INDOPREMIER

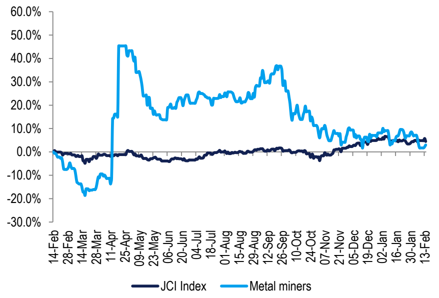
Metals

NEUTRAL *(unchanged)*

Sector Update | 13 February 2024

Sector Index Performance

	3M	6M	12M
Absolute	-3.1%	-15.7%	3.0%
Relative to JCI	-8.5%	-20.0%	-1.5%



Summary Valuation Metrics

P/E (x)	**2023F**	**2024F**	**2025F**
ADMR IJ	11.4	9.9	10.1
ANTM IJ	11.5	9.4	8.2
HRUM IJ	7.0	8.2	6.9
INCO IJ	32.6	123.1	125.7
MBMA IJ	350.6	29.3	15.4
MDKA IJ	N/A	92.0	50.7
NCKL IJ	9.0	7.6	6.9
EV/EBITDA (x)	**2023F**	**2024F**	**2025F**
ADMR IJ	8.6	8.7	7.9
ANTM IJ	7.0	5.9	5.0
HRUM IJ	2.7	5.7	4.9
INCO IJ	9.7	12.5	10.3
MBMA IJ	40.3	13.0	8.9
MDKA IJ	17.7	11.6	10.2
NCKL IJ	6.4	4.6	3.8
Div. Yield	**2023F**	**2024F**	**2025F**
ADMR IJ	N/A	N/A	N/A
ANTM IJ	5.1%	4.3%	5.3%
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	3.3%	4.0%

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China leading indicators remain weak; stimulus is the only upside

- Recovery in China's economy, being the largest user of commodities worldwide (up to c.50% of global demand), is pivotal to prices in FY24F.
- China Evergrande crisis and key indicators (Fig.4-11) have showcased limited recovery in sight within China's economy and property sector.
- Monetary and targeted fiscal stimulus is the only upside to commodity prices in the short to medium-term period. Maintain Neutral.

Latest overview on China's economy and property

China economy has remain lacklustre with manufacturing PMI at 49.2 still below the threshold of 50, as per Jan-24, and the country facing deflationary pressures amidst high youth unemployment rate of c.21%, aging population, and lower urbanization rate (Fig. 12). The biggest driver of China's economy, the real-estate/property market (c.30% of China's GDP), have also struggled, with house prices in 70 cities declining (Fig. 7) while leading indicators on the property market (i.e. newly built, under-construction, and completed buildings, Fig. 2) are all in negative growth territories; the housing crisis was also worsen by the liquidation of China Evergrande in Jan-24, which further dampen the consumer confidence in the property-market.

Manufacturing industry has offset the decline in real-estate market

To our surprise, in spite of the lackluster real-estate market, China's apparent demand in manufacturing industry (i.e. kitchen-appliances, household wares) have remain relatively robust in FY23, recording double-digit output growth on yearly basis (Fig. 9), which bode relatively well for iron-ore and coking-coal prices in FY23. Manufacturing industry itself accounts for c.40% of steel demand in China, and is able to partly offset the declining demand of the property market (c.35-40% of steel demand).

Our view: stimulus could provide short-term relief to commodities

Given the importance of property market to the country's GDP, we think People Banks of China (PBOC) would continue to provide stimulus measures, which shall bring short-term relief and positive sentiments to commodities market. While PBOC has been historically reluctant within the past year (FY23) in providing big-scale stimulus (i.e. similar to the CN¥4tr stimulus post-2008 GFC), we think further deterioration of the property crisis may eventually pushed China to provide both monetary & fiscal stimulus measures to revive the growth in the lacklustre property-market. Although, we argue that only targeted fiscal stimulus – not monetary, would enable immediate recovery in China economy and commodities market.

Stock pick in the event of China stimulus boost: MDKA, ADMR, ANTM

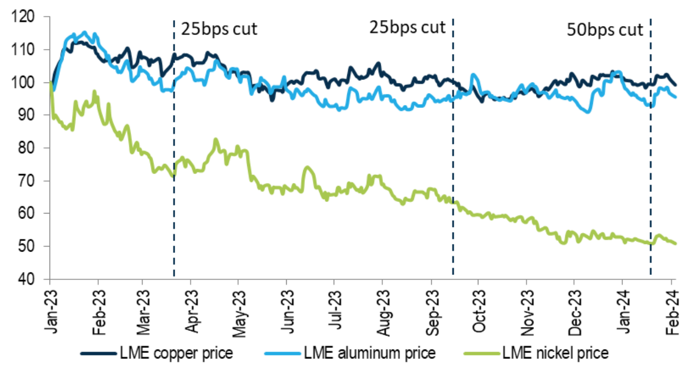
In the event of stimulus, we prefer **MDKA** (copper; Buy), **ADMR** (coking-coal; Buy), and **ANTM** (LME nickel, Buy), and **INCO** to some extent (benefit from LME nickel, but limited incremental buying, see report). We prefer copper as it benefits from both sentiment and better China demand, followed by coking-coal, as it should also benefit from better China demand (c.20% of seaborne demand), followed by LME Nickel (+ve sentiment) and NPI (limited upside as China SS demand already relatively resilient), with battery-grade nickel being our least preferred commodity.

China stimulus measures – We think PBOC is set to maintain its expansionary stance in both monetary and fiscal policies to support China's property market and the economy in general. Just recently, China's Ministry of Finance mentioned that fiscal spending in 2024 will be maintained at a necessary intensity, and is planning to issue CN¥1tr (US$139bn) of special sovereign bonds, potentially widening its budget deficit as % of GDP to c.4% level vs. 3% previously. All of which are directed to boost consumption and consumers' confidence.

On the monetary front, loan prime rate cut has been also considered in Feb-24, while PBOC has previously cut banks' reserves requirement ratio (RRR) by 50bps to 10% level, after previous cut of 25bps back in Mar-23 and Sep-23 (Fig. 1). However, monetary policy easing such as the RRR cut have the tendency to have a lag-effect to the real-economy and has since proven to be ineffective to boost consumer confidence in China.

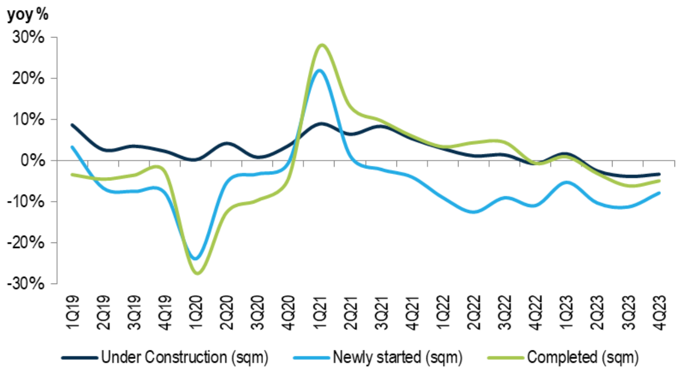
The impact to commodity prices was also limited as prices went up on the day of the announcement, but has since reverted back to the previous level. On the positive side, we think the softness coming from China-related demand have been relatively priced-in by the commodity market, especially for LME nickel, crude steel, and stainless steel, as these three commodities have underperformed the general commodity market with -47%/-16%/-21% off-peak since FY23.

Fig. 1: China's RRR cut and impact to commodity prices



Source: Bloomberg, Indo Premier

Fig. 2: China real-estate leading indicators

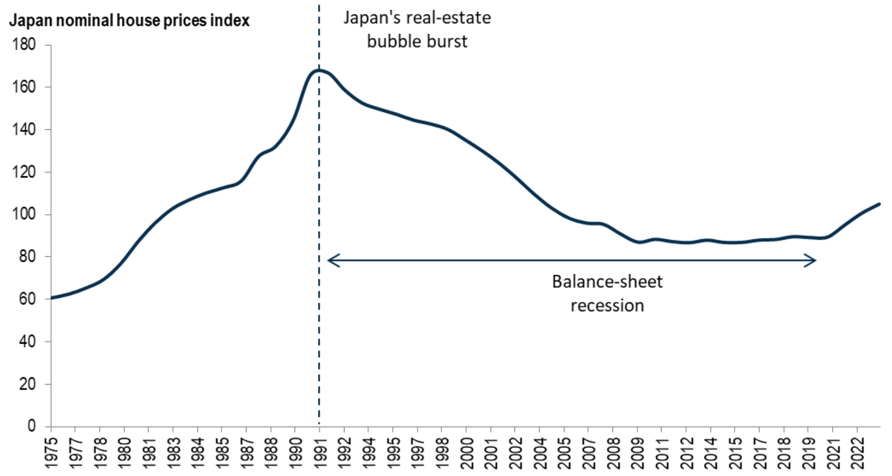


Source: Bloomberg, National Bureau of Statistics (NBS), Indo Premier

We also argue that monetary stimulus from PBOC is unlikely to make a significant improvement in China's real-estate market as China are facing a situation similar to Japan in 1990s property crisis (home prices declined by c.90% during 1990s), commonly-known as **balance-sheet recession**. In the case of China property market, continuous decline in house-prices were hitting Chinese' household capital position (i.e. value of their liquid and non-liquid assets), as well as the property developers' inventory prices, which lead to deleveraging process in order for developers/households to stay solvent. This deleveraging process meant that demand for new loan would decline, hitting asset prices further, and so forth, creating a vicious cycle.

