

**BUY | TP : IDR7,650**
**INCO Stock Price Data**

Last Price	:	IDR6,775
52wk High	:	IDR7,750
52wk Low	:	IDR4,740
Share Out	:	9.94bn
Market Cap	:	IDR68.81tn

**INCO Stock Price Performance**

1-Day	:	-1.45%
1-Week	:	-1.45%
1-Month	:	+7.11%
3-Month	:	+2.65%
Year-to-Date	:	-4.58%

**Shareholders**

Vale Canada Limited	:	43.79%
PT Mineral Industri Indonesia	:	20.00%
Sumitomo Metal Mining Co., Ltd.	:	15.03%
Public (>5%)	:	21.18%

**PT Vale Indonesia Tbk (INCO)**
**Well-performed First Half**
**INCO's bottom line exceeded forecasts**

- INCO secured a revenue of USD295.8mn in 2Q23 or moderated by -19% QoQ from 1Q23's USD363.2mn, which was broadly in line with FY23E/cons. estimates at 50%/52.3%. Meanwhile, the EBITDA posted a more noticeable decline of -29% to USD123.0mn from USD173.6mn, or overperformed FY23E/cons. projections by large (60.7%/56.5%), rendering a quarterly bottom line of USD70.4mn which softened on a quarterly as well as yearly basis (-28% QoQ/-15% YoY), but had surpassed FY23E/cons. estimates at 68.5%/63.1%.
- Looking into INCO's profitability margins, the GPM/EBITDA margin/NPM slumped to 28.9%/41.6%/23.8% in 2Q23 (vs 37.2%/47.8%/27% in 1Q23).
- Against 1H22, however, 1H23's revenue, EBITDA and net profit saw a solid growth of +16.7%, +12.2% and +12% YoY, respectively, with their GPM/EBITDA margin/NPM seeing slight contractions to 33.5%/45%/25.6%.

**Production ramp up and cash costs**

- INCO's revenue blow-up was much anticipated due to their once again up-and-running furnace no. 4 which made possible the production boost of +27.6% YoY accumulated in 1H23 from last year's base (33.7kt vs 26.4kt). We maintain FY23E's production realization of c. 69.3kt in nickel matte with a c. 100% sales realization. We expect LME nickel prices to move within the narrow range of USD22.3k – 22.4k/ton throughout 3Q23 and 4Q23, translating into an assumed ASP of USD17.4k/ton for the remainder of the year, yielding FY23E's potential revenue to reach USD1.21bn.
- The company has switched over to coal as their fuel source as per Apr-23 from HSFO, with high CV coals to be used as the energy source (proxied by Newcastle prices), taking advantage of the declining prices. This allowed INCO to further squeeze their unit cash costs and save their margins amid declining LME prices. Coal prices themselves hold the probability to slightly strengthen in 3Q23 and further up into 4Q23 (exhibit 02) on the back of revived Chinese demand. We expect the cash cost to further decline in 3Q23 as the company secures their coal inventories c. 6 weeks in advance, and the revival in prices is unlikely to reflect in INCO's costs before 4Q23.

**Project pipelines progress in-line**

The company has laid out USD60.8mn of capex during 2Q23 or grew +36% YoY as the company aims to prudently manage its cash flows amid several project pipelines underway, with the early works phase for its Sambalagi RKEF facility in Bahodopi (including the office and other infrastructure) to be completed by 9M23, while its commercial operation date lie ahead in Jun-27. Project spending can be expected to increase throughout 3Q23 – 4Q23 which will be supported by the company's solid cash position (USD822mn as of 2Q23). Their Pomalaa HPAL of 120ktpa projected capacity should see a FEL3 completion by 3Q23 and construction to commence in 4Q23. INCO's Sorowako mining and HPAL project featuring Huayou is to reach a definitive agreement by 3Q23, with engineering site inspections in order and ongoing limonite ore study.

**Recommendation: BUY with TP IDR7,650**

We recommend **BUY** for INCO with a target price (TP) of IDR7,650 (12.6% upside), implying a PE of 23.3x/21.3x and a PBV of 2.0x/1.8x for FY23E/FY24F. We believe the current market price has yet to reflect the production ramp-up this year coupled with the friendly coal prices, along with the promising RKEF and HPAL project pipelines. Several key risks to our call include: 1) delays within the project pipelines, 2) correction surprises in LME nickel prices, 3) revival of coal prices from China's weather-driven demand surge, 4) impeded shares divestment progress.

