

HRUM IJ • Coal and Nickel

# Harum Energy

## Recent corporate actions solidify expansion into the nickel segment

(Maintain)

**Buy**

Target price

**IDR1,860**

Upside

**30.1%**

Current price (10/3/24)

**IDR1,430**

JCI Index	7,544	Market cap (IDRbn)	19,331	Shares outstanding (mn)	13,518	Free Float (%)	18.6
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### Report summary

#### Recent update on the company's nickel sector expansion and corporate actions

In recent years, HRUM has expanded into the nickel sector, with its nickel business becoming a key contributor since 2022. Recent corporate actions indicate that restructuring is nearly complete, positioning the company for improved financial performance. HRUM's nickel segment now contributes 30% of total EBITDA in 1H24.

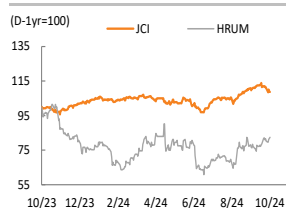
HRUM issued a USD412mn mandatory convertible note (MCN) to Tsingshan's affiliate, while retaining a 51% stake in its nickel business, with proceeds reducing USD539mn in liabilities. The deal strengthens HRUM's partnership with Tsingshan, unlocking synergies and technology transfers in nickel processing. Additionally, HRUM entered into loan agreements providing USD45mn to WMI and USD60mn to POS for capital and operational needs, reinforcing its commitment to nickel expansion.

#### Valuation and recommendation

We are revisiting our projections and recommendation for HRUM following its recent expansion in the nickel sector. Despite challenges such as China's slowing economy and potential sanctions on EV and critical minerals, we expect full integration of the nickel segment into HRUM's financials by 2025, potentially justifying a rerating. Our previous Buy recommendation with a TP of IDR1,860, based on a P/E of 7.7x for FY24, is under reassessment, with updates to follow the 3Q24 results.

### Key data

#### Price performance



(%)	1M	6M	12M
Absolute	7.5	-0.7	-15.6
Relative	8.5	-4.2	-25.2

#### Earnings and valuation metrics

(FY Dec. 31)	2021	2022	2023	2024F	2025F
Revenue (IDRbn)	336	904	926	1,160	1,565
Gross profit (IDRbn)	175	541	382	424	594
Op. profit (loss) (IDRbn)	142	464	334	353	465
Net profit (loss) (IDR)	132	440	287	325	445
EPS (IDR)	74	302	151	206	278
BPS (IDR)	81	337	169	241	319
P/E (x)	714	1,107	1,312	1,787	2,301
EV/EBITDA (x)	17.5	4.2	8.4	5.9	4.5
ROE (%)	2.0	1.3	1.1	0.8	0.6

Notes: Using closing price data as of October 3, 2024

Source: Company data, Mirae Asset Sekuritas Indonesia Research estimates

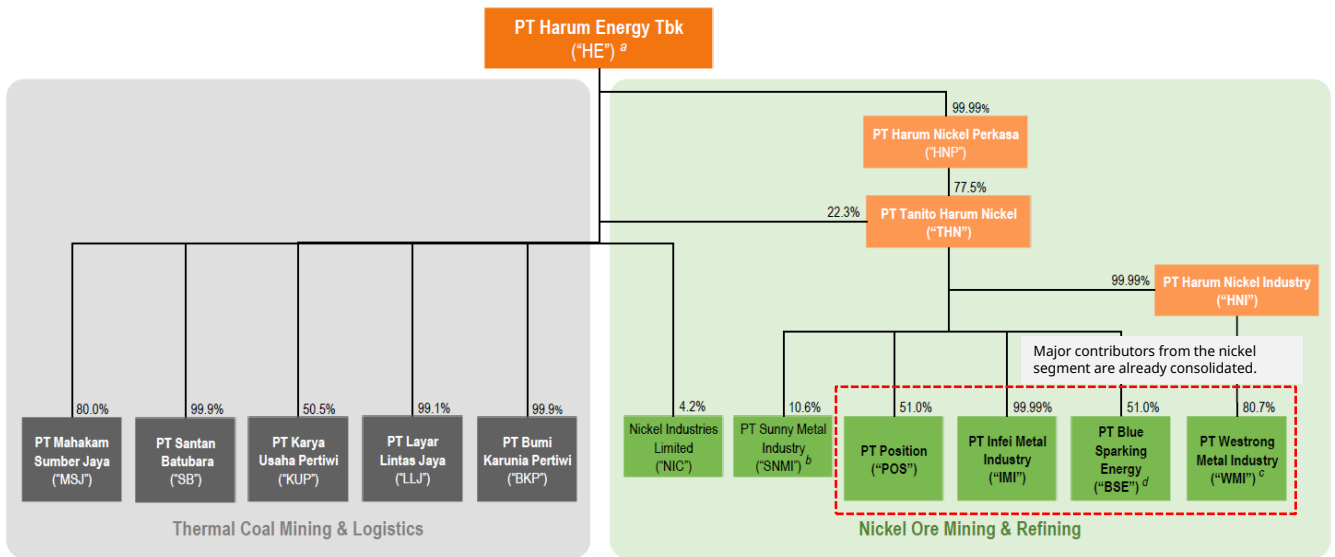
### Revisiting HRUM's nickel business expansion

Over the past few years, HRUM has made significant investments in the nickel sector as part of its business diversification strategy. Since 2022, the company's nickel business unit has started contributing to overall performance, and this contribution is expected to grow further through planned investments by the company and its subsidiaries.

