

Company Update

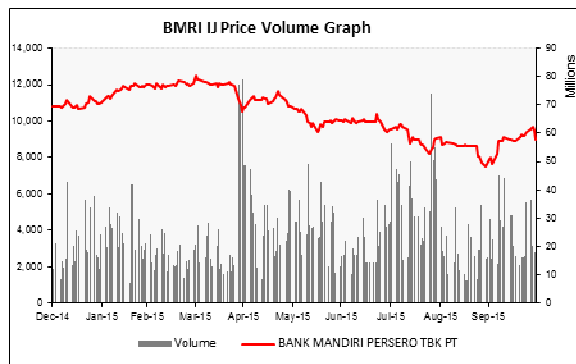
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PT Bank Mandiri (Persero) Tbk (BMRI)
Asset Quality to Deteriorate Until 2Q16
UNDERWEIGHT


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 9,000

52-Week Target Price: IDR 8,215



We downgraded our recommendation on PT Bank Mandiri (Persero) Tbk (BMRI) to UNDERWEIGHT and lowered our 52-Week Target Price to IDR 8,215, with a downside of 8.7% from the current market price. As of 9M15, Bank Mandiri has booked Net Profit of IDR 14.6 Tn (up 0.9% YoY), which accounted for 78.2% of our FY15 forecast. While Net Interest Income and Fee-Based Income grew by 14.6% YoY and 20.8% YoY respectively, BMRI had to allocate some of its income for provisioning purposes as asset quality deteriorates (maintaining 160% coverage ratio for bank only and 136% consolidated).

Total loans grew by 10.7% YoY, driven by Micro and Commercial (up 22.3% YoY and 16.9% YoY). On liabilities, Demand, Saving, and Time Deposit grew by 28.0% YoY, 7.5% YoY, and 4.2% YoY respectively. Seeing that TD has begun to decelerate, we believe NIM should stabilize in the following quarters given the lag associated with the payment period. However, as of September 2015, NIM fell to 5.81% (dn 9 bps YoY).

Asset quality deteriorates by a significant amount by 9M15. Gross NPL surged from 2.16% in 9M14 to 2.81% in 9M15. Moreover, restructured loans which was reported at IDR 10.2 Tn in 9M14 has more than doubled the balance by 9M15 and stood at IDR 26.4 Tn. The management has stated that asset quality deterioration will continue to persist until 2Q16 and will stabilize after that, assuming there is no improvement in macro economic condition and borrowers' cash flow. Although, shall there be no macro economic disruptions, the light at the end of the tunnel is already seen in 2Q16, given that the formation of special mention in 3Q15 is not as fast as it were in the first 2 quarters this year according to the management.

Taking the 9M15 performances into account, and adjusting the numbers with the revised management guidance for NPL's, we decided to downgrade our recommendation on BMRI to UNDERWEIGHT with 52-Week Target Price of IDR 8,215.

Share Price Performance	
Price (IDR)	9,000
52-Week High (04/01/15)	12,550
52-Week Low (09/29/15)	7,150
52-Week Beta	1.48
YTD Change/%	(1,775) / (16.5%)

Stock Information	
Market Cap (IDR)	205,333.3 B
Shares Out/Float (M)	23,333.3 / 9,333.3

Source: Bloomberg, Sinarmas Investment Research

Financial Highlights (in IDR Bn)	9M14	9M15	%
Total Loans	506,456	560,630	10.7%
Demand Deposit	131,547	168,387	28.0%
Saving Deposit	230,219	247,521	7.5%
Time Deposit	229,124	238,688	4.2%
Total Customer Deposit	590,890	654,596	10.8%
Net Interest Income	28,306	32,452	14.6%
Net Profit	14,454	14,583	0.9%
NIM (%)	5.90	5.81	
NPL - Gross (%)	2.16	2.81	

Source: Company Data, Sinarmas Investment Research

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