

1 August 2023

Financial Services | Banks

## Bank Mandiri (BMRI IJ)

**Buy** (Maintained)

### Softer Non-II Damps Generally Solid 2Q; Still BUY

- **Still BUY, new IDR6,600 TP from IDR6,200, 16% upside and c.5% yield.** 2Q23 earnings were better than expected as cost of credit (CoC) and opex continued to be well contained. We raise FY23F-25F earnings by 5-6%. 19.5-21% ROEs are above levels not seen since 2014 and should support the above-trend valuation multiple. Our TP is based on a GGM-derived 2.37x P/BV. This report marks the coverage transfer to David Chong.
- **2Q23 earnings beat expectations.** 2Q23 net profit of IDR12.7trn (+1% QoQ, +25% YoY) brought 1H23 earnings to IDR25.2trn (+25% YoY), making up 56% and 54% of our and Street's FY23 estimates. Both opex and CoC tracked lower than estimated on good cost discipline and improving asset quality. This lifted 1H23 ROAE (reported) to 21.9% (1H22: 19.9%). Tier-1 capital ratio was a solid 20.7% vs 18.2% in Jun 2022.
- **Results highlights.** Sequentially, net profit inched up 1%, led by NII expansion (+6% QoQ) on continued loan growth and NIM expansion. This was offset by weaker non-II due to lower cash recoveries and a slight uptick in loan provisions (+7% QoQ) as provision buffers were built up.
- **Loan growth tracking target...** Loans were up a healthy 12% YoY in 2Q23, with double digit growth achieved by commercial (+19%), SME (+12%), micro (+11%), consumer (+12%) and its subsidiaries (+16%). Although corporate loans rose 6% YoY, there was a strong pickup sequentially (+9% QoQ). YTD, Bank Mandiri's loan book was up 6%, on track to achieve its 10-12% loan growth target for FY23, as core customers are adjusting well to the rate hikes, while inflation is stabilising.
- **...while NIM rose further.** Bank-only NIM rose 30bps QoQ to 5.44%. Key driver: Higher loan yield (+27bps QoQ) on a combination of loan repricing and mix (stronger growth from higher-yielding segments and elevated yields from USD loans). Cost of funds (CoF) (bank only) was stable at 1.96%. BMRI retained its consolidated NIM guidance of 5.3-5.6% for FY23 (1H23 consolidated NIM: 5.56%) with a potential upside from July's Federal Funds Rate (FFR) hike while tighter liquidity could lead to higher CoF. For 2024, BMRI thinks NIM can hold steady despite potential cuts to Bank Indonesia's rate and the FFR, citing changing loan mix, a focus on growing IDR loans, and deposit repricing to help cushion potential policy rate cuts.
- **Credit cost still benign.** Loans at risk (including COVID-19-restructured loans) continued to trend lower to 10.3% of loans in June (March: 11.3%) while gross NPL ratio was a lower 1.64% (March: 1.77%). LLR reached a new high of 304% in June (March: 302.8%). With no major issues on asset quality foreseen, management lowered its FY23 CoC guidance to 1.1-1.3% from 1.3-1.5%. Its preliminary assessment is that this revised CoC level can hold in 2024.
- **We raise FY23F-25F earnings** by 5-6% as we revise down opex and CoC (Figure 3). The GGM-derived TP is raised by 6% to IDR6,600 based on 2.37x P/BV. Our TP has a 0% ESG premium/discount applied.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Reported net profit (IDRb)	28,028	41,171	46,772	53,345	59,575
Net profit growth (%)	66.8	46.9	13.6	14.1	11.7
Recurring net profit (IDRb)	28,028	41,171	46,772	53,345	59,575
Recurring EPS (IDR)	300.31	441.12	501.14	571.56	638.31
BVPS (IDR)	2,193.10	2,460.88	2,653.80	2,924.68	3,220.05
DPS (IDR)	108.00	180.18	264.67	300.68	342.93
Recurring P/E (x)	18.98	12.92	11.37	9.97	8.93
P/B (x)	2.60	2.32	2.15	1.95	1.77
Dividend Yield (%)	1.9	3.2	4.6	5.3	6.0
Return on average equity (%)	14.2	19.0	19.6	20.5	20.8

Source: Company data, RHB

Target Price (Return): IDR6,600 (+16%)  
 Price (Market Cap): IDR5,700 (USD35,220m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (IDR/USD) 453,259m/30.4m

#### Analysts

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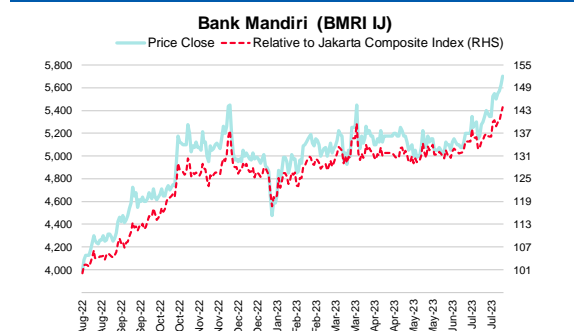


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.8	9.6	10.1	13.7	41.6
Relative	14.1	6.0	10.3	13.7	42.4
52-wk Price low/high (IDR)	3,988 – 5,700				



Source: Bloomberg

#### Overall ESG Score: 3.0 (out of 4)

##### E: GOOD

BMRI has a 5-year Sustainable Finance Action Plan that ensures long-term policies, processes, and activities are in line with the principals of sustainable finance. In Sustainable Banking, BMRI has selected five priority sectors – oil palm plantation, construction & infrastructure, energy & water, metal mining, and food & beverage. Total sustainable business financing stood at IDR228.8trn or 25% of total loans at end 2022.

##### S: GOOD

Active in the provision of assistance during COVID-19. The bank 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 commodity sectors.

##### G: EXCELLENT

BMRI actively provides education related to sustainability to its 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

<b>Asia</b> Indonesia Financial Services <b>Bank Mandiri</b> BMRI IJ Buy	<b>Financial summary (IDR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	EPS	300.31	441.12	501.14	571.56	638.31
	Recurring EPS	300.31	441.12	501.14	571.56	638.31
	DPS	108.00	180.18	264.67	300.68	342.93
	BVPS	2,193.10	2,460.88	2,653.80	2,924.68	3,220.05
<b>Valuation basis</b> GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions: i. COE of 11.6%; ii. ROE of 20%; iii. 5.5% long-term growth.	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Recurring P/E (x)	18.98	12.92	11.37	9.97	8.93
	P/B (x)	2.6	2.3	2.1	1.9	1.8
	Dividend Yield (%)	1.9	3.2	4.6	5.3	6.0
<b>Key drivers</b> Our earnings are most sensitive to changes in: i. NIM; ii. CoC; iii. Non-II growth.	<b>Income statement (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Interest income	97,749	112,382	127,143	140,084	154,539
	Interest expense	(24,687)	(24,479)	(33,016)	(36,698)	(39,927)
	<b>Net interest income</b>	<b>73,062</b>	<b>87,903</b>	<b>94,127</b>	<b>103,386</b>	<b>114,612</b>
	Non interest income	34,182	37,779	39,747	42,070	44,615
<b>Key risks</b> Downside risks include: i. Weaker-than-expected NIMs; ii. Sharper-than-expected deterioration in asset quality; iii. Weaker-than-expected non-interest income.	<b>Total operating income</b>	<b>107,245</b>	<b>125,682</b>	<b>133,873</b>	<b>145,456</b>	<b>159,227</b>
	Overheads	(49,539)	(53,673)	(55,012)	(57,762)	(61,443)
	<b>Pre-provision operating profit</b>	<b>57,706</b>	<b>72,009</b>	<b>78,861</b>	<b>87,694</b>	<b>97,784</b>
	Loan impairment allowances	(19,265)	(15,841)	(15,221)	(15,562)	(17,316)
	Other exceptional items	(82)	210	-	-	-
<b>Company Profile</b> 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.	<b>Pre-tax profit</b>	<b>38,358</b>	<b>56,378</b>	<b>63,640</b>	<b>72,132</b>	<b>80,468</b>
	Taxation	(7,807)	(11,425)	(12,897)	(14,618)	(16,307)
	Minority interests	(2,523)	(3,782)	(3,971)	(4,169)	(4,586)
	<b>Reported net profit</b>	<b>28,028</b>	<b>41,171</b>	<b>46,772</b>	<b>53,345</b>	<b>59,575</b>
	<b>Recurring net profit</b>	<b>28,028</b>	<b>41,171</b>	<b>46,772</b>	<b>53,345</b>	<b>59,575</b>
	<b>Profitability ratios</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Return on average assets (%)	1.7	2.2	2.2	2.3	2.4
	Return on average equity (%)	14.2	19.0	19.6	20.5	20.8
	Return on IEAs (%)	6.8	6.9	7.0	7.0	7.0
	Cost of funds (%)	1.8	1.6	1.9	1.9	1.9
	Net interest spread (%)	4.9	5.3	5.1	5.1	5.1
	Net interest margin (%)	5.1	5.4	5.2	5.2	5.2
	Non-interest income / total income (%)	31.9	30.1	29.7	28.9	28.0
	Cost to income ratio (%)	46.2	42.7	41.1	39.7	38.6
	Credit cost (bps)	191	141	119	108	108
	<b>Balance sheet (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total gross loans	1,050,157	1,202,230	1,359,965	1,521,843	1,683,072
	Other interest earning assets	478,194	527,263	542,867	573,798	610,460
	Total gross IEAs	1,528,351	1,729,493	1,902,833	2,095,641	2,293,531
	Total provisions	(71,011)	(67,163)	(66,427)	(66,587)	(67,814)
	Net loans to customers	980,963	1,136,868	1,295,395	1,457,208	1,617,279
	Total net IEAs	1,457,340	1,662,330	1,836,406	2,029,054	2,225,717
	Total non-IEAs	268,271	330,214	345,120	357,967	370,482
	Total assets	1,725,611	1,992,545	2,181,526	2,387,021	2,596,199
	Customer deposits	1,291,176	1,490,845	1,662,292	1,845,144	2,029,658
	Other interest-bearing liabilities	127,647	163,222	159,051	156,190	170,791
	Total IBLs	1,418,823	1,654,066	1,821,343	2,001,334	2,200,449
	Total non-IBLs	84,677	86,233	88,803	87,605	68,844
	Total liabilities	1,503,500	1,740,299	1,910,146	2,088,939	2,269,293
	Share capital	29,159	29,310	29,310	29,310	29,310
	Shareholders' equity	204,687	229,679	247,685	272,966	300,534
	Minority interests	17,425	22,567	23,695	25,117	26,373
	<b>Asset quality and capital</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Reported NPLs / gross cust loans (%)	2.7	1.9	1.8	1.7	1.7
	CET-1 ratio (%)	14.5	14.0	13.8	13.7	13.7
	Tier-1 ratio (%)	15.9	15.2	14.9	14.7	14.6
	Total capital ratio (%)	16.8	16.0	15.7	15.5	15.4