The company's expansion into the nickel industry, along with the ongoing restructuring of its nickel business segment, has led to accounting adjustments that have temporarily impacted earnings, including losses from fair value adjustments due to asset revaluation. However, with the company's recent announcement, we believe that a major phase of the restructuring has now been completed. This sets the stage for HRUM to begin reflecting the true impact of its nickel business on its earnings.

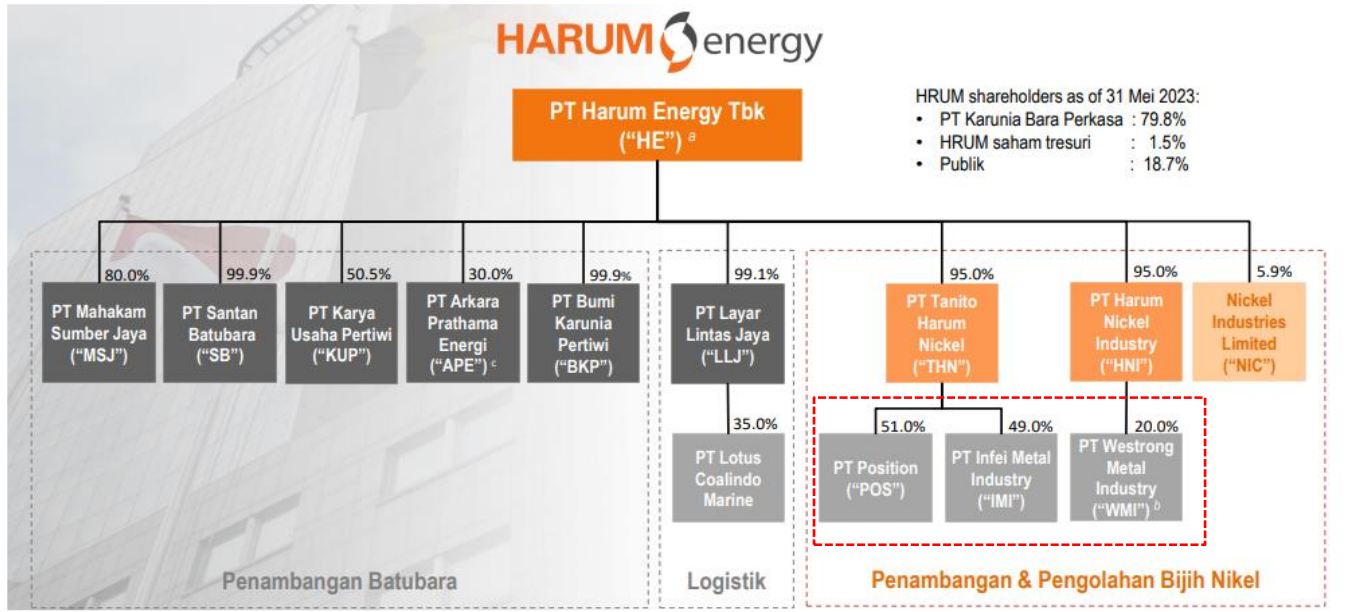
As of June 2024, the company's nickel operations are managed under two main subsidiaries, HNP, and THN, which oversee and hold majority ownership in several companies, including IMI, WMI, POS, BSE, and IMI. This marks significant progress compared to the corporate structure in May 2023, when key contributors such as IMI and WMI were not yet majority-owned by HRUM and, therefore, not consolidated into the company's financial statements.

Figure 1. HRUM's corporate structure as of June 2024



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 2. HRUM's corporate structure as of May 2023











Source: Company data, Mirae Asset Sekuritas Indonesia Research

As of now, HRUM's nickel portfolio is composed of four key assets (see figure 3):

- **PT Infei Metal Industry (IMI):** IMI operates a 2-line 60kVA RKEF smelter with an annual production capacity of 200,000 tons. This facility has a nameplate capacity to produce 28,000 tons of nickel (Ni) in the form of Nickel Pig Iron (NPI) each year. The facility is fully operational.
- **PT Westrong Metal Industry (WMI):** WMI runs a 4-line 60kVA RKEF smelter combined with a sulfidation converter. It has the capacity to produce 400,000 tons of material annually, with a nameplate capacity of 56,000 tons of nickel in the form of nickel matte. This facility is also fully operational.
- **PT Position (POS):** This nickel laterite mine, which produces limonite and saprolite, is currently under development. It holds an estimated 215 million DMT in resources. Commercial operations are targeted to commence in the third quarter of 2024.
- **PT Blue Sparking Industry (BSE):** BSE is under development and will operate a 3-line HPAL (High-Pressure Acid Leach) facility. Once completed, this facility will produce Mixed Hydroxide Precipitate (MHP) with an annual nameplate capacity of 67,000 tons of nickel and 7,500 tons of cobalt. The commissioning of this facility is planned for 2026.

