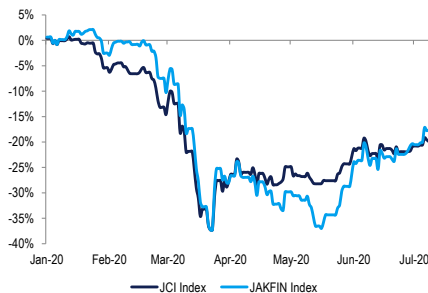


Sector Index Performance (JAKFIN)

	3M	6M	12M
Absolute	12.8%	-17.7%	-15.8%
Relative to JCI	4.5%	2.1%	5.8%



Summary Valuation Metrics

P/E (x)	2020F	2021F	2022F
BBRI IJ	24.1	37.9	12.2
BBCA IJ	42.4	40.3	26.3
BBTN IJ	16.2	12.1	4.5

P/BV (x)	2020F	2021F	2022F
BBRI IJ	2.0	1.9	1.8
BBCA IJ	4.5	4.2	3.7
BBTN IJ	0.8	0.8	0.7

Div. Yield	2020F	2021F	2022F
BBRI IJ	3.5%	1.6%	1.0%
BBCA IJ	1.4%	0.9%	0.9%
BBTN IJ	0.3%	1.4%	0.6%

PP33 summary: wider capability for LPS, lower risk for dilutive MnA

- Government just issued PP33 which expand the capability of LPS to prevent a bank's failure during this Covid pandemic.
- This regulation allows LPS to give liquidity injection to troubled bank with maximum of 2.5% of its asset/bank (c.Rp3tr) or 30% for overall (Rp36tr).
- This is positive as LPS previous responsibility only covers failing bank and deposit guarantee. It also shall reduce the risk of dilutive MnA.

PP33: wider capability of LPS to prevent failing bank

To our surprise, government yesterday issued government regulation (PP33) to expand the capability of LPS (Indonesia's Deposit Insurance Agency) by allowing LPS to step-in before a bank is being designated as a failing bank (note that before a fail bank category, OJK i.e. FSA needs to put the bank under intensive supervision and then special supervision). Previously LPS capability only allowed them to step-in after OJK labelled the bank as a fail bank and also deposit guarantee.

What's new? Allowing LPS to inject liquidity to troubled bank

With this regulation, LPS is allowed to give liquidity injection to troubled bank (bank under intensive supervision and/or bank under special supervision) with the amount of 2.5% from LPS asset/bank (or Rp3tr) or 30% for overall (or Rp36tr). The tenor will be one month and can be extended up to 5x (i.e. 6 months). Post the placement, OJK and BI will do a heightened supervision to those banks that received the fund placement as regulated in article 11 point 6. Shall LPS needs more liquidity due to this placement, the regulation also allows them to: 1) do repo with BI, 2) selling its government bond to BI i.e. LPS has Rp115tr worth of government bond currently, 3) issuing bonds, 4) borrowing to other party and/or government. On top of liquidity injection, this regulation also allows LPS to set up a bridge bank to help the troubled bank.

What will be the implication? Lower risk of dilutive MnA

Based on the news flow, there are multiple banks that under OJK intensive supervision but so far only Bukopin that seems urgent and pressing. This was largely due to liquidity issue and was exacerbated by restructuring from Covid pandemic. However with Kookmin commitment to become the majority shareholder, we believe that it may not need LPS support in the medium term. That being said, along with PMK70 (link to our note [here](#)), this PP33 shall greatly reduce the risk of national service/dilutive MnA by SOE banks as previously there is no regulation that allows regulator (i.e. LPS) to step-in to help troubled banks (before designated as fail bank by OJK).

Restructuring and regulation development have been quite encouraging; we maintain our Neutral call for now

Restructuring seems to have peaked in May and all banks under our coverage posted deceleration of restructuring in Jun. Series of positive regulations from the government (i.e. PMK65, 70, 71 along with this PP33) shall give confidence to investors that government is doing all they could to prevent the collapse of banking system without sacrificing the SOEs. Despite the aforementioned factors, we maintain our Neutral call for banks with our preference lies with BBTN and BBRI (due to MSME exposure). The sector now trades at 1.5x P/BV ex-BCA (vs.10Y average of 1.9x P/BV ex-BCA). Main risk is earnings downgrade for FY21 (our FY21 numbers are 55% below consensus).

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Fig. 1: LPS balance sheet

Balance sheet (Rp bn)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Cash	184	248	533	9,338	2,895
Premium receivables	185	193	226	213	241
Investment receivables	1,112	1,445	1,607	1,683	1,978
Investment in securities	58,864	71,126	84,599	91,186	114,533
Other assets	728	1,083	1,038	300	934
Total assets	61,072	74,096	88,003	102,720	120,581
Insurance claim payables	6	11	25	16	24
Provision for insurance losses	0	0	0	0	0
Long term employment and post employment benefit liabilities	69	95	127	124	167
Tax payables	401	301	342	359	455
Other liabilities	40	38	45	101	105
Total liabilities	515	445	538	600	751
Total equity	60,556	73,650	87,465	102,119	119,830
Total liabilities and equity	61,072	74,096	88,003	102,720	120,581

Source: LPS, Indo Premier

Fig. 2: LPS' liquidity injection to troubled banks is capped at 2.5% of total assets (Rp3tr) per bank, or 30% of total assets (Rp36tr) for overall

