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29 July 2019

## Indonesia

### Financial services

Reuters BFIN.JK  
Bloomberg BFIN IJ

Priced on 26 July 2019

Jakarta Comp @ 6,325.2

12M hi/lo Rp700/505

12M price target Rp800  
±% potential +34%

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

Market cap US\$678m

3M ADV US\$0.0m

Foreign s'holding 40.0%

#### Major shareholders

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

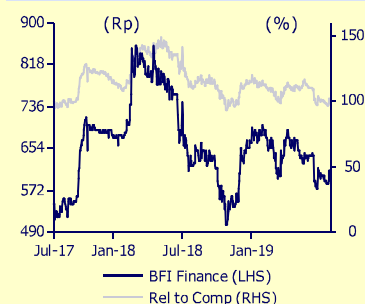
#### Blended ESG Score (%)\*

Overall 45.8  
Country average 52.6  
GEM sector average 63.7

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

#### Stock performance (%)

	1M	3M	12M
Absolute	(0.8)	(11.2)	(4.0)
Relative	(0.4)	(10.1)	(9.1)
Abs (US\$)	0.1	(10.0)	(1.2)



Source: Bloomberg

## Expecting recovery

### Challenging year but expect some recovery in 2H19

BFIN held an analyst briefing following its 2Q19 result announcement. Overall the result came in slightly below our expectation due to soft financing growth (product shifting) and rising opex. Post-election, management expects financing to recover albeit slowly (earnings slightly improved +5.7% QoQ, +1.2% YoY in 2Q19). The shift to non-dealer financing is set to support asset quality and NIM (combined with good funding costs from offshore loans). Asset quality is part of the key focus especially on the dealer financing side, hence BFIN will cautiously grow its financing book this year. BFIN trades at 1.3x 20CL PB, maintain BUY.

- ❑ BFIN booked new booking growth of +12.8% QoQ (-14.2% YoY) to Rp3.8tn in 2Q19. The lower YoY growth was due to product shifting from dealer to non-dealer financing. Non-dealer accounted for 81% of total booking in 1H19 vs 66% in 1H18. The company aims for a new booking target of about Rp16.4tn this year (flat YoY).
- ❑ On the managed receivables (gross) side, it was relatively flat both QoQ and YoY at Rp17.9tn. BFIN recorded higher joint financing (recorded off balance sheet) in 1H19 at about Rp1tn vs about Rp500bn in 1H18. However, BFIN claimed that this scheme has a favourable rate (single-digit borrowing rate).
- ❑ Earnings grew 5.7% QoQ, +1.2% YoY to Rp356bn; however, 1H19 earnings slightly declined by 1.4% YoY mainly because of soft financing growth and rising opex.
- ❑ The rising opex was attributed to the annual salary adjustment, professional fee (management consulting and a small portion of legal expenses), as well as collection fee. Opex is likely to normalise in the coming quarters as consultant fee has already been charged off and there is no big project being executed in 2H19.
- ❑ Provision expense will likely improve in 2H19. During 2H18, they recorded about Rp90bn full provision for the Palu earthquake. Cost of credit improved 13bps QoQ to 2.36% and BFIN aims for around 2-2.2% in 2019. The coverage ratio remained flat QoQ at 160%.
- ❑ NPL (gross) rose to 1.43% (+10bps QoQ, +19% YoY) with the main contributor came from dealer financing with a 2.1% NPL ratio. The Idul Fitri holiday also affected the collection in June, but the company claimed that it has started to recover after the long holiday.
- ❑ The net interest spread improved 11bps QoQ to 11.72% in 1H19. Further, CoF was around 8.6% and better than its expectation, thanks to offshore loans. Shifting towards the higher yield segment (non-dealer) will likely help the net interest spread.
- ❑ There is no issue in funding and it has almost secured the funding for this year. Note that BFIN doesn't have plans to issue bonds in 2H19 and will utilise offshore loans.
- ❑ On IFRS 9, the impact will not be substantial and the adjustment will only affect the equity.
- ❑ About the potential of new shareholders, BFIN mentioned that the shareholders (current and potential) are still discussing and both parties are still committed to closing the deal.
- ❑ BFIN is currently trading at 1.3x 20CL PB; maintain BUY.

