Vale Indonesia Tbk (INCO IJ)

Melesetnya Anak Panah

Company Report | Oct 29, 2018

Bottom Line di Atas Konsensus, tetapi di Bawah Ekspektasi Kami

Pada 3Q18, INCO mencatatkan laba bersih sebesar USD25,8 juta, tumbuh 14,5% q-q (vs. USD22,6 juta pada 2Q18). **Angka tersebut di atas konsensus sebesar USD24,9 juta, tetapi masih di bawah ekspektasi kami sebesar USD30,9 juta**. *Net profit margin* terjaga di atas 10% menjadi 12,6% (vs. 11,0% pada 2Q18). Secara kumulatif, pada 9M18 penjualan INCO tercatat sebesar USD579,6 juta, tumbuh 29,1% y-y (vs. USD 448,7 juta pada 9M17). Penjualan tersebut mencapai 71,4% dari estimasi target penjualan pada *full-year* 2018, karena kenaikan ASP pada 3Q18 menjadi USD11.041 per metrik ton (mt), sejalan dengan tren kenaikan harga nikel dunia.

Produksi di bawah estimasi kami

Penjualan INCO sebesar 579,6 juta pada 9M18, di bawah estimasi penjualan sebesar USD594,9 juta. Hal itu disebabkan oleh **melesetnya target produksi karena perbaikan tak terduga atas tungku pembakaran pada 3Q18**. Sebelumnya kami mengestimasi bahwa secara kumulatif, pada 9M18 INCO mampu memproduksi 56.197 mt (vs. 54.227 mt aktual pada 9M18). Penurunan produksi tersebut sejalan dengan penurunan beban bahan bakar sebesar USD4,8juta. Selain itu, pada 3Q18 penjualan tercatat sebesar USD205 juta tercatat, di bawah konsensus sebesar USD213 juta.

Kami pertahankan rekomendasi beli dengan target harga Rp3.760

INCO merevisi target produksi *full-year* 2018 dari 77.000 mt menjadi 75.000 mt. Artinya pada 4Q18 INCO harus bekerja keras menutupi kekurangan produksi sebesar 20,7 ribu mt. Kami menurunkan estimasi angka penjualan dan laba bersih untuk 2018F masing-masing sebesar 2,4% dan 5,3% dari estimasi sebelumnya. Oleh karena itu, kami memangkas target harga menjadi Rp3.580 dari Rp5.325. Target harga tersebut mencerminkan *forward* EV/EBITDA sebesar 6,8x (-1SD di bawah rata-rata 5 tahun terakhir sebesar 10,0x).

Vale Indonesia Tbk | Summary (USD mn)

	2017	2018E	2019E	2020E
Sales	629	792	899	982
Sales growth	7.7%	25.8%	13.6%	9.2%
EBITDA	105	258	318	334
Net Profit	(18)	88	137	157
EPS (IDR)	(21)	138	212	245
EPS growth	N/A	N/A	54.1%	15.6%
BVPS (IDR)	2,499	2,940	3,181	3,436
EBITDA margin	16.7%	32.5%	35.4%	34.0%
NPM	-2.9%	11.2%	15.2%	16.0%
ROE	-1.0%	4.6%	6.7%	7.1%
ROA	-0.8%	4.0%	6.0%	6.5%
ROIC	-0.8%	4.8%	6.5%	7.1%
P/E	N/A	21.8x	14.1x	12.2x
P/BV	1.2x	1.0x	0.9x	0.9x
EV/EBITDA	12.3x	5.0x	5.2x	5.3x
DPS (IDR)	N/A	N/A	N/A	N/A
Dividend yield	N/A	N/A	N/A	N/A

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Dec 2019 TP (IDR)	**3,760**
Consensus Price (IDR)	5,004
TP to Consensus Price	-24.9%
vs. Last Price	+24.1%

