

Vale Indonesia Tbk (INCO IJ)

Efficiency Is Requisite

INCO's performance of 2Q19 began to slightly narrow the financial deficit of 1Q19 despite net losses it posted. Its performance begins to crawl and rise due to the hiking global nickel prices, increasing ASP, and growing sales volume. The future endeavours it must complete are efficiency and more profit-making sales performance. Adding to its must-to-do efforts is to consider the electric car business opportunity, potentially providing positive synergies.

Wobbly Performance

In 2Q19, INCO posted revenues of USD166 billion (-18% YoY, + 31% QoQ) and net losses decreasing to USD6 billion (vs. the 1Q19 net losses of USD20 billion). Its financial deficit was attributable to drastic declines in the 1Q19 revenues, followed by rising COGS for fuel and lubricants. However, the maintenance processes for a number of production equipment that was completed in 2Q19 narrowed the deficit.

Impacts of Hiking Global Nickel Prices

Global nickel prices hiking in 2Q19 with the average price of USD12,291 enabled INCO to record ASP of USD9,774 per ton (-10% YoY, 7% QoQ) with sales of USD165 million (-18% YoY, +23 % QoQ) followed by nickel matte sales volume of 16,965 mt (-9% YoY, + 22% QoQ). We project that for 2019F, INCO is capable of recording sales of USD736 million, with nickel matte sales volume of 70,021 and ASP falling shortly at USD10,506 per ton. The 2019F performance is likely to generate total revenues of USD54 million. The average global nickel price of 2019F is likely to fall short at the range of USD15,549, our estimate.

Efficiency and Business Opportunities

INCO continues to boost efficiency at the 2Q19 production process since energy costs have been one of the biggest expenses by far. Diesel consumption was reduced to 19,978 kiloliters (+ 5% YoY, -29% QoQ), with average diesel prices at USD0.58 (-6% YoY, -1% QoQ). The sharp decrease was attributable to the properly re-function of Larona Hydropower plant, minimizing the use of thermal power generators. Apart from the efficiency it successfully carried out, it paves the way for supplying batteries for electric cars. Electric car manufacturing is a fast-moving industry as China powering up the sales of 500,000 units in 2018 (Chinese market share +76% YoY) makes the industry more lucrative. The industry moving into the fast lane brings positive long-term prospect for the nickel industry as nickel is a raw material for electric car batteries. INCO inevitably reaps benefits from the rapid rise of the electric car industry, for it provides long-term business synergies.

BUY Rating at the Price Target of IDR3,960

We take account the 2Q19 efficiency having yet to reach maximum. The 2Q19 overall performance slightly improved even though it had yet to post positive results. Thus, we maintain BUY recommendation with the price target of IDR3,960 or a 15.1% upside potential based on the estimate of a forward EV/EBITDA at 10.9x. INCO is currently traded at a 2019F EV/EBITDA of 12.2x.

Vale Indonesia Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	777	736	780	836
Growth (%)	23.4%	-5.3%	6.1%	7.1%
EBITDA	218	168	236	261
Net Profit	61	54	79	93
EPS (IDR)	88	81	116	140
Growth (%)	N/A	-8.2%	43.3%	20.9%
P/E	34.1x	37.2x	25.9x	21.5x
P/BV	1.1x	1.1x	1.0x	0.9x
EV/EBITDA	9.4x	12.3x	8.5x	7.6x
ROE (%)	3.2%	2.8%	3.9%	4.4%
DER (%)	1.9%	1.9%	3.9%	7.4%
Net Debt	-265	-240	-413	-478

Unit: USD mn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Company Update | Aug 19, 2019

Buy

Dec 2020 TP (IDR)	3,960
Consensus Price (IDR)	3,801
TP to Consensus Price	4.2%
vs. Last Price	15.1%

Shares data

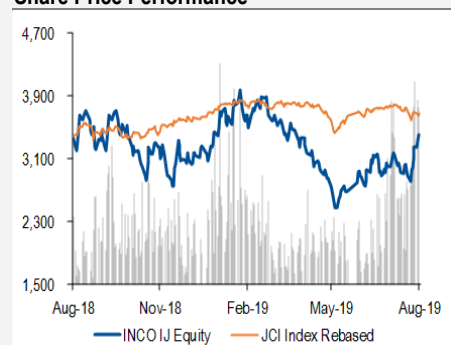
Last Price (IDR)	3,440
Price Date as of	Aug 15, 2019
52 wk Range (Hi/Lo)	4,150 / 2,410
Free Float (%)	20.5
Outstanding sh.(mn)	9,936
Market Cap (IDR bn)	34,181
Market Cap (USD mn)	2,392
Avg. Trd Vol - 3M (mn)	14.74
Avg. Trd Val - 3M (bn)	44.49
Foreign Ownership	80.1%

