

The Nickel Chronicles: INCO's Next Chapter in Ore and HPAL Ventures

14 November 2024



INCO's 9M24 revenue declined by 24.5% yoy to USD709 mn due to lower ASP (-28.7% yoy), despite higher production and improved ore grades, with net profit falling to USD51 mn (-76.9% yoy), below our estimates (60.84%) and consensus (58.15%). This decline reflects increased HSFO costs and accrued USD 3.6 mn in on-Tax State Revenue (PNBP) for 3Q24 as a 10% share of net earnings. We project long-term earnings growth for INCO, driven by high-grade ore advantages (1.79%), future HPAL projects (80% of Net Profit by 28F), and stronger nickel prices, despite adjusted production, stake, and timeline expectations in HPAL Sambalagi. We reinitiate our BUY recommendation on INCO with a lowered target price of IDR4,300 (7x '25F EV/EBITDA, 1.3x '25 P/BV).

**3Q24 Revenue Declines Amidst Strong Production.** INCO reported a revenue of USD230 mn (-7.6% qoq, -17.6% yoy), bringing 9M24 to USD 709mn (-24.5% yoy), due to a lower ASP of USD 12,948/ton (-8.9% qoq, -20.1% yoy). Production volume rose to 18,008 metric tons (+8.6% qoq, +2% yoy), supported by a higher ore grade of 1.79% (+4% qoq). EBITDA fell to USD 47mn (-35.2% qoq, -55.1% yoy) amid lower matte prices and higher HSFO cost in September. With its new Special Mining Business Permit (IUPK), INCO accrued USD3.6 mn in on-Tax State Revenue (PNBP) for 3Q24 as a 10% share of net earnings. INCO's net profit stood at USD 14mn (-55.5% qoq, -73.7% yoy), totaling USD 51mn for 9M34 (-76.9% yoy), well below our estimates (60.84%) and consensus (58.15%).

**HPAL Sambalagi Smelter, ~10% Annual Income Lift.** INCO plans to build the HPAL Sambalagi smelter in Bahodopi, Central Sulawesi, with China's GEM Co. (INCO 30%, GEM 25%). Expected to produce 60,000 tons of nickel (in mixed hydroxide precipitate) annually by 2028, the project may also include an anode and precursor plant. We anticipate a ~10% annual net income boost starting in 2028, raising net profit margin from 34.3% to 37.4%. The USD 1.4 bn capex will be loan-financed, increasing the DER to 0.08x in FY25, with gradual reductions as revenue supports deleveraging.

**Strategic Ore and HPAL Ventures Poised to Drive Exceptional Growth.** We project significant long-term earnings growth for INCO, with bottom-line gains of 26F: +156.7% yoy, 27F: 42.8% yoy, and 28F: 1.5x from 22A, driven by 1) high-grade ore (1.79%) benefiting from NPI smelter shortages, creating favorable market conditions; 2) revenue from HPAL projects, including Pomalaa (56% EBIT by 26F), Sorowako (20.6% EBIT by 27F), and Sambalagi (8.2% EBIT by 28F); and 3) stronger projected nickel prices of USD 18,967/ton in 2024F and USD 19,610/ton thereafter as demand from EV and battery storage grows, with stricter emissions targets favoring nickel-based batteries. We adjusted our FY24-26F forecasts, raising revenue by 4%-8% and updating net profit projections to reflect IUPK obligations, along with factors related to HPAL Sambalagi, lowered production expectation (-23%), lower stake (30% from 45%), and a revised commissioning timeline to 28F from 26F.

**Reinitiate HOLD with TP of IDR4,300.** We reinitiate with a HOLD recommendation (previously BUY, TP at IDR5,650) based on the SOTP valuation, arriving at a Dec-25 TP of IDR4,300 (7x '25F EV/EBITDA, 1x '25 P/BV). INCO's future growth will be driven by potential expansion in the ore business and upcoming HPAL projects. Key downside risks include potential nickel price pressures from oversupply and shifts in long-term demand due to changes in battery chemistries.

