

Indonesia Bank - Overview

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Big banks remain in check, smaller banks continued risks

Consolidation; not many options for the large ones, long process still. The total number of Indonesian banks declined by c.20%, between 2001 and 2013 continued a consolidation trend from the 1997 financial crisis. Consolidation will continue to be a slow process. Any acquisition target by larger banks will be merely for asset growths which, in our view, are no longer plentiful or fairly sizable for their scale. Some of the relatively better medium banks already belong to various financial groups and foreign banks. Most of the merger activities will occur between banks (mostly less-efficient ones) with less than Rp10t in assets. Smaller banks are bowing under the weight of regulations and against larger institutions. A surprise may emerge from one of the top 60 banks (based on assets) may come only if the current owner is willing to sell the banking business, though it will not be a cheap option for the acquirer (local or new foreign bank).

Bigger market share for larger banks only in the long term. Historical data in the past ten years do not back market's perception that consolidation itself leads to higher market shares for the larger banks in the short to medium terms. Rather we think it is psychological factors and effective market strategies that will push deposits in the medium and long run towards larger banks. We expect market deposit share of the larger ones BMRI, BBRI, and BBNi to slightly rise to 15%/15%/8.6% in 2016 slightly up from 2013 13.9%/13.8%/8% though still down from 2003 of 20%/7.6%/11.8% (except BBRI). Moreover, contrary to common perception, a conclusion based on Herfindahl-Hirschman Index does not indicate yet high market concentration of deposits by the 4 largest or 10 banks in the last 10 years, hence we expect fiercer competition ahead to gain deposit share.

Higher LDR in the medium & long term remains the likely outcome. Liquidity constraints are here to stay. In the short term, LDR level will remain close to the upper band as i) banks opt for lower loan growth, ii) banks draw from excess reserves, and iii) prolonged high interest rate environment due to lingering current account deficit risks. In our view, the current condition where brakes on the economy are hold on tightly is unlikely to continue onto the long term or else the system could turn into negative credit cycle. Liquidity risks arise mainly from macroeconomic disturbance and not from the sector's fundamentals. Weak deposit growth will still weigh on the sector's funding profile. Our current LDR forecasts for banks in our coverage are 92%/93.7%/95.2% for 2014/15/16F.

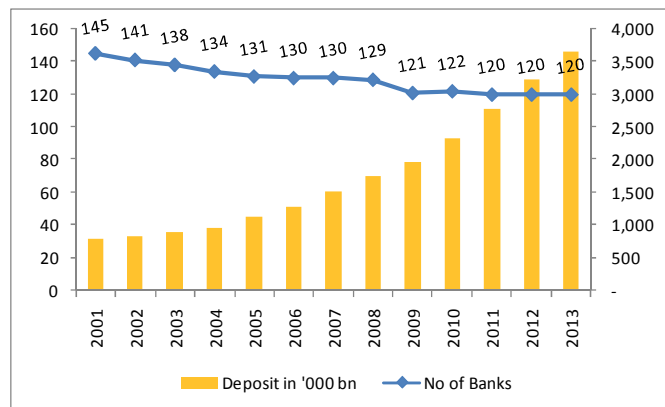
15-17% Credit growth the new norm ahead. We believe FY14YE loan growth to be in line with our expectations at 16% though YTD Loan growth of our coverage remains significantly low at 4%. We expect lending activities in 2H14 to accelerate as larger banks will draw from their delayed credit projects pipeline while smaller banks also will contend with lower credit growth mostly due to their liquidity constraints hence higher interest expenses to cope with. A new norm ahead of 15-17% loan growth up to the medium term should be considered healthy and strong (considering the higher base and rapid credit growth of 22% CAGR 2007-2013, providing room for upside should i) economic growth come in better than expectations, ii) cutting off subsidies (thus leaving non-productive segments) lead to much stronger market investments, and iii) monetary policy loosening.

BMRI, BBRI, BJTM are among the best placed for the trends we expect in the 2H14 and next year. We prefer BMRI and BBRI for their stable financial performance. Their enormous network infrastructure and continuous expansion (though different target market target), will continue to pay-off in the long term in the form of larger market deposit shares. BJTM is our top pick now among small caps for i) its better financial performance compared to its peers, ii) good liquidity to support high loan growth above industry, iii) and attractive valuation.

Companies	Current Price	Mkt Cap (in Rpbn)	TP in Rp	Rec.	EPS CAGR 2014-6F	Target P/E	P/E (X)		Target P/B	P/B (X)		Potential Upside
							2014	2015		2014F	2015F	
Bank Mandiri	10,475	244,417	11,825	Buy	17.1%	13.1	2.4	2.0	2.7	2.4	2.0	13%
Bank Rakyat Indonesia	11,075	273,211	12,480	Buy	12.2%	13.0	2.9	2.4	3.2	2.9	2.4	13%
Bank Negara Indonesia	5,325	99,304	5,500	Hold	14.8%	10.7	1.8	1.6	1.9	1.8	1.6	3%
Bank Danamon	3,740	35,847	3,690	Hold	8.9%	9.5	1.1	1.0	1.0	1.1	1.0	-1%
Bank Tabungan Negara	1,135	11,994	1,420	Buy	8.8%	9.5	0.9	0.9	1.2	0.9	0.9	25%
Bank Jabar	845	8,193	870	Hold	3.4%	8.0	1.2	1.1	1.2	1.2	1.1	3%
Bank Bukopin	740	6,724	920	Buy	12.9%	7.4	0.9	0.8	1.1	0.9	0.8	24%
Bank Jatim	442	6,594	600	Buy	26.5%	7.8	1.1	1.0	1.4	1.1	1.0	36%
Weighted Average Sector		686,284			14%	12.3	2.3	2.0	2.6	2.3	2.0	11%

Consolidation, not as big as thought, long process still. Since 2001, the number of Indonesian banks has only been reduced to 120 from 145, continuing a slowing consolidation trend from the 1997 financial crisis. In the meantime, deposits have been growing at 15% CAGR. In our view, consolidation will continue to be a slow process.

Figure 1. Number of Indonesian Commercial Banks 2001-2013



Source: BI, BCA Sekuritas

Currently, any acquisition target by larger banks will be merely for asset growths which, in our view, are no longer plentiful or fairly sizable for their scale. Even if there were any potential acquisition (including forced ones) it may add operational burden or be a very costly one. In the past, there were intentions for some of the top banks to acquire some good targets, though they did not proceed, which post-ante, may have been wrong judgment in our opinion (eg. Bukopin, Muamalat. etc).

Figure 2. Possible answers to current situation

If they were Good Acquisition Targets	They would have been implemented earlier in the past
	They were not in good condition back then
	Now it's too late and they have become expensive to buy too
Remaining Targets may not be as favorable as	Outdated systems and management, no add value to network
	Buying into problematic

Source: BCA Sekuritas

Sorting data based on assets, we notice that in the median of the population (median=60, n=120), assets of banks are already below Rp10t. In the group of the first 60 banks, 28 of this first group that might represent good target would appear unlikely to be acquired as i) 13 of them are regional (in yellow), ii) 9 are foreign banking branches (in blue), iii) 12 of them are subsidiaries or have some affiliation (pink). Most of the remaining banks in the first group belong to various corporate groups and owners and might simply be too costly to be acquired. Hence, without exhausting the whole list, that leaves only a small minority that, is feasible for acquisition target. For example, Bank Mutiara (49th), may

represent one of the very few good and limited choices with assets above Rp10t which has drawn great interest from many larger and foreign banks.

