

Vale Indonesia (INCO)

Stay positive

3Q22 bottom-line dragged down by one-off tax adjustment

INCO 3Q22 net profit plunged to USD17.9 mn (-78.3% QoQ/-72.1% YoY). We noticed a one-off tax adjustment amounting to USD15.7 mn (vs. 1.76 mn in 1H22) was the main reason that dragged down the company's bottom-line. Referring to its tax assessment letter, the significant tax expenses in 3Q22 period came up due to a Supreme Court verdict related to a dispute over project development cost back in 2014. Hence, 9M22 net profit of USD168.4 mn (+37.0% YoY), came in short of both our and consensus' FY22 expectations. Excluding one-off expenses core profit remain behind estimates.

Adjusting FY22-23F production and sales volumes...

Following 9M22 operational results, we cut our FY22F production and sales volumes by 4.8% each, considering the slow production ramp-up in 3Q22 after Furnace-4 rebuild which was just completed in Jun-22. Meanwhile, as the company's guided next year's production to be somewhere around FY19-20 numbers, we moderately lifted our FY23F production and sales volumes by 1.1%. Moreover, we revised up INCO's nickel matte FY22F ASP by 0.6% and left FY23F ASP unchanged to better reflect the current market condition. Therefore, we revised down FY22F revenue by 4.2% to USD1.16 mn, but slightly increase FY23F top-line by 1.1% to USD1.2 mn.

...while fine-tuning cost assumptions

We raised FY22/23F cost of revenue by 4.8-9.3% after we considered higher HSFO, diesel, and coal prices' assumptions. Therefore, our FY22/23F cash cost assumptions increased by 13.3-11.1%. We view the impact of rising coal and oil prices are inevitable this year, however, we expect both commodities prices to normalize in FY23F. Nevertheless, despite the expected lower fuel and energy costs in FY23F, it does not mean that the margins will expand as average nickel price in FY23F will also be lower as compared to FY22F. As a result, our FY22/23F EBITDA assumptions were lowered by 16.5-10.5% to USD499-542.5 mn.

Maintain BUY call with lower TP of IDR8,600/sh

Taking into account the one-off tax adjustment in FY22F and the higher cost of revenue (as described in the previous paragraph), we arrive at a lower FY22/23F net profit estimate by 26.9%/16.5%. Valuation-wise, we incorporate Sorowako HPAL project (30% INCO potential ownership, 60,000 MHP capacity). We derive our FY23F TP of IDR8,600/sh (prev. TP: 8,900/sh) based on SOTP valuation, which implies 6.7x FY23F EV/EBITDA, slightly below its 5-year mean EVEBITDA. We remain positive on the prospect of INCO going forward given the production of class-1 nickel which is estimated to reach 180k tonnes (HPAL Pomalaa + HPAL Sorowako). The company is also in the process of developing RKEF with 73k tonnes capacity in Bahodopi. Key risks: 1) lower-than-expected average nickel prices; 2) Slow progress on smelter development and 3) higher-than-expected coal and oil prices.

	2020A	2021A	2022F	2023F	2024F
Sales (USD mn)	765	953	1,158	1,242	1,122
GP (USD mn)	124	235	350	360	254
OP (USD mn)	117	231	335	344	239
NP (USD mn)	83	166	229	253	175
EBITDA (USD mn)	266	389	499	542	451
Net debt (USD mn)	(389)	(508)	(607)	(749)	(827)
OP margin (%)	15.3	24.3	28.9	27.7	21.3
ROE (%)	4.1	7.7	9.7	9.9	6.5
Dividend yield (%)	-	0.88	0.91	1.28	1.41
EPS (USD)	0.01	0.02	0.02	0.03	0.02
chg. (% YoY)	44.3	100.2	38.0	10.5	(30.8)
BPS (USD)	0.20	0.22	0.24	0.26	0.27
DPS (USD)	-	0.00	0.00	0.00	0.01
PE (x)	44.6	22.7	15.8	14.1	20.4
PB (x)	1.8	1.7	1.5	1.4	1.3
EV/EBITDA (x)	15.0	9.9	7.5	6.7	7.9

Company

Update

Commodities

Nov 3, 2022

12M rating **BUY (Maintain)**
12M TP **IDR 8,600** (Prev IDR8,900)
Upside **+30.3%**

