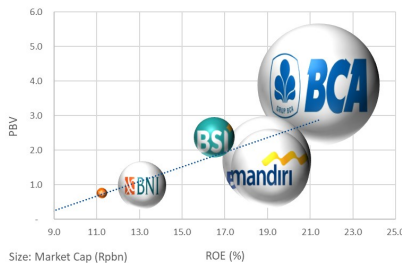


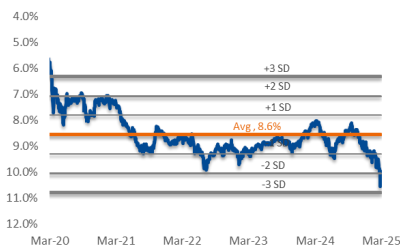
Neutral

(Maintained)

Sector's FY25F PBV-ROE matrix



Sector's implied cost of equity



Source: Company, Bloomberg, BRIDS Estimates

BRI Danareksa Sekuritas Analysts

Victor Stefano

(62-21) 5091 4100 ext. 3505

victor.stefano@brids.co.id

Naura Reyhan Muchlis

(62-21) 5091 4100 ext. 3507

naura.muchlis@brids.co.id

Banks

Potential Higher CoC and Earnings Risks on SOE Banks from Govt's Kopdes Merah Putih Initiative

- While unlikely a game changer, the potential involvement of SOE banks in the Kopdes Merah Putih initiative could add earnings downside risks.
- The worst-case scenario may see SOE banks' CoC rise by 49-82bps in addition to higher liquidity risk.
- Maintain Neutral rating on the sector with BBKA as our top pick, followed by BTPS and BRIS given their better liquidity and NPL outlooks.

New initiatives on Indonesia cooperative

The planned formation of "Koperasi Desa Merah Putih" aims to establish economic hubs across 70-80k villages using existing village funds. The plan includes building warehouses and six retail outlets in each village to store and sell agricultural products. The budget is Rp3-5bn per village, with funding sourced from the village fund allocation, which is Rp1bn annually, accumulating to Rp5bn over five years. According to the Coordinating Minister for Food Affairs, the plan requires some SOE banks to provide initial loans as upfront capital, to be repaid over 3-5 years.

Current cooperative loans associated with a higher delinquency risk

According to Pefindo, loans to cooperatives have an NPL ratio of 8.5%. The ratio is higher compared to the banking sector's NPL ratio across business sectors, which indicates that there is a higher risk in the cooperative segment. Based on the Ministry of Cooperative, Micro, Small, and Medium Enterprise data, Indonesia has around 130 thousand cooperatives, with a total of Rp275tr in assets and Rp197tr in turnover in FY23. Banks only contribute around 10% of the cooperative's external capital, showing their small exposure to the cooperative segment currently.

Worst-case scenarios put the banks at higher credit and liquidity risks

If SOE banks equally disburse Rp3-5bn per village in one go and the cooperative loan's NPL ratio is maintained at 8.5%, this could lead to a 49-82bps increase in CoC and an 11-56% reduction in earnings. However, given BBRI's largest exposure to KUR (17% of its total loans) and KUR's largest exposure to village credit facilities (with 80% of villages having KUR exposure), BBRI is likely to bear a larger share of disbursements compared to its SOE peers. Additionally, if SOE banks have to fund the credit themselves, they may also face liquidity risks, requiring them to secure c.5-9% of their current deposits.

Maintain Neutral, with BBKA remaining as our top pick

Although we do not expect this new program to materialize in the short term, we continue to favor BBKA and BTPS, as they have fewer concerns from this new program. Among SOE banks, we believe BRIS will be the least affected due to its business model. We maintain a Neutral rating as we continue to see high domestic and global macro uncertainties. Key risks to our view include a stronger Rupiah, liquidity, and asset quality.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%) 2025F
					2025F	2026F	2025F	2026F	
Bank Central Asia	BBKA IJ	BUY	11,900	1,100,230.3	18.9	17.9	3.9	3.6	21.4%
Bank Rakyat Indonesia	BBRI IJ	Non-Rated	n/a	577,439.8	n/a	n/a	n/a	n/a	n/a
Bank Mandiri	BMRI IJ	BUY	5,900	451,733.3	8.0	7.2	1.5	1.4	19.1%
Bank Negara Indonesia	BBNI IJ	BUY	5,100	169,329.8	7.7	7.4	1.0	0.9	13.1%
Bank Syariah Indonesia	BRIS IJ	HOLD	2,900	119,013.5	15.1	13.4	2.4	2.2	16.5%
Bank Tabungan Negara	BBTN IJ	BUY	1,100	11,999.4	4.1	3.8	0.3	0.3	8.7%
Bank BTPN Syariah	BTPS IJ	BUY	1,200	7,549.6	6.9	6.2	0.8	0.7	11.3%

Higher risks on SOE banks, worst-case scenarios reveal significant impacts

Worst-case scenarios put the banks at higher credit and liquidity risks

If SOE banks equally disburse Rp3-5bn per village in one go and the cooperative loan's NPL ratio is maintained at 8.5%, this could lead to a 49-82bps increase in CoC and an 11-56% reduction in earnings. However, given BBRI's largest exposure to KUR (17% of its total loans) and KUR's largest exposure to village credit facilities (with 80% of villages having KUR exposure), BBRI is likely to bear a larger share of disbursements compared to its SOE peers. Additionally, if SOE banks have to fund the credit themselves, they may also face liquidity risks, requiring them to secure c.5-9% of their current deposits.

Exhibit 1. Factsheet of Indonesia's village, cooperative, and loans

Parameter	Value	unit
Village-level Administrative Area	84,273	
Number of Village	75,753	
<i>Village portion</i>	<i>89.9%</i>	
Number of Cooperative (NIK)	130,119	
<i>Cooperative per village</i>	<i>1.72</i>	
Total Own Capital	104,939	Rp bn
<i>Own Capital per Cooperative</i>	<i>806</i>	<i>Rp mn</i>
Total External Capital	149,237	Rp bn
<i>External Capital per Cooperative</i>	<i>1,147</i>	<i>Rp mn</i>
Bank Loans to Cooperative	15,310	Rp bn
<i>Bank Loans portion to Total External Capital</i>	<i>10.3%</i>	
Total SOE Bank Loans	3,493,173	Rp bn
<i>Loan portion to Cooperative</i>	<i>0.4%</i>	

Source: MoCMSME, BI, BPS, BRIDS

Worst-case scenario: significant risk in SOE banks' earnings on additional CoC

Assuming equal shares and neglecting potential NII and opex, with 100% loan disbursement and 100% NPL coverage (equal to an NPL of 8.5%) in one go, we see an 11-56% impact on banks' profitability. BBTN may see the biggest impact on its profitability due to weak PPOP in FY24 (-30% yoy).

