

# Vale Indonesia Tbk (INCO IJ)

## Renewable Energy and EV to Support FY22 Performance

INCO recorded revenue of USD564.5 million (+36.0% YoY) in 1H22, with an Average Realized Price of nickel in matte of USD20,899/ton in 1H22 (+54.6% YoY). Meanwhile, Cost of Revenue in 1H22 was USD213.9 million, up 8.2% in line with the increase in Coal Cost to 159.7% YoY for the period. NHKSI Research sees a transformation towards Renewable Energy and EV development, keeping nickel demand high in the long term.

### Ability to Control Production Costs

- The decrease in production volume led to lower use of HSFO, diesel, and coal, helping INCO to control production costs amidst rising commodity prices. Average HSFO, diesel and coal prices rose +52.1%, +64.4% and +164.7% YoY, respectively. Meanwhile, the production decline is caused by the rebuilding of Furnace 4 since December 2021 after several delays.
- INCO's total nickel in matte production reached 26,394 tons in 1H22 or down 12.7% YoY. Meanwhile, in 2Q22, the total production of nickel in matte was 12,567 tons, declining 9.1% QoQ, due to the replacement of the roof of furnace 1 and the shutdown following full maintenance in early June.

### Renewable Energy and EV

- Geopolitical tension will be a negative sentiment for commodity price movements. However, the transformation of Renewable Energy and the development of EVs will be the fundamental basis for nickel demand to remain high in the long term.
- After Russia-Ukraine, geopolitical tensions occurred between China-Taiwan, raising fears of reduced demand, making producers control the amount of production amid rising inflation rates.
- Global nickel prices have been relatively increasing for the past year, with the LME benchmark average price at more than USD 27,500/ton in 1H22 or close to USD30,000/ton in 2Q22.

### Buy Recommendation with TP IDR8,200

- NHKSI Research recommends Buy for INCO, with a TP of IDR8,200, reflecting an EV/EBITDA of 8.1X. This target reflects the estimated net profit increase to USD 260 million in 2022, or a growth of almost 60% YoY.
- Meanwhile, revenue is estimated to grow from USD 953 million to USD 1.09 billion, in line with the increase in Nickel prices which then pushes ASP. Our TP also takes into account INCO's ability to increase production and volume, while maintaining a relatively lower Fuel Cost. There are a number of risks, such as: rising coal prices and global inventories, as well as below expectation production.

### Vale Indonesia Tbk | Summary

	2021A	2022F	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 (%)	104.0%	59.5%	9.3%	2.9%
P/E (x)	19.4x	21.5x	21.7x	21.7x
P/BV (x)	1.5x	2.3x	2.3x	2.1x
EV/EBITDA (x)	5.7x	8.1x	12.8x	12.6x
ROE (%)	7.6%	10.7%	10.4%	9.7%
DER (%)	14.8%	12.1%	13.1%	10.8%
Net Debt (USD Mn)	-248	-654	-744	-805

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Company Report | Aug. 24, 2022

## BUY

<b>Target Price (IDR)</b>	<b>8,200</b>
Consensus Price (IDR)	7,933
TP to Consensus Price	+3.4%
Potential Upside	+31.2%

### Shares Data

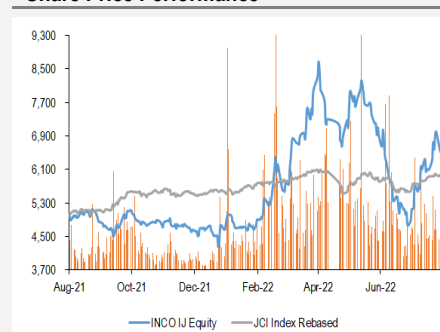
Last Price (IDR)	6,250
Price Date as of	Aug. 23, 2022
52 wk Range (Hi/Lo)	8,800 / 4,240
Free Float (%)	20.6
Outstanding Shares (mn)	9,936
Market Cap (IDR bn)	64,834
Market Cap (USD mn)	4,388
Avg. Trd Vol - 3M (mn)	31.8
Avg. Trd Val - 3M (bn)	213.9
Foreign Ownership (%)	98.7%

### Basic Materials

#### Metal Mining

Bloomberg	INCO IJ
Reuters	INCO.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	39.4%	36.8%	-10.3%	27.9%
Rel. Ret.	31.0%	29.6%	-17.7%	10.8%

