

Anticipate improved performance onward

6 June 2024



MDKA IJ	BUY
Sector	Metals
Price at 6 Apr 2024 (IDR)	2,420
Price target (IDR)	2,800
Upside/Downside (%)	15.7

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)	59,225
Shares outstanding (mn)	24,473
52-week range (IDR)	2060 – 3580
3M average daily vol. ('000)	58,762
3M average daily val. (IDR mn)	151,987

Shareholders (%)

Saratoga Investama Sedaya	18.8
Mitra Daya Mustika	11.9
Garibaldi Thohir	7.5
Suwarna Arta Mandiri	5.5
CATL	5.0
Public (less than 5%)	51.3

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	(6.8)	8.4	(21.0)

Analyst

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MDKA saw a significant revenue increase in 1Q24 (+152.6 % yoy), driven by operational expansions and acquisitions. Despite meeting production expectations, net losses occurred due to higher expenses. We anticipate improvement in the following quarters with rising metal prices and project contributions. The AIM project is progressing well, commissioning for other components is planned for later in the year. A major milestone was reached in the HPAL project, securing financing, with commissioning slated for late 2024. We upgraded MDKA to BUY with TP of IDR2,800 following recent share price declined.

1Q24 Net Losses Due to Forex, Financing Costs, and Minority Interest

MDKA reported USD541 mn in revenue for 1Q24, a 152.6% yoy increase. This growth was driven by the successful ramp-up of additional RKEF plant capacity, the acquisition of a high-grade nickel matte conversion facility in mid-2023, and the limonite ore sales reaching 0.6 mn wmt. Nickel operations, as well as gold and copper production, met expectations. Thus, MDKA achieved an operating profit of USD21 mn in 1Q24 (+14.1% yoy).

However, higher interest expenses, other expenses driven by forex losses (compared to forex gains last year), and increased minority interest led to a net loss of USD15.2 mn in 1Q24 compared with USD3.1 mn of profit in 1Q24. Given the weak performance, we expect an improvement in the following quarters due to higher nickel, copper, gold prices in 2Q24, and contribution from the AIM project in 4Q24. We are still projecting a profit of USD3 mn for FY24, which is more conservative than the street's estimate of USD33.7 mn.

AIM project is progressing well

1Q24, in line with development and commissioning plans, MDKA invested an additional USD45 mn in the AIM plant. Commissioning activities at the AIM acid plant are ongoing. In Apr'24, the first acid from Train 1 was successfully produced and delivered to the customer. Commissioning for Acid Plant Train 2 and the Chloride Plant will start in the 3Q24. The Copper Cathode Plant construction is progressing well, with commissioning expected in the 4Q24. AIM project is expected to contribute to EBITDA starting from 4Q24.

New milestone on the HPAL project

PT ESG New Energy Material, a JV between MBMA and GEM Co., Ltd., secured up to US\$490 mn in financing for the HPAL plant construction. MBMA's subsidiary, PT Merdeka Industri Anantha (MIA), also received funding from Arniko Materials Pte Ltd, which will acquire a 55% stake in MIA. This ensures MIA's construction funding obligations are met without consolidating the debt in MBMA's financial statements. As of 1Q24, detailed engineering and procurement were nearly complete, and overall project completion reached 34.8% by the end of May'24. Commissioning is scheduled for late 2024, with initial nickel production anticipated shortly thereafter.

Upgrade BUY with TP of IDR2,800

Following on the recent share declined, we upgrade MDKA to BUY based on the SOTP method with TP of IDR2,800, our TP is implied to 12.6x '24F EV/EBITDA. Catalysts for 2024 are 1) higher production growth in 2024, 2) more progress on the next AIM, HPAL &TB Copper project, and 3) lower nickel surplus expectation of ~100kt (previously ~190kt).

