

Bank Mandiri Tbk (BMRI)

High Liquidity for Lower Cost of Funds



Company Report | Nov. 6, 2020

BUY

Target Price (IDR)	7,000
Consensus Price (IDR)	6,992
TP to Consensus Price	+0.1%
vs. Last Price	+21.2%

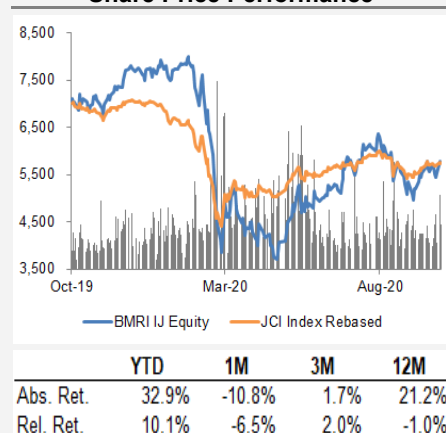
Shares data

Last Price (IDR)	5,775
Price date as of	Oct. 27, 2020
52 wk range (Hi/Lo)	8,050 / 3,660
Free float (%)	37.7
Outstanding sh.(mn)	46,667
Market Cap (IDR bn)	277,667
Market Cap (USD mn)	18,996
Avg. Trd Vol - 3M (mn)	53.65
Avg. Trd Val - 3M (bn)	303.81
Foreign Ownership	27.2%

Finance

Bank	BMRI IJ
Bloomberg	BMRI IJ
Reuters	BMRI.JK

Share Price Performance



Arief Machrus

arief.machrus@nhsec.co.id

BMRI booked a net income of IDR14 trillion in 9M20 or 82% of our FY20E estimate. High liquidity with 84.4% LDR, but with lower CoF. We maintain BUY with IDR7,000 TP (1.7x PBV FY20E). Meanwhile, BMRI will become the parent company of Islamic SOE bank, as Bank Syariah Mandiri provides the highest contribution for assets of the merged entity.

Highest Liquidity in the Last Four Years

High liquidity gives room for loan growth. Previously, BMRI loan was stagnant at 0.2% QoQ or only increased by 3.8% YoY. This is lower than third party funding (DPK) that grew by 4.9% QoQ or even 14.9% YoY. This combination again suppressed the loan to deposit ratio (LDR) to 84.4% or down by 970 bps on annual basis. This also makes BMRI's LDR at the lowest since 1Q16. The high liquidity increased BMRI's capability to push the current account and saving account (CASA) ratio to 65.4% in 9M20 from 61.9% in 1H20. Credit expansion capability is accompanied BMRI's ability to maintain non performing loan (NPL) ratio, as the credit restructuring process is almost complete.

NPL Maintained at 3.3%

BMRI managed to maintain its NPL ratio at 3.3% in 9M20 or unchanged from 1H20 period. BMRI also kept the productive asset by pushing the NPL coverage ratio to 205.2% or higher than in 1H20 at 196%. Meanwhile the increase in ratio is a risk mitigation during the pandemic. We see that BMRI keeps its loan provision high with a conservative lending policy.

Net Profit Grows 57.1% QoQ

BMRI booked IDR 3.7 trillion of net profit in 3Q20 or grew 57.1% on a quarterly basis. The increase of profit was amid net interest income drop by 1.3% in the same period. Meanwhile, BMRI managed to maintain its quarterly operating expenses, so in 9M20 it only amounted to IDR 9.1 trillion or flat compared to the previous quarter. This pushed 3Q20 operating profit to IDR 5.1 trillion or grew 44.3% QoQ. We project BMRI's net profit to grow by 27.5% YoY in FY21F, after a decrease of 38% YoY in FY20E period.

Maintain Buy with Target Price IDR7,000

Ability to suppress CoF and operating expenses, as well as encouraging non-interest income, made us revise up BMRI's net income by 11% and 2% for the FY20 and FY21 periods. In addition to downtrend in interest rates, increasing digital banking transactions will also suppress BMRI's Cost of Fund. We maintain TP at IDR7,000 which implies PBV of 1.7x from its 3-year average.

