28 October 2024

Financial Services | Banks

# Banks

## Overweight (Maintained)

## Banks Resilience Amid Sritex Bankruptcy; Still O/W

| | |
|---|---|
| Stocks Covered | 8 |
| Rating (Buy/Neutral/Sell): | 7 / 1 / 0 |
| Last 12m Earnings Revision Trend: | Neutral |

- **O/W; Top BUYs: Bank Rakyat Indonesia (BBRI)>Bank Negara Indonesia (BBNI)>Bank Mandiri (BMRI)>Bank Tabungan Negara (BBTN).** Sritex's bankruptcy impacts key lenders, eg Bank Central Asia (BBCA), Bank BJB (BJBR), Bank CIMB Niaga (BNGA), and BBNI. Loan loss reserves (LLR) are being tweaked (BBCA's 84% provision and more reserves planned; BJBR aims to raise coverage to 80%; BBNI and BNGA well-positioned with minimal earnings impact). This may pressure share price but provides opportunity to accumulate at attractive valuations, supporting a positive sector outlook.
- **Sri Rejeki Isman's (Sritex) (SRIL IJ, NR)** bankruptcy declaration has revealed a USD1.6bn debt crisis and USD980.56m in equity deficits, with major exposure for BBCA and other key lenders. According to CNBC Indonesia, Sritex's debt largely comprises long-term obligations amounting to USD809.99m held by 28 creditors. BBCA is the largest lender(USD71.3m and USD11.37m in long-term and short-term loans). Others include BJBR, BNGA, and BBNI, as well as international firms like State Bank of India Singapore Branch, Citibank NA Indonesia, and Bank Mizuho Indonesia.
- **Banks boosting LLR: BBCA, BJBR, BBNI, and BNGA are strengthening their risk mitigations.** Banks affected by Sritex's bankruptcy are taking steps to adjust LLRs. BBCA has provisioned 84% of its exposure to the firm and is considering an additional IDR160bn provision – raising credit costs by c.1.9bps. BJBR, with a lower LLR coverage, plans to raise provisions from 53% to 80% by October. BBNI and BNGA are opting to reinforce collateral or maintain full provisioning as part of their risk mitigation processes.
- **BBCA and BJBR strengthen provisions,** minimising risk impact on loan portfolios. BBCA's exposure is small (0.13% of total loan portfolio), and it is evaluating extra provisions to further manage risk, particularly as Sritex has appealed the bankruptcy decision to the Supreme Court. BBCA said any additional provisions would have a minor impact on credit costs. BJBR (IDR543bn in outstanding loans to Sritex) currently holds 53% provision coverage and plans to raise this by IDR145bn to reach its 80% target, thereby bolstering the bank's risk position.
- **BBNI and BNGA appear well-prepared** to handle their exposures with minimal impacts on earnings. BBNI's exposure, linked to Sritex's rayon division, stands at IDR3trn or 0.42% of its total loan portfolio. This is already covered by an 86% LLR backed by collateral. Management said additional provisions beyond this level are unnecessary, and any further requirements can be met by reallocating provisions from other upgraded debtors. BNGA, having fully provisioned its exposure to Sritex, expects no further income statement impacts. For investors, this situation may offer an opportunity to accumulate shares in these banks at attractive valuations, as most are not anticipated to face significant earnings disruptions, keeping the sector outlook positive with an OVERWEIGHT recommendation.

| Top Picks | Target Price |
|---|---|
| Bank Rakyat Indonesia (BBRI IJ) – BUY | IDR5,900 |
| Bank Negara Indonesia (BBNI IJ) – BUY | IDR6,710 |
| Bank Mandiri (BMRI IJ) – BUY | IDR8,100 |
| Bank Tabungan Negara (BBTN IJ) – BUY | IDR1,990 |

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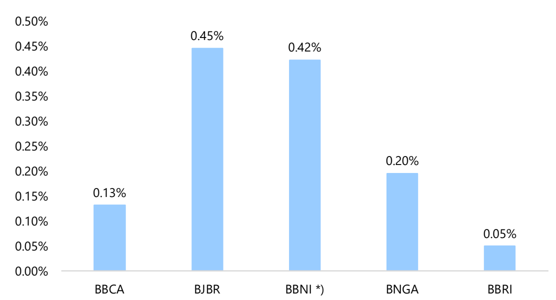
**% of Sritex loans to banks total loans exposure**




