

1 August 2024

Financial Services | Banks

Bank Mandiri (BMRI IJ)

Buy (Maintained)

Earnings Momentum Improves; Keep BUY

- **Keep BUY, new IDR8,100 TP from IDR8,160, 27% upside with c.6% FY24F yield.** 2Q24 net profit was a slight miss on weaker-than-expected operating income amid slower-than-expected NIM recovery and lower-than-expected non-II. That said, we stay constructive on Bank Mandiri. Loan demand is robust while NIM is turning the corner, albeit slowly, with improved pricing on both loans and deposits filtering through. Furthermore, asset quality continues to hold up and has improved from pre-COVID-19 levels.
- **1H24 results a slight miss.** 2Q24's PATMI of IDR13.8trn (+9% QoQ, +9% YoY) brought 1H24 earnings to IDR26.6trn (+5% YoY), making up 47% and 48% of our and Street's FY24F earnings. Consequently, 1H24 ROAE hit 20.9% (FY23: 23.2%), but the capital adequacy ratio remained solid at 20.1% (1Q24: 20.3%).
- **Results highlights.** 2Q24 PIOP rose 5% QoQ (+6% YoY) on a combination of stronger operating income and operating leverage effect. NII rose 3% QoQ and YoY amid robust loan growth while non-II was up 3% QoQ (+14% YoY). Opex was under control (-1% QoQ, +5% YoY) - hence, CIR improved to 36.8% from 1Q24's 38.3% (2Q23: 36.9%). 2Q PATMI growth was further boosted by lower loan provisioning (-8% QoQ/-15% YoY).
- **Loan growth stayed robust** (+7% QoQ, +21% YoY), mostly led by the corporate segment (+11% QoQ, +30% YoY); key sectors: Metal mining, financial services, and coal manufacturing. Deposits rose 5% QoQ (+15% YoY), with CASA up 6% QoQ (+18% YoY). Time deposits grew by a slower pace of 2% QoQ (+9% YoY). With annualised loan growth at 19%, and given the positive outlook in 2H - coupled with improving liquidity conditions - BMRI raised its FY24 loan growth guidance to 16-18% (previously: 13-15%).
- **NIM - more room for loan repricing.** 2Q24 consolidated NIM stood at 5.11% (+4bps QoQ, -45bps YoY) - within the 5-5.3% guidance. While NIM recovery has been slow, we note some positive developments that could bode well for NIMs ahead. Firstly, average loan yield was up 6bps QoQ thanks to the repricing of wholesale loans. With demand still healthy, BMRI sees room to reprice further a portion of its wholesale book (c. IDR80trn or 5% of loan book) before the US Federal Funds Rate cut cycle kicks off. Secondly, average deposit cost was down 7bps QoQ, as the improved liquidity and CASA growth allowed BMRI to shed some of its costlier deposits.
- **Asset quality continued to improve,** with the overall loans-at-risk (LAR) ratio improving to 7.8% (1Q24: 8.4%) while the gross NPL ratio eased to 1.16% (1Q24: 1.17%). LLC remains ample at 293% while LAR coverage was 44%. 1H24 cost of credit (CoC) of 1% is at the low end of the 1-1.2% range, which BMRI thinks can be sustained.
- **Earnings forecasts and TP.** We tone down FY24F-26F PATMI by 2-3% after adjusting our non-II outlook and FY24F NIM. As such, our TP, which includes a 6% ESG premium, decreases by 1% to IDR8,100.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	41,171	55,060	55,145	63,693	71,251
Net profit growth (%)	46.9	33.7	0.2	15.5	11.9
Recurring net profit (IDRb)	41,171	55,060	55,145	63,693	71,251
Recurring EPS (IDR)	441.12	589.94	590.85	682.44	763.41
BVPS (IDR)	2,460.88	2,794.89	3,031.81	3,359.77	3,713.76
DPS (IDR)	264.65	353.93	354.47	409.42	458.00
Recurring P/E (x)	14.51	10.85	10.83	9.38	8.38
P/B (x)	2.60	2.29	2.11	1.90	1.72
Dividend Yield (%)	4.1	5.5	5.5	6.4	7.2
Return on average equity (%)	19.0	22.4	20.3	21.4	21.6