Japan was among countries experiencing in real-estate burst in early-1990s and for the next 20-25 years also experiencing balance-sheet recession. One interesting observation is that Japan's economy and real-estate market didn't recover despite Bank of Japan (BOJ) set the interest rate at 0%, as demand for new credit shrunk with households focusing on repaying debt – and developers staying solvent, amidst asset price decline.

Fig. 3: Japan house prices index



Source: Bloomberg, Indo Premier

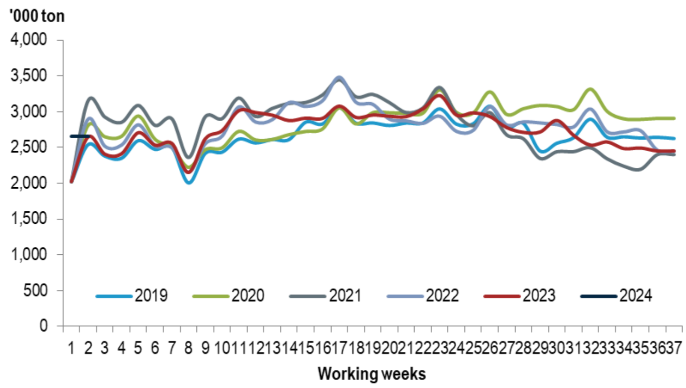
Thus, as we think China is currently in a similar situation, a targeted fiscal stimulus would be much more effective in order to prevent the property crisis further spiraling down.

Key indicators on China industrial activity & real-estate market

CISA 10-day steel mills operating rate – CISA steel mill production rose by c.9% to 2.6mn ton vs. late December and 11% on yoy basis. MySteel survey of 247 blast furnace mills utilization rate remained at 83-84%, which has declined vs. c.93% at the peak, but we expect steel mills to ramp-up their production further after Spring Festival and Chinese New Year holiday. **Positive**

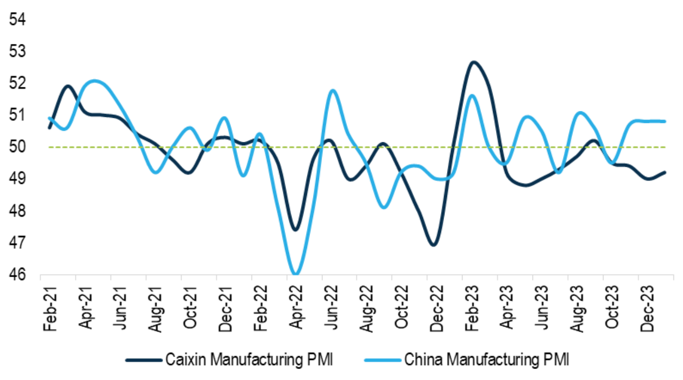
Manufacturing PMI – China manufacturing PMI were still below the 50 threshold at 49.2 in Jan-24. Albeit, the private survey of PMI, reported by Caixin, indicates that it has already above the 50 threshold at 50.8, as per Dec-23. **Neutral**

Fig. 4: CISA 10-day steel mills operating rate (%)



Source: Bloomberg, National Bureau of Statistics (NBS), Indo Premier

Fig. 5: China manufacturing PMI

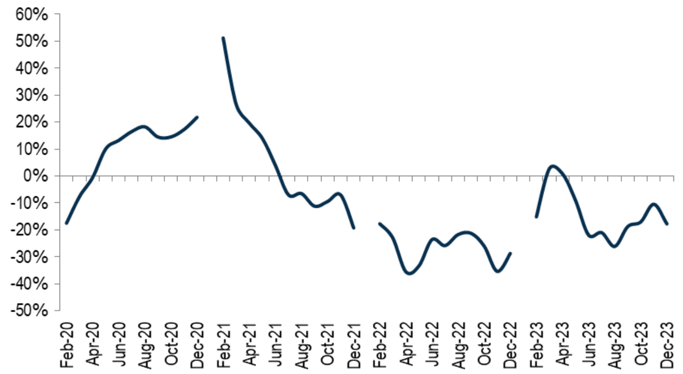


Source: Bloomberg, Indo Premier

Total funds raised by developers – Funds raised by property developers in China declined by 17% yoy, which include a combination of domestic loans, foreign investment, in addition to other source of funds, including deposits & advance payments from buyers and bank mortgage. **Negative**

