

Harum Energy

BUY(unchanged)

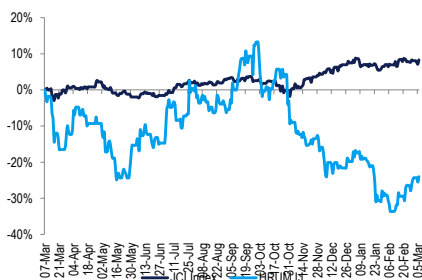
Company update | Metals | HRUM IJ | 7 March 2024

Stock Data

Target price	Rp1,800
Prior TP	Rp1,750
Current price	Rp1,320
Upside/downside	+36%
Shares outstanding (mn)	13,518
Market cap (Rp bn)	17,844
Free float	19%
Avg. 6m daily T/O (Rp bn)	15

Price Performance

	3M	6M	12M
Absolute	3.9%	-22.1%	-19.0%
Relative to JCI	-0.1%	-27.5%	-27.8%
52w low/high (Rp)	1,105 – 1,885		



Major Shareholders

Karunia Bara Perkasa	79.8%
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Ryan Winipta

PT Indo Premier Sekuritas
ryan.winipta@ipc.co.id
+62 21 5088 7168 ext. 718

Reggie Parengkuan

PT Indo Premier Sekuritas
reggie.parengkuan@ipc.co.id
+62 21 5088 7168 ext. 714

4Q23F improvement on core earnings from higher volume and better ASP

- We expect HRUM to report 4Q23F core NP of US\$41mn (+78% qoq on core basis), ending FY23 at US\$148mn NP (12% below cons.).
- Significant qoq NP growth was primarily driven by higher coal ASP of US\$98/ton (+12% qoq) and sales volume (+3% qoq), per our estimates.
- Expect soft NP in 1Q24 on normalizing coal sales volume. Regardless, HRUM is still trading at an attractive 9x FY24F P/E. Re-iterate Buy.

4Q23F preview: US\$41mn NP on higher coal sales volume and ASP

We estimate HRUM to record core NP of US\$41mn in 4Q23F (+78% qoq on core basis) with FY23F NP at US\$148mn (88% of consensus). We expect significant qoq NP growth to be primarily driven by higher thermal-coal ASP (+12% qoq at US\$98/ton), in-line with the ASP increase from other coal-miners that have reported their FY23 result (i.e. PTBA +17% qoq, UNTR +11% qoq) especially those that are linked to IC12/IC13 prices (+7-11% qoq). In addition to higher ASP, we expect coal sales volume of 1.8mn ton in 4Q23F (c.7.1mn ton in FY23F), as HRUM managed to obtain late RKAB revision approval in Nov/Dec-23. As a result, as production volume increased, we expect higher stripping-ratio (SR) in 4Q23F to 12-13x, ending FY23F at 10.8x resulted in higher mining-costs in 4Q23F. On the nickel-side, 4Q23F would be the first quarter with full consolidation from the sales of NPI from PT IMI post the acquisition. Our estimates of NPI margin in 4Q23F shall remain unchanged at US\$1.6-1.7k/ton which PT IMI would contribute around c.20% of HRUM's EBITDA in 4Q23F.

WMI to contribute starting 1Q24F after obtaining the required license

We expect WMI (c.81% stake) to start contributing to HRUM's sales starting in 1Q24F, after obtaining IUI (Izin Usaha Industri). However, we estimated nickel-matte volume of only 1.2kt in 1Q24F, as commencement of WMI has only started in Mar24. Overall, 1Q24F is expected to be softer vs. 4Q23F, as we expect: 1) normalization in coal sales volume qoq (-14% qoq) with only slight upside in ASP (+1% qoq) at US\$100/ton, and 2) lower NPI margin qoq to US\$1k/ton (vs. US\$1.6-1.7k/t in 4Q23F). However, we expect significant improvement in 2Q24F as a result of higher NPI margin and increase in matte contribution.

