

Bank Bukopin



**BATAVIA
PROSPERINDO
SEKURITAS**

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In The Sweet Spot

• Potential strategic allegiance brings excitement

The statement from Jamsostek, Indonesia's largest pension fund, to participate in Bukopin's (BBKP) rights issue plan has taken center stage. We believe that this transaction will be the epitome for the bank's growth going forward, mostly in the form of a strategic partnership and stronger capital. Jamsostek currently manages around Rp91 trillion of assets, thus providing plenty of synergy with BBKP, most notably in the form of funding support.

• Riding along with a robust industry outlook

Spurred by robust GDP growth, Indonesia's banking sector has also enjoyed buoyant performance driven by a strong loan growth and a low cost of fund. With the benchmark rate remaining low, banks are able to retain its margin along with improved asset quality that translates to better profitability. Bank Indonesia itself has already estimated that loan growth for 2010 will be in the range of 20% to 24%. On a y-t-d basis, loan growth has reached 10.3%.

• Fundamentally sound

In the 2004-2009 period, BBKP's net profit has a CAGR of 11.5%, showing a steady improvement within the time frame. Total assets have also doubled during the period from Rp18 trillion in 2004 to Rp37 trillion in 2009. Despite the steady dose of healthy profitability, the bank was able to retain its gross NPL at a low level. Interim results are promising with a 1H10 net profit of Rp227bn, reflecting a 13% y-o-y increase which is spurred by a 6% y-o-y loan growth and a higher NIM. NIM was able to widen by 68 bps during the year to 4.9%. This was largely due to a higher CASA portion as a result of strong growth in demand and saving deposits which helped lower the cost of funds.

• On a blue sky scenario, upside potentials are still abundant

We believe that the catalyst of a possible partnership with Jamsostek offers plenty of opportunities for the counter and thus deserves a re-rating to the valuation. On top of that, based on our valuation using a justified PBV method, we value BBKP at Rp1,160, implying a 2.2x 2011 PBV, still an undemanding valuation. Currently, the counter is trading at 1.4x 2011 PBV, the lowest in the sector despite the aforementioned solid historical performance. Thus, we initiate our coverage on BBKP with a BUY recommendation.

Financial Highlights

In Rp bn	2007A	2008A	2009A	2010F	2011F
Net interest income	1,288	1,468	1,382	1,635	1,971
Pre-provision operating profit	574	641	524	600	773
Pre-tax profit	544	551	520	511	706
Net profit	375	368	362	383	529
Earning per share (EPS)	66	64	60	62	86
Book value per share (BVPS)	344	379	422	458	525

Key Ratios

	2007A	2008A	2009A	2010F	2011F
P/E (X)	10.8	11.0	11.8	11.4	8.2
P/BV (X)	2.1	1.9	1.7	1.6	1.4
ROA (%)	1.6	1.7	1.5	0.9	1.1
ROE (%)	22.3	18.8	16.5	14.3	17.5
LDR (%)	65.3	83.6	76.0	79.7	77.0
CAR (%)	12.8	11.2	14.4	13.9	13.6

Key Assumptions

	2007A	2008A	2009A	2010F	2011F
NIM (%)	4.3	4.8	4.1	4.5	4.8
Loan growth (%)	30.4	20.3	6.8	20.0	10.0
NPL (%)	3.6	4.9	2.8	2.6	2.6

Source: Company, Batavia Prosperindo Sekuritas

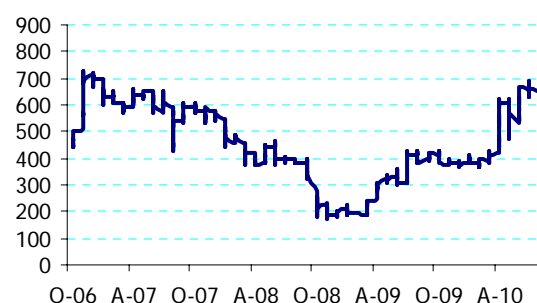
Stock Data

Price Rp	710
Target Rp	1,160
Recommendation	BUY
52-weeks range Rp	330 -780
Market Cap - Rp bn	4,358
Outstanding shares (mn shares)	6,138
Daily average volume ('000 shares)	37,346
Daily average value (Rp mn)	24,865

Major shareholder

Kopelindo	41.31%
Indonesian Government	17.21%
Yabinstra	12.19%
Kopkapindo	6.65%
Others	22.64%

