

Merdeka Battery Materials

BUY (unchanged)

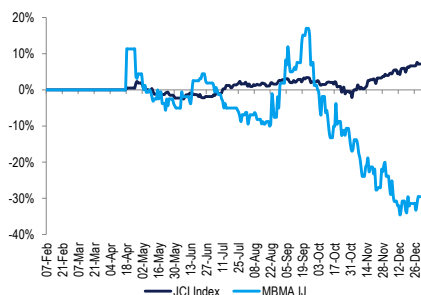
Company update | MBMA IJ | 7 February 2024

Stock Data

Target price	Rp750
Prior TP	Rp940
Current price	Rp650
Upside/downside	+15%
Shares outstanding (mn)	107,995
Market cap (Rp bn)	70,197
Free float	28%
Avg. 6m daily T/O (Rp bn)	37

Price Performance

	3M	6M	12M
Absolute	-0.8%	-12.8A	N/A
Relative to JCI	-6.5%	-18.1A	N/A
52w low/high (Rp)	520 – 930		



Major Shareholders

Merdeka Energi Nusantara	49.9%
Garibaldi Thohir	11.1%
Huayong International Limited	7.6%

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4Q23 operational data: drop in NPI & HGNM cash margin

- FY23 revenue of US\$1.3bn was below IPS/Consensus forecast at 94/96% on lower NPI and HGNM ASP in 4Q23 (-8%/-13% qoq).
- MBMA reported US\$454mn revenue in 4Q23 (-13% qoq), driven by lower NPI & matte ASP (8-13% qoq).
- We maintain our Buy rating with reduced SOTP-based target price of Rp750/share (from Rp940/share previously).

4Q23 operational: NPI & HGNM cash margin declined qoq

CSI, BSI, and ZHN's RKEF cash margin declined by 25% qoq to US\$1.2k/ton in 4Q23, mainly driven by lower NPI ASP of US\$12.1k/ton (-8% qoq) while sales volume slightly declined to 22.7kt (-2% qoq), but was partly offset by 6% cash costs improvement with RKEF all-in sustaining cash costs (AISC) stood at US\$10.9k/ton in 4Q23 attributed to lower nickel ore price, electricity, and reductant costs (c.60-70% cash-costs). As a result, RKEF revenue declined by 10% qoq to US\$272mn with estimated RKEF EBITDA declining by 26% qoq to US\$27mn. HNMI's high-grade nickel matte (HGNM)'s ASP and sales volume both declined by 13% qoq with cash margin in 4Q23 only at breakeven (Fig. 1) driven by lower ASP amid declining payability of nickel-matte amid soft LME nickel and battery-grade nickel price.

SCM ore sales was the positive surprise but we expect 4Q23 NP to decline by -45% qoq

4Q23 saprolite ore sales volume was a positive surprise, in our view, with 2mn wmt ore sold with ASP of US\$32/wmt during the quarter vs. 0.6-0.8mn wmt hauling guidance. Limonite ore sales have also started during 4Q23 with 0.9mn wmt volume delivered with an ASP of US\$17/wmt. However, since saprolite are sold directly to MBMA's NPI smelter (i.e. CSI, BSI, ZHN), ore revenue won't be recorded while margin will be recognized on GP and EBITDA level. Limonite sales, on the other hand, will be recorded as revenue as it is sold to 3rd party buyers, Huayue Nickel Cobalt (HNC).

Maintain Buy rating with a reduced TP of Rp750/share

We estimate MBMA to report 4Q23F EBITDA & NP of US\$52mn (flat qoq) and US\$11mn (-c.45% qoq, from US\$20mn). As a result, we fine-tuned our 23F/24F/25F NP forecast by -38%/-21%/-9% to take into account 4Q23 operational data release and lower NPI price forecast in FY24F/25F. We maintain our Buy rating with a reduced SOTP-based target price of Rp750/share from Rp940/share. Downside risks include softer stainless-steel and EV demand from China and ex-China market which may lead to lower ASP, and potential delay in HPAL projects. MBMA currently trades at 13.7x FY24F EV/EBITDA (Fig. 5).

