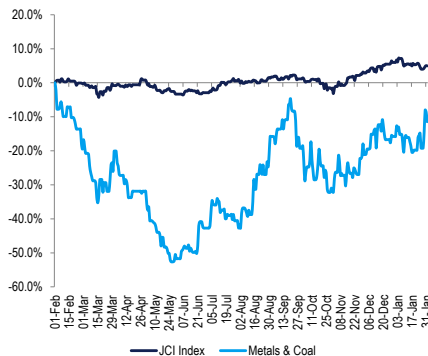


Sector Index Performance

	3M	6M	12M
Absolute	2.0%	-10.3%	-7.4%
Relative to JCI	-6.4%	-15.3%	-12.3%



Summary Valuation Metrics

P/E (x)	2023F	2024F	2025F
ADMR IJ	11.0	9.6	9.7
HRUM IJ	11.5	9.3	8.2
MDKA IJ	7.3	8.6	7.2
PTBA IJ	10.2	29.4	129.1

EV/EBITDA (x)	2023F	2024F	2025F
ADMR IJ	8.3	8.4	7.7
HRUM IJ	7.0	5.8	5.0
MDKA IJ	2.9	5.9	5.0
PTBA IJ	3.9	9.0	12.0

Div. Yield	2023F	2024F	2025F
ADMR IJ	N/A	N/A	N/A
HRUM IJ	5.2%	4.4%	5.3%
MDKA IJ	N/A	N/A	N/A
PTBA IJ	N/A	N/A	N/A

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## 4Q23F: soft coal and metal earnings; ADMR is the positive outlier

- We expect metals & coal to book soft NP in 4Q23F on qoq basis, driven by the nickel and coal price movement (flat to -16%) during 4Q23F.
- ADMR is the positive outlier (US\$137mn NP in 4Q23F), as it shall book +ve earnings growth (+58% qoq) and beat cons. estimates by 13%
- Maintain our sector Neutral rating on soft commodity prices with MDKA and ADMR as our top pick.

### Does positive/negative earnings surprise affect share price?

Yes, based on our findings. While commodity stocks tend to move along with the underlying commodity price movement (i.e. INCO with LME nickel, ITMG with coal prices), positive or negative earnings surprise could still affect share price movement. We observed that during 3Q23 results, stocks that reported their result below the consensus estimate was being punished on the day of announcement. The caveat is that share price reaction may only be temporary depending on the outlook or if the narrative is turning positive. MDKA is among those that saw immediate negative share price reaction when its 9M23 results came below, but reacted positively once the narrative on The Fed shift to more dovish (Fig. 5). Hence, if the company's fundamental changed or remain intact, any strength/weakness in share price on the back of earnings surprise (esp. one-off items) is an opportunity to either accumulate or take-profit.

### 4Q23F earnings quadrant: ADMR is the only positive outliers

We divided our 4Q23F earnings preview into four quadrants (Fig. 8), first are companies able to record positive earnings growth and beat cons. estimates; ADMR falls into this quadrant (US\$137mn NP, +58% qoq, FY23F above cons. estimate by 13%), hence, positive share price reaction. Second and third quadrants consist of companies that are able to either record positive earnings growth or beat consensus estimates but not both; HRUM (Core NP +47% qoq), PTBA (NP +19% qoq), and MDKA (FY23 above cons. estimate by US\$12mn) all fall into these quadrants in which we expect limited share price reaction once result is out. The fourth quadrant is the least preferred, as these companies shall not be able to beat consensus estimates nor record positive earnings growth; we expect negative share price reaction, albeit the magnitude of the decline would be dependent on the share price underperformance and funds' positioning (those that have lighter position would be punished less, [report](#)). ANTM, NCKL, INCO fall into these categories, albeit we expect limited reaction in these names as share price has declined significantly (-10% YTD)

### Maintain our sector Neutral rating on soft nickel & coal price

We maintain our Neutral sector rating on soft nickel & coal prices but continue to like MDKA (Buy, [report](#)) and ADMR (Buy, [report](#)) as our top pick as we believe MDKA could benefit from lower interest-rate and declining U.S 10-year yield as a junior copper miner, whilst ADMR could still enjoy elevated coking-coal prices (currently at c.US\$330/ton) which would be positively reflected in their 4Q23F and 1Q24F earnings result in addition to the reversal on DMO-compensation tariff ([report](#)). Upside risks include faster than expected demand recovery in China and ex-China market (i.e. Europe & U.S). However, downside risks include softer than expected commodity demand amid lacklustre global growth outlook.

