INCO Equity Update

PT Vale Indonesia Tbk

31 Oktober 2019

Current Price (30/10)	**Rp. 3,760**
12M Target Price	**Rp. 3,665**
Potential Upside	**-3%**

HOLD

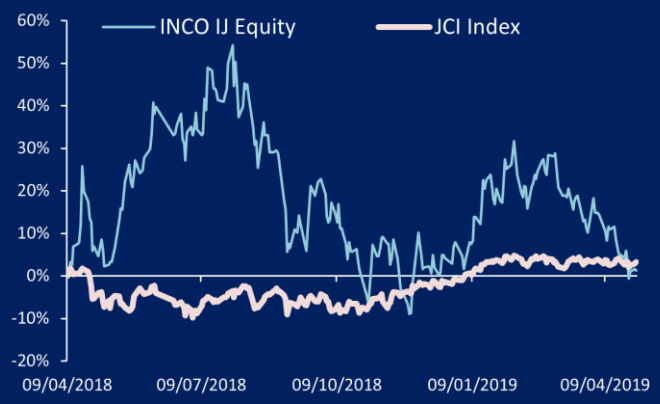
Stock Information

Ticker Code	INCO
Market Cap (Rp)	36.67T
52-Week High (Rp)	4,320
52-Week Low (Rp)	2,410
Shares Issued (Bio)	9.94

Major Shareholders (%)

Vale Canada Limited	58.73%
Sumitomo Metal Mining Co.,Ltd.	20.09%
Vale Japan Limited	0.55%
Sumitomo Corporation	0.14%
Public (<5%)	20.49%

Price Performance (2018-2019)



Source : Bloomberg

Ike Widiawati
(ike@oso-securities.com)

PT OSO Securities
Cyber 2 Tower,
Jl. H.R. Rasuna Said Blok X-5 No. 13
Setiabudi
Jakarta 12950
Tel. : 021 2991 5300

Konsumsi Nikel Diperkirakan Tumbuh 3%-4% Setiap Tahunnya. Penggunaan atas produk Nikel diperkirakan terus mengalami pertumbuhan 3%-4% setiap tahunnya seiring kebutuhan atas nikel untuk pengolahan baja tahan karat, baterai dan industri lainnya.

Indonesia Merupakan Negara Dengan Produksi Nikel Terbesar Dunia Pada Tahun 2018. Pada tahun 2018, Indonesia merupakan negara dengan produksi nikel terbesar di dunia, mengalahkan Filipina dan Canada. Indonesia berhasil memproduksi nikel sebanyak 560,000 metrik ton.

Total Volume Produksi hingga kuartal III-2019 turun 7% dibandingkan periode yang sama pada tahun 2018. Volume produksi pada Kuartal III-2019 sebesar 19,820 ton lebih besar jika dibandingkan volume produksi pada periode yang sama pada tahun 2018. Namun secara kumulatif produksi selama 9M19 (Jan-Sep 19') sebesar 50,531 ton turun dibandingkan akumulasi 2018 yang sebesar 54,227 ton.

Revenue INCO 2019 diperkirakan cenderung stagnan dibandingkan tahun 2018 atau senilai USD 774 juta. Adapun hal tersebut diestimasikan terjadi karena volume produksi nikel yang turun karena aktivitas pemeliharaan ditengah tingginya harga jual nikel. Pendapatan INCO masih terjaga dan tidak turun signifikan dikarenakan kenaikan harga jual nikel pada tahun 2019.

Rekomendasi

Kami memberikan rekomendasi HOLD terhadap saham INCO dengan *12M Target Price* IDR 3,665,-. Kami menggunakan metode valuasi *Discounted cashflow* dengan asumsi WACC sebesar 12.5% dan terminal value 1.25%. Adapun harga tersebut sudah memasukkan indikator *Margin of Safety* sebesar 15% untuk mengantisipasi adanya risiko dari: 1. Risiko dari potensi peningkatan produksi Nikel yang dilakukan tiba-tiba oleh Philippines dan Rusia, 2. Ketidakstabilan kondisi geopolitik yang berpotensi mempengaruhi pergerakan harga saham INCO.

