

Vale Indonesia Tbk (INCO IJ)

Expansion Is the Cue

Company Report | Jun 25, 2019

Buy

Dec 2019 TP (IDR)	3,370
Consensus Price (IDR)	3,538
TP to Consensus Price	-3.9%
vs. Last Price	+15.4%

Shares data

Last Price (IDR)	2,920
Price date as of	Jun 24, 2019
52 wk range (Hi/Lo)	4,720 / 2,410
Free float (%)	20.5
Outstanding sh.(mn)	9,936
Market Cap (IDR bn)	30.604
Market Cap (USD mn)	2.164
Avg. Trd Vol - 3M (mn)	8.29
Avg. Trd Val - 3M (bn)	24.87
Foreign Ownership (%)	80.1

Mining

Metal & Mineral

Bloomberg	INCO IJ
Reuters	INCO.IK

1Q19 Modest Performance

INCO posted 1Q19 net losses of USD20.2 million, marking worse performance than 4Q18 and 1Q18 performance, attaining earnings of USD5.3 million and USD6.8 million, respectively. 1Q19 sales of USD126.4 million declined by 36% q-q from 4Q18 sales of USD197.3 million and decreased by 26% q-q from 1Q18 sales of USD170.5 billion. INCO production edged down 36.4% to 13,080 tons compared to 20,579 tons in 4Q18.

Revised-Lower Estimates after Declining Production

1Q19 muted operational performance was attributable to maintenance activities of Larona canal and unanticipated damage to electric rotary kilns. Risks hampering 2019's production are unpredicted weather in the second semester 2019, global nickel price volatilities, slowdown in global economic growth inevitable to lagging demands for exports. We ebb our production estimates for FY19F from 70,745 tons to 75,000 with the nickel price estimate until the end of year at roughly USD13,500–USD14,000 per ton and the estimate of total FY19F sales of USD736 million.

Long-Term Business Expansion

The construction of new smelters in Pomalaa and Bahodopi is one of its business expansion strategies the process of which is at the final stage. It incorporate a joint venture with Chinese companies to partner in managing the sites. We pencil in new smelters are likely to boost long-term production capacities.

Recommendation BUY with Price Target of IDR3,370

We are sanguine about INCO's business outlook, underpinned by its potentially expansive business. Of note, its 20% stock ownership divestment is prioritized to be sold to state-owned enterprises. We maintain BUY recommendation based on a forward EV/EBITDA of 10.5x; the price target implies a 2019E EV/EBITDA of 11.0x. Now, INCO is traded at a 2019E of 10.2x.

Vale Indonesia Tbk | Summary (USD mn)

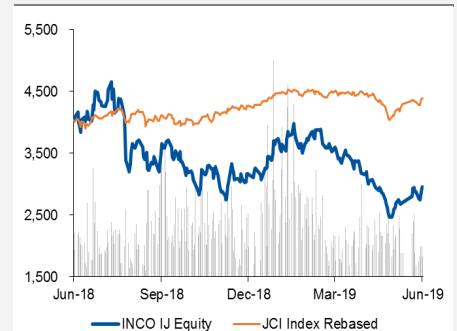
	2018	2019E	2020E	2021E
Sales	777	736	781	836
<i>Sales growth</i>	23.4%	-5.2%	6.1%	7.1%
EBITDA	204	195	322	353
Net Profit	61	36	120	123
EPS (IDR)	93	61	77	93
<i>EPS growth</i>	N/A	-33.9%	25.8%	20.8%
BVPS (IDR)	2,882	3,187	3,394	3,608
EBITDA margin	26.2%	26.5%	41.3%	42.3%
NPM	7.1%	4.9%	15.4%	14.7%
ROE	2.9%	1.7%	5.5%	5.3%
ROA	2.9%	1.7%	5.0%	4.8%
ROIC	2.8%	1.4%	5.2%	5.0%
P/E	32.4x	49.0x	39.0x	32.3x
P/BV	1.0x	0.9x	0.9x	0.8x
EV/EBITDA	10.8x	10.2x	9.9x	8.0x
DPS (IDR)	N/A	N/A	N/A	N/A
<i>Dividend yield</i>	N/A	N/A	N/A	N/A

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-9.2%	16.5%	-17.9%	-26.6%
Rel. Ret.	-11.6%	9.9%	-15.3%	-35.5%

