

The emergence of the nickel giant

2 November 2023



INCO IJ	BUY
Sector	Base Metal.
Price at 30 Oct 2023 (IDR)	5,225
Price target (IDR)	6,500
Upside/Downside (%)	24.4

Stock Information

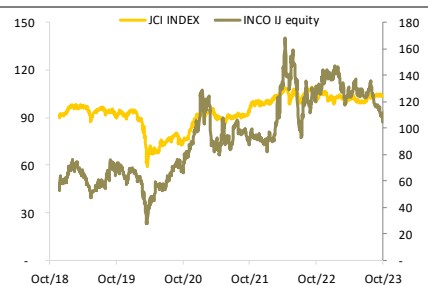
PT Vale Indonesia Tbk produces nickel in matte, an intermediate product, from lateritic ores at its integrated mining and processing facilities near Soroako, Sulawesi

Market cap (IDR bn)	51,917
Shares outstanding (mn)	9,936
52-week range (IDR)	5025 - 7750
3M average daily vol. ('000)	8,509
3M average daily val. (IDR mn)	50,422

Shareholders (%)

Vale Canada Limited	43.8
Mineral Industri Indonesia	20.0
Sumitomo Metal Mining	15.0
Public	21.2

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	(9.7)	(25.8)	(21.5)

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INCO's 9M23 earnings came in-line with our expectation, and 4Q23 may pose challenges due to declining nickel prices and rising oil prices. In 2024, we project 17.7% net profit decline, primarily due to lower nickel prices. INCO's future projects are progressing well and we project INCO to allocate a USD700 mn capex in 2024. INCO's strong financial position is expected to support the funding of these projects. INCO net profit could reach USD360mn in 2027 due to the commencement of Bahadopi and Pomalaa mines. We reinitiate with BUY call and DCF-based target price of IDR6,500, implying 20.3x '24F PE and 6.8x '24F EV/EBITDA.

In-line 3Q23 results

INCO booked USD 52.6mn of net profit in 3Q23, declined by 25.4% qoq. The decrease in net profit was attributed to a lower average realized price by 9.8% qoq, while energy prices were mixed. Meanwhile, the production level grew 4.6% qoq in 3Q23. Despite the slowdown in profitability, it's worth noting that INCO achieved a higher profit of USD221.1 mn in 9M23, or grew by 31.3% yoy.

We view INCO's earnings for 9M23 is in-line with our expectation but fall below street estimates, coming in at 87.3% of our 2023 forecast and 82.0% of the market's consensus as we anticipate INCO may face further challenges in 4Q23 due to the ongoing decline in nickel prices and the negative impact of rising oil prices.

Expect lower profitability in 2024F

We project INCO to book USD 208mn of net profit in 2024F or decline by 17.7% yoy mostly as we expect lower nickel price of USD21,000/tonne (-12.5% yoy) while COGS/tonne down to USD11.8k (-13.5% yoy) due to lower energy cost expectation. In 2024, Nornickel's research foresees an 11% surge in nickel demand, primarily fueled by the battery sector for EVs. Simultaneously, a 9% increase in nickel production, attributed to Indonesia's NPI and nickel compounds, is expected to result in a sustained surplus in nickel supply, estimated at 180kt (slightly lower than 2023 surplus of 200kt). Nickel surplus in 2024 is mostly driven by the contribution of ~130kt from class 1 nickel sources.

Future projects are progressing well

Anticipating the revised AMDAL approval for the Bahadopi RKEF project in Nov'23 and the subsequent AMDAL addendum approval for the Pomalaa mining project in Feb '24, we project INCO will allocate a USD700 mn capex in 2024 (+106% yoy). It's worth noting that the Bahadopi's RKEF project (capacity: 73ktpa of ferronickel) is expected to be completed by Mar '26, Pomalaa's HPAL project (capacity: 120ktpa of MHP) is set to conclude by Dec '26, and Sorowako's HPAL project (capacity :60ktpa of MHP) expected to be completed in 2027.

Reinitiate BUY with TP IDR6,500

We reiterate BUY on INCO with target price of IDR6,500 using DCF-based TP (WACC: 11.6%; LTG:-3%; and long-term nickel price of USD 22,000), which implied to 20.3x '24F PE and 6.8x '24F EV/EBITDA. INCO net profit could reach USD339mn in 2027 due to the commencement of Bahadopi and Pomalaa mines (our projection excluded the JV income from the smelters and Sorowako mine). We like INCO due to 1) substantial progress made in advancing its future projects; and 2) robust financial position, ensuring adequate funding for these upcoming projects. Yet, risks to our call included 1) lower nickel price; 2) lower than expected cash generation from the future projects.

