

## Harum Energy

HOLD (downgrade)

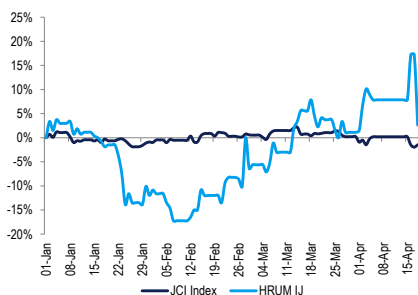
Company update | Metals | HRUM IJ | 19 April 2024

## Stock Data

Target price	Rp1,450
Prior TP	Rp1,800
Current price	Rp1,370
Upside/downside	+6%
Shares outstanding (mn)	13,518
Market cap (Rp bn)	18,520
Free float	19%
Avg. 6m daily T/O (Rp bn)	21

## Price Performance

	3M	6M	12M
Absolute	3.4%	-20.6%	-9.3%
Relative to JCI	3.9%	-24.0%	-14.3%
52w low/high (Rp)	1,105 – 1,885		



## Major Shareholders

Karunia Bara Perkasa	79.8%
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## Expected -ve reaction post Tsingshan announcement; downgrade to Hold

- HRUM signed strategic collaboration MoU with Eternal Tsingshan (ET) on its nickel projects (i.e. IMI, WMI, BSE, and POS).
- HRUM subsidiaries, HNP and THN, would issue a mandatory convertible notes to ET in 3Q24F, allowing ET to convert the notes into equity stake.
- Conversion timeline is undisclosed, but we expect end FY24F. Downgrade to Hold on lower EPS due to higher minority interest.

## General overview of Tsingshan-HRUM deal

Through the strategic collaboration, Eternal Tsingshan (ET) would receive mandatory convertible notes from HRUM's nickel subsidiary, Tanito Harum Nickel (THN) and/or Harum Nickel Perkasa (HNP), which own all of HRUM nickel projects (i.e. IMI, WMI, BSE, and POS, Fig. 3); the convertible notes – set to be issued by 3Q24F, would represent up to c.49% stake in HRUM's nickel portfolio, at the time of conversion. Such transaction shall reverse previous acquisitions in these nickel assets from Sep-23 to Mar-24, with HRUM will own 41%/51%/26% stake in WMI, IMI, and BSE vs. 81%/100%/51% previously, assuming c.49% stake conversion (Fig. 4).

## Key positives from the strategic collaboration

The transaction would allow HRUM to: 1) fully-consolidate the financials and operational of the nickel-assets, 2) settling the liabilities (i.e. notes payable) from IMI and WMI initial stake increase to c.99% and c.81% and 3) reducing the capital required to finance upcoming projects (i.e. BSE HPAL). The nominal amount of the convertible notes proceeds remain undisclosed, but we think it should not be below ~US\$500mn, similar to the purchase amount of these nickel-assets stake from Tsingshan (Fig. 5).

## However, we think the negatives outweigh the positives

Despite the key positives, we think market's knee-jerk reaction (share price declined by c.12% post-announcement) prove that market has yet to priced-in such transaction to occur. Similarly, we have previously factored in higher ownership stake for IMI, WMI, and POS in our SOTP. We laid out our base-scenario that the notes conversion will occur in end FY24F to fulfil gross debt to EBITDA covenant of 3.5x in FY25F, and assuming c.49% debt-to-equity conversion from Tsingshan. We also factored in HRUM to have a higher minority interest as a result of reduced ownership starting FY25F.

## Downgrade our rating to Hold with a TP of Rp1,450/share

We reduced our FY24F/25F NP forecast by -1%/-17%. As a result, we downgrade our rating to Hold and lower our TP to Rp1,450/share (from Rp1,800/share) as we adjusted our SOTP valuation (Fig. 7). Upside risks is lower than expected equity stake conversion (than 49%) from Tsingshan.

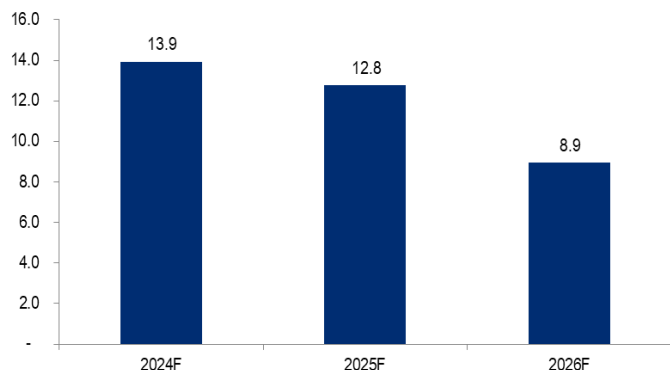
Financial Summary (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Revenue	904	926	1,391	1,639	1,954
EBITDA	471	350	243	328	459
Net profit	302	151	131	125	156
EPS growth	306%	-50%	-13%	-5%	25%
ROE	41%	17%	9%	8%	9%
PER (x)	4.1	8.2	9.2	9.6	7.7
EV/EBITDA (x)	1.9	3.5	7.0	6.5	4.5
Dividend yield	0%	0%	0%	0%	0%
IPS vs. consensus			74%	53%	33%

