Ciptadana

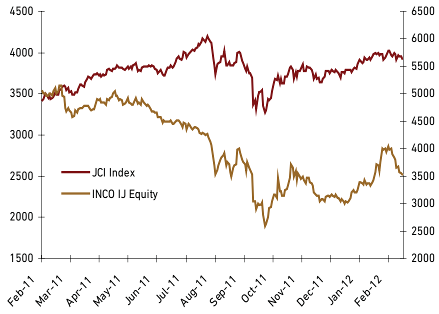
Research Report

February 16, 2012

PT Vale Indonesia Tbk

FY11 Unaudited Results Update

INCO vs JCI



source : Bloomberg

Target Price	:	3,700/sh
Recommendation	:	HOLD
Current price (2/16/2012)	:	3,525
52 Wk high (2/17/2011)	:	5,150
52 Wk low (10/4/2011)	:	2,525
Shares outstanding (mn)	:	9,936.33
Market cap (Rp bn)	:	35,025.60
Bloomberg code	:	INCO IJ

source : Bloomberg

Research Report by:
Wilim Hadiwijaya
T +62 21 2557 4800 ext : 799
E hadiwijayawilim@ciptadana.com

PT Vale Indonesia - TP 3,700/sh

FY11 unaudited results update

Net profit below expectation

Vale Indonesia (INCO) posted unaudited net profit of US$333mn for FY11, declined by 24% yoy on lower margin from higher service and contract costs, and reached 86% and 82% of our and consensus' estimates. Meanwhile, revenue was reported US$1,242mn, slightly decreased by 2.6% yoy due to lower nickel deliveries amid higher average realized selling price. On a quarterly basis, revenue and net profit dropped by 18% and 84% respectively triggered by lower 24% qoq of nickel in matte production in 4Q11 (13,727mt) combined with lower average selling price during 4Q11 at US$14,928/mt (-16% qoq).

Inline operational number

Nickel in matte production during FY11 was inline with our number at 66,500mt, reached 66,900mt or decreased by 13% yoy as a result of temporary stoppage for electric furnace #1 and #2 in late 4Q11 and dragged down nickel in matte deliveries to 66,815mt (-12% yoy). Average realized selling price for FY11 was higher 10% at US$18,296/mt compared to FY10's average realized selling price at US$16,568/mt. For FY12, we forecast production to reach 70,186mt or grow by 5% yoy after the completion of furnace #1 repair in mid Jan 12. We also maintain our LME nickel price assumption at US$23,000/mt.

Lower fuel consumption from Karebbe

The commencement of Karebbe project in Oct last year has started to power up INCO with lower cost as seen from the lower fuel consumption in 4Q11. High Speed Diesel (HSD) oil consumption in 4Q11 was only 13,009 kilolitres, a 30% qoq decline, while High Sulfur Fuel Oil (HSFO) consumption also reduced by 39% qoq into 425 thousand barrels. Average HSD and HSFO cost in 4Q11 was relatively flat at US$0.85/liter and US$105.99/barrel.

Maintain HOLD with TP of Rp3,700/share

We believe Karebbe power plant will be the key for INCO to ramp up its production capacity in the future however we still see a lack of catalyst for nickel price to rise in short term. We will revisit again our forecast after the full audited financial result has been released, in the meantime we maintain our HOLD recommendation on INCO with a target price of Rp3,700/share. Currently, INCO is traded at 10.4X FY12F PE.

Tab1. INCO FY11 Highlights

In mn USD	FY11	FY10	chg
Revenue	**1,242.56**	**1,276.32**	**-2.6%**
COGS	(728.64)	(650.19)	12.1%
Gross Profit	**513.92**	**626.13**	**-17.9%**
Selling, G&A expenses	(28.98)	(27.70)	4.6%
Operating profit	**484.94**	**598.43**	**-19.0%**
Other income/(expenses)	(32.62)	(17.08)	90.9%
Profit before tax	**452.32**	**581.34**	**-22.2%**
Tax expenses	(119.33)	(143.98)	-17.1%
Net profit	**332.99**	**437.36**	**-23.9%**
Profitability ratio (%)			
Gross margin	41.4%	49.1%	
Operating margin	39.0%	46.9%	
Net margin	26.8%	34.3%	

Source : Company & Ciptadana estimates

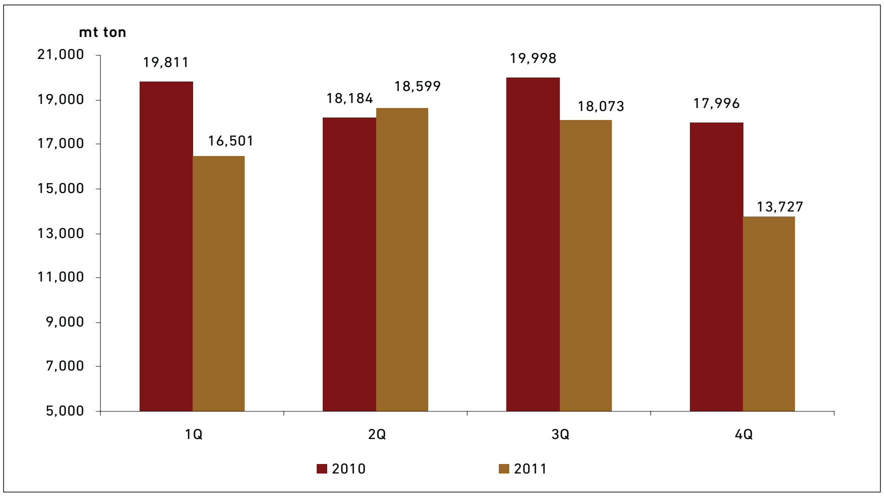
Tab2. Unaudited FY11 vs Ciptadana Estimates

