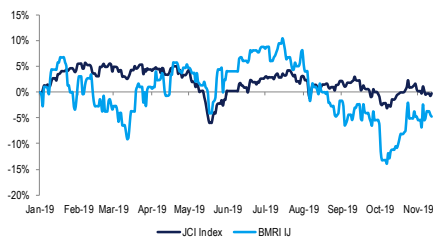


Stock Data

Target price	Rp8,000
Prior TP	Rp8,000
Current price	Rp7,025
Upside/downside	+14%
Shares outstanding (mn)	46,667
Market cap (Rp bn)	327,833
Free float	40%
Avg. 6m daily T/O (Rp bn)	317

Price Performance

	3M	6M	12M
Absolute	-5.1%	-6.6%	0.7%
Relative to JCI	-4.0%	-7.4%	-6.3%
52w low/high (Rp)	6,350 – 8,150		



Major Shareholders

Republic of Indonesia	60%
-----------------------	-----

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## Positive progress on its asset quality

- We recently attended BMRI's event with regards to its wholesale asset quality management progress.
- We were surprised on how the bank has improved and managed its asset quality. Post-IFRS 9, we think there will be no further surprise.
- BMRI's is one of our top pick for the sector especially after the sell-off.

### Improvement in whole credit process

During the event, management explained how the bank has improved its overall credit process (from credit initiation process, credit risk monitoring to collection and recovery). Few examples are: 1) a portfolio guideline during credit initiation process (whether specific sector is more attractive than others), 2) better early warning signal mechanism by adding more watch-list indicators.

### Commercial was main culprit, but its quality has gradually improved

Commercial NPL remains high at 10.5% as of Sep19 with financial services, metal industry, FMCG and construction non-infra sectors as the highest contributor. However, since the new CEO (which became the new SOE vice minister recently) came in 2016, the quality of commercial loan has improved (loan that being originated since 2016 has NPL below 1%) amidst few improvement in its commercial loan process (better collateral, lesser authority for regional offices, requirement to use BMRI as the transaction bank).

### Loan restructuring has also been successful

Restructured loan currently stood at 7.5% of total loan book or Rp63tr. During the event management also stated that it already planned to take out the restructuring flag for 40% of the portfolio but wasn't allowed by OJK – this shall alleviate investors' concern towards Mandiri restructured book.

### Conservative estimate of IFRS 9 impact

It guided 280bp impact towards its CAR for IFRS 9 (PSAK 71) impact, the highest among SOE banks (vs. 100bp/100bp/250-300bp BBNI/BBRI/BBTN). Its capital remain sufficient post IFRS 9 (CAR to 22% from 19%), but this shall mitigate any possible negative surprise to its asset quality in the future.

### BMRI is one of our top pick

BMRI's share price has dropped 4.7% YTD (underperforming both JCI and its peers by 5% and 17%), now its trading at 1.7x FY20 P/B (vs. 10Y avg of 2.1x). It remains our top pick along with BBNI. Risk will be towards any unexpected deterioration in asset quality.

Financial Summary	2017A	2018A	2019F	2020F	2021F
Net interest income (Rp bn)	52,327	54,623	58,273	64,027	70,590
Non-interest income (Rp bn)	25,808	31,035	28,373	32,279	36,223
Total revenue (Rp bn)	78,135	85,657	86,646	96,306	106,813
PPOP (Rp bn)	43,122	48,091	48,613	53,881	59,765
Provision charges (Rp bn)	(15,952)	(14,185)	(14,760)	(16,423)	(17,132)
Net profit (Rp bn)	20,640	25,015	27,083	29,954	34,086
Net profit growth	49%	21%	8%	11%	14%
FD EPS (Rp)	442	536	580	642	730
P/BV (x)	2.3	2.1	1.9	1.7	1.5
Dividend yield	1.9%	2.8%	3.1%	3.3%	3.7%
ROAE	12.8%	14.1%	13.5%	13.6%	14.1%
Forecast changes			N/A	N/A	N/A
IPS vs. consensus			98%	96%	97%

Sources: Company, IndoPremier

Share price closing as of 12 November 2019

## Improvement in whole credit process

During the event, management explained how the bank has improved its overall credit process (from credit initiation process, credit risk monitoring to collection and recovery). Few examples are:

- 1) a portfolio guideline during credit initiation process (whether specific sector is more attractive than others),
- 2) better early warning signal mechanism by adding more watchlist indicators.

