INDOPREMIER

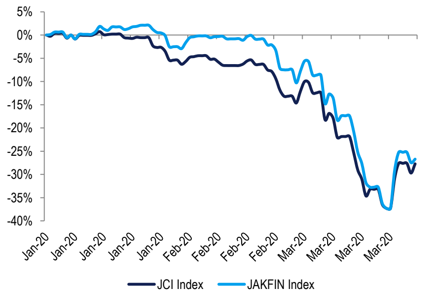
Banks

OVERWEIGHT *(unchanged)*

Sector Update | 03 April 2020

Sector Index Performance (JAKFIN)

	3M	6M	12M
Absolute	-27.0%	-17.9%	-23.0%
Relative to JCI	-0.6%	5.5%	5.8%



Summary Valuation Metrics

P/E (x)	2020F	2021F	2022F
BMRI IJ	7.5	6.6	5.8
BBNI IJ	4.2	3.6	3.1
BBCA IJ	21.3	19.1	17.4

P/BV (x)	2020F	2021F	2022F
BMRI IJ	1.2	1.1	0.9
BBNI IJ	0.6	0.6	0.5
BBCA IJ	3.5	3.1	2.7

Div. Yield	2020F	2021F	2022F
BMRI IJ	4.7%	5.3%	6.1%
BBNI IJ	7.2%	8.4%	9.8%
BBCA IJ	1.0%	1.1%	1.3%

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Restructuring is imperative but at the expense of new disbursement

- Recently OJK allowed banks to do one pillar loan restructuring similar in 2015-16 with emphasis on corona affected sectors and MSME.
- Restructuring is imperative to ensure supply side recovery but with the risks of liquidity in the short term and moral hazard in the medium term.
- CoF impact is around 22-37bp (BBRI is the highest at 48-80bp) all else being equal, this can be offset with lower disbursement.

Similar restructuring relaxation back in 2015-16

Last week, President Jokowi stated that MSME debtors and online taxi drivers are allowed to delay its principal and/or interest payment for one year. Accordingly, OJK has allowed banks to restructure its loan portfolio affected by coronavirus (including loan below Rp10bn – MSME loan) using only one pillar instead of three pillars similar in 2015-16 for up to one year. Government and regulators have also instructed banks to lower its lending rate; all of these are imperatives to ensure the supply side recovery.

Delay in principal shall result in biggest delta positive for cash flow

The restructuring can be in a form of (or any combination): lengthening the tenor, lowering the interest rate, delaying principal and/or interest. Given the severity of the coronavirus outbreak towards the economy (work from home, social distancing policy, etc.) we think most shall opt on delaying the principal payment – biggest impact to cash flow. Our analysis suggest that delay in principal may result in 90% better cash flow for debtors as opposed to lower interest (+5%) or lengthening the tenor (+38%).

Positives are lower NPL and provision; negatives are potentially higher CoF and moral hazard issue

The restructuring may allow banks to delay the downgrade (NPL recognition) and thus provision booking. At the same time, delay in principal payment for MSME may impact banks' liquidity especially for BRI (as micro and small loans are being amortized similar like mortgage) to as much as 15% of its deposits, all else being equal. We estimate CoF impact to be around 48-80bp for BRI while 10-18bp for the rest of big 4, though banks can mitigate the CoF impact by lowering the new loan disbursement. Moral hazard can be an issue in the medium term as it will be hard to ensure millions of borrowers to repay back its instalment accordingly (principal and interest which can be 90% higher compared to interest only).

BBCA and BBNI remains as our picks

YTD, big 4 banks dropped 29% and now trading at adjusted 1.8x P/B (below its -1STD 10Y mean of 2x P/B). Our picks are BBCA (less earnings risk and probability of national service) and BBNI (attractive risk-reward preposition).

