Vale Indonesia (INCO IJ)

Ore Sales To Drive 2027 Growth

Highlights

- **INCO's 2027 growth will increasingly depend on higher ore sales,** supported by a potential increase in RKAB allocation supported by the ramp-up of HPAL projects.
- **We forecast 18m wmt ore sales and US$200m net profit in 2027** (+14% yoy), despite lower nickel price and ore ASP assumptions.
- **Maintain BUY with a lower target price of Rp3,970** based on 6.4x EV/EBITDA (-1SD to five-year mean) reflecting a weaker nickel price outlook, lower earnings expectations, and market risk-off.

Analysis

- **3Q26 was INCO's strongest quarter of the year, keeping 2026 production on track.** Nickel matte output reached 18,341 tonnes, with deliveries of 20,158 tonnes, lifting revenue 22% qoq to US$353m. 9M26 net profit surged 181% yoy to US$147m, supported by an 18% increase in realised matte prices to US$14,306/tonne and higher ore sales. Vale Indonesia (INCO) needs around 19,500 tonnes of 4Q26 production to meet its 67,645 tonne 2026 target. Meanwhile, 9M26 ore sales at Bahodopi and Pomalaa rose 285% and 581% yoy to 2.38m wmt and 1.90m wmt, respectively, with Pomalaa's logistics bottleneck largely resolved in 4Q26.
- **2027 nickel ore sales growth hinges on higher RKAB allocation, with INCO requesting over 20m wmt.** INCO received 8.1m wmt in 2026 (6.4m saprolite and 1.7m limonite), with Pomalaa and Bahodopi each securing only around 30% of their requested quotas due to their HPAL facilities still being under construction. Management expects approval by December, allowing Pomalaa to resume ramp-up in Jan 27. A similar 8m wmt allocation in 2027 would only cover Bahodopi's requirements, versus full-capacity limonite needs of 20m wmt for Pomalaa, 10m wmt for Bahodopi and 13m-15m wmt for Sorowako. Completed HPAL facilities strengthen INCO's case for a higher allocation, while potential quota redistribution from miners facing legal issues could provide further upside. We conservatively expect INCO to sell 18m wmt of ore for 2027, comprising of 6m wmt of saprolite (+33% yoy) and 12m wmt of limonite (+606% yoy).
- **We conservatively estimate net profit at US$200m in 2027 (+14% yoy).** Growth will be driven by an 8% rise in nickel matte sales to 73,000 tonnes, assuming no production disruptions, alongside a 190% increase in ore sales to 18m wmt. However, we expect LME nickel prices to ease to US$16,000/tonne from US$17,000/tonne in 2026. Accordingly, revenue is projected to reach US$1.5b (+24% yoy), conservatively below management's expectation of doubling 2026 revenue, which is contingent on RKAB approval.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	950	990	1,228	1,524	1,789
EBITDA	213	236	375	477	709
Operating profit	45	66	229	291	512
Net profit (rep./act.)	58	76	176	200	345
Net profit (adj.)	58	76	176	200	345
EPS (USc)	0.5	0.7	1.7	1.9	3.3
PE (x)	31.1	25.0	10.8	9.5	5.5
P/B (x)	0.7	0.7	0.7	0.6	0.6
EV/EBITDA (x)	5.8	6.5	4.9	5.5	4.1
Dividend yield (%)	0.0	1.6	2.1	3.7	6.3
Net margin (%)	6.1	7.7	14.3	13.1	19.3
Net debt/(cash) to equity (%)	(24.7)	(13.6)	(2.1)	24.0	31.3
Interest cover (x)	6.1	7.6	16.9	6.1	6.0
ROE (%)	2.2	2.8	6.2	6.7	11.0
Consensus net profit			220	334	394
UOBKH/Consensus (x)			0.8	0.6	0.9

Source: INCO, Bloomberg, UOB Kay Hian

Analyst(s)

