

# Indonesia Nickel Sector

## Riding the crest of a wave

### Upgrade FY22-23F average nickel price assumptions

We revisit our FY22-23F LME nickel prices assumptions as we believe some factors have prompted nickel prices to hover at a relatively higher level relative to our previous numbers. Back in Mar22, nickel prices soared to USD100,000/tni, underpinned by a huge short squeeze, whereby forcing LME to temporarily halt its trading activity. Moreover, on-going Russian-Ukraine war exacerbates nickel supply disruption as Russia nickel smelting production accounted for around 6% of the global nickel supply. Currently, LME nickel inventory has declined 29.0% YTD to 72,300t (as of 25May2022). Therefore, we have a conviction about the existence of further upside potential to our latest forecasts. We lifted our FY22/23F LME nickel price assumptions by 6.7% and 10.0% to USD24,000/tonne (from USD22,500/tonne) and USD22,500/tonne (from USD20,000/tonne) respectively.

### Recent update on nickel sector in Indonesia

SMM (Sumitomo Metal Mining) has decided to pull out from HPAL nickel at Pomalaa, whereas INCO has 25% stakes. However, not long after that, INCO and Zhejiang Huayou Cobalt Company Limited (Huayou) signed an FCA (Framework Cooperation Agreement) to develop Pomalaa HPAL project. On the agreement, INCO has the right to acquire up to 30% stakes. We can see a difference between the agreement of INCO with SMM and Huayou. In terms of ownership, through the new agreement, INCO will have up to 30% (vs. 25% when teaming up with SMM). Furthermore, the production capacity that will be constructed by Huayou is 3 times bigger at 120,000 mtpa (vs. 40,000 mtpa previously).

HRUM made another investment in nickel assets. Through its subsidiary namely Harum Nickel Industry, HRUM acquired 20% stakes in PT Westrong Metal Industry (WMI) with an investment cost of USD75mn. WMI currently is developing an NPI smelter (4 RKEF lines) in Weda Bay with a production capacity targeted at 44,000-56,000 tNi/year, and the operation is expected to commence within the next 2 years. Additionally, relative to PT IMI smelters, WMI is expected to be cost-efficient given its own integrated power infrastructure.

### Maintain Overweight stance

We revised up ANTM, INCO, and HRUM's FY22/23F earnings estimates and target prices after we lifted average LME nickel prices and fine-tuned each company's numbers after their 1Q22 results were released. For ANTM, we maintain BUY call with a higher TP of IDR3,670/sh (from IDR3,100/sh). For INCO, we arrived at a higher SOTP-based TP of IDR8,900/sh (from IDR6,400/sh). For HRUM, we raised our SOTP-based TP to IDR17,900/sh (from IDR16,500/sh). All in all, we maintain our Overweight call in Indonesia nickel sector. Risk to our call: 1) Lower-than-expected average nickel price 2) Delay in commercialization of nickel projects 3) Significant change in regulations that lead to unfavorable impact on nickel players.

### Nickel valuation

BBG Ticker	Share price (IDR)	Market Cap (IDR bn)	PER		EVEBITDA		PBV	
			2022F	2023F	2022F	2023F	2022F	2023F
ANTM IJ Equity	2,470	59,356	13.1	12.4	8.1	7.4	2.4	2.2
INCO IJ Equity	7,800	77,501	12.0	12.5	7.8	7.4	1.5	1.4
HRUM IJ Equity	11,425	30,889	8.4	8.9	5.1	5.6	2.3	1.8

Source: KISI

# Sector Update

## Nickel

May 30, 2022

### Overweight (Maintain)

Company	Rating	TP (IDR)
Aneka Tambang	BUY	3,670
Vale Indonesia	BUY	8,900
Harum Energy	BUY	17,900

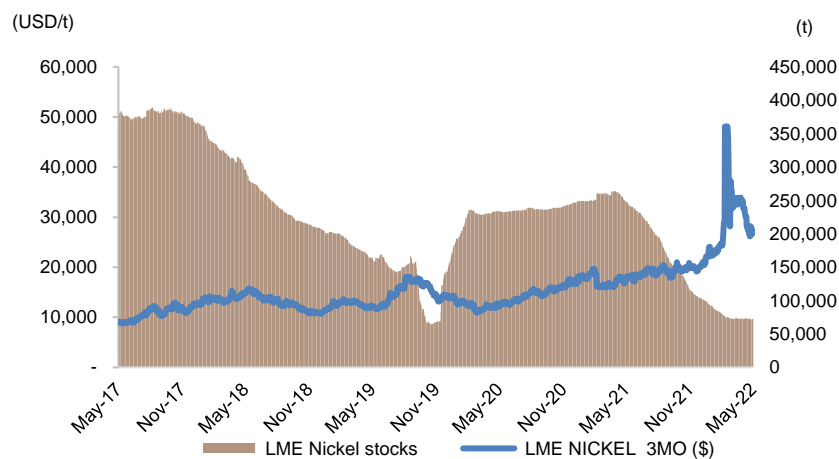
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## I. Expect higher FY22-23F nickel prices

We revisit our FY22-23F LME nickel prices assumptions as we believe there are couple of factors that prompted nickel prices to hover at a relatively higher level relative to our previous numbers. Back in Mar22, prices of nickel soared to USD100,000/tni, underpinned by a huge short squeeze, forcing LME to temporarily halt its trading activity. Moreover, the ongoing Russian-Ukraine war further caused nickel supply disruption. Note that, Russia nickel smelting production accounted for around 6% of the global nickel supply.

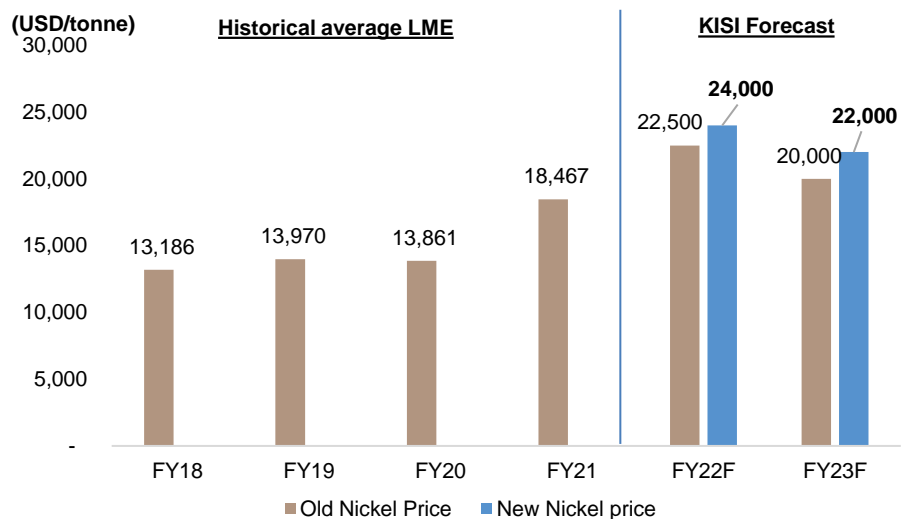
**Fig 1. LME nickel prices and inventory**



