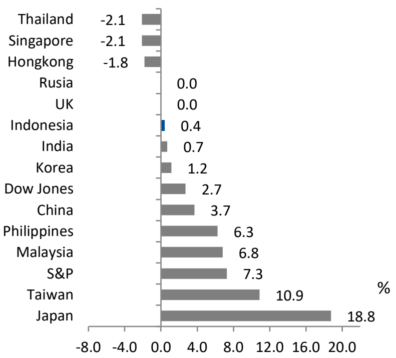
Equity Strategy

Looking into potential late-cycle plays in commodity sectors

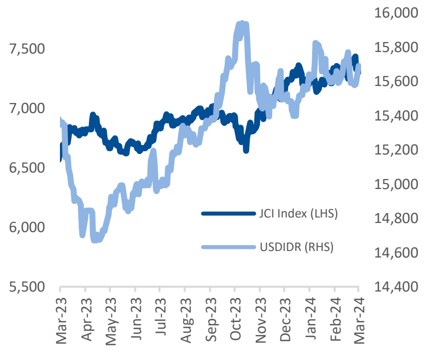
- **As metal prices are likely entering a 'late-cycle' phase, we see copper's outlook as particularly attractive as it is backed by falling inventory.**
- **While Brent's price surge is backed by a firmer demand outlook, thermal coal S-D seasonality suggests investors should only add in 2Q24.**
- **Amid light funds' positioning, better clarity on metals' production growth may improve sentiment. For now, we like MEDC, ANTM, ITMG.**

YTD Regional Market (%)



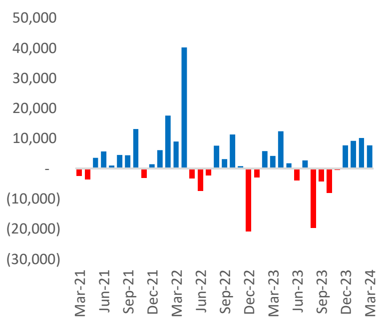
Source: Bloomberg

JCI vs USD



Source: Bloomberg

Net Foreign Flow (Rptr)



Source: Bloomberg

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Metals and oil price surge resembles late-cycle movement in commodities
We see the recent surge in commodity prices (metals: copper +6.0% YTD, nickel +8.9% YTD; oil: Brent +10.8% YTD) as resembling price movements in the late economic cycle. In prior periods, the late cycle price surge for copper lasted for 4-8 months, implying that the current cycle (which started in Oct23) may last for another 1-4 months. In the case of copper, the price recovery in FY24-YTD has been supported by a tighter market balance on the back of a demand surge that outpaced supply, as reflected in the declining inventory at the LME. This, however, is not the case for nickel, which continued to see rising inventory at the LME, confirming the oversupply condition in the market.

Prices remain driven by speculation, implying upside risk (mainly for copper)
Looking deeper into metals trade, we note that the price rebound in LME copper prices has mainly been driven by trades from the "investment funds" (i.e., hedge funds/traders), while the producers/commercial buyers have remained bearish (even bigger short positions than the highs in Sep20) – please see exh.6 – with a similar pattern in nickel. Thus, we see the surge in metal prices as driven more by speculative trades and yet to reflect confidence amid the improving market balance (in the case of copper). This implies possible upside risk for copper if the producers/ commercial buyers turn more positive on the price outlook.

Thermal coal remains a laggard as S-D seasonality prevails
Thermal coal has remained a laggard within the commodities' space, with only a limited rebound in Newcastle prices and still flattish ICI prices YTD. This is not surprising to us as we are approaching the seasonally soft season post-winter demand and as inventory levels in China and India have remained at relatively elevated levels (exh.9 & 10).

Light positioning in metals and coal; should investors play the late cycle?
As of Feb24, domestic funds were largely UW in the metals sector (-220bps UW in metals), neutral in coal, but OW in O&G (+150bps).