Figure 3. Indonesian Commercial Banks based on Assets as of Dec 2013

Position	Name of Bank	Total assets bn Rp	Position	Name of Bank	Total assets bn Rp
1	BANK MANDIRI	733,100	61	BANK SULSELBAR	8,735
2	BANK RAKYAT INDONESIA	626,183	62	HANA BANK	8,720
3	BANK CENTRAL ASIA	496,305	63	BANK SAUDARA	8,231
4	BANK NEGARA INDONESIA	386,655	64	BANK ICB BUMIPUTERA	8,166
5	BANK CIMB NIAGA	218,866	65	BANK WINDU	7,917
6	BANK DANAMON INDONESIA	184,237	66	BANK MESTIKA	7,915
7	PERMATABANK	165,834	67	BANK SULUT	7,805
8	PANINBANK	164,056	68	BANK NTT	7,268
9	BANK INTERNASIONAL INDONESIA	140,707	69	BANK CAPITAL INDONESIA	7,139
10	BANK TABUNGAN NEGARA	131,170	70	BANK BPD DIY	6,523
11	BANK OCBC NISP	97,525	71	BANK WOORI INDONESIA	6,222
12	THE BANK OF TOKYO-MITSUBISHI UFJ	97,198	72	BANK KEB INDONESIA	5,897
13	HSBC	84,394	73	THE ROYAL BANK OF SCOTLAND	5,581
14	BANK UOB INDONESIA	71,382	74	BANK INDEX SELINDO	5,263
15	BANK BJB	70,958	75	BRI AGRONIAGA	5,124
16	BANK BTPN	69,665	76	BANK BNP PARIBAS INDONESIA	4,891
17	BANK BUKOPIN	69,458	77	BANK JASA JAKARTA	4,708
18	BANK MEGA	66,476	78	BANK BJB SYARIAH	4,695
19	CITIBANK	64,284	79	BANK LAMPUNG	4,590
20	BANK SYARIAH MANDIRI	63,965	80	BANK MALUKU	4,561
21	STANDARD CHARTERED	62,250	81	BANK SYARIAH BUKOPIN	4,343
22	BANK DBS INDONESIA	55,247	82	BANK NTB	4,319
23	BANK MUALAMAT	54,694	83	BANK JAMBI	4,277
24	BANK SUMITOMO MITSUI INDONESIA	46,833	84	BANK MASPION	4,170
25	BANK MIZUHO INDONESIA	40,758	85	PANINBANK SYARIAH	4,053
26	BANK JATIM	33,047	86	BANK BUMI ARTA	4,046
27	BANK ICBC INDONESIA	32,242	87	BANK PEMBANGUNAN KALTENG	3,973
28	BANK ANZ INDONESIA	32,160	88	BANK NATIONALNOBU	3,877
29	BANK DKI	30,748	89	BANK OF INDIA INDONESIA	3,601
30	BANK JATENG	30,695	90	BANK BENGKULU	3,160
31	BANK EKONOMI	28,750	91	BANK SULTRA	3,124
32	BANK KALTIM	27,660	92	BANK KESEJAHTERAAN EKONOMI	3,025
33	BANK MAYAPADA	24,016	93	BANK OF AMERICA	2,922
34	DEUTSCHE BANK	23,532	94	BANK SBI INDONESIA	2,857
35	BANK SUMUT	21,495	95	BANK MAYORA	2,840
36	BANK ARTHA GRAHA INTERNASIONAL	21,189	96	BANK SAHABAT SAMPOERNA	2,670
37	BANK COMMONWEALTH	20,582	97	BANK AGRIS	2,509
38	BANK RIAU KEPRI	19,460	98	BANK YUDHA BHAKTI	2,305
39	BANK VICTORIA INTERNATIONAL	19,171	99	BANK MAYBANK SYARIAH INDONESIA	2,300
40	BANK PAPUA	17,665	100	PRIMA BANK	2,070
41	BANK SINARMAS	17,447	101	BANK BCA SYARIAH	2,041
42	BANK BRISYARIAH	17,401	102	BANK GANESHA	1,992
43	BANK NAGARI	16,244	103	BANK ANTARDAERAH	1,800
44	JP MORGAN CHASE BANK	15,422	104	BANK SULTENG	1,797
45	BANK BPD ACEH	15,250	105	BANK MAS	1,695
46	BANGKOK BANK	15,162	106	BANK HARDA INTERNASIONAL	1,639
47	BANK OF CHINA	15,094	107	BANK INA PERDANA	1,402
48	BANK BNI SYARIAH	14,709	108	BANK VICTORIA SYARIAH	1,324
49	BANK MUTIARA	14,576	109	BANK ANDARA	1,296
50	BANK PBPB BALI	14,367	110	BANK MITRANIAGA	1,285
51	BANK SUMSEL BABEL	14,221	111	BANK SINAR HARAPAN BALI	1,095
52	BANK RESONA PERDANA	14,118	112	BANK DINAR INDONESIA	855
53	BANK RABOBANK INTERNATIONAL INDONESIA	13,544	113	BANK FAMA INTERNATIONAL	844
54	BANK QNB KESAWAN	11,048	114	BANK CNB	840
55	BANK BNP	9,986	115	BANK METRO EXPRESS	803
56	BANK KALBAR	9,643	116	BANK ARTOS INDONESIA	657
57	BANK BPD KALSEL	9,473	117	BANK BISNIS	541
58	BANK MEGA SYARIAH	9,122	118	ROYALBANK	470
59	BANK PUNDI INDONESIA	9,003	119	BANK SAHABAT PURBA DANARTA	300
60	BANK CTBC INDONESIA	8,832	120	AMIN BANK	177

*Bank HANA and Bank KEB have merged in the 1H14¹ raising its position in the first group. Bank Woori and Bank Saudara to finalize merger this 2H14².

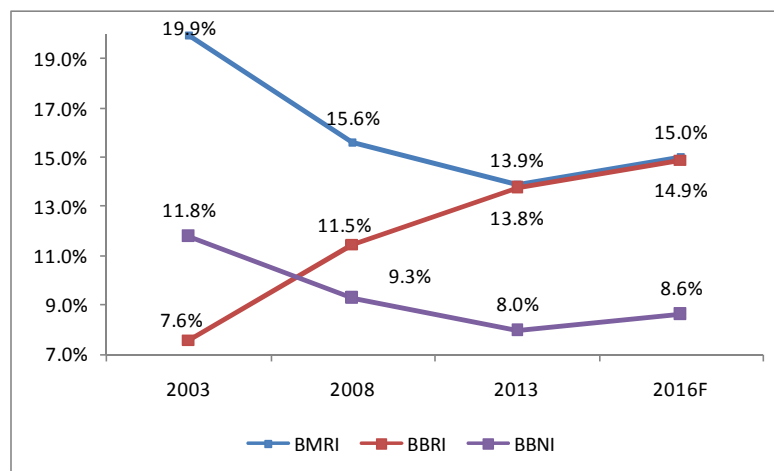
** Regional in yellow, foreign banking branches in blue, subsidiaries or have some affiliation in pink

Source: BI, BCA Sekuritas

Some of the relatively better medium-sized banks already belong to various corporate groups/owners and foreign banks. Thus we expect most of the merger activities between banks (mostly non-efficient) below Rp10t in assets. A surprise might emerge from one of the top 60 banks (based on assets) only if the current owner intends to sell its banking business, though it will not be a cheap option for the acquirer (local or new foreign bank). We think that only a foreign player may have enough firepower to propose such a bid and shake the market ranks (e.g. the aborted DBS c.US\$6bio bid for Danamon).

Bigger market share for larger banks only for the longer term. Historical data in the past 10 years do not back market's perception that consolidation itself leads to higher market shares for the larger banks in the short to medium terms. Rather we think it is psychological factors and market play that will push deposits in the medium and long run towards larger banks. Based on our forecasts, we expect market deposit share of the larger ones BMRI, BBRI, and BBNI to rise to 15%/15%/8.6% in 2016 respectively from 13.9%/13.8%/8% in 2013 and 20%/7.6%/11.8% in 2003.

Figure 4. Market Deposit Share among Top 3 Government Banks



Source: B.I., Financial Reports, BCA Sekuritas

Contrary to common perception, a conclusion from Herfindahl-Hirschman Index (market concentration ratio) does not reveal high market concentration of deposits by the 4 largest or largest 10 in the last 10 years (assuming remaining firms have equal share). We expect this trend to reverse in the long term as i) central institutions will intervene to help shape the industry ahead of ABIF (Asean Banking Integration Framework), iii) banks will form more strategic alliances, and M&A activities.

Figure 5. Concentration ratios indicate non-concentrated levels in deposit market

Concentration Ratios & HHI (120 banks as of 2013 based on deposits)			
	2003	2008	2013
CR 4-firm	52.6%	48.3%	46.8%
CR 10-firm	68.6%	66.7%	66.7%
HHI	819	667	639

* CR4&CR10 simply add market share of the Top 10 banks, 0% means perfect competition, 0%-50% indicates low concentration, 50-80% indicates medium concentration (oligopolistic structure), 100% is monopoly

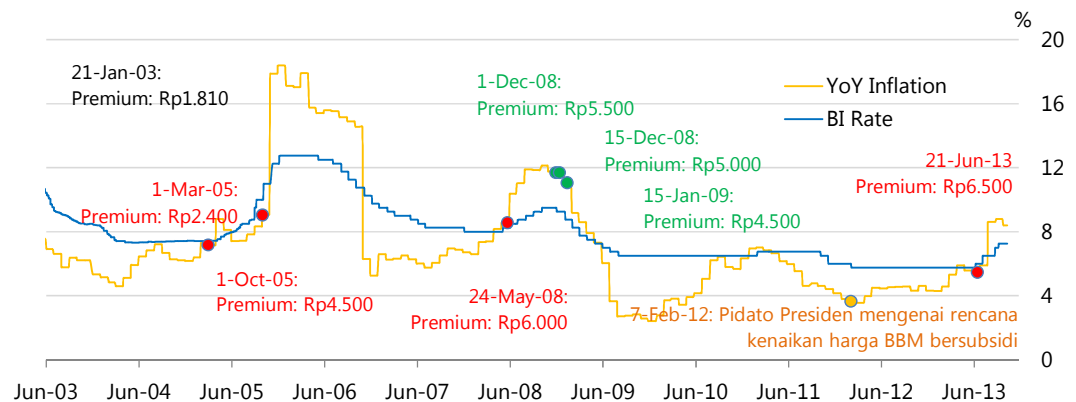
** HHI is an indicator of the amount of competition in the Industry, the higher the HH index, the more concentrated is the market, we assume the remaining market share to be equally divided
 if the HH index is below 100, it indicates a highly competitive index
 if the HH index is below 1500, it indicates a non-concentrated index
 if the HH index is between 1500 to 2500, it indicates moderate concentration
 if the HH index is above 2500, it indicates high concentration

Source: Financial Reports, BCA Sekuritas

Liquidity constraints are here to stay. In the short term, LDR level will remain close to the upper band level as i) banks opt for lower loan growth, ii) banks draw from excess reserves, and iii) prolonged high interest rate environment due to inflation and current account deficit risks that lie ahead.

In our view, the current condition where brakes on the economy are hold on tightly, is unlikely to continue onto the long term or else the system could turn into negative credit cycle and hurt economic growth. Liquidity risks arise mainly from macroeconomic disruptions. A possible scenario of a single or multi-stage gradual release of fuel subsidies up to medium term indicate prolonged inflation pressures. This will most probably maintain a prolonged high interest rate environment hence cost of borrowing amid tepid deposit growth.

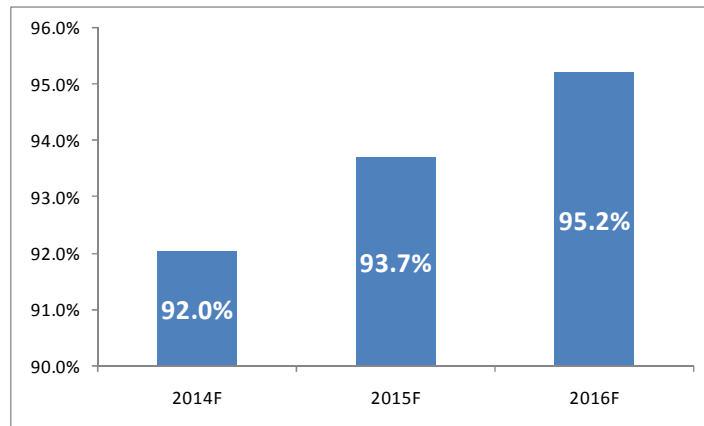
Figure 6. Fuel subsidy release is followed by short term spike in inflation and response in BI rate



Source : Bloomberg, BCA Sekuritas

Weak deposit growth will still weigh on the sector's funding profile (1% year to date growth of our coverage) and we expect higher LDR levels to support higher GDP growth (high correlation (0.98) between Credit and Nominal GDP). Our current LDR forecasts are 92%/93.7%/95.2% for 2014/15/16F.

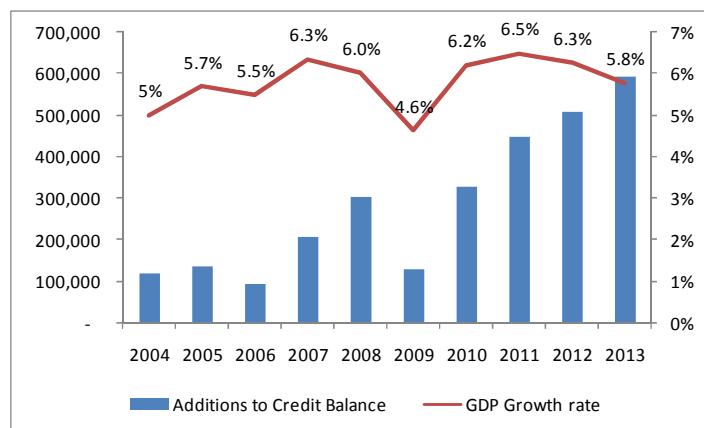
Figure 7: Loan to Deposit Ratio 2014-2016F



Source : BCA Sekuritas

15-17% Credit growth the new norm ahead. We believe FY14YE loan growth to be in line with our expectations at 16% though YTD Loan growth of our coverage remains significantly low at 4%. We expect lending activity in this 2H14 to spur up as larger banks will draw from their delayed credit projects pipeline while smaller banks will contend with lower credit growth mostly due to their liquidity constraints. A new norm ahead of 15-17% loan growth (an addition of minimum Rp500t credit a year) up to the medium term should still be considered healthy and strong (considering the higher base and rapid credit growth of 23% CAGR 2010-2013, providing room for upside should i) economic growth come in better than expectations, ii) cutting off subsidies thus leaving non-productive segments lead to much stronger market investments, and ii) monetary policy loosening.

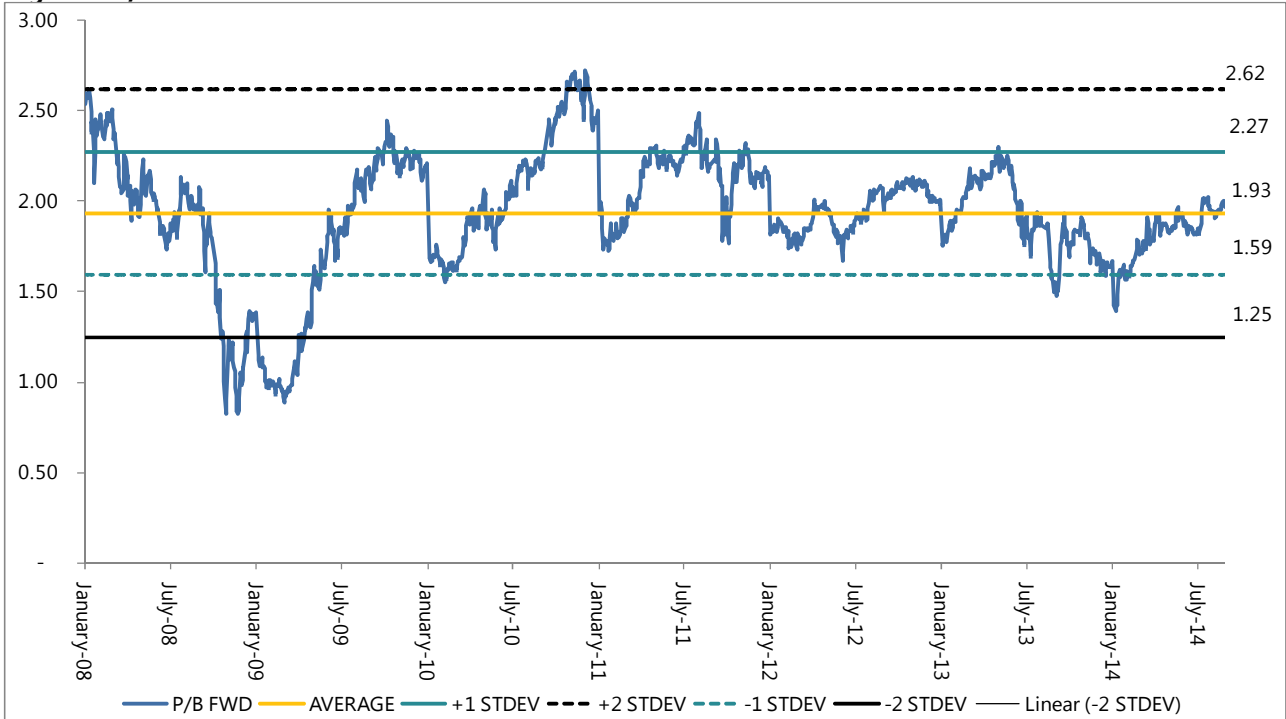
Figure 8: Loan to Deposit Ratio 2014-2016F



