

BUY (Maintained)

Target Price (IDR) 1,200 (from 1,500)

Potential Upside (%) 37.9

Price Comparison

Cons. Target Price (IDR)	1,270
SSI vs. Cons. (%)	94.5

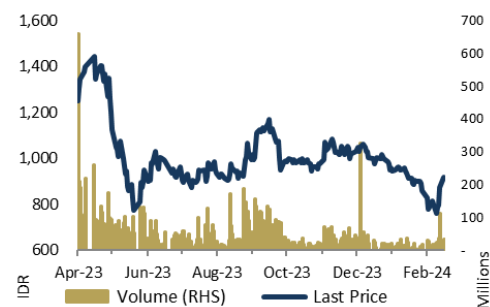
Stock Information

Last Price (IDR)	870
Shares Issued (Mn)	63,099
Market Cap. (IDR Bn)	54,896
52-Weeks High/Low (IDR)	1,470/750
3M Avg. Daily Value (IDR Bn)	30.0
Free Float (%)	13.5
Shareholder Structure:	
PT Harita Jayaraya (%)	86.5
Public (%)	12.7
Others (%)	0.9

Stock Performance

(%)	YTD	1M	3M	12M
Absolute	(13.0)	(4.9)	(15.1)	n.a
JCI Return	0.2	2.1	3.9	6.3
Relative	(13.2)	(7.0)	(19.0)	n.a

Stock Price & Volume



Company Background

Part of the Harita Group, NCKL is the first Indonesian company to produce EV battery raw materials using HPAL technology. The company's headquarters and facilities are located in Kawasi Village, Obi District, South Halmahera Regency, North Maluku.

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More Clarity on the Upcoming Corporate Action

We attended NCKL's analyst meeting, in which the company discussed further about the upcoming EGMS and its corporate action plans (private placement or rights issue). Here are the key takeaways:

Strengthening the core business through expansion and new strategic investor. NCKL plans to hold a private placement/PP (the company will offer 10% of issued and paid-up capital) or a rights issue (30% of issued and paid-up capital). The company mentioned the corporate action would be an opportunity to strengthen its presence in the EV battery industry by exploring potential capacity expansion (through the acquisition of a nickel mine close to the Obi island or additional stake in the ONC smelter; NCKL plans to acquire up to 30% stake in the smelter from a family-related party) and wider market penetration outside the Chinese market, as the company might have a new strategic investor in the future (NCKL mentioned that the upcoming strategic investor is a commodity-related company not owned by Chinese parties). The corporate action plan(s) are subject to shareholders' approval (NCKL will hold an EGMS on March 15, 2024). According to the regulation, NCKL has 24 months to execute a private placement and 12 months to conduct a rights issue post approval.

Positive in the long run on greater earnings from increased smelter stake. Assuming IDR 870 exercise price, NCKL may raise up to IDR 16.5tn from rights issue and IDR 5.5tn from private placement, with respective potential dilution of 23.1% and 9.1%. In the short run, the corporate action might hurt NCKL's EPS, but it should help boost the company's net profit in the long run (with more earnings from additional stake in the smelter).

PP might be a better option allowing entry of strategic investor. We believe a private placement will be a better option for NCKL, helping the company obtain sufficient stake for a new strategic investor to come in, and we do not think NCKL can raise ample stake through a rights issue. However, if the company plans to execute a private placement, it has to secure a majority vote from independent investors.

A lower TP of IDR 1,200/share on decreased NPI prices. Due to oversupply, NPI prices have dropped considerably from its average 2023 level of USD 13,950/ton to USD 11,256/ton in the first 2 months of 2024. However, we believe that nickel prices have bottomed out, as low prices have led to supply cuts worldwide, and we expect prices to recover once the oversupply eases. That said, we revised down our NPI price forecasts by 12.6% and 7.0% to USD 12,500/ton and USD 12,700/ton in 2024F and 2025F respectively. Thus, we cut our NCKL earnings forecast by 31.3% (2024F) and 19.8% (2025F). Nevertheless, we decided to maintain our BUY rating for NCKL, albeit with a lower TP of IDR 1,200 per share (SOTP based), implying 2024 P/E of 11.8x, still at 14.8% discount to the sector. We believe in the current situation, NCKL has comparative advantages over its peers, on the back of (1) earnings buffers from capacity expansion and low cash cost; 2) attractive valuation at current price of IDR 870 per share (8.5x FY24 PE, vs industry peers' PE of 13.6x); 3) excellent management as reflected by the company's high FY24-25F ROE of more than 20% (sector: 13.7%).

