Indonesia Company Guide
BFI Finance Ind

Version 5 | Bloomberg: BFIN IJ | Reuters: BFIN.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Apr 2017

BUY

Last Traded Price (6 Apr 2017): Rp4,200 (JCI : 5,680.20)
Price Target 12-mth: Rp5,000 (19% upside) (Prev Rp3,700)
Potential Catalyst: Stronger-than-expected growth; potential M&A
Where we differ: We are the only house covering the stock

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What's New

- **Strong deliveries in FY16 with positive outlook**
- **FY16 earnings were 11% higher than our estimate on stronger-than-expected receivable growth**
- **Non-dealer business maintains positive traction**
- **Maintain BUY with higher TP of Rp5,000 while FY17F/18F earnings are lifted by 8%/9%**

Price Relative

Forecasts and Valuation

FY Dec (Rpbn)	2016A	2017F	2018F	2019F
Pre-prov. Profit	1,298	1,437	1,645	1,855
Net Profit	798	884	1,018	1,150
Net Pft (Pre Ex.)	798	884	1,018	1,150
Net Pft Gth (Pre-ex) (%)	22.8	10.7	15.1	13.0
EPS (Rp)	509	561	646	730
EPS Pre Ex. (Rp)	509	561	646	730
EPS Gth Pre Ex (%)	22	10	15	13
Diluted EPS (Rp)	507	561	646	730
PE Pre Ex. (X)	8.2	7.5	6.5	5.8
Net DPS (Rp)	210	253	281	323
Div Yield (%)	5.0	6.0	6.7	7.7
ROAE Pre Ex. (%)	19.3	19.7	20.2	21.6
ROAE (%)	19.3	19.7	20.2	21.6
ROA (%)	6.6	6.7	6.9	7.1
BV Per Share (Rp)	2,700	3,008	3,373	3,373
P/Book Value (x)	1.6	1.4	1.2	1.2
Earnings Rev (%):		8	9	N/A
Consensus EPS (Rp):		518	595	N/A
Other Broker Recs:		B: 1	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, DBSVI, Bloomberg Finance L.P.

Maintaining positive momentum

Strong deliveries; maintain BUY. BFI Finance (BFIN) stands out as one of the best performers among its peers with double-digit earnings growth, coupled with a stable non-performing loan (NPL) ratio. This was despite the dismal performance of the Indonesian multi-finance industry amid the soft economy and asset-quality deterioration. BFIN's strategy to put more weight on refinancing since 2015 has paid off since demand had slowed for heavy equipment and dealer financing. Its excellent back-end capability is a strong foundation for its refinancing business. We nudged up our earnings by 8%/9% for FY17F/18F and accordingly our TP to 5,000 after we imputed higher assumptions for receivable growth and net interest margin (NIM).

Maintain positive momentum in 4Q16. BFIN's FY16 net profit of Rp798bn (+23%y-o-y) represented 111% of our full-year estimate. The performance was underpinned by a strong 4Q16 net profit of Rp245bn (+15% q-o-q; +25% y-o-y). Total receivables grew 16.7% y-o-y, driven by the strong momentum in non-dealer financing (+23% y-o-y). Fee income grew strongly and opex was kept in check. NPL inched down to 0.91%.

Unique business model is its key asset. Despite remaining cautious on the multi-finance industry, we are more positive on BFIN's outlook. Our preference for BFIN over Clipan Finance (CFIN; HOLD), the other multi-finance company we cover, is due to its proven resilience and unique direct financing model. BFIN is also expected to maintain a generous dividend payout policy of around 48%, thus implying an attractive dividend yield.

Valuation:

Maintain BUY. We raised our TP to Rp5,000 after we revised up our FY17F/18F earnings by 8%/9% and imputed a lower risk free rate assumption of 8%. Our TP is based on Gordon Growth Model – 19% ROE, 9% growth rate, and 15.2% cost of equity – and this implies 1.6x FY17F BV.

Key Risks to Our View:

Tougher competition may hamper profitability. Sustained weakness in the commodity and automotive markets may also drag down growth and erode asset quality.

