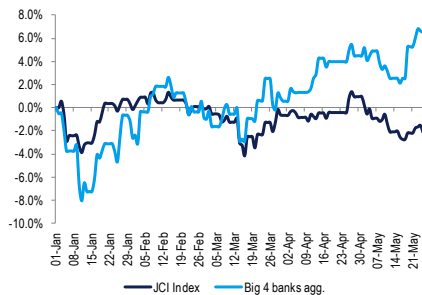


Sector Index Performance

	3M	6M	12M
Absolute	7.2%	6.0%	23.6%
Relative to JCI	8.7%	10.9%	26.2%



Summary Valuation Metrics

P/E (x)	2023F	2024F	2025F
BBCA IJ	23.4	21.4	19.6
BBRI IJ	13.4	11.3	10.1
BMRI IJ	10.0	8.9	8.0

P/BV (x)	2023F	2024F	2025F
BBCA IJ	4.6	4.1	3.7
BBRI IJ	2.6	2.4	2.3
BMRI IJ	1.7	1.6	1.5

Div. Yield	2023F	2024F	2025F
BBCA IJ	1.8%	2.1%	2.3%
BBRI IJ	1.0%	1.3%	1.5%
BMRI IJ	5.1%	6.0%	6.7%

Assessing the overall impact on contractors exposure

- In recent weeks there have been concerns on the SOE banks' exposure on SOE contractors namely WIKA and WSKT.
- While WSKT has so far been well provisioned, we found that minimal provision on WIKA. Currently we only expect restructuring and hence, lower NIM instead of spike in CoC.
- We expect the base case impact shall be only 1.5-3% EPS drop for SOE banks. Worst case impact will be 5-13% EPS drop. BRI is clear winner.

Risk in contractors exposure especially on WIKA and WSKT

In recent weeks there have been concerns on SOE banks' exposure on SOE contractors especially WIKA and WSKT. While WSKT has been well covered at 45-60%, exposure on WIKA hasn't been provisioned enough (less than 10%) except for BRI at 100% for the cash loan. We estimate total WIKA and WSKT exposure (including non-cash loan exposure but excluding govt guarantee loan) for SOE banks at Rp9.9/12.6/17.8tr for BBRI/BBNI/BMRI or 0.8/2.0/1.5% of its overall loan book (details on fig 1).

Base case of restructuring is relatively muted for all banks' EPS

We believe that the restructuring will happen and unlikely banks need to set aside full provision for both WIKA and WSKT. Hence, our base case expect that both WIKA and WSKT to stay in performing category (instead of non performing) but with significantly lower interest rate (i.e. Garuda restructuring scheme); even with as low as 0.5% interest rate for WIKA and WSKT (including cash loan and all non-cash loan is converted to cash loan) we found the impact to EPS will be only 1.5-3% (c.10bp NIM impact) – fig 2.

Worst case impact is taking into account additional provision and conversion of non-cash loan

We also run another assessment to estimate the additional provision of which we run two scenarios: 1) for the first scenario, we expect WSKT provision to go up to 70% and WIKA provision goes up to 35% and only 25% of non-cash loan converted to cash loan; the additional EPS impact from higher provision will be -1.8/-5/-7% for BBRI/BMRI/BBNI – fig 3. 2) For the second scenario, we expect WSKT provision to go up to 70% and WIKA provision goes up to 35% but 100% of non-cash loan converted to cash loan; the additional EPS impact from higher provision will be -3.4/-8.6/-9.7% for BBRI/BMRI/BBNI. – fig 3. Note that our calculation doesn't take into account the FY23 provision budget that the banks have set aside for both WSKT and WIKA.

BRI is the clear winner here; BMRI and BBNI seem to be exposed but have set adequate FY23 provision budget to absorb the impact

Given the peaking interest rate and relatively minimal exposure (also ample provision) on these contractors, BRI is the clear winner here. That being said, while BMRI/BBNI are seems to be exposed here, in absolute amount of provision that needs to be set aside of Rp2.5/1.4tr for scenario 1 can be allocated or even prioritized given that it has budgeted c.Rp19/10tr for FY23 provision (c.13/15% of total FY23 provision budget). For now we only expect NIM impact but no CoC impact. Our top pick stays with BBRI and BMRI for this year. Main risk will be more SOEs that need to be restructured.

