Financial Services

Sector outlook

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Indonesia
Financial services

Cautious yet exciting

Stronger financing growth, but still cautious on asset quality

In the last six months, the multi-finance industry's financing growth has increased from 5.5% YoY in December 2016 to 7.9% YoY in June 2017. The industry also managed to book double-digit bottomline growth in 1H17. However, the non-performing financing (NPF) ratio still crept up by 31bps QoQ to 3.47% in 2Q17. Among the listed companies, BFI Finance and Adira remain standouts.

Increasing trend of financing growth

- In 1H17, several multi-finance firms booked quite impressive new financing.
- BFI Finance booked the highest new financing growth in 1H17 (+30% YoY).
- Astra's 4W multi-finance firms, TAFS and ACC booked +10% and +8% YoY new financing growth, respectively, in 1H17. Meanwhile, bank-owned firms BCA Finance and Adira booked +8% and 5% YoY new financing growth, respectively, in 1H17.

Stabilising double-digit net profit growth

- In 1H17, the multi-finance industry managed to book +11% YoY net profit growth.
- BFI Finance booked the highest net profit growth (+55% YoY) in 1H17.
- Meanwhile, Mandiri Tunas Finance (MTF) booked the lowest net profit growth due to portfolio shifting and higher provision expense.
- In terms of absolute amount, FIF booked the highest net profit amount, reaching Rp930bn in 1H17, followed by Adira (Rp681bn) and BCA Finance (Rp641bn).

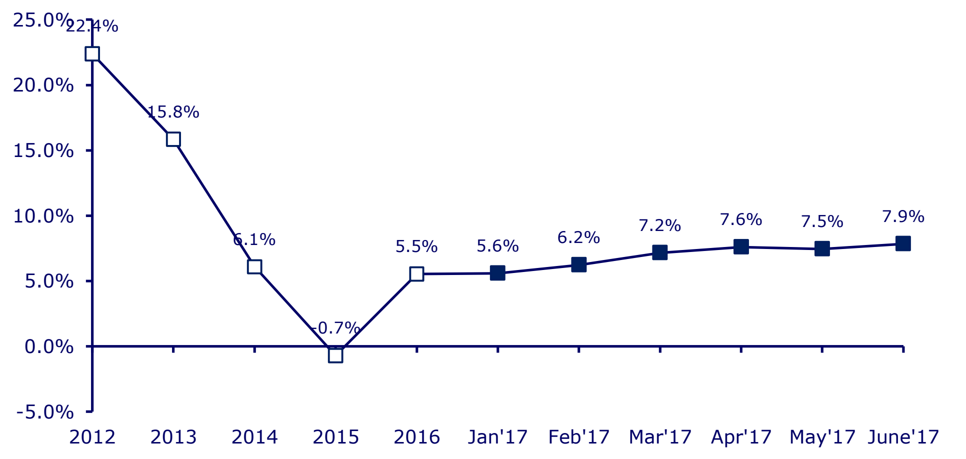
Still cautious asset quality

- The NPF ratio increased by 31bps QoQ to 3.47% in 2Q17. Cost of credit (CoC) also increased by 34bps QoQ to 3.1% in 2Q17. Several multi-finance firms claimed that the increasing NPF and CoC were mainly due to Lebaran.
- We still see increasing trend of cost of credit (CoC), mainly for Clipan. Clipan booked the highest cost of credit, reaching 4.7% in 1H17. Meanwhile, BCA Finance booked the lowest cost of credit (1.4%), followed by Toyota Astra Finance (1.7%).
- As asset quality is still vulnerable, most multi-finance firms focus more on Java. Interestingly, we saw more appetite in the heavy equipment segment. Astra's HE financing firms SANF and KAF booked strong growth in the last two quarters.

BFI Finance and Adira remain standouts

- Among peers, BFI Finance booked the strongest new financing and net profit growth. BFI Finance targets its 2017 new financing to grow above 21% YoY.
- With potentially lower CoF and CoC, Adira is optimistic to reach above 15% YoY net profit growth in 2017, after +52% YoY net profit growth in 2016.

Multi-finance industry's financing growth



Source: CLSA, Financial Service Authority (OJK)

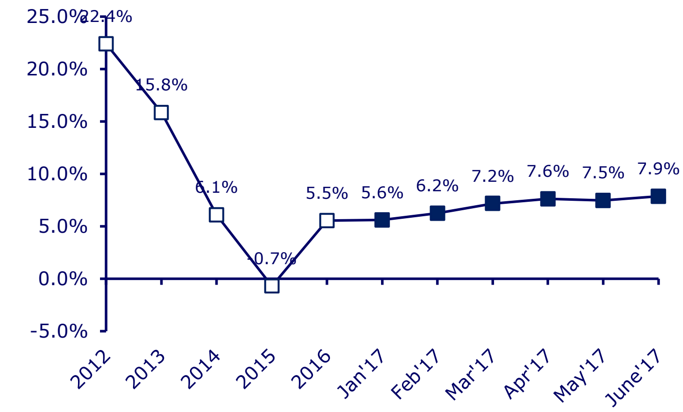
We see financing growth increasing from 5.5% YoY in Dec 2016 to 7.9% YoY in Jun 2017

Increasing trend of financing growth

In the last six months, financing growth increased from 5.5% YoY in December 2016 to 7.9% YoY in June 2017 (vs +7.6% YoY for banking industry's loan growth in June 2017). The multi-finance industry's total financing reached Rp420tn in June 2017 or equivalent to 9% of banking industry's total loans.

