

Merdeka Copper Gold (MDKA)

Nickel segment did heavy lifting

3Q22 operational results **INLINE** with expectations

Both MDKA's gold and copper productions grew QoQ in 3Q22 as expected; bringing 9M22 gold and copper productions to 107,169 oz (82% of our FY22F estimate) and 15,792 tonnes (+18% YoY, 79% of our FY22F estimate), respectively. Meanwhile, its nickel RKEF smelters operation started to contribute fully in 3Q22 with 10,374 tonnes (+17% QoQ), after the completion of Merdeka Battery Minerals (MBM) acquisition on mid-May2022.

Nickel segment's contribution started taking shape

The timely and sizable acquisition of nickel business helped MDKA to smoothen its transition from both TB gold mine and Wetar copper mine to Pani gold mine, AIM project, and the massive TB copper project. In the next 2-3 years, nickel segment revenue would make up more than 50% of MDKA's consolidated revenue, leapfrogging both gold and copper segments. Based on the 3Q22 operational indication, nickel contributed ~58% of MDKA's total revenue and ~80% of its consolidated core profit by our estimation.

Bullish on nickel; neutral on both gold & copper

We are bullish on nickel sector considering the continuing supply disruptions and tight LME nickel inventory as explained in more detail in our nickel sector report ([Nickel – Riding the crest of a wave \(30May2022\)](#)). Meanwhile, we see gold prices remain subdued amid rising interest rate environment despite being supported by surging net purchases by central banks and solid real demand (fabrication & jewelry). On the same token, the potential copper demand slippage from developed markets next year dampens resurgent demand from China (which made up ~55% of world's copper demand).

Maintain **BUY** recommendation with slightly lower TP

We tweaked our gold and copper prices assumptions for FY23/24F and rolled forward our valuation to arrive at USD9.2bn (or equivalent to IDR5,750/sh). Future upside to our current MDKA's value includes 1) full potential value of ZHN's RKEF smelter (under construction) and SCM's nickel mines (under development stage); 2) strategic partnership with Brup CATL for investments in nickel, cobalt & copper; 3) IKIP development (with Tsingshan) & nickel chain supporting projects. 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	836	1,311	1,186
GP (USD mn)	114	120	270	367	300
OP (USD mn)	94	91	190	269	212
NP (USD mn)	36	36	120	114	89
EBITDA (USD mn)	137	166	268	373	315
Net debt (USD mn)	180	148	596	450	367
OP margin (%)	29.2	23.8	22.7	20.5	17.9
ROE (%)	6.7	5.4	12.3	8.9	6.0
Dividend yield (%)	-	-	-	-	-
EPS (IDR)	23.6	22.5	73.9	70.9	55.5
chg. (% YoY)	(47.4)	(4.5)	227.8	(4.0)	(21.7)
BPS (IDR)	367.7	486.1	720.3	867.5	984.1
DPS (IDR)	-	-	-	-	-
PE (x)	185.1	193.9	59.1	61.6	78.7
PB (x)	11.9	9.0	6.1	5.0	4.4
EV/EBITDA (x)	50.0	41.3	26.3	18.3	21.4

Company Update

Metals & Mining

Nov 22, 2022

12M rating **BUY (Maintain)**
12M TP **IDR 5,750** (Prev IDR 6,000)
Upside **+31.6%**

Stock Data

JCI (Nov 21)	7,063
Stock price (Nov 21, IDR)	4,370
Market cap (IDR bn)	105,364
Shares outstanding (mn)	24,111
52-week high/low (IDRhds)	5,800 / 3,350
6M avg. daily turnover (IDR bn)	276.1
Free float (%)	51.9

Major shareholders (%)

Saratoga Investama Sedaya Tbk	18.4
Mitra Daya Mustika	12.1
Garibaldi Thohir	7.4
Suwarna Arta Mandiri	5.6
Banyuwangi regional gov't	4.0

Performance

	1M	6M	12M
Absolute (%)	21.8	(7.2)	31.0
Relative to JCI (%p)	16.1	(11.9)	14.9

MDKA stock price



Source: Bloomberg

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I. Nickel segment contribution started to kick-in