Figure I: Financial Highlight

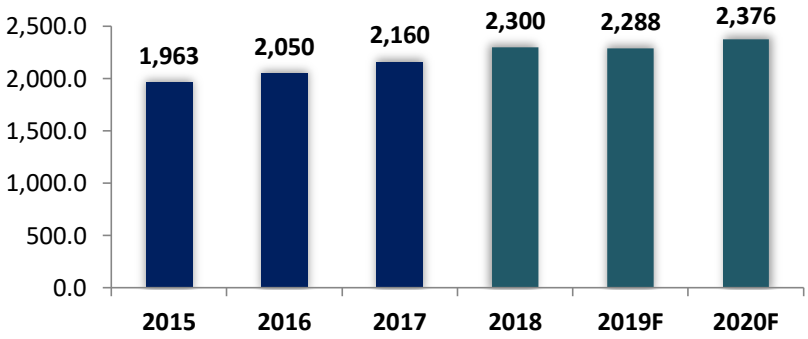
in Millions of USD	2018A	2019F	2020F	2021F	2022F
Revenue	777	774	826	854	880
Net Income	61	23	100	102	104
Total Assets	2,202	2,357	2,362	2,481	2,580
Total Equity	1,884	1,907	2,007	2,109	2,214
Produksi Nikel (MT)	**74,806**	**71,342**	**74,909**	**75,658**	**76,415**
Volume penjualan (MT)	75,631	72,266	76,041	76,814	77,582
Average Selling Price	10,349	10,678	10,857	11,121	11,343

Source: OSO Research Team

INDUSTRY OVERVIEW

Nikel adalah unsur kimia metalik yang mempunyai sifat tahan karat. Dalam keadaan murni, nikel bersifat lunak, tetapi jika dipadukan dengan besi, krom dan logam lainnya, dapat membentuk baja tahan karat yang keras.

Figure II: Forecast of global nickel consumption from 2015 to 2020 (in 1000 metric tons)

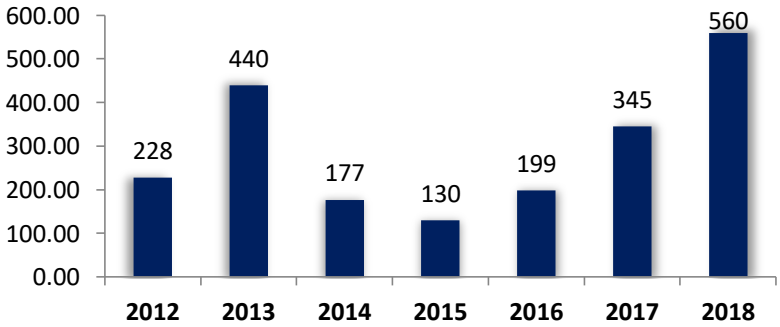


Source: U.S. Geological Survey, Mineral Commodity Summaries, OSO Research team

Konsumsi Nikel Diperkirakan Tumbuh 3%-4% Setiap Tahunnya

Penggunaan atas produk Nikel diperkirakan terus mengalami pertumbuhan 3%-4% setiap tahunnya seiring kebutuhan atas nikel untuk pengolahan baja tahan karat, baterai dan industri lainnya.

Figure III: Mine production of nickel in Indonesia from 2012-2018 (in 1000 metric tons)



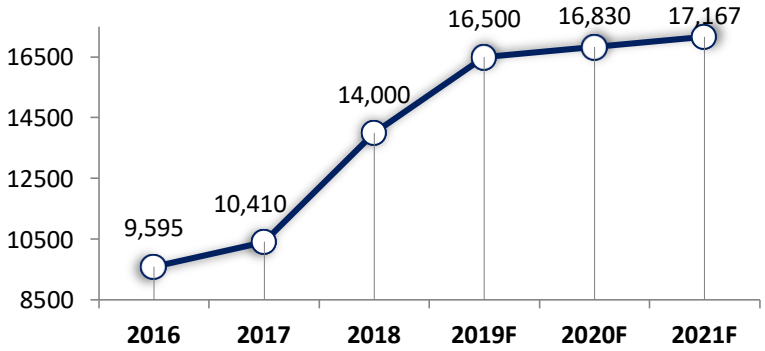
Source: U.S. Geological Survey, Mineral Commodity Summaries, OSO Research team

Indonesia Merupakan Negara Dengan Produksi Nikel Terbesar Dunia Pada Tahun 2018

Pada tahun 2018, Indonesia merupakan negara dengan produksi nikel terbesar di dunia, mengalahkan Filipina dan Canada.

