

1 April 2024

Basic Materials | Mining

## Merdeka Copper Gold (MDKA IJ)

**Buy** (Maintained)

### Overcoming Challenges Ahead; Still BUY

Target Price (Return): IDR3,100 (36.0%)  
Price (Market Cap): IDR2,280 (USD3,556m)  
ESG score: 2.7 (out of 4)  
Avg Daily Turnover (IDR/USD) 108,026m/6.76m

- **Still BUY, new IDR3,100 TP (DCF) from IDR3,600, 36% upside.** Merdeka Copper Gold booked a FY23 net loss of USD21m (FY22 earnings: USD58m) – a “no better” figure vis-à-vis expected losses from estimates. Management remains optimistic on a potential turnaround ahead from: i) Better margins on nickel smelters supported by “fairer” raw material costs, ii) additional sales from lower-grade ores (for other parties outside the group), and iii) being on track target to achieve copper and gold production aims. We fine-tune our estimates to reflect our TP revision with the positive outlook still there.
- **FY23 results review.** Harsh challenges that came from higher cost adjustments in nickel smelter products resulted in compressed margins (FY23 total EBIT margins stood at 6% vs FY22's 13%) relative to the lower price trend – this was combined by lower copper production realisation at c.13k tonnes (-35% YoY) while cash margins were at a loss of c.USD3,200/tonne. The negative situations outstripped MDKA's stable gold business – FY23 gold revenue stood at USD252m (+4% YoY) with the segment's profit margins at c.20%. Conversely, topline achievement was still in line with our estimate (FY23: USD1.7bn; +96% YoY) from increases in nickel pig iron (NPI) and nickel matte output, albeit with limited margins. Cash from operations hit USD57m (-88% YoY) while the total net debt position at USD1.2bn (1.25x of net gearing) with interest coverage of 1.2x from its EBIT (5-year average: 8x).
- **Outlook ahead.** MDKA expects improvements in smelter margins to be seen in 1Q24, as costs for some of the ore required will be incurred at better levels (equal to a cut in cash cost of c.USD200-300/tonne based on our scenario, with estimated cash costs to be maintained at c.10-12k tonnes for NPI and matte combined). Management is also aiming to increase spot price contracts for its nickel matte (pegged at LME levels) going forward. For the ore sales segment (excluding portions that are used internally), MDKA guided that margins for limonite will stand at c.USD3/tonne – equal to c.15% of the company's total EBITDA. The allocated capex for this year stands at c.USD500m – of this amount, c.USD100m has been earmarked for the Pani Gold project, c.USD100m is for the Sulawesi Cahaya Mineral or SCM Mine, and c.USD100m is meant the completion of the Acid, Iron, Metal or AIM plant.
- **ESG and risks.** Our TP includes an ESG discount of 6% based on MDKA's 2.7 ESG score vs the 3.0 country median. Negative trends from an unexpected downturn in the global economy will be the biggest downside risk, in our view. For every 1% change from our LME base case price estimate (RHB Research's FY24F average is USD18,500/tonne vs YTD at c.USD16,600/tonne), overall TP will change by  $\pm$ c.2%. The nickel segment represent the main driver and risk for MDKA's future topline.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.6)	(0.4)	(15.3)	(24.8)	(43.3)
Relative	(15.8)	0.2	(15.1)	(29.9)	(51.1)
52-wk Price low/high (IDR)				2,100	–4,320

#### Merdeka Copper Gold Tbk (MDKA IJ)



Source: Bloomberg

#### Overall ESG Score: 2.7 (out of 4)

##### E: GOOD

MDKA has implemented its Environmental Management Plan, which reports quarterly data to the provincial environmental agency at each mine site. Separately, one of the programmes (solar panels for internal ports) held at its Wetar Project has successfully cut energy usage (electricity and fuel) by 48% YoY in 2020.

##### S: GOOD

MDKA's community investment was implemented through the Community Development and Empowerment Programme (CDE). The social funds (USD3.4m) were disbursed to communities in the three areas where it has operations – Banyuwangi District, Wetar Island, and Pohuwato District.

##### G: GOOD

MDKA has developed policies to support its corporate governance initiative, in accordance with regulations set by the financial services authority. The precautionary principles are applied by integrating risk-based management from input, and assessed by an audit committee.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	870	1,707	2,370	2,854	4,076
Recurring net profit (USDm)	58	(21)	56	96	183
Recurring net profit growth (%)	61.7	(135.4)	-	71.2	91.7
Recurring P/E (x)	58.46	na	63.64	37.18	19.40
P/B (x)	3.5	3.8	3.4	3.1	2.7
P/CF (x)	39.81	27.99	14.81	9.42	6.34
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	20.16	21.60	15.03	10.79	6.67
Return on average equity (%)	6.6	(2.1)	5.7	8.7	14.9
Net debt to equity (%)	33.8	23.3	60.2	67.9	65.1

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (USD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Indonesia	Recurring EPS	0.00	-	0.00	0.00	0.01
Basic Materials	BVPS	0.04	0.04	0.04	0.05	0.05
<b>Merdeka Copper Gold</b>	Return on average equity (%)	6.6	(2.1)	5.7	8.7	14.9
MDKA IJ						
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Combination of DCF (WACC: c.9% and TG at 3%) and multiple (FY24F EV/EBITDA c.14x); focusing on existing nickel (under Merdeka Battery Materials; MBMA IJ, NR; c.50% ownership), copper, and additional gold output	Recurring P/E (x)	58.46	na	63.64	37.18	19.40
	P/B (x)	3.5	3.8	3.4	3.1	2.7
	FCF Yield (%)	(25.8)	(14.7)	(15.0)	(5.6)	5.2
	EV/EBITDA (x)	20.16	21.60	15.03	10.79	6.67
	EV/EBIT (x)	40.13	54.27	26.76	16.37	8.56
<b>Key drivers</b>	<b>Income statement (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Better outlook for commodity prices;	Total turnover	870	1,707	2,370	2,854	4,076
ii. Stable increase in production;	Gross profit	165	146	277	457	823
iii. More downstream business in nickel segment.	EBITDA	222	243	416	606	985
	Depreciation and amortisation	(111)	(146)	(182)	(207)	(217)
	Operating profit	112	97	234	399	768
	Net interest	(43)	(79)	(109)	(128)	(144)
	Pre-tax profit	90	12	112	258	611
	Taxation	(25)	(7)	(34)	(90)	(214)
	Reported net profit	58	(21)	56	96	183
	Recurring net profit	58	(21)	56	96	183
<b>Key risks</b>	<b>Cash flow (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Softer global demand for commodities;	Change in working capital	(98)	(10)	(34)	(10)	(67)
ii. Global macro uncertainties and political instability;	Cash flow from operations	86	126	240	378	560
iii. Disruptions in operating activities impacting output levels	Capex	(968)	(643)	(775)	(575)	(375)
	Cash flow from investing activities	(990)	(665)	(796)	(596)	(396)
	Cash flow from financing activities	1,169	(2)	14	14	14
	Cash at beginning of period	185	444	519	489	585
	Net change in cash	265	(541)	(542)	(205)	178
	Ending balance cash	444	502	489	585	871
<b>Company Profile</b>	<b>Balance sheet (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Merdeka Copper Gold is a holding company with operating subsidiaries engaging in mining business activities, encompassing the exploration and future production of gold, silver, copper and other related minerals, and mining services.	Total cash and equivalents	444	519	489	585	871
	Tangible fixed assets	1,206	1,767	2,324	2,698	2,861
	Total investments	688	825	825	825	825
	Total assets	3,846	4,940	5,622	6,159	6,846
	Short-term debt	123	110	703	953	1,203
	Total long-term debt	1,078	1,130	1,473	1,598	1,673
	Total liabilities	1,608	1,849	2,821	3,262	3,767
	Total equity	2,238	3,091	2,801	2,896	3,080
	Total liabilities & equity	3,846	4,940	5,622	6,159	6,846
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	128.3	96.2	38.8	20.5	42.8
	Recurrent EPS growth (%)	54.1	(134.2)	0.0	71.2	91.7
	Gross margin (%)	18.9	8.5	11.7	16.0	20.2
	Operating EBITDA margin (%)	25.5	14.2	17.6	21.2	24.2
	Net profit margin (%)	6.7	(1.2)	2.4	3.4	4.5
	Capex/sales (%)	111.3	37.7	32.7	20.1	9.2
	Interest cover (x)	2.57	1.23	2.15	3.13	5.34

Source: Company data, RHB

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Figure 1: FY23 results review