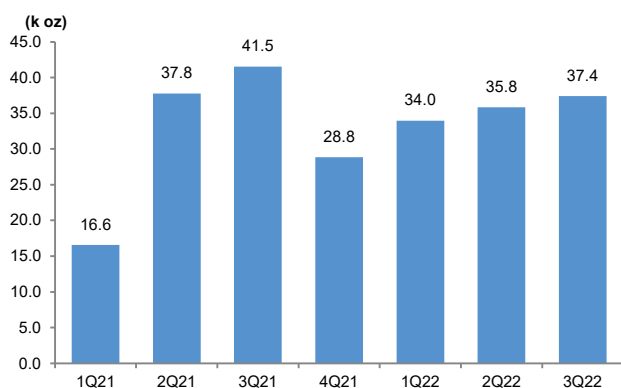
Tujuh Bukit (TB) gold mine 3Q22 production went up 4% QoQ to 37,385 oz, bringing its 9M22 recovered gold to 107,169 oz (+12% YoY, 82% of our FY22F estimate). Wetar mine production recovered significantly with 25% QoQ to 5,842 tonnes (after a weak 2Q22), bringing its 9M22 copper production to 15,792 tonnes (+18% YoY, 79% of our FY22F estimate). Meanwhile, we saw a full quarter NPI production for Merdeka Battery Materials (MBM) of 10,374 tonnes after ~1.5 months of contribution in 2Q22. **The indicated 3Q22 revenue of USD276mn brought 9M22 revenue to USD620mn (+138% YoY, 74% of our FY22F estimate). Considering core net profit margin of ~10%, we forecast 3Q22 earnings of ~USD28mn, translating to 9M22 core net profit of ~USD38mn (63% of our FY22 estimate).** Headline 9M22 numbers would look good but it is inflated due to a USD60mn insurance claim for TB leach incident (one-off item) and ~USD25mn cross-currency swaps (non-cash).

Table 1. MDKA's 3Q21 gold and copper production

MDKA operational		3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YoY	% of FY22F
Recovered gold	oz	41,520	35,816	37,385	4%	-10%	95,884	107,169	12%	82%
Cash cost - TB gold mine	USD/oz	428	730	809	11%	89%	488	734	50%	105%
AISC - TB gold mine	USD/oz	691	989	1,026	4%	48%	758	984	30%	97%
Recovered copper	tonne	5,896	4,683	5,842	25%	-1%	13,388	15,792	18%	79%
Cash cost - Wetar mine	USD/tonne	4,057	5,269	5,445	3%	34%	3,747	5,253	40%	101%
AISC - Wetar mine	USD/tonne	5,710	6,239	6,878	10%	20%	5,141	6,799	32%	100%
Nickel produced	tonne		8,890	10,374	17%			19,264		75%
AISC - MBM	USD/tonne		14,809	13,967	-6%			14,356		103%

