Indonesia Company Guide

BFI Finance Ind

Version 4 | Bloomberg: BFIN IJ | Reuters: BFIN.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Oct 2016

BUY

Last Traded Price (27 Oct 2016): Rp3,300 (JCI : 5,416.80)
Price Target 12-mth: Rp3,700 (12% upside) (Prev Rp3,400)

Potential Catalyst: Strong non-dealer financing business maintained, potential M&A target
Where we differ: We are the only house covering the stock

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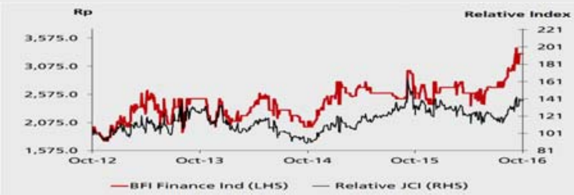
What's New

- **Strong 3Q16 earnings due to higher NIM and strong receivables growth**
- **NPL inched up to 1.8%, driven by leasing segment**
- **Non-dealer business hit 50% contribution mark**
- **Maintain HOLD; TP rises to Rp3,700, as we roll over our valuation base forward to FY17**

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2015A	2016F	2017F	2018F
Pre-prov. Profit	1,066	1,177	1,299	1,481
Net Profit	650	719	815	937
Net Pft (Pre Ex.)	650	719	815	937
Net Pft Gth (Pre-ex) (%)	8.9	10.6	13.4	14.9
EPS (Rp)	418	459	518	595
EPS Pre Ex. (Rp)	418	459	518	595
EPS Gth Pre Ex (%)	8	10	13	15
Diluted EPS (Rp)	417	456	518	595
PE Pre Ex. (X)	7.9	7.2	6.4	5.5
Net DPS (Rp)	192	206	259	297
Div Yield (%)	5.8	6.3	7.8	9.0
ROAE Pre Ex. (%)	17.0	17.1	17.7	18.5
ROAE (%)	17.0	17.1	17.7	18.5
ROA (%)	6.1	5.8	6.0	6.2
BV Per Share (Rp)	2,578	2,801	3,060	3,357
P/Book Value (x)	1.3	1.2	1.1	1.0
Earnings Rev (%):		0	0	0
Consensus EPS (Rp):		459	518	595
Other Broker Recs:		B: 1	S: 0	H: 0

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

Positive momentum continues

Proven resilience; BUY rating maintained. BFI Finance (BFIN) stands out as one of the best performers among its peers with double-digit earnings growth, coupled with a stable 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 the non-dealer 4W segment paid off amid slow heavy equipment and dealer financing. Its credit cost and write-offs were lower compared to peers, partly due to BFIN's early adoption of write-off policy and NPL classifications to PSAK 50/55.

Maintain positive momentum in 3Q16. BFIN's 9M16 net profit of Rp554bn (22%y-o-y) represented 77% of our full-year estimate. The performance was helped by a stronger 3Q16 (vs 2Q16) with Rp213bn net profit (+18%q-o-q; +36%y-o-y). Total receivables grew 13% y-o-y, driven by the strong momentum in non-dealer financing (28% y-o-y). Meanwhile, fee income grew strongly but opex was kept in check. NPL inched up to 1.8% due to weakness in the leasing segment. Its tax rate has normalised after booking tax provisions in the past two quarters.

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 CFIN (the other multi-finance company that 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%, implying an attractive dividend yield.

Valuation:

Maintain BUY; TP raised to Rp3,700 as we shift valuation base to 2017. We maintain our BUY rating on BFIN with a higher target price of Rp3,700 (based on Gordon Growth Model – 17% ROE, 9% growth rate, and 15.7% cost of equity) that implies 1.2x 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$m)	5,269 / 404
Major Shareholders (%)	
Trinugraha Capital & Co (%)	43.7
Fil Ltd (%)	0.7
Commonwealth Bank (%)	0.2
Free Float (%)	55.4
3m Avg. Daily Val (US$m)	0.08
ICB Industry : Financials / General Financial	

WHAT'S NEW

Positive momentum continues

In-line 3Q16 earnings. BFIN's 9M16 net profit of Rp554bn (22%y-o-y) represented 77% of our and consensus full-year estimates. The performance was helped by a stronger 3Q16 (vs 2Q16) with Rp213bn net profit (+18%q-o-q; +36%y-o-y), in line with our expectations.