Source: Company, Indo Premier

Share price closing as of: 18 April 2024

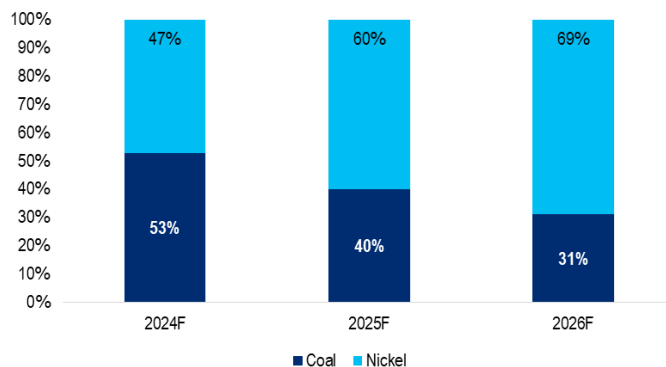
Based on our base-case scenario (FY25F, HRUM's current valuation of c.10x FY24F/25F P/E is already implying 14x/13x P/E (Fig. 1) for its nickel assets, which we think is already relatively fair, underpinning our Hold rating. We expect nickel assets to contribute around c.45-70% of NP in our forecast period (Fig. 2).

**Fig. 1: Nickel assets implied P/E**



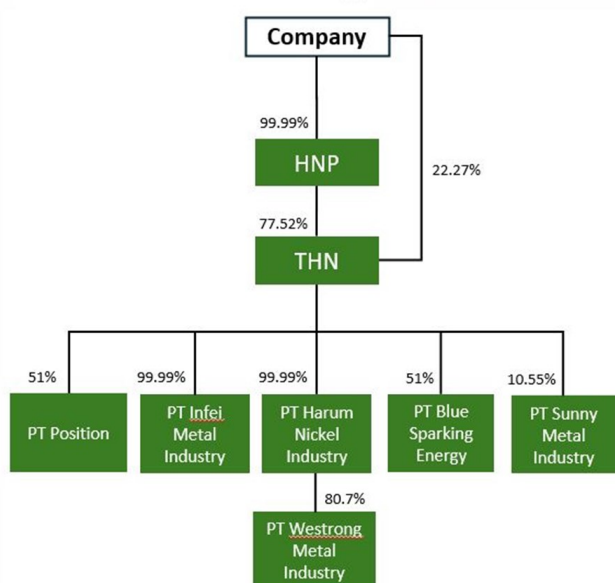
Source: Bloomberg, LME, Indo Premier

**Fig. 2: Coal/nickel assets portion**

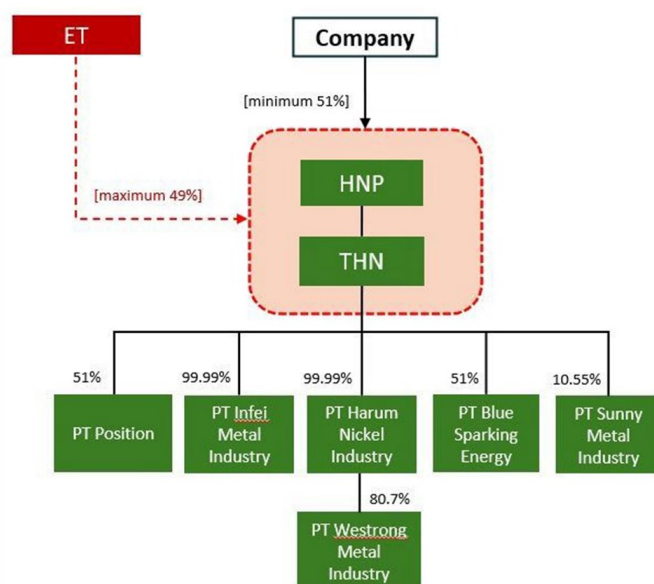


Source: Bloomberg, LME, Indo Premier

**Fig. 3: Illustration on the HRUM-Tsingshan transaction**



**Note:**  
This Group Structure Chart shows the current structure of the Group, as at the date of this Agreement (and limited only to entities that are relevant to the transaction).



**Note:**  
This Group Structure Chart shows the indicative proforma structure of the Group upon conversion of the Notes (and limited only to entities that are relevant to the transaction).

