

Friday, 24 January 2020

BUY
Maintain

Last price (IDR)	7,775
Target Price (IDR)	9,000
Upside/Downside	+15.8%
Previous Target Price (IDR)	9,000

Stock Statistics

Sector	Banking
Bloomberg Ticker	BMRI IJ
No of Shrs (mn)	46,667
Mkt. Cap (IDRbn/USDmn)	362,833/26,603
Avg. daily T/O (IDRbn/USDmn)	285.9/21.0

Major shareholders (%)

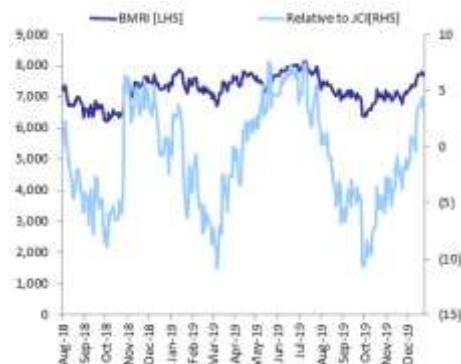
Government of Indonesia	60.0
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Estimated free float	40.0
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EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	600.3	617.4	708.1
Consensus	586.1	661.5	742.5
Danareksa/Cons	2.4	(6.7)	(4.6)

BMRI relative to JCI Index



Source : Bloomberg



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Bank Mandiri (BMRI IJ)

Still a keeper

We maintain our BUY call on BMRI with an unchanged GGM-derived TP of IDR9,000 (implying 1.9x 2020F P/BV) following the release of inline FY19 results with IDR27.5tn of net profits. Aside from the corporate segment, BMRI will continue to push its retail segment driven by salary-based loans due to lower credit costs and higher yields. The blended CoF should remain manageable in our view supported by the bank's active funding strategy to reduce special rates on TD instruments. We therefore expect the blended CoF to touch 3.1% in FY20F. Meanwhile, PSAK 71 implementation should trim CAR by a max of 250bps (IDR21-25tn) from 21.4% as of December 2019.

FY19 highlights. The IDR27.5tn of net profits were supported by a drop in credit costs to 143bps (FY18: 200bps, 3Q19: 184bps). Loans grew by 10.8% yoy driven by 19.4% yoy growth in the micro segment. NIM, however, only dipped by c.6bps to 5.46% indicating that BMRI's management was able to manage its assets and liabilities portfolio fairly well amid aggressive policy rate cut last year. Assets quality, meanwhile, stabilised as the gross NPLs ratio reached 2.4% with a 143.4% LLC ratio as of December 2019.

Reliable risk management approach. BMRI emphasised the improved approach toward the issue of assets quality. The bank's Risk Management 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. BMRI also stated that the potential formation of NPLs this year might reach IDR8tn, mostly coming from the wholesale segment (corporate and commercial). Such an amount is fairly manageable in our view.

Manageable blended CoF. We believe that the blended CoF will remain manageable at 3.1% this year thanks to the bank's strong retail-based customer deposits. Meanwhile, BMRI's strategy to selectively offer special rates to institutional customers should provide a limited buffer from a higher blended CoF risk this year. Thus, the contribution of CASA deposits is expected to decline slightly to 58.8% of total customer deposits by December 2020F.