Fig. 1: Delay in principal shall result in the biggest delta positive for 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)
Changes vs. normal case		-5%	-38%	-90%

Source: Company, Indo Premier

Similar restructuring relaxation like 2015-16; delay in principal shall result in biggest delta positive for cash flow

Last week, President Jokowi stated that MSME debtors and online taxi drivers are allowed to delay its principal and/or interest payment for one year. Accordingly, OJK has allowed banks to restructure its loan portfolio affected by coronavirus (including loan below Rp10bn – MSME loan) using only one pillar instead of three pillars similar in 2015-16. Government and regulators have also instructed banks to lower its lending rate; all of these are imperatives to ensure the supply side recovery

The restructuring can be in a form of (or any combination): lengthening the tenor, lowering the interest rate, delaying principal and/or interest. Given the severity of the coronavirus outbreak towards the economy (work from home, social distancing policy, etc.) we think most shall opt on delaying the principal payment – biggest impact to cash flow. Our analysis suggest that delay in principal may result in 90% better cash flow for debtors as opposed to lower interest (+5%) or lengthening the tenor (+38%).

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)
Changes vs. normal case		-5%	-38%	-90%

Source: Company, Indo Premier

Fig. 3: Summary of debtor cash flow – deferring principal payment will significantly alleviate pressure in the first 12 months, though total loan payment is the largest

Summary of payment (in Rp mn)	Normal case	Lower interest by 350bp	Extending tenor by 12 months	Deferring principal payment by 12 months
Principal	**(25.0)**	**(25.0)**	**(25.0)**	**(25.0)**
Year 1	*(16.7)*	*(16.7)*	*(10.0)*	*0.0*
Year 2	*(8.3)*	*(8.3)*	*(10.0)*	*(16.7)*
Year 3	*0.0*	*0.0*	*(5.0)*	*(8.3)*
Interest	**(1.9)**	**(0.9)**	**(2.9)**	**(3.6)**
Year 1	*(1.8)*	*(0.9)*	*(1.4)*	*(1.8)*
Year 2	*(0.1)*	*(0.1)*	*(1.4)*	*(1.8)*
Year 3	*0.0*	*0.0*	*(0.1)*	*(0.1)*
Total payment	**(26.9)**	**(25.9)**	**(27.9)**	**(28.6)**
Year 1	*(18.4)*	*(17.5)*	*(11.4)*	*(1.8)*
Year 2	*(8.5)*	*(8.4)*	*(11.4)*	*(18.4)*
Year 3	*0.0*	*0.0*	*(5.1)*	*(8.5)*

Source: Company, Indo Premier

Positives are lower NPL and provision; negatives are potentially higher CoF and moral hazard issue

The restructuring may allow banks to delay the downgrade (NPL recognition) and thus provision booking. At the same time, delay in principal payment for MSME may impact banks' liquidity especially for BRI (as micro and small loans are being amortized similar like mortgage) to as much as 15% of its deposits – less mattered if there is no loan growth. We estimate CoF impact to be around 48-80bp for BRI while 10-18bp for the rest of big 4 (assuming similar initial loan disbursement), though the banks can mitigate the CoF/NIM impact by slashing their new loan disbursement (we estimate that BRI shall have no issue with funding as long as they kept their new loan disbursement below Rp100tr).

Moral hazard can be an issue in the medium term as it will be hard to ensure millions of borrowers to repay back its instalment accordingly (principal and interest which can be 90% higher compared to interest only).

Fig. 4: Simulation of CoF impact – all else equal, we expect BBRI to see the largest impact to FY20F EPS (12-20% impact)

Case 1 (30% of MSME deferring principal payment)	Extra liquidity needed (Rp tr)	FY19 deposits	As % of total deposits	Incremental TD cost (4Q19)	CoF impact (in bp)	NIM impact (in bp)	FY20F net profit
BMRI	21	933	2%	5.70%	11	(11)	-3%
BBRI	88	1,021	9%	6.60%	48	(45)	-12%
BBNI	15	614	2%	5.50%	11	(11)	-4%
BBCA	16	705	2%	4.50%	10	(8)	-2%
Big 4 aggregate	**141**	**3,274**	**4%**	**6.19%**	**22**	**(21)**	**-6%**

