

4Q23 Earnings beats on derivative gain

15 February 2024



INCO's 4Q23 earnings soared by 66.3% yoy to US\$53.2 mn, fueled by a gain from derivative assets related to its investment in Kolaka Nickel Indonesia (KNI), alongside solid gross profit generation and a rise in interest income. We projecting a decline in profitability for 2024 to US\$84 mn due to lower nickel prices. Meanwhile, the anticipated divestment completion may give a positive catalyst for INCO's operational sustainability and provide certainty for future investments. Looking ahead, INCO net profit could reach US\$294 mn in 2027 due to the commencement of Bahadopi and Pomalaa mines. We reiterate with BUY call with DCF-based target price of IDR5,750, implying 12.4x '24F EV/EBITDA.

<b>INCO IJ</b>	<b>BUY</b>
Sector	Base Metal.
Price at 14 Feb 2024 (IDR)	4,050
Price target (IDR)	5,750
Upside/Downside (%)	42.0

**Stock Information**

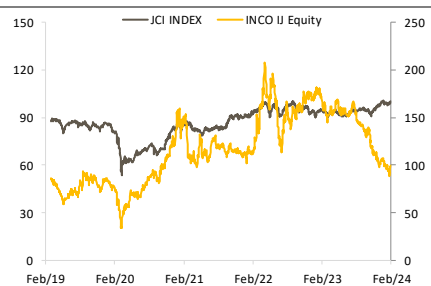
PT Vale Indonesia Tbk produces nickel in matte, an intermediate product, from lateritic ores at its integrated mining and processing facilities near Soroako, Sulawesi

Market cap (IDR bn)	40,242
Shares outstanding (mn)	9,936
52-week range (IDR)	3620 - 7150
3M average daily vol. ('000)	20,040
3M average daily val. (IDR mn)	86,321

**Shareholders (%)**

Vale Canada Limited	43.8
Mineral Industri Indonesia	20.0
Sumitomo Metal Mining	15.0
Public	21.2

**Stock Performance**



Source: Bloomberg

	<b>1M</b>	<b>3M</b>	<b>12M</b>
Performance	(0.5)	(9.2)	(40.6)

**4Q23 Earnings beats on derivative gain**

INCO reported a net profit of US\$53.2 mn in 4Q23, (+66.3% yoy/+1.3% qoq). The growth was primarily fueled by a gain of US\$24.7 mn from the recognition of fair value of derivative assets associated with INCO's additional participating right, up to 30%, in its investment in KNI (Kolaka Nickel Indonesia). Additionally, solid gross profit generation of US\$60.1 mn in 4Q23 (+10.3% yoy/ -9.5% qoq) despite weaker nickel realized price of 22.6% yoy, attributed to increased production and lower material costs by 25.1% yoy, along with a remarkable 100.2% rise in interest income on a yoy basis, contributed to solid performance in 4Q23.

Consequently, FY23 net profit exceeded our expectations, reaching US\$274 mn (+36.9% yoy), representing 108% of our estimate. Excluding the gain on fair value of derivative assets, INCO's core profit for 4Q23 and FY23 would stand at US\$28.5mn and US\$249.6 mn respectively, aligning with our full-year projections (98.7%) and consensus (96.2%).

**Expect lower profitability in 2024F**

Despite estimating a 4Q23 core profit of US\$28.5 mn and anticipating a continued decrease in nickel prices during 1Q24, we are maintaining our projection of a lower LME price of US\$17,000 per tonne for 2024. Consequently, INCO's earnings are expected to decline to US\$84 mn in 2024F (-69% yoy). We slightly upgraded our net profit forecast for 2024F to US\$84 mn (previously US\$79mn) mostly due to higher sales level expectations to 70k tonne (previously 68k tonne). Moreover, the presence of the derivative assets is anticipated to have a substantial impact to future earnings.

