

Earnings turnaround in 2024 from higher production

28 November 2023



MDKA IJ	BUY
Sector	Metals
Price at 27 Nov 2023 (IDR)	2,250
Price target (IDR)	2,960
Upside/Downside (%)	31.5

Stock Information

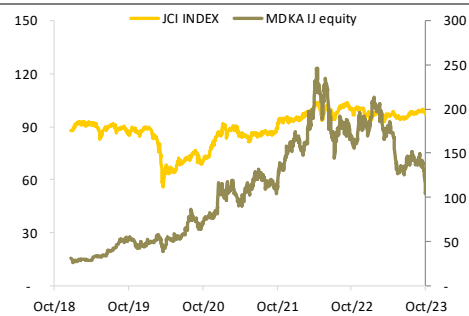
PT Merdeka Copper Gold Tbk is a mineral and mining company. The Company mines for gold, copper, and owned 51% stake in Merdeka Battery Materials.

Market cap (IDR bn)	54,249
Shares outstanding (mn)	24,111
52-week range (IDR)	2060 - 4950
3M average daily vol. ('000)	39,352
3M average daily val. (IDR mn)	104,236

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	(0.4)	(27.0)	(43.3)

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MDKA booked USD26.4 mn of net profit in 3Q23, a turnaround from losses in 2Q23. Despite this positive development, we remain cautious over the 4Q23 challenging outlook, primarily attributable to nickel prices downtrend. We forecast MDKA to book USD2.45 bn of revenue in 2024 (+44.9% yoy), primarily driven by higher sales volume of its mining products as well as the commencing production of the AIM project. We also anticipate MDKA's earnings to turn positive at USD103 mn in '24F as profitability improves amid bigger revenue scale. Reinitiate BUY with TP of IDR2,960 based on SOTP valuation, implying 9.9x '24x EV/EBITDA.

Net profit turnaround to USD26.4 mn in 3Q23

MDKA booked USD26.4 mn of net profit in 3Q23, a turnaround from losses in 2Q23. Despite the profit turnaround in 3Q23, MDKA still recorded a net loss of USD23.77 mn in 9M23. We view 9M23 performance is still in-line with street's estimate of a net loss of USD7.05 mn for FY23, which implies to USD16.7 mn of profit in 4Q23. 3Q23 revenue grew significantly to USD650.1 mn (+128.4% yoy; 25% qoq). This was mainly attributed to the higher production NPI. GPM improved by 227.4 bp in 3Q23 due to lower cash cost. This was mainly attributed to higher utilization of ZHN's RKEF plant. Additionally, a USD35.4 mn reversal of final tax provisions further contributed to the improved financial performance in 3Q23.

4Q23 outlook remain challenging

We view the positive results are encouraging, while the reversal of final tax provision is not a sustainable contributor. The declining nickel price in qoq basis will pose a significant challenge for MDKA. However, the higher volume of the saprolite nickel ore sales starting in 4Q23 (600k-800k wmt in 4Q23 v.s 44k wmt in 3Q23) presents more upside for revenue growth.

Earnings to turn positive amid higher sales in 2024

We forecast MDKA to book USD2.45 bn of revenue in 2024 (+44.9% yoy), primarily driven by higher NPI, nickel matte, nickel ore, copper, as well as the commencing production of the AIM project. In 2024, we project MDKA to produce 85 ktpa of NPI (+35.7% yoy), 50 ktpa of nickel matte (+66.6% yoy), 8mn of limonite ore sales to Huayue, and USD80 mn of revenue from the AIM project. We also project nickel and copper prices to remain weak in 2024F at USD17,000/tonne and USD8,300 / tonne respectively, while gold prices remain robust at USD2,100/ oz. We expect nickel supply to remain surplus in 2024F by 180kt (vs 200k tonne in 2023F), while copper to have a lower insignificant deficit of 129 kt (less than 1% of the total global consumption). Thus, we estimate MDKA to book a turnaround for net profit to USD103 mn in 2024F from USD5 mn of net losses in 2023F.

Reinitiate BUY with TP of IDR2,960

We reinitiate BUY on MDKA based on the SOTP method with a target price of IDR2,960, which is implied to 9.9x '24F EV/EBITDA. We like MDKA due to 1) higher production growth in 2024, and 2) more clarity on the next HPAL project. Yet, risks to our call included 1) less feasible future projects; and 2) lower commodity prices such as gold, nickel, and copper.

