

Buy

(Maintained)

Vale Indonesia (INCO IJ)

Lowering our FY24-25F post 1Q24 earnings miss; maintain Buy rating on upside from HPAL projects

Last Price (Rp)	4,040
Target Price (Rp)	5,700
Previous Target Price (Rp)	6,100
Upside/Downside	+41.1%
No. of Shares (mn)	9,936
Mkt Cap (Rpbn/US\$mn)	40,143/2,466
Avg, Daily T/O (Rpbn/US\$mn)	78.4/4.8
Free Float (%)	10.0
Major Shareholder (%)	
Vale Canada Ltd	43.8
Inalum	20.0
EPS Consensus (US\$cents)	
	2024F 2025F 2026F
BRIDS	1.0 0.9 1.2
Consensus	1.2 1.4 1.5
BRIDS/Cons (%)	(20.8) (33.7) (21.2)

- 1Q24 net profit miss (4.5/4.9% of our/ cons. FY24F) was caused by lower cash margin due to unexpectedly higher fuel costs and lower ASP
- We cut FY24-25F net profit est. by -31.3%/-21.9% to account for lower matte output, ore grade, and a higher fuel consumption
- We maintain Buy rating with a lower SOTP-based TP of Rp5,700. Key risks to our call include lower nickel prices and a lower utilization rate

Poor 1Q24 earnings from lower ASP and revaluation of derivative assets
 INCO posted a net profit of US\$6mn (-93.7% yoy/ -88.4% qoq, reaching 4.5%/4.9% of ours/cons est.) due to a diminishing cash margin from lower ASP at US\$12.6k/t (-41.6% yoy/ -11.2% qoq), and rising cash cost to US\$9.4k/t, (-15% yoy/ +2.8% qoq), caused by a declining stockpile which led to a shorter ore retention time. This led to higher moisture in the ores necessitating higher fuel consumption for drying. Furthermore, INCO posted a US\$12.8mn loss on the recognition of fair value of its call option in KNI (i.e., the Pomalaa HPAL project), triggered by lower nickel price assumption and project timeline achievement. Nonetheless, 1Q24 revenue reached US\$230mn, (-36.7% yoy/-21.9% qoq), inline with ours/ cons. at 24%/23.6% of FY24 est.

Trimming our FY24-25F est. on lower sales volumes expectations

Although we expect an increase in its 2Q24 earnings due to a higher LME price (+11% qoq), we have lowered our revenue and net profit forecasts for FY24-25E to US\$969mn/94mn (-1.5% and -31.3% vs. our prev. est.) and US\$954mn/92mn respectively. Our downward revision primarily reflects higher COGS est. to USD854mn (+5.3% vs. prev.), driven by ongoing high fuel consumption and lower ore grades in 1H24 (1.7% in 1Q24 compared to our assumed 1.75%). Additionally, we anticipate maintenance activity in 2Q24 to reduce sales volume to c.16.5kt (-9% qoq) and raise its unit cash cost.

Revenue upside opportunities from potential sales of ore

INCO significantly increased its ore reserves to 840mn wmt (+151% vs. 334mn wmt) as of 1Q24. This growth primarily stems from the recognition of limonite reserves in Pomalaa and saprolite reserves in Pomalaa and Bahodopi. Looking ahead, ongoing exploration efforts suggest further potential reserve additions, indicating ample capacity for future utilization. While these reserves are primarily earmarked for internal growth projects, there is also potential for future sales to third parties. Notably, MIND ID has signed an ore offtake framework agreement with INCO, paving the way for potential ore sales starting from FY26 onwards.

Maintain Buy with a DCF-based TP of Rp5,700

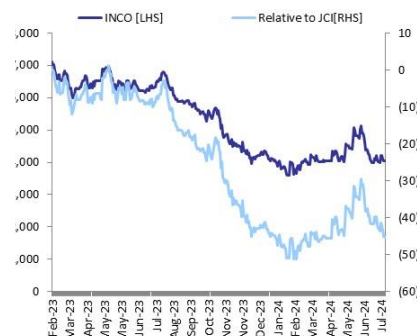
We maintain our Buy rating on INCO with a slightly lower SOTP-based TP of Rp5,700 as we have included the valuation of its growth projects in our SOTP. Key risks to our call include lower nickel prices, a lower utilization rate, and project execution delays.