**Divestment progress may to completed in near-term**

Mr. Kartika Wirjoatmodjo, Deputy Minister of State-Owned Enterprises, as cited by Kontan, said that an agreement has been reached on the transaction price for the divestment of INCO shares. Furthermore, it has been decided that INCO's control scheme will transition to a joint control scheme. We believe that the successful completion of this divestment will act as a positive catalyst for INCO's operational sustainability, providing certainty for future investments. Despite the divestment price potentially being below market levels, we view that most investors have already factored this condition.

**Reiterate BUY with TP of IDR5,750**

We reiterate BUY on INCO with target price of IDR5,750 using DCF-based TP (WACC: 12%; LTG: -3%; and long-term nickel price of US\$ 20,000), which implied to 12.4x '24F EV/EBITDA. INCO net profit could reach USD294mn in 2027 due to the commencement of Bahadopi and Pomalaa mines (our projection excluded the JV income from the smelters and Sorowako mine). We like INCO due to 1) substantial progress made in advancing its future projects; and 2) robust financial position, ensuring adequate funding for these upcoming projects. Yet, risks to our call included 1) lower nickel price; 2) lower than expected cash generation from the future projects.

**Exhibit 1 : Key Statistics**

Year end Dec (USD mn)	2022	2023	2024F	2025F	2026F
Revenue	1,179	1,232	893	945	998
EBITDA	458	499	287	386	436
Net profit	200	274	84	144	184
PER (x)	13.1	9.6	31.4	18.2	14.3
PBV (x)	1.1	1.0	1.0	1.0	0.9
EV/EBITDA (x)	4.4	3.9	8.6	6.3	5.9
Dividend yield (%)	0.0	2.3	0.5	0.8	1.0
Net gearing (x)	(0.2)	(0.3)	(0.3)	(0.1)	(0.1)

Sources: Company, KBVS Research

**Analyst**  
Benyamin Mikael  
benyamin.mikael@kbvalbury.com

**Exhibit 2: Financial Summary**

USD (mn)	2023	2022	YoY (%)	4Q23	4Q22	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>1,232</b>	<b>1,179</b>	<b>4.5</b>	<b>294.4</b>	<b>305.7</b>	<b>(3.7)</b>	<b>5.5</b>
COGS	(885)	(866)	2.2	(234.2)	(251.2)	(6.7)	10.2
<b>Gross Profit</b>	<b>347</b>	<b>314</b>	<b>10.7</b>	<b>60.1</b>	<b>54.5</b>	<b>10.3</b>	<b>(9.5)</b>
<b>EBIT</b>	<b>325</b>	<b>294</b>	<b>10.6</b>	<b>53.9</b>	<b>47.6</b>	<b>13.2</b>	<b>(12.3)</b>
Other Op. exp	(24)	(23)	1.9	(10.2)	(12.9)	(20.8)	382.8
Interest Income	36	11	234.4	10.1	5.0	100.2	6.9
Interest expense	(10)	(7)	46.3	(6.1)	(3.0)	106.5	362.9
Others	26	1	1880.9	25.2	0.5	4,896.6	19,886.5
<b>PBT</b>	<b>353</b>	<b>276</b>	<b>27.8</b>	<b>72.8</b>	<b>37.2</b>	<b>95.4</b>	<b>7.8</b>
Income tax exp.	(78)	(75)	3.7	(19.5)	(5.2)	273.7	30.5
Minority Interest	-	-	n.a	-	-	n.a	n.a
<b>Net Profit</b>	<b>274</b>	<b>200</b>	<b>36.9</b>	<b>53.2</b>	<b>32.0</b>	<b>66.3</b>	<b>1.3</b>
<b>Margins (%)</b>							
Gross Profit Margin	28.2	26.6		20.4	17.8		
EBIT margin	26.4	24.9		18.3	15.6		
Net Margin	22.3	17.0		18.1	10.5		
<b>Operational:</b>							
Sales (Ton)	71,108	60,960	16.6	20,673	16,613	24.4	20.1
ASP (USD/t)	17,329	19,348	(10.4)	14,239	18,400	(22.6)	(12.1)

