

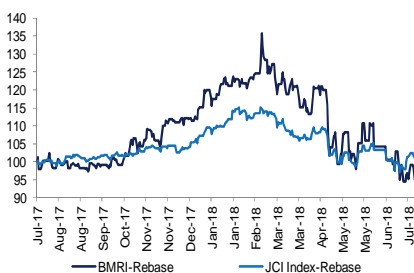
BUY (Unchanged)

Stock Data

Target price (Rp)	Rp8,300
Prior TP (Rp)	Rp9,500
Share price (Rp)	Rp6,375
Upside/downside (%)	+30.2
Shares outstanding (m)	46,667
Market cap. (US\$ m)	20,600
Free float (%)	40.0
Avg. 6m daily T/O (US\$ m)	21.6

Price Performance

	3M	6M	12M
Absolute (%)	-20.3	-21.1	-4.5
Vs. JCI (%)	-12.9	-11.4	-5.7
52w high/low (Rp)	6,375 - 6,300		



Major Shareholders

Republic of Indonesia	60.0%
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Estimate Change; Vs. Consensus

	2018F	2019F
Latest EPS (Rp)	535	633
Vs. Prior EPS (%)	-1.1	-2.6
Vs. Consensus (%)	+1.7	+2.3

Source: Bloomberg

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On more solid growth foundation

- 1H18 profit up 28% yoy off low-base; core profit grew 8% (in-line).
- Top line growth was lacking due to slow asset growth, lower NIMs.
- Credit cost has improved but new NPLs remain at elevated levels.
- Reiterate BUY with lower TP (Rp8,300) due to higher cost of capital.

Results in-line. BMRI reported net profit of Rp12.2tn in 1H18 (+28.7%), with its 2Q/1Q profits forming 25%/23% of our FY18F forecasts of Rp25.2tn (in-line), albeit this was partly helped by one-off tax-case provisioning reversal of Rp1.08tn in 2Q after the bank won a Supreme Court ruling in May on its long-standing tax dispute with the tax authorities. However, BMRI's strong profit growth was also off a low-base in 1Q17 and mainly driven by its falling loan provisions (-15%) while its core profit (PPOP) grew only modestly by 7.6% in 1H (or only 2% growth if excluding the tax-case provision reversal). Despite lacking top-line growth, we believe BMRI is now on a more solid foundation to grow earnings as NPL risks are diminishing and its credit costs are normalising in the coming years.

Slow top-line growth. BMRI's weak top-line growth can be attributed to its slow asset growth of 8.3% (loans: +12%; deposits: +5%) as it mitigated NIM pressure by slowing deposit growth. In our calculation, NIMs narrowed to 5.57% (-17bps) as the fall in its IDR loan yield to 9.9% in 2Q18 (-60bps yoy) was steeper than that of its IDR cost of funds (at 2.9%; -40bps yoy) despite slower growth of customer deposits vs. loan portfolio. As such, we lower our FY18F NIM assumption by 12bps to 5.43% vs. revised guidance of 5.5%-5.7% (from 5.7%-5.8%).

Asset quality. BMRI's credit cost improved significantly to 2.1% in 1H18 (1H17: 2.9%; FY17: 2.3%) while its NPL ratio declined to 3.1% in 2Q vs. 3.3% in 1Q and 3.8% a year ago. However, the bank's new NPLs formation of Rp8.2tn in 1H18 (2.6% of loans) remained at elevated levels albeit still in-line with guidance of Rp15-16tn for FY18F. New NPLs came from commercial & SME loans, each at 6% of loans vs. 4% for micro, 1.5% for consumer loans. The bank still maintained its credit cost guidance of 2.0-2.2% for FY18F and expects credit cost to normalise to a steady-state rate of 1.5% by 2020 as its loan portfolio shifts towards lower-risk corporate & consumer loans, away from commercial & SME loans.

Valuation. We keep our earnings forecasts largely unchanged but lower our TP to Rp8,300 (from Rp9,500) due to our 50bps higher cost of capital assumption to reflect rising 10-yr yields during the second quarter. Our TP is based on our GGM-derived target FY18F P/B of 2x, assuming LT ROAE of 16.6%, growth of 8.5%, and cost of equity of 12.5% (from 12%). We estimate BMRI's LT ROAE based on DuPont analysis, assuming LT ROAA of 2.08% and asset/equity leverage of 8x. We maintain our BUY rating.

