

In-line 1Q24 Core Profit

2 July 2024



<b>INCO IJ</b>	<b>BUY</b>
Sector	Base Metal.
Price at 14 Feb 2024 (IDR)	4,200
Price target (IDR)	5,650
Upside/Downside (%)	34.5

**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)	41,843
Shares outstanding (mn)	9,963
52-week range (IDR)	3,559 - 6,901
3M average daily vol. ('000)	20,252
3M average daily val. (IDR mn)	90,338

**Shareholders (%)**

Vale Canada Limited	33.9
Mineral Industri Indonesia	34.0
Sumitomo Metal Mining	11.5
Public	20.6

**Stock Performance**



Source: Bloomberg

	1M	3M	12M
Performance	(14.3)	3.2	(32.4)

In 1Q24, INCO's net profit was USD6.2 mn, a significant drop due to lower ASP and a derivative loss. The company completed a major divestment, by selling shares to MIND ID and the new share issuance by transferring the pre-emptive rights to MIND ID with proceeds allocated to developing the Pomalaa mine. INCO secured an extension of its operating permit until 2035. Current projects are progressing well, with Morowali at 34% completion and potential reserve additions from Bahadopi and Sorowako. Reiterate BUY with lower TP of IDR5,650, which implied to 12.1x '24F EV/EBITDA. We cut our TP following adjustment of total share outstanding number and capital injection from the right issue.

**1Q24 Core Profit Below Consensus Expectations but In-Line with Ours**

INCO reported a net profit of USD6.2 mn in 1Q24, (-96.3% yoy/-88.4% qoq). This drop is primarily due to a 41.6% yoy decrease in ASP to USD12.6k per tonne, despite an 8.5% yoy increase in sales volume. Additionally, the net profit was adversely impacted by a USD12.9 mn loss from the recognition of the fair value of derivative assets related to INCO's increased 30% participation in its investment in Kolaka Nickel Indonesia. Excluding the loss on fair value of derivative assets, INCO's core profit for 1Q24 would be USD19.07 mn, aligning with our full-year projections (22.7%) but below consensus expectations (13%). We anticipate improved performance in 2Q24 for core profit due to higher nickel ASP.

**Completed the divestment process**

INCO completed a major divestment, by selling shares to MIND ID and the new share issuance by transferring the pre-emptive rights to MIND ID. On February 26, 2024, MIND ID, Vale Canada Limited (VCL), and Sumitomo Metal Mining Co., Ltd. (SMM) signed a divestment agreement where PT Vale Indonesia Tbk (INCO) sold 1.11 bn shares to MIND ID at IDR 3,050 per share, totalling IDR3.41 tn. Following this, VCL, SMM, and Vale Japan Limited (VJL) transferred pre-emptive rights to MIND ID. This divestment resulted in the issuance of 603.4 million new shares, with the proceeds primarily allocated to the development of the Pomalaa mine and its infrastructure. Additionally, INCO has secured an extension of its operating permit until December 28, 2035, through the issuance of a Special Mining Business Permit (IUPK) received on May 13, 2024. This permit allows for further 10-year extensions under current regulations, maintaining the existing concession area.

**New projects are progressing well and potential reserve addition**

As of Mar'24, the Morowali project is 34% complete, Bahadopi is in the early stages at 6% completion, and Sorowako is awaiting internal approval for the final investment decision (FID). Notably, INCO's reserves surged significantly by the end of 2023. The company anticipates potential additions to limonite reserves from the Bahadopi and Sorowako mines in the future, from the ongoing exploration activities.

**Reiterate BUY with lower TP of IDR5,650**

We reiterate BUY on INCO with lower target price of IDR5,470 using DCF-based TP (WACC: 12%; LTG: -3%; and long-term nickel price of US\$ 20,000), which implied to 12.1x '24F EV/EBITDA. We cut our TP following adjustment of total share outstanding number and capital injection from the right issue. INCO net profit could reach USD298mn 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)	2022	2023	2024F	2025F	2026F
Revenue	1,179	1,232	893	945	998
EBITDA	458	499	287	386	436
Net profit	200	274	84	148	187
PER (x)	14.0	10.2	33.4	19.0	15.0
PBV (x)	1.2	1.1	1.0	1.0	0.9
EV/EBITDA (x)	4.7	4.2	8.8	6.5	6.0
Dividend yield (%)	0.0	2.1	0.4	0.8	1.0
Net gearing (x)	(0.2)	(0.3)	(0.3)	(0.1)	(0.1)

