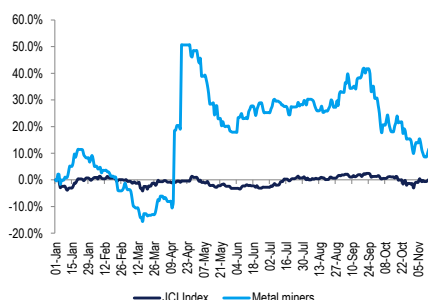


Sector Index Performance

	3M	6M	12M
Absolute	-11.8%	-13.4%	4.4%
Relative to JCI	-11.1%	-15.6%	6.6%



Summary Valuation Metrics

P/E (x)	2023F	2024F	2025F
ADMR IJ	10.4	8.8	8.0
ANTM IJ	11.0	9.9	8.6
HRUM IJ	6.7	9.5	7.9
INCO IJ	12.8	23.7	42.4
MBMA IJ	452.4	24.6	14.4
MDKA IJ	N/A	29.4	23.5
NCKL IJ	10.8	7.4	6.4
EV/EBITDA (x)	2023F	2024F	2025F
ADMR IJ	7.1	6.3	5.1
ANTM IJ	6.7	6.2	5.3
HRUM IJ	4.7	5.0	5.2
INCO IJ	5.1	9.2	11.2
MBMA IJ	37.3	9.6	7.0
MDKA IJ	15.9	6.7	6.1
NCKL IJ	8.0	5.1	4.1
Div. Yield	2023F	2024F	2025F
ADMR IJ	N/A	N/A	N/A
ANTM IJ	4.9%	4.5%	5.1%
HRUM IJ	N/A	N/A	N/A
INCO IJ	N/A	N/A	N/A
MBMA IJ	N/A	N/A	N/A
MDKA IJ	N/A	N/A	N/A
NCKL IJ	0.0%	2.8%	4.1%

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## Headwinds on LME nickel, -ve for INCO

- LME nickel price is now trading at US\$17k/ton level and is among the worst performer across commodity metals YTD (-43%).
- While macro-factors (i.e. DXY) have been detrimental factor to LME decline, increasing LME inventory further amplifies bearish sentiment.
- Speculators continue piling up their short position on LME; INCO FY24F NP at risk for further consensus earnings decline (9-82% D/G).

### LME nickel price at the lowest since Covid-19 pandemic

LME nickel price is now trading at US\$17k/ton (-43% YTD), the lowest since Covid-19 pandemic, and have been declining by c.6% MTD, which we think is mainly caused by the rise in dollar index (DXY) and U.S 10-year treasury yield, which historically has a negative correlation with LME nickel price. However, aside from macro, the recent price decline is also primarily caused by the increasing warehouse stocks in Rotterdam and Busan (of up to 5-6kt since Sep-23, Fig. 1) which have been the primary warehouse for full plate cathode (FPC) coming from China (addl. 10-15% to LME inventory). Note that these FPC nickel products were mainly manufactured by Tsingshan and Huayou, that has just recently obtained LME brand approval for their cathode in 2023.

### At what level LME nickel price should bottom?

We expect LME nickel price to trade sideways at US\$17-18.5k/ton in the short term and this based on the adjusted 90<sup>th</sup> percentile cash cost – removing NPI/FeNi smelter out of the equation, LME nickel price should already hit bottom with 90<sup>th</sup> percentile cash costs currently stood at US\$18.2k/ton, higher than current price of US\$17k/ton. However, leading indicators remain at the bearish side, as: 1) speculative traders are piling up their short positions in LME nickel, with net short position of 17kt contracts (highest since 2019), 2) cancelled warrants were on the decline – historically negative for price and also 3) LME open interest remain structurally low after the 2022 short squeeze incident (Fig. 3), leading to higher LME nickel price volatility, reducing the interest of market participants to trade on the London exchange. Hence, at the moment we think LME nickel price lack any immediate catalyst for a rally.