Source: Bloomberg, KISI

LME nickel inventory has continued to go down as well, marking a 29.0% decline YTD to 72,300t (as of 25May2022). We believe the reasons we mentioned above are enough to boost our conviction about the presence of further upside potential to our latest nickel prices target. Even though lately nickel price has contracted to the level before prices exploded in March-22, we believe our previous forecasts were remain below the average despite of our overweight stance on the sector. As such, we lift our FY22F and FY23F LME nickel price assumptions by 6.7% and 10.0%, respectively to USD24,000/tonne and USD22,500/tonne (from USD22,500/tonne and 20,000/tonne, previously).

**Fig 2. LME Nickel forecasts**



Source: Bloomberg, KISI

## II. Latest update on Indonesia nickel sector

### i) SMM withdrew from HPAL project in Pomalaa; but Huayou steps-in

We begin with unfavorable news, SMM (Sumitomo Metal Mining) has decided to pull out from HPAL nickel at Pomalaa, whereas INCO has 25% stakes. The reason cited for SMM exit was COVID-19 pandemic which makes the schedule become complicated. Nonetheless, INCO is still committed to continuing the HPAL project (production capacity: 40,000 mtpa) which at the moment is still in feasibility study phase.

However, not long after that, INCO and Zhejiang Huayou Cobalt Company Limited (Huayou) signed an FCA (Framework Cooperation Agreement) to develop Pomalaa HPAL project. On the agreement, Huayou has a role to construct and implement Pomalaa HPAL project and INCO has the right to acquire up to 30% of stakes. Production capacity of MHP is estimated up to 120,000 mtpa. Limonite ore and low-grade saprolite ore will be sourced from INCO mines. The construction is targeted to be completed within the next 3 years.

*Our take:* We can see a difference between the agreement of INCO with SMM and Huayou. In terms of ownership, through the new agreement, INCO will have up to 30% (vs. 25% when team up with SMM). Furthermore, the production capacity that will be constructed by Huayou is 3 times bigger at 120,000 mtpa (vs. 40,000 mtpa previously).

### ii) Another investment in nickel asset by HRUM; adding ~11% to our current valuation

Now, we move to the positive story. Recently, HRUM just made another investment in nickel assets. Through its subsidiary namely Harum Nickel Industry, HRUM acquired 20% stakes in PT Westrong Metal Industry (WMI) with an investment cost of USD75mn. WMI is currently developing NPI smelter (with 4 RKEF lines) in Weda Bay with a production capacity targeted at 44,000-56,000 tNi/year; and the operation is expected to commence within the next 2 years. Additionally, relative to PT IMI smelters, WMI is expected to be more cost-efficient given its own integrated power infrastructure.

*Our take:* We have calculated the impact of the new acquisition on HRUM's valuation. Using the nickel price assumptions that we pegged into PT IMI (RKEF) after we adjusted with the new average nickel price and the same cash cost despite the expectation of a more efficient operation of WMI going forward. We expect commercial production to start in FY24 with only a 50% utilization rate. We arrived at an enterprise value (EV) of USD360 mn, to add 11% to our current valuation (excluding WMI).

**Fig 3. HRUM's investment in Nickel (2020 – Apr-2022)**

Date	Target	Transaction Value (USD mn)	Cummulative Ownership
<b>2020</b>			
26-May-20	Nickel Mines Limited	22.8	3.2%
16-Jun-20	Nickel Mines Limited	3.6	3.7%
15-Dec-20	Nickel Mines Limited	27.8	4.9%
<b>2021</b>			
1-Feb-21	PT Position (Nickel ore)	80.3	51.0%
19-Feb-21	PT Infei Metal Industry (NPI)	68.6	24.5%
12-May-21	Nickel Mines Limited	45.0	6.7%
30-Jul-21	PT Infei Metal Industry (NPI)	41.2	39.2%
13-Dec-21	PT Infei Metal Industry (NPI)	27.4	49.0%
<b>2022</b>			
27-Apr-22	PT Westrong Metal Industry (FeNi/NPI)	75.0	20.0%
<b>Total Investment</b>		<b>391.7</b>	

Source: Company, KISI

### III. 1Q22 results update: solid bottom-line growth

#### 1. ANTM 1Q22 results: net profit beats estimates

ANTM 1Q22 net profit jumped remarkably to IR1.5tn (+868.6% QoQ and 132.5% YoY), beating both our and consensus estimates. Nevertheless, the company's 1Q22 revenue came in line with expectations at IDR9.7tn (-18.6% QoQ/+5.8% YoY). We noticed share of income from associates soared by 82.2% YoY, which we believe largely came from the profitable WBN (Weda Bay Nickel) project. Note that, WBN's 1Q22 net profit grew by more than 80% YoY. Additionally, 1Q22 GPM and OPM expanded to 25.1% (vs. 17.6% in 1Q21) and 16.6% (vs. 8.6% in 1Q21). Noting that, ANTM only has 10% ownership, but accounted using equity method as it is material associates to ANTM. We view the consensus also did not expect WBN to be that profitable previously.

Fig 4. ANTM 1Q22 results snapshot

in IDR bn	1Q21	4Q21	1Q22	QoQ	YoY	% to KISI	% to cons
Revenue	9,210.5	11,969.3	9,746.9	-18.6%	5.8%	23.0%	23.8%
Gross Profit	1,625.5	1,222.0	2,447.7	100.3%	50.6%	25.4%	27.4%
Operating Profit	793.9	390.6	1,618.1	314.2%	103.8%	29.9%	31.7%
Net Income	630.4	151.3	1,465.4	868.6%	132.5%	39.2%	39.5%
GPM	17.6%	10.2%	25.1%				
OPM	8.6%	3.3%	16.6%				
NPM	6.8%	1.3%	15.0%				

Source: Company, KISI

#### 2. INCO 1Q22 results: earnings above our target

INCO 1Q22 net profit came in at USD67.6 mn (+57.8% QoQ and 100.8% YoY), beating our estimate, while forming 23.4% of consensus' target. Gross margin in 1Q22 improved to 39.4% (vs. 24.6%/25.0% in 4Q21/1Q21), mainly attributed to rise in nickel matte ASP by 13.4% QoQ and 25.3% YoY. Operating margin also widened to 37.6% (vs. 24.5% in 1Q21), despite of opex ratio surged in 1Q22 to 1.8% (vs. 0.5% in 1Q21).

