Bank Mandiri (BMRI IJ)

13 January 2015

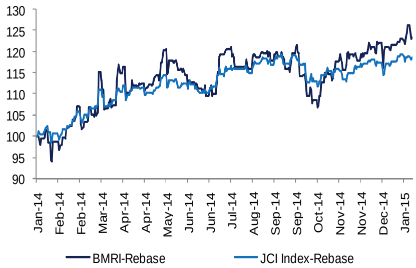
Company Update

BUY (Unchanged)

Equity | Indonesia | Banks

Stock Data	
Target price (Rp)	Rp12,400
Prior TP (Rp)	*Rp12,400*
Share price (Rp)	Rp10,850
Upside/downside (%)	*+14.3*
Shares outstanding (m)	23,333
Market cap. (US$ m)	20,078
Free float (%)	40.0
Avg. 6m daily T/O (US$ m)	17.4

Price Performance	3M	6M	12M
Absolute (%)	9.3	2.1	24.0
Vs. JCI (%)	5.7	-0.3	6.5
52w high/low (Rp)		10,850 - 8,275	



Major Shareholders	
Republic of Indonesia	60.0%

Estimate Change; Vs. Consensus	2014F	2015F
Latest EPS (Rp)	854	1,002
Vs. Prior EPS (%)	-	-
Vs. Consensus (%)	1.5	3.6

Source: Bloomberg

Stephan Hasjim
PT Indo Premier Securities
stephan.hasjim@ipc.co.id
+62 21 5793 1168

In need of capital increase?

- **The government is budgeting for a capital injection in 2015**
- **We view this positively, although market reaction seems negative**
- **Government's political willingness to inject capital is a big change**
- **We reiterate our Buy (TP: Rp12,400).**

Rights issue plan for 2015? *Kontan* daily reports the Minister of State-Owned Enterprises is allocating capital injection of Rp5.6tn (c. US$450m) for BMRI this year to support the Ministry's recommendation for the bank to raise capital by Rp9tn through a rights issue in 2015. The capital increase plan is said to bolster BMRI's ability to support more infrastructure financing and the allocated funding should maintain the government's 60% ownership level in the bank. This news is related to the government's plan to allocate capital injection of Rp48tn for SOEs in 2015 (vs. only Rp5tn in 2014) to support their expansion plans, particularly in the infrastructure sector, aside from the plan to double the overall capital spending to Rp290tn in the FY15 State Budget revision, which is subject to parliament approval and is currently under discussion.

Negative market reaction is unwarranted, in our view. BMRI share price fell by >1% in early trading today – this is not unexpected given a general view that the bank does not need to raise capital near term (CAR: 16% as of 3Q14) and possible negative signal from capital increase (EPS dilution, rising NPLs etc). We view such concerns as unwarranted – the dilution effect, if any, is likely to be quite small (Rp9tn is equivalent to 8.8% of our FY14F equity book value forecast) and any negative impact should be outweighed by the benefit of lower risks of capital constraints that could be faced by SOE banks in the long term given a favourable change in the government's stance towards injecting capital into healthy banks.

Lower risk of LT capital contraints at SOE banks. We previously identified lack of political willingness by the prior governments to budget capital injections into healthy state banks as potentially a growth constraint for these banks in the long run. In past rights offerings by SOE banks, the government opted to let its ownership levels be diluted given no allocation for capital injection in the state budget. However, with public stakes in these banks falling to 60% or less, SOE banks will have to increasingly rely on internally-generated capital (a function of ROEs, dividend payout) for future growth as any further dilution of government stakes is unlikely to be approved by the increasingly nationalistic parliament.