Key Financials

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Revenue (US\$mn)	1,179	1,232	969	954	981
EBITDA (US\$mn)	458	498	273	279	317
Net Profit (US\$mn)	200	274	94	92	117
BVPS (US\$cents)	23.7	25.8	25.8	26.3	27.2
PER (x)	12.3	9.0	26.1	26.8	21.0
PBV (x)	1.0	1.0	1.0	0.9	0.9
EV/EBITDA	4.0	3.5	6.7	6.4	5.5

Source: INCO, BRIDS Estimates

INCO relative to JCI Index



Source: Bloomberg

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Exhibit 1. INCO 1Q24 Results

INCO	1Q23	4Q23	1Q24	q-q (%)	y-y (%)	3M23	3M24	y-y (%)	% of 24E	% of Cons
PROFIT & LOSS (USDmn)										
Revenue	363	294	230	(21.9)	(36.7)	363	230	(36.7)	23.7	23.6
Cost of revenue	- 228 -	234 -	210	(10.4)	(8.1)	- 228 -	210	(8.1)		
Gross profit	135	60	20	(66.6)	(85.1)	135	20	(85.1)		
Operating expenses	- 6 -	29 -	6	(78.2)	2.6	- 6 -	6	2.6		
EBITDA	174	99	52	(46.8)	(69.8)	174	52	(69.8)	19.2	16.3
Operating profit	129	31	14	(55.7)	(89.3)	129	14	(89.3)		
Other income/(expense)	- 3	42 -	5	(111.9)	74.6	- 3 -	5	74.6		
Pre-tax profit	126	73	9	(87.9)	(93.0)	126	9	(93.0)		
Taxes	- 28 -	20 -	3	(86.5)	(90.5)	- 28 -	3	(90.5)		
Non-controlling interests	-	-	-	-	-	-	-	-		
Net profit	98	53	6	(88.4)	(93.7)	98	6	(93.7)	6.6	4.9
Margins (%)										
Gross	37.2	20.4	8.7			37.2	8.7			
Operating margin	35.5	10.6	6.0			35.5	6.0			
EBITDA	47.8	33.5	22.8			47.8	22.8			
Net	27.0	18.1	2.7			27.0	2.7			
Operational data										
Nickel production (Kt)	16,769	19,084	18,119	(5.1)	8.1	16,769	18,119	8.1		
Nickel sales (Kt)	16,758	20,673	18,175	(12.1)	8.5	16,758	18,175	8.5		
Nickel ASP (USD/t)	21,672	14,239	12,651	(11.2)	(41.6)	21,672	12,651	(41.6)		
Cash cost (USD/t)	11,030	9,116	9,371	2.8	(15.0)	11,030	9,371	(15.0)		

Source: Company, BRIDS Estimates

Exhibit 2. DCF valuation

Valuation	
Nickel matte	1,575
Bahodopi RKEF	374
Pomala HPAL	747
Sorowako HPAL	225
Total EV	2,921
Net Debt (cash)	(622)
Equity value	3,544
TP in IDR	5,700

DCF (WACC 11.2%)

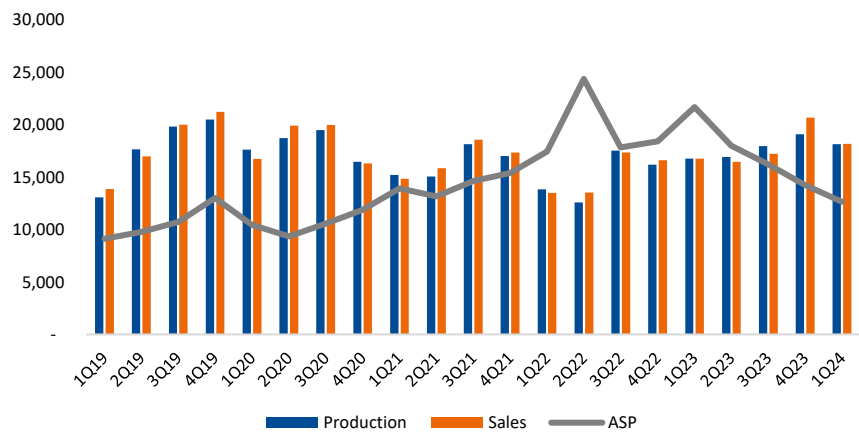
Source: BRIDS Estimates

Exhibit 3. Forecast changes

	2024F		2025F		Changes	
	Old	New	Old	New	2024F	2025F
Revenue	983	969	956	954	-1.5%	-0.2%
COGS	(811)	(854)	(804)	(838)	5.3%	4.2%
Gross profit	172	114	151	116	-33.4%	-23.3%
EBITDA	328	273	311	279	-16.8%	-10.1%
Net profit	137	94	118	92	-31.3%	-21.9%
Gross margin	17.5%	11.8%	15.8%	12.2%		
EBITDA margin	33.4%	28.2%	32.5%	29.3%		
Net margin	14.0%	9.7%	12.3%	9.7%		

