

# Vale Indonesia

**BUY** (unchanged)

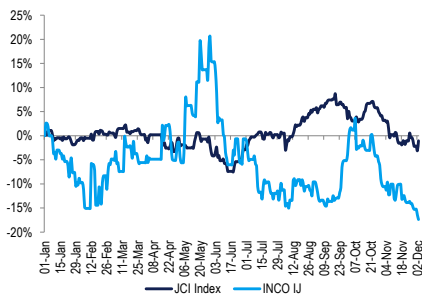
Company update | Metals | INCO IJ | 3 December 2024

## Stock Data

Target price	Rp5,000
Prior TP	Rp5,850
Current price	Rp3,510
Upside/downside	42%
Shares outstanding (mn)	10,540
Market cap (Rp bn)	36,995
Free float	20%
Avg. 6m daily T/O (Rp bn)	61

## Price Performance

	3M	6M	12M
Absolute	-7.6%	-27.0%	-19.3%
Relative to JCI	-1.2%	-29.3%	-20.7%
52w low/high (Rp)	3,510 – 5,126		



## Major Shareholders

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

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## Robust resources monetization plan to drive long-term growth

- INCO plans to start selling ore-sales as soon as 4Q24F of around 200kt from Pomalaa but currently facing hurdles from RKAB approval.
- Nonetheless, ore-sales to third-party & JVs shall significantly contribute to revenue starting in FY26F (c.27% of revenue) and is margin accretive.
- We re-iterate our Buy rating on INCO, albeit with a lower TP of Rp5,000/share on lower LME nickel price assumptions in FY24F-26F.

### Resources monetization plan to drive long-term growth

We like INCO's robust resources monetization plan by selling nickel ore to third-party and JVs (i.e. Sambalagi, Pomalaa, and Sorowako HPAL), which shall significantly contribute to revenue starting in FY26F (c.27% revenue) and is margin-accretive (+140bps GPM expansion from FY25F to FY26F). At full ore-mining capacity, we expect nickel-ore sales to contribute c.50% of revenue and added an additional ~US\$340mn NPAT to INCO's NP (FY24F: US\$59mn) or around 6x P/E (excl. HPAL associate income), but we think full mining capacity may only happen in FY29F onwards.

### Sambalagi HPAL is a testament of INCO's agility post divestment

INCO has recently signed strategic collaboration with GEM to build 60ktpa HPAL (Sambalagi). We think such decision is a positive, given that: 1) HPAL is an economically-feasible project (~c.16% IRR at US\$13.5k/t MHP price) to replace LNG-powered 73ktpa RKEF in Bahodopi (negative NPV especially without tax holiday as per our estimates), 2) shareholders are not exposed to poor capital allocation decision should it build the RKEF project, and 3) flexibility via call-option that significantly reduce the risk for INCO especially on construction & execution risks for the HPAL.

### ST share price movement is still dictated by LME nickel price

Despite its resource-monetization and 3 HPALs set to be built within the next five-years (c.80ktpa attributable MHP capacity), we believe INCO share price would still be dictated by LME nickel price until end of FY25F or early FY26F, when ore-sales volume started to become more significant to INCO's revenue & NP. As a result, with limited catalyst in LME price amid recent inventory build (Fig. 2), INCO share price lacks catalysts for ST rally.

### Maintain Buy rating with lower TP of Rp5,000/share

We re-iterate our Buy rating on INCO with a lower TP of Rp5,000/share as we adjusted down our FY24F/25F NP by -33%/-13 by lowering down our LME price assumptions to US\$17k/16.5k (vs. US\$17.5/18k previously) in FY24F/25F. However, we upgraded our FY26F NP forecast by +255% on higher ore sales (Fig. 5). Downside risks include execution risks on the mining-side and potential delay in RKAB approval.

