

BUY (Unchanged)

| Stock Data | |
|----------------------------|---------|
| Target price (Rp) | Rp9,400 |
| Prior TP (Rp) | Rp9,400 |
| Share price (Rp) | Rp7,775 |
| Upside/downside (%) | +20.9 |
| Shares outstanding (m) | 46,667 |
| Market cap. (US\$ m) | 25,948 |
| Free float (%) | 40.0 |
| Avg. 6m daily T/O (US\$ m) | 26.8 |

| Price Performance | | | |
|-------------------|---------------|------|------|
| | 3M | 6M | 12M |
| Absolute (%) | -0.3 | -1.3 | 19.2 |
| Vs. JCI (%) | 1.4 | -0.4 | 11.4 |
| 52w high/low (Rp) | 7,775 - 6,200 | | |



| Major Shareholders | |
|-----------------------|-------|
| Republic of Indonesia | 60.0% |

| Estimate Change; Vs. Consensus | | |
|--------------------------------|-------|-------|
| | 2019F | 2020F |
| Latest EPS (Rp) | 613 | 706 |
| Vs. Prior EPS (%) | - | - |
| Vs. Consensus (%) | +1.8 | +2.5 |

Source: Bloomberg

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Weaker profit as credit cost normalises

- **1H19 results were below expectations as provisioning jumped in 2Q.**
- **NIMs were resilient due to improved asset utilisation and loan mix.**
- **New NPLs were stable but we expect higher credit costs in 2H19.**
- **We keep our earnings, TP and Buy rating unchanged at this stage.**

Below expectations. BMRI's quarterly net profit of Rp6.3n in 2Q19 (-13% qoq) came below our expectation as it contributed only 22% to our FY19F forecast (vs. 25% in 1Q19) although this was largely due to its rising credit cost to 1.70% in 2Q (from 1.37% in 1Q), which brought the bank's overall credit cost to 1.53% in 1H19 although this was still in-line with management guidance of a credit cost of 1.60-1.80% for 2019. Excluding provisions, BMRI's core profit (PPOP) came in-line with our forecast, contributing 24.7% to our FY19F in 2Q (1Q: 24.9%), driven by modest loan growth of 9.5%, resilient NIMs of 5.5% and well controlled operating cost growth of 5.9% yoy in 1H19. Meanwhile, its profitability metrics were stable with ROAA and ROAE of 2.23% and 14.7% in 1H19, respectively.

Resilient NIMs. BMRI's NIM narrowed marginally to 5.52% in 1H19 (-5bps yoy) which was in-line with our FY19F forecast assumption of 5.5% albeit at the low-end of management guidance. The bank's resilient NIMs can be attributed to its improved asset utilisation as evident from its stronger loan vs. deposit growth (9.5% vs. 5.0%) and rising contribution of its higher-margin retail loans to 35% of the loan portfolio, which led to higher asset yields in 1H19 (+37bps yoy), which was in contrast to peer other major banks in Indonesia such as BBRI and BBNI whose asset yields have declined in comparison to year earlier levels.

Asset quality. BMRI's credit cost normalised to 1.7% in 2Q, after unexpectedly low provisioning of 1.3% in 1Q, although this was still in-line with management's guidance of 1.6%-1.8% for 2019 (which remained unchanged). Meanwhile, the bank's new NPLs were stable at 1.75% in 2Q vs. 1.84% in 1Q and were lower than in 2018 (1H18: 2.6%; FY18: 2.1%) while its NPL and provision coverage ratios have improved to 2.6% and 147%, respectively. However, in light of the bank's underprovisioned NPL exposures to Krakatau Steel and Dunia Tex (which is a new NPL with an outstanding of Rp2.2tn and was still classified as current), we expect BMRI's credit cost will likely exceed our forecast assumption of 1.62% for FY19F, which implies potential 2-3% downside to our earnings forecasts.

Valuation. At this stage, we maintain our earnings forecasts and TP of Rp9,400 in light of recent steep fall in cost of capital in Indonesia (10-yr yields at 7.1% vs. our assumption of 7.7%). Our TP is based on GGM-derived target P/B of 2.19x, assuming LT ROAE of 17.1%, LT growth of 9%, and cost of equity of 12.7%. Maintain BUY rating.

