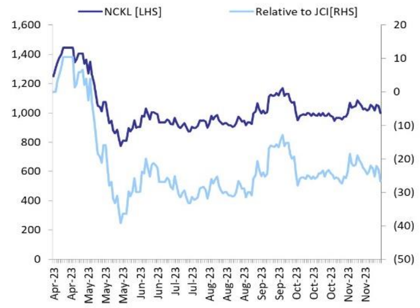
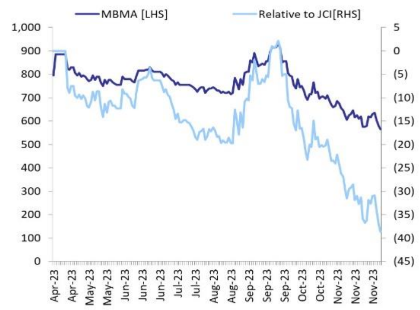
Overweight

(Maintained)

NCKL relative to JCI Index



MBMA relative to JCI Index



Source: Bloomberg

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Nickel

Expect NPI price to decouple and stabilize, with volume growth to be key drivers in FY24F

- **While we expect LME nickel price to decline further in FY24F, we project NPI price will decouple and stabilize at US$14k/t.**
- **Given view of stabilizing NPI prices and falling cost, we expect earnings outperformance for producers with volume growth.**
- **We maintain sector OW and prefer nickel names with high volume growth improvements such as NCKL and MBMA.**

LME price under pressure from new influx from Chinese players

The decline in nickel prices in FY23 has materialized despite LME-deliverable inventories continuing to trend at multi-year lows. While the major producers Brazil's Vale and Nornickel are having maintenance works, supply has been boosted by major Chinese groups' plans to produce Class-1 nickel from the emerging nickel sulphate surplus.

Seeing some support on NPI price in FY24F from higher use vs scrap

Amid low stainless steel prices, it is not surprising that scrap use has increased to 23.4% in 3Q23, resulting in the average for the year at 21.4%. However, given the built up of NPI excess, we expect the scrap ratio to fall to around 18% in FY24 and FY 25.

Expect LME and Class II nickel prices to decouple in FY24F

We believe that the improving supply of Class I nickel (which exceeds demand), with China's nickel output has begun to flow to LME nickel warehouses (pioneered by Huayou in Jul23), will drive decline in LME nickel price to US$17k/t and US$16k/t FY24-FY25F respectively. However, we believe NPI price will decouple from LME prices, and thus, we think a fixed discount for NPI is no longer warranted. In Oct-Nov23, the LME nickel price fell around 14% while NPI price only fell 5.8% vs 3Q23 average. We think this is mainly because the current NPI price is already near the break-even level of more than 30% of NPI smelters globally. We maintain our expectation that NPI price will stabilize at USS14k/t in FY24-25F as we assume supply cuts to materialize if NPI price goes below USS13k/t, which would subsequently support prices.

Prefer NCKL and MBMA due to strong volume growth in FY24F

We had previously assumed NPI prices of US$14K/t in our forecast and DCF-based valuation for nickel players stocks under our coverage. In view of stabilizing NPI prices, we see that the sector's performance in FY24F for class II nickel producers will be driven by falling cost and delivery of volume, and thus prefer producers with volume growth improvements, namely NCKL (Buy, TP Rp1,400) and MBMA (Buy, TP Rp960). While ANTM stands to benefit from the tight supply of nickel ore, we note that the performance of its FeNi will overshadow revenue growth from its ore business. We believe current share prices have discounted conservative nickel prices/ margin assumptions.

Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x) 2023F	P/E (x) 2024F	P/BV (x) 2023F	P/BV (x) 2024F	ROE (%) 2023F	Dividend Yield % 2023F	EPS Growth 2023F	EPS Growth 2024F
NCKL	Buy	1,400	63,098.6	12.0	10.0	2.3	2.1	13.4	-	12.7	27.7
MBMA	Buy	960	61,017.4	202.3	25.5	1.9	1.7	6.8	-	(5)	695
ANTM	Buy	1,960	41,933.7	10.9	11.2	1.5	1.3	12.8	4.7	0.8	(2.6)
INCO	Buy	6,500	42,925.0	9.7	17.1	1.1	1.0	6.8	1.9	43.2	(43.4)