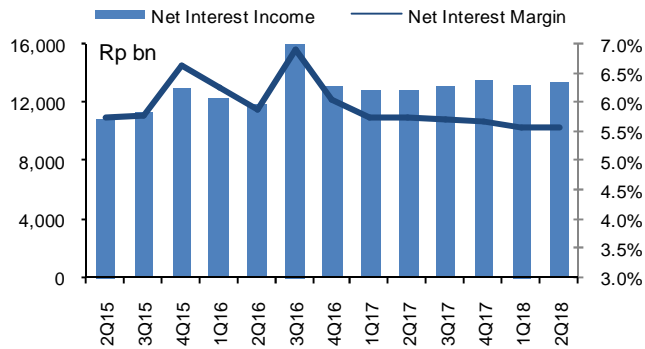
Year To 31 Dec	2016A	2017A	2018F	2019F	2020F
Operating income (RpBn)	70,824	73,718	80,346	87,819	96,131
PPOP (RpBn)	39,556	38,704	43,188	47,766	52,952
Net profit (RpBn)	13,807	20,640	24,970	29,531	34,952
Net profit growth (%)	(32.1)	49.5	21.0	18.3	18.4
FD EPS (Rp)	296	442	535	633	749
P/E (x)	21.5	14.4	11.9	10.1	8.5
P/B (x)	1.9	1.7	1.5	1.3	1.1
Dividend yield (%)	2.1	3.1	3.8	4.5	5.3
ROAA (%)	1.4	1.9	2.1	2.3	2.5
ROAE (%)	10.5	13.4	14.0	14.4	14.7

Source: BMRI, IndoPremier

Share Price Closing as of : 19-July-2018

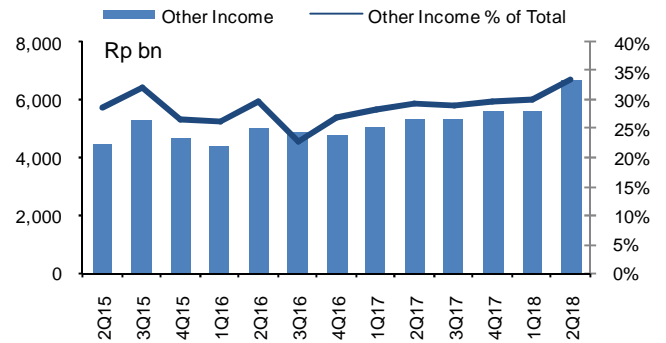
BMRI IJ Results Note

Fig. 1: Net Interest Income (Rp bn) and NIMs (%)



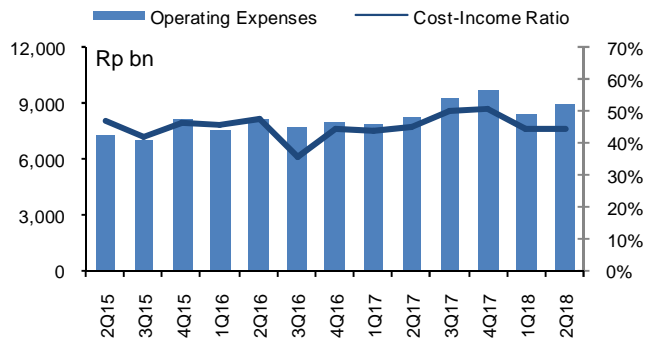
Source: Company, IndoPremier

Fig. 2: Non-Interest Income (Rp bn; % of Gross Income)



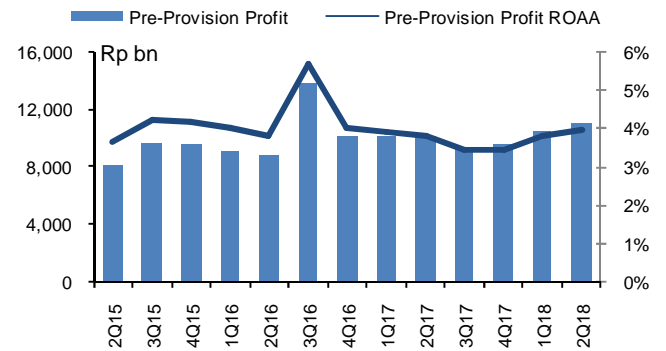
Source: Company, IndoPremier

Fig. 3: Operating Expense (Rp bn) and Cost/Income Ratio (%)



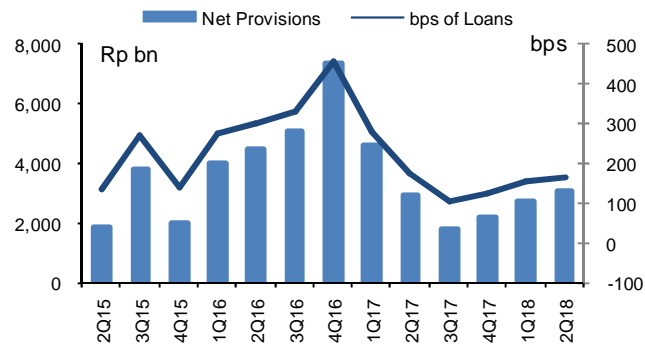
Source: Company, IndoPremier

Fig. 4: Pre-Provision Profit (Rp bn; % of Average Assets)



