

Merdeka Battery Materials

BUY

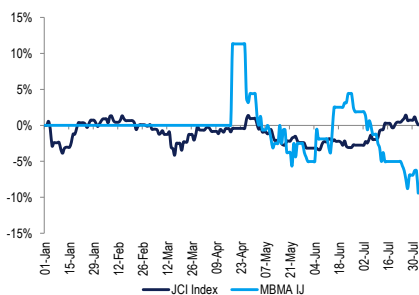
Company Initiation | Metals | MBMA IJ | 2 August 2023

Stock Data

Target price	Rp990
Prior TP	Rp990
Current price	Rp720
Upside/downside	+38%
Shares outstanding (mn)	107,995
Market cap (Rp bn)	77,757
Free float	25%
Avg. 6m daily T/O (Rp bn)	33

Price Performance

	3M	6M	12M
Absolute	-10.6	N/A	N/A
Relative to JCI	-10.4	N/A	N/A
52w low/high (Rp)	750 – 885		



Major Shareholders

Merdeka Energi Nusantara	49.8%
Garibaldi Thohir	11.1%
Huayong International Limited	7.6%

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2Q23 ops.: steady production, falling cost, extra margin from nickel matte

- We viewed positively MBMA's falling cash cost and additional margin from newly-acquired HNMI, aside from steady production in 2Q23
- Management expects saprolite/limonite sales to start in 3Q23/4Q23 and AIM project to commence in 4Q23.
- We maintain FY23-25F est. and SOTP-based TP of Rp990 for now.

Steady 2Q23 production volumes, including contribution from ZHN

MBMA produced a combined 11.8kt and sold 11kt of NPI in 2Q23, up 27% and 35% qoq respectively, reflecting steady production from existing CSI, BSI smelters (at 9.7kt/+4% qoq), and contributions from newly completed ZHN smelter. 1H23 NPI production and sales volume of 21.2kt and 19.2kt respectively accounted for 40/36% of our FY23 assumptions. On the mining front, SCM produced 631k wmt of nickel ore, driving the mine's stockpile to 2.9mn wmt (2/0.9mn wmt of saprolite/limonite) as of end of 2Q23.

Falling cost though still above peers; capturing margin through HNMI

MBMA's RKEF smelters delivered lower cash cost of US\$13.4k/t in 2Q23, largely reflecting the drop in coal price. While this is expected, MBMA's 2Q23 cash cost remained higher than that of other RKEF producers (e.g., NCKL at US\$10.7k/t and NIC at US\$12.1k/t), with 1H23 cash cost of US\$14.3k/t slightly above our FY23 forecast of US\$13k/t. MBMA's 2Q23 earnings also include contribution from newly-acquired HNMI (conversion facility from NPI to high-grade nickel matte). HNMI's 2Q23 ASP of US\$17.4k/t and cash cost of US\$15.9k/t (including LGNM purchase cost of US\$14.9k/t) reflected processing cash cost of US\$1k/t which we think reflect well on the project's economics. HNMI's production of 4.4kt in 2Q23 account for 18% of our FY23F estimates, implying possible room for upside surprise in 2H23.

Project progress: ZHN commencement, slight delay on ore sales

MBMA has commissioned its third NPI smelter (i.e., ZHN, at 50kt of nameplate capacity) in Jun23, in-line with its initial target, hence boosting its total NPI capacity to 88kt. MBMA management expects saprolite sales to commence in 3Q23, while it expects limonite sales to Huayou in IMIP to only commence by end of FY23 (vs. 3Q23 prev). MBMA reported 92% progress on the construction of its AIM project and reiterates project commencement plan in 4Q23. MBMA's plan on owning the high-grade nickel matte converter (for CSI and ZHN) remains under review.

Retain Buy rating and SOTP-based TP of Rp990

Amid inline operational numbers and project progress, we maintain our FY23-25F forecast and SOTP-based TP of Rp990. Key risks for MBMA stock remains weaker nickel price.

Financial Summary (US\$ mn)	2022A	2023F	2024F	2025F	2026F
Revenue	456	1,609	2,733	3,889	5,701
EBITDA	46	211	524	991	1,819
Net profit	22	43	196	274	637
EPS growth	N/A	100%	353%	40%	133%
ROE	1%	2%	7%	8%	14%
PER (x)	239.3	119.7	26.4	18.9	8.1
EV/EBITDA (x)	119.6	26.2	10.5	8.1	3.9
Dividend yield	0.0%	0.5%	0.5%	0.5%	0.5%
IPS vs. consensus		82%	95%	76%	N/A