Source: Company data, RHB

Target Price (Return): IDR8,100 (26.6%)
Price (Market Cap): IDR6,400 (USD36,736m)
ESG score: 3.3 (out of 4)
Avg Daily Turnover (IDR/USD) 718,559m/44.4m

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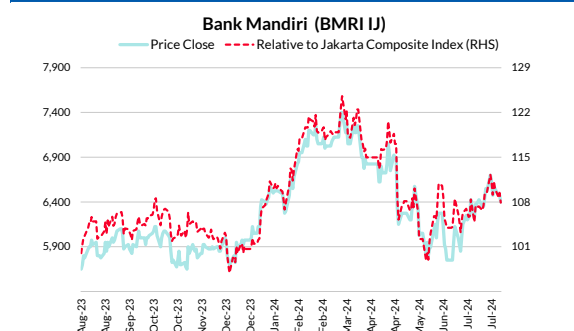


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.8	4.1	(7.3)	(3.8)	11.8
Relative	6.0	1.4	(7.6)	(4.5)	7.1
52-wk Price low/high (IDR)				5,650	7,400



Source: Bloomberg

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

BMRI is committed to achieving net zero emissions in its operations by 2030 and in financing by 2060. In sustainable banking, the bank has five prioritised sectors - oil palm plantations, construction & infrastructure, energy & water, metal mining, and F&B. Total sustainable business financing stood at IDR264trn or 24% of loans (banks only).

S: EXCELLENT

BMRI has implemented several CSR programmes with a focus on community empowerment and the environment. It also developed branchless banking to introduce retail products to the underbanked, and distribute micro business credit and/or people's business credit to four commodities sectors.

G: EXCELLENT

BMRI actively provides education related to sustainability to stakeholders. The bank's composition of board of commissioners and board of directors is in line with the recommendations of the Financial Services Authority.

Financial Exhibits

Asia Indonesia Financial Services Bank Mandiri BMRI IJ Buy	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	EPS	441.12	589.94	590.85	682.44	763.41
	Recurring EPS	441.12	589.94	590.85	682.44	763.41
	DPS	264.65	353.93	354.47	409.42	458.00
	BVPS	2,460.88	2,794.89	3,031.81	3,359.77	3,713.76
Valuation basis GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions: i. COE of 11.65%; ii. ROE of 21%; iii. 5.5% long-term growth.	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	14.51	10.85	10.83	9.38	8.38
	P/B (x)	2.6	2.3	2.1	1.9	1.7
	Dividend Yield (%)	4.1	5.5	5.5	6.4	7.2
Key drivers Our earnings are most sensitive to changes in: i. NIM; ii. Credit cost; iii. Non-II growth.	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	112,382	132,544	147,359	164,701	182,483
	Interest expense	(24,479)	(36,658)	(45,101)	(48,653)	(54,115)
	Net interest income	87,903	95,887	102,258	116,048	128,368
	Non interest income	37,779	42,879	44,416	47,098	49,942
Key risks Downside risks include: i. Weaker-than-expected NIMs; ii. Sharper-than-expected deterioration in asset quality; iii. Weaker-than-expected non-II.	Total operating income	125,682	138,765	146,673	163,146	178,309
	Overheads	(53,673)	(53,889)	(56,314)	(59,130)	(62,086)
	Pre-provision operating profit	72,009	84,876	90,359	104,016	116,223
	Loan impairment allowances	(15,841)	(10,234)	(15,025)	(17,003)	(18,886)
	Other exceptional items	210	43	-	-	-
Company Profile Bank Mandiri is Indonesia's second-largest bank by assets. It has a diversified loan book with lending to the corporate (state-owned enterprises (SOEs) and non-SOEs), SME, retail, and micro segments. The company was established in 1998 as an effort to restructure the national banking sector, with four state-owned banks (Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor Indonesia, and Bank Pembangunan Indonesia) merged into Bank Mandiri in 1999.	Pre-tax profit	56,378	74,685	75,334	87,013	97,337
	Taxation	(11,425)	(14,633)	(15,067)	(17,403)	(19,467)
	Minority interests	(3,782)	(4,992)	(5,123)	(5,917)	(6,619)
	Reported net profit	41,171	55,060	55,145	63,693	71,251
	Recurring net profit	41,171	55,060	55,145	63,693	71,251
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	2.2	2.6	2.4	2.6	2.6
	Return on average equity (%)	19.0	22.4	20.3	21.4	21.6
	Return on IEAs (%)	6.9	7.2	7.1	7.1	7.2
	Cost of funds (%)	1.6	2.1	2.4	2.3	2.3
	Net interest spread (%)	5.3	5.1	4.7	4.8	4.9
	Net interest margin (%)	5.4	5.2	5.0	5.0	5.0
	Non-interest income / total income (%)	30.1	30.9	30.3	28.9	28.0
	Cost to income ratio (%)	42.7	38.8	38.4	36.2	34.8
	Credit cost (bps)	141	79	99	98	98
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	1,202,230	1,398,071	1,641,881	1,831,692	2,025,678
	Other interest earning assets	527,263	529,272	559,382	596,164	635,666
	Total gross IEAs	1,729,493	1,927,343	2,201,263	2,427,856	2,661,344
	Total provisions	(67,163)	(55,716)	(58,141)	(61,169)	(65,344)
	Net loans to customers	1,136,868	1,344,189	1,585,673	1,772,533	1,962,423
	Total net IEAs	1,662,330	1,871,627	2,143,122	2,366,687	2,596,000
	Total non-IEAs	330,214	302,593	222,214	252,543	311,793
	Total assets	1,992,545	2,174,219	2,365,336	2,619,230	2,907,793
	Customer deposits	1,490,845	1,576,950	1,750,414	1,977,968	2,235,104
	Other interest-bearing liabilities	163,222	217,824	213,253	230,750	250,111
	Total IBLs	1,654,066	1,794,773	1,963,667	2,208,718	2,485,214
	Total non-IBLs	86,233	91,951	90,463	67,286	44,831
	Total liabilities	1,740,299	1,886,724	2,054,131	2,276,003	2,530,045
	Share capital	29,310	29,310	29,310	29,310	29,310
	Shareholders' equity	229,679	260,853	282,965	313,574	346,613
	Minority interests	22,567	26,642	28,241	29,653	31,135
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.9	1.2	1.1	1.0	1.0
	Total provisions / reported NPLs (%)	291.3	334.5	326.1	321.9	326.2
	CET-1 ratio (%)	18.6	20.8	20.5	20.8	21.2
	Tier-1 ratio (%)	18.6	20.8	20.5	20.8	21.2
	Total capital ratio (%)	19.6	22.0	21.6	22.0	22.4

