

Merdeka Copper (MDKA IJ)

ESG 2.0 review: Aiming for long-term sustainability

Below average ESG score

Under Maybank's ESG 2.0 proprietary review, MDKA currently scores 36, below the 50 average on our ESG rating scale. We believe the company has a good sustainability policy, is constantly expanding its disclosures and is committed to reducing its emissions intensity. However, its 'E' rating on quantitative scoring weakened due to its new project development, which increased greenhouse gas (GHG) and energy intensity significantly in FY22. Maintain BUY as MDKA's diversified multi-assets with multiple operation and long-term growth projects should support long-term earnings growth from FY25E onwards.

Lags in quantitative rating

By our quantitative metrics, MDKA is moderate in its 'S' and 'G' rating but is lagging in its 'E' rating. To increase the score, MDKA can 1) expand disclosure by recording Scope 3 and non-GHG emissions, 2) improve efficiency, hence reducing emissions and energy intensity, 3) raise renewable energy contribution to its energy mix.

Upstanding ESG program

MDKA has incorporated sustainability in its operations, establishing a sustainability committee to ensure ESG implementation in the company. Its ESG program includes land reclamation of 7.3ha, or 10.3% of disturbed land in FY22, along with having a community development program, which the company funded to the tune of USD3.4m in FY22.

Net zero emissions by 2050

MDKA is targeting net zero emissions by 2050, faster than Indonesia's target of 2060. The company designed its GHG reduction roadmap in FY22, aiming to reduce 50% of GHG emission intensity for gold and copper production by 2030. Moreover, it will utilise geothermal and solar energy as substitutes for cleaner energy. With that, the company's goal is to reduce its FY23 Scope 1 and Scope 2 GHG emissions by 10% and 50%, respectively, for its Tujuh Bukit mine. Consequently, MDKA could improve its ESG rating quickly in the future as its policies start to bear fruit.

FYE Dec (USD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	322	381	864	1,114	1,676
EBITDA	130	184	304	335	496
Core net profit	56	59	73	87	136
Core FDEPS (cts)	0.3	0.3	0.3	0.4	0.6
Core FDEPS growth(%)	(30.6)	0.2	18.5	18.3	56.6
Net DPS (cts)	0.0	0.0	0.0	0.0	0.0
Core FD P/E (x)	65.9	nm	72.4	61.2	39.1
P/BV (x)	6.9	8.1	4.8	4.4	4.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAA (%)	6.0	5.3	3.2	2.6	3.8
EV/EBITDA (x)	29.4	33.4	21.7	19.9	14.1
Net gearing (%) (incl per p	23.5	19.0	28.6	23.6	30.5
Consensus net profit	-	-	57	70	116
MIBG vs. Consensus (%)	-	-	103.8	23.8	17.0

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BUY

Share Price	IDR 3,330
12m Price Target	IDR 5,300 (+59%)
Previous Price Target	IDR 5,300

Company Description

PT Merdeka Copper Gold Tbk operates as a holding company, which engages in the mining, exploration, and production of gold, silver, copper and nickel.

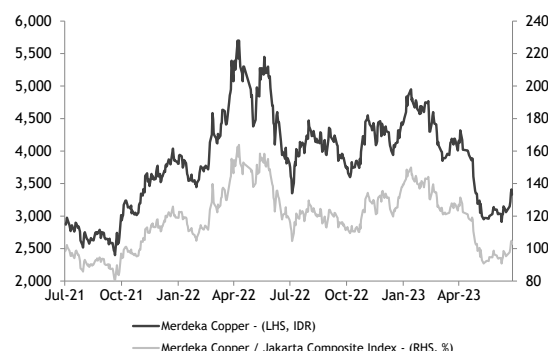
Statistics

52w high/low (IDR)	4,950/2,910
3m avg turnover (USDm)	11.4
Free float (%)	51.4
Issued shares (m)	24,111
Market capitalisation	IDR80.3T USD5.3B

