

17 October 2024

Basic Materials | Mining

Aneka Tambang (ANTM IJ)

Buy (Maintained)

Optimism Amidst Uncertainties; Keep BUY

Target Price (Return): IDR1,800 (+15%)
Price (Market Cap): IDR1,570 (USD2,420m)
ESG score: 2.8 (out of 4)
Avg Daily Turnover (IDR/USD) 142,782m/9.20m

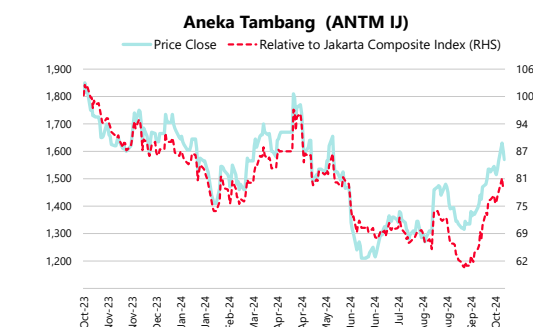
Analyst

Indonesia Research
+6221 5093 9888
rhb.id.research@rhbgroup.com

- **Keep BUY, new IDR1,800 DCF TP (from IDR1,500), 15% upside, c.4% yield.** We raise Aneka Tambang's FY24F-25F net earnings by 19% and 10% on: i) Higher gold sales volumes and expectations of better refinery margins, ii) higher annual nickel ore production, and iii) additional income from JVs. The anticipated increase in gold prices provides positive prospects for most gold-related players. Moving forward, the market will assess how much efficiency can contribute to margin stability. Our TP includes a 4% ESG discount.
- **Nickel ore sales.** ANTM's nickel ore sales are expected to increase, bolstered by favourable updates on the approval of its Work and Budget Plans (RKAB), which has faced delays. Demand for ore from Indonesian smelters also remains strong, with stringent quality specifications. Currently, access to ore is hindered by insufficient infrastructure, driving up premiums for mine owners. Given the continued high demand and easing of permit issues, we have a near-term production target of 13-15m tonnes for 2025-2026 (FY24F: c.8m tonnes; -25% YoY), suggesting a mine life of >30 years. Over the long term, management indicated its readiness to achieve an initial production target of up to c.20m tonnes (yet to be confirmed).
- **Optimistic on gold.** Despite high prices, public interest in gold remains robust. Management reported that 9M24 indicated sales volumes have exceeded its target (87% of FY24F). ANTM is currently awaiting a final agreement with Freeport Indonesia (PTFI) to purchase anode slime (a residue from gold or copper extraction) as a raw material substitute for its gold refining business – a positive synergy that may improve efficiency (3-5% cut in cost of goods sold), as most of the feedstock (precious metals) are imported and subject to fees and tariffs. Even with the likelihood of normalised gold demand in 2025 (<28m tonnes, in our view), ANTM's gold sales will stay healthy from strong branding and a slight premium associated with the London Bullion Market Association (LBMA) certification.
- **Iron-nickel (Fe-Ni): Cautious production approach.** While the outlook remains challenging for Fe-Ni as concerns on ballooning supply continue (and with muted sentiment from China's stimulus measures set to boost base metal demand), ANTM will remain conservative, keeping production slightly below its optimal levels (at 20-22k tonnes vs c.24k tonnes). Meanwhile, management has identified several efficiencies to be implemented later – utilising channel sources (which contain a lesser Ni grade) located closer to the facility to minimise transport costs, as well as an additional electrical grid (from its collaboration with Perusahaan Listrik Negara (PLN)) for cheaper electricity (vs diesel-powered sources currently). Note that 40% of its new electricity comes from renewable energy sources (from the Sulawesi region). Management expects Fe-Ni cash cost for the upcoming quarters to remain at c.USD11,000/tonne (cash margin above c.USD1,000/tonne).

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.9)	17.6	17.2	(13.3)	(13.0)
Relative	(12.8)	20.0	11.6	(19.8)	(23.6)
52-wk Price low/high (IDR)				1,210	–1,850



Source: Bloomberg

Overall ESG Score: 2.8 (out of 4)

E: GOOD

ANTM's gold mining business has achieved one Green Rating (beyond compliance) in the PROPER Awards conducted by the Ministry of Environment & Forestry in 2020. The company has also achieved six Blue Ratings.

S: GOOD

ANTM regularly disburses funds for community development and partnership programmes (IDR95bn during 2020). The company is also committed to providing sustainable benefits to support regional independence.

