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16 September 2019

Indonesia

Financial services

Reuters BFIN.JK
Bloomberg BFIN IJ

Priced on 16 September 2019
Jakarta Comp @ 6,219.4

12M hi/lo Rp700/505

12M price target Rp650
±% potential +16%

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

Market cap US\$639m

3M ADV US\$0.0m

Foreign s'holding 40.0%

Major shareholders

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

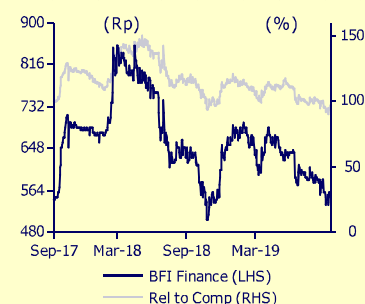
Blended ESG Score (%)*

Overall 45.8
Country average 53.0
GEM sector average 63.7

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

Stock performance (%)

	1M	3M	12M
Absolute	(3.4)	(5.1)	(11.1)
Relative	(2.4)	(4.6)	(15.2)
Abs (US\$)	(1.5)	(2.8)	(5.9)



Source: Bloomberg

Refocusing strategy

Accelerating non-dealer business with well-maintained asset quality

We recently hosted BFI Finance (BFIN) on a non-deal roadshow for domestic investors. Investors were keen to understand BFIN's non-dealer financing and competition with other companies. Good asset quality at low level of 1.2% (as of Aug-19) also surprised investors; it was much below the industry average of ~2.8%. Post-election, financing started to recover in Jul-Aug, while catalyst remains from accelerating financing growth with manageable asset quality. We cut earnings by 3%/4% in 19/20CL. Retain BUY; lower TP from Rp800 to Rp650, based on 1.4x 20CL PB (slightly higher than historical mean of 1.3x PB).

Financing growth recovery remains on-track (but softer than last year)

BFIN previously targeted new booking to reach Rp9tn in 2H19, flat YoY growth by FY19. In July-Aug, BFIN recorded ~Rp3tn of new booking and is on track to achieve the earlier target. Management remains confident that 2H19 new booking will be better than 1H19 but it is still softer than the previous year. Hence, the worst-case scenario might be a slight shortfall by year-end (~1-3% YoY). Further, there is no funding issue and BFIN almost secured the financing needs for this year.

Manageable asset quality

Deterioration of asset quality in 1H19 at 1.4% was mainly due to the problem in dealer financing where NPL jumped to 2.1% and a long holiday in June (collection was very minimal). However, NPL has started to normalise back to 1.2% as of Aug. This figure is targeted to be maintained until the end of the year. Management recently indicated that ~1.2% NPL ratio will be the new normal for the company, as it needs to slightly take risk to compete in the non-dealer 2W segment.

Ongoing litigation process; waiting for new shareholders

The Administrative High Court has issued a ruling in favour of BFIN; however, APT (the old owner) has appealed this decision in the Supreme Court. The trial is currently still ongoing. Meanwhile, the new potential shareholders (Compass) are currently waiting for OJK and ECB approval. Compass is committed to close the deal and recently had a hearing with OJK and meeting with BFIN's management.

Retain BUY rating; lower TP to Rp650

We slightly cut our financing growth estimates by 2%/1% in 19/20CL translating into 3%/4% earnings cut in 19/20CL. Further, we expect earnings recovery in 20CL. Retain BUY rating; lower TP to Rp650 based on 1.4x 20CL PB, slightly higher than the historical mean (1.3x PB).

Financials

Year to 31 December	17A	18A	19CL	20CL	21CL
Operating profit (Rpbn)	1,488	1,840	1,909	2,160	2,523
Net profit (Rpbn)	1,188	1,467	1,456	1,607	1,851
NP forecast change (%)	-	-	(3.3)	(4.2)	(3.3)
EPS (Rp)	74.37	91.89	91.17	100.67	115.90
CL/consensus (1) (EPS%)	-	-	97	96	97
EPS growth (% YoY)	48.7	23.6	(0.8)	10.4	15.1
PE (x)	7.5	6.1	6.1	5.6	4.8
Adjusted EPS (Rp)	74.37	91.89	91.17	100.67	115.90
Adjusted PE (x)	7.5	6.1	6.1	5.6	4.8
Dividend yield (%)	6.5	8.1	8.1	9.0	10.3
PB (x)	1.8	1.4	1.4	1.2	1.1

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	3,918	4.8	4,311	4,815
Interest expense	(897)	(1,036)	(1,102)		(1,172)	(1,290)
Net interest income	2,088	2,703	2,817	4.2	3,139	3,525
Trading income	-	-	-		-	-
Fee income	1,057	1,279	1,458	14	1,692	2,030
Other operating income	0	0	0		0	0
Non-interest income	1,057	1,279	1,458	14	1,692	2,030
Total op income	3,145	3,982	4,275	7.4	4,831	5,555
Staff & related costs	(869)	(1,050)	(1,208)		(1,389)	(1,597)
Other operating expenses	(486)	(583)	(685)		(792)	(909)
Total operating expenses	(1,354)	(1,633)	(1,893)		(2,181)	(2,506)
Provision OP	1,791	2,349	2,382	1.4	2,650	3,049
Loan-loss provisions	(303)	(509)	(472)		(490)	(526)
Operating profit	1,488	1,840	1,909	3.8	2,160	2,523
Other income/expenses	0	-	0		0	-
Profit before tax	1,488	1,840	1,909	3.8	2,160	2,523
Taxation	(300)	(372)	(454)		(552)	(672)
Preference dividends	-	-	-		-	-
Profit for period	1,188	1,467	1,456	(0.8)	1,607	1,851
Minority interest	0	0	0		0	0
Net profit	1,188	1,467	1,456	(0.8)	1,607	1,851
Adjusted profit	1,188	1,467	1,456	(0.8)	1,607	1,851
Balance sheet (Rpbn)						
Net loans	15,352	17,281	18,305	5.9	20,092	22,931
Cash & equivalents	225	755	466	(38.3)	488	264
Placements with other banks	-	-	-		-	-
Other interest earning assets	-	-	-		-	-
Total interest earning assets	15,577	18,036	18,770	4.1	20,579	23,195
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	19,900	4.1	21,773	24,462
Customer deposits	0	0	0		0	0
Deposits from banks	-	-	-		-	-
Other int-bearing liabs	10,728	12,096	12,491	3.3	13,471	15,136
Total int-bearing liabs	10,728	12,096	12,491	3.3	13,471	15,136
Other non-int-bearing liabs	851	817	897	9.8	987	1,086
Shareholder funds	4,904	6,204	6,511	5	7,315	8,240
Other equity capital	0	0	0		0	0
Total liabs & equity	16,483	19,117	19,900	4.1	21,773	24,462
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	4.2		11.5	12.3
Non-int inc growth (%)	26.8	21.0	14.0		16.0	20.0
Operating inc growth (%)	29.2	26.6	7.4		13.0	15.0
Net profit growth (%)	48.7	23.6	(0.8)		10.4	15.1
Net interest margin (%)	14.3	15.7	14.9		15.5	15.6
Cost/income (%)	43.1	41.0	44.3		45.2	45.1
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	156.6		156.8	158.2
ROA (%)	8.2	8.2	7.5		7.7	8.0
ROE (%)	25.9	26.4	22.9		23.3	23.8
Tier 1 CAR (%)	-	-	-		-	-
CAR (%)	0.0	0.0	0.0		0.0	0.0

