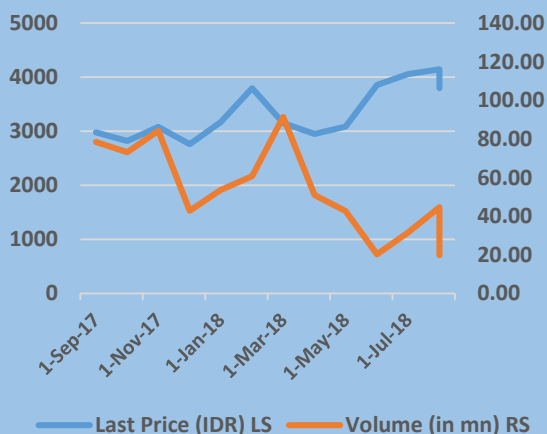


6 September 2018
Nickle Mining, Equity

Price IDR 3190
Target Price IDR 4500
JKSE Index 5683.50



Stock Code INCO IJ
Bloomberg code 35770
Market cap (IDR.bn) 4720
52-Week High (IDR) 2510
52-Week Low (IDR) 3681
6-m Avg Daily. Val (IDR) 20.49
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
2017A 13555
2018F (Avg) 14126

Key Indicators 2019F
ROE (%) 3.70
Total Debt/ Equity (x) 0.24
Current ratio (x) 3.56

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Investment Consideration

Production on track

We lower our nickel production target to 77,000 MT, in line with INCO's forecast, which is close to their 2017FY production of 76,807 MT. Despite a volume decline, the average price increased in line with rising global nickel prices. In 1H18 volume of nickel in matte production declined -3.47% to 36034 MT but was almost 50% of the annual target while nickel in matte deliveries also decreased -3.07% to 36003 MT. Average realized prices jumped 32.41% to 10.405 US\$/MT. As a result, we have adjusted our revenue forecast in 2018 – 2019F to USD. 829.35 mn and USD. 861.35 mn respectively.

Executing on cost competitiveness

INCO is on track to continue improving efficiency and reduce costs as can be seen in 1H18. After the commissioning of Coal conversion project 2 (CCP2) for reduction kiln #2 in April 2018, HSFO and diesel consumption decreased 3.3% and 2.2% respectively QoQ while coal consumption increased 2.6% QoQ in 2Q18. As of 1H18, cost of revenue per metric ton of nickel in matte was slightly lower compared to 1Q18 despite an increase in fuel prices in the quarter. We estimate cash cost per MT nickle in matte in 2018 will be 7292 US\$/MT or 13% yoy due to higher fuel and coal prices. We adjust our bottom line target in 2018-2019F to US\$. 65.9 mn and US\$. 72.3 mn respectively.

Progress on expansion projects

Progress on Bahodopi and Pomala projects is still at the feasibility study stage which is estimated to be completed in 4Q18 with further study planned in 2019. In Bahodopi, INCO will build a Fe Ni plant to process Saprolite nickel ore which is a main ingredient of Stainless Steel. In Pomala, a project is currently under study to process Limonite nickel ore which will become the main ingredient for electric vehicle batteries.

Valuation: 41% upside

With WACC of 10.52%, we have a one year TP of 4500 / share with 41% upside, our recommendation is BUY

Profit and Loss (USD.mn)	2015 A	2016 A	2017 A	2018 F	2019 F	2020 F
Revenues	790	584	629	829	861	927
COGS	(671)	(550)	(623)	(690)	(711)	(735)
Gross Profit	118	34	7	139	150	192
Operating expense	(39)	(20)	(22)	(29)	(30)	(32)
Operating Profit	80	14	(15)	111	121	160
Other income	(10)	(9)	(8)	(17)	(17)	(19)
Pretax income(PBT)	70	5	(23)	94	103	141
taxes	(19)	(3)	8	(28)	(31)	(42)
Net Profit	51	2	(15)	66	72	99
EPS	0.0051	0.0002	(0.0015)	0.0066	0.0073	0.0099
EBITDA	201	138	111	227	244	291

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 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 Dec 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 \$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

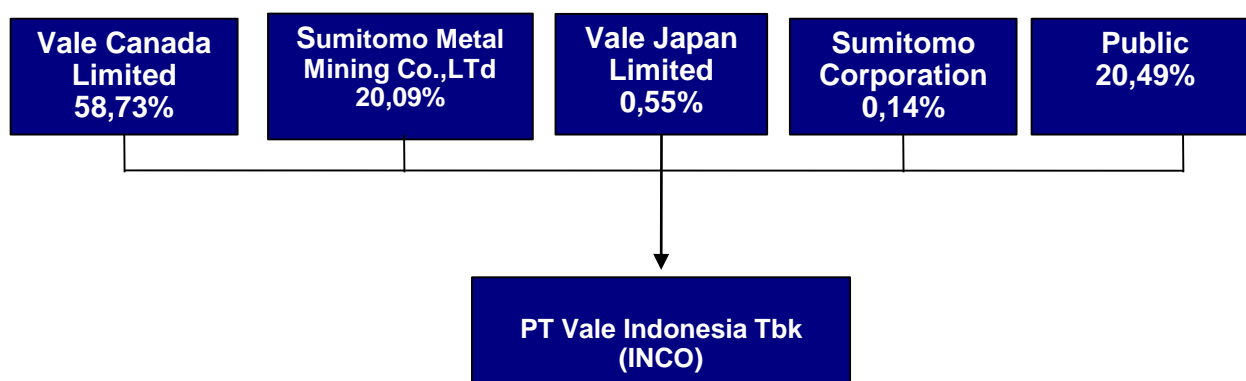


Chart: Nickle in matte production (MT) yoy

Nickle in matte production (tonnes)

