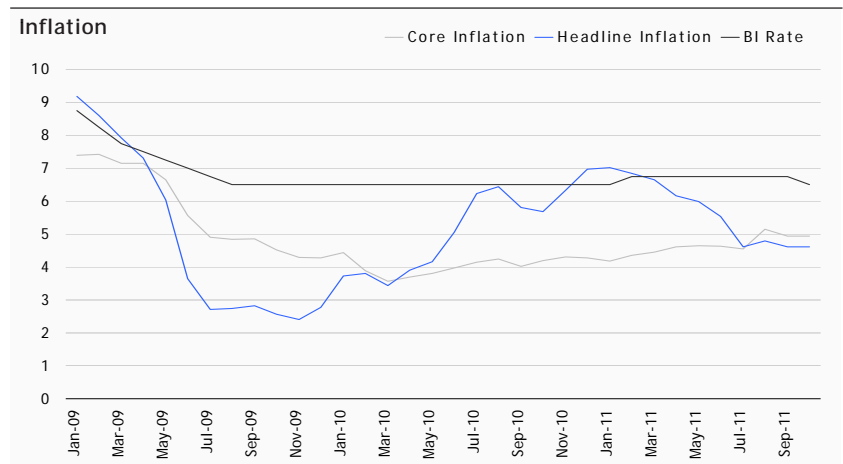
NPL was stable at 2.8% on relative basis while the absolute figures increase Rp1.7tr to Rp56tr. A dimmer picture, however, is posted by write off/depreciation/amortization expense figures which jumped to Rp13tr vs. Rp6.3tr a month earlier. The data do not precisely provide figures about banking sector provision expenses as it includes depreciation/amortization expense, but should give a reasonable picture about the general trend of our banking sector asset quality.



BI Rate Cut, Bold Moves from Our Central Bank

Easing Inflation and Slower Growth Expectation...

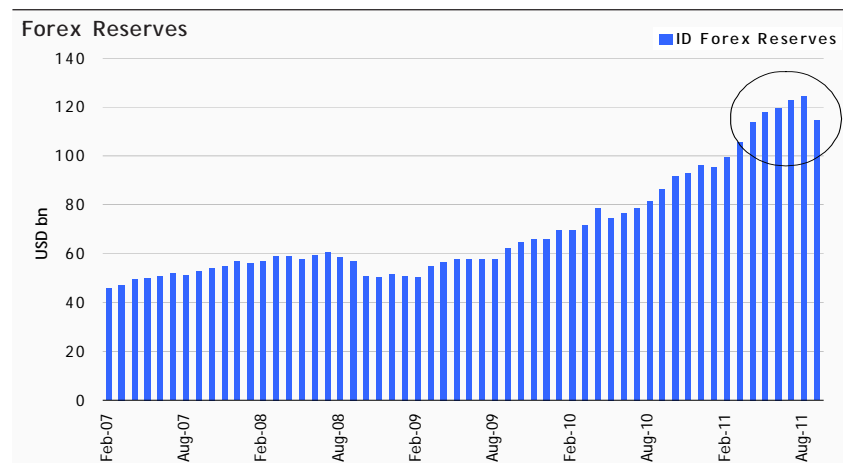
Bank Indonesia decide to cut its benchmark rate by 25bps on its 11th Oct 2011 meeting as it consider our better than expected inflation and slower growth expectation next year should need a monetary action. Our headline inflation still at 2.9% YTD, much better compared to 5.2% YTD in 2010 supported by stronger USDIDR. Slower global economic growth expectation in 2012 has drive down commodities prices, hence should ease the concern that inflation threat might back going forward.



