

## Investment Consideration

### Production grew steadily in 3Q23

INCO recorded nickel in matte production growth of +2.5% YoY (17,513 MT) or +7.1% QoQ (2Q23: 16,769 MT) to 17,953 MT. Despite a decrease in the average realized price of -6% YoY during 9M23 or -8.20% QoQ in 3Q23, INCO's revenue still rose by double digits, +27% YoY to USD 937 million compared to USD 874 million in 9M22. This was supported by an increase in the volume of deliveries of nickel in matte. In 9M23, nickel in matte production grew by +18% YoY to 51,644 MT compared to 43,907 in 9M22. Sales volume of nickel in matte as of 9M23 also increased by +14% YoY to 50,435 MT compared to 44,347 MT in 9M22. We remain targeting a total nickel in matte production in 2023F of 70,000 MT, aligning with INCO's annual production target for this year. We estimate nickel in matte production will grow by a CAGR of 9.5% during 2023-2024 compared to production in 2022FY.

### Maintaining lower costs

To sustain competitiveness, INCO remains focused on improving productivity and cost efficiency. According to our calculations, the cost of revenues in 3Q23 was lower than in 2Q23, helped by lower fuel consumption and royalty expenses. Despite a higher +6% cost of revenues during 9M23, as of 3Q23, cash costs per ton were at USD 9,340.6 per ton compared to USD 12,569.7 per ton in 3Q22. The forecasted cost per ton is expected to decline by -16.97% YoY in 2023 to USD 11,794 per ton, or a decrease in CAGR within 2023-2024F of -9% compared to 2022FY.

### Valuation: 30% upside

Based on 9M23 results, we adjust our target price within a year to IDR 6,560. With a 30% potential upside, our recommendation is BUY

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%	31%	8%	7%
Net Profit	-5%	44%	100%	21%	43%	9%	7%
<b>Profitability (%)</b>							
Operating Margin	11%	14%	23%	23%	32%	34%	35%
EBITDA margin	28%	34%	40%	38%	46%	48%	49%
NET Profit margin	7%	11%	17%	17%	23%	24%	24%
<b>Solvability</b>							
Tot. debt/ Tot. Equity (x)	0.14	0.15	0.15	0.13	0.15	0.14	0.13

31 October 2023  
Nickle Mining, Equity

Price IDR 5050  
Target Price IDR 6560  
JKSE Index 6678.478

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Vale Indonesia Tbk, Indonesia, Jakarta:INCO, D



Stock Code  
Bloomberg code INCO IJ  
Market cap (IDR.bn) 51670  
52-Week High (IDR) 7750  
52-Week Low (IDR) 5100  
6-m Avg Daily. Val (IDR) 6546  
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) 15900

Key Indicators 2024F  
ROE (%) 10.63  
Total Debt/ Equity (x) 0.14  
Current ratio (x) 6.55

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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 October 17, 2014, as mandated by the Law for Minerals and Coal 2009.

The amendments include:

- Increasing the royalty rate to 2% of sales (and up to 3% if the previous month's 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.
- Reducing 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**

