

# Merdeka Copper Gold

BUY(unchanged)

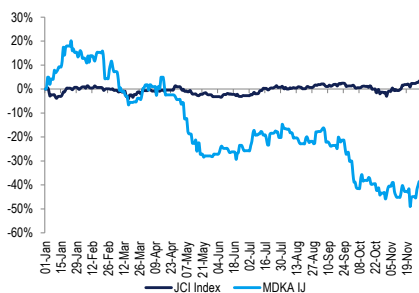
Company update | MDKA IJ | 30 November 2023

## Stock Data

|                           |         |
|---------------------------|---------|
| Target price              | Rp3,500 |
| Prior TP                  | Rp3,230 |
| Current price             | Rp2,530 |
| Upside/downside           | +38%    |
| Shares outstanding (mn)   | 24,111  |
| Market cap (Rp bn)        | 61,000  |
| Free float                | 51%     |
| Avg. 6m daily T/O (Rp bn) | 110     |

## Price Performance

|                   | 3M            | 6M     | 12M    |
|-------------------|---------------|--------|--------|
| Absolute          | -25.1%        | -15.7% | -39.0% |
| Relative to JCI   | -26.8%        | -22.4% | -39.0% |
| 52w low/high (Rp) | 2,100 – 4,950 |        |        |



## Major Shareholders

|                           |       |
|---------------------------|-------|
| Saratoga Investama Sedaya | 18.6% |
| Mitra Daya Mustika        | 12.1% |
| Garibaldi Thohir          | 7.4%  |

## 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

## Favorable economic backdrop signals a buying opportunity; upgrade our TP

- Peak interest-rate narrative; drop in 10-year U.S treasury yield to 4.2% and lower DXY are all tailwinds for junior miners, including MDKA.
- Underlying commodity prices of copper (+c.4% MTD/flat YTD) and gold (+c.3% MTD/+12% YTD) are also improving.
- Re-iterate Buy rating with higher SOTP-based TP of Rp3,500/share. Overhang on MSCI outflow is also seems to be a non-issue.

### Junior miners are preferred interest-rate sensitive play

We think favourable economic backdrop, evident in the decline of 10-year UST from c.5% level to 4.2% and lower DXY would help to propel junior miners performance in the next 12-months. Although we argue that rate-cut from the U.S Fed may not occur anytime soon, the idea of peaking interest rate bodes well for junior copper and gold miners alike as these junior miners share price performance have a negative correlation with the 10Y UST (Fig. 14). Consensus is now also expecting a rate-cut by Jun24 with no further rate-hike, indicating a positive signal to junior-miners.

### Gold & copper price on the rise, additional catalyst to MDKA

Both gold and copper price has been on the rise in the past month (gold +c.3% MTD/+12% YTD and copper +c.4% MTD/flat YTD) mainly driven by positive macro-sentiments. We have previously highlighted that MDKA is the most sensitive miner in our coverage to change in gold and copper prices (see: [Precious Metals: Flight to safety?](#)) and our leading indicators have pointed out bullish signals to copper price, with lower TC/RCs agreement between Antofagasta & Jinchuan (Fig. 4), and recent closure of First Quantum's Panama mine (c.2% of global supply), indicating that supply is tightening, in addition to relatively low inventory levels and better macro-backdrops which often been the main-driver of copper price.

### Maintain Buy on MDKA with higher TP of Rp3,500/share

We maintain our Buy rating for MDKA with higher TP of Rp3,500/share. Re-rating catalysts include: 1) favourable macro-environment (i.e. 10-year UST & DXY trending down), which has already reflected in recent price recovery of global junior copper miner peers, 2) improvement in gold and copper price; 1% change in gold price assumptions led to 1.5% change in EPS, in addition to copper price trending back above US\$8k/ton and 3) potentially better qoq performance on MDKA and MBMA, driven by recovery in Wetar and SCM's hauling. Our bear-case scenario has yielded Rp1.9k-2k/share valuation for MDKA, which may indicate an attractive risk/reward profile. MDKA now trades at 8x FY24F EV/EBITDA.

| Financial Summary (US\$ mn) | 2021A | 2022A | 2023F | 2024F  | 2025F |
|-----------------------------|-------|-------|-------|--------|-------|
| Revenue                     | 381   | 870   | 1,797 | 2,453  | 2,948 |
| EBITDA                      | 213   | 235   | 294   | 760    | 1,012 |
| Net profit                  | 36    | 58    | (11)  | 139    | 152   |
| EPS growth                  | 0%    | 62%   | -119% | -1366% | 9%    |
| ROE                         | 5%    | 6%    | -1%   | 9%     | 7%    |
| PER (x)                     | 108.5 | 67.1  | N/A   | 28.3   | 25.8  |
| EV/EBITDA (x)               | 19.3  | 20.8  | 17.3  | 8.0    | 7.4   |
| Dividend yield              | N/A   | N/A   | N/A   | N/A    | N/A   |
| IPS vs. consensus           |       |       | N/A   | 141%   | 106%  |

