

Vale Indonesia

BUY (unchanged)

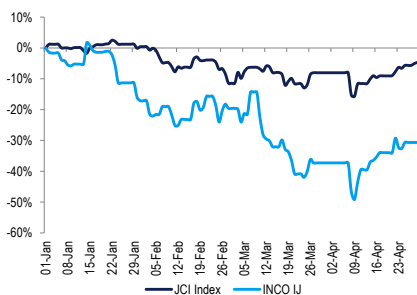
Company update | Metals | INCO IJ | 22 May 2025

Stock Data

Target price	Rp4,500
Prior TP	Rp3,650
Current price	Rp3,300
Upside/downside	+36%
Shares outstanding (mn)	10,540
Market cap (Rp bn)	26,455
Free float	20%
Avg. 6m daily T/O (Rp bn)	40

Price Performance

	3M	6M	12M
Absolute	-21.8%	-37.6%	-39.1%
Relative to JCI	-16.0%	-26.0%	-33.4%
52w low/high (Rp)	1,840 – 5,126		



Major Shareholders

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

Ryan Winipta

PT Indo Premier Sekuritas
ryan.winipta@ipc.co.id
+62 21 5088 7168 ext. 718

Reggie Parengkuan

PT Indo Premier Sekuritas
reggie.parengkuan@ipc.co.id
+62 21 5088 7168 ext. 714

Asset monetization & turnaround story remains intact; maintain Buy

- We think market has started to appreciate INCO's management effort, as share price recovered by +80% off-bottom, while LME only up by +10%.
- Asset monetization story via 3rd party ore sales starting 2H25F onwards and operational efficiencies shall be the primary driver of share price.
- While ST earnings may still disappoint; we think it's partly priced-in. Reiterate Buy rating with higher TP.

Asset monetization & earnings turnaround story

We think INCO's management efficiency effort has started to bear fruit as several cost efficiency measures had been done through renegotiation with suppliers – i.e. fuel costs, while at the same time, revenue optimization effort is also currently underway. For example, management mentioned the possibility of higher matte payability (currently pegged at c.78% of LME), albeit the amount is yet to be confirmed. Furthermore, INCO is also set to monetize its current ore resources & reserves via 3rd party ore sales starting in 2H25F ([report](#)) which we think has started to be appreciated by investors as INCO share price went up by +80% vs. +10% for LME nickel price.

Lower overall mining capex led to our TP upgrade

Among its cost efficiencies measures, INCO's ore mining capex that were initially stood at US\$1.4bn (Pomalaa and Bahodopi), has been optimized to US\$1bn for both of the mines. Thus, combined with recent costs-efficiency measures and lower energy costs, we reduced our long-term costs forecast to US\$8.5k/t (from US\$9k/t) for Sorowako operation and assigned lower capex for its Bahodopi & Pomalaa nickel mine projects. Moreover, our discussion with co. has also indicated that management is currently seeking more avenue to boost revenue, including potential incorporation of new technology to add or replace its existing furnace/future projects. By incorporating lower costs & capex across projects, we upgrade our TP to Rp4,500/share (previously Rp3,650/share).

Re-iterate Buy rating with a higher TP of Rp4,500/share

We maintain our FY25F-27F NP forecast as changes in mining capex won't have had material impact to our estimates, aside from higher NPV for the mining projects. We re-iterate our Buy rating on INCO as management's continuous effort in lowering its cash costs, seeking further avenue to boost revenues (i.e. re-negotiation on matte payability, entertaining the possibility of new technology), and lower capex for Bahodopi/Pomalaa mine has yet to be fully appreciated by the market. Our new TP of Rp4,500/shares implies 7x FY27F P/E vs. 5-14x peers, is still undemanding, in our view.

Financial Summary (US\$ mn)	2023A	2024A	2025F	2026F	2027F
Revenue	1,232	950	967	1,183	1,469
EBITDA	499	238	260	416	655
Net profit	274	58	72	158	303
EPS growth	37%	-79%	25%	119%	92%
ROE	9%	2%	2%	4%	7%
PER (x)	7.3	34.6	27.6	12.6	6.6
EV/EBITDA (x)	2.6	5.6	6.6	4.7	2.9
Dividend yield	3%	0%	1%	0%	0%
IPS vs. consensus			90%	108%	142%

Source: Company, Indo Premier

Share price closing as of: 29 April 2025

Asset monetization story – making up for the lost decade

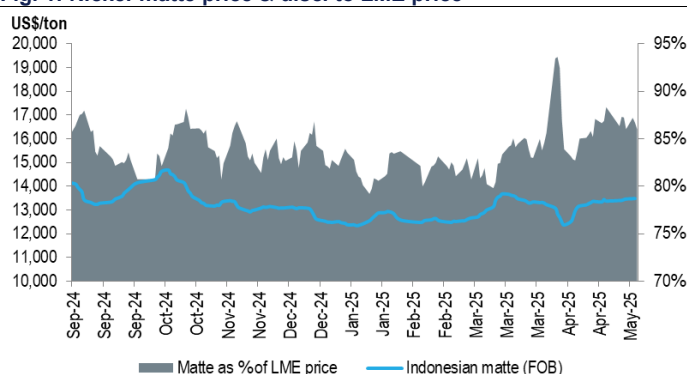
For the past decade, investment thesis on INCO only surrounds the direction and movement of LME nickel price – as c.100% of its revenue were sourced from its nickel-matte sales (pegged at 78% of LME price). With stake divestment to MIND ID/government were due in 2020 & 2024, Vale Indonesia had already planned to start its mining operation in Pomalaa and Bahodopi blocks by building smelters in these areas. At the time, HPAL technology by Sumitomo – mimicking Coral Bay/Taganito in the Philippines, including building tailing dams, were among the smelters that are considered. Furthermore, RKEF in Bahodopi area (producing FeNi), which incorporate Vale SA's sustainability plan – i.e. using natural gas vs. typical thermal coal, was also being considered at the time.

However, fast forward to Covid-19 period and prior to the divestment in 2024, none of these plan were materialized. Such execution delay, met with declining LME price off-peak from Russia-Ukraine war – where LME price reached US\$100k/t before being cancelled, and Liberation day tariff in Apr25, has sent INCO share price to plummet below its Covid-low to ~Rp1,800/share. But, recent share price rally off-bottom were without any particular reason, as we think INCO's cultural and operational transformation has also contributed to the recent rally.

During our NDR with management early in Oct24 ([report](#)), it was first mentioned that the company will be exploring to sell its nickel-ore to 3rd party (not only to its HPAL JVs). With joint-control operation between Vale, Sumitomo, MIND ID, the key emphasis from the new management and direction of the company is the agility and flexibility in exploring new opportunities. Several actions that we think deserved to be highlighted are:

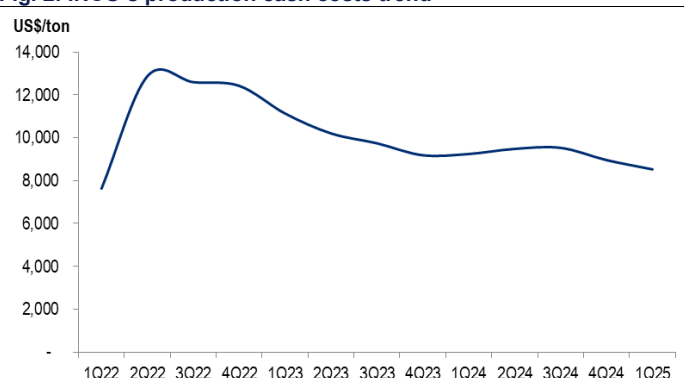
- Re-negotiation in nickel-matte payability – 78% of LME, considering it is now lower vs. market price of 80-90% to LME price (Fig. 1)
- Cost-efficiencies, reflected in lower production cash costs (Fig. 2), albeit energy costs were also declining, but there have been renegotiations happening with INCO's suppliers.
- Lower mining capex (Bahodopi & Pomalaa) from US\$1.4bn overall to US\$1bn.

Fig. 1: Nickel-matte price & disc. to LME price



Source: Company data, Indo Premier

Fig. 2: INCO's production cash costs trend



Source: Company data, Indo Premier

Channel-check with potential nickel ore buyers

Our channel-check with smelters indicate that INCO's nickel ore was indeed a high-quality. With good mining practice (GMP) through its Vale's standard, its nickel-ore quality is not doubted by buyers. As a blessing in disguise, as its asset were not monetized in the past decades due to lengthy approval

process pre-joint control operation, its ore grade were relatively higher vs. what's available in the market as of now. Thus, we think INCO won't encounter any major issue in finding suitable buyers for its ores.

Furthermore, INCO's latest disclosure regarding its reserves/resources amount were understated, in our view, as INCO would take a more conservative step further beyond JORC standard, meaning the actual amount of its reserves/resources were higher than its official disclosure, if it were to use JORC standard. At this rate, we think it would be in few years' time before other blocks – such as Tanamalia, could be monetized as well.

Fig. 3: INCO's reserves/resources (as per Dec 31st, 2024)

Ore Resources	Dec-24			Dec-23			Var (%)		
	mn wmt	mn dmt	Nickel grade (%)	mn wmt	mn dmt	Nickel grade (%)	mn wmt	mn dmt	Nickel grade (%)
Limonite - Measured & Indicated	482	310	1.1%	711	451	1.1%	-32%	-31%	0%
Limonite - Inferred	50	31	1.1%	50	31	1.1%	0%	0%	0%
Saprolite - Measured & Indicated	263	166	1.7%	255	163	1.7%	3%	2%	0%
Saprolite - Inferred	562	288	1.8%	537	277	1.8%	5%	4%	0%

Ore Reserves	Dec-24			Dec-23			Var (%)		
	mn wmt	mn dmt	Nickel grade (%)	mn wmt	mn dmt	Nickel grade (%)	mn wmt	mn dmt	Nickel grade (%)
Limonite	564	347	1.1%	347	213	1.2%	63%	63%	-1%
Saprolite	471	215	1.7%	494	221	1.7%	-5%	-3%	0%

Source: Bloomberg, Company Data, Indo Premier estimates

Pushbacks on INCO – RKAB approval, ore premium, demand

One of the main bearish angle on INCO is the uncertainty surrounding nickel ore quota approval – RKAB, the sustainability of ore premium, and whether the current ore and downstream demand would justify for ore premium to remain elevated at this level.

We think these pushbacks are justified as the primary risks for INCO's asset monetization story, particularly RKAB approval. As previously, another MIND ID subsidiary, Aneka Tambang, had also experienced similar issue in early 1Q24, which led to market disappointment and close to a one-year delay in its ore growth story. Thus, we can safely conclude that just being one of the government-related entities (via MIND ID stake in INCO) do not guarantee RKAB quota approvals.

However, our channel-check suggest that ESDM has been relatively consistent in its criteria, which include avoiding the mismatch between RKAB quota that is being proposed vs. mining-plan for each mines in its FS (feasibility study) document. As a result, as long as these criteria are met, we think there's a higher chance for RKAB approval.

Regarding ore premium, recent energy costs decline (i.e. thermal-coal) has enabled RKEF smelters to absorb higher ore premium, and month-to-date, ore premium has went up by another US\$2-3/wmt for 1.6% ore grade, according to our check. Nevertheless, we continuously argued that ore scarcity was indeed structural, rather than cyclical, especially with several industrial parks accepting ore grade below 1.5% vs. 1.6-1.7% minimum, just

two or three years prior. Additionally, there has been ore shipments from the Philippines, in addition to Papua New Guinea (PNG) and New Caledonia also exploring to export their ore to Indonesia.

Another key risks are potential change to existing management, which remains a possibility in our view. However, in the long-term basis, we think risk/reward is skewed to the upside, considering the joint-control operation set to operate smoothly, in our view, underpinning our TP upgrade to Rp4,500/share (Fig. 4).

Fig. 4: INCO sum of the parts (SOTP) valuation

SOTP summary	Production	Basis	Stake (%)	Amount (US\$ mn)
Sorow ako (Existing) + Ore Mining	70ktpa Ni-Matte	DCF	100%	2,150
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
Enterprise value (US\$ mn)				3,116
Net cash (debt) - As of end FY26F				(50)
Equity value (US\$ mn)				3,067
Fair value (Rp per share)				4,500

