

# Vale Indonesia Tbk (INCO IJ)

## Kembali ke Alur yang Tepat

Akhirnya INCO pada 3Q19 telah berhasil mencetak kinerja yang positif secara keseluruhan; proses operasional yang kembali normal dan tren penguatan harga nikel dunia praktis membuat INCO tidak memiliki kesulitan pada Q3. Proses divestasi yang siap dirampungkan oleh BUMN juga memberikan dampak positif secara bisnis bagi INCO.

### Kinerja Mulai Positif

Pada 3Q19, INCO telah berhasil membukukan kinerja positif dengan membukukan pendapatan sebesar USD214 juta (+4,5% YoY; +29,2% QoQ), diikuti meningkatnya COGS menjadi USD170 juta (+4,9% YoY; +3,1% QoQ). Efisiensi beban operasional sebesar USD2 juta (-66,7% YoY; -88,5% QoQ) ditambah penurunan biaya bunga membuat INCO menghasilkan laba bersih pertama di sepanjang 2019, yaitu sebesar USD26,3 juta.

### Harga Nikel Dunia: Penopang Kinerja

Sepanjang Q3, harga nikel dunia berada di rentang USD12.095-USD18.115 per ton; hal tersebut memberikan efek positif bagi ASP INCO yang meningkat menjadi USD10.712 per ton (-3,1% YoY; +9,6% QoQ). Walaupun ASP 3Q19 belum setinggi 3Q18, angka ASP 3Q19 merupakan pencapaian tertinggi ketiga dalam 4 tahun terakhir. INCO pun berhasil memproduksi nikel 18.193 ton yang setara dengan pencapaian 3Q18 dan disertai volume penjualan 19.998 ton (+7,7% YoY; +17,9% QoQ). Kinerja tersebut melampaui estimasi kami pada 3Q19 sehingga kami merevisi proyeksi 2019F dan memprediksi bahwa INCO akan mampu mencatatkan pendapatan USD749 juta (estimasi sebelumnya USD736 juta) disokong volume penjualan 72.828 ton dengan ASP di rentang USD10.272-USD10.287 per ton.

### Biaya HSFO: Beban Terbesar

Penggunaan HSFO selama 3Q19 sebesar 392.269 barrel (-1,6% YoY; +21,5% QoQ) dengan harga yang menurun di level USD67,1 per barrel. Kondisi ini membuat biaya produksi INCO masih tinggi pada 3Q19. Kami yakin bahwa efisiensi yang dijalankan INCO harus mampu meminimalkan penggunaan HSFO sehingga kami memproyeksi bahwa penggunaan HSFO pada 4Q19 hanya akan meningkat 6%-10% guna mendorong efisiensi sisi operasional.

### Mempertahankan Rating BUY dengan Target Harga Rp4.200

Sinergi dengan BUMN sudah dapat dipastikan berhasil melalui kesepakatan dengan MIND ID; kesepakatan tersebut dalam jangka panjang akan menguntungkan INCO. Prospek jangka panjang INCO yang cerah membuat kami mempertahankan rekomendasi BUY dengan target harga Rp4.200 atau potensi *upside* sebesar 17% berdasarkan estimasi menggunakan *forward EV/EBITDA* 11,8x (+1,5 SD). Saat ini, INCO diperdagangkan dengan *EV/EBITDA* 2019F 10,5x.

### Vale Indonesia Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	777	749	801	858
Growth (%)	23.4%	-3.6%	6.9%	7.1%
EBITDA	218	197	217	242
Net Profit	61	56	69	86
EPS (IDR)	88	84	101	128
Growth (%)	N/A	-4.1%	19.6%	27.5%
P/E	34.1x	35.6x	29.8x	23.4x
P/BV	1.1x	1.1x	1.0x	1.0x
EV/EBITDA	9.4x	10.5x	9.3x	8.1x
ROE (%)	3.2%	2.9%	3.4%	4.1%
DER (%)	1.9%	0.1%	0.1%	0.1%
Net Debt	-265	-311	-323	-385

Unit: USD mn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

## Buy

Dec 2020 TP (IDR)	4,200
Consensus Price (IDR)	4,041
TP to Consensus Price	3.9%
vs. Last Price	17%

