

# Merdeka Copper Gold (MDKA)

## Great switcheroo to bridge transition

### Nickel – ensuring a smooth transition in one fell swoop

MDKA's ~USD693mn acquisition of nickel-related assets segment presents a potential USD2.7bn value accretion to its existing fair value. Also, this would immediately contribute decent cash flow with an initial return of ~10% per annum for the first two years as both CSI and BSI smelters are already operational since 2020. This timely acquisition should help MDKA to bridge the transition smoothly from the winding down TB gold mine and Wetar copper mine to Pani gold mine project, AIM project, and the massive TB copper project (~60% of MDKA's value).

### Gold – remains a strategic hedging tool in this inflationary period

Gold demand from fabrication and central banks has picked up and remains on the high side in 1Q22. Gold remains proven as a long-term hedge against inflation. Based on the strong inverse correlation with US 10-year treasury real yield, its price trajectory, and demand & supply dynamics, we should see gold price stays around USD1,850/oz in the long run.

### Copper – no sign of melting for the long term

Extrapolating from 1Q22 global demand, we can expect FY22 global copper demand to remain anchored at ~24mn tonnes (similar level seen in FY18 & FY19) due to soft manufacturing activities in the short term. However, the stubbornly low copper inventory continues to keep the demand-supply situation to be tight and thus supporting copper prices at a high level. In addition, with some signs of already peaking world copper production as world copper reserves starting to deplete without any major discoveries in the past decade, we expect copper price to stay high at USD 9,000/t in the long run.

### Attractive entry point beckons – reiterate BUY

We revised our MDKA's fair value estimates to include latest details on nickel assets acquisition and arrived at USD10.2bn value (~IDR6,000/sh). Future upside include 1) strategic partnership with Brung CATL for investments in nickel, cobalt & copper; 2) IKIP development (with Tsingshan) & nickel chain supporting projects; 3) other opportunities arise from planned right issues. Recent sell-off provides an attractive entry point for investors without any significant changes in MDKA's fundamentals. Risks to our call include the possibility of TB Copper Project resources being deemed not mineable in the future and shocks in gold & copper price.

	2020A	2021A	2022F	2023F	2024F
Sales (USD mn)	322	381	868	1,359	1,209
GP (USD mn)	114	120	293	450	360
OP (USD mn)	94	91	206	336	258
NP (USD mn)	36	36	136	159	117
EBITDA (USD mn)	137	166	285	416	337
Net debt (USD mn)	180	148	482	291	170
OP margin (%)	29.2	23.8	23.7	24.8	21.4
ROE (%)	6.7	5.4	13.8	11.9	7.4
Dividend yield (%)	-	-	-	-	-
EPS (IDR)	23.6	22.5	83.4	99.0	72.8
chg. (% YoY)	(47.4)	(4.5)	270.1	18.7	(26.4)
BPS (IDR)	367.7	486.1	734.4	918.7	1,060.3
DPS (IDR)	-	-	-	-	-
PE (x)	186.3	195.2	52.7	44.4	60.4
PB (x)	12.0	9.1	6.0	4.8	4.1
EV/EBITDA (x)	50.4	41.6	24.6	16.1	19.5

## Company Update

### Metals & Mining

Jun 17, 2022

12M rating **BUY (Maintain)**  
12M TP **IDR 6,000** (Prev IDR 4,000)  
Upside **+36%**

#### Stock Data

JCI (Jun 16)	7,056
Stock price (Jun 16, IDR)	4,400
Market cap (IDR bn)	106,088
Shares outstanding (mn)	24,111
52-week high/low (IDRhds)	5,800 / 2,360
6M avg. daily turnover (IDR bn)	318.1
Free float (%)	52.6

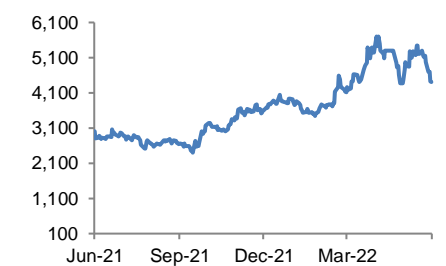
#### Major shareholders (%)

Saratoga Investama Sedaya Tbk	16.9
Mitra Daya Mustika	12.1
Garibaldi Thohir	8.1
Suwarna Arta Mandiri	5.6
Banyuwangi regional gov't	4.0