Source: Company, Indo Premier

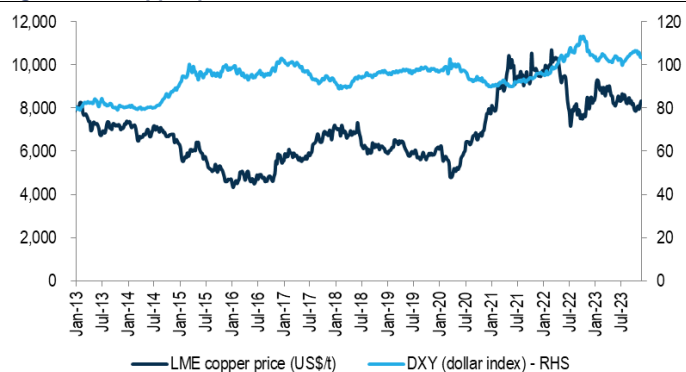
Share price closing as of: 30 November 2023

## Favorable economic backdrop signals a buying opportunity

### Copper supply-demand (S-D) balance update

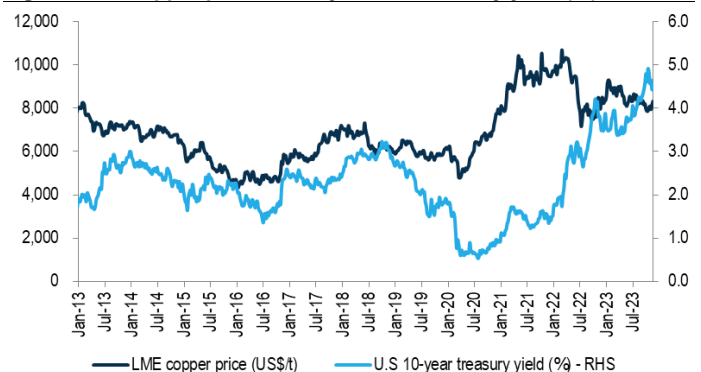
LME copper price has rebounded back to US\$8.3k/ton level on the back of favorable economic backdrops as DXY came below c.107 level (Fig. 1) and 10-year U.S treasury yield improving to 4.4% level (Fig. 2). However, aside from favorable macro-situations, refined copper market balance has showcased that market remain at a surplus in Sep-23 (9M23: 1,062kt surplus) while several leading indicators (i.e. TC/RC) and soft copper demand (YTD +3% vs. +7% supply growth) has indicated that market balance is likely to remain at surplus in FY24F/25F.

Fig. 1: LME copper price vs. DXY



Source: Bloomberg, Indo Premier

Fig. 2: LME copper price vs. 10-year U.S treasury yield (%)



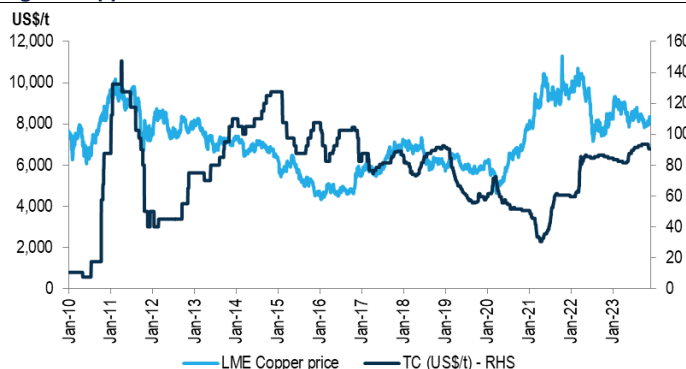
Source: Bloomberg, Indo Premier

On the positive note, the surplus situation has started to ease, based on several high-frequency data that we track, below are several key highlights that we observed:

**TC/RCs** – High treatment charge (TC) and refining charges (RC) often indicates that the spot market is currently at a surplus as the supply of copper concentrates are relatively abundant, and vice versa.

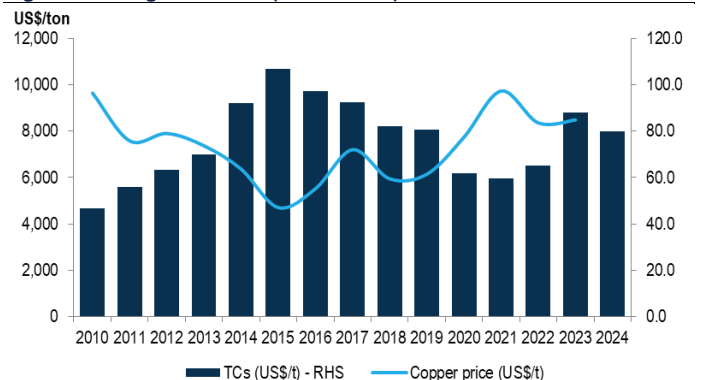
While TC/RCs remain relatively elevated at above US\$91/t level (Fig. 3), recently Chilean Miner, Antofagasta and China's Jinchuan Group has agreed to lower their TC/RCs at US\$80/t and US\$0.8/t for FY24F (Fig. 4), indicating that copper concentrates supply are tight and/or expected to be tighter vs. FY23F. **Bullish signal**

