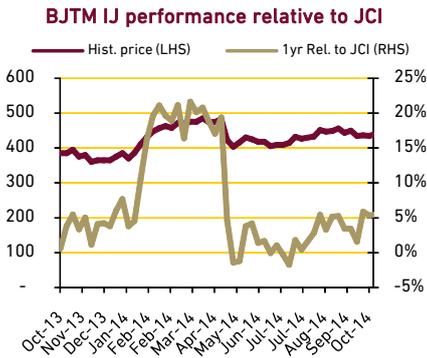


**Ciptadana**  
**Research Report**  
October 20, 2014

**Bank Pembangunan Daerah Jawa Timur**  
*9M14 Results Update - Challenging Condition*



## BANK PEMBANGUNAN DAERAH JAWA TIMUR TP 530/sh (BUY) - *Challenging Condition*

### In line 9M14 results

PT Bank Pembangunan Daerah Jawa Timur Tbk (BJTM) recorded 9.1% yoy net income increase to Rp743 bn in 9M14. This come relatively in line with our estimate (70% of our FY14 net income estimate). On a quarterly basis, the bank experienced a drop of bottom line growth, as net income decreased by 13.6% qoq from Rp231 bn to Rp200 bn. The increase of non interest operational expense (mainly provision for bad loans) by 21.7% in 9M14 had a significant effect on the bottom line despite the bank's ability to increase its net interest income by 19.8%, a respectable growth in the mid of challenging economic and interest rate conditions. BJTM's net interest income during the same period increased by 19.8% yoy to Rp 2.1 tn, quarterly it rose by 8.2% qoq from Rp 674 bn to Rp730 bn. The bank's loan book grew by 21.2% yoy and deposit grew by 24.5% yoy in 3Q14.

### The victim of deposit rate's price war ?

As significant portion's of the bank's deposit comes from municipal government related entities, the bank is prone to volatile deposit gathering patterns, at the mercy of its key customers' discretionary to allocate or take out their deposits from the bank. In 3Q14, BJTM's deposit gathering fell very significantly by 97% qoq from Rp7.3 tn to Rp224 bn. The significant drop of deposit gathering is followed by a significant decrease of loan disbursement in the period, fell by 40.7% qoq from Rp2.1 tn to Rp1.3 tn. We believe that BJTM was adversely affected by time deposit rate's price war that had been raged on lately. OJK has halted it by setting maximum caps of time deposit rates and it will be positive for BJTM's deposit gathering starts from fourth quarter onwards.

### Keep asset quality from deteriorating

A variable that the bank can improve further to increase its market valuation significantly is its NPL. BJTM's NPL was 3.3% as of 3Q14, higher than industry's NPL level of 2.3%. The bank's management target for 2014's NPL is 3%, still higher than current's NPL level of Indonesia banking industry as decreasing NPL will be a difficult task to do in the mid of slowing economic growth and high interest rate.

### Maintain BUY and target price of Rp530/share

We maintain our BUY recommendation and our target price of Rp530/share (20% upside from current price). Our TP calculation is based on assumptions of 14% sustainable ROE and 13.5% cost of equity, implying PBV 2015 of 1.1x.

### Exhibit 1: Financial Highlights

	2012	2013	2014E	2015E	2016E
Net interest income (Rp bn)	1,978	2,472	2,520	2,566	2,896
Operating profit (Rp bn)	980	1,110	1,424	1,416	1,561
Net income (Rp bn)	725	824	1,060	1,057	1,165
Gross Loan (Rp bn)	18,556	22,084	26,897	30,932	35,572
Customer Deposit (Rp (bn)	22,210	25,988	29,886	34,369	39,524
NIM (%)	8.1	8.8	7.8	6.9	6.8
LDR (%)	83.6	85.0	90.0	90.0	90.0
NPL-gross (%)	3.0	3.4	3.5	3.0	3.0
PBV (x)	1.2	1.2	1.1	1.0	0.9
PER (x)	9.1	10.9	9.6	7.5	7.5

Source: Company & Ciptadana Estimates

Sector:	Banking
Bloomberg Ticker:	BJTM IJ
Recommendation:	Buy
Price (17-Oct-14)	Rp 441/sh
12-Month Target Price	Rp 530/sh
52 week price range:	Rp 355 - Rp 498
Shares outstanding (mn)	14,918
Mkt Cap (Rp bn/ US\$ mn)	6,579 / 547
Avg. daily val. (Rp bn/ US\$ mn)	05 / 00

Share Price Performance	3M	6M	YTD
Absolute	3%	-7%	18%
Relative to JCI	3%	-10%	-1%