Source: BRIDS Estimates

Exhibit 4. INCO Production, Sales, and ASP trend



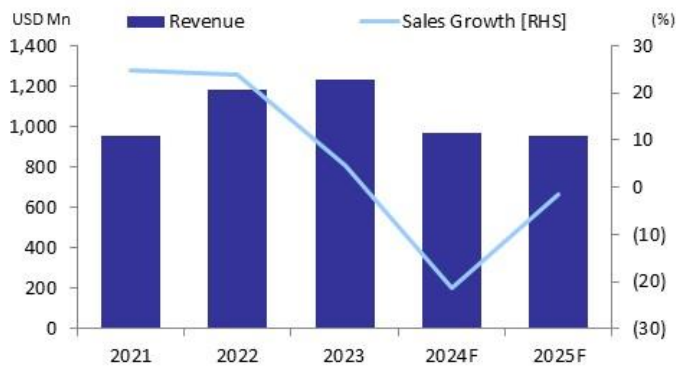
Source: Company, BRIDS

Exhibit 5. Additional reserves from Pomalaa and Bahodopi

Ore	As at December 31, 2023			As at December 31, 2022			Var (%)		
	Million Tonnes (wmt)	Million Tonnes (dmt)	% Ni Grade	Million Tonnes (wmt)	Million Tonnes (dmt)	% Ni Grade	Million Tonnes (wmt)	Million Tonnes (dmt)	% Ni Grade
Limonite	346.85	213.31	1.15	-	-	-	-	-	-
Saprolite	493.66	221.35	1.72	334.08	111.55	1.70	47.77	98.43	1.09