At A Glance

Issued Capital (m shrs)	1,597
Mkt. Cap (Rpbn/US$m)	6,706 / 503
Major Shareholders (%)	
Trinugraha Capital & Co (%)	43.7
Fil Ltd (%)	0.7
Commonwealth Bank (%)	0.2
Free Float (%)	55.4
3m Avg. Daily Val (US$m)	0.01
ICB Industry : Financials / General Financial	

WHAT'S NEW

Maintaining positive momentum

Highlights

Strong 4Q16 earnings. BFIN's FY16 net profit of Rp798bn (23%y-o-y) represented 111% of our full-year estimate on stronger-than-expected receivable growth and fee income. 4Q16 net profit came in at Rp245bn (+15%q-o-q; +25%y-o-y).

Higher spreads from higher asset yield; strong fee income. Interest spread increased 65bps y-o-y mainly due to higher asset yields from a higher proportion of non-dealer financing. Fee income grew 15.8%, mainly driven by strong new bookings and receivable growth

Operating costs and credit costs kept in check. Operating costs rose 8% y-o-y with cost-to-income ratio inching up 17bps to 47%. The efficiency ratio was kept in check despite the aggressive expansion of 38 new outlets to 305 outlets nationwide. Credit costs, however, were lower at 1.8% (vs 2.17% in FY15).

Strong receivable growth driven by refinancing business. Total receivables grew 16.7% y-o-y, faster than the growth of managed receivables at 6.5%, mainly due to a lower portion of off-balance sheet joint-financing. The strong growth was driven by strong non-dealer financing growth at 23% y-o-y. Despite the non-dealer financing portion hitting its targeted 50% mark, management is maintaining its focus on this segment and does not rule out the possibility of further expansion.

Lower NPL mainly due to higher write-offs due to change in write-off policy. NPL improved to 0.91% from 1.33% a year ago, helped by a higher write-off rate (gross write-off rate of 2.15% from 1.83% in 2015). On a quarterly basis, its write-off rate spiked from 1.67% in 9M16 due to change in the write-off policy to 210 days overdue from the previous 270 days overdue.

Tax rate normalised. BFIN booked tax provisions in 1H16 to cushion against potential additional tax expenses from the undergoing tax investigation. However, it has stopped booking these tax provisions in 2H16 and the tax rate for FY16 has normalised to c.20% from 26% previously.

Gearing ratio remained low at 1.76x. Gearing ratio is slightly higher at 1.76x from 1.63x the previous year. But the gearing level is way below the regulated 10x level.

Outlook

Management maintains positive outlook; aggressive branch expansion. Management is maintaining its positive outlook, which is fuelled by its optimism in the refinancing business. It is planning to add 50 additional outlets (mostly in Java, Sumatera, Bali, and East Timor). Going forward, management targets 20% new bookings growth, driven by non-dealer financing.

More optimistic on the leasing business; staying away from new 4W financing. Management is more optimistic on the leasing business this year compared to last year. The recent improvement in commodity prices has prompted management to expand in the commodity-driven regions such as Sumatera. The leasing will be driven by smaller-ticket machineries with an average duration of 15-18 months while waiting for demand for heavy equipment machineries to pick up.

Expect asset quality to stabilise. Management expects asset quality to stabilise towards the normal c.1.2% level (higher than last year's 0.93%), aided by improving commodity prices. Elsewhere, management has guided for credit cost to remain stable (with a maximum increase of 10bps). The recent change of write-off policy to 210 days overdue (from 270 days) should not affect its credit cost. By regulation, multi-finance companies have to set aside 100% provisions for loans that are 180 days overdue.

Expecting higher opex. Higher opex may come from rapid branch expansion and also improvements in system and technology.

NIM to remain elevated. The high NIM should be supported by greater contribution of non-dealer financing (which offers higher asset yields compared to 4W). The recent rating upgrade by Fitch may also allow BFIN to price its bond at a lower rate.