(USDm)	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	YoY	% of RHB	% of Cons
Revenue	244	650	537	-17%	120%	870	1,707	96%	118%	105%
Gross profit	21	72	27	-63%	32%	165	146	-12%	105%	100%
EBIT	3	62	16	-74%	404%	112	97	-13%	97%	94%
Net profit	-11	25	3	-88%	-129%	58	-21	N.M	77%	74%
<b>Margins (%)</b>										
Gross	8%	11%	5%			19%	9%			
EBIT	1%	10%	3%			13%	6%			
NPM	-4%	4%	1%			7%	-1%			
<b>Operational details</b>										
Gold production (oz)	17,964	44,882	29,507	-34%	64%	125,133	138,666	11%		
Gold sales volume (oz)	20,961	49,162	31,165	-37%	49%	134,411	129,867	-3%		
Gold ASP (USD/oz)	1,711	1,946	1,931	-1%	13%	1,803	1,939	8%		
Gold AISC (USD/oz)	1,200	1,147	1,487	30%	24%	1,131	1,212	7%		
Copper production (tonnes)	3,759	2,128	3,397	60%	-10%	19,551	12,706	-35%		
Copper sales volume (tonnes)	5,085	3,136	2,206	-30%	-57%	20,337	13,218	-35%		
Copper ASP (USD/tonne)	7,326	8,444	8,578	2%	17%	8,822	8,578	-3%		
Copper AISC (USD/tonne)	7,143	16,050	11,861	-26%	66%	7,430	11,861	60%		
NPI production (tonnes)	-	21,738	22,141	2%	N/A	38,786	65,117	68%		
NPI sales volume (tonnes)	-	22,831	22,472	-2%	N/A	-	64,526	N/A		
NPI ASP (USD/tonne)	-	13,193	13,573	3%	N/A	-	13,537	N/A		
NPI AISC (USD/tonne)	-	11,616	10,909	-6%	N/A	13,799	12,262	-11%		
Nickel matte production (tonnes)	-	13,210	12,685	-4%	N/A	-	30,333	N/A		
Nickel matte sales volume (tonnes)	-	13,394	11,699	-13%	N/A	-	28,129	N/A		
Nickel matte ASP (USD/tonne)	-	16,364	15,592	-5%	N/A	-	15,592	N/A		
Nickel matte AISC (USD/tonne)	-	15,154	14,199	-6%	N/A	-	14,809	N/A		

Source: Company data, RHB

Figure 2: Changes to our estimates

	New			Old			Changes		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Revenue	2,370	2,854	4,076	2,268	2,772	4,055	4%	3%	1%
Gross profit	277	457	823	305	432	1,027	-9%	6%	-20%
Operating profit	234	399	768	281	393	994	-17%	2%	-23%
EBITDA	416	606	985	454	624	1,242	-8%	-3%	-21%
Net profit	56	96	183	68	109	234	-18%	-12%	-22%
<b>Margins</b>									
Gross margin	12%	16%	20%	14%	16%	25%			
Operating margin	10%	14%	19%	12%	14%	25%			
EBITDA	18%	21%	24%	21%	23%	31%			
Net margin	2%	3%	4%	4%	4%	6%			
Gold ASP (USD/oz)	2,230	2,252	2,275	2,025	2,045	2,055	10.1%	10.1%	10.7%
Copper ASP (USD/tonne)	8,835	8,835	8,924	8,048	8,450	8,475	9.8%	4.6%	5.3%
NPI ASP (USD/tonne)	12,580	13,209	13,473	15,351	15,812	15,950	-18.1%	-16.5%	-15.5%
Nickel matte ASP (USD/tonne)	14,060	14,763	15,058	17,105	17,619	18,147	-17.8%	-16.2%	-17.0%
Gold production (oz)	122,638	128,288	218,861	122,638	128,288	218,861	0.0%	0.0%	0.0%
Copper production (tonne)	15,309	16,075	16,878	15,309	16,075	16,878	0.0%	0.0%	0.0%
NPI production (tonne)	90,000	92,000	92,000	88,000	88,000	88,000	2.3%	4.5%	4.5%
Nickel Matte production (tonne)	50,000	50,000	55,000	48,000	50,000	50,000	4.2%	0.0%	10.0%

