

Tuesday, 06 August 2019

BUY
Maintain

Last price (IDR) 2,810
Target Price (IDR) 4,400
Upside/Downside +56.6%
Previous Target Price (IDR) 4,400

Stock Statistics

Sector Metal Mining
Bloomberg Ticker INCO IJ
No of Shrs (mn) 9,936
Mkt. Cap (IDRbn/USDmn) 27,921/1,959
Avg. daily T/O (IDRbn/USDmn) 37.1/2.6

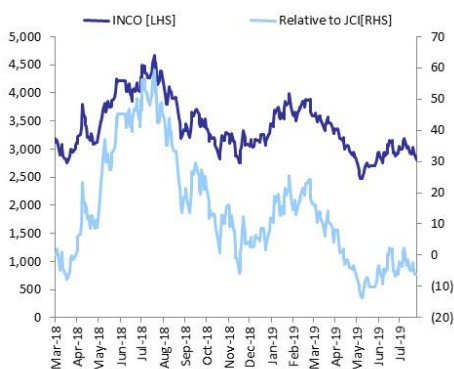
Major shareholders (%)

Vale Canada Ltd 58.7
Sumitomo Metal 20.1
Estimated free float 20.5

EPS Consensus (USDcents)

	2019F	2020F	2021F
Danareksa	0.5	0.9	1.2
Consensus	0.6	1.1	1.3
Danareksa/Cons	(20.3)	(15.0)	(10.1)

INCO relative to JCI Index



Source : Bloomberg



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Vale Indonesia (INCO IJ)

Quarterly recovery, but weak on yearly basis

Vale Indonesia (INCO) reported lower net losses of USD6.0mn in 2Q19 vs. losses of USD20.2mn in 1Q19. Hence, in 1H19, the company posted net losses of USD26.2mn vs. net profits of USD29.4mn in 1H18. The result is below our expectation and consensus forecasts. Going forward, we expect further earnings recovery in the coming quarters owing to greater nickel-in-matte production in 2H19. Maintain BUY with a TP of IDR4,400 (based on DCF valuation).

Better quarterly production reined in the losses. INCO reported lower net losses of USD6.0mn in 2Q19 vs. net losses of USD20.2mn in 1Q19, mainly reflecting: a) higher sales volume (+18.0% qoq), which was in-line with higher production, b) better ASP (+7.2% qoq) and c) lower cash costs of revenue after completion of the Laronca canal project. Moreover, lower HSFO prices (-2.6% qoq) and lower coal prices (-17.6% qoq) helped to reduce the cash cost of production.

1H19 earnings hit by lower production in the first quarter. The company reported net losses of USD26.2mn in 1H19 compared to a profit of USD29.4mn in 1H18, mostly reflecting: a) lower nickel-in-matte deliveries to 30,832 tons (-14.4% yoy) as a result of planned maintenance activities conducted in 1Q19 and b) lower nickel ASP (-8.9% yoy) to USD9,479/ton in 1H19 on weakening in global nickel prices in 1Q19. The company's ability to achieve cost efficiencies of USD11.3mn in 1H19 (as part of its USD50mn cost efficiencies targeted for 2018 – 2020) helped to cushion against a further decline in earnings.

Expect further earnings recovery in the coming quarters. We expect further earnings recovery in the coming quarters considering: a) the company will boost nickel-in-matte production in 2H19 following the completion of the Laronca Canal Lining with the goal of achieving targeted production of 71,000 – 73,000 tons, b) the strong recovery in nickel prices (the average price jumped to USD12,900/ton in the period of Jun to Jul 19 with the current nickel price of above USD14,000/ton vs. USD12,608/ton in the period from Mar to May 19). And c) further cost efficiencies of USD28.1mn targeted for 2019.

Maintain BUY. With the expectation of further earnings recovery in the coming quarters, we maintain our BUY recommendation on the stock with a target price of IDR4,400 (based on DCF valuation with WACC of 12.0%).