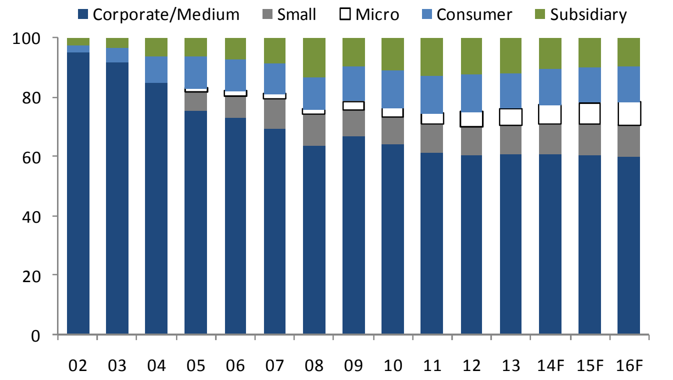
Reiterate Buy (TP: Rp12,400). We still view the stock as attractively valued at FY15F P/E of 10.8x, which is well below the market's valuation of around 15x and the stock's historical average valuation over the past ten years, despite lower cost of capital in Indonesia at present. We reiterate our Buy call on the stock.

Year To 31 Dec	2012A	2013A	2014F	2015F	2016F
Operating income (RpBn)	39,381	46,906	52,912	60,640	71,107
PPOP (RpBn)	20,468	25,405	28,577	33,422	40,638
Net profit (RpBn)	15,504	18,204	19,931	23,389	27,980
Net profit growth (%)	43.0	17.4	9.5	17.3	19.6
FD EPS (Rp)	664	780	854	1,002	1,199
P/E (x)	16.3	13.8	12.6	10.8	9.0
P/B (x)	3.3	2.8	2.4	2.1	1.8
Dividend yield (%)	1.8	2.2	2.4	2.8	3.3
ROAA (%)	2.7	2.7	2.5	2.6	2.7
ROAE (%)	23.0	22.9	21.0	21.0	21.4

Source : BMRI, IndoPremier *Share Price Closing as of : 12-January-2015*

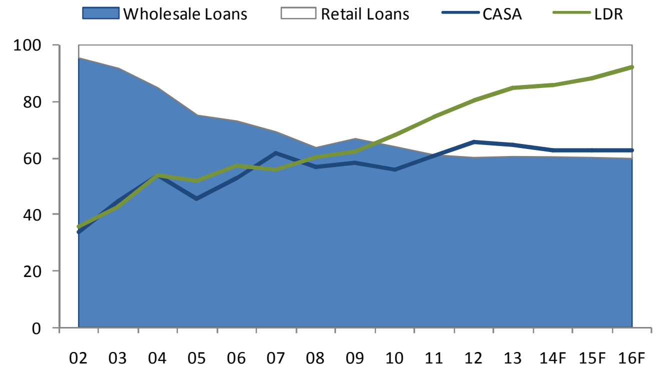
BMRI Company Update

Fig. 1: Loan Portfolio Mix (% total)



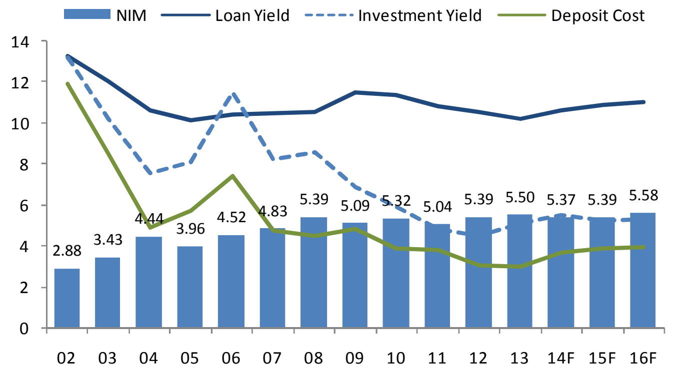
Source : BMRI, IndoPremier

Fig. 2: Wholesale vs. Retail Loans, CASA and LDR Ratios (%)