G: GOOD

The board of commissioners acknowledge ANTM's achievements as part of the 10 companies in Indonesia that were included in the ASEAN Asset Class PLCs category during 2019's ASEAN Corporate Governance Scorecard. This indicates its commitment towards improving corporate governance in future. However, based on the legal issues that ANTM currently faces, we think management needs to enhance its supervision of its business activities.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	45,930	41,048	53,179	50,674	51,592
Recurring net profit (IDRb)	3,354	2,811	2,488	2,559	2,519
Recurring net profit growth (%)	87.7	(16.2)	(11.5)	2.8	(1.5)
Recurring P/E (x)	11.25	13.42	15.16	14.74	14.98
P/B (x)	1.7	1.3	1.2	1.0	0.9
P/CF (x)	9.18	8.66	7.84	5.37	5.21
Dividend Yield (%)	2.5	5.1	4.4	4.4	4.5
EV/EBITDA (x)	7.06	7.20	6.33	5.61	5.10
Return on average equity (%)	18.1	11.8	8.6	7.8	7.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia Indonesia Basic Materials Aneka Tambang ANTM IJ Buy	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring EPS	139.56	116.99	103.54	106.48	104.83
	DPS	38.74	79.50	69.15	69.81	71.10
	BVPS	936.09	1,225.58	1,362.98	1,522.59	1,696.17
	Return on average equity (%)	18.1	11.8	8.6	7.8	7.1
Valuation basis Med-term DCF	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	11.25	13.42	15.16	14.74	14.98
	P/B (x)	1.7	1.3	1.2	1.0	0.9
	FCF Yield (%)	9.0	7.7	4.6	7.9	10.9
	Dividend Yield (%)	2.5	5.1	4.4	4.4	4.5
Key drivers i. Higher ASPs in ferronickel and nickel ore; ii. Higher sales volumes of gold and nickel; iii. Cost efficiencies in fuel and shipping.	EV/EBITDA (x)	7.06	7.20	6.33	5.61	5.10
	EV/EBIT (x)	8.51	11.07	10.34	9.14	8.14
Key risks i. Lower demand for nickel resulting in lower ASPs; ii. FX fluctuations and higher impairment cost; iii. Oil price hike resulting in higher cash costs	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	45,930	41,048	53,179	50,674	51,592
	Gross profit	8,211	6,315	6,569	6,949	7,174
	EBITDA	4,756	4,022	4,569	4,928	4,946
	Depreciation and amortisation	(814)	(1,406)	(1,770)	(1,905)	(1,844)
Company Profile Aneka Tambang is a state-owned company formed from the merger of several state-owned mining firms and projects. It is a vertically integrated, export-oriented, diversified mining and metals company but, due to a shift in the regulatory landscape, is now more focused on domestic sales in nickel ore and increasing domestic sales in gold for better margins. The company undertakes all activities from exploration, excavation, and processing right through to the marketing of nickel ore, ferronickel, gold, silver, bauxite, and coal, with locations all over Indonesia.	Operating profit	3,942	2,617	2,798	3,023	3,102
	Net interest	(296)	(43)	(35)	(35)	7
	Pre-tax profit	5,215	3,854	4,055	4,319	4,684
	Taxation	(1,394)	(777)	(989)	(967)	(1,218)
	Reported net profit	3,821	3,078	2,677	2,702	2,752
	Recurring net profit	3,354	2,811	2,488	2,559	2,519
	Cash flow (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	72	(1,732)	(170)	1,493	1,341
	Cash flow from operations	4,108	4,357	4,811	7,022	7,237
	Capex	(711)	(1,439)	(3,075)	(4,025)	(3,131)
	Cash flow from investing activities	(783)	2,865	(3,075)	(4,025)	(3,131)
	Cash flow from financing activities	(4,078)	(2,428)	(165)	(1,594)	(2,425)
	Cash at beginning of period	5,089	4,476	9,209	10,779	12,183
	Net change in cash	(753)	4,795	1,571	1,403	1,681
	Ending balance cash	4,476	9,209	10,779	12,183	13,864
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	4,476	9,209	10,779	12,183	13,864
	Tangible fixed assets	17,191	16,799	19,523	23,181	25,926
	Total investments	2,708	2,568	2,568	2,568	2,568
	Total assets	33,637	42,851	49,006	53,793	58,418
	Short-term debt	927	1,626	1,850	1,950	1,500
	Total long-term debt	2,082	881	2,171	2,171	1,921
	Total liabilities	9,925	11,686	14,539	15,490	15,944
	Total equity	23,712	31,166	34,468	38,303	42,474
	Total liabilities & equity	33,637	42,851	49,006	53,793	58,418
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	19.5	(10.6)	29.6	(4.7)	1.8
	Recurrent EPS growth (%)	87.7	(16.2)	(11.5)	2.8	(1.5)
	Gross margin (%)	17.9	15.4	12.4	13.7	13.9
	Operating EBITDA margin (%)	10.4	9.8	8.6	9.7	9.6
	Net profit margin (%)	8.3	7.5	5.0	5.3	5.3
	Dividend payout ratio (%)	24.4	62.1	62.1	62.1	62.1
	Capex/sales (%)	1.5	3.5	5.8	7.9	6.1
	Interest cover (x)	10.3	12.2	13.3	14.0	17.4