Expect the nickel balance to remain in surplus in FY24F

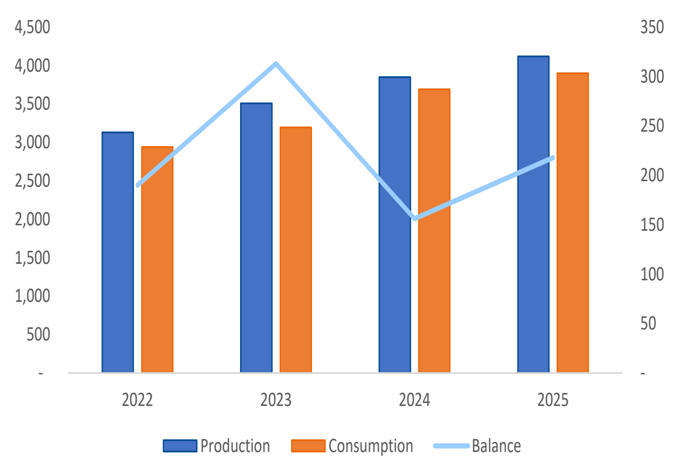
We believe the balance of nickel supply will remain surplus at above 200k t.

Expect the nickel balance to remain in surplus in FY24F

Nickel supply has far outpaced demand since 2022 and the structural surplus has increased in 2023 as a result of weak demand from the stainless steel sector in Asia and Europe, even as appetite from the electric vehicle (EV) battery sector continues to be resilient. Still-rising Indonesian output and the launch of new Class 1 capacities in China and Indonesia have further contributed to the growth in supply, with the expectation of global FY24F surplus of more than 200,000 tons.

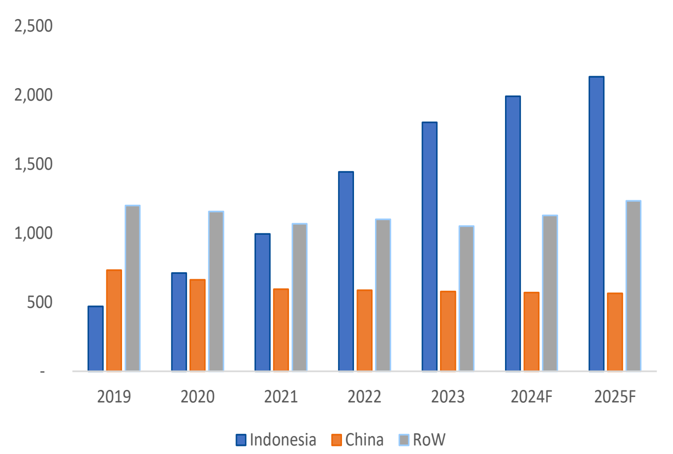
A further ramp-up of Indonesian nickel pig iron (NPI) and NPI-to-matte conversion capacity alongside the country's high-pressure acid leaching (HPAL) projects continues to churn out nickel at a high pace. Indonesia has added 15 new NPI, ferronickel and nickel matte furnaces this year and now boasts combined nickel product capacity of 5mn t/yr.

Exhibit 1. Nickel balance (in kt)



Source: Wood Mackenzie, Bloomberg, BRI Danareksa Sekuritas

Exhibit 2. Indonesia nickel capacity (in kt)



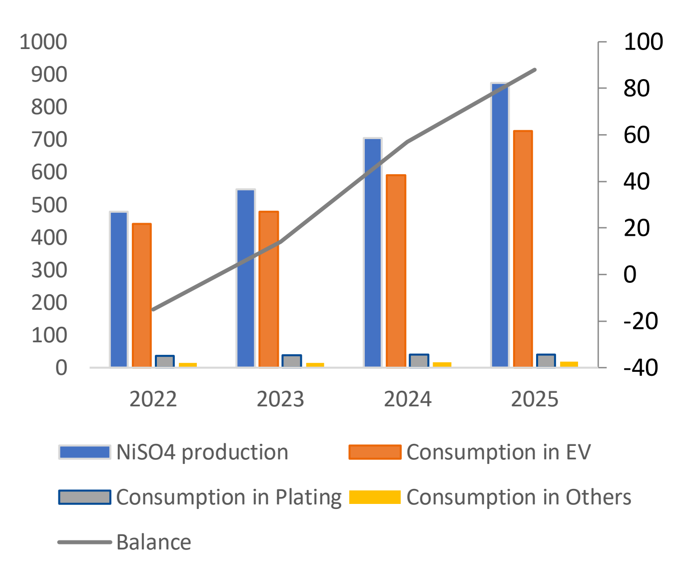
Source: Wood Mackenzie, Bloomberg, BRI Danareksa Sekuritas

