

Merdeka Battery Materials

BUY (unchanged)

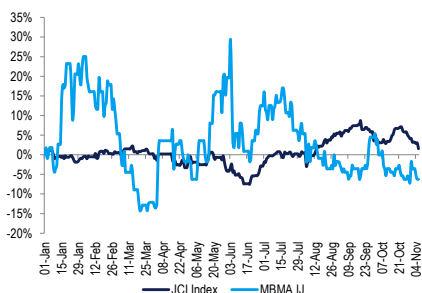
Company update | MBMA IJ | 6 November 2024

Stock Data

| | |
|---------------------------|---------|
| Target price | Rp635 |
| Prior TP | Rp700 |
| Current price | Rp525 |
| Upside/downside | +221% |
| Shares outstanding (mn) | 107,995 |
| Market cap (Rp bn) | 56,698 |
| Free float | 28% |
| Avg. 6m daily T/O (Rp bn) | 32 |

Price Performance

| | 3M | 6M | 12M |
|-------------------|-----------|-------|--------|
| Absolute | -7.1% | -5.4% | -19.8% |
| Relative to JCI | -10.7% | -9.1% | -27.7% |
| 52w low/high (Rp) | 480 – 725 | | |



Major Shareholders

| | |
|-------------------------------|-------|
| Merdeka Energi Nusantara | 49.9% |
| Garibaldi Thohir | 11.1% |
| Huayang International Limited | 7.6% |

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3Q24 operational: nickel matte margin turned negative; NPI flat qoq

- MBMA reported negative US\$390/ton cash margin on its high-grade nickel matte (HGNM) smelter in 3Q24 as ASP declined by -9% qoq.
- NPI cash margin was relatively flattish at US\$1k/t as higher NPI ASP (+4% qoq) was offset by higher AISC (+6% qoq).
- We estimated MBMA to report US\$30mn EBITDA in 3Q24F (-46% qoq). Lower our TP to Rp635/share but maintain our Buy rating.

NPI: higher ASP qoq offset by higher cash costs

RKEF's ASP improved by +4% qoq to US\$12k/t, in-line with NPI benchmark price in 3Q24. However, this was offset by higher all-in sustaining costs (AISC) to US\$10.9k/t (+6% qoq), resulting in a flattish cash margin of US\$1k/ton potentially due to higher nickel ore costs (c.40-50% of total AISC) amid ore-scarcity and higher ore premium in 3Q24 of up to US\$25/wmt during the quarter. Going forward, construction of MBMA's new direct hauling road from SCM mine to IMIP (completion target of 2H25F) shall be able to further boost ore delivery rate that could be used for MBMA's RKEF smelter. In FY24F, only an estimated c.50% of ore could be sourced from internal while the rest came from 3rd party producers.

Nickel-matte: negative cash margin on lower ASP & higher costs

High-grade nickel matte (HGNM) ASP trended lower by -9% qoq to US\$13.4k/t in 3Q24; and combined with higher NPI & low-grade nickel matte (LGNM) price – raw material for HGNM, led to negative cash margin of US\$390/ton during the quarter. In 4Q24F to date, we saw improvement in HGNM price to US\$14.2k/t level, which shall enable MBMA to at least achieve breakeven cash margin in 4Q24F, shall the price stay elevated.

Limonite sales improved while PT ESG HPAL to commission in 4Q24F

Limonite ore sales volume improved by +21% qoq to 3.45mn wmt while AISC also improved by 10% qoq to US\$9/wmt although ASP declined by 8% qoq to US\$15/wmt. On AIM, the plant is currently undergoing series of upgrade to start producing iron ore pellets in 4Q24F while construction of copper cathode plant is currently in final stage. In addition, GEM's HPAL has achieved mechanical completion for its Train A (20ktpa autoclave) in Oct24 with target commissioning by end of FY24F.