**Figure 3. HRUM's nickel portfolio**

	PT Position (POS)	PT Infei Metal Industry (IMI)	PT Westrong Metal Industry (WMI)	PT Blue Sparking Industry (BSE)
				
<b>Description</b>	Nickel laterite mine	2-line 60kVA RKEF smelter	4-line 60kVA RKEF smelter & sulfidation converter	3 line/train HPAL
<b>Product</b>	Limonite & Saprolite 	Nickel Pig Iron 	Nickel Matte 	Mixed Hydroxide Precipitate 
<b>Estimated Resources</b>	<i>million DMT</i>	215	-	-
<b>Annual name plate capacity</b>	<i>ton</i>	-	200,000	400,000
	<i>indicative metals contained (ton)</i>	-	28,000	56,000
				67,000 nickel 7,500 cobalt
<b>Operational status</b>	Under development. Target commercial operation in 3Q 2024	Operating	Operating	Under development. Target commercial operation in 2026

Source: Company data, Mirae Asset Sekuritas Indonesia Research

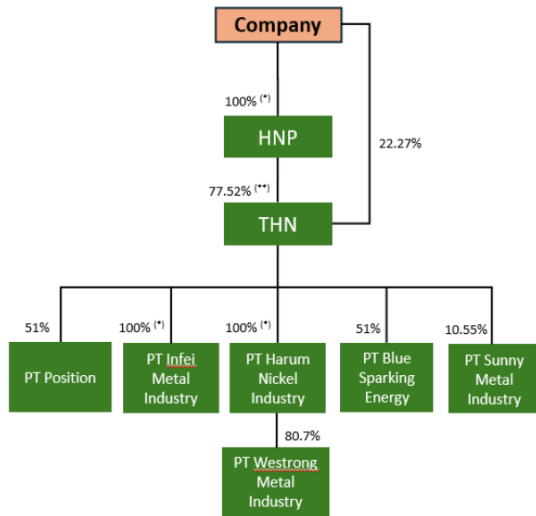
As of 1H24, HRUM's nickel operations produced a consolidated 23,113 tons of nickel, with a sales volume of 22,383 tons. The company's blended nickel ASP stood at USD12,740/ton, while the cash cost per ton was USD10,932, translating to a segment EBITDA of USD40.5mn. This marks a significant milestone, contributing approximately ~24% to HRUM's total consolidated EBITDA of USD166mn. Of a note, 2Q24 saw WMI's nickel production and sales increase significantly, with more than 8,300 tons sold compared to the initial sale of ~2,500 tons of nickel matte in March 2024. This strong performance suggests that the nickel segment will continue to play an increasingly important role in HRUM's diversified portfolio moving forward.

## Recent corporate actions

### Mandatory convertible note issuance to Tsingshan group

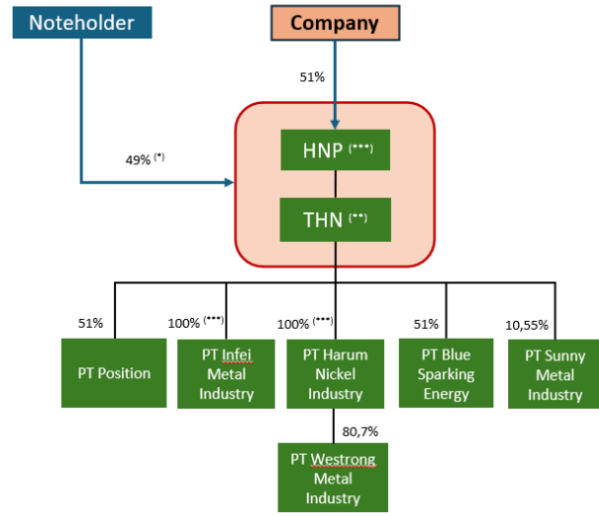
HRUM recently issued a USD412mn mandatory convertible note (MCN) through its subsidiaries, HNP and THN, to Ever Rising Limited, an affiliate of China's Eternal Tsingshan Group. The MCNs will be converted into new shares in HNP and THN, granting Ever Rising Limited a 49% stake in HRUM's nickel portfolio, while HRUM retains a majority 51% ownership in the entities. Proceeds from the MCN issuance will be used to reduce HRUM's liabilities, specifically to settle USD539mn in outstanding notes payable. We view this as a reasonable move, given its proportionate amount to HRUM's significant investments in its nickel business. Furthermore, this issuance underscores the solidified partnership between HRUM and Tsingshan, which will allow HRUM to maintain control over its nickel operations while unlocking new growth opportunities through synergies and technology transfer in nickel processing and marketing.

Figure 4. HRUM's nickel corporate structure before MCN



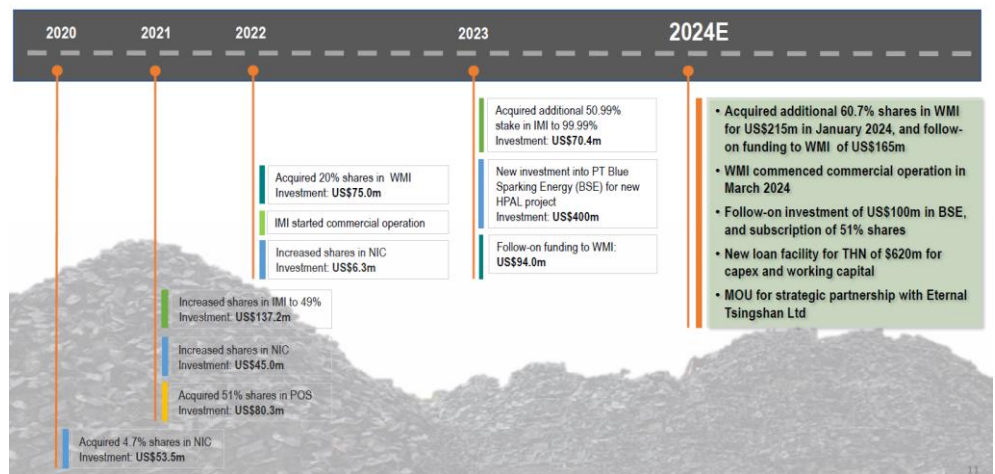
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 5. HRUM's nickel corporate structure after MCN