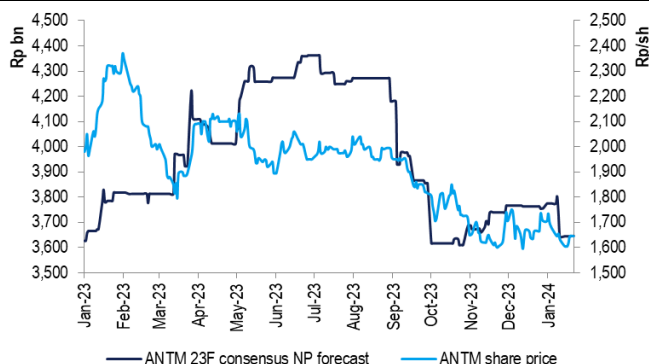
### What really drove commodity equities share price movement?

We observed that consensus' earnings forecast may not be the best leading indicator on market's expectation as the consensus' earnings upgrade/downgrade were lagging the commodity share prices. We think there are several key reasons that underpin our findings as commodity equities' share price are highly correlated with the movement of the underlying commodity price rather than consensus' earnings forecast.

Despite the aforementioned factor, we still think actual earnings release remain a fundamental driver for share price but the share price impact on commodity names would be lesser and would last only couple days after the announcement as opposed to other sectors as the movement & outlook of company's ASP is reflected on daily prices, making it more predictable.

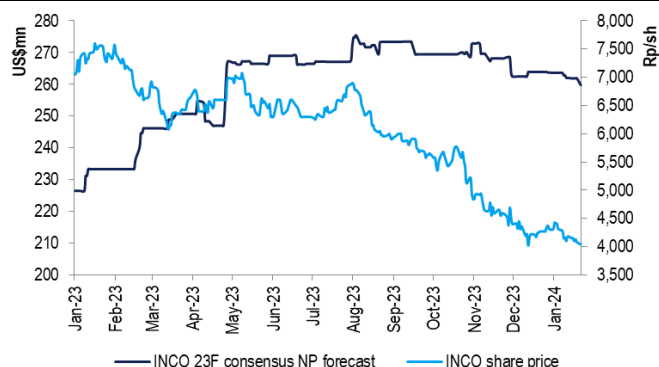
For example, if we take ANTM & INCO as case studies, its earnings are heavily derived from its nickel business (70% of ANTM's FY23F NP) and nickel matte (c.100% of INCO's FY23F revenue/NP), thus its share price were mainly driven by the movement of LME nickel – both determinant of nickel ore and nickel matte ASP (Fig. 1-4), respectively. LME nickel price is a data-point that is available daily to investors – a leading indicator for earnings vs. actual earnings release that are disclosed on quarterly basis. We also observed similar pattern with MBMA/NCKL with nickel pig iron (NPI) price, coal players (i.e. ITMG, HRUM, etc) with coal price, and so forth.