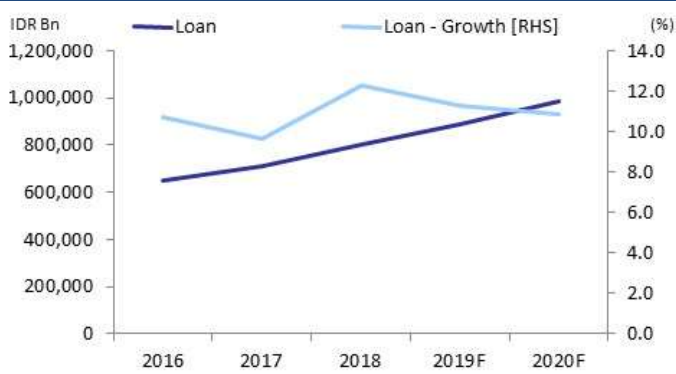
Maintain BUY, TP of IDR9,000. We maintain our BUY call on BMRI with an unchanged GGM-derived TP of IDR9,000 (implying 1.9x 2020F P/BV) assuming 9.0% CoE, 14.6% sustainable ROAE and 3% long-term growth.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
PPOP (IDRbn)	43,122	48,091	50,754	53,943	58,631
Net profit (IDRbn)	20,640	25,015	28,014	28,813	33,046
EPS (IDR)	442.3	536.0	600.3	617.4	708.1
EPS growth (%)	49.5	21.2	12.0	2.9	14.7
BVPS (IDR)	3,572.5	3,882.9	4,228.1	4,598.5	5,023.4
PER (x)	17.4	14.3	12.8	12.4	10.8
PBV (x)	2.1	2.0	1.8	1.7	1.5
Dividend yield (%)	2.6	3.1	3.3	3.2	3.7
ROAE (%)	13.0	14.4	14.8	14.0	14.7

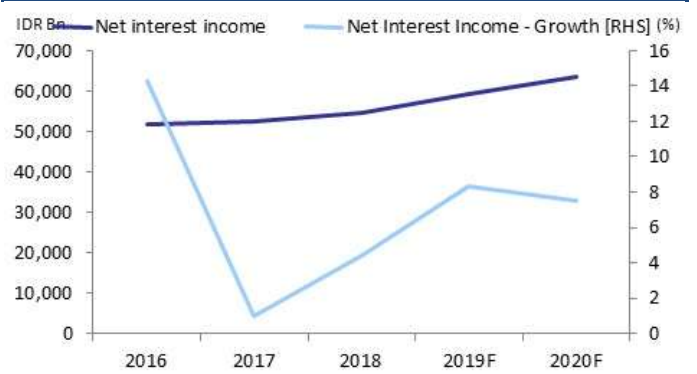
Source : BMRI, Danareksa Estimates

Exhibit 1. Loans and Growth



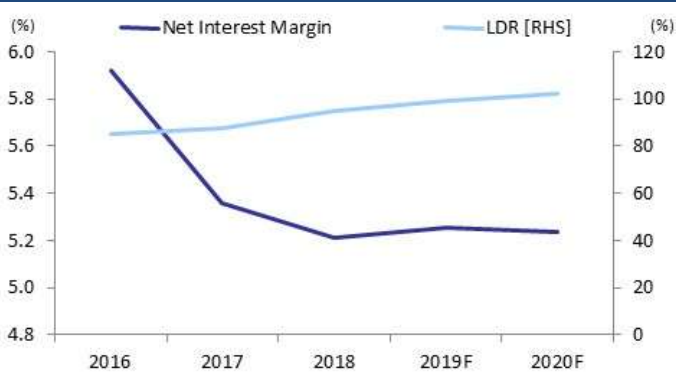
Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Interest Income and Growth



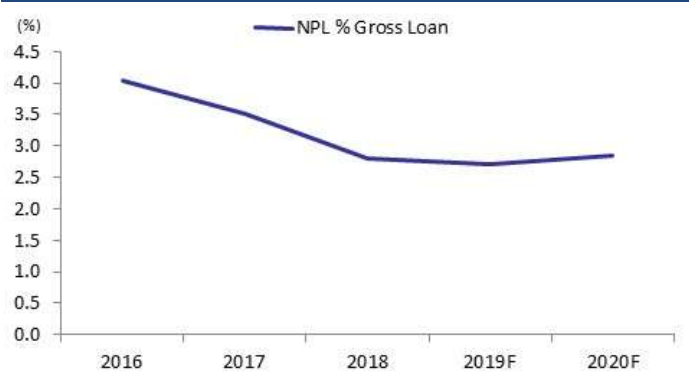
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. NIM and LDR