Sources: Company, KBVS Research

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Exhibit 2: Financial Summary

USD (mn)	1Q24	1Q23	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>230</b>	<b>363</b>	<b>(36.7)</b>	<b>(21.9)</b>
COGS	(210)	(228)	(8.1)	(10.4)
<b>Gross Profit</b>	<b>20</b>	<b>135</b>	<b>(85.1)</b>	<b>(66.6)</b>
<b>EBIT</b>	<b>14</b>	<b>123</b>	<b>(88.8)</b>	<b>(74.4)</b>
<b>EBITDA</b>	<b>52</b>	<b>174</b>	<b>(69.8)</b>	<b>(46.8)</b>
Other Op. exp	(1)	(9)	(93.1)	(93.8)
Interest Income	9	8	22.0	(8.6)
Interest expense	(2)	(1)	79.9	(63.2)
Others	(11)	96	(111.7)	(144.7)
<b>PBT</b>	<b>9</b>	<b>217</b>	<b>(95.9)</b>	<b>(87.9)</b>
Income tax exp.	(3)	(48)	(94.5)	(86.5)
Minority Interest	0	0	n.a	n.a
<b>Net Profit</b>	<b>6.2</b>	<b>168.7</b>	<b>(96.3)</b>	<b>(88.4)</b>
<b>Margins (%)</b>				
Gross Profit Margin	8.7	37.2		
EBIT margin	6.0	33.9		
EBITDA Margin	22.8	47.8		
Net Margin	2.7	46.5		
<b>Operational:</b>				
Sales (Ton)	18,175	16,758	8.5	(12.1)
ASP (USD/t)	12,651	21,672	(41.6)	(11.2)
COGS (USD/t)	(11,546)	(13,620)	(15.2)	1.89

Source: Company, Bloomberg, KBVS Research

Exhibit 3: INCO's Valuation Summary

Description	Value	
NPV of future project (RKEF, HPAL Pomalaa & Sorowako)	mn USD	1,367
Sub calculation:		
RKEF with Xinhai	mn USD	226
HPAL Pomalaa with Huayue	mn USD	784
HPAL Sorowako with Huayue	mn USD	357
NPV Current project (incl futures mines, excl new Sorowako mines)	mn USD	2,402
Total Equity Value	mn USD	3,769
Total Equity Value	bn IDR	59,551
<b>Fair Value per share</b>	<b>IDR</b>	<b>5,650</b>
<b>Round-down</b>	<b>IDR</b>	<b>5,650</b>

Source: Company, Bloomberg, KBVS Research

Exhibit 4: INCO's Reserve Addition in 2023

Ore	As at December 31, 2023			As at December 31, 2022			Var (%)		
	Million Tonnes (wmt)	Million Tonnes (dmt)	% Ni Grade	Million Tonnes (wmt)	Million Tonnes (dmt)	% Ni Grade	Million Tonnes (wmt)	Million Tonnes (dmt)	% Ni Grade
Limonite	346.85	213.31	1.15	-	-	-	-	-	-
Saprolite	493.66	221.35	1.72	334.08	111.55	1.70	47.77	98.43	1.09

