

Merdeka Copper Gold

BUY (unchanged)

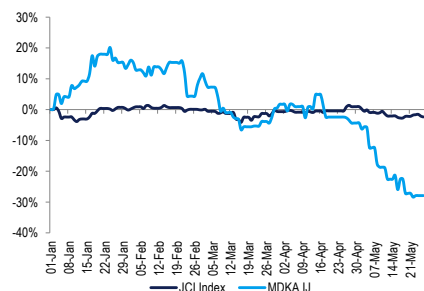
Company Update | Metals | MDKA IJ | 26 May 2023

Stock Data

Target price	Rp4,700
Prior TP	Rp4,340
Current price	Rp2,970
Upside/downside	+58%
Shares outstanding (mn)	24,111
Market cap (Rp bn)	71,609
Free float	52%
Avg. 6m daily T/O (Rp bn)	267

Price Performance

	3M	6M	12M
Absolute	-30.9%	-33.0%	-41.8%
Relative to JCI	-28.7%	-27.4%	-38.9%
52w low/high (Rp)	2,950 – 5,450		



Major Shareholders

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

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Striking gold in Pani; raising our TP to Rp4,700

- Latest update on Pani project is encouraging as it provides preliminary feasibility on Pani valuation upside.
- We raise our valuation for Pani gold project to US\$737mn (for MDKA's 70% stake) which lifts our SOTP-based valuation to Rp4,700/ share
- We reiterate Buy rating on MDKA as share price correction appears overdone.

Further resource upgrade and indicative plans for Pani gold project

MDKA announced the updated resource base for Pani gold to 276Mt (or at 6.63Moz of gold at 0.75g/t grade), up from 4.5Moz previously, from the result of further drillings. Pani's ongoing feasibility study is targeted for completion at end of 3Q23. MDKA envisages a heap leach operation at Pani with expected production by end of FY25, with indicative target to process 7Mtpa of ore to produce 120k-140k oz of gold. At later stage, it aims to add carbon-in-leach processing facility to reach a maximum throughput of 21Mtpa of ore (~450k oz of gold).

Raising our valuation for Pani project

Incorporating the latest resource and indicative production plans, we now assign valuation of US\$737mn for Pani (MDKA's attributable 70% stake of US\$1bn), based on gold price assumption of US\$1,800/oz vs. current gold price of US\$1,946. We currently assume Pani total project capex of US\$935mn and production to ramp up to 300k oz in FY30, translating to 80% of resource for mine life of 20 years. Thus, we expect MDKA to further announce more resource to support a better project return.

Rising leverage profile, but still appear manageable

Adding the latest capex estimate for the Pani project (US\$935mn), we forecast MDKA's capex to gradually increase to ~US\$630mn in 24/25F from US\$307mn in FY23F. Based on this, we forecast its net gearing to gradually rise to 26/27% and net debt/ EBITDA to 0.4/0.5x in FY24/FY25F, with projected peak net gearing of 27% in FY25. We lowered our FY23/24/25F EPS estimates by 8/11/15% to reflect higher interest expenses on the back of the higher capex.

Reiterate Buy rating

We raise our SOTP-based TP to Rp4,700, incorporating the valuation upside for Pani, and reiterate Buy rating on MDKA. MDKA's share price has been hit by a combination of metals price correction and market's recent negative reaction to recent announcement on TB Copper PFS. We think the correction appears overdone, though investors may await further progress on the key projects and signs of metals price bottoming.

