

Investment Consideration

Strong profit in 1H22

Despite a lower production volume target of 65,000 MT of nickel in matte for 2022, INCO was able to book a strong net profit of USD 82,8 million in 2Q22 higher by +230% YoY, +22% QoQ. The increase in 2Q22's profit was mainly driven by a higher nickel price, which offset lower production due to the furnace #4 rebuild project. The rebuilt project itself has been completed and the furnace started the heating up process on June 18, 2022. INCO revenue was USD 329 million in 2Q22, 58% higher YoY. The average realized price for nickel in matte was USD 24,355/ton, a 85% YoY increase and 40% higher QoQ. We expect 2022F average prices will remain volatile in the near-term due to the increased risk of tight nickel supply after Russia's invasion of Ukraine, although nickel prices are now down compared to June. With the current prices, we have adjusted our revenue forecasts for 2022-2023F to USD 1,340 million and USD 1,301 million respectively. We believe nickel prices will remain higher than last year but lower than the current price.

Maintain cost

INCO is continuing to maintain its focus on improving productivity and cost efficiency to sustain competitiveness in the long term. Although cost of revenues in 2Q22 increased from higher raw material prices and royalties, INCO still booked EBITDA of USD 163,4 million, higher than 1Q22's USD 116,2 million. Fuel costs in 2Q22 increased 21% QoQ, but that's lower than 2Q21's increase of 35% QoQ. We calculate 1H22's cash cost/ton increased 26% YoY. We estimate, that with cost efficiencies, cash/ton in 2023 will decline by -10.7% YoY

Valuation: 14% upside

We maintain a target price within one year of IDR 7,375 due to the rising nickel price despite lower production volume in 2022. With 14% upside, our recommendation is maintained at HOLD.

Highlight	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F	2024 F
Growth (% YoY)							
Sales	23%	1%	-2%	25%	41%	-3%	1%
EBITDA	92%	4%	16%	49%	76%	-5%	2%
Net Profit	-496%	-5%	44%	100%	114%	-8%	1%
Profitability (%)							
Operating							
Margin	11%	11%	14%	23%	38%	36%	36%
EBITDA margin	28%	28%	34%	40%	50%	50%	50%
NET Profit margin	8%	7%	11%	17%	27%	25%	25%
Solvability							
Tot. debt/ Tot. Equity (x)							
	0.17	0.14	0.15	0.15	0.16	0.14	0.13

16 August 2022
Nickle Mining, Equity

Price IDR 6475
Target Price IDR 7375
JKSE Index 7091.014



Stock Code
Bloomberg code INCO IJ
Market cap (IDR.bn) 68310
52-Week High (IDR) 8800
52-Week Low (IDR) 4240
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
2021A 14278
2022F (Avg) 14742

Key Indicators 2023F
ROE (%) 11.57
Total Debt/ Equity (x) 0.14
Current ratio (x) 6.86

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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 1H22**

