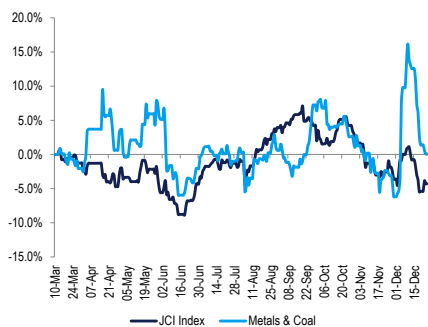


Sector Index Performance

	3M	6M	12M
Absolute	-21.0%	-12.3%	-13.3%
Relative to JCI	-10.4%	2.3%	-2.7%



Summary Valuation Metrics

P/E (x)	2024F	2025F	2026F
INCO IJ	23.5	10.9	5.8
MBMA IJ	126.0	58.1	9.2
MDKA IJ	N/A	N/A	54.5
AADI IJ	2.6	3.7	3.6
PTBA IJ	6.4	7.1	5.0

EV/EBITDA (x)	2024F	2025F	2026F
INCO IJ	5.4	4.0	2.5
MBMA IJ	19.5	13.5	7.2
MDKA IJ	13.2	10.9	6.6
AADI IJ	2.6	3.0	2.4
PTBA IJ	3.8	4.2	3.1

Div. Yield	2024F	2025F	2026F
INCO IJ	N/A	N/A	N/A
MBMA IJ	N/A	N/A	N/A
MDKA IJ	N/A	N/A	N/A
AADI IJ	90.1%	12.3%	12.4%
PTBA IJ	15.8%	11.8%	10.6%

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Royalty increase may be the final nail in the coffin

- Ministry of Energy and Mineral Resources (MEMR) is planning to increase royalty rate for several commodities – i.e. nickel ore, NPI, FeNi
- However, coal IUPK holders (from CoW extension) is expected to enjoy lower effective royalty rate i.e. AADI/BUMI/INDY.
- We think this may have adverse impact to existing & upcoming FDIs. Maintain Neutral.

Overview on MEMR public consultation meeting on royalty rate

Ministry of Energy and Mineral Resources (MEMR) held a public consultation meeting with industry players to discuss proposed revision on royalty rate, which include raising royalty rate for metals – i.e. nickel ore, FeNi, NPI (Fig. 2-7), while reducing royalty rate for coal IUPK holders that obtain its license via CoW extension. According to ESDM, the aim of such policy is to increase government's non-tax state revenue (PNBP), albeit there are no definitive timeline regarding the implementation. We estimate the PNBP shortfall from IUPK royalty (Rp18-20tr) can be offset by raising royalty for metals (Rp20-25tr) and coal IUP (Rp3-7tr). Nonetheless, the rate is still subject to change, as negotiations are currently ongoing between industry players & government, based on our check.

Negative impact to all nickel players, positive to AADI

Based on our estimates, all nickel players under our coverage would be negatively affected (Fig. 1), with highest impact on NP to INCO & MBMA, due to lower absolute NP vs. peers, leading to a more sensitive impact to its NP. For coal, if the policy is implemented, the impact shall be positive to AADI, BUMI (non-rated), and INDY (non-rated) but would negatively impact IUP-OP holders' NP (i.e. PTBA) by 7% and neutral for the others.

Another tough policy to coal & nickel industry

We have highlighted several policies that have been negatively impacting the sector YTD ([report](#); 100% DHE, B40 implementation, etc), and amidst declining industry-wide profitability in comparison to 2-3 years prior, we think imposing an increase in royalty rate would've only added another burden to the sector. While potential royalty increase in NPI/FeNi/MHP/matte would hardly affected NPI smelters in general – as most smelters operated under Izin Usaha Industri (IUI which not subjected to royalty; though higher nickel-ore royalty shall discourage investment in the upstream, which may lead to elevated ore premium, adding further woes to existing shortage issue & grade depletion, and this would result in higher cash costs for smelters (US\$1k/t gap for full vs. non-integrated).

