

# Vale Indonesia Tbk (INCO IJ)

## Solid Earnings in The First Semester

Company Update | Sep 22, 2020

### Buy

<b>Target Price (IDR)</b>	<b>4,500</b>
Consensus Price (IDR)	3,887
TP to Consensus Price (%)	+16.3
vs. Last Price (%)	+16.6

### Shares Data

Last Price (IDR)	3,860
Price Date as of	Sep 21, 2020
52 wk Range (Hi/Lo)	4,030/1,340
Free Float (%)	20.5
Outstanding Shares (mn)	9,936
Market Cap (IDR bn)	38,851
Market Cap (USD mn)	2,645
Avg. Trd Vol - 3M (mn)	15.5
Avg. Trd Val - 3M (bn)	52.7
Foreign Ownership (%)	99.6

### Mining Metal

Bloomberg	INCO IJ
Reuters	INCO.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	8.0%	4.5%	33.9%	4.5%
Rel. Ret.	27.5%	9.0%	31.2%	23.9%



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INCO posted a net profit of USD53 million in 1H20 and in-line with our expectation. The result was supported by higher production, higher ASP, and lower production cost as crude oil and coal prices decline. We maintain estimates for 2020-2022F after INCO's better results in 1H20 and estimate the nickel prices to hover at USD15,300-15,800/tonne until the end of 2020. Hence, we retain BUY recommendation for INCO.

### Net Profit In-line with Our Expectation

INCO posted a net profit of USD53 million in 1H20 (vs. a net loss of USD26 million in 1H19) due to higher production volume (+18% YoY), higher ASP (+3.5% YoY), lower production cost per tonne (-15% YoY). 1H20 net profit is in-line with our expectation and already reached 66% of our 2020F target. INCO benefited from the decline of crude oil and coal prices, we see that INCO potentially will record lower fuel & lubricant cost for 2020F results (estimated to be -6% YoY).

### Nickel Prices Continue to Strengthen

Since March 2020, nickel prices continue to strengthen and already rose around 36%. We believe that nickel prices rally was supported by the recovery of China's economy, which made an improvement for nickel consumption in stainless steel industry. In our view, GDP contraction from several nickel consumer in 1H20 made a slow demand but we expect further improvements demand in 2H20 and higher nickel prices post Covid-19. We estimate the nickel prices will be in the range of USD15,300-15,800/tonne until the end of 2020.

### Maintain Our 2020-2022F Estimates

INCO revised 2020's production volume guidance to 73,700 tonnes from the previous 71,000 tonnes due to rebuilding delay of the electric furnace #4 to next year. Besides, we keep our assumptions and maintain our 2020-2022F estimates, considering: 1) nickel demand from China's stainless steel industry will rise gradually starting from 2020; 2) potential nickel prices growth supported by EV demand; 3) SOE synergy will help INCO's future operations.

### Maintain BUY Rating with Higher TP of IDR4,500

We raised our TP for INCO following its better than expected 1H20 earnings. Our new TP is based on forward EV/EBITDA of 11x (+0.2 SD of its 5-year historical mean). INCO is currently trading at 9.8x EV/EBITDA.

### Vale Indonesia Tbk | Summary

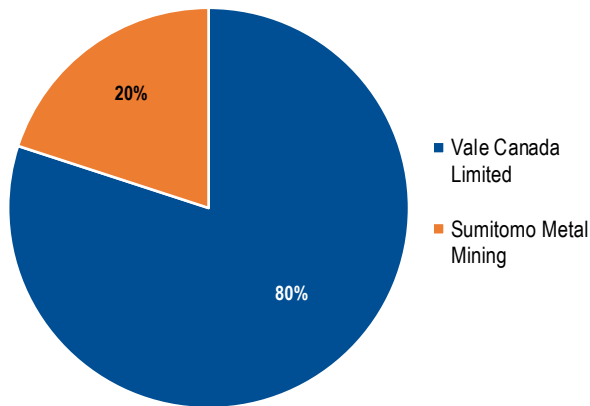
	2019A	2020F	2021F	2022F
Revenue (USD mn)	782	810	850	910
Growth (%)	0.7	3.6	5.0	7.0
EBITDA (USD mn)	221	231	261	289
Net Profit (USD mn)	57	81	95	113
EPS (IDR)	87	128	131	154
Growth (%)	-0.8	46.6	2.7	17.4
P/E (x)	41.8	35.2	34.3	29.2
P/BV (x)	1.3	1.6	1.5	1.5
EV/EBITDA (x)	11.7	13.9	12.4	11.2
ROE (%)	2.9	4.0	4.5	5.0
DER (%)	14.5	18.7	18.2	19.7
Net Debt (USD mn)	-248	-389	-514	-626

