

22 JULY 2019

COMPANY UPDATE

NEUTRAL

STOCK INFORMATION

Bloomberg Code	BMRI IJ
Sector	Bank
Current Price	Rp 7,875
Target Price	Rp 8,900
Previous Target Price	Rp 8,350
Upside/Downside	13%
Share Out (bn shares)	46.7
Market Cap (Rp bn)	Rp 367,500
52 – w range (low-high)	Rp 6,200 – Rp 8,150
Average daily turnover (Rp bn)	
1 month	Rp 369.9
3 month	Rp 387.8
YTD 2019	Rp 370.4

PRICE CHART



Source: Bloomberg

SHAREHOLDERS INFORMATION, AS OF 30 JUNE 2019

The Government of Republic Indonesia	60%
Public (below 5%)	40%

Source: Company data

FORWARD PBV BAND



Source: Bloomberg and Lotus Andalan Research

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PT BANK MANDIRI (PERSERO) TBK

2Q19 NPL Improvement

BMRI's NPL continued to improve in 2Q19 became to the level of 2.6% thanks to its NPL improvement from SME and consumer segments to the level of 2.09% and 2.54%. Currently, BMRI share price has increased by 7% YTD 2019 and traded at its 5 years average forward PBV of 1.78x while our fair value offer 13% upside potential, hence, we call Neutral on the counter.

2Q19 declining net profit but NPL continued to improve

BMRI posted a declining in 2Q19 net profit of 12.9% QoQ reach to Rp 6.3 trillion (vs Rp 7.2 trillion in 1Q19) which was due to 1) its muted growth of NII (+0.6% QoQ) and fee base income (+0.4% QoQ); 2) higher CoF mainly came from higher time deposit rate; and 3) higher than expected provision allocation of 25.3% QoQ to Rp 3.5 trillion (vs Rp 2.8 trillion in 1Q19). Meanwhile, the company's NPL continued to improve in 2Q19 became to the level of 2.6% (vs 2.7% in 1Q19) thanks to its NPL improvement from SME and consumer segments to the level of 2.09% (vs 2.54% in 1Q19) and 2.54% (vs 2.60% in 1Q19) backed by a total write-off of Rp 2.01 trillion and Rp 7.3 trillion in restructuring loan. We highlight that a downgrades of Rp 1.4 trillion commercial loan into NPL category in 2Q19, mainly came from manufacturing and retail trading sectors, thus resulted in NPL's commercial segment deterioration to the level of 10.7% (vs 10.5% in 1Q19).

Loan grew 9.5% YoY below the industry

During the 1H19, BMRI's loan grew by 9.5% YoY attaining to Rp 835.1 trillion (vs Rp 762.5 trillion in 1H18), lower than banking industry growth of 11.1% YoY (as of May 2019) since the company's LDR has increased to 99.0% in 1H19 (vs 94.9% in 1H18 and 95.5% in 1Q19). This was in line with the fact that banking industry liquidity has reduced as a consequence of lower customer deposit growth of 6.3% YoY which resulted in higher LDR's industry of 95.5% (as of May 19, vs 93.1% in 1H18 and 94.3% in 1Q19). We note that the company's customer deposit only grew by 5.0% YoY from Rp 803 trillion in 1H18 to Rp 843.2 trillion in 1H19.

Maintained to record 1H19 inline result

Despite 2Q19 weak performance, the company was still able to record a good 1H19 financial performance in which the NII and net profit grew by 8.9% YoY and 11.1% YoY attained to Rp 28.8 trillion (vs Rp 26.5 trillion in 1H18) and to Rp 13.5 trillion (vs Rp 12.2 trillion in 1H18), respectively, thanks to an increases in average assets yield rate by 50 bps and provision cost decline by 21.3% YoY. In all, BMRI's 1H19 NII and net profit figures came in line with our expectation, which were covered by 47% and 49% to our 2019 forecast of Rp 60.8 trillion in NII and Rp 27.4 trillion in net profit.