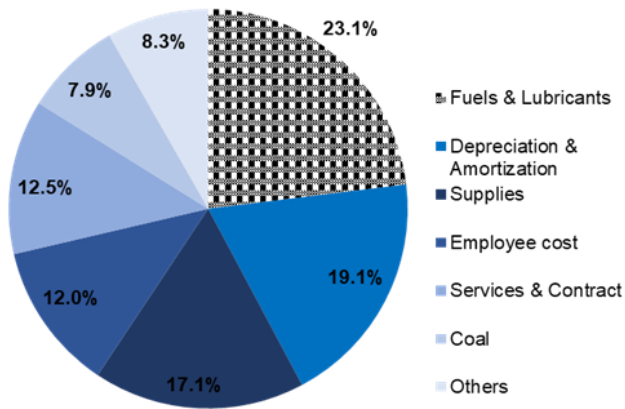
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Performance Highlights

3M19 Fuel become biggest COGS composition (%)



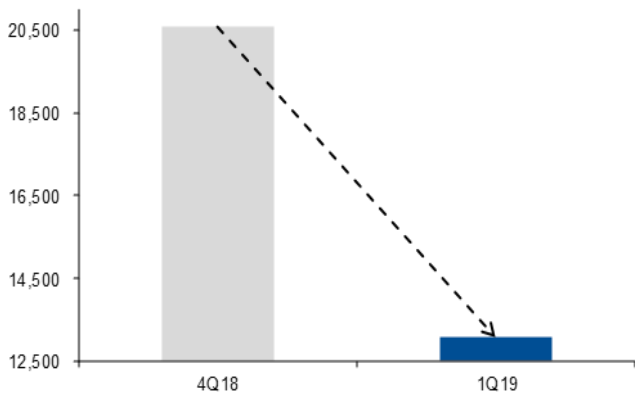
Source: Company Data, NHKS Research

World nickel price (USD/mt) in strengthening trends



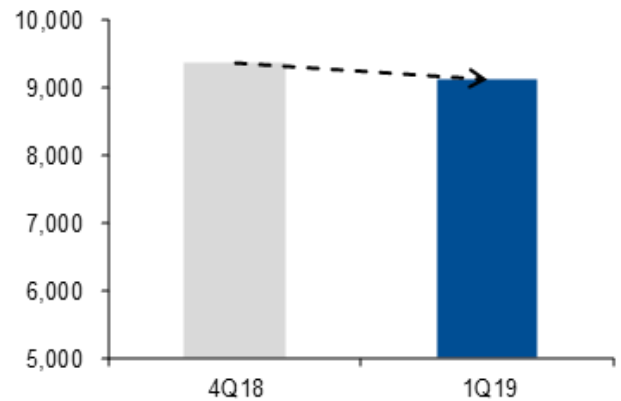
Source: Company Data, NHKS Research

1Q19 nickel production (mt) decrease of 36.4% q-q



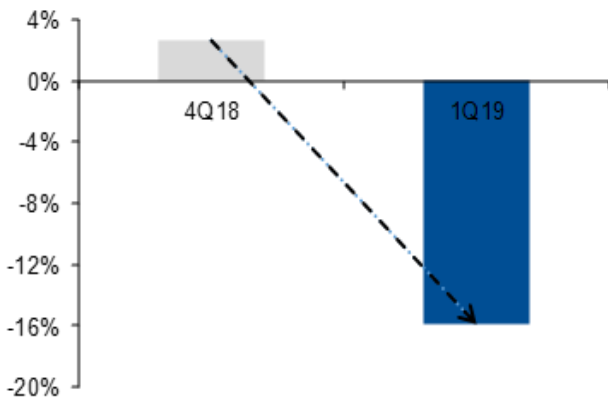
Source: Company Data, NHKS Research

1Q19 ASP (USD/mt) of nickel to increase 2.7% q-q



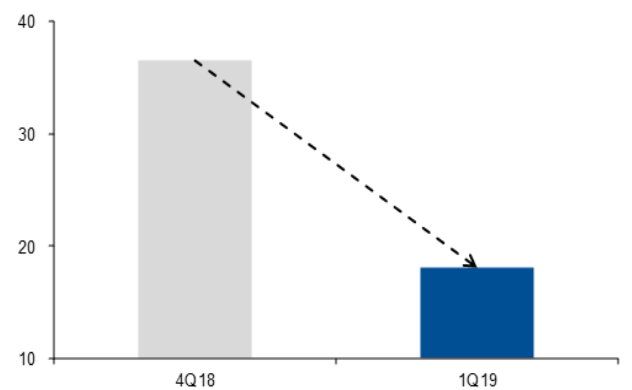
Source: Company Data, NHKS Research

1Q19 net profit margin decrease to 693.46% q-q



Source: Bloomberg, NHKS Research

1Q19 total debt (USD mn) decrease to 50.4% q-q



Source: Company Data, NHKS Research

1Q1 review (USD mn)

	1Q18	2Q18	3Q18	4Q18	1Q19					2Q19E
					Actual	Estimate	y-y	q-q	surprise	
Sales	170	204	205	197	126	225	-25.8%	-35.9%	-43.7%	191
Gross Profit	16	37	43	8	(23)	56	-243.1%	-408.4%	-141.4%	59
<i>Gross Margin</i>	9.5%	18.3%	20.9%	3.8%	-18%	25.0%	-28.0%	-22.2%	-43.4%	31.0%
EBIT	10	35	38	(2)	(29)	48	-385.9%	1210.6%	-161.4%	51
<i>EBIT Margin</i>	6.0%	16.9%	18.4%	-1.1%	-23%	21.1%	-29.1%	-22.0%	-44.2%	26.6%
EBITDA	42	67	70	30	2	80	-94.9%	-92.8%	-97.3%	85
<i>EBITDA Margin</i>	24.7%	32.9%	34.1%	15.3%	2%	35.4%	-23.0%	-13.6%	-33.7%	44.2%
Net Profit	7	23	26	5	(20)	34	-394.9%	-480.3%	-158.9%	39
<i>Net Margin</i>	4.0%	11.0%	12.6%	2.7%	-16%	15.2%	-20.0%	-18.6%	-31.2%	20.3%

Source: Bloomberg, NHKS research

Earnings revision (USD mn)

		2019E	2020E	2021E
Sales	Revised	736	781	836
	Previous	899	982	-
	Change	-18.2%	-20.5%	-
Gross Profit	Revised	96	109	161
	Previous	225	256	-