Exhibit 2. Worst-scenario impact to SOE banks

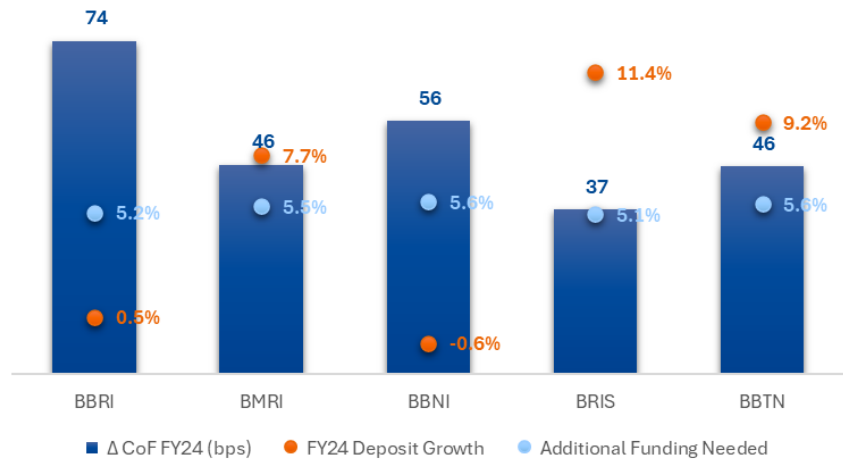
Stocks	Loan Contribution	3bn per Village Scenario			5bn per Village Scenario		
		Loan Disbursement to Cooperative (Rp bn)	Additional Funding Needed	NP Impact on Additional CoC - 0.49%	Loan Disbursement to Cooperative (Rp bn)	Additional Funding Needed	NP Impact on Additional CoC - 0.82%
BBRI	31.0%	70,425	5.2%	-10.6%	117,376	8.6%	-17.8%
BMRI	33.5%	76,112	5.5%	-16.8%	126,854	9.1%	-28.2%
BBNI	19.2%	43,659	5.6%	-16.8%	72,766	9.4%	-28.1%
BRIS	7.2%	16,276	5.1%	-18.0%	27,126	8.5%	-30.3%
BBTN	9.1%	20,786	5.6%	-56.2%	34,644	9.3%	-94.1%
SOE Banks	100.0%	227,259			378,765		

*loan and deposits data based on Jan25 bank-only numbers, NP impact is calculated based on FY24 numbers

Source: Company, BRIDS

Higher pressure on CoF if the banks have to fully fund the cooperative loan
Excluding the use of the Village Fund Allocation for FY25F, if SOE banks have to lend Rp3bn per Kopdes Merah Putih with equal shares, they would need at least a 5% growth in their customer deposits to maintain their LDR. Currently, liquidity remains tight; hence, increasing deposits by 5% could put a lot of pressure on banks' CoF.

Exhibit 3. Liquidity risk associated with higher funding need for the banks

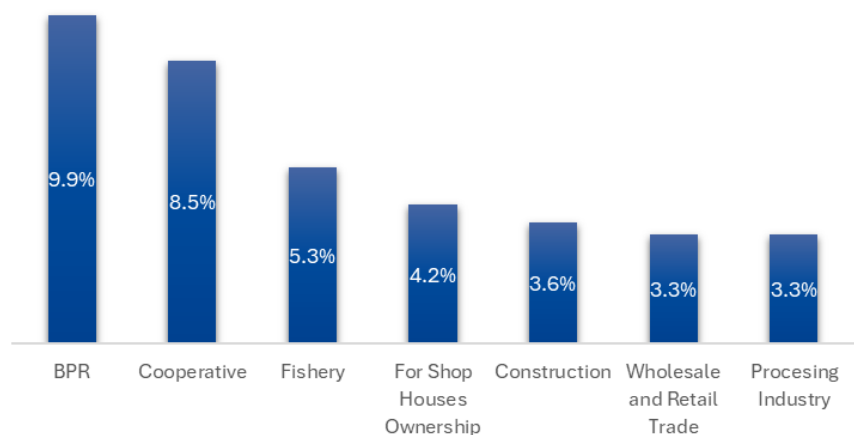


Source: Company, BRIDS

Current cooperative loans associated with a higher delinquency risk

According to Pefindo, loans to cooperatives have an NPL ratio of 8.5%. The ratio is higher compared to the banking sector's NPL ratio across business sectors, which indicates that there is a higher risk in the cooperative segment compared to the non-cooperative segment. We believe, however, that if SOE banks must venture into the cooperative segment, they will develop a better credit scoring system, resulting in improved asset quality.

Exhibit 4. NPL ratio as of FY23

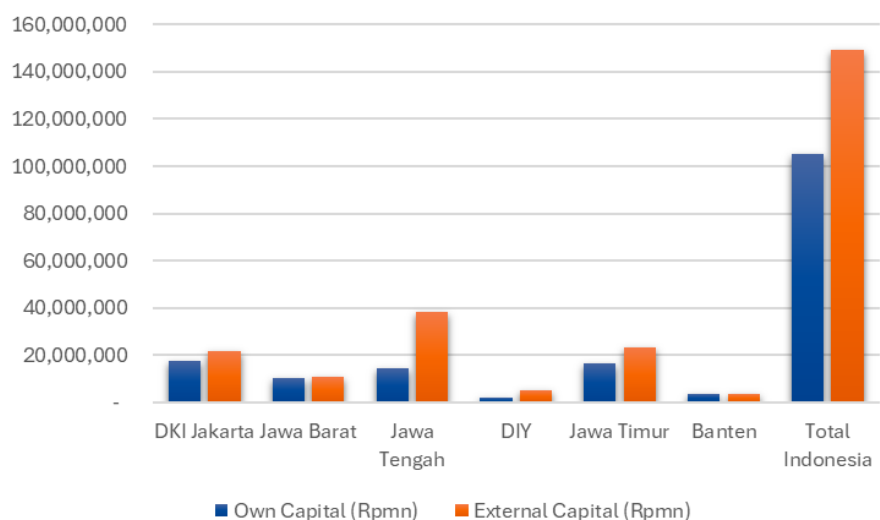


Source: OJK, Pefindo, BRIDS

New initiatives on Indonesia cooperative

The formation of "Koperasi Desa Merah Putih" (Kopdes Merah Putih) aims to establish economic hubs across 70,000 to 80,000 villages using existing village funds. The plan includes building warehouses and six retail outlets in each village to store and sell agricultural products. The budget is Rp3-5bn per village, with funding sourced from the village fund allocation, which is Rp1bn annually, accumulating to Rp5bn over five years. Since upfront capital is needed, some SOE banks will provide initial loans, to be repaid over 3 to 5 years. There will be three models: establishing new cooperatives, revitalizing existing ones, and building & expanding operations. According to the government, this system will help cut out inefficient distribution chains, reducing consumer prices.

Exhibit 5. Cooperative's capital structure (2023 temp data)



Source: MoCMSME, BRIDS

Indonesia's village and Village Funds

According to PMK No. 108/2024, Indonesia has 75,265 villages with 75,259 villages receiving Village Funds allocation. In FY25, the government allocates Rp71tr for Village Funds. According to the PMK, the use of Village Funds is prioritized to support:

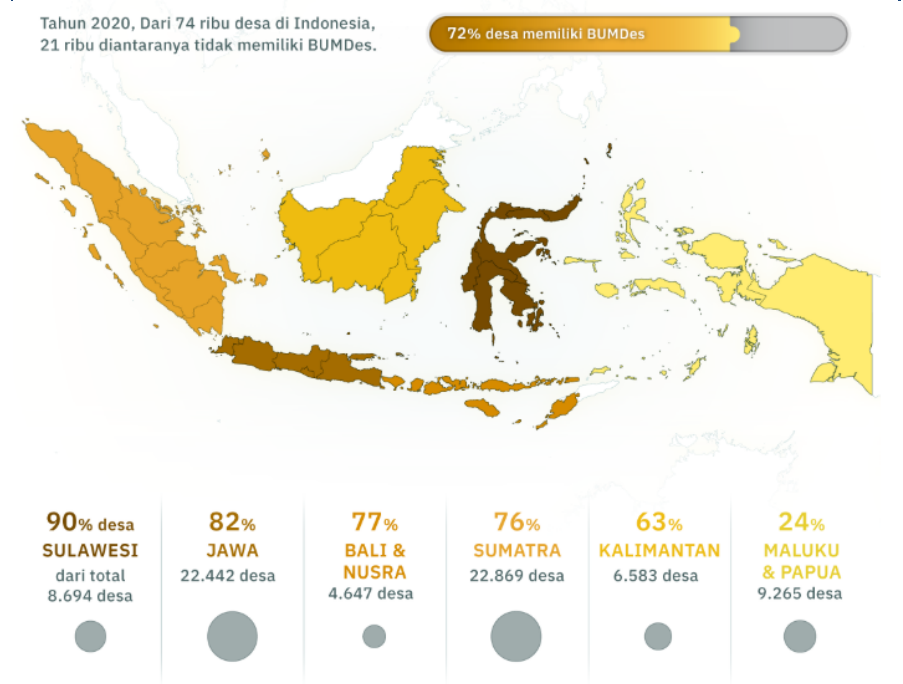
- handling extreme poverty with the use of Village Funds at most 15% (of the Village Fund budget for Village BLT (*Bantuan Langsung Tunai*) with the target beneficiary families being able to use Government data as a reference;
- strengthening Villages that are adaptive to climate change;
- increasing promotion and provision of basic health services on a village scale including stunting;
- supporting food security programs;
- developing Village potential and advantages;
- utilization of technology and information to accelerate the implementation of digital Villages;
- cash-intensive development and use of local raw materials;

h. other priority sector programs in the Village;

i. if needed, the BLT can use Village Funds whose use is not specified but should not exceed the maximum limit of 15%.

According to the government, the Village Funds will be utilized to support the Kopdes Merah Putih program. According to the latest PMK (2024) regarding the Village Funds usage, BLT will have a maximum percentage of 15% + 15%, which is lower than the previous PMK (2023) which set maximum BLT of 25% + 25%. As the BLT is lowered, the proceeds to other categories, including Kopdes Merah Putih, will be higher.

Exhibit 6. Map of BUMDes distribution (2020)

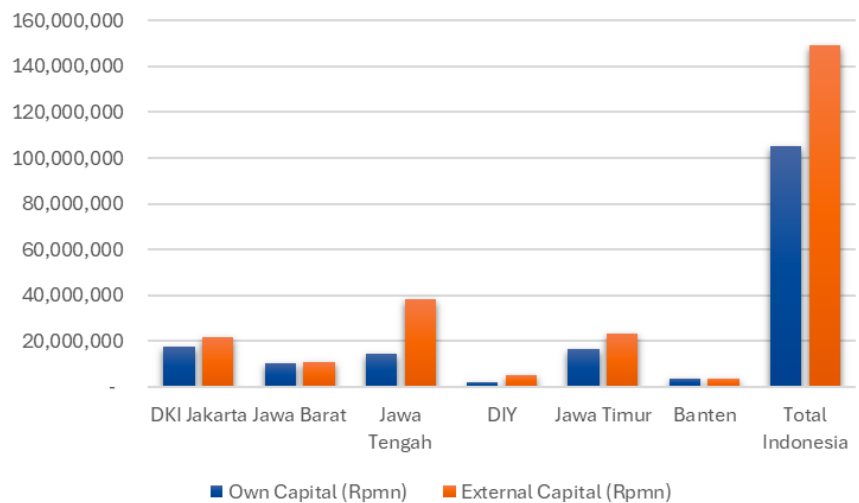


Source: Lokadata, PODES (2020)

Capital structure of cooperatives in Indonesia

According to UU No. 25/1992 regarding Cooperative, capital consisted of own capital and external capital. Own capital includes: 1) primary deposit, 2) mandatory deposit, 3) reserved fund, and 4) grant. External capital includes: 1) member's loan, 2) other cooperatives, 3) bank and other financial institution, 4) obligation and other debts, 5) other legal sources.

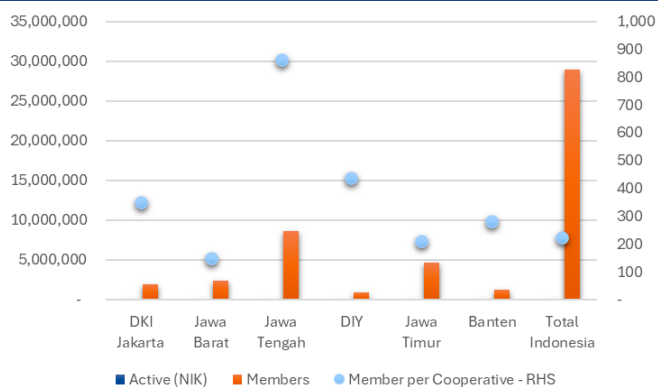
According to the Ministry of Cooperative, Micro, Small, and Medium Enterprise (2023) data, we note that external capital is generally equal to or higher than own capital. In FY23, external capital accounted for Rp149tr of the total cooperative capital, while total bank loans to cooperatives were Rp15tr (10.3% of external capital) based on SEKI, showing how small banks' exposure is to the cooperative sector.

Exhibit 7. Capital structure of cooperatives in Indonesia (2023)


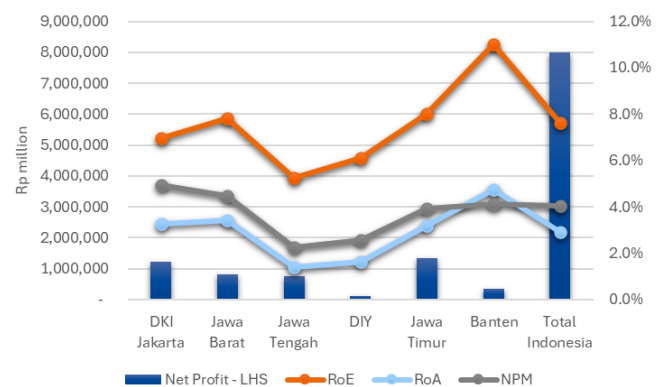
Source: MoCMSME, BRIDS

The significance of cooperatives in Indonesia

Based on MoCMSME data, Indonesia had around 130 thousand cooperatives with almost 29 million members in 2023, employing around 660 thousand workers. They had a total of Rp275tr in assets and Rp197tr in turnover in FY23. However, they had limited exposure to the banking system, with outstanding loans of only Rp15tr, equivalent to 0.4% of total banking system loans.