Bank Mandiri Tbk | Summary (IDR bn)

in IDR bn	2019/12A	2020/12E	2021/12F	2022/12F
Interest Income	91,525	86,709	95,933	101,184
<i>Interest Income growth</i>	13.0%	-5.3%	10.6%	5.5%
Operating Revenue	88,600	80,604	85,429	86,772
Net profit	27,482	17,015	21,694	26,987
EPS (IDR)	589	365	465	578
<i>EPS growth</i>	9.1%	-38.1%	27.5%	24.4%
BVPS (IDR)	4,479	4,174	4,519	4,918
Net Interest Margin	5.2%	4.4%	4.4%	4.1%
Loan/Deposits	95.8%	93.1%	92.8%	90.5%
NPL	2.3%	2.3%	2.8%	2.7%
ROE	14.0%	8.4%	10.7%	12.3%
ROA	2.2%	1.3%	1.5%	1.7%
P/E	13.0x	19.2x	15.1x	12.1x
P/BV	1.7x	1.7x	1.5x	1.4x
P/Op. Revenue	4.0x	4.1x	3.8x	3.8x
DPS (IDR)	353	219	279	347
<i>Dividend yield</i>	4.6%	3.1%	4.0%	5.0%

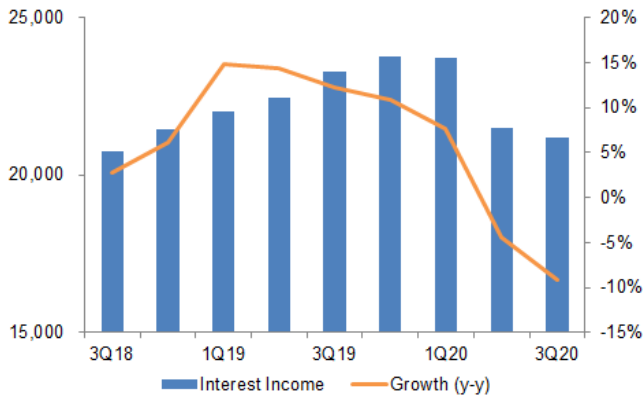
Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

