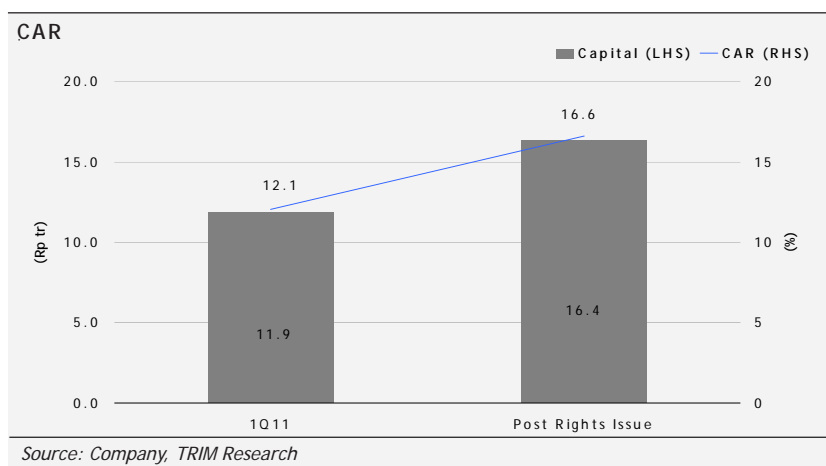


BDMN: Capital Raising Ease Margin Squeeze

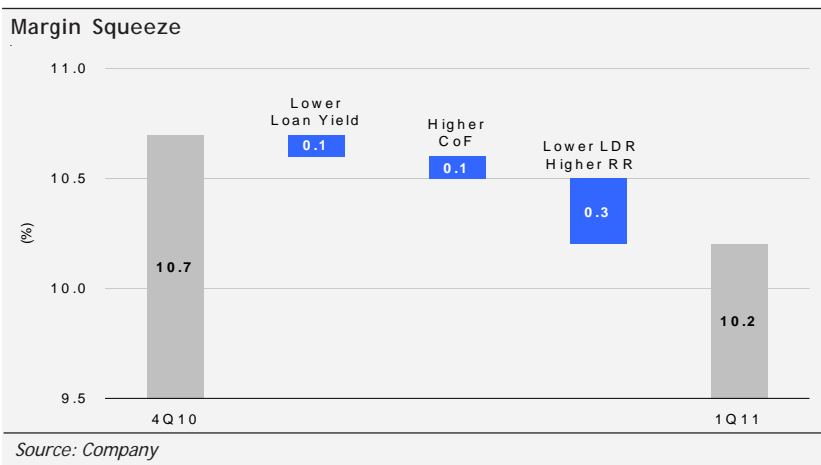
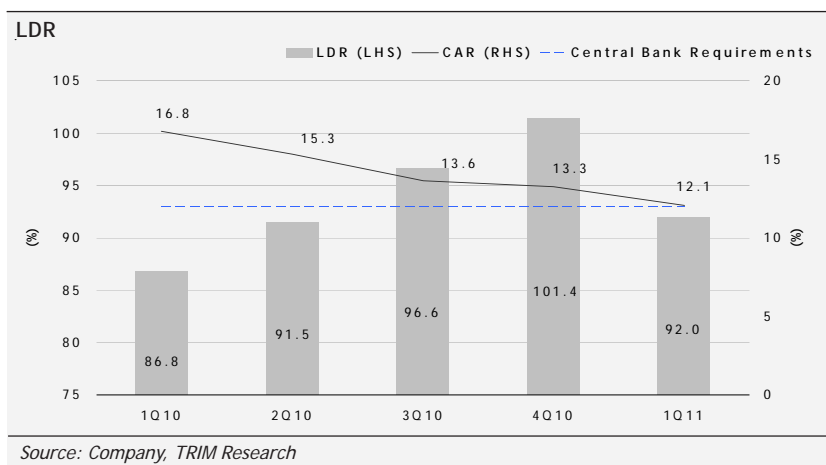
Capital Raising Announcement

Henry Ho, Danamon CEO, just announce the corporate's rights issue plan. Fundraising plan expected to raise Rp4.5tr capital, lift CAR ratio (bank only) to 17% vs. 12% as of 1Q11. However, final decision should need BAPEPAM-LK approval.



Capital Constraint Has Caused Margin Squeeze

CAR ratio which down to 12% on 1Q11 vs. 17% on 1Q10 has lead to some margin squeeze because (1) Danamon should pay 0.2% additional Reserve Requirement to central banks and lowering its LDR to 92% (2) it force Danamon to boost its funding, hence increase TD proportion to 62% on 1Q11 vs. 60% on 4Q10 (3) higher TD proportion comes at higher cost



...But Will Reverse Going Forward

However, once the new capital kicks in, the trend should move in reverse. It will support back the LDR expansion at above 100% in the ST, while Danamon build stronger funding franchise through its presence on commercial markets. We see the capital raising will ease the NIM compression issue going forward.

Valuation

Danamon currently traded at 2.3x 2011 cons PBV. The stock has under-perform the market along with capital constraint issue. The condition will reverse going forward as Danamon capacity to grow has back on the cards.

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