

Indonesia Equity Explorer

Bank Jawa Timur

Bloomberg: BJTM IJ | Reuters: BJTM.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Jan 2015

NOT RATED Rp505 JCI : 5,148.38

(Equity Explorer)

Return*: 2

Risk: Moderate

Potential Target*: 12-Month Rp 600 (18% upside)

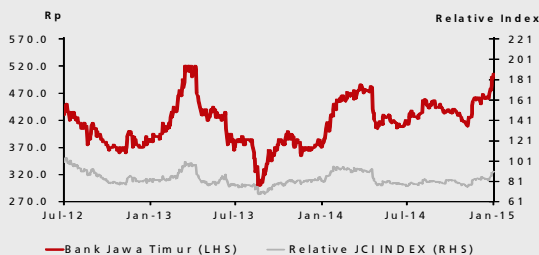
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Price Relative**Forecasts and Valuation**

FY Dec (Rp bn)	2013A	2014F	2015F	2016F
Pre-prov. Profit	1,706	1,558	1,862	2,228
Net Profit	824	982	1,181	1,417
Net Pft (Pre Ex.)	824	982	1,181	1,417
EPS (Rp)	55	66	79	95
EPS Pre Ex. (Rp)	55	66	79	95
EPS Gth (%)	14	19	20	20
EPS Gth Pre Ex (%)	14	19	20	20
Diluted EPS (Rp)	55	66	79	95
PE Pre Ex. (X)	9.1	7.7	6.4	5.3
Net DPS (Rp)	40	25	30	36
Div Yield (%)	7.9	4.9	5.9	7.1
ROAE Pre Ex. (%)	14.7	16.7	18.9	21.2
ROAE (%)	14.7	16.7	18.9	21.2
ROA (%)	2.7	2.8	3.0	3.1
BV Per Share (Rp)	383	405	432	465
P/Book Value (x)	1.3	1.2	1.2	1.1

Consensus EPS (Rp): 69 78 93
 Other Broker Recs: B: 7 S: 0 H: 1

ICB Industry : Financials

ICB Sector: Banks

Principal Business: Bank Pembangunan Daerah Jawa Timur (BJTM) is owned by the provincial government by East Java, focusing on extending loans and salary disbursements for East Java's civil servants.

Source of all data: Company, DBS Bank, DBS Vickers, Bloomberg Finance L.P

Ample growth opportunity

- **Captive markets in East Java province provide sustainable growth**
- **Expansion to micro business and maintaining high levels of CASA to drive NIM**
- **Fair value at Rp600; Low LDR offers room for growth, however asset quality remains a risk**

Captive market in East Java province. East Java is one of the most populated provinces in Indonesia with a total population of 38.3m, representing 16% of the Indonesian population. The province's population growth remains stable at 0.7% p.a. while its GDP growth (9M14: 5.91%) outpaced the national GDP growth (9M14: 5.01%). Loan and deposit growth also remained strong, coming in at 19.2% and 18.5% y-o-y respectively in 10M14. There are currently 430,000 civil servants (40% of whom have been serviced by BJTM) working in East Java which provides a strong base for BJTM's captive market.

Expanding loan portfolio while maintaining low cost of funds.

Loan growth in 11M14 remained strong at 20%, driven mainly by consumer loans (+20% y-o-y) which mostly comprised multipurpose loans to civil servants in the region. BJTM started on higher yielding micro loans from early 2014 to boost its NIM. The bank's cost of funds remains manageable as its CASA ratio is maintained at 73% as of 11M14, mainly through its SIMPEDA programme.

Relatively cheap valuation; NPL remains a risk.

BJTM is currently trading at 1.2x FY15 P/BV. We value BJTM at Rp600 based on the Gordon Growth Model with the following assumptions: 17% ROE, 7% growth and 14.4% cost of equity. This implies 1.3x FY15 P/BV. BJTM's dividend yield is very high (FY14: 8%) with a payout ratio of 82%. There is still room for growth as LDR remains low at 73% and management has indicated plans for further expansion of micro loans. Rising NPL remains to be an issue for BJTM, however management indicated that it has improved collections and control systems to deal with this issue.

At A Glance

Issued Capital (m shrs)	14,918
Mkt. Cap (Rpbn/US\$m)	7,533 / 597
Major Shareholders	
East Java Provincial Govt (%)	51.5
City of East Java (%)	28.5
Free Float (%)	20.0
Avg. Daily Vol. ('000)	12,133

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

SWOT Analysis BJTM

Strengths

A longtime player in the East Java region with a strong customer base as it is currently the fifth largest bank in East Java in terms of assets and loans, behind Indonesia's big four banks.

Second largest regional development bank in Indonesia behind Bank Jabar.

Strong local brand image and has been managing civil servants' payroll for the regional government of East Java.

