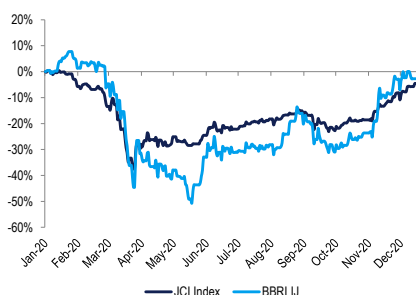


Stock Data

Target price	Rp4,800
Prior TP	Rp4,800
Current price	Rp4,280
Upside/downside	+12%
Shares outstanding (mn)	123,346
Market cap (Rp bn)	527,920
Free float	43%
Avg. 6m daily T/O (Rp bn)	614

Price Performance

	3M	6M	12M
Absolute	24.4%	47.6%	-1.2%
Relative to JCI	8.0%	22.8%	2.1%
52w low/high (Rp)	2,170 – 4,740		



Major Shareholders

Republic of Indonesia	57%
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Upcoming acquisition for Pegadaian and PNM shall be accretive for BRI

- Based on the media, BRI is planning to acquire both Pegadaian and PNM next year. Our channel check suggests it will be in 1Q21.
- We think the most sensible scheme will be a rights issue (on BRI level), though details on valuation and price of the rights issue remain limited.
- Even under the scenario of similar valuation to BRI (2.3-2.4x), the MnA will be accretive amidst Pegadaian high profitability. Maintain Buy.

MnA of Pegadaian and PNM

Based on the news source, BRI shall be acquiring both Pegadaian and PNM which expected to be done in 1Q21. The idea behind this is to create the biggest micro lender in the country as: 1) PNM currently handling the ultra-micro customer (<Rp20mn loan size which is not bankable under KUR scheme) and 2) either ultra-micro (from PNM) or KUR loan typically are unsecured and thus, Pegadaian able to offer differentiated product i.e. micro loan with collateral/pawn loan (typically gold) – currently Pegadaian loan size at around Rp3.5mn/customer, complementing BRI’s micro product offering.

Pegadaian is an extremely profitable company

Based on its 9M20 financial statement, Pegadaian booked a 14% yoy growth in PPOP (but 24% yoy drop in profit due to rising provision) which is amazing considering the current state of the pandemic. It generated consistently above 5% ROA in the last 3 years (vs. BRI’s 2.5-2.7% in the last 3 years) due to its high NIM (22-23%). However, its ROE was at mid-teens (14-15%) from low leverage (<3x vs. banks’ 5-7x). We think the acquisition by BRI shall improve its profitability even further from: 1) lower CoF (current Pegadaian’s CoF stood at 7-8% vs. BRI’s 3.4-3.6%) and 2) better efficiency especially in terms of opex i.e. branch, IT system, manpower (CIR stood at c. 70% vs. BRI’s 49%).

Limited details on valuation and the scheme

Currently there are limited details on the valuation and scheme. We think rights issue shall be the most feasible option (on BRI level) to acquire both Pegadaian and PNM. Even at par valuation with BRI (2.3-2.4x), we think this MnA shall be accretive in terms of: 1) earnings (Pegadaian and PNM shall add c.9% to BRI earnings under normal times and without any synergy), 2) bigger MSCI weight adjustment (if we use avg 90 days price of Rp3,560 as the rights issue price and 2.4x valuation shall add Rp82tr to BRI market cap).

This MnA may propel BRI valuation beyond its long term average

This MnA (shall it goes through) shall solidify BRI position as market leader in the micro lending and may justify a premium valuation over its long term/LT average (it currently trades at its LT average of 2.4x). Risk is asset quality.

Financial Summary (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net interest income	77,437	80,642	74,252	81,252	90,507
Non-interest income	24,600	30,515	29,441	32,229	35,426
Total revenue	102,037	111,157	103,694	113,481	125,933
PPOP	60,044	66,191	54,172	59,227	66,585
Provision charges	(18,321)	(22,760)	(28,979)	(25,248)	(24,334)
Net profit	32,348	34,372	18,886	25,448	34,838
Net profit growth	12%	6%	-45%	35%	37%
FD EPS (Rp)	262	279	153	206	282
P/BV (x)	2.8	2.5	2.7	2.4	2.2
Dividend yield	2.5%	2.5%	2.6%	1.4%	1.9%
ROAE	18.3%	17.5%	9.3%	12.3%	15.2%
IPS vs. consensus			97%	83%	88%

Source: Company, Indo Premier

Share price closing as of: 15 December 2020

Fig. 1: Summary of Pegadaian financials

Pegadaian income statement (Rp bn)	2016	2017	2018	2019	9M20	9M19	yoy%
Interest and administration revenues	9,581	10,354	11,205	12,949	10,740	9,453	14%
Interest and profit sharing expenses	(2,512)	(2,524)	(2,252)	(2,648)	(2,306)	(1,909)	21%
Net interest income	7,070	7,829	8,954	10,301	8,433	7,544	12%
Revenue from gold sold			1,350	4,505	5,174	3,054	69%
Other operating revenues	127	169	193	240	196	177	11%
Non interest income	127	169	1,543	4,745	5,371	3,230	66%
Total income	7,196	7,999	10,496	15,046	13,804	10,774	28%
Cost of revenue from gold sold			(1,284)	(4,333)	(4,939)	(2,938)	68%
Employee expenses	(2,527)	(2,700)	(3,020)	(3,784)	(3,034)	(2,644)	15%
G&A expenses	(1,376)	(1,693)	(2,209)	(2,396)	(2,073)	(1,874)	11%
Marketing expenses	(217)	(255)	(185)	(170)	(72)	(89)	-19%
Total opex	(4,121)	(4,648)	(6,697)	(10,683)	(10,118)	(7,544)	34%
PPOP	3,075	3,350	3,799	4,363	3,686	3,230	14%
Provision expenses	(75)	(12)	(164)	(154)	(1,383)	(56)	2358%
Other income	(3)	79	29	22	62	3	2007%
Profit before tax	2,997	3,417	3,663	4,231	2,365	3,177	-26%
Income tax expenses	(787)	(904)	(888)	(1,123)	(582)	(830)	-30%
Minority interests	(0)	(0)	(0)	(1)	(0)	(0)	-98%
Net income	2,210	2,513	2,775	3,107	1,784	2,347	-24%

Pegadaian key ratios	2016	2017	2018	2019	9M20	9M19	yoy bp
Asset yield	27.0%	28.6%	28.8%	28.4%	27.2%	26.0%	117
Cost of fund	8.9%	9.0%	7.9%	7.9%	7.8%	7.1%	75
NIM	19.9%	21.6%	23.0%	22.6%	21.4%	20.8%	59
Cost to income	57.3%	58.1%	63.8%	71.0%	73.3%	70.0%	328
Credit costs	0.2%	0.0%	0.4%	0.3%	3.5%	0.2%	335
ROA	4.7%	5.3%	5.5%	5.3%	3.5%	5.0%	(155)
ROE	13.4%	14.5%	14.5%	14.4%	10.0%	14.2%	(417)
Balance sheet leverage	2.8	2.7	2.6	2.8	2.9	2.8	4%

