

Moderate growth for agribusiness loans in 2020

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PEFINDO projects loan growth in the agribusiness sector (business activities related to agriculture, hunting and forestry) to be at a moderate level in 2020, with an estimated growth rate at 9%-10%. Crude palm oil (CPO) plantations will remain one of the major contributors to the agribusiness sector, with a projected contribution of above 30% in the near term. As of September 2019 (9M2019), the plantation subsector has contributed 34.4% to the total agribusiness sector. In addition, we project agribusiness to continue to contribute 10%-11% to gross domestic product (GDP) in the near term, while GDP growth is expected to be stagnant at 4.9%-5.1%. Thus, we are of the view that the potential loan growth will remain moderate in the near term. There are also industry-specific factors that serve as challenges, including CPO price volatility, stricter regulations in several export-destination countries, and increasing non-performing loans (NPL).

Table 1. Agribusiness's loan performance

	2014	2015	2016	2017	2018	Sep-19
[IDR Bn] Agribusiness loan	212,386.3	254,953.8	283,826.7	317,373.2	354,878.1	370,140.6
[%] NPL	1.8%	1.9%	2.2%	1.4%	1.3%	1.5%
[%] Growth	19.9%	20.0%	11.3%	11.8%	11.8%	9.3%
[USD per metric tons] CPO price	837.5	663.4	735.7	750.8	638.7	576.6

Source: Indonesia Banking Statistics, processed by PEFINDO

Contribution to national economy

The agribusiness sector, in our opinion, is important to national economic growth, as reflected by the sector's high contribution to the country's gross domestic product (GDP) and the amount of labor it employs. As of 9M2019, agribusiness contributed 10.6% to national GDP, the third largest behind the industrial sector (19.7%) and the trading sector (13.1%). As of FY2018, the sector also employed 28.5% of the national workforce, according to Badan Pusat Statistik (BPS), the highest compared to other sectors. In the near to medium term, we expect the contribution of the agribusiness sector to national GDP and the national workforce to remain significant at above 10% and above 27%, respectively.

Table 2. Sector's contribution to national GDP

In IDR Trillion	2014	2015	2016	2017	2018	9M2019
Industry	2,228	2,419	2,545	2,740	2,947	2,331
Agribusiness	1,164	1,266	1,354	1,438	1,514	1,252
Trading	1,419	1,533	1,635	1,769	1,932	1,542
National GDP	10,570	11,526	12,402	13,587	14,837	11,815
Industry contribution	21.1%	21.0%	20.5%	20.2%	19.9%	19.7%
Agribusiness contribution	11.0%	11.0%	10.9%	10.6%	10.2%	10.6%
Trading contribution	13.4%	13.3%	13.2%	13.0%	13.0%	13.1%

Source: Statistics Indonesia (BPS), processed by PEFINDO

Loan growth analysis

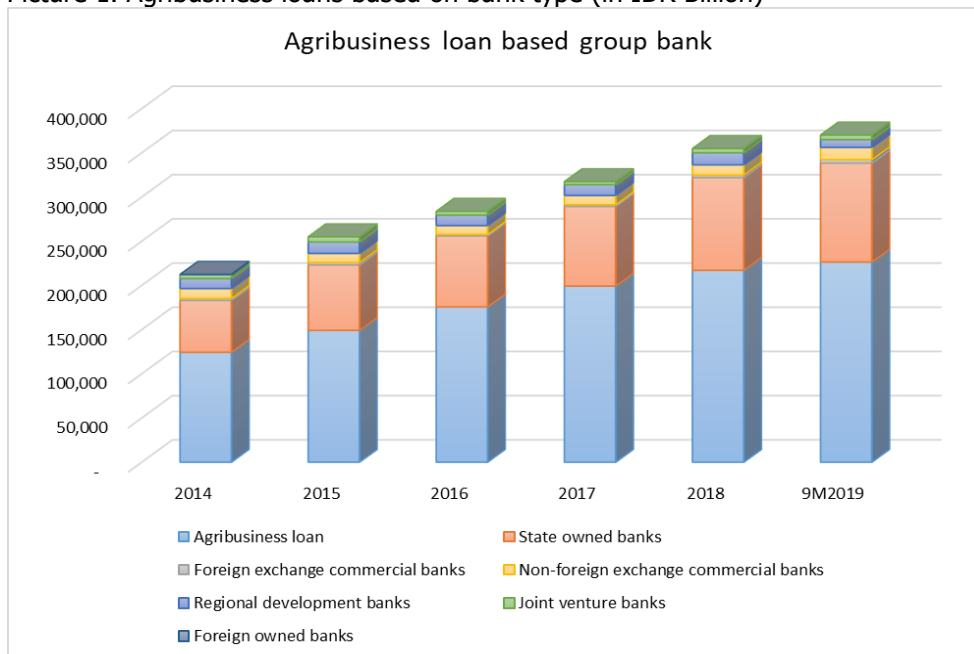
Based on Indonesian banking statistics as of 9M2019, agribusiness loans showed moderate growth of 9.3% or amounted to IDR370.1 trillion from IDR338.6 trillion in 9M2018. This is lower than in 2018 and 2017, which saw a growth rate of 11.8%, but higher compared to overall banking industry's 7.9% loan growth in 9M2019.