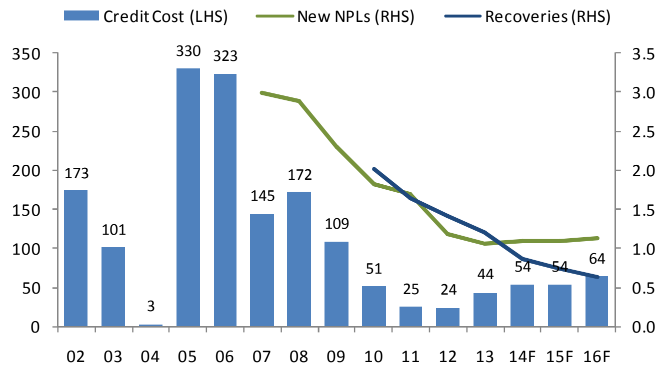
Source : BMRI, IndoPremier

Fig. 3: NIMs, Asset Yields and Cost of Deposits (%)



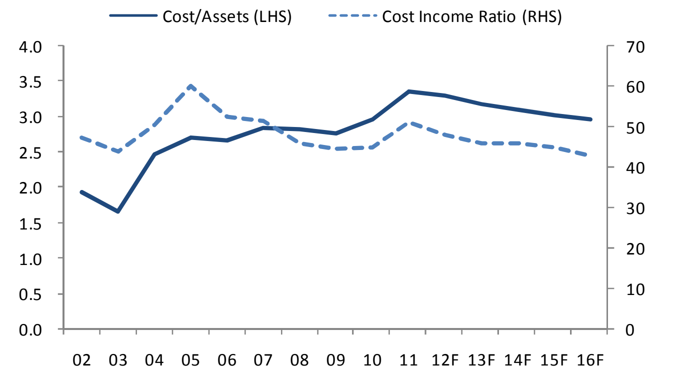
Source : BMRI, IndoPremier

Fig. 4: Credit Cost, New NPLs and Loan Recoveries (% loans)



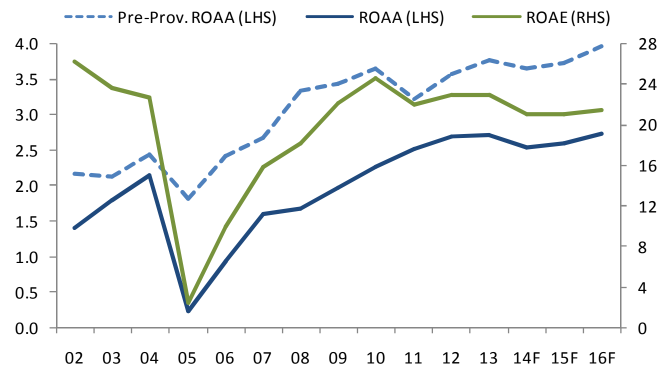
Source : BMRI, IndoPremier

Fig. 5: Operating Cost Ratios (%)



Source : BMRI, IndoPremier

Fig. 6: Profitability Ratios (%)