Stock price chart



Source : Bloomberg

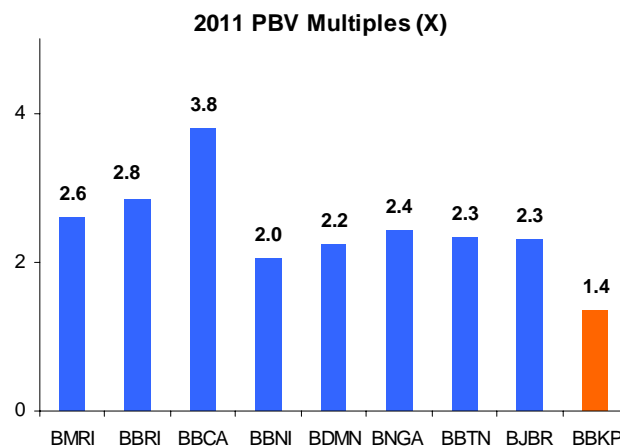
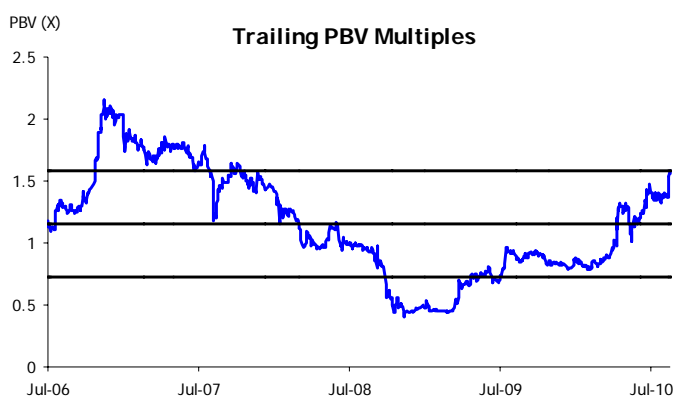
Investment Thesis

At the ideal position for growth

The recent acquisitions of small-mid sized banks in Indonesia by foreign financial institutions have somewhat raised the valuation benchmark of banking stocks. It has also proved evident that interest in Indonesia's financial industry remains robust. Having said that, Bank Bukopin (BBKP), as one of the mid-sized bank in Indonesia is in an ideal position either as a partnership target or acquisition target, though we believe that the former has a higher probability. Recent developments reveal that two big institutions have already placed their interest to acquire stakes in BBKP, which includes Jamsostek, Indonesia largest pension fund, and Bank Rakyat Indonesia (BBRI), one of the largest banks in Indonesia. We believe that this will produce a positive impact for BBKP, both in terms of operations through a business strategic partnership and also share performance through value enhancement. Note that recent acquisitions of Indonesian banks valued at an average PBV ratio of c.2.5x PBV, which serves as strong valuation base for banking shares in Indonesia, including BBKP.

Undemanding PBV multiples...

...still lagging to its peers



Source: Bloomberg, Batavia Prosperindo Sekuritas

Partnership is key for future growth

There is no denying that the potential partnership with Jamsostek will play an important role for the bank's growth going forward. With more than Rp91trillion of assets under management, Jamsostek will definitely assist BBKP directly, especially from its third party deposit side. BBKP's deposit structure has not been its strongest capability and thus a stronger funding source will help boost the bank's capability to grow its lending sector. Note that BBKP's third party deposits currently stands at Rp38tn with a CASA portion of 40%. Thus, any increase in CASA accounts will assist BBKP in terms of funding and will enable the bank to lower its cost of funds.

Capital structure set for further strengthening

One major consideration that BBKP's management is considering is to do a right issue in 4Q10 with a new shares issuance of c.10%-20% of the total shares outstanding. One possible scenario is that Jamsostek will act as the standby buyer with plans to acquire the stake through the rights issue. Currently, this corporate action plan is still in negotiation process with no final decision being made yet. Nevertheless, the rights issue will help boost BBKP's capital and elevate its relatively modest CAR level of 13.3%.

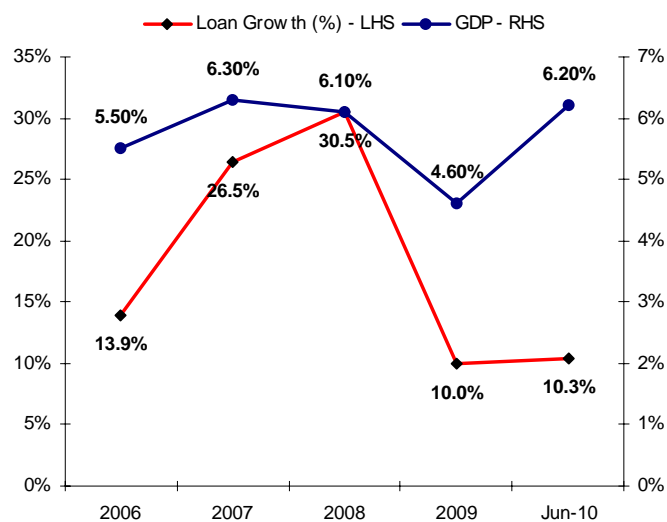
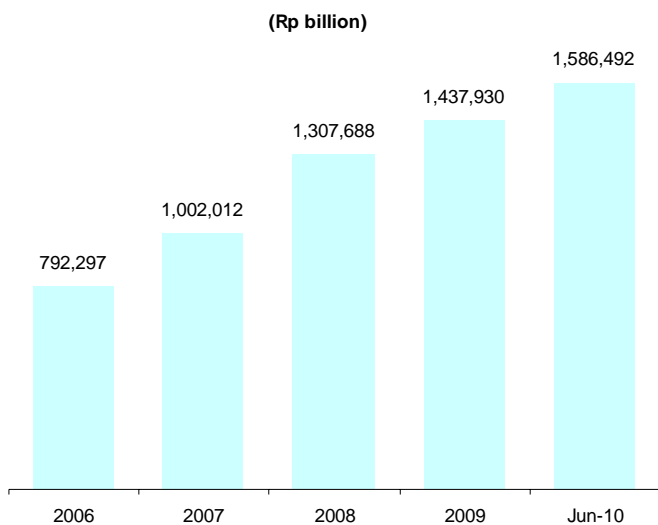
Industry Outlook

