

HOLD | TP : IDR3,850
INCO Stock Price Data

Last Price	:	IDR3,850
52wk High	:	IDR7,750
52wk Low	:	IDR3,620
Share Out	:	9.9bn
Market Cap	:	IDR40.3tn

INCO Stock Price Performance

1-Day	:	+1.56%
1-Week	:	-3.69%
1-Month	:	-5.33%
3-Month	:	-15.73%
Year-to-Date	:	-9.28%

Shareholders

Vale Canada Limited	:	43.8%
PT Mineral Industri Indonesia	:	20.0%
Sumitomo Metal Mining Co., Ltd.	:	15.0%
Public	:	21.2%

PT Vale Indonesia Tbk (INCO IJ)
Strong FY23 Finish but Not Out of The Woods Yet
End-of-year earnings result struck a high note

- INCO's revenue throughout FY23 stood largely in-line with our estimates of USD1,209.7mn, coming in at USD1,232.3 (reflecting 101.9% of our FY23 run-rate), growing by +4.5% YoY (vs. USD1,179.5 in FY22) on solid production performance. Production jumped +17.7% YoY to 70.7k tons (vs. 60.1k tons in FY22), credits due to their impeccable maintenance implementation throughout the year. The 4Q23 revenue grew +5.5% QoQ to USD294.4mn (vs. USD278.9 in 3Q23) but declined -3.7% YoY (vs. USD305.7 in 4Q22).
- ASP-wise, INCO had seen better days; their ASP had plummeted -10.4% YoY to USD17.3k/ton in FY23 (vs. USD19.3k/ton in FY22), with a much more pronounced ASP slump in 4Q23 (-12.1% QoQ to USD14.2k/ton), as the LME nickel prices took heavier blows approaching FY23's end.
- The EBITDA came in at USD475.9mn, reflecting 105.2% of our estimate. INCO was able to further slash their production costs on cheaper energy prices, despite having to make a temporary switch towards the pricier HSFO (usage up by +17% QoQ in 4Q23) as their coal mill underwent maintenance.
- What we didn't account for was INCO's PBT surge due to derivative assets gains as well as finance income (+234.4% YoY). This bore rosier profitability margins, with their NPM reaching 22.3%. The bottom-line stood at USD274.3mn, overshooting our estimate of USD221.2mn for the year (reflecting 124.0%), growing by +36.9% YoY.

Nickel rout should be short-medium term as market readjusts to massive supply emergence

- The current overshadowing theme to murk the prospect of nickel miners includes the oversupply condition from Indonesia's aggressive downstreaming endeavors. Due to already stacked supply chain inventories, coupled with lackluster economic pulse from China, prices have plummeted. The oversupply conundrum is foreseen to carry into at least FY25F, when demand might have revived adequately to absorb inventories and incoming supplies.
- Furthermore, there's also concerns regarding the dilution of nickel demand due to the EV (electric vehicle) industry's increasing preference towards the cheaper LFP-chemistry battery, whilst also bearing a higher life cycle (~3,000 cycles vs nickel chemistry's 800 – 2,000 cycles) and at lower risk from thermal runaway. Various sources (Fastmarkets, ARK Investment) have shown the tendency that LFP batteries would be increasingly prevalent going forward, at the expense of NMC batteries. By FY33F, LFP batteries are expected to dominate 48% of the combined EV, ESS (energy storage system) and CE (consumer electronics) market share, followed by the NMC batteries at 43%.
- We view the western EV market to still favor the NMC chemistries in light of range anxiety. According to McKinsey, NMC811 cells already have similar raw material cost to LFP cells; the pricing gap is more fittingly credited to its price premium (includes production and depreciation costs, value addition premiums and profit). As of FY21, the price-premium-to raw-material-costs for NMC811 cells stood at ~80%, far greater than LFP's ~35%. Whether or not the price premium would decline significantly depends on the leniency of future IRA policies with special regards to the FEOC implications, which essentially acts as a trade barrier between Indonesia's ample but China-backed nickel supplies and the western, range-demanding EV market.

