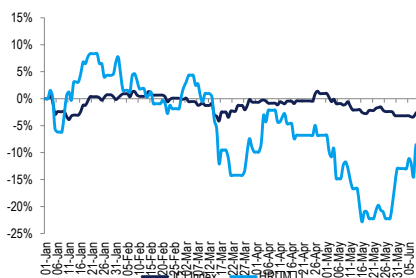


Stock Data

Target price	Rp2,200
Prior TP	Rp2,000
Current price	Rp1,455
Upside/downside	+51%
Shares outstanding (mn)	13,518
Market cap (Rp bn)	19,669
Free float	19%
Avg. 6m daily T/O (Rp bn)	23

Price Performance

	3M	6M	12M
Absolute	-9.6%	-16.6%	-33.3%
Relative to JCI	-8.1%	-15.0%	-26.5%
52w low/high (Rp)	1,250 – 2,180		



Major Shareholders

Karunia Bara Perkasa	79.8%
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Further nickel value creation outlook remains intact; upgrade our TP

- HRUM sees inevitable margin pressure in 2Q23 for coal and nickel businesses, but sees possible recovery in 2H23 from lower cost outlook.
- Management reaffirms plans to expand to nickel industry with priority on increasing stake in existing asset and product diversification.
- We reiterate Buy rating and raise SOTP-based TP to Rp2,200 to reflect WMI's valuation inclusion and see upside from further stake acquisition

Margin bottoming prospect in 2Q23

We hosted an investors' group call with HRUM's CEO this week. On nickel market, HRUM acknowledged current pressure in NPI price (2Q23-QTD: US\$15.7k/t, -18% qoq) due to combination of oversupply and slowing China demand and expects NPI price to possibly bottom by 4Q23. On the cost front, it expects cash cost to gradually improve in 2Q23 onwards, benefiting from correction in coal and fuel price (~35% of cash cost, based on our estimates). On coal, management sees prospect for China and Europe demand recovery on summer seasonal demand as inventory shall also fall.

On-track with more nickel investment

HRUM affirms its investment plan in nickel segment with priorities on volume expansion and product diversification. It reiterates that volume expansion is likely to be achieved through increasing its stake in nickel ventures (from current 49% stake in IMI and 20% in WMI). It affirms investments plan to diversify into HPAL projects (with suitable size of 56k tonnes) in IWIP (Weda Bay). Near-term, HRUM expects WMI RKEF processing facility (50k) to commence operation in 4Q23, which includes the high-grade nickel matte conversion facility.

Upgrade FY23/24/25F earnings as we include WMI in our valuation

We previously assumed that HRUM would pursue volume expansion by doubling IMI's capacity to 56kt in FY24F. We now adjust IMI's capacity to remain at 28kt p.a. but have included WMI in our valuation which results in higher valuation for the nickel business (to US\$876mn from US\$698mn prev.; fig.3). As a result, we upgrade our earnings estimates by 1/4/14% in FY23/24/25F.

Reiterate Buy rating and upgrade SOTP-based TP to Rp2,200

We upgrade our SOTP-based TP to Rp2,200 to reflect WMI's valuation. We reiterate our Buy rating on still attractive valuation of 4.6x FY23F EV/EBITDA (24% discount to 10-year mean). We see room for upside in nickel asset valuation pending announcement of HRUM's stake increase. Key risks are lower coal and nickel price.

