

Patience has its' virtue

Laggard Banking Play

Delay in the Jamsostek or BRI acquisition has resulted in underperformance of the market and its sector over the past year, making it an undervalued banking play for riding on the domestic driven economy growth theme. Strong industry loan growth for 2010 (estimated at 20-24%) may lead to better asset quality translating into improved profitability ratios.

Potential catalysts to unfold

Bank Bukopin (BBKP) is an attractive opportunity for investors seeking an inexpensive small cap bank with potential catalysts such as strategic partnership with Jamsostek or acquisition synergy by Bank BRI which could strengthen its funding position.

Attractive valuation & lots of upside potential

Valuations make this the cheapest financing player for SME's & co-operatives, our **12-month price target of Rp.860 (27% upside)** assumes a forecasted 2011 PBV/ROE at 9.2% , 1.75x 2011 PBV and 11.5x forecasted PE versus peers trading at 2.3x and 11.8. Discounted valuations may offset lower ROE/ROA relative to peers such as Bank BRI (BBRI), & Bank Jabar (BJBR), in the high margin SME's & co-operatives banking segment, with the above potential acquisition catalyst as an added optional value.

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Indonesia Equity Research Finance (Bank)

Reuters BBKP.JK
Bloomberg BBKP IJ

Priced by 9th December 2010
JCI @ 3,786.10

12M hi/lo Rp800/365

12M potential target Rp860
±% potential +27%
Target set on 10 Dec 10

Shares issued 6,148mn
Free float (est.) 24.26%

Market cap Rp4,242bn

3M average daily volume
23,77,200

Major shareholders

Kopelindo 40.34%
Republik Indonesia 16.93%

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Key ratio	2008	2009	2010F	2011F	2012F
ROE (%)	17.05	14.28	14.95	15.21	20.42
ROA (%)	1.13	0.97	0.89	0.87	1.15
LDR (%)	81.40	75.24	72.66	75.49	75.40
PER (x)	14.07	14.33	12.46	11.50	7.87
PBV (x)	2.40	2.05	1.86	1.75	1.61

	Market Cap Rp Bn	PER (x) 2011F	PBV (x) 2011F	Dividen yield	ROA	ROE
BBCA	163,956	20.9	5.0	2%	2.7	26.6
BBKP	4,242	11.5	1.7	3%	0.9	15.2
BBNI	77,392	18.6	3.4	3%	1.8	14.3
BBRI	138,211	15.9	4.4	3%	2.8	29.5
BDMN	55,555	20.2	3.2	2%	3.2	11.6
BJBR	15,901	11.3	2.9	-	1.9	25.4
BMRI	141,704	20.5	4.1	2%	2.4	21.8

source: company, HD Capital estimates

Business Summary

What is Bank Bukopin (BBKP)? A small cap Indonesian bank that provides financing to SME's, and co-operatives within the BULOG, is owned by the government of Indonesia and BULOG itself, with the latter providing bank support for its lending business. The bank's network has 360 urban branches in 22 provinces and assets of US\$4.0bn, subsidizing micro lending for 543 outlets in a program called "Swamitra", which is a partnership cooperative scheme yielding high lending margins.

Answering to a higher authority: The bank is also a strategic lender to its' 2nd largest owner (BULOG) and helps this government institution fund the Sembako (9-staple foods) program. BULOG as the primary borrower (above 30% of total loan portfolio) normally exceeds the legal lending limit to one party, but a presidential decree supersedes this lending regulation. The presidential decree was issued because Bukopin provides loans supplying BULOG (state owned enterprise) with means to support procurement & distribution of staple strategic foods. Profitability wise, BULOG leaves a lot to be desired, but it comes with a virtual guarantee that the government will pay its debt, leading to a specialized debtor credit rating at Bukopin.

