

# Vale Indonesia Tbk (INCO IJ)

## Step Forward in The First Quarter

In 1Q20, INCO posted a net profit after recorded a net loss in the same period of last year. The operational side has improved, nickel in matte production increased by 34.7%, sales volume increased by 20.5% YoY, and ASP increased by 14.6% YoY. We believe nickel demand to decline in 2020 due to lower consumption from stainless steel industry but we still recommend BUY for INCO with TP of IDR3,500.

### Below Expectation but Still a Satisfactory Performance

INCO posted a net profit of USD28.9 million in 1Q20 after posted a net loss of USD20.2 million in 1Q19. This surge in performance was due to increasing revenue to USD174.6 million (+38.1% YoY) plus lower fuels and lubricants cost to USD28.9 million (-23.3% YoY). INCO's revenue is below our expectation (-27.5%) in 1Q20, caused by weak global nickel prices and lower shipment. We remain optimist that INCO is capable of attaining revenue of USD810 million in 2020F, and 1Q20 revenue has reached 22% of our target in this year.

### Improvement in Operations and Maintain 2020F Estimates

In 1Q20, INCO's nickel in matte production increased to 17,614 tonnes (+34.7% YoY) followed by sales volume of 16,713 tonnes (+20.5% YoY) with ASP jumped to USD10,450/tonne (+14.6% YoY). INCO succeeded in making cost efficiency due to the weak HSFO prices to USD50.7/barrel (-29.1% YoY) in 1Q20. We keep our assumptions and maintain our 2020F estimates, considering: 1) nickel demand will rise in 4Q20 to support INCO's 2020F performance; 2) no more problems from processing facilities that will disrupt operationally.

### China's Stainless Steel Production Expected to Weaken in 2020

We expected China's stainless steel production (56% contribution for global production) to decline to 28.8 million tonnes (-2% YoY) due to pandemic conditions. It will affect global nickel prices until 4Q20 because stainless steel industry has a 70% contribution to global nickel consumption. We estimate 2020F average global nickel prices at USD13,873/tonne.

### Maintain BUY Rating with Higher TP of IDR3,500

We still recommend BUY and upgrade our TP to IDR3,500 because of a satisfactory 1Q20 financial performance. Our new TP based on forward EV/EBITDA of 8.0x (-0.7 SD of its 5-year historical mean) with the potential upside of 19.9% from last price, it implies 2020F EV/EBITDA of 10.8x. INCO is currently trading at 7.3x EV/EBITDA (above -1 SD of its 5-year historical mean).

#### Vale Indonesia Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (USD mn)	782	810	850	910
Growth (%)	0.7	3.6	5.0	7.0
EBITDA (USD mn)	221	231	261	289
Net Profit (USD mn)	57	81	95	113
EPS (IDR)	87	113	131	155
Growth (%)	-0.8	29.7	16.3	17.5
P/E (x)	41.8	31.0	26.6	22.7
P/BV (x)	1.3	1.3	1.2	1.2
EV/EBITDA (x)	11.7	10.8	9.6	8.7
ROE (%)	2.9	4.1	4.6	5.2
DER (%)	14.5	22.7	21.4	22.2
Net Debt (USD mn)	-248	-453	-550	-662

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## Buy

Dec 2020 TP (IDR)	3,500
Consensus Price (IDR)	2,989
TP to Consensus Price (%)	+17.1
vs. Last Price (%)	+19.9

### Shares Data

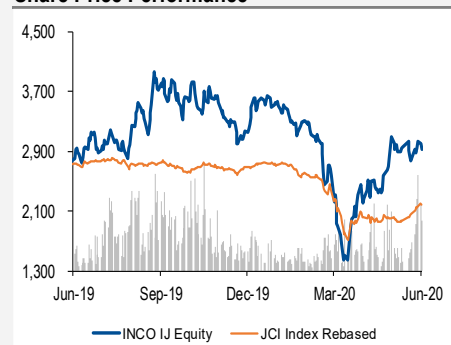
Last Price (IDR)	2,920
Price Date as of	Jun 09, 2020
52 wk Range (Hi/Lo)	4,320/1,340
Free Float (%)	20.5
Outstanding Shares (mn)	9,936
Market Cap (IDR bn)	29,809
Market Cap (USD mn)	2,125
Avg. Trd Vol - 3M (mn)	13.8
Avg. Trd Val - 3M (bn)	34.6
Foreign Ownership (%)	99.6