Source: Company, Indo Premier

Share price closing as of: 2 August 2023

Fig. 1: MBMA Valuation summary

SOTP valuation (US\$m n)	Valuation	MBMA stake	Attributable valuation
SCM	3,049	51.0%	1,555
RKEF smelters	2,126	50.1%	1,065
BSI	420	50.1%	210
CSI	530	50.1%	265
ZHN	1,177	50.1%	589
AIM	771	80.0%	616
HPAL smelters	7,013	53.5%	3,751
IKIP 1	3,640	66.0%	2,402
IKIP 2	3,373	40.0%	1,349
HGNM	831	60.0%	498
Asset value	13,789		7,486
Cash	1,627		1,627
Debt	1,972		1,972
Equity value	13,444		7,141
USD/IDR			15,000
Outstanding shares (bn)			108
Target price			990
Current price			720
Upside			38%

Source: Company, Indo Premier

Income Statement (US\$ mn)	2022A	2023F	2024F	2025F	2026F
Net revenue	456	1,609	2,733	3,889	5,701
Cost of sales	(411)	(1,404)	(2,176)	(2,906)	(3,819)
Gross profit	44	205	558	983	1,882
SG&A Expenses	(14)	(66)	(112)	(159)	(234)
Operating profit	30	139	446	824	1,648
Net interest	(21)	(23)	(49)	(169)	(212)
Income/(loss) from associates	1	0	0	0	35
Others	27	0	0	0	0
Pre-tax income	37	116	397	655	1,471
Income tax	0	(13)	(60)	(119)	(260)
Minority interest	(16)	(60)	(141)	(262)	(575)
Net income	22	43	196	274	637

Balance Sheet (US\$ mn)	2022A	2023F	2024F	2025F	2026F
Cash & equivalent	280	1,627	2,688	432	1,247
Receivable	64	134	228	324	475
Inventory	79	156	242	323	424
Other current assets	46	46	46	46	46
Total current assets	469	1,963	3,203	1,125	2,192
Fixed assets	918	1,674	1,785	4,565	4,503
Other non-current assets	1,035	1,051	1,154	1,343	1,395
Total non-current assets	1,952	2,725	2,939	5,908	5,897
Total assets	2,422	4,688	6,143	7,033	8,090

ST loans	0	0	0	0	0
Payable	66	117	181	242	318
Other payables	80	80	80	80	80
Current portion of LT loans	18	158	242	266	247
Total current liab.	164	355	504	588	646
Long term loans	592	1,815	2,784	3,054	2,842
Other LT liab.	270	461	609	694	751
Total liabilities	862	2,275	3,393	3,747	3,593

Equity	863	1,613	1,613	1,613	1,613
Retained earnings	20	63	259	533	1,170
Minority interest	602	662	803	1,065	1,640
Others	74	74	74	74	74
Total SHE + minority int.	1,559	2,413	2,749	3,285	4,497
Total liabilities & equity	2,422	4,688	6,143	7,033	8,090

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2022A	2023F	2024F	2025F	2026F
Net income	22	43	196	274	637
Depr. & amortization	16	71	78	167	170
Changes in working capital	(77)	(96)	(115)	(117)	(176)
Others	139	43	141	262	575
Cash flow from operating	100	62	300	586	1,206
Capital expenditure	(934)	(769)	(189)	(2,947)	(109)
Others	(210)	0	(103)	(189)	(51)
Cash flow from investing	(1,144)	(769)	(292)	(3,135)	(160)
Loans	610	1,362	1,054	293	(231)
Equity	937	750	0	0	0
Dividends	0	0	0	0	0
Others	(216)	(58)	0	0	0
Cash flow from financing	1,331	2,054	1,054	293	(231)
Changes in cash	287	1,347	1,061	(2,256)	815

Key Ratios	2022A	2023F	2024F	2025F	2026F
Gross margin	9.7%	12.8%	20.4%	25.3%	33.0%
Operating margin	6.7%	8.7%	16.3%	21.2%	28.9%
Pre-tax margin	8.2%	7.2%	14.5%	16.8%	25.8%
Net margin	4.8%	2.7%	7.2%	7.0%	11.2%
ROA	0.9%	0.9%	3.2%	3.9%	7.9%
ROE	1.4%	1.8%	7.1%	8.3%	14.2%
ROIC	2.8%	4.3%	8.8%	13.3%	23.2%
Acct. receivables TO (days)	12.0	12.0	12.0	12.0	12.0
Inventory TO (days)	9.0	9.0	9.0	9.0	9.0
Payable TO (days)	12.0	12.0	12.0	12.0	12.0
Debt to equity	63.8%	112.7%	155.5%	149.5%	108.1%
Interest coverage ratio (x)	2.1	3.8	5.1	5.6	8.1
Net gearing	0.3	0.2	0.2	1.3	0.6

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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