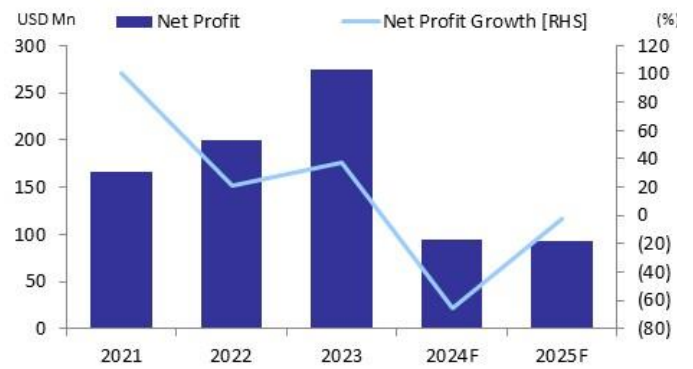
Source: Company

Exhibit 6. Revenue and Growth



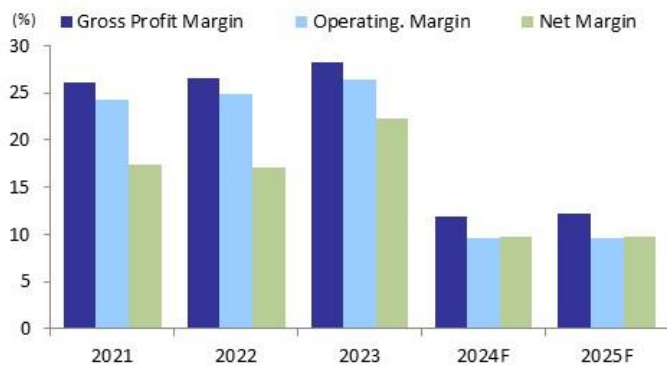
Source: Company, BRIDS Estimates

Exhibit 7. Net Profit and Growth



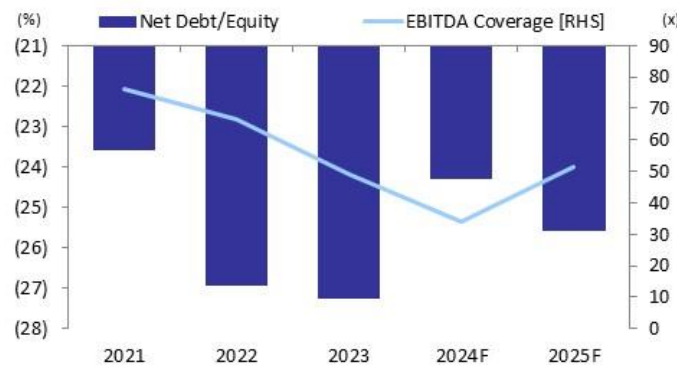
Source: Company, BRIDS Estimates

Exhibit 8. Margins



Source: Company, BRIDS Estimates

Exhibit 9. Gearing Level



Source: Company, BRIDS Estimates

Exhibit 10. Income Statement

Year to 31 Dec (US\$mn)	2022A	2023A	2024F	2025F	2026F
Revenue	1,179	1,232	969	954	981
COGS	(866)	(885)	(854)	(838)	(832)
Gross profit	314	347	114	116	149
EBITDA	458	498	273	279	317
Oper. profit	294	325	93	91	121
Interest income	11	36	35	31	34
Interest expense	(7)	(10)	(8)	(5)	(5)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(22)	2	2	2	2
Pre-tax profit	276	353	121	118	151
Income tax	(75)	(78)	(27)	(26)	(33)
Minority interest	0	0	0	0	0
Net profit	200	274	94	92	117
Core Net Profit	200	274	94	92	117

Exhibit 11. Balance Sheet

Year to 31 Dec (US\$mn)	2022A	2023A	2024F	2025F	2026F
Cash & cash equivalent	634	699	622	670	738
Receivables	141	102	93	91	94
Inventory	156	156	167	162	160
Other Curr. Asset	59	77	60	59	61
Fixed assets - Net	1,550	1,696	1,709	1,711	1,712
Other non-curr.asset	118	197	188	198	213
Total asset	2,658	2,926	2,838	2,892	2,978
ST Debt	0	0	0	0	0
Payables	116	141	122	119	119
Other Curr. Liabilities	59	76	64	63	64
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	128	145	93	92	94
Total Liabilities	303	361	279	275	276
Shareholder's Funds	2,355	2,565	2,559	2,617	2,701
Minority interests	0	0	0	0	0
Total Equity & Liabilities	2,658	2,926	2,838	2,892	2,978

Exhibit 12. Cash Flow

Year to 31 Dec (US\$mn)	2022A	2023A	2024F	2025F	2026F
Net income	200	274	94	92	117
Depreciation and Amort.	164	173	181	188	196
Change in Working Capital	(51)	(22)	30	3	(5)
Other Oper. Cash Flow	37	47	(41)	1	2
Operating Cash Flow	351	473	265	284	311
Capex	(195)	(319)	(194)	(191)	(196)
Others Inv. Cash Flow	(23)	(31)	(10)	(11)	(13)
Investing Cash Flow	(218)	(350)	(204)	(202)	(209)
Net change in debt	0	0	0	0	0
New Capital	60	8	0	0	0
Dividend payment	(60)	(73)	(99)	(34)	(33)
Other Fin. Cash Flow	(6)	6	(37)	0	0
Financing Cash Flow	(7)	(58)	(137)	(34)	(33)
Net Change in Cash	126	65	(76)	48	68
Cash - begin of the year	508	634	699	622	670
Cash - end of the year	634	699	622	670	738

Exhibit 13. Key Ratio

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Growth (%)					
Sales	23.7	4.5	(21.4)	(1.5)	2.9
EBITDA	17.8	8.7	(45.1)	2.2	13.5
Operating profit	27.1	10.6	(71.5)	(1.7)	33.0
Net profit	20.9	36.9	(65.6)	(2.4)	27.4
Profitability (%)					
Gross margin	26.6	28.2	11.8	12.2	15.2
EBITDA margin	38.8	40.4	28.2	29.3	32.3
Operating margin	24.9	26.4	9.6	9.5	12.3
Net margin	17.0	22.3	9.7	9.7	12.0
ROAA	7.8	9.8	3.3	3.2	4.0
ROAE	8.9	11.2	3.7	3.6	4.4
Leverage					
Net Gearing (x)	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)
Interest Coverage (x)	42.6	32.2	11.6	16.7	22.2

Source : INCO, 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

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