INDOPREMIER

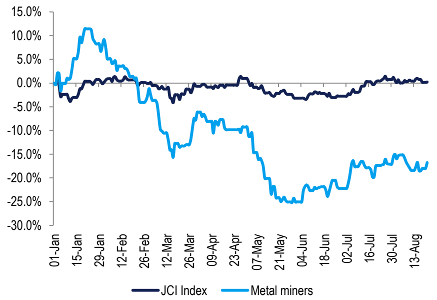
Metals

NEUTRAL *(unchanged)*

Sector Update | 21 Aug 2023

Sector Index Performance

	3M	6M	12M
Absolute	9.8%	-17.9%	-17.7%
Relative to JCI	7.3%	-17.5%	-13.5%



Summary Valuation Metrics

P/E (x)	2023F	2024F	2025F
ADMR IJ	12.6	12.0	11.6
ANTM IJ	8.3	8.7	11.2
HRUM IJ	5.3	6.9	6.9
MBMA IJ	118.9	26.2	18.8
MDKA IJ	115.5	108.9	115.4
INCO IJ	13.4	18.4	18.9

EV/EBITDA (x)	2023F	2024F	2025F
ADMR IJ	8.4	8.1	7.1
ANTM IJ	4.2	3.9	4.3
HRUM IJ	2.1	2.5	2.5
MBMA IJ	26.1	10.5	8.1
MDKA IJ	11.9	10.0	9.5
INCO IJ	6.2	8.8	9.8

Div. Yield	2023F	2024F	2025F
ADMR IJ	N/A	N/A	N/A
ANTM IJ	1.8%	2.6%	2.5%
HRUM IJ	5.3%	9.4%	11.6%
MBMA IJ	N/A	N/A	N/A
MDKA IJ	N/A	N/A	N/A
INCO IJ	N/A	N/A	N/A

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Copper's weak demand implies price downside risk prevail

- Copper's bearish positioning concur with rising surplus amid weak demand and supply flows, despite persistently low inventory.
- Our earlier expectation for bottoming China metals demand may be proven wrong as China property developers' financial distress imply possible demand repercussion.
- We maintain Neutral rating on the sector on bearish metal price outlook for the remainder of the year and keep our preference on INCO/HRUM.

Current copper price signals bearish position from producers

LME coper prices have been moving sideways in mid-2Q23-3Q23-QTD, hovering at US$8-8.5k/t range, despite the persistently low inventory levels (at LME and China's exchange). Along with other metals, copper price sentiment has been driven by continued weakness in China macro data, despite intact US economic growth indicators and easing inflation rates. Interestingly, we observed that copper price's movement since mid-2Q23 was also driven by the rising short positions from the producers/commercial buyers. We deem current producers' positioning (at -0.9x STD vs. 5-year mean) to be bearish as copper price of US$8.4k/t currently hovers closer to its 5-year mean, at +0.4x STD).

Copper market in higher surplus YTD amid slowing demand and supply growth

Copper supply growth has continued to surprise with 10% growth in 5M23 (latest available data), with May23 momentum continued to be positive (3MMA growth of 12% yoy), led by key exporters (i.e., China at 15% yoy, Congo at 19% yoy, Russia at 8% yoy). Meanwhile, imports data indicated slower growth rate at +4% yoy growth in 5M23, led by China (+7% yoy) and Japan (+1% yoy). These translated to copper market surplus of 782kt in 5M23, higher than FY22 surplus of 276kt.

China's growth risk may translate to further downside risk

We had previously argued (link to our report) that China's import data (-12% yoy in May23) may have reflected its weak industrial and property sales growth, and any signs of positive data or stimulus may act to support prices. However, our expectation may be proven wrong as recent news flows on China property developers' financial distress implies downside risk for China copper demand may still exist.

Maintain Neutral rating amid more bearish metals outlook

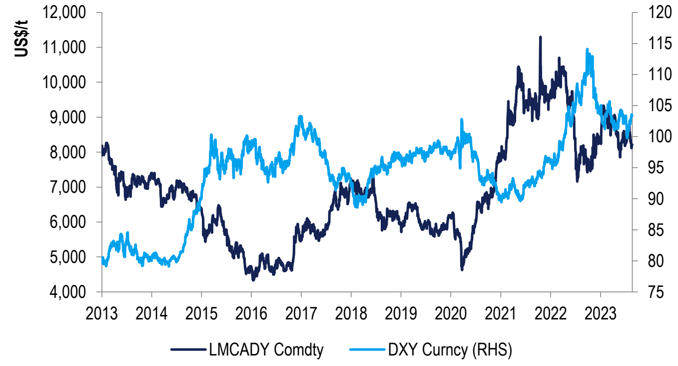
Despite the weak metals prices, the Indonesian metal sector have surprisingly outperformed JCI (by 306bps) in 3Q23 (QTD) led by ADMR (+32%), HRUM (+11%), and MDKA (+7%), reflecting share price rebound from low bases at end of 2Q23. Despite a more attractive valuation and potential value unlocking from growth projects as drivers for the Indonesian metal stocks, we think the bearish outlook for metals price in 2H23 (Sep23-4Q23) may dominate the sector's sentiment for the remainder of FY23. We thus maintain our Neutral rating on the sector and maintain preference on INCO (lesser exposure to China) and HRUM (cheapest valuation and possible upside from nickel assets).

