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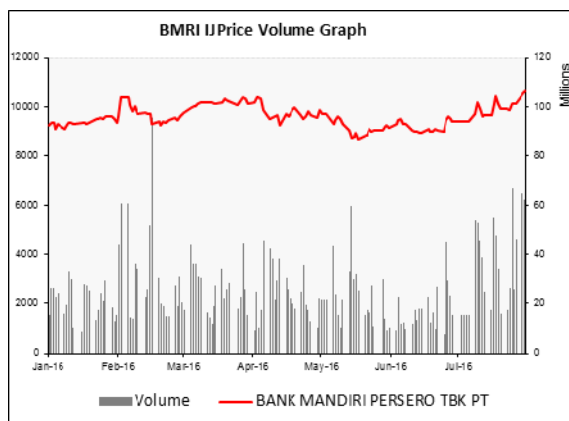
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PT Bank Mandiri (Persero) Tbk is formed by the merger of four state-owned banks, namely PT Bank Bumi Daya, PT Bank Dagang Negara, PT Bank Ekspor Import Indonesia (Bank Exim), PT Bank Pembangunan Indonesia (Bank Bapindo). The bank operates in the commercial banking services.

Current Price: IDR 10,650
52-Week Target Price: IDR 10,640


Source: Bloomberg, Sinarmas Investment Research

Share Price Performance

Price (IDR)	10,650
52-Week High (08/02/16)	10,775
52-Week Low (09/29/15)	7,150
52-Week Beta	1.19
YTD Change/%	+1,400/+15.1%

Stock Information

Market Cap (IDR)	248,500.0 Bn
Shares Out/Float (M)	23,333.3/9,271.1

Company Update
PT Bank Mandiri (Persero) Tbk (BMRI)
1H16 Earnings Review
NEUTRAL

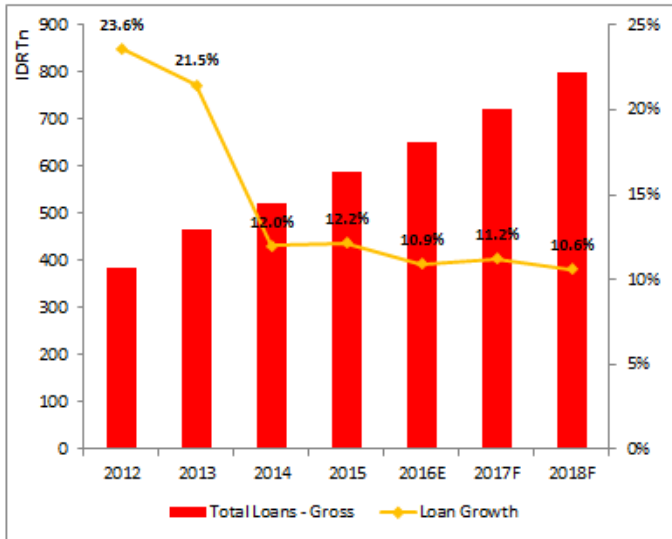
We maintain our **NEUTRAL** call on PT Bank Mandiri (Persero) Tbk (BMRI) and leave our 52-week target price unchanged at IDR 10,640, deriving via GGM. As of June 2016, Bank Mandiri booked net profit of IDR 7.1 Tn (dn 28.7% YoY). While PPOP grew by 13.3% YoY, gross NPL went up to 3.9% and caused ballooning provision (up 147.4% YoY). On the other hand, restructured loans as of 1H16 surged to IDR 34.1 Tn (up 63.2% YoY) or 5.6% of total loan portfolio. Management stated that there are more loans that will be restructured in 3Q16. We see NIM to fall below 6.0% by year end given lower yields on restructured loans (~7.2%). Be that as it may, declining trend in BI rate will give additional pressure to BMRI, especially with economic recovery still being soft and credit growth for the industry is below the government's target of 12.0%.

1H16 net income was slightly above our estimate due to lower than expected coverage ratio. As of June 2016, coverage ratio was well below our expectation (112.7% vs 126.9%). Nonetheless, we have not changed the assumption in our model, as we see a possibility of coverage ratio being increased depending on economic condition and NPL downgrades in third and fourth quarters of 2016. On the bright side, management stated most of the bad loans that could be saved have been restructured, especially in commercial segment as they had worked together with a third party consultant to review borrowers' profiles in commercial segment to ensure the quality. As of 1H16, NPL in commercial segment was recorded at 6.7%.