Indonesia berhasil memproduksi nikel sebanyak 560,000 metrik ton.

Figure IV: Average price for nickel worldwide from 2016 to 2021 (in nominal U.S. dollars per metric ton)



Source: U.S. Geological Survey, Mineral Commodity Summaries, OSO Research team

Perkiraan Pergerakan Harga Komoditas Nikel Diseluruh Dunia Tahun 2014 - 2025

Harga komoditas Nikel berpotensi mengalami kenaikan seiring kuatnya permintaan dan rendahnya pasokan Nikel di pasar global.

Selain itu tingginya permintaan Nikel untuk baterai, kendaraan listrik serta baja tahan karat dan industri lainnya diperkirakan masih akan tetap baik di tahun-tahun kedepan.

Figure V: World Mine Production (in metric tons)

Metric tons	Mine Production		
	2016	2017	2018
Australia	204,000	179,000	170,000
Brazil	160,000	78,600	80,000
Canada	236,000	214,000	160,000
China	98,000	103,000	110,000
Colombia	41,600	45,500	43,000
Cuba	51,600	52,800	53,000
Finland		34,600	46,000
Guatemala	54,000	53,700	49,000
Indonesia	199,000	345,000	560,000
Madagascar	49,000	41,700	39,000
New Caledonia	207,000	215,000	210,000
Philippines	347,000	366,000	340,000
Russia	222,000	214,000	210,000
South Africa	49,000	48,400	44,000
United States	24,100	22,100	19,000
Other countries	150,000	146,000	180,000
World total (rounded)	**2,090,000**	**2,160,000**	**2,300,000**

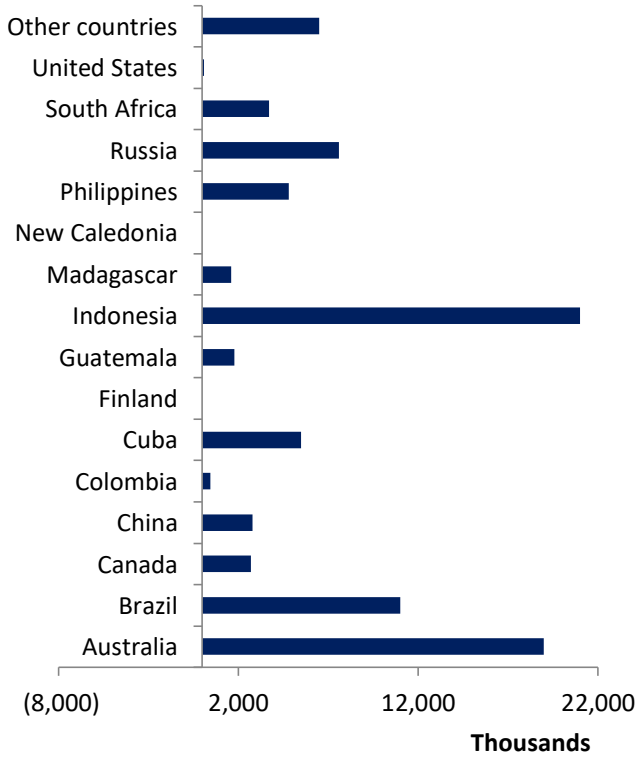
Source: U.S. Geological Survey, Mineral Commodity Summaries, OSO Research team

Figure VI: World Mine Reserves (in metric tons)

Metric tons	Reserves
Australia	19,000,000
Brazil	11,000,000
Canada	2,700,000
China	2,800,000
Colombia	440,000
Cuba	5,500,000
Finland	N/A
Guatemala	1,800,000
Indonesia	21,000,000
Madagascar	1,600,000
New Caledonia	N/A
Philippines	4,800,000
Russia	7,600,000
South Africa	3,700,000
United States	110,000
Other countries	6,500,000
World total (rounded)	**89,000,000**

Source: U.S. Geological Survey, Mineral Commodity Summaries, OSO Research team

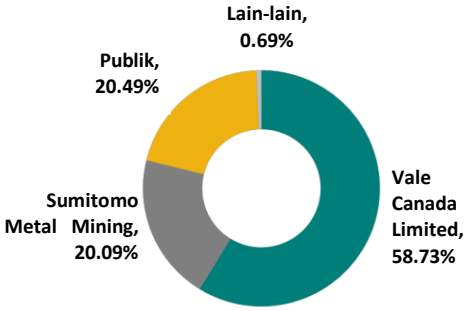
Figure VII: World Mine Production (Metric tons)



Source: U.S. Geological Survey, Mineral Commodity Summaries, OSO Research team

FINANCIAL OVERVIEW

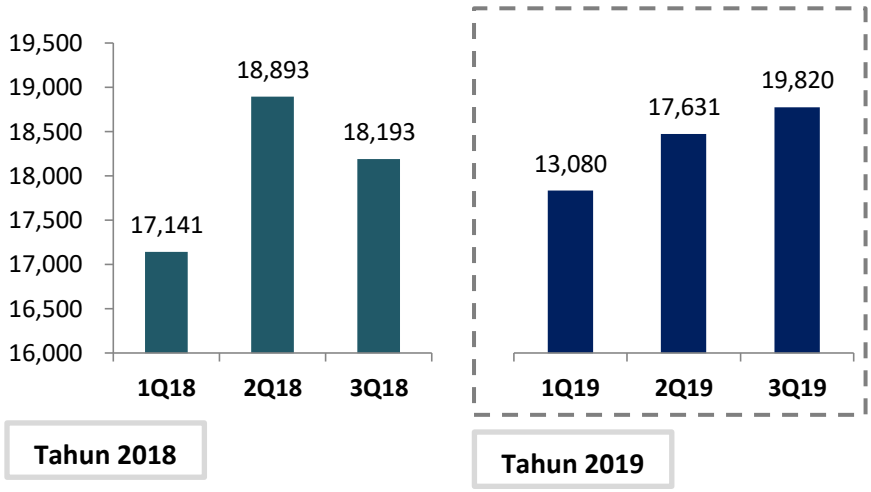
Figure VIII: Shareholders Composition (30 September 2019)



PT Vale merupakan bagian dari Vale Group di mana Vale S.A. (NYSE:VALE) merupakan pemegang saham pengendali utama. PT Vale beroperasi berdasarkan Kontrak Karya (CoW) dengan Pemerintah Indonesia

Source: Vale Indonesia, OSO Research team

Figure IX: Volume Produksi Nickel kuartalan (ton)



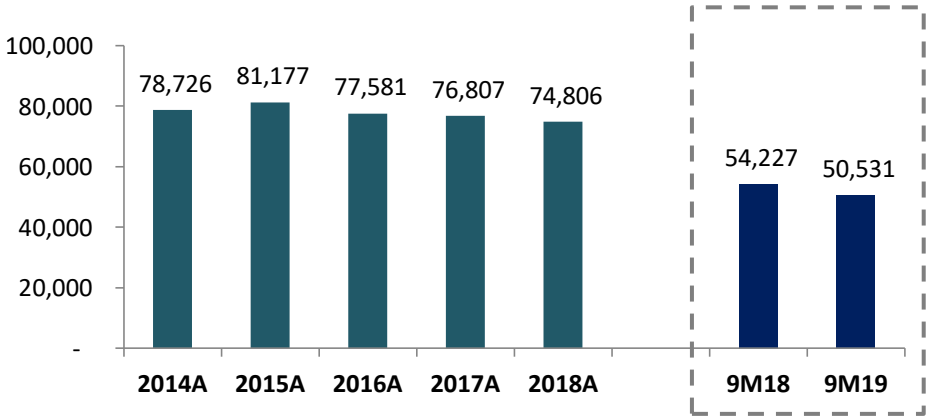
Volume produksi pada Kuartal III-2019 sebesar 19,820 ton lebih besar jika dibandingkan volume produksi pada periode yang sama pada tahun 2018.