Source : Bloomberg, BCA Sekuritas

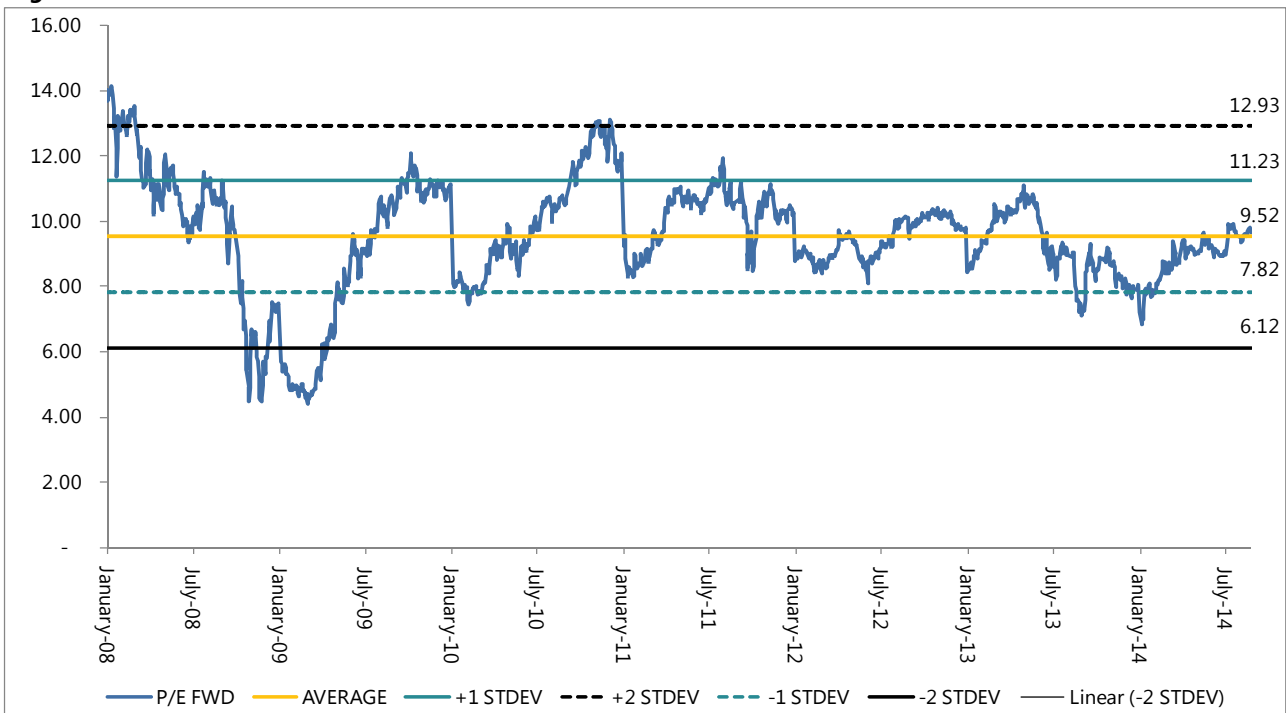
SECTOR

Figure. 1 P/B Forward



Sources: Bloomberg, BCA Sekuritas

Figure. 2 P/E Forward

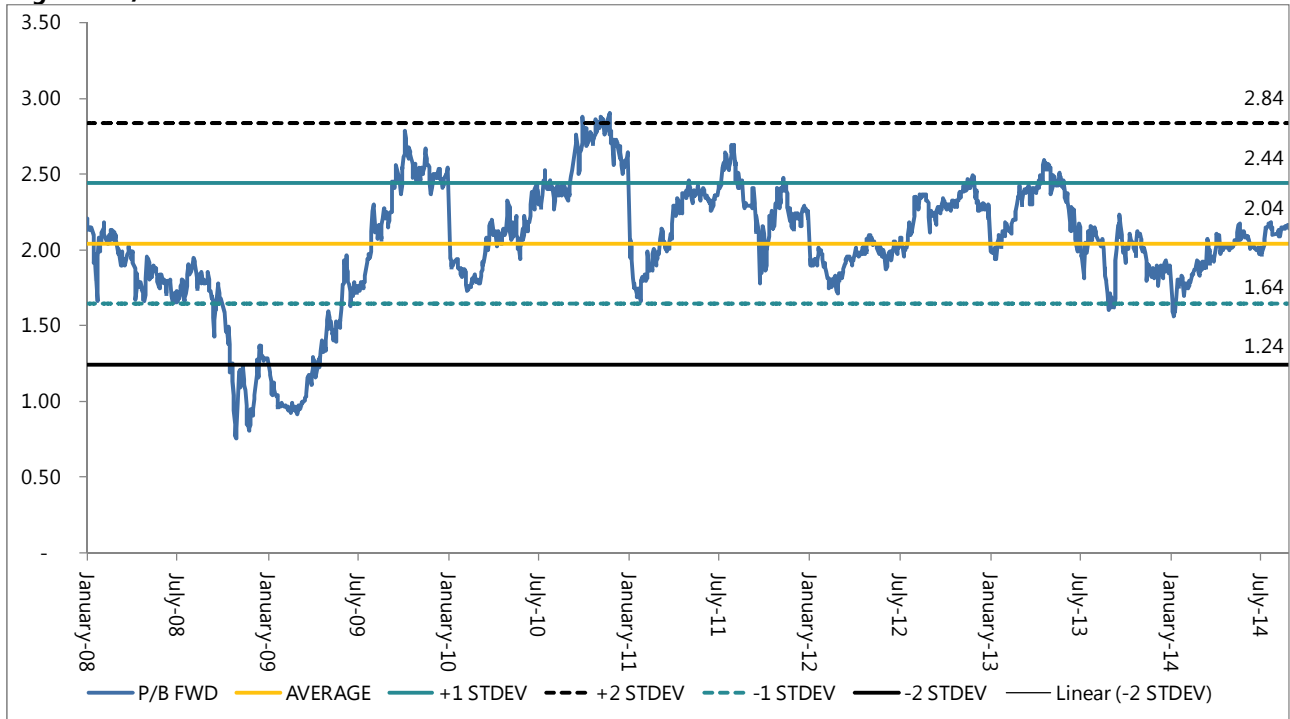


Sources: Bloomberg, BCA Sekuritas



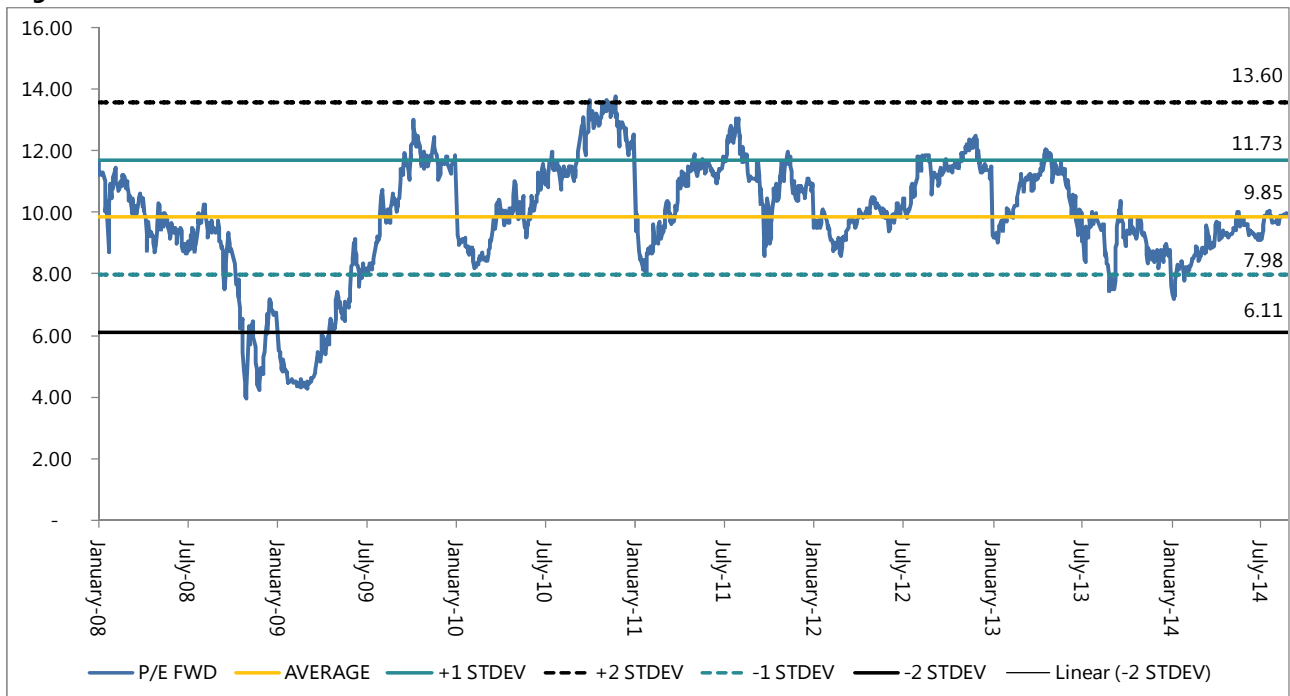
Bank Mandiri (BMRI IJ)

