

## MORNING HIGHLIGHT

### FROM EQUITY RESEARCH

#### Banking

#### KUR: Quo Vadis? (Overweight)

KUR (Kredit Usaha Rakyat / micro credit) is not a new thing; however, it is becoming popular lately as the new ruling will use it as means to distribute wealth, by giving interest rate subsidy to the borrowers, particularly to small scale productive sectors. While there are several KUR programs, in this report we are talking about micro KUR amounting up to Rp25 mn per borrower. While KUR gives the impression of a free lunch, banks still need to do proper credit assessment to lend the KUR. In fact, the government's KUR allocation to banks will factor NPL into consideration, apart from bank's organizational and business fit.

#### Previous Reports:

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- **Enhancement in KEK incentive-[Snapshot20151105](#)**

### MARKET NEWS

#### \*Analysts' comment inside

- KAEF prepares Rp 550bn (BI)\*
- BBRI estimates microcredit to reach Rp250tn in 2016 (ID)
- BIRD targeting 20% growth (BI)
- Budget deficit could be below 2.5% of GDP (ID)
- GJTL to push export to 50% (BI)
- PPRO partnering with Hyundai (ID)

### IDX ANNOUNCEMENT

#### Buyback schedule

Code	Buyback period		Max buyback (Rp bn)	Max price/share (Rp)
MPMX	24-Aug	23-Nov	50	1,000
RALS	25-Aug	24-Nov	400	--
ARNA	25-Aug	25-Nov	18	--

Source: KSEI

#### Key Index

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
<b>Asean - 5</b>				
Indonesia	4,473	0.2	(14.4)	238
Thailand	1,382	(0.1)	(7.7)	1,226
Philippines	6,898	(0.2)	(4.6)	151
Malaysia	1,659	(0.3)	(5.8)	421
Singapore	2,926	(1.1)	(13.1)	751
<b>Regional</b>				
China	3,581	(1.4)	10.7	117,612
Hong Kong	22,396	(2.2)	(5.1)	10,741
Japan	19,597	(0.5)	12.3	11,935
Korea	1,946	(1.4)	1.6	2,980
Taiwan	8,330	(1.2)	(10.5)	2,352
India	25,611	(1.0)	(6.9)	398
NASDAQ	4,928	(1.5)	4.1	81,471
Dow Jones	17,245	(1.2)	(3.2)	9,600

#### Currency and Interest Rate

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah Rp/1US\$	13,665	0.0	(1.2)	(9.9)
SBI rate %	6.75	0.1	0.1	(0.5)
10y Gov Indo bond	8.64	-	(0.1)	0.8

#### Hard Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	52	0.5	(1.5)	(15.9)
Gold	US\$/toz	1,092	0.7	(7.3)	(7.9)
Nickel	US\$/mt.ton	9,390	0.1	(10.1)	(37.7)
Tin	US\$/mt.ton	14,770	0.9	(7.3)	(24.0)

#### Soft Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	3,373	0.4	7.3	13.5
Corn	US\$/mt.ton	135	(0.4)	(5.5)	(5.5)
Crude Oil	US\$/barrel	45	0.3	(11.6)	(22.2)
Palm oil	MYR/mt.ton	2,126	(0.7)	(2.2)	(7.4)
Rubber	US\$/kg	120	0.5	(6.3)	(21.2)
Pulp	US\$/tonne	822	N/A	(1.0)	(11.8)
Coffee	US\$/60kgbag	95	0.1	5.0	39.0
Sugar	US\$/MT	404	0.2	5.8	3.1
Wheat	US\$/ton	135	(0.5)	(5.6)	(19.6)

Source: Bloomberg

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## OVERWEIGHT

Jakfin Index	660.8
Jakfin Market cap, Rp tn	1,184
US\$bn	86.4
JCI Index	4,472.8
JCI Market cap, Rp tn	4,738
US\$ bn	346

## Jakfin Index relative to JCI Index



## Banking sector

## KUR: Quo Vadis?

KUR (Kredit Usaha Rakyat / micro credit) is not a new thing; however, it is becoming popular lately as the new ruling will use it as means to distribute wealth, by giving interest rate subsidy to the borrowers, particularly to small scale productive sectors. While there are several KUR programs, in this report we are talking about micro KUR amounting up to Rp25 mn per borrower.