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

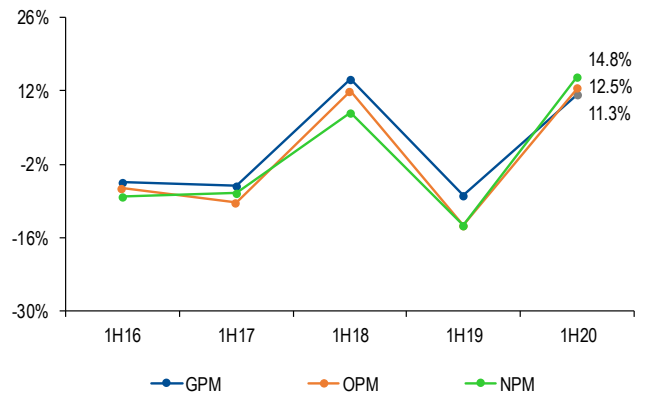
## Performance Highlights in Charts

### 1H20 Destination of Sales



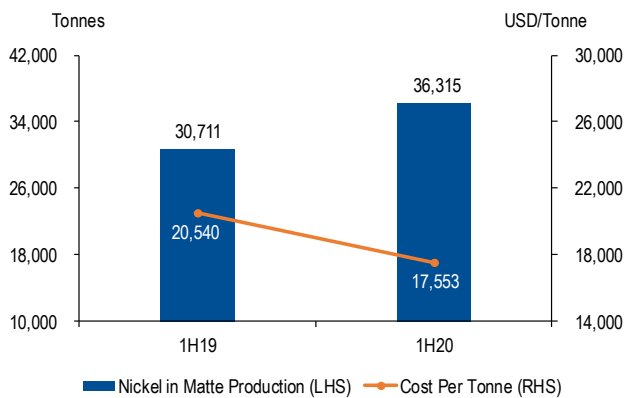
Source: Company Data, NHKSI Research

### Margin Ratios



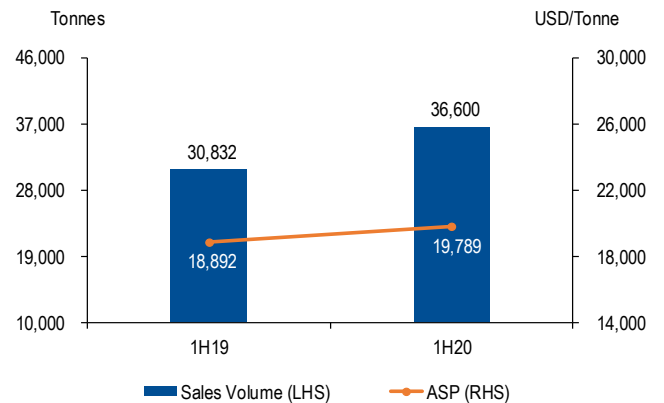
Source: Company Data, NHKSI Research

### Production & Cost Per Tonne



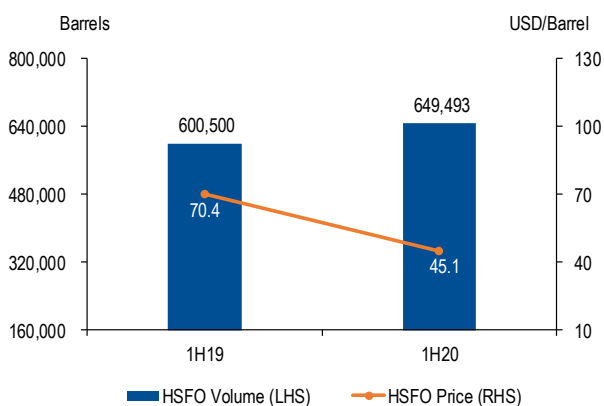