### Mining

#### Metal

Bloomberg	INCO IJ
Reuters	INCO.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-19.3%	-5.5%	30.9%	8.1%
Rel. Ret.	0.5%	15.0%	32.9%	27.1%

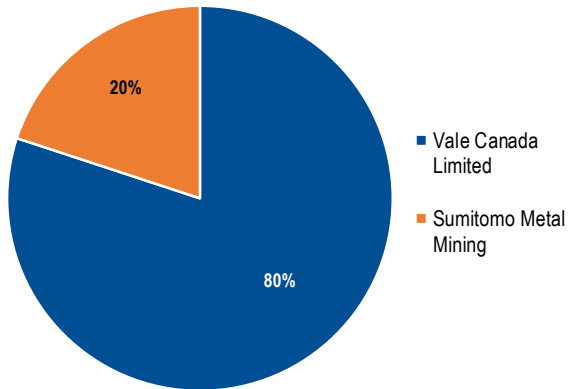


Meilki Darmawan

+6221 5088 9128, meilki.darmawan@nhsec.co.id

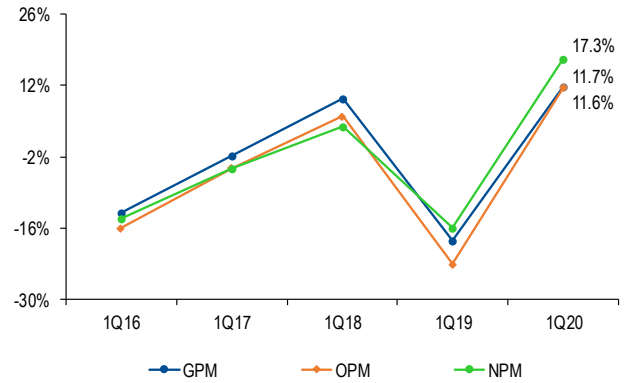
## Performance Highlights in Charts

### 1Q20 Destination of Sales



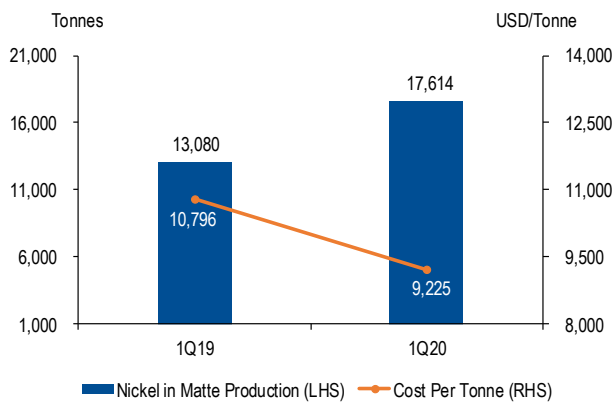
Source: Company Data, NHKSI Research

### Margin Ratios



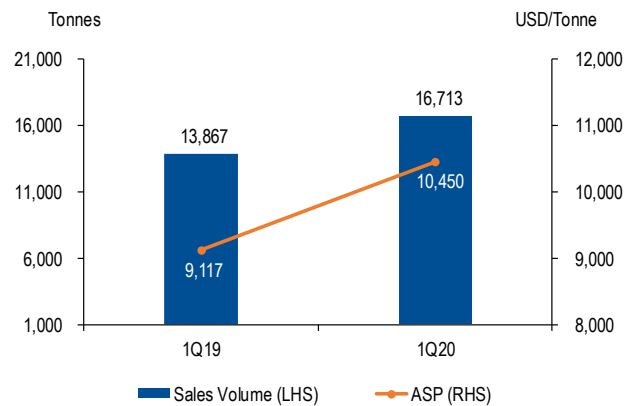
