

18 Nov 2020
Nickle Mining, Equity

Price IDR 4580
Target Price IDR 4700
JKSE Index 5529.94



Investment Consideration Revised production target

As of 3Q20, production of nickel in matte and nickel in matte deliveries increased +10,41% and +11,26% YoY while the average realized nickel price increased by 1,34%, from US\$/t 8864 to US\$/t 10097. INCO revised its target for nickel production in 2020 from about 71,000 tons to 73,700 tons, or 4% yoy growth compared to 2019. This increase is due to a shift in the planned rebuild of electric furnace 4 which was originally scheduled for the 4Q20 to 2Q21. In terms of earnings, INCO managed to book 3Q20 bottom line and EBITDA of US\$ 23,5 million and US\$ 84,7 million respectively mostly driven by a higher average realized nickel price. INCO will continue to work on cost efficiency. We revise our revenue forecasts for 2020F and 2021F of US\$824 mn and US\$854 mn and adjust the bottom line to US\$ 107 million and US\$ 102 million respectively.

Progress on divestment

In Oct, 2020, INCO along with Vale Canada Limited (VCL) and Sumitomo Metal Mining Co. Ltd. (SMM) announced the closing of the sale of a 20% stake in PT Vale Indonesia to PT Indonesia Asahan Alumunium (Persero) or Inalum. The completion of this divestment means PT Vale is well positioned to continue to contribute to the development of Indonesia and reinforces PT Vale's long-standing commitment to value-added processing of nickel resources, sustainability and local empowerment in the country.

Sorowako and other Projects Progress

For Sorowako. INCO will increase production capacity to 90,000 tons. Currently many other initiatives are also being reviewed, including the construction of 1-line production, de-bottlenecking, and increasing high cut-off grades to produce higher ore levels. 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: 3% upside

Based on adjustments after the 9M20 result, our TP within one year is IDR 4,700, higher than previously, or trading at 55x PER. With only 3% upside, our recommendation is HOLD.

Stock Code
Bloomberg code INCO IJ
Market cap (IDR.bn) 44812.9
52-Week High (IDR) 4700
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) 14126

Key Indicators 2021F
ROE (%) 4.88
Total Debt/ Equity (x) 0.19
Current ratio (x) 3.27

Analyst: Revita Dhiah Anggrainy
revita.anggrainy@binaartha.com

Profit and Loss (USD.mn)	2016 A	2017 A	2018 A	2019 A	2020 F	2021 F
Revenue	584	629	777	782	824	854
Cost of Revenue	(550)	(623)	(673)	(666)	(664)	(693)
Gross Profit	34	7	104	116	161	161
Operating expense	(20)	(22)	(19)	(28)	(8)	(17)
Operating Profit	14	(15)	85	88	152	144
Other income	(9)	(8)	(2)	1	1	1
Pretax income(PBT)	5	(23)	83	89	153	145
taxes	(3)	8	(22)	(32)	(46)	(44)
Net Profit	2	-15	61	57	107	102
EPS	0,0002	(0,0015)	0,0061	0,0058	0,0108	0,0102
EBITDA	138	111	214	222	289	287

