

Harum Energy

HOLD (downgrade)

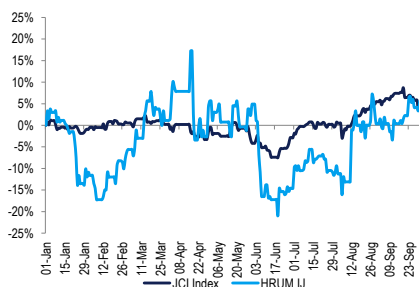
Company update | Metals | HRUM IJ | 2 October 2024

Stock Data

Target price	Rp1,450
Prior TP	Rp1,450
Current price	Rp1,410
Upside/downside	+3%
Shares outstanding (mn)	13,518
Market cap (Rp bn)	19,061
Free float	19%
Avg. 6m daily T/O (Rp bn)	27

Price Performance

	3M	6M	12M
Absolute	17.0%	4.1%	-22.5%
Relative to JCI	10.0%	-2.0%	-32.3%
52w low/high (Rp)	1,055 – 1,820		



Major Shareholders

Karunia Bara Perkasa	79.8%
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Convertible notes overhang removed, but limited NP upside; D/G to Hold

- HRUM issued mandatory convertible notes (MCN) of US\$412mn to Tsingshan affiliate, ERL, equivalent to 49% stake in nickel business units.
- With the issuance of MCN at fair valuation, we think overhang on MCN is removed and investors may now fully focus on fundamental.
- Impact from higher minority interest is already incorporated to our FY25F-26F NP; But regardless, we see limited NP upside, downgrade to Hold.

Mandatory convertible notes (MCN) issuance overview

HRUM has issued mandatory convertible notes (MCN) of US\$412mn to its noteholder, Ever Rising Limited (ERL), an affiliate company of Tsingshan. The convertible note is equivalent to 49% stake in HRUM's nickel business units (Fig.1), namely Tanito Harum Nickel (THN) and Harum Nickel Perkasa (HNP). At the same time, HRUM also take-over 51% stake in Nickel International Capital (NICAP), which owns 49% stake in PT Position (POS). The transaction however, combined with the MCN, shall not change HRUM effective ownership in PT POS at 51%, as illustrated in Fig.1.

The transaction is fair; overhang shall be removed

During our call with HRUM, it was mentioned that current outstanding notes payable amounted to US\$538mn. However, the gap between the value of MCN and notes payable, which was around US\$127mn, would be kept in a form of inter-company loan from ERL. We think transaction is considered fair as HRUM has also injected US\$131mn inter-company loan to the nickel business units, in proportionate to HRUM and ERL stake.

Update on 3Q24F operation and latest developments

While NPI price slightly improve on qoq basis in 3Q24F (+3%), cash margin was relatively flattish qoq as nickel ore costs were rising due to shortage and now accounts for c.40% of NPI's cash costs (vs. 25-30% prior to RKAB issue). Meanwhile, nickel-matte price in 3Q24 has also declined on qoq basis (Fig. 3) but margin could be maintained at roughly US\$2.5k/t (flat qoq), thanks to cash costs improvement from WMI capacity ramp-up. In addition, PT Position (POS) is set to commence operation by end of Oct24.

