

Thursday, 29 September 2022

BUY
Maintain

Last price (IDR)	6,250
Target Price (IDR)	7,600
Upside/Downside	+21.6%
Previous Target Price (IDR)	6,300

Stock Statistics

Sector	Metal Mining
Bloomberg Ticker	INCO IJ
No of Shrs (mn)	9,936
Mkt. Cap (IDRbn/USDmn)	62,102/4,069
Avg. daily T/O (IDRbn/USDmn)	201.8/13.2

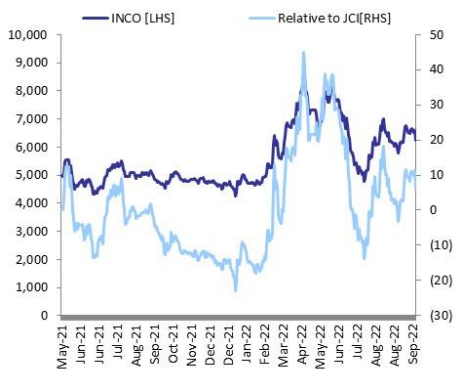
Major shareholders (%)

Vale Canada Ltd	43.8
Inalum	20.0
Estimated free float	20.6

EPS Consensus (USDcents)

	2022F	2023F	2024F
Danareksa	2.6	1.8	1.7
Consensus	2.8	2.6	2.8
Danareksa/Cons	(7.7)	(30.8)	(38.3)

INCO relative to JCI Index



Source : Bloomberg



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Vale Indonesia (INCO IJ)

Clearer outlook for HPAL projects

INCO received FID for its HPAL project and expect the facility will complete in 2025. Mining activity for this project will begin next year and expect will begin operational in 2025. Reiterate our Buy call on INCO with a higher TP of IDR7,600.

Expect margins compression in 2H22, but... Vale Indonesia plan to maintain their nickel matte production volume at 65k tons in 2022F, although up to 1H22, the company's production was at 26,394 tons, which was still 41% of full year target. As a result, we expect the company will ramp up their operation in 2H22. We believe the company's peak production growth in 2022F would be during 3Q22 and we expect INCO will produce of around 21k tons and another ~17k tons in 4Q22.

With FY22 production target remain intact, we leave our 2022F earnings forecast unchanged and we also expect that nickel price will continue to decline in following quarters with building up surplus from additional nickel smelter capacity of around 180k tons this year. And thus, we will see a margins compression on INCO's P&L in 2H22.

...Positive progress on HPAL project in Pomalaa, and... INCO already signed memorandum of cooperation agreement to develop an HPAL processing facility in Pomalaa with capacity up to 120k tons of MHP. INCO partnering with Huayou and Ford to develop this project. Currently, the company try to finalize the feasibility study to improve capacity for both mine and HPAL facility. Also, INCO targets they could secure definitive agreement by October 2022. Mining operation will begin next year to secure ore required for HPAL.

...another HPAL smelter in Soroako. INCO was also enter an agreement with the same partner in Pomalaa, Huayou, to develop HPAL smelter in Sorowako. The feasibility of this project already began since the beginning of this year. This HPAL plat will also process limonite into MHP with capacity of 60k tons. We believe INCO will disclose the detail timeline of this project early next year.

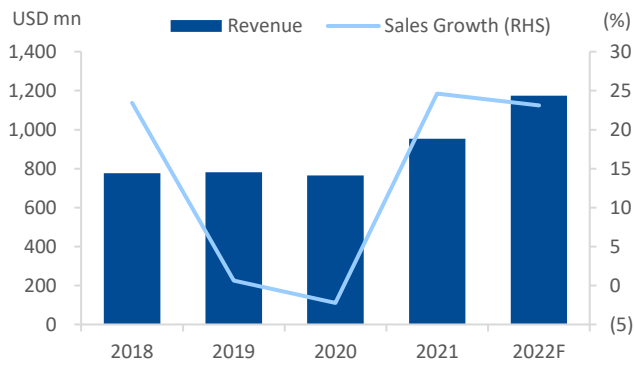
Maintain Buy with Higher TP of IDR7,600. We try to take into account HPAL Pomalaa that will effectively operational in 2025 to our valuation and this brings our TP upgraded to IDR7,600. We still not factored in another HPAL smelter in Soroako and once this project come into FID stage this could be another upside potential to INCO's valuation.

