Overweight

(Maintained)

Metal Mining

Jul24 update: weaker nickel and tin price, despite tight ore supply

- **Tin price weakened in Jul24 despite a tight supply in China and declining inventory levels globally.**
- **Nickel prices stabilized in Jul24. Yet, we remain cautious of further decline from weak seasonal demand.**
- **We maintain our Overweight rating on the sector, with TINS and NCKL as our top picks due to their better earnings visibility.**

TINS relative to JCI Index

NCKL relative to JCI Index

Source: Bloomberg

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Weakening Tin price despite limited supply

In Jun24, China's tin ore imports surged to 12.8kt in June, +52% mom/-41% yoy, driven by stronger shipments from DRC (Congo). Yet, 1H24 imports still fell -20% yoy at 91.9kt due to reduced supply from Myanmar. Similarly, tin ingot imports hit a 2-year low of 189 tons, -70% mom/-92% yoy, bringing 6M24 imports down to 7.6kt, -48% yoy, as Indonesian private smelters faced constrained export quotas. At this juncture, we believe prices should remain strong, given that China's primary tin ore suppliers in Myanmar and DRC are grappling with domestic challenges (Wa state and M23 rebels). Concurrently, robust demand is evident as exchange inventories (SHFE and LME) have notably decreased (-12%) over the past 2 weeks, despite a decline in tin prices (-16%) from their peak of US$35k/ton, implying strong end-user demand.

Shortage of nickel ore drives a higher cash cost

According to MEMR, the RKAB issuance of 240Mt of nickel ore has exceeded the current demand of 210Mt. Yet, since a significant portion of this was only issued in Jun24, we believe there are production lag, causing tightness in the market where ores are sold at a premium to the benchmark. Additionally, despite weather challenges delaying shipments, several smelters have increased imports from the Philippines. Nevertheless, ore prices saw a slight decline in Jul24 along with the decline in the LME nickel price, although the benchmark premium remains elevated.

Weaker fundamentals in Jul24 reflected in LME price

We noted a convergence between the NPI and LME price, as NPI rose by +2.3% MTD, whilst LME fell by -8.7% MTD. We believe the slight improvement in NPI price was driven by higher ore cost. However, as we enter the traditional off-season, we expect stainless steel demand to cool down, along with an eventual weakening of NPI. Hence, we reiterate our FY24E estimate of US$11.5k/ton. Meanwhile, LME price weakened whilst intermediate products (Sulfate and MHP) remained stable MTD, which we suspect is due to the increasing warrants in the LME bourse. In this scenario, nickel matte producers (INCO/MBMA) are most disadvantaged due to their payability towards LME.

Maintain Overweight on the sector with unchanged top pick of TINS

We anticipate a quieter nickel market in 2H24 as we enter the off-season for stainless steel. Thus, we expect the benchmark price to be rangebound 11.5-12k/ton with lower volatility. We maintain our Overweight rating on the sector, with pecking orders as follows: TINS > NCKL > MBMA > MDKA > ANTM > INCO.

Company	Ticker	Rating	Target Price (Rp)	Market Cap. (RpBn)	P/E (x) 2024F	P/E (x) 2025F	P/BV (x) 2024F	P/BV (x) 2025F	ROE (%) 2025F
Timah	TINS IJ	BUY	1,400	7,075.4	8.2	7.4	1.0	0.9	13.1
Trimegah Bangun Persada	NCKL IJ	BUY	1,300	57,104.2	11.3	8.7	2.1	1.8	22.4
Merdeka Battery Materials	MBMA IJ	BUY	700	64,257.3	82.5	34.9	2.5	2.3	6.9
Merdeka Copper Gold	MDKA IJ	BUY	3,100	58,490.4	246.8	138.2	3.3	3.2	2.4
Aneka Tambang	ANTM IJ	BUY	2,000	31,119.8	10.8	12.0	1.0	1.0	8.3
Vale Indonesia	INCO IJ	BUY	5,700	37,160.6	24.2	24.7	0.9	0.9	3.6

