

Monday, 04 February 2019

**BUY**  
**Maintain**

Last price (IDR) 3,780  
Target Price (IDR) 4,700  
Upside/Downside +24.3%  
Previous Target Price (IDR) 5,900

#### Stock Statistics

Sector Metal Mining  
Bloomberg Ticker INCO IJ  
No of Shrs (mn) 9,936  
Mkt. Cap (IDRbn/USDmn) 37,559/2,693  
Avg. daily T/O (IDRbn/USDmn) 39.6/2.8

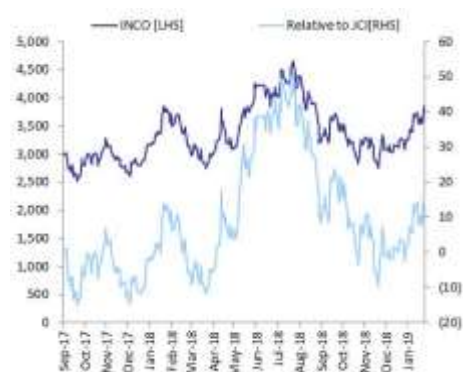
#### Major shareholders (%)

Vale Canada Ltd 58.7  
Sumitomo Metal 20.1  
Estimated free float 20.5

#### EPS Consensus (USDcents)

	2018F	2019F	2020F
Danareksa	0.7	1.0	1.1
Consensus	0.7	1.1	1.7
Danareksa/Cons	6.3	(11.5)	(34.4)

#### INCO relative to JCI Index



Source : Bloomberg



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## Vale Indonesia(INCO IJ)

### 4Q18: Weak profit on lower ASP and higher costs

Vale Indonesia (INCO) posted net profits of USD5.3mn in 4Q18 (-79.5% qoq, but +21.7% yoy). In 2018, it reported a net profit of USD60.5mn vs. a loss of USD15.3mn in 2017. The net profit was below our (82%) and consensus (88%) forecast. We expect better current nickel price to help earnings improvement in 2019. Maintain BUY with a target price of Rp4,700 (based on DCF valuation with WACC of 12.0% and long-term growth of 3%).

**4Q18: Lower ASP and higher costs weakened quarterly net profit.** INCO reported net profits of USD5.3mn in 4Q18 (2Q18: USD22.6mn). This was mainly attributable to lower ASP (-15.2% qoq). The average LME nickel price (lag 1 month) experienced a decline by 14.7% qoq to USD12,022/ton in 4Q18 as a result of tension trade war between USA and China. Also, the company experienced higher COGS per ton owing to a) rising higher energy costs from HSFO price (+4.9% qoq), diesel price (+7.6% qoq) and coal price (+12.9% qoq) and b) one-off retroactive from non-tax state revenue (PNBP) booked in 4Q18 which resulted on higher taxes and insurance. Exclude one-off PNBP tax, the company posted lower COGS by USD149/ton.

**2018: Posted a net profit.** Despite the company experienced lower nickel-in-matte production by 2.6% yoy to 74,806 tons in 2018 due to unplanned maintenance activities in 3Q18, INCO posted a net profit of USD60.5mn in 2018 vs. a net loss of USD15.3mn. This was supported from the improvement in the nickel prices with ASP jumped by 26.7% yoy. As such the company managed to post higher EBITDA margin to 30.3% in 2018 (2017: 17.7%) amid higher crude oil price were reflected in an increase in HSFO price by 28.7% yoy and coal price by 20.7% yoy.

**Modest improvement in the nickel price in 2019.** While trade war tensions between the China and USA have subsided, we think that uncertainty will still affect nickel demand in China, which, in turn, will put pressure on the nickel price. However, with the combined LME and SHFE nickel inventory falling further by 48.5% yoy to 215,400 units at current level (which represent of 5 weeks vs. 13 weeks, this will support the nickel price in 2019. Hence, we expect a modest improvement in the nickel price to USD13,500/tonne in 2019 and to USD14,500/tonne in 2020.

**Maintain BUY** with target price to IDR4,700 (based on DCF valuation with WACC of 12.0% and long-term growth of 3%) given the bright outlook for nickel backed by declining nickel inventory at the LME and SHFE and increasing demand for electric vehicles (EV) over the long-term. However, risks will be overhang on the trade wars between USA and China. Our target price implies 31.4x 2019F PE.

