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10 June 2019

Indonesia

Financial services

Reuters BFIN.JK
Bloomberg BFIN IJ

Priced on 10 June 2019
Jakarta Comp @ 6,289.6

12M hi/lo Rp760/505

12M price target Rp800
±% potential +24%

Shares in issue 15,967.1m
Free float (est.) 50.9%

Market cap US\$716m

3M ADV US\$0.0m

Foreign s'holding 40.0%

Major shareholders

Trinugraha Capital & Co SCA 42.8%
NT Asian Discovery Fund 8.2%

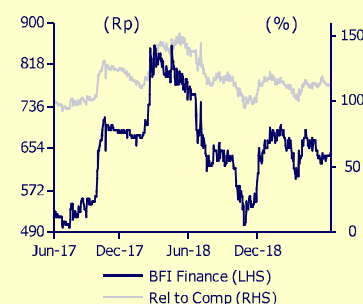
Blended ESG Score (%)*

Overall 45.8
Country average 52.7
GEM sector average 64.5

*Click to visit company page on clsa.com for details

Stock performance (%)

| | 1M | 3M | 12M |
|------------|-------|-----|--------|
| Absolute | 0.8 | 6.6 | (15.1) |
| Relative | (0.5) | 8.2 | (19.1) |
| Abs (US\$) | 1.3 | 6.9 | (17.2) |



Source: Bloomberg

In transition mode

Focusing on prudent risk management

Our meeting with management revealed that BFIN is currently in the consolidation period as they are refocusing towards non-dealer financing due to higher NPF from the dealer segment. This was attributed to lower financing growth, besides the effect of election year. We cut our financing growth assumption to 8% from 10% previously. Further, prudent risk management will be implemented to keep asset quality. In our view, NIM compression will still be manageable as indicated by good rates from their recent offshore loan and the shift to the higher-yield segment. Overall we cut our earnings by 6%/7% in 19/20CL and roll forward our valuation to 2020. Retain our BUY call with a TP of Rp800/share, implying 1.7x 20CL PB.

Refocusing strategy (scaling down used 4W financing)

Since 1Q19, BFIN has started to refocus its business strategy to non-dealer due to asset quality concern from the dealer segment. Dealer segment only accounted for ~2% of new booking in 1Q19 and it partly contributed to the soft growth (besides the election period). Hence, we cut our growth to 8% (from 10%). The company indicates that new booking will grow QoQ as demand started to pick up approaching Lebaran, but they will conservatively grow the book this year.

Maintaining healthy asset quality

NPF from dealer financing has deteriorated since 2H19; it could reach as high as 3% for used 4W in some areas. Hence, the refocusing strategy is likely to improve the asset quality going forward (total NPF 1Q19 at 1.33%). However, it will take some time before the results start to show. Besides that, tightening underwriting and collection effort have also been in place.

Compression on NIM still manageable

The shift to the non-dealer segment with higher yield could help manage yield despite competition pressure. On the other hand, the company highlighted that they could still maintain good funding cost especially from the recent offshore borrowing. Hence, the pressure on NIM will still be manageable in our view.

Retain BUY, unchanged TP at Rp800/share

Given the soft financing growth as the company refocuses its business, we cut our 19/20CL earnings by 6%/7%. We rollover our valuation to 2020 and retain our BUY call with unchanged TP at Rp800/share, implying 1.7x 20CL PB. BFIN also offers consistent dividend with payout out ratio ~50% in the past few years.

Financials

| Year to 31 December | 17A | 18A | 19CL | 20CL | 21CL |
|-------------------------|-------|-------|-------|--------|--------|
| Operating profit (Rpbn) | 1,488 | 1,840 | 1,959 | 2,230 | 2,585 |
| Net profit (Rpbn) | 1,188 | 1,467 | 1,506 | 1,678 | 1,913 |
| NP forecast change (%) | - | - | (6.3) | (6.8) | (6.4) |
| EPS (Rp) | 74.37 | 91.89 | 94.29 | 105.06 | 119.82 |
| CL/consensus (1) (EPS%) | - | - | 94 | 93 | 94 |
| EPS growth (% YoY) | 48.7 | 23.6 | 2.6 | 11.4 | 14.0 |
| PE (x) | 8.7 | 7.0 | 6.8 | 6.1 | 5.4 |
| Adjusted EPS (Rp) | 74.37 | 91.89 | 94.29 | 105.06 | 119.82 |
| Adjusted PE (x) | 8.7 | 7.0 | 6.8 | 6.1 | 5.4 |
| Dividend yield (%) | 5.6 | 7.0 | 7.2 | 8.0 | 9.1 |
| PB (x) | 2.1 | 1.7 | 1.6 | 1.4 | 1.2 |

Source: www.clsa.com

Financials at a glance

| Year to 31 December | 2017A | 2018A | 2019CL | (% YoY) | 2020CL | 2021CL |
|--|----------------|----------------|----------------|------------|----------------|----------------|
| Profit & Loss (Rpbn) | | | | | | |
| Interest income | 2,985 | 3,739 | 4,092 | 9.5 | 4,484 | 5,041 |
| Interest expense | (897) | (1,036) | (1,196) | | (1,291) | (1,454) |
| Net interest income | 2,088 | 2,703 | 2,896 | 7.1 | 3,193 | 3,587 |
| Trading income | - | - | - | | - | - |
| Fee income | 1,057 | 1,279 | 1,471 | 15 | 1,736 | 2,083 |
| Other operating income | 0 | 0 | 0 | | 0 | 0 |
| Non-interest income | 1,057 | 1,279 | 1,471 | 15 | 1,736 | 2,083 |
| Total op income | 3,145 | 3,982 | 4,367 | 9.7 | 4,929 | 5,670 |
| Staff & related costs | (869) | (1,050) | (1,208) | | (1,389) | (1,597) |
| Other operating expenses | (486) | (583) | (686) | | (787) | (903) |
| Total operating expenses | (1,354) | (1,633) | (1,894) | | (2,176) | (2,501) |
| Provision OP | 1,791 | 2,349 | 2,473 | 5.3 | 2,753 | 3,169 |
| Loan-loss provisions | (303) | (509) | (514) | | (523) | (584) |
| Operating profit | 1,488 | 1,840 | 1,959 | 6.5 | 2,230 | 2,585 |
| Other income/expenses | 0 | - | 0 | | 0 | 0 |
| Profit before tax | 1,488 | 1,840 | 1,959 | 6.5 | 2,230 | 2,585 |
| Taxation | (300) | (372) | (454) | | (552) | (672) |
| Preference dividends | - | - | - | | - | - |
| Profit for period | 1,188 | 1,467 | 1,506 | 2.6 | 1,678 | 1,913 |
| Minority interest | 0 | 0 | 0 | | 0 | 0 |
| Net profit | 1,188 | 1,467 | 1,506 | 2.6 | 1,678 | 1,913 |
| Adjusted profit | 1,188 | 1,467 | 1,506 | 2.6 | 1,678 | 1,913 |
| Balance sheet (Rpbn) | | | | | | |
| Net loans | 15,352 | 17,281 | 18,661 | 8 | 20,706 | 23,360 |
| Cash & equivalents | 225 | 755 | 435 | (42.4) | 293 | 355 |
| Placements with other banks | - | - | - | | - | - |
| Other interest earning assets | - | - | - | | - | - |
| Total interest earning assets | 15,577 | 18,036 | 19,096 | 5.9 | 21,000 | 23,715 |
| Net fixed assets | 457 | 530 | 539 | 1.7 | 549 | 560 |
| Intangible assets | 21 | 32 | 22 | (32) | 22 | 23 |
| Other assets | 428 | 519 | 568 | 9.5 | 623 | 684 |
| Total non-interest earning assets | 906 | 1,081 | 1,129 | 4.4 | 1,194 | 1,267 |
| Total assets | 16,483 | 19,117 | 20,226 | 5.8 | 22,194 | 24,982 |
| Customer deposits | 0 | 0 | 0 | | 0 | 0 |
| Deposits from banks | - | - | - | | - | - |
| Other int-bearing liabs | 10,728 | 12,096 | 12,777 | 5.6 | 13,800 | 15,514 |
| Total int-bearing liabs | 10,728 | 12,096 | 12,777 | 5.6 | 13,800 | 15,514 |
| Other non-int-bearing liabs | 851 | 817 | 897 | 9.8 | 987 | 1,086 |
| Shareholder funds | 4,904 | 6,204 | 6,551 | 5.6 | 7,407 | 8,383 |
| Other equity capital | 0 | 0 | 0 | | 0 | 0 |
| Total liabs & equity | 16,483 | 19,117 | 20,226 | 5.8 | 22,194 | 24,982 |
| Total tier 1 capital | 0 | 0 | 0 | | 0 | 0 |
| Total capital | 0 | 0 | 0 | | 0 | 0 |
| Risk weighted assets | - | - | - | | - | - |
| Average Risk weighted assets | - | - | - | | - | - |
| Ratio analysis | | | | | | |
| Net int inc growth (%) | 30.4 | 29.5 | 7.1 | | 10.2 | 12.4 |
| Non-int inc growth (%) | 26.8 | 21.0 | 15.0 | | 18.0 | 20.0 |
| Operating inc growth (%) | 29.2 | 26.6 | 9.7 | | 12.9 | 15.0 |
| Net profit growth (%) | 48.7 | 23.6 | 2.6 | | 11.4 | 14.0 |
| Net interest margin (%) | 14.3 | 15.7 | 15.2 | | 15.3 | 15.5 |
| Cost/income (%) | 43.1 | 41.0 | 43.4 | | 44.2 | 44.1 |
| Loans/deposits (%) | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 |
| Gross NPLs/total loans (%) | 1.0 | 1.3 | 1.3 | | 1.3 | 1.2 |
| Loan provisions/NPLs (%) | 160.4 | 174.7 | 168.2 | | 158.9 | 162.3 |
| ROA (%) | 8.2 | 8.2 | 7.7 | | 7.9 | 8.1 |
| ROE (%) | 25.9 | 26.4 | 23.6 | | 24.0 | 24.2 |
| Tier 1 CAR (%) | - | - | - | | - | - |
| CAR (%) | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 |