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 6. HRUM's nickel expansion milestone



Source: Company data, Mirae Asset Sekuritas Indonesia Research

**Subscription to majority stake in POS and loan agreements for POS and WMI**

HRUM announced its subscription for a 51% equity stake in Nickel International Capital Pte. Ltd. (NICAP), including the corresponding shareholder payable, for a total transaction value of USD42mn. This ensures that HRUM's effective stake in PT POS remains undiluted following the MCN issuance.

Additionally, HRUM disclosed that HNI and WMI have entered into a loan agreement, with HNI providing up to USD45mn in financing to WMI for working capital and general corporate and investment purposes. Furthermore, THN and POS have also entered into a loan agreement, with THN extending a loan facility of up to USD60mn to POS to support its capital expenditure, working capital, and general corporate needs.

Figure 7. HRUM's ownership to POS before subscription

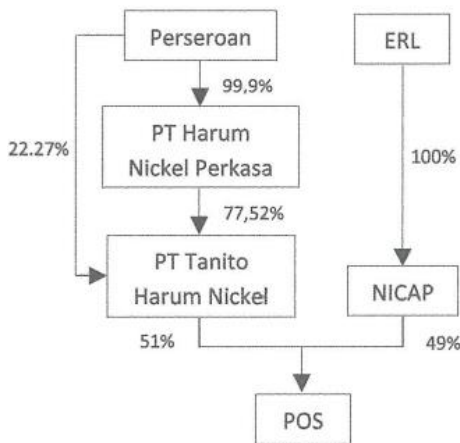
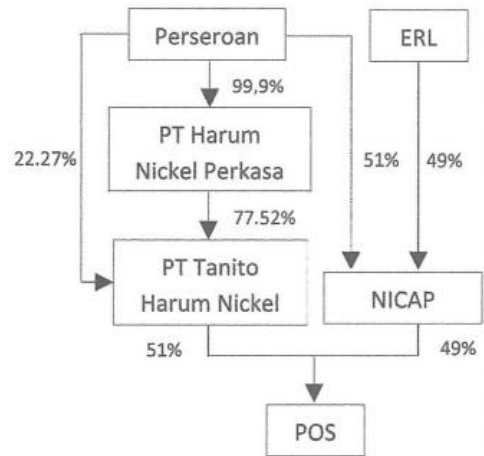


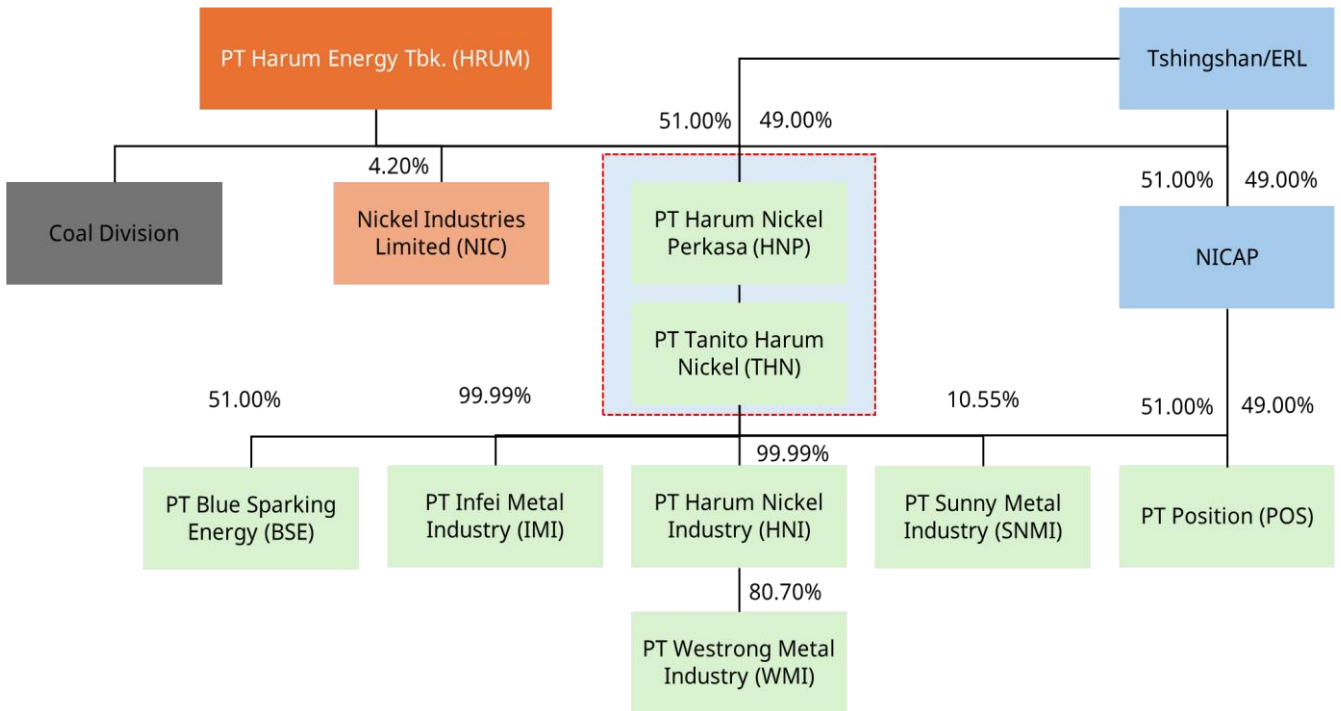
Figure 8. HRUM's ownership to POS after subscription