Valuation and recommendation

Maintain BUY. We raised our TP to Rp5,000 after revising up our FY17F/18F earnings by 8%/9% and imputed a lower risk free rate assumption of 8%. Our TP is based on Gordon Growth Model – 19% ROE, 9% growth rate, and 15.2% cost of equity – and this implies 1.6x FY17F BV.

Quarterly / Interim Income Statement (Rpbn)

FY Dec	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq	FY2015	FY2016	% chg yoy
Net Interest Income	373	413	441	18.4	6.8	1,447.9	1,629.7	13%
Non-Interest Income	185	193	228	23.2	17.9	670.6	805.1	20%
Operating Income	**557**	**606**	**669**	**20.0**	**10.3**	**2,118.5**	**2,434.8**	**15%**
Operating Expenses	(260)	(268)	(311)	19.9	16.1	(1,052.8)	(1,136.5)	8%
Pre-Provision Profit	**298**	**338**	**358**	**20.0**	**5.8**	**1,065.6**	**1,298.3**	**22%**
Provisions	(27.1)	(81.2)	(51.3)	89.3	(36.9)	(230.2)	(273.3)	19%
Associates	0.0	0.0	0.0	nm	nm	-	-	nm
Exceptionals	0.0	0.0	0.0	nm	nm	-	-	nm
Pretax Profit	**271**	**257**	**306**	**13.1**	**19.3**	**835.5**	**1,025.0**	**23%**
Taxation	(75.3)	(43.4)	(61.6)	(18.2)	41.8	(185.2)	(226.6)	22%
Minority Interests	0.0	0.0	0.0	nm	nm	-		nm
Net Profit	**196**	**213**	**245**	**25.2**	**14.7**	**650.3**	**798.4**	**23%**
Growth (%)								
Net Interest Income Gth	1.9	3.5	6.8					
Net Profit Gth	24.3	18.2	14.7					
Key ratio (%)								
NIM	15.3	15.5	15.7					
NPL ratio	1.1	1.4	0.7					
Cost-to-income	46.6	44.2	46.5					

Source of all data: Company, DBS Bank, DBSVI

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Strong growth of non-dealer financing. Managed receivables (on and off balance sheet) grew 6.5% last year while total receivables (balance sheet only) grew 16.7%, driven by strong non-dealer financing and a lower portion of off-balance sheet financing. Looking at the improvement in asset quality last year, management indicated that it is comfortable to take on more risk this year and has guided for c.20% increase of new bookings but with a lower financing duration. We expect the strong growth momentum in the non-dealer business, along with the improvement in the commodity-related business, to support a sustainable 12%-13% loan growth going forward.

Diverse products. BFIN offers a variety of products including dealer new/used 4W financing, as well as non-dealer 4W and 2W financing. There are also heavy equipment and machinery leasing. However, management will continue to focus on the non-dealer financing business with the portfolio targeted to be maintained at the current 50% level.

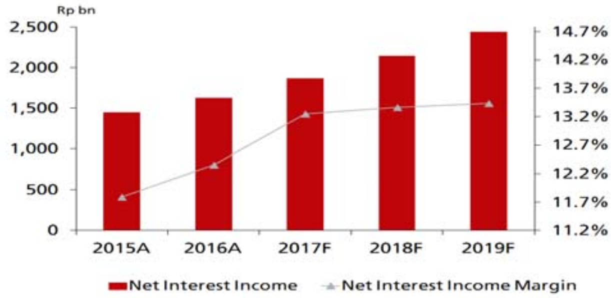
Possible NIM improvement. Further expansion in the non-dealer business can increase asset yield further. The yields from non-dealer 4W and 2W financing can be up to 20% and 40%, respectively, much higher than dealer financing yields of 15-16%. Elsewhere, the bond rating upgrade from Fitch and lower interest rate environment may enablep BFIN to lower its cost of funds further.

Non-interest income supported by financing growth. About 60% of BFIN's non-interest income is upfront fees worth 2-3% of loan size, while 40% are other fees such as late and transaction penalty charges.

