PT Bank Mandiri Tbk

Recommendation : Buy
Target Price : 9625 (+27%)

7 January 2020

Wanteg Sekuritas Research Team

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- Increase in Profitability Expected as a Result of Interest Rate Cut
- Stronger Capital Buffer to Face Future Risks
- Improvement in Asset Quality
- Underwhelming Loan and Deposit Growth as Liquidity Remains a Challenge

Sustainable Net Income Expected as a Result of Interest Rate Cut

BMRI managed to book a net profit of IDR 20.3 Trillion in Q3/2019 or an increase of 11.9% yoy. This was achieved despite a Net Interest Margin (NIM) of 5.58% or 18 bps lower than Q3/18 NIM of 5.76%. This increase in Net Profit can be attributed to the increase of net interest income which grew 8.9% from the previous period and amounts to IDR 43.9 Trillion. As a result, BMRI was able to maintain a stable ROE of 14.0% per annum.

Between July - October 2019, Bank Indonesia had cut the benchmark BI 7-day Reverse Repo Rate by 25 bps in each of its monthly meeting (or 100 bps in total) which brought the benchmark rate to currently stands at 5.00%. This could potentially serve as a catalyst for BMRI to further improve its profitability as the demand for loan is expected to go up while Net Interest Income (NII) and Net Interest Margin (NIM) are likely move higher.

Stronger Capital Buffer to Face Future Risks

As of Q3/2019, BMRI's capital remained in a solid position as shown in both Tier-1 CAR (bank only) and Total CAR. Tier-1 CAR positioned at 21.39% or an increase of 5.7% compared to Q3/18 position of 20.24%. Meanwhile, Total CAR also improved to 22.5% from 21.38% in the same period last year. This number far exceeds the minimum CAR requirement from regulator which was set at 8-10%.

Solid CAR figure means that BMRI is well capitalized to face future challenges that might come from potential economic turndowns while in the same time it also signals that the bank is better equipped for further expansion. Moreover, a higher CAR can prove to be beneficial in facing the introduction of new accounting treatment known as PSAK 71, where it has the potential to reduce CAR by 1-2%.

BMRI Key Figures (As of 6 Jan 2020)

Current Price (IDR):	**7600**
Market Cap (Tn IDR):	**354.7**
Shares O/S (Bn):	**46.67**
EPS (Annualized):	**579**
EPS (TTM):	**583**
P/E Ratio (Annualized):	**13.13**
P/E Ratio (TTM):	**13.04**
Price/Book Ratio:	**1.8**

Improvement in Asset Quality

BMRI has successfully improve its asset quality which is marked by gross NPL of 2.53% in Q3/2019. This was a significant improvement from 3.01% in the same period last year. Furthermore, net NPL was also pushed down to 0.73% or 21 bps lower than Q3/2018 net NPL of 0.94%. Commercial segment is still the main contributor to NPL with IDR 14.4 Trillion of loan value.

The improvement in NPL numbers can mainly be attributed to the effective implementation of Credit Risk Analytics where it put more emphasis on disciplined credit monitoring and early warning system.

Underwhelming Loan and Deposit Growth as Liquidity Remains a Challenge

Relative to other BUKU 4 category banks, BMRI loan growth in Q3/2019 was lagging at 7.8%. As a comparison, banks such as BBCA, BBRI, and BBNI were all still able to book double digit loan growth. Customer Deposits growth was also unimpressive which only grew 7.2% yoy. Low Cost Fund contribution to total deposits also decreased from 64.5% in Q3/18 to 63.7%, despite the nominal number actually grew 5.9% yoy from IDR 535.8 Trillion (Q3/2018) to IDR 567.5 Trillion.

As a consequence, BMRI's liquidity also tighten as shown in Loan to Deposit Ratio (LDR) number which went up to 94.13% from 93.53% in Q3/2018. While this number shows that the bank has been successful in carrying out its intermediation function, it also means that it will face a huge challenge in the future as room for credit expansion remains limited.

Valuation for BMRI Using PBV

We use PBV method to calculate the intrinsic value of BMRI. The value of PBV chosen is based on BMRI's average historical PBV for the last 5 years. Growth chosen is based on 2017-2018 equity growth. We think this is justifiable given BMRI's key ratios such NPL, CAR, and ROA has been improving since 2016 when BMRI experienced a spike in NPL.