Figure 1

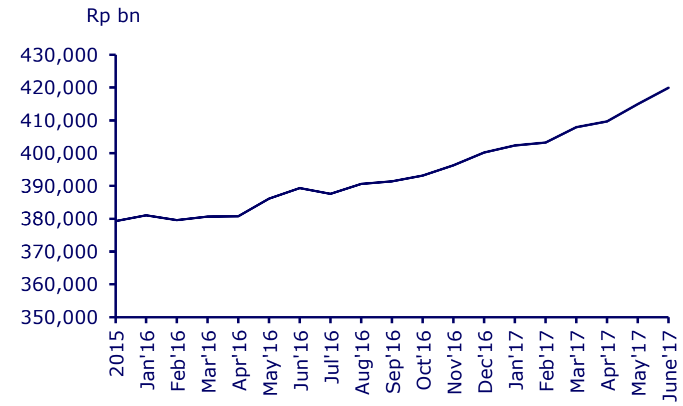
Multi-finance industry's financing growth



Source: CLSA, Financial Service Authority (OJK)

Figure 2

Multi-finance industry's financing amount



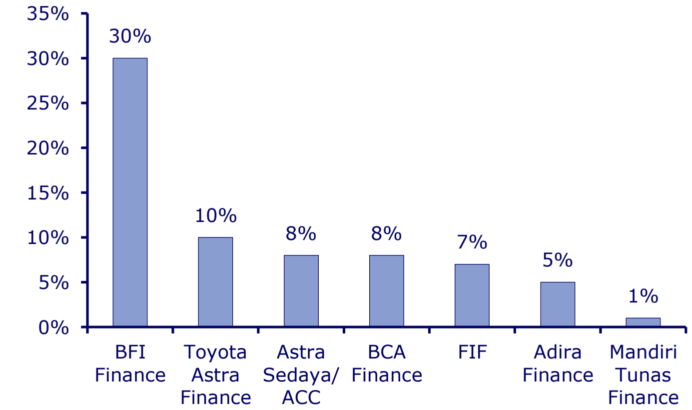
Source: CLSA, Financial Service Authority (OJK)

BFI Finance booked the highest new financing growth (+30% YoY)

In 1H17, several multi-finance firms booked quite impressive new financing. In terms of financing amount, BCA Finance booked the highest financing amount in 1H17, reaching Rp17.1tn, followed closely by FIF and Adira. However, in terms of new financing YoY growth, BFI Finance booked the highest growth.

Figure 3

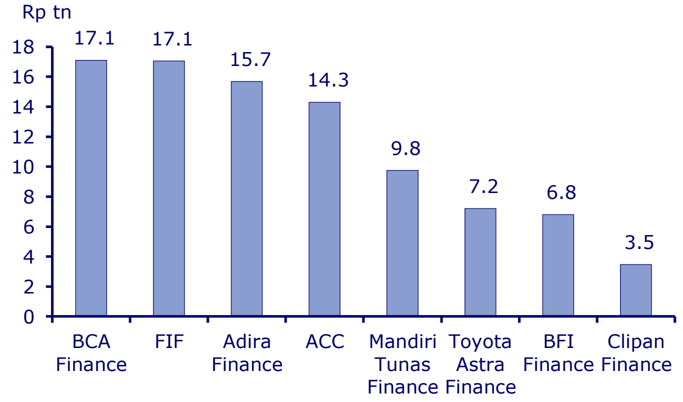
New financing growth YoY – 1H17



Source: CLSA, respective multi-finance firms

Figure 4

1H17 new financing amount



Source: CLSA, respective multi-finance firms

Astra's multi-finance firms TAFS and ACC booked +10% YoY and +8% YoY new financing growth, respectively, in 1H17

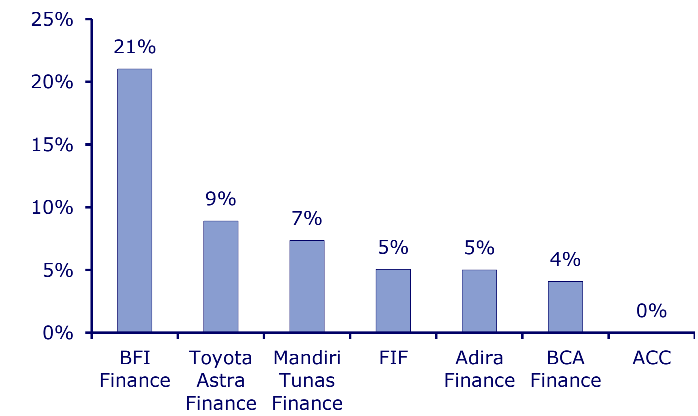
- BFI Finance booked +30% YoY new financing growth in June 2017, reaching Rp6.8tn new financing.
- Astra's 4W multi-finance firms TAFS and ACC booked +10% YoY and +8% YoY new financing growth, respectively, in 1H17. Meanwhile, Astra's 2W (including electronics) multi-finance firms FIF booked +7% YoY new financing growth in 1H17.

Bank-owned multi-finance firms BCA Finance and Adira Finance booked +8% YoY and 5% YoY new financing growth in 1H17

- Bank-owned multi-finance firms BCA Finance and Adira booked +8% YoY and 5% YoY new financing growth, respectively, in 1H17. Meanwhile, Mandiri Tunas Finance, which has only focused on new car financing since 2016, booked +1% YoY new financing growth in 1H17. From a low base, Clipan Finance booked ~36% YoY new financing growth in 1H17, reaching Rp3.5tn new financing. This strong growth mainly came from the used car segment (55% of new financing).