Multiples still provide limited upside compared to peers

- From a FY20-base, INCO's share price have outperformed its blended peers' returns, especially during the FY22 LME squeeze. What we have been seeing for the past months, in our view, is a consolidation of INCO's share price in regards to its blended peers index (exhibit 03), predominantly driven by a faltering nickel fundamental. This paved the way for a 23.3% discounted divestment price (IDR3,070/share) to INCO's TTM PBV (0.95x), or a 31.3% discount to median TTM PBV of nickel mining companies (1.06x).
- Regardless, the correction in INCO's share price may have been too aggressive in regards to its peers blended index price. This is also reflected in its relatively discounted TTM EV/EBITDA (3.6x vs. peers mean of 6.0x) as well as its consensus' forward EV/EBITDA (4.8x/4.2x vs. peers mean of 6.7x/5.6x in FY24F/FY25F).

Recommendation: HOLD with TP IDR3,850

We recommend **HOLD** for INCO at a TP of IDR3,850/share considering lower FY24E performance on slacking nickel prices to linger on oversupply pressures. The target price implies a EV/EBITDA of 9.5x and a PBV of 0.9x for FY24F. Several key risks to our call include: 1) delays within the project pipelines, 2) surprises in nickel prices, 3) coal price volatilities, 4) impeded shares divestment progress.

Key Financial Highlights	FY21	FY22	FY23	FY24E	FY25F
Revenue (USD mn)	953.2	1,179.5	1,232.3	1,005.5	1,056.5
EBITDA (USD mn)	342.7	436.3	450.4	326.2	348.6
Net Income (USD mn)	165.8	200.4	274.3	138.0	148.4
ROA (%)	6.7	7.5	9.4	4.6	4.7
ROE (%)	7.7	8.5	10.7	5.1	5.2
EV/EBITDA (x)	8.5	6.9	6.9	9.5	9.0
PBV (x)	1.2	1.0	0.9	0.9	0.8
EPS (IDR)	241.9	312.6	427.9	215.3	231.6