#### Performance

	1M	6M	12M
Absolute (%)	1.1	25.1	57.1
Relative to JCI (%p)	(6.0)	14.0	33.6

#### MDKA stock price



Source: Bloomberg

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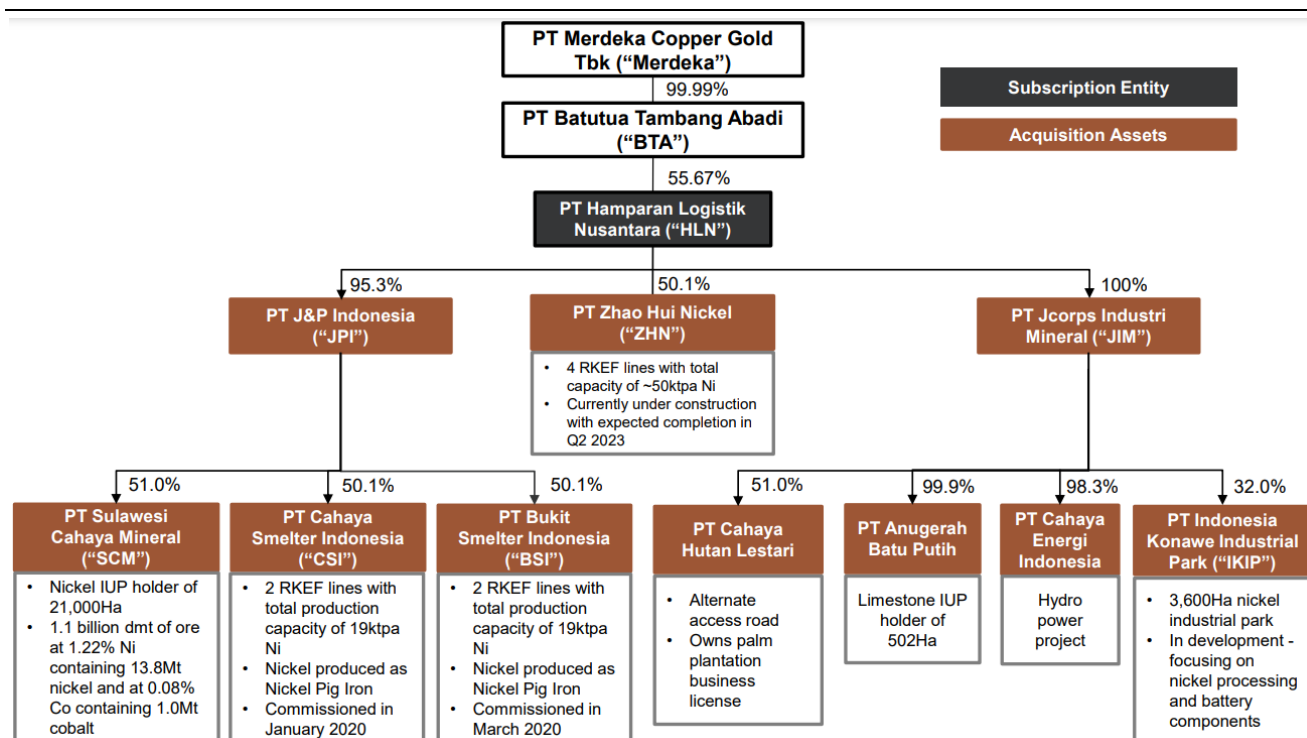
## I. Swift transition to nickel segment

MDKA has successfully completed the acquisition of 55.67% stakes of **Hamparan Logistik Nusantara (HLN)** on 17May2022 for USD374mn (including a USD24mn retention payment on 24Mar2023), which consists of:

1. 95.3% stakes in **J&P Indonesia (JPI)** with equity interests in:
  - **Sulawesi Cahaya Mineral (SCM)**, an undeveloped nickel mine with a total JORC resource of ~1.1bn dmt containing ~13.8mn tonnes nickel (@1.22% Ni) and ~1.0mn tonnes cobalt (@0.08% Co)
  - **4 operating RKEF lines under Cahaya Smelter Indonesia (CSI) and Bukit Smelter Indonesia (BSI)** with a combined nameplate capacity of 38k tonnes of nickel per annum
2. 100% of **Jcorps Industri Mineral (JIM)** with equity interests in
  - Cahaya Hutan Lestari, which owns alternate access road and plam plantation business license
  - Anugerah Batu Putih, limestone IUP holder of 502ha area
  - Cahaya Energi Indonesia, with hydropower project
  - Indonesia Konawe Industrial Park (IKIP), a JV with Tsingshan to develop a 3,600ha nickel industrial park (mirroring the successful Indonesia Morowali Industrial Park (IMIP))

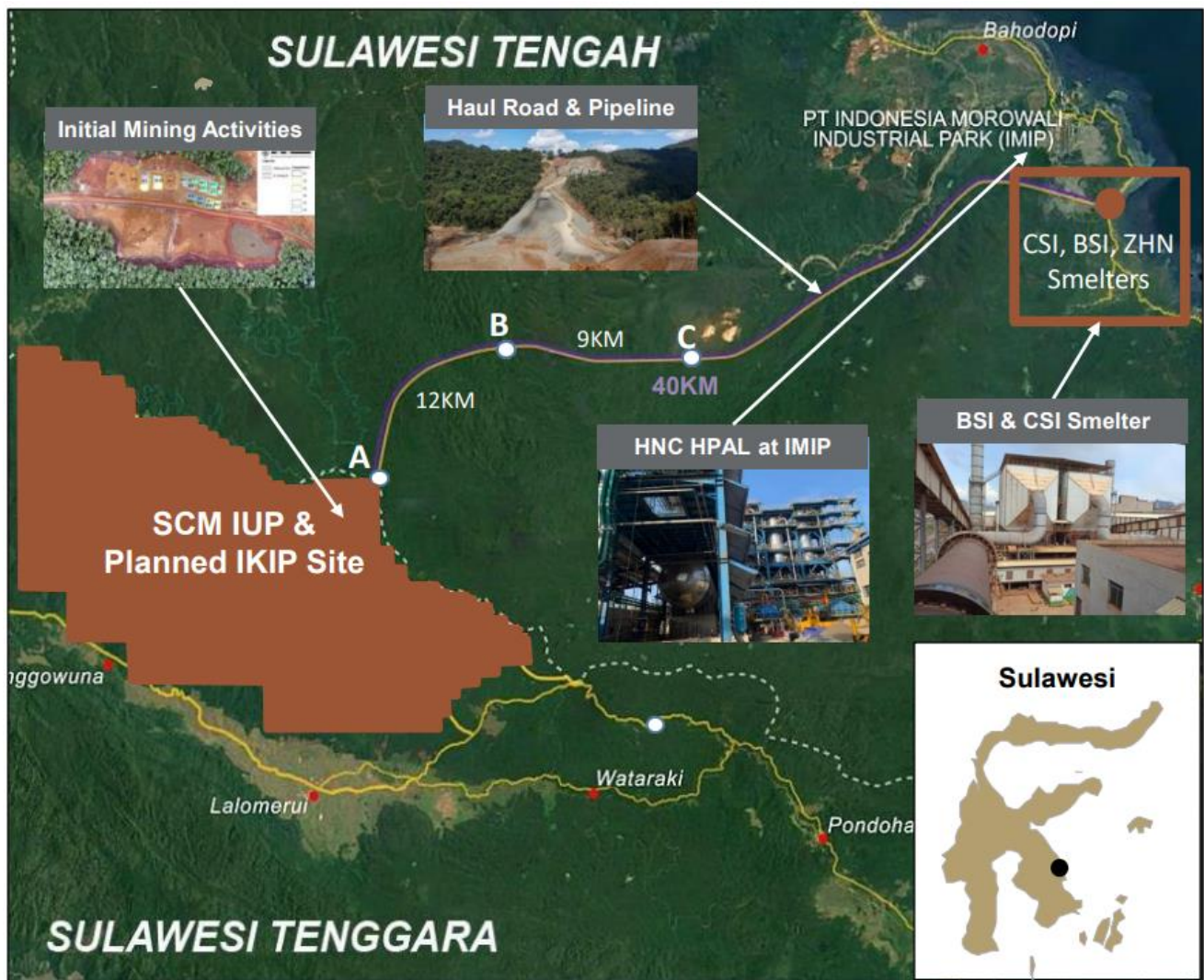
Subsequently, **MDKA completed another transaction worth USD319mn** to increase participating stakes in RKEF smelters (under JPI) and 50.1% stakes in PT Zhao Hui Nickel (ZHN), which currently constructing RKEF smelters with a nameplate capacity of 50k tonnes of nickel per annum. After these two transactions, the MDKA's ownership structure in nickel business is illustrated in Fig. 1 below.