Figure 5

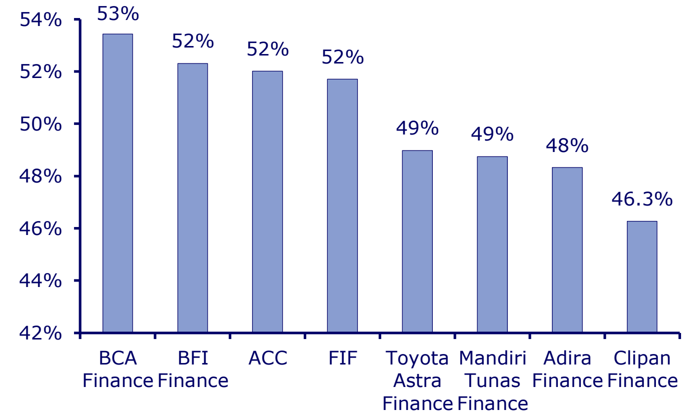
2017 new financing growth target



Source: CLSA, respective multi-finance firms

Figure 6

1H17 new financing to FY new financing target



Source: CLSA, respective multi-finance firms

TAFS's sister company ACC targets flat growth in 2017; considering Daihatsu cannibalisation

For 2017 financing growth target, BFI Finance targets the highest growth. BFI Finance targets its new financing to grow by above 21% YoY in 2017. Worth noting, in 1H17, BFI Finance's new financing reached 52% of FY target. TAFS, which started to enter the Daihatsu market in 2016, targets 9% YoY new financing growth target in 2017. TAFS targets to increase its Daihatsu financing to 20,000 units by the end of 2017 (from previously 6,000 units or equivalent to Rp842bn in FY16). TAFS's sister company ACC targets flat growth in 2017, considering Daihatsu cannibalisation and Gaikindo's automotive sales growth forecast of 4% YoY.

Since 2016, multi-finance industry continues to book double-digit growth

Stabilising double-digit net profit growth

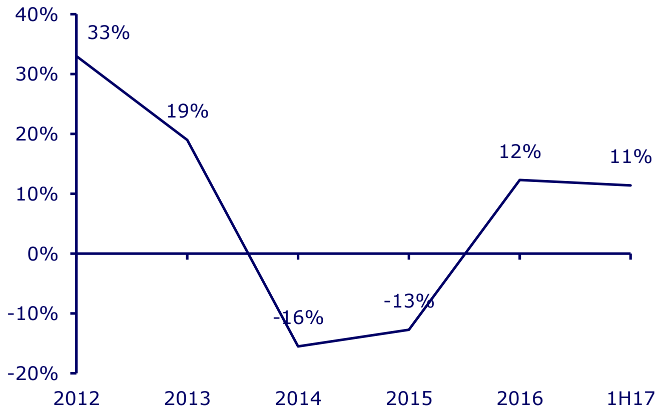
Since 2016, the multi-finance industry has continued to book double-digit growth. In 1H17, the multi-finance industry managed to book +11% YoY net profit growth. Referring to several multi-finance firms, this strong net profit growth was mainly driven by strong financing growth and more manageable cost (lower CoF and higher cost efficiency).

BFI Finance booked the highest net profit growth (+55% YoY) in 1H17

Among multi-finance peers, BFI Finance booked the highest net profit growth (+55% YoY) in 1H17. Meanwhile, Mandiri Tunas Finance (MTF) booked the lowest net profit growth due to portfolio shifting and higher provision expense. Worth noting, since 2016, MTF focuses only on new 4-wheeler/car financing (no more used 4w and 2W financing business). MTF mentioned that new 4W business provides lower interest rates, but lower asset-quality risk. Hence, in 1H17, MTF's NIM declined by 50bps YoY to 2.9%.

Figure 7

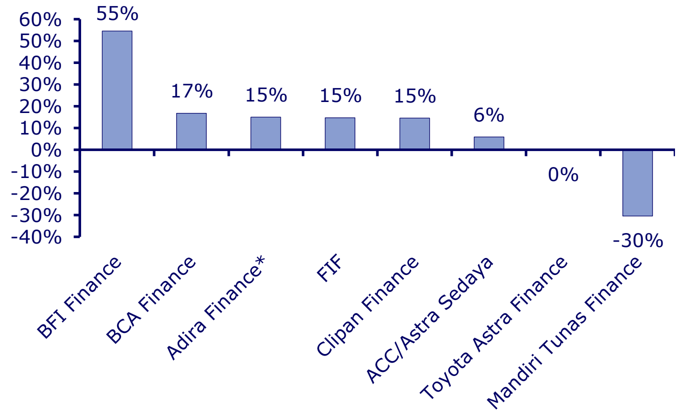
Multifinance industry's net profit growth



Source: CLSA, Financial Service Authority

Figure 8

1H17 net profit growth YoY

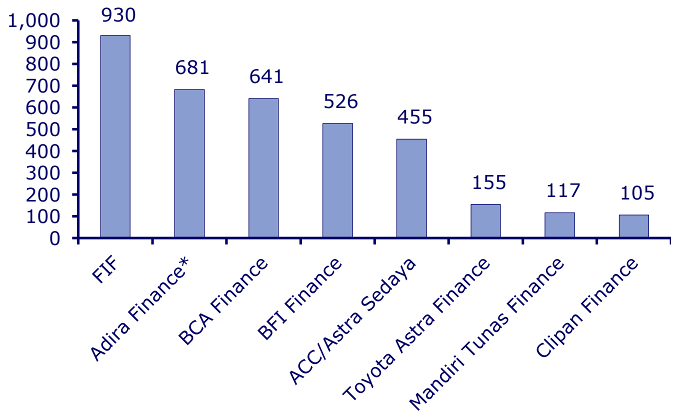


Source: CLSA, respective multi-finance firms (*use co's guidance)

In terms of absolute amount, FIF booked the highest net profit amount at Rp930bn in 1H17, followed by Adira (Rp 681bn) and BCA Finance (Rp 641bn). Note that FIF's net profit from electronic financing was Rp254bn in 1H17 (27% of total net profit). As mentioned by Astra, this segment provides higher margin (gross income split was 7:93% for electronics:2Ws).