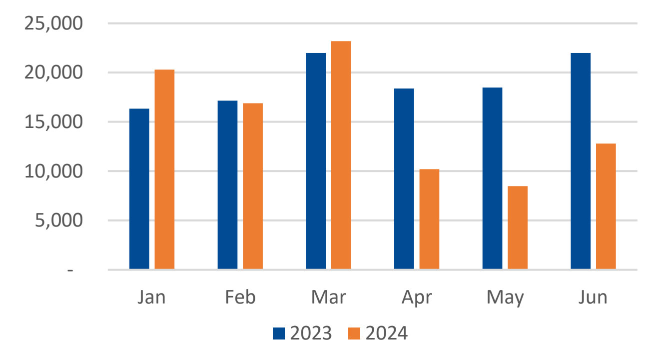
Jul24 update: weaker nickel and tin price, despite tight ore supply

Tin: Weaker price failed to reflect strong fundamentals

The recent drop in tin prices was largely attributed to the weak China economic GDP growth data of 4.7% in 2Q24 (vs. expectation of 5.1%), which was exacerbated by the possibility of stricter semiconductor export restrictions to China, followed by Trump's remark that producers in Taiwan should compensate the U.S. for their defense efforts, resulting in negative sentiment towards semiconductor stocks (NVDA, TSMC, ASML).

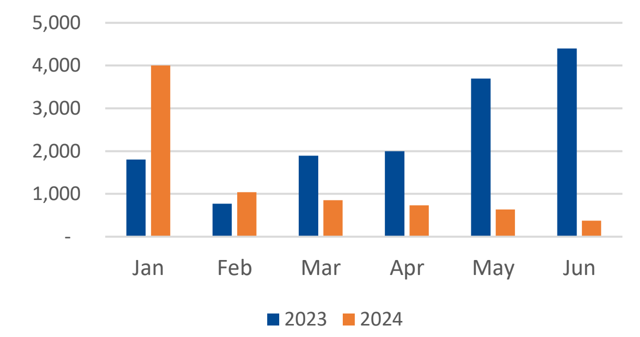
China's June tin ore imports grew to 12.8kt, +52% mom/-41% yoy, driven by strong momentum from DRC. Yet, its 6M24 imports still fell short by -20% yoy at 91.9kt due to the reduced output from Myanmar. Although the leaders of Wa state have authorized a partial resumption of mining activities in Jan 24, most tin mines in the Man Maw area, which represents c.70% of total output, have yet to resume operations. Thus, China is receiving declining rates of ore as stockpiles in Myanmar are expected to run thin.

Exhibit 1. Tin ore import (in tonne)



Source: SMM, BRIDS

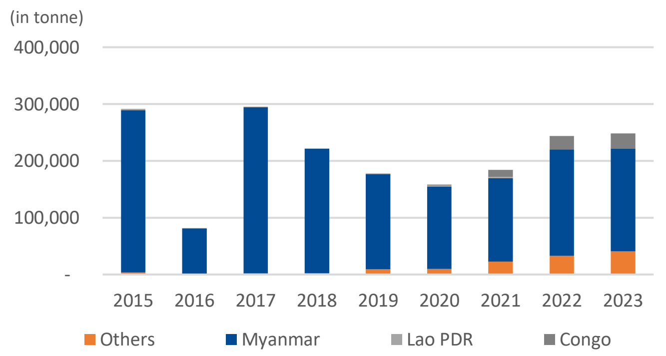
Exhibit 2. Domestic tin ingot import (in tonne)