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)	2.1	40.4
P/E	65.5	(188.3)	1,161.9	59.9
EV/EBITDA	16.7	19.2	11.3	8.0
P/BV	3.68	3.75	3.56	3.36
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	1Q24	1Q23	YoY (%)	QoQ (%)
Revenue	541	214	152.6%	0.8%
Cost of Revenue	(508)	(183)	178.0%	-0.3%
Gross Profit	33	32	5.5%	23.0%
G&A Expense	(13)	(14)	-5.8%	18.1%
Operating Profit	21	18	14.1%	26.2%
Net Interest Expense	(23)	(19)	19.1%	20.6%
Other Income (Exp) - net	(6)	7	-189.7%	-159.1%
PBT	(8)	5	-253.2%	-213.3%
Income Tax Expense	(1)	(3)	-56.5%	-147.8%
Minority Interest	(6)	0	-1739.7%	-7.6%
Net Profit	(15.2)	3.1	-589.0%	-588.8%
Margin (%)			Bp (Chg)	
GPM	6.2%	14.7%	(857.3)	110.8
OPM	3.8%	8.4%	(460.6)	76.2
NPM	-2.8%	1.5%	(426.8)	(339.5)

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	

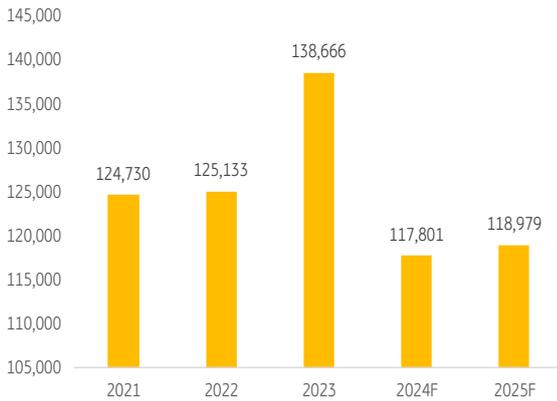
Source: KBVS Research

Exhibit 4: MDKA's Operational Summary

Gold	1Q23	2Q23	3Q23	4Q23	1Q24	yoy	qoq
Production (ounces)	25.8	38.4	44.9	29.5	24.1	-6.5%	-18.2%
Sales (K oz)	20.0	29.5	49.2	31.2	26.6	33.2%	-14.6%
ASP (per oz)	1,887	1,972	1,946	1,931	2,106	11.6%	9.1%
AISC (per oz)	1,262	1,060	1,147	1,487	1,479	17.2%	-0.5%
EBITDA incl silver	21	24	51	29	23	9.5%	-20.7%
Copper	1Q23	2Q23	3Q23	4Q23	1Q24	yoy	qoq
Production (tonnes)	4.1	3.1	2.1	3.4	3	-24.8%	-10.3%
Sales (tonnes)	3.6	4.3	3.1	2.2	4	19.7%	95.5%
ASP (per lb)	3.99	3.95	3.83	3.71	3.79	-5.0%	2.3%
AISC (per lb)	4.8	4.9	7.3	5.17	3.69	-23.1%	-28.6%
EBITDA	12	-2	1	2	10	-16.7%	400.0%
NPI	1Q23	2Q23	3Q23	4Q23	1Q24	yoy	qoq
Production (tonnes)	9.4	11.9	21.7	22.1	20.9	123.1%	-5.6%
Sales (k tonnes)	8.2	11.1	22.8	22.5	21.6	164.6%	-3.8%
ASP	17,470	14,123	13,193	12,099	11,055	-36.7%	-8.6%
AISC (per tonne)	15,436	13,459	11,616	10,909	10,223	-33.8%	-6.3%
EBITDA	17	10	32	28	18	5.9%	-35.7%
Nickel Matte	1Q23	2Q23	3Q23	4Q23	1Q24	yoy	qoq
Production (tonnes)	n.a	4	13.2	12.7	12.0	n.a	-5.1%
Sales (k tonnes)	n.a	3.0	13.4	11.7	14.4	n.a	23.1%
ASP	n.a	17,423	16,364	14,216	13,673	n.a	-3.8%
AISC (per tonnes)	n.a	15,524	15,154	14,199	13,162	n.a	-7.3%
EBITDA	n.a	4	18	-4	6	n.a	-250.0%