Shares data

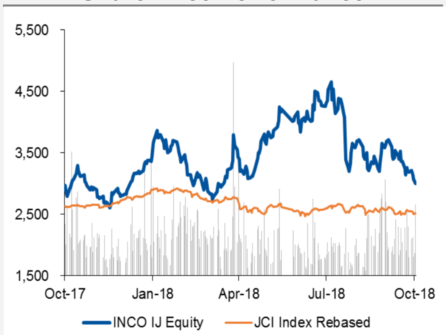
Last Price (IDR)	3,030
Price date as of	Oct 25, 2018
52 wk range (Hi/Lo)	4,720 / 2,340
Free float (%)	20.9
Outstanding sh.(mn)	9,936
Market Cap (IDR bn)	30,007
Market Cap (USD mn)	1,976
Avg. Trd Vol - 3M (mn)	10,09
Avg. Trd Val - 3M (bn)	36,41
Foreign Ownership	78.8%

Mining

Metal & Mineral

Bloomberg	**INCO IJ**
Reuters	**INCO.JK**

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	3.8%	-17.6%	-30.4%	1.0%
Rel. Ret.	13.4%	-15.4%	-27.2%	5.7%

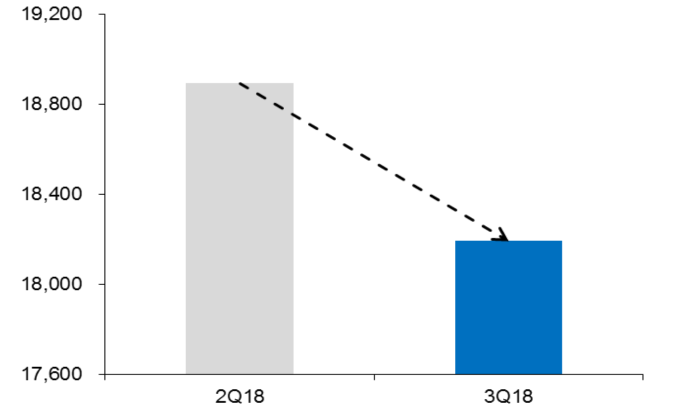
Firman Hidayat

+62 21 797 6202, ext:170

firman@nhsec.co.id

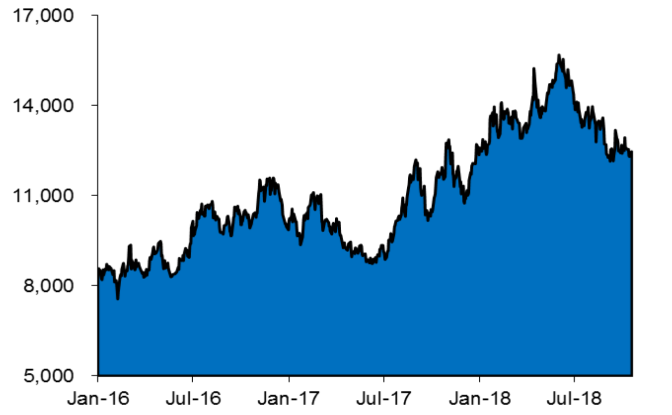
Performance Highlights

3Q18 nickel production (mt) decrease of 3,7% q-q



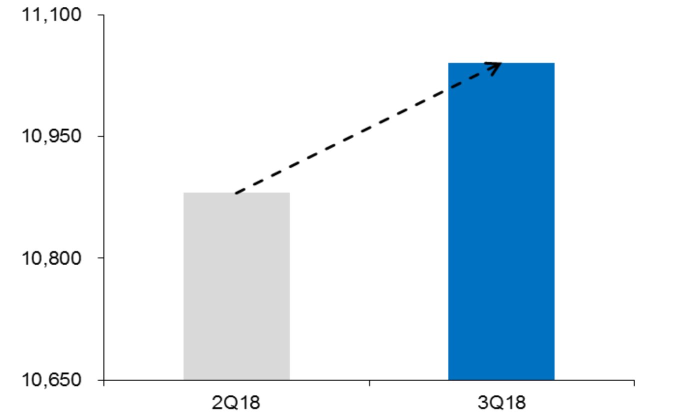
Source: Bloomberg, NHKS Research

World nickel price (USD/mt) in strengthening trends



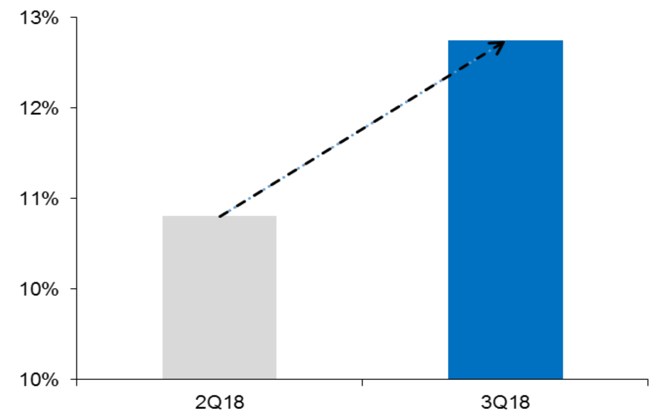
Source: Company Data, NHKS Research

3Q18 ASP (USD/mt) of nickel to increase 1.4% q-q



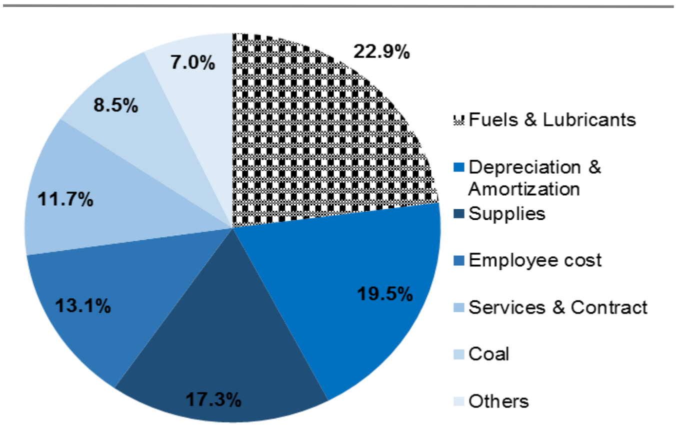
Source: Company Data, NHKS Research

