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KEY HIGHLIGHTS

Sector

Banking

Banks to have dividend policy; OJK may halt dividend payment.

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TRADERS' CORNER

Charoen Pokphand Indonesia (CPIN IJ): Technical BUY

Elang Mahkota Teknologi (EMTK IJ): Technical BUY

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REGIONAL MARKET

Market	Close	+ / -	Chg (%)
MSCI Indonesia	7,473.9	(74.0)	(1.0)
MSCI Asia-Ex Japan	600.2	(7.0)	(1.2)
KLCI	1,445.6	2.1	0.1
FSSTI	3,215.1	(0.3)	(0.0)
SET	1,494.0	(13.3)	(0.9)
Hang Seng	17,466.9	(262.4)	(1.5)
Nikkei	32,315.1	(363.6)	(1.1)
Shanghai Comp	3,102.3	(13.3)	(0.4)
Dow Jones	33,618.9	(388.0)	(1.2)

Source: Bloomberg

INDONESIA STOCK EXCHANGE

	Level	+ / -	Chg (%)
Index	6,923.8	(74.6)	(1.1)
LQ-45	952.4	(10.2)	(1.1)
Value (US\$m)	826.6	53.9	7.0

FOREIGN TRADE IN IDX

Net (US\$m)	Buy	Sell	Total (%)
(42.5)	265.2	307.8	34.7

TOP VOLUME

Company	Price (Rp)	Chg (%)	Volume ('000)
GoTo Gojek Tokopedia	87	0.0	5,154,826
Bumi Resources Minerals	210	(3.7)	595,118
Bumi Resources	135	(3.6)	410,569
Bukalapak.com	208	(2.8)	326,789
Metro Healthcare	520	0.0	236,202

TOP GAINERS

Company	Price (Rp)	Chg (%)	Volume ('000)
Charoen Pokphand	5,375	8.1	24,143
Elang Mahkota	575	5.5	96,124
MAP Aktif Adiperkasa	765	3.4	40,948
Pantai Indah Kapuk Dua	4,720	2.6	29,319
Mitra Adiperkasa	1,850	1.9	20,803

TOP LOSERS

Company	Price (Rp)	Chg (%)	Volume ('000)
Barito Pacific	1,345	(8.8)	207,684
Adaro Minerals	1,315	(8.4)	110,684
Petrindo Jaya Kreasi	2,920	(8.2)	19,576
Medco Energi	1,515	(7.6)	184,587
Pertamina Geothermal	1,485	(7.5)	228,640

COMMODITY TREND

	26 Sep 23 Closing	Chg (%)	
		1-day	1-mth
Forex (Rp/US\$)	15,490	0.6	1.3
Crude Oil NYMEX (US\$/bbl)	90.39	0.8	13.2
Coal Fut Newc (US\$/tonne)	160.35	0.2	n.a.
Nickel 3M LME	18,877	(1.3)	(9.2)
Tin 3M LME	26,012	0.5	2.0
Gold SPOT (US\$/oz)	1,912	(0.7)	(0.2)
CPO Fut Msia (MYR/tonne)	3,618	(1.6)	(6.3)

Source: Bloomberg, UOB Kay Hian

SECTOR UPDATE

Banking – Indonesia

Bank To Have A Dividend Policy; OJK May Halt Dividend Payment

OJK has issued an updated governance regulation of banks' dividend payment policy and OJK has the authority to halt dividend payment. The impact may differ across the industry, but a strong CAR will improve banks' stability and provide room for higher growth. Given solid CAR and robust provision coverage, there is an opportunity for banks under our coverage to maintain their DPR. Our top picks: BBNI and BBRI. Maintain OVERWEIGHT.

WHAT'S NEW

- An updated bank governance regulation.** Financial Services Authority (OJK) issued an updated bank governance regulation, namely, POJK No.17 2023 this month. Following the rapid development of Indonesia's banking industry, OJK thinks it is essential for the institution to review the old bank governance regulation and implement the new regulation into the current banking environment. The new regulation aligned with the international standard of Basel Committee on Banking Services (BCBS), Organisation for Economic Corporation (OECD), and International Finance Corporation (IFC). Overall, the regulation controls management's responsibilities and authorities. This new regulation covers comprehensive points of good bank governance, from management's responsibilities and authorities, dividend policy, antifraud strategies, etc.
- Banks must have a dividend payment policy and OJK now has the authority to halt the dividend payment.** Motivated by huge dividend disbursement by some of Indonesian banks in the last two years, OJK thinks it is necessary to regulate banks' dividend payment. According to the regulation, OJK does not regulate the dividend payment ratio, but will require banks to have dividend policies and disseminate their dividend policies to investors. The policy will later contain, among others, banks consideration in determining the amount of dividend distribution, including the necessary approval mechanism. The policy also can contain banks' rights to delay the dividend payment and to cancel the dividend payment. OJK has the authority to order banks to delay, limit, or cancel the dividend payment.
- Banks' CAR could further increase from current 25%, but ROE to remain high.** We believe the new regulation which enforces the implementation of good bank governance should positively impact to all stakeholders, including minority shareholders. Meanwhile, led by the new regulation, banks might be more disciplined and allocate lower dividend payment which will result in a stronger capital position, translating into high capital adequacy ratio (CAR). Investors may lose upside from dividend yield, but the new regulation will provide banks with solid CAR which could: a) support banks during the unexpected economic downturn by having sufficient capital to absorb the loss, and b) support banks' inorganic and organic growth. Given the high lending rate, the Indonesian banking industry has high NIM while banks continue to digitalise operations which supports efficiency. With robust CAR, we expect higher loan growth which will help the banks to maintain ROE. We also think OJK's authority to halt dividend payment to prepare for any losses and downturn should have a positive impact to the overall economy.