Figure 1. MDKA's ownership structure in nickel business



Source: Company, KISI

Figure 2. MDKA's nickel assets location and summary



Source: Company, KISI

The nickel business segment acquisition at a total of USD693mn above presents a potential USD2.7bn value accretion (as shown in Table 1 on the next page) to our estimated MDKA's existing fair value (before nickel acquisition) of USD7.4bn. These acquisitions would immediately show decent cash flow with an initial return of ~10% per annum for the first two years as both CSI and BSI smelters are already operational since 2020. The annual ~USD68mn net profit from smelters (after stakes adjustment) contributed ~40% of MDKA's FY22-24F net profit. Our current financial model has not taken into account the potential additional net profit from both ZHN's RKEF smelter (which construction is expected to be completed in 2Q23) and SCM's nickel mine (which is currently under development).

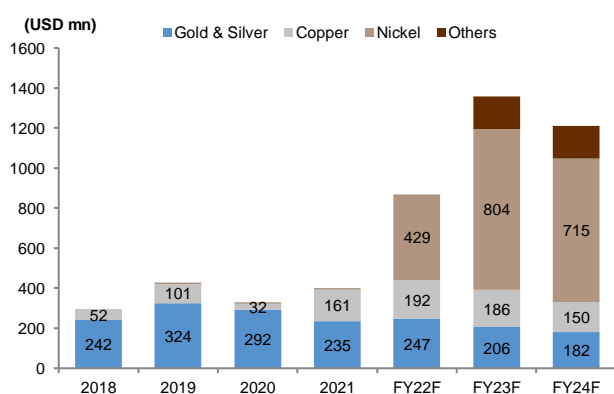
Table 1. Estimated potential value of HLN's stakes acquisition

	Units	Remarks
<b>Additional MDKA value for 55.67% ownership in HLN</b>	<b>US\$m</b>	<b>2,764.0</b>
<b>Acquisition cost for HLN 55.67% stakes</b>	<b>US\$m</b>	<b>693.0</b>
<b>HLN ownership in J&amp;P Indonesia (JPI)</b>	<b>US\$m</b>	<b>5,516.0</b> 95.3% stakes
<b>HLN ownership in Zhao Hui Nickel (ZHN)</b>	<b>US\$m</b>	<b>693.8</b>
<b>SCM (Nickel IUP holder)</b>	<b>US\$m</b>	<b>4,764.4</b>
R & R - Nickel ore	mn tonnes	519.0 Assume US\$40 per tonne
Assumed EBITDA margin	%	45%
JPI ownership	%	51%
<b>CSI (Cahaya Smelter Indonesia)</b>	<b>US\$m</b>	<b>538.7</b>
RKEF lines	kt p.a.	19.0
EBITDA - FY22F	US\$m	154
EV/EBITDA multiples	x	7.0 Similar to NIC AU
JPI ownership	%	50.1%
<b>BSI (Bukit Smelter Indonesia)</b>	<b>US\$m</b>	<b>484.9</b>
RKEF lines	kt p.a.	19.0
EBITDA - FY22F	US\$m	138
EV/EBITDA multiples	x	7.0 Similar to NIC AU
JPI ownership	%	50.1%
<b>ZHN (Zhao Hui Nickel)</b>	<b>US\$m</b>	<b>693.8</b>
RKEF lines	kt p.a.	50.0
EBITDA - FY24F	US\$m	243
EV/EBITDA multiples	x	5.7 Similar to NIC AU
Discounted valuation to FY22	%	18.7
HLN ownership	%	50.1%

Source: KISI

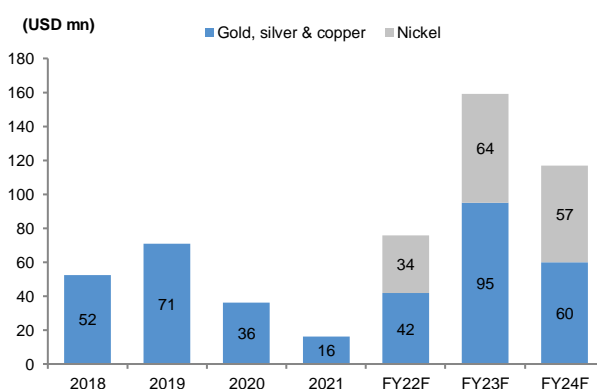
The timely acquisition of nickel business helped MDKA to bridge its smooth transition from TB gold mine (on a declining production, after peak production in 2019) and Wetar copper mine (expected to be depleted by 2025) to Pani gold mine project, AIM project and the massive TB copper project (which made up ~60% of MDKA's value).