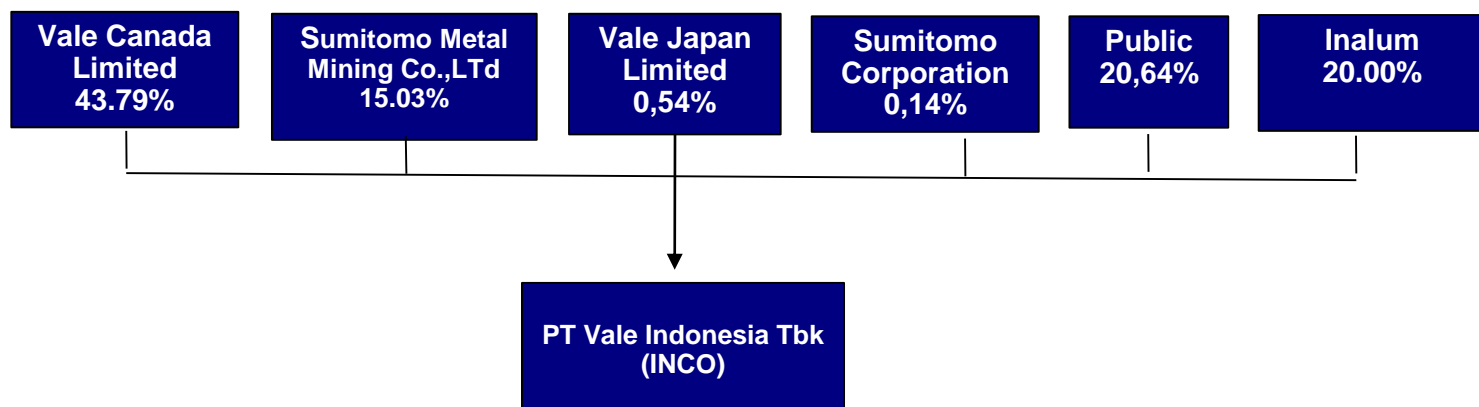


Chart: Nickle in matte production (MT) yoy

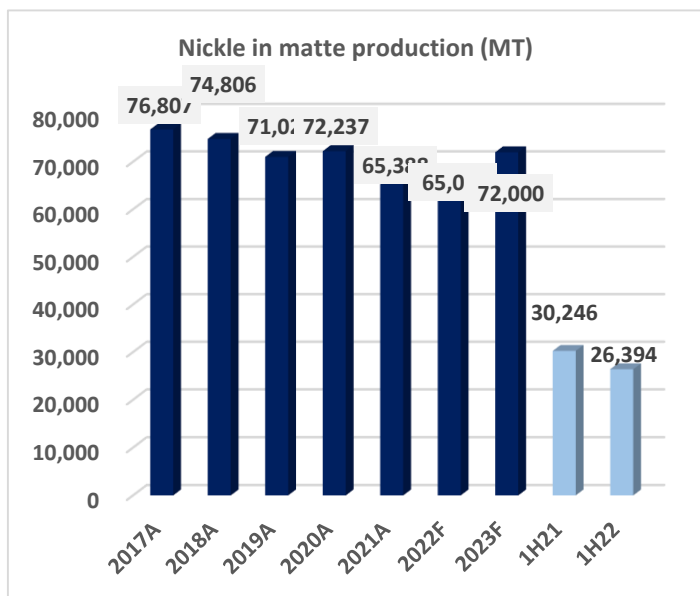


Chart: Nickle in matte sales volume deliveries (MT) yoy

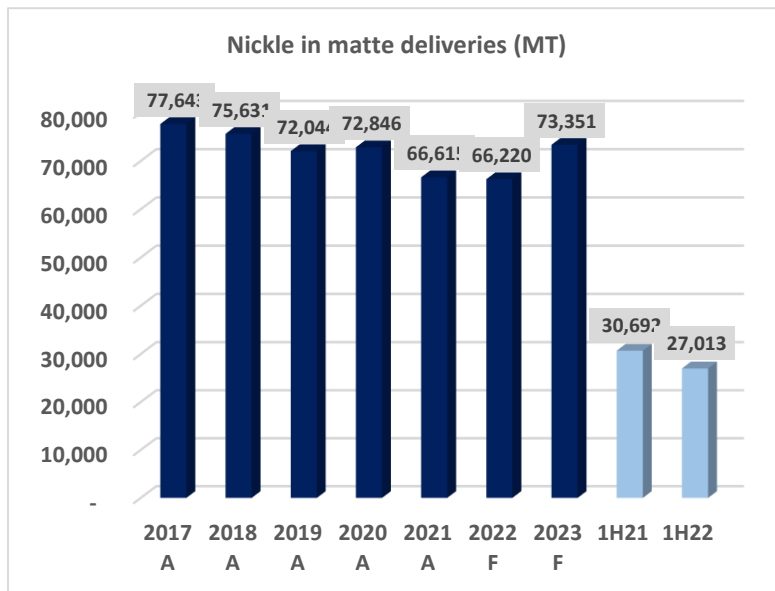


Chart: Cash cost/ton yoy

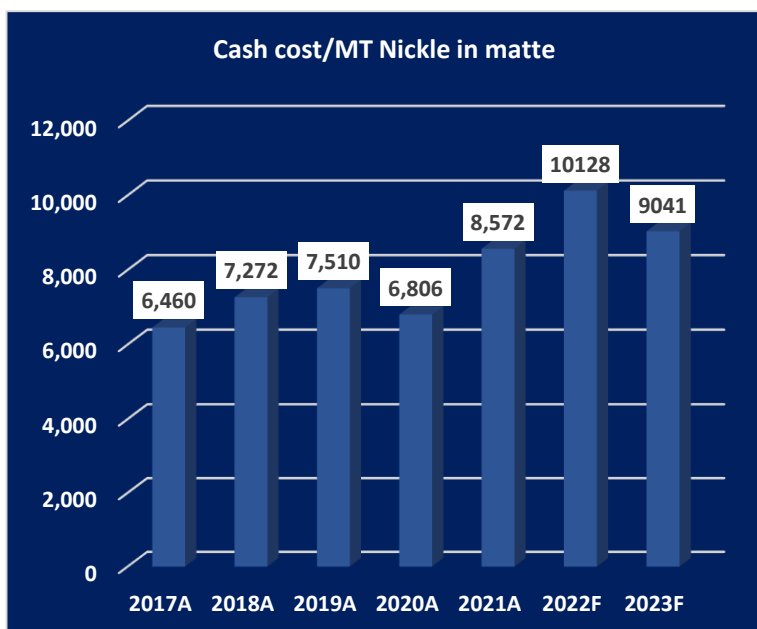
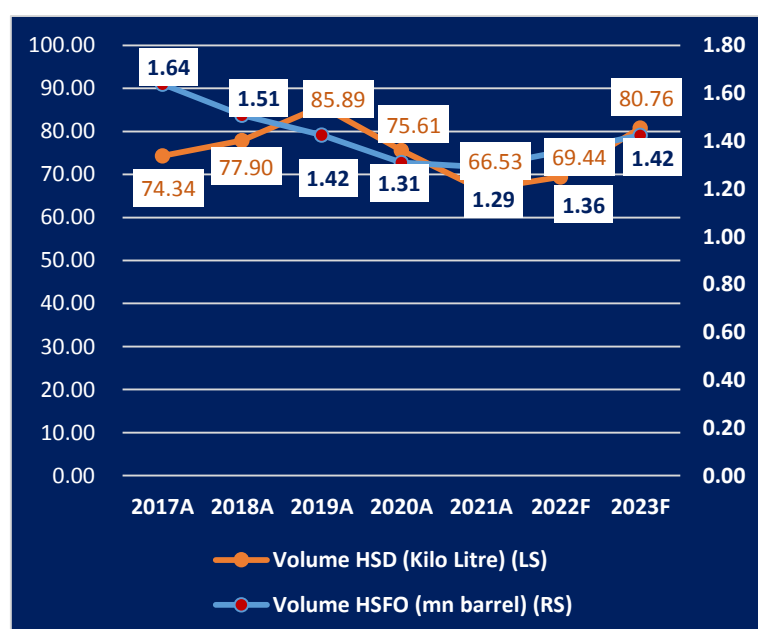


Chart: HSFO vs HSD volume yoy



Profit and Loss

Profit and Loss (US\$.mn)	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F	2024 F
Revenues	777	782	765	953	1,340	1,301	1,317
COGS	(673)	(666)	(640)	(718)	(820)	(820)	(833)
Gross Profit	104	116	124	235	520	481	485
Operating expense	(19)	(28)	(21)	(12)	(13)	(13)	(13)
Operating Profit	85	88	104	223	507	468	471
Other income	(2)	1	1	(2)	1	1	1
Pretax income(PBT)	83	89	105	221	508	469	473
taxes	(22)	(32)	(22)	(55)	(152)	(141)	(142)
Net Profit	61	57	83	166	356	328	331
EPS	0.0061	0.0058	0.0083	0.0167	0.0358	0.0330	0.0333
EBITDA	214	222	257	383	676	644	659

