

# Vale Indonesia Tbk (INCO IJ)

## Nickel Price Boosts Performance

Amid the global pandemic, INCO managed to record a net profit of USD24 million in 3Q20, -2.7% QoQ or -10.7% YoY. This figure exceeds our previous estimation (USD19 million). Meanwhile, during 9M20 INCO was able to book USD76 million in net profit, jump significantly higher by 47,800% YoY (88% of 2020F). We revise our forecast for 2020-2022F to adjust with the company's outlook. Meanwhile, we consider INCO's price to be at a fair level. Thus, we revised the recommendation to HOLD with TP: 4,530.

### Net Profit Exceeds Our Expectation

In 3Q20, INCO successfully booked an income of USD211 million, +13.4% QoQ or -1.7% YoY, resulting in 3Q20 net profit of USD24 million, -2.7% QoQ or -10.7% YoY. Meanwhile in 9M20 period, INCO recorded USD571 million income, +12.7% YoY, with net profit of USD76 million, +47.800% YoY (88% of 2020F). So, we revised our income and net profit expectations in 2020F. Then, we project INCO's income in 2021F to be USD760 million, -5.6% YoY with net profit of USD97 million, -5.3% YoY as INCO will rebuild furnace 4 in 2Q21 which will decrease the nickel production volume in 2021.

### Massive Expansion to Support Future Performance

INCO plans to build 2 smelters, the HPAL smelter in Pomalaa, ferronickel smelter in Bahodopi, and increases production capacity in the Sorowako smelter. The HPAL and ferronickel smelters are expected to each produce 40,000 ton/year, and 70,000 ton/year, as well as the smelter expansion in Sorowako which will increase production capacity by 10,000 ton/year (currently, Sorowako's capacity is 70,000 ton/year). We consider the increase in production capacity will be a positive catalyst for INCO in the long run.

### Nickel Price will Continue to Rally Supported by China's Policy

Amid the economic recovery in China, the Chinese government plans to increase nickel consumption for electric vehicles. It will be a positive catalyst for nickel price which continue to increase. Meanwhile, the nickel price rally is also supported by Indonesian government's policy to limit the export of nickel ore. So, we project the nickel price to be in the range of USD15,000–16,000/ton until the end of 2020 and USD16,000-17,000/ton in 2021F.

### Rating Revised to HOLD with Higher Target Price at IDR4,530

We increased Target Price for INCO as the 3Q20 performance was better than expected. Our new TP is IDR4,530 based on forward EV/EBITDA 2021 of 9.9x. INCO is currently traded at 9.9x EV/EBITDA.

#### Vale Indonesia Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (USD mn)	782	805	760	791
Growth (%)	0.7	3.0	-5.6	4.0
EBITDA (USD mn)	221	260	268	286
Net Profit (USD mn)	57	102	97	113
EPS (IDR)	87	149	141	154
Growth (%)	-0.8	85.3	-5.3	17.4
P/E (x)	45.3	31.3	33.1	32.2
P/BV (x)	1.3	1.6	1.5	1.4
EV/EBITDA (x)	11.0	12.2	11.9	11.1
ROE (%)	2.9	5.0	4.5	4.4
DER (%)	14.5	13.8	13.9	16.1
Net Debt (USD mn)	-248	-365	-277	-328

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

#### Company Update | Nov 10, 2020

## HOLD

Target Price (IDR)	4,530
Consensus Price (IDR)	4,675
TP to Consensus Price (%)	3.1%
vs. Last Price (%)	-0.4%

### Shares Data

Last Price (IDR)	4,550
Price Date as of	09/11/2020
52 wk Range (Hi/Lo)	4,700/1,340
Free Float (%)	20.5
Outstanding Shares (mn)	9,936
Market Cap (IDR tn)	4,521
Market Cap (USD mn)	3,208
Avg. Trd Vol - 3M (mn)	14.1
Avg. Trd Val - 3M (bn)	55.3
Foreign Ownership (%)	99.6%

### Mining

#### Metal

Bloomberg	INCO IJ
Reuters	INCO.JK

### Share Price Performance

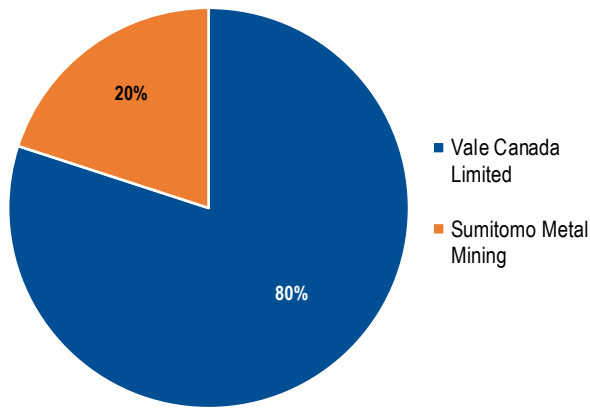


	YTD	1M	3M	12M
Abs. Ret.	17.3%	19.3%	18.0%	17.3%
Rel. Ret.	33.8%	13.2%	15.4%	33.3%

### NH Korindo Research Team

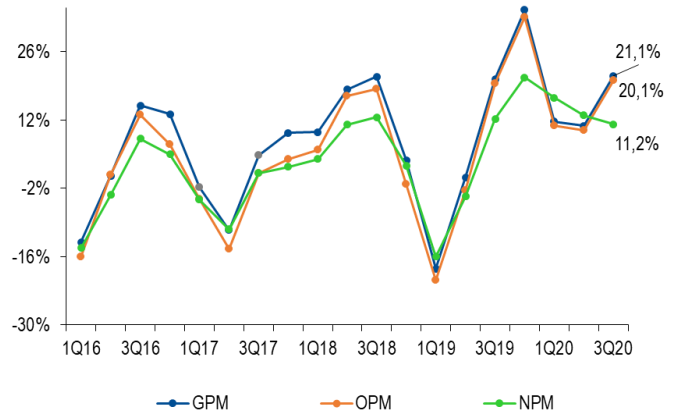
## Performance Highlights in Charts

### 3Q20 Destination of Sales



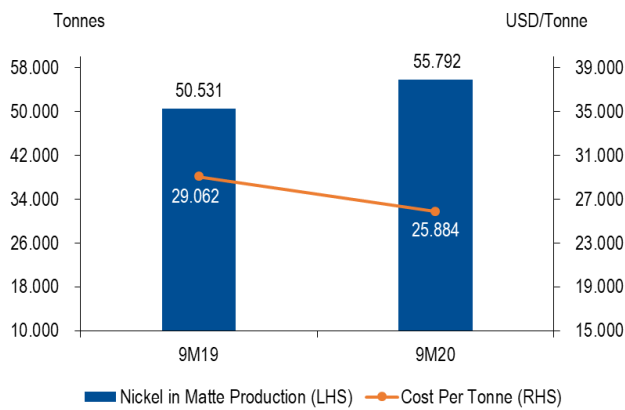
Source: Company Data, NHKSI Research

### Margin Ratios



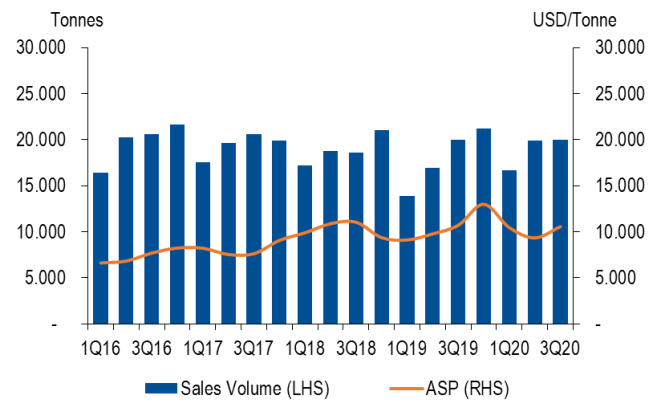
Source: Company Data, NHKSI Research

### Production & Cost Per Tonne



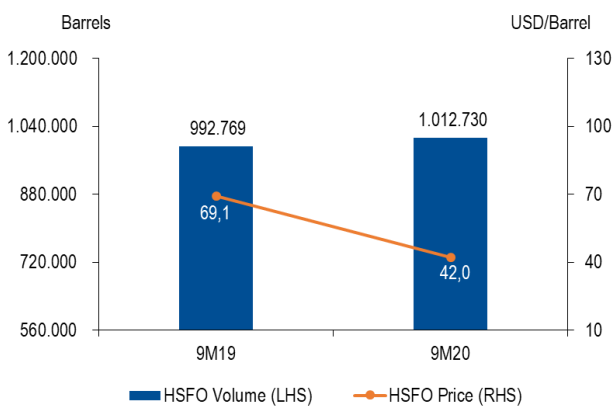
Source: Company Data, NHKSI Research

### Sales Volume & ASP



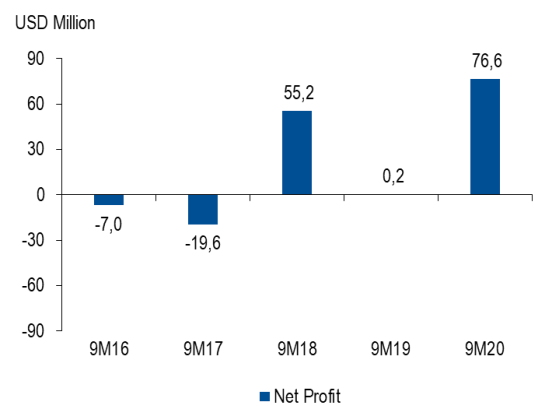
Source: Company Data, NHKSI Research

### HSFO Volume & Price



Source: Company Data, NHKSI Research

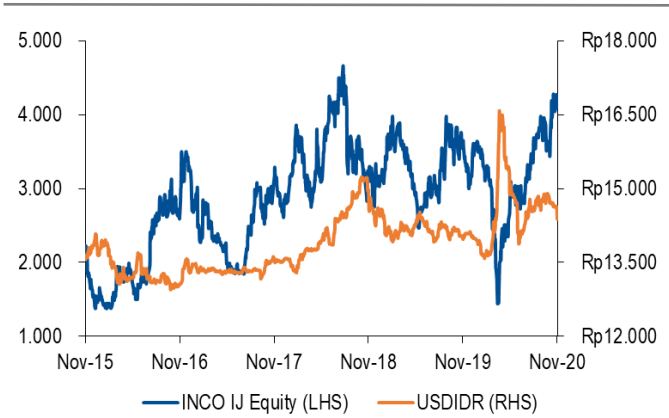
### Net Profit Trend



Source: Company Data, NHKSI Research

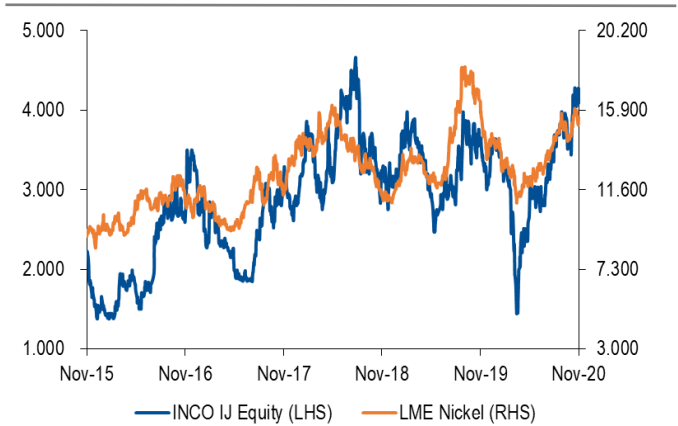
## Other Highlights in Charts

**INCO & USDIDR Movement**



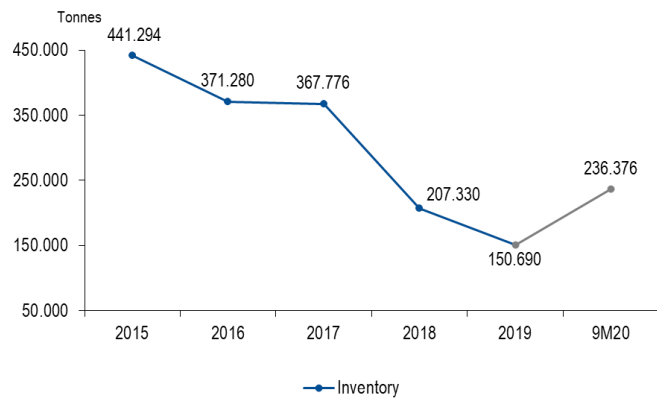
Source: Bloomberg, NHKSI Research

**INCO & Nickel Prices Movement**



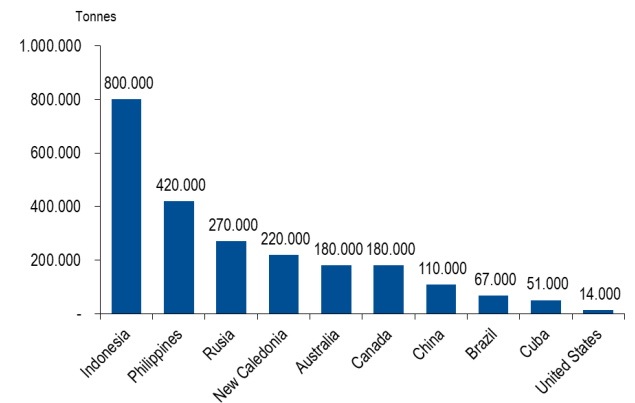
Source: Bloomberg, NHKSI Research

**LME Nickel Inventory**



Source: Bloomberg, NHKSI Research

**Top Nickel Production by Country (FY2019)**

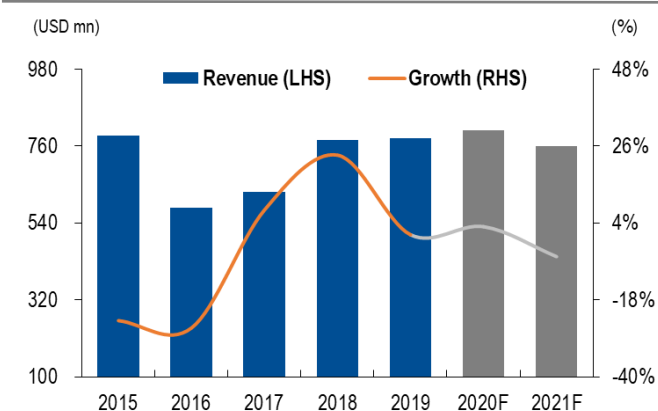


Source: US Geological Survey (USGS), NHKSI Research

## Company Overview

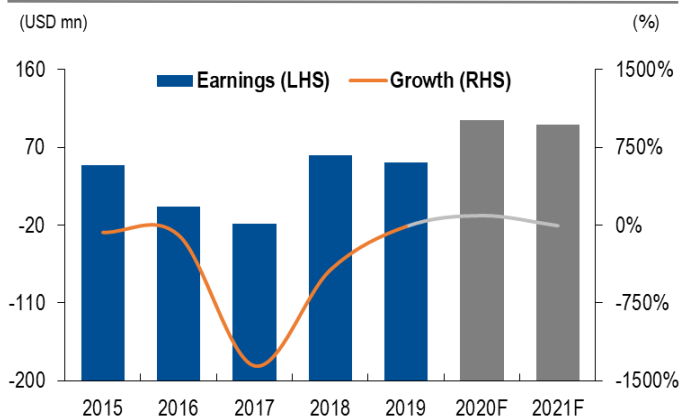
PT Vale Indonesia Tbk (INCO) which was established in July 25, 1968 and went public in 1990 is a mining and integrated nickel processing with operational processing company in the South Sulawesi province. Vale Canada Limited as the majority shareholder of INCO is a multi-mining company headquartered in Brazil, and has a reputation as the global leader in iron ore production, and one of the second largest nickel producers in the world. INCO mines laterite nickel to produce nickel in matte end product, producing nickel with up to 75,000 metric ton in volume with the pyrometallurgy technology, and has a total concession area of 118,017 hectares in Sorowako, Bahodopi, and Pomalaa. All nickel production is imported to Vale Canada Limited in Canada and Sumitomo Metal Co, Ltd in Japan.

### 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	3,205	2,223	847	134	0.2	0.1	6.8	1.6
ANEKA TAMBANG TBK	2,114	2,181	1,812	32	0.0	0.0	7.8	1.6
<b>China</b>								
ZHONGJIN GOLD CORP	7,368	6,448	6,242	130	0.2	0.0	N/A	2.1
YINTAI RESOURCES	4,541	1,707	1,102	166	0.2	0.1	N/A	3.1
INNER MONGOLIA	2,366	2,918	3,910	120	0.0	0.1	N/A	1.3
<b>Taiwan</b>								
KING SLIDE WORKS	977	425	164	41	0.3	0.1	8.3	2.6
<b>Australia</b>								
NICKEL ASIA CORP	1,222	952	388	58	0.2	0.1	3.1	1.9

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>805</b>	<b>760</b>	<b>791</b>
<i>Growth</i>	0,7%	3,0%	-5,6%	4,0%
COGS	(666)	(682)	(635)	(662)
<b>Gross Profit</b>	<b>116</b>	<b>123</b>	<b>125</b>	<b>128</b>
<i>Gross Margin</i>	14,9%	15,3%	16,5%	16,2%
Operating Expenses	(14)	(8)	(7)	(7)
<b>EBIT</b>	<b>103</b>	<b>116</b>	<b>118</b>	<b>121</b>