Source: Company, Indo Premier

**Fig. 4: Effective ownership changes**

Effective ownership	3Q23 (prior to all transactions)	Before Tsingshan	After Tsingshan*	Net increase (%)
WMI	20.0%	80.7%	41.2%	21.2%
IMI	49.0%	99.9%	50.9%	1.9%
BSE	0.0%	51.0%	26.0%	26.0%

Source: Company, Indo Premier; assume c.49% maximum stake conversion

Fig. 5: HRUM's nickel assets stake purchase since Sep-23

Total stake purchase	Assets	in US\$ mn
Infei Metal Industri	Nickel Pig Iron	70.4
Tanito Harum Nickel	Holding Co	0.9
Harum Nickel Perkasa	Holding Co	0.8
Westrong Metal Industri	High-grade nickel matte	215.2
Blue Sparkling Energy	HPAL	206.0
<b>Total</b>		<b>493.3</b>

Source: Company, Indo Premier

Fig. 6: Old vs New forecast

HRUM	2023A	New forecast			Old forecast			Forecast change			Consensus			Indo Premier vs Consensus		
US\$ mn		2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Revenues	926	1,391	1,639	1,954	1,439	1,596	na	-3%	3%	na	1,461	1,633	2,418	95%	100%	81%
Gross profit	382	282	352	475	269	299	na	5%	18%	na	382	400	na	74%	88%	na
Operating profit	287	172	243	363	177	209	na	-3%	16%	na	264	325	761	65%	75%	48%
EBITDA	350	243	328	459	241	275	na	1%	19%	na	347	409	900	70%	80%	51%
NPAT	151	131	125	156	132	151	na	-1%	-17%	na	176	236	472	74%	53%	33%
<b>%y-y</b>																
Revenues		50%	18%	19%	55%	11%	na				58%	12%	48%			
Gross profit		-26%	25%	35%	-30%	11%	na				0%	42%	na			
Operating profit		-40%	42%	49%	-38%	18%	na				-8%	23%	134%			
EBITDA		-31%	35%	40%	-31%	14%	na				-1%	18%	120%			
NPAT		-13%	-5%	25%	-13%	14%	na				16%	34%	100%			
Gross margin	41.3%	20.3%	21.5%	24.3%	18.7%	18.7%	na				26.1%	24.5%	na	-5.9%	-3.0%	na
Operating margin	31.0%	12.3%	14.8%	18.6%	12.3%	13.1%	na				18.1%	19.9%	31.5%	-5.7%	-5.1%	-12.9%
EBITDA margin	37.8%	17.4%	20.0%	23.5%	16.7%	17.2%	na				23.8%	25.1%	37.2%	-6.3%	-5.0%	-13.7%
NPAT margin	16.3%	9.4%	7.6%	8.0%	9.2%	9.5%	na				12.0%	14.5%	19.5%	-2.6%	-6.8%	-11.5%

Source: Company, Indo Premier

Fig. 7: 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)	494	26.0%	128	DCF (9.0% WACC)
Westrong Metal Industri	1,086	41.2%	447	DCF (9.0% WACC)
Blue Sparkling Energy	1,183	26.0%	308	DCF (9.5% WACC)
Infei Metal Industri	492	50.9%	250	DCF (9.0% WACC)
<b>Total</b>	<b>3,559</b>		<b>1,438</b>	
Net attributable debt - FY24F	211			
<b>Equity value (US\$ mn)</b>	<b>1,227</b>			
<b>NAV/share (TP)</b>	<b>1,450</b>			

Source: Company, Indo Premier

Fig. 8: Valuation band



Source: Bloomberg, Indo Premier

Fig. 9: Key assumption changes

	Old			New			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
<b>Coal</b>									
ASP (US\$/t)	97	85	na	100	95	95	3%	11%	na
Sales Volume (ton)	6.0	6.0	na	6.0	6.0	6.0	0%	0%	na
Stripping ratio (x)	10.8	11.5	na	11.0	10.5	10.5	2%	-9%	na
<b>Nickel ore</b>									
ASP (US\$/w mt)	35	35	na	35	36	36	na	3%	na
Sales Volume (m w mt)	0.7	2.5	na	0.7	2.5	3.0	na	0%	na
<b>NPI (Infei Metal)</b>									
ASP (US\$/t)	12,500	13,250	na	12,500	12,900	13,000	0%	-3%	na
Cash costs (US\$/t)	10,900	10,500	na	10,900	10,700	10,500	0%	2%	na
Sales Volume (ton)	28,000	28,000	na	28,000	28,000	28,000	0%	0%	na
<b>Matte (Westrong)</b>									
ASP (US\$/t)	13,600	13,019	na	13,600	13,530	13,530	0%	4%	na
Cash costs (US\$/t)	11,800	11,000	na	12,000	11,000	11,000	2%	0%	na
Sales Volume (ton)	35,000	47,500	na	30,000	45,000	47,500	-14%	-5%	na

