

Merdeka Battery Materials

BUY (unchanged)

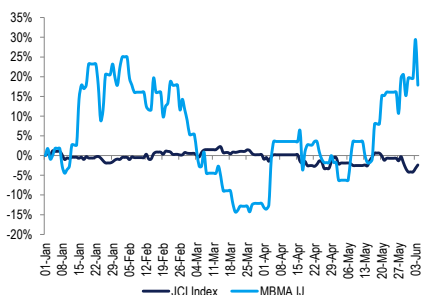
Company update | MBMA IJ | 4 June 2024

Stock Data

Target price	Rp700
Prior TP	Rp700
Current price	Rp660
Upside/downside	+6%
Shares outstanding (mn)	107,995
Market cap (Rp bn)	71,277
Free float	28%
Avg. 6m daily T/O (Rp bn)	45

Price Performance

	3M	6M	12M
Absolute	16.8%	13.8%	-16.5%
Relative to JCI	19.3%	13.7%	-23.5%
52w low/high (Rp)	480 – 930		



Major Shareholders

Merdeka Energi Nusantara	49.9%
Garibaldi Thohir	11.1%
Huayong International Limited	7.6%

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1Q24 results: below on lower NPI margin

- MBMA reported US\$4mn NP in 1Q24 (vs. US\$6mn in 4Q23), below ours/consensus FY24F forecast (4% IPS/3% consensus).
- The qoq decline in NP was mainly due to lower NPI ASP (-9% qoq) & cash margin (-30% qoq) despite improvement in HGNM margin.
- We revised our FY24F/25F/26F NP forecast by -15%/-11%/-5%, but maintain our Buy rating with an unchanged TP of Rp700/share.

1Q24 review: lower NPI margin led to NP decline

MBMA reported US\$4mn NP in 1Q24 (vs. US\$6mn in 4Q23), which came below ours and consensus forecast (4% IPS/3% consensus) on lower NPI cash margin (-30% qoq) which was partly offset by improvement in HGNM cash margin. As a result, 1Q24 EBITDA stood at US\$27mn (-17% qoq). There was nothing extraordinary below operating line, except for US\$3mn other income, which translated into US\$4mn NP in 1Q24.

1Q24 operational data: HGNM margin improvement is a +ve

NPI margin was lower qoq at US\$832/ton (-30% qoq) as a result of soft NPI prices (-9% qoq) in 1Q24 while HGNM margin improved to US\$511/ton vs. EBITDA breakeven in 4Q23, driven by higher price gap between NPI price (i.e. costs for HGNM) and nickel-matte price. Limonite and saprolite ore sales declined qoq to 0.6mn wmt (-34% qoq) and 0.1mn wmt (-93% qoq) on RKAB issues with production costs stood at US\$10/wmt for both saprolite & limonite and haulage fee of US\$14/wmt and US\$2/wmt, respectively.

Key takeaways from earnings call with management

During earnings call, MBMA stated that both AIM and PT ESG (30ktpa HPAL) is set to commission in 3Q24F and 4Q24F, respectively, albeit the CFO mentioned that EBITDA contribution from AIM project would be more meaningful starting 4Q24F onwards with potential EBITDA contribution of US\$160-190mn per annum. Cash costs for existing operations (i.e. NPI and HGNM) in 2Q to date have also remained in-line with company guidance. On CATL HPAL, the feasibility study is already completed with more announcements on the project to be announced in upcoming 3Q24F.

Maintain Buy rating with an unchanged TP of Rp700/share

We revised our FY24F/25F/26F NP forecast by -15%/-11%/-5%, respectively, to incorporate 1Q24 result into our forecast in addition to shifting the timeline of AIM's ramp-up period from 3Q24F to 4Q24F instead. Hence, we maintain our Buy rating with an unchanged TP of Rp700/share as the nominal amount of NP cut (of c.US\$13mn in FY24F) is immaterial in our SOTP calculation. Downside risks include slower than expected EV-demand, and failed/delayed execution on MBMA's HPAL projects.