Downgrade to Hold with an unchanged TP of Rp1,450/share

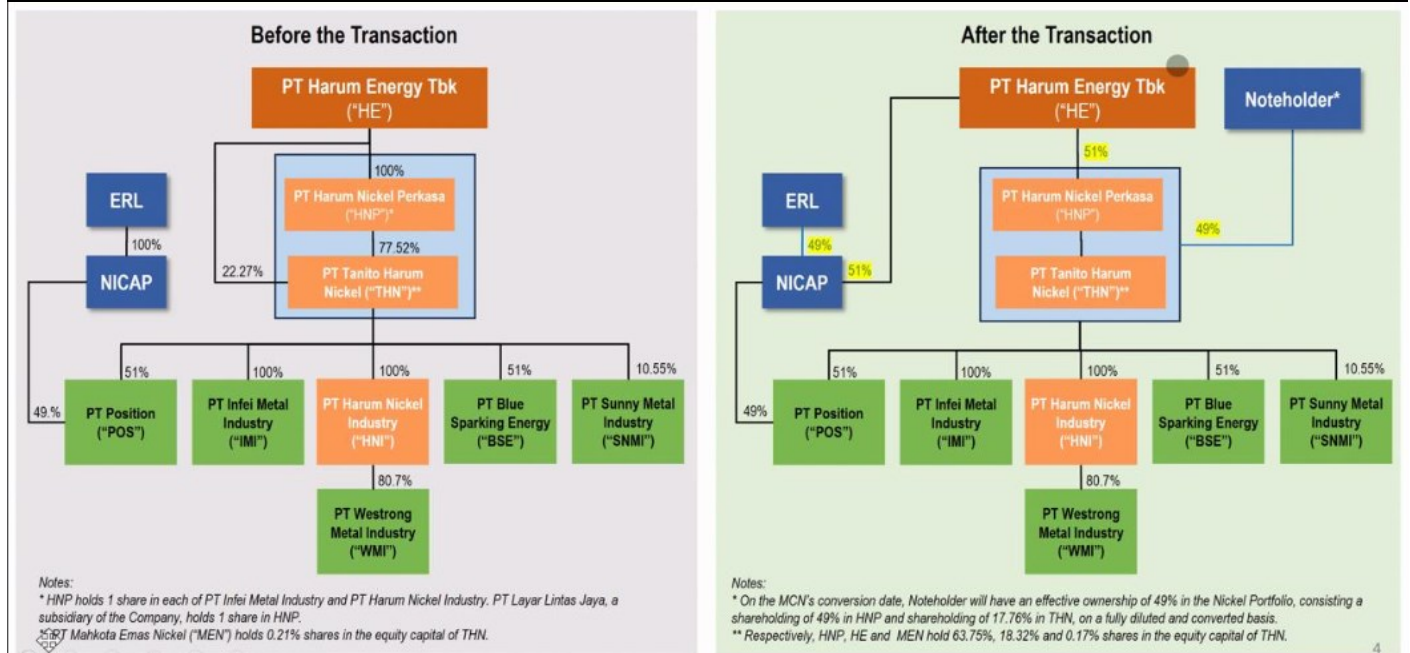
We downgrade our rating from Buy to Hold but kept our TP unchanged at Rp1,450/share. While we think the overhang from MCN's issuance is already removed, we see limited upside from HRUM's NP in FY24F, which underpins our Hold rating. Upside risks to our call are: aggressive buyback execution (buyback of c.30% free-float) and higher NPI price.

Financial Summary (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Revenue	904	926	1,441	1,655	1,986
EBITDA	471	350	316	334	476
Net profit	302	151	128	126	165
EPS growth	306%	-50%	-15%	-2%	30%
ROE	41%	17%	8%	8%	9%
PER (x)	3.4	6.7	7.5	7.6	5.8
EV/EBITDA (x)	1.4	2.9	4.6	5.6	3.8
Dividend yield	0%	0%	0%	0%	0%
IPS vs. consensus			75%	53%	35%

Source: Company, Indo Premier

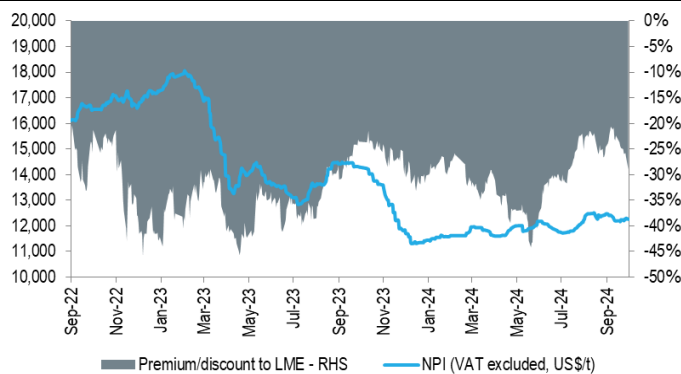
Share price closing as of: 1 October 2024

Fig. 1: Illustration on the Mandatory Convertible Notes (MCN) issuance and 51% stake acquisition in NICAP