Limit on LPS liquidity injection to troubled banks	
LPS total assets (Dec19) - Rp tr	121
Total max placement to banks (% of total assets)	30%
Total max placement to banks (Rp tr)	36.2
Maximum placement with a single bank (% of total assets)	2.5%
Maximum placement with a single bank (Rp tr)	3.0

Source: LPS, Indo Premier

Fig. 3: LPS investment securities breakdown

LPS securities investment breakdown (Rp bn)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Government bonds (FR)	44,704	53,109	62,760	68,897	86,451
Sharia government bonds (FR)	7,054	10,098	16,976	19,533	27,046
ORI	1,342	2,067	1,775	903	421
ORI Sharia	2,163	3,505	3,088	1,853	615
Treasury bills (SPN)	3,600	2,348	0	0	0
Total investments in securities	58,864	71,126	84,599	91,186	114,533

Source: LPS, Indo Premier

Fig. 4: LPS cash breakdown

LPS cash breakdown (Rp bn)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Cash and equivalents for operations	157	124	93	357	328
BBRI	156	124	93	155	182
BMRI	0	0	0	101	42
BBNI	0	0	0	101	104
Cash in rupiah	1	0	0	0	0
Cash and equivalents for premium revenues	0.1	1.0	8.3	0.1	0.4
Bank Indonesia	0.0	0.9	0.7	0.0	0.0
BBRI	0.0	0.0	7.5	0.0	0.3
BBRI	0.1	0.1	0.1	0.1	0.1
Cash and equivalents for investment management	22	112	422	8,967	2,544
BBNI	21	30	131	2,711	1,088
BMRI	0	16	91	1,961	599
BBRI	1	66	200	4,294	857
Cash for claim payment	6	11	10	14	22
BBRI	6	11	10	14	22
Total cash	185	248	533	9,338	2,895

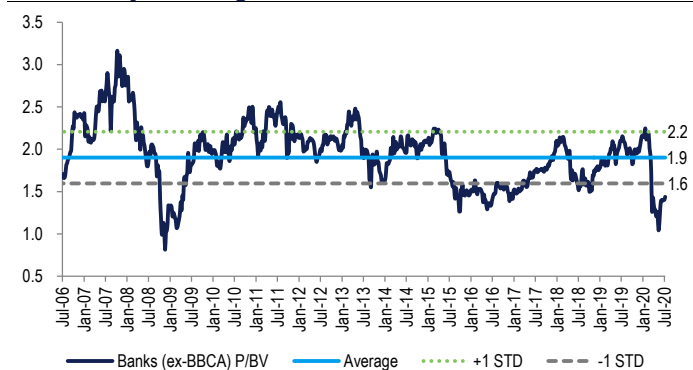
Source: LPS, Indo Premier

Fig. 5: Our FY20-21F net profit estimates are still 30-55% below consensus

Rp bn	IPS			Consensus			IPS vs. consensus		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
BMRI	9,251	9,882	25,049	15,512	23,291	30,334	60%	42%	83%
BBRI	15,886	10,115	31,541	22,942	32,428	39,684	69%	31%	79%
BBNI	3,314	4,473	14,758	6,215	11,600	16,250	53%	39%	91%
BBCA	18,028	18,984	29,048	22,438	28,979	34,801	80%	66%	83%
BBTN	845	1,131	3,045	925	1,769	2,461	91%	64%	124%
Total	47,324	44,585	103,441	68,032	98,067	123,530	70%	45%	84%

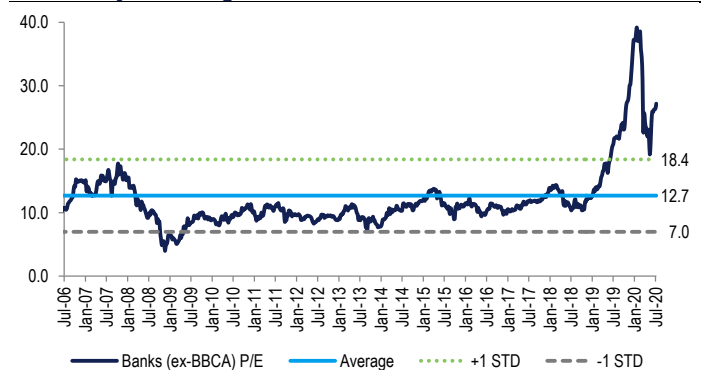
Source: Bloomberg, Company, Indo Premier

Fig. 6: Banks (ex-BBCA)'s sector P/BV – now trading at 1.45x 2020F P/BV vs. 10-year average of 1.9x P/BV



Source: Bloomberg, Company, Indo Premier

Fig. 7: Banks (ex-BBCA)'s sector P/E – now trading at 25x 2020F P/E vs. 10-year average of 12.7x P/E



Source: Bloomberg, Company, Indo Premier

Fig. 8: 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	5,175	5,100	1.3	-1%	Hold	26.1	24.4	1.3	1.3
BBRI	3,110	2,700	1.7	-13%	Hold	24.1	37.9	2.0	1.9
BBCA	31,000	26,000	3.4	-16%	Hold	42.4	40.3	4.5	4.2
BBNI	4,670	3,900	0.7	-16%	Hold	26.3	19.5	0.8	0.8
BBTN	1,295	1,500	0.9	16%	Buy	16.2	12.1	0.8	0.8

Source: Bloomberg, Company, Indo Premier

Share price closing as of: 10 July 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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