Source: Company Data, NHKSI Research

### Production & Cost Per Tonne



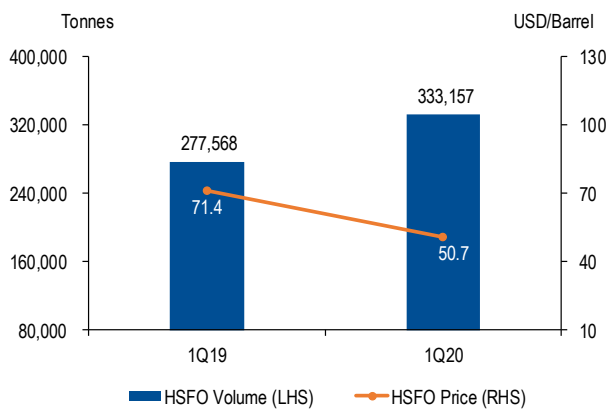
Source: Company Data, NHKSI Research

### Sales Volume & ASP



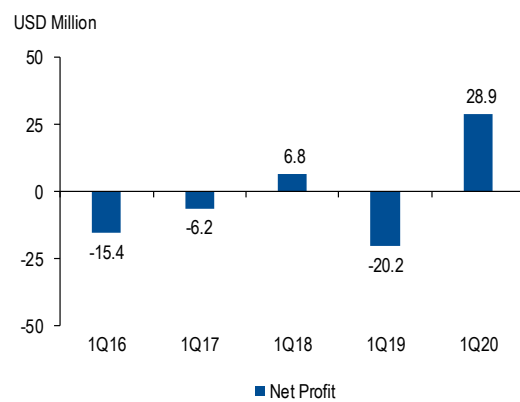
Source: Company Data, NHKSI Research

### HSFO Volume & Price



Source: Company Data, NHKSI Research

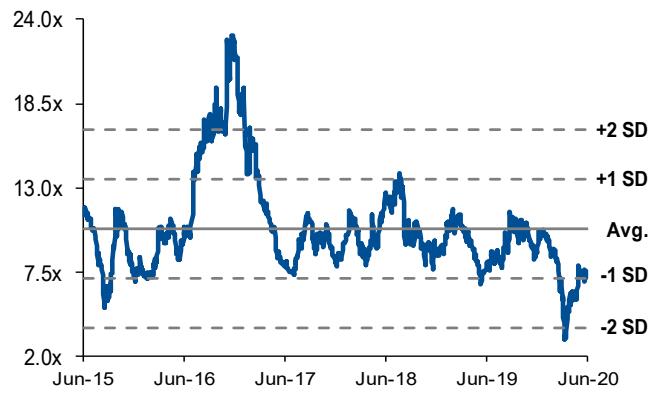
### Net Profit Trend



Source: Company Data, NHKSI Research

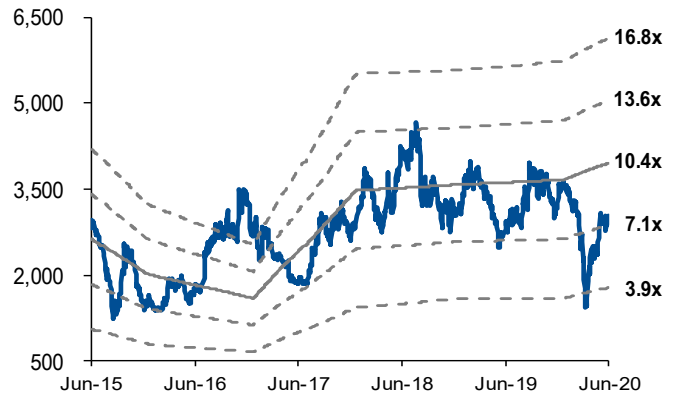
## Valuation & Other Highlights in Charts

