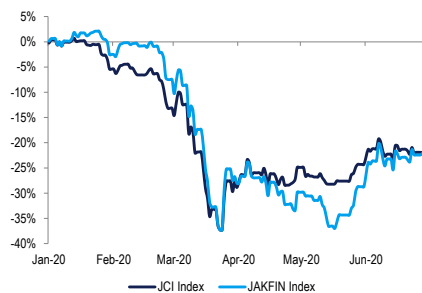


Sector Update | 30 June 2020

Sector Index Performance (JAKFIN)

	3M	6M	12M
Absolute	8.2%	-21.8%	-19.1%
Relative to JCI	-2.9%	0.3%	4.0%



Summary Valuation Metrics

P/E (x)	2020F	2021F	2022F
BBRI IJ	23.5	37.0	11.8
BBCA IJ	38.9	37.0	24.2
BBTN IJ	15.6	34.4	4.3
P/BV (x)	2020F	2021F	2022F
BBRI IJ	1.9	1.9	1.8
BBCA IJ	4.1	3.9	3.4
BBTN IJ	0.8	0.8	0.7
Div. Yield	2020F	2021F	2022F
BBRI IJ	3.7%	1.7%	1.1%
BBCA IJ	1.4%	0.9%	0.9%
BBTN IJ	0.3%	1.3%	1.7%

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All you need to know on PMK71, a potential game changer for MSME

- Just couple of days after PMK70, government issued PMK71 last Friday which shed some clarity on the insurance scheme for new disbursement.
- It shall covers 80% of new working capital loan disbursement for MSME (20% is still being borne by the bank). Premium is paid by government.
- Equity injection for insurers shall expand its guarantee capability. Loss limit program will also limit insurers' downside. All in all it's a positive.

New PMK71 on the insurance for new MSME loan disbursement

Government through Ministry of Finance (MoF) just issued a new regulation (PMK71) on the loan guarantee scheme (insurance) for new working capital disbursement for MSME (micro and SME) segment. According to this regulation MSME is classified as loan with maximum limit of Rp10bn. This was issued couple of days post PMK70 (government fund placement to commercial banks – [refer to our previous note](#)).

MSME accounts for 45-50% of total system restructuring

As of mid-Jun, total restructuring in the banking system reached Rp656tr with MSME accounts for Rp299tr (46% of total) and non-MSME accounts for Rp357tr (54% of total). For banks under our coverage (the SOEs), 74% of the restructuring are still on the MSME side i.e. BBRI's MSME accounts for 100% of its restructuring, BBTN at 90%, BBNI at 71%, and BMRI at 41%.

Support from the Government to both the banks and the insurers

The insurance shall cover 80% of the credit risk for the new loan that is being disbursed (the bank still borne the remainder of 20% credit risk to mitigate moral hazard). At the same time, the insurance premium shall be fully paid by government. For insurers, government will inject additional Rp6tr to both Askrindo and Jamkrindo (split equally) or 30% to their existing capital.

What will be the capacity of the insurers?

We looked into both Askrindo and Jamkrindo financial statement to analyse their capacity, as of 2018 (the last FS that was being published) Jamkrindo still has Rp113tr credit guarantee capacity (for productive loan) and Rp257tr (for total loan) but no details on Askrindo. For productive loan, insurers are allowed to have 20x gearing ratio (vs. their equity) and up to 40x for overall loan (including productive loan). Hence taking into account the new capital injection, both Askrindo and Jamkrindo can insure up to Rp540tr of loan (20x of Rp27tr); we estimated that currently Askrindo and Jamkrindo have guaranteed c.Rp250-300tr of loan and hence leaving them with Rp240-290tr capacity, which shall be enough in our view assuming the restructuring has peaking (80% of current MSME restructuring of Rp300tr is Rp240tr).

Loss limit program is positive for insurers; this may be a game changer

On top of the capital injection, the government also provide a loss limit program for the insurers i.e. government will bear the additional risk when the claim > premium being paid to insurers (figure 5). Risk on the government side will be insured again through IndonesiaRe (another SOE insurance company). Overall this regulation may be a game changer for MSME and clearly showed government's commitment to support the banks. We maintain our Neutral stance due to risk on earnings downgrade (especially for FY21). The sector now trades at 1.4x P/BV ex-BBCA (vs. 10Y avg of 1.9x ex-BBCA). Our pecking order is: BBTN, BBRI, BBCA, BBNI then BMRI.