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	381	870	1,820	2,354	2,342
EBITDA	206	234	732	953	945
Net profit	36	58	188	204	172
EPS growth	-0.2%	61.7%	221.7%	8.8%	-16.1%
ROE	5.6%	6.6%	17.1%	15.8%	11.6%
PER (x)	136.7	84.5	26.3	24.2	28.8
EV/EBITDA (x)	24.1	21.2	7.0	5.6	5.7
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
IPS vs. consensus			166%	139%	40%

Source: Company, Indo Premier

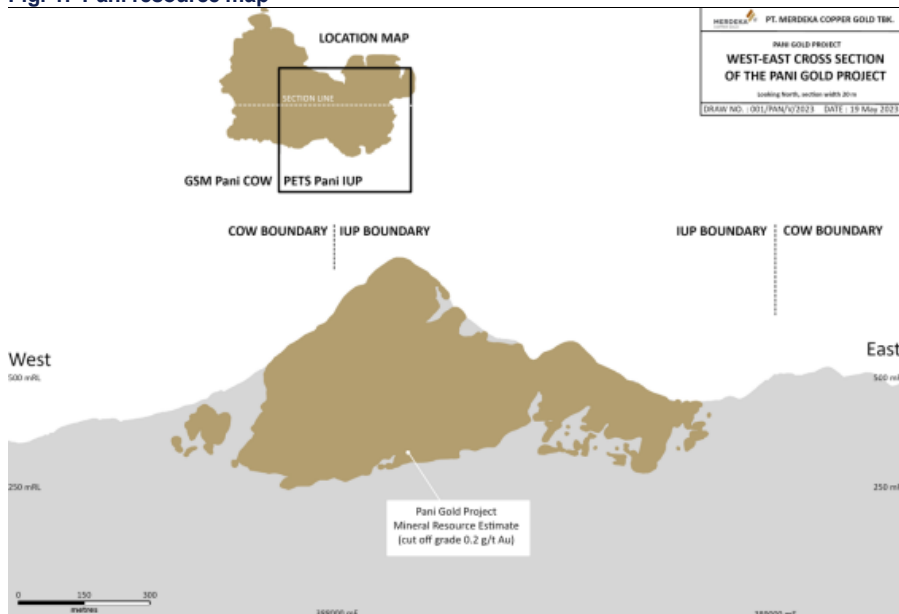
Share price closing as of: 26 May 2023

Incorporating Pani gold project upside

MDKA announced the updated resource base for Pani gold to 276Mt (or at 6.63Moz of gold at 0.75g/t grade), up from 4.5Moz previously, from the result of further drillings. Pani project is currently completing the feasibility study, targeted for completion/announcement at end of 3Q23/4Q23.

MDKA envisages a heap leach operation at Pani with expected production by end of FY25, with indicative target to process 7Mtpa of ore to produce 120k-140k oz of gold. At later stage, MDKA aims to add carbon-in-leach processing facility to reach a maximum throughput of 21Mtpa of ore (~450k oz of gold).

Fig. 1: Pani resource map



Source: Company, Indo Premier

Pani valuation estimation

Incorporating the latest resource and indicative production plans for Pani, we now assign valuation of US\$737 (MDKA's attributable 70% share of US\$1bn), based on gold price assumption of US\$1,800/oz.

The caveat on the numbers is on project capex, as it still awaits the completion of FS (we currently assumed US\$25/t of ore for heap leaching facility, US\$40/t for CIL processing and US\$200mn for mining). We currently assumed Pani production to ramp up to 300k oz in FY30, translating to 80% of resource for mine life of 20 years. Thus, we expect MDKA to further announce more resource to support a better project return.

Fig. 2: Pani valuation assumption

Pani (per annum)	2023-2025	2026-2029	2030-3049
Production (k oz)	0	120	300
ASP (US\$/oz)	1,800	1,800	1,800
Cash cost (US\$/oz)	575	575	575
EBITDA (US\$mn)	0	147	367
Capex (US\$mn)	125	155	15

