

## Investment Consideration

### 1Q23 production grew double digits

INCO has announced production of nickel in matte during 1Q23 of 16,769 metric tons, up 21% YoY compared to 1Q22's 13,827 metric tons on the back of successful completion of the furnace 4 rebuild ;last year. Production also increased 10.3% compared to 1Q21's 15,198 metric tons. The average selling price in 1Q23 was 18% higher than last quarter or 24% YoY compared to 1Q22. The 1Q23 sales revenue increased 54% YoY while cost of revenue increased 60% YoY. In addition, the cost of revenue fell 9% QoQ due to lower commodity prices, disciplined cost management and continuous productivity improvements. We adjust our forecasts for revenue 2023-2024F to USD 1,259 million and USD 1,311 million respectively or a CAGR increase of 5% during those 2 years, compared to 2022FY, due to forecast higher production volume and despite volatility in commodity prices.

### Maintaining costs

Based on 1Q23 production, INCO continues to maintain its focus on improving productivity and cost efficiency to sustain competitiveness in the long term. This is despite higher cost of revenues in 1Q23, from energy expenses and royalties,, up 125% YoY and 76% YoY respectively. As of 1Q23, INCO booked EBITDA of USD 173.58 million, 49% higher than EBITDA in 1Q22 of USD116.2 million. Following the ground-breaking of the Morowali project in February 2023, works are ongoing in both mining and at the processing plant location. We maintain our forecast for cast/ton to decline by -13.70% YoY in 2023 to USD10,077/ton.

### Valuation: 9% upside

We maintain our target price within one year at IDR 7,585 due to lower nickel price but with a higher production volume estimation in 2023. With only 9% upside, our recommendation is maintained as HOLD.

Ratio Highlight	2019 A	2020 A	2021 A	2022 A	2023 F	2024 F	2025 F
<b>Growth (% YoY)</b>							
Sales	1%	-2%	25%	24%	7%	4%	5%
EBITDA	4%	16%	49%	16%	23%	7%	5%
Net Profit	-5%	44%	100%	21%	32%	7%	4%
<b>Profitability (%)</b>							
Operating Margin	11%	14%	23%	23%	30%	31%	30%
EBITDA margin	28%	34%	40%	38%	44%	45%	44%
NET Profit margin	7%	11%	17%	17%	21%	22%	21%
<b>Solvability</b>							
Tot. debt/ Tot. Equity (x)	0.14	0.15	0.15	0.13	0.15	0.14	0.14

28 April 2023  
Nickle Mining, Equity

Price IDR 6950  
Target Price IDR 7585  
JKSE Index 6934.881



Stock Code  
Bloomberg code INCO IJ  
Market cap (IDR.bn) 67070  
52-Week High (IDR) 8275  
52-Week Low (IDR) 4740  
6-m Avg Daily. Val (IDR) 4575  
Free Float (%) 20.64

Major Shareholders (%)  
Vale Canada Ltd 43.79%  
Sumitomo Metal Mining Ltd 15.03%  
Vale japan Ltd 0.54%  
PT Indonesia Asahan Aluminium (Persero) 20.00%  
Public 20.64%

USD/IDR-YE  
2022A 15592  
2023F (Avg) 14751

Key Indicators 2024F  
ROE (%) 9.74  
Total Debt/ Equity (x) 0.14  
Current ratio (x) 6.60

Analyst: Revita Dhiah Anggrainy  
revita.anggrainy@binaartha.com

**Company Profile**

PT Vale Indonesia Tbk (INCO), a nickel mining company, was established in July 1968. Since its establishment, INCO has been operating under the Contract of Work (CoW) agreement with the Government of Indonesia to explore, develop, mine, process, store, transport, and sell nickel and nickel-containing minerals in the CoW areas. INCO’s CoW area is nearly 118,435 hectares (ha) in total. The concession for the original area of 6.6 million ha, covering the eastern and southeastern part of Sulawesi, was granted on July 27, 1968. The Concession area has been reduced to 2.9% of the original size under a series of relinquishments, the last of which occurred when the CoW renegotiation was signed on October 17, 2014. The original CoW was valid until March 31, 2008. It was modified and extended under the Agreement on Modification and Extension signed in 1996 and will be valid until December 28, 2025.

**Contract of Work status**

The Indonesian government and INCO signed amendments to the Contract of Work (CoW) as of 17 October 2014 as mandated by the Law for Minerals and Coal 2009. The amendments include:

- To increase the royalty rate to 2% of sales (& up to 3% if the previous month average LME nickel price is US\$21,000/T or above).
- An obligation to divest a further 20% of the Company’s shares to Indonesian investors. The divestment process to be carried out within a period of 5 years.
- To reduce the CoW area from 190,510 ha to 118,435 ha. At the expiry of the CoW on December 28, 2025, the company will maintain a 25,000 ha ore zone that has been proposed.
- In return PT Vale Indonesia (PTVI) will get:
  - The ability to apply for extensions through Business Licenses up to 2045
  - Sufficient conditions to secure PTVI’s investment and growth targets.

The company produces nickel in matte, an intermediate product, from lateritic ores at its integrated mining and processing facilities near Sorowako on the island of Sulawesi. INCO’s entire production is sold in US dollars under long-term contracts for refining in Japan (mainly for stainless steel consumption).

**Company Structure,  
As of 1Q23**

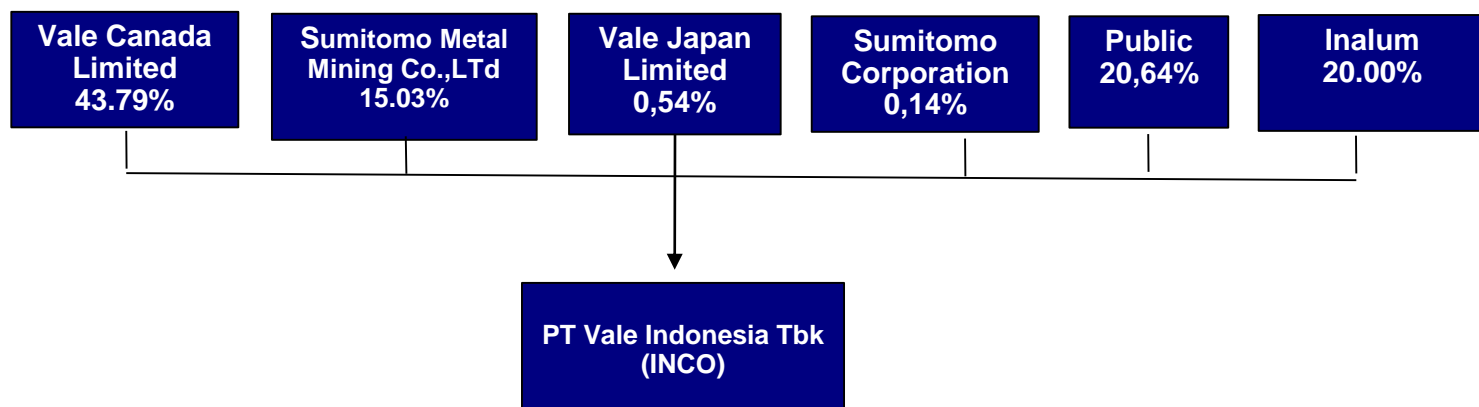


Chart: Nickle in matte production (MT) yoy

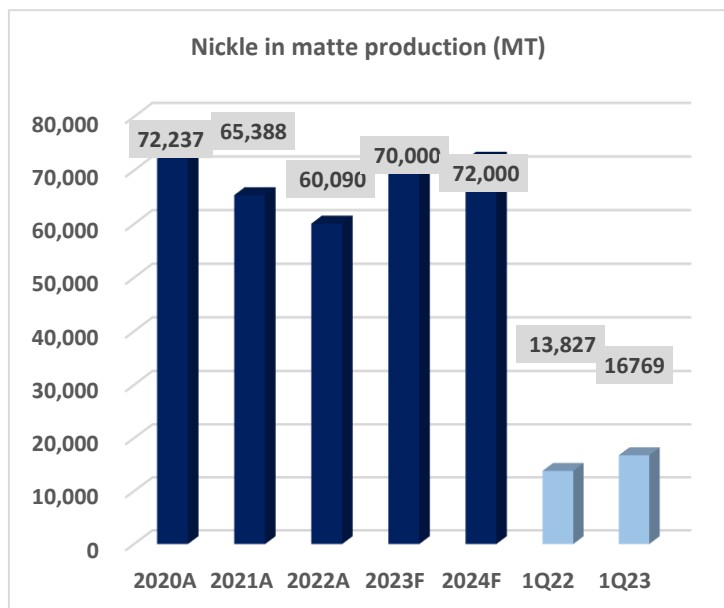


Chart: Nickle in matte sales volume deliveries (MT) yoy

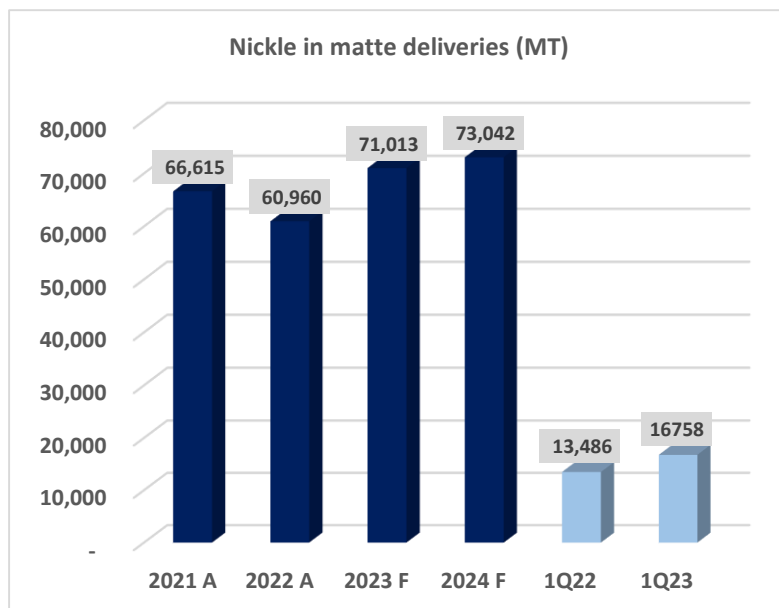


Chart: Cash cost/ton yoy

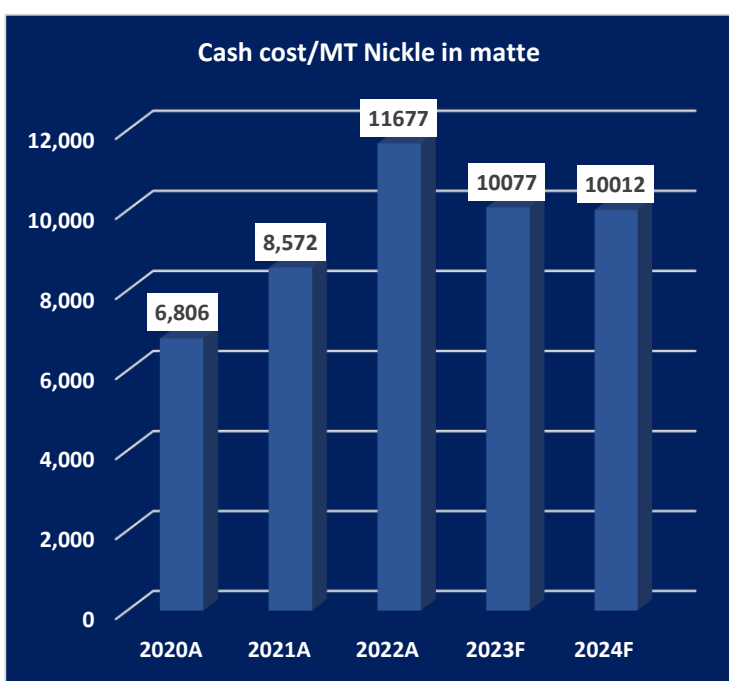
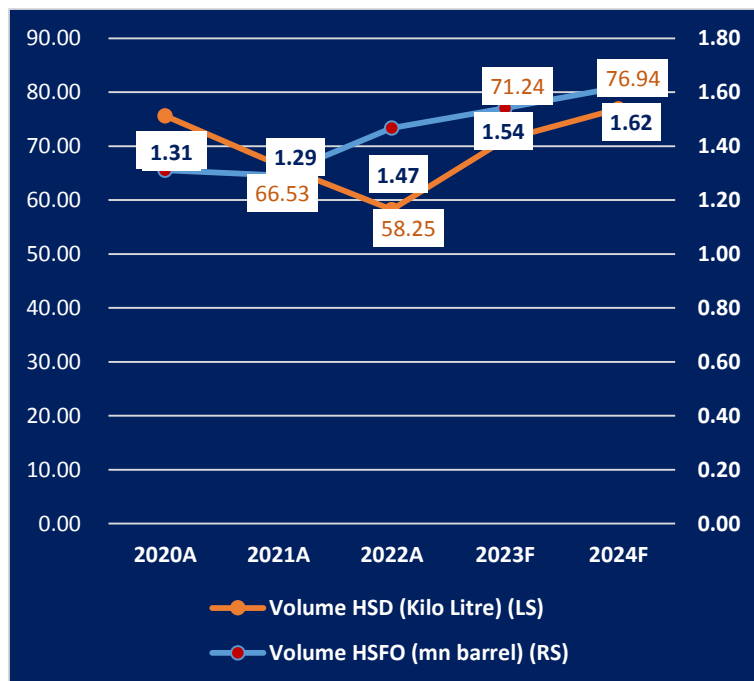