Source: Company data, RHB

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Figure 3: TP calculation

DCF calculation (in USDm)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBIT	234	399	768	1,025	1,081	1,222	1,284	1,319	1,408	1,454	1,482
EBIT (1-t)	107	183	353	471	496	561	590	606	646	668	680
Depreciation & amortisation	182	207	217	218	215	213	210	208	206	204	203
Changes in working capital	-34	-10	-67	49	38	19	40	45	40	46	47
Capex	-775	-575	-375	-225	-175	-175	-175	-175	-175	-175	-175
<b>Free cash flow</b>	<b>-519</b>	<b>-195</b>	<b>128</b>	<b>513</b>	<b>574</b>	<b>618</b>	<b>665</b>	<b>684</b>	<b>718</b>	<b>743</b>	<b>755</b>
Discounted FCF	-519	-179	108	396	407	401	396	374	360	342	319
<b>Terminal Value</b>											<b>5,882</b>
Terminal growth	3%										
WACC	9%										
Total discounted firm value	8,286										
24F Net debt	1,687										
24F Minority Interest	1,837										
Equity value (USDm)	4,762										
Equity value (IDRbn)	74,806										
Issued shares (bn)	24.5										
<b>Equity value per share</b>	<b>3,100</b>										
<b>Peer multiple</b>											
Enterprise value (USDm) - current	5,218										
24F EBITDA (USDm)	416										
EV/EBITDA (rolling-forward)	13										
<b>Fair value (IDR/share)</b>	<b>3,400</b>										
<b>Average fair value (DCF &amp; EV/EBITDA)</b>											
<b>Average fair value (DCF &amp; EV/EBITDA)</b>	<b>3,250</b>										
Discount ESG	-6%										
<b>TP (final)**</b>	<b>3,100</b>										

Note: \*Consensus estimate 12-month TP at IDR3,300

Note 2: \*\*Figure was rounded up due to currency translation

Source: Company data, RHB

Figure 4: WACC breakdown

Percentage of equity	49%
Percentage of debt	51%
Tax rate (t)	30%
Weighted average cost of capital (WACC)	9%
Cost of equity (CAPM)	9%
Risk free rate (Rf)	7%
Beta (b)	1.0
Market return (Rm)	10%
Risk premium	4%
Cost of debt (Kd)	9%
Terminal growth	3%

Source: Company data, RHB

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Figure 5: Peer comparison – base metal-related players

Company	Price (IDR)	Market cap (IDRbn)	P/E (x)		EPS growth (%)		EV/EBITDA (x)		Div yield (%)		ROE (%)	
			FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Merdeka Copper	2,280	54,973	65.2	38.4	N/A	69.5	12.8	8.9	0.0	0.0	5.1	9.8
Aneka Tambang (ANTM IJ, BUY, TP: IDR1,900)	1,600	38,449	11.1	11.8	12.9	(5.8)	5.0	5.5	3.6	3.9	10.9	11.5
Vale Indonesia (INCO IJ, BUY, TP: IDR6,000)	4,070	40,441	17.6	17.8	(45.9)	(1.5)	6.0	6.0	2.0	2.1	9.3	8.7
Simple average			14.3	14.8	(16.5)	(3.7)	5.5	5.8	2.8	3.0	10.1	10.1
Weighted average			14.4	14.9	(17.2)	(3.6)	5.5	5.8	2.8	3.0	10.1	10.1

Note: \*Excluding outliers

Source: Bloomberg, RHB

Figure 6: MDKA's notable subsidiaries

Subs.	Subsidiary name	Ownership		Notable business	Annual capacity
		Direct	Indirect (through)		
PBJ	Pani Bersama Jaya	70%		Gold (Pani Project)	up to c.500k oz (COD FY26)
BSI	Bumi Suksesindo	100%		Gold (Tujuh Bukit)	c.125k oz gold
DSI	Damai Suksesindo		99% (Bumi Suksesindo)	Copper (Tujuh Bukit)	up to c.2m tonnes of ore crushed (COD FY26-27)
BTR	Batutua Tembaga Raya	100%			
BKP	Batutua Kharisma Permai		100% (Batutua Tembaga Raya)	Copper (Wetar)	c.20,000 tonnes
SCM	Sulawesi Cahaya Mineral		51% (MBMA)	Nickel ore	up to c.10m tonnes (1st haulage trial at end-FY23)
BSID	Bukit Smelter Indonesia		50% (MBMA)	Nickel smelter (RKEF)	c.19,000 tonnes NPI
CSID	Cahaya Smelter Indonesia		50% (MBMA)	Nickel smelter (RKEF)	c.19,000 tonnes NPI
ZHN	Zhao Hui Nickel		50% (MBMA)	Nickel smelter (RKEF)	c.50,000 tonnes NPI
-	To be formed with Contemporary Amperex Technology)		MBMA has c.66%	Nickel smelter (HPAL)	c.60,000 tonnes MHP (COD FY25)
-	To be formed with Green Eco Manufacture		MBMA has c.55%	Nickel smelter (HPAL)	c.30,000 tonnes MHP (COD FY25)
HNMI	Huaneng Metal Industry		60% (MBMA)	Nickel smelter (furnace)	c.50,000 tonnes matte
MTI	Merdeka Tsingshan Indonesia		80% (MBMA)	Acid and steam	To treat 1.1m tonnes pyrite (first sales by end-FY23)
IKIP	Indonesia Konawe Industrial Park		MBMA has c.32%	Industrial estate	c.3,800 ha of non-forest area (in development)