More class 1 supply due to new HPAL and NPI conversion

As EV production and sales across China, Europe and the US continue to be upbeat, despite economic and geopolitical headwinds, new plants focused on battery-grade nickel continue to flourish. The PT Huafei HPAL plant in Indonesia, which has capacity of 120,000 t/yr of nickel metal equivalent, started up last month on Indonesia's Obi island supplying buyers in China.

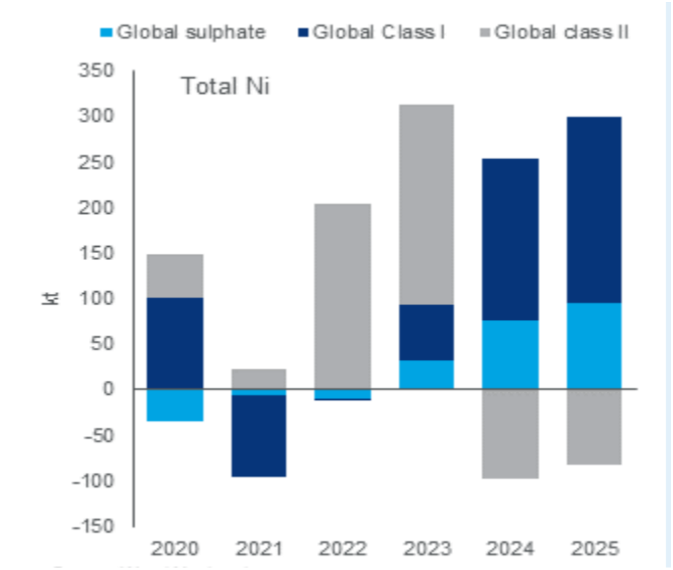
Indonesia's NPI output is forecast to rise by 20pc to 1.374mn tons this year, despite demand concerns for the stainless steel sector, as producers anticipate a rise in demand from the battery sector for nickel matte converted from NPI.

Exhibit 3. NiSo4 balance (in kt)



Source: Bloomberg, Wood Mackenzie, BRI Danareksa Sekuritas

Exhibit 4. Class 1 vs Class 2 supply balance



Source: Bloomberg, Wood Mackenzie, BRI Danareksa Sekuritas

More influx to LME warehouses from Chinese players sends LME price lower

Expect a higher influx to LME warehouses from China

The decline in nickel prices this year has come despite LME-deliverable inventories continuing to trend at multi-year lows. With the major producers Brazil's Vale and Nornickel having maintenance works in the pipeline, supply has received a boost from major Chinese groups' plans to produce Class 1 nickel from the emerging nickel sulphate surplus. Green-Eco Manufacture and CNGR have committed to producing nickel Full Plate Cathode (FPC) this year, and the LME received a brand listing application from FPC manufacturer Huayou.

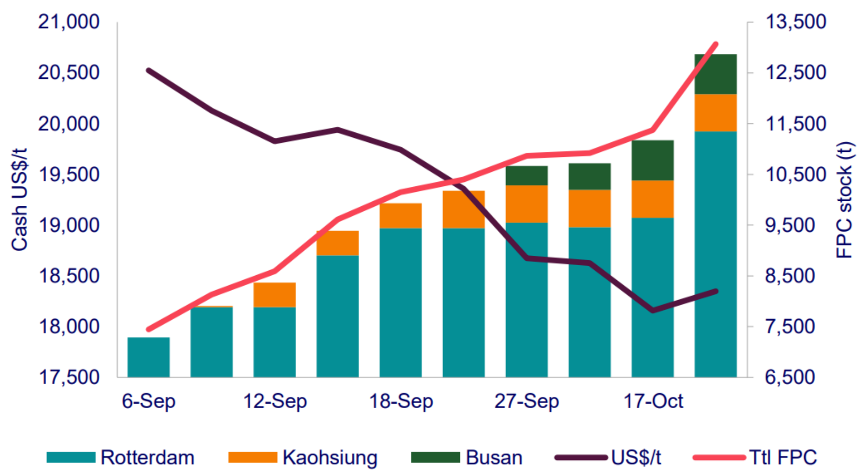
Huayou has staged its requests to suit the capacity of the different production lines at Quzhou. The oldest resumed production in May22 with a capacity of 6.6ktpa while the newest line started up in April and reached full capacity of 30ktpa in June. Under the LME’s new fast-track process designed to encourage nickel product registration (in place only since April this year), Quzhou’s cathode might still have been warm if it had entered exchange depots already.