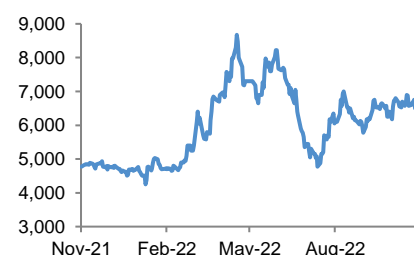
Stock Data

JCI (Nov 2)	7,016
Stock price (Nov 2, IDR)	6,600
Market cap (IDR bn)	65,579
Shares outstanding (m)	9,936
52-week high/low (IDR)	4,240/8,800
6M avg. daily turnover (IDR bn)	166.94
Free float (%)	20.64
Major shareholders (%)	
Vale SA	43.79
Indonesia Asahan Aluminium	20.0
Sumitomo Metal Mining Co Ltd.	15.03

Performance

	1M	6M	12M
Absolute (%)	2.0	(10.6)	35.9
Relative to JCI (%)	3.5	(6.8)	28.3

INCO stock price



Source: Bloomberg

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Fig 1. INCO 9M22 results

INCO 9M22 results										
in USD mn	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YoY	% to KISI	% to cons.
Revenue	271.5	329.5	309.2	-6.1%	13.9%	686.4	873.8	27.3%	72.3%	71.8%
Gross Profit	83.9	115.5	50.9	-56.0%	-39.4%	169.7	259.1	52.7%	59.2%	66.7%
Operating Profit	82.8	111.0	46.8	-57.9%	-43.5%	166.6	246.2	47.8%	57.9%	64.5%
EBITDA	123.1	150.9	86.9	-42.4%	-29.4%	284.4	365.8	28.6%	61.2%	69.0%
Net Income	64.2	82.8	17.9	-78.3%	-72.1%	122.9	168.4	37.0%	53.8%	58.7%
GPM	30.9%	35.1%	16.4%			24.7%	29.7%			
OPM	30.5%	33.7%	15.1%			24.3%	28.2%			
NPM	23.6%	25.1%	5.8%			17.9%	19.3%			

INCO									
in USD mn	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YoY	
Production vol. (tonnes)	18,127	12,567	17,513	39.4%	-3.4%	48,373	43,907	-9.2%	
Sales vol. (tonnes)	18,571	13,527	17,334	28.1%	-6.7%	49,263	44,347	-10.0%	
ASP (USD/tonne)	14,619	24,355	17,840	-26.8%	22.0%	13,934	19,703	41.4%	
Cash Cost (USD/tonne)	7,991	13,200	12,827	-2.8%	60.5%	8,160	11,455	40.4%	

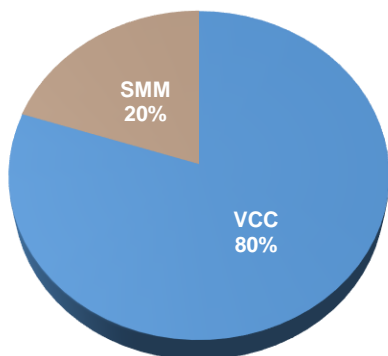
Source: Company, KISI

Fig 2. INCO forecast changes

Assumptions	INCO			
	FY22F (new)	FY23F (New)	FY22F (old)	FY23F (old)
Nickel matte volume (tonne)	63,084	72,643	66,258	71,878
Change (%)	-4.8%	1.1%		
Production (tonne)	61,875	71,250	64,988	70,500
Change (%)	-4.8%	1.1%		
Nickel matte ASP (USD/tonne)	18,720	17,438	18,600	17,438
Change (%)	0.6%	0.0%		
Revenue (USD mn)	1,158.3	1,242.4	1,208.8	1,229.3
Change (%)	-4.2%	1.1%		
Cost of Revenue (USD mn)	808.4	882.3	771.3	807.5
Change (%)	4.8%	9.3%		
EBITDA (USD mn)	499.0	542.5	597.8	606.0
Change (%)	-16.5%	-10.5%		
Net profit (USD mn)	228.9	253.0	312.9	303.0
Change (%)	-26.9%	-16.5%		

