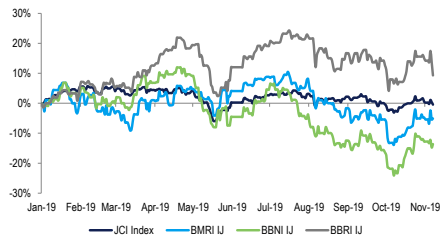


Sector Index Performance (JAKFIN)

	3M	6M	12M
Absolute	-0.1%	0.9%	14.2%
Relative to JCI	0.6%	2.6%	10.4%



Summary Valuation Metrics

P/E (x)	Dec-19F	Dec-20F	Dec-21F
BMRI IJ	12.1	10.9	9.6
BBNI IJ	9.2	8.2	7.4
BBRI IJ	14.1	12.6	11.4

P/BV (x)	Dec-19F	Dec-20F	Dec-21F
BMRI IJ	1.8	1.7	1.5
BBNI IJ	1.3	1.2	1.1
BBRI IJ	2.5	2.2	2.0

Div. Yield	Dec-19F	Dec-20F	Dec-21F
BMRI IJ	3.1%	3.3%	3.7%
BBNI IJ	3.7%	3.8%	4.3%
BBRI IJ	2.6%	2.8%	3.2%

Potential adverse changes in KUR scheme, though impact is manageable

- Media recently reported that government plans to reduce KUR interest rates to 6% from 7% currently, along with increase in KUR loan size.
- Lower KUR's rate shall reduce BBRI KUR's ROA/ROE to mere 0.2/3% from 1%/17%, making it unprofitable. Another risk is cannibalization.
- While the headline clearly is negative, our assessment on the impact towards BBRI's profitability will be manageable (only 2% EPS impact).

Potential adverse changes in KUR scheme

The media recently reported that government plans to reduce KUR (the subsidized micro loan program) to 6% from 7% currently, though there no details yet on subsidy rate. At the same time, the maximum ticket size for the micro KUR will be potentially increased to Rp50mn from Rp25mn currently.

KUR has always been an easy target for the government

This is not the first time that government cut KUR rate, previously KUR rate has been reduced from 12% in 2015 to 9% in 2016-17 and 7% in 2018. Despite 500bp cut in the KUR rate, the subsidy for micro KUR only increased by 350bp. Assuming flat subsidy this time around, we estimate KUR's ROA/ROE will drop to 0.2%/3% from 1.0%/16% (Kupedes ROA/ROE at 3.5%/28%) but only presents 2% downside to 2020 earnings (all else equal).

Higher loan size poses cannibalization risk, though impact is marginal

Increase in maximum KUR's micro loan size to Rp50mn from Rp25mn may cannibalize Kupedes amid similar loan size (at Rp51mn as of 9M19 vs. KUR's Rp13mn). However, the impact based on our estimates was way more benign than what people expect – based on lower rate, Rp280tr KUR's budget in 2021 (vs. Rp150tr in 2020) and thus an implied KUR growth of 40% vs. Kupedes's 4% (already taking into account cannibalization), the overall impact to BRI's 2021 NIM and EPS is only 8bp and 2%, respectively – this was largely due KUR's short tenor and thus higher run-off rate (80-90% p.a.).

Stick to fundamental despite adverse news flow – maintain Neutral

We think its best to stick to fundamental despite adverse news flow. Clearly the impact on BBRI's stock price was overblown (-7% in the last two days). We maintain our Neutral call on the banks with BMRI and BBNI remains our top picks. The sector has outperformed JCI by 15% YTD, now trading at 2.4x 2020 P/BV (vs. 10-year average of 2.3x P/BV). Upside catalysts are improvement in CoF and margins, while key risk is worsening asset quality.

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Fig. 1: Impact of lower KUR rates to 2020-21 EPS seems manageable

Simulation of lower KUR rate impact to EPS	2020F	2021F
Lower KUR interest rates (in bp)	100	100
KUR as % of micro loans (%) *	25%	31%
Micro loans % of total loans (%)	35%	35%
Impact to loan yield (in bp)	8.7	10.7
Impact to NIM (in bp)	6.5	8.2
Base net profit (Rp bn)	39,083	43,374
Adjusted net profit (Rp bn)	38,428	42,465
Impact to net profit	-1.7%	-2.1%

* assume KUR disbursement of Rp150tr in 2020 and Rp280tr in 2021 - assume BBRI disburses 100% of national KUR

Sources: OJK, IndoPremier

Potential adverse change to KUR, though impact is manageable

The media recently reported that government plans to reduce KUR (the subsidized micro loan program) to 6% from 7% currently, though there no details yet on subsidy rate. At the same time, the maximum ticket size for the micro KUR will be potentially increased to Rp50mn from Rp25mn currently

This is not the first time that government cut KUR rate, previously KUR rate has been reduced from 12% in 2015 to 9% in 2016-17 and 7% in 2018. Despite 500bp cut in the KUR rate, the subsidy for micro KUR only increased by 350bp. Assuming flat subsidy rate this time around, we estimate KUR's ROA/ROE will drop to 0.2%/3% from 1.0%/16% (Kupedes ROA/ROE at 3.5%/28%) but only presents 2% downside to 2020 earnings (all else equal).

Fig. 2: Changes to KUR scheme over the years

Micro loan simulation	Kupedes (old micro)	KUR (with 12% interest rate) - 2015	KUR (with 9% interest rate) - 2016	KUR (with 9% interest rate) - 2017	KUR (with 7% interest rate) - 2018	KUR (with 6% interest rate) - 2020
Interest rate on borrower	22%	12%	9%	9%	7%	6%
Subsidy for BBRI	0.0%	7.0%	10.0%	9.5%	10.5%	10.5%
Insurance premium	1.0%	1.5%	1.5%	1.75%	1.75%	1.75%
Effective yield	21.0%	17.5%	17.5%	16.75%	15.75%	14.75%
CoF	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Opex	10%	10%	10%	10%	10%	10%
Credit cost (KUR is insured)	3.0%	0.9%	0.9%	0.9%	0.9%	0.9%
ROA	3.5%	2.4%	2.4%	1.8%	1.0%	0.2%
ROE *	28.4%	39.9%	39.9%	29.9%	16.6%	3.3%

*note KUR has lower risk weight of 36.5% vs. conventional micro of 75%

Sources: Company, IndoPremier

Higher loan size poses cannibalization risk, though impact is marginal

Increase in maximum KUR's micro loan size to Rp50mn from Rp25mn may cannibalize Kupedes amid similar loan size (at Rp51mn as of 9M19 vs. KUR's Rp13mn).

However, the impact based on our estimates was way more benign than what people expect – even assuming worst-case scenario where KUR disbursement is raised to Rp280tr in 2021 from Rp150tr (and BBRI to account for 62% of total disbursement – in-line with 2019 target), with no changes to interest rate subsidy, we estimate only a 8bp impact to 2021 NIM and 2% downside to 2021 EPS. This is largely due to KUR's short tenor and thus higher run-off rate (80-90% p.a.)

Assuming a worst-case scenario where BBRI takes up 100% of the national KUR disbursement, we estimate the overall impact remains manageable as well – 10bp impact to NIM and 3% downside to EPS in 2021.

Fig. 3: Simulation of lower KUR rates (case 1) – our simulation already takes into account a worst-case scenario where KUR disbursement is increased to Rp280tr in 2021 from Rp150tr in 2020

from Rp150tr in 2020

KUR disbursement target (Rp tr)	2015	2016	2017	2018	2019F	2020F	2021F
National KUR disbursement	23	94	97	120	140	150	280
yoy%		313%	3%	24%	17%	7%	87%
BBRI's KUR disbursement *	16	69	69	80	87	93	174
yoy%		329%	0%	16%	9%	7%	87%
* Assuming BBRI's KUR proportion as % of national KUR disbursement is maintained in 2020-21 vs. 2019							
BBRI's realization as % of national	71%	74%	72%	67%	62%	62%	62%
KUR run-rate calculation (Rp tr)	2015	2016	2017	2018	2019F	2020F	2021F
Beginning balance	25	33	56	62	69	78	87
Gross disbursement	16	69	69	80	87	93	174
Run-off	(7)	(47)	(64)	(73)	(78)	(84)	(139)
Ending balance	33	56	62	69	78	87	122
Ending KUR balance growth yoy%		67%	10%	12%	13%	12%	40%
Run-off as % of gross disbursement	45%	68%	92%	91%	90%	90%	80%
Micro loan breakdown (Rp tr)	2015	2016	2017	2018	2019F	2020F	2021F
Kupedes	146	156	178	210	235	266	277
yoy%		7%	14%	18%	12%	13%	4%
KUR	33	56	62	69	78	87	122
yoy%		67%	10%	12%	13%	12%	40%
Total micro loans	179	212	240	279	313	353	399
yoy%		18%	13%	17%	12%	13%	13%
Kupedes proportion as % of total micro loans	81%	74%	74%	75%	75%	75%	69%
KUR proportion as % of total micro loans	19%	26%	26%	25%	25%	25%	31%
Simulation of lower KUR rate impact to EPS					2020F	2021F	
Lower KUR interest rates (in bp)					100	100	
KUR as % of micro loans (%) *					25%	31%	
Micro loans % of total loans (%)					35%	35%	
Impact to loan yield (in bp)					8.7	10.7	
Impact to NIM (in bp)					6.5	8.2	
Base net profit (Rp bn)					39,083	43,374	
Adjusted net profit (Rp bn)					38,428	42,465	
Impact to net profit					-1.7%	-2.1%	
* assume KUR disbursement of Rp150tr in 2020 and Rp280tr in 2021							

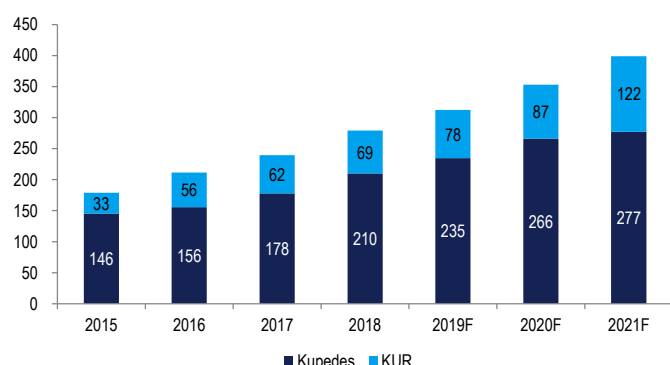
Sources: Company, IndoPremier

Fig. 4: Simulation of lower KUR rates (case 2) – we assume a worst-case scenario where BBRI's proportion as a % of national KUR disbursement rises to 100% from 62% previously – impact remains manageable (10bp to NIM and 3% to EPS in 2021)

KUR disbursement target (Rp tr)								2015	2016	2017	2018	2019F	2020F	2021F
National KUR disbursement								23	94	97	120	140	150	280
yoy%									313%	3%	24%	17%	7%	87%
BBRI's KUR disbursement *								16	69	69	80	87	150	280
yoy%									329%	0%	16%	9%	72%	87%
* Assuming BBRI's KUR proportion as % of national KUR increases to 100% in 2020-21														
BBRI's realization as % of national								71%	74%	72%	67%	62%	100%	100%
KUR run-rate calculation (Rp tr)								2015	2016	2017	2018	2019F	2020F	2021F
Beginning balance								25	33	56	62	69	78	93
Gross disbursement								16	69	69	80	87	150	280
Run-off								(7)	(47)	(64)	(73)	(78)	(135)	(224)
Ending balance								33	56	62	69	78	93	149
Ending KUR balance growth yoy%									67%	10%	12%	13%	19%	60%
Run-off as % of gross disbursement								45%	68%	92%	91%	90%	90%	80%
Micro loan breakdown (Rp tr)								2015	2016	2017	2018	2019F	2020F	2021F
Kupedes								146	156	178	210	235	260	250
yoy%									7%	14%	18%	12%	11%	-4%
KUR								33	56	62	69	78	93	149
yoy%									67%	10%	12%	13%	19%	60%
Total micro loans								179	212	240	279	313	353	399
yoy%									18%	13%	17%	12%	13%	13%
Kupedes proportion as % of total micro loans								81%	74%	74%	75%	75%	74%	63%
KUR proportion as % of total micro loans								19%	26%	26%	25%	25%	26%	37%
Simulation of lower KUR rate impact to EPS												2020F	2021F	
Lower KUR interest rates (in bp)												100	100	
KUR as % of micro loans (%) *										26%	37%			
Micro loans % of total loans (%)												35%	35%	
Impact to loan yield (in bp)												9.3	13.1	
Impact to NIM (in bp)												7.0	10.0	
Base net profit (Rp bn)												39,083	43,374	
Adjusted net profit (Rp bn)												38,385	42,263	
Impact to net profit												-1.8%	-2.6%	
* assume KUR disbursement of Rp150tr in 2020 and Rp280tr in 2021 - assume BBRI disburses 100% of national KUR														

