

Development of nickel industry in Indonesia

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PEFINDO is of the view that the outlook for nickel industry in Indonesia will be stable over the near to medium term. Our view is based on the combination of high demand for nickel products to meet the global needs for stainless steel and electric vehicle (EV) battery, and Indonesia's position as the largest producer of primary nickel. The enforcement of government regulations to create a downstream nickel industry also affirms our opinion that the domestic nickel industry is one of the government's priorities to boost economic growth. Nickel smelter investments have contributed substantially to the country's foreign direct investment in the last six years (2015-2020). Aiming to become a global hub in the EV industry supply chain, Indonesia targets the nickel industry to exceed the palm-oil exports as the country's second-largest export over the medium term. The global economic recovery post-the pandemic may limit the demand and hinder some project expansions. We also anticipate some particular players will take strategic moves to secure the future supply of raw material over the medium to long term.

Growth and stability

We expect Indonesia's primary nickel production, such as ferronickel and nickel pig iron (NPI), to significantly increase, resulting from the rapid expansion of NPI projects. In the first half of 2020 (1H2020), Indonesia produced 254,200 metric tons of nickel contained (MT Ni) in NPI, compared to that of China (249,900 MT Ni), according to the data compiled and calculated by Shanghai Metal Market (SMM). We view Indonesia's presence in the global nickel market as essential, considering it is on track to replace China as the world's largest NPI producer accounting for 27% of the global market. We understand the implementation of the export ban on nickel ore at the beginning of 2020 and the recently enacted omnibus law had disrupted the global supply of metal. Hence, it will attract more investments in down-stream projects and further drive new sources of global nickel supply.

The major driver for nickel growth is China being the world biggest stainless steel manufacturer, currently recovering following the pandemic. We expect stainless steel output from China to recover gradually after lockdowns have eased. The manufacturing Purchasing Manager's Index (PMI) for China rose to 51.5 in September 2020 from below 50 earlier in the year, signaling that China is on the trend of recovery post-COVID-19, while the rest of the world is struggling to overcome economic contractions. We also anticipate that the second wave of lockdowns in some countries will heighten uncertainty for the global demand for nickel. Analyst consensus expects the stainless steel market to take at least two years to recover to the pre-COVID-19 level. On this basis, we project that the global primary nickel supply will not be fully absorbed, resulting in a surplus and the forecasted nickel price of USD12,000 – USD14,000/MT in 2020-2021. Nickel price prevailed around USD15,000/MT as of October 2020, up from USD11,000/MT in March 2020.

Another driver sustaining the long-term growth is EV batteries, as the country owns substantial reserves of the low-grade nickel used as raw material for the EV batteries. GlobalData expects the number of EVs to soar to 6.8 million in 2023 from 1.6 million in 2018, prompting the forecasted demand for nickel used in lithium-ion batteries to quadruple over this period.

Regulation and policy

PEFINDO notes that the evolution of nickel-related regulations over the past six years reflects the government's strategy in optimizing the value-added of its mineral reserve endowment underlying the country's comparative advantage. This strategy is implemented by offering attractive incentives to the industry, such as allowing 100% foreign ownership of smelting companies without the requirement of shares divestment and tax allowance.

The acceleration in the implementation of the ban on ore export is beneficial to the existing domestic refined nickel players, as those that have yet finished the construction of their smelters or expansion of their existing smelting capacity will have to sell their nickel ore to those refined nickel players. Such a measure will be favorable for the refined nickel players since they have more supply options.

A recent Ministry of Energy and Mineral Resources (MEMR) Regulation No. 11 the Year 2020, outlining the procedure in determining the reference price for minerals, is also important for domestic nickel ore suppliers since the current practice has resulted in the lower domestic relative to the international price, thereby disadvantaging the domestic industry. The government appointed a task force in August 2020 to monitor the implementation of the reference price.

Players and competition

According to MEMR data, 41 nickel smelters are in the pipeline, spreading across Sulawesi, North Maluku, East Java, Banten, and South Kalimantan. Among those smelters, in terms of construction progress, 11 projects were completed at the end of 2019, 8 between 40-99% , and 22 are less than 40%. Some of the projects in the early construction phase are likely to be delayed due to the pandemic. The majority of nickel supply in the future will come from more collaborations between Indonesian and Chinese companies on NPI and High Pressure Acid Leaching (HPAL) processing plants. PT Aneka Tambang (Persero) Tbk (ANTM, *idA/Stable*) and PT Vale Indonesia Tbk (INCO) will also take part in HPAL development projects.

Tsingshan Holding Group is one of the first movers in the domestic refined nickel production sector. It has been aggressively investing in Indonesia since the first nickel regulation was issued in 2014. Supported by strong financial capacities and experience in stainless steel operations, the group has developed annual production capacities of three million tons of stainless steel and more than three million tons of NPI in Indonesia. It can produce refined nickel products at low costs through its integrated nickel industrial areas in Southeast Sulawesi and North Maluku. The industrial areas use coal-fired power plants that also contribute to its low-cost operation. Tsingshan Holding Group is one of the top domestic coal consumers in Indonesia. Since Tsingshan started to supply refined nickel from Indonesia, many countries reduced their domestic production and imported refined nickel products from Tsingshan instead.

PEFINDO is of the view that the competition among players in the industry will be moderate over the medium to long term. The number of players may be large, but we anticipate the ultimate owners will be limited to only a few groups. The nickel industry requires substantial investment, operating excellence, and strong integration between off-takers, suppliers, and supporