

# Vale Indonesia Tbk (INCO IJ)

## Growth Remains Potential

INCO succeeded to book FY19 revenue of USD782 million, increasing by 0.7% YoY equal to 104.4% (+4.4%) from our estimate in 2019. We revised the 2020F/2021F estimate as follows: 1) nickel in matte production amounting to 72,025 tonnes for 2020F and 73,156 tonnes for 2021F; 2) HSFO volume of 1.45 million barrels for 2020F and 1.50 million barrels; 3) sales volume of 72,231 tonnes for 2020F and 75,716 tonnes for 2021F; 4) ASP of USD10,113/tonne for 2020F and USD11,229/tonne for 2021F. Because INCO gets the least exposure to the pandemic; hence, we still recommend BUY with the lower TP of IDR2,000.

### Performance Remains Stable

In FY19, INCO posted revenue of USD782 million (+0.7% YoY) topping our estimate of 2019 revenue 4.4% and posted net profit of USD57 million (-0.8% YoY) in-line with our estimate of USD56 million. We estimate 2020F revenue of USD810 million (+1.1% of the previous estimate) with the estimate of average global nickel price in 2020 at the level of USD13,111/tonne.

### Sales Volume Shields Against Global Pandemic

We estimate production of 72,025 tonnes for 2020F and 73,156 tonnes for 2021F with HSFO usage volume of 1.45 million barrels for 2020F and 1.50 million barrels. Its 2020F production volume is likely to rise slightly amid the worldwide pandemic and increasing sales volume will come to 2020's revenue rescue. We estimate sales volume of 72,231 tonnes for 2020F and 75,716 tonnes for 2021F with ASP at USD10,113/tonne for 2020F and USD 11,229/tonne for 2021F.

### Worst Case Scenario Reveals

We perform a stress test analysis for the worst case scenario likely to hit INCO if the pandemic lethal threat last for the end of 2020. Using INCO's 2016-2017 performance as the sample of its worst performance during the last five years (take a close look at page 3), the worst scenario is a 27.1% potential downside from the last price.

### Maintain BUY Rating with the Lower TP of IDR2,000

The processes of smelter construction in Bahadopi and Pomalaa have long-term business potential. Based on this fact, we still recommend BUY with a 20.5% potential upside based on the forward EV/EBITDA of 5.2x (-2 SD). The TP implies the 2020F/2021F P/E ratio of 17.7x/15.2x and the EV/EBITDA ratio of 6.1x/5.4x.

#### Vale Indonesia Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (USD mn)	782	810	850	910
Growth (%)	0.7	3.6	5.0	7.0
EBITDA (USD mn)	221	231	261	289
Net Profit (USD mn)	57	81	95	113
EPS (IDR)	87	113	131	155
Growth (%)	-0.8	29.7	16.3	17.5
P/E (x)	41.8	17.7	15.2	12.9
P/BV (x)	1.3	0.7	0.7	0.7
EV/EBITDA (x)	11.7	6.1	5.4	4.9
ROE (%)	2.9	4.1	4.6	5.2
DER (%)	14.5	22.7	21.4	22.2
Net Debt (USD mn)	-248	-445	-543	-654

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## Buy

Dec 2020 TP (IDR)	2,000
Consensus Price (IDR)	3,723
TP to Consensus Price (%)	-46.3
vs. Last Price (%)	+20.5

### Shares Data

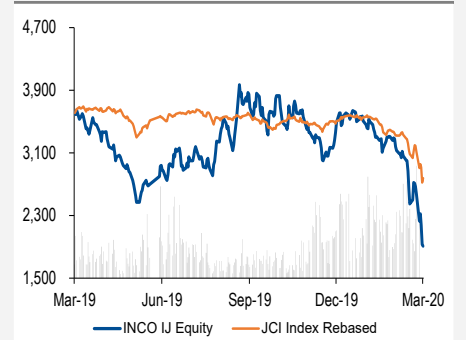
Last Price (IDR)	1,660
Price Date as of	Mar 17, 2020
52 wk Range (Hi/Lo)	4,320/1,660
Free Float (%)	20.5
Outstanding Shares (mn)	9,936
Market Cap (IDR bn)	18,978
Market Cap (USD mn)	1,292
Avg. Trd Vol - 3M (mn)	8.7
Avg. Trd Val - 3M (bn)	27.4
Foreign Ownership (%)	80.1

