

Vale Indonesia

BUY (unchanged)

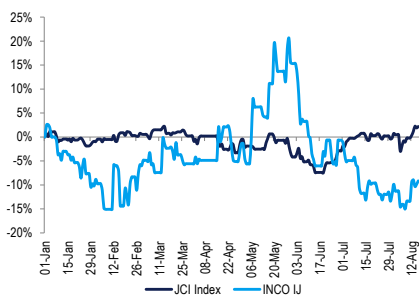
Company update | Metals | INCO IJ | 19 August 2024

Stock Data

Target price	Rp5,850
Prior TP	Rp5,850
Current price	Rp3,860
Upside/downside	52%
Shares outstanding (mn)	10,540
Market cap (Rp bn)	40,684
Free float	20%
Avg. 6m daily T/O (Rp bn)	81

Price Performance

	3M	6M	12M
Absolute	-12.6%	-2.1%	-36.3%
Relative to JCI	-15.2%	-3.9%	-44.0%
52w low/high (Rp)	3,608 – 6,063		



Major Shareholders

Mineral Industri Indonesia (MIND ID)	34.2%
Vale Canada Limited	34.1%
Sumitomo Metal mining	11.5%

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Local NDR KTA: expecting ample synergy ahead

- We held a local NDR with INCO's new Chief Financial Officer (CFO), Rizky Andhika Putra, and Chief Project Officer (CPO), Muhammad Asril.
- One of the key highlights from the discussion with local investors is the plan to unlock synergy value with MIND ID via joint-control scheme.
- The earliest synergy shall be in form of lower production costs & obtaining additional revenue stream via 3rd party ore sales. Maintain Buy.

Joint-control scheme shall allow INCO to be more agile

We think joint-control scheme shall allow INCO's management to be more agile as Vale SA no longer consolidating INCO to its financial-statement post-divestment and MIND ID also not consolidating INCO to its FS, the end-focus for each shareholders are value-creation and future dividend payment. Several opportunities are being executed, which include MIND ID helping to negotiate lower fuel costs (i.e. HSD, MFO), sharing logistical access for future growth projects, and INCO selling ore to 3rd party, which may come as soon as FY24F, subject to RKAB approval.

Concern on lower operational standard seems to be overblown

Another concern being laid out by local investors is whether entry of MIND ID could drastically impact operational standards. However, joint-control scheme shall boost operational excellence, rather than the opposite, as INCO's decision-making shall not be dependent to its parent company (Vale SA) allowing for a quicker decision-making, while Vale SA legacy such as standard operating procedures (SOP), good mining practice and sustainability are still maintained despite change in shareholder ownership.

Growth: Bahodopi under review, substantial ore sales starting FY26F

During NDR, management stated that Bahodopi RKEF project economics is currently being assessed owing to soft NPI price and usage of LNG vs. cheaper energy sources such as coal. On the ore-sales front, management aims to sell substantial amount of nickel ore of up to c.14mn saprolite ore and c.32mn limonite ore at full capacity (from Bahodopi, Sorowako, and Pomalaa), although a smaller scale of ore sales (from existing stockpiles) could be realized as soon as FY24F.

Maintain Buy rating with an unchanged TP of Rp5,850/share

We fine-tuned our FY24F NP forecast by -32% to take into account derivative losses in 1H24, but maintain our TP of Rp5,850/share unchanged since the revision in our NP is non-cash basis which shall not affect our SOTP. Downside risks include lower than expected nickel-demand due to softer economic growth globally, and higher energy prices.

Financial Summary (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Revenue	1,179	1,232	966	1,004	1,004
EBITDA	458	499	278	320	326
Net profit	200	274	88	94	64
EPS growth	21%	37%	-68%	7%	-32%
ROE	8%	9%	3%	3%	2%
PER (x)	12.8	9.4	28.4	26.4	38.7
EV/EBITDA (x)	4.2	3.8	6.2	6.8	7.3
Dividend yield	0%	2%	0%	0%	0%
IPS vs. consensus			90%	74%	39%

Source: Company, Indo Premier

Share price closing as of: 16 August 2024

Fig. 1: Old vs New forecast

INCO	New forecast			Old forecast			Forecast change			Consensus			Indo Premier vs Consensus		
US\$ mn	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Revenues	966	1,004	1,004	966	1,004	1,004	0%	0%	0%	970	1,016	1,107	100%	99%	91%
Gross profit	131	146	129	131	146	129	0%	0%	0%	152	179	235	86%	81%	55%
Operating profit	104	124	106	104	124	107	0%	0%	0%	121	165	226	86%	75%	47%
EBITDA	278	320	326	278	320	326	0%	0%	0%	288	341	410	96%	94%	79%
NPAT	88	94	64	129	94	64	-32%	0%	0%	98	127	165	90%	74%	39%
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Revenues	-22%	4%	0%	-22%	4%	0%				-21%	5%	9%			
Gross profit	-62%	11%	-12%	-62%	11%	-11%				-56%	18%	31%			
Operating profit	-68%	18%	-14%	-68%	19%	-14%				-63%	37%	37%			
EBITDA	-44%	15%	2%	-44%	15%	2%				-42%	18%	20%			
NPAT	-68%	7%	-32%	-53%	-27%	-32%				-64%	30%	30%			
Gross margin	13.6%	14.5%	12.8%	13.6%	14.5%	12.9%				15.7%	17.7%	21.2%			
Operating margin	10.8%	12.3%	10.6%	10.8%	12.3%	10.7%				12.5%	16.2%	20.4%			
EBITDA margin	28.8%	31.9%	32.5%	28.8%	31.9%	32.5%				29.7%	33.6%	37.0%			
NPAT margin	9.1%	9.4%	6.4%	13.4%	9.4%	6.4%				10.1%	12.5%	14.9%			