Fig 3. MDKA's revenue breakdown



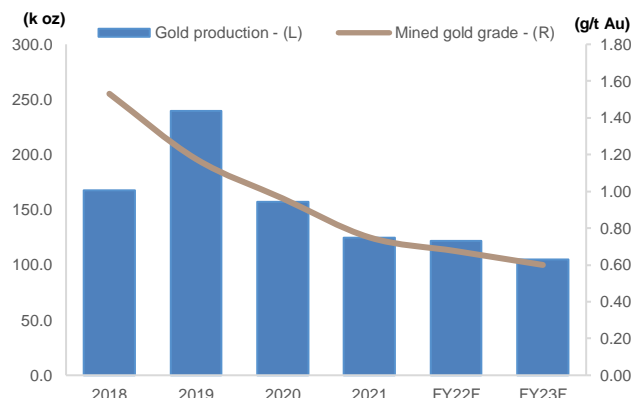
Source: Company, KISI

Fig 4. MDKA's core net profit breakdown



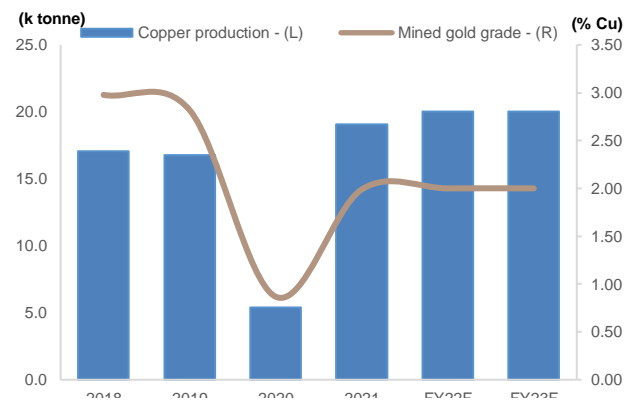
Source: Company, KISI

Fig 5. Declining TB gold mine production



Source: Company, KISI

Fig 6. Winding-down Wetar mine production



Source: Company, KISI

**We view positively on MDKA's exposure to nickel segment given our bullish view on nickel sector** with FY22/23F price assumptions of USD24,000/ USD22,500 per tonne considering the continuing supply disruptions and tight LME nickel inventory as explained in more detail in our latest nickel sector report ([Nickel – Riding the crest of a wave \(30May2022\)](#))

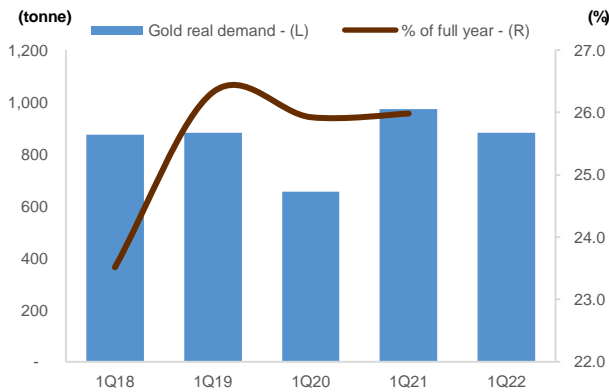


## II. Gold as a strategic inflation hedge

Global inflation is investors' primary concern now with uncomfortably highest US inflation in 40 years at 8.6%, headlined by sharp increases in gasoline (+49.5% YoY), airline fares (+37.8% YoY) and rice, pasta & cornmeal (+12.8% YoY). **Gold remains proven as a long-term hedge against inflation.** Central banks' demand for gold has increased significantly in the past quarter, while real gold demand remains on the high side as compared to 1Q numbers in the past 5 years.

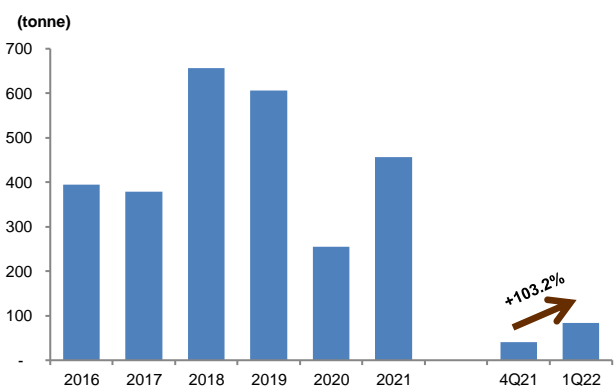
Based on the past 15 years' data, there is a **very strong ~88% inverse correlation between the gold price and US 10-year treasury yield (inflation-adjusted)**. The current trend resembles the period in May 2013 when US 10-year treasury yield just broke out from negative territory and gold price settled around 10-15% off its "peak" for an extended period. **Considering current gold demand and supply, we should see gold price stays around USD1,850 per oz in the long run.**

