

We raise PT Bank Mandiri (Persero) Tbk (BMRI) from NEUTRAL to BUY with 52-week TP of IDR 9,300, implying 1.9x FY20F P/BV. As of 1H19, BMRI booked net profit of IDR 13.5tn (up 11.1% YoY; 49.5% of our FY19E). Meanwhile, loan and deposit portfolio grew at a moderate pace of 9.5% YoY and 5.0% YoY respectively. As growth gap between loan and deposit widened, LDR surged to 99.0% (up 3.5% YoY) as of 1H19. At the operating level, provision remains benign as there are no major NPL downgrades in 1H19. Bank-only NPL, CoC, and coverage ratio came in at 2.6% (dn 49 bps YoY), 1.4% (dn 60 bps YoY), and 151.2% (up 120 bps YoY) respectively. Moreover, NIM has been relatively stable at 5.6% (dn 14bps YoY) in 1H19, faring better than industry.

FY19 CoC guidance is maintained at 1.6-1.8% despite KRAS restructuring and unexpected one-off restructured loan from Duniatex. On asset quality, BMRI has an exposure of ~IDR 7tn in KRAS (collectability 1). As of 1H19, BMRI has allocated IDR 1.8tn provision for KRAS (equivalent to 22 bps CoC) and plans to add another IDR 700bn before year-end, raising total coverage from ~25% to ~35%. In addition, BMRI has an exposure of IDR 2.2tn in Duniatex (collectability 1). BMRI has been working together with Duniatex since last year to improve company's solvency and has worked a restructuring progress to pay down the debt. Exposure on Duniatex has been reduced from IDR 3.5tn (end of FY18) to IDR 2.2tn currently (Duniatex paid off IDR 1.3tn through bond issuance early this year). While company may enter into further restructuring process, fixed asset coverage for the account currently stands at ~160%. Be that as it may, bank is still optimistic that FY19 CoC guidance can be met as consolidated CoC is still at 1.5%.

Rosier outlook and attractive valuation. As most banks tone down loan growth guidance for FY19E and government has front-loaded bond issuance in 1H19, we expect competition in TD pricing to soften in 2H19. This benefits banks with rising LDR as CoF pressure on NIM is somewhat delayed. In the meantime, liquidity is upheld through other types of funding outside customer deposits (i.e. LFR and MIR) and bank maintains HQLA as seen in stable LCR at 170.2% as of 1H19. From valuation perspective, BMRI is currently traded at 2.0x P/BV or at its 5-year mean versus BBRI and BBKA at +1.0 SD and +1.7 SD respectively. As outlook becomes rosier once liquidity eases, we think BMRI should outperform its peers in 2H19 given the discounted valuation compared to its peers.

Highlights (IDR bn)	2017	2018	2019E	2020F	2021F
Total Loans	712,038	799,557	873,265	963,992	1,066,495
Total Deposits	815,807	840,914	917,359	1,017,591	1,133,493
Net Interest Income	51,988	54,623	58,946	64,094	69,857
Pre-provision Op. Profit	42,816	48,301	52,917	58,883	65,521
Net Income	20,640	25,015	27,347	31,061	34,642
Net Interest Margin	5.5%	5.4%	5.4%	5.4%	5.4%
Gross NPL	3.5%	2.8%	2.7%	2.5%	2.5%
Credit Cost	2.3%	1.9%	1.9%	1.8%	1.8%
Return on Equity	13.3%	14.6%	14.4%	14.6%	14.6%
Return on Asset	2.0%	2.2%	2.3%	2.4%	2.4%

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Sector	Banking
Bloomberg Ticker	BMRI IJ
Market Cap. (IDR tn)	372.2
Share Out./Float (mn)	46,667/18,665
Current Price	7,975
52-week Target Price	9,300
Upside (%)	16.6%

Share Price Performance

52W High (07/15/19)	8,175
52W Low (10/05/18)	6,175
52W Beta	1.17
YTD Change (%)	8.1%

Relative Valuations

Trailing P/E	14.1x
Forward P/E	11.6x
Trailing P/BV	1.9x
Forward P/BV	1.6x

Income Statement (IDR bn)	2017	2018	2019E	2020F	2021F
Interest Income	77,285	80,993	89,597	98,345	108,094
% growth		4.8%	10.6%	9.8%	9.9%
Interest Expense	25,296	26,370	30,651	34,252	38,236
% growth		4.2%	16.2%	11.7%	11.6%
Net Interest Income	51,988	54,623	58,946	64,094	69,857
% growth		5.1%	7.9%	8.7%	9.0%
Other Operating Income	25,817	31,244	34,682	38,875	43,358
% growth		21.0%	11.0%	12.1%	11.5%
Operating Expense	50,635	51,961	56,520	60,821	66,209
% growth		2.6%	8.8%	7.6%	8.9%
Pre-provision Operating Profit	42,816	48,301	52,917	58,883	65,521
% growth		12.8%	9.6%	11.3%	11.3%
Net Operating Income	27,170	33,906	37,108	42,147	47,006
% growth		24.8%	9.4%	13.6%	11.5%
Income Before Tax Expense	27,157	33,943	37,108	42,147	47,006
% growth		25.0%	9.3%	13.6%	11.5%
Net Income	20,640	25,015	27,347	31,061	34,642
% growth		21.2%	9.3%	13.6%	11.5%

Balance Sheet (IDR bn)	2017	2018	2019E	2020F	2021F
Cash and Equivalents	24,269	27,349	18,602	14,553	12,229
CA w/ Central Bank	50,188	59,853	62,419	64,047	67,315
CA w/ Other Banks	12,330	14,831	16,875	19,860	23,286
Interbank Placement	74,601	22,516	23,529	24,588	25,694
Total Loans - Net	678,293	767,761	838,310	926,306	1,024,801
Marketable Securities	62,268	65,934	72,527	80,321	89,063
Government Bonds	103,411	114,285	119,427	124,802	130,418
Fixed Assets	36,619	38,443	42,095	45,883	49,783
Total Assets	1,124,701	1,202,252	1,301,642	1,427,861	1,574,009
Demand Deposits	203,390	200,506	221,907	236,443	249,281
Saving Deposits	336,913	338,601	361,812	407,039	457,919
Time Deposits	275,504	301,807	333,640	374,109	426,293
Total Customer Deposits	815,807	840,914	917,359	1,017,591	1,133,493
Deposits From Other Banks	8,795	16,927	16,927	16,927	16,927
Marketable Securities	16,844	19,089	21,125	22,927	24,492
Fund Borrowings	35,704	51,654	56,819	62,501	68,751
Subordinated Debts	192	686	722	753	779
Total Liabilities	954,695	1,017,292	1,094,425	1,196,622	1,316,213
Total Equity	170,006	184,960	207,216	231,239	257,796

Source: Company Data, Sinarmas Investment Research

Financial Ratio (%)	2017	2018	2019E	2020F	2021F
Loan to Deposit Ratio	87.3%	95.1%	95.2%	94.7%	94.1%
Loan to Funding Ratio	81.2%	86.0%	86.2%	86.0%	85.7%
CASA Ratio	66.2%	64.1%	63.6%	63.2%	62.4%
Net Interest Margin	5.5%	5.4%	5.4%	5.4%	5.4%
Average Loan Yield	10.1%	9.5%	9.6%	9.6%	9.6%
Average Deposit CoF	2.8%	2.6%	2.9%	2.9%	3.0%
Gross NPL	3.5%	2.8%	2.7%	2.5%	2.5%
Net NPL	1.2%	0.7%	0.9%	0.8%	0.8%
Credit Cost	2.3%	1.9%	1.9%	1.8%	1.8%
Coverage Ratio	137.0%	144.6%	149.1%	157.5%	157.5%
Cost to Income Ratio	73.6%	69.8%	70.1%	69.3%	69.0%
Cost Efficiency Ratio	65.1%	60.5%	60.4%	59.1%	58.5%
Return on Equity	13.3%	14.6%	14.4%	14.6%	14.6%
Return on Asset	2.0%	2.2%	2.3%	2.4%	2.4%
P/E	20.24	16.79	15.36	13.52	12.12
P/BV	2.60	2.40	2.14	1.92	1.72

Source: Company Data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

REDUCE: Share price may range between -10% to -15% over the next 12 months.

SELL: Share price may fall by more than 15% over the next 12 months.

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