Source: SMM, BRIDS

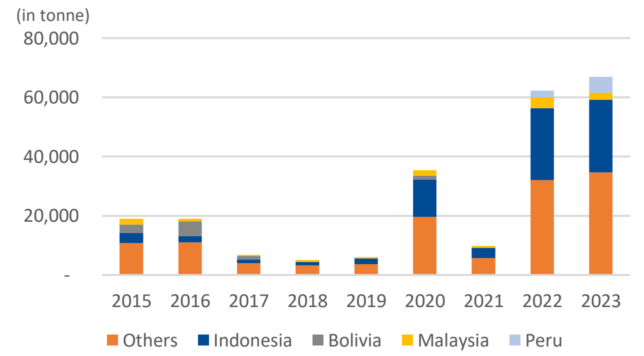
Similarly, tin ingot imports hit a 2-year low of 189 tons, -70% mom/-92% yoy, bringing 6M24 imports down to 7.6kt, -48% yoy. The decline can be largely attributed to the limited export quota given to Indonesia's private smelters, who we believe are the major suppliers to the Chinese market as we observed that TINS's sales profile are well diversified to Asia (50-58%), E.U. (22%-32%), U.S. (8%-12%), and domestic (5%-9%).

Exhibit 3. China's tin ore import source



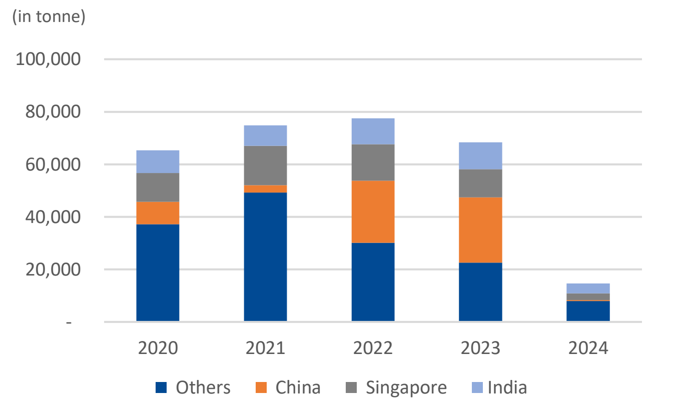
Source: WITS, BRIDS

Exhibit 4. China's refined tin import source



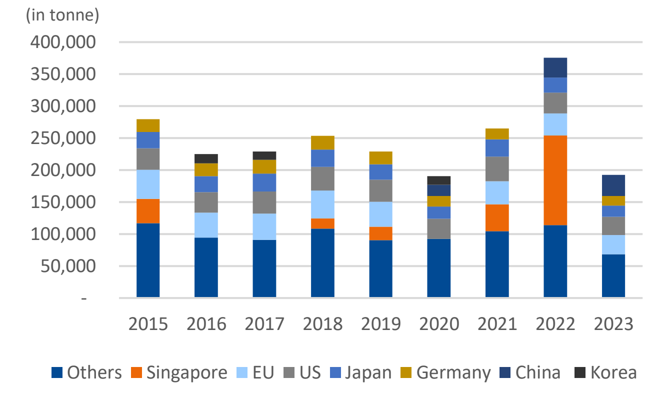
Source: WITS, BRIDS

Exhibit 5. Indonesia's refined tin export destination



Source: WITS, BRIDS

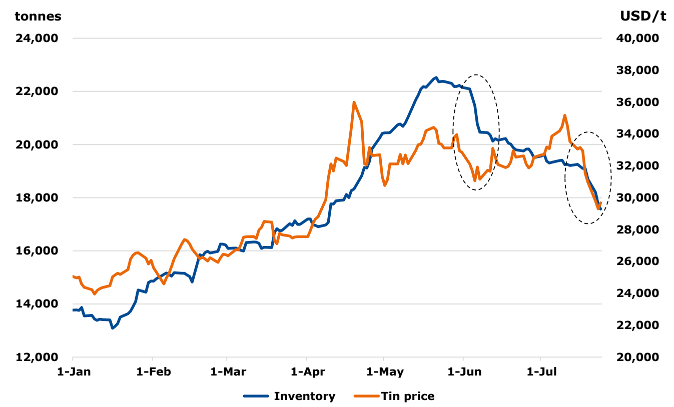
Exhibit 6. Global importers of refined tin