Neutral Rating - fair value at Rp 8,900/share

Responding to the BI 7-days RR cut by 25 bps, we revise our Risk free rate assumption from 8.43% to 7.00% which result lower WACC assumption to our DDM calculation. Hence, we obtain new fair value for BMRI at Rp 8,900 per share (previously at Rp 8,350 per share), implying 1.92x PBV 2020F target and close to its 5 years average forward PBV + 1std dev of 2.05x. Currently, BMRI share price has increased by 7% YTD 2019 and traded at its 5-years average forward PBV of 1.78x. Neutral rating on the counter.

**Key catalyst:** BI 7-days RRR cut and easing in minimum reserve requirement will further to boost loan growth

**Key risk:** Bad debt from Duniatex with total exposure of Rp 2.2 trillion will threat the company NPL and higher provisioning allocation in 2H19.

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Net interest income	51,988	54,623	60,779	68,475	78,722
PPOP	42,816	48,301	51,174	57,704	66,761
Net profit	20,640	25,015	27,413	31,440	37,890
EPS (Rp)	442	536	587	674	812
PER (x)	17.81	14.69	13.41	11.69	9.70
BVPS (Rp)	3,573	3,883	4,229	4,638	5,114
PBV (x)	2.20	2.03	1.86	1.70	1.54
Dividend yield (%)	2.53	3.06	3.36	4.28	5.16
RoAE (%)	13.01	14.38	14.48	15.19	16.65
NIM (%)	5.60	5.47	5.70	5.95	6.28

Source: Company data and Lotus Andalan Research

Interim Financial Result									
	1H18	1H19	YoY	FY19F	cover	1Q19	2Q19	QoQ	The Comments
<b>P/L (In Rp billion)</b>									
Net Interest Income	26,476	28,845	8.9%	60,779	47%	14,382	14,463	0.6%	Inline
Operating expenses	(17,329)	(18,377)	6.0%	(39,569)	46%	(8,854)	(9,523)	7.6%	
PPOP	23,621	23,884	1.1%	51,174	47%	12,209	11,674	-4.4%	Inline
Provision	(7,891)	(6,212)	-21.3%	(14,464)	43%	(2,757)	(3,455)	25.3%	Higher than expected 2Q19 provision charge
Non op income - net	(32)	(47)	46.9%	(7)	709%	(22)	(25)	13.6%	
Pre-tax profit	15,698	17,625	12.3%	36,703	48%	9,431	8,194	-13.1%	
Net Profit	12,178	13,531	11.1%	27,413	49%	7,233	6,298	-12.9%	Inline
<b>BS (In Rp billion)</b>									
Loan - gross	762,539	835,110	9.5%	887,363	94%	790,450	835,110	5.6%	
Customer deposit	803,027	843,159	5.0%	890,290	95%	827,761	843,159	1.9%	
<b>KFR</b>									
Earning assets yield	7.8%	8.3%		8.6%		8.3%	8.3%		
Cost of Fund	2.6%	3.0%		3.2%		2.9%	3.0%		
NIM	5.4%	5.4%		5.7%		5.6%	5.4%		Lower NIM due higher CoF
<b>Capital &amp; Assets Quality</b>									
Total CAR	20.6%	21.0%		19.5%		22.5%	21.0%		
LDR	94.9%	99.0%		99.7%		95.5%	99.0%		
CASA to Deposits	64.6%	64.4%		62.3%		62.4%	64.4%		
NPL - gross	3.1%	2.6%		2.7%		2.7%	2.6%		Improving NPL
Provisioning coverage	136.1%	146.8%		169.1%		145.6%	146.8%		

