

# Vale Indonesia Tbk (INCO IJ)

## Higher ASP amid Declining Production Output

Company Report | March 04, 2022

### BUY

<b>Target Price (IDR)</b>	<b>6,250</b>
Consensus Price (IDR)	6,214
TP to Consensus Price	+0.6%
Potential Upside	+15.7%

#### Shares Data

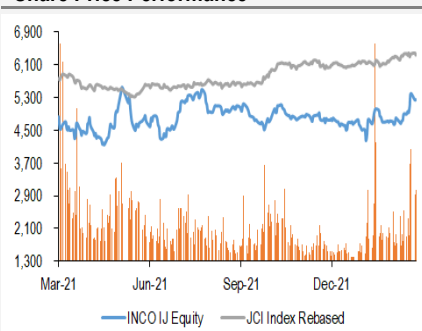
Last Price (IDR)	5,400
Price Date as of	Mar. 4, 2022
52 wk Range (Hi/Lo)	5,625 / 4,110
Free Float (%)	20.5
Outstanding Shares (mn)	9,936
Market Cap (IDR bn)	53,159
Market Cap (USD mn)	3,694
Avg. Trd Vol - 3M (mn)	15.5
Avg. Trd Val - 3M (bn)	75.5
Foreign Ownership (%)	98.7%

#### Basic Materials

##### Metal Mining

Bloomberg	INCO IJ
Reuters	INCO.JK

#### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	12.2%	11.0%	9.6%	-10.6%
Rel. Ret.	7.8%	8.6%	5.3%	-18.6%

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INCO recorded a total Revenue of USD953.2 Mn (+24.6% YoY) in FY21, with higher ASP managed to offset declines in both Production and Sales volume. EBITDA also grew by 47.8% YoY, which resulted in FY21 net profit to be USD165.8 Mn (+100.2% YoY). With nickel prices forecasted to remain high in 2022 and stable production level, we continue to our BUY call for INCO with a higher TP at IDR6,250/share.

#### Rising ASP outperforms Higher Production Costs

- INCO booked USD266.7 Mn in 4Q21 revenue (-0.5% QoQ) which brought FY21 total revenue to USD953.2 million (+24.6% YoY). The company enjoyed higher ASP in 2021 with average of USD14,309/ton; up by 36.3% YoY compared to USD10,498/ton in 2020.
- On the other hand, decline in production volume resulted in lower consumption of HSFO, Diesel, and Coal which helped INCO to control production costs, amid rising commodity prices. Average prices for HSFO, Diesel and Coal went up by 42%/28%/62% respectively.
- As a result, EBITDA increased by 47.8% YoY to USD380.7 Mn in 2021 (vs USD257.5 Mn in 2020). Moreover, despite booking a relatively weak net profit in 4Q21 of USD42.9 Mn (-33% QoQ); INCO still managed to record a strong growth in FY21 net profit to USD165.8 Mn (+100.2% YoY)

#### Lower Production and Sales Volume

- INCO achieved a total nickel matte production of 65,388 tons in FY21; or a 9.5% decline compared to 72,237 tons in FY20. In 4Q21 alone, production level also dropped to 17,015 tons (-6.6% QoQ); mainly due to the start of Furnace 4 rebuild project in December 2021 after several postponements.
- In terms of sales volume, INCO also recorded a drop to 66,615 tons (-8.6% YoY) in FY21.

#### Higher Nickel Price to Continue in 2022

- Global nickel prices continue its rally within the past year, with the benchmark LME price broke above USD25,000/ton barrier in February 2022; which contributed by the rising geopolitical tension between Russia and Ukraine. Russia accounts for approximately 6% of global nickel about, which could potentially lead to supply disruption.

#### Recommend BUY with Higher TP

- We continue our BUY call for INCO, while raising our TP to IDR6,250/share; a 19% upside potential compared to last price. Our TP implies an EV/EBITDA of 6.1X. Risks to our call include: 1) A drop in global nickel prices due to external factors; 2) Lower production volume than expected; and 3) Energy prices continue to rise.

#### Vale Indonesia Tbk | Summary

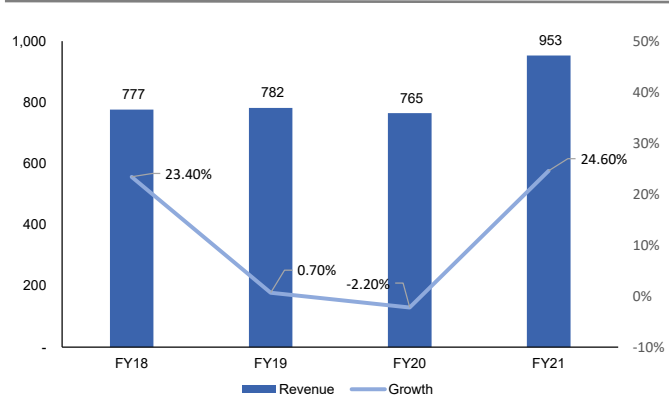
	2021A	2022E	2023F	2024F
Revenue (USD mn)	953	1,094	1,177	1,212
Growth (%)	24.6%	14.8%	7.6%	3.0%
EBITDA (USD mn)	557	688	480	500
Net Profit (USD mn)	163	260	284	293
EPS (IDR)	241	381	412	425
Growth (%)	-5.1%	44.3%	100.2%	58.4%
P/E (x)	19.4x	16.3x	15.0x	14.6x
P/BV (x)	1.5x	1.8x	1.6x	1.4x
EV/EBITDA (x)	5.7x	6.1x	8.8x	8.4x
ROE (%)	7.6%	10.7%	10.4%	9.7%
DER (%)	14.8%	12.1%	13.1%	10.8%
Net Debt (USD mn)	-504	-654	-744	-805