### Fundamental impact: INCO and ANTM shall be the most affected

INCO is the most affected miners by the movement in LME nickel price in our coverage as 1% change in LME nickel price assumptions would lead to c.5% change in FY24F NP. Based on our sensitivity analysis using different price assumptions, nickel price range between US\$16-20k/ton would lead to consensus earnings downgrade in FY24F (Fig. 12) by 8-92% as consensus are still forecasting US\$21k/ton price assumptions based on our reverse-calculation of consensus revenue expectation. ANTM would also be affected by LME price due to HPM pricing formula, but we argue that this would be partly offset by ANTM's potential ability to sell ore at a premium above the HPM ([note to report](#)).

### Maintain our Neutral rating on INCO, and Buy on ANTM

We maintain our Neutral rating on INCO as we expect limited downside on LME nickel price (even though it also lacked imminent catalyst) while divestment overhang remains. But we maintain our Buy rating on ANTM as we have taken into account potential decline in ore price. Additionally, we maintain our sector Neutral rating and LME nickel price assumptions at US\$22.6k/t, US\$18.5k/t, and US\$18k/t in FY23F/24F/25F (Fig. 9).

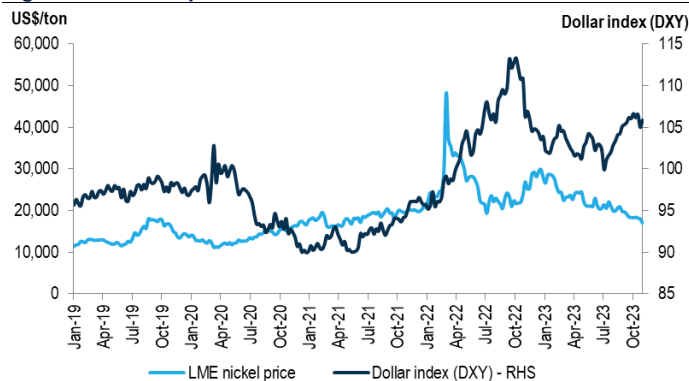
## Headwinds on LME nickel; INCO shall be the most affected

### Rising inventory & supply, macro-factors, low liquidity further amplifies bearish sentiment on LME nickel price

LME nickel price is now among the worst performer across commodity metals under our coverage with 43% decline YTD. While macro-economic factors such as DXY has become one of the pivotal reasons behind the decline (Fig. 1), during the LME week, majority of the participants and traders have also agreed that nickel market is likely to be in an oversupply situation in FY24F, driven by the rise of intermediates products (i.e. high-grade matte or nickel sulphate). While these intermediates were not LME deliverable products, more LME-deliverable supply addition is evident in recent inventory rise in LME warehouse, owing to the fast-approval process from LME board leading to additional inventory of full-plate cathode (FPC, 99% nickel content) coming from China (i.e. Tsingshan & Huayou, Fig. 4).

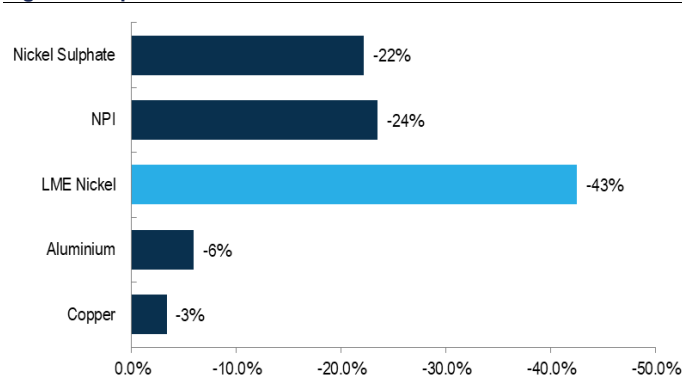
Note that historically, higher inventory has eventually led to weakness in the commodity prices. Furthermore, LME trading volume has yet – and is unlikely – to recover, in our view, which further amplifies the bearish sentiment. We think this problem is structural, as there has been a mismatch between LME deliverables products and actual nickel products that are being traded in the market (NPI/FeNi/Intermediates). More pricing alternatives are also being made available to the market through 3<sup>rd</sup> party providers such as SMM and Indonesia Nickel Price Index (Argus Media/IKI).