Source: www.clsa.com

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Financing growth recovery remains on-track (softer than last year)

More cautious in 2019

Scaled down dealer financing business to manage asset quality

Intense competition in dealer business, new players just focus on market share

Low bargaining power in the dealer segment; higher risk for financing company

Targeting non-dealer financing to 85% of receivables in next 3 years (from 64% in 1H19)

BFIN highlighted that weak new booking growth due to pre-election pause, relatively soft commodity prices in certain areas such as Sumatera and Kalimantan, as well as preventive action by management to maintain asset quality.

The latter has translated into the company's decision to scale down its dealer financing and move towards the non-dealer financing segment (vehicle pledge). Dealer financing means the company provides financing to customers to buy new or used cars through partnership dealers. Meanwhile, in non-dealer financing, customers pledge their vehicle (4W and 2W) to receive financing from the company for working capital or investment purposes.

At the same time, this strategy has given a good competitive advantage to the company whereas competitors still mainly focus on the auto-related business (dealer). **BFIN is the only multi-finance company that focuses on non-dealer financing in Indonesia, accounting for 64% of total managed receivables by 1H19.** Moreover, the company claimed 50% of non-dealer financing is coming from repeat orders.

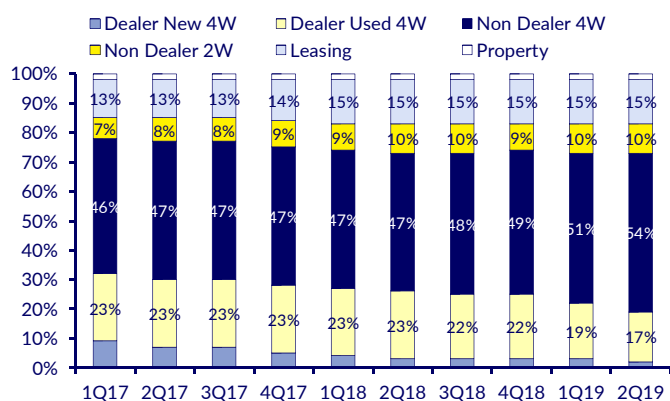
Management stated that competition in the new car business is quite intense nowadays especially related to lending rates and commission to dealers. Most Japanese multi-finance companies are entering this segment with the hope to grab market share while margin is very thin.

Besides, the bargaining power of the multi-finance company in the dealer financing business is lower than non-dealer financing. Dealers (mostly in the used car segment) tend to push financing companies to take risk and disburse loan to their customers. If they prefer not to do it, they can break the relationship with dealers.

In the next three years, BFIN targets contribution from non-dealer financing 4W to reach 70% from 54% currently, while non-dealer 2W to 15% (from 10% currently). On the other hand, contribution from the dealer business will keep declining going forward.

Figure 1

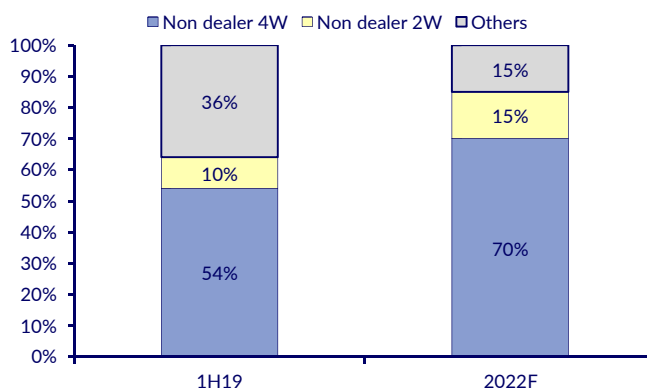
BFIN receivables breakdown



Source: Company

Figure 2

BFIN target product portfolio



Source: Company (Note: Others including dealer, leasing, and property)

New booking reached Rp10tn in 8M19 (in-line), however demand still relatively soft

Non-dealer financing has lower ticket size vs dealer business...

...But, it carries higher lending yield (differences up to 400bps)

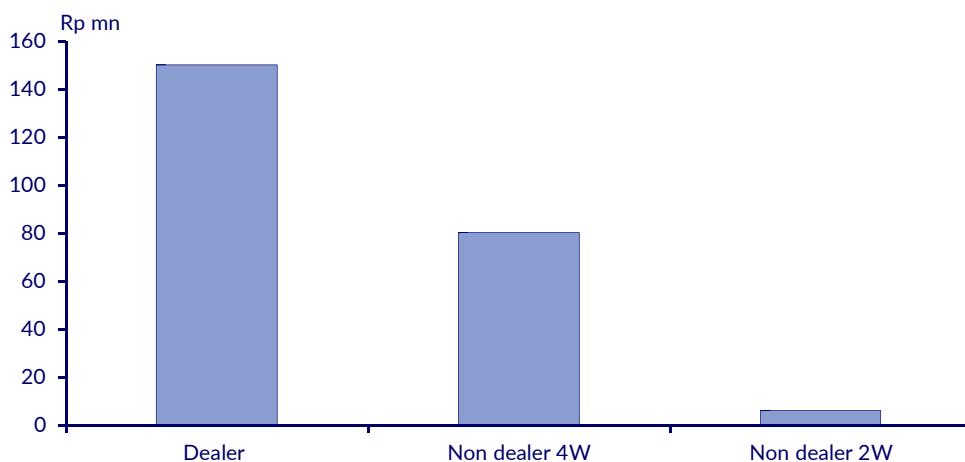
BFIN has 399 outlets nationwide (one of the largest in terms of networks)

During the 2Q19 analyst briefing, management mentioned that they are looking to record ~Rp9tn of new booking in 2H19 (vs Rp7.1tn in 1H19). This implies Rp1.5tn of booking per month between July-Dec-2019.