Bank BRI acquisition scenario: Less Favorable

The bank's lending is currently limited by the ability to raise funds (CAR at 16%, ratio of equity/assets below 7%). Acquisition by the largest SME bank (BRI) surfaced as an option for strategic alliance for helping to increase urban brand penetration and provide funding needs. This scenario involves launching a subordinated debt issuance to fund growth, which is perceived as a higher cost of sustaining its' lending business rather than equity issuance.

Jamsostek acquisition scenario: A crowd pleaser

A strategic partnership with Jamsostek using BBKP as a financial proxy involving a potential rights issue looks more favorable for the market since it may lessen the burden of cost of funds. Jamsostek, which already contributes a large part of deposits, could provide additional funding at lower cost rather than seeking it from external debt sources (BRI option).

The potential partnership with Jamsostek may create an important role for the bank's future by direct assistance through third party deposits by increasing CASA (current account saving account) which currently stands at 40% or Rp.38tn.

The proposed rights issue of 10-20% of shares outstanding emphasizes Jamsostek as the standby buyer and stake holder. Although this option is still in negotiation process with no final outcome, nevertheless it may help to bolster BBKP's capital requirements and prop up its' modest CAR level of 13.3%.

Rp Bn	2008	2009	2010F	2011F	2012F
Cash	683.16	767.24	985.94	1,088.48	1,203.87
current accounts with BI	1,199.88	1,525.40	1,930.25	2,142.58	2,378.26
Current accounts with other banks	764.22	473.38	496.10	501.06	506.07
Placement with BI and other banks	1,523.43	620.39	5,634.36	6,376.97	7,217.45
Marketable securities	4,518.03	8,265.66	6,499.77	6,427.82	7,064.42
Loans, net	22,401.36	24,013.72	29,220.44	33,698.02	37,356.54
Fixed Assets	407.53	628.41	635.33	642.31	649.38
other assets	506.54	474.84	509.17	496.85	493.62
total assets	32,633.06	37,173.32	46,949.34	51,832.17	57,327.14
Deposits from customer	27,521.21	31,915.50	40,213.53	44,637.02	49,547.09
Deposits from other banks	1,126.64	1,112.71	2,002.87	2,103.01	2,208.16
Borrowings	922.57	906.55	1,159.66	1,372.33	1,520.83
Other liabilities	447.42	431.35	448.44	420.66	480.98
Total liabilities	30,465.09	34,631.95	44,158.04	48,860.33	54,091.45
Minority interest	4.80	4.85	4.85	4.85	4.85
Share capital	782.63	812.06	812.06	812.06	812.06
Add PIC	218.41	304.19	304.19	304.19	304.19
Share options reserve	28.21	34.88	34.88	34.88	34.88
Retained earnings	1,133.92	1,385.48	1,635.42	1,815.94	2,079.80
Total Shareholders' equity	2,163.17	2,536.52	2,786.46	2,966.98	3,230.84

Rp Bn	2008	2009	2010F	2011F	2012F
Interest, sharia incomes and other financing charges, net	1,467.90	1,382.47	1,577.35	1,622.16	2,103.80
Total other operating income	298.33	438.05	346.93	368.06	398.09
(Allowance for) reversal of allowances for impairment losses on financial assets	(85.21)	15.27	(110.30)	22.01	24.42
Allowance for impairment losses on non-financial assets	(3.52)	(12.60)	(3.62)	(4.07)	(4.78)
Total other operating expenses	(915.12)	(855.97)	(943.05)	(934.50)	(1,135.64)
Income from Operations	552.78	526.50	634.30	687.66	968.16
Non operating income (expense)	(1.95)	(6.17)	(12.48)	(14.01)	16.47
Income before tax	550.84	520.33	621.82	673.66	984.63
Tax expenses	(182.00)	(158.10)	(205.20)	(222.31)	(324.93)
Net Income	368.78	362.19	416.58	451.30	659.65

Sustainable ROE	19%
RR	60%
g	11%
k	15.8%
Justified PBV	1.75
Target Price	863.7

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