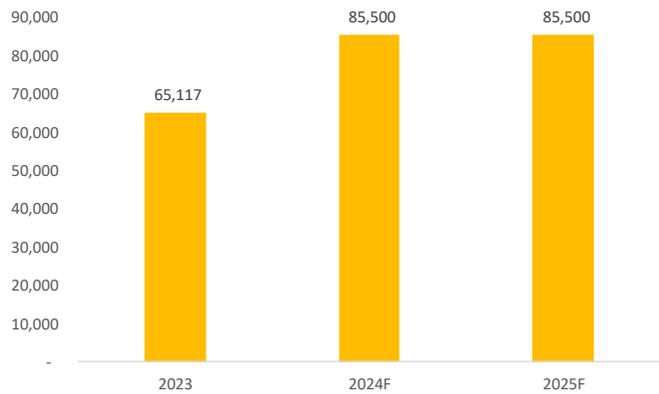
Source: Company, KBVS Research

Exhibit 5: MDKA's Gold Production (Oz)



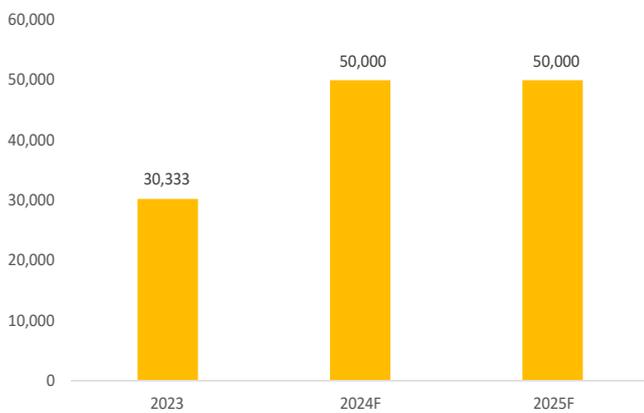
Source: Company, KBVS Research

Exhibit 6: MDKA's NPI Production (Kt)



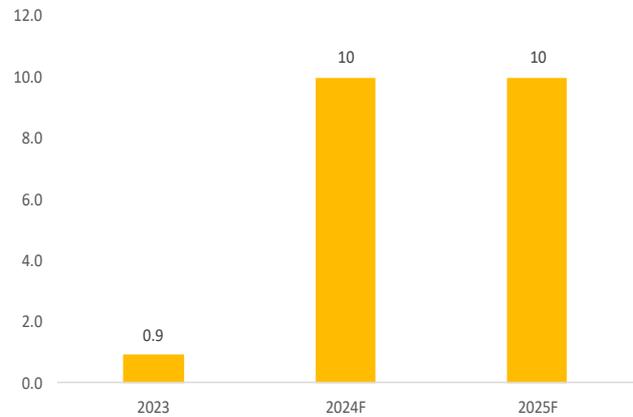
Source: Company, KBVS Research

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



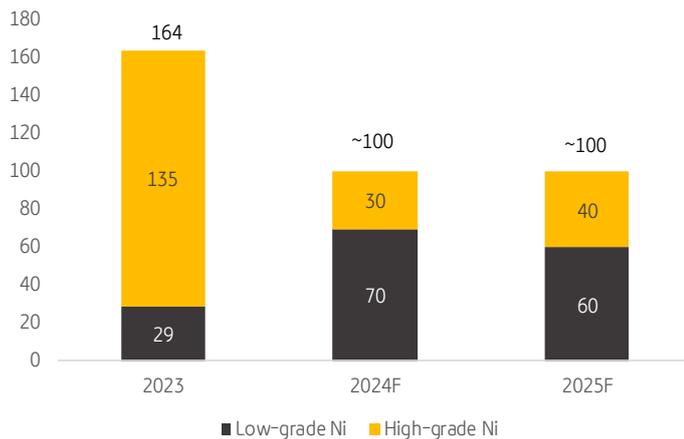
Source: Company, KBVS Research

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



Source: Company, KBVS Research

Exhibit 9: Global Nickel Supply-Demand Balances (kt)



Source: Nor Nickel, KBVS Research

Exhibit 10: Global Copper Supply-Demand Balances (Mt)



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	40	177

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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