Recently, during the roadshow, management remained confident that demand has started to recover albeit slowly. BFIN has recorded around Rp10tn of new booking until Aug-2019, but demand is still relatively soft. Worst-case scenario is the new booking might have a slight shortfall by year-end (~1-3% YoY).

Figure 3

BFIN's average financing ticket size



Source: Company, CLSA

Figure 4

BFIN average lending yield by segments

Segments	Effective yield
Dealer financing (car)	15-19%
Non dealer 4W	18-22%
Non dealer 2W	37-40%
Leasing (heavy equipment)	14-17%
Property	17-20%
Average	20.40%

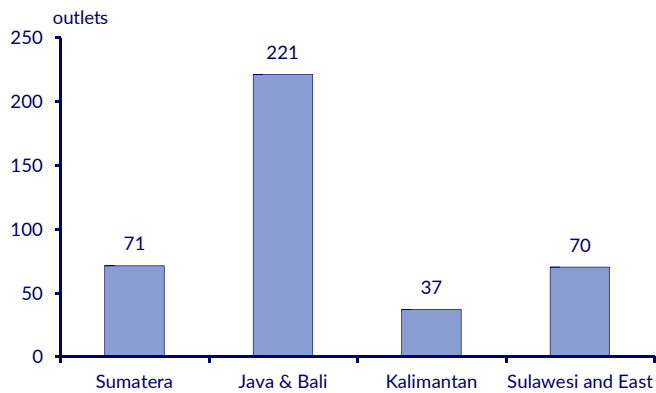
Source: Company

In terms of network expansion, **BFIN has 399 outlets nationwide** and 45 sharia branches. This makes BFIN as one of the companies with the largest networks across Indonesia. Most of BFIN's outlets (55%) are currently concentrated in Java and Bali as this island has a huge population.

However, it doesn't close the possibility that they will not expand its footprint to other islands. Management mentioned the yield outside Java was slightly better than Java as competition hasn't been as intense as in Java.

Figure 5

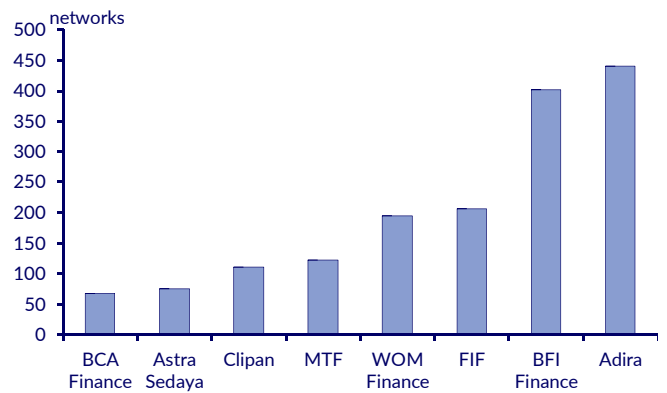
BFIN distributions networks



Source: Company, CLSA

Figure 6

Number of networks comparison



Source: Companies, CLSA

On top of its strong distribution networks, local knowledge is really important to tap into the non-dealer financing business; hence they can better understand typical customers' condition. To acquire new customers, BFIN is using two types of channels through tele-sales and through independent agents (60% third parties and 40% from internal company).

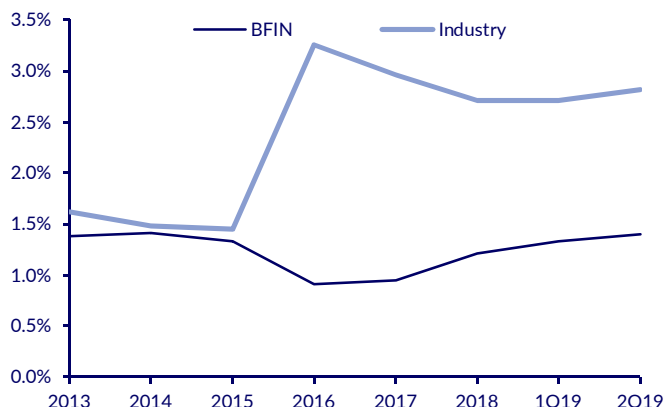
NPF has improved to 1.2% in Aug (from 1.4% in 1H19); much below industry average at 2.8%

Manageable asset quality

BFIN has successfully managed its asset quality thanks to prudent risk management and good collection team. Recently management also highlighted that NPF has improved to 1.2% as of Aug 2019 (vs 1.4% in 1H19), normalised after the long holiday (Lebaran) in June. It was much below the industry average of 2.8%.

Figure 7

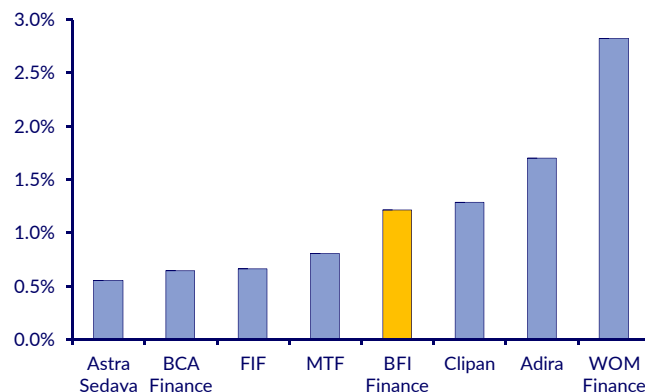
NPF comparison vs industry



Source: Company, OJK, CLSA

Figure 8

NPF comparison vs peers



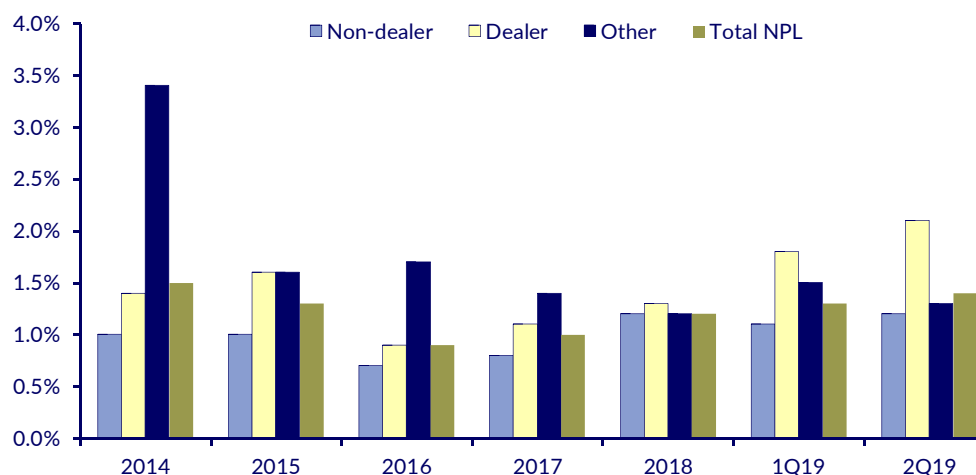
Source: Companies, CLSA

NPF from dealer has been trending up, while non-dealer was relatively more stable

