



Metal Mining Sector Outlook

Metal Commodities in Turmoil, Prospective over the Long Haul

Fate of the metals

China's strategy to suppress Covid-19 cases growth among its population by implementing the stringent zero-Covid policy that spanned 3 years have proven successful when compared to western countries. Unfortunately, with China accounting for 60% of global metal demand, the expansive decline in economic activity that followed have caused turbulences for metal prices. Going into 2023, we foresee that metal prices are projected to fall -11% YoY for aluminum, -16% YoY for copper, -29% YoY for tin and -16% YoY for nickel. In the long run, however, we believe their growth would revive and pick up again, backed by the energy transition and green technologies development trend.

Is it gold's time to shine again?

With the world on the brink of an apparent global economic recession, it seemed that a deflationary reset was imminent to slam the brakes on rate hikes and promote growth. This anticipation was refuted after the release of the Fed's Dec-22 internal meeting results, revealing their unanimous stance on maintaining their hawkish stance to up to 510 bps to crush the persistently high inflation, and so we most probably won't see a transition towards a dovish stance until the end of FY23F. Thus far, gold's prospect in FY23F will heavily depend on the Fed's next move, but will probably fully begin its rally nearing FY23's end. Gold's prices are expected to gain by 10% by the end of the year.

In the long run and business expansion

What we see going into FY23F for key metal players in our universe is a normalization of earnings, with INCO's net income projected to contract by 4%, due to compressed nickel prices, whilst maintaining prudent cash costs. On the other hand, we believe that ANTM would be looking at a bottom line increase of 11%, supported by their diverse line of metal products, a new Ferronickel smelter in Sulawesi bound to be operational by 2Q23 and an Alumina Refinery project set to complete by Jul-23. Lastly, MDKA's performance through FY23F would result in a solid 25% hike in net income, bolstered by the potential gain in gold's spot value and full utilization of their newly acquired PT Merdeka Battery Materials (MBMA) in May-22.

Recommendation for Metals Sector

Overall, we propose a **Neutral** stance for the metal sector due to a normalization in metal prices through FY23F. There could, however, be a substantial upside by gold's potential upward momentum amid looming global recession fears. Key metal players are also undergoing business expansions to step up production FY23F onwards. Our top picks are: 1) **ANTM** (BUY; TP: IDR3,260) and 2) **MDKA** (BUY; TP: IDR5,600). An upside risk includes escalation of the Russia-Ukraine dispute that follows Russian metal produce sanctions, while downside risks include reenactment of China lockdowns, postponing the metals demand recovery.

Ticker	Market Cap (IDR Tn)	P/E		EV/EBITDA		Rec.	Target Price (IDR)
		FY23F	FY24F	FY23F	FY24F		
ANTM	47.46	13.50	11.09	12.09	10.39	BUY	3,260
MDKA	103.44	39.52	31.02	15.10	10.47	BUY	5,600
INCO	71.54	20.25	19.53	11.89	10.99	HOLD	6,800

