

12 March 2021  
Nickle Mining, Equity

Price IDR 4530  
Target Price IDR 4270  
JKSE Index 6264,68



**Stock Code**  
Bloomberg code INCO IJ  
Market cap (IDR.bn) 45210  
52-Week High (IDR) 7100  
52-Week Low (IDR) 1340  
6-m Avg Daily. Val (IDR) 4235  
Free Float (%) 20.49

**Major Shareholders (%)**  
Vale Canada Ltd 45,79%  
Sumitomo Metal Mining Ltd 15,03%  
Vale japan Ltd 0,55%  
Sumitomo Corp 0,14%  
INALUM 20,00%  
Public 20,49%

**USD/IDR-YE**  
2020A 14050  
2021F 14468

**Key Indicators 2021F**  
ROE (%) 4.50  
Total Debt/ Equity (x) 0.16  
Current ratio (x) 4.65

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## Investment Consideration Lower production target

In 2021, INCO targets a reduction in production due to a seven-month furnace rebuild from May through November, which was previously scheduled for the 4Q20. Based on 9M20 result, Nickel in matte production reached 55,792 tons, or 10,41 % yoy growth. We believe production of nickel in matte in 2021, will be below 70,000 tons in line with the 5-7 months production halt. In 2020, production of nickel in matte and nickel in matte deliveries increased +1,7% and +1,1% YoY while the average realized nickel price decreased by -3,93%, to US\$/t 10498 from US\$/t 10855 in 2019. In terms of earnings, INCO managed to book 2020 bottom line and EBITDA of US\$ 82,8 million and US\$ 273, million respectively, increases of 44% YoY and 18% YoY respectively. INCO will continue to exercise prudent control over its spending to preserve cash. INCO is also improving productivity and cost efficiency to sustain long term competitiveness We revise our revenue forecasts for 2021F to US\$748 mn with an average nickel price between USD/tons 15,000 – 16,000 and lower sales volume because of lower production volume. We also adjust the bottom line to US\$ 95 million in 2021F.

## Bahodapi and Pomala Progress

This year, INCO continues to work on the realization of two new projects that are currently still in the feasibility study stage, and the licensing process. One is a ferronickel smelter in Bahodopi, Central Sulawesi and the other is a High Pressure Acid Leaching (HPAL) smelter in Pomala, Southeast Sulawesi. Bahodapi and Pomala are still in the process of completing the Final Investment Decision (FID) with both partners and an announcement is expected in 3Q21. Meanwhile, financing through loans will be at the JV company level.

## Valuation -6% downside

Based on our adjustments, our TP within one year is IDR 4270. or trading at 52x PER. With -6% downside, our recommendation is SELL.

Profit and Loss (USD.mn)	2017 A	2018 A	2019 A	2020 A	2021 F	2022 F
Revenue	629	777	782	765	748	851
Cost of Revenue	(623)	(673)	(666)	(640)	(590)	(645)
Gross Profit	7	104	116	124	157	206
Operating expense	(22)	(19)	(28)	(21)	(22)	(25)
Operating Profit	(15)	85	88	104	135	181
Other income	(8)	(2)	1	1	1	1
Pretax income(PBT)	(23)	83	89	105	136	182
taxes	8	(22)	(32)	(22)	(41)	(55)
Net Profit	-15	61	57	83	95	127
EPS	(0,0015)	0,0061	0,0058	0,0083	0,0096	0,0128
EBITDA	111	214	222	257	286	332