Indeed, this has been a continued improvement in the credit process since the new CEO came in 2016, especially in commercial/SME loans. Note that previously the management has implemented the following measures to improve asset quality:

- 1) Requiring fixe asset/transaction based collateral – previously, collateral management was poor (no fixed asset requirement).
- 2) Regional offices may only approve loans in the Rp20-50bn range - previously, regional office's authority was sizeable, up to Rp250bn for new loans and top-up.
- 3) All commercial customers are now required to use BMRI as their main transaction bank, which makes it easier for BMRI to trace money flows – previously, most of their commercial customers used other banks to do its transaction, which made it difficult for BMRI to trace the flow of its customers' money.

## Commercial was the main culprit, but its quality has gradually improved

Commercial NPL remains high at 10.5% as of Sep19 with financial services, metal industry, FMCG and construction non-infra sectors as the highest contributor.

However, since the new CEO (which became the new SOE vice minister recently) came in 2016, the quality of commercial loan has improved (loan that being originated since 2016 has NPL below 1%) amidst few improvement in its commercial loan process (better collateral, lesser authority for regional offices, requirement to use Mandiri as the transaction bank).

**Fig. 1: NPL trend of commercial loan bookings – asset quality of commercial loans booked in 2016 has been robust compared to previous years**

Year originated	Total Booking (Rp bn)	2011	2012	2013	2014	2015	2016	2017	2018	Sep-19
2011	21,526	0.0%	0.1%	0.3%	2.8%	9.2%	16.4%	26.3%	28.9%	30.1%
2012	29,672		0.0%	0.5%	0.7%	2.6%	13.9%	17.0%	18.2%	20.6%
2013	33,692			0.0%	0.0%	3.5%	9.9%	11.3%	12.9%	13.9%
2014	19,593				0.0%	0.6%	8.8%	11.1%	20.7%	24.3%
2015	16,062					0.0%	3.3%	9.3%	13.0%	14.1%
2016	16,920	Prior to 2016, loans tend to deteriorate in the 3rd year					0.2%	0.2%	0.6%	0.9%
2017	10,026							0.0%	0.2%	0.2%
2018	8,520								0.0%	0.0%
Sep-19	11,709	Origination quality has improved since 2016								0.0%

Sources: Company, IndoPremier

**Fig. 2: Commercial loan exposure by sector – as 9M19, commercial NPL has improved to 10.5% in 9M19 from 10.8% in 9M18**

No	Commercial exposure by sector	Outstanding Sep 2019			%Mix		SML %		NPL %	
		Rp bn	yoy%	YTD%	Sep-18	Sep-19	Sep-18	Sep-19	Sep-18	Sep-19
1	Palm Plantation and CPO	21,231	3.7%	-3.0%	14.4%	15.4%	1.9%	4.4%	0.0%	0.0%
2	Water Transportation Services	11,573	0.6%	2.0%	8.1%	8.4%	31.3%	28.1%	2.2%	3.9%
3	Financial Services	9,674	9.8%	4.5%	6.2%	7.0%	0.5%	0.4%	17.5%	15.9%
4	Metal Industry & Wholesale Trade	7,432	-2.5%	0.1%	5.4%	5.4%	26.3%	29.8%	29.5%	20.6%
5	Property - Investment	6,223	121.4%	123.4%	2.0%	4.5%	0.0%	6.0%	0.0%	0.4%
6	Fast Moving Consumer Goods	6,051	-2.9%	2.2%	4.4%	4.4%	2.2%	2.5%	26.1%	27.5%
7	Construction Non-Infra Services	5,182	0.1%	-3.9%	3.7%	3.8%	29.1%	23.1%	16.8%	24.1%
8	Telecommunication	4,634	3.0%	0.1%	3.2%	3.4%	8.7%	8.0%	0.2%	1.6%
9	Industry & Product Textile	4,523	-21.1%	-16.3%	4.0%	3.3%	25.2%	70.6%	2.8%	3.0%
10	Energy & Water	3,618	1.7%	3.1%	2.5%	2.6%	4.9%	14.7%	0.1%	4.4%
11	Other sectors	57,902	-11.6%	-11.0%	46.2%	41.9%	9.7%	13.3%	13.3%	13.2%
<b>Total commercial exposure</b>		<b>138,043</b>	<b>-2.7%</b>	<b>-3.2%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>11.3%</b>	<b>14.5%</b>	<b>10.9%</b>	<b>10.5%</b>