3Q18 net profit margin increase to 12,6%



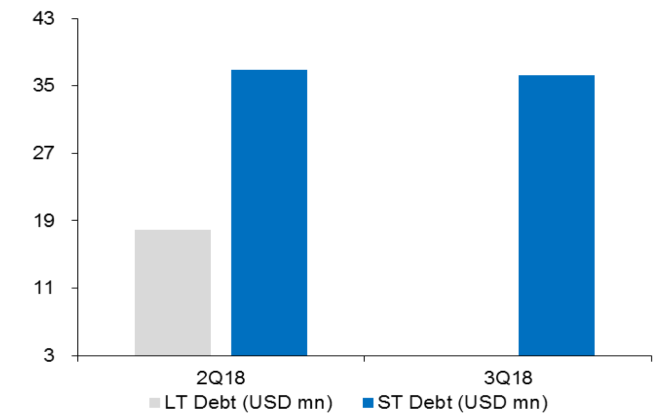
Source: Company Data, NHKS Research

9M18 Fuel become biggest COGS composition (%)



Source: Company Data, NHKS Research

3Q18 zero longterm debt (USD mn)



Source: Company Data, NHKS Research

3Q18 review (USD mn)

	3Q17	4Q17	1Q18	2Q18	3Q18 Actual	3Q18 Estimate	3Q18 y-y	3Q18 q-q	3Q18 surprise	4Q18E
Sales	157	181	170	204	205	220	*30.7%*	*0.4%*	*-6.8%*	212
Gross Profit	8	17	16	37	43	53	*470.8%*	*15.2%*	*-19.0%*	56
Gross Margin	*4.8%*	*9.4%*	*9.5%*	*18.3%*	21%	*24.1%*	*16.1%*	2.7%	*-3.2%*	*26.4%*
EBIT	*2*	*7*	*10*	*35*	*37*	44	*2007.2%*	*6.4%*	*-16.5%*	49
EBIT Margin	*1.1%*	*4.0%*	*6.0%*	*16.9%*	18%	*20.0%*	*16.8%*	1.0%	*-2.1%*	*23.1%*
EBITDA	34	40	42	67	69	76	*100.9%*	*2.7%*	*-9.4%*	81
EBIT Margin	*21.9%*	*22.1%*	*24.7%*	*32.9%*	34%	*34.5%*	*11.7%*	0.7%	*-0.9%*	*38.3%*
Net Profit	**2**	**4**	**7**	**23**	**26**	**31**	***1294.3%***	***14.5%***	***-16.4%***	**34**
Net Margin	*1.2%*	*2.4%*	*4.0%*	*11.0%*	13%	*14.0%*	*11.4%*	1.6%	*-1.4%*	*16.1%*

