

Merdeka Copper Gold

BUY (unchanged)

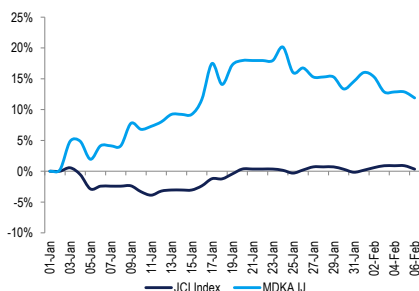
Company Update | Metals | MDKA IJ | 6 February 2023

Stock Data

Target price	Rp5,460
Prior TP	Rp5,460
Current price	Rp4,610
Upside/downside	+18%
Shares outstanding (mn)	24,111
Market cap (Rp bn)	111,151
Free float	52%
Avg. 6m daily T/O (Rp bn)	177

Price Performance

	3M	6M	12M
Absolute	15.5%	13.3%	30.5%
Relative to JCI	18.0%	16.2%	28.4%
52w low/high (Rp)	3,350 – 5,700		



Major Shareholders

Saratoga Investama Sedaya	16.9%
Mitra Daya Mustika	12.1%
Garibaldi Thohir	8.1%

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MBM site visit KTAs: strategically positioned in the battery value chain

- Our recent visit to MDKA's nickel assets reaffirmed its strong potential value creation amid SCM mine huge resource base and strategic location
- SCM mine will supply limonite ore to Huayou's current HPAL operation in IMIP and its future HPAL projects (2 x 120kt) in IKIP, where MDKA's subsidiary will also hold minority stakes
- We reiterate our Buy rating on MDKA and SOTP-based TP of Rp5,460

SCM mine: a key pillar to MDKA's battery value chain

SCM's nickel resource stands at 1.1bn dmt ore (estimated 13.9Mt contained nickel) of which 69% comprised of limonite ore and thus, will cater for HPAL operations. The mine is situated at 21k hectare area, 50kms from IMIP and will house the IKIP industrial park (MBM will have 32% stake). SCM has signed supply agreement with Huayou to supply its HPAL plant in IMIP. Further to this, Huayou aims to develop two HPAL plants each at 120kt of capacity in IKIP, slated for commissioning in 2Q25 and 2Q26. SCM's hauling road to IMIP is nearing completion and expected to fully complete in May23, though MBM expects ore sales to start in Apr23.

RKEF smelters: adding value through conversion into nickel matte

MDKA's existing RKEF smelters (CSI, BSI) have been operating at full utilization while construction for the third ZHN smelter is progressing (expected production in Jun23). MDKA is moving ahead with the plan to add a converter unit (at a total of US\$116mn capex) to shift its NPI production into high-grade nickel matte (70-75% nickel content) for CSI and ZHN smelters and thus, expects to gain extra margin from selling nickel matte. On ZHN smelter, management claimed that it has obtained guarantee from Tsingshan for the completion of smelter (in case of any delays, Tsingshan will make available its other smelter capacity for tolling).

AIM project's construction progressing

MDKA's acid iron metal (AIM) project is located inside IMIP and, upon completion, will supply acid output to QMB's HPAL project. The project will also produce cathode copper and gold, silver. The AIM project will consist of four modular plants (i.e, pyrite concentrator, acid production, chloride roaster, copper cathode) which, during our visit, is progressing its construction (expected commissioning for the acid production is by Oct23). The project's capex is estimated at US\$410mn which includes the copper smelter and precious metals refinery facilities.

Reiterate Buy rating on value creation potentials

We currently have Buy rating on MDKA with SOTP-based TP of Rp5,460. Key risks are weaker industrial commodities prices and project delays.

Financial Summary (US\$ mn)	2020A	2021A	2022F	2023F	2024F
Revenue	322	381	897	1,820	2,354
EBITDA	150	206	252	672	961
Net profit	36	36	90	171	220
EPS growth	-48.9%	-0.2%	150.3%	89.4%	28.7%
ROE	7.0%	5.6%	9.8%	13.7%	13.5%
PER (x)	211.8	212.1	84.8	44.7	34.8
EV/EBITDA (x)	52.0	37.3	32.3	12.1	7.9
Dividend yield	0.0%	0.0%	0.0%	0.4%	0.7%
IPS vs. consensus			87%	132%	118%

Source: Company, Indo Premier

Share price closing as of: 6 February 2023

Strategically positioned in the battery value chain

We recently visited MDKA's nickel assets (under MDKA's 59.9% owned subsidiary Merdeka Battery Materials) in Konawe, Southeast Sulawesi province. The assets comprise of currently operating RKEF smelters (CSI, BSI both 50.1% owned by MBM) and another smelter currently under construction (i.e., ZHN), SCM mine/ concession (under development, 51% owned by MBM), industrial park IKIP (also under development) which will house future HPAL operations.