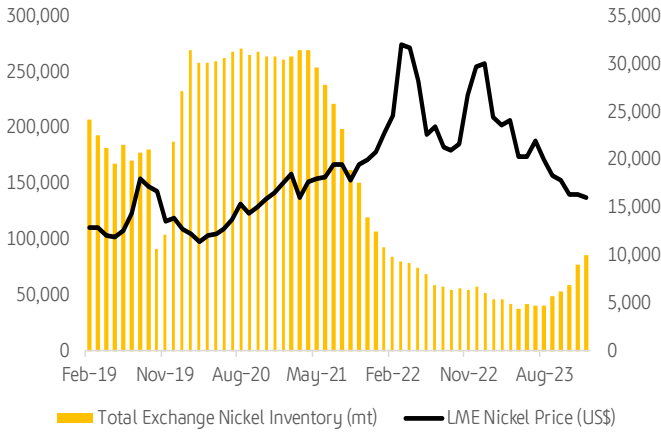
Source: Company, Bloomberg, KBVS Research

**Exhibit 3: INCO's Valuation Summary**

Description	Value	
NPV of future project (RKEF, HPAL Pomalaa & Sorowako)	mn USD	1,367
Sub calculation:		
RKEF with Xinhai	mn USD	226
HPAL Pomalaa with Huayue	mn USD	784
HPAL Sorowako with Huayue	mn USD	357
NPV Current project (incl futures mines, excl new Sorowako mines)	mn USD	2,371
Total Equity Value	mn USD	3,739
Total Equity Value	bn IDR	57,200
<b>Fair Value per share</b>	<b>IDR</b>	<b>5,757</b>
<b>Round-down</b>	<b>IDR</b>	<b>5,750</b>

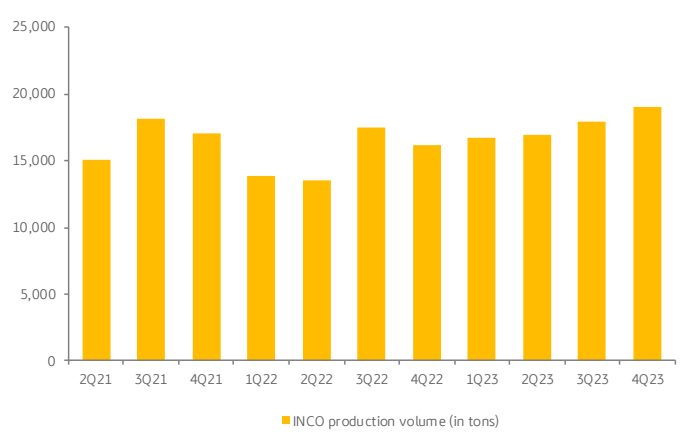
Source: Company, Bloomberg, KBVS Research