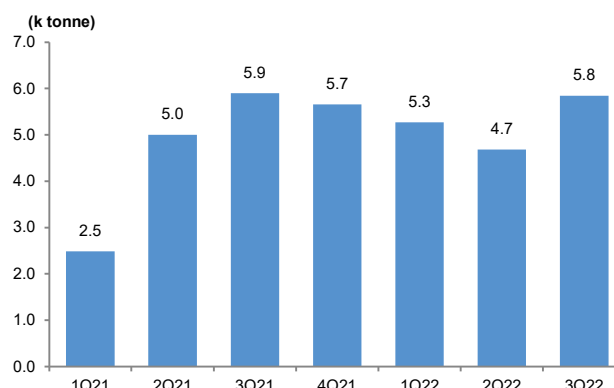
Source: Company quarterly update, KISI

Fig 1. TB gold production quarterly



Source: Company quarterly update, KISI

Fig 2. Wetar copper production quarterly

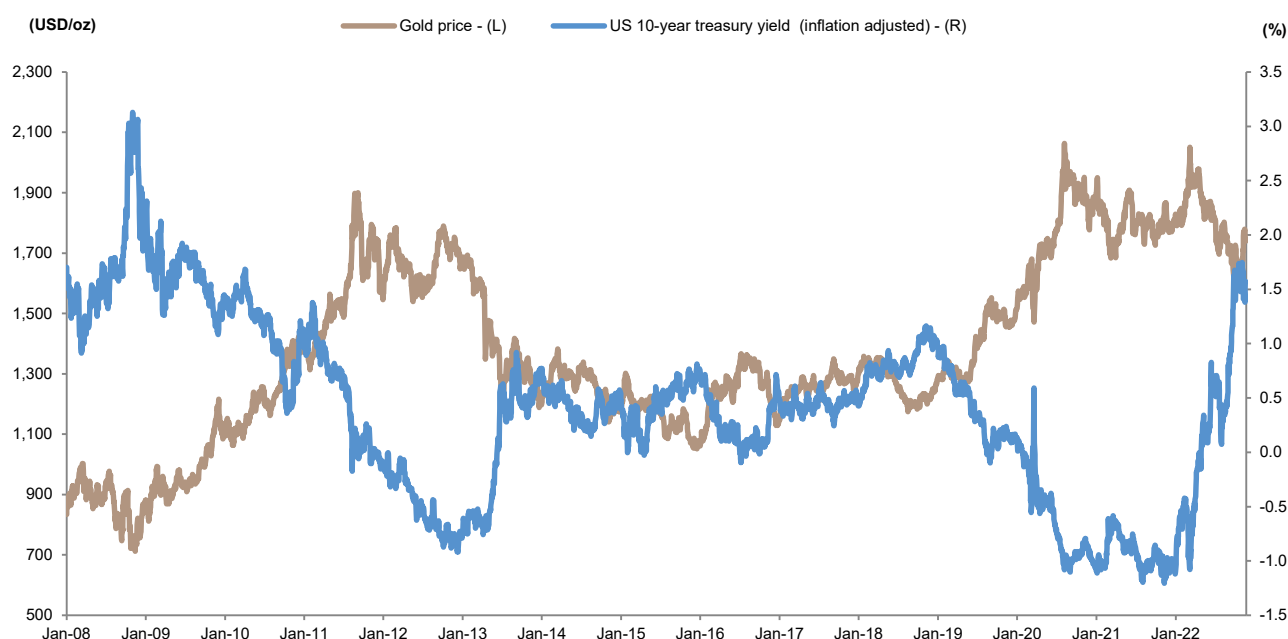


Source: Company quarterly update, KISI

II. Gold price to remain subdued

Based on the past 15 years' data, there is a **very strong ~85% inverse correlation between the gold price and US 10-year treasury yield (inflation-adjusted)**. Market expected Fed to be hawkish through 1H23 in a bid to tame inflation before pivoting on its rate hike cycle. **Given the negative correlations, we believe that pressure on gold prices would continue within the next 2-3 quarters.**

Fig 3 Inverse correlation between the gold price and US 10-year treasury yield

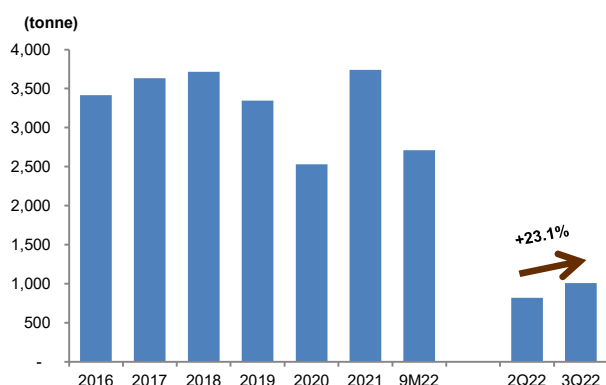


Source: Bloomberg, KISI

On the opposing force, we have seen **real gold demand continues on the rise** with 3Q22's demand being one of the highest quarterly since late 2013. **In addition, central banks' gold purchases hit a quarterly all-time high** in 3Q22 with 399mn tonnes, with most additions have come from developing countries as a means to hedge their declining currencies and paucity of returns in other liquid assets amidst greater concerns about geopolitical risk and rising inflation. **Both of these factors helped to support the gold price.** On a note, there is an indication that Central Bank of Russia resumed accumulating gold due to western countries' sanctions after two-year hiatus to hedge against inflation & weakening ruble.

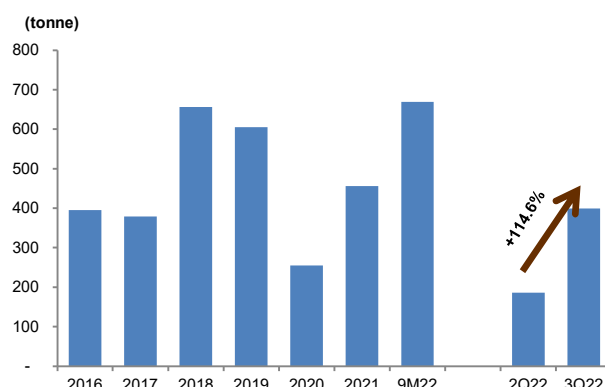
Therefore, considering current rising rate environment & current gold demand and supply, **we should see gold bottoming at USD1,500/oz entering FY23 before stabilizing** as gold has historically been a top performer among asset classes during periods of stagflation according to research by World Gold Council.