Figure 9

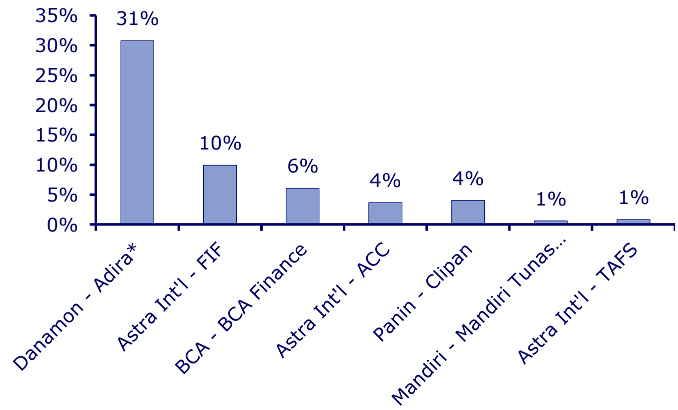
Multifinance firms - 1H17 net profit



Source: CLSA, respective multi-finance firms (*used cos guidance)

Figure 10

1H17 net profit contribution to parent entity



Source: CLSA, respective multi-finance firms (*use cos guidance)

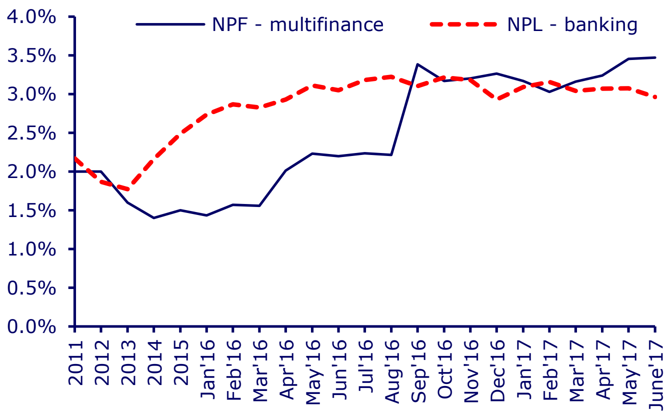
NPF ratio increased by 31bps QoQ to 3.47% in June 2017

Still cautious asset quality

In terms of asset quality, non-performing financing (NPF) ratio increased by 31bps QoQ to 3.47% in 2Q17. Cost of credit (CoC) also increased by 34bps QoQ to 3.1% in 2Q17. Several multi-finance companies claimed that NPF and CoC increased mainly due to the Lebaran seasonal factor (long holiday). Hence, 3Q17 will be the critical point to assess asset quality.

Figure 11

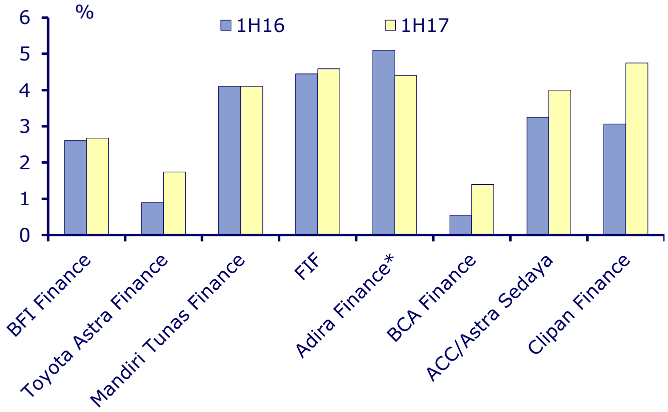
Multi-finance industry's NPF ratio



Source: CLSA

Figure 12

Multi-finance firms' cost of credit



Source: CLSA (*Note: Adira still used 1Q17 annualised number)

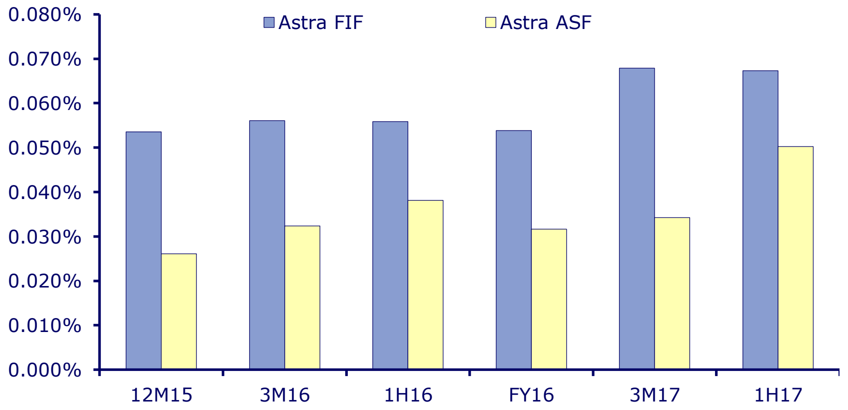
We still see increasing trend of cost of credit (CoC), mainly for Clipan Finance

We still see an increasing trend of cost of credit (CoC) in several key multi-finance firms, mainly for Clipan Finance. For Astra Sedaya, Astra mentioned that the rising cost of credit was due to higher credit risk of first-time buyers in the LCGC segment, which is now 22% of the market. See more details in Sarina's report:**"Astra - O-PF (Anticipating a speed bump)".** Meanwhile, BFI Finance and Mandiri Tunas Finance's CoC seems to be relatively flat. From a high base, Adira booked declining CoC trend. Worth noting, for multi-finance firms, CoC will be a key indicator to assess asset quality as multi-finance firms tend to have high written-off ratios.