Risks to existing & upcoming FDIs; Maintain Neutral

We think recent government policy on the sector has created downside risks to existing & upcoming foreign direct investments (FDIs) as incentives that are being given by government (i.e. tax holiday policy) may very well be offset by the increase in costs via B40 implementation, potential royalty rate increase, DHE policy, among others, leading to different IRR forecast vs. initial projection from investors' perspective. In addition, recent two-months delay in implementing cheap natural gas price (HGBT) also highlighted policy uncertainty, which may hinder foreign investments from coming to Indonesia. We maintain our Neutral rating amidst combination between unfavourable commodity price environment & policy uncertainty.

Potential increase in metals royalty rate

MEMR plans to increase royalty rate for several metals (i.e. nickel-ore, NPI, FeNi, gold, copper) which would affect the profitability of nickel-miners under our coverage, if implemented. We think nickel-ore royalty increase would affect five miners under our coverage as all currently have exposures in selling nickel ore to 3rd party.

The proposed revision is for 10% royalty rate to be increased to 14-19% of sales based on a range of nickel price benchmark (HMA). Thus, based on current HMA price (US\$15.2k/t), royalty rate is set to be increased by additional 4%, and per our estimates, this shall negatively affected miners under our coverage vs. consensus FY25F NP (Fig. 1). Note that the estimated impact is calculated based on 100% annualized basis in order to better gauge to impact for miners during this year, although the actual impact would be less in FY25F, as it hasn't been officially implemented.

Aside from nickel-ore, MEMR also plans to increase royalty rate for several nickel downstream products, such as ferronickel (FeNi), nickel pig iron (NPI), nickel matte, and MHP (Fig. 2-7). Assuming no change on whom would be subject to royalty rate (i.e. IUP/IUPK holders), we think only ANTM & INCO would be negatively affected as under our coverage, only Antam Pomalaa (FeNi) and PT Vale Indonesia (Matte) are considered as integrated operations with IUP/IUPK licenses, while majority of smelters operated under Izin Usaha Industri (IUI), which are not subject to royalty at all.

As government also plans to increase royalty rate for gold & copper cathode, MDKA would also subject to higher royalty rate, on top of the negative impact from the increase of royalty rate from MBMA for its nickel-ore operation.

Fig. 1: Summary of potential impact from royalty increase (based on consensus estimates)

Royalty rate increase (%)*	NPI/Matte/Feni Royalty increase (%)			Ore royalty rate increase (%)			Combined impact	
	Current royalty	Proposed royalty increase	Royalty impact to NP	Current royalty		Royalty impact to NP	In nominal	vs. consensus FY25F NP
ANTM	2%	5-7%, based on HMA	Rp99bn	10%	14-19%, based on HMA	Rp211bn	Rp310bn	-8%
INCO	2% if LME price >US\$21k/t, 3% if above	4.5-6.5%, based on HMA	US\$18mn			US\$3mn	US\$21mn	-21%
MBMA	Royalty paid on the ore, not on downstream products, as the ore (upstream) and smelter (downstream) is not within the same legal entity.		N/A			US\$7mn	US\$7mn	-11%
NCKL						Rp286bn	Rp286bn	-4%
HRUM						US\$2mn	US\$2mn	-2%
MDKA	2% (Copper Cathode)	4-7%, based on HMA	US\$4mn	via MBMA	via MBMA	via MBMA	US\$19mn	-144%
	3.75%-10%** (Gold)	7-16%, based on HMA	US\$11mn					

Source: Bloomberg, Company data, Indo Premier estimates; based on current HMA

Potential drop in coal royalty rate shall benefitting AADI/BUMI/INDY

The planned coal royalty revision is set to benefit IUPK holders (AADI, BUMI, INDY) while negatively impacting IUPOP holders (PTBA). The impact on CCOW holders (ITMG) is neutral, as the increase in the royalty rate is offset by a lower Penjualan Hasil Tambang (PHT) rate.

