

Bank Pem. Daerah Jawa Timur

Sector: Banking (Neutral)

HOLD

(From : BUY)

Rating momentum*: ↔

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Price: IDR505 - TP: IDR520 (From: IDR500)

TP/consensus: 96%

TP momentum*: ↑

JCI: 5,160

Solid 4Q14 operating results

- 50.3% y-y growth in 4Q14 earnings to IDR215bn:** BJTM announced 4Q14 net profit growth of 50.3% y-y and 7.8% q-q to IDR215bn, resulting in FY14 earnings growth of 16.2% y-y to IDR958bn, accounting for 92-94% of consensus and our estimates, respectively. The shortfall in our earnings estimate was mainly due to November's one-off tax payment and penalty of IDR89bn, which we had previously alerted in our report.
- Sound NIM and improved assets quality support earnings:** Despite a lower y-y NIM, BJTM's quarterly NIM rose to 7.4% from 7.2% in 3Q14, due to increased exposure to high-yielding loans and a lower average cost of funding. This supported operating profit, helped also a decline in the gross NPL to 3.1% (-30bps y-y and -20bps q-q) due to insurance claims and write-offs on commercial loans.
- 18.6% y-y loan growth with a healthy LDR of 86.5%:** Although BJTM held back its loan portfolio in 4Q14, FY14 loans grew 18.6% y-y, led by nearly risk-free loans to civil servants and commercial loans. In contrast, third-party funding contracted 13.0% q-q, bringing FY14 growth to 16.5% y-y. The disposal of excess funding in 4Q14 led to the higher LDR, which rose to 86.5% at end-4Q14 from 75.2% at end-3Q14.

Outlook: Continued growth and better assets quality

For 2015, we expect BJTM to see loan growth of 18% y-y and maintain its LDR at around 85%, while the bank should continue to benefit from local government funding support. BJTM would continue to aggressively penetrate the market for high-yielding loans to civil servants to mitigate margin pressure and worsening NPLs. Meanwhile, efforts to lower NPL, targeted at 2.6%, should remain a management's focus. That said, we remain confident that BJTM will be able to book 2015F EPS growth of 14.2% y-y.

Recommendation: Cut to HOLD; Slight rise in TP to IDR520

As we expect a lower risk profile on expectations of flat BI rate, we slightly raise our 12-month TP for BJTM to IDR520, based on a 2015F P/BV of 1.2x (1.1x previously). However, given BJTM's recent market outperformance, there is now limited upside to our revised TP, and as such cut our rating to HOLD from Buy. Upside risks to our call include better-than-expected assets recovery, while downside risks include changes in management structure at the end of the current management's second term in 2Q15.

Exhibit 5. BJTM indicative results summary

(IDRbn)	4Q13	3Q14	4Q14*	q-q (%)	y-y (%)	4Q14/ 4Q14F	12M14*	y-y (%)	12M14 2014F	12M14 Cons.
Interest Income	929	1,044	1,113	6.6	19.8		4,047	21.9	100.3	
Interest expense	236	314	318	1.2	34.8		1,135	32.1	95.9	
Net interest income	693	730	795	8.8	14.6		2,912	18.3	102.2	
Non-interest income	99	90	115	28.6	16.8		443	2.7	91.1	
Total opr. income	792	820	910	11.0	14.9	102.1	3,355	16.0	100.6	101.6
Operating expense	613	538	553	2.8	(9.8)		1,970	10.8	101.7	
Operating profit	179	281	357	26.7	99.7	96.1	1,386	24.3	99.0	97.7
Pretax profit	205	282	334	18.3	63.0		1,380	19.7	95.6	
Net profit	143	200	215	7.8	50.3	76.3	958	16.2	93.5	91.8

Source: Company, Bloomberg, Bahana estimates, *Indicated numbers

Exhibit 1. Company information

Market cap (IDRt/USDb)	: 7.5/0.6
3M avg.daily t.o.(IDRb/USDm)	: 5.6/0.4
Bloomberg code	: BJTM JI

Exhibit 2. Shareholder information

East Java Provincial Govt. (%)	: 51.5
Free float (%)	: 48.5

Source: Company

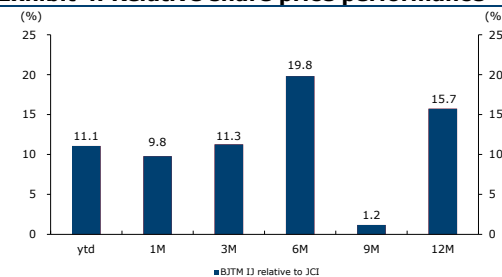
Exhibit 3. Key forecasts and valuations

	2013	2014F	2015F	2016F
Net int. inc. (IDRb)	2,472	2,850	3,189	3,648
Net profit (IDRb)	824	1,025	1,171	1,345
EPS (IDR)	55	69	79	90
EPS growth (%)	2.4	24.4	14.2	14.9
EPS momentum*	-	↔	↔	↑
P/E (x)	9.1	7.3	6.4	5.6
BVPS (IDR)	383	411	445	486
PBV (x)	1.3	1.2	1.1	1.0
DPS (IDR)	41	45	49	52
Yield (%)	8.0	8.8	9.8	10.4

Source: Company, Bahana estimates

Note: Pricing as of close on 14 January 2015

Exhibit 4. Relative share price performance



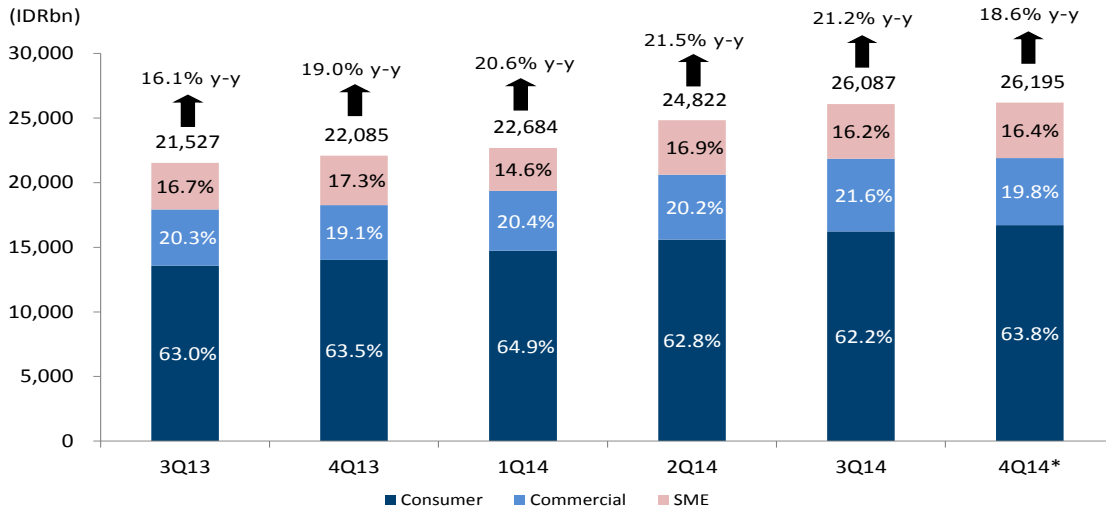
Source: Bloomberg, Bahana

Exhibit 5 (con't.). BJTM indicative results summary

Balance sheet & ratio analysis	4Q13	3Q14	4Q14*	12M13	12M14*	2013	2014F	2015F	2016F
Gross loans (IDRbn)	22,085	26,087	26,195	22,085	26,195	22,084	26,530	30,230	34,838
Deposits (IDRbn)	25,987	34,800	30,270	25,987	30,270	25,988	29,681	34,452	39,911
Key ratios									
NIM (%)	7.8	7.2	7.4	7.1	7.1	7.1	7.2	7.0	7.0
Cost to income (%)	82.6	75.2	70.9	70.3	69.1	70.3	69.0	69.0	69.1
Loan/deposit (%)	85.0	75.0	86.5	85.0	86.5	85.0	88.5	87.7	87.3
Capital adequacy (%)	23.7	20.3	21.7	23.7	21.7	23.7	22.3	19.7	17.6
Gross NPL (%)	3.4	3.3	3.1	3.4	3.1	3.4	3.1	2.9	2.8
LLP/NPL (%)	69.2	74.5	71.4	69.2	71.4	69.2	76.0	76.5	77.1
ROAE (%)	14.7	17.3	16.3	14.7	16.3	14.7	17.3	18.3	19.4

Source: Company, Bloomberg, Bahana estimates, *Indicated numbers

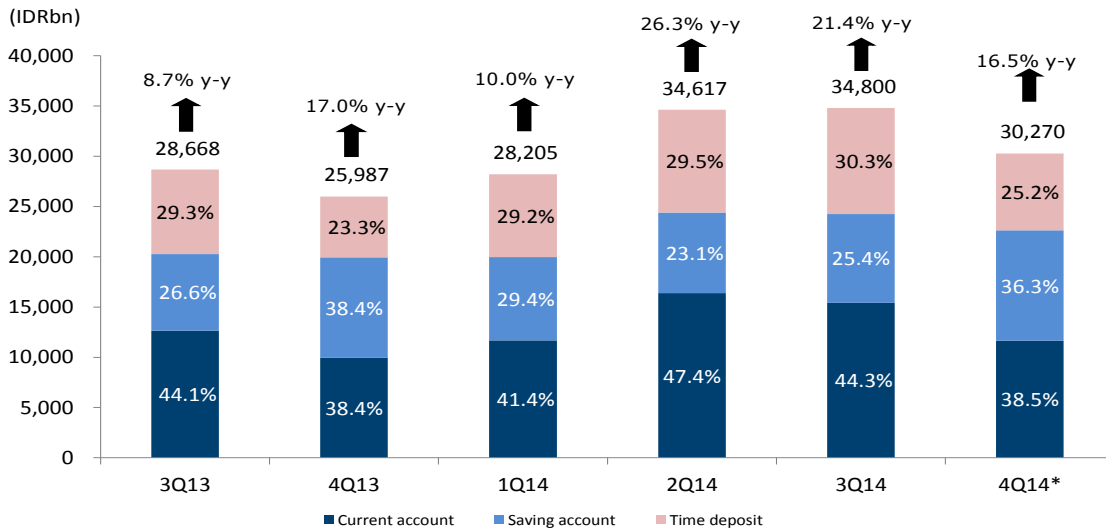
Exhibit 6. Loan breakdown by segment, 3Q13-4Q14*



