

Vale Indonesia (INCO)

Riding the wave of EV boom

14 August 2022



INCO II	BUY
Sector	Metals
Price at 11 Aug 2022 (Rp)	6,925
Price target (Rp)	7,715
Upside/Downside (%)	11.4

Stock Information

Vale Indonesia is a subsidiary of Vale Canada Ltd that mines laterite nickel ore and processes it into the final product of nickel in matte. It operates under the legal framework of CoW with a concession area of 118,017 hectares across Sulawesi.

Market cap (Rp bn)	107,590
Shares outstanding (mn)	116,318
52-week range (Rp)	895-1,140
3M average daily vol. ('000)	32,753
3M average daily val. (Rp mn)	221,474

Shareholders (%)

Vale Canada Ltd.	43.8
Sumitomo Metal Mining Co.	15.0
Inalum	20.0
Public	20.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	34.5	2.2	35.8

- INCO's 1H22 net profit surged 155.9% YoY to USD150.5mn (+22.4% QoQ in 2Q22)
- We expect net revenue growth of 26% YoY, EBITDA margin of 45.0% in 2022
- We reiterate our "BUY" call with 11% upside potential on a 12-month view on strong ASP

Exceeding estimate

INCO recorded a net profit of USD150.5mn in 1H22 (+22.4% QoQ in 2Q22), growing 155.9% YoY or accounting for 50.6% of our FY estimate. Meanwhile, the company's revenue grew 36.1% YoY to USD564.5mn (40.1% QoQ in 2Q22). Gross margin also expanded from 20.7% in 1H21 to 36.9% in 1H22 thanks to controllable cost of revenue growth of 8.3% YoY (+50.3% QoQ). Furthermore, operating expenses grew 326.5% YoY in 1H22 on the back of higher employee costs. Nevertheless, INCO's operating margin still increased to 35.3% in 1H22 from 20.2% in 1H21. This also was followed by higher EBITDA margin of 49.5% in 1H22 (49.6% in 2Q22) compared to 38.9% in 1H21. INCO also managed to maintain net cash position in x1H22.

Enjoying strong ASP

INCO's revenue was mainly boosted by higher ASP by 50.2% YoY in 1H22 (+39.7% QoQ) to USD20,899/MT, in the midst of lower sales volume by 12.0% YoY (+0.30% QoQ) to 27,013 MT. This figure was in line with lower production in 1H22 that fell 12.7% YoY (-9.1% QoQ) to 26,394 MT due to Furnace 4 rebuild project. This figure only represents 41.2% of FY production target of 64,000 MT. On the cost front, INCO has managed to maintain its cost efficiency in 1H22 amid high HSFO prices by 52.1% YoY (20.6% QoQ in 2Q22), diesel price by 64.4% YoY (+22.4% QoQ in 2Q22) and coal by 164.7% YoY thanks to lower fuel consumption volume on the back of the rebuild project.

Expecting price to stay at high level

We expect INCO's revenue and net profit of USD1.20bn and USD296.8mn in 2022, respectively, as we assume its ASP to stay at USD20,000 level despite estimated mild surplus in global market in line with supply additions from Chinese producers. Furthermore, we see that supportive policies in the US and EU to support EV infrastructure will continue to prop up the price over the long run. On the other side, we see that geopolitical tension along with aggressive interest rate hikes will negatively impact commodity market across the board. In terms of sales, we anticipate INCO's volume to reach 60,000 MT this year, or 10% YoY lower than previous year as a result from lower production impacted from Furnace 4 rebuild project in 1H22. The company has kicked started pre-construction phase of nickel processing facilities in Bahodopi, Central Sulawesi, that is slated to commence commercial operation in 2025. The annual production capacity is expected to reach 73,000 MT.

Reiterate BUY on the back of positive demand outlook

We maintain our BUY call with a DCF-based price target of Rp7,715/share. The stock is currently traded at a 2022F PER of 17.3x and EV/EBITDA of 7.8x. We highlight several paramount catalysts including 1) high level of ASP amid strong demand in line with global economic recovery; 2) management's efforts to maintain efficiency; 3) expansion of smelting facilities; 4) government policies on nickel export ban and 5) strong B/S. Nevertheless, we also note several downside risks to our recommendation, namely 1) downward pressure on prices as a result from supply surplus and rising geopolitical tension; 2) possible change on policies and 3) interest rate hikes.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (USD mn)	765	953	1,200	1,165	1,137
Gross profit (USD mn)	124	235	412	366	326
EBITDA (USD mn)	240	372	540	497	459
EBITDA margin (%)	31.4%	39.1%	45.0%	42.6%	40.3%
Net profit (USD mn)	83	166	297	262	232
Net profit margin (%)	10.8%	17.4%	24.7%	22.5%	20.4%
EPS (USDc)	0.83	1.67	2.99	2.64	2.33
ROAA (%)	3.65%	6.93%	11.31%	9.14%	7.56%
ROAE (%)	4.18%	7.94%	13.06%	10.49%	8.60%
EV/EBITDA	17.6	11.3	7.8	8.5	9.2
PER (x)	62.12	31.03	17.33	19.64	22.21
PBV (x)	2.56	2.40	2.16	1.99	1.86

