

HOLD | TP : IDR5,575
INCO Stock Price Data

Last Price	:	IDR4,950
52wk High	:	IDR7,750
52wk Low	:	IDR4,920
Share Out	:	9.9bn
Market Cap	:	IDR49.2tn

INCO Stock Price Performance

1-Day	:	-5.3%
1-Week	:	-12.8%
1-Month	:	-11.2%
3-Month	:	-27.5%
Year-to-Date	:	-30.3%

Shareholders

Vale Canada Limited	:	43.8%
PT Mineral Industri Indonesia	:	20.0%
Sumitomo Metal Mining Co., Ltd.	:	15.0%
Public	:	21.2%

PT Vale Indonesia Tbk (INCO)
9M Revenue Propped by Production as LME Nickel Wanes
Strong end-of-year earnings and margins in sight

INCO's revenue in 3Q23 came in at USD278.9mn to stack up the 9M23 revenue to USD937.9mn, impressively growing 7.3% YoY, exceeding the MNCS FY23E estimate by 77.5%, while marginally in-line with the consensus FY23E estimate by 74.4%. The jump in revenue was due to solid Ni Matte production of 17.9k tons during the quarter (up 3.6% YoY), outweighing the decline in ASP to USD16.2k/ton (-9.2% YoY). The net profit for the quarter/9M23 stood at USD52.6mn/USD221.1mn, a 193.2%/31.3% YoY leap, courtesy of a further ease in the coal purchasing price to USD223.5/ton (-23% QoQ) in 3Q23, or USD287.1/ton in 9M23 (-7% YoY). The NPM improved dramatically as a result, expanding to 25.6% in 9M23 from 19.3% in 9M22. We adjusted the cost of revenue on the back of cheaper coal prices, which is expected to continue in 4Q23 as coal inventories are accrued c. 2 months in advance.

Nickel prices to be the main focus

- The company's share price has shared a strong correlation ($r=85.7%$) with the LME Nickel price tracing back as far as 2018. The nickel price's (and hence, INCO's share price) apparent correction trend since Feb-23 was a reflection of the market's tantrum towards the buzzkill news that China's much-anticipated, post-pandemic economic rebound was yet to be seen. We also view the more prominent growth in LFP batteries as opposed to the nickel-intensive, NCM batteries, accounting for 65.8% of China's battery output in 1H23 vs NCM's 33.9% (vs 1H22's market share of 61.1%/38.8%), to contribute to the sliding demand and price of nickel matte products.
- The global high interest rates environment that we will most likely weather for a prolonged period of time have already dampened the overall demand for automobiles, in particular the EV segment. BYD's and CATL's share price decline of -8.9%/-13.5% YTD reflects the market's dimmed outlook perception of the two Chinese battery giants. US automobile giants; General motors, Ford; share prices decline by -19.1%/-16.4% YTD, and the more recent slip from Tesla by -21.6% MTD shows the market has begun to price EV's damp outlook after its 3Q earnings miss amid an ongoing UAW strike. High interest rates cycles also tend to constrict the development of renewable energy infrastructures, hoisting the cost of funds and hurdles the nickel demand for storage facilities. We don't find it surprising to see nickel prices further decline to touch its 5-year mean of USD17.9k/ton, implying a downside potential for INCO share prices.

Divestment strategy still in the talks

The company has disclosed that the Vale and Sumitomo divestment process is still undergoing negotiations with MIND ID in order to reach the desired outcome for all parties involved. The Indonesian gov't, through MIND ID, aims to grasp a 51% divestment share instead of the offered 34% in order to gain strategic authority and take full control over the firm's wheel, diminishing Vale and Sumitomo's influence in INCO through the block-voting agreement. INCO, with its expiring CoW on the line practically has no choice but to concur, and the prospect of handing-over control to Indonesia seems to have induced brisk foreign outflows, with the foreign no. of shares declining -1.5% YTD, reflected in the 3-month -26.7% share price depreciation.

