

Friday, 21 February 2020

**BUY**  
**Maintain**

Last price (IDR) 3,120  
Target Price (IDR) 4,400  
Upside/Downside +41.0%  
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) 31,001/2,255  
Avg. daily T/O (IDRbn/USDmn) 63.6/4.6

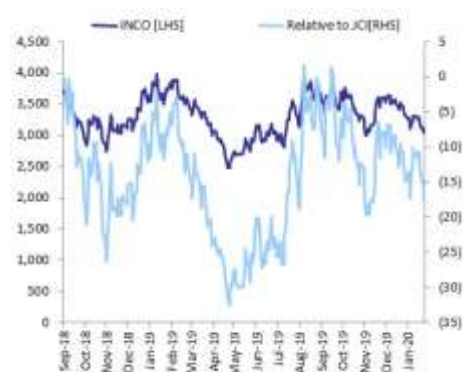
#### Major shareholders (%)

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	1.1
Consensus	0.5	1.0	1.6
Danareksa/Cons	(4.4)	(10.9)	(32.8)

#### INCO relative to JCI Index



Source : Bloomberg



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## Vale Indonesia (INCO IJ)

### 4Q19: Strong prices lifted profits

Vale Indonesia (INCO) reported net profits of USD57.2mn in 4Q19 (3Q19: USD26.3mn). In 2019, however, the net profits fell by 5.1% yoy to USD57.4mn. The result is above our expectation and consensus forecasts. While the recent soft nickel prices on the back of weak demand from stainless steel will impact earnings in 1H20, we expect solid demand from Electric Vehicles (EV) to boost the company's earnings in the long run. Maintain BUY with a TP of IDR4,400 (based on DCF valuation).

**4Q19: strong prices lifted the net profits.** The 4Q19 net profits climbed to USD57.2mn (+117.3% qoq) supported by: a) higher sales volume (+6.1% qoq), which was in-line with 3.4% qoq higher nickel-in-matte production and b) higher ASP (+21.3% qoq) thanks to better nickel prices in the Sep – Nov 2019 period. The COGS per ton was relatively flattish amid lower energy costs on declines in HSFO and diesel prices by 15.2% qoq and 10.3% qoq, respectively. However, strong prices lifted the EBITDA margin to 46.9% in 4Q19 from 32.9% in 3Q19.

**2019: higher corporate tax and lower production.** INCO reported 5.1% yoy lower net profits of USD57.4mn mostly reflecting: a) a higher tax rate of 35.6% in 2019 (2018: 26.8%) and b) 4.7% yoy lower nickel-in-matte sales volume driven by maintenance activities at Larona Canal Elining and EF #4 in 1H19. The solid nickel price in 2H19 - which resulted in 5.7% yoy higher ASP - and prudent costs management with 3.3% yoy lower COGS per ton (from a lower HSFO and coal price and consumption) helped to maintain solid earnings in 2019.

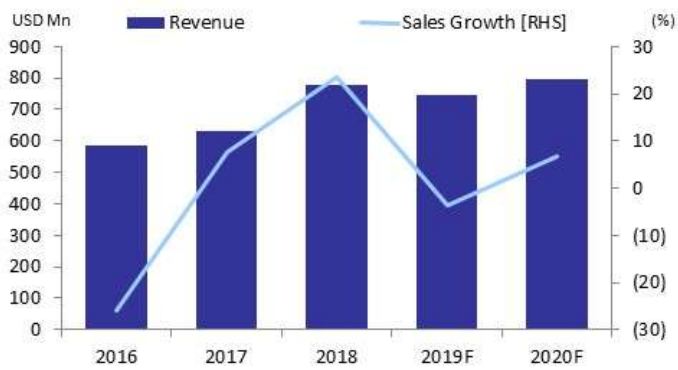
**Maintaining nickel-in-matte production for 2020.** The company indicated it would maintain nickel-in-matte production at a similar level in 2020 vs. 2019's 71,025 tons. We expect nickel-in-matte production of around 73,000 tons in 2020. However, given the current soft nickel price from weak stainless steel demand in addition to the impact from the coronavirus outbreak, we expect INCO to post soft earnings in 1Q19.