### Shares data

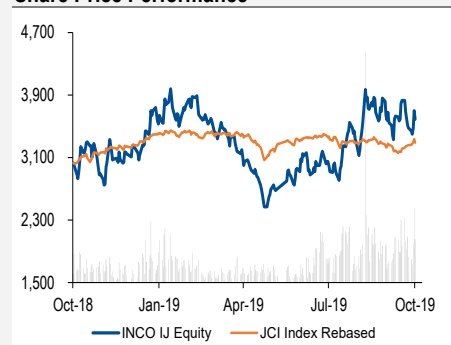
Last Price (IDR)	3,590
Price Date as of	Oct 25, 2019
52 wk Range (Hi/Lo)	4,320 / 2,410
Free Float (%)	20.5
Outstanding sh.(mn)	9,936
Market Cap (IDR bn)	35,671
Market Cap (USD mn)	2,543
Avg. Trd Vol - 3M (mn)	26.50
Avg. Trd Val - 3M (bn)	94.53
Foreign Ownership	80.1%

### Mining

#### Metal & Mineral

Bloomberg	INCO IJ
Reuters	INCO.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	13.6%	0.3%	19.7%	18.5%
Rel. Ret.	12.5%	-1.4%	22.0%	9.8%

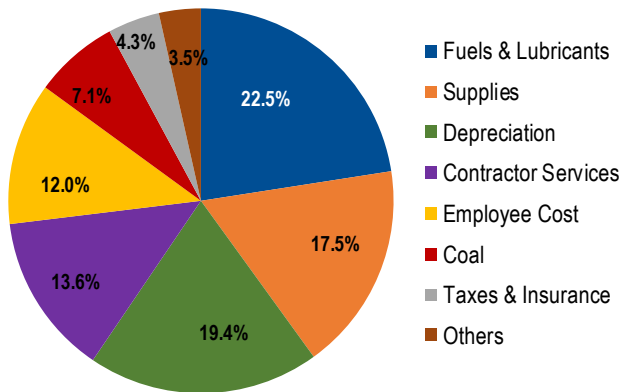
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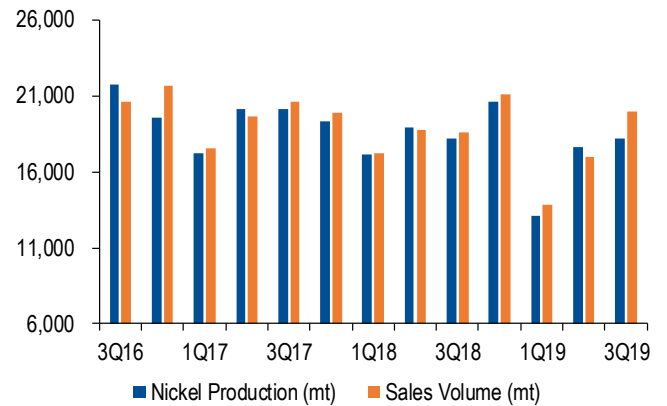
## Performance Highlights in Charts