Source: Company data, RHB

Strengthening prospects amid challenges

In line with the movement of gold prices amidst geopolitical and economic uncertainties, all companies affiliated with the gold business have appreciated, including players in the upstream (gold mining) and downstream (retail and wholesale) sectors. ANTM has reached our previous TP of IDR1,500, which is a 17% increase since our last update in July (-8% YTD). The push was also supported by rate cuts and China's fiscal stimulus, which are expected to support commodity prices, although this may take time to materialise, as economic indicators from China remain under pressure and the stimulus funds have fallen short of market expectations. For ANTM, we reiterate our optimism on improved nickel ore mining activities next year, coupled with efficiencies in smelter operations and gold refining. We also observed improvements in governance that have led to a narrowing of our ESG discount (from 6% to 4%). We have included an additional JV profit from the recent acquisition of a 30% stake (USD102.5m value) in Jiu Long Metal Industry (JLMI), a subsidiary of Eternal Tsingshan Group, which could add c.5% to the company's consolidated net earnings. However, we see risks from non-operational factors that may arise from increased impairments related to asset value adjustments in the nickel business, as well as FX changes.

Figure 1: Changes to our estimates

	New			Old			Changes		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Revenue	53,179	50,674	51,592	49,597	50,027	51,174	7.2%	1.3%	0.8%
Gross profit	6,569	6,949	7,174	5,916	6,699	6,909	11.0%	3.7%	3.8%
Operating profit	2,798	3,023	3,102	2,434	2,871	2,932	15.0%	5.3%	5.8%
EBITDA	4,569	4,928	4,946	4,090	4,751	4,752	11.7%	3.7%	4.1%
Net profit	2,677	2,702	2,752	2,257	2,464	2,671	18.6%	9.7%	3.1%
Gross margin	12.4%	13.7%	13.9%	11.9%	13.4%	13.5%			
Operating margin	5.3%	6.0%	6.0%	4.9%	5.7%	5.7%			
EBITDA margin	8.6%	9.7%	9.6%	8.2%	9.5%	9.3%			
Net margin	5.0%	5.3%	5.3%	4.6%	4.9%	5.2%			

Source: Bloomberg, RHB

Figure 2: DCF valuation

DCF calculation (in USDm)	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	2,798	3,023	3,102	3,277	3,371	3,074
EBIT (1-t)	2,116	2,346	2,295	2,425	2,495	2,275
Depreciation & amortisation	1,770	1,905	1,844	1,796	1,750	1,705
Changes in working capital	(980)	561	270	244	246	193
Capex	(3,075)	(4,025)	(3,131)	(1,579)	(1,358)	(1,426)
Free cash flow	(169)	787	1,278	2,885	3,133	2,747
Discounted FCF	(169)	717	1,062	2,186	2,164	1,730
Terminal value						28,613
Terminal growth	3%					
WACC	10%					
Total discounted firm value	36,303					
24F Net debt	(6,759)					
24F Minority Interest	522					
Equity value	42,539					
Issued shares (bn)	24.0					
Discount ESG	-4%					
Final TP	1,800					

Note: Consensus estimate 12-month TP at IDR1,760

Source: Company data, RHB

- ◆ ANTM's future cash flow from its existing businesses remains robust, with the nickel ore segment as the backbone, supported by continued demand from domestic smelters. ANTM's gold trademark quality remains a benchmark for retail buyers in Indonesia.
- ◆ We have factored in the Sumberdaya Arindo (SDA) divestment, which was finalised at the end of last year.

Figure 3: WACC breakdown

Percentage of equity	73%
Percentage of debt	27%
Tax rate (t)	25%
Weighted average cost of capital (WACC)	10%
Cost of equity (CAPM)	11%
Risk free rate (Rf)	7%
Beta (b)	1.0
Market return (Rm)	12%
Risk premium	5%
Cost of debt (Kd)	7%
Terminal growth	3%

Source: Company data, RHB

Figure 4: List of ANTM's notable expansions

	Project	Total investment (USDbn)	ANTM's ownership	Partnership	COD
West Kalimantan	Smelter Grade Alumina (up to 1m tonnes pa capacity)	0.83	40%	Indonesia Asahan Aluminium (Inalum)	1H25
	RKEF: 13.5 tonne capacity (up to c.40.5k potential upgrade)	1.6	100%	-	TBA (initially at 4Q23)
East Halmahera	RKEF: 42.5k tonne capacity	1.8	40%	Ningbo Contemporary Brulp Lygend (CBL)	TBA
	HPAL: 60k tonne capacity	1.3	30%	CBL	TBA