Fig. 1: LME nickel price vs. DXY



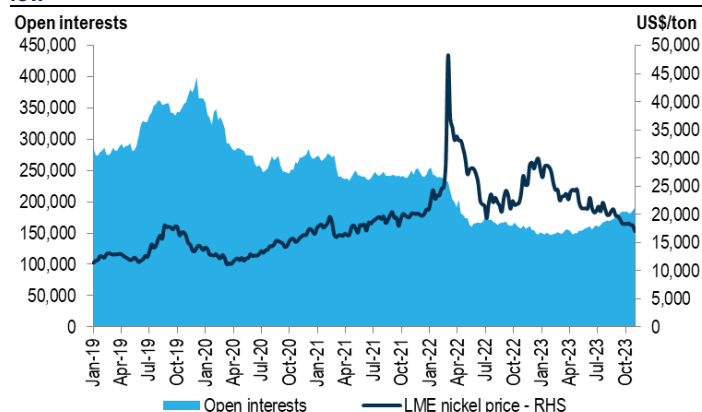
Source: Bloomberg, Indo Premier

Fig. 2: YTD performance across metals



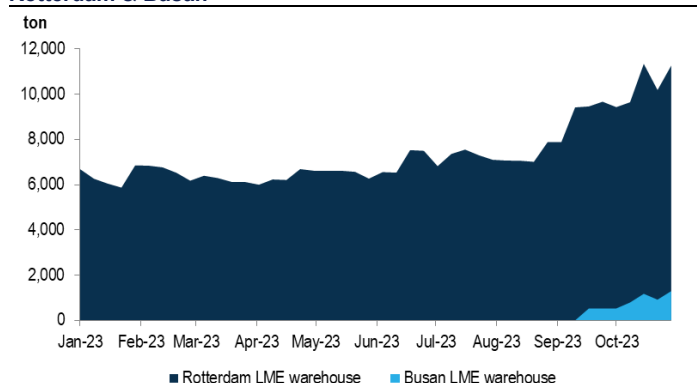
Source: Bloomberg, Shanghai Metal Market, Indo Premier

**Fig. 3: LME open interest post-2022 short squeeze remain relatively low**



Source: Bloomberg, Indo Premier

**Fig. 4: Full-plate cathode (FPC) inventory continue to pile up in Rotterdam & Busan**



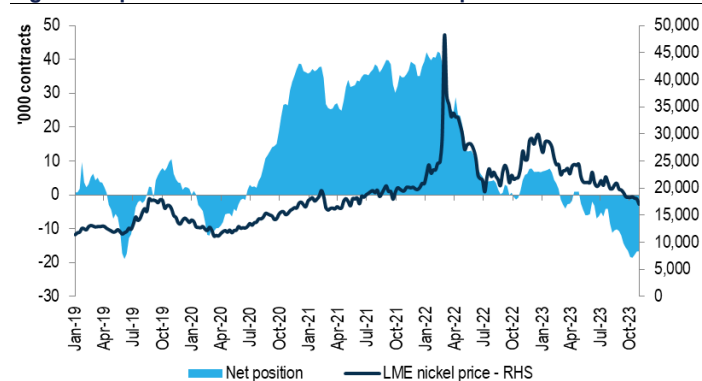
Source: Bloomberg, Indo Premier

### Speculators continue to pile-up their short position in LME nickel

Traders and speculators' long and short position has showcased strong correlation with LME nickel price (Fig. 5) and recently, nickel traders are piling up their position continuously with the latest position of net short by 17kt contracts (highest since 2019).