Exhibit 4: Nickel's price and inventory



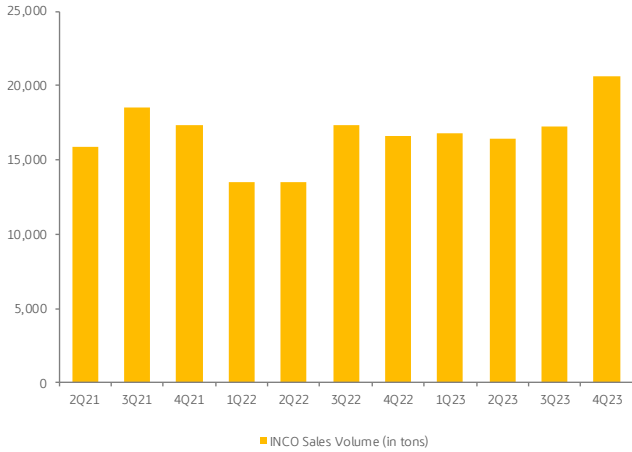
Source: Bloomberg, KBVS Research

Exhibit 5: INCO's Production Volume



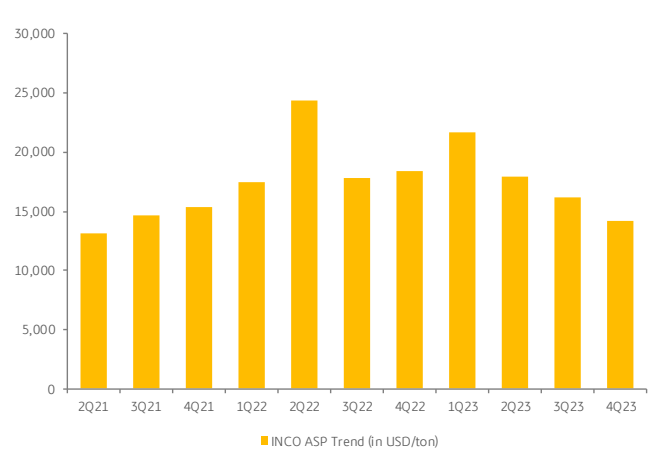
Source: Company, KBVS Research

Exhibit 6: INCO's sales volume



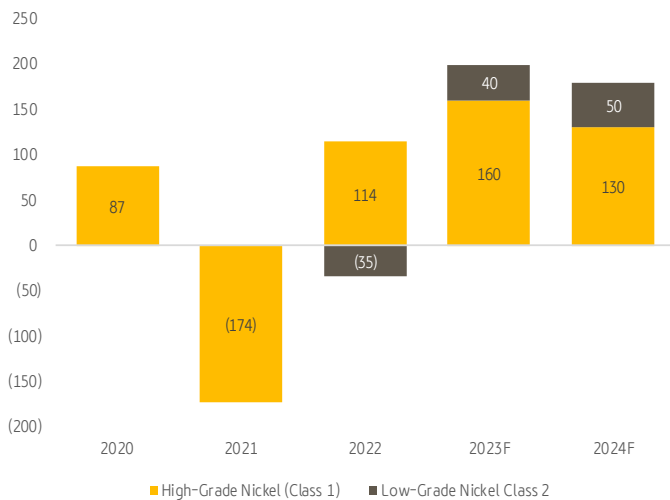
Source: Company, KBVS Research

Exhibit 7: INCO's ASP (USD/ton)



