

Vale Indonesia Tbk (INCO IJ)

Missed Arrow

Company Report | Oct 29, 2018

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

Bottom Line: Higher than Consensus but Lower than Our Estimate

In 3Q18, INCO posted the net profit of USD25.8 million growing by 14.5% q-q (vs. USD22.6 million in 2Q18). **The figure was higher than the consensus of USD24.9 million, but it was lower than our estimate of USD30.9 million.** The net profit margin was kept in check at higher than 10% to 12.6% (vs. 11.0% in 2Q18). On a cumulative basis, in 9M18 it posted the sales of USD579.6 million, surging 29.1% y-y (vs. USD 448.7 million in 9M17). The sales reached 71.4% of the full-year 2018's estimated sales target, underlined by 3Q18's ASP increased to USD11,041 per metric tons (mt), akin to the buoyant global nickel prices.

Lower-than-estimate Production

9M18's sales of 579.6 million were lower than the sales estimate of USD594.9 million. It was attributable to **the missed production target due to furnace stoppage in 3Q18.** Based on our prior estimate, in 9M18 INCO was likely to produce 56,197 metric tons (vs. 54,227 metric tons actual in 9M18). The shrinking production aligned with the decline of USD4.8 million in fuel expenses. Another to the shrinking production, its sales were at USD205 million in 3Q18, lower than the consensus of USD213 million.

Buy Recommendation, with Target Price of 3,760

INCO revises its production target of full-year 2018 from 77,000 metric tons into 75,000 metric tons. It means that in 4Q18 INCO will strive to pay off production shortage of 27,000 metric tons. We lower our estimated sales and net profit to be posted by INCO in 2018F by 2.4% and 5.3%, respectively. Thus, we cut the target price from IDR5,325 to IDR3,580. The target price reflects forward EV/EBITDA of 6.8x (-1SD lower than the last 5-year average of 10.0x).

Vale Indonesia Tbk | Summary (USD mn)

	2017	2018E	2019E	2020E
Sales	629	792	899	982
<i>Sales growth</i>	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
<i>EPS growth</i>	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
<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.	3.8%	-17.6%	-30.4%	1.0%
Rel. Ret.	13.4%	-15.4%	-27.2%	5.7%