LME has rushed to improve liquidity with nickel contracts, as it aims to host a lot more tonnage than this in the not-too-distant future. Huayou has also just started up a third cathode production line at a different location in Guangxi, and local sources expect it will ask the exchanges to accept this new 30ktpa “brand” as good delivery before the end of the year, thereby bringing the company’s total to 66ktpa.

Huayou is not alone. CNGR (Zhongwei) has just commissioned its own cathode plant, also in Guangxi, and we expect this facility to apply for acceptance to the exchanges soon. In Indonesia, CNGR is in a 50:50 joint venture with Tsingshan in Morowali which will see perhaps a two-phase cathode line being commissioned by December. In a bid to beat the LME at its own new high-speed game, the JV itself is already preparing the paperwork to have the first 30ktpa line accepted for good delivery.

Back in China, Tsingshan has a 38ktpa cathode joint venture with GEM in Hubei. Along with a handful of other smaller projects, we could see 150ktpa of new metal from China and Indonesia potentially easing its way onto the exchanges from next year, if that is where the market considers those depots the best place to end up. If China's electric vehicle providers increase their take-up of non-nickel LFP batteries, we will see the optimism of China's cathode producers being tested as well.

Exhibit 5. FPC into LME warehouses sends price lower

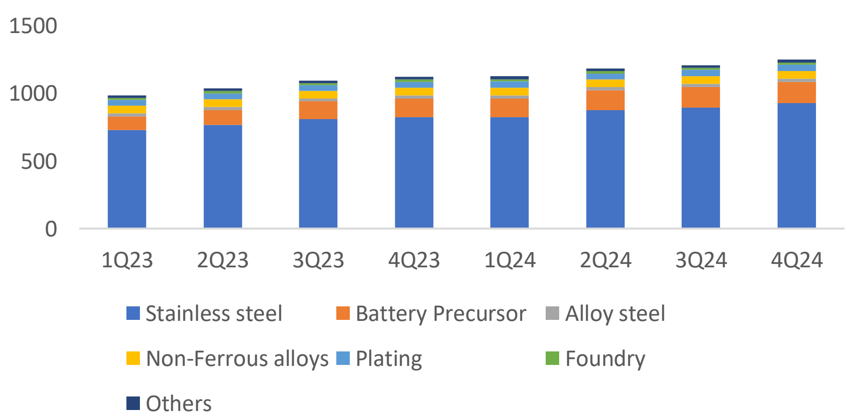


Source: Wood Mackenzie, LME, BRI Danareksa Sekuritas

Nickel consumption will increase by 12% in FY24F

Global nickel consumption will increase to 3.5mn tons, up 12% yoy, mainly driven by stainless steel demand which remains the largest principal consumer in the nickel market. Nevertheless, it is expected that batteries' share will improve to 19% in 2025F from 13% in 2023. China's stainless steel production capacity is expected to increase by 5% yoy in FY24F to 38.4 mn tons then by another 7% in FY25F to 41 mn tons.