Source: www.clsa.com

Refocusing on the non-dealer financing

Selective growth in used 4W segment

Seasonality of low demand in 1Q; coming from high base in 1Q18

Significant decline of new booking growth from dealer segment in 1Q19

Refocusing strategy (scaling down used 4W)

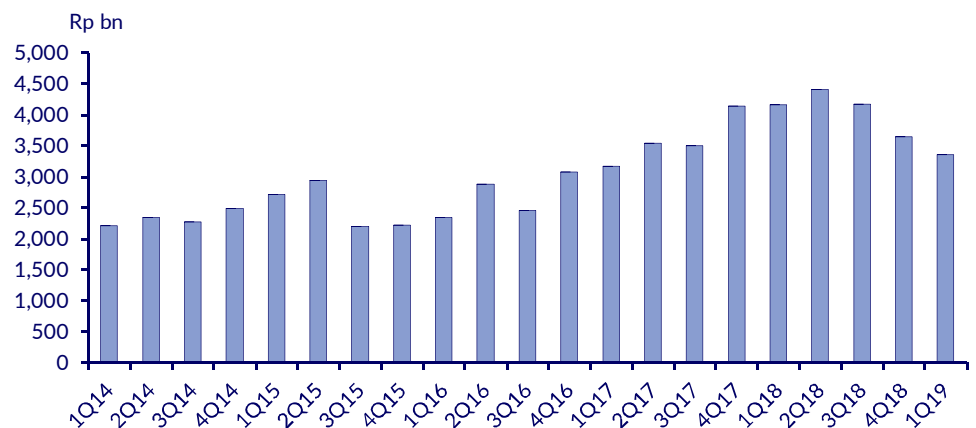
Starting this year, BFIN has started to scale down its used 4W dealer financing business which aligns with the company's strategy of shifting towards non-dealer financing. The reason behind this strategy was higher NPF from the dealer segment (could reach 3% for certain areas) and high competition in the market.

Some areas such as the east part of Indonesia are still relying on the used 4W segment. Thus, BFIN will only limit growth to selective areas that have good asset quality.

Combining the refocusing strategy and seasonal low demand in 1Q, new booking declined by -8% QoQ and -19.5% YoY to Rp3.4tn in 1Q19. Our recent talk with management indicated that it is still within their expectation since the implementation of the refocusing strategy.

Figure 1

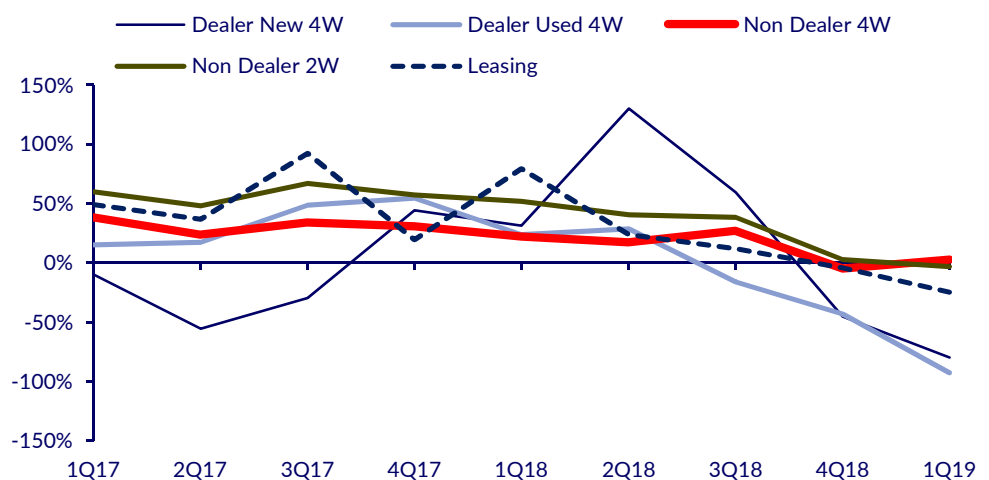
BFIN quarterly new booking



Source: Company, CLSA

Figure 2

Quarterly new booking growth (YoY)



Source: Company, CLSA

Election effect partly contributed to soft financing growth

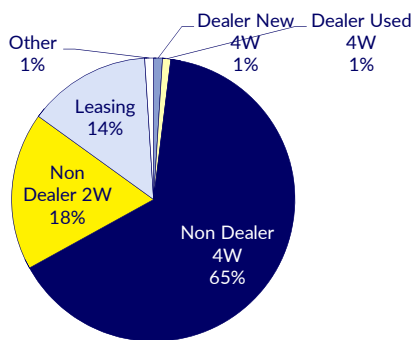
We assume 8% financing growth in 2019 (from 10% previously)

Management also highlighted the effect of election year to their soft financing growth as some of its customers prefer to wait and see until the election is over. Further, management claimed that demand has already started to recover in Apr-May 2019, but they remain cautious as commodity prices (coal and CPO) are quite volatile. Hence, they will conservatively grow the book to maintain the asset quality.

Recently, we also met the Multifinance Companies Association (APPI) and the association is looking for around 5-10% YoY financing growth this year. To incorporate recent developments in the company, we slightly lower our financing growth to 8% vs 10.4% previously.