Namun secara kumulatif produksi selama 9M19 (Jan-Sep 19') sebesar 50,531 ton turun dibandingkan akumulasi 2018 yang sebesar 54,227 ton.

Source: Vale Indonesia, OSO Research team

[1] Production at VNC reached 6,900 t in 3Q18, while production of finished nickel from VNC totaled 7,500 t in 3Q18; the differences are due to the required time for processing into finished nickel.
[2] External feed purchased from third parties and processed into finished nickel in the Canadian and Asian operations.

Figure X: Produksi Nikel Dalam Matte Tahunan vs Produksi Selama 9 Bulan (Metric Ton) - INCO



Volume produksi hingga kuartal III-2019 mencapai total **50,531 metrik ton nikel dalam matte.**

Adapun produksi ini berada dibawah realisasi tahun 2018, dikarenakan aktivitas pemeliharaan.

Source: Vale Indonesia, OSO Research team

LOKASI DAN CADANGAN BIJIH

Figure XI: Lokasi Pertambangan

Source: Vale Indonesia, OSO Research team

Figure XII: Area kontrak karya

Provinsi	Blok	Luas (Ha)
Sulawesi Selatan	Sorowako - Towuti	70,566
Sulawesi Tengah	Bahodopi	22,699
Sulawesi Tenggara	Pomalaa	20,286
	Suasua	4,466
	Total	118,017

Source: Vale Indonesia, OSO Research team

Figure XIII: Cadangan Bijih (Juta Metrik ton) - Per 31 Desember 2018

	2018	
	Mt (DKP)	% Grade
Terbukti | Proven	101.8	1.76
Terkira | Probable	14.7	1.64
Jumlah	**116.5**	**1.74**

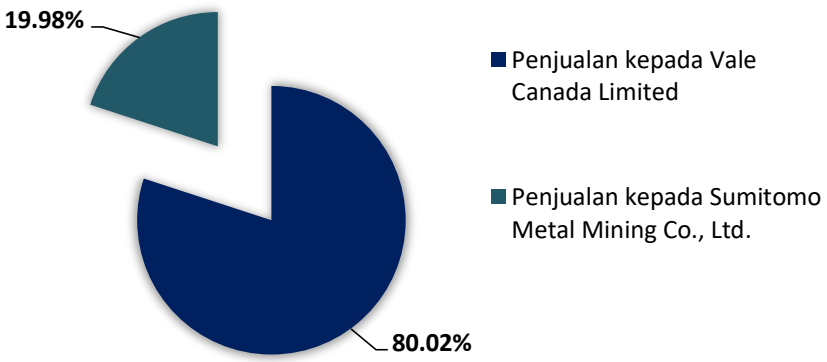
Source: Vale Indonesia, OSO Research team

INCO memproduksi Nikel dengan kandungan:

- 78% Nikel dalam Matte
- 1% - 2% Cobalt
- 20%-21% Sulfur

INCO menggunakan harga penjualan 78% dari rata-rata harga tunai di LME (London Metal Exchange) satu bulan sebelum pengiriman.