Fig. 1: ANTM's share price vs consensus forecast



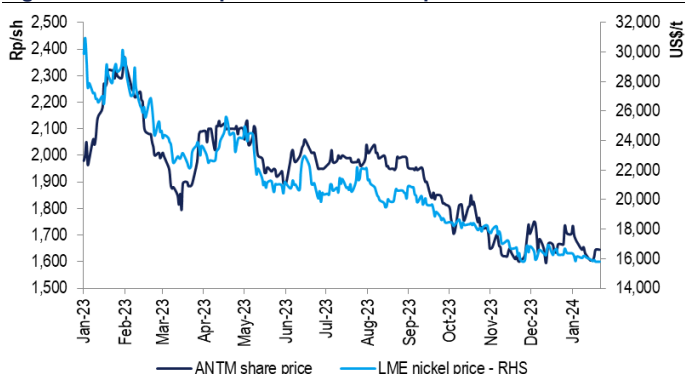
Source: Bloomberg, Indo Premier

Fig. 2: INCO's share price vs. consensus forecast



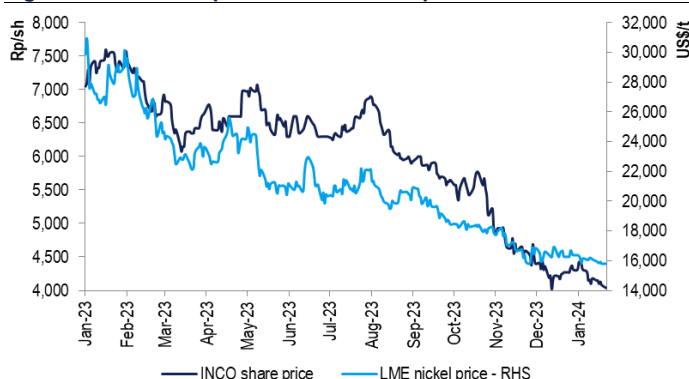
Source: Bloomberg, Indo Premier

Fig. 3: ANTM's share price vs LME nickel price



Source: Bloomberg, Indo Premier

Fig. 4: INCO's share price vs. LME nickel price



Source: Bloomberg, Indo Premier

Regardless, positive or negative surprise to earnings and/or company fundamentals are still relevant to create short-term share price reaction. For

instance, ANTM's potential reversal in Rp1tr provision on legal cases – positive to share price – has led to +4% increase in share price. Similarly, INCO's share price would react positively on the completion of the divestment process.

To further confirmed our hypothesis, we observed the share price movement of metal & coal names during 3Q23 results and those that came below consensus expectation experienced a decline in share price (i.e. MDKA, MBMA, HRUM, Fig. 5), albeit MDKA & MBMA's share price recover just a week after. This may conclude that as long as the fundamental remain intact, weakness caused by past earnings results, is only temporary.

Fig. 5: Earnings announcement and impact to share price

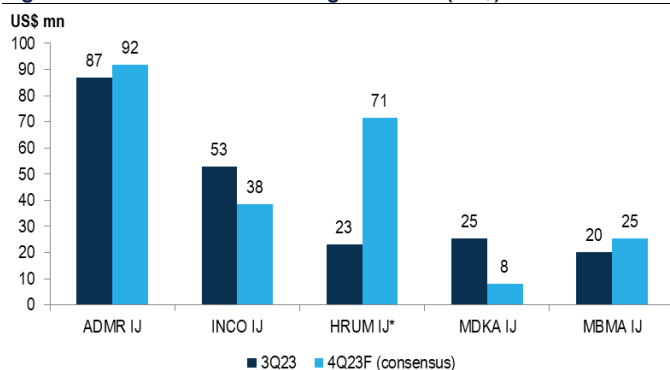
Metals	9M23 result	Share price reaction	
	vs. consensus expectation	T+1	T+7
ADMR IJ	Above	-1%	5%
ANTM IJ	In-line	-1%	-4%
HRUM IJ	Below	-3%	-7%
INCO IJ	Above	0%	-3%
MBMA IJ	Below	-7%	2%
MDKA IJ	Below	-13%	5%
NCKL IJ	Above	4%	2%
<b>Coal</b>			
ADRO IJ	Above	-6%	-4%
ITMG IJ	Below	-1%	3%
PTBA IJ	Below	-4%	-10%
UNTR IJ	Above	-4%	-9%

Source: Company, Indo Premier

#### 4Q23F preview: our estimates vs consensus expectation

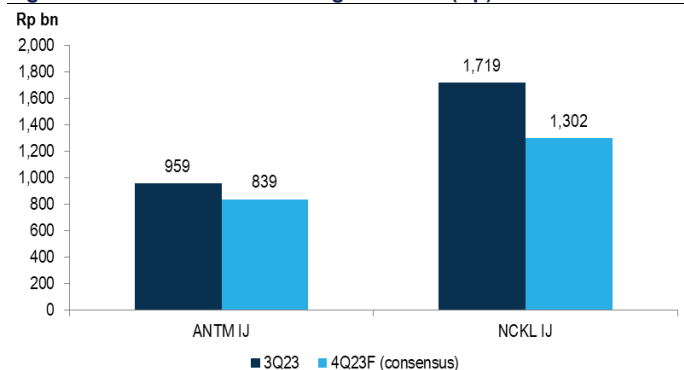
To gauge market reaction during 4Q23F earnings release, we derived consensus expectation by subtracting actual 9M23 result against consensus' FY23F earnings forecast (Fig. 6 & 7) and plot it with our own 4Q23F forecast in order to detect any potential positive/negative surprises on each names. On **metals**, we found that consensus is forecasting higher NP on qoq basis for **ADMR**, **MBMA**, and **HRUM**; which was in-line with our expectation for ADMR & HRUM, as it shall have a better NP qoq, albeit we expect MBMA NP to decline by c.20% qoq, based on our estimates.

Fig. 6: Consensus 4Q23F earnings vs 3Q23 (US\$)



Source: Bloomberg, Company data, Indo Premier; \*Core NP for HRUM

Fig. 7: Consensus 4Q23F earnings vs 3Q23 (Rp)



Source: Bloomberg, Company data, Indo Premier

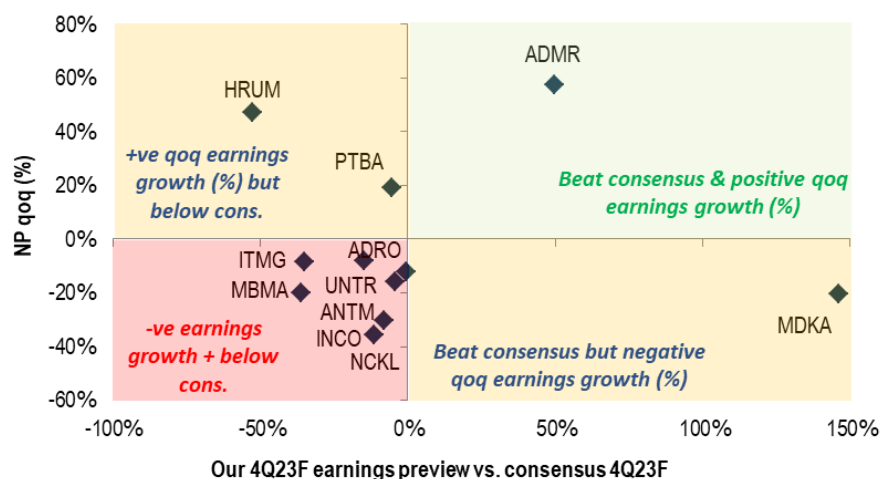
On the contrary, consensus are forecasting NP decline on quarterly basis for **INCO**, **MDKA**, **ANTM**, and **NCKL**; and based on our 4Q23F estimates, we think the direction of the quarterly forecast was indeed already in-line with our expectations albeit the magnitude of the decline would be better for MDKA, as per our 4Q23F estimates and relatively in-line for INCO, ANTM, and NCKL.

For coal, we found that the direction and magnitude of consensus' 4Q23F estimates are different vs. our 4Q23F estimates, which in our view is mainly due to a lag in consensus numbers. Only PTBA and ADRO that were in-line in terms of direction compared to our estimates, though the magnitude of the qoq increase in PTBA's consensus earnings (+47% qoq) is higher compared to ours (+19%), while consensus forecast for ADRO is relatively in-line with ours.