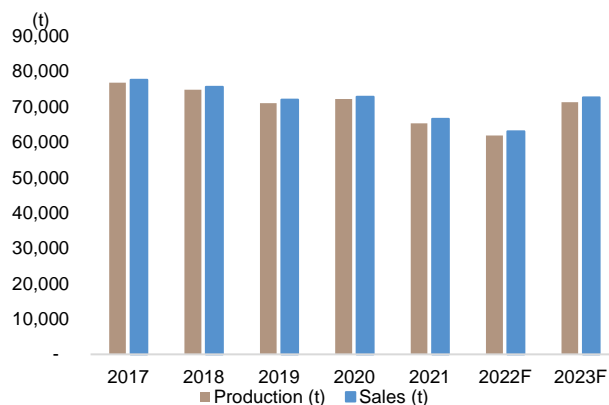
Source: Company, KISI

Fig 3. Sales proportion



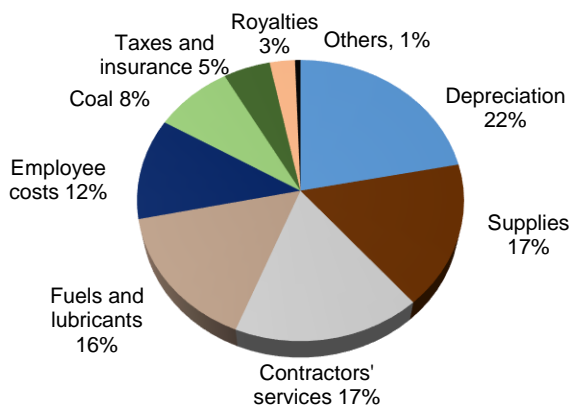
Source: Company, KISI

Fig 4. Production and sales



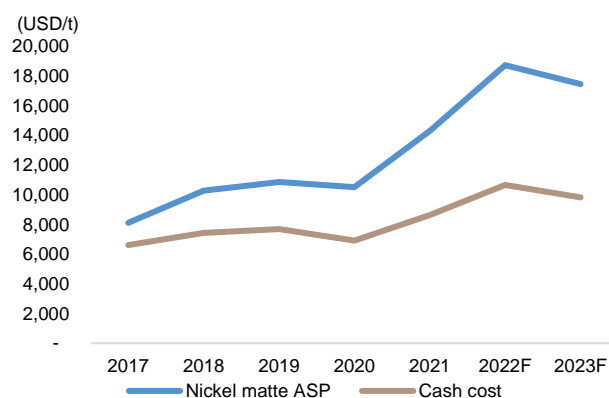
Source: Company, KISI

Fig 5. COGS breakdown



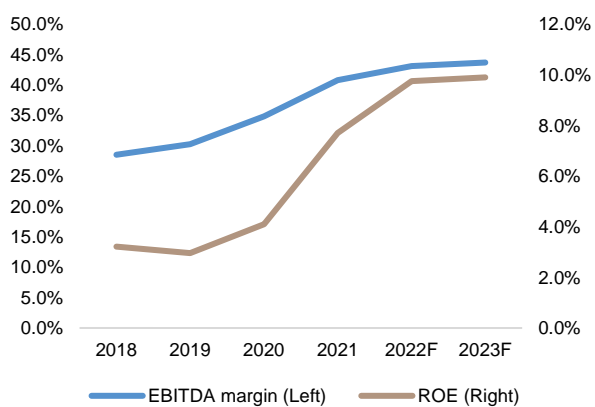
Source: Company, KISI

Fig 6. ASP and cash cost



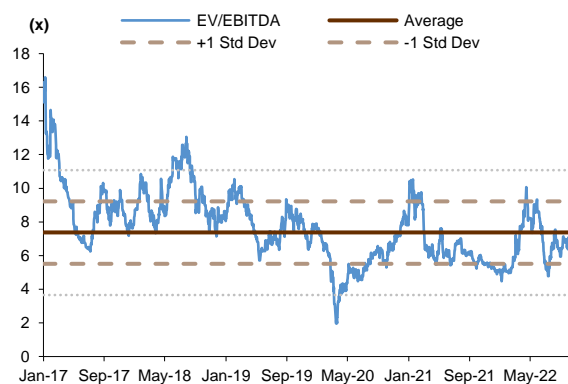
Source: Company, KISI

Fig 7. EBITDA margin and ROE of INCO



Source: Company, KISI

Fig 8. INCO 5-year EVEBITDA band



Source: Company, KISI

Company Overview

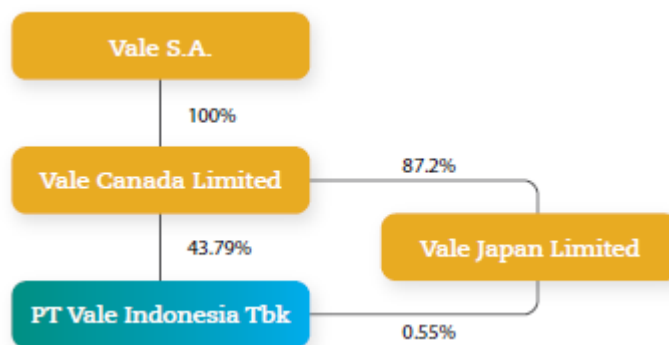
Established in 1968 under the name of PT International Nickel Indonesia (INCO), it started commercial production in 1978 in Sorowako and listed 20% of its stocks in IDX. In 2011, GMS approved the change of company name to PT Vale Indonesia Tbk (INCO)

Vale Indonesia (INCO) operates under the legal framework of Contract of Work which was amended on October 17, 2014 and is valid until December 28, 2025 with a concession area of 118,017 hectares covering South Sulawesi (70,566 hectares), Central Sulawesi (22,699 hectares) and Southeast Sulawesi (24,752 hectares).

INCO mines laterite nickel ore and processes it into the final product of nickel in matte. The average volume of nickel production per year reaches 75,000 metric tons. In producing nickel in the Sorowako Block, INCO uses pyrometallurgical technology (in melting the laterite nickel ore). Nickel product is exported entirely to Sumitomo Metal Mining Co., Ltd. (Japan) in a long-term special contract agreed