Source: Bloomberg, Company Data, Indo Premier estimates

Fig. 5: Peers valuation table

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				25F	26F	27F	25F	26F	27F	25F	26F	27F
ADMR IJ	Adaro Minerals Indonesia	Buy	1,500	9.6	6.3	4.8	9.9	7.5	6.1	N/A	N/A	N/A
ANTM IJ	Aneka Tambang	Buy	2,500	15.1	12.9	14.0	9.3	8.5	9.2	5.2%	5.0%	5.8%
HRUM IJ	Harum Energy	Hold	1,450	5.5	4.2	N/A	4.9	3.2	N/A	N/A	N/A	N/A
INCO IJ	Vale Indonesia	Buy	3,650	27.6	12.6	6.6	6.6	4.7	2.9	N/A	N/A	N/A
MBMA IJ	Merdeka Battery Materials	Buy	560	55.9	10.1	3.8	12.5	5.9	2.1	N/A	N/A	N/A
MDKA IJ	Merdeka Copper Gold	Buy	2,400	N/A	15.5	10.7	11.1	6.4	5.3	N/A	N/A	N/A
NCKL IJ	Trimegah Bangun Persada	Buy	1,100	5.9	4.8	4.8	4.4	3.6	3.2	4.3%	5.0%	6.3%

Source: Bloomberg, Company Data, Indo Premier estimates

Income Statement (US\$ mn)	2023A	2024A	2025F	2026F	2027F
Net revenue	1,232	950	967	1,180	1,451
Cost of sales	(885)	(842)	(854)	(925)	(990)
Gross profit	347	108	113	255	461
SG&A Expenses	(22)	(38)	(31)	(34)	(39)
Operating profit	325	70	82	221	422
Net interest	26	29	19	(0)	(10)
Others	2	(25)	2	2	2
Pre-tax income	353	74	103	223	414
Income tax	(78)	(16)	(23)	(49)	(91)
Minority interest	0	0	0	0	0
Profit-sharing payment	0	0	(8)	(17)	(32)
Net income	274	58	72	156	291

Balance Sheet (US\$ mn)	2023A	2024A	2025F	2026F	2027F
Cash & equivalent	699	675	445	550	579
Receivable	102	84	86	105	129
Inventory	156	149	151	163	175
Other current assets	77	97	15	16	19
Total current assets	1,033	1,005	696	835	901
Fixed assets	1,696	1,975	2,524	2,876	3,135
Other non-current assets	197	197	197	315	357
Total non-current assets	1,893	2,172	2,721	3,191	3,491
Total assets	2,926	3,177	3,417	4,026	4,392

ST loans	0	0	0	0	0
Payable	141	171	173	188	201
Other payables	0	0	0	0	0
Current portion of LT loans	0	0	0	0	0
Other current liabilities	76	93	87	74	79
Total current liab.	217	263	260	262	280
Long term loans	0	0	150	500	500
Other LT liab.	145	180	205	289	314
Total non-current liabilities	145	180	355	789	814
Total liabilities	361	444	616	1,051	1,094

Equity	414	526	526	526	526
Retained earnings	2,150	2,207	2,276	2,450	2,773
Minority interest	0	0	0	0	0
Total SHE + minority int.	2,565	2,733	2,802	2,975	3,298
Total liabilities & equity	2,926	3,177	3,417	4,026	4,392

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2023A	2024A	2025F	2026F	2027F
Net income	244	15	163	56	282
Depr. & amortization	174	168	178	192	215
Changes in working capital	75	67	(1)	(32)	(20)
Others	0	0	0	0	0
Cash flow from operating	492	250	340	216	477
Capital expenditure	(319)	(448)	(727)	(544)	(474)
Others	(47)	63	25	83	26
Cash flow from investing	(366)	(384)	(702)	(461)	(448)
Loans	3	(1)	144	350	0
Equity	(0)	111	0	0	0
Dividends	(60)	(1)	(12)	0	0
Others	0	0	0	0	0
Cash flow from financing	(57)	110	133	350	0
Changes in cash	69	(24)	(230)	105	28

Key Ratios	2023A	2024A	2025F	2026F	2027F
Gross margin	28%	11%	12%	22%	32%
Operating margin	26%	7%	8%	19%	29%
Pre-tax margin	29%	8%	11%	19%	29%
Net margin	22%	6%	7%	13%	20%
ROA	9%	2%	2%	4%	7%
ROE	9%	2%	2%	4%	7%
Acct. receivables TO (days)	12.1	11.3	11.3	11.3	11.3
Inventory TO (days)	5.7	5.7	5.7	5.7	5.7
Payable TO (days)	6.3	4.9	4.9	4.9	4.9
Debt to equity	0.0	0.0	0.1	0.2	0.2
Interest coverage ratio (x)	32.2	9.4	8.9	8.7	11.5
Net gearing	(0.3)	(0.2)	(0.1)	(0.0)	(0.0)

Source: Company, Indo Premier