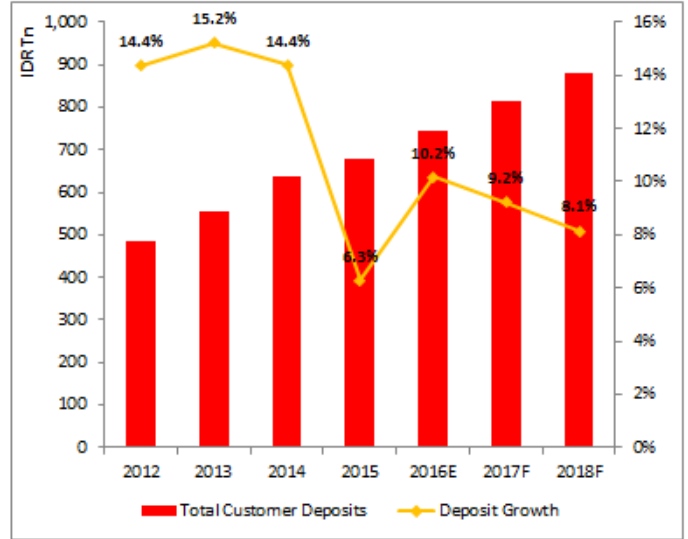
While tax amnesty should give a positive effect to the bank, we remain cautious as the bank's ROE dropped significantly. With tax amnesty bill being passed, Bank Mandiri is arguably one of the biggest beneficiaries among its peers given the fact that it is the largest bank in Indonesia in terms of asset and has strong wealth management subsidiaries to attract tax amnesty participants. However, we are quite cautious on the valuation as the bank's ROE dropped significantly from 18.5% in 1H15 to 10.6% in 1H16; merely 20 bps above the cost of equity that we use in our model. Thus, we maintain our 52-week target price at IDR 10,640 and maintain our **NEUTRAL** call on BMRI until we see improvement in the earnings.

Highlights (in IDR Bn)	1H15	1H16	% YoY	FY15	FY16E	% YoY
Total Loans	552,778	610,887	10.5%	564,394	621,560	10.1%
Total Deposits	654,858	691,359	5.6%	676,387	745,196	10.2%
Net Interest Income	21,200	24,244	14.4%	45,363	50,039	10.3%
Other Op. Income	9,585	10,735	12.0%	21,395	24,636	15.1%
Op. Expense	17,701	25,518	44.2%	40,419	53,753	33.0%
Net Income	9,924	7,080	-28.7%	21,152	16,738	-20.9%
LDR (%)	84.4%	88.4%	3.9%	86.7%	87.3%	0.6%
NPL (%)	2.4%	3.9%	1.4%	2.6%	3.5%	0.9%
NIM (%)	5.8%	6.2%	0.5%	5.7%	5.9%	0.1%

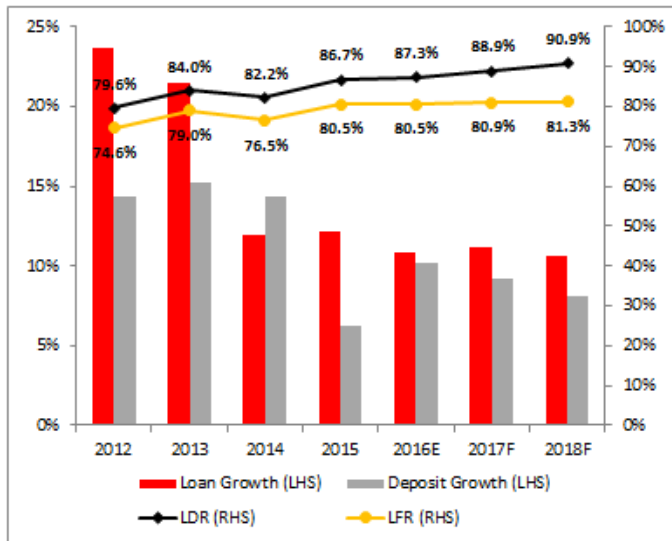
Source: Company Data, Sinarmas Investment Research