BFIN has seen a deterioration of asset quality since 2H18 on some of its dealers. This is part of the company's reason to scale down the dealer business this year. On top of that, tightened underwriting process and approvals have been initiated since last year especially for areas that were "flagged" or above the company's internal threshold of asset quality ratio.

Figure 9

NPF breakdown by segments



Source: Company, CLSA

Targeting long-term NPF ratio of around 1.2%

However, management indicated that they are still comfortable with the long-term NPF ratio (gross) of 1.2-1.5% as they need to take more risk to push the non-dealer financing 2W segment.

Up to 25% of BFIN's employees in collection division

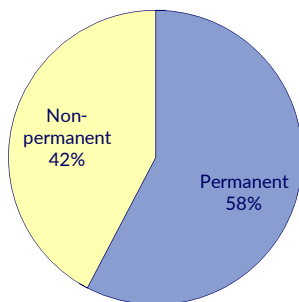
For risk monitoring purposes, BFIN uses four tiers in collections:

1. **Tele collection:** A lot of room to improve on this according to company
2. **Field collector:** Few collectors are independent (3rd parties), while few are attached to outlets
3. **Remedial officers:** They are a part of BFI's employees
4. **Professional officers**

BFIN has almost 12k employees across Indonesia, with around 20-25% of the employees part of the collection team. Additionally, around 67% of the customers are paid through payment points such as ATM, Post Office, Indomaret and Alfamart stores. Meanwhile, 33% of customers pay through branch offices or collection teams directly pick up the instalment from customers according to the company.

Figure 10

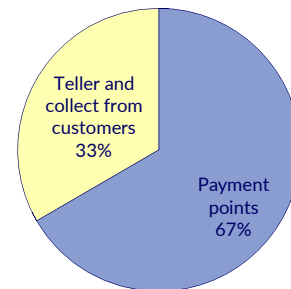
BFIN employees structure



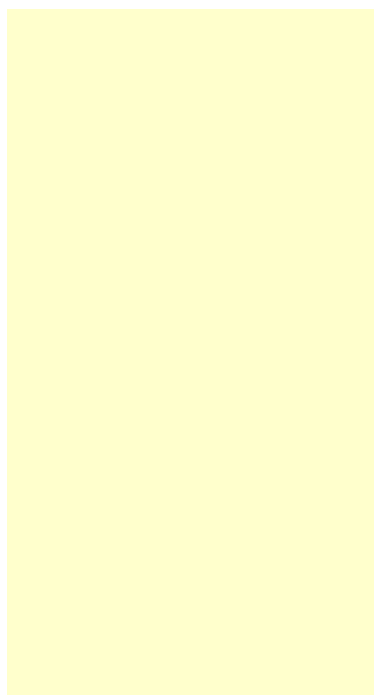
Source: Company, CLSA

Figure 11

Typical BFIN's customer instalment



Source: Company, CLSA



Ongoing lawsuit case with recent decision (March 2019) in favour of BFIN

Ongoing litigation process; waiting for new shareholders

With regards to the lawsuit case, on March 2019 the Jakarta Administrative High Court (PTTUN) received BFIN's appeal against the schorsing stipulation by stating that the dispute object issued by PTUN Jakarta was declared null and void and therefore has no legal force.

The dispute object filed by APT was to do "schorsing":

- ❑ Letter of Director General of AHU number AHU.2.UM.01.01-802 dated 8 March 2018.
- ❑ Approval and receipt of reports/notifications issued by Director General of AHU on the deed of amendment to BFI's articles of association from 2001-2017.
- ❑ BFI Company Profile data issued by the Director General of AHU.

On the same day (March 2019), PTTUN Jakarta stated:

1. Cancellation of PTUN Jakarta Decision.
2. Declared stipulation number 27/B/2019/PT.TUN.JKT concerning cancellation and revocation of the schorsing stipulation valuable and has binding legal force.
3. Accepted BFI's exception about the absolute competence of the court.
4. Stated that the APT lawsuit cannot be accepted.

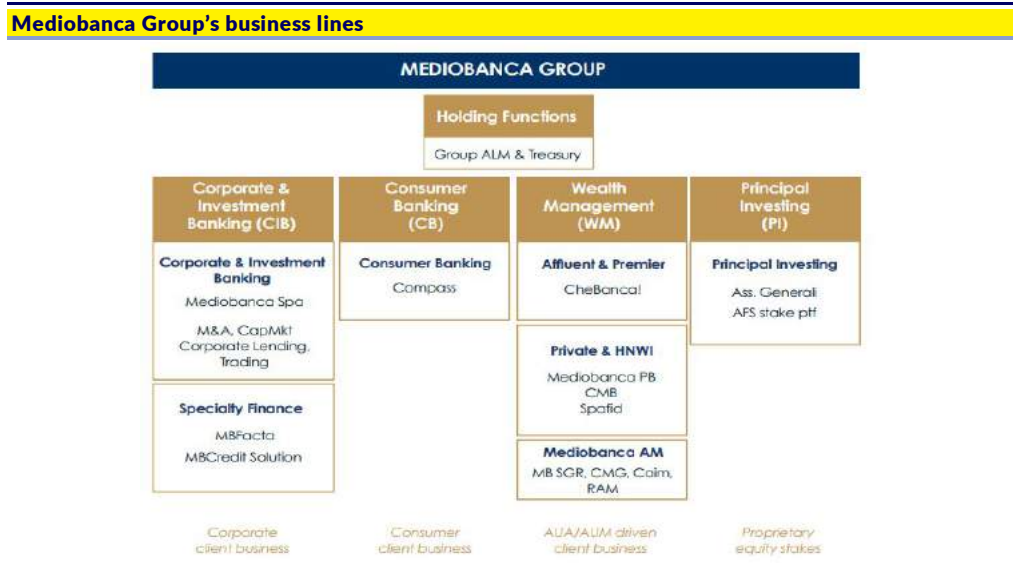
Currently the case is still at the examination stage by the Supreme Court as APT has filed a cassation appeal against PTTUN Jakarta Decision on April 2019.

