

# Bank Mandiri Tbk (BMRI)

## Liquidity Excess to Support Expansion

# BUY

<b>Target Price (IDR)</b>	<b>7,000</b>
Consensus Price (IDR)	6,790
TP to Consensus Price	+3.1%
vs. Last Price	+25.6%

### Shares data

Last Price (IDR)	5,575
Price date as of	Sept. 18, 2020
52 wk range (Hi/Lo)	8,050 / 3,660
Free float (%)	37.7
Outstanding sh.(mn)	46,667
Market Cap (IDR bn)	248,500
Market Cap (USD mn)	16,825
Avg. Trd Vol - 3M (mn)	50.95
Avg. Trd Val - 3M (bn)	283.58
Foreign Ownership	27.3%

### Finance

<b>Bank</b>	<b>BMRI IJ</b>
Bloomberg	BMRI IJ
Reuters	BMRI.JK

### Lowest LDR Since 2016

BMRI's current liquidity is fairly relaxed, in line with the gradually decreasing Loan to Deposit Ratio (LDR). As of March 2020, BMRI LDR was at 94.9%, then decreased to 87.7% in June 2020. This figure is the lowest since December 2016 at 86.5%. Declining demand and selective lending made BMRI's total loan amounting to IDR 871.7 trillion or only grew by 4.4%. Meanwhile, third party funding (DPK) of BMRI recorded at IDR 976.6 trillion or grew by 15.8% YoY per June 2020. Placement in state securities (SBN) especially the fixed rate notes, is a part of BMRI's strategy to make up the lost of potential interest income. This can be seen in fund placements on SBN and Gov't Bonds & Marketable Securities worth IDR 223.5 trillion, higher than the fund placement in Central Bank and cash, which amounted to IDR 200 trillion.

### Provision Put Pressures on Net Profit

BMRI booked a decrease in consolidated net profit of 23.9% to IDR 10.3 trillion in 1H20, as it implemented conservative strategy. The company increased its provision to anticipate future economic uncertainties. On the other hand, the increase in provisions kept BMRI's liquidity at a safe level and supported expansion. Meanwhile, BMRI's interest income slightly up by 0.3% to IDR 28.9 trillion. Moreover, operating income and cost respectively grew IDR 43.4 trillion or increased 2.6% YoY, and IDR 19.2 trillion or up by 4.4%. For the record, until mid-August 2020, BMRI restructured loans affected by Covid-19 worth IDR 119.3 trillion. The corporate segment has the largest restructuring portion, reaching a value of IDR 49.6 trillion. This was followed by Small and Medium Enterprises and Micro IDR 32.6 trillion, retail IDR 25 trillion, and commercial IDR 12 trillion.

### BUY with Target Price Update to IDR 7,000

NHKS Research upgrades BMRI's target price to IDR 7,000, with implied P/B or equivalent to 1.7x of its 3-year average. As Covid-19 impacted loan restructuring slows down, we revised the net profit projection for BMRI to IDR 16.2 trillion. Although Time Deposit soars, interest expenses remain relatively flat. This is due to the low interest rate trend and CASA ratio which stood at 65.9%. Currently, BMRI is traded at 1.4x PBV.

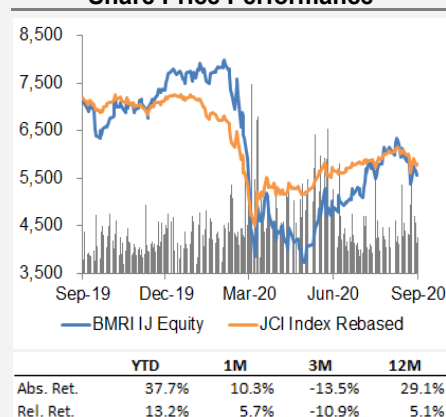
### Bank Mandiri Tbk | Summary (IDR bn)