INCO IJ	HOLD
Sector	Base Metal
Price at 13 November 2024 (IDR)	3,770
Price target (IDR)	4,300
Upside/Downside (%)	16.8

Stock Information

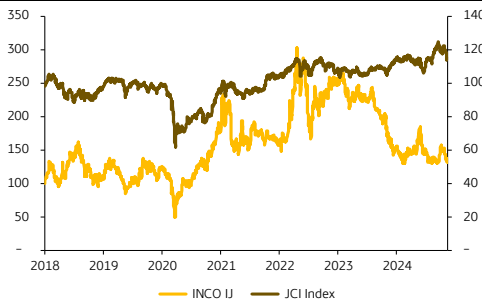
PT Vale Indonesia Tbk produces nickel in matte, an intermediate product, from lateritic ores at its integrated mining and processing facilities near Soroako, Sulawesi

Market cap (IDR bn)	40,262
Shares outstanding (mn)	10,539
52-week range (IDR)	5,225 - 3,559
3M average daily vol. ('000)	17,700
3M average daily val. (IDR mn)	72,127

Shareholders (%)

PT Mineral Industri Indonesia (Persero)	34.0
Vale Canada Limited	33.8
Sumitomo Metal Mining Co., Ltd	11.5
Public	20.7

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	(10.3)	(3.4)	(18.2)

Exhibit 1: Forecasts and Valuations (at closing price IDR 3,770)

Y/E Dec	22A	23A	24F	25F	26F
Revenue (USD Mn)	1,179	1,232	935	1,016	1,064
EBITDA (USD Mn)	458	498	242	306	342
EV/EBITDA (x)	8.7	4.2	7.5	5.7	5.5
Net Profit (USD Mn)	200	274	65	104	266
Net Profit Growth (%)	21%	37%	-76%	59%	157%
EPS (IDR)	300	421	98	157	413
P/E Ratio (x)	23.0	10.1	38.4	24.1	9.1
BVPS (IDR)	3,525	3,935	3,953	4,129	4,657
P/BV Ratio (x)	2.0	1.1	1.0	0.9	0.8
DPS (IDR)	0.1	99	-	-	-
Dividend Yield (%)	0.0	2.3	-	-	-
ROAE (%)	8.9	11.2	2.5	3.9	9.3
ROAA (%)	7.8	9.8	2.2	3.3	7.9
Interest Coverage (x)	(42.6)	(32.2)	(9.0)	(9.3)	(18.6)
Net Gearing (x)	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)

Analyst

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Exhibit 2: Financial Summary

(USD mn)	3Q23	2Q24	3Q24	Qoq (%)	Yoq (%)	9M23	9M24	Yoq (%)	9M24/ KBVs (%)	9M24/Cons (%)
Revenue	279	249	230	-7.6	-17.6	938	709	-24.5	79.35	74.26
COGS	(212)	(207)	(211)	+1.9	-0.6	(651)	(628)	-3.5		
Gross Profit	66	41	19	-55.2	-72.0	287	80	-72.1	58.95	57.30
EBIT	61	34	11	-68.7	-82.6	271	59	-78.4	65.12	51.55
EBITDA	105	72	47	-35.2	-55.1	401	172	-57.2	59.86	60.26
Other Op. exp	(2)	(3)	(4)	+17.7	+85.2	(13)	(8)	-40.8		
Interest Income	9	9	9	+0.1	-3.5	26	27	+6.5		
Interest Expense	(1)	(1)	(2)	+62.8	+71.7	(4)	(6)	+49.8		
Others	0	11	-	-100.0	-100.0	0		-100.0		
PBT	68	36	22	-37.5	-67.0	280	67	-76.1	61.91	56.60
Income Tax Exp.	(15)	(5)	(5)	+5.4	-67.5	(59)	(12)	-79.3		
Minority Interest	-	-	-			17.2	-			
Net Profit	53	31	14	-55.5	-73.7	238	51	-78.6	60.84	58.15
GPM (%)	23.8	16.7	8.1			30.6	11.3			
EBIT Margin (%)	22.0	13.7	4.7			28.9	8.3			
EBITDA Margin (%)	37.5	29.1	20.4			42.8	24.2			
NPM (%)	18.8	12.5	6.0			25.4	7.2			
Sales (Ton)	17,655	16,576	18,008	+8.6	+2.0	51,644	52,783	+2.2		
ASP (USD/t)	16,204	14,214	12,948	-8.9	-20.1	18,596	13,262	-28.7		
COGS (USD/t)	(12,345)	(12,507)	(11,730)	-6.2	-5.0	(12,908)	(11,905)	-7.8		