### 5-Year Forward EV/EBITDA Band



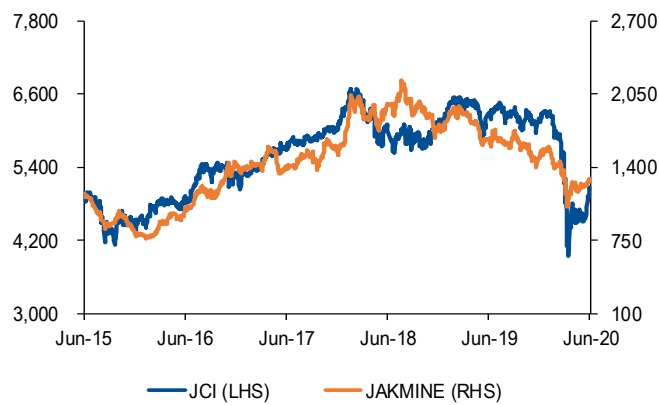
Source: Bloomberg, NHKSI Research

### 5-Year Dynamic Forward EV/EBITDA Band



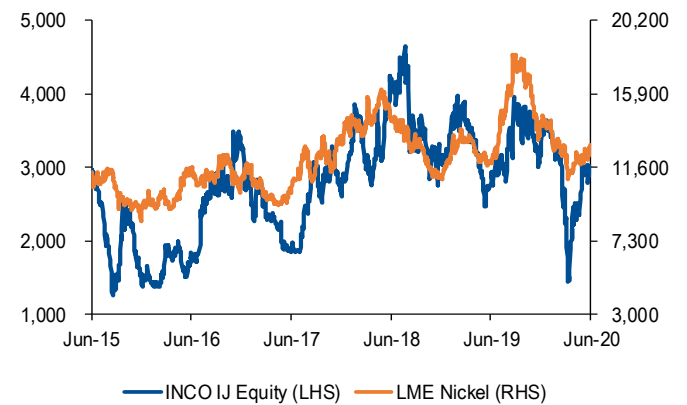
Source: Bloomberg, NHKSI Research

### JCI & JAKMINE Movement



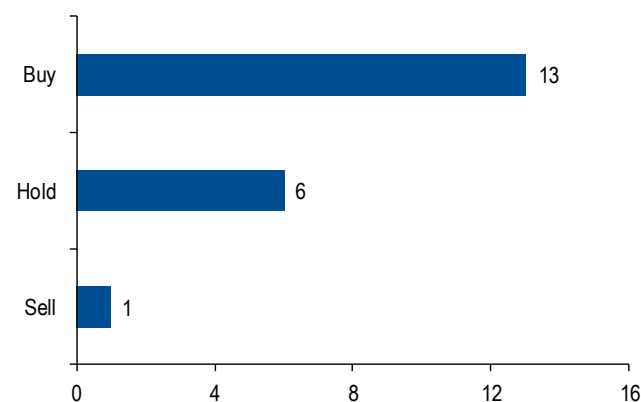
Source: Bloomberg, NHKSI Research

### INCO & Nickel Prices Movement



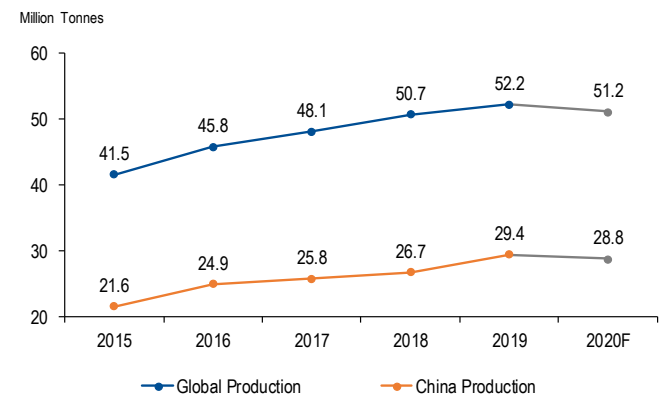
Source: Bloomberg, NHKSI Research

### Recommendation by Analysts



Source: Bloomberg, NHKSI Research

### Global & China Stainless Steel Output



Source: International Stainless Steel Forum (ISSF), NHKSI Research

## Financial Review

## Quarterly Review

	1Q19	2Q19	3Q19	4Q19	1Q20					2Q20E
					Actual	Estimate	YoY %	QoQ %	Surprise %	
<b>Income Statement</b>										
Revenue	126	166	214	276	175	241	38.1	-36.6	-27.5	171
Gross Profit	-23	1	44	95	20	28	188.0	-78.5	-25.6	27
EBIT	-29	-11	42	89	20	21	169.2	-77.2	-5.2	23
EBITDA	2	14	82	125	50	51	2223.5	-60.1	-2.2	53
Net Profit	-20	-9	34	58	29	17	250.1	-48.1	80.5	17
<b>Margin</b>										
Gross Margin	-18.4	0.3	20.4	34.6	11.7	11.4	30.1	-22.9	0.3	15.7
