



Mandiri Sekuritas Analyst

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Sector : Banking

NEUTRAL

Current Price Rp381
Price Target Rp400 (+5.0%)
52-wk range Rp580 - Rp352

Stock Data

Bloomberg Code BJTM IJ
Mkt.Cap (Rp bn/US\$ mn) 5,627 / 397
Issued Shares (mn) 14,769
Avg. Daily T/O (Rp bn/US\$ mn) 5.0/0.3

Major shareholder

East Java Government 51.5%
E Java cities and municipals 28.5%
Public 20.0%

EPS consensus

	Mansek	Cons	Diff
2015F	68.7	73.1	(5.9)
2016F	78.1	85.2	(8.3)
2017F	88.2	94.8	(6.9)

Share price performance

	3m	6m	12m
Absolute (%)	(24.6)	(30.7)	(16.3)
Relative to JCI (%)	(11.2)	(11.8)	(1.1)

Road to Recovery

Bank Jatim's 7M15 result was below expectation due to higher NPL and provisioning charges. However we expect BJTM to see earnings recovery in 2H15 from higher than industry's loan growth expectation and improving NIM. We maintain a Neutral recommendation on BJTM with TP of Rp400 based on 0.9x P/BV 2016F.

Concern on asset quality continues. Gross NPL once again increased to 3.9% in July 2015 from 3.8% in June mainly from the consumer loans segment (accounting for 61.6% of total loans in July). Specifically this segment saw an NPL increase to 0.81% from 0.75%, while commercial's and SME's NPLs declined to 9.70% and 7.52% from 9.78% and 7.59%, respectively, in the same period. Consequently provisioning expenses grew by 291%mom in July. At this juncture, we still expect NPL to come down to 3.6% in 2015F and 3.3% in 2016F on the back of higher recovery from both KUR and commercial loans.

Optimistic loan growth outlook. Total loans grew by +10.8%yoy in July 2015 wherein commercial loans grew by +19.4%yoy, followed by consumer loans +12.0%yoy, and SME loans +11.6%yoy. This is in line with our expectation of total loan growth of 17.5%yoy in 2015F mainly coming from commercial loans supported by the regional government's project disbursement. While this loan expectation is higher than the average industry loan

growth expectation at 10-12%yoy, we view it is likely that the projects would be delayed to later this year with political pressures amid upcoming regional elections.

NIM expectation at 8.0% in 2015F. We view that NIM should improve to 8.0-8.1% in 2015-2016F, respectively, from 7.6% in 1H15 and 7M15 due to higher expectation of loans disbursement in 2H, specifically from the government projects. At the same time, withdrawal of government time deposit should alleviate the pressure of cost of funds.

Maintain Neutral recommendation on BJTM with TP of Rp400 based on 0.9x P/BV 2016F. We derive our target multiple based on 20% discount to reflect small cap – illiquidity discount. However it is worth to highlight that BJTM's dividend yield was one of the highest among banking peers at 11.0% in 2015. Looking forward we expect dividend payout ratio to be maintained above 55% level in 2016-2017F.

FINANCIAL SUMMARY

YE Dec (Rp Bn)	2013A	2014A	2015F	2016F	2017F
Pre-Provision Profit	1,712	1,859	1,936	2,272	2,446
Net Profit	824	939	1,015	1,153	1,303
EPS	56	64	69	78	88
EPS Growth (%)	1.6	13.9	8.1	13.6	13.0
P/E Ratio (x)	6.9	6.1	5.6	4.9	4.4
BVPS	387	409	435	472	517
P/BV Ratio (x)	1.0	0.9	0.9	0.8	0.7
Dividend Yield (%)	10.2	11.6	10.4	10.7	11.2
ROAE (%)	14.7	16.0	16.3	17.2	17.8
CAR (%)	23.7	22.2	18.6	16.9	16.1

Source: Company (2013-2014), Mandiri Sekuritas (2015-2017)