Fig 7. 1Q real gold demand trend



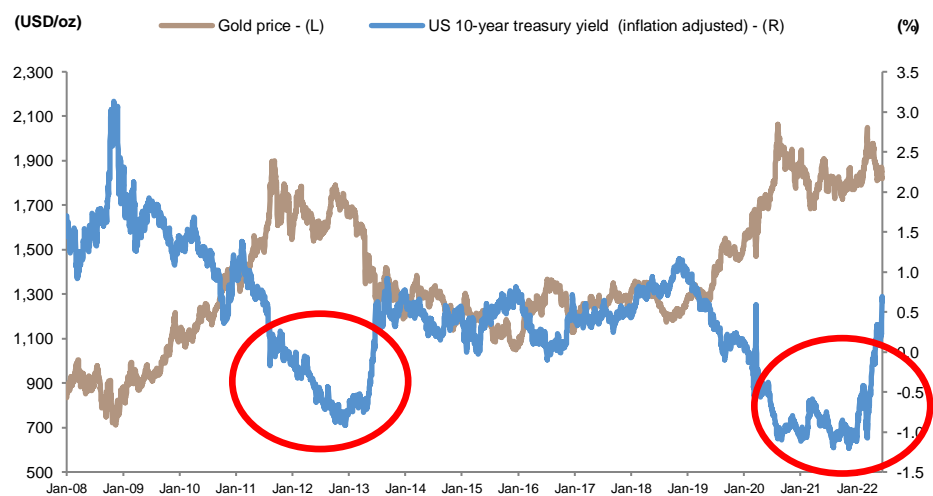
Source: Bloomberg Intelligence, KISI

Fig 8. Central banks net gold purchase increases QoQ



Source: Bloomberg Intelligence, KISI

Fig 9. Inverse correlation between gold price and US 10-year treasury yield



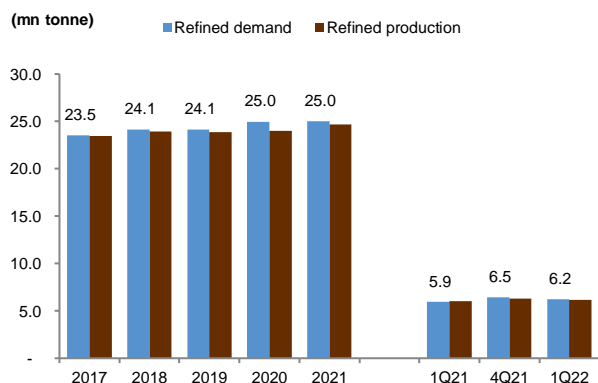
Source: Bloomberg, KISI

### III. No melting sign for the red metal

China remains the driver of world's copper consumption, with ~55% of total demand as of 1Q22. China's self-imposed strict lockdown due to outbreaks caused by Omicron variant in key cities since early Mar2022 has impeded copper global demand from soaring. **Extrapolating from 1Q22 global demand, we can expect FY22 global copper demand to remain anchored at ~24mn tonnes (similar level seen in FY18 & FY19)** due to soft manufacturing activities as indicated in China's PMI data in the past three months. **However**, on the balancing side, constraints on production ramp-up (partly due to high cost of generating electricity) continue to result in a supply deficit. The **stubbornly low copper inventory** (as LME inventory at the lowest level lastly seen in Oct2015) **continues to keep the demand-supply situation to be tight and thus supporting copper prices at a high level.**

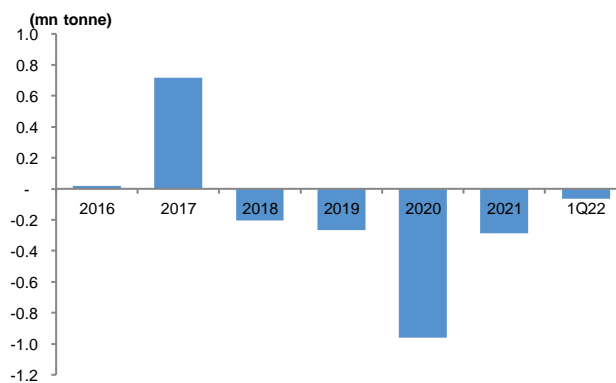
In the long run, China should continue to be the barometer for copper demand with new infrastructure projects planned including a massive 5G rollout, electric vehicle infrastructure, among others. Recovering manufacturing activities in major industrial economies like US, Japan, and Germany should support copper demand further. **Given there are some signs of already peaking world copper production as world copper reserves starting to deplete without any major discoveries** in the past decade and breakthroughs in technology (as discussed extensively in our previous report [MDKA - Time to visit Dr. Copper \(15Jun2021\)](#)), **we expect copper price to stay high at USD9,000/t level in the long run.**

Fig 10. World's refined copper demand & supply



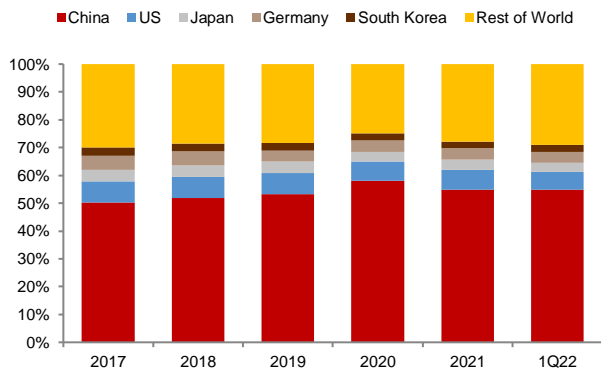
Source: Bloomberg Intelligence, KISI

Fig 11. World's copper surplus (deficit)



