INDOPREMIER

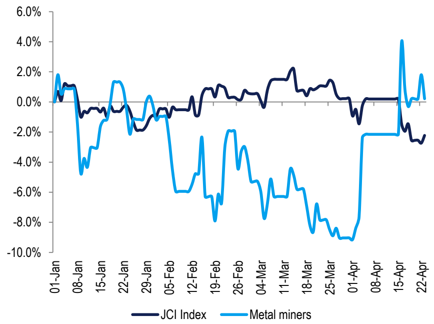
Metals

OVERWEIGHT *(upgrade)*

Sector Update | 23 April 2024

Sector Index Performance

	3M	6M	12M
Absolute	-0.6%	-4.3%	-23.4%
Relative to JCI	1.3%	-9.8%	-26.3%



Summary Valuation Metrics

P/E (x)	2023F	2024F	2025F
ADMR IJ	9.3	9.0	7.1
ANTM IJ	12.0	12.7	N/A
HRUM IJ	9.0	9.5	7.6
INCO IJ	35.0	132.2	135.0
MBMA IJ	44.6	19.2	15.2
MDKA IJ	183.2	76.6	51.0
NCKL IJ	9.1	7.4	N/A

EV/EBITDA (x)	2023F	2024F	2025F
ADMR IJ	7.8	8.5	7.6
ANTM IJ	7.7	7.1	N/A
HRUM IJ	6.9	6.4	4.4
INCO IJ	10.4	13.2	10.9
MBMA IJ	15.0	9.0	7.3
MDKA IJ	12.5	9.6	8.0
NCKL IJ	6.0	4.6	N/A

Div. Yield	2023F	2024F	2025F
ADMR IJ	N/A	N/A	N/A
ANTM IJ	4.6%	4.2%	N/A
HRUM IJ	N/A	N/A	N/A
INCO IJ	N/A	N/A	N/A
MBMA IJ	N/A	N/A	N/A
MDKA IJ	N/A	N/A	N/A
NCKL IJ	2.8%	3.3%	N/A

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Positive tailwinds amid geopolitical tension and Rp weakness; u/g to O/W

- Rupiah weakness (-6% YTD vs. US$) have boosted preferences for commodity-equities under our coverage.
- But, aside from weak Rp and ongoing geopolitical tension, underlying commodity fundamental are robust, owing to favourable S-D balance.
- Metals should benefit amid geopolitical tensions despite elevated DXY; upgrade our sector rating to Overweight (from Neutral).

Rupiah weakness is positive for commodity equities

Indonesian Rupiah has depreciated by -6% YTD to Rp16.2k level against US$, owing to recent bond outflow of around US$2.2bn in mid Apr-24. This has shifted local funds' preference from typical big-cap banks, TLKM, and consumer names into commodity-equities – i.e. MDKA, ANTM, INCO, HRUM, MEDC, etc, boosted by light local fund position. We think such sector rotation would continue especially if Rp weakness concern persists. At the same time, underlying commodity prices (energy and metals) such as oil (+13% YTD), gold (+12% YTD), copper (+15% YTD), and nickel (+20% YTD) are on the uptrend and has positive medium-term outlook.

Commodity prices often surged amid heightened war tensions

Historically, commodity prices, incl. energy, metals, and soft-commodity (i.e. cooking-oil, food) were moving in tandem amid intensifying geopolitical tensions & wars such as the 2022's Russia-Ukraine conflicts, and recent Iran-Israel attacks (Fig. 1). Notable wars such as WW1 and WW2 for example, often triggered higher demand for energy and industrial metals (for artillery), whilst disrupting supply-chain, leading to tighter supply, and higher prices.

