

15 August 2019

Financial Services | Banks

## Bank Permata (BNLI IJ)

### OCBC Joins The Race; Raise TP

## Trading Buy (Maintained)

Target Price (Return) IDR1,300 (+35%)  
Price: IDR965  
Market Cap: USD1,893m  
Avg Daily Turnover (IDR/USD) 26,170m/1.8m

- **Maintain TRADING BUY with higher IDR1,300 TP (1.4x FY20F P/BV) from IDR1,185, 35% upside.** OCBC emerged as a new bidder for a stake in Permata. With more banks competing for a slice (along with Mizuho/Sumitomo), we believe the transaction price will be at a premium. According to Bloomberg, OCBC is reportedly considering buying both Astra's and Standard Chartered's stakes, which total 90%. OCBC NISP's and Permata's combined assets will make it the fifth largest bank in Indonesia.

- **OCBC joins the bid vs Mizuho/Sumitomo.** Bloomberg reported that Oversea-Chinese Banking Corp (OCBC SP, NEUTRAL, TP: SGD11.80) is considering to acquire the majority stake (90%) in Bank Permata from both Standard Chartered and Astra (ASII IJ, NEUTRAL, TP: IDR6,950) (as opposed to Mizuho aiming to buy only StanChart's stake). The article also said that OCBC is getting ready for another acquisition due to its less-generous dividend policy of 41%, vs other Singaporean banks like DBS' (DBS SP, NEUTRAL, TP: SGD28.50) and United Overseas Bank's (UOB SP, BUY, TP: SGD29.50) 55%/51% respectively.

- **OCBC NISP combined with Permata will make it Indonesia's fifth largest bank.** OCBC acquired Bank NISP and renamed it Bank OCBC NISP in 2004, then increased its ownership to a majority stake in 2005 via a tender offer. It now owns 85% of Bank OCBC NISP, the 11<sup>th</sup> largest bank in Indonesia by asset. In size, it is surpassed by Malaysia-owned CIMB Niaga (BNGA IJ, BUY, TP: IDR1,550) and Maybank Indonesia (BNII IJ, NR), and Japanese-owned Bank Danamon (BDMN IJ, NEUTRAL, TP: IDR5,000) and BTPN (BTPN IJ, NEUTRAL, TP: IDR4,200). OCBC NISP and Permata, if combined, would be the fifth largest bank in Indonesia – just below BNI (BBNI IJ, BUY, TP: IDR11,500) – and the first Singapore bank to enter top 10 largest banks list.

- **Standard Chartered is selling. Will Astra sell, too? Tender offer is likely.** Standard Chartered has been signalling its intent to hive off its 45% stake in Permata since Feb 2019, as part of its global plan to streamline non-core business and restructure operations in four Asian countries, including Indonesia. Astra, however, has not made any comments on the potential divestment. We believe that if Astra is given the option to sell at the right price, it will take the offer, as it has sufficient support from Astra Sedaya Finance for auto financing synergies. If both majority shareholders divest their stakes, this will change Permata's majority ownership structure and trigger a tender offer – a big positive catalyst for capital market investors, in our view.

- **Raising TP to IDR1,300 (at 1.4x P/BV of FY20F BVPS), with a M&A premium.** With another contender, the bid can be more competitive – which raises the possibility of a premium price. With recent M&As for mid-sized banks valued at 1.4x-2.2x P/BV, Permata's price may fall within that range – especially considering the recent improvements in Permata's books ([see our previous report](#)), in our view. Latest Banks M&A transaction was when MUFG increased its stake in BDMN from 40% to 94% in April 2019 at over 2.0x PBV. BNLI is currently trading at 1.06x FY20F PBV with 6% ROE and 1.3% ROA.