New PMK 71 for insurance on MSME disbursement

Government through Ministry of Finance (MoF) just issued a new regulation (PMK71) on the guarantee scheme (insurance) for new working capital disbursement for MSME (micro and SME) segment. According to this regulation MSME is classified as loan with maximum limit of Rp10bn. This was issued couple of days post PMK70 (government fund placement to commercial banks – [refer to our previous note](#)).

As of mid-Jun, total restructuring in the banking system reached Rp656tr with MSME accounts for Rp299tr (46% of total) and non-MSME accounts for Rp357tr (54% of total). For banks under our coverage (the SOEs), most of the restructuring still on the MSME side i.e. BBRI's MSME accounts for 100% of its restructuring, BBNI at 71%, BMRI at 41%, and BBTN at 90%.

Fig. 1: Breakdown of restructuring as of early Jun – 74% of restructured loans for banks under our coverage have been catered to the MSME segment

Restructuring summary (Rp tr)	Restructured loans			Loan balance			As % of total loans			as % of total restructuring		
	MSME	Non MSME	Total	MSME	Non MSME	Total	MSME	Non MSME	Total	MSME	Non MSME	Total
BMRI	50	73	123	390	513	903	13%	14%	14%	41%	59%	100%
BBRI	160	0	160	681	203	884	23%	0%	18%	100%	0%	100%
BBNI	70	29	99	314	266	580	22%	11%	17%	71%	29%	100%
BBTN	23	3	26	234	20	253	10%	13%	10%	90%	10%	100%
Aggregate SOE banks	304	104	408	1,618	1,002	2,620	19%	10%	16%	74%	26%	100%

Source: Company, Indo Premier

Support from government to both banks and insurers – what will be the capacity?

The insurance shall cover 80% of the credit risk for the new loan that is being disbursed (the bank still borne the remainder of 20% credit risk to mitigate moral hazard). At the same time, the insurance premium shall be fully paid by government. For insurers, government will inject additional Rp6tr to both Askrindo and Jamkrindo (split equally) or 30% to their existing capital

We looked into both Askrindo and Jamkrindo financial statement to analyse their capacity; as of 2018 (the last FS that was being published) Jamkrindo still has Rp113tr credit guarantee capacity (for productive loan) and Rp257tr (for total loan) but no details on Askrindo. Note that the maximum gearing ratio (i.e. loan guaranteed / total equity) the insurers are allowed to have are 20x for productive loan and up to 40x for overall loan (including productive).

Fig. 2: Summary of Jamkrindo's capacity – before additional capital injection, Jamkrindo still have room to guarantee another Rp113tr of productive loans (based on 2018 financial statement)

Simulation on Jamkrindo's guarantee capacity	
Current productive gearing ratio (from FS)	10
Max productive gearing ratio (from FS)	20
Remaining productive loan guarantee capacity (Rp tr - from FS)	113
Total gearing ratio (from FS)	17
Max total gearing ratio (from FS)	40
Remaining total loan guarantee capacity (Rp tr - from FS)	258

Source: Company, Indo Premier

Hence, taking into account the new capital injection, both Askrindo and Jamkrindo can insure up to Rp540tr of loan (Rp27tr multiplied by 20x); we estimated that currently Askrindo and Jamkrindo have guaranteed c.Rp250-300tr of loan and hence leaving them with Rp240-290tr capacity, which shall be enough in our view assuming the restructuring has peaking (80% of current MSME restructuring of Rp300tr is Rp240tr).

We also note that Jamkrindo's total claim ratio (calculated as claim expenses / gross premium) stood at 90%, while KUR's claim ratio stood at 74%, while Askrindo's KUR/total claim ratios were at 47%/66% respectively. Despite a relatively high claim ratio, the written premiums from KUR have always been enough to cover the annual claim expenses.

As a % of total loans, KUR claim expenses form 1.3% of the total KUR outstanding insured as of 2018.

