

Monday, 11 November 2019

**BUY**  
**Maintain**

Last price (IDR) 7,100  
Target Price (IDR) 9,000  
Upside/Downside +26.8%  
Previous Target Price (IDR) 9,000

#### Stock Statistics

Sector Banking  
Bloomberg Ticker BMRI IJ  
No of Shrs (mn) 46,667  
Mkt. Cap (IDRbn/USDmn) 331,333/23,643  
Avg. daily T/O (IDRbn/USDmn) 318.6/22.7

#### Major shareholders (%)

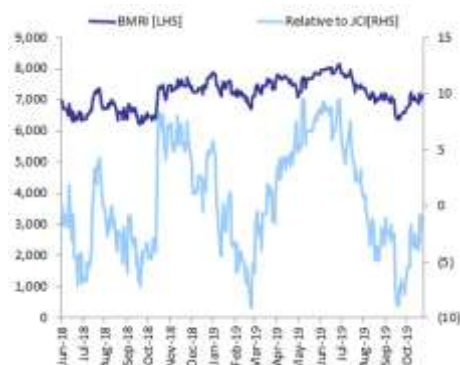
Government of Indonesia 60.0

Estimated free float 40.0

#### EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	600.3	667.3	743.5
Consensus	588.2	666.0	750.1
Danareksa/Cons	2.0	0.2	(0.9)

#### BMRI relative to JCI Index



Source : Bloomberg



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## Bank Mandiri (BMRI IJ)

### Under control

We reiterate our BUY call on BMRI with an unchanged GGM-derived TP of IDR9,000 (implying 1.9x 2020F P/BV) post the analyst gathering last Friday when the issue of assets quality was discussed further. BMRI will continue to have a well balanced corporate loans portfolio supported by a sectoral review and outlook, more parameters to detect potential troubled borrowers and moderate growth in the commercial segment going forward.

**Comforting approach to risk management.** Last Friday's investor and analyst gathering held by BMRI emphasised the improved approach toward the issue of assets quality, particularly in regard to how the bank manages its wholesale (corporate and commercial) portfolio. The bank's Director of Risk Management, Pak Ahmad Siddik Badruddin, and his team highlighted the tools available which can detect potential troubled borrowers using many parameters. In our view, these tools can help BMRI to have a much more manageable loans portfolio going forward which is more resilient to dynamic changes in the global and domestic macroeconomic environment.

**A well-balanced loans portfolio.** BMRI also provided information regarding its exposure to certain sectors that concern several investors including the CPO, coal and cement sectors. On a regular basis, the bank reviews its stance on all sectors of the economy. For example, BMRI has a more positive outlook on the telecommunications sector while, at the same time, limiting its exposure to CPO and property investments in selected areas. Meanwhile, BMRI requires its wholesale borrowers to increase their CASA deposits outstanding balance to a certain amount, mainly to limit a further decline in NIM going forward. All in all, we expect a more sustainable growth rate at 11.8% yoy next year with 41.5% exposure to the corporate segment.

**Maximum 10-11% exposure to CPO related sectors.** For CPO related sectors, BMRI's exposure is fairly manageable at 10% of the total loans book as of September 2019 with 12.8% Loans at Risk. BMRI also focuses on big corporate names with integrated business models. Based on the bank's stress test, CPO borrowers still have the capacity to repay their loans as their production costs are still far below the current CPO price. And given that the bank's exposure to CPO has already reached its limit, we do not expect the bank to extend more sizeable loans to this sector until next year at the soonest.

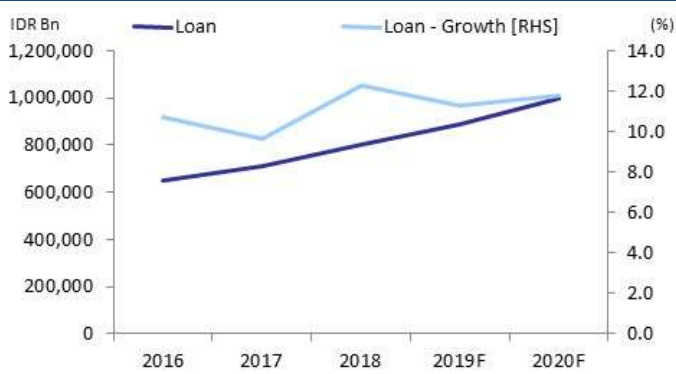
**Maintain BUY, TP of IDR9,000.** We maintain our BUY call on BMRI with an unchanged GGM-derived TP of IDR9,000 (implying 1.9x 2020F P/BV) assuming 9.0% CoE, 14.6% sustainable ROAE and 3% long-term growth.

#### Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
PPOP (IDRbn)	43,122	48,091	50,754	54,499	60,273
Net profit (IDRbn)	20,640	25,015	28,014	31,140	34,697
EPS (IDR)	442.3	536.0	600.3	667.3	743.5
EPS growth (%)	49.5	21.2	12.0	11.2	11.4
BVPS (IDR)	3,572.5	3,882.9	4,228.1	4,628.4	5,074.6
PER (x)	16.1	13.2	11.8	10.6	9.5
PBV (x)	2.0	1.8	1.7	1.5	1.4
Dividend yield (%)	2.8	3.4	3.6	3.8	4.2
ROAE (%)	13.0	14.4	14.8	15.1	15.3

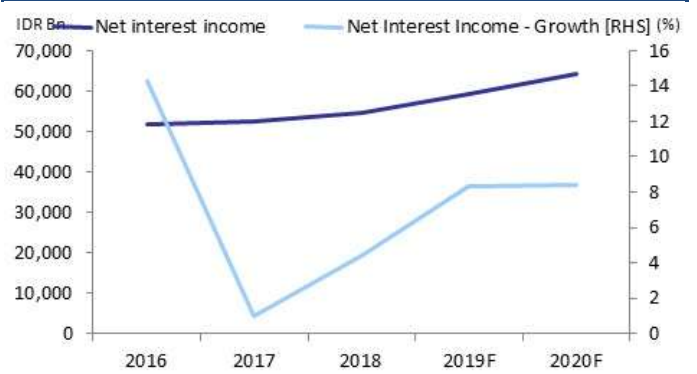
Source : BMRI, Danareksa Estimates

**Exhibit 1. Loans and Growth**



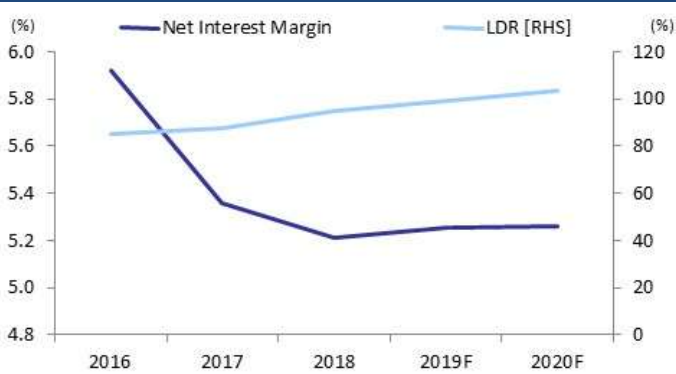
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Interest Income and Growth**



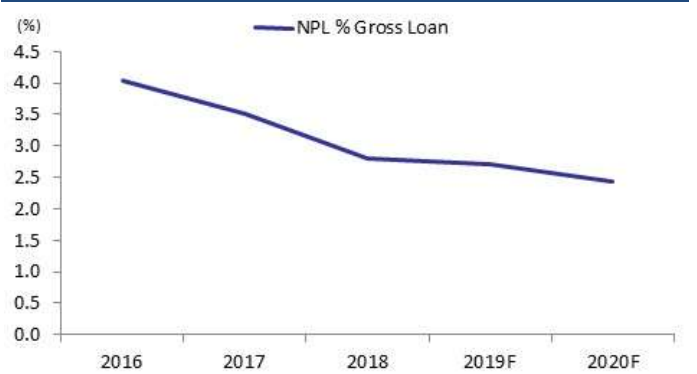
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. NIM and LDR**



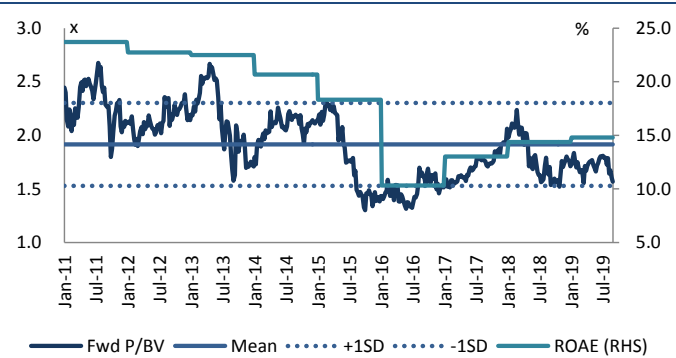
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. NPLs**



