

Vale Indonesia Tbk. (INCO)

Revenue Rises Despite Continued Nickel Price Pressure

Vale Indonesia Tbk. (INCO) reported a 10.9% YoY increase in revenue (IDR 14.2 trillion vs IDR 12.8 trillion) in 9M23 despite a 6% YoY decline in average selling price from USD19,703 per ton to USD18,596 per ton. Net profit also recorded a 36.7% YoY rise (IDR 3.3 trillion vs IDR 2.4 trillion) with net profit margin increasing from 19.1% to 23.6%.

Production ramps up as INCO chases annual production target

- INCO posted a 17.6% increase in nickel matte production for 9M23 (51,644 tons vs 43,907 tons).
- This is slightly behind the pace required to reach their annual production target of 70,000 tons, but the company is optimistic that that target will be reached by the end of Q4.
- Sales volume also rose by 13.7% from 44,347 tons in 9M22 to 50,435 tons in 9M23, all purchased by Vale Canada Limited & Sumitomo Metal Mining.

Cost control strategy bears fruit

- Despite a large increase in production volume, INCO's cost of revenue increased by a relatively smaller 6% (USD 650.9 million vs USD 614.7 million).
- One of their cost control strategy is to switch to coal as their main energy source. Coal is very flexible to use and with declining coal prices, it is the most cost-effective option.
- INCO further strived to reduce the intensity of energy usage per ton of nickel produced through the optimal usage of coal with different caloric values.

Moving towards divestment

- INCO has come to an agreement with the government-owned MIND ID to allow MIND ID to purchase 14% of INCO's shares through the signing of a Head of Agreement (HoA)
- Thus, this will make MIND ID the largest shareholder in the company with 34%, ahead of Vale Base Metals Limited with 33.9% and Sumitomo Metal Mining Co., Ltd. with 11.5%
- This maneuver is required in order to keep in line with Indonesia's divestment requirements, therefore allowing INCO to obtain an extension on the company's concessions & permits.
- The price for this 14% of shares is still being negotiated as MIND ID and Vale is hoping to come to an agreement regarding its valuation within 2 months.

Recommend OVERWEIGHT with TP at IDR 5,000

- NHKS Research gives an OVERWEIGHT rating for INCO, with a target price of IDR5,000. This reflects a PE ratio of 12.25x which is equivalent to INCO's 1 year SD -2 band. Price is currently trading at a PE ratio of 11.0x.
- Risks: 1) Continued nickel surplus 2) Chinese economic slowdown 3) Delays in divestment

Vale Indonesia Tbk. | Summary (IDR bn)

in IDR bn	2022A	2023E	2024F	2025F
Revenue	17,543	18,291	17,376	17,550
Revenue growth	28.6%	4.3%	-5.0%	1.0%
Net profit	2,942	4,118	3,092	3,128
EPS (IDR)	296	414	311	315
Net Profit growth	24.0%	40.0%	-24.9%	1.2%
NPM	16.8%	22.5%	17.8%	17.8%
ROE	8.8%	10.8%	7.5%	7.1%
ROA	7.7%	9.5%	6.6%	6.2%
P/E	14.9x	10.6x	14.2x	14.0x
P/BV	1.2x	1.1x	1.0x	1.0x
EV/EBITDA	5.3x	4.2x	4.5x	3.7x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Company Update | December 06, 2023

Overweight

Target Price (IDR)	5,000
Consensus Price (IDR)	6,057
TP to Consensus Price	-17.5%
Potential Upside	+13.4%

Shares data

Last Price (IDR)	4,410
Price date as of	December 4, 2023
52 wk range (Hi/Lo)	7,750 / 4,350
Free float (%)	20.6%
Outstanding sh. (mn)	9,936
Market Cap (IDR bn)	43,719
Market Cap (USD mn)	2,818
Avg. Trd Vol - 3M (mn)	14.2
Foreign Ownership	78.96

Mining

Metal

Bloomberg	INCO IJ
Reuters	INCO.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-37.9%	-10.5%	-25.6%	-40.4%
Rel. Ret.	-41.4%	-15.0%	-27.2%	-41.5%