Figure 3

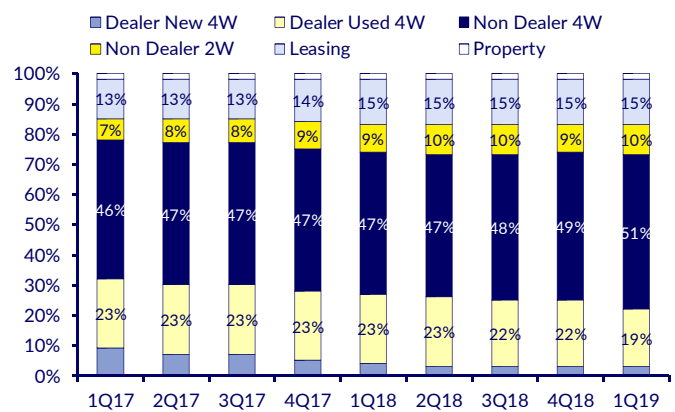
BFIN new booking composition (1Q19)



Source: Company, CLSA

Figure 4

BFIN managed receivables composition



Source: Company, CLSA

In addition, BFI also keeps introducing the new product. Recently on Feb-2019, BFIN introduced a program called "BFI Srikandi" in Surabaya, East Java. This financing program is targeted specifically for woman and is expected to support the financial inclusive services for women.

"BFI Srikandi" is doing weekly programs that are directly connected with women's groups and communities. The activities include service programs and mentoring programs to encourage financial independence and inclusiveness for Surabaya women.

Figure 5

BFI Srikandi program



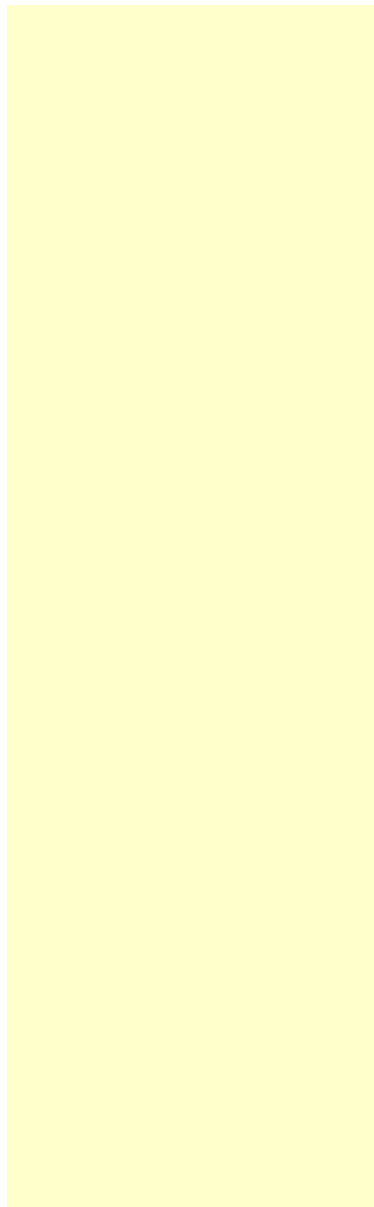
Source: Company

Figure 6

Example of bazaar in Surabaya



Source: Company



The company claimed that most of the financing is disbursed for the productive sector as most of these women already have a business. In terms of contribution, it is very minimal and they will not aggressively push this segment as the need for resources will be quite big.

Selective growth on dealer financing to improve asset quality

NPF from the dealer financing reached 1.8% as of 1Q19

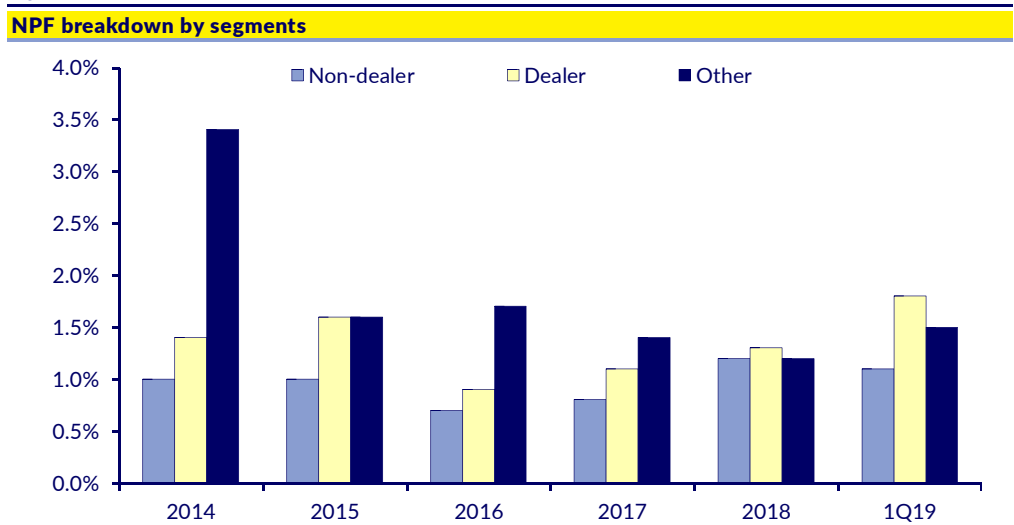
Tightening underwriting and collection effort to maintain healthy asset quality

Maintaining healthy asset quality

The selective growth from the dealer financing segment in 2019 is mainly contributed by the deterioration of asset quality from this segment. It could reach as high as 3% for certain regions and it didn't improve since 2H18. Therefore, the collection will be the main focus for dealer financing and management expects this figure to improve in subsequent quarters.

However, BFIN indicates that the result will not directly show in the NPF figures as they need to make some adjustments for their collection and underwriting team. For example, the company needs to shift some their employees and they need to train employees to adapt with the new segment.

Figure 7



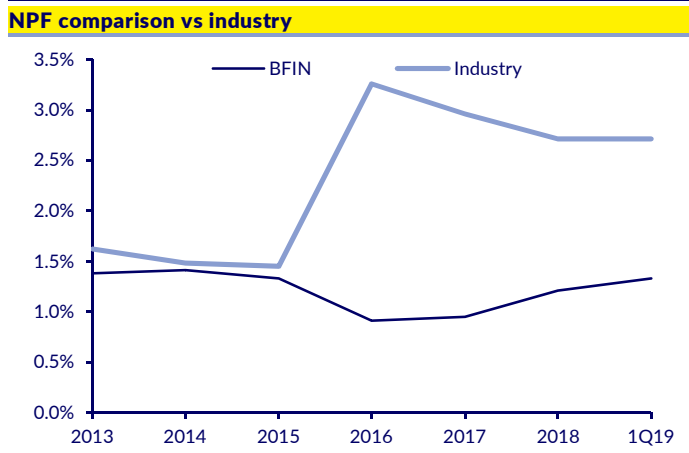
Source: Company, CLSA

On top of that, preventive action has been implemented by tightening the underwriting process as well as the collection effort to maintain healthy asset quality. **For instance: branches that reach certain NPF limits will be penalised and the will need higher approval.**

- ❑ For 4W segment, they need to receive approval from the area manager instead of 4W branch manager previously.
- ❑ For 2W segment, the approval needs to go to the branch manager instead of 2W unit head previously.

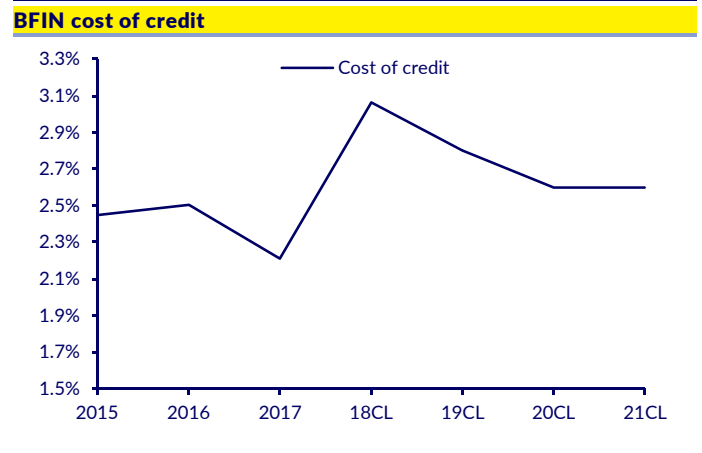
As of 1Q19, BFIN's NPF stood at 1.33%, up 12bps QoQ and 33bps YoY (19CL: 1.29%). The company mentioned that they are still comfortable with this figure as long as it is below 1.5%. Note that industry average gross NPF was at 2.71% as of March 2019.

Figure 8

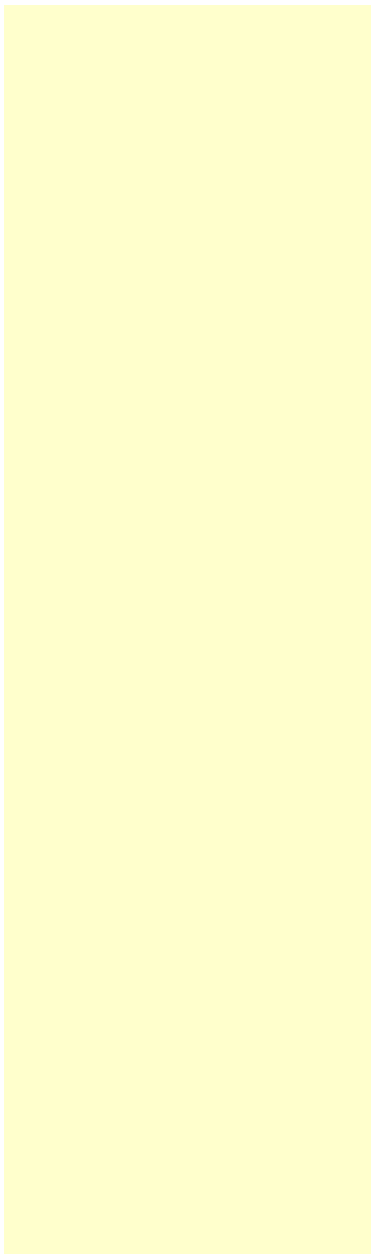


Source: Company, OJK

Figure 9



Source: CLSA



BFIN will also continuously improve its credit survey from mostly manual (traditional) survey to become credit scoring and data analytic. They mentioned that the credit scoring will be updated regularly.

Around 40% of customers are repeat order customers

Rates for new customers have been adjusted by ~50bps

Higher lending yield from the non-dealer segment

No funding issue for BFIN

Good rates from offshore banks borrowing

Compression on NIM still manageable

Customers' loyalty is key for BFIN to maintain its good operational. Around 40% of the customers are repeat orders so they need to be always offered attractive rates especially with fierce competition nowadays.

In addition, BFIN has started to adjust some of the financing rates (around 50bps) for new customers following the 175bps policy rate hike last year. However, with fierce competition, we expect a slight decline of asset yield to 21.46% in 2019 (2018: 21.7%).

Figure 10

Contractual yield by segments

| Segment | Contractual yield |
|-----------------|-------------------|
| Heavy equipment | 14-17% |
| Non-dealer 4W | 18-22% |
| Car | 15-19% |
| Non-dealer 2W | 37-40% |
| Property | 17-20% |

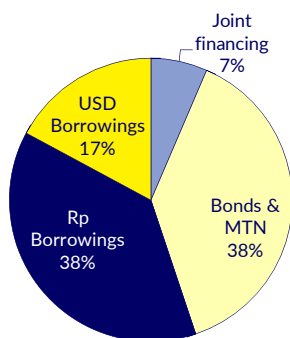
Source: Company

Liquidity has dried up since 2H18 up to now due to a combination of attractive coupon rate from retail bonds and govt bonds. However, BFIN doesn't experience any issues with funding due to their strong operational track record.

In fact, BFIN recently signed a new syndicated loan with four foreign banks including ANZ, MUFG, SMBC, and StanChart with total facility up to US\$200m (BFIN already using ~US\$100m). In terms of rates it was much better than their recent bond issuance at 9-10.5% in early 2019. **Management also stated that BFIN almost secured all the funding that they needed.**

Figure 11

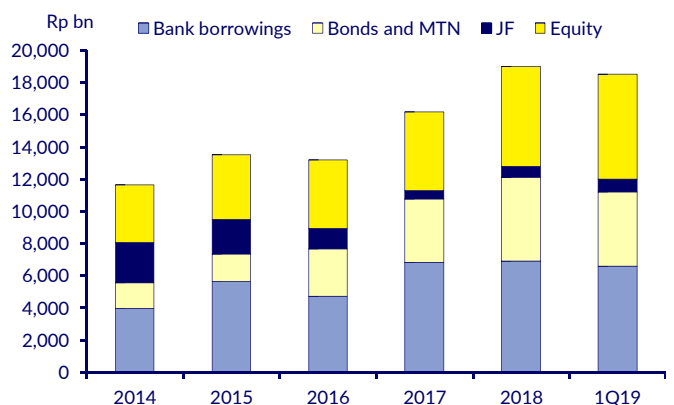
Source of funding (1Q19)



Source: Company, CLSA

Figure 12

Funding breakdown (1Q19)



Source: Company, CLSA

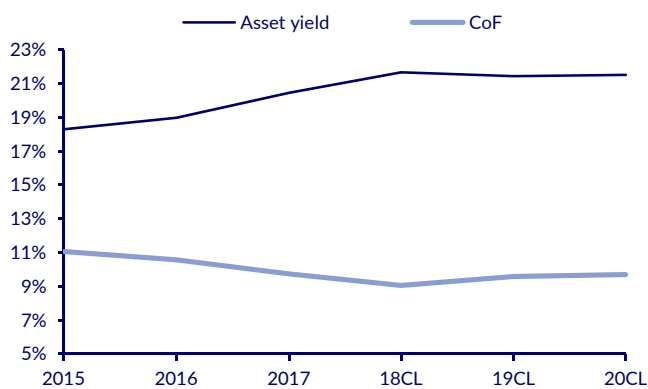
BFIN mentioned that the default of SNP Finance medium-term notes (MTN) didn't affect their funding from local banks. The company still receives loan from the big banks, despite an unavoidable rates adjustment (from ~8% to ~10%). We expect cost of funds (CoF) to increase to 9.6% in 19CL (from 9.1% in 2018) mainly due to the higher rate environment.

In 1H19, BFIN has issued Rp2tn of bonds to refinance its previous bonds. Coupon rate was increased by 225-275bps. It was quite high compared to their previous bond issuance because of the commitment given to the investor last year. BFIN is also reviewing the potential of global bonds issuance in the coming years.

In our view, the decline in net interest margin will still manageable due to the shifting strategy to the non-dealer segment as well as the good borrowing rates from the banks (offshore and local). Hence, we expect NIM to decline by 34bps to 15.2% in 19CL.