We came away with positive impression on MDKA's nickel assets, particularly amid SCM mine's huge nickel resource base (vs peers) and its strategic location. We view SCM's mine shall strategically position MDKA in the EV battery value chain which implies strong value creation potential from assets under development (HPAL, RKEF to produce nickel matte).

Key takeaways from the site visit

1) SCM mine + future HPAL projects: strong value creation potentials

- Huge nickel resource base (at 1.1bn tonnes of contained nickel) of which 69% comprised of limonite resource (catered to supply HPAL operations).
- SCM has signed supply agreement with Huayou to supply its HPAL plant in IMIP. Further to this, Huayou aims to develop two HPAL plants at 120kt of capacity (MBM will have 25%, 40% stake) in IKIP, slated for commissioning in 2Q25 and 2Q26 respectively.
- The HPAL construction (in IKIP) is currently still awaiting permit, but Huayou and its partners have mobilized fleets of heavy equipment to SCM site for pre-construction activities.
- Hauling road to IMIP (to facilitate ore sales) is nearing completion and is expected to fully complete in May23, though MBM expects ore shipment to start in Apr23.

2) RKEF smelters: climbing the value chain through nickel matte conversion

- MDKA is moving ahead with the plan to add a converter unit to convert NPI into nickel matte for CSI and ZHN smelters and thus, expects to gain extra margin – based on our estimate, the margin difference may be up to US\$3,000/tonne.
- The ZHN smelter is still under construction, with expected first production in Jun23 (guaranteed by Tsingshan).

3) AIM project: progressing ahead

- The AIM project is located inside IMIP and will supply acid output to QMB's HPAL project; will also produce cathode copper and gold, silver.
- The plant is under construction, with total capex of \$410mn (this includes the copper smelter and precious metals refinery). The plant is expected to commission the acid production by Oct23. This is a slight delay compared to our current assumption of Jul23, but we think this is minor given the complexity of the project's construction which entails simultaneous development of four modular plants.

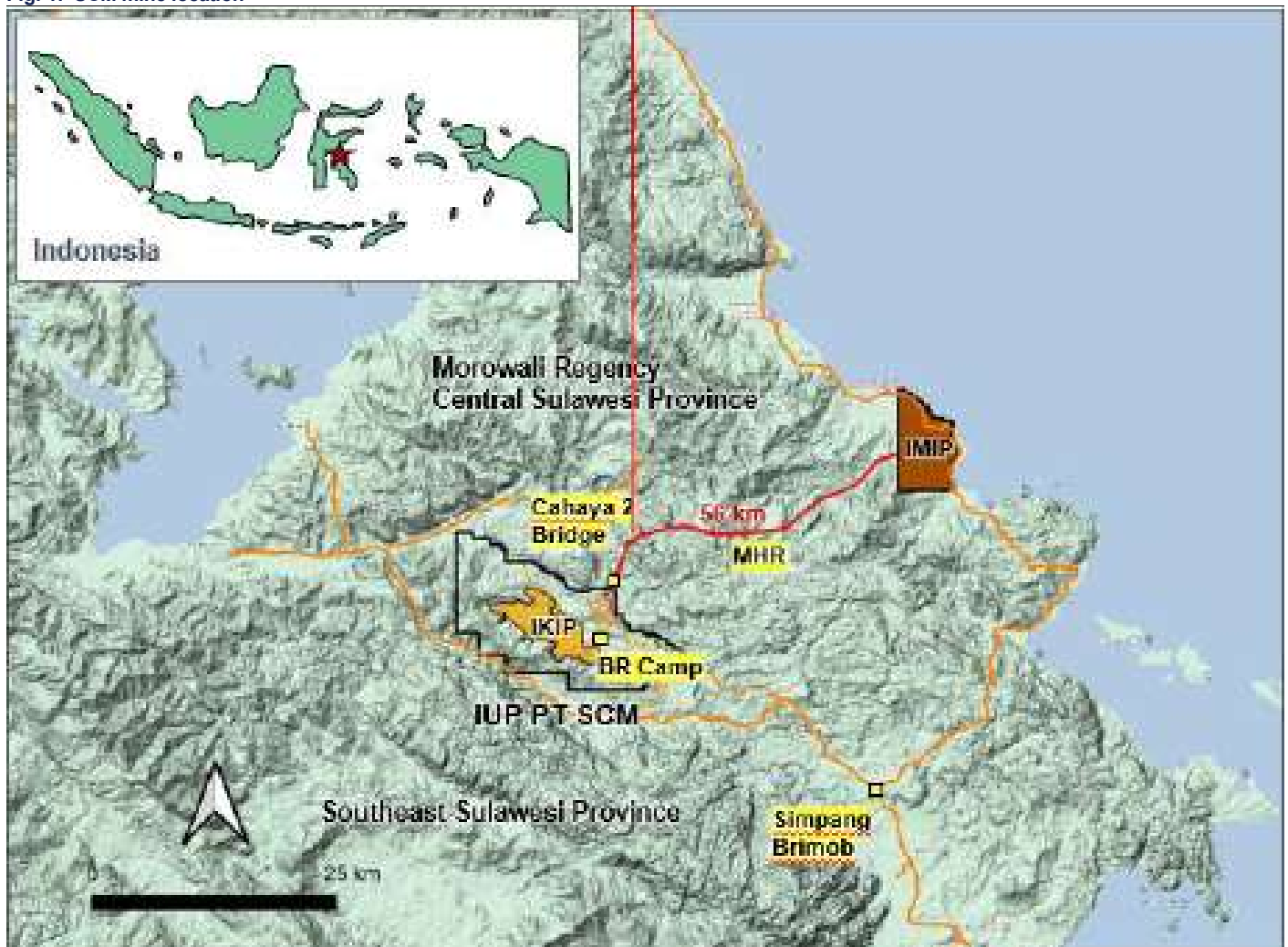
SCM mine – a key pillar for MDKA in battery materials value chain

The Sulawesi Cahaya Mineral (SCM) mine is located around 50km Southwest of the Indonesia Morowali Industrial Park (IMIP), currently the centre of substantial nickel processing operation (RKEF, HPAL, stainless steel). SCM's 1.1bn dmt resource (13.8Mt of contained nickel and 1mn cobalt) sits at 21k hectare concession and was originally discovered by Rio Tinto (named La Sampalla deposit) in 2000. SCM has identified areas with potential resource, hence providing potential upside for its future resource base.

SCM predominant limonite ore resource base ideally positioned the company to cater for HPAL projects. Indeed, MDKA designed SCM's mine plan according to the future supply volume of HPAL projects. At present, SCM's supply contract covers existing offtake agreement with Huayou for its HPAL project in IMIP (8mn wmt p.a.). MDKA estimated future supply of 40mn wmt to cater for future HPAL projects that Huayou aim to develop in IKIP industrial park (adjacent to SCM mine).

MDKA is currently developing hauling road (~20km) to connect SCM to IMIP (in practice, the hauling will be done through an adjacent Bintang Delapan mine's existing hauling road, situated between IMIP and SCM). It estimated capex of US\$153mn for SCM's mine infrastructure.

Fig. 1: SCM mine location



Source: Company, Indo Premier

Fig. 2: SCM mine hauling road 1 (under development)



Source: Indo Premier

Fig. 3: SCM mine hauling road 2 (under development)



