

**Higher output and price supported 4Q19 earnings.** INCO posted robust quarterly earnings as revenue rose to USD 275.5 mn (+28.6% QoQ, +39.7% YoY) while net profit jumped to USD 57.2 mn in 4Q19 (+117.3% QoQ, +979.6% YoY), bringing INCO FY19's revenue and net profit to USD 782.0 mn and USD 57.4 mn respectively, beating our forecast number by 6.7%/43.5% higher. INCO's stronger-than-expected result was primarily driven by higher nickel matte output and higher ASP. In 4Q19, INCO recorded quarterly output of 20,494 ton nickel matte (+3.4% QoQ) and deliveries of 21,213 ton nickel matte (+6.1% QoQ). On the other hand, ASP jumped to USD 12,990 per ton in the quarter, increasing by 21.3% QoQ, as LME Nickel price soared temporarily to USD 18,000 per ton in Sep-19, following news of Indonesia export ore ban. Consequently, margin rose to its 5-years high as GPM and NPM climbed to 34.6% and 20.8% in 4Q19 respectively.

**Coronavirus negate positive impact from Indonesia's export ban.** Post coronavirus outbreak, we turn more cautious on nickel sector outlook as we see demand to weaken further, offsetting supply shortage impact from Indonesia's export ban. Though currently it is hard to estimate the full impact of the coronavirus outbreak, various news have reported that several major Chinese stainless steel producer had to postpone their operation due to lack of man-power and quarantine routine. Consequently, stainless steel and steel prices continue to fall, already down by 14% from its peak last year. From EV car sales, we believe numbers will continue to disappoint, as economy still struggles to recover and the government has no plan to re-introduce more EV subsidies. Looking at the inventory numbers, nickel ore inventory in China remained high (+4.3% YoY) despite discontinued ore export from Indonesia. While demand should recover after corona outbreak, we believe demand recovery might not be able to catch up with higher supply growth coming from Indonesia's smelter. To note, Indonesia currently targets 18 additional smelters to come online by 2022 with additional annual input capacity of 70 mn tonnes (vs currently 27 mn tonnes capacity from 11 nickel smelters).

**We retain our NEUTRAL rating on PT Vale Indonesia Tbk (INCO IJ) with lower 52-week TP of IDR 3,200,** derived via DCF valuation. We revised down our earnings estimate as we lower our LT nickel price assumptions to USD 14,000 per ton factoring recent weakness post coronavirus outbreak. Our target price implies FY20 26.6x PE and 7.4x EV/EBITDA

Highlights (USD Mn)	2018	2019	2020E	2021F	2022F
Revenue	777	782	743	829	940
% growth	23.4%	0.7%	-5.0%	11.5%	13.5%
Gross Profit	104	116	144	198	255
Net Profit	61	57	86	127	168
% growth	N/A	-5.1%	50.2%	47.2%	32.3%
Gross Margin (%)	13.4%	14.9%	19.3%	23.9%	27.2%
Net Margin (%)	7.8%	7.3%	11.6%	15.3%	17.9%
Return on Equity (%)	3.2%	3.0%	4.2%	5.8%	7.1%
Return on Assets (%)	2.7%	2.6%	3.7%	5.1%	6.2%
EPS (USD)	0.006	0.006	0.009	0.013	0.017

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Sector	Metal
Bloomberg Ticker	INCO IJ
Market Cap. (IDR tn)	30.4
Share Out./Float (mn)	9,936/2,036
Current Price	IDR 3,060
52-week Target Price	IDR 3,200
Upside (%)	4.6%

**Share Price Performance**

52W High (09/02/19)	4,320
52W Low (05/20/19)	2,410
52W Beta	1.7
YTD Change (%)	-15.9%

**Relative Valuations**

Trailing P/E	38.2x
Forward P/E	25.6x
P/BV	1.1x
EV/EBITDA	7.4x

## INCO 4Q19 Earnings Summary

USD Thousand	4Q18	3Q19	4Q19	%QoQ	%YoY	FY18	FY19	%YoY
Revenue	197,306	214,211	275,551	28.6%	39.7%	776,900	782,012	0.7%
Gross Profit	7,547	43,793	95,429	117.9%	1164.5%	104,001	116,454	12.0%
Operating Profit	4,492	36,267	87,427	141.1%	1846.3%	84,854	88,289	4.0%
Net Profit	5,302	26,338	57,238	117.3%	979.6%	60,512	57,398	-5.1%
<b>Margin</b>								
GPM	3.8%	20.4%	34.6%			13.4%	14.9%	
OPM	2.3%	16.9%	31.7%			10.9%	11.3%	
NPM	2.7%	12.3%	20.8%			7.8%	7.3%	
<b>Operational</b>								
Nickel Matte Production	20,579	19,820	20,494	3.4%	-0.4%	74,806	71,025	-5.1%
Nickel Matte Deliveries	21,061	19,999	21,213	6.1%	0.7%	75,631	72,044	-4.7%
ASP (\$/ton)	9,368	10,711	12,990	21.3%	38.7%	10,272	10,855	5.7%