Exhibit 1 : Key Statistics

Year end Dec (USD mn)	2021A	2022A	2023F	2024F	2025F
Revenue	953	1,179	1,235	1,063	1,112
EBITDA	953	458	497	445	543
Net profit	166	200	253	208	274
PER (x)	20.5	16.9	13.4	16.3	12.4
PBV (x)	1.6	1.4	1.3	1.2	1.1
EV/EBITDA (x)	7.4	6.0	5.4	6.8	5.3
Dividend yield (%)	1.0	0.0	1.1	0.9	1.2
Net gearing (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.1)

Sources: Company, KBVS Research

Exhibit 2: Financial Summary

USD (mn)	9M23	9M22	YoY (%)	3Q23	3Q22	YoY (%)	2Q23	QoQ (%)	
Revenue	937.9	873.8	7.3	278.9	309.2	(9.8)	295.8	(5.7)	
COGS	(651)	(615)	5.9	(212.5)	(258.4)	(17.8)	(210)	1.1	
Gross Profit	286.9	259.1	10.7	66.4	50.9	30.6	85.5	(22.3)	
EBIT	271.0	246.2	10.0	61.4	46.8	31.3	80.8	(23.9)	
EBITDA	401.1	382.6	4.8	104.5	103.0	1.5	123.0	(15.1)	
Other Op. exp	(13.3)	(10.2)	30.6	(2.1)	(5.1)	(58.2)	(2.0)	8.0	
Interest Income	25.7	5.7	353.5	9.4	3.7	157.6	8.7	7.7	
Interest expense	(4.0)	(3.9)	0.8	(1.3)	(1.7)	(23.4)	(1.4)	(4.0)	
Others	0.4	0.8	-55.3	0.1	(0.4)	(131.0)	0.2	(44.0)	
PBT	279.8	238.6	17.3	67.5	43.3	56.1	86.4	(21.8)	
Income tax exp.	(58.7)	(70.2)	-16.4	(15.0)	(25.3)	(40.9)	(15.9)	(6.0)	
Minority Interest	-	-	0.0	-	-	-	-	-	
Net Profit	221.1	168.4	31.3	52.6	17.9	193.2	70.5	(25.4)	
Margins (%)									
Gross Profit Margin	30.6	29.7		23.8	16.4		35.1		
EBIT margin	28.9	28.2		22.0	15.1		33.7		
Net Margin	23.6	19.3		18.8	5.8		25.1		
Operational:									
Sales (Ton)	50,435	44,347	13.7	17,214	17,334	-0.7	16,463	4.6	
ASP (USD/t)	18,596	19,703	-5.6	16,204	17,840	-9.2	17,967	-9.8	

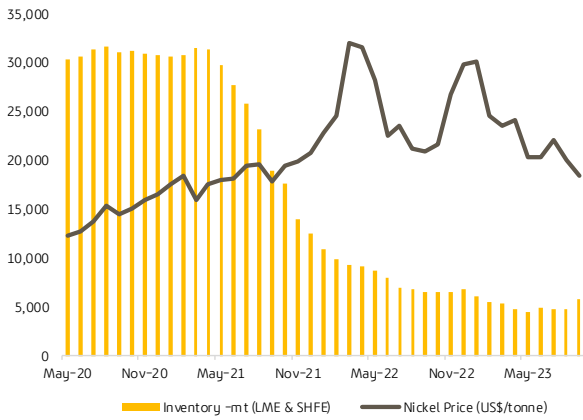
Source: Company, Bloomberg, KBVS Research

Exhibit 3: INCO's Valuation Summary

Description	Value
NPV of future project (RKEF, HPAL Pomalaa & Sorowako)	mn USD 1,032
Sub calculation:	
RKEF with Xinhai	mn USD 253
HPAL Pomalaa with Huayue	mn USD 547
HPAL Sorowako with Huayue	mn USD 233
NPV Current project (incl futures mines, excl new Sorowako mines)	mn USD 3,189
Total Equity Value	mn USD 4,221
Total Value	bn IDR 64,582
Fair Value per share	IDR 6,500