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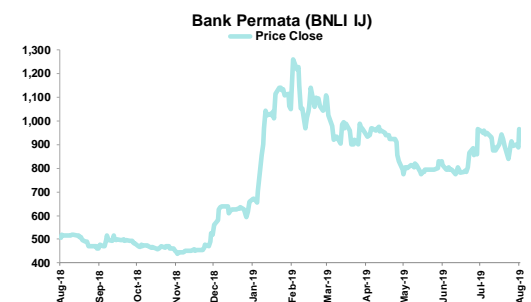


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#### Share Performance (%)

|                            | YTD         | 1m  | 3m   | 6m     | 12m  |
|----------------------------|-------------|-----|------|--------|------|
| Absolute                   | 54.4        | 0.0 | 24.5 | (14.2) | 91.1 |
| Relative                   | 53.2        | 1.7 | 21.3 | (11.8) | 82.5 |
| 52-wk Price low/high (IDR) | 438 – 1,280 |     |      |        |      |



Source: Bloomberg

| Forecasts and Valuation      | Dec-17 | Dec 18 | Dec 19F | Dec 20F | Dec 21F |
|------------------------------|--------|--------|---------|---------|---------|
| Reported net profit (IDRbn)  | 748    | 901    | 1,408   | 1,589   | 1,831   |
| Net profit growth (%)        | N/A    | 20.4   | 56.2    | 12.9    | 15.2    |
| EPS (IDR)                    | 29     | 32     | 50      | 57      | 65      |
| BVPS (IDR)                   | 842    | 801    | 851     | 908     | 973     |
| DPS (IDR)                    | -      | -      | -       | -       | -       |
| P/E (x)                      | 33.0   | 30.0   | 19.2    | 17.0    | 14.8    |
| P/B (x)                      | 1.1    | 1.2    | 1.1     | 1.1     | 1.0     |
| Dividend Yield (%)           | -      | -      | -       | -       | -       |
| Return on average equity (%) | 3.7    | 4.1    | 6.1     | 6.4     | 6.9     |
| Return on average assets (%) | 0.6    | 0.8    | 1.2     | 1.3     | 1.4     |

Source: Company data, RHB

15 August 2019

Financial Services | Banks

## Financial Exhibits

Financial model updated on: 2019-08-14.

