

Ride to Recovery and Future Growth Prospects

5 April 2024



MDKA IJ	BUY
Sector	Metals
Price at 4 Apr 2024 (IDR)	2,680
Price target (IDR)	2,800
Upside/Downside (%)	4.5

Stock Information

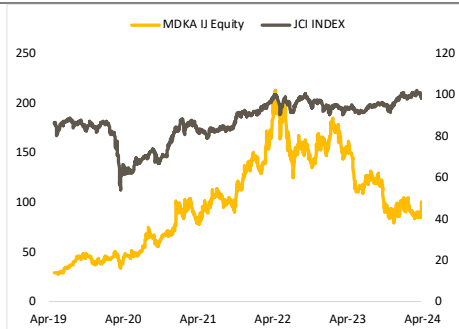
PT Merdeka Copper Gold Tbk is a mineral and mining company. The Company mines for gold, copper, and owned 51% stake in Merdeka Battery Materials.

Market cap (IDR bn)	65,588
Shares outstanding (mn)	24,473
52-week range (IDR)	2,060 – 4,320
3M average daily vol. ('000)	52,022
3M average daily val. (IDR mn)	128,267

Shareholders (%)

Saratoga Investama Sedaya	18.6
Mitra Daya Mustika	12.0
Garibaldi Thohir	7.3
Suwarna Arta Mandiri	5.6
CATL	5.0
Public	51.4

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	19.1	(4.6)	(36.0)

Analyst

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We anticipate an earnings turnaround for MDKA in 2024, projecting a slight profit. This outlook is supported by improved copper production despite lower gold production, along with guidance for nickel ore sales despite potential challenges posed by lower commodity prices. The Pani gold project holds substantial economic value, with MDKA targeting peak gold production of 500,000 ounces annually. Projections indicate a strong profitability, with low initial capital expenditure and favorable NPV8 ranging from USD1.85 to USD2.89bn. Share price has surged by nearly 20% over the last month. We downgrade to HOLD on MDKA based on the SOTP method with a slightly lower TP of IDR2,800.

Deeper than expected FY23 loss despite 4Q23 earnings turnaround

In 4Q23, MDKA booked USD3.1mn of net profit (-87.8% qoq; a turnaround from losses in 4Q22). This led to a net loss of USD20.7mn for FY23 (-239.1% yoy) which represented 457.2% of our estimate (net losses of USD4.5 mn) and 132.4% of the street estimate (net loss of USD15.6 mn) of the net loss. While revenue experienced a strong 120% yoy in the 4Q23, it faced a 17.5% qoq decline, leading to a gross profit growth of 31.7% yoy but a sharp decline of 62.6% qoq to USD27.1 mn due to lower commodity prices during the quarter. In 4Q24, MBMA reached a milestone by delivering limonite ore to HNC of 947,056 wmt at an average price of USD17/wmt.

Expect earnings turnaround in 2024

In 2024, MDKA guided lower gold production of 100-120k oz (129k oz in 2023) at higher AISC of USD1,350-1,500/oz (USD1,212/oz), slight improvement in copper production of 14,000- 16,000 tonnes of copper (12,706 tn in 2023) at a lower AISC of USD4.50 to 5.25/lb (USD5.38/lb in 2023). Meanwhile, MBMA guided saprolite and limonite ore sales of 4.0mn wmt and 11.0mn wmt, respectively as well as 85k-92k tonnes of nickel in NPI at an AISC of USD10-12k/t, and 50-55k tonnes of nickel in nickel matte at an AISC of USD13k-15k/t. Lower commodity price for nickel will become key challenge for 2024, thus we projecting earnings turnaround from net losses of USD21 mn to a slight profit of USD3 mn in 2024.

High economic value of Pani gold project

MDKA targets the peak gold production of 500,000 ounces annually, starting with heap leach processing and expanding with a CIL circuit. It has a strong economic outlook using NPV8 (WACC: 8%) ranges from USD1.85 to USD2.89 bn, with IRRs of 32% and 41%. AISC is estimated at USD872/oz, ensuring robust profitability. The project will need a low initial capex of around USD250 mn, supported by completed on-site development work totaling USD114 mn. Financing is progressing for a planned late 2025 commissioning and the first gold pour in early 2026.

The projected NPV for MDKA, assuming a conservative estimate of USD1.85 bn for the Pani Project, stands at approximately USD1.3 bn, given MDKA's 70% stake in the project. This surpasses our EV/reserve valuation of USD445mn, potentially leading to a re-rating for MDKA after the commencement of the project.

Downgrade HOLD with lower TP of IDR2,800 (Previously IDR 2,960)

Share price has been surged nearly 20% in the past 1-month. We downgrade to HOLD on MDKA based on the SOTP method with a slightly lower TP of IDR2,800 after giving more conservative EV/resource assumption for Tujuh Bukit Gold project, which is implied to 13x '24F EV/EBITDA. Catalysts for 2024 are 1) higher production growth in 2024, and 2) more clarity on the next HPAL &TB Copper project.