<i>EBIT Margin</i>	13,1%	14,3%	15,5%	15,3%
Depreciation	133	145	150	165
<b>EBITDA</b>	<b>235</b>	<b>260</b>	<b>268</b>	<b>286</b>
<i>EBITDA Margin</i>	30,1%	32,3%	35,3%	36,2%
Interest Expenses	(4)	(1)	-	-
<b>EBT</b>	<b>85</b>	<b>110</b>	<b>114</b>	<b>117</b>
Income Tax	(32)	(8)	(17)	(18)
Minority Interest	-	-	-	-
<b>Net Profit</b>	<b>53</b>	<b>102</b>	<b>97</b>	<b>99</b>
<i>Growth</i>	-13,0%	92,5%	-5,3%	2,7%
<i>Net Profit Margin</i>	6,8%	12,7%	12,7%	12,6%

### PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	2,7%	5,0%	4,5%	4,4%
ROA	2,4%	4,5%	4,0%	3,9%
ROIC	3,3%	5,2%	4,6%	4,5%
Cash Dividend (IDR bn)	-	-	-	-
Dividend Yield	-	-	-	-
Payout Ratio	-	-	-	-
DER	14,5%	13,8%	13,9%	16,1%
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	87,4%	87,8%	87,8%	86,1%
Debt Ratio	0,1%	0,0%	0,0%	0,0%
Financial Leverage	226,9%	217,4%	215,2%	217,7%
Current Ratio	430,8%	435,9%	393,8%	331,1%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	9.936	9.936	9.936	9.936
Share Price (IDR)	3.640	4.530	4.530	4.530
Market Cap (IDR tn)	36,2	45,0	45,0	45,0

### BALANCE SHEET

(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	249	365	277	328
Receivables	107	96	112	155
Inventories	148	134	129	145
<b>Total Current Assets</b>	<b>588</b>	<b>702</b>	<b>606</b>	<b>721</b>
Net Fixed Assets	1.467	1.458	1.688	1.737
Other Non Current Asset	167	168	168	170
<b>Total Assets</b>	<b>2.223</b>	<b>2.328</b>	<b>2.463</b>	<b>2.627</b>
Payables	97	77	69	68
ST Bank Loan	1	-	-	-
LT Debt	0	-	-	-
<b>Total Liabilities</b>	<b>281</b>	<b>283</b>	<b>300</b>	<b>365</b>
Capital Stock & APIC	414	414	414	414
Retained Earnings	1.528	1.631	1.749	1.849
<b>Total Equity</b>	<b>1.942</b>	<b>2.045</b>	<b>2.163</b>	<b>2.263</b>

### VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	45,3x	30,4x	32,2x	31,3x
Price/Book Value	1,3x	1,5x	1,4x	1,4x
Price/Sales	3,3x	3,9x	4,1x	3,9x
PE/EPS Growth	-3,5x	0,3x	-6,1x	11,7x
EV/EBITDA	11,0x	11,8x	11,5x	10,8x
EV/EBIT	25,2x	26,6x	26,2x	25,5x
EV (IDR bn)	35.921	44.647	44.735	44.684
Sales CAGR (3-Yr)	10,2%	8,6%	-0,7%	0,4%
EPS CAGR (3-Yr)	211,1%	19,4%	19,0%	-1,2%
Basic EPS (IDR)	80	149	141	145
Diluted EPS (IDR)	80	149	141	145
BVPS (IDR)	2.716	2.984	3.157	3.302
Sales PS (IDR)	1.094	1.175	1.109	1.154
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	268	247	264
Investing Cash Flow	(166)	(152)	(357)	(237)
Financing Cash Flow	(23)	(1)	22	24
<b>Net Changes in Cash</b>	<b>(53)</b>	<b>115</b>	<b>(88)</b>	<b>51</b>

### TOP OWNERSHIP

By Geography	% Shareholders	%
Canada	52,4 Vale SA	43,8
Japan	18,8 Inalum	20,0
United States	1,7 Sumitomo Metal	15,0
Norway	1,6 Vale Japan Limited	0,6

Source: Company Data, NHKSI Research

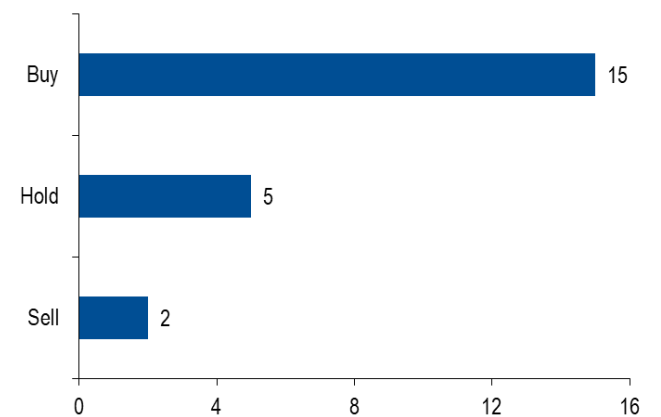
## Valuation

### 5-Year Forward EV/EBITDA Band



Source: Bloomberg, NHKSI Research

### Recommendation by Analysts



Source: Bloomberg, NHKSI Research

### Closing & Target Price Update



Source: Bloomberg, NHKSI Research

### Rating & Target Price Update

Date	Rating	Target Price	Consensus
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
2020.11.05	Hold	IDR4,530	IDR4,675

Source: NHKSI Research

## NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Rating system based on a stock's potential upside from the date of publication
  - Buy : Greater than +15%
  - Overweight : +5% to 15%
  - Hold : -5% to +5%
  - Underweight : -5% to -15%
  - Sell : Less than -15%

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