Figure XIV: Persentase Penjualan Kepada Beberapa Pihak

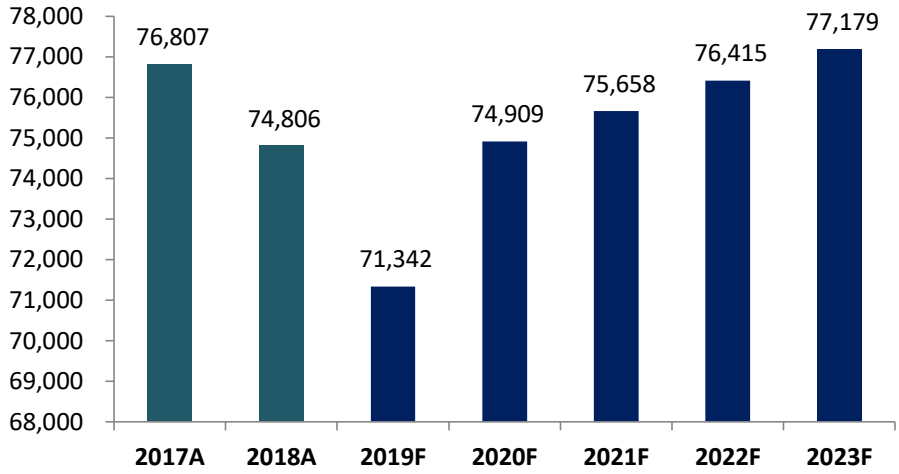


Source: Vale Indonesia, OSO Research team

Seluruh penjualan Perseroan dilakukan berdasarkan kontrak-kontrak penjualan "harus ambil" jangka panjang dalam mata uang Dolar AS. Adapun harga ditentukan dengan formula yang didasarkan atas harga tunai nikel di LME dan harga realisasi rata-rata nikel Vale Canada Limited. Semua penjualan merupakan transaksi dengan pihak-pihak berelasi. Dengan demikian, pergerakan harga Nikel global akan sangat mempengaruhi penjualan INCO.

FORECAST

Figure XV: Volume Produksi Nickel (MT)

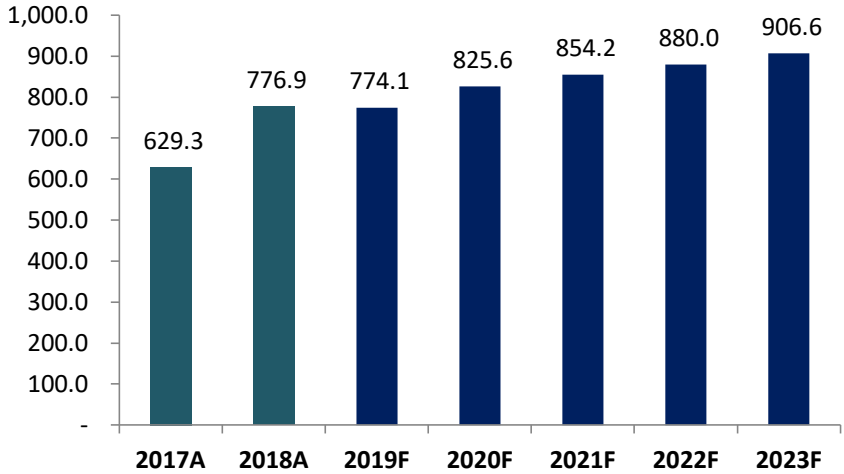


Source: Vale Indonesia, OSO Research team

Sementara di tahun 2019, produksi INCO diperkirakan turun dari tahun 2018 dikarenakan terjadinya aktivitas pemeliharaan

Perkiraan Pergerakan Harga Komoditas Nikel Diseluruh Dunia Tahun 2018F-2021F. Harga komoditas Nikel berpotensi mengalami kenaikan seiring kuatnya permintaan dan rendahnya pasokan Nikel di pasar global.
INCO menggunakan harga penjualan 78% dari rata-rata harga tunai di LME (London Metal Exchange) satu bulan sebelum pengiriman.

Figure XVI: Revenue (Dalam Juta. USD)



Source: Vale Indonesia, OSO Research team

Revenue INCO 2019 diperkirakan cenderung stagnan dibandingkan tahun 2018 atau senilai USD 774 juta. Adapun hal tersebut diestimasikan terjadi karena volume produksi nikel yang turun karena aktivitas pemeliharaan ditengah tingginya harga jual nikel.

Pendapatan INCO masih terjaga dan tidak turun signifikan dikarenakan kenaikan harga jual nikel pada tahun 2019.

Figure XVII: Income Statement (Dalam Juta. USD)

in Millions of USD	2017A	2018A	2019F	2020F	2021F	2022F	2023F
Revenue	**629.3**	776.9	774.1	825.6	854.2	880.0	906.6
Cost of Revenue	(622.8)	(672.9)	(696.7)	(652.2)	(674.8)	(695.2)	(716.2)
D&A	125.5	128.9	140.4	147.4		161.4	168.4
Gross Profit	**6.6**	**104.0**	**77.4**	**173.4**	**179.4**	**184.8**	**190.4**
Others Operating Income	3.1	5.6	5.6	5.6	5.6	5.6	5.6
Operating Expense	28.0	29.3	38.7	36.1	37.2	40.3	40.2
Operating Income (Loss)	**(18.3)**	**80.3**	**44.3**	**142.8**	**147.8**	**150.1**	**155.8**
Non-Operating Loss	(4.7)	2.3	(14.7)	(12.6)	(15.2)	(15.3)	(15.2)
Pre-tax profit	**(23.0)**	**82.6**	**29.6**	**130.2**	**132.6**	**134.8**	**140.5**
Tax	7.75	(22.1)	(6.8)	(30.0)	(30.5)	(31.0)	(32.3)
Net Income	**(15.3)**	**60.5**	**22.8**	**100.3**	**102.1**	**103.8**	**108.2**

Source: Vale Indonesia, OSO Research team

Figure XVII: Financial Position (Dalam Juta. USD)

in Millions of USD	2017A	2018A	2019F	2020F	2021F	2022F	2023F
Cash, Cash Equivalents & STI	221.70	301.20	258.72	259.37	272.34	283.23	298.81
Accounts & Notes Receiv	165.58	124.20	106.68	106.95	112.30	116.79	123.21
Inventories	117.73	131.80	113.21	113.50	119.17	123.94	130.75
Other ST Assets	107.28	73.80	63.39	63.55	66.73	69.40	73.21
Total Current Assets	**612.28**	**631.00**	**542.01**	**543.37**	**570.53**	**593.36**	**625.99**
Property, Plant & Equip, Net	1,493.79	1,434.50	1,664.07	1,762.07	1,860.07	1,958.07	2,056.07
Other LT Assets	93.71	136.90	150.48	57.02	49.97	28.38	39.63
Total Noncurrent Assets	**1,587.50**	**1,571.40**	**1,814.56**	**1,819.09**	**1,910.05**	**1,986.45**	**2,095.71**
Total Assets	**2,199.78**	**2,202.40**	**2,356.57**	**2,362.46**	**2,480.58**	**2,579.81**	**2,721.69**
Payables & Accruals	77.20	119.70	91.41	72.18	75.39	74.40	81.19
St Debt	36.74	36.50	27.87	22.01	22.99	22.69	24.76
Other ST Liabilities	15.36	19.10	14.59	11.52	12.03	11.87	12.96
Total Current Liabilities	**129.30**	**175.30**	**133.86**	**105.71**	**110.41**	**108.96**	**118.90**
Lt Debt	36.30	-	0.33	0.42	0.52	0.65	0.81
Other LT Liabilities	199.60	143.40	315.77	249.20	260.19	256.64	279.96
Total Noncurrent Liabilities	**235.89**	**143.40**	**316.10**	**249.61**	**260.71**	**257.29**	**280.77**
Total Liabilities	**365.19**	**318.70**	**449.96**	**355.32**	**371.11**	**366.26**	**399.67**
Share Capital & APIC	414.17	414.17	414.17	414.17	414.17	414.17	414.17
Retained Earnings	1,420.42	1,469.60	1,492.43	1,592.97	1,695.30	1,799.38	1,907.85
Total Equity	**1,834.6**	**1,883.77**	**1,906.60**	**2,007.14**	**2,109.47**	**2,213.55**	**2,322.02**
Total Kewajiban dan Ekuitas	**2,199.8**	**2,202.47**	**2,356.57**	**2,362.46**	**2,480.58**	**2,579.81**	**2,721.69**