Key Assumptions & Calculations for PBV	
Book Value per Share 2018	3,883
Equity Growth (2018-2019)	8.70%
Book Value per Share 2019	4,221
Equity Growth (2019-2020)	8.70%
Book Value per Share 2020	4,588
PBV	1.99
Equity Value per Share for 2020	**9130**

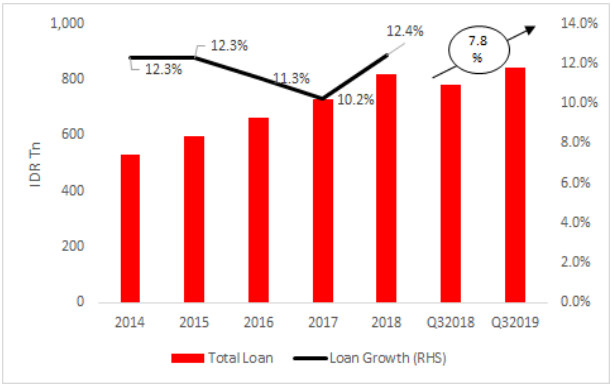
Valuation for BMRI Using DCF (FCFE)

Our valuation based on DCF (FCFE) by using two-stage growth model generates share price of BMRI is IDR 10,116. Revenue, loan and net income growth is extrapolated to most reasonable business life-cycle model while considering management guidance for 2020. Long term growth is expected to be 3%, ROE will recover to 20% and 17% in the long term while cost of equity will 14%.

Final Equity Value	
Equity Value for 2020 (PBV)	9130
Equity Value for 2020 (DCF)	10116
Average Equity Value for 2020	**9623**

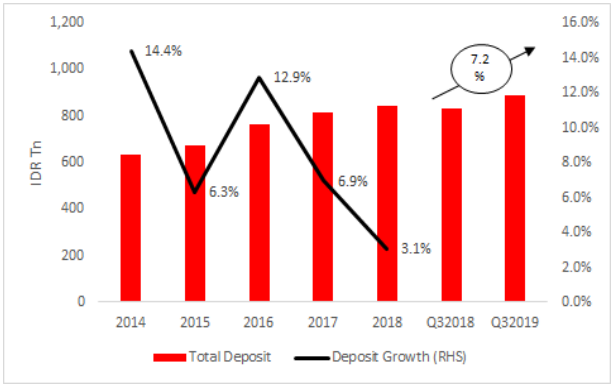
Year	2019	2020	2021	2022	2023	2024	2025
Net Income (IDR Bn)	28,954	30,981	36,494	45,960	57,853	73,218	91,156
Change in Equity (IDR Bn)	-15,868	-2,521	-19,995	-18,989	-15,307	-14,636	-16,988
FCFE (IDR Bn)	13,086	28,460	16,498	26,972	42,546	58,582	74,168
Terminal Value (IDR Bn)							655,881
Total FCFE (IDR Bn)	13,086	28,460	16,498	26,972	42,546	58,582	730,049
PV (IDR Bn)	13,086	24,824	12,552	17,898	24,626	29,576	321,489
Operating Value (IDR Bn)	444,053						
Cash (IDR Bn)	28,021						
Equity Value (IDR Bn)	472,074						
Outstanding Share (Bn)	46.67						
Equity Value per share	**10,116**						

Total Loans & Loan Growth



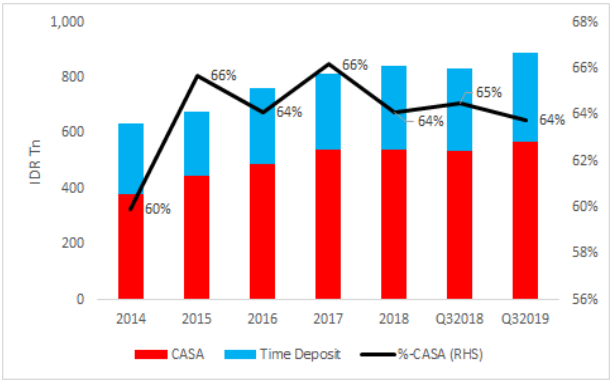
Source: Company Data, Wanteg Sekuritas Research

Total Deposits & Deposit Growth



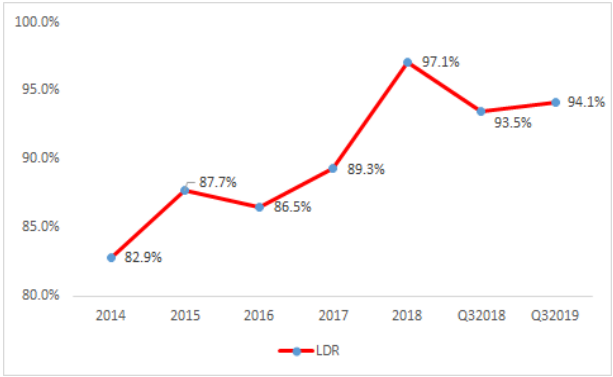
Source: Company Data, Wanteg Sekuritas Research