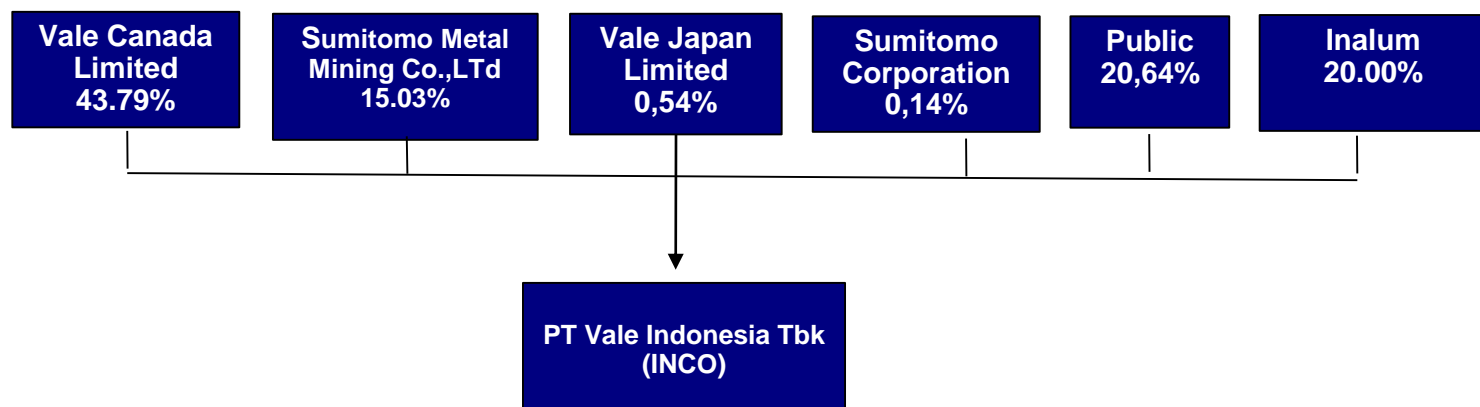


Chart: Nickle in matte production (MT) yoy

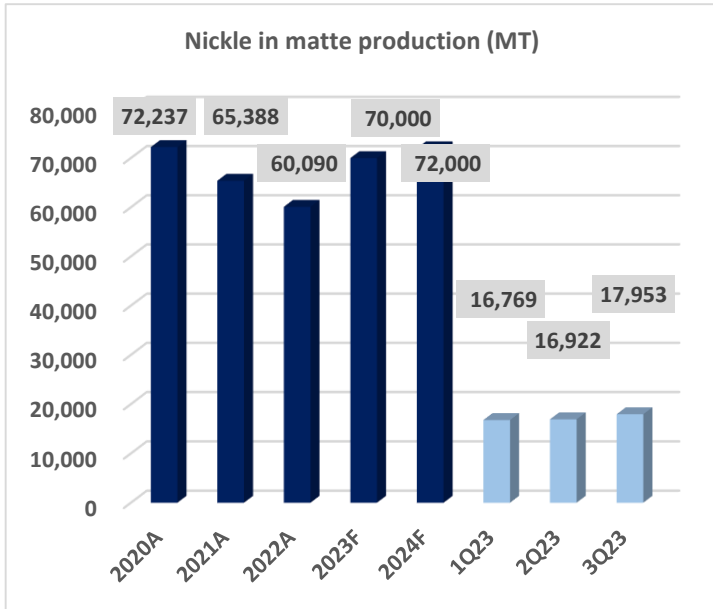


Chart: Nickle in matte sales volume deliveries (MT) yoy

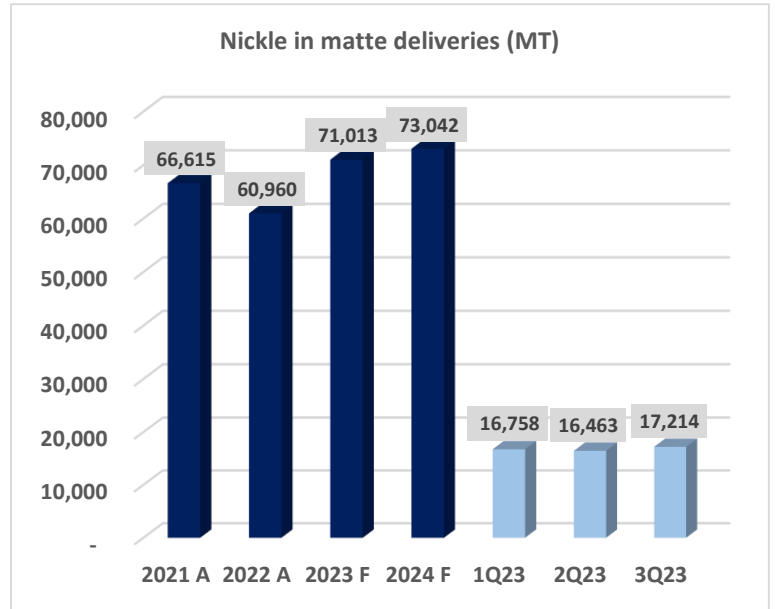


Chart: Cash cost/ton yoy

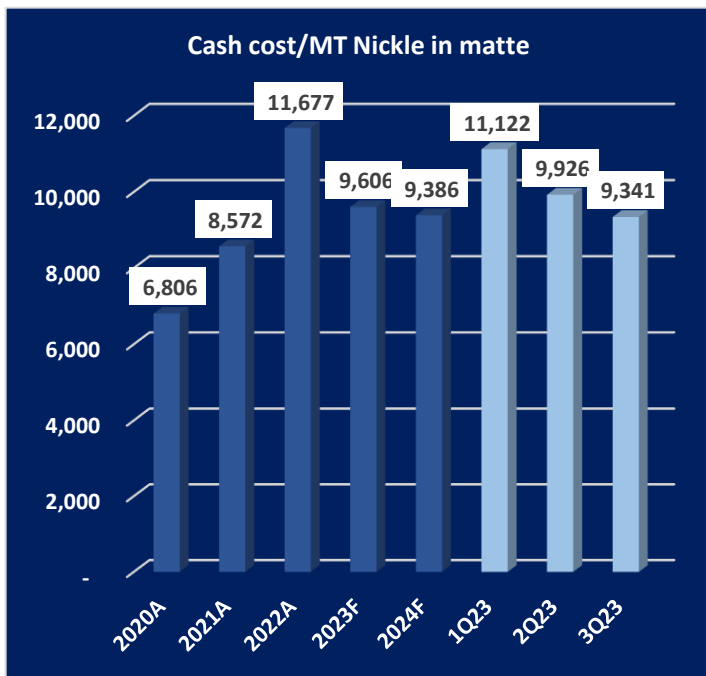
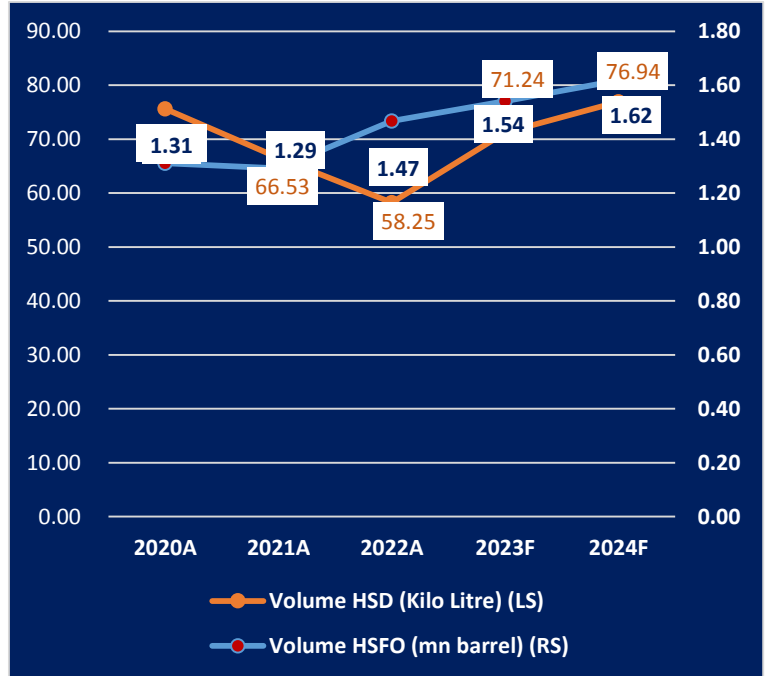