Sources: Company, IndoPremier

**Fig. 3: NPL trend of corporate loan bookings – asset quality of corporate loans has remained solid over the years**

Year originated	Total Booking (Rp bn)	2011	2012	2013	2014	2015	2016	2017	2018	Sep-19
2011	30,157	0.0%	0.0%	0.0%	1.5%	3.7%	6.1%	6.6%	6.6%	6.6%
2012	27,239		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2013	31,755			0.0%	0.0%	0.0%	0.4%	0.6%	0.6%	0.6%
2014	29,259				0.0%	0.0%	0.3%	0.3%	0.3%	0.6%
2015	44,031					0.0%	0.0%	0.0%	0.0%	0.0%
2016	73,964						0.0%	0.0%	0.0%	0.0%
2017	93,802							0.0%	0.0%	0.0%
2018	22,395								0.0%	0.0%
Sep-19	90,084									0.0%

Sources: Company, IndoPremier

**Fig. 4: Corporate loan exposure by sector – as 9M19, commercial NPL has improved to 10.5% in 9M19 from 10.8% in 9M18**

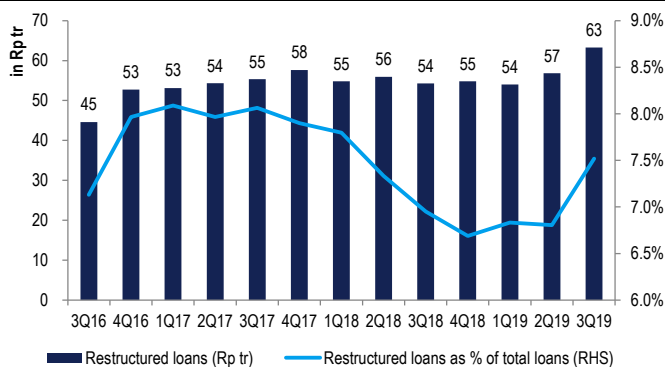
No	Corporate exposure by sector	Outstanding Sep 2019			%Mix		SML %		NPL %	
		Rp bn	yoy%	YTD%	Sep-18	Sep-19	Sep-18	Sep-19	Sep-18	Sep-19
1	Energy & Water (Utilities)	37,384	19.1%	23.5%	10.5%	11.6%	0.4%	0.3%	0.0%	0.0%
2	Palm Plantation & CPO	36,938	-3.5%	-7.3%	12.8%	11.4%	0.0%	0.0%	0.0%	0.1%
3	Construction Infrastructure Services	22,678	31.1%	5.4%	5.8%	7.0%	0.0%	0.0%	0.0%	0.0%
4	Fast Moving Consumer Goods	21,716	-18.8%	-21.0%	8.9%	6.7%	0.0%	0.0%	0.0%	0.0%
5	Financial Services	21,130	56.6%	55.6%	4.5%	6.5%	0.0%	0.0%	0.0%	0.0%
6	Fertilizer & Pest Industry	13,896	-3.4%	-3.5%	4.8%	4.3%	0.0%	0.0%	0.0%	0.0%
7	Metal Mining	13,401	-11.5%	14.0%	5.1%	4.2%	0.0%	0.0%	0.0%	0.0%
8	Telecommunication	12,650	24.9%	58.8%	3.4%	3.9%	0.0%	0.0%	4.9%	0.0%
9	Oil & Gas Wholesale Trade	11,874	-38.3%	-51.7%	6.4%	3.7%	0.0%	7.9%	0.0%	0.0%
10	Construction Non Infrastructure Services	11,298	6.4%	-6.8%	3.5%	3.5%	0.0%	0.0%	0.0%	0.0%
11	Other sectors	119,765	16.1%	-1.0%	34.4%	37.1%	2.0%	2.1%	0.2%	0.1%
<b>Total corporate exposure</b>		<b>322,730</b>	<b>7.6%</b>	<b>-0.5%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.7%</b>	<b>1.1%</b>	<b>0.2%</b>	<b>0.1%</b>