EBIT Margin	-23.1	-6.6	19.6	32.2	11.6	8.8	34.7	-20.6	2.7	13.6
EBITDA Margin	1.7	8.3	38.2	45.5	28.6	21.2	26.9	-16.9	7.4	31.2
Net Profit Margin	-15.9	-5.7	15.7	21.2	17.3	7.0	33.3	-3.8	10.4	10.2

Unit: USD mn, %

Source: Company Data, NHKSI Research

## Earnings Revisions

		2020F	2021F	2022F
<b>Income Statement</b>				
Revenue	-Maintain	810	850	910
	-Previous	810	850	910
	-Change %	0.0	0.0	0.0
	-Consensus	752	836	924
Gross Profit	-Maintain	130	148	164
	-Previous	130	148	164
	-Change %	0.0	0.0	0.0
	-Consensus	134	186	214
EBIT	-Maintain	110	126	141
	-Previous	110	126	141
	-Change %	0.0	0.0	0.0
	-Consensus	94	142	177
EBITDA	-Maintain	231	261	289
	-Previous	231	261	289
	-Change %	0.0	0.0	0.0
	-Consensus	212	273	290
Net Profit	-Maintain	81	95	113
	-Previous	81	95	113
	-Change %	0.0	0.0	0.0
	-Consensus	72	108	123
<b>Margin</b>				
Gross Margin	-Maintain	16.1	17.4	18.0
	-Previous	16.1	17.4	18.0
EBIT Margin	-Maintain	13.5	14.9	15.5
	-Previous	13.5	14.9	15.5
EBITDA Margin	-Maintain	28.5	30.7	31.8
	-Previous	28.5	30.7	31.8
Net Profit Margin	-Maintain	10.0	11.2	12.4
	-Previous	10.0	11.2	12.4