Without the ongoing tensions, commodities are fundamentally sound

But, even without further geopolitical tensions, commodities under our coverage should benefit from S-D balance standpoint, with: gold prices benefitting from central bank buying (i.e. China) amid the concern in U.S fiscal & debt situation (report), copper prices benefitting from joint production-cuts among Chinese smelters, causing tight supply in the concentrate market – reflected in the low TC/RCs, and nickel, from potential demand tailwind due to higher military spending (up to ~10% addl. demand)

Upgrade to O/W with preference on metals over energy

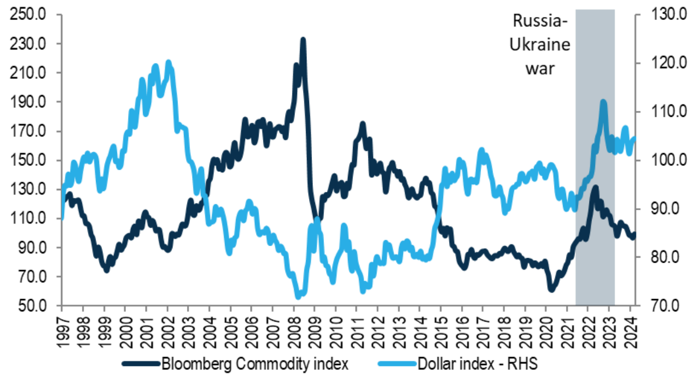
We upgraded our sector rating to Overweight (from Neutral) as we think prolonged conflicts between Iran-Israel coupled with persistent weakness in Rupiah would boosted preferences to US$ earners such as metal miners under our coverage. We prefer metals over energy as we think crude-oil may not surpassed US$95/bbl mark vs current level of US$89/bbl, as higher production is likely to come after oil price surpassed beyond US$95/bbl level, which may limit upside for natural gas and coal.

Gold > Copper > Nickel; MDKA & ANTM as our top pick

Our metals pecking order (in the order of preference): Gold > Copper > Nickel, with gold as our most preferred commodities owing to central bank buying as geopolitical tensions' safe-haven and in nickel, we prefer LME over NPI/sulfate (report) with MDKA (Buy) and ANTM (Buy) as our top picks. Downside risks are lower than expected economic growth.

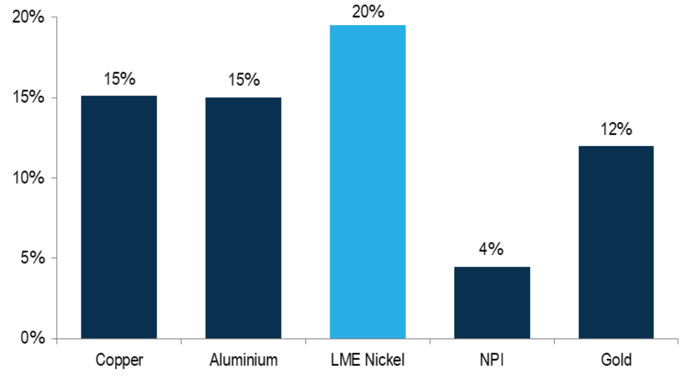
Commodity & geopolitical tensions

Fig. 1: Commodity prices and dollar index (DXY)



Source: Bloomberg, LME, Indo Premier

Fig. 2: Gold, copper, aluminum, nickel, NPI prices YTD (%)

