

# Bank Rakyat Indonesia

**HOLD** (downgrade)

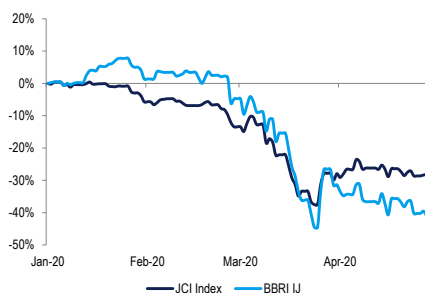
Company Update | Banks | BBRI IJ | 29 April 2020

## Stock Data

Target price	Rp2,800
Prior TP	Rp5,200
Current price	Rp2,590
Upside/downside	+8%
Shares outstanding (mn)	123,346
Market cap (Rp bn)	319,466
Free float	43%
Avg. 6m daily T/O (Rp bn)	573

## Price Performance

	3M	6M	12M
Absolute	-44.3%	-38.8%	-40.3%
Relative to JCI	-18.2%	-11.1%	-10.8%
52w low/high (Rp)	2,440 – 4,740		



## Major Shareholders

Republic of Indonesia	56.8%
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## Jovent Muliadi

PT Indo Premier Sekuritas  
jovent.muliadi@ipc.co.id  
+62 21 5088 7168 ext. 710

## Anthony

PT Indo Premier Sekuritas  
anthony@ipc.co.id  
+62 21 5088 7168 ext. 715

## Necessary costs to save the MSME; EPS revision is inevitable

- We recently had a conference call with BBRI's CFO and IR team to discuss the latest update on its restructuring.
- Total restructured loan reached Rp54tr (6% of loan) on 24<sup>th</sup> of Apr with Kupedes and small segments as majority.
- Higher provision is inevitable and thus, EPS revision (25-62% cut in FY20-22F). We cut our rating to Hold. Upside is faster micro recovery.

### Rising restructuring from Kupedes and small segment

Total restructured loan from COVID-19 as of 24<sup>th</sup> Apr for BBRI rose to Rp54tr (6% of loan) from c.Rp15tr in early Apr. Kupedes/conventional micro (c.Rp29tr/54% of total) and small (c.Rp22tr/41% of total) segments dominated the overall restructured loan. It also added that the pace of restructuring still accelerating on week on week basis but expect the amount of restructuring to slowing down towards end of May. For restructuring schemes, micro was currently offered a tenor extension and/or principal deferral whereas the majority of small segment also got interest rate cut.

### Necessary costs to save the MSME

We applaud management pre-emptive measures to do early restructuring for affected borrowers even before any clarity on the potential subsidy (interest subsidy) by government. Restructuring is imperative to help its MSME debtors – delaying principal may result in 90% better cash flow. We are also pretty comfortable with the fact that most of the micro loan is secured (either by fixed asset for Kupedes or insurance for KUR) and thus, lower provision required for micro segment despite higher restructuring.

### Revision in EPS is inevitable and hence, our Hold rating. Faster micro recovery will be the upside

We run a simulation on the potential restructuring for BBRI from the latest data and came up with Rp210tr total additional restructuring. We expect it may book c.16% provisioning on the restructured loans (figure 3) and shall be spread over 2 years amid OJK relaxation in 2020 (hence bulk of the provisioning/67% falls in 2021); this translates to 25-62% EPS revision to our FY20-22F estimates and 20-60% lower than consensus. This prompted us to downgrade our TP to Rp2,800 based on 1.7x implied P/BV or -1.5 S.D. against its 10Y mean and our rating to Hold. Upside is faster recovery in micro (lower capital requirement to restart the business) post Covid. Downsides are increase in default rates and dilutive MnA.

