

27 October 2022

Financial Services | Banks

Bank Mandiri (BMRI IJ)

Buy (Maintained)

Earnings Drivers Can Still Improve In 2023; BUY

Target Price (Return): IDR11,450 (12.3%)
Price (Market Cap): IDR10,200 (USD30,585m)
ESG score: 3.00 (out of 4)
Avg Daily Turnover (IDR/USD) 416,244m/27.7m

- **Maintain BUY, new IDR11,450 TP from IDR10,000, 12% upside and c.3.5% yield.** Bank Mandiri's 9M22 results were above expectations. Earnings were buoyed by NIM expansion, accelerating loan growth, lower credit costs, and improved CIR. The share price is up 45% YTD, driven by the strong earnings momentum. Still, we believe the stock can grind higher with the resilient domestic economy and digital transformation underpinning prospects of further strengthening earnings drivers in 2023.

- **9M22 above expectations.** 3Q22's IDR10.44trn net profit (+3% QoQ; +55% YoY) took 9M22 earnings to IDR30.65trn (+59% YoY), which was at 78% and 86% of our and consensus' FY22 earnings. Reported 9M22 ROE improved to 23% (9M21: 15.1%). Capital adequacy ratio stood at a healthy 19.3%. In 3Q22, PPOP grew 5% QoQ as NII rose 4% QoQ on healthy loan growth and better NIM, while non-II rebounded 12% on a 95% jump in cash recoveries. Bottomline growth was moderated by higher provision charges, up 15% QoQ on top up of provisions.

- **FY22F loan growth target maintained.** BMRI's loans expanded 8.4% YTD September or an annualised 11%. Growth was led by lending to the corporate (+11% YTD), commercial-SME (+8.5% YTD), and micro-SME (+7% YTD) segments. Management reiterated its loan growth guidance of ≥11% for FY22F. While the domestic economy is expected to remain healthy in 2023, loan growth is expected to be softer as management is cautious on geopolitical tensions and the winding down of regulatory forbearance on COVID-19 restructured loans.

- **Expects sustained NIM in 4Q22.** Consolidated NIM stayed on an uptrend, adding an estimated 9bps QoQ to 5.52% in 3Q22. FY22 NIM guidance is unchanged at 5.1-5.5%. To mitigate the rise in funding costs following the 125bps hike in Bank Indonesia's policy rate since Aug 2022, BMRI plans to gradually re-price a portion of its corporate loans, nudge up its LDR (85.2% consolidated) to improve yields, and leverage its digital channels for CASA deposits. Management expects NIM to trend higher in FY23.

- **Asset quality improving.** Loans at risk (including COVID-19 restructured loans) edged lower to 13.4% (2Q22: 14.6%; 4Q21: 17.4%) while gross NPL ratio was stable at 2.4% (2Q22: 2.42%; 4Q21: 2.72%). LLR rose to 268%. Reflecting the improving asset quality, 9M22 credit cost of 1.46% is at the lower end of the FY22 guidance of 1.4-1.7%. Management sees the possibility of lower credit cost in FY23F, should the domestic economy hold up.

- **Earnings forecasts, TP.** Our FY22-24F earnings are little changed as upward revisions in NII are offset by higher minority interests (Figure 3). Still, our TP rises to IDR11,400 on refreshed GGM assumptions (Figure 4). The GGM-derived TP is based on 2.2x P/BV (+1SD from historical mean). A 0% ESG premium/discount is applied, as its 3.0 ESG score is in line with the country median.

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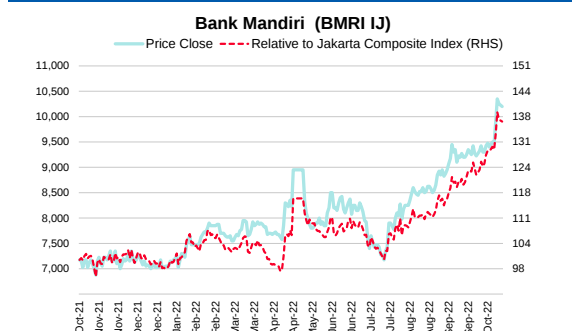


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	45.2	10.3	27.5	22.2	42.2
Relative	38.2	11.5	25.0	24.8	36.4
52-wk Price low/high (IDR)				6,875 – 10,350	



Source: Bloomberg

Overall ESG Score: 3.00 (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 IDR205.4trn or 24.8% of total loans at end 2021.