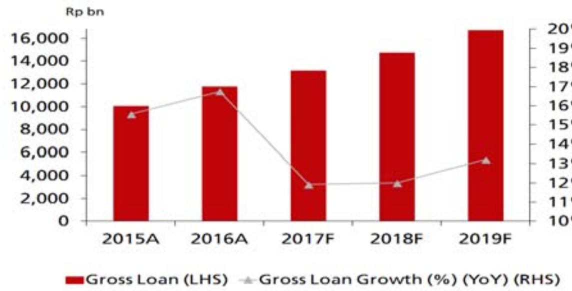
NPL and credit cost to stabilise. We believe NPL and credit cost can be maintained at current levels, as the economy and automotive market should stabilise this year. We expect NPL to hover around 1.2%, while credit cost should be flattish.

Higher opex due to expansion. We expect higher operating expenses to stem from its aggressive expansion plan. Last year, BFIN added 38 new outlets to the 267 existing outlets across the nation (14% growth y-o-y). This year, it targets to add 35-50 outlets.

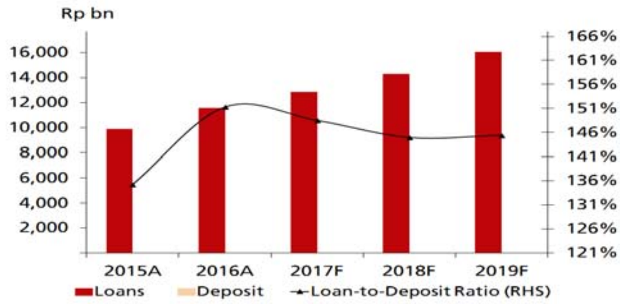
Margin Trends



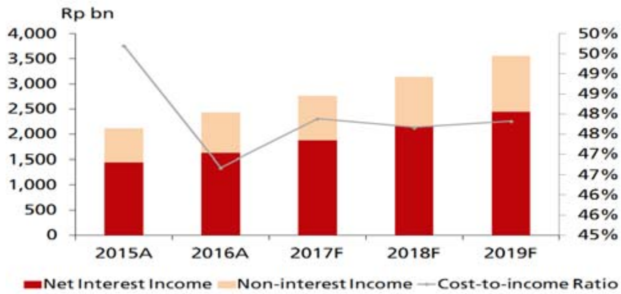
Gross Loan & Growth



Loan-to-Deposit Ratio Trend



Cost & Income Structure



Source: Company, DBS Bank, DBSVI

Balance Sheet:

Funding is not an issue. Funding is not an issue this year as BFIN continues to utilise bond issuances and bank borrowings. Currently, bonds contribute c.40% of the funding and no significant change is expected. USD debt exposures are about 30% of its total debt and are fully hedged.

NPLs should stabilise. Management expects NPL to be stable at around c.1.2% level. The company recently changed its write -off policy on its automotive loans to 210 days overdue from 270 days previously.

Gearing ratio remains low. The company's gearing ratio has been at 1.4-1.8x historically. BFIN is well-capitalised and carries low solvency risk. Going forward, management expects the gearing ratio to be at 1.5-2.0x.

Share Price Drivers:

Near-term resilience will support valuation; M&A will boost multiples over the long term. BFIN's diversified portfolio and unique direct financing business will continue to deliver sustainable earnings in the long term. BFIN is also an attractive M&A target given its cheap valuation, and also that it is one of the few sizeable multi-finance companies not directly backed by a bank.

Key Risks:

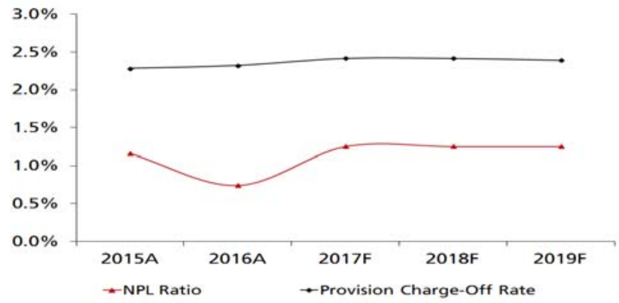
Upside risk from sustained high commodity prices. Sustained high commodity prices can support demand for leasing. Leasing usually has a higher ticket size and longer duration compared to non-dealer financing. Thus, leasing could be a significant addition to receivable growth.