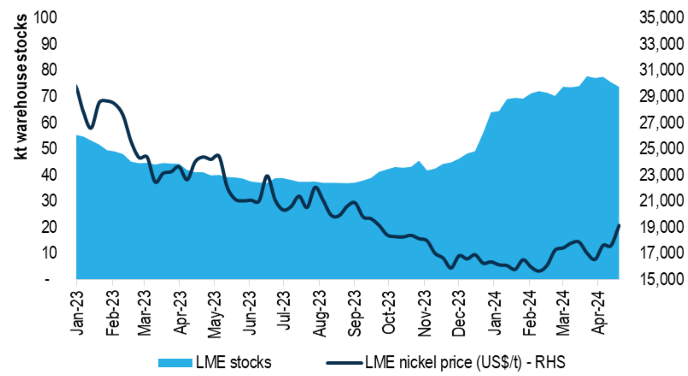


Source: Bloomberg, LME, Indo Premier

Nickel: higher military spending a positive demand tailwind

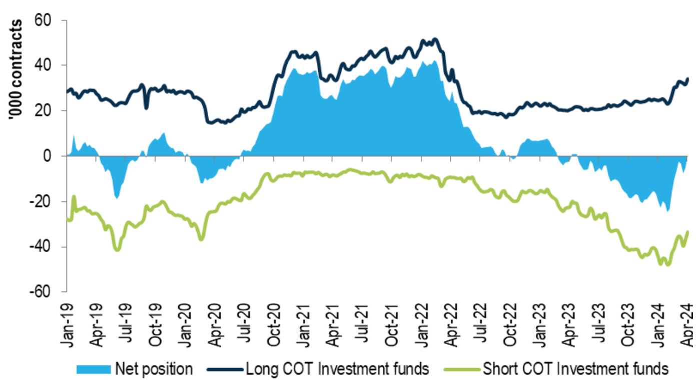
LME nickel price has risen by +20% YTD, which was underpinned by: 1) short-covering activities (now at COT position at a slight net-long, Fig. 4), mainly driven by US & UK sanctions on Russian metals, 2) higher non-nickel metals price (i.e. copper, aluminum), prompting a rally in LME nickel price as well, which is also driven by the recent geopolitical tensions. Several media outlets including Bloomberg and SMM had also previously mentioned issues on mining-quota/RKAB to have caused rally in LME nickel, but we think this should be reflected more on NPI/FeNi price – as c.90% of ore in Indonesia is used for NPI/FeNi production; albeit NPI price YTD has remained relatively flattish (+4%) in comparison to LME price.

Fig. 3: LME nickel price and inventory



Source: Bloomberg, LME, Indo Premier

Fig. 4: COT net-long (net-short) position

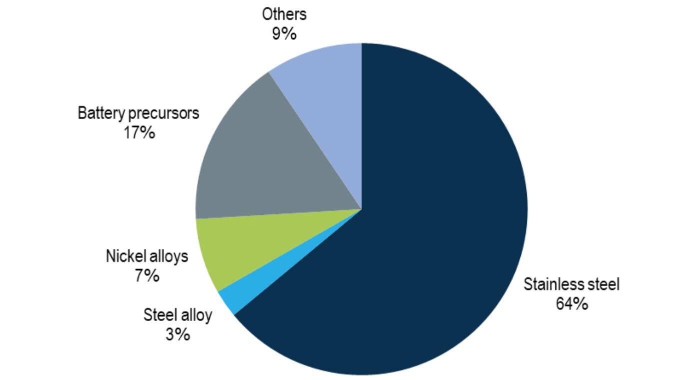


Source: Bloomberg, LME, Indo Premier

However, we think **LME nickel price risk/reward is skewed to the upside** as: 1) demand for nickel alloys (c.7% of global refined nickel demand/c.20% of LME-deliverables demand, Fig. 5 & 6) may increase amid higher defense spending, owing to c.30-year under-investment post 1980's cold-war (Fig. 10 & 11), in addition to intensifying geopolitical tensions in Middle-East area and prolonged Russia-Ukraine war, 2) US/UK sanctions dynamics in the LME system, which may prompt further speculations despite limited impact to the overall nickel physical demand/market, and 3) sentiment from other commodities (i.e. copper, aluminum, etc).

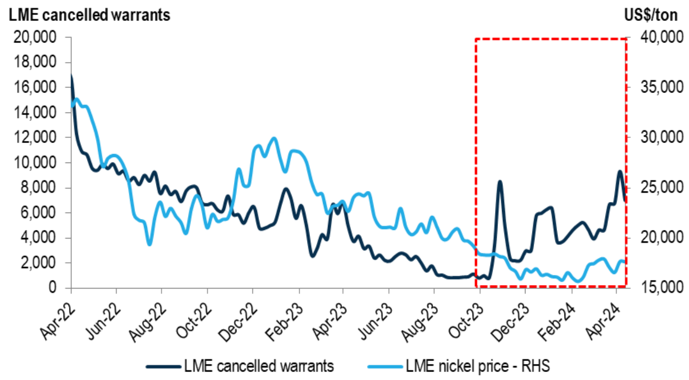
Recent supply-responses from Australia & New Caledonia (Fig. 9) are unlikely to quickly-reversed in spite of LME nickel recent rally as several of these mines/smelters would have only started to be economically-incentivized once LME nickel sustainably trades at above US$21k/t – 90th cast cost curve (Fig. 8), at which it may take time to ramp-up their productions (c.6-9 months) after the smelter being left dormant.

