Indonesia Company Guide

# BFI Finance Indonesia

Version 6 | Bloomberg: BFIN IJ | Reuters: BFIN.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 May 2017

## HOLD ( Downgrade from Buy)

Last Traded Price ( 26 May 2017): Rp5,000 (JCI : 5,716.80)
Price Target 12-mth: Rp5,000 (0%)


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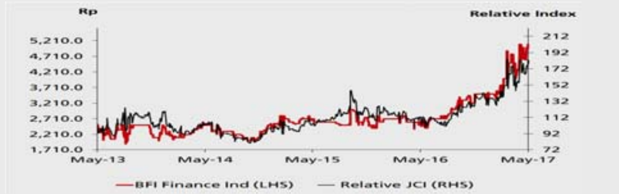
## What's New

- **1Q17 net profit grew strongly at 59%y-o-y driven by higher NIM and lower credit cost**
- **Strong receivable growth coupled with lower NPL**
- **Announcing stock split of 1:10. This will be effective on 5 June 2017**
- **Downgrade to HOLD due to limited upside with TP maintained at Rp5,000**

**Price Relative**




**Forecasts and Valuation**

| FY Dec (Rpbn) | 2016A | 2017F | 2018F | 2019F |
|---|---|---|---|---|
| Pre-prov. Profit | 1,298 | 1,437 | 1,646 | 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 | 15.2 | 12.9 |
| 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) | 9.8 | 8.9 | 7.7 | 6.9 |
| Net DPS (Rp) | 210 | 253 | 280 | 323 |
| Div Yield (%) | 4.2 | 5.1 | 5.6 | 6.5 |
| ROAE Pre Ex. (%) | 19.3 | 19.7 | 20.3 | 21.6 |
| ROAE (%) | 19.3 | 19.7 | 20.3 | 21.6 |
| ROA (%) | 6.6 | 6.7 | 6.9 | 7.1 |
| BV Per Share (Rp) | 2,700 | 3,008 | 3,374 | 3,374 |
| P/Book Value (x) | 1.9 | 1.7 | 1.5 | 1.5 |
| Earnings Rev (%): | | 0 | 0 | 0 |
| Consensus EPS (Rp): | | 561 | 646 | 730 |
| Other Broker Recs: | | B: 1 | S: 0 | H: 0 |

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

## Strong performance priced in

Downgrade to HOLD on valuation. BFI Finance (BFIN) stock rose 43% y-t-d and 100% y-o-y, driving up valuation to 1.7x 17E PBV (more than +2stdv of 5 year historical PBV). We believe the fundamentals remained strong with double-digit earnings growth, coupled with a stable non-performing loan (NPL) ratio. BFIN's refinancing business continue to exhibit quality growth, supported by its excellent back-end capability. We also note that heavy equipment leasing business has picked up strongly due to improving commodity related sector. However we believe the strong fundamental has been priced in the current valuation.

Strong start to the year. BFIN's 1Q17 net profit of Rp254bn (59%y-o-y) represented 28% of our full-year estimate supported by NIM improvement and lower credit cost. Total receivables grew 20% y-o-y driven by strong non-dealer financing growth at 33% y-o-y and leasing (70% y-o-y) due to improving commodity related sector. NPL improved to 1% from 1.56% a year ago with lower write off rate at 1.51% (vs 1.64% in 1Q16). Moreover BFIN announced its 1:10 stock split plan effective for 5 June 2017. This might helped improve the currently illiquid stock.

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:

Downgrade to HOLD on valuation. We maintain our TP at Rp5,000 but we downgrade our rating to HOLD due to limited upside potential. Our TP is based on Gordon Growth Model – 19% ROE, 9% growth rate, and 15.2% cost of equity – and this implies 1.7x 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$m) | 7,984 / 601 |
| Major Shareholders (%) | |
| Trinugraha Capital & Co (%) | 43.7 |
| Fil Ltd (%) | 0.7 |
| Commonwealth Bank (%) | 0.2 |
| Free Float (%) | 55.4 |
| 3m Avg. Daily Val (US$m) | 0.06 |
| ICB Industry : Financials / General Financial | |

DBS ASIAN INSIGHTS

DBS VICKERS SECURITIES

ed: CK / sa: MA, PY

## WHAT'S NEW

**Strong 1Q17 performance priced in**

### Highlights

**Strong 1Q17 earnings.** BFIN's 1Q17 net profit of Rp254bn (59%y-o-y) represented 28% of our full-year estimate supported by NIM improvement and lower credit cost.