Source: Bloomberg, Company Data, Indo Premier

Fig. 2: Peers valuation table

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				24F	25F	26F	24F	25F	26F	24F	25F	26F
ADMR IJ	Adaro Minerals Indonesia	Buy	1,650	8.2	8.0	6.3	7.0	7.8	7.1	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	1,750	11.2	9.2	8.9	6.5	4.7	4.2	4.9%	4.5%	5.4%
HRUM IJ	Harum Energy	Buy	1,450	7.8	7.9	6.0	4.7	5.8	3.9	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Buy	5,850	24.1	24.8	36.3	7.3	8.0	8.3	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	700	53.7	22.2	16.2	18.4	10.5	8.2	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,100	N/A	184.0	74.9	12.1	9.0	7.4	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,100	9.8	7.5	6.6	7.0	5.2	4.7	3.0%	3.0%	4.0%

Source: Bloomberg, Company Data, Indo Premier estimates

Income Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net revenue	1,179	1,232	966	1,004	1,004
Cost of sales	(866)	(885)	(835)	(858)	(875)
Gross profit	314	347	131	146	129
SG&A Expenses	(20)	(22)	(27)	(22)	(22)
Operating profit	294	325	104	124	106
Net interest	4	26	29	9	(17)
Others	(22)	2	(19)	2	2
Pre-tax income	276	353	115	134	91
Income tax	(75)	(78)	(21)	(29)	(20)
Minority interest	0	0	0	0	0
Profit-sharing payment	0	0	(6)	(10)	(7)
Net income	200	274	88	94	64

Balance Sheet (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	634	699	768	698	608
Receivable	141	102	107	112	112
Inventory	156	156	147	151	154
Other current assets	59	77	11	11	11
Total current assets	990	1,033	1,034	972	884
Fixed assets	1,550	1,696	1,939	2,544	2,827
Other non-current assets	118	197	197	197	240
Total non-current assets	1,668	1,893	2,136	2,742	3,068
Total assets	2,658	2,926	3,170	3,713	3,952

ST loans	0	0	0	0	0
Payable	116	141	146	150	153
Other payables	0	0	0	0	0
Current portion of LT loans	0	0	0	0	0
Other current liabilities	59	76	70	70	45
Total current liab.	175	217	216	220	198
Long term loans	0	0	0	400	500
Other LT liab.	128	145	176	211	301
Total non-current liabilities	128	145	176	611	801
Total liabilities	303	361	393	831	999

Equity	414	414	533	533	533
Retained earnings	1,941	2,150	2,244	2,349	2,420
Minority interest	0	0	0	0	0
Total SHE + minority int.	2,355	2,565	2,777	2,882	2,953
Total liabilities & equity	2,658	2,926	3,170	3,713	3,952

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net income	213	244	158	105	28
Depr. & amortization	164	174	174	197	219
Changes in working capital	(31)	75	10	(4)	(25)
Others	0	0	0	0	0
Cash flow from operating	347	492	342	297	222
Capital expenditure	(195)	(319)	(417)	(802)	(502)
Others	(27)	(47)	32	35	90
Cash flow from investing	(222)	(366)	(386)	(768)	(412)
Loans	1	3	(6)	400	100
Equity	0	(0)	119	0	0
Dividends	0	(60)	0	0	0
Others	0	0	0	0	0
Cash flow from financing	1	(57)	113	400	100
Changes in cash	126	69	70	(70)	(90)

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	27%	28%	14%	15%	13%
Operating margin	25%	26%	11%	12%	11%
Pre-tax margin	23%	29%	12%	13%	9%
Net margin	17%	22%	9%	9%	6%
ROA	8%	9%	3%	3%	2%
ROE	8%	9%	3%	3%	2%
Acct. receivables TO (days)	8.3	12.1	9.0	9.0	9.0
Inventory TO (days)	5.6	5.7	5.7	5.7	5.7
Payable TO (days)	7.5	6.3	5.7	5.7	5.7
Debt to equity	0.0	0.0	0.0	0.1	0.2
Interest coverage ratio (x)	42.6	32.2	17.7	8.4	3.6
Net gearing	(0.3)	(0.3)	(0.3)	(0.1)	(0.0)

Source: Company, Indo Premier