Copper's weak demand implies price downside risk prevail

LME metals prices have seen further corrections in 3Q23 (QTD) with copper, nickel and aluminium weakening -1/-7/-5% QTD. The negative sentiment on metals prices have been driven by continued weakness in China macro data, despite intact US economic growth indicators, easing inflation rates and expectations for Fed rate pause.

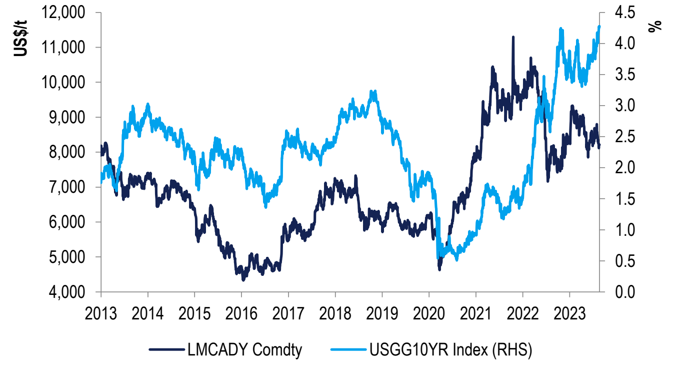
Looking further into copper as the leading metals for industrial activities, we noted that prices at LME has been moving sideways in mid-2Q23-3Q23-QTD, hovering at US$8-8.5k/t range. This is despite the persistently low inventory levels (at LME and China's exchange). Copper prices have unsurprisingly exhibited (inverse) correlation with US 10y bond yield and USD, as commodities buyers/ traders continued to react on narratives of US growth and rate outlook.

Fig. 1: Copper vs. DXY



Source: Bloomberg, Indo Premier

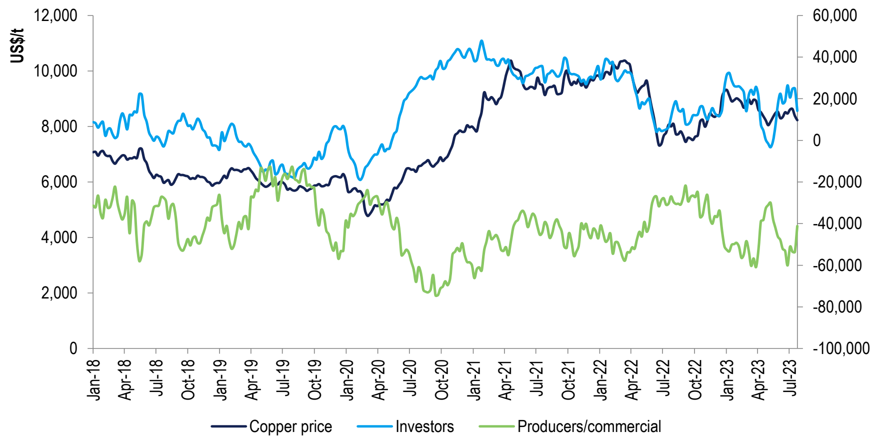
Fig. 2: LME copper vs. 10yr US bond yield



Source: Bloomberg, Indo Premier

It is interesting to note that copper price's movement since mid-2Q23 was driven by the rising short positions from the producers/commercial buyers, though price was still supported by a more bullish positioning from the investors/traders' segment. We deem current producers' positioning (at -0.9x STD vs. 5-year mean) to be bearish as copper price of US$8.4k/t currently hovers closer to its 5-year mean, at +0.4x STD).