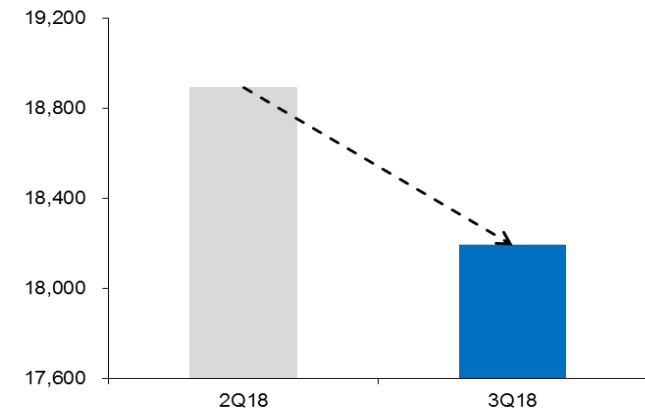
Firman Hidayat

+62 21 797 6202, ext:170

firman@nhsec.co.id

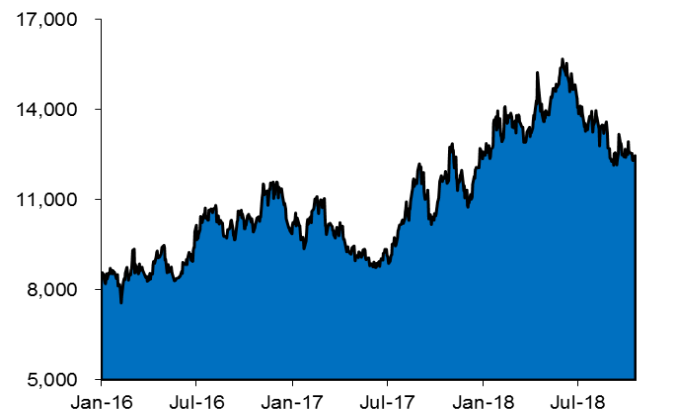
Performance Highlights

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



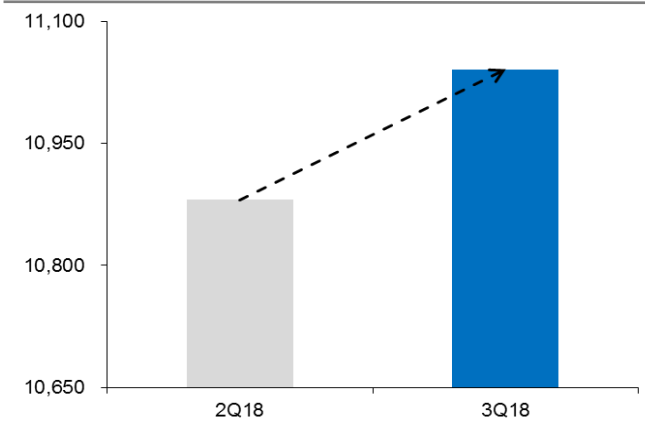
Source: Bloomberg, NHKS Research

World nickel price (USD/mt) in strengthening trends



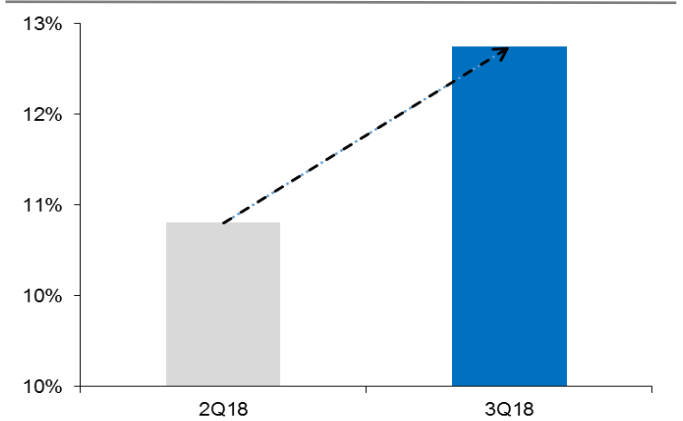
Source: Company Data, NHKS Research

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



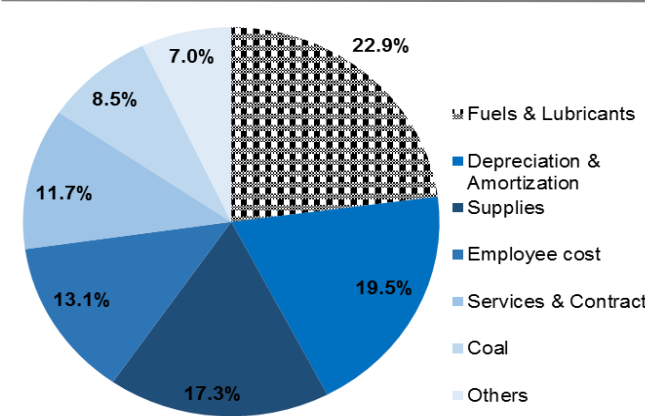
Source: Company Data, NHKS Research

3Q18 net profit margin increase to 12,6%



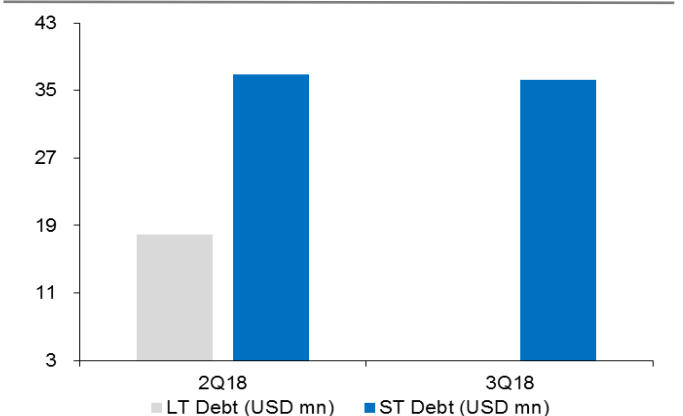
Source: Company Data, NHKS Research

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					4Q18E
					Actual	Estimate	y-y	q-q	surprise	
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
<i>Gross Margin</i>	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
<i>EBIT Margin</i>	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
<i>EBIT Margin</i>	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
<i>Net Margin</i>	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

A Glance at INCO

PT Vale Indonesia Tbk (INCO) whose mine is located in Sorowako, Sulawesi is the biggest nickel miner in Indonesia. Its annual production represents around 4% of the total global nickel production. It operates an integrated mine and laterite nickel refining. Of note, 80% of its nickel products are supplied to Vale Canada Ltd, while 20% is supplied to Sumitomo Metal Co. Ltd.

INCO's Competitiveness in Asia Markets

Indonesia dragging out Philippine is the first biggest nickel miner in the Asia Pacific. After the government revoked the ban on exports of raw mineral, the nickel production buoyed from 199,000 MT in 2016 to 400,000 MT in 2017. In Asia Pacific regions, INCO, the subsidiary of Vale S.A Brazil—the world's second-biggest nickel miner, has the second largest market capitalization and a high net profit growth as it succeeded to reign in profit zone after plunging at much bigger losses triggered by a steep plunge in the global nickel prices.

INCO is capable of posting the net profit growth of 467.7% after its financial performance revives from losses in 2017. It is committed to a long-term efficiency by applying cutting-edge technologies in each of its smelters. The technologies applied cut back fuels consumption; therefore, its net profit margin keeps in check at higher than 10%. The full-year 2018F, 2019F, and 2020F net profit margins are estimated to settle at 11.2%, 15.2%, and 16.0%, respectively. Now, INCO's stocks have attractive valuations of EV/EBITDA 6.8x and P/BV 1.1x.

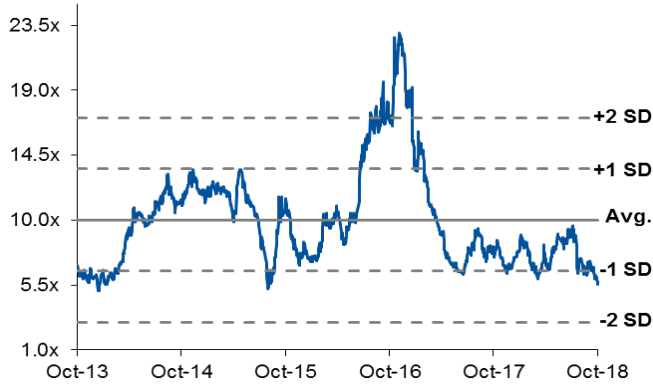
Asia Pacific Nickel Companies

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

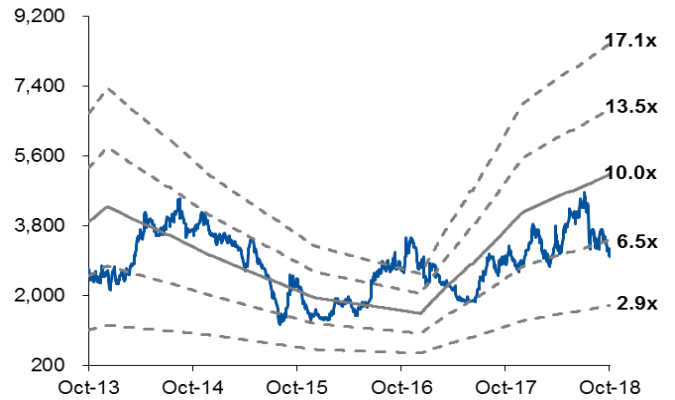
Multiple Valuation

Forward EV/EBITDA band | Last 5 years



Source: NHKS research

Dynamic Forward EV/EBITDA band | Last 5 years



Source: NHKS research

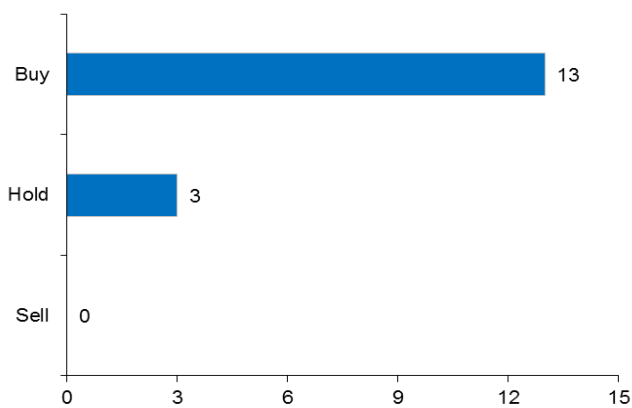
Rating and Target Price Update

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					PROFITABILITY & STABILITY				
(USD mn)	2017/12A	2018/12E	2019/12E	2020/12E		2017/12A	2018/12E	2019/12E	2020/12E
Sales	629	792	899	982	ROE	-1.0%	4.6%	6.7%	7.1%
<i>Growth</i>	7.7%	25.8%	13.6%	9.2%	ROA	-0.8%	4.0%	6.0%	6.5%
COGS	(623)	(639)	(674)	(727)	ROIC	-0.8%	4.8%	6.5%	7.1%
Gross Profit	7	153	225	256	Cash Dividend (IDR bn)	-	-	-	-
<i>Gross Margin</i>	1.0%	19.3%	25.0%	26.0%	Dividend Yield	-	-	-	-
Operating Expenses	(28)	(24)	(34)	(33)	Payout Ratio	-	-	-	-
EBIT	(21)	129	191	223	DER	4.0%	3.1%	3.6%	3.4%
<i>EBIT Margin</i>	-3.4%	16.3%	21.3%	22.7%	Net Gearing	26.3%	21.6%	26.3%	26.6%