Sources: Company, IndoPremier

## Loan restructuring has also been successful

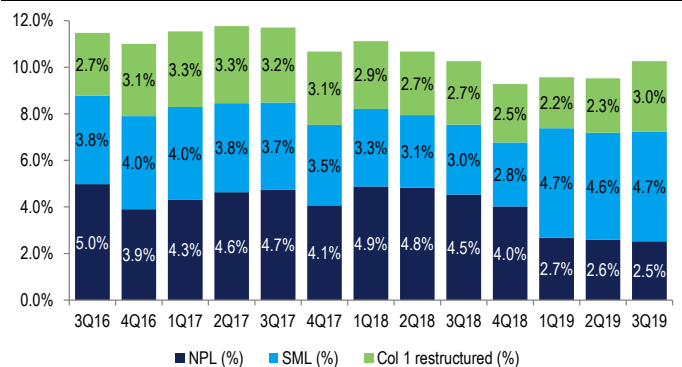
Restructured loan currently stood at Rp63tr (consolidated), forming 7.5% of total loan book. During the event management also stated that it already planned to take out the restructuring flag for 40% of the portfolio but wasn't allowed by OJK – this shall alleviate investors' concern towards Mandiri restructured book.

**Fig. 5: Restructured loans at Rp63tr as of 3Q19, at 7.5% of total loan book**



Sources: Company, IndoPremier

**Fig. 6: BMRI's loan at risk trend**

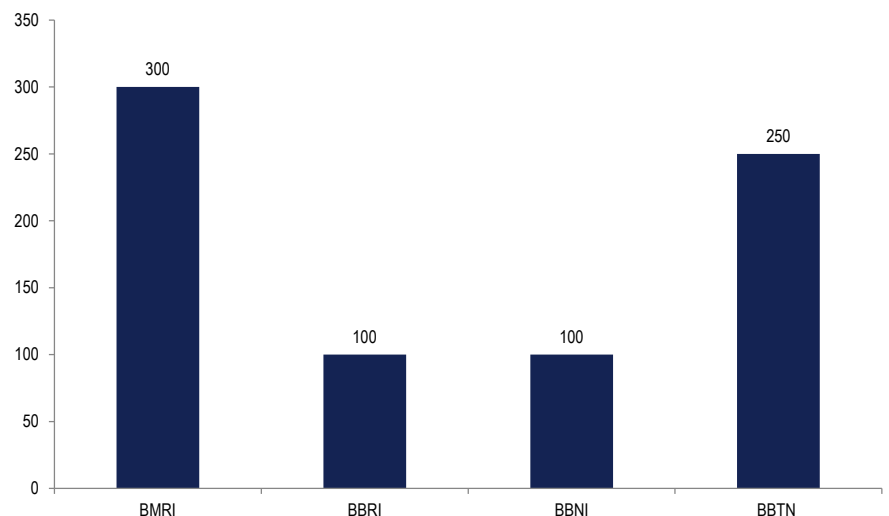


Sources: Company, IndoPremier

## Conservative estimate of IFRS 9 impact

It guided for a 280bp CAR as a result of the IFRS 9 (PSAK 71) implementation, the highest among SOE banks (vs. 100bp/100bp/250bp for BBNI/BBRI/BBTN). Its capital remain sufficient post FIRS 9 (to 22% from 19% for its CAR), but this shall mitigate any possible negative surprise towards its asset quality in the future.