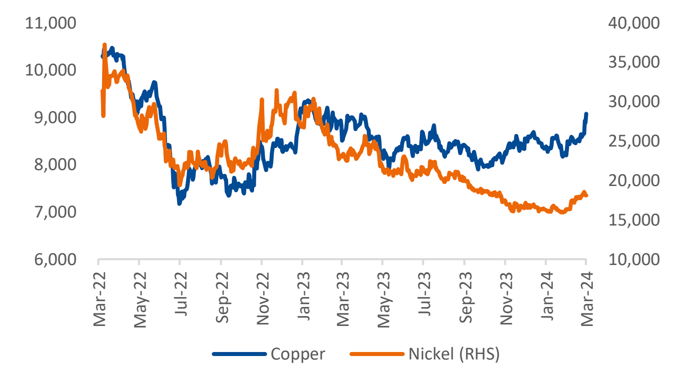
- **Metals**: despite the attractive top-down view, sector sentiment is clouded by delays in the govt's approval of a production plan (RKAB). Our metals sector analyst Hasan Barakwan favors ANTM (Buy, TP Rp2,100) given the potentially strong growth in FY24 nickel ore production and possible reversal in provisions.
- **O&G**: Our O&G analyst Hasan continues to like MEDC (Buy, TP Rp1,950) on a higher production growth outlook.
- **Coal**: thermal coal price seasonality suggests that investors should only aggressively add in 2Q24. For now, we favor stocks with high dividends and reliable production growth (ITMG, Buy TP Rp28,800, final dividend yield of 13.1%).

Higher commodity prices were the leading wave of high prices in general (i.e., inflation), and that is why commodity returns do better in inflationary times, while stocks and bonds perform poorly – Jim Rogers ('Hot Commodities')

Looking into potential late-cycle tactical-plays in commodity sectors

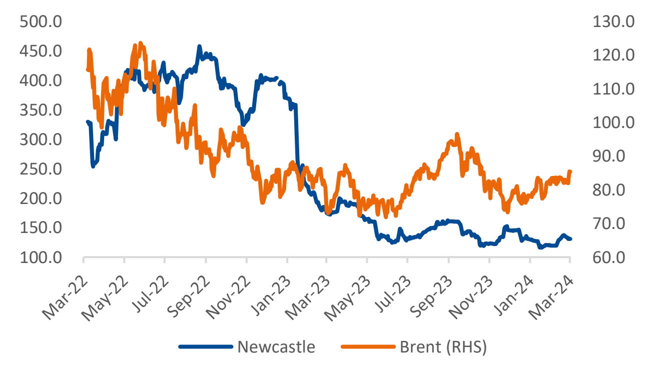
We see the recent surge in commodity prices (metals: copper +6.0% YTD, nickel +8.9% YTD; oil: Brent +10.8% YTD) as resembling typical late economic cycle movements. As also demonstrated in 1990, 2000 and 2008, the price surge for copper during the late economic cycle may last for 4-8 months. If we are currently in the same stage of the cycle, then copper price increases (which started at end-Oct23) may last for another 1-4 months.