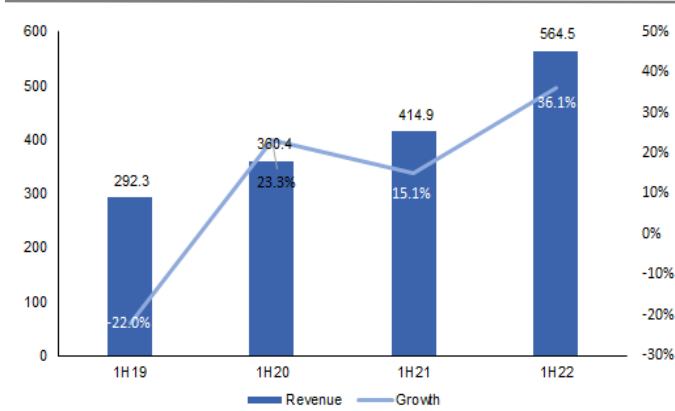
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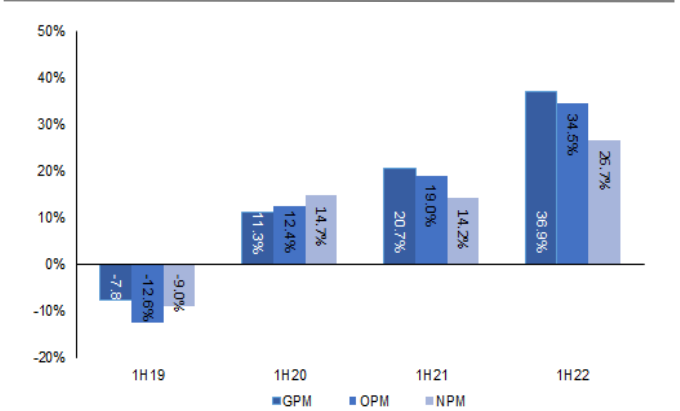
## Performance Highlights

### Revenue Growth (USD Mn)



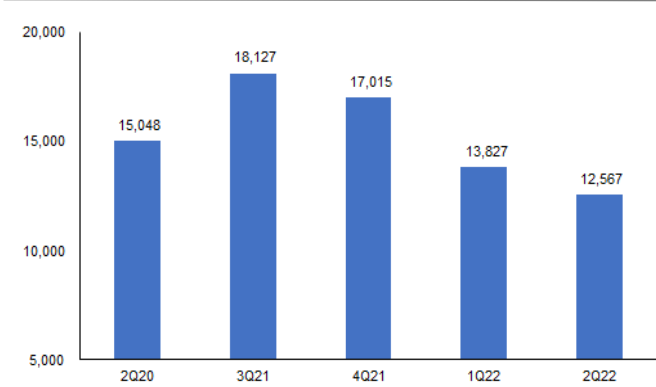
Source: Bloomberg, NHKSI Research

### Margin Ratios



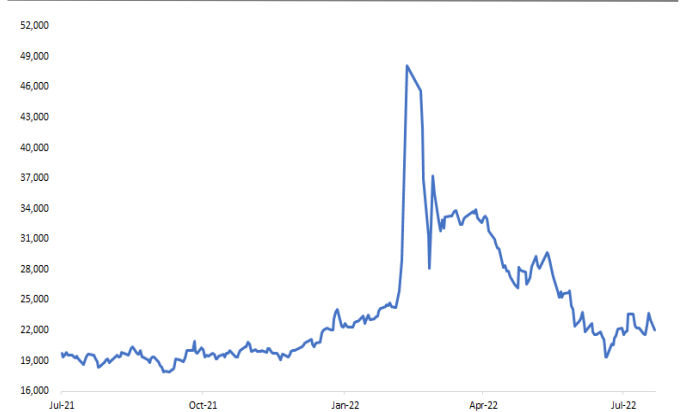
Source: Bloomberg, NHKSI Research

### Nickel Production (Tons)



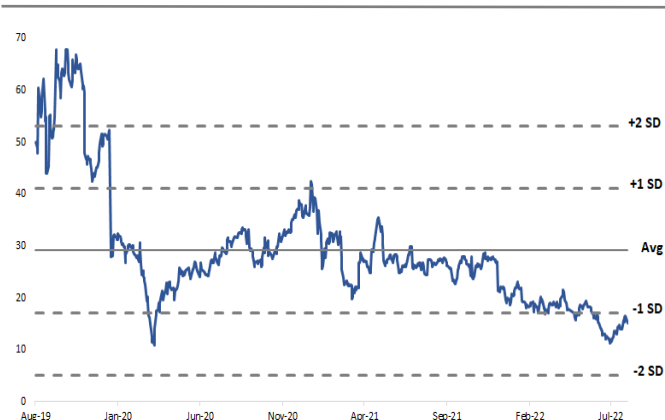
Source: Company Data, NHKSI Research

### LME Nickel Price (USD / Ton)



Source: Bloomberg, NHKSI Research

### P/E Ratio | Last 3-Years



Source: Bloomberg, NHKSI Research

### EV/ EBITDA Ratio | Last 3-Years



Source: Bloomberg, NHKSI Research

## Financial Summary

### INCOME STATEMENT

(USD mn)	2021/12A	2022/12F	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	2022/12F	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	87.1%	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	8,200	8,961	9,222
Market Cap (IDR tn)	46.5	81.5	89.0	91.6

### BALANCE SHEET

(USD mn)	2021/12A	2022/12F	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>2,473</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	2022/12F	2023/12F	2024/12F
Price/Earnings	19.4x	21.5x	21.7x	21.7x
Price/Book Value	1.5x	2.3x	2.3x	2.1x
Price/Sales	3.4x	5.2x	5.2x	5.2x
PE/EPS Growth	0.2x	0.4x	2.3x	7.4x
EV/EBITDA	5.7x	8.1x	12.8x	12.6x
EV/EBIT	14.4x	15.9x	16.1x	16.1x
EV (IDR bn)	45,999	80,824	88,293	90,831
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	2022/12F	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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