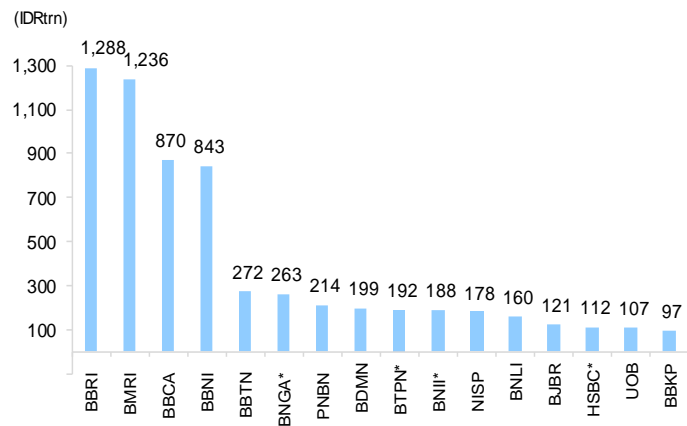
|  |         |                                      |               |               |               |               |               |
|--|---------|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Asia   |         | <b>Financial summary</b>             | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21</b> |
| Indonesia  |         | EPS                                  | 29            | 32            | 50            | 57            | 65            |
| Financial Services   |         | Core EPS                             | 29            | 32            | 50            | 57            | 65            |
| <b>Bank Permata</b>  |         | DPS                                  | -             | -             | -             | -             | -             |
| Bloomberg  | BNLI IJ | BVPS                                 | 842           | 801           | 851           | 908           | 973           |
| <b>Buy</b>   |         |                                      |               |               |               |               |               |
| <b>Valuation basis</b>   |         | <b>Valuation metrics</b>             | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21</b> |
| P/BV backed by GGM. Assumptions include:   |         | Recurring P/E (x)                    | 33.0          | 30.0          | 19.2          | 17.0          | 14.8          |
| i. COE of 8.1%;  |         | P/B (x)                              | 1.1           | 1.2           | 1.1           | 1.1           | 1.0           |
| ii. ROE of 7.8%;   |         | Dividend yield (%)                   | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| iii. 5% long-term growth.  |         |                                      |               |               |               |               |               |
| <b>Key drivers</b>   |         | <b>Balance sheet (IDRbn)</b>         | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21</b> |
| i. M&A catalyst  |         | Gross loans & advances               | 98,615        | 107,411       | 113,856       | 121,826       | 130,354       |
| ii. Better loan outlook from retail & wholesale;   |         | Loan impairment allowances           | (8,594)       | (8,202)       | (8,329)       | (8,337)       | (8,219)       |
| iii. Improving asset quality.  |         | Net loans & advances                 | 90,021        | 99,210        | 105,527       | 113,489       | 122,135       |
|  |         | Total assets                         | 148,328       | 152,893       | 161,923       | 171,103       | 181,043       |
| <b>Key risks</b>   |         | Deposits from customers              | 111,288       | 118,135       | 125,142       | 132,087       | 139,517       |
| i. Deteriorating asset quality;  |         | Total liabilities                    | 126,818       | 130,441       | 138,064       | 145,654       | 153,762       |
| ii. Lower-than-expected loan growth  |         | Shareholders' funds                  | 21,511        | 22,452        | 23,860        | 25,449        | 27,281        |
| iii. M&A risk  |         | Total equity                         | 21,511        | 22,452        | 23,860        | 25,449        | 27,281        |
| <b>Company Profile</b>   |         | <b>Income statement (IDRbn)</b>      | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21</b> |
| Bank Permata provides universal banking services, with a focus on retail and wholesale banking. The bank is 89.12%-owned by two large organisations – Astra International, the biggest conglomerate in Indonesia, and Standard Chartered Bank, a global UK-based bank, at 44.56% each. |         | Net interest income                  | 5,224         | 5,400         | 5,579         | 5,941         | 6,392         |
|  |         | Non-interest income                  | 3,356         | 1,961         | 2,834         | 3,083         | 3,355         |
|  |         | Operating income                     | 8,580         | 7,361         | 8,413         | 9,024         | 9,747         |
|  |         | Overhead expenses                    | 4,502         | 4,466         | 4,741         | 5,108         | 5,503         |
|  |         | Pre-provision operating profit       | 4,078         | 2,896         | 3,673         | 3,917         | 4,244         |
|  |         | Loan impairment allowances           | 3,127         | 1,676         | 1,768         | 1,767         | 1,767         |
|  |         | Pretax profit                        | 951           | 1,219         | 1,905         | 2,150         | 2,477         |
|  |         | Reported net profit                  | 748           | 901           | 1,408         | 1,589         | 1,831         |
|  |         | Recurring net profit                 | 748           | 901           | 1,408         | 1,589         | 1,831         |
|  |         | <b>Profitability</b>                 | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21</b> |
|  |         | ROA (%)                              | 0.6           | 0.8           | 1.2           | 1.3           | 1.4           |
|  |         | ROE (%)                              | 3.7           | 4.1           | 6.1           | 6.4           | 6.9           |
|  |         | Yield on IEAs (%)                    | 7.2           | 7.5           | 7.8           | 7.8           | 7.9           |
|  |         | Cost of funds (%)                    | 4.5           | 4.5           | 4.9           | 4.9           | 5.0           |
|  |         | Net interest margin (%)              | 3.4           | 3.7           | 3.6           | 3.6           | 3.7           |
|  |         | Non-II / Total income (%)            | 39.1          | 26.6          | 33.7          | 34.2          | 34.4          |
|  |         | CIR (%)                              | 52.5          | 60.7          | 56.3          | 56.6          | 56.5          |
|  |         | Credit cost (%)                      | 3.1           | 1.7           | 1.7           | 1.6           | 1.5           |
|  |         | PPOP growth (%)                      | 14.1          | (29.0)        | 26.8          | 6.7           | 8.4           |
|  |         | Net profit growth (%)                | N/A           | 20.4          | 56.2          | 12.9          | 15.2          |
|  |         | <b>Asset quality</b>                 | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21</b> |
|  |         | Gross impaired loans/Gross loans (%) | 91.3          | 92.4          | 92.7          | 93.2          | 93.7          |
|  |         | Loan loss coverage ratio (%)         | 190.7         | 175.8         | 190.3         | 190.4         | 188.5         |
|  |         | NPL formation (bps)                  | 457           | 434           | 384           | 359           | 334           |
|  |         | <b>Liquidity</b>                     | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21</b> |
|  |         | Loan growth (%)                      | (7.3)         | 8.9           | 6.0           | 7.0           | 7.0           |
|  |         | Customer deposits growth (%)         | (14.6)        | 6.2           | 5.9           | 5.5           | 5.6           |
|  |         | LDR(%)                               | 88.6          | 90.9          | 91.0          | 92.2          | 93.4          |
|  |         | <b>Capital</b>                       | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20</b> | <b>Dec-21</b> |
|  |         | CET1 ratio (%)                       | 15.5          | 17.8          | 17.8          | 17.9          | 18.1          |
|  |         | Tier-1 ratio(%)                      | 15.5          | 17.8          | 17.8          | 17.9          | 18.1          |
|  |         | Total capital ratio (%)              | 18.4          | 19.7          | 19.8          | 19.8          | 20.0          |