**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 2020**

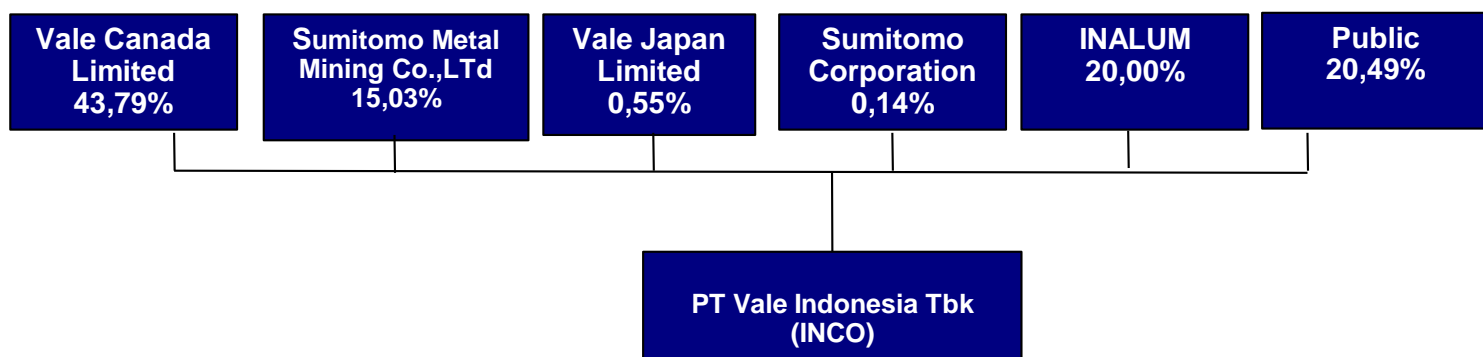


Chart: Nickle in matte production (MT) yoy

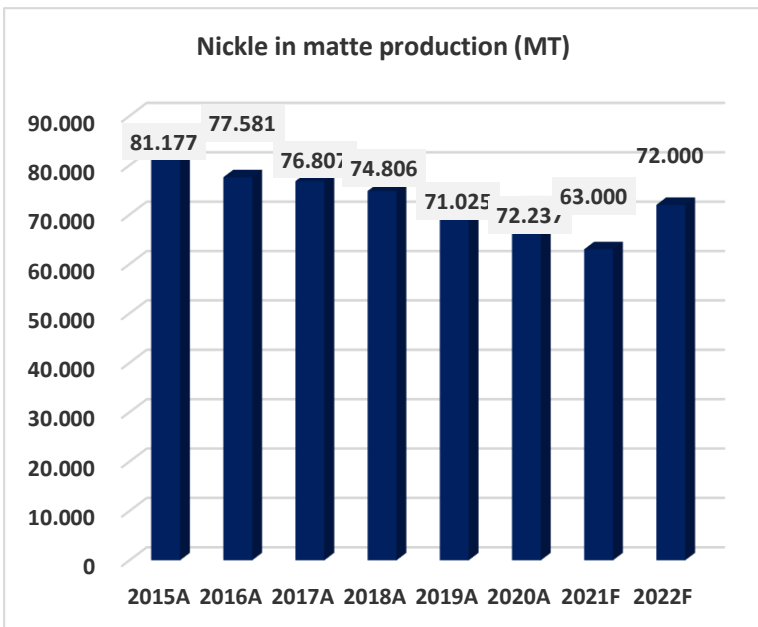


Chart: Nickle in matte sales volume deliveries (MT) yoy

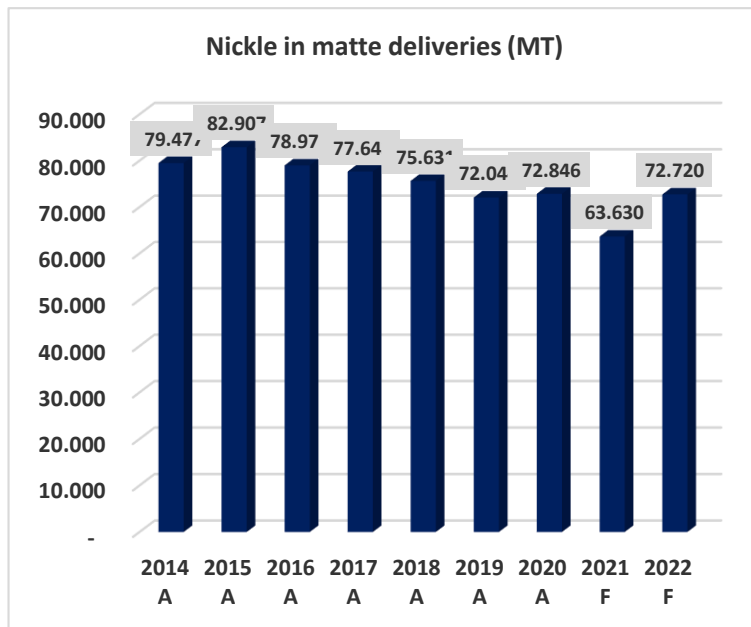


Chart: Cash cost/ton yoy

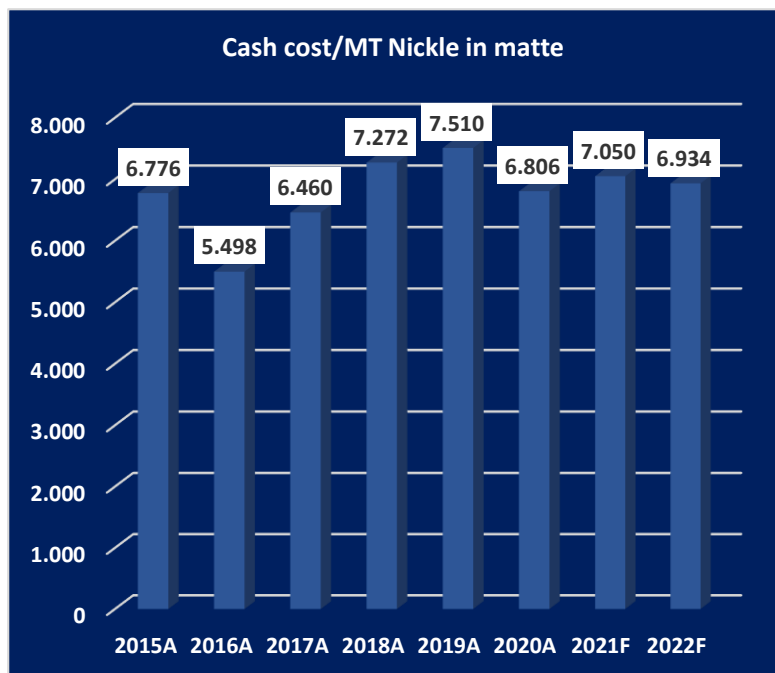
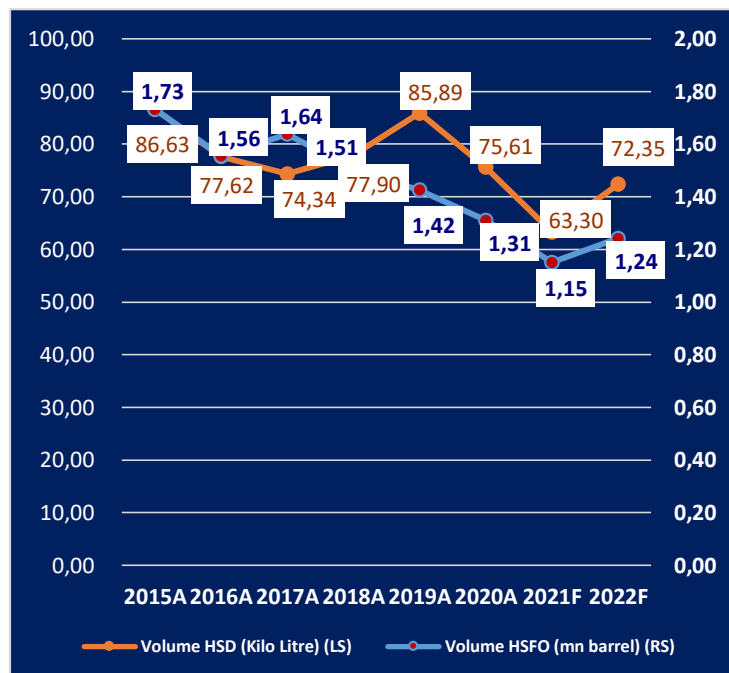


Chart: HSFO vs HSD volume yoy



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<b>Pretax income(PBT)</b>	<b>(23)</b>	<b>83</b>	<b>89</b>	<b>105</b>	<b>136</b>	<b>182</b>
taxes	8	(22)	(32)	(22)	(41)	(55)
<b>Net Profit</b>	<b>-15</b>	<b>61</b>	<b>57</b>	<b>83</b>	<b>95</b>	<b>127</b>
EPS	(0,0015)	0,0061	0,0058	0,0083	0,0096	0,0128
<b>EBITDA</b>	<b>111</b>	<b>214</b>	<b>222</b>	<b>257</b>	<b>286</b>	<b>332</b>

Balance Sheet (US\$ in mn)