Exhibit 1 : Key Statistics

Year end Dec (USD mn)	2022A	2023E	2024F	2025F
Revenue (USD mn)	870	1,691	2,450	2,887
Net Income (USD mn)	58	(5)	103	164
EPS (IDR)	37.0	(3)	64.0	102.3
P/E	60.89	(800.51)	35.14	21.99
EV/EBITDA	15.9	17.4	8.0	6.1
P/BV	3.51	3.52	3.20	2.85
ROE	5.8	(0.4)	9.3	13.2
Dividend Yield (%)	0	0	0	0
Net gearing (%)	42.1	56.2	52.7	39.2

Source: Company, KBVS Research

Exhibit 2: Financial Summary

In USD mn	9M23	9M22	YoY(%)	3Q23	3Q22	YoY (%)	QoQ (%)
Revenue	1,170.2	626.0	86.9%	650.1	284.6	128.4%	25.0%
Cost of Revenue	(1,051.6)	(481.9)	118.2%	(577.7)	(244.9)	135.9%	21.9%
Gross Profit	118.6	144.1	-17.7%	72.5	39.7	82.6%	57.1%
G&A Expense	(38.1)	(35.7)	6.7%	(10.4)	(6.5)	60.3%	-62.5%
Operating Profit	80.5	108.4	-25.7%	62.1	33.2	86.9%	237.1%
Net Interest Expense	(59.8)	(23.3)	156.4%	(20.1)	(14.2)	41.4%	-49.3%
Other Income (Exp) - net	(15.6)	10.4	-250.2%	14.6	(52.2)	-128.0%	-148.4%
PBT	5.1	95.4	-94.6%	56.6	(33.2)	-270.2%	-210.0%
Income Tax Expense	(9.0)	(25.2)	-64.1%	(5.5)	3.4	-261.9%	59.5%
Minority Interest	(19.9)	(1.1)	1771.2%	(25.6)	2.2	-1255.9%	-549.0%
Net Profit	(23.8)	69.2	-134.4%	25.4	(27.6)	-192.2%	-151.7%
Margin (%)			Bp (Chg)			Bp (Chg)	Bp (Chg)
GPM	10.1%	23.0%	📈 (1,288.3)	11%	14%	(280.1)	227.5
OPM	6.9%	17.3%	📈 (1,043.3)	10%	12%	(212.1)	600.6
NPM	-2.0%	11.1%	📈 (1,308.4)	4%	-10%	1,361.0	1,337.7

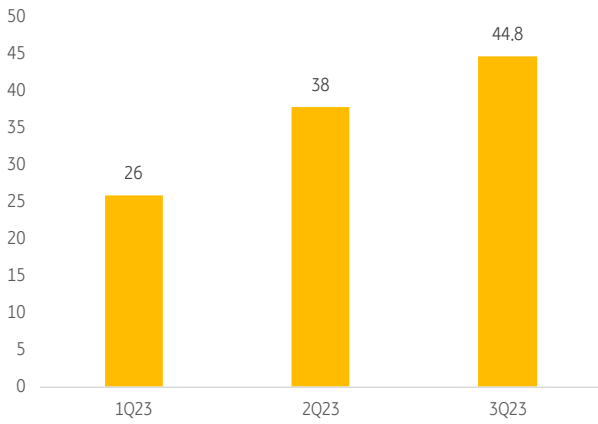
Source: Company, Bloomberg, KBVS Research

Exhibit 3: MDKA's Valuation Summary

	Effective Stake	Valuation (USD m)	Effective Valuation (USD m)	Method
Tujuh Bukit Gold	100%	45	45	EV/reserves
Tujuh Bukit Copper	100%	3,537	3,537	EV/resources
Wetar Copper	100%	30	30	EV/reserves
Nickel SCM	25.5%	3,494	892	EV/reserves
Cobalt SCM	25.0%	457	114	EV/reserves
Pani	70%	635	445	EV/resources
RKEF (BSI, CSI, ZHN)	25.1%	1,142	286	DCF
HNMI	30%	57	17	DCF
AIMS	40%	840.0	336	DCF
Project				
Wetar AIM Gold	100%	36.4	36	EV/reserves
Wetar AIM Copper	100%	109.6	110	EV/reserves
		Net debt	(1,181)	
		Total EV (USD mn)	4,666.8	
		Total EV (IDR bn)	71,402.3	
		Share (mn)	24.1	
		Target Price (IDR)	2,963	
		Round-down (IDR)	2,960	