Financial Summary (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Revenue	456	1,328	1,961	2,460	2,686
EBITDA	51	104	239	430	570
Net profit	22	7	73	178	243
EPS growth	na	-68%	957%	142%	37%
ROE	2%	0%	4%	8%	9%
PER (x)	213.9	668.7	63.2	26.1	19.1
EV/EBITDA (x)	96.6	46.5	21.3	12.2	9.4
Dividend yield	N/A	N/A	N/A	N/A	N/A
IPS vs. consensus			61%	90%	89%

Source: Company, Indo Premier

Share price closing as of: 4 June 2024

Fig. 1: MBMA's 1Q24 financial summary

	1Q24	1Q23	% yoy	4Q23	% qoq	IPS FY24F	% of IPS	Cons FY24F	% of cons
Revenues	444	351	27%	454	-2%	2,080	21%	1,952	23%
Cost of revenues	(426)	(333)	28%	(438)	-3%	(1,752)	24%	(1,662)	26%
Gross profit	18	18	-3%	16	11%	260	7%	290	6%
Gross profit margin (%)	4%	5%		4%		13%		15%	
Operating expenses	(7)	(17)	-58%	(9)	-16%	(48)	15%	(27)	27%
EBIT	10	1	1039%	7	44%	213	5%	263	4%
EBIT margin (%)	2%	0%		2%		10%		13%	
Depreciation	16	13	23%	25	-35%	66	25%	72	22%
EBITDA	27	14	90%	32	-17%	278	10%	335	8%
EBITDA margin (%)	6%	4%		7%		13%		17%	
Finance income	2	2	-16%	2	-5%	10	18%		N/A
Finance costs	(2)	(18)	-89%	(1)	63%	(39)	5%		N/A
Profit from JV/Asso	0	(0)	-103%	0	11%	0	N/A		N/A
Other inc. (exp.)	3	1	103%	(2)	-255%	0	N/A		N/A
Profit before tax	13	(14)	-191%	6	106%	183	7%	216	6%
Income tax	(3)	0	-1489%	0	-1427%	(12)	22%		N/A
Tax rate (%)	21%	1%		-3%		7%			
Minorities	(6)	(6)	13%	(0)	2844%	(85)	8%		N/A
Net profit	4	(20)	-119%	6	-41%	86	4%	120	3%
Net margin (%)	1%	-6%		1%		4%			
Core profit	2	(21)	-108%	8	-80%	86	2%		

Source: Company data, Bloomberg, Indo Premier

Fig. 2: Old vs new forecast

MBMA	New forecast			Old forecast			Forecast change			Consensus			IPS vs consensus		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
US\$ m n															
Revenues	1,961	2,460	2,686	2,080	2,566	2,799	-6%	-4%	-4%	1,952	2,299	2,558	100%	107%	105%
Gross profit	212	394	521	260	479	599	-18%	-18%	-13%	290	484	666	73%	81%	78%
Operating profit	173	345	467	213	420	534	-19%	-18%	-12%	263	446	600	66%	77%	78%
EBITDA	239	430	570	278	512	644	-14%	-16%	-11%	335	543	714	71%	79%	80%
NPAT	73	178	243	86	199	255	-15%	-11%	-5%	120	197	274	61%	90%	89%
%y-y															
Revenues	48%	25%	9%	57%	23%	9%				0%	18%	11%			
Gross profit	174%	86%	32%	236%	84%	25%				37%	67%	38%			
Operating profit	264%	99%	36%	347%	97%	27%				52%	70%	35%			
EBITDA	130%	80%	33%	168%	84%	26%				40%	62%	32%			
NPAT	na	na	37%	1139%	132%	28%				64%	64%	39%			
Gross margin	10.8%	16.0%	19.4%	12.5%	18.6%	21.4%				14.9%	21.1%	26.1%			
Operating margin	8.8%	14.0%	17.4%	10.2%	16.3%	19.1%				13.5%	19.4%	23.5%			
EBITDA margin	12.2%	17.5%	21.2%	13.4%	19.9%	23.0%				17.2%	23.6%	27.9%			
NPAT margin	3.7%	7.2%	9.1%	4.1%	7.8%	9.1%				6.1%	8.6%	10.7%			