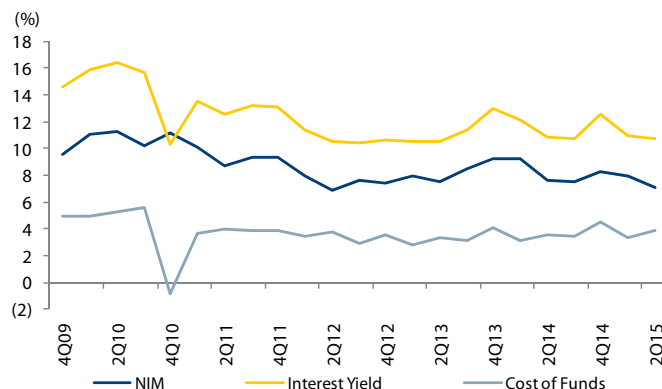
BJTM - At a Glance

FIGURE 1. LOAN, DEPOSIT GROWTH AND LDR



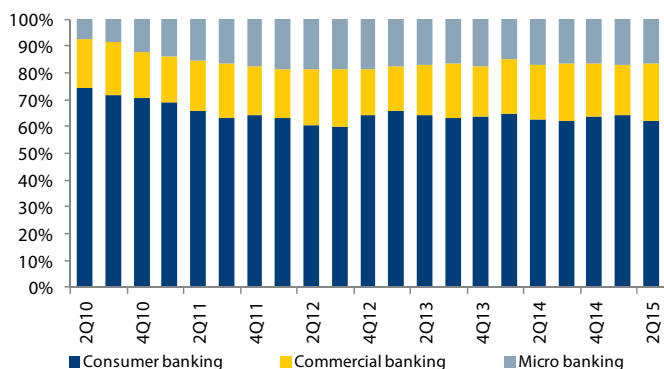
Source: Company, Mandiri Sekuritas estimates

FIGURE 2. NET INTEREST MARGIN



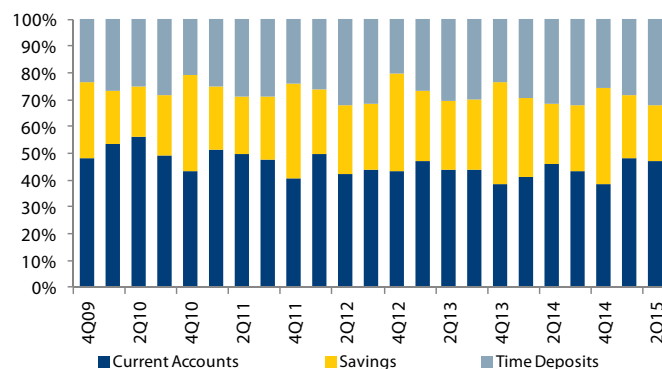
Source: Company, Mandiri Sekuritas estimates

FIGURE 3. LOAN BREAKDOWN



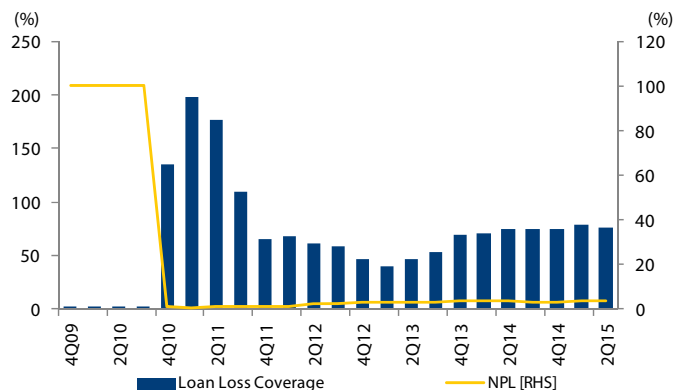
Source: Company, Mandiri Sekuritas estimates

FIGURE 4. DEPOSIT BREAKDOWN



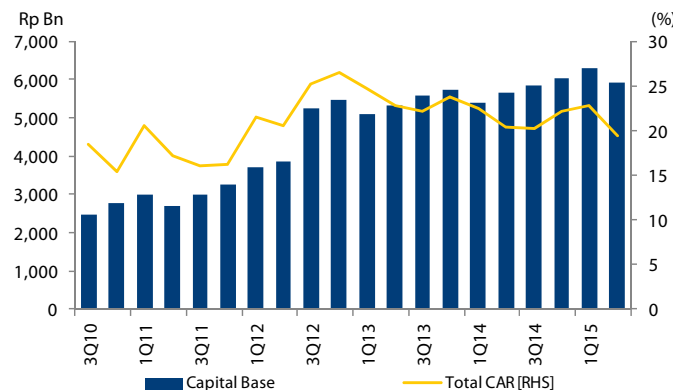
Source: Company, Mandiri Sekuritas estimates