in IDR bn	2019/12A	2020/12E	2021/12F	2022/12F
Interest Income	91,525	87,273	97,276	101,703
<i>Interest Income growth</i>	13.0%	-4.6%	11.5%	4.6%
Operating Revenue	88,600	82,428	85,857	87,326
Net profit	27,482	16,224	23,294	27,050
EPS (IDR)	589	348	499	580
<i>EPS growth</i>	9.1%	-41.0%	43.6%	16.1%
BVPS (IDR)	4,479	4,195	4,620	5,034
Net Interest Margin	5.2%	4.4%	4.4%	4.1%
Loan/Deposits	95.8%	94.5%	94.3%	92.0%
NPL	2.3%	2.3%	2.8%	2.7%
ROE	14.0%	8.0%	11.3%	12.0%
ROA	2.2%	1.2%	1.6%	1.7%
P/E	13.0x	20.1x	14.0x	12.1x
P/BV	1.7x	1.7x	1.5x	1.4x
P/Op. Revenue	4.0x	4.0x	3.8x	3.7x
DPS (IDR)	353	209	299	348
<i>Dividend yield</i>	4.6%	3.0%	4.3%	5.0%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

### Share Price Performance

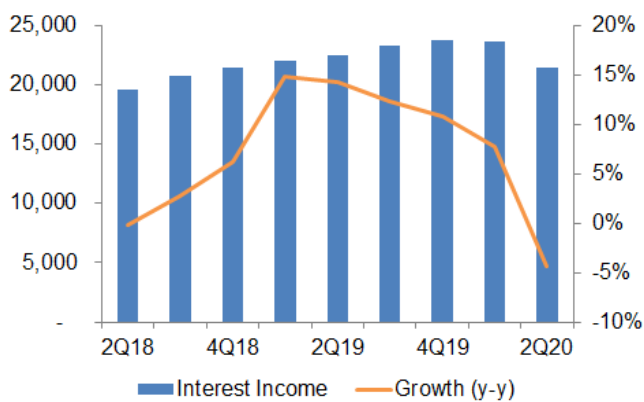


**Arief Machrus**

arief.machrus@nhsec.co.id

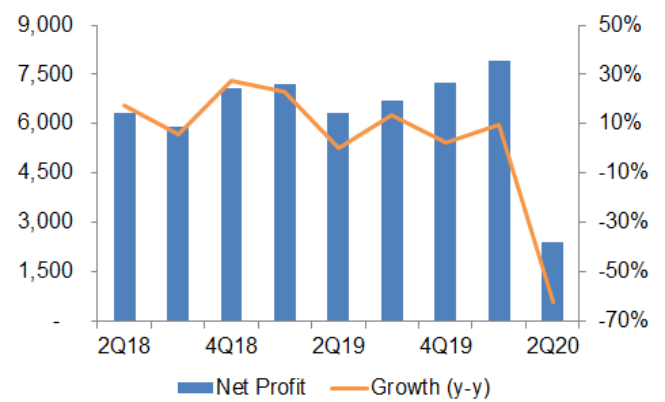
# Performance Highlights

**Interest Income (IDR bn) | 2Q18 - 2Q20**



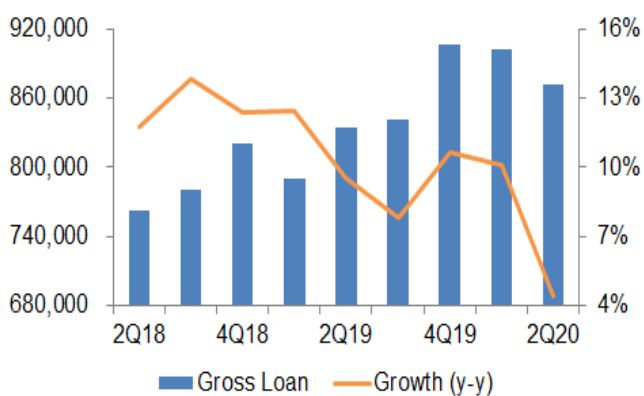
Source: Company, NHKSI Research

**Net Profit (IDR bn) | 2Q18 - 2Q20**



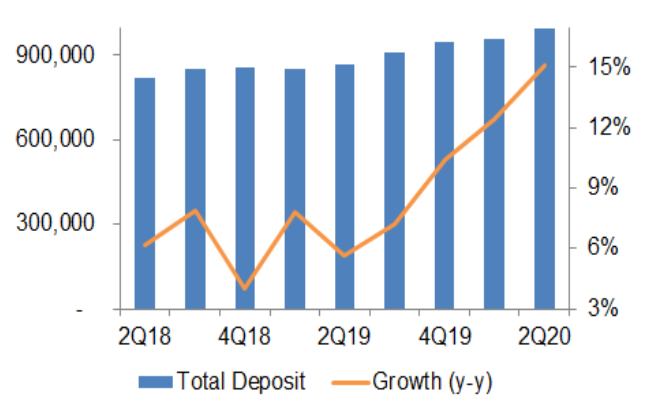
Source: Company, NHKSI Research

**Gross Loan (IDR bn) | 2Q18 - 2Q20**



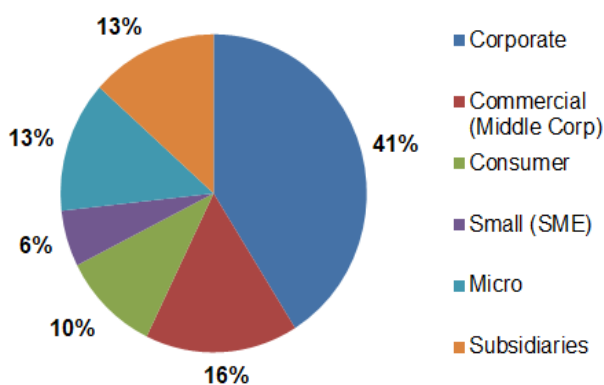
Source: Company, NHKSI Research

**Deposit (IDR bn) | 2Q18 - 2Q20**



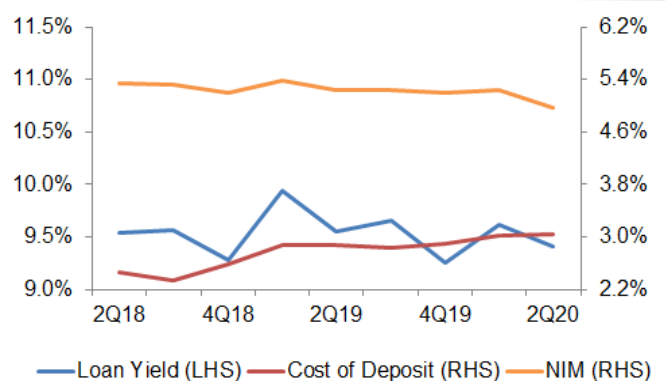
Source: Company, NHKSI Research

**Loan Composition**



Source: Company, NHKSI Research

**Loan Yield, Cost of Deposit, NIM | 2Q18 - 2Q20**



Source: Company, NHKSI Research

## 2Q20 review (IDR bn)

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20