For Astra Sedaya, the rising cost of credit was due to higher credit risk of first-time buyers in LCGC segment

Figure 13

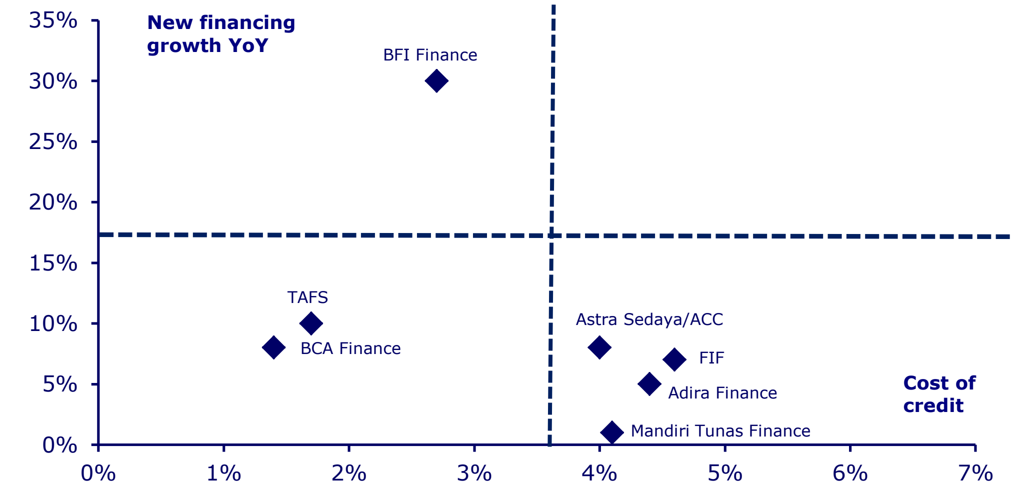
NPL trend of ASF and FIF



Source: CLSA, respective multi-finance firms

Figure 14

Multifinance firms' mapping: new financing growth vs CoC (1H17)



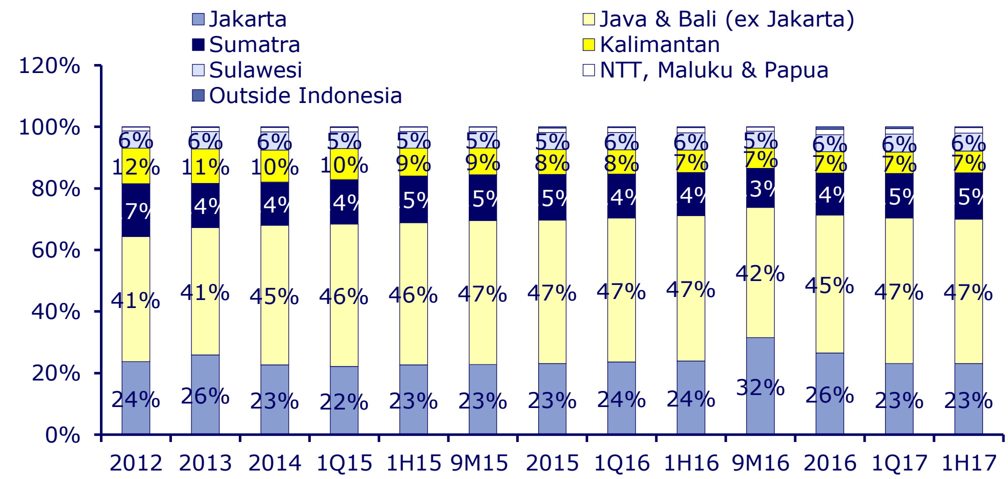
Source: CLSA, respective multi-finance firms

Geographically, most multi-finance firms still hold back financing disbursement to non-Java areas (commodity-related). In the last two quarters, Java and Bali (ex-Jakarta) posted higher financing contribution to total financing (~47% of total financing vs 45% of total financing in 2016).

Java and Bali (ex-Jakarta) posted higher financing contribution to total financing (~47% of total financing) in the last two quarters

Figure 15

Multifinance industry's financing breakdown by region



Source: CLSA, Financial Service Authority (OJK)

Interestingly, more appetite in heavy equipment financing

Interestingly, we started to see more appetite in the heavy equipment sector. According to financing companies association, APPI, heavy equipment financing grew by 5% YoY in 1H17.

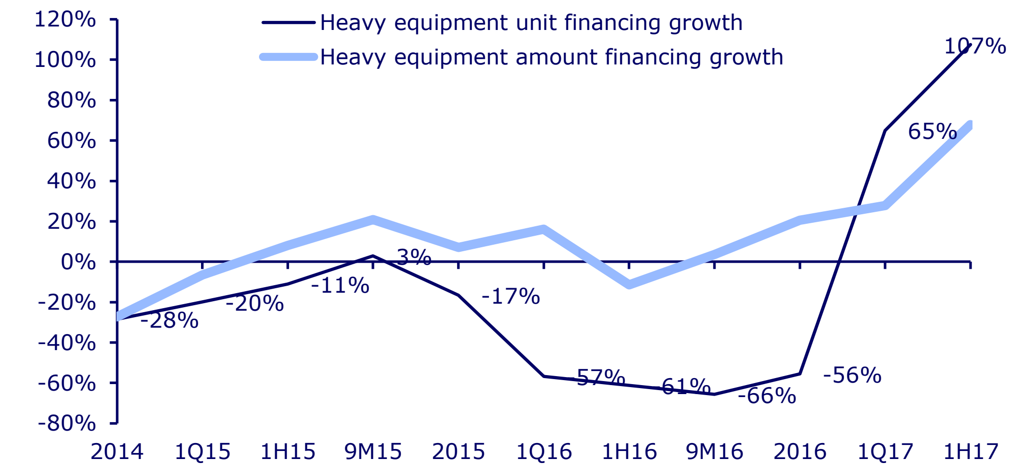
2Q17 SANF and KAF's new financing grew by +32% and +54% QoQ, respectively

Astra's heavy equipment (HE) financing firms SANF (Surya Artha Nusantara Finance) and KAF (Komatsu Astra Finance) booked strong growth in the last two quarters. SANF management mentioned that heavy equipment demand started to increase significantly in 2Q17. 2Q17 SANF new financing grew by +32% QoQ to Rp864bn. As result, SANF's new financing reached Rp1.5tn in 1H17 (47% of FY target). Meanwhile, KAF's 2Q17 new financing grew by 54% QoQ to Rp997bn. 1H17 KAF new financing reached Rp1.6tn.

