

Vale Indonesia

HOLD (unchanged)

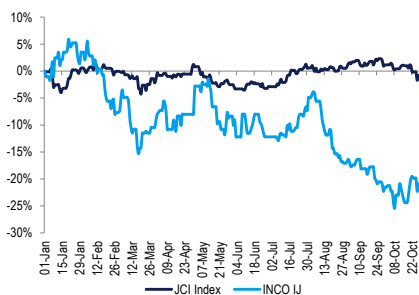
Company Update | Metals | INCO IJ | 30 October 2023

Stock Data

Target price	Rp5,560
Prior TP	Rp5,560
Current price	Rp5,125
Upside/downside	+8%
Shares outstanding (mn)	9,936
Market cap (Rp bn)	50,924
Free float	21%
Avg. 6m daily T/O (Rp bn)	50

Price Performance

	3M	6M	12M
Absolute	-22.9%	-22.3%	-24.1%
Relative to JCI	-20.9%	-19.7%	-19.4%
52w low/high (Rp)	5,125 – 7,600		



Major Shareholders

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

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3Q23 result: drop in qoq earnings amid lower nickel-matte ASP

- Vale Indonesia (INCO) reported US\$53mn net profit (-25% qoq), driven by lower nickel-matte ASP (-10% qoq).
- 9M23 earnings came at 92%/82% of IPS and consensus forecast, in-line with our forecast as we expect lower NPAT in 4Q23F.
- Overhang on INCO's divestment prices continues weighing on share price, limiting upside potential; Re-iterate our Hold rating.

Earnings declined by 25% qoq; as expected by our 3Q23 preview

INCO reported US\$53mn net profit (-25% qoq), following a 10% nickel matte ASP decline, which was partly offset by higher volume of 17.2kt (+5% qoq) in 3Q23. INCO's 9M23 earnings stood at 92%/82% of IPS/consensus, roughly in-line as ASP is set to decline further in 4Q23F. So far, on 4Q23F-to-date, LME nickel price have fallen by another 9% qoq. We expect stronger dollar index (DXY) to continuously weigh on LME nickel price, in our view, with LME nickel price now trading below US\$18k/ton, lowest since 2021.

3Q23 review: lower ASP dragging down earnings

Revenue declined by 6% qoq to US\$279mn driven by 10% ASP decline qoq, but was offset by slightly higher volume (+5% qoq). GP margin have also declined ~500bps qoq to 24%, despite better energy costs (i.e. coal) in addition to further conversion from oil to coal. Opex remain relatively flattish qoq at US\$5mn. On costs, HSFO average price went up by 6% qoq, but HSFO costs remain flattish qoq driven by further conversion into coal. Diesel and coal average price, on the other hand, improved by 7% and 23% qoq respectively. Total production costs per ton in 3Q23 stood at US\$9.8k/ton, 5% improvement vs 2Q23. Bahodopi projects are currently awaiting the AMDAL license, which is set to be completed by Nov-23, while Pomalaa's final investment decision (FID) has already concluded in Oct-23 with EPC partner selection set to follow right after.

Divestment process remains an overhang, re-iterate our Hold rating

We maintain our earnings FY23F forecast and re-iterate our Hold rating with Rp5,560/share target price as we continue to see limited catalysts from LME nickel price. Valuation is also demanding, in our view, at FY23/24F 15.5x/29.2x P/E with risks looming on its divestment process (our bear-case scenario yielded Rp3,700/share). Upside/downside risks are: higher/lower LME nickel price and faster/longer negotiation on the divestment process.

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	953	1,179	1,199	996	983
EBITDA	389	458	474	346	338
Net profit	166	200	246	134	75
EPS growth	100%	21%	23%	-46%	-44%
ROE	7%	8%	8%	4%	2%
PER (x)	20.5	16.9	13.8	25.4	45.4
EV/EBITDA (x)	7.4	6.0	5.6	9.9	11.8
Dividend yield	1%	0%	0%	0%	0%
IPS vs. consensus			91%	56%	31%

Source: Company, Indo Premier

Share price closing as of: 27 October 2023

3Q23 result: lower ASP led to earnings decline qoq

Key takeaways from 3Q23 earnings call:

- Bahodopi project (73ktpa FeNi project) is currently awaiting the approval of AMDAL (environmental license) by Nov-23, with physical progress in addition to equity injection into the JV set to follow right after the approval of AMDAL. In addition to AMDAL, the permit for port will be proposed, followed by equipment mobilization.
- Bahodopi's RKEF lines will be built inside the industrial park that are built by the JV partners (i.e. TISCO/Shandong Xinhai). So far, around US\$70mn capex are already spent for the mine for land levelling.
- On relatively low 1H23 nickel-matte production, management mentioned that it is due to the inability to find high-grade ore, owing to social/community issues as the mine pit is located near the residential area. In addition to ore grade, all of the major maintenance is already completed in 1H with no major maintenance being planned in 4Q23. As such, management remain optimistic to reach ~70kt nickel-matte production in FY23F.
- Regarding the divestment process, the head of agreement (HoA) or share purchase agreement plans to be completed by the end of FY23F.
- With the mining FID concluded in Oct-23 for Pomalaa, this would be followed by EPC partner selection and construction progressing starting Jan-24.
- On Pomalaa/Sorowako's call-option, INCO have the option to exercise the call option up to five years after the HPAL completion and up to 30% stake. INCO would also have a locked capital intensity per ton of around US\$29k/t, adjusted to the changes in exchange rate. Note that this could still change, as management are negotiating the terms for the agreement, especially with the Pomalaa HPAL being built in Indonesia Pomalaa Industrial Park (IPIP, owned by Huayou), rather than the initial agreement (INCO's mining concession area).

Fig. 1: 3Q23/9M23 earnings result

Indo Premier INCO IJ US\$m	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	9M23	9M23 vs. IPS	9M23 vs. Cons	FY23 vs. IPS	FY23 vs. Cons
Revenue	235	329	309	306	363	296	279	938	78%	76%	1,200	1,242
GP	93	115	51	54	135	86	66	287	89%	73%	322	395
EBIT	88	111	47	48	129	81	61	271	91%	74%	298	365
EBITDA	128	151	87	92	171	123	106	400	85%	77%	468	517
NP	68	83	18	32	98	70	53	221	92%	82%	241	270
Growth % - qoq												
Revenue	-12%	40%	-6%	-1%	19%	-19%	-6%					
GP	41%	25%	-56%	7%	148%	-37%	-22%					
EBIT	37%	26%	-58%	2%	171%	-37%	-24%					
EBITDA	23%	18%	-42%	6%	85%	-28%	-14%					
NP	58%	22%	-78%	79%	207%	-29%	-25%					
Operational data												
Nickel-matte sales volume (kt)	13.5	13.5	17.3	16.6	16.8	16.5	17.2					
ASP (US\$/t)	17,432	24,355	17,840	18,400	21,672	17,967	16,204					
HSFO cost (US\$/bbl)	73	88	99	80	77	81	86					
HSD cost (US\$/litre)	0.7	0.8	1.0	1.0	1.0	0.9	0.9					
Profitability %												
GP	39%	35%	16%	18%	37%	28.9%	23.8%					
EBIT	38%	34%	15%	16%	35%	27%	22%					
EBITDA	54%	46%	28%	30%	47%	42%	38%					
NP	29%	25%	6%	10%	27%	24%	19%					

Source: Bloomberg, Company Data, Indo Premier

Fig. 2: SOTP valuation

SOTP summary	Production	Basis	Stake (%)	Amount (US\$ mn)
Sorowako (Existing)	70ktpa Ni-Matte	DCF	100%	2,332
Pomalaa - HPAL	120ktpa MHP Ni	DCF	30%	657
Sorowako - HPAL	60ktpa MHP Ni	DCF	30%	236
Bahodopi - RKEF	73ktpa FeNi	DCF	49%	65
Enterprise value				3,290
Cash and cash equivalent - As of end FY23F				393
Interest-bearing debt - As of end FY23F				0
Equity value				3,683
Fair value (Rp per share)				5,560