### Mining

#### Metal

Bloomberg	INCO IJ
Reuters	INCO.JK

### Share Price Performance

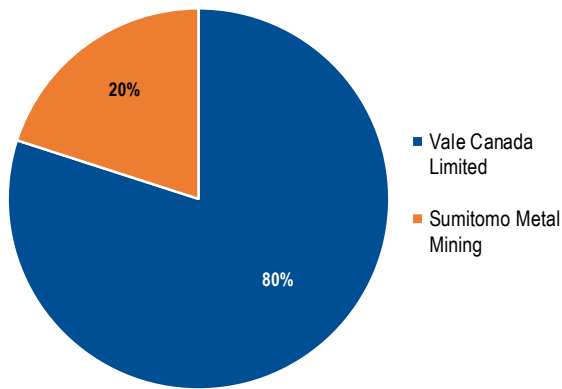


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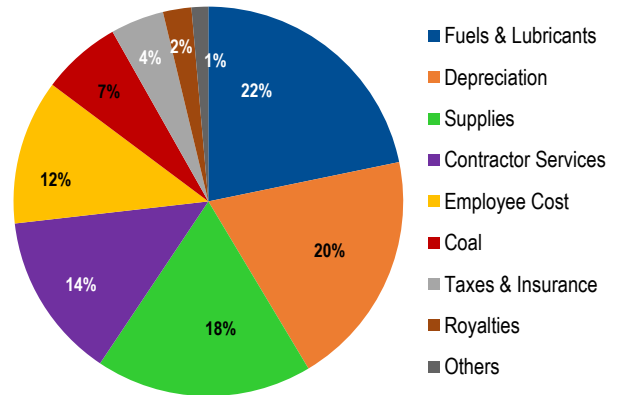
## Performance Highlights in Charts

