

# Vale Indonesia Tbk (INCO IJ)

## Solid Earnings Supported by Global Nickel Price



Company Update | Oct 8, 2021

## Overweight

<b>Target Price (IDR)</b>	<b>5,500</b>
Consensus Price (IDR)	6,370
TP to Consensus Price	-15.8%
Potential Upside	+13.6%

### Shares data

Last Price (IDR)	4,810
Price Date as of	Nov 5, 2021
52 wk Range (Hi/Lo)	7,100 / 4,110
Free Float (%)	20.4
Outstanding sh. (mn)	9,936
Market Cap. (IDR bn)	48,091
Market Cap. (USD mn)	3,366
Avg. Trd Vol - 3M (mn)	18.7
Avg. Trd Val - 3M (bn)	71.5

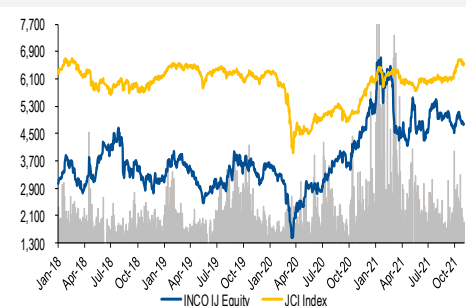
**Foreign Ownership** 70.1%

### Mining

### Mineral

Bloomberg	INCO IJ
Reuters	INCO.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-6.1%	-0.2%	-2.7%	5.7%
Rel. Ret.	-8.2%	-1.7%	-10.1%	-17.6%

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INCO posted a robust sales of US\$687.2 million and net earnings of US\$122.3 million in 9M-21. The result was supported by higher ASP, which follows the uptrend in nickel prices globally. Previously, we suspect crude oil and coal prices growth will increase INCO's operational costs and thus hinder their performance, but INCO's better than expected results in 9M21 allow us to give overweight recommendation for INCO.

### Uptrend Nickel Prices Maintain Earnings Growth

- 9M-21 financial result shows nickel production declines by 12.5% YoY to 48,373 Mt due to land clearing & maintenance period from January-March where drilling activities are reduced.
- Global nickel price rose 10.4%QoQ to US\$19000 which pushed INCO's average selling price (ASP) by 31.3%YoY to US\$13,900/Mt. As a result, INCO's sales rose 20.2% YoY to US\$687 million while net income increased by 60.4% YoY to US\$122.9 million, beating our forecast number by 18.9% & 35.6%, respectively.
- INCO's stronger than expected earnings result was primarily driven by higher ASP.

### Smelter Project to Increase Product Value

- INCO's new Bahodopi smelter is estimated to produce 73,000 Mt nickel per year which could be refined into stainless steel products to compete with China. It will also begin to manufacture components for battery in electric vehicles.
- This expansion follows a momentum where: 1) nickel supply from China's stainless steel industry has been gradually diminished by Indonesian government, thus relying on domestic producers; 2) stable nickel prices in 2022, supported by tariff export imposed by Russia, top exporter to world's nickel supply, which can hold the global nickel prices in US\$18,800– US\$19,900 in 2022.

### Overweight rating with TP at IDR 5,500

- We raised our FY22E sales & net earnings by 33.4% & 31.2% to US\$1.1 billion and US\$129.1 million, respectively. With prospective smelters investments that increases output next year, where INCO convert its nickel products into some components of electric vehicle battery and increases its stainless steel volume. However, we forecast that operational cost, such as coal & gasoline costs will put pressure on FY2022's net earnings.
- Overweight recommendation with TP of IDR5,500, implied P/E 42.1x (currently 43.2x) and P/BV of 1.6x (industry peers is 1.8X).

### Vale Indonesia Tbk | Summary

	2020A	2021F	2022F	2023F
Revenue	764	1,012	1,073	1,181
Growth	4%	32.5%	6.1%	10.1%
Net Profit	82	129	119	127
Growth	43.1%	58.1%	-8.0%	6.6%
EPS (IDR)	121	129	130	134
P/E	41.9x	43.0x	42.1x	41.5x
P/BV	1.7x	1.7x	1.6x	1.6x
EV/EBITDA	13.5x	12.6x	12.2x	11.7x
ROE	4.0%	5.9%	5.1%	5.1%
ROA	3.6%	5.2%	4.4%	4.5%

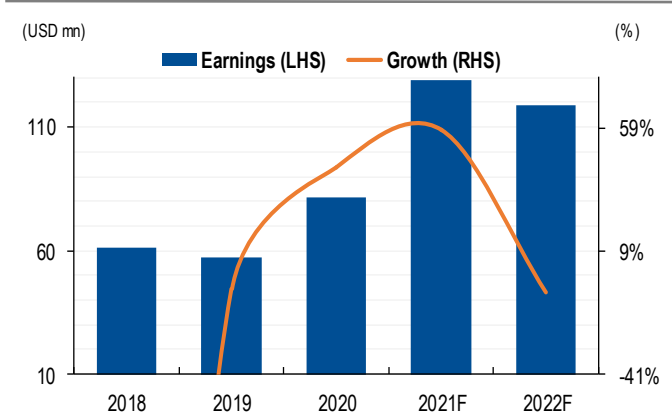
Unit: USD mn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

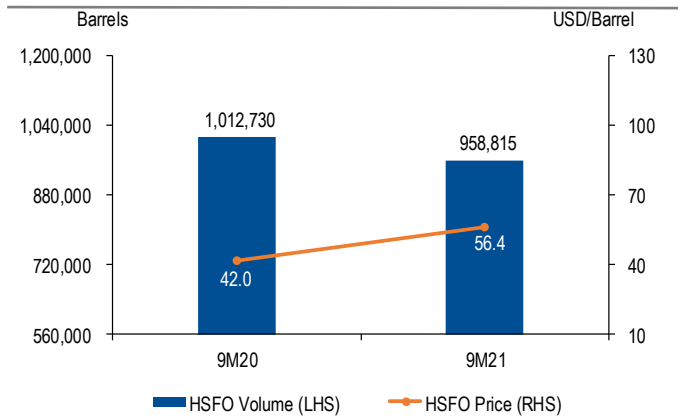
## Performance Highlights in Charts

Annual Net Earnings (US\$ Mn) | 2018 - 2022F



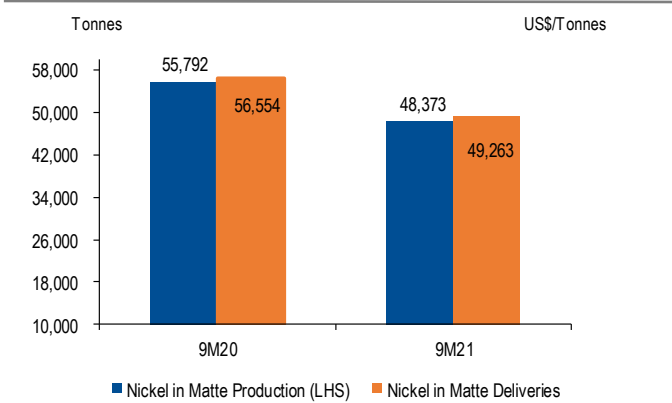
Source: Company Data, NHKSI Research

9M21 HSFO Volume (Barrels,US\$/B)