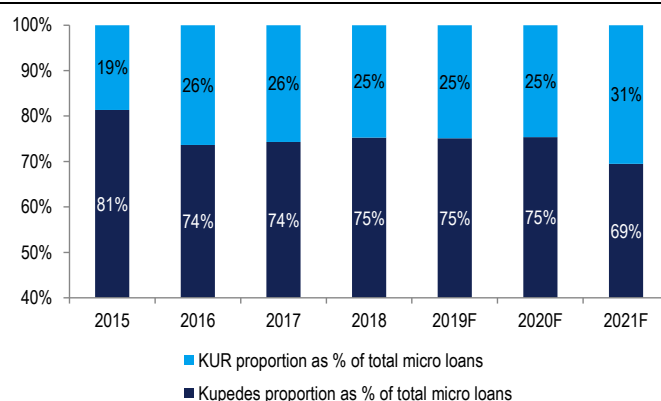
Sources: Company, IndoPremier

Fig. 5: BBRI's micro loan breakdown (in Rp tr) - assuming Rp150tr/Rp280tr of national KUR disbursement in 2020/21



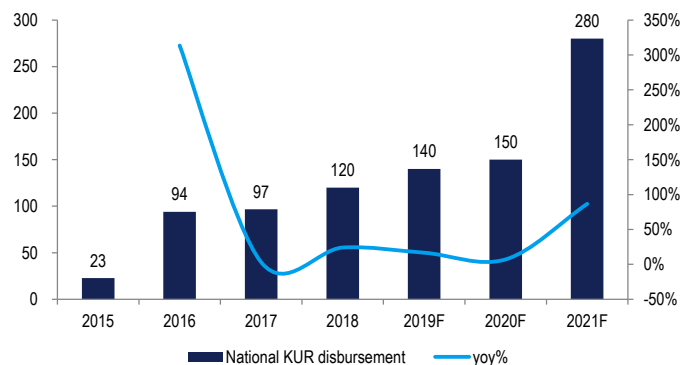
Sources: Company, IndoPremier

Fig. 6: BBRI's micro loan composition



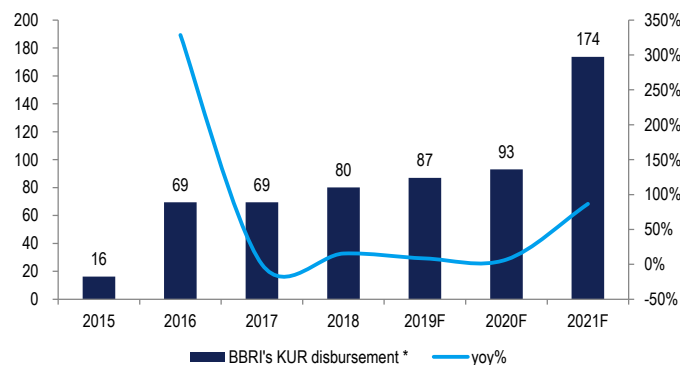
Sources: Company, IndoPremier

Fig. 7: National KUR disbursement – target of Rp150tr in 2020, and assume Rp280tr in 2021



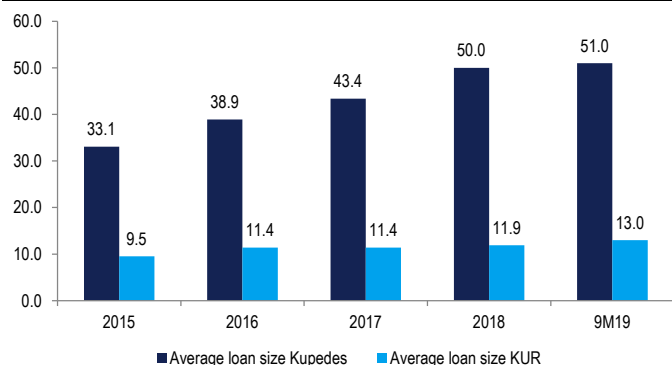
Sources: Company, IndoPremier

Fig. 8: BBRI's KUR realization (in Rp tr) – assuming BBRI's proportion to national KUR is maintained vs. 2019