On sunshine stage

Following a modest GDP growth of 4.8% in 2009, Indonesia’s GDP has grown by 6.2% y-o-y for the first six months of 2010 and is poised to settle at 6% for the full year. Household consumption still accounts as the dominant driver of GDP at 56.7%, reflecting an increase of 2.9% y-o-y. Concurrently, along with a robust GDP growth, the banking industry’s loan disbursement is also seeing the light of day. Growth figure y-o-y as of June 2010 stood at 18.8%; on a y-t-d basis, the figure has achieved double digit growth of 10.3%. Subsequent data reveals even more robust figures. As of mid-August 2010, total loan disbursement has already grown 19.5% y-o-y and 11.3% q-o-q to Rp1,592 trillion. Based on current performance, we believe that total loan growth in 2010 will be at the range of 20% to 25%. On top of that, with the presently low interest rate environment and the benchmark rate (BI Rate) remaining stable at 6.5%, funding cost for banks will remain low. Thus, acceleration in loan growth coupled with a relatively stable cost of fund will generate buoyant profitability.

Total loan continues to accelerate...

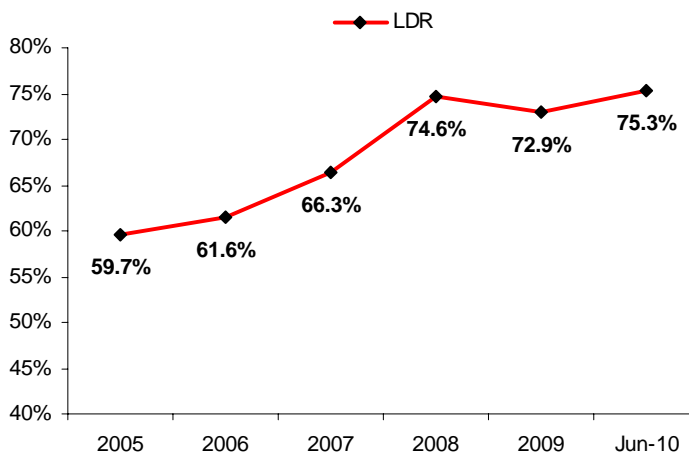
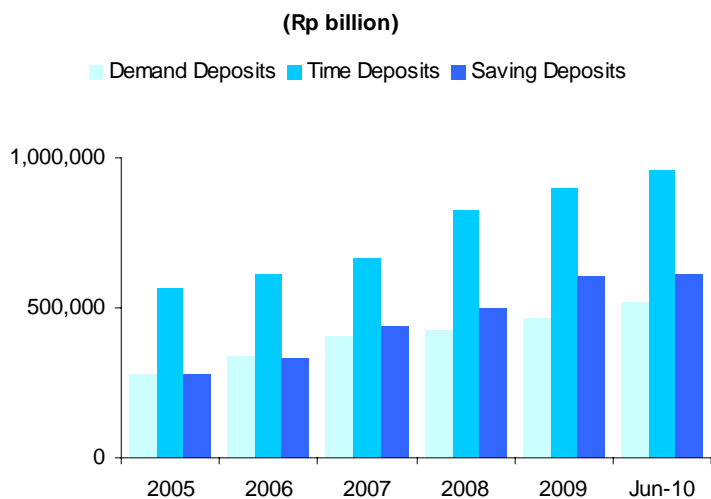
...inline with growth in the economy



Source: Bank Indonesia, BPS

Third party deposits are also growing...