**Fig. 7: Summary of car impact of IFRS 9 for SOE banks – BMRI's CAR impact is the highest among SOE banks**



Sources: Company, IndoPremier

**Fig. 8: Summary of car impact of IFRS 9 for SOE banks – BMRI's CAR impact is the highest among SOE banks**

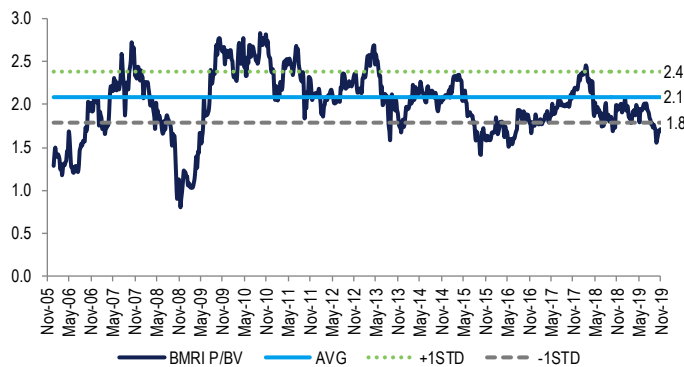
Estimated CAR impact for BMRI	
2019F Tier 1 capital ratio	21.1%
2019F CAR	22.3%
Estimated car impact of IFRS 9 (bp)	280
Estimated Tier 1 capital ratio post IFRS 9	18.3%
Estimated CAR post IFRS 9	19.5%

Sources: Company, IndoPremier

## BMRI is our top pick

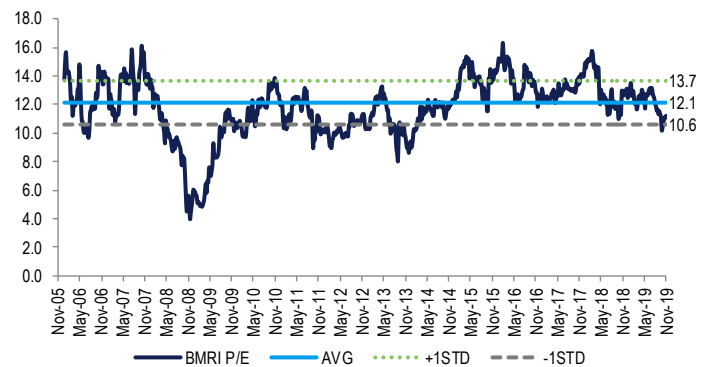
BMRI share price has dropped 5% YTD (underperforming both JCI and its peers by 5% and 17%), now its trading at 1.7x FY20 P/B (vs. 10Y avg of 2.1x). It remains our top pick along with BBNI. Risk will be towards any unexpected deterioration in asset quality.

**Fig. 8: BMRI forward P/BV – now trading at 1.7x P/BV vs. 10 year average of 2.1x P/BV**



Sources: Bloomberg, IndoPremier

**Fig. 9: BMRI forward P/E – now trading at 10.9x P/E vs. 10 year average of 12.1x P/E**



Sources: Bloomberg, IndoPremier

**Fig. 10: Peer comparison table**

Ticker	Closing Price (Rp/share)	TP (Rp/share)	P/BV multiple target (x)	Upside	Recommendation	P/E (x)		P/BV (x)	
						2019F	2020F	2019F	2020F
BMRI	7,025	8,000	1.9	14%	Buy	12.1	10.9	1.9	1.7
BBRI	4,000	4,600	2.5	15%	Buy	14.1	12.6	2.5	2.2
BBCA	31,325	31,000	4.0	-1%	Hold	27.2	23.9	4.6	4.0
BBNI	7,600	8,500	1.3	12%	Buy	9.2	8.2	1.3	1.2
BBTN	1,875	2,200	1.0	17%	Hold	11.9	10.2	0.9	0.9