Fig 4. Real gold demand (fabrication & jewelry)



Source: Bloomberg Intelligence, KISI

Fig 5. Central banks' gold purchases hit an all-time high

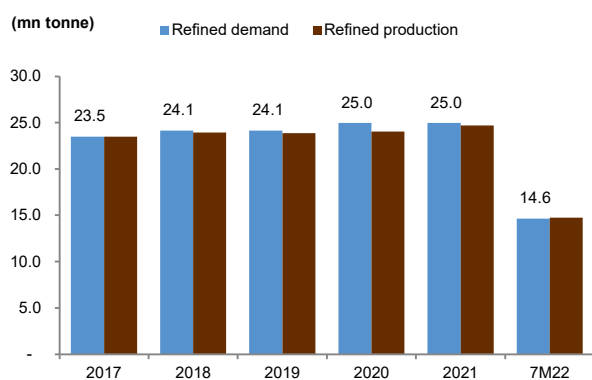


Source: Bloomberg Intelligence, KISI

III. China comes to rescue copper again

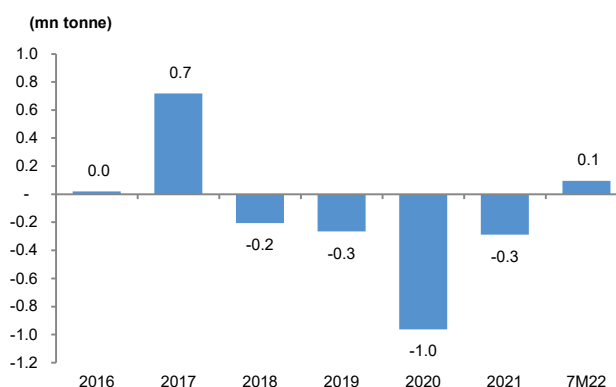
China remains the driver of world's copper consumption, with ~55% of total demand as of 7M22, despite self-imposed strict lockdown due to covid-19 outbreaks in key cities since early Mar2022. Recently, China has announced a USD1tn stimulus into infrastructure investment (including renewables, 200km water tunnel, high-speed rail, data centers, etc) to provide a boost to employment in the mid-term and become a high-income economy over the longer term. **Solid copper demand from China should provide some support next year if developed markets slip into recession.**

Fig 6. World's refined copper demand & supply



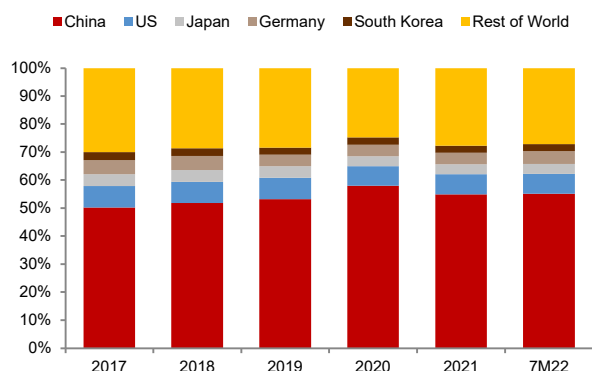
Source: Bloomberg Intelligence, KISI

Fig 7. World's copper surplus (deficit)



