

TRIM Sector Update

Bank: Strong Result Amid Global Uncertainty

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Loans Growth Pull Back on Seasonality

Banking sector total loans booked a strong 23.5% YoY growth on July, while deposit grew 19.2% YoY. A very strong deposit growth trend seems continue since the beginning of the year vs. 13% average in the past 8 years. Equity investors should cheer the fact as it will help banks to maintain its profitability going forward. The total loans disbursement of Rp22tr was a third of previous month of Rp61tr, driven mainly by dropped in working capital loans. Pulled back loans growth is normal, however, as suggested by our seasonality tracker and should accelerated back on Aug as Ramadhan and led will spark higher economic activity.

Strong Fundamentals Still Intact

Commercial banks booked Rp42tr net profit, posting 3.0% ROA with NIM and LDR relatively stable at 5.8% and 82%. Forex LDR eases to 86% vs. 90% on Jun' 11 as Rp9.7tr deposit comes to the system vs. -Rp2.5tr drain on forex loans. The overall trend of decreasing forex deposit and increasing forex loans proportion should change, however, as the central banks put new policy to require exporters save their forex proceeds on local banks on Oct' 11. NPL was relatively stable at 2.7% despite the absolute figures was up by Rp1tr to Rp54.5tr. The depreciation/amortization/write off expense, which shows the cost of credit, are still manageable Rp6.3tr on Jul' 11 vs. Rp7.5tr on Jun' 11. Deposit and lending rate are relatively stable with only exception of a 100bps jump to 12.6% on commercial bank's working capital loans.

A Mere Impact on BI Widening Deposit Facility Spread

We believe a new central banks policy to widen the deposit facility spread by 50bps will not affect the overall banking sector profitability. Banks within our coverage earns a mere 2.5% - 4.2% of their interest income out of this facility. Should the profitability concern arise, bankers could easily move their liquidity to other higher yielding asset. The central banks clearly stated the intention is to push forward deepening domestic interbank market. We should hope this new policy to not heavily affect bankers, as having heavily intertwined banking system during the global market uncertainty is the recipe of systemic failures.

Bond Market Correction is Net Positive on Earnings, but Not on Sentiment

Yesterday bond market correction is net positive for banks earning. 3-month Treasury Bills, our new benchmark for variable government bond yield, retreated to 5.2% - 5.4% vs. 3.8% - 4.0% a week earlier should post positive impact on earnings. BMRI is the biggest holders of such securities with Rp75tr holding on 1H11, while BBNI, BBRI, BBKA exposures are lower at Rp10tr - Rp16tr each. However, banking sector stock which is sensitive toward bond market dynamic might not get good sentiment as well.

Market Correction on Relative Valuation

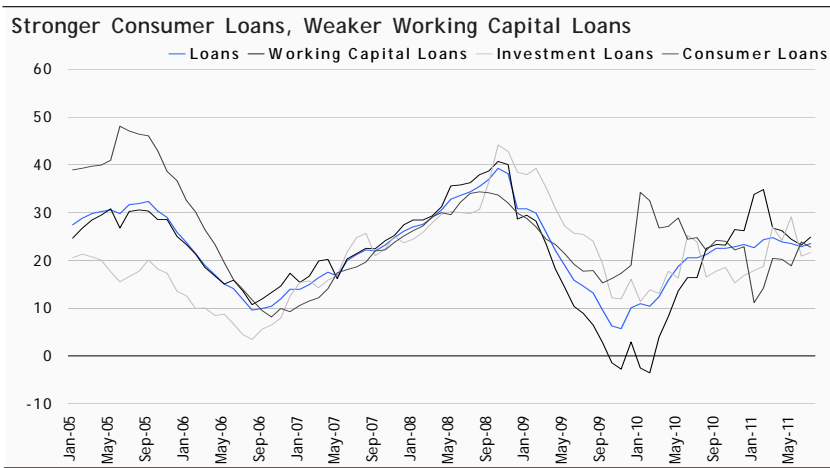
Market correction on the past few days brings the average of our TRIM Bank Universe valuation to 2.9x 2012 PBV. The valuation is still at +1 standard deviation by historical standard. We remain ST cautious as now Indonesian banks valuation are stood highly in regional comparison and vulnerable for other profit taking despite there is nothing wrong with the fundamentals. We continue to put our Buy recommendation on Indonesian banking sector, with BBNI, BMRI, and BBKA as our top buys.

Sector Comparison

TICKER	Price (Rp.) 13-Sep-11	Mkt. Cap (Rpbn)	(%) to JCI	Rec	TARGET Price	P/E (X)		ROE (%)		EPS g (%)	
						11	12	11	12	11	12
BDMN	5,200	43,360.6	1.3	Hold	6,600	13.1	10.9	17.2	18.2	15.0	20.4
BBKA	7,750	189,165.6	5.7	Buy	8,250	19.9	16.7	25.6	25.6	12.0	19.2
BBNI	3,925	72,464.0	2.2	Buy	5,100	14.1	11.2	14.5	16.2	24.9	26.1
BBRI	6,150	150,198.2	4.6	Buy	7,750	12.4	10.3	29.4	28.1	6.0	20.1
BMRI	6,450	148,995.0	4.5	Buy	9,000	13.3	11.0	21.7	20.3	21.5	21.3

Strong Loans Growth as Consumer Loans Get Back on Track...

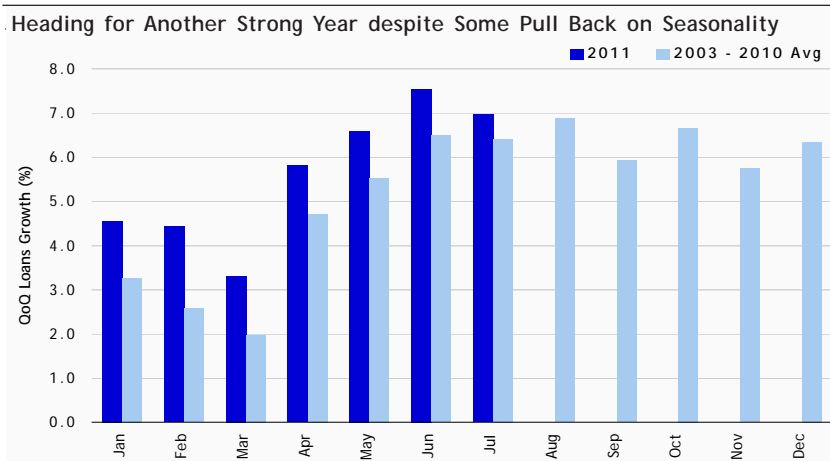
Indonesian banking sector booked 1.1% MoM (23.5% YoY) loans growth on July. Consumer loans growth strong growth trend are back at 23% YoY after weakening on May. Working capital growth is stable at 25% YoY, while investment loans growth booked slower growth trend at 22% YoY.



Source: Bank Indonesia, TRIM Research

But Weaken on MoM Basis...

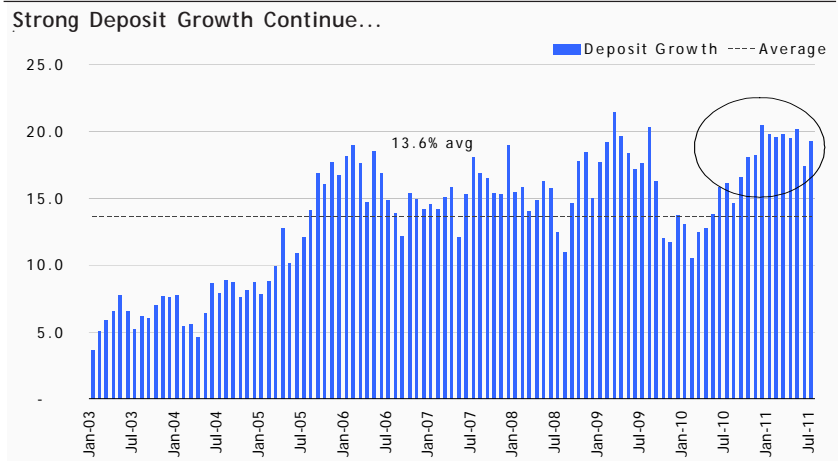
The total loans disbursement of Rp22tr was a third of previous month of Rp61tr, driven mainly by dropped in working capital loans. Working capital disbursement slumped to Rp9.3tr vs. Rp33tr, while investment and consumer loans post Rp6.4tr and Rp6.7tr disbursement vs. Rp12tr and Rp15tr on June. Despite the MoM figures seem to be declining severely, we believe the slower disbursement is more about a seasonality factor. Current loans growth trend, however, is much stronger compared to 2003-2010 average. We could expect a stronger loans growth going forward, as Ramadhan and led will spark higher economic activity on Aug/Sept figures.



Source: Bank Indonesia, TRIM Research

Strong Deposit Growth Should Ease the Pressure on Margin

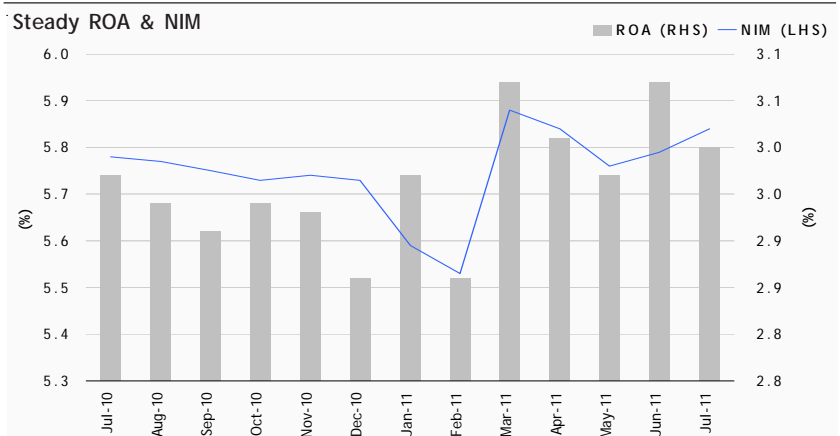
Total deposit grew 19.2% YoY, much stronger compared to 13.6% in the past 8 years. New deposit worth Rp392tr comes into the system in the past year still driven by CASA deposit, with 55:45 proportions. Equity investors should cheer the development as the liquidity flush will help the smaller banks to maintain its profitability profile, while providing the growth factor for bigger banks. Good liquidity condition also reflected on JIBOR rates, which decline slightly on MoM basis.



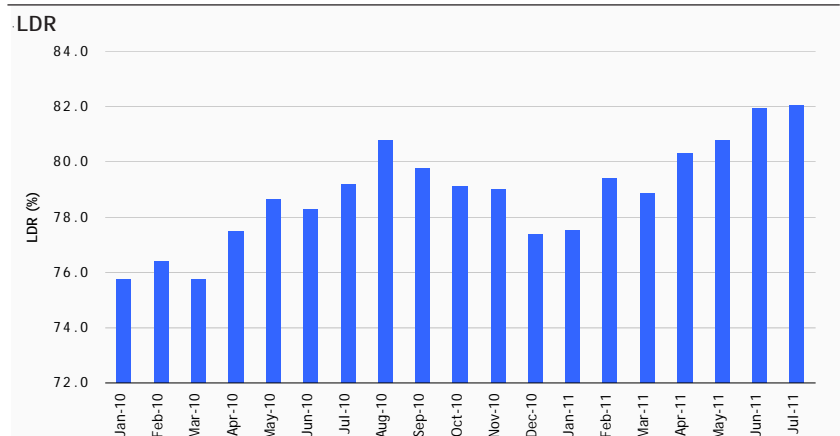
Source: Bank Indonesia, TRIM Research

Strong Profitability Profiles

Commercial banks booked Rp42tr net profit, posting 3.0% ROA, slashing 7bps MoM. NIM and LDR are stable at 5.8% and 82% respectively, as our lending and deposit rate stand still. An 110bps jump on commercial bank's working capital loans to 12.6% is compensated with 77bps decrease on its consumer loans, the biggest contributors for July loans growth.



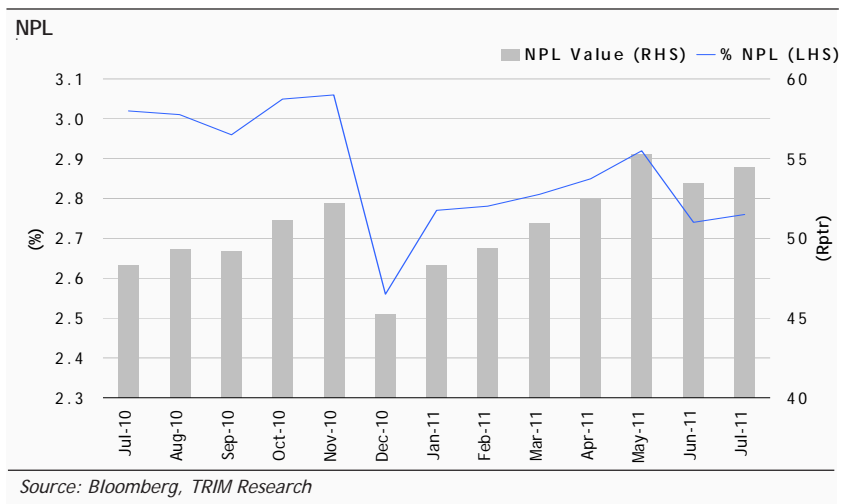
Source: Bank Indonesia, TRIM Research



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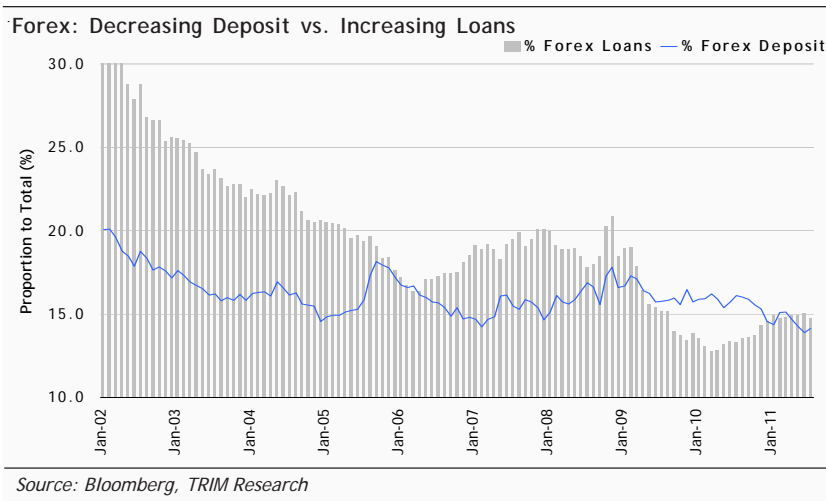
NPL Stable at 2.7%

NPL was relatively stable at 2.7% despite the absolute figures was up by Rp1tr to Rp54.5tr. The depreciation/amortization/write off expense, which shows the cost of credit, are still manageable Rp6.3tr on Jul' 11 vs. Rp7.5tr on Jun' 11.



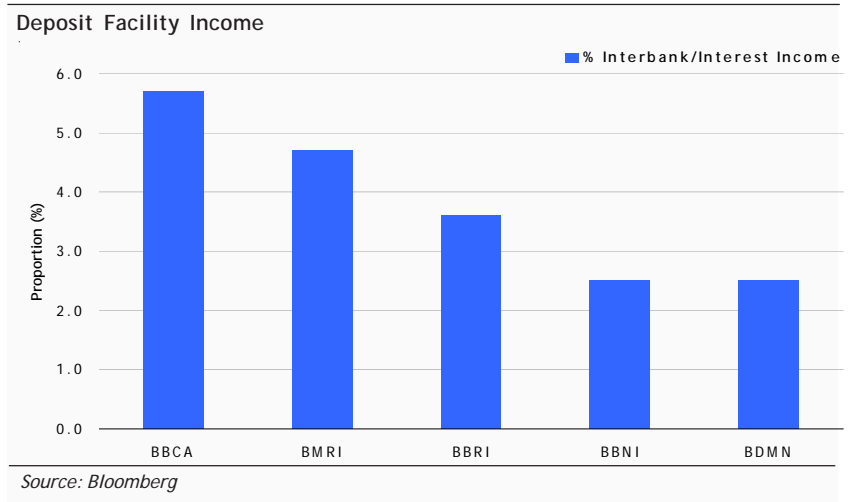
Forex LDR Should Ease Going Forward

Forex LDR eases to 86% vs. 90% on Jun' 11 as Rp9.7tr deposit comes to the system vs. -Rp2.5tr drain on forex loans. The overall trend of decreasing forex deposit and increasing forex loans proportion should change, however, as the central banks put new policy to require exporters save their forex proceeds on local banks on Oct' 11. We believe the new central bank policy is aim to maintain forex domestic liquidity which is important during high international capital mobility. Such high capital mobility, however, will increase our banking sector systemic risk as high capital inflow/outflow should post some problem with bank's liquidity management.