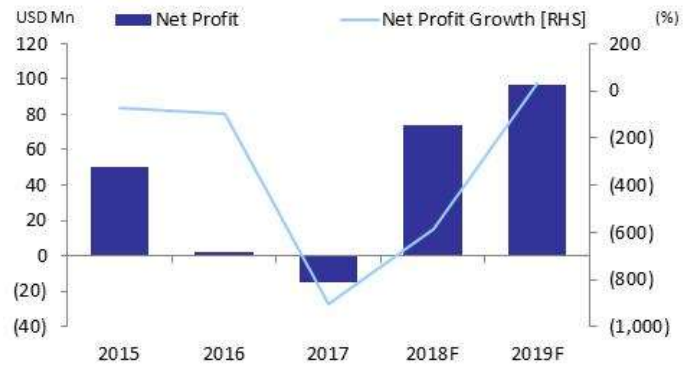
#### Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (USDmn)	584	629	775	821	863
EBITDA (USDmn)	143	121	236	267	288
EBITDA Growth (%)	(36.6)	(15.9)	95.9	12.9	7.8
Net profit (USDmn)	2	(15)	74	97	111
EPS (USDcents)	0.0	(0.2)	0.7	1.0	1.1
EPS growth (%)	(96.2)	(901.2)	(584.1)	30.8	14.5
BVPS (USDcents)	18.5	18.3	19.1	19.6	20.1
DPS (USDcents)	0.0	0.0	0.0	0.4	0.6
PER (x)	1,412.8	n/m	36.4	27.8	24.3
PBV (x)	1.5	1.5	1.4	1.4	1.3
Dividend yield (%)	0.0	0.0	0.0	1.6	2.2
EV/EBITDA (x)	18.2	21.1	10.4	8.8	7.8

Source : INCO, Danareksa Estimates

**Exhibit 1. Revenues and Growth**

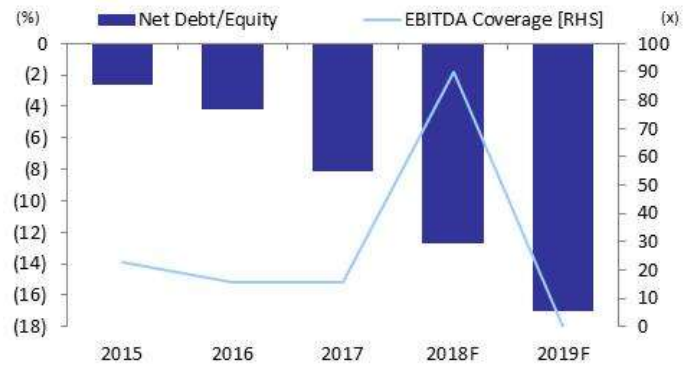

Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. 2018 RESULTS – BELOW EXPECTATION**

Operational performance	4Q17	3Q18	4Q18	QoQ,%	YoY,%	2017	2018	YoY,%	2018F	A/F,%
Production, tonnes	19,313	18,193	20,579	13.1	6.6	76,807	74,806	(2.6)	75,000	99.7
Sales, tonnes	19,919	18,566	21,062	13.4	5.7	77,643	75,631	(2.6)	75,000	100.8
ASP, USD/tonne	9,068	11,041	9,368	(15.2)	3.3	8,106	10,272	26.7	10,335	99.4
Financial performance	4Q17	3Q18	4Q18	QoQ,%	YoY,%	2017	2018	YoY,%	2018F	A/F,%
Revenue, USDmn	181	205	197	(3.7)	9.2	629	777	23.4	775	100.2
COGS, USDmn	(164)	(162)	(190)	17.1	16.0	(623)	(673)	8.0	(652)	103.2
Gross profit, USDmn	17	43	8	(82.4)	(55.7)	7	104	1,486.8	123	84.4
Operating profit, USDmn	14	40	5	(88.2)	(65.7)	(5)	92	n.a	111	82.9
EBITDA, USDmn	43	70	57	(18.4)	32.1	112	236	111.2	236	99.7
Net profit, USDmn	4	26	5	(79.5)	21.7	(15)	61	n.a	74	81.8
Gross margin, %	9.4	20.9	3.8	(17.1)	(5.6)	1.0	13.4	12.3	15.9	
Operating margin, %	7.6	19.5	2.4	(17.1)	(5.2)	(0.8)	11.9	12.7	14.4	
EBITDA margin, %	23.8	34.0	28.8	(5.2)	5.0	17.7	30.3	12.6	30.5	
Net margin, %	2.4	12.6	2.7	(9.9)	0.3	(2.4)	7.8	10.2	9.5	