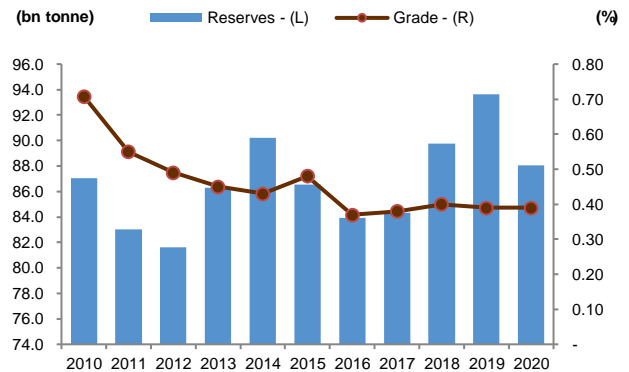
Source: Bloomberg Intelligence, KISI

Fig 12. Copper demand by top 5 countries



Source: Bloomberg Intelligence, KISI

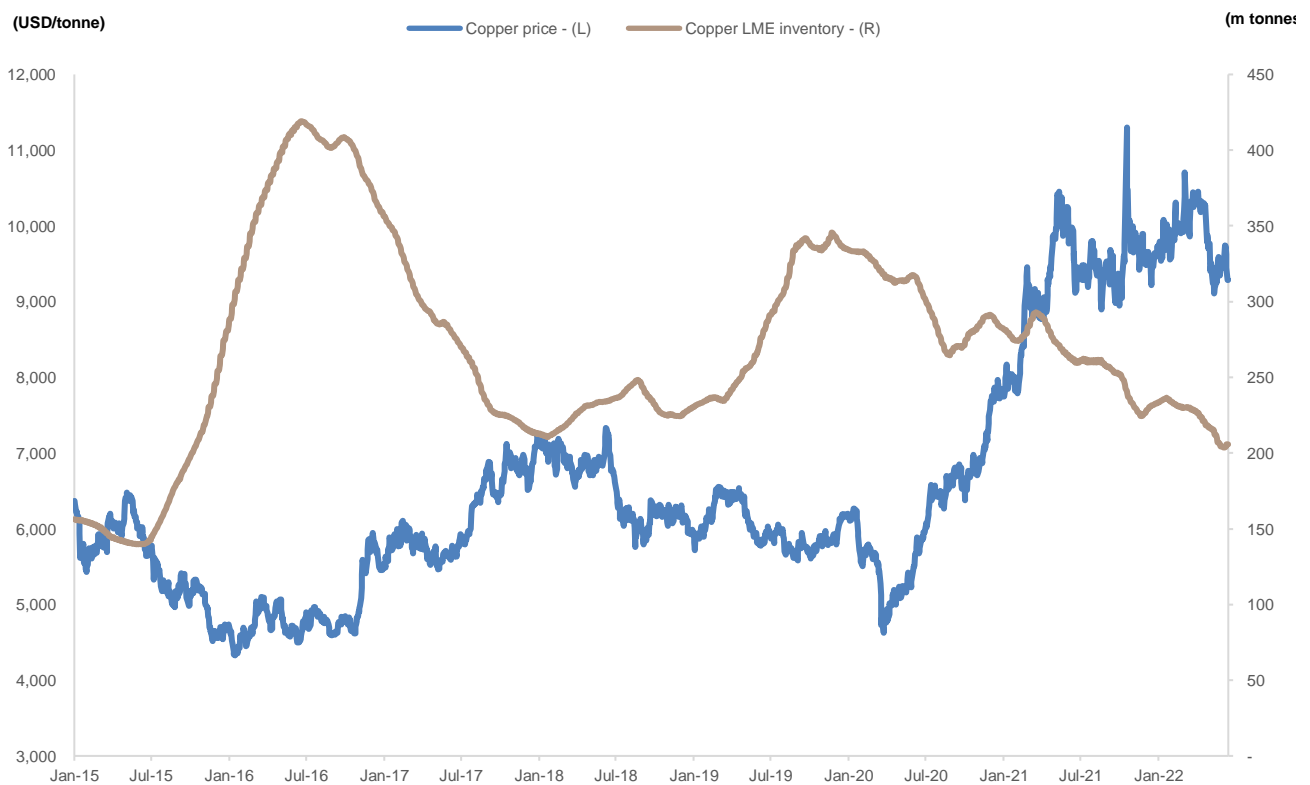
Fig 13. World's copper reserves and grades



Source: Bloomberg Intelligence, KISI

Note: Copper reserves stagnated since 2010

Fig 14. Copper price movement against LME inventory



Source: Bloomberg, KISI



## IV. Maintain BUY call with higher TP

We revised our MDKA's fair value estimates to include latest details on nickel assets acquisition. **We value MDKA using SOTP method**, considering the different stages of MDKA's asset development and **arrived at a USD10.2bn value (or equivalent to IDR6,000/sh).**

**Table 2. Summary of assumptions changes**

Assumptions	Unit	Revised			Previous	
		FY22F	FY23F	FY24F	FY21F	FY22F
Gold volume	k oz	121.5	104.9	91.8	149.5	130.8
Change (%)		-19%	-20%	new		
Copper volume	k tonnes	20.0	20.0	16.6	14.7	12.6
Change (%)		36%	59%	new		
Gold price	USD/oz	1,850	1,850	1,850	1,800	1,800
Change (%)		3%	3%	new		
Copper price	USD/t	9,250	9,250	9,000	9,000	9,000
Change (%)		3%	3%	new		
Revenue from nickel smelters	USDmn	428.9	804.2	714.9	-	-
Change (%)		new	new	new		
Consolidated revenue	USDmn	868.1	1,358.9	1,209.1	414.2	495.2
Change (%)		110%	174%	new		
COGS	USDmn	575.3	908.7	849.5	230.5	294.5
Change (%)		150%	209%	new		
EBITDA	USDmn	284.6	415.9	337.4	215.0	228.8
Change (%)		32%	82%	new		
Net profit	USDmn	135.9	159.1	117.1	93.2	108.4
Change (%)		46%	47%	new		
Equity value (SOTP) / share	IDR	6,000			4,000	
Change (%)		50%				
Recommendation		BUY			BUY	

Source: KISI

**Table 3. MDKA SOTP valuation**

Assets	Stakes (%)	Value (USDmn)	Method
Producing Assets:			
Tujuh Bukit Oxide	99.9%	556	DCF
Wetar - incl. Partolang	67.0%		
On-going construction project			
AIM	80.0%	154	DCF
Assets under development:			
Tujuh Bukit Porphyry	99.9%	6,444	NPV + EV/R&R
Pani (IUP & CoW)	70.0%	745	NPV for all Pani
Nickel assets			
Hamparan Logistik Nusantara	55.7%	2,764	SOTP
Net cash (debt)		(482)	
Total Equity Value		10,180	
No. of shares (bn)		24.11	
Equity Value per share (IDR)		6,000	

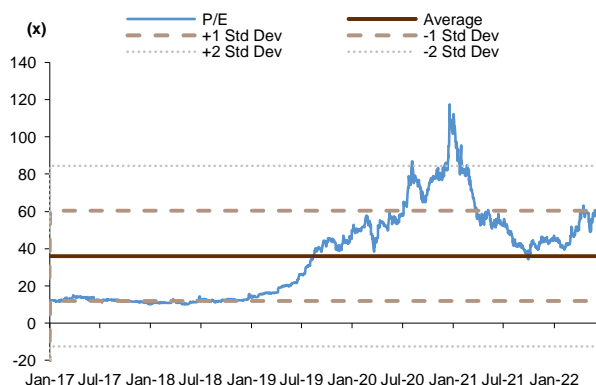
Source: KISI

As it stands, we have not taken into consideration 1) the future expected investments in nickel, cobalt, and copper from the strategic partnership with Brunp CATL (one of the world's largest electric vehicle battery suppliers) which owns 1.2bn MDKA shares (equivalent to 5% ownership) through recent preemptive rights issue executed on 26Apr2022 at IDR2,830/sh; 2) future value of IKIP development (a JV with Tsingshan) and nickel processing chain projects (such as limestone, hydropower project, etc) and 3) expected execution of non-preemptive rights issue of up to 10% of total capital (which has been approved by shareholders during EGM on 10Jun2022).