Exhibit 8. Number of cooperatives and members (2023 temp data)


Source: MoCMSME, BRIDS

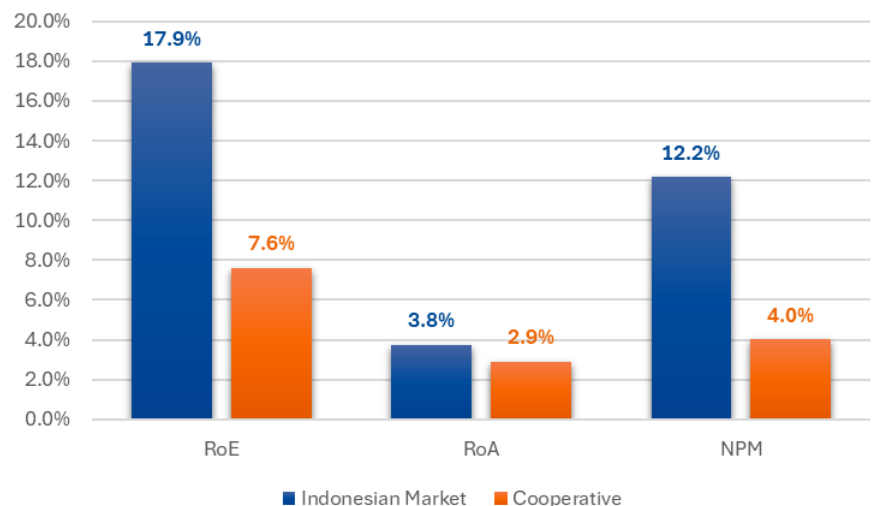
Exhibit 9. Cooperative profitability matrix (2023 temp data)


Source: MoCMSME, BRIDS

Cooperatives Lagged Behind Indonesian Market in Profitability

The profitability metrics show that the overall Indonesian market outperformed cooperatives across key indicators in 2023. RoE for the Indonesian market stood at 17.9%, significantly higher than the 7.6% recorded by cooperatives. Similarly, RoA was higher for the Indonesian market at 3.8% compared to 2.9% for cooperatives. NPM also follows this trend, with the Indonesian market achieving 12.2%, while cooperatives lagged behind at 4.0%. This suggests that cooperatives operate with lower profitability levels compared to the broader market.

Exhibit 10. Indonesian market vs. cooperative profitability (2023)



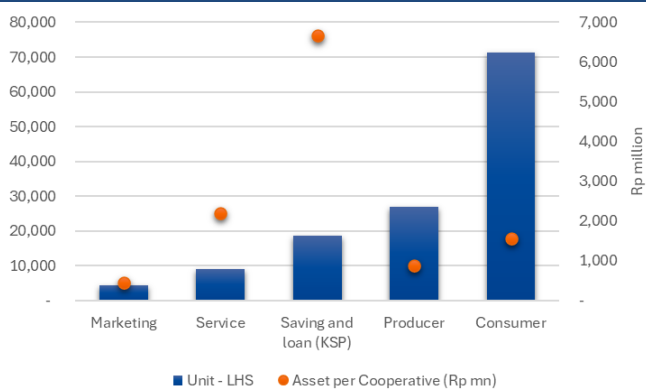
Source: MoCMSME, Bloomberg, BRIDS

Most cooperative are in the non-food related sector

According to the MoCMSME data, most cooperatives operate in the financial and other services sectors, while only c. 23 thousand or equal to 18.6% operate in food security-related sectors, i.e., accommodation, food and beverage sector and agriculture, fisheries, and forestry sector. If Kopdes Merah Putih wish to elevate this numbers to include all the Indonesian villages, i.e., around 75 thousand, it would need to add more than double the number of current cooperatives.

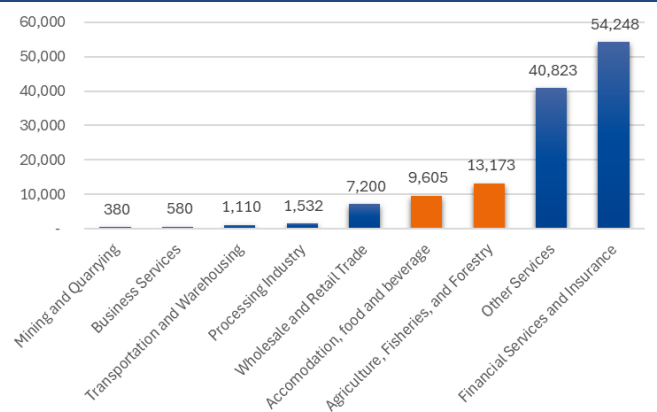
In terms of assets, *Koperasi Simpan Pinjam* (KSP) hold more than half of the total cooperative assets, as it held the largest average assets per cooperative of Rp6.7bn/coop vs Rp1.4bn in non-KSP. Additionally, the government's program, *Dana Bergulir*, managed by LPDB (*Lembaga Pengelola Dana Bergulir*) disbursed Rp1.3tr (72%) of its fund to KSP in FY23.

Exhibit 11. Type of Cooperative and their asset value



Source: MoCMSME, BRIDS

Exhibit 12. Cooperative by sector



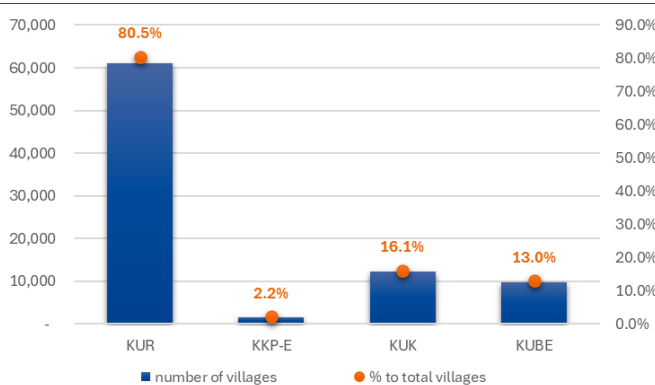
Source: MoCMSME, BRIDS

KUR has the most exposure to villages across Indonesia

Based on the number of villages by availability of credit facilities within the last year, KUR is clearly the dominant credit facility, with 80.5% of villages utilizing KUR. The other programs (KKP-E, KUK, and KUBE) serve much smaller portions of the villages. In relation to Kopdes Merah Putih, BBRI, as the SOE bank with a large portion of KUR within its loan portfolio, may have to distribute more than its SOE peers.

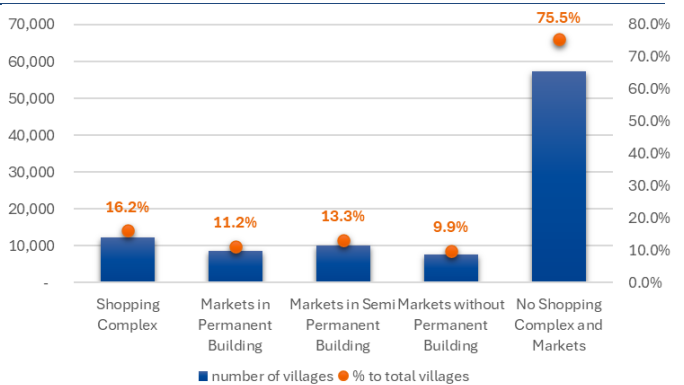
In terms of the number of villages by availability of shops, a majority (75.5%) of villages currently lack shopping complexes or markets, which highlights a gap in rural infrastructure. The government's plan to build six retail outlets/village could address this lack of local commerce hubs, increasing access to agricultural products and reducing consumer prices by cutting out inefficient distribution chains. However, building infrastructure where none exists may involve high initial cost. Furthermore, villages lacking experience may result in operational inefficiencies or mismanagement. If Village Cooperative (Kopdes Merah Putih) mismanage their loans due to a lack of expertise, this could lead to high loan delinquency, burdening the SOE banks with NPLs.