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	456	1,328	1,984	2,416	
EBITDA	51	117	397	650	
Net profit	22	12	149	283	
EPS growth	na	-43%	1099%	90%	
ROE	2%	1%	7%	10%	
PER (x)	209.0	364.6	30.4	16.0	
EV/EBITDA (x)	94.5	41.8	13.5	9.1	
Dividend yield	N/A	N/A	N/A	N/A	
IPS vs. consensus		42%	79%	127%	

Source: Company, Indo Premier

Share price closing as of: 7 February 2024

Fig. 1: MBMA's 4Q23 results summary

MBMA - operational data	1Q23	2Q23	3Q23	4Q23	qoq %
RKEF - CSI, BSI, ZHN					
ASP (US\$/ton)	17,470	14,123	13,193	12,099	-8%
Sales volume	8,170	11,053	22,831	22,472	-2%
AISC (US\$/t)	15,436	13,459	11,616	10,909	-6%
Cash margin (US\$/t)	2,034	664	1,577	1,190	-25%
Revenue (US\$ mn)	143	156	301	272	-10%
Estimated EBITDA (US\$ mn)	17	7	36	27	-26%
HGNM					
ASP (US\$/ton)		17,423	16,346	14,216	-13%
Sales volume		3,036	13,394	11,700	-13%
AISC (US\$/t)		15,954	15,154	14,199	-6%
Cash margin (US\$/t)		1,469	1,192	17	-99%
Revenue (US\$ mn)		53	219	166	-24%
Estimated EBITDA (US\$ mn)		4	16	0	-99%
SCM					
Saprolite ore ASP (US\$/t)				32.0	na
Volume (mn w mt)				2.0	na
Limonite ore ASP (US\$/t)				16.8	na
Volume (mn w mt)				0.9	na

Source: Bloomberg, Indo Premier

Fig. 2: Key changes to our assumption

Assumptions	Metrics	Old			New			Change (%)		
		2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Sales volume										
Nickel pig iron (NPI)	ton Ni	64,554	85,000	88,000	64,526	88,000	88,000	0%	4%	0%
Nickel matte (HNMI)	ton Ni	29,930	50,000	50,000	28,129	50,000	50,000	-6%	0%	0%
Saprolite ore	mn w mt	0.7	5.0	6.0	2.0	4.0	6.0	169%	-20%	0%
Limonite ore	mn w mt	na	11.0	12.0	0.9	11.0	12.0	na	0%	0%
ASP										
Nickel pig iron (NPI)	US\$/ton	13,894	13,750	14,000	13,537	13,000	13,250	-3%	-5%	-5%
Nickel matte (HNMI)	US\$/ton	15,768	14,000	14,250	15,592	14,000	14,000	-1%	0%	-2%
Saprolite ore	US\$/w mt	35.0	35.0	35.0	32.0	30.0	30.0	-9%	-14%	-14%
Limonite ore	US\$/w mt	na	15.0	15.0	na	15.0	15.0	0%	0%	0%
AISC										
Nickel pig iron (NPI)	US\$/ton	12,415	11,500	11,250	12,169	11,000	11,000	-2%	-4%	-2%
Nickel matte (HNMI)	US\$/ton	14,830	13,250	13,250	14,843	13,750	13,750	0%	4%	4%
Ore mining	US\$/w mt	20.0	20.0	18.5	31.0	28.0	27.0	55%	40%	46%

Source: Bloomberg, Indo Premier

Fig. 3: Old vs New forecast

MBMA US\$ mn	New forecast				Old forecast			Forecast change			Consensus			Indo Premier vs Consensus		
	2022A	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Revenues	456	1,328	1,984	2,416	1,369	2,009	2,494	-3%	-1%	-3%	1,387	1,994	2,609	96%	99%	93%
Gross profit	44	105	362	579	109	492	734	-3%	-27%	-21%	176	427	559	60%	85%	104%
Operating profit	30	80	330	540	84	460	694	-5%	-28%	-22%	105	353	489	76%	93%	111%
EBITDA	51	117	397	650	120	526	802	-2%	-24%	-19%	152	442	672	77%	90%	97%
NPAT	22	12	149	283	20	188	310	-38%	-21%	-9%	31	201	241	40%	74%	117%
%y-y																
Revenues		191%	49%	22%	200%	47%	na				4%	44%	31%			
Gross profit		137%	243%	60%	145%	352%	na				67%	143%	31%			
Operating profit		163%	312%	64%	176%	446%	na				32%	235%	38%			
EBITDA		128%	239%	64%	134%	337%	na				29%	191%	52%			
NPAT		na	na	90%	-7%	837%	na				150%	546%	20%			
Gross margin	9.7%	7.9%	18.2%	24.0%	8.0%	24.5%	na				12.7%	21.4%	21.4%			
Operating margin	6.7%	6.0%	16.6%	22.4%	6.2%	22.9%	na				7.6%	17.7%	18.7%			
EBITDA margin	11.3%	8.8%	20.0%	26.9%	8.8%	26.2%	na				10.9%	22.2%	25.8%			
NPAT margin	4.8%	0.9%	7.5%	11.7%	1.5%	9.4%	na				2.2%	10.1%	9.2%			