Figure 13

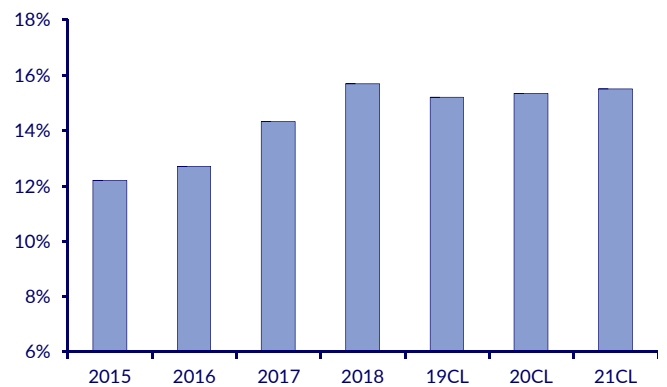
BFIN asset yield and CoF



Source: CLSA, Company

Figure 14

BFIN net interest margin



Source: CLSA, Company

Retain BUY with target price of Rp800/share

Consistent dividend payout ratio of ~50% in the past 4 years

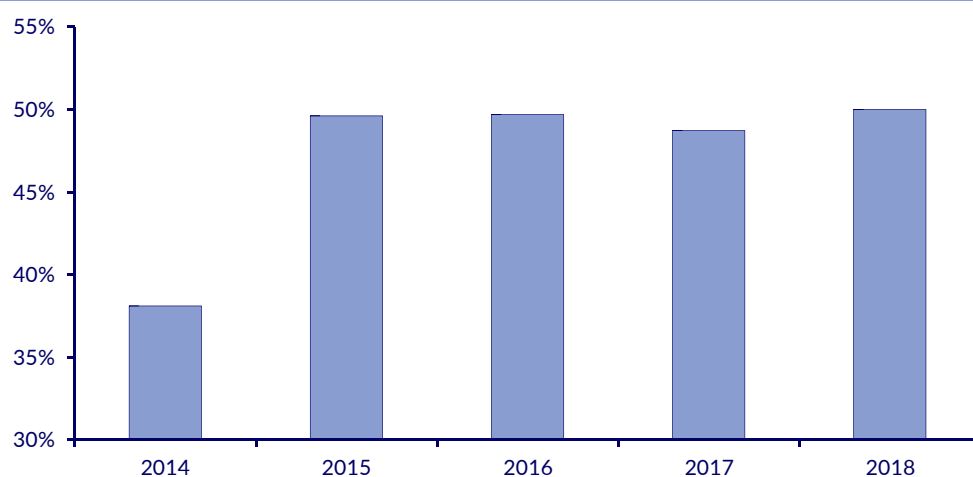
Retain BUY; TP Rp800/share

We cut our financing growth assumptions, thus translating into lower earnings by 6%/7% in 19/20CL. We roll over our valuation to 2020 and retain our BUY call with a target price of Rp800/share, implying 1.7x 20CL PB. Its higher level of ROE and consistent dividend should justify its premium.

During the AGM (28 May 2019), the company decided to distribute Rp49/share of dividend equivalent to ~50% dividend payout ratio, implying ~7.7% of dividend yield (based on 31 May closing price). The cum date will be on 13 June 2019.

Figure 15

BFIN historical dividend payout ratio



Source: Company

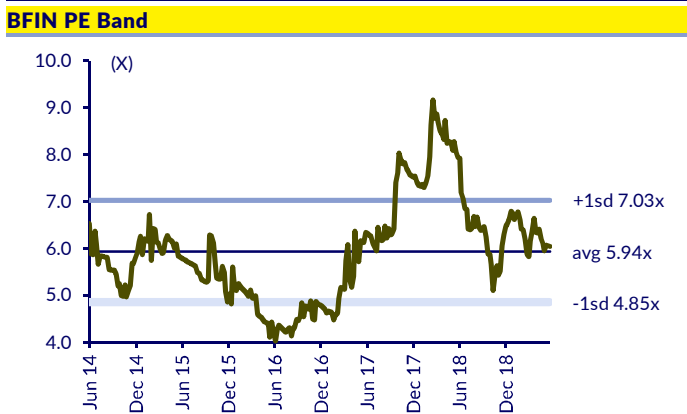
Figure 16

Peers comparison

| Company | Code | Mkt cap (US\$bn) | ADT (US\$m) | EPS growth (%) | | | DY (%) | 19F | | | 20F | | |
|----------------------------|-----------|------------------|-------------|----------------|-------------|-------------|------------|-------------|-------------|------------|-------------|-------------|------------|
| | | | | 18A | 19F | 20F | | ROE (%) | PE (x) | PB (x) | ROE (%) | PE (x) | PB (x) |
| BFI Finance | BFIN IJ | 0.73 | 0.1 | 23.6 | 2.6 | 11.4 | 7.7 | 23.6 | 8.5 | 2.0 | 24.0 | 7.6 | 1.7 |
| Krungthai Card | KTC TB | 3.50 | 15.6 | 55.5 | 18.5 | 11.8 | 2.2 | 33.6 | 18.6 | 5.9 | 30.3 | 16.8 | 4.9 |
| Muangthai Capital | MTC TB | 3.74 | 15.5 | 48.5 | 25.6 | 26.9 | 0.7 | 33.2 | 24.9 | 7.2 | 31.4 | 19.9 | 5.5 |
| Srisawad Corporation | SAWAD TB | 2.23 | 11.2 | (3.4) | 30.1 | 23.0 | 0.6 | 24.0 | 18.9 | 4.0 | 22.7 | 15.8 | 3.3 |
| Aeon Thana Sinsap | AEONTS TB | 1.40 | 2.0 | 23.5 | 20.0 | 11.3 | 2.4 | 20.8 | 13.6 | 2.7 | 20.4 | 12.0 | 2.3 |
| Muthoot Finance | MUTH IN | 2.97 | 9.1 | 45.6 | 12.8 | 12.9 | 1.6 | 21.9 | 11.0 | 2.2 | 21.1 | 9.8 | 1.9 |
| Manappuram Finance | MGFL IN | 1.12 | 6.6 | (3.6) | 17.4 | 19.6 | 2.2 | 21.3 | 10.2 | 2.1 | 21.2 | 8.6 | 1.7 |
| M&M Financial | MMFS IN | 4.20 | 10.0 | 116.5 | 4.8 | 23.1 | 1.7 | 15.9 | 13.6 | 2.1 | 17.4 | 11.1 | 1.8 |
| Shriram Transport Finance | SHTF IN | 4.04 | 20.2 | 24.7 | 6.9 | 16.3 | 1.4 | 16.4 | 8.9 | 1.4 | 16.4 | 7.7 | 1.2 |
| Shriram City Union Finance | SCUF IN | 1.51 | 0.6 | 19.5 | (8.8) | 8.4 | 1.4 | 13.4 | 11.4 | 1.4 | 13.0 | 10.4 | 1.3 |
| Cholamandalam Investment | CIFC IN | 2.83 | 6.3 | 35.4 | 19.3 | 14.4 | 0.5 | 20.6 | 16.2 | 3.0 | 19.5 | 14.1 | 2.5 |
| MAS Financial Services | MASFIN IN | 0.47 | 0.2 | 32.0 | 19.5 | 23.5 | - | 18.5 | 18.0 | 3.1 | 19.5 | 14.6 | 2.7 |
| Bharat Financial Inclusion | BHAFIN IN | 2.04 | 8.9 | 50.7 | 18.0 | 31.9 | - | 23.0 | 12.7 | 2.6 | 23.4 | 8.9 | 2.0 |
| AEO Credit Service M | ACSM MK | 0.93 | 0.7 | 22.9 | 6.9 | 9.4 | 3.1 | 21.5 | 11.2 | 2.3 | 19.8 | 10.2 | 2.0 |
| Asian average | | | | 36.0 | 14.7 | 17.9 | 1.4 | 21.8 | 14.6 | 3.1 | 21.2 | 12.3 | 2.5 |