Source: Bloomberg, NHKS research

Earnings revision (USD mn)

		2018E	2019E	2020E
Sales	-Revised	792	899	982
	-Previous	812	906	1,238
	-Change	*-2.4%*	*-0.8%*	*-20.7%*
Gross Profit	-Revised	153	225	256
	-Previous	163	226	321
	-Change	*-6.6%*	*-0.6%*	*-20.5%*
Gross Margin	-Revised	*19.3%*	*25.0%*	*26.0%*
	-Previous	*20.1%*	*25.0%*	*26.0%*
EBIT	-Revised	129	191	223
	-Previous	137	191	277
	-Change	*-5.8%*	*0.1%*	*-19.7%*
EBIT Margin	-Revised	*16.3%*	*21.3%*	*22.7%*
	-Previous	*16.8%*	*21.1%*	*22.4%*
EBITDA	-Revised	258	318	334
	-Previous	266	320	277
	-Change	*-3.2%*	*-0.6%*	*20.3%*
EBITDA Margin	-Revised	*32.5%*	*35.4%*	*34.0%*
	-Previous	*32.8%*	*35.3%*	*22.4%*
Net Profit	-Revised	**88**	**137**	**157**
	-Previous	93	136	195
	-Change	*-5.3%*	*0.5%*	*-19.2%*
Net Margin	-Revised	*11.2%*	*15.2%*	*16.0%*
	-Previous	*11.5%*	*15.0%*	*15.7%*

Source: NHKS research

Sekilas tentang INCO

PT Vale Indonesia Tbk (INCO) yang memiliki tambang di Sorowako, Sulawesi merupakan produsen nikel terbesar di Indonesia. Produksi tahunannya mewakili sekitar 4% dari total produksi nikel global. INCO mengoperasikan penambangan dan pengolahan nikel laterit terintegrasi, dan memiliki kontrak jangka panjang, yakni 80% dari hasil produksinya dipasok kepada Vale Canada Ltd, sedangkan 20% dipasok kepada Sumitomo Metal Co. Ltd.

Daya Saing INCO di Pasar Asia

Indonesia, menggeser posisi Filipina, saat ini menjadi negara penghasil nikel terbesar di kawasan Asia Pasifik. Setelah pemerintah Indonesia mencabut larangan ekspor mineral mentah, jumlah produksi nikel Indonesia melesat dari 199.000 MT pada 2016 menjadi 400.000 MT pada 2017. INCO, yang merupakan anak usaha dari Vale S.A Brazil—produsen nikel terbesar kedua di dunia—memiliki nilai kapitalisasi pasar terbesar kedua di kawasan Asia Pasifik dan pertumbuhan laba bersih yang tinggi setelah pulih dari kerugian besar akibat penurunan harga nikel global.

INCO mampu mencatatkan signifkan *net profit growth,* yaitu 467,7% setelah kinerja keuangannya bangkit dari kerugian pada 2017. INCO berkomitmen untuk menerapkan strategi efisiensi jangka panjang dengan menggunakan teknologi terbaru di masing-masing smelternya. Teknologi ini menghemat bahan bakar sehingga *net profit marginnya* akan terus tumbuh dan terjaga di atas 10%. Estimasi angka *net profit margin* pada *full-year* 2018F, 2019F, dan 2020F masing-masing sebesar 11,2%, 15,2%, dan 16,0%. Saat ini, saham INCO memiliki valuasi yang masih cukup menarik yaitu EV/EBITDA 6,8x dan P/BV 1,1x.