Competitive funding composition since CASA ratio remains high at 73% in 11M14. Therefore, cost of funds has been kept at manageable levels. Current account market share in east Java remains high at 12.4%.

Opportunities

East Java has a large untapped potential with a growing population and strong GDP growth (outpacing national average).

BJTM currently has presence in 1/3 of the total areas in East Java and has more opportunities to grow.

Alliance with other regional banks to increase customer base as well as fee based income.

Relatively low LDR allows more room and opportunities for growth.

Weakness

Geographically concentrated business with strong presence only in East Java.

Increasing NPLs in the past few years contributed by non-civil servant loans.

Early stages in micro loans which could lead to more NPL formations and asset quality risks.

Very high dividend payout to maintain high dividend yield could be a deterrent for growth.

Several issues with fraudulent loans.

Threats

Tough competition in the SME and micro business, especially from bigger players who want to expand outside of West Java, such as BRI and Danamon.

Change in regional rules may greatly impact loan performance.

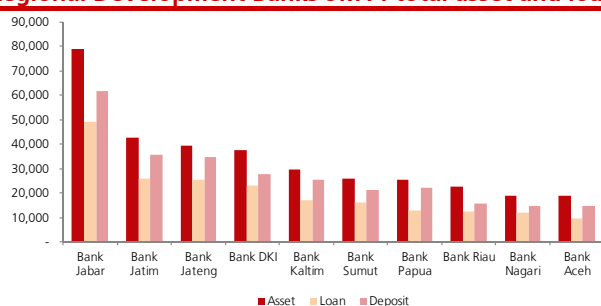
Tighter BI regulations may hamper growth and pressure asset quality and NIM.

Source: DBS Bank, DBS Vickers

BIG POTENTIAL IN EAST JAVA

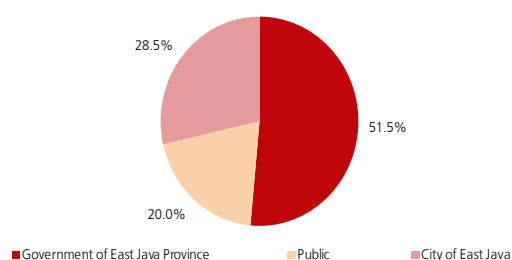
Strong local presence. BJTM was established in 1961 in Surabaya, Indonesia. It is currently the fifth biggest bank in the East Java region in terms of asset and loans, behind Indonesia's big four banks. BJTM is also the second largest regional development bank (just after Bank Jabar) with total assets of 44tn, loans at 27tn and deposits at 37tn. The bank went public in April 2012 in order to strengthen its capital and solidify its position as a regional development bank champion. Currently, the government of East Java owns 51.5% of BJTM, followed by the public with 20%. The rest of the 28.5% ownership is distributed amongst the various cities in East Java. Eastern Java region is the fastest in terms of processing permits and licences for the manufacturing industry. Thus, its manufacturing industry's growth is rapid and is gaining interest from foreign investors. BJTM is focused on improving economic growth in the Eastern Java region, as well as to help grow SMEs in the area.

Regional Development Banks 9M14 total asset and loan



Source: Company, DBS Bank, DBS Vickers

BJTM's shareholder composition

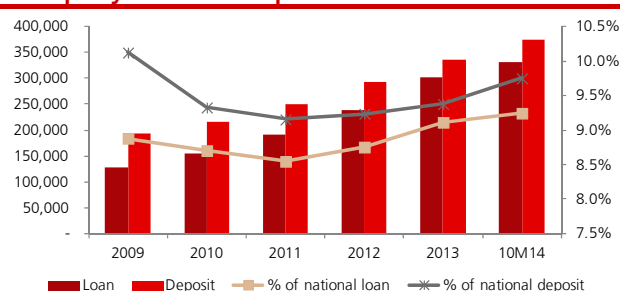


Source: Company, DBS Bank, DBS Vickers

Large untapped potential market in East Java. BJTM has a strong local brand image in the East Java region as it has been managing civil servants' payroll for the regional government of East Java. There are currently around 430,000 civil servants working in East Java. The region's population growth came in at +0.4% in 2014, which brings its total

population to 38.5m. About 41% of East Java's population live in urban areas and they remain BJTM's captive market, though people living in rural areas present a big opportunity. GDP growth (9M14: 5.91%) in East Java typically outpaces national GDP growth (9M14: 5.01%). Loan and deposit growth also remained strong, coming in at 19.2% and 18.5% y-o-y respectively in 10M14.