Source: Company, Danareksa Sekuritas estimates

### Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
<b>Revenue</b>	<b>584</b>	<b>629</b>	<b>775</b>	<b>821</b>	<b>863</b>
COGS	(550)	(623)	(652)	(670)	(692)
<b>Gross profit</b>	<b>34</b>	<b>7</b>	<b>123</b>	<b>152</b>	<b>170</b>
<b>EBITDA</b>	<b>143</b>	<b>121</b>	<b>236</b>	<b>267</b>	<b>288</b>
<b>Oper. profit</b>	<b>22</b>	<b>(5)</b>	<b>111</b>	<b>140</b>	<b>158</b>
Interest income	2	3	2	2	3
Interest expense	(9)	(8)	(3)	0	0
Forex Gain/(Loss)	3	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(12)	(14)	(10)	(10)	(10)
<b>Pre-tax profit</b>	<b>5</b>	<b>(23)</b>	<b>101</b>	<b>132</b>	<b>152</b>
Income tax	(3)	8	(27)	(36)	(41)
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>2</b>	<b>(15)</b>	<b>74</b>	<b>97</b>	<b>111</b>
<b>Core Net Profit</b>	<b>(1)</b>	<b>(16)</b>	<b>74</b>	<b>97</b>	<b>111</b>

### Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	186	222	278	331	439
Receivables	147	166	149	158	154
Inventory	130	118	166	171	175
Other Curr. Asset	107	76	72	76	80
Fixed assets - Net	1,533	1,494	1,444	1,391	1,337
Other non-curr.asset	123	110	142	147	153
<b>Total asset</b>	<b>2,225</b>	<b>2,185</b>	<b>2,250</b>	<b>2,273</b>	<b>2,337</b>
ST Debt	36	37	38	0	0
Payables	64	61	82	84	87
Other Curr. Liabilities	31	32	46	47	49
Long Term Debt	73	36	0	0	0
Other LT. Liabilities	186	200	191	196	203
<b>Total Liabilities</b>	<b>391</b>	<b>365</b>	<b>357</b>	<b>328</b>	<b>339</b>
Shareholder's Funds	1,835	1,819	1,893	1,946	1,998
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>2,225</b>	<b>2,185</b>	<b>2,250</b>	<b>2,273</b>	<b>2,337</b>

### Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Net income	2	(15)	74	97	111
Depreciation and Amort.	121	125	125	127	130
Change in Working Capital	(124)	19	6	(15)	0
Other Oper. Cash Flow	(9)	30	(26)	(1)	(2)
<b>Operating Cash Flow</b>	<b>(10)</b>	<b>160</b>	<b>180</b>	<b>208</b>	<b>238</b>
Capex	(61)	(89)	(75)	(75)	(75)
Others Inv. Cash Flow	105	8	(1)	2	2
<b>Investing Cash Flow</b>	<b>44</b>	<b>(81)</b>	<b>(76)</b>	<b>(73)</b>	<b>(73)</b>
Net change in debt	(37)	(37)	(36)	(38)	0
New Capital	0	0	0	0	0
Dividend payment	0	0	0	(44)	(58)
Other Fin. Cash Flow	(7)	(6)	(12)	0	0
<b>Financing Cash Flow</b>	<b>(44)</b>	<b>(43)</b>	<b>(48)</b>	<b>(82)</b>	<b>(58)</b>
<b>Net Change in Cash</b>	<b>(9)</b>	<b>36</b>	<b>56</b>	<b>53</b>	<b>108</b>
Cash - begin of the year	195	186	222	278	331
Cash - end of the year	186	222	278	331	439

### Exhibit 9. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
<b>Growth (%)</b>					
Sales	(26.0)	7.7	23.2	6.0	5.0
EBITDA	(36.6)	(15.9)	95.9	12.9	7.8
Operating profit	(79.4)	(121.8)	(2,429.0)	25.3	13.2
Net profit	(96.2)	(901.2)	(584.1)	30.8	14.5
<b>Profitability (%)</b>					
Gross margin	5.8	1.0	15.9	18.5	19.8
EBITDA margin	24.6	19.2	30.5	32.5	33.4
Operating margin	3.8	(0.8)	14.4	17.0	18.3
Net margin	0.3	(2.4)	9.5	11.8	12.8
ROAA	0.1	(0.7)	3.3	4.3	4.8
ROAE	0.1	(0.8)	4.0	5.0	5.6
<b>Leverage</b>					
Net Gearing (x)	0.0	(0.1)	(0.1)	(0.2)	(0.2)
Interest Coverage (x)	2.4	(0.6)	42.5	0.0	0.0

Source : INCO, Danareksa Estimates

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