

29 OCTOBER 2019

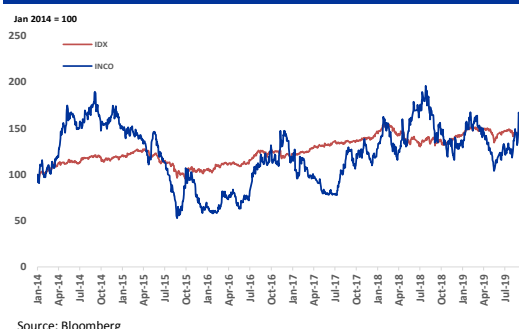
## COMPANY UPDATE

# BUY

### STOCK INFORMATION

Bloomberg Code	INCO JJ
Sector	Metal Mining
Current Price	Rp 3,550
Target Price	Rp 4,500
Upside/Downside	26.7%
Share Out (bn shares)	9.94
Market Cap (Rp bn)	36.566
52 – w range (low-high)	Rp 2,410 – Rp 4,310
Average daily turnover (Rp bn)	
1 month	RP 115.9
3 month	Rp 85.1
YTD 2019	Rp 61.2

### PRICE CHART

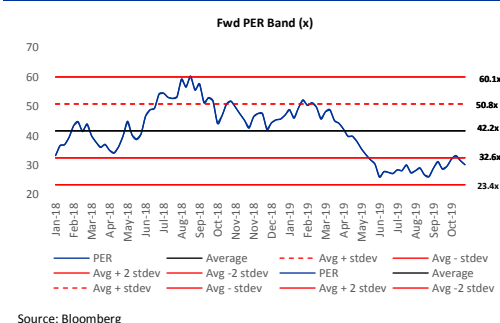


### SHAREHOLDERS INFORMATION, AS OF 30 JUNE 2019

VCL	58.73%
Sumitomo Metal Mining	20.09%
Public	20.49%
Vale Japan Limited	0.55%
Sumitomo Corporation	0.14%

Source: Company data

### PE BAND



## PT VALE INDONESIA TBK

### Better outlook led to solid earnings

INCO's booked strong net profit in 3Q19 of US\$ 26.5mn (vs. US\$ 6.2mn net loss in 2Q19). We believe INCO's financial performance will improve as indicated by +8% and +21% higher ASP in 4Q19 and 2020F, respectively. Hence, we maintain BUY for INCO at Rp 4,500/ share implies 2020F PER target of 25.1x and EV/EBITDA target of 6.7x

#### Higher nickel prices, boost earnings

INCO reported 3Q19 result in line with our estimates, booked net profit of US\$ 26.4 million (vs 2Q19: net loss US\$ 6 million) bringing 9M19 net profit to US\$ 0.2 million (vs 9M18 net profit US\$ 55.2 million). Note that the higher net profit was because of higher revenue amounts US\$ 214.2 million in 3Q19 (+29.2% QoQ, +5% YoY). The strong top line growth in 3Q19 was backed by a higher sales volume for nickel in matte of 19,998 metric ton (+17.9%QoQ, +8%YoY). We foresee plenty of room for improvement due to higher expectations of global tin price translate to higher ASP. At the moment, we forecast global nickel price averaging at US\$ 14,000/ton (+3.7%YoY) and US\$ 17,000/ton (+17.4% YoY) in FY19 and FY20 respectively.

#### Double digit growth in production and sales volume

INCO recorded 3Q19 Nickel in matte production improved to 19,820 tons (+12% QoQ, +9% YoY). This brought total 9M19 production of 50,531 tons, representing 71% of FY19F target of 71,000 mt. For sales volume, INCO recorded 3Q19 nickel in matte of 19,998 Mton or +18% QoQ and +8% YoY. In our view, the QoQ production hike after the incident in electronic furnace system in 1Q19 has now normalized without any additional major maintenance activities. We believe INCO could maintain this strong operational performance into 4Q19, we expect total sales volume in FY19 to reach 70,658 mt.

#### Lower cash cost thanks to lower commodities price

We notice that INCO's HSFO usage decreased to 992.769 barrel in 9M19 (-15.1% YoY) after maintenance activities back to normal in 1Q19. Moreover, as fuel represents around 30% of INCO's total COGS, we lowered our cash cost estimates in 2020F by 12.5% to US\$5,587/ton due to a recent drop in global coal and oil benchmark price. We assume coal price of US\$ 80/ton and Brent oil price of US\$60/bbl in 2020F.