Deposits Breakdown



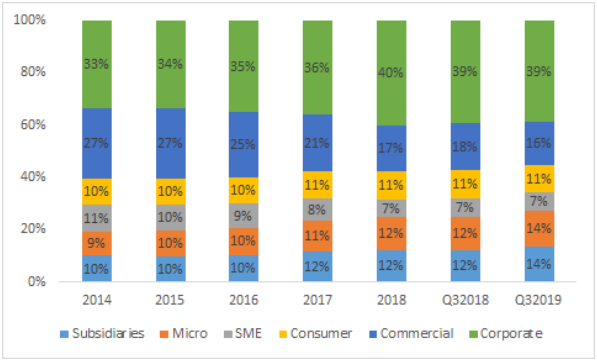
Source: Company Data, Wanteg Sekuritas Research

Loan to Deposit Ratio



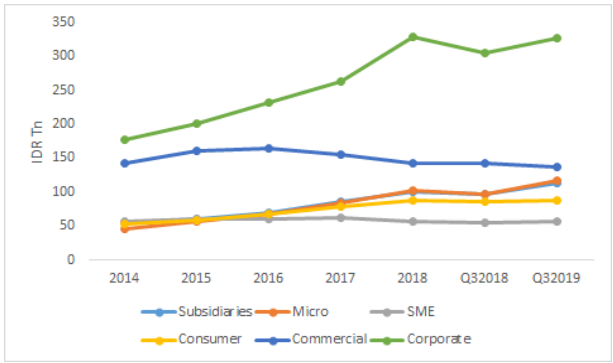
Source: Company Data, Wanteg Sekuritas Research

Loan Breakdown



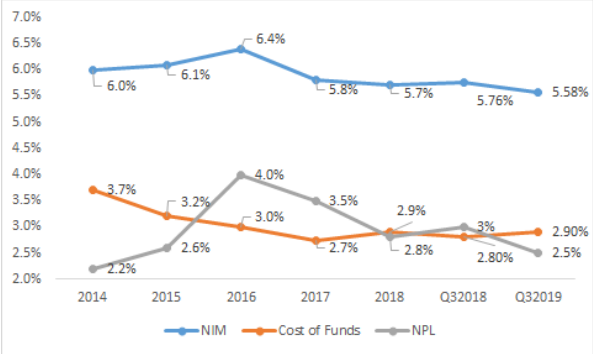
Source: Company Data, Wanteg Sekuritas Research

Total Loan by Segment

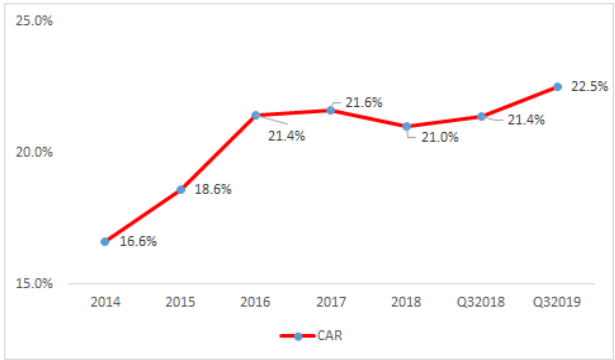


Source: Company Data, Wanteg Sekuritas Research

Other BMRI's key ratios



Source: Company Data, Wanteg Sekuritas Research



Source: Company Data, Wanteg Sekuritas Research

BMRI's Key Financial Figures

Balance sheet (IDR Tn)	2018	2017	YoY	Q319	Q318	YoY
Gross loans	820.1	729.5	12.4%	841.8	781.0	7.8%
Loan impairment allowances	32.2	34.1	-5.7%	32.4	32.1	0.9%
Net loans	787.9	695.4	13.3%	809.5	748.9	8.1%
Total assets	1202.3	1124.7	6.9%	1275.7	1173.6	8.7%
Deposits from customers	840.9	815.8	3.1%	891.2	831.2	7.2%
Total liabilities	1017.3	954.7	6.6%	1074.8	997.4	7.8%
Total equity	185.0	170.0	8.8%	200.8	176.3	13.9%

