INDOPREMIER

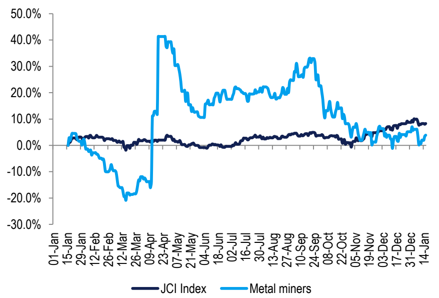
Metals

NEUTRAL *(unchanged)*

Sector Update | 16 January 2024

Sector Index Performance

	3M	6M	12M
Absolute	-7.9%	-12.5%	3.9%
Relative to JCI	-12.9%	-18.0%	-4.4%



Summary Valuation Metrics

P/E (x)	2023F	2024F	2025F
ADMR IJ	10.1	8.8	9.0
ANTM IJ	10.9	9.8	8.5
HRUM IJ	9.3	10.6	9.8
INCO IJ	11.2	20.6	36.8
MBMA IJ	229.1	24.4	14.8
MDKA IJ	N/A	26.9	24.6
NCKL IJ	10.0	7.2	6.4
EV/EBITDA (x)	**2023F**	**2024F**	**2025F**
ADMR IJ	7.7	7.9	7.2
ANTM IJ	6.7	6.1	5.2
HRUM IJ	3.6	5.4	6.9
INCO IJ	4.2	8.0	9.9
MBMA IJ	41.3	10.2	7.4
MDKA IJ	16.7	7.8	7.2
NCKL IJ	7.1	4.5	3.6
Div. Yield	**2023F**	**2024F**	**2025F**
ADMR IJ	N/A	N/A	N/A
ANTM IJ	5.0%	4.6%	5.1%
HRUM IJ	N/A	N/A	N/A
INCO IJ	N/A	N/A	N/A
MBMA IJ	N/A	N/A	N/A
MDKA IJ	N/A	N/A	N/A
NCKL IJ	N/A	3.0%	4.2%

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China output cut signals bottoming NPI price

- Nickel pig iron (NPI) price has stabilized at US$11k/ton level and went up by +3% off-bottom, which may signal bottoming NPI price.
- This coincided with China's NPI output cut (-10% mom in Dec-23) with Chinese producers experiencing 6-18% profit margin loss as of latest.
- While we prefer non-nickel-related names: MDKA and ADMR, we see tactical opportunities in MBMA/NCKL/HRUM.

Monthly output recap: China NPI output cut continues
China NPI output has declined by another 10% mom to 28.5kt in Dec-23 as NPI mills putting their operation on maintenance amid soft NPI price environment (Fig. 3). SMM also expects further decline in China NPI output in Jan-24 by another 4% mom, heading towards Chinese New Year (CNY) holiday. However, the decline in Chinese output have been partly offset by slight increase in Indonesian NPI, which as of latest, stood at 128.7kt in Dec-23. Combined, China + Indonesia NPI output was at 157kt in Dec-23 (-1% mom, +12% yoy). On FY basis, Indonesia NPI output was up by 22% yoy while China NPI output declined by 7% yoy (Fig. 2).

Post-CNY rally is a possibility despite limited structural demand uplift
We expect NPI prices to rally on post-CNY demand uplift as historically, there is a tendency for NPI prices to trend upwards after the start of new year by up to 16% (Fig. 5) and at worst remain flattish (except from the Covid-19 pandemic in 2020). However, we expect NPI price to be capped at around US$13k/ton level or even less in the near-term due to lack of structural demand driver and is subject to raw material costs movement. Our estimates are based on typical US$500-1k/ton cash margin from Chinese NPI producers and cash-costs that are currently stood at US$11.5-12k/ton level.

