



**HOLD**

Target Price : IDR5,250

## Stock Data

Current Price	:	5,175
52Wk Range (H-L)	:	5,500-3,587
Share Outstanding	:	93.33 bn
Free Float	:	40.00%
Mkt Capitalization (IDR Tn)	:	483.00

Stock price in IDR/share

## Major Shareholders

Govt of Indonesia	:	52.00%
INA	:	8.00%
Public (Below 5%)	:	40.00%



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## PT Bank Mandiri (Persero) Tbk (BMRI IJ)

### Banking Sector

**Maintain HOLD as the stock is already fairly valued**

#### 1Q23 earnings continued to expand

BMRI net income jumped +19.4% QoQ/+25.2% YoY to IDR12.6tn in 1Q23 forming our/cons run rate of 27.6%/26.8% FY23E. However, NIM stood at 5.4% (7 bps lower than FY22) despite still within FY23 management guidance of 5.3-5.6%. Lending balance expansion (+0.3% QoQ/+12.4% YoY) coupled with loan yield repricing have resulted in +0.9% QoQ/+25.3% YoY increase of interest income. Unfortunately, BMRI CoF rose outpacing loan yield increase, in spite of CASA ratio hit 74.2% in 1Q23. This led to +16.3% QoQ/+30.7% YoY higher interest expense. CIR trend to show a continuous decline to 37.0% in 1Q23 (vs 40.4% in 1Q22) as top line grew with the double digits pace outpacing a marginal increase in OpEx (+2.2% YoY). Further worth-noting is CoC declined -39 bps YoY to 1.2% in 1Q23 backed by ample coverage and improving asset quality. All in all, operational efficiency measures coupled with sound risk management have borne fruit reflected by higher than expected earnings.

#### BMRI has demonstrated prudent ALM so far

Recent banking turmoil has once again emphasized the important of asset and liabilities management. Unlike SVB, Indonesia's banking system is well capitalized, having a diversified source of funding, majority of asset is invested in loans and the liquidity indicators remaining aplenty. As the largest bank based on asset, BMRI is supported strong capital adequacy (Tier-1 : 19.1% & CAR : 20.3% in 1Q23). Furthermore, BMRI loans accounted for 59.8% of total assets while government bond contributed to ~22% of its assets and >50% is placed in short-medium maturity (<10 years) of fixed income instruments. Both LCR and NSFR still above the regulatory framework despite falling in 1Q23. Whereas intermediary role keep functioning with LDR of 86.2% as of the end of 1Q23. Funding balance expanded 9.62% YoY in 1Q23 largely driven by low-cost saving account which helped CASA to further jumping to new heights. Additionally, funding sources were also diverse from retail to corporates backed by bank's commitment in digital transformation. We believe that prudent ALM is the key to deal with heightened interest and liquidity risks.

#### LaR is consistently declining and ready to reach pre-Covid level

BMRI' LaR stood at 11.3% in 1Q23 lower than FY22 which recorded at 11.7%. Despite still higher than pre-Covid level at 9.1% in FY19, but the ratio keep improving. LaR decline was driven by lower NPL and Coll 1 restructured loan, despite slightly rising SML. Yet, current loan has been stable at 94% in 1Q23. Coverage has been ample so far with NPL & LaR coverage ratio each stood at 303% and 47% respectively in 1Q23 thanks to frontloading provisioning. Hence, we believe a more manageable CoC is likely. Furthermore, write off recovery rate was also improving. Should the trend continue, this will bolster non-interest income in our view.