Chart: HSFO vs HSD volume yoy



Profit and Loss

Profit and Loss (USD.mn)	2020 A	2021 A	2022 A	2023 F	2024 F	2025 F
Revenues	765	953	1,179	1,259	1,312	1,377
COGS	(640)	(718)	(866)	(871)	(896)	(946)
Gross Profit	124	235	314	389	415	431
Operating expense	(21)	(12)	(42)	(13)	(13)	(14)
Operating Profit	104	223	272	376	402	417
Other income	1	(2)	4	1	1	1
Pretax income(PBT)	105	221	276	377	404	419
taxes	(22)	(55)	(75)	(113)	(121)	(126)
Net Profit	83	166	200	264	283	293
EPS	0.0083	0.0167	0.0202	0.0266	0.0284	0.0295
EBITDA	257	383	445	549	586	605

Balance Sheet

Balance sheet (US\$ in mn)	2020 A	2021 A	2022 A	2023 F	2024 F	2025 F
Cash and cash equivalent	389	508	634	657	819	988
restricted cash	10	0	0	0	0	0
short term investment	0	0	0	0	0	0
Trade Account Receivable	60	102	141	179	187	196
inventory	144	162	156	193	199	210
Other current asset	93	64	59	88	105	110
<b>Current Asset</b>	<b>696</b>	<b>837</b>	<b>990</b>	<b>1,117</b>	<b>1,310</b>	<b>1,504</b>
Net Fixed Asset	1,479	1,519	1,550	1,647	1,751	1,861
other long term asset	140	117	118	239	249	262
<b>Total non current Asset</b>	<b>1,619</b>	<b>1,636</b>	<b>1,668</b>	<b>1,887</b>	<b>2,000</b>	<b>2,123</b>
<b>Total Asset</b>	<b>2,315</b>	<b>2,473</b>	<b>2,658</b>	<b>3,004</b>	<b>3,310</b>	<b>3,627</b>
Trade Account Payable	113	122	116	83	93	102
Other Short term liabilities	48	46	59	101	105	110
<b>Total current liabilities</b>	<b>161</b>	<b>168</b>	<b>175</b>	<b>184</b>	<b>198</b>	<b>212</b>
Long term borrowings	0	0	0	0	0	0
Provision for asset retirement	57	77	71	88	92	96
Other Long term liabilities	77	72	57	113	118	124
<b>Total long term/ non current liabilities</b>	<b>134</b>	<b>150</b>	<b>128</b>	<b>201</b>	<b>210</b>	<b>220</b>
<b>Total Liabilities</b>	<b>294</b>	<b>318</b>	<b>303</b>	<b>385</b>	<b>408</b>	<b>432</b>
<b>Total Equities</b>	<b>2,020</b>	<b>2,154</b>	<b>2,355</b>	<b>2,619</b>	<b>2,902</b>	<b>3,195</b>
<b>Total Liabilities and equity</b>	<b>2,315</b>	<b>2,473</b>	<b>2,658</b>	<b>3,004</b>	<b>3,310</b>	<b>3,627</b>

