

10 August 2020
Nickle Mining, Equity

Price IDR 3640
Target Price IDR 3915
JKSE Index 5142.62



Investment Consideration Maintaining production

As of 2Q20, production of nickel in matte and nickel in matte deliveries increased +6% and +19% QoQ while the average nickel price declined 11%, from US\$/t 10428 to US\$/t 9300. Based on the 2Q20 result, we maintain our production and nickel in matte deliveries target at 71,000 MT. As we said previously, INCO will revamp furnace no. 4 later in 4Q20 for 5 months. In terms of earnings, INCO managed to book 2Q20 bottom line of US\$ 24 million, lower than US\$ 29 million in 1Q20 but better than 2Q19 which was a loss of US\$ 6,02 million. This year INCO will continue to work on cost efficiency. We maintain our revenue forecast for 2020F and 2021F at US\$794 mn and US\$854 mn and adjust the bottom line to US\$ 86 million and US\$ 91 million respectively.

Progress on divestment

On June 19, 2020, INCO along with Vale Canada Limited (VCL) and Sumitomo Metal Mining Co. Ltd. (SMM) signed a definitive agreement for the sale of a 20% stake in PT Vale Indonesia to PT Indonesia Asahan Alumunium (Persero) or Inalum in compliance with PT Vales's divestment obligation under the Contract of Work (COW) dated January 15,1996 with the Government of Indonesia (as amended). Based on the COW, divestment is one of the requirements for PT Vales's continuity of operations beyond 2025.

Valuation: 7,5% upside

Based on USD conversion, our TP within one year is Rp3915 higher than previously, or trading at 45x PER. With only 7.5% upside, our recommendation is HOLD.

Stock Code
Bloomberg code INCO IJ
Market cap (IDR.bn) 28318.6
52-Week High (IDR) 4320
52-Week Low (IDR) 1340
6-m Avg Daily. Val (IDR) 3650
Free Float (%) 20.49

Major Shareholders (%)
Vale Canada ltd 58.73%
Sumitomo Metal Mining Ltd 20.09%
Vale japan Ltd 0.55%
Sumitomo Corp 0.14%
Public 20.49%

USD/IDR-YE
2019A 13866
2020F (Avg) 14625

Key Indicators 2021F
ROE (%) 4.45
Total Debt/ Equity (x) 0.19
Current ratio (x) 3.39

Profit and Loss (USD.mn)	2016 A	2017 A	2018 A	2019 A	2020 F	2021 F
Revenues	584	629	777	782	795	854
COGS	(550)	(623)	(673)	(666)	(665)	(708)
Gross Profit	34	7	104	116	129	147
Operating expense	(20)	(22)	(19)	(28)	(8)	(17)
Operating Profit	14	(15)	85	88	122	130
Other income	(9)	(8)	(2)	1	1	1
Pretax income(PBT)	5	(23)	83	89	122	131
taxes	(3)	8	(22)	(32)	(37)	(39)
Net Profit	2	-15	61	57	86	91
EPS	0,0002	(0,0015)	0,0061	0,0058	0,0086	0,0092
EBITDA	138	111	214	222	258	272

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 gain:

- 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 1H20**

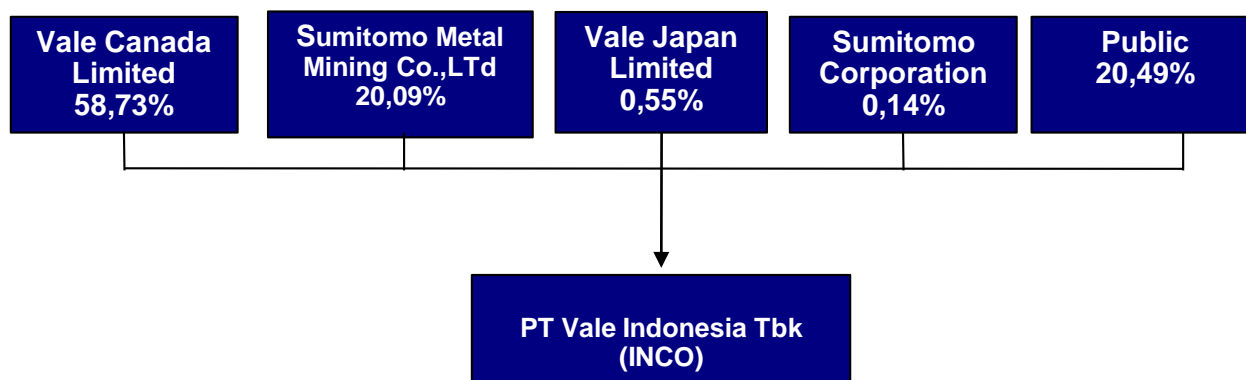


Chart: Nickle in matte production (MT) yoy

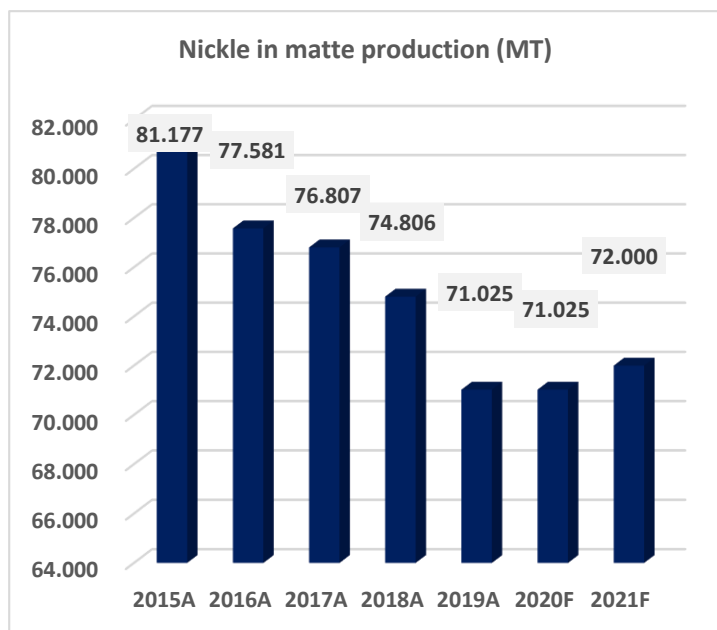


Chart: Nickle in matte sales volume deliveries (MT) yoy

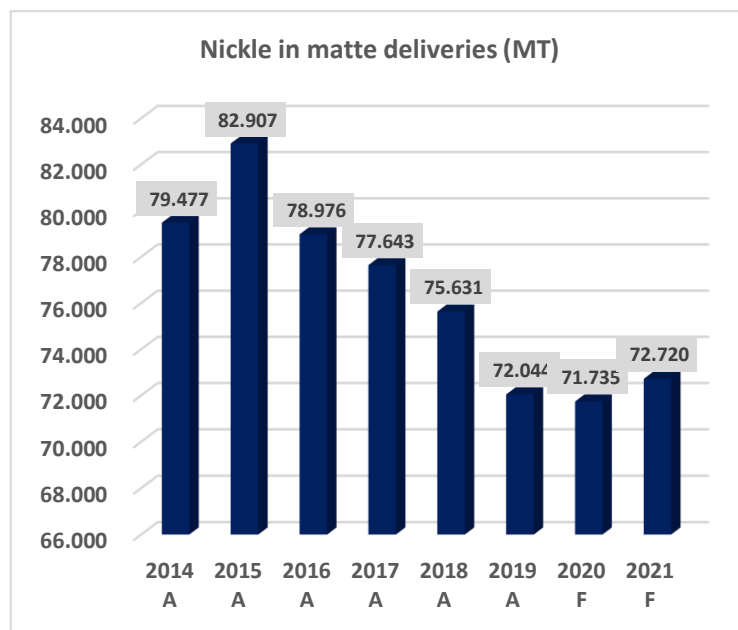


Chart: Cash cost/ton yoy

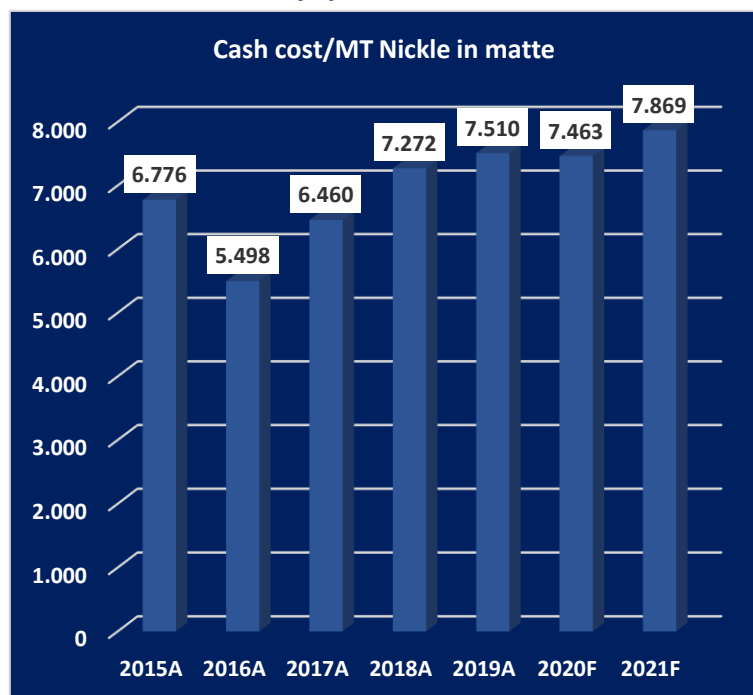
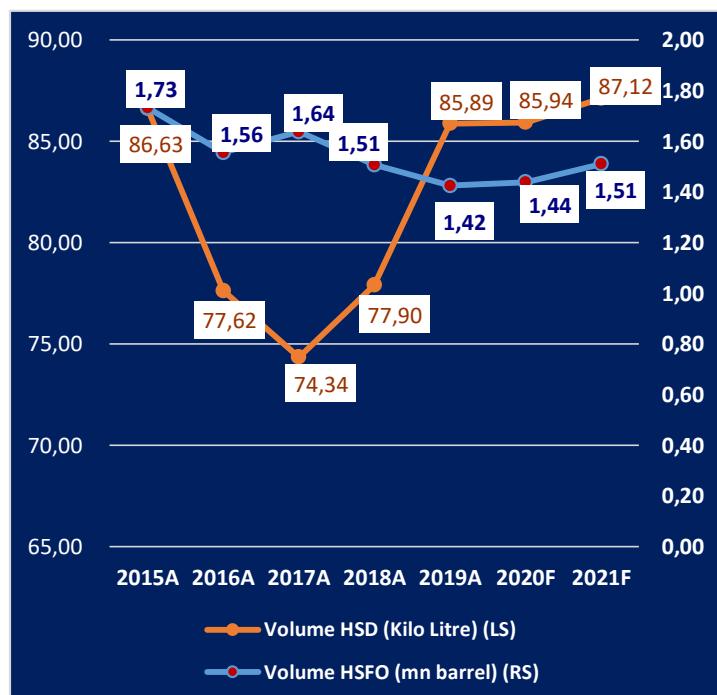