	Change	-57.3%	-57.3%	-
Gross Margin	Revised	13.1%	29.0%	30.3%
	Previous	25.0%	26.0%	-
EBIT	Revised	63	77	125
	Previous	191	223	-
	Change	-67.3%	-65.5%	-
EBIT Margin	Revised	8.5%	9.8%	14.9%
	Previous	21.3%	22.7%	-
EBITDA	Revised	195	205	261
	Previous	318	334	-
	Change	-38.7%	-38.6%	-
EBITDA Margin	Revised	26.5%	26.2%	31.2%
	Previous	35.4%	34.0%	-
Net Profit	Revised	36	69	73
	Previous	137	157	-
	Change	-73.7%	-56.1%	-
Net Margin	Revised	4.9%	8.8.4%	8.7%
	Previous	15.2%	16.0%	-

Source: NHKS research

A Glance at INCO

PT Vale Indonesia Tbk (INCO) is one of the biggest nickel producers in Indonesia. Its Sorowako-based smelter is facilitated with 3 fuel-fired burning rotary kilns, 5 fuel-fired reducing rotary kilns, 4 electric rotary kilns, and 3 Pierce-Smith converters. It also manages 3 hydroelectric plants with total capacities of roughly 365 megawatts (MW). One of its main businesses is the long-run nickel supplier for downstream consumers— Japan markets in particular. Its entire production of nickel in matte—under long-term contracts—is supplied to Vale Canada Limited (VCL) and Sumitomo Metal Mining Co. Ltd (SMM). The contract sets forth that 80% of the company's annual production is sold to VCL, while the remaining 20% is sold to SMM based on LME prices.

Competitiveness and Business Outlook

Indonesia is the biggest nickel producer in the Asia Pacific with the nickel production of roughly 400,000 MT in 2017. It is committed to efficient operation by applying cutting-edge technology in its existing smelter and plans to construct new smelters in Pomalaa and Bahodopi, Sulawesi. The construction of new smelters will increase its nickel production volume and boost its long-term revenues.