Exhibit 1 : Key Statistics

Year end Dec (USD mn)	2022	2023	2024F	2025F
Revenue (Rp mn)	870	1,707	2,298	2,795
Net Income (Rp mn)	58	(21)	3	63
EPS (IDR)	37.0	(13)	2.0	38.6
P/E	72.53	(208.53)	1,346.74	69.43
EV/EBITDA	18.4	21.0	12.5	8.8
P/BV	4.18	4.26	4.11	3.88
ROE	5.8	(2.2)	0.3	6.0
Dividend Yield (%)	0	0	0	0
Net gearing (%)	42.1	36.1	34.6	32.3

Source: Company, KBVS Research

Exhibit 2: Financial Summary

In USD mn	FY23	FY22	YoY (%)	4Q23	4Q22	YoY (%)	QoQ (%)
Revenue	1,706.8	869.9	96.2%	536.6	243.9	120.0%	-17.5%
Cost of Revenue	(1,561.1)	(705.2)	121.4%	(509.5)	(223.3)	128.2%	-11.8%
Gross Profit	145.7	164.7	-11.5%	27.1	20.5	31.7%	-62.6%
G&A Expense	(48.9)	(53.1)	-7.8%	(10.8)	(17.3)	-37.6%	3.8%
Operating Profit	96.7	111.6	-13.3%	16.3	3.2	404.5%	-73.8%
Net Interest Expense	(78.7)	(43.4)	81.2%	(18.9)	(20.1)	-5.8%	-5.7%
Other Income (Exp) - net	(5.7)	(21.8)	-73.9%	9.9	(32.1)	-130.7%	-32.4%
PBT	12.3	46.4	-73.4%	7.2	(49.0)	-114.7%	-87.3%
Income Tax Expense	(6.7)	(25.1)	-73.4%	2.3	0.1	4079.7%	-142.3%
Minority Interest	(26.3)	(6.4)	309.9%	(6.4)	(5.4)	20.0%	-74.9%
Net Profit	(20.7)	14.8	-239.1%	3.1	(54.3)	-105.7%	-87.8%
Margin (%)			Bp (Chg)			Bp (Chg)	Bp (Chg)
GPM	8.5%	18.9%	(1,039.3)	5.0%	8.4%	(338.1)	(509.1)
OPM	5.7%	12.8%	(716.0)	3.0%	1.3%	170.9	(384.5)
NPM	-1.2%	1.7%	(291.7)	0.6%	-22.3%	2,286.6	261.2

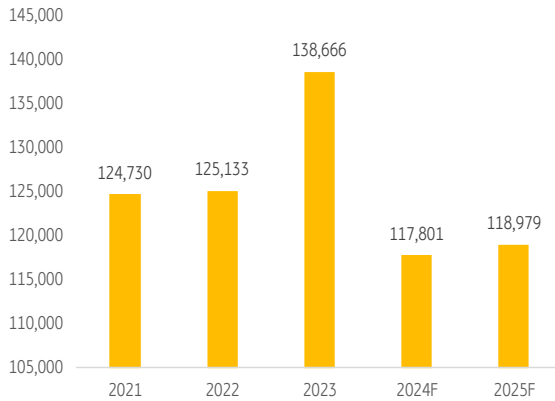
Source: Company, Bloomberg, KBVS Research

Exhibit 3: MDKA's Valuation Summary

	Effective Stake	Reserves (est)	Unit	Valuation (USD m)	Effective Valuation (USD m)	Method
Tujuh Bukit Gold	100%	320 000 Oz		45	45	EV/reserves
Tujuh Bukit Copper	100%	8,200 000 tonnes		3,199	3,199	EV/resources
Wetar Copper	100%	48 000 tonnes		30	30	EV/reserves
Nickel SCM	25.5%	2,354 000 tonnes		3,494	892	EV/reserves
Cobalt SCM	25.0%	187 000 tonnes		457	114	EV/reserves
Pani	70%	6,351 000 Oz		635	445	EV/resources
RKEF (BSI, CSI, ZHN)	25.1%	n.a	n.a	1,142	286	DCF
HNMI	30%	n.a	n.a	57	17	DCF
AIMS	40%	n.a	n.a	840.0	336	DCF
Project						
Wetar AIM Gold	100%	258 000 Oz		36.4	36	EV/reserves
Wetar AIM Copper	100%	178 000 tonnes		109.6	110	EV/reserves
				Net debt	(1,010)	
				Total EV (USD mn)	4,499.2	
				Total EV (IDR bn)	68,838.1	
				Share (mn)	24.47	
				Target Price (IDR)	2,813	
				Round-down (IDR)	2,800	