Fig. 3: Copper concentrate TCs



Source: Bloomberg, Indo Premier

Fig. 4: Antofagasta's TCs (2010-2024F)



Source: Company data, Indo Premier

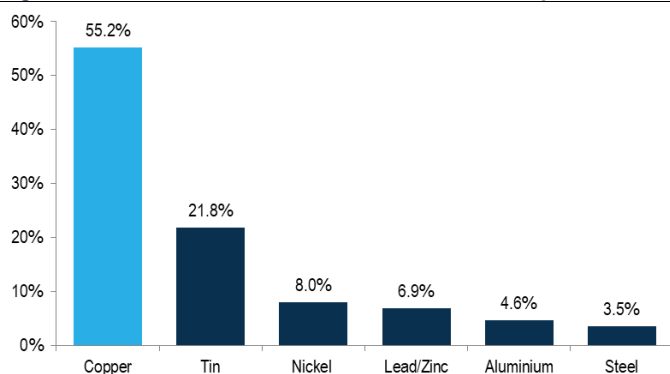
**Mine supply disruption** – First Quantum has lowered its production guidance for the rest of FY23F by 3-8% after issues in their Zambia's

Sentinel mine. Similarly, Canada's Teck Resources and Anglo American has both also lowered their FY23F production guidance by 3% and 1-7%, respectively, after geotechnical event and fire accident occurred in 3Q23. In total, around c.4% of mine supply is now being disrupted, providing an upside to the overall market balance.

While these supply disruptions may be relatively temporary, the concentrate supply coming from Freeport's Grasberg mine and Amman's Batu Hijau mine (c.3% of concentrate supply) is expected to be reduced significantly in FY24F and reached zero in FY25F, following the govt ban in copper concentrate exports. Currently, both Freeport and Amman is eligible to export their concentrate overseas until May-24 deadline, albeit there is a possibility for another re-postponement of the export-ban in FY24F, similar to the event in Jun-23. **Neutral to bullish signal**

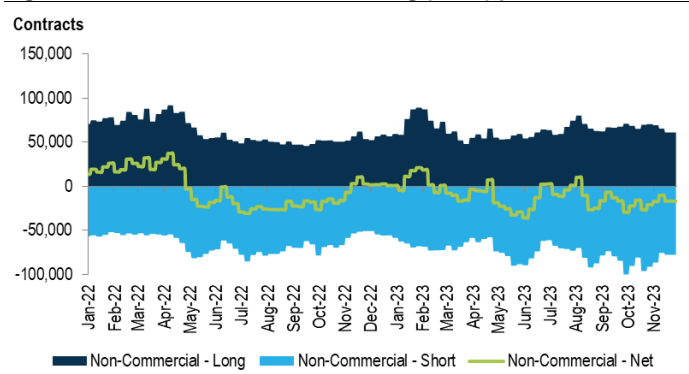
**LME week 2023 & speculators' position** – During the LME week in Nov-23, copper is voted as metal that has the most upside potential in FY24F, garnering c.55% of the vote (Fig 5). Speculators' short position – as indicated by non-commercial traders (Fig. 6), have recently decreased, albeit the overall net position remains at a net-short position, as of latest. **Neutral.**

Fig. 5: LME week 2023: which metals have the most upside in 2024?



Source: Bloomberg, Indo Premier

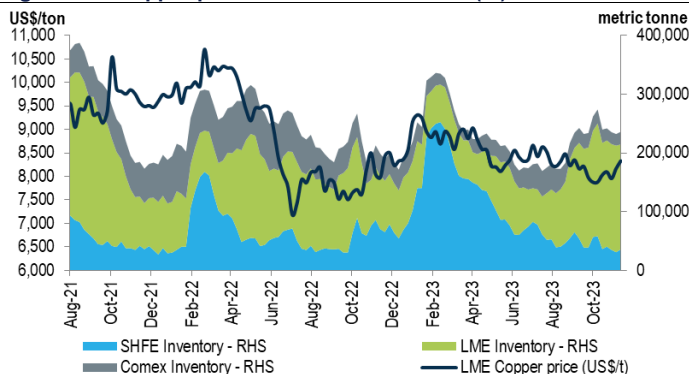
Fig. 6: Non-commercial traders' net long (short) position