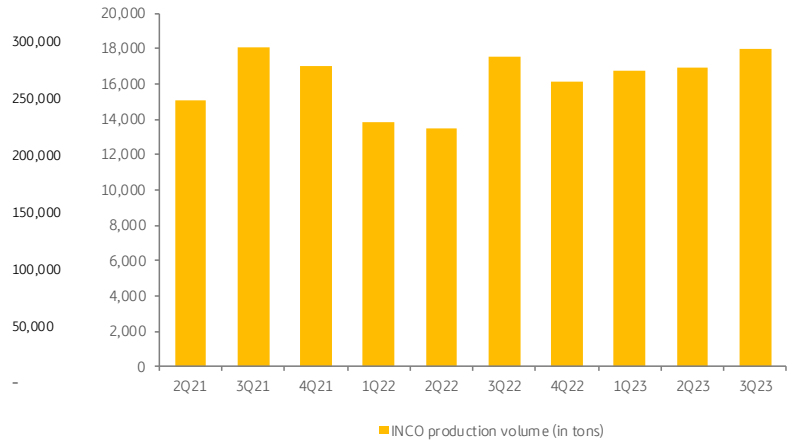
Source: Company, Bloomberg, KBVS Research

Exhibit 4: Nickel's price and inventory



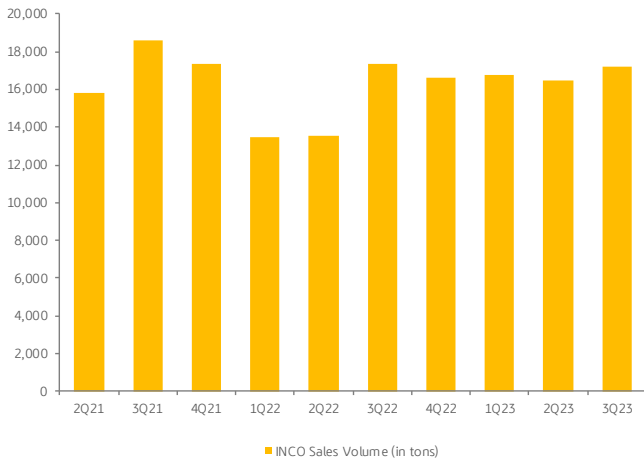
Source: Bloomberg, KBVS Research

Exhibit 5: INCO's Production Volume



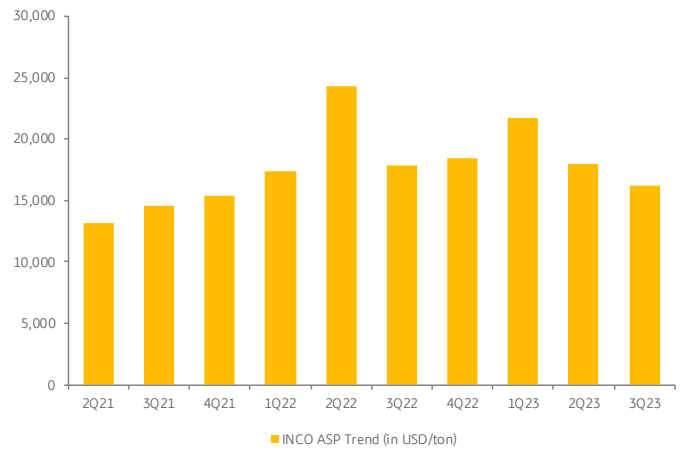
Source: Company, KBVS Research

Exhibit 6: INCO's sales volume



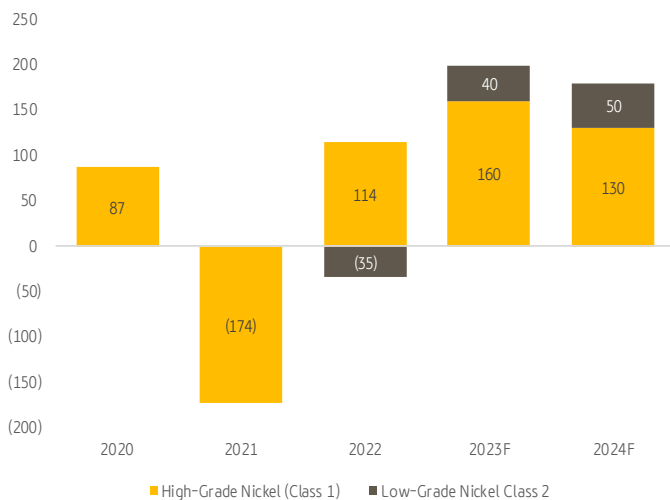
Source: Company, KBVS Research

Exhibit 7: INCO's ASP (USD/ton)