**Higher spreads from higher asset yield and lower cost of fund; strong fee income.** Interest spread increased 169bps 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 27%, mainly driven by strong new bookings and receivable growth

**Operating costs and credit costs kept in check.** Operating costs rose 18% y-o-y with cost-to-income ratio lower 9ppt to 43.6%. The efficiency ratio was kept in check despite the aggressive expansion of 5 new outlets to 310 outlets nationwide during the first quarter alone. Credit costs were lower at 1.8% (vs 2% in 1Q16).

**Strong receivable growth driven by refinancing business; leasing business picked up strongly.** Total receivables grew 20% y-o-y, faster than the growth of managed receivables at 10.9%, mainly due to a lower portion of off-balance sheet joint-financing. The strong growth was driven by strong non-dealer financing growth at 33% y-o-y. Despite the non-dealer financing portion exceeded its targeted 50% mark (53% in 1Q17), management is maintaining its focus on this segment and does not rule out the possibility of further expansion. Meanwhile leasing business showed significant growth of 70% y-o-y due to improving commodity related sector.

**Lower NPL mainly due to higher write-offs due to change in write-off policy.** NPL improved to 1% from 1.56% a year ago, mainly due to changes in write off policy in 4Q16 (from 270 days past due to 210 days past due). Write off rate was lower at 1.51% on 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 has stopped booking these tax provisions in 1Q17 with effective tax rate normalised to c.20% from 26% for the corresponding period a year ago.

**Gearing ratio remained low at 1.8x.** Gearing ratio is slightly higher at 1.8x from 1.64x the previous year. But the gearing level is way below the regulated 10x level.

**Announcing stock split plan 1:10.** BFIN also announced the plan to do stock split. Every 1 shares will be split into 10 new shares. This is expected to improve the currently illiquid market.

### 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 change of 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.

**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).

### Valuation and recommendation

**Downgrade to HOLD on valuation.** We maintain our TP at Rp5,000 but we downgrade our rating to HOLD due to limited upside potential. Our TP is based on Gordon Growth Model – 19% ROE, 9% growth rate, and 15.2% cost of equity – and this implies 1.7x FY17F BV. After the 1:10 stock split, our TP would be automatically changed to Rp500/share.

**Quarterly / Interim Income Statement (Rpbn)**

| FY Dec | 1Q2016 | 4Q2016 | 1Q2017 | % chg yoy | % chg qoq |
|---|---|---|---|---|---|
| Net Interest Income | 377 | 441 | 470 | 24.8 | 6.6 |
| Non-Interest Income | 185 | 228 | 230 | 24.3 | 0.8 |
| Operating Income | 561 | 669 | 700 | 24.6 | 4.6 |
| Operating Expenses | (269) | (311) | (305) | 13.3 | (2.0) |
| Pre-Provision Profit | 292 | 358 | 395 | 35.1 | 10.4 |
| Provisions | (74.6) | (51.3) | (75.8) | 1.6 | 47.8 |
| Associates | 0.0 | 0.0 | 0.0 | nm | nm |
| Exceptionals | 0.0 | 0.0 | 0.0 | nm | nm |
| Pretax Profit | 218 | 306 | 319 | 46.6 | 4.1 |
| Taxation | (57.5) | (61.6) | (64.5) | 12.1 | 4.7 |
| Minority Interests | 0.0 | 0.0 | 0.0 | nm | nm |
| Net Profit | 160 | 245 | 254 | 59.0 | 4.0 |
| **Growth (%)** | | | | | |
| Net Interest Income Gth | 1.1 | 6.8 | 6.6 | | |
| Net Profit Gth | (18.2) | 14.7 | 4.0 | | |
| **Key ratio (%)** | | | | | |
| NIM | 15.0 | 15.7 | 15.9 | | |
| NPL ratio | 1.3 | 0.7 | 0.8 | | |
| Cost-to-income | 48.0 | 46.5 | 43.6 | | |

*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 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.