On the other hand, consensus forecasts higher 4Q23F earnings for ITMG (+45% qoq) and UNTR (+5% qoq), contradicting our estimates of -9%/-8% qoq decline to reflect relatively flat Newcastle price qoq and declining sales volume. All in all, we see potential negative surprise on all coal names within our coverage on 4Q23 results announcement.

To summarize, we think the negatives on 4Q23F earnings result would be relatively priced-in by the market on both metals and coal names, with **potential positive surprise in ADMR's result**, thanks to the potential reversal in domestic market obligation (DMO) tariff ([report](#)). We expect **potential negative surprise in MBMA and NCKL** albeit we think the impact would be relatively limited for NCKL given its already lackluster share price performance. We summarized our 4Q23F preview and how it stands vs. consensus expectation in Fig. 8.

Fig. 8: 4Q23F earnings preview quadrant



Source: Company data, Bloomberg, Indo Premier estimates

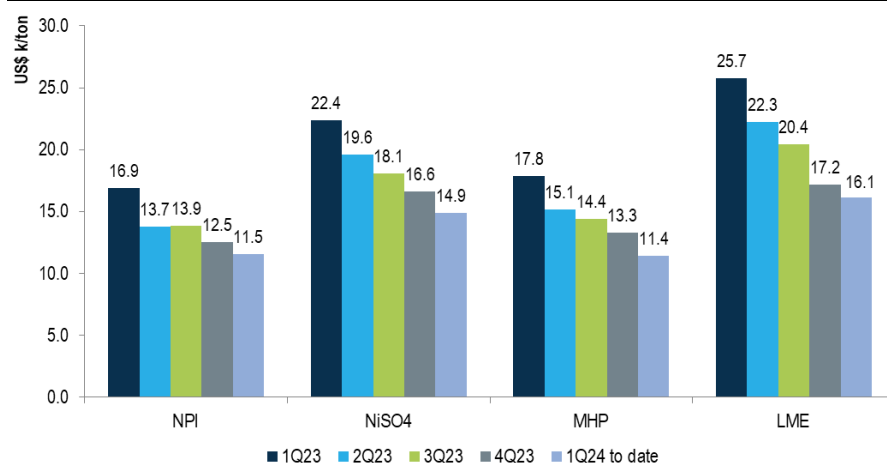
#### 1Q24F-to-date: price are bottoming-out but shall be negative qoq

Up until Jan-24, all form of nickel prices (i.e. LME, NPI, nickel sulphate) were all declining by around 6%-14% vs. 4Q23 average. On the positive side, we already have seen positive supply-response (i.e. Australian mines/smelters and China NPI smelters), that were previously highlighted in our report ([here](#) and [here](#)), which, combined with higher demand seasonality coming out of China, post-CNY, we expect an seasonality uplift in NPI/FeNi prices starting Feb-24 onwards.

For LME, we expect prices to remain relatively soft given the decoupling correlation between LME and NPI prices. Similarly, we also expect battery-grade nickel sulphate prices to remain relatively soft, on relatively soft EV-demand, which is also reflected in other battery-material prices (i.e. lithium, cobalt).

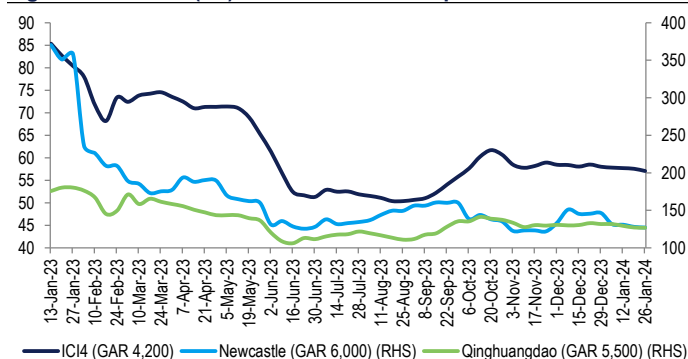
From the earnings perspective, we expect nickel players to report even softer NP, especially as the ASP in 4Q23 remain relatively high vs. 1Q24F to date, thanks to better prices in the month of Oct-23 and Nov-23, while coal prices (i.e. energy costs for nickel smelters) remain relatively flattish on qoq basis in 1Q24F to date, meaning additional cost-savings coming from lower energy costs is already limited. However, the cost-savings coming from lower nickel ore prices is expected to partly offset the decline in price, as LME nickel price (used as a benchmark for ore prices) set to decline further in Jan-24 (Fig. 10), while based on our channel check, the dollar premium to nickel ore is already non-existent, vs. US\$15-20/wmt premium during Aug-23 after Mandiodo block illegal mining case (Fig. 11).