#### Yet, BMRI is already fairly valued, maintain HOLD

Currently BMRI is traded at 1.8x FY23F P/B or equal to +2std of P/B band. This may appear that valuation is rich, yet considering potential positive earnings surprise as well as superiority on its fundamental, the stock seems worth of higher valuation. However challenge remain on the macro-side that could limit further potential upside. With +10.6% YoY EPS growth for FY23E, the stock has earning yield of 9.4% or 268 bps premium than current risk free rate. This may be due to rising cost of equity (Ke) driven by higher volatility that led to higher stock beta and risk premium. We also have observed that in the last 3 years, rising Cost of Equity either from higher government bond yield or rising stock volatility would result in lower P/B. This should justify a more limited potential upsides given : 1) BMRI's stock price has returned +4.3% year-to-date after posting +41.3% annual return last year (to put a note, BMRI has led the capital gain throughout FY22 in the KBMI-IV league), 2) higher Ke environment recently as a result of more attractive government bond valuation particularly for the shorter duration and 3) all the positive catalysts including substantially higher earnings and jumbo dividend were all priced-in and factored. All in all, we maintain HOLD on BMRI with TP of IDR5,250/share implying 1.9x/1.8x FY23F/FY24F P/B. Key downside is higher risky asset volatility and government bond yield. Whereas upside potential could materialize if rate cut signal intensify and or stipulated.

#### Key Financial Highlight

Financial Projections	FY20	FY21	FY22	FY23E	FY24F
Net Interest Income (IDR bn)	62,521	73,062	87,903	96,785	105,674
Net Income (IDR bn)	16,800	28,028	41,171	45,538	49,538
EPS (IDR)	180	300	441	488	531
BVS (IDR)	2,193	2,380	2,703	2,837	2,971
P/E (x)	28.7	17.2	11.7	10.6	9.7
P/B (x)	2.4	2.2	1.9	1.8	1.7
ROAE (%)	8.1%	13.1%	17.4%	17.6%	18.3%
ROAA (%)	1.2%	1.7%	2.2%	2.2%	2.3%

Sources : Bloomberg, MNCS Research

**Exhibit 1. BMRI's 1Q23 net income jumped +19.4% QoQ/+25.2% YoY forming 27.6% of MNCS FY23E driven by a more efficient OpEx and lower CoC**

IDR bn	1Q22	4Q22	1Q23	FY23F	YoY	QoQ	Run Rate
Interest Income	25,901	31,123	31,391	124,125	21.2%	0.9%	25.3%
Interest Expense	(5,423)	(7,205)	(8,382)	(27,340)	54.6%	16.3%	30.7%
Net Interest Income	20,478	23,918	23,009	96,785	12.4%	-3.8%	23.8%
Non Interest Income	9,234	10,969	10,200	38,464	10.5%	-7.0%	26.5%
Total Operating Income	29,712	34,887	33,209	135,249	11.8%	-4.8%	24.6%
Opex	(12,013)	(16,610)	(12,276)	(55,452)	2.2%	-26.1%	22.1%
PPOP	17,699	18,277	20,933	79,797	18.3%	14.5%	26.2%
Provision	(4,002)	(4,280)	(3,692)	(17,504)	-7.7%	-13.7%	21.1%
Income Before Tax	13,697	13,997	17,241	62,293	25.9%	23.2%	27.7%
Net Income	10,032	10,518	12,560	45,538	25.2%	19.4%	27.6%

Sources : BMRI Data, MNCS Research

**Exhibit 2. All ALM, funding and liquidity indicators of BMRI are solid**

ALM, Liquidity & Capital Indicators	FY20	FY21	FY22	1Q23
CASA	65.6%	69.7%	73.4%	74.2%
LDR	83.4%	81.3%	80.6%	86.2%
Customer Deposit/IBL	89.1%	89.5%	90.1%	89.6%
IEA/Total Assets	92.4%	93.3%	91.0%	93.9%
Loan/Total Assets	56.9%	55.5%	55.6%	59.8%
Securities & Government Bond/Total Assets	21.0%	24.0%	21.3%	21.9%
LFR	207.8%	197.7%	186.8%	186.7%
NSFR	125.2%	126.4%	121.6%	113.0%
MIR	80.8%	78.6%	76.0%	82.9%
Tier-1	18.4%	18.4%	18.0%	19.1%
CAR	19.6%	19.6%	19.7%	20.3%