Major shareholders:

Saratoga Investama Sedaya	18.3%
Mitra Daya Mustika	12.1%
Garibaldi Thohir	7.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	(20)	(13)
Relative to index (%)	4	(19)	(14)

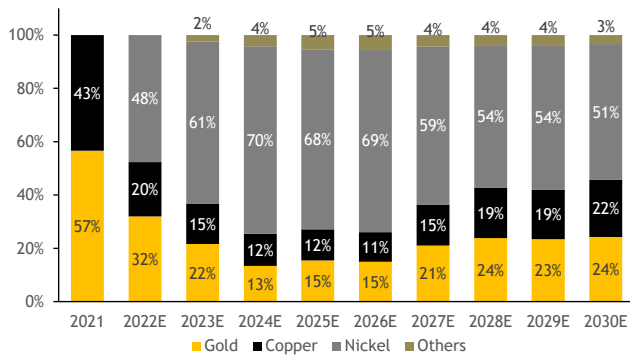
Source: FactSet

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 Tear Sheet Insert

Value Proposition

- MDKA is a diversified multi-asset mining group with multiple operations and long-term growth projects. Key commodities exposure: nickel, copper and gold.
- MDKA is backed by strong key shareholders and business partners to drive growth.
- MDKA’s main driver is the TB Copper project, which is one of Indonesia’s largest copper resources with inferred resources of 1.78bt containing 8.2Mt of copper and 28.6Moz of gold.

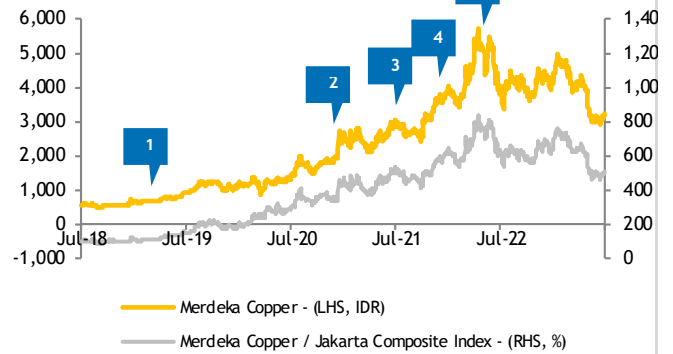
MDKA’s revenue segment by commodities type



Source: Company

Price Drivers

Historical share price trend



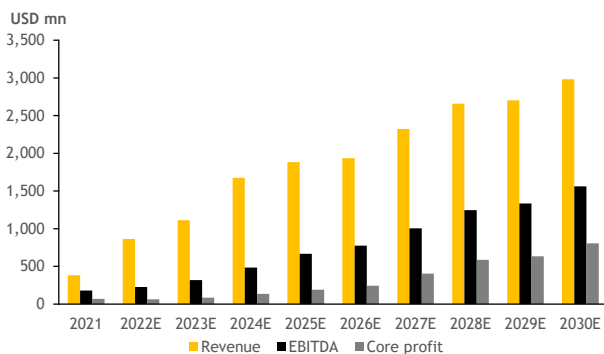
Source: Company, Maybank IBG Research

1. MDKA acquired 67% of the Wetar copper project.
2. Inclusion in the MSCI index.
3. MDKA acquired controlling stake in Pani gold project.
4. Company announced investment in Merdeka Battery Material, one of Indonesia’s largest undeveloped nickel assets with two operating smelters.
5. LME nickel prices soared to record highs due to a short-sell squeeze led by Tsingshan Group.

Financial Metrics

- We forecast 27%/32% EBITDA/NPAT CAGR over FY21/30E to USD1.6b/806m.
- We expect revenue to be driven by nickel (51%), gold (24%), copper (22%) and others (3%).
- Strong balance sheet and operational cash flow generation from existing portfolio to drive new growth projects.