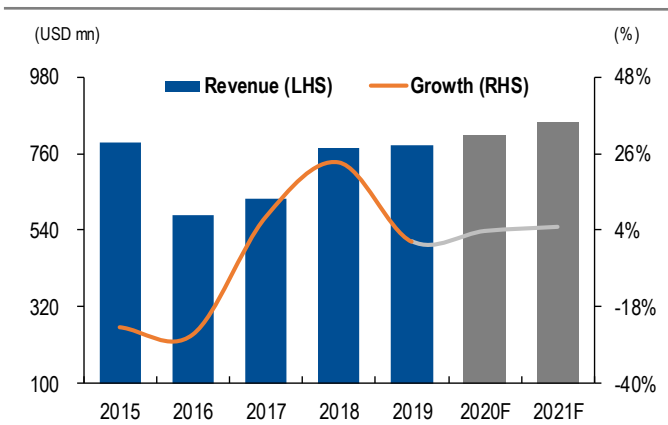
Unit: USD mn, %

Source: Company Data, NHKSI Research

## Company Overview

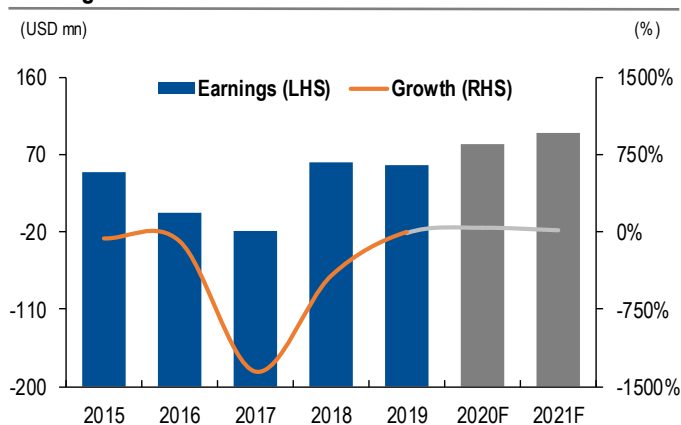
PT Vale Indonesia Tbk (INCO) established on July 25, 1968 and listed on IDX 1990 is an integrated nickel mining and processing company whose operational processing plants are situated in South Sulawesi Province. Vale Canada Limited as the major shareholder of INCO is a Brazil-headquartered multi-mining company, a reputable global leader of iron ore production, and the world's second-largest nickel producer. INCO mines nickel laterite to produce nickel in matte, applies pyrometallurgy technology to produce nickel at an average volume of 75,000 metric tons, and owns the total concession area of 118,017 hectares in Sorowako, Bahodopi, Pomalaa. Its overall nickel production is exported to Canada-headquartered Vale Canada Limited and Japan-headquartered Sumitomo Metal Co., Ltd.

### Revenue & Growth Movement



Source: Company Data, NHKSI Research

### Earnings & Growth Movement



Source: Company Data, NHKSI Research

### Asia Pacific Peers Comparison

	Market Cap (USD mn)	Total Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM (%)	Net Profit Margin (%)	ROE LTM (%)	EV/EBITDA LTM (x)	P/BV (x)
<b>Indonesia</b>									
VALE INDONESIA TBK	2,125	2,223	830	107	468	13	6	3.9	1.1
ANEKA TAMBANG TBK	1,079	2,181	2,314	14	-88	1	1	12.2	0.8
<b>China</b>									
ZHONGJIN GOLD CORP	5,817	5,747	5,511	44	-10.2	0.8	2.1	N/A	2.3
YINTAI RESOURCES	4,314	1,707	856	139	35.1	16.2	10.9	N/A	3.3
INNER MONGOLIA	1,928	2,918	3,556	105	-15.7	3.0	6.8	N/A	1.2
<b>Taiwan</b>									
KING SLIDE WORKS	1,113	425	159	51	-17.3	32.2	14.5	8.9	3.0
<b>Australia</b>									
NICKEL ASIA CORP	555	952	353	45	-7.8	12.7	7.6	2.5	0.9

Source: Bloomberg, NHKSI Research

## Financial Summary

### INCOME STATEMENT

(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F
<b>Revenue</b>	<b>782</b>	<b>810</b>	<b>850</b>	<b>910</b>
<i>Growth</i>	0.7%	3.6%	5.0%	7.0%
COGS	(666)	(680)	(702)	(746)
<b>Gross Profit</b>	<b>116</b>	<b>130</b>	<b>148</b>	<b>164</b>
<i>Gross Margin</i>	14.9%	16.1%	17.4%	18.0%
Operating Expenses	(28)	(20)	(21)	(23)
<b>EBIT</b>	<b>88</b>	<b>110</b>	<b>126</b>	<b>141</b>
<i>EBIT Margin</i>	11.3%	13.5%	14.9%	15.5%
Depreciation	133	121	134	148
<b>EBITDA</b>	<b>221</b>	<b>231</b>	<b>261</b>	<b>289</b>
<i>EBITDA Margin</i>	28.2%	28.5%	30.7%	31.8%
Interest Expenses	(4)	(1)	-	-
<b>EBT</b>	<b>89</b>	<b>110</b>	<b>125</b>	<b>139</b>
Income Tax	(32)	(29)	(29)	(26)
Minority Interest	-	-	-	-
<b>Net Profit</b>	<b>57</b>	<b>81</b>	<b>95</b>	<b>113</b>
<i>Growth</i>	-6.7%	43.4%	17.1%	18.4%
<i>Net Profit Margin</i>	7.3%	10.0%	11.2%	12.4%

### PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	2.9%	4.1%	4.6%	5.2%
ROA	2.6%	3.5%	3.9%	4.4%
ROIC	2.9%	4.1%	4.7%	5.3%
Cash Dividend (IDR bn)	-	-	-	-
Dividend Yield	-	-	-	-
Payout Ratio	-	-	-	-
DER	14.5%	22.7%	21.4%	22.2%
Net Gearing	0.4%	0.0%	0.0%	0.0%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	0.1%	0.0%	0.0%	0.0%
Equity Ratio	118.8%	124.7%	131.0%	137.9%
Debt Ratio	0.1%	0.0%	0.0%	0.0%
Financial Leverage	226.9%	226.1%	234.0%	230.2%
Current Ratio	430.8%	279.5%	314.1%	322.0%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	9,936	9,936	9,936	9,936
Share Price (IDR)	3,640	3,500	3,500	3,500
Market Cap (IDR tn)	36.2	34.8	34.8	34.8

### BALANCE SHEET

(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	249	453	550	662
Receivables	107	146	120	164
Inventories	148	134	157	153
<b>Total Current Assets</b>	<b>588</b>	<b>835</b>	<b>929</b>	<b>1,081</b>
Net Fixed Assets	1,467	1,397	1,406	1,407
Other Non Current Asset	167	180	168	170
<b>Total Assets</b>	<b>1,634</b>	<b>1,577</b>	<b>1,574</b>	<b>1,577</b>
Payables	97	70	86	63
ST Bank Loan	1	-	-	-
LT Debt	0	-	-	-
<b>Total Liabilities</b>	<b>281</b>	<b>446</b>	<b>442</b>	<b>483</b>
Capital Stock & APIC	414	414	414	414
Retained Earnings	1,528	1,552	1,647	1,761
<b>Total Equity</b>	<b>1,942</b>	<b>1,966</b>	<b>2,062</b>	<b>2,175</b>

### VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	41.8x	31.0x	26.6x	22.7x
Price/Book Value	1.3x	1.3x	1.2x	1.2x
Price/Sales	3.3x	3.1x	3.0x	2.8x
PE/EPS Growth	-6.2x	0.7x	1.6x	1.2x
EV/EBITDA	11.7x	10.8x	9.6x	8.7x
EV/EBIT	29.3x	22.6x	19.8x	17.8x
EV (IDR bn)	35,921	34,324	34,227	34,116
Sales CAGR (3-Yr)	10.2%	8.8%	3.1%	5.2%
EPS CAGR (3-Yr)	219.7%	10.8%	15.3%	11.2%
Basic EPS (IDR)	87	113	131	155
Diluted EPS (IDR)	87	113	131	155
BVPS (IDR)	2,716	2,731	2,843	2,977
Sales PS (IDR)	1,094	1,125	1,172	1,245
DPS (IDR)	N/A	N/A	N/A	N/A

### CASH FLOW STATEMENT

(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	137	323	230	261
Investing Cash Flow	(166)	(118)	(151)	(173)
Financing Cash Flow	(23)	13	18	24
<b>Net Changes in Cash</b>	<b>(53)</b>	<b>218</b>	<b>97</b>	<b>112</b>

### TOP OWNERSHIP

By Geography	% Shareholders	%
Canada	70.4 Vale SA	58.7
Japan	25.0 Sumitomo Metal	20.1
Norway	1.6 Norges Bank	1.3
United States	1.5 Vale Japan Limited	0.5

Source: Company Data, NHKSI Research

## Closing &amp; Target Price Update



Source: Bloomberg, NHKSI Research

## Rating &amp; Target Price Update

Date	Rating	Target Price	Consensus
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
2019.10.28	Buy	IDR4,200	IDR4,041
2020.03.18	Buy	IDR2,000	IDR3,723
2020.06.10	Buy	IDR3,500	IDR2,989

Source: NHKSI Research

## NHKSI 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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