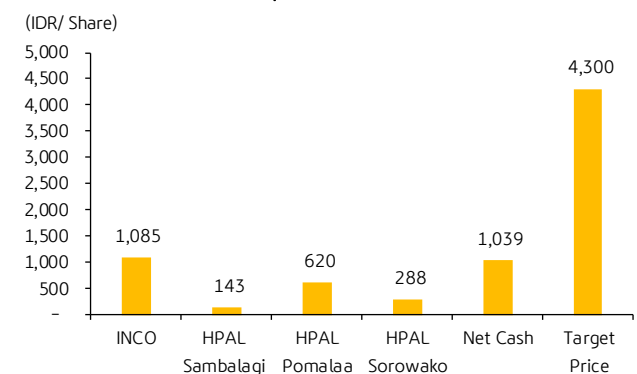
Source: Company, Bloomberg, KBVS Research

Exhibit 3: Valuation Summary

Projects	Effective Stake	EV (USDmn)	Valuation method
INCO	100%	1,085	DCF
HPAL Bahodopi	30%	143	DCF
HPAL Pomalaa	30%	620	DCF
HPAL Sorowako	30%	288	DCF
<b>Total EV (USD mn)</b>		<b>2,136</b>	
Net cash/ (debt)		687	
Minority Interest		(0)	
<b>Equity Value (USD mn)</b>		<b>2,823</b>	
USD/IDR rate		15,842	
<b>Equity Value (IDR bn)</b>		<b>44,726</b>	
Shares outstanding		10	
Target price (IDR/sh)		4,300	

Source: KBVS Research

Exhibit 4: SOTP Valuation Components



Source: KBVS Research

Exhibit 5: Forecast Changes

(USD mn)	2024F			2025F			2026F		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	893	935	4.70%	945	1,016	7.51%	998	1,064	6.61%
Gross margin	15.23%	11.87%		24.97%	16.63%		28.66%	16.73%	
EBITDA	287	242	-15.68%	386	306	-20.73%	436	342	-21.56%
EBITDA margin	32.14%	25.88%		40.85%	30.12%		43.69%	32.14%	
Net profit	84	65	-22.62%	148	104	-29.73%	187	266	42.25%
Net margin	9.41%	6.95%		15.66%	10.24%		18.74%	25.00%	

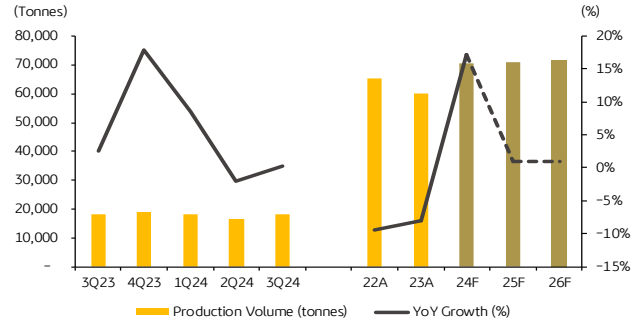
Source: KBVS Research

Exhibit 6: Sensitivity Analysis

Newcastle Coal (USD/ mt)	LME Nickel (USD/ ton)				
	-10%	-5%	0%	5%	10%
-10%	2,800	3,600	4,400	5,300	6,200
-5%	2,700	3,500	4,400	5,200	6,100
0%	2,600	3,400	4,300	5,100	6,000
5%	2,500	3,300	4,200	5,000	5,900
10%	2,400	3,200	4,100	5,000	5,800

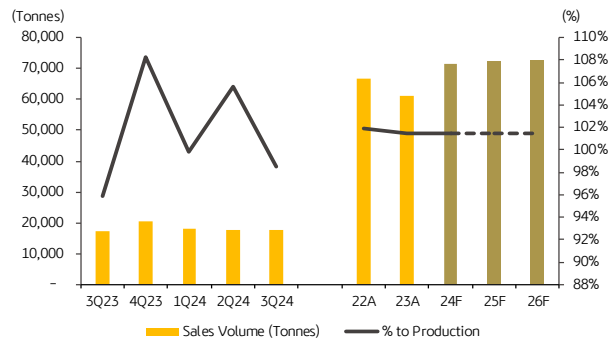
Source: Company, KBVS Research

Exhibit 7: Nickel in matte production (tonnes)