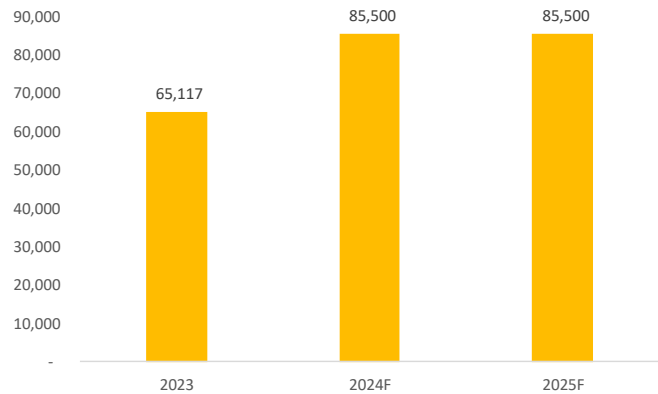
Source: KBVS Research

Exhibit 5: MDKA's Gold Production (Oz)



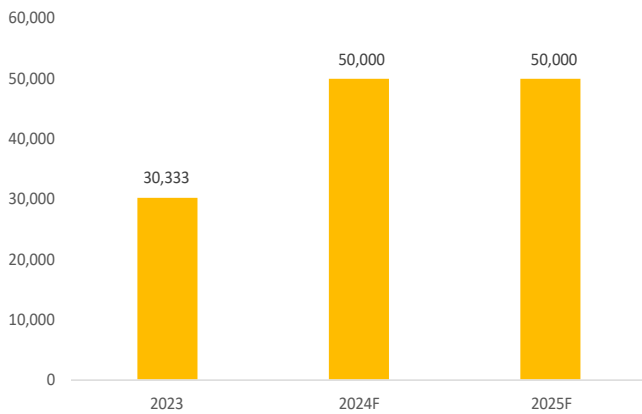
Source: Company, KBVS Research

Exhibit 6: MDKA's NPI Production (Kt)



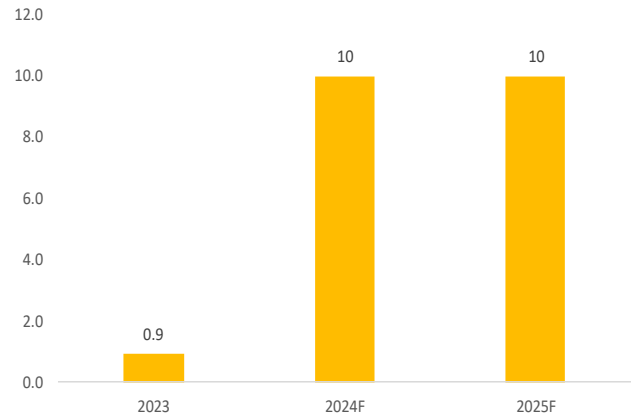
Source: Company, KBVS Research

Exhibit 7: MDKA's Nickel Matte Production (tonne)



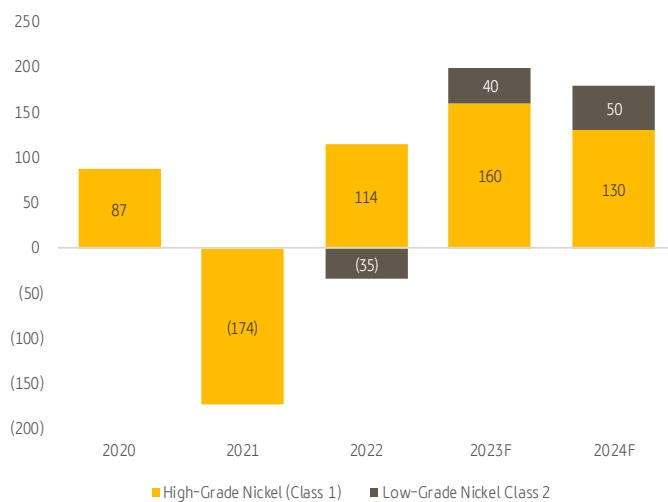
Source: Company, KBVS Research

Exhibit 8: MDKA's Limonite Ore Haulage Plan (M wmt)