Maintain Buy rating with higher TP of Rp1,800/share

We fine-tuned our FY23F/24F/25F NP by +1%/+6%/+2% to take into account higher coal ASP by +7% in FY24F in addition to higher nickel-matte margin. As a result, we also raised our TP to Rp1,800/share as we assign higher value on HRUM's coal business and re-iterate Buy rating. Downside risks include lower commodity price, and lacklustre global growth outlook.

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	336	904	919	1,439	1,596
EBITDA	149	471	343	241	275
Net profit	74	302	148	132	151
EPS growth	26%	306%	-51%	-11%	14%
ROE	16%	41%	18%	14%	14%
PER (x)	16.0	3.9	8.0	9.0	7.9
EV/EBITDA (x)	7.7	1.7	2.9	6.7	5.7
Dividend yield	0%	0%	0%	0%	0%
IPS vs. consensus			88%	73%	86%

Source: Company, Indo Premier

Share price closing as of: 7 March 2024

Maintain Buy rating and increase our TP to Rp1,800/share

We fine-tuned our FY23F/24F/25F NP by +1%/+6%/+2% to take into account higher coal ASP by +7% in FY24F in addition to higher nickel-matte margin. We also revised down our NPI ASP from US\$13k/t to US\$12.5k/t as we take into account the soft NPI price environment in 1Q24F-to-date and assigned higher stripping-ratio (SR) for HRUM's coal business, in-line with management's guidance. Our SOTP-based TP is also raised to Rp1,800/share to take into account higher EPS from HRUM's coal business.

Fig. 1: Old vs New forecast

HRUM 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	904	919	1,439	1,596	897	1,368	1,566	2%	5%	2%	859	1,075	1,276	107%	134%	125%
Gross profit	541	371	269	299	367	264	296	1%	2%	1%	370	383	398	100%	70%	75%
Operating profit	440	283	177	209	278	185	217	2%	-4%	-4%	280	241	254	101%	74%	82%
EBITDA	471	343	241	275	340	253	291	1%	-5%	-6%	312	282	304	110%	85%	90%
NPAT	302	148	132	151	146	125	149	1%	6%	2%	168	181	176	88%	73%	86%
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Revenues		2%	57%	11%	-1%	53%	14%				-5%	25%	19%			
Gross profit		-32%	-27%	11%	-32%	-28%	12%				-32%	3%	48%			
Operating profit		-36%	-37%	18%	-37%	-33%	17%				-36%	-14%	5%			
EBITDA		-27%	-30%	14%	-28%	-25%	15%				-34%	-10%	8%			
NPAT		-51%	-11%	14%	-52%	-14%	19%				-44%	8%	-2%			
Gross margin	59.9%	40.3%	18.7%	18.7%	40.9%	19.3%	18.9%				43.1%	35.6%	31.2%	-2.8%	-16.9%	-12.5%
Operating margin	48.7%	30.8%	12.3%	13.1%	31.0%	13.6%	13.9%				32.6%	22.4%	19.9%	-1.9%	-10.1%	-6.8%
EBITDA margin	52.1%	37.3%	16.7%	17.2%	37.9%	18.5%	18.6%				36.3%	26.3%	23.8%	1.0%	-9.5%	-6.6%
NPAT margin	33.4%	16.1%	9.2%	9.5%	16.3%	9.1%	9.5%				19.5%	16.8%	13.8%	-3.4%	-7.6%	-4.3%

Source: Company data, Bloomberg, Indo Premier

Fig. 2: SOTP valuation

Assets	Enterprise value (US\$ mn)	Attributable to HRUM	Enterprise value (US\$ mn)	Methodology
Coal	305	100.0%	305	5.0x FY24F P/E
PT Position (POS)	539	50.5%	272	DCF (9.0% WACC)
PT Westrong Metal Industri	1,130	80.7%	912	DCF (9.5% WACC)
PT Infei Metal Industri	486	99.0%	482	DCF (9.0% WACC)
Total	2,460		1,970	
Net debt - FY24F	429			
Equity value (US\$ mn)	1,541			
NAV/share (TP)	1,800			

Source: Company, Indo Premier

Latest update on each of HRUM's nickel project:

PT Position (51% - nickel mining): Similar to several other nickel-miners, PT POS has yet to obtained RKAB approval from ESDM. However, since the initial expectation is for PT POS to only just started hauling by 2H24F, we think late RKAB approval is not an issue for HRUM. Construction of the hauling road through Weda Bay Nickel (WBN)'s concession also set to start within FY24F with 1-year completion timeline.

