

Sector Index Performance (JAKFIN)

	3M	6M	12M
Absolute	25.4%	-21.8%	-17.8%
Relative to JCI	-0.7%	-0.5%	3.7%



Summary Valuation Metrics

P/E (x)	2020F	2021F	2022F
BBRI IJ	24.2	38.0	12.2
BBCA IJ	39.0	37.0	24.2
BBTN IJ	15.2	33.5	4.2

P/BV (x)	2020F	2021F	2022F
BBRI IJ	2.0	1.9	1.8
BBCA IJ	4.2	3.9	3.4
BBTN IJ	0.8	0.8	0.7

Div. Yield	2020F	2021F	2022F
BBRI IJ	3.6%	1.7%	1.1%
BBCA IJ	1.4%	0.9%	0.9%
BBTN IJ	0.3%	1.3%	0.6%

Positive development but not a silver bullet

- Government just issued a new regulation that allows fund placement by MoF (at low rate) to commercial banks for economic recovery program.
- Earnings impact will be minimal (due to the size of placement), but it may alleviate the concern on potential dilutive MnA for SOE banks.
- This is a positive development but it's not a silver bullet given the sheer size of restructuring. We maintain our Neutral stance for the sector.

Positive new regulation from MoF

Government through MoF just issued a new regulation (PMK no.70) with regards to fund placement by government to commercial banks intended for economic recovery program. This regulation, in our view, is much more simpler and spot-on compared to the previous regulations for economic recovery program i.e. PP no.23 and PMK no.64 – both we deemed too complicated to be implemented and missing the target as it didn't cover banks with liquidity problem i.e. composite health rating less than 2, note that all banks under our coverage falls under composite health rating of 2.

Earnings impact may be negligible from the 1st phase of injection

Today MoF also announced that it will inject Rp30tr to 4 SOE banks (Rp10tr each for BRI and Mandiri, and Rp5tr each for BNI and BTN) with interest rate of 80% of the policy rate (c.3.4%). Despite the attractive rate, earnings impact may be small considering the size of the placement (c.Rp30tr is only 1% of the 4 SOE banks deposit). However we believe this will be the first of multiple injections to commercial banks. This showed government commitment to help banking sector liquidity to kick-start the economic recovery cycle (i.e. additional working capital to restart the business post restructuring).

Risk of dilutive MnA will be greatly reduced

With the issuance of this regulation, we think that the risk of the possibility of dilutive MnA by SOE banks will be greatly reduced; our argument stems from: **1)** during the briefing by MoF, the Finance Minister emphasized that the liquidity injection is intended to be disbursed as a loan to real sector and if possible to MSME and labour intensive sectors – this shall alleviate the concern on loan channelling to troubled banks; **2)** any commercial banks with minimal composite health rating of 3 and majority of the ownership is not owned by foreign entity may be eligible to tap this liquidity, albeit probably in the next phase of injection (note that most of the troubled banks fall under composite health rating of 3). The regulation also stated that this fund is not allowed for either buying government bonds or FX transaction.

A positive development but not a silver bullet; maintain Neutral

This is a very positive development, in our view, but it's not a silver bullet given the sheer size of restructuring. As of May, 4 SOE banks have restructured Rp490tr of loan and assuming that most debtors may need 25-30% additional working capital (from their initial loan size) to restart its business, the 4 SOE banks may need Rp150tr of liquidity, a big gap even if we assume 3 phases of liquidity injection (c.Rp90tr) to only SOE banks, which we think is unlikely. Our FY20-21F numbers for 4 SOE banks are 37-64% below consensus, implying earnings downside risk. The sector is currently trading at 1.5x P/BV ex-BCA (vs. 10Y mean of 1.9x ex-BCA).