Slower-than-expected growth; more intense competition. The slower growth of consumer financing would be a downside risk to our forecast. Tougher competition can also lower yields and erode NIM.

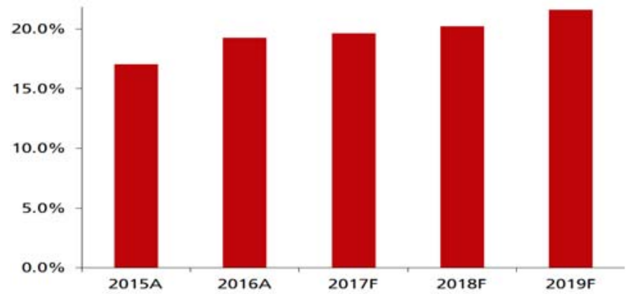
Company Background

BFI Finance (BFIN) is a financing company that focuses on consumer financing, both dealer generated and direct lending. The major shareholder with a 44.95% stake is a consortium comprising TPG Capital, Northstar Equity Partners and Boy Garibaldi Thohir.

Asset Quality



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBS Bank, DBSVI

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
Gross Loans Growth	15.6	16.8	11.9	12.0	13.2
Yld. On Earnings Assets	17.6	18.4	19.6	19.5	19.6
Avg Cost Of Funds	11.1	10.6	10.9	10.7	10.7

Income Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Interest Income	1,448	1,630	1,872	2,151	2,444
Non-Interest Income	671	805	886	992	1,111
Operating Income	2,119	2,435	2,758	3,143	3,555
Operating Expenses	(1,053)	(1,137)	(1,321)	(1,498)	(1,700)
Pre-provision Profit	1,066	1,298	1,437	1,645	1,855
Provisions	(230)	(273)	(318)	(357)	(399)
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	836	1,025	1,119	1,288	1,455
Taxation	(185)	(227)	(235)	(271)	(306)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	650	798	884	1,018	1,150
Net Profit bef Except	650	798	884	1,018	1,150
Growth (%)					
Net Interest Income Gth	12.1	12.6	14.9	14.9	13.6
Net Profit Gth	8.9	22.8	10.7	15.1	13.0
Margins, Costs & Efficiency (%)					
Spread	6.6	7.8	8.7	8.8	8.9
Net Interest Margin	11.8	12.4	13.3	13.4	13.4
Cost-to-Income Ratio	49.7	46.7	47.9	47.7	47.8
Business Mix (%)					
Net Int. Inc / Opg Inc.	68.3	66.9	67.9	68.4	68.8
Non-Int. Inc / Opg inc.	31.7	33.1	32.1	31.6	31.2
Fee Inc / Opg Income	25.6	29.2	28.4	27.9	27.6
Oth Non-Int Inc/Opg Inc	6.1	3.9	3.8	3.7	3.6
Profitability (%)					
ROAE Pre Ex.	17.0	19.3	19.7	20.2	21.6
ROAE	17.0	19.3	19.7	20.2	21.6
ROA Pre Ex.	6.1	6.6	6.7	6.9	7.1
ROA	6.1	6.6	6.7	6.9	7.1

NIM improvement due to better funding mix

Cost to income ratio slightly higher due to branch expansion

Source: Company, DBS Bank, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Net Interest Income	373	377	399	413	441
Non-Interest Income	185	185	200	193	228
Operating Income	**557**	**561**	**599**	**606**	**669**
Operating Expenses	(260)	(269)	(288)	(268)	(311)
Pre-Provision Profit	**298**	**292**	**311**	**338**	**358**
Provisions	(27.1)	(74.6)	(66.3)	(81.2)	(51.3)
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	**271**	**218**	**245**	**257**	**306**
Taxation	(75.3)	(57.5)	(64.1)	(43.4)	(61.6)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Profit	**196**	**160**	**180**	**213**	**245**
Growth (%)					
Net Interest Income Gth	1.9	1.1	5.9	3.5	6.8
Net Profit Gth	24.3	(18.2)	12.8	18.2	14.7