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 9. HRUM's latest corporate structure



Source: Company data, Mirae Asset Sekuritas Indonesia Research

## Valuation and recommendation

### Reassessing projections and recommendation

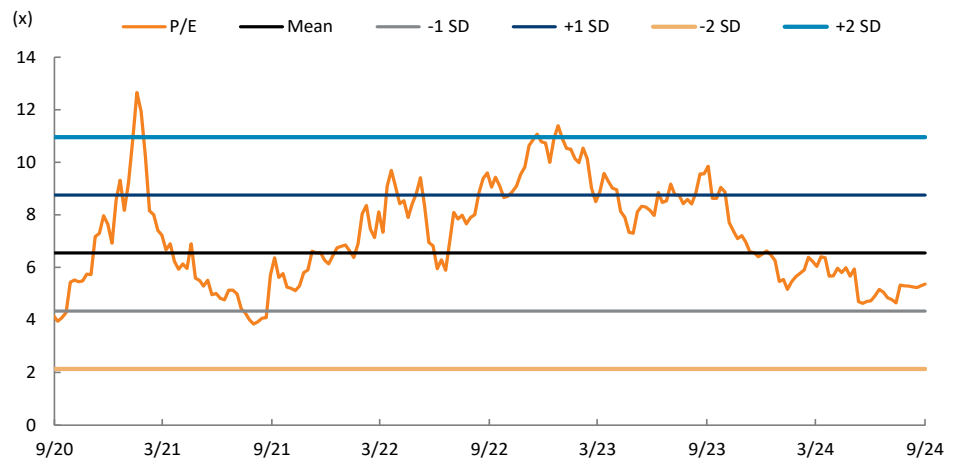
We view the recent corporate actions as a strong signal for HRUM's strategic expansion in the nickel business, reinforcing our positive outlook on the company's diversification efforts. The current structure demonstrates effective synergy between HRUM and Tsingshan, one of the leading global players in the nickel industry.

We are currently revisiting our projections on HRUM to better reflect the potential of its operating nickel subsidiaries, including IMI and WMI, along with the anticipated contribution from its nickel mine, POS. While there are headwinds in the nickel market—such as China's slowing economy and the potential sanctions on China's EV and critical minerals industry from the US and Europe, which could impact demand and pricing—we expect HRUM's nickel segment to be more fully reflected in its financials starting in 2025.

Our previous target price of IDR1,860 per share, implying an FY24F P/E of 7.7x, was based on a P/E multiple of 6.2x for the coal segment (approximately 54% of total 2024 net profit, at -0.5 SD of HRUM's 5-year average P/E) and 10.9x for the nickel segment (approximately 46% of FY24 net profit, based on domestic nickel player averages). We are currently reassessing our forecasts and valuation methodology, with updated estimates and target price to be released following HRUM's 3Q24 earnings report, expected by the end of October.

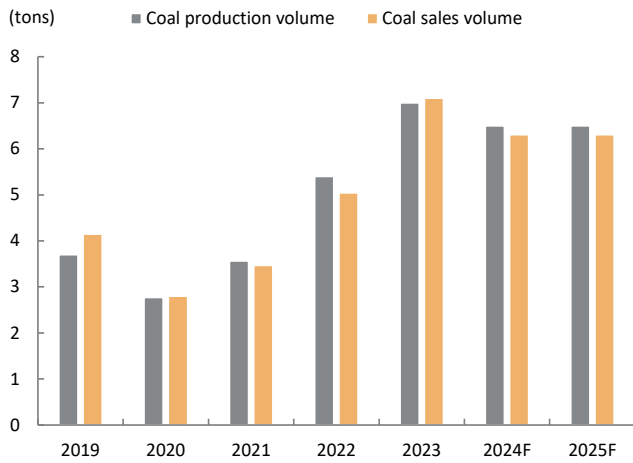
Risks to our recommendation include: 1) weaker demand and lower prices for both nickel and coal, driven by sluggish economic activity in China and a persistent global nickel oversupply; 2) delays in project development and execution timelines; and 3) potential losses from fair value adjustments impacting the company's financials.