Benyamin Mikael
benyaminm@kh.co.id
+6221 2993 3914

BUY (Maintained)

Share Price	Rp3,250
Target Price	Rp3,970
Upside	+22.1%
Previous TP	Rp7,600

Stock Data

Sector	Materials
Bloomberg ticker	INCO IJ
Shares issued (m)	10,540
Market cap (Rpb)	34,254
Market cap (US$m)	1,875
3-mth avg daily t'over (US$m)	3.6

Price Performance (%)

52-week high/low				Rp7,900/Rp2,960
1mth	3mth	6mth	1yr	YTD
(13.6)	(38.1)	(32.7)	(16.5)	(37.2)

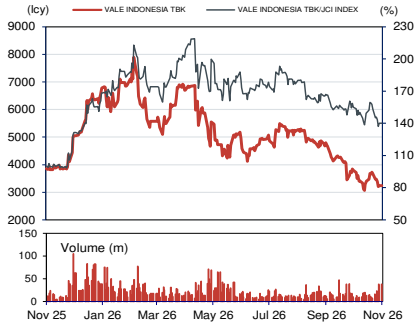
Major Shareholders (%)

Vale Canada Limited	33.9
Mineral Industri Indonesia	34.0
Sumitomo Metal Mining	11.5

Balance Sheet Metrics

FY26 NAV/Share (Rp)	4,962
FY26 Net Cash/Share (Rp)	n.a.

Price Chart



Source: Bloomberg

Company Description

Vale Indonesia produces nickel in matte, an intermediate product, from lateritic ores at its integrated mining and processing facilities near Sorowako, Sulawesi.

- **HPAL projects continue to progress,** although INCO remains cautious on exercising its call options amid challenging project economics. Pomalaa HPAL (120ktpa) is 95% complete, with inauguration targeted for mid-Dec 26, while Bahodopi HPAL (60ktpa) has reached 42% completion and targets mechanical completion in 1Q27. Sorowako HPAL (60ktpa) remains at an earlier stage of 19% completion, with operations expected around 2028. On equity participation, INCO is reassessing the economics of its potential investment, particularly in Pomalaa, through updated stress tests and due diligence, given weak nickel prices and elevated sulphur costs. Management emphasised that it would only exercise the call options if the returns are sufficiently attractive. Separately, a European automaker is currently evaluating Pomalaa's MHP, with traceability serving as a key selling point.
- **Capex will peak in 2027, but available funding provides some flexibility.** Planned capex and equity participation total US$482m in 2026, US$1.04b in 2027 and US$639m in 2028. INCO has a US$750m sustainability-linked loan, of which only US$170m has been drawn, alongside other potential off-balance-sheet funding options. Current cash position stood at US$247m, down 50% yoy. Longer-term growth initiatives include the Sorowako Unlock programme to improve plant throughput and the 13,557ha Tanamalia project, which remains at the FEL 2 stage with production targeted after 2030.

INCO's Growth Project Pipeline

Project	Value	Mine: Production	Mine: Progress	Mine: Timeline	HPAL – JV: Production	HPAL – JV: Ownership	HPAL – JV: Progress	HPAL – JV: Partner	HPAL – JV: Timeline
IGP Morowali	US$ 1.9 B Mine & HPAL	5.5 Mio Sapro; 10.4 Mio Limo	100% (phase 2 – 36%); 1,731 Workforce; 15.5 M Working hours	FID 3Q22; Start Operation 1Q26	60-ktpa Ni in MHP	Milestone based	42%; 2,246 Workforce; 8.9 M Working hour	GEM, EcoPro, VALE	Construction 2Q25; 1st MC 1Q27
IGP Pomalaa	US$ 3.2 B Mine & HPAL	7 Mio Sapro; 21 Mio Limo	88%; 9,026 Workforce; 27.4 M Working hour	FID 3Q22; Start Operation 1Q26	120-ktpa Ni in MHP	Participating Rights	95%; 6,100 Workforce; 15.7 M Working hour	Ford, HUAYOU, VALE	Construction 2Q24; 1st MC 3Q26
IGP Sorowako	US$ 2.1 B Mine & HPAL	11.5 Mio Limo	52%; 1,012 Workforce; 3.0 M Working hour	FID 3Q22; Start Operation 4Q26	60-ktpa Ni in MHP	Participating Rights	19%; 427 Workforce; 614 K Working hour	HUAYOU, VALE	Construction 3Q24; 1st MC 3Q27

