

Vale Indonesia Tbk (INCO IJ)

Efisiensi Masih Diperlukan

Kinerja INCO pada 2Q19 mulai sedikit mengikis defisit kinerja keuangan 1Q19 walaupun masih membukukan sedikit rugi bersih. Mulai merangkak naiknya kinerja INCO berkat penguatan harga nikel dunia, meningkatnya ASP, dan tumbuhnya volume penjualan. Tugas yang harus dihadapi INCO ke depan adalah efisiensi yang diikuti dengan meningkatkan kinerja penjualan. Di samping itu, peluang bisnis mobil listrik berpotensi memberikan sinergi positif.

Kinerja Masih Bergejolak

Pada 2Q19, INCO membukukan pendapatan USD166 miliar (-18% YoY, +31% QoQ) dan penurunan rugi bersih menjadi USD6 miliar (vs. rugi bersih USD20 miliar pada 1Q19). Lesunya keuangan INCO merupakan dampak dari penurunan drastis pendapatan pada 1Q19 yang diikuti kenaikan COGS bahan bakar minyak dan pelumas. Namun kinerja 2Q19 mulai mengikis defisit karena proses *maintenance* beberapa alat produksi telah selesai.

Imbas Penguatan Harga Nikel Dunia

Harga nikel dunia yang menguat pada 2Q19 dengan harga rata-rata USD12.291 membuat INCO berhasil mencatatkan ASP USD9.774 per ton (-10% YoY, 7% QoQ) dengan penjualan USD165 juta (-18% YoY, +23% QoQ) yang diikuti volume penjualan nikel matte 16.965 mt (-9% YoY, +22% QoQ). Kami memproyeksikan bahwa pada 2019F, INCO mampu membukukan penjualan USD736 juta disertai volume penjualan nikel matte 70.021 mt dengan ASP di kisaran USD10.506 per ton sehingga total pendapatan yang dihasilkan sebesar USD54 juta. Sebagai catatan, harga rata-rata nikel dunia pada 2019F akan berada dikisaran USD15.549, menurut estimasi kami.

Efisiensi dan Peluang Bisnis

INCO terus menggenjot efisiensi untuk proses produksi 2Q19 karena biaya energi menjadi salah satu pengeluaran terbesar selama ini. Konsumsi energi diesel ditekan menjadi 19.978 kiloliter (+5% YoY, -29% QoQ) dengan harga rata-rata diesel di level USD0,58 (-6% YoY, -1% QoQ). Penurunan signifikan ini karena Larona Hydropower plant kembali berfungsi maka penggunaan *thermal power generator* dapat diminimalkan. Selain keberhasilan upaya efisiensi, INCO sedang berupaya memasok baterai mobil listrik. Industri mobil listrik bergerak cepat dengan Tiongkok yang berhasil menjual 500.000 unit pada 2018 (pangsa pasar Tiongkok +76% YoY). Keberhasilan Tiongkok membuat industri mobil listrik semakin atraktif dan memberikan prospek jangka panjang positif bagi industri nikel yang memasok bahan baku baterai mobil listrik. INCO memiliki peluang yang besar dari pertumbuhan pesat bisnis mobil listrik, dan kami meyakini peluang bisnis tersebut akan memberikan sinergi positif jangka panjang.

Rating BUY dengan Target Harga Rp3.960

Kami menilai bahwa efisiensi INCO pada 2Q19 belum maksimal, tetapi kinerja 2Q19 sudah mulai membaik walaupun belum memberikan hasil positif. Kami mempertahankan rekomendasi BUY dengan target harga Rp3.960 atau potensi *upside* 15,1% berdasarkan estimasi menggunakan metode *forward EV/EBITDA* 10,9x. Saat ini, INCO diperdagangkan dengan *EV/EBITDA* 2019F 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

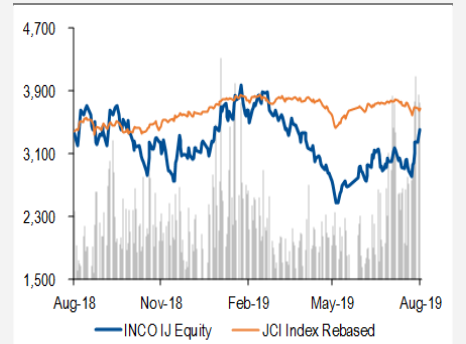
Last Price (IDR)	3,440
Price Date as of	Aug 15, 2019
52 wk Range (Hi/Lo)	4,150 / 2,410
Free Float (%)	20.5
Outstanding sh.(mn)	9,936
Market Cap (IDR bn)	34,181
Market Cap (USD mn)	2,392
Avg. Trd Vol - 3M (mn)	14.74
Avg. Trd Val - 3M (bn)	44.49
Foreign Ownership	80.1%