Source: Company, Indo Premier

Fig. 2: Summary of PNM financials

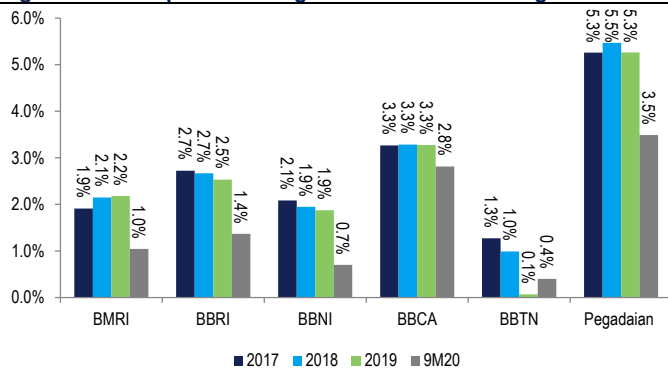
PNM income statement (Rp bn)	2016	2017	2018	2019	9M20	9M19	yoy%
Interest and sharia income	1,292	2,041	3,140	4,924	3,807	3,401	12%
Interest and sharia expenses	(402)	(672)	(990)	(1,595)	(1,300)	(1,074)	21%
Net interest and sharia income	890	1,368	2,150	3,329	2,508	2,327	8%
Management consulting services	7	11	7	9	0	0	188%
Java reconstruction fund	4	4	4	3	2	2	-29%
Revenue from investment management	37	58	54	62	41	45	-8%
Interest on CA, dividend, TD	44	24	22	58	95	53	79%
Realized gain on sale of securities	2	0	29	98	11	1	1345%
Gain on sale of fixed assets	9	0	0	0	0	0	21%
Share of net profit/loss of associates	0	(0)	0	0	0	0	-100%
Non-interest income	103	96	116	230	149	101	47%
Total income	993	1,465	2,266	3,559	2,657	2,428	9%
Opex	(972)	(1,479)	(2,149)	(3,048)	(2,510)	(2,132)	18%
PPOP	21	(14)	118	511	147	296	-50%
Provision expenses	(23)	(14)	(29)	(226)	(60)	(94)	-36%
Profit before tax	(2)	(28)	89	285	87	202	-57%
Other items *	92	98	10	1,006	135	925	-85%
Tax expenses	(13)	(33)	(31)	(314)	(46)	(295)	-84%
Minority interests	(1)	(1)	(2)	(4)	(2)	(3)	-31%
Net income	76	35	66	973	173	829	-79%

*Other income in 2019: penerimaan Hibah Dana Pengembangan dan Pemberdayaan Masyarakat Guna Pengembangan UMKM, amounting Rp920bn

PNM key ratios	2016	2017	2018	2019	9M20	9M19	yoy bp
Asset yield	20.9%	27.9%	27.7%	28.4%	24.2%	28.4%	(424)
Cost of fund	7.9%	9.8%	8.4%	8.9%	8.4%	8.7%	(26)
NIM	14.4%	18.7%	19.0%	19.2%	15.9%	19.4%	(352)
Cost to income	97.9%	101.0%	94.8%	85.6%	94.5%	87.8%	665
Credit costs	0.9%	0.2%	0.3%	1.4%	0.4%	0.8%	(43)
ROA	1.0%	0.4%	0.4%	4.4%	0.9%	4.6%	(371)
ROE	4.2%	2.0%	3.6%	40.9%	6.7%	47.9%	(4,115)
Balance sheet leverage	4.3	6.3	9.5	9.1	6.6	8.5	-22%