Source: WITS, BRIDS

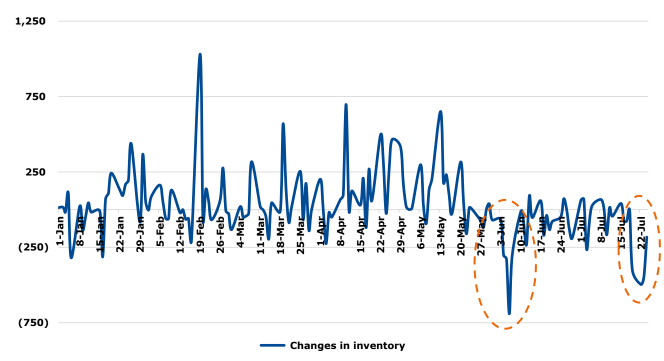
At this juncture, we anticipate sustained strength in tin prices as China's primary tin ore suppliers in Myanmar and DRC are grappling with domestic challenges (Wa state and M23 rebels). Meanwhile, demand seemed to be quite robust as exchange inventories (SHFE and LME) have notably decreased (-12%) over the past 2 weeks, despite a decline in tin prices (-16%) from their peak of US$35k/ton, implying strong end-user demand. Note that there is a notable uptick in demand for semiconductors, expected to grow by +16%/+13% in FY24-25, as projected by the World Semiconductor Trade Statistics (WSTS).

Exhibit 7. LME tin price and SHFE+LME inventory



Source: Bloomberg, BRIDS

Exhibit 8. Changes in tin inventories (SHFE+LME)



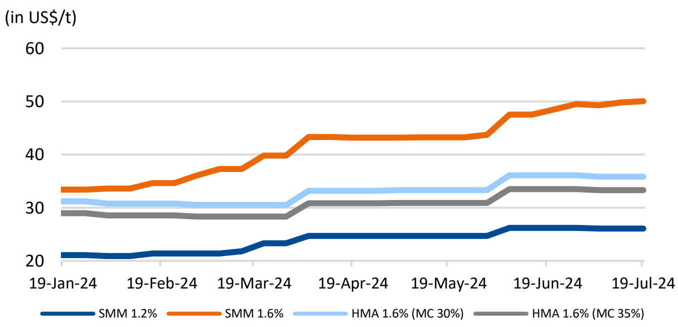
Source: Bloomberg, BRIDS

Nonetheless, we noted several downside risks to prices, namely: 1) Myanmar's Man Maw mine resuming operations after the conclusion of the audit of the tin sector, and 2) additional supply from the DRC, where Alphamin's latest Mpama south smelter is ramping up production of an additional c.6ktpa, equal to c.1.7% of global supply.

Nickel updates: a selloff in LME indicates a slowing market

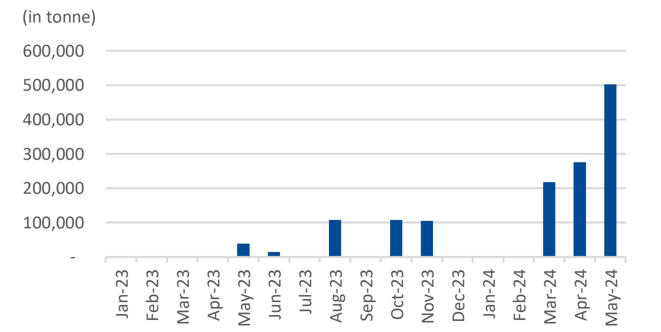
According to the MEMR, the issued RKAB of 240Mt had exceeded the current demand of 210Mt. Yet, as a major portion (c.100Mt) was only issued in June, we believe there is a production lag that temporarily causes tightness in the market where ores are sold at a premium to the benchmark. Consequently, several smelters have started importing ores from the Philippines, which was met with delays due to unfavorable weather conditions. In July, the benchmark LME price slightly softened, yet the ore premium remains elevated. We believe ore supply remains tight, which could further drive the NPI price, albeit temporarily.