### FY19 Destination of Sales



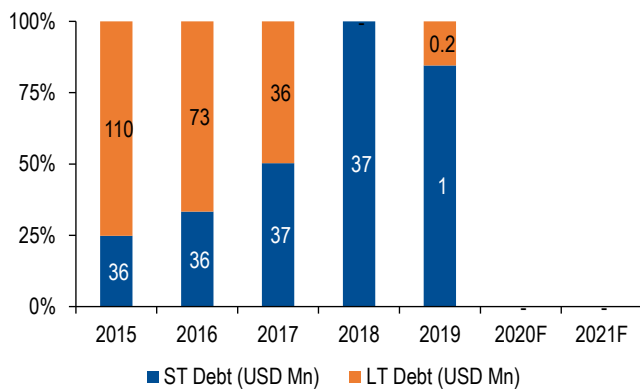
Source: Company Data, NHKSI Research

### FY19 Cost of Revenue



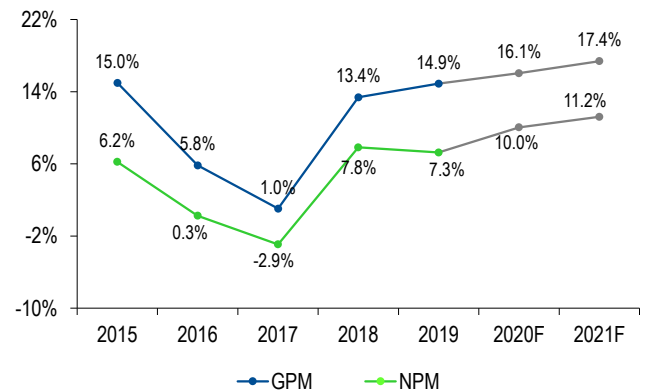
Source: Company Data, NHKSI Research

### Debt Portion



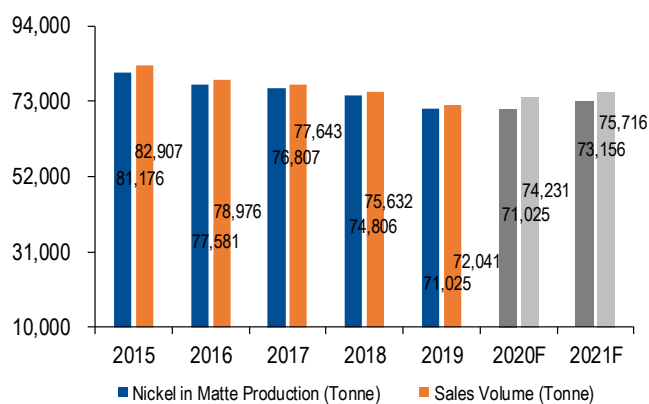
Source: Company Data, NHKSI Research

### Margin Ratios



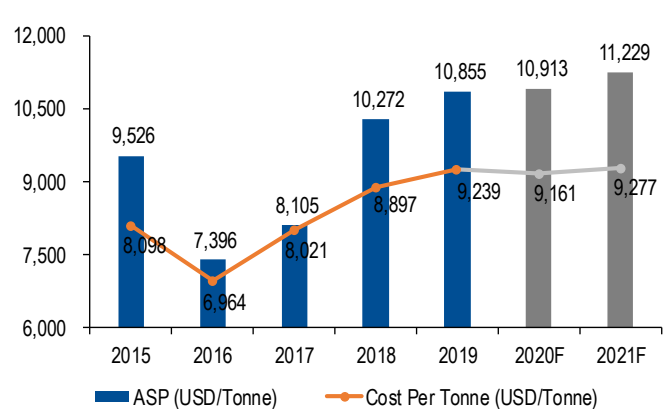
Source: Company Data, NHKSI Research

### Production & Sales Volume



Source: Company Data, NHKSI Research

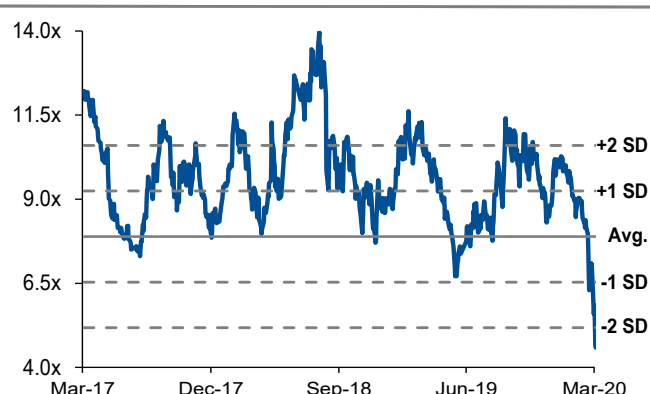
### ASP & Cost Per Tonne



Source: Company Data, NHKSI Research

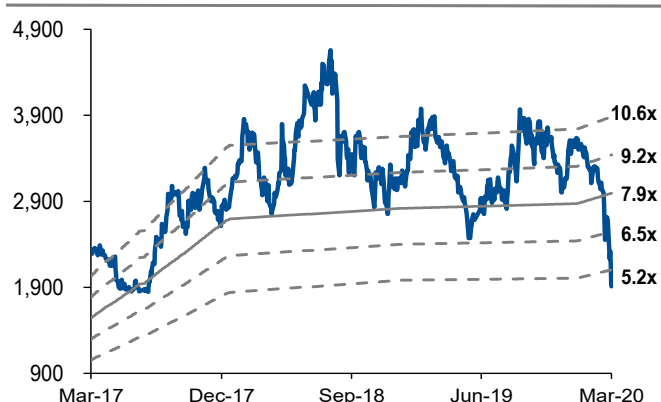
## Valuation & Other Highlights in Charts