Waiting OJK and ECB approval for new potential shareholders (Compass Banca)

Separately, the potential entrance of new Italian shareholders, Compass Banca and Star Finance, is still in progress up to now. No specific timeline was given on this, but management assured that Compass is seriously looking to close the deal and is working with regulators OJK and ECB.

Compass is the consumer finance arm of Mediobanca Group, an Italian investment bank founded in 1946 with business lines ranging from corporate and investment banking, consumer banking, wealth management, and principal investing.

Figure 12



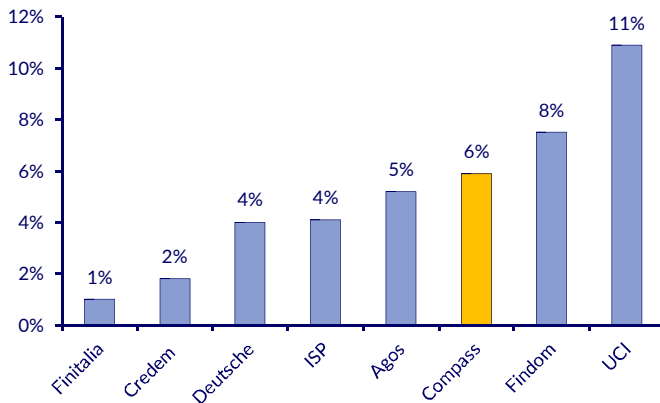
Source: Company

Compass as the most profitable segment in Mediobanca Group

Additionally, Compass Banca has delivered impressive results in the last ten years through a combination of organic growth and M&A. Currently, Compass also is the largest and most profitable segment in the Mediobanca Group (40% contribution to Group's revenue).

Figure 13

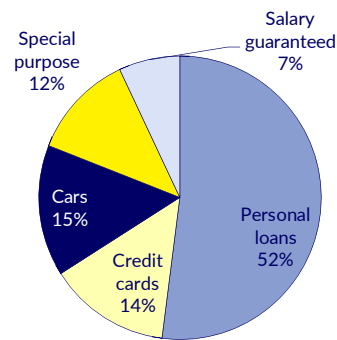
Compass' market share in Italy (consumer credit market)



Source: Company (Note: 2017 data), CLSA

Figure 14

Compass product range



Source: Company (Note: Based on 30 June 2019's new business), CLSA

Compass identified three companies in Indonesia and chose BFIN as the target for inorganic growth...

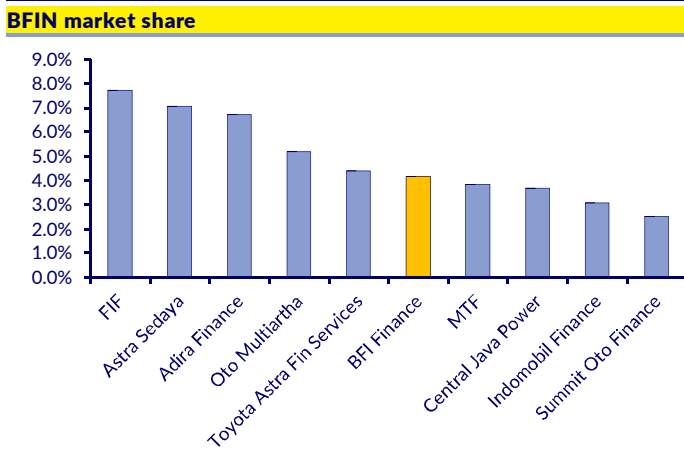
On M&A, Compass is aiming to leverage its strong expertise in a second growth consumer finance market. Focus shifted to the markets that combine relatively political-economic stability with high growth potential: South East Asia namely India, Indonesia, Philippines, and Vietnam.

Then, Compass identified Indonesia as a key target where they see a **change in consumer financial behaviour and change in products evolving (in next 5-7 years) towards unsecured business model based on an advanced credit analytics system with the introduction of credit bureau services like in Italy during the 1990s.** Afterwards, Compass identified BFIN as the best option:

- ❑ First 33 companies by total assets scouted (25 private, 8 listed in IDX)
- ❑ 12 potential target companies identified; analysed in detail and management met with
- ❑ Three key target companies were identified. **Since 2017 Compass management has met with management teams of these three companies, the shareholders and business community in Indonesia to evaluate deal considerations.**

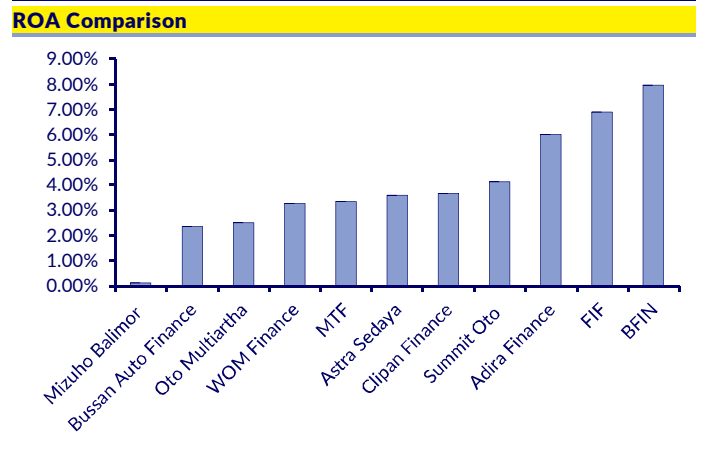
BFIN was chosen by Compass as the company is the only "non-captive" among the top 10 multi-finance companies with a significant growth story and good track record. BFIN currently has around 4% of market share (based on net receivables in 2018) in the very fragmented industry.