Fig. 3: LME copper – traders positioning



Source: Bloomberg, Indo Premier

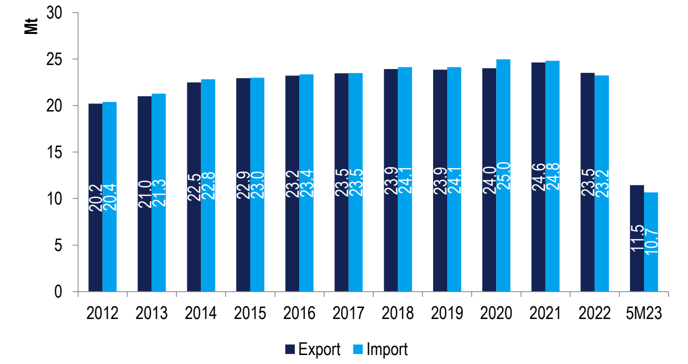
S-D Outlook

On the S-D front, copper supply growth has continued to surprise with 10% growth in 5M23 (latest available data), with May23 momentum continued to be positive (3MMA growth of 12% yoy), led by key exporters (i.e., China at 15% yoy, Congo at 19% yoy, Russia at 8% yoy). Meanwhile, imports data indicated slower growth rate at +4% yoy growth in 5M23, led by China (+7% yoy) and Japan (+1% yoy). These translated to copper market surplus of 782kt in 5M23, higher than FY22 surplus of 276kt.

We had previously argued (link to our report) that China's import data (-12% yoy in May23) may have reflected its weak industrial and property sales growth, and any signs of positive data or stimulus may act to support prices. However, our expectation may be proven wrong as recent news flows on China property financial distress implies downside risk for China copper demand may still exist.

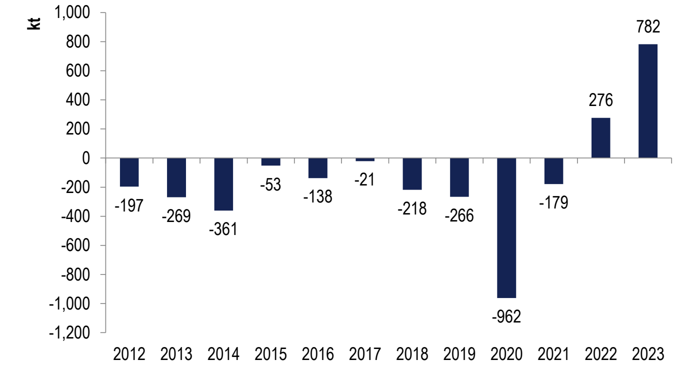
Amid combination of weak demand and supply growth, we see possibility for copper price to move towards its cost support of US$7.8k/t.

Fig. 4: Copper import-export



Source: Bloomberg, Indo Premier

Fig. 5: Market balance surplus/deficit

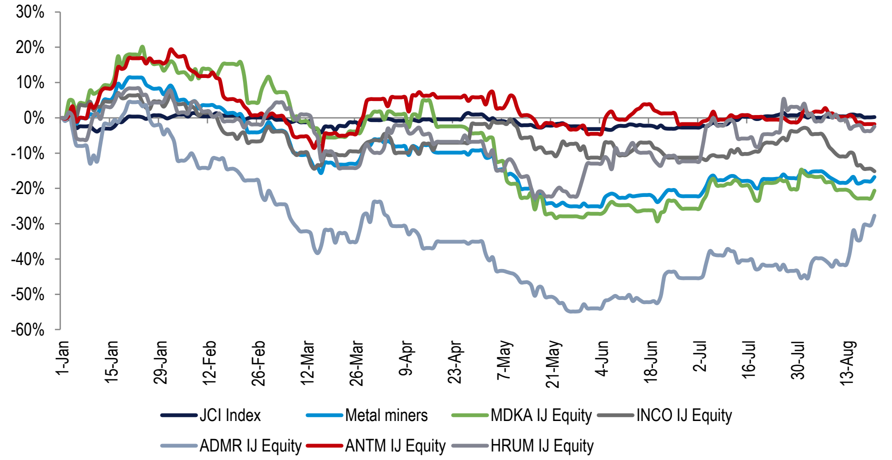


Source: Bloomberg, Indo Premier

Sector recommendations

Despite the weak metals prices, the Indonesian metal sector have surprisingly outperformed JCI (by 306bps) in 3Q23 (QTD) led by ADMR (+32%), HRUM (+11%), and MDKA (+7%), reflecting share price rebound from low bases at end of 2Q23. Despite a more attractive valuation and potential value unlocking from growth projects as drivers for the Indonesian metal stocks, we think the bearish outlook for metals price in 2H23 (Sep23-4Q23) may dominate the sector's sentiment for the remainder of FY23. We thus maintain our Neutral rating on the sector and maintain preference on INCO (lesser exposure to China) and HRUM (cheapest valuation and possible upside from nickel assets).