Source: Bloomberg, Indo Premier

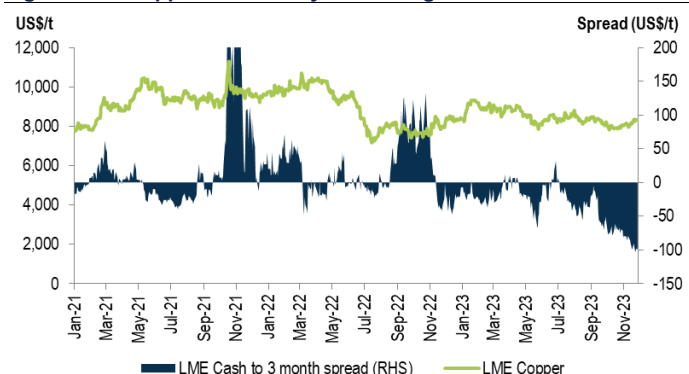
**Inventory/warehouse stocks** – Overall copper inventory stored in SHFE, LME, and Comex warehouses have remain elevated since Oct-23 at 235kt (+22% YTD) but have eased from the peak of 276kt. Overall inventory level is still at a relatively low level compared to 5-year average level (2018-2022 average of 412kt). Potentially lower stocks level may continue to provide an upside to copper price. **Slightly neutral to bullish signal**

Fig. 7: LME copper price vs warehouse stocks (kt)



Source: Bloomberg, Indo Premier

Fig. 8: LME copper is currently in contango



Source: Bloomberg, Indo Premier

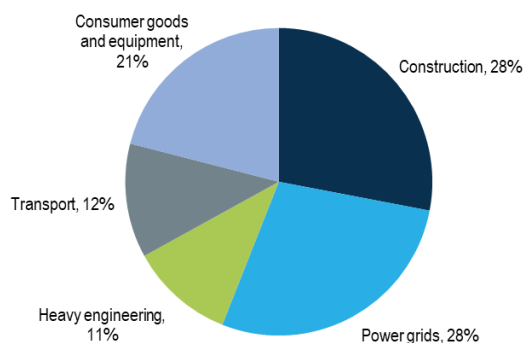
**Copper in contango** – LME cash to 3-month spread currently stood at c.US\$100/ton, meaning that copper price is now in contango, indicating wide availability of supply in the spot copper market. So far, the contango position of this magnitude is the widest in the past 30 years – since at least 1994, based on the data available.

We think this was in-line with the thesis that the market balance is now currently in a surplus; a trend that was also confirmed by the rising TC/RCs YTD. This was mainly caused by rising LME stocks as concern over copper demand across U.S, Europe, and Asia persists, but is well priced in by the market in our view. Nonetheless, this is still a **bearish signal** to copper price.

**China demand** – China's EV passenger car production have improved on mom basis in Oct-23 by 10%; YTD EV passenger car output is growing at a double-digit level yoy (+14%) which optically is relatively high but is well below +60% growth level from FY21 to FY22. Nonetheless, EV production are still growing, unlike other demand-drivers such as property/construction (c.28% of end-use demand), which has been on the negative territory YTD, indicated by yoy decline in property floor spaces (Fig. 11). Both newly built and under-construction property floor spaces, however, has shown an increase on qoq basis, but are still declining on yoy basis, which is further exacerbated by the default of Country Garden in Oct-23.

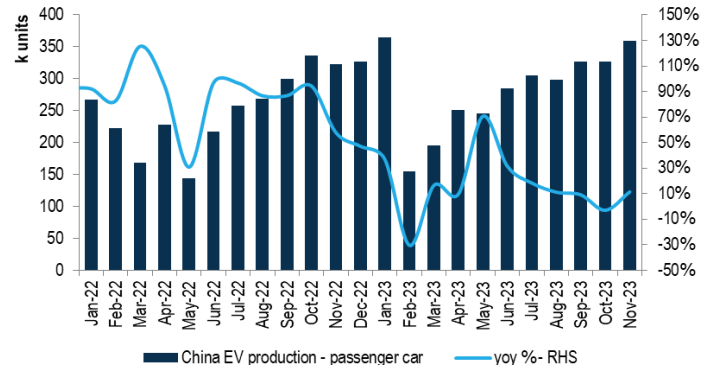
Appliance sectors (i.e. air-conditioner, electronics instruments) demand have remained robust YTD (+10% yoy), although have declined on monthly basis. In summary, demand remain relatively resilient, but have showcase weakness in recent months, a **neutral to bearish signal**.

Fig. 9: China end-use demand breakdown (%)



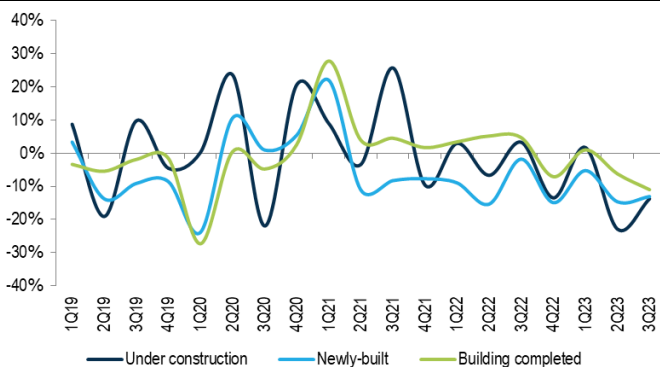
Source: Bloomberg, Indo Premier

Fig. 10: China EV production (passenger car)



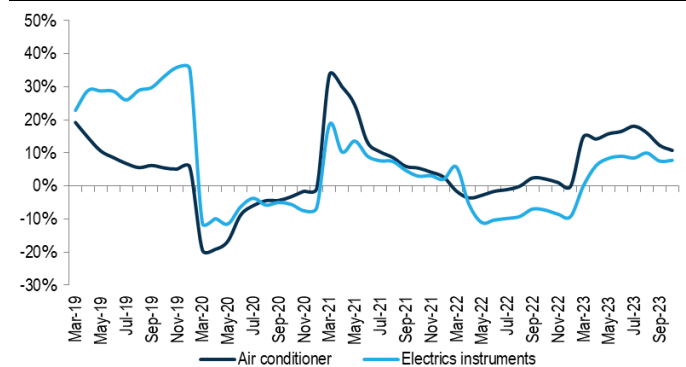
Source: Bloomberg, Indo Premier

Fig. 11: China property floor spaces (yoy %)



Source: Bloomberg, Indo Premier

Fig. 12: China household appliance demand (YTD yoy%)



Source: Bloomberg, Indo Premier

We maintain our FY23F/25F copper price forecast but slightly upgraded our FY24F forecast by 4% to US\$8.4k/ton (previously from US\$8.1k) as we lower our supply forecast from +2% in FY24F to 1.3%, by taking into account potential supply disruptions, and upgraded our demand forecast to 4% (from 3% previously), reducing our market balance from 770kt in FY24F to 319kt (Fig. 13). We are still expecting surplus market balance until FY26F. Upside risks to copper price is potential insolvency of Chile's Codelco (c.5% of copper refined supply).

Fig. 13: Copper supply-demand balance

| Supply-demand balance (kt)            | 2019   | 2020   | 2021   | 2022   | 2023F  | 2024F  | 2025F  |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Refined production                    | 23,862 | 24,019 | 24,643 | 25,692 | 27,028 | 27,379 | 28,064 |
| Supply growth yoy (%)                 |        | 0.7%   | 2.6%   | 4.3%   | 5.2%   | 1.3%   | 2.5%   |
| Refined consumption                   | 24,128 | 23,956 | 24,822 | 25,355 | 26,115 | 27,160 | 27,975 |
| Demand growth yoy (%)                 |        | -0.7%  | 3.6%   | 2.1%   | 3.0%   | 4.0%   | 3.0%   |
| Adjustment (concentrate stock change) | (173)  | (279)  | (193)  | (118)  | 100    | 100    | 100    |
| Market balance                        | (439)  | (215)  | (372)  | 219    | 1,013  | 319    | 189    |
| Price forecast - LME copper (US\$/t)  | 6,008  | 6,183  | 9,318  | 8,823  | 8,440  | 8,400  | 8,600  |

Source: Company, Indo Premier

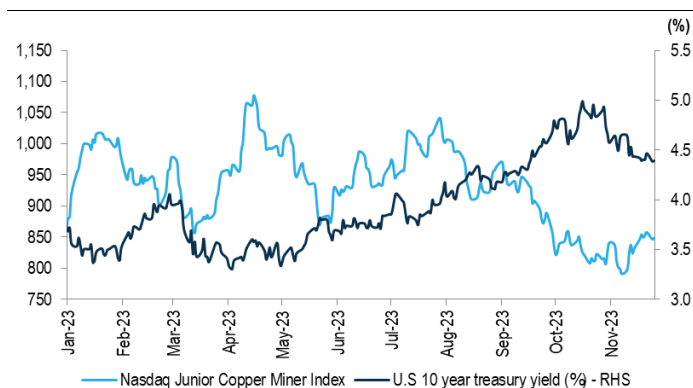
#### 4Q23F: Wetar production to normalize, gold sales likely to be lower

We expect lower gold sales volume qoq to 45koz (vs. 49koz in 3Q23) owing to mine plan from TB Oxide. For Wetar, we expect cash costs to normalize in 4Q23F with production set to achieve lower end of the 14-16kt guidance, after the delayed delivery in explosives in 9M23, causing all-in sustaining costs (AISC) trending higher above US\$10k/ton in the past 3-4 quarters. All in all, we expect EBITDA and NP to be relatively flat qoq

