

**1H20 earnings review.** INCO posted 1H20 revenue of USD 360.4 mn (+23.3% YoY), forming 51.7%/50.8% of our and consensus estimate. Robust top-line growth was mainly driven by higher nickel output at 36,316 tons (+18.2% YoY) and higher ASP (+3.9% YoY). This translates to a positive NPAT of USD 53.1 mn (vs loss USD 26.2 mn in 1H19), which accounted to 67.1%/86.1% of our and consensus estimate. Higher than expected bottom-line result was mainly driven by lower cost of production (-14.5% YoY) as oil and coal price bottomed during the quarter as well as tax benefit in 1H20 amounted to USD 9 mn. Margin wise, INCO recorded GPM/NPM at 11.3%/14.7% respectively.

**Lower fuel cost lifted 2Q20 earnings.** On quarterly basis, INCO recorded positive revenue growth at USD 185.7 mn (+6.3% QoQ, +12.0% YoY) as sales volume rebounded to 19,887 tons (+19.0% QoQ, +17.2% YoY), fully offsetting the decline in nickel price during the quarter due to Covid-19 as ASP declined by 10.6% QoQ. On margin side, higher volume and lower fuel cost helped to offset impact from ASP decline. To note, cost of production fell by 9.7% QoQ as HSFO and diesel cost declined by -22%/-29% QoQ respectively. This translates to a positive NPAT of USD 24.2 mn (vs loss USD 6 mn in 2Q19).

**Revising our forecast.** Post 1H20 result, we revised up our FY20E revenue/NPAT estimates by 8.2%/24.2% respectively, taking into account much stronger nickel price due to fast recovery in demand as well as higher tax benefit in 1H20. In 2021F/2022F, we slightly adjust our nickel price assumption to USD 13,500 while lowering our margin expectation due to rising fuel cost. Despite strong recovery in nickel price, we view that current nickel price rally is buoyed by short term rising optimism in nickel demand, though we remain to see that nickel balance will remain oversupplied in years ahead, partly due to increase in supply from Indonesia smelters.

**We retain our NEUTRAL rating on PT Vale Indonesia Tbk (INCO IJ) with higher 52-week TP of IDR 3,500 as we roll-over our target price to FY21F.** Our target price implies 2.9% upside, implying 10.7x FY21F EV/EBITDA (+0.25SD from 5-years average). Downside risks to our call are lower than expected nickel price, prolonged economic recovery from Covid-19 and faster than expected supply increase from Indonesia new smelters.

Highlights (USD Mn)	2018	2019	2020E	2021F	2022F
Revenue	777	782	754	822	863
% growth	23.4%	0.7%	-3.6%	9.0%	5.0%
Gross Profit	104	116	129	162	159
Net Profit	61	57	98	109	106
% growth	N/A	-5.1%	71.3%	10.4%	-2.2%
Gross Margin (%)	13.4%	14.9%	17.1%	19.7%	18.4%
Net Margin (%)	7.8%	7.3%	13.0%	13.2%	12.3%
Return on Equity (%)	3.2%	3.0%	4.8%	5.0%	4.6%
Return on Assets (%)	2.7%	2.6%	4.2%	4.4%	4.1%
EPS (USD)	0.006	0.006	0.010	0.011	0.011

**Richard Suherman**

Equity Analyst

+62 21 392 5550 ext. 610

[richard.suherman@sinarmassekuritas.co.id](mailto:richard.suherman@sinarmassekuritas.co.id)**Stock Information**

Sector	Metal
Bloomberg Ticker	INCO IJ
Market Cap. (IDR tn)	34.0
Share Out./Float (mn)	9,936/2,036
Current Price	IDR 3,400
52-week Target Price	IDR 3,500
Upside (%)	2.9%

**Share Price Performance**

52W High (09/02/19)	4,320
52W Low (03/20/19)	1,340
52W Beta	1.6
YTD Change (%)	-5.5%