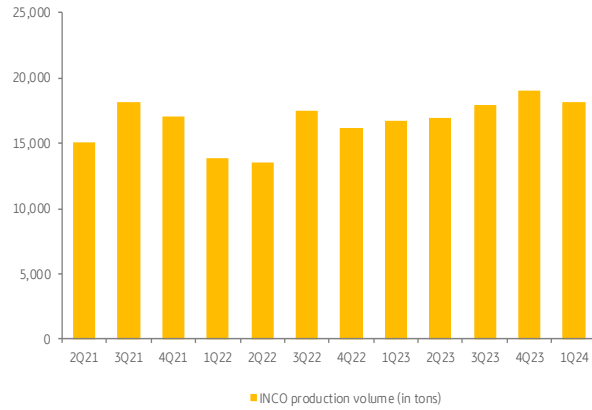
Source: Company, KBVS Research

Exhibit 5: Nickel's Market Sentiment



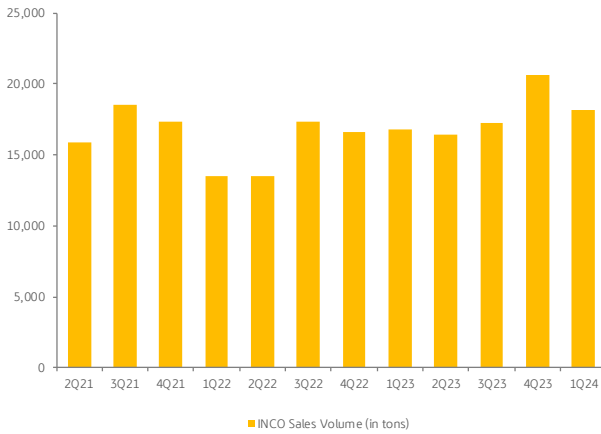
Source: Norrnickel, KBVS Research

Exhibit 6: INCO's Production Volume



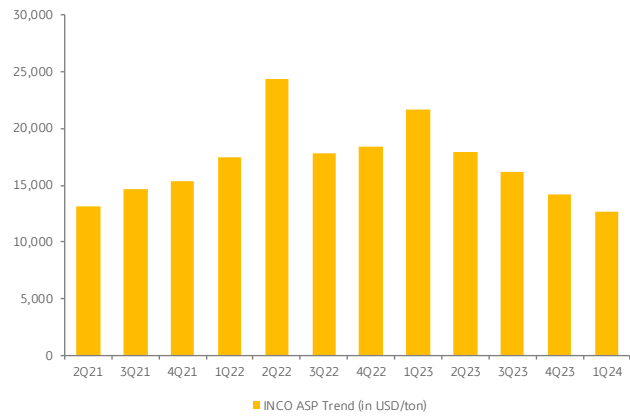
Source: Company, KBVS Research

Exhibit 7: INCO's sales volume



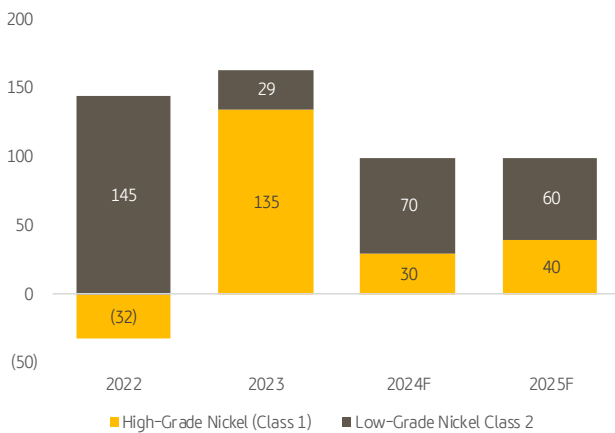
Source: Company, KBVS Research

Exhibit 8: INCO's ASP (USD/ton)