Source: Company data, RHB

## Results At a Glance

Figure 1: BMRI – summary of 2Q23 and 1H23 results

FYE Dec (IDRbn)	2Q22	1Q23	2Q23	QoQ	YoY	1H22	1H23	YoY	% of RHB	% of cons.
Interest income	27,033	31,391	32,800	4.5%	21.3%	52,934	64,191	21.3%		
Interest expense	5,678	8,382	8,502	1.4%	49.7%	11,102	16,884	52.1%		
<b>NII</b>	<b>21,355</b>	<b>23,009</b>	<b>24,298</b>	<b>5.6%</b>	<b>13.8%</b>	<b>41,833</b>	<b>47,307</b>	<b>13.1%</b>		
Non-II	8,259	10,248	9,120	-11.0%	10.4%	17,528	19,369	10.5%		
<b>Total operating income</b>	<b>29,614</b>	<b>33,257</b>	<b>33,418</b>	<b>0.5%</b>	<b>12.8%</b>	<b>59,360</b>	<b>66,676</b>	<b>12.3%</b>		
Operating expenses	12,057	12,358	12,342	-0.1%	2.4%	24,230	24,701	1.9%		
<b>PPOP</b>	<b>17,557</b>	<b>20,899</b>	<b>21,076</b>	<b>0.8%</b>	<b>20.0%</b>	<b>35,130</b>	<b>41,975</b>	<b>19.5%</b>		
Provision expense	3,526	3,658	3,899	6.6%	10.6%	7,403	7,557	2.1%		
<b>Operating profit</b>	<b>14,031</b>	<b>17,241</b>	<b>17,177</b>	<b>-0.4%</b>	<b>22.4%</b>	<b>27,728</b>	<b>34,418</b>	<b>24.1%</b>		
<b>Net profit</b>	<b>10,178</b>	<b>12,560</b>	<b>12,672</b>	<b>0.9%</b>	<b>24.5%</b>	<b>20,209</b>	<b>25,232</b>	<b>24.9%</b>	<b>56%</b>	<b>54%</b>
<b>Balance sheet (IDRbn)</b>	<b>Jun-22</b>	<b>Mar-23</b>	<b>Jun-23</b>							
Loans	1,138,312	1,205,464	1,272,076	5.5%	11.8%					
Deposit	1,318,422	1,269,008	1,430,130	2.7%	8.5%					
- CASA	932,826	1,031,748	1,050,063	1.8%	12.6%					
- Time deposits	385,597	359,401	380,066	5.7%	-1.4%					
<b>Ratios</b>	<b>6M22</b>	<b>1Q23</b>	<b>6M23</b>							
ROAA (%)	2.30%	2.58%	2.55%							
ROAE (%)	20.5%	22.5%	22.6%							
NIM (%)	5.06%	5.11%	5.29%							
CoC (%)	1.38%	1.28%	1.25%							
CASA (%)	70.8%	74.2%	73.4%							
LDR (%)	86.3%	86.7%	88.9%							
CIR (%)	40.8%	37.2%	37.0%							
NPL (%)	2.42%	1.77%	1.64%							
CAR (%)	18.4%	20.3%	20.7%							
Loan loss coverage (%)	253.0%	303.0%	304.0%							