MDKA - financial forecasts



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Higher metal prices from rising critical mineral demand and lower supply due to Russia’s metal export ban.
- Successful monetization of TB copper and other growth projects (Pani, AIM and MBM).
- China faster reopening of its economy, driving higher demand for copper and nickel.

Downside

- Lower metal price from slower-than-expected global economic growth.
- Delays in construction and production of the new growth projects.
- Higher-than-expected interest rates, posing unfavourable environment for financing the company’s projects and expansion.

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Risk Rating & Score ¹	High risk (45.8)
Score Momentum ²	-0.0
Last Updated	13 Oct 2022
Controversy Score ³ (Updated: 27 Nov 2019)	0

Business Model & Industry Issues

- Global shift towards net-zero and clean energy will have a far-reaching impact on mineral demand over the next 20 years. This has generally created a positive image of the metal industry from an ESG perspective. This structural shift is positive for copper and nickel demand over the long term and stock valuation.
- MDKA is a diversified multi-asset mining group with multiple operations and long-term growth projects. It has three producing assets: Tujuh Bukit Gold (TB gold) mine, Wetar copper mine and Merdeka Battery Materials (MBM); and three developing assets: Tujuh Bukit Copper (TB copper) Project, Pani gold project and Acid Iron Metal (AIM) project.
- While there is growing concern about high emissions for nickel processing, MDKA has fully committed to engage in carbon off-setting programs to achieve the following goals: 1) 29% reduction in GHG emission intensity by 2030; and 2) reach net-zero emissions by 2050.

Material E issues

- MDKA's revenue is well-diversified and is driven 48% by nickel, 20% by copper and 32% by gold.
- The company has established a commitment to engage in a carbon off-setting program towards achieving the following goals: 1) 29% reduction in GHG emission intensity by 2030; and 2) reach net-zero emissions by 2050.
- The company is accredited with ISO 45001 (Occupational Health and Safety Management), ISO 14001 (Environmental Management) and ISO 9001 (Quality Management) certifications.
- MDKA set environmental policy goals to reduce GHG, improve energy efficiency, reduce water consumption, prevent pollution and implement site reclamation to the highest level to protect biodiversity.

Material S issues

- As of 2022, c.91.7% of employees were male and 8.3% female. The female figure increased from 6% in 2019.
- One out of eight (12.5%) of the BoD members are female. Meanwhile, all six of the BoC are male.
- Lost Time Injury Frequency Rate, which measures the number of work accidents resulting in the loss of workdays per 1m working hours, was 0.97, higher than 0.66 in 2021 and 0.43 in 2020.
- MDKA prioritized community development by employing from the local community. 71% of total employee are local, higher than 70% in 2020.