Source: CLSA, Bloomberg

Figure 17



Source: CLSA

Figure 18



Source: CLSA

Figure 19

| Changes to key assumptions | | 2016 | 2017 | 2018 | 19CL | 20CL |
|--------------------------------|------------|--------|--------|--------|--------|--------|
| Yield on earning assets | Old | 18.99% | 20.48% | 21.70% | 21.38% | 21.39% |
| | New | | | | 21.46% | 21.55% |
| Cost of funds | Old | 10.58% | 9.76% | 9.07% | 9.90% | 9.95% |
| | New | | | | 9.61% | 9.71% |
| Net interest spread | Old | 8.41% | 10.72% | 12.62% | 11.48% | 11.45% |
| | New | | | | 11.84% | 11.84% |
| Net interest margin | Old | 12.70% | 14.33% | 15.69% | 14.84% | 14.83% |
| | New | | | | 15.19% | 15.35% |
| Cost of credit | Old | 2.5% | 2.2% | 3.06% | 2.80% | 2.60% |
| | New | | | | 2.80% | 2.60% |
| Cost to income | Old | 46.7% | 43.1% | 41.02% | 42.11% | 42.72% |
| | New | | | | 43.36% | 44.15% |
| ROAA | Old | 6.6% | 8.2% | 8.24% | 8.05% | 8.12% |
| | New | | | | 7.65% | 7.91% |
| ROAE | Old | 19.3% | 25.9% | 26.42% | 25.10% | 25.50% |
| | New | | | | 23.61% | 24.04% |
| Financing (Rp bn) | Old | 11,766 | 15,589 | 17,658 | 19,499 | 22,066 |
| | New | | | | 19,076 | 21,121 |
| Financing growth (%) | Old | 16.8% | 32.5% | 13.3% | 10.4% | 13.2% |
| | New | | | | 8.0% | 10.7% |
| Non-interest income growth (%) | Old | 18% | 27% | 21% | 25% | 17% |
| | New | | | | 15% | 18% |
| Net profit (Rp bn) | Old | 798 | 1,188 | 1,467 | 1,607 | 1,801 |
| | New | | | | 1,506 | 1,678 |
| Target Price (Rp/share) | Change (%) | | | | (6.3%) | (6.8%) |
| | Old | | | | 800 | |
| | New | | | | 800 | |
| | Change (%) | | | | 0.0% | |

Source: CLSA

On top of that, there is more clarity in the lawsuit case as recently the Administrative High Court has issued a ruling in favour of BFI in the case where BFIN and Ministry of Law and Human Rights (Kemenkumham) are defendants. Right after this decision, Aryaputra (APT) appealed to the Supreme Court (MA) and currently is still in process. Potential settlement with APT could still happen along the way, but no substantial development on this up to now.

Meanwhile, on the M&A process with two Italian investors (Compass and Star Finance) there is no significant progress until now. The potential new investors are still waiting for ECB approval.

Appendix

Figure 20

BFIN 1Q19 result summary

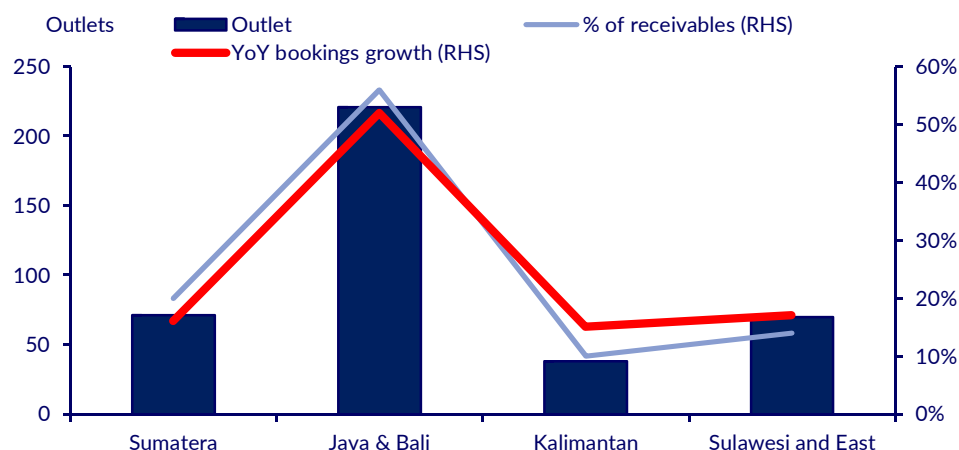
| | 1Q18 | 4Q18 | 1Q19 | QoQ | YoY | % CL |
|---------------------------------|--------|--------|--------|---------|---------|------|
| New bookings (Rp bn) | 4,161 | 3,642 | 3,350 | (8.0%) | (19.5%) | |
| Balance sheet (Rp bn) | | | | | | |
| Managed receivables | 16,870 | 18,340 | 17,905 | (2.4%) | 6.1% | |
| Total Debt | 11,692 | 12,096 | 11,183 | (7.5%) | (4.4%) | |
| Total Equity | 5,257 | 6,204 | 6,528 | 5.2% | 24.2% | |
| Income statement (Rp bn) | | | | | | |
| Net interest income | 590 | 676 | 659 | (2.5%) | 11.7% | 23% |
| Fee based income | 320 | 328 | 307 | (6.4%) | (4.1%) | 19% |
| Total revenue | 910 | 1,004 | 966 | (3.8%) | 6.2% | 22% |
| Provision | 84 | 128 | 112 | (12.5%) | 33.3% | 22% |
| Operating expenses | 385 | 405 | 428 | 5.7% | 11.2% | 23% |
| PPOP | 525 | 599 | 538 | (10.2%) | 2.5% | 21% |
| Net profit | 351 | 374 | 337 | (10.0%) | (4.0%) | 21% |
| Ratio (%) | | | | | | |
| Net int spread | 11.72 | 11.91 | 11.61 | (0.30) | (0.11) | |
| ROE | 27.63 | 26.68 | 21.27 | (5.41) | (6.36) | |
| NPF (gross) | 1.00 | 1.21 | 1.33 | 0.12 | 0.33 | |
| Debt/equity (x) | 2.20 | 1.90 | 1.70 | (0.20) | (0.50) | |
| Cost to income | 42.31 | 41.54 | 44.31 | 2.77 | 2.00 | |

Source: CLSA, Company

As part of the company's strategy, management highlighted that BFIN will continuously open more distribution networks, especially in under-penetrated regions such as Kalimantan, Sulawesi, and Papua.

Figure 21

BFIN distribution and branch networks (as of 1Q19)



Source: Company, CLSA

Valuation details

We value the company using 20CL target PB of 1.7x. In our view, it deserves to trade at a premium to peers given its superior ROE and high dividend yield. Furthermore, BFIN's unique business model and diverse product portfolio should support the company's performance.

Investment risks

The ongoing lawsuit by Aryaputra (APT) and slower-than-expected financing disbursement (owing to economic slowdown) remain the key risks. Besides, fierce competition and high-rate environment could give pressure on the company's margin.

Company outline

| The business | Competition & market franchise |
|--|---|
| BFI Finance provides non-dealer financing (used 4W and used 2W), new 4W financing, heavy equipment and property financing. Non-dealer financing is the top seller product and it also accounted for most of the multi-purpose financing segment. As of 2017, the company has 342 outlets across Indonesia. | Competition is quite intense; however, a diverse product portfolio has supported the company's business growth. Strong brand image and marketing strategy are also among BFIN's key advantages. |

