

22 November 2019
Nickle Mining, Equity

Price IDR 3330
Target Price IDR 4220
JKSE Index 6117.364



Stock Code
Bloomberg code INCO IJ
Market cap (IDR.bn) 35870.2
52-Week High (IDR) 4320
52-Week Low (IDR) 2410
6-m Avg Daily. Val (IDR) 3258
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
2018A 14018
2019F (Avg) 14390

Key Indicators 2020F
ROE (%) 2.94
Total Debt/ Equity (x) 0.24
Current ratio (x) 2.52

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Investment Consideration

Lower production

We lower our 2019F nickel production target to 69000 MT from a previous target of 77,000 MT, in line with INCO's 9M19 production of 50,531 MT (-7% YoY). We also revise our 2019F production volume target to 71,000 MT. The decrease in production is due to maintenance on one of the PLTUs in 2019 and INCO plans to do maintenance on furnace no. 4 later in 4Q20 which will last for 5 months. Despite volume decline, the ASP (average selling price) increased in line with rising global nickel prices. INCO's average realized price jumped 9.6% QoQ to US\$10,712/MT in 3Q19. This had positive impact on revenue which grew +29.2% QoQ in 3Q19. We believe 2020F ASP will rise further because of the nickle ore export ban which will start early 2020 and will likely lead to an increase in global nickle prices. As a result, we have adjusted our revenue forecast for 2019 and 2020 to US\$773.5 mn and US\$935.5 mn respectively.

Progress on divestment

On October 11, 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 plan to sign definitive agreements and complete the sale by the end of 2019. The entire transaction will then be completed within 6 months, or by June 2020 once the definitive agreements are signed.

Progress on expansion

The Bahodopi and Pomala projects are both still at the environmental (AMDAL) and other business permits stage. In Bahodopi, INCO will build a FeNi plant to process Saprolite nickel ore which is a main ingredient of stainless steel. INCO has been chosen as a partner by China for this plant and is at the final stage of commercial negotiation. In Pomala, INCO and Sumitomo Metal Mining will build a plant to process Limonite nickel ore which will be the main ingredient for electric vehicle batteries.

Valuation: 27% upside

We downgrade our TP within one year to Rp4220/share with 27% upside. Our recommendation remains BUY.

Profit and Loss (USD.mn)	2017 A	2018 A	2019 F	2020 F	2021 F
Revenues	629	777	773	935	999
COGS	(623)	(673)	(725)	(810)	(847)
Gross Profit	7	104	49	126	152
Operating expense	(22)	(19)	(23)	(28)	(30)
Operating Profit	(15)	85	26	98	122
Other income	(8)	(2)	(15)	(19)	(20)
Pretax income(PBT)	(23)	83	10	79	102
taxes	8	(22)	(3)	(24)	(31)
Net Profit	(15)	61	7.04	55	71
EPS	(0.0015)	0.0061	0.0007	0.0056	0.0072
EBITDA	111	218	144	220	250

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 all 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:

- I. 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).
- II. 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.
- III. 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:

- 1) The ability to apply for extensions through Business Licenses up to 2045,
- 2) 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