Higher NIM from lower funding cost. NIM increased 25bps to 12.5% compared to the previous quarter due to lower cost of funds. Meanwhile, non-interest income grew strongly at 19% y-o-y, mainly driven by administration fees and late charges, thanks to the non-dealer financing business which has lower ticket sizes.

Operating expenses in check; conservative outlet expansion. Operating expenses in 3Q16 dropped 3% q-o-q and 7% y-o-y, with cost to income ratio inching down to 47% from 48%. BFIN only added three new outlets this quarter and will focus on maximising the existing outlets.

Strong receivables growth driven by non-dealer financing. Total receivables grew 13% y-o-y while managed receivables (including joint financing and channelling) rose 1.6% y-o-y. This translates into a lower off-balancing portion in 3Q16 to 13% from 21% in 3Q15. Non-dealer financing portion hit the targeted 50% mark in 3Q16 (vs 44% in 2Q15). However, management is maintaining its focus on this segment and does not rule out the possibility of further expansion.

NPL blips driven by leasing segment. NPL ratio crept up to 1.8% in 3Q16 from 1.51% in 2Q16. Most of the NPLs came from the leasing segment due to some downgrades in big accounts in the mining sector. NPL in the consumer financing saw an uptick but was still manageable at 1.4%. Provision expenses during the quarter rose by 23% q-o-q to cover these downgrades. Overall, asset quality was in check despite the multi-finance industry being plagued by deteriorating asset quality.

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 3Q16 and the tax rate for the quarter has normalised to c.20% from 26% previously.

Gearing ratio stable at 1.6x. Gearing ratio stayed at 1.6x in 3Q16, but declined slightly on a q-o-q basis.

Outlook

Growing cautiously; NIM to remain stable. Management maintained its cautious stance for this year by moving away from commodity-related financing to focus on non-dealer financing. Receivables growth has been guided at 10-15% y-o-y but it has emphasised its ability to take on more risk given the improving NPL ratio. We maintain our conservative stance by assuming the lower end of the guidance of 10% for FY16. There is a potential upside from NIM from the lower interest rate environment.

Maintain focus on non-dealer financing business. Non-dealer financing business contributes up to 50% of the receivables portfolio in 9M16. Management indicated that it is targeting 50%-60% of non-dealer business contribution this year. This may result in higher yields ahead, as yields from non-dealer 4W and 2W financing can be up to 20% and 40%, respectively, much larger than dealer financing which yields 15%-16%. Geographically, BFIN outlined its preference towards the Java region rather than commodity-related areas such as Kalimantan and Sumatera. Higher competition in Java could also force BFIN to price down its loans in order to attain better debtors.

ROE and dividend yield remains attractive. BFIN has consistently delivered 16%-20% ROE during the past 10 years, demonstrating its resilience even during the GFC. Furthermore, the company paid a generous 50% payout from FY15 profit. The company is also expected to disburse interim dividends in 2H16. With the current forecast and price, we are expecting 6% dividend yield from FY16 profit.

Valuations and recommendation

Maintain BUY; TP raised to Rp3,700 as we shift valuation base to 2017. We maintain our BUY rating on BFIN with a higher target price of Rp3,700 (based on Gordon Growth Model – 17% ROE, 9% growth rate, and 15.7% cost of equity) that implies 1.2x FY17F BV.

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2015	2Q2016	3Q2016	% chg yoy	% chg qoq
Net Interest Income	366	399	413	12.9	3.5
Non-Interest Income	163	200	193	18.8	(3.3)
Operating Income	528	599	606	14.7	1.2
Operating Expenses	(278)	(288)	(268)	(3.4)	(6.9)
Pre-Provision Profit	251	311	338	34.7	8.7
Provisions	(56.6)	(66.3)	(81.2)	43.6	22.6
Associates	0.0	0.0	0.0	nm	nm
Exceptionals	0.0	0.0	0.0	nm	nm
Pretax Profit	194	245	257	32.1	5.0
Taxation	(37.0)	(64.1)	(43.4)	17.5	(32.3)
Minority Interests	0.0	0.0	0.0	nm	nm
Net Profit	157	180	213	35.6	18.2
Growth (%)					
Net Interest Income Gth	1.5	5.9	3.5		
Net Profit Gth	4.9	12.8	18.2		
Key ratio (%)					
NIM	11.5	12.3	12.5		
NPL ratio	1.3	1.5	1.8		
Cost-to-income	52.5	48.1	44.2		

Source of all data: Company, DBS Bank, DBS Vickers

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Strong growth of non-dealer financing. Managed receivables (on and off balance sheet) grew 9% last year while total receivables (balance sheet only) grew 16%, topping FY15 guidance of 10-15%. This was driven by strong non-dealer 4W financing at 18% and lower portion of off balance sheet financing. Looking at the improvement in asset quality last year, management indicated that it is comfortable in taking on more risk this year and guided for another 10-15% growth in receivables. We expect that the strong growth momentum in the non-dealer business, along with the new multipurpose financing products, should continue to offset the weakness in commodity-related segments and eventually deliver 10% growth this year.