Sources : Bloomberg, MNCS Research


Research Analyst

Alif Ihsanario

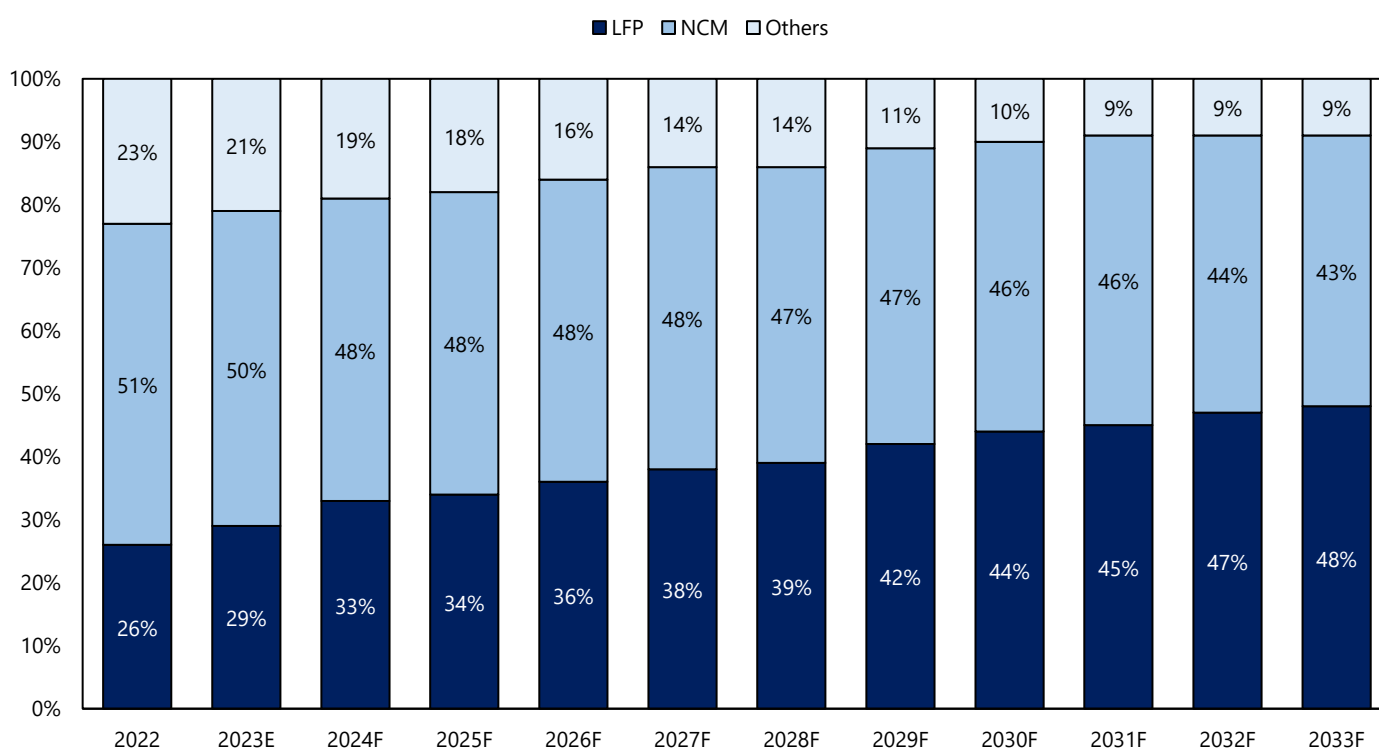
alif.ihsanario@mncgroup.com

Exhibit 01. FY23's bottom line beat our estimates

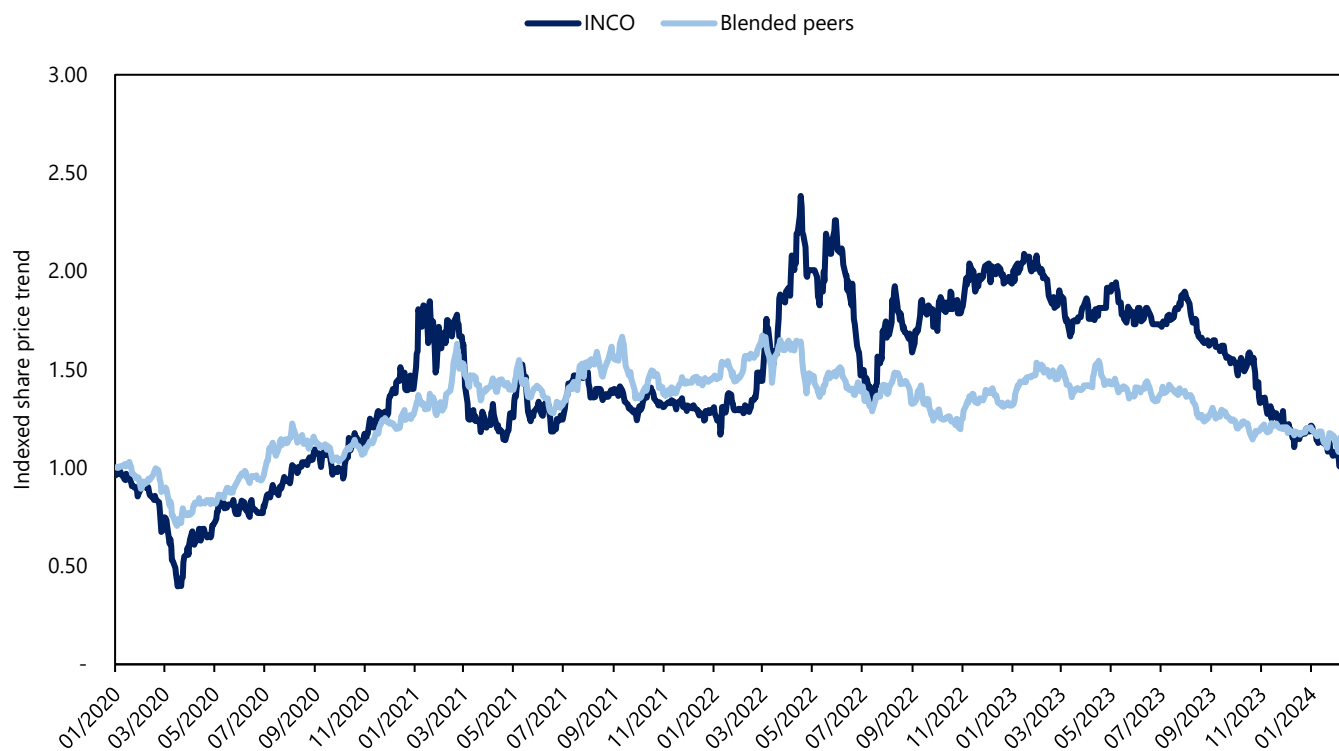
in Million USD	4Q23	4Q22	% YoY	FY23	FY22	% YoY	FY23E	Cons.	% FY23	% Cons.
Revenue	294.4	305.7	-3.7%	1,232.3	1,179.5	4.5%	1,209.7	1,260.1	101.9%	97.8%
COGS	234.3	251.2	-6.7%	(885.2)	865.9	2.2%				
Gross Profit	60.1	54.5	10.3%	347.0	313.6	10.7%				
Gross Margin	20.4%	17.8%		28.2%	26.6%					
EBITDA	88.7	80.0	10.8%	450.4	436.3	9.0%	488.3	524.7	105.2%	90.7%
EBITDA Margin	30.1%	26.2%		37.6%	37.0%					
Pre-Tax Profit	72.8	37.2	95.4%	352.5	275.8	27.8%				
Net Profit	53.3	32.0	66.3%	274.3	200.4	36.9%	221.2	267.1	124.0%	102.7%
Net Margin	18.1%	10.5%		22.3%	17.0%					