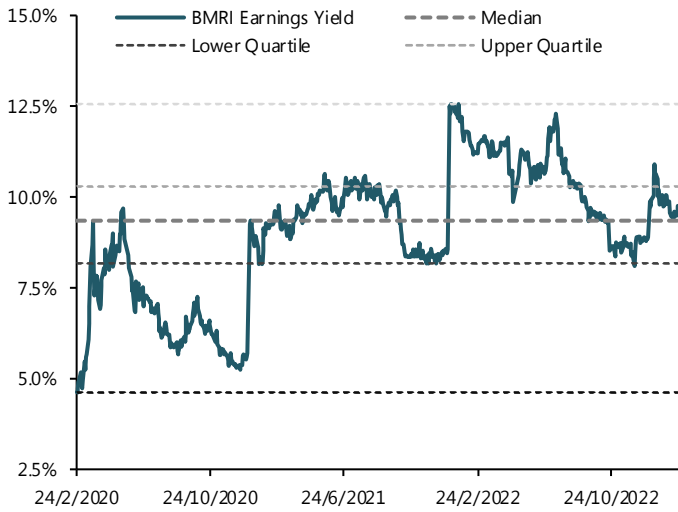
Sources : BMRI Data, MNCS Research

**Exhibit 3. Asset quality keep improving and coverage was adequate : possible of more manageable CoC to drive earnings**

Asset Quality & Coverage	FY20	FY21	FY22	1Q23
Current	92.51%	92.97%	94.32%	94.14%
NPL	3.10%	2.72%	1.92%	1.77%
SML	4.39%	4.31%	3.76%	4.09%
Coll. 1 Restructured Loan	13.80%	10.30%	6.03%	5.42%
LaR	21.29%	17.33%	11.71%	11.28%
NPL Coverage	221%	243%	285%	303%
LaR Coverage	32%	39%	46%	47%
Written Off (IDR tn)	9.7	12.9	14.3	3.4
Recovery (IDR tn)	3.7	4.7	6.3	2.7
Recovery Rate	38.2%	36.3%	44.1%	78.5%

