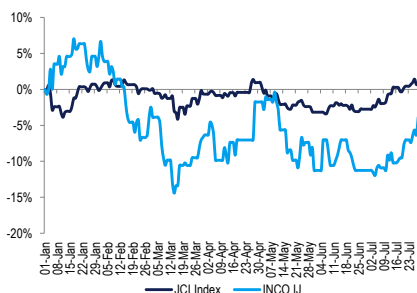


Stock Data

Target price	Rp7,950
Prior TP	Rp8,100
Current price	Rp6,825
Upside/downside	+16%
Shares outstanding (mn)	9,936
Market cap (Rp bn)	67,816
Free float	21%
Avg. 6m daily T/O (Rp bn)	41

Price Performance

	3M	6M	12M
Absolute	3.4%	-6.2%	10.5%
Relative to JCI	4.1%	-6.7%	11.3%
52w low/high (Rp)	5,775 – 7,600		



Major Shareholders

Vale Canada	43.8%
Indonesia Asahan Aluminium	20.0%
Sumitomo Metal mining	15.0%

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2Q23 results was dragged by nickel price; 1H23 was ahead of consensus

- 1H23 earnings was a slight miss to our estimates though in-line with consensus, as weaker ASP more than offset decline in cost.
- 2Q23 production volume were steady at 16.9kt (+1% qoq/+35% yoy) though sales volume fell 2% qoq on timing of shipment schedule.
- We cut our FY23-25F estimates on lower ASP but retain Buy at lower SOTP-based TP of Rp7,950 on value unlocking from growth projects.

Soft 2Q23 results reflected lower ASP, though 1H23 still ahead

INCO posted 2Q23 net profit of US\$70mn (-28% qoq/-15% yoy) as lower ASP (US\$18k/t, -17% qoq) more than offsets lower cash cost (US\$10.5k/t, -9% qoq). Meanwhile, EBITDA declined to US\$121mn (-25% qoq/-18% yoy). Despite weaker quarterly performance, 1H23 net profit/EBITDA stood at US\$169/283mn (+12/+3% yoy), still in-line with ours but ahead of consensus FY23 forecast (at 51/63% and 51/54% respectively).

Volume remained steady while costs declined amid lower fuel cost

2Q23 sales volume saw a slight decline to 16.5kt (-2% qoq/+22% yoy) on timing of shipment schedule, though production volume remained steady at 16.9kt (+1% qoq/+35% yoy) which implies 82% utilization rate (vs. 84% in 1Q23). Cash cost declined to US\$10.5k/t (-9% qoq/-23% yoy) amid lower fuel cost (US\$2.7/t, -23% qoq). Overall, 1H23 sales/production volume remained in-line with our estimates at 47/46% of FY23 forecast, while ASP/cost stood at 111/100%.

We cut FY23-25F earnings by 6-7% on lower ASP

We lowered our FY23-25F forecast by 6/7/7%. While we maintain our LME nickel assumption at US\$22/20/20k per tonne, we cut our ASP to US\$17.5/15.2/15.2k per tonne in FY23F (vs. 17.9/15.5/15.5k previously) reflecting higher discount to LME of 24% (vs. 23% previously) to reflect the oversupply market condition in Class-2 which may spill over into the Class-1 market. We maintain our FY23-25F volume assumptions at 72kt and cash cost at US\$11/10/10k per tonne amid steady 1H23 production deliveries.

Reiterate Buy rating at lowered SOTP-based TP of Rp7,950

We lowered our SOTP-based TP to Rp7,950 (from Rp8,100 prev.) to reflect the lower FY23-25F earnings forecast. We reiterate Buy rating at current 7.9x EV/EBITDA (7% discount to 10yr mean) on potential valuation upside from its key growth projects (i.e., Bahodopi RKEF, HPAL Pomalaa, HPAL Sorowako). Key risks are weaker nickel price and projects' delay or cost overruns.