Source: Company data and Lotus Andalan Research

Loan (Trillion Rupiah)											
Period	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	YoY
<b>Type</b>											
Corporate	235.4	243.7	237.1	265.4	256.5	300.1	305.2	333.8	305.6	338.5	12.8%
Commercial	152.7	157.3	157.6	155.8	141.7	143.4	141.9	139.0	130.2	133.2	-7.1%
Micro	69.8	72.6	76.7	83.2	85.6	90.6	97.5	102.4	106.5	110.4	21.9%
Consumer	69.6	73.0	75.4	78.3	79.8	83.3	85.0	87.4	87.2	87.3	4.8%
SME	57.5	59.0	59.0	61.6	51.0	53.7	55.0	56.8	55.1	56.0	4.3%
Others	71.2	76.4	80.3	85.3	88.4	91.4	96.4	100.7	105.9	109.7	20.0%
<b>Total</b>	<b>656.2</b>	<b>682.0</b>	<b>686.1</b>	<b>729.6</b>	<b>703.0</b>	<b>762.5</b>	<b>781.0</b>	<b>820.1</b>	<b>790.5</b>	<b>835.1</b>	<b>9.5%</b>
<b>Portion</b>											
Corporate	35.9%	35.7%	34.6%	36.4%	36.5%	39.4%	39.1%	40.7%	38.7%	40.5%	
Commercial	23.3%	23.1%	23.0%	21.4%	20.2%	18.8%	18.2%	16.9%	16.5%	16.0%	
Micro	10.6%	10.6%	11.2%	11.4%	12.2%	11.9%	12.5%	12.5%	13.5%	13.2%	
Consumer	10.6%	10.7%	11.0%	10.7%	11.4%	10.9%	10.9%	10.7%	11.0%	10.5%	
SME	8.8%	8.7%	8.6%	8.4%	7.3%	7.0%	7.0%	6.9%	7.0%	6.7%	
Others	10.9%	11.2%	11.7%	11.7%	12.6%	12.0%	12.3%	12.3%	13.4%	13.1%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	
<b>Growth - QoQ</b>											
Corporate	1.8%	3.5%	-2.7%	11.9%	-3.4%	17.0%	1.7%	9.4%	-8.4%	10.8%	
Commercial	-7.6%	3.0%	0.2%	-1.1%	-9.1%	1.2%	-1.0%	-2.0%	-6.3%	2.3%	
Micro	2.5%	4.0%	5.6%	8.5%	2.9%	5.8%	7.6%	5.0%	4.0%	3.7%	
Consumer	3.4%	4.9%	3.3%	3.8%	1.9%	4.4%	2.0%	2.8%	-0.2%	0.1%	
SME	-5.4%	2.6%	0.0%	4.4%	-17.2%	5.3%	2.4%	3.3%	-3.0%	1.6%	
Others	2.7%	7.3%	5.1%	6.2%	3.6%	3.4%	5.5%	4.5%	5.2%	3.6%	
<b>Total</b>	<b>-0.9%</b>	<b>3.9%</b>	<b>0.6%</b>	<b>6.3%</b>	<b>-3.6%</b>	<b>8.5%</b>	<b>2.4%</b>	<b>5.0%</b>	<b>-3.6%</b>	<b>5.6%</b>	

Source: Company data and Lotus Andalan Research

NPL Gross											
Period	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	YoY*
Corporate	0.98%	0.38%	0.40%	0.37%	0.33%	0.27%	0.23%	0.20%	0.18%	0.19%	-8
Commercial	10.55%	10.77%	10.16%	10.01%	10.48%	10.55%	10.86%	10.54%	10.45%	10.65%	10
SME	3.54%	3.40%	3.81%	3.79%	4.12%	3.88%	2.96%	2.78%	2.54%	2.09%	-179
Micro	2.09%	2.46%	2.51%	2.22%	1.31%	1.23%	1.06%	0.87%	0.83%	0.89%	-34
Consumer	1.84%	1.92%	2.13%	1.94%	2.15%	2.23%	2.36%	2.17%	2.60%	2.54%	31
<b>Total</b>	<b>3.98%</b>	<b>3.82%</b>	<b>3.74%</b>	<b>3.45%</b>	<b>3.35%</b>	<b>3.13%</b>	<b>3.04%</b>	<b>2.79%</b>	<b>2.73%</b>	<b>2.65%</b>	<b>-48</b>