VCL, part of Vale Base Metals and the second-largest nickel producer in the world, currently has 43.79% of INCO shares. While SMM, one of the largest mining and smelting companies in Japan, owns 15.0% of INCO shares. On October 7, 2020, Inalum, now known as MIND ID has 20% of INCO shares. The remaining 21.18% of the shares are owned by public shareholders and others. As such, Vale S.A. is the Company's Controlling Shareholder, due to its direct and indirect control.

Fig 9. INCO company structure



Source: Company, KISI

Fig 10. INCO investment plan

3 investment plan for the three blocks (Sor, Pom, Bah) are identified and pursued. All are with partners

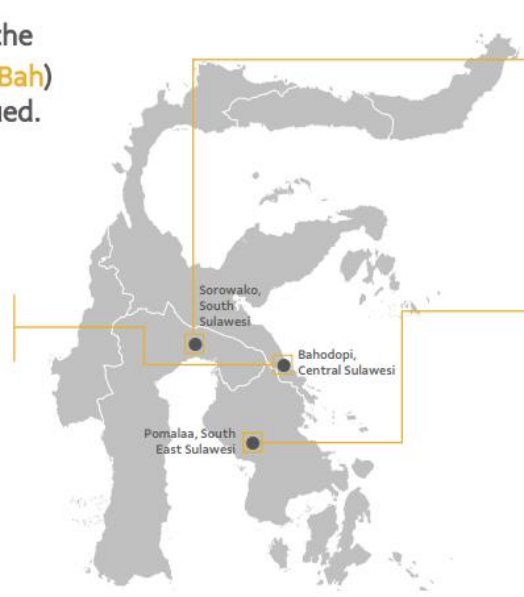
BAHODOPI

Bahodopi – RKEF

- Developing RKEF project with Tisco & Xinhai with 73kT capacity. PTVI ownership in processing facility is 49%

Progress

- Early works in Sambalagi area is progressing. Detail engineering and EPC selection is in progress
- Financing process continue
- Mine early works is starting, including land acquisition process



SOROWAKO

Sorowako – Pyrometallurgy

Existing operation since 1978, 75kT Nickel matte/an

Sorowako – HPAL

Signing Heads of Agreement with Huayou to build 60KT HPAL. Previous study has been completed with positive conclusion.