Detailed financials

Profit & Loss (Rpbn)

| Year to 31 December | 2015A | 2016A | 2017A | 2018A | 2019CL | 2020CL | 2021CL |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Interest income | 2,124 | 2,393 | 2,985 | 3,739 | 4,092 | 4,484 | 5,041 |
| Interest expense | (712) | (792) | (897) | (1,036) | (1,196) | (1,291) | (1,454) |
| Net interest income | 1,412 | 1,601 | 2,088 | 2,703 | 2,896 | 3,193 | 3,587 |
| Trading income | - | - | - | - | - | - | - |
| FX gains/(losses) | - | - | - | - | - | - | - |
| Fee/Commission income | 706 | 834 | 1,057 | 1,279 | 1,471 | 1,736 | 2,083 |
| Other operating income | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-interest income | 706 | 834 | 1,057 | 1,279 | 1,471 | 1,736 | 2,083 |
| Total op income | 2,118 | 2,435 | 3,145 | 3,982 | 4,367 | 4,929 | 5,670 |
| Staff related expenses | (626) | (716) | (869) | (1,050) | (1,208) | (1,389) | (1,597) |
| Property related expenses | (341) | (392) | (482) | (567) | (669) | (769) | (885) |
| Other operating expenses | (85) | (28) | (4) | (16) | (17) | (18) | (19) |
| Total operating expenses | (1,053) | (1,137) | (1,354) | (1,633) | (1,894) | (2,176) | (2,501) |
| Preprovision OP | 1,066 | 1,298 | 1,791 | 2,349 | 2,473 | 2,753 | 3,169 |
| Specific provision for loans | - | - | - | - | - | - | - |
| General provision for loans | (230) | (273) | (303) | (509) | (514) | (523) | (584) |
| Other provisions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loan-loss provisions | (230) | (273) | (303) | (509) | (514) | (523) | (584) |
| Operating profit | 835 | 1,025 | 1,488 | 1,840 | 1,959 | 2,230 | 2,585 |
| Associate income | - | - | - | - | - | - | - |
| Other exceptional items | - | - | - | - | - | - | - |
| Other income/expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Profit before tax | 835 | 1,025 | 1,488 | 1,840 | 1,959 | 2,230 | 2,585 |
| Taxation | (185) | (227) | (300) | (372) | (454) | (552) | (672) |
| Profit after tax (before preference dividends) | 650 | 798 | 1,188 | 1,467 | 1,506 | 1,678 | 1,913 |
| Preference dividends | - | - | - | - | - | - | - |
| Profit for period | 650 | 798 | 1,188 | 1,467 | 1,506 | 1,678 | 1,913 |
| Minority interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | 650 | 798 | 1,188 | 1,467 | 1,506 | 1,678 | 1,913 |
| Adjusted profit | 650 | 798 | 1,188 | 1,467 | 1,506 | 1,678 | 1,913 |
| EPS (Rp) | 40.7 | 50.0 | 74.4 | 91.9 | 94.3 | 105.1 | 119.8 |
| Adjusted EPS (Rp) | 40.7 | 50.0 | 74.4 | 91.9 | 94.3 | 105.1 | 119.8 |
| DPS (Rp) | 20.2 | 24.9 | 36.2 | 45.2 | 46.2 | 51.5 | 58.7 |

Profit & loss ratios

| Year to 31 December | 2015A | 2016A | 2017A | 2018A | 2019CL | 2020CL | 2021CL |
|-------------------------------|-------|-------|-------|-------|--------|--------|--------|
| Growth (%) | | | | | | | |
| Net int inc growth (%) | 10.3 | 13.4 | 30.4 | 29.5 | 7.1 | 10.2 | 12.4 |
| Non-int inc growth (%) | 37.1 | 18.1 | 26.8 | 21.0 | 15.0 | 18.0 | 20.0 |
| Operating inc growth (%) | 18.0 | 14.9 | 29.2 | 26.6 | 9.7 | 12.9 | 15.0 |
| Operating exp growth (%) | 24.2 | 7.9 | 19.2 | 20.6 | 15.9 | 14.9 | 14.9 |
| Loan provision expense growth | 16.5 | 18.8 | 10.8 | 68.2 | 1.0 | 1.6 | 11.8 |
| Net profit growth (%) | 8.3 | 22.8 | 48.7 | 23.6 | 2.6 | 11.4 | 14.0 |
| EPS growth (% YoY) | 8.3 | 22.8 | 48.7 | 23.6 | 2.6 | 11.4 | 14.0 |
| Adj EPS growth (% YoY) | 8.3 | 22.8 | 48.7 | 23.6 | 2.6 | 11.4 | 14.0 |
| DPS growth (% YoY) | 41.0 | 23.0 | 45.7 | 24.7 | 2.3 | 11.4 | 14.0 |
| Margins (%) | | | | | | | |
| Spread (%) | 7.3 | 8.4 | 10.7 | 12.6 | 11.8 | 11.8 | 11.8 |
| Net interest margin (%) | 12.2 | 12.7 | 14.3 | 15.7 | 15.2 | 15.3 | 15.5 |
| Returns (%) | | | | | | | |
| ROA (%) | 6.1 | 6.6 | 8.2 | 8.2 | 7.7 | 7.9 | 8.1 |
| ROE (%) | 17.1 | 19.3 | 25.9 | 26.4 | 23.6 | 24.0 | 24.2 |
| Other key ratios (%) | | | | | | | |
| Non-interest inc/op inc (x) | 33.3 | 34.2 | 33.6 | 32.1 | 33.7 | 35.2 | 36.7 |
| Cost/income (%) | 49.7 | 46.7 | 43.1 | 41.0 | 43.4 | 44.2 | 44.1 |
| Staff costs/op costs (%) | 59.5 | 63.0 | 64.1 | 64.3 | 63.8 | 63.8 | 63.9 |
| Provision exp/loans (%) | 2.3 | 2.4 | 2.0 | 2.9 | 2.8 | 2.5 | 2.5 |
| Earnings payout ratio (%) | 49.6 | 49.7 | 48.7 | 49.2 | 49.0 | 49.0 | 49.0 |

Source: www.clsa.com

Balance sheet (Rpbn)

| Year to 31 December | 2015A | 2016A | 2017A | 2018A | 2019CL | 2020CL | 2021CL |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Gross loans | 10,078 | 11,766 | 15,589 | 17,658 | 19,076 | 21,121 | 23,820 |
| Loan loss reserve | (180) | (183) | (237) | (378) | (415) | (415) | (460) |
| Net loans | 9,898 | 11,583 | 15,352 | 17,281 | 18,661 | 20,706 | 23,360 |
| Cash & equivalents | 777 | 165 | 225 | 755 | 435 | 293 | 355 |
| Placements with other banks | - | - | - | - | - | - | - |
| Other interest earning assets | - | - | - | - | - | - | - |
| Total interest earning assets | 10,675 | 11,749 | 15,577 | 18,036 | 19,096 | 21,000 | 23,715 |
| Net fixed assets | 428 | 414 | 457 | 530 | 539 | 549 | 560 |
| Intangible assets | 22 | 20 | 21 | 32 | 22 | 22 | 23 |
| Other assets | 645 | 294 | 428 | 519 | 568 | 623 | 684 |
| Total non-interest earning assets | 1,095 | 728 | 906 | 1,081 | 1,129 | 1,194 | 1,267 |
| Total assets | 11,770 | 12,476 | 16,483 | 19,117 | 20,226 | 22,194 | 24,982 |
| Current deposits | - | - | - | - | - | - | - |
| Savings deposits | - | - | - | - | - | - | - |
| Other deposits | - | - | - | - | - | - | - |
| Customer deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits from banks | - | - | - | - | - | - | - |
| Other int-bearing liabs | 7,318 | 7,656 | 10,728 | 12,096 | 12,777 | 13,800 | 15,514 |
| Total int-bearing liabs | 7,318 | 7,656 | 10,728 | 12,096 | 12,777 | 13,800 | 15,514 |
| Other non-int-bearing liabs | 433 | 565 | 851 | 817 | 897 | 987 | 1,086 |
| Total liabilities | 7,751 | 8,222 | 11,579 | 12,914 | 13,674 | 14,787 | 16,599 |
| Share capital | 391 | 399 | 399 | 399 | 399 | 399 | 399 |
| Retained earnings | 3,170 | 3,637 | 4,315 | 5,544 | 5,851 | 6,707 | 7,682 |
| Reserves | 458 | 219 | 190 | 261 | 301 | 301 | 301 |
| Treasury stock | (4) | (252) | (252) | (252) | (252) | (252) | (252) |
| Shareholder funds | 4,019 | 4,255 | 4,904 | 6,204 | 6,551 | 7,407 | 8,383 |
| Minorities/other equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total equity | 4,019 | 4,255 | 4,904 | 6,204 | 6,551 | 7,407 | 8,383 |
| Total liab & equity | 11,770 | 12,476 | 16,483 | 19,117 | 20,226 | 22,194 | 24,982 |
| Non-performing loans | 134 | 107 | 148 | 216 | 246 | 261 | 283 |
| Credit risk | - | - | - | - | - | - | - |
| Operational risk | - | - | - | - | - | - | - |
| Market risk | - | - | - | - | - | - | - |
| Risk weighted assets | - | - | - | - | - | - | - |
| Average Risk weighted assets | - | - | - | - | - | - | - |
| Total tier 1 capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| BVPS (Rp) | 251.7 | 266.5 | 307.1 | 388.5 | 410.3 | 463.9 | 525.0 |

