

BMRI: Key Notes From Company Visit

BMRI plans to focus on two things in the coming years. (1) Further enhance their transaction banking platform and (2) deepening their lending capabilities in the retail business. The two-pronged focus should drive asset and interest margin growth, which essentially is valuation positive for the bank.

Growing Transaction Bank

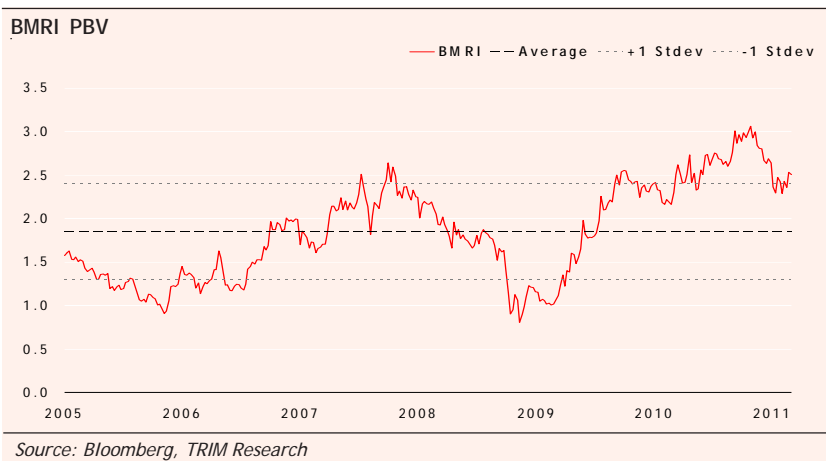
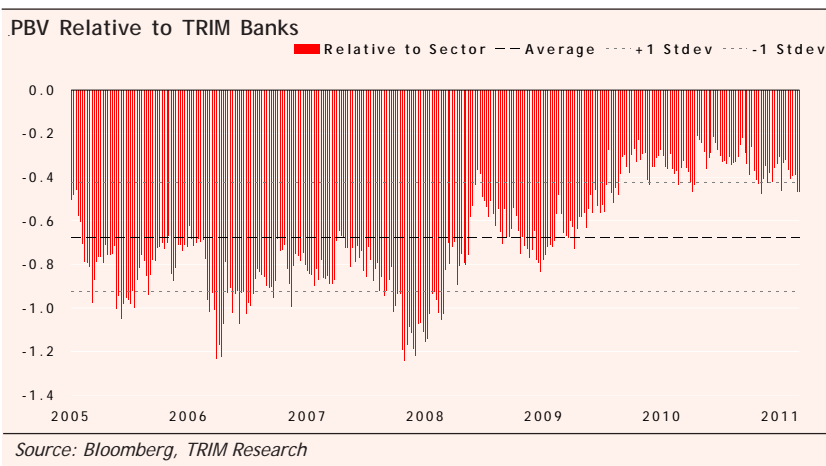
Mandiri will leverage on its corporate clients to develop alliances so as to develop their transaction banking franchise. Initiatives such as Pertamina GazCard, Indomaret Card and the more successful JSMR Toll Card are examples of this strategy. BMRI is targeting BBKA's numbers in the medium term. We estimate, improvement of CASA mix from 57:43 CASA:deposit ratio to 62-38 will lower BMRI's CoF by 35bps to 3.6% levels, potentially adding Rp1.1tr to EBT assuming Rp320tr third party fund size.

Reforming Loan Mix

The sexier story in our view is BMRI's intention to move to higher yield loans portfolio by aggressively growing its retail lending franchise. As such, corporate loans contribution to total loans portfolio is expected to decline from 46% currently to 26% by 2014. This will be achieved by growing its SME, consumer (credit card, property & 4-wheel) and micro banking at a rate of 25% CAGR, and corporate loans <20% CAGR. Total loans size is expected to compound at 20% CAGR at least into 2014 targeting 78% LDR maintaining <2.6% NPL in the coming years.

Valuation

At Rp6.000/shr, BMRI trades at 2.5x 2011 consensus PBV, still at discount to the 3.0x TRIM Banks average consensus and 22% upside to consensus TP. Considering current easing inflation pressures and overall growth prospects through clear strategies, concise targets and historical track record of delivery, the stock should provide a considerable upside.



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