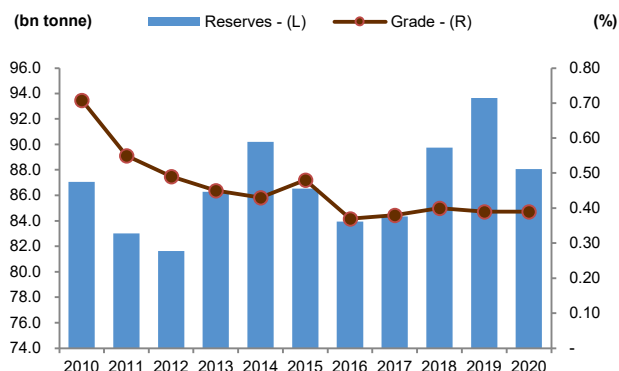
Source: Bloomberg Intelligence, KISI

Fig 8. Copper demand by top 5 countries



Source: Bloomberg Intelligence, KISI

Fig 9. World's copper reserves and grades

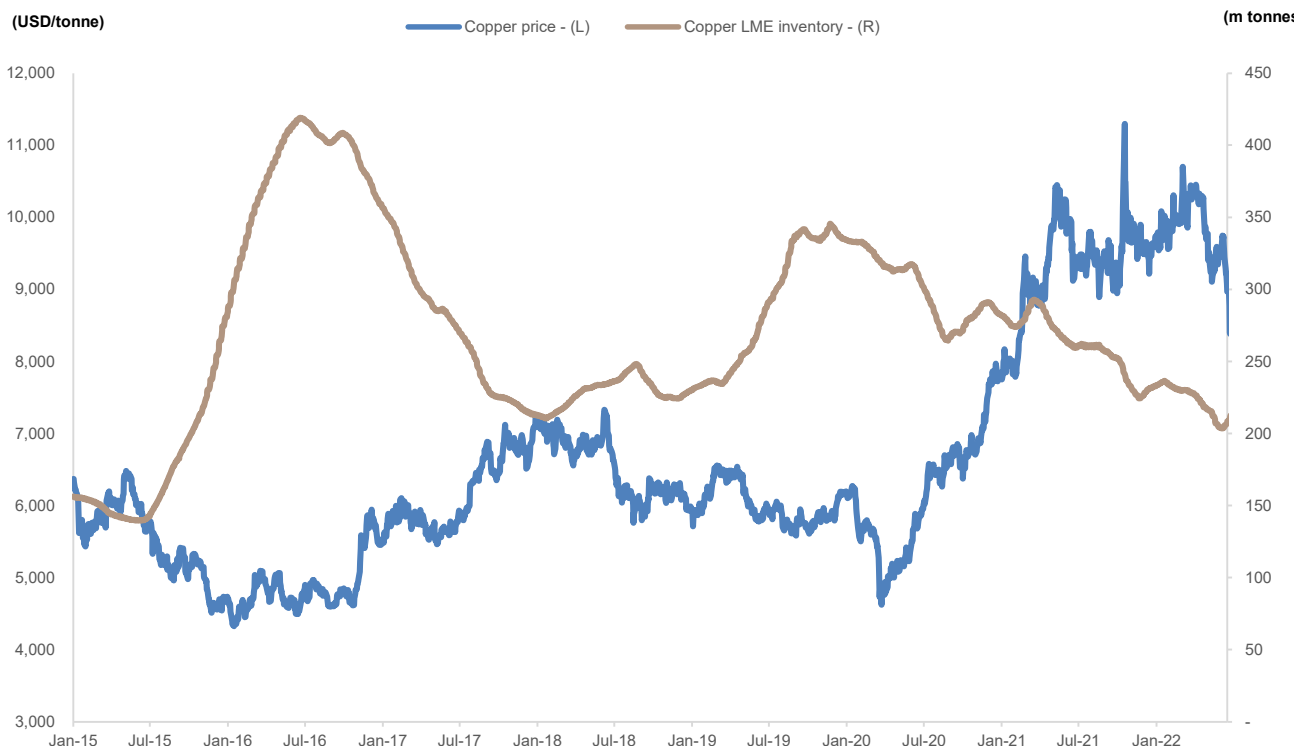


Source: Bloomberg Intelligence, KISI

Note: Copper reserves stagnated since 2010

The stubbornly low copper inventory (hovering at the low level in the past 8 years) should continue to keep the demand-supply situation to be tight and thus support copper prices at USD 8,000/t level in the long run. We have discussed extensively on depleting world copper reserves without any major discoveries in the past decade and breakthroughs in technology (Refer to previous report - [MDKA - Time to visit Dr. Copper \(15Jun2021\)](#)).

Fig 10 Copper price movement against LME inventory



Source: Bloomberg, KISI

IV. Maintain BUY call with slightly lower TP

We tweaked our gold and copper prices assumptions for FY23/24F and rolled forward our valuation to arrive at **USD9.2bn (or equivalent to IDR5,750/sh)**. We value MDKA using SOTP method, considering the different stages of MDKA's asset development.

As it stands, we have not taken into consideration: 1) potential full value from ZHN's RKEF smelter (which is still under construction) and SCM's nickel mines (which is also currently under development stage); 2) 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; and 3) future value of IKIP development (a JV with Tsingshan) and nickel processing chain projects (such as limestone, hydropower project, etc).

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.

Table 2. Summary of assumptions changes

Assumptions	Unit	Revised			Previous		
		FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Gold volume	k oz	130.2	104.9	91.8	121.5	104.9	91.8
Change (%)		7%	0%	0%			
Copper volume	k tonnes	20.0	20.0	16.6	20.0	20.0	16.6
Change (%)		0%	0%	0%			
Gold price	USD/oz	1,800	1,600	1,700	1,800	1,800	1,800.0
Change (%)		0%	-11%	-6%			
Copper price	USD/t	9,250	9,250	8,500	9,250	9,250	9,000.0
Change (%)		0%	0%	-6%			
Revenue from nickel smelters	USDmn	402.1	804.2	714.9	402	804	714.9
Change (%)		0%	0%	0%			
Consolidated revenue	USDmn	835.9	1,310.6	1,185.7	836.4	1,353.7	1,204.6
Change (%)		0%	-3%	-2%			
COGS	USDmn	566.3	943.6	885.8	557.1	908.4	849.3
Change (%)		2%	4%	4%			
EBITDA	USDmn	268.3	373.0	315.4	273.9	411.3	333.3
Change (%)		-2%	-9%	-5%			
Net profit	USDmn	120.4	114.0	89.3	129.3	155.9	114.2
Change (%)		-7%	-27%	-22%			
Equity value (SOTP) / share	IDR		5,750			6,000	
Change (%)			-4%				
Recommendation			BUY			BUY	