...but LDR is still improving due to higher loan growth



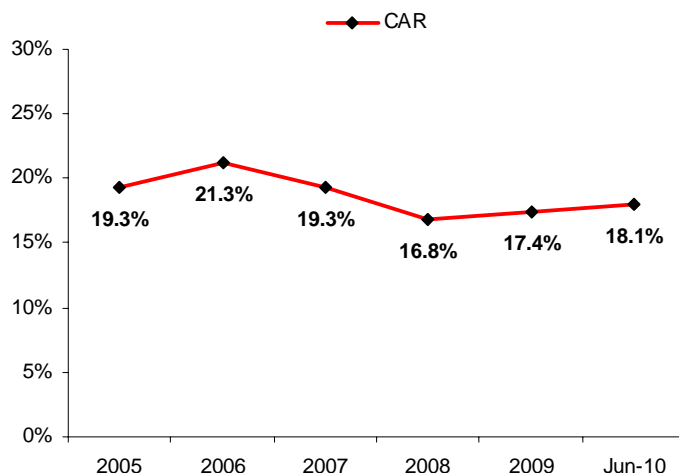
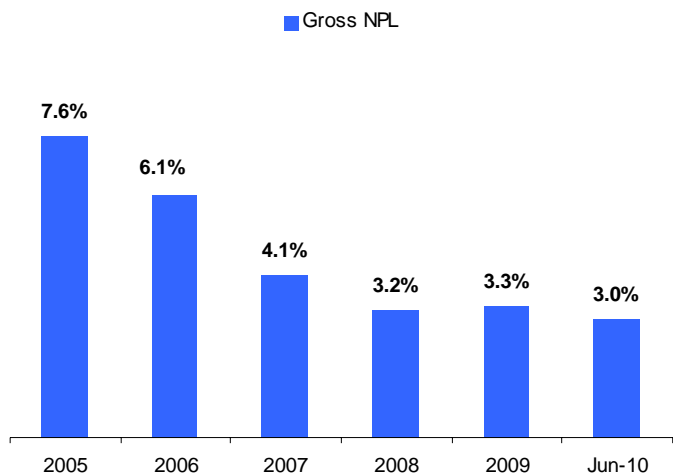
Source: Bank Indonesia

Quality growth

Despite a robust growth in loan disbursement, the banking sector's non-performing loan ratio managed to remain stable. The June 2010 NPL ratio was at 3%, steadily declining for the last five years. Robust economic growth, which also spurred income per-capita level, has somehow helped reduce default risk. Additionally, the banking sector's capital structure also remained healthy with the Capital Adequacy Ratio (CAR) leveled at 18.1% in June 2010, which is way above the threshold level of 8%. Thus, we believe that growth in the banking industry is well equipped with a solid capital foundation. Going forward, the recent adjustment required by Bank Indonesia to include operational risk in its CAR calculations will impact CAR between 1%-2%. Nevertheless, the strong appetite from investors on banking shares will make it easier for banks to raise capital, e.g. two of the top five banks in term of assets (BMRI and BBNI) is already planning a rights issue to enhance its capital structure.

Despite strong growth, NPL quality remained low...

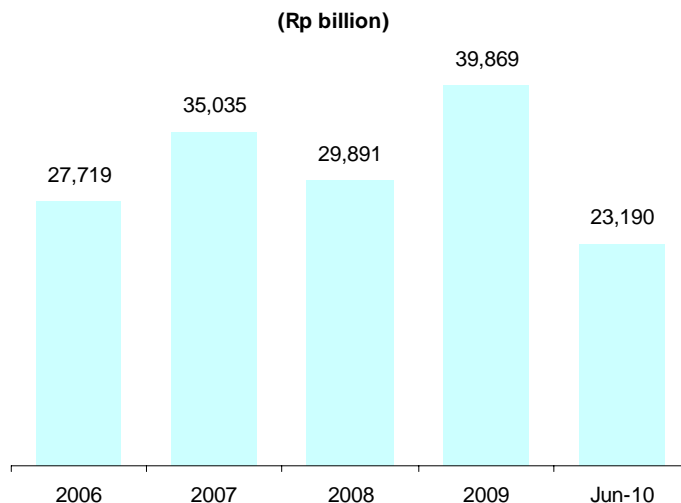
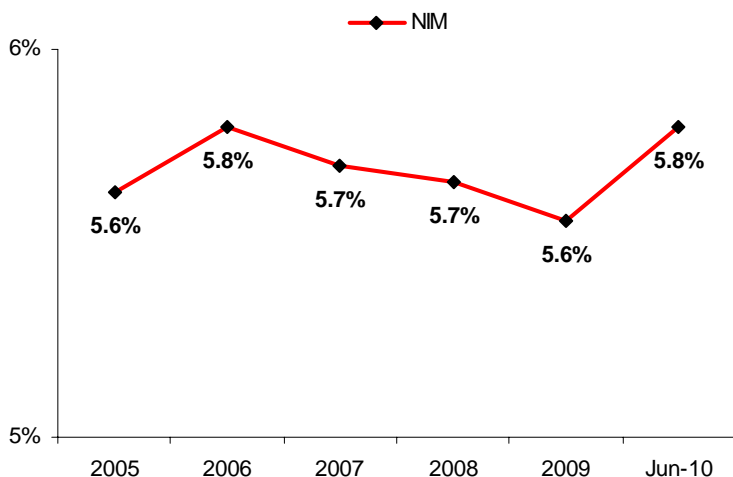
...and capital structure continues to be solid



Source: Bank Indonesia

Low interest rate helps elevate margin...