**Relative Valuations**

Trailing P/E	17.7x
Forward P/E	33.6x
P/BV	1.2x
EV/EBITDA	10.5x

## INCO 2Q20 Earnings Summary

USD Thousand	2Q19	1Q20	2Q20	%QoQ	%YoY	6M19	6M20	%YoY	%DH	%Cons
Revenue	165,822	174,659	185,718	6.3%	12.0%	292,250	360,377	23.3%	43.1%	50.8%
Gross Profit	507	20,481	20,094	-1.9%	3863.3%	-22,768	40,575	N/A	17.0%	33.8%
Operating Profit	-7,949	18,062	20,594	14.0%	N/A	-35,405	38,656	N/A	18.6%	36.4%
Net Profit	-6,016	28,957	24,169	-16.5%	N/A	-26,178	53,126	N/A	34.5%	86.1%

### Margin

GPM	0.3%	11.7%	10.8%			-7.8%	11.3%			
OPM	-4.8%	10.3%	11.1%			-12.1%	10.7%			
NPM	-3.6%	16.6%	13.0%			-9.0%	14.7%			

### Operational

Nickel Matte Production	17,631	17,614	18,701	6.2%	6.1%	30,711	36,315	18.2%		
Nickel Matte Deliveries	16,965	16,713	19,887	19.0%	17.2%	30,832	36,600	18.7%		
ASP (\$/ton)	9,774	10,450	9,339	-10.6%	-4.5%	9,479	9,846	3.9%		

Source: Company Data, Sinarmas Investment Research

### Change in Assumptions

	Previous			New			%Change		
	2020E	2021F	2022F	2020E	2021F	2022F	2020E	2021F	2022F
Revenue	696,729	771,109	820,460	753,973	822,121	863,227	8.2%	6.6%	5.2%
Gross Profit	132,453	174,365	179,176	128,973	162,288	159,033	-2.6%	-6.9%	-11.2%
Operating Profit	107,000	149,385	154,731	109,259	139,154	136,105	2.1%	-6.8%	-12.0%
Net Profit	79,180	110,545	114,501	98,333	108,540	106,162	24.2%	-1.8%	-7.3%
<b>Key Assumptions</b>									
Nickel Matte Production	74,576	78,305	82,220	74,576	78,305	82,220	0.0%	0.0%	0.0%
Nickel Matte Deliveries	75,322	79,088	83,043	75,322	79,088	83,043	0.0%	0.0%	0.0%
Nickel Price	12,500	13,000	13,000	13,000	13,500	13,500	4.0%	3.8%	3.8%
ASP (\$/ton)	9,250	9,750	9,880	10,010	10,395	10,395	8.2%	6.6%	5.2%

Source: Company Data, Sinarmas Investment Research

Income Statement (USD Mn)	2018	2019	2020E	2021F	2022F
<b>Revenue</b>	<b>777</b>	<b>782</b>	<b>754</b>	<b>822</b>	<b>863</b>
Cost of Revenue	673	666	625	660	704
<b>Gross Profit</b>	<b>104</b>	<b>116</b>	<b>129</b>	<b>162</b>	<b>159</b>
Operating Expense	12	14	10	15	15
Other Income/Expense	-3	-14	-9	-8	-8
<b>EBIT</b>	<b>89</b>	<b>88</b>	<b>109</b>	<b>139</b>	<b>136</b>
<b>EBITDA</b>	<b>233</b>	<b>249</b>	<b>252</b>	<b>286</b>	<b>284</b>
Net Financing	-7	1	-	-	-
<b>EBT</b>	<b>83</b>	<b>89</b>	<b>109</b>	<b>139</b>	<b>136</b>
Tax	22	32	11	31	30
<b>Net Profit</b>	<b>61</b>	<b>57</b>	<b>98</b>	<b>109</b>	<b>106</b>