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%

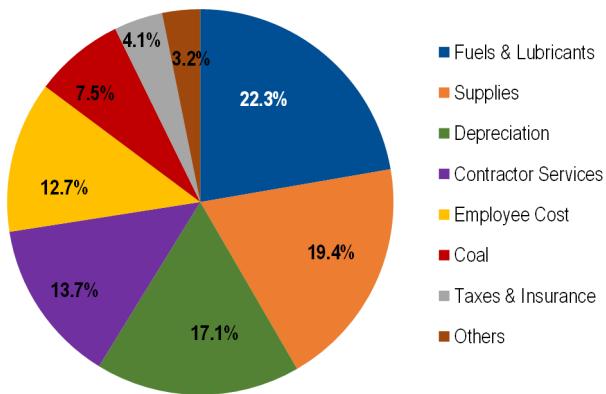
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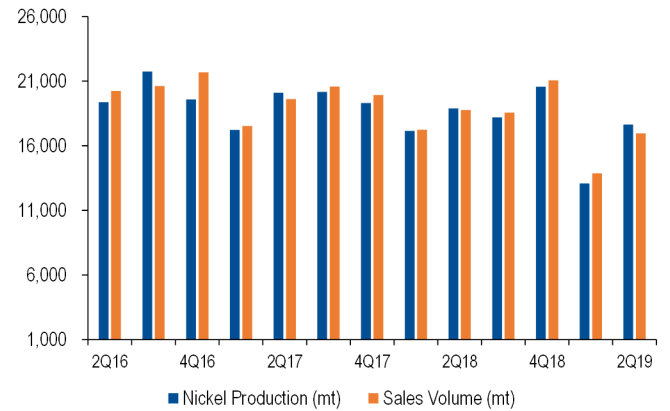
Performance Highlights in Charts