#### Deep-dive into junior copper miners share price performance

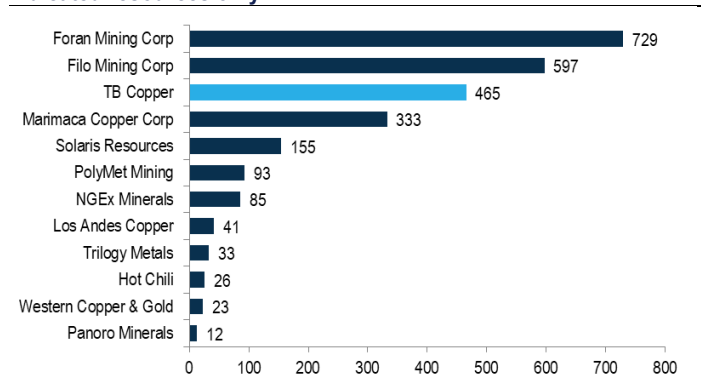
Junior copper miners are characteristically much riskier compared to major miners – established copper miners such as BHP, Rio Tinto, etc – and has been the underperformer YTD compared to the major miners as risk-free rate (indicated by U.S 10-year yield) touching c.5% threshold (Fig. 14). Typically, during high interest-rate environment, concern over the ability to raise capital and rising costs of capital on junior miner is further exacerbated by the market, leading to underperformance.

Fig. 14: Nasdaq Junior Copper Miners vs. risk-free rate



Source: Bloomberg, Indo Premier

Fig. 15: Junior miners EV/Resources (CuEq) – Measured + Indicated resources only



Source: Bloomberg, Indo Premier

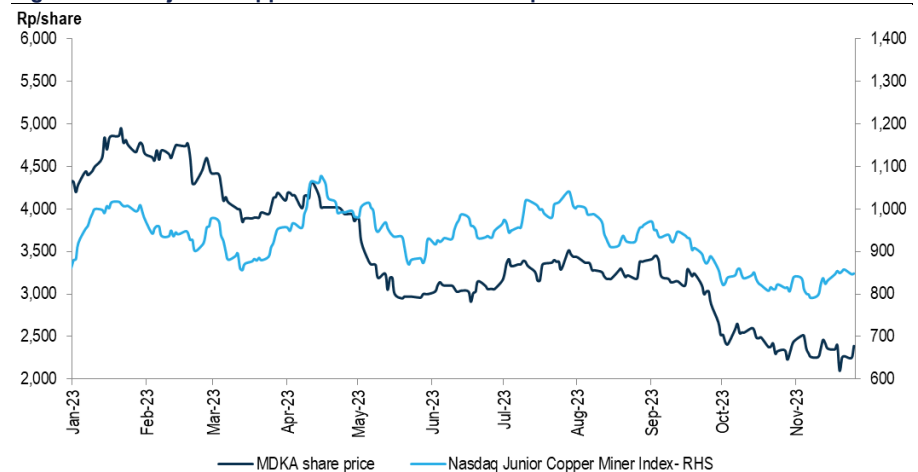
However, we think all of these concerns on MDKA have been widely priced-in by the market. Based on our reverse-calculation MDKA's share price, we think MDKA's TB copper project is already valued at 465 EV/CuEq (EV/Resources), which if we compared to other junior copper miners, yes it is still higher than the average, but is lower vs. Filo Mining Corporation (Fig. 15), a Canadian copper exploration company. Both Filo and MDKA is currently at a similar stage in regards to the production stage



as both has published their pre-feasibility study (PFS) results and has continued drilling activities. From market capitalization standpoint, Filo Corp is also the closest to MDKA, making it a more comparable peers.

Another angle in doing these comparison is the fact that MDKA is still able to improve the economics of TB Copper by earning required capital through internal cash flow (i.e. TB copper Oxide open-pit project) while other junior copper miners are conducting studies and exploration activities 100% funded by external parties; recent drilling results have also indicated that MDKA optimization studies has demonstrated the potential continuity to the existing open-pit mining operations (i.e. TB Oxide), increasing the mine-life of TB Oxide open-pit beyond FY26F.

**Fig. 16: Global junior copper index vs. MDKA share price**

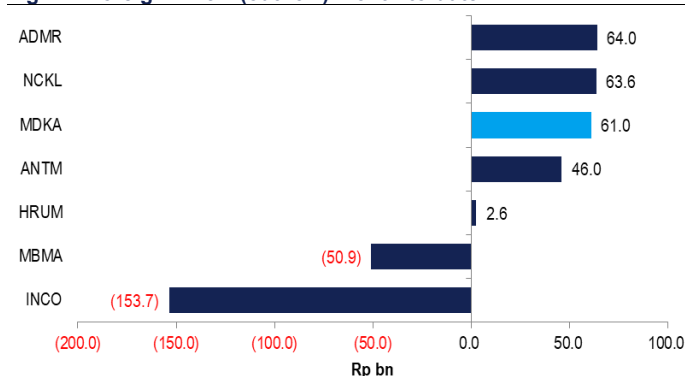


Source: Company, Indo Premier

On the fund-flow side, passive funds' combined estimated outflow of US\$50mn from reduced weight out of MSCI standard-cap index and FTSE global equity index series is expected during the quarterly rebalancing in 30-Nov and 14-Dec, respectively.

Hence, after the rebalancing, we expect lesser non-fundamental concerns, removing the share price overhang. Prior to the rebalancing, month-to-date, MDKA has received Rp61bn of foreign inflow from active funds, which we expect is set to continue on the back of improving fundamentals and macro-economic environment.

**Fig. 17: Foreign inflow (outflow) month-to-date**



Source: Bloomberg, Indo Premier

**Fig. 18: MDKA's EV/EBITDA band**



Source: Bloomberg, Indo Premier

Fig. 19: SOTP valuation

| MDKA SOTP                         | EV (US\$ m)   | Attributable to MDKA | EV attributable to MDKA (US\$mn) | Methodology               | Rp/share     |
|-----------------------------------|---------------|----------------------|----------------------------------|---------------------------|--------------|
| Tujuh Bukit Oxide + Wetar         | 487           | 100%                 | 487                              | 13x FY24F P/E             | 308          |
| Tujuh Bukit Porphyry              | 3,221         | 100%                 | 3,221                            | DCF                       | 2,038        |
| TB Copper project                 | 2,021         | 100%                 | 2,021                            | DCF                       | 1,278        |
| Resources left                    | 1,201         | 100%                 | 1,201                            | EV/Resources              | 760          |
| Pani                              | 577           | 70%                  | 404                              | DCF                       | 255          |
| Merdeka Battery Materials         | 6,538         | 50%                  | 2,617                            | DCF; 20% holding discount | 1,655        |
| <b>Total</b>                      | <b>14,045</b> |                      | <b>6,730</b>                     |                           | <b>4,256</b> |
| <b>Enterprise value (US\$ mn)</b> | <b>6,730</b>  |                      |                                  |                           |              |
| (+) Cash (FY24F)                  | 368           |                      |                                  |                           |              |
| (-) Debt (FY24F)                  | (1,509)       |                      |                                  |                           |              |
| (-) Minority interest (FY24F)     | (60)          |                      |                                  |                           |              |
| <b>Equity value (US\$ mn)</b>     | <b>5,528</b>  |                      |                                  |                           |              |
| # of shares (bn)                  | 24.1          |                      |                                  |                           |              |
| <b>Target price (Rp/share)</b>    | <b>3,500</b>  |                      |                                  |                           |              |

Source: Company, Indo Premier

| Income Statement (US\$ mn) | 2021A      | 2022A      | 2023F       | 2024F      | 2025F      |
|----------------------------|------------|------------|-------------|------------|------------|
| Net revenue                | 381        | 870        | 1,797       | 2,453      | 2,948      |
| Cost of sales              | (261)      | (705)      | (1,620)     | (2,053)    | (2,393)    |
| <b>Gross profit</b>        | <b>120</b> | <b>165</b> | <b>187</b>  | <b>611</b> | <b>804</b> |
| SG&A Expenses              | (29)       | (53)       | (48)        | (58)       | (65)       |
| <b>Operating profit</b>    | <b>91</b>  | <b>112</b> | <b>140</b>  | <b>553</b> | <b>739</b> |
| Net interest               | (11)       | (42)       | (90)        | (121)      | (137)      |
| Others                     | (23)       | 20         | (7)         | 0          | 0          |
| <b>Pre-tax income</b>      | <b>57</b>  | <b>90</b>  | <b>43</b>   | <b>432</b> | <b>601</b> |
| Income tax                 | (23)       | (25)       | (23)        | (56)       | (73)       |
| Minority interest          | 3          | (6)        | (51)        | (247)      | (395)      |
| <b>Net income</b>          | <b>36</b>  | <b>58</b>  | <b>(32)</b> | <b>128</b> | <b>133</b> |

| Balance Sheet (US\$ mn)         | 2021A        | 2022A        | 2023F        | 2024F        | 2025F        |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & equivalent               | 185          | 444          | 843          | 613          | 312          |
| Receivable                      | 1            | 66           | 136          | 186          | 223          |
| Inventory                       | 131          | 251          | 450          | 570          | 665          |
| Other current assets            | 94           | 135          | 140          | 140          | 140          |
| <b>Total current assets</b>     | <b>411</b>   | <b>896</b>   | <b>1,569</b> | <b>1,509</b> | <b>1,341</b> |
| Fixed assets                    | 298          | 1,206        | 1,836        | 3,344        | 5,330        |
| Other non-current assets        | 569          | 1,775        | 1,812        | 1,789        | 1,762        |
| <b>Total non-current assets</b> | <b>867</b>   | <b>2,981</b> | <b>3,648</b> | <b>5,133</b> | <b>7,093</b> |
| <b>Total assets</b>             | <b>1,279</b> | <b>3,877</b> | <b>5,217</b> | <b>6,642</b> | <b>8,433</b> |