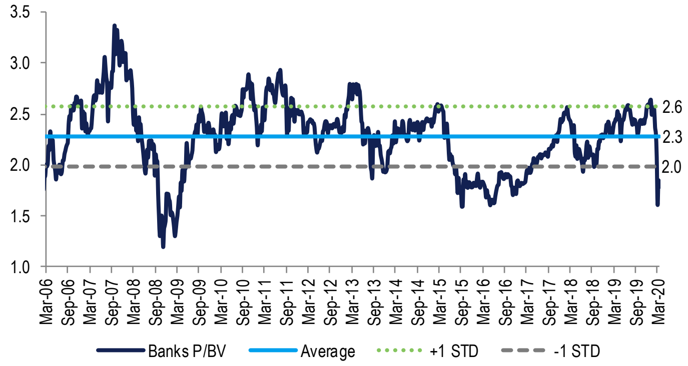
Case 2 (50% of MSME deferring principal payment)	Extra liquidity needed (Rp tr)	FY19 deposits	As % of total deposits	Incremental TD cost (4Q19)	CoF impact (in bp)	NIM impact (in bp)	FY20F net profit
BMRI	35	933	4%	5.70%	15	(18)	-5%
BBRI	147	1,021	14%	6.60%	79	(75)	-20%
BBNI	25	614	4%	5.50%	18	(18)	-6%
BBCA	27	705	4%	4.50%	16	(14)	-3%
Big 4 aggregate	**235**	**3,274**	**7%**	**6.19%**	**37**	**(36)**	**-9%**

Source: Company, Indo Premier

BBCA and BBNI remains as our picks

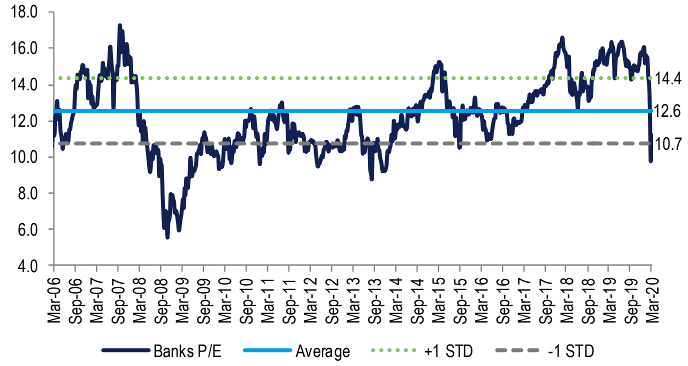
YTD, big 4 banks dropped 29% and now trading at adjusted 1.8x P/B (below its -1STD 10Y mean of 2x P/B). Our picks are BBCA (less earnings risk and probability of national service) and BBNI (attractive risk-reward preposition).

Fig. 5: Banks' sector P/BV – now trading at 1.8x 2020F P/BV vs. 10-year average of 2.3x P/BV



Source: Bloomberg, Company, Indo Premier

Fig. 6: Banks' sector P/E – now trading at 11x 2020F P/E vs. 10-year average of 12.6x P/E



Source: Bloomberg, Company, Indo Premier

Fig. 7: Peer comparison

Ticker	Closing Price	Target Price	P/BV multiple target (x)	Upside	Recommendation	P/E (x)		P/BV (x)	
						2020F	2021F	2020F	2021F
BMRI	5,025	9,000	1.9	79%	Buy	7.5	6.6	1.2	1.1
BBRI	2,890	5,200	2.6	80%	Buy	9.2	8.2	1.6	1.5
BBCA	27,475	34,550	4.0	26%	Hold	21.3	19.1	3.5	3.1
BBNI	4,010	9,000	1.4	124%	Buy	4.2	3.6	0.6	0.6
BBTN	920	2,750	1.3	199%	Buy	3.5	2.5	0.5	0.4

Source: Company, Indo Premier *Share price closing as of: 03 April 2020*

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

ANALYSTS CERTIFICATION

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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