

Tuesday, 12 May 2020

OVERWEIGHT

Maintain

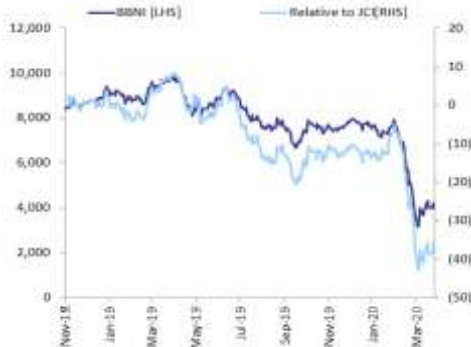
Banking

Higher risk in the short term

BBCA relative to JCI Index



BBNI relative to JCI Index



Source : Bloomberg



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The issuance of PP 23/2020 should pose higher risks to the banking sector in our view, especially over the short-term. This is because the government will assign the 15 biggest banks to be anchor banks, mainly to channel more liquidity to smaller banks that need it. Although the funds will come from the government and through adoption of the channelling scheme, we believe that participant banks will still need to assess the quality of restructured loans from smaller banks. We maintain BBKA as our top pick in the sector given less government intervention risk and prudent risk management profile.

Issuance of PP 23/2020 on the banking system. The government just released PP 23/2020 to manage the COVID-19 impact. For the banking sector, the policy highlights that the government will assign the 15 biggest banks (in terms of assets) to be the participant banks. The participant banks will provide liquidity from the government (placed in Time Deposits instruments) to the executing banks (smaller banks). These executing banks will use their restructured loans as their underlying assets to obtain liquidity from the participant banks. Based on OJK's statement, this stimulus will be done via the channelling scheme, meaning that the risk should be on the government side rather than on the side of the participant banks.

IDR6tn budget for interest rate subsidies. For interest rate subsidies, the government has provided a IDR6tn budget on KUR, ultra micro and Mekaar (a non-listed SOE financing company, Permodalan Nasional Madani/PNM). This amount should cover the interest rate for six months based on the government's stimulus. Nonetheless, the government requires a maximum IDR10bn loan size with a tax identity number (NPWP) for eligible borrowers. This means that not all the KUR, ultra micro and mekaar borrowers can enjoy the interest rate subsidy as most of them operate in informal business sectors such as food stalls and mom and pop shops (toko kelontong).

More risks for banks. With more government stimulus to provide ample supportive measures to handle the present challenges, we believe that banks are in a difficult spot, particularly the big banks. Although there are not yet any details concerning the details on the allocation amount for these 15 banks, we expect the MSME segment to be the main priority, in line with the government's intent to support the nation's grassroots first. While for the anchor banks plan, we assume that the allocation will be based on the respective core businesses, i.e. BBRI for MSME.

BBCA is our top pick. All in all, we believe the banking sector faces medium to high risk for the reasons stated above. Nonetheless, the current valuations are already enticing in our view. We maintain BBKA (BBKA IJ, BUY, TP of IDR31,000) as our top pick in the sector, noting its prudent risk management profile and well-diversified loans portfolio.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2020F	2021F	2020F	2021F	2021F
BCA	BBKA IJ	BUY	30,000	685,357.7	21.5	19.1	3.5	3.0	17.0
Bank Rakyat Indonesia	BBRI IJ	NOT RATED	N/A	371,270.9	10.5	10.2	1.7	1.5	15.5
Mandiri	BMRI IJ	BUY	6,500	200,200.0	7.3	6.7	1.0	1.0	15.0
BNI	BBNI IJ	BUY	6,500	74,221.7	5.1	4.6	0.6	0.6	13.0
Bank Tabungan Negara	BBTN IJ	BUY	1,500	9,740.4	8.6	5.1	0.5	0.5	9.7
BTPN Syariah	BTPS IJ	BUY	3,000	14,637.0	13.3	10.0	2.4	2.0	22.0
BPD Jatim	BJTM IJ	BUY	750	10,407.3	7.9	7.3	1.1	1.0	14.1
BTPN	BTPN IJ	HOLD	3,500	15,360.7	6.0	5.4	0.5	0.5	9.3

Exhibit 1. 15 Biggest banks in terms of total assets as of December 2019

	Total assets (IDR bn)	Contribution to system (%)	LDR (%)	CAR (%)	Gross NPL ratio (%)
BBRI	1,416,759	16.5	85.8	22.6	2.8
BMRI	1,318,246	15.4	91.7	21.8	2.3
BBCA	918,989	10.7	75.9	21.6	1.3
BBNI	845,605	9.9	92.7	19.7	2.3
BBTN	311,777	3.6	110.8	17.3	4.8
BNGA	274,467	3.2	97.6	21.5	2.8
PNBN	211,287	2.5	104.0	23.4	3.0
BDMN	193,554	2.3	128.4	24.2	3.0
BTPN	181,631	2.1	163.1	24.2	0.8
NISP	180,707	2.1	94.1	19.2	1.7
BNII	169,083	2.0	94.1	21.4	3.3
BNLI	161,451	1.9	86.0	19.9	2.8
BJBR	123,536	1.4	97.8	17.7	1.6
MEGA	100,804	1.2	69.7	23.7	2.5
BBKP	100,264	1.2	84.8	12.6	6.0

Source: Respective companies

Exhibit 2. MSME exposure for our banking universe as of December 2019

	Loan size max IDR10bn (IDR bn)	Contribution to loans book (%)
BBCA	101,444	17.0
BBRI	506,280	58.9
BMRI	181,712	20.0
BBNI	75,461	13.6
BBTN	25,524	10.0
BTPN	59,546	42.4
BTPS	9,007	100.0
BJTM	9,093	23.7

Source: Respective companies

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