Source: Company data, RHB

15 August 2019

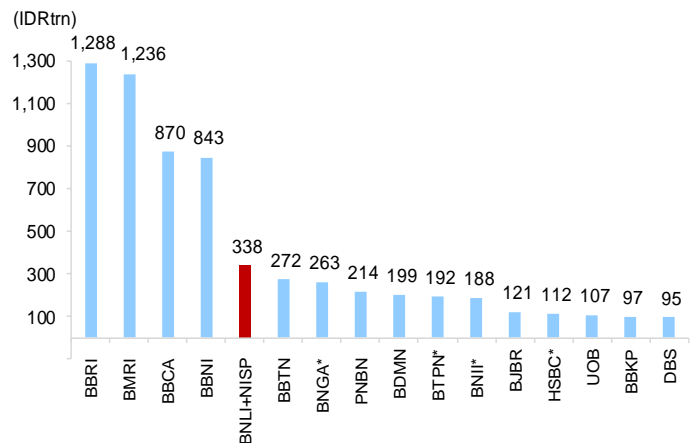
Financial Services | Banks

Figure 1: Top 17 banks by asset size



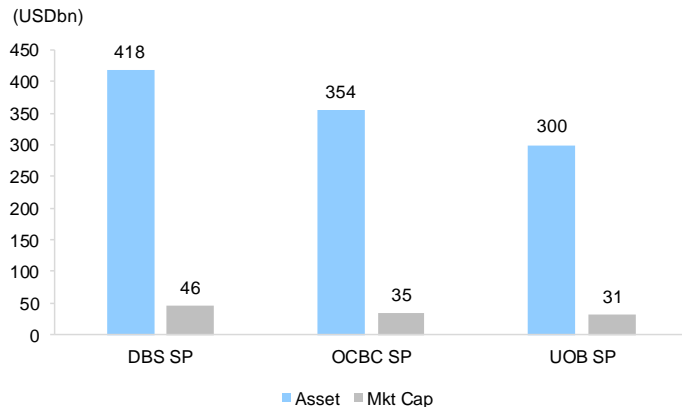
Note: \*Based on 1Q numbers  
Source: Company data, RHB

Figure 2: Top 15 banks by asset (if BNLI and NISP are amalgamated)