Total Loans & Loan Growth


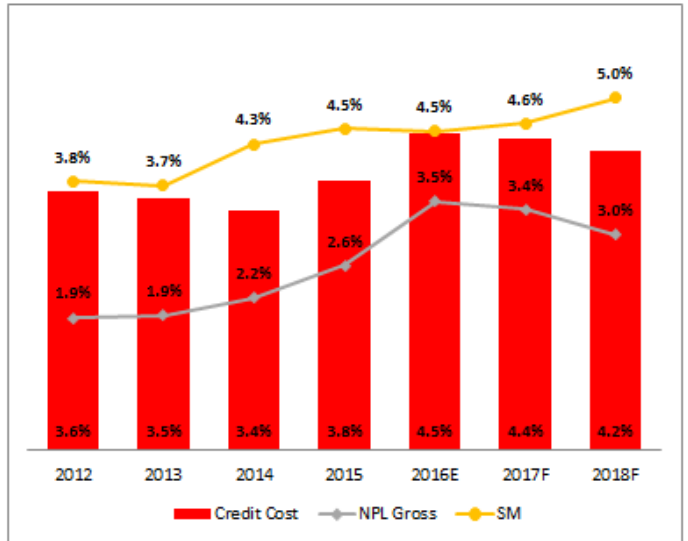
Source: Company Data, Sinarmas Investment Research

Total Deposits & Deposit Growth


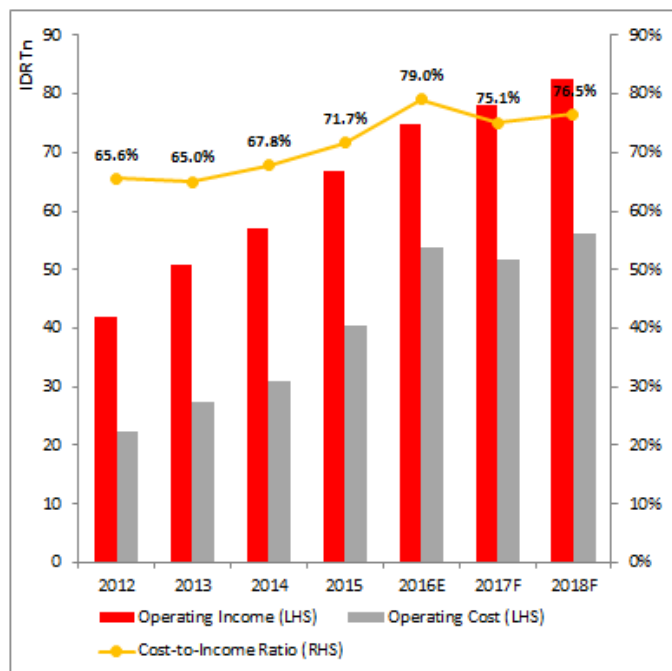
Source: Company Data, Sinarmas Investment Research

LDR & LFR


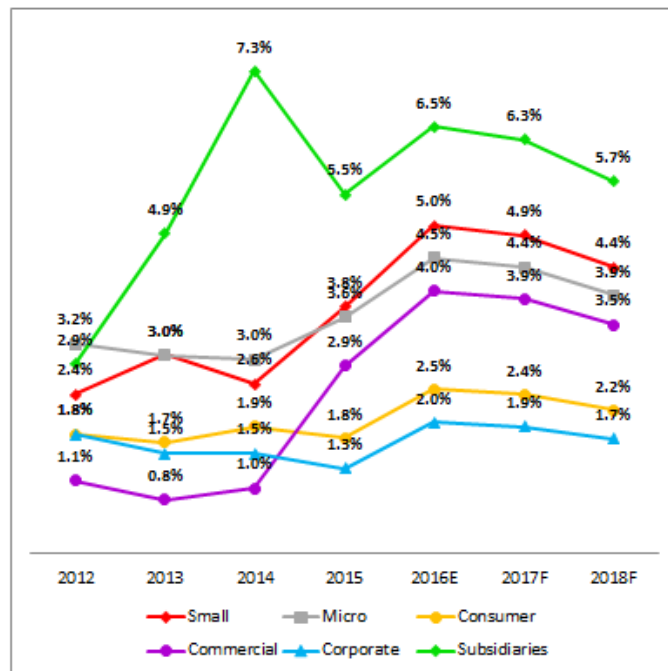
Source: Company Data, Sinarmas Investment Research