Source : MNCS Estimate

Base metal prices struggles approaching year’s end

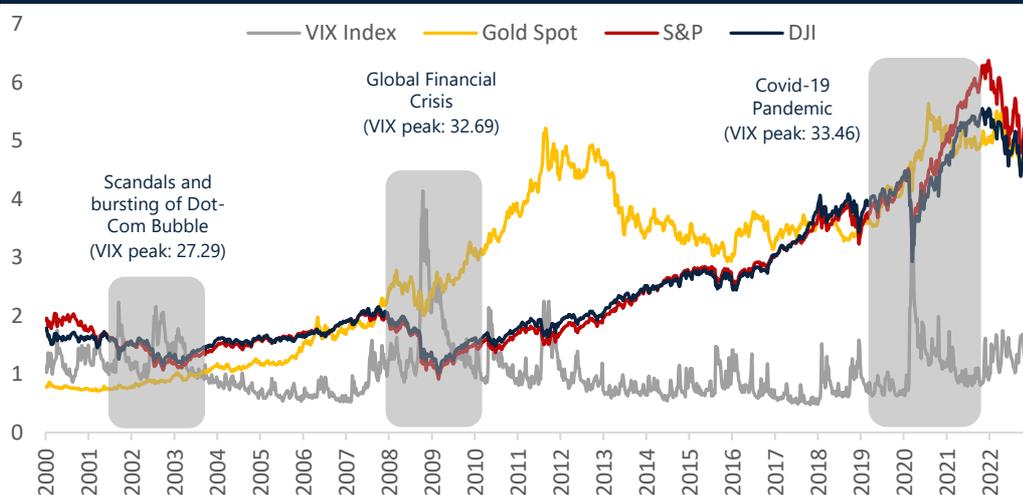
- Aluminum prices experienced a decline of -18.2% QoQ in 3Q22 as aluminum demand tumbled down following its peak global demand and price in Mar-22. The prices peaked in 1Q22 at USD9.9k/ton, and then in March COVID-19 cases began recurring in China – consumer of 60% of global aluminum supply – triggering restriction policies to be re-enacted which caused demand shocks that plummeted aluminum prices for the next quarter by -4.7% to USD9.5k/ton.
- Copper experienced similar struggles as the two industries that absorbs the most copper globally – Construction & Industry (25%) and Electrical (31%) – had also undergone slumps in demand, primarily in China; consumer of 58% of copper produced worldwide. Copper prices descended -18.5% QoQ in 3Q22 from USD9.5k/ton to USD7.7k/ton and took a further -1.2% MoM drop in Oct-22.
- On the other hand, nickel prices fell by a considerable -23.6% QoQ in 3Q22, from USD29k/ton to USD22k/ton. The huge price decline was propped by the slack in stainless steel production which accounts for almost 70% of nickel usage globally, weakening demand in consumer durables, soaring energy prices and power shortages. At the same time, nickel production grew remarkably in Indonesia, further pulling down the prices as inventories increase.
- Tin took the heaviest blow in price cutback, with a -35.5% QoQ fall in 3Q22 from USD36.7k/ton to USD23.7k/ton and further declined by -8.2% MoM to USD19.4k/ton in Oct-22. The curtail in consumer electronics demand played a huge role in driving down prices as more than 50% of tin consumption is used in electronics and batteries.

Indonesia’s key metal industry players books solid performance

Albeit the turbulence in global metal prices, metal companies in Indonesia advances steadily.

- INCO’s nickel matte sales dropped by -9.9% YoY to 44.3k tons in 9M22 as production was lagging behind (-9.3% YoY) primarily due to the delay in the furnace 4 rebuilding project. They managed to, however, secure a 27.3%/33.7% YoY increase in revenue/EBITDA due to the nickel price hike in 1Q22 which averaged to 41.4% YoY ASP increment. We project INCO’s production in FY22E to slightly fall short compared to FY21 at 61k tons. Now that the furnace project had been completed, we believe INCO’s production in FY2023 to reach 71k tons coupled with a higher EBITDA since coal prices are forecasted to ease in the following year.
- ANTM recorded a -8.5% YoY decline in ferronickel sales amounting to 17.2k tons in 9M22 (vs 18.8k tons in 9M21) corresponding with the -5.3% YoY drop in production due to the volatility in global nickel demand and ANTM’s strategic policies to maintain cost efficiency. This is also reflected in the -17.4% YoY slump in nickel ore sales. On the other hand, bauxite sales recorded a 2.8% YoY improvement along with a 21.9% YoY jump in alumina sales, as ANTM had been expanding its domestic market share for bauxite as well as optimizing the operations of Tayan CGA plant to boost its production by 108% YoY.
- MDKA reported a 6.8% YoY jump in copper sales volume amounting to 5.2k tons in 3Q22 (vs 4.9k tons in 3Q21) but booked a -4.3% YoY revenue drop (USD44 million vs USD46 million) due to a -10.4% YoY flop in copper ASP. Their newly acquired revenue stream of nickel sector, MBM, reported a NPI sales volume of 10.3k tons and booked total sales of USD161 million.