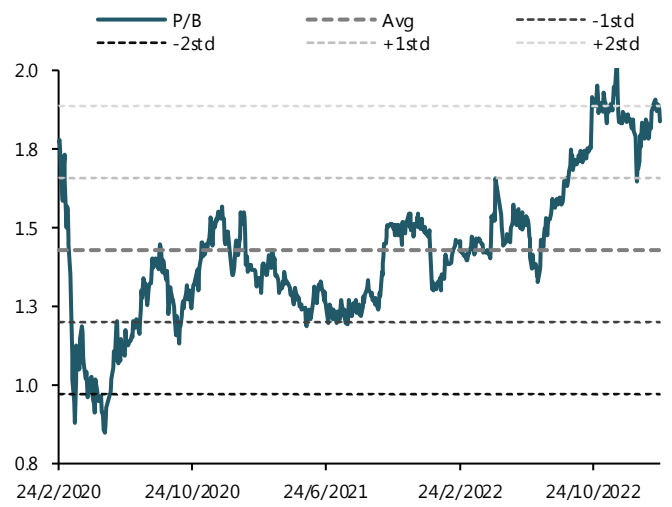
Sources : BMRI Data, MNCS Research

**Exhibit 4. BMRI is traded at a nearly upper quartile of its earnings yield**



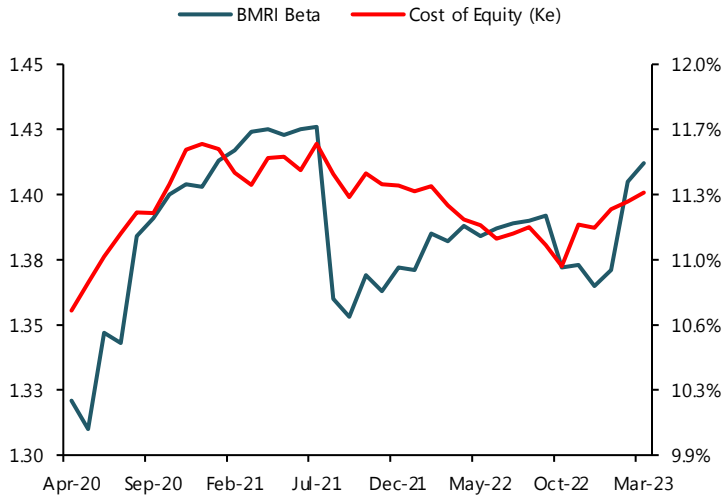
Sources : Bloomberg, BMRI Data, MNCS Research

**Exhibit 5. BMRI has been traded at a nearly +2std of P/B band recently**



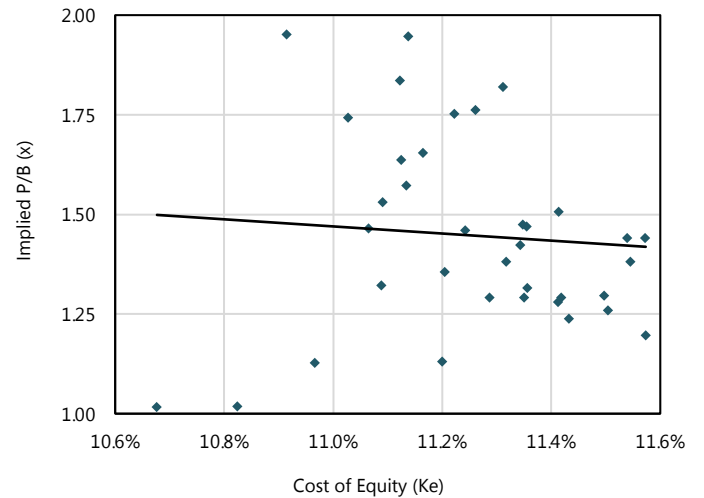
Sources : Bloomberg, BMRI Data, MNCS Research

**Exhibit 6. Cost of Equity (Ke) has risen driven by higher stock volatility reflected by Beta**



Sources : Bloomberg, BMRI Data, MNCS Research

**Exhibit 7. We already observed that higher Cost of Equity (Ke) has triggered valuation de-rating (linear fit)**



Sources : Bloomberg, BMRI Data, MNCS Research

Exhibit 8. BMRI's financial projection & key ratio

Income Statement (IDR bn)	FY20	FY21	FY22	FY23E	FY24F
Interest Income	95,616	97,749	112,382	124,125	134,832
Interest Expense	(33,095)	(24,687)	(24,479)	(27,340)	(29,158)
<b>Net Interest Income</b>	<b>62,521</b>	<b>73,062</b>	<b>87,903</b>	<b>96,785</b>	<b>105,674</b>
Non Interest Income	31,120	34,061	37,648	38,464	39,073
<b>Operating Income</b>	<b>93,641</b>	<b>107,123</b>	<b>125,551</b>	<b>135,249</b>	<b>144,747</b>
Opex	(44,530)	(49,140)	(53,260)	(55,452)	(59,346)
<b>PPOP</b>	<b>49,111</b>	<b>57,983</b>	<b>72,291</b>	<b>79,797</b>	<b>85,401</b>
Provision	(24,855)	(19,543)	(16,123)	(17,504)	(17,612)
Income Before Tax	24,393	38,358	56,378	62,380	67,861
Tax	(5,993)	(7,807)	(11,425)	(12,476)	(13,572)
<b>Net Income</b>	<b>16,800</b>	<b>28,028</b>	<b>41,171</b>	<b>45,538</b>	<b>49,538</b>