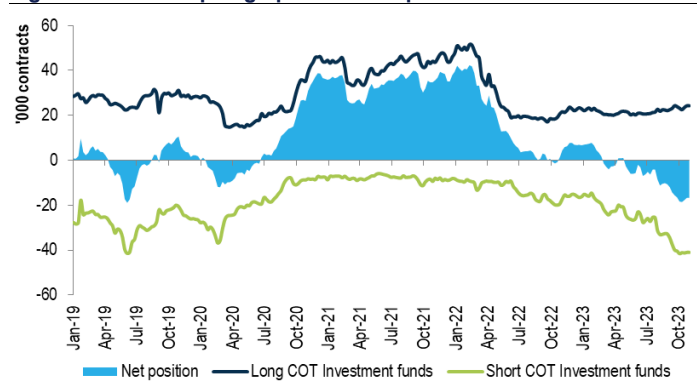
Similarly, cancelled warrants i.e. higher cancelled warrants equals to higher withdrawal of stocks, positive for price – has been relatively muted with the exception of the temporary spike in Oct-23, but overall cancelled warrants have remain at a relatively low level compared to historical and as % of inventory that are available in LME warehouse (Fig. 7). This has further indicated that the market participants are taking bearish view on the LME nickel price in short to medium term period.

**Fig. 5: Net position of traders vs LME nickel price**



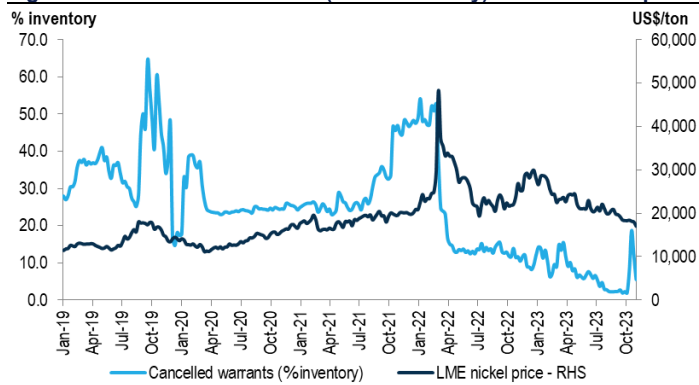
Source: Bloomberg, LME, Indo Premier

**Fig. 6: Traders are piling up their short position in LME nickel**



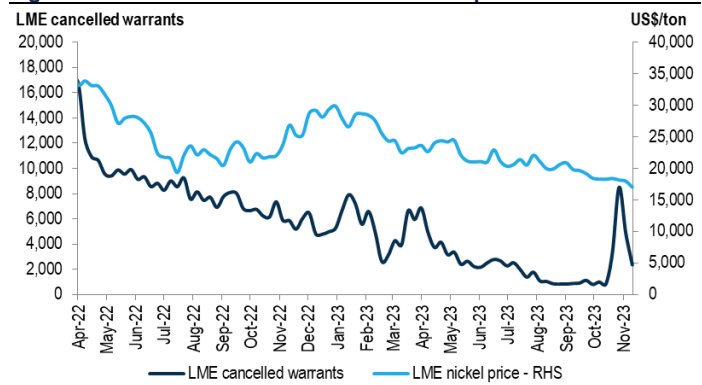
Source: Bloomberg, LME, Indo Premier

**Fig. 7: LME cancelled warrants (as % inventory) vs LME nickel price**



Source: Bloomberg, LME, Indo Premier

**Fig. 8: LME cancelled warrants vs LME nickel price**



Source: Bloomberg, LME, Indo Premier

### At what level LME nickel price would start to bottom?

By calculating the 90<sup>th</sup> percentile cash costs among LME deliverables miners & smelters, we think price would already at a bottom as the 90<sup>th</sup> percentile cash costs currently stood at US\$21.6k/ton (mine + smelters) and US\$18.2k/ton (smelters). This would mean that more than c.30% of mine and smelters would operate at a loss.