**Key Financial Highlights**

	FY20	FY21	FY22	FY23E	FY24F
Revenue (USD mn)	764.74	953.17	1,179.45	1,209.72	1,275.08
EBITDA (USD mn)	252.90	363.08	418.75	448.37	482.97
Net Income (USD mn)	82.82	165.80	200.40	217.00	238.22
ROA (%)	3.58%	6.70%	7.54%	7.32%	7.40%
ROE (%)	4.10%	7.70%	8.51%	8.44%	8.48%
PE (x)	35.17	28.00	22.39	20.68	18.84
PBV (x)	1.44	2.15	1.91	1.74	1.60
EPS (IDR)	120.86	241.95	302.53	327.59	359.62

Sources : Bloomberg, MNCS Research


**Research Analyst**

Alif Ihsanario

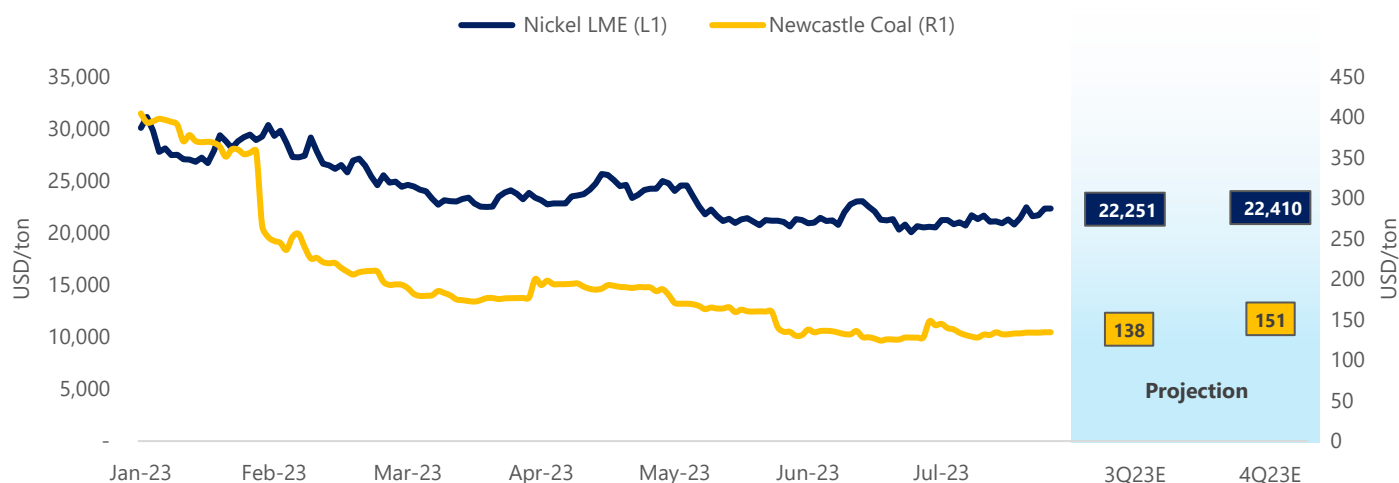
alif.ihsanario@mncgroup.com

**Exhibit 01. INCO's 1H23 top line performance was congruent with our estimate but the bottom line overperformed...**

in Million USD	2Q23	1Q23	% QoQ	1H23	1H22	% YoY	FY23E	Cons.	% FY23E	% Cons.
<b>Revenue</b>	<b>296.80</b>	<b>363.18</b>	<b>-18.6%</b>	<b>658.98</b>	<b>564.54</b>	<b>16.7%</b>	<b>1,317.54</b>	<b>1,260.11</b>	<b>50.0%</b>	<b>52.3%</b>
COGS	(210.25)	(228.24)		(438.49)	(356.31)					
<b>Gross Profit</b>	<b>85.55</b>	<b>134.94</b>	<b>-36.6%</b>	<b>220.49</b>	<b>208.22</b>	<b>5.9%</b>				
Gross Margin	28.9%	37.2%		33.5%	36.9%					
<b>EBITDA</b>	<b>123.02</b>	<b>173.58</b>	<b>-29.1%</b>	<b>296.60</b>	<b>279.60</b>	<b>12.2%</b>	<b>488.33</b>	<b>524.71</b>	<b>60.7%</b>	<b>56.5%</b>
EBITDA Margin	41.6%	47.8%		45.0%	49.5%					
Pre-Tax Profit	86.27	125.96		212.23	195.33					
<b>Net Profit</b>	<b>70.36</b>	<b>98.15</b>	<b>-28.3%</b>	<b>168.52</b>	<b>150.46</b>	<b>12.0%</b>	<b>246.04</b>	<b>267.11</b>	<b>68.5%</b>	<b>63.1%</b>
Net Margin	23.8%	27.0%		25.6%	26.7%					