Recommendation: HOLD with TP IDR5,575

We recommend **HOLD** for INCO as the firm's fair price stands at IDR5,575/share (12.6% upside), and we advise to remain cautious of a correction to the 5-year avg. of IDR4,630/share on sluggish nickel LME and the unresolved divestment terms. The target price implies a PE of 16.7x/16.7x and a PBV of 1.4x/1.3x for FY23E/FY24F. We adjusted the earnings forecasts on weaker-than-expected LME nickel as well as the risk-free assumption to reflect the higher-for-longer scenario the economy is poised to face. Several key risks to our call include: 1) delays within the project pipelines, 2) surprises in nickel prices, 3) coal price volatilities, 4) impeded shares divestment progress.


Research Analyst

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Key Financial Highlights	FY20	FY21	FY22	FY23E	FY24F
Revenue (USD mn)	764.7	953.2	1,179.5	1,209.7	1,195.8
EBITDA (USD mn)	252.9	363.1	418.8	452.3	456.9
Net Income (USD mn)	82.8	165.8	200.4	221.2	220.9
ROA (%)	3.6	6.7	7.5	7.5	6.9
ROE (%)	4.1	7.7	8.5	8.6	7.9
PE (x)	35.2	20.5	16.4	14.8	14.8
PBV (x)	1.4	1.6	1.4	1.3	1.2
EPS (IDR)	120.9	241.9	302.5	334.0	333.4

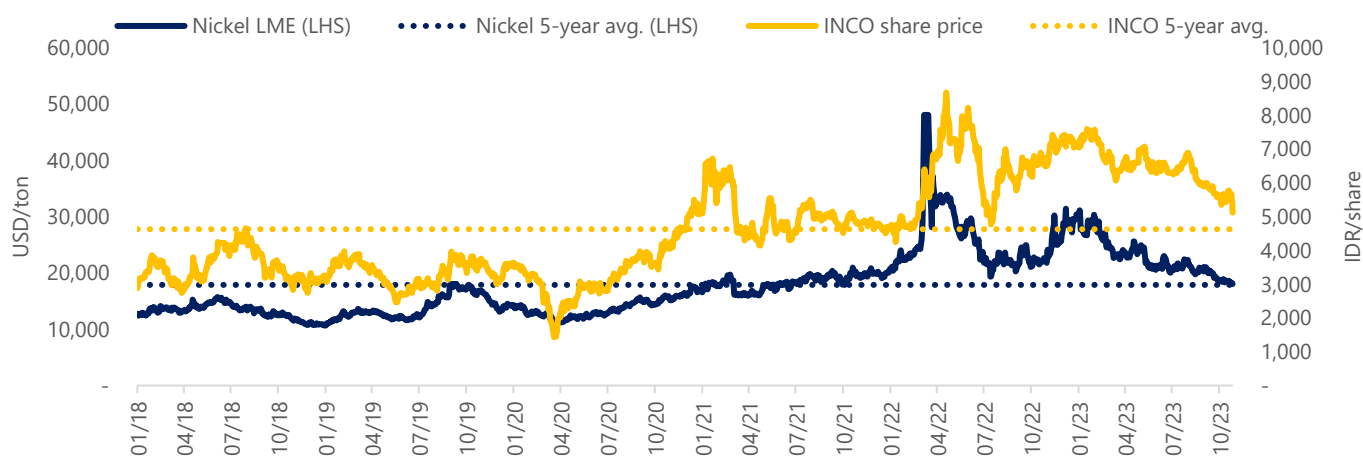
Sources : Bloomberg, MNCS Research

Exhibit 01. 9M23's bottom line beat our estimates

in Million USD	3Q23	2Q23	% QoQ	9M23	9M22	% YoY	FY23E	Cons.	% FY23E	% Cons.
Revenue	278.9	295.8	-5.7%	937.9	873.8	7.3%	1,209.7	1,260.1	77.5%	74.4%
COGS	(212.5)	(210.3)		(651.0)	(614.7)					
Gross Profit	60.4	85.6	-22.3%	286.9	259.1	10.7%				
Gross Margin	23.8%	28.9%		30.6%	29.7%					
EBITDA	104.6	123.0	-15.0%	401.2	382.6	4.8%	488.3	524.7	89.9%	82.8%
EBITDA Margin	37.5%	41.6%		42.8%	43.8%					
Pre-Tax Profit	67.5	86.3		212.2	238.6					
Net Profit	52.6	70.4	-25.3%	168.5	168.4	31.3%	218.4	267.1	82.1%	76.5%
Net Margin	23.8%	23.8%		25.6%	19.3%					