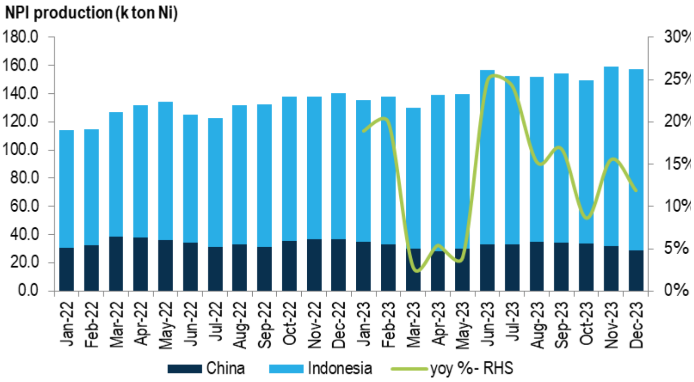
Lack of medium-term supply addition may lead to higher NPI price
We expect limited Class-2 nickel supply addition over medium-term period owing to government's moratorium on Class-2 nickel smelter in order to preserve Indonesian nickel ore reserves. We forecast NPI supply to grow by at least another c.5% in FY24F, following the full contribution of several NPI/FeNi smelter that was built in FY23 (i.e. NCKL's HJF, MBMA's ZHN, and ANTM's FeNi Halmahera) but aside from these smelters, supply addition should be relatively minimal (Fig. 9). As a result, we fine-tuned our supply-demand balance and now expect 106kt and 95kt market surplus in FY24F (from 90kt & 84kt previously) and as a result lower our NPI price forecast to US$13k/ton and US$13.3k/ton in FY24F/25F (from US$13.8k/ton and US$14k/ton, Fig. 10).

Maintain Neutral rating; tactical opportunities in MBMA/HRUM/NCKL
We maintain our sector Neutral rating, but we saw tactical opportunities in MBMA/HRUM/NCKL, all of which have the highest NP sensitivity towards change in NPI/FeNi price (3.1%/2.5%/1.9% to NP per 1% change in NPI/FeNi price assumptions) and combined with our fund flow analysis (report), we think MBMA would have the highest share price upside given the U/W position by local funds, followed by NCKL, and HRUM. While ANTM would also benefit from higher FeNi price, we observed that its share price movement is more directly correlated with LME nickel price, which affected its nickel ore ASP eventually.

Nickel pig iron (NPI) – Chinese producers have consecutively cut their monthly NPI output for two months in a row to 28.5kt (-10% mom), albeit this was partly offset by slight increase in Indonesian NPI output, which as of latest, stood at 128.7kt in Dec-23. China + Indonesia NPI output was at 157kt in Dec-23 (-1% mom, +12% yoy). On FY basis, Indonesia NPI output was up by 22% yoy while China NPI output declined by 7% yoy (Fig. 2).

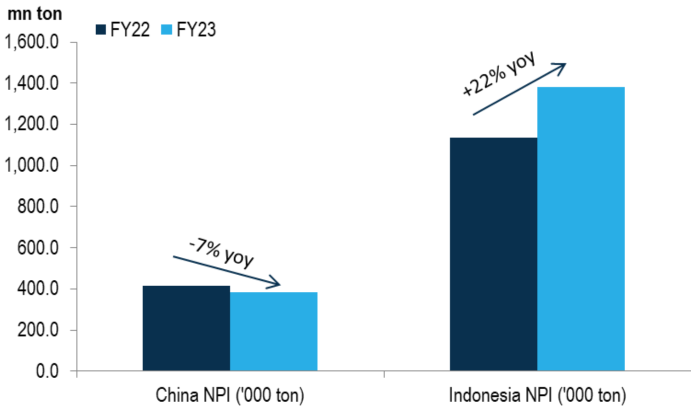
Shanghai Metal Market (SMM) mentioned that China NPI output declined were mainly due to NPI mills putting their operation on maintenance amid soft NPI price environment (Fig. 3), as they are experiencing 6-18% cash margin loss as of latest (Fig. 4). SMM also expects further decline in China NPI output in Jan-24 by another 4% mom, heading towards Spring Festival and Chinese New Year (CNY) holiday.

Fig. 1: China and Indonesia NPI production



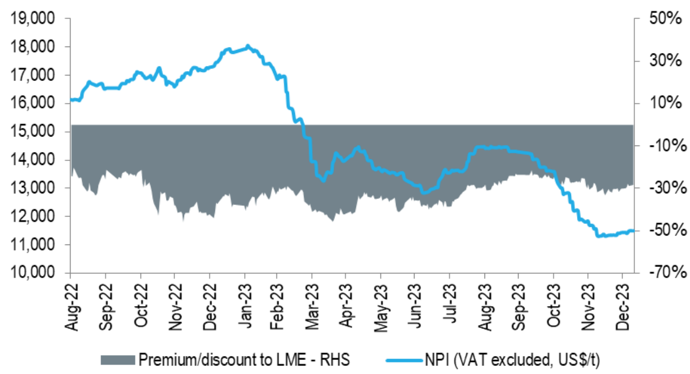
Source: Bloomberg, Shanghai Metal Market, Indo Premier