Figure. 1 P/B Forward



Sources: Bloomberg, BCA Sekuritas

Figure. 2 P/E Forward

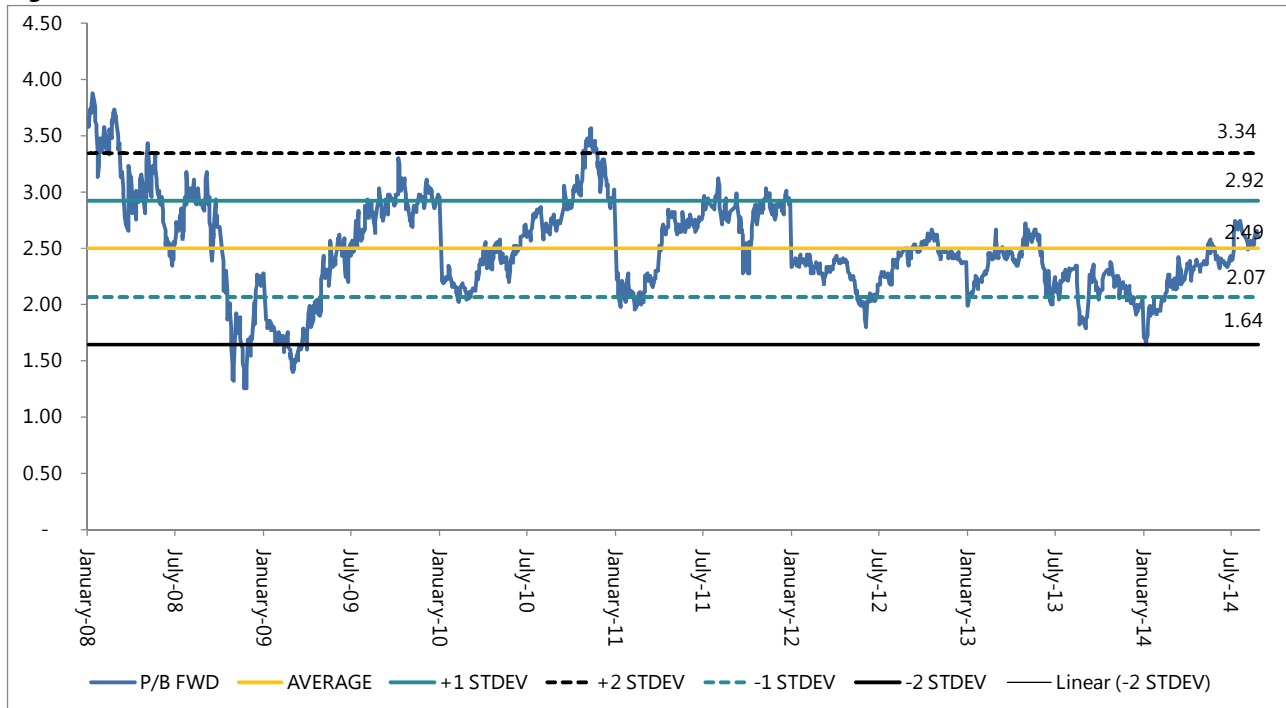


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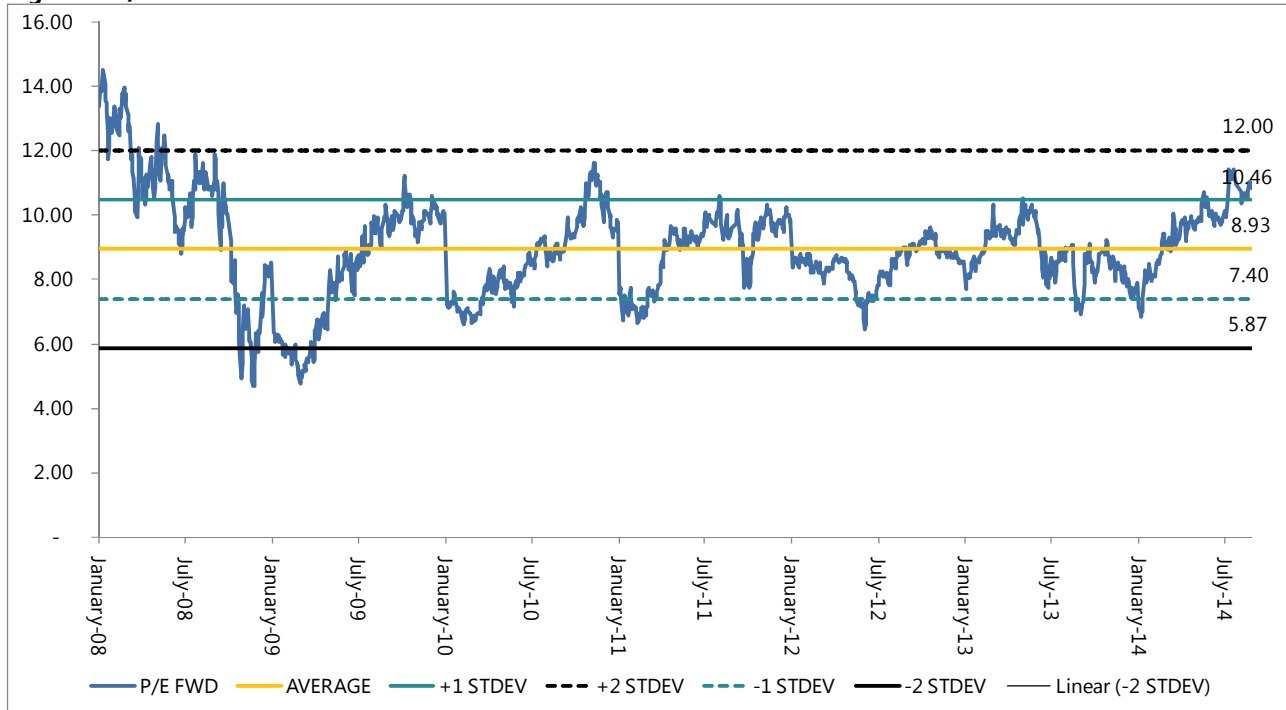
Bank Rakyat Indonesia (BBRI IJ)

Figure. 1 P/B Forward



Sources: Bloomberg, BCA Sekuritas

Figure. 2 P/E Forward

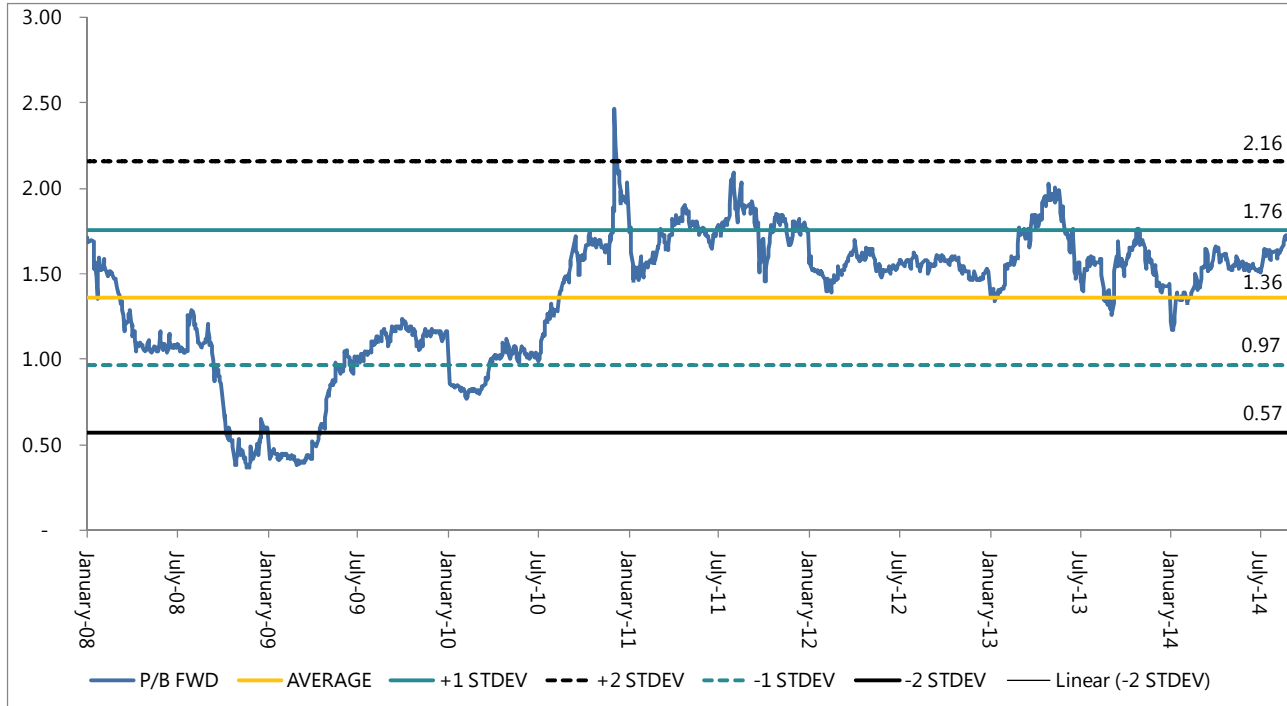


Sources: Bloomberg, BCA Sekuritas



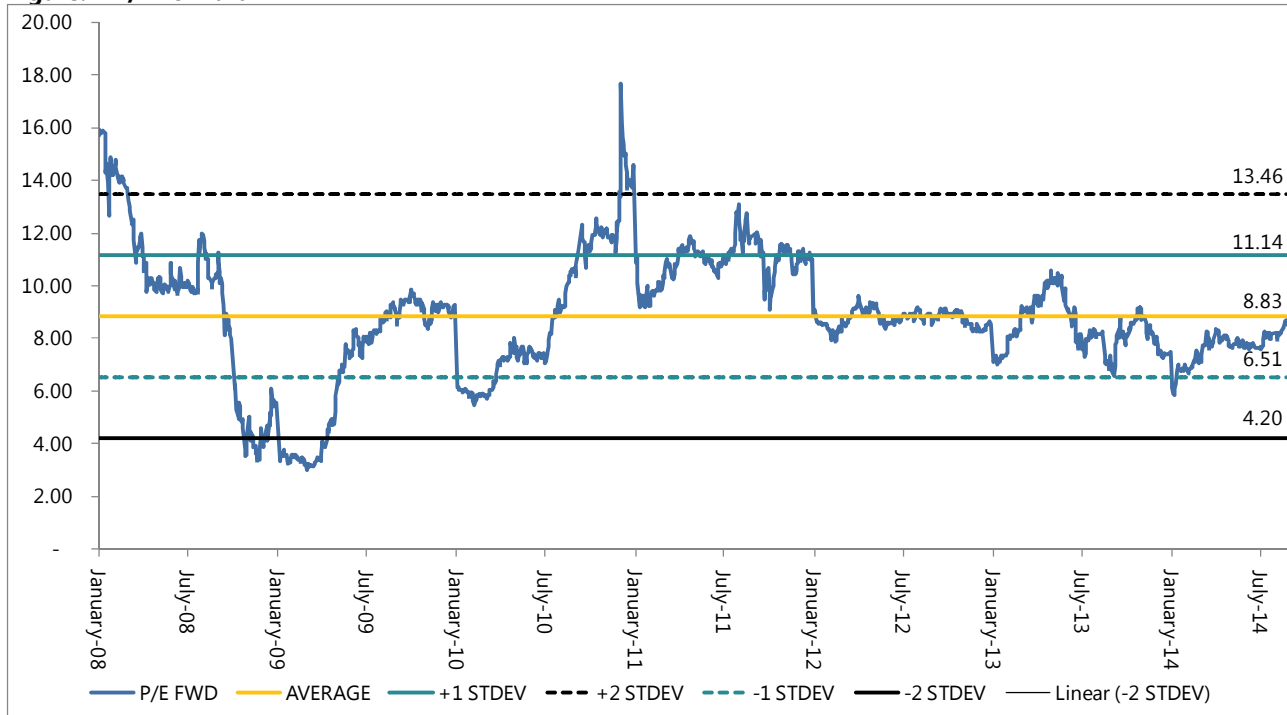
Bank Negara Indonesia (BBNI IJ)