Figure 15



Source: Infobank (Note: based on 2018 receivables data)

Figure 16



Source: Companies (Note: 2018 data)

Potential synergy on credit risk assessment and entering into White Goods segment

Figure 17

Potential synergy between Compass and BFIN	
COMPASS	BFI
<p>Credit risk assessment Advanced scoring models and risk pricing capability</p>	<p>Established platform Large multifinance company</p>
<p>Collection Data-driven, highly industrialized processes</p>	<p>Outstanding management Senior management with long-tenured experience, Reputation and track record</p>
<p>Ability to craft distribution agreements Top-level service to both customers and dealers</p>	<p>Fast growing Loan book has grown by more than 2x in the last 5Y</p>
<p>CRM advanced platform Predictive models to run event-driven cross selling</p>	<p>Profitable Significant profitability, higher than peers' average</p>
<p>Customized product design Flexible product customization for marketing campaigns</p>	<p>Risk control Excellent "Compass-like" risk management</p>

Source: Company

BFIN ensured that Compass is currently work with OJK to fulfil fit and proper test and recently also visited BFIN's management. Since Compass has good expertise in the White Goods segment, management mentioned that BFIN might be entering into this segment as well as unsecured lending after the completion of the deal.

Upside may be coming from better-than-expected asset quality

Diversify funding sources

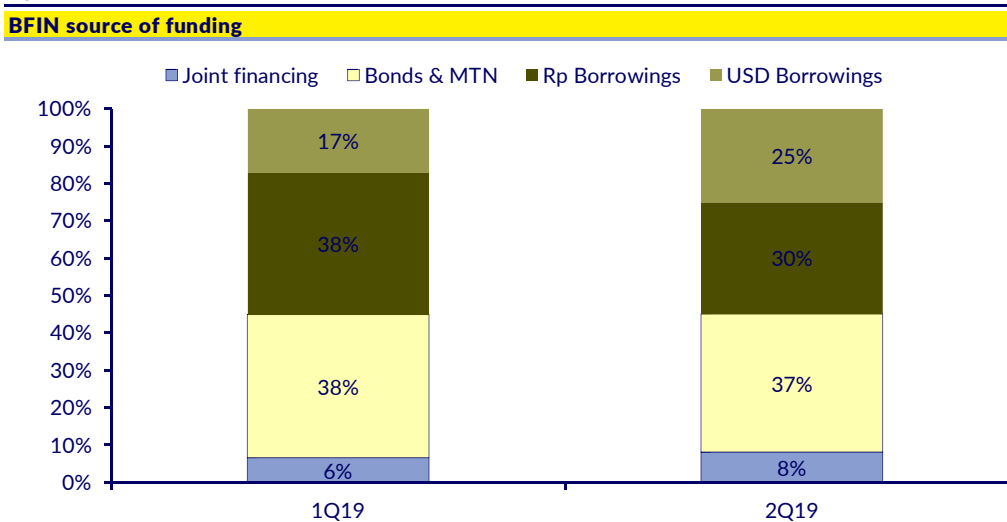
Retain BUY; TP at Rp650

We slightly cut our assumption of receivables growth for this year by 2%/1% in 19/20CL as management indicated that demand is still relatively soft for this year. Thus, it translates into lower earnings by 3%/4% in 19/20CL. Opex is also likely to normalise in 2H19 as most of the management consulting related fee has been charged in 1H19.

Upside may be coming from the better-than-expected asset quality as well as net interest income as the company is shifting more towards the higher yield segment. Funding cost is relatively stable according to the company at ~8.7% as of Aug-2019 (19CL: 9.1%) and the company has secured funding for the rest of the year.

Potential global bonds issuance has already been in the pipeline as part of funding diversification. However, it will not happen this year as they don't need huge amount of funding for this year. Recently, offshore loan (syndicated) was one of the options as BFIN received good funding cost of below 10% (including the hedging - cross currency swap).

Figure 18



Source: Company, CLSA

Figure 19

BFIN key assumptions							
	2015	2016	2017	2018	19CL	20CL	21CL
Financing growth	15.6%	16.8%	32.5%	13.3%	5.8%	9.7%	14.1%
Yield on earning assets	18.3%	19.0%	20.5%	21.7%	20.8%	21.2%	21.3%
Cost of fund	11.1%	10.6%	9.8%	9.1%	9.0%	9.0%	9.0%
Net interest margin (NIM)	12.2%	12.7%	14.3%	15.7%	14.9%	15.5%	15.6%
Non-performing financing (NPF)	1.33%	0.91%	0.95%	1.20%	1.29%	1.24%	1.19%
Cost of credit	2.4%	2.5%	2.2%	3.1%	2.6%	2.5%	2.4%
Coverage ratio	134.2%	170.5%	160.4%	174.7%	156.6%	156.8%	158.2%
ROAA	6.1%	6.6%	8.2%	8.2%	7.5%	7.7%	8.0%
ROAE	17.1%	19.3%	25.9%	26.4%	22.9%	23.3%	23.8%
Earnings growth	8.3%	22.8%	48.7%	23.6%	(0.8%)	10.4%	15.1%

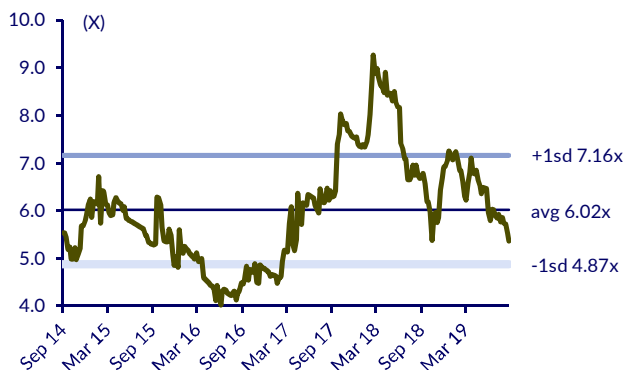
Source: CLSA

Retain BUY; TP of Rp650/share (1.4x 20CL PB)

Overall, we retain our BUY rating on BFIN. But lower our price target to Rp650 based on 1.4x 20CL PB, slightly higher than the historical mean (1.3x PB).