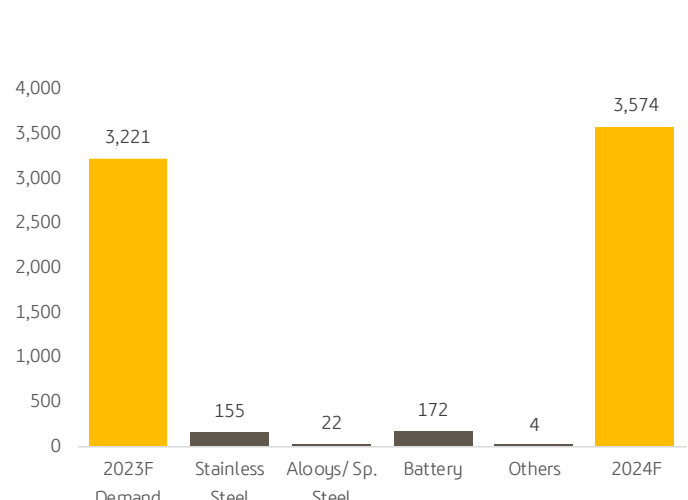
Source: Company, KBVS Research

Exhibit 8: Global nickel supply-demand balances



Source: Nor Nickel, KBVS Research

Exhibit 10: Global nickel demand driver in 2024F



Source: Nor Nickel, KBVS Research

FINANCIAL TABLES

Exhibit 11: Profit & Loss summary

Profit & Loss (USD mn)	2022	2023	2024F	2025F	2026F
<b>Revenue</b>	<b>1,179</b>	<b>1,232</b>	<b>893</b>	<b>945</b>	<b>998</b>
Cost of revenue	(866)	(885)	(757)	(710)	(711)
<b>Gross profit</b>	<b>314</b>	<b>347</b>	<b>136</b>	<b>236</b>	<b>286</b>
Operating expense	(20)	(22)	(23)	(24)	(24)
Onther income (expense)	(22)	2	(23)	(23)	(24)
<b>Operating profit</b>	<b>272</b>	<b>327</b>	<b>90</b>	<b>189</b>	<b>238</b>
<b>EBITDA</b>	<b>458</b>	<b>499</b>	<b>287</b>	<b>386</b>	<b>436</b>
Finance income	11	36	28	7	8
Finance expense	(7)	(10)	(10)	(11)	(11)
Gain (loss) on Forex	-	-	-	-	-
<b>Pre-tax profit</b>	<b>276</b>	<b>353</b>	<b>108</b>	<b>185</b>	<b>236</b>
Tax expense	(75)	(78)	(24)	(41)	(52)
Minority interest	-	-	-	-	-
<b>Net profit to parent entity</b>	<b>200</b>	<b>274</b>	<b>84</b>	<b>144</b>	<b>184</b>
EPS	307	414	127	218	277

Source: Company, KBVS Research

Exhibit 12: Balance sheet

Balance Sheet (USD mn)	2022	2023	2024F	2025F	2026F
Cash and equivalents	634	699	180	205	65
Trade Receivables	141	102	99	105	111
Inventories	156	156	133	124	124
Fixed Assets	1,550	1,695	2,270	2,647	2,824
Other assets	177	274	281	283	286
<b>Total Assets</b>	<b>2,658</b>	<b>2,926</b>	<b>2,963</b>	<b>3,365</b>	<b>3,410</b>
Trade payables	116	141	120	112	111
Short-term debt + CMLTD	2	6	6	5	5
Long term loan	4	3	3	3	3
Other liabilities	182	212	203	495	388
<b>Total Liabilities</b>	<b>303</b>	<b>361</b>	<b>331</b>	<b>615</b>	<b>508</b>
Minority interest	-	-	-	-	-
Paid Capital	278	278	278	278	278
Retained earnings	1,941	2,150	2,217	2,335	2,487
Other equities	136	136	136	136	136
<b>Total Equity</b>	<b>2,355</b>	<b>2,565</b>	<b>2,631</b>	<b>2,750</b>	<b>2,902</b>

Source: Company, KBVS Research

**Exhibit 13: Cash flow**

Cash Flow (USD mn)	2022	2023	2024F	2025F	2026F
Net income	200	274	84	144	184
Depreciation & amortization	143	126	125	124	123
Change in working capital	(40)	65	5	(6)	(6)
Others	(3)	16	(10)	(9)	(8)
<b>Cash flow from operations</b>	<b>300</b>	<b>480</b>	<b>204</b>	<b>253</b>	<b>293</b>
Others	(1)	(79)	(6)	(2)	(2)
Capex	(173)	(271)	(700)	(500)	(300)
<b>Cash flow from investments</b>	<b>(175)</b>	<b>(350)</b>	<b>(706)</b>	<b>(502)</b>	<b>(302)</b>
Changes in debt	1	(1)	(0)	300	(100)
Changes in equity	(0)	-	-	-	1
Dividends paid	-	(60)	(13)	(22)	(28)
Others	-	(4)	(4)	(4)	(4)
<b>Cash flow from financing</b>	<b>1</b>	<b>(65)</b>	<b>(17)</b>	<b>274</b>	<b>(131)</b>
<b>Net Cash Flow</b>	<b>126</b>	<b>65</b>	<b>(519)</b>	<b>25</b>	<b>(140)</b>