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	953	1,179	1,432	1,247	1,247
EBITDA	389	458	531	428	428
Net profit	159	179	309	224	218
EPS growth	39%	13%	72%	-28%	-3%
ROE	7.6%	8.2%	13.0%	8.5%	7.6%
PER (x)	29.4	26.1	15.1	20.9	21.5
EV/EBITDA (x)	10.7	9.1	7.2	10.0	11.1
Dividend yield	N/A	N/A	N/A	N/A	N/A
IPS vs. consensus			116%	88%	82%

Source: Company, Indo Premier

Share price closing as of: 28 July 2023

Fig. 1: Forecast changes

Forecast changes (US\$ mn)	Previous			New			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	1,456	1,268	1,268	1,432	1,247	1,247	-2%	-2%	-2%
Cost of sales	(1,005)	(927)	(927)	(1,005)	(927)	(927)	0%	0%	0%
Gross profit	452	342	342	427	320	320	-5%	-6%	-6%
Opex	(29)	(25)	(25)	(29)	(25)	(25)	-2%	-2%	-2%
Operating profit	422	316	316	398	295	295	-6%	-7%	-7%
Net interest	4	(1)	(9)	4	(1)	(9)	-1%	12%	3%
Others	(16)	(14)	(14)	(16)	(14)	(14)	-2%	-2%	-2%
Pre-tax income	410	301	293	386	280	272	-6%	-7%	-7%
Income tax	(82)	(60)	(59)	(77)	(56)	(54)	-6%	-7%	-7%
Minority interest	0	0	0	0	0	0	N/A	N/A	N/A
Net income	328	241	235	309	224	218	-6%	-7%	-7%

Source: Company, Indo Premier

Fig. 2: 1H23 results summary

INCO 1H23 results (US\$ mn)	1H23	1H22	yoy%	2Q23	2Q22	yoy%	1Q23	qoq%	IPS FY23F	% of IPS	Cons FY23F	% of Cons
Revenue	659	565	17%	296	329	-10%	363	-19%	1,456	45%	1,260	52%
COGS	(438)	(356)	23%	(210)	(214)	-2%	(228)	-8%	(1,005)	44%	(855)	51%
Gross Profit	220	208	6%	86	115	-26%	135	-37%	452	49%	405	54%
Gross Profit Margin (%)	33%	37%		29%	35%		37%		31%		32%	
Other income	0	1	-81%	0	6	-98%	0	-8%				
Operating expenses	(11)	(9)	24%	(5)	(9)	-47%	(6)	-22%	(29)	37%		
Other expenses	(11)	(5)	119%	(2)	(4)	-45%	(9)	-79%	(16)	68%		
EBIT	199	196	2%	79	108	-27%	120	-34%	406	49%	369	54%
EBIT Margin (%)	30%	35%		27%	33%		33%		28%		29%	
Depreciation/amortization	84	79	6%	42	40	6%	42	1%	149	56%		
EBITDA	283	275	3%	121	148	-18%	161	-25%	555	51%	525	54%
EBITDA margin	43%	49%		41%	45%		44%		38%		42%	
Interest income	16	2	710%	9	1	585%	8	16%				
Interest expenses	(3)	(2)	20%	(1)	(1)	26%	(1)	10%	0			
Pre-tax profit	212	195	9%	86	109	-21%	126	-32%	410	52%	355	60%
Tax expenses	(44)	(45)	NM	(16)	(26)	-38%	(28)	-43%	(82)	53%	(88)	
Tax rate (%)	21%	23%		18%	24%		22%		-20%		-25%	
Net profit	169	150	12%	70	83	-15%	98	-28%	328	51%	267	63%
Net Profit Margin (%)	26%	27%		24%	25%		27%		23%		21%	

Operational summary	1H23	1H22	yoy%	2Q23	2Q22	yoy%	1Q23	qoq%	IPS FY23F	% of IPS
Production volume (k tonnes)	33.7	26.4	28%	16.9	12.6	35%	16.8	1%	72	47%
Sales volume (k tonnes)	33.2	27.0	23%	16.5	13.5	22%	16.8	-2%	72	46%
ASP (US\$/tonne)	19,836	20,899	-5%	17,967	24,355	-26%	21,672	-17%	17,891	111%
Cost/tonne (US\$/tonne)	10,999	10,578	4%	10,493	13,540	-23%	11,496	-9%	11,000	100%

Source: Company, Indo Premier

Fig. 3: INCO growth projects summary

Project	Partners	INCO's stake	Capex (US\$m)	Production start
RKEF - Bahodopi	Tisco & Xinhai	49%	2,200	2026
Mine - Bahodopi		100%	400	
HPAL - Pomalaa	Huayou/Ford	30%	3,500	2026
Mine - Pomalaa		100%	1,000	
HPAL - Sorow ako	Huayou	30%	2,000	2027

