

Merdeka Copper Gold

BUY (unchanged)

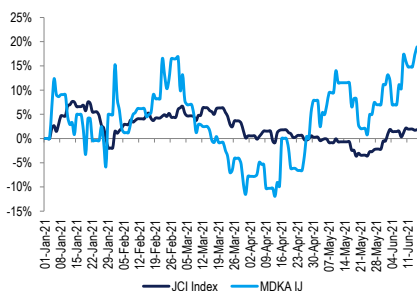
Company Update | Metals | MDKA IJ | 15 June 2021

Stock Data

Target price	Rp3,300
Prior TP	Rp3,300
Current price	Rp2,890
Upside/downside	+14%
Shares outstanding (mn)	22,905
Market cap (Rp bn)	66,195
Free float	48%
Avg. 6m daily T/O (Rp bn)	198

Price Performance

	3M	6M	12M
Absolute	17.0%	48.6%	131.2%
Relative to JCI	20.7%	47.3%	104.8%
52w low/high (Rp)	1,250 – 2,840		



Major Shareholders

PT Saratoga Investama Sedaya	18.3%
PT Mitra Daya Mustika	12.9%
Garibaldi Thohir	7.8%
PT Suwarna Arta Mandiri	6.1%
Banyuwangi Regional Government	5.0%

Timothy Handerson

PT Indo Premier Sekuritas
timothy.handerson@ipc.co.id
+62 21 5088 7168 ext. 714

Anthony

PT Indo Premier Sekuritas
timothy.handerson@ipc.co.id
+62 21 5088 7168 ext. 715

Positive drilling results and improving gold production from TB; maintain Buy

- MDKA's 2Q21 drilling results revealed encouraging results with 7 out of the 11 holes yield exceptionally high copper grades and gold content.
- TB's gold production volume improved to 17k oz in May vs. Jan-Apr's average of 4-6k oz. It is on-track to meet FY21F target of 100-120k oz.
- Despite its 40% rally since 1Q, current market cap implies a LT copper price assumption of US\$7k/tonne (spot: US\$10k/tonne). Maintain Buy.

Encouraging drilling results in 2Q21

MDKA revealed the results of its 2Q21 drilling activities in Tujuh Bukit (TB) Porphyry, on which all 11 drill holes returned significant intercepts of copper and gold mineralization, including some of thickest high grade intersections ever recorded in TB. Most notably, 7 out of the 11 drilling holes saw exceptionally high copper grades of 0.8-1.3% and gold content of 0.7-1.5 g/t (vs. MDKA's indicative exploration target of 0.7-0.9% copper grade and 0.7-0.9 g/t gold content for TB UHGZ) – Fig 1. Potential additional new reserve/resource remains unclear at the moment - note that the pre-feasibility study (PFS) is expected to be completed by 1Q22F.

Significant improvement in TB gold production in May

Concurrently, MDKA also revealed that TB's gold production volume in May has improved to 17k oz vs. Jan-Apr's average of 4-6k oz/month as bulk of the repair work for the heap leach incident was already completed in Jan-Apr. This brought the 5M21's gold production volume to 38k oz, slightly behind at 32-38% of FY21F target of 100-120k oz though management expects a catch-up starting Jun onwards. We also note that MDKA is currently expecting at least US\$60mn of insurance claim on business interruption to be paid in 2Q-4Q21F by the insurers (claim for damage was already paid in 1Q).

Maintain Buy; current valuation implies a deep discount vs. copper spot price

Despite its 40% rally since end of Mar (outperforming JCI by 38%), our analysis suggests that the current share price implies a LT copper price assumption of US\$7k/tonne, below our base case of US\$7.5k/tonne and current spot price of US\$10k/tonne, respectively. As such, we still see plenty of upside on the back of 1) robust copper price outlook (as supply deficit is expected to persist in the next 5 years – [link to our previous report](#)) and 2) potentially better-than-expected resource/reserve discovery in 1Q22F. Risk is an unexpected worsening in gold and copper prices.