Maintain Buy rating with a lower TP of Rp635/share

We expect MBMA to report US\$30mn EBITDA (vs. US\$56mn in 2Q24) and US\$3mn NP in 3Q24F (vs. US\$17mn in 2Q24). Hence, with the delay in AIM project, we lower our FY24F/25F/26F NP forecast by -63%/-33%/-19% and lower our SOTP-based TP to Rp635/share (from Rp700/share previously), but we maintain our Buy rating on its volume growth story.

| Financial Summary (US\$ mn) | 2022A | 2023A | 2024F | 2025F | 2026F |
|-----------------------------|-------|-------|-------|-------|-------|
| Revenue | 456 | 1,328 | 1,842 | 2,368 | 2,701 |
| EBITDA | 51 | 104 | 163 | 383 | 553 |
| Net profit | 22 | 7 | 27 | 118 | 196 |
| EPS growth | na | -68% | 294% | 333% | 66% |
| ROE | 2% | 0% | 1% | 6% | 8% |
| PER (x) | 165.6 | 517.9 | 131.3 | 30.3 | 18.3 |
| EV/EBITDA (x) | 76.2 | 36.5 | 25.0 | 11.2 | 8.1 |
| Dividend yield | N/A | N/A | N/A | N/A | N/A |
| IPS vs. consensus | | | 62% | 75% | 79% |

Source: Company, Indo Premier

Share price closing as of: 6 November 2024

Fig. 1: MBMA's 9M24/3Q24 operational summary

| Operational summary | 9M24 | 9M23 | % yoy | 3Q24 | 3Q23 | % yoy | 2Q24 | % qoq | IPS FY24F | % of IPS |
|--------------------------------|--------|--------|-------|--------|--------|-------|--------|-------|-----------|----------|
| Nickel pig iron | | | | | | | | | | |
| NPI production (ton) | 63,339 | 43,024 | 47% | 20,557 | 21,786 | -6% | 21,882 | -6% | 86,000 | 74% |
| NPI sales (ton) | 61,367 | 42,054 | 46% | 18,900 | 22,831 | -17% | 20,846 | -9% | 86,000 | 71% |
| NPI ASP (US\$/t) | 11,522 | 14,267 | -19% | 12,041 | 13,193 | -9% | 11,536 | 4% | 11,750 | 98% |
| NPI AISC (US\$/t) | 10,514 | 12,958 | -19% | 10,961 | 11,616 | -6% | 10,370 | 6% | 10,500 | 100% |
| Cash margin (US\$/t) | 1,008 | 1,309 | -23% | 1,080 | 1,577 | -32% | 1,166 | -7% | 1,250 | 81% |
| High-grade nickel matte | | | | | | | | | | |
| HGNM production (ton) | 38,422 | 27,589 | 39% | 12,979 | 13,210 | -2% | 13,402 | -3% | 50,000 | 77% |
| HGNM sales (ton) | 40,400 | 16,430 | 146% | 13,192 | 13,394 | -2% | 12,804 | 3% | 50,000 | 81% |
| HGNM ASP (US\$/t) | 13,960 | 16,503 | -15% | 13,440 | 16,346 | -18% | 14,819 | -9% | 14,500 | 96% |
| HGNM AISC (US\$/t) | 13,337 | 15,247 | -13% | 13,830 | 15,154 | -9% | 13,016 | 6% | 13,500 | 99% |
| Cash margin (US\$/t) | 623 | 1,256 | -50% | (390) | 1,192 | -133% | 1,803 | -122% | 1,000 | 62% |
| Nickel ore | | | | | | | | | | |
| Limonite sales (wmt) | 6.9 | 0 | N/A | 3.5 | 0 | N/A | 2.9 | 21% | 9.0 | 77% |
| Limonite ASP (US\$/wmt) | 15.5 | 0 | N/A | 15.1 | 0 | N/A | 16.5 | -8% | 14.0 | 111% |
| Limonite AISC (US\$/wmt) | 9.7 | 0 | N/A | 9.0 | 0 | N/A | 10.0 | -10% | 12.0 | 81% |