Figure 20

BFIN PE band



Source: CLSA

Figure 21

BFIN PB band



Source: CLSA

Appendix

Figure 22

BFIN 2Q19 result highlights

	1H18	1H19	YoY	2Q18	1Q19	2Q19	QoQ	YoY	% CL	% Cons
New bookings (Rp bn)	8,566	7,130	(16.8%)	4,405	3,350	3,780	12.8%	(14.2%)		
Balance sheet (Rp bn)										
Managed receivables	17,958	17,888	(0.4%)	17,958	17,905	17,888	(0.1%)	(0.4%)		
Total Debt	12,892	11,432	(11.3%)	12,892	11,183	11,432	2.2%	(11.3%)		
Total Equity	5,408	6,112	13.0%	5,408	6,528	6,112	(6.4%)	13.0%		
Income statement (Rp bn)										
Net interest income	1,218	1,323	8.6%	628	659	664	0.8%	5.7%	47%	
Fee based income	657	632	(3.8%)	337	307	325	5.9%	(3.6%)	43%	
Total revenue	1,875	1,955	4.3%	965	966	989	2.4%	2.5%	46%	45%
Provision	218	212	(2.8%)	134	112	100	(10.7%)	(25.4%)	45%	
Operating expenses	777	872	12.2%	392	428	444	3.7%	13.3%	46%	
PPOP	1,098	1,083	(1.4%)	573	538	545	1.3%	(4.9%)	45%	
Net profit	703	693	(1.4%)	352	337	356	5.7%	1.2%	48%	45%
Ratio (%)										
Net int spread	11.82	11.72	(0.10)	11.82	11.61	11.72	0.11	(0.10)		
ROE	27.19	21.91	(5.28)	27.19	21.27	21.91	0.64	(5.28)		
NPL (gross)	1.24	1.43	0.19	1.24	1.33	1.43	0.10	0.19		
Debt/equity (x)	2.30	1.90	(0.40)	2.30	1.70	1.90	0.20	(0.40)		
Cost to income	41.44	44.62	3.18	41.44	44.31	44.62	0.31	3.18		
CoC	2.57				2.49	2.36	(0.13)	2.36		

Source: CLSA, Company

Figure 23

Changes to key assumptions						
		2016	2017	2018	19CL	20CL
Yield on earning assets	Old	18.99%	20.48%	21.70%	21.46%	21.55%
	New				20.76%	21.24%
	Change (%)				(0.70%)	(0.31%)
Cost of funds	Old	10.58%	9.76%	9.07%	9.61%	9.71%
	New				8.96%	9.03%
	Change (%)				(0.65%)	(0.68%)
Net interest spread	Old	8.41%	10.72%	12.62%	11.84%	11.84%
	New				11.80%	12.21%
	Change (%)				(0.04%)	0.37%
Net interest margin	Old	12.70%	14.33%	15.69%	15.19%	15.35%
	New				14.92%	15.47%
	Change (%)				(0.27%)	0.12%
Cost of credit	Old	2.5%	2.2%	3.06%	2.80%	2.60%
	New				2.60%	2.50%
	Change (%)				(0.20%)	(0.10%)
Cost to income	Old	46.7%	43.1%	41.02%	43.36%	44.15%
	New				44.28%	45.15%
	Change (%)				0.92%	1.00%
ROAA	Old	6.6%	8.2%	8.24%	7.65%	7.91%
	New				7.46%	7.71%
	Change (%)				(0.19%)	(0.20%)
ROAE	Old	19.3%	25.9%	26.42%	23.61%	24.04%
	New				22.90%	23.25%
	Change (%)				(0.71%)	(0.79%)
Financing (Rp bn)	Old	11,766	15,589	17,658	19,076	21,121
	New				18,683	20,489
	Change (%)				(2.1%)	(3.0%)
Financing growth (%)	Old	16.8%	32.5%	13.3%	8.0%	10.7%
	New				5.8%	9.7%
	Change (%)				(2.2%)	(1.0%)
Non-interest income growth (%)	Old	18%	27%	21%	15%	18%
	New				14%	16%
	Change (%)				(1%)	(2%)
Net profit (Rp bn)	Old	798	1,188	1,467	1,506	1,678
	New				1,456	1,607
	Change (%)				(3.3%)	(4.2%)
Target Price (Rp/share)	Old				800	
	New				650	
	Change (%)				(18.8%)	

Source: CLSA

Valuation details

We value the company using 20CL target PB of 1.4x, slightly higher than the historical mean at 1.3x PB. BFIN also has superior ROE and high dividend yield, hence justifying its premium. 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 key risks. Besides, fierce competition could add pressure on the company's margin.

Company outline

The business

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 & market franchise

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	3,918	4,311	4,815
Interest expense	(712)	(792)	(897)	(1,036)	(1,102)	(1,172)	(1,290)
Net interest income	1,412	1,601	2,088	2,703	2,817	3,139	3,525
Trading income	-	-	-	-	-	-	-
FX gains/(losses)	-	-	-	-	-	-	-
Fee/Commission income	706	834	1,057	1,279	1,458	1,692	2,030
Other operating income	0	0	0	0	0	0	0
Non-interest income	706	834	1,057	1,279	1,458	1,692	2,030
Total op income	2,118	2,435	3,145	3,982	4,275	4,831	5,555
Staff related expenses	(626)	(716)	(869)	(1,050)	(1,208)	(1,389)	(1,597)
Property related expenses	(341)	(392)	(482)	(567)	(669)	(776)	(892)
Other operating expenses	(85)	(28)	(4)	(16)	(16)	(16)	(16)
Total operating expenses	(1,053)	(1,137)	(1,354)	(1,633)	(1,893)	(2,181)	(2,506)
Preprovision OP	1,066	1,298	1,791	2,349	2,382	2,650	3,049
Specific provision for loans	-	-	-	-	-	-	-
General provision for loans	(230)	(273)	(303)	(509)	(472)	(490)	(526)
Other provisions	0	0	0	0	0	0	0
Loan-loss provisions	(230)	(273)	(303)	(509)	(472)	(490)	(526)
Operating profit	835	1,025	1,488	1,840	1,909	2,160	2,523
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	1,909	2,160	2,523
Taxation	(185)	(227)	(300)	(372)	(454)	(552)	(672)
Profit after tax (before preference dividends)	650	798	1,188	1,467	1,456	1,607	1,851
Preference dividends	-	-	-	-	-	-	-
Profit for period	650	798	1,188	1,467	1,456	1,607	1,851
Minority interest	0	0	0	0	0	0	0
Net profit	650	798	1,188	1,467	1,456	1,607	1,851
Adjusted profit	650	798	1,188	1,467	1,456	1,607	1,851
EPS (Rp)	40.7	50.0	74.4	91.9	91.2	100.7	115.9
Adjusted EPS (Rp)	40.7	50.0	74.4	91.9	91.2	100.7	115.9
DPS (Rp)	20.2	24.9	36.2	45.2	45.6	50.3	58.0