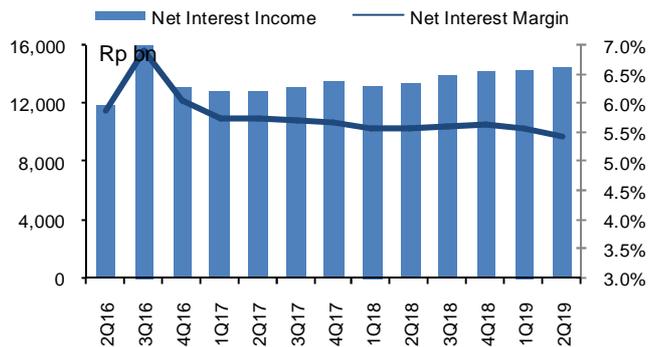
| Year To 31 Dec | 2017A | 2018A | 2019F | 2020F | 2021F |
|-------------------------|--------|--------|--------|--------|---------|
| Operating income (RpBn) | 73,718 | 80,079 | 85,162 | 92,277 | 102,239 |
| PPOP (RpBn) | 38,704 | 42,397 | 44,810 | 49,121 | 56,271 |
| Net profit (RpBn) | 20,640 | 25,015 | 28,604 | 32,942 | 37,488 |
| Net profit growth (%) | 49.5 | 21.2 | 14.3 | 15.2 | 13.8 |
| FD EPS (Rp) | 442 | 536 | 613 | 706 | 803 |
| P/E (x) | 17.6 | 14.5 | 12.7 | 11.0 | 9.7 |
| P/B (x) | 2.1 | 2.0 | 1.8 | 1.6 | 1.5 |
| Dividend yield (%) | 2.6 | 3.1 | 3.5 | 4.1 | 4.6 |
| ROAA (%) | 1.9 | 2.2 | 2.3 | 2.4 | 2.5 |
| ROAE (%) | 13.4 | 14.9 | 15.0 | 15.6 | 16.2 |