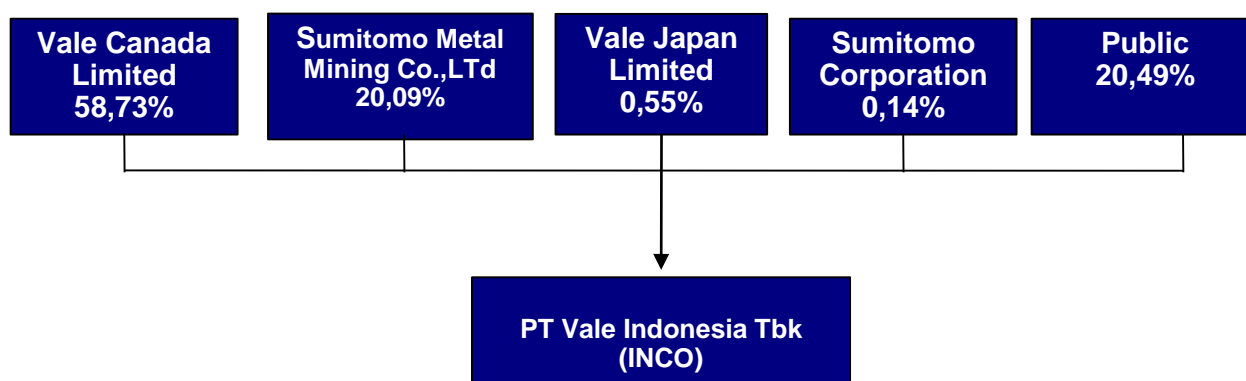


Chart: Nickle in matte production (MT) yoy

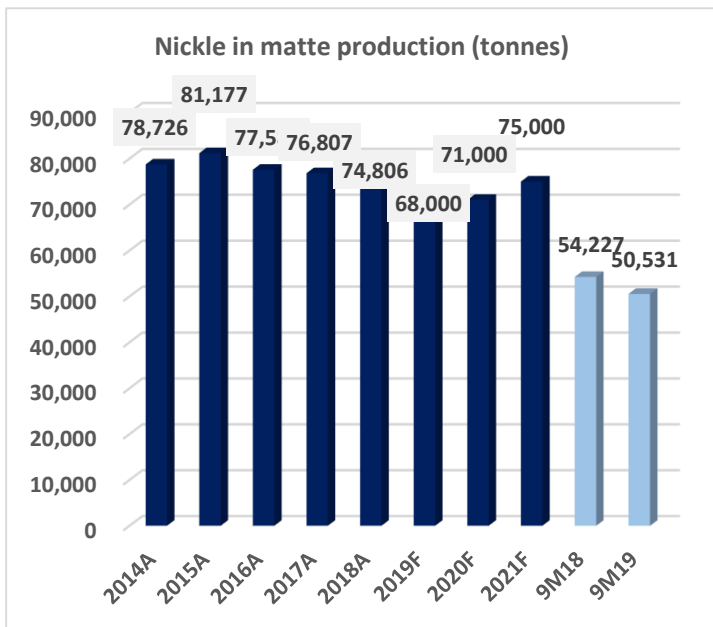


Chart: Nickle in matte sales volume deliveries (MT) yoy

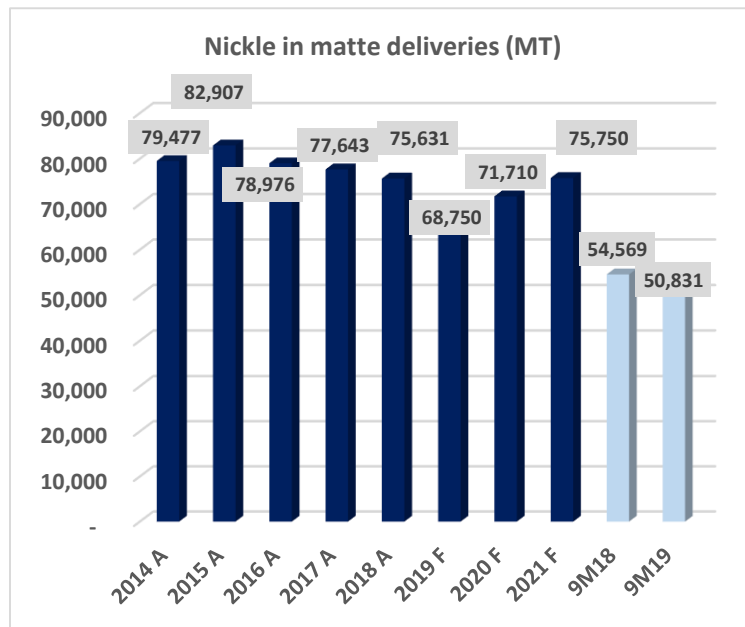


Chart: Average realized price of Nickle in matte (USD/MT)