Source: Indo Premier

Fig. 3: Pani valuation summary

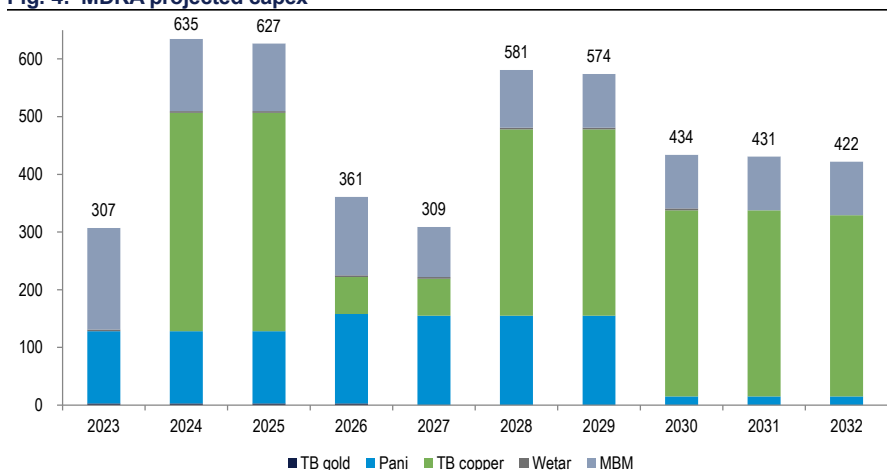
Pani	US\$m n
Total project capex	1,055
WACC	9%
NPV	1,052
MDKA's stake	70%
Attributable NPV	737

Source: Indo Premier

MDKA balance sheet profile

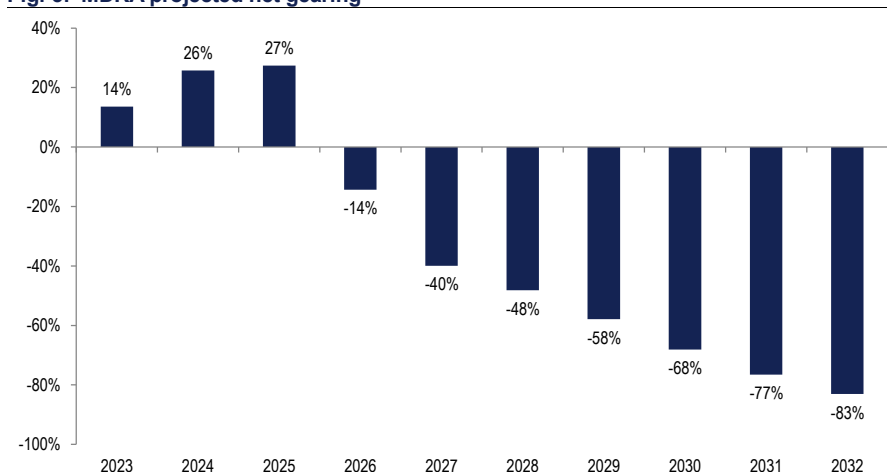
As we include our latest capex estimate for the Pani project (US\$735mn), we forecast MDKA's capex to gradually increase to ~US\$630mn in 24/25F from US\$537mn in FY23F, with estimated total project capex for the next 10 years of US\$4.7bn. Based on this, we forecast its net gearing to gradually rise to 26/27% and net debt/ EBITDA to 0.4/0.5x in FY24/ FY25F, with projected peak net gearing of 27% in FY25.