**Maintain BUY** with a TP of IDR4,400 (based on DCF valuation with WACC of 12.0%) given the expectation of: a) further cost efficiencies and b) slightly higher nickel-in-matte production and c) robust long-term earnings from development projects and solid prices over the long run. Our TP implies 34.5x 2020F PE. The downside risks include further softness in global nickel demand which may impact global nickel prices in 1H20, which fell 8.7% ytd in 2020.

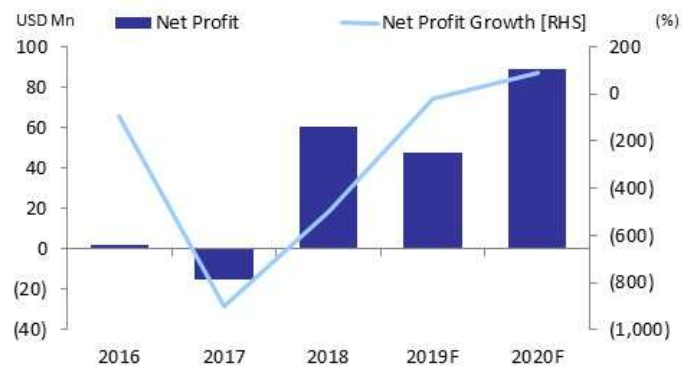
#### Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (USDmn)	629	777	748	797	878
EBITDA (USDmn)	121	187	197	257	286
EBITDA Growth (%)	(15.9)	54.8	5.4	30.7	11.2
Net profit (USDmn)	(15)	61	48	89	107
EPS (USDcents)	(0.2)	0.6	0.5	0.9	1.1
EPS growth (%)	(901.2)	(496.3)	(21.5)	86.4	20.6
BVPS (USDcents)	18.3	19.0	19.4	20.2	21.0
DPS (USDcents)	0.0	0.0	0.0	0.1	0.3
PER (x)	n/m	37.3	47.4	25.5	21.1
PBV (x)	1.2	1.2	1.2	1.1	1.1
Dividend yield (%)	0.0	0.0	0.0	0.6	1.2
EV/EBITDA (x)	17.4	10.6	9.9	7.5	6.5

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. 2019 RESULTS – ABOVE EXPECTATION**

Operational performance	4Q18	3Q19	4Q19	QoQ,%	YoY,%	2018	2019	YoY,%	2019F	A/F,%
Production, tons	20,579	19,820	20,494	3.4	(0.4)	74,806	71,025	(5.1)	71,000	100.0
Sales, tons	21,062	19,998	21,211	6.1	0.7	75,631	72,044	(4.7)	71,000	101.5
ASP, USD/ton	9,368	10,712	12,991	21.3	38.7	10,272	10,855	5.7	10,530	103.1
Financial performance	4Q18	3Q19	4Q19	QoQ,%	YoY,%	2018	2019	YoY,%	2019F	A/F,%
Revenue, USDmn	197.3	214.2	275.6	28.6	39.7	776.9	782.0	0.7	748	104.6
COGS, USDmn	(189.8)	(170.4)	(180.1)	5.7	(5.1)	(672.9)	(665.6)	(1.1)	(666)	99.9
Gross profit, USDmn	7.5	43.8	95.4	117.9	1,164.5	104.0	116.5	12.0	82	142.7
Operating profit, USDmn	4.7	41.7	91.5	119.4	1,835.6	92.4	102.7	11.1	70	147.3
EBITDA, USDmn	56.8	70.4	129.2	83.5	127.5	235.7	232.4	(1.4)	197	118.0
Net profit, USDmn	5.3	26.3	57.2	117.3	979.6	60.5	57.4	(5.1)	48	120.8
Gross margin, %	3.8	20.4	34.6	14.2	30.8	13.4	14.9	1.5	10.9	
Operating margin, %	2.4	19.5	33.2	13.7	30.8	11.9	13.1	1.2	9.3	
EBITDA margin, %	28.8	32.9	46.9	14.0	18.1	30.3	29.7	(0.6)	26.3	
Net margin, %	2.7	12.3	20.8	8.5	18.1	7.8	7.3	(0.4)	6.4	

Source: Company, Danareksa Sekuritas estimates

### Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>629</b>	<b>777</b>	<b>748</b>	<b>797</b>	<b>878</b>
COGS	(623)	(673)	(666)	(659)	(715)
<b>Gross profit</b>	<b>7</b>	<b>104</b>	<b>82</b>	<b>138</b>	<b>163</b>
<b>EBITDA</b>	<b>121</b>	<b>187</b>	<b>197</b>	<b>257</b>	<b>286</b>
<b>Oper. profit</b>	<b>(5)</b>	<b>92</b>	<b>70</b>	<b>126</b>	<b>150</b>
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)
<b>Pre-tax profit</b>	<b>(23)</b>	<b>83</b>	<b>65</b>	<b>121</b>	<b>146</b>
Income tax	8	(22)	(18)	(33)	(39)
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>(15)</b>	<b>61</b>	<b>48</b>	<b>89</b>	<b>107</b>
<b>Core Net Profit</b>	<b>(16)</b>	<b>61</b>	<b>48</b>	<b>89</b>	<b>107</b>

### Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	222	301	307	334	383
Receivables	166	124	133	142	156
Inventory	118	132	156	162	173
Other Curr. Asset	76	58	69	74	81
Fixed assets - Net	1,494	1,435	1,457	1,476	1,489
Other non-curr.asset	110	153	135	142	153
<b>Total asset</b>	<b>2,185</b>	<b>2,202</b>	<b>2,257</b>	<b>2,328</b>	<b>2,436</b>
ST Debt	37	37	0	0	0
Payables	61	91	84	83	90
Other Curr. Liabilities	32	48	47	47	50
Long Term Debt	36	0	0	0	0
Other LT. Liabilities	200	143	195	193	209
<b>Total Liabilities</b>	<b>365</b>	<b>319</b>	<b>326</b>	<b>323</b>	<b>350</b>
Shareholder's Funds	1,819	1,884	1,931	2,006	2,086
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>2,185</b>	<b>2,202</b>	<b>2,257</b>	<b>2,328</b>	<b>2,436</b>

### Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Net income	(15)	61	48	89	107
Depreciation and Amort.	125	94	127	132	136
Change in Working Capital	19	88	(50)	(20)	(24)
Other Oper. Cash Flow	30	(90)	72	(13)	1
<b>Operating Cash Flow</b>	<b>160</b>	<b>153</b>	<b>197</b>	<b>187</b>	<b>220</b>
Capex	(89)	(103)	(150)	(150)	(150)
Others Inv. Cash Flow	8	74	1	4	5
<b>Investing Cash Flow</b>	<b>(81)</b>	<b>(29)</b>	<b>(149)</b>	<b>(146)</b>	<b>(145)</b>
Net change in debt	(37)	(37)	(37)	0	0
New Capital	0	0	0	0	0
Dividend payment	0	0	0	(14)	(27)
Other Fin. Cash Flow	(6)	(7)	(5)	0	1
<b>Financing Cash Flow</b>	<b>(43)</b>	<b>(44)</b>	<b>(41)</b>	<b>(14)</b>	<b>(26)</b>
<b>Net Change in Cash</b>	<b>36</b>	<b>79</b>	<b>6</b>	<b>27</b>	<b>49</b>
Cash - begin of the year	186	222	301	307	334
Cash - end of the year	222	301	307	334	383

### Exhibit 9. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	7.7	23.4	(3.8)	6.6	10.1
EBITDA	(15.9)	54.8	5.4	30.7	11.2
Operating profit	(121.8)	(2,031.5)	(24.5)	80.0	19.3
Net profit	(901.2)	(496.3)	(21.5)	86.4	20.6
<b>Profitability (%)</b>					
Gross margin	1.0	13.4	10.9	17.3	18.5
EBITDA margin	19.2	24.1	26.3	32.3	32.6
Operating margin	(0.8)	11.9	9.3	15.7	17.1
Net margin	(2.4)	7.8	6.4	11.1	12.2
ROAA	(0.7)	2.8	2.1	3.9	4.5
ROAE	(0.8)	3.3	2.5	4.5	5.2
<b>Leverage</b>					
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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