

November 4, 2022



Research Center

Morning KISI/

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Vale Indonesia (INCO)

Stay positive

3Q22 bottom-line dragged down by one-off tax adjustment

INCO 3Q22 net profit plunged to USD17.9 mn (-78.3% QoQ/-72.1% YoY). We noticed a one-off tax adjustment amounting to USD15.7 mn (vs. 1.76 mn in 1H22) was the main reason that dragged down the company's bottom-line. Referring to its tax assessment letter, the significant tax expenses in 3Q22 period came up due to a Supreme Court verdict related to a dispute over project development cost back in 2014. Hence, 9M22 net profit of USD168.4 mn (+37.0% YoY), came in short of both our and consensus' FY22 expectations. Excluding one-off expenses core profit remain behind estimates.

Adjusting FY22-23F production and sales volumes...

Following 9M22 operational results, we cut our FY22F production and sales volumes by 4.8% each, considering the slow production ramp-up in 3Q22 after Furnace-4 rebuild which was just completed in Jun-22. Meanwhile, as the company's guided next year's production to be somewhere around FY19-20 numbers, we moderately lifted our FY23F production and sales volumes by 1.1%. Moreover, we revised up INCO's nickel matte FY22F ASP by 0.6% and left FY23F ASP unchanged to better reflect the current market condition. Therefore, we revised down FY22F revenue by 4.2% to USD1.16 mn, but slightly increase FY23F top-line by 1.1% to USD1.2 mn.

...while fine-tuning cost assumptions

We raised FY22/23F cost of revenue by 4.8-9.3% after we considered higher HSFO, diesel, and coal prices' assumptions. Therefore, our FY22/23F cash cost assumptions increased by 13.3-11.1%. We view the impact of rising coal and oil prices are inevitable this year, however, we expect both commodities prices to normalize in FY23F. Nevertheless, despite the expected lower fuel and energy costs in FY23F, it does not mean that the margins will expand as average nickel price in FY23F will also be lower as compared to FY22F. As a result, our FY22/23F EBITDA assumptions were lowered by 16.5-10.5% to USD499-542.5 mn.

Maintain BUY call with lower TP of IDR8,600/sh

Taking into account the one-off tax adjustment in FY22F and the higher cost of revenue (as described in the previous paragraph), we arrive at a lower FY22/23F net profit estimate by 26.9%/16.5%. Valuation-wise, we incorporate Sorowako HPAL project (30% INCO potential ownership, 60,000 MHP capacity). We derive our FY23F TP of IDR8,600/sh (prev. TP: 8,900/sh) based on SOTP valuation, which implies 6.7x FY23F EV/EBITDA, slightly below its 5-year mean EVEBITDA. We remain positive on the prospect of INCO going forward given the production of class-1 nickel which is estimated to reach 180k tonnes (HPAL Pomalaa + HPAL Sorowako). The company is also in the process of developing RKEF with 73k tonnes capacity in Bahodopi. Key risks: 1) lower-than-expected average nickel prices; 2) Slow progress on smelter development and 3) higher-than-expected coal and oil prices.

	2020A	2021A	2022F	2023F	2024F
Sales (USD mn)	765	953	1,158	1,242	1,122
GP (USD mn)	124	235	350	360	254
OP (USD mn)	117	231	335	344	239
NP (USD mn)	83	166	229	253	175
EBITDA (USD mn)	266	389	499	542	451
Net debt (USD mn)	(389)	(508)	(607)	(749)	(827)
OP margin (%)	15.3	24.3	28.9	27.7	21.3
ROE (%)	4.1	7.7	9.7	9.9	6.5
Dividend yield (%)	-	0.88	0.91	1.28	1.41
EPS (USD)	0.01	0.02	0.02	0.03	0.02
chg. (% YoY)	44.3	100.2	38.0	10.5	(30.8)
BPS (USD)	0.20	0.22	0.24	0.26	0.27
DPS (USD)	-	0.00	0.00	0.00	0.01
PE (x)	44.6	22.7	15.8	14.1	20.4
PB (x)	1.8	1.7	1.5	1.4	1.3
EV/EBITDA (x)	15.0	9.9	7.5	6.7	7.9

Company

Update

Commodities

Nov 3, 2022

12M rating **BUY (Maintain)**
12M TP **IDR 8,600** (Prev IDR8,900)
Upside **+30.3%**

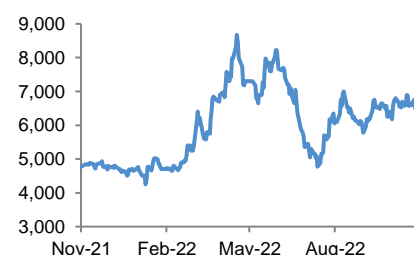
Stock Data

JCI (Nov 2)	7,016
Stock price (Nov 2, IDR)	6,600
Market cap (IDR bn)	65,579
Shares outstanding (m)	9,936
52-week high/low (IDR)	4,240/8,800
6M avg. daily turnover (IDR bn)	166.94
Free float (%)	20.64
Major shareholders (%)	
Vale SA	43.79
Indonesia Asahan Aluminium	20.0
Sumitomo Metal Mining Co Ltd.	15.03