Source: Company Data, NHKSI Research

### Sales Volume & ASP



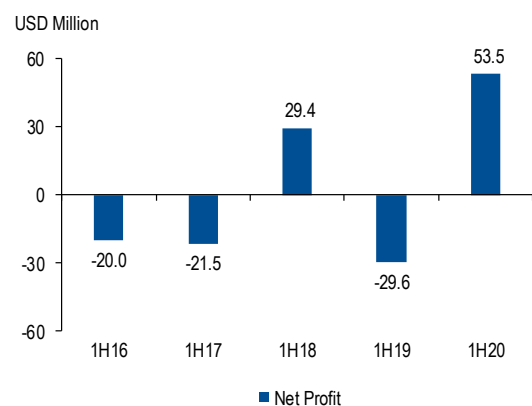
Source: Company Data, NHKSI Research

### HSFO Volume & Price



Source: Company Data, NHKSI Research

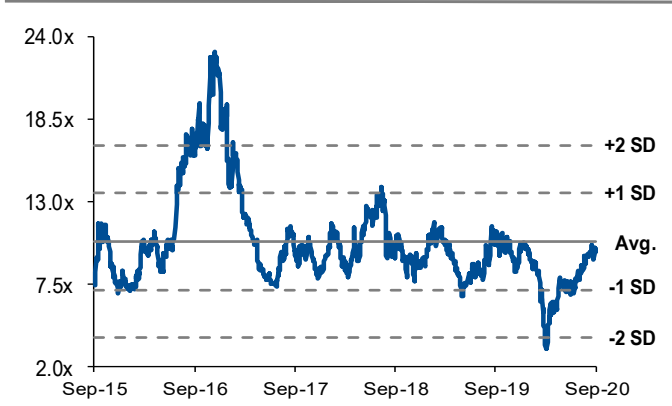
### Net Profit Trend



Source: Company Data, NHKSI Research

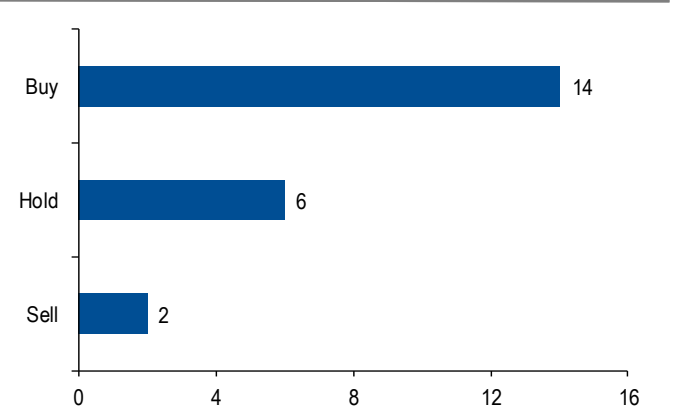
## Valuation & Other Highlights in Charts