Fig. 5: Nickel alloys as % of global refined demand



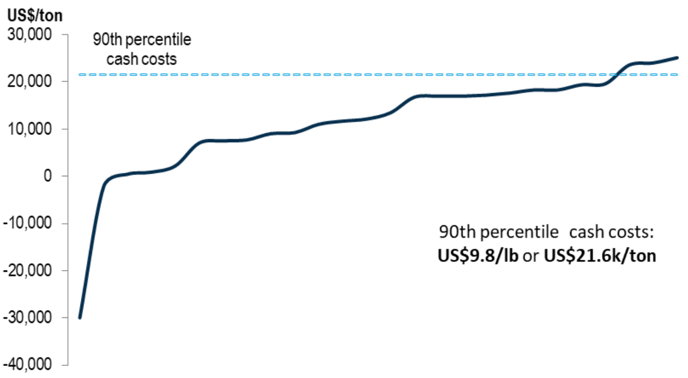
Source: Bloomberg, LME, Indo Premier

Fig. 6: LME cancelled warrants



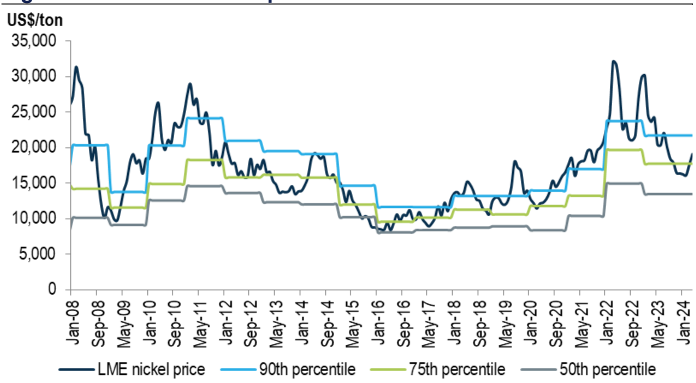
Source: Bloomberg, LME, Indo Premier

Fig. 7: 90th cash cost curve



Source: Bloomberg, LME, Indo Premier

Fig. 8: LME vs cash costs percentiles



Source: Bloomberg, LME, Indo Premier

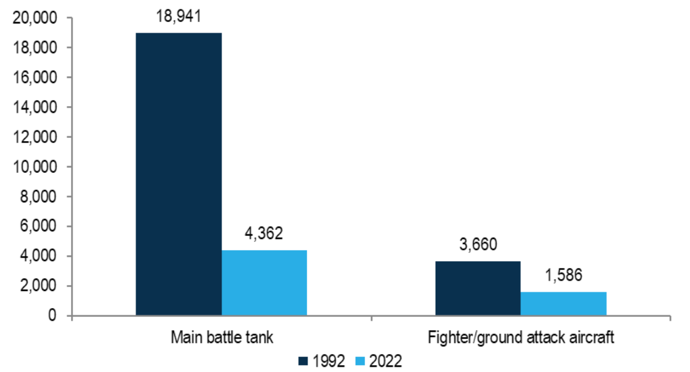
Fig. 9: Supply-responses from Australia & New Caledonia

Supply response	Assets	Impacted supply (ton)	As % of supply	Location	Suspension
Bishi (Jingan)	FeNi/NPI	10,000	0.3%	China	Ceased production
Savannah Nickel (Panoramic Resources)	Ni concentrate	10,000	0.3%	Kimberley, Western Australia	Suspend operations
First Quantum Minerals (FQM), POSCO	HPAL	16,000	0.4%	Ravensthorpe, Western Australia	Suspend mining operation for the next 18 to 24 months, but continue to sell from existing stockpile
Wyloo Metals & BHP	Nickel Mine & Refining	16,000	0.4%	Kambalda, Western Australia	Kambalda mine w ill go into care and maintenance from May-31, w on't be able to fulfill off-take agreement w ith BHP
Cosmos (IGO)	Ni concentrate	14,000	0.4%	Leinster, Western Australia	Transitioning into care and maintenance due to challenging market conditions
Koniambo (Glencore)	FeNi	27,200	0.7%	New Caledonia	Would begin "w ithout delay" to suspend operation of FeNi. Plans to sell 49% stake in Koniambo
Onca Puma (Vale Brazil)	FeNi	17,000	0.4%	Para, Brazil	Environmental license is suspended due to non-compliance of annual information reports and failing to mitigae impacts from mining activities
Total		**110,200**	**2.9%**		

