

5 February 2024

Basic Materials | Mining

Merdeka Copper Gold (MDKA IJ)

Buy (Maintained)

An Uphill Struggle; Still BUY

Target Price (Return): IDR2,900 (15.1%)
Price (Market Cap): IDR2,520 (USD3,854m)
ESG score: 2.7 (out of 4)
Avg Daily Turnover (IDR/USD) 132,197m/8.49m

- **Maintain BUY, new IDR2,900 TP (DCF) from IDR3,200, 15% upside** – WACC is still at c.8% with 1% TG (FY24F EV/EBITDA target: 9x). We cut Merdeka Copper Gold's FY23-24F earnings estimates by 58% and 47% due to challenges related to its copper production as well as its efforts to boost margins in the nickel segment. Risks from fluctuating selling prices remain the biggest factor to determine its profitability – we believe MDKA will be in a better position from 2H24.
- **We remain optimistic of a positive change in commodity prices in 2H24**, as expectations for better demand – partly supported by improvements in the global economy – could result in better sentiment for overall commodity prices. China, as the largest hub for almost all of the world's base metals – is poised to see further recovery (the International Monetary Fund (IMF) has a higher FY24F GDP target of 4.6% from 4.2% previously) from a number of initiatives that have been rolled out, despite mounting challenges to revive its manufacturing activities, owing to a deflationary situation.
- **MDKA is still trying to recover its copper production**, which was halted by technical issues (limited explosives quota). The segment's FY23F performance is likely to fall below the initial guidance (~45% YoY from FY21-22's high-base of 19k tonnes of cathode copper). Management is still optimistic on the long-term outlook for copper, given the minimal exploration in the past and the long period required to develop it to commercial levels. As for gold, geopolitical tensions have brought the safe haven asset's price back to high levels (c.USD2,000/oz). MDKA also assured that its realised output will reach the upper level of its guidance (FY23F: c.140,000 oz; +10% YoY). However, no target has been disclosed for this year. Conservative margins as well as pressures from nickel price volatility have made the segment a major risk for the company. However, there are several upsides that can support sentiment in the future: i) Full recognition of topline contribution from three smelters that were activated in 3Q23, ii) SCM (MDKA's nickel ore concession) has started supplying ore feedstock to MDKA's smelter line, which means better prices than buying from external sources, leading to better margins. Other upside factors will be from easing interest rates and a better outlook for overall base metal demand – both will play out in 2H24, in our view.
- **Key risks:** Execution risks for high leveraged projects (delayed timeline, uncertainties ahead of the presidential elections in Indonesia), fluctuations in commodity prices, sensitivity to changes in interest rates (USD).
- **ESG.** Our TP includes an ESG discount of 6% based on MDKA's ESG score of 2.7 (below the country median).

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.7)	(6.7)	9.6	(27.4)	(47.3)
Relative	(5.7)	(5.7)	1.2	(32.0)	(52.2)
52-wk Price low/high (IDR)				2,100	–4,770

Merdeka Copper Gold Tbk (MDKA IJ)



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (USDm)	381	870	1,710	2,575	2,659
Recurring net profit (USDm)	36	58	22	82	112
Recurring net profit growth (%)	(0.2)	61.7	(63.0)	276.8	37.2
Recurring P/E (x)	99.08	64.32	178.16	47.28	34.47
P/B (x)	4.8	3.8	3.7	3.5	3.1
P/CF (x)	24.89	43.80	na	na	10.53
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	17.42	21.70	15.01	12.45	11.29
Return on average equity (%)	5.6	6.6	2.1	7.6	9.6
Net debt to equity (%)	6.3	33.8	104.6	107.6	90.7

Source: Company data, RHB

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.