Fig. 2: China and Indonesia NPI production (FY22 vs FY23)



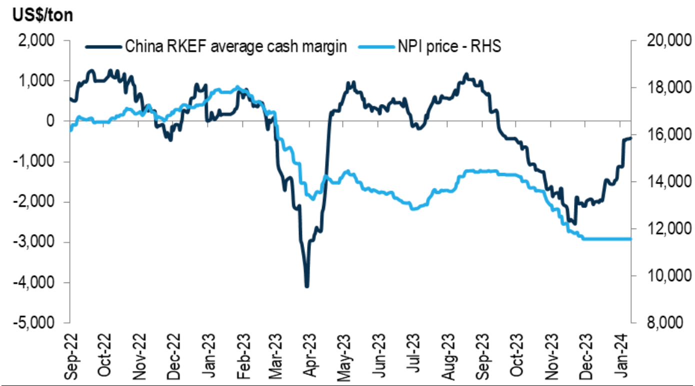
Source: Bloomberg, Shanghai Metal Market, Indo Premier

Fig. 3: China NPI prices



Source: Bloomberg, Shanghai Metal Market, Indo Premier

Fig. 4: NPI prices vs Chinese producers' cash margin

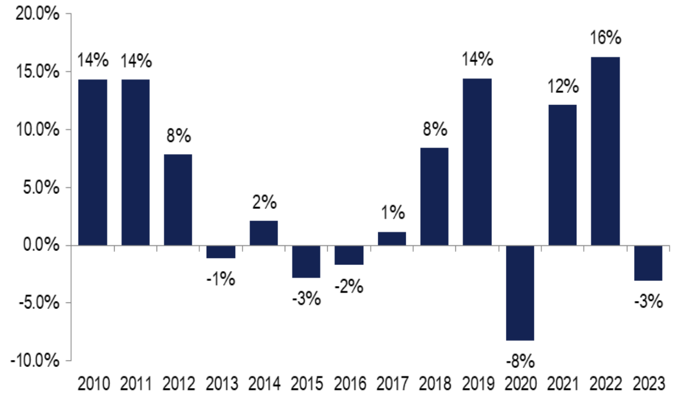


Source: Bloomberg, Shanghai Metal Market, Indo Premier

We observed that historically, there is a tendency for NPI prices to trend upwards after the start of new year (Fig. 5) and at worst remain flattish (except from the Covid-19 pandemic in 2020), which we think is mainly caused by demand seasonality as producers often reduced their output heading towards Spring Festival and CNY and would restart their operations – and restocking activity – right after the festive season.

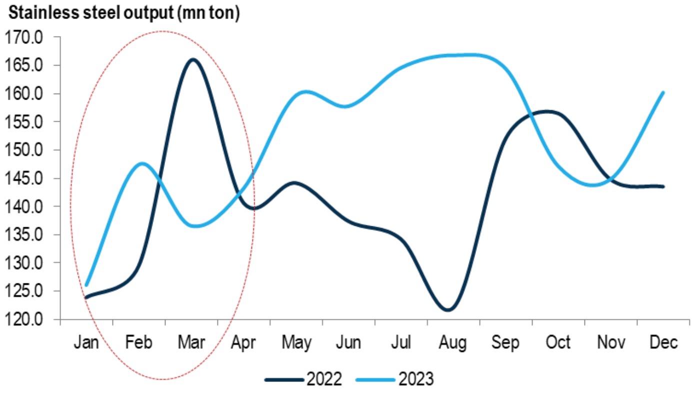
However, we expect the rally would be capped at around US$13k/ton level or even less in the near-term, subject to the raw material costs movement, as Chinese NPI producers often made around US$500-1k/ton cash margin, as per historical data, in order to sustain their operation. As such, with Chinese cash costs now already falling to US$11.5-12k/ton level, we expect NPI prices to be capped at around US$12.5-13k/ton level.