Financial Summary (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net interest income	77,437	80,642	80,087	89,130	97,583
Total revenue	102,037	111,157	109,541	121,296	132,821
PPOP	60,044	66,191	59,955	67,261	74,180
Provision charges	(18,321)	(22,760)	(30,998)	(43,017)	(28,166)
Net profit	32,348	34,372	21,229	16,339	35,994
Net profit growth	12%	6%	-38%	-23%	120%
P/BV (x)	1.7	2.5	1.6	1.5	1.4
Dividend yield	4.1%	2.5%	4.3%	2.7%	2.0%
ROAE	18.3%	17.5%	10.4%	8.0%	16.1%
Forecast changes			-45%	-62%	-25%
IPS vs. consensus			60%	40%	79%

Sources: Company, Indo Premier

Share price closing as of 28 April 2020

## Rising restructuring from Kupedes and small segment

Total restructured loan from Covid-19 as of 24<sup>th</sup> Apr for BBRI rose to Rp54tr (6% of loan) from c.Rp15tr in early Apr. Kupedes/conventional micro (c.Rp29tr/54% of total restructured) and small (c.Rp22tr/41% of total restructured) segments dominated the overall restructured loan.

It also added that the pace of restructuring still accelerating on week on week basis but expect the amount of restructuring to slowing down towards end of May. For restructuring schemes, micro was currently offered a tenor extension and/or deferral on its principal whereas the majority of small segment also got interest rate cut.

**Fig. 1: Summary of BBRI's restructured loan breakdown as of 24 Apr 2020**

BBRI restructured loan (Rp tr)	Restructured as of 3 Apr	% of total loan balance	Restructured as of 24 Apr	% of total loan balance
Kupedes	6.2	2.7%	29.0	12.5%
KUR	0.6	0.8%	1.9	2.5%
SME	7.5	3.4%	22.0	10.0%
Others	0.6	0.2%	0.6	0.2%
<b>Total</b>	<b>14.9</b>	<b>1.6%</b>	<b>53.5</b>	<b>5.9%</b>

Sources: Company, Indo Premier

## Necessary costs to save the SME

We applaud management pre-emptive measures to do early restructuring for affected borrowers even before any clarity on the potential subsidy (interest subsidy) by government. Restructuring is imperative to help its MSME debtors – delaying principal may result in 90% better cash flow. We are also pretty comfortable with the fact that most of the micro loan is secured (either by fixed asset for Kupedes or insurance for KUR).

**Fig. 2: Summary of cash flow improvement under different schemes – deferring principal payment will result in largest delta to debtor cash flow**

Summary of 12 months loan payment (in Rp mn)	Normal case	Lower interest by 350bp	Extending tenor by 12 months	Deferring principal payment by 12 months
Principal	(16.7)	(16.7)	(10.0)	0.0
Interest	(1.8)	(0.9)	(1.4)	(1.8)
Total	(18.4)	(17.5)	(11.4)	(1.8)
<b>Changes vs. normal case</b>		<b>-5%</b>	<b>-38%</b>	<b>-90%</b>

Source: Company, Indo Premier

## Higher restructured loan and hence, higher provision required

We run a simulation on the potential restructuring for BBRI from the latest data and came up with Rp210tr total additional restructuring, this is slightly higher compared to our latest calculation of Rp190tr ([link to our note on 17<sup>th</sup> April](#)). We think the incremental increase shall be the highest in May as most micro/small customers may lose significant revenue from the quarantine measure during Eid Festival season.

Note that for the simulation, we assume 10%/25%/15% provisioning rates on micro/small/other (16% blended), respectively, to reflect better recovery prospect for micro segment (lower capital requirement to restart the business). Most of BRI micro is secured as well (either by insurance for KUR or fixed asset for Kupedes).

We expect it may book 16% provisioning (on the overall basis) on the restructured loans (figure 3) and shall be spread over 2 years amid OJK relaxation in 2020 (hence bulk of the provisioning/67% falls in 2021). Along with higher provision, we also expect lower NIM of c.60bp in FY20 to 6.1% from 6.7% in FY19 (consolidated basis) amid lower interest rate (from lower BI rate and increase in restructuring). All-in-all, this translates to 25-62% EPS revision to our FY20-22F estimates and 20-60% lower than consensus.