|                                      |            |              |              |              |              |
|--------------------------------------|------------|--------------|--------------|--------------|--------------|
| ST loans                             | 64         | 100          | 0            | 0            | 0            |
| Payable                              | 30         | 110          | 293          | 371          | 432          |
| Other payables                       | 0          | 49           | 6            | 6            | 6            |
| Current portion of LT loans          | 166        | 235          | 75           | 75           | 75           |
| Other current liabilities            | 38         | 112          | 118          | 118          | 118          |
| <b>Total current liab.</b>           | <b>297</b> | <b>605</b>   | <b>491</b>   | <b>569</b>   | <b>630</b>   |
| Long term loans                      | 0          | 311          | 0            | 0            | 0            |
| Other LT liab.                       | 202        | 937          | 2,104        | 2,881        | 4,036        |
| <b>Total non-current liabilities</b> | <b>202</b> | <b>1,247</b> | <b>2,104</b> | <b>2,881</b> | <b>4,036</b> |
| <b>Total liabilities</b>             | <b>499</b> | <b>1,852</b> | <b>2,595</b> | <b>3,450</b> | <b>4,666</b> |

|                                       |              |              |              |              |              |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Equity                                | 491          | 728          | 728          | 1,128        | 1,528        |
| Retained earnings                     | 224          | 283          | 251          | 379          | 512          |
| Minority interest                     | 64           | 1,014        | 1,643        | 1,685        | 1,727        |
| <b>Total SHE + minority int.</b>      | <b>779</b>   | <b>2,025</b> | <b>2,622</b> | <b>3,193</b> | <b>3,767</b> |
| <b>Total liabilities &amp; equity</b> | <b>1,279</b> | <b>3,877</b> | <b>5,217</b> | <b>6,642</b> | <b>8,433</b> |

Source: Company, Indo Premier



| Cash Flow Statement (US\$ mn)   | 2021A        | 2022A          | 2023F        | 2024F          | 2025F          |
|---------------------------------|--------------|----------------|--------------|----------------|----------------|
| Net income                      | 40           | 97             | (117)        | 128            | 133            |
| Depr. & amortization            | 123          | 124            | 154          | 207            | 274            |
| Changes in working capital      | (60)         | (32)           | (92)         | (92)           | (71)           |
| Others                          | 0            | 0              | 0            | 0              | 0              |
| <b>Cash flow from operating</b> | <b>102</b>   | <b>189</b>     | <b>(56)</b>  | <b>244</b>     | <b>336</b>     |
| Capital expenditure             | (131)        | (2,083)        | (791)        | (1,692)        | (2,233)        |
| Others                          | (125)        | (69)           | (78)         | 0              | 0              |
| <b>Cash flow from investing</b> | <b>(256)</b> | <b>(2,152)</b> | <b>(869)</b> | <b>(1,692)</b> | <b>(2,233)</b> |
| Loans                           | 109          | 1,034          | 694          | 777            | 1,155          |
| Equity                          | 180          | 1,187          | 629          | 442            | 442            |
| Dividends                       | 0            | 0              | 0            | 0              | 0              |
| Others                          | 0            | 0              | 0            | 0              | 0              |
| <b>Cash flow from financing</b> | <b>288</b>   | <b>2,221</b>   | <b>1,323</b> | <b>1,219</b>   | <b>1,597</b>   |
| <b>Changes in cash</b>          | <b>134</b>   | <b>258</b>     | <b>399</b>   | <b>(230)</b>   | <b>(301)</b>   |

| Key Ratios                  | 2021A | 2022A | 2023F | 2024F | 2025F |
|-----------------------------|-------|-------|-------|-------|-------|
| Gross margin                | 32%   | 19%   | 10%   | 25%   | 27%   |
| Operating margin            | 24%   | 13%   | 8%    | 23%   | 25%   |
| Pre-tax margin              | 15%   | 10%   | 2%    | 18%   | 20%   |
| Net margin                  | 9%    | 7%    | -2%   | 5%    | 5%    |
| ROA                         | 3%    | 2%    | -1%   | 2%    | 2%    |
| ROE                         | 5%    | 6%    | -3%   | 8%    | 6%    |
| Acct. receivables TO (days) | 642.9 | 13.2  | 13.2  | 13.2  | 13.2  |
| Inventory TO (days)         | 2.0   | 2.8   | 3.6   | 3.6   | 3.6   |
| Payable TO (days)           | 8.8   | 6.4   | 5.5   | 5.5   | 5.5   |
| Debt to equity              | 0.5   | 0.5   | 1.4   | 2.1   | 1.8   |
| Interest coverage ratio (x) | 8.3   | 16.4  | 5.4   | 2.9   | 5.4   |
| Net gearing                 | 0.4   | 0.3   | 1.0   | 1.2   | 1.4   |

Source: Company, Indo Premier