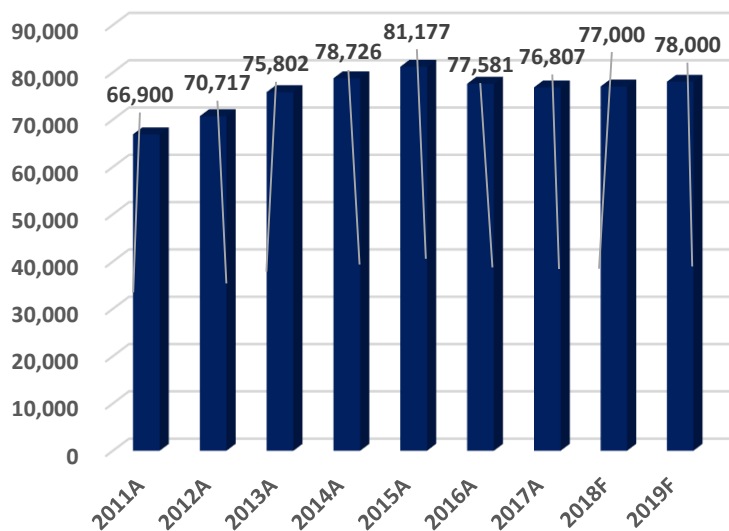


Chart: Nickle in matte sales volume deliveries (MT) yoy

Nickle in matte deliveries (tonnes)

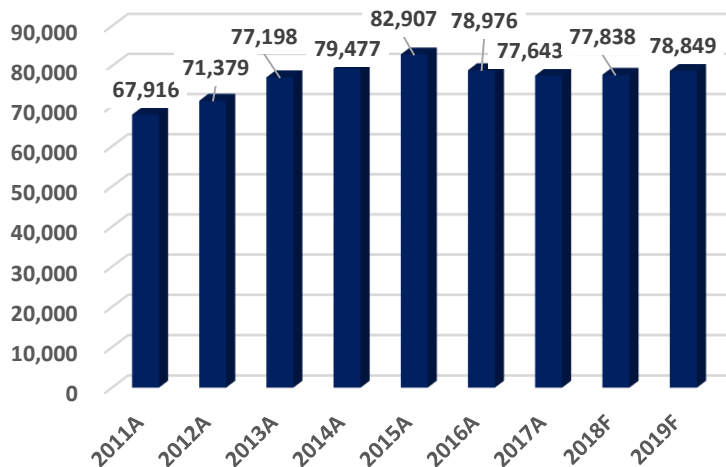


Chart: HSFO vs HSD volume yoy

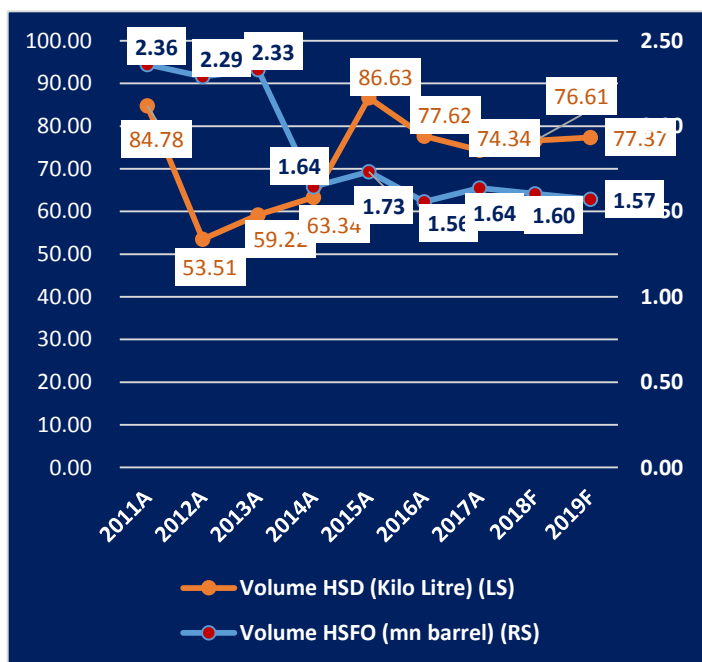
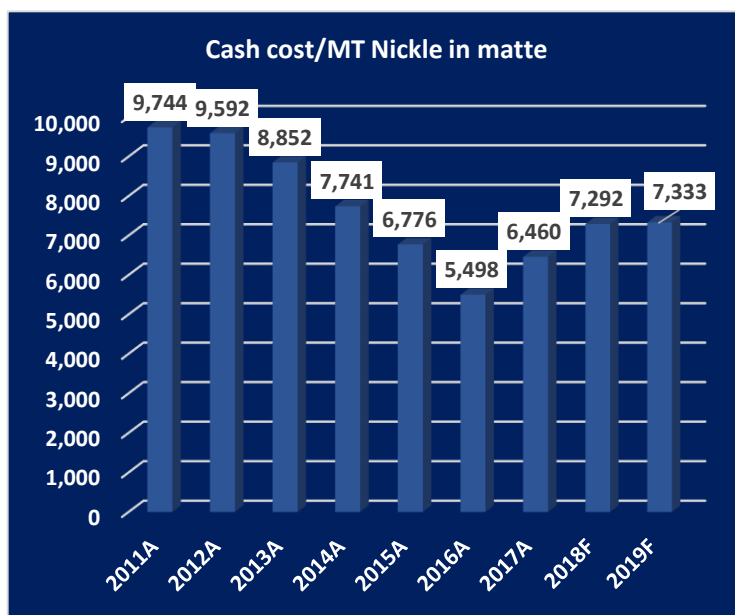