Financial Summary (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Revenue	1,179	1,232	933	1,004	1,291
EBITDA	458	499	236	283	518
Net profit	200	274	59	82	228
EPS growth	21%	37%	-79%	39%	180%
ROE	8%	9%	2%	2%	6%
PER (x)	11.6	8.5	38.4	27.6	9.9
EV/EBITDA (x)	3.7	3.3	6.4	7.1	4.0
Dividend yield	0%	3%	0%	0%	0%
IPS vs. consensus			75%	73%	149%

Source: Company, Indo Premier

Share price closing as of: 3 December 2024

### FY24F-26F NP forecast assumptions

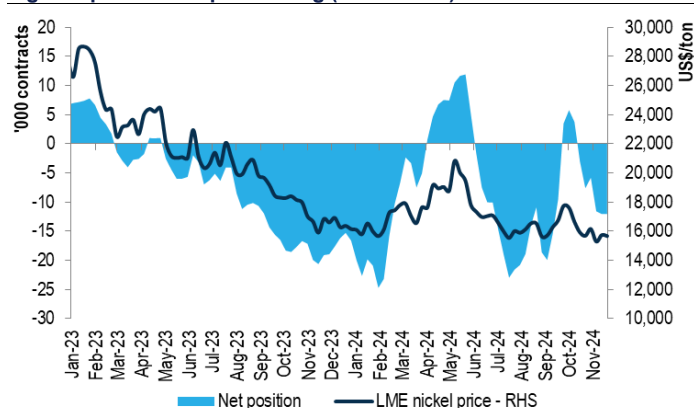
We lowered down our FY24F/25F NP forecast by -33%/-13% as we lower our LME nickel price assumptions to US\$17k/16.5k (vs. US\$17.5/18k previously) in FY24F/25F as LME price currently lacks immediate catalyst for a rally, owing to: 1) speculators positioning has remain relatively neutral (Fig. 2), which meant short-squeeze is less likely to occur, and even if it occurs, it tends to be short-lived as it lacks structural catalyst, in our view, 2) inventory build in LME warehouse as another Chinese company has obtained LME brand certification (Fig. 3), marking it as the 7<sup>th</sup> Chinese company that has obtained LME approval.

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	933	1,004	1,291	966	1,004	1,004	-3%	0%	29%	952	988	1,101	98%	102%	117%
Gross profit	92	127	357	131	146	129	-30%	-13%	178%	143	180	236	64%	70%	151%
Operating profit	62	95	321	104	124	106	-41%	-23%	202%	95	139	201	65%	68%	160%
EBITDA	236	283	518	278	320	326	-15%	-12%	59%	259	313	396	91%	90%	131%
NPAT	59	82	228	88	94	64	-33%	-13%	255%	79	115	148	74%	71%	154%
<b>%yoy</b>															
Revenues	-24%	8%	29%	-22%	4%	0%				-23%	4%	11%			
Gross profit	-74%	38%	181%	-62%	11%	-12%				-59%	26%	31%			
Operating profit	-81%	53%	239%	-68%	18%	-14%				-71%	47%	44%			
EBITDA	-53%	20%	83%	-44%	15%	2%				-48%	21%	26%			
NPAT	-79%	39%	180%	-68%	7%	-32%				-71%	45%	29%			
<b>Gross margin</b>															
Gross margin	9.8%	12.6%	27.7%	13.6%	14.5%	12.8%				15.1%	18.2%	21.5%			
<b>Operating margin</b>															
Operating margin	6.6%	9.4%	24.9%	10.8%	12.3%	10.6%				10.0%	14.1%	18.3%			
<b>EBITDA margin</b>															
EBITDA margin	25.3%	28.2%	40.1%	28.8%	31.9%	32.5%				27.2%	31.7%	36.0%			
<b>NPAT margin</b>															
NPAT margin	6.3%	8.1%	17.7%	9.1%	9.4%	6.4%				8.3%	11.6%	13.4%			

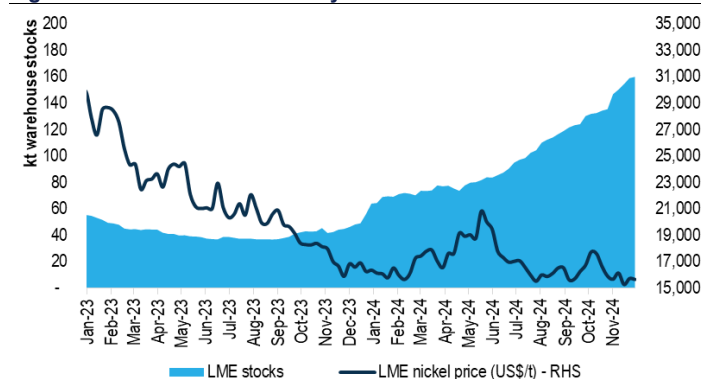
Source: Bloomberg, Company data, Indo Premier

Fig. 2: Speculators' positioning (LME nickel)



Source: Bloomberg, Indo Premier

Fig. 3: LME warehouse inventory



Source: Bloomberg, Indo Premier

Additionally, supply-demand balance has been in-favoured for nickel price rally, given c.500kt of mined or refined supply were either being disrupted and/or subject to closure/maintenance (Fig. 4) owing to soft LME price environment in addition to RKAB issues in Indonesia. But despite the supply response, LME nickel price has remained soft YTD (-6% YTD).

Specifically on nickel ore sales to third-parties, we expect no ore sales in FY24F as INCO has yet to obtain RKAB approval until Nov24, while we expect 1.9mn wmt of saprolite ore sales in FY25F, which all came from Pomalaa mine. In FY26F, we expect INCO to deliver 6.5mn wmt of saprolite ore sales & 3mn wmt of limonite ore sales, which primarily came from both Bahodopi (end of FY25F) & Pomalaa mine (FY26F).

On the ASP side, we expect US\$12/14 premium on top of existing HPM, as we think ore premium is likely to remain elevated given the structural ore grade decline. Note that based on our channel check, within the span of 3 years, smelters have started taking 1.4% and 1.5% ore grade for blending process – which was previously unpopular for smelting due to its higher costs, as the relatively high ore grade (>1.7%) is getting scarcer.

Fig. 4: Closure/maintenance of nickel mines/smelters

Company	Mine	Capacity (kt Ni)	Type	Status	Country
IGO Limited	Cosmos	15	Mine	Care & Maintenance	Australia
Wyloo Metals	Kambalda	15	Mine	Care & Maintenance	Australia
First Quantum Minerals	Ravensthorpe	12	Integrated	Care & Maintenance	Australia
Panoramic Resources	Savannah	12	Mine	Suspended	Australia
BHP Group Limited	Western Australia Nickel	80	Mine	Suspended	Australia
Pacific Nickel Resources	Pamco	3	Processing	Suspended	Solomon Islands
Bishi	Bishi	10	Processing	Partial Suspension	China
DeLong	DeLong	10	Processing	Partial Suspension	China
Eramet	Doniambo	75	Integrated	At risk - funding suspended	New Caledonia
Glencore	Koniambo	60	Integrated	At risk - funding ending	New Caledonia
Prony Resources	Goro	60	Integrated	At risk - funding suspended	New Caledonia
South32	Cerro Matoso	50	Integrated	At risk - funding review	Columbia
Mallee Resources	Avebury	8	Mine	At risk - in receivership	Australia
Horizonte Minerals	Araguaia (Stage 1)	15	Integrated	Delay - cost inflation	Brazil
Li-Cycle	Rochester	4	Processing	Delay - cost inflation	United States
GSOL	North Macedonian Assets	20	Processing	Delay - cost inflation	Macedonia
Pobugskoye	Ukrainian Assets	17	Mine	Suspended	Ukraine
Nornickel	Russian Assets	20	Mine	Suspended	Russia
Ambatovy	Madagascan Assets	10	Mine	Suspended	Madagascar
<b>Total capacity</b>		<b>496</b>			