Sources : Company, MNCS Research

Exhibit 02. Expanding global market share trend for LFP adoption vs. converging NMC chemistry in EV, BESS and CE segments



Sources : Fastmarkets, MNCS Research

Exhibit 03. The firm's share price have been shown to trail LME nickel prices at a slight lag


Sources : Bloomberg, MNCS Research

Exhibit 04. INCO's multiples still offers limited upside compared to peers

Name	Mkt Cap (USD)	EV/EBITDA (x)	EV/EBITDA FY24F (x)	EV/EBITDA FY25F (x)	P/E (x)	P/E FY24F (x)	P/E FY25F (x)
BAIYIN NONFERROUS GROUP CO	2,613.5	N/A	N/A	N/A	72.7	N/A	N/A
VALE INDONESIA TBK	2,427.7	3.6	4.8	4.2	8.8	16.3	15.3
DOWA HOLDINGS CO LTD	2,317.2	6.6	7.4	6.3	15.3	15.2	12.6
MITSUBISHI MATERIALS CORP	2,291.0	11.6	9.9	9.0	7.8	9.2	8.3
INNER MONGOLIA XINGYE SILV	2,251.6	N/A	N/A	N/A	33.3	16.0	8.9
SHENZHEN ZHONGJIN LINGNAN	2,212.5	N/A	N/A	N/A	17.6	14.7	10.7
SHENGHE RESOURCES HOLDINGS	2,201.8	N/A	37.6	18.2	59.5	59.1	25.1
MMG LTD	2,158.2	6.2	6.6	6.3	63.1	20.8	12.5
AFRICAN RAINBOW MINERALS LTD	2,105.3	5.1	6.8	4.3	3.9	4.7	4.8
ILUKA RESOURCES LTD	2,071.1	3.5	4.9	4.9	7.3	10.6	10.2
FILO CORP	2,058.1	N/A	N/A	N/A	N/A	N/A	N/A
ERAMET	2,023.0	4.5	6.5	4.7	6.4	9.0	7.6
HUBBAY MINERALS INC	1,928.1	6.0	5.4	3.7	83.8	32.7	8.9
NICKEL INDUSTRIES LTD	1,906.9	8.6	7.1	6.9	13.6	12.0	11.7
HUNAN GOLD CORP LTD	1,894.1	N/A	N/A	N/A	28.8	31.5	18.9
GUANGDONG HONGDA HOLDIN	1,852.7	N/A	N/A	N/A	19.7	19.8	17.1
Mean	2,144.6	6.0	6.7	5.6	17.6	15.6	11.2