S: GOOD

Active in the provision of assistance during COVID-19. BMRI restructured credit of more than 300,000 debtors with credit balance of IDR102.03trn. 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.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Reported net profit (IDRb)	16,800	28,028	39,450	43,843	48,237
Net profit growth (%)	(38.9)	66.8	40.8	11.1	10.0
Recurring net profit (IDRb)	16,800	28,028	39,450	43,843	48,237
Recurring EPS (IDR)	359.99	600.61	845.38	939.50	1,033.67
BVPS (IDR)	4,058.17	4,386.20	4,641.75	5,074.03	5,544.00
DPS (IDR)	353.35	216.00	360.37	507.23	563.70
Recurring P/E (x)	28.33	16.98	12.07	10.86	9.87
P/B (x)	2.51	2.33	2.20	2.01	1.84
Dividend Yield (%)	3.5	2.1	3.5	5.0	5.5
Return on average equity (%)	8.5	14.2	18.7	19.3	19.5

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Indonesia	EPS	359.99	600.61	845.38	939.50	1,033.67
Financial Services	Recurring EPS	359.99	600.61	845.38	939.50	1,033.67
Bank Mandiri	DPS	353.35	216.00	360.37	507.23	563.70
BMRI IJ	BVPS	4,058.17	4,386.20	4,641.75	5,074.03	5,544.00
Buy						
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions:	Recurring P/E (x)	28.33	16.98	12.07	10.86	9.87
i. COE of 11.6%,	P/B (x)	2.5	2.3	2.2	2.0	1.8
ii. ROE of 19.0%, and	Dividend Yield (%)	3.5	2.1	3.5	5.0	5.5
iii. 5.5% long-term growth.						
Key drivers	Income statement (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Our earnings are most sensitive to changes in:	Interest income	95,616	97,749	110,500	121,705	132,409
i. net interest margin;	Interest expense	(33,095)	(24,687)	(23,650)	(26,455)	(29,876)
ii. credit cost; and	Net interest income	62,521	73,062	86,850	95,250	102,533
iii. non-interest income growth.	Non interest income	31,120	34,061	35,560	38,494	41,576
	Total operating income	93,640	107,124	122,410	133,744	144,109
	Overheads	(44,530)	(49,140)	(50,462)	(54,871)	(58,532)
	Pre-provision operating profit	49,110	57,984	71,948	78,872	85,577
	Loan impairment allowances	(24,855)	(19,543)	(17,198)	(18,322)	(19,211)
	Other exceptional items	137	(82)	-	-	-
	Pre-tax profit	24,392	38,358	54,750	60,551	66,366
	Taxation	(5,993)	(7,807)	(11,497)	(12,716)	(13,937)
	Minority interests	(1,599)	(2,523)	(3,802)	(3,992)	(4,192)
	Reported net profit	16,800	28,028	39,450	43,843	48,237
	Recurring net profit	16,800	28,028	39,450	43,843	48,237
Key risks	Profitability ratios	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Downside risks include:	Return on average assets (%)	1.2	1.7	2.2	2.3	2.4
i. weaker-than-expected NIMs;	Return on average equity (%)	8.5	14.2	18.7	19.3	19.5
ii. sharper-than-expected deterioration in asset quality; and	Return on IEAs (%)	7.5	6.8	7.0	7.2	7.3
iii. weaker-than-expected non-interest income.	Cost of funds (%)	2.9	1.8	1.6	1.7	1.8
	Net interest spread (%)	4.7	4.9	5.4	5.5	5.5
	Net interest margin (%)	4.9	5.1	5.5	5.6	5.7
	Non-interest income / total income (%)	33.2	31.8	29.0	28.8	28.9
	Cost to income ratio (%)	47.6	45.9	41.2	41.0	40.6
	Credit cost (bps)	266	194	155	150	145
Company Profile	Balance sheet (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Bank Mandiri is Indonesia's 2nd largest bank by asset. It has a diversified loan book with lending to the Corporate (SOE and non-SOE), SME, Retail, and Micro segments. The company was established in 1998 as an effort to restructure the national banking sector, with 4 state owned banks (Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor Indonesia, and Bank Pembangunan Indonesia) merged into Bank Mandiri in 1999.	Total gross loans	964,728	1,050,157	1,168,924	1,273,963	1,375,867
	Other interest earning assets	397,176	478,194	467,000	475,586	502,318
	Total gross IEAs	1,361,903	1,528,351	1,635,924	1,749,549	1,878,185
	Total provisions	(67,599)	(71,011)	(70,964)	(79,017)	(80,607)
	Net loans to customers	899,224	980,963	1,099,830	1,196,912	1,297,326
	Total net IEAs	1,294,305	1,457,340	1,564,960	1,670,532	1,797,579
	Total non-IEAs	247,660	268,271	268,041	282,303	294,795
	Total assets	1,541,965	1,725,611	1,833,001	1,952,835	2,092,373
	Customer deposits	1,144,640	1,291,176	1,349,279	1,443,729	1,559,227
	Other interest-bearing liabilities	113,954	127,647	159,400	159,917	156,663
	Total IBLs	1,258,594	1,418,823	1,508,679	1,603,646	1,715,890
	Total non-IBLs	78,671	84,677	88,110	92,217	96,973
	Total liabilities	1,337,265	1,503,500	1,596,789	1,695,863	1,812,863
	Share capital	34,387	29,159	29,310	29,310	29,310
	Shareholders' equity	189,378	204,687	216,612	236,785	258,716
	Minority interests	15,321	17,425	19,600	20,188	20,794
	Asset quality and capital	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Reported NPLs / gross cust loans (%)	2.8	2.7	2.3	2.4	2.3
	Total provisions / reported NPLs (%)	233.3	247.3	267.0	262.2	252.8
	CET-1 ratio (%)	15.9	14.5	14.3	14.3	14.5
	Tier-1 ratio (%)	18.0	15.9	15.6	15.5	15.6
	Total capital ratio (%)	18.9	16.8	16.4	16.3	16.4

Source: Company data, RHB

Figure 1: BMRI's 3Q22 and 9M22 results summary

Figure 1: DMK's 3Q22 and 3M22 results summary

Income statement (IDRbn)	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YoY	% of RHB	% of Cons.
Interest income	24,156	27,033	28,325	4.8%	17.3%	72,269	81,259	12.4%		
Interest expense	5,996	5,679	6,172	8.7%	2.9%	18,952	17,274	-8.9%		
Net interest income	18,160	21,355	22,152	3.7%	22.0%	53,317	63,985	20.0%		
Non-interest Income	8,236	8,244	9,201	11.6%	11.7%	25,119	26,679	6.2%		
Total operating income	26,396	29,599	31,353	5.9%	18.8%	78,436	90,664	15.6%		
Operating expense	11,577	11,915	12,722	6.8%	9.9%	34,604	36,650	5.9%		
PPOP	14,819	17,684	18,631	5.4%	25.7%	43,832	54,014	23.2%		
Provision expense	5,439	3,653	4,188	14.6%	-23.0%	16,439	11,843	-28.0%		
Operating profit	9,380	14,031	14,443	2.9%	54.0%	27,393	42,171	53.9%		
Net profit	6,728	10,177	10,444	2.6%	55.2%	19,229	30,653	59.4%	78%	86%
Balance sheet (IDRbn)	3Q21	2Q22	3Q22	QoQ	YoY					
Loan	1,021,632	1,138,312	1,167,518	2.6%	14.3%					
Deposit	1,213,985	1,318,422	1,361,298	3.3%	12.1%					
CASA	846,598	932,826	949,165	1.8%	12.1%					
Time deposits	367,387	385,597	412,133	6.9%	12.2%					
RATIOS – Bank only	9M21	6M22	9M22							
ROAA (%)	2.4%	3.4%	3.4%							
ROAE (%)	15.1%	23.0%	23.3%							
NIM (%)	4.67%	5.06%	5.12%							
CoC (%)	2.3%	1.4%	1.4%							
CASA (%)	69.7%	70.8%	69.7%							
LDR (%)	84.2%	86.3%	85.8%							
CIR (%)	44.1%	40.8%	40.4%							
NPL (%)	3.06%	2.42%	2.26%							
CAR (%)	19.4%	18.2%	19.3%							
Coverage (%)	230.0%	253.0%	268.0%							