While KUR gives the impression of a free lunch, banks still need to do proper credit assessment to lend the KUR. In fact, the government's KUR allocation to banks will factor NPL into consideration, apart from bank's organizational and business fit.

## Exhibit 1. KUR Then and Now

	Then	Now
Lending rate	22%	19% (12% + 7% subsidy)
Insurance Premium	Paid by govt.	Paid by bank (1.5%)
Loan loss coverage	70%	Unchanged
Distribution	Not targeted	Targeted

Source: BRI

The KUR is insured by the government's owned credit insurance companies i.e. Askrindo and Jamkrindo. But banks are still responsible for 30% of the default risk as KUR insurance only cover 70% of the loan value. The KUR is 100% funded by banks.

## KUR target 2015 and 2016

The government targeted KUR of Rp30 tn in 2015, to be disbursed starting August. BBRI got the biggest allocation of Rp20 tn. However, the tight timeframe and some obstacles have resulted in slow pace of KUR growth. For 2016, government targeted Rp100 tn – Rp120 tn KUR with three SOE bank (BBRI, BMRI and BBNI) will be appointed to distribute KUR plus two private banks (Bank Sinarmas and BII Maybank) and two regional banks. It is anticipated that BBRI will get the largest KUR allocation.

## KUR will help increase Indonesia's bank penetration ratio

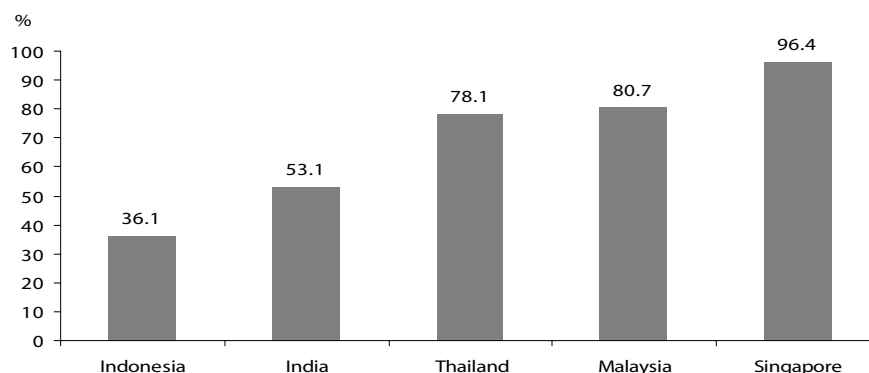
Providing loan to people who never have banking's track record is risky. First time borrowers usually do not have saving account, assets or sufficient income to be bankable. Therefore, interest rate subsidy from the government is essentially aimed at reducing this risk, making it more sensible for banks to extend credit for people who would otherwise not have access to credit, to begin or expand their small businesses. Apart from the latter, the purpose of KUR is also extended to Indonesian working force seeking employment in other countries; the loan will be used to pay for administrative paper works and trainings, while the repayment will be deducted from salary after they get employed abroad. The banking penetration ratio in Indonesia is still low compared to neighboring countries. The intensification of KUR will be positive in increasing this ratio.

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Danareksa research reports are also available at Reuters Mulfex and First Call Direct and Bloomberg.

**Exhibit 2. Banking penetration ratio in several countries 2014**

Source: World Bank

### **KUR is changing the competitive landscape in micro lending**

The market for micro financing will see their lending rate capped at 12%. Most banks, particularly regional banks and rural banks (BPRs), usually have some portion of micro loans in their portfolio, and they will see their micro market share declining as a result of this program to the benefit of banks who get KUR allocation.