Fig 5. INCO 1Q22 results snapshot

in USD mn	1Q21	4Q21	1Q22	QoQ	YoY	% to KISI	% to cons.
Revenue	206.6	266.7	235.1	-11.9%	13.8%	21.2%	19.2%
Gross Profit	51.7	65.7	92.7	41.2%	79.2%	27.3%	23.1%
Operating Profit	50.7	64.6	88.4	36.8%	74.5%	26.9%	23.2%
Net Income	33.7	42.9	67.6	57.8%	100.8%	28.1%	23.4%
GPM	25.0%	24.6%	39.4%				
OPM	24.5%	24.2%	37.6%				
NPM	16.3%	16.1%	28.8%				

Source: Company, KISI

3. HRUM 1Q22 results: solid earnings growth; broadly in-line

HRUM 1Q22 net profit stood at USD62.8 mn (71.0% QoQ/256.6% YoY), in line with our and consensus estimates (at 25.2% and 23.4%, respectively). As we expected, in 1Q22 the company started to recognize more significant profit from associates of USD11.9 mn (vs. USD554 in 1Q21). This represents 22% of our FY22 share of profit from associates' targets. This signaled that HRUM's profit from its nickel business has been elevating. Furthermore, GPM expanded to 63.7% (vs. 46.4% in 1Q21) on the back of an increase in coal ASP by 158.7% YoY.

Fig 6. HRUM 1Q22 results snapshot

<i>in USD mn</i>	1Q21	4Q21	1Q22	QoQ	YoY	% to KISI	% to cons
Revenue	57.1	130.6	152.2	16.5%	166.6%	21.6%	18.7%
Gross Profit	26.5	72.9	96.9	33.0%	266.3%	23.6%	23.7%
Operating Profit	17.2	60.7	84.1	38.4%	389.4%	24.4%	21.4%
Net Income	17.6	36.7	62.8	71.0%	256.6%	25.2%	23.4%
GPM	46.4%	55.8%	63.7%				
OPM	30.1%	46.5%	55.2%				
NPM	30.9%	28.1%	41.3%				

Source: Company, KISI

## IV. Revise up our FY22-23F earnings target

### **ANTM (BUY, TP: 3,670)**

We adjusted down our FY22-23 FeNi sales volumes of ANTM by 6.3%/4.4% underpinned by maintenance done in 1Q22. However, on the back of higher average nickel prices, we lift FY22/23F FeNi ASP by 9.0%/15.0%. For nickel ore ASP, we fine-tuned our nickel ore ASP by -17.0%/-12.5%, as we believe our previous targets were too aggressive. In addition, we increased ANTM's income from associates forecasts after a significant contribution from WBN starting from 2Q21-1Q22. Noting that, in our previous projections, we have not incorporated the impact of investment in WBN into our PL statement. All in all, we upgraded FY22/23F ANTM revenue and net profit by 1.0%/3.2% YoY and 19.9%/16.1%, respectively. Subsequently, we rolled forward our valuation base to FY23F from FY22F. We maintain our BUY call and upgrade its TP to IDR3,670/sh (from IDR3,100/sh), implying 12x FY23F EV/EBITDA. We derived our TP on ANTM with an equally blended DCF and EV/EBITDA approach

Fig 7. ANTM assumptions change

Assumptions	ANTM			
	FY22F (new)	FY23F (New)	FY22F (old)	FY23F (old)
FeNi volume (Tni)	24,432	28,692	26,076	30,000
<i>Change (%)</i>	-6.3%	-4.4%		
FeNi ASP(USD/Tni)	22,080	20,700	20,250	18,000
<i>Change (%)</i>	9.0%	15.0%		
Nickel Ore volume (Wmt)	8,861,173	10,367,572	8,861,173	10,367,572
<i>Change (%)</i>	0.0%	0.0%		
Nickel Ore ASP (USD/Wmt)	50.4	47.3	60.8	54.0
<i>Change (%)</i>	-17.0%	-12.5%		
Revenue (IDR bn)	42,805.6	43,698.2	42,374.7	42,339.3
<i>Change (%)</i>	1.0%	3.2%		
EBITDA (IDR bn)	6,931.6	7,365.9	6,698.4	7,247.3
<i>Change (%)</i>	3.5%	1.6%		
Net profit (IDR bn)	4,484.4	4,738.0	3,741.6	4,082.4
<i>Change (%)</i>	19.9%	16.1%		

Source: Company, KISI

**INCO (BUY, TP: IDR8,900)**

After 1Q22 results were released, we believe our nickel matte volumes assumptions remain in line, hence we left them unchanged. Meanwhile, we raise FY22/23F nickel matte ASP by 8.8%/13.2% given our higher LME price target. Therefore, we upgraded INCO FY22/23F revenue and EBITDA by 8.8%/13.2% and 19.3%/30.7%, respectively. To arrive at current TP, we used SOTP-based valuation and rolled-forward our valuation to FY23F. We have also taken into account the impact of the new partnership with Huayou cobalt with a much higher production capacity on MHP. As such, we arrived at a higher TP of IDR8,900/sh (from IDR6,400/sh previously),

**Fig 8. INCO assumptions change**

Assumptions	INCO			
	FY22F (new)	FY23F (New)	FY22F (old)	FY23F (old)
Nickel matte volume (mt)	66,258	71,878	66,258	71,878
Change (%)	0.0%	0.0%		
Nickel matte ASP (USD/tonne)	18,600	17,438	17,100	15,400
Change (%)	8.8%	13.2%		
Revenue (USD mn)	1,208.8	1,229.3	1,111.3	1,085.7
Change (%)	8.8%	13.2%		
EBITDA (USD mn)	597.8	606.0	501.3	463.8
Change (%)	19.3%	30.7%		
Net profit (USD mn)	312.9	303.0	240.6	196.3
Change (%)	30.1%	54.4%		

Source: Company, KISI

**HRUM (BUY, TP: IDR17,900)**

For HRUM, we retain our coal prices assumptions, and we only upgrade nickel prices assumptions following our new LME price target. The impact is not significant given the contribution from PT POS remains minimal. Meanwhile, PT IMI and NIC AU contribution can be seen below the operating level given the ownership structure is investment in associates. As such, we lifted our FY22/23F revenue and net profit target of HRUM by 1.3%/2.9% and 1.52%/4.0%, respectively. Thus, we raised our SOTP-based TP of HRUM to IDR17,900 (from IDR16,500), considering 1) a higher average nickel prices in FY22-23F and 2) incorporation of new investment in WMI. Apart from it, HRUM plans for 1-for-5 stock split, effective starting on 6Jun2022

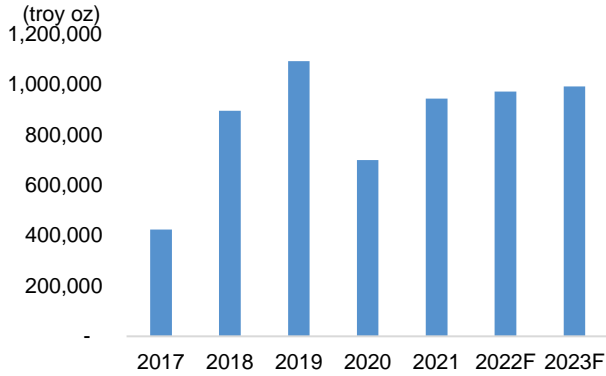
**Fig 9. HRUM assumptions change**

Assumptions	HRUM			
	FY22F (new)	FY23F (New)	FY22F (old)	FY23F (old)
Revenue (USD mn)	714.3	694.4	705.3	675.6
Change (%)	1.28%	2.78%		
EBITDA (USD mn)	361.7	302.7	358.1	295.2
Change (%)	1.01%	2.54%		
Net profit (USD mn)	253.1	239.0	249.3	229.7
Change (%)	1.52%	4.03%		

Source: Company, KISI

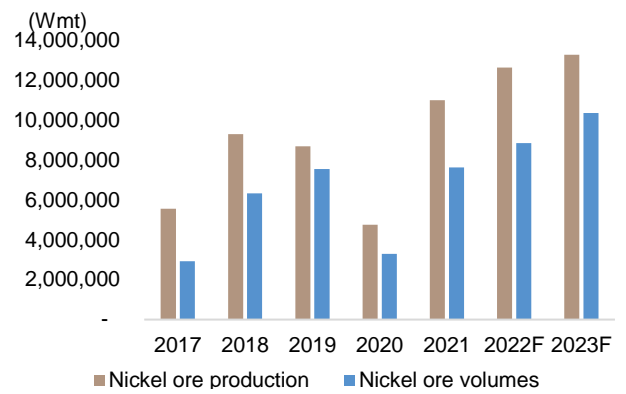
## Aneka Tambang (ANTM)

Fig 1. ANTM gold volumes



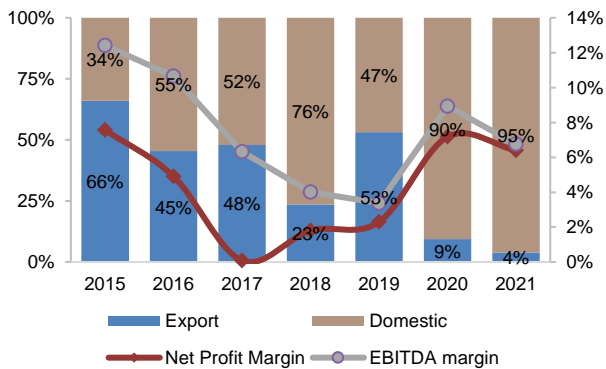
Source: Company, KISI

Fig 2. ANTM nickel ore production and volumes



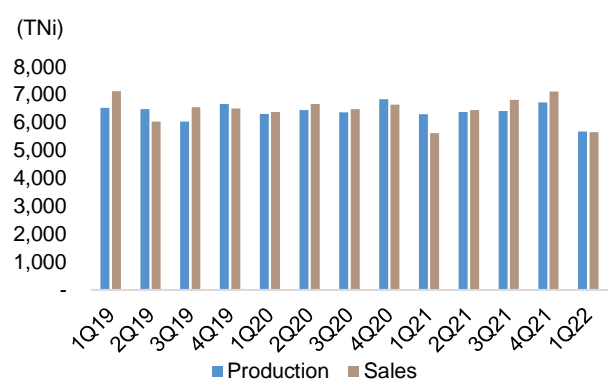
Source: Company, KISI

Fig 3. ANTM export, domestic, NPM and EBITDA



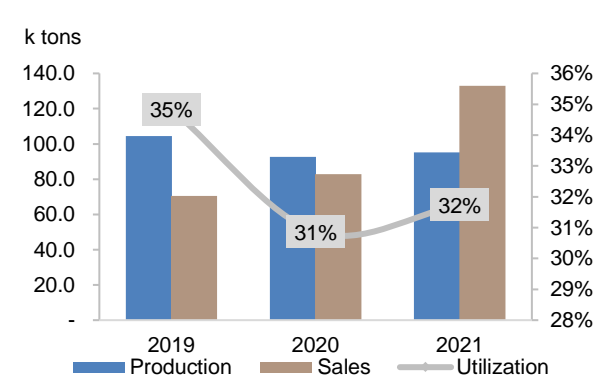
Source: Company, KISI

Fig 4. ANTM quarterly FeNi sales volumes



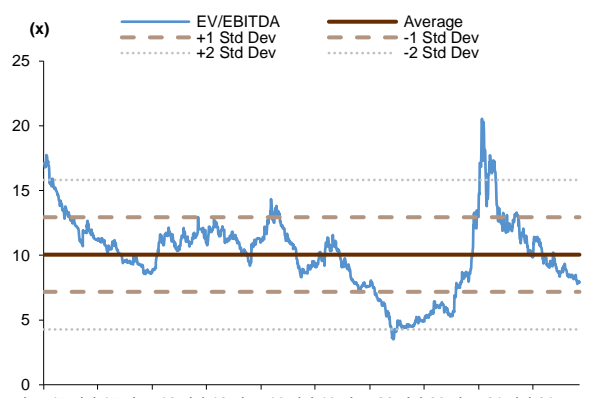
Source: Company, KISI

Fig 5. ANTM alumina



Source: Company, KISI

Fig 6. ANTM EVEBITDA band



Source: Bloomberg, KISI



<b>Balance sheet</b>		(IDRbn)				
<b>FY-ending Dec.</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	
<b>Current assets</b>						
Cash & cash equivalent	3,636	3,984	5,089	9,251	11,019	
Accounts & other receivables	1,002	1,310	1,448	1,535	1,567	
Inventories	1,796	2,626	3,107	2,913	2,979	
Others	1,230	1,230	2,084	2,320	2,369	
<b>Non-current assets</b>						
Fixed assets	20,278	19,638	18,138	17,743	18,067	
Other non-current assets	2,252	2,941	3,050	3,593	4,014	
<b>Total assets</b>	<b>30,195</b>	<b>31,730</b>	<b>32,916</b>	<b>37,356</b>	<b>40,016</b>	
<b>Current liabilities</b>						
Accounts Payable	740	673	1,399	1,070	1,084	
Accrued expense	442	624	723	747	757	
Current portion of LT debt	-	2,099	-	-	-	
Others	4,112	4,157	4,440	5,034	5,033	
<b>Non-current liabilities</b>						
LT debt & financial liabilities	3,466	3,388	3,703	3,803	3,903	
Deferred tax liabilities	7	110	127	141	144	
Other non-current liabilities	3,296	1,639	1,686	1,892	1,929	
<b>Total liabilities</b>	<b>12,061</b>	<b>12,690</b>	<b>12,079</b>	<b>12,686</b>	<b>12,850</b>	
<b>Controlling interest</b>						
Capital stock	6,338	6,338	6,338	6,338	6,338	
Other Reserves	-	-	-	-	-	
Retained earnings	7,913	8,786	10,272	14,104	16,600	
Minority interest	0	0	0	0	0	
<b>Shareholders' equity</b>	<b>18,133</b>	<b>19,039</b>	<b>20,837</b>	<b>24,670</b>	<b>27,166</b>	

<b>Cash flow</b>		(IDRbn)				
<b>FY-ending Dec.</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	
<b>C/F from operating</b>						
Net profit	194	1,149	1,862	4,484	4,738	
Depreciation	1,110	1,099	891	1,102	1,175	
Net incr. in W/C	(831)	53	124	3	(37)	
Others	654	(59)	66	(69)	(14)	
<b>C/F from investing</b>	<b>(1,000)</b>	<b>(775)</b>	<b>(856)</b>	<b>(1,409)</b>	<b>(2,357)</b>	
CAPEX	(991)	(748)	(831)	(1,380)	(2,323)	
Restricted cash	(9)	(27)	(25)	(29)	(34)	
<b>C/F from financing</b>	<b>(1,608)</b>	<b>(1,112)</b>	<b>(2,036)</b>	<b>(233)</b>	<b>(2,199)</b>	
Chg. in equity	(123)	(208)	26	0	0	
Chg. in debts	(1,178)	(836)	(1,660)	419	43	
Dividends	(306)	(68)	(402)	(652)	(2,242)	
Others	-	-	-	-	-	
C/F from others	-	-	-	-	-	
<b>Increase in cash</b>	<b>(663)</b>	<b>348</b>	<b>1,105</b>	<b>4,162</b>	<b>1,768</b>	

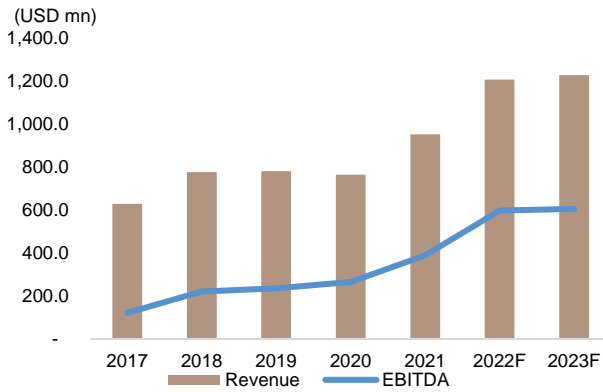
<b>Income statement</b>		(IDRbn)				
<b>FY-ending Dec.</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	
Sales	32,719	27,372	38,449	42,806	43,698	
COGS	(28,271)	(22,897)	(32,087)	(33,123)	(33,574)	
<b>Gross profit</b>	<b>4,447</b>	<b>4,476</b>	<b>6,362</b>	<b>9,682</b>	<b>10,124</b>	
SG&A expense	(3,492)	(2,443)	(3,621)	(3,853)	(3,933)	
<b>Operating profit</b>	<b>956</b>	<b>2,032</b>	<b>2,741</b>	<b>5,830</b>	<b>6,191</b>	
Financial income	120	110	90	163	194	
Financial expense	(233)	(565)	(359)	(378)	(380)	
Other expense	168	70	58	65	66	
Other non-operating profit	-	-	-	-	-	
Income (loss) from JV	-	-	-	-	-	
<b>Earnings before tax</b>	<b>687</b>	<b>1,641</b>	<b>3,044</b>	<b>6,235</b>	<b>6,588</b>	
Income taxes	(493)	(492)	(1,182)	(1,751)	(1,850)	
<b>Net profit</b>	<b>194</b>	<b>1,149</b>	<b>1,862</b>	<b>4,484</b>	<b>4,738</b>	
Non-controlling interest	0	0	(0)	(0)	(0)	
Other comprehensive profit	-	-	-	-	-	
<b>Total comprehensive profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Total comprehensive profit of controlling interest	-	-	-	-	-	
<b>EBITDA</b>	<b>2,066</b>	<b>3,132</b>	<b>3,632</b>	<b>6,932</b>	<b>7,366</b>	

**Key financial data**

<b>FY-ending Dec.</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>
<b>per share data (IDR)</b>					
EPS	8	48	77	187	197
BPS	755	792	867	1,027	1,130
DPS	13	3	17	27	93
<b>Growth (%)</b>					
Sales growth	29	(16)	40	11	2
OP growth	(39)	113	35	113	6
NP growth	(88)	493	62	141	6
EBITDA growth	(14)	52	16	91	6
<b>Profitability (%)</b>					
OP margin	2.9	7.4	7.1	13.6	14.2
NP margin	0.6	4.2	4.8	10.5	10.8
EBITDA margin	6.3	11.4	9.4	16.2	16.9
ROA	0.6	3.6	5.7	12.0	11.8
ROE	1.1	6.0	8.9	18.2	17.4
Dividend yield	0.5	0.1	0.7	1.1	3.8
Dividend payout ratio	18.7	35.0	35.0	35.0	50.0
<b>Stability</b>					
Net debt (IDR bn)	4,921	3,608	782	(3,064)	(4,805)
Int.-bearing debt/equity (%)	47	40	28	25	23
<b>Valuation (X)</b>					
PE	303.7	51.2	31.6	13.1	12.4
PB	3.2	3.1	2.8	2.4	2.2
EV/EBITDA	31.1	20.1	16.6	8.1	7.4