Financial estimates (in mn USD)	FY11	FY11F Ciptadana estimates	Achieve (%)
Revenue	**1,242.56**	**1,291.15**	**96.2%**
COGS	(728.64)	(725.04)	100.5%
Gross Profit	**513.92**	**566.11**	**90.8%**
Selling, G&A expenses	(28.98)	(32.92)	88.0%
Operating profit	**484.94**	**533.18**	**91.0%**
Profit before tax	452.32	514.05	88.0%
Tax expenses	**(119.33)**	**(128.51)**	**92.9%**
Net profit	332.99	385.54	86.4%

Operational estimates	FY11	FY11F Ciptadana estimates	Achieve (%)
Production volume (MT)	66,900	66,500	100.6%
Sales volume (MT)	66,815	66,500	100.5%
ASP (USD/MT)	18,296	19,110	95.7%

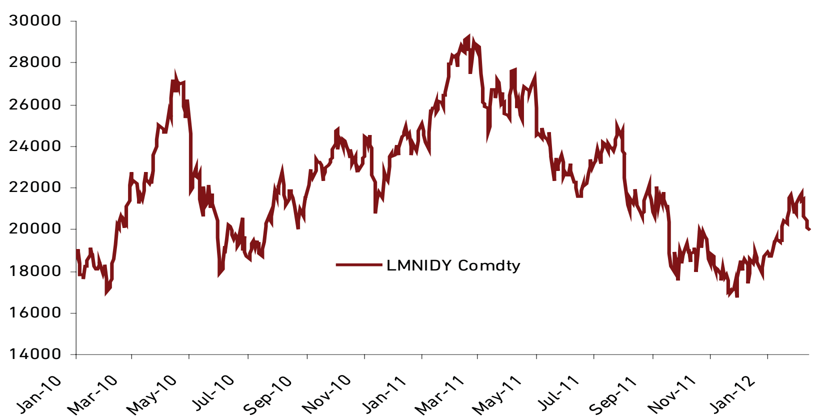
Source : Company & Ciptadana estimates

Fig1. INCO's Nickel In matte Production



Source : Company

Fig2. LME Nickel Prices



Source : Bloomberg

Tab3. Income Statement summary

Year-end 31-Dec (USD mn)	09A	10A	11A	12F	13F
Revenue	761	1,276	1,243	1,279	1,411
COGS	(516)	(652)	(729)	(726)	(777)
Gross Profit	245	624	514	553	634
Opex	(13)	(28)	(29)	(33)	(36)
Operating Profit	232	596	485	521	598
Other income/(expenses)	5	(15)	(33)	(19)	(25)
Profit before income tax	237	581	452	501	573
Income tax expenses	(66)	(144)	(119)	(125)	(143)
Minority interests	-	-	-	-	-
Net profit	170	437	333	376	430
EBITDA	323	693	549	625	709

Tab4. Balance Sheet

As at 31-Dec (USD mn)	09A	10A	11A	12F	13F
Assets					
Cash and equivalents	261	404	399	506	660
Receivables	98	124	66	111	123
Inventories	118	102	163	123	133
Others	153	82	134	117	130
Total current assets	**629**	**712**	**762**	**858**	**1,044**
Fixed assets - net	1,379	1,465	1,579	1,664	1,697
Long term investments	-	-	-	-	-
Others	19	14	79	16	18
Total non-current assets	**1,398**	**1,479**	**1,658**	**1,680**	**1,715**
Total assets	**2,028**	**2,190**	**2,421**	**2,538**	**2,759**
Liabilities and equity					
Short-term bank loans and current maturities	2	-	38	38	38
Trade payables	33	41	84	41	44
Others current liabilities	52	117	57	94	101
Total current liabilities	**87**	**158**	**179**	**173**	**182**
Long term debt	140	141	255	218	182
Others	220	212	219	137	157
Total non-current liabilities	**359**	**352**	**473**	**356**	**339**
Total liabilities	**446**	**510**	**652**	**528**	**521**
Shareholders' equity	**1,581**	**1,680**	**1,768**	**2,010**	**2,238**

Tab5. Cash Flow Statement

Year-end 31-Dec (USD mn)	09A	10A	11A	12F	13F
CF from operation	194	663	304	483	517
CF from investments	(124)	(172)	(209)	(175)	(146)
CF from financing activity	22	(355)	(101)	(227)	(218)
Net changes in cash	**92**	**136**	**(5)**	**82**	**153**