Third party loans and deposits in East Java



Source: Company, DBS Bank, DBS Vickers

Expanding its network. In order to capture the large market in East Java, BJTM has been expanding its network mainly by adding sub branch offices (+43% y-o-y) and ATM (+14%). Total network which includes branches, ATMs, cash offices, payment points and other offices stood at 1,184 (+10.4%) as at 11M14. With its network, BJTM serves approximately one-third of the East Java regions, and other unserved parts of East Java presents an opportunity for BJTM. BJTM is focused on the regional development of East Java, and thus the bank is not expanding beyond the region. BJTM is planning to add around 60-70 new outlets next year.

BJTM's network

	2009	2010	2011	2012	2013	11M14
Branch Office	39	41	41	41	41	43
Sub Branch Office	26	44	67	81	107	153
Cash Office	151	154	164	164	176	162
Payment Point	78	88	115	138	155	166
ATM	87	142	262	368	479	544
Others	84	92	110	112	114	116
Total network	465	561	759	904	1,072	1,184

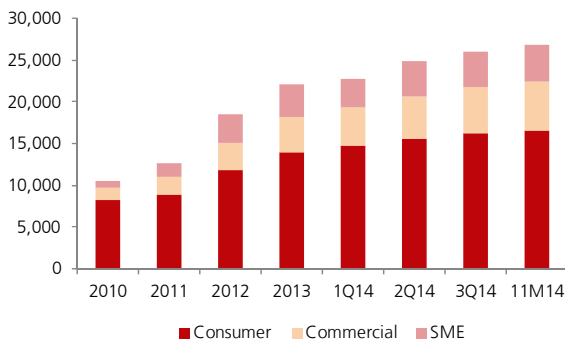
Source: Company, DBS Bank, DBS Vickers

EARNING GROWTH DRIVERS

Loan growth driven by civil servants. Loan growth in 11M14 remained strong at 20% (above industry's 12% y-o-y growth in October), driven mainly by consumer loans (+20% y-o-y) and commercial loans (+23% y-o-y). Consumer loans still make up the majority of the portfolio (62% of total loan

portfolio), followed by commercial loans (22% of total loan portfolio) and SME loans (16% of total loan portfolio). Consumer loans mainly consist of multipurpose loans which largely serves the East Java region civil servants, making up 55% of the total portfolio with lucrative yield of 15.7-18.0%. Civil servants' loan also has a very low NPL of 0.17%. BJTM has tapped into 40% of the 430k available civil servants in East Java and its goal is to tap into the other 60%. BJTM also wants to expand its captive market to include other consumers such as pensioners and military personnel. BJTM guides a loan growth rate of 25.5% which is much higher than BI's guidance of a maximum of 18%. This is because of the higher growth potential of the East Java region compared to the national average.

BJTM's loan trend



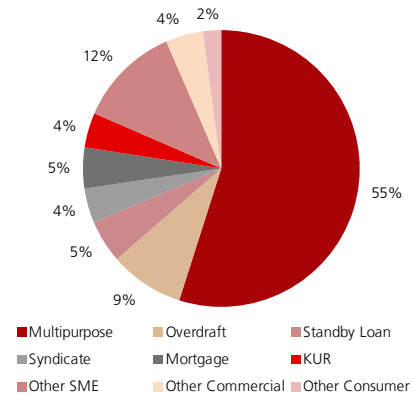
Source: Company, DBS Bank, DBS Vickers

Growing micro loans. One of the most attractive SME loan segments that BJTM recently looked into is micro loans, which offer very attractive yields of 13-22% and the growth of this segments will be BJTM's NIM driver. BJTM just started its micro business division at the beginning of last year and has so far disbursed around Rp300bn. Management targets micro to grow to Rp1tn this year. Bank Jatim is planning to increase the number of micro officers as well as outlets. A micro loan is relatively safe since its collateral value is 120% of the loan (compared to KUR collateral which is 60%). BJTM also employs designated officers to regularly educate clients as well as collect payments and it will also implement a traffic management system for the approval of loans by rating customers on collectability and making disbursements more stringent based on these ratings. Currently, micro NPLs remain at 0%.

Focus on non-KUR SME. BJTM plans to slow down on KUR loans due to the asset quality problems. The bank is focusing on its other SME units such as the Syariah unit which has currently disbursed Rp400bn and is expected to grow to Rp2tn in the next two years. The main stable driver for SME

will be its Pundi Kencana product which makes up 18% of total SMEs. This is the retail loan disbursed to SMEs with a ticket size of Rp300-500m and requires 120% collateral-to-loan value, which makes it far safer than KUR (which only requires 60% of collateral-to-loan value).

