

### Investment Consideration

#### Lower production target

INCO is lowering their production volume target to 65,000 MT of nickel in matte in 2022 or slightly higher than 2021's production volume estimate of 64,497 MT. The decrease in 2022's production is due to maintenance (rebuild) of electric furnace no. 4 which was delayed from 2021. Lower 20/1 production volume of 13% yoy was also caused by furnace maintenance. This lower production volume was offset by a 38% yoy increase in the average price which led revenue to grow +20% yoy. We expect 2022F average price will likely weaken as supply will exceed demand but the potential implementation of a nickel ore export ban may help. INCO will also continue to work on cost efficiency. As a result, we have adjusted our revenue forecasts for 2021-2022 to US\$945 mn and US\$1018 mn respectively.

#### Progress on expansion

The Bahodopi and Pomala projects are expected to have come to an investment decision by the end of 2021. The future Bahodopi plant where INCO plans to process Saprolite nickel ore (a main ingredient of stainless steel), is estimated to have reached the final investment decision (FID) with their chosen partner from China. Meanwhile the AMDAL permit for the Pomala location is targeted to be received in 2022.

#### Valuation: 1.33% upside

We downgrade our TP within one year to IDR. 4,570. With 1.33% upside, our recommendation is HOLD.

| Profit and Loss (USD.mn)  | 2018 A     | 2019 A     | 2020 A     | 2021 F     | 2022 F       | 2023 F       |
|---------------------------|------------|------------|------------|------------|--------------|--------------|
| <b>Revenues</b>           | <b>777</b> | <b>782</b> | <b>765</b> | <b>945</b> | <b>1,019</b> | <b>1,110</b> |
|                           | (673)      | (666)      | (640)      | (745)      | (584)        | (720)        |
| <b>COGS</b>               |            |            |            |            |              |              |
| <b>Gross Profit</b>       | <b>104</b> | <b>116</b> | <b>124</b> | <b>200</b> | <b>435</b>   | <b>390</b>   |
| Operating expense         | (19)       | (28)       | (21)       | (9)        | (10)         | (11)         |
| <b>Operating Profit</b>   | <b>85</b>  | <b>88</b>  | <b>104</b> | <b>190</b> | <b>425</b>   | <b>379</b>   |
| Other income              | (2)        | 1          | 1          | 1          | 1            | 1            |
| <b>Pretax income(PBT)</b> | <b>83</b>  | <b>89</b>  | <b>105</b> | <b>191</b> | <b>426</b>   | <b>380</b>   |
| taxes                     | (22)       | (32)       | (22)       | (57)       | (128)        | (114)        |
| <b>Net Profit</b>         | <b>61</b>  | <b>57</b>  | <b>83</b>  | <b>134</b> | <b>298</b>   | <b>266</b>   |
| EPS                       | 0.0061     | 0.0058     | 0.0083     | 0.0135     | 0.0300       | 0.0268       |
| <b>EBITDA</b>             | <b>214</b> | <b>222</b> | <b>257</b> | <b>350</b> | <b>426</b>   | <b>380</b>   |

7 January 2022  
Nickle Mining, Equity

Price IDR 4510  
Target Price IDR 4570  
JKSE Index 6701.32



Stock Code  
Bloomberg code INCO IJ  
Market cap (IDR.bn) 46200  
52-Week High (IDR) 7100  
52-Week Low (IDR) 4110  
6-m Avg Daily. Val (IDR) 4507  
Free Float (%) 20.49

Major Shareholders (%)  
Vale Canada Ltd 43.79%  
Sumitomo Metal Mining Ltd 15.03%  
Vale japan Ltd 0.55%  
Sumitomo Corp 0.14%  
PT Indonesia Asahan Aluminium (Persero) 20.00  
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

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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**