Key G metrics and issues

- The board of directors (BoD) manages the company while the board of commissioners (BoC) supervises the performance of company management.
- In performing their duties, the board of commissioners is assisted by supporting elements, namely the audit committee, and the nomination and remuneration committee; while the board of directors is assisted by the corporate secretary and internal audit unit.
- The BoC consists of six members, and two of them (33%) are independent commissioners. The BoD consists of eight members (1 female). Four members of the BoC and BoD are related to the main shareholders (Saratoga, Provident and Garibaldi Thohir).
- Shares of the BoC and BoD members account for 9.53% of total outstanding shares.
- In FY21 total remuneration of the BoC and BoD and its consolidated subsidiaries were c.6.5% of core profit.
- The company frequently engages in related-party transactions, particularly for rental, lease liabilities and providing loans. As of FY21, transactions with related parties amounted to 6.27% of total assets, liabilities and revenue.
- The company recently provided a USD225m loan to Merdeka Battery Material (MBM), to refinance its loans from original lenders.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's scores since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s) with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Quantitative Parameters (Score: 6)						
	Particulars	Unit	2020	2021	2022	BRMS IJ (2022)
E	Scope 1 GHG emissions	tCO2e	72,339	109,613	234,380	16,938
	Scope 2 GHG emissions	tCO2e	25,248	30,061	551,212	5,425
	Total	tCO2e	97,587	139,674	785,592	22,363
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	456
	Total	tCO2e	97,587	139,674	785,592	22,819
	GHG intensity (Scope 1 and 2) - TB oxide	tCO2e/oz	0.42	0.58	0.69	3.151
	GHG intensity (Scope 1 and 2) - Wetar	tCO2e/ton	5.79	3.47	5.34	N/A
	Hazardous waste 3R rate	%	86.9%	96.1%	93.9%	N/A
	Water intensity - TB Oxide	m3/oz	9.9	10.8	1.1	16.1
	Water intensity - Wetar	m3/ton	26.9	7.7	13.4	N/A
	Energy intensity - TB oxide	GJ/oz	4.2	5.5	6.9	13.5
	Energy intensity - Wetar	GJ/ton	78.1	46.8	72.0	N/A
	Share of reclaimed land	%	63.7%	24.7%	10.3%	66.1%
	Other emissions (Sox, Nox, PM)	ton	N/A	N/A	N/A	N/A
	Cases of environmental non-compliance	number	0	0	0	0
S	% of women in workforce	%	7.0%	9.0%	8.3%	15.4%
	% of women in management roles	%	0.0%	7.1%	7.7%	N/A
	% of locals in workforce	%	66%	70%	71%	N/A
	Community development funding	USDm	3.3	3.6	3.4	0.34
	Lost Time Injury rate (LTIFR)	No./m hrs	0.22	0.08	0.11	0.00
	Total Recordable injury frequency rate (TRIFR)	No./m hrs	0.43	0.66	0.97	0.00
G	Board salary as % of reported net profit	%	2.69%	8.58%	13.19%	5.04%
	Independent members on the Board	%	21%	23%	23%	15%
	Female directors on the Board	%	0%	0%	13%	0%

Qualitative Parameters (Score: 67)	
a) is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?	Yes, an ESG and sustainability committee was set up in 2021 and is responsible for implementation of the company's ESG programs. It is chaired by the VP Director with the members consisting of Executive Committee, Operation GM, and Support Function GM.
b) Are there any controversies relating to mining/extraction, labour rights or human rights violation?	No
c) Does the company follow TCFD framework for ESG reporting?	Yes, the company has assigned a third party consultant to conduct TCFD assessments for it.
d) Does the company capture or plan to capture Scope 3 emissions?	It currently has no record of Scope 3 emissions.
e) Does the company do land reclamation for its sites?	Yes, the company does reclamation by rehabilitating and re-vegetating affected areas after completing plant and waste sites.
f) Is there a social impact commitment in place?	Yes it has a social commitment program in place, with USD3.4m of funding distributed to numerous programs, including education, health, social and cultural, as well as infrastructure development.

Target (Score: 67)		
Particulars	Target	Achieved
GHG emission (Scope 1 and Scope 2) intensity reduction by 2030 with 2021 as baseline	29%	N/A
Achieved net-zero emissions	2050	N/A
Zero fatalities	0	0
Increase hazardous waste 3R rate	N/A	94%
Increase rehabilitation area (ha)	N/A	7.3
Impact		
NA		
Overall Score: 36		
As per our ESG matrix, Merdeka Copper (MDKA IJ) has an overall score of 36.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	6	3
Qualitative	25%	67	17
Target	25%	67	17
Total			36

As per our ESG assessment, MDKA has an established ESG framework, with a committed long-term commitment to reduce its GHG emissions but it needs to improve its quantitative "E" disclosure and achievement target. MDKA's overall ESG score is 36, which is marginally below average on our ESG rating (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Appendix 1: ESG scoring Methodology

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%), and ESG target (25%).