BJTM's loan composition as of 11M14



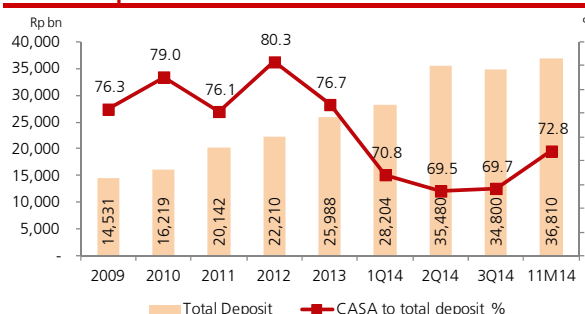
Source: Company, DBS Bank, DBS Vickers

Strong growth in deposits. Historically, BJTM records strong growth in third party funds (5-year CAGR of 14%). However, third party fell in 1Q14 (-28% y-o-y) due to a big drop in current account (-29% y-o-y) as well as a reduction in time deposits (-10% y-o-y) due to tightening liquidity within the economy and the reluctance of BJTM to join other banks in their time deposit price war. The big drop in current account is seasonal as the provincial government withdraws funds for transactions in 1Q14. However in 11M14, third party funds grew back up (+25% y-o-y), driven by the inflow back from government funds in the form of CASA as well as the increase in TD (+23% y-o-y). Third party fund is expected to grow 25% this year with the focus on growing CASA with current account target growth of 22% and savings account of 13% and it seems like BJTM's current progress is on track to achieve this goal. BJTM did not join the deposit price war earlier last year. Time deposits growth will be driven by the 75 new branches which will be opened this year. New branches usually attract consumers initially by time deposits before promoting their CASA products.

Maintain high levels of CASA ratio. BJTM also continues to maintain high levels of CASA ratio (11M14: 73%). Historically, CASA ratio always falls in 1Q14 as government workers as well as contractors typically need cash for payments in 1Q14. BJTM's CASA is primarily driven by the strong performance of its SIMPEDA programme, which makes up most of the savings account. The SIMPEDA programme targets depositors in rural areas and has an auction reward system as an incentive. The government of

East Java also contributes to 40% of its current account funding and this provides a good buffer for CASA. Savings account growth can be attributed to BSM (student deposits), which BJTM is planning to increase. BJTM also wants to increase its ticket size by tiering debit cards as well as setting up priority banking. Average CASA rates are around 2-3%; this allows BJTM to keep its cost of funds in check at 3.3%. BJTM also has very strong funding presence in east Java, taking up 12% of the market share of total current accounts in East Java. Total third party fund market share in East Java is about 6%.

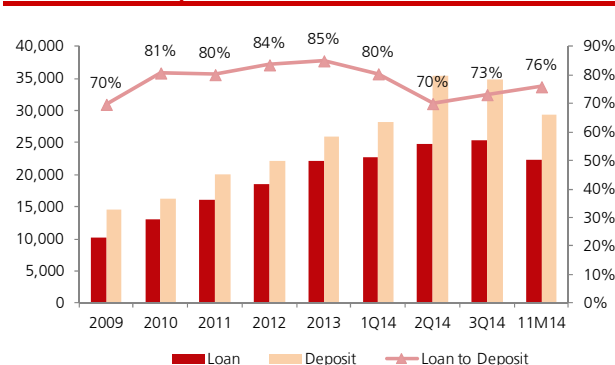
BJTM's deposit trend



Source: Company, DBS Bank, DBS Vickers

Still room for more growth. LDR ratio has been maintained below 90% over the years. LDR ratio came in at 73% in 11M14 and loans only grew (+20% y-o-y) slower than deposit growth (+25%) in order to maintain a stable liquidity position. This low LDR ratio presents a large opportunity to aggressively increase loans throughout the year. Multipurpose loans will be the focus of loan growth supported by its new micro business. BJTM isn't too aggressive in expanding deposit growth as low cost CASA remains its main priority. LDR target of 85% will not be achieved this year. However, LDR will most likely increase next year.

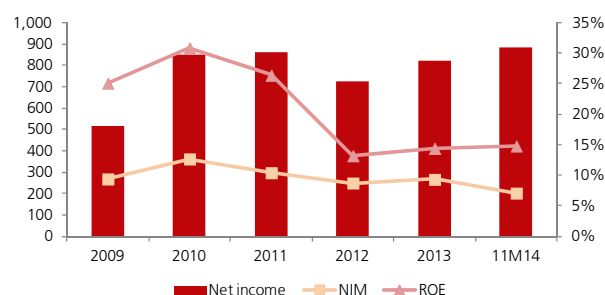
BJTM's loan, deposit and LDR trend



Source: Company, DBS Bank, DBS Vickers

Profitability metrics intact. 9M14 net income came in line with consensus estimates (71% of consensus FY14 earnings) as earnings grew (+9% y-o-y) to Rp743bn, while net interest income grew +20% y-o-y to Rp2,131bn (74% of consensus FY14 estimates). Meanwhile, 11M14 earnings came in at Rp860bn. Profitability ratios have been intact as 11M14 NIM remained resilient at around 8% despite the increase in subsidised fuel price and BI rate. It can maintain its NIM due to the lucrative yields of its multipurpose loans, coupled with the low cost of funds driven by strong CASA growth. Going forward, micro would be a strong NIM driver. ROE fell in 2012 due to equity injection from the company's IPO.