Source: Bloomberg, Indo Premier

Fig. 3: MBMA's 1Q24 operational data summary

MBMA - operational data	1Q23	2Q23	3Q23	4Q23	1Q24	qoq %
RKEF - CSI, BSI, ZHN						
ASP (US\$/ton)	17,470	14,123	13,193	12,099	11,055	-9%
Sales volume	8,170	11,053	22,831	22,472	21,621	-4%
AISC (US\$/t)	15,436	13,459	11,616	10,909	10,223	-6%
Cash margin (US\$/t)	2,034	664	1,577	1,190	832	-30%
Revenue (US\$ mn)	143	156	301	272	239	-12%
Estimated EBITDA (US\$ mn)	17	7	36	27	18	-33%
HGNM						
ASP (US\$/ton)		17,423	16,346	14,216	13,673	-4%
Sales volume		3,036	13,394	11,700	14,404	23%
AISC (US\$/t)		15,954	15,154	14,199	13,162	-7%
Cash margin (US\$/t)		1,469	1,192	17	511	2906%
Revenue (US\$ mn)		53	219	166	197	18%
Estimated EBITDA (US\$ mn)		4	16	0	7	3601%
SCM						
Saprolite ore ASP (US\$/t)				32.0	31.0	-3%
Volume (mn w mt)				2.0	1.1	-45%
Limonite ore ASP (US\$/t)				16.8	13.0	-23%
Volume (mn w mt)				0.9	0.6	-34%

Source: Bloomberg, Indo Premier

Fig. 4: Key changes to our assumption

Assumptions		Metrics	Old			New			Change (%)		
			2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Sales volume											
Nickel pig iron (NPI)	ton Ni	88,000	88,000	88,000	86,000	88,000	88,000	-2%	0%	0%	
Nickel matte (HNMI)	ton Ni	50,000	50,000	50,000	50,000	50,000	50,000	0%	0%	0%	
Saprolite ore	mn w mt	4.0	5.5	6.0	3.0	4.5	5.0	-25%	-18%	-17%	
Limonite ore	mn w mt	10.0	11.5	12.0	9.0	11.0	11.0	-10%	-4%	-8%	
ASP											
Nickel pig iron (NPI)	US\$/ton	12,250	13,000	13,000	11,750	12,000	12,000	-4%	-8%	-8%	
Nickel matte (HNMI)	US\$/ton	14,250	14,000	14,000	14,500	14,000	14,000	2%	0%	0%	
Saprolite ore	US\$/w mt	34.0	32.0	32.0	33.0	32.0	32.0	-3%	0%	0%	
Limonite ore	US\$/w mt	15.0	15.0	15.0	14.0	14.0	14.0	-7%	-7%	-7%	
AISC											
Nickel pig iron (NPI)	US\$/ton	10,500	10,500	10,500	10,500	10,500	10,500	0%	0%	0%	
Nickel matte (HNMI)	US\$/ton	13,500	13,500	13,500	13,500	13,500	13,500	0%	0%	0%	
Ore mining	US\$/w mt	36.0	35.5	35.5	36.0	36.5	36.5	0%	3%	3%	