Fig. 5: T+2 months return; T= January



Source: Bloomberg, Shanghai Metal Market, Indo Premier

Fig. 6: Seasonality in China NPI & SS output

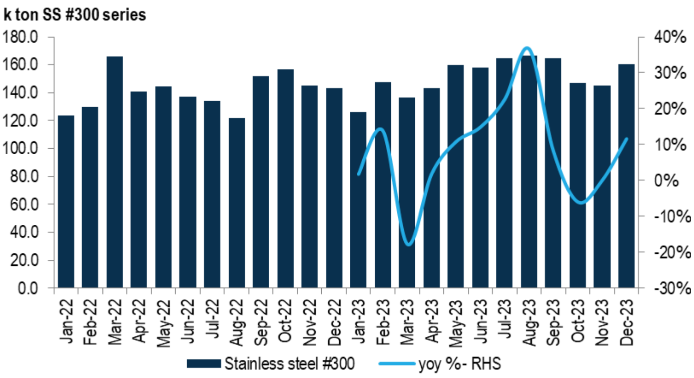


Source: Bloomberg, Shanghai Metal Market, Indo Premier

Although we expect prices to rally on post-CNY demand uplift, we have yet seen any structural demand catalyst for NPI prices to rally further, particularly on the ex-China stainless steel market. On the other hand, China stainless-steel market has been relatively robust in FY23, with production of #300 series (high nickel content) growing by +7% yoy (Fig. 7), while several leading indicators in engineering, construction, electronics demand in China have indeed showcase strong demand (Fig. 8).

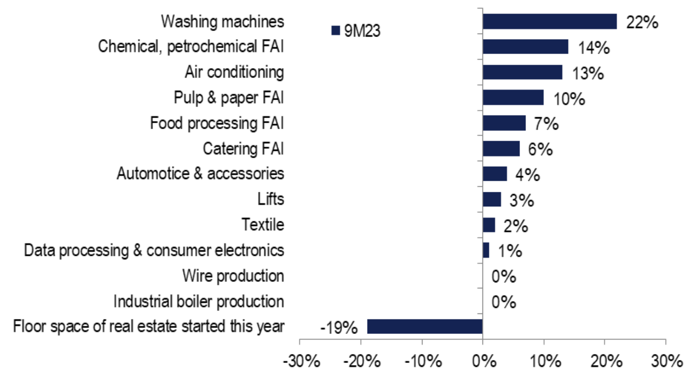
Meanwhile, ex-China market (i.e. U.S & Europe) have suffered with Europe and U.S recording -8% yoy and -13% yoy production decline in 9M23, respectively, according to the data from International Stainless Steel Forum (ISSF). Particularly in Europe, demand has contracted further following high interest-rate environment in E.U area, which has affected the end-use demand in engineering, construction, etc. While U.S didn't fare better against Europe in FY23, end-use demand in the U.S has steadily grown on monthly basis, according to Norilsk Nickel, with demand in oil & gas and construction sector growing by 12% and 13% yoy in 9M23, respectively. It is expected that U.S stainless steel market to outperform Europe, following new capacity addition from Acerinox (+c.20% higher output).

Fig. 7: Stainless steel production



Source: Bloomberg, Shanghai Metal Market, Indo Premier

Fig. 8: Stainless steel leading indicators



Source: National Bureau of China, Norilsk Nickel, Indo Premier

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Lack of medium-term supply addition may lead to price recovery

Given Indonesia government' strategic intention to preserve nickel ore reserves in Indonesia, permit issuance for further NPI/FeNi smelter is already limited and is currently on moratorium. While this may have been an ongoing thesis for class-2 nickel market, we expect NPI supply to grow by at least another c.5% in FY24F, following the ramp-up and full contribution of several NPI/FeNi smelter that was built in FY23 (i.e. NCKL's HJF, MBMA's ZHN, and ANTM's FeNi Halmahera). Albeit this would be partly offset by the ramp-up delay from lesser-known FeNi smelter that is owned by Kalla Group (Bumi Mineral Sulawesi; 33ktpa capacity).

Nevertheless, aside from those four smelters, we expect limited supply addition with only three known smelters expected to commence operation in the next three-years (Fig. 9), with demand set to recover gradually after interest-rate cut from central bank across the world in FY24F.