					Actual	Estimate	y-y	q-q	Surprise	
Interest Income	22,471	23,282	23,755	23,709	21,490	10,683	-4.4%	-9.4%	101.2%	10,428
Interest Expense	(8,008)	(8,187)	(8,255)	(8,173)	(8,091)	(6,067)	1.0%	-1.0%	33.4%	(7,051)
Net Interest Income	14,463	15,095	15,500	15,536	13,399	4,616	-7.4%	-13.8%	190.3%	3,377
Operating Revenue	21,224	22,687	23,653	23,900	19,472	6,893	-8.3%	-18.5%	182.5%	5,184
Pre-Provisioning Operating Profit (PPOP)	11,700	12,861	11,780	13,871	10,316	3,800	-11.8%	-25.6%	171.5%	2,826
Loan loss provisions	(3,455)	(4,062)	(1,798)	(3,479)	(6,811)	(8,351)	97.1%	95.8%	-18.4%	(8,603)
Net Profit	6,323	6,701	7,251	7,916	2,377	(3,495)	-62.4%	-70.0%	-168.0%	(4,499)

Source: Bloomberg, NHKSI research

## Earnings revision (IDR bn)

		2020E	2021F	2022F
Interest Income	Revised	87,273	97,276	101,703
	Previous	87,715	97,681	112,361
	Change	-0.5%	-0.4%	-9.5%
Interest Expenses	Revised	(32,894)	(38,830)	(42,257)
	Previous	(33,128)	(38,432)	(44,485)
	Change	-0.7%	1.0%	-5.0%
Net Interest Income	Revised	54,379	58,446	59,446
	Previous	54,587	59,248	67,875
	Change	-0.4%	-1.4%	-12.4%
Operating Revenue	Revised	82,428	85,857	87,326
	Previous	82,215	87,141	100,125
	Change	0.3%	-1.5%	-12.8%
Pre-Provisioning OP	Revised	45,473	48,161	48,829
	Previous	44,775	48,779	55,848
	Change	1.6%	-1.3%	-12.6%
Loan Loss Provision	Revised	(23,835)	(16,051)	(11,562)
	Previous	(23,237)	(19,290)	(17,229)
	Change	2.6%	-16.8%	-32.9%
Net Profit	Revised	16,224	23,294	27,050
	Previous	16,073	21,989	28,786
	Change	0.9%	5.9%	-6.0%