Infei Metal Industri (NPI-smelter, 99% stake): NPI cash margin in Jan-24 is set to trend lower compared to the average in 4Q23F which we think is mainly due to lower ASP despite slight improvement in cash-costs driven by lower LME nickel price and eventually ore-costs (HPM).

Westong Metal Industri (Nickel-matte, 81% stake): Have recently obtained Izin Usaha Industri (IUI) with commercial-production of nickel-matte product started in Mar-24. Recent matte payability is expected to be around c.80%, in-line with the industry-data and our channel-checks. As a

result, matte margin is expected to be in the range of US\$2k/ton. Note that WMI's captive power plant will not be reflected in WMI's 1Q24F and majority of 2Q24F as the completion of the power plant is set to be finished by May24 or Jun24. After WMI's captive power-plant already operational, HRUM expects US\$500/ton cost-savings coming from lower energy costs (7c per kWh using IWIP power plant vs. 5c using own power-plant; c.30% lower costs)

Blue Sparkling Energy (HPAL, US\$500mn loan, as of Mar-24): Construction has been progressing with expected completion by FY25F, while at the same time, there will be additional loan to BSE (Blue Sparkling Energy)'s HPAL of around additional US\$500mn, on top of the existing US\$500mn loan already injected to BSE in 4Q23F and 1Q24F, making the total loan injected to BSE to be around US\$1bn.

To finance further loan injection to BSE, HRUM will utilize debt-financing and hence, the impact to P&L should be netted-off as BSE will pay an interest to HRUM (booked as interest income) of around SOFR +2.6%, similar to cost-of-fund that HRUM received from banks (booked as interest-costs in the P&L). Going forward, HRUM has the option to convert these loans into an equity stake in the BSE's HPAL, albeit the timeline remains undisclosed at the moment. As such, HRUM would start booking an interest costs only after the loan-to-equity conversion on BSE-HPAL was completed.

Fig. 3: Key assumption changes

	Old			New			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Coal									
ASP (US\$/t)	114	90	80	115	97	85	0%	7%	6%
Sales Volume (ton)	6.9	6.0	6.0	7.1	6.0	6.0	2%	0%	0%
Stripping ratio (x)	10.3	10.8	10.5	10.8	11.5	11.5	6%	6%	10%
Nickel ore									
ASP (US\$/w mt)	0	35	35	0	35	35	na	0%	0%
Sales Volume (m w mt)	0	0.7	2.5	0	0.7	2.5	na	0%	0%
NPI (Infei Metal)									
ASP (US\$/t)	13,981	13,000	13,250	14,130	12,500	13,250	1%	-4%	0%
Cash costs (US\$/t)	11,854	10,800	10,500	12,033	10,900	10,500	2%	1%	0%
Sales Volume (ton)	27,710	28,000	28,000	27,710	28,000	28,000	0%	0%	0%
Matte (Westrong)									
ASP (US\$/t)	0	13,260	13,019	0	13,600	13,019	na	3%	0%
Cash costs (US\$/t)	0	11,700	11,000	0	11,800	11,000	na	1%	0%
Sales Volume (ton)	0	32,500	47,500	0	35,000	47,500	na	8%	0%