For IUP-OP holders, the proposed royalty rate is increased by 1% for coal sales with CV below 4,200 and between 4,200-5,200 when HBA price is above US\$100/t, everything else remain unchanged. We estimate this will lead to 7% downside to PTBA's FY25F NP, while UNTR remains unaffected given its high CV (5,800-6,500 kcal/kg).

For IUPK holders, a new HBA price band has been introduced to determine the effective royalty rate, significantly lowering it from 28% to 19% at the current HBA price (US\$128/t). We estimate AADI's effective rate to decline by 6-7%, translating to 22% upside in FY25F NP to c.US\$1.1bn. Note that Adaro Indonesia (AI) mine is the only one with IUPK license (78% of FY25F production), while MIP and Balangan operate under IUPOP licenses (14/8% of FY25F production).

Fig. 2: Proposed change in NPI royalty rate

Existing		Proposed	
HMA	Tariff	HMA	Tariff
All	5%	< 18,000	5.0%
		18,000 < HMA < 21,000	5.5%
		21,000 < HMA < 24,000	6.0%
		24,000 < HMA < 31,000	6.5%
		> 31,000	7.0%

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 3: Proposed change in FeNi royalty rate

Existing		Proposed	
HMA	Tariff	HMA	Tariff
All	2%	< 18,000	5.0%
		18,000 < HMA < 21,000	5.5%
		21,000 < HMA < 24,000	6.0%
		24,000 < HMA < 31,000	6.5%
		> 31,000	7.0%

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 4: Proposed change in nickel-matte royalty rate

Existing		Proposed	
HMA	Tariff	HMA	Tariff
< 21,000	2%	< 18,000	4.5%
		18,000 < HMA < 21,000	5.0%
		21,000 < HMA < 24,000	5.5%
> 21,000	3%	24,000 < HMA < 31,000	6.0%
		> 31,000	6.5%

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 5: Proposed change in nickel-ore royalty rate

Existing		Proposed	
HMA	Tariff	HMA	Tariff
All	10%	< 18,000	14%
		18,000 < HMA < 21,000	15%
		21,000 < HMA < 24,000	16%
		24,000 < HMA < 31,000	18%
		> 31,000	19%

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 6: Proposed change in gold royalty rate

Existing		Proposed	
HMA	Tariff	HMA	Tariff
< 1,300	3.75%	< 1,800	7.00%
1,300 < HMA < 1,400	4.00%	1,800 < HMA < 2,000	10.00%
1,400 < HMA < 1,500	4.25%	2,000 < HMA < 2,200	11.00%
1,500 < HMA < 1,600	4.50%	2,200 < HMA < 2,500	12.00%
1,600 < HMA < 1,700	4.75%	2,500 < HMA < 2,700	14.00%
1,700 < HMA < 1,800	5.00%	2,700 < HMA < 3,000	15.00%
1,800 < HMA < 1,900	6.00%	> 3,000	16.00%
1,900 < HMA < 2,000	8.00%		
> 2,000	10.00%		

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 7: Proposed change in nickel-ore royalty rate

Existing		Proposed	
HMA	Tariff	HMA	Tariff
All	2%	< 7,000	4%
		7,000 < HMA < 8,500	5%
		8,500 < HMA < 10,000	6%
		> 10,000	7%

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 8: Proposed change in coal IUP-OP royalty rate

HBA	Existing royalty	Proposed royalty	Impact
CV < 4,200			
HBA < 70	5.0%	5.0%	0.0%
70 < HBA < 90	6.0%	6.0%	0.0%
HBA > 90	8.0%	9.0%	1.0%
4200 < CV < 5,200			
HBA < 70	7.0%	7.0%	0.0%
70 < HBA < 90	8.5%	8.5%	0.0%
HBA > 90	10.5%	11.5%	1.0%
CV > 5,200			
HBA < 70	9.5%	9.5%	0.0%
70 < HBA < 90	11.5%	11.5%	0.0%
HBA > 90	13.5%	13.5%	0.0%

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 9: Proposed change in coal CCOW royalty rate