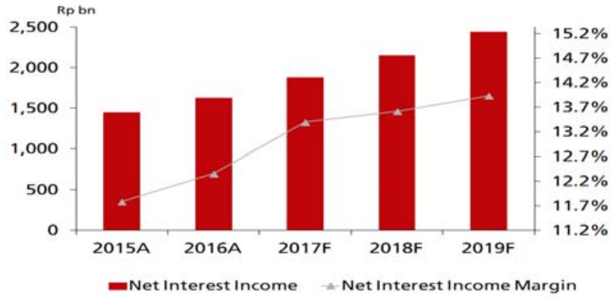
Possible NIM improvement. Further expansion in the non-dealer business can increase asset yield further. The yields from non-dealer 4W and 2W financing can be up to 20% and 40%, respectively, much higher than dealer financing yields of 15-16%. Elsewhere, the bond rating upgrade from Fitch and lower interest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

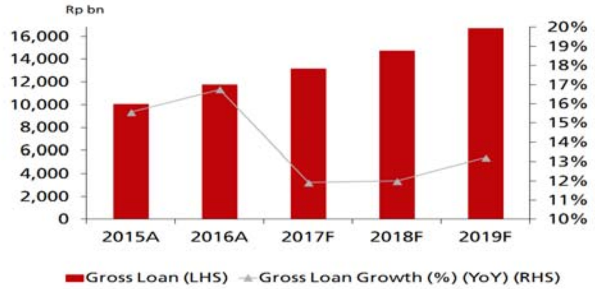
NPL and credit cost to stabilise. We believe NPL and credit cost can be maintained at current levels, as the economy and automotive market should stabilise this year. We expect NPL to hover around 1.2%, while credit cost should be flattish.

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.

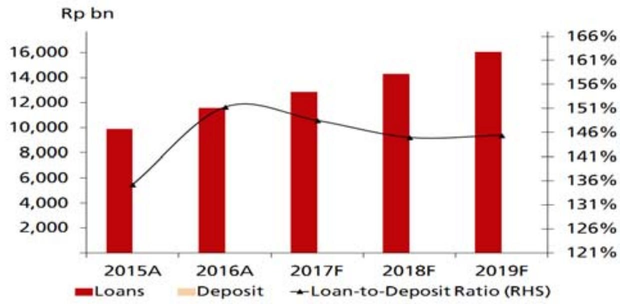
**Margin Trends**



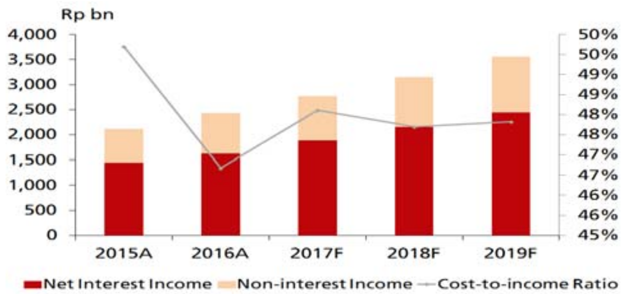

**Gross Loan& Growth**




**Loan-to-Deposit Ratio Trend**




**Cost & Income Structure**




*Source: Company, DBS Bank, DBSVI*

**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:**

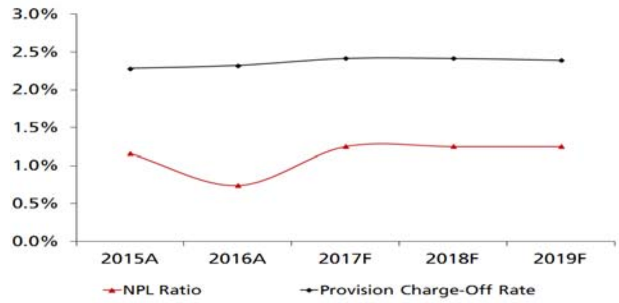
Upside risk from sustained high commodity prices. Sustained high commodity prices can support demand for leasing. Leasing usually has a higher ticket size and longer duration compared to non-dealer financing. Thus, leasing could be a significant addition to receivable growth.

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.

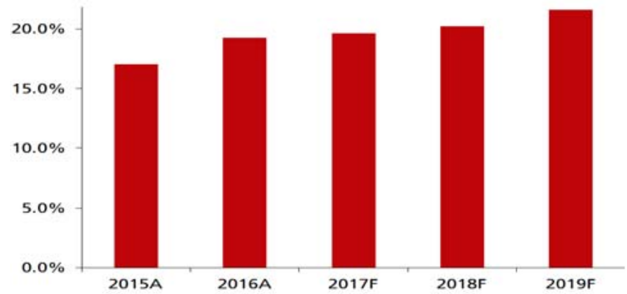
**Company Background**

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.