Financial Summary (US\$ mn)	2020A	2021A	2022F	2023F	2024F
Revenue	336	904	738	588	543
EBITDA	149	471	325	249	227
Net profit	69	263	226	189	191
EPS growth	16%	283%	-14%	-16%	1%
ROE	16.3%	43.7%	27.9%	20.5%	19.5%
PER (x)	17.8	4.6	5.4	6.5	6.4
EV/EBITDA (x)	7.9	1.8	2.1	2.2	2.2
Dividend yield	0.6%	0.6%	6.5%	9.3%	12.4%
IPS vs. consensus			102%	82%	89%

Source: Company, Indo Premier

Share price closing as of: 9 June 2023

Fig. 1: Forecast changes

Forecast changes (US\$ mn)	Previous			New			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	738	588	543	738	588	543	0%	0%	0%
Cost of sales	(307)	(261)	(246)	(307)	(261)	(246)	0%	0%	0%
Gross profit	431	328	297	431	328	297	0%	0%	0%
SG&A Expenses	(122)	(97)	(90)	(122)	(97)	(90)	0%	0%	0%
Operating profit	309	230	207	309	230	207	0%	0%	0%
Net interest	4	5	6	4	5	6	0%	1%	3%
Others	57	65	65	61	73	93	7%	13%	44%
Pre-tax income	370	301	278	374	309	306	1%	3%	10%
Income tax	(74)	(60)	(56)	(75)	(62)	(61)	1%	3%	10%
Minority interest	(74)	(59)	(54)	(74)	(59)	(54)	0%	0%	0%
Net income	223	182	168	226	189	191	1%	4%	14%

Source: Company, Indo Premier

Fig. 2: Scenario analysis

Sensitivity analysis	Bear			Base			Bull		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
LME nickel price (US\$/t)	22,000	20,000	20,000	22,000	20,000	20,000	22,000	20,000	20,000
NPI ASP (US\$/t)	16,500	15,000	15,000	16,940	15,400	16,000	17,600	16,000	16,000
% discount to LME	25%	25%	25%	23%	23%	20%	20%	20%	20%
Nickel matte ASP (US\$/t)	17,600	16,000	16,000	18,700	17,000	17,000	19,800	18,000	18,000
% discount to LME	20%	20%	20%	15%	15%	15%	10%	10%	10%
Revenue	738	588	543	738	588	543	738	588	543
EBITDA	325	249	227	325	249	227	325	249	227
% vs. base case	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net profit	213	172	168	226	189	191	232	199	198
% vs. base case	-6%	-9%	-12%	0%	0%	0%	3%	6%	4%
P/E (x)	5.7	7.1	7.2	5.4	6.5	6.4	5.2	6.1	6.2
EV/EBITDA (x)	2.1	2.3	2.4	2.1	2.2	2.2	2.0	2.2	2.2
Target price	2,000			2,200			2,200		

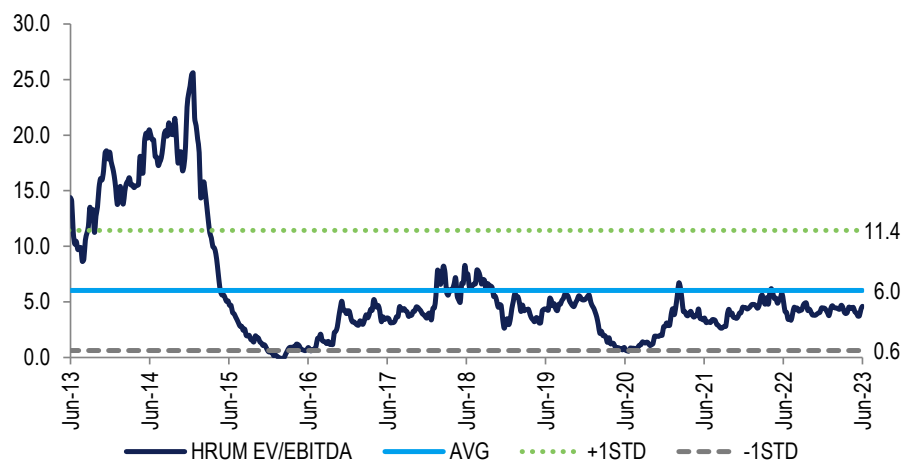
Source: Indo Premier

Fig. 3: SOTP valuation

HRUM valuation summary	Previous		Current	
	in US\$ mn	Rp/sh	in US\$ mn	Rp/sh
Coal valuation	636	700	636	700
PT Position (nickel mine)	312	300	312	300
PT IMI (RKEF)	268	300	238	300
Nickel Mines AU	118	100	118	100
PT WMI (RKEF)	0	0	209	200
Total valuation	1,333	1,400	1,512	1,600
Cash	547	600	550	600
Debt	(4)	0	(4)	0
Equity value	1,884	2,000	2,066	2,200
No of shares	13.5		13.5	
TP	2,000		2,200	
Current share price	1,455		1,455	
Upside	37%		51%	