Source: Company data, RHB

Figure 2: BMRI's guidance of FY22 financial targets (consolidated)

	FY21 achieved	9M22 achieved	FY22 guidance
Loan growth YoY	8.7%	14.3% (11.2% annualised)	≥11%
Net interest margin	5.09%	5.42%	5.1% to 5.5%
Cost of credit	2.05%	1.46%	1.4% to 1.7%

Source: Company data, RHB

Earnings revisions

Our earnings forecasts for FY22-24 are relatively unchanged. Although assumptions of better NIMs resulted in upward revisions in NII, this was adjustments for effective tax rates and higher minority interests.

Figure 3: BMRI – revisions to earnings forecasts

FYE Dec	Previous FY22F	Previous FY23F	Previous FY24F	Revised FY22F	Revised FY23F	New FY24F	% Change FY22F	% Change FY23F	% Change FY24F
(IDRbn)									
NII	84,292	93,448	100,197	86,850	95,250	102,533	3%	2%	2%
Operating income	118,392	130,362	140,072	122,410	133,744	144,109	3%	3%	3%
PIOP	69,792	77,546	83,766	71,948	78,872	85,577	3%	2%	2%
Provision expenses	17,261	18,407	19,218	17,198	18,322	19,211	0%	0%	0%
Net profit	39,088	44,208	48,367	39,450	43,843	48,237	1%	-1%	0%
EPS (IDR)	838	947	1,036	845	940	1,034	1%	-1%	0%
EPS growth (%)	39.5%	13.1%	9.4%	40.8%	11.1%	10.0%			
Loans	1,177,061	1,277,160	1,373,612	1,168,924	1,273,963	1,375,867	-1%	0%	0%
Loan growth (%)	12.1%	8.5%	7.6%	11.3%	9.0%	8.0%			
NIM (%)	5.33%	5.44%	5.47%	5.53%	5.63%	5.65%			
CIR (%)	41.0%	40.5%	40.2%	41.22%	41.0%	40.6%			
Credit cost (%)	1.55%	1.50%	1.45%	1.55%	1.50%	1.45%			
BVPS (IDR)	4,744	5,189	5,657	4,642	5,074	5,544	-2%	-2%	-2%
DPS (IDR)	360	503	568	360	507	564	0%	1%	-1%
ROE	18.3%	19.1%	19.1%	18.7%	19.3%	19.5%	2%	1%	2%

Source: Company data, RHB

Valuation and TP

We raised TP to IDR11,450 from IDR10,000, which is based on an intrinsic value of IDR11,455 (from IDR9,995) and a 0% ESG premium/discount, as 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 2.2x (from 2.0x) as we refreshed key assumptions:

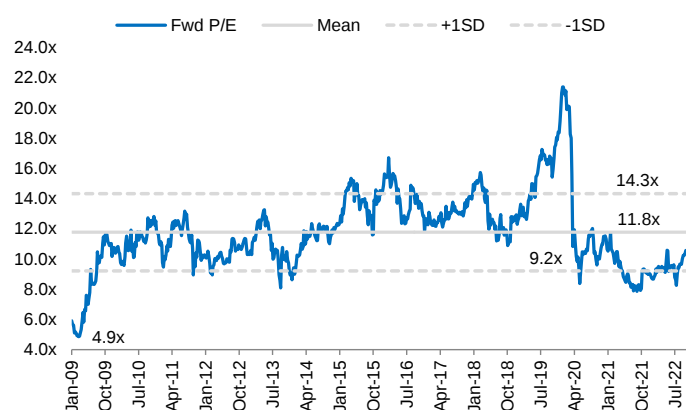
- Sustainable ROE raised to 19.0% (from 18.5%) on roll forward of base year;
- Lower equity risk premium of 11.6% (from 12.2%);
- Long-term growth of 5.5% (from 6.0%);
- Revised 12-month forward BV/PS of IDR5,189 (from IDR5,000).