Exhibit 6. Nickel consumption by type



Source: Bloomberg, Wood Mackenzie, BRI Danareksa Sekuritas

Higher scrap use brought down prices

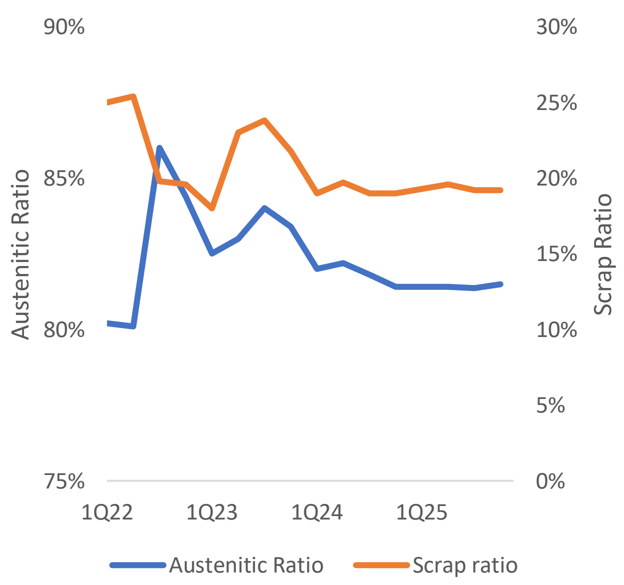
China ended its strict Covid-19 restrictions at the start of the year, prompting nickel to be oversold in anticipation of a sharp recovery in manufacturing and consumer demand. Stainless steel production grew strongly in February as a consequence, but it has since struggled as China's rebound has not fully materialized, weighing on prices and production margins. China's monthly stainless steel production has increased through 2023. This contrasts with market demand, which remains weak, and prices, which are at their lowest for at least two years.

Expect higher NPI use on stainless steel to support NPI price in FY24F

With stainless steel prices low it is not surprising that scrap use has increased to an estimated 23.4% in 2Q23, leaving the average for the year at 21.4%. However, given the substantial NPI excess, we expect the scrap ratio to fall to around 18% in 2024 and 2025. The production cost of stainless steel using stainless steel scrap was about RMB14,364.47 /mt in November 2023, while using high-grade NPI, it was approximately RMB14,376.80 /mt. This indicates a restoration in the cost performance for high-grade NPI, although it is still less cost effective than using stainless steel scrap.

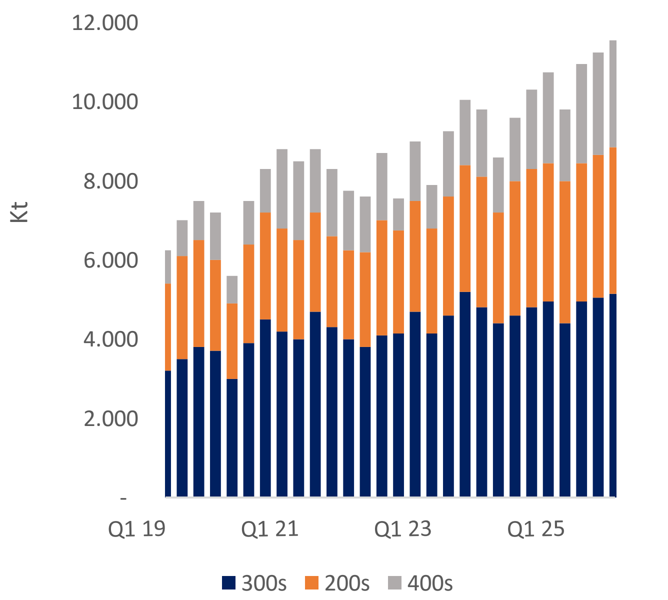
After the recent rapid decline in high-grade NPI prices, its cost effectiveness has improved, and it is expected that it will have a better cost performance than scrap stainless steel in the short term.