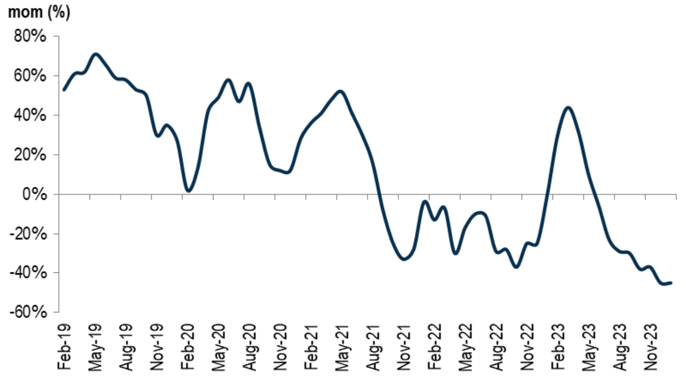
China's 70-cities new home price – Home prices across 70 cities in China have kept declining since Jun-23 and in the month of Dec-23, have recorded a relatively steep decline of 45% mom. If property buyers' confidence is not revived, we think home prices could keep declining in the following months. **Negative**

Fig. 6: Total funds raised by property developers (yoy %)



Source: Bloomberg, National Bureau of Statistics (NBS), Indo Premier

Fig. 7: China's 70-cities new home price



Source: Bloomberg, National Bureau of Statistics (NBS), Indo Premier

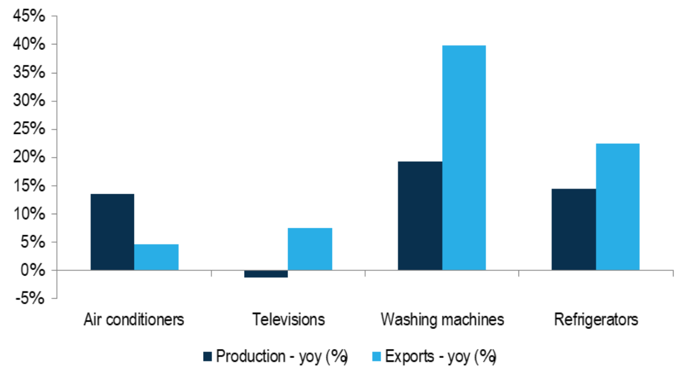
China's real-estate & property investment – Investment in real-estate development and construction has declined by 12% yoy in Dec-23. Historically, real-estate investment has a positive correlation with commodity prices such as copper, aluminum, and iron ore fines. **Negative**

China's manufacturing demand – Manufacturing industry (i.e. kitchen-appliances, household wares) has remained relatively robust in FY23, recording double-digit output growth on yearly basis (Fig. 8). **Positive**

Fig. 8: China real-estate/property investment (yoy %) & copper price

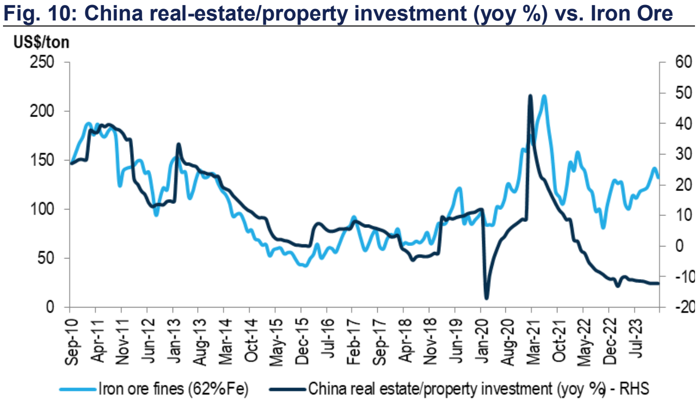
Source: Bloomberg, National Bureau of Statistics (NBS), Indo Premier

Fig. 9: Manufacturing industry demand in China (FY23)