Source: Bloomberg

A Bold Move from Liquidity Perspectives

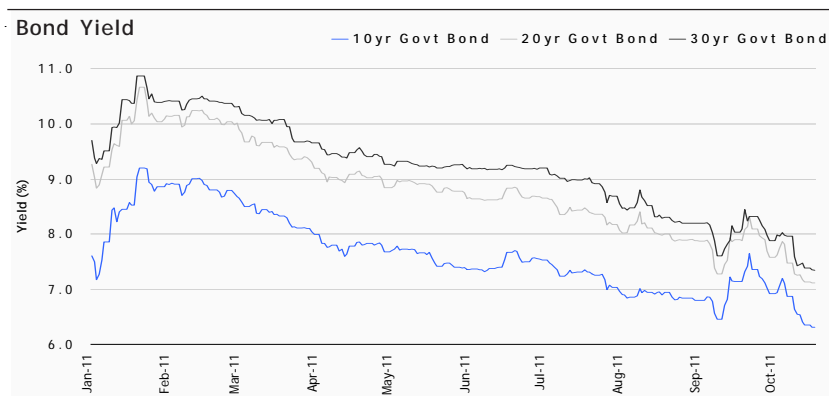
This 25bps cut is a bold move from liquidity perspectives as it implies that our banking sector liquidity should enough to support the banking sector during the global market volatility. Our banking sector held an excess liquidity worth Rp357tr for IDR and Rp24tr for forex denominated, down from Rp388tr for IDR and Rp49tr for forex on Jul' 11. Indonesian foreign exchange reserve fell by USD10bn during a recent asset market sell-off. Should the sell-off on bond market repeated, the liquidity might diminish further.



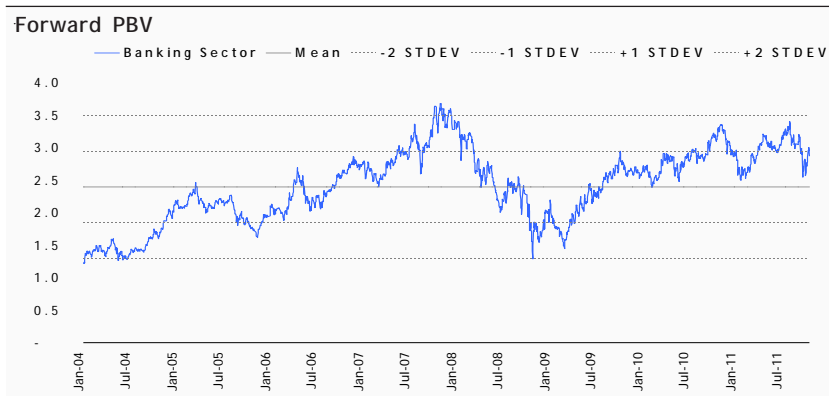
Source: Bloomberg

Market Volatility Continue

Market sentiment was improved amid speculation that EU approaching resolution for its crisis. In the meantime, foreign liquidity has drive our bond market bull market continues. 10yr government bond yield touched its low at 6.3%, along with other longer term of 20yr and 30yr series. Our TRIM Banks valuation has climbed back to 2.8x 2012 PBV.



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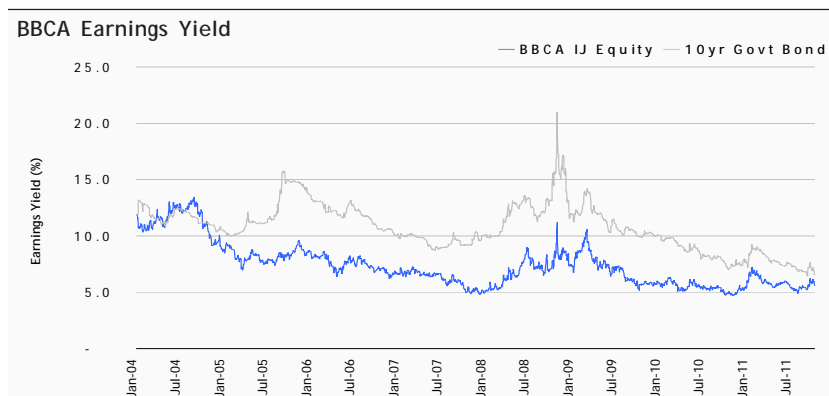


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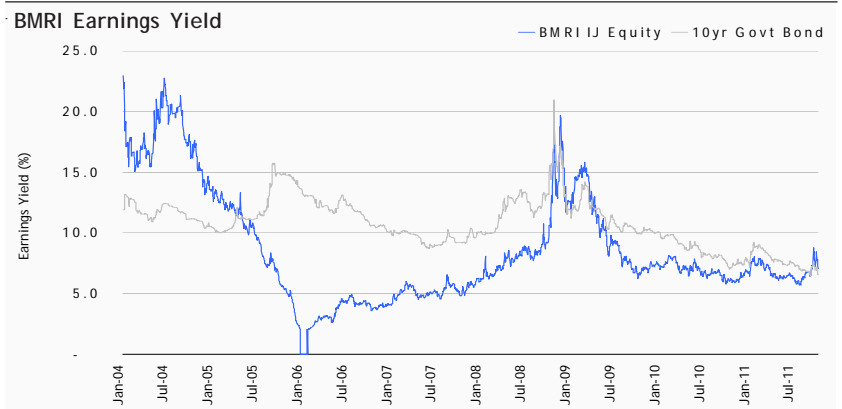
The true answer will need to wait 23rd Oct' 11, when policy makers are expected release its plan to contain the region debt crisis. Recent comment of German spokesperson has caused market correction yesterday. Market condition is very sensitive toward policy makers and its direction as debt crisis resolution still not finds any satisfying resolution up until recently.