Fig. 3: Simulation of Jamkrindo/Askrindo's capacity – after taking into account additional capital injection, total capacity is Rp540tr

Simulation of Jamkrindo/Askrindo capacity	Jamkrindo	Askrindo	Total
Equity (Rp tr, as of 2018)	11	10	21
Capital injection (Rp tr)	3	3	6
Equity after injection (Rp tr)	14	13	27
Maximum gearing ratio (x)	20	20	20
Loan guarantee capacity (Rp tr)	286	257	543

Source: Company, Indo Premier

Fig. 4: Summary of Jamkrindo and Askrindo's premium and claim expenses

As of 2018 (Rp bn)	Jamkrindo	Askrindo
Gross written premium - KUR	745	1,688
Gross written premium - total	1,678	10,173
Claim expenses - KUR	670	1,120
Claim expenses - total	1,237	4,740
KUR claim expenses as % of gross premium	74%	47%
Total claim expenses as % of gross premium	90%	66%

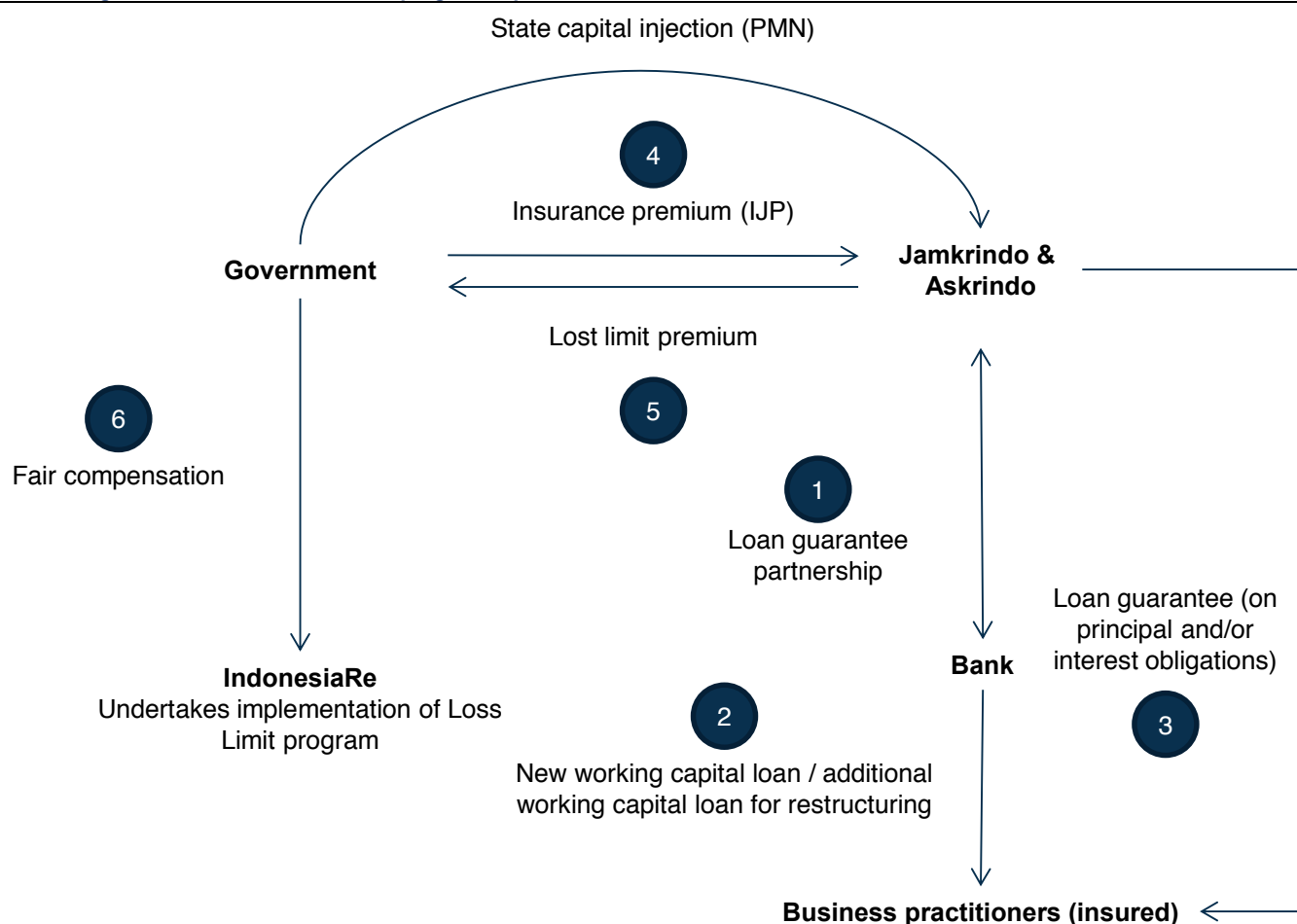
Source: Company, Indo Premier

Loss limit program is positive for insurers; this may be a game changer

On top of the capital injection, the government also provide a loss limit program for the insurers i.e. government will bear the additional risk when the claim > premium being paid to insurers (figure 5). Risk on the government side will be insured again through IndonesiaRe (another SOE insurance company).