Forecasts and Valuations (at IDR 870/share)

Y/E Dec	21A	22A	23F	24F	25F
Revenue (IDR Bn)	8,229	9,568	22,360	28,586	31,306
EBITDA (IDR Bn)	3,967	4,483	7,040	9,089	10,637
EV/EBITDA (x)	13.1	12.6	7.5	5.4	3.9
Net Profit (IDR Bn)	1,968	4,667	5,965	6,434	8,371
Net Profit Growth (%)	592.5	137.1	27.8	7.9	30.1
EPS (IDR)	36	85	95	102	133
P/E Ratio (x)	24.4	10.3	9.2	8.5	6.6
BVPS (IDR)	173	258	455	556	694
P/BV Ratio (x)	5.0	3.4	1.9	1.6	1.3
DPS (IDR)	-	-	22	28	31
Dividend Yield (%)	-	-	2.6	3.3	3.5
ROAE (%)	21.8	39.3	27.8	20.2	21.2
ROAA (%)	9.5	16.8	15.0	13.4	15.1
Interest Coverage (x)	11.0	12.9	28.6	42.1	54.8
Net Gearing (x)	0.4	0.6	NC	NC	NC

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Bloomberg: NCKL.IJ | Reuters: NCKL.JK

Metal Mining Sector



4 March 2024

JCI Index: 7,284

Table 1. PT Obi Nickel Cobalt's Shareholders

Shareholders	Shares	%
Lygend New Power (Hong Kong) Limited	652,500	60.0
Li Yuen PTE Ltd	326,250	30.0
Company	108,750	10.0
Total	1,087,500	100.0

Source: Company, SSI Research

NCKL plans to acquire up to 30% stake in the ONC smelter from a family-related party

Table 2. Forecast Changes, 2024-2025F

	Before		Revision		Percentage	
	2024F	2025F	2024F	2025F	2024F	2025F
Revenue	31,826	33,016	28,586	31,306	-10.2%	-5.2%
Growth	42.3%	3.7%	27.8%	9.5%		
Operating Profit	9,588	10,530	8,277	9,751	-13.7%	-7.4%
Growth	52.3%	9.8%	31.5%	17.8%		
Net Profit	9,363	10,432	6,434	8,371	-31.3%	-19.8%
Growth	57.0%	11.4%	7.9%	30.1%		

Source: SSI Research

We toned down our earnings forecasts as we cut our 2024F and 2025F NPI price estimates by 12.6% and 7.0% respectively

Table 3. Net Profit and Target Price Sensitivity Analysis, 2024-2025F

Nickel Prices	Net Profit Changes		Target Price	
	2024F	2025F	IDR	Dif.
10%	24.8%	28.3%	1,575	31.3%
5%	12.4%	14.1%	1,390	15.8%
0%	0.0%	0.0%	1,200	0.0%
-5%	-12.4%	-14.1%	1,010	-15.8%
-10%	-24.8%	-28.3%	825	-31.3%

Source: SSI Research

Based on our sensitivity analysis, for every 5-10% drop in nickel prices, NCKL's 2024F and 2025F earnings will decline 12.4-24.8% and 14.1-28.3%, respectively

Table 4. Potential Dilution (Private Placement)

Description	Pre Non-Preemptive Private Placement Nominal Value of IDR 100/shares			Post Non-Preemptive Private Placement Nominal Value of IDR 100/shares		
	Shares Mn	%	Value (IDR Bn)	Shares Mn	%	Value (IDR Bn)
	Authorized Capital	220,404	-	22,040	220,404	-
PT Harita Jayaraya	54,570	86.5	5,457	54,570	78.6	5,457
PT Citra Duta Jaya Makmur	551	0.9	55	551	0.8	55
Public	7,978	12.7	798	7,978	11.5	798
Potential Investor	-	-	0	6,310	9.1	631
Total of Issued and Paid-Up Capital	63,099	100.0	6,310	69,408	100.0	6,941
Share(s) in Portfolio	157,305	-	15,731	150,996	-	15,100