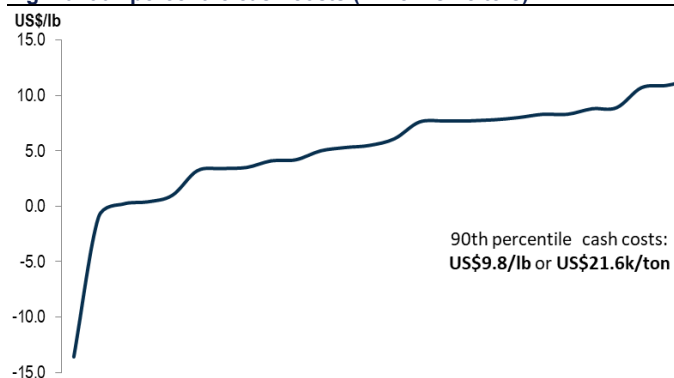
However, do note that historically, there is a tendency for prices to go down even further than the 90<sup>th</sup> percentile cash costs, especially amid the oversupply situation (FY23F surplus at 354kt, as per our estimates). Nonetheless, as we expect dollar index (DXY) to remain relatively flat going forward but lacking immediate positive catalyst, we expect LME nickel price to trade sideways between US\$17-18.5k/ton. Thus, we are still maintaining our average LME nickel price forecast at US\$22.6k/ton (vs. US\$22.8k/ton YTD), thanks to higher LME nickel price in 1H23), US\$18.5k/ton, and US\$18k/ton in FY23F/24F/25F.

**Fig. 9: Global refined nickel supply and demand balance**

Supply-demand balance (kt)	2019	2020	2021	2022	2023F	2024F	2025F
<b>LME Nickel</b>							
Refined production	2,529	2,533	2,717	3,101	3,516	3,812	4,102
Supply growth yoy (%)		0.1%	7.3%	14.1%	13.4%	8.4%	7.6%
Refined consumption	2,451	2,445	2,804	2,938	3,162	3,585	3,880
Demand growth yoy (%)		-0.2%	14.7%	4.8%	7.6%	13.4%	8.2%
Market balance	78	88	(87)	163	354	227	222
<b>Price forecast</b>							
LME nickel (US\$/t)	13,917	13,804	18,459	25,720	22,368	18,500	18,000

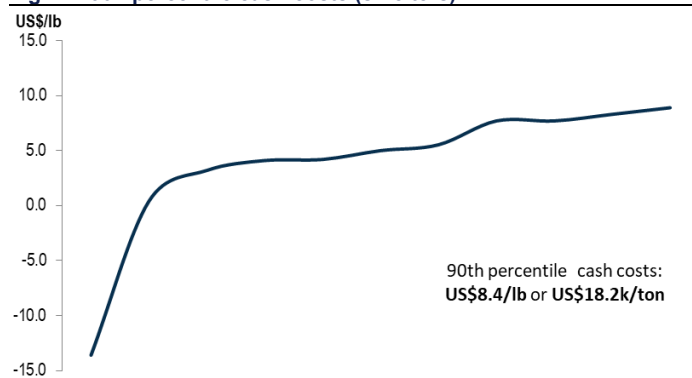
Source: Bloomberg, INSG, Indo Premier

Fig. 10: 90<sup>th</sup> percentile cash costs (mine + smelters)



Source: Bloomberg, Indo Premier

Fig. 11: 90<sup>th</sup> percentile cash costs (smelters)



Source: Bloomberg, Indo Premier

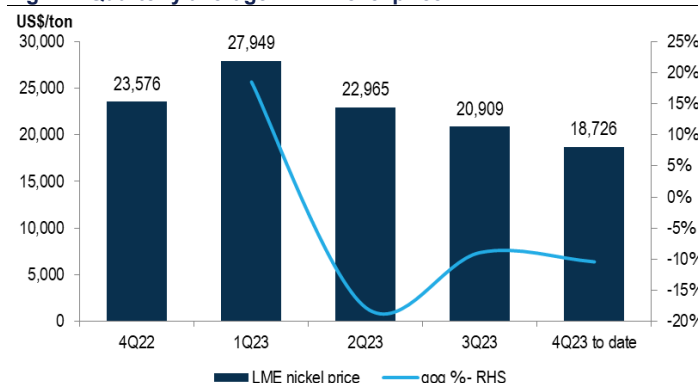
### Impact and sensitivity to INCO & ANTM

**INCO** is the most sensitive to the changes in LME nickel price as 100% of its revenue are derived from LME-linked nickel-matte products (ASP is set at c.78% of LME nickel price). Every 1% change in LME nickel price assumptions would lead to c.7% and c.5% in 4Q23F/FY24F net profit. In the short-term, softer LME nickel price would eventually lead to further ASP qoq decline in 4Q23 (Fig. 10). 4Q23F-to-date, INCO's nickel-matte ASP shall stand at US\$14.6k/ton (-10% qoq). If we conservatively assume US\$17k/ton for the rest of November, 4Q23F-to-date ASP would be at US\$14.4k/ton (-11% qoq), while NP will be at US\$26mn (-51% qoq), as per our estimates.