Figure. 1 P/B Forward



Sources: Bloomberg, BCA Sekuritas

Figure. 2 P/E Forward

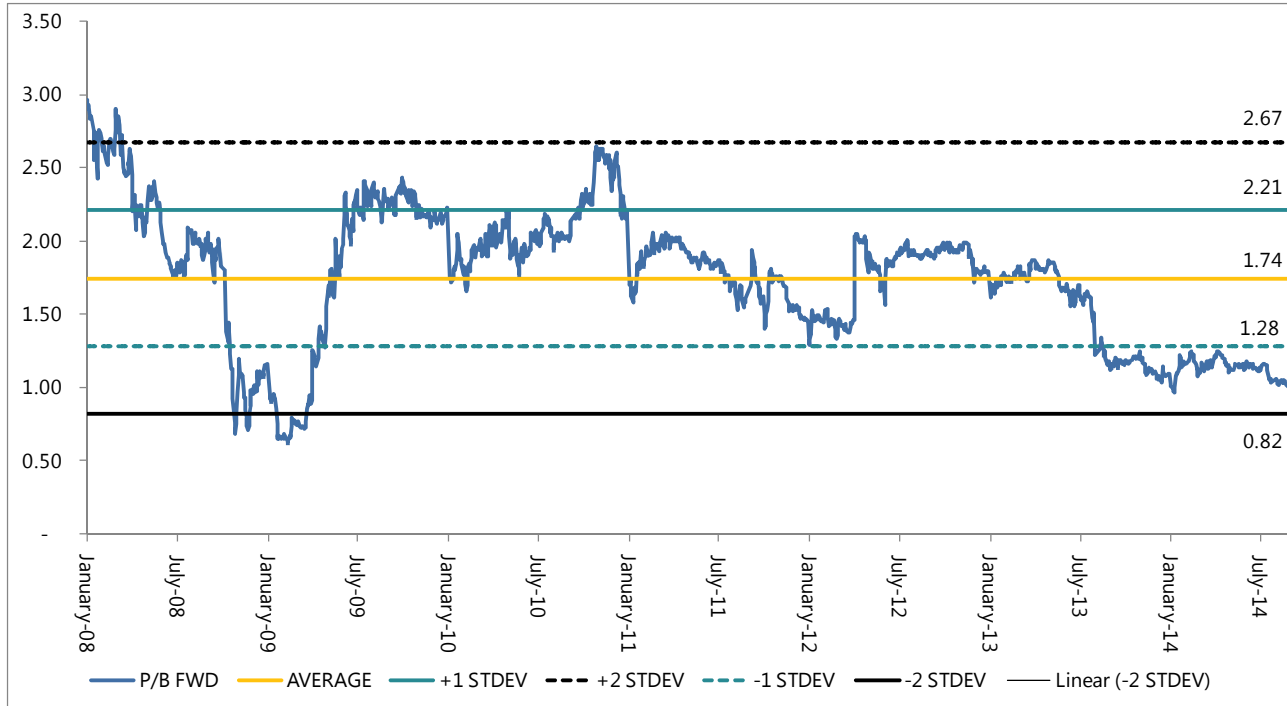


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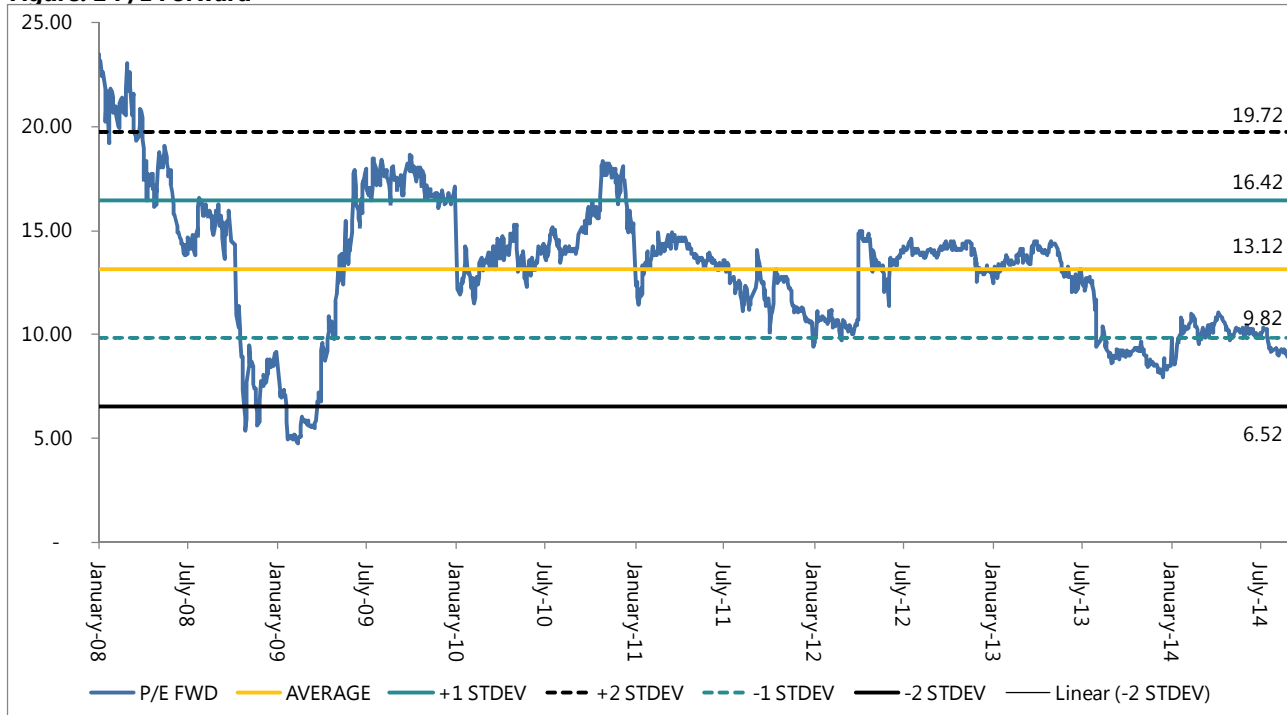
Bank Danamon (BDMN II)