Source: Company, SSI Research

Table 5. Potential Dilution (Rights Issue)

Description	Pre Right Issue Nominal Value of IDR 100/shares			Post Right Issue Nominal Value of IDR 100/shares		
	Shares Mn	%	Value (IDR Bn)	Shares Mn	%	Value (IDR Bn)
Authorized Capital	220,404	-	22,040	220,404	-	22,040
PT Harita Jayaraya	54,570	86.5	5,457	70,941	78.6	7,094
PT Citra Duta Jaya Makmur	551	0.9	55	716	0.8	72
Public	7,978	12.7	798	10,371	11.5	1,037
Total of Issued and Paid-Up Capital	63,099	100.0	6,310	82,028	100.0	8,203
Share(s) in Portfolio	157,305	-	15,731	138,376	-	13,838

Source: Company, SSI Research

Table 6. Peers Comparison

Company Name	Company Ticker	Market Cap (IDR Tn)	PER (x)		EV/EBITDA (x)		PBV (x)		ROE (%)		ROA (%)	
			2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
IGO LTD	IGO AU	59	22.2	13.9	14.8	12.2	1.5	1.4	7.2	10.8	4.6	7.4
NICKEL INDUSTRIE	NIC AU	31	12.2	6.8	7.3	5.4	0.8	0.7	8.0	16.3	5.9	8.4
LUNDIN MINING CO	LUN CN	99	13.7	12.6	5.5	5.4	1.1	1.0	7.4	7.7	2.1	3.0
NORILSK NICKEL	GMKN RM	381	4.6	5.3	4.8	n.a	2.5	2.2	39.9	41.8	34.5	n.a
GLENORE PLC	GLEN LN	893	9.6	10.8	3.7	3.8	1.2	1.2	12.5	11.8	5.3	4.2
MERDEKA BATTERY	MBMA IJ	67	20.0	20.0	12.5	10.7	2.4	2.2	9.6	10.6	7.4	10.3
ANEKA TAMBANG TBK	ANTM IJ	36	10.8	10.2	6.9	6.3	1.3	1.1	11.0	11.6	8.1	8.5
VALE INDONESIA TBK	INCO IJ	38	15.3	11.1	4.7	4.6	0.9	1.0	6.2	7.2	5.6	6.1
TRIMEGAH BANGUN PERSADA	NCKL IJ	55	8.5	6.6	5.4	3.9	1.6	1.3	20.2	21.2	13.4	15.1
Global Peers Average			12.5	9.9	7.2	6.7	1.4	1.3	15.0	17.7	10.5	5.8
Local Peers Average			15.4	13.8	8.1	7.2	1.5	1.5	8.9	9.8	7.0	8.3
Industry Average			13.6	11.3	7.5	6.9	1.4	1.4	12.7	14.7	9.2	6.8

Source: Company, Bloomberg, SSI Research

Key Financial Figures

Profit and Loss					
Y/E Dec (IDR Bn)	21A	22A	23F	24F	25F
Revenue	8,229	9,568	22,360	28,586	31,306
Cost of goods sold	(3,715)	(4,893)	(14,432)	(17,650)	(16,859)
Gross profit	4,514	4,675	7,928	10,936	14,447
Operating expenses	(948)	(890)	(1,632)	(2,658)	(4,696)
Operating profit	3,565	3,785	6,296	8,277	9,751
EBITDA	3,967	4,483	7,040	9,089	10,637
Other income/expenses - net	13	198	-	-	-
Finance Income	17	19	9	51	73
Finance Charges	(323)	(294)	(220)	(197)	(178)
Share in profit of associates	715	2,916	2,182	1,705	3,153
Pretax profit	3,975	6,650	8,267	9,837	12,799
Income tax expense	(605)	(812)	(1,488)	(1,672)	(2,176)
Merging entities adjustments	(1,294)	(1,248)	-	-	-
Minority interests	108	(78)	813	1,731	2,252
Net profit	1,968	4,667	5,965	6,434	8,371