Balance Sheet (USD Mn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	301	249	584	661	848
Trade Receivables	124	107	108	118	124
Other Current Asset	206	232	150	169	175
<b>Total Current Assets</b>	<b>631</b>	<b>588</b>	<b>842</b>	<b>948</b>	<b>1,147</b>
PPE	1,435	1,467	1,411	1,353	1,290
Other Long Term Assets	137	167	71	164	162
<b>Total Assets</b>	<b>2,202</b>	<b>2,223</b>	<b>2,323</b>	<b>2,465</b>	<b>2,598</b>
Trade payables	91	97	91	97	103
Short Term Loans	37	1	-	-	-
Other Current Liabilities	48	38	36	40	42
<b>Total Current Liabilities</b>	<b>175</b>	<b>137</b>	<b>128</b>	<b>137</b>	<b>145</b>
Long Term Loans	-	-	-	-	-
Other Non Current Liabilities	143	144	146	159	167
<b>Total Liabilities</b>	<b>319</b>	<b>281</b>	<b>274</b>	<b>296</b>	<b>312</b>
Share & APIC	414	414	414	414	414
Retained Earnings	1,470	1,528	1,636	1,755	1,872
<b>Total Equity</b>	<b>1,884</b>	<b>1,942</b>	<b>2,050</b>	<b>2,169</b>	<b>2,286</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,202</b>	<b>2,223</b>	<b>2,323</b>	<b>2,465</b>	<b>2,598</b>

Source: Company Data, Sinarmas Investment Research

Cash Flow (USD Mn)	2018	2019	2020E	2021F	2022F
<b>Net Income</b>	<b>61</b>	<b>57</b>	<b>98</b>	<b>109</b>	<b>106</b>
Depreciation	94	92	94	95	96
Chg. in NWC	92	(12)	72	(20)	(3)
<b>CF from Operating</b>	<b>145</b>	<b>247</b>	<b>138</b>	<b>265</b>	<b>184</b>
Capital Expenditure	(35)	(125)	(37)	(38)	(33)
Chg. in Long Term Assets	(43)	(30)	96	(93)	2
Chg in Long Term Liabilities	(56)	1	1	13	8
<b>CF from Investing</b>	<b>(73)</b>	<b>(135)</b>	<b>(154)</b>	<b>60</b>	<b>(117)</b>
Chg. in Share & APIC	-	-	-	-	-
Chg. in Short Term Loans	(0)	(37)	-	-	-
Chg. in Long Term Loans	(36)	-	-	-	-
Dividends Paid	4	1	10	11	11
<b>CF from Financing</b>	<b>(33)</b>	<b>(36)</b>	<b>10</b>	<b>11</b>	<b>11</b>
Beginning Cash	222	301	249	584	661
Change in Cash	79	(52)	335	77	186
<b>Ending Cash</b>	<b>301</b>	<b>249</b>	<b>584</b>	<b>661</b>	<b>848</b>

Financial Ratio & Key Assumption	2018	2019	2020E	2021F	2022F
<b>Profitability</b>					
ROE	3.2%	3.0%	4.8%	5.0%	4.6%
ROA	2.7%	2.6%	4.2%	4.4%	4.1%
EBITDA Margin	30.0%	31.8%	33.4%	34.8%	32.9%
Gross Margin	13.4%	14.9%	17.1%	19.7%	18.4%
Operating Margin	11.5%	11.3%	14.5%	16.9%	15.8%
Net Profit Margin	7.8%	7.3%	13.0%	13.2%	12.3%
<b>Liquidity</b>					
Current Ratio	3.6	4.3	6.6	6.9	7.9
<b>Solvency</b>					
Debt to Equity	0.0	0.0	0.0	0.0	0.0
Debt to Assets	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
Price to Earning (PE)	44.0	27.9	16.3	14.8	15.1
Price to Book (PBV)	1.2	0.8	0.8	0.7	0.7
<b>Key Assumptions</b>					
Nickel Price (\$/ton)	13,700	12,000	13,000	13,500	13,500
Nickel matte production (ton)	74,806	71,025	74,576	78,305	82,220

Source: Company Data, Sinarmas Investment Research

## SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

**BUY:** Share price may rise by more than 15% over the next 12 months.

**ADD:** Share price may range between 10% to 15% over the next 12 months.

**NEUTRAL:** Share price may range between -10% to +10% over the next 12 months.

**REDUCE:** Share price may range between -10% to -15% over the next 12 months.

**SELL:** Share price may fall by more than 15% over the next 12 months.

### DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst (s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

### Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2020). All rights reserved.