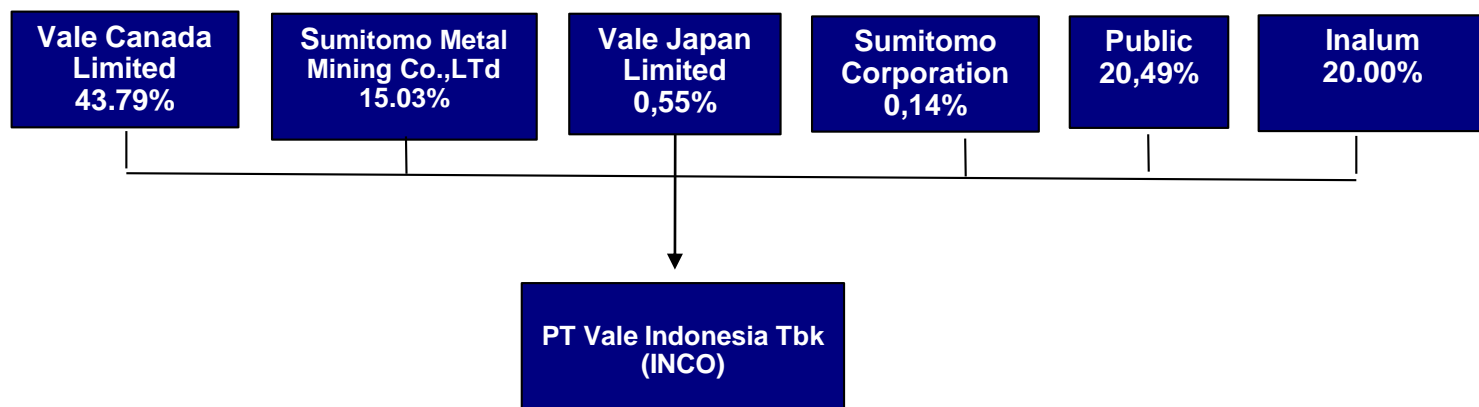


Chart: Nickle in matte production (MT) yoy

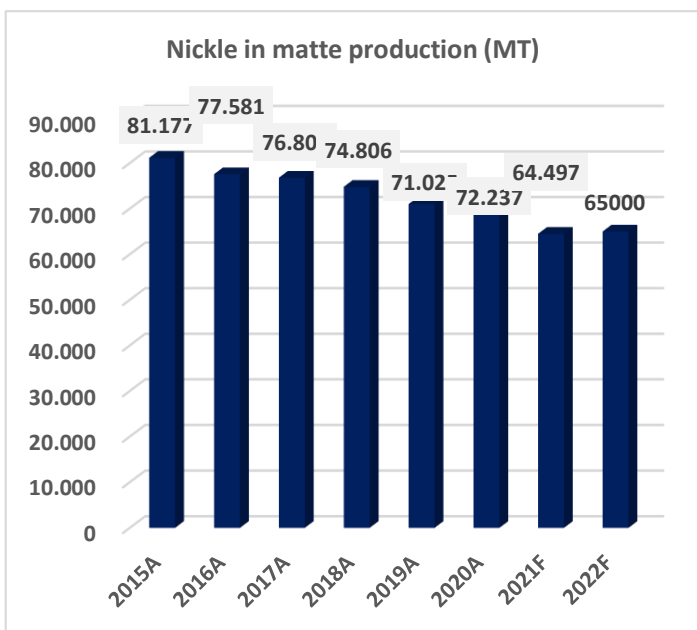


Chart: Nickle in matte sales volume deliveries (MT) yoy