**Figure 10. HRUM's forward P/E band**



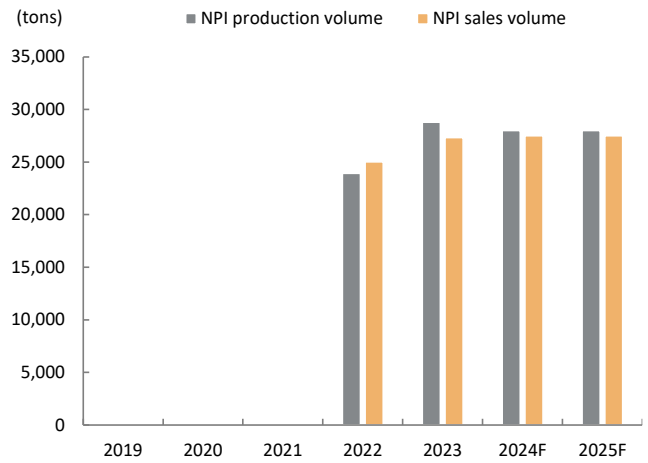
Source: Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 11. Coal production and sales volume**



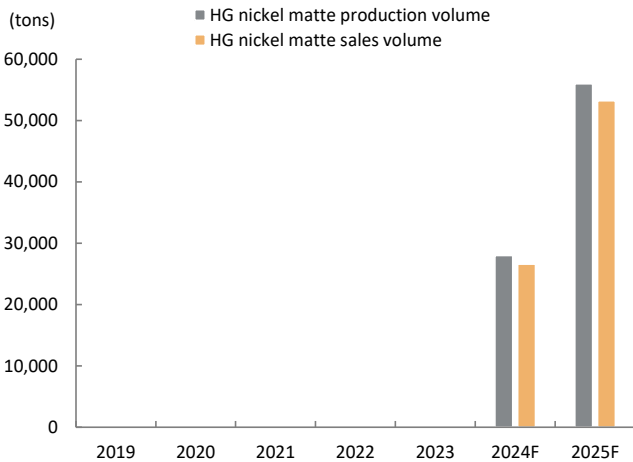
Source : Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 12. NPI production and sales volume**



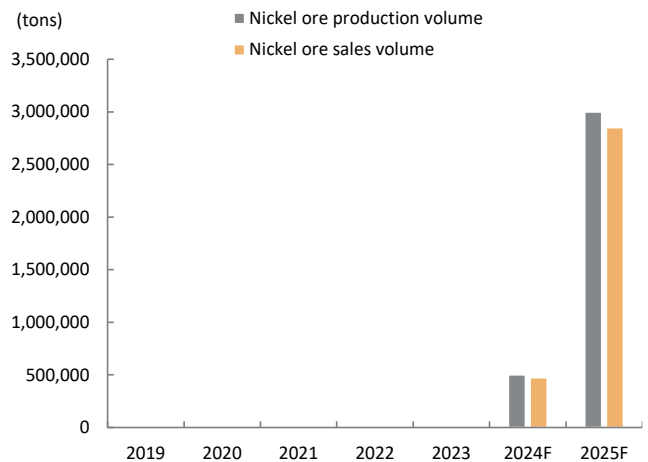
Source : Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 13. Nickel production and sales volume**



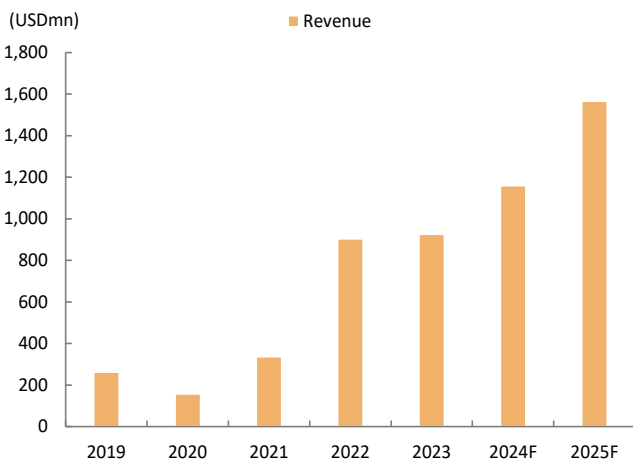
Source : Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 14. Nickel ore production and sales volume**



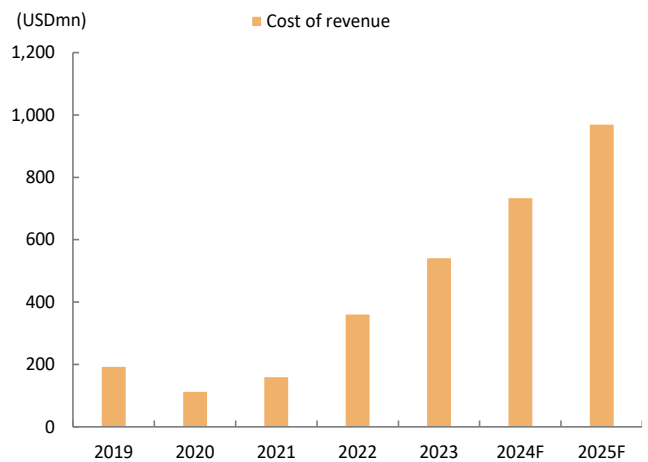
Source : Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 15. Revenue trajectory**



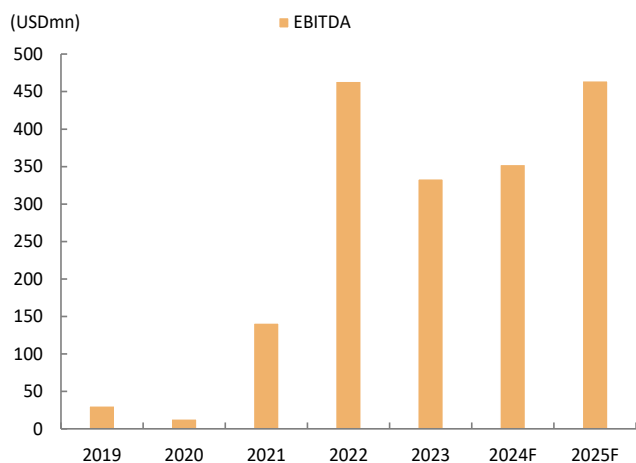
Source: Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 16. Cost of revenue trajectory**