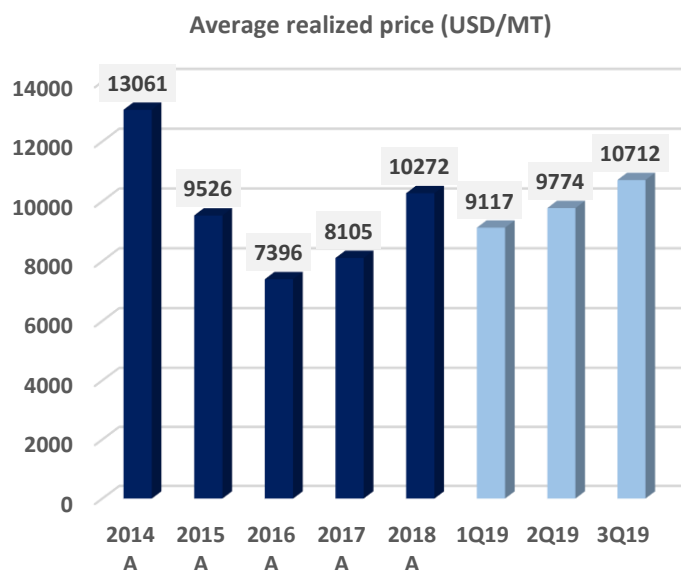
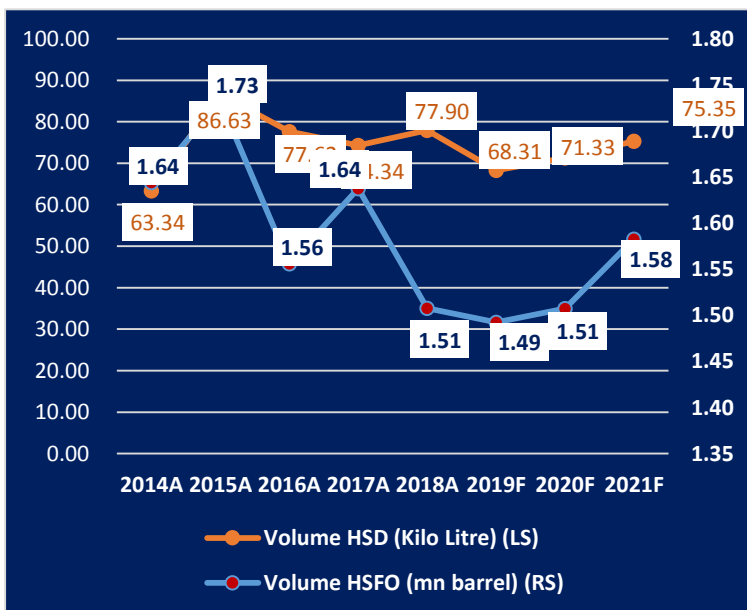


Chart: HSFO vs HSD volume yoy



Profit and Loss (US\$ in mn)

Profit and Loss (USD.mn)	2016 A	2017 A	2018 A	2019 F	2020 F	2021 F
Revenues	584	629	777	773	935	999
COGS	(550)	(623)	(673)	(725)	(810)	(847)
Gross Profit	34	7	104	49	126	152
Operating expense	(20)	(22)	(19)	(23)	(28)	(30)
Operating Profit	14	(15)	85	26	98	122
Other income	(9)	(8)	(2)	(15)	(19)	(20)
Pretax income(PBT)	5	(23)	83	10	79	102
taxes	(3)	8	(22)	(3)	(24)	(31)
Net Profit	2	(15)	61	7.04	55	71
EPS	0.0002	(0.0015)	0.0061	0.0007	0.0056	0.0072
EBITDA	138	111	218	144	220	250

Balance Sheet (US\$ in mn)