Source: Vale Indonesia, OSO Research team

Figure XVIII: Cash Flow (Dalam Juta. USD)

in Millions of USD	2017A	2018A	2019F	2020F	2021F	2022F	2023F
Net Income	(15.3)	60.5	22.8	100.3	102.1	103.8	108.2
Depreciation & Amortization	125.5	128.9	140.4	147.4	154.4	161.4	168.4
Change in working capital	42.3	12.5	(47.6)	29.5	22.5	24.3	22.7
Cash from Operating	**152.6**	**201.9**	**115.6**	**277.2**	**279.0**	**289.5**	**299.3**
CAPEX	(86.6)	(103.4)	(172.9)	(105.0)	(105.0)	(105.0)	(105.0)
Net Change in LT Investment	12.0	62.7	(229.6)	(98.0)	(98.0)	(98.0)	(98.0)
Other Investing Activities	(0.0)	(43.2)	(13.6)	93.5	7.0	21.6	(11.3)
Cash from Investing	**(74.6)**	**(83.8)**	**(416.0)**	**(109.5)**	**(196.0)**	**(181.4)**	**(214.3)**
Dividend paid	-	(0.15)	(0.06)	(0.25)	(0.25)	(0.25)	(0.27)
Cash From (Repayment) Debt	(37.5)	(36.3)	0.3	0.1	0.1	0.1	0.2
Other Financing Activities	(4.3)	(2.2)	257.6	(166.9)	(69.9)	(97.1)	(69.4)
Cash From Financing	**(41.8)**	**(38.6)**	**257.9**	**(167.0)**	**(70.1)**	**(97.2)**	**(69.5)**
Net increase/(decrease) in cash and cash equivalents	**36.1**	**79.5**	**(42.5)**	**0.6**	**13.0**	**10.9**	**15.6**
Beginning Cash	185.6	221.7	301.2	258.7	259.4	272.3	283.2
Ending Cash	**221.7**	**301.2**	**258.7**	**259.4**	**272.3**	**283.2**	**298.8**

Source: Vale Indonesia, OSO Research team

VALUATION

Figure XIX: Calculated - INCO

Valuation	DCF
Equity Value	2,954
Number of Share	9,936
Equity / Share (USD)	**0.30**
Rupiah	14,500
Equity / Share (IDR)	**4,311**
Margin of Safety	15%
Fair Value	**3,665**

Source: Vale Indonesia, OSO Research team

Research Team

Ike Widiawati (ike@oso-securities.com)	Head of Research	+62 21 2991 5300
Rifqiyati (Rifqiyati @oso-securities.com)	Research Analyst	+62 21 2991 5300
Sukarno Alatas (sukarno@oso-securities.com)	Research Analyst	+62 21 2991 5300
Mochammad Cahyo (cahyo@oso-securities.com)	Research Associate	+62 21 2991 5300
Michelle Abadi (Michelle@oso-securities.com)	Research Associate	+62 21 2991 5300

Disclosure Of Interests

As of the date of this report,

1. The research analysts primarily responsible for the preparation of all or part of this report hereby certify that:
   - the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and
   - no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

2. The research analysts primarily responsible for the preparation of all or part of this report, or his/her associate(s), do not have any interest (including any direct or indirect ownership of securities, arrangement for financial accommodation or serving as an officer) in any company mentioned in this report

3. PT OSO Securities Indonesia on a business in Indonesia in investment banking, proprietary trading or agency broking in relation to securities

Disclaimer

This report has been prepared by PT OSO Sekuritas Indonesia on behalf of itself and its affiliated companies and is provided for information purposes only. Under no circumstance.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. OSO Sekuritas Indonesia. We expressly disclaim any responsibility or liability (express or implied) of PT. OSO Sekuritas Indonesia, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action , suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a results of acting in reliance upon the whole or any part of the contents of this report and neither PT. OSO Sekuritas Indonesia, its affiliated companiesor their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission there from which might otherwise arise is hereby expresses disclaimed. The information contained in this report is not be taken as any recommendation made by PT. OSO Sekuritas Indonesia or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regards tothe specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.

PT OSO Sekuritas Indonesia - Research
Cyber 2 Tower, 22nd Floor
Jl. HR. Rasuna Said Blok X-5 No. 13
JakartaSelatan, 12950
Telp: +62-21-299-15-300
Fax : +62-21-290-21-497