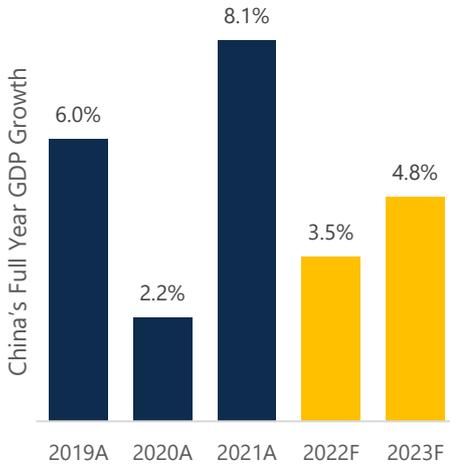
Exhibit 1. Gold’s upward potential is just lurking around the next brewing global recession



Gold Spot prices have shown to pounce up and gain upward momentum for several years ahead before normalizing again following the peak of risk perception in the market.

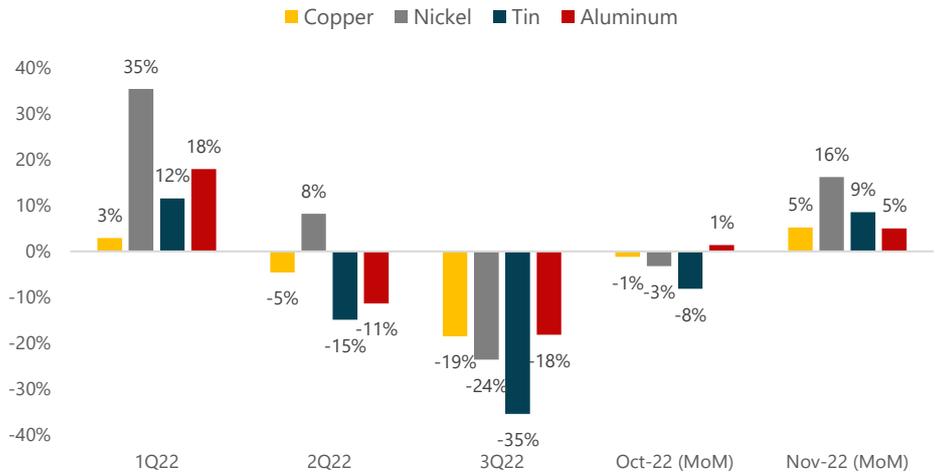
Source : Bloomberg, MNCS Research

Exhibit 2. China's GDP to rebound in 2023



Source : Bloomberg, MNCS Research

Exhibit 3. Base metal prices took a heavy blow in 3Q22

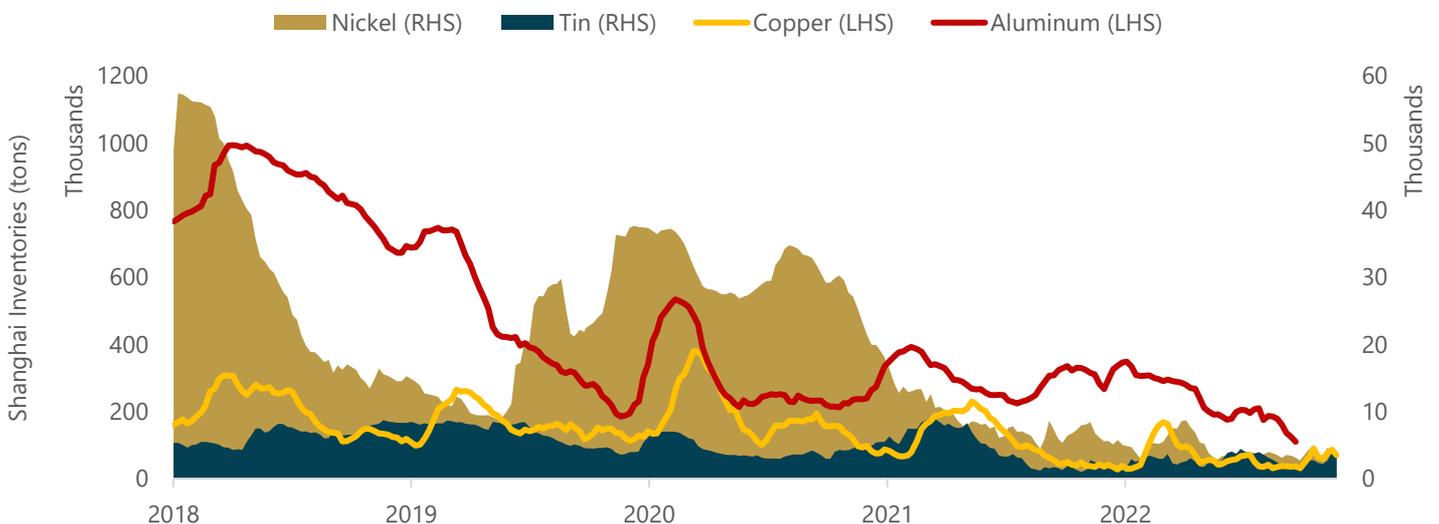


Source : Bloomberg, MNCS Research

What the future holds for base metals

- Going into 2023, we can expect metal prices to take a -15% dip. Specifically, aluminum prices are expected to plunge -11% YoY, whereas copper prices are to fall -16% YoY, while nickel prices are projected to drop -16% YoY and tin prices are forecasted to take a -29% YoY dive in FY23F. Major drivers include impending global recession sentiments, extended COVID-19 restrictive policies and a deeper degradation in the real estate sector in China.