Balance Sheet (IDR bn)	FY20	FY21	FY22	FY23E	FY24F
CA with BI	52,239	99,023	107,349	115,400	117,218
Placement with BI & Banks	108,818	73,201	143,110	108,376	108,229
Securities & Government Bonds	324,408	414,475	423,718	448,744	467,175
Loans	877,051	957,636	1,107,987	1,279,173	1,398,701
Other IEA	62,646	68,905	31,133	54,228	51,422
<b>IEA</b>	<b>1,425,162</b>	<b>1,609,660</b>	<b>1,813,297</b>	<b>2,005,922</b>	<b>2,142,746</b>
Fixed Assets & Others	116,803	115,951	179,248	106,550	95,730
<b>Total Assets</b>	<b>1,541,965</b>	<b>1,725,611</b>	<b>1,992,545</b>	<b>2,112,472</b>	<b>2,238,476</b>

Current Account	319,745	413,073	541,802	562,652	609,312
Saving Account	431,507	486,853	552,753	616,905	644,416
<b>CASA</b>	<b>751,252</b>	<b>899,926</b>	<b>1,094,555</b>	<b>1,179,557</b>	<b>1,253,728</b>
Time Deposit	393,387	391,251	396,291	423,102	445,090
<b>Customer Deposit</b>	<b>1,144,639</b>	<b>1,291,177</b>	<b>1,490,846</b>	<b>1,602,659</b>	<b>1,698,818</b>
Deposit from other Banks	7,391	12,800	14,847	16,332	18,455
Securities & Borrowings	92,573	97,174	103,137	108,865	115,228
Other IBL	39,654	41,950	45,583	45,692	47,688
<b>IBL</b>	<b>1,284,257</b>	<b>1,443,101</b>	<b>1,654,413</b>	<b>1,773,548</b>	<b>1,880,189</b>
Non IBL	53,008	60,398	87,887	74,143	81,015
<b>Total Liabilities</b>	<b>1,337,265</b>	<b>1,503,499</b>	<b>1,742,300</b>	<b>1,847,691</b>	<b>1,961,204</b>

Paid & Add Capital	28,983	29,310	29,310	29,310	29,310
Retained Earnings	124,656	142,588	166,995	185,210	205,026
Reserves & Others	51,061	50,214	53,940	50,261	42,936
<b>Total Equity</b>	<b>204,700</b>	<b>222,112</b>	<b>250,245</b>	<b>264,781</b>	<b>277,272</b>
<b>Total Liabilities &amp; Equity</b>	<b>1,541,965</b>	<b>1,725,611</b>	<b>1,992,545</b>	<b>2,112,472</b>	<b>2,238,476</b>

Key Ratio	FY20	FY21	FY22	FY23E	FY24F
IEA Yields	6.7%	6.1%	6.3%	6.5%	6.5%
CoF	2.6%	1.7%	1.5%	1.6%	1.6%
NIM	5.1%	5.1%	5.5%	5.5%	5.5%
CIR	47.6%	45.9%	42.4%	41.0%	41.0%
ROAA	1.2%	1.7%	2.2%	2.2%	2.3%
ROA	1.1%	1.6%	2.1%	2.2%	2.2%
ROAE	8.1%	13.1%	17.4%	17.6%	18.3%
ROE	8.2%	12.6%	16.3%	17.2%	17.9%
LDR	83.4%	81.3%	80.6%	84.0%	86.4%
Gross NPL	3.1%	2.7%	1.9%	1.7%	1.5%
CoC	2.6%	1.9%	1.5%	1.3%	1.2%

Source : BMRI Data, MNCS Research

### MNC Research Industry Ratings Guidance

**OVERWEIGHT:** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

**NEUTRAL:** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

**UNDERWEIGHT:** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

### MNC Research Investment Ratings Guidance

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

**HOLD :** Share price may fall within the range of +/- 10% of the next 12 months

**SELL :** Share price may fall by more than 10% over the next 12 months

**Not Rated :** Stock is not within regular research coverage

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