Mining

Metal & Mineral

Bloomberg	INCO.IJ
Reuters	INCO.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	12.3%	16.0%	8.2%	4.7%
Rel. Ret.	10.6%	17.8%	11.2%	-4.2%

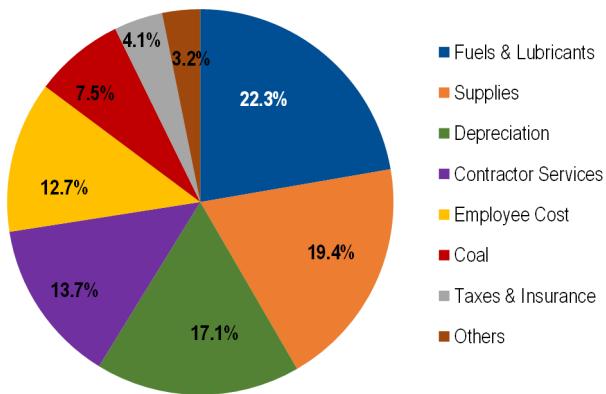
Meilki Darmawan

(021)797-6202, ext: 170

meilki.darmawan@nhsec.co.id

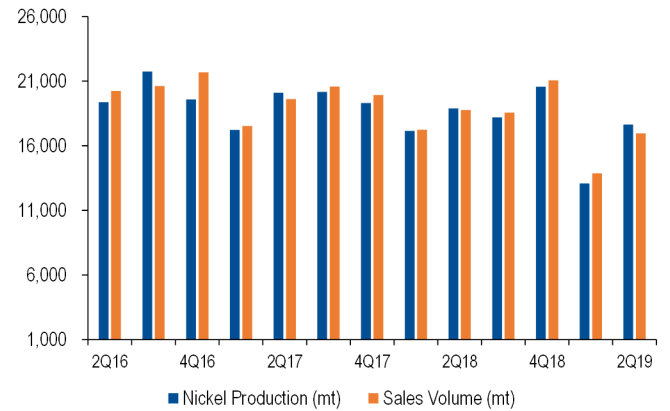
Performance Highlights in Charts

6M19 COGS



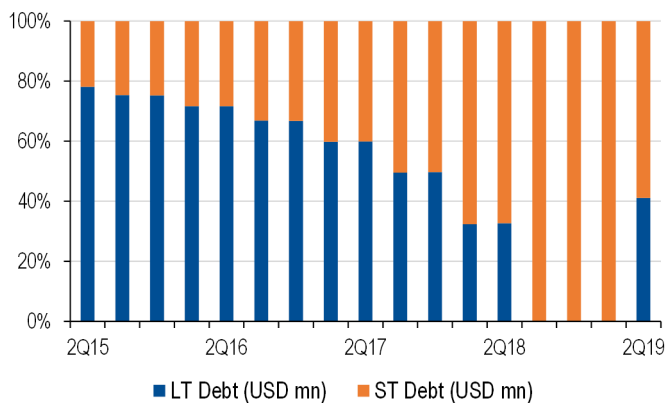
Source: Company Data, NHKS Research

Nickel Production & Sales Volume



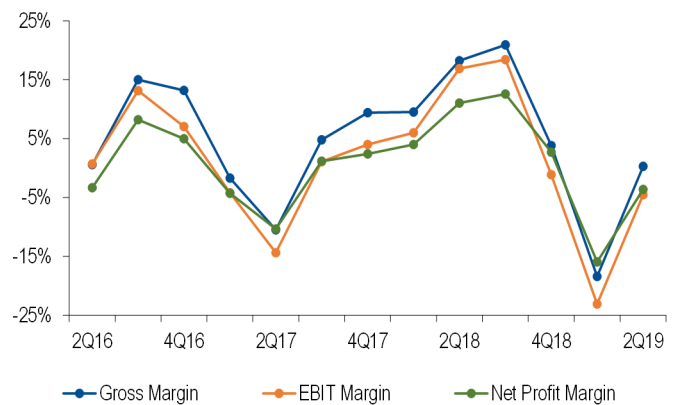
Source: Company Data, NHKS Research

ST Debt & LT Debt



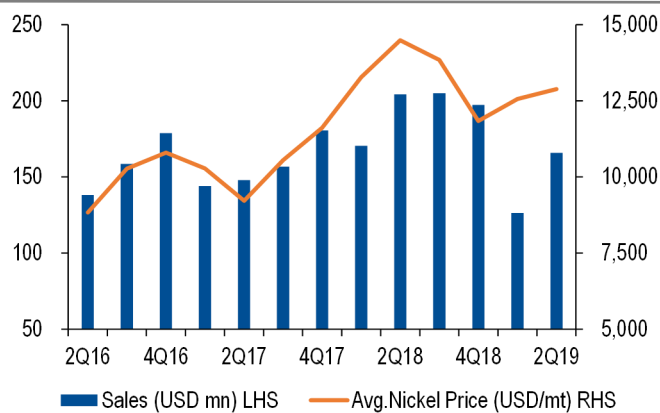
Source: Company Data, NHKS Research

Margin Ratios



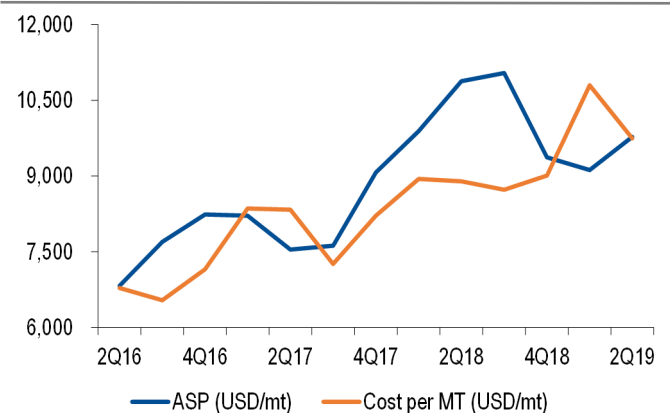
Source: Company Data, NHKS Research

Sales & Avg. Nickel Prices



Source: Company Data, NHKS Research

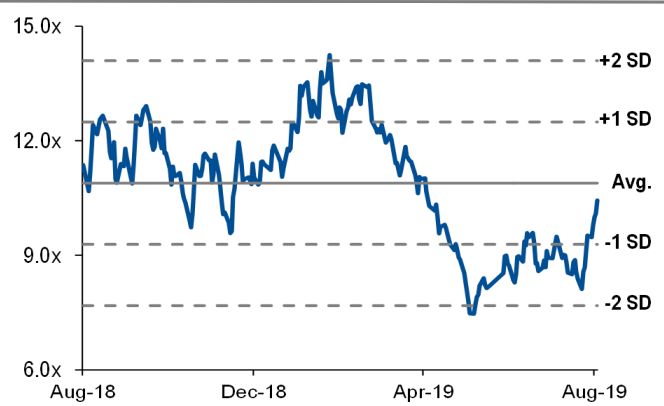
ASP & Cost per MT



Source: Company Data, NHKS Research