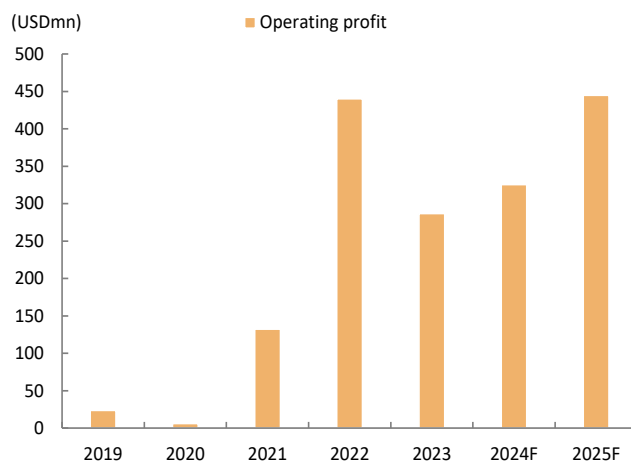
Source: Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 17. EBITDA trajectory**



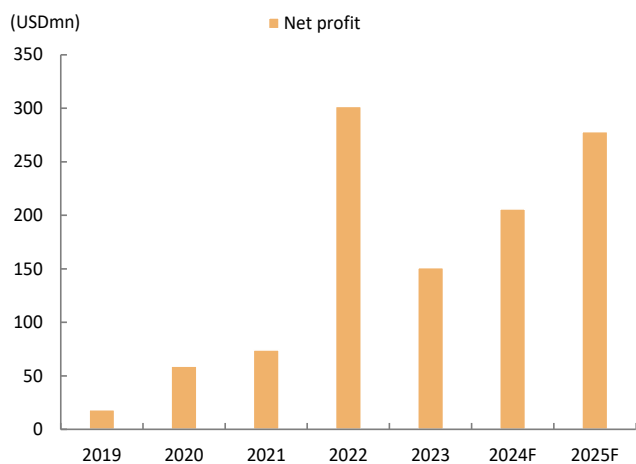
Source: Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 18. Operating profit trajectory**



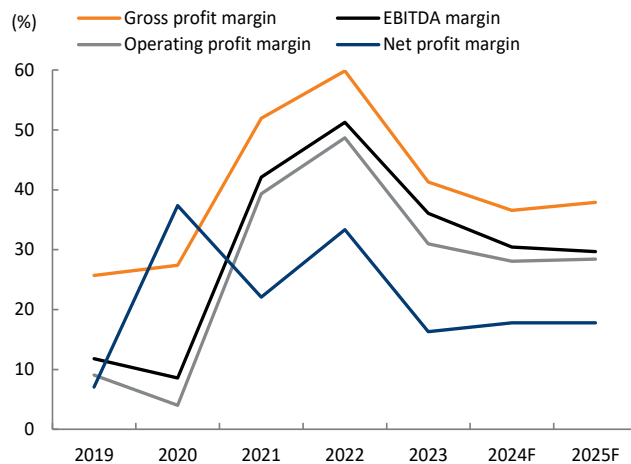
Source: Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 19. Net profit trajectory**



Source: Company data, Mirae Asset Sekuritas Indonesia Research

**Figure 20. Margins trajectory**



Source: Mirae Asset Sekuritas Indonesia Research

## Harum Energy (HRUM IJ)

## Income statement (summarized)

(USDmn)	12/22	12/23	12/24F	12/25F
<b>Revenue</b>	<b>904</b>	<b>926</b>	<b>1,160</b>	<b>1,565</b>
Cost of sales	363	543	736	972
<b>Gross profit</b>	<b>541</b>	<b>382</b>	<b>424</b>	<b>594</b>
Operating expenses	363	543	736	972
EBITDA	464	334	353	465
<b>Operating profit</b>	<b>440</b>	<b>287</b>	<b>325</b>	<b>445</b>
Interest income/expense	-1	13	16	18
Other income	38	-37	5	5
<b>Pretax profit</b>	<b>478</b>	<b>263</b>	<b>346</b>	<b>468</b>
Income taxes	98	67	80	108
Minority interest	78	45	61	82
<b>Net profit</b>	<b>302</b>	<b>151</b>	<b>206</b>	<b>278</b>
<b>Margin (%)</b>				
Gross margin	59.9	41.3	36.6	37.9
EBITDA margin	51.3	36.1	30.4	29.7
Operating margin	48.7	31.0	28.1	28.4
Net margin	33.4	16.3	17.8	17.8
<b>Growth (%)</b>				
Revenue	169.0	2.3	25.3	35.0
Cost of sales	124.7	49.6	35.5	32.1
Gross profit	210.0	-29.4	10.9	40.0
Operating expenses	138.9	-5.7	3.2	50.8
EBITDA	227.8	-28.0	5.7	31.6
Operating profit	232.8	-34.8	13.5	36.7
Other income/expenses	-896.3	-163.9	-187.9	11.3
Pretax profit	274.3	-44.9	31.7	35.1
Income taxes	236.1	-31.1	18.1	35.4
Net profit	306.9	-49.9	36.4	35.0