SANF and KAF's heavy equipment unit grew by +107% YoY in 1H17

Figure 16

SANF and KAF - Heavy equipment financing growth



Source: CLSA, Astra International

Clipan Finance (CFIN IJ) which has ~20% leasing business (HE) should be interesting to watch for the next few quarters

In the next few quarters, if commodity price recovery is sustainable enough, multi-finance firms which have significant exposure in HE should have better asset quality and stronger financing growth. Listed company Clipan Finance (CFIN IJ) which has ~20% leasing business (HE) should be interesting to watch for the next few quarters. However, for the time being, we think it is still too early to be more optimistic in this business.

BFI Finance and Adira remain standouts

BFI Finance (BFIN IJ): Strong financing and profitability

For 2017, BFIN targets its FY new financing to grow above 21% YoY

Among peers, BFI Finance booked the strongest new financing growth in 1H17. Worth noting, BFIN's core business is refinancing. This has shielded BFI Finance from intensifying competition with bank- and auto-owned multi-finance firms. For 2017, BFIN targets its FY new financing to grow above 21% YoY.

Highest new financing growth came from Bali and East Java

In 1H17, BFI Finance booked Rp6.8tn new financing (+30% YoY). 2Q17 new financing reached Rp3.6tn (+14% QoQ). Geographically, the highest new financing growth came from Bali and East Java. Java and Bali (55-57% of total portfolio) booked +35% YoY new financing growth in 1H17. Sumatera and Kalimantan showed some improvement. These regions booked +26% YoY new financing growth in 1H17.

BFIN's core business is refinancing

BFI Finance's new financing growth by segment in 1H17 was as follows:

- Non-dealer Used 2W (refinancing): +46% YoY (13% of total bookings)
- Non-dealer Used 4W (refinancing): 30% YoY (54% of total bookings)
- Dealer used car (refinancing): 16% YoY (17% of total bookings)
- Dealer new car (non-refinancing): -5% YoY (2% of total bookings)

Figure 17

BFI Finance's financing portfolio details

Product type	% to total average net receivables	Average ticket size (Rp m)	Tenor	% effective rate pa	YoY growth
NDF 4W	46%	90	2-3 years	19-25%	25%
DF Used 4W	23%	170	2-4 years	15-18%	10%
DF new 4W	9%	100	3-4 years	15-18%	(40%)
Used 2W	7%	7	1-2 years	38-45%	45%
Machinery	4%	300	1-3 years	17-22%	46%
Heavy Equipment	9%	600	1-3 years	14-19%	18%
Property	2%	200	1-5 years	18-22%	88%

Source: CLSA. BFI Finance

NIM improved due to lower CoF and portfolio shifting to lower ticket size

In terms of profitability, 2Q17 NIM improved by +17bps QoQ/+179bps YoY to 10.25% due to lower CoF and portfolio shifting to lower ticket sizes. Cost of funds (CoF) declined by 108bps YoY to 10.33%, supported by maturing higher funding and lower new funding cost. BFIN expects declining CoF trend to continue in 2H17. Management mentioned that corporate rating upgrade by Fitch Rating to AA- by the end of 2016 has improved BFI's credit profiles and led to lower CoF. Combined with portfolio shifting, BFIN expects its NIM to remain solid in 2H17.

1H17 net profit reached Rp526bn (+55% YoY)

Related to cost efficiency, BFI Finance's cost to income improved to 43.5% in 1H17 (vs 47.5% in 1H16). As a result, 1H17 net profit reached Rp526bn (+54% YoY), backed by normalised tax rate of 20%.

BFIN NPL ratio was 1.09% in 2Q17 (+8bps QoQ, -42bps YoY)

For asset quality, BFIN NPL ratio was 1.09% in 2Q17 (+8bps QoQ, -42bps YoY). On a YoY basis, NPL ratio declined due to shorter written-off cycle since December 2016 (Note: WO policy for 4Ws and 2Ws changed from 270 days to 210 days starting December 2017). BFI Finance's cost of credit remained manageable at 2.7% in 1H17 (vs 2.6% in 1H16).

BFI Finance should be able to post double-digit net profit growth in 2017

On the back of strong new financing growth, solid NIM and manageable asset quality, BFI Finance should be able to post double-digit net profit growth in 2017.

Adira targets its new financing to grow by 5-10% YoY in 2017

Adira (ADMF IJ): NIM expansion, lower CoC and opex

Adira Finance booked Rp15.7tn new financing in 1H17 (+5% YoY; 48.3% of FY target). Two-wheelers dominated 55% of total new financing, followed by four-wheelers (42%). The highest financing growth came from used two-wheelers (+17% YoY, 20% of new financing) and new cars (+8% YoY: 24% of new financing). On the other hand, new two-wheelers (35% of new financing) and used four-wheelers (18% of new financing) financing declined by 1% YoY, respectively, in 1H17. For 2017, Adira targets its new financing to grow by 5-10% YoY.

Currently, Adira can get ~8.8% cost of funds from banks (vs 10.1% blended CoF in 1Q17)

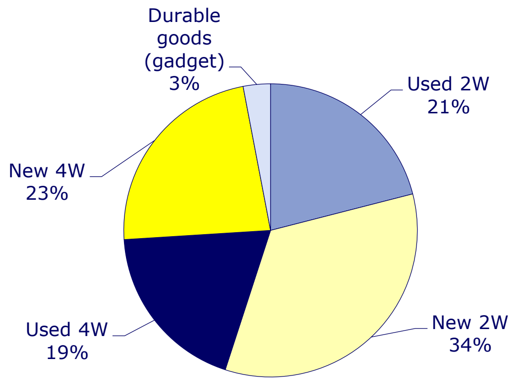
Adira mentioned that its cost of funding (CoF) from bank loans has started to decline. Currently, Adira Finance can get ~8.8% cost of funds from banks (ie, Danamon, BCA). Note that, Adira's blended cost of funds reached 10.1% in 1Q17. Adira's external funding reached Rp20.5tn in 1Q17, comprising 47% bank loans and 53% bond issuances.

