

Indonesia Company Guide

BFI Finance Indonesia

Version 7 | Bloomberg: BFIN IJ | Reuters: BFIN.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Jul 2017

BUY (Upgrade from HOLD)

Last Traded Price (27 Jul 2017): Rp545 (JCI : 5,819.70)

Price Target 12-mth: Rp700 (28% upside) (Prev Rp500)

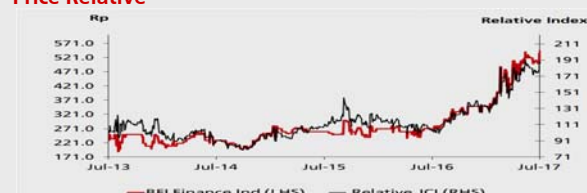
Analyst

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What's New

- **1H17 earnings were beyond expectations, led by strong non-dealer financing business**
- **Refinancing business maintains strong growth momentum; asset quality is well maintained**
- **NIM improved; operating expenses well maintained**
- **Upgrade to BUY with higher TP of Rp700; earnings revised up by 9% across FY17-19F**

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2016A	2017F	2018F	2019F
Pre-prov. Profit	1,298	1,536	1,758	1,983
Net Profit	798	962	1,107	1,251
Net Pft (Pre Ex.)	798	962	1,107	1,251
Net Pft Gth (Pre-ex) (%)	22.8	20.5	15.1	13.0
EPS (Rp)	50.0	60.2	69.3	78.3
EPS Pre Ex. (Rp)	50.0	60.2	69.3	78.3
EPS Gth Pre Ex (%)	(33)	20	15	13
Diluted EPS (Rp)	50.0	60.2	69.3	78.3
PE Pre Ex. (X)	10.9	9.0	7.9	7.0
Net DPS (Rp)	20.7	25.0	30.1	34.7
Div Yield (%)	3.8	4.6	5.5	6.4
ROAE Pre Ex. (%)	19.3	21.2	21.6	21.6
ROAE (%)	19.3	21.2	21.6	21.6
ROA (%)	6.6	7.3	7.5	7.5
BV Per Share (Rp)	266	302	341	385
P/Book Value (x)	2.0	1.8	1.6	1.4
Earnings Rev (%):		9	9	9
Consensus EPS (Rp):		56.1	64.6	73.0
Other Broker Recs:		B: 0	S: 0	H: 1

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

Exciting prospects ahead

Upgrade to BUY on exciting prospects. We have turned more bullish on BFIN's outlook on the back of: (1) strong momentum of the refinancing business that exhibits quality growth, and (2) structural NIM improvement due to higher yields arising from its new product mix and lower cost of funds post BFIN's corporate bond rating upgrade by Fitch Ratings. These allow BFIN to book ROE of c.20%, even with a low gearing ratio of c.2x (much lower than the industry and regulatory levels of c.8x and 10x, respectively). BFIN's superior profitability and room for growth should justify its premium valuation, in our view. Its high dividend yield of c.5% is also a bonus. We also note that its heavy equipment leasing business has picked up strongly due to the improving commodity-related sector; this could add more upside to its current business portfolio and hence, earnings.

Where we differ. We are the only broker covering the stock.

Potential catalyst. The growth in the refinancing business requires the company to handle more but smaller ticket loans. The company is working with consultants to improve productivity of its field agents. Effective implementation of an online application system is also helping improve efficiency, while cutting commissions for the external field agents. A higher payout could also drive up the stock price. BFIN is also expected to maintain a generous dividend payout policy of around 50%, thus implying an attractive dividend yield of c.5%.

Valuation:

Upgrade to BUY. We raise our TP to Rp700, which is based on the Gordon Growth Model (20% ROE, 9% growth and 14% cost of equity) and implies 2x FY18 BV. The key changes to our assumptions are: (i) lower risk-free rate of 7.5% from 8%; (ii) the rolling forward of our valuation base to 2018, and (iii) revising up earnings forecast by 9% for 17F/18F/19F.