Source: Company data, RHB

## Management guidance and targets – FY23 estimates

Figure 2: BMRI's 1H23 results vs guidance for FY23 (consolidated)

	FY22 achieved	1H23 achieved	FY23F guidance	Comments
Loans growth	8.7%	11.8%	10-12%	
NIM	5.09%	5.56%	5.3-5.6%	1H NIM at higher range of guidance but management thinks liquidity could be more challenging ahead and is keeping guidance unchanged.
Credit cost	2.05%	1.19%	1.1 - 1.3%	Lowered due to better asset quality outlook.

Source: Company data, RHB

### Earnings forecasts

We lift FY23F-25F earnings by 5-6%. BMRI continues to guide for seasonally increased opex spending in 2H. However, given the better-than-expected productivity and cost discipline exhibited in 1H, this has prompted us to lower opex projections. We now forecast FY23F-25F CIR of 41.1%, 39.7%, and 38.6%.

Our CIR revisions are still more conservative than management's targets – c.39% consolidated CIR for FY23 and longer-term CIR of 36%. Apart from that, we have also lowered our CoC assumptions to 1.1-1.2%, given the improvement in asset quality, and to be in line with management's revised guidance.

**Figure 3: BMRI – revisions to earnings forecasts**

FYE Dec (IDRbn)	Previous FY23F	Previous FY24F	Previous FY25F	Revised FY23F	Revised FY24F	Revised FY25F	% Change FY23F	% Change FY24F	% Change FY25F
NII	94,127	103,386	114,612	94,127	103,386	114,612	0%	0%	0%
Operating income	133,873	145,456	159,227	133,873	145,456	159,227	0%	0%	0%
PPOP	77,535	85,124	95,046	78,861	87,694	97,784	2%	3%	3%
Provision expenses	16,489	16,977	18,575	15,221	15,562	17,316	-8%	-8%	-7%
Net profit	44,703	50,167	56,387	46,772	53,345	59,575	5%	6%	6%
EPS (IDR)	479	538	604	501	572	638	5%	6%	6%
EPS growth (%)	8.6%	12.2%	12.4%	13.6%	14.1%	11.7%			
Loans	1,334,545	1,494,897	1,653,431	1,334,545	1,494,897	1,653,431	0%	0%	0%
Loan growth (%)	11.0%	12.0%	10.6%	11.0%	12.0%	10.6%			
NIM (%)	5.22%	5.24%	5.27%	5.22%	5.24%	5.27%			
CIR (%)	42.1%	41.5%	40.3%	41.1%	39.7%	38.6%			
Credit cost (%)	1.30%	1.20%	1.18%	1.20%	1.10%	1.10%			
BVPS (IDR)	2,632	2,882	3,163	2,654	2,925	3,220	1%	1%	2%
DPS (IDR)	265	287	323	265	301	343	0%	5%	6%
ROE	18.8%	19.5%	20.0%	19.6%	20.5%	20.8%	4%	5%	4%