Source: Company data, Indo Premier estimates

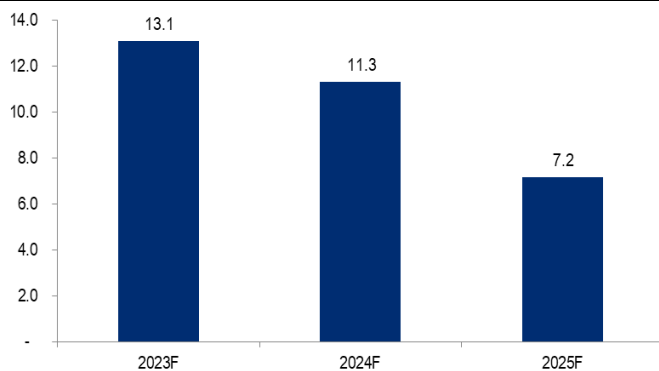
Current price is implying nickel-assets valuation of 11x FY24F P/E

If we assume 5x P/E to value HRUM's coal business, HRUM's implied nickel P/E is around 11x FY24F P/E (Fig. 4) as nickel contribution to NP in FY24F is around c.60% (Fig. 5) vs. coal's 40%. Nickel contribution would significantly increase in FY25F, subject to coal and nickel price; but solely from volume standpoint, nickel-matte and PT Position contribution is set to

increase on yoy basis by +36% and +260% in FY25F, respectively. Our calculation has also yet to include the potential contribution from BSE's HPAL, pending further clarity on HRUM's stake on the project. Using FY25F EPS, implied nickel-assets valuation is now at around 7x P/E, which are much cheaper vs. peers (Fig. 6).

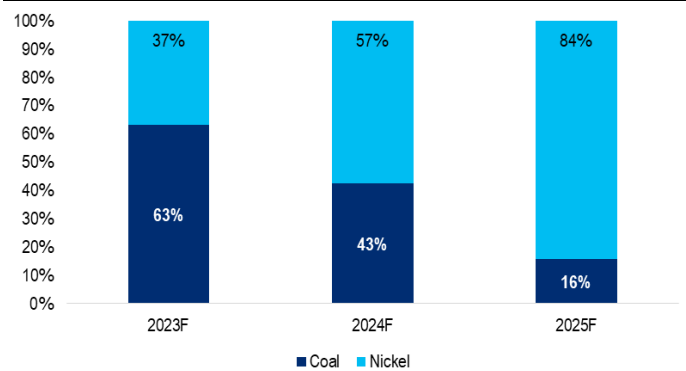
We also argued that HRUM's P/E would continue to trade at a discount compared to other nickel-peers given its coal-exposure and ESG-related issues (i.e. more on environmental) and its valuation gap to nickel peers such as ANTM (Fig. 7) would gradually narrow in parallel with higher contribution from nickel-assets in FY24F and onwards.

Fig. 4: HRUM's nickel assets implied P/E



Source: Company data, Indo Premier; based on Rp1,320/sh closing price and 5x P/E to value HRUM's coal business

Fig. 5: Coal vs Nickel NP contribution



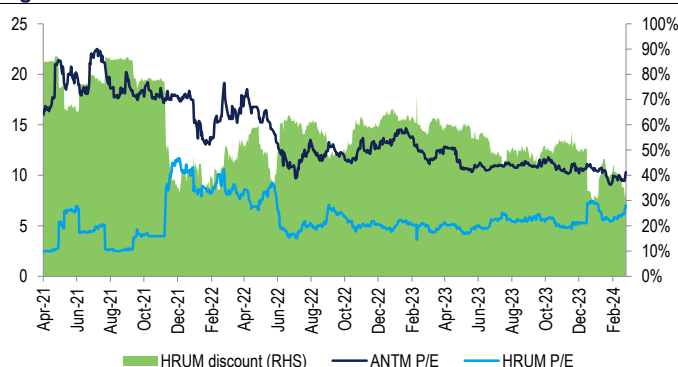
Source: Company data, Indo Premier

Fig. 6: Peers valuation

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				23F	24F	25F	23F	24F	25F	23F	24F	25F
ADMIR IJ	Adaro Minerals Indonesia	Buy	1,650	10.0	9.8	10.0	8.6	8.6	7.9	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	1,800	10.9	11.5	10.3	6.9	6.3	5.6	5.0%	4.6%	4.4%
HRUM IJ	Harum Energy	Buy	1,750	8.0	9.0	7.9	2.9	6.7	5.7	N/A	N/A	N/A
INCO IJ*	Vale Indonesia	Hold	4,250	9.8	32.7	123.7	4.0	9.7	12.6	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	750	317.0	26.4	13.9	36.8	12.0	8.2	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,000	N/A	88.6	48.8	17.2	11.4	10.0	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,250	9.8	8.2	7.5	7.0	5.0	4.2	N/A	3.1%	3.7%