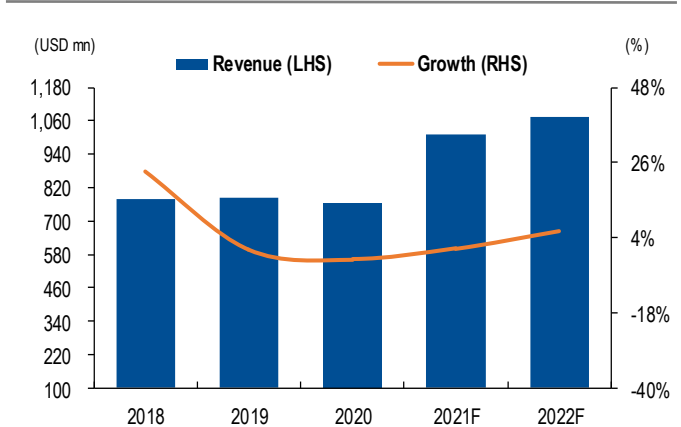
Source: Company Data, NHKSI Research

9M21 Production & Deliveries



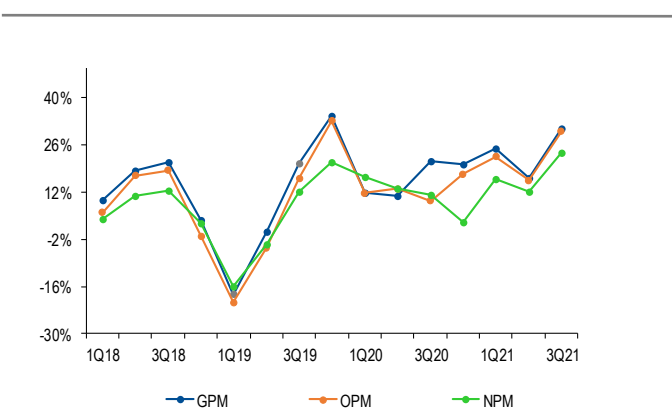
Source: Company Data, NHKSI Research

Annual Revenue (USD Mn) | 2018-2022F



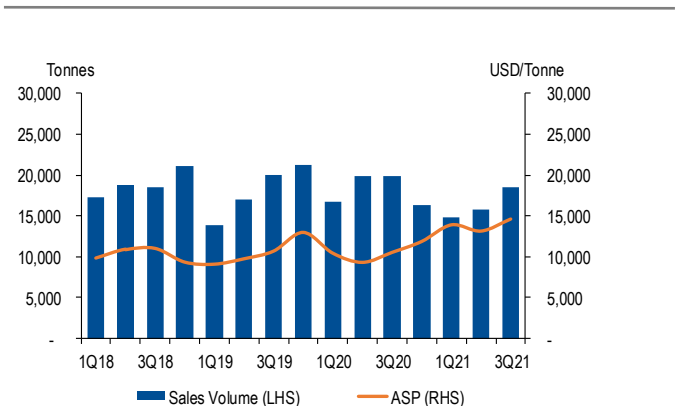
Source: Company Data, NHKSI Research

Margin Ratios



Source: Company Data, NHKSI Research

Sales Volume & ASP | Quarter



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.

### Asia Pacific Companies Peers Analysis

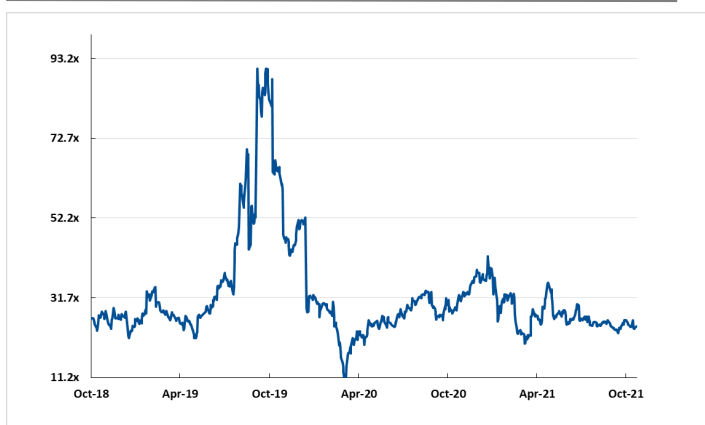
		Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	EV/ EBITDA LTM	P/BV
<b>Indonesia</b>										
VALE INDONESIA	INCO IJ EQUITY	3,366	2,403	685	120	172.5%	23.2%	3.2%	6.8x	1.6x
ANEKA TAMBANG	ANTM IJ EQUITY	3,780	2,219	1,944	114	333.7%	6.6%	11.8%	14.2x	2.8x
<b>China</b>										
ZHONGJIN GOLD	600489 CH	6,298	6,448	6,341	227	-6.9%	3.2%	8.0%	15.5x	1.6x
YINTAI RESOURCES	000975 CH	3,831	2,398	904	159	7.60%	15.7%	13.3%	13.6x	2.4x
<b>Taiwan</b>										
KING SLIDE WORKS	2059 TT EQUITY	1,342	505	157	46	130.3%	25.8%	12.1%	10.3x	3.3x
<b>Phillipines</b>										
NICKEL ASIA CORP	NIKL PM EQUITY	1,222	1,005	229	57	336.1%	27.2%	20.9%	3.1x	1.9x

Unit: USD mn, %, X

Source: Bloomberg, NHKSI Research

## Valuation Highlights in Charts

### 3-Years Forward P/E Band



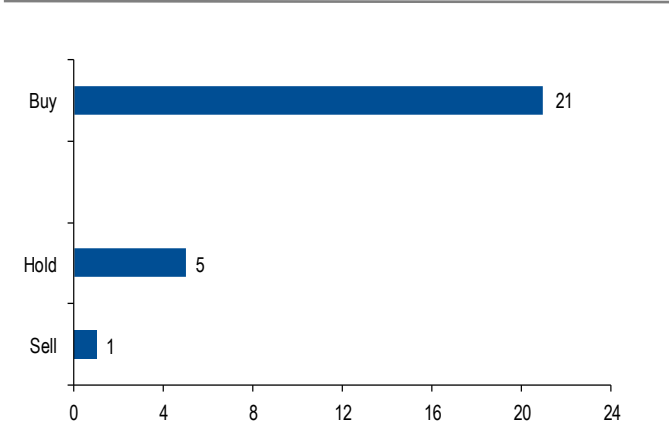
Source: Bloomberg, NHKSI Research

### 2-Years P/BV



Source: Bloomberg, NHKSI Research

### Analysts' Recommendation



Source: Bloomberg, NHKSI Research

### Closing and Target Price Update



Source: Bloomberg, NHKSI Research

## Rating and Target Price Update

### Target Price

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
2021.11.05	Overweight	IDR 5,500	IDR 6,370

Source: NHKSI Research, Bloomberg

## Summary of Financials

### INCOME STATEMENT

(USD mn)	2020/12A	2021/12F	2022/12F	2023/12F
<b>Revenue</b>	<b>764</b>	<b>1,012</b>	<b>1,073</b>	<b>1,181</b>
<i>Growth</i>	4%	32.5%	6.1%	10.1%
COGS	(640)	(840)	(912)	(1,004)
<b>Gross Profit</b>	<b>124</b>	<b>172</b>	<b>161</b>	<b>177</b>
<i>Gross Margin</i>	16.2%	17.0%	15.0%	0.0%
Operating Expenses	(17)	(23)	(24)	(27)
<b>EBIT</b>	<b>107</b>	<b>149</b>	<b>137</b>	<b>150</b>
<i>EBIT Margin</i>	13.9%	14.7%	12.8%	0.0%
Depreciation	148	150	170	182
<b>EBITDA</b>	<b>255</b>	<b>299</b>	<b>307</b>	<b>332</b>
<i>EBITDA Margin</i>	33.4%	29.7%	28.7%	0.0%
Interest Expenses	(1)	(0)	(0)	
<b>EBT</b>	<b>108</b>	<b>152</b>	<b>140</b>	<b>153</b>
Income Tax	(22)	(23)	(21)	(26)
Minority Interest	(5)	-	(8)	
<b>Net Profit</b>	<b>82</b>	<b>129</b>	<b>119</b>	<b>127</b>
<i>Growth</i>	43.1%	58.1%	-8.0%	6.6%
<i>Net Profit Margin</i>	10.7%	12.7%	11.1%	10.7%

### BALANCE SHEET

(USD mn)	2020/12A	2021/12F	2022/12F	2023/12F
Cash	365	184	175	185
Receivables	96	188	179	199
Inventories	134	236	165	182
<b>Total Current Assets</b>	<b>702</b>	<b>697</b>	<b>612</b>	<b>655</b>
Net Fixed Assets	1,458	1,814	1,943	2,046
Other Non Current Assets	168	168	170	194
<b>Total Assets</b>	<b>2,328</b>	<b>2,680</b>	<b>2,725</b>	<b>2,896</b>
Payables	77	129	72	80
ST Bank Loan	0	0	0	0
LT Debt	0	0	1	0
<b>Total Liabilities</b>	<b>281</b>	<b>486</b>	<b>420</b>	<b>523</b>
Capital Stock & APIC	414	414	414	414
Retained Earnings	1,631	1,781	1,900	2,022
<b>Total Equity</b>	<b>2,045</b>	<b>2,196</b>	<b>2,315</b>	<b>2,463</b>

### CASH FLOW STATEMENT

(USD mn)	2020/12F	2021/12F	2022/12F	2023/12F
Operating Cash Flow	287	279	288	309
Investing Cash Flow	(150)	(483)	(322)	(408)
Financing Cash Flow	(2)	22	25	24
<b>Net Changes in Cash</b>	<b>135</b>	<b>(182)</b>	<b>(9)</b>	<b>(75)</b>

### PROFITABILITY & STABILITY

	2020/12A	2021/12F	2022/12F	2023/12F
ROE	4.0%	5.9%	5.1%	5.1%
ROA	3.6%	5.2%	4.4%	4.5%
ROIC	4.2%	5.8%	5.0%	5.1%
Cash Dividend (IDR bn)	-	474	-	-
Dividend Yield	-	0.9%	-	-
DER	13.7%	22.1%	18.1%	21.2%
Net Gearing	0.0%	0.1%	0.5%	0.2%
Equity Ratio	87.8%	81.9%	85.0%	85.1%
Debt Ratio	12.1%	18.1%	15.4%	18.1%
Financial Leverage	217.4%	212.0%	231.6%	221.2%
Current Ratio	438.8%	205.0%	232.8%	172.2%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	9,936	9,936	9,936	9,936
Share Price (IDR)	5,075	5,473	5,500	5,261
Market Cap (IDR tn)	50.4	54.4	54.6	52.3

### VALUATION INDEX

	2020/12A	2021/12F	2022/12F	2023/12F
Price/Earnings	62.3x	42.4x	42.1x	41.5
Price/Book Value	1.7x	1.7x	1.6x	1.5x
Price/Sales	4.6x	3.7x	3.5x	3.1
PE/EPS Growth	1.4x	0.7x	-5.3x	6.3
EV/EBITDA	13.5x	12.5x	12.2x	11.0x
EV/EBIT	32.3x	25.1x	27.4x	24.4x
EV (IDR bn)	50,062	54,198	54,476	52,093
Sales CAGR (3-Yr)	6.7%	9.2%	11.1%	15.6%
EPS CAGR (3-Yr)	18.0%	31.0%	6.2%	-0.6%
Basic EPS (IDR)	82	129	119	127
Diluted EPS (IDR)	82	129	119	127
BVPS (IDR)	2,984	3,204	3,378	3,520
Sales PS (IDR)	1,115	1,477	1,566	1,688
DPS (IDR)	N/A	48	N/A	N/A

### TOP OWNERSHIP

By Geography	% Shareholders	%
Canada	52.4 Vale SA	43.8%
Indonesia	20% Inalum	20.0%
Japan	18.8 Sumitomo Metal	15.0%
United States	1.7 Vale Japan Limited	0.7%

Source: Company Data, NHKSI Research

### NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. 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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