BJTM net income, NIM and ROE

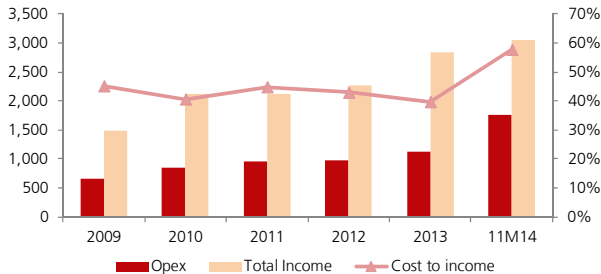


Source: Company, DBS Bank, DBS Vickers

Costs are kept in check. Cost-to-income ratio increased to 52% in 11M14 due to the recognition of opex in relation with the opening of 75 branches this year. This ratio should improve towards the end of the year along with the increase in fee-based income and the stabilisation of opex. BJTM is still interested in increasing its ATM units as it is targeting an increase of 100 new ATMs per year. The new ATMs and outlets may translate into an increase in operating expense going forward.

Linkage programme with local banks to improve fee-based income. Fee-based income for BJTM is currently 14% of total operating revenues and management is targeting for it to further increase going forward with the expansion in network and transaction banking. In order to achieve this target, management has a few initiatives in place. BJTM currently has a linkage programme to rural banks which allows BJTM to channel loans as well as become a lender of last resort to rural banks. It also implemented JETS (Jatim Electronic Transfer System) which integrates and settles all transfers between rural banks. BJTM also recently set up its treasury division.

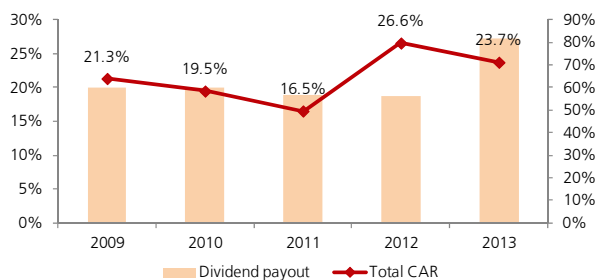
BJTM Opex, total income and cost to income ratio trend



Source: Company, DBS Bank, DBS Vickers

Adequate capital position despite high dividends. BJTM's CAR (11M14: 20.4%) is always constantly under pressure due to its high dividend payout ratio (FY13: 82%). BJTM has the highest yield (FY13: c. 10%) in our Indonesian banks universe. However despite the reduction, CAR still remains at a healthy level far above the BI minimum rate of 9%. BJTM's management wants to keep CAR above 15% to become a "regional champion". The initial reason of the IPO is to increase CAR as it was approaching to the 15% in FY11 and spiked after the IPO in FY12. BJTM's dividend policy is based on the dividend target amount by the provincial government and thus the payout ratio is derived from this amount. The FY14 dividend target from the provincial government is around 320bn, implying a dividend payout ratio of 54% of FY14F earnings.

BJTM CAR and payout ratio



Source: Company, DBS Bank, DBS Vickers

Strong management team. Even though many members of the management team have recently appointed in their post, all of them are vastly experienced with 30 or more years of experience in BJTM. Last year BJTM reformed the management team, replacing two directors and 1 commissioner in order to improve performance and professionalism in the bank. Currently BJTM employ 5,649 employees of which 1,767 are outsourced workers and 940 are non-permanent.

BJTM Board of Directors

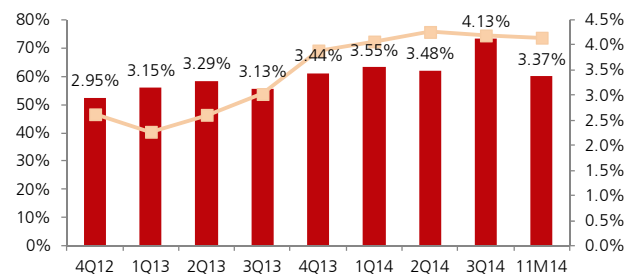
Name	Position	Background
Hadi Sukrianto	President Director	Acting president director of BJTM since 14 April 2011. Prior to that he worked as the Compliance Director (2007 - 2011). He has joined the bank since 1983.
Djoko Lesomono	Director of SME Business	Acting director of SME in BJTM since 14 April 2011. Prior to that, he worked as General Director (2007 - 2011). He has joined the bank since 1980.
Rudie Hardiono	Director of Compliance	Recently appointed acting director of compliance since 3 September 2013 after the AGM. Decision will be official after passing BI's fit and proper test. He is formerly the Corporate Secretary of BJTM (2013).
Eko Antono	Director of Operations	Acting director of operations in BJTM since 14 April 2011. Prior to that he worked as Head of Human Resources Division (2006 - 2011). Has joined BJTM since 1983.
Tony Sudjiaryanto	Director of Agrobusiness and Syariah	Recently appointed acting director of agrobusiness and syariah since 3 September 2013 after the AGM. Decision will be official after passing BI's fit and proper test. He is formerly the head of the treasury division in BJTM (2011-2013).