Balance Sheet (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Cash/Bank Balance	777	165	283	625	40.0
Government Securities	0.0	0.0	0.0	0.0	0.0
Inter Bank Assets	0.0	0.0	0.0	0.0	0.0
Total Net Loans & Advs.	9,898	11,583	12,856	14,291	16,079
Investment	0.0	0.0	0.10	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0
Fixed Assets	450	414	415	414	411
Goodwill	0.0	0.0	0.0	0.0	0.0
Other Assets	645	313	313	313	313
Total Assets	**11,770**	**12,476**	**13,868**	**15,643**	**16,843**
Customer Deposits	0.0	0.0	0.0	0.0	0.0
Inter Bank Deposits	0.0	0.0	0.0	0.0	0.0
Debts/Borrowings	7,318	7,656	8,656	9,856	11,056
Others	434	565	472	472	472
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	4,019	4,255	4,740	5,315	5,315
Total Liab& S/H's Funds	**11,770**	**12,476**	**13,868**	**15,643**	**16,843**

Strong receivable growth to continue

Source: Company, DBS Bank, DBSVI

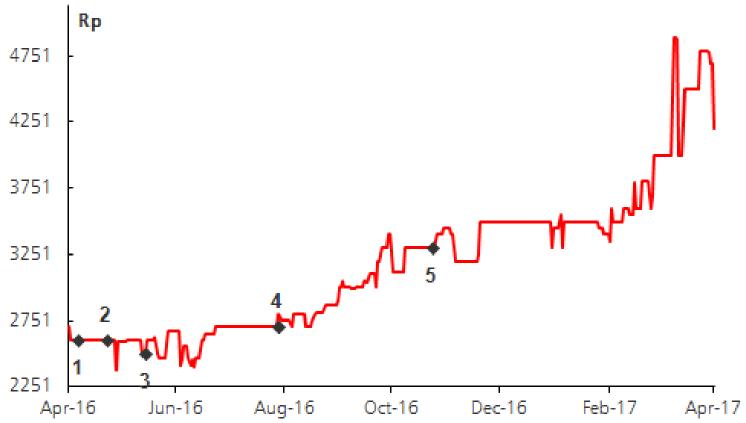
Financial Stability Measures (%)

FY Dec	2015A	2016A	2017F	2018F	2019F
Balance Sheet Structure					
Loan-to-Deposit Ratio	135.3	151.3	148.5	145.0	145.4
Net Loans / Total Assets	84.1	92.8	92.7	91.4	95.5
Investment / Total Assets	0.0	0.0	0.0	0.0	0.0
Cust . Dep./Int. Bear. Liab.	0.0	0.0	0.0	0.0	0.0
Interbank Dep / Int. Bear.	0.0	0.0	0.0	0.0	0.0
Asset Quality					
NPL / Total Gross Loans	1.2	0.7	1.2	1.2	1.2
NPL / Total Assets	1.2	0.9	1.3	1.3	1.3
Loan Loss Reserve Coverage	126.6	154.4	173.2	226.7	274.4
Provision Charge-Off Rate	2.3	2.3	2.4	2.4	2.4
Capital Strength					
Total CAR	0.0	0.0	0.0	0.0	0.0
Tier-1 CAR	0.0	0.0	0.0	0.0	0.0

NPL to normalise to the historical level of c.1.2%

Source: Company, DBS Bank, DBSVI

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 Apr 16	2600	2900	HOLD
2:	27 Apr 16	2600	3100	BUY
3:	19 May 16	2500	3100	BUY
4:	02 Aug 16	2700	3400	BUY
5:	28 Oct 16	3300	3700	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank, DBSVI

Analyst: Sue Lin LIM

Benedictus Agung SWANDONO

DBS Bank, DBSVI recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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