Key Risks to Our View:

Higher-than-expected inflation could hit customers earning fixed income. An adverse economic cycle could also hit the non-fixed income customers.

At A Glance

Issued Capital (m shrs)	15,967
Mkt. Cap (Rpbn/US\$m)	8,702 / 654
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)	0.13

ICB Industry : Financials / General Financial

WHAT'S NEW

Beyond expectations

Highlights

Strong 1H17 earnings. BFIN's 1H17 net profit of Rp526bn (55%y-o-y) represents 59% of our full-year estimate, supported by its strong non-dealer financing business.

Higher spreads from higher asset yield and lower cost of fund; strong fee income. Interest spread increased 65bps y-o-y due to higher asset yields from a higher proportion of non-dealer financing and lower cost of fund. Fee income grew strongly at 30%, mainly driven by strong new bookings growth.

Operating costs higher from expansion; credit costs inched up due to write-offs. Operating efficiencies improved with cost-to-income ratio declining 399bps y-o-y. Operating expenses growth of 16% was mainly due to 16% y-o-y employee additions. The number of branches also rose to 316, with 11 units added since the beginning of the year. Separately, credit costs inched up to 2.14%, mainly due to changes in the automatic write-off policy to 210 days this year vs 270 days last year

Strong receivable growth driven by refinancing business; leasing business picked up strongly. Total net receivables grew 28% y-o-y, faster than the growth of managed receivables at 15%, mainly due to a lower portion of off-balance sheet joint-financing. The strong growth was driven by strong non-dealer 4W financing growth of 26% y-o-y. Despite the non-dealer financing portion exceeding its targeted 50% mark (55% in 2Q17), management is maintaining its focus on this segment and does not rule out the possibility of further expansion. Meanwhile, the leasing business showed significant growth of 66% y-o-y, due to an improving commodity-related sector.

Lower NPL mainly due to higher write-offs because of a change in write-off policy. NPL improved to 1.1% from 1.51% a year ago, mainly due to changes in write-off policy in 4Q16 (from 270 days past due to 210 days past due). The write-off rate was lower at 1.45%, on a y-o-y and q-o-q basis.

Tax-rate normalisation also helped bottom-line on y-o-y basis. BFIN booked tax provisions last year to cushion against potential additional tax expenses from the undergoing tax

investigation. However, it stopped booking these tax provisions in 1H17, with the effective tax rate having normalised to c.20% from 24% for the corresponding period a year ago.

Gearing ratio remained low at 2x. Gearing ratio is slightly higher at 2.01x from 1.66x the previous year. But the gearing level is way below the regulated 10x level.

Outlook

Management maintains positive outlook, targets >20% new booking this year. Management is maintaining its positive outlook, which is fuelled by its optimism in the refinancing business. Management has added 11 new branches this year to support growth. Going forward, management targets 20% new bookings growth, driven by non-dealer financing.

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 change of the write-off policy to 210 days overdue last quarter (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.

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).

Valuation and recommendation

Upgrade to BUY. We raise our TP to Rp700, which is based on the Gordon Growth Model (20% ROE, 9% growth and 14% cost of equity) and implies 2x FY18 BV. The key changes to our assumptions are: (i) lower risk-free rate of 7.5% from 8%; (ii) the rolling forward of our valuation base to 2018; and (iii) revising up earnings forecast by 9% for FY17-19F, following the better-than-expected 2Q17 earnings as well as improved growth prospects of the company.

Quarterly / Interim Income Statement (Rpbn)

FY Dec	2Q2016	1Q2017	2Q2017	% chg yoy	% chg qoq
Net Interest Income	399	470	501	25.6	6.6
Non-Interest Income	200	230	261	30.4	13.5
Operating Income	599	700	762	27.2	8.9
Operating Expenses	(288)	(305)	(314)	8.9	2.8
Pre-Provision Profit	311	395	448	44.2	13.5
Provisions	(66.3)	(75.8)	(109)	63.8	43.2
Associates	0.0	0.0	0.0	nm	nm
Exceptionals	0.0	0.0	0.0	nm	nm
Pretax Profit	245	319	340	38.9	6.5
Taxation	(64.1)	(64.5)	(68.1)	6.3	5.7
Minority Interests	0.0	0.0	0.0	nm	nm
Net Profit	180	254	271	50.4	6.7

