

Investment Consideration

Strong profit in 1Q22

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 67.6 million or 58% higher than 1Q21. The increase in 2022's profit was mainly driven by a higher nickel price, which offset lower production due to maintenance (a rebuild of electric furnace no. 4 which was delayed from 2021). INCO recorded revenue of USD 235,1 million in 1Q22 or 12% lower YoY. The average realized price for nickel in matte was USD 17,432/ton, a 13% increase from 4Q21's price of USD 15,372/ton. INCO's cost of revenue fell by 29% yoy from the lower production volume in 1Q22. 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. We have adjusted our revenue forecasts for 2022-2023 F to USD 1,019 million and USD 1110 million respectively.

Progress on expansion

The Pomalaa projects has a new agreement after INCO together with Zhejiang Huayou Cobalt Company Ltd (Huayou) signed a Framework Cooperation Agreement (FCA) for developing a High-Pressure Acid Leaching (HPAL) processing facility in Pomala, Southeast Sulawesi. Huayou will construct and manage the Pomala HPAL project, and PT Vale will have the right to acquire 30% of the shares.

Valuation: 1% upside

We have a target price within one year of IDR 7,375 due to the rising nickel price and despite lower production volume. With 1% upside, our recommendation is HOLD.

Profit and Loss (USD.mn)	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F	2024 F
Revenues	777	782	765	953	1,019	1,110	1,078
COGS	(673)	(666)	(640)	(718)	(677)	(726)	(740)
Gross Profit	104	116	124	235	342	384	337
Operating expense	(19)	(28)	(21)	(12)	(10)	(11)	(11)
Operating Profit	85	88	104	223	332	373	327
Other income	(2)	1	1	(2)	1	1	1
Pretax income(PBT)	83	89	105	221	333	374	328
taxes	(22)	(32)	(22)	(55)	(100)	(112)	(98)
Net Profit	61	57	83	166	233	262	229
EPS	0.0061	0.0058	0.0083	0.0167	0.0235	0.0263	0.0231
EBITDA	214	222	257	383	500	548	513

17 May 2022
Nickle Mining, Equity

Price IDR 7275
Target Price IDR 7375
JKSE Index 6644,47



Stock Code
Bloomberg code INCO IJ
Market cap (IDR.bn) 46200
52-Week High (IDR) 8800
52-Week Low (IDR) 4180
6-m Avg Daily. Val (IDR) 4575
Free Float (%) 20.63

Major Shareholders (%)
Vale Canada Ltd 43.79%
Sumitomo Metal Mining Ltd 15.03%
Vale japan Ltd 0.55%
PT Indonesia Asahan Aluminium (Persero) 20.00%
Public 20.63%

USD/IDR-YE
2021A 14278
2022F (Avg) 14612

Key Indicators 2023F
ROE (%) 9.88
Total Debt/ Equity (x) 0.13
Current ratio (x) 6.73

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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 9M21**