Fig. 4: MDKA projected capex



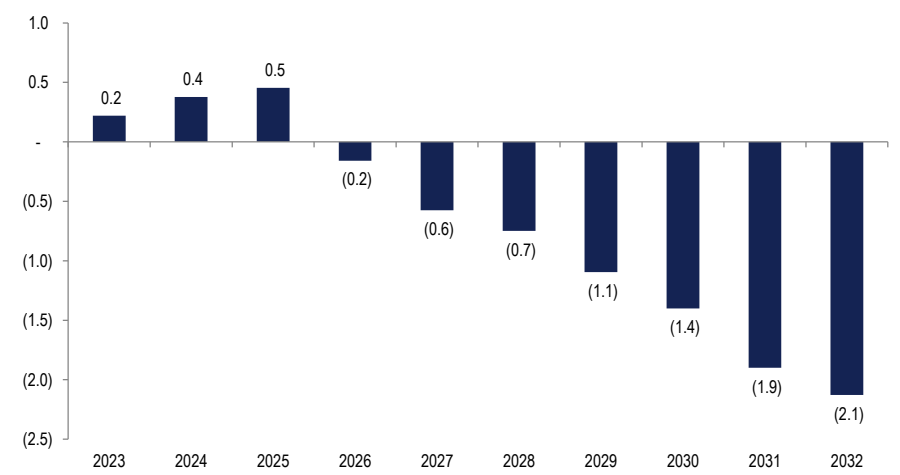
Source: Company, Indo Premier

Fig. 5: MDKA projected net gearing



Source: Company, Indo Premier

Fig. 6: MDKA projected ND/EBITDA



Source: Company, Indo Premier

Earnings and valuation adjustments

We lowered our FY23/24/25F EPS estimates by 8/11/15% to reflect higher interest expenses on the back of the higher capex. However, we raise our SOTP-based TP to Rp4,700, incorporating the valuation upside for Pani.

Fig. 7: Forecast changes summary

Forecast changes (US\$ mn)	Previous			New			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	1,820	2,354	2,342	1,820	2,354	2,342	0%	0%	0%
Cost of sales	(1,136)	(1,442)	(1,495)	(1,158)	(1,471)	(1,525)	2%	2%	2%
Gross profit	684	912	847	662	883	817	-3%	-3%	-4%
SG&A Expenses	(146)	(188)	(187)	(146)	(188)	(187)	0%	0%	0%
Operating profit	538	724	660	516	695	630	-4%	-4%	-5%
Net interest	(8)	(14)	(15)	(3)	(16)	(24)	-55%	16%	59%
Others	0	0	0	0	0	0	N/A	N/A	N/A
Pre-tax income	530	710	645	513	678	606	-3%	-4%	-6%
Income tax	(175)	(234)	(213)	(169)	(224)	(200)	-3%	-4%	-6%
Minority interest	(152)	(246)	(230)	(156)	(250)	(234)	3%	2%	2%
Net income	203	230	202	187	204	172	-8%	-11%	-15%

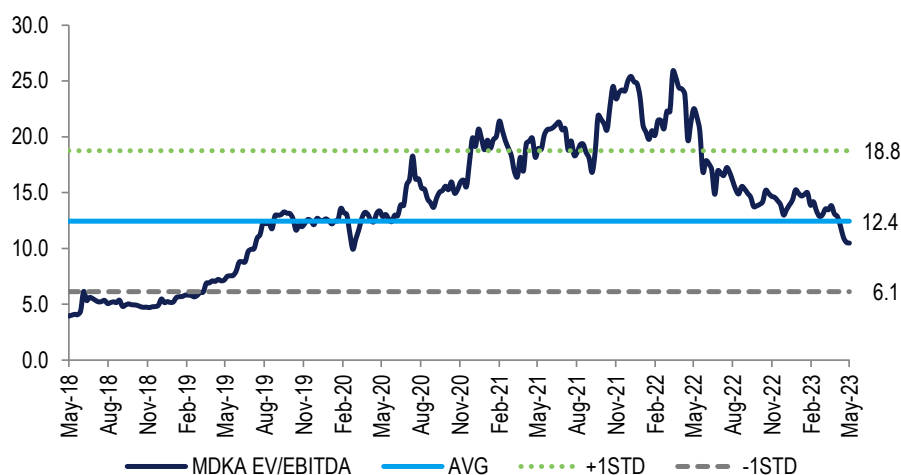
Source: Indo Premier

Fig. 8: SOTP valuation

NPV summary by project	Previous		Current		Valuation method
	US\$ mn	% of total	US\$ mn	% of total	
Gold	530	7%	1,299	15%	
TB Oxide	366	5%	562	6%	DCF (LTG: 0%, WACC: 8.8%)
Pani	163	2%	737	9%	DCF (LTG: 0%, WACC: 8.8%)
Copper	4,419	57%	4,504	52%	
Wetar	470	6%	556	6%	DCF (LTG: 0%, WACC: 8.8%)
Tujuh Bukit - (Cu + Au)	2,770	35%	2,770	32%	DCF (LTG: 0%, WACC: 8.0%)
Tujuh Bukit - remaining resources	1,179	15%	1,179	14%	EV/resource at 20% of NPV/t
Nickel (MBMA)	2,861	37%	2,861	33%	
Total asset value	7,809	100%	8,665	100%	
Debt	1,099		1,090		
Cash	267		234		
Net cash/(debt)	(831)		(857)		
Equity value	6,978		7,808		
US\$/IDR exchange rate	15,000		14,500		
Equity value (Rp bn)	104,671		113,215		
No of shares (bn shares)	24		24		
Target price (in Rp/sh)	4,340		4,700		
Current share price	2,970		2,970		
Upside	46%		58%		