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Fig. 1: SOE banks' cash loan exposure to contractors

	BMRI cash loan		BBRI cash loan		BBNI cash loan	
	Total exposure (Rp tr)	%LLR	Total exposure (Rp tr)	%LLR	Total exposure (Rp tr)	%LLR
Adhi Karya Group	1.30	0.6%	-	-	2.58	3.5%
Adhi Karya Only	1.20	0.3%	0.33	0.3%	2.56	3.5%
Hutama Karya Group	3.45	0.0%	-	-	3.45	0.2%
Hutama Karya Only	-	-	0.60	0.6%	3.39	0.1%
Pembangunan Perumahan Group	3.28	1.1%	-	-	0.49	0.1%
Pembangunan Perumahan Only	3.01	1.1%	0.58	0.5%	0.08	0.3%
Waskita Karya Group	6.95	28.8%	7.70	58.3%	11.54	45.5%
Waskita Karya Government Guarantee	2.40	0.0%	-	-	-	-
Waskita Karya	4.50	44.1%	4.50	48.9%	7.93	54.7%
Wijaya Karya Group	5.58	3.4%	0.53	94.2%	1.45	5.8%
Wijaya Karya Only	3.87	2.0%	0.50	100.0%	1.21	6.7%
Total	20.56	10.9%	9.73	51.4%	19.51	27.8%
Total gross loans (Mar23)	1,205.46		1,180.12		634.33	
<i>as % of total gross loans</i>	<i>1.7%</i>		<i>0.8%</i>		<i>3.1%</i>	
Non cash loan WIKA	8.00		4.90		2.85	
Non cash loan WSKT	1.40		0.00		0.56	
Total exposure WIKA only	11.87		5.40		4.06	
Total exposure WSKT ex. govt guarantee	5.90		4.50		8.49	
Total exposure WIKA + WSKT	17.77		9.90		12.55	
<i>as % of total gross loans</i>	<i>1.5%</i>		<i>0.8%</i>		<i>2.0%</i>	

Source: Company, Indo Premier

Fig. 2: Base case impact from lowering WIKA & WSKT loan yield to 0.5%

	Unit	BMRI			BBRI			BBNI		
		IPS FY23F	Base case	Impact	IPS FY23F	Base case	Impact	IPS FY23F	Base case	Impact
Total loan	Rp tr	1,342.4	1,342.4		1,217.2	1,217.2		705.6	705.6	
Loan (ex-WIKA & WSKT)	Rp tr	1,324.6	1,324.6		1,207.3	1,207.3		693.0	693.0	
Total exposure to WIKA & WSKT	Rp tr	17.8	17.8		9.9	9.9		12.6	12.6	
Blended loan yield	%	8.5%	8.4%	(10.6)	13.6%	13.5%	(10.68)	7.7%	7.6%	(12.90)
Loan yield (ex-WIKA & WSKT)	%	8.5%	8.5%		13.6%	13.6%		7.7%	7.7%	
WIKA & WSKT loan yield	%	8.5%	0.5%		13.6%	0.5%		7.7%	0.5%	
NIM	%	5.6%	5.5%	(7.5)	8.4%	8.3%	(7.26)	4.5%	4.4%	(9.07)
Net income	Rp tr	48.5	47.5	-2.2%	61.9	61.0	-1.6%	21.1	20.4	-3.2%

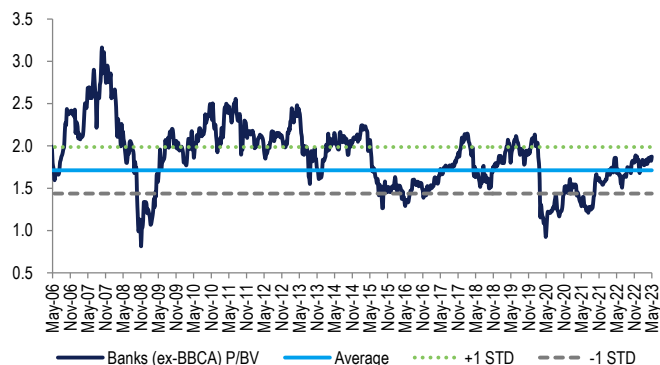
Source: Company, Indo Premier

Fig. 3: Worst case impact from increasing WSKT provision to 70%, while WIKA provision goes up to 35% with 25/100% of non-cash loan converted to cash loan