Credit Cost, NPL, and Special Mentions


Source: Company Data, Sinarmas Investment Research

Operating Income, Operating Cost, and CIR (BOPO)


Source: Company Data, Sinarmas Investment Research

NPL per Segment


Source: Company Data, Sinarmas Investment Research

Key Ratios (%)	2014	2015	2016E	2017F	2018F
LDR	82.2%	86.7%	87.3%	88.9%	90.9%
LFR	76.5%	80.5%	80.5%	80.9%	81.3%
CASA	59.8%	65.6%	66.6%	66.8%	67.3%
NIM	5.4%	5.7%	5.9%	5.4%	4.9%
Avg. Loan Yield	11.2%	11.3%	10.6%	9.8%	8.8%
Avg. Deposit CoF	3.6%	3.6%	3.1%	3.1%	2.9%
NPL Gross	2.2%	2.6%	3.5%	3.4%	3.0%
NPL Net	0.8%	0.9%	1.2%	1.2%	1.1%
Credit Cost	3.4%	3.8%	4.5%	4.4%	4.2%
Coverage Ratio	157.4%	146.1%	126.9%	129.5%	138.5%
CIR	67.8%	71.7%	79.0%	75.1%	76.5%
CER	54.5%	60.5%	72.0%	66.1%	67.9%
ROA	2.6%	2.4%	1.7%	2.0%	1.8%
ROE	21.3%	18.9%	12.2%	13.0%	11.9%

Source: Company Data, Sinarmas Investment Research

B/S (IDR Bn)	2014	2015	2016E	2017F	2018F
Cash and Equivalents	20,705	25,109	37,205	47,865	52,118
CA w/ Central Banks	50,599	56,314	62,913	71,236	80,399
CA w/ Other Banks	8,983	10,152	10,238	10,392	9,639
Interbank Placement	61,118	37,321	34,452	31,672	28,991
Total Loans - Net	505,395	564,394	621,560	691,613	766,389
Marketable Securities	60,210	44,318	51,464	56,737	66,239
Government Bonds	86,154	103,869	111,416	121,389	133,804
Fixed Assets	8,929	9,762	35,002	36,052	37,134
Total Assets	855,040	910,063	1,024,163	1,127,899	1,236,467
Demand Deposits	128,067	172,166	195,258	217,786	244,355
Saving Deposits	252,445	271,708	301,032	326,218	348,065
Time Deposits	255,870	232,514	248,907	269,869	287,725
Total Customer Deposits	636,382	676,387	745,196	813,874	880,146
Deposits From Other Banks	17,774	12,954	13,030	12,726	12,740
Marketable Securities	2,010	2,398	2,447	2,745	3,059
Fund Borrowings	24,227	33,765	44,005	61,401	85,943
Sub Debts	3,747	3,738	3,341	3,001	2,717
Total Liabilities	750,195	790,572	869,406	957,094	1,050,335
Total Equity	104,845	119,492	154,756	170,806	186,132

Source: Company Data, SinarMas Investment Research

I/S (IDR Bn)	2014	2015	2016E	2017F	2018F
Interest Income	62,638	71,570	75,148	78,532	81,193
% growth		14.3%	5.0%	4.5%	3.4%
Interest Expense	23,506	26,207	25,109	28,342	30,062
% growth		11.5%	-4.2%	12.9%	6.1%
Net Interest Income	39,132	45,363	50,039	50,190	51,131
% growth		15.9%	10.3%	0.3%	1.9%
Other Operating Income	17,938	21,395	24,636	27,960	31,501
% growth		19.3%	15.1%	13.5%	12.7%
Provision Expense	5,718	11,665	22,842	18,425	18,245
% growth		104.0%	95.8%	-19.3%	-1.0%
Other Operating Expense	25,374	28,755	30,911	33,229	37,904
% growth		13.3%	7.5%	7.5%	14.1%
Net Operating Income	25,978	26,339	20,923	26,496	26,484
% growth		1.4%	-20.6%	26.6%	0.0%
Income Before Tax Expense	26,008	26,369	20,923	26,496	26,484
% growth		1.4%	-20.7%	26.6%	0.0%
Tax Expense (%)	21%	20%	20%	20%	20%
Net Income	20,655	21,152	16,738	21,197	21,187
% growth		2.4%	-20.9%	26.6%	0.0%

Source: Company Data, SinarMas Investment Research

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