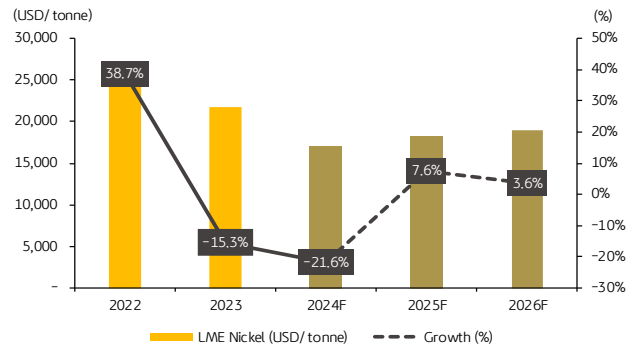
Source: Company, KBVS Research

Exhibit 8: Nickel in matte sales (tonnes) and % to production



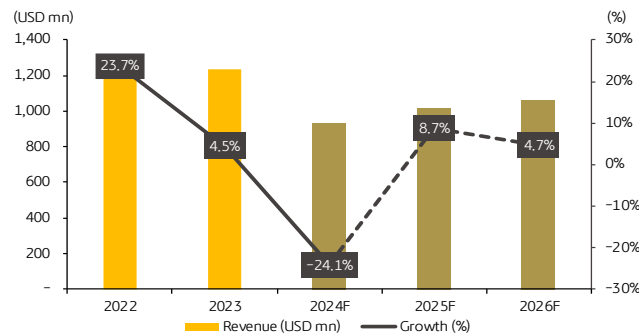
Source: Company, KBVS Research

Exhibit 9: LME Nickel prices and growth (%)



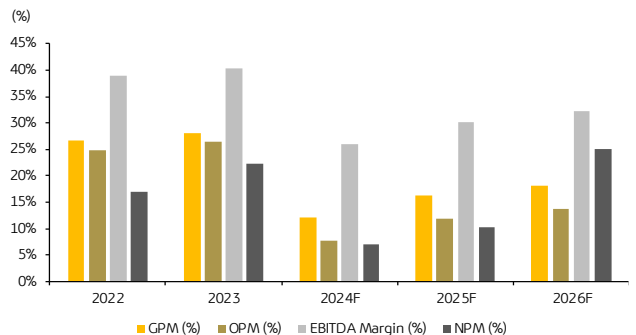
Source: Company, KBVS Research

Exhibit 10: Revenue and growth (%)



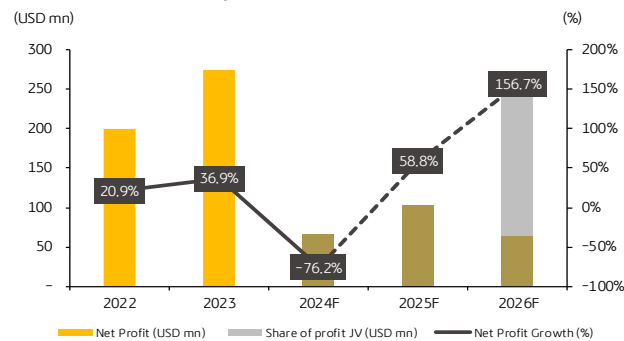
Source: Company, KBVS Research

Exhibit 11: Operating margins (%)



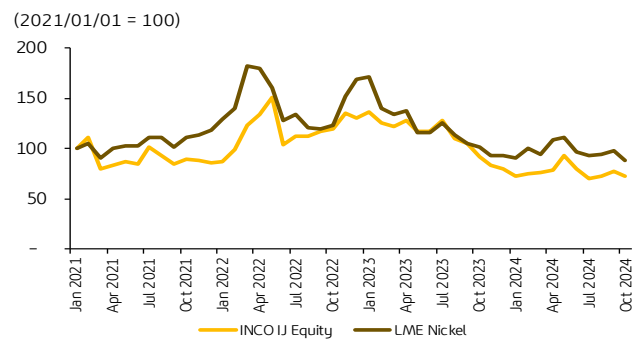
Source: Company, KBVS Research

Exhibit 12: Net profit and growth (%)