Exhibit 9. Indonesian nickel ore prices



Source: WITS, BRIDS

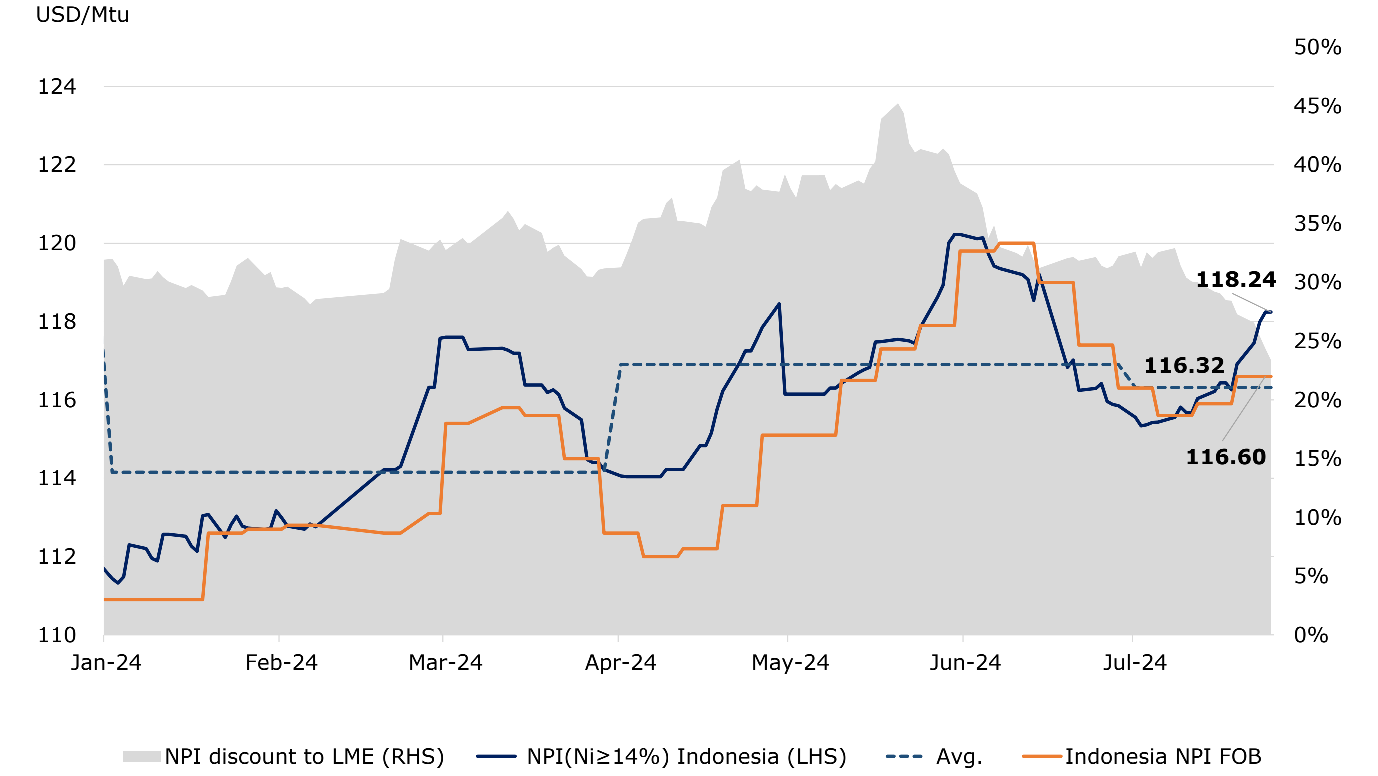
Exhibit 10. Indonesia's nickel ore import from Philippines