Maintain Our Pick for BBNI, BMRI, BBKA

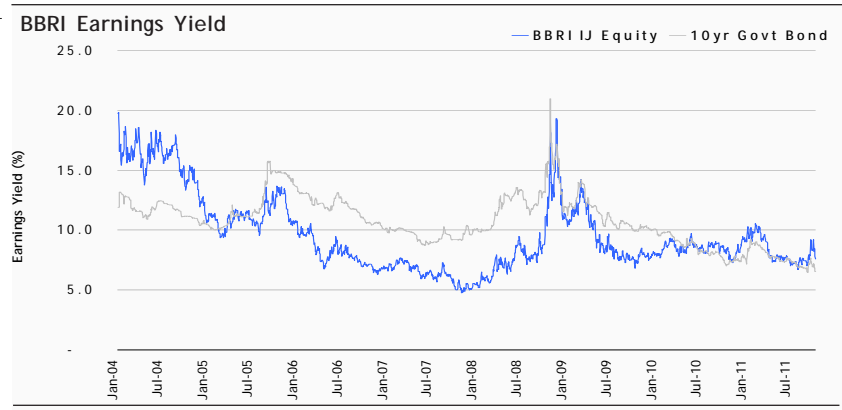
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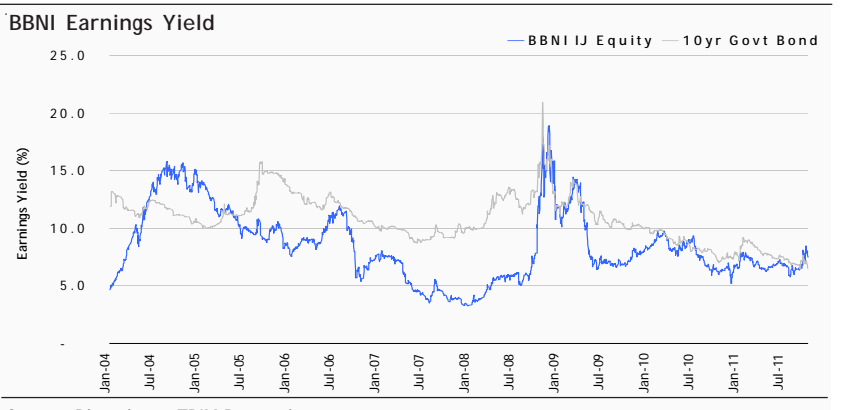
Source: Bloomberg, TRIM Research



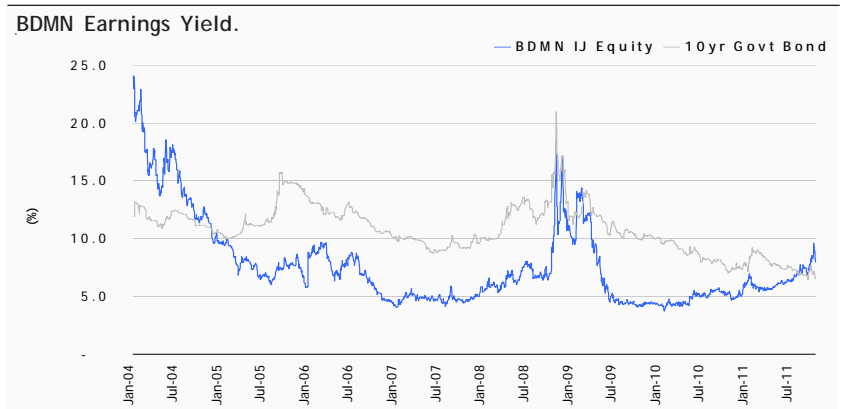
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