Diverse products. BFIN offers a variety of products including new/used 2W and 4W financing, as well as commercial vehicle and heavy equipment leasing. There is also direct (non-dealer) financing and traditional dealer financing. The company is planning to enter the multipurpose financing business this year. The scheme will be similar to the current *multiguna* financing, in which BFIN will try to offer the product to its current customers. Competition for this business should come from local rural banks (BPR/Bank Perkreditan Rakyat).

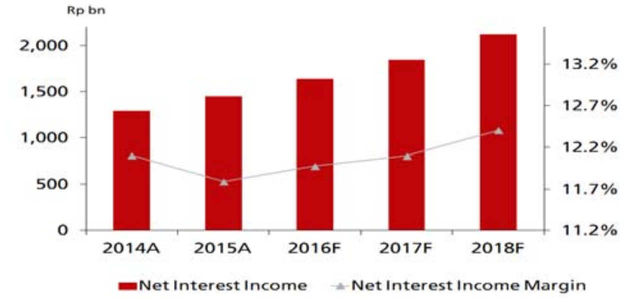
NIM should be stable. Management intends to push non-dealer business contribution closer to 50% from 45% currently. The yields from non-dealer 4W and 2W financing can be up to 20% and 40%, respectively, much higher than dealer financing yields of 15-16%. However, competition to win the business can also put pressure on yields. Competition has become increasingly relevant after management signalled its intention to shift its focus from the commodity-related financing business in Kalimantan and Sumatra market to the Java region.

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.

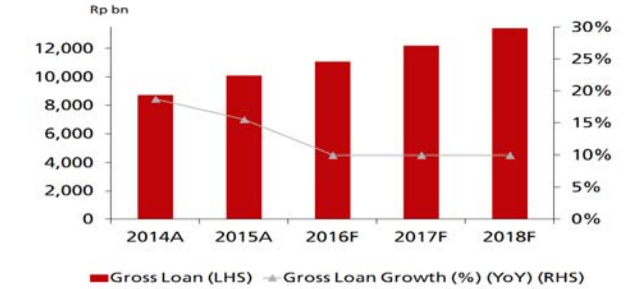
NPL and credit cost to stabilise. We believe NPL and credit cost can be maintained at current levels, as the economy and automotive market should stabilise this year. We expect NPL to hover around 1.5%, while credit cost should be flat at c.1.9%.

Cost-to-income should remain stable. Its cost-to-income ratio was at a historical high of 50% last year, after adding seven new outlets to its existing 260 outlets last year. The 7% increase in the number of employees also led to higher expenses. We expect the cost-to-income ratio to stabilise at current levels.

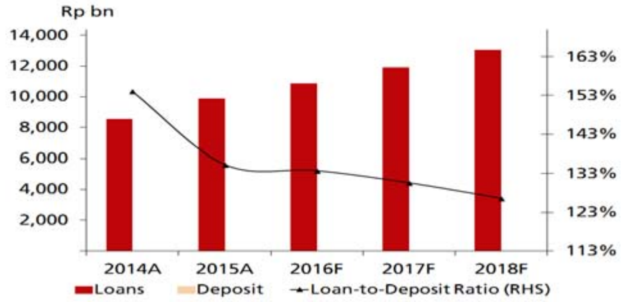
Margin Trends



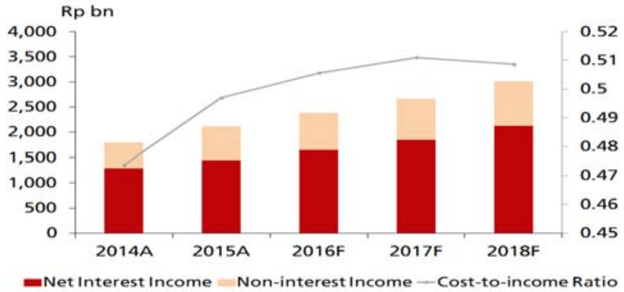
Gross Loan & Growth



Loan-to-Deposit Ratio Trend



Cost & Income Structure



Source: Company, DBS Bank, DBS Vickers

Balance Sheet:

Funding is not an issue. Funding is not an issue this year as BFIN continues to utilise bond issuance and bank borrowings. Currently, bonds contribute 23% of the funding and no significant change is expected. The majority of the funding is in USD but fully hedged.