Analyst

Devi Harjoto

Vale Indonesia (INCO)

INCO's Financial Overview

Consolidated Statements of Profit or Loss (USD mn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Revenue	415	565	36.1%	235	329	40.1%
Cost of revenue	(329)	(356)	8.3%	(142)	(214)	50.3%
Gross profit	86	208	142.7%	93	115	24.6%
Gross profit margin (%)	20.7%	36.9%		39.4%	35.1%	
Operating expenses	(2)	(9)	326.5%	(4)	(4)	2.8%
Operating profit	84	199	138.1%	88	111	25.6%
Operating profit margin	20.2%	35.3%		37.6%	35.3%	
EBITDA	161	280	73.4%	116	109	(6.5%)
EBITDA margin	38.9%	49.5%		49.4%	33.0%	
Net. Finance income/ expenses	(1)	(0)	(73.7%)	(0)	0	(149.5%)
Profit before tax	80	195	144.9%	87	109	25.2%
Income tax expenses	(21)	(45)	114.0%	(19)	(26)	35.1%
Net profit	59	150	155.9%	68	83	22.4%
Net profit margin	14.2%	26.7%		28.8%	25.1%	

Source: Company, KB Valbury Sekuritas

INCO's financial performance

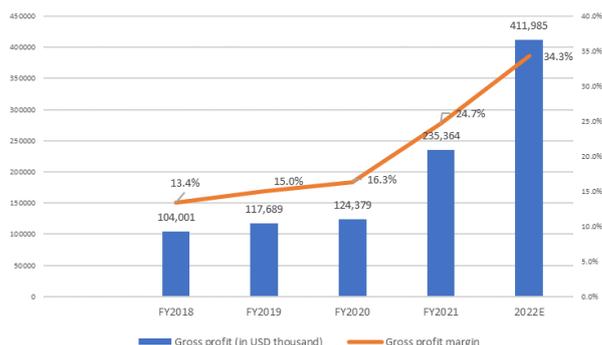


Exhibit 1. Gross margin and gross profit margin

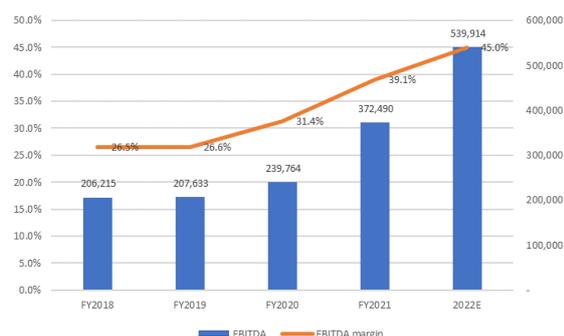


Exhibit 2. EBITDA and EBITDA margin

Sources: Companies, KB Valbury Securities

INCO's sales-ASP and leverage ratio

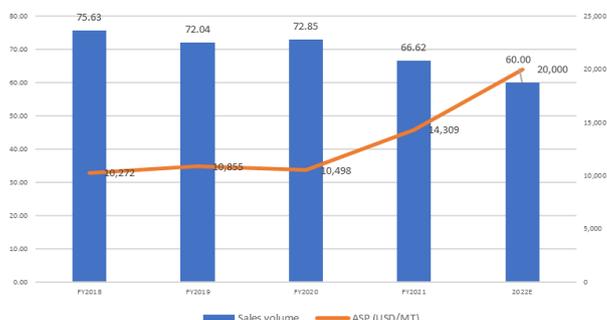


Exhibit 3. Sales volume and ASP

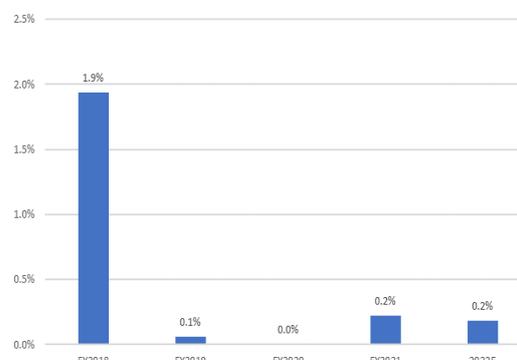


Exhibit 4. Debt to equity ratio

Sources: Companies, KB Valbury Securities

Vale Indonesia (INCO)