Income statement (IDR Tn)	2018	2017	YoY	Q319	Q318	YoY
Net interest income	54.6	52.0	5.1%	43.9	40.3	8.9%
Non interest income	31.0	26.1	18.8%	21.0	21.1	-0.2%
Operating income	85.7	78.1	9.7%	65.0	61.4	5.8%
Operating expenses	37.6	35.0	7.4%	28.2	26.9	5.0%
Pre provision operating profit	48.1	43.1	11.5%	36.8	34.6	6.4%
Loan impairment allowances	14.2	16.0	-11.1%	10.3	11.0	-6.3%
Profit before tax	33.9	27.2	25.0%	26.4	23.6	11.9%
Net profit	25.0	20.6	21.2%	20.3	18.1	11.9%

Liquidity	2014	2015	2016	2017	2018	Q319
Loan growth	12.3%	12.3%	11.3%	10.2%	12.4%	7.8%
Customer deposits growth	14.4%	6.3%	12.9%	6.9%	3.1%	7.2%
LDR	82.9%	87.7%	86.5%	89.3%	97.1%	94.1%

Profitability	2014	2015	2016	2017	2018	Q319
NIM	6.0%	6.1%	6.4%	5.8%	5.7%	5.6%
COF	3.7%	3.2%	3.0%	2.7%	2.9%	2.8%
BOPO	65.0%	69.7%	80.9%	71.8%	66.5%	67.5%
ROA	3.4%	3.0%	2.0%	2.6%	3.0%	2.9%
ROE	21.0%	18.3%	9.7%	12.9%	14.4%	14.0%
Net Profit Growth	9.3%	2.0%	-32.0%	49.3%	21.4%	12.2%

Asset Quality	2014	2015	2016	2017	2018	Q319
Gross NPL	2.15%	2.60%	4.00%	3.46%	2.75%	2.50%
Net NPL	0.81%	0.90%	1.53%	1.18%	0.73%	0.73%
NPL Coverage	157%	146%	124%	135%	143%	152%

Capital	2014	2015	2016	2017	2018	Q319
Tier 1 CAR	15.35%	16.15%	20.26%	20.59%	19.84%	21.39%
Total CAR	16.60%	18.60%	21.40%	21.60%	21.00%	22.50%

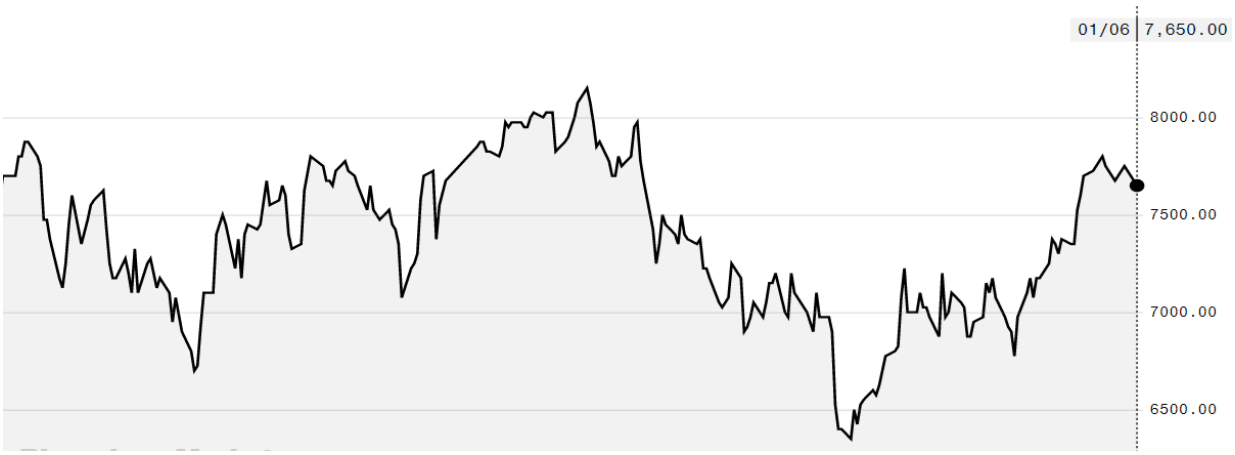
BMRI's 5 years historical PBV



+2 PBV Standard Deviation	06 Jan 2020	2.51
+1 PBV Standard Deviation	06 Jan 2020	2.25
Mean PBV Standard Deviation	06 Jan 2020	1.99
-1 PBV Standard Deviation	06 Jan 2020	1.73
-2 PBV Standard Deviation	06 Jan 2020	1.47
Current Price to Book Value	06 Jan 2020	1.82

Source: Stockbit

BMRI's 1 year share price



Source: Bloomberg.com

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