

1Q20: building loan loss coverage. As of 1Q20, consolidated loan portfolio grew by 14.2% YoY, relatively inline with customer deposits which grew by 13.7% YoY. Robust growth in loan average balance was driven by Micro and financing from Subsidiaries, while deposit collection was supported by bank-only demand deposit and Subsidiaries. As of 1Q20, NIM and NPL were relatively stable at 5.4% (dn 26 bps YoY) and 2.4% (dn 32 bps YoY). Loan loss coverage, however, was raised to 256.7% (vs 144.3% in FY19) on the back of IDR 24.2tn IFRS 9 adjustment and prudent CoC in 1Q20 to anticipate collectability issue post restructuring period. In 1Q20, consolidated NII, PPOP, and NPAT were recorded at IDR 15.5tn (up 8.0% YoY), IDR 13.9tn (up 13.6% YoY), and IDR 7.9tn (up 9.4% YoY). To note, CET 1 slightly deteriorated to 16.5% (dn 3.8% YTD) due to IDR 16.5tn dividend and equity adjustment from IFRS 9 as stated above.

Potential impact from Covid-19. Despite robust loan growth in 1Q20, management indicates a possibility of slight contraction in FY20E average loan balance. From profitability and asset quality perspectives, management lowered its expectation on: 1) NIM from 5.4%-5.6% to 4.4%-4.6% and 2) CoC from 1.2%-1.4% to 2.5%-3.0%. Management addressed the ~100 bps reduction in FY20E NIM as follows: 1) 70 bps due to conservative interest accrual policy, 2) 30 bps due to lower benchmark rate, and 3) approximately 10 bps due to lower LDR. NIM compression should be more apparent in 3Q20 as restructured loans are expected to be fully completed within the quarter. Meanwhile, despite higher LLC formed in 1Q20, CoC will be maintained at a healthy level as loans that are restructured this year still have possibility of being downgraded next year.

We maintain our BUY rating on PT Bank Mandiri (Persero) Tbk (BMRI) with 52-week TP of IDR 5,975, implying 1.4x FY21F P/BV. At current, BMRI is traded at 1.1x FY21F P/BV, -2.0 SD from its mean. While FY20E earnings may pose downside risk from our/consensus estimate, we expect ample LLC in the balance sheet should support recovery in the coming year. To add, conservative interest accrual policy adopted by the bank should minimize the element of surprise once recovery takes place. As we rollover our valuation to FY21, we continue to like the bank as it provides a reasonable upside potential from current valuation. Key challenges for BMRI may come from: 1) restructured loans quality post Covid-19 and 2) CoC level after relaxation ends.

Highlights (IDR bn)	2018	2019	2020E	2021F	2022F
Total Loans	799,557	885,835	927,469	1,013,933	1,107,608
Total Deposits	840,914	933,125	985,187	1,074,801	1,188,708
Net Interest Income	54,623	59,440	54,251	59,839	68,345
Pre-provision Op. Profit	48,301	48,195	43,706	48,416	55,105
Net Income	25,015	27,482	16,256	22,407	29,463
Net Interest Margin	5.4%	5.4%	4.6%	4.8%	5.0%
Gross NPL	2.8%	2.3%	3.2%	3.0%	2.8%
Credit Cost	1.9%	1.4%	2.5%	2.0%	1.6%
Return on Equity	14.6%	14.4%	8.5%	12.1%	14.7%
Return on Asset	2.2%	2.3%	1.3%	1.7%	2.0%

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Sector	Banking
Bloomberg Ticker	BMRI JJ
Market Cap. (IDR tn)	218.9
Share Out./Float (mn)	46,667/18,657
Current Price	4,690
52-week Target Price	5,975
Upside (%)	27.4%

Share Price Performance

52W High (07/15/19)	8,175
52W Low (05/18/20)	3,660
52W Beta	1.16
YTD Change (%)	-38.9%