Figure. 1 P/B Forward



Sources: Bloomberg, BCA Sekuritas

Figure. 2 P/E Forward

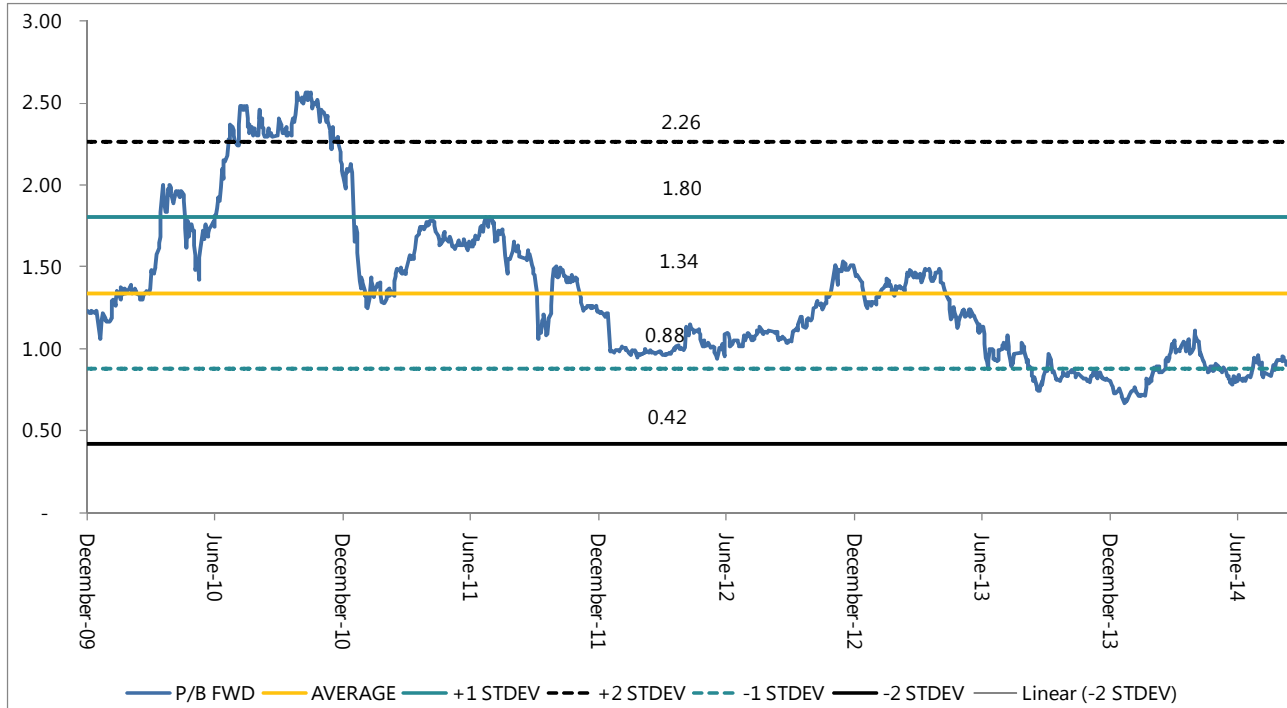


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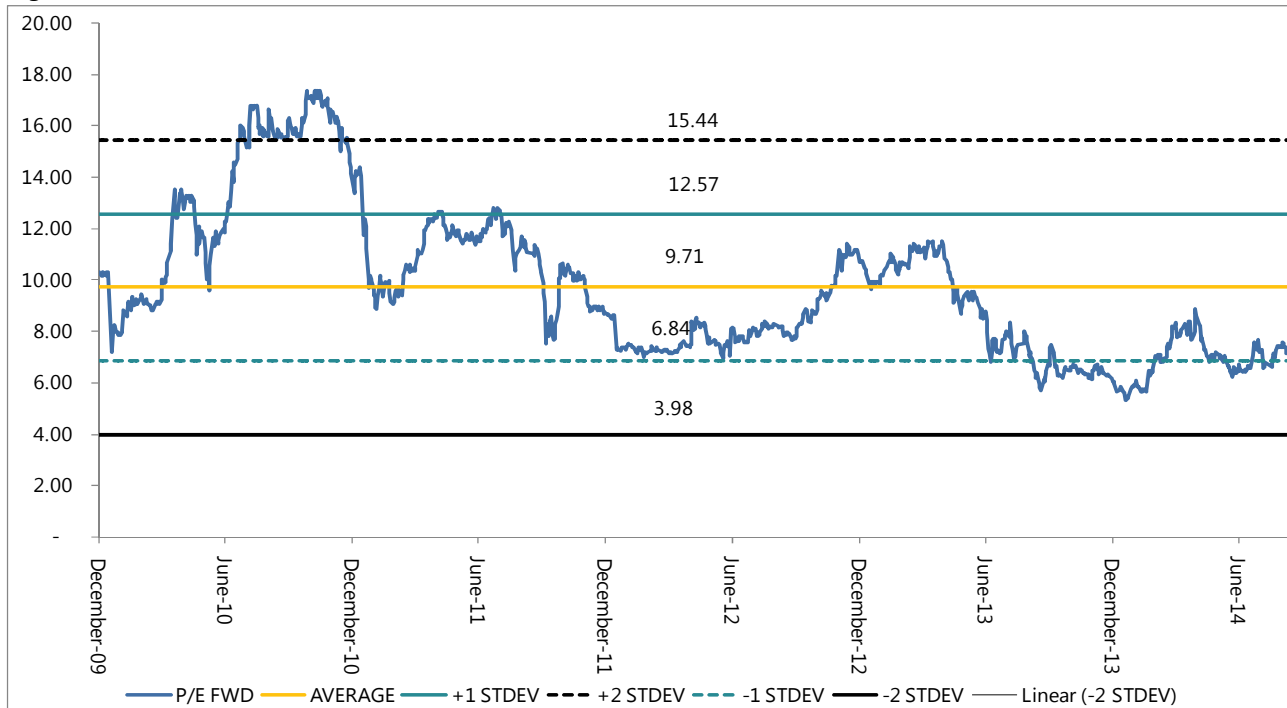
Bank Tabungan Negara (BBTN IJ)

Figure. 1 P/B Forward



Sources: Bloomberg, BCA Sekuritas

Figure. 2 P/E Forward

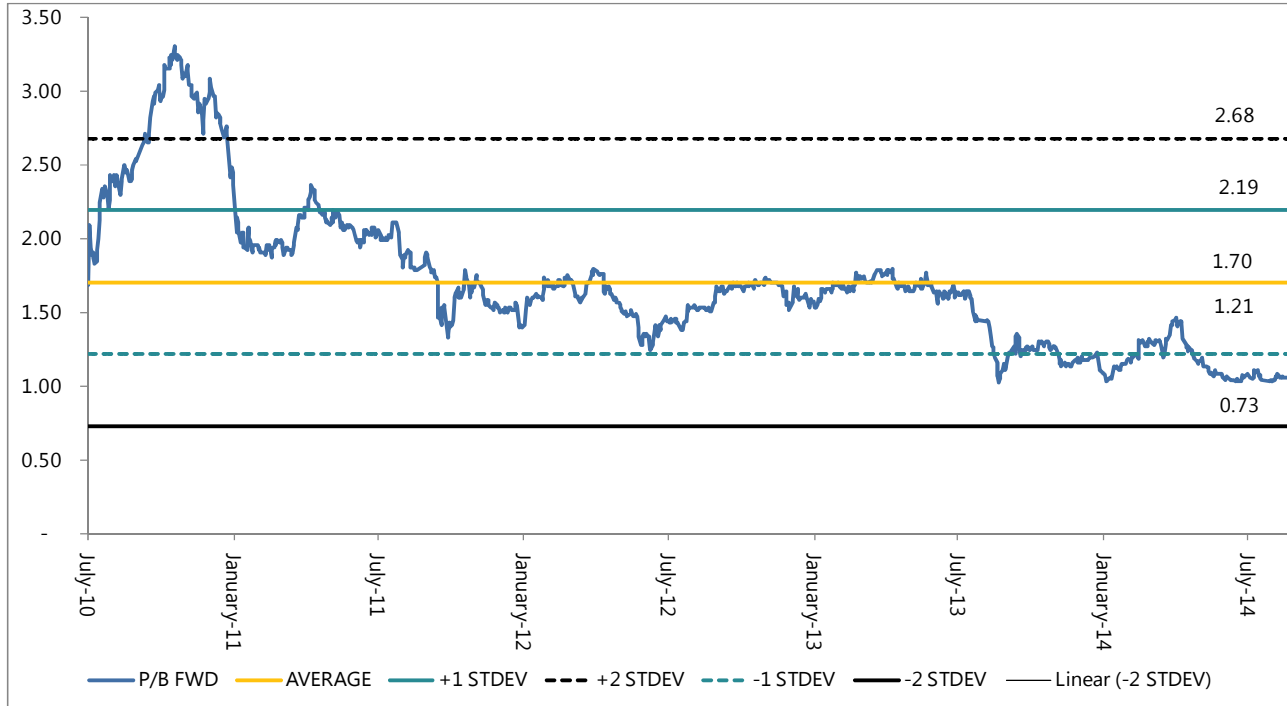


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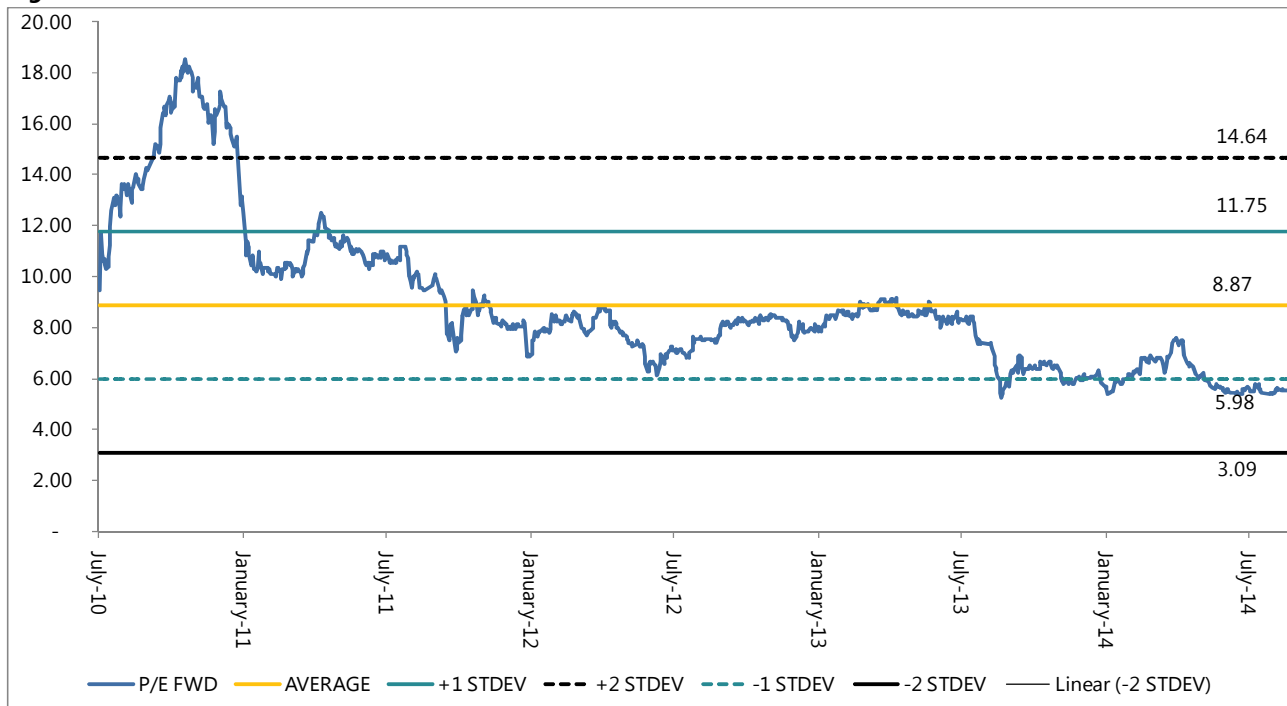
Bank Jabar (BJBR IJ)