Balance sheet (US\$ in mn)	2015 A	2016 A	2017 A	2018 A	2019 F	2020 F	2021 F
Cash and cash equivalent	195	186	222	301	204	293	253
restricted cash	28	30	16	16	10	10	10
short term investment	90	0	0	0	0	0	0
Trade Account Receivable	78	147	166	124	106	115	123
inventory	104	130	118	132	179	155	162
Other current asset	100	107	76	58	62	65	70
Current Asset	595	599	597	631	561	639	619
Net Fixed Asset	1,603	1,533	1,494	1,435	1,469	1,554	1,643
other long term asset	91	94	94	137	139	150	140
Total non current Asset	1,694	1,626	1,588	1,571	1,609	1,704	1,783
Total Asset	2,289	2,225	2,185	2,202	2,169	2,343	2,402
Trade Account Payable	86	64	61	91	95	141	109
Other Short term liabilities	63	68	68	84	85	112	120
Total current liabilities	148	132	129	175	180	253	229
Long term borrowings	110	73	36	0	0	30	30
Provision for asset retirement	58	52	75	38	54	47	50
Other Long term liabilities	139	134	125	106	108	131	140
Total long term/ non current liabilities	307	259	236	143	162	208	220
Total Liabilities	455	391	365	319	343	461	449
Total Equities	1,834	1,835	1,819	1,884	1,826	1,882	1,953
Total Liabilities and equity	2,289	2,225	2,185	2,202	2,169	2,343	2,402

Cash Flow (US\$.mn)

Cash Flow (US\$ in mn)	2015A	2016A	2017A	2018A	2019F	2020F	2021F
+ Net Income	51	2	(15)	61	7	55	71
Depresiasi+amortization	121	123	127	129	128	132	140
- Change in WC	(141)	(30)	36	92	(22)	83	(43)
Cash From Operating Activities	31	95	147	281	114	271	168
capex	(116)	(53)	(88)	(70)	(163)	(217)	(229)
other non current asset	13	(3)	(0)	(43)	(2)	(10)	10
Cash from investing activities	(103)	(56)	(88)	(113)	(165)	(227)	(219)
Long term borrowing		(37)	(37)	(36)	0	30	0
Provision for asset retirement		(6)	23	(37)	16	(7)	3
other long term liabilities		(5)	(9)	(19)	3	23	9
Equity		(1)	0	4	(64)	(0)	(0)
cash from financing activities		(49)	(23)	(89)	(45)	45	12
Net Changes in Cash		(9)	36	79	(97)	89	(40)
Beginning Balance		195	186	222	301	204	293
Ending balance	195	186	222	301	204	293	253

Ratio Highlight

	2015 A	2016 A	2017 A	2018 A	2019 F	2020 F	2021 F
Growth (% YoY)							
Sales	-24%	-26%	8%	23%	0%	21%	7%
OP	-68%	-82%	-206%	-658%	-70%	283%	24%
EBITDA	-46%	-31%	-19%	96%	-34%	53%	14%
NP	-71%	-96%	-901%	-496%	-88%	686%	29%
EPS	-71%	-96%	-901%	-496%	-88%	686%	29%
Profitability (%)							
Operating Margin	10%	2%	-2%	11%	3%	10%	12%
EBITDA margin	25%	24%	18%	28%	19%	24%	25%
NET Profit margin	6%	0.33%	-2.43%	7.79%	0.91%	5.92%	7.13%
ROA	2%	0.09%	-0.70%	2.75%	0.32%	2.36%	2.97%
ROE	3%	0.10%	-0.84%	3.21%	0.39%	2.94%	3.65%
Solvability							
Tot. debt/ Tot. Equity (x)	0.25	0.21	0.20	0.17	0.19	0.24	0.23
int coverage (x)	8.04	1.57	(1.95)	12.50	4.15	11.09	14.32
Liquidity							
Current Ratio (X)	4.01	4.54	4.62	3.60	3.11	2.52	2.70
Per Share data (USD)							
EPS	0.0051	0.0002	(0.0015)	0.0061	0.0007	0.0056	0.0072
BVS	0.185	0.185	0.183	0.190	0.184	0.189	0.197

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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