Fig. 6: Sector and share price performance (YTD)



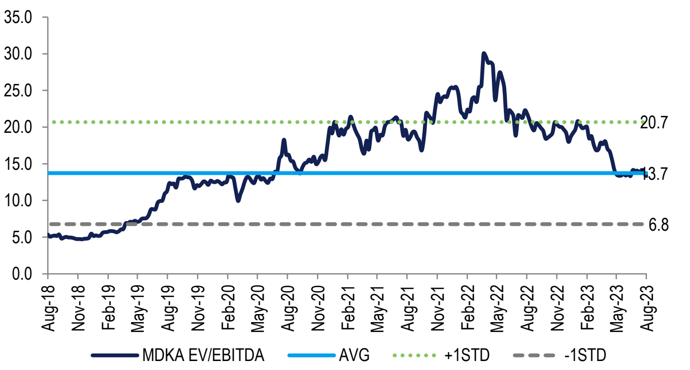
Source: Bloomberg, Indo Premier

Fig. 7: Metal miners valuation summary

Ticker	Rating	Current price	Target price (Rp)	P/E		EV/ EBITDA		Div. yield
				2023F	2024F	2023F	2024F	2023F
ADMR IJ	Buy	1,225	1,730	12.6	12.0	8.4	8.1	N/A
ANTM IJ	Buy	1,950	3,000	8.3	8.7	4.2	3.9	1.8%
HRUM IJ	Buy	1,580	2,450	5.3	6.9	2.1	2.5	5.3%
MBMA IJ	Buy	715	990	118.9	26.2	26.1	10.5	N/A
MDKA IJ	Buy	3,270	3,890	115.5	108.9	11.9	10.0	N/A
INCO IJ	Buy	6,025	7,950	13.4	18.4	6.2	8.8	N/A

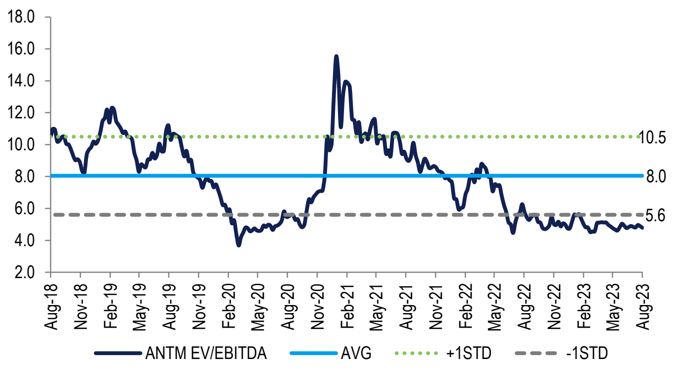
Source: Bloomberg, Indo Premier

Fig. 8: MDKA EV/EBITDA valuation



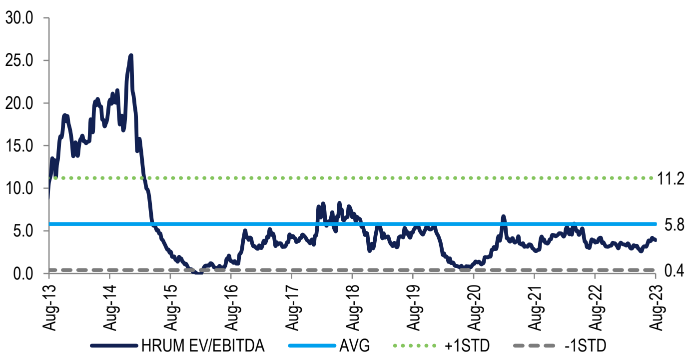
Source: Bloomberg, Indo Premier

Fig. 9: ANTM EV/EBITDA valuation



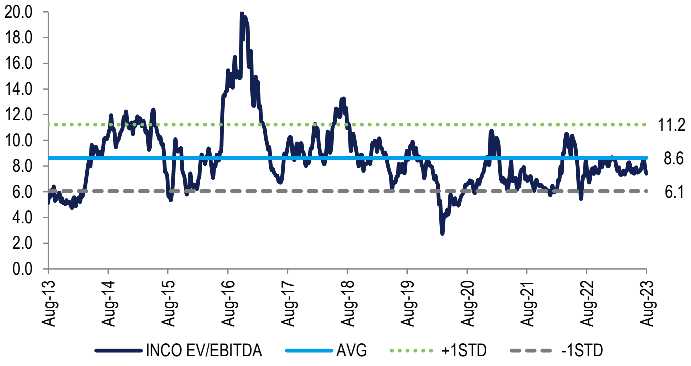
Source: Bloomberg, Indo Premier

Fig. 10: HRUM EV/EBITDA valuation



Source: Bloomberg, Indo Premier

Fig. 11: INCO EV/EBITDA valuation



Source: Bloomberg, Indo Premier

SECTOR RATINGS

OVERWEIGHT	:	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
NEUTRAL	:	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
UNDERWEIGHT	:	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY 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.

DISCLAIMERS