In July 2017, Adira issued bonds with ~50bps lower coupon rate from last issuance in March 2017

Related to bonds issuance, in July 2017, Adira raised Rp769bn with ~50bps lower coupon rate from last issuance in March 2017. July 2017 bond issuance offers 7.1% - 8.4% coupon rate for 370 days – 5-year tenor. Adira usually raises Rp3-4tn bonds every year. With declining interest rates from both banks loans and bonds, these should translate into lower CoF by the end of 2017.

Figure 18

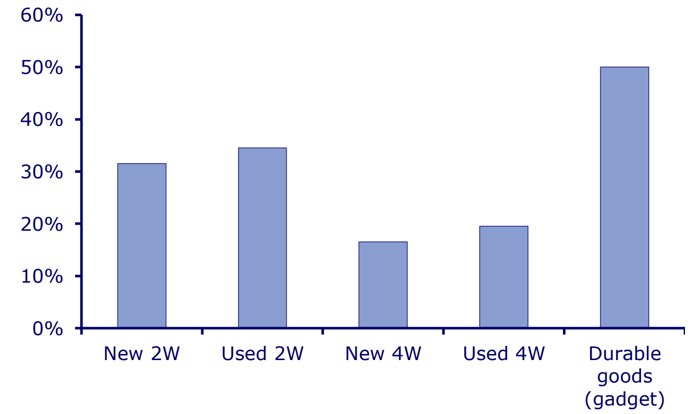
Adira's new financing breakdown – 1H17



Source: CLSA, Adira Finance

Figure 19

Adira's average lending rate by segment – June 2017



Source: CLSA, Adira Finance

NIM should expand by the end of 2017

For lending rate, Adira mentioned that the rates should be relatively flat as its lending rate has been quite competitive in the market. Combined with declining CoF, Adira mentioned its NIM should expand by the end of 2017.

Cost of credit has declined to 4.4% in 1H17 from ~5% in 2016

In terms of cost of credit, Adira also claimed that its cost of credit has declined to 4.4% in 1H17 vs ~5% in 2016. This improved CoC trend should continue until the end of 2017. For operating expense, Adira targets its opex to grow by less than 6% YoY in 2017.

Adira targets >15% YoY net profit growth in 2017, after +52% YoY in 2016

On the back of these, Adira is optimistic to reach above 15% YoY net profit growth in 2017, after +52% YoY net profit growth in 2016.

Figure 20

Listed multi-finance in Indonesia

	Ticker	Market Cap (US$ m)	3M ADTO (US$)	Current Price	Floating shares (%)	Current P/B	Current P/E	ROE	ROA	Div. yield
Adira Dinamika	ADMF	520.2	76,561	6,925	7.9	1.3	6.9	21.3	3.9	7.4
BFI Finance Indonesia	BFIN	611.7	93,837	510	57.2	1.7	9.7	22.6	7.5	4.9
Mandala Multifinance	MFIN	102.5	44,693	1,030	24.5	0.7	5.3	15.4	7.1	14.7
Indomobil Multi Jasa	IMJS	98.1	50,741	302	10.4	0.7	9.5	6.1	0.9	-
Clipan Finance	CFIN	84.4	12,716	282	92.0	0.3	5.5	5.8	3.0	-
Buana Finance	BBLD	74.2	246	600	26.6	0.9	18.5	5.8	1.7	2.6
Batavia Prosperindo	BPFI	59.4	8	500	14.6	1.4	20.1	6.4	3.2	4.9
Intan Baruprana	IBFN	41.7	7,596	175	22.4	1.6	(2.3)	(52.6)	(8.5)	-
Wahana Ottomitra	WOMF	40.0	84,405	153	13.8	0.6	8.8	8.8	1.1	-
Danasupra Erapacific	DEFI	35.3	522	695	58.5	6.7	53.3	23.0	22.7	-
Radana Bhaskara	HDFA	34.6	123	198	12.6	0.9	18.0	4.1	0.6	-
Verena	VRNA	18.4	8,422	100	33.0	0.6	15.6	1.8	0.4	-
Tifa Finance	TIFA	14.0	13,876	173	25.7	0.6	10.6	5.7	1.4	3.9
Trust Finance	TRUS	11.7	4	195	42.0	0.7	14.7	4.9	4.1	-
Magna Finance	MGNA	6.0	2,090	80	100.0	1.2	(1.2)	(68.7)	(22.1)	-

Source: CLSA, Bloomberg (closing prices as at 16 August 2017)