Source: INCO, UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with a lower target price of Rp3,970** (from Rp7,600) based on -1SD of five-year average EV/EBITDA of 6.4x, reflecting a weaker nickel price outlook, lower earnings expectations, and market risk-off. We expect softer nickel prices amid an uncertain global demand environment and supply-demand imbalances. We also roll forward our valuation to 2027F.

Earnings Revision/Risk

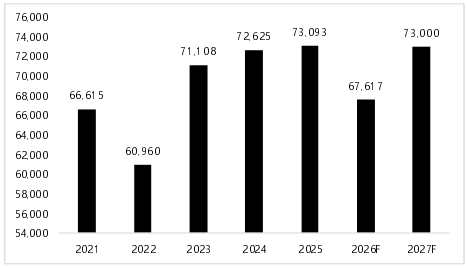
Earnings Revision

Year to 31 Dec	New		Original		Diff (%)	
(US$m)	2026F	2027F	2026F	2027F	2026F	2027F
Nickel Matte Sales (kt)	67,617	73,000	71,000	71,000	-4.8	2.8
Nickel Matte ASP (US$/t)	13,940	13,120	13,530	14,186	3.0	-7.5
Saprolite Ore Sales (m wmt)	4.5	6.0	6.7	10.0	-32.8	-40.0
Limonite Ore Sales (m wmt)	1.7	12.0	1.4	10	21.4	20.0
Saprolite Ore ASP (m wmt)	52	49	52	52	0.0	-5.4
Limonite Ore ASP (m wmt)	30	22.6	30	30	0.0	-24.8
Revenue	1,228	1,524	1,351	1,827	-9.1	-16.6
Operating Profit	229	291	230	559	-0.5	-48.0
Net profit	176	200	179	411	-1.9	-51.3

Source: INCO, UOB Kay Hian

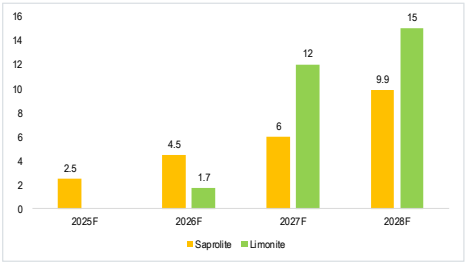
- **We cut our 2026-27 earnings estimates by 1.9% and 51.3% respectively.** The steep 2027 downgrade mainly reflects lower nickel matte ASP assumptions, lower saprolite sales assumption, and a significant reduction in assumed limonite ore prices following the government's September formula adjustment. Management attributed the adjustment to HPAL operators' concerns over high feedstock costs, rather than a direct price discount.