**The sizable addition of nickel assets resulted in a big shift in MDKA's revenue composition going forward.** Nickel segment revenue is expected to leapfrog both gold and copper by contributing more than 50% of MDKA's consolidated revenue. In our view, the sudden rise of nickel segment revenue contribution to MDKA at the expense of gold segment contributed to MDKA's expected exclusion from MVIS Global Junior Gold Miners Index (MVGDXJ) starting 17Jun2022 and has triggered some outflows since the announcement on 10Jun2022. We believe that **recent sell-off (~15% in the last 5 days)** on MDKA stock **provides an attractive entry point for investors as there are no significant changes in its fundamentals.**

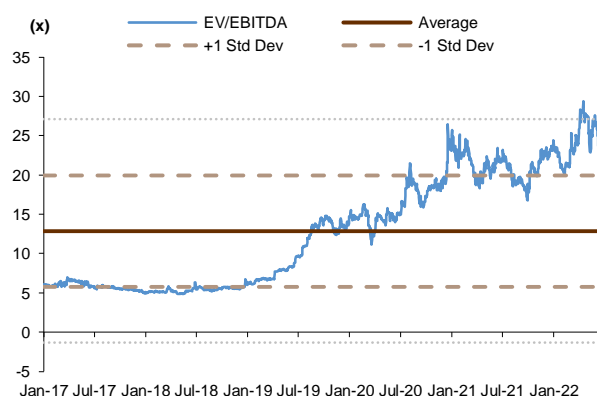
Risks to our call include the possibility of TB Copper Project resources being deemed not mineable in the future and shocks in gold & copper price.

Fig 15. MDKA's PE band



Source: Bloomberg, KISI

Fig 16. MDKA's EV/EBITDA band



Source: Bloomberg, KISI

Table 4. MDKA valuation vs peers

Company	Bloomberg code	Market cap	PE (x)		EV/EBITDA (x)		ROE %
		US\$m	FY22F	FY23F	FY22F	FY23F	
Merdeka Copper Gold	MDKA.IJ Equity	7,179	56.3	47.5	26.1	17.2	13.8
Bumi Resources Minerals *	BRMS.IJ Equity	2,821	NA	NA	NA	NA	NA
Archi Indonesia *	ARCI.IJ Equity	605	6.1	12.2	NA	NA	58.0
Freeport McMoran Inc *	FCX US Equity	53,478	11.9	9.5	5.9	4.9	34.0
Barrick Gold Corp *	GOLD US Equity	34,804	17.5	17.3	6.7	6.7	8.3
Newmont Goldcorp *	NEM US Equity	49,746	21.8	19.4	8.6	7.9	10.2
BHP Group Ltd *	BHP AU Equity	155,554	9.0	7.1	4.5	3.8	32.1
Rio Tinto Ltd *	RIO AU Equity	112,609	5.8	6.6	3.1	3.5	42.2
Newcrest Mining Ltd *	NCM AU Equity	14,904	12.1	16.4	6.5	8.2	11.3
Glenore PLC *	GLEN LN Equity	77,420	8.0	4.4	4.8	3.0	20.6
AngloGold Ashanti Ltd *	ANG SJ Equity	6,723	11.3	8.2	4.3	3.5	16.1