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>743</b>	<b>829</b>	<b>940</b>
Cost of Revenue	673	666	600	630	685
<b>Gross Profit</b>	<b>104</b>	<b>116</b>	<b>144</b>	<b>198</b>	<b>255</b>
Operating Expense	12	14	15	16	18
Other Income/Expense	-3	-14	-13	-11	-11
<b>EBIT</b>	<b>89</b>	<b>88</b>	<b>116</b>	<b>171</b>	<b>227</b>
<b>EBITDA</b>	<b>233</b>	<b>249</b>	<b>238</b>	<b>294</b>	<b>351</b>
Net Financing	-7	1	-	-	-
<b>EBT</b>	<b>83</b>	<b>89</b>	<b>116</b>	<b>171</b>	<b>227</b>
Tax	22	32	30	45	59
<b>Net Profit</b>	<b>61</b>	<b>57</b>	<b>86</b>	<b>127</b>	<b>168</b>

Balance Sheet (USD Mn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	301	249	463	598	768
Trade Receivables	124	107	107	119	135
Other Current Asset	206	232	164	170	198
<b>Total Current Assets</b>	<b>631</b>	<b>588</b>	<b>734</b>	<b>888</b>	<b>1,101</b>
PPE	1,435	1,467	1,411	1,352	1,290
Other Long Term Assets	137	167	160	228	298
<b>Total Assets</b>	<b>2,202</b>	<b>2,223</b>	<b>2,304</b>	<b>2,469</b>	<b>2,688</b>
Trade payables	91	97	88	92	100
Short Term Loans	37	1	-	-	-
Other Current Liabilities	48	38	36	40	45
<b>Total Current Liabilities</b>	<b>175</b>	<b>137</b>	<b>124</b>	<b>132</b>	<b>146</b>
Long Term Loans	-	-	-	-	-
Other Non Current Liabilities	143	144	144	160	182
<b>Total Liabilities</b>	<b>319</b>	<b>281</b>	<b>268</b>	<b>293</b>	<b>328</b>
Share & APIC	414	414	414	414	414
Retained Earnings	1,470	1,528	1,622	1,762	1,947
<b>Total Equity</b>	<b>1,884</b>	<b>1,942</b>	<b>2,036</b>	<b>2,176</b>	<b>2,361</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,202</b>	<b>2,223</b>	<b>2,304</b>	<b>2,469</b>	<b>2,688</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>86</b>	<b>127</b>	<b>168</b>
Depreciation	94	92	94	95	96
Chg. in NWC	92	(12)	56	(10)	(30)
<b>CF from Operating</b>	<b>145</b>	<b>247</b>	<b>138</b>	<b>236</b>	<b>212</b>
Capital Expenditure	(35)	(125)	(37)	(37)	(33)
Chg. in Long Term Assets	(43)	(30)	7	(68)	(70)
Chg in Long Term Liabilities	(56)	1	(1)	17	22
<b>CF from Investing</b>	<b>(73)</b>	<b>(135)</b>	<b>(154)</b>	<b>(31)</b>	<b>(89)</b>
Chg. in Share & APIC	-	-	-	-	-
Chg. in Short Term Loans	(0)	(37)	-	-	-
Chg. in Long Term Loans	(36)	-	-	-	-
Dividends Paid	4	1	9	13	17
<b>CF from Financing</b>	<b>(33)</b>	<b>(36)</b>	<b>9</b>	<b>13</b>	<b>17</b>
Beginning Cash	222	301	249	463	598
Change in Cash	79	(52)	214	135	169
<b>Ending Cash</b>	<b>301</b>	<b>249</b>	<b>463</b>	<b>598</b>	<b>768</b>

Financial Ratio & Key Assumption	2018	2019	2020E	2021F	2022F
<b>Profitability</b>					
ROE	3.2%	3.0%	4.2%	5.8%	7.1%
ROA	2.7%	2.6%	3.7%	5.1%	6.2%
EBITDA Margin	30.0%	31.8%	32.0%	35.4%	37.4%
Gross Margin	13.4%	14.9%	19.3%	23.9%	27.2%
Operating Margin	11.5%	11.3%	15.7%	20.7%	24.1%
Net Profit Margin	7.8%	7.3%	11.6%	15.3%	17.9%
<b>Liquidity</b>					
Current Ratio	3.6	4.3	5.9	6.7	7.6
<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	40.1	26.7	18.1	13.7
Price to Book (PBV)	1.2	1.1	1.1	1.0	0.9
<b>Key Assumptions</b>					
Nickel Price (\$/ton)	13,700	14,000	14,000	14,000	14,000
Nickel matte production (ton)	74,806	71,025	71,025	78,128	87,503

Source: Company Data, Sinarmas Investment Research

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