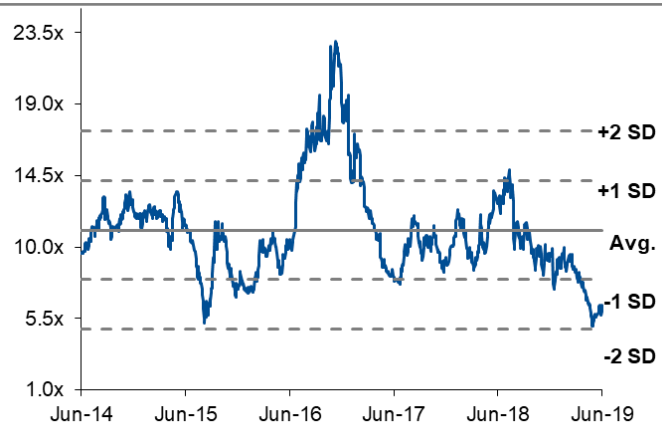
Asia Pacific Nickel Companies

Company	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									
INCO	2,035	2,202	733	34	467.7%	4.6%	1.8%	10.1x	1.1x
ANTM	1,358	2,309	1,790	56	113.1%	3.1%	4.1%	10.3x	0.9x
China									
ZHONGJIN GOLD CORP	4,759	5,532	5,231	25	-34.6%	0.5%	0.5%	N/A	2.4x
YINTAI RESOURCES	3,997	1,553	747	1-7	61.4%	14.3%	8.5%	N/A	3.2x
INNER MONGOLIA	2,495	2,836	2,852	130	-24.9%	4.5%	8.4%	N/A	1.6x
Taiwan									
KING SLIDE WORKS	924	366	145	62	69.6%	43.0%	19.3%	13.7x	2.7x
Philippine									
NICKEL ASIA CORP	580	879	349	51	-8.6%	14.7%	9.0%	4.2x	1.0x

Source: Bloomberg

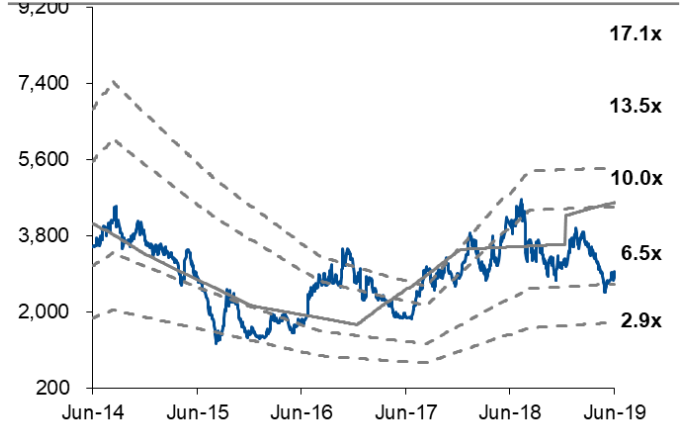
Multiple Valuation

Forward EV/EBITDA band | Last 5 years



Source: NHKS research

Dynamic Forward EV/EBITDA band | Last 5 years



Source: NHKS research

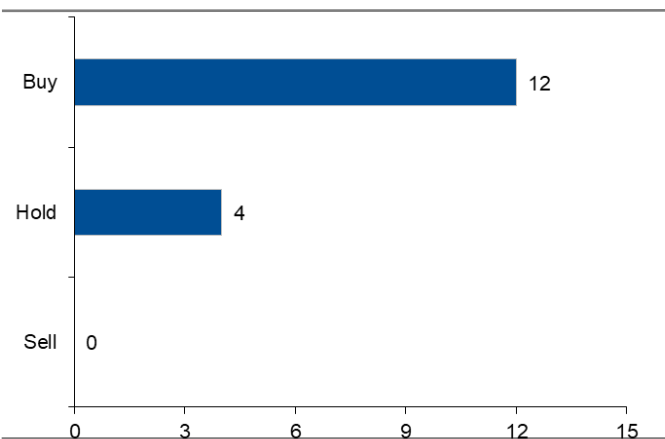
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
10/29/2018	Buy	3,760 (Dec 2019)	3,030	5,004	+24.1%	-24.9%
6/25/2019	Buy	3,370 (Dec 2019)	2,960	3,538	+15.4%	-3.9%