Sources : Bloomberg, MNCS Research

Exhibit 05. Financial projections

Income Statement						Balance Sheet					
in Million USD	FY21	FY22	FY23	FY24E	FY25F	in Million USD	FY21	FY22	FY23	FY24E	FY25F
Revenue	953.2	1,179.5	1,232.3	1,005.5	1,056.5	Cash & Equivalents	508.3	634.0	698.8	715.8	744.6
Cost Of Revenue	(704.3)	(865.9)	(885.2)	(802.4)	(838.0)	Trade Receivables	102.0	141.4	101.8	97.5	102.5
Gross Profit	248.9	313.6	347.0	203.1	218.5	Inventory	162.0	155.8	155.9	165.9	173.3
Operating Expenses	(17.7)	(19.7)	(22.2)	(18.6)	(19.6)	Others Current Assets	64.2	58.6	76.6	62.5	65.6
Operating Profit	231.2	293.8	324.9	184.5	198.9	Total Current Assets	836.6	989.8	1,033.1	1,041.8	1,086.1
Other Income (Expenses)	(5.4)	(11.1)	37.8	3.1	3.1	Fixed Assets - net	1,519.0	1,549.9	1,695.5	1,818.6	1,935.0
Finance Cost	(5.1)	(6.9)	(10.1)	(6.5)	(7.2)	Other Non-Current Assets	117.3	118.5	197.3	130.8	137.4
Profit Before Income Tax	220.6	275.8	352.5	181.1	194.8	Total Non-Current Assets	1,636.3	1,668.3	1,892.9	1,949.3	2,072.4
Income Tax Expenses	(54.8)	(75.4)	(78.2)	(43.1)	(46.4)	TOTAL ASSETS	2,472.8	2,658.1	2,926.0	2,991.1	3,158.5
Net Profit	165.8	200.4	274.3	138.0	148.4	Trade Payables	122.2	115.6	140.8	117.4	128.0
						ST Debt	21.6	26.2	25.1	20.5	21.5
						Other Current Liabilities	24.5	33.2	50.8	36.2	38.1
						Total Current Liabilities	168.4	175.0	216.7	174.1	187.5
						LT Debt	-	-	-	-	-
						Other LT Liabilities	149.9	128.3	144.7	114.5	120.0
						Total LT-Liabilities	149.9	128.3	144.7	114.5	120.0
						Total Equity	2,154.5	2,354.8	2,564.5	2,702.5	2,851.0
						TOTAL LIABILITY & EQUITY	2,472.8	2,658.1	2,926.0	2,991.1	3,158.5
Cash Flow						Ratios					
in Million USD	FY21	FY22	FY23	FY24E	FY25F		FY21	FY22	FY23	FY24E	FY25F
Net Income	165.8	200.4	274.3	138.0	148.4	Revenue Growth	24.6%	23.7%	4.5%	-18.4%	5.1%
D&A	111.6	142.5	125.5	141.7	149.7	Operating Profit Growth	97.6%	27.1%	10.6%	-43.2%	7.8%
Changes in WC	(50.3)	(39.8)	64.6	(29.2)	(1.8)	Net Profit Growth	100.2%	20.9%	36.9%	-49.7%	7.6%
Others	38.5	5.6	(17.9)	14.1	(3.2)	Current Ratio (x)	5.0	5.7	4.8	6.0	5.8
Operating CF	265.5	308.8	446.5	264.7	293.2	Quick Ratio (x)	4.0	4.8	4.0	5.0	4.9
Capex	(151.4)	(173.4)	(271.2)	(264.8)	(266.2)	Receivable Days (x)	39.1	43.8	30.2	35.4	35.4
Others	22.3	(1.2)	(78.9)	66.6	(6.6)	Inventory Days (x)	84.0	65.7	64.3	75.5	75.5
Investing CF	(129.1)	(174.6)	(350.1)	(198.2)	(272.8)	Payable Days (x)	63.4	48.7	58.1	53.4	55.7
Dividend	(33.1)	-	(60.1)	-	-	DER (x)	0.0	0.0	0.0	0.0	0.0
Others	15.0	(8.8)	24.7	(48.4)	8.1	DAR (x)	0.0	0.0	0.0	0.0	0.0
Financing CF	(16.8)	(8.5)	(31.7)	(49.4)	8.4	Gross Profit Margin	26.1%	26.6%	28.2%	20.2%	20.7%
Cash at Beginning	119.6	125.7	64.8	17.0	28.8	Operating Profit Margin	24.3%	24.9%	26.4%	18.3%	18.8%
Cash at Ending	508.3	634.0	698.8	715.8	744.6	EBITDA (USD mn)	342.7	436.3	450.4	326.2	348.6
						EBITDA Margin	36.0%	37.0%	36.6%	32.4%	33.0%
						Net Income Margin	165.8	200.4	274.3	138.0	148.4
						BVPS (IDR)	3,144.0	3,673.3	4,000.5	4,215.8	4,447.3

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

MNC Research Investment Ratings Guidance

- **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

Disclaimer

This research report has been issued by PT MNC Sekuritas, It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discusses herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.