FIGURE 5. NPL & COVERAGE RATIO



Source: Company, Mandiri Sekuritas estimates

FIGURE 6. CAR & EQUITY

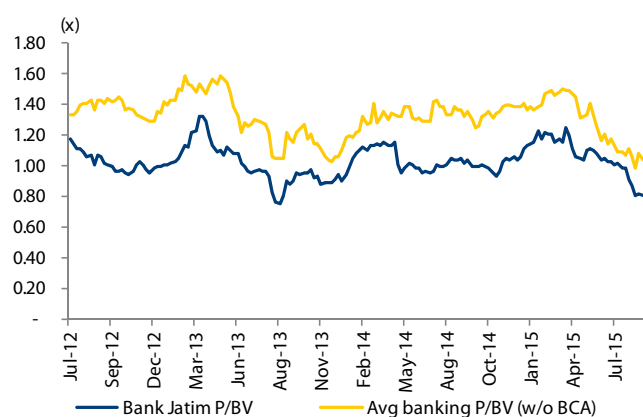


Source: Company, Mandiri Sekuritas estimates

Valuation. We maintain Neutral recommendation on BJTM with TP of Rp400 based on 0.9x P/BV 2016F. Our target multiple is derived based on 20% discount to reflect small cap – illiquidity discount. We believe 20% discount for BJTM P/BV multiple is fair considering BJTM has been trading at 22% discount to the average Mandiri Sekuritas’ banking universe P/BV multiple since its IPO in July 2012. As of 4 September 2015, BJTM was trading at 0.8x P/BV 2015F, which translated to 23% discount to peers. Specifically our calculation on the banking industry P/BV multiple was based on market cap weighting of eight banks: Bank Rakyat Indonesia (BBRI), Bank Negara Indonesia (BBNI), Bank Danamon (BDMN), Bank Tabungan Negara (BBTN), Panin Bank (PNBN), Bank Tabungan Pensiunan Nasional (BTPN), and Bank bjb (BJBR), as well as Bank Jatim (BJTM). We did not include Bank Central Asia given the bank demands a higher premium.

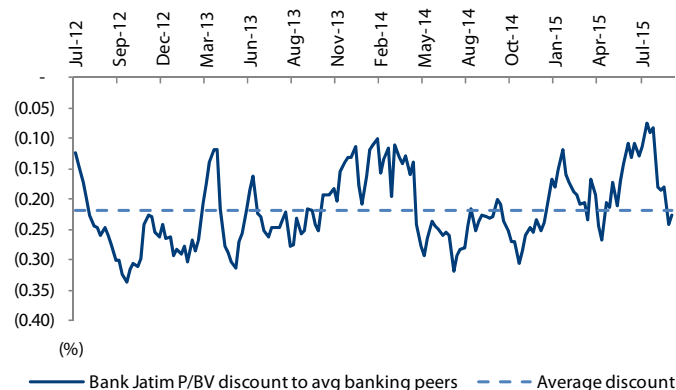
BJTM is currently trading at 0.8x P/BV 2015F as its share price slumped by -16.3%YTD (or -32.5% since its peak at Rp570). However it is worth to highlight that looking forward we expect Bank Jatim to offer dividend yield at 10.7-11.2% in 2016-2017F. Risk to our TP includes higher than expected NPL while potential upside includes the potential increasing market share coverage of the regional civil servants payrolls.

FIGURE 7. BJTM P/BV MULTIPLE PERFORMANCE VS MANDIRI SEKURITAS' BANKING UNIVERSE (EXCLUDING BCA)



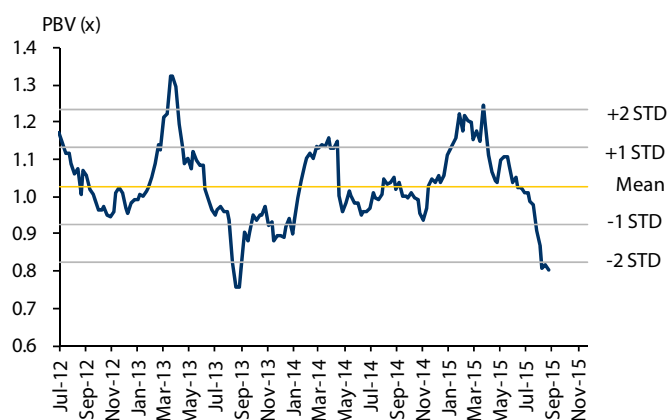
Source: Company, Mandiri Sekuritas estimates

FIGURE 8. BJTM IS TRADING AT AVERAGE 22% DISCOUNT TO PEERS SINCE JULY 2012



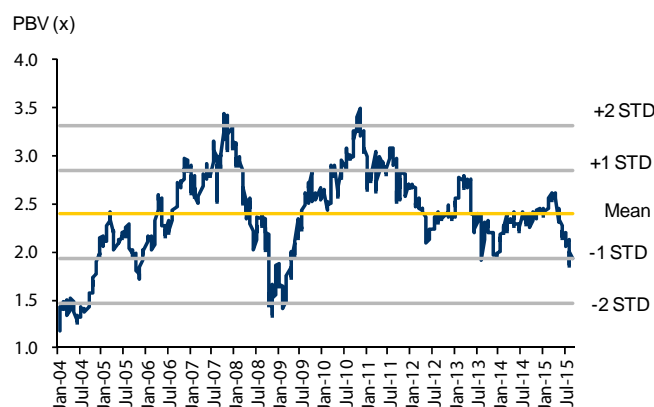
Source: Company, Mandiri Sekuritas estimates

FIGURE 9. BJTM P/BV BAND CHART



Source: Company, Mandiri Sekuritas estimates

FIGURE 10. MANDIRI SEKURITAS BANKING UNIVERSE P/BV BAND CHART



Source: Company, Mandiri Sekuritas estimates

FIGURE 11. BANK JATIM 7M15 RESULTS

Income Statement (Rp bn)	Jul-14	Jun-15	Jul-15	MoM	% YoY	7M14	7M15	% YoY	FY15F	% of FY15F	FY15 Cons	% of FY15F Cons
Net interest income	270	259	283	9.1	4.7	1,657	1,814	9.4	3,199	57		
Non interest income	25	45	30	(33.6)	16.5	264	275	4.1	395	70		
Operating income	295	304	312	2.8	5.7	1,922	2,089	8.7	3,594	58	3,427	61
Provision expenses	(51)	(32)	(127)	291.3	147.1	(274)	(429)	56.5	(577)	74		
Operating expenses	(147)	(131)	(190)	44.8	29.7	(803)	(966)	20.4	(1,658)	58		
Operating profit	97	140	(5)	(103.4)	n/a	845	694	(17.9)	1,359	51	1,485	47
PPOP	149	172	122	(29.2)	n/a	1,119	1,123	0.3	1,936	58		
Pre-tax profit	97	143	(4)	(103.0)	n/a	860	736	(14.5)	1,425	52	1,504	49
Net profit	69	104	(11)	(110.9)	n/a	613	513	(16.3)	1,015	51	1,090	47

Balance Sheet (Rp bn)	Jul-14	Jun-15	Jul-15	%MoM	%YoY
Gross loan	25,260	27,618	27,979	1.3	10.8
Demand deposits	9,123	20,045	17,634	(12.0)	93.3
Saving deposits	9,369	9,020	10,516	16.6	12.2
Time deposits	10,040	13,617	12,615	(7.4)	25.6
Total deposits	28,532	42,681	40,764	(4.5)	42.9
CASA to deposits (%)	64.8	68.1	69.1		

Ratio (%)	Jul-14	Jun-15	Jul-15	7M14	7M15
LDR	88.5	64.7	68.6	88.5	68.6
NIM	9.1	7.1	7.6	8.1	7.6
ROE	14.6	21.2	(2.3)	18.4	14.8
Cost to income	49.7	43.3	61.0	41.8	46.3

Source: Company, Mandiri Sekuritas estimates

Bank Jatim

Profit & Loss					
YE Dec (Rp Bn)	2013A	2014A	2015F	2016F	2017F
Interest Income	3,386	4,084	4,805	5,621	6,475
Interest Expense	(913)	(1,203)	(1,606)	(1,884)	(2,142)
Net Interest Inc.	2,472	2,881	3,199	3,737	4,333
Other Oper. Inc.	367	373	395	415	444
Operating Exp.	(1,127)	(1,395)	(1,658)	(1,880)	(2,331)
Personnel Exp..	(582)	(737)	(795)	(883)	(1,168)
G & A	0	0	0	0	0
Others	(545)	(658)	(862)	(997)	(1,163)
Pre-Prov. Profit	1,712	1,859	1,936	2,272	2,446
Provision Exp.	(596)	(507)	(577)	(715)	(689)
Operating Inc.	1,116	1,351	1,359	1,557	1,757
Pre-tax Income	1,154	1,376	1,425	1,611	1,816
Tax Expenses	(329)	(437)	(410)	(457)	(513)
Minority Int.	0	0	0	0	0
Net Profit	824	939	1,015	1,153	1,303

