PT Merdeka Copper Gold Tbk (MDKA)
Recommendation: Hold

21 October 2019

Estimated intrinsic value: Rp1,125

- Gold prices surge amidst global economic uncertainties
- Substantial amount of resources from Tujuh Bukit project
- Solid management backed by prominent shareholders
- Increase liquidity in stock trading has attracted both local and foreign investors

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Increase in Gold Price as Safe Haven Investment

In 2019, the price of Gold has rallied to US$ 1,550.00/oz which was its highest point since 2013. Many factors contributed to this recent price surge. An increasing fear of recession has led to rising amount of gold purchases. Moreover, a recent trend in rate cuts from Central Banks around the world has given additional boost to gold price. While the future price of gold is difficult to predict and still be inversely correlated to the overall economic condition, Gold will still be viewed as one of the safest asset classes around. For gold producers with substantial reserves like MDKA, this would provide them with long term source of revenues.

Potential values from TB Porphyry Gold deposit

MDKA controls the Tujuh Bukit (TB) mine in Banyuwangi - East Java via its subsidiary, PT Bumi Suksesindo. From the Tujuh Bukit mine, only the open pit parts of the project, called Tujuh Bukit Oxide, is currently operational with annual gold production between 180.000 - 200.000 oz. TB Oxide is planned to be mined out until 2025. However, the biggest hidden value of Tujuh Bukit mine lies deeper underground. Under the open pit, lies the Tujuh Bukit Porphyry project estimated to contain deposit totalling mineral resources of 1.9 Billion tonnes, 0.45% of which is copper. Tujuh bukit Porphyry also contain 0.45 gram of gold per ton. According to initial study, the upper parts of TB Porphyry, called the Upper High Grade Zone (UHGZ), contains approximately 260 Mt which contains 6 Moz of gold and 2 Mt of Copper. The project is targeted to begin production in 2025 for 20 years.

MERDEKA COPPER GOLD

MDKA Key Figures (As of 18 Oct 2019)	
Current Price	1250
Market Cap (Rp):	27.37 T
Shares O/S:	4.16 B
EPS (Annualized):	$ 0.02
P/E Ratio (Annualized):	21.6 x
P/BV Ratio:	4.15 x
Debt to Equity Ratio:	1.02 x

Prominent Stakeholders Translate to Solid Business Operations

The stakeholders in MDKA are filled with many prominent figures from both business and political circles in Indonesia. Its biggest shareholder is Saratoga Group owned by Soeryadjaya family (Founding family of Astra International) and Sandiaga Uno (A vice president candidate at 2019 presidential election). Another notable shareholder is Mr Garibaldi Thohir who is also a respected business figure and have a previous successful venture with Saratoga Group in PT Adaro Energy Tbk. Moreover, the Banyuwangi local government also owns 5,5% stake in MDKA. This would ensure a smoother path with local residents of Banyuwangi where the Tujuh Bukit mine operates as MDKA most valuable assets. From the management side, the most notable person is Mr. Richard Bruce Ness which assumes the position of Vice President Director. Mr Ness has over 40 years of experience in the mining Industry which includes positions in some of the biggest companies like: Freeport, Newmont, Indika, and Petrosea. We believe that the solid management and shareholders backgrounds of MDKA will translate to a strong company operations.

Increase in Stock Trading Activities with Potential to become a Benchmark Stock

MDKA share price has experienced a rapid increase since the start of Q2/2019. This was soon followed by a surge in trading volume activities starting from second half of 2019. Higher gold price and awareness of MDKA potential resources have attracted both local and foreign investors. This increase in trading activities has led to speculation that MDKA could be next in line to be included in several benchmark indices. For instance, we have run a test on MSCI-index methodology to MDKA share. The result shows that MDKA has fulfilled most requirements to be included as a constituent, with the exception of minimum trading requirements for the last 4 quarters. With the recent stock split in October 2019, we expect that MDKA can maintained the level of trading volume in the stock market and hence has a high potential to be included in both global and local indices within the next 12 months.

DCF Valuation

We estimate the intrinsic value of MDKA to be at **Rp 1,125** per share. The method used is discounted cash flow (DCF) with assumed selling price to be the same as the current market price of gold and copper.