Source: Bloomberg, Indo Premier

Fig. 5: Peers comparison table

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				24F	25F	26F	24F	25F	26F	24F	25F	26F
ADMR IJ	Adaro Minerals Indonesia	Buy	1,650	8.8	8.6	6.7	7.4	8.2	7.4	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	1,750	12.5	10.2	9.9	7.4	5.4	4.9	4.4%	4.0%	4.9%
HRUM IJ	Harum Energy	Hold	1,450	9.2	9.3	7.1	5.3	6.3	4.2	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Buy	5,850	21.6	30.7	43.9	7.9	9.7	10.0	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	700	62.8	25.9	18.9	21.1	12.1	9.3	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,100	N/A	221.6	90.2	13.8	10.2	8.4	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,100	8.7	7.1	N/A	5.8	4.4	N/A	2.9%	3.4%	N/A

Source: Bloomberg, Indo Premier

Income Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net revenue	456	1,328	1,961	2,460	2,686
Cost of sales	(411)	(1,251)	(1,749)	(2,066)	(2,165)
Gross profit	44	77	212	394	521
SG&A Expenses	(14)	(30)	(39)	(49)	(54)
Operating profit	30	48	173	345	467
Net interest	(21)	(15)	(18)	(31)	(33)
Others	28	0	0	0	0
Pre-tax income	37	33	155	314	434
Income tax	0	(0)	(10)	(9)	(10)
Minority interest	(16)	(26)	(72)	(127)	(181)
Net income	22	7	73	178	243

Balance Sheet (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	280	290	194	150	93
Receivable	64	119	176	221	241
Inventory	79	288	402	475	498
Other current assets	46	87	87	87	87
Total current assets	469	784	859	932	919
Fixed assets	918	1,414	1,946	2,421	2,971
Other non-current assets	1,035	1,065	1,058	1,050	1,040
Total non-current assets	1,952	2,479	3,005	3,472	4,011
Total assets	2,422	3,263	3,864	4,404	4,931

ST loans	18	0	0	0	0
Payable	66	262	367	433	454
Other payables	44	0	0	0	0
Current portion of LT loans	2	2	0	0	0
Other current liabilities	35	94	94	94	94
Total current liab.	164	358	460	527	547
Long term loans	592	486	631	738	804
Other LT liab.	105	109	112	112	112
Total non-current liabilities	698	595	742	850	915
Total liabilities	862	954	1,202	1,376	1,463

Equity	863	1,505	1,505	1,505	1,505
Retained earnings	20	27	100	278	521
Minority interest	677	777	1,056	1,244	1,442
Total SHE + minority int.	1,559	2,309	2,661	3,028	3,468
Total liabilities & equity	2,422	3,263	3,864	4,404	4,931

Cash Flow Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net income	73	(64)	73	178	243
Depr. & amortization	21	56	66	85	102
Changes in working capital	(27)	(57)	(67)	(51)	(22)
Others	0	0	0	0	0
Cash flow from operating	66	(64)	72	211	323
Capital expenditure	(1,797)	(548)	(591)	(552)	(642)
Others	(143)	2	0	0	0
Cash flow from investing	(1,941)	(547)	(591)	(552)	(642)
Loans	615	(123)	144	108	65
Equity	1,539	743	279	189	197
Dividends	0	0	0	0	0
Others	0	0	0	0	0
Cash flow from financing	2,155	620	423	296	263
Changes in cash	280	10	(96)	(44)	(56)

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	10%	6%	11%	16%	19%
Operating margin	7%	4%	9%	14%	17%
Pre-tax margin	8%	3%	8%	13%	16%
Net margin	5%	1%	4%	7%	9%
ROA	1%	0%	2%	4%	5%
ROE	2%	0%	4%	8%	9%

Acct. receivables TO (days)	7.1	11.1	11.1	11.1	11.1
Inventory TO (days)	5.2	4.3	4.3	4.3	4.3
Payable TO (days)	6.2	4.8	4.8	4.8	4.8
Debt to equity	0.6	0.3	0.3	0.3	0.3
Interest coverage ratio (x)	2.4	5.2	9.4	11.5	14.1
Net gearing	0.4	0.1	0.2	0.3	0.3

Source: Company, Indo Premier