

Merdeka Copper Gold

BUY (unchanged)

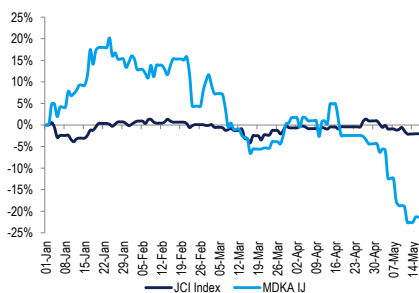
Company Update | Metals | MDKA JJ | 16 May 2023

Stock Data

Target price	Rp4,340
Prior TP	Rp5,460
Current price	Rp3,240
Upside/downside	+69%
Shares outstanding (mn)	24,111
Market cap (Rp bn)	78,119
Free float	52%
Avg. 6m daily T/O (Rp bn)	276

Price Performance

	3M	6M	12M
Absolute	-30.3%	-28.0%	-27.7%
Relative to JCI	-27.6%	-23.6%	-28.7%
52w low/high (Rp)	3,190 – 5,450		



Major Shareholders

Saratoga Investama Sedaya	18.3%
Mitra Daya Mustika	12.1%
Garibaldi Thohir	7.4%

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Progressing with TB Copper project

- The PFS confirms TB Copper's economic and technical feasibility
- Indicative project NPV of US\$3.0bn is slightly lower than our project NPV estimates of US\$3.3bn, but yet to include the value of remaining resource
- We lowered our SOTP-based TP to Rp4,340 to reflect the lower value of TB Copper, partly offset by higher value of nickel assets; maintain Buy

TB Copper PFS confirms project feasibility; NPV of US\$3.0bn

MDKA announced the long-awaited completion of the pre-feasibility study (PFS) of its key TB Copper project, with key points as follows: 1) mineral resources of 1.7bn at 0.47% copper and 0.50 g/t gold (8.1Mt copper and 27.1Moz gold); maiden reserve of 289Mt at 0.56% copper and 0.65g/t gold. 2) 30-years life-of-mine cumulative production of 1.8Mt and 4.1Moz of copper and gold, based on 289Mt of probable reserve and 114.7Mt of inferred resource, through eight years of sub-level cave (SLC) production and the remaining through block cave (lift 1) production. 3) Project's post-tax NPV of US\$3.0bn (at 7% WACC) and IRR of 20%. The NPV excludes potential value from remaining resources which may be exploited through future lift 2 block cave.

Lower production assumption vs. our prev. model

The release of PFS is positive as it confirms the feasibility of the TB Copper project. Nonetheless, the results imply lower cumulative production assumption of 1.8Mt under life-of-mine assumption of 30 years vs. our estimate of 2.9Mt for 40 years. This implies that the bulk (1.3bn tonnes) of the resource may remain untapped until BC lift-1 finishes in FY56.

SLC expected production in FY26 to alleviate funding needs

The PFS indicates initial project capex of US\$757mn for the SLC and a subsequent US\$2.0bn for the block cave development. On a more positive note, the feasibility of SLC production phase (expected contribution in FY26) shall allow for faster cash flow generation (cumulative EBITDA of US\$3bn in FY26-34, based on management's estimates). MDKA indicated that it will explore debt funding and strategic partnerships to fund the future development capex. We estimate MDKA's net gearing may temporarily rise to 49% in FY25 to reflect debt funding for the project.

