

Investment Consideration

Double digits production growth

INCO reported strong 2Q23 production of 16,922 metric tons of nickel in matte, up +35% YoY compared to 2Q22 and higher than management forecasts. The increase was attributed to improved productivity after successful furnace repairs in 1Q23. 1H23 total production reached 33,691 metric tons, a +28% YoY increase due to the furnace 4 rebuild in the previous year. INCO initiated a maintenance shutdown in June 2023, with plans to complete it by July 2023.

Lower costs

To sustain competitiveness, INCO remains focused on improving productivity and cost efficiency. Cost of revenues in 2Q23 was lower than in 1Q23, helped by lower energy expenses and royalties. Forecast cost/ton is expected to decline by -13.70% YoY in 2023 to USD 10,077/ton.

Revenue to grow 5%

Our revenue forecasts for 2023-2024F are USD 1,259 million and USD 1,311 million, respectively, which is a CAGR increase of 5% over those two years, mainly from expected higher production and despite potential commodity price volatility.

Valuation: 13% upside

With our forecasts for lower nickel prices but higher production volume in 2023, we maintain our target price within a year at IDR 7,585. With 13% potential upside, our recommendation remains HOLD.

Ratio Highlight	2019 A	2020 A	2021 A	2022 A	2023 F	2024 F	2025 F
Growth (% YoY)							
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%
Profitability (%)							
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%
Solvability							
Tot. debt/ Tot. Equity (x)	0.14	0.15	0.15	0.13	0.15	0.14	0.14

28 July 2023
Nickle Mining, Equity

Price IDR 6725
Target Price IDR 7585
JKSE Index 6875.45



Stock Code
Bloomberg code INCO IJ
Market cap (IDR.bn) 67070
52-Week High (IDR) 7750
52-Week Low (IDR) 5250
6-m Avg Daily. Val (IDR) 6625
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) 14003

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

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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**