Source: Company data, RHB

Results At a Glance

Figure 1: BMRI – summary of 2Q24 and 1H24 results

FYE 31 Dec (IDRbn)	2Q23	1Q24	2Q24	QoQ	YoY	1H23	1H24	YoY	% of RHB	% of Street
Interest income	32,800	35,535	36,689	3.2%	11.9%	64,191	72,224	12.5%		
Interest expense	8,502	11,349	11,793	3.9%	38.7%	16,884	23,143	37.1%		
NII	24,298	24,186	24,895	2.9%	2.5%	47,307	49,081	3.8%		
Non-II	9,120	10,148	10,399	2.5%	14.0%	19,369	20,548	6.1%		
Total operating income	33,418	34,334	35,295	2.8%	5.6%	66,676	69,629	4.4%		
Operating expenses	12,342	13,137	12,973	-1.3%	5.1%	24,701	26,110	5.7%		
PPOP	21,076	21,197	22,322	5.3%	5.9%	41,975	43,518	3.7%		
Provision expense	3,899	3,592	3,321	-7.5%	-14.8%	7,557	6,913	-8.5%		
Operating profit	17,177	17,605	19,000	7.9%	10.6%	34,418	36,606	6.4%		
Net profit	12,672	12,702	13,848	9.0%	9.3%	25,232	26,551	5.2%	47%	48%
Balance sheet (IDRbn)	Jun-23	Mar-24	Jun-24							
Loans	1,272,076	1,435,487	1,532,354	6.7%	20.5%					
Deposit	1,430,130	1,571,891	1,651,025	5.0%	15.4%					
- CASA	1,050,063	1,168,935	1,238,450	5.9%	17.9%					
- Time deposits	380,066	402,956	412,575	2.4%	8.6%					
Ratios	1H FY23	1Q24	1H FY24							
ROAA (%)	2.55%	2.58%	2.40%							
ROAE (%)	22.6%	20.3%	20.9%							
NIM (%)	5.56%	5.07%	5.09%							
CoC (%)	1.3%	1.1%	1.0%							
CASA (%)	73.4%	74.4%	75.0%							
LDR (%)	88.9%	91.3%	92.8%							
CIR (%)	37.0%	38.3%	37.5%							
NPL (%)	1.64%	1.77%	1.16%							
CAR (%)	20.7%	20.3%	20.1%							
Loan loss coverage (%)	304.0%	303.0%	293.0%							