**Fig. 9: Average quarterly nickel price**



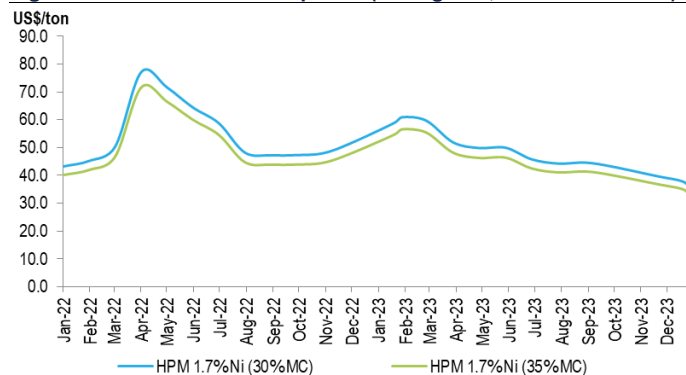
Source: Company data, Bloomberg, Shanghai Metal Market, Indo Premier

**Fig. 10: Indonesia (ICI) and Newcastle coal prices**



Source: Bloomberg, Company data, Indo Premier

**Fig. 11: Indonesia nickel ore prices (1.7% grade, 30-35% moisture)**



Source: Bloomberg, APNI, Indo Premier

Similarly, Newcastle and ICI4 coal prices has declined 4%/2% qoq up until Jan24 vs. 4Q23 average, respectively. We expect price to continue to trend downwards on the back of seasonal correction heading towards the end of winter (lower electricity generation). As we previously noted in our [report](#), we see downside risk to price to be skewed more to ICI compared to Newcastle amid muted demand from China and India (accounting for ~60%

of Indonesia exports combined) due to the ramping up of domestic production in India & China.

On a more positive note, downside to Newcastle price seems limited at this level as we see cost support at US\$100-120/t level – based on 90<sup>th</sup> percentile cost-curve. Should price breach that level, we can start seeing supply response as 50% of coal mines worldwide would be lossmaking, which would revert the price back above US\$100/ton level, in our view.

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	11.0	9.6	9.7	8.3	8.4	7.7	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	2,100	11.5	9.3	8.2	7.0	5.8	5.0	5.2%	4.4%	5.3%
HRUM IJ	Harum Energy	Buy	1,750	7.3	8.6	7.2	2.9	5.9	5.0	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Hold	4,250	10.2	29.4	129.1	3.9	9.0	12.0	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	940	270.6	25.4	15.4	44.7	10.6	7.6	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,500	N/A	28.2	25.7	17.6	8.0	7.4	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,250	10.0	8.4	7.7	7.2	5.1	4.3	N/A	3.0%	3.6%
ADRO IJ	Adaro Energy Indonesia	Hold	2,750	3.2	4.2	5.0	1.3	1.6	1.9	20.0%	12.5%	9.6%
ITMG IJ	Indo Tambangraya Megah	Hold	22,000	4.0	5.1	6.1	1.5	1.7	1.8	40.2%	16.2%	12.6%
PTBA IJ	Bukit Asam	Hold	2,750	6.2	7.1	7.8	3.5	3.4	3.4	42.6%	5.7%	4.9%
UNTR IJ	United Tractors	Hold	24,000	4.4	5.2	5.8	1.9	2.0	1.8	29.5%	9.8%	8.4%

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

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