Higher earnings growth in 2024F on the back of fully realized earnings from the HJF smelter and additional production from the ONC and KPS smelters

Balance Sheet					
Y/E Dec (IDR Bn)	21A	22A	23F	24F	25F
Cash and cash equivalent	2,578	1,277	6,927	9,879	16,825
Trade receivables	149	181	386	493	540
Inventories	1,300	4,087	7,945	9,717	9,282
Others	746	789	500	500	500
Total current assets	4,772	6,334	15,758	20,589	27,146
Fixed assets	10,972	20,668	21,488	22,963	24,581
Mining properties	55	57	64	72	81
Others	5,203	7,546	7,546	7,546	7,546
Total assets	21,002	34,605	44,855	51,169	59,355
Short-term bank loans	-	-	-	-	-
Trade payables	125	1,209	1,968	2,407	2,299
Long-term bank loans	4,335	117	3,045	2,720	2,460
Others	4,244	8,883	8,883	8,883	8,883
Total current liabilities	8,704	10,209	13,896	14,009	13,642
Long-term debt portion	2,292	9,568	1,640	1,465	1,325
Others	464	599	599	599	599
Total liabilities	11,460	20,376	16,134	16,073	15,565
Share capital	10	5,510	5,510	5,510	5,510
Additional paid-in capital	352	1,471	11,471	11,471	11,471
Retained earnings	4,265	1,617	6,182	10,827	17,267
Merging entities equity	983	-	-	-	-
Others	31	886	-	-	-
Minority interest	3,901	4,745	5,559	7,290	9,542
Total equity	9,542	14,229	28,722	35,097	43,790

Strong balance sheet should help the company realize its expansion plans

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Cash Flow					
Y/E Dec (IDR Bn)	21A	22A	23F	24F	25F
Net income	1,968	4,667	5,965	6,434	8,371
Depreciation and amortization	402	698	744	812	886
Change in working capital	(330)	(1,736)	(3,304)	(1,440)	280
Others	1,443	4,731	289	-	-
Operating cash flow	3,483	8,361	3,695	5,806	9,538
Capex	(395)	(12,739)	(1,572)	(2,295)	(2,514)
Investing cash flow	(395)	(12,739)	(1,572)	(2,295)	(2,514)
Change in debt	(1,597)	3,058	(5,000)	(500)	(400)
Change in equity	(954)	6,480	10,813	1,731	2,252
Change in other equity	48	(6,460)	(2,286)	(1,790)	(1,930)
Financing cash flow	(2,503)	3,077	3,527	(559)	(78)
Net cash flow	585	(1,301)	5,650	2,952	6,946
Beginning cash	1,993	2,578	1,277	6,927	9,879
Ending cash	2,578	1,277	6,927	9,879	16,825

Most of the company's capital expenditures had been made in 2022

Key Ratios					
Y/E Dec (IDR Bn)	21A	22A	23F	24F	25F
Gross Profit Margin (%)	54.9	48.9	35.5	38.3	46.1
Operating Profit Margin (%)	43.3	39.6	28.2	29.0	31.1
EBITDA Margin (%)	48.2	46.9	31.5	31.8	34.0
Pre-Tax Margin (%)	48.3	69.5	37.0	34.4	40.9
Net Profit Margin (%)	23.9	48.8	26.7	22.5	26.7
Revenue Growth (%)	102.1	16.3	133.7	27.8	9.5
Net Gearing (x)	0.4	0.6	NC	NC	NC

Better margins and lower cash cost, as most of the smelters are reaching their full capacity

Major Assumptions					
Y/E Dec (USD Mn)	21A	22A	23F	24F	25F
LME Nickel price (USD per ton)	19,185	26,000	21,500	15,900	15,700
Nickel ore production (mn wmt)	3	11	14	24	36
FeNi production (tons)	26,047	25,372	90,000	120,000	236,550
Nickel ore sales volume (mn wmt)	4	8	14	24	36
FeNi sales volume (tons)	26,182	25,302	90,000	120,000	236,550
FeNi ASP (USD per ton)	16,065	18,889	13,950	12,500	12,700

FeNi production is expected to increase every year, supported by new smelters

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