Fig. 9: Existing and upcoming Class-2 nickel projects in Indonesia

Class-2 pipeline	Owner	Annual capacity	Timeline
FeNi Halmahera	**Aneka Tambang**	**13,500**	**4Q23; on track**
Bumi Mineral Sulawesi	**Kalla Group**	**33,000**	**4Q23; delayed**
Halmahera Jaya Feronikel	Trimegah Bangun Persada, Lygend	95,000	3Q23/4Q23 full ramp-up
Zhao Hui Nickel	MBMA, Tsingshan Group	50,000	2024 fully ramped-up
PT Ceria FeNi	Ceria Nugraha Indotama	55,600	2024
Karunia Permai Sentosa	Trimegah Bangun Persada, Lygend	185,000	2025
Bahodopi FeNi	PT Vale Indonesia, Shandong Xinhai	73,000	2026

Source: Bloomberg, Company data, Indo Premier

We fine-tuned our supply-demand balance and now expect 106kt and 95kt market surplus in FY24F (from 90kt & 84kt previously) and as a result lower our NPI price forecast to US$13k/ton and US$13.3k/ton in FY24F/25F (from US$13.8k/ton and US$14k/ton, Fig. 10). Upside risks are faster than expected operation suspension on China's NPI producers.

Fig. 10: Supply-demand (S-D) balance

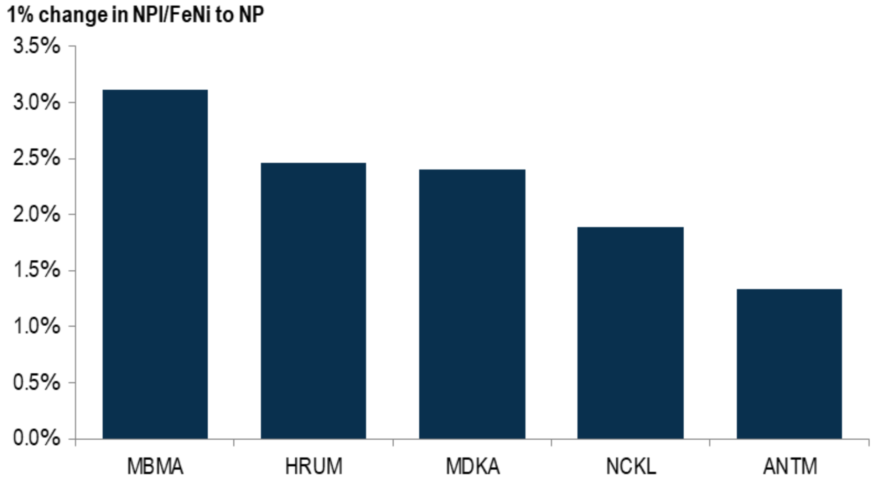
Supply-demand balance (kt)	2019	2020	2021	2022	2023	2024F	2025F
Class-2 nickel (NPI/FeNi)							
Refined production	**1,446**	**1,493**	**1,681**	**1,884**	**1,928**	**2,019**	**2,104**
Supply growth yoy (%)		*3.3%*	*12.5%*	*12.1%*	*2.3%*	*4.7%*	*4.2%*
Refined consumption	**1,615**	**1,714**	**1,894**	**1,877**	**1,839**	**1,913**	**2,009**
Demand growth yoy (%)		*6.1%*	*10.5%*	*-0.9%*	*-2.0%*	*4.0%*	*5.0%*
Market balance	**(169)**	**(221)**	**(213)**	**7**	**89**	**106**	**95**
Price forecast							
Nickel pig iron 8-12% (US$/t)	13,256	13,020	17,293	18,761	14,226	**13,000**	**13,250**

Source: Bloomberg, Company data, Indo Premier

Impact to listed nickel miners

We conducted sensitivity analysis for metal-miners under our coverage, by assessing the impact of 1% change in NPI/FeNi price assumptions into its earnings per share forecast (Fig. 11) in FY24F. MBMA is the most sensitive towards changes in price, followed by NCKL, and HRUM.

Fig. 11: Earnings sensitivity towards NPI/FeNi price



Source: Indo Premier estimates

Fig. 12: Peers comparison table

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				23F	24F	25F	23F	24F	25F	23F	24F	25F
ADMR IJ	Adaro Minerals Indonesia	Buy	1,650	10.1	8.8	9.0	7.7	7.9	7.2	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	2,100	10.9	9.8	8.5	6.7	6.1	5.2	5.0%	4.6%	5.1%
HRUM IJ	Harum Energy	Buy	1,750	9.3	10.6	9.8	3.6	5.4	6.9	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Hold	5,560	11.2	20.6	36.8	4.2	8.0	9.9	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	940	229.1	24.4	14.8	41.3	10.2	7.4	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,500	N/A	26.9	24.6	16.7	7.8	7.2	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,250	10.0	7.2	6.4	7.1	4.5	3.6	N/A	3.0%	4.2%

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

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