Source: Company data, RHB

Management's FY24 guidance and targets

Figure 2: BMRI's guidance for FY24

	FY23 achieved	1HFY24 achieved	FY24F guidance	Comments
Loans growth	16.3%	20.5%	16-18% (from 13-15%)	Strong momentum from the wholesale/corporate segment expected to be sustained in 2H24. Also, liquidity conditions have improved. For now, we have kept our loan growth assumption of 15%.
NIM	5.48%	5.09%	5-5.3%	Guidance maintained. Wholesale loan yield repricing, coupled with better transactional franchise, to manage funding cost to support NIM recovery.
Credit cost	0.85%	1%	1-1.2%	BMRI remains comfortable with the quality of its book, and thinks CoC could come in at the lower end of guidance or, if not, slightly lower.

Source: Company data, RHB

Earnings forecasts

Following the slight miss on non-II and slower-than-expected NIM recovery in 2Q, we have adjusted our earnings to reflect these factors. The impact to our FY24F-26F earnings is not too significant.

Figure 3: BMRI – revisions to earnings forecasts

FYE Dec	Previous FY24F	Previous FY25F	Previous FY26F	Revised FY24F	Revised FY25F	New FY26F	% Change FY24F	% Change FY25F	% Change FY26F
(IDRbn)									
NII	103,197	116,048	128,368	102,258	116,048	128,368	-1%	0%	0%
Operating income	149,292	164,927	180,198	146,673	163,146	178,309	-2%	-1%	-1%
PIOP	92,978	105,797	118,112	90,359	104,016	116,223	-3%	-2%	-2%
Provision expenses	15,025	17,003	18,886	15,025	17,003	18,886	0%	0%	0%
Net profit	57,061	64,997	72,633	55,145	63,693	71,251	-3%	-2%	-2%
Loans	1,607,166	1,793,506	1,983,673	1,607,166	1,793,506	1,983,673	0%	0%	0%
Loan growth (%)	15.0%	11.6%	10.6%	15.0%	11.6%	10.6%			
EPS (IDR)	611	696	778	591	682	763	-3%	-2%	-2%
EPS growth (%)	3.6%	13.9%	11.7%	0.2%	15.5%	11.9%			
BVPS (IDR)	3,052	3,382	3,742	3,032	3,360	3,714	-1%	-1%	-1%
DPS (IDR)	367	418	467	354	409	458	-3%	-2%	-2%
ROE	20.9%	21.6%	21.8%	20.3%	21.4%	21.6%			

Source: Company data, RHB

Valuation and TP

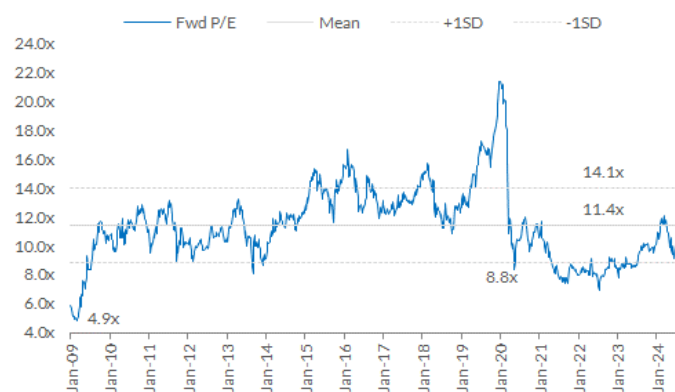
Following the earnings revisions above, our TP is lowered slightly to IDR8,100 from IDR8,160. Our TP is derived from an unchanged GGM-based P/BV of 2.52x and a 6% ESG premium applied – since BMRI's ESG score of 3.3 out of 4.0 is above the 3.0 country median. Our GGM-derived P/BV is higher than the +1SD above mean level, which we think is fair, as we believe the recent ROE expansion is structural and reflects our optimism that the level can be sustained.