...which translates to robust profit



Source: Bank Indonesia

Historical Performance

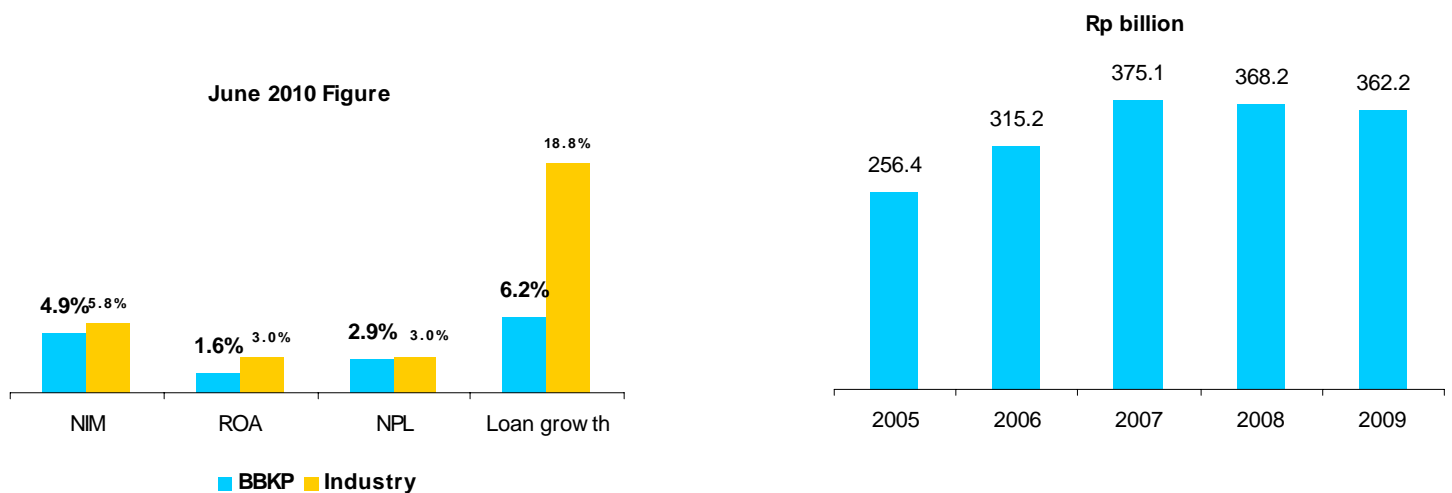
Steady dose of growth

In the 2004-2009 period, BBKP's net profit has a CAGR of 11.5%, showing a steady improvement within the time frame. Total assets also doubled during the period from Rp18 trillion in 2004 to Rp37 trillion in 2009. The bank maintained its focus on the SME segment as the backbone of its business. The bank's other key indicator also held up well compared to that of the industry, including a healthy loan portfolio proven by the bank's ability to retain its gross NPL at a low level. The key weakness of BBKP is its relatively low CASA portion and high LDR, which means that the bank's capability to get funding will be the key factor to support its growth going forward.

In 1H10, BBKP booked a net profit of Rp227bn, reflecting a 13% y-o-y increase which is spurred by a 6% y-o-y loan growth and a higher NIM. NIM managed to widen by 68 bps during the year to 4.9%. This was largely due to a higher CASA portion as a result of strong growth in demand and saving deposits which helped lower the cost of funds. Driven by higher loan growth, we expect profit in the coming quarters to continue to grow.

Key Ratio Comparison

BBKP Net Profit Trend



Source: Bank Indonesia, Company

BBKP 1H10 Financial Highlights

(Rp bn)	1Q10	2Q10	% chg Q/Q	1H09	1H10	% chg Y/Y
Net Interest Income	418	450	8	691	868	26
Fees	23	20	(12)	36	43	17
Operating income	520	584	12	294	306	4
Provision	(33)	(44)	32	(14)	(77)	441
Net profit	113	114	1	201	227	13

Total deposits	33,290	38,108	14	31,089	38,108	23
Demand	7,705	8,890	15	6,632	8,890	34
Savings	6,271	6,667	6	4,844	6,667	38
Time	19,314	22,551	17	19,613	22,551	15
Gross loans	24,608	30,968	26	29,162	30,968	6
Total assets	39,189	42,867	9	37,295	42,867	15
Equity	2,649	2,582	(3)	2,261	2,582	14