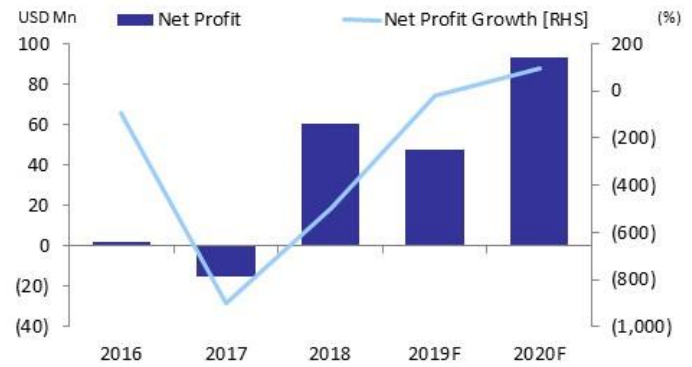
Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (USDmn)	629	777	748	841	936
EBITDA (USDmn)	121	187	197	263	299
EBITDA Growth (%)	(15.9)	54.8	5.4	33.7	13.5
Net profit (USDmn)	(15)	61	48	93	116
EPS (USDcents)	(0.2)	0.6	0.5	0.9	1.2
EPS growth (%)	(901.2)	(496.3)	(21.5)	95.6	24.9
BVPS (USDcents)	18.3	19.0	19.4	20.2	21.1
DPS (USDcents)	0.0	0.0	0.0	0.1	0.3
PER (x)	n/m	32.4	41.2	21.1	16.9
PBV (x)	1.1	1.0	1.0	1.0	0.9
Dividend yield (%)	0.0	0.0	0.0	0.7	1.4
EV/EBITDA (x)	15.0	9.1	8.4	6.2	5.3

Source : INCO, Danareksa Estimates

Exhibit 1. Revenues and Growth

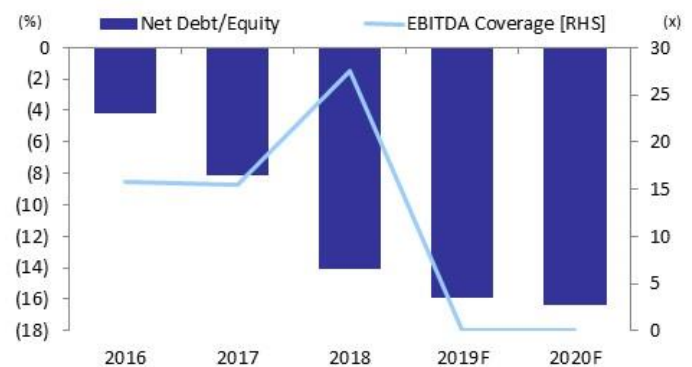

Source: Company, Danareksa Sekuritas estimates

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. 1H19 Results – Still Below Expectations

Operational performance	2Q18	1Q19	2Q19	QoQ,%	YoY,%	1H18	1H19	YoY,%	2019F	A/F,%
Production, tonnes	18,893	13,080	17,631	34.8	(6.7)	36,034	30,711	(14.8)	71,000	43.3
Sales, tonnes	18,763	13,867	16,965	22.3	(9.6)	36,003	30,832	(14.4)	71,000	43.4
ASP, USD/tonne	10,880	9,117	9,774	7.2	(10.2)	10,405	9,479	(8.9)	10,530	90.0
Financial performance	2Q18	1Q19	2Q19	QoQ,%	YoY,%	1H18	1H19	YoY,%	2019F	A/F,%
Revenue, USDmn	204	126	166	31.2	(18.8)	375	292	(22.0)	748	39.1
COGS, USDmn	(167)	(150)	(165)	10.4	(0.9)	(321)	(315)	(1.9)	(666)	47.3
Gross profit, USDmn	37	(23)	1	n.a	(98.6)	54	(23)	(142.5)	82	n.a
Operating profit, USDmn	34	(26)	(4)	(84.6)	n.a	48	(30)	(163.6)	70	n.a
EBITDA, USDmn	66	4	29	620.0	(56.4)	109	33	(70.0)	197	16.7
Net profit, USDmn	23	(20)	(6)	(70.2)	n.a	29	(26)	(189.1)	48	n.a
Gross margin, %	18.3	(18.4)	0.3	18.7	(17.9)	14.3	(7.8)	(22.1)	10.9	
Operating margin, %	16.8	(20.8)	(2.5)	18.4	(19.3)	12.8	(10.4)	(23.2)	9.3	
EBITDA margin, %	32.4	3.2	17.4	14.2	(15.0)	29.2	11.2	(18.0)	26.3	
Net margin, %	11.0	(15.9)	(3.6)	12.3	(14.7)	7.8	(9.0)	(16.8)	6.4	