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Companies mentioned

Adira Dinamika (N-R)
Astra (ASII IJ - RP7,900 - O-PF)
Astra Sedaya Finance (N-R)
Bank Central Asia (BBCA IJ - RP18,700 - BUY)
Bank Danamon (N-R)
Bank Mandiri (BMRI IJ - RP13,100 - O-PF)
Batavia Prosperindo (N-R)
BCA Finance (N-R)
BFI Finance (N-R)
Buana Finance (N-R)
Clipan Finance (N-R)
Danasupra Erapacific (N-R)
Federal International Finance (N-R)
Indomobil Multi Jasa (N-R)
Intan Baruprana Finance (N-R)
Komatsu Astra Finance (N-R)
Magna Finance (N-R)
Mandala Multi (N-R)
Mandiri Tunas Finance (N-R)
Panin Bank (N-R)
Radana Bhaskara (N-R)
Surya Artha Nusantara Finance (N-R)
Tifa Finance (N-R)
Toyota Astra Financial Services (N-R)
Trust Finance Indo (N-R)
Verena (N-R)
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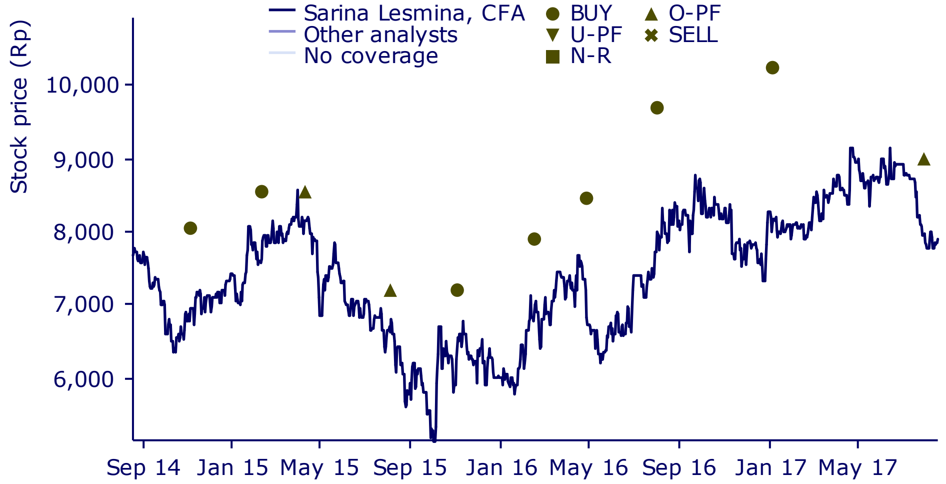
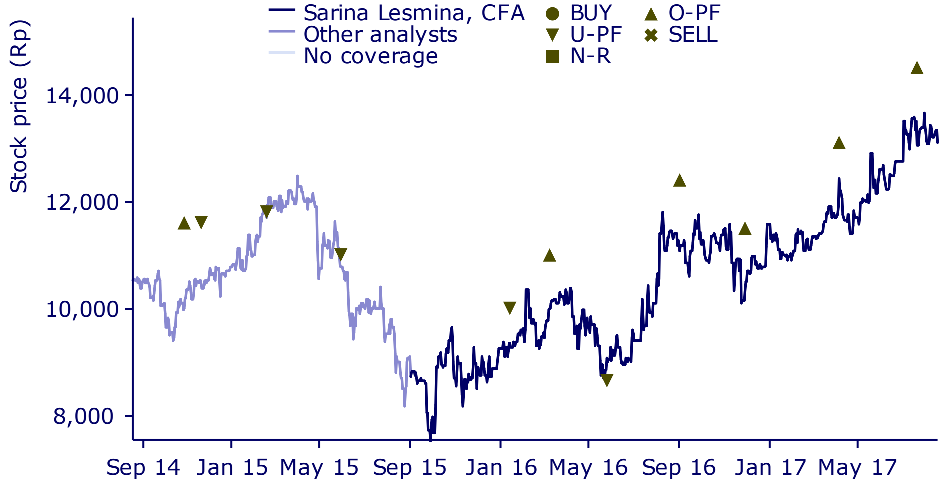
Recommendation history of Astra International Tbk ASII IJ



Date	Rec	Target	Date	Rec	Target
30 Jul 2017	O-PF	9,000.00	03 Nov 2015	BUY	7,200.00
05 Jan 2017	BUY	10,250.00	04 Aug 2015	O-PF	7,200.00
01 Aug 2016	BUY	9,700.00	10 Apr 2015	O-PF	8,550.00
27 Apr 2016	BUY	8,460.00	10 Feb 2015	BUY	8,550.00
16 Feb 2016	BUY	7,900.00	05 Nov 2014	BUY	8,050.00

Source: CLSA

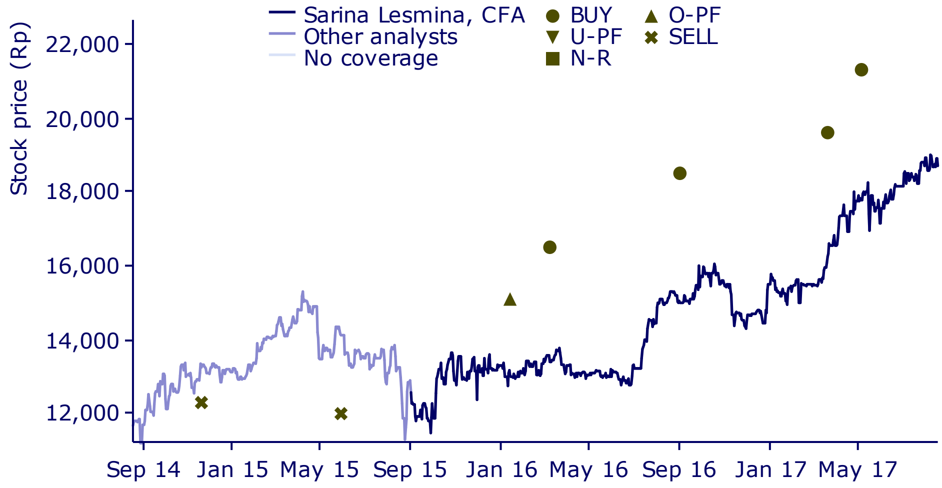
Recommendation history of Bank Mandiri (Persero) Tbk BMRI IJ



Date	Rec	Target	Date	Rec	Target
21 Jul 2017	O-PF	14,500.00	14 Jan 2016	U-PF	10,000.00
06 Apr 2017	O-PF	13,100.00	29 May 2015	U-PF	11,000.00
29 Nov 2016	O-PF	11,500.00	17 Feb 2015	U-PF	11,800.00
01 Sep 2016	O-PF	12,400.00	20 Nov 2014	U-PF	11,600.00
25 May 2016	U-PF	8,650.00	28 Oct 2014	O-PF	11,600.00
08 Mar 2016	O-PF	11,000.00			

Source: CLSA

Recommendation history of Bank Central Asia Tbk BBCA IJ



Date	Rec	Target	Date	Rec	Target
06 May 2017	BUY	21,300.00	14 Jan 2016	O-PF	15,100.00
21 Mar 2017	BUY	19,600.00	29 May 2015	SELL	12,000.00
01 Sep 2016	BUY	18,500.00	20 Nov 2014	SELL	12,300.00
08 Mar 2016	BUY	16,500.00			

Source: CLSA

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