Chart: HSFO vs HSD volume yoy



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)	(838)	(851)	(884)
Gross Profit	124	235	314	422	461	493
Operating expense	(21)	(12)	(42)	(13)	(13)	(14)
Operating Profit	104	223	272	409	447	480
Other income	1	(2)	4	1	1	1
Pretax income(PBT)	105	221	276	410	449	481
taxes	(22)	(55)	(75)	(123)	(135)	(144)
Net Profit	83	166	200	287	314	337
EPS	0.0083	0.0167	0.0202	0.0289	0.0316	0.0339
EBITDA	257	383	445	582	631	675

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	687	884	1,100
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	186	189	196
Other current asset	93	64	59	88	105	110
<b>Current Asset</b>	<b>696</b>	<b>837</b>	<b>990</b>	<b>1,140</b>	<b>1,364</b>	<b>1,603</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>3,027</b>	<b>3,364</b>	<b>3,725</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>2,642</b>	<b>2,956</b>	<b>3,293</b>
<b>Total Liabilities and equity</b>	<b>2,315</b>	<b>2,473</b>	<b>2,658</b>	<b>3,027</b>	<b>3,364</b>	<b>3,725</b>

Cash Flow

Cash Flow (US\$ in mn)	2020A	2021A	2022A	2023F	2024F	2025F
+ Net Income	83	166	200	287	314	337
Depreciation	149	158	164	165	176	187
- Change in WC	56	(13)	(21)	(89)	(12)	(8)
<b>Cash From Operating Activities</b>	<b>288</b>	<b>310</b>	<b>344</b>	<b>363</b>	<b>477</b>	<b>515</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	53	196	216
<b>Beginning Balance</b>	<b>249</b>	<b>389</b>	<b>508</b>	<b>634</b>	<b>687</b>	<b>884</b>
<b>Ending balance</b>	<b>389</b>	<b>508</b>	<b>634</b>	<b>687</b>	<b>884</b>	<b>1,100</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%	50%	9%	7%
EBITDA	4%	16%	49%	16%	31%	8%	7%
NP	-5%	44%	100%	21%	43%	9%	7%
EPS	-5%	44%	100%	21%	43%	9%	7%
<b>Profitability (%)</b>							
Operating Margin	11%	14%	23%	23%	32%	34%	35%
EBITDA margin	28%	34%	40%	38%	46%	48%	49%
NET Profit margin	7.34%	10.83%	17.39%	16.99%	22.81%	23.95%	24.44%
ROA	2.58%	3.58%	6.70%	7.54%	9.49%	9.34%	9.04%
ROE	2.96%	4.10%	7.70%	8.51%	10.87%	10.63%	10.23%
<b>Solvability</b>							
Tot. debt/ Tot. Equity (x)	0.14	0.15	0.15	0.13	0.15	0.14	0.13
int coverage (x)	201.57	28.21	43.79	56.06	66.42	68.51	69.32
<b>Liquidity</b>							
Current Ratio (X)	4.31	4.33	4.97	5.65	6.21	6.88	7.56
<b>Per Share data (US\$)</b>							
EPS	0.0058	0.0083	0.0167	0.0202	0.0289	0.0316	0.0339
BVS	0.195	0.203	0.217	0.237	0.266	0.298	0.331

**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**  
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