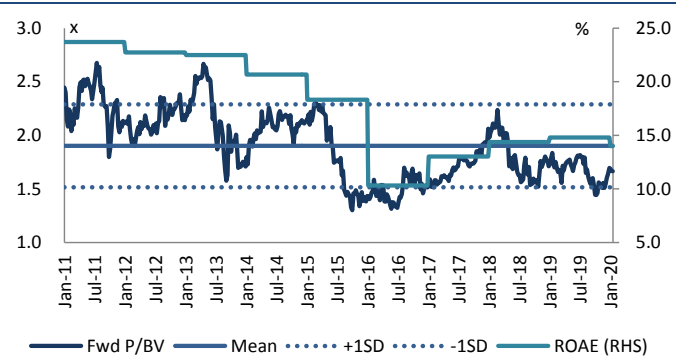
Source: Company, Danareksa Sekuritas estimates

Exhibit 4. NPLs



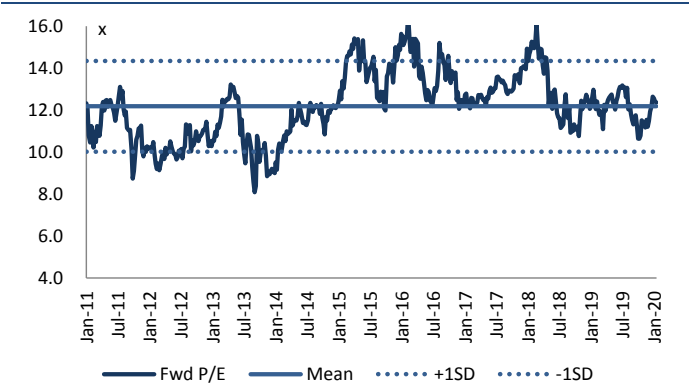
Source: Company, Danareksa Sekuritas estimates

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 result

FYE Dec (IDRbn)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Net interest income	14,150	15,095	17,307	14.7	22.3	57,330	61,248	6.8
<i>Net interest margin (%)</i>	5.4	5.3	5.5			5.5	5.5	
Non-interest income	9,797	7,610	6,834	(10.2)	(30.3)	28,346	27,859	(1.7)
<i>Non-Il/Total income (%)</i>	40.9	33.5	28.3			33.1	31.3	
Operating income	23,947	22,705	24,141	6.3	0.8	85,676	89,106	4.0
Overhead expenses	(10,412)	(9,826)	(12,366)	25.9	18.8	(37,585)	(40,569)	7.9
<i>Cost-Income Ratio (%)</i>	43.5	43.3	51.2			43.9	45.5	
Pre-provisions profit	13,536	12,879	11,775	(8.6)	(13.0)	48,091	48,537	0.9
Provisions allowance	(3,224)	(3,757)	(1,812)	(51.8)	(43.8)	(14,185)	(12,086)	(14.8)
<i>Credit cost - annualised (bps)</i>	184	184	85			200	143	
Pretax profit	10,326	9,111	10,012	9.9	(3.0)	33,943	36,441	7.4
Tax	(3,174)	(1,855)	(2,494)	34.5	(21.4)	(8,091)	(7,986)	(1.3)
<i>Effective tax rate (%)</i>	(30.7)	(20.4)	(24.9)	22.4	(18.9)	(23.8)	(21.9)	
Profit after tax	7,152	7,256	7,517	3.6	5.1	25,852	28,456	10.1
Minority Interest	(228)	(271)	(244)	(9.9)	7.0	(837)	(973)	16.3
Net Profit	6,923	6,985	7,273	4.1	5.0	25,015	27,482	9.9

Other Key Data and Ratios

Gross loans	799,557	818,608	885,835	8.2	10.8	799,557	885,835	10.8
Customer deposits	841,348	891,679	933,125	4.6	10.9	841,348	933,125	10.9
Gross NPLs	22,309	21,061	21,171	0.5	(5.1)	22,309	21,171	(5.1)
Total assets	1,202,252	1,275,670	1,318,246	3.3	9.6	1,202,252	1,318,246	9.6
Shareholders' funds	181,203	196,677	204,601	4.0	12.9	181,203	204,601	12.9
ROAA (%)	2.3	2.2	2.2			2.6	2.2	
ROAE (%)	15.6	14.6	14.5			18.6	14.2	
LDR (%)	95.0	91.8	94.9			95.0	94.9	
Gross NPL ratio (%)	2.8	2.6	2.4			2.8	2.4	
LLC ratio (%)	142.5	151.9	144.3			142.5	144.3	
CAR (%)	21.0	22.5	21.4			21.0	21.4	