Source: Company, Indo Premier

Fig. 9: EV/ EBITDA valuation band



Source: Bloomberg, Indo Premier

Income Statement	2021A	2022A	2023F	2024F	2025F
Net revenue	381	870	1,820	2,354	2,342
Cost of sales	(261)	(705)	(1,158)	(1,471)	(1,525)
Gross profit	120	165	662	883	817
SG&A Expenses	(29)	(53)	(146)	(188)	(187)
Operating profit	91	112	516	695	630
Net interest	(11)	(42)	(3)	(16)	(24)
Forex gain (loss)	0	0	1	0	0
Others	(23)	20	0	0	0
Pre-tax income	57	90	513	678	606
Income tax	(23)	(25)	(169)	(224)	(200)
Minority interest	3	(6)	(156)	(250)	(234)
Net income	36	58	188	204	172

Balance Sheet	2020A	2021A	2022F	2023F	2024F
Cash & equivalent	185	444	191	437	806
Receivable	1	66	66	66	66
Inventory	131	251	583	741	768
Other current assets	94	135	135	135	135
Total current assets	411	896	975	1,379	1,775
Fixed assets	631	2,265	2,356	2,732	3,044
Other non-current assets	236	716	716	716	716
Total non-current assets	867	2,981	3,072	3,448	3,759
Total assets	1,279	3,877	4,047	4,827	5,535
ST loans	0	0	0	0	0
Payable	30	110	131	167	173
Other payables	60	347	347	347	347
Current portion of LT loans	208	148	0	0	0
Total current liab.	297	605	478	514	520
Long term loans	0	311	352	797	1,236
Other LT liab.	202	937	937	937	937
Total liabilities	499	1,852	1,767	2,247	2,692
Equity	531	720	720	720	720
Retained earnings	224	283	471	675	847
Minority interest	24	1,022	1,089	1,185	1,276
Total SHE + minority int.	779	2,025	2,280	2,580	2,843
Total liabilities & equity	1,279	3,877	4,047	4,827	5,535

Source: Company, Indo Premier

Cash Flow Statement	2020A	2021A	2022F	2023F	2024F
Net income	36	58	188	204	172
Depr. & amortization	115	122	216	259	315
Changes in working capital	(192)	(153)	(311)	(122)	(21)
Others	173	435	156	250	234
Cash flow from operating	133	463	249	591	700
Capital expenditure	(242)	(1,127)	(307)	(635)	(627)
Others	0	0	0	0	0
Cash flow from investing	(242)	(1,127)	(307)	(635)	(627)
Loans	170	238	0	0	0
Equity	170	238	0	0	0
Dividends	0	0	0	0	0
Others	(93)	456	(196)	290	296
Cash flow from financing	247	932	(196)	290	296
Changes in cash	137	267	(253)	247	369

Key Ratios	2020A	2021A	2022F	2023F	2024F
Gross margin	32%	19%	36%	38%	35%
Operating margin	24%	13%	28%	30%	27%
Pre-tax margin	15%	10%	28%	29%	26%
Net margin	9%	7%	10%	9%	7%
ROA	3%	2%	5%	5%	3%
ROE	6%	7%	17%	16%	12%
Acct. receivables TO (days)	N/A	N/A	N/A	N/A	N/A
Inventory TO (days)	184	130	184	184	184
Payable TO (days)	41	57	41	41	41
Debt to equity	27%	46%	30%	57%	79%
Interest coverage ratio (x)	15.9	5.4	44.5	23.1	14.8
Net gearing	3%	2%	14%	26%	27%

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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