Financial Summary (US\$ mn)	2019A	2020A	2021F	2022F	2023F
Revenue	402	322	344	416	999
EBITDA	228	151	205	246	542
Net profit	71	36	71	76	128
EPS growth	34.9%	-48.9%	96.9%	6.6%	67.8%
ROE	16.7%	7.0%	12.2%	11.4%	15.7%
PER (x)	61.6	120.6	61.2	57.4	34.2
EV/EBITDA (x)	20.0	29.3	22.8	20.8	9.5
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.5%
IPS vs. consensus			101%	78%	116%

Source: Company, Indo Premier

Share price closing as of: 15 June 2021

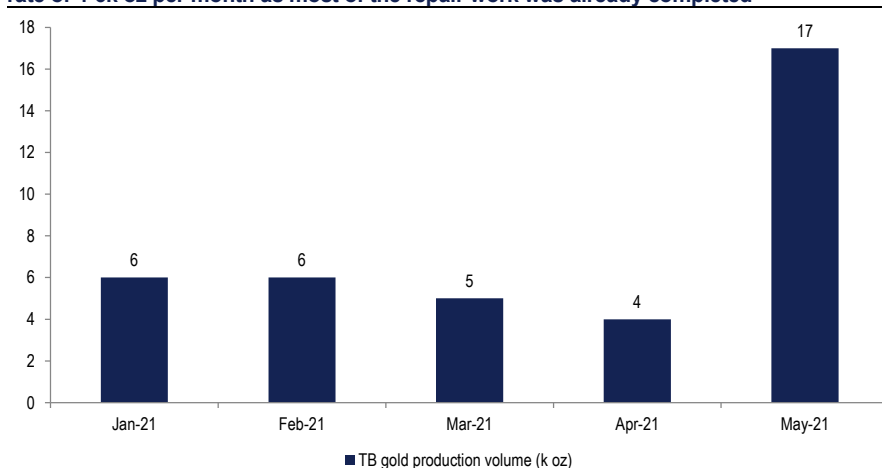
Fig. 1: Results of MDKA's 2Q21 drilling activities in TB Porphyry – 7 out of the 11 drilling holes yielded exceptionally high copper grades (0.8-1.3%) and gold content (0.7-1.5 g/t)

No	Hole ID	Drilling section	End of hole depth (in m)	From (in m)	To (in m)	Interval (in m)	Cu %	Gold g/t
1	UHGZ-21-038	B	548	244	458	214	0.5%	0.6
			<i>including</i>	332	446	114	0.6%	0.7
2	UHGZ-21-039	F	655	402	600	198	0.6%	0.5
			<i>including</i>	416	534	118	0.7%	0.6
3	UHGZ-21-040	B	483	202	218	16	0.6%	0.2
			<i>including</i>	270	384	114	0.8%	1.2
			<i>including</i>	294	372	78	1.0%	1.5
4	UHGZ-21-041	B	462	258	386	128	0.8%	1.2
			<i>including</i>	288	376	88	1.0%	1.2
			450	44	194	150	0.8%	0.7
5	UHGZ-21-042	C	<i>including</i>	94	186	92	1.1%	1.0
			<i>including</i>	286	449.5 EOH	164	0.8%	1.2
			<i>including</i>	288	416	128	0.9%	1.3
6	UHGZ-21-043	D	634	0	36	36	0.4%	0.2
			<i>including</i>	364	633.8 EOH	270	1.2%	0.8
			<i>including</i>	484	600	116	1.8%	1.2
7	UHGZ-21-044	E	565	244	420	176	0.8%	0.8
			<i>including</i>	258	362	104	1.1%	1.2
8	UHGZ-21-045	B	612	14	530	516	0.9%	0.9
			<i>including</i>	74	492	418	1.1%	1.0
			<i>including</i>	570	612 EOH	42	0.5%	0.8
9	UHGZ-21-046	A	636	0	636.1 EOH	636	0.8%	1.0
			<i>including</i>	10	416	406	1.0%	1.4
10	UHGZ-21-047	C	609	80	188	108	1.3%	1.5
			<i>including</i>	292	609	317	0.7%	1.0
11	UHGZ-21-048	E	580	198	478	280	0.6%	0.5
			<i>including</i>	262	396	134	0.9%	0.8