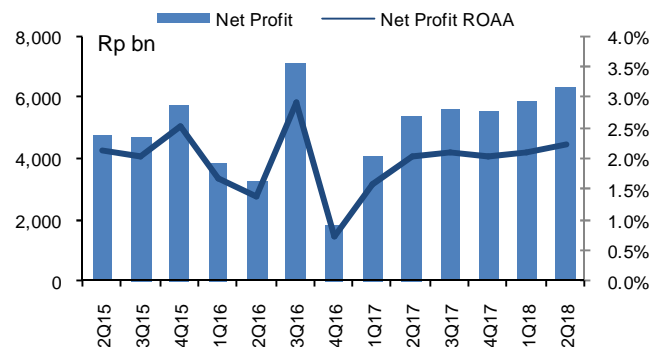
Source: Company, IndoPremier

Fig. 5: Net Loan Provisioning (Rp bn; bps of Average Loans)



Source: Company, IndoPremier

Fig. 6: Net Profit (Rp bn) and ROAA (%)



Source: Company, IndoPremier

1H 2018 Results

(Rp Bn)	1H18	1H17	% Y-Y	2Q18	1Q18	% Q-Q
Net Interest Income	26,565	25,687	3.4	13,341	13,224	0.9
Fees & Commissions	6,128	5,906	3.8	3,095	3,033	2.1
Insurance & Other Incomes	4,137	2,431	70.2	2,743	1,393	96.9
Trading Income	2,056	2,059	-0.2	835	1,221	-31.6
Operating Income	38,886	36,083	7.8	20,015	18,871	6.1
Operating Expenses	-17,349	-16,059	8.0	-8,938	-8,411	6.3
Pre-Provision Profit	21,537	20,024	7.6	11,076	10,460	5.9
Provision for Impairment	-7,891	-9,330	-15.4	-4,057	-3,834	5.8
Recovery of Written-Off Loans	2,085	1,788	16.6	1,000	1,085	-7.9
Operating Profit	15,731	12,482	26.0	8,020	7,711	4.0
Other Non Operating Items	-33	-47	-30.3	-6	-27	-78.6
Pre-Tax Profit	15,698	12,435	26.2	8,014	7,684	4.3
Tax	-3,119	-2,578	21.0	-1,511	-1,609	-6.1
Minorities	-401	-394	1.7	-185	-216	-14.1
Net Profit	12,178	9,463	28.7	6,318	5,860	7.8
Gross Loans	762,539	682,043	11.8	762,539	703,019	8.5
Customer Deposits	803,027	760,861	5.5	803,027	769,288	4.4
Non-Performing Loans (NPL)	23,276	25,809	-9.8	23,276	23,137	0.6
Special Mention Loans	36,800	30,042	22.5	36,800	32,750	12.4
Loan Loss Reserves (LLR)	31,655	34,962	-9.5	31,655	31,467	0.6
Total Assets	1,155,548	1,067,411	8.3	1,155,548	1,098,158	5.2
Risk-Weighted Assets	830,913	739,131	12.4	830,913	795,076	4.5
Shareholders' Funds	166,834	154,745	7.8	166,834	162,128	2.9
BV Per Share	3,575	3,316	7.8	3,575	3,474	2.9

Source: Company, IndoPremier

Key Ratios (%)	1H18	1H17	% Y-Y	2Q18	1Q18	% Q-Q
ROAA (annualized)	2.18	1.81	20.1	2.24	2.11	6.3
ROAE (annualized)	14.7	12.5	17.6	15.2	14.3	6.3
Net Interest Margin (bps)	557	574	-3.0	556	557	-0.1
Gross Credit Cost (bps)	209	290	-28.1	218	199	9.7
Fee Inc/Operating Income	15.8	16.4	-3.7	15.5	16.1	-3.8
Non Int Inc/Operating Income	31.7	28.8	10.0	33.3	29.9	11.4
Op. Cost/ Operating Income	44.6	44.5	0.2	44.7	44.6	0.2
Loan-to-Deposit Ratio (LDR)	95.0	89.6	5.9	95.0	91.4	3.9
NPL/Loan Ratio	3.1	3.8	-19.3	3.1	3.3	-7.3
LLR/NPL Ratio	136.0	135.5	0.4	136.0	136.0	0.0
Tier-1 Capital Ratio	18.9	19.4	-2.5	18.9	19.2	-1.6
Total Capital Ratio	20.0	20.5	-2.3	20.0	20.3	-1.4