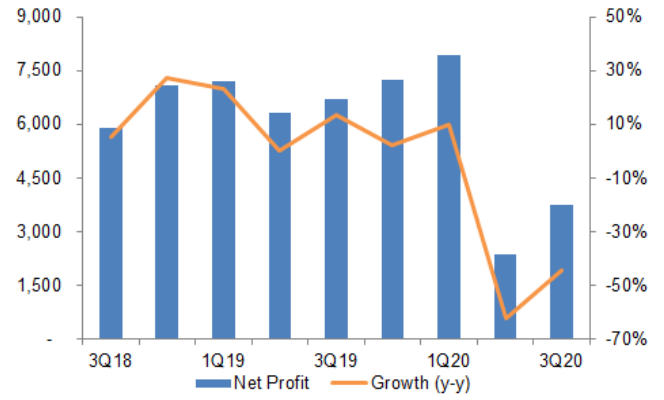
Performance Highlights

Interest Income (IDR bn) | 3Q18 - 3Q20



Source: Company, NHKSI Research

Net Profit (IDR bn) | 3Q18 - 3Q20



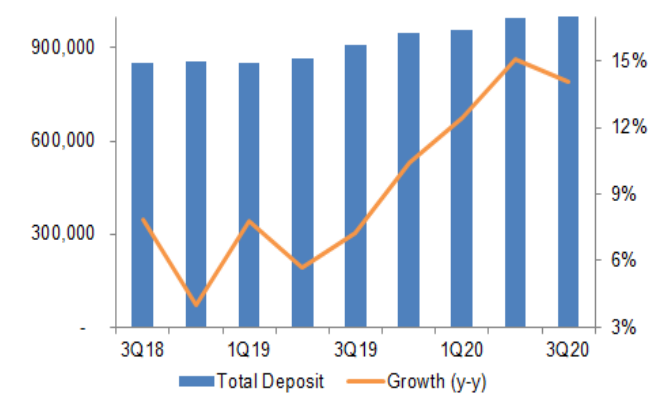
Source: Company, NHKSI Research

Gross Loan (IDR bn) | 3Q18 - 3Q20



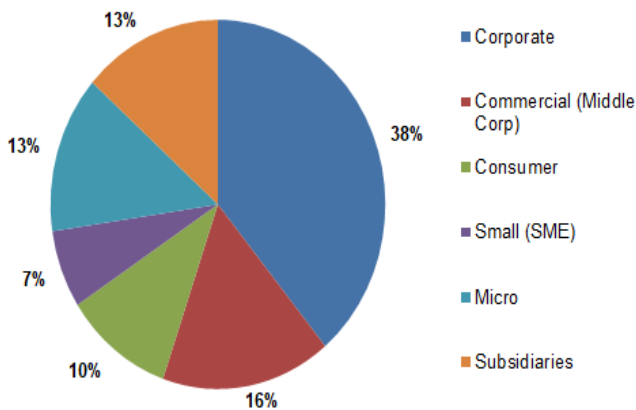
Source: Company, NHKSI Research

Deposit (IDR bn) | 3Q18 - 3Q20



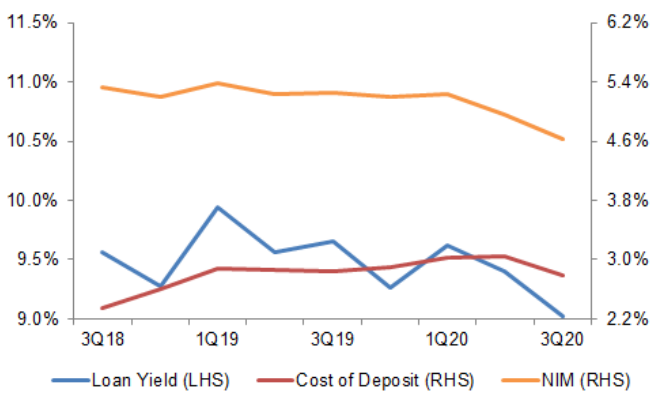
Source: Company, NHKSI Research

Loan Composition



Source: Company, NHKSI Research

Loan Yield, Cost of Deposit, NIM | 3Q18 - 3Q20



Source: Company, NHKSI Research

3Q20 review (IDR bn)

	3Q19	4Q19	1Q20	2Q20	3Q20					4Q20
					Actual	Estimate	y-y	q-q	Surprise	
Interest Income	23,282	23,755	23,709	21,490	21,172	10,428	-9.1%	-1.5%	103.0%	20,337
Interest Expense	(8,187)	(8,255)	(8,173)	(8,091)	(7,948)	(7,051)	-2.9%	-1.8%	12.7%	(8,003)
Net Interest Income	15,095	15,500	15,536	13,399	13,224	3,377	-12.4%	-1.3%	291.6%	12,334
Operating Revenue	22,705	23,635	23,900	19,472	19,605	5,184	-13.7%	0.7%	278.2%	17,626
Pre-Provisioning Operating Profit (PPOP)	12,879	11,762	13,871	10,316	10,469	2,826	-18.7%	1.5%	270.5%	9,606
Loan loss provisions	(4,062)	(1,798)	(3,479)	(6,811)	(5,409)	(8,603)	33.1%	-20.6%	-37.1%	(5,727)
Net Profit	6,719	7,233	7,916	2,377	3,735	(4,499)	-44.4%	57.1%	-183.0%	2,987

Source: Bloomberg, NHKSI research

Earnings revision (IDR bn)

		2020E	2021F	2022F
Interest Income	Revised	86,709	95,933	101,184
	Previous	87,715	97,681	112,361
	Change	-1.1%	-1.8%	-9.9%
Interest Expenses	Revised	(32,215)	(37,778)	(42,116)
	Previous	(33,128)	(38,432)	(44,485)
	Change	-2.8%	-1.7%	-5.3%
Net Interest Income	Revised	54,494	58,155	59,069
	Previous	54,587	59,248	67,875
	Change	-0.2%	-1.8%	-13.0%
Operating Revenue	Revised	80,604	85,429	86,772
	Previous	82,215	87,141	100,125
	Change	-2.0%	-2.0%	-13.3%
Pre-Provisioning OP	Revised	44,262	47,885	48,476
	Previous	44,775	48,779	55,848
	Change	-1.1%	-1.8%	-13.2%
Loan Loss Provision	Revised	(21,426)	(17,986)	(11,303)
	Previous	(23,237)	(19,290)	(17,229)
	Change	-7.8%	-6.8%	-34.4%
Net Profit	Revised	17,015	21,694	26,987
	Previous	16,073	21,989	28,786
	Change	5.9%	-1.3%	-6.3%

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.

