

# Merdeka Battery Materials

BUY (unchanged)

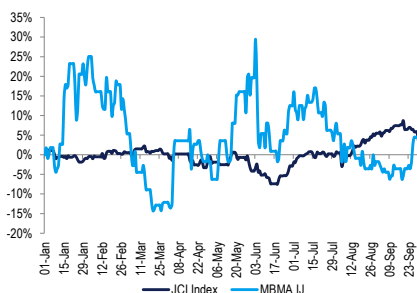
Company update | MBMA IJ | 30 September 2024

## Stock Data

Target price	Rp700
Prior TP	Rp700
Current price	Rp585
Upside/downside	+20%
Shares outstanding (mn)	107,995
Market cap (Rp bn)	63,177
Free float	28%
Avg. 6m daily T/O (Rp bn)	36

## Price Performance

	3M	6M	12M
Absolute	-7.1%	18.9%	-27.3%
Relative to JCI	-13.7%	15.6%	-35.8%
52w low/high (Rp)	480 – 805		



## Major Shareholders

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

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## 2Q24 result: jump in qoq NP amidst better cash margin

- MBMA reported US\$20mn NP in 1H24, below ours and consensus forecast (28/34% IPS/consensus) despite jump in qoq NP (+356% qoq).
- 2Q24 NP improved to US\$17mn (vs. US\$4mn in 1Q24), driven by higher cash margin in NPI (+23% qoq) and nickel-matte (+253% qoq).
- We think MBMA would meet consensus expectation only if AIM project is able to run at full-capacity by 4Q24F. Maintain Buy rating.

### 2Q24 review: better cash margin led to quarterly NP improvement

MBMA reported US\$20mn NP in 1H24 (1H23: US\$20mn loss), below ours and consensus forecast (28% IPS/34% consensus) albeit 2Q24 NP improved significantly by +356% qoq to US\$17mn. Overall NP improvement in 2Q24 was driven by higher NPI and HGNM cash margin (+23%/+253% qoq) in addition to higher limonite ore sales (+359% qoq). We think 1H24 achievement was optically below ours and consensus due to expectation on AIM project ramp-up in 4Q24F although soft matte margin in 3Q24F is a potential downside. Aside from operational, there's nothing extraordinary on opex (slightly improved qoq by US\$1mn) and below operating line.

### Operational: cash margin improvement across the board

Both RKEF and HGNM ASP improved by +4% and +8% qoq, respectively, which resulted in higher cash margin (+23%/+253% qoq), albeit this was partly offset by lower sales volume for NPI (-4% qoq) and HGNM (-11% qoq). Cash costs, on the other hand, remained relatively stable as it was flattish on qoq basis (Fig. 2). Hence, the improvement in cash margin was primarily driven by higher ASP. Limonite ore sales, on other hand, grew significantly to 2.9mn wmt (+359% qoq) as RKAB were no longer an issue while saprolite ore sales grew to 2.4mn ton (vs. 144kt in 1Q24).

### Limonite ore and NPI FY24F guidance revision

MBMA revised its FY24F limonite ore sales target by 500kt from 10-11mn wmt previously to 9.5-10.5mn wmt with production increases planned once the feed preparation plant (FPP) commissioned by mid-FY25F. Additionally, MBMA also revised its NPI sales guidance to 80-85kt (from 90-92kt) due to maintenance schedule on one of its two smelter in BSI.

### Maintain Buy rating with an unchanged Rp700/share TP

We maintain our FY24F-26F NP forecast and our TP & rating under review as we await details from earnings call (1<sup>st</sup> Oct). We think MBMA would only meet consensus expectation in FY24F should AIM project running at full-capacity by 4Q24F as interest expenses will be recorded in P&L once AIM starts commencement (interest was capitalized in 1H24). We maintain our Buy rating with an unchanged TP of Rp700/share.