Exhibit 1. LME Copper, nickel prices



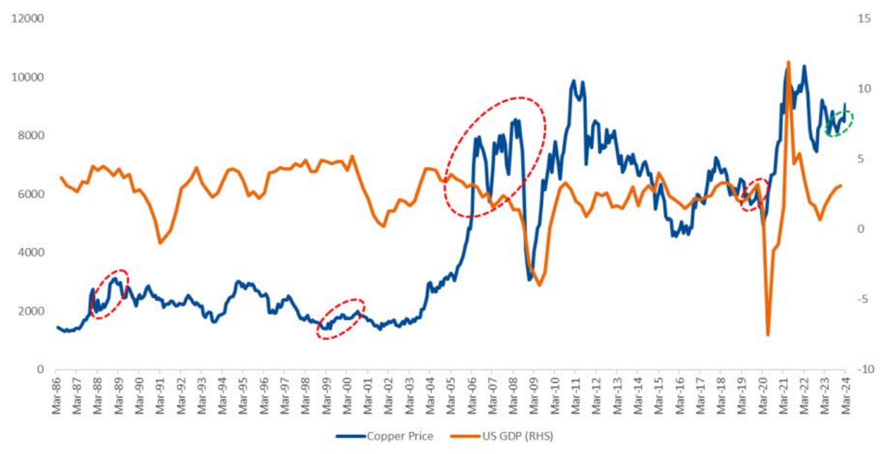
Source: Bloomberg

Exhibit 2. Newcastle thermal coal index, Brent price



Source: Bloomberg

Exhibit 3. Copper Price vs. US GDP Growth

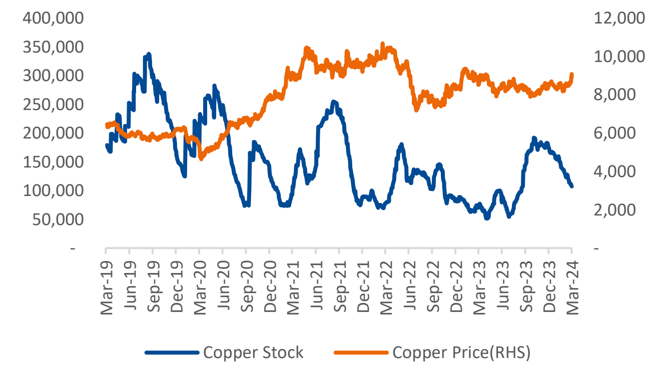


Source: Bloomberg

Copper sees better fundamentals

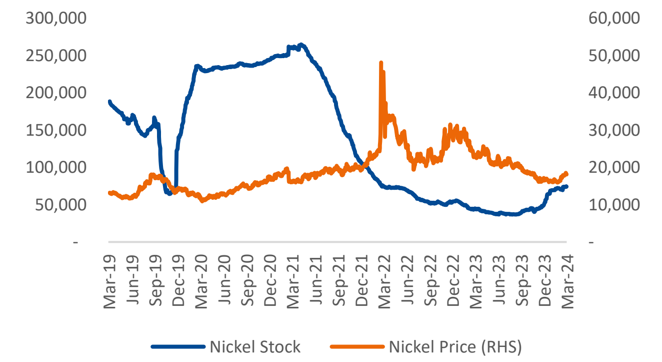
In the case of copper, the price recovery in 4Q23-1Q24YTD has been supported by a tighter market balance on the back of a demand surge that outpaced supply, as reflected in the declining inventory at the LME. This, however, is not the case for nickel, which continued to see rising inventory at the LME, confirming the oversupply condition in the market.

Exhibit 4. Copper LME inventory vs. price



Source: Bloomberg

Exhibit 5. Nickel LME inventory vs. price

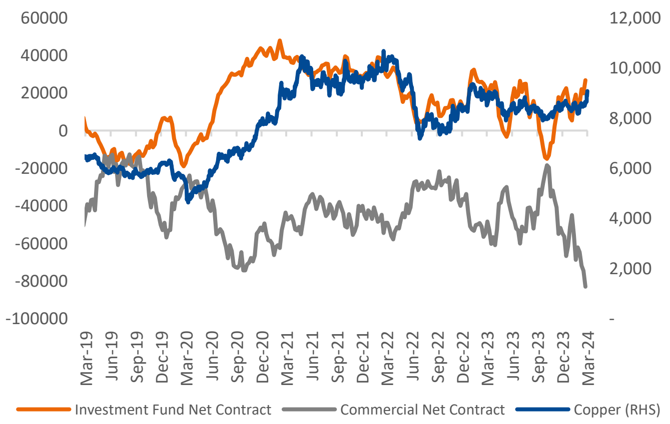


Source: Bloomberg

Prices remain driven by speculation, implying upside risk (mainly for copper)

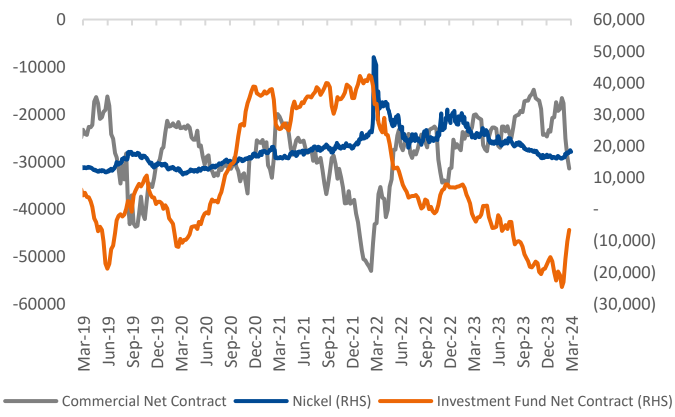
Looking deeper into metals trade, we note that the price rebound in LME copper prices has mainly been driven by trades from the "investment funds" (i.e., hedge funds/traders), while the producers/commercial buyers have remained bearish (even bigger short positions than the highs in Sep20) – please see exh.6 – with a similar pattern in nickel. Thus, we see the surge in metal prices as driven more by speculative trades and yet to reflect confidence amid the improving market balance (in the case of copper). This implies possible upside risk (particularly for copper) if the producers/ commercial buyers turn more positive on the price outlook.