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Revenue	765	953	1,200	1,165	1,137
Cost of revenue	(640)	(718)	(788)	(800)	(812)
Gross profit	124	235	412	366	326
Gross profit margin	16.3%	24.7%	34.3%	31.4%	28.6%
Operating expenses	(20.53)	(12.34)	(13.03)	(13.26)	(13.89)
Operating profit	104	223	399	352	312
Operating profit margin	13.58%	23.40%	33.25%	30.23%	27.42%
EBITDA	240	372	540	497	459
EBITDA margin	31.4%	39.1%	45.0%	42.6%	40.3%
Net. Finance income/ expenses	1	(2)	(3)	(3)	(3)
Pretax profit	105	221	396	349	309
Income tax	(22)	(55)	(99)	(87)	(77)
After tax profit	83	166	297	262	232
Net profit margin	10.8%	17.4%	24.7%	22.5%	20.4%

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	389	508	715	877	950
Trade receivables	60	102	116	106	111
Inventories	144	162	188	167	193
Other current assets	103	64	70	77	84
Total current assets	696	837	1,090	1,226	1,338
Non-current assets					
Fixed assets	1,479	1,519	1,549	1,580	1,675
Other non-current assets	140	117	137	150	159
Total non-current assets	1,619	1,636	1,686	1,731	1,834
Total assets	2,315	2,473	2,777	2,957	3,173
Current liabilities					
Trade payables	113	122	182	146	168
Taxes payables	2	2	2	2	2
Accruals	22	20	21	23	25
Short term debts	20	22	23	24	25
Other current liabilities	3	3	3	3	4
Total current liabilities	161	168	231	198	225
Non-current liabilities					
Lease liabilities	0	3	3	3	3
Other non-current liabilities	134	147	150	154	158
Total non-current liabilities	134	150	153	157	161
Shareholders' equity	2,020	2,154	2,392	2,602	2,787
Total liabilities and equity	2,315	2,473	2,777	2,957	3,173

Source: Company, KB Valbury Sekuritas

Vale Indonesia (INCO)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	83	166	297	262	232
Depreciation & amortization	149	158	150	153	156
Changes in working capital	57	(15)	16	(8)	(12)
CF from operating activities	289	309	463	408	376
Investment in fixed assets	(161)	(197)	(180)	(184)	(251)
Others	27	22	(20)	(13)	(9)
CF from investing activities	(133)	(175)	(200)	(198)	(260)
Debts raised/(repaid)	0	(33)	(59)	(52)	(46)
Dividends paid	(0)	3	(0)	(0)	(0)
Others	(15)	14	4	4	4
CF from financing activities	(16)	(14)	(56)	(49)	(42)
Free cash flows	140	120	207	161	74
Cash and cash equivalents, beginning	249	389	508	715	877
Cash and cash equivalents, ending	389	508	715	877	950

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin	13.6%	23.4%	33.2%	30.2%	27.4%
Operating profit margin	16.3%	24.7%	34.3%	31.4%	28.6%
EBITDA margin	31.4%	39.1%	45.0%	42.6%	40.3%
Net profit margin	10.8%	17.4%	24.7%	22.5%	20.4%
Receivables turnover (x)	9.14	11.77	11.00	10.50	10.50
Inventory turnover (x)	4.4	4.7	4.5	4.5	4.5
Payable turnover (x)	6.0	5.0	5.0	5.0	5.0
ROAA	3.65%	6.93%	11.31%	9.14%	7.56%
ROAE	4.18%	7.94%	13.06%	10.49%	8.60%
ROIC	6.36%	13.51%	23.73%	20.37%	16.94%
Debt/ Equity	6.4%	13.5%	23.7%	20.4%	16.9%
Net debt/Equity	-19.2%	-23.4%	-29.7%	-33.5%	-33.9%
Net debt/ EBITDA	-162.1%	-135.2%	-131.7%	-175.7%	-206.2%
Interest coverage (x)	65.1	73.1	96.4	93.3	84.5
EPS (USDc)	0.83	1.67	2.99	2.64	2.33

Source: Company, KB Valbury Sekuritas

Vale Indonesia (INCO)

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