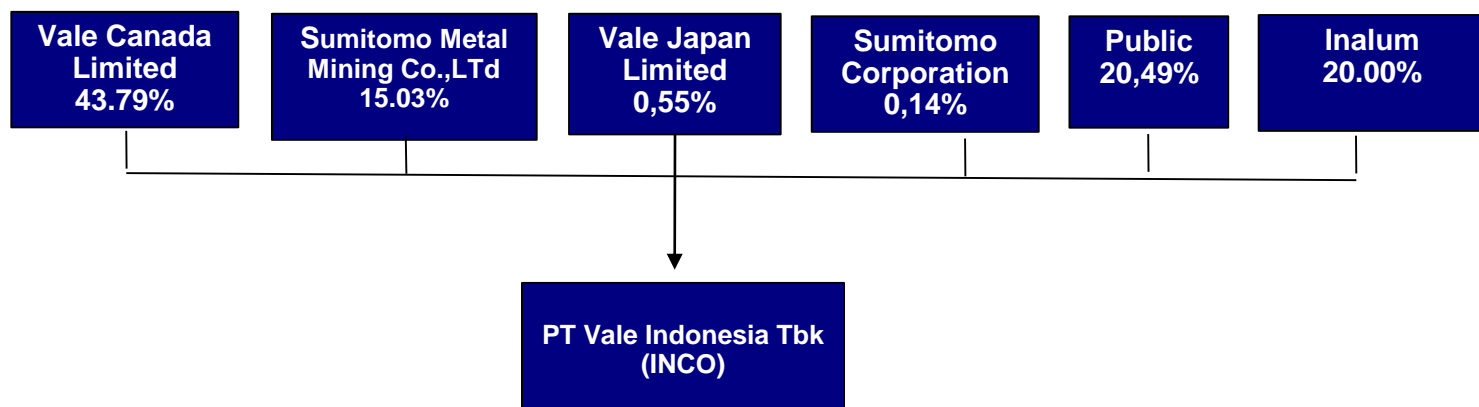


Chart: Nickle in matte production (MT) yoy

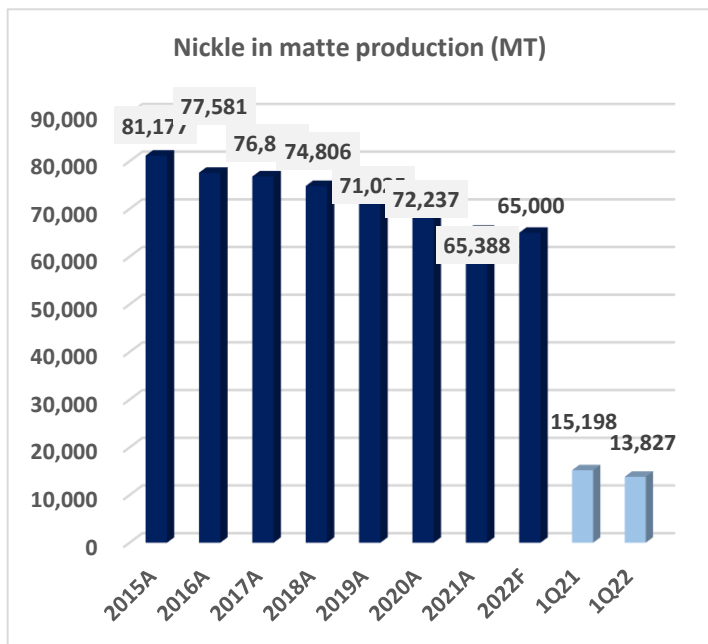


Chart: Nickle in matte sales volume deliveries (MT) yoy

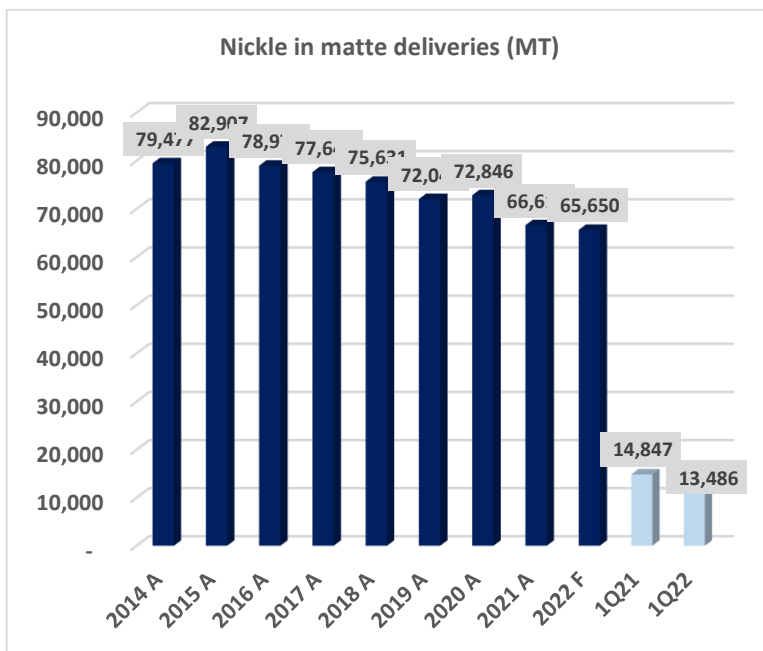


Chart: Cash cost/ton yoy

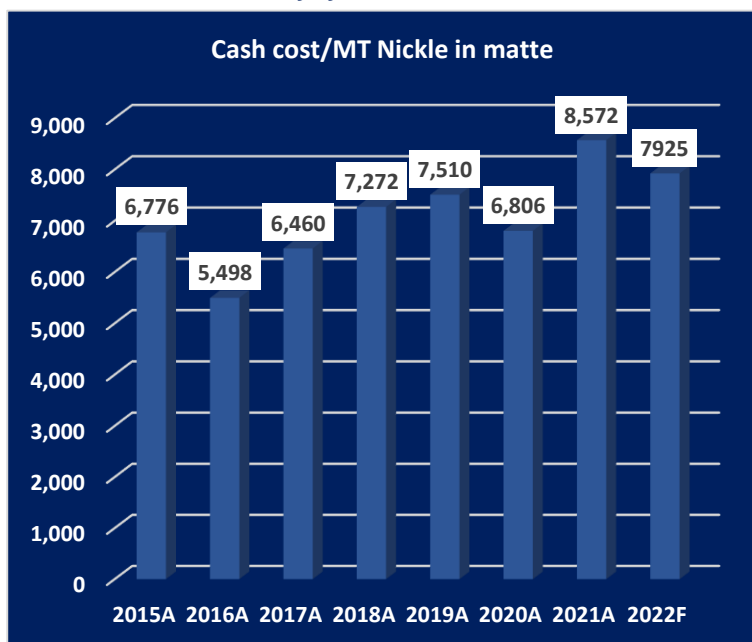
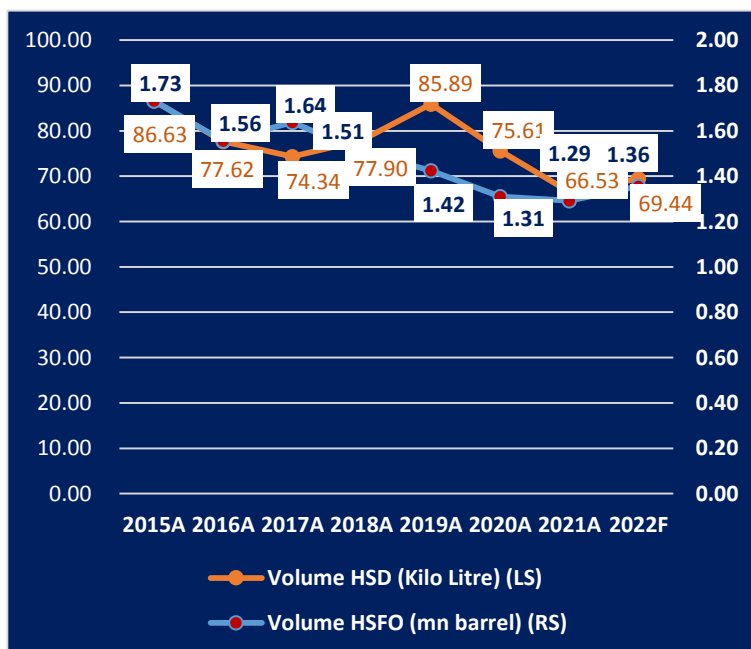