Source: Bloomberg, Indo Premier

Fig. 4: SOTP valuation

MBM Assets	Enterprise value (US\$ m)	Attributable to MBM	Enterprise value (US\$ m)	Methodology
AIM	1,044	80.0%	835	DCF (9.0% WACC)
Brunp CATL HPAL	1,802	66.0%	1,189	DCF (9.5% WACC)
HPAL - QMB	1,066	55.0%	586	DCF (9.5% WACC)
SCM - Nickel Mine	4,080	51.0%	2,081	DCF (9.0% WACC)
HNMI	549	60.0%	329	DCF (9.0% WACC)
ZHN	1,249	50.1%	626	DCF (9.0% WACC)
CSI + BSI	847	50.1%	425	DCF (9.0% WACC)
Total	10,637		6,071	
Total enterprise value	6,071			
Net cash (debt) - FY24F	(857)			
Total equity value	5,214			
Target price	750			

Source: Bloomberg, Indo Premier

Fig. 5: 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	11.2	9.8	9.9	8.5	8.6	7.8	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	2,100	10.5	8.6	7.5	6.3	5.2	4.5	5.6%	4.7%	5.8%
HRUM IJ	Harum Energy	Buy	1,750	6.8	8.0	6.7	2.7	5.6	4.8	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Hold	4,250	9.5	27.4	120.2	3.5	8.4	11.4	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	940	364.6	30.4	16.0	41.8	13.5	9.1	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,500	-177.1	92.0	50.7	17.7	11.6	10.2	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,250	9.3	7.8	7.1	6.6	4.7	4.0	N/A	3.2%	3.9%

Source: Bloomberg, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue		456	1,328	1,984	2,416
Cost of sales		(411)	(1,223)	(1,746)	(1,993)
Gross profit		44	105	362	579
SG&A Expenses		(14)	(25)	(32)	(39)
Operating profit		30	80	330	540
Net interest		(21)	(21)	(64)	(93)
Others		28	2	0	0
Pre-tax income		37	61	266	446
Income tax		0	(5)	(27)	(34)
Minority interest		(16)	(43)	(90)	(130)
Net income		22	12	149	283

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent		280	539	599	625
Receivable		64	129	193	235
Inventory		79	235	335	382
Other current assets		46	79	79	79
Total current assets		469	981	1,206	1,321
Fixed assets		918	1,593	2,405	3,717
Other non-current assets		1,035	1,052	1,055	1,055
Total non-current assets		1,952	2,646	3,459	4,771
Total assets		2,422	3,627	4,665	6,092
ST loans		18	0	0	0
Payable		66	221	315	360
Other payables		44	44	44	44
Current portion of LT loans		2	0	0	0
Other current liabilities		35	50	50	50
Total current liab.		164	315	410	454
Long term loans		592	908	1,416	2,031
Other LT liab.		105	107	107	107
Total non-current liabilities		698	1,016	1,523	2,138
Total liabilities		862	1,330	1,932	2,593
Equity		863	1,497	1,497	1,497
Retained earnings		20	32	181	464
Minority interest		677	767	1,054	1,538
Total SHE + minority int.		1,559	2,297	2,733	3,500
Total liabilities & equity		2,422	3,627	4,665	6,092

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net income		73	(28)	149	283
Depr. & amortization		21	37	67	110
Changes in working capital		(27)	(60)	(70)	(45)
Others		0	0	0	0
Cash flow from operating		66	(51)	147	348
Capital expenditure		(1,797)	(717)	(881)	(1,422)
Others		(143)	4	0	0
Cash flow from investing		(1,941)	(713)	(881)	(1,422)
Loans		615	298	507	616
Equity		1,539	725	287	484
Dividends		0	0	0	0
Others		0	0	0	0
Cash flow from financing		2,155	1,023	795	1,100
Changes in cash		280	258	60	26

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin		10%	8%	18%	24%
Operating margin		7%	6%	17%	22%
Pre-tax margin		8%	5%	13%	18%
Net margin		5%	1%	8%	12%
ROA		1%	0%	3%	5%
ROE		2%	1%	7%	10%
ROIC					
Acct. receivables TO (days)		7.1	10.3	10.3	10.3
Inventory TO (days)		5.2	5.2	5.2	5.2
Payable TO (days)		6.2	5.5	5.5	5.5
Debt to equity		0.6	0.5	0.7	0.7
Interest coverage ratio (x)		2.4	4.3	5.6	6.4
Net gearing		0.4	0.2	0.4	0.5

Source: Company, Indo Premier