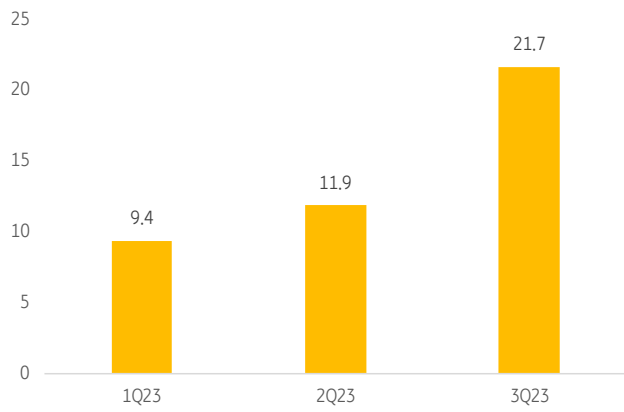
Source: KBVS Research

Exhibit 5: MDKA's Gold Sales Volume (Koz)



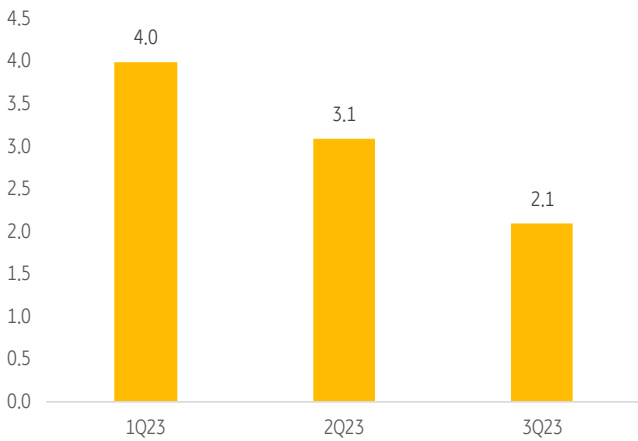
Source: Company, KBVS Research

Exhibit 6: MDKA's NPI Sales Volume (Kt)



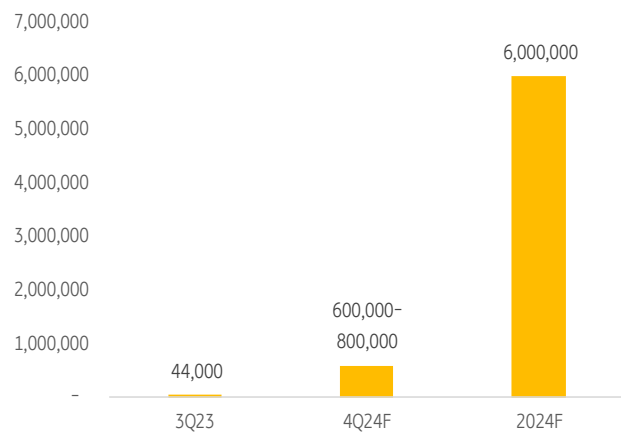
Source: Company, KBVS Research

Exhibit 7: MDKA's Copper Sales Volume (Kt)