Change - QoQ*											
Corporate	-12	-60	2	-3	-4	-6	-4	-3	-2	1	
Commercial	123	22	-61	-15	47	7	31	-32	-9	20	
SME	-53	-14	41	-2	33	-24	-92	-18	-24	-45	
Micro	-141	37	5	-29	-91	-8	-17	-19	-4	6	
Consumer	11	8	21	-19	21	8	13	-19	43	-6	
<b>Total</b>	<b>-2</b>	<b>-16</b>	<b>-8</b>	<b>-29</b>	<b>-10</b>	<b>-22</b>	<b>-9</b>	<b>-25</b>	<b>-6</b>	<b>-8</b>	

\*) In bps

Source: Company data and Lotus Andalan Research

Customer Deposit (Trillion Rp)											
Period	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	YoY
Current account	178.1	184.0	184.8	203.4	186.2	186.7	204.2	200.5	185.1	200.1	7.2%
Saving account	287.5	306.2	307.7	336.9	310.9	332.1	331.6	338.6	331.3	342.6	3.2%
Time deposits	265.5	270.6	269.0	275.5	272.1	284.2	295.4	301.8	311.3	300.4	5.7%
<b>Total</b>	<b>731.1</b>	<b>760.9</b>	<b>761.5</b>	<b>815.8</b>	<b>769.3</b>	<b>803.0</b>	<b>831.2</b>	<b>840.9</b>	<b>827.8</b>	<b>843.2</b>	<b>5.0%</b>

Portion											
CASA	63.7%	64.4%	64.7%	66.2%	64.6%	64.6%	64.5%	64.1%	62.4%	64.4%	
Time deposits	36.3%	35.6%	35.3%	33.8%	35.4%	35.4%	35.5%	35.9%	37.6%	35.6%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

Growth - QoQ											
CASA	-4.9%	5.3%	0.5%	9.7%	-8.0%	4.4%	3.3%	0.6%	-4.2%	5.1%	
Time deposits	-2.8%	1.9%	-0.6%	2.4%	-1.2%	4.4%	4.0%	2.2%	3.1%	-3.5%	
<b>Total</b>	<b>-4.1%</b>	<b>4.1%</b>	<b>0.1%</b>	<b>7.1%</b>	<b>-5.7%</b>	<b>4.4%</b>	<b>3.5%</b>	<b>1.2%</b>	<b>-1.6%</b>	<b>1.9%</b>	