Note: RKEF (Rotary Kiln-Electric Furnace); output on NPI. HPAL (High Pressure Acid Leach); output on MHP (mixed hydroxide precipitate) and NiSO<sub>4</sub> (nickel sulphate). All ore feedstock needed (sapolite for RKEF (1.3-1.6% Ni content), limonite (1.0-1.2% Ni content) for HPAL) will be from MDKA's concession area in SCM

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

New smelter and nickel ore business have displayed an increase to overall emissions produced from company's activity. However, MDKA was included under MSCI ESG with upgraded rating to BBB, which is the highest rating given to only a small number of Indonesian metals and mining companies to date.

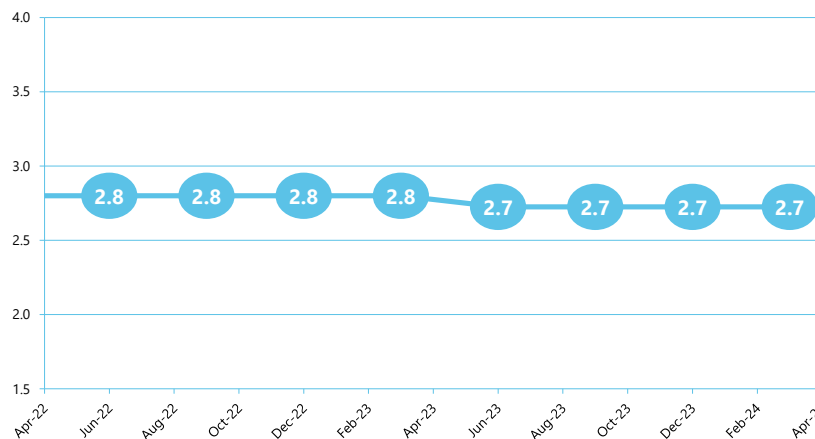
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	108,349	219,688	na
Scope 2	30,069	551,212	na
Scope 3	na	na	na
Total emissions	138,418	770,900	na

Source: Company data, RHB

## Latest ESG-Related Developments

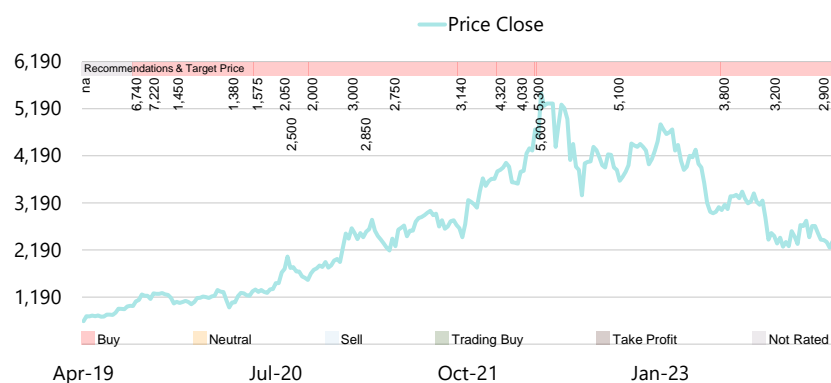
- MDKA has completed its greenhouse gas reduction roadmap and disseminated this roadmap to all sites.
- It has purchased Renewable Energy Certificates from Perusahaan Listrik Negara to fulfil 100% of Bumi Suksesindo's (one of MDKA's active NPI smelters) electricity needs. It also utilised 600 solar modules for Batutua Kharisma Permai-Batutua Tembaga Raya.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-25	Buy	3,600	2,340
2024-02-05	Buy	2,900	2,480
2023-10-12	Buy	3,200	2,550
2023-06-13	Buy	3,800	3,070
2022-11-30	Buy	5,100	4,150
2022-10-03	Buy	5,100	3,890
2022-03-31	Buy	5,600	4,530
2022-03-25	Buy	5,300	4,750
2022-02-24	Buy	4,030	3,840
2022-02-14	Buy	4,030	3,650
2021-12-23	Buy	4,320	3,890
2021-09-21	Buy	3,140	2,630
2021-04-15	Buy	2,750	2,190
2021-02-05	Buy	2,850	2,460
2021-01-04	Buy	3,000	2,590

Source: RHB, Bloomberg



## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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