Sources: Bloomberg, IndoPremier

Share price closing as of 12 November 2019

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Interest income	79,502	80,993	89,120	98,023	107,913
Interest expense	(27,174)	(26,370)	(30,847)	(33,996)	(37,323)
<b>Net interest income</b>	<b>52,327</b>	<b>54,623</b>	<b>58,273</b>	<b>64,027</b>	<b>70,590</b>
Non-interest income	25,808	31,035	28,373	32,279	36,223
<b>Total operating income</b>	<b>78,135</b>	<b>85,657</b>	<b>86,646</b>	<b>96,306</b>	<b>106,813</b>
Opex	(35,014)	(37,566)	(38,033)	(42,426)	(47,047)
<b>PPOP</b>	<b>43,122</b>	<b>48,091</b>	<b>48,613</b>	<b>53,881</b>	<b>59,765</b>
Provisions	(15,952)	(14,185)	(14,760)	(16,423)	(17,132)
<b>Operating profit</b>	<b>27,170</b>	<b>33,906</b>	<b>33,853</b>	<b>37,458</b>	<b>42,634</b>
Non-operating profit	(13)	38	1,050	1,153	1,278
<b>Pre-tax profit</b>	<b>27,157</b>	<b>33,943</b>	<b>34,903</b>	<b>38,611</b>	<b>43,912</b>
Income tax	(5,714)	(8,091)	(6,974)	(7,716)	(8,783)
Minority interest	(803)	(837)	(847)	(941)	(1,044)
<b>Net profit</b>	<b>20,640</b>	<b>25,015</b>	<b>27,083</b>	<b>29,954</b>	<b>34,086</b>

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash + CA with BI	74,457	87,202	102,267	111,438	123,312
Secondary reserves	252,581	217,565	216,846	242,867	272,011
Gross loans	729,544	820,084	916,420	1,015,700	1,125,747
Loan provisions	(33,745)	(31,796)	(38,693)	(46,299)	(53,604)
Other assets	101,864	109,198	117,043	125,610	134,971
<b>Total Assets</b>	<b>1,124,701</b>	<b>1,202,253</b>	<b>1,313,883</b>	<b>1,449,316</b>	<b>1,602,438</b>
Total deposits	823,594	849,369	940,569	1,053,024	1,179,607
Securities and borrowings	57,148	95,827	95,827	95,827	95,827
Other liabilities	73,947	72,097	75,450	79,307	83,742
<b>Total liabilities</b>	<b>954,689</b>	<b>1,017,292</b>	<b>1,111,846</b>	<b>1,228,158</b>	<b>1,359,176</b>
<b>Shareholders' equity</b>	<b>170,012</b>	<b>184,960</b>	<b>202,037</b>	<b>221,158</b>	<b>243,262</b>
<b>Total liabilities &amp; equity</b>	<b>1,124,701</b>	<b>1,202,253</b>	<b>1,313,883</b>	<b>1,449,316</b>	<b>1,602,438</b>

Sources: Company, IndoPremier

Growth YoY	2017A	2018A	2019F	2020F	2021F
Gross loans	10.2%	12.4%	11.7%	10.8%	10.8%
Total assets	8.3%	6.9%	9.3%	10.3%	10.6%
Total deposits	6.8%	3.1%	10.7%	12.0%	12.0%
Net interest income	1.0%	4.4%	6.7%	9.9%	10.2%
Non-interest income	13.7%	20.3%	-8.6%	13.8%	12.2%
Total operating income	4.8%	9.6%	1.2%	11.1%	10.9%
Operating expense	12.0%	7.3%	1.2%	11.5%	10.9%
PPOP	-0.3%	11.5%	1.1%	10.8%	10.9%
Net profit	49.5%	21.2%	8.3%	10.6%	13.8%

Key Ratios	2017A	2018A	2019F	2020F	2021F
ROAA	1.9%	2.1%	2.1%	2.1%	2.2%
ROAE	12.8%	14.1%	13.5%	13.6%	14.1%
NIM	5.7%	5.6%	5.5%	5.6%	5.5%
Credit cost	2.3%	1.8%	1.7%	1.7%	1.6%
Cost/income	44.8%	43.9%	43.9%	44.1%	44.0%
LDR	88.6%	96.6%	97.4%	96.5%	95.4%
CAR	21.0%	20.5%	22.3%	22.1%	21.9%
NPL ratio	3.4%	2.9%	2.6%	2.4%	2.1%
Provisions/NPL	134.8%	134.5%	163.8%	193.8%	221.6%

Sources: Company, IndoPremier

## INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

## ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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