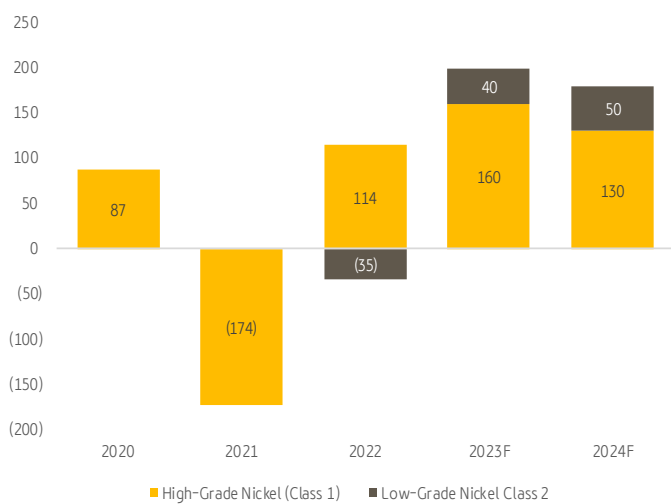
Source: Company, KBVS Research

Exhibit 8: MDKA's Saprolite Ore Haulage Plan



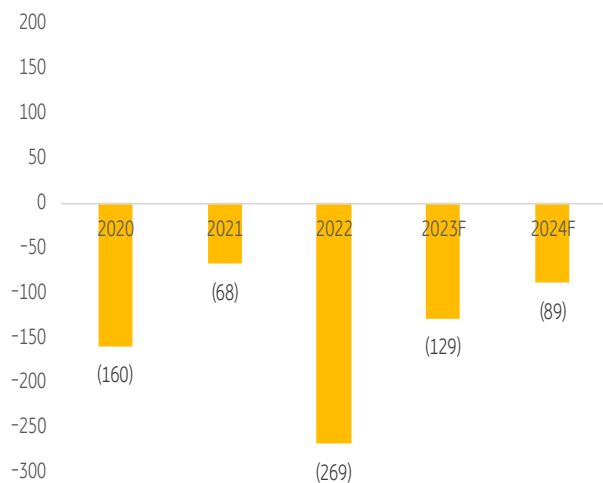
Source: Company, KBVS Research

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)	2021	2022	2023F	2024F	2025F
Revenue	381	870	1,691	2,450	2,887
Cost of revenue	(261)	(705)	(1,548)	(1,974)	(2,252)
Gross profit	120	165	143	476	635
Opex	(29)	(53)	(51)	(84)	(98)
EBIT	91	112	93	392	538
EBITDA	197	276	269	589	746
Finance income	2	2	27	13	12
Finance expense	(13)	(43)	(99)	(103)	(88)
Other income/expense	(23)	20	(5)	(5)	(5)
Pre-tax profit	57	90	16	297	456
Tax expense	(23)	(25)	(26)	(42)	(50)
Adjustment	1	2	3	4	5
Minority interest	3	(6)	6	(152)	(242)
Net profit to parent entity	36	58	(5)	103	164
EPS (IDR)	22	37	(3)	64	102

Source: Company, KBVS Research

Exhibit 12: Balance sheet

Balance Sheet (USD mn)	2021	2022	2023F	2024F	2025F
Cash and equivalents	185	444	266	290	369
Trade Receivables	1	66	134	205	253
Inventories	131	251	547	695	789
Fixed Assets	631	2,265	2,624	2,791	2,804
Other assets	330	851	866	882	899
Total Assets	1,279	3,877	4,439	4,863	5,113
Trade payables	30	110	547	695	789
Short-term debt + CMLTD	230	311	280	293	264
Long term loan	148	986	1,128	1,178	1,088
Other liabilities	92	445	452	458	465
Total Liabilities	499	1,852	2,407	2,624	2,605
Issued Capital	491	728	728	728	728
Retained earnings	224	283	278	381	514
Minority interest	24	1,022	1,025	1,130	1,266
Other equities	40	(8)	-	-	-
Total Equity	779	2,025	2,032	2,239	2,509

Source: Company, KBVS Research

Exhibit 13: Profit & Loss summary

Cash Flow (USD mn)	2021	2022	2023F	2024F	2025F
Net income	36	58	(5)	103	164
Depreciation & amortization	106	165	176	197	208
Change in working capital	(20)	(105)	73	(70)	(49)
Others	(33)	312	5	5	5
Cash flow from operations	90	431	249	235	329
Capex	(98)	(1,799)	(535)	(364)	(222)
Others	(145)	(479)	(14)	(15)	(15)
Cash flow from investments	(243)	(2,278)	(549)	(379)	(236)
Changes in debt	108	919	111	63	(119)
Changes in equity	180	1,187	11	105	136
Dividends paid	-	-	-	-	(31)
Others	(0)	(0)	(0)	(0)	(0)
Cash flow from financing	288	2,106	122	168	(14)
Net Cash Flow	134	258	(177)	24	78

Source: Company, KBVS Research

Exhibit 14: Cash flow

Key Ratios (%)	2021	2022	2023F	2024F	2025F
Revenue growth	18.4	128.3	94.4	44.9	17.9
EBIT growth	(3.5)	22.8	(16.7)	321.5	37.2
EBITDA growth	30.4	40.1	(2.6)	118.9	26.6
Net profit growth	(0.2)	61.7	(107.7)	(2,378.3)	59.8
Gross margin	31.5	18.9	8.5	19.4	22.0
EBIT margin	23.8	12.8	5.5	16.0	18.6
EBITDA margin	51.8	31.8	15.9	24.1	25.8
Net margin	9.5	6.7	(0.3)	4.2	5.7
ROA	6.4	4.6	2.9	(0.2)	4.6
ROE	4.8	5.8	(0.4)	9.3	13.2
Net gearing (x)	0.2	0.4	0.6	0.5	0.4
Net debt/EBITDA (x)	1.0	3.1	4.2	2.0	1.3
Interest coverage ratio (x)	15.2	6.4	2.7	5.7	8.5

Source: Company, KBVS Research

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