Source: Company

Company Background

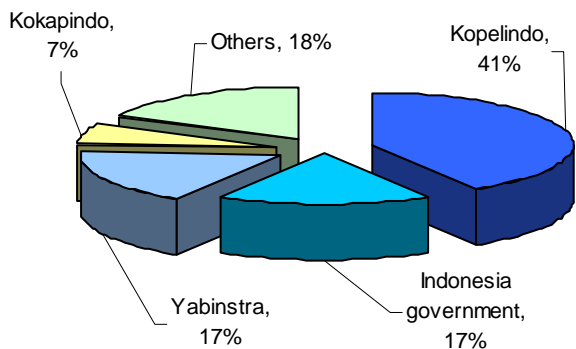
BBKP was established in July 10, 1970 with a focus in the micro, small, medium and cooperative segment (MSMC). For over four decades, the bank has grown into one of the top banks in Indonesia with Rp37,173 bn of total assets as of 2009. Aside from the MSMC segment, BBKP also offers its services to commercial and retail customers. As of 2009, the bank has 355 service offices and 338 ATMs spreading across the nation.

BBKP's major shareholders consists of Kopelindo (Bulog's employment cooperative) – 41,3%, Government of Indonesia – 17,2%, Yabinstra – 17,2% and Kopkapindo – 6,6%. Kopelindo and Kopkapindo both are affiliates of Bulog, the State Logistic Agency. Accordingly, BBKP has a strong business relationship with Bulog in the lending, deposits products and cash management services. In 1998, BBKP received government approval to provide funds to Bulog in regards to the purchase of rice for the benefit of specified groups of people in Indonesia. Historically, loans to Bulog contributes c. 30% of BBKP's total loans.

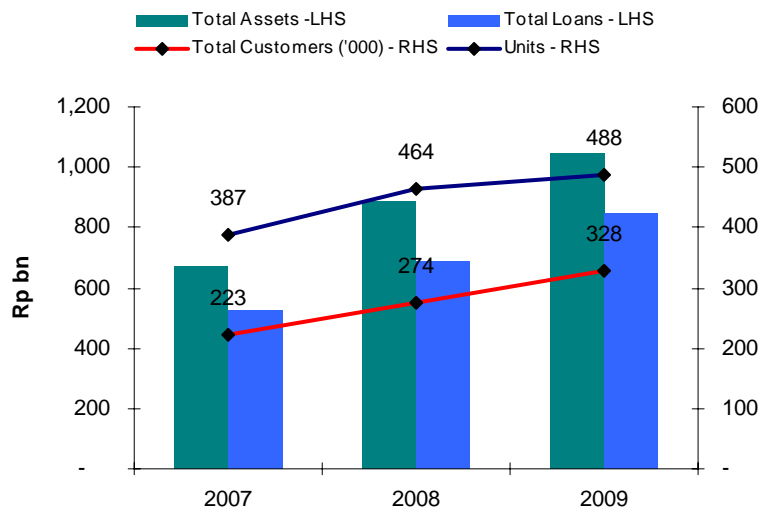
The unique difference

Other than traditional banking services, BBKP has one unique product called Swamitra. Swamitra is a micro-lending product that provides working capital and technical assistance to serve its members. In general, Swamitra is a form of partnership between the bank and its cooperatives. Through this type of product, BBKP will able to generate two kinds of income, one from interest through lending and another in the form of management fees. Currently, BBKP has 488 Swamitra units and total loan disbursement of Rp846bn (3.4% of total loan outstanding). Indeed, the figure is relatively small compared to the size of the bank's total loan; however, this business has enabled BBKP to tap into new potential customers, especially in the SME segment. In essence, any cooperative that is successful and growing will be able to become BBKP's direct customers, and thus widening the bank's client base.

Shareholders composition



Swamitra Business Unit Data



Source: Company

Valuation

The recent round up in banking stocks has elevated the valuation base and has served as a positive factor for BBKP as we believe that the counter's valuation is still lagging in comparison to its peers. Based on a Justified PBV method, we calculate BBKP's target price at Rp1,160, implying a 2011 PBV of 2.2x with assumed risk free rate of 8.75%, risk premium of 5% and sustainable ROE of 17%. At present, the counter is still trading at an undemanding 2011 PBV of 1.4x, lower than the sector average of 2.4x.

