

Investment Consideration

Maintaining production

INCO is maintaining their production volume target at 71,000 MT of nickle in matte. As we mentioned previously, the decrease in 2019's production is due to maintenance activities over the Larona Canal Lining and electric furnace no. 4. INCO will revamp furnace no. 4 later in 4Q20 for 5 months. Last year's lower production volume was offset by a 6% yoy or 21% qoq increase in the average realized price which led revenue to grow at +1% yoy or 29% qoq. We expect the 2020F average realized price will be affected by the corona virus outbreak which will mean weaker global nickle prices compared to our previous forecast. The implementation of a nickel ore export ban which starts in 2020 may help. This year INCO will also continue to work on their cost efficiency. As a result, we have adjusted our revenue forecast for 2019 and 2020 to US\$794 mn and US\$854 mn respectively.

Progress on divestment

On October 14, 2019, INCO along with Vale Canada Limited (VCL) and Sumitomo Metal Mining Co. Ltd. (SMM) signed a preliminary agreement with PT Indonesia Asahan Alumunium (Persero) or Inalum. All parties agreed to extend the signing deadline for the definitive agreements to the end of 1Q20.

Progress on expansion

The Bahodopi and Pomala projects are expected to come to an investment decision by the end of 2020. Unfortunately the process of securing AMDAL permit and other business license for the future Bahodapi plant where INCO plans to process Saprolite nickel ore (i.e. main ingredient of stainless steel), is likely to be delayed as their chosen partner from China is affected by the current coronavirus outbreak. Meanwhile the AMDAL permit for the Pomala location was scheduled to be received in January 2020. With Sumitomo Metal Mining, INCO will build a plant to process Limonite nickel ore which will be the main ingredient for electric vehicle batteries. Last but not least, the final feasibility study on the Sorowako plant which will increase the Company's capacity to 90k, is expected to be completed this year.

Valuation:55% upside

We downgrade our TP within one year to Rp3,810. With 55% upside, our recommendation remains BUY.

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)	(675)	(716)
Gross Profit	34	7	104	116	119	138
Operating expense	(20)	(22)	(19)	(28)	(24)	(26)
Operating Profit	14	(15)	85	88	95	112
Other income	(9)	(8)	(2)	1	1	1
Pretax income(PBT)	5	(23)	83	89	96	113
taxes	(3)	8	(22)	(32)	(29)	(34)
Net Profit	2	(15)	61	57	67	79
EPS	0.0002	(0.0015)	0.0061	0.0058	0.0068	0.0080
EBITDA	138	111	214	222	232	255

2 March 2020
Nickle Mining, Equity

Price IDR 2450
Target Price IDR 3810
JKSE Index 5452.70



Stock Code INCO IJ
Bloomberg code INCO IJ
Market cap (IDR.bn) 28318.6
52-Week High (IDR) 4320
52-Week Low (IDR) 2410
6-m Avg Daily. Val (IDR) 3446
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 14446
2020F (Avg) 13879

Key Indicators 2020F
ROE (%) 3.47
Total Debt/ Equity (x) 0.19
Current ratio (x) 3.32