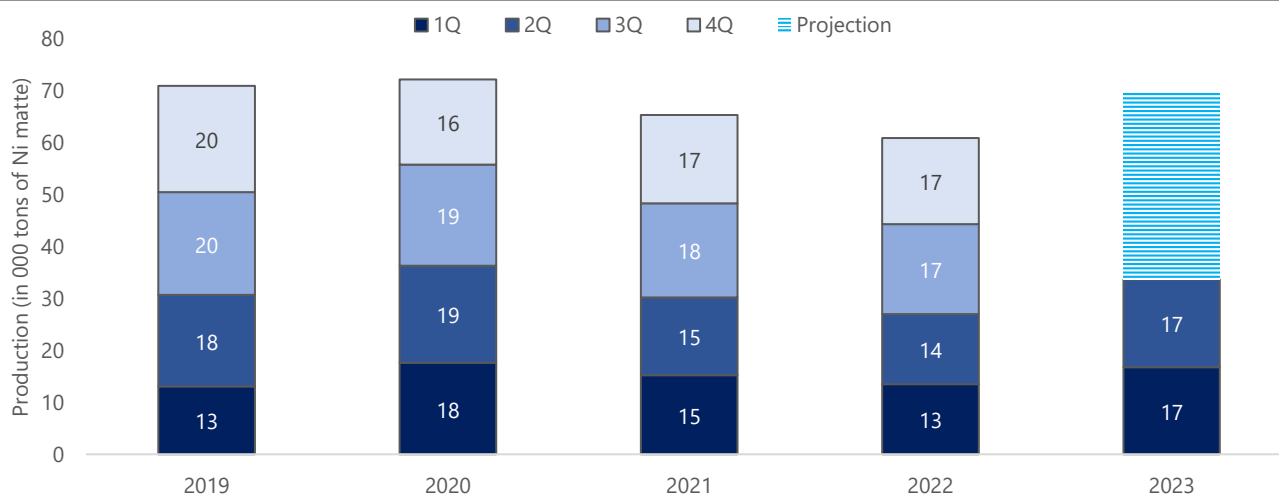
Sources : Company, MNCS Research

**Exhibit 02. ...which was due to the unaccounted switch-back to coal and its decline in prices...**



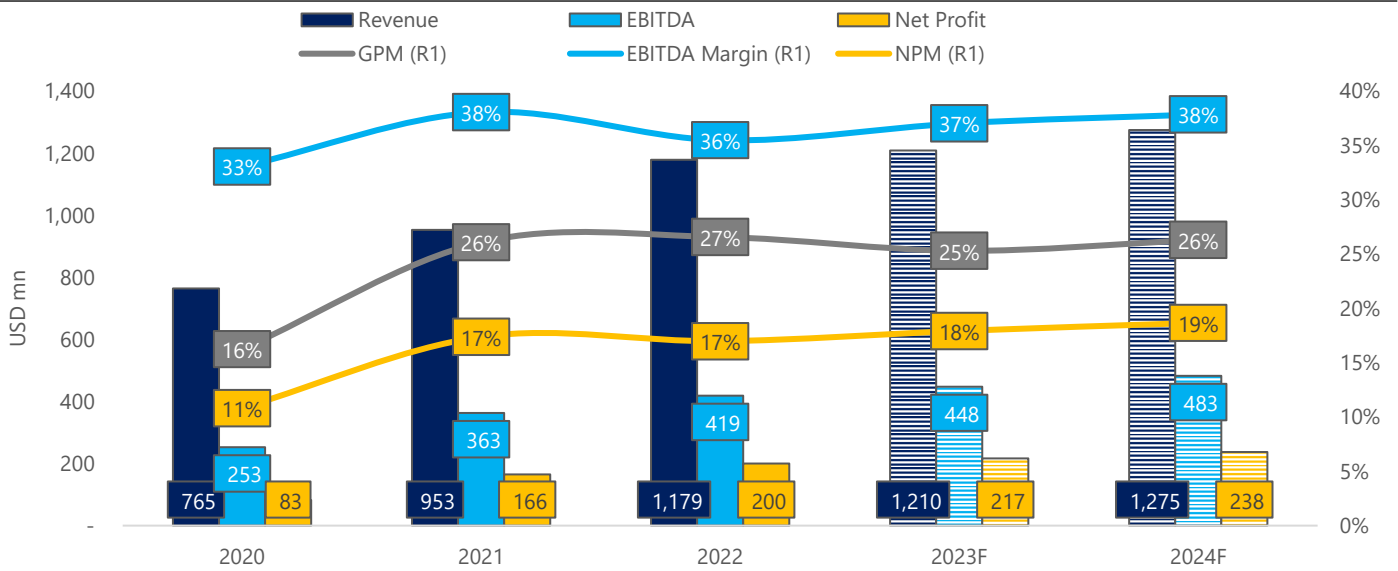
Sources : Bloomberg, MNCS Research

**Exhibit 03. ...meanwhile production showed a steadily determined growth to revisit FY19 levels**



Sources : Company, MNCS Research

Exhibit 04. INCO's margins set to have more room to expand in FY23E and beyond



Sources : Company, MNCS Research

Exhibit 05. INCO is currently traded below its 5-year EV/EBITDA mean



Sources : Bloomberg, MNCS Research

**Exhibit 06. Financial projections**

Income Statement						Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
<b>Revenue</b>	<b>764.74</b>	<b>953.17</b>	<b>1,179.45</b>	<b>1,209.72</b>	<b>1,275.08</b>	Cash & Equivalents	388.68	508.33	634.04	883.08	1,120.26
Cost Of Revenue	(640.37)	(704.32)	(865.89)	(903.40)	(939.35)	Trade Receivables	60.04	101.99	141.38	94.98	100.11
<b>Gross Profit</b>	<b>124.38</b>	<b>248.85</b>	<b>313.57</b>	<b>306.32</b>	<b>335.74</b>	Inventory	144.49	162.02	155.75	186.54	195.96
Operating Expenses	(20.53)	(25.83)	(41.54)	(11.35)	(11.48)	Others Current Assets	102.76	64.24	58.63	60.13	63.38
<b>Operating Profit</b>	<b>103.85</b>	<b>223.02</b>	<b>272.03</b>	<b>294.97</b>	<b>324.26</b>	<b>Total Current Assets</b>	<b>695.97</b>	<b>836.58</b>	<b>989.80</b>	<b>1,224.73</b>	<b>1,479.71</b>
Other Income (Expenses)	4.47	2.71	10.69	10.69	10.69	Fixed Assets - net	1,479.15	1,518.96	1,549.86	1,571.02	1,563.99
Finance Cost	(3.68)	(5.09)	(6.90)	(7.00)	(7.08)	Other Non-Current Assets	139.54	117.29	118.46	168.22	177.30