Source : Company

Exhibit 8. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Interest Income	79,502	80,993	89,816	96,906	103,461
Interest Expense	(27,174)	(26,370)	(30,640)	(33,289)	(34,359)
Net Interest Income	52,327	54,623	59,176	63,617	69,102
Non-Interest Income (NII)	24,747	26,722	31,453	33,394	36,523
Oper. Income	77,074	81,345	90,629	97,012	105,625
Oper. Expenses	(35,014)	(37,566)	(40,742)	(43,839)	(47,814)
Pre-provisions profit	43,122	48,091	50,754	53,943	58,631
Provisions & Allowances	(15,952)	(14,185)	(14,532)	(16,775)	(16,071)
Operating Profits	27,170	33,906	36,222	37,168	42,560
Non-Operating Income	(13)	38	38	38	38
Exceptionals	0	0	0	0	0
Pre-tax Profit	27,157	33,943	36,260	37,206	42,598
Income Tax	(5,714)	(8,091)	(7,339)	(7,418)	(8,493)
Minorities	(803)	(837)	(907)	(975)	(1,059)
Net Profit	20,640	25,015	28,014	28,813	33,046

Exhibit 9. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Gross Loans	712,038	799,557	889,708	986,127	1,089,807
Provisions	(33,745)	(31,796)	(33,664)	(37,667)	(37,492)
Net Loans	678,293	767,761	856,044	948,460	1,052,315
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
Total Earnings Assets	1,018,585	1,077,468	1,174,452	1,257,228	1,339,135
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
Total Assets	1,124,701	1,202,252	1,292,876	1,388,476	1,489,119
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
Total Liabilities	954,695	1,017,292	1,090,901	1,168,238	1,247,995
Share capital & Reserves	55,361	54,118	54,118	54,118	54,118
Retained Earnings	111,358	127,085	143,193	160,481	180,308
Shareholders' Funds	166,719	181,203	197,310	214,598	234,426
Minority interests	3,287	3,758	4,664	5,639	6,698
Total Equity & Liabilities	1,124,701	1,202,252	1,292,876	1,388,476	1,489,119

Exhibit 10. 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	5.2	5.3
Cost/Income Ratio	44.8	43.9	44.5	44.8	44.9
Oper. Exp./Oper. Gross Inc.	74.2	69.7	70.3	71.6	69.8
Gross NPL Ratio	3.5	2.8	2.7	2.8	2.6
LLP/Gross NPL	134.8	142.5	139.4	134.2	132.6
Cost of Credit	2.3	1.9	1.7	1.8	1.5
Loan to Deposit Ratio	87.2	95.0	99.0	102.2	104.8
Loan to Funding Ratio	85.5	92.9	95.9	99.3	102.0
CASA Mix	62.0	59.1	57.7	58.8	59.6
ROAE	13.0	14.4	14.8	14.0	14.7
ROAA	1.9	2.2	2.2	2.1	2.3
CAR	21.1	21.1	20.2	20.3	20.3

Exhibit 11. Dupont and growth

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Dupont					
Pre-Tax ROAA	2.5	2.9	2.9	2.8	3.0
Tax Retention rate	79.0	76.2	79.8	80.1	80.1
Post-Tax ROAA	2.0	2.2	2.3	2.2	2.4
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	14.0	14.7
Growth (%)					
Interest income	3.6	1.9	10.9	7.9	6.8
Net Interest Income	1.0	4.4	8.3	7.5	8.6
Other Oper. Expenses	12.0	7.3	8.5	7.6	9.1
Fee Based Income	6.1	5.2	15.2	10.6	9.5
Pre-Provision Oper. Profit	(0.3)	11.5	5.5	6.3	8.7
Net Profit	49.5	21.2	12.0	2.9	14.7
Shareholders' Equity	10.8	8.7	8.9	8.8	9.2
Loan	9.7	12.3	11.3	10.8	10.5
Earnings Asset	8.9	5.8	9.0	7.0	6.5
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	7.4	7.2

Source : BMRI, Danareksa Estimates

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