### 9M19 COGS



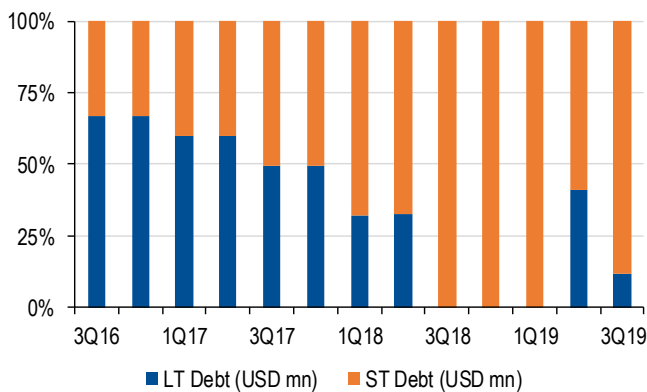
Source: Company Data, NHKS Research

### Nickel Production & Sales Volume



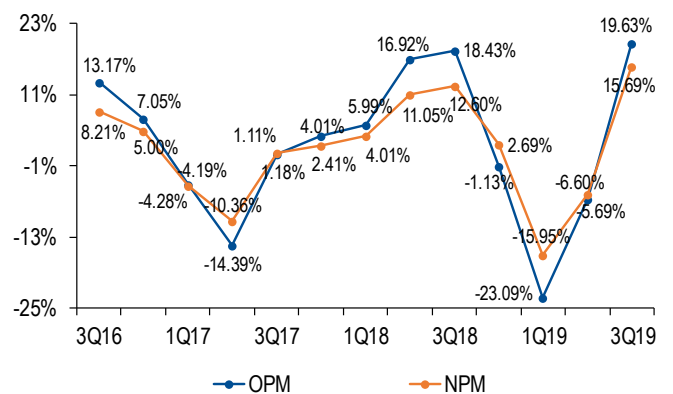
Source: Company Data, NHKS Research

### ST Debt & LT Debt



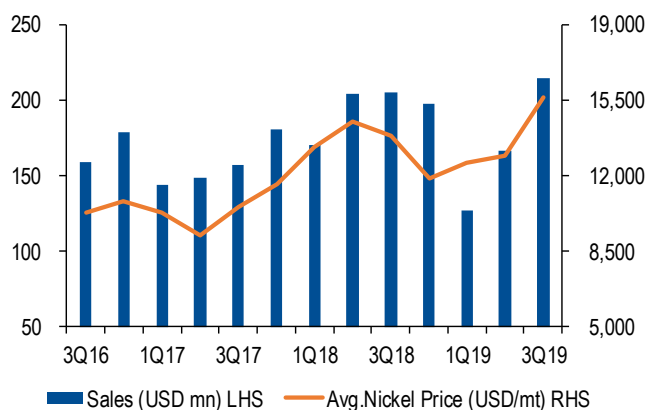
Source: Company Data, NHKS Research

### Margin Ratios



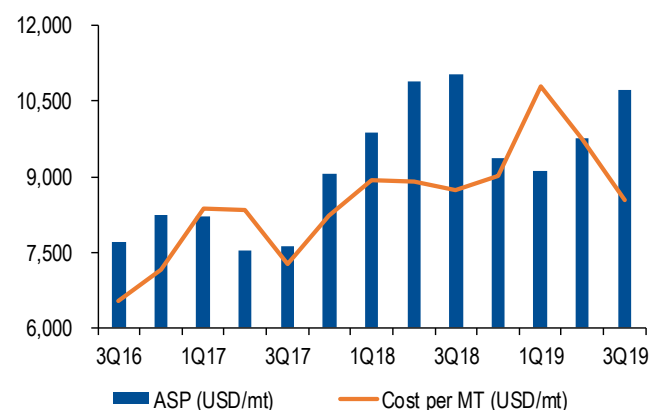
Source: Company Data, NHKS Research

### Sales & Avg. Nickel Prices



Source: Company Data, NHKS Research

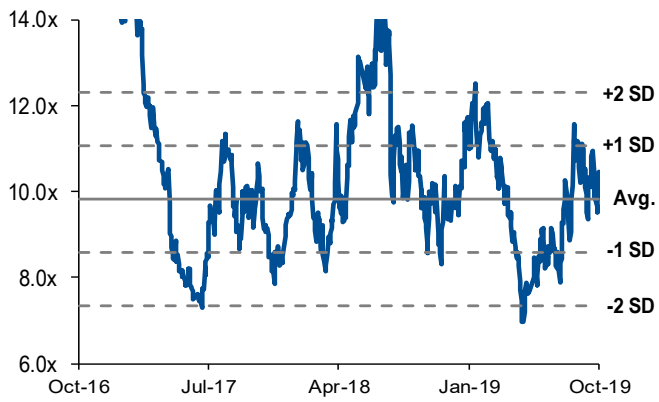
### ASP & Cost per MT



Source: Company Data, NHKS Research

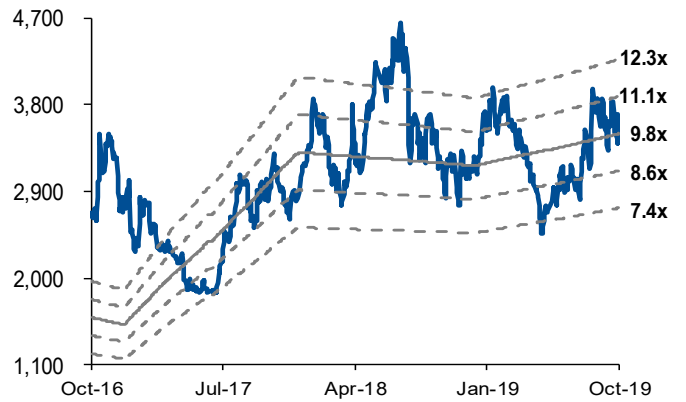
## Valuation Highlights in Charts

3-Year Forward EV/EBITDA Band



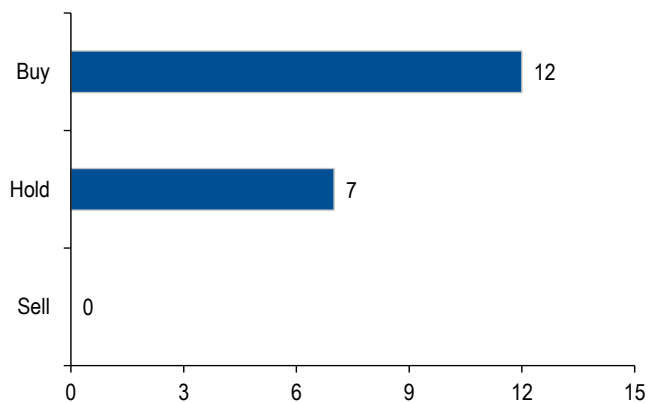
Source: Bloomberg, NHKS Research

3-Year Dynamic Forward EV/EBITDA Band



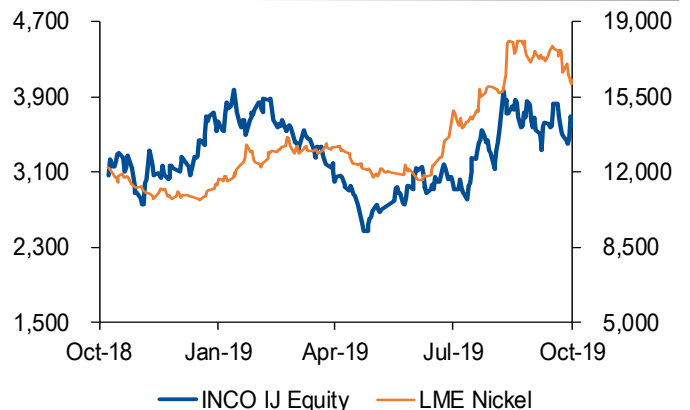