**Fig. 3: Based on our simulation, we expect Rp210tr of additional restructured and additional provision of Rp34tr (actual data up to 24<sup>th</sup> Apr)**

BBRI restructuring simulation (Rp tr)	Total restructured	Micro	Small	Other	Micro proportion	Small proportion	Other proportion
3-Apr-2020 (actual data)	15	7	8	1	45%	50%	5%
24-Apr-2020 (actual data)	55	32	22	1	58%	40%	2%
End Apr20	65	38	26	1	58%	35%	2%
End May20	140	91	49	7	65%	35%	5%
End Jun20	180	117	63	9	65%	35%	5%
End Jul20	210	137	74	11	65%	35%	5%
Provision coverage	16%	10%	25%	15%			
Additional provisioning (Rp tr)	33.6	13.7	18.4	1.6			

Source: Company, Indo Premier

**Fig. 4: Changes to forecasts – we downgrade our FY20-22F EPS estimates by 25-62% to account for higher provision**

Changes to forecasts in Rp bn	New			Previous			Changes		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Interest income	123,141	134,489	147,750	135,631	149,016	162,609	-9%	-10%	-9%
Interest expense	(43,054)	(45,359)	(50,166)	(45,898)	(50,113)	(54,114)	-6%	-9%	-7%
<b>Net interest income</b>	<b>80,087</b>	<b>89,130</b>	<b>97,583</b>	<b>89,732</b>	<b>98,903</b>	<b>108,495</b>	<b>-11%</b>	<b>-10%</b>	<b>-10%</b>
Non-interest income	29,454	32,166	35,238	28,202	30,943	34,034	4%	4%	4%
<b>Total operating income</b>	<b>109,541</b>	<b>121,296</b>	<b>132,821</b>	<b>117,934</b>	<b>129,846</b>	<b>142,529</b>	<b>-7%</b>	<b>-7%</b>	<b>-7%</b>
Opex	(49,586)	(54,035)	(58,641)	(49,285)	(54,439)	(59,705)	1%	-1%	-2%
<b>PPOP</b>	<b>59,955</b>	<b>67,261</b>	<b>74,180</b>	<b>68,650</b>	<b>75,407</b>	<b>82,824</b>	<b>-13%</b>	<b>-11%</b>	<b>-10%</b>
Provisions	(30,998)	(43,017)	(28,166)	(19,761)	(20,650)	(22,118)	57%	108%	27%
<b>Operating profit</b>	<b>28,957</b>	<b>24,244</b>	<b>46,014</b>	<b>48,888</b>	<b>54,757</b>	<b>60,707</b>	<b>-41%</b>	<b>-56%</b>	<b>-24%</b>
Non-operating profit	130	140	152	130	141	155	1%	-1%	-2%
<b>Pre-tax profit</b>	<b>29,088</b>	<b>24,384</b>	<b>46,166</b>	<b>49,018</b>	<b>54,898</b>	<b>60,862</b>	<b>-41%</b>	<b>-56%</b>	<b>-24%</b>
Income tax	(7,818)	(8,000)	(10,123)	(10,267)	(11,499)	(12,748)	-24%	-30%	-21%
Minority interests	(41)	(45)	(49)	(78)	(86)	(94)	-48%	-48%	-48%
<b>Net profit</b>	<b>21,229</b>	<b>16,339</b>	<b>35,994</b>	<b>38,674</b>	<b>43,314</b>	<b>48,019</b>	<b>-45%</b>	<b>-62%</b>	<b>-25%</b>

Provision details	2020F	2021F	2022F
Previous provision forecast	19,761	20,650	22,118
<i>Additional provision from restructuring *</i>	<i>11,236</i>	<i>22,367</i>	
New provision forecast	30,998	43,017	28,166
<i>Additional provisioning vs. previous</i>	<i>57%</i>	<i>108%</i>	

\*Total additional provision from restructuring at Rp33.6tr, 33% in 2020F and 67% in 2021F