Reiterate Buy rating at lower SOTP-based TP of Rp4,340

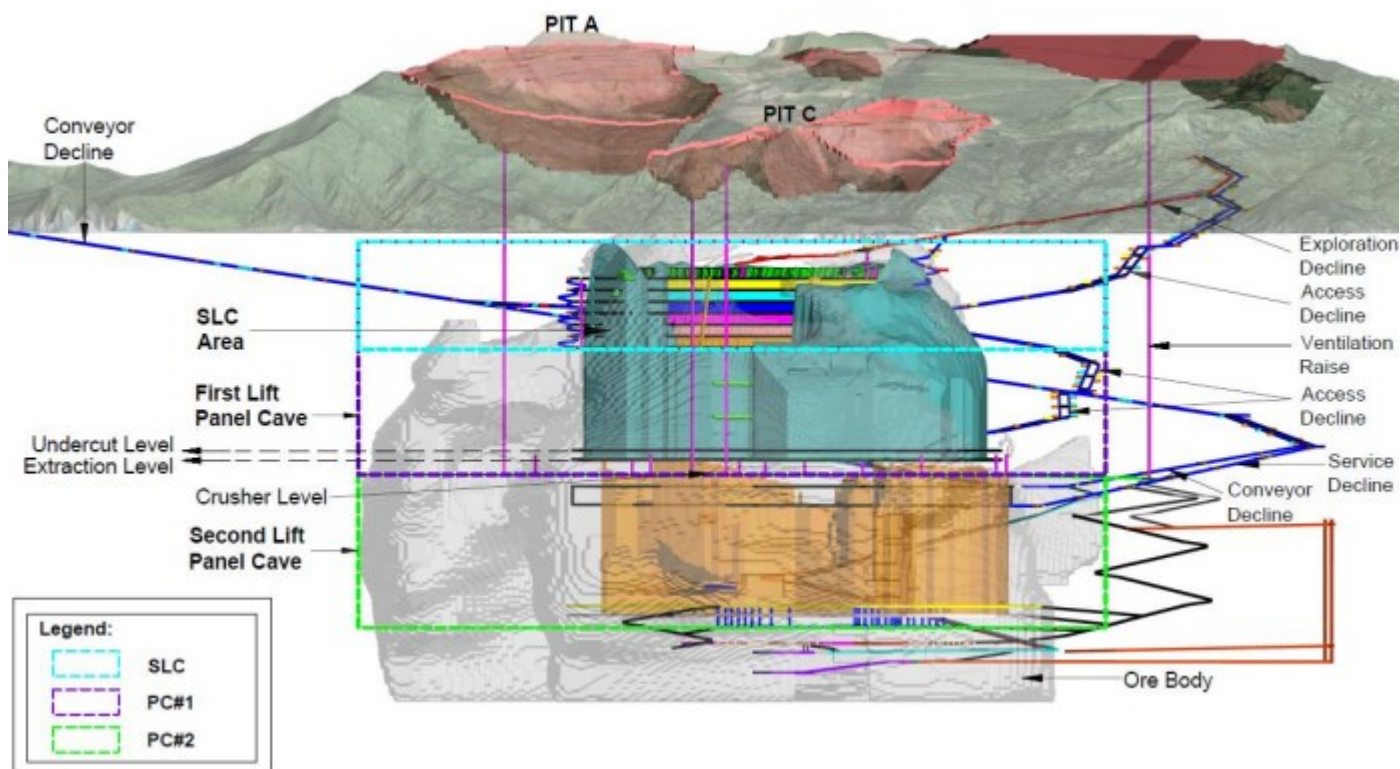
We affirm Buy rating on MDKA at lower SOTP-based TP of Rp4,340 (from Rp5,460 prev.). Our SOTP revision (fig.2) takes into account: 1) lower valuation for TB Copper of US\$3.9bn (from US\$6.8bn previously). 2) higher valuation for the nickel assets to reflect current market capitalization of MBMA. We believe recent sharp correction partly reflected market's concerns over TB Copper project feasibility which shall be addressed by the release of the PFS. Key risks are weaker metal prices, project delays.

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	381	870	1,820	2,354	2,342
EBITDA	206	248	650	871	863
Net profit	36	58	204	230	202
EPS growth	-0.2%	251.7%	60.5%	12.6%	-12.1%
ROE	5.6%	8.7%	15.8%	13.8%	10.0%
PER (x)	149.1	92.2	26.4	23.5	26.7
EV/EBITDA (x)	26.2	22.2	8.1	6.0	5.9
Dividend yield	0.0%	0.0%	0.7%	1.1%	2.1%
IPS vs. consensus			172%	163%	74%