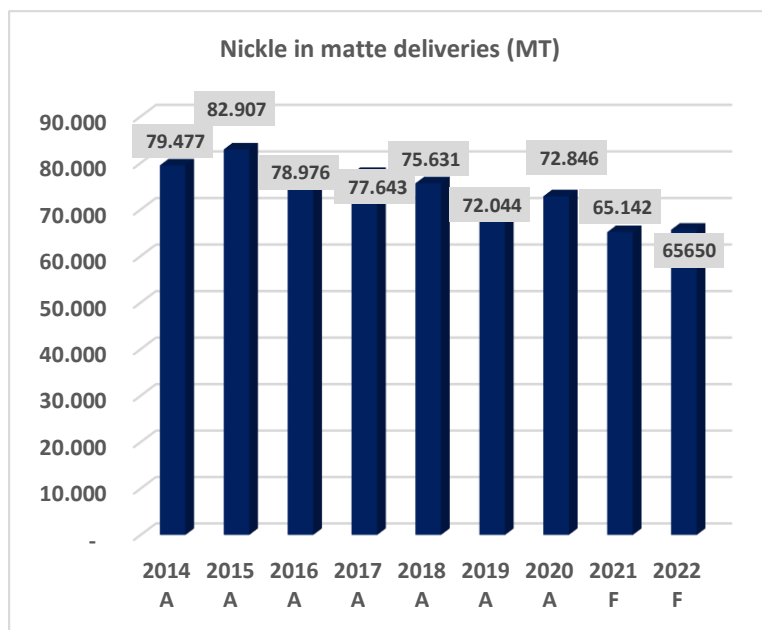


Chart: Cash cost/ton yoy

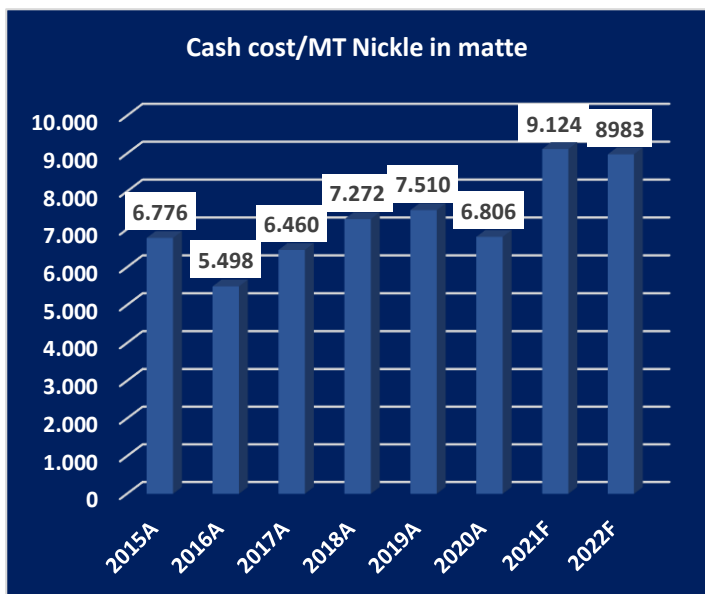
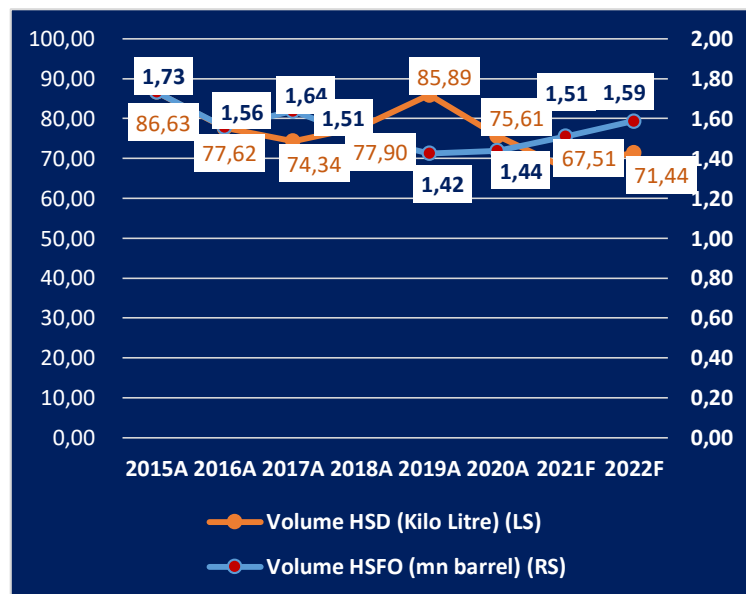