Source: Bloomberg, NHKS Research

Recommendations of Analysts



Source: Bloomberg, NHKS Research

Stock and Nickel Prices Correlated Positively



Source: Bloomberg, NHKS Research

## Quarterly Review

	3Q18	4Q18	1Q18	2Q19	3Q19					4Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
<b>Income statement</b>										
Sales	205	197	126	166	214	201	4.5%	29.2%	6.8%	243
Gross Profit	43	8	-23	1	44	56	2.0%	8537.7%	-21.3%	72
EBIT	38	-2	-29	-8	42	52	11.3%	-484.4%	-19.5%	68
EBITDA	70	30	2	17	82	74	17.0%	492.7%	9.9%	101
Net Profit	26	5	-20	-6	26	41	30.2%	-456.0%	-36.5%	55
<b>Margin</b>										
Gross Margin	20.9%	3.8%	-18.4%	0.0%	20.4%	27.7%	-0.5%	20.1%	-7.3%	29.7%
EBIT Margin	18.4%	-1.1%	-23.1%	-5%	19.6%	26.0%	1.2%	26.2%	-6.4%	28.0%
EBITDA Margin	34.1%	15.3%	1.7%	10%	38.2%	37.1%	4.1%	29.8%	1.1%	41.8%
Net Profit Margin	12.6%	2.7%	-15.9%	-4%	15.7%	20.6%	3.1%	21.4%	-4.9%	22.5%

Unit: USD mn, %

Source: Company Data, NHKS Research

## Earnings Revision

		2019F	2020F	2021F
<b>Income Statement</b>				
Sales	-Revised	749	801	858
	-Previous	736	780	836
	-Change	1.8%	2.7%	2.7%
Gross Profit	-Revised	93	105	159
	-Previous	89	123	177
	-Change	4.6%	-15.0%	-10.0%
EBIT	-Revised	68	83	103
	-Previous	65	103	122
	-Change	3.6%	-19.2%	-15.7%
EBITDA	-Revised	197	217	242
	-Previous	168	236	261
	-Change	17.1%	-8.0%	-6.9%
Net Profit	-Revised	56	69	86
	-Previous	54	79	93
	-Change	4.6%	-12.9%	-8.1%
<b>Margin</b>				
Gross Margin	-Revised	12.4%	13.1%	18.5%
	-Previous	12.1%	15.8%	21.2%
EBIT Margin	-Revised	9.0%	10.4%	12.0%
	-Previous	8.9%	13.2%	14.6%
EBITDA Margin	-Revised	26.3%	27.1%	28.3%
	-Previous	22.9%	30.2%	31.2%
Net Profit Margin	-Revised	7.5%	8.6%	10.0%
	-Previous	7.3%	10.1%	11.2%

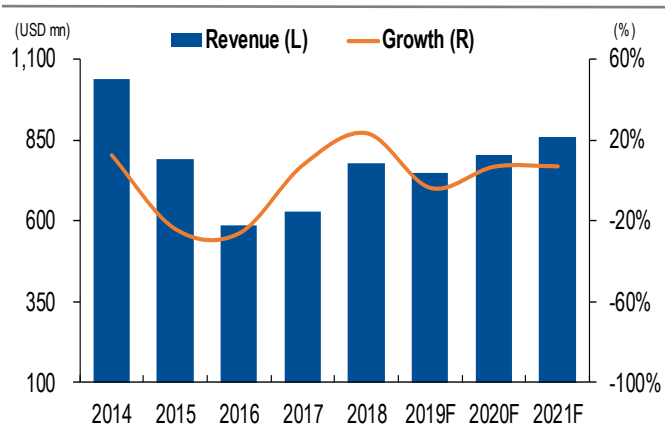
Unit: USD mn, %

Source: Company Data, NHKS Research

## Sekilas tentang INCO

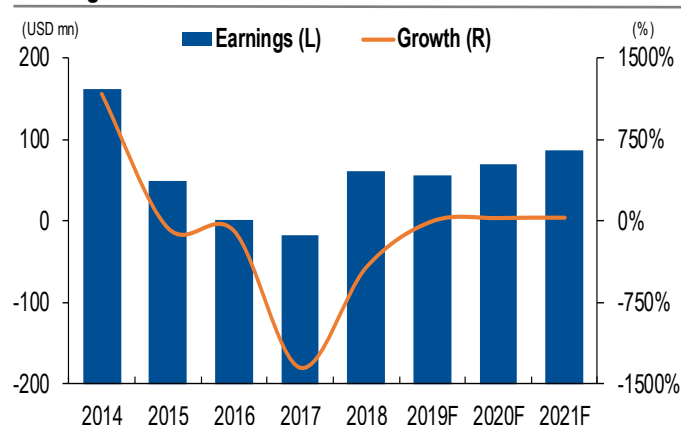
- PT Vale Indonesia Tbk (INCO) merupakan perusahaan tambang dan pengolahan nikel terintegrasi yang beroperasi di Provinsi Sulawesi Selatan. INCO didirikan pada 25 Juli 1968 dan *go public* pada 1990 dengan Vale Canada Limited sebagai pemilik saham mayoritas.
- INCO merupakan bagian dari Vale, perusahaan multitambang yang berpusat di Brazil yang merupakan pemimpin global produksi bijih besi dan salah satu produsen nikel terbesar kedua di dunia.
- INCO menambang nikel laterit untuk menghasilkan produk akhir nikel dalam matte. Rata-rata volume produksi nikel per tahun mencapai 75.000 metrik ton. PT Vale menggunakan teknologi pyrometalurgi untuk memproduksi nikel.
- INCO memiliki total area konsesi seluas 118.017 hektar yang terletak di Sorowako, Bahodopi, dan Pomalaa.
- INCO memproduksi nikel yang seluruhnya diekspor ke Vale Canada Limited di Canada dan Sumitomo Metal Co, Ltd di Jepang.