Relative Valuations

Trailing P/E	7.8x
Forward P/E	9.4x
Trailing P/BV	1.0x
Forward P/BV	1.1x

Income Statement (IDR bn)	2018	2019	2020E	2021F	2022F
Interest Income	80,993	91,525	87,608	97,686	112,089
% growth		13.0%	-4.3%	11.5%	14.7%
Interest Expense	26,370	32,085	33,357	37,847	43,745
% growth		21.7%	4.0%	13.5%	15.6%
Net Interest Income	54,623	59,440	54,251	59,839	68,345
% growth		8.8%	-8.7%	10.3%	14.2%
Other Operating Income	31,244	28,830	28,138	29,187	29,402
% growth		-7.7%	-2.4%	3.7%	0.7%
Operating Expense	51,961	51,819	61,349	60,025	59,614
% growth		-0.3%	18.4%	-2.2%	-0.7%
Pre-provision Operating Profit	48,301	48,195	43,706	48,416	55,105
% growth		-0.2%	-9.3%	10.8%	13.8%
Net Operating Income	33,906	36,452	21,040	29,002	38,133
% growth		7.5%	-42.3%	37.8%	31.5%
Income Before Tax Expense	33,943	36,441	21,040	29,002	38,133
% growth		7.4%	-42.3%	37.8%	31.5%
Net Income	25,015	27,482	16,256	22,407	29,463
% growth		9.9%	-40.8%	37.8%	31.5%

Balance Sheet (IDR bn)	2018	2019	2020E	2021F	2022F
Cash and Equivalents	27,349	28,094	20,546	11,562	14,933
CA w/ Central Bank	59,853	46,491	50,675	53,209	53,992
CA w/ Other Banks	14,831	12,558	12,901	13,628	13,974
Interbank Placement	22,516	37,569	37,631	38,572	40,500
Total Loans - Net	767,761	855,847	878,112	965,228	1,056,206
Marketable Securities	65,934	73,219	75,307	82,966	90,993
Government Bonds	114,285	129,000	132,679	146,173	160,316
Fixed Assets	38,443	44,612	44,612	45,728	48,014
Total Assets	1,202,252	1,318,246	1,343,321	1,453,311	1,589,479
Demand Deposits	200,506	250,414	260,431	279,963	306,559
Saving Deposits	338,601	359,161	375,324	403,473	443,820
Time Deposits	301,807	323,549	349,433	391,365	438,329
Total Customer Deposits	840,914	933,125	985,187	1,074,801	1,188,708
Deposits From Other Banks	16,927	13,844	14,235	15,583	16,977
Marketable Securities	19,089	32,245	33,156	36,297	39,542
Fund Borrowings	51,654	54,129	56,722	59,439	62,287
Subordinated Debts	686	664	664	664	664
Total Liabilities	1,017,292	1,109,212	1,158,096	1,253,585	1,373,387
Total Equity	184,960	209,035	185,225	199,727	216,092

Source: Company Data, Sinarmas Investment Research

Financial Ratio (%)	2018	2019	2020E	2021F	2022F
Loan to Deposit Ratio	95.1%	94.9%	94.1%	94.3%	93.2%
Loan to Funding Ratio	86.0%	85.7%	85.1%	85.4%	84.7%
CASA Ratio	64.1%	65.3%	64.5%	63.6%	63.1%
Net Interest Margin	5.4%	5.4%	4.6%	4.8%	5.0%
Average Loan Yield	9.5%	9.4%	8.2%	8.7%	9.2%
Average Deposit CoF	2.6%	3.0%	2.8%	3.0%	3.2%
Gross NPL	2.8%	2.3%	3.2%	3.0%	2.8%
Net NPL	0.7%	0.8%	1.0%	0.9%	0.9%
Credit Cost	1.9%	1.4%	2.5%	2.0%	1.6%
Coverage Ratio	144.6%	145.3%	167.4%	162.7%	167.8%
Cost to Income Ratio	69.8%	69.7%	81.8%	77.1%	73.0%
Cost Efficiency Ratio	60.5%	58.7%	74.5%	67.4%	61.0%
Return on Equity	14.6%	14.4%	8.5%	12.1%	14.7%
Return on Asset	2.2%	2.3%	1.3%	1.7%	2.0%
EPS	554.0	609.8	360.7	497.2	653.7
BVPS	3,882.9	4,384.3	3,884.9	4,189.1	4,532.3

Source: Company Data, Sinarmas Investment Research

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