For the quantitative, qualitative, and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change. 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters is the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	61.0	120.2	44.4	61.2	39.1
Core P/E (x)	65.2	101.4	70.6	61.2	39.1
Core FD P/E (x)	65.9	nm	72.4	61.2	39.1
P/BV (x)	6.9	8.1	4.8	4.4	4.0
P/NTA (x)	6.9	8.1	4.8	4.4	4.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	2.0	0.6	nm	0.8	nm
EV/EBITDA (x)	29.4	33.4	21.7	19.9	14.1
EV/EBIT (x)	51.4	89.9	34.1	36.8	21.6
INCOME STATEMENT (USD m)					
Revenue	321.9	381.0	864.4	1,114.0	1,676.0
EBITDA	129.9	183.6	303.6	335.4	495.8
Depreciation	(42.5)	(74.0)	(101.8)	(146.3)	(162.9)
Amortisation	(13.1)	(41.3)	(8.6)	(7.6)	(10.1)
EBIT	74.3	68.2	193.3	181.4	322.8
Net interest income / (exp)	(18.1)	(11.5)	(13.7)	(35.0)	(32.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	56.2	56.7	179.6	146.5	290.3
Income tax	(27.3)	(23.3)	(43.1)	(32.2)	(63.9)
Minorities	7.3	2.8	(20.0)	(27.6)	(90.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	36.2	36.1	116.5	86.6	135.7
Core net profit	56.0	58.8	73.3	86.6	135.7
BALANCE SHEET (USD m)					
Cash & Short Term Investment:	51.0	185.5	471.1	473.1	191.0
Accounts receivable	2.1	0.6	110.0	71.3	107.2
Inventory	101.0	131.4	263.7	339.8	511.2
Property, Plant & Equip (net)	296.6	298.2	1,045.3	1,163.9	1,466.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	478.9	662.9	1,354.3	1,386.7	1,436.6
Total assets	929.6	1,278.6	3,244.3	3,434.8	3,712.0
ST interest bearing debt	59.1	207.5	298.0	278.0	258.0
Accounts payable	20.2	29.6	110.0	256.2	377.0
LT interest bearing debt	124.5	126.3	735.7	685.7	635.7
Other liabilities	162.0	136.0	136.0	136.0	136.0
Total Liabilities	366.0	499.2	1,279.5	1,355.7	1,406.5
Shareholders Equity	535.0	755.6	1,111.0	1,197.6	1,333.3
Minority Interest	28.7	23.8	853.8	881.4	972.2
Total shareholder equity	563.6	779.4	1,964.8	2,079.0	2,305.5
Total liabilities and equity	929.6	1,278.6	3,244.3	3,434.8	3,712.0
CASH FLOW (USD m)					
Pretax profit	56.2	56.7	179.6	146.5	290.3
Depreciation & amortisation	55.6	115.4	110.4	154.0	173.0
Adj net interest (income)/exp	(18.1)	(11.5)	(13.7)	(35.0)	(32.5)
Change in working capital	(19.7)	(19.6)	(161.2)	108.8	(86.6)
Cash taxes paid	(27.3)	(23.3)	(43.1)	(32.2)	(63.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	120.0	132.9	65.6	349.5	222.1
Capex	(45.6)	(98.3)	(1,548.9)	(305.0)	(525.0)
Free cash flow	74.3	34.5	(1,483.2)	44.5	(302.9)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	168.3	238.9	0.0	0.0
Change in Debt	(103.1)	150.2	699.9	(70.0)	(70.0)
Other invest/financing cash flow	29.9	(215.8)	830.0	27.6	90.8
Effect of exchange rate changes	0.2	(2.8)	0.0	0.0	0.0
Net cash flow	1.4	134.4	285.6	2.1	(282.2)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(19.9)	18.4	126.9	28.9	50.5
EBITDA growth	(40.9)	41.4	65.4	10.5	47.8
EBIT growth	(41.6)	(8.1)	183.3	(6.1)	77.9
Pretax growth	(48.2)	0.9	216.6	(18.4)	98.2
Reported net profit growth	(48.9)	(0.2)	222.3	(25.6)	56.6
Core net profit growth	(29.0)	4.8	24.7	18.3	56.6
Profitability ratios (%)					
EBITDA margin	40.3	48.2	35.1	30.1	29.6
EBIT margin	23.1	17.9	22.4	16.3	19.3
Pretax profit margin	17.5	14.9	20.8	13.1	17.3
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	11.2	9.5	13.5	7.8	8.1
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.5
Assets/Equity (x)	1.7	1.7	2.9	2.9	2.8
ROAE (%)	na	na	na	na	na
ROAA (%)	6.0	5.3	3.2	2.6	3.8
Liquidity & Efficiency					
Cash conversion cycle	125.8	127.2	91.4	78.2	49.7
Days receivable outstanding	1.3	1.3	23.0	29.3	19.2
Days inventory outstanding	170.9	160.4	105.7	124.5	119.3
Days payables outstanding	46.4	34.4	37.4	75.5	88.8
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.0	1.4	2.0	1.6	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.6	2.5	2.5	2.6
Net gearing (%) (incl perps)	23.5	19.0	28.6	23.6	30.5
Net gearing (%) (excl. perps)	23.5	19.0	28.6	23.6	30.5
Net interest cover (x)	4.1	5.9	14.1	5.2	9.9
Debt/EBITDA (x)	1.4	1.8	3.4	2.9	1.8
Capex / revenue (%)	14.2	25.8	179.2	27.4	31.3
Net debt/ (net cash)	132.6	148.3	562.7	490.6	702.8