Source: Company data and Lotus Andalan Research

## Financial Highlights of PT Bank Mandiri (Persero) Tbk

In Rp Billion									
<b>BALANCE SHEET</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>INCOME STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>
<b>ASSETS</b>					Interest income	77,285	80,993	91,697	101,259
Cash and cash equivalent	24,269	27,349	23,960	24,193	Interest expenses	(25,296)	(26,370)	(30,917)	(32,784)
Current account with BI and others bank	62,518	74,684	72,167	68,749	<b>Net Interest income</b>	<b>51,988</b>	<b>54,623</b>	<b>60,779</b>	<b>68,475</b>
Placement with BI and others bank	74,601	22,516	26,276	22,900	Net premium income	2,465	2,707	2,593	2,580
Marketable securities	163,021	178,120	177,218	174,781	Other non-interest income	23,610	28,346	27,371	32,210
Gross loans	712,038	799,557	887,363	990,239	<b>Total net operating income</b>	<b>78,064</b>	<b>85,676</b>	<b>90,743</b>	<b>103,265</b>
Loan provisions	(33,745)	(31,796)	(40,767)	(44,068)	Salaries expenses	(14,859)	(16,323)	(17,059)	(19,582)
Fixed assets	36,619	38,443	40,343	42,481	G&A expenses	(15,406)	(16,587)	(17,500)	(20,094)
Others	85,381	93,380	87,661	87,636	Other expenses	(4,983)	(4,465)	(5,010)	(5,885)
<b>TOTAL ASSETS</b>	<b>1,124,701</b>	<b>1,202,252</b>	<b>1,274,220</b>	<b>1,366,910</b>	<b>Pre Provision Operating profit (PPOP)</b>	<b>42,816</b>	<b>48,301</b>	<b>51,174</b>	<b>57,704</b>
					Provision	(15,646)	(14,395)	(14,464)	(15,679)
<b>LIABILITIES &amp; EQUITY</b>					<b>Operating profit</b>	<b>27,170</b>	<b>33,906</b>	<b>36,710</b>	<b>42,025</b>
Customers deposits	815,807	840,914	890,290	939,799	Non - operating income	(13)	38	(7)	8
Other banks deposits	8,795	16,927	11,805	12,326	<b>Profit before tax</b>	<b>27,157</b>	<b>33,943</b>	<b>36,703</b>	<b>42,033</b>
Fund borrowings	35,704	51,654	58,966	60,841	Tax expense	(5,714)	(8,091)	(8,075)	(9,370)
Subordinated borrowings	17,035	19,775	23,006	32,086	<b>Net profit before non-controlling interest</b>	<b>21,443</b>	<b>25,852</b>	<b>28,629</b>	<b>32,663</b>
Others	77,355	88,022	89,475	101,940	Non-controlling interest	803	837	1,216	1,223
<b>Total Liabilities</b>	<b>954,695</b>	<b>1,017,292</b>	<b>1,073,541</b>	<b>1,146,992</b>	<b>Net profit</b>	<b>20,640</b>	<b>25,015</b>	<b>27,413</b>	<b>31,440</b>
Capital stock	11,667	11,667	11,667	11,667	EPS (Rp)	<b>442</b>	<b>536</b>	<b>587</b>	<b>674</b>
Additional paid in capital	17,316	17,316	17,316	17,316					
Others	26,378	25,135	25,135	25,135					
Retained Earnings	111,358	127,085	143,241	162,345					
<b>Total Equity</b>	<b>166,719</b>	<b>181,203</b>	<b>197,358</b>	<b>216,463</b>					
Non-Controlling Interest	3,287	3,758	3,320	3,455					
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,124,701</b>	<b>1,202,252</b>	<b>1,274,220</b>	<b>1,366,910</b>					
<b>KEY FINANCIAL RATIO</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>MARKET RATIO</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>
<b>Growth (%)</b>					PER (x)	17.81	14.69	13.41	11.69
Total assets	8.28	6.90	5.99	7.27	PBV (x)	2.20	2.03	1.86	1.70
Gross loans	9.66	12.29	10.98	11.59	BVPS (Rp)	3,573	3,883	4,229	4,638
Customer deposits	6.99	3.08	5.87	5.56	Dividend yield (%)	2.53	3.06	3.36	4.28
Risk weighted assets	10.01	12.92	19.47	11.05					
Net interest income	0.31	5.07	11.27	12.66					
PPOP	(0.98)	12.81	5.95	12.76					
Net profit	49.49	21.20	9.58	14.69					
<b>Profitability (%)</b>									
Earning Asset Yield	8.33	8.11	8.60	8.79					
Cost of Fund	2.99	2.92	3.23	3.23					
NIM	5.60	5.47	5.70	5.95					
ROAA	1.91	2.15	2.21	2.38					
ROAE	13.01	14.38	14.48	15.19					
Cost to Income Ratio	46.62	45.05	44.89	45.25					
Op. exp to Op. inc (BOPO)	75.51	71.47	71.35	70.45					
<b>Capital &amp; Quality Assets (%)</b>									
CAR	21.64	20.96	19.60	19.69					
LDR	87.28	95.08	99.67	105.37					
CASA to Deposits	66.23	64.11	62.27	60.74					
NPL - gross	3.46	2.79	2.72	2.64					
Provisioning coverage	136.97	142.53	169.11	168.64					

Source: Company data and Lotus Andalan Research

**Notes:**

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **Neutral** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

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