Source: Company data, Nickel Industries Limited, Indo Premier

Fig. 5: Key operational assumptions

INCO IJ	Old			New			Change (%)		
US\$ mn	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Production volume (kt)	70.8	71.2	70.8	70.8	71.2	73.0	0%	0%	3%
Sales volume (kt)	71.8	71.5	71.5	70.8	71.2	73.0	-1%	0%	2%
LME nickel price - US\$/ton	17,500	18,000	18,000	16,896	16,500	16,500	-3%	-8%	-8%
Average selling price - US\$/ton	14,430	14,040	14,040	13,179	12,870	12,870	-9%	-8%	-8%
High sulfur fuel oil (HSFO) - US\$/bbl	87.5	85.0	85.0	88	88.0	88.0	1%	4%	4%
High sulfur diesel (HSD) - US\$/bbl	0.9	0.9	0.9	0.8	0.8	0.8	-9%	-15%	-15%
Coal price - US\$/ton	170	140	120	170	175	150	0%	25%	25%
Saprolite sales volume - mn w mt	na	na	na	0.0	1.9	6.5	na	na	na
Limonite sales volume - mn w mt	na	na	na	0.0	0.0	3.0	na	na	na
Saprolite ASP - US\$/w mt	na	na	na	0.0	46.0	48.0	na	na	na
Limonite ASP - US\$/w mt	na	na	na	0.0	13.0	13.0	na	na	na

Source: Company data, Nickel Industries Limited, Indo Premier

### Valuation methodology

We adjusted our SOTP-based valuation by removing value of 73ktpa LNG-powered RKEF as it is being replaced by Sambalagi HPAL, which INCO shall have an indicative stake of c.30% via call-option mechanism. We valued Sambalagi HPAL at US\$857mn (on 100% basis), discounted to present value, which translated into c.16% IRR based on US\$13.5k/t MHP price assumptions in FY28F onwards. At the same time, we also adjust down our FY24F/25F NP assumption by 13-33% amid lower LME nickel price assumptions (Fig. 5).

Note that we made an upward adjustment into our nickel-matte volume in FY25F in our SOTP, as we previously expected to have lower volume in FY25F due to Furnace-3 rebuild. However, higher than expected ore grade from several new mining blocks shall be able to offset production volume during the downtime of Furnace-3 in FY25F. As a result, we arrived at Rp5,000/share TP based on our SOTP-based valuation.

Fig. 6: Sum of the parts (SOTP) valuation

SOTP summary	Production	Basis	Stake (%)	Amount (US\$ mn)
Sorow ako (Existing) + Ore Mining	70ktpa Ni-Matte	DCF	100%	2,176
Pomalaa - HPAL	120ktpa MHP Ni	DCF	30%	473
Sorow ako - HPAL	60ktpa MHP Ni	DCF	30%	236
Sambalagi - HPAL	60ktpa MHP Ni	DCF	30%	257
<b>Enterprise value</b>				<b>3,142</b>
Net cash (debt) - As of end FY25F				242
<b>Equity value</b>				<b>3,384</b>
<b>Fair value (Rp per share)</b>				<b>5,000</b>

Source: Bloomberg, Company Data, Indo Premier estimates

Fig. 7: 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
ADMRI IJ	Adaro Minerals Indonesia	Buy	1,650	8.0	7.7	6.1	6.8	7.6	6.9	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	2,000	11.7	9.5	9.7	6.0	4.6	4.5	8.8%	6.4%	7.9%
HRUM IJ	Harum Energy	Hold	1,450	7.1	7.2	5.5	4.5	5.5	3.7	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Buy	5,000	38.4	27.6	9.9	6.4	7.1	4.0	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	635	128.8	29.7	18.0	24.6	11.0	7.9	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	3,100	N/A	268.4	49.4	13.1	8.6	6.7	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,100	7.9	6.8	5.9	5.9	5.1	4.4	3.2%	3.8%	4.4%