*Notes: *BBNI loan is not directly to SRIL, but to its rayon business*
*Source: Company data, RHB*

| Company Name | Rating | Target (IDR) | % Upside (Downside) | P/E (x) Dec-25F | P/B (x) Dec-25F | ROAE (%) Dec-25F | Yield (%) Dec-25F |
|---|---|---|---|---|---|---|---|
| Bank BJB | Neutral | 920 | (6.1) | 5.5 | 0.6 | 10.6 | 9.4 |
| Bank Central Asia | Buy | 12,060 | 12.2 | 23.0 | 4.6 | 21.0 | 3.0 |
| Bank CIMB Niaga | Buy | 2,300 | 21.4 | 6.4 | 0.8 | 13.6 | 8.4 |
| Bank Mandiri | Buy | 8,100 | 14.9 | 10.3 | 2.1 | 21.4 | 5.8 |
| Bank Negara Indonesia | Buy | 6,710 | 18.8 | 8.7 | 1.2 | 14.6 | 5.8 |
| Bank Neo Commerce | Trading Buy | 360 | 37.4 | 15.3 | 0.9 | 6.3 | - |
| Bank Rakyat Indonesia | Buy | 5,900 | 23.7 | 10.1 | 2.0 | 19.9 | 6.8 |
| Bank Tabungan Negara | Buy | 1,990 | 35.4 | 5.1 | 0.5 | 10.0 | 3.2 |

*Source: Company data, RHB*

# Banks Resilience Amid Sritex Bankruptcy

**Sritex has been declared bankrupt: Banks bolster LRR as USD1.6bn debt fallout unfolds.** CNBC Indonesia reported that textile company Sritex has been declared bankrupt, with liabilities totaling USD1.6bn and an equity deficit of USD980.56m. Its long-term debt, largely with banks, is USD809.99m, including liabilities to 28 institutions – the largest of which is BBCA, with USD71.3m and USD11.37m in long-term and short-term loans. In addition to BBCA, Sritex has loans with a number of listed banks, including BJBR, BNGA, and BBNI. Additional major creditors include the State Bank of India Singapore Branch, Bank QNB Indonesia, Citibank NA Indonesia, and Bank Mizuho Indonesia, all of which have significant long-term loans with Sritex as of Jun 2024.

Based on our calls to their respective management teams, BBCA, BJBR, BBNI, and BNGA have provided various levels of LLR coverage ratios. BBCA has provisioned 84% of its exposure, while BJBR plans to increase provisions to 80%. BBNI and BNGA have taken steps to mitigate impacts, either through existing collateral or full provisioning.

**BBCA is in discussion for additional provisions for Sritex loans exposure amidst the latter's bankruptcy appeal, impacting credit costs by 1.9bps.** BBCA said it has made a provision with LLR of approximately 84% of the entire outstanding Sritex loans or around IDR1trn. Additional provisions of roughly IDR160bn are under discussion, which equates to an additional 1.9bps on the cost of credit. It is worth noting that Sritex is appealing the legal ruling to the Supreme Court. In our calculations, the textile firm's loans accounted for 0.13% of BBCA's total loan exposure at end Sep 2024.

**BJBR increases LLR on Sritex exposure, plans additional IDR145bn provision.** BJBR said the outstanding loans to Sritex is IDR543bn or 0.45% of the bank's total loans exposure as of Sep 2024. BJBR has booked LLR for about 53% (equivalent to IDR289bn) of the outstanding Sritex loans. Regarding the bankruptcy claim, the bank may raise LLR to 80%, amounting to an extra IDR145bn this October.

**BBNI holds 86% loan loss reserve on IDR3trn Sritex rayon exposure, cites collateral coverage.** The bank said its loans are not directly with Sritex but rather to its rayon business, with a total exposure of IDR3trn or about 0.42% of BBNI's total loan exposure. This has already been classified as NPL and covered by an 86% LLR. According to management, increasing LLR to 100% is theoretically unnecessary because collaterals are already in place. Even if 100% LLR was required, BBNI said it would not affect this year's cost of credit or CoC because the bank can reallocate provisioning from debtors that have been upgraded in stages.

**BNGA and BBRI are fully provisioned for Sritex loans, minimising impact on earnings.** BNGA said the Sritex loans have already been fully provisioned (100%), hence, there would no impact on future earnings on the income statement. In our calculations, Sritex loans accounted for around 0.2% of BNGA's total loan exposure. In the case of BBRI, management said Sritex has a loan with the bank to the tune of IDR600bn, which is fully provisioned and classified as NPL. In our calculations, the Sritex loan amounted to 0.05% of BBRI's total loans exposure.

**Sritex's bankruptcy may pressure bank stocks, but adequate provisions by major lenders offer accumulation opportunity.** While we think the news of the Sritex bankruptcy may cause pressure on the share prices of the banks who lent money to the firm, BBCA, BBNI, BNGA, and BBRI all said they have allocated adequate LLRs to their Sritex loans and do not require extra provisions. Only BJBR has highlighted the need to add further provisions because its LLR to Sritex loans are still less than 80%.