Source: Bloomberg, MySteel, Indo Premier

Fig. 10: China real-estate/property investment (yoy %) vs. Iron Ore



Source: Bloomberg, National Bureau of Statistics (NBS), Indo Premier

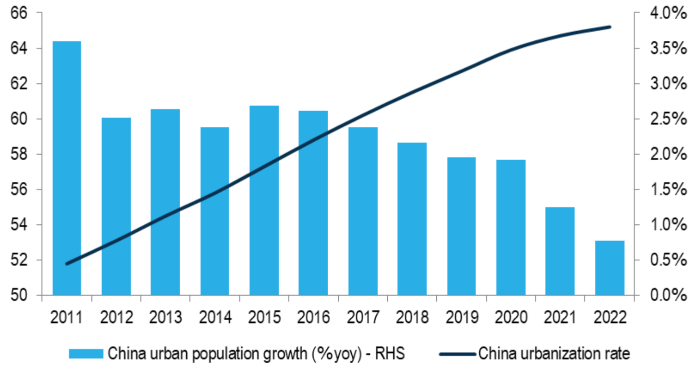
Fig. 11: China real-estate/property investment (yoy %) vs. Al price

Source: Bloomberg, MySteel, Indo Premier

Impact to commodity markets; stimulus measures to only provide short to medium-term demand recovery

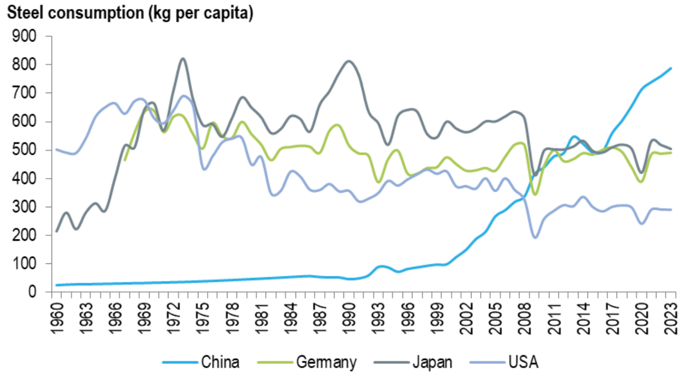
We expect PBOC's stimulus measures to provide short-to-medium term upside to commodities market, but won't be the primary driver for the next commodity super-cycle. This was mainly because of China's declining urbanization rate (<1% yoy), aging population, and high unemployment rate at c.21%. While at the same time, China's steel consumption per capita, has already been higher compared to the peak during U.S and Japan's industrialization period (Fig. 12).

Fig. 12: China urbanization rate (%)



Source: Bloomberg, National Bureau of Statistics (NBS), Indo Premier

Fig. 13: Steel consumption per capita

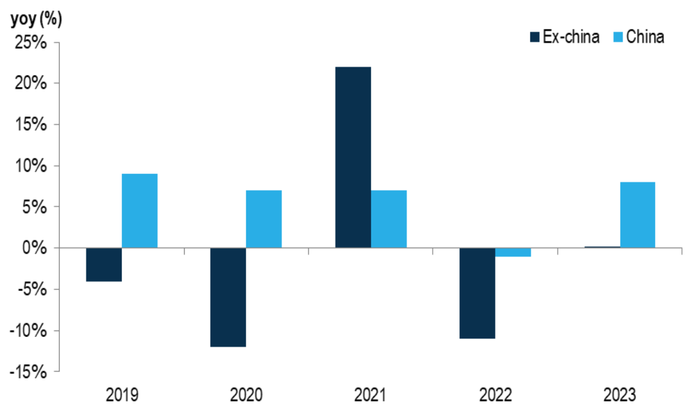


Source: Bloomberg, Indo Premier

Specific to each commodity, we think NPI may have the least upside from potential China stimulus boost. However, it will still stand to benefit from such stimulus as stainless-steel demand in China remain relatively resilient, with apparent demand growing by +8% in FY23, while the ex-China market (i.e. U.S & Europe) were the one that has been hammered the most (Fig. 13). This has been evident in the production increase of stainless steel #300 series (rich Ni content) by +7% yoy in FY23 (Fig. 14), primarily driven by the capacity ramp-up by Tsingshan and Tisco in China.

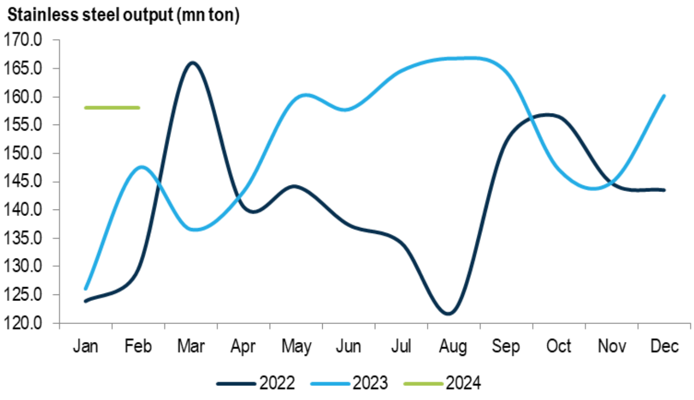
Contrary to stainless steel, China apparent demand for crude steel has been in consecutive decline for the past three years by 2-4% yoy since 2021 (Fig. 15), but its export grew significantly by +36% yoy in FY23 (Fig. 16), thanks to the price and costs advantage (i.e. lower CN¥), with Asia (Japan, Korea, Taiwan) and other ex-China market as the primary export destinations of China's crude steel products (Fig. 17).