Performance

	1M	6M	12M
Absolute (%)	2.0	(10.6)	35.9
Relative to JCI (%)	3.5	(6.8)	28.3

INCO stock price



Source: Bloomberg

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Market Commentary

Market Commentary

- JCI ended 18 pts higher in a volatile trading, despite broadly negative cues from global peers after Fed said that it would raise interest rates more than previously anticipated.
- The index opened with weakness and hit the support level at 6970s for a brief moment, but hefty gain in GOTO IJ and rebound in major banks pull the index back to above 7k level.
- O&G shares rose as oil jumped to three-week high and US natural gas surge on forecasts for cooler Midwest weather. MEDC IJ +1.80%, AKRA IJ +3.67%, ESSA IJ +4.21%
- ITMG IJ led coal shares higher after Co. announced a sizable interim dividend. ITMG IJ +3.99%, ADRO IJ +0.26%.
- TLKM IJ -2.13% extended decline to the lowest in 16 weeks amid IDR 3tn unrealized loss in GOTO IJ investment.
- GOTO IJ rose 2.56% on potential MSCI inclusion, announcement date: Nov.10.
- Top Gainers : GOTO (+2.56%), BBRI (+0.87%), BMRI (+0.99%)
- Top Losers: TLKM (-2.13%), ASII (-0.78%), MDKA (-2.06%)

News

Macroeconomic, Sector and Corporate News

- Cigarette – Govt. has agreed to increase the cigarette excise by an average of 10% for 2023-2024 period. SKM I and II will increase by 11.5-11.75%, SPM I and II increase by 11-12%, while SKT I, II, III increase by 5%. (Kontan)
- SGRO – To distribute IDR90/sh interim dividend (~4% yield). Cum date: 11Nov2022. (Bisnis)
- MBLI – To distribute IDR43/sh interim dividend (~0.5% yield). Cum date: 14Nov2022. (Bisnis)
- WIRG – Recorded 9M22 net profit of IDR34.9bn, +188% YoY. (Bisnis)
- PWON – Recorded 9M22 net profit of IDR1.2tn, +65% YoY. (Bisnis)
- PEHA – Entered a strategic partnership with Korea Arlico Pharm to export >25,000 units of local anesthetic products in early 2024. (Kontan)
- TOTL – Booked 10M22 new contracts of IDR 1.9tn, 95% of its FY22 target. (Kontan)
- GIAA – Recorded 9M22 net profit of USD 3.7bn (vs 9M21 net loss of USD 1.6bn). (Investor daily)

Outliers

Outlier Stocks

- Sharp Movers (Up) : PBRX (+27.9%), PICO (+24.8%), BANK (+17.6%)
- Sharp Movers (Down) UFOE (-6.8%), AYLS (-6.5%), MARI (-6.3%)

Mon	Tue	Wed	Thu	Fri
3	4	5	6	7
<p>Korea > Market closed (National Foundation Day) September exports and imports (announced October 1)</p> <p>US> September ISM manufacturing PMI</p> <p>China> Market closed (National Day)</p>	<p>US> August durable goods (F)</p> <p>China> Market closed (National Day)</p>	<p>OPEC+ ministerial meeting</p> <p>Korea> September CPI</p> <p>US> September ISM services PMI MBA mortgage applications</p> <p>China> Market closed (National Day)</p>	<p>US> New jobless claims</p> <p>China> Market closed (National Day)</p>	<p>US> September non-farm payrolls September jobless rate</p> <p>China> Market closed (National Day) September FX reserves</p>
10	11	12	13	14
<p>Korea> Market closed (substitute holiday for Hangul Day)</p> <p>US> Market closed (Columbus Day)</p> <p>China> September Caixin services PMI (announced October 8)</p> <p>Japan> Market closed (Sports Day)</p>	<p>OECD leading economic index</p>	<p>The OPEC Monthly Oil Market Report</p> <p>Korea> MPC meeting</p> <p>US> FOMC minutes release MBA mortgage applications September PPI</p>	<p>Korea> Stock options expiry</p> <p>US> September CPI Initial jobless claims</p>	<p>Korea> September jobless rate</p> <p>US> September retail sales October Michigan Consumer Confidence (P)</p> <p>China> September PPI September CPI September exports and imports September trade balance</p>
17	18	19	20	21
<p>US> October manufacturing index (New York)</p> <p>China> September mining and manufacturing production September retail sales September fixed asset investment 3Q22 GDP</p> <p>Japan> August mining and manufacturing production (F)</p>	<p>US> September industrial production</p>	<p>US> Fed Beige Book release MBA mortgage applications September housing starts</p> <p>Europe> September CPI (F)</p>	<p>US> Initial jobless claims September existing home sales</p> <p>China> PBOC LPR release</p>	<p>Japan> September CPI</p>
24	25	26	27	28
	<p>US> October Conference Board Consumer Expectations Index</p>	<p>US> September new home sales</p>	<p>Korea> 3Q22 GDP (A)</p> <p>US> Initial jobless claims September durable goods orders (P) 3Q22 GDP (A)</p> <p>Europe> ECB MPC meeting</p>	<p>US> September PCE October Michigan Consumer Confidence (F)</p> <p>Japan> BoJ MPC meeting</p>
31				
<p>Korea> September mining and manufacturing production</p> <p>China> October manufacturing PMI October services PMI</p> <p>Europe> October CPI (P)</p> <p>Japan> September manufacturing production (P)</p>				

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures

in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement
