Vale Indonesia

Bloomberg: INCO.IJ | Reuters: INCO.JK

Metal Mining Sector

14 November 2023

SAMUEL SEKURITAS INDONESIA
Your Lifelong Investment Partner

JCI Index: 6,838

HOLD (Maintain)

Target Price (IDR)	**5,000 (from 5,900)**
Potential Upside (%)	**7.8**

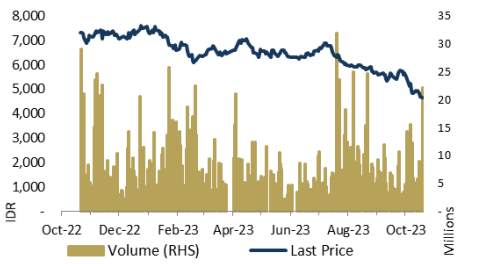
Price Comparison	
Cons. Target Price (IDR)	6,257
SSI vs. Cons. (%)	79.9

Stock Information	
Last Price (IDR)	4,640
Shares Issued (Mn)	9,936
Market Cap. (IDR Bn)	46,105
52-Weeks High/Low (IDR)	7,750/4,480
3M Avg. Daily Value (IDR Bn)	51.6
Free Float (%)	20.6
Shareholder Structure:	
Vale Canada Limited (%)	43.8
Others (%)	35.0
Public (%)	21.2

Stock Performance

(%)	YTD	1M	3M	12M
Absolute	(34.6)	(14.5)	(26.6)	(37.5)
JCI Return	(0.2)	(1.3)	(0.6)	(3.5)
Relative	(34.5)	(13.2)	(26.0)	(34.0)

Stock Price & Volumes, 12M



Company Background

Vale Indonesia (INCO) is one of the largest nickel mining companies in Indonesia. Vale holds Contract of Work that is valid until 2025 with a concession area of 118,017 hectares. Vale holds concession rights in Sorowako Block; Bahodopi; Suasua and Pomalaa.

Juan Harahap
+62 21 2854 8321
juan.oktavianus@samuel.co.id

Haikal Putra Samsul
+62 21 2854 8353
haikal.putra@samuel.co.id

Earnings Downgrade Due to Soft Prices

We decided to tone down our earnings forecast for 2023F, as we expect INCO to book lower earnings in 4Q23 than in 3Q23 due to the lower-than-expected nickel prices. We also fine-tuned our nickel price assumption for 2024F to USD 18,500 per ton (Previously: USD 21k per ton), as we believe global nickel prices will remain under pressure. We maintain our HOLD rating on INCO with a TP of IDR 5,000 per share.

Expect lower earnings in 4Q23. INCO posted a net profit of USD 53mn (-25.3% QoQ; +193.2% YoY) in 3Q23, translating into a cumulative net profit of USD 221mn (+31.3% YoY) in 9M23, in line with ours and above the consensus (73.2% and 82.0%). The QoQ decline in 3Q23 was mainly caused by the drop in ASP of -9.8% QoQ, even though sales volume grew by +4.6% QoQ. Regarding its full-year performance, we decided to tone down our 2023F earnings forecast, as we expect INCO to book lower earnings in 4Q23 than in 3Q23**,** considering the fact that as of **Nov.10,** LME nickel prices had dropped by –13.2% from its 3Q23 level; thus, we project INCO' ASP to drop to USD 14k/ton (-11.0% QoQ) in 4Q23. As a result, we project INCO's 4Q23 revenue to decline to USD 257mn (-7.9% QoQ) despite higher production level (+3.4%).

Fine-tuned our earnings forecast. We fine-tuned our nickel price assumption for 2024F to USD 18,500 per ton (prev: USD 21k per ton), as we believe global nickel prices will remain under pressure due to the abundance of supply, mainly from Indonesia. Thus, we slash our net profit forecast for 2024F by 29.0% to USD 195mn.

Updates on projects. The mining permit for the Bahodopi mine is expected to be completed by November 2023 (in August 2023, INCO signed a joint venture agreement to develop an RKEF smelter there). Once the environmental impact assessment (AMDAL) is done, the construction will be started. Meanwhile, the company expects to receive approval for the AMDAL of its Pomalaa mining project in Feb 2024, while its HPAL financing process has kicked off (key permit for the HPAL is expected to be completed in Dec 2023, with a capacity of up to 120.000 ton/year). Lastly, INCO had signed a definitive agreement with Huayou for the Sorowako project in August 2023. INCO is conducting a feasibility study, which is expected to be completed in Dec 2023.

Updates on the divestment overhang. Ministry of Energy and Mineral Resources (MOEMR) announced that it has an agreement regarding the divestment of 14% of INCO's shares to MIND ID, bringing MIND ID's stake in INCO to 34%. We see this as a positive catalyst; although INCO has to give up more shares than initially planned (14% vs 11%), INCO might retain full operational control of the Sorowako mine, ensuring the execution of its expansion plan.

HOLD, TP of IDR 5,000. We maintain our HOLD on INCO with a new TP of IDR 5,000 per share (Prev: IDR 5,900 per share), implying an FY24F EV/EBITDA of 5.7x. Our TP Is DCF-based, with the following assumptions: CoE of 13.8% and terminal growth of 3%. Downside to our call: Delays in projects, lower-than-expected commodity prices.

Valuations (at closing price IDR 4,640 per share)

Y/E Dec	21A	22A	23F	24F	25F
Revenue (USD Mn)	953	1,179	1,189	1,030	1,002
EBITDA (USD Mn)	343	436	470	399	395
EV/EBITDA (x)	7.9	5.9	4.8	5.1	4.6
Net Profit (USD Mn)	166	200	256	195	190
Net Profit Growth (%)	100.2	20.9	27.8	-23.8	-2.8
EPS (IDR)	239	288	387	295	286
P/E Ratio (x)	19.4	16.1	12.0	15.7	16.2
BVPS (IDR)	3,101	3,389	3,942	4,237	4,523
P/BV Ratio (x)	1.5	1.4	1.2	1.1	1.0
DPS (IDR)	48	-	-	-	-
Dividend Yield (%)	1.0	-	-	-	-
ROAE (%)	7.4	8.1	9.5	6.7	6.5
ROAA (%)	6.5	7.2	8.5	6.1	5.3
Interest Coverage (x)	45.4	42.6	63.3	218.6	140.2
Net Gearing (x)	NC	NC	NC	NC	NC

Table 1. Forecast changes

	Before			Revision			Percentage		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Revenue	1,296	1,237	n.a	1,189	1,030	1,002	*-8.3%*	*-16.7%*	n.a
growth (%)	*9.9%*	*-4.6%*	n.a	*0.8%*	*-13.3%*	*-2.7%*			
Operating Profit	404	366	n.a	317	240	231	*-21.6%*	*-34.3%*	n.a
growth (%)	*37.5%*	*-9.4%*	n.a	*7.8%*	*-24.1%*	*-3.8%*			
Net Profit	302	275	n.a	256	195	190	*-15.2%*	*-29.0%*	n.a
growth (%)	*50.7%*	*-8.9%*	n.a	*27.8%*	*-23.8%*	*-2.8%*			

Source: Company, SSI Research

Table 2. INCO's smelter and mine project

Project	Investment Cost (USD Mn)	Production	Capacity	Operation	Ownership
Mine Project					
Bahodopi Mine	400	Nickel Ore (Ni Ore)	13mn WMT	Mid 2027	INCO: 100%
Pomalaa Mine	1,000	Nickel Ore (Ni Ore)	35mn WMT	Mid 2028	INCO: 100%
Smelter Project					
Bahodopi RKEF Smelter	2,200	Ferronickel (FeNi)	73kt	Mid 2027	INCO: 49% Tisco-Xinhai: 51%
Pomalaa HPAL	3,500	Mixed Hydroxide Precipitate (MHP)	120kt	Mid 2028	INCO: 30% Huayou/Ford: 70%

Source: Company, SSI Research

Key Financial Figures

Profit and Loss					
Y/E Dec (USD Mn)	**21A**	**22A**	**23F**	**24F**	**25F**
Revenue	**953**	**1,179**	**1,189**	**1,030**	**1,002**
COGS	(704)	(866)	(852)	(773)	(754)
Gross Profit	**249**	**314**	**337**	**258**	**248**
Operating Expenses	(18)	(20)	(20)	(17)	(17)
Operating Profit	**231**	**294**	**317**	**240**	**231**
EBITDA	**343**	**436**	**470**	**399**	**395**
Interest Income	3	11	32	29	32
Interest Expenses	(5)	(7)	(5)	(1)	(2)
Other Income/Expenses	(8)	(22)	(15)	(15)	(15)
Pre-tax Income	**221**	**276**	**328**	**254**	**246**
Income Taxes	(55)	(75)	(72)	(58)	(57)
Minority Interest	-	-	-	-	-
Net Profit	**166**	**200**	**256**	**195**	**190**