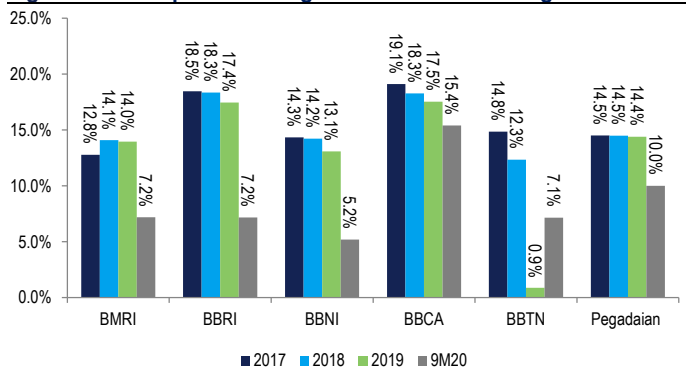
Source: Company, Indo Premier

Fig. 3: ROA comparison of big banks + BBTN and Pegadaian



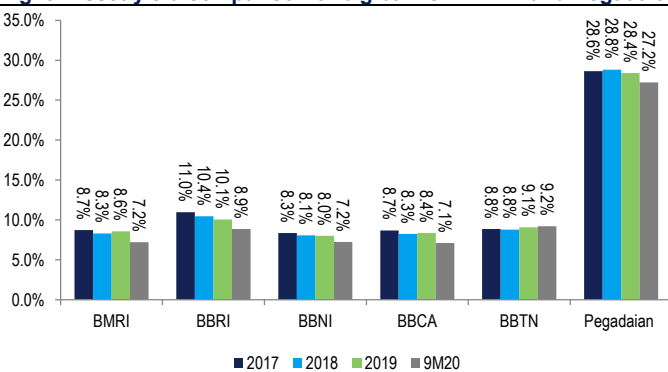
Source: Bloomberg, Company, Indo Premier

Fig. 4: ROE comparison of big banks + BBTN and Pegadaian



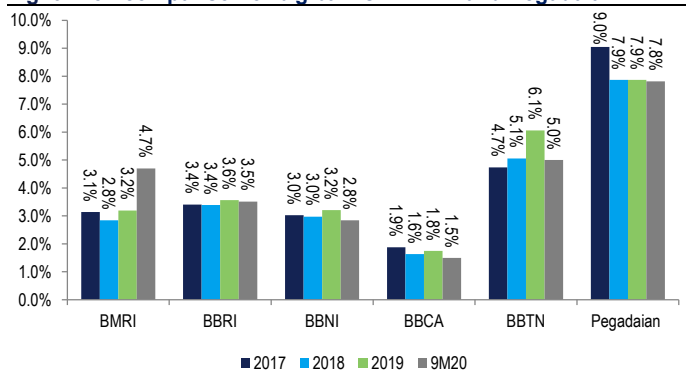
Source: Bloomberg, Company, Indo Premier,

Fig. 5: Asset yield comparison of big banks + BBTN and Pegadaian



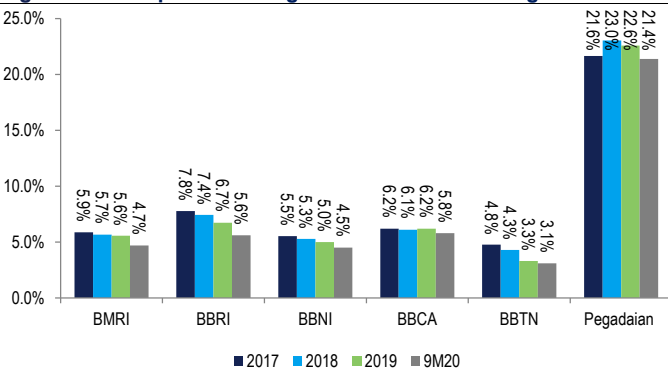
Source: Bloomberg, Company, Indo Premier

Fig. 6: CoF comparison of big banks + BBTN and Pegadaian



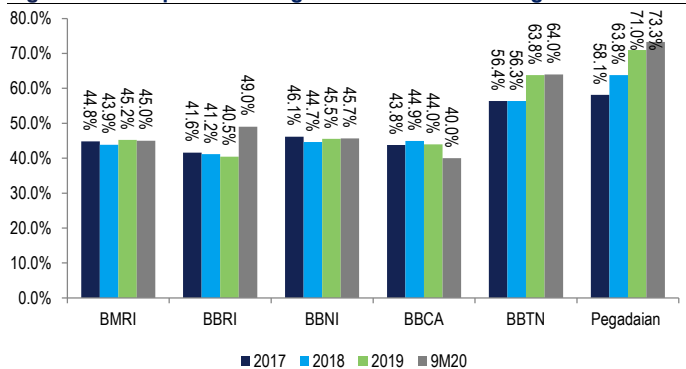
Source: Bloomberg, Company, Indo Premier,