The implementation of B20 since January 2016 has not shown a significant impact on agribusiness loans, with the sector's loan growth at 11.3% or amounted at IDR283.8 trillion in 2016, far lower than the 2015 agribusiness loan growth of 20.0% to IDR255.0 trillion. The factor that had a bigger impact was the continuous decline of CPO price since 2018. Other factors such as regulatory requirements in export

destination countries, weather conditions, and supply-demand dynamics all played significant roles in the decrease in CPO price.

If we break down the disbursement of loans by bank type, state-owned banks emerged as the largest source of agribusiness loans at IDR226.5 trillion as of 9M2019, or 61.2% of the total agribusiness loan. The second largest source is foreign exchange commercial banks at 30.2%. We estimate that these two bank types will continue to be the main sources of agribusiness loans. We are of the view that the disbursement of agribusiness loans by state-owned banks is also encouraged by their synergy with state-owned companies engaged in the agribusiness sector. On the other hand, foreign exchange commercial banks, in our opinion, will also continue to disburse loans to the agribusiness sector as there are numerous big banks in this segment with strong infrastructure and capitalization. These banks are also the main lenders to other major sectors, like trading and manufacturing.

Picture 1. Agribusiness loans based on bank type (in IDR Billion)



Source: Indonesia Banking Statistics, processed by PEFINDO

Challenges in agribusiness loan growth

In our view, CPO plantations will continue to comprise a dominant subsector within the agribusiness industry, considering their high contribution to national economy and Indonesia's status as one of the largest CPO producers in the world. Therefore, the performance of CPO plantations will strongly affect the overall agribusiness sector.

The first factor we view as significant is palm oil price, which has been on a declining trend since 2018. PEFINDO projects that pressure on palm oil price will continue in the near term, and we project palm oil price to stay at USD575 per metric ton. The low palm oil price is due to the lower demand for palm oil, which is a consequence of oversupply not just of CPO but also of substitute products like soybean oil, sunflower oil, and rapeseed oil.

Another challenge that we view as significant is related to the ban on Indonesian palm oil by the European Union and India. This ban, in our view, is significant to the Indonesian palm oil industry as over 70% of its production is exported. The European Union and India are also the second and third largest importers of Indonesian palm oil. We are of the view that the ban from these two importers may lead to a production surplus and increased pressure on price.

The next challenge that we view as a significant factor in agribusiness loan growth is the trend of non-performing loans ratio (NPL) in this sector. The NPL of agribusiness loans has deteriorated in recent years, rising to 1.5% in 9M2019 from 1.3% as of FY2018 and FY2017, due to the prolonged soft economic condition that affected the payment capacities of debtors. Moreover, with the planned implementation of IFRS 9 or PSAK 71 in January 2020, we are of the view that banks will be more selective in disbursing loans to the agribusiness sector, as the tenor of these loans is quite long. They usually run from 5 to 10 years for investment loans in line with the harvest period of the palm oil itself, which takes 7-10 years before they can be harvested. With the implementation of IFRS, we are of the view that banks are more keen to disburse short-term loans rather than long-term loans as it will help them save capital and avoid allocating a big provision expense. In the new regulation, banks need to allocate provision expenses based on projected loss, as opposed to realized loss in the previous regulation.