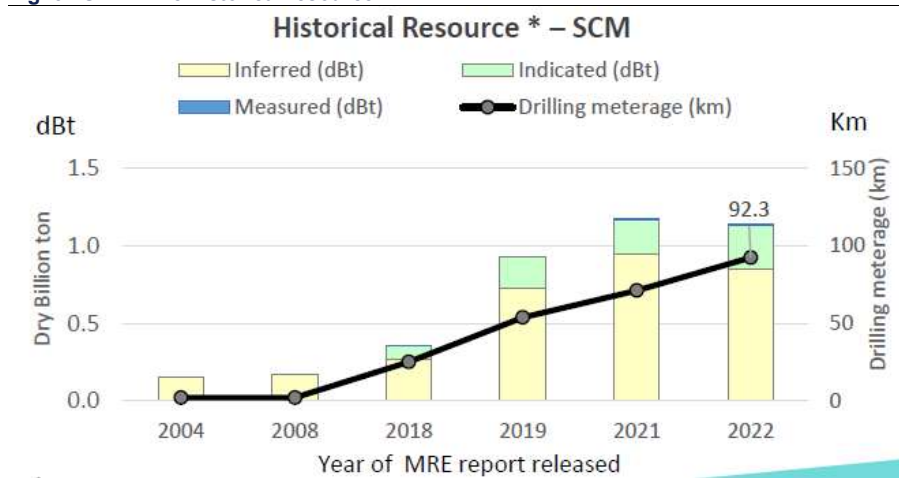
Source: Indo Premier

Fig. 4: Feed processing plant (for limonite ore) development at SCM



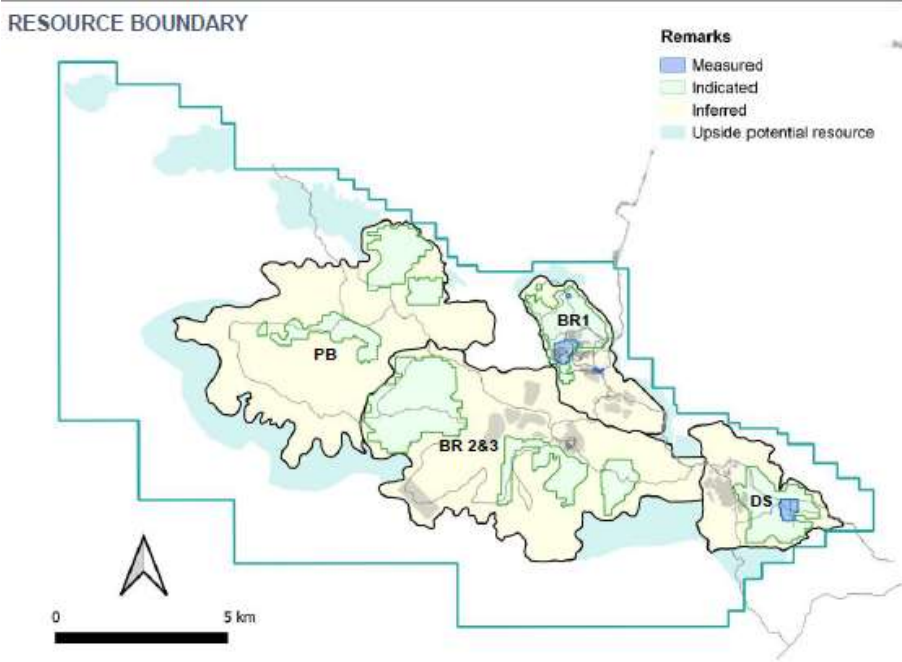
Source: Indo Premier

Fig. 5: SCM mine historical resource



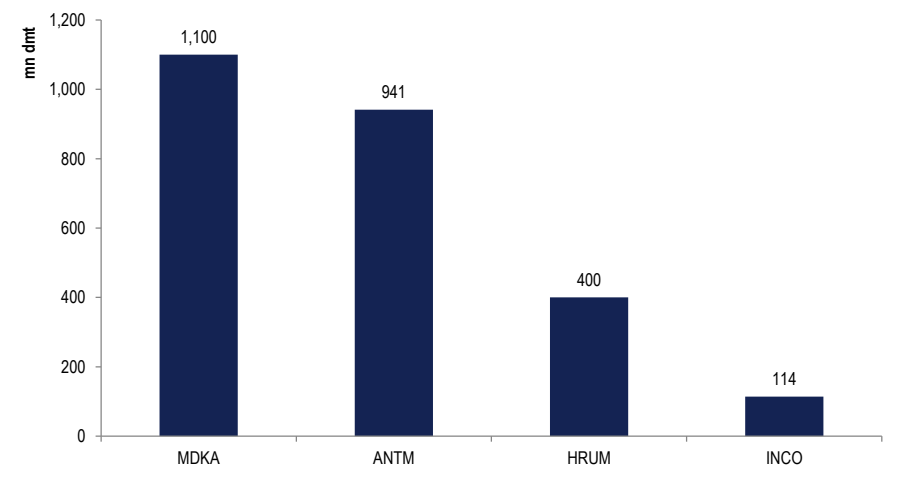
Source: Company, Indo Premier

Fig. 6: SCM mine pits – SCM has identified areas with contains potential resource base