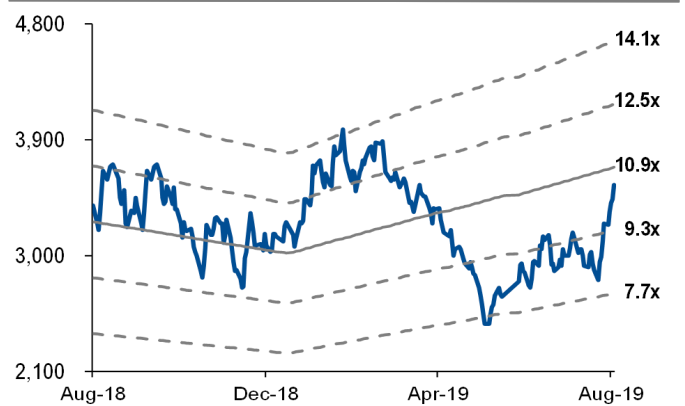
Valuation Highlights in Charts

12-Month Forward P/E Band



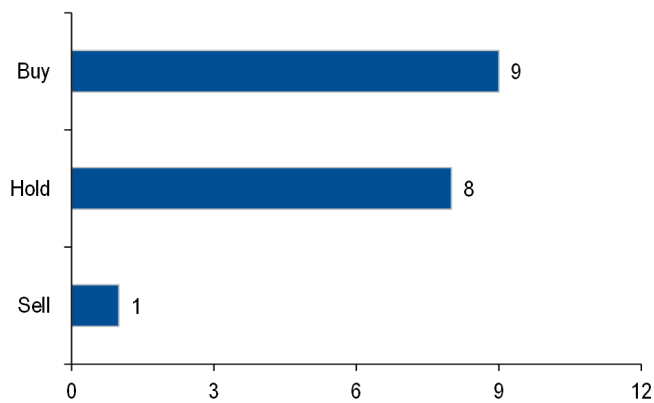
Source: Bloomberg, NHKS Research

12-Month Dynamic Forward P/E Band



Source: Bloomberg, NHKS Research

Recommendations of Analysts



Source: Bloomberg, NHKS Research

Stock and Nickel Prices Correlated Positively



Source: Bloomberg, NHKS Research

Quarterly Review

	2Q18	3Q18	4Q18	1Q19	2Q19					3Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Sales	204	205	197	126	166	191	-18.8%	31.2%	-13.2%	201
Gross Profit	37	43	8	-23	1	59	-98.6%	-102.2%	-99.1%	56
EBIT	35	38	-2	-29	-8	51	-121.7%	-74.3%	-114.7%	52
EBITDA	67	70	30	2	17	85	-74.3%	699.8%	-79.7%	74
Net Profit	23	26	5	-20	-6	39	-126.7%	-70.2%	-115.4%	41
Margin										
Gross Margin	18.3%	20.9%	3.8%	-18.4%	0.0%	30.9%	-17.9%	18.7%	-30.6%	27.7%
EBIT Margin	16.9%	18.4%	-1.1%	-23.1%	-5%	26.7%	-21.4%	18.6%	-31.2%	26.0%
