

Merdeka Copper Gold

BUY (unchanged)

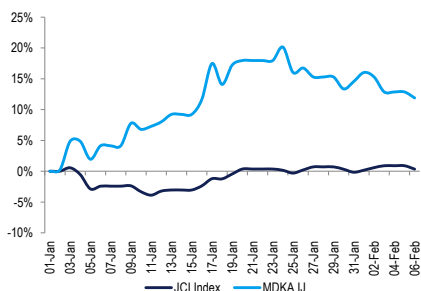
Company Update | Metals | MDKA IJ | 1 May 2023

Stock Data

Target price	Rp5,460
Prior TP	Rp5,460
Current price	Rp3,940
Upside/downside	+39%
Shares outstanding (mn)	24,111
Market cap (Rp bn)	94,997
Free float	52%
Avg. 6m daily T/O (Rp bn)	177

Price Performance

	3M	6M	12M
Absolute	-14.4%	9.4%	-12.5%
Relative to JCI	-17.8%	8.2%	-10.2%
52w low/high (Rp)	3,350 – 5,800		



Major Shareholders

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

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4Q22/ FY22: earnings miss from higher interest; in-line EBITDA

- FY22 net profit of US\$58mn missed estimates on higher interest expense from subsidiary MBMA; FY22 EBITDA was broadly in-line.
- 4Q22 operating performance: slight miss in nickel on softer NPI price, but in-line gold and copper.
- We maintain our FY23-25F estimates and SOTP-based TP of Rp5,460, and retain Buy rating on MDKA on its attractive growth projects

FY22 net profit missed on higher-than-expected interest expense

MDKA posted FY22 net profit of US\$58mn (+62% yoy) and EBITDA of US\$248mn (+20% yoy), forming 65/60% and 99/74% of ours/consensus FY22 estimates. Core profit turned into a loss of US\$18mn in 4Q22 (-195% qoq/-183% yoy) on the back of slowing revenue amid softer commodities prices. While FY22 EBITDA came in-line with our expectations, net profit missed due to higher-than-expected interest expenses, mainly from nickel subsidiary MBMA.

4Q22: slight miss in nickel, but in-line gold and copper

MDKA's gold and copper sales volumes slowed -47% and -3% qoq (-25% and -25% yoy) in 4Q22, resulting in slight miss in FY22 volumes of 134k oz and 20kt (forming 96/92% of our FY22 forecast). These were partly offset by the lower-than-expected cash costs (57% and 87% of our FY22 forecast), hence resulting in in-line EBITDA. On the nickel front, it delivered stronger-than-expected sales volume of 26kt (103% of our FY22), though EBITDA was a slight miss amid softer NPI ASP (US\$16.3k, 93% of our FY22) and slightly higher cash cost (US\$14.8k, 6% above our forecast).

FY23-25 forecast lowered on higher interests, unchanged operating assumptions

Despite FY22's earnings miss, we maintain our FY23-25F estimates pending the 1Q23 earnings and revision in MDKA's latest business plans for its key assets. We maintain our FY23/24/25 operating assumptions which include 112/32/0% growth in nickel sales volume in FY23 from the expected completion of ZHN smelter, and contribution from AIM project in 2H23. Current forecast now expects for 89/29% EPS growth in FY23/24.

Maintain Buy rating on attractive growth projects upside

We maintain our SOTP-based TP to Rp5,460 and retain Buy rating on MDKA on the back of its attractive growth projects. Key risks are weaker nickel, gold and copper prices, and delays on its key projects (TB Copper, Pani gold, nickel assets).

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	381	870	1,820	2,354	2,342
EBITDA	206	248	672	961	953
Net profit	36	58	171	220	226
EPS growth	-0.2%	150.3%	89.4%	28.7%	2.7%
ROE	5.6%	8.7%	13.7%	13.5%	11.0%
PER (x)	181.3	112.1	38.2	29.7	29.0
EV/EBITDA (x)	31.9	28.3	10.5	6.7	6.1
Dividend yield	0.0%	0.0%	0.4%	0.8%	1.7%
IPS vs. consensus			131%	111%	N/A