6M19 COGS



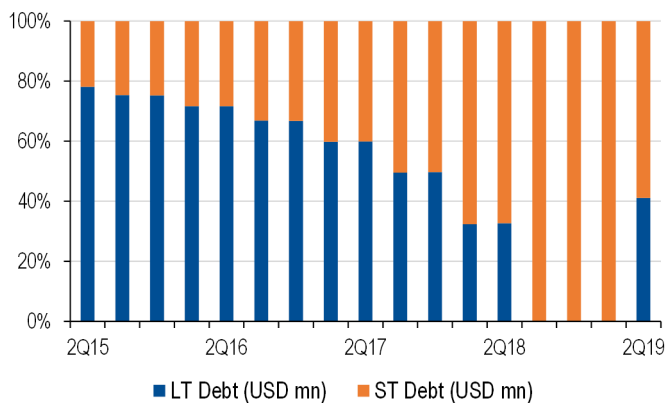
Source: Company Data, NHKS Research

Nickel Production & Sales Volume



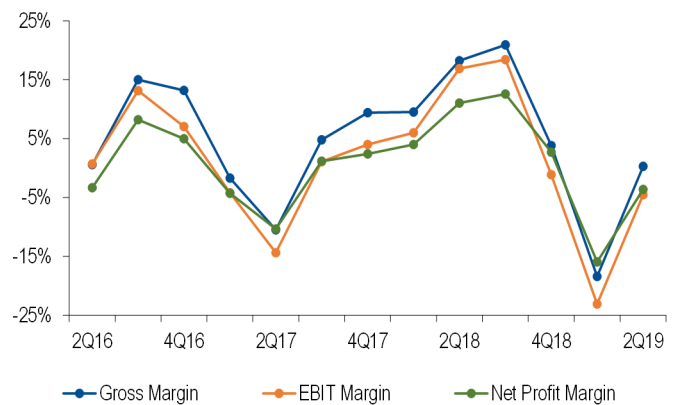
Source: Company Data, NHKS Research

ST Debt & LT Debt



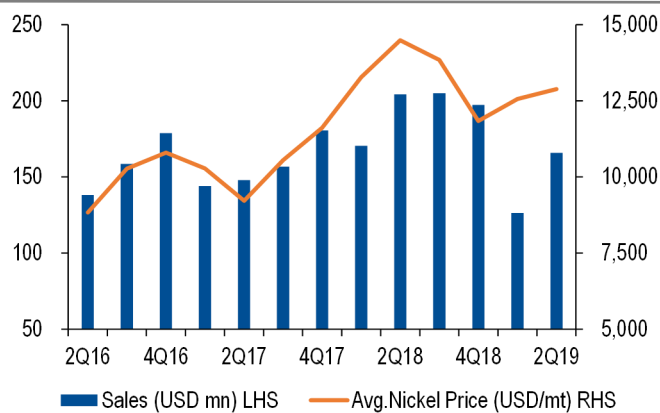
Source: Company Data, NHKS Research

Margin Ratios



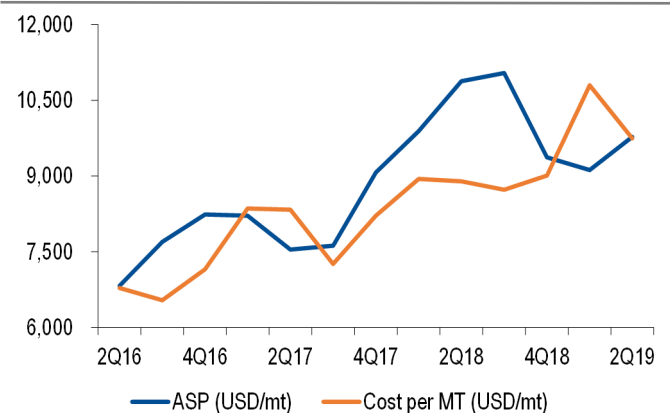
Source: Company Data, NHKS Research

Sales & Avg. Nickel Prices



Source: Company Data, NHKS Research

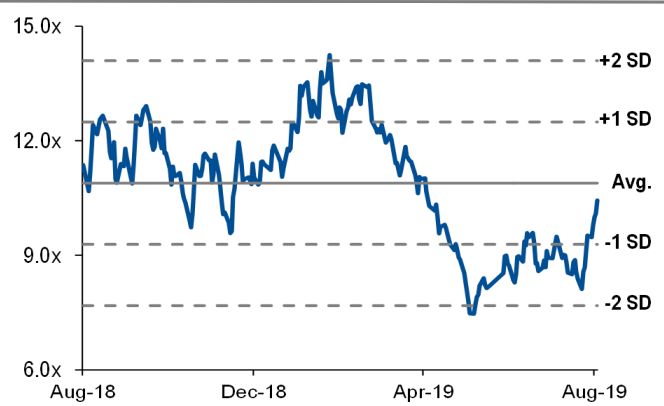
ASP & Cost per MT



Source: Company Data, NHKS Research

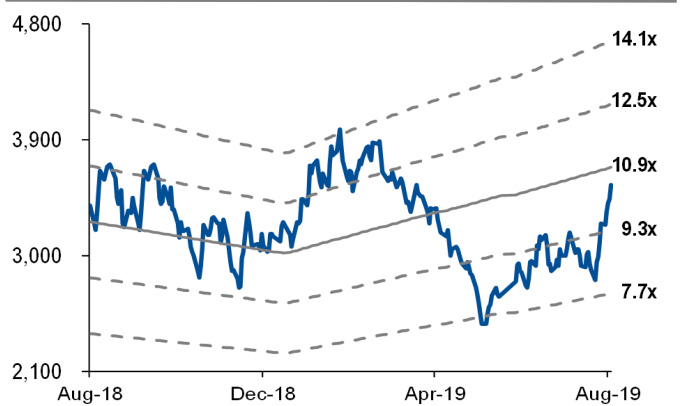
Valuation Highlights in Charts

12-Month Forward P/E Band



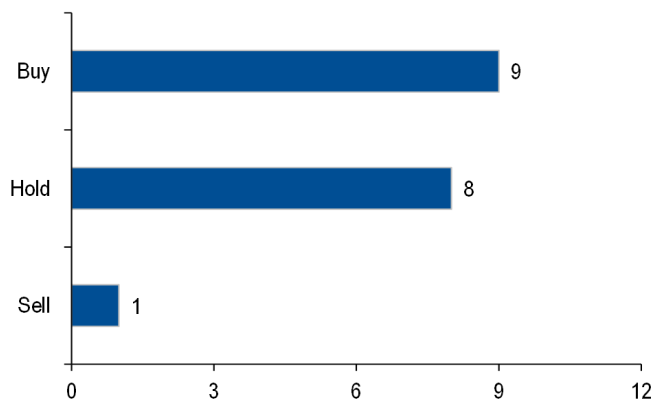
Source: Bloomberg, NHKS Research

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%

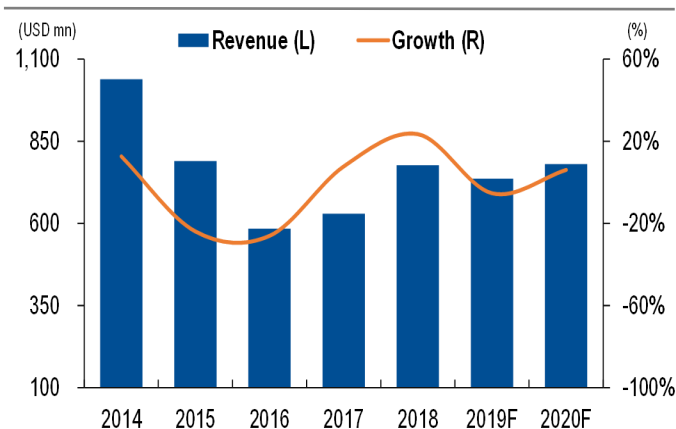
Unit: USD mn, %

Source: Company Data, NHKS Research

Sekilas tentang INCO

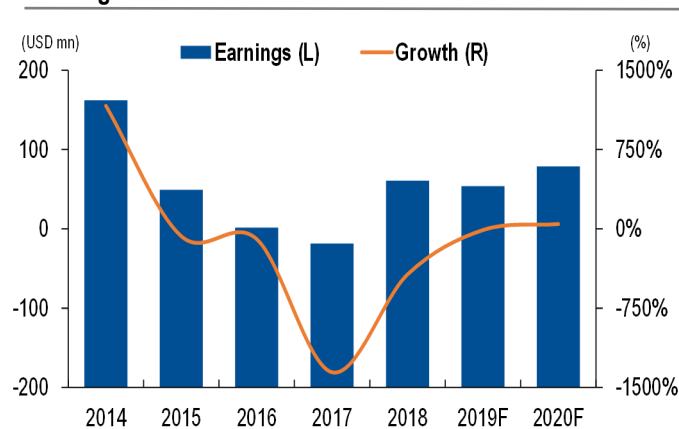
- PT Vale Indonesia Tbk (INCO) merupakan perusahaan tambang dan pengolahan nikel terintegrasi yang beroperasi di Provinsi Sulawesi Selatan. INCO didirikan pada 25 Juli 1968 dan *go public* pada 1990 dengan Vale Canada Limited sebagai pemilik saham mayoritas.