Source: WITS, BRIDS

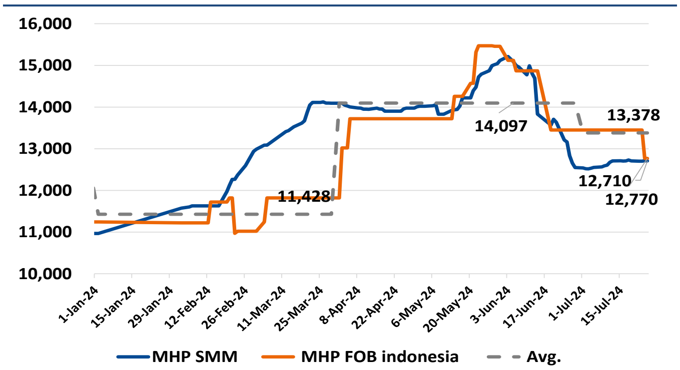
There has been a convergence between the NPI and LME prices, as NPI has risen by +2.3% MTD, whilst LME declined by -8.7% MTD, causing its premium to decrease to its lowest level this year at 22%. However, as we enter the off-season for stainless steel, we believe the slight improvement in the NPI price was driven more by higher ore costs rather than increased demand. This aligns with our previous expectations of a weaker market in the second half of 2024, and we maintain our FY24E estimate of US$11.5k/ton. Furthermore, companies with an integrated mine should benefit during this period as they are able to procure ore without a premium, thus maintaining a healthier cash margin.

Exhibit 11. NPI price



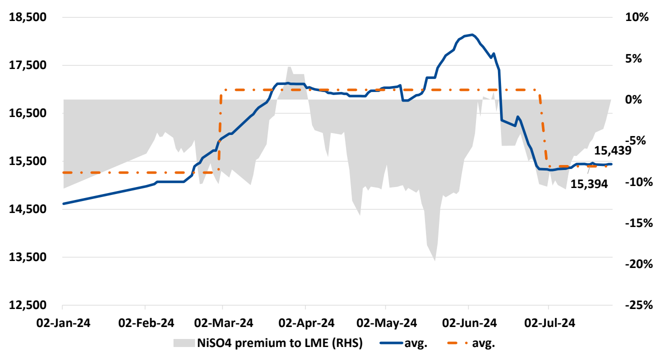
Source: SMM, BRIDS

Exhibit 12. MHP price (US$/tonne)



Source: SMM, BRIDS

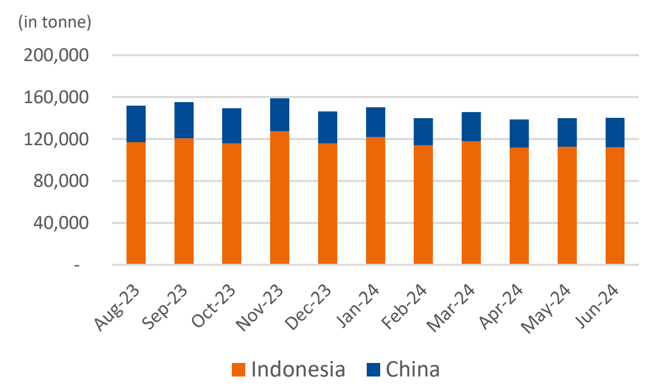
Exhibit 13. Nickel sulfate price (US$/Mt)



Source: SMM, BRIDS

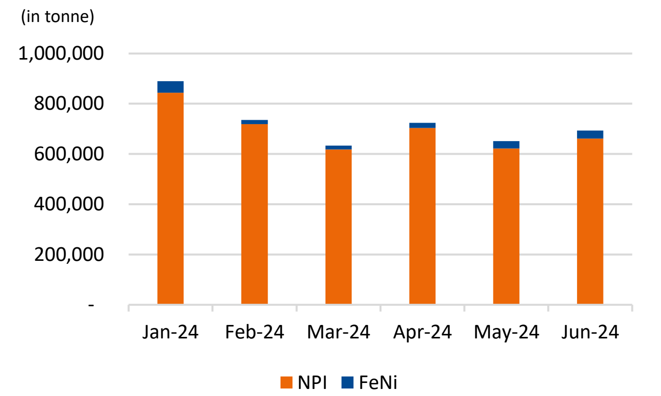
On the other hand, the LME price weakened considerably in Jul24, which we attributed to it being a futures market, where active warrants are increasing by the week as more products enter its warehouses. Furthermore, we see a disconnect between the LME and its intermediary product prices (Sulfate and MHP) that remained stable MTD. However, as these products are not strongly supported by costs, we believe there are larger downsides compared to NPI. Nonetheless, in this scenario, nickel matte producers (INCO/MBMA) are most disadvantaged due to their payability towards the LME. Thus, we reiterate our previous thesis of NPI>LME as the former is strongly supported by cost, while the latter has room for downside from incoming supplies with a pecking order of NCKL > MBMA > MDKA > ANTM > INCO.