NPLs may not peak as yet. Management maintained its cautious stance and has been reluctant to indicate that NPL had peaked last year. However, we believe this year should not be worse than the previous year as the economy starts to pick up. The main driver of NPL is still in the heavy equipment and commodity-related sectors.

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 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 as it is one of few sizeable multi-finance companies that is not directly backed by a bank.

Key Risks:

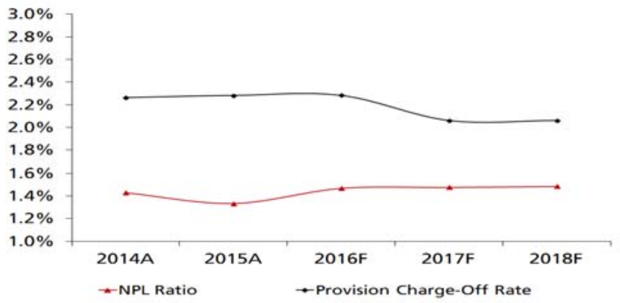
Low commodity prices and stock liquidity. Commodity prices have not recovered, which could be a risk to asset quality for mining and related loans. Low trading liquidity may also be an issue.

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

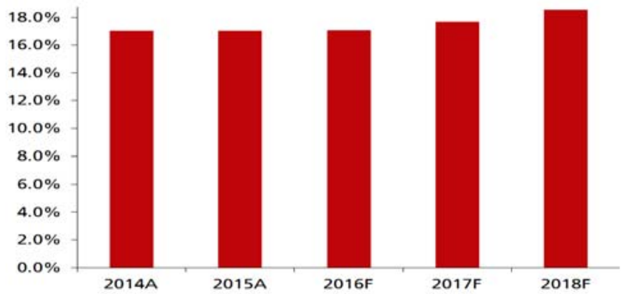
Company Background

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

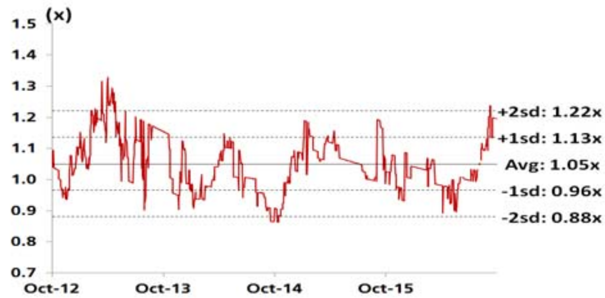


ROE (%)



Forward PE Band (x)

PB Band (x)



Source: Company, DBS Bank, DBS Vickers

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Gross Loans Growth	18.7	15.6	10.0	10.0	10.0
Yld. On Earnings Assets	16.9	17.6	18.3	18.1	18.2
Avg Cost Of Funds	9.9	11.1	11.2	10.6	10.1

Income Statement (Rpbn)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Interest Income	1,292	1,448	1,643	1,845	2,122
Non-Interest Income	504	671	738	812	893
Operating Income	1,796	2,119	2,381	2,657	3,014
Operating Expenses	(851)	(1,053)	(1,204)	(1,358)	(1,533)
Pre-provision Profit	946	1,066	1,177	1,299	1,481
Provisions	(198)	(230)	(253)	(252)	(277)
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	748	836	924	1,048	1,204
Taxation	(151)	(185)	(205)	(232)	(267)
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	597	650	719	815	937
Net Profit bef Except	597	650	719	815	937
Growth (%)					
Net Interest Income Gth	17.2	12.1	13.5	12.3	15.0
Net Profit Gth	17.4	8.9	10.6	13.4	14.9
Margins, Costs & Efficiency (%)					
Spread	7.0	6.6	7.1	7.5	8.1
Net Interest Margin	12.1	11.8	12.0	12.1	12.4
Cost-to-Income Ratio	47.4	49.7	50.6	51.1	50.9
Business Mix (%)					
Net Int. Inc / Opg Inc.	71.9	68.3	69.0	69.5	70.4
Non-Int. Inc / Opg inc.	28.1	31.7	31.0	30.5	29.6
Fee Inc / Opg Income	22.3	25.6	25.1	24.7	24.0
Oth Non-Int Inc/Opg Inc	5.8	6.1	5.9	5.8	5.7
Profitability (%)					
ROAE Pre Ex.	17.0	17.0	17.1	17.7	18.5
ROAE	17.0	17.0	17.1	17.7	18.5
ROA Pre Ex.	6.6	6.1	5.8	6.0	6.2
ROA	6.6	6.1	5.8	6.0	6.2