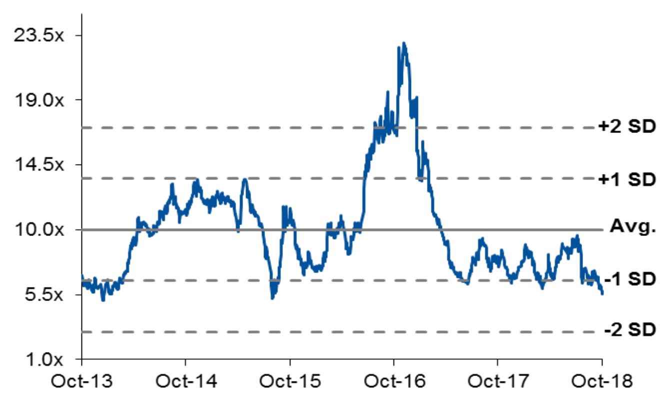
Asia Pacific Nickel Companies

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	1,977	2,185	760	60	467.7%	7.8%	3.2%	6.8x	1.1x
ANTM	1,156	2,209	1,578	72	N/A	4.6%	5.3%	9.6x	0.9x
China									
ZHONGJIN GOLD CORP	3,993	5,919	5,042	31	-46.6%	0.6%	1.5%	N/A	2.1x
YINTAI RESOURCES	2,292	831	629	88	100.4%	14.0%	8.2%	N/A	2.0x
INNER MONGOLIA	2,188	2,900	3,118	173	34.8%	5.5%	11.4%	N/A	1.5x
Taiwan									
KING SLIDE WORKS	1,055	333	144	52	23.8%	35.8%	17.8%	18.3x	3.5x
Philippine									
NICKEL ASIA CORP	663	915	297	55	-19.3%	18.3%	9.6%	4.8x	1.2x

Source: Bloomberg

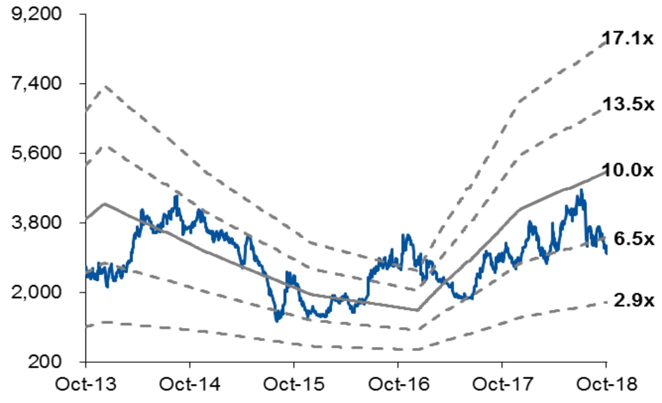
Multiple Valuation

Forward EV/EBITDA band | Last 5 years



Source: NHKS research

Dynamic Forward EV/EBITDA band | Last 5 years



Source: NHKS research

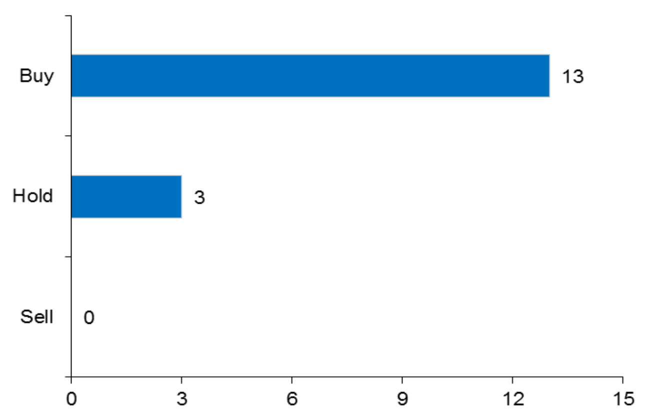
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
08/15/2018	Buy	5,325 (Dec 2019)	4,080	5,300	+30.5%	+0.5%
10/29/2018	Buy	3,760 (Dec 2019)	3,030	5,004	+24.1%	-24.9%

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)	2017/12A	2018/12E	2019/12E	2020/12E
Sales	**629**	**792**	**899**	**982**
Growth	*7.7%*	*25.8%*	*13.6%*	*9.2%*
COGS	(623)	(639)	(674)	(727)
Gross Profit	**7**	**153**	**225**	**256**
Gross Margin	*1.0%*	*19.3%*	*25.0%*	*26.0%*
Operating Expenses	(28)	(24)	(34)	(33)
EBIT	**(21)**	**129**	**191**	**223**
EBIT Margin	*-3.4%*	*16.3%*	*21.3%*	*22.7%*
Depreciation	127	129	127	111
EBITDA	**105**	**258**	**318**	**334**
EBITDA Margin	16.7%	32.5%	35.4%	34.0%
Interest Expenses	-	-	-	-
EBT	**(26)**	**121**	**190**	**217**
Income Tax	8	(33)	(54)	(60)
Minority Interest	-	-	-	-
Net Profit	**(18)**	**88**	**137**	**157**
Growth	*N/A*	*581.0%*	*54.4%*	*15.2%*
Net Profit Margin	*-2.9%*	*11.2%*	*15.2%*	*16.0%*