Source: Company data, Bloomberg, Indo Premier

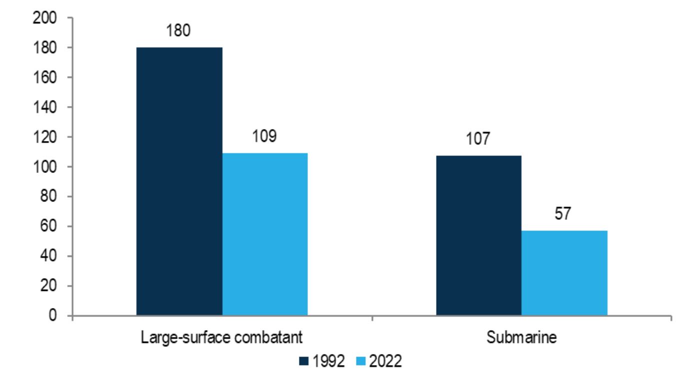
In addition to these aforementioned factors, we think there are several leading indicators that corroborated our thesis, including higher cancelled warrants in LME nickel – which indicated higher physical demand delivery (Fig. 12), backlogs in several artillery equipment producers such as Rheinmetall, Daussvult, Thales, and others, thanks to higher defense spending as % of GDP in several Eurozone countries (Fig. 11) – France, Germany, United Kingdom, etc.

Fig. 10: Under-investment in artillery equipment post-Cold War – inventory level in EU



Source: McKinsey, Military Balance Sheet, Indo Premier

Fig. 11: Under-investment in artillery equipment post-Cold War – inventory level in EU



Source: McKinsey, Military Balance Sheet, Indo Premier

To quantify the impact of these potential dynamics, we assumed:

- Increase in defense spending closer to NATO guideline of 2% of GDP for countries that have lower defense spending as % of GDP lower than 2%.

- +10% equipment spending increase in countries that are already above NATO guideline, due to higher base of +25% increase in military equipment spending in 2023F, based on NATO data.

- Average historical equipment spending as % of defense spending of c.20-50%, depending on each particular country.

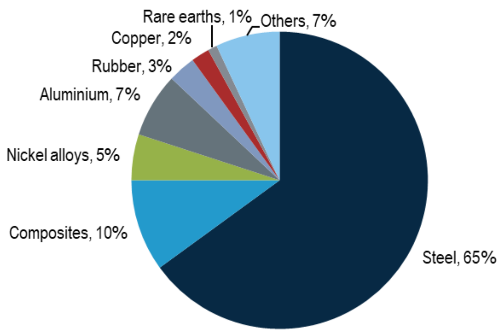
- Nickel alloys to contribute around c.3% of military equipment, equivalent to its use-case value in military equipment such as fighter-jet, tanks, and others.

As a result, we think the additional impact from higher defense spending could reach as big as US$1.2bn in 2024, or equivalent to c.5% in nickel non-stainless use-case market of around US$22bn per annum. The percentage impact is higher at c.10% additional demand if we only take into account LME-deliverables product use-cases as majority of EV-batteries were made using nickel sulfate and/or other intermediates products (i.e. matte/MHP). Overall, we think the potential demand impact is positive to overall LME nickel price.

We think nickel S-D balance could be tilted at only a slight oversupply at 17kt vs. our initial 77kt surplus forecast in FY24F as the positive impact from higher military spending would be around c.60-70kt. As a result, we raised our LME nickel price assumptions to US$17.5k/ton in FY24F (from US$17k/t) and to US$17k/ton in FY25F (from US$16.5k/ton).