#### 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
EPS (Rp)	74.37	91.89	94.29	105.06	119.82
CL/consensus (1) (EPS%)	-	-	100	100	100
EPS growth (% YoY)	48.7	23.6	2.6	11.4	14.0
PE (x)	8.0	6.5	6.3	5.7	5.0
Adjusted EPS (Rp)	74.37	91.89	94.29	105.06	119.82
Adjusted PE (x)	8.0	6.5	6.3	5.7	5.0
Dividend yield (%)	6.1	7.6	7.8	8.7	9.9
PB (x)	1.9	1.5	1.5	1.3	1.1
ROE (%)	25.9	26.4	23.6	24.0	24.2

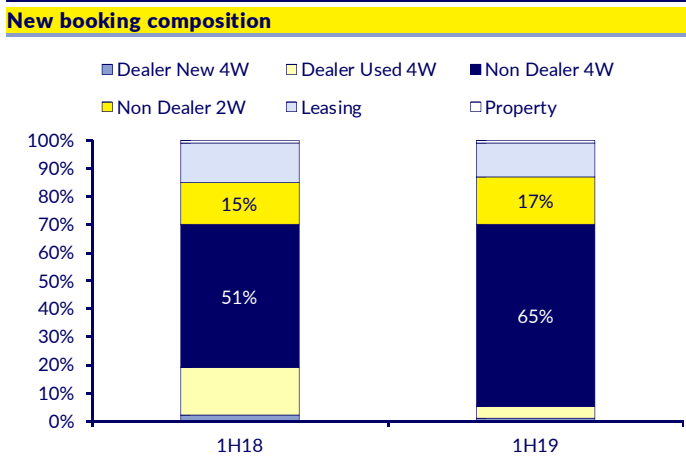
Source: www.clsa.com

Targeting about Rp9tn of new booking in 2H19

On the new booking side, the effect of the election in 1H19 partly affected the soft financing growth. Besides, it was also due to the lower demand of heavy-equipment financing (-35% YoY) as well as refocusing on non-dealer financing. However, this is still relatively on track with management expectation.

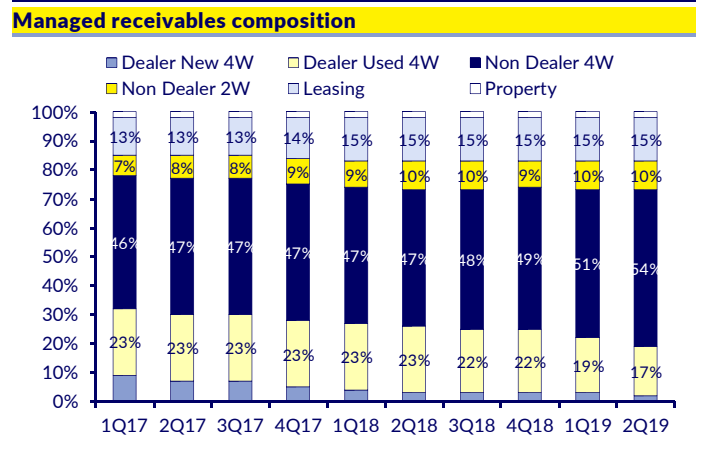
The recovery of new booking is expected in 2H19. The company aims to achieve about Rp9tn of new booking in 2H19, it will be challenging but still achievable according to the company. For instance, BFIN expects over Rp1.4tn of new booking to be recorded in July 2019.