Growth (%)

Net Interest Income Gth	5.9	6.6	6.6
Net Profit Gth	12.8	4.0	6.7

Key ratio (%)

NIM	15.5	15.9	16.2
NPL ratio	1.2	0.8	0.9
Cost-to-income	48.1	43.6	41.2
Total CAR	N/A	N/A	N/A

Source of all data: Company, DBS Bank, DBSVI

CRITICAL DATA POINTS TO WATCH

Critical Factors

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 in 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.

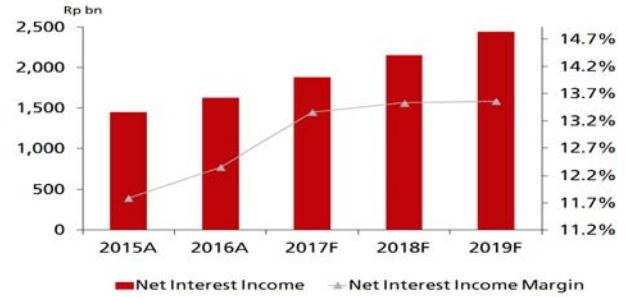
Possible NIM improvement. Further expansion in the non-dealer business can increase asset yield further. The yields from non-dealer 4W and 2W financing can be up to 20% and 40%, respectively, much higher than dealer financing yields of 15-16%. Elsewhere, the bond rating upgrade from Fitch and lower interest-rate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

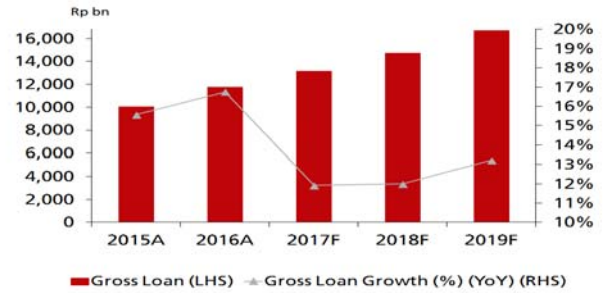
NPL and credit cost to stabilise. We believe NPL and credit cost can be maintained at current levels, as the economy and automotive market should stabilise this year. We expect NPL to hover around 1.2%, while credit cost should be flattish.

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.

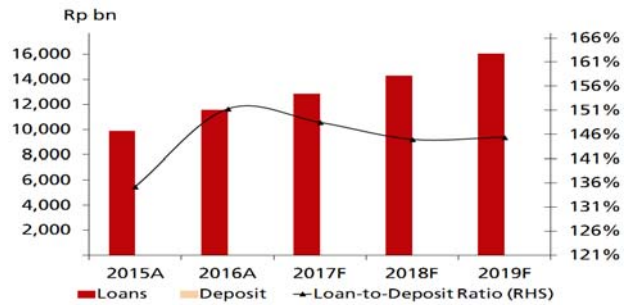
Margin Trends



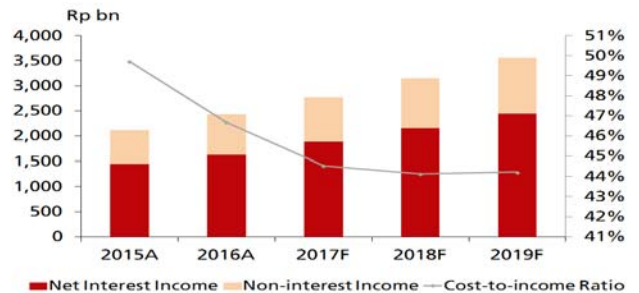
Gross Loan & Growth



Loan-to-Deposit Ratio Trend



Cost & Income Structure



Source: Company, DBS Bank, DBSVI

Appendix 1: A look at Company's listed history – what drives its share price?