### 3-Year Forward EV/EBITDA Band



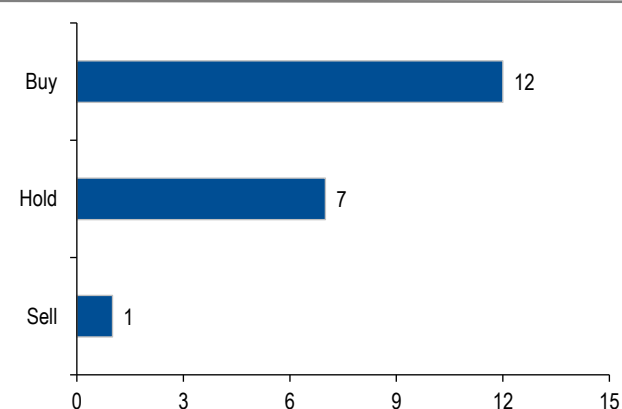
Source: Bloomberg, NHKSI Research

### 3-Year Dynamic Forward EV/EBITDA Band



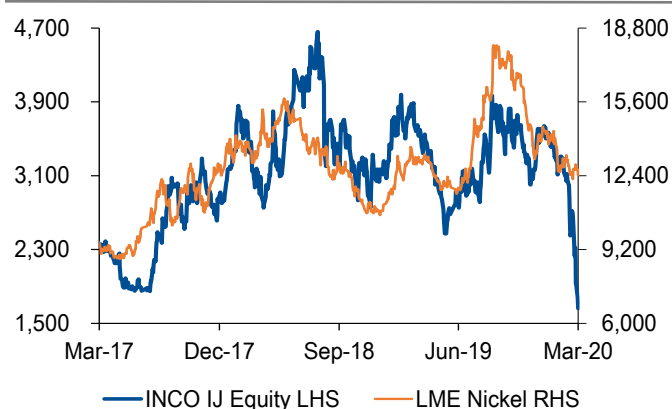
Source: Bloomberg, NHKSI Research

### Recommendation by Analysts



Source: Bloomberg, NHKSI Research

### Stock & Nickel Prices Movement



Source: Bloomberg, NHKSI Research

## Stress Test Analysis

	NHKSI Estimates		Actual		Stress Test Using Worse of 2016 and 2017	Description
	2019A	2020F	2016	2017		
Total Production (Tonne)	71,025	72,025	77,581	76,807	76,807	In Stress Test, we use the lowest of production in 2016 and 2017
Total Nickel Sales Volume (Tonne)	72,044	72,231	78,976	77,643	77,643	In Stress Test, we use the lowest of sales volume in 2016 and 2017
ASP (USD/Tonne)	10,855	10,113	7,396	8,105	7,396	In Stress Test, we use the lowest of ASP in 2016 and 2017
Operating Profit (USD Mn)	88	110	17	-21	20	Fell from USD88 million to USD20 million in 2020
Net Profit (USD Mn)	57	81	-18	61	14	Fell from USD57 million to USD14 million in 2020
EPS (IDR)	87	113	3	-21	20	Fell from IDR87 to IDR20 in 2020
Fair Multiple (x)		5.2	5.2	5.2	5.2	
Fair Price (IDR)		2,000			1,210	Worse case TP; which might be realistic
Last Price (IDR)		1,660			1,660	
Upside/Downside (%)		+20.5			-27.1	