Source : BMRI, IndoPremier

Year To 31 Dec (RpBn)	2012A	2013A	2014F	2015F	2016F
Income Statement					
Interest income	42,550	50,209	62,069	72,836	86,173
Interest expense	(15,020)	(17,432)	(24,249)	(29,303)	(34,367)
Net interest income	27,531	32,777	37,820	43,533	51,806
Fees and commissions	7,400	8,704	9,139	10,510	12,087
Trading income	1,434	1,673	1,900	2,000	2,000
Other operating income	3,016	3,753	4,053	4,596	5,215
Total operating income	39,381	46,906	52,912	60,640	71,107
Personnel expenses	(8,046)	(9,431)	(10,563)	(11,619)	(12,781)
G&A expenses	(8,254)	(9,898)	(11,383)	(13,091)	(15,054)
Other operating expenses	(2,613)	(2,171)	(2,388)	(2,508)	(2,633)
Pre-provision operating profit	20,468	25,405	28,577	33,422	40,638
Provisions	(3,392)	(4,856)	(5,314)	(5,736)	(7,041)
Loan recovery income	2,550	3,003	2,600	2,600	2,600
Operating profit	19,625	23,552	25,863	30,286	36,197
Non-operating profit	879	510	50	100	100
Exceptional items	0	0	0	0	0
Pre-tax profit	20,504	24,062	25,913	30,386	36,297
Income tax	(4,461)	(5,232)	(5,183)	(6,077)	(7,259)
Minority interests	(540)	(626)	(800)	(920)	(1,058)
Reported net profit	15,504	18,204	19,931	23,389	27,980
Balance Sheet					
Cash	15,286	19,052	22,106	25,384	29,150
Current account with BI	38,272	43,904	51,448	58,661	66,925
Placements at BI & other banks	57,884	59,150	68,660	80,413	80,107
Short-term investments	25,285	30,540	39,255	46,031	46,031
Government bonds	78,936	82,227	89,997	89,997	89,997
Gross loans	388,501	471,815	536,536	631,106	753,481
Loan provisions	(14,102)	(16,669)	(18,950)	(22,186)	(26,727)
Other assets	38,550	35,434	40,749	42,786	44,925
Total Assets	635,614	733,100	838,593	962,304	1,095,518
Customer deposits	482,914	556,342	626,390	716,548	819,850
Deposits from other banks	14,321	12,672	30,315	36,378	40,167
Securities and borrowings	18,293	26,899	27,650	32,587	36,528
Other liabilities	43,558	48,397	49,580	54,354	55,129
Total Liabilities	559,086	644,309	733,936	839,867	951,674
Share capital	11,667	11,667	11,667	11,667	11,667
Additional Paid-In Capital	17,196	17,316	17,316	17,316	17,316
Reserves and others	(362)	(1,196)	(278)	(278)	(278)
Retained earnings	46,079	59,632	74,101	91,511	112,474
Shareholders' equity	74,580	87,419	102,806	120,215	141,179
Minority interest	1,953	1,371	1,851	2,222	2,666
Total Liabilities & Equity	635,619	733,100	838,593	962,304	1,095,518

Source : BMRI,IndoPremier

Year to 31 Dec	2012A	2013A	2014F	2015F	2016F
Growth Ratios (% yoy)					
Gross loans	23.6	21.4	13.7	17.6	19.4
Total assets	15.2	15.3	14.4	14.8	13.8
Customer deposits	14.4	15.2	12.6	14.4	14.4
Net interest income	26.4	19.1	15.4	15.1	19.0
Non-interest income	16.4	19.2	6.8	13.3	12.8
Total operating income	31.3	20.0	9.8	17.1	19.5
Operating expense	15.9	13.7	13.2	11.8	11.9
PPOP	30.8	24.1	12.5	17.0	21.6
Net profit	43.0	17.4	9.5	17.3	19.6
Profitability Ratios					
ROAA (%)	2.70	2.70	2.54	2.60	2.72
ROAE (%)	23.0	22.9	21.0	21.0	21.4
NIM (%)	5.39	5.50	5.37	5.39	5.58
Credit cost (bps)	24.22	43.84	53.83	53.72	64.15
Cost/income (%)	48.0	45.8	46.0	44.9	42.8
LDR (%)	80.4	84.8	85.7	88.1	91.9
CAR (%)	15.3	15.5	15.8	15.8	15.7
NPL ratio (%)	1.9	1.9	2.0	2.1	2.3
Provisions/NPL (%)	193.4	185.2	175.5	164.7	153.4

Source : BMRI,IndoPremier

INDOPREMIER

Head Office

PT INDO PREMIER SECURITIES

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

Institutional Equity & Private Client

Benny B. Soebagjo	Head of Equities	benny.soebagjo@ipc.co.id
Angkula Ruriawan	Equity Sales	angkula.ruriawan@ipc.co.id
Alexander Salim	Equity Sales	alexander.salim@ipc.co.id
Edward Azizy	Equity Sales	edazizy@ipc.co.id
Henry Sutanto	Equity Sales	henry.sutanto@ipc.co.id
Isna Alfiathi	Equity Sales	isna.alfiathi@ipc.co.id
Angky Amarylis	Sales Trader	angky.amarylis@ipc.co.id
Thomas Samuil	Sales Trader	thomas.samuil@ipc.co.id

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.

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