Fig. 14: Apparent stainless steel consumption in China



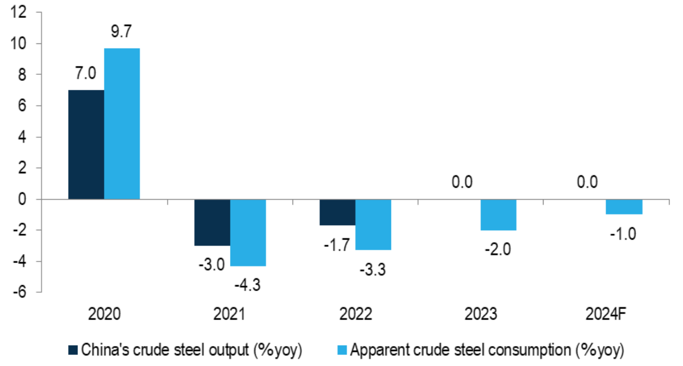
Source: MySteel, Bloomberg, Indo Premier

Fig. 15: China stainless steel #300 series production and yoy %



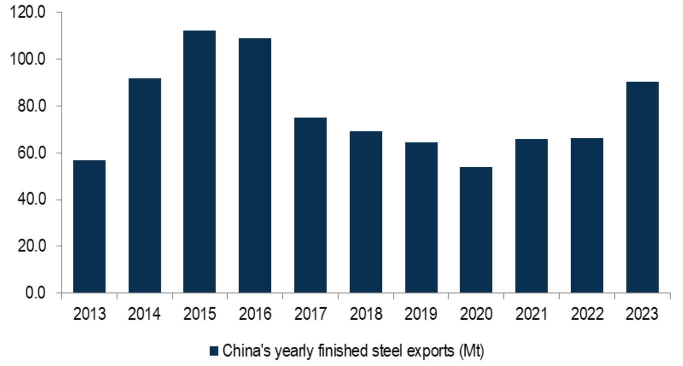
Source: MySteel, Bloomberg, Indo Premier

Fig. 16: Apparent crude steel consumption in China



Source: MySteel, Bloomberg, Indo Premier

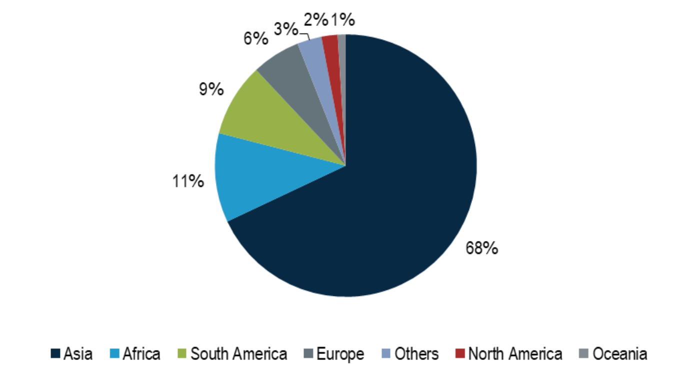
Fig. 17: China crude steel export



Source: MySteel, Bloomberg Economics, Indo Premier

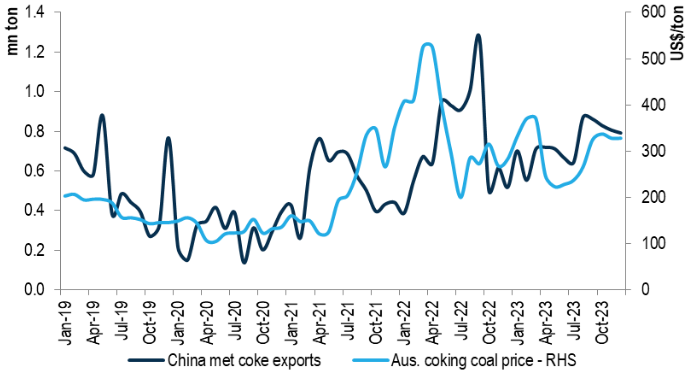
Hence, <u>we think stimulus boost from China are likely to positive affect crude-steel demand</u> rather than stainless-steel, but since crude steel are not within our commodity universe, we think crude-steel's raw material (i.e. coking-coal) would be positively affected if PBOC decided to pledge big-scale stimulus to revive growth (c.99% of global coking-coal is used for steel-making purposes). So far, coking-coal price has remained elevated at above US$300/ton level, thanks to the supply-disruption happening in Australia (c.50% of global seaborne supply, Fig. 18) with the recent cyclone Kirrily affecting Queensland area.