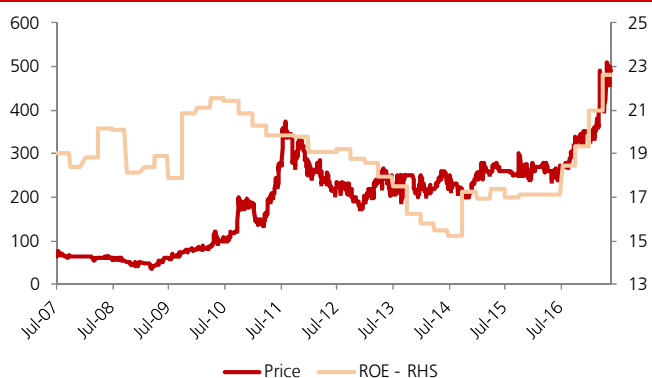
Loan growth as critical factor



Remarks

Loan growth is the main driver of stock price. BFI has been underleveraged and is known for its conservatism to maintain safe level of liquidity and leverage. BFI is a stand-alone multifinance company (unlike most multifinance companies which are backed by banks), and therefore would not expect an easy line of help like most of its peers.

Bond Yield as critical factor



ROE in the past year has been improving significantly due to expansion in the refinancing business, which offers higher yield.

Source: Bloomberg Finance L.P., DBS Bank, DBSVI

Share price performance (10-year historical trend)



Source: Bloomberg Finance L.P., 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 exposure is about 30% of its total debt and is fully hedged.

NPLs be maintained at low level. 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.

Gearing ratio remains low. The company’s gearing ratio has below 2x historically. BFIN is well-capitalised and carries low solvency risk. Even with the currently strong growth momentum, management expects gearing to not exceed 3x in the near future.

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.

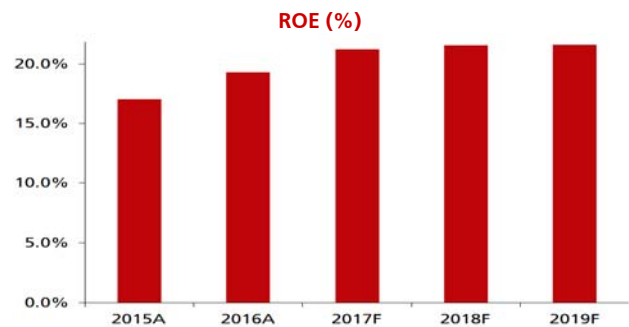
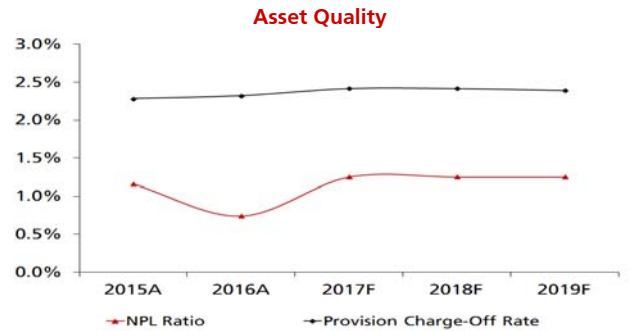
Key Risks:

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.