Source: NHKSI research

## Bank Mandiri at A Glance

Bank Mandiri is the second largest bank in Indonesia after Bank Rakyat Indonesia in terms of total assets. Meanwhile, Bank Mandiri is the number one bank in Indonesia in the corporate segment. In 1Q20, Bank Mandiri disbursed IDR362.6 trillion in loans to the corporate segment or equal to 40% of total loan. Bank Mandiri continues to strive not only to strengthen client relationships with corporate customers but also increase contributions from the consumer and micro segments. The consumer loan segment focuses on mortgage, automotive and payroll-based credit products, especially for employees of companies that have become BMRI's corporate customers.

### Indonesian Banking Competitiveness in ASEAN

The banking industry in Indonesia is a top investment priority in ASEAN because it offers higher lending rates compared to those offered by other banks in ASEAN. This is a major factor in the excellence of the banking industry in Indonesia. Banks in Indonesia are still able to maintain NIM above 5% even though they are facing pressure from the central bank to reduce its benchmark interest rate. The superiority of this NIM is that it can be translated into a higher ROE.

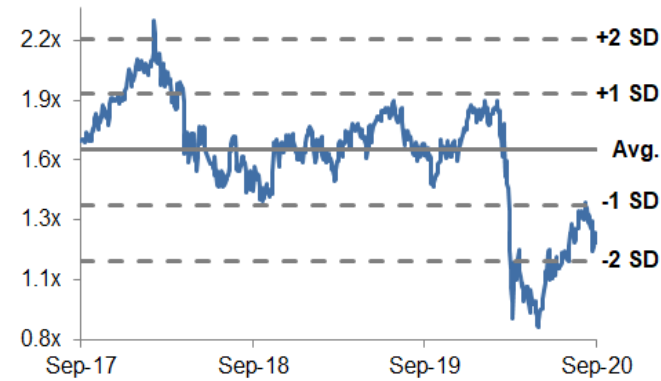
### ASEAN Banking Sector

	Market Cap (USD mn)	Asset (USD mn)	Int. Income LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Interest Margin	ROE (LTM)	P/E LTM	P/BV
<b>Indonesia</b>									
BMRI	16,904	95,201	5,725	1,693	-8.1%	4.1%	13.3%	10.3	1.4
BBRI	26,139	102,315	7,576	1,982	-15.6%	7.7%	15.2%	13.5	2.1
BBCA	46,030	66,367	3,976	1,951	2.4%	6.0%	17.0%	24.3	4.0
BBNI	5,720	61,068	3,720	852	-19.8%	5.6%	10.9%	6.9	0.8
<b>Singapore</b>									
DBS Group	36,726	430,571	7,589	4,012	-7.3%	1.7%	10.8%	9.1	0.9
United Overseas Bank	23,314	300,765	7,767	2,662	-11.8%	1.7%	9.8%	8.7	0.8
Oversea-Chinese Banking	27,284	365,678	8,122	2,779	-16.9%	1.8%	8.2%	9.7	0.8
<b>Malaysia</b>									
CIMB Group	7,510	140,141	4,710	629	-47.1%	2.1%	4.8%	11.7	0.6
Malayan Banking	19,653	203,988	4,086	1,769	-7.4%	1.6%	9.2%	10.9	1.0
Hong Leong Financial	3,899	59,191	1,206	442	-3.2%	1.6%	9.3%	8.6	0.8
<b>Thailand</b>									
Bangkok Bank	6,112	108,104	3,273	909	-20.6%	2.3%	6.5%	6.8	0.4
Siam Commercial Bank	7,221	99,602	3,916	1,222	0.5%	3.3%	9.5%	6.0	0.6
Bank of Ayudhya	4,617	79,298	3,565	856	-17.2%	3.5%	9.9%	5.5	0.5
<b>Philippines</b>									
BDO Unibank	7,990	62,894	2,854	555	-28.7%	4.9%	7.9%	13.7	1.1
Metropolitan Bank & Trust	3,323	48,338	1,893	474	0.5%	4.3%	7.8%	7.2	0.5
Bank of the Philippine Island	5,994	43,490	1,734	524	3.7%	3.8%	9.9%	10.9	1.0