Source: Company, KBVS Research

**Exhibit 14: Ratio analysis**

Key Ratios (%)	2022	2023	2024F	2025F	2026F
Revenue growth	23.7	4.5	(27.6)	5.9	5.6
EBIT growth	22.0	20.2	(72.4)	109.5	26.3
EBITDA growth	17.9	8.8	(42.5)	34.5	13.0
Net profit growth	20.9	36.9	(69.4)	72.1	27.2
Gross margin	23.1	26.5	10.1	20.0	23.9
EBIT margin	23.1	26.5	10.1	20.0	23.9
EBITDA margin	38.8	40.5	32.1	40.8	43.7
Net margin	17.0	22.3	9.4	15.3	18.4
ROA	7.5	9.4	2.8	4.3	5.4
ROE	8.5	10.7	3.2	5.2	6.3
Net gearing (x)	(0.3)	(0.3)	(0.1)	(0.1)	(0.0)
Net debt/EBITDA (x)	(1.4)	(1.4)	(0.6)	(0.5)	(0.1)
Interest coverage ratio (x)	66.4	49.4	27.8	36.7	40.7

Source: Company, KBVS Research

### Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.

 **KB Valbury Sekuritas**  
Head Office

Sahid Sudirman Center 41<sup>st</sup> Floor Unit A-C  
Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,  
Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia  
T. +62 21 – 250 98 300  
F. +62 21 – 255 33 778

### Branch Office

#### Jakarta – Sudirman

Sahid Sudirman Center 41st Floor Unit A-C  
Jalan Jenderal Sudirman No. 86 Karet Tengsin,  
Tanah Abang, Jakarta Pusat 10220  
T. (021) 25098500/301

#### Jakarta – Kelapa Gading

Rukan Plaza Pasifik  
Jl. Raya Boulevard Barat Blok A1 No. 10  
Jakarta Utara 11620  
T. (021) 29451577

#### Jakarta – Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV  
Jl. Taman Aries, Kembangan  
Jakarta Barat 11620  
T. (021) 22542390

#### Jakarta – Pluit

Jl. Pluit Putra Raya No. 2  
Jakarta Utara 14450  
T. (021) 6692119

#### Bandung

Jl. HOS Cokroaminoto No. 82  
Bandung 40171  
T. (022) 87255800

#### Malang

Jl. Pahlawan Trip No. 7  
Malang 65112  
T. (0341) 585888

#### Banjarmasin

Jl. Gatot Subroto No. 33  
Banjarmasin 70235  
T. (0511) – 3265918

#### Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN  
Blok A No. 3 Pekanbaru 28291  
T. (0761) 839393

#### Palembang

Komplek PTC Mall Blok I No. 7  
Jl. R. Sukanto  
Palembang 30114  
T. (0711) 5700281

#### Surabaya

Pakuwon Center Lt 21  
Jl. Embong Malang No.1  
Surabaya 60261  
T. (031) 2955788

#### Padang

Jl. Kampung Nias II No. 10,  
Padang 25211  
T. (0751) 8955747

#### Yogyakarta

Jl. Magelang KM 5.5 No. 75  
Yogyakarta 55000  
T. (0274) 623111

#### Semarang

Candi Plaza Building Lt. Dasar  
Jl. Sultan Agung No. 90-90A  
Semarang 50252  
T. (024) 8501122

#### Makassar

Komplek RUKO Citraland City Losari  
Business Park, Blok B2 No. 09  
Jl. Citraland Boulevard Makassar 90111  
T. (0241) 16000818

#### Medan

Komplek Jati Junction No. P5-5A  
Jl. Perintis Kemerdekaan  
Medan 20218  
T. (061) 88816222

#### Denpasar

Jl. Teuku Umar No. 177  
Komplek Ibis Styles Hotel  
Denpasar Bali 80114  
T. (0361) 225229

### Investment Gallery

#### Jakarta

Citra Garden 6 Ruko Sixth Avenue  
Blok J.1 A/18, Cengkareng  
Jakarta Barat 11820  
T. (021) 522392181

#### Semarang

Jl. MT Haryono 637  
Semarang 50242  
T. (024) 8415195

#### Salatiga

Jl. Diponegoro No. 68  
Salatiga 50711  
T. (0298) 313007

#### Solo

Jl. Ronggowarsito No. 34  
Surakarta 57118  
T. (0271) 6726306