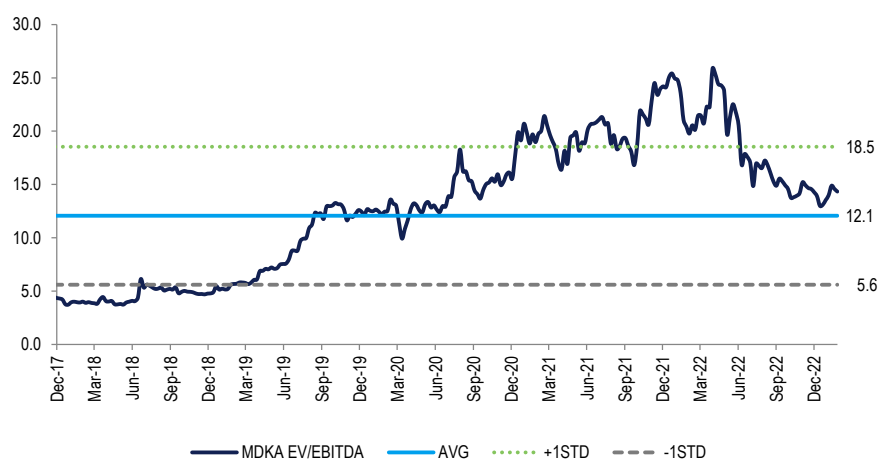
Source: Indo Premier

Fig. 7: SCM mine resources vs. peers (on 100% ownership basis)



Source: Company, Indo Premier

Fig. 8: EV/ EBITDA valuation band



Source: Company, Indo Premier

Income Statement	2020A	2021A	2022F	2023F	2024F
Net revenue	322	381	897	1,820	2,354
Cost of sales	(208)	(261)	(697)	(1,155)	(1,389)
Gross profit	114	120	200	665	965
SG&A Expenses	(20)	(29)	(72)	(146)	(188)
Operating profit	94	91	128	520	777
Net interest	(18)	(11)	(31)	(22)	(13)
Forex gain (loss)	0	0	0	1	0
Others	(20)	(23)	30	0	0
Pre-tax income	56	57	128	499	763
Income tax	(27)	(23)	(28)	(165)	(252)
Minority interest	7	3	(9)	(163)	(291)
Net income	36	36	90	171	220

Balance Sheet	2020A	2021A	2022F	2023F	2024F
Cash & equivalent	51	185	44	254	857
Receivable	2	1	1	1	1
Inventory	101	131	351	582	700
Other current assets	45	94	94	94	94
Total current assets	199	411	489	930	1,651
Fixed assets	639	631	1,255	1,568	1,625
Other non-current assets	91	236	236	236	236
Total non-current assets	730	867	1,491	1,805	1,862
Total assets	930	1,279	1,980	2,735	3,512
ST loans	0	0	0	0	0
Payable	20	30	20	30	79
Other payables	42	60	42	60	60
Current portion of LT loans	130	208	130	208	0
Total current liab.	192	297	192	297	139
Long term loans	40	0	40	0	511
Other LT liab.	134	202	134	202	202
Total liabilities	366	499	366	499	852
Equity	347	531	347	531	770
Retained earnings	188	224	188	224	324
Minority interest	29	24	29	24	33
Total SHE + minority int.	564	779	564	779	1,127
Total liabilities & equity	930	1,279	930	1,279	1,979

Source: Company, Indo Premier

Cash Flow Statement	2020A	2021A	2022F	2023F	2024F
Net income	36	36	90	171	220
Depr. & amortization	56	115	123	152	184
Changes in working capital	(38)	(192)	(170)	(179)	(91)
Others	66	173	9	163	291
Cash flow from operating	120	133	53	308	604
Capital expenditure	(70)	(242)	(746)	(466)	(241)
Others	0	0	0	0	0
Cash flow from investing	(70)	(242)	(746)	(466)	(241)
Loans	0	170	239	0	0
Equity	0	170	239	0	0
Dividends	0	0	0	(27)	(51)
Others	(49)	(93)	74	396	291
Cash flow from financing	(49)	247	551	369	240
Changes in cash	1	137	(142)	210	603

Key Ratios	2020A	2021A	2022F	2023F	2024F
Gross margin	35%	32%	22%	37%	41%
Operating margin	29%	24%	14%	29%	33%
Pre-tax margin	17%	15%	14%	27%	32%
Net margin	11%	9%	10%	9%	9%
ROA	4%	3%	6%	7%	7%
ROE	7%	6%	10%	14%	14%
Acct. receivables TO (days)	N/A	N/A	N/A	N/A	N/A
Inventory TO (days)	177	184	184	184	184
Payable TO (days)	35	41	41	41	41
Debt to equity	30%	27%	45%	47%	32%
Interest coverage ratio (x)	8.2	15.9	7.0	19.3	25.0
Net gearing	21%	3%	41%	31%	-5%

Source: Company, Indo Premier

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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