Exhibit 14. Indonesia & China's NPI production volume



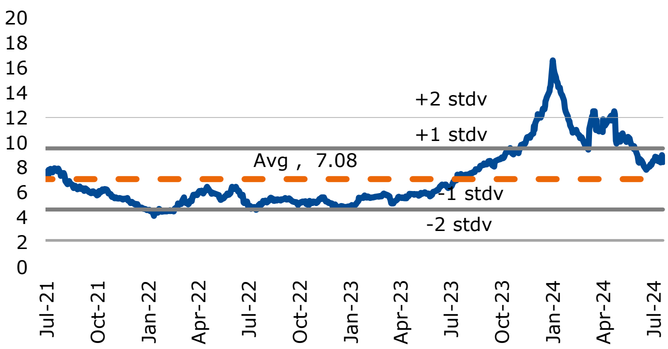
Source: SMM, BRIDS

Exhibit 15. China NPI & FeNi import (Physical content)



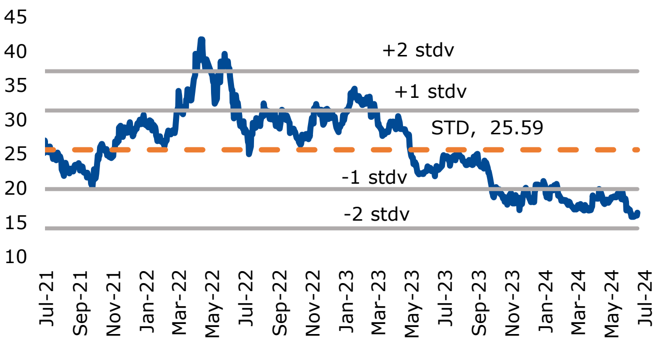
Source: SMM, BRIDS

Exhibit 16. TINS EV/EBITDA Band chart (3-year)



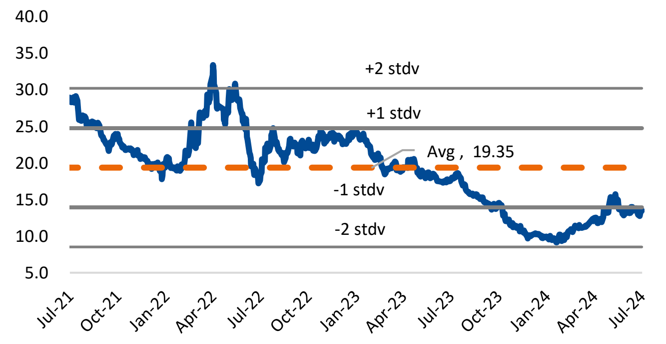
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 17. MDKA EV/EBITDA band chart (3-year)



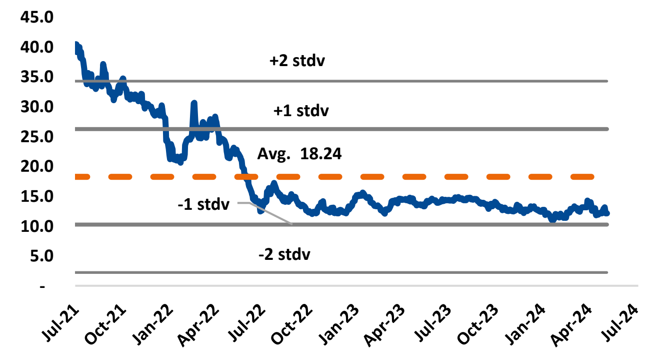
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 18. INCO P/E Band chart (3-year)



Source: Company, Bloomberg, BRIDSEstimates

Exhibit 19. ANTM P/E Band chart (3-year)



Source: Company, Bloomberg, BRIDS Estimates

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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