For banks, it is easier to lend subsidized loan. In other words, banks could sell products that costs 19% at the price of 12% with 7% interest rate differential subsidized by the government (\*exclude the cost of insurance). Subsidized KUR will also increase the borrowers' capacity to service their debt, increasing the quality of credit and reducing NPL.

### **KURNPL in several banks**

From the tables below, we can get some idea of the capability of some banks in channeling KUR.

**Exhibit 3. KUR channeling as of November 30, 2014**

	Limit Rp bn	Outstanding Rp bn	# of clients	Amount of credit Rp mn	NPL (%)
BBNI	15,483	3,239	217,086	71.3	3.3
BBRI (Retail)	20,600	7,821	117,259	175.7	2.9
BBRI (Micro)	95,004	24,038	11,326,246	8.4	1.8
BMRI	17,464	6,613	385,931	45.3	3.4
BBTN	4,590	1,608	25,255	181.7	12.9
BBKP	1,813	495	12,139	149.4	5.5
BMRI Syariah	3,899	1,145	59,861	65.1	17.2
BBNI Syariah	320	135	1,424	224.5	4.6

Source: Komite KUR

**Exhibit 4. KUR channelling in regional banks as of November 30, 2014**

	Limit Rp bn	Outstanding Rp bn	# of clients	Amount of credit Rp mn	NPL (%)
Bank Nagari	2,059	710	55,231	37.3	3.9
Bank DKI	449	223	2,245	198	6.4
BJBR	3,533	1,066	30,368	116.4	21.2
Bank Jateng	2,083	663	29,821	69.9	3.9
Bank DIY	93	21	996	93.9	4.6
BJTM	4,542	1,096	43,161	102.2	12.2
Bank NTB	160	78	2,141	74.7	6.2
Bank Kalbar	462	248	2,856	161.8	5.4
Bank Kalteng	145	92	2,618	55.6	4.9
Bank Kalsel	396	253	4,186	94.7	3.7
Bank Sulut	58	35	1,914	30.6	11.4
Bank Maluku	251	77	5,969	42.1	9.4
Bank Papua	312	206	4,223	73.9	7
Bank Aceh	149	108	1,671	89.3	3
Bank Sumut	293	219	2,436	120.6	5.1
Bank Riau Kepri	73	51	723	100.5	1.3
Bank Jambi	56	32	594	95.2	5.5
Bank Sulsel Babel	103	67	1,193	86.2	5.4
Bank Bengkulu	31	18	290	108.7	9.2
Bank Lampung	182	119	1,926	94.2	11.2

Source: Komite KUR

**To sum up:**

While KUR is good for the nation and for the banking industry, its impact on individual bank performance should be carefully examined. Not all banks are capable and suitable of distributing KUR while at the same time maintaining good credit quality (see table KUR NPL above).

BBRI is the KUR winner but the short term impact will be unfavorable on its Micro NIM, as the lending rate of subsidized KUR will be lower at 19% (versus 22% previously), plus it has to bear the cost of insurance premium of 1.5%. In the longer term, however, this could provide BBRI with huge micro client base and further strengthened its position as specialist in micro lending.

BMRI and BBNI will also get some allocation from KUR but at a lesser extent compared to BBRI. BBCA is not affected by KUR; business as usual

## MARKET NEWS

### **KAEF prepares Rp 550bn (BI)**

Kimia Farma (KAEF) set aside Rp 550bn, from the Rp 1tn of 2016's total capex, to build a number of medicinal raw materials and pharmaceutical salts factories. The raw materials' factory, which will be developed in cooperation with foreign investors, will produce active pharmaceutical ingredients (API) with a total investment of Rp 110bn and specifically producing 8 types of drug's raw materials and 6 types of functional chemical. This plant will be built on an 12 ha's area located in Cikarang, West Java. While for the pharmaceutical salt factory, which will be built in Watukadon, Jombang, East Java, is the second stage plant with a capacity of 4,000 tons of pharmaceuticals salt, and will be built after the 1st phase plant with a capacity of 2,000 tons completed.