Source: Bloomberg, NHKSI Research

## Financial Review

## Quarterly Review

	4Q18	1Q19	2Q19	3Q19	4Q19					1Q20E
					Actual	Estimate	YoY %	QoQ %	Surprise %	
<b>Income Statement</b>										
Revenue	197	126	166	214	276	243	39.7	28.6	13.5	241
Gross Profit	8	-23	1	44	95	72	1164.5	117.9	32.5	28
EBIT	-2	-29	-11	42	89	68	-4082.6	111.0	30.7	21
EBITDA	30	2	14	82	125	101	316.7	53.4	23.7	51
Net Profit	5	-20	-9	34	58	55	999.2	73.4	6.9	17
<b>Margin</b>										
Gross Margin	3.8	-18.4	0.3	20.4	34.6	29.7	30.8	14.2	5.0	11.4
EBIT Margin	-1.1	-23.1	-6.6	19.6	32.2	28.0	33.3	12.6	4.2	8.8
EBITDA Margin	15.3	1.7	8.3	38.2	45.5	41.8	30.3	7.4	3.7	21.2
Net Profit Margin	2.7	-15.9	-5.7	15.7	21.2	22.5	18.5	5.5	-1.3	7.0

Unit: USD mn, %

Source: Company Data, NHKSI Research

## Earnings Revisions

		2020F	2021F	2022F
<b>Income Statement</b>				
Revenue	-Revised	810	850	910
	-Previous	801	858	
	-Change %	1.1	-0.9	
	-Consensus	835	922	943
Gross Profit	-Revised	130	148	164
	-Previous	105	159	
	-Change %	24.4	-7.1	
	-Consensus	142	197	230
EBIT	-Revised	110	126	141
	-Previous	83	103	
	-Change %	32.0	22.9	
	-Consensus	138	193	189
EBITDA	-Revised	231	261	289
	-Previous	217	242	
	-Change %	6.3	7.6	
	-Consensus	255	310	303
Net Profit	-Revised	81	95	113
	-Previous	69	89	
	-Change %	18.7	11.4	
	-Consensus	91	125	140
<b>Margin</b>				
Gross Margin	-Revised	16.1	17.4	18.0
	-Previous	13.1	18.5	
EBIT Margin	-Revised	13.5	14.9	15.5
	-Previous	10.4	12.0	
EBITDA Margin	-Revised	28.5	30.7	31.8
	-Previous	27.1	28.3	
Net Profit Margin	-Revised	10.0	11.2	12.4
	-Previous	8.6	10.0	

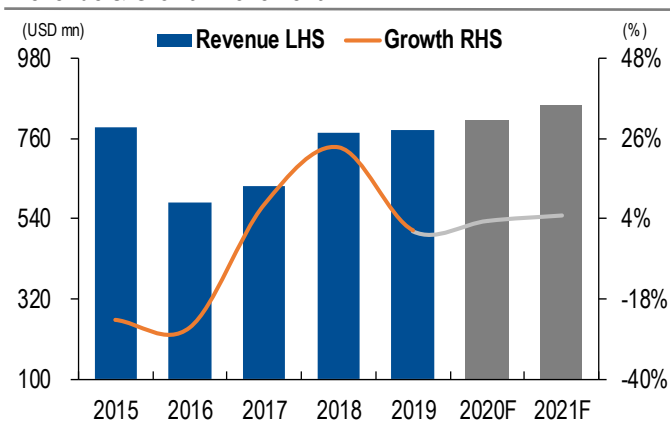
Unit: USD mn, %

Source: Company Data, NHKSI Research

## Company Overview

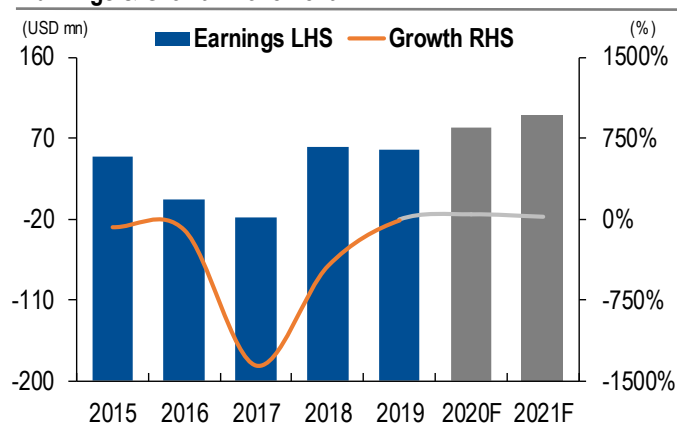
PT Vale Indonesia Tbk (INCO) established on July 25, 1968 and listed on IDX 1990 is an integrated nickel mining and processing company whose operational processing plants are situated in South Sulawesi Province. Vale Canada Limited as the major shareholder of INCO is a Brazil-headquartered multi-mining company, a reputable global leader of iron ore production, and the world's second-largest nickel producer. INCO mines nickel laterite to produce nickel in matte, applies pyrometallurgy technology to produce nickel at an average volume of 75,000 metric tons, and owns the total concession area of 118,017 hectares in Sorowako, Bahodopi, Pomalaa. Its overall nickel production is exported to Canada-headquartered Vale Canada Limited and Japan-headquartered Sumitomo Metal Co., Ltd.