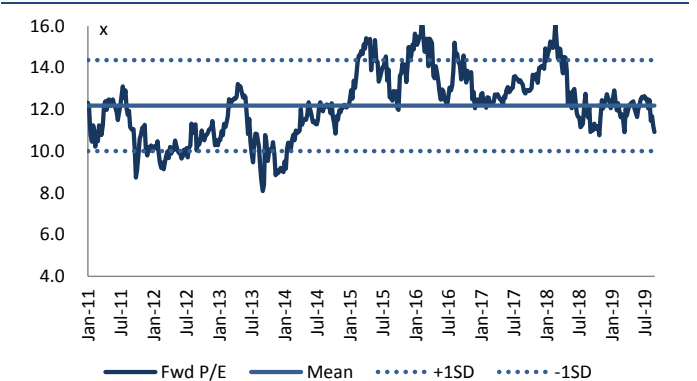
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PBV ROAE Band Chart**



Source: Bloomberg, Danareksa Sekuritas estimates

**Exhibit 6. PE Band Chart**



Source: Bloomberg, Danareksa Sekuritas estimates

**Exhibit 7. BMRI's NPL in corporate segment (%)**

Year Originated	Total Booking	2011	2012	2013	2014	2015	2016	2017	2018	Sep-19
2011	30,154.17	0.00%	0.00%	0.00%	1.46%	3.68%	6.06%	6.60%	6.60%	6.60%
2012	27,239.26	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2013	31,755.36	0.00%	0.00%	0.00%	0.00%	0.00%	0.42%	0.55%	0.55%	0.55%
2014	29,259.32	0.00%	0.00%	0.00%	0.00%	0.00%	0.33%	0.33%	0.33%	0.62%
2015	44,031.21	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2016	73,964.16	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2017	93,802.04	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2018	22,395.64	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Sep-19	90,084.40	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source : Company

**Exhibit 8. BMRI's NPL in commercial segment (%)**

Year Originated	Total Booking	2011	2012	2013	2014	2015	2016	2017	2018	Sep-19
2011	21,526.39	0.00%	0.09%	0.30%	2.78%	9.15%	16.42%	26.29%	28.86%	30.11%
2012	26,972.14	0.00%	0.02%	0.50%	0.72%	2.55%	13.86%	16.98%	18.21%	20.62%
2013	33,692.10	0.00%	0.00%	0.00%	0.00%	3.52%	9.91%	11.33%	12.85%	13.86%
2014	19,592.73	0.00%	0.00%	0.00%	0.00%	0.62%	8.79%	11.14%	20.68%	24.32%
2015	16,062.36	0.00%	0.00%	0.00%	0.00%	0.00%	3.31%	9.30%	12.99%	14.05%
2016	16,920.21	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%	0.17%	0.61%	0.85%
2017	10,025.60	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.17%	0.17%
2018	8,519.73	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Sep-19	11,708.64	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source : Company

### Exhibit 9. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Interest Income	79,502	80,993	89,816	97,442	105,021
Interest Expense	(27,174)	(26,370)	(30,640)	(33,289)	(34,359)
<b>Net Interest Income</b>	<b>52,327</b>	<b>54,623</b>	<b>59,176</b>	<b>64,153</b>	<b>70,662</b>
Non-Interest Income (NII)	24,747	26,722	31,453	33,564	37,045
<b>Oper. Income</b>	<b>77,074</b>	<b>81,345</b>	<b>90,629</b>	<b>97,717</b>	<b>107,707</b>
Oper. Expenses	(35,014)	(37,566)	(40,742)	(43,989)	(48,253)
<b>Pre-provisions profit</b>	<b>43,122</b>	<b>48,091</b>	<b>50,754</b>	<b>54,499</b>	<b>60,273</b>
Provisions & Allowances	(15,952)	(14,185)	(14,532)	(14,414)	(15,620)
<b>Operating Profits</b>	<b>27,170</b>	<b>33,906</b>	<b>36,222</b>	<b>40,085</b>	<b>44,652</b>
Non-Operating Income	(13)	38	38	38	38
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>27,157</b>	<b>33,943</b>	<b>36,260</b>	<b>40,122</b>	<b>44,690</b>
Income Tax	(5,714)	(8,091)	(7,339)	(7,999)	(8,910)
Minorities	(803)	(837)	(907)	(983)	(1,083)
<b>Net Profit</b>	<b>20,640</b>	<b>25,015</b>	<b>28,014</b>	<b>31,140</b>	<b>34,697</b>