**holes with high copper grade and gold content highlighted in gray*

Source: Company, Indo Premier

Fig. 2: Tujuh Bukit's gold production volume improved to 17k oz in May vs. Jan-Apr run-rate of 4-6k oz per month as most of the repair work was already completed



Source: Company, Indo Premier

Fig. 3: Our base case expects copper supply deficit to persist and widen well into FY25F amid robust demand from EV and lack of quality copper mines available in the global pipeline

Copper demand supply forecast	FY20	FY21F	FY22F	FY23F	FY24F	FY25F	FY20-25 CAGR
Annual copper demand	26,049	26,673	27,728	28,719	29,849	31,021	4%
Base demand	24,980	25,605	26,373	27,164	27,979	28,818	3%
Incremental demand from EV/charger	1,068	1,068	1,355	1,555	1,870	2,202	16%
Annual copper supply	24,019	24,919	26,219	27,469	27,619	27,619	3%
Surplus/(deficit)	(2,030)	(1,754)	(1,509)	(1,250)	(2,230)	(3,402)	

Source: Bloomberg, Indo Premier

Fig. 4: MDKA sensitivity to changes in copper price – every US\$1k/increase in copper price assumption shall translate to 18% increase in target valuation

TP sensitivity to copper price	Bear 2	Bear 1	Base	Bull 1	Bull 2
Long term copper price assumption (US\$/tonne)	5,500	6,500	7,500	8,500	9,500
% vs. base case	-27%	-13%	0%	13%	27%

SOTP-based TP (Rp/sh)	1,900	2,500	3,300	3,900	4,500
upside/(downside) vs. base case	-42%	-24%	0%	18%	36%

EBITDA sensitivity to copper price	FY21F	FY22F	FY23F	FY24F	FY25F
Bear 2	171	212	508	506	890
upside/(downside) vs. base case	-17%	-14%	-6%	-6%	-17%
Bear 1	188	229	525	523	980
upside/(downside) vs. base case	-8%	-7%	-3%	-3%	-8%
Base	205	246	542	540	1,070
upside/(downside) vs. base case	0%	0%	0%	0%	0%
Bull 1	222	263	559	557	1,160
upside/(downside) vs. base case	8%	7%	3%	3%	8%
Bull 2	239	280	576	574	1,250
upside/(downside) vs. base case	17%	14%	6%	6%	17%

Net profit sensitivity to copper price	FY21F	FY22F	FY23F	FY24F	FY25F
Bear 2	48	53	105	84	331
upside/(downside) vs. base case	-32%	-30%	-18%	-21%	-27%
Bear 1	60	65	116	96	391
upside/(downside) vs. base case	-16%	-15%	-9%	-11%	-13%
Base	71	76	128	107	451
upside/(downside) vs. base case	0%	0%	0%	0%	0%
Bull 1	83	87	139	118	511
upside/(downside) vs. base case	16%	15%	9%	11%	13%
Bull 2	94	99	150	130	572
upside/(downside) vs. base case	32%	30%	18%	21%	27%

Source: Company, Indo Premier

Fig. 5: MDKA valuation summary – we maintain our SOTP-based TP of Rp3,300/sh

NPV summary by project	US\$ mn	% of total	Valuation method
Gold	1,367	27%	
TB Oxide	641	13%	DCF (LTG: 0%, WACC: 11%)
Pani	227	4%	DCF (LTG: 0%, WACC: 11%)
TB Porphyry - UHGZ (Gold proportion)	500	10%	DCF (LTG: 0%, WACC: 11%)
Copper	3,704	73%	
Wetar	220	4%	DCF (LTG: 0%, WACC: 11%)
TB Porphyry - UHGZ (copper proportion)	494	10%	DCF (LTG: 0%, WACC: 11%)
TB Porphyry - non-UHGZ	2,800	55%	EV/resource of US\$250/tonne
AIM	190	4%	DCF (LTG: 0%, WACC: 11%)
Asset value	5,071	101%	
Debt	113		
Cash	51		
Net cash/(debt)	-62		
Equity value	5,009		
US\$/IDR exchange rate	14,500		
Equity value (Rp bn)	72,636		
No of shares (bn shares)	22		
Target price (in Rp/sh)	3,300		
Current share price	2,890		
Upside	14%		