Exhibit 6. Copper Price vs. Buyer Positioning in the LME



Source: Bloomberg

Exhibit 7. Nickel Price vs. Buyer Positioning in the LME

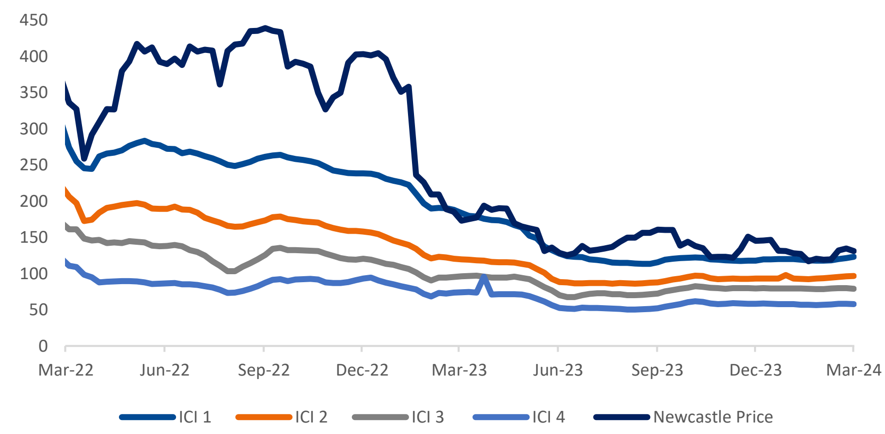


Source: Bloomberg

Thermal coal remains a laggard as S-D seasonality prevails

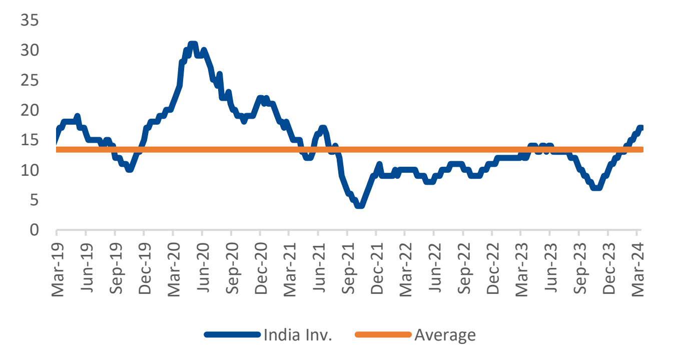
Thermal coal has remained a laggard within the commodities' space, with only a limited rebound in Newcastle prices and still flattish ICI prices YTD. This is not surprising to us as we are approaching the seasonally soft season post-winter demand and as inventory levels in China and India have remained at relatively high levels (exh.9 & 10).

Exhibit 8. Thermal coal Newcastle index and ICI prices



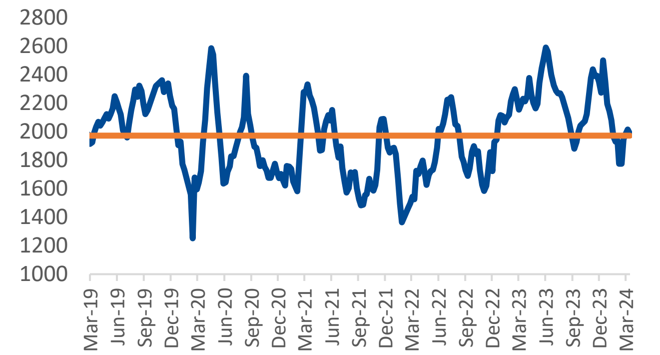
Source: Bloomberg

Exhibit 9. India Coal Inventory



Source: Bloomberg

Exhibit 10. China Coal Inventory at port



Source: Bloomberg

Sector and stock recommendations

Light positioning in metals and coal; should investors play the late cycle?

As of Feb24, domestic funds were largely UW in the metals sector (-220bps UW in metals), neutral in coal, but OW in O&G (+150bps). With Indonesian metals and coal stocks underperforming their global peers, should investors look into the tactical play on commodities?

Metals:

- Despite the attractive top-down view, sector sentiment is clouded by delays in the govt's approval of a production plan (RKAB), which has also impacted the main copper producer under our coverage (MDKA, Buy TP Rp4,380). Thus far, investors seem to have played the copper story through AMMN (Not Rated), despite its already premium valuation (24x FY24 EV/ EBITDA based on consensus estimates). We think positive news on MDKA's RKAB and clarity on its key projects and production outlook in FY24 may improve sentiment on the stock.
- Our metals sector analyst Hasan Barakwan favors ANTM (Buy, TP Rp2,100) given the potentially strong growth in FY24 nickel ore production and possible reversal in provisions.