- More than a quarter of aluminum and copper demand in China is derived from the construction and real estate industry which has started to see its own downfall. Average home prices in China dropped -1.6% YoY in Oct-22, recording the sixth consecutive decline and touching the lowest levels since 2012. Economists assert that China's housing supply must be lowered by 25% to calibrate with the fundamental demand going through 2031 and prevent a national economy collapse. Albeit China's GDP was forecasted to rebound 4.8% in FY23F, this policy, were it to be implemented, would cut off a significant portion of construction metals demand going forward, compared to the when the average housing demand in 2010-2019 peaked at 8 million housing units/year.
- On the other hand, we believe that the energy transition trend will bolster metals demand as renewable electricity generation is more metal intensive than conventional electricity generation. For instance, manufacture of EVs require 300% more copper per car than internal-combustion engine cars, and wind-powered generators utilize up to 3x more copper than gas-powered electricity generators.

Exhibit 4. Shanghai metal inventories



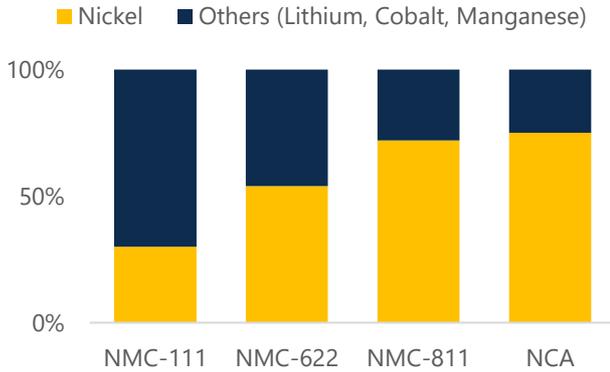
Source : Bloomberg, MNCS Research

Exhibit 5. Considerable amounts of investments had been put into the profitable future of nickel downstreaming