Balance Sheet					
YE Dec (Rp Bn)	2013A	2014A	2015F	2016F	2017F
Assets					
Cash	2,320	1,889	1,872	2,195	2,569
Due to BI	2,270	2,844	3,500	4,000	4,800
Interbank Placement	3,163	3,085	3,702	4,073	4,480
Securities-Net	2,907	3,644	4,191	4,104	4,514
Gross Loan	22,084	26,195	30,778	36,314	43,064
Loan Loss Prov.	(526)	(651)	(819)	(944)	(1,043)
Fixed Assets	261	320	287	347	420
Other Assets	568	672	1,229	2,376	2,604
Total Assets	33,047	37,998	44,739	52,464	61,409
Liabilities & Equity					
Liabilities					
Demand Deposits	9,951	11,615	14,302	16,991	20,100
Saving Deposits	9,886	10,878	11,411	13,556	16,037
Time Deposits	6,151	7,778	10,993	13,060	15,450
Total Third Party Funds	25,988	30,270	36,706	43,606	51,586
Deposits From Oth. Banks	0	0	0	0	0
Securities Issued	0	0	0	0	0
Borrowings	706	971	915	980	1,000
Subordinated Loan	0	0	0	0	0
Other Liabilities	634	713	694	909	1,185
Total Liabilities	27,328	31,954	38,315	45,495	53,771
Minority Interest	0	0	0	0	0
Shareholder's Equity	5,719	6,044	6,425	6,969	7,637
Total Liab. and Equity	33,047	37,998	44,739	52,464	61,409

Key Ratios					
YE Dec (Rp Bn)	2013A	2014A	2015F	2016F	2017F
Growth (% YoY)					
Assets	14.2	15.0	17.7	17.3	17.0
Loans	19.0	18.6	17.5	18.0	18.6
Earnings Assets	14.5	16.9	17.5	15.0	17.0
Non-Performing Loans	38.6	14.3	25.9	8.0	4.0
Deposits	17.0	16.5	21.3	18.8	18.3
Shareholders' Equity	4.2	5.7	6.3	8.5	9.6
Net interest income	26.2	16.5	11.0	16.8	16.0
Non-interest income	2.5	1.7	5.9	5.1	6.9
Operating expenses	10.1	23.7	18.8	13.4	24.0
Pre-provision profit	32.4	8.6	4.2	17.3	7.7
Net profit	13.7	13.9	8.1	13.6	13.0
Common Ratios (%)					
NIM	8.5	8.3	8.0	8.1	8.1
LDR	85.0	86.5	83.9	83.3	83.5
NPL	3.4	3.3	3.6	3.3	2.9
Coverage ratio	69.2	75.0	75.0	80.0	85.0
ROAE	14.7	16.0	16.3	17.2	17.8
ROAA	2.7	2.6	2.5	2.4	2.3
Total CAR	23.7	22.2	18.6	16.9	16.1
Tier 1 CAR	22.7	21.2	17.1	15.5	14.7
Other Ratios (%)					
Yield on earning assets	11.6	11.8	12.0	12.2	12.2
Avg. cost of funds	3.4	3.8	4.2	4.2	4.1
Net Interest Spread	8.2	8.0	7.8	8.0	8.1
CASA deposits	76.3	74.3	70.1	70.1	70.1
Cost to income	39.7	42.9	46.1	45.3	48.8
Equity to assets	17.3	15.9	14.4	13.3	12.4
Dividend payout	70.4	70.2	66.5	60.0	55.5
Effective tax rate	28.5	31.7	28.8	28.4	28.3
Per Share Data					
YE Dec	2013A	2014A	2015F	2016F	2017F
EPS	56	64	69	78	88
BVPS	387	409	435	472	517
DPS	39.3	44.7	40.1	41.2	43.0
Valuations					
P/BV (x)	1.0	0.9	0.9	0.8	0.7
P/E (x)	6.9	6.1	5.6	4.9	4.4
P/PPOP (x)	3.3	3.1	2.9	2.5	2.3
Dividend yield (%)	10.2	11.6	11.0	10.7	11.2

Source: Company, Mandiri Sekuritas estimates

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INVESTMENT RATINGS: Indicators of expected total return (price appreciation plus dividend yield) within the 12-month period from the date of the last published report, are: Buy (10% or higher), Neutral (-10% to 10%) and Sell (-10% or lower).

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