Source: Company; Maybank IBG Research

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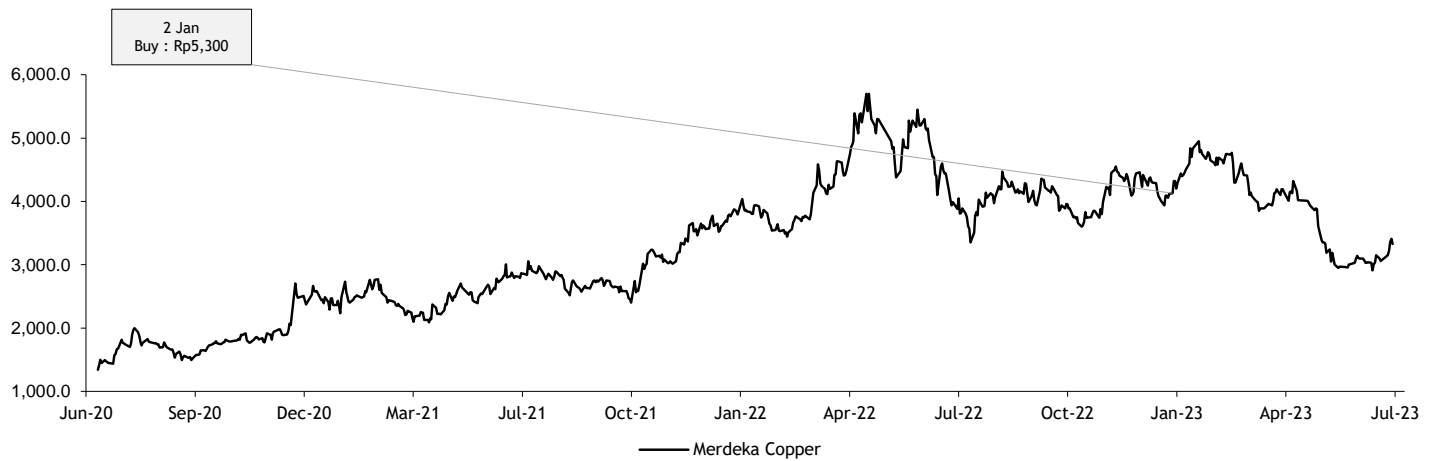
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