Exhibit 7. China scrap and austenitic ratios



Source: Bloomberg, Wood Mackenzie, BRI Danareksa Sekuritas estimates

Exhibit 8. China stainless steel melt output

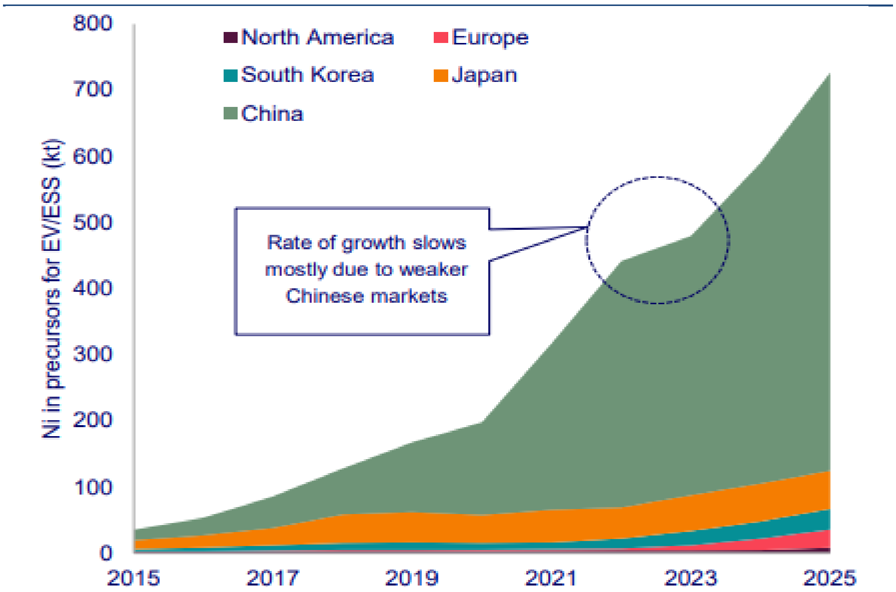


Source: Bloomberg, Wood Mackenzie, BRI Danareksa Sekuritas estimates

Slowing growth of pCAMS in 2023

At 8.5%, growth in global demand for nickel in Precursor Cathode Active Materials (pCAM) appears strong but it is substantially below the >40% achieved in each of the past two years. This is largely due to a slowdown in China, which accounts for around 80% of nickel demand in this segment. Chinese pCAM production in 2023 is only slightly up on 2022. Hence, growth in Chinese nickel demand in pCAMs is forecast at only 5% this year to 392kt. Only with a surge in output during November and December will that figure increase. It is expected that with economic recovery it will support global growth of 23% in 2024 and 2025 to 726 kt at the end of that period.

Exhibit 9. Global nickel consumption in pCAMS



Source: Wood Mackenzie, BRI Danareksa Sekuritas

Expect LME and class II nickel prices to decouple in FY24F

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Exhibit 10. Investments thesis of our metals sector coverage universe

NCKL (BUY.TP Rp1.400)	• With the completion of HJF smelter in 2Q23, we expect NCKL will enjoy the full ramping-up effect of this smelter in FY24, and thus we project FeNi production volume will surge 33.3% yoy to 120kt. • On its HPL, we expect NCKL to also grow production volume from its HPAL smelter as the completion of their expansion capacity from 37k t to 55k t in 2Q23. • We project NCKL's net profit growth of 27.7% yoy to Rp6.7 tr from the support of higher production volume of its HJF and HPL. • Maintain Buy recommendation on NCKL with TP of Rp1,400. Risks to our call: Higher cobalt price discount, and lower nickel prices.
MBMA (BUY.TP Rp960)	• We project MBMA NPI a strong production volume growth to 85.5kt in FY24F (from 63kt in FY23) as ZHN smelter (50kt capacity) begin to ramp up since 3Q23. We forecast its sales volume for saprolite to reach 6 mn t in FY24F (from a very low base in FY23 of around 0.6 mn t), and expect its limonite sales to Huayou of 8 mn t in FY24F. • We also expect MBMA nickel matte production to double to 50kt in FY24F, driven by acquired capacity of matte converter in 2Q23, and expect AIM will begin to sell its steam and acid in FY24F. • As a result of the ramping of these projects, we project MBMA net profit earnings will significantly turnaround from just US$20 mn in FY23F to US$161 mn in FY24F. • Maintain Buy recommendation on MBMA with TP of Rp960. Risks to our call: Delayed AIM projects ramping-up schedule and delayed limonite delivery.
ANTM (BUY.TP Rp1,960)	• We recently trimmed our nickel ore price assumption by 6.9% to US$40/t, which lead to lower FY24F earnings estimate for ANTM by 6.4% to Rp3.7tr. • We factor in more time required for Halmahera smelter to reach commercial stage; expect trial stage to begin in 1Q24 and ramp up in 2Q24. • Maintain Buy with a lower TP of Rp1,960. Potential downside risk to our earnings forecasts is a higher cash cost on the Halmahera smelter.
INCO (BUY.TP Rp 6,500)	• We expect INCO's FY24F production volume to be sustained similar as FY23F at 70k tons. • We recently trimmed our FY24F earnings forecast by 28% due to our lower LME price assumption of US$17k/t (prev. US$19k/t). • Maintain Buy but with a lower DCF-based TP of Rp6,500 due to our lower FY24F earnings forecast given lower ASP assumptions. Risks to our call: LME nickel price decelerate faster than our expectation.

Source: Company, BRIDS Estimates

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INVESTMENT RATING	
BUY	Expected total return of 10% or more within a 12-month period
HOLD	Expected total return between -10% and 10% within a 12-month period
SELL	Expected total return of -10% or worse within a 12-month period