Fig. 18: Primary export destination of crude steel in FY23



Source: MySteel, Bloomberg Economics, Indo Premier

Fig. 19: Australian hard coking coal (HCC) price



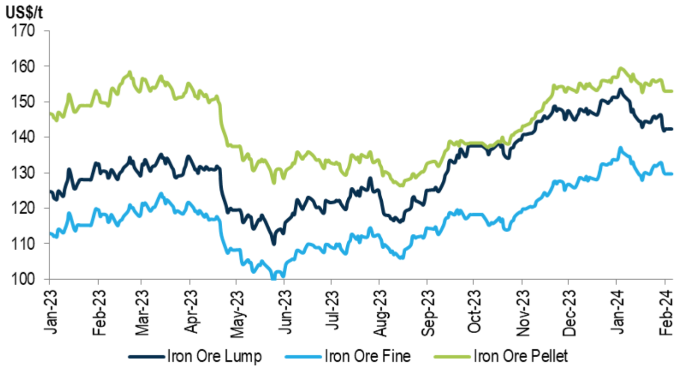
Source: Bloomberg, Indo Premier

On the demand side, steel demand is relatively resilient, but mainly on the ex-China market – such as India (+7% yoy steel-consumption in FY23). This is also evident in higher met-coke exports out of China (Fig. 18). Thus, potential boost in China market, either from organic/structural growth or stimulus, should be able to provide relief and lift coking-coal consumption, strictly speaking from stimulus standpoint.

If we look at the iron-ore market, which is also primarily used for steel-making purposes (similar to coking-coal), its price has rallied quite significantly in FY23 (up to 20% yoy, Fig. 19), in-line with the increase in coking-coal prices. However, steel prices (i.e. HRC and Rebar) in China have actually remained quite flattish (2-4% yoy prices decline in FY23, Fig. 20).

As a result, we think the soft steel price environment has limited the upside in both iron-ore and coking-coal prices as 30 met-coke makers are barely making any profit in FY23 while only around c.30% of steel mills (out of 247 mills) were making profit at current iron-ore and coking-coal prices level, as per MySteel survey.

Fig. 20: Iron-ore (pellet, fines, lumps) prices



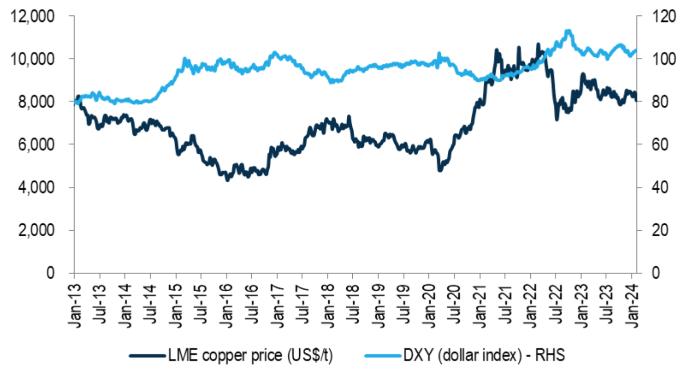
Source: MySteel, Bloomberg Economics, Indo Premier

Fig. 21: China hot-rolled coil (HRC) and steel-rebar prices

Source: Bloomberg, Indo Premier

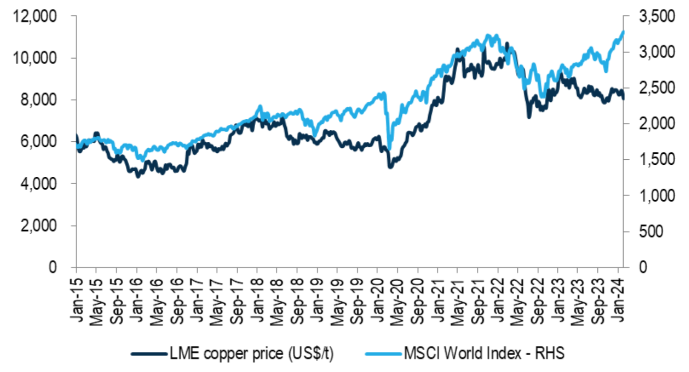
For copper, we believe it would receive positive sentiments from the stimulus boost, as we previously noted in our report that copper tends to follow the movement of macro-sentiments rather than its supply-demand dynamics incl. stimulus (Fig. 22 & 23). From physical demand standpoint, we also observed that China could positively affect copper demand given copper's wide application, which include demand from construction & real-estate market (c.20% of global copper demand).