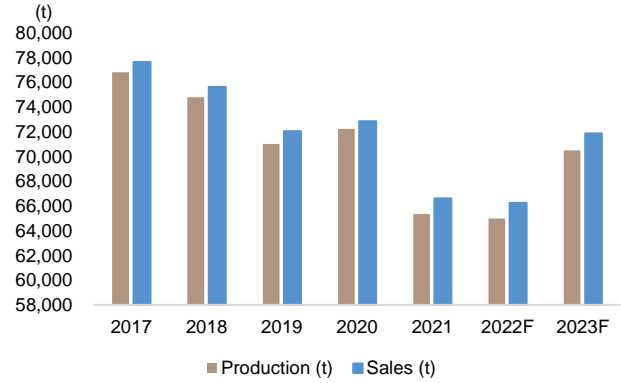
# Vale Indonesia (INCO)

Fig 1. INCO revenue and EBITDA



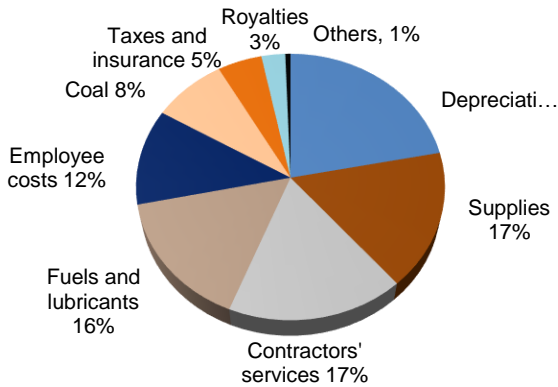
Source: Company, KISI

Fig 2. INCO production and sales volumes



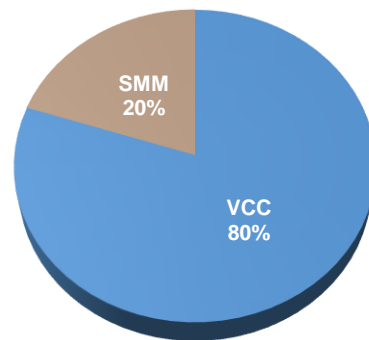
Source: Company, KISI

Fig 3. INCO COGS breakdown



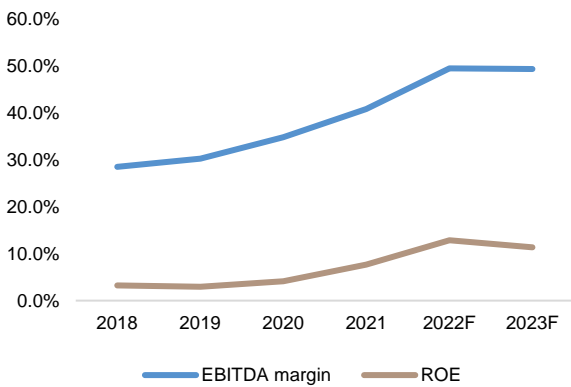
Source: Company, KISI

Fig 4. INCO volumes destination



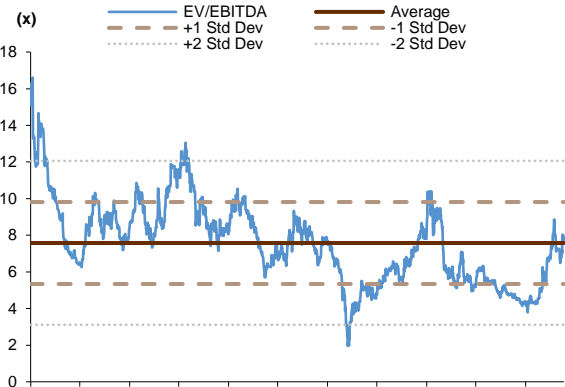
Source: Company, KISI

Fig 5. INCO EBITDA margin and ROE



Source: Company, KISI

Fig 6. INCO EVEBITDA band



Source: Bloomberg, KISI

<b>Balance sheet</b>		(USDmn)				
<b>FY-ending Dec.</b>	<b>2019A</b>	<b>2020F</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	
<b>Current assets</b>						
Cash & cash equivalent	249	389	508	682	866	
Accounts & other receivables	107	60	102	106	108	
Inventories	148	144	162	159	169	
Others	84	103	64	81	83	
<b>Non-current assets</b>						
Fixed assets	1,467	1,479	1,519	1,540	1,540	
Other non-current assets	167	140	117	167	219	
<b>Total assets</b>	<b>2,223</b>	<b>2,315</b>	<b>2,473</b>	<b>2,735</b>	<b>2,985</b>	
<b>Current liabilities</b>						
Accounts Payable	97	113	122	127	133	
Accrued expense	16	22	20	21	22	
Current portion of LT debt	-	-	-	-	-	
Others	23	26	26	35	35	
<b>Non-current liabilities</b>						
LT debt & financial liabilities	-	-	-	-	-	
Deferred tax liabilities	80	50	43	54	55	
Other non-current liabilities	64	83	107	64	65	
<b>Total liabilities</b>	<b>281</b>	<b>294</b>	<b>318</b>	<b>301</b>	<b>310</b>	
<b>Controlling interest</b>						
Capital stock and paid in capital	414	414	414	414	414	
Other Reserves	-	-	-	-	-	
Retained earnings	1,528	1,606	1,740	2,020	2,260	
Minority interest	-	-	-	-	-	
<b>Shareholders' equity</b>	<b>1,942</b>	<b>2,020</b>	<b>2,154</b>	<b>2,434</b>	<b>2,675</b>	

<b>Cash flow</b>		(USDmn)				
<b>FY-ending Dec.</b>	<b>2019A</b>	<b>2020F</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	
<b>C/F from operating</b>						
Net profit	57	83	166	313	303	
Depreciation	133	149	158	172	196	
Net incr. in W/C	(53)	106	31	(13)	(6)	
Others	(9)	(30)	(8)	10	1	
<b>C/F from investing</b>	<b>(167)</b>	<b>(176)</b>	<b>(217)</b>	<b>(225)</b>	<b>(248)</b>	
CAPEX	(165)	(161)	(197)	(193)	(197)	
Others	(1)	(15)	(19)	(31)	(51)	
<b>C/F from financing</b>	<b>(29)</b>	<b>8</b>	<b>(11)</b>	<b>(84)</b>	<b>(63)</b>	
Incr. in equity	1	(4)	1	0	0	
Incr. in debts	(30)	12	21	(51)	0	
Dividends	-	-	(33)	(33)	(63)	
Others	-	-	-	-	-	
<b>C/F from others</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Increase in cash</b>	<b>(68)</b>	<b>140</b>	<b>120</b>	<b>174</b>	<b>184</b>	