Key Financials

Year to 31 Dec	2020A	2021A	2022F	2023F	2024F
Revenue (USDmn)	765	953	1,174	981	936
EBITDA (USDmn)	273	367	464	341	321
EBITDA Growth (%)	17.5	34.4	26.5	(26.6)	(5.9)
Net profit (USDmn)	83	184	257	179	172
EPS (USDcents)	0.8	1.9	2.6	1.8	1.7
EPS growth (%)	44.3	122.3	39.4	(30.4)	(3.9)
BVPS (USDcents)	20.3	21.7	23.7	24.5	25.4
DPS (USDcents)	0.0	0.3	0.6	0.8	0.5
PER (x)	49.1	22.1	15.9	22.8	23.7
PBV (x)	2.0	1.9	1.7	1.7	1.6
Dividend yield (%)	0.0	0.6	1.4	1.9	1.2
EV/EBITDA (x)	13.5	9.7	8.3	12.4	14.3

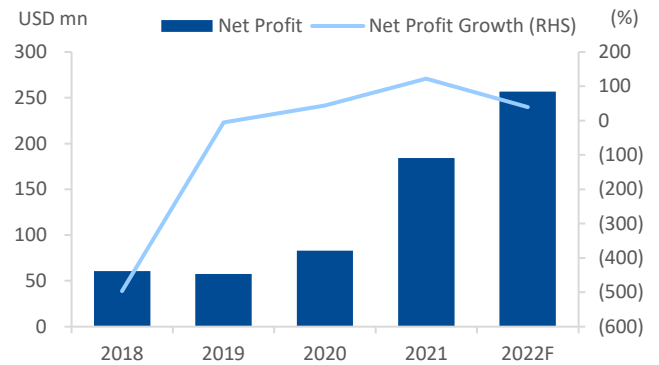
Source : INCO, Danareksa Estimates

Exhibit 2. INCO's revenue trend



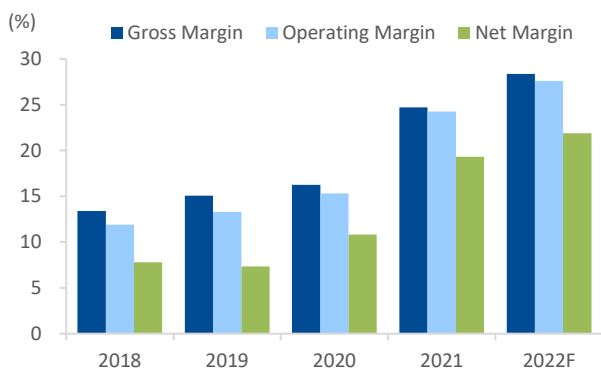
Source: Company, Danareksa Sekuritas Estimates

Exhibit 3. Strong earnings growth in 2022F



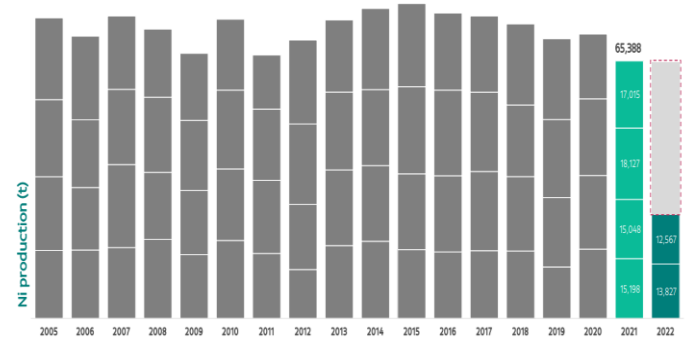
Source: Company, Danareksa Sekuritas Estimates

Exhibit 4. Solid margins expansion



Source: Company, Danareksa Sekuritas Estimates

Exhibit 5. Target production remain intact



Source: Company, Danareksa Sekuritas Estimates

Exhibit 6. INCO SOTP Valuation

	Method	Ownership	EV
Existing operation (Nickel matte)	DCF	100%	4,122
HPAL Pomalaa	DCF	30%	615
Total EV			4,737
Net Debt			(527)
Value of Equity (USD mn)			5,264
No of share (in mn shares)			9,936
Price per share (IDR/sh)			7,682
Target price (Rounded)			7,600