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**Exhibit 2: 9M14 Results**

(Rp billion)	9M14	9M13	chg	3Q14	2Q14	chg	9M14 result to FY14's estimate
Interest income	2,935	2,391	22.8%	1,044	960	8.7%	
Interest expense	(817)	(624)	30.9%	(314)	(285)	10.2%	
<b>Net interest income</b>	<b>2,117</b>	<b>1,768</b>	19.7%	<b>730</b>	<b>675</b>	8.1%	84.0%
Non-interest operating income	328	333	-1.5%	90	119	-24.4%	
Non-interest operating expense	(1,417)	(1,164)	21.7%	(465)	(538)	-13.6%	
<b>Net operating income</b>	<b>1,029</b>	<b>397</b>	159.2%	<b>281</b>	<b>329</b>	-14.6%	72.3%
<b>Net income</b>	<b>743</b>	<b>681</b>	9.1%	<b>200</b>	<b>231</b>	-13.4%	70.1%
<b>Ratios</b>	<b>30-Sep-14</b>	<b>30-Sep-13</b>		<b>30-Sep-14</b>	<b>30-Jun-14</b>		
LDR	73.0%	75.1%	-2.1%	73.0%	69.90%	3.1%	
NIM	7.1%	6.9%	0.2%	7.1%	7.00%	0.1%	
NPL	3.30%	3.10%	0.2%	3.30%	3.50%	-0.2%	
CASA	68.3%	55.9%	12.4%	68.3%	69.60%	-1.3%	
CAR	20.3%	22.6%	-2.3%	20.3%	20.40%	-0.1%	
<b>(Rp billion)</b>							
Loan	26,087	21,527	21.2%	26,087	24,821	5.1%	
Deposit	35,704	28,669	24.5%	35,704	35,480	0.6%	

**Exhibit 3: Income statement**

Income Statement (Rp billion)	2012	2013	2014E	2015E	2016E
Net interest income	1,978	2,472	2,520	2,566	2,896
Operational income	2,258	2,833	2,935	3,043	3,446
Operating profit	980	1,110	1,424	1,416	1,561
Pre-tax profit	1,001	1,154	1,472	1,469	1,619
Net income	725	824	1,060	1,057	1,165
eps (Rp/share)	49	55	71	71	78

**Exhibit 4: Balance Sheet**

Balance Sheet (Rp billion)	2012	2013	2014E	2015E	2016E
<b>Assets</b>					
Cash	1,961	2,320	1,970	2,645	3,206
Current Account with BI	1,939	2,261	2,600	2,990	3,439
Securities	976	2,907	1,195	1,375	1,581
Loans	18,301	21,559	26,380	30,422	34,985
Fixed Assets	204	263	302	347	399
Other Assets	5,732	3,738	5,465	5,538	5,912
<b>Total Asset</b>	<b>29,112</b>	<b>33,047</b>	<b>37,913</b>	<b>43,317</b>	<b>49,521</b>
<b>Liability and Equity</b>					
Deposit from customers	22,210	25,988	29,886	34,369	39,524
Other liabilities	1,415	1,340	1,454	1,584	1,731
<b>Total Liability</b>	<b>23,625</b>	<b>27,328</b>	<b>31,340</b>	<b>35,952</b>	<b>41,255</b>
Retained earning	1,248	1,480	2,334	3,126	4,027
Other equities	4,239	4,239	4,239	4,239	4,239
<b>Total equity</b>	<b>5,487</b>	<b>5,719</b>	<b>6,572</b>	<b>7,365</b>	<b>8,266</b>
<b>Total liability and equity</b>	<b>29,112</b>	<b>33,047</b>	<b>37,913</b>	<b>43,317</b>	<b>49,521</b>
bvps (Rp/share)	368	384	441	494	555

Source: Company & Ciptadana Estimates

**Exhibit 5: Ratios**

Ratios	2012	2013	2014E	2015E	2016E
NIM (%)	8.1	8.8	7.8	6.9	6.8
ROAE (%)	16.6	14.7	17.2	15.2	14.9
ROAA (%)	2.7	2.7	3.0	2.6	2.5
NPL-gross (%)	3.0	3.4	3.5	3.0	3.0
LDR (%)	83.6	85.0	90.0	90.0	90.0
CAR (%)	27.2	23.5	24.5	21.9	19.7
P BV (x)	1.2	1.2	1.1	1.0	0.9
P ER (x)	9.1	10.9	9.6	7.5	7.5

Source: Company & Ciptadana estimates

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