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Revenue	629	777	748	841	936
COGS	(623)	(673)	(666)	(697)	(760)
Gross profit	7	104	82	144	176
EBITDA	121	187	197	263	299
Oper. profit	(5)	92	70	132	163
Interest income	3	5	5	5	6
Interest expense	(8)	(7)	0	0	0
Forex Gain/(Loss)	0	(1)	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(14)	(7)	(9)	(9)	(9)
Pre-tax profit	(23)	83	65	127	159
Income tax	8	(22)	(18)	(34)	(43)
Minority interest	0	0	0	0	0
Net profit	(15)	61	48	93	116
Core Net Profit	(16)	61	48	93	116

Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	222	301	307	330	382
Receivables	166	124	133	150	167
Inventory	118	132	156	170	185
Other Curr. Asset	76	58	69	78	86
Fixed assets - Net	1,494	1,435	1,457	1,476	1,489
Other non-curr.asset	110	153	135	148	161
Total asset	2,185	2,202	2,257	2,351	2,470
ST Debt	37	37	0	0	0
Payables	61	91	84	88	96
Other Curr. Liabilities	32	48	47	49	54
Long Term Debt	36	0	0	0	0
Other LT. Liabilities	200	143	195	204	223
Total Liabilities	365	319	326	341	372
Shareholder's Funds	1,819	1,884	1,931	2,010	2,098
Minority interests	0	0	0	0	0
Total Equity & Liabilities	2,185	2,202	2,257	2,351	2,470

Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Net income	(15)	61	48	93	116
Depreciation and Amort.	125	94	127	132	136
Change in Working Capital	19	88	(50)	(35)	(29)
Other Oper. Cash Flow	30	(90)	72	(7)	2
Operating Cash Flow	160	153	197	183	225
Capex	(89)	(103)	(150)	(150)	(150)
Others Inv. Cash Flow	8	74	1	4	4
Investing Cash Flow	(81)	(29)	(149)	(146)	(146)
Net change in debt	(37)	(37)	(37)	0	0
New Capital	0	0	0	0	0
Dividend payment	0	0	0	(14)	(28)
Other Fin. Cash Flow	(6)	(7)	(5)	0	1
Financing Cash Flow	(43)	(44)	(41)	(14)	(27)
Net Change in Cash	36	79	6	23	52
Cash - begin of the year	186	222	301	307	330
Cash - end of the year	222	301	307	330	382

Exhibit 9. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	7.7	23.4	(3.8)	12.5	11.3
EBITDA	(15.9)	54.8	5.4	33.7	13.5
Operating profit	(121.8)	(2,031.5)	(24.5)	88.6	23.5
Net profit	(901.2)	(496.3)	(21.5)	95.6	24.9
Profitability (%)					
Gross margin	1.0	13.4	10.9	17.1	18.8
EBITDA margin	19.2	24.1	26.3	31.3	31.9
Operating margin	(0.8)	11.9	9.3	15.6	17.4
Net margin	(2.4)	7.8	6.4	11.1	12.4
ROAA	(0.7)	2.8	2.1	4.0	4.8
ROAE	(0.8)	3.3	2.5	4.7	5.7
Leverage					
Net Gearing (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Interest Coverage (x)	(0.6)	13.6	0.0	0.0	0.0

Source : INCO, Danareksa Estimates

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