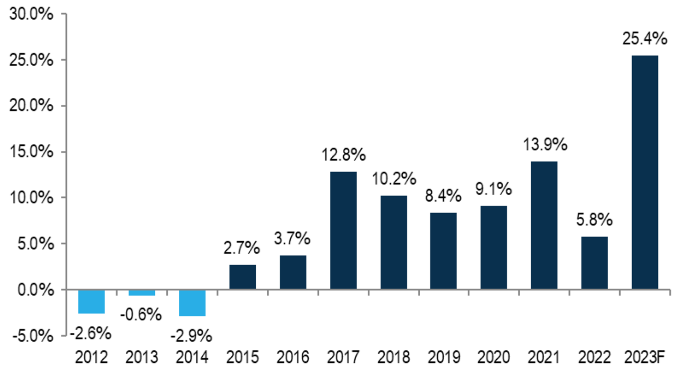
Further upside risks on the nickel market S-D balance are also the ongoing RKAB issues, which based on our channel-check, could ease in upcoming months as more quotas are being approved, but would create similar ore-scarcity situation once we enter 4Q24F, with the potential tight quota approval re-occurrence for RKAB revision, +ve to overall prices.

Fig. 12: Example of military tanks raw material breakdown



Source: McKinsey, Military Balance Sheet, Indo Premier

Fig. 13: Military equipment expenditure (yoy %)



Source: NATO, Indo Premier

Fig. 14: Nickel supply-demand (S-D) balance & price assumptions

Supply-demand balance (kt)	2019	2020	2021	2022	2023	2024F	2025F
LME Nickel							
Refined production	**2,529**	**2,533**	**2,717**	**3,101**	**3,516**	**3,662**	**3,952**
Supply growth yoy (%)		*0.1%*	*7.3%*	*14.1%*	*13.4%*	*4.2%*	*7.9%*
Refined consumption	**2,451**	**2,445**	**2,804**	**2,938**	**3,162**	**3,645**	**3,912**
Demand growth yoy (%)		*-0.2%*	*14.7%*	*4.8%*	*7.6%*	*15.3%*	*7.3%*
Market balance	**78**	**88**	**(87)**	**163**	**354**	**17**	**40**
Nickel sulphate							
Refined production				**479**	**548**	**676**	**777**
Supply growth yoy (%)					*14.5%*	*23.3%*	*15.0%*
Refined consumption				**494**	**531**	**630**	**778**
Demand growth yoy (%)					*7.5%*	*18.8%*	*23.4%*
Market balance				**(15)**	**17**	**46**	**(1)**
Class-2 nickel (NPI/FeNi)							
Refined production	**1,446**	**1,493**	**1,681**	**1,884**	**1,928**	**1,925**	**2,034**
Supply growth yoy (%)		*3.3%*	*12.5%*	*12.1%*	*2.3%*	*-0.2%*	*5.7%*
Refined consumption	**1,615**	**1,714**	**1,894**	**1,877**	**1,839**	**1,913**	**2,009**
Demand growth yoy (%)		*6.1%*	*10.5%*	*-0.9%*	*-2.0%*	*4.0%*	*5.0%*
Market balance	**(169)**	**(221)**	**(213)**	**7**	**89**	**12**	**26**
Price forecast							
LME nickel (US$/t)	13,917	13,804	18,459	25,720	21,505	**17,500**	**17,000**
Nickel pig iron 8-12% (US$/t)	13,256	13,020	17,293	18,761	14,226	**12,500**	**13,250**
Battery-grade nickel sulphate (US$/t)					19,308	**16,500**	**17,000**
Mixed hydroxide precipitate (US$/t)					15,287	**13,200**	**13,600**

Source: Company data, Shanghai Metal Market, Bloomberg, Indo Premier

Fig. 15: 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	9.3	9.0	7.1	7.8	8.5	7.6	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	1,800	12.0	12.7	N/A	7.7	7.1	N/A	4.6%	4.2%	N/A
HRUM IJ	Harum Energy	Buy	1,800	9.0	9.5	7.6	6.9	6.4	4.4	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Hold	4,250	35.0	132.2	135.0	10.4	13.2	10.9	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	700	44.6	19.2	15.2	15.0	9.0	7.3	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,100	183.2	76.6	51.0	12.5	9.6	8.0	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,100	9.1	7.4	N/A	6.0	4.6	N/A	2.8%	3.3%	N/A

Source: Company data, Bloomberg, Indo Premier estimates

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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