### Revenue and Growth Movements



Source: Company Data, NHKS Research

### Earnings and Growth Movements



Source: Company Data, NHKS Research

### Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	EV/EBITDA LTM	P/BV
<b>Indonesia</b>									
VALE INDONESIA TBK	2,543	2,202	704	5	467.7%	0.8%	0.3%	18.2x	1.3x
ANEKA TAMBANG TBK	1,636	2,309	1,928	62	-8.3%	3.2%	4.6%	10.2x	1.2x
<b>China</b>									
ZHONGJIN GOLD CORP	4,237	5,532	5,136	21	-28.8%	0.4%	1.1%	N/A	2.2x
YINTAI RESOURCES	3,767	1,553	761	121	64.5%	16.0%	10.0%	N/A	3.1x
INNER MONGOLIA	2,060	2,836	2,604	115	-30.1%	4.4%	7.6%	N/A	1.4x
<b>Taiwan</b>									
KING SLIDE WORKS	1,130	366	145	55	9.1%	37.6%	17.6%	11.2x	3.5x
<b>Australia</b>									
NICKEL ASIA CORP	1,051	879	355	43	-16.7%	12.2%	7.7%	3.8x	1.8x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

## Summary of Financials

## INCOME STATEMENT

(USD mn)	2018/12A	2019/12F	2020/12F	2021/12F
<b>Sales</b>	<b>777</b>	<b>749</b>	<b>801</b>	<b>858</b>
<i>Growth</i>	23.4%	-3.6%	6.9%	7.1%
COGS	(673)	(656)	(696)	(699)
<b>Gross Profit</b>	<b>104</b>	<b>93</b>	<b>105</b>	<b>159</b>
<i>Gross Margin</i>	13.4%	12.4%	13.1%	18.5%
Operating Expenses	(15)	(25)	(21)	(56)
<b>EBIT</b>	<b>89</b>	<b>68</b>	<b>83</b>	<b>103</b>
<i>EBIT Margin</i>	11.4%	9.0%	10.4%	12.0%
Depreciation	129	129	134	140
<b>EBITDA</b>	<b>218</b>	<b>197</b>	<b>217</b>	<b>242</b>
<i>EBITDA Margin</i>	28.0%	26.3%	27.1%	28.3%
Interest Expenses	(8)	(1)	(0)	(0)
<b>EBT</b>	<b>83</b>	<b>73</b>	<b>91</b>	<b>112</b>
Income Tax	(22)	(17)	(23)	(27)
Minority Interest	-	-	-	-
<b>Net Profit</b>	<b>61</b>	<b>56</b>	<b>69</b>	<b>86</b>
<i>Growth</i>	-431.1%	-7.3%	21.6%	24.9%
<i>Net Profit Margin</i>	7.8%	7.5%	8.6%	10.0%

## PROFITABILITY &amp; STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	3.2%	2.9%	3.4%	4.1%
ROA	2.8%	2.5%	3.0%	3.7%
ROIC	3.4%	2.7%	3.1%	3.7%
Cash Dividend (IDR bn)	-	-	-	-
Dividend Yield	-	-	-	-
Payout Ratio	-	-	-	-
DER	1.9%	0.1%	0.1%	0.1%
Net Gearing	13.1%	0.7%	0.5%	1.0%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	1.9%	0.1%	0.1%	0.1%
Equity Ratio	119.9%	117.9%	123.9%	127.2%
Debt Ratio	2.3%	0.1%	0.1%	0.2%
Financial Leverage	231.9%	227.1%	226.4%	218.9%
Current Ratio	359.9%	324.7%	526.9%	584.8%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	9,936	9,936	9,936	9,936
Share Price (IDR)	3,260	4,200	4,800	5,200
Market Cap (IDR tn)	32.4	41.7	47.7	51.7