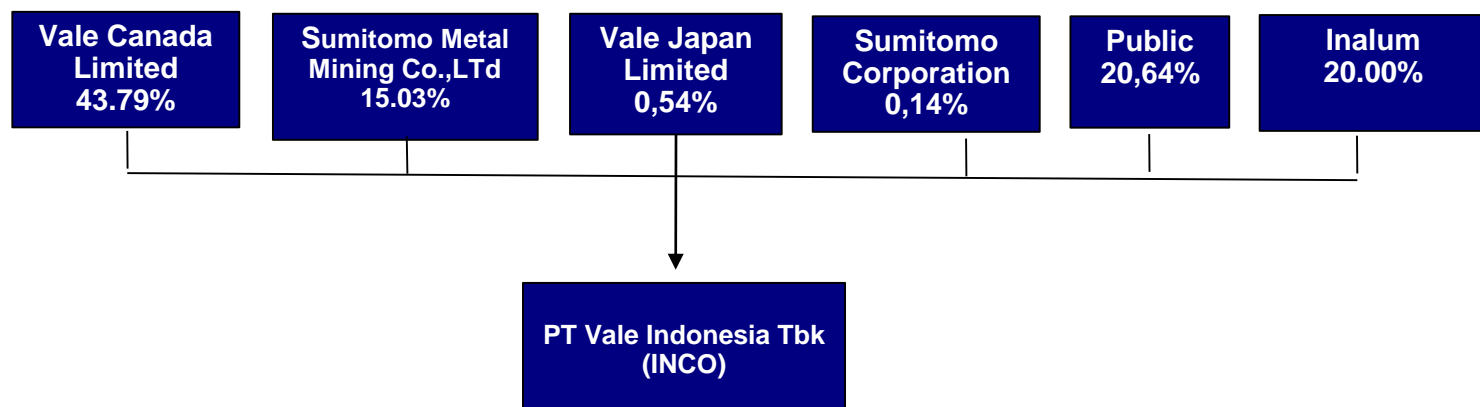


Chart: Nickle in matte production (MT) yoy

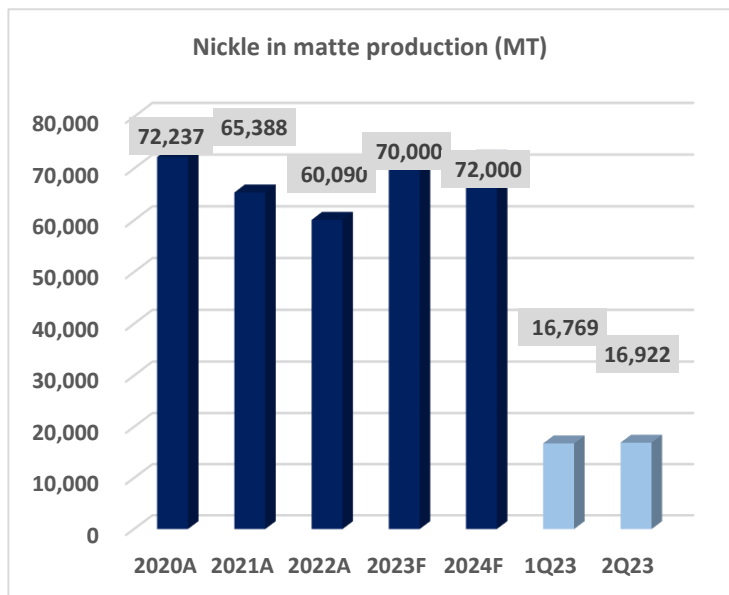


Chart: Nickle in matte sales volume deliveries (MT) yoy

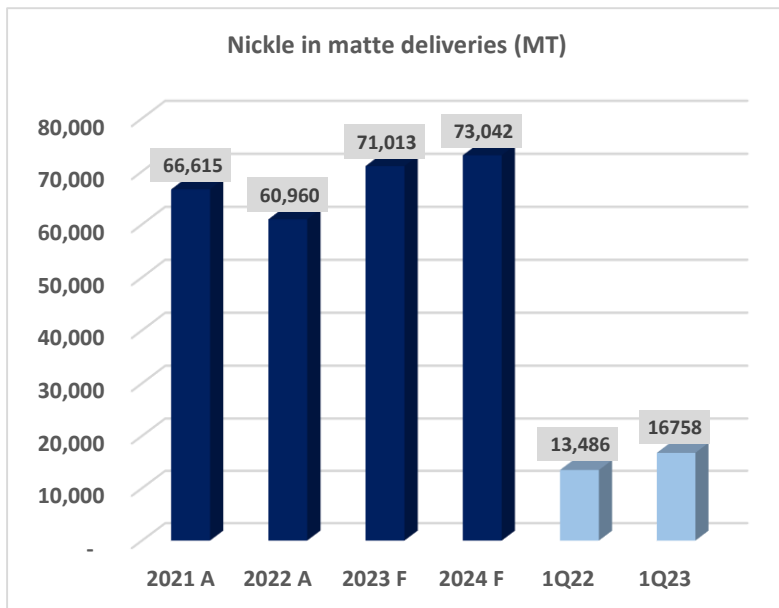


Chart: Cash cost/ton yoy

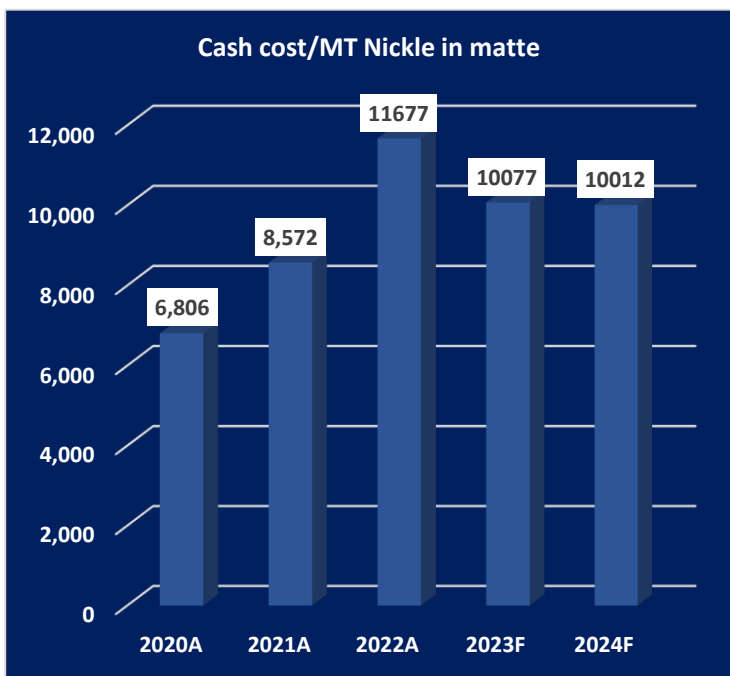
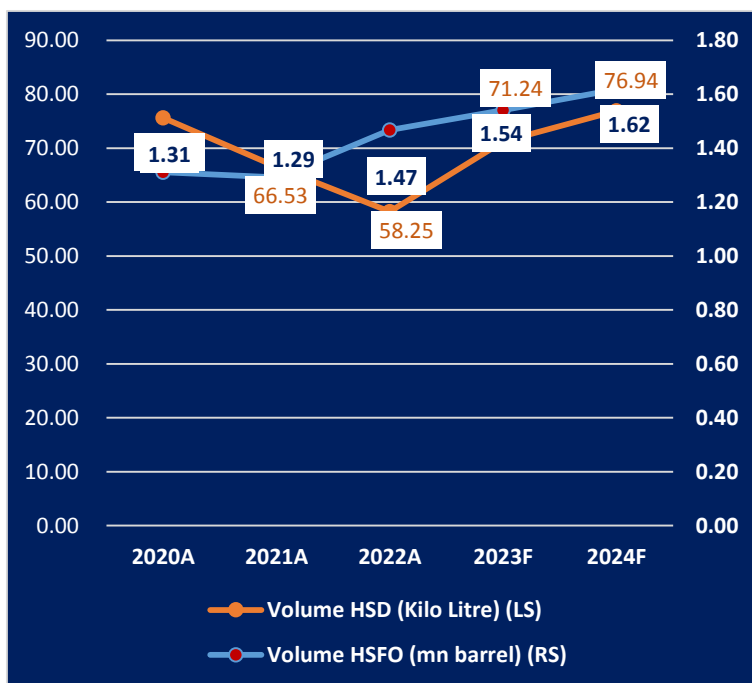


Chart: HSFO vs HSD volume yoy



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
Current Asset	696	837	990	1,117	1,310	1,504
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
Total non current Asset	1,619	1,636	1,668	1,887	2,000	2,123
Total Asset	2,315	2,473	2,658	3,004	3,310	3,627
Trade Account Payable	113	122	116	83	93	102
Other Short term liabilities	48	46	59	101	105	110
Total current liabilities	161	168	175	184	198	212
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
Total long term/ non current liabilities	134	150	128	201	210	220
Total Liabilities	294	318	303	385	408	432
Total Equities	2,020	2,154	2,355	2,619	2,902	3,195
Total Liabilities and equity	2,315	2,473	2,658	3,004	3,310	3,627

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)
Cash From Operating Activities	288	310	344	333	443	468
capex	(161)	(197)	(195)	(263)	(279)	(297)
other non current asset	27	22	(1)	(121)	(10)	(12)
Cash from investing activities	(133)	(175)	(196)	(383)	(289)	(309)
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
cash from financing activities	(15)	(15)	(22)	73	8	10
Net Changes in Cash	140	120	126	23	162	169
Beginning Balance	249	389	508	634	657	819
Ending balance	389	508	634	657	819	988

Ratio Highlight

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Growth (% YoY)							
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%
Profitability (%)							
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%
Solvability							
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
Liquidity							
Current Ratio (X)	4.31	4.33	4.97	5.65	6.09	6.60	7.09
Per Share data (US\$)							
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.

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