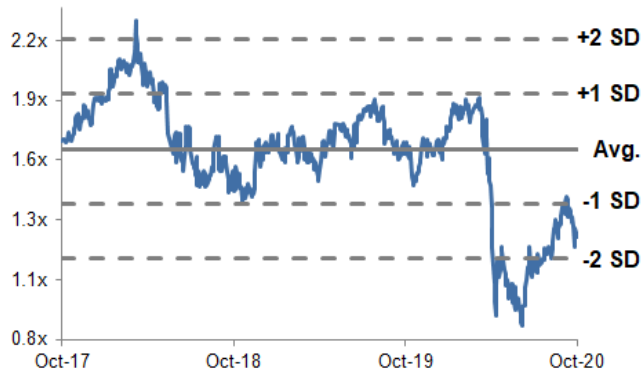
ASEAN Banking Sector

	Market Cap (USD mn)	Asset (USD mn)	Int. Income LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	ROE LTM	P/E LTM	P/BV
Indonesia								
BMRI	19,007	95,201	5,511	1,469	-21.8%	11.1%	13.1	1.5
BBRI	28,453	102,315	7,763	1,982	-15.6%	15.2%	14.5	2.2
BBCA	49,322	66,367	3,846	1,913	-2.1%	16.0%	26.0	4.0
BBNI	5,949	61,068	3,598	534	-50.3%	6.7%	11.2	0.8
BBTN	1,015	22,516	1,660	36	-61.6%	2.5%	28.2	0.8
Singapore								
DBS Group	39,275	430,571	7,589	4,012	-7.3%	10.8%	9.7	1.0
United Overseas Bank	23,694	300,765	7,767	2,662	-11.8%	9.8%	8.8	0.9
Oversea-Chinese Banking	27,971	365,678	8,122	2,779	-16.9%	8.2%	9.8	0.8
Malaysia								
CIMB Group	6,968	140,141	4,710	629	-47.1%	4.8%	10.9	0.5
Malayan Banking	18,923	203,988	4,086	1,769	-7.4%	9.2%	10.6	1.0
Hong Leong Financial	3,883	59,191	1,206	442	-3.2%	9.3%	8.6	0.8
Thailand								
Bangkok Bank	6,020	108,104	3,266	731	-36.6%	5.2%	8.2	0.4
Siam Commercial Bank	7,075	99,602	3,771	890	-33.9%	6.9%	7.9	0.5
Bank of Ayudhya	4,497	79,298	3,499	837	-19.5%	9.5%	5.4	0.5
Philippines								
BDO Unibank	8,180	62,894	2,856	571	-33.7%	7.8%	13.8	1.1
Metropolitan Bank & Trust	3,738	48,338	1,860	349	-34.7%	5.6%	11.4	0.6
Bank of the Philippine Island	6,853	43,490	1,734	476	-14.8%	9.9%	13.8	1.2

Source: Bloomberg, NHKSI Research

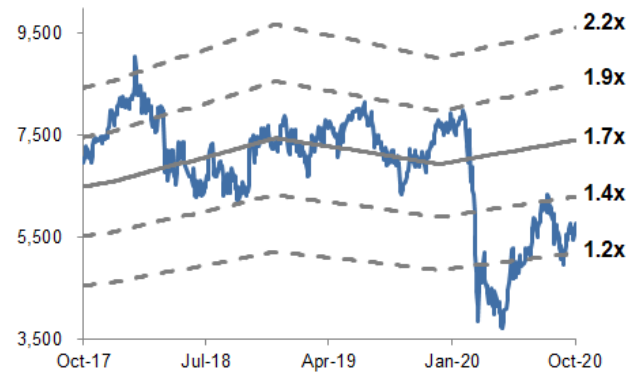
Multiple Valuation

Forward P/B band | Last 3 years



Source: NHKSI research

Dynamic Forward P/B band | 3 years



Source: NHKSI research

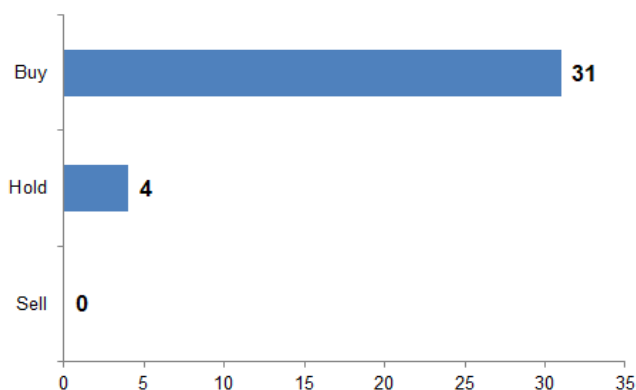
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
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%
11/06/2020	Buy	7,000 (12 Month)	5,775	6,992	+21.2%	+0.1%

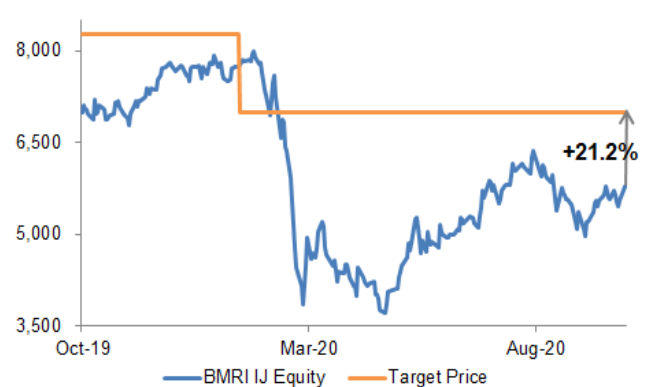
Source: NHKSI Research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