Source: BMRI, IndoPremier

Share Price Closing as of : 17-July-2019

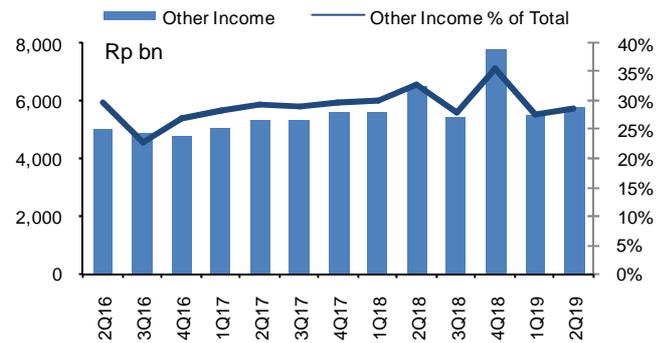
BMRI Results Note

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



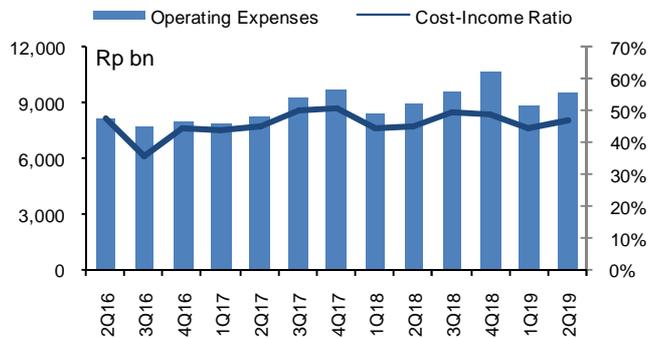
Source: Company, IndoPremier

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



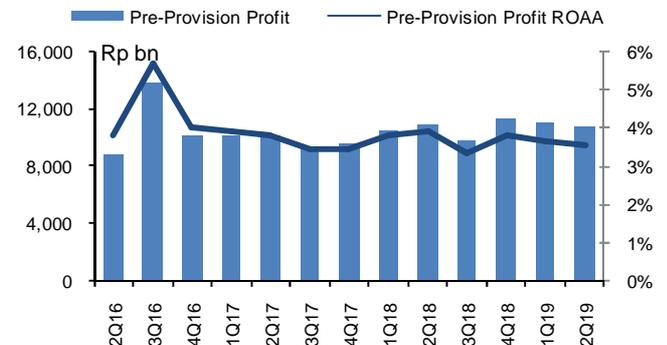
Source: Company, IndoPremier

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



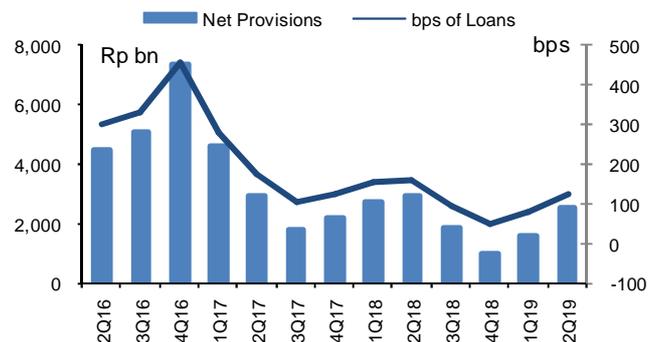
Source: Company, IndoPremier

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



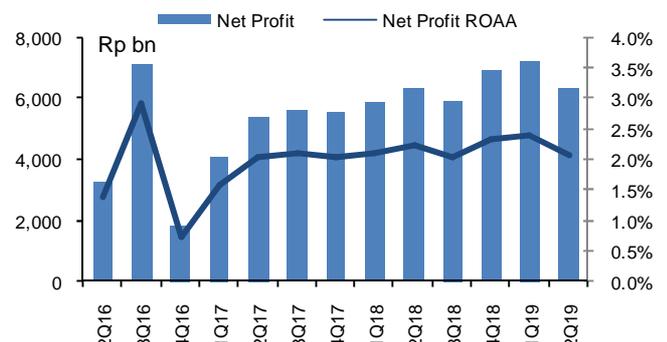
Source: Company, IndoPremier

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 2019 Results

| (Rp Bn) | 1H19 | 1H18 | % Y-Y | 2Q19 | 1Q19 | % Q-Q |
|-------------------------------|----------------|----------------|-------------|----------------|----------------|--------------|
| Net Interest Income | 28,845 | 26,565 | 8.6 | 14,463 | 14,382 | 0.6 |
| Fees & Commissions | 6,303 | 6,128 | 2.9 | 3,268 | 3,035 | 7.7 |
| Insurance & Other Incomes | 2,673 | 3,990 | -33.0 | 1,260 | 1,413 | -10.8 |
| Trading Income | 2,295 | 2,056 | 11.6 | 1,257 | 1,038 | 21.2 |
| Operating Income | 40,115 | 38,738 | 3.6 | 20,248 | 19,867 | 1.9 |
| Operating Expenses | -18,377 | -17,348 | 5.9 | -9,523 | -8,854 | 7.6 |
| Pre-Provision Profit | 21,738 | 21,390 | 1.6 | 10,724 | 11,013 | -2.6 |
| Provision for Impairment | -6,212 | -7,891 | -21.3 | -3,455 | -2,757 | 25.4 |
| Recovery of Written-Off Loans | 2,146 | 2,232 | -3.9 | 950 | 1,196 | -20.6 |
| Operating Profit | 17,672 | 15,730 | 12.3 | 8,219 | 9,453 | -13.1 |
| Other Non Operating Items | -47 | -32 | 46.3 | -25 | -22 | 13.6 |
| Pre-Tax Profit | 17,625 | 15,698 | 12.3 | 8,194 | 9,431 | -13.1 |
| Tax | -3,637 | -3,119 | 16.6 | -1,667 | -1,969 | -15.4 |
| Minorities | -458 | -401 | 14.2 | -230 | -228 | 0.7 |
| Net Profit | 13,531 | 12,178 | 11.1 | 6,298 | 7,233 | -12.9 |
| Gross Loans | 835,110 | 762,539 | 9.5 | 835,110 | 790,450 | 5.6 |
| Customer Deposits | 843,159 | 803,027 | 5.0 | 843,159 | 827,761 | 1.9 |
| Non-Performing Loans (NPL) | 21,629 | 23,560 | -8.2 | 21,629 | 21,184 | 2.1 |
| Special Mention Loans | 38,800 | 34,835 | 11.4 | 38,800 | 36,026 | 7.7 |
| Loan Loss Reserves (LLR) | 31,726 | 31,995 | -0.8 | 31,726 | 30,397 | 4.4 |
| Total Assets | 1,235,628 | 1,155,548 | 6.9 | 1,235,628 | 1,205,972 | 2.5 |
| Risk-Weighted Assets | 917,397 | 830,913 | 10.4 | 917,397 | 880,379 | 4.2 |
| Shareholders' Funds | 185,774 | 166,834 | 11.4 | 185,774 | 189,787 | -2.1 |
| BV Per Share | 3,981 | 3,575 | 11.4 | 3,981 | 4,067 | -2.1 |