Company	Commodity	Location	Ongoing Investment Projects	Progress	Capex
ANTM	<ul style="list-style-type: none"> Ferronickel Nickel Ore Gold Silver Bauxite Alumina 	<ul style="list-style-type: none"> Southeast Sulawesi North Maluku West Java Kalimantan Barat 	Ferronickel smelter project in Halmahera Timur. Capacity: 13.5 kt Ferronickel p.a.	<ul style="list-style-type: none"> Construction progress reached 98% as of Mar-22. Signed electricity supply agreement with PT PLN. Set to be operational by 2Q23 	~USD260 million
			Oxygen-Enriched Side-Blown Furnace (OESBF) with CNGR Co. Capacity: 80 kt Nickel matte p.a.	<ul style="list-style-type: none"> Signed FA in Nov-22. Projected to complete by 2025. 	N/A
			Smelter Grade Alumina Refinery (SGAR) with PT Inalum and PT PP. Capacity: 1 mt Alumina p.a.	Projected to complete by Jul-23	~USD831.5 million
INCO	Nickel Matte	<ul style="list-style-type: none"> Central Sulawesi Southeast Sulawesi South Sulawesi 	Sorowako HPAL with Huayou. Capacity: 60 kt MHP p.a.	<ul style="list-style-type: none"> FID by early 2023. Construction to complete by 2026. 	USD1.8 billion
			Pomalaa HPAL with Huayou & Ford Motors. Capacity: 120 kt MHP p.a.	<ul style="list-style-type: none"> FID by end of 2022. Operational by 2026. Huayou share increased to 80%. 	USD4.5 billion
			Bahodopi RKEF with Tisco & Xinhai. Capacity: 73 kt p.a.	<ul style="list-style-type: none"> Early works in progress; Land acquisition, detail engineering and EPC selection. Operational by 2025. 	USD2.1 billion
MDKA	<ul style="list-style-type: none"> Nickel Pig Iron Gold Copper Silver 	<ul style="list-style-type: none"> South Sulawesi East Java Central Sulawesi Maluku 	Pani Gold Project. Resource: 4.7m oz Gold. Capacity: 250k oz Gold p.a.	<ul style="list-style-type: none"> Feasibility study to complete in 2023. Set to be operational by 2H25. 	N/A
			Acid Iron Metal construction project.	<ul style="list-style-type: none"> 98% design completion. 75% procurement completion. Construction to complete by Jul-23. 	Capex projected at USD412
			Tujuh Bukit Copper exploration project.	Exploration to complete by Mar-23.	USD131 million committed on PFS
			ZHN RKEF Smelter in construction. Capacity: 50 kt NPI p.a.	<ul style="list-style-type: none"> 58% completion as of Sep-22 Construction to complete by Jul-23. 	N/A
HRUM	<ul style="list-style-type: none"> Nickel Pig Iron Coal 	North Maluku	PT Position nickel mine	<ul style="list-style-type: none"> Undergoing: permit application & mine study, hauling road survey and drilling To be operational by 1Q24 	N/A
			PT Westrong Metal Industry nickel smelter	<ul style="list-style-type: none"> 23% civil construction 67% main workshop To be operational by 4Q23 	N/A

