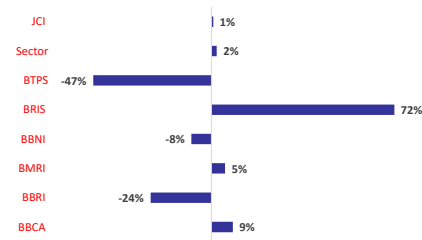


Overweight

(Maintained)

YTD share price performance



Sector's implied cost of equity



Source: Company, Bloomberg, BRIDS Estimates

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Banks

Expansion of SAL utilization: for better or worse?

- PMK 88/2024 could add liquidity for the SOE banks, but with a CoF of c. 4.8%, we do not see it as plausible for the banks currently.
- On the other hand, the SAL loans can add competition as other non-bank SOE could get a lower rate from SAL compared to bank loans.
- BMRI and BBNI could be the biggest losers from SAL competition, while BBRI and BBTN could see potential benefits.

PMMK No 88/2024: Expanding the SAL utilization

PMK No. 88/2024 expands the scope of surplus budget fund utilization (SAL), allowing state-owned enterprises (BUMN), regional state-owned enterprises (BUMD), and local governments to access these funds for liquidity needs associated with national initiatives. Borrowers are required to provide guarantees, which could be either: 1) deposits amounting to at least 102% of the loan value plus interest, or 2) government bonds (SBN) amounting to at least 120% of the loan value plus interest. In our view, this regulation presents two primary risks for Indonesian banks. However, which one will prevail?

Indonesian banks could pledge their assets as collateral

SOE banks could benefit as they could add more liquidity from the SAL by using their deposits or SBN as collateral while ensuring the loan disbursement aligns with the government program, i.e., micro loans, subsidized housing program, etc. However, we note that the SAL loans come with interest as stipulated in the regulation. The interest rate for these loans will be set to be at least equal to the rate that the government receives from its placements in BI. We found that government rupiah placements in BI receive 80.476% of the benchmark rate, which is equal to c. 4.8% currently. With such a rate, we believe this is not compelling as BBRI, BMRI, and BBNI CoFs were at 3.7%, 2.8%, and 3.2% in 10M24. BBTN could see some use with its CoF of 4.9%, but we do not find it plausible at the current government FLPP scheme rate of 5%.

Competition to lending yield from SOE counterparts

Based on the regulation, non-SOE banks could potentially obtain SAL loans by pledging their deposits or SBN. With a rate of c. 4.8%, this could pressure the bank's lending yield, which currently stands at c. 7%. Among the SOE banks, we think BMRI and BBNI will be the most impacted by the SAL competition. As of 9M24, BMRI's and BBNI's loans to related parties amounted to Rp274tr and Rp137tr, respectively, which are higher than BBRI's Rp90tr. Our economist estimates the current SAL budget at Rp300tr, which is at c. 4% of total industry loan.

Maintain Overweight, with BBKA remaining as our top pick

We believe BBRI and BTPS will be the least impacted by the downside risk from SAL loan yield competition as their core businesses are in micro loans. However, currently, BBRI is shifting towards corporate as it slows down its micro loan disbursement, which could put the bank at risk in the near term. In the long term, BBRI could see some use of the SAL loan with its high-yield micro loans. BMRI and BBNI could be negatively impacted, while BBTN could see potential upside if the FLPP scheme rate can be adjusted higher.

Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			Price (Rp)	Cap. (RpBn)	2024F	2025F	2024F	2025F	2025F
Bank Central Asia	BBKA IJ	BUY	12,800	1,257,406.02	23.0	21.1	4.8	4.4	21.8
Bank Rakyat Indonesia	BBRI IJ	Non-Rated	n/a	659,281.65	n/a	n/a	n/a	n/a	n/a
Bank Mandiri	BMRI IJ	BUY	8,200	594,999.98	10.5	9.5	2.1	1.9	21.2
Bank Negara Indonesia	BBNI IJ	BUY	7,600	184,621.68	8.5	7.6	1.1	1.1	14.5
Bank Syariah Indonesia	BRIS IJ	HOLD	3,000	138,387.78	20.3	17.6	3.1	2.8	16.9
Bank BTPN Syariah	BTPS IJ	HOLD	1,200	6,933.33	6.6	6.3	0.7	0.7	11.1

PMK No 88/2024, for better or worse?

Key Highlights:

1. Loan Objectives and Eligible Entities:

- Loans from SAL funds aim to support national policy execution and fiscal sustainability.
- Eligible entities:
 - BUMN and BUMD for specific government assignments.
 - Local governments (Pemda) or other authorized legal entities with defined roles in national policies.

2. Loan Mechanism:

- Provided in Indonesian Rupiah.
- Based on non-committed credit lines, meaning the government determines disbursement as needed.
- Short-term loans with a maximum duration aligned with the fiscal year.

3. Funding Source – SAL (Saldo Anggaran Lebih):

- SAL represents the government's surplus funds from past budgets, which are optimally utilized for public benefit.
- Loans are a liquidity mechanism for eligible entities to finance their projects without using direct state expenditures.

4. Requirements for Borrowers:

- Must have valid government assignments, verified through official letters or legal mandates.
- Submission of:
 - Loan applications with detailed project and repayment plans.
 - Supporting documents such as:
 - Audited financial statements (last three years).
 - Analysis of repayment ability based on projected cash flows.
 - Guarantee information (e.g., Deposits or State Bonds).

5. Guarantees:

- Borrowers must provide guarantees exceeding loan value:
 - Deposits: At least 102% of the loan value plus interest.
 - State Bonds (SBN): At least 120% of the loan value plus interest.
- Guarantees ensure repayment security and can be executed if the borrower defaults.

6. Loan Principles:

- Governed by the principles of prudence, safety, market-based interest/remuneration, and accountability.
- Loans are disbursed only after confirming cash flow sufficiency and compliance.

7. Loan Approval and Disbursement:

- The Ministry of Finance, via the Directorate General of Treasury, evaluates and approves applications.
- Loans are disbursed in stages or as a lump sum, contingent on the cash flow plan and available SAL.

8. Repayment Mechanism:

- Borrowers must repay by the due date or earlier.
- Default triggers execution of guarantees:
 - Deposits are liquidated to cover outstanding obligations.
 - SBN guarantees are converted to cash through outright sales.

9. Monitoring and Reporting:

- The Ministry of Finance ensures transparency through strict monitoring and evaluation.
- Loan activities are disclosed in the State General Treasurer's financial reports.

10. Risk Management and Internal Control:

- Comprehensive risk management is implemented to minimize financial exposure.
- Internal controls ensure proper loan utilization and compliance.

11. Legal Basis and Enforcement:

- Effective October 25, 2024, this regulation enables the government to optimize public resources for strategic projects while maintaining fiscal discipline.

Exhibit 1. Loans to Related Parties in Rpb (9M24)

9M24	Related Parties	Total Loans	%
BBRI	89,893	1,281,674	7.0%
BMRI	274,239	1,541,981	17.8%
BBNI	137,436	735,018	18.7%

Source: Company

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INVESTMENT RATING

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

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