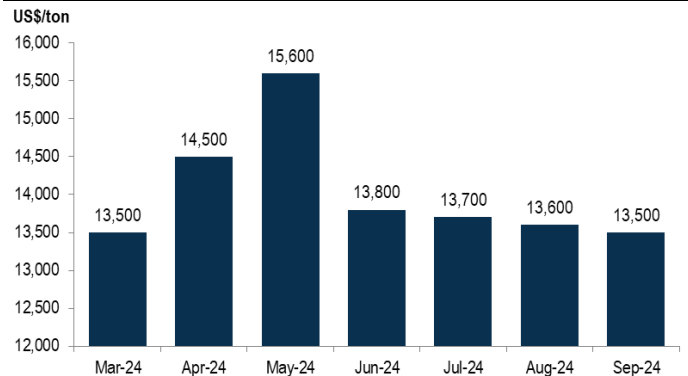
Source: Company data, Indo Premier

Fig. 2: NPI price



Source: Shanghai Metal Market, Bloomberg, Indo Premier

Fig. 3: Nickel-matte price



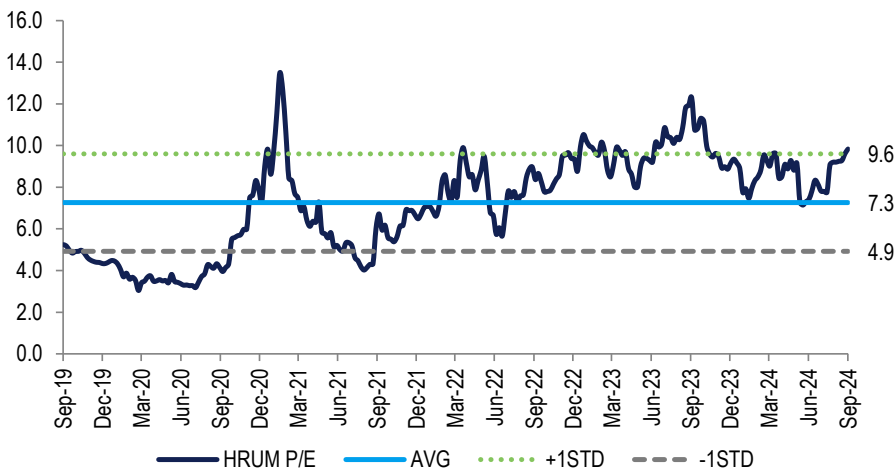
Source: Bloomberg, Indo Premier

Fig. 4: Peers comparison

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				24F	25F	26F	24F	25F	26F	24F	25F	26F
ADMR IJ	Adaro Minerals Indonesia	Buy	1,650	8.6	8.3	6.6	7.3	8.0	7.2	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	1,750	13.0	10.1	10.5	8.7	6.0	6.2	8.9%	7.7%	9.9%
HRUM IJ	Harum Energy	Buy	1,450	9.3	9.4	7.2	5.3	6.3	4.3	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Buy	5,850	29.0	27.0	39.6	6.4	7.0	7.5	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	700	52.3	21.6	15.8	17.9	10.3	8.0	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,100	N/A	204.9	83.4	13.1	9.6	7.9	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,100	10.1	7.7	6.8	7.2	5.4	4.8	2.9%	3.0%	3.9%

Source: Bloomberg, Indo Premier

Fig. 5: Valuation band



Source: Company, Indo Premier

Income Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net revenue	904	926	1,441	1,655	1,986
Cost of sales	(363)	(543)	(1,135)	(1,286)	(1,482)
Gross profit	541	382	306	369	505
SG&A Expenses	(101)	(96)	(61)	(120)	(125)
Operating profit	440	287	245	249	380
Net interest	(1)	13	(16)	(16)	(10)
Income from associates/JV	39	25	7	14	14
Others	(1)	(62)	(39)	0	0
Pre-tax income	478	263	198	247	384
Income tax	(98)	(67)	(37)	(16)	(43)
Minority interest	(78)	(45)	(32)	(105)	(177)
Net income	302	151	128	126	165

Balance Sheet (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	371	157	255	328	310
Receivable	69	111	173	199	239
Inventory	43	78	167	189	217
Other current assets	36	86	86	86	86
Total current assets	519	432	681	802	853
Fixed assets	52	170	1,155	2,129	2,098
Other non-current assets	708	1,030	1,132	685	759
Total non-current assets	760	1,201	2,287	2,815	2,857
Total assets	1,279	1,633	2,968	3,616	3,710
ST loans	0	0	0	0	0
Payable	21	80	167	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
Total current liab.	230	257	344	366	395
Long term loans	1	137	757	1,257	1,157
Other LT liab.	55	65	65	65	65
Total non-current liabilities	57	202	822	1,322	1,222
Total liabilities	287	458	1,165	1,687	1,616
Equity	199	199	199	199	199
Retained earnings	543	694	822	948	1,113
Minority interest	251	282	782	782	782
Total SHE + minority int.	992	1,175	1,803	1,929	2,093
Total liabilities & equity	1,279	1,633	2,968	3,616	3,710

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net income	368	87	128	126	165
Depr. & amortization	31	55	62	76	86
Changes in working capital	44	(106)	(64)	(26)	(40)
Others	0	0	0	0	0
Cash flow from operating	444	36	126	176	211
Capital expenditure	(31)	(153)	(1,023)	(1,121)	(128)
Others	(131)	(335)	(125)	518	0
Cash flow from investing	(162)	(487)	(1,148)	(603)	(128)
Loans	(99)	207	620	500	(100)
Equity	116	31	500	0	0
Dividends	(77)	0	0	0	0
Others	0	0	0	0	0
Cash flow from financing	(61)	238	1,120	500	(100)
FX effect	0	0	0	0	0
Changes in cash	221	(213)	98	73	(17)

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	60%	41%	21%	22%	25%
Operating margin	49%	31%	17%	15%	19%
Pre-tax margin	53%	28%	14%	15%	19%
Net margin	33%	16%	9%	8%	8%
ROA	24%	9%	4%	3%	4%
ROE	41%	17%	8%	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	10.8	7.9	13.1
Net gearing	(0.5)	(0.0)	0.3	0.6	0.5

Source: Company, Indo Premier