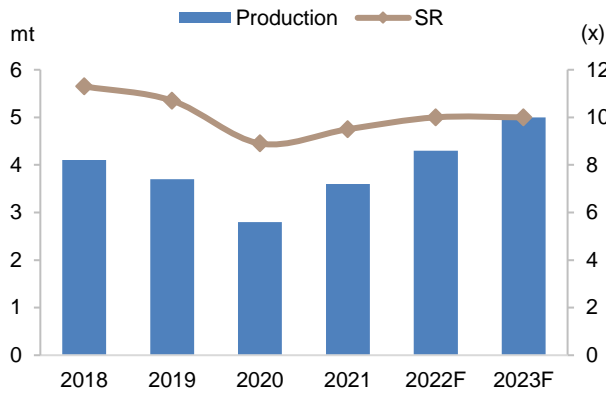
<b>Income statement</b>		(USDmn)				
<b>FY-ending Dec.</b>	<b>2019A</b>	<b>2020F</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	
Sales	782	765	953	1,209	1,229	
COGS	(664)	(640)	(718)	(771)	(807)	
<b>Gross profit</b>	<b>118</b>	<b>124</b>	<b>235</b>	<b>437</b>	<b>422</b>	
SG&A expense	(14)	(7)	(4)	(12)	(12)	
<b>Operating profit</b>	<b>104</b>	<b>117</b>	<b>231</b>	<b>425</b>	<b>410</b>	
Financial income	5	4	3	4	5	
Financial expense	(5)	(4)	(5)	(4)	(2)	
Other expense	(14)	(13)	(8)	(10)	(10)	
Other non-operating profit	-	-	-	-	-	
Income (loss) from JV	-	-	-	-	-	
<b>Earnings before tax</b>	<b>89</b>	<b>105</b>	<b>221</b>	<b>415</b>	<b>402</b>	
Income taxes	(32)	(22)	(55)	(102)	(99)	
<b>Net profit</b>	<b>57</b>	<b>83</b>	<b>166</b>	<b>313</b>	<b>303</b>	
Non-controlling interest	-	-	-	-	-	
Other comprehensive profit	-	-	-	-	-	
<b>Total comprehensive profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Total comprehensive profit of controlling interest	-	-	-	-	-	
<b>EBITDA</b>	<b>237</b>	<b>266</b>	<b>389</b>	<b>598</b>	<b>606</b>	

**Key financial data**

<b>FY-ending Dec.</b>	<b>2019A</b>	<b>2020F</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>
<b>per share data (USD)</b>					
EPS	0.01	0.01	0.02	0.03	0.03
BPS	0.20	0.20	0.22	0.24	0.27
DPS	-	-	0.00	0.00	0.01
<b>Growth (%)</b>					
Sales growth	1	(2)	25	27	2
OP growth	12	13	98	84	(4)
NP growth	(5)	44	100	89	(3)
EBITDA growth	7	12	46	54	1
<b>Profitability (%)</b>					
OP margin	13.3	15.3	24.3	35.2	33.3
NP margin	7.3	10.8	17.4	25.9	24.7
EBITDA margin	16.4	40.2	36.4	39.9	40.2
ROA	2.6	3.6	6.7	11.4	10.2
ROE	3.0	4.1	7.7	12.9	11.3
Dividend yield	-	-	0.9	0.9	1.7
Dividend payout ratio	-	40	20	20	20
<b>Stability</b>					
Net debt (USD mn)	(249)	(389)	(508)	(682)	(866)
Int.-bearing debt/equity (%)	-	-	-	-	-
<b>Valuation (X)</b>					
PE	66.1	44.6	22.7	12.0	12.5
PB	2.0	1.8	1.7	1.5	1.4
EV/EBITDA	21.5	18.6	12.4	7.8	7.4

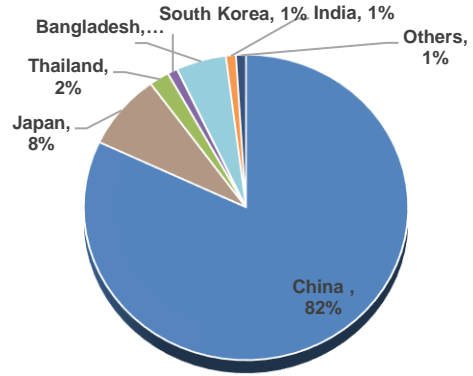
## HRUM Energy (HRUM)