Chart: HSFO vs HSD volume yoy



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Balance Sheet (US\$ in mn)

Balance sheet (US\$ in mn)	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F	2024 F
Cash and cash equivalent	301	249	389	508	564	692	809
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	145	158	154
inventory	132	148	144	162	148	161	164
Other current asset	58	84	93	64	71	78	86
Current Asset	631	588	696	837	929	1,089	1,213
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	183	211	205
Total non current Asset	1,571	1,634	1,619	1,636	1,770	1,899	2,001
Total Asset	2,202	2,223	2,315	2,473	2,699	2,989	3,214
Trade Account Payable	61	97	113	122	67	73	77
Other Short term liabilities	114	39	48	46	82	89	86
Total current liabilities	175	137	161	168	149	162	163
Long term borrowings	0	0	0	0	0	0	0
Provision for asset retirement	38	44	57	77	71	78	75
Other Long term liabilities	106	100	77	72	92	100	97
Total long term/ non current liabilities	143	144	134	150	163	178	172
Total Liabilities	319	281	294	318	312	339	335
Total Equities	1,884	1,942	2,020	2,154	2,387	2,649	2,879
Total Liabilities and equity	2,202	2,223	2,315	2,473	2,699	2,989	3,214

Cash Flow (US\$.mn)

Cash Flow (US\$ in mn)	2018A	2019A	2020A	2021A	2022F	2023F	2024F
+ Net Income	61	57	83	166	233	262	229
Depreciation	129	133	149	158	162	169	180
- Change in WC	92	(48)	56	(13)	(57)	(19)	(6)
Cash From Operating Activities	281	142	288	310	338	412	404
capex	(70)	(165)	(161)	(197)	(230)	(271)	(288)
other non current asset	(43)	(30)	27	22	(66)	(28)	6
Cash from investing activities	(113)	(195)	(133)	(175)	(296)	(298)	(282)
Long term borrowing	(36)	0	0	0	0	0	0
Provision for asset retirement	(37)	7	12	21	(6)	6	(2)
other long term liabilities	(19)	(5)	(23)	(5)	19	8	(3)
Equity	4	1	(4)	(32)	0	0	0
cash from financing activities	(89)	2	(15)	(15)	13	15	(5)
Net Changes in Cash	79	(52)	140	120	55	128	117
Beginning Balance	222	301	249	389	508	564	692
Ending balance	301	249	389	508	564	692	809

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%	7%	9%	-3%
OP	-658%	4%	18%	115%	49%	12%	-12%
EBITDA	92%	4%	16%	49%	30%	10%	-6%
NP	-496%	-5%	44%	100%	41%	12%	-12%
EPS	-496%	-5%	44%	100%	41%	12%	-12%
Profitability (%)							
Operating Margin	11%	11%	14%	23%	33%	34%	30%
EBITDA margin	28%	28%	34%	40%	49%	49%	48%
NET Profit margin	7.79%	7.34%	10.83%	17.39%	22.87%	23.57%	21.29%
ROA	2.75%	2.58%	3.58%	6.70%	8.63%	8.76%	7.14%
ROE	3.21%	2.96%	4.10%	7.70%	9.76%	9.88%	7.97%
Solvability							
Tot. debt/ Tot. Equity (x)	0.17	0.14	0.15	0.15	0.13	0.13	0.12
int coverage (x)	39.43	201.57	28.21	43.79	66.58	68.63	60.89
Liquidity							
Current Ratio (X)	3.60	4.31	4.33	4.97	6.25	6.73	7.44
Per Share data (USD)							
EPS	0.0061	0.0058	0.0083	0.0167	0.0235	0.0263	0.0231
BVS	0.190	0.195	0.203	0.217	0.240	0.267	0.290

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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