Source: Company data, Bloomberg, Indo Premier

Fig. 2: Old vs New forecast

| MBMA US\$ mn | New forecast | | | Forecast change | | | Consensus | | | IPS vs consensus | | |
|---------------------|--------------|-------|-------|-----------------|-------|-------|-----------|-------|-------|------------------|-------|-------|
| | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F |
| Revenues | 1,842 | 2,368 | 2,701 | -6% | -4% | 1% | 1,836 | 2,318 | 2,394 | 100% | 102% | 113% |
| Gross profit | 130 | 345 | 505 | -39% | -12% | -3% | 153 | 413 | 470 | 85% | 84% | 107% |
| Operating profit | 97 | 298 | 451 | -44% | -14% | -4% | 157 | 397 | 589 | 62% | 75% | 77% |
| EBITDA | 163 | 383 | 553 | -32% | -11% | -3% | 208 | 440 | 596 | 78% | 87% | 93% |
| NPAT | 27 | 118 | 196 | -63% | -33% | -19% | 44 | 157 | 249 | 62% | 75% | 79% |
| %y-y | | | | | | | | | | | | |
| Revenues | 39% | 29% | 14% | | | | 0% | 26% | 3% | | | |
| Gross profit | 68% | 165% | 46% | | | | 18% | 169% | 14% | | | |
| Operating profit | 104% | 207% | 51% | | | | 62% | 152% | 49% | | | |
| EBITDA | 56% | 135% | 44% | | | | 28% | 112% | 35% | | | |
| NPAT | na | na | 66% | | | | 62% | 254% | 59% | | | |
| Gross margin | | | | | | | | | | | | |
| Gross margin | 7.1% | 14.6% | 18.7% | | | | 8.3% | 17.8% | 19.6% | | | |
| Operating margin | 5.3% | 12.6% | 16.7% | | | | 8.6% | 17.1% | 24.6% | | | |
| EBITDA margin | 8.8% | 16.2% | 20.5% | | | | 11.3% | 19.0% | 24.9% | | | |
| NPAT margin | 1.5% | 5.0% | 7.3% | | | | 2.4% | 6.8% | 10.4% | | | |

Source: Company data, Bloomberg, Indo Premier

Fig. 3: Key operational data assumptions changes

| Fig. 5. Key operational data assumptions changes | | | | | | | | | | |
|--|-----------|--------|--------|--------|--------|--------|--------|------------|-------|-------|
| Assumptions | Metrics | Old | | | New | | | Change (%) | | |
| | | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F |
| Sales volume | | | | | | | | | | |
| Nickel pig iron (NPI) | ton Ni | 86,000 | 88,000 | 88,000 | 82,000 | 86,000 | 86,000 | -5% | -2% | -2% |
| Nickel matte (HNMI) | ton Ni | 50,000 | 50,000 | 50,000 | 53,000 | 52,500 | 52,500 | 6% | 5% | 5% |
| Saprolite ore | mn w mt | 3.0 | 4.5 | 5.0 | 3.0 | 4.5 | 5.0 | 0% | 0% | 0% |
| Limonite ore | mn w mt | 9.0 | 11.0 | 11.0 | 9.5 | 10.5 | 10.5 | 6% | -5% | -5% |
| ASP | | | | | | | | | | |
| Nickel pig iron (NPI) | US\$/ton | 11,750 | 12,000 | 12,000 | 11,650 | 12,000 | 12,000 | -1% | 0% | 0% |
| Nickel matte (HNMI) | US\$/ton | 14,500 | 14,000 | 14,000 | 14,050 | 14,000 | 14,000 | -3% | 0% | 0% |
| Saprolite ore | US\$/w mt | 33.0 | 32.0 | 32.0 | 29.0 | 30.0 | 30.0 | -12% | -6% | -6% |
| Limonite ore | US\$/w mt | 14.0 | 14.0 | 14.0 | 15.0 | 15.0 | 15.0 | 7% | 7% | 7% |
| AISC | | | | | | | | | | |
| Nickel pig iron (NPI) | US\$/ton | 10,500 | 10,500 | 10,500 | 10,650 | 11,000 | 11,000 | 1% | 5% | 5% |
| Nickel matte (HNMI) | US\$/ton | 13,500 | 13,500 | 13,500 | 13,600 | 13,500 | 13,500 | 1% | 0% | 0% |
| Ore mining | US\$/w mt | 36.0 | 36.5 | 36.5 | 33.5 | 31.0 | 30.0 | -7% | -15% | -18% |