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)	181.7	568.1	53.7	22.2	16.2
EV/EBITDA (x)	83.0	39.8	18.4	10.5	8.2
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: 30 September 2024

Fig. 1: MBMA's 1H24 financial summary

MBMA 1H24 results	1H24	1H23	% yoy	2Q24	2Q23	% yoy	1Q24	% qoq	IPS FY24F	% of IPS	Cons FY24F	% of cons
Revenues	922	351	163%	477	208	129%	444	7%	1,961	47%	1,911	48%
Cost of revenues	(858)	(333)	158%	(432)	(202)	114%	(426)	1%	(1,749)	49%	(1,663)	52%
<b>Gross profit</b>	<b>63</b>	<b>18</b>	<b>243%</b>	<b>45</b>	<b>7</b>	<b>588%</b>	<b>18</b>	<b>154%</b>	<b>212</b>	<b>30%</b>	<b>248</b>	<b>26%</b>
Gross profit margin (%)	7%	5%		9%	3%		4%		11%		13%	
Operating expenses	(14)	(17)	-21%	(6)	(12)	-45%	(7)	-14%	(39)	35%	(60)	23%
<b>EBIT</b>	<b>49</b>	<b>1</b>	<b>5274%</b>	<b>39</b>	<b>(5)</b>	<b>-882%</b>	<b>10</b>	<b>272%</b>	<b>173</b>	<b>29%</b>	<b>188</b>	<b>26%</b>
EBIT margin (%)	5%	0%		8%	-2%		2%		9%		10%	
Depreciation	34	13	158%	17	6	202%	16	9%	66	51%	76	44%
<b>EBITDA</b>	<b>83</b>	<b>14</b>	<b>495%</b>	<b>56</b>	<b>1</b>	<b>6767%</b>	<b>27</b>	<b>113%</b>	<b>239</b>	<b>35%</b>	<b>264</b>	<b>31%</b>
EBITDA margin (%)	9%	4%		12%	0%		6%		12%		14%	
Finance income	3	2	64%	2	2	-1%	2	-5%	8	45%		N/A
Finance costs	(4)	(18)	-80%	(2)	(6)	-74%	(2)	-17%	(25)	14%		N/A
Profit from JV/Asso	0	(0)	-188%	0	(0)	-225%	0	2982%	0	N/A		N/A
Other inc. (exp.)	1	1	-27%	(2)	1	-343%	3	-164%	0	N/A		N/A
<b>Profit before tax</b>	<b>50</b>	<b>(14)</b>	<b>-457%</b>	<b>37</b>	<b>(9)</b>	<b>-516%</b>	<b>13</b>	<b>190%</b>	<b>155</b>	<b>32%</b>	<b>174</b>	<b>29%</b>
Income tax	(4)	0	-2134%	(1)	(1)	84%	(3)	-54%	(10)	40%		N/A
Tax rate (%)	8%	1%		3%	-8%		21%		6%			
Minorities	(26)	(6)	351%	(19)	(3)	558%	(6)	199%	(72)	36%		N/A
<b>Net profit</b>	<b>20</b>	<b>(20)</b>	<b>-204%</b>	<b>17</b>	<b>(13)</b>	<b>-232%</b>	<b>4</b>	<b>356%</b>	<b>73</b>	<b>28%</b>	<b>59</b>	<b>34%</b>
Net margin (%)	2%	-6%		4%	-6%		1%		4%			
<b>Core profit</b>	<b>20</b>	<b>(21)</b>	<b>-194%</b>	<b>18</b>	<b>(13)</b>	<b>-237%</b>	<b>2</b>	<b>1026%</b>	<b>73</b>	<b>27%</b>		

Source: Company, Indo Premier

Fig. 2: MBMA's 1H24 operational summary

Operational summary	1H24	1H23	% yoy	2Q24	2Q23	% yoy	1Q24	% qoq	IPS FY24F	% of IPS
<b>Nickel pig iron</b>										
NPI production (ton)	42,782	21,238	101%	21,882	11,870	84%	20,900	5%	86,000	50%
NPI sales (ton))	42,467	19,223	121%	20,846	11,053	89%	21,621	-4%	86,000	49%
NPI ASP (US\$/t)	11,291	15,546	-27%	11,536	14,123	-18%	11,055	4%	11,750	96%
NPI AISC (US\$/t)	10,295	14,299	-28%	10,370	13,459	-23%	10,223	1%	10,500	98%
Cash margin (US\$/t)	996	1,246	-20%	1,166	664	76%	832	40%	1,250	80%
<b>High-grade nickel matte</b>										
HGNM production (ton)	25,443	14,379	77%	13,402	14,379	-7%	12,041	11%	50,000	51%
HGNM sales (ton)	27,208	3,036	796%	12,804	3,036	322%	14,404	-11%	50,000	54%
HGNM ASP (US\$/t)	14,212	17,423	-18%	14,819	17,423	-15%	13,673	8%	14,500	98%
HGNM AISC (US\$/t)	13,093	15,954	-18%	13,016	15,954	-18%	13,162	-1%	13,500	97%
Cash margin (US\$/t)	1,119	1,469	-24%	1,803	1,469	23%	511	253%	1,000	112%
<b>Nickel ore</b>										
Saprolite sales (mn wmt)	2.4	0	N/A	2.3	0	N/A	0.1	1456%	3.0	80%
Limonite sales (wmt)	3.5	0	N/A	2.9	0	N/A	0.6	359%	9.0	39%
Limonite ASP (US\$/wmt)	15.9	0	N/A	16.5	0	N/A	13.0	27%	14.0	114%
Limonite AISC (US\$/wmt)	10.3	0	N/A	10.0	0	N/A	12.0	-17%	12.0	86%