Source: Company, IndoPremier

BMRI IJ Results Note

Year To 31 Dec (RpBn)	2016A	2017A	2018F	2019F	2020F
Income Statement					
Interest income	76,710	79,502	81,919	91,870	103,646
Interest expense	(24,885)	(27,174)	(26,295)	(29,575)	(35,052)
Net interest income	51,825	52,327	55,624	62,294	68,593
Fees and commissions	11,440	12,483	13,213	14,535	15,988
Trading income	3,027	3,950	4,685	4,928	5,185
Other operating income	4,532	4,958	6,824	6,062	6,365
Total operating income	70,824	73,718	80,346	87,819	96,131
Personnel expenses	(13,619)	(14,859)	(16,047)	(17,331)	(18,718)
G&A expenses	(13,958)	(15,406)	(16,176)	(17,470)	(18,868)
Other operating expenses	(3,691)	(4,750)	(4,934)	(5,252)	(5,593)
Pre-provision operating profit	39,556	38,704	43,188	47,766	52,952
Provisions	(24,645)	(15,952)	(15,441)	(14,266)	(13,122)
Loan recovery income	3,702	4,417	4,500	4,500	5,000
Operating profit	18,613	27,170	32,247	37,999	44,831
Non-operating profit	(40)	(13)	0	0	0
Exceptional items	0	0	0	0	0
Pre-tax profit	18,573	27,157	32,247	37,999	44,831
Income tax	(3,923)	(5,714)	(6,449)	(7,600)	(8,966)
Minority interests	(844)	(803)	(827)	(869)	(912)
Reported net profit	13,807	20,640	24,970	29,531	34,952
Balance Sheet					
Cash	22,907	24,269	28,177	30,821	33,723
Current account with BI	52,485	50,188	60,991	66,434	72,403
Placements at BI & other banks	83,977	86,931	91,277	95,841	100,633
Short-term investments	61,606	62,161	57,354	53,027	49,133
Government bonds	98,933	103,411	103,411	103,411	103,411
Gross loans	662,013	729,548	814,896	917,207	1,032,455
Loan provisions	(32,945)	(34,116)	(37,687)	(41,953)	(45,075)
Other assets	89,730	102,309	111,087	120,852	131,738
Total Assets	1,038,706	1,124,701	1,229,507	1,345,640	1,478,422
Customer deposits	762,501	815,807	890,353	972,087	1,061,736
Deposits from other banks	9,675	8,795	9,074	9,382	9,720
Securities and borrowings	48,477	56,332	59,068	62,078	65,389
Other liabilities	64,683	73,762	76,824	78,014	82,148
Total Liabilities	885,337	954,695	1,035,320	1,121,562	1,218,993
Share capital	28,983	28,983	28,983	28,983	28,983
Reserves and others	24,540	26,378	25,261	25,261	25,261
Retained earnings	96,931	111,358	136,327	165,858	200,810
Shareholders' equity	150,454	166,719	190,571	220,101	255,053
Minority interest	2,916	3,287	3,616	3,978	4,375
Total Liabilities & Equity	1,038,706	1,124,701	1,229,507	1,345,640	1,478,422

Source: BMRI, IndoPremier

BMRI IJ Results Note

Year To 31 Dec	2016A	2017A	2018F	2019F	2020F
Growth Ratios (% yoy)					
Gross loans	11.2	10.2	11.7	12.6	12.6
Total assets	14.1	8.3	9.3	9.4	9.9
Customer deposits	12.7	7.0	9.1	9.2	9.2
Net interest income	14.2	1.0	6.3	12.0	10.1
Non-interest income	3.6	12.6	15.6	3.2	7.9
Total operating income	(29.3)	46.0	18.7	17.8	18.0
Operating expense	8.7	12.0	6.1	7.8	7.8
PPOP	13.2	(2.2)	11.6	10.6	10.9
Net profit	(32.1)	49.5	21.0	18.3	18.4
Profitability Ratios					
ROAA (%)	1.44	1.94	2.12	2.29	2.48
ROAE (%)	10.5	13.4	14.0	14.4	14.7
NIM (%)	6.28	5.71	5.43	5.57	5.59
Credit cost (bps)	349.4	172.3	141.7	112.8	83.3
Cost/income (%)	44.1	47.5	46.2	45.6	44.9
LDR (%)	86.8	89.4	91.5	94.4	97.2
CAR (%)	20.8	19.1	18.9	18.8	18.8
NPL ratio (%)	4.0	3.5	3.2	3.1	2.8
Provisions/NPL (%)	124.6	134.8	143.5	148.0	153.8

Source: BMRI, IndoPremier

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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

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