Source: Company data, Bloomberg, Indo Premier

Fig. 4: MBMA's sum-of-the-parts (SOTP) valuation

| MBM Assets | Enterprise value (US\$ m) | | Attributable to MBM | Enterprise value (US\$ m) | | Methodology |
|--------------------------------|------------------------------|--|---------------------|------------------------------|--|-----------------|
| | | | | | | |
| AIM | 974 | | 80.0% | 779 | | DCF (9.0% WACC) |
| Brunp CATL HPAL | 1,802 | | 66.0% | 1,189 | | DCF (9.5% WACC) |
| HPAL - QMB | 1,123 | | 55.0% | 618 | | DCF (9.5% WACC) |
| SCM - Nickel Mine | 2,981 | | 51.0% | 1,520 | | DCF (9.0% WACC) |
| HNMI | 268 | | 60.0% | 161 | | DCF (9.0% WACC) |
| ZHN | 651 | | 50.1% | 326 | | DCF (9.0% WACC) |
| CSI + BSI | 404 | | 50.1% | 202 | | DCF (9.0% WACC) |
| Total | 8,203 | | | 4,796 | | |
| | | | | | | |
| Total enterprise value | 4,796 | | | | | |
| Net cash (debt) - FY24F | (443) | | | | | |
| Total equity value | 4,353 | | | | | |
| Target price | 635 | | | | | |

Source: Bloomberg, Indo Premier

Fig. 5: Peers comparison table

| 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 | 8.7 | 8.4 | 6.7 | 7.4 | 8.1 | 7.3 | N/A | N/A | N/A |
| ANTM IJ | Aneka Tambang | Buy | 2,000 | 12.2 | 10.2 | 10.5 | 7.5 | 6.1 | 6.3 | 8.4% | 8.2% | 9.8% |
| HRUM IJ | Harum Energy | Hold | 1,450 | 7.8 | 7.9 | 6.1 | 4.8 | 5.8 | 3.9 | N/A | N/A | N/A |
| INCO IJ | Vale Indonesia | Buy | 5,850 | 27.6 | 25.7 | 37.6 | 5.9 | 6.6 | 7.1 | N/A | N/A | N/A |
| MBMA IJ | Merdeka Battery Materials | Buy | 635 | 50.4 | 20.8 | 15.2 | 17.3 | 10.0 | 7.7 | N/A | N/A | N/A |
| MDKA IJ | Merdeka Copper Gold | Buy | 3,100 | N/A | 194.0 | 79.0 | 12.5 | 9.3 | 7.7 | N/A | N/A | N/A |
| NCKL IJ | Trimegah Bangun Persada | Buy | 1,050 | 9.6 | 7.4 | 6.5 | 6.9 | 5.2 | 4.6 | 3.1% | 3.1% | 4.1% |

Source: Bloomberg, Indo Premier

| Income Statement (US\$ mn) | 2022A | 2023A | 2024F | 2025F | 2026F |
|----------------------------|-----------|-----------|------------|------------|------------|
| Net revenue | 456 | 1,328 | 1,842 | 2,368 | 2,701 |
| Cost of sales | (411) | (1,251) | (1,712) | (2,022) | (2,196) |
| Gross profit | 44 | 77 | 130 | 345 | 505 |
| SG&A Expenses | (14) | (30) | (33) | (47) | (54) |
| Operating profit | 30 | 48 | 97 | 298 | 451 |
| Net interest | (21) | (15) | (5) | (50) | (57) |
| Others | 28 | 0 | 1 | 0 | 0 |
| Pre-tax income | 37 | 33 | 94 | 248 | 394 |
| Income tax | 0 | (0) | (17) | (20) | (21) |
| Minority interest | (16) | (26) | (50) | (110) | (177) |
| Net income | 22 | 7 | 27 | 118 | 196 |