Source: Company, DBS Bank, DBS Vickers

Key Risks

NPL inching up. BJTM's quarterly NPL has been on an upward trend from 2.95% in 4Q12 to 3.55% in 1Q14. Management explained that the increase in NPL during 1Q14 is because of several standby loans that matured on December 2013 for some construction projects. Usually there is an allowance of three months until March in order for the contractors to pay back these loans after they mature. However, due to several delays in administration, the repayment only happened in April, thus temporarily increasing NPL. Another issue for commercial loans is that there is one big client that has some issues with regulatory authorities, thus all its projects are delayed and it was categorized as an NPL. However, now after the investigation is completed, the client does not have any problems and thus these NPL will revert back to normal throughout the year (back to around 3.5% from the current 6.2%). As at 11M14, NPL was at the 3.4% level with a reduction in SME loans' NPL by 200bps. Coverage ratio as of 11M14 is at 74%. BJTM's micro segment has yet to report any NPLs.

BJTM's NPL and coverage ratio trend

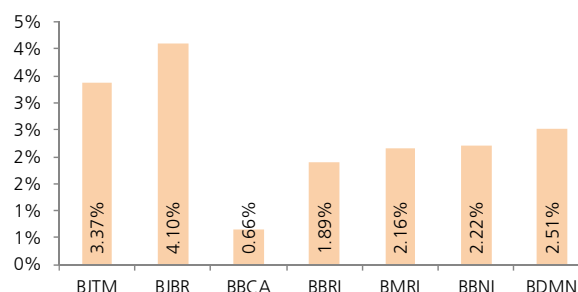


Source: Company, DBS Bank, DBS Vickers

Strategy to improve NPL. Management also claims that better collection and control systems are in place to lower NPL, and management is targeting a year-end NPL of 3%. Several strategies include a stringent collection system which would review individual branch NPLs and meet with those who have NPLs that are greater than 1%. BJTM will try to resolve the NPL issue one by one in each branch. BJTM expects NPLs to tackle administrative delays in payments of the construction loan at the beginning of the year is resolved. BJTM also records lower NPL ratio than its regional development bank peer BJBR which recorded an NPL of 4.1% due to its struggle with micro and mortgage NPLs.

Focus on improving KUR. KUR loans have been on a decline (-17% y-o-y in 11M14) as BJTM focuses on claiming existing KUR to recover past NPLs. KUR growth guidance is either flat or negative throughout the year as management's focus is to claim existing KUR NPL and be much more selective in the KUR loan approval process.

9M14 NPL compared to peers



Source: Company, DBS Bank, DBS Vickers

Fraud in Loans. Historically, BJTM had several cases involving giving "fictitious loans" or commercial standby loans for projects that did not exist. Even though all cases have been resolved, a big part of these loans have been written off.

Key Assumptions

FY Dec	2011A	2012A	2013A	2014F	2015F	2016F
Gross Loans Growth	23.3	15.0	19.0	14.9	15.4	16.9
Customer Deposits Growth	24.2	10.3	17.0	13.8	15.8	18.6
Yld. On Earnings Assets	14.8	12.7	12.8	12.3	12.2	12.3
Avg Cost Of Funds	4.4	4.2	3.7	4.2	4.0	4.0

Sensitivity Analysis

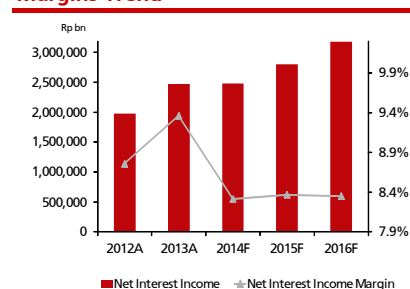
		2015
NIM +/- 10bps		Net Profit +/- 2.0%
Loan growth +/- 1%		Net Profit +/- 0.9%

Income Statement (Rp bn)