#### Maintain BUY – new TP at Rp 4,500 per share

This solid 3Q19 result is certainly a good indicator that the company to book positive earnings in FY19. We still like INCO as a top pick for metal mining sector. We obtain the fair value of INCO at Rp 4,500 per share implies 2020F PER target of 25.1x and 2020F EV/EBITDA target of 6.7x based on WACC assumption of 10.6%. At yesterday's closing price, the stock is trading at 32.6x PER 2020F and 11.6x EV/EBITDA 2020F, which offers 26.4% upside potential.

**Key Risk:** 1) the future supply/demand dynamics; 2) lower than expected nickel price; 3) changes in government policies.

### Financial Summary

(Rp billion)	2017A	2018F	2019F	2020F	2021F
Revenue	629	777	721	863	905
EBITDA	121	187	184	301	338
Net profit	(15)	61	47	97	114
EPS (Rp)	(21)	87	67	140	166
PER (x)	(172.62)	40.95	51.47	25.10	21.25
PBV (x)	1.44	1.29	1.26	1.20	1.13
EV/EBITDA (x)	20.61	11.85	11.58	6.73	5.46
Dividend yield (%)	0.00	(0.00)	0.00	0.00	0.00
RoE (%)	(0.84)	3.27	2.48	4.84	5.48

Source: Company data and Lotus Andalan Research

## Interim Financial Result

	9M18	9M19	YoY	FY19F	Coverage	2Q19	3Q19	QoQ
<b>P/L (In US\$ million)</b>								
Revenue	579.6	506.5	-12.6%	721	70.2%	165.8	214.2	29.2%
Cost of revenue	(483.1)	(485.4)	0.5%	651	-74.6%	(165.3)	(170.4)	3.1%
Gross profit	96.5	21.1	-78.2%	70	30.1%	0.5	43.8	na
Operating Expense	(19.0)	(20.2)	6.4%	11	-183.4%	(8.5)	(7.5)	-11.3%
Operating profit	77.5	0.9	-98.8%	59	1.5%	7.9	36.3	356.4%
Net Profit	55	0.2	-99.7%	47.0	0.3%	(6.0)	26.4	na

## Profitability

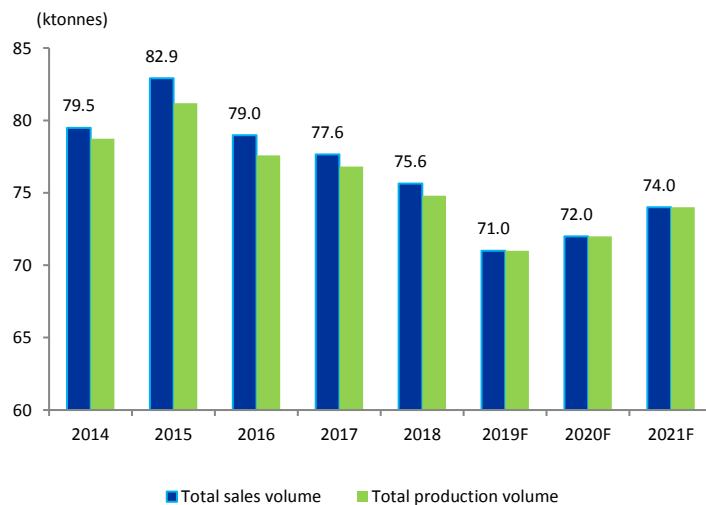
Gross margin	16.6%	4.2%		9.7%		0.3%	20.4%	
EBIT margin	13.4%	0.2%		9.7%		0.3%	20.4%	
Net margin	9.5%	0.0%		6.5%		-3.6%	12.3%	

## Operational Overview

Sales Volume	54,570	50,831	-6.9%			16,965	19,998	17.9%
ASP	9,963	10,621	6.6%			9,774	10,712	9.6%