<b>Profit Before Income Tax</b>	<b>104.65</b>	<b>220.65</b>	<b>275.82</b>	<b>298.67</b>	<b>327.87</b>	<b>Total Non-Current Assets</b>	<b>1,618.69</b>	<b>1,636.25</b>	<b>1,668.31</b>	<b>1,739.23</b>	<b>1,741.30</b>
Income Tax Expenses	(21.83)	(54.85)	(75.42)	(81.67)	(89.65)	<b>TOTAL ASSETS</b>	<b>2,314.66</b>	<b>2,472.83</b>	<b>2,658.12</b>	<b>2,963.96</b>	<b>3,221.00</b>
<b>Net Profit</b>	<b>82.82</b>	<b>165.80</b>	<b>200.40</b>	<b>217.00</b>	<b>238.22</b>	Trade Payables	113.10	122.24	115.59	145.88	151.69
						ST Debt	20.47	21.64	26.24	37.68	39.72
						Other Current Liabilities	27.15	24.55	33.20	77.16	81.33
						<b>Total Current Liabilities</b>	<b>160.71</b>	<b>168.43</b>	<b>175.04</b>	<b>260.73</b>	<b>272.74</b>
						LT Debt	-	-	-	-	-
						Other LT Liabilities	133.56	149.94	128.30	131.21	138.08
						<b>Total LT-Liabilities</b>	<b>133.56</b>	<b>149.94</b>	<b>128.30</b>	<b>131.21</b>	<b>138.08</b>
						<b>Total Equity</b>	<b>2,020.39</b>	<b>2,154.46</b>	<b>2,354.78</b>	<b>2,572.02</b>	<b>2,810.18</b>
						<b>TOTAL LIABILITY &amp; EQUITY</b>	<b>2,314.66</b>	<b>2,472.83</b>	<b>2,658.12</b>	<b>2,963.96</b>	<b>3,221.00</b>
Cash Flow						Ratios					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	FY20	FY21	FY22	FY23E	FY24F	
Net Income	82.82	165.80	200.40	217.00	238.22	Revenue Growth (%)	-2.21%	24.64%	23.74%	2.57%	5.40%
D&A	111.53	140.05	146.73	153.40	158.71	Operating Profit Growth (%)	17.63%	114.75%	21.97%	8.44%	9.93%
Changes in WC	66.42	(50.33)	(39.77)	45.90	(8.74)	Net Profit Growth (%)	44.28%	100.19%	20.87%	8.28%	9.78%
Others	(9.39)	35.73	18.51	53.86	2.87	Current Ratio (%)	4.33	4.97	5.65	4.70	5.43
<b>Operating CF</b>	<b>292.33</b>	<b>334.64</b>	<b>325.86</b>	<b>470.16</b>	<b>391.06</b>	Quick Ratio (%)	3.43	4.00	4.76	3.98	4.71