Source: Indo Premier

Fig. 3: Valuation band



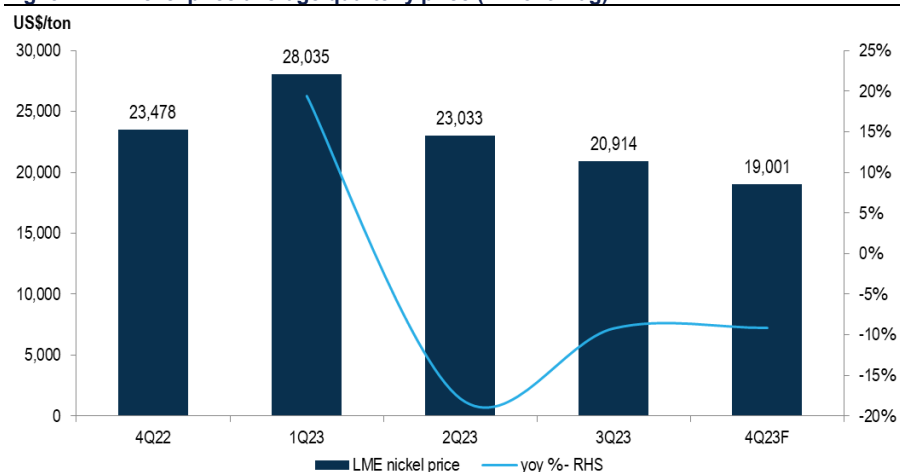
Source: Company, Indo Premier

Fig. 4: Peers valuation table

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				23F	24F	25F	23F	24F	25F	23F	24F	25F
ADMIR IJ	Adaro Minerals Indonesia	Buy	1,800	9.6	8.1	7.4	6.6	5.9	4.8	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	2,050	12.1	10.7	9.7	9.0	8.0	7.0	4.6%	4.1%	4.7%
HRUM IJ	Harum Energy	Buy	2,150	7.9	11.2	9.3	5.5	5.9	6.2	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Hold	5,560	13.8	25.4	45.4	5.6	9.9	11.8	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	940	509.8	27.7	16.2	41.6	10.6	7.7	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,230	N/A	29.2	23.3	15.8	6.6	6.1	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,300	10.4	7.1	6.2	7.7	4.9	3.9	0.0%	2.9%	4.2%

Source: Bloomberg, Company Data, Indo Premier; IPS forecast for metal miners under our coverage, Bloomberg forecast for non-rated

Fig. 5: LME nickel price average quarterly price (1-month lag)



Source: Bloomberg, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	953	1,179	1,199	996	983
Cost of sales	(718)	(866)	(871)	(804)	(823)
Gross profit	235	314	328	192	160
SG&A Expenses	(4)	(20)	(24)	(20)	(20)
Operating profit	231	294	304	172	140
Net interest	(2)	4	28	9	(35)
Others	(8)	(22)	(20)	(10)	(10)
Pre-tax income	221	276	312	171	96
Income tax	(55)	(75)	(66)	(38)	(21)
Minority interest	0	0	0	0	0
Net income	166	200	246	134	75

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	508	634	744	491	399
Receivable	102	141	117	97	96
Inventory	162	156	169	156	160
Other current assets	64	59	10	9	9
Total current assets	837	990	1,040	753	663
Fixed assets	1,519	1,550	1,767	2,680	3,370
Other non-current assets	117	118	150	150	150
Total non-current assets	1,636	1,668	1,917	2,831	3,521
Total assets	2,473	2,658	2,957	3,583	4,184

ST loans	0	0	0	0	0
Payable	122	116	145	134	137
Other payables	0	0	0	0	0
Current portion of LT loans	0	0	0	0	0
Other current liabilities	46	59	75	59	59
Total current liab.	168	175	220	193	196
Long term loans	0	0	0	500	1,000
Other LT liab.	150	128	136	156	178
Total non-current liabilities	150	128	136	656	1,178
Total liabilities	318	303	356	849	1,374

Equity	414	414	414	414	414
Retained earnings	1,740	1,941	2,187	2,321	2,395
Minority interest	0	0	0	0	0
Total SHE + minority int.	2,154	2,355	2,601	2,735	2,810
Total liabilities & equity	2,473	2,658	2,957	3,583	4,184

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net income	238	213	308	117	75
Depr. & amortization	158	164	170	174	198
Changes in working capital	(53)	(31)	42	22	1
Others	0	0	0	0	0
Cash flow from operating	343	347	520	313	273
Capital expenditure	(197)	(195)	(387)	(1,087)	(887)
Others	1	(27)	(21)	20	22
Cash flow from investing	(196)	(222)	(408)	(1,067)	(865)
Loans	5	1	(2)	500	500
Equity	0	0	0	0	0
Dividends	(33)	0	0	0	0
Others	0	0	0	0	0
Cash flow from financing	(28)	1	(2)	500	500
Changes in cash	118	126	110	(254)	(92)

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	25%	27%	27%	19%	16%
Operating margin	24%	25%	25%	17%	14%
Pre-tax margin	23%	23%	26%	17%	10%
Net margin	17%	17%	21%	13%	8%
ROA	7%	8%	8%	4%	2%
ROE	7%	8%	8%	4%	2%
Acct. receivables TO (days)	9.3	8.3	10.3	10.3	10.3
Inventory TO (days)	4.4	5.6	5.1	5.1	5.1
Payable TO (days)	5.9	7.5	6.0	6.0	6.0
Debt to equity	0.0	0.0	0.0	0.2	0.4
Interest coverage ratio (x)	45.4	42.6	51.5	8.5	2.5
Net gearing	(0.2)	(0.3)	(0.3)	0.0	0.2

Source: Company, Indo Premier