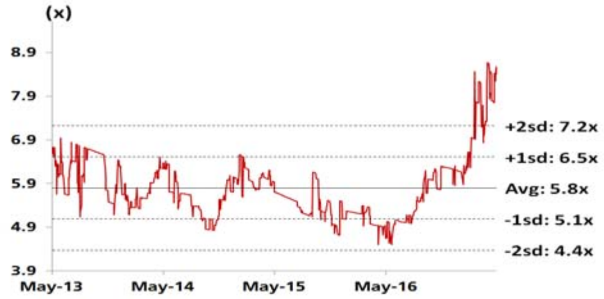
**Asset Quality**




**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 |
| Customer Deposits Growth | N/A | N/A | N/A | N/A | N/A |
| Yld. On Earnings Assets | 17.6 | 18.4 | 19.7 | 19.9 | 20.3 |
| 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) | (1,332) | (1,501) | (1,700) |
| Pre-provision Profit | 1,066 | 1,298 | 1,437 | 1,646 | 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 | 1,289 | 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 | 15.6 | 14.4 | 13.4 |
| Net Profit Gth | 8.9 | 22.8 | 10.7 | 15.2 | 12.9 |
| **Margins, Costs & Efficiency (%)** | | | | | |
| Spread | 6.6 | 7.8 | 8.9 | 9.2 | 9.6 |
| Net Interest Margin | 11.8 | 12.4 | 13.4 | 13.6 | 14.0 |
| Cost-to-Income Ratio | 49.7 | 46.7 | 48.1 | 47.7 | 47.8 |
| **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 | 19.7 | 20.3 | 21.6 |
| ROAE | 17.0 | 19.3 | 19.7 | 20.3 | 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 | 1Q2016 | 2Q2016 | 3Q2016 | 4Q2016 | 1Q2017 |
|---|---|---|---|---|---|
| Net Interest Income | 377 | 399 | 413 | 441 | 470 |
| Non-Interest Income | 185 | 200 | 193 | 228 | 230 |
| **Operating Income** | 561 | 599 | 606 | 669 | 700 |
| Operating Expenses | (269) | (288) | (268) | (311) | (305) |
| **Pre-Provision Profit** | 292 | 311 | 338 | 358 | 395 |
| Provisions | (74.6) | (66.3) | (81.2) | (51.3) | (75.8) |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Pretax Profit** | 218 | 245 | 257 | 306 | 319 |
| Taxation | (57.5) | (64.1) | (43.4) | (61.6) | (64.5) |
| Minority Interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net Profit** | 160 | 180 | 213 | 245 | 254 |
| **Growth (%)** | | | | | |
| Net Interest Income Gth | 1.1 | 5.9 | 3.5 | 6.8 | 6.6 |
| Net Profit Gth | (18.2) | 12.8 | 18.2 | 14.7 | 4.0 |

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 | 283 | 626 | 40.5 |
| 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 | 15,644 | 16,844 |
| 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 | 4,739 | 5,316 | 5,316 |
| **Total Liab& S/H's Funds** | 11,770 | 12,476 | 13,867 | 15,644 | 16,844 |

Strong receivable growth to continue

*Source: Company, DBS Bank, DBSVI*

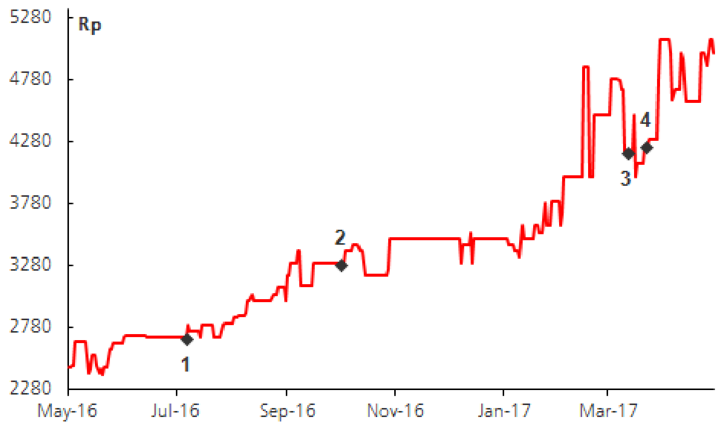
**Financial Stability Measures (%)**

| 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 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 | 2700 | 3400 | BUY |
| 2: | 28 Oct 16 | 3300 | 3700 | BUY |
| 3: | 07 Apr 17 | 4200 | 5000 | BUY |
| 4: | 18 Apr 17 | 4250 | 5000 | 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*

Completed Date: 29 May 2017 09:05:00 (WIB)
Dissemination Date: 29 May 2017 13:44:16 (WIB)

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

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