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	4.2	11.5	12.3
Non-int inc growth (%)	37.1	18.1	26.8	21.0	14.0	16.0	20.0
Operating inc growth (%)	18.0	14.9	29.2	26.6	7.4	13.0	15.0
Operating exp growth (%)	24.2	7.9	19.2	20.6	15.9	15.2	14.9
Loan provision expense growth	16.5	18.8	10.8	68.2	(7.2)	3.6	7.5
Net profit growth (%)	8.3	22.8	48.7	23.6	(0.8)	10.4	15.1
EPS growth (% YoY)	8.3	22.8	48.7	23.6	(0.8)	10.4	15.1
Adj EPS growth (% YoY)	8.3	22.8	48.7	23.6	(0.8)	10.4	15.1
DPS growth (% YoY)	41.0	23.0	45.7	24.7	0.9	10.4	15.1
Margins (%)							
Spread (%)	7.3	8.4	10.7	12.6	11.8	12.2	12.3
Net interest margin (%)	12.2	12.7	14.3	15.7	14.9	15.5	15.6
Returns (%)							
ROA (%)	6.1	6.6	8.2	8.2	7.5	7.7	8.0
ROE (%)	17.1	19.3	25.9	26.4	22.9	23.3	23.8
Other key ratios (%)							
Non-interest inc/op inc (x)	33.3	34.2	33.6	32.1	34.1	35.0	36.5
Cost/income (%)	49.7	46.7	43.1	41.0	44.3	45.2	45.1
Staff costs/op costs (%)	59.5	63.0	64.1	64.3	63.8	63.7	63.7
Provision exp/loans (%)	2.3	2.4	2.0	2.9	2.6	2.4	2.3
Earnings payout ratio (%)	49.6	49.7	48.7	49.2	50.0	50.0	50.0

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	18,683	20,489	23,372
Loan loss reserve	(180)	(183)	(237)	(378)	(378)	(397)	(441)
Net loans	9,898	11,583	15,352	17,281	18,305	20,092	22,931
Cash & equivalents	777	165	225	755	466	488	264
Placements with other banks	-	-	-	-	-	-	-
Other interest earning assets	-	-	-	-	-	-	-
Total interest earning assets	10,675	11,749	15,577	18,036	18,770	20,579	23,195
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	19,900	21,773	24,462
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	12,491	13,471	15,136
Total int-bearing liabs	7,318	7,656	10,728	12,096	12,491	13,471	15,136
Other non-int-bearing liabs	433	565	851	817	897	987	1,086
Total liabilities	7,751	8,222	11,579	12,914	13,388	14,458	16,221
Share capital	391	399	399	399	399	399	399
Retained earnings	3,170	3,637	4,315	5,544	5,811	6,615	7,540
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	6,511	7,315	8,240
Minorities/other equity	0	0	0	0	0	0	0
Total equity	4,019	4,255	4,904	6,204	6,511	7,315	8,240
Total liab & equity	11,770	12,476	16,483	19,117	19,900	21,773	24,462
Non-performing loans	134	107	148	216	241	254	279
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	407.8	458.1	516.1

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	5.9	9.8	14.1
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	4.1	9.4	12.3
Risk-wtd assets growth (%)	-	-	-	-	-	-	-
Asset quality							
Provision expense/loans (%)	2.3	2.4	2.0	2.9	2.6	2.4	2.3
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	156.6	156.8	158.2
NPL growth/loan growth	24.5	(116.3)	116.8	366.7	195.2	51.8	70.9
Loan provision growth/loan provision expense growth	66.7	9.9	276.5	86.7	0.0	142.3	147.3
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	32.7	33.6	33.7

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	14.4	15.1	15.2
Non-int income/assets (%)	6.6	6.9	7.3	7.2	7.5	8.1	8.8
Total op income/assets (%)	19.8	20.1	21.7	22.4	21.9	23.2	24.0
Op expenses/assets (%)	9.8	9.4	9.4	9.2	9.7	10.5	10.8
Op profit/assets (%)	29.6	29.5	31.1	31.5	31.6	33.7	34.9
Provision expenses/assets (%)	(2.1)	(2.3)	(2.1)	(2.9)	(2.4)	(2.3)	(2.3)
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)	(6.9)	(8.0)	(8.7)
ROA (%)	6.1	6.6	8.2	8.2	7.5	7.7	8.0
ROA incl other items/assets (%)	21.3	21.2	23.1	22.9	22.3	23.3	23.9
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	22.9	23.3	23.8

Source: www.clsa.com

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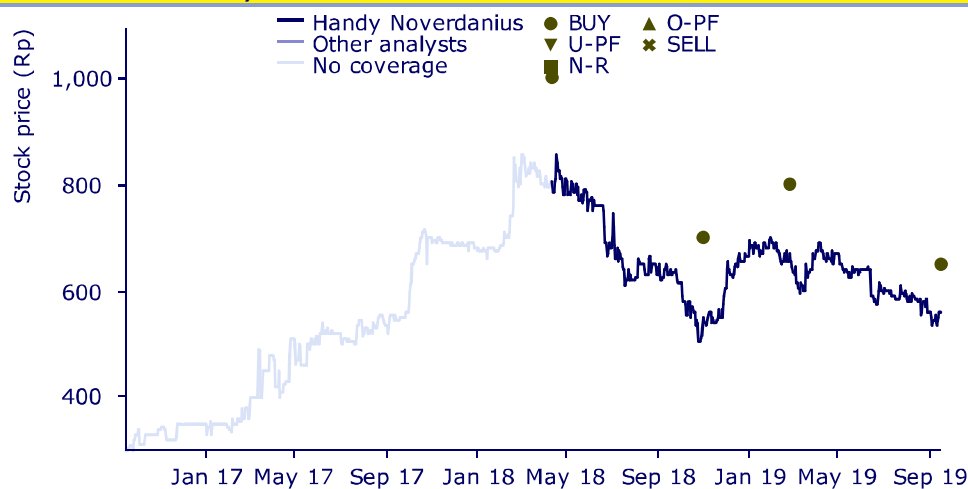
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Adira Dinamika (N-R)
Agos (N-R)
Aryaputra (N-R)
Astra Sedaya (N-R)
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Important disclosures

Recommendation history of BFI Finance Indonesia Tbk BFIN IJ



Date	Rec	Target	Date	Rec	Target
LATEST	BUY	650.00	01 Nov 2018	BUY	700.00
25 Feb 2019	BUY	800.00	12 Apr 2018	BUY	1,000.00

Source: CLSA

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Restricted - CLST: 0.00%. Data for 12-month period ending 31 July 2019.

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