PROFITABILITY & STABILITY

	2017/12A	2018/12E	2019/12E	2020/12E
ROE	-1.0%	4.6%	6.7%	7.1%
ROA	-0.8%	4.0%	6.0%	6.5%
ROIC	-0.8%	4.8%	6.5%	7.1%
Cash Dividend (IDR bn)	-	-	-	-
Dividend Yield	-	-	-	-
Payout Ratio	-	-	-	-
DER	4.0%	3.1%	3.6%	3.4%
Net Gearing	26.3%	21.6%	26.3%	26.6%
LT Debt to Equity	2.0%	1.0%	2.0%	1.7%
Capitalization Ratio	3.9%	3.0%	3.5%	3.3%
Equity Ratio	114.6%	123.7%	132.0%	135.2%
Debt Ratio	4.6%	3.9%	4.7%	4.5%
Financial Leverage	244.6%	228.9%	220.6%	208.0%
Current Ratio	461.8%	511.0%	4690.2%	912.6%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	9,936	9,936	9,936	9,936
Share Price (IDR)	2,890	3,000	3,000	3,000
Market Cap (IDR tn)	28.7	29.8	29.8	29.8

BALANCE SHEET

(USD mn)	2017/12A	2018/12E	2019/12E	2020/12E
Cash	222	313	458	537
Receivables	166	179	68	147
Inventories	118	136	132	131
Total Current Assets	**597**	**713**	**741**	**900**
Net Fixed Assets	1,494	1,406	1,459	1,535
Other Non Current Asset	94	138	91	95
Total Assets	**1,588**	**1,544**	**1,549**	**1,629**
Payables	61	68	68	78
ST Bank Loan	37	40	32	36
LT Debt	36	20	41	38
Total Liabilities	**365**	**347**	**245**	**327**
Capital Stock & APIC	414	414	414	414
Retained Earnings	1,405	1,495	1,631	1,789
Shareholders' Equity	**1,819**	**1,909**	**2,046**	**2,203**

VALUATION INDEX

	2017/12A	2018/12E	2019/12E	2020/12E
Price /Earnings	-137.8x	21.8x	14.1x	12.2x
Price /Book Value	1.2x	1.0x	0.9x	0.9x
Price/Sales	3.3x	2.5x	2.1x	2.0x
PE/EPS Growth	N/A	0.0x	0.3x	0.8x
EV/EBITDA	12.3x	5.0x	5.2x	5.3x
EV/EBIT	-60.2x	10.0x	8.7x	7.9x
EV (IDR bn)	2,029	3,878	5,938	7,181
Sales CAGR (3-Yr)	-15.4%	0.1%	15.5%	16.0%
EPS CAGR (3-Yr)	-148.4%	21.6%	353.6%	-304.5%
Basic EPS (IDR)	(21)	138	212	245
Diluted EPS (IDR)	(21)	138	212	245
BVPS (IDR)	2,499	2,940	3,181	3,436
Sales PS (IDR)	865	1,219	1,399	1,532
DPS (IDR)	N/A	N/A	N/A	N/A

CASH FLOW STATEMENT

(USD mn)	2017/12A	2018/12E	2019/12E	2020/12E
Operating Cash Flow	148	127	263	268
Investing Cash Flow	(75)	(33)	(133)	(189)
Financing Cash Flow	(37)	10	13	1
Net Changes in Cash	**37**	**105**	**144**	**80**

OWNERSHIP

By Geography	%	Shareholders	%
Canada	70.1	Vale SA	58.7
Japan	24.8	Sumitomo Metal	20.1
United States	2.3	Fil Ltd	1.1
Luxemburg	1.8	Dimensional Fund	0.9