*Comment: This is part of KAEF's expansion plan to have upstream production facilities following the development of phase I pharmaceutical salt plant which will be operational this year, pending to Food and Drugs Monitoring Agency (BPOM) approval. The estimated total investment need to build its raw material facilities is around Rp2.7tn over the next 5 years. Hence, KAEF is also looking for other external funding sources such as right issue and bank loan. The right issue plan is currently being discussed with the SOE ministry. (Armando)*

### **BBRI estimates microcredit to reach Rp250tn in 2016 (ID)**

Bank Rakyat Indonesia (BBRI) estimates micro credit disbursement in 2016 to reach Rp250tn. This will be driven by the distribution program Government microcredit program (KUR). Up to September 2015, BBRI micro loan portfolio grew 14.7% yoy to Rp170.2tn. According to Director of Micro, Small, Medium Enterprise, Muhammad Irfan, government is targeted to increase KUR to Rp100tn, and BBRI estimates to channel 70% of this target. Besides KUR, BBRI has other micro loan products, namely Rural Business Credit (Kupedes) and Kupedes Rakyat. BBRI expects these two products could grow 20% yoy next year.

### **BIRD targeting 20% growth (BI)**

Blue Bird (BIRD) is targeting revenue growth of 19-20% yoy for 2016, which is based on their Indonesia's estimated economic growth of 5.3%. BIRD also plans to add 1,500-2,000 fleets for next year.

### **Budget deficit could be below 2.5% of GDP (ID)**

Government asserted state budget deficit in 2015 could still be under Rp303.5tn, or 2.5% of GDP should difference between the realization tax collection to targets is below Rp180tn and expenditure realization about Rp1,865tn (94% of the target). Bambang Brodjonegoro expects tax revenues could reach 85-87% of the target by the end of this year. according to the Fiscal Policy Agency of the Ministry of Finance, tax amnesty will come into force this year so that partial tax collection can be booked in state budget 2015 remembering realization of tax collection only reached 59.8% of the target amounted to Rp1,294.2tn.

### **GJTL to push export to 50% (BI)**

Gajah Tunggal (GJTL) is targeting the proportion of export's sales next year in the range of 45-50%, with a greater expansion into new countries. GJTL plans to supply a huge amount of motorcycle tire to Singapore, Vietnam, and Thailand, as well as exporting radial tires to Russia and some countries in South America. 9M15, the percentage ratio of exports and domestic sales recorded at 43-57%, or a significant increase compared to 9M14 at 38-62%, with the largest export sales contributed by the America by 46%.

### **PPRO partnering with Hyundai (ID)**

Property PP (PPRO) team up with Hyundai, Jababeka, Sentul City, Pertamina to work on the Grand Kamala Lagoon (GKL) in Bekasi. In this partnership, Hyundai and PPRO will create a joint venture in which Hyundai will have a majority stake, where Hyundai will build four apartment with a capacity of 3,000 units worth Rp3tn. Hyundai is expected to start the construction in 2016 and complete in 2019.



## COVERAGE PERFORMANCE

### LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		13-Nov-2015	12-Nov-2015					
Semen Indonesia	SMGR	10,675	10,150	5.2	-	2.6	(34.1)	BUY
Unilever	UNVR	36,300	34,600	4.9	(1.9)	(3.4)	12.4	SELL
Indocement	INTP	20,000	19,300	3.6	1.3	2.3	(20.0)	BUY
Bank Mandiri	BMRI	8,675	8,375	3.6	(3.3)	(2.8)	(19.5)	BUY
Tower Bersama	TBIG	6,550	6,400	2.3	(4.4)	(5.4)	(32.5)	HOLD
Indosat	ISAT	4,825	4,745	1.7	11.0	20.5	19.1	BUY
PP Properti	PPRO	185	182	1.6	10.1	20.9	-	BUY
Telkom	TLKM	2,755	2,715	1.5	0.7	2.8	(3.3)	HOLD
United Tractors	UNTR	17,750	17,550	1.1	(1.0)	(6.1)	2.3	HOLD
Jasa Marga	JSMR	4,940	4,895	0.9	(2.2)	(9.4)	(29.9)	BUY