♦ ANTM has a number of expansion plans in the pipeline, with these projects being somewhat hindered by infrastructure challenges and issues related to location. We have not included the potential from these projects into our valuations

Note: RKEF (Rotary Kiln-Electric Furnace); output on Fe-Ni. HPAL (High Pressure Acid Leach); output on MHP (mixed hydroxide precipitate)

Note 2: All ore feedstock needed (saprolite for RKEF (1.3-1.6% Ni content), limonite (1.0-1.2% Ni content) for HPAL) will come from ANTM's concession area

Source: Company data, RHB

Emissions And ESG

Trend analysis

ANTM's plans to maintain the output of its businesses (nickel ore mining, nickel smelter (for Fe-Ni production), and gold shipment) require a massive increment in the use of fuel. However, management has employed some efforts to reduce GHG emissions including the use of B30 (biosolar) fuel for its mining operation vehicles, utilisation of solar panels in mining areas, and dual engine application (to allow mixed methane and diesel fuel, rather than using marine fuel oil) to reduce GHG emissions in its Fe-Ni production process.

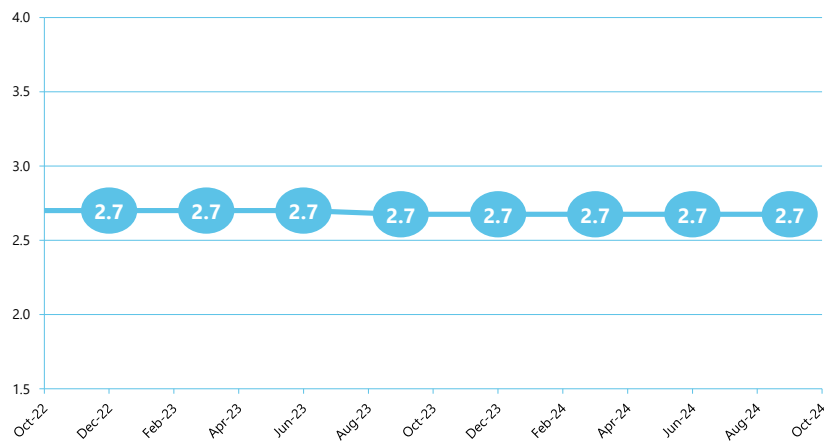
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,125,710	1,547,010	na
Scope 2	56,031	64,386	na
Scope 3	na	na	na
Total emissions	1,181,741	1,611,396	na

Source: Company data, RHB

Latest ESG-Related Developments

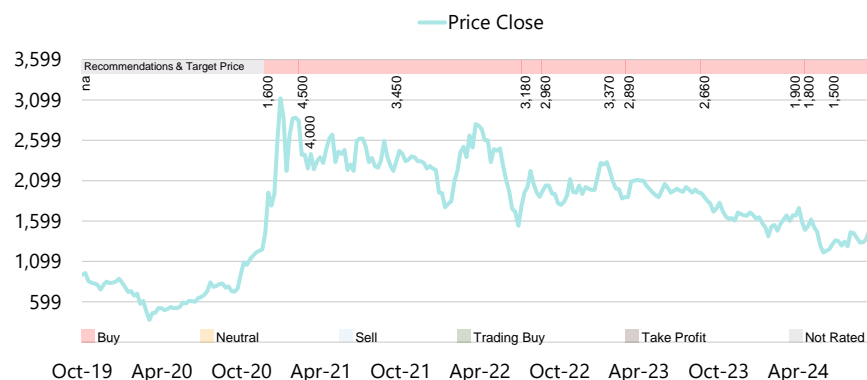
- In Apr 2022, ANTM with CBL and Indonesia Battery Corp (IBC), signed a Framework Agreement for an integrated EV battery project initiative. ANTM and IBC also signed a similar agreement with LG Energy Solution. The estimated total investment value with the two partners is USD15bn.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-22	Buy	1,500	1,340
2024-05-02	Buy	1,800	1,510
2024-04-01	Buy	1,900	1,580
2024-01-05	Buy	2,660	1,675
2023-11-06	Buy	2,660	1,700
2023-09-05	Buy	2,660	1,950
2023-04-12	Buy	2,890	2,110
2023-03-17	Buy	2,890	1,895
2023-01-30	Buy	3,370	2,290
2022-09-06	Buy	2,960	1,990
2022-07-22	Buy	3,180	1,780
2022-06-13	Buy	3,450	2,260
2022-03-17	Buy	3,450	2,350
2021-09-30	Buy	3,450	2,290
2021-03-15	Buy	4,000	2,340

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470