Source: Company, IndoPremier

| Key Ratios (%) | 1H19 | 1H18 | % Y-Y | 2Q19 | 1Q19 | % Q-Q |
|------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| ROAA (annualized) | 2.23 | 2.18 | 2.6 | 2.06 | 2.40 | -14.1 |
| ROAE (annualized) | 14.7 | 14.7 | -0.3 | 13.7 | 15.6 | -12.0 |
| Net Interest Margin (bps) | 552 | 557 | -0.9 | 545 | 558 | -2.4 |
| Gross Credit Cost (bps) | 153 | 218 | -29.7 | 170 | 137 | 24.2 |
| Fee Inc/Operating Income | 15.7 | 15.8 | -0.7 | 16.1 | 15.3 | 5.7 |
| Non Int Inc/Operating Income | 28.1 | 31.4 | -10.6 | 28.6 | 27.6 | 3.5 |
| Op. Cost/ Operating Income | 45.8 | 44.8 | 2.3 | 47.0 | 44.6 | 5.5 |
| Loan-to-Deposit Ratio (LDR) | 99.0 | 95.0 | 4.3 | 99.0 | 95.5 | 3.7 |
| NPL/Loan Ratio | 2.6 | 3.1 | -16.2 | 2.6 | 2.7 | -3.4 |
| LLR/NPL Ratio | 146.7 | 135.8 | 8.0 | 146.7 | 143.5 | 2.2 |
| Tier-1 Capital Ratio | 19.3 | 18.9 | 2.1 | 19.3 | 20.6 | -6.0 |
| Total Capital Ratio | 20.5 | 20.0 | 2.2 | 20.5 | 21.7 | -5.8 |