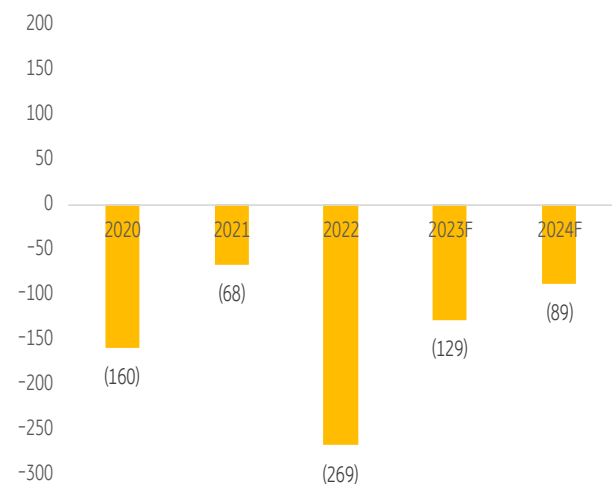
Source: Company, KBVS Research

Exhibit 9: Global Nickel Supply-Demand Balances



Source: Nor Nickel, KBVS Research

Exhibit 10: Global Copper Supply-Demand Balances



Source: Nor Nickel, KBVS Research

FINANCIAL TABLES

Exhibit 11: Profit & Loss summary

Profit & Loss (USD mn)	2022	2023F	2024F	2025F	2026F
Revenue	870	1,707	2,298	2,795	3,639
Cost of revenue	(705)	(1,561)	(2,005)	(2,332)	(2,594)
Gross profit	165	146	292	463	1,045
Opex	(53)	(49)	(84)	(98)	(100)
EBIT	112	97	209	366	945
EBITDA	276	249	423	600	1,200
Finance income	2	12	26	18	14
Finance expense	(43)	(79)	(103)	(88)	(73)
Other income/expense	20	(17)	(17)	(18)	(18)
Pre-tax profit	90	12	114	279	868
Tax expense	(25)	(7)	(38)	(49)	(96)
Adjustment	2	3	4	5	6
Minority interest	(6)	(26)	(73)	(167)	(496)
Net profit to parent entity	58	(21)	3	63	276
EPS (IDR)	37	(13)	2	39	169

Source: Company, KBVS Research

Exhibit 12: Balance sheet

Balance Sheet (USD mn)	2022	2023F	2024F	2025F	2026F
Cash and equivalents	444	519	461	347	771
Trade Receivables	66	121	192	245	335
Inventories	251	444	706	817	904
Fixed Assets	2,265	2,888	3,113	3,226	3,330
Other assets	851	994	1,012	1,031	1,051
Total Assets	3,877	4,964	5,484	5,666	6,390
Trade payables	110	304	706	817	904
Short-term debt + CMLTD	311	437	293	264	237
Long term loan	986	1,080	1,178	1,088	979
Other liabilities	445	379	385	390	396
Total Liabilities	1,852	2,200	2,561	2,559	2,516
Issued Capital	728	728	778	778	778
Retained earnings	283	262	265	327	584
Minority interest	1,022	1,837	1,943	2,065	2,575
Other equities	(8)	(64)	(64)	(64)	(64)
Total Equity	2,025	2,764	2,923	3,107	3,874

Source: Company, KBVS Research

Exhibit 13: Profit & Loss summary

Cash Flow (USD mn)	2022	2023F	2024F	2025F	2026F
Net income	58	(21)	3	63	276
Depreciation & amortization	165	152	214	234	254
Change in working capital	(105)	(53)	68	(53)	(90)
Others	312	(55)	4	4	4
Cash flow from operations	431	24	290	248	445
Capex	(1,799)	(774)	(440)	(346)	(358)
Others	(479)	(154)	(17)	(18)	(18)
Cash flow from investments	(2,278)	(929)	(458)	(364)	(376)
Changes in debt	919	220	(46)	(119)	(135)
Changes in equity	1,187	760	155	123	510
Dividends paid	-	-	-	(1)	(19)
Others	(0)	(0)	(0)	(0)	(0)
Cash flow from financing	2,106	980	109	2	356
Net Cash Flow	258	75	(58)	(114)	424

Source: Company, KBVS Research

Exhibit 14: Cash flow

Key Ratios (%)	2022	2023F	2024F	2025F	2026F
Revenue growth	128.3	96.2	34.6	21.7	30.2
EBIT growth	22.8	(13.3)	115.7	75.2	158.6
EBITDA growth	40.1	(9.9)	69.9	41.7	100.1
Net profit growth	61.7	(135.4)	(115.7)	1,839.7	338.5
Gross margin	18.9	8.5	12.7	16.6	28.7
EBIT margin	12.8	5.7	9.1	13.1	26.0
EBITDA margin	31.8	14.6	18.4	21.4	33.0
Net margin	6.7	(1.2)	0.1	2.3	7.6
ROA	4.6	2.9	(0.7)	0.1	2.0
ROE	5.8	(2.2)	0.3	6.0	21.3
Net gearing (x)	0.4	0.4	0.3	0.3	0.1
Net debt/EBITDA (x)	3.1	4.0	2.4	1.7	0.4
Interest coverage ratio (x)	6.4	3.2	4.1	6.8	16.4

Source: Company, KBVS Research

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