HBA	Existing			Proposed			Impact
	Royalty	PHT	Total	Royalty	PHT	Total	
CV < 4,200							
HBA < 70	5.0%	8.5%	13.5%	5.0%	8.5%	13.5%	0.0%
70 < HBA < 90	6.0%	7.5%	13.5%	6.0%	7.5%	13.5%	0.0%
HBA > 90	8.0%	5.5%	13.5%	9.0%	4.5%	13.5%	0.0%
4200 < CV < 5,200							
HBA < 70	7.0%	6.5%	13.5%	7.0%	6.5%	13.5%	0.0%
70 < HBA < 90	8.5%	5.0%	13.5%	8.5%	5.0%	13.5%	0.0%
HBA > 90	10.5%	3.0%	13.5%	11.5%	2.0%	13.5%	0.0%
CV > 5,200							
HBA < 70	9.5%	4.0%	13.5%	9.5%	4.0%	13.5%	0.0%
70 < HBA < 90	11.5%	2.0%	13.5%	11.5%	2.0%	13.5%	0.0%
HBA > 90	13.5%	0.0%	13.5%	13.5%	0.0%	13.5%	0.0%

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 10: Proposed change in coal IUPK royalty rate

IUPK	Existing royalty		Proposed royalty	
	Gen I	Gen II	General	
HBA < 70	14%	20.0%	HBA < 70	15.0%
70 < HBA < 80	17%	21.0%	70 < HBA < 120	18.0%
80 < HBA < 90	23%	22.0%	120 < HBA < 140	19.0%
90 < HBA < 100	25%	24%	140 < HBA < 160	22.0%
HBA > 100	28%	27%	160 < HBA < 180	25.0%
			HBA > 180	28.0%

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 11: Proposed change in coal IUPK royalty rate

	Base		Post revision		Changes	
	AADI (US\$m n)	PTBA (Rp bn)	AADI (US\$m n)	PTBA (Rp bn)	AADI	PTBA
FY25F						
Revenue	5,148	42,575	5,148	42,575	0.0%	0.0%
EBITDA	1,160	6,876	1,406	6,484	21.2%	-5.7%
Net profit	873	4,088	1,063	3,764	21.9%	-7.9%
Sales volume (Mt)	70	53	70	53	0.0%	0.0%
ASP (US\$/t)	70	51	70	51	0.0%	0.0%
Cash cost (US\$/t)	54	43	51	44	-6.5%	1.3%

Source: Ministry of Energy & Mineral Resources (ESDM), Indo Premier

Fig. 12: Companies under our coverage & recommendation

Fig. 12: Companies under our coverage & recommendation

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				24F	25F	26F	24F	25F	26F	24F	25F	26F
Metals												
ADMR IJ	Adaro Minerals Indonesia	Buy	1,500	5.5	6.0	4.5	5.8	6.9	6.1	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	2,000	10.1	9.8	10.0	5.4	4.7	4.7	8.6%	7.5%	7.6%
HRUM IJ	Harum Energy	Hold	1,450	5.1	5.2	4.0	3.6	4.7	3.1	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Buy	3,650	23.5	10.9	5.8	5.4	4.0	2.5	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	560	126.0	58.1	9.2	19.5	13.5	7.2	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	2,400	N/A	N/A	54.5	13.2	10.9	6.6	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,100	6.2	5.5	4.8	4.7	4.1	3.5	4.0%	4.8%	5.4%
Coal												
AADI IJ	Adaro Andalan Indonesia	Buy	12,000	2.6	3.7	3.6	2.6	3.0	2.4	90.1%	12.3%	12.4%
ITMG IJ	Indo Tambangraya Megah	Hold	26,500	4.4	6.0	12.1	1.8	2.3	4.5	19.3%	14.8%	10.9%
PTBA IJ	Bukit Asam	Hold	2,900	6.4	7.1	5.0	3.8	4.2	3.1	15.8%	11.8%	10.6%
UNTR IJ	United Tractors	Buy	33,000	4.6	4.1	4.0	2.1	1.7	1.5	9.9%	9.6%	10.5%

Source: Bloomberg, Company data, 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

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