Sources: Bloomberg

### LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		13-Nov-2015	12-Nov-2015					
Bukit Asam	PTBA	6,375	6,975	(8.6)	(14.7)	(1.2)	(49.0)	BUY
Vale Indonesia	INCO	1,865	2,015	(7.4)	(16.2)	(16.4)	(48.6)	BUY
PP London Sumatra	LSIP	1,215	1,285	(5.4)	(15.6)	(13.8)	(35.7)	HOLD
Adaro Energy	ADRO	580	610	(4.9)	(6.5)	(9.4)	(44.2)	BUY
Indo Tambangraya Megah	ITMG	7,250	7,625	(4.9)	(15.7)	(28.4)	(52.8)	HOLD
MNC Sky Vision	MSKY	1,225	1,285	(4.7)	(6.1)	(16.7)	(23.4)	HOLD
XL Axiata	EXCL	3,350	3,500	(4.3)	6.3	3.4	(31.1)	BUY
Alam Sutera	ASRI	342	354	(3.4)	(10.9)	(8.8)	(38.9)	BUY
Mitra Keluarga	MIKA	2,565	2,645	(3.0)	(1.3)	(12.8)	50.9	BUY
Astra Agro Lestari	AALI	18,050	18,550	(2.7)	(9.9)	(4.7)	(25.6)	BUY

Sources: Bloomberg



## WEEKLY COVERAGE PERFORMANCE

### WEEKLY LEADERS

	Code	Price as on		w-w, %	m-m, %	YTD, %	Rating
		13-Nov-2015	6-Nov-2015				
Indosat	ISAT	4,825	4,345	11.0	20.5	19.1	BUY
PP Properti	PPRO	185	168	10.1	20.9	-	BUY
Ace Hardware	ACES	735	675	8.9	2.1	(6.4)	BUY
XL Axiata	EXCL	3,350	3,150	6.3	3.4	(31.1)	BUY
Bank Tabungan Negara	BBTN	1,190	1,145	3.9	3.9	(1.2)	BUY
Summarecon	SMRA	1,465	1,440	1.7	12.7	(3.6)	BUY
Indocement	INTP	20,000	19,750	1.3	2.3	(20.0)	BUY
Telkom	TLKM	2,755	2,735	0.7	2.8	(3.3)	HOLD
Bank Negara Indonesia	BBNI	4,840	4,815	0.5	(5.1)	(20.7)	BUY
Pembangunan Perumahan	PTPP	3,725	3,710	0.4	3.9	4.2	BUY

Sources: Bloomberg

### WEEKLY LAGGARDS

	Code	Price as on		w-w, %	m-m, %	YTD, %	Rating
		13-Nov-2015	6-Nov-2015				
Vale Indonesia	INCO	1,865	2,225	(16.2)	(16.4)	(48.6)	BUY
Indo Tambangraya Megah	ITMG	7,250	8,600	(15.7)	(28.4)	(52.8)	HOLD
PP London Sumatra	LSIP	1,215	1,440	(15.6)	(13.8)	(35.7)	HOLD
Bukit Asam	PTBA	6,375	7,475	(14.7)	(1.2)	(49.0)	BUY
Indofood	INDF	5,175	5,850	(11.5)	(16.5)	(23.3)	BUY
Siloam Hospital	SILO	9,000	10,150	(11.3)	(26.1)	(34.3)	HOLD
Alam Sutera	ASRI	342	384	(10.9)	(8.8)	(38.9)	BUY
Perusahaan Gas Negara	PGAS	2,615	2,925	(10.6)	(14.7)	(56.4)	BUY
Aneka Tambang	ANTM	319	355	(10.1)	(26.3)	(64.3)	HOLD
Astra Agro Lestari	AALI	18,050	20,025	(9.9)	(4.7)	(25.6)	BUY

Sources: Bloomberg

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