Exhibit 13. Number of villages by availability of credit facilities within the last year



Source: BPS, BRIDS

Exhibit 14. Number of villages by availability of shopping complex, markets and agricultural production shop/stall



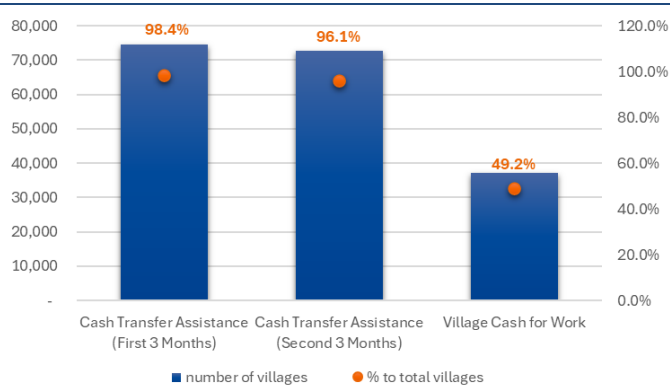
Source: BPS, BRIDS

Higher risk on cooperative asset quality

According to BPS, more than 95% of villages in Indonesia were receiving cash transfer assistance. However, slightly less than half were receiving cash for the work program. The sudden increase in work-related funds for the village could trigger delinquency risk if mismanaged.

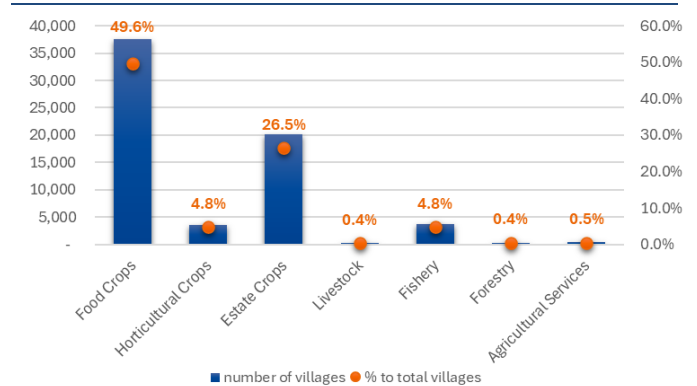
Exh.16 shows that the majority of villages in Indonesia works in food-related sectors, which does not tally with the number of cooperative operating in those sectors. According to the government, there are around 64 thousand farmer groups ready to form cooperative. While the cooperatives could help distribute these products more efficiently, any downturn could severely impact the cooperative's profitability and the villages' ability to repay loans, leaving SOE banks exposed to greater risk of loan defaults.

Exhibit 15. Number of villages by availability of cash transfer assistance and village cash for work program



Source: BPS, BRIDS

Exhibit 16. Number of villages that the majority work in agricultural sector by main type of subsector

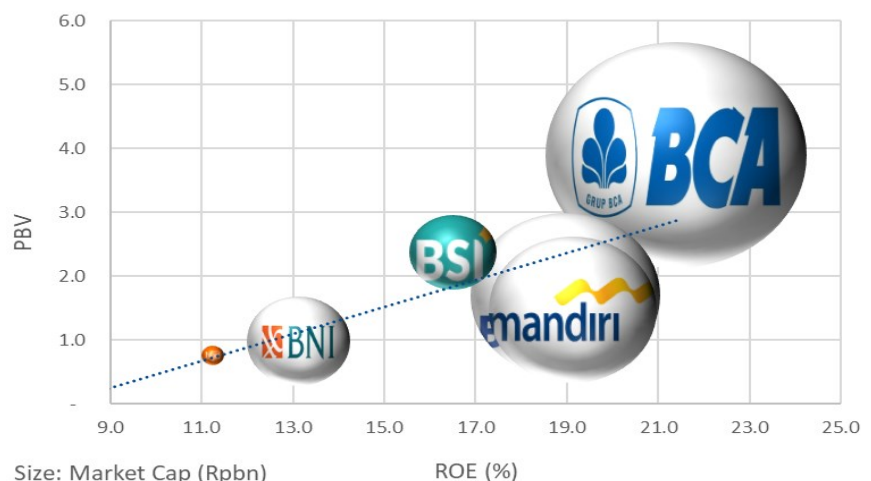


Source: BPS, BRIDS

Maintain Neutral, with BBKA remaining as our top pick

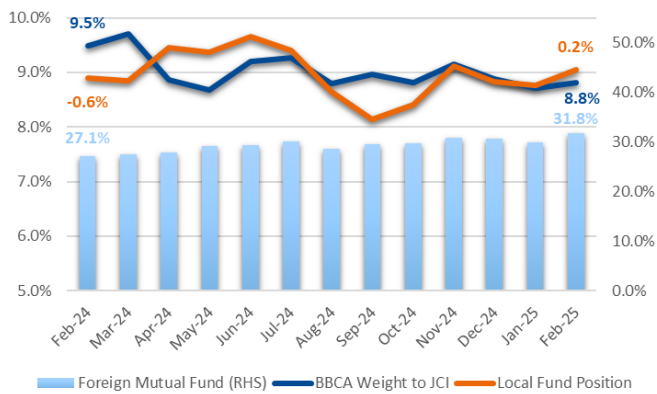
Although we do not expect this new program to materialize in the short term, we continue to favor BBKA and BTPS, as they have fewer concerns from this new program. Among SOE banks, we believe BRIS will be the least affected due to its business model. We maintain a Neutral rating as we continue to see high domestic and global macro uncertainties. Key risks to our view include a stronger Rupiah, liquidity, and asset quality.