Cash Flow

Cash Flow (US\$ in mn)	2020A	2021A	2022A	2023F	2024F	2025F
+ Net Income	83	166	200	264	283	293
Depreciation	149	158	164	165	176	187
- Change in WC	56	(13)	(21)	(96)	(15)	(12)
<b>Cash From Operating Activities</b>	<b>288</b>	<b>310</b>	<b>344</b>	<b>333</b>	<b>443</b>	<b>468</b>
capex	(161)	(197)	(195)	(263)	(279)	(297)
other non current asset	27	22	(1)	(121)	(10)	(12)
<b>Cash from investing activities</b>	<b>(133)</b>	<b>(175)</b>	<b>(196)</b>	<b>(383)</b>	<b>(289)</b>	<b>(309)</b>
Long term borrowing	0	0	0	0	0	0
Provision for asset retirement	12	21	(6)	17	4	5
other long term liabilities	(23)	(5)	(15)	56	5	6
Equity	(4)	(32)	(0)	0	0	0
<b>cash from financing activities</b>	<b>(15)</b>	<b>(15)</b>	<b>(22)</b>	<b>73</b>	<b>8</b>	<b>10</b>
Net Changes in Cash	140	120	126	23	162	169
<b>Beginning Balance</b>	<b>249</b>	<b>389</b>	<b>508</b>	<b>634</b>	<b>657</b>	<b>819</b>
<b>Ending balance</b>	<b>389</b>	<b>508</b>	<b>634</b>	<b>657</b>	<b>819</b>	<b>988</b>

Ratio Highlight

Ratio Highlight	2019 A	2020 A	2021 A	2022 A	2023 F	2024 F	2025 F
<b>Growth (% YoY)</b>							
Sales	1%	-2%	25%	24%	7%	4%	5%
OP	4%	18%	115%	22%	38%	7%	4%
EBITDA	4%	16%	49%	16%	23%	7%	5%
NP	-5%	44%	100%	21%	32%	7%	4%
EPS	-5%	44%	100%	21%	32%	7%	4%
<b>Profitability (%)</b>							
Operating Margin	11%	14%	23%	23%	30%	31%	30%
EBITDA margin	28%	34%	40%	38%	44%	45%	44%
NET Profit margin	7.34%	10.83%	17.39%	16.99%	20.98%	21.54%	21.29%
ROA	2.58%	3.58%	6.70%	7.54%	8.79%	8.54%	8.08%
ROE	2.96%	4.10%	7.70%	8.51%	10.09%	9.74%	9.18%
<b>Solvability</b>							
Tot. debt/ Tot. Equity (x)	0.14	0.15	0.15	0.13	0.15	0.14	0.14
int coverage (x)	201.57	28.21	43.79	56.06	61.06	61.60	60.33
<b>Liquidity</b>							
Current Ratio (X)	4.31	4.33	4.97	5.65	6.09	6.60	7.09
<b>Per Share data (US\$)</b>							
EPS	0.0058	0.0083	0.0167	0.0202	0.0266	0.0284	0.0295
BVS	0.195	0.203	0.217	0.237	0.264	0.292	0.322

**Stock Ratings:**

Buy: a recommendation to purchase the security with upside potential of 20% or greater

Hold: a recommendation to neither buy nor sell a security with upside potential of 0-20%.

Sell: a recommendation to close out a long position in a security with upside potential below 0% or negative.

**RESEARCH TEAM**  
**(62-21) 520-6678 ext.612**

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