Figure 1



Source: Company

Figure 2



Source: Company

Asset quality issue in West Java area

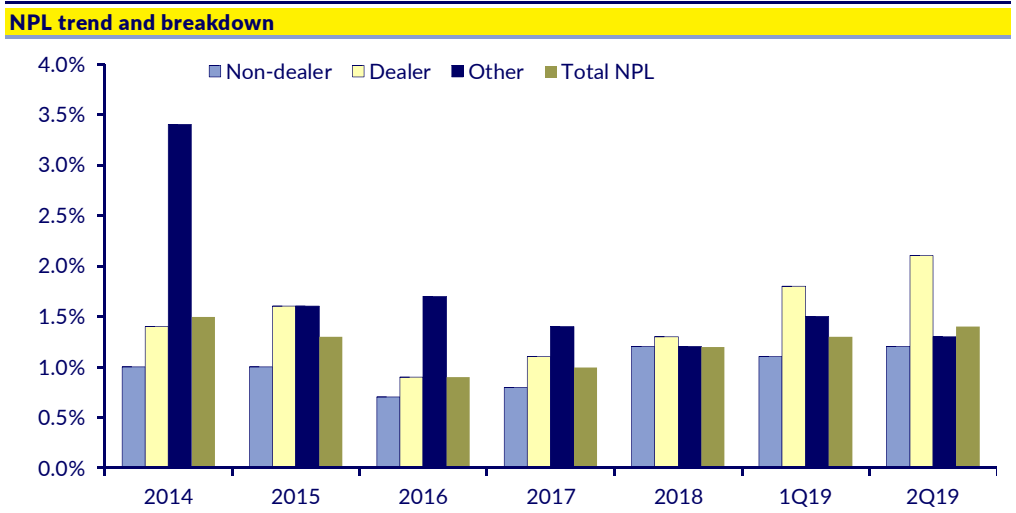
The company highlighted that it saw some problematic asset quality in the West Java area and this also happened to other industry players. For BFIN, close to 60% of its branches in West Java are under monitoring.

NPL is expected to improve in the subsequent quarters

In addition, the NPL from dealer financing still rose to 2.1% in 2Q19, but the company mentioned that this figure has almost reached the peak (below 2.5% level). The NPL has deteriorated after the segment's slowdown because it no longer has a relationship with dealers, and some marketing people have moved to other areas.

Dealer financing's NPL deteriorated to 2.1% in 2Q19

Figure 3

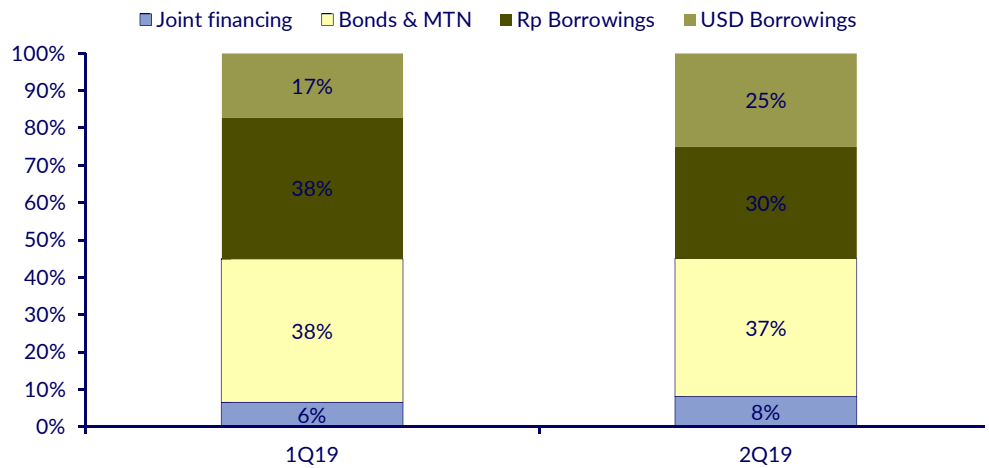


Source: Company

BFIN stated that it has almost secured the funding for this year and it doesn't have plans to issue bonds in 2H19. The company will try to maximise the offshore loans that it received (US\$200m) recently. Going forward, there is a possibility to issue global bonds (no timeline yet) if the environment is supportive.

Figure 4

**An increase of JF and offshore loan as source of funding**



Source: Company

The rising opex up to 1H19 is because it has hired a management consulting company to build up the new operating model as well as creating the strategy and blueprint for the next growth engine. The company claimed that legal-related expenses are only a small contribution to this.

Management also highlighted that competition is quite intense now, even some of its teams are being hijacked by competitors. However, as this business is quite capital intensive, some of the competitors have problems after copying BFIN's strategy such as NPL issues.

Figure 5

**BFIN PE band**



Source: CLSA

Figure 6

**BFIN PB band**



Source: CLSA

Figure 7

**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%	46%	
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%	45%	45%
Provision	218	212	(2.8%)	134	112	100	(10.7%)	(25.4%)	41%	
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%)	44%	
Net profit	703	693	(1.4%)	352	337	356	5.7%	1.2%	46%	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		

Source: CLSA, Company

**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.



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### Companies mentioned

BFI Finance (BFIN IJ - RP595 - BUY)  
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NT Asian Discovery Fund (N-R)  
Trinugraha Capital & Co (N-R)

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#### 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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