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Financial Exhibits

Asia Indonesia Basic Materials Merdeka Copper Gold MDKA IJ Buy	Financial summary (USD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring EPS	0.00	0.00	0.00	0.00	0.00
	BVPS	0.03	0.04	0.04	0.05	0.05
	Return on average equity (%)	5.6	6.6	2.1	7.6	9.6
Valuation basis Combination of DCF (WACC: c.8% and TG at 1%) and multiple (FY24F EV/EBITDA 9x); focusing on existing nickel (under Merdeka Battery Materials; MBMA IJ, NR; c.50% ownership), copper, and gold output.	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	99.08	64.32	178.16	47.28	34.47
	P/B (x)	4.8	3.8	3.7	3.5	3.1
	FCF Yield (%)	1.6	(23.5)	(27.0)	(2.4)	8.1
Key drivers i. Better outlook for commodity prices; ii. Stable increase in production; iii. More downstream business in nickel segment.	EV/EBITDA (x)	17.42	21.70	15.01	12.45	11.29
	EV/EBIT (x)	37.82	43.20	38.52	22.95	18.73
	Income statement (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	381	870	1,710	2,575	2,659
Key risks i. Softer global demand for commodities; ii. Global macro uncertainties and political instability; iii. Disruptions in operating activities impacting output levels	Gross profit	120	165	196	326	379
	EBITDA	197	222	422	521	551
	Depreciation and amortisation	(106)	(111)	(257)	(238)	(219)
	Operating profit	91	112	164	282	332
Company Profile 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.	Net interest	(13)	(43)	(75)	(99)	(107)
	Pre-tax profit	57	90	69	156	202
	Taxation	(23)	(25)	(19)	(43)	(56)
	Reported net profit	36	58	22	82	112
	Recurring net profit	36	58	22	82	112
	Cash flow (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(13)	(98)	(605)	(399)	(22)
	Cash flow from operations	144	86	(279)	(20)	366
	Capex	(85)	(968)	(762)	(73)	(53)
	Cash flow from investing activities	(106)	(990)	(783)	(94)	(74)
	Cash flow from financing activities	217	1,169	14	14	14
	Cash at beginning of period	51	185	444	475	1,126
	Net change in cash	255	265	(1,048)	(101)	306
	Ending balance cash	185	444	475	1,126	2,229
	Balance sheet (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	185	444	475	1,126	2,229
	Tangible fixed assets	298	1,206	1,732	1,597	1,459
	Total investments	222	688	688	688	688
	Total assets	1,230	3,846	4,994	5,939	6,901
	Short-term debt	86	123	595	745	890
	Total long-term debt	148	1,078	2,021	2,671	3,371
	Total liabilities	450	1,608	2,947	3,811	4,661
	Total equity	780	2,238	2,047	2,129	2,240
	Total liabilities & equity	1,230	3,846	4,994	5,939	6,901
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	18.4	128.3	96.6	50.6	3.2
	Recurrent EPS growth (%)	(2.4)	54.1	(63.9)	276.8	37.2
	Gross margin (%)	31.5	18.9	11.4	12.6	14.3
	Operating EBITDA margin (%)	51.8	25.5	24.6	20.2	20.7
	Net profit margin (%)	9.5	6.7	1.3	3.2	4.2
	Capex/sales (%)	22.3	111.3	44.6	2.8	2.0
	Interest cover (x)	6.99	2.57	2.18	2.86	3.12

Source: Company data, RHB

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Figure 1: Changes to our estimates

	New			Old			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Revenue	1,710	2,575	2,659	1,779	2,746	2,839	-4%	-6%	-6%
Gross profit	196	326	379	237	425	447	-17%	-23%	-15%
Operating profit	164	282	332	205	382	400	-20%	-26%	-17%
EBITDA	422	521	551	456	623	628	-8%	-17%	-12%
Net profit	22	82	112	51	153	161	-58%	-47%	-30%
Margins									
Gross margin	11%	13%	14%	13%	15%	16%			
Operating margin	10%	11%	12%	12%	14%	14%			
EBITDA	25%	20%	21%	26%	23%	22%			
Net margin	1%	3%	4%	3%	6%	6%			
Gold ASP (USD/oz)	2,005	2,025	2,045	1,950	1,989	2,029	2.8%	1.8%	0.8%
Silver ASP (USD/oz)	26	27	27	28	28	29	-4.5%	-4.5%	-4.5%
Copper ASP (USD/t)	7,665	8,048	8,450	8,116	8,521	8,777	-5.6%	-5.6%	-3.7%
Nickel ASP (USD/t) - NPI	15,050	15,351	15,812	15,480	16,254	16,742	-2.8%	-5.6%	-5.6%
Gold production (oz)	127,061	134,902	136,693	127,061	134,902	136,693	0.0%	0.0%	0.0%
Gold sales volume (oz)	128,332	136,251	138,060	128,332	136,251	138,060	0.0%	0.0%	0.0%
Silver sales volume(oz)	783,518	823,630	826,304	783,518	823,630	826,304	0.0%	0.0%	0.0%
Copper production (t)	10,598	14,175	14,884	16,251	21,735	22,822	-34.8%	-34.8%	-34.8%
Copper sales volume (t)	10,704	14,317	15,033	16,413	21,952	23,050	-34.8%	-34.8%	-34.8%
Nickel (NPI) production (t)	57,000	88,000	88,000	57,000	88,000	88,000	0.0%	0.0%	0.0%
Nickel (NPI) sales volume (t)	55,860	86,240	86,240	55,860	86,240	86,240	0.0%	0.0%	0.0%