FY Dec	2011A	2012A	2013A	2014F	2015F	2016F
Net Interest Income	1,939	1,978	2,472	2,479	2,805	3,180
Non-Interest Income	186	280	361	260	301	357
Operating Income	2,125	2,258	2,833	2,739	3,106	3,537
Operating Expenses	(954)	(972)	(1,127)	(1,181)	(1,244)	(1,309)
Pre-provision Profit	1,171	1,286	1,706	1,558	1,862	2,228
Provisions	0	(307)	(596)	(292)	(337)	(394)
Associates	0	0	0	0	0	0
Exceptionals	0	0	0	0	0	0
Pre-tax Profit	1,188	1,001	1,154	1,309	1,575	1,890
Taxation	(327)	(277)	(329)	(327)	(394)	(472)
Minority Interests	0	0	0	0	0	0
Preference Dividend	0	0	0	0	0	0
Net Profit	860	725	824	982	1,181	1,417
Net Profit bef Except	860	725	824	982	1,181	1,417
Growth (%)						
Net Interest Income Gth	(2.7)	2.0	25.0	0.3	13.2	13.4
Net Profit Gth	1.2	(15.8)	13.8	19.1	20.3	20.0
Margins, Costs & Efficiency (%)						
Spread	10.4	8.5	9.1	8.0	8.2	8.3
Net Interest Margin	10.4	8.7	9.3	8.3	8.3	8.3
Cost-to-Income Ratio	44.9	43.0	39.8	43.1	40.0	37.0
Business Mix (%)						
Net Int. Inc / Opg Inc.	91.3	87.6	87.3	90.5	90.3	89.9
Non-Int. Inc / Opg inc.	8.7	12.4	12.7	9.5	9.7	10.1
Fee Inc / Opg Income	4.2	4.3	2.6	4.9	5.0	5.2
Oth Non-Int Inc/Opg Inc	4.5	8.1	10.2	4.6	4.7	4.9
Profitability (%)						
ROAE Pre Ex.	28.6	16.6	14.7	16.7	18.9	21.2
ROAE	28.6	16.6	14.7	16.7	18.9	21.2
ROA Pre Ex.	3.8	2.7	2.7	2.8	3.0	3.1
ROA	3.8	2.7	2.7	2.8	3.0	3.1

Mostly driven by civil servant loan growth

Margins Trend

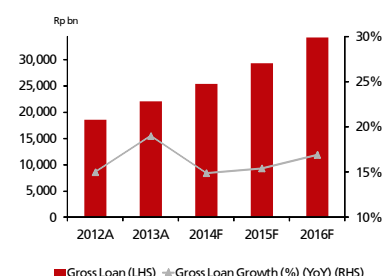


Source: Company, DBS Bank, DBS Vickers

Balance Sheet (Rp bn)

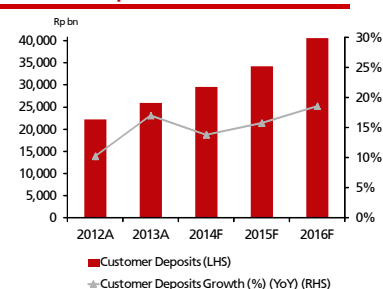
FY Dec	2011A	2012A	2013A	2014F	2015F	2016F
Cash/Bank Balance	3,678	3,971	4,683	5,401	6,645	8,710
Government Securities	0	19	0	0	0	0
Inter Bank Assets	3,572	5,136	3,069	3,130	3,193	3,257
Total Net Loans & Adv.	16,034	18,301	21,559	24,655	28,338	33,026
Investment	749	976	2,907	2,966	3,025	3,085
Associates	0	0	0	0	0	0
Fixed Assets	176	204	263	275	284	290
Goodwill	0	0	0	0	0	0
Other Assets	637	507	566	536	551	544
Total Assets	24,847	29,112	33,047	36,963	42,036	48,912
Customer Deposits	20,142	22,210	25,988	29,580	34,250	40,608
Inter Bank Deposits	246	392	314	353	334	344
Debts/Borrowings	315	319	316	332	348	366
Others	883	704	710	658	660	659
Minorities	0	0	0	0	0	0
Shareholders' Funds	3,260	5,487	5,719	6,040	6,444	6,937
Total Liab & S/H's Funds	24,847	29,112	33,047	36,963	42,036	48,912

Gross Loan & Growth



Mainly consist of CASA and provides cheap funding

Customer Deposit & Growth

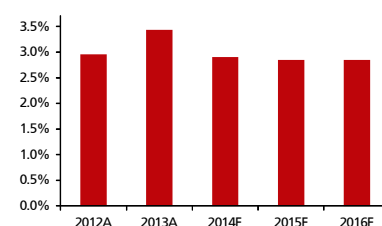


Relatively low LDR provides room for growth

Financial Stability Measures (%)