Note: \*Based on 1Q numbers  
Source: Company data, RHB

Figure 3: Top 3 Singaporean banks by asset size and market cap



Source: Bloomberg, RHB

Figure 4: Peer comparison - Indonesia banks

| Name   | BBG Ticker | Rating  | Price  | TP     | Upside/Downside | Market Cap | 2019E      |      |      |      |       |     |      |
|--|------------|---------|--------|--------|-----------------|------------|------------|------|------|------|-------|-----|------|
|  |            |         | (IDR)  | (IDR)  | (%)             |            | EPS Growth | P/E  | P/BV | PEG  | Yield | ROA | ROE  |
|  |            |         |        |        |                 | (USDm)     | (%)        | (x)  | (x)  | (x)  | (%)   | (%) | (%)  |
| Bank Central Asia                            | BBKA IJ    | Neutral | 30,050 | 32,500 | 8.2             | 51,966     | 14.3       | 25.1 | 4.2  | 1.8  | 1.1   | 3.4 | 18.1 |
| Bank Rakyat Indonesia                        | BBRI IJ    | Buy     | 4,330  | 5,000  | 15.5            | 37,461     | 16.5       | 14.1 | 2.5  | 0.9  | 3.0   | 2.8 | 19.1 |
| Bank Mandiri                                 | BMRI IJ    | Buy     | 7,500  | 10,000 | 33.3            | 24,549     | 14.8       | 12.2 | 1.8  | 0.8  | 3.2   | 2.3 | 15.1 |
| Bank Negara Indonesia                        | BBNI IJ    | Buy     | 8,100  | 11,500 | 42.0            | 10,595     | 18.1       | 8.5  | 1.3  | 0.5  | 2.5   | 2.0 | 16.2 |
| Bank Danamon                                 | BDMN IJ    | Neutral | 5,175  | 5,000  | (3.4)           | 3,548      | 4.1        | 12.1 | 1.1  | 2.9  | 2.8   | 3.0 | 9.4  |
| Bank Tabungan Negara                         | BBTN IJ    | Neutral | 2,290  | 2,150  | (6.1)           | 1,701      | -2.1       | 8.8  | 0.9  | -4.2 | 2.3   | 1.1 | 11.0 |
| Bank Panin                                   | PNBN IJ    | Buy     | 1,465  | 1,725  | 17.7            | 2,475      | 10.4       | 10.2 | 0.8  | 1.0  | 0.0   | 1.6 | 8.7  |
| Bank CIMB Niaga                              | BNGA IJ    | Buy     | 1,075  | 1,550  | 44.2            | 1,895      | 11.3       | 6.9  | 0.6  | 0.6  | 2.6   | 2.0 | 9.4  |
| Bank BTPN                                    | BTPN IJ    | Neutral | 3,230  | 4,200  | 30.0            | 1,846      | -12.2      | 10.7 | 1.0  | -0.9 | 3.2   | 2.8 | 9.2  |
| Bank Jabar                                   | BJBR IJ    | Sell    | 1,510  | 1,400  | (7.3)           | 1,042      | -3.0       | 9.7  | 1.2  | -3.2 | 6.0   | 1.7 | 13.0 |
| Bank Permata                                 | BNLI IJ    | Buy     | 965    | 1,300  | 34.7            | 1,898      | 56.2       | 19.3 | 1.1  | 0.3  | 0.0   | 1.2 | 6.1  |
| Bank Jawa Timur                              | BJTM IJ    | Neutral | 625    | 665    | 6.4             | 657        | 7.9        | 6.9  | 1.0  | 0.9  | 7.4   | 3.0 | 15.4 |
| BTPN Syariah                                 | BTPS IJ    | Buy     | 3,220  | 4,150  | 28.9            | 1,740      | 34.9       | 19.1 | 4.7  | 0.5  | 0.0   | 9.7 | 27.9 |
| Sector Weighted Average (Big 4 Banks)        |            |         |        |        |                 |            | 15.4       | 17.8 | 3.0  | 1.2  | 2.2   | 2.9 | 17.6 |
| Sector Weighted Average (Small & Mid Banks)* |            |         |        |        |                 |            | 9.6        | 11.1 | 1.0  | 0.2  | 2.4   | 2.1 | 9.5  |
| Sector Weighted Average                      |            |         |        |        |                 |            | 15.0       | 17.1 | 2.8  | 1.1  | 2.2   | 2.9 | 16.9 |

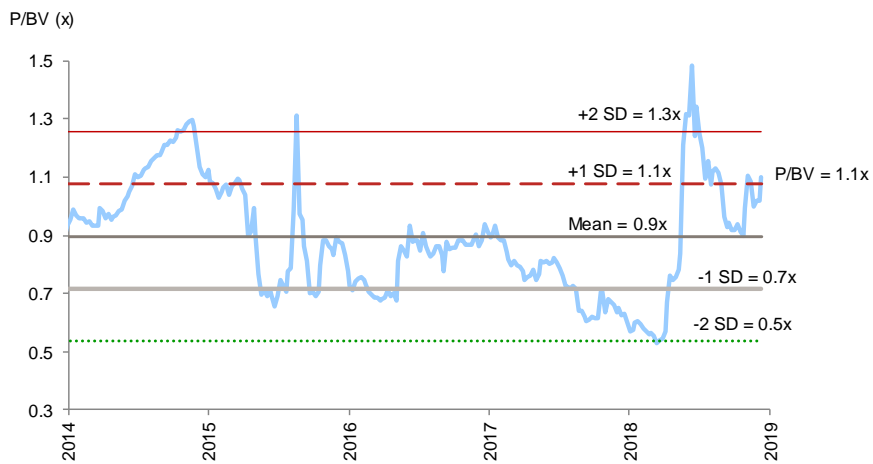
Note: Prices are as at 14 Aug 2019

Source: Bloomberg, RHB, \*Excluding BTPS

15 August 2019

Financial Services | Banks

Figure 5: Permata's 5-year P/BV band



Note: Prices are as at 14 Aug 2019

Source: Bloomberg, RHB

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|---------------------|--|
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