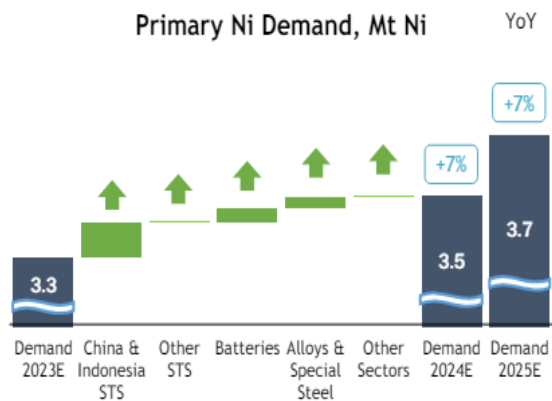
Source: Company, KBVS Research

Exhibit 9: Global nickel supply-demand balances



Source: Norrnickel, KBVS Research

Exhibit 10: Global nickel demand driver



Source: Norrnickel, KBVS Research

FINANCIAL TABLES

Exhibit 11: Profit & Loss summary

Profit & Loss (USD mn)	2022	2023	2024F	2025F	2026F
<b>Revenue</b>	<b>1,179</b>	<b>1,232</b>	<b>893</b>	<b>945</b>	<b>998</b>
Cost of revenue	(866)	(885)	(757)	(710)	(711)
<b>Gross profit</b>	<b>314</b>	<b>347</b>	<b>136</b>	<b>236</b>	<b>286</b>
Operating expense	(20)	(22)	(23)	(24)	(24)
Onther income (expense)	(22)	2	(23)	(23)	(24)
<b>Operating profit</b>	<b>272</b>	<b>327</b>	<b>90</b>	<b>189</b>	<b>238</b>
<b>EBITDA</b>	<b>458</b>	<b>499</b>	<b>287</b>	<b>386</b>	<b>436</b>
Finance income	11	36	28	12	13
Finance expense	(7)	(10)	(10)	(11)	(11)
Gain (loss) on Forex	-	-	-	-	1
<b>Pre-tax profit</b>	<b>276</b>	<b>353</b>	<b>108</b>	<b>190</b>	<b>240</b>
Tax expense	(75)	(78)	(24)	(42)	(53)
Minority interest	-	-	-	-	-
<b>Net profit to parent entity</b>	<b>200</b>	<b>274</b>	<b>84</b>	<b>148</b>	<b>187</b>
EPS	289	390	125	224	283

Source: Company, KBVS Research

Exhibit 12: Balance sheet

Balance Sheet (USD mn)	2022	2023	2024F	2025F	2026F
Cash and equivalents	634	699	293	321	184
Trade Receivables	141	102	99	105	111
Inventories	156	156	133	124	124
Fixed Assets	1,550	1,695	2,270	2,647	2,824
Other assets	177	274	281	283	286
<b>Total Assets</b>	<b>2,658</b>	<b>2,926</b>	<b>3,076</b>	<b>3,481</b>	<b>3,529</b>
Trade payables	116	141	120	112	111
Short-term debt + CMLTD	2	6	6	5	5
Long term loan	4	3	3	3	3
Other liabilities	182	212	203	495	388
<b>Total Liabilities</b>	<b>303</b>	<b>361</b>	<b>331</b>	<b>615</b>	<b>508</b>
Minority interest	-	-	-	-	1
Paid Capital	278	278	391	391	391
Retained earnings	1,941	2,150	2,217	2,338	2,493
Other equities	136	136	136	136	136
<b>Total Equity</b>	<b>2,355</b>	<b>2,565</b>	<b>2,744</b>	<b>2,866</b>	<b>3,021</b>

Source: Company, KBVS Research

**Exhibit 13: Cash flow**

Cash Flow (USD mn)	2022	2023	2024F	2025F	2026F
Net income	200	274	84	148	187
Depreciation & amortization	143	126	125	124	123
Change in working capital	(40)	65	5	(6)	(6)
Others	(3)	16	(10)	(9)	(8)
<b>Cash flow from operations</b>	<b>300</b>	<b>480</b>	<b>204</b>	<b>257</b>	<b>296</b>
Others	(1)	(79)	(6)	(2)	(2)
Capex	(173)	(271)	(700)	(500)	(300)
<b>Cash flow from investments</b>	<b>(175)</b>	<b>(350)</b>	<b>(706)</b>	<b>(502)</b>	<b>(302)</b>
Changes in debt	1	(1)	(0)	300	(100)
Changes in equity	(0)	-	113	-	1
Dividends paid	-	(60)	(13)	(22)	(28)
Others	-	(4)	(4)	(4)	(4)
<b>Cash flow from financing</b>	<b>1</b>	<b>(65)</b>	<b>96</b>	<b>273</b>	<b>(132)</b>
<b>Net Cash Flow</b>	<b>126</b>	<b>65</b>	<b>(406)</b>	<b>28</b>	<b>(137)</b>

Source: Company, KBVS Research

**Exhibit 14: Ratio analysis**

Key Ratios (%)	2022	2023	2024F	2025F	2026F
Revenue growth	23.7	4.5	(27.6)	5.9	5.6
EBIT growth	22.0	20.2	(72.4)	109.5	26.3
EBITDA growth	17.9	8.8	(42.5)	34.5	13.0
Net profit growth	20.9	36.9	(69.4)	76.3	26.6
Gross margin	23.1	26.5	10.1	20.0	23.9
EBIT margin	23.1	26.5	10.1	20.0	23.9
EBITDA margin	38.8	40.5	32.1	40.8	43.7
Net margin	17.0	22.3	9.4	15.6	18.8
ROA	7.5	9.4	2.7	4.2	5.3
ROE	8.5	10.7	3.1	5.2	6.2
Net gearing (x)	(0.3)	(0.3)	(0.1)	(0.1)	(0.1)
Net debt/EBITDA (x)	(1.4)	(1.4)	(1.0)	(0.8)	(0.4)
Interest coverage ratio (x)	66.4	49.4	27.8	36.7	40.7

Source: Company, KBVS Research

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