EBITDA Margin	32.9%	34.1%	15.3%	1.7%	10%	44.5%	-22.5%	8.7%	-34.1%	37.1%
Net Profit Margin	11.0%	12.6%	2.7%	-15.9%	-4%	20.4%	-14.7%	12.3%	-24.0%	20.6%

Unit: USD mn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Sales	-Revised	736	780	836
	-Previous	736	780	836
	-Change	0.0%	0.0%	0.0%
Gross Profit	-Revised	89	123	177
	-Previous	96	109	161
	-Change	-7.5%	12.6%	9.6%
EBIT	-Revised	65	103	122
	-Previous	63	77	125
	-Change	4.3%	34.0%	-2.2%
EBITDA	-Revised	168	236	261
	-Previous	195	205	261
	-Change	-13.8%	14.9%	0.0%
Net Profit	-Revised	54	79	93
	-Previous	36	69	73
	-Change	49.6%	14.1%	27.4%
Margin				
Gross Margin	-Revised	12.1%	15.8%	21.2%
	-Previous	13.1%	14.0%	19.3%
EBIT Margin	-Revised	8.9%	13.2%	14.6%
	-Previous	8.5%	9.8%	14.9%
EBITDA Margin	-Revised	22.9%	30.2%	31.2%
	-Previous	26.5%	26.3%	31.2%
Net Profit Margin	-Revised	7.3%	10.1%	11.2%
	-Previous	4.9%	8.8%	8.8%