PEER COMPARISON

Ticker	Rec	Price 26-Sep-23 (Rp)	Target Price (Rp)	Market Cap (Rp)	PE		P/B		Div Yield		ROE 2023F (%)
					2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)	
BBCA	BUY	8,950	10,300	1,103	22.4	19.7	4.5	4.0	2.3	2.8	21.1
BMRI	BUY	5,925	6,500	553	11.0	9.6	2.1	1.9	4.5	5.5	20.5
BBNI	BUY	9,975	11,200	180	8.6	7.5	1.2	1.1	5.8	6.7	15.1
BBRI	BUY	5,200	6,100	788	13.0	11.8	2.5	2.3	6.2	6.8	19.6
BBTN	BUY	1,225	1,700	17.2	4.7	4.2	0.6	0.5	3.7	4.3	12.9
BTPS	BUY	1,880	2,900	14.5	9.8	6.6	1.6	1.4	4.9	5.1	16.9
BDMN	HOLD	2,870	2,500	28.1	7.6	6.8	0.6	0.5	4.6	5.1	7.6

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

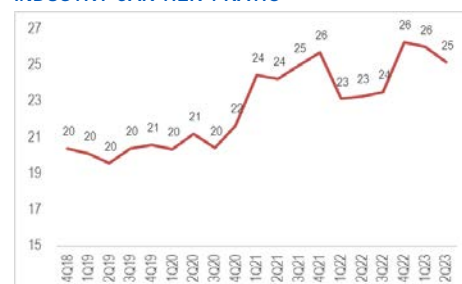
(Maintained)

TOP SECTOR PICKS

Company	Ticker	Rec	Share Price (Rp)	Target Price (Rp)
Bank Negara Ind	BBNI IJ	BUY	9,975	11,200
Bank Rakyat Ind	BBRI IJ	BUY	5,200	6,100

Source: UOB Kay Hian

INDUSTRY CAR TIER 1 RATIO



Source: Bloomberg

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- Impact may differ across industry.** The Indonesian banking system's CAR stood at 27% in Jun 23, the highest in region (Malaysia: 18.5% and Thailand: 19%). CAR Tier 1 trended up from 25% in Jun 23 from 20.4% in Dec 18, driven by: a) the solid earnings growth and b) new equity to fulfil OJK's requirement of Rp3t minimum capital by end-22. We believe the impact of the new regulation may be different across the industry, depending on: a) CAR, b) asset quality, and c) management. Historically, some of the banks could be categorised as over capitalising as CAR could reach 30% (above OJK's maximum requirement) while some banks have a low CAR ratio of around 11%, close to OJK's minimum requirement. Therefore, we think the impact may be different across the industry. We believe small and mid-sized banks which are: a) typically family-owned banks, and b) regional banks will be affected the most by the new regulations.

- Big SOE banks could maintain their high DPR.** Despite the implementation of the new regulation, we believe there is possibility for big SOE banks to maintain or raise their dividend payout ratio (DPR) on the back of strong CAR and robust provision coverage. SOE banks' dividend payment was the biggest contributor to the government's dividend income as of May 23. In May 23, it was reported that the combined dividend payment of the Big Three SOE banks to the government reached Rp40.4t. Given their contribution to the government's dividend income, we believe there is opportunity for the SOE banks to maintain or raise their high DPR. Bank Negara Indonesia plans to raise its DPR to 50% from current DPR of 40% due to improving credit profile, leading to improving CAR. Bank Rakyat Indonesia (BBRI) guides for 85% DPR this year due to high CAR ratio of 26.6%. Meanwhile, we expect Bank Mandiri (BMRI) will maintain its DPR of 60%.