Source: Company, IndoPremier

BMRI Results Note

| Year To 31 Dec (RpBn) | 2017A | 2018A | 2019F | 2020F | 2021F |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|
| Income Statement | | | | | |
| Interest income | 79,502 | 80,993 | 94,971 | 106,093 | 118,070 |
| Interest expense | (27,174) | (26,370) | (35,135) | (41,065) | (45,218) |
| Net interest income | 52,327 | 54,623 | 59,836 | 65,029 | 72,852 |
| Fees and commissions | 12,483 | 13,187 | 14,119 | 15,531 | 17,084 |
| Trading income | 3,950 | 4,311 | 4,634 | 4,815 | 5,056 |
| Other operating income | 4,958 | 7,958 | 6,574 | 6,902 | 7,247 |
| Total operating income | 73,718 | 80,079 | 85,162 | 92,277 | 102,239 |
| Personnel expenses | (14,859) | (16,323) | (17,629) | (18,863) | (19,995) |
| G&A expenses | (15,406) | (16,587) | (17,914) | (19,168) | (20,510) |
| Other operating expenses | (4,750) | (4,772) | (4,810) | (5,125) | (5,464) |
| Pre-provision operating profit | 38,704 | 42,397 | 44,810 | 49,121 | 56,271 |
| Provisions | (15,952) | (14,185) | (13,975) | (12,827) | (14,254) |
| Loan recovery income | 4,417 | 5,694 | 6,000 | 6,000 | 6,000 |
| Operating profit | 27,170 | 33,906 | 36,835 | 42,295 | 48,018 |
| Non-operating profit | (13) | 38 | 0 | 0 | 0 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 27,157 | 33,944 | 36,835 | 42,295 | 48,018 |
| Income tax | (5,714) | (8,091) | (7,367) | (8,459) | (9,604) |
| Minority interests | (803) | (837) | (864) | (894) | (926) |
| Reported net profit | 20,640 | 25,015 | 28,604 | 32,942 | 37,488 |
| Balance Sheet | | | | | |
| Cash | 24,269 | 27,349 | 28,943 | 31,686 | 34,700 |
| Current account with BI | 50,188 | 50,832 | 62,947 | 68,618 | 74,841 |
| Placements at BI & other banks | 86,931 | 46,423 | 48,745 | 51,182 | 53,741 |
| Short-term investments | 62,161 | 65,580 | 60,431 | 55,796 | 51,625 |
| Government bonds | 103,411 | 114,285 | 114,285 | 114,285 | 114,285 |
| Gross loans | 729,548 | 820,084 | 909,085 | 1,015,516 | 1,143,146 |
| Loan provisions | (34,116) | (32,177) | (35,771) | (38,597) | (42,851) |
| Other assets | 102,309 | 109,876 | 119,214 | 129,596 | 141,160 |
| Total Assets | 1,124,701 | 1,202,252 | 1,307,879 | 1,428,081 | 1,570,647 |
| Customer deposits | 815,807 | 840,914 | 918,440 | 1,003,513 | 1,096,903 |
| Deposits from other banks | 8,795 | 16,927 | 17,235 | 17,573 | 17,945 |
| Securities and borrowings | 56,332 | 87,973 | 93,874 | 100,364 | 107,504 |
| Other liabilities | 73,762 | 71,478 | 73,640 | 81,457 | 100,002 |
| Total Liabilities | 954,695 | 1,017,292 | 1,103,188 | 1,202,908 | 1,322,354 |
| Share capital | 28,983 | 28,983 | 28,983 | 28,983 | 28,983 |
| Reserves and others | 26,378 | 25,135 | 27,142 | 27,142 | 27,142 |
| Retained earnings | 111,358 | 127,085 | 144,432 | 164,502 | 187,167 |
| Shareholders' equity | 166,719 | 181,203 | 200,557 | 220,627 | 243,291 |
| Minority interest | 3,287 | 3,758 | 4,134 | 4,547 | 5,002 |
| Total Liabilities & Equity | 1,124,701 | 1,202,252 | 1,307,879 | 1,428,081 | 1,570,647 |

Source: BMRI, IndoPremier

BMRI Results Note

| Year To 31 Dec | 2017A | 2018A | 2019F | 2020F | 2021F |
|------------------------------|-------|-------|-------|-------|-------|
| Growth Ratios (% yoy) | | | | | |
| Gross loans | 10.2 | 12.4 | 10.9 | 11.7 | 12.6 |
| Total assets | 8.3 | 6.9 | 8.8 | 9.2 | 10.0 |
| Customer deposits | 7.0 | 3.1 | 9.2 | 9.3 | 9.3 |
| Net interest income | 1.0 | 4.4 | 9.5 | 8.7 | 12.0 |
| Non-interest income | 12.6 | 19.0 | (0.5) | 7.6 | 7.8 |
| Total operating income | 46.0 | 24.8 | 8.6 | 14.8 | 13.5 |
| Operating expense | 12.0 | 7.6 | 7.1 | 6.9 | 6.5 |
| PPOP | (2.2) | 9.5 | 5.7 | 9.6 | 14.6 |
| Net profit | 49.5 | 21.2 | 14.3 | 15.2 | 13.8 |
| Profitability Ratios | | | | | |
| ROAA (%) | 1.94 | 2.18 | 2.28 | 2.41 | 2.50 |
| ROAE (%) | 13.4 | 14.9 | 15.0 | 15.6 | 16.2 |
| NIM (%) | 5.71 | 5.57 | 5.49 | 5.49 | 5.60 |
| Credit cost (bps) | 172.3 | 115.0 | 92.2 | 70.9 | 76.5 |
| Cost/income (%) | 47.5 | 47.1 | 47.4 | 46.8 | 45.0 |
| LDR (%) | 89.4 | 97.5 | 99.0 | 101.2 | 104.2 |
| CAR (%) | 21.0 | 20.5 | 19.0 | 18.9 | 18.8 |
| NPL ratio (%) | 3.5 | 2.8 | 2.7 | 2.5 | 2.4 |
| Provisions/NPL (%) | 134.8 | 138.2 | 144.3 | 151.6 | 155.3 |

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

ANALYSTS CERTIFICATION.

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