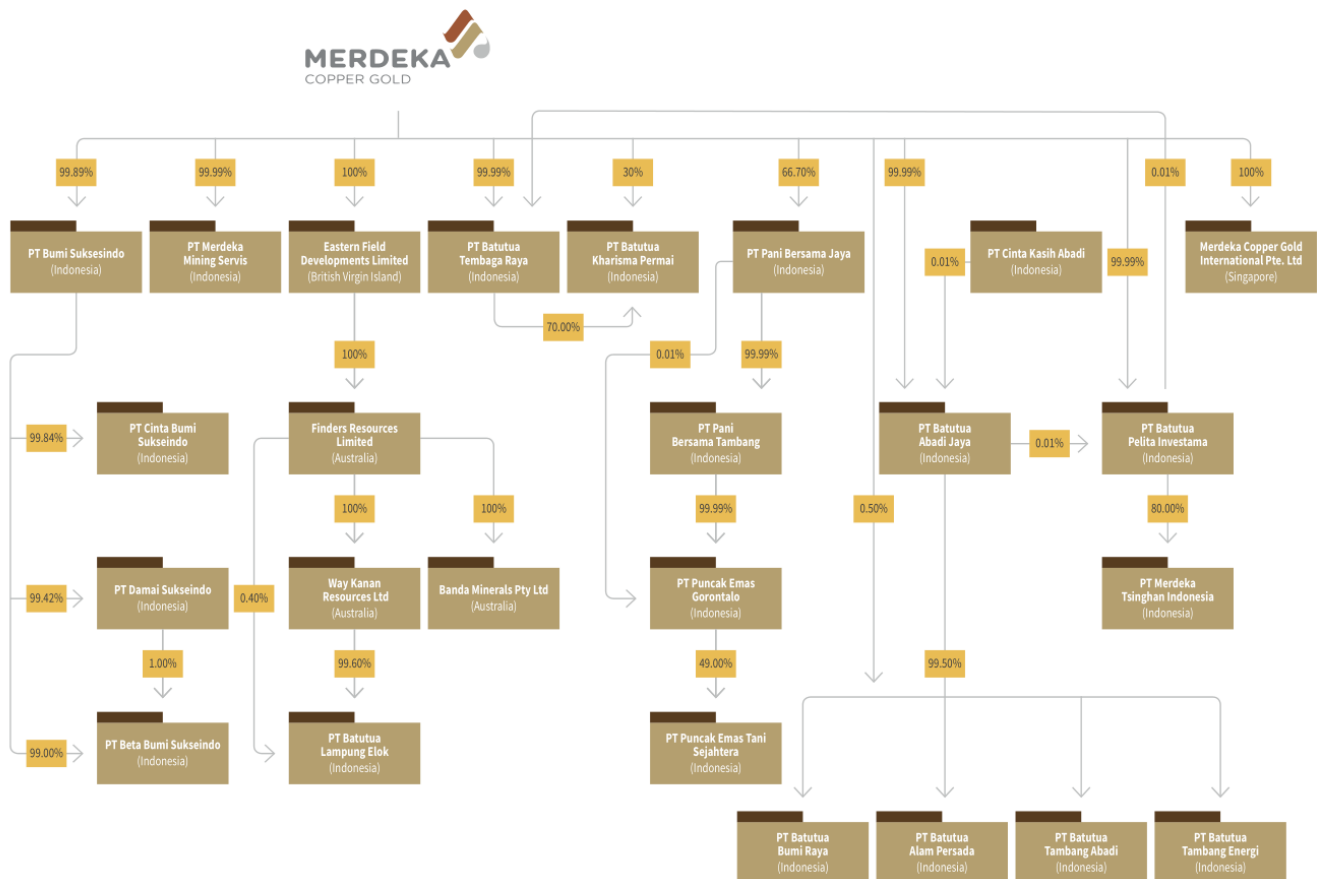
Source: Bloomberg, KISI

Note: \* not under KISI coverage – valuation based on Bloomberg consensus

## Company Overview

PT Merdeka Copper Gold Tbk (MDKA), formerly known as PT Merdeka Serasi Jaya, was established in 2012 and listed on the IDX in 2015. This Indonesian-based mining company currently owns four mining projects namely; Tujuh Bukit (Oxide & Porphyry) in Banyuwangi (East Java), Wetar (West Nusa Tenggara), and Pani (Gorontalo). Currently, TB Oxide (producing gold and silver) and Wetar (producing copper) are two producing mines, while the others are under development. MDKA has total mineral resources of ~2,100 m tonnes.

Fig 17. MDKA corporate structure



Source: Company's annual report , KISI

<b>Balance sheet</b> (USD mn)					
<b>FY-ending Dec.</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Current assets					
Cash & cash equivalent	51	185	47	141	116
Accounts & other receivables	6	6	19	11	15
Inventories	101	131	539	766	677
Others	41	89	124	136	126
Non-current assets					
Fixed assets	297	298	343	388	433
Intangible assets	-	-	-	-	-
Investment properties	342	333	422	1,220	1,264
Investment in shares	4	82	775	2	2
Other non-current assets	77	123	193	272	249
<b>Total assets</b>	<b>919</b>	<b>1,247</b>	<b>2,463</b>	<b>2,935</b>	<b>2,881</b>
Current liabilities					
Accounts & other payables	20	30	126	199	186
ST debt	-	-	-	-	-
Current portion of LT debt	145	230	401	286	296
Others	27	38	145	206	190
Non-current liabilities					
LT debt & financial liabilities	125	148	178	195	39
Employee benefits liability	15	18	20	21	23
Other non-current liabilities	35	35	433	590	485
<b>Total liabilities</b>	<b>366</b>	<b>499</b>	<b>1,303</b>	<b>1,498</b>	<b>1,220</b>
Controlling interest					
Capital stock	35	36	36	36	36
Additional paid-in capital	287	455	689	689	689
Other Reserves	26	40	36	34	34
Retained earnings	188	224	360	519	636
Minority interest	29	24	77	201	311
<b>Shareholders' equity</b>	<b>564</b>	<b>780</b>	<b>1,199</b>	<b>1,480</b>	<b>1,707</b>
<b>Cash flow</b> (USD mn)					
<b>FY-ending Dec.</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
C/F from operating					
Net profit	36	36	136	159	117
Depreciation	43	75	78	80	79
Net incr. in W/C	(46)	(57)	(253)	(96)	67
Others	86	79	275	175	4
C/F from investing					
CAPEX	(57)	(191)	(778)	(100)	(120)
Others	(13)	(51)	(5)	(5)	(5)
C/F from financing					
Incr. in equity	-	170	235	-	-
Incr. in debts	(34)	79	206	(91)	(146)
Dividends	-	(0)	-	-	-
Others	(15)	(2)	(30)	(27)	(21)
C/F from others					
Increase in cash	1	138	(135)	94	(25)

<b>Income statement</b> (USD mn)					
<b>FY-ending Dec.</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Sales	322	381	868	1,359	1,209
COGS	(208)	(261)	(575)	(909)	(850)
<b>Gross profit</b>	<b>114</b>	<b>120</b>	<b>293</b>	<b>450</b>	<b>360</b>
SG&A expense	(20)	(29)	(87)	(114)	(101)
<b>Operating profit</b>	<b>94</b>	<b>91</b>	<b>206</b>	<b>336</b>	<b>258</b>
Financial income					
Interest income	0	2	8	6	8
Financial expense					
Interest expense	(18)	(13)	(30)	(27)	(21)
Other non-operating profit	(20)	(23)	45	(14)	(12)
<b>Earnings before tax</b>	<b>56</b>	<b>57</b>	<b>229</b>	<b>301</b>	<b>233</b>
Income taxes	(27)	(23)	(40)	(18)	(5)
<b>Net profit</b>	<b>36</b>	<b>36</b>	<b>136</b>	<b>159</b>	<b>117</b>
Non-controlling interest	(7)	(3)	53	124	110
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
<b>EBITDA</b>	<b>137</b>	<b>166</b>	<b>285</b>	<b>416</b>	<b>337</b>

#### Key financial data

<b>FY-ending Dec.</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
per share data (IDR)					
EPS	24	23	83	99	73
BPS	368	486	734.4	918.7	1,060.3
DPS	-	-	-	-	-
Growth (%)					
Sales growth	(20)	18	128	57	(11)
OP growth	(30)	(3)	127	63	(23)
NP growth	(49)	(0)	276	17	(26)
EBITDA growth	(30)	21	72	46	(19)
Profitability (%)					
OP margin	29	24	24	25	21
NP margin	11	9	16	12	10
EBITDA margin	43	43	33	31	28
ROA	4	3	7	6	4
ROE	7	5	14	12	7
Dividend yield	-	-	-	-	-
Dividend payout ratio	-	-	-	-	-
Stability					
Net debt (US\$ m)	180	148	482	291	170
Int.-bearing debt/equity (%)	41	43	44	29	17
Valuation (X)					
PE	186.3	195.2	52.7	44.4	60.4
PB	12.0	9.1	6.0	4.8	4.1
EV/EBITDA	50.4	41.6	24.6	16.1	19.5

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