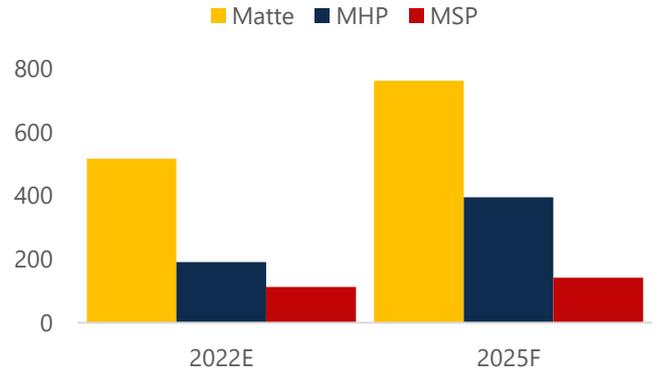
Source : Companies, MNCS Research

Exhibit 6. Nickel's uptake in EV batteries



Source : Fastmarkets, MNCS Research

Exhibit 7. Nickel intermediate products growth to soar through 2025



Source : Fastmarkets, MNCS Research

Indonesia's stake in nickel's long term upward momentum

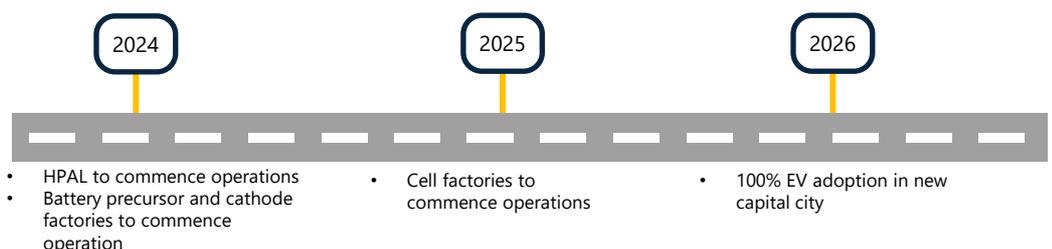
- As a nation with ample nickel reserves of 21 million tons (USGS, 2021), accounting 30% of world's reserves, the Indonesian Government continues to set in motion strategies to capitalize on the forthcoming spike in nickel demand amid green energy transitions. Several policies include the ban on raw nickel exports that has taken effect since 2020 and more recently the formation of the Indonesia Battery Corporation (IBC), a consortium of four SOEs, namely ANTM, MIND.ID, PERTAMINA and PLN. The ultimate aim of IBC is to cultivate national end-to-end EV battery ecosystem. To provide the transfer of technology necessary to reach that goal, IBC adopts joint venture contracts with global companies already adept at producing EV batteries. The Main Director of IBC affirmed that 60-70% of the EV batteries produced would be allocated for export.
- Backed by the accommodative government incentives and policies, EV market size is expected to grow at a CAGR of 24.3% through 2028. This vast increment in demand is projected to present a challenge for the supply side to keep up. By 2026 nickel demand for batteries would have reached 17.6% of all nickel use, compared to only 7.1% in 2021.
- Despite Indonesia's lawsuit loss against EU in Sep-22 at the WTO against the nickel ban, officials persist that the policy will not change as the lawsuit has not been legislated and they aim to make an appeal. At the worst case-scenario that the appeal would not pass, the government plans to enact higher export levies and DMO to preserve the nation's interest of developing the battery ecosystem.
- A potential downside risk is the increasing shift towards Lithium Ferro-Phosphate (LFP) batteries which does not use nickel, with the trade off of reduced energy rate (90/120 Wh/kg) but provides a cheaper EV for the mass-market.

Exhibit 8. Planned value chain



Source : Company, MNCS Research

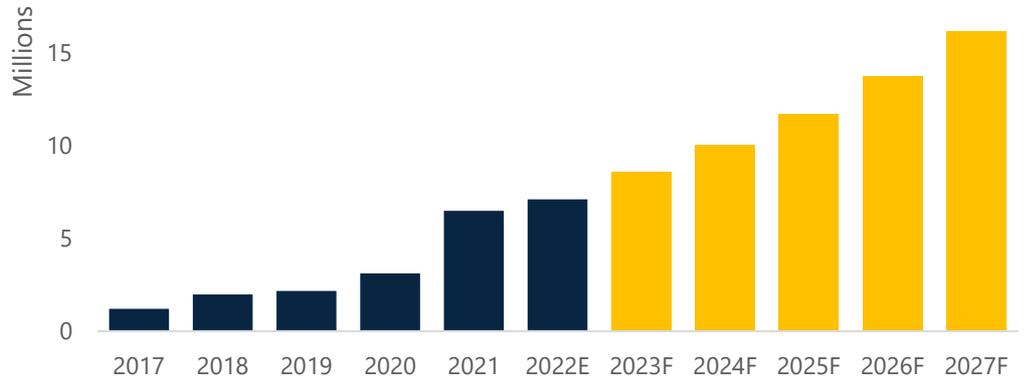
Exhibit 9. IBC development roadmap



Source : Company, MNCS Research

Exhibit 10. Globally, BEV sales faces bright future

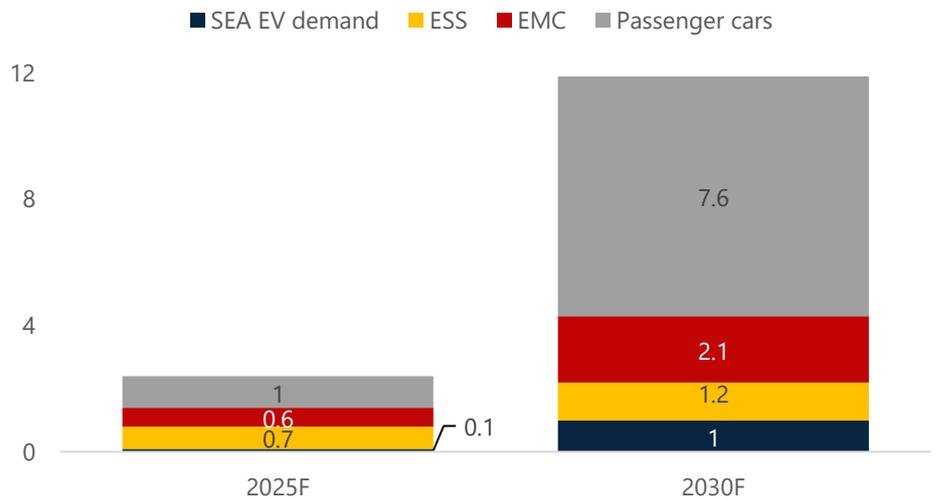
BEV sales from 2022 going forward with a CAGR of 18%



Source : Statista, MNCS Research

Exhibit 11. Battery demand expressed in GWh

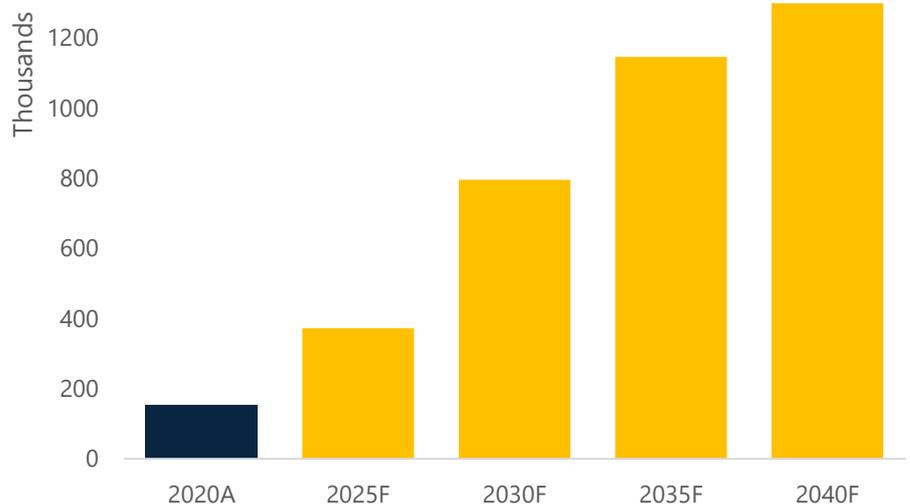
ESS: Energy Storage System
EMC: Electric Motor Cycle



Source : Company, MNCS Research

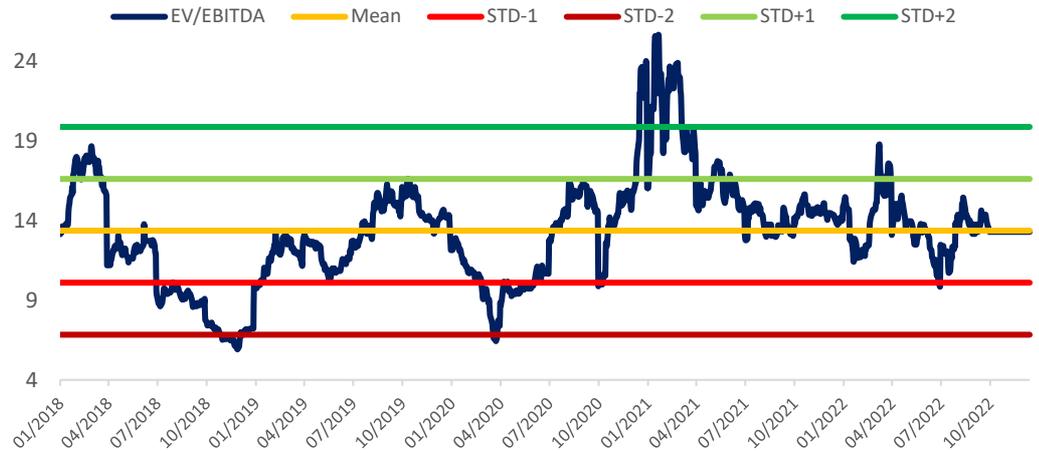
Exhibit 12. Global nickel demand for EV and ESS expressed in tons

Non-stainless steel nickel demand projected to grow 11% through 2040



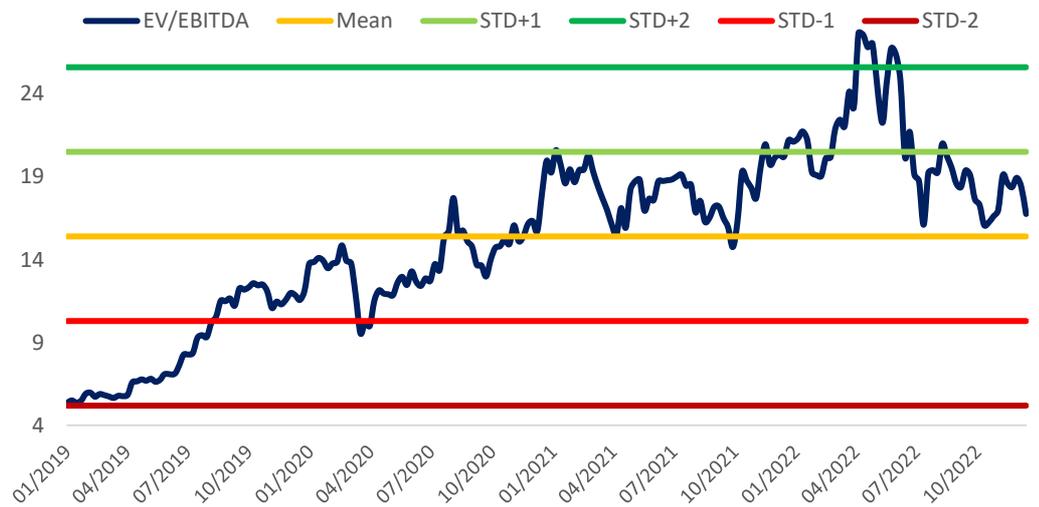
Source : Woodmac, MNCS Research

Exhibit 13. ANTM 5-year EV/EBITDA Band



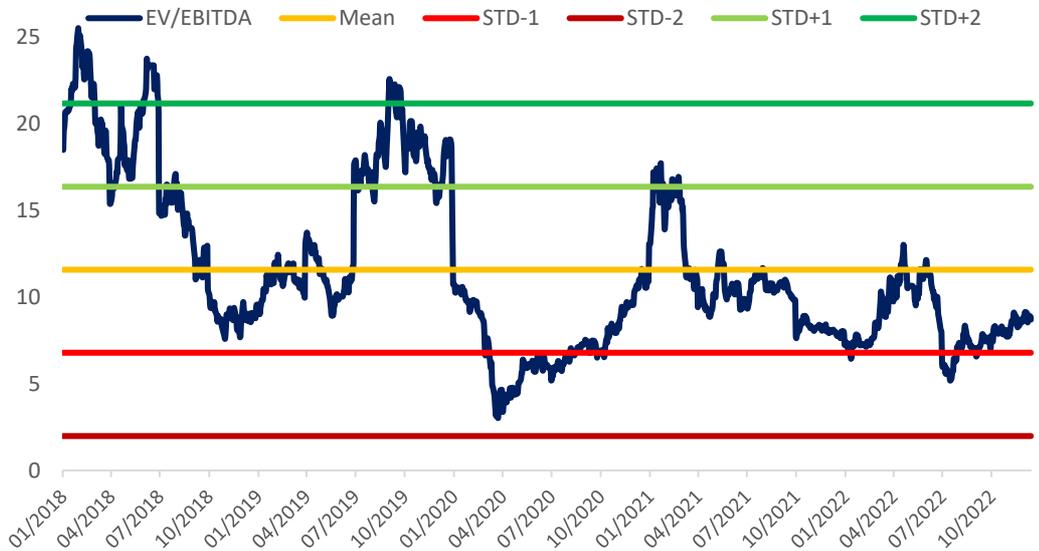
Source : Bloomberg, MNCS Research

Exhibit 14. MDKA 4-year EV/EBITDA Band



Source : Bloomberg, MNCS Research

Exhibit 15. INCO 5-year EV/EBITDA Band



Source : Bloomberg, MNCS Research

ANTM and INCO are traded within its 5-year average mean and STD-1 of EV/EBITDA Band, while MDKA is currently traded within its 4-year average mean and STD+1.

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OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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