Overall this regulation may be a game changer for MSME and clearly showed government's commitment to support the banks. We maintain our Neutral stance due to risk on earnings downgrade (especially for FY21). The sector now trades at 1.4x P/BV ex-BBCA (vs. 10Y avg of 1.9x P/BV ex-BBCA). Our pecking order is: BBTN, BBRI, BBKA, BBNI then BMRI.

Fig. 5: Loan guarantee scheme – loss limit program is positive for insurers



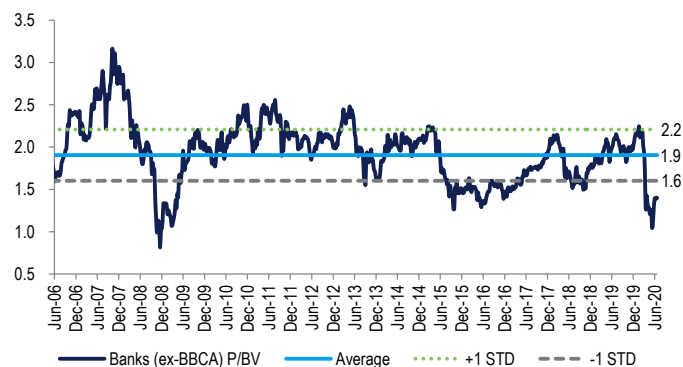
Source: Company, Indo Premier

Fig. 6: Our FY20-21F net profit numbers are 32-56% below consensus, implying further earnings downside

	IPS			Consensus			IPS vs. consensus		
Rp bn	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%
BBCA	18,028	18,984	29,048	22,799	29,320	35,168	79%	65%	83%
BBTN	845	383	3,061	923	1,790	2,516	92%	21%	122%
Total	47,324	43,837	103,457	69,408	99,297	125,021	68%	44%	83%

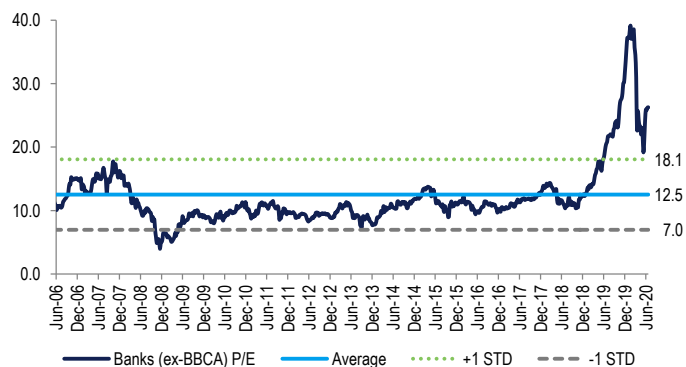
Source: Bloomberg, Company, Indo Premier

Fig. 7: Bank sector forward P/BV (ex-BBCA) – now trading at 1.4x P/BV vs. 10-year average of 1.9x P/BV



Source: Bloomberg, Company, Indo Premier

Fig. 8: Bank sector forward P/E (ex-BBCA) – now trading at 24.3x P/E vs. 10-year average of 12.5x P/E



Source: Bloomberg, Company, Indo Premier

Fig. 9: 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	4,950	5,100	1.3	3%	Hold	25.0	23.4	1.2	1.2
BBRI	3,030	2,700	1.7	-11%	Hold	23.5	37.0	1.9	1.9
BBCA	28,475	26,000	3.4	-9%	Hold	38.9	37.0	4.1	3.9
BBNI	4,580	3,900	0.7	-15%	Hold	25.8	19.1	0.8	0.8
BBTN	1,245	1,200	0.8	-4%	Buy	15.6	34.4	0.8	0.8

Source: Bloomberg, Company, Indo Premier

Share price closing as of: 30 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

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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