Figure. 1 P/B Forward



Sources: Bloomberg, BCA Sekuritas

Figure. 2 P/E Forward

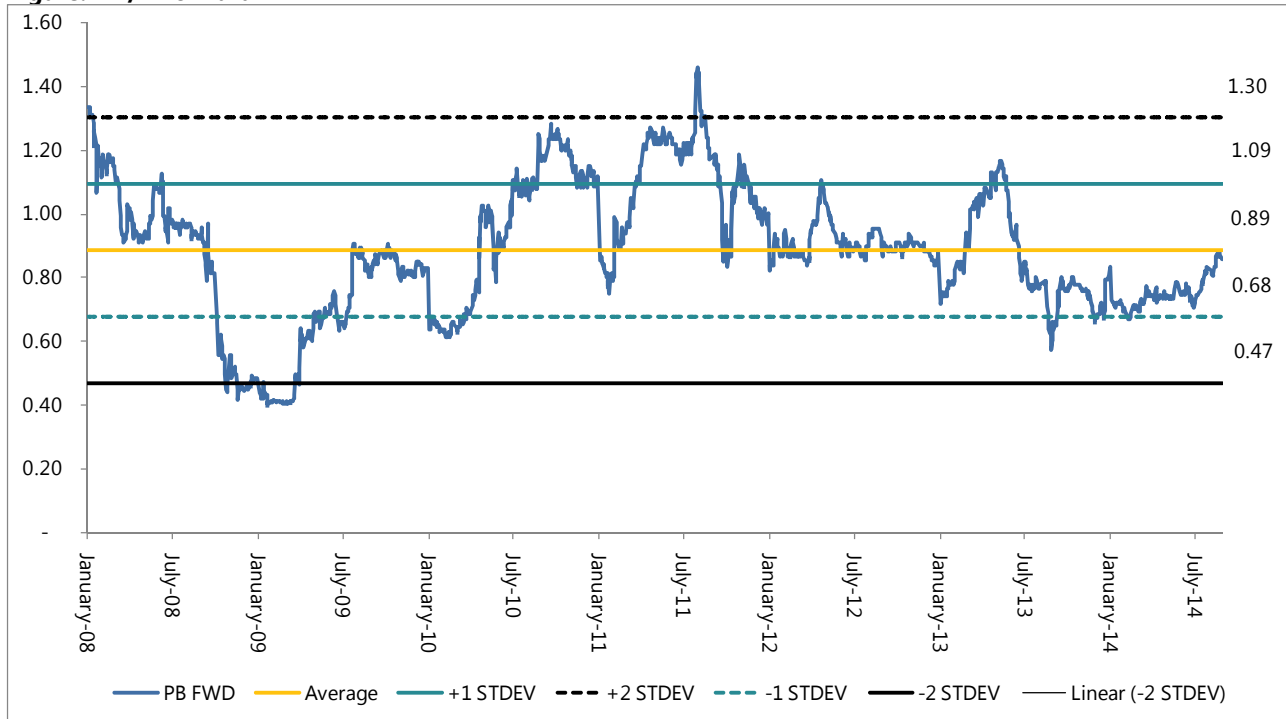


Sources: Bloomberg, BCA Sekuritas



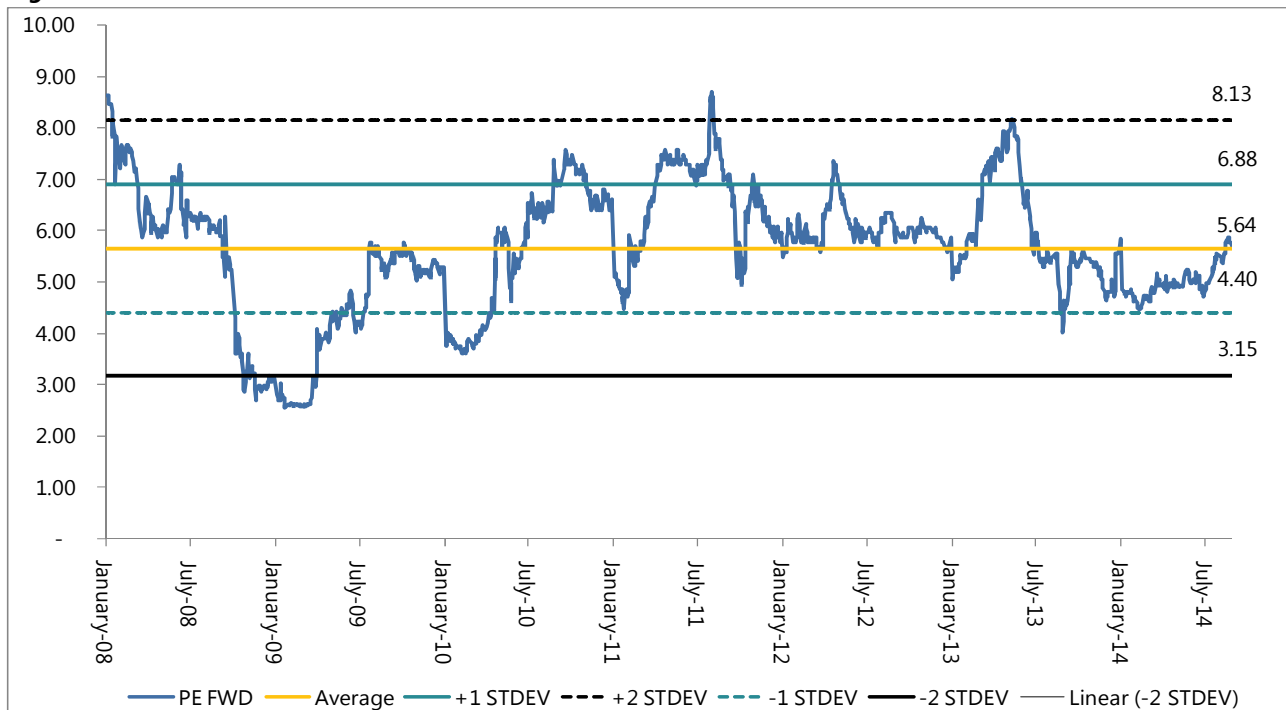
Bank Bukopin (BBKP IJ)

Figure. 1 P/B Forward



Sources: Bloomberg, BCA Sekuritas

Figure. 2 P/E Forward



Sources: Bloomberg, BCA Sekuritas



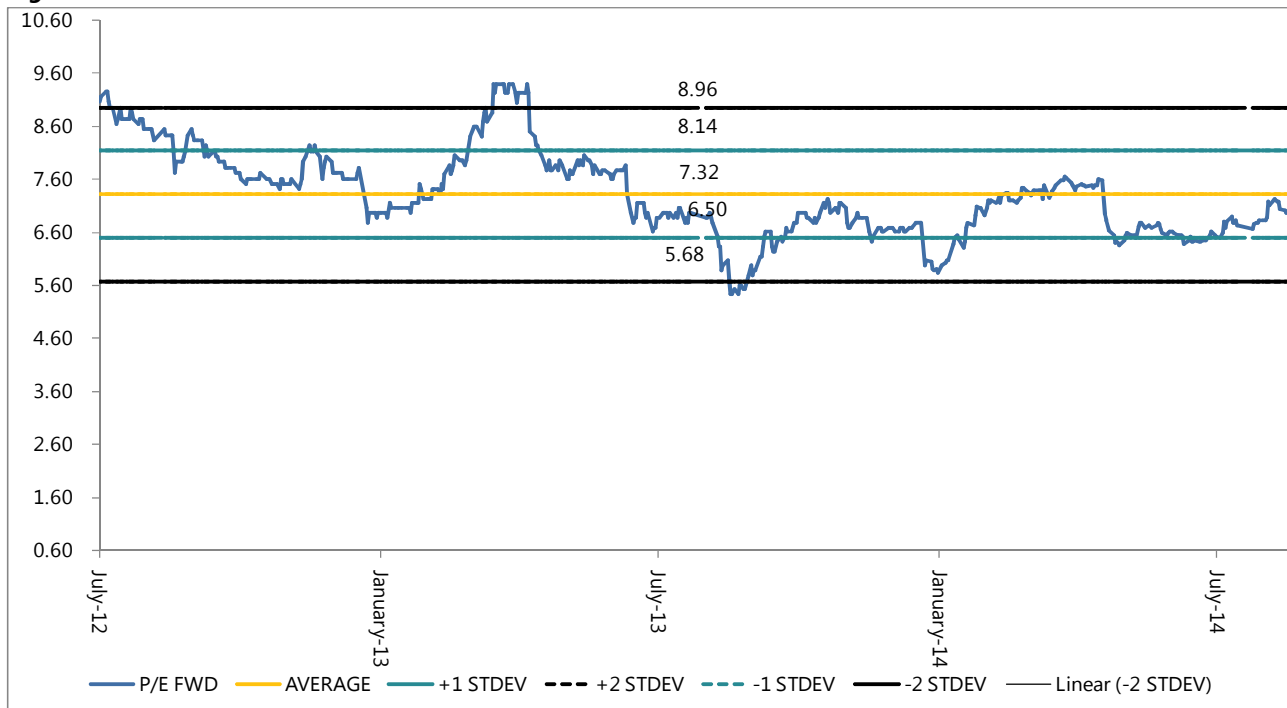
Bank Jatim (BJTM IJ)

Figure. 1 P/B Forward



Sources: Bloomberg, BCA Sekuritas

Figure. 2 P/E Forward



Sources: Bloomberg, BCA Sekuritas

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