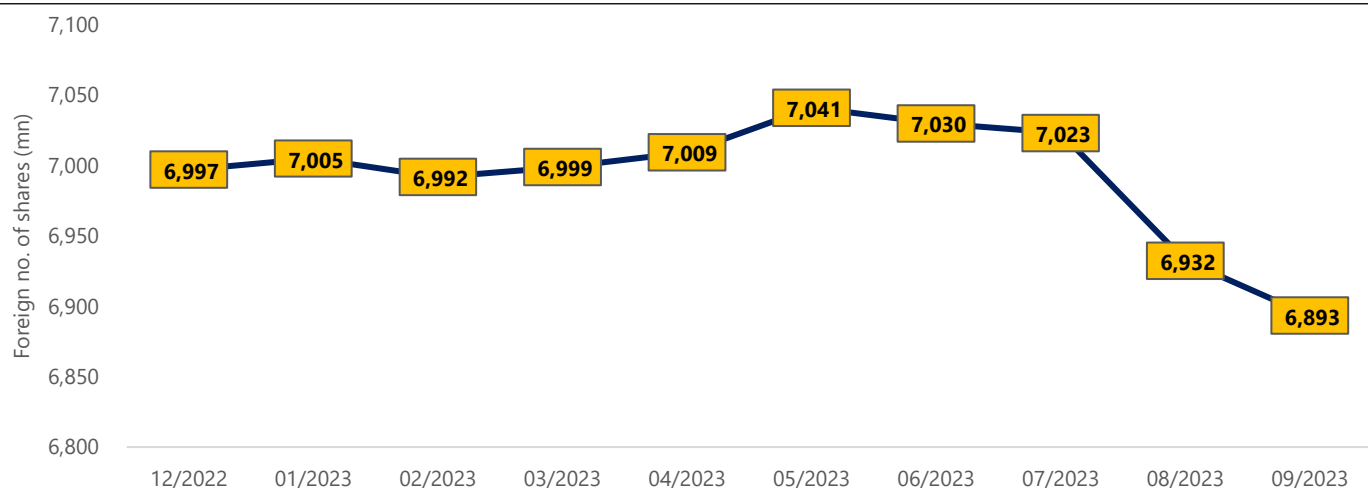
Sources : Company, MNCS Research

Exhibit 02. The firm's share price have been shown to trail LME nickel prices at a slight lag



Sources : Bloomberg, MNCS Research

Exhibit 03. Foreign ownership of the firm fell -1.5% along the 9M23 period



Sources : KSEI, MNCS Research

Exhibit 04. Financial projections

Income Statement						Balance Sheet					
in Million USD	FY20	FY21	FY22	FY23E	FY24F	in Million USD	FY20	FY21	FY22	FY23E	FY24F
Revenue	764.7	953.2	1,179.5	1,209.7	1,195.8	Cash & Equivalents	388.7	508.3	634.0	887.5	1,115.0
Cost Of Revenue	(640.4)	(704.3)	(865.9)	(899.4)	(886.9)	Trade Receivables	60.0	102.0	141.4	95.0	93.9
Gross Profit	124.4	248.9	313.6	310.3	308.9	Inventory	144.5	162.0	155.8	185.7	185.0
Operating Expenses	(20.5)	(25.8)	(41.5)	(11.3)	(10.8)	Others Current Assets	102.8	64.2	58.6	60.1	59.4
Operating Profit	103.9	223.0	272.0	298.9	298.2	Total Current Assets	696.0	836.6	989.8	1,228.3	1,453.4
Other Income (Expenses)	4.5	2.7	10.7	10.7	10.7	Fixed Assets - net	1,479.1	1,519.0	1,549.9	1,571.0	1,564.0
Finance Cost	(3.7)	(5.1)	(6.9)	(5.1)	(4.9)	Other Non-Current Assets	139.5	117.3	118.5	168.2	166.3
Profit Before Income Tax	104.6	220.6	275.8	304.5	304.0	Total Non-Current Assets	1,618.7	1,636.3	1,668.3	1,739.2	1,730.3
Income Tax Expenses	(21.8)	(54.8)	(75.4)	(83.3)	(83.1)	TOTAL ASSETS	2,314.7	2,472.8	2,658.1	2,967.6	3,183.7
Net Profit	82.8	165.8	200.4	221.2	220.9	Trade Payables	113.1	122.2	115.6	145.2	143.2
						ST Debt	20.5	21.6	26.2	37.7	37.3
						Other Current Liabilities	27.2	24.5	33.2	77.2	76.3
						Total Current Liabilities	160.7	168.4	175.0	260.1	256.8
						LT Debt	-	-	-	-	-
						Other LT Liabilities	133.6	149.9	128.3	131.2	129.7
						Total LT-Liabilities	133.6	149.9	128.3	131.2	129.7
						Total Equity	2,020.4	2,154.5	2,354.8	2,576.2	2,797.1
						TOTAL LIABILITY & EQUITY	2,314.7	2,472.8	2,658.1	2,967.6	3,183.5
Cash Flow						Ratios					
in Million USD	FY20	FY21	FY22	FY23E	FY24F		FY20	FY21	FY22	FY23E	FY24F
Net Income	82.8	165.8	200.4	221.2	220.9	Revenue Growth	-2.2%	24.6%	23.7%	2.6%	-1.1%
D&A	111.5	140.1	146.7	153.4	158.7	Operating Profit Growth	17.6%	114.7%	22.0%	9.9%	-0.3%
Changes in WC	66.4	(50.3)	(39.8)	46.1	(0.2)	Net Profit Growth	44.3%	100.2%	20.9%	10.4%	-0.2%
Others	(9.4)	35.7	18.5	53.9	(0.6)	Current Ratio (x)	4.3	5.0	5.7	4.7	5.7
Operating CF	292.3	334.6	325.9	474.6	378.8	Quick Ratio (x)	3.4	4.0	4.8	4.0	4.9
Capex	(123.2)	(179.9)	(177.6)	(174.6)	(151.7)	Receivable Days (x)	28.7	39.1	43.8	28.7	28.7
Others	27.4	22.3	(1.2)	(49.8)	1.9	Inventory Days (x)	82.4	84.0	65.7	75.4	76.1
Investing CF	(150.8)	(180.2)	(178.8)	(224.3)	(149.8)	Payable Days (x)	64.5	63.4	48.7	58.9	58.9
Equity Fund Raised	-	(33.1)	-	-	-	DER (x)	0.0	0.0	0.0	0.0	0.0
Others	(10.7)	(1.4)	(22.2)	3.2	(1.5)	DAR (x)	0.0	0.0	0.0	0.0	0.0
Financing CF	(1.7)	(34.5)	(22.2)	3.2	(1.5)	Gross Profit Margin	16.3%	26.1%	26.6%	25.6%	25.8%
Cash at Beginning	139.8	119.9	124.8	253.4	227.5	Operating Profit Margin	13.6%	23.4%	23.1%	24.7%	24.9%
Cash at Ending	388.7	508.3	634.0	887.5	1,115.0	EBITDA (USD mn)	252.9	363.1	418.8	452.3	456.9
						EBITDA Margin	33.1%	38.1%	35.5%	37.4%	38.2%
						Net Income Margin	82.8	165.8	200.4	221.2	220.9
						BVPS (IDR)	2,948.3	3,144.0	3,554.8	3,889.1	4,222.5

Sources : Company, MNCS Research

MNC Research Industry Ratings Guidance

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
 - **SELL** : Share price may fall by more than 10% over the next 12 months
 - **Not Rated** : Stock is not within regular research coverage

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