Figure 4: BMRI – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	21.0
Risk free rate (%)	6.7	COE (%)	11.6
Equity premium (%)	3.9	Long-term growth (g)	5.5
Beta (x)	1.3	Implied P/BV (x)	2.52
Cost of equity - CAPM (%)	11.6	BVPS - FY24F	IDR3,032
		Intrinsic value	IDR7,643
ESG premium/(discount) (%)	6.0	ESG premium/(discount)	IDR459
		TP (rounded)	IDR8,100

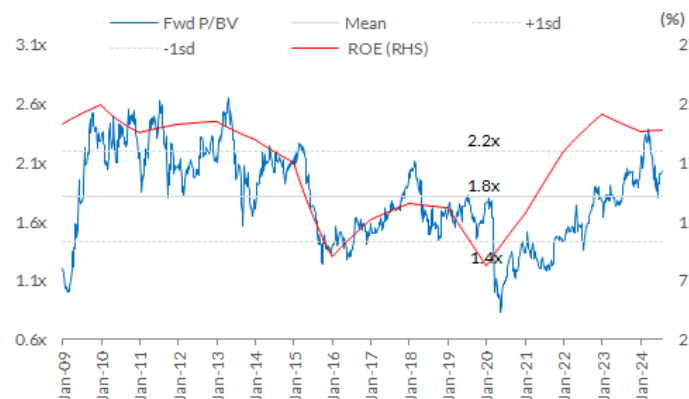
Source: Company data, RHB

Figure 5: BMRI's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 6: BMRI's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

BMRI's total emissions (ex-financed emissions) decreased by 19% in 2023 from the baseline period of 2019. This was the result of various energy-saving efforts and as part of BMRI's goal to achieve net-zero emissions for its operations by 2030.

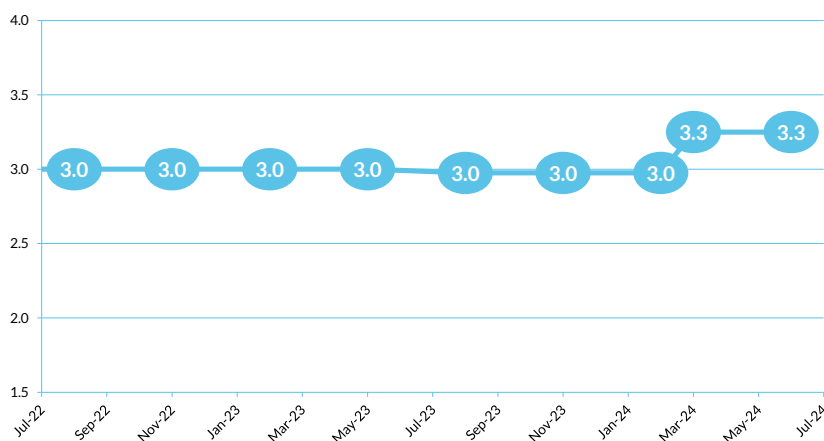
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	64,319	42,698	43,077
Scope 2	249,938	260,082	252,636
Scope 3	1,278	1,007	-
Total emissions	315,535	303,787	295,713

Source: Company data, RHB

Latest ESG-Related Developments

- **2024-2028 strategy is underpinned by three pillars:** i) Sustainable banking, ii) sustainable operations, and iii) sustainability beyond banking.
- **Focus in 2024:** Developing a sustainable financing framework, enhancing its ESG credit policy and establishing a climate risk stress test.
- **Financed emissions:** BMRI started reporting its Scope 3 financed emissions in 2023, which stood at 18mtCO₂e.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-01	Buy	8,160	6,900
2024-04-05	Buy	8,240	6,825
2024-03-21	Buy	8,240	7,050
2024-01-31	Buy	7,770	6,650
2023-10-30	Buy	6,970	5,725
2023-08-01	Buy	6,600	5,650
2023-04-25	Buy	6,200	5,175
2023-02-01	Buy	12,200	4,850
2022-10-27	Buy	11,450	5,100
2022-07-29	Buy	10,000	4,138
2022-04-28	Buy	9,800	4,475
2022-01-28	Buy	9,130	3,825
2021-10-29	Buy	8,700	3,588
2021-07-30	Buy	8,200	2,850
2021-04-28	Buy	8,200	3,100

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
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