## Balance sheet (summarized)

(USDmn)	12/22	12/23	12/24F	12/25F
<b>Current Assets</b>				
Cash	371	157	235	413
Account receivables	92	130	142	193
Inventories	43	78	92	121
Others	14	67	77	104
<b>Non-current assets</b>				
Investment in associates	389	226	193	174
Fixed assets	52	169	131	119
Mine properties	273	253	239	231
Others	45	553	1,116	1,529
<b>Total assets</b>	<b>1,279</b>	<b>1,633</b>	<b>2,224</b>	<b>2,885</b>
<b>Current liabilities</b>				
Account payable	96	105	206	278
Accrued expense	62	39	127	168
ST financials	1	72	86	87
Others	66	41	3	4
<b>Non-current liabilities</b>				
LT financials	1	137	164	197
Others	60	65	110	145
<b>Total liabilities</b>	<b>287</b>	<b>458</b>	<b>696</b>	<b>879</b>
Capital stock	29	29	29	29
Additional paid in capital	170	170	170	170
Retained earnings	543	694	961	1,321
Minority interest	258	289	376	494
<b>Total equities</b>	<b>992</b>	<b>1,175</b>	<b>1,529</b>	<b>2,007</b>
<b>Growth (%)</b>				
Total assets	46.2	27.7	36.2	29.7
Total liabilities	28.4	60.0	51.8	26.3
Total equities	52.3	18.4	30.1	31.3

## Forecast/Valuations (Summarized)

	12/22	12/23	12/24F	12/25F
P/E (x)	4.2	8.4	5.9	4.5
P/B (x)	1.3	1.1	0.8	0.6
EPS (IDR)	337	169	241	319
BPS (IDR)	1,107	1,312	1,787	2,301
DPS (IDR)	15.4	0.0	0.0	0.0
Payout ratio (%)	4.6	0.0	0.0	0.0
Div. yield (%)	0.8	0.0	0.0	0.0
Revenue growth (%)	169.0	2.3	25.3	35.0
EBITDA growth (%)	227.8	-28.0	5.7	31.6
Operating profit growth (%)	232.8	-34.8	13.5	36.7
Net profit growth (%)	306.9	-49.9	36.4	35.0
A/R turnover (x)	9.9	7.1	8.2	8.1
Inventory turnover (x)	8.4	7.0	8.0	8.0
A/P turnover (x)	17.1	5.9	9.9	9.9
ROA (%)	23.6	9.2	9.3	9.6
ROE (%)	30.4	12.9	13.5	13.9
Current ratio (X)	2.3	1.7	1.3	1.6
Gross debt/equity (%)	0.2	17.7	16.4	14.1
Net debt/equity (%)		Net cash	Net cash	Net cash

Source: Company data, Mirae Asset Sekuritas Indonesia Research estimates

## Cash flow (Summarized)

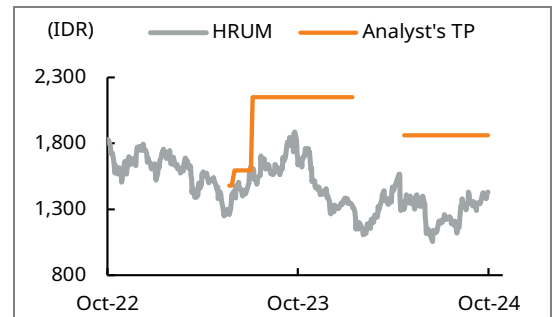
(USDmn)	12/22	12/23	12/24F	12/25F
<b>Operating cash flow</b>				
Net profit	302	151	206	278
Depreciation	-57	-98	-114	-127
Change in working capital	62	2	44	57
Others	91	155	0	0
<b>Investment cash flow</b>	<b>-103</b>	<b>9</b>	<b>-87</b>	<b>-45</b>
Capex	-10	-109	10	5
Others	-93	118	-45	-30
<b>Financing cash flow</b>	<b>-74</b>	<b>-433</b>	<b>29</b>	<b>15</b>
Change in financial liabilities	-98	206	42	33
Change in equity	36	0	0	0
Dividend	-14	-63	-13	-18
Others	1	-576	0	0
<b>Increase (Decrease) in Cash</b>	<b>221</b>	<b>-213</b>	<b>77</b>	<b>179</b>
<b>Beginning Balance</b>	<b>149</b>	<b>371</b>	<b>157</b>	<b>235</b>
<b>Ending Balance</b>	<b>371</b>	<b>157</b>	<b>235</b>	<b>413</b>

## Appendix 1

### Important disclosures and disclaimers

#### Two-year rating and TP history

Company	Date	Rating	TP (IDR)
Harum Energy (HRUM JJ)	10/4/2024	Buy	1,860
	6/14/2024	Buy	1,860
	4/26/2024	Buy	1,860
	1/18/2024	Under review	
	12/7/2023	Buy	2,150
	9/19/2023	Buy	2,150
	8/4/2023	Buy	2,150
	7/10/2023	Buy	2,150
	6/5/2023	Trading Buy	1,595
	5/26/2023	Trading Buy	1,480



#### Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

#### Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

\* Our investment rating is a guide to the expected return of the stock over the next 12 months.

\* Outside of the official ratings of PT Mirae Asset Sekuritas Indonesia, analysts may call trading opportunities should technical or short-term material developments arise.

\* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

\* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

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