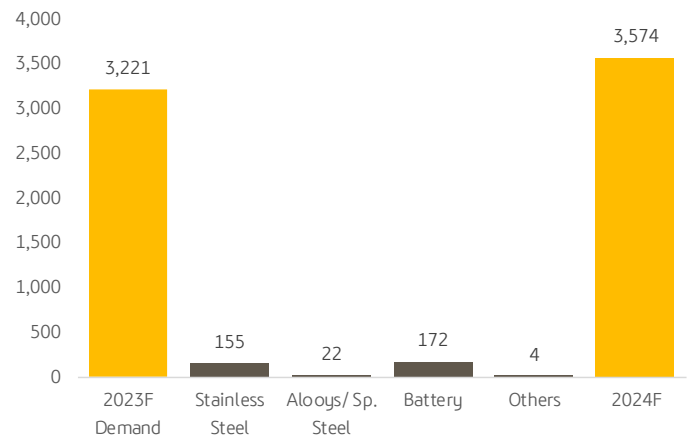
Source: Company, KBVS Research

Exhibit 8: Global nickel supply-demand balances



Source: Nor Nickel, KBVS Research

Exhibit 10: Global nickel demand driver in 2024F



Source: Nor Nickel, KBVS Research

FINANCIAL TABLES

Exhibit 11: Profit & Loss summary

Profit & Loss (USD mn)	2021	2022	2023F	2024F	2025F
Revenue	953	1,179	1,235	1,063	1,112
Cost of revenue	(704)	(866)	(892)	(771)	(721)
Gross profit	249	314	343	292	391
Operating expense	(18)	(20)	(21)	(22)	(22)
Onther income (expense)	(8)	(22)	(22)	(23)	(23)
Operating profit	223	272	300	247	345
EBITDA	389	458	497	445	543
Finance income	3	11	33	28	13
Finance expense	(5)	(7)	(5)	(5)	(6)
Gain (loss) on Forex	-	-	-	-	-
Pre-tax profit	221	276	325	267	350
Tax expense	(55)	(75)	(71)	(59)	(77)
Minority interest	-	-	-	-	-
Net profit to parent entity	166	200	253	208	273
EPS	239	307	383	315	412

Source: Company, KBVS Research

Exhibit 12: Balance sheet

Balance Sheet (USD mn)	2021	2022	2023F	2024F	2025F
Cash and equivalents	508	634	696	323	458
Trade Receivables	102	141	147	148	159
Inventories	162	156	186	160	180
Fixed Assets	1,519	1,550	1,666	2,214	2,562
Other assets	182	177	184	188	190
Total Assets	2,473	2,658	2,879	3,032	3,550
Trade payables	122	116	118	102	95
Short-term debt + CMLTD	1	2	2	2	2
Long term loan	3	4	4	4	4
Other liabilities	191	182	185	177	470
Total Liabilities	318	303	309	285	570
Minority interest	-	-	-	-	-
Paid Capital	278	278	278	278	278
Retained earnings	1,740	1,941	2,156	2,333	2,565
Other equities	136	136	136	136	136
Total Equity	2,154	2,355	2,570	2,747	2,979

Source: Company, KBVS Research

Exhibit 13: Cash flow

Cash Flow (USD mn)	2021	2022	2023F	2024F	2025F
Net income	166	200	253	208	273
Depreciation & amortization	112	143	153	153	151
Change in working capital	(50)	(40)	(33)	9	(39)
Others	50	(3)	2	(9)	(8)
Cash flow from operations	277	300	375	362	377
Others	22	(1)	(6)	(4)	(1)
Capex	(151)	(173)	(269)	(700)	(500)
Cash flow from investments	(129)	(175)	(275)	(704)	(501)
Changes in debt	3	1	(0)	(0)	300
Changes in equity	0	(0)	-	-	-
Dividends paid	(33)	-	(38)	(31)	(41)
Others	1	-	-	-	-
Cash flow from financing	(28)	1	(38)	(31)	259
Net Cash Flow	120	126	62	(373)	135

Source: Company, KBVS Research

Exhibit 14: Ratio analysis

Key Ratios (%)	2021	2022	2023F	2024F	2025F
Revenue growth	24.6	23.7	4.7	(13.9)	4.6
EBIT growth	114.7	22.0	10.3	(17.5)	39.5
EBITDA growth	54.3	17.9	8.5	(10.5)	22.1
Net profit growth	100.2	20.9	26.4	(17.7)	30.9
Gross margin	23.4	23.1	24.3	23.3	31.1
EBIT margin	23.4	23.1	24.3	23.3	31.1
EBITDA margin	40.8	38.8	40.3	41.9	48.9
Net margin	17.4	17.0	20.5	19.6	24.5
ROA	6.7	7.5	8.8	6.9	7.7
ROE	7.7	8.5	9.9	7.6	9.2
Net gearing (x)	(0.2)	(0.3)	(0.3)	(0.1)	(0.2)
Net debt/EBITDA (x)	(1.3)	(1.4)	(1.4)	(0.7)	(0.8)
Interest coverage ratio (x)	76.3	66.4	93.2	81.8	97.9

Source: Company, KBVS Research

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