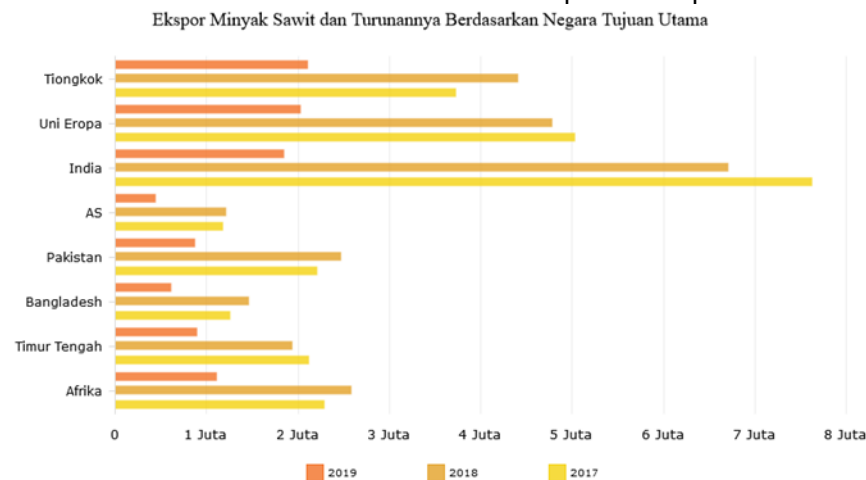
In addition to the three main factors that we explained above, we are also of the view that there are several other factors that may pose challenges to agribusiness loan growth, such as environmental issues. Several palm oil companies are involved in environmental issues, particularly related to land burning for land rehabilitation. We assume that these companies burn their land for the sake of land rehabilitation, as it is more efficient. Burning vast tracts of palm oil land can cause severe haze and negatively affect the health of local residents, and even in neighboring countries such as Malaysia and Singapore.

Table 3. National palm oil production

In '000 metric tons	2014	2015	2016	2017	2018	2019 (P)
Production	33,000	32,000	36,000	39,500	41,500	43,000
Domestic consumption	7,220	9,270	9,160	11,000	12,625	12,750
Export	25,964	22,906	27,633	26,967	29,200	30,300
Ending inventory	2,434	2,258	1,470	3,004	2,679	2,629

Source: USDA

Picture 2. Destination countries for Indonesia's palm oil exports



Source: GAPKI

Significant banks in agribusiness sector in PEFINDO's portfolio

In PEFINDO's portfolio, there are several banks with a significant portion of agribusiness loans in their total loan portfolios. Bank Rakyat Indonesia or Bank BRI (BBRI, rated "idAAA/stable") is the largest lender for agribusiness loans in terms of amount. We are of the view that Bank BRI, as the largest bank in Indonesia, has the capacity in terms of infrastructure and capital to participate in financing the sector.

Other state-owned banks also have substantial exposure to agribusiness loans. We are of the view that many state-owned banks disburse loans to this sector due to their synergy with state-owned agribusiness entities. In addition, we are also of the view that with the importance of the national palm oil industry to the national economy and its function as one of the renewable energy solutions, state-owned banks will continue to disburse loans to this sector.

Some foreign exchange commercial banks in PEFINDO's portfolio also have significant exposures to agribusiness loans, backed by their strong capitalization profiles and deep understanding of the credit risks in the sector. Furthermore, we are also of the view that all of these banks with significant exposures to the agribusiness sector target the giant players that encompass the business value chain from the upstream to downstream.

There is also one medium-sized bank with high exposure to the agribusiness sector — Bank Rakyat Indonesia Agroniaga (BRI Agro, AGRO, rated "idAA/stable"). AGRO has 46.5% of its total loans were distributed to the agribusiness sector as of 9M2019, or IDR8.6 trillion of its total lending of IDR18.4 trillion. We are of the view that the high contribution of agribusiness loans to AGRO is due to its focus on the sector from its inception.

Table 4. Banks in PEFINDO's portfolio with significant exposure to agribusiness sector

Banks (In IDR Billion)	2016	2017	2018	9M2019
BBRI				
Agribusiness loan	77,966.2	89,857.0	103,054.2	108,605.4
Total loans	661,335.8	736,731.6	843,884.7	895,306.3
[%] Contribution	11.8	12.2	12.2	12.1
BMRI				
Agribusiness loan	67,533.4	77,645.6	83,142.8	82,424.3
Total loans	649,323.0	712,037.9	799,557.2	818,608.0
[%] Contribution	10.4	10.9	10.4	10.1
BBCA				
Agribusiness loan	21,533.3	26,762.6	31,052.3	33,783.3
Total loans	415,896.2	467,508.8	538,099.4	571,090.2
[%] Contribution	5.2	5.7	5.8	5.9
BBNI				
Agribusiness loan	43,127.6	46,887.6	49,185.0	56,636.0
Total loans	393,275.4	441,313.6	512,778.5	558,674.4
[%] Contribution	11.0	10.6	9.6	10.1
BNGA				
Agribusiness loan	13,330.5	15,863.9	16,551.6	16,122.4
Total loans	173,587.7	181,405.7	186,262.6	188,842.6
[%] Contribution	7.7	8.7	8.9	8.5
AGRO				
Agribusiness loan	3,351.1	5,694.1	8,638.1	8,550.3
Total loans	8,179.8	10,981.6	15,670.8	18,390.0
[%] Contribution	41.0	51.9	55.1	46.5

Source: Published financial statements, processed by PEFINDO

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