	BMRI			BBRI			BBNI		
	IPS FY23F	Worst case 1st	2nd	IPS FY23F	Worst case 1st	2nd	IPS FY23F	Worst case 1st	2nd
Total loan to WSKT	4.5	4.5	4.5	4.5	4.5	4.5	7.9	7.9	7.9
%LLR	44.1%	70.0%	70.0%	48.9%	70.0%	70.0%	54.7%	70.0%	70.0%
Provision	(2.0)	(3.2)	(3.2)	(2.2)	(3.2)	(3.2)	(4.3)	(5.6)	(5.6)
Total loan to WIKA									
Cash loan	3.9	3.9	3.9	0.5	0.5	0.5	1.2	1.2	1.2
%LLR	2.0%	35.0%	35.0%	100.0%	100.0%	100.0%	6.7%	35.0%	35.0%
Provision	(0.1)	(1.4)	(1.4)	(0.5)	(0.5)	(0.5)	(0.1)	(0.4)	(0.4)
Non cash loan	8.0	2.0	8.0	4.9	1.2	4.9	2.9	0.7	2.9
% converted to cash loan		25.0%	100.0%		25.0%	100.0%		25.0%	100.0%
%LLR		35.0%	35.0%		35.0%	35.0%		35.0%	35.0%
Provision		(0.7)	(2.8)		(0.4)	(1.7)		(0.2)	(1.0)
Additional provision needed		(3.1)	(5.2)		(1.4)	(2.7)		(1.8)	(2.6)
After tax 20%		(2.5)	(4.2)		(1.1)	(2.1)		(1.4)	(2.0)
Net income (Rp tr)	48.5	46.0	44.3	61.9	60.8	59.8	21.1	19.7	19.1
<i>Impact to net income</i>		<i>-5.2%</i>	<i>-8.6%</i>		<i>-1.8%</i>	<i>-3.4%</i>		<i>-6.8%</i>	<i>-9.7%</i>

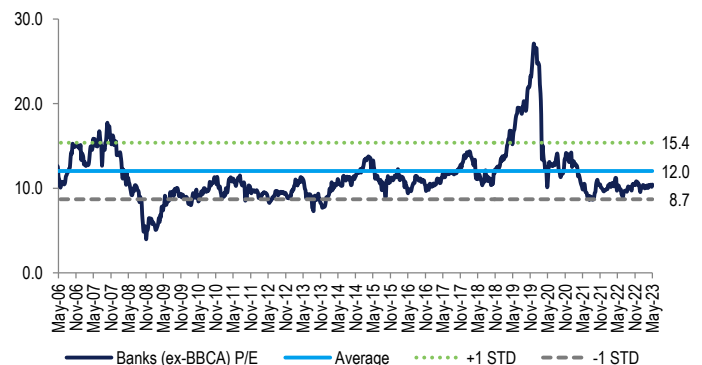
Source: Company, Indo Premier

Fig. 4: Banks (ex-BBCA)' forward P/BV – now trading at 2.0x FY23F P/BV vs. 10-year average of 1.7x P/B



Source: Bloomberg, Company, Indo Premier

Fig. 5: Banks (ex-BBCA)' forward P/E – now trading at 11.3x FY23F P/E vs. 10-year average of 12.0x P/E



Source: Bloomberg, Company, Indo Premier

Fig. 6: Peers comparison

Ticker	Closing Price	Target Price	P/BV multiple target (x)	Upside	Recommendation	P/E (x)			P/BV (x)		
						FY23F	FY24F	10Y Avg	FY23F	FY24F	10Y Avg
BBCA	9,050	9,400	4.4	4%	Buy	23.4	21.4	20.4	4.6	4.1	3.7
BBRI	5,475	5,700	2.5	4%	Buy	13.4	11.3	14.4	2.6	2.4	2.4
BMRI	5,175	5,900	2.0	14%	Buy	10.0	8.9	12.0	1.7	1.6	1.6
BBNI	9,000	10,400	1.1	16%	Buy	7.9	7.3	10.6	1.1	1.0	1.1

Source: Bloomberg, Company, Indo Premier

Share price closing as of: 25 May 2023

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- OVERWEIGHT : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY RATINGS

- BUY : Expected total return of 10% or more within a 12-month period
- HOLD : Expected total return between -10% and 10% within a 12-month period
- SELL : Expected total return of -10% or worse within a 12-month period

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