For FY24F, we conducted several scenario analyses based on different LME nickel price assumptions (Fig. 12). Against consensus numbers, we believe consensus earnings downgrade of around 9-82% is imminent as consensus are still expecting US\$21.1k/ton LME nickel price assumptions for INCO in FY24F, based on our reverse-calculation.

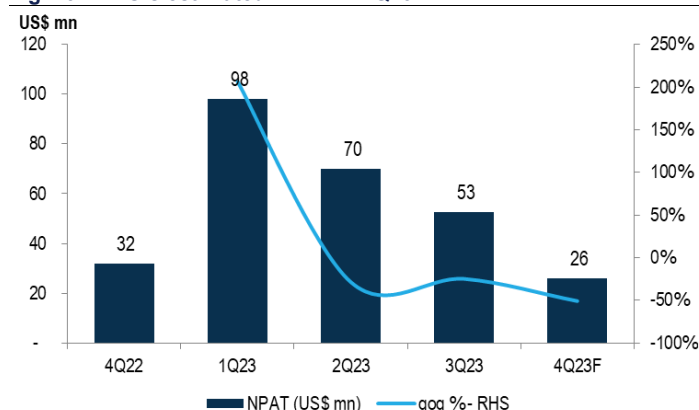
For **ANTM**, we have previously noted in our report (see [Aneka Tambang – Potential beneficiary of higher nickel ore price](#)) that ANTM's potential ability to sell its nickel ore at premium should be able to partly offset the decline in ore benchmark price (which is derived from LME nickel price). Nonetheless, its share price movement is correlated with LME nickel price, which have translated into recent share price weakness as well.

Fig. 12: Quarterly average LME nickel price



Source: Bloomberg, LME, Indo Premier

Fig. 13: INCO's estimated NPAT in 4Q23F



Source: Bloomberg, Indo Premier

**Fig. 14: INCO's LME nickel price sensitivity scenario for FY24F**

**LME nickel price sensitivity**

LME nickel price assumptions (US\$/t)	16,000	17,000	18,000	19,000	20,000	Consensus
ASP (US\$/ton)	12,480	13,260	14,040	14,820	15,600	16,458
Nickel matte volume (ton per annum)	70,000					
Revenue (US\$ mn)	874	928	983	1,037	1,092	1,152
<i>Downgrade vs. consensus revenue</i>	-24%	-19%	-15%	-10%	-5%	N/A
Net profit (US\$ mn)	40	79	118	157	196	216
<i>Downgrade vs. consensus earnings</i>	-82%	-64%	-45%	-27%	-9%	N/A

Source: Bloomberg, Indo Premier estimates

**Fig. 15: Peers comparison 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	10.4	8.8	8.0	7.1	6.3	5.1	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	2,100	11.0	9.9	8.6	6.7	6.2	5.3	4.9%	4.5%	5.1%
HRUM IJ	Harum Energy	Buy	2,150	6.7	9.5	7.9	4.7	5.0	5.2	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Hold	5,560	12.8	23.7	42.4	5.1	9.2	11.2	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	940	452.4	24.6	14.4	37.3	9.6	7.0	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,230	N/A	29.4	23.5	15.9	6.7	6.1	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,300	10.8	7.4	6.4	8.0	5.1	4.1	0.0%	2.8%	4.1%

Source: Bloomberg, Indo Premier

## SECTOR RATINGS

- OVERWEIGHT** : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL** : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT** : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

## COMPANY 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

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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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