Source: Company, Indo Premier

Share price closing as of: 1 May 2023

Fig. 1: FY22 results summary

MDKA FY22 results (US\$ mn)	FY22	FY21	yoy%	4Q22	4Q21	yoy%	3Q22	qoq%	IPS FY22F	% of IPS	Cons FY22F	% of Cons
Revenues	869.9	381.0	128%	243.9	119.8	104%	284.6	-14%	897.0	97%	805.4	108%
COGS	(705.2)	(260.9)	170%	(223.3)	(73.4)	204%	(244.9)	-9%	(696.9)	101%	(597.7)	118%
Gross profit/(loss)	164.7	120.1	37%	20.5	46.4	-56%	39.7	-48%	200.1	82%	202.4	81%
Gross profit margin (%)	19%	32%		8%	39%		14%		22%		25%	
Opex	(53.1)	(29.3)	81%	(17.3)	(8.1)	114%	(6.5)	167%	(71.8)	74%		
EBIT	111.6	90.8	23%	3.2	38.3	-92%	33.2	-90%	128.4	87%		
EBIT margin (%)	13%	24%		1%	32%		12%		14%			
Depreciation	122.1	115.4	6%	26.7	28.3	-6%	30.5	-13%	123.5	99%	335.3	36%
EBITDA	248.1	206.2	20%	29.9	66.6	-55%	63.7	-53%	251.9	99%	335.3	74%
EBITDA margin (%)	53%	0%		12%	56%		22%		28%		42%	
Interest income	1.6	1.5	4%	(2.5)	0.2	-1250%	0.3	-924%	4.8	32%		
Interest expenses	(43.4)	(13.0)	234%	(16.0)	(2.2)	634%	(7.9)	102%	(35.7)	122%		
Others	20.2	(22.6)	-189%	9.9	(10.9)	-191%	(58.8)	-117%	30.5	66%		
Profit/(loss) before tax	89.9	56.7	59%	(5.5)	25.4	-121%	(33.2)	-84%	127.9	70%		
Tax expenses	(25.1)	(23.3)	8%	0.1	(10.6)	-101%	3.4	-98%	(28.1)	89%		
Minority interests	(6.4)	2.8	-333%	(5.4)	0.2	-2663%	2.2	-342%	(9.3)	69%		
Net profit	58.4	36.1	62%	(10.8)	15.1	-171%	(27.6)	-61%	90.4	65%	97.4	60%
Net profit margin (%)	7%	9%		-4%	13%		-10%		10%		12%	
Core profit	43.8	36.1	21%	(17.7)	21.5	-183%	18.6	-195%	66.7	66%		

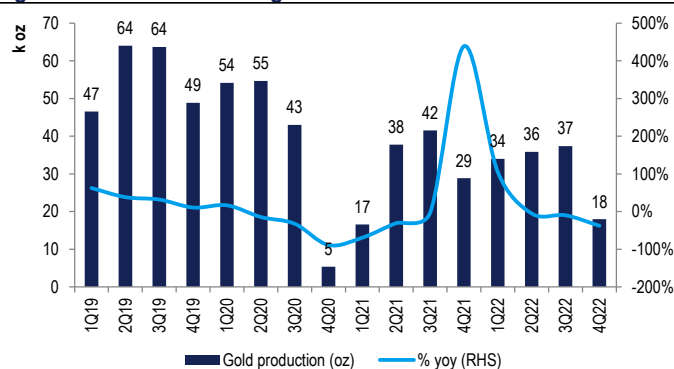
Source: Company, Indo Premier

Fig. 2: FY22 operational summary

MDKA FY22 operational summary	FY22	FY21	yoy%	4Q22	4Q21	yoy%	3Q22	qoq%	IPS FY22F	% of IPS	MDKA guidance
Gold revenues	262	217	21%	40	54	-25%	75	-46%	259	101%	110-125
Gold sales volume (k oz)	134	110	22%	21	28	-25%	40	-47%	140	96%	
Gold ASP	1,951	1,974	-1%	1,919	1,921	0%	1,902	1%	1,850	105%	
Gold cash cost	572	987	73%	1,257	1,111	13%	1,059	19%	1,008	57%	
Copper revenues	184	162	13%	37	66	-43%	47	-22%	198	93%	18-22
Copper sales volume (k tonnes)	20	17	19%	5	7	-25%	5	-3%	22	92%	
Copper ASP (US\$/tonne)	9,036	9,444	-4%	7,325	9,645	-24%	9,082	-19%	9,000	100%	
Copper cash cost	6,091	4,255	43%	7,927	4,550	74%	8,234	-4%	7,000	87%	
Nickel revenues	422	N/A	N/A	167	N/A	N/A	161	3%	440	96%	34-38
Nickel sales volume (k tonnes)	26	N/A	N/A	10	N/A	N/A	10	1%	25	103%	
Nickel ASP (US\$/tonne)	16,343	N/A	N/A	15,962	N/A	N/A	15,594	2%	17,600	93%	
Nickel cash cost	14,790	N/A	N/A						14,000	106%	

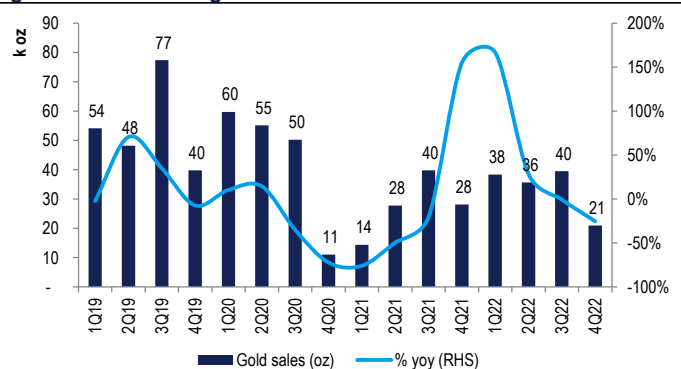
Source: Company, Indo Premier

Fig. 3: Production from TB gold



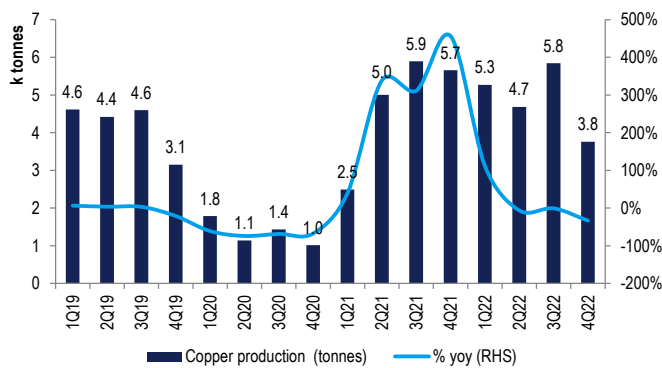
Source: Company, Indo Premier

Fig. 4: Sales from TB gold



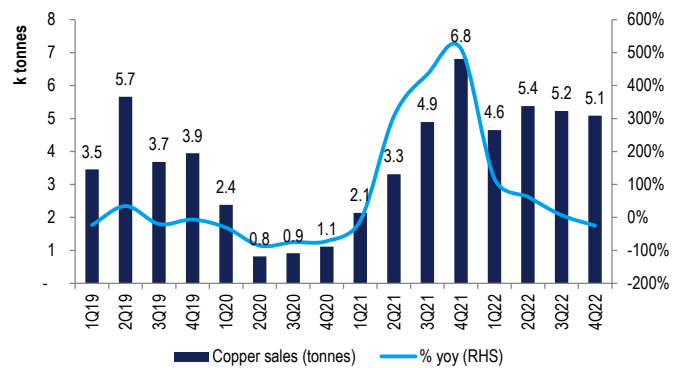
Source: Company, Indo Premier

Fig. 5: Production from Wetar copper



Source: Company, Indo Premier

Fig. 6: Sales from Wetar copper



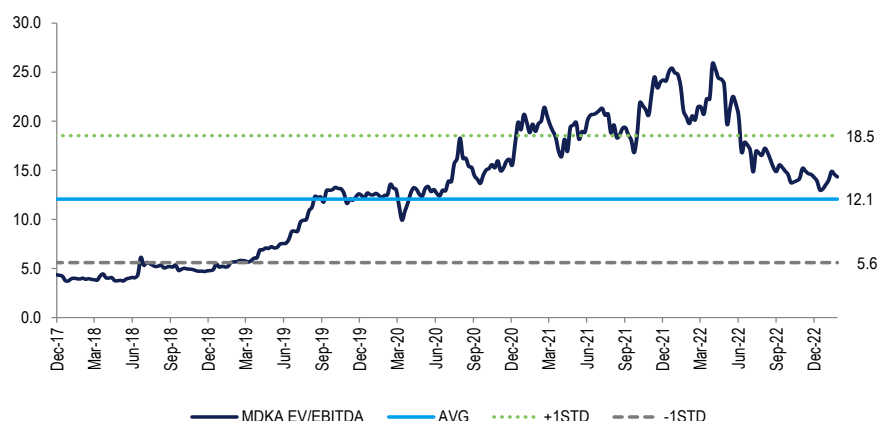
Source: Company, Indo Premier

Fig. 7: SOTP valuation

NPV summary by project	Current		Valuation method
	US\$ m n	% of total	
Gold	530	5%	
TB Oxide	366	4%	DCF (LTG: 0%, WACC: 9.8%)
Pani	163	2%	DCF (LTG: 0%, WACC: 9.8%)
Copper	7,523	76%	
Wetar	470	5%	DCF (LTG: 0%, WACC: 9.8%)
Tujuh Bukit - (Cu + Au)	3,335	33%	DCF (LTG: 0%, WACC: 9.8%)
Tujuh Bukit - remaining resources	3,456	35%	EV/resource at 50% of NPV/t
Nickel	1,909	19%	
Nickel ore	1,121		DCF (LTG: 0%, WACC: 9.8%)
Nickel smelter	788		DCF (LTG: 0%, WACC: 9.8%)
AIM	262	3%	DCF (LTG: 0%, WACC: 9.8%)
Total asset value	9,962	100%	
Debt	1,249		
Cash	63		
Net cash/(debt)	(1,185)		
Equity value	8,777		
US\$/IDR exchange rate	15,000		
Equity value (Rp bn)	131,657		
No of shares (bn shares)	24		Adjusted for RI
Target price (in Rp/sh)	5,460		
Current share price	3,940		Adjusted for RI
Upside	39%		

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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