Fig. 7: NIM comparison of big banks + BBTN and Pegadaian



Source: Bloomberg, Company, Indo Premier

Fig. 8: CIR comparison of big banks + BBTN and Pegadaian



Source: Bloomberg, Company, Indo Premier,

Fig. 9: Simulation of Pegadaian/PNM acquisition using right issue at BBRI level – assuming target valuation of 2.4x P/BV and right issue at Rp3,560 (90-days trading average), we estimate that the transaction will increase BBRI's market cap by Rp82tr (16% of current market cap)

Pegadaian and PNM acquisition simulation	Book value (Rp bn)	Target P/BV multiple (x)	Target valuation (Rp bn)	BBRI average 90 days share price (Rp/sh)	No of BBRI shares to be issued (in bn shares)
Pegadaian	24,468	2.4	58,723	3,560	16.5
PNM	3,991	2.4	9,578	3,560	2.7
Total	28,459	2.4	68,302		19.2

No of new BBRI shares to be issued (bn shares)	19.2
Current BBRI share price (Rp/sh)	4,280
Additional market cap for BBRI (Rp tr)	82
Additional market cap as % of current	16%

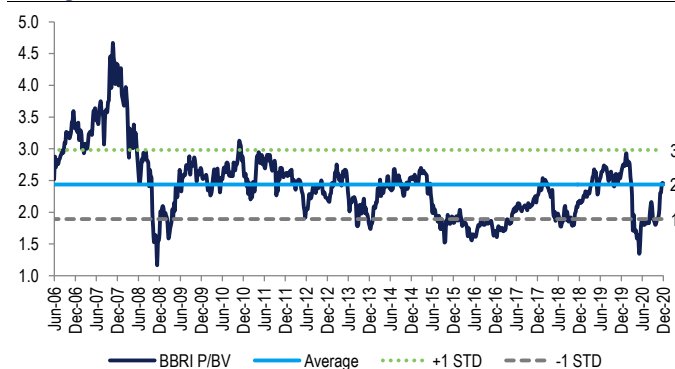
Net profit breakdown	FY19	FY20F *
Pegadaian	3,107	2,378
PNM **	53	230
Pegadaian + PNM total	3,160	2,608
BBRI	34,372	18,886
Pegadaian + PNM as % of BBRI	9%	14%

*based on 9M20 annualized for Pegadaian/PNM, using IPS estimate for BBRI

**using core profit for PNM's FY19F net profit

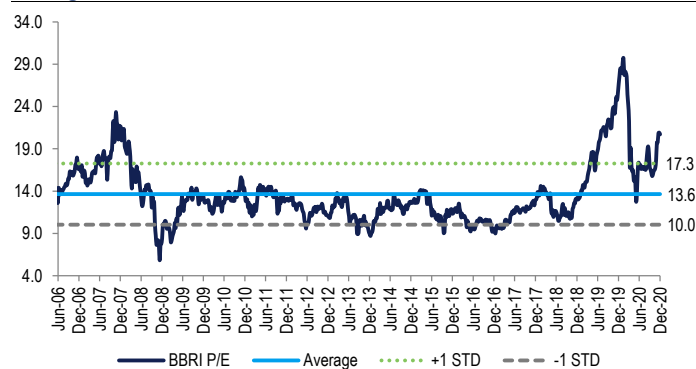
Source: Company, Indo Premier

Fig. 10: BBRI's P/BV – now trading at 2.4x 2021F P/BV vs. long-term average of 2.4x P/BV



Source: Bloomberg, Indo Premier

Fig. 11: BBRI's P/E – now trading at 20.7x 2021F P/E vs. long-term average of 13.6x P/E



Source: Bloomberg, Indo Premier

Fig. 12: Peer comparison

Ticker	Closing Price	Target Price	P/BV multiple	Upside target (x)	Recommendation	P/E (x)		P/BV (x)	
						2020F	2021F	2020F	2021F
BMRI	6,700	7,300	1.5	9%	Buy	18.0	13.1	1.6	1.5
BBRI	4,280	4,800	2.4	12%	Buy	28.0	20.7	2.7	2.4
BBCA	33,950	33,000	3.7	-3%	Buy	33.2	28.1	4.7	4.2
BBNI	6,500	7,000	1.0	8%	Buy	35.4	13.4	1.1	1.0
BBTN	1,835	2,000	1.0	9%	Buy	14.5	9.9	1.1	1.0