Source: Company, Indo Premier

Income Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net revenue	904	926	1,391	1,639	1,954
Cost of sales	(363)	(543)	(1,109)	(1,287)	(1,479)
<b>Gross profit</b>	<b>541</b>	<b>382</b>	<b>282</b>	<b>352</b>	<b>475</b>
SG&A Expenses	(101)	(96)	(110)	(109)	(112)
<b>Operating profit</b>	<b>440</b>	<b>287</b>	<b>172</b>	<b>243</b>	<b>363</b>
Net interest	(1)	13	(24)	(16)	(10)
Forex gain (loss)	39	25	9	14	14
Others	(1)	(62)	15	0	0
<b>Pre-tax income</b>	<b>478</b>	<b>263</b>	<b>172</b>	<b>241</b>	<b>367</b>
Income tax	(98)	(67)	(21)	(17)	(41)
Minority interest	(78)	(45)	(20)	(100)	(170)
<b>Net income</b>	<b>302</b>	<b>151</b>	<b>131</b>	<b>125</b>	<b>156</b>

Balance Sheet (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	371	157	264	331	307
Receivable	69	111	167	197	235
Inventory	43	78	163	189	217
Other current assets	36	86	86	86	86
<b>Total current assets</b>	<b>519</b>	<b>432</b>	<b>680</b>	<b>803</b>	<b>845</b>
Fixed assets	52	170	1,155	2,129	2,098
Other non-current assets	708	1,030	1,132	685	759
<b>Total non-current assets</b>	<b>760</b>	<b>1,201</b>	<b>2,287</b>	<b>2,815</b>	<b>2,857</b>
<b>Total assets</b>	<b>1,279</b>	<b>1,633</b>	<b>2,967</b>	<b>3,618</b>	<b>3,702</b>
ST loans	0	0	0	0	0
Payable	21	80	163	189	217
Other payables	64	51	51	51	51
Current portion of LT loans	0	0	0	0	0
Other current liabilities	146	126	126	126	126
<b>Total current liab.</b>	<b>230</b>	<b>257</b>	<b>340</b>	<b>366</b>	<b>394</b>
Long term loans	1	137	757	1,257	1,157
Other LT liab.	55	65	65	65	65
<b>Total non-current liabilities</b>	<b>57</b>	<b>202</b>	<b>822</b>	<b>1,322</b>	<b>1,222</b>
<b>Total liabilities</b>	<b>287</b>	<b>458</b>	<b>1,161</b>	<b>1,687</b>	<b>1,616</b>
Equity	199	199	199	199	199
Retained earnings	543	694	825	950	1,106
Minority interest	251	282	782	782	782
<b>Total SHE + minority int.</b>	<b>992</b>	<b>1,175</b>	<b>1,805</b>	<b>1,930</b>	<b>2,086</b>
<b>Total liabilities &amp; equity</b>	<b>1,279</b>	<b>1,633</b>	<b>2,967</b>	<b>3,618</b>	<b>3,702</b>

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net income	368	87	131	125	156
Depr. & amortization	31	55	62	76	86
Changes in working capital	44	(106)	(58)	(30)	(38)
Others	0	0	0	0	0
<b>Cash flow from operating</b>	<b>444</b>	<b>36</b>	<b>135</b>	<b>171</b>	<b>204</b>
Capital expenditure	(31)	(153)	(1,023)	(1,121)	(128)
Others	(131)	(335)	(125)	518	0
<b>Cash flow from investing</b>	<b>(162)</b>	<b>(487)</b>	<b>(1,148)</b>	<b>(603)</b>	<b>(128)</b>
Loans	(99)	207	620	500	(100)
Equity	116	31	500	0	0
Dividends	(77)	0	0	0	0
Others	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(61)</b>	<b>238</b>	<b>1,120</b>	<b>500</b>	<b>(100)</b>
FX effect	0	0	0	0	0
<b>Changes in cash</b>	<b>221</b>	<b>(213)</b>	<b>107</b>	<b>68</b>	<b>(24)</b>

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	60%	41%	20%	22%	24%
Operating margin	49%	31%	12%	15%	19%
Pre-tax margin	53%	28%	12%	15%	19%
Net margin	33%	16%	9%	8%	8%
ROA	24%	9%	4%	3%	4%
ROE	41%	17%	9%	8%	9%
Acct. receivables TO (days)	13.1	8.3	8.3	8.3	8.3
Inventory TO (days)	8.4	7.0	6.8	6.8	6.8
Payable TO (days)	17.4	6.8	6.8	6.8	6.8
Debt to equity	0.0	0.0	0.0	0.0	0.0
Interest coverage ratio (x)	137.1	47.3	5.7	7.7	12.6
Net gearing	(0.5)	(0.0)	0.3	0.6	0.5

Source: Company, Indo Premier