## BALANCE SHEET

(USD mn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	301	313	324	388
Receivables	124	126	136	145
Inventories	132	135	148	136
<b>Total Current Assets</b>	<b>631</b>	<b>639</b>	<b>674</b>	<b>734</b>
Net Fixed Assets	1,435	1,442	1,479	1,503
Other Non Current Asset	137	204	150	151
<b>Total Assets</b>	<b>1,571</b>	<b>1,646</b>	<b>1,629</b>	<b>1,654</b>
Payables	91	57	53	46
ST Bank Loan	37	2	1	3
LT Debt	-	-	-	-
<b>Total Liabilities</b>	<b>319</b>	<b>346</b>	<b>284</b>	<b>283</b>
Capital Stock & APIC	414	414	414	414
Retained Earnings	1,470	1,525	1,605	1,690
<b>Shareholders' Equity</b>	<b>1,884</b>	<b>1,939</b>	<b>2,019</b>	<b>2,104</b>

## VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price/Earnings	37.1x	49.9x	47.7x	40.5x
Price/Book Value	1.2x	1.5x	1.6x	1.6x
Price/Sales	2.9x	3.9x	4.1x	4.0x
PE/EPS Growth	-0.1x	-6.8x	2.2x	1.6x
EV/EBITDA	10.2x	14.7x	15.0x	14.2x
EV/EBIT	25.1x	42.8x	39.1x	33.5x
EV (IDR bn)	32,128	41,422	47,372	51,284
Sales CAGR (3-Yr)	10.0%	8.6%	8.4%	3.4%
EPS CAGR (3-Yr)	216.6%	213.1%	4.2%	13.5%
Basic EPS (IDR)	88	84	101	128
Diluted EPS (IDR)	88	84	101	128
BVPS (IDR)	2,735	2,791	2,966	3,156
Sales PS (IDR)	1,128	1,078	1,177	1,286
DPS (IDR)	N/A	N/A	N/A	N/A

## CASH FLOW STATEMENT

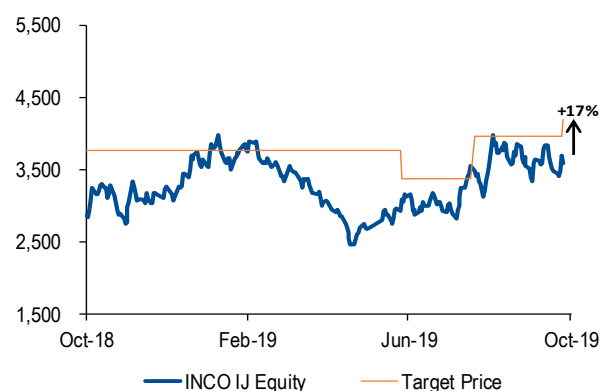
(USD mn)	2018/12A	2019/12F	2020/12F	2021/12F
Operating Cash Flow	201	153	110	225
Investing Cash Flow	(84)	(119)	(99)	(163)
Financing Cash Flow	(37)	(22)	(1)	1
<b>Net Changes in Cash</b>	<b>80</b>	<b>12</b>	<b>11</b>	<b>64</b>

## TOP OWNERSHIP

By Geography	% Shareholders	%
Canada	70.1	Vale SA 58.7
Japan	24.8	Sumitomo Metal 20.1
United States	2.2	Norges Bank 1.26
Norway	1.5	Dimensional Fund 1.00

Source: Company Data, NHKS Research

## Closing and target price update



Source: Bloomberg, NHKS Research

## Rating and target price update

Date	Rating	Target price	Consensus
2017.08.14	Hold	IDR2,560	IDR2,305
2017.11.06	Hold	IDR3,410	IDR3,021
2018.08.15	Buy	IDR5,325	IDR5,300
2018.10.29	Buy	IDR3,760	IDR5,004
2019.06.25	Buy	IDR3,370	IDR3,538
2019.08.19	Buy	IDR3,960	IDR3,801
2019.10.28	Buy	IDR4,200	IDR4,041

Source: NHKS Research

## NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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