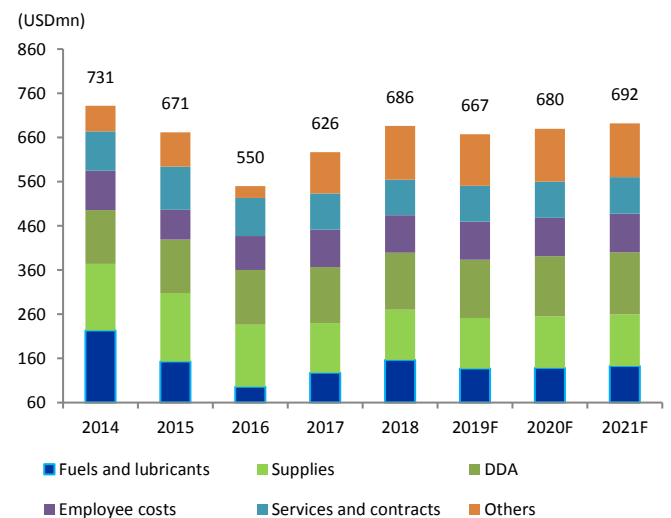
Source: Company data and Lotus Andalan Research

## Cash cost/ton and ASP



Source: Company data and Lotus Andalan Research

## INCO COGS



Source: Company data and Lotus Andalan Research

## Financial Highlights of PT Vale Indonesia Tbk

In Rp Billion									
BALANCE SHEET					INCOME STATEMENT				
	2017A	2018A	2019F	2020F		2017A	2018A	2019F	2020F
<b>ASSETS</b>									
Cash & cash equivalents	222	301	340	449	Revenue	629	777	721	863
Accounts receivable	166	124	118	142	COGS	623	673	651	724
Inventories - net	118	132	134	149	Gross profit	7	104	70	139
Other current assets	92	74	41	79	Operating expenses	11	12	11	13
<b>Total current assets</b>	<b>597</b>	<b>631</b>	<b>633</b>	<b>819</b>	<b>Operating profit</b>	<b>(5)</b>	<b>92</b>	<b>59</b>	<b>126</b>
Fixed assets	1,494	1,435	1,475	1,430	<b>EBITDA</b>	<b>121</b>	<b>187</b>	<b>184</b>	<b>301</b>
Other non current assets	94	137	137	137	Interest income	3	5	5	6
<b>Total Non current assets</b>	<b>1,588</b>	<b>1,571</b>	<b>1,612</b>	<b>1,567</b>	Interest expense	(8)	(7)	(2)	(2)
<b>TOTAL ASSETS</b>	<b>2,185</b>	<b>2,202</b>	<b>2,245</b>	<b>2,386</b>	Other income (expenses)	(13)	(8)	0	(1)
<b>LIABILITIES &amp; EQUITY</b>					<b>Total other income/(expenses)</b>	<b>(18)</b>	<b>(10)</b>	<b>4</b>	<b>3</b>
Short term bank loan	37	37	9	-	<b>Income before tax</b>	<b>(23)</b>	<b>83</b>	<b>63</b>	<b>129</b>
Accounts payable	61	91	80	89	Tax expense	(8)	22	16	32
Current maturities - bank loan	15	26	20	43	<b>Net profit before minority interest</b>	<b>(15)</b>	<b>61</b>	<b>47</b>	<b>97</b>
Other payables	17	22	12	7	Minority interest	-	-	-	-
<b>Total Current Liabilities</b>	<b>129</b>	<b>175</b>	<b>121</b>	<b>140</b>	<b>Net profit</b>	<b>(15)</b>	<b>61</b>	<b>47</b>	<b>97</b>
Bank loan	200	143	169	169	<b>EPS (Rp)</b>	<b>(21)</b>	<b>87</b>	<b>67</b>	<b>140</b>
Other LTD	36	0	25	44					
<b>Total Non Current Liabilities</b>	<b>236</b>	<b>143</b>	<b>193</b>	<b>213</b>					
Additional PIC	278	278	278	278					
Capital stock	136	136	136	136					
RE	1,405	1,470	1,517	1,614					
<b>Total Equity</b>	<b>1,819</b>	<b>1,884</b>	<b>1,931</b>	<b>2,033</b>					
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>2,185</b>	<b>2,202</b>	<b>2,245</b>	<b>2,386</b>					
<b>CASH FLOW STATEMENT</b>					<b>KEY FINANCIAL RATIOS</b>				
	2017A	2018A	2019F	2020F		2017A	2018A	2019F	2020F
Net profit	(15)	61	47	97	<b>Growth (%)</b>				
Depreciation & Amortization	125	94	124	175	Revenue	7.7	23.4	(7.2)	19.8
Change in WC	49	35	2	(53)	Gross profit	(80.8)	1,486.8	(32.7)	98.6
Others	-	-	(0)	-	Operating Profit	na	na	(35.9)	112.9
<b>Net Operating Cash Flow</b>	<b>160</b>	<b>190</b>	<b>174</b>	<b>219</b>	EBITDA	(15.9)	54.8	(1.8)	64.3
Change in fixed assets - net	(87)	(35)	(165)	(130)	Net Profit	na	na	(21.9)	105.0
Others	(0)	(43)	-	-	<b>Profitability (%)</b>				
<b>Net Investing Cash Flow</b>	<b>(87)</b>	<b>(78)</b>	<b>(165)</b>	<b>(130)</b>	Gross margin	1.0	13.4	9.7	16.1
Change in borrowings - net	(37)	(36)	25	20	Operating margin	(0.8)	11.9	8.2	14.6
Dividend payment	-	-	-	-	EBITDA margin	19.2	24.1	25.5	34.9
Adjustment	-	3	5	-	Net Profit margin	(2.4)	7.8	6.6	11.2
<b>Net Financing Cash Flow</b>	<b>(37)</b>	<b>(33)</b>	<b>30</b>	<b>20</b>	ROAA	(0.7)	2.8	2.1	4.2
<b>Change in cash</b>	<b>36</b>	<b>79</b>	<b>39</b>	<b>109</b>	ROAE	(0.8)	3.3	2.5	4.9
Cash at the beginning period	186	222	301	340	<b>Solvency (x)</b>				
Cash at the ending period	222	301	340	449	Current ratio	4.6	3.6	5.3	5.9
					Interest coverage	(0.6)	13.6	33.9	65.0
					Net debt to EBITDA	(1.2)	(1.4)	(1.7)	(1.3)
					Net debt to equity	(8.2)	(14.0)	(15.9)	(19.9)