Source: Bloomberg, NHKSI Research

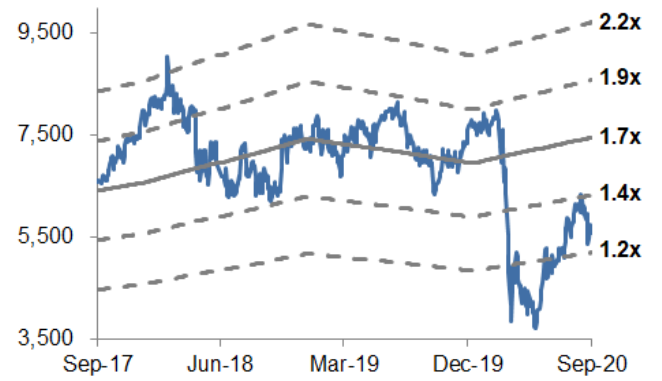
## Multiple Valuation

Forward P/B band | Last 3 years



Source: NHKSI research

Dynamic Forward P/B band | 3 years



Source: NHKSI research

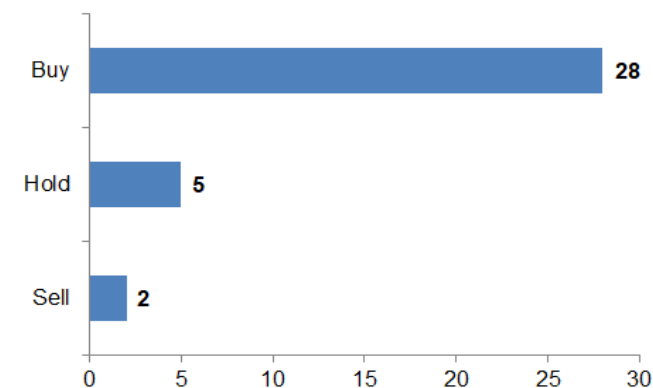
## Rating and Target Price Update

### Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
11/06/2018	Hold	8,275 (Dec 2019)	7,375	8,201	+12.2%	+0.9%
07/24/2020	Buy	6,400 (12 Month)	5,275	6,000	+21.3%	+6.7%
09/22/2020	Buy	7,000 (12 Month)	5,575	6,790	+25.6%	+3.1%

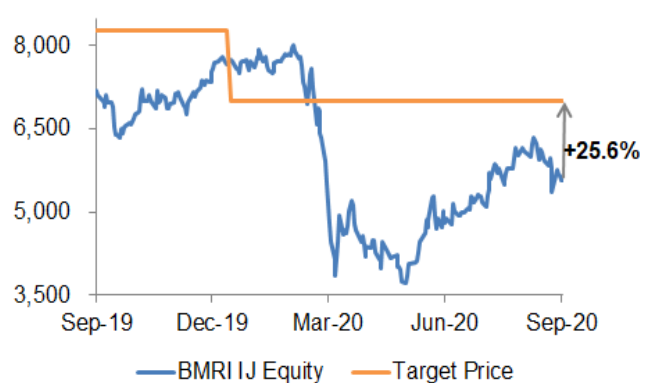
Source: NHKSI Research, Bloomberg

### Analyst Coverage Rating



Source: Bloomberg

### Closing and Target Price



Source: NHKSI research

### NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
  - Buy : Greater than +15%
  - Hold : -15% to +15%
  - Sell : Less than -15%

## Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12E	2021/12F	2022/12F		2019/12A	2020/12E	2021/12F	2022/12F
<b>Interest Income</b>	<b>91,525</b>	<b>87,273</b>	<b>97,276</b>	<b>101,703</b>	ROE	14.0%	8.0%	11.3%	12.0%
<i>Growth (% y/y)</i>	13.0%	-4.6%	11.5%	4.6%	ROA	2.2%	1.2%	1.6%	1.7%
Interest Expenses	(32,085)	(32,894)	(38,830)	(42,257)	Non-Int. Inc. /Op. Rev	32.9%	34.0%	31.9%	31.9%
<b>Net Interest Income</b>	<b>59,440</b>	<b>54,379</b>	<b>58,446</b>	<b>59,446</b>	Cost/Income	45.2%	44.8%	43.9%	44.1%
<i>Net Interest Margin</i>	5.2%	4.4%	4.4%	4.1%	Cash Dividend (IDR bn)	16,489	9,734	13,976	16,230
Net Fee Income	16,066	14,526	16,365	16,645	Dividend Yield (%)	4.6%	3.0%	4.3%	5.0%
Trading Income	4,734	7,794	6,137	6,242	Payout Ratio (%)	60.0%	60.0%	60.0%	60.0%
Other Operating Income	8,361	5,728	4,909	4,993	Loan/Deposits	95.8%	94.5%	94.3%	92.0%
<b>Operating Revenue</b>	<b>88,600</b>	<b>82,428</b>	<b>85,857</b>	<b>87,326</b>	Loan/Assets	68.8%	67.9%	68.9%	67.5%
Operating Expenses	(40,076)	(36,955)	(37,696)	(38,498)	NPL	2.3%	2.3%	2.8%	2.7%
<b>Pre-provisioning OP</b>	<b>48,524</b>	<b>45,473</b>	<b>48,161</b>	<b>48,829</b>	Loan Loss Res./Loan	3.3%	4.0%	5.4%	5.4%
Provision for Impairment	(12,072)	(23,835)	(16,051)	(11,562)	CASA/Deposits	65.3%	65.9%	65.9%	66.4%
<b>EBT</b>	<b>36,441</b>	<b>21,503</b>	<b>31,967</b>	<b>37,122</b>	Time Deposits/Deposits	34.7%	34.1%	34.1%	33.6%
Income Tax	(7,986)	(4,805)	(7,992)	(9,280)	Par Value (IDR)	250	250	250	250
Non-controlling Interest	(973)	(475)	(682)	(792)	Total Shares (mn)	46,667	46,667	46,667	46,667
<b>Net Profit</b>	<b>27,482</b>	<b>16,224</b>	<b>23,294</b>	<b>27,050</b>	Share Price (IDR)	7,675	7,000	7,000	7,000
<i>Growth (% y/y)</i>	9.1%	-41.0%	43.6%	16.1%	Market Cap (IDR tn)	358.2	326.7	326.7	326.7

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2019/12A	2020/12E	2021/12F	2022/12F		2019/12A	2020/12E	2021/12F	2022/12F
Cash	28,094	34,527	22,052	28,979	Price /Earnings	13.0x	20.1x	14.0x	12.1x
Placement in Banks	96,618	101,665	105,167	108,068	Price /Book Value	1.7x	1.7x	1.5x	1.4x
Net Loans	877,105	903,959	970,754	1,054,606	Price/Op. Revenue	4.0x	4.0x	3.8x	3.7x
Investment	202,825	220,897	256,322	311,723	PE/EPS Growth	1.4x	-0.5x	0.3x	0.7x
Fixed Asset	44,612	50,799	57,407	64,348	EV/Operating Revenue	4.8x	5.0x	4.9x	4.9x
Other Assets	68,992	74,657	77,154	83,701	EV/PPOP	8.7x	9.0x	8.8x	8.8x
<b>Total Assets</b>	<b>1,318,246</b>	<b>1,386,505</b>	<b>1,488,857</b>	<b>1,651,425</b>	EV (IDR bn)	421,544	411,107	423,202	429,071
Deposits	946,968	996,439	1,088,259	1,210,670	Op. Rev. CAGR (3-Yr)	15.9%	7.1%	4.8%	3.8%
Debt	87,038	114,591	114,267	127,120	EPS CAGR (3-Yr)	11.4%	-7.3%	19.1%	9.4%
Other liabilities	75,205	79,715	70,737	78,694	Basic EPS (IDR)	589	348	499	580
<b>Total Liabilities</b>	<b>1,109,211</b>	<b>1,190,746</b>	<b>1,273,263</b>	<b>1,416,484</b>	Diluted EPS (IDR)	589	348	499	580
Capital Stock & APIC	29,143	29,143	29,143	29,143	BVPS (IDR)	4,479	4,195	4,620	5,034
Retained Earnings	143,310	123,761	137,320	150,394	Op. Revenue PS (IDR)	1,899	1,766	1,840	1,871
<b>Shareholders' Equity</b>	<b>209,035</b>	<b>195,759</b>	<b>215,594</b>	<b>234,941</b>	DPS (IDR)	353	209	299	348

Source: NHKSI research

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