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**

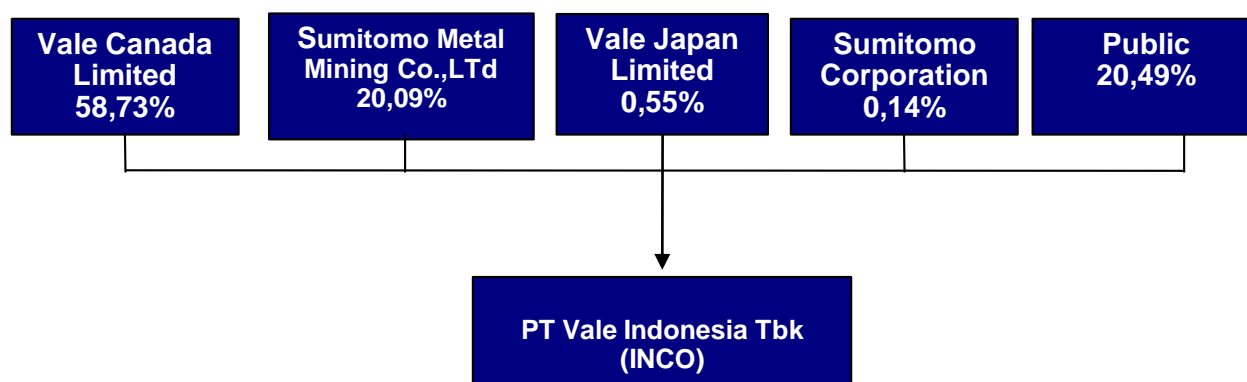


Chart: Nickle in matte production (MT) yoy

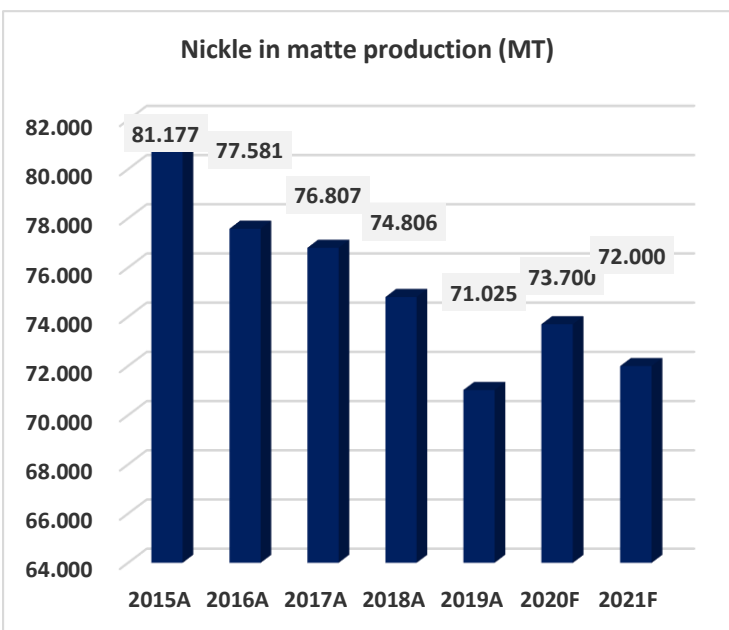


Chart: Nickle in matte sales volume deliveries (MT) yoy

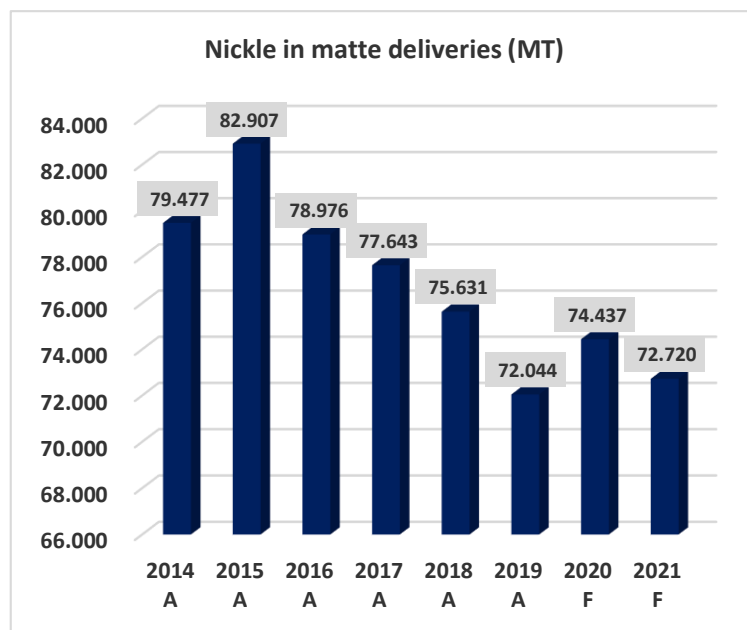


Chart: Cash cost/ton yoy

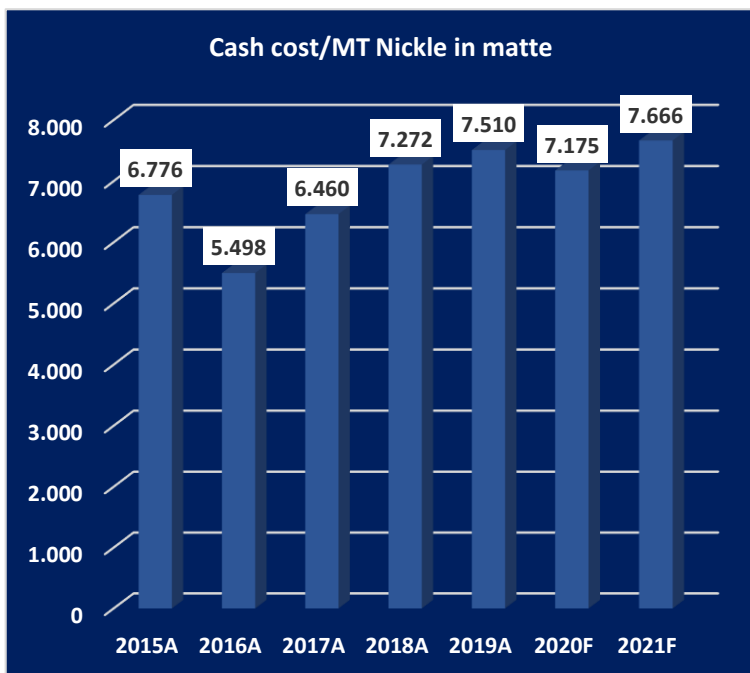
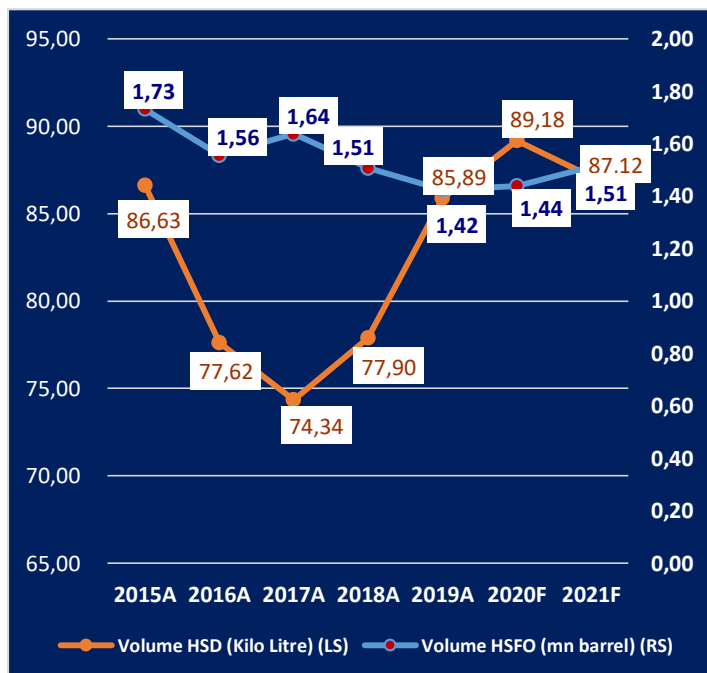