FY Dec	2011A	2012A	2013A	2014F	2015F	2016F
Balance Sheet Structure						
Loan-to-Deposit Ratio	80.1	83.6	85.0	85.8	85.5	84.3
Net Loans / Total Assets	64.5	62.9	65.2	66.7	67.4	67.5
Investment / Total Assets	3.0	3.4	8.8	8.0	7.2	6.3
Cust. Dep./Int. Bear. Liab.	98.5	98.6	98.8	98.9	99.0	99.1
Interbank Dep / Int. Bear.	1.2	1.7	1.2	1.2	1.0	0.8
Asset Quality						
NPL / Total Gross Loans	1.0	3.0	3.4	2.9	2.9	2.9
NPL / Total Assets	0.6	1.9	2.3	2.0	2.0	2.0
Loan Loss Reserve Coverage	64.4	46.6	69.2	98.0	113.7	124.7
Provision Charge-Off Rate	0.0	1.7	2.7	1.2	1.2	1.2
Capital Strength						
Total CAR	16.5	28.5	23.9	21.5	19.5	17.6
Tier-1 CAR	12.2	27.2	22.6	20.2	18.2	16.3

NPL / Total Gross Loans



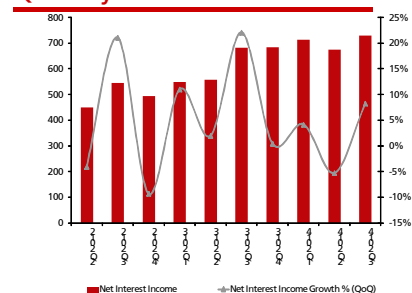
Source: Company, DBS Bank, DBS Vickers

Bank Jawa Timur

Quarterly / Interim Income Statement (Rp bn)

FY Dec	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014
Net Interest Income	559	681	684	713	675	730
Non-Interest Income	131	32	87	120	119	90
Operating Income	690	714	771	833	793	820
Operating Expenses	(261)	(274)	(316)	(307)	(347)	(375)
Pre-Provision Profit	429	440	455	526	446	444
Provisions	(134)	(97)	(281)	(107)	(118)	(163)
Associates	0	0	0	0	0	0
Exceptionals	0	0	0	0	0	0
Pretax Profit	292	356	205	427	337	282
Taxation	(82)	(103)	(62)	(114)	(106)	(83)
Minority Interests	0	0	0	0	0	0
Net Profit	210	252	143	312	231	200

Quarterly Net Profit & Growth



Growth (%)

Net Interest Income Gth	1.9	22.0	0.4	4.1	(5.3)	8.2
Net Profit Gth	(3.6)	20.0	(43.2)	117.9	(26.0)	(13.6)

Source: Company, DBS Bank, DBS Vickers

VALUATIONS

Undemanding valuations BJTM currently trades at 1.2x P/BV FY15F around its average mean since IPO. We value BJTM at Rp600 based on the Gordon Growth Model with the following assumptions: 17% ROE, 7% growth and 14.5% cost of equity. This implies 1.3x FY15 P/BV.

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	1	40%	0.4
Overall			1.4

High dividend payout. BJTM historically has very high dividend payout ratios with 73% in FY12 and 82% in FY13. Going forward, the company is expected to maintain high levels of dividend to maintain high dividend yields (FY14 dividend yield is 8%) and is what hamper growth rates.

Micro to boost growth. BJTM's recent commitment in micro banking remains an interesting prospect. So far BJTM has no problem in micro asset quality however this might be a risk going forward. However, micro's attractive yield and low penetration in the Eastern Java region might be a potential driver of growth for BJTM.

Historical 12 month forward PB ratio (x) – since listing



Peers' Comparisons

Company	Mkt Cap (Rpbn)	Price (Rp/s)	TP (Rp/S)	Rec	PE FY15F (x)	P/B FY15F (x)	Net Div FY14 (%)
BBCA	320,515	13,000	12,500	H	17.0	3.6	0.9
BDMN	44,233	4,620	N/A	NR	12.1	1.2	2.7
BJTM	7,533	505	N/A	NR	6.5	1.1	8.0
BMRI	250,833	10,750	12,200	B	11.0	2.2	2.2
BBNI	114,689	6,150	6,400	H	9.7	1.8	1.8
BBRI	291,713	11,825	12,600	H	10.9	2.4	1.5
BBTN	12,364	1,170	940	FV	9.9	0.9	3.4
BTPN	23,274	3,985	4,600	H	10.0	1.6	0
PNBN	24,810	1,030	1,230	H	8.2	1.6	0

Source: DBS Bank, DBS Vickers, Bloomberg Finance L.P.

DBSV Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:

- | | |
|---|---|
| 1 | (>20% potential returns over the next 12 months) |
| 2 | (0 - 20% potential returns over the next 12 months) |
| 3 | (negative potential return over the next 12 months) |

The risk assessment is qualitative in nature and is rated as either high, low or moderate risk. (see section on risk assessment)

Note that these assessments are based on a preliminary review of factors deemed salient at the time of publication. DBSV does not commit to ongoing coverage and updated assessments of stocks covered under the Equity Explorer product suite. Such updates will only be made upon official initiation of regular coverage of the stock.

* *Share price appreciation + dividends*

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