Exhibit 17. Sector's FY25F PBV-ROE Matrix



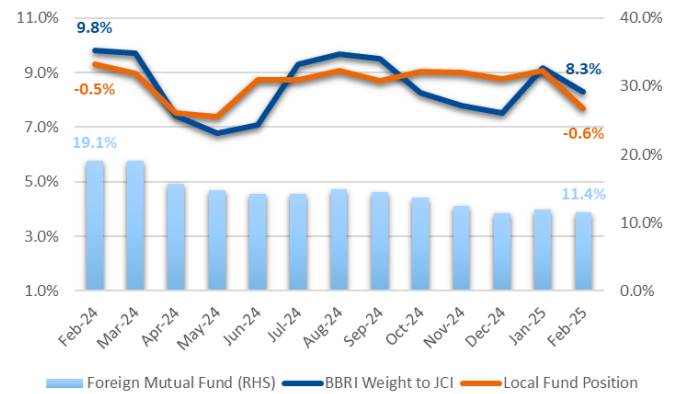
Source: Bloomberg, BRIDS Estimates

Exhibit 18. BBKA's weighting and fund position



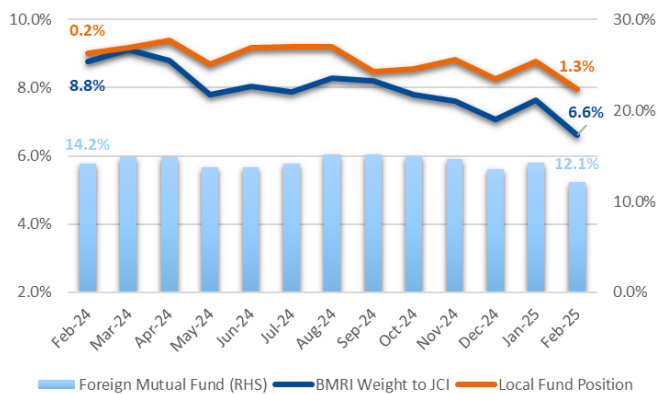
Source: KSEI, BRIDS

Exhibit 19. BBRI's weighting and fund position



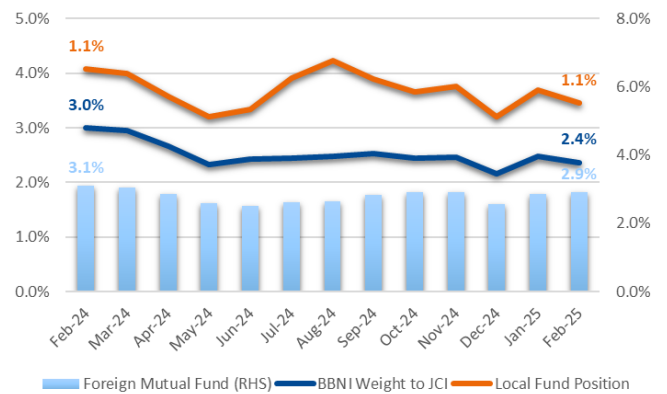
Source: KSEI, BRIDS

Exhibit 20. BMRI's weighting and fund position



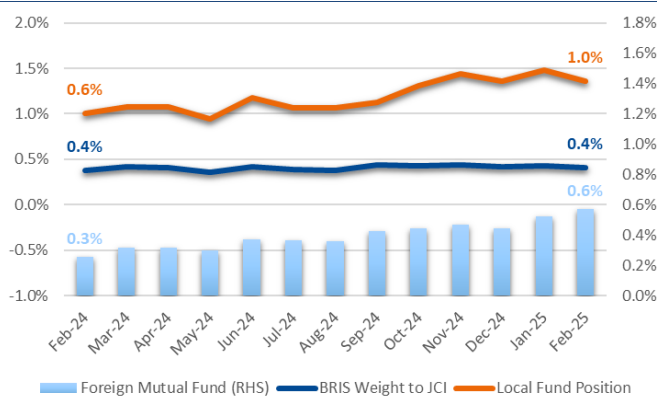
Source: KSEI, BRIDS

Exhibit 21. BBNI's weighting and fund position



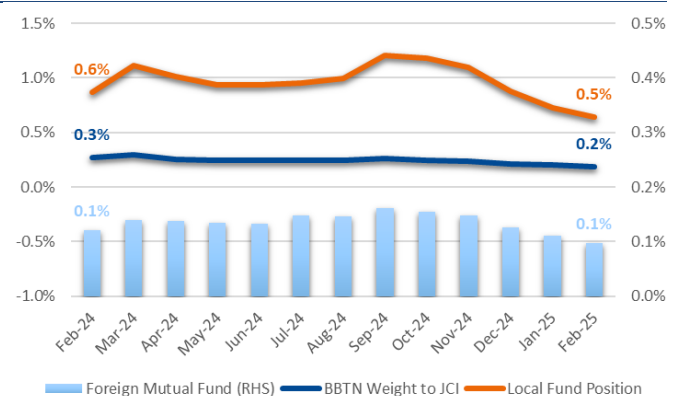
Source: KSEI, BRIDS

Exhibit 22. BRIS's weighting and fund position



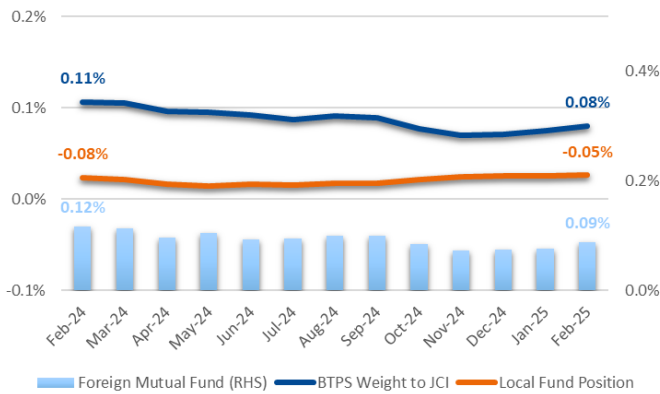
Source: KSEI, BRIDS

Exhibit 23. BBTN's weighting and fund position



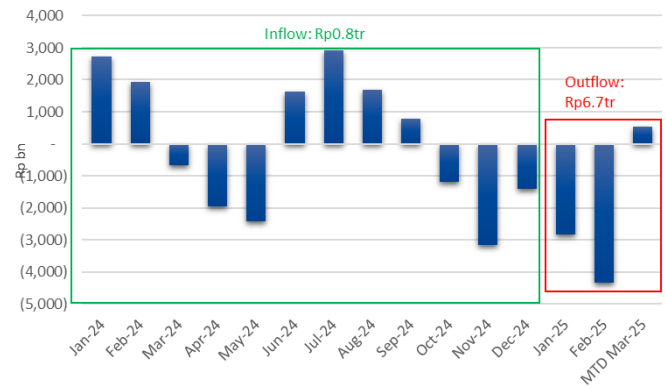
Source: KSEI, BRIDS

Exhibit 24. BTPS's weighting and fund position



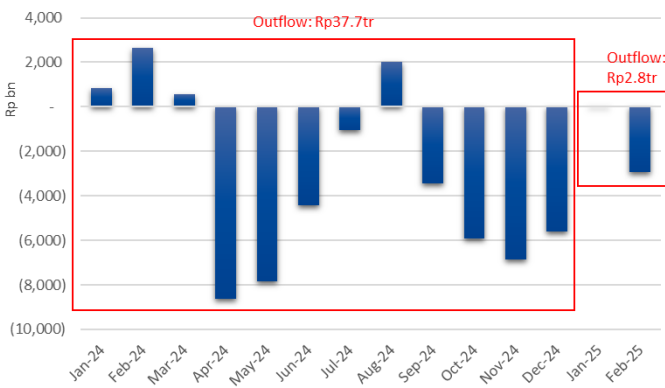
Source: KSEI, BRIDS

Exhibit 25. BBKA's historical foreign flows (as of 7 Mar25)



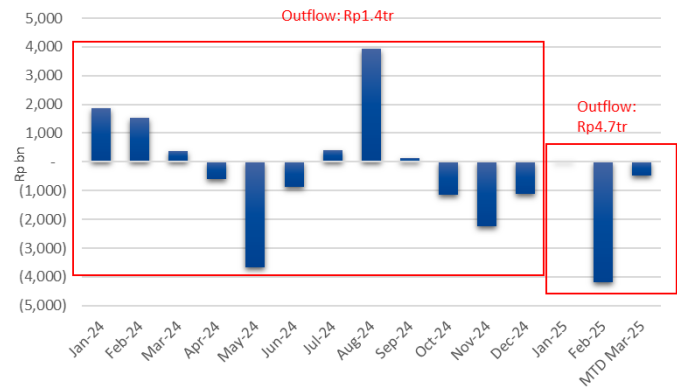
Source: IDX, BRIDS

Exhibit 26. BBRI's historical foreign flows (as of 7 Mar25)



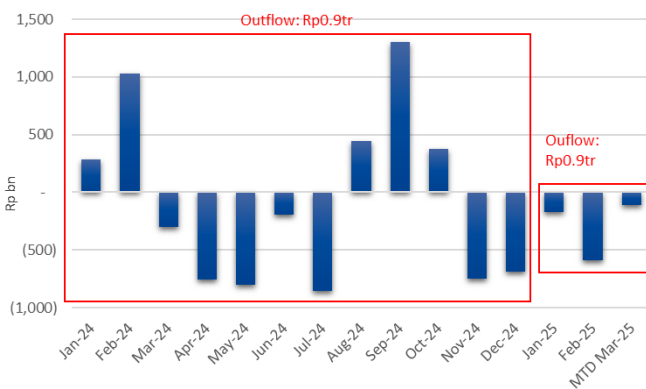
Source: IDX, BRIDS

Exhibit 27. BMRI's historical foreign flows (as of 7 Mar25)