Source: Company data and Lotus Andalan Research

**Notes:**

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **Neutral** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

# PT Lotus Andalan Sekuritas

The City Tower Lantai 7  
Jl. MH. Thamrin No. 81  
Jakarta Pusat 10310  
Tel : (021) 2395 1000  
Fax : (021) 2395 1099

## BRANCH OFFICE

### Pluit

Kawasan CBD Pluit Blok A No.20  
Jl. Pluit Selatan Raya No.1  
Jakarta 14440  
Tel : +6221 66675345  
Fax : +6221 66675234

### Kelapa Gading

Sentra Bisnis Artha Gading  
Jl. Boulevard Artha Gading Blok A6B No. 7  
Jakarta Utara 14240  
Tel : +6221 45856402  
Fax : +6221 45873961

### Bandung

Komplek Paskal Hyper Square Blok C No. 15  
Jl. Pasir Kaliki No. 25 - 27  
Bandung 40181  
Tel : +6222 86061027  
Fax : +6222 86060684

### Puri

Rukan Grand Taman Aries Niaga  
Jl. Taman Aries – Kembangan Blok G 1 No. 1 I  
Jakarta Barat 11620  
Tel : +6221 2931 9515  
Fax : +6221 2931 9516

### Surabaya

Ruko Permata Bintoro  
Jl Ketampon Kav 1-2  
Surabaya  
Tel : +6231 562 2555  
Fax : +6231 567 1398

### Medan

Jalan Kartini No.5  
Medan 20152  
Tel : +6261 451 8855  
Fax : +6261 451 6836

### Medan

Kampus STMIK-STIE MIKROSKILL  
Jl. Thamrin No 140

---

## DISCLAIMER

This report has been prepared by PT. Lotus Andalan Sekuritas on behalf of itself and its affiliated companies and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. This report has been produced independently and the forecasts, opinions, and expectations contained herein are entirely those of PT. Lotus Andalan Sekuritas.

While all reasonable care has been taken to ensure that information contained herein is not untrue or misleading at the time of publication, PT. Lotus Andalan Sekuritas makes no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of clients of PT. Lotus Andalan Sekuritas who are expected to make their own investment decisions without reliance on this report. Neither PT Lotus Andalan Sekuritas nor any officer or employee of PT Lotus Andalan Sekuritas accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. PT Lotus Andalan Sekuritas and/or persons connected with it may have acted upon or used the information herein contained, or the research or analysis on which it is based, before publication.