Strong loan growth, driven mainly by consumer loans

Source: Company, *Indicated numbers

Exhibit 7. Third-party funding breakdown, 3Q13-4Q14*



Core deposits continue to account for the bulk of BJTM's total deposits

Source: Company, *Indicated numbers

Bank Jatim (BJTM)

Year to 31 December	2012	2013	2014F	2015F	2016F
PROFIT & LOSS (IDRb)					
Interest income	2,811	3,386	4,034	4,596	5,305
Interest expense	852	913	1,184	1,407	1,657
Net interest income	1,958	2,472	2,850	3,189	3,648
Non-interest income	358	367	487	569	647
Total operating income	2,316	2,839	3,337	3,757	4,295
Operating expenses	1,024	1,127	1,494	1,708	1,982
Loan loss provisions	307	596	443	450	476
Operating profit	986	1,116	1,400	1,600	1,837
Non-operating inc./ (exp.)	16	38	44	50	58
Pre-tax profit	1,001	1,154	1,444	1,650	1,895
Corporate tax	277	329	419	478	549
Minorities	0	0	0	0	0
Net profit	725	824	1,025	1,171	1,345
BALANCE SHEET (IDRb)					
Placement with other banks	7,145	5,433	5,085	5,903	6,830
Loans	18,556	22,084	26,262	30,230	34,838
Government bonds	0	0	0	0	0
Other interest bearing assets	994	2,907	3,053	3,511	4,037
Impairment in fin. assets	(256)	(526)	(616)	(680)	(749)
Net earnings assets	26,440	29,899	33,783	38,964	44,956
Cash on hand	1,961	2,320	2,436	2,618	3,011
Fixed assets	204	261	472	491	505
Other assets	507	568	624	531	584
Total assets	29,112	33,047	37,315	42,604	49,056
Customer deposits	22,210	25,988	29,681	34,452	39,911
Deposits from other banks	392	314	292	298	304
Borrowing and sub-debts	319	316	317	317	309
Other liabilities	704	710	888	893	1,282
Total liabilities	23,625	27,328	31,177	35,961	41,806
Minorities	0	0	0	0	0
Equity	5,487	5,719	6,138	6,643	7,250
Total liabilities and equity	29,112	33,047	37,315	42,604	49,056
BREAKDOWN					
% to earnings assets					
Gross loans	69.5	72.6	76.3	76.3	76.2
Government bonds	0.0	0.0	0.0	0.0	0.0
Other earnings assets	30.5	27.4	23.7	23.7	23.8
% to loan portfolio					
Consumer	64.1	63.5	63.6	64.1	64.6
Commercial	17.5	19.1	19.9	19.9	19.8
SME	18.5	17.3	16.5	16.1	15.6
Others	0.0	0.0	0.0	0.0	0.0
% to total deposits					
Core funding	80.0	76.3	74.6	72.8	72.0
Time deposit	20.0	23.7	25.4	27.2	28.0
RATIOS (%)					
ROA	2.7	2.7	2.9	2.9	2.9
ROE	16.6	14.7	17.3	18.3	19.4
NIM	6.5	7.1	7.2	7.0	7.0
Loan/deposit ratio	83.6	85.0	88.5	87.7	87.3
Loan/funding ratio	81.0	83.0	86.7	86.2	86.0
Cost efficiency ratio	44.2	39.7	44.8	45.5	46.1
CIR	68.9	70.3	69.0	69.0	69.1
Gross NPL	3.0	3.4	3.1	2.9	2.8
NPL coverage	46.7	69.2	76.0	76.5	77.1
LLR to total loans	1.4	2.4	2.4	2.3	2.2
CAR-total	26.6	23.7	22.3	19.7	17.6
CAR-tier I	22.8	22.7	21.3	18.6	16.6
MAJOR ASSUMPTIONS (%)					
Net interest income growth	1.8	26.2	15.3	11.9	14.4
Operating income growth	6.3	22.6	17.5	12.6	14.3
Operating profit growth	(16.5)	13.2	25.5	14.2	14.8
Net profit growth	(15.8)	13.8	24.4	14.2	14.9
Loan growth	15.0	19.0	18.9	15.1	15.2
Deposit growth	10.2	17.0	14.2	16.1	15.8
Non-int. inc./opt. inc.	15.4	12.9	14.6	15.1	15.1
Corporate tax rate	27.6	28.5	29.0	29.0	29.0
Payout ratio	73.6	73.5	65.0	63.0	58.0

A 14.2% y-y growth in 2015F earnings, helped by..

... strong loan growth from ...

... civil servants and micro financing loans

Improved assets quality with downtrend in gross NPL

High payout ratios

Source: Company, Bahana estimates

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