Source: Company, Indo Premier

**Fig. 5: Our FY20-22F net profit estimates for BBRI is now 20-60% below consensus'**

BBRI new estimates (Rp bn)	2019A	2020F	2021F	2022F
Consensus	34,372	35,436	40,833	45,699
IPS new estimates	34,372	21,229	16,339	35,994
<i>Difference</i>		<i>-40%</i>	<i>-60%</i>	<i>-21%</i>
<i>Consensus EPS growth</i>		<i>3%</i>	<i>15%</i>	<i>12%</i>
<i>IPS EPS growth</i>		<i>-38%</i>	<i>-23%</i>	<i>120%</i>

Source: Company, Indo Premier

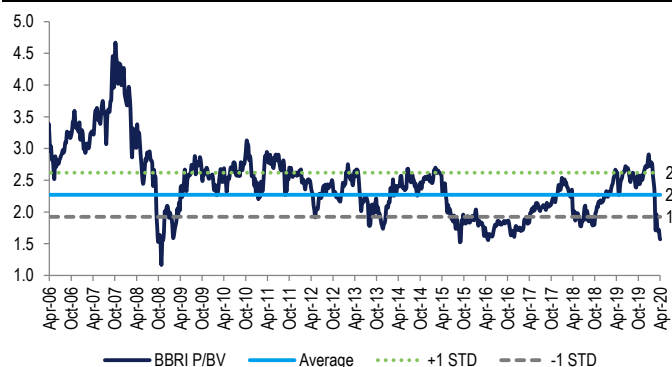
Nonetheless, steep EPS revision prompted us to downgrade our TP to Rp2,800 based on 1.7x implied P/BV or -1.5 S.D. against its 10Y mean and hence our new Hold rating (from Buy previously). Upside is faster micro recovery (due to low capital requirement to restart the business). Risk is worse than expected default rates and dilutive MnA.

**Fig. 6: Summary of GGM-based TP**

GGM summary	
Risk free rate	7.5%
Beta	1
Market risk premium	7.0%
Cost of equity	14.5%
Long term growth	10%
Sustainable ROE	17.5%
Target P/BV multiple	1.7
2021F BVPS (Rp/sh)	1,690
<b>Target price (Rp/sh)</b>	<b>2,800</b>

Source: Company, Indo Premier

**Fig. 7: BBRI forward P/BV – now trading at 1.6x P/BV vs. 10 year average of 2.3x P/BV**



Sources: Bloomberg, IndoPremier

**Fig. 8: BBRI forward P/E – now trading at 15x P/E vs. 10 year average of 13x P/E**



Sources: Bloomberg, IndoPremier

**Fig. 9: Peer comparison table**

Ticker	Closing Price	Target Price	P/BV multiple	Upside target (x)	Recommendation	P/E (x)		P/BV (x)	
						2020F	2021F	2020F	2021F
BMRI	4,150	9,000	1.9	117%	Buy	6.2	5.4	1.0	0.9
BBRI	2,590	2,800	1.7	8%	Hold	15.0	19.6	1.6	1.5
BBCA	24,150	34,550	4.0	43%	Hold	18.7	16.8	3.1	2.7
BBNI	3,820	9,000	1.4	136%	Buy	4.0	3.4	0.6	0.5
BBTN	835	2,750	1.3	229%	Buy	3.2	2.3	0.5	0.4