Source : Company and Ciptadana Estimates

Tab6. Key Ratios

Year-end 31-Dec	09A	10A	11A	12F	13F
Growth (%)					
Revenue	-42.0%	67.7%	-2.6%	-0.9%	10.3%
EBITDA	-42.8%	114.5%	-20.8%	-1.0%	13.4%
Net profit	-52.6%	156.6%	-23.9%	-2.5%	14.3%
Profitability (%)					
Gross margin	32.2%	48.9%	41.4%	43.3%	44.9%
Operating margin	30.5%	46.7%	39.0%	40.7%	42.4%
EBITDA margin	42.4%	54.3%	44.2%	48.9%	50.3%
Net margin	22.4%	34.3%	26.8%	29.4%	30.5%
ROE	10.8%	26.0%	18.8%	18.7%	19.2%
ROA	8.4%	20.0%	13.8%	14.8%	15.6%
Leverage (X)					
Current ratio	7.2	4.5	4.3	5.0	5.7
Quick ratio	4.1	3.3	2.6	3.6	4.3
Debt to equity	0.1	0.1	0.2	0.1	0.1
Net debt to equity	*net cash*	*net cash*	*net cash*	*net cash*	*net cash*

Source : Company and Ciptadana Estimates

EQUITY RESEARCH

ANALYST
Syaiful Adrian
Strategy, Banking
T +62 21 2557 4919
E adriansyaiful@ciptadana.com

ANALYST
Triwira Tjandra
Telecommunication, Infrastructure, Property
T +62 21 2557 4800 ext 739
E tjandratriwira@ciptadana.com

ANALYST
Wilim Hadiwijaya
Heavy Equipment, Metal Mining, Oil and Gas
T +62 21 2557 4800 ext 799
E hadiwijayawilim@ciptadana.com

ANALYST
Suraj Khiani
Coal, Plantations
T +62 21 2557 4892
E khianisuraj@ciptadana.com

ANALYST
Mitchel Jauwanto
Consumer, Automotive
T +62 21 2557 4820
E jauwantomitchel@ciptadana.com

TECHNICAL ANALYST
Trevor Gasman
T +62 21 2557 4934
E gasmantrevor@ciptadana.com

RESEARCH ASSISTANT
Sumarni
T +62 21 2557 4920
E sumarni@ciptadana.com

RESEARCH ASSISTANT
Silviana Sumardjono
T +62 21 2557 4800 ext 740
E sumardjonosilviana@ciptadana.com

HEAD OFFICE - JAKARTA
PT CIPTADANA SECURITIES
Plaza ASIA Office Park unit 2
Jl. Jend. Sudirman kav. 59
Jakarta 12190
T +62 21 2557 4800
F +62 21 2557 4900
E research@ciptadana.com
www.ciptadana.com

EQUITY SALES

HEAD OF SALES
John Herry Teja
Plaza ASIA Office Park unit 2
Jl. Jend. Sudirman kav. 59
Jakarta 12190
T +62 21 2557 4808
F +62 21 2557 4900
E tejajohn@ciptadana.com

PURI - KENCANA
Chandra Herotionjaya
Perkantoran Puri Niaga III
Jl. Puri Kencana Blok M8 No.1H-I, Kembangan
Jakarta 11610
T +62 21 5835 6025
F +62 21 5835 6026
E herotionjayachandra@ciptadana.com

MANGGA DUA
Gavin Ishak
Harco Mangga Dua
Blok C/10
Jakarta 11180
T +62 21 600 2850
F +62 21 612 1049
E ishakgavin@ciptadana.com

PLUIT
Ferry Ishak
Jl. Pluit Putra Raya No. 7
Jakarta 14450
T +62 21 6669 6688
F +62 21 6669 0770
E ishakferry@ciptadana.com

BOGOR
Daud Dirgahayu
Jl. Raya Padjajaran
Ruko 70 No.70J
Bogor 16151
T +62 251 836 2255
F +62 251 837 0054
E dirgahayudaud@ciptadana.com

BANDUNG
Maykel Yonathan
Wisma CIMB NIAGA 3rd Floor - Suite 301
Jl. Jend. Gatot Subroto No.2
Bandung 40262
T +62 22 732 2288
F +62 22 732 2287
E yonathanmaykel@ciptadana.com

SURABAYA
Imelda Soetikno
Intiland Tower Ground Floor Suite 5 & 6
Jl. Panglima Sudirman 101-103
Surabaya 60271
T +62 31 534 3938
F +62 31 534 3886
E soetiknoimelda@ciptadana.com

SEMARANG
Lusiana Permatasari
Jl. Gajah Mada No. 107
Semarang 50136
T +62 24 354 8989
F +62 24 356 5599
E permatasarilusiana@ciptadana.com

MEDAN
Juliawaty
Jl. Cut Nyak Dien No.14
Medan 20152
T +62 61 455 5600
F +62 61 457 2269
E juliawaty@ciptadana.com

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