Chart: HSFO vs HSD volume yoy



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Balance Sheet (US\$ in mn)

Balance sheet (US\$ in mn)	2016 A	2017 A	2018 A	2019 A	2020 F	2021 F
Cash and cash equivalent	186	222	301	249	370	355
restricted cash	30	16	16	0	10	10
short term investment	0	0	0	0	0	0
Trade Account Receivable	147	166	124	107	98	105
inventory	130	118	132	148	128	136
Other current asset	107	76	58	84	56	60
Current Asset	599	597	631	588	661	665
Net Fixed Asset	1.533	1.494	1.435	1.467	1.533	1.623
other long term asset	94	94	137	167	143	154
Total non current Asset	1.626	1.588	1.571	1.634	1.676	1.777
Total Asset	2.225	2.185	2.202	2.223	2.337	2.442
Trade Account Payable	64	61	95	97	98	94
Other Short term liabilities	68	68	80	39	95	103
Total current liabilities	132	129	175	137	193	196
Long term borrowings	73	36	0	0	30	30
Provision for asset retirement	52	75	38	44	40	43
Other Long term liabilities	134	125	106	100	111	120
Total long term/ non current liabilities	259	236	143	144	181	192
Total Liabilities	391	365	319	281	374	388
Total Equities	1.835	1.819	1.884	1.942	1.962	2.054
Total Liabilities and equity	2.225	2.185	2.202	2.223	2.337	2.442

Cash Flow (US\$.mn)

Cash Flow (US\$ in mn)	2016A	2017A	2018A	2019A	2020F	2021F
+ Net Income	2	-15	61	57	86	91
Depreciation	123	127	129	132	135	141
- Change in WC	-30	36	92	-48	105	-17
Cash From Operating Activities	95	147	281	141	326	216
capex	-53	-88	-70	-165	-200	-231
other non current asset	-3	-0	-43	-30	24	-11
Cash from investing activities	-56	-88	-113	-195	-177	-242
Long term borrowing	-37	-37	-36	0	30	0
Provision for asset retirement	-6	23	-37	7	-5	3
other long term liabilities	-5	-9	-19	-5	11	8
Equity	-1	0	4	1	-65	-0
cash from financing activities	-49	-23	-89	2	-28	11
Net Changes in Cash	-9	36	79	-52	121	-15
Beginning Balance	195	186	222	301	249	370
Ending balance	186	222	301	249	370	355

Ratio Highlight

Ratio Highlight	2016 A	2017 A	2018 A	2019 A	2020 F	2021 F
Growth (% YoY)						
Sales	-26%	8%	23%	1%	2%	8%
OP	-82%	-206%	-658%	4%	38%	7%
EBITDA	-31%	-19%	92%	4%	16%	6%
NP	-96%	-901%	-496%	-5%	49%	7%
EPS	-96%	-901%	-496%	-5%	49%	7%
Profitability (%)						
Operating Margin	2%	-2%	11%	11%	15%	15%
EBITDA margin	24%	18%	28%	28%	32%	32%
NET Profit margin	0,33%	-2,43%	7,79%	7,34%	10,78%	10,71%
ROA	0,09%	-0,70%	2,75%	2,58%	3,67%	3,75%
ROE	0,10%	-0,84%	3,21%	2,96%	4,37%	4,45%
Solvability						
Tot. debt/ Tot. Equity (x)	0,21	0,20	0,17	0,14	0,19	0,19
Liquidity						
Current Ratio (X)	4,54	4,62	3,60	4,31	3,42	3,39
Per Share data (USD)						
EPS	0,0002	(0,0015)	0,0061	0,0058	0,0086	0,0092
BVS	0,185	0,183	0,190	0,195	0,198	0,207

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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