### Exhibit 10. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Gross Loans	712,038	799,557	889,708	994,453	1,108,301
Provisions	(33,745)	(31,796)	(33,664)	(35,208)	(34,329)
<b>Net Loans</b>	<b>678,293</b>	<b>767,761</b>	<b>856,044</b>	<b>959,245</b>	<b>1,073,972</b>
Govt. Bonds	103,411	114,285	109,499	104,713	99,927
Securities	59,610	63,836	66,521	54,470	34,442
Other Earnings Assets	17,139	20,146	19,877	22,785	26,184
<b>Total Earnings Assets</b>	<b>1,018,585</b>	<b>1,077,468</b>	<b>1,174,452</b>	<b>1,265,983</b>	<b>1,358,565</b>
Fixed Assets	46,991	50,076	53,395	56,924	60,680
Non-Earnings Assets	22,888	25,517	22,391	23,573	23,827
<b>Total Assets</b>	<b>1,124,701</b>	<b>1,202,252</b>	<b>1,292,876</b>	<b>1,390,055</b>	<b>1,491,907</b>
Customer Deposits	816,252	841,348	898,507	964,431	1,040,177
Banks Deposits	8,350	16,494	18,816	19,350	19,057
Int. Bearing Liab. - Others	0	0	0	0	0
<b>Total Liabilities</b>	<b>954,695</b>	<b>1,017,292</b>	<b>1,090,901</b>	<b>1,168,413</b>	<b>1,248,365</b>
Share capital & Reserves	55,361	54,118	54,118	54,118	54,118
Retained Earnings	111,358	127,085	143,193	161,876	182,695
<b>Shareholders' Funds</b>	<b>166,719</b>	<b>181,203</b>	<b>197,310</b>	<b>215,994</b>	<b>236,813</b>
Minority interests	3,287	3,758	4,664	5,647	6,730
<b>Total Equity &amp; Liabilities</b>	<b>1,124,701</b>	<b>1,202,252</b>	<b>1,292,876</b>	<b>1,390,055</b>	<b>1,491,907</b>

### Exhibit 11. Ratios

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Yield on Earning Assets	8.1	7.7	8.0	8.0	8.0
Cost of funds	3.1	2.8	3.1	3.1	3.0
Interest Spread	5.0	4.9	4.9	4.9	5.0
Net Interest Margin	5.4	5.2	5.3	5.3	5.4
Cost/Income Ratio	44.8	43.9	44.5	44.7	44.5
Oper. Exp./Oper. Gross Inc.	74.2	69.7	70.3	69.6	68.7
Gross NPL Ratio	3.5	2.8	2.7	2.4	2.1
LLP/Gross NPL	134.8	142.5	139.4	144.8	150.9
Cost of Credit	2.3	1.9	1.7	1.5	1.5
Loan to Deposit Ratio	87.2	95.0	99.0	103.1	106.5
Loan to Funding Ratio	85.5	92.9	95.9	100.1	103.7
CASA Mix	62.0	59.1	57.7	58.8	59.6
ROAE	13.0	14.4	14.8	15.1	15.3
ROAA	1.9	2.2	2.2	2.3	2.4
CAR	21.1	21.1	20.2	20.1	20.1

### Exhibit 12. Dupont and growth

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Dupont</b>					
Pre-Tax ROAA	2.5	2.9	2.9	3.0	3.1
Tax Retention rate	79.0	76.2	79.8	80.1	80.1
Post-Tax ROAA	2.0	2.2	2.3	2.4	2.5
Goodwil, Assoc& Min	0.1	0.1	0.1	0.1	0.1
Leverage	6.8	6.7	6.6	6.5	6.4
ROAE	13.0	14.4	14.8	15.1	15.3
<b>Growth (%)</b>					
Interest income	3.6	1.9	10.9	8.5	7.8
Net Interest Income	1.0	4.4	8.3	8.4	10.1
Other Oper. Expenses	12.0	7.3	8.5	8.0	9.7
Fee Based Income	6.1	5.2	15.2	11.5	11.0
Pre-Provision Oper. Profit	(0.3)	11.5	5.5	7.4	10.6
Net Profit	49.5	21.2	12.0	11.2	11.4
Shareholders' Equity	10.8	8.7	8.9	9.5	9.6
Loan	9.7	12.3	11.3	11.8	11.4
Earnings Asset	8.9	5.8	9.0	7.8	7.3
Deposit	6.8	4.0	6.9	7.2	7.7
Int. Bearing Liab.	7.1	7.6	7.4	7.3	7.2
CASA	10.2	(0.9)	4.5	9.1	9.3
Total Asset	8.3	6.9	7.5	7.5	7.3

Source : BMRI, Danareksa Estimates

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