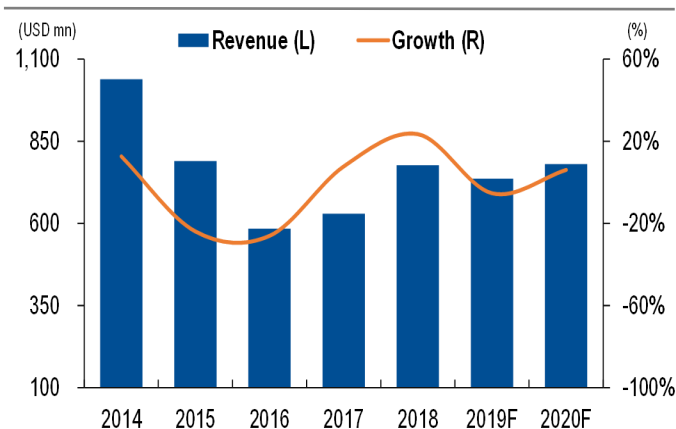
Unit: USD mn, %

Source: Company Data, NHKS Research

Company Overview

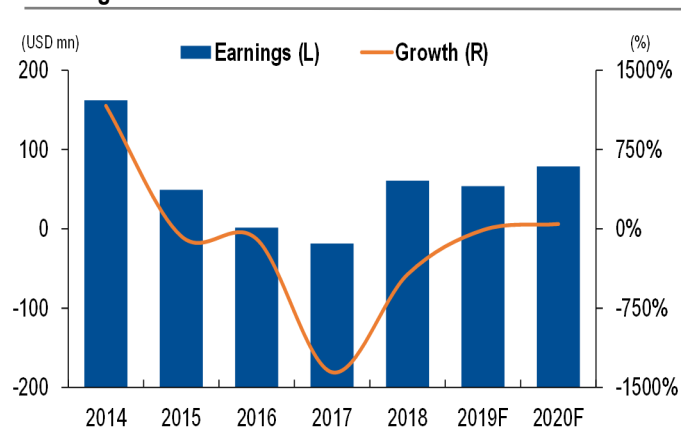
- PT Vale Indonesia Tbk (INCO) is a mining company with integrated nickel processing facilities South Sulawesi Province. It was founded on July 25th, 1968 and went public in 1990 with Vale Canada Limited as an approved shareholder.
- INCO is a subsidiary of a Brazil-headquartered multi-mining company: The global leader in iron ore production and the world's second largest nickel producer.
- INCO using pyrometallurgical technology produces nickel in matte as the final product. The average nickel production volume reaches 75,000 metric tons per year.
- INCO has a total concession area of 118.017 located in Sorowako, Bahodopi and Pomalaa.
- INCO exports all of its nickel production to Vale Canada Limited in Canada and Sumitomo Metal Co., Ltd. in Japan.

Revenue and Growth Movements



Source: Company Data, NHKS Research

Earnings and Growth Movements



Source: Company Data, NHKS Research

Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	EV/EBITDA LTM	P/BV
Indonesia									
VALE INDONESIA TBK	2,317	2,202	695	5	467.70%	0.7%	0.3%	17.5x	1.2x
ANEKA TAMBANG TBK	1,787	2,309	1,790	56	113.13%	3.1%	4.1%	10.3x	1.3x
China									
ZHONGJIN GOLD CORP	5,103	5,532	5,231	25	-34.62%	0.5%	1.25%	N/A	2.6x
YINTAI RESOURCES	4,429	1,553	747	107	61.47%	14.3%	8.53%	N/A	3.6x
INNER MONGOLIAR	2,106	2,836	2,852	130	-24.91%	4.5%	8.39%	N/A	1.4x
Taiwan									
KING SLIDE WORKS	1,020	366	145	55	9.11%	37.6%	17.57%	11.2x	3.2x
Australia									
NICKEL ASIA CORP	629	879	355	43	-18.45%	12.2%	9.05%	4.2x	1.1x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT

(USD mn)	2018/12A	2019/12F	2020/12F	2021/12F
Sales	777	736	780	836
Growth	23.4%	-5.3%	6.1%	7.1%
COGS	(673)	(647)	(657)	(659)
Gross Profit	104	89	123	177
Gross Margin	13.4%	12.1%	15.8%	21.2%
Operating Expenses	(15)	(24)	(20)	(55)
EBIT	89	65	103	122
EBIT Margin	11.4%	8.9%	13.2%	14.6%
Depreciation	129	103	133	138
EBITDA	218	168	236	261
EBITDA Margin	28.0%	22.9%	30.2%	31.2%
Interest Expenses	(8)	(1)	(1)	(3)
EBT	83	75	109	130
Income Tax	(22)	(22)	(30)	(36)
Minority Interest	-	-	-	-
Net Profit	61	54	79	93
Growth	-431.1%	-11.4%	45.9%	18.4%
Net Profit Margin	7.8%	7.3%	10.1%	11.2%