Cash Flow					
Y/E Dec (USD Mn)	**21A**	**22A**	**23F**	**24F**	**25F**
Net Profit	166	200	256	195	190
D&A	112	143	153	159	164
Change in working capital	(50)	(40)	(31)	28	7
Others	9	(4)	0	0	0
Operating Cash Flow	**236**	**299**	**378**	**382**	**361**
Capital Expenditure	(151)	(173)	(190)	(165)	(160)
Investing Cash Flow	**(151)**	**(173)**	**(190)**	**(165)**	**(160)**
Change in Debt	-	-	10	10	10
Other Financing	35	(0)	0	0	0
Financing Cash Flow	**35**	**(0)**	**10**	**10**	**10**
Net - Cash Flow	**120**	**126**	**198**	**227**	**211**
Cash at beginning	**389**	**508**	**634**	**832**	**1,059**
Cash at ending	**508**	**634**	**832**	**1,059**	**1,270**

Balance Sheet					
Y/E Dec (USD Mn)	**21A**	**22A**	**23F**	**24F**	**25F**
Cash and cash equivalents	508	634	832	1,059	1,270
Trade receivables	102	141	156	135	132
Inventories	162	156	154	140	136
Others	64	59	60	60	61
Total current assets	**837**	**990**	**1,202**	**1,395**	**1,600**
Fixed Assets	1,519	1,550	1,587	1,594	1,590
Other Assets	117	118	120	122	124
Total Assets	**2,473**	**2,658**	**2,911**	**3,112**	**3,313**
Trade payables	122	116	98	91	91
ST Debt	-	-	5	10	15
Other ST Liabilities	46	59	60	61	62
Total Current Liabilities	**168**	**175**	**163**	**162**	**168**
LT Debt	-	-	5	10	15
Other LT liabilities	150	128	130	132	134
Total Liabilities	**318**	**303**	**299**	**304**	**317**
Minority Interest	0	0	0	0	0
Total Equity	**2,154**	**2,355**	**2,611**	**2,807**	**2,996**
Total liabilities & equity	**2,473**	**2,658**	**2,910**	**3,111**	**3,314**

Key Ratios					
Y/E Dec (USD Mn)	**21A**	**22A**	**23F**	**24F**	**25F**
Gross Profit Margin (%)	26.1	26.6	28.3	25.0	24.7
Operating Profit Margin (%)	24.3	24.9	26.6	23.3	23.1
EBITDA Margin (%)	36.0	37.0	39.5	38.7	39.4
Pre-Tax Margin (%)	23.1	23.4	27.6	24.6	24.6
Net Profit Margin (%)	17.4	17.0	21.5	18.9	18.9
Revenue Growth (%)	24.6	23.7	0.8	-13.3	-2.7
EBITDA Growth	50.0	27.3	7.6	-15.0	-0.9
Net Gearing (x)	NC	NC	NC	NC	NC

Major Assumptions					
Y/E Dec (USD Mn)	**21A**	**22A**	**23F**	**24F**	**25F**
Nickel mate sales volume (Mn ton)	66,615	60,960	68,600	71,400	71,400
Nickel mate asp (USD/ton)	14,309	19,348	17,331	14,430	14,040

Research Team			
Prasetya Gunadi	Head of Equity Research, Strategy, Banking, Digital Banks	prasetya.gunadi@samuel.co.id	+6221 2854 8320
Lionel Priyadi	Macro Equity Strategist	lionel.priyadi@samuel.co.id	+6221 2854 8854
Muhamad Alfatih, CSA, CTA, CFTe	Senior Technical Analyst	m.alfatih@samuel.co.id	+6221 2854 8129
Yosua Zisokhi	Cement , Cigarette, Paper, Plantation,Telco Infra, Chemicals	yosua.zisokhi@samuel.co.id	+6221 2854 8387
M. Farras Farhan	Media, Poultry, Oil & Gas, Technology	farras.farhan@samuel.co.id	+6221 2854 8346
Pebe Peresia	Automotive, Consumer Staples, Retail	pebe.peresia@samuel.co.id	+6221 2854 8339
Juan Oktavianus Harahap	Coal, Metal Mining	juan.oktavianus@samuel.co.id	+6221 2854 8846
Jonathan Guyadi	Banking, Healthcare, Telco	jonathan.guyadi@samuel.co.id	+6221 2854 8321
Adolf Richardo	Editor	adolf.richardo@samuel.co.id	+6221 2864 8397
Ashalia Fitri Yuliana	Research Associate	ashalia.fitri@samuel.co.id	+6221 2854 8389
Daniel Aditya Widjaja	Research Associate	daniel.aditya@samuel.co.id	+6221 2854 8322
Laurencia Hiemas	Research Associate	laurencia.hiemas@samuel.co.id	+6221 2854 8392
Brandon Boedhiman	Research Associate	brandon.boedhiman@samuel.co.id	+6221 2854 8392
Haikal Putra Samsul	Research Associate	haikal.putra@samuel.co.id	+6221 2854 8353

Equity Institutional Team			
Widya Meidrianto	Head of Institutional Equity Sales	widya.meidrianto@samuel.co.id	+6221 2854 8317
Ronny Ardianto	Institutional Equity Sales	ronny.ardianto@samuel.co.id	+6221 2854 8399
Fachruly Fiater	Institutional Sales Trader	fachruly.fiater@samuel.co.id	+6221 2854 8325
Lucia Irawati	Institutional Sales Trader	lucia.irawati@samuel.co.id	+6221 2854 8173
Alexander Tayus	Institutional Equity Dealer	alexander.tayus@samuel.co.id	+6221 2854 8319
Leonardo Christian	Institutional Equity Dealer	leonardo.christian@samuel.co.id	+6221 2854 8147

Equity Retail Team			
Joseph Soegandhi	Director of Equity	joseph.soegandhi@samuel.co.id	+6221 2854 8872
Damargumilang	Head of Equity Retail	damargumilang@samuel.co.id	+6221 2854 8309
Anthony Yunus	Head of Equity Sales	anthony.yunus@samuel.co.id	+6221 2854 8314
Clarice Wijana	Head of Equity Sales Support	clarice.wijana@samuel.co.id	+6221 2854 8395
Gitta Wahyu Retnani	Equity Sales & Trainer	gitta.wahyu@samuel.co.id	+6221 2854 8365
Vincentius Darren	Equity Sales	darren@samuel.co.id	+6221 2854 8348
Michael Alexander	Equity Sales	michael.alexander@samuel.co.id	+6221 2854 8369
Sylviawati	Equity Sales	sylviawati@samuel.co.id	+6221 2854 8112
Handa Sandiawan	Equity Sales	handa.sandiawan@samuel.co.id	+6221 2854 8302
Denzel Obaja	Equity Sales	denzel.obaja@samuel.co.id	+6221 2854 8342
Wahyudi Budiyono	Dealer	wahyudi.budiyono@samuel.co.id	+6221 2854 8152

Fixed Income Sales Team			
R. Virine Tresna Sundari	Head of Fixed Income	virine.sundari@samuel.co.id	+6221 2854 8170
Rudianto Nugroho	Fixed Income Sales	rudianto.nugroho@samuel.co.id	+6221 2854 8306
Sany Rizal Keliobas	Fixed Income Sales	sany.rizal@samuel.co.id	+6221 2854 8337
Safitri	Fixed Income Sales	safitri@samuel.co.id	+6221 2854 8376
Khairanni	Fixed Income Sales	khairanni@samuel.co.id	+6221 28548104
Saldy Achmad Yanuar	Fixed Income Sales	saldy.achmad@samuel.co.id	+6221 28548384
Nadya Attahira	Fixed Income Sales	nadya.attahira@samuel.co.id	+6221 2854 8305

DISCLAIMER: Analyst Certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. This document is for information only and for the use of the recipient. It is not to be reproduced or copied or made available to others. Under no circumstances is it to be considered as an offer to sell or solicitation to buy any security. Any recommendation contained in this report may not be suitable for all investors. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy, completeness and reliability cannot be guaranteed. All rights reserved by PT Samuel Sekuritas Indonesia.