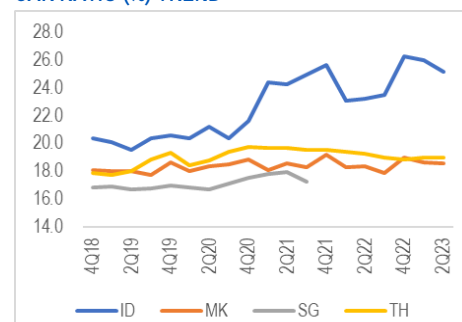
VALUATION/RECOMMENDATION

- Maintain OVERWEIGHT.** The new regulation could lead to excessive capital for some banks which we believe provide room for banks to grow organically (investing in technologies, human capital, and networks) and inorganically (acquire other financial institutions to build ecosystem). The solid CAR also provides sufficient buffer for the banks to absorb loss during the uncertain environment, especially since OJK has lifted the COVID-19 restructured loans which will impact the asset quality.

- Our economist expects Indonesia's GDP to grow 4.9% in 2023 and Bank Indonesia to cut 7DRR in 1Q24. Historically, the rate cut positively impacted banks' earnings through NIM and loan growth. We have BUY calls for the Big Four banks: BBRI (Rp6,100), BBNI (Rp11,200), BMRI (Rp6,500), BBKA (Rp10,300). Our top picks are BBNI and BBRI. BBNI is the cheapest and has the highest beta among banks which makes it more sensitive to the changes in the economic environment and expectation. Focusing on the low-risk loan segment and robust coverage, we expect BBNI to have a better earnings quality and gradually recover its ROE to the high-teens. Meanwhile, BBRI is building synergies with Pegadaian and Permodal Nasional Mandiri (PNM). It plans to balance its growth between KUPEDES and KUR loans. BBRI also plans to restore its high ROE (19-20%) by 2025. As most of its loan portfolio is fixed-rate loans, BBRI could benefit most from a lower 7DRR. The rate cuts may serve as catalysts for small banks whose valuations have been lagging compared with the Big Four banks. However, we believe investors are waiting for more improvement in asset quality.

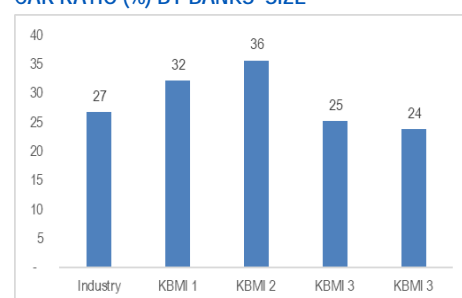
- Risks include adverse macro developments, uncertain geopolitical issues, regulatory changes, worsening asset quality, lower-than-expected NIM, lower-than-expected loan growth, heightening competition, and higher expenses.

CAR RATIO (%) TREND



Source: Bloomberg

CAR RATIO (%) BY BANKS' SIZE



Source: OJK

BANKS UNDER OUR COVERAGE CAPITAL RATIO

Tickers	NPL	Tier-1	Total	Levera	ROE (%)
	Ratio (%)	CAR (%)	CAR (%)	ge (x)	
BBCA IJ	1.7	25.9	26.8	6.0	21.9
BBNI IJ	2.8	18.8	20.6	7.7	14.9
BBRI IJ	2.7	22.3	23.3	6.0	19.4
BBTN IJ	3.4	16.1	20.2	n.a.	12.9
BBYB IJ	2.6	36.2	37.5	5.3	n.m.
BDMN IJ	2.8	27.9	28.8	4.3	6.7
BMRI IJ	1.9	18.4	19.5	8.6	21.3
BTPS IJ	3.0	46.2	46.6	2.5	23

Source: OJK

TRADERS' CORNER



Charoen Pokphand Indonesia (CPIN IJ)

Technical BUY with 5% potential return

Resistance: Rp5,400, Rp5,600

Support: Rp5,025, Rp4,880

Stop-loss: Rp5,000

Share price closed with strong gains and formed a long-body bullish candlestick. The price rebounded from its support area and broke above its Rp5,075 resistance level. That said, it could trigger more bullish pressure and challenge the resistance at Rp5,600 and Rp5,600. Technical indicator RSI is sloping upwards and is back above its centre line, while the MACD has just formed a bullish crossover signal. Buy at Rp5,275 and take profit at Rp5,400.

Approximate timeframe: 2-4 weeks.



Elang Mahkota Teknologi (EMTK IJ)

Technical BUY with 6.5% potential return

Resistance: Rp610, Rp655

Support: Rp540, Rp530

Stop-loss: Rp530

Share price closed higher and formed a bullish candlestick. Positive price action with higher trading volume signals for bullishness ahead, and momentum is looking more positive. That said, we see potential for the price to challenge the resistance at Rp610 and Rp655. Technical indicator RSI is sloping upwards and is approaching its centre line, while the MACD has just formed a bullish crossover signal. Buy at Rp570 and take profit at Rp610.

Approximate timeframe: 2-4 weeks.

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