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Indonesia

Financial services

Reuters BFIN.JK
Bloomberg BFIN IJ

Priced on 22 November 2019
Jakarta Comp @ 6,100.2

12M hi/lo Rp700/530

12M price target Rp650
±% potential +13%

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

Market cap US\$652m

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 53.1
GEM sector average 63.9

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

Stock performance (%)

| | 1M | 3M | 12M |
|------------|-------|-------|-----|
| Absolute | (4.2) | (0.9) | 4.5 |
| Relative | (0.4) | 1.7 | 2.9 |
| Abs (US\$) | (4.3) | 0.1 | 8.2 |



Source: Bloomberg

Reaching an agreement

No further disruption from the legal case

We recently met with BFIN management after the company's disclosure on the lawsuit case settlement with previous owner Ongko Group. This is will be the cash settlement paid in two different stages (see details below), which will be charged as a one-off settlement expense in 2019's profit and loss statement. We believe this is a good development for the company as the case has been ongoing for the past 16 years. Further, there is no impact to the company's operations and management highlighted that performance has continued to improve since 1H19 due to good asset quality trend and improving new bookings. We maintain our BUY recommendation and Rp650 target price.

- BFIN has finally decided to settle with Ongko Group related with the ongoing lawsuit case as well as future potential cases.
- The settlement will be in cash and will be charged to 2019's profit and loss. The settlement expense will be less than 20% of the 9M19's total equity. As of 9M19, BFIN's total equity was around Rp6.5tn and has cash of around Rp913bn.
- However, it is lower than the claims from Ongko Group in court, which is estimated at above Rp4tn.
- The settlement will be paid in two stages: The first (50% of the agreement) was already paid at the 20 November signing. The second stage will be paid after the case is completely dropped (timeline up to Feb 2020) as there are some court admin procedures, etc.
- With this settlement, there will be no further lawsuit disruption. This is significant as the case has been ongoing for the past 16 years.
- This should be good for the company's image as new lenders, which previously did not want to work with BFIN because of this issue, can now start to make deals with BFIN.
- A potential deal with Italian shareholders is still ongoing and awaits Indonesia's financial services authority, OJK's, approval. The company has said that OJK did not explicitly mention the lawsuit when asked about the lengthy approval process.
- On the operational side, management highlighted that new bookings is improving after the soft demand in 1H19. Asset quality was below 1% as of October 2019, lower than 9M19 at 1.06%.
- Please see the sensitivity analysis impact on the next page for further details.

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 |
| EPS (Rp) | 74.37 | 91.89 | 91.17 | 100.67 | 115.90 |
| CL/consensus (1) (EPS%) | - | - | 100 | 100 | 100 |
| EPS growth (% YoY) | 48.7 | 23.6 | (0.8) | 10.4 | 15.1 |
| PE (x) | 7.7 | 6.3 | 6.3 | 5.7 | 5.0 |
| Adjusted EPS (Rp) | 74.37 | 91.89 | 91.17 | 100.67 | 115.90 |
| Adjusted PE (x) | 7.7 | 6.3 | 6.3 | 5.7 | 5.0 |
| Dividend yield (%) | 6.3 | 7.9 | 7.9 | 8.8 | 10.1 |
| PB (x) | 1.9 | 1.5 | 1.4 | 1.3 | 1.1 |
| ROE (%) | 25.9 | 26.4 | 22.9 | 23.3 | 23.8 |

Source: www.clsa.com

Figure 1

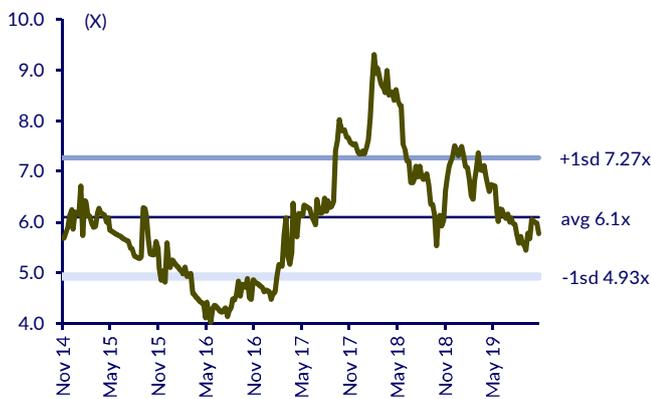
Sensitivity analysis

| | EPS | | | BVPS | | | | ROE | | | | | |
|-----|----------|------|---------|----------|---------------|----------|---------------|----------|------------|----------|------------|-------|------|
| | 19CL | | | 19CL | | 20CL | | 19CL | | | 20CL | | |
| | Adjusted | Old | Change | Adjusted | Old Change | Adjusted | Old Change | Adjusted | Old Change | Adjusted | Old Change | | |
| 5% | 70.8 | 91.2 | (22.4%) | 377.3 | 407.8 (7.5%) | 427.6 | 458.1 (6.7%) | 18.5% | 22.9% | (4.4%) | 25.0% | 23.3% | 1.7% |
| 10% | 50.5 | 91.2 | (44.7%) | 347.0 | 407.8 (14.9%) | 417.0 | 458.1 (9.0%) | 13.7% | 22.9% | (9.2%) | 27.1% | 23.3% | 3.8% |
| 15% | 30.1 | 91.2 | (67.0%) | 316.2 | 407.8 (22.5%) | 366.5 | 458.1 (20.0%) | 8.5% | 22.9% | (14.4%) | 29.5% | 23.3% | 6.2% |
| 20% | 9.7 | 91.2 | (89.3%) | 285.7 | 407.8 (30.0%) | 336.0 | 458.1 (26.7%) | 2.9% | 22.9% | (20.0%) | 32.4% | 23.3% | 9.1% |

Source: CLSA

Figure 2

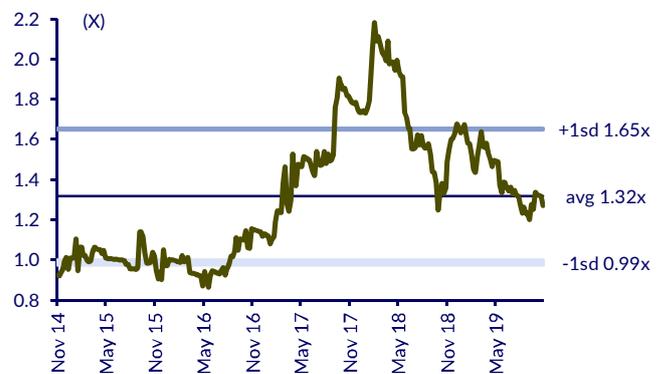
BFIN PE band



Source: CLSA

Figure 3

BFIN PB band



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 Ongko Group and slower-than-expected financing disbursement (owing to economic slowdown) remain key risks. Besides, fierce competition could add pressure on the company's margin.



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Companies mentioned

BFI Finance (BFIN IJ - RP575 - BUY)
Ongko Group (N-R)

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Important disclosures

Recommendation history of BFI Finance Indonesia Tbk BFIN IJ



| Date | Rec | Target | Date | Rec | Target |
|-------------|-----|--------|-------------|-----|----------|
| 16 Sep 2019 | 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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