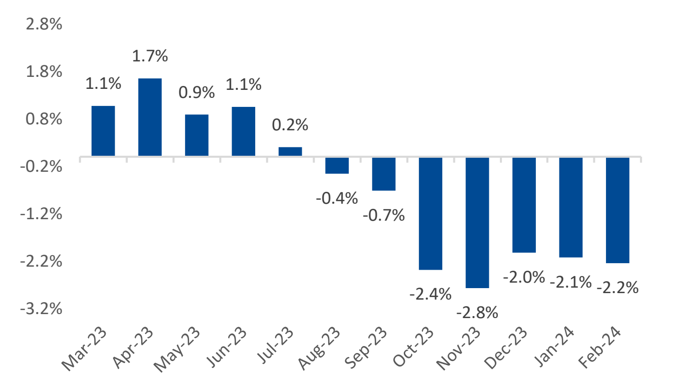
O&G:

- Our O&G analyst Hasan continues to like MEDC (Buy, TP Rp1,950) on the higher production growth outlook.

Coal:

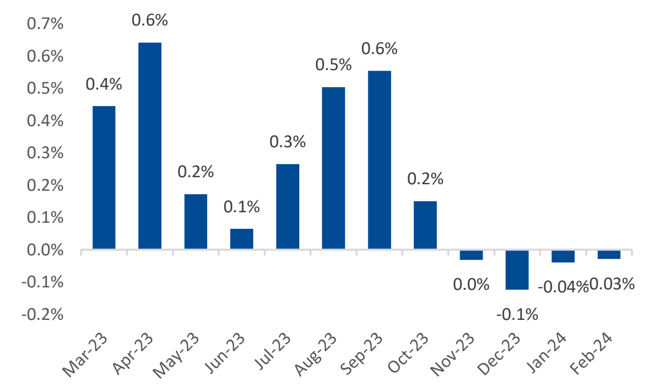
- Thermal coal price's seasonality suggests that investors should only aggressively add in 2Q24. For now, we favor stocks with high dividends and reliable production growth (ITMG, Buy TP Rp28,800, final dividend yield of 13.1%).

Exhibit 11. Metal Sector Fund Positioning (Domestic funds)



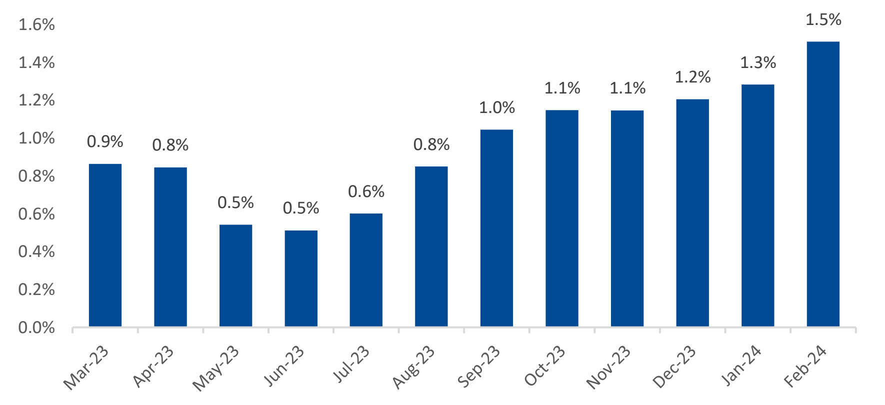
Source: KSEI, Bloomberg, BRIDS

Exhibit 12. Coal Sector Fund Positioning (Domestic funds)



Source: KSEI, Bloomberg, BRIDS

Exhibit 13. Oil and Gas Sector Fund Positioning (Domestic funds)



Source: KSEI, Bloomberg, BRIDS

Exhibit 14. Metal Sector Valuation

Company	MKT cap (Rpbn)	Rating	Target Price	PER (x)		PBV (x)		EV/EBITDA (x)		ROE (%)		Div. Yield (%)
				24F	25F	24F	25F	24F	25F	24F	25F	24F
NCKL	57,104	BUY	1,400	10.3	9.8	1.9	1.7	6.4	5.9	23.5	22.2	n.a
MBMA	55,078	BUY	910	51.2	18.7	1.6	1.5	15.5	6.6	3.2	7.8	n.a
ANTM	39,771	BUY	2,100	11.0	10.9	1.3	1.2	8.3	7.4	12.5	11.2	3.5
MDKA	54,973	BUY	4,380	78.5	48.5	2.7	2.5	15.0	7.8	1.2	5.2	n.a
INCO	41,931	BUY	6,500	17.8	23.1	1.1	1.0	7.7	5.0	6.1	4.6	3.0
Sector Average				**33.7**	**22.2**	**1.7**	**1.6**	**10.6**	**6.6**	**9.3**	**10.2**	**3.3**