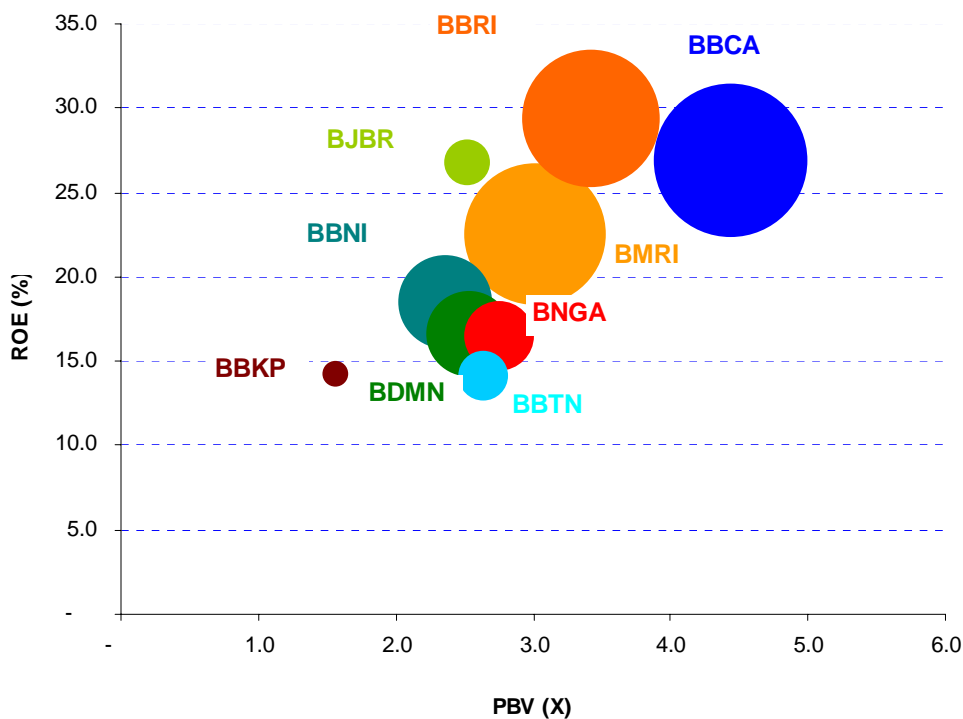
With potential catalysts such as a strong growth momentum and a promising synergy with its potential strategic partner, we believe that the stock offers an attractive investment potential. Hence, we believe that the counter deserves a re-rating and thus initiate our coverage on BBKP with a BUY recommendation.

Key Assumption

Risk free rate (%)	8.8
Risk premium (%)	5.0
Beta	1.0
Cost of Equity (%)	13.8
Div. Pay out ratio	35%
Expected ROE (%)	17.0
Equity growth rate (%)	11.1
P/BV	2.2
Target Price	1,158 (Rounded to Rp1,160)