- INCO merupakan bagian dari Vale, perusahaan multitambang yang berpusat di Brazil yang merupakan pemimpin global produksi bijih besi dan salah satu produsen nikel terbesar kedua di dunia.
- INCO menambang nikel laterit untuk menghasilkan produk akhir nikel dalam matte. Rata-rata volume produksi nikel per tahun mencapai 75.000 metric ton. PT Vale menggunakan teknologi pyrometalurgi untuk memproduksi nikel.
- INCO memiliki total area konsesi seluas 118.017 hektar yang terletak di Sorowako, Bahodopi, dan Pomalaa.
- INCO memproduksi nikel yang seluruhnya diekspor ke Vale Canada Limited di Canada dan Sumitomo Metal Co, Ltd di Jepang.

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

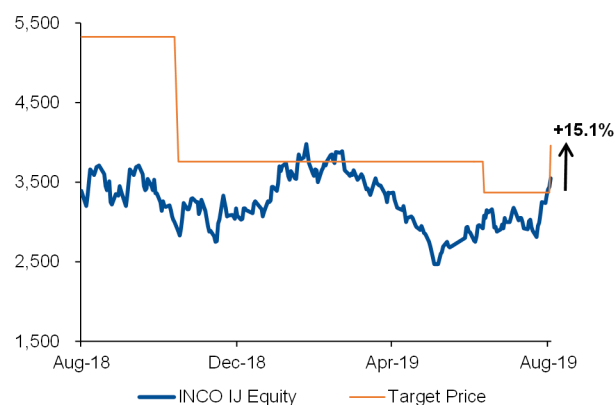
(USD mn)	2018/12E	2019/12F	2020/12F	2021/12F
Operating Cash Flow	201	72	212	232
Investing Cash Flow	(84)	(111)	(39)	(167)
Financing Cash Flow	(37)	15	41	77
Net Changes in Cash	80	(24)	214	142

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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