Nickel Matte Sales Volume



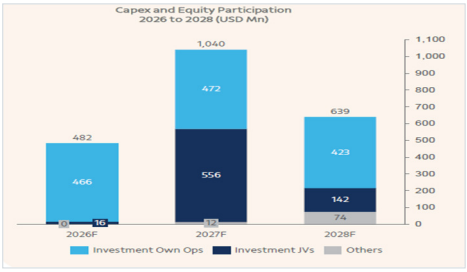
Source: INCO, UOB Kay Hian

Nickel Ore Sales Volume



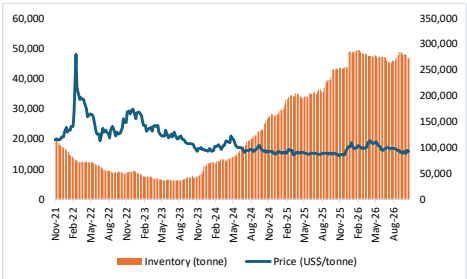
Source: INCO, UOB Kay Hian

Capex Projection



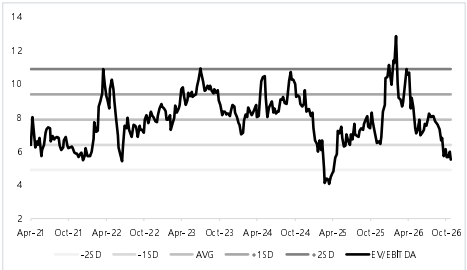
Source: INCO, UOB Kay Hian

Nickel Price vs LME Inventory



Source: INCO, UOB Kay Hian

EV/ EBITDA Band



Source: INCO, Bloomberg, UOB Kay Hian

Profit & loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	**990**	**1,228**	**1,524**	**1,789**
EBITDA	236	375	477	709
Deprec. & amort.	170	146	186	198
EBIT	66	229	291	512
Total other non-operating income	-	-	-	1
Net interest income/(expense)	29	(1)	(41)	(80)
Pre-tax profit	**95**	**228**	**250**	**432**
Tax	(18)	(52)	(50)	(86)
Net profit	**76**	**176**	**200**	**345**
Net profit (adj.)	76	176	200	345

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	2,313	2,630	2,912	3,134
Other LT assets	283	302	873	1,097
Cash/ST investment	376	236	125	89
Other current assets	373	411	484	534
Total assets	**3,346**	**3,579**	**4,394**	**4,854**
ST debt	0	0	0	0
Other current liabilities	362	307	342	358
LT debt	0	175	850	1,100
Other LT liabilities	208	192	178	164
Shareholders' equity	2,775	2,905	3,025	3,232
Total liabilities & equity	**3,346**	**3,580**	**4,394**	**4,855**

Cash flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	**295**	**174**	**295**	**458**
Pre-tax profit	95	228	250	432
Tax	(18)	(52)	(50)	(86)
Deprec. & amort.	132	108	148	159
Working capital changes	0	(91)	(37)	(31)
Other operating cashflows	86	(18)	(16)	(15)
Investing	**(557)**	**(443)**	**(1,001)**	**(605)**
Capex (growth)	(471)	(425)	(430)	(381)
Others	(86)	(19)	(571)	(225)
Financing	**(36)**	**129**	**595**	**112**
Dividend payments	(35)	(46)	(80)	(138)
Issue of shares	1	-	-	-
Proceeds from borrowings	(2)	175	675	250
Others/interest paid	-	-	-	-
Net cash inflow (outflow)	**(298)**	**(140)**	**(112)**	**(36)**
Beginning cash & cash equivalent	**675**	**376**	**236**	**125**
Changes due to forex impact	-	-	-	-
Ending cash & cash equivalent	**377**	**236**	**125**	**89**

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	23.8	30.5	31.3	39.6
Pre-tax margin	9.5	18.5	16.4	24.1
Net margin	7.7	14.3	13.1	19.3
ROA	2.3	5.1	5.0	7.5
ROE	2.8	6.2	6.7	11.0
Growth				
Turnover	4.2	24.0	24.1	17.4
EBITDA	10.6	58.7	27.4	48.7
Pre-tax profit	27.6	140.8	9.8	72.6
Net profit	31.7	130.7	13.9	72.6
Net profit (adj.)	31.7	130.7	13.9	72.6
EPS	31.7	130.7	13.9	72.6
Leverage				
Debt to total capital	0.0	0.1	0.3	0.3
Debt to equity	0.0	0.1	0.3	0.3
Net debt/(cash) to equity	(0.1)	(0.0)	0.2	0.3
Interest cover (x)	7.6	16.9	6.1	6.0

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