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Fig. 1: Total injection for first phase of Rp30tr only forms 1% of the 4 SOE banks' total deposits – earnings impact might be negligible

in Rp tr	Government fund placement	Total deposits (1Q20)	% of total deposits
BMRI	10	941	1.1%
BBRI	10	1,029	1.0%
BBNI	5	636	0.8%
BBTN	5	224	2.2%
Total 4 SOE banks	30	2,830	1.1%

Source: Company, Indo Premier

Fig. 2: Assuming working capital needs at 30% of restructured loans, we estimate a total need of c.Rp150tr, quite a big gap even we assume 3 phases of liquidity injection

In Rp tr	1Q20 gross loans	Restructuring as of May	As of 1Q20 loans	Working capital requirement (% of restructured)	Working capital requirement (in Rp tr)
BMRI	903	123	14%	30%	37
BBRI	931	160	17%	30%	48
BBNI	545	99	18%	30%	30
BBTN	253	26	10%	30%	8
Aggregate	3,245	490	15%	30%	147

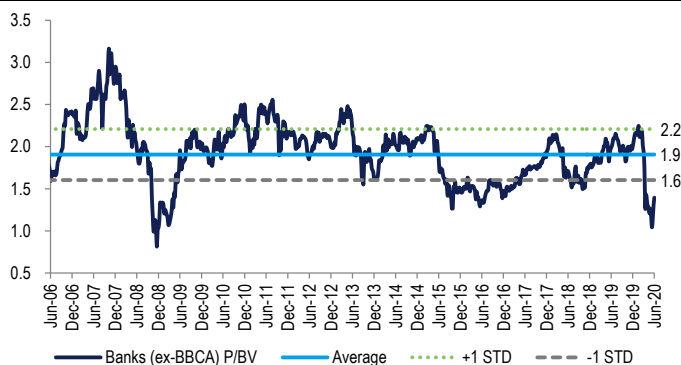
Source: Company, Indo Premier

Fig. 3: Our FY20-21F net profit numbers are 37-64% below consensus, implying further earnings downside

in Rp bn	IPS			Consensus			IPS vs. consensus		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
BMRI	9,251	9,882	25,049	15,665	23,496	30,853	59%	42%	81%
BBRI	15,886	10,115	31,541	23,383	32,832	40,080	68%	31%	79%
BBNI	3,314	4,473	14,758	6,638	11,859	16,404	50%	38%	90%
BBTN	845	383	3,061	923	1,790	2,516	92%	21%	122%
Total	29,296	24,853	74,409	46,609	69,977	89,853	63%	36%	83%

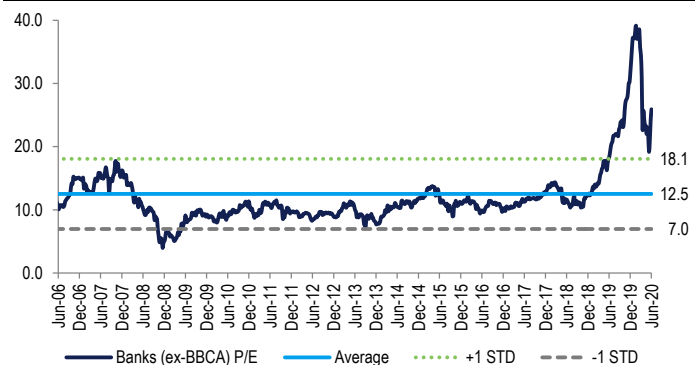
Source: Bloomberg, Company, Indo Premier

Fig. 4: Bank sector forward P/BV (ex-BBCA) – now trading at 1.5x P/BV vs. 10-year average of 1.9x P/BV



Source: Bloomberg, Company, Indo Premier

Fig. 5: Bank sector forward P/E (ex-BBCA) – now trading at 25.1x P/E vs. 10-year average of 12.5x P/E



Source: Bloomberg, Company, Indo Premier

Fig. 6: 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	5,150	5,100	1.3	-1%	Hold	26.0	24.3	1.3	1.3
BBRI	3,120	2,700	1.7	-13%	Hold	24.2	38.0	2.0	1.9
BBCA	28,525	26,000	3.4	-9%	Hold	39.0	37.0	4.2	3.9
BBNI	4,740	3,900	0.7	-18%	Hold	26.7	19.8	0.8	0.8
BBTN	1,215	1,200	0.8	-1%	Buy	15.2	33.5	0.8	0.8

Source: Bloomberg, Company, Indo Premier

Share price closing as of: 24 June 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

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