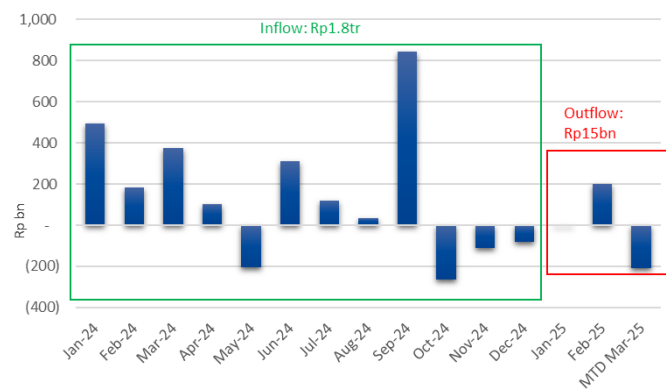
Source: IDX, BRIDS

Exhibit 28. BBNI's historical foreign flows (as of 7 Mar25)



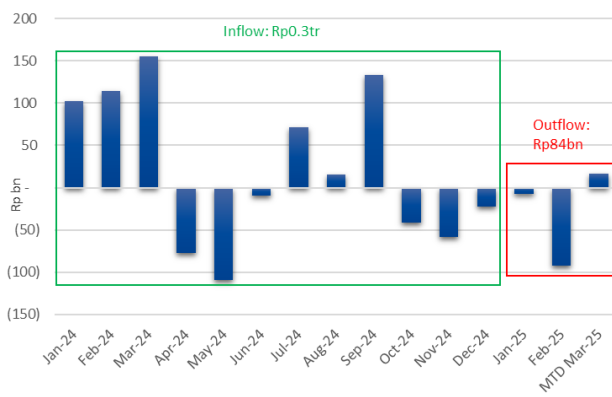
Source: IDX, BRIDS

Exhibit 29. BRIS's historical foreign flows (as of 7 Mar25)



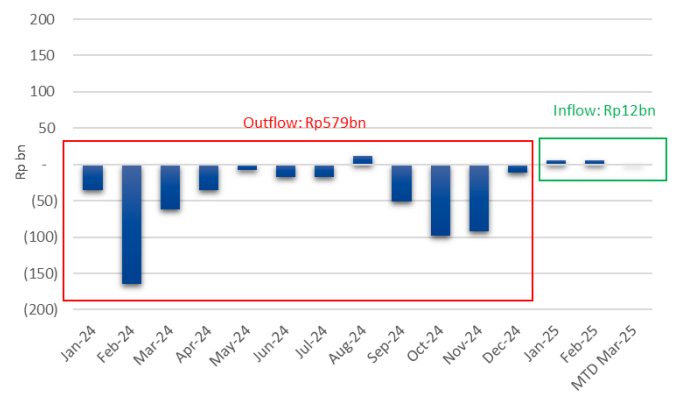
Source: IDX, BRIDS

Exhibit 30. BBTN's historical foreign flows (as of 7 Mar25)



Source: IDX, BRIDS

Exhibit 31. BTPS's historical foreign flows (as of 7 Mar25)



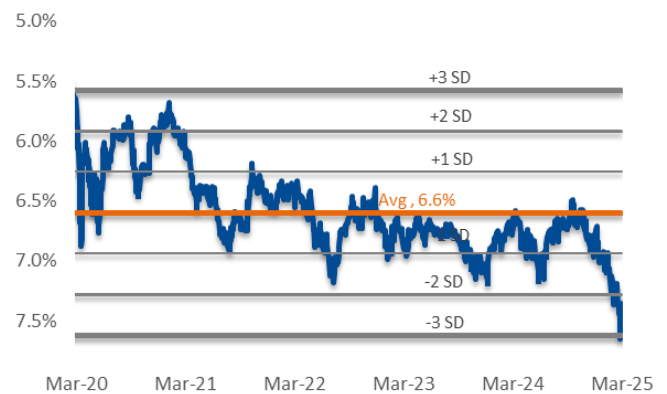
Source: IDX, BRIDS

Exhibit 32. Sector's cost of equity band chart (5-year)



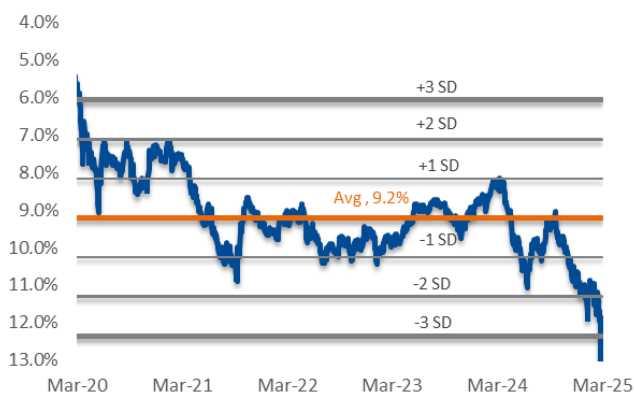
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 33. BBKA's cost of equity band chart (5-year)



Source: Company, Bloomberg, BRIDS Estimates

Exhibit 34. BBRI's cost of equity band chart (5-year)



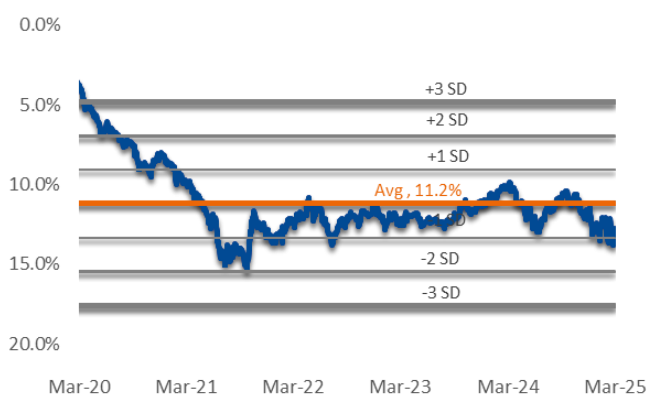
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 35. BMRI's cost of equity band chart (5-year)



Source: Company, Bloomberg, BRIDS Estimates

Exhibit 36. BBNI's cost of equity band chart (5-year)



Source: Company, Bloomberg, BRIDS Estimates

Exhibit 37. BRIS's cost of equity band chart (since merger)



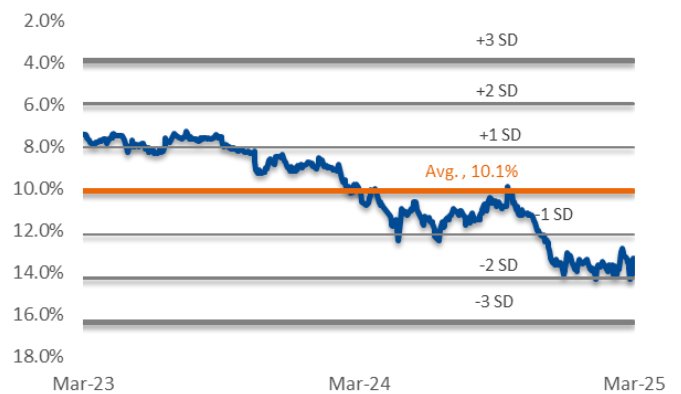
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 38. BBTN's cost of equity band chart (5-year)



