

BBKP: Improving Profitability, Cheap Valuation

BBKP currently traded at 1.5x 2011 BEst PBV. We see re-rating potential considering (1) improving NIM and ROE potential post rights issue (2) new potential strategic partnership (3) management creativity

Improving NIM and ROE

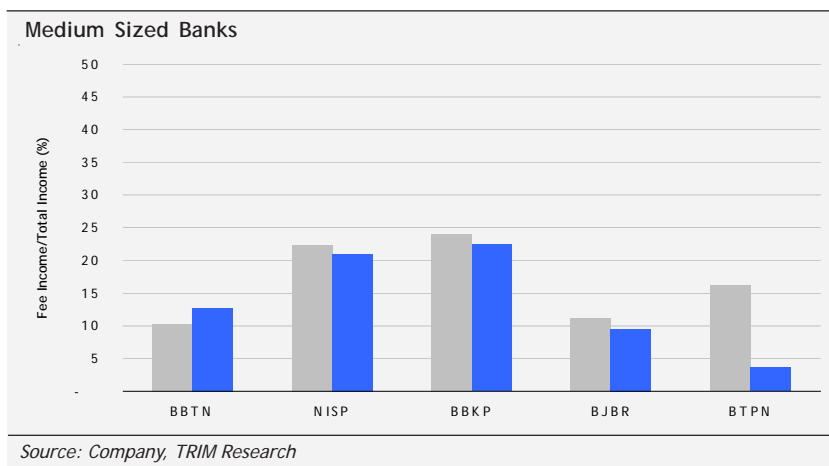
On 1Q11, BBKP NIM down by 50bps QoQ to 4.3%, while ROE stood at 17% post-rights issue. NIM and ROE compression are caused by (1) Bulog cyclical loans payment which drove down its LDR to 58% vs. 72% on 4Q10 (2) larger capital base post rights issue (3) 6% QoQ funding growth. The number should move in the opposite direction, as fresh funding and capital now provide more room for loans expansion for BBKP. We expect NIM to improve to 4.8% on 2Q11 as we expect the LDR back to ~70%. ROE should follow the path, as larger capital base will support the management strategy to exploit micro loans potential. Micro loans, which yield 16%, should improve current asset yield that stood at 10%.

New Potential Strategic Partnership

BBKP new strategic partnership with Taspen and Jamsostek will provide new business potential for its future growth. BBKP will provide loans for Taspen members and mortgage loans for Jamsostek members. Both institutions provide large potential with 2.5mn members of Taspen and 24mn members of Jamsostek. Both expected to deliver Rp6tr loans, which yielded 16% for Taspen and 9% for Jamsostek. Lower yielding Jamsostek loans should not raise any margin squeeze concern, as government will provide the funding source with 4% CoF.

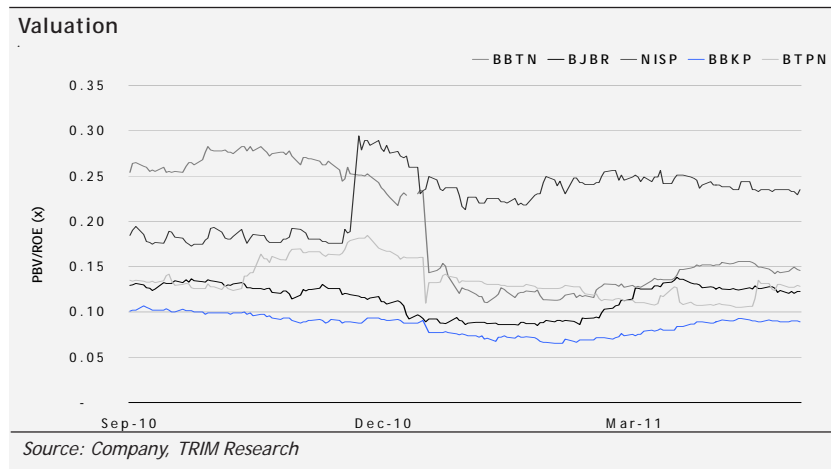
Quality Management

We like the management creativity, as banking is people business at its core. BBKP currently servicing 14mn of PLN customers, represent 50% market share, for its electricity payment center. BBKP also act as an exclusive payment center for Pertamina gas station, along with 4 other big banks. Such creativity allowed BBKP to have 45% CASA ratio, 5.6% avg. CoF, and 20% fee based income proportion, one of the best on medium sized banks with improving trend.



Valuation

In our PBV/ROE model compared to medium sized banks, BBKP consistently traded at lowest multiples compared to its peers. The company deserves higher multiples, considering its prospect and improving fundamentals.



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