Source: KISI

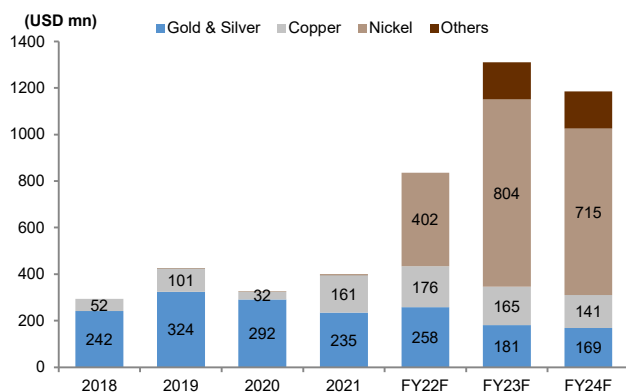
Table 3. MDKA SOTP valuation

Assets	Stakes (%)	Value (USDmn)	Method
Producing Assets:			
Tujuh Bukit Oxide	99.9%	295	DCF
Wetar - incl. Partolang	67.0%		
On-going construction project			
AIM	80.0%	151	DCF
Assets under development:			
Tujuh Bukit Porphyry	99.9%	5,980	NPV + EV/R&R
Pani (IUP & CoW)	70.0%	512	NPV for all Pani
Nickel assets			
Hamparan Logistik Nusantara	55.7%	2,752	SOTP
Net cash (debt)		(450)	
Total Equity Value		9,242	
No. of shares (bn)		24.11	
Equity Value per share (IDR)		5,750	

Source: KISI

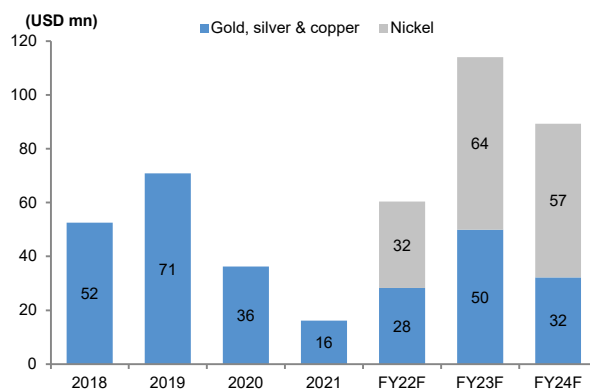
The sizable addition of nickel assets resulted in a big shift in MDKA's revenue composition going forward. Nickel segment revenue is expected to leapfrog both gold and copper by contributing more than 50% of MDKA's consolidated revenue.