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
Customer Deposits Growth	N/A	N/A	N/A	N/A	N/A
Yld. On Earnings Assets	17.6	18.4	19.7	19.8	19.8
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	1,884	2,154	2,444
Non-Interest Income	671	805	886	992	1,111
Operating Income	2,119	2,435	2,769	3,146	3,554
Operating Expenses	(1,053)	(1,137)	(1,233)	(1,388)	(1,572)
Pre-provision Profit	1,066	1,298	1,536	1,758	1,983
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	1,218	1,401	1,583
Taxation	(185)	(227)	(256)	(294)	(333)
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	962	1,107	1,251
Net Profit bef Except	650	798	962	1,107	1,251
Growth (%)					
Net Interest Income Gth	12.1	12.6	15.6	14.4	13.4
Net Profit Gth	8.9	22.8	20.5	15.1	13.0
Margins, Costs & Efficiency (%)					
Spread	6.6	7.8	8.8	9.1	9.1
Net Interest Margin	11.8	12.4	13.4	13.6	13.6
Cost-to-Income Ratio	49.7	46.7	44.5	44.1	44.2
Business Mix (%)					
Net Int. Inc / Opg Inc.	68.3	66.9	68.0	68.5	68.7
Non-Int. Inc / Opg inc.	31.7	33.1	32.0	31.5	31.3
Fee Inc / Opg Income	25.6	29.2	28.2	27.8	27.6
Oth Non-Int Inc/Opg Inc	6.1	3.9	3.7	3.7	3.6
Profitability (%)					
ROAE Pre Ex.	17.0	19.3	21.2	21.6	21.6
ROAE	17.0	19.3	21.2	21.6	21.6
ROA Pre Ex.	6.1	6.6	7.3	7.5	7.5
ROA	6.1	6.6	7.3	7.5	7.5

NIM improvement due to better funding mix

Source: Company, DBS Bank, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	2Q2016	3Q2016	4Q2016	1Q2017	2Q2017
Net Interest Income	399	413	441	470	501
Non-Interest Income	200	193	228	230	261
Operating Income	599	606	669	700	762
Operating Expenses	(288)	(268)	(311)	(305)	(314)
Pre-Provision Profit	311	338	358	395	448
Provisions	(66.3)	(81.2)	(51.3)	(75.8)	(109)
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	245	257	306	319	340
Taxation	(64.1)	(43.4)	(61.6)	(64.5)	(68.1)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Profit	180	213	245	254	271

Growth (%)

Net Interest Income Gth	5.9	3.5	6.8	6.6	6.6
Net Profit Gth	12.8	18.2	14.7	4.0	6.7

Strong profit growth continues driven by higher NIM and lower credit cost

Balance Sheet (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Cash/Bank Balance	777	165	361	754	866
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 & Adv.	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	13,946	15,772	17,669
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	4,817	5,444	6,141
Total Liab & S/H's Funds	11,770	12,476	13,945	15,772	17,669

Strong receivable growth to continue

Source: Company, DBS Bank, DBSVI

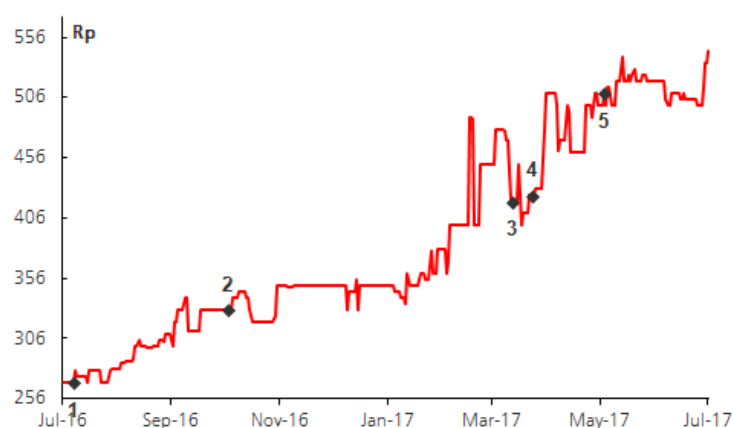
Financial Stability Measures (%)

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	92.2	90.6	91.0
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 should be maintained at 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:	02 Aug 16	270	340	BUY
2:	28 Oct 16	330	370	BUY
3:	07 Apr 17	420	500	BUY
4:	18 Apr 17	425	500	BUY
5:	29 May 17	510	500	HOLD

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

Source: DBS Bank, DBSVI

Analyst: Benedictus Agung SWANDONO

Sue Lin LIM

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

Completed Date: 28 Jul 2017 06:40:33 (WIB)
Dissemination Date: 28 Jul 2017 07:18:50 (WIB)

Sources for all charts and tables are DBS Bank, DBSVI unless otherwise specified.

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