Source: Company data, RHB

Figure 2: TP calculation

DCF calculation (in USDm)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBIT	282	332	638	578	539	611	683	755	828	901	976
EBIT (1-t)	204	239	460	417	389	441	492	544	597	650	703
Depreciation & amortisation	238	219	201	185	170	157	145	135	125	117	110
Changes in working capital	(399)	(22)	(590)	(86)	(79)	(37)	(39)	(41)	(43)	(44)	(46)
Capex	(73)	(53)	(48)	(43)	(42)	(43)	(43)	(43)	(43)	(43)	(43)
Free cash flow	(30)	383	23	473	438	518	556	596	637	680	724
Discounted FCF	(30)	355	20	374	321	351	348	345	341	337	332
Terminal Value											4,710
Terminal growth	1%										
WACC	8.1%										
Total discounted firm value	7,803										
24F Net debt	2,291										
24F Minority Interest	1,022										
Equity value (in USDm)	4,491										
Equity value (in IDRbn)	70,552										
Issued shares (bn)	24.1										
Equity value per share	3,000										
Peer multiple											
Enterprise value (USDm) - current	4,014										
24F EBITDA (USDm)	521										
Target EV/EBITDA (peers)	9.0										
TP at target EV/EBITDA (IDR)	3,000										
Average fair value (DCF & EV/EBITDA)	3,000										
Discount ESG	-6%										
TP (final)**	2,900										

Note: *consensus estimate 12-month TP at IDR3,300, **figure was rounded up

Source: Company data, RHB

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Figure 3: Peer comparison – base metal-related players

Company	Price (IDR)	Market cap (IDRbn)	P/E (x)		EPS growth (%)		EV/EBITDA (x)		Div yield (%)		ROE (%)	
			FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Merdeka Copper	2,520	60,759	181.2	48.1	(63.0)	276.8	11.6	8.9	0.0	0.0	2.5	9.4
Aneka Tambang	1,535	36,887	8.1	9.0	19.3	(10.3)	4.6	4.4	5.3	4.3	14.3	14.2
Vale Indonesia	3,930	39,050	8.9	11.9	41.5	(25.0)	3.5	4.4	1.4	2.1	10.7	9.3
Trimegah Bangun Persada	900	56,789	9.8	7.9	24.3	24.0	8.7	7.2	2.5	3.1	30.2	28.3
Simple avg.			8.9	9.6	28.3	(3.8)	5.6	5.3	3.0	3.1	18.4	17.3
Weighted avg.			9.1	9.4	27.9	0.1	6.0	5.6	2.9	3.1	20.0	18.8