Chart: HSFO vs HSD volume yoy



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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	328	437
restricted cash	30	16	16	0	10	10
short term investment	0	0	0	0	0	0
Trade Account Receivable	147	166	124	107	86	82
inventory	130	118	132	148	140	99
Other current asset	107	76	58	84	148	51
Current Asset	599	597	631	588	713	679
Net Fixed Asset	1.533	1.494	1.435	1.467	1.533	1.623
other long term asset	94	94	137	167	148	171
Total non current Asset	1.626	1.588	1.571	1.634	1.681	1.794
Total Asset	2.225	2.185	2.202	2.223	2.394	2.473
Trade Account Payable	64	61	95	97	113	105
Other Short term liabilities	68	68	80	39	91	103
Total current liabilities	132	129	175	137	204	208
Long term borrowings	73	36	0	0	0	0
Provision for asset retirement	52	75	38	44	58	68
Other Long term liabilities	134	125	106	100	148	111
Total long term/ non current liabilities	259	236	143	144	206	179
Total Liabilities	391	365	319	281	410	387
Total Equities	1.835	1.819	1.884	1.942	1.984	2.086
Total Liabilities and equity	2.225	2.185	2.202	2.223	2.394	2.473

Cash Flow (US\$.mn)

Cash Flow (US\$ in mn)	2016A	2017A	2018A	2019A	2020F	2021F
+ Net Income	2	(15)	61	57	107	102
Depreciation	123	127	129	132	135	141
- Change in WC	(30)	36	92	(48)	22	147
Cash From Operating Activities	95	147	281	141	264	389
capex	(53)	(88)	(70)	(165)	(200)	(231)
other non current asset	(3)	(0)	(43)	(30)	19	(22)
Cash from investing activities	(56)	(88)	(113)	(195)	(182)	(254)
Long term borrowing	(37)	(37)	(36)	0	0	0
Provision for asset retirement	(6)	23	(37)	7	13	11
other long term liabilities	(5)	(9)	(19)	(5)	48	(37)
Equity	(1)	0	4	1	(65)	(0)
cash from financing activities	(49)	(23)	(89)	2	(3)	(27)
Net Changes in Cash	(9)	36	79	(52)	79	109
Beginning Balance	195	186	222	301	249	328
Ending balance	186	222	301	249	328	437

Ratio Highlight

Ratio Highlights	2016 A	2017 A	2018 A	2019 A	2020 F	2021 F
Growth (% YoY)						
Sales	-26%	8%	23%	1%	5%	4%
OP	-82%	-206%	-658%	4%	73%	-5%
EBITDA	-31%	-19%	92%	4%	30%	-1%
NP	-96%	-901%	-496%	-5%	87%	-5%
EPS	-96%	-901%	-496%	-5%	87%	-5%
Profitability (%)						
Operating Margin	2%	-2%	11%	11%	18%	17%
EBITDA margin	24%	18%	28%	28%	35%	34%
NET Profit margin	0,33%	-2,43%	7,79%	7,34%	13,01%	11,90%
ROA	0,09%	-0,70%	2,75%	2,58%	4,48%	4,11%
ROE	0,10%	-0,84%	3,21%	2,96%	5,41%	4,88%
Solvability (x)						
Tot. debt/ Tot. Equity (x)	0,21	0,20	0,17	0,14	0,21	0,19
Liquidity						
Current Ratio (X)	4,54	4,62	3,60	4,31	3,50	3,27
Per Share data (USD)						
EPS	0,0002	(0,0015)	0,0061	0,0058	0,0108	0,0102
BVS	0,185	0,183	0,190	0,195	0,200	0,210

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
(62-21) 520-6678 ext.612**

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