Capex	(123.21)	(179.87)	(177.62)	(174.56)	(151.68)	Receivable Days (x)	28.66	39.05	43.75	28.66	28.66
Others	27.37	22.25	(1.17)	(49.76)	(9.09)	Inventory Days (x)	82.36	83.96	65.66	75.37	76.14
<b>Investing CF</b>	<b>(150.84)</b>	<b>(180.23)</b>	<b>(178.79)</b>	<b>(224.32)</b>	<b>(160.77)</b>	Payable Days (x)	64.46	63.35	48.73	58.94	58.94
Dividend Paid	-	-	-	-	-	DER (x)	0.04	0.04	0.04	0.03	0.03
Net Change in Debt	-	-	-	-	-	DAR (x)	0.04	0.03	0.03	0.03	0.03
Equity Fund Raised	-	(33.13)	-	-	-	Gross Profit Margin (%)	16.26%	26.11%	26.59%	25.32%	26.33%
Others	(10.71)	(1.39)	(22.25)	3.19	6.89	Operating Profit Margin (%)	13.58%	23.40%	23.06%	24.38%	25.43%
<b>Financing CF</b>	<b>(1.68)</b>	<b>(34.52)</b>	<b>(22.25)</b>	<b>3.19</b>	<b>6.89</b>	EBITDA (IDR Bn)	252.90	363.08	418.75	448.37	482.97
Cash at Beginning	<b>139.82</b>	<b>119.89</b>	<b>124.83</b>	<b>249.04</b>	<b>237.18</b>	EBITDA Margin (%)	33.07%	38.09%	35.50%	37.06%	37.88%
<b>Cash at Ending</b>	<b>388.68</b>	<b>508.33</b>	<b>634.04</b>	<b>883.08</b>	<b>1,120.26</b>	Net Income Margin (%)	82.82	165.80	200.40	217.00	238.22
						BVPS (IDR)	2,948.33	3,143.98	3,554.80	3,882.75	4,242.27

Sources : Company, MNCS Research

### MNC Research Industry Ratings Guidance

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

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- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
  - **SELL** : Share price may fall by more than 10% over the next 12 months
  - **Not Rated** : Stock is not within regular research coverage

### PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16  
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340  
Telp : (021) 2980 3111  
Fax : (021) 3983 6899  
Call Center : 1500 899

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