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

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 2019FY**

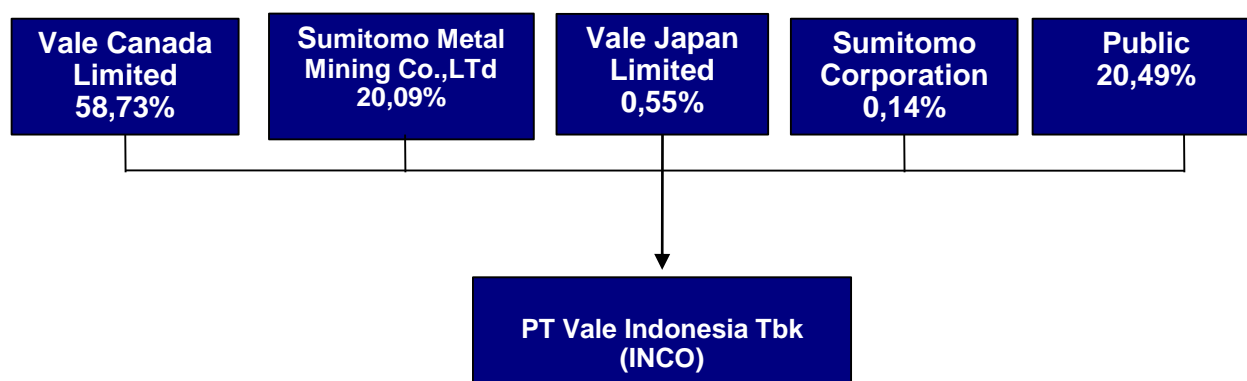


Chart: Nickle in matte production (MT) yoy

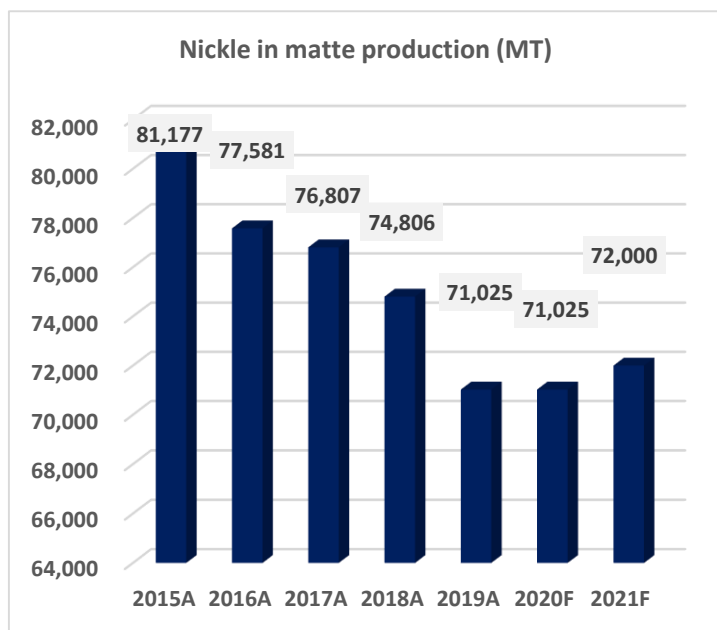


Chart: Nickle in matte sales volume deliveries (MT) yoy

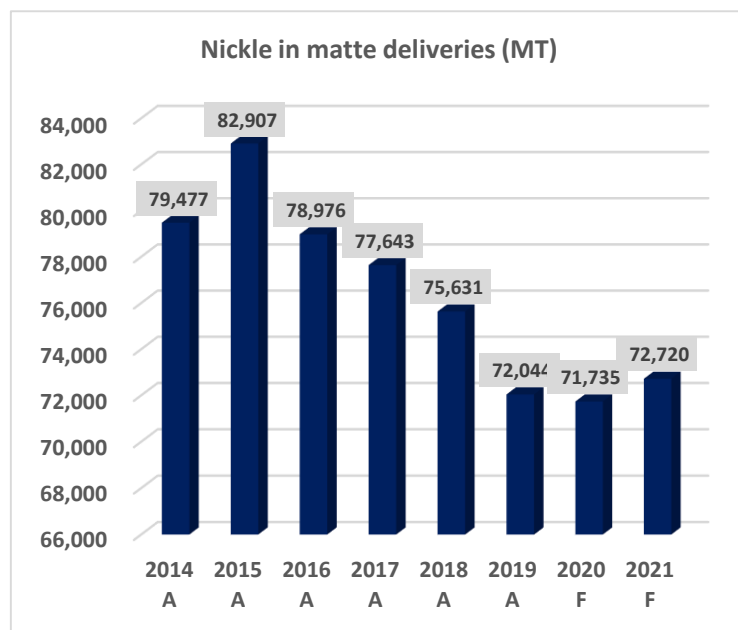


Chart: Cash cost/ton yoy

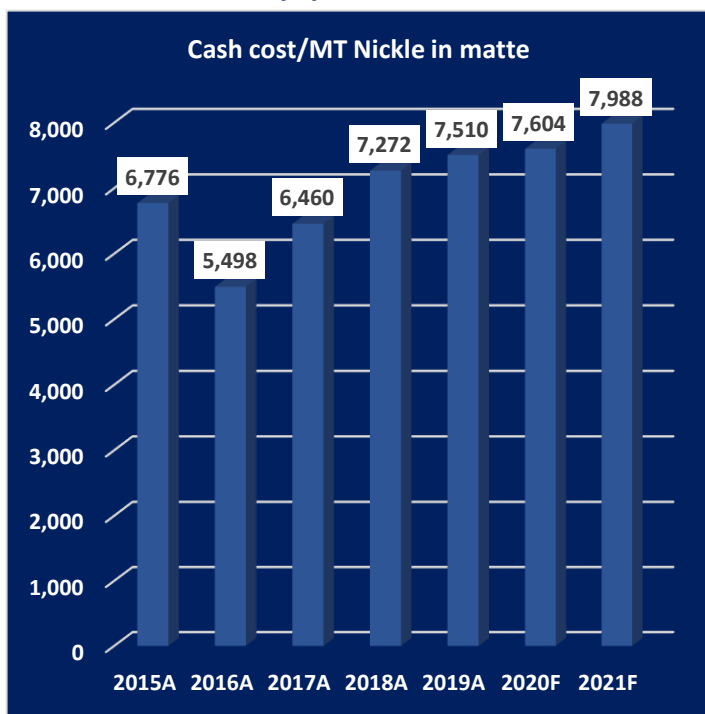
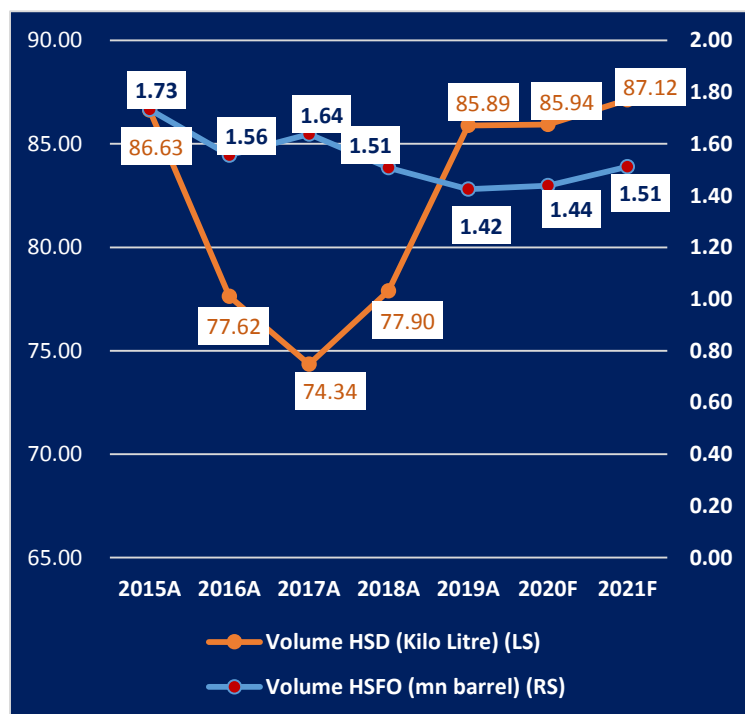


Chart: HSFO vs HSD volume yoy



Profit and Loss (US\$ in mn)

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)	(675)	(716)
Gross Profit	34	7	104	116	119	138
Operating expense	(20)	(22)	(19)	(28)	(24)	(26)
Operating Profit	14	(15)	85	88	95	112
Other income	(9)	(8)	(2)	1	1	1
Pretax income(PBT)	5	(23)	83	89	96	113
taxes	(3)	8	(22)	(32)	(29)	(34)
Net Profit	2	(15)	61	57	67	79
EPS	0.0002	(0.0015)	0.0061	0.0058	0.0068	0.0080
EBITDA	138	111	214	222	232	255

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	349	322
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	129	137
Other current asset	107	76	58	84	56	60
Current Asset	599	597	631	588	643	635
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	2,318	2,412
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	1,944	2,023
Total Liabilities and equity	2,225	2,185	2,202	2,223	2,318	2,412

Cash Flow (US\$.mn)

Cash Flow (US\$ in mn)	2016A	2017A	2018A	2019A	2020F	2021F
+ Net Income	2	(15)	61	57	67	79
Depreciation	123	127	129	132	135	141
- Change in WC	(30)	36	92	(48)	103	(17)
Cash From Operating Activities	95	147	281	141	305	204
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)	100	(27)
Beginning Balance	195	186	222	301	249	349
Ending balance	186	222	301	249	349	322

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%	8%	18%
EBITDA	-31%	-19%	92%	4%	4%	10%
NP	-96%	-901%	-496%	-5%	17%	18%
EPS	-96%	-901%	-496%	-5%	17%	18%
Profitability (%)						
Operating Margin	2%	-2%	11%	11%	12%	13%
EBITDA margin	24%	18%	28%	28%	29%	30%
NET Profit margin	0.33%	-2.43%	7.79%	7.34%	8.48%	9.28%
ROA	0.09%	-0.70%	2.75%	2.58%	2.91%	3.29%
ROE	0.10%	-0.84%	3.21%	2.96%	3.47%	3.92%
Solvability						
Tot. debt/ Tot. Equity (x)	0.21	0.20	0.17	0.14	0.19	0.19
int coverage (x)	1.57	(1.95)	39.43	201.57	182.90	208.40
Liquidity						
Current Ratio (X)	4.54	4.62	3.60	4.31	3.32	3.24
Per Share data (USD)						
EPS	0.0002	(0.0015)	0.0061	0.0058	0.0068	0.0080
BVS	0.185	0.183	0.190	0.195	0.196	0.204

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

Disclaimer; PT Binaartha Sekuritas has compiled this report in good faith, using information believed to be reliable. PT Binaartha and its analyst take no responsibility for the accuracy of the information contained in this report. This report has been produced for distribution to clients of PT Binaartha Sekuritas only. This report is not an invitation to buy or sell any security. PT Binaartha Sekuritas may have used the information in this report prior to publication. The company or its clients may have positions in or may from time to time buy or sell the securities mentioned in this report or other related securities.