TB Oxide Project	Cumulative (2019-2025)		Wetar Project	Cumulative (2019-2021)		TB Porphyry Project	Cumulative (2025 - 2045)
Volume (oz)	1,260,000		Volume (ton)	63,000		Revenue	12,579,000,000
ASP (US$/oz)	1,440		Volume (lb)	126,000,000		Gross Profit	5,311,021,514
			ASP (US$/lb)	3		G&A	326,550,000
						EBIT	4,984,471,514
Revenue	1,814,400,000		Revenue	347,634,000		Interest Expense	139,419,942
Cost of revenue	953,316,268		NPM	5.36%		EBT	4,845,051,573
EBT	861,083,732		PBIT	18,616,197		Net Income	3,391,536,101
WACC	8.27%		WACC	8.27%		WACC	8.27%
PV	674,694,296		PV	16,919,247		PV	1,046,465,393

Total PV (Oxide + Wetar+UHGZ)	1,738,078,937
USD/IDR Rate	14,166
Total NPV (IDR)	24,621,626,217,582
Shares Outstanding	21,897,591,650
NPV / Share	**Rp 1,125**

Key Assumptions	
Rf	3.96%
Rm	6.73%
Beta	1.34
Kd	12.68%
Ke	7.67%
WACC	8.27%

Appendix 1: MDKA Financial Performance

Income statement (thousand US$)	2017	2018	YoY	1H18	1H19	YoY
Revenue	129,425	293,882	127.07%	114,865	191,772	66.95%
Gross Profit	81,721	138,762	69.80%	64,336	86,619	34.64%
Operating Profit	74,514	123,216	65.36%	57,650	78,106	35.48%
Profit before tax	63,091	86,770	37.53%	49,425	66,515	34.58%
Net Profit	43,133	57,867	34.16%	33,765	44,556	31.96%
Profitability						
Divident Payout Ratio	-	-		-	-	
Gross Margin	63.14%	107.21%		56.01%	75.41%	
Operating Margin	57.57%	95.20%		50.19%	68.00%	
Net Margin	33.33%	44.71%		29.40%	38.79%	
Return on Equity	11.63%	13.71%		-	-	

Appendix 2 : TB Heap Leach Oxide Project - Mineral Resources as of 31 December 2018

	Unit	Measured	Indicated	Inferred	Total
Tonnes	kt	51,001	31,082	19,744	101,828
Gold Grade	Au g/t	0.84	0.54	0.53	0.69
Silver Grade	Au g/t	18.71	14.64	11.49	16.07
Contained Gold Metal	Au koz	1,374	540	334	2,248
Contained Silver Metal	Au koz	30,682	14,629	7,292	52,603

Appendix 3: Wetar Project - Mineral Resources as of 31 December 2018

	Unit	Measured	Indicated	Inferred	Total
Tonnes (In-situ and Pads)	Mt	9.4	0.4	0	9.8
Copper Grade (In-situ and Pads)	Cu %	1.99	2.19	0.95	1.99
Copper Metal (In-situ and Pads)	Cu kt	187	9	0	196

Appendix 4: Tujuh Bukit Copper Porphyry Project - Mineral Resources as of 31 December 2018

	Unit	Measured	Indicated	Inferred	Total
-500 to 0 m relative to sea level	`				
Tonnes	Bt	-	-	1.09	1.09
Copper Grade	Cu %	-	-	0.47	0.47
Gold Grade	Au g/t	-	-	0.48	0.48
Contained Copper Metal	Cu Blbs	-	-	11.3	11.3
Contained Gold Metal	Au Moz	-	-	16.9	16.9
Below -500m relative to sea level					
Tonnes	Bt	-	-	0.85	0.85
Copper Grade	Cu %	-	-	0.43	0.43
Gold Grade	Au g/t	-	-	0.42	0.42
Contained Copper Metal	Cu Blbs	-	-	8.0	8.0
Contained Gold Metal	Au Moz	-	-	11.4	11.4
Total mineral resources					
Tonnes	Bt	-	-	1.94	1.94
Copper Grade	Cu %	-	-	0.45	0.45
Gold Grade	Au g/t	-	-	0.45	0.45
Contained Copper Metal	Cu Blbs	-	-	19.3	19.3
Contained Gold Metal	Au Moz	-	-	28.3	28.3

Appendix 5: MDKA 1-year Share Price



Appendix 6: Gold Price 1-year movement



Appendix 7: Copper Price 1-year movement



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