Fig 11. MDKA's revenue breakdown



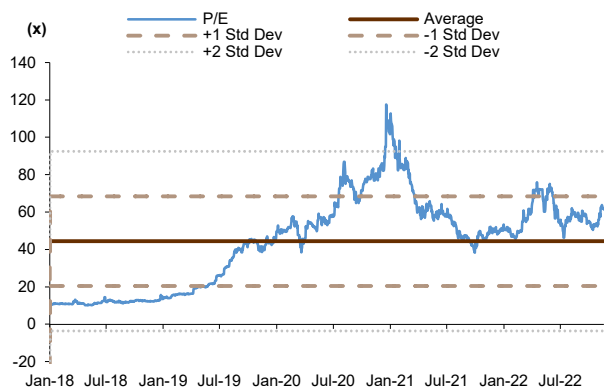
Source: Company, KISI

Fig 12. MDKA's core net profit breakdown



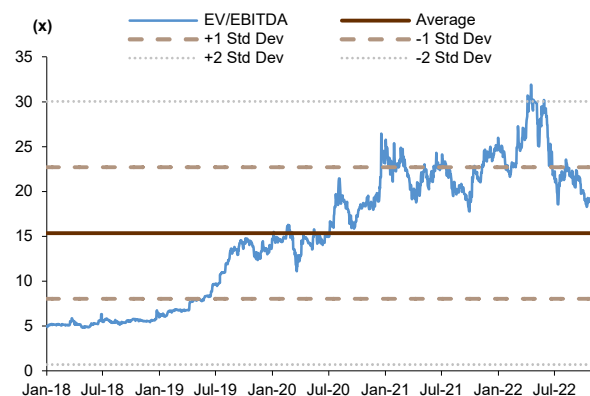
Source: Company, KISI

Fig 13. MDKA's PE band



Source: Bloomberg, KISI

Fig 14. MDKA's EV/EBITDA band



Source: Bloomberg, KISI

Table 4. MDKA valuation vs peers

Company	Bloomberg code	Market cap US\$m	PE (x)		EV/EBITDA (x)		ROE %
			FY22F	FY23F	FY22F	FY23F	
Merdeka Copper Gold	MDKA IJ Equity	6,706	59.1	61.6	26.3	18.3	12.3
Bumi Resources Minerals *	BRMS IJ Equity	1,651	NA	NA	NA	NA	5.7
Archi Indonesia *	ARCI IJ Equity	541	5.4	NA	NA	NA	58.0
Freeport McMoran Inc *	FCX US Equity	51,942	11.7	16.0	5.7	7.1	35.1
Barrick Gold Corp *	GOLD US Equity	27,523	14.0	18.9	5.6	6.7	8.3
Newmont Goldcorp *	NEM US Equity	35,821	15.7	24.4	6.2	8.2	10.2
BHP Group Ltd *	BHP AU Equity	144,014	8.3	6.8	4.2	3.7	32.1
Rio Tinto Ltd *	RIO AU Equity	103,674	5.1	7.7	2.9	4.0	42.2
Newcrest Mining Ltd *	NCMAU Equity	11,115	9.0	12.4	4.9	6.2	11.3
Glencore PLC *	GLEN LN Equity	75,827	8.0	4.0	4.8	2.7	20.6
AngloGold Ashanti Ltd *	ANG SJ Equity	7,100	11.9	12.0	4.5	4.6	16.1