Chart: HSFO vs HSD volume yoy



Profit and Loss (US\$ in mn)

| Profit and Loss (USD.mn)  | 2018 A     | 2019 A     | 2020 A     | 2021 F     | 2022 F     | 2023 F     |
|---------------------------|------------|------------|------------|------------|------------|------------|
| Revenues                  | 777        | 782        | 765        | 945        | 1,019      | 1,110      |
| COGS                      | (673)      | (666)      | (640)      | (745)      | (723)      | (771)      |
| <b>Gross Profit</b>       | <b>104</b> | <b>116</b> | <b>124</b> | <b>200</b> | <b>296</b> | <b>339</b> |
| Operating expense         | (19)       | (28)       | (21)       | (9)        | (10)       | (11)       |
| <b>Operating Profit</b>   | <b>85</b>  | <b>88</b>  | <b>104</b> | <b>190</b> | <b>285</b> | <b>328</b> |
| Other income              | (2)        | 1          | 1          | 1          | 1          | 1          |
| <b>Pretax income(PBT)</b> | <b>83</b>  | <b>89</b>  | <b>105</b> | <b>191</b> | <b>286</b> | <b>329</b> |
| taxes                     | (22)       | (32)       | (22)       | (57)       | (86)       | (99)       |
| <b>Net Profit</b>         | <b>61</b>  | <b>57</b>  | <b>83</b>  | <b>134</b> | <b>200</b> | <b>230</b> |
| EPS                       | 0.0061     | 0.0058     | 0.0083     | 0.0135     | 0.0202     | 0.0232     |
| <b>EBITDA</b>             | <b>214</b> | <b>222</b> | <b>257</b> | <b>350</b> | <b>286</b> | <b>329</b> |

Balance Sheet (US\$ in mn)

| Balance sheet (US\$ in mn)                      | 2018 A       | 2019 A       | 2020 A       | 2021 F       | 2022 F       | 2023 F       |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash and cash equivalent                        | 301          | 249          | 389          | 409          | 521          | 666          |
| restricted cash                                 | 16           | 0            | 10           | 0            | 0            | 0            |
| short term investment                           | 0            | 0            | 0            | 0            | 0            | 0            |
| Trade Account Receivable                        | 124          | 107          | 60           | 104          | 128          | 143          |
| inventory                                       | 132          | 148          | 144          | 184          | 159          | 152          |
| Other current asset                             | 58           | 84           | 93           | 57           | 71           | 78           |
| <b>Current Asset</b>                            | <b>631</b>   | <b>588</b>   | <b>696</b>   | <b>753</b>   | <b>880</b>   | <b>1,039</b> |
| Net Fixed Asset                                 | 1,435        | 1,467        | 1,479        | 1,517        | 1,601        | 1,689        |
| other long term asset                           | 137          | 167          | 140          | 180          | 183          | 200          |
| <b>Total non current Asset</b>                  | <b>1,571</b> | <b>1,634</b> | <b>1,619</b> | <b>1,697</b> | <b>1,784</b> | <b>1,889</b> |
| <b>Total Asset</b>                              | <b>2,202</b> | <b>2,223</b> | <b>2,315</b> | <b>2,450</b> | <b>2,664</b> | <b>2,928</b> |
| Trade Account Payable                           | 95           | 97           | 113          | 129          | 126          | 137          |
| Other Short term liabilities                    | 80           | 39           | 48           | 76           | 82           | 89           |
| <b>Total current liabilities</b>                | <b>175</b>   | <b>137</b>   | <b>161</b>   | <b>205</b>   | <b>207</b>   | <b>226</b>   |
| Long term borrowings                            | 0            | 0            | 0            | 0            | 0            | 0            |
| Provision for asset retirement                  | 38           | 44           | 57           | 66           | 71           | 78           |
| Other Long term liabilities                     | 106          | 100          | 77           | 85           | 92           | 100          |
| <b>Total long term/ non current liabilities</b> | <b>143</b>   | <b>144</b>   | <b>134</b>   | <b>151</b>   | <b>163</b>   | <b>178</b>   |
| <b>Total Liabilities</b>                        | <b>319</b>   | <b>281</b>   | <b>294</b>   | <b>356</b>   | <b>370</b>   | <b>403</b>   |
| <b>Total Equities</b>                           | <b>1,884</b> | <b>1,942</b> | <b>2,020</b> | <b>2,093</b> | <b>2,294</b> | <b>2,524</b> |
| <b>Total Liabilities and equity</b>             | <b>2,202</b> | <b>2,223</b> | <b>2,315</b> | <b>2,450</b> | <b>2,664</b> | <b>2,928</b> |