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

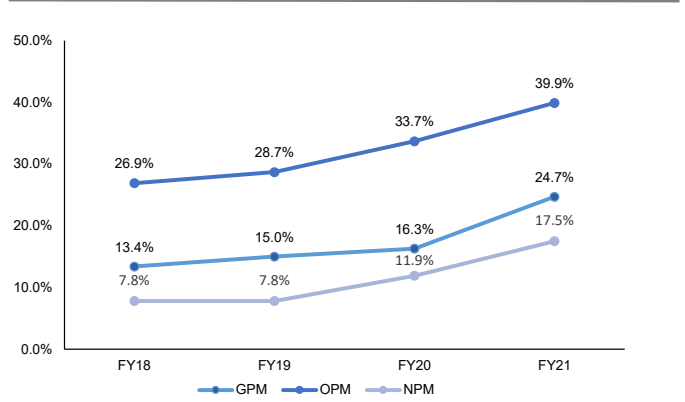
## Performance Highlights

### Revenue Growth (IDR Mn)



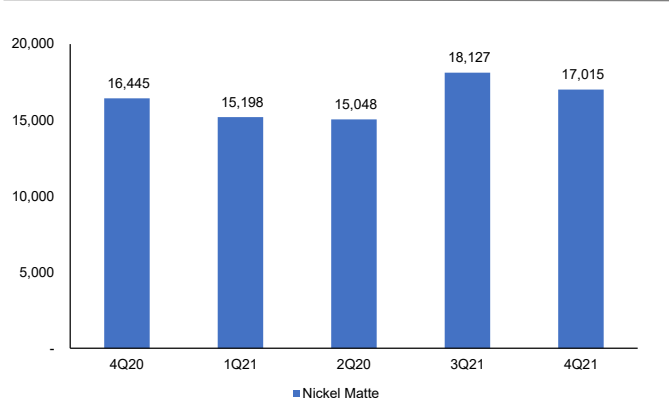
Source: Bloomberg, NHKSI Research

### Margin Ratios



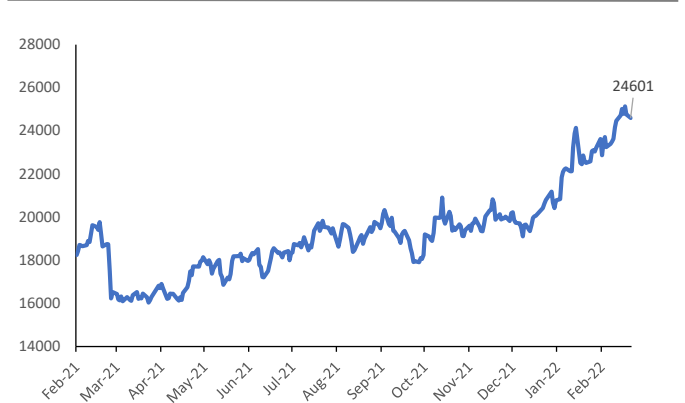
Source: Bloomberg, NHKSI Research

### Nickel Production (Tons)



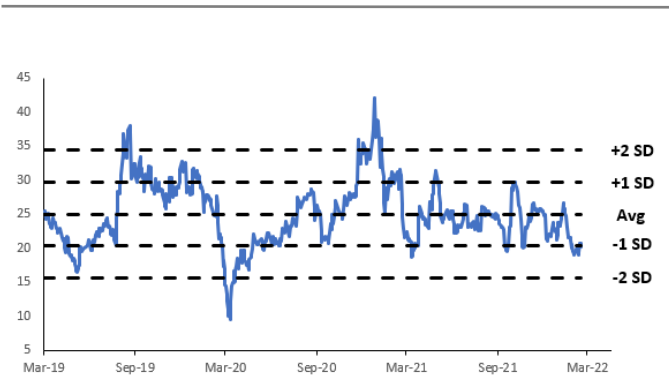
Source: Company Data, NHKSI Research

### LME Nickel Price (USD / Ton)



Source: Bloomberg, NHKSI Research

### Blended Forward P/E Ratio



Source: Bloomberg, NHKSI Research

### EV/ EBITDA Ratio



Source: Bloomberg, NHKSI Research

## Financial Summary

### INCOME STATEMENT

(USD mn)	2021/12A	2022/12E	2023/12F	2024/12F
<b>Revenue</b>	<b>953</b>	<b>1,094</b>	<b>1,177</b>	<b>1,212</b>
<i>Growth</i>	24.6%	14.8%	7.6%	3.0%
COGS	(718)	(728)	(783)	(807)
<b>Gross Profit</b>	<b>235</b>	<b>366</b>	<b>393</b>	<b>405</b>
<i>Gross Margin</i>	24.7%	33.4%	33.4%	33.4%
Operating Expenses	(14)	(13)	(14)	(14)
<b>EBIT</b>	<b>221</b>	<b>353</b>	<b>379</b>	<b>391</b>
<i>EBIT Margin</i>	23.2%	32.3%	32.3%	32.3%
Depreciation	335	335	100	109
<b>EBITDA</b>	<b>557</b>	<b>688</b>	<b>480</b>	<b>500</b>
<i>EBITDA Margin</i>	58.4%	62.9%	40.9%	41.3%
Interest Expenses	(6)	(6)	-	-
<b>EBT</b>	<b>218</b>	<b>347</b>	<b>380</b>	<b>391</b>
Income Tax	(55)	(88)	(96)	(99)
Minority Interest	-	-	-	-
<b>Net Profit</b>	<b>163</b>	<b>260</b>	<b>284</b>	<b>293</b>
<i>Growth</i>	104.0%	59.5%	9.3%	2.9%
<i>Net Profit Margin</i>	17.1%	23.7%	24.1%	24.1%

### PROFITABILITY & STABILITY

	2021/12A	2022/12E	2023/12F	2024/12F
ROE	7.6%	10.7%	10.4%	9.7%
ROA	6.8%	10.0%	9.8%	9.1%
ROIC	7.7%	10.9%	10.4%	9.7%
Cash Dividend (IDR bn)	-	-	-	-
Dividend Yield	-	-	-	-
Payout Ratio	-	-	-	-
DER	14.8%	12.1%	13.1%	10.8%
Net Gearing	1.7%	0.0%	0.0%	0.0%
LT Debt to Equity	0.2%	0.0%	0.0%	0.0%
Capitalization Ratio	0.2%	0.0%	0.0%	0.0%
Equity Ratio	87.2%	89.2%	88.4%	90.2%
Debt Ratio	0.2%	0.0%	0.0%	0.0%
Financial Leverage	214.9%	204.6%	198.7%	204.2%
Current Ratio	496.7%	648.8%	534.8%	644.1%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	9,936	9,936	9,936	9,936
Share Price (IDR)	4,680	6,250	6,850	7,050
Market Cap (IDR tn)	46.5	62.1	68.1	70.1

### BALANCE SHEET

(USD mn)	2021/12A	2022/12E	2023/12F	2024/12F
Cash	508	654	744	805
Receivables	102	86	106	101
Inventories	162	149	185	159
<b>Total Current Assets</b>	<b>837</b>	<b>967</b>	<b>1,116</b>	<b>1,147</b>
Net Fixed Assets	1,519	1,622	1,850	2,081
Other Non Current Asset	117	122	119	120
<b>Total Assets</b>	<b>2,472</b>	<b>2,710</b>	<b>3,085</b>	<b>3,349</b>
Payables	122	111	115	95
ST Bank Loan	1	-	-	-
LT Debt	3	-	-	-
<b>Total Liabilities</b>	<b>318</b>	<b>293</b>	<b>357</b>	<b>328</b>
Capital Stock & APIC	414	414	414	414
Retained Earnings	1,740	2,003	2,314	2,607
<b>Total Equity</b>	<b>2,154</b>	<b>2,417</b>	<b>2,728</b>	<b>3,021</b>

### VALUATION INDEX

	2021/12A	2022/12E	2023/12F	2024/12F
Price/Earnings	19.4x	16.4x	16.6x	16.6x
Price/Book Value	1.5x	1.8x	1.7x	1.6x
Price/Sales	3.4x	3.9x	4.0x	4.0x
PE/EPS Growth	0.2x	0.3x	1.8x	5.7x
EV/EBITDA	5.7x	6.2x	9.7x	9.6x
EV/EBIT	14.4x	12.1x	12.3x	12.3x
EV (IDR bn)	45,999	61,448	67,320	69,246
Sales CAGR (3-Yr)	17.7%	20.2%	14.8%	15.7%
EPS CAGR (3-Yr)	42.4%	46.9%	19.7%	3.7%
Basic EPS (IDR)	241	381	412	425
Diluted EPS (IDR)	241	381	412	425
BVPS (IDR)	3,128	3,509	3,961	4,386
Sales PS (IDR)	1,384	1,588	1,708	1,760
DPS (IDR)	N/A	N/A	N/A	N/A

### CASH FLOW STATEMENT

(USD mn)	2021/12A	2022/12E	2023/12F	2024/12F
Operating Cash Flow	509	593	385	402
Investing Cash Flow	(180)	(198)	(346)	(364)
Financing Cash Flow	(34)	(5)	51	24
<b>Net Changes in Cash</b>	<b>294</b>	<b>389</b>	<b>89</b>	<b>62</b>

### TOP OWNERSHIP

By Geography	% Shareholders	%
Canada	51.5 Vale SA	43.8
Unknown	23.5 Inalum	20.0
Japan	18.5 Sumitomo Metal	15.0
Others	6.5 Others	21.2

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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