Double-digit earnings growth expected

Source: Company, DBS Bank

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Net Interest Income	366	373	377	399	413
Non-Interest Income	163	185	185	200	193
Operating Income	528	557	561	599	606
Operating Expenses	(278)	(260)	(269)	(288)	(268)
Pre-Provision Profit	251	298	292	311	338
Provisions	(56.6)	(27.1)	(74.6)	(66.3)	(81.2)
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	194	271	218	245	257
Taxation	(37.0)	(75.3)	(57.5)	(64.1)	(43.4)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Profit	157	196	160	180	213
Growth (%)					
Net Interest Income Gth	1.5	1.9	1.1	5.9	3.5
Net Profit Gth	4.9	24.3	(18.2)	12.8	18.2

Balance Sheet (Rpbn)

FY Dec	2014A	2015A	2016F	2017F	2018F
Cash/Bank Balance	290	777	922	1,281	1,798
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.	8,559	9,898	10,854	11,904	13,058
Investment	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0
Fixed Assets	447	450	451	450	447
Goodwill	0.0	0.0	0.0	0.0	0.0
Other Assets	376	645	645	645	645
Total Assets	9,671	11,770	12,872	14,280	15,948
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	5,555	7,318	8,118	9,118	10,318
Others	502	434	341	341	341
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	3,614	4,019	4,413	4,821	5,289
Total Liab& S/H's Funds	9,671	11,770	12,872	14,280	15,948

Receivables growth driven by non-dealer business

Source: Company, DBS Bank

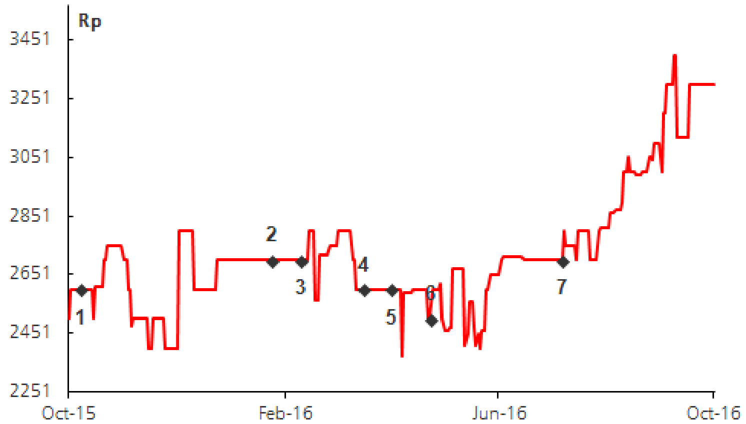
Financial Stability Measures (%)

FY Dec	2014A	2015A	2016F	2017F	2018F
Balance Sheet Structure					
Loan-to-Deposit Ratio	154.1	135.3	133.7	130.6	126.6
Net Loans / Total Assets	88.5	84.1	84.3	83.4	81.9
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	1.4	1.3	1.5	1.5	1.5
NPL / Total Assets	1.7	1.4	1.5	1.5	1.5
Loan Loss Reserve Coverage	101.0	110.3	117.0	132.8	147.0
Provision Charge-Off Rate	2.3	2.3	2.3	2.1	2.1
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 hover around 1.5%

Source: Company, DBS Bank, DBS Vickers

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Nov 15	2600	2900	HOLD
2:	19 Feb 16	2700	2900	HOLD
3:	07 Mar 16	2700	2900	HOLD
4:	11 Apr 16	2600	2900	HOLD
5:	27 Apr 16	2600	3100	BUY
6:	19 May 16	2500	3100	BUY
7:	02 Aug 16	2700	3400	BUY

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

Source: DBS Bank, DBS Vickers
Analyst: Sue Lin LIM
Benedictus Agung SWANDONO

DBS Bank 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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