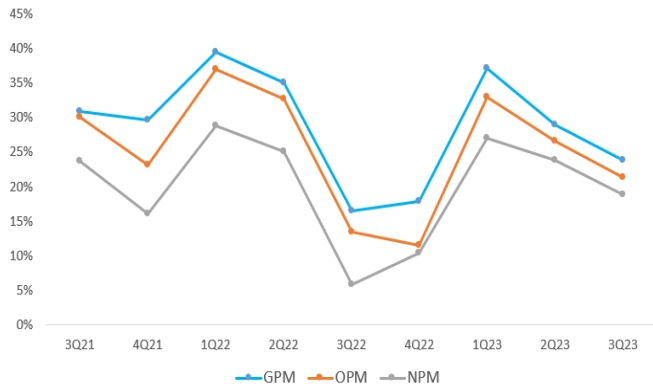
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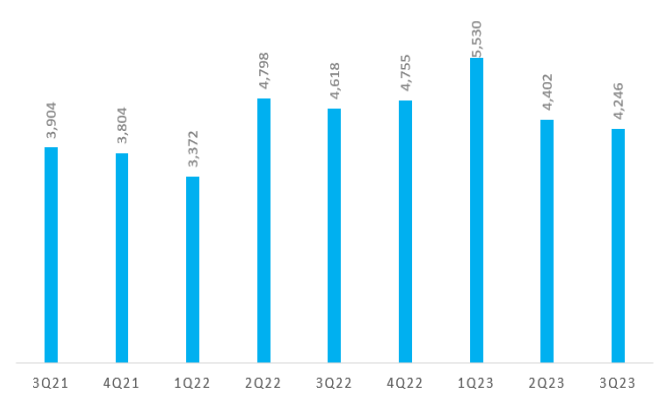
Performance Highlights in Charts

INCO Quarterly Profit Margins | 3Q21 - 3Q23



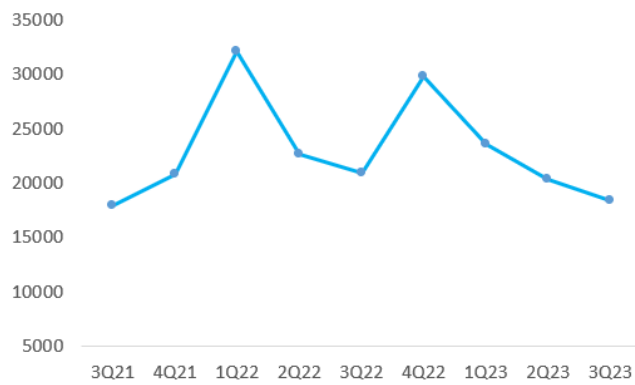
Source: Company Data, NHKSI Research

INCO Quarterly Net Revenue | 3Q21 - 3Q23



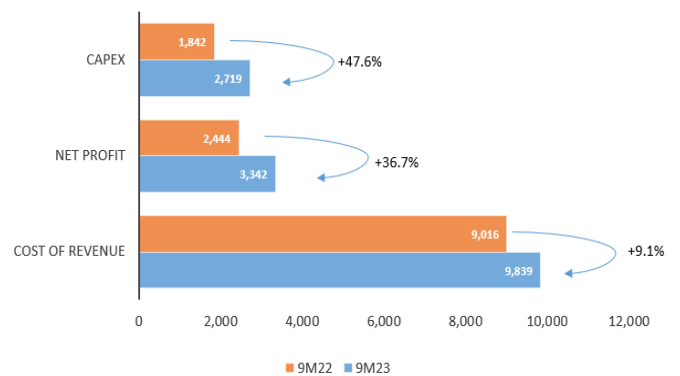
Source: Company Data, NHKSI Research

LME Nickel Cash (USD/Mt) | 3Q21 - 3Q23



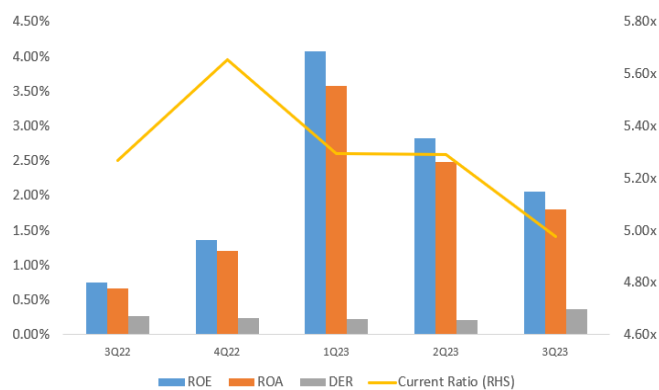
Source: Company Data, NHKSI Research

INCO Financial Highlights (IDR Bn) | 9M22 vs 9M23



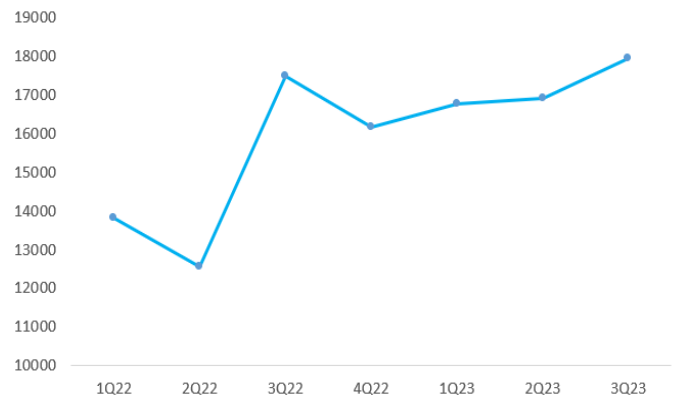
Source: Company Data, NHKSI Research

INCO Selected Financial Ratios | 3Q22 - 3Q23



Source: Company Data, NHKSI Research

INCO Quarterly Nickel Production (Metric Tons) | 1Q22 - 3Q23



Source: Company Data, NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Revenue	17,543	18,291	17,376	17,550
<i>Growth</i>	28.6%	4.3%	-5.0%	1.0%
COGS	12,924	12,935	12,896	13,044
Gross Profit	4,620	5,355	4,480	4,506
<i>Gross Margin</i>	26.3%	29.3%	25.8%	25.7%
Operating Expenses	(635)	(566)	(510)	(513)
EBIT	3,985	4,787	3,970	3,993
<i>EBIT Margin</i>	22.7%	26.2%	22.8%	22.8%
Depreciation	2,443	2,803	2,811	3,580
EBITDA	6,428	7,590	6,782	7,573
<i>EBITDA Margin</i>	36.6%	41.5%	39.0%	43.2%
EBT	4,050	5,225	4,093	4,134
Income Tax	1,109	1,106	1,001	1,006
Minority Interest	-	-	-	-
Net Profit	2,942	4,118	3,092	3,128
<i>Growth</i>	24.0%	40.0%	-24.9%	1.2%
<i>Net Profit Margin</i>	16.8%	22.5%	17.8%	17.8%

BALANCE SHEET

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Cash	9,832	12,303	13,706	15,797
Receivables	2,192	1,695	1,912	2,107
Inventories	2,415	2,725	2,640	2,822
Total Current Assets	15,349	17,657	19,407	21,724
Net Fixed Assets	24,034	25,437	26,940	27,976
Other Non Current Assets	1,837	2,355	2,153	1,895
Total Assets	41,219	45,449	48,501	51,594
Payables	2,272	3,116	3,008	3,182
ST Debt	28	81	46	56
LT Debt	61	63	71	77
Total Liabilities	4,704	5,726	6,013	6,383
Capital Stock	2,115	2,112	2,112	2,112
Retained Earnings	30,093	33,311	36,077	38,800
Shareholders' Equity	36,516	39,723	42,489	45,212

CASH FLOW STATEMENT

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Operating Cash Flow	5,188	7,507	6,033	7,078
Investing Cash Flow	(3,272)	(4,162)	(4,315)	(4,616)
Financing Cash Flow	(20)	(901)	(309)	(363)
Net Changes in Cash	1,853	2,454	1,403	2,091

PROFITABILITY & STABILITY

	2022/12A	2023/12F	2024/12F	2025/12F
ROE	8.8%	10.8%	7.5%	7.1%
ROA	7.7%	9.5%	6.6%	6.2%
Inventory Turnover	7.3	6.7	6.6	6.2
Days Inventory Outstanding	50.2	54.4	55.5	58.7
Receivables Turnover	8.3	10.3	9.1	8.3
Account Receivable Days	43.7	35.6	40.2	43.8
Dividend Yield (%)	0.0%	2.0%	0.7%	0.9%
Payout Ratio (%)	0.0%	21.4%	10.6%	12.9%
DER	0.2%	0.4%	0.3%	0.3%
Current Ratio	5.7	4.8	5.0	5.2
Quick Ratio	4.5	4.1	4.2	4.5
DAR	0%	0%	0%	0%
Total Shares (mn)	9,936	9,936	9,936	9,936
Share Price (IDR)	4,410	4,410	4,410	4,410
Market Cap (IDR tn)	43.8	43.8	43.8	43.8

VALUATION INDEX

	2022/12A	2023/12F	2024/12F	2025/12F
Price/Earnings	14.9x	10.6x	14.2x	14.0x
Price/Book Value	1.2x	1.1x	1.0x	1.0x
EV/EBITDA	5.3x	4.2x	4.5x	3.7x
EV (IDR bn)	34,075	31,658	30,229	28,154
BVPS (IDR)	3,675	3,998	4,276	4,550
Basic EPS (IDR)	296	414	311	315

TOP OWNERSHIP

Shareholders	%
Vale Canada Limited	43.79
PT Mineral Industri Indonesia	20.00
Sumitomo Metal Mining Co. Ltd	15.03

By Geography	
Canada	52.68
Indonesia	21.04
Japan	18.90

Source: Company Data, Bloomberg, 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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