Figure 4: BMRI – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	19.0
Risk free rate (%)	7.5	COE (%)	11.62
Equity premium (%)	3.29	Long-term growth (g)	5.5
Beta (x)	1.25	Implied P/BV (x)	2.2
Cost of equity – CAPM (%)	11.62	BVPS – 12-mth rolling forward	IDR5,189
		Intrinsic value	IDR11,455
ESG premium/(discount) (%)	nil	ESG premium/(discount)	-
		TP (rounded)	IDR11,450

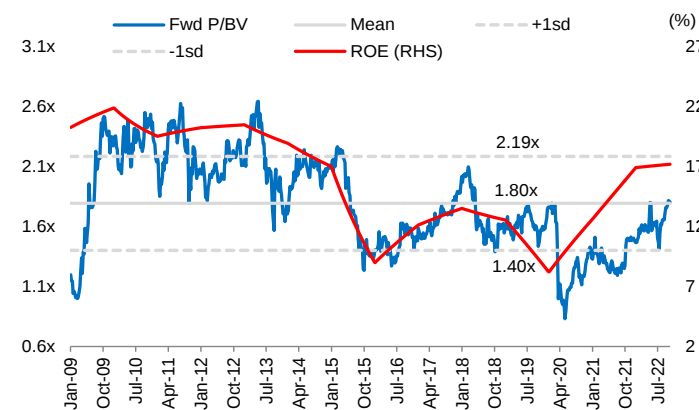
Source: Company data, RHB

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

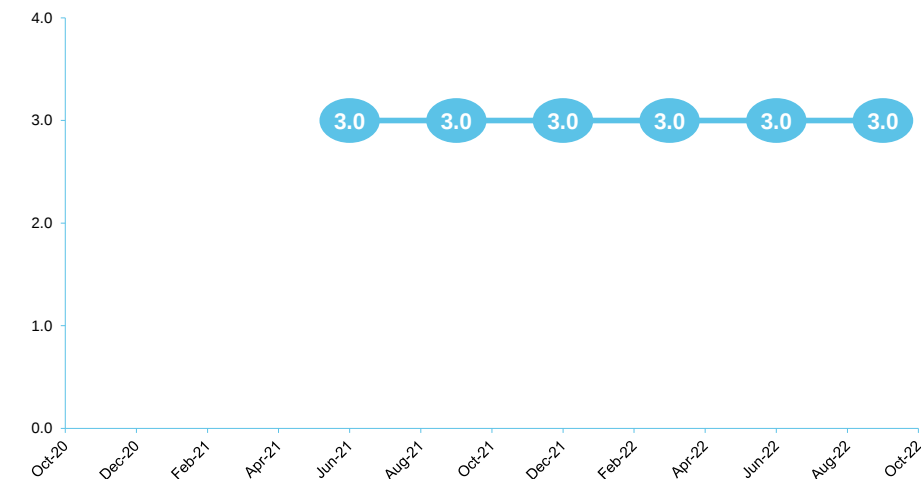


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-07-29	Buy	10,000	8,275
2022-04-28	Buy	9,800	8,950
2022-01-28	Buy	9,130	7,650
2021-10-29	Buy	8,700	7,175
2021-07-30	Buy	8,200	5,700
2021-04-28	Buy	8,200	6,200
2021-01-29	Buy	7,900	6,575
2020-12-07	Buy	7,800	6,700
2020-10-27	Buy	7,100	5,775
2020-08-23	Buy	7,000	6,100
2020-06-09	Buy	6,200	5,275
2020-04-16	Buy	6,000	4,210
2020-01-27	Buy	9,300	7,725
2020-01-15	Buy	9,300	7,650
2019-12-10	Buy	9,300	7,375

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Not Rated:	Stock is not within regular research coverage

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