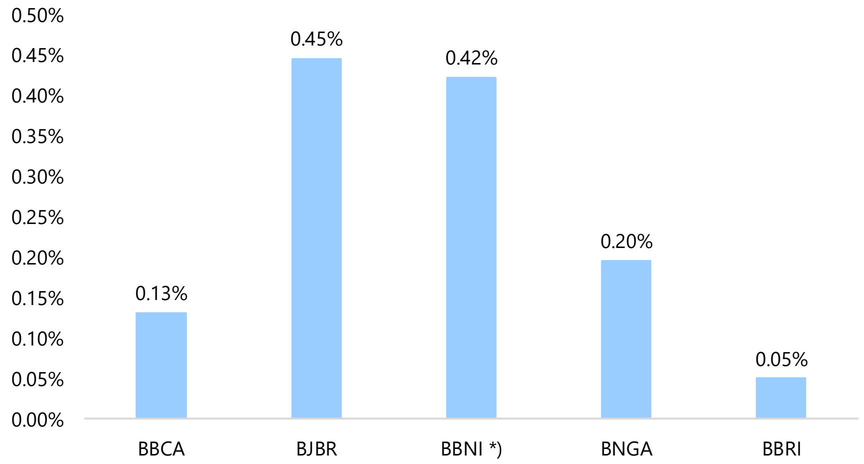
If there are declines in the share prices of BBCA, BBNI, BNGA, and BBRI, we believe this will provide investors with a good window of opportunity to accumulate bank shares at more attractive prices. We maintain our sector call at OVERWEIGHT.

**Figure 1: Banks' loans to Sritex and their respective LLR coverage ratios**

| Banks | Sritex's loans outstanding (IDRbn) | Banks' total loan exposure (IDRbn) | % of bank's total loan exposure | Sritex's LLR | | Planned additional Sritex LLR | | Estimated Sritex LLR at end 2024 | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % | (IDRbn) | % | (IDRbn) | % | (IDRbn) |
| BBCA | 1,150 | 877,110 | 0.13% | 84% | 1,000 | - | - | 84% | 1,000 |
| BJBR | 543 | 121,924 | 0.45% | 53% | 289 | 27% | 145 | 80% | 434 |
| BBNI *) | 3,000 | 710,480 | 0.42% | 86% | 2,580 | - | - | 86% | 2,580 |
| BNGA | 397 | 202,928 | 0.20% | 100% | 397 | - | - | 100% | 397 |
| BBRI | 600 | 1,203,683 | 0.05% | 100% | 600 | - | - | 100% | 600 |

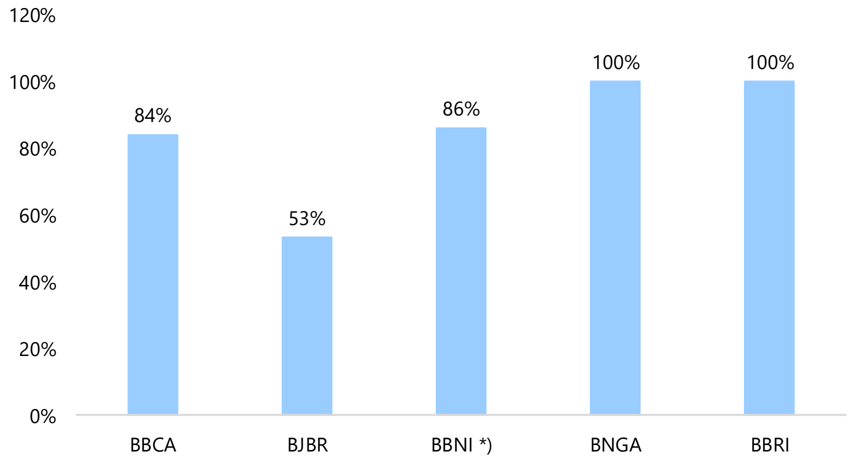
*Notes: *)BBNI loan is not directly to SRIL, but to its rayon business*
*Source: Company data, RHB*

**Figure 2: Percentage of Sritex's loan to banks' total loan exposure**




*Notes: *)BBNI loan is not directly to Sritrex, but to its rayon business*
*Source: Company data, RHB*

**Figure 3: Banks' LLR on Sritex debts**




*Source: Company data, RHB*

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|---|---|
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| **Trading Buy:** | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| **Neutral:** | Share price may fall within the range of +/- 10% over the next 12 months |
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