Source: Indo Premier

Income Statement (US\$ mn)	2019A	2020A	2021F	2022F	2023F
----------------------------	-------	-------	-------	-------	-------

Net revenue	402	322	344	416	999
Cost of sales	(247)	(208)	(207)	(253)	(568)
Gross profit	155	114	137	162	430
SG&A Expenses	(20)	(20)	(17)	(21)	(50)
Operating profit	135	94	120	141	381
Net interest	(19)	(18)	(15)	(30)	(32)
Forex gain (loss)	0	0	0	0	0
Others	(8)	(20)	0	0	0
Pre-tax income	108	56	104	111	349
Income tax	(39)	(27)	(34)	(37)	(115)
Minority interest	2	7	1	2	(106)
Net income	71	36	71	76	128

Balance Sheet (US\$ mn)	2019A	2020A	2021F	2022F	2023F
Cash & equivalent	50	51	137	(1)	186
Receivable	0	2	0	0	0
Inventory	96	101	83	101	227
Other current assets	59	45	59	59	59
Total current assets	205	199	279	160	472
Fixed assets	647	639	911	1,412	1,666
Other non-current assets	100	91	100	100	100
Total non-current assets	746	730	1,010	1,511	1,766
Total assets	951	930	1,289	1,671	2,238
ST loans	0	0	0	0	0
Payable	33	20	28	34	77
Other payables	80	99	80	80	80
Current portion of LT loans	141	73	0	0	0
Total current liab.	254	192	108	114	157
Long term loans	98	40	447	750	958
Other LT liab.	75	134	75	75	75
Total liabilities	427	366	630	939	1,189
Equity	341	347	341	341	341
Retained earnings	152	188	290	364	575
Minority interest	31	29	29	27	133
Total SHE + minority int.	524	564	659	732	1,049
Total liabilities & equity	951	930	1,289	1,671	2,238

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2019A	2020A	2021F	2022F	2023F
Net income	71	36	71	76	128
Depr. & amortization	93	57	85	105	161
Changes in working capital	(19)	19	(3)	(12)	(83)
Others	(21)	7	(1)	(2)	106
Cash flow from operating	123	120	152	167	312
Capital expenditure	(153)	(70)	(335)	(606)	(416)
Others	0	0	0	0	0
Cash flow from investing	(153)	(70)	(335)	(606)	(416)
Loans	59	0	0	0	0
Equity	59	0	0	0	0
Dividends	0	0	0	0	(23)
Others	(53)	(49)	250	301	314
Cash flow from financing	65	(49)	250	301	291
Changes in cash	36	1	67	(138)	187

Key Ratios	2019A	2020A	2021F	2022F	2023F
Gross margin	39%	35%	40%	39%	43%
Operating margin	34%	29%	35%	34%	38%
Pre-tax margin	27%	17%	30%	27%	35%
Net margin	18%	11%	21%	18%	13%
ROA	8%	4%	6%	5%	7%
ROE	17%	7%	12%	11%	16%
Acct. receivables TO (days)	N/A	N/A	N/A	N/A	N/A
Inventory TO (days)	142	177	146	146	146
Payable TO (days)	49	35	49	49	49
Debt to equity	46%	20%	68%	102%	91%
Interest coverage ratio (x)	11.6	8.3	10.7	7.0	12.1
Net gearing	36%	11%	47%	103%	74%

Source: Company, Indo Premier

SECTOR RATINGS

- OVERWEIGHT : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY 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

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

DISCLAIMERS

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have any regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT Indo Premier Sekuritas or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.