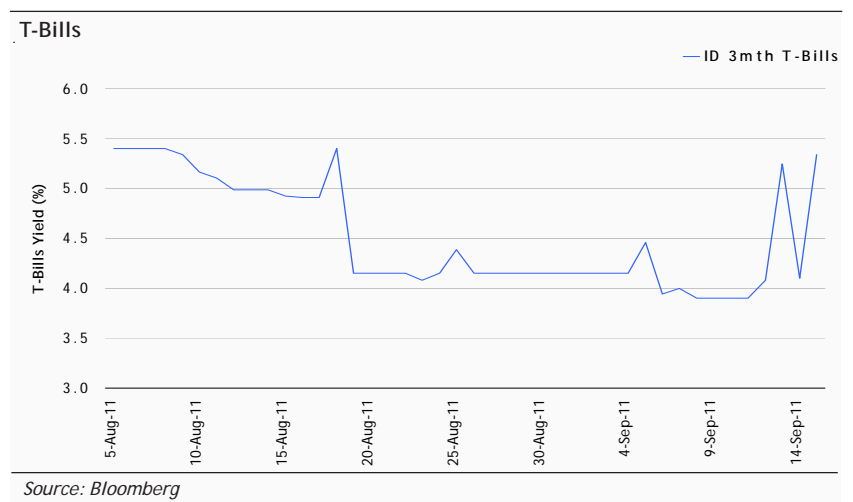
A Mere Impact on BI Widening Deposit Facility Spread

We believe a new central banks policy to widen the deposit facility spread will not affect the overall banking sector profitability. Banks within our coverage earns a mere 2.5% - 5.7% of their interest income out of this facility. The deposit facility is one of banker's liquidity management which yield is cut to 5.25% vs. 5.75% previously. They could easily move their liquidity to higher yielding asset should the profitability concern arise. The higher yielding asset includes central bank's term deposit & SBI (6.75% yield) and interbank market (JIBOR rate) despite its longer maturity. The central banks clearly stated the intention is to push forward deepening domestic interbank market. We should hope this new policy to not heavily affect bankers, as having heavily intertwined banking system during high international capital mobility is the recipe of systemic failures.



Bond Market Correction is Net Positive on Earnings

Yesterday bond market correction, which coupled with a sharp USDIDR depreciation to 8884 vs. 8663 a day before, is net positive for banks earning, despite not the good sign for equity holders position. 3-month Treasury Bills yield back to 5.2% - 5.4% vs. 3.8% - 4.0% a week earlier should post positive impact on earnings as now it is act as the new benchmark rate of our variable rates government bonds. BMRI is the biggest holders of such securities with Rp75tr holding on 1H11, while BBNI, BBRI, BBCA exposures are lower at Rp10tr - Rp16tr each.

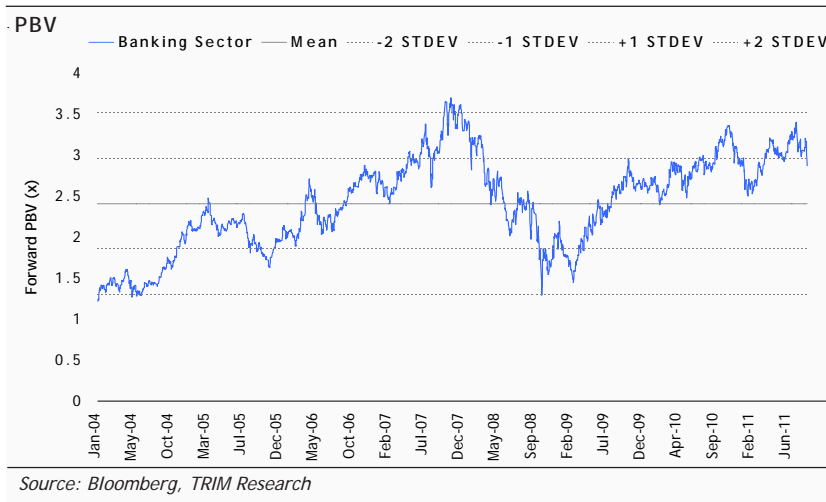


...But Not on Sentiment

Bond market correction brings the 10yr government bonds yield back to 7.2% after a significant rally since mid-July bring the yield peaked at 6.5%. Banking sector stock which is sensitive toward bond market dynamic might not get a good sentiment as well. If investors value the banks as bond portfolios with loans as a lower quality bonds, domestic bond market crash will lead to diminishing bank's market value of its equity. Despite we remain ST cautious on banking sector outlook; we believe the overall strong fundamental story of Indonesian banks is still intact.

Market Correction on Relative Valuation

Market correction on the past few days brings the average of our TRIM Bank Universe valuation to 2.9x 2012 PBV. The valuation is stood at +1 standard deviation, not cheap yet by historical standard. We remain ST cautious as now Indonesian banks valuation are stood highly in regional comparison and vulnerable for another series of profit taking. We strongly believe our banks which earn 75%-90% of its earning come from loans and leverage ratio stood at 8.2x (Rp3076tr total asset, Rp374tr equity), of which 95% is tier-1, strong capital could weather the global macroeconomic storm. We continue to like Indonesian banking sector with BBNI, BMRI, and BBKA as our top buys.



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