Balance sheet ratios

| Year to 31 December | 2015A | 2016A | 2017A | 2018A | 2019CL | 2020CL | 2021CL |
|---|-------|---------|-------|-------|--------|--------|--------|
| Growth (%) | | | | | | | |
| Loan growth (%) | 15.6 | 17.0 | 32.5 | 12.6 | 8.0 | 11.0 | 12.8 |
| Deposits growth (%) | nm | nm | nm | nm | nm | nm | nm |
| Loans/deposits (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Growth in total assets (% YoY) | 21.6 | 6.0 | 32.1 | 16.0 | 5.8 | 9.7 | 12.6 |
| Risk-wtd assets growth (%) | - | - | - | - | - | - | - |
| Asset quality | | | | | | | |
| Provision expense/loans (%) | 2.3 | 2.4 | 2.0 | 2.9 | 2.8 | 2.5 | 2.5 |
| Gross NPLs/total loans (%) | 1.4 | 0.9 | 1.0 | 1.3 | 1.3 | 1.3 | 1.2 |
| Loan provisions/NPLs (%) | 134.2 | 170.5 | 160.4 | 174.7 | 168.2 | 158.9 | 162.3 |
| NPL growth/loan growth | 24.5 | (116.3) | 116.8 | 366.7 | 174.4 | 53.6 | 66.5 |
| Loan provision growth/loan provision expense growth | 66.7 | 9.9 | 276.5 | 86.7 | 972.1 | 0.0 | 91.8 |
| Capital Adequacy | | | | | | | |
| Tier 1 CAR (%) | - | - | - | - | - | - | - |
| CAR (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| RWA/total assets (%) | - | - | - | - | - | - | - |
| Equity/total assets (%) | 34.1 | 34.1 | 29.8 | 32.5 | 32.4 | 33.4 | 33.6 |

Source: www.clsa.com

DuPont analysis

| Year to 31 December | 2015A | 2016A | 2017A | 2018A | 2019CL | 2020CL | 2021CL |
|---------------------------------|-------|-------|-------|-------|--------|--------|--------|
| Net int income/assets (%) | 13.2 | 13.2 | 14.4 | 15.2 | 14.7 | 15.1 | 15.2 |
| Non-int income/assets (%) | 6.6 | 6.9 | 7.3 | 7.2 | 7.5 | 8.2 | 8.8 |
| Total op income/assets (%) | 19.8 | 20.1 | 21.7 | 22.4 | 22.2 | 23.2 | 24.0 |
| Op expenses/assets (%) | 9.8 | 9.4 | 9.4 | 9.2 | 9.6 | 10.3 | 10.6 |
| Op profit/assets (%) | 29.6 | 29.5 | 31.1 | 31.5 | 31.8 | 33.5 | 34.6 |
| Provision expenses/assets (%) | (2.1) | (2.3) | (2.1) | (2.9) | (2.6) | (2.5) | (2.5) |
| Other items/assets (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax expense/assets (%) | (6.1) | (6.0) | (5.8) | (5.8) | (6.8) | (7.7) | (8.4) |
| ROA (%) | 6.1 | 6.6 | 8.2 | 8.2 | 7.7 | 7.9 | 8.1 |
| ROA incl other items/assets (%) | 21.3 | 21.2 | 23.1 | 22.9 | 22.4 | 23.3 | 23.8 |
| Leverage (x) | 2.8 | 2.9 | 3.2 | 3.2 | 3.1 | 3.0 | 3.0 |
| ROE (%) | 17.1 | 19.3 | 25.9 | 26.4 | 23.6 | 24.0 | 24.2 |

Source: www.clsa.com

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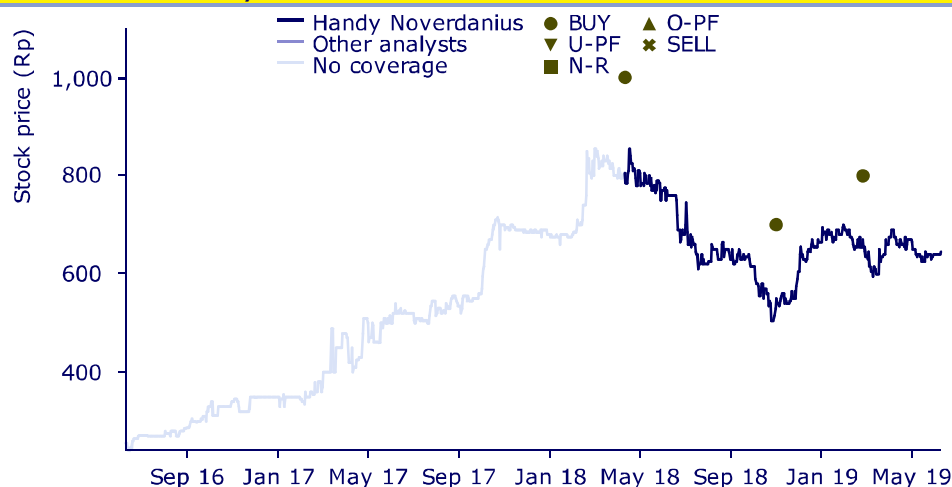
BFI Finance (BFIN IJ - RP645 - BUY)
Aeon Credit Service M (N-R)
AEONTS (N-R)
ANZ Bank (ANZ AU - A\$28.37 - SELL)
Aryaputra (N-R)
Bharat Fin Inclusion (N-R)
Cholamandalam IF (N-R)
Compass Banca (N-R)
Krungthai Card (KTC TB - BT42.5 - SELL)
M&M Financial (N-R)
Manappuram Finance (N-R)
MAS Financial Services (N-R)
Muangthai Capital (MTC TB - BT55.2 - BUY)
MUFG (N-R)
Muthoot Finance (N-R)
Shriram City Union Finance (N-R)
Shriram Transport (SHTF IS - RS1,092.6 - SELL)
SNP Finance (N-R)
Srisawad Corporation (SAWAD TB - BT52.8 - BUY)
Standard Chartered (N-R)
Star Finance (N-R)
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Important disclosures

Recommendation history of BFI Finance Indonesia Tbk BFIN IJ



| Date | Rec | Target | Date | Rec | Target |
|-------------|-----|--------|-------------|-----|----------|
| 25 Feb 2019 | BUY | 800.00 | 12 Apr 2018 | BUY | 1,000.00 |
| 01 Nov 2018 | BUY | 700.00 | | | |

Source: CLSA

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Overall rating distribution for CLST only Universe: Overall rating distribution: BUY / Outperform - CLST: 52.31%, Underperform / SELL - CLST: 47.69%, Restricted - CLST: 0.00%. Data as of 31 March 2019. Investment banking clients as a % of rating category: BUY / Outperform - CLST: 0.00%, Underperform / SELL - CLST: 0.00%,

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