PROFITABILITY & STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	3.2%	2.8%	3.9%	4.4%
ROA	2.8%	2.4%	3.4%	3.8%
ROIC	3.4%	2.4%	3.6%	3.9%
Cash Dividend (IDR bn)	-	-	-	-
Dividend Yield	-	-	-	-
Payout Ratio	-	-	-	-
DER	1.9%	1.9%	3.9%	7.4%
Net Gearing	13.1%	13.5%	28.2%	56.0%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	1.9%	1.9%	3.7%	6.9%
Equity Ratio	119.9%	119.7%	131.3%	134.7%
Debt Ratio	2.3%	2.3%	5.1%	9.9%
Financial Leverage	231.9%	227.1%	226.0%	225.7%
Current Ratio	359.9%	335.8%	406.1%	372.6%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	9,936	9,936	9,936	9,936
Share Price (IDR)	3,000	3,000	3,000	3,000
Market Cap (IDR tn)	29.8	29.8	29.8	29.8

BALANCE SHEET

(USD mn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	301	277	491	633
Receivables	124	185	153	127
Inventories	132	133	136	134
Total Current Assets	631	661	845	960
Net Fixed Assets	1,435	1,426	1,449	1,470
Other Non Current Assets	137	194	88	98
Total Assets	1,571	1,620	1,538	1,567
Payables	91	55	94	55
ST Bank Loan	37	38	78	156
LT Debt	-	-	-	-
Total Liabilities	319	341	364	415
Capital Stock & APIC	414	414	414	414
Retained Earnings	1,470	1,526	1,604	1,698
Shareholders' Equity	1,884	1,940	2,018	2,112

VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price /Earnings	34.1x	37.2x	25.9x	21.5x
Price /Book Value	1.1x	1.1x	1.0x	0.9x
Price/Sales	2.7x	2.8x	2.6x	2.4x
PE/EPS Growth	-0.1x	-3.3x	0.6x	1.2x
EV/EBITDA	9.4x	12.3x	8.5x	7.6x
EV/EBIT	23.1x	31.7x	19.6x	16.1x
EV (IDR bn)	29,545	29,569	29,397	29,332
Sales CAGR (3-Yr)	10.0%	8.0%	7.4%	2.5%
EPS CAGR (3-Yr)	216.6%	208.7%	9.2%	18.5%
Basic EPS (IDR)	88	81	116	140
Diluted EPS (IDR)	88	81	116	140
BVPS (IDR)	2,735	2,792	2,966	3,167
Sales PS (IDR)	1,128	1,059	1,146	1,253
DPS (IDR)	N/A	N/A	N/A	N/A

CASH FLOW STATEMENT

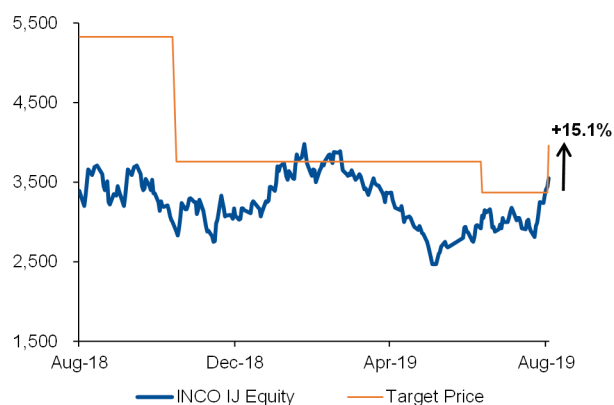
(USD mn)	2018/12E	2019/12F	2020/12F	2021/12F
Operating Cash Flow	201	72	212	232
Investing Cash Flow	(84)	(111)	(39)	(167)
Financing Cash Flow	(37)	15	41	77
Net Changes in Cash	80	(24)	214	142

TOP OWNERSHIP

By Geography	% Shareholders	%
Canada	70.1 Vale SA	58.7
Japan	24.8 Sumitomo Metal	20.1
United States	2.2 Norges Bank	1.26
Norway	1.5 Dimensional Fund	1.00

Source: Company Data, NHKS Research

Closing and target price update



Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2017.08.14	Hold	IDR2,560	IDR2,305
2017.11.06	Hold	IDR3,410	IDR3,021
2018.08.15	Buy	IDR5,325	IDR5,300
2018.10.29	Buy	IDR3,760	IDR5,004
2019.06.25	Buy	IDR3,370	IDR3,538
2019.08.19	Buy	IDR3,960	IDR3,801

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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