Note: * Projection figures were taken from consensus; excluding outliers

Source: Bloomberg, RHB

Figure 4: MDKA's notable subsidiaries

No	Subs.	Subsidiary name	Ownership		Notable business	Annual capacity
			Direct	Indirect (through)		
1	PBJ	Pani Bersama Jaya	70%		Gold (Pani Project)	up to c.450koz (COD FY25)
2	BSI	Bumi Suksesindo	100%		Gold (Tujuh Bukit)	c.125koz
3	DSI	Damai Suksesindo		99% (Bumi Suksesindo)	Copper (Tujuh Bukit)	up to c.2m tonnes of ore crushed (COD FY26-27)
4	BTR	Batutua Tembaga Raya	100%		Copper (Wetar)	c.20,000 tonnes
	BKP	Batutua Kharisma Permai		100% (Batutua Tembaga Raya)		
5	SCM	Sulawesi Cahaya Mineral		51% (MBMA IJ)	Nickel ore	up to c.6m tonnes (1st haulage trial in end-FY23)
6	BSID	Bukit Smelter Indonesia		50% (MBMA IJ)	Nickel smelter (RKEF)	c.19,000 tonnes NPI
7	CSID	Cahaya Smelter Indonesia		50% (MBMA IJ)	Nickel smelter (RKEF)	c.19,000 tonnes NPI
8	ZHN	Zhao Hui Nickel		50% (MBMA IJ)	Nickel smelter (RKEF)	c.50,000 tonnes NPI
9	-	to be formed with CATL		MBMA IJ has c.66%	Nickel smelter (HPAL)	c.60,000 tonnes MHP (COD FY26-27)
10	-	to be formed with GEM		MBMA IJ has c.55%	Nickel smelter (HPAL)	c.30,000 tonnes MHP (COD FY26-27)
11	HNMI	Huaneng Metal Industry		60% (MBMA IJ)	Nickel smelter (furnace)	c.50,000 tonnes matte
12	MTI	Merdeka Tsingshan Indonesia		80% (MBMA IJ)	Acid and steam	To treat 1.1m tonnes pyrite (first sales by end-FY23)
13	IKIP	Indonesia Konawe Industrial Park		MBMA IJ 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 NiSO₄ (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. CATL: Contemporary Amperex Technology, GEM: Green Eco Manufacture.

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.

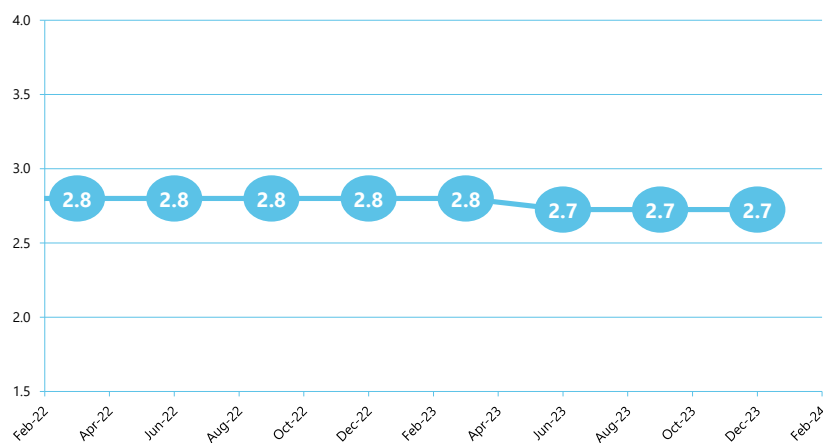
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	72,339	108,349	219,688
Scope 2	25,248	30,069	551,212
Scope 3	na	na	na
Total emissions	97,587	138,418	770,900

Source: Company data, RHB

Latest ESG-Related Developments

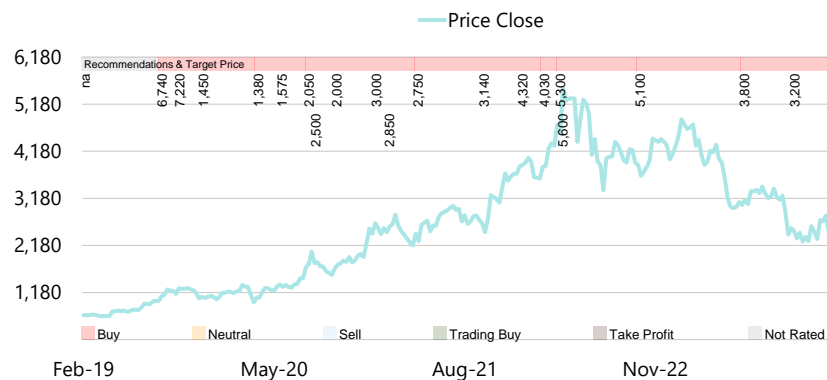
- Completed GHG reduction roadmap, disseminated the GHG reduction roadmap to all sites, purchased Renewable Energy Certificates (RECs) from PLN to fulfill 100% of BSI's (one of MDKA's active NPI smelter) electricity needs, and utilized 600 solar modules in BKP-BTR.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-09-30	Buy	2,000	1,615
2020-08-23	Buy	2,500	1,825

Source: RHB, Bloomberg

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