Source: Company, KBVS Research

Exhibit 13: INCO share price vs LME nickel price



Source: Company, KBVS Research

Exhibit 14: Financial Tables

Profit and Loss (USD Mn)	22A	23A	24F	25F	26F
Revenue	1,179	1,232	935	1,016	1,064
COGS	(866)	(885)	(821)	(850)	(871)
<b>Gross Profit</b>	<b>314</b>	<b>347</b>	<b>113</b>	<b>166</b>	<b>194</b>
Operating Expenses	(22)	(42)	(46)	(48)	(50)
<b>Operating Profit</b>	<b>294</b>	<b>325</b>	<b>71</b>	<b>121</b>	<b>146</b>
<b>EBITDA</b>	<b>458</b>	<b>498</b>	<b>242</b>	<b>306</b>	<b>342</b>
Interest Income	(7)	(10)	(8)	(13)	(8)
Interest Expenses	(7)	(10)	(8)	(13)	(8)
Other Income/Expenses	(22)	2	(18)	(19)	(20)
Share of Profit JV	-	-	-	-	202
<b>Pre-tax Income</b>	<b>276</b>	<b>353</b>	<b>84</b>	<b>127</b>	<b>361</b>
Income Taxes	(75)	(78)	(15)	(23)	(66)
Minority Interest	-	-	-	-	-
Non-Tax Government Revenue	-	-	(4)	-	(30)
<b>Net Profit</b>	<b>200</b>	<b>274</b>	<b>65</b>	<b>104</b>	<b>266</b>

Balance Sheet (USD Mn)	22A	23A	24F	25F	26F
Cash and Cash Equivalents	634	699	696	749	771
Trade Receivables	141	102	103	112	117
Inventories	156	156	165	171	175
Others	59	77	74	81	84
<b>Total current assets</b>	<b>990</b>	<b>1,033</b>	<b>1,038</b>	<b>1,112</b>	<b>1,147</b>
Fixed Assets	1,550	1,696	1,730	1,978	2,141
Other Assets	118	197	197	197	197
<b>Total Assets</b>	<b>2,658</b>	<b>2,926</b>	<b>2,965</b>	<b>3,287</b>	<b>3,486</b>
Trade payables	116	141	126	131	134
ST Debt	2	6	6	4	3
Other ST Liabilities	58	70	55	57	58
<b>Total Current Liabilities</b>	<b>175</b>	<b>217</b>	<b>187</b>	<b>192</b>	<b>195</b>
LT Debt	4	3	4	212	128
Other LT liabilities	124	142	145	150	164
<b>Total Liabilities</b>	<b>303</b>	<b>361</b>	<b>335</b>	<b>554</b>	<b>487</b>
Minority Interest	-	-	-	-	-
<b>Total Equity</b>	<b>2,355</b>	<b>2,565</b>	<b>2,630</b>	<b>2,733</b>	<b>3,000</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,658</b>	<b>2,926</b>	<b>2,965</b>	<b>3,287</b>	<b>3,486</b>

Cash Flow (USD Mn)	22A	23A	24F	25F	26F
Net Profit	200	274	65	104	266
D&A	143	126	133	144	153
Change in working capital	(23)	59	(38)	(15)	(9)
Others	11	13	(15)	2	1
<b>Operating Cash Flow</b>	<b>320</b>	<b>459</b>	<b>161</b>	<b>233</b>	<b>411</b>
Capital Expenditure	(173)	(271)	(167)	(392)	(317)
<b>Investing Cash Flow</b>	<b>(175)</b>	<b>(350)</b>	<b>(167)</b>	<b>(392)</b>	<b>(317)</b>
Change in Debt	6	3	1	207	(86)
Other Financing	(26)	17	3	5	14
<b>Financing Cash Flow</b>	<b>(20)</b>	<b>(44)</b>	<b>4</b>	<b>212</b>	<b>(72)</b>
<b>Net - Cash Flow</b>	<b>126</b>	<b>65</b>	<b>(3)</b>	<b>53</b>	<b>22</b>
<b>Cash at beginning</b>	<b>508</b>	<b>634</b>	<b>699</b>	<b>696</b>	<b>749</b>
<b>Cash at ending</b>	<b>634</b>	<b>699</b>	<b>696</b>	<b>749</b>	<b>771</b>

Key Ratios	22A	23A	24F	25F	26F
Gross Profit Margin (%)	26.6%	28.2%	12.1%	16.4%	18.2%
Operating Profit Margin (%)	24.9%	26.4%	7.6%	11.9%	13.7%
EBITDA Margin (%)	38.8%	40.4%	25.9%	30.1%	32.1%
Pre-Tax Margin (%)	23.4%	28.6%	9.0%	12.5%	33.9%
Net Profit Margin (%)	17.0%	22.3%	7.0%	10.2%	25.0%
Revenue Growth (%)	23.7%	4.5%	(24.1%)	8.7%	4.7%
EBITDA Growth (%)	17.9%	8.7%	(51.4%)	26.4%	11.8%
Net Gearing (x)	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)

Major Assumptions	22A	23A	24F	25F	26F
Nickel mate sales volume (Mn tonnes)	66,615	60,960	71,419	72,133	72,855
Nickel mate asp (USD/ tonnes)	14,309	19,348	13,090	14,091	14,605

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