Source: Bloomberg, Indo Premier

Share price closing as of: 15 December 2020

Income Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Interest income	111,354	120,691	117,108	127,068	139,370
Interest expense	(33,917)	(40,049)	(42,855)	(45,816)	(48,863)
Net interest income	77,437	80,642	74,252	81,252	90,507
Non-interest income	24,600	30,515	29,441	32,229	35,426
Total operating income	102,037	111,157	103,694	113,481	125,933
Opex	(41,993)	(44,966)	(49,521)	(54,254)	(59,348)
PPOP	60,044	66,191	54,172	59,227	66,585
Provisions	(18,321)	(22,760)	(28,979)	(25,248)	(24,334)
Operating profit	41,723	43,432	25,193	33,980	42,252
Non-operating profit	28	(68)	130	141	154
Pre-tax profit	41,751	43,364	25,324	34,120	42,406
Income tax	(9,335)	(8,950)	(6,399)	(8,631)	(7,521)
Minority interest	(67)	(41)	(38)	(42)	(47)
Net profit	32,348	34,372	18,886	25,448	34,838

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash + CA with BI	98,581	44,746	109,679	117,190	122,130
Secondary reserves	294,881	346,645	398,643	438,507	477,973
Gross loans	840,189	910,764	966,421	1,053,399	1,158,739
Loan provisions	(35,515)	(39,329)	(68,966)	(79,142)	(86,938)
Other assets	98,763	158,005	114,009	125,409	137,950
Total Assets	1,296,898	1,418,948	1,519,786	1,655,363	1,809,855
Total deposits	949,914	1,027,807	1,145,218	1,262,902	1,392,734
Securities and borrowings	75,134	140,876	76,981	76,981	76,981
Other liabilities	86,575	41,482	99,265	99,265	99,265
Total liabilities	1,111,623	1,210,165	1,321,465	1,439,149	1,568,980
Shareholders' equity	185,276	208,783	198,322	216,215	240,874
Total liabilities & equity	1,296,898	1,418,948	1,519,786	1,655,363	1,809,855

Growth YoY	2018A	2019A	2020F	2021F	2022F
Gross loans	14.0%	8.4%	7.0%	9.0%	10.0%
Total assets	15.2%	7.7%	7.3%	8.9%	9.3%
Total deposits	12.3%	8.2%	11.0%	10.3%	10.3%
Net interest income	6.7%	5.5%	-7.9%	9.4%	11.4%
Non-interest income	23.7%	18.9%	-3.5%	9.5%	9.9%
Total operating income	10.3%	8.8%	-6.7%	9.4%	11.0%
Operating expense	9.2%	7.2%	10.1%	9.6%	9.4%
PPOP	11.1%	9.8%	-18.2%	9.3%	12.4%
Net profit	11.6%	6.2%	-45.1%	34.7%	36.9%

Key Ratios	2018A	2019A	2020F	2021F	2022F
ROAA	2.7%	2.6%	1.3%	1.6%	2.0%
ROAE	18.3%	17.6%	9.2%	12.2%	15.2%
NIM	7.3%	6.9%	5.7%	5.8%	5.9%
Credit cost	2.3%	2.6%	3.1%	2.5%	2.2%
Cost/income	41.2%	40.6%	47.8%	47.8%	47.1%
LDR	88.4%	88.6%	84.4%	83.4%	83.2%
CAR	21.4%	22.8%	19.4%	19.4%	19.7%
NPL ratio	2.2%	2.8%	3.0%	2.7%	2.7%
Provisions/NPL	191.8%	167.0%	238.0%	277.9%	282.3%

Source: Company, Indo Premier

INVESTMENT 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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