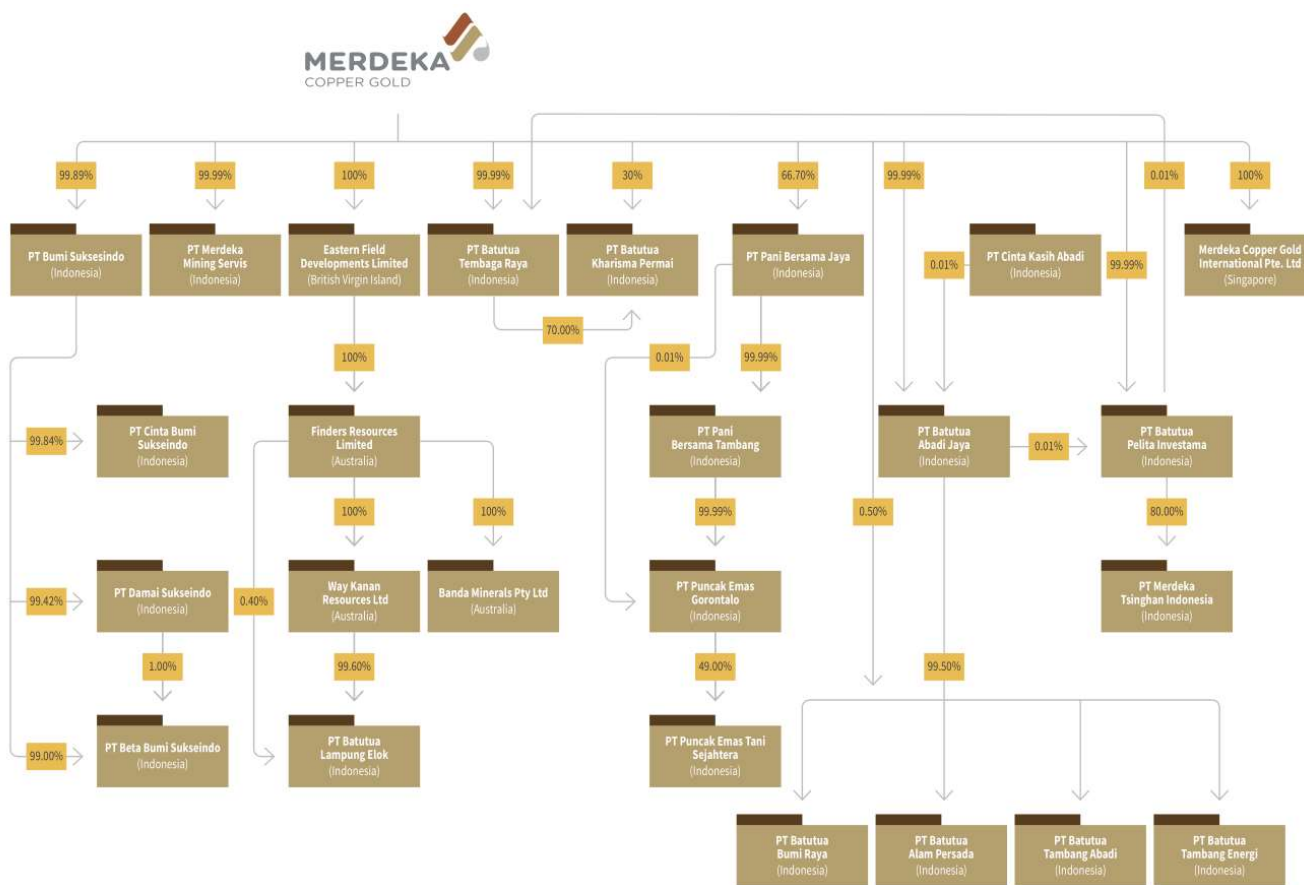
Source: Bloomberg, KISI

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 15. MDKA corporate structure



Source: Company's annual report, KISI

Balance sheet (USD mn)					
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	51	185	1,093	869	772
Accounts & other receivables	6	6	18	11	15
Inventories	101	131	530	800	705
Others	41	89	128	124	124
Non-current assets					
Fixed assets	297	298	343	403	463
Intangible assets	-	-	-	-	-
Investment properties	342	333	427	1,228	1,277
Investment in shares	4	82	775	2	2
Other non-current assets	77	123	192	279	257
Total assets	919	1,247	3,505	3,716	3,615
Current liabilities					
Accounts & other payables	20	30	124	207	194
ST debt	-	-	-	-	-
Current portion of LT debt	145	230	819	722	343
Others	27	38	145	206	195
Non-current liabilities					
LT debt & financial liabilities	125	148	905	632	830
Employee benefits liability	15	18	20	21	23
Other non-current liabilities	35	35	355	573	490
Total liabilities	366	499	2,367	2,361	2,076
Controlling interest					
Capital stock	35	36	36	36	36
Additional paid-in capital	287	455	689	689	689
Other Reserves	26	40	39	35	35
Retained earnings	188	224	345	459	548
Minority interest	29	24	67	177	276
Shareholders' equity	564	780	1,176	1,397	1,585
Cash flow (USD mn)					
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating					
Net profit	36	36	120	114	89
Depreciation	43	75	78	104	104
Net incr. in W/C	(46)	(57)	(249)	(114)	67
Others	86	79	301	265	60
C/F from investing					
CAPEX	(57)	(191)	(783)	(130)	(150)
Others	(13)	(51)	(15)	(30)	(30)
C/F from financing					
Incr. in equity	-	170	235	-	-
Incr. in debts	(34)	79	1,277	(356)	(180)
Dividends	-	(0)	-	-	-
Others	(15)	(2)	(54)	(76)	(57)
C/F from others					
Increase in cash	1	138	910	(223)	(97)

Income statement (USD mn)					
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	322	381	836	1,311	1,186
COGS	(208)	(261)	(566)	(944)	(886)
Gross profit	114	120	270	367	300
SG&A expense	(20)	(29)	(79)	(98)	(88)
Operating profit	94	91	190	269	212
Financial income					
Interest income	0	2	34	56	53
Financial expense					
Interest expense	(18)	(13)	(54)	(76)	(57)
Other non-operating profit	(20)	(23)	39	(25)	(20)
Earnings before tax	56	57	210	225	188
Income taxes	(27)	(23)	(46)	-	-
Net profit	36	36	120	114	89
Non-controlling interest	(7)	(3)	43	111	98
Other comprehensive profit					
Total comprehensive profit of controlling interest					
EBITDA	137	166	268	373	315

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	24	23	74	71	56
BPS	368	486	720.3	867.5	984.1
DPS	-	-	-	-	-
Growth (%)					
Sales growth	(20)	18	119	57	(10)
OP growth	(30)	(3)	109	41	(21)
NP growth	(49)	(0)	233	(5)	(22)
EBITDA growth	(30)	21	62	39	(15)
Profitability (%)					
OP margin	29	24	23	21	18
NP margin	11	9	14	9	8
EBITDA margin	43	43	32	28	27
ROA	4	3	5	3	2
ROE	7	5	12	9	6
Dividend yield	-	-	-	-	-
Dividend payout ratio	-	-	-	-	-
Stability					
Net debt (US\$ m)	180	148	596	450	367
Int.-bearing debt/equity (%)	41	43	144	95	72
Valuation (X)					
PE	185.1	193.9	59.1	61.6	78.7
PB	11.9	9.0	6.1	5.0	4.4
EV/EBITDA	50.0	41.3	26.3	18.3	21.4

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