Sorowako Outer Area

To complete exploration program to enable us to develop option to further expanding our business

POMALAA

Pomalaa – HPAL

- PTVI, Huayou & Ford signed Memorandum of Cooperation Agreement to develop an HPAL processing facility in Pomalaa with capacity up to 120 kT. It follows the previous FCA signed between PTVI and Huayou.
- PSN Status obtained

Progress

- To complete definitive agreement by end of October 2022 and acquire project approval for HPAL construction. Huayou share in JVCo will increase to 80%
- To strategize permit requirements
- Pomalaa mine FEL 3 to support 120 kt is ongoing

Pomalaa – Pyro

Exploring future opportunity to develop RKEF processing facility to utilize Saprolite ore



Source: Company

Balance sheet		(USDmn)				
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F	
Current assets						
Cash & cash equivalent	389	508	607	749	827	
Accounts & other receivables	60	102	102	109	98	
Inventories	144	162	163	181	187	
Others	103	64	78	84	76	
Non-current assets						
Fixed assets	1,479	1,519	1,540	1,540	1,508	
Other non-current assets	140	117	163	220	295	
Total assets	2,315	2,473	2,653	2,883	2,991	
Current liabilities						
Accounts Payable	113	122	133	145	143	
Accrued expense	22	20	22	24	24	
Current portion of LT debt	-	-	-	-	-	
Others	26	26	33	35	31	
Non-current liabilities						
LT debt & financial liabilities	-	-	-	-	-	
Deferred tax liabilities	50	43	52	56	50	
Other non-current liabilities	83	107	63	65	61	
Total liabilities	294	318	303	325	309	
Controlling interest						
Capital stock and paid in capital	414	414	414	414	414	
Other Reserves	-	-	-	-	-	
Retained earnings	1,606	1,740	1,936	2,143	2,268	
Minority interest	-	-	-	-	-	
Shareholders' equity	2,020	2,154	2,350	2,557	2,682	

Cash flow		(USDmn)				
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F	
C/F from operating						
Net profit	83	166	229	253	175	
Depreciation	149	158	164	199	212	
Net incr. in W/C	106	31	(2)	(18)	10	
Others	(30)	(8)	8	3	(5)	
C/F from investing	(176)	(217)	(217)	(250)	(263)	
CAPEX	(161)	(197)	(185)	(199)	(179)	
Others	(15)	(19)	(31)	(51)	(83)	
C/F from financing	8	(11)	(84)	(46)	(51)	
Incr. in equity	(4)	1	0	0	(0)	
Incr. in debts	12	21	(51)	0	(1)	
Dividends	-	(33)	(33)	(46)	(51)	
Others	-	-	-	-	-	
C/F from others	-	-	-	-	-	
Increase in cash	140	120	99	142	78	

Income statement		(USDmn)				
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F	
Sales	765	953	1,158	1,242	1,122	
COGS	(640)	(718)	(808)	(882)	(868)	
Gross profit	124	235	350	360	254	
SG&A expense	(7)	(4)	(15)	(16)	(15)	
Operating profit	117	231	335	344	239	
Financial income	4	3	3	4	4	
Financial expense	(4)	(5)	(4)	(2)	(2)	
Other expense	(13)	(8)	(10)	(11)	(10)	
Other non-operating profit	-	-	-	-	-	
Income (loss) from JV	-	-	-	-	-	
Earnings before tax	105	221	324	335	232	
Income taxes	(22)	(55)	(95)	(82)	(57)	
Net profit	83	166	229	253	175	
Non-controlling interest	-	-	-	-	-	
Other comprehensive profit	-	-	-	-	-	
Total comprehensive profit	-	-	-	-	-	
Total comprehensive profit of controlling interest	-	-	-	-	-	
EBITDA	266	389	499	542	451	

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (USD)					
EPS	0.01	0.02	0.02	0.03	0.02
BPS	0.20	0.22	0.24	0.26	0.27
DPS	-	0.00	0.00	0.00	0.01
Growth (%)					
Sales growth	(2)	25	22	7	(10)
OP growth	13	98	45	3	(30)
NP growth	44	100	38	11	(31)
EBITDA growth	12	46	28	9	(17)
Profitability (%)					
OP margin	15.3	24.3	28.9	27.7	21.3
NP margin	10.8	17.4	19.8	20.4	15.6
EBITDA margin	40.2	36.4	34.5	35.2	34.9
ROA	3.6	6.7	8.6	8.8	5.9
ROE	4.1	7.7	9.7	9.9	6.5
Dividend yield	-	0.9	0.9	1.3	1.4
Dividend payout ratio	40	20	20	20	20
Stability					
Net debt (USD mn)	(389)	(508)	(607)	(749)	(827)
Int-bearing debt/equity (%)	-	-	-	-	-
Valuation (X)					
PE	44.6	22.7	15.8	14.1	20.4
PB	1.8	1.7	1.5	1.4	1.3
EV/EBITDA	15.0	9.9	7.5	6.7	7.9

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