Cash Flow (US\$.mn)

| Cash Flow (US\$ in mn)                | 2018A        | 2019A        | 2020F        | 2021F        | 2022F        | 2023F        |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| + Net Income                          | 61           | 57           | 83           | 134          | 200          | 230          |
| Depreciation                          | 129          | 132          | 149          | 157          | 140          | 147          |
| - Change in WC                        | 92           | (48)         | 56           | 8            | (12)         | 4            |
| <b>Cash From Operating Activities</b> | <b>281</b>   | <b>141</b>   | <b>288</b>   | <b>298</b>   | <b>328</b>   | <b>382</b>   |
| capex                                 | (70)         | (165)        | (160)        | (195)        | (223)        | (236)        |
| other non current asset               | (43)         | (30)         | 27           | (40)         | (4)          | (16)         |
| <b>Cash from investing activities</b> | <b>(113)</b> | <b>(195)</b> | <b>(133)</b> | <b>(235)</b> | <b>(227)</b> | <b>(252)</b> |
| Long term borrowing                   | (36)         | 0            | 0            | 0            | 0            | 0            |
| Provision for asset retirement        | (37)         | 7            | 12           | 10           | 5            | 6            |
| other long term liabilities           | (19)         | (5)          | (23)         | 8            | 7            | 8            |
| Equity                                | 4            | 1            | (4)          | (61)         | 0            | 0            |
| <b>cash from financing activities</b> | <b>(89)</b>  | <b>2</b>     | <b>(15)</b>  | <b>(43)</b>  | <b>12</b>    | <b>15</b>    |
| Net Changes in Cash                   | 79           | (52)         | 140          | 20           | 113          | 144          |
| <b>Beginning Balance</b>              | <b>222</b>   | <b>301</b>   | <b>249</b>   | <b>389</b>   | <b>409</b>   | <b>521</b>   |
| <b>Ending balance</b>                 | <b>301</b>   | <b>249</b>   | <b>389</b>   | <b>409</b>   | <b>521</b>   | <b>666</b>   |

Ratio Highlight

| Ratio Highlight             | 2018 A | 2019 A | 2020 A | 2021 F | 2022 F | 2023 F |
|-----------------------------|--------|--------|--------|--------|--------|--------|
| <b>Growth (% YoY)</b>       |        |        |        |        |        |        |
| Sales                       | 23%    | 1%     | -2%    | 24%    | 8%     | 9%     |
| OP                          | -658%  | 4%     | 18%    | 83%    | 50%    | 15%    |
| EBITDA                      | 92%    | 4%     | 16%    | 36%    | -17%   | 15%    |
| NP                          | -496%  | -5%    | 44%    | 62%    | 50%    | 15%    |
| EPS                         | -496%  | -5%    | 44%    | 62%    | 50%    | 15%    |
| <b>Profitability (%)</b>    |        |        |        |        |        |        |
| Operating Margin            | 11%    | 11%    | 14%    | 20%    | 28%    | 30%    |
| EBITDA margin               | 28%    | 28%    | 34%    | 37%    | 28%    | 30%    |
| NET Profit margin           | 7.79%  | 7.34%  | 10.83% | 14.17% | 19.67% | 20.75% |
| ROA                         | 2.75%  | 2.58%  | 3.58%  | 5.47%  | 7.52%  | 7.87%  |
| ROE                         | 3.21%  | 2.96%  | 4.10%  | 6.40%  | 8.74%  | 9.13%  |
| <b>Solvability</b>          |        |        |        |        |        |        |
| Tot. debt/ Tot. Equity (x)  | 0.17   | 0.14   | 0.15   | 0.17   | 0.16   | 0.16   |
| int coverage (x)            | 39.43  | 201.57 | 28.21  | 93.25  | 97.71  | 119.89 |
| <b>Liquidity</b>            |        |        |        |        |        |        |
| Current Ratio (X)           | 3.60   | 4.31   | 4.33   | 3.67   | 4.25   | 4.60   |
| <b>Per Share data (USD)</b> |        |        |        |        |        |        |
| EPS                         | 0.0061 | 0.0058 | 0.0083 | 0.0135 | 0.0202 | 0.0232 |
| BVS                         | 0.190  | 0.195  | 0.203  | 0.211  | 0.231  | 0.254  |

**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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