Source: Company data, RHB

### Valuation and TP

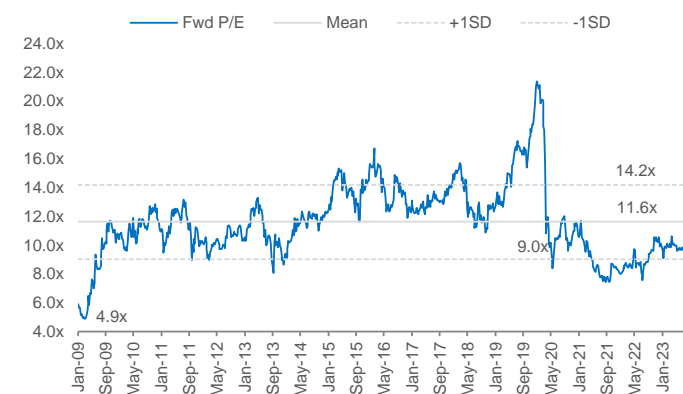
Following the earnings changes above, we raise our TP to IDR6,600 from IDR6,200. The change mainly reflects an updated sustainable ROE assumption of 20% from 19.3%, coupled with an update to the BVPS. Our TP is based on an intrinsic value of IDR6,560 and a 0% ESG premium/discount. BMRI's ESG score of 3.0 is in line with the country median. The intrinsic value is based on our GGM-derived P/BV of 2.37x, higher than the +1SD level above mean. We think the recent ROE expansion is structural, and are optimistic that the level is sustainable.

**Figure 4: BMRI – GGM valuation with ESG overlay**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	20.0
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)	2.4
Cost of equity - CAPM (%)	11.6	BVPS – 12-mth rolling forward	IDR2,770
		Intrinsic value	IDR6,560
ESG premium/(discount) (%)	0.0	ESG premium/(discount)	-
		<b>TP (rounded)</b>	<b>IDR6,600</b>

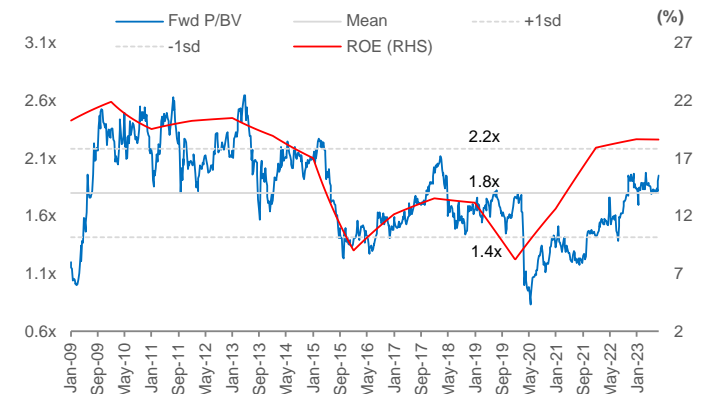
Source: Company data, RHB

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

## Recommendation Chart

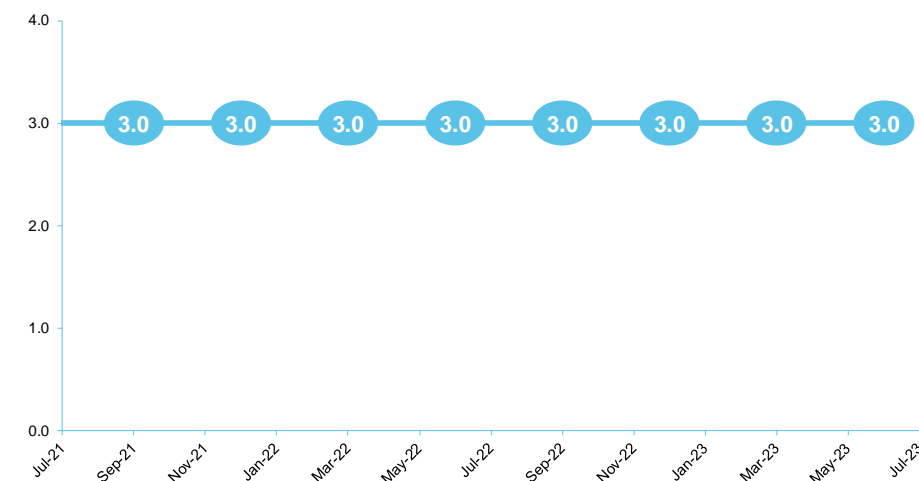


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-01-29	Buy	7,900	3,288
2020-12-07	Buy	7,800	3,350
2020-10-27	Buy	7,100	2,888
2020-08-23	Buy	7,000	3,050
2020-06-09	Buy	6,200	2,638
2020-04-16	Buy	6,000	2,105

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB



## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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