### Revenue & Growth Movement



Source: Company Data, NHKSI Research

### Earnings & Growth Movement



Source: Company Data, NHKSI Research

### Asia Pacific Peers Comparison

	Market Cap (USD mn)	Total Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM (%)	Net Profit Margin (%)	ROE LTM (%)	P/E LTM (x)	P/BV (x)
<b>Indonesia</b>									
VALE INDONESIA TBK	1,293	2,222	782	57	467.7	7.3	3.0	10.8	0.7
ANEKA TAMBANG TBK	783	2,309	2,083	56	-26.8	2.7	4.1	13.0	0.6
CENTRAL OMEGA RESOURCES TBK	37	184	44	1	N/A	1.7	1.2	15.6	0.6
<b>China</b>									
ZHONGJIN GOLD CORP	3,819	5,532	5,254	20	-24.8	0.4	1.0	N/A	1.9
YINTAI RESOURCES	3,784	1,553	731	122	45.6	16.7	9.8	N/A	3.0
INNER MONGOLIA	1,942	2,918	3,307	123	-7.4	3.7	8.0	N/A	1.2
<b>Taiwan</b>									
KING SLIDE WORKS	1,009	425	158	50	-12.3	32.0	15.0	12.2	2.8
<b>Australia</b>									
NICKEL ASIA CORP	497	879	337	29	-58.0	8.6	5.0	8.0	0.8

Source: Bloomberg, NHKSI Research

## Financial Summary

### INCOME STATEMENT

(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F
<b>Revenue</b>	<b>782</b>	<b>810</b>	<b>850</b>	<b>910</b>
<i>Growth</i>	<i>0.7%</i>	<i>3.6%</i>	<i>5.0%</i>	<i>7.0%</i>
COGS	(666)	(680)	(702)	(746)
<b>Gross Profit</b>	<b>116</b>	<b>130</b>	<b>148</b>	<b>164</b>
<i>Gross Margin</i>	<i>14.9%</i>	<i>16.1%</i>	<i>17.4%</i>	<i>18.0%</i>
Operating Expenses	(28)	(20)	(21)	(23)
<b>EBIT</b>	<b>88</b>	<b>110</b>	<b>126</b>	<b>141</b>
<i>EBIT Margin</i>	<i>11.3%</i>	<i>13.5%</i>	<i>14.9%</i>	<i>15.5%</i>
Depreciation	133	121	134	148
<b>EBITDA</b>	<b>221</b>	<b>231</b>	<b>261</b>	<b>289</b>
<i>EBITDA Margin</i>	<i>28.2%</i>	<i>28.5%</i>	<i>30.7%</i>	<i>31.8%</i>
Interest Expenses	(4)	(1)	-	-
<b>EBT</b>	<b>89</b>	<b>110</b>	<b>125</b>	<b>139</b>
Income Tax	(32)	(29)	(29)	(26)
Minority Interest	-	-	-	-
<b>Net Profit</b>	<b>57</b>	<b>81</b>	<b>95</b>	<b>113</b>
<i>Growth</i>	<i>-6.7%</i>	<i>43.4%</i>	<i>17.1%</i>	<i>18.4%</i>
<i>Net Profit Margin</i>	<i>7.3%</i>	<i>10.0%</i>	<i>11.2%</i>	<i>12.4%</i>

### PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	2.9%	4.1%	4.6%	5.2%
ROA	2.6%	3.5%	3.9%	4.4%
ROIC	2.9%	4.1%	4.7%	5.3%
Cash Dividend (IDR bn)	-	-	-	-
Dividend Yield	-	-	-	-
Payout Ratio	-	-	-	-
DER	14.5%	22.7%	21.4%	22.2%
Net Gearing	0.4%	0.0%	0.0%	0.0%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	0.1%	0.0%	0.0%	0.0%
Equity Ratio	118.8%	124.1%	130.4%	137.3%
Debt Ratio	0.1%	0.0%	0.0%	0.0%
Financial Leverage	226.9%	226.2%	234.0%	230.2%
Current Ratio	430.8%	276.9%	311.6%	319.9%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	9,936	9,936	9,936	9,936
Share Price (IDR)	3,640	2,000	2,000	2,000
Market Cap (IDR tn)	36.2	19.9	19.9	19.9

### BALANCE SHEET

(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	249	445	543	654
Receivables	107	146	120	164
Inventories	148	135	157	153
<b>Total Current Assets</b>	<b>588</b>	<b>828</b>	<b>922</b>	<b>1,074</b>
Net Fixed Assets	1,467	1,403	1,412	1,413
Other Non Current Asset	167	180	168	170
<b>Total Assets</b>	<b>1,634</b>	<b>1,583</b>	<b>1,580</b>	<b>1,583</b>
Payables	97	70	86	63
ST Bank Loan	1	-	-	-
LT Debt	0	-	-	-
<b>Total Liabilities</b>	<b>281</b>	<b>446</b>	<b>442</b>	<b>483</b>
Capital Stock & APIC	414	414	414	414
Retained Earnings	1,528	1,551	1,646	1,759
<b>Total Equity</b>	<b>1,942</b>	<b>1,965</b>	<b>2,061</b>	<b>2,173</b>

### VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2021/12F
Price/Earnings	41.8x	17.7x	15.2x	12.9x
Price/Book Value	1.3x	0.7x	0.7x	0.7x
Price/Sales	3.3x	1.8x	1.7x	1.6x
PE/EPS Growth	-6.2x	0.4x	0.9x	0.7x
EV/EBITDA	11.7x	6.1x	5.4x	4.9x
EV/EBIT	29.3x	12.8x	11.2x	10.0x
EV (IDR bn)	35,921	19,427	19,330	19,218
Sales CAGR (3-Yr)	10.2%	8.8%	3.1%	5.2%
EPS CAGR (3-Yr)	219.7%	10.4%	15.3%	11.5%
Basic EPS (IDR)	87	113	131	155
Diluted EPS (IDR)	87	113	131	155
BVPS (IDR)	2,716	2,729	2,841	2,975
Sales PS (IDR)	1,094	1,125	1,172	1,245
DPS (IDR)	N/A	N/A	N/A	N/A

### CASH FLOW STATEMENT

(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	137	323	230	261
Investing Cash Flow	(166)	(125)	(151)	(173)
Financing Cash Flow	(23)	13	18	24
<b>Net Changes in Cash</b>	<b>(53)</b>	<b>210</b>	<b>97</b>	<b>112</b>

### TOP OWNERSHIP

By Geography	% Shareholders	%
Canada	70.1 Vale SA	58.7
Japan	24.9 Sumitomo Metal	20.1
United States	2.0 Norges Bank	1.26
Norway	1.5 Vanguard Group	0.71

Source: Company Data, NHKSI Research

## Closing &amp; Target Price Update



Source: Bloomberg, NHKSI Research

## Rating &amp; 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
2020.03.18	Buy	IDR2,000	IDR3,723

Source: NHKSI Research

## NHKSI 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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