Balance Sheet

Balance sheet (US\$ in mn)	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F	2024 F
Cash and cash equivalent	301	249	389	508	653	842	1,055
restricted cash	16	0	10	0	0	0	0
short term investment	0	0	0	0	0	0	0
Trade Account Receivable	124	107	60	102	165	185	188
inventory	132	148	144	162	180	182	185
Other current asset	58	84	93	64	94	91	105
Current Asset	631	588	696	837	1,092	1,300	1,532
Net Fixed Asset	1,435	1,467	1,479	1,519	1,587	1,688	1,796
other long term asset	137	167	140	117	241	247	250
Total non current Asset	1,571	1,634	1,619	1,636	1,828	1,936	2,047
Total Asset	2,202	2,223	2,315	2,473	2,920	3,236	3,579
Trade Account Payable	61	97	113	122	88	86	94
Other Short term liabilities	114	39	48	46	107	104	105
Total current liabilities	175	137	161	168	195	190	199
Long term borrowings	0	0	0	0	0	0	0
Provision for asset retirement	38	44	57	77	94	91	92
Other Long term liabilities	106	100	77	72	121	117	119
Total long term/ non current liabilities	143	144	134	150	214	208	211
Total Liabilities	319	281	294	318	410	398	410
Total Equities	1,884	1,942	2,020	2,154	2,510	2,838	3,169
Total Liabilities and equity	2,202	2,223	2,315	2,473	2,920	3,236	3,579

Cash Flow

Cash Flow (US\$ in mn)	2018A	2019A	2020A	2021A	2022F	2023F	2024F
+ Net Income	61	57	83	166	356	328	331
Depreciation	129	133	149	158	162	169	180
- Change in WC	92	(48)	56	(13)	(84)	(25)	(10)
Cash From Operating Activities	281	142	288	310	434	472	501
capex	(70)	(165)	(161)	(197)	(230)	(271)	(288)
other non current asset	(43)	(30)	27	22	(124)	(6)	(3)
Cash from investing activities	(113)	(195)	(133)	(175)	(354)	(276)	(291)
Long term borrowing	(36)	0	0	0	0	0	0
Provision for asset retirement	(37)	7	12	21	16	(3)	1
other long term liabilities	(19)	(5)	(23)	(5)	48	(4)	2
Equity	4	1	(4)	(32)	0	0	0
cash from financing activities	(89)	2	(15)	(15)	64	(6)	3
Net Changes in Cash	79	(52)	140	120	144	189	213
Beginning Balance	222	301	249	389	508	653	842
Ending balance	301	249	389	508	653	842	1,055

Ratio Highlight

Ratio Highlight	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F	2024 F
Growth (% YoY)							
Sales	23%	1%	-2%	25%	41%	-3%	1%
OP	-658%	4%	18%	115%	127%	-8%	1%
EBITDA	92%	4%	16%	49%	76%	-5%	2%
NP	-496%	-5%	44%	100%	114%	-8%	1%
EPS	-496%	-5%	44%	100%	114%	-8%	1%
Profitability (%)							
Operating Margin	11%	11%	14%	23%	38%	36%	36%
EBITDA margin	28%	28%	34%	40%	50%	50%	50%
NET Profit margin	7.79%	7.34%	10.83%	17.39%	26.53%	25.24%	25.12%
ROA	2.75%	2.58%	3.58%	6.70%	12.18%	10.14%	9.25%
ROE	3.21%	2.96%	4.10%	7.70%	14.17%	11.57%	10.44%
Solvability							
Tot. debt/ Tot. Equity (x)	0.17	0.14	0.15	0.15	0.16	0.14	0.13
int coverage (x)	39.43	201.57	28.21	43.79	77.28	73.50	71.87
Liquidity							
Current Ratio (X)	3.60	4.31	4.33	4.97	5.59	6.86	7.69
Per Share data (US\$)							
EPS	0.0061	0.0058	0.0083	0.0167	0.0358	0.0330	0.0333
BVS	0.190	0.195	0.203	0.217	0.253	0.286	0.319

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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