Depreciation	127	129	127	111	LT Debt to Equity	2.0%	1.0%	2.0%	1.7%
EBITDA	105	258	318	334	Capitalization Ratio	3.9%	3.0%	3.5%	3.3%
<i>EBITDA Margin</i>	16.7%	32.5%	35.4%	34.0%	Equity Ratio	114.6%	123.7%	132.0%	135.2%
Interest Expenses	-	-	-	-	Debt Ratio	4.6%	3.9%	4.7%	4.5%
EBT	(26)	121	190	217	Financial Leverage	244.6%	228.9%	220.6%	208.0%
Income Tax	8	(33)	(54)	(60)	Current Ratio	461.8%	511.0%	4690.2%	912.6%
Minority Interest	-	-	-	-	Par Value (IDR)	25	25	25	25
Net Profit	(18)	88	137	157	Total Shares (mn)	9,936	9,936	9,936	9,936
<i>Growth</i>	N/A	581.0%	54.4%	15.2%	Share Price (IDR)	2,890	3,000	3,000	3,000
<i>Net Profit Margin</i>	-2.9%	11.2%	15.2%	16.0%	Market Cap (IDR tn)	28.7	29.8	29.8	29.8

BALANCE SHEET					VALUATION INDEX				
(USD mn)	2017/12A	2018/12E	2019/12E	2020/12E		2017/12A	2018/12E	2019/12E	2020/12E
Cash	222	313	458	537	Price /Earnings	-137.8x	21.8x	14.1x	12.2x
Receivables	166	179	68	147	Price /Book Value	1.2x	1.0x	0.9x	0.9x
Inventories	118	136	132	131	Price/Sales	3.3x	2.5x	2.1x	2.0x
Total Current Assets	597	713	741	900	PE/EPS Growth	N/A	0.0x	0.3x	0.8x
Net Fixed Assets	1,494	1,406	1,459	1,535	EV/EBITDA	12.3x	5.0x	5.2x	5.3x
Other Non Current Asset	94	138	91	95	EV/EBIT	-60.2x	10.0x	8.7x	7.9x
Total Assets	1,588	1,544	1,549	1,629	EV (IDR bn)	2,029	3,878	5,938	7,181
Payables	61	68	68	78	Sales CAGR (3-Yr)	-15.4%	0.1%	15.5%	16.0%
ST Bank Loan	37	40	32	36	EPS CAGR (3-Yr)	-148.4%	21.6%	353.6%	-304.5%
LT Debt	36	20	41	38	Basic EPS (IDR)	(21)	138	212	245
Total Liabilities	365	347	245	327	Diluted EPS (IDR)	(21)	138	212	245
Capital Stock & APIC	414	414	414	414	BVPS (IDR)	2,499	2,940	3,181	3,436
Retained Earnings	1,405	1,495	1,631	1,789	Sales PS (IDR)	865	1,219	1,399	1,532
Shareholders' Equity	1,819	1,909	2,046	2,203	DPS (IDR)	N/A	N/A	N/A	N/A

CASH FLOW STATEMENT					OWNERSHIP		
(USD mn)	2017/12A	2018/12E	2019/12E	2020/12E	By Geography	% Shareholders	%
Operating Cash Flow	148	127	263	268	Canada	70.1	Vale SA 58.7
Investing Cash Flow	(75)	(33)	(133)	(189)	Japan	24.8	Sumitomo Metal 20.1
Financing Cash Flow	(37)	10	13	1	United States	2.3	Fil Ltd 1.1
Net Changes in Cash	37	105	144	80	Luxemburg	1.8	Dimensional Fund 0.9

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