Balance sheet (US\$ in mn)	2017 A	2018 A	2019 A	2020 A	2021 F	2022 F
Cash and cash equivalent	222	301	249	389	465	552
restricted cash	16	16	0	0	10	10
short term investment	0	0	0	0	0	0
Trade Account Receivable	166	124	107	60	82	89
inventory	118	132	148	144	129	136
Other current asset	76	58	84	103	112	68
<b>Current Asset</b>	<b>597</b>	<b>631</b>	<b>588</b>	<b>696</b>	<b>799</b>	<b>854</b>
Net Fixed Asset	1.494	1.435	1.467	1.518	1.511	1.598
other long term asset	94	137	167	101	135	179
<b>Total non current Asset</b>	<b>1.588</b>	<b>1.571</b>	<b>1.634</b>	<b>1.619</b>	<b>1.645</b>	<b>1.777</b>
<b>Total Asset</b>	<b>2.185</b>	<b>2.202</b>	<b>2.223</b>	<b>2.315</b>	<b>2.444</b>	<b>2.631</b>
Trade Account Payable	61	95	97	113	82	107
Other Short term liabilities	68	80	39	48	90	111
<b>Total current liabilities</b>	<b>129</b>	<b>175</b>	<b>137</b>	<b>161</b>	<b>172</b>	<b>218</b>
Long term borrowings	36	0	0	0	0	0
Provision for asset retirement	75	38	44	57	60	68
Other Long term liabilities	125	106	100	77	97	102
<b>Total long term/ non current liabilities</b>	<b>236</b>	<b>143</b>	<b>144</b>	<b>134</b>	<b>157</b>	<b>170</b>
<b>Total Liabilities</b>	<b>365</b>	<b>319</b>	<b>281</b>	<b>294</b>	<b>329</b>	<b>388</b>
<b>Total Equities</b>	<b>1.819</b>	<b>1.884</b>	<b>1.942</b>	<b>2.020</b>	<b>2.116</b>	<b>2.243</b>
<b>Total Liabilities and equity</b>	<b>2.185</b>	<b>2.202</b>	<b>2.223</b>	<b>2.315</b>	<b>2.444</b>	<b>2.631</b>

Cash Flow (US\$.mn)

Cash Flow (US\$ in mn)	2017A	2018A	2019A	2020 A	2021F	2022F
+ Net Income	(15)	61	57	83	95	127
Depreciation	127	129	132	149	146	146
- Change in WC	36	92	(48)	56	(15)	77
<b>Cash From Operating Activities</b>	<b>147</b>	<b>281</b>	<b>141</b>	<b>288</b>	<b>226</b>	<b>350</b>
capex	(88)	(70)	(165)	(199)	(139)	(233)
other non current asset	(0)	(43)	(30)	66	(34)	(44)
<b>Cash from investing activities</b>	<b>(88)</b>	<b>(113)</b>	<b>(195)</b>	<b>(133)</b>	<b>(173)</b>	<b>(277)</b>
Long term borrowing	(37)	(36)	0	0	0	0
Provision for asset retirement	23	(37)	7	12	3	8
other long term liabilities	(9)	(19)	(5)	(23)	20	5
Equity	0	4	1	(4)	0	0
<b>cash from financing activities</b>	<b>(23)</b>	<b>(89)</b>	<b>2</b>	<b>(15)</b>	<b>23</b>	<b>13</b>
Net Changes in Cash	36	79	(52)	140	77	86
<b>Beginning Balance</b>	<b>186</b>	<b>222</b>	<b>301</b>	<b>249</b>	<b>389</b>	<b>465</b>
<b>Ending balance</b>	<b>222</b>	<b>301</b>	<b>249</b>	<b>389</b>	<b>465</b>	<b>552</b>

Ratio Highlight

Ratio Highlights	2017 A	2018 A	2019 A	2020 A	2021 F	2022 F
<b>Growth (% YoY)</b>						
Sales	8%	23%	1%	-2%	-2%	14%
OP	-206%	-658%	4%	18%	30%	34%
EBITDA	-19%	92%	4%	16%	11%	16%
NP	-901%	-496%	-5%	44%	15%	34%
EPS	-901%	-496%	-5%	44%	15%	34%
<b>Profitability (%)</b>						
Operating Margin	-2%	11%	11%	14%	18%	21%
EBITDA margin	18%	28%	28%	34%	38%	39%
NET Profit margin	-2,43%	7,79%	7,34%	10,83%	12,75%	14,98%
ROA	-0,70%	2,75%	2,58%	3,58%	3,90%	4,84%
ROE	-0,84%	3,21%	2,96%	4,10%	4,50%	5,68%
<b>Solvability (x)</b>						
Tot. debt/ Tot. Equity (x)	0,20	0,17	0,14	0,15	0,16	0,17
<b>Liquidity</b>						
Current Ratio (X)	4,62	3,60	4,31	4,33	4,65	3,92
<b>Per Share data (USD)</b>						
EPS	(0,0015)	0,0061	0,0058	0,0083	0,0096	0,0128
BVS	0,183	0,190	0,195	0,203	0,213	0,226

**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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