Source: Company, Danareksa Sekuritas Estimates

Exhibit 7. Income Statement

Year to 31 Dec (USDmn)	2020A	2021A	2022F	2023F	2024F
Revenue	765	953	1,174	981	936
COGS	(640)	(718)	(841)	(776)	(754)
Gross profit	124	235	333	205	182
EBITDA	273	367	464	341	321
Oper. profit	117	231	324	196	173
Interest income	4	8	8	8	8
Interest expense	(4)	0	0	22	33
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(13)	(3)	(3)	(3)	(3)
Pre-tax profit	105	236	329	223	211
Income tax	(22)	(52)	(72)	(44)	(39)
Minority interest	0	0	0	0	0
Net profit	83	184	257	179	172
Core Net Profit	83	184	257	179	172

Exhibit 8. Balance Sheet

Year to 31 Dec (USDmn)	2020A	2021A	2022F	2023F	2024F
Cash & cash equivalent	389	508	527	523	523
Receivables	60	102	209	175	167
Inventory	144	162	225	188	180
Other Curr. Asset	103	64	108	91	86
Fixed assets - Net	1,479	1,519	1,503	1,508	1,460
Other non-curr.asset	140	117	204	707	1,224
Total asset	2,315	2,473	2,777	3,192	3,640
ST Debt	0	0	0	0	0
Payables	113	122	115	106	103
Other Curr. Liabilities	48	46	59	55	53
Long Term Debt	0	0	0	368	735
Other LT. Liabilities	134	150	246	227	221
Total Liabilities	294	318	421	756	1,112
Shareholder's Funds	2,020	2,154	2,356	2,436	2,527
Minority interests	0	0	0	0	0
Total Equity & Liabilities	2,315	2,473	2,777	3,192	3,640

Exhibit 9. Cash Flow

Year to 31 Dec (USDmn)	2020A	2021A	2022F	2023F	2024F
Net income	83	184	257	179	172
Depreciation and Amort.	112	136	140	145	148
Change in Working Capital	53	(14)	(206)	77	17
Other Oper. Cash Flow	11	32	25	(30)	(40)
Operating Cash Flow	259	338	216	371	297
Capex	351	(150)	(150)	(150)	(100)
Others Inv. Cash Flow	54	(18)	22	(672)	(674)
Investing Cash Flow	405	(168)	(128)	(822)	(774)
Net change in debt	0	0	0	368	368
New Capital	0	0	0	0	0
Dividend payment	0	(25)	(55)	(77)	(47)
Other Fin. Cash Flow	(1)	0	(14)	21	33
Financing Cash Flow	(1)	(25)	(69)	312	353
Net Change in Cash	663	145	18	(139)	(124)
Cash - begin of the year	249	389	508	527	523
Cash - end of the year	389	508	527	523	523

Exhibit 10. Key Ratios

Year to 31 Dec	2020A	2021A	2022F	2023F	2024F
Growth (%)					
Sales	(2.2)	24.6	23.1	(16.4)	(4.6)
EBITDA	17.5	34.4	26.5	(26.6)	(5.9)
Operating profit	12.5	97.6	40.1	(39.5)	(11.8)
Net profit	44.3	122.3	39.4	(30.4)	(3.9)
Profitability (%)					
Gross margin	16.3	24.7	28.4	20.9	19.5
EBITDA margin	35.7	38.5	39.6	34.7	34.3
Operating margin	15.3	24.3	27.6	20.0	18.4
Net margin	10.8	19.3	21.9	18.2	18.3
ROAA	3.7	7.7	9.8	6.0	5.0
ROAE	4.2	8.8	11.4	7.5	6.9
Leverage					
Net Gearing (x)	(0.2)	(0.2)	(0.2)	(0.1)	0.1
Interest Coverage (x)	31.8	0.0	0.0	(8.9)	(5.2)

Source : INCO, Danareksa Estimates

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