Source: Batavia Prosperindo Sekuritas

Valuation Comparison



Source: Batavia Prosperindo Sekuritas, Bloomberg

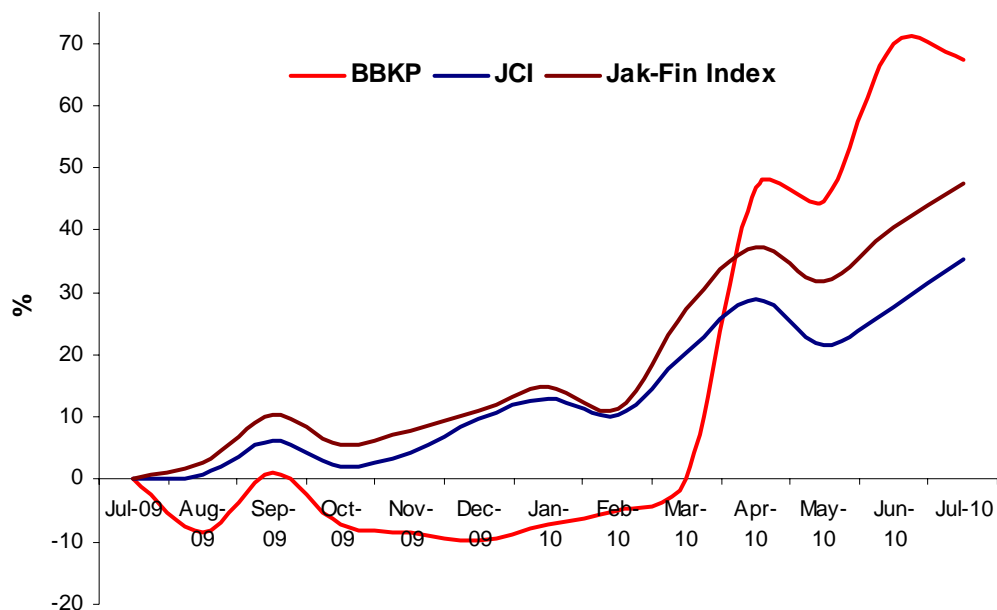
Banking Sector Matrix

June 2010 Figure In Rp billion	BBCA	BMRI	BBRI	BBNI	BDMN	BNGA	BBKP	BBTN	BJBR*
Assets	298,576	402,084	323,807	225,486	100,447	126,332	42,867	60,946	39,340
Loans	131,583	217,996	230,489	126,231	71,074	91,765	30,968	46,413	20,436
Y-o-y growth	22.6	20.0	24.0	5.0	15.0	25.6	6.2	29.6	14.1
Third party funds	255,030	326,578	259,342	184,198	67,915	104,427	38,108	39,999	32,069
Y-o-y growth	16.2	13.8	19.5	10.0	-	27.6	22.6	16.7	15.1
Net interest income	5,858	9,369	13,719	6,129	4,843	3,531	868	1,547	1,264
Fee and other income	3,905	3,554	1,476	3,117	1,584	839	43	229	140
Provision	(275)	(1,856)	(3,337)	(2,186)	(1,140)	(736)	(73)	(191)	(168)
Net profit	3,981	4,034	4,318	1,934	1,433	1,129	227	391	548
Y-o-y growth	20.5	37.8	22.8	61.0	65.0	62.3	12.9	97.1	37.5
NIM	5.5	5.2	9.4	5.8	11.6	6.7	4.9	5.8	7.7
LDR	51.4	66.3	88.4	68.2	98.8	84.9	80.3	116.0	63.7
Gross NPL	0.8	2.5	4.3	4.3	3.4	2.7	2.9	4.1	1.9
ROE	31.6	22.3	33.4	24.3	18.6	22.2	18.2	14.1	37.3
CAR	14.7	15.3	14.1	13.3	18.0	12.4	13.3	18.7	15.8

Source: Company

* Bank Only

Return Comparison



Source: Bloomberg

Balance sheet

In Rp bn	2007A	2008A	2009A	2010F	2011F
Total Assets	34,446	32,633	37,173	44,747	50,161
Cash	422	683	767	624	691
Placement with BI	3,687	1,200	1,525	1,455	3,938
Current account with other banks	74	764	620	486	624
Placement with other banks	3,758	1,523	473	1,918	1,305
Securities - net	6,716	4,518	8,266	8,431	8,600
Repo	33	111	-	48	53
Loans - net	18,464	21,925	23,903	28,754	31,629
Government bonds	-	-	-	-	-
Fixed assets - net	322	408	628	688	756
Other assets	667	1,135	879	894	969
Total liabilities	32,476	30,465	34,632	41,807	46,895
Demand deposit	8,849	5,776	7,420	9,275	10,666
Saving accounts	2,973	4,124	6,458	9,688	12,594
Time deposit	17,470	17,621	18,038	18,939	19,886
Certificates of deposit	861	1,127	1,113	1,135	1,158
Fund borrowings	1,471	923	907	1,135	1,135
Other liabilities	853	895	697	1,636	1,457
Minority interests	5	5	5	5	5
Shareholder equity	1,965	2,163	2,537	2,811	3,225
Capital stock	782	783	812	812	812
Additional paid in capital	218	218	304	304	304
Retained earnings	953	1,134	1,385	1,660	2,074
Others	12	28	35	35	35

Income statement

In Rp bn	2007A	2008A	2009A	2010F	2011F
Net interest income	1,288	1,468	1,382	1,635	1,971
Fee Income	39	80	88	97	107
Other operating income	232	211	350	264	291
Total operating income	1,559	1,759	1,821	1,996	2,369
Provision (reversal) for losses and decline in earning asset	(33)	(85)	2	(89)	(68)
Provision (reversal) for losses and decline in other assets	(13)	(3)	-	-	-
Other operating expense	986	1,118	1,296	1,396	1,595
Pre-provision profit	574	641	524	600	773
Net Non Operating Income (Loss)	15	(2)	(6)	-	-
Pre-tax income	544	551	520	511	706
Tax expense	(168)	(182)	(158)	(128)	(176)
Net profit	375	368	362	383	529

Key ratios

	2007A	2008A	2009A	2010F	2011F
Profitability ratio					
Net Interest Margin (%)	4.3	4.8	4.1	4.5	4.8
Return on Equity (%)	22.3	18.8	16.5	14.3	17.5
Return on Assets (%)	1.6	1.7	1.5	0.9	1.1
Efficiency ratio					
Cost / Income (%)	63.2	63.6	71.2	69.9	67.3
BOPO (%)	84.8	84.5	86.9	85.4	85.4
Asset quality					
Non-Performing Loan (%)	3.6	4.9	2.8	2.6	2.6
Loan Loss Coverage (%)	101.8	107.7	115.1	98.5	99.0
Liquidity and capital structure					
Capital Adequacy Ratio (CAR) (%)	12.8	11.2	14.4	13.9	13.6
Loan Deposits Ratio (%)	65.3	83.6	76.0	79.7	77.0



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