Source: Bloomberg, Company Data, Indo Premier estimates

Income Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net revenue	1,179	1,232	933	1,004	1,291
Cost of sales	(866)	(885)	(841)	(877)	(934)
<b>Gross profit</b>	<b>314</b>	<b>347</b>	<b>92</b>	<b>127</b>	<b>357</b>
SG&A Expenses	(20)	(22)	(30)	(32)	(36)
<b>Operating profit</b>	<b>294</b>	<b>325</b>	<b>62</b>	<b>95</b>	<b>321</b>
Net interest	4	26	28	19	2
Others	(22)	2	(13)	2	2
<b>Pre-tax income</b>	<b>276</b>	<b>353</b>	<b>77</b>	<b>116</b>	<b>325</b>
Income tax	(75)	(78)	(14)	(26)	(71)
Minority interest	0	0	0	0	0
Profit-sharing payment	0	0	(5)	(9)	(25)
<b>Net income</b>	<b>200</b>	<b>274</b>	<b>59</b>	<b>82</b>	<b>228</b>

Balance Sheet (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	634	699	742	345	458
Receivable	141	102	104	112	143
Inventory	156	156	148	154	164
Other current assets	59	77	10	11	12
<b>Total current assets</b>	<b>990</b>	<b>1,033</b>	<b>1,004</b>	<b>622</b>	<b>778</b>
Fixed assets	1,550	1,696	1,939	2,553	2,858
Other non-current assets	118	197	197	197	267
<b>Total non-current assets</b>	<b>1,668</b>	<b>1,893</b>	<b>2,136</b>	<b>2,750</b>	<b>3,125</b>
<b>Total assets</b>	<b>2,658</b>	<b>2,926</b>	<b>3,140</b>	<b>3,372</b>	<b>3,904</b>

ST loans	0	0	0	0	0
Payable	116	141	147	153	163
Other payables	0	0	0	0	0
Current portion of LT loans	0	0	0	0	0
Other current liabilities	59	76	70	70	47
<b>Total current liab.</b>	<b>175</b>	<b>217</b>	<b>217</b>	<b>224</b>	<b>211</b>
Long term loans	0	0	0	100	300
Other LT liab.	128	145	176	211	302
<b>Total non-current liabilities</b>	<b>128</b>	<b>145</b>	<b>176</b>	<b>311</b>	<b>602</b>
<b>Total liabilities</b>	<b>303</b>	<b>361</b>	<b>394</b>	<b>535</b>	<b>813</b>

Equity	414	414	533	533	533
Retained earnings	1,941	2,150	2,214	2,304	2,558
Minority interest	0	0	0	0	0
<b>Total SHE + minority int.</b>	<b>2,355</b>	<b>2,565</b>	<b>2,747</b>	<b>2,837</b>	<b>3,091</b>
<b>Total liabilities &amp; equity</b>	<b>2,658</b>	<b>2,926</b>	<b>3,140</b>	<b>3,372</b>	<b>3,904</b>

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net income	213	244	128	91	183
Depr. & amortization	164	174	174	188	197
Changes in working capital	(31)	75	14	(8)	(57)
Others	0	0	0	0	0
<b>Cash flow from operating</b>	<b>347</b>	<b>492</b>	<b>316</b>	<b>271</b>	<b>324</b>
Capital expenditure	(195)	(319)	(417)	(802)	(502)
Others	(27)	(47)	32	35	91
<b>Cash flow from investing</b>	<b>(222)</b>	<b>(366)</b>	<b>(386)</b>	<b>(768)</b>	<b>(411)</b>
Loans	1	3	(6)	100	200
Equity	0	(0)	119	0	0
Dividends	0	(60)	0	0	0
Others	0	0	0	0	0
<b>Cash flow from financing</b>	<b>1</b>	<b>(57)</b>	<b>113</b>	<b>100</b>	<b>200</b>
<b>Changes in cash</b>	<b>126</b>	<b>69</b>	<b>43</b>	<b>(397)</b>	<b>113</b>

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	27%	28%	10%	13%	28%
Operating margin	25%	26%	7%	9%	25%
Pre-tax margin	23%	29%	8%	12%	25%
Net margin	17%	22%	6%	8%	18%
ROA	8%	9%	2%	2%	6%
ROE	8%	9%	2%	2%	6%
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	0.0	0.1
Interest coverage ratio (x)	42.6	32.2	8.2	12.1	17.5
Net gearing	(0.3)	(0.3)	(0.3)	(0.1)	(0.1)

Source: Company, Indo Premier