| Balance Sheet (US\$ mn) | 2022A | 2023A | 2024F | 2025F | 2026F |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & equivalent | 280 | 290 | 259 | 429 | 414 |
| Receivable | 64 | 119 | 165 | 213 | 242 |
| Inventory | 79 | 288 | 394 | 465 | 505 |
| Other current assets | 46 | 87 | 87 | 87 | 87 |
| Total current assets | 469 | 784 | 905 | 1,193 | 1,249 |
| Fixed assets | 918 | 1,414 | 1,946 | 2,421 | 2,971 |
| Other non-current assets | 1,035 | 1,065 | 1,058 | 1,050 | 1,040 |
| Total non-current assets | 1,952 | 2,479 | 3,005 | 3,472 | 4,011 |
| Total assets | 2,422 | 3,263 | 3,910 | 4,665 | 5,260 |
| ST loans | 18 | 0 | 0 | 0 | 0 |
| Payable | 66 | 262 | 359 | 424 | 460 |
| Other payables | 44 | 0 | 0 | 0 | 0 |
| Current portion of LT loans | 2 | 2 | 0 | 0 | 0 |
| Other current liabilities | 35 | 94 | 94 | 94 | 94 |
| Total current liab. | 164 | 358 | 452 | 517 | 554 |
| Long term loans | 592 | 486 | 731 | 1,113 | 1,279 |
| Other LT liab. | 105 | 109 | 112 | 112 | 112 |
| Total non-current liabilities | 698 | 595 | 842 | 1,225 | 1,390 |
| Total liabilities | 862 | 954 | 1,295 | 1,742 | 1,944 |
| Equity | 863 | 1,505 | 1,505 | 1,505 | 1,505 |
| Retained earnings | 20 | 27 | 54 | 173 | 369 |
| Minority interest | 677 | 777 | 1,056 | 1,244 | 1,442 |
| Total SHE + minority int. | 1,559 | 2,309 | 2,615 | 2,922 | 3,316 |
| Total liabilities & equity | 2,422 | 3,263 | 3,910 | 4,665 | 5,260 |

| Cash Flow Statement (US\$ mn) | 2022A | 2023A | 2024F | 2025F | 2026F |
|---------------------------------|----------------|--------------|--------------|--------------|--------------|
| Net income | 73 | (64) | 27 | 118 | 196 |
| Depr. & amortization | 21 | 56 | 66 | 85 | 102 |
| Changes in working capital | (27) | (57) | (56) | (53) | (33) |
| Others | 0 | 0 | 0 | 0 | 0 |
| Cash flow from operating | 66 | (64) | 37 | 150 | 265 |
| Capital expenditure | (1,797) | (548) | (591) | (552) | (642) |
| Others | (143) | 2 | 0 | 0 | 0 |
| Cash flow from investing | (1,941) | (547) | (591) | (552) | (642) |
| Loans | 615 | (123) | 244 | 383 | 165 |
| Equity | 1,539 | 743 | 279 | 189 | 197 |
| Dividends | 0 | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Cash flow from financing | 2,155 | 620 | 523 | 571 | 363 |
| Changes in cash | 280 | 10 | (31) | 169 | (14) |

| Key Ratios | 2022A | 2023A | 2024F | 2025F | 2026F |
|------------------|-------|-------|-------|-------|-------|
| Gross margin | 10% | 6% | 7% | 15% | 19% |
| Operating margin | 7% | 4% | 5% | 13% | 17% |
| Pre-tax margin | 8% | 3% | 5% | 10% | 15% |
| Net margin | 5% | 1% | 1% | 5% | 7% |
| ROA | 1% | 0% | 1% | 3% | 4% |
| ROE | 2% | 0% | 1% | 6% | 8% |

| | | | | | |
|-----------------------------|-----|------|------|------|------|
| Acct. receivables TO (days) | 7.1 | 11.1 | 11.1 | 11.1 | 11.1 |
| Inventory TO (days) | 5.2 | 4.3 | 4.3 | 4.3 | 4.3 |
| Payable TO (days) | 6.2 | 4.8 | 4.8 | 4.8 | 4.8 |
| Debt to equity | 0.6 | 0.3 | 0.4 | 0.5 | 0.5 |
| Interest coverage ratio (x) | 2.4 | 5.2 | 13.4 | 6.8 | 8.6 |
| Net gearing | 0.4 | 0.1 | 0.3 | 0.3 | 0.3 |

Source: Company, Indo Premier