Source: Company data, Bloomberg, Indo Premier

Fig. 3: 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
ADMRI IJ	Adaro Minerals Indonesia	Buy	1,650	8.2	8.0	6.3	7.0	7.8	7.1	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	1,750	11.2	9.2	8.9	6.5	4.7	4.2	4.9%	4.5%	5.4%
HRUM IJ	Harum Energy	Buy	1,450	7.8	7.9	6.0	4.7	5.8	3.9	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Buy	5,850	24.1	24.8	36.3	7.3	8.0	8.3	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	700	53.7	22.2	16.2	18.4	10.5	8.2	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,100	N/A	184.0	74.9	12.1	9.0	7.4	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,100	9.8	7.5	6.6	7.0	5.2	4.7	3.0%	3.0%	4.0%

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)
<b>Gross profit</b>	<b>44</b>	<b>77</b>	<b>212</b>	<b>394</b>	<b>521</b>
SG&A Expenses	(14)	(30)	(39)	(49)	(54)
<b>Operating profit</b>	<b>30</b>	<b>48</b>	<b>173</b>	<b>345</b>	<b>467</b>
Net interest	(21)	(15)	(18)	(31)	(33)
Others	28	0	0	0	0
<b>Pre-tax income</b>	<b>37</b>	<b>33</b>	<b>155</b>	<b>314</b>	<b>434</b>
Income tax	0	(0)	(10)	(9)	(10)
Minority interest	(16)	(26)	(72)	(127)	(181)
<b>Net income</b>	<b>22</b>	<b>7</b>	<b>73</b>	<b>178</b>	<b>243</b>

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
<b>Total current assets</b>	<b>469</b>	<b>784</b>	<b>859</b>	<b>932</b>	<b>919</b>
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
<b>Total non-current assets</b>	<b>1,952</b>	<b>2,479</b>	<b>3,005</b>	<b>3,472</b>	<b>4,011</b>
<b>Total assets</b>	<b>2,422</b>	<b>3,263</b>	<b>3,864</b>	<b>4,404</b>	<b>4,931</b>

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
<b>Total current liab.</b>	<b>164</b>	<b>358</b>	<b>460</b>	<b>527</b>	<b>547</b>
Long term loans	592	486	631	738	804
Other LT liab.	105	109	112	112	112
<b>Total non-current liabilities</b>	<b>698</b>	<b>595</b>	<b>742</b>	<b>850</b>	<b>915</b>
<b>Total liabilities</b>	<b>862</b>	<b>954</b>	<b>1,202</b>	<b>1,376</b>	<b>1,463</b>

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
<b>Total SHE + minority int.</b>	<b>1,559</b>	<b>2,309</b>	<b>2,661</b>	<b>3,028</b>	<b>3,468</b>
<b>Total liabilities &amp; equity</b>	<b>2,422</b>	<b>3,263</b>	<b>3,864</b>	<b>4,404</b>	<b>4,931</b>

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
<b>Cash flow from operating</b>	<b>66</b>	<b>(64)</b>	<b>72</b>	<b>211</b>	<b>323</b>
Capital expenditure	(1,797)	(548)	(591)	(552)	(642)
Others	(143)	2	0	0	0
<b>Cash flow from investing</b>	<b>(1,941)</b>	<b>(547)</b>	<b>(591)</b>	<b>(552)</b>	<b>(642)</b>
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
<b>Cash flow from financing</b>	<b>2,155</b>	<b>620</b>	<b>423</b>	<b>296</b>	<b>263</b>
<b>Changes in cash</b>	<b>280</b>	<b>10</b>	<b>(96)</b>	<b>(44)</b>	<b>(56)</b>

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