Fig 1. HRUM's coal production and SR



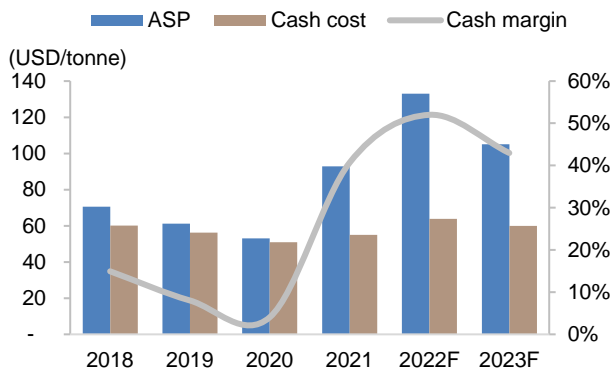
Source: Company, KISI

Fig 2. HRUM's coal sales destination



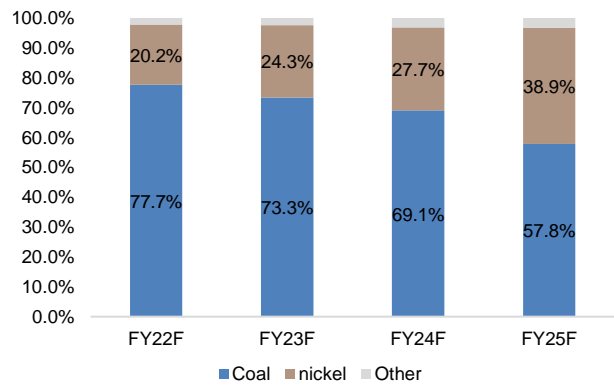
Source: Company, KISI

Fig 3. HRUM's coal ASP, cash cost and cash margin



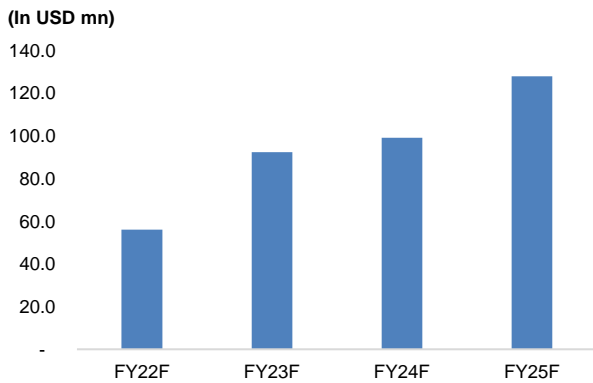
Source: Company, KISI

Fig 4. Growing nickel contribution



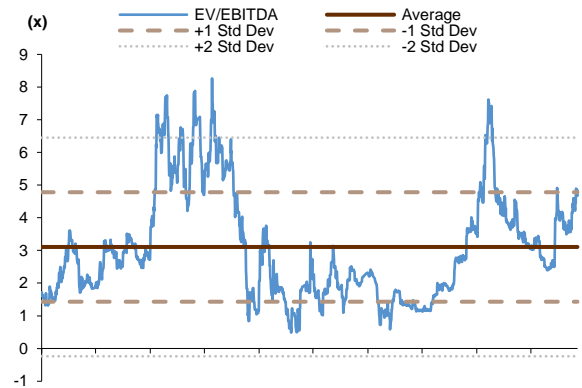
Source: Company, KISI

Fig 3. HRUM's income from associates



Source: Company, KISI

Fig 6. HRUM EVEBITDA



Source: Bloomberg, KISI

**Balance sheet** (USDmn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
Current assets	288	249	248	567	652
Cash & cash equivalent	227	211	149	373	451
Accounts & other receivables	23	9	23	48	47
Inventories	16	12	21	30	41
Others	23	17	54	115	112
Non-current assets	159	249	627	717	811
Fixed assets	132	126	326	341	355
Financial investment	1	101	-	-	-
Investment in JV	-	-	275	324	405
Other non-current assets	26	22	27	52	51
<b>Total assets</b>	<b>447</b>	<b>499</b>	<b>875</b>	<b>1,284</b>	<b>1,463</b>
Current liabilities	31	25	81	232	151
Accounts & other payables	19	6	18	33	36
ST debt	-	-	-	-	-
Current portion of LT debt	-	-	17	83	-
Others	12	18	63	199	115
Non-current liabilities	16	19	143	123	119
LT debt & financial liabilities	-	-	83	-	-
Deferred tax liabilities	11	13	55	118	114
Other non-current liabilities	5	7	88	5	5
<b>Total liabilities</b>	<b>47</b>	<b>44</b>	<b>224</b>	<b>355</b>	<b>270</b>
Controlling interest					
Capital stock	142	142	162	162	162
Additional paid-in capital	-	-	-	-	-
Other Reserves	-	-	-	-	-
Retained earnings	172	228	307	530	740
Minority interest	85	85	182	237	290
<b>Shareholders' equity</b>	<b>400</b>	<b>455</b>	<b>651</b>	<b>929</b>	<b>1,193</b>

**Cash flow** (USDmn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
C/F from operating	25	95	108	292	246
Net profit	19	59	74	253	239
Depreciation	(8)	(9)	(11)	(13)	(14)
Net incr. in W/C	14	45	45	53	21
Others	0	0	0	0	1
C/F from investing	(7)	(107)	(391)	(78)	(109)
CAPEX	(9)	(7)	(217)	(29)	(28)
Others	1	(100)	(174)	(49)	(81)
C/F from financing	(7)	(4)	221	9	(58)
Incr. in equity	(0)	(4)	129	56	53
Incr. in debts	0	0	99	(17)	(83)
Dividends	(7)	0	(7)	(30)	(28)
Others	0	0	0	0	0
C/F from others	0	0	0	0	0
<b>Increase in cash</b>	<b>10</b>	<b>(15)</b>	<b>(62)</b>	<b>224</b>	<b>79</b>

**Income statement** (USDmn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
Sales	263	158	336	714	694
COGS	(195)	(115)	(162)	(300)	(329)
<b>Gross profit</b>	<b>68</b>	<b>43</b>	<b>175</b>	<b>415</b>	<b>366</b>
SG&A expense	(44)	(37)	(42)	(66)	(77)
<b>Operating profit</b>	<b>24</b>	<b>6</b>	<b>132</b>	<b>348</b>	<b>289</b>
Financial income	6	4	1	1	2
Financial expense	(2)	-	(3)	(0)	(0)
Other expense	(0)	0	-	-	-
Other non-operating profit	-	-	-	-	-
Income (loss) from JV	-	-	-	-	-
<b>Earnings before tax</b>	<b>26</b>	<b>64</b>	<b>128</b>	<b>406</b>	<b>383</b>
Income taxes	(6)	(4)	(29)	(89)	(84)
<b>Net profit</b>	<b>19</b>	<b>59</b>	<b>74</b>	<b>253</b>	<b>239</b>
Non-controlling interest	(2)	(1)	(24)	(63)	(60)
Other comprehensive profit	-	-	-	-	-
Total comprehensive profit	-	-	-	-	-
Total comprehensive profit of controlling interest	-	-	-	-	-
<b>EBITDA</b>	<b>32</b>	<b>15</b>	<b>143</b>	<b>362</b>	<b>303</b>

**Key financial data**

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
per share data (IDR)					
EPS	97	312	392	1,357	1,282
BPS	2,090	2,403	3,438	4,985	6,397
DPS	36	-	37	161	152
Growth (%)					
Sales growth	(22.0)	(39.9)	113.0	112.5	(2.8)
OP growth	(53.4)	(74.1)	2,049.9	163.5	(17.2)
NP growth	(41.8)	218.9	25.6	241.4	(5.6)
EBITDA growth	(47.4)	(52.3)	845.8	112.0	(22.7)
Profitability (%)					
OP margin	9.1	3.9	39.3	48.8	41.6
NP margin	7.0	37.4	22.1	35.4	34.4
EBITDA margin	12.1	9.6	42.7	42.6	33.9
ROA	4.1	11.8	8.5	19.7	16.3
ROE	4.6	13.0	11.4	27.2	20.0
Dividend yield	2.7	-	0.3	1.4	1.3
Dividend payout ratio	22	-	12	12	12
Stability					
Net debt (IDR bn)	(227)	(211)	(49)	(289)	(450)
Int.-bearing debt/equity (%)	-	-	15.4	9.0	0.1
Valuation (X)					
PE	118.0	36.6	29.2	8.4	8.9
PB	5.5	4.8	3.3	2.3	1.8
EV/EBITDA	59.8	126.5	14.5	5.1	5.6

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