Source: Bloomberg, Indo Premier

Share price closing as of 28 April 2020

Income Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Interest income	111,354	120,691	123,141	134,489	147,750
Interest expense	(33,917)	(40,049)	(43,054)	(45,359)	(50,166)
<b>Net interest income</b>	<b>77,437</b>	<b>80,642</b>	<b>80,087</b>	<b>89,130</b>	<b>97,583</b>
Non-interest income	24,600	30,515	29,454	32,166	35,238
<b>Total operating income</b>	<b>102,037</b>	<b>111,157</b>	<b>109,541</b>	<b>121,296</b>	<b>132,821</b>
Opex	(41,993)	(44,966)	(49,586)	(54,035)	(58,641)
<b>PPOP</b>	<b>60,044</b>	<b>66,191</b>	<b>59,955</b>	<b>67,261</b>	<b>74,180</b>
Provisions	(18,321)	(22,760)	(30,998)	(43,017)	(28,166)
<b>Operating profit</b>	<b>41,723</b>	<b>43,432</b>	<b>28,957</b>	<b>24,244</b>	<b>46,014</b>
Non-operating profit	28	(68)	130	140	152
<b>Pre-tax profit</b>	<b>41,751</b>	<b>43,364</b>	<b>29,088</b>	<b>24,384</b>	<b>46,166</b>
Income tax	(9,335)	(8,950)	(7,818)	(8,000)	(10,123)
Minority interest	(67)	(41)	(41)	(45)	(49)
<b>Net profit</b>	<b>32,348</b>	<b>34,372</b>	<b>21,229</b>	<b>16,339</b>	<b>35,994</b>

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash + CA with BI	98,581	44,746	108,615	124,240	141,186
Secondary reserves	294,881	346,645	395,176	424,815	458,800
Gross loans	840,189	910,764	975,453	1,072,998	1,180,298
Loan provisions	(35,515)	(39,329)	(71,125)	(99,803)	(111,284)
Other assets	98,763	158,005	114,009	125,409	137,950
<b>Total Assets</b>	<b>1,296,898</b>	<b>1,418,948</b>	<b>1,522,129</b>	<b>1,647,660</b>	<b>1,806,950</b>
Total deposits	949,914	1,027,807	1,145,218	1,262,902	1,392,734
Securities and borrowings	75,134	140,876	76,981	76,981	76,981
Other liabilities	86,575	41,482	99,265	99,265	99,265
<b>Total liabilities</b>	<b>1,111,623</b>	<b>1,210,165</b>	<b>1,321,465</b>	<b>1,439,149</b>	<b>1,568,980</b>
<b>Shareholders' equity</b>	<b>185,276</b>	<b>208,783</b>	<b>200,664</b>	<b>208,511</b>	<b>237,970</b>
<b>Total liabilities &amp; equity</b>	<b>1,296,898</b>	<b>1,418,948</b>	<b>1,522,129</b>	<b>1,647,660</b>	<b>1,806,950</b>

Sources: Company, IndoPremier

Growth YoY	2018A	2019A	2020F	2021F	2022F
Gross loans	14.0%	8.4%	8.0%	10.0%	10.0%
Total assets	15.2%	7.7%	7.4%	8.2%	9.7%
Total deposits	12.3%	8.2%	11.0%	10.3%	10.3%
Net interest income	6.7%	5.5%	-0.7%	11.3%	9.5%
Non-interest income	23.7%	18.9%	-3.5%	9.2%	9.5%
Total operating income	10.3%	8.8%	-1.5%	10.7%	9.5%
Operating expense	9.2%	7.2%	10.3%	9.0%	8.5%
PPOP	11.1%	9.8%	-9.4%	12.2%	10.3%
Net profit	11.6%	6.2%	-38.2%	-23.0%	120.3%

Key Ratios	2018A	2019A	2020F	2021F	2022F
ROAA	2.7%	2.6%	1.4%	1.0%	2.1%
ROAE	18.3%	17.6%	10.3%	7.9%	16.1%
NIM	7.3%	6.9%	6.1%	6.4%	6.4%
Credit cost	2.3%	2.6%	3.3%	4.2%	2.5%
Cost/income	41.2%	40.6%	45.3%	44.5%	44.2%
LDR	88.4%	88.6%	85.2%	85.0%	84.7%
CAR	21.4%	22.8%	19.6%	18.8%	19.6%
NPL ratio	2.2%	2.8%	2.8%	2.7%	2.6%
Provisions/NPL	191.8%	167.0%	259.9%	349.7%	360.1%

Sources: Company, IndoPremier

## INVESTMENT 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

## ANALYSTS CERTIFICATION

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