Fig. 22: LME copper price and DXY



Source: Bloomberg, Indo Premier

Fig. 23: LME copper price and MSCI World Index



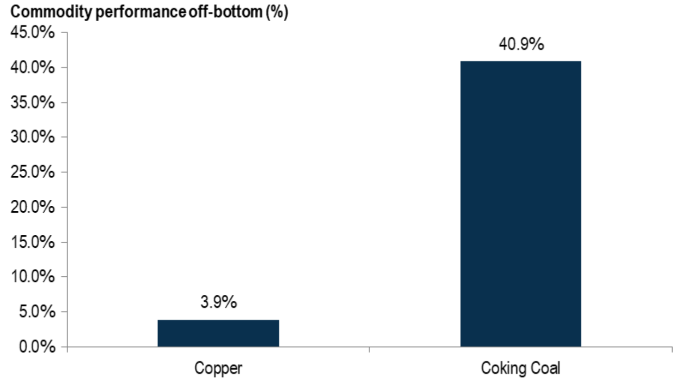
Source: Bloomberg, Indo Premier

We prefer copper over nickel especially in the medium-to-long-term as copper are currently not facing oversupply issue, unlike nickel. But, on the nickel side, we think LME nickel would benefit first, as it is more sentiment-driven than China NPI's and/or battery-grade nickel price. We observed that LME-related base-metals prices all rallied after China' 50bps RRR cut, but had almost no price impact to NPI nor battery-grade nickel price.

However, it is worth noting that coking-coal prices have outperformed peers (+41% off-bottom), which may limit its upside, and vice-versa, all types of nickel prices (i.e. LME, NPI, and NiSO4) have underperformed significantly (Fig. 25), creating huge potential upside ahead; copper prices were relatively flat since FY23 (+4% off-bottom). But regardless, our preference in the event of stimulus boost are as we prefer copper as it both benefit from sentiment and better China demand, followed by coking-coal, as it should also benefit from better China demand (c.20% of seaborne demand), followed by LME Nickel (+ve sentiment) and NPI (limited upside as China SS demand already relatively resilient), with battery-grade nickel being our least preferred commodity.

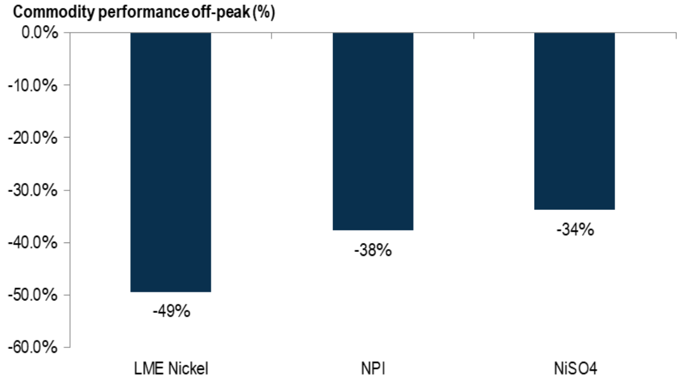
In the event of stimulus, we prefer **MDKA** (copper; Buy), **ADMR** (coking-coal; Buy), and **ANTM** (LME nickel, Buy), and **INCO** to some extent (benefit from LME nickel, but limited incremental buying on the stock-level basis).

Fig. 24: Commodity prices performance off-bottom since FY23 (%)



Source: Bloomberg, Indo Premier

Fig. 25: Commodity prices decline off-peak since FY23 (%)



Source: Bloomberg, Indo Premier

Fig. 26: 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	11.4	9.9	10.1	8.6	8.7	7.9	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	2,100	11.5	9.4	8.2	7.0	5.9	5.0	5.1%	4.3%	5.3%
HRUM IJ	Harum Energy	Buy	1,750	7.0	8.2	6.9	2.7	5.7	4.9	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Hold	4,250	32.6	123.1	125.7	9.7	12.5	10.3	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	750	350.6	29.3	15.4	40.3	13.0	8.9	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,000	N/A	92.0	50.7	17.7	11.6	10.2	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,250	9.0	7.6	6.9	6.4	4.6	3.8	N/A	3.3%	4.0%

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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