### 5-Year Forward EV/EBITDA Band



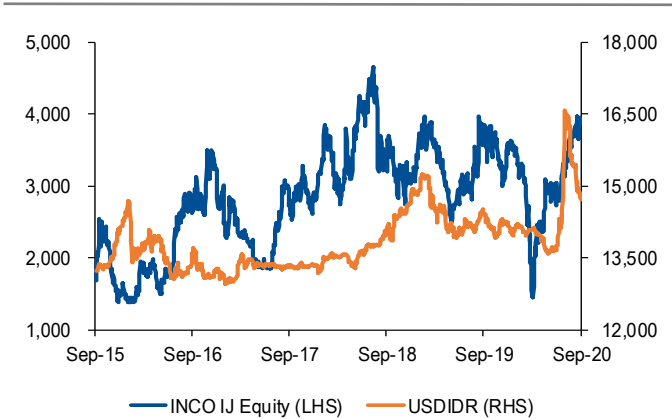
Source: Bloomberg, NHKSI Research

### Recommendation by Analysts



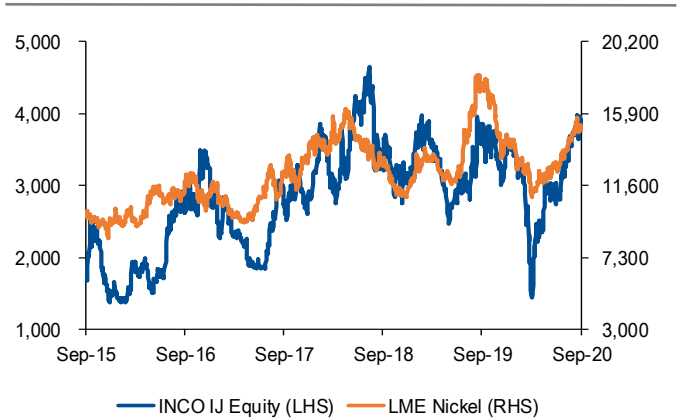
Source: Bloomberg, NHKSI Research

### INCO & USDIDR Movement



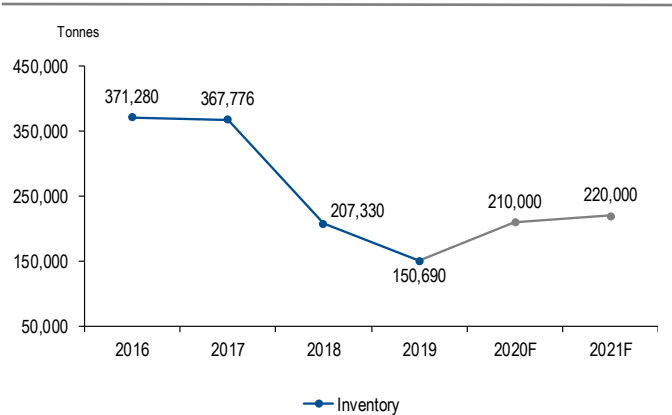
Source: Bloomberg, NHKSI Research

### INCO & Nickel Prices Movement



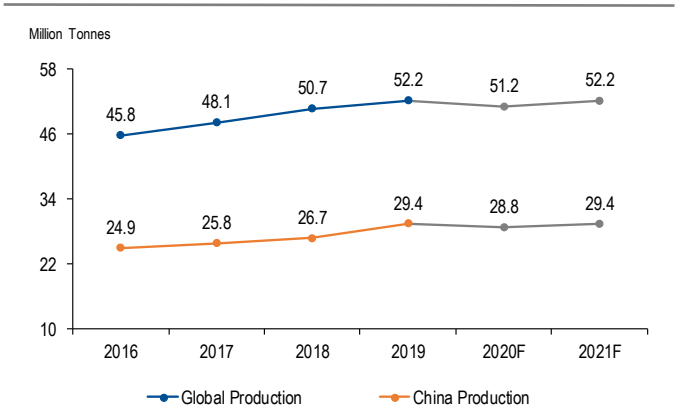
Source: Bloomberg, NHKSI Research

### LME Nickel Inventory



Source: Bloomberg, NHKSI Research

### Global & China Stainless Steel Output



Source: International Stainless Steel Forum (ISSF), NHKSI Research

## Financial Review

## Quarterly Review

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	YoY %	QoQ %	Surprise %	
<b>Income Statement</b>										
Revenue	166	214	276	175	186	171	12.0	6.3	8.5	211
Gross Profit	1	44	95	20	20	27	3,863.3	-1.9	-25.4	42
EBIT	-11	42	89	20	23	23	-312.1	6.4	0.0	36
EBITDA	14	82	125	50	59	53	328.0	3.0	10.6	61
Net Profit	-9	34	58	29	23	17	-345.6	-23.4	33.4	19
<b>Margin</b>										
Gross Margin	0.3	20.4	34.6	11.7	10.8	15.7	10.5	-0.9	-4.9	19.8
EBIT Margin	-6.6	19.6	32.2	11.6	12.5	13.6	19.1	0.0	-1.1	17.2
EBITDA Margin	8.3	38.2	45.5	28.6	31.8	31.2	23.5	-1.0	0.6	28.9
Net Profit Margin	-5.7	15.7	21.2	17.3	12.5	10.2	18.2	-4.8	2.3	8.8

Unit: USD mn, %

Source: Company Data, NHKSI Research

## Earnings Revisions

		2020F	2021F	2022F
<b>Income Statement</b>				
Revenue	-Maintain	810	850	910
	-Previous	810	850	910
	-Change %	0.0	0.0	0.0
	-Consensus	752	836	924
Gross Profit	-Maintain	130	148	164
	-Previous	130	148	164
	-Change %	0.0	0.0	0.0
	-Consensus	134	186	214
EBIT	-Maintain	110	126	141
	-Previous	110	126	141
	-Change %	0.0	0.0	0.0
	-Consensus	94	142	177
EBITDA	-Maintain	231	261	289
	-Previous	231	261	289
	-Change %	0.0	0.0	0.0
	-Consensus	212	273	290
Net Profit	-Maintain	81	95	113
	-Previous	81	95	113
	-Change %	0.0	0.0	0.0
	-Consensus	72	108	123
<b>Margin</b>				
Gross Margin	-Maintain	16.1	17.4	18.0
	-Previous	16.1	17.4	18.0
EBIT Margin	-Maintain	13.5	14.9	15.5
	-Previous	13.5	14.9	15.5
EBITDA Margin	-Maintain	28.5	30.7	31.8
	-Previous	28.5	30.7	31.8
Net Profit Margin	-Maintain	10.0	11.2	12.4
	-Previous	10.0	11.2	12.4

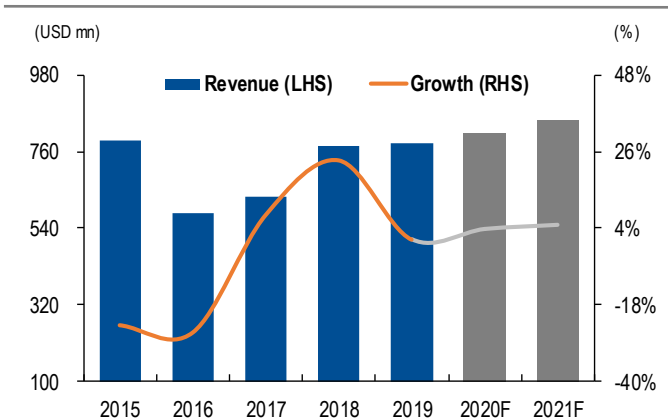
Unit: USD mn, %

Source: Company Data, NHKSI Research

## Company Overview

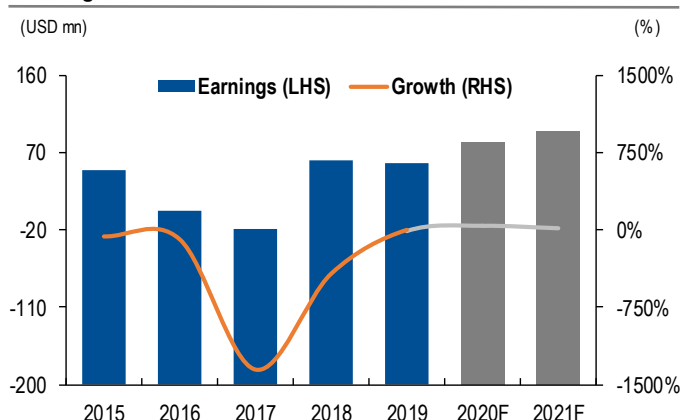
PT Vale Indonesia Tbk (INCO) established on July 25, 1968 and listed on IDX 1990 is an integrated nickel mining and processing company whose operational processing plants are situated in South Sulawesi Province. Vale Canada Limited as the major shareholder of INCO is a Brazil-headquartered multi-mining 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)	Total Sales* (USD mn)	Net Profit* (USD mn)	NPM* (%)	ROE (%)	EV/EBITDA (x)	P/BV (x)
<b>Indonesia</b>								
VALE INDONESIA TBK	2,645	2,223	850	137	16.1	7.0	5.2	1.3
ANEKA TAMBANG TBK	1,293	2,181	1,921	-6	-0.3	-0.4	9.4	1.0
<b>China</b>								
ZHONGJIN GOLD CORP	7,734	6,443	5,736	64	-19.1	2.6	N/A	2.5
YINTAI RESOURCES	4,486	1,707	914	147	16.1	11.7	N/A	3.3
INNER MONGOLIA	2,399	2,918	3,972	107	2.7	7.0	N/A	1.5
<b>Taiwan</b>								
KING SLIDE WORKS	970	425	163	46	28.0	13.5	10.3	2.7
<b>Australia</b>								
NICKEL ASIA CORP	866	952	335	44	13.1	7.5	3.1	1.4

Note: \* = Last Twelve Months (LTM)

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>	0.7%	3.6%	5.0%	7.0%
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>	14.9%	16.0%	17.4%	18.0%
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>	11.3%	13.5%	14.9%	15.5%
Depreciation	133	121	134	148
<b>EBITDA</b>	<b>221</b>	<b>231</b>	<b>261</b>	<b>289</b>
<i>EBITDA Margin</i>	28.2%	28.5%	30.8%	31.9%
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>	-6.7%	42.0%	17.9%	18.2%
<i>Net Profit Margin</i>	7.3%	10.0%	11.2%	12.4%

### PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	2.9%	4.0%	4.5%	5.0%
ROA	2.6%	3.5%	3.9%	4.3%
ROIC	2.9%	4.0%	4.6%	5.1%
Cash Dividend (IDR bn)	-	-	-	-
Dividend Yield	-	-	-	-
Payout Ratio	-	-	-	-
DER	14.5%	18.7%	18.2%	19.7%
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%	123.8%	129.5%	136.2%
Debt Ratio	0.1%	0.0%	0.0%	0.0%
Financial Leverage	226.9%	218.5%	227.3%	224.5%
Current Ratio	430.8%	300.2%	360.9%	352.2%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	9,936	9,936	9,936	9,936
Share Price (IDR)	3,640	4,500	4,500	4,500
Market Cap (IDR tn)	36.2	44.7	44.7	44.7

### BALANCE SHEET

(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	249	398	514	626
Receivables	107	146	120	164
Inventories	148	146	157	165
<b>Total Current Assets</b>	<b>588</b>	<b>770</b>	<b>872</b>	<b>1,036</b>
Net Fixed Assets	1,467	1,468	1,471	1,472
Other Non Current Asset	167	176	168	170
<b>Total Assets</b>	<b>1,634</b>	<b>1,644</b>	<b>1,640</b>	<b>1,642</b>
Payables	97	70	85	64
ST Bank Loan	1	-	-	-
LT Debt	0	-	-	-
<b>Total Liabilities</b>	<b>281</b>	<b>379</b>	<b>387</b>	<b>441</b>
Capital Stock & APIC	414	414	414	414
Retained Earnings	1,528	1,620	1,710	1,823
<b>Total Equity</b>	<b>1,942</b>	<b>2,034</b>	<b>2,124</b>	<b>2,237</b>

### VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	41.8x	35.2x	34.3x	29.2x
Price/Book Value	1.3x	1.6x	1.5x	1.5x
Price/Sales	3.3x	4.0x	3.8x	3.6x
PE/EPS Growth	-6.2x	0.8x	1.9x	1.6x
EV/EBITDA	11.7x	13.9x	12.4x	11.2x
EV/EBIT	29.3x	29.2x	25.5x	23.0x
EV (IDR bn)	35,921	44,316	44,199	44,088
Sales CAGR (3-Yr)	10.2%	8.8%	3.0%	5.2%
EPS CAGR (3-Yr)	219.7%	15.4%	15.2%	6.6%
Basic EPS (IDR)	87	128	131	154
Diluted EPS (IDR)	87	128	131	154
BVPS (IDR)	2,716	2,825	2,929	3,062
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	272	230	261
Investing Cash Flow	(166)	(122)	(131)	(173)
Financing Cash Flow	(23)	13	18	24
<b>Net Changes in Cash</b>	<b>(53)</b>	<b>163</b>	<b>117</b>	<b>112</b>

### TOP OWNERSHIP

By Geography	% Shareholders	%
Canada	70.4 Vale SA	58.7
Japan	25.0 Sumitomo Metal	20.1
Norway	1.6 Norges Bank	1.3
United States	1.5 Vale Japan Limited	0.5

Source: Company Data, NHKSI Research

## Closing &amp; Target Price Update



Source: Bloomberg, NHKSI Research

## Rating &amp; Target Price Update

Date	Rating	Target Price	Consensus
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
2020.06.10	Buy	IDR3,500	IDR2,989
2020.09.22	Buy	IDR4,500	IDR3,870

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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