Source: Company data, Indo Premier estimates

Fig. 7: HRUM's P/E discount to ANTM



Source: Company data, Indo Premier

Fig. 8: HRUM's P/E band



Source: Company data, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	336	904	919	1,439	1,596
Cost of sales	(162)	(363)	(548)	(1,170)	(1,297)
Gross profit	175	541	371	269	299
SG&A Expenses	(42)	(101)	(88)	(92)	(90)
Operating profit	132	440	283	177	209
Net interest	(2)	(1)	12	(40)	(71)
Forex gain (loss)	6	39	31	9	14
Others	(8)	(1)	(68)	34	37
Pre-tax income	128	478	258	181	190
Income tax	(29)	(98)	(63)	(23)	(11)
Minority interest	(24)	(78)	(47)	(26)	(28)
Net income	74	302	148	132	151

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	149	371	270	658	695
Receivable	23	69	89	140	155
Inventory	21	43	84	244	270
Other current assets	54	36	146	146	146
Total current assets	248	519	589	1,188	1,267
Fixed assets	59	52	68	117	124
Other non-current assets	568	708	826	1,412	1,477
Total non-current assets	627	760	895	1,529	1,601
Total assets	875	1,279	1,484	2,716	2,867

ST loans	0	0	0	0	0
Payable	17	21	114	244	270
Other payables	0	64	1	1	1
Current portion of LT loans	0	0	0	0	0
Other current liabilities	51	146	122	122	122
Total current liab.	68	230	238	367	394
Long term loans	100	1	71	1,071	1,071
Other LT liab.	55	55	55	55	55
Total non-current liabilities	155	57	127	1,127	1,127
Total liabilities	223	287	365	1,494	1,521

Equity	162	199	199	199	199
Retained earnings	318	543	631	733	858
Minority interest	171	251	290	290	290
Total SHE + minority int.	651	992	1,119	1,222	1,347
Total liabilities & equity	875	1,279	1,484	2,716	2,867

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net income	82	368	106	132	151
Depr. & amortization	17	31	52	54	57
Changes in working capital	(31)	44	(120)	(81)	(15)
Others	0	0	0	0	0
Cash flow from operating	68	444	38	106	192
Capital expenditure	(218)	(31)	(31)	(63)	(129)
Others	(133)	(131)	(156)	(625)	0
Cash flow from investing	(351)	(162)	(187)	(688)	(129)
Loans	100	(99)	70	1,000	0
Equity	128	116	39	0	0
Dividends	(7)	(77)	(60)	(30)	(26)
Others	0	0	0	0	0
Cash flow from financing	221	(61)	49	970	(26)
FX effect	0	0	0	0	0
Changes in cash	(62)	221	(100)	388	37

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	52%	60%	40%	19%	19%
Operating margin	39%	49%	31%	12%	13%
Pre-tax margin	38%	53%	28%	13%	12%
Net margin	22%	33%	16%	9%	9%
ROA	8%	24%	10%	5%	5%
ROE	16%	41%	18%	14%	14%
Acct. receivables TO (days)	14.8	13.1	10.3	10.3	10.3
Inventory TO (days)	7.6	8.4	6.5	4.8	4.8
Payable TO (days)	9.3	17.4	4.8	4.8	4.8
Debt to equity	0.0	0.0	0.0	0.0	0.0
Interest coverage ratio (x)	42.7	137.1	317.9	4.1	2.8
Net gearing	(0.1)	(0.5)	(0.2)	0.4	0.4

Source: Company, Indo Premier