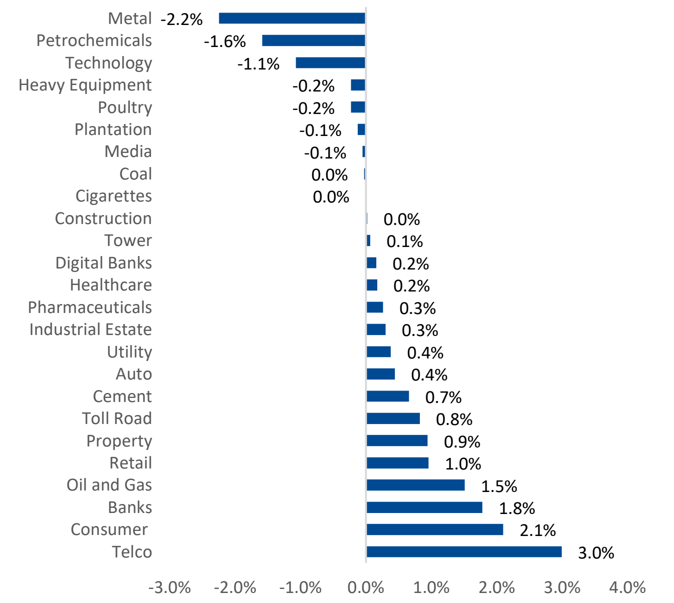
Source: BRIDS Estimates, Bloomberg

Exhibit 15. Coal Sector Valuation

Company	MKT cap (Rpbn)	Rating	Target Price	PER (x)		PBV (x)		EV/EBITDA (x)		ROE (%)		Div. Yield (%)
				24F	25F	24F	25F	24F	25F	24F	25F	24F
ADRO	84,123	BUY	2,850	4.6	7.1	0.8	0.8	2.5	3.4	17.7	10.9	11.7
HRUM	19,466	BUY	1,700	5.9	7.1	1.3	1.3	4.4	5.6	21.0	18.0	5.4
ITMG	30,932	BUY	28,800	4.8	6.9	1.1	1.2	3.1	4.3	24.0	17.0	23.2
PTBA	32,834	BUY	2,750	6.6	8.8	2.4	2.5	6.2	8.2	36.0	28.0	11.0
Sector Average				**5.5**	**7.5**	**1.4**	**1.4**	**4.0**	**5.4**	**24.7**	**18.5**	**12.8**

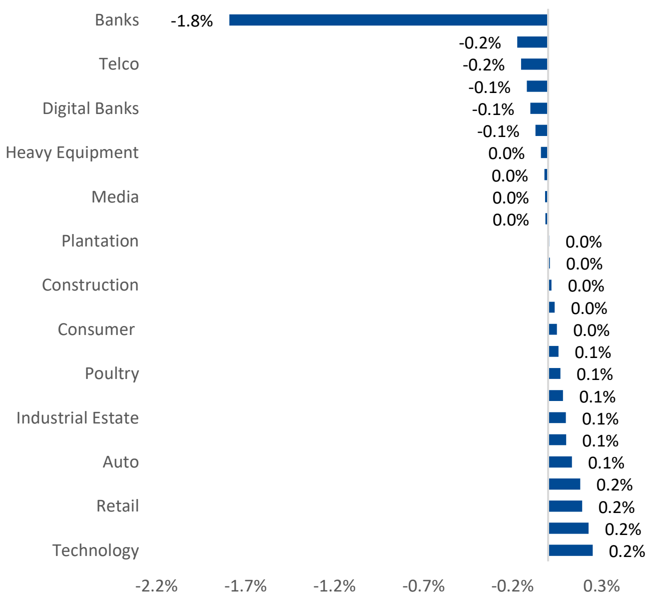
Source: BRIDS Estimates, Bloomberg

Exhibit 16. Domestic Fund Positioning Feb24



Source: KSEI, Bloomberg, BRIDS

Exhibit 17. Domestic Funds Positioning Changes Feb24



Source: KSEI, Bloomberg, BRIDS

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INVESTMENT RATING	
BUY	Expected total return of 10% or more within a 12-month period
HOLD	Expected total return between -10% and 10% within a 12-month period
SELL	Expected total return of -10% or worse within a 12-month period