Source: Company, Indo Premier

Fig. 4: SOTP valuation

INCO valuation summary	US\$ mn/ Rp bn	Remarks
Nickel matte (US\$ mn)	2,602	DCF-based valuation (WACC: 11.0%)
RKEF (US\$ mn)	443	DCF-based valuation (WACC: 11.0%)
HPAL (US\$ mn)	1,103	DCF-based valuation (WACC: 10.1%)
Nickel ore (US\$ mn)	458	DCF-based valuation (WACC: 10.1%)
Asset value (US\$ mn)	4,606	
Cash (US\$ mn)	832	
Debt (US\$ mn)	0	
Equity value (US\$ mn)	5,438	
USD/IDR	14,500	
Equity value (Rp bn)	78,851	
No of shares	9.9	
Target price (Rp/sh)	7,950	
Current share price	6,825	
Upside	16%	

Source: Company, Indo Premier

Fig. 5: Valuation band



Source: Company, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	953	1,179	1,432	1,247	1,247
Cost of sales	(718)	(866)	(1,005)	(927)	(927)
Gross profit	235	314	427	320	320
SG&A Expenses	(4)	(20)	(29)	(25)	(25)
Operating profit	231	294	398	295	295
Net interest	(2)	4	4	(1)	(9)
Forex gain (loss)	0	0	0	0	0
Others	(15)	(43)	(16)	(14)	(14)
Pre-tax income	214	255	386	280	272
Income tax	(55)	(75)	(77)	(56)	(54)
Minority interest	0	0	0	0	0
Net income	159	179	309	224	218

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	508	518	832	377	17
Receivable	102	88	88	88	88
Inventory	162	203	203	203	203
Other current assets	64	75	75	75	75
Total current assets	837	884	1,198	744	383
Fixed assets	1,519	1,520	1,515	2,194	2,872
Other non-current assets	117	139	139	139	139
Total non-current assets	1,636	1,660	1,655	2,333	3,012
Total assets	2,473	2,544	2,853	3,077	3,395
ST loans	0	0	0	0	0
Payable	122	123	123	123	123
Other payables	2	4	4	4	4
Current portion of LT loans	44	44	44	44	44
Total current liab.	168	171	171	171	171
Long term loans	0	0	0	0	100
Other LT liab.	150	151	151	151	151
Total liabilities	150	151	151	151	251
Equity	414	414	414	414	414
Retained earnings	1,740	1,808	2,117	2,341	2,559
Minority interest	(0)	0	0	0	0
Total SHE + minority int.	2,154	2,222	2,531	2,755	2,973
Total liabilities & equity	2,473	2,544	2,853	3,077	3,395

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net income	231	294	398	295	295
Depr. & amortization	158	164	133	133	133
Changes in working capital	(25)	57	0	0	0
Others	(29)	(462)	(89)	(71)	(77)
Cash flow from operating	335	53	442	356	351
Capital expenditure	(199)	(204)	(128)	(811)	(811)
Others	19	161	0	0	0
Cash flow from investing	(180)	(42)	(128)	(811)	(811)
Loans	0	0	0	0	100
Equity	0	0	0	0	0
Dividends	(33)	0	0	0	0
Others	(1)	(0)	0	0	0
Cash flow from financing	(35)	(0)	0	0	100
Changes in cash	120	10	313	(454)	(360)

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	24.7%	26.6%	29.8%	25.7%	25.7%
Operating margin	24.3%	24.9%	27.8%	23.7%	23.7%
Pre-tax margin	22.4%	21.6%	27.0%	22.4%	21.8%
Net margin	16.7%	15.2%	21.6%	18.0%	17.5%
ROA	6.6%	7.2%	11.5%	7.6%	6.7%
ROE	7.6%	8.2%	13.0%	8.5%	7.6%
ROIC	11.1%	13.4%	16.8%	11.2%	10.1%
Acct. receivables TO (days)	31	29	22	26	26
Inventory TO (days)	78	77	74	80	80
Payable TO (days)	60	52	45	48	48
Debt to equity	0.0%	0.0%	0.0%	0.0%	3.4%
Interest coverage ratio (x)	76.3	66.4	N/A	85.6	42.8
Net gearing	-24%	-23%	-33%	-14%	3%

Source: Company, Indo Premier

INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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