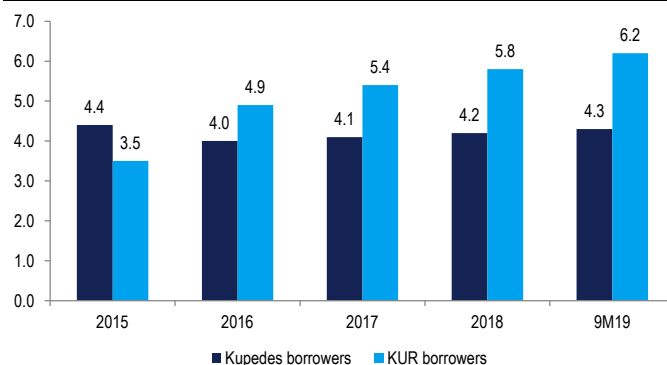
Sources: Company, IndoPremier

Fig. 9: Average Kupedes and KUR loan size (in Rp mn)



Sources: Company, IndoPremier

Fig. 10: No of Kupedes and KUR borrowers (in Rp mn)

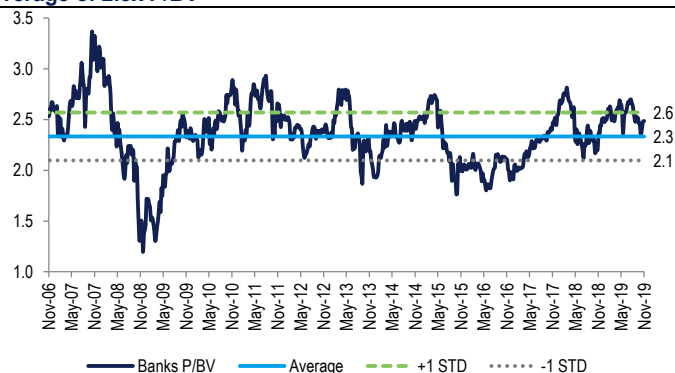


Sources: Company, IndoPremier

Stick to fundamentals despite adverse news flow – maintain Neutral

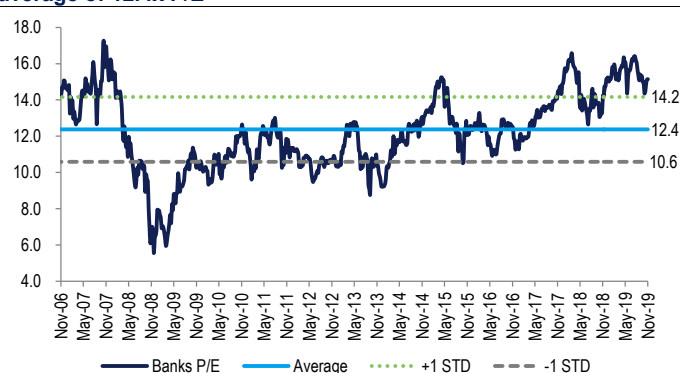
We think its best to stick to fundamental despite adverse news flow. Maintain our Neutral call on the banks with BMRI and BBNI remains our top picks. The sector has outperformed JCI by 15% YTD, now trading at 2.4x 2020 P/BV (vs. 10-year average of 2.3x P/BV). Upside catalysts are improvement in CoF and margins, while key risk is worsening asset quality

Fig. 11: Banks forward P/BV - now trading at 2.4x P/BV vs. 10 year average of 2.3x P/BV



Sources: Bloomberg, IndoPremier

Fig. 12: Banks forward P/E - now trading at 14.9x P/E vs. 10 year average of 12.4x P/E



Sources: Bloomberg, IndoPremier

Fig. 13: Peer comparison table

Ticker	Closing Price (Rp/share)	TP (Rp/share)	P/BV multiple target (x)	Upside	Recommendation	P/E (x)		P/BV (x)	
						2019F	2020F	2019F	2020F
BMRI	7,000	8,000	1.9	14%	Buy	12.1	10.9	1.8	1.7
BBRI	4,000	4,600	2.5	15%	Buy	14.1	12.6	2.5	2.2
BBCA	31,425	31,000	4.0	-1%	Hold	27.3	24.0	4.6	4.0
BBNI	7,600	8,500	1.3	12%	Buy	9.2	8.2	1.3	1.2
BBTN	1,845	2,200	1.0	19%	Hold	11.7	10.0	0.9	0.8

Sources: Bloomberg, Company, IndoPremier

Share price closing as of 07 November 2019

SECTOR RATINGS

- 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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The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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