Source: Company, Indo Premier

Fig. 4: HRUM EV/ EBITDA - trades at 29% discount to 10-year mean



Source: Bloomberg, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	336	904	738	588	543
Cost of sales	(162)	(363)	(307)	(261)	(246)
Gross profit	175	541	431	328	297
SG&A Expenses	(42)	(101)	(122)	(97)	(90)
Operating profit	132	440	309	230	207
Net interest	(2)	(1)	4	5	6
Forex gain (loss)	0	0	0	0	0
Others	(8)	(1)	61	73	93
Pre-tax income	122	438	374	309	306
Income tax	(29)	(98)	(75)	(62)	(61)
Minority interest	(24)	(78)	(74)	(59)	(54)
Net income	69	263	226	189	191

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	149	371	550	653	701
Receivable	23	69	38	30	28
Inventory	21	43	27	23	22
Other current assets	54	36	36	36	36
Total current assets	248	519	651	743	787
Fixed assets	59	52	92	86	78
Other non-current assets	568	708	747	791	841
Total non-current assets	627	760	840	877	918
Total assets	875	1,279	1,491	1,619	1,705
ST loans	0	0	0	0	0
Payable	17	21	16	14	13
Other payables	63	205	205	205	189
Current portion of LT loans	0	0	0	0	0
Total current liab.	81	226	221	219	202
Long term loans	83	0	(4)	(8)	0
Other LT liab.	61	61	61	61	61
Total liabilities	224	287	278	272	263
Equity	152	192	192	192	192
Retained earnings	317	543	690	765	805
Minority interest	182	258	332	391	445
Total SHE + minority int.	651	992	1,213	1,347	1,442
Total liabilities & equity	875	1,279	1,491	1,619	1,705

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net income	132	440	309	230	207
Depr. & amortization	17	31	15	18	20
Changes in working capital	(11)	(65)	43	9	3
Others	(9)	(8)	(10)	17	38
Cash flow from operating	130	399	358	275	268
Capital expenditure	(16)	(32)	(96)	(55)	(62)
Others	(259)	(71)	0	0	0
Cash flow from investing	(275)	(103)	(96)	(55)	(62)
Loans	103	(99)	(4)	(4)	(8)
Equity	31	40	0	0	0
Dividends	(7)	(7)	(79)	(113)	(151)
Others	(43)	(8)	0	0	0
Cash flow from financing	84	(74)	(83)	(117)	(159)
Changes in cash	(62)	221	179	103	48

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	52.0%	59.9%	58.4%	55.7%	54.6%
Operating margin	39.3%	48.7%	41.9%	39.2%	38.1%
Pre-tax margin	36.3%	48.5%	50.7%	52.6%	56.4%
Net margin	20.4%	29.0%	30.6%	32.1%	35.2%
ROA	10.0%	24.4%	16.3%	12.1%	11.5%
ROE	12.4%	32.0%	20.5%	14.7%	13.7%
Acct. receivables TO (days)	17	19	26	21	19
Inventory TO (days)	38	32	42	35	33
Payable TO (days)	25	19	22	21	20
Debt to equity	15.8%	0.4%	0.0%	-0.3%	-0.8%
Interest coverage ratio (x)	48.1	146.8	6312.9	-4835.6	-1105.3
Net gearing	-7%	-37%	-45%	-49%	-49%

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

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.

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