Source: Bloomberg, NHKS research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

INCOME STATEMENT

(USD mn)	2018/12A	2019/12E	2020/12E	2021/12E
Sales	777	736	781	836
<i>Growth</i>	23.4%	-5.2%	6.1%	7.1%
COGS	(673)	(640)	(671)	(675)
Gross Profit	104	96	109	161
<i>Gross Margin</i>	13.4%	13.1%	14.0%	19.3%
Operating Expenses	(29)	(34)	(33)	(36)
EBIT	75	63	77	125
<i>EBIT Margin</i>	9.6%	8.5%	9.8%	14.9%
Depreciation	129	133	128	136
EBITDA	204	195	205	261
<i>EBITDA Margin</i>	26.2%	26.5%	26.2%	31.2%
Interest Expenses	-	(1)	(1)	(1)
EBT	77	75	84	136
Income Tax	(22)	(39)	(34)	(63)
Minority Interest	-	-	-	-
Net Profit	61	36	69	73
<i>Growth</i>	-431.8%	-40.9%	91.4%	6.0%
<i>Net Profit Margin</i>	7.9%	4.9%	8.8%	8.7%

PROFITABILITY & STABILITY

	2018/12A	2019/12E	2020/12E	2021/12E
ROE	3.2%	1.7%	3.2%	3.3%
ROA	2.8%	1.6%	2.9%	2.9%
ROIC	2.8%	1.4%	2.1%	3.0%
Cash Dividend (IDR bn)	-	-	-	-
Dividend Yield	-	-	-	-
Payout Ratio	-	-	-	-
DER	1.9%	2.2%	2.0%	2.1%
Net Gearing	13.1%	16.0%	15.7%	16.7%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	1.9%	2.1%	2.0%	2.1%
Equity Ratio	119.9%	132.8%	134.9%	136.6%
Debt Ratio	2.3%	2.9%	2.8%	2.9%
Financial Leverage	231.9%	212.8%	222.3%	220.1%
Current Ratio	359.9%	497.7%	773.7%	688.7%
Par Value (IDR)	25	25	25	26
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	2019/12E	2020/12E	2021/12E
Cash	301	494	578	633
Receivables	124	154	59	124
Inventories	132	102	143	101
Total Current Assets	631	818	848	925
Net Fixed Assets	1,435	1,469	1,493	1,529
Other Non Current Asset	137	90	93	91
Total Assets	1,571	1,559	1,586	1,620
Payables	91	39	98	40
ST Bank Loan	37	45	44	46
LT Debt	-	-	-	-
Total Liabilities	319	307	300	324
Capital Stock & APIC	414	414	414	414
Retained Earnings	1,470	1,656	1,725	1,798
Shareholders' Equity	1,884	2,070	2,139	2,212

VALUATION INDEX

	2018/12A	2019/12E	2020/12E	2021/12E
Price /Earnings	34.1x	50.7x	39.4x	31.9x
Price /Book Value	1.1x	1.0x	0.9x	0.9x
Price/Sales	2.7x	2.7x	2.5x	2.3x
PE/EPS Growth	-0.1x	-1.2x	0.4x	5.3x
EV/EBITDA	10.8x	10.2x	9.9x	8.0x
EV/EBIT	29.5x	31.9x	27.5x	16.7x
EV (IDR bn)	3,817	6,658	8,140	9,196
Sales CAGR (3-Yr)	-0.5%	8.0%	7.4%	2.5%
EPS CAGR (3-Yr)	7.5%	191.0%	-255.4%	6.2%
Basic EPS (IDR)	88	59	76	94
Diluted EPS (IDR)	88	59	76	94
BVPS (IDR)	2,735	3,083	3,277	3,490
Sales PS (IDR)	1,128	1,096	1,196	1,319
DPS (IDR)	N/A	N/A	N/A	N/A

CASH FLOW STATEMENT

(USD mn)	2018/12E	2019/12E	2020/12E	2021/12E
Operating Cash Flow	201	159	197	209
Investing Cash Flow	(93)	(34)	(112)	(157)
Financing Cash Flow	(13)	8	(1)	3
Net Changes in Cash	95	133	84	55

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 0.95

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