- Period: Next 12-months
- Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to +15%
 - Hold : -5% to +5%
 - Underweight : -5% 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
Interest Income	91,525	86,709	95,933	101,184	ROE	14.0%	8.4%	10.7%	12.3%
<i>Growth (% y/y)</i>	13.0%	-5.3%	10.6%	5.5%	ROA	2.2%	1.3%	1.5%	1.7%
Interest Expenses	(32,085)	(32,215)	(37,778)	(42,116)	Non-Int. Inc. /Op. Rev	32.9%	32.4%	31.9%	31.9%
Net Interest Income	59,440	54,494	58,155	59,069	Cost/Income	45.2%	45.1%	43.9%	44.1%
<i>Net Interest Margin</i>	5.2%	4.4%	4.4%	4.1%	Cash Dividend (IDR bn)	16,489	10,209	13,017	16,192
Net Fee Income	16,066	14,192	16,283	16,539	Dividend Yield (%)	4.6%	3.1%	4.0%	5.0%
Trading Income	4,734	5,626	6,106	6,202	Payout Ratio (%)	60.0%	60.0%	60.0%	60.0%
Other Operating Income	8,361	6,292	4,885	4,962	Loan/Deposits	95.8%	93.1%	92.8%	90.5%
Operating Revenue	88,600	80,604	85,429	86,772	Loan/Assets	68.8%	68.1%	68.0%	66.6%
Operating Expenses	(40,076)	(36,341)	(37,544)	(38,296)	NPL	2.3%	2.3%	2.8%	2.7%
Pre-provisioning OP	48,524	44,262	47,885	48,476	Loan Loss Res./Loan	3.3%	4.7%	5.4%	5.4%
Provision for Impairment	(12,072)	(21,426)	(17,986)	(11,303)	CASA/Deposits	65.3%	65.8%	65.8%	66.3%
EBT	36,441	22,757	29,813	37,086	Time Deposits/Deposits	34.7%	34.2%	34.2%	33.7%
Income Tax	(7,986)	(5,220)	(7,453)	(9,272)	Par Value (IDR)	250	250	250	250
Non-controlling Interest	(973)	(522)	(665)	(828)	Total Shares (mn)	46,667	46,667	46,667	46,667
Net Profit	27,482	17,015	21,694	26,987	Share Price (IDR)	7,675	7,000	7,000	7,000
<i>Growth (% y/y)</i>	9.1%	-38.1%	27.5%	24.4%	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	30,548	33,072	36,821	Price /Earnings	13.0x	19.2x	15.1x	12.1x
Placement in Banks	96,618	87,406	103,141	105,944	Price /Book Value	1.7x	1.7x	1.5x	1.4x
Net Loans	877,105	880,599	952,051	1,033,875	Price/Op. Revenue	4.0x	4.1x	3.8x	3.8x
Investment	202,825	244,273	262,444	321,966	PE/EPS Growth	1.4x	-0.5x	0.5x	0.5x
Fixed Asset	44,612	46,207	53,186	60,536	EV/Operating Revenue	4.8x	4.9x	4.8x	4.9x
Other Assets	68,992	67,990	75,862	82,244	EV/PPOP	8.7x	9.0x	8.6x	8.7x
Total Assets	1,318,246	1,357,023	1,479,756	1,641,386	EV (IDR bn)	421,544	396,885	411,877	420,950
Deposits	946,968	992,776	1,084,496	1,206,729	Op. Rev. CAGR (3-Yr)	15.9%	6.3%	4.7%	3.6%
Debt	87,038	96,344	113,872	126,707	EPS CAGR (3-Yr)	11.4%	-5.8%	16.3%	9.3%
Other liabilities	75,205	73,139	70,492	78,437	Basic EPS (IDR)	589	365	465	578
Total Liabilities	1,109,211	1,162,260	1,268,860	1,411,874	Diluted EPS (IDR)	589	365	465	578
Capital Stock & APIC	29,143	28,983	28,983	28,983	BVPS (IDR)	4,479	4,173	4,519	4,918
Retained Earnings	143,310	124,553	136,037	150,008	Op. Revenue PS (IDR)	1,899	1,727	1,831	1,859
Shareholders' Equity	209,035	194,763	210,896	229,512	DPS (IDR)	353	219	279	347

Source: NHKSI research

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