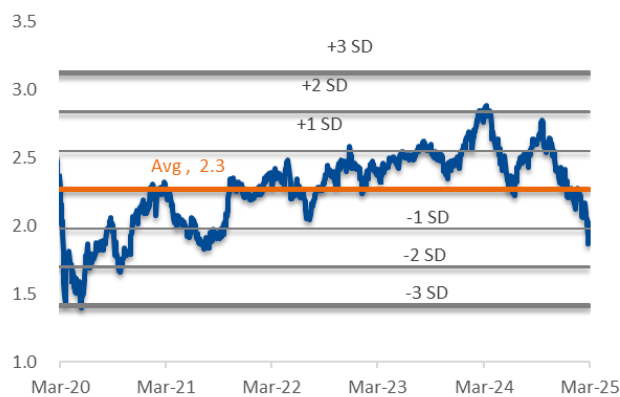
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 39. BTPS's cost of equity band chart (2-year)



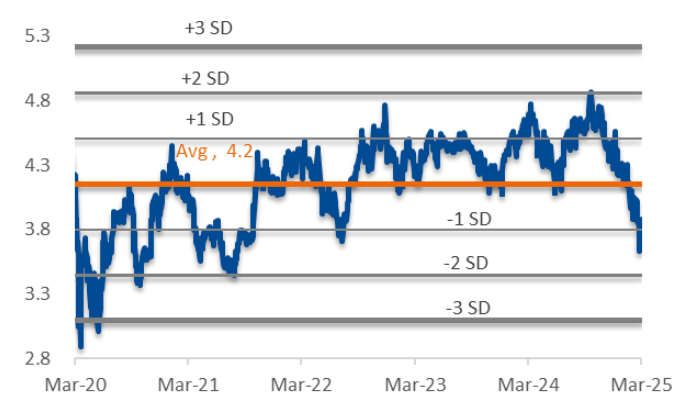
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 40. Sector's P/BV band chart (5-year)



Source: Company, Bloomberg, BRIDS Estimates

Exhibit 41. BBKA's P/BV band chart (5-year)



Source: Company, Bloomberg, BRIDS Estimates

Exhibit 42. BBRI's P/BV band chart (5-year)



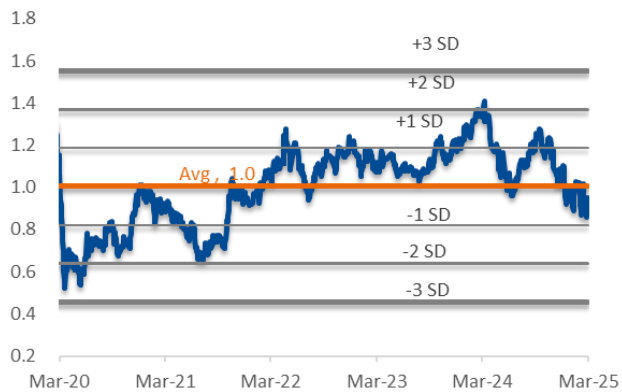
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 43. BMRI's P/BV band chart (5-year)



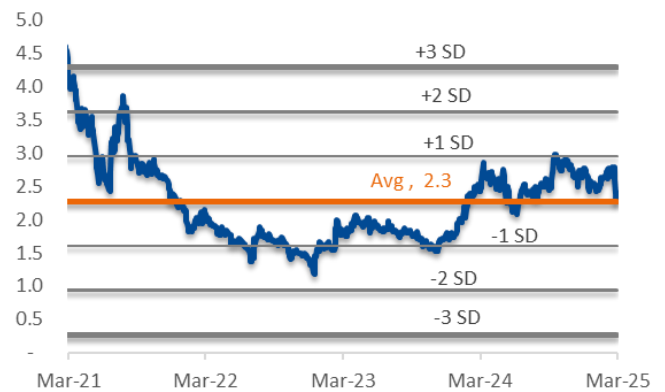
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 44. BBNI's P/BV band chart (5-year)



Source: Company, Bloomberg, BRIDS Estimates

Exhibit 45. BRIS's P/BV band chart (since merger)



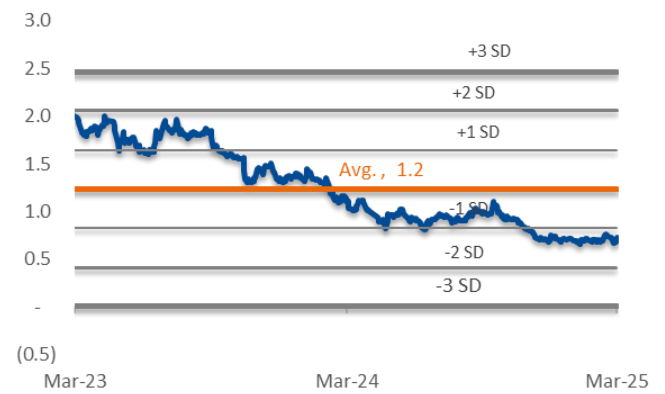
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 46. BBTN's P/BV band chart (5-year)



Source: Company, Bloomberg, BRIDS Estimates

Exhibit 47. BTPS's P/BV band chart (2-year)



Source: Company, Bloomberg, BRIDS Estimates

BRI Danareksa Equity Research Team

Erindra Krisnawan, CFA	Head of Equity Research, Strategy, Coal	erindra.krisnawan@brids.co.id
Natalia Sutanto	Consumer, Cigarettes, Pharmaceuticals, Retail	natalia.sutanto@brids.co.id
Niko Margaronis	Telco, Tower, Technology, Media	niko.margaronis@brids.co.id
Timothy Wijaya	Metal, Oil and Gas	timothy.wijaya@brids.co.id
Victor Stefano	Banks, Poultry	victor.stefano@brids.co.id
Ismail Fakhri Suweleh	Healthcare, Property, Industrial Estate	ismail.suweleh@brids.co.id
Richard Jerry, CFA	Automotive, Cement, Infrastructure	richard.jerry@brids.co.id
Ni Putu Wilastita Muthia Sofi	Research Associate	wilastita.sofi@brids.co.id
Naura Reyhan Muchlis	Research Associate	naura.muchlis@brids.co.id
Sabela Nur Amalina	Research Associate	sabela.amalina@brids.co.id
Kafi Ananta Azhari	Research Associate	kafi.azhari@brids.co.id

BRI Danareksa Economic Research Team

Helmy Kristanto	Chief Economist, Macro Strategy	helmy.kristanto@brids.co.id
Dr. Telisa Aulia Falianty	Senior Advisor	telisa.falianty@brids.co.id
Kefas Sidauruk	Economist	kefas.sidauruk@brids.co.id

BRI Danareksa Institutional Equity Sales Team

Yofi Lasini	Head of Institutional Sales and Dealing	yofi.lasini@brids.co.id
Novrita Endah Putrianti	Institutional Sales Unit Head	novrita.putrianti@brids.co.id
Ehrlich Suhartono	Institutional Sales Associate	ehrliech@brids.co.id
Yunita Nababan	Institutional Sales Associate	yunita@brids.co.id
Adeline Solaiman	Institutional Sales Associate	adeline.solaiman@brids.co.id
Andreas Kenny	Institutional Sales Associate	andreas.kenny@brids.co.id
Christy Halim	Institutional Sales Associate	christy.halim@brids.co.id
Jason Joseph	Institutional Sales Associate	jason.joseph@brids.co.id

BRI Danareksa Sales Traders

Mitcha Sondakh	Head of Sales Trader	mitcha.sondakh@brids.co.id
Suryanti Salim	Sales Trader	suryanti.salim@brids.co.id

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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