Source: Company, Indo Premier

Share price closing as of: 16 May 2023

Fig. 1: Layout of TB Copper SLC/BC mining system



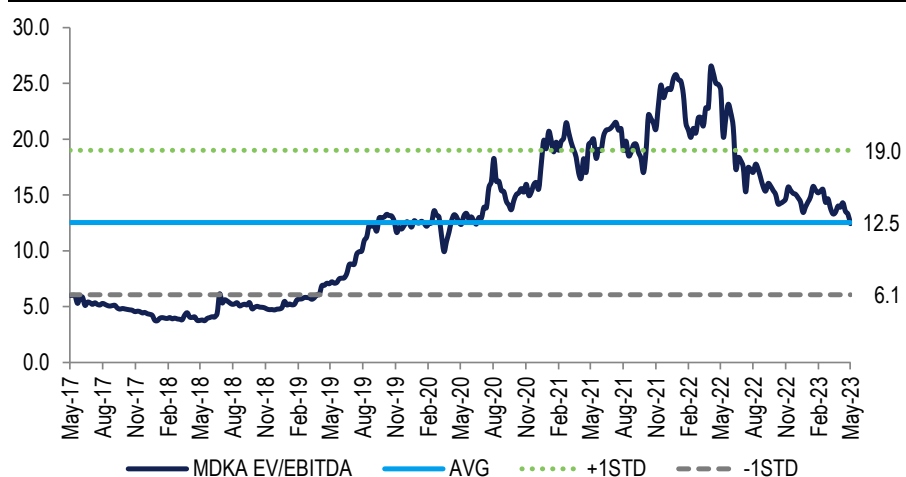
Source: Company, Indo Premier

Fig. 2: SOTP valuation

NPV summary by project	Previous		Current		Valuation method
	US\$ mn	% of total	US\$ mn	% of total	
Gold	530	5%	530	7%	
TB Oxide	366	4%	366	5%	DCF (LTG: 0%, WACC: 8.8%)
Pani	163	2%	163	2%	DCF (LTG: 0%, WACC: 8.8%)
Copper	7,523	76%	4,419	57%	
Wetar	470	5%	470	6%	DCF (LTG: 0%, WACC: 8.8%)
Tujuh Bukit - (Cu + Au)	3,335	33%	2,770	35%	DCF (LTG: 0%, WACC: 8.0%)
Tujuh Bukit - remaining resources	3,456	35%	1,179	15%	EV/resource at 20% of NPV/t
Nickel (MBMA)	1,909	19%	2,861	37%	
Total asset value	9,962	100%	7,809	100%	
Debt	1,249		1,099		
Cash	63		267		
Net cash/(debt)	(1,185)		(831)		
Equity value	19,395		6,978		
US\$/IDR exchange rate	15,000		15,000		
Equity value (Rp bn)	131,657		104,671		
No of shares (bn shares)	24		24		Adjusted for RI
Target price (in Rp/sh)	5,460		4,340		
Current share price	3,240		3,240		Adjusted for RI
Upside	69%		34%		

Source: Company, Indo Premier

Fig. 3: 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)	(655)	(1,136)	(1,442)
Gross profit	114	120	242	684	912
SG&A Expenses	(20)	(29)	(72)	(146)	(188)
Operating profit	94	91	170	538	724
Net interest	(18)	(11)	(20)	(8)	(14)
Forex gain (loss)	0	0	0	1	0
Others	(20)	(23)	30	0	0
Pre-tax income	56	57	180	531	710
Income tax	(27)	(23)	(40)	(175)	(234)
Minority interest	7	3	(13)	(152)	(246)
Net income	36	36	127	204	230

Balance Sheet	2020A	2021A	2022F	2023F	2024F
Cash & equivalent	51	185	238	549	927
Receivable	2	1	1	1	1
Inventory	101	131	330	572	726
Other current assets	45	94	94	94	94
Total current assets	199	411	662	1,215	1,748
Fixed assets	639	631	971	1,025	1,498
Other non-current assets	91	236	236	236	236
Total non-current assets	730	867	1,207	1,262	1,734
Total assets	930	1,279	1,870	2,477	3,482
ST loans	0	0	0	0	0
Payable	20	30	74	129	164
Other payables	42	60	60	60	60
Current portion of LT loans	130	208	0	0	0
Total current liab.	192	297	134	189	224
Long term loans	40	0	361	444	753
Other LT liab.	134	202	202	202	202
Total liabilities	366	499	697	834	1,179
Equity	347	531	770	770	770
Retained earnings	188	224	365	682	1,097
Minority interest	29	24	37	189	435
Total SHE + minority int.	564	779	1,172	1,641	2,302
Total liabilities & equity	930	1,279	1,869	2,476	3,480

Source: Company, Indo Premier

Cash Flow Statement	2020A	2021A	2022F	2023F	2024F
Net income	36	36	127	204	230
Depr. & amortization	56	115	107	112	147
Changes in working capital	(38)	(192)	(154)	(188)	(119)
Others	66	173	13	152	246
Cash flow from operating	120	133	93	280	503
Capital expenditure	(70)	(242)	(446)	(166)	(620)
Others	0	0	0	0	0
Cash flow from investing	(70)	(242)	(446)	(166)	(620)
Loans	0	170	239	0	0
Equity	0	170	239	0	0
Dividends	0	0	0	(38)	(61)
Others	(49)	(93)	(73)	235	556
Cash flow from financing	(49)	247	405	197	494
Changes in cash	1	137	52	311	378

Key Ratios	2020A	2021A	2022F	2023F	2024F
Gross margin	35%	32%	27%	38%	39%
Operating margin	29%	24%	19%	30%	31%
Pre-tax margin	17%	15%	20%	29%	30%
Net margin	11%	9%	14%	11%	10%
ROA	4%	3%	8%	9%	8%
ROE	7%	6%	13%	16%	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	32%	27%	32%	31%	40%
Interest coverage ratio (x)	8.2	15.9	11.0	31.3	22.3
Net gearing	22%	3%	11%	-7%	-9%

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

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