Chart: cost of revenue/MT nickle in matte

Cash cost/MT Nickle in matte



Profit and Loss (US\$ in mn)

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Balance Sheet (US\$ in mn)

Balance sheet (US\$ in mn)	2015A	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalent	195	186	222	191	132	139
restricted cash	28	30	16	4	10	10
short term investment	90	0	0	0	0	0
Trade Account Receivable	78	147	166	207	215	232
inventory	104	130	118	160	177	182
Other current asset	100	107	76	119	129	128
Current Asset	595	599	597	682	664	690
Net Fixed Asset	1,603	1,533	1,494	1,541	1,638	1,742
other long term asset	91	94	94	117	129	136
Total non current Asset	1,694	1,626	1,588	1,659	1,768	1,878
Total Asset	2,289	2,225	2,185	2,340	2,432	2,568
Trade Account Payable	86	64	61	80	83	90
Other Short term liabilities	63	68	68	100	103	111
Total current liabilities	148	132	129	180	187	201
Long term borrowings	110	73	36	18	12	14
Other Long term liabilities	197	186	200	257	276	297
Total long term/ non current liabilities	307	259	236	275	287	311
Total Liabilities	455	391	365	455	474	512
Total Equities	1,834	1,835	1,819	1,885	1,958	2,056
Total Liabilities and equity	2,289	2,225	2,185	2,340	2,432	2,568

Cash Flow (US\$.mn)

Cash Flow (US\$ in mn)	2015A	2016A	2017A	2018F	2019F	2020F
+ Net Income	51	2	(15)	66	72	99
Depresiasi+amortization	121	123	127	128	139	147
- Change in WC	(141)	(30)	36	(65)	(34)	(6)
Cash From Operating Activities	31	95	147	129	177	241
capex	(116)	(53)	(88)	(176)	(236)	(251)
other non current asset	13	(3)	(0)	(24)	(12)	(7)
	(103)	(56)	(88)	(200)	(248)	(257)
other long term liabilities	(34)	(48)	(23)	39	12	23
Equity	(2)	(1)	0	0	(0)	0
cash from financing activities	(36)	(49)	(23)	39	12	23
Net Changes in Cash	(108)	(9)	36	(31)	(58)	7
Beginning Balance	302	195	186	222	191	132
Ending balance	195	186	222	191	132	139

Ratio Highlight

	2015A	2016A	2017A	2018F	2019F	2020F
Growth (% YoY)						
Sales	-24%	-26%	8%	32%	4%	8%
OP	-68%	-82%	-206%	-828%	9%	32%
EBITDA	-46%	-31%	-19%	104%	8%	19%
NP	-71%	-96%	-901%	-532%	10%	37%
EPS	-71%	-96%	-901%	-532%	10%	37%
Profitability (%)						
Operating Margin	10%	2%	-2%	13%	14%	17%
EBITDA margin	25%	24%	18%	27%	28%	31%
NET Profit margin	6%	0.33%	-2.43%	7.95%	8.40%	10.66%
ROA	2%	0.09%	-0.70%	2.82%	2.97%	3.85%
ROE	3%	0.10%	-0.84%	3.50%	3.70%	4.80%
Solvability						
Tot. debt/ Tot. Equity (x)	0.25	0.21	0.20	0.24	0.24	0.25
int coverage (x)	8.04	1.57	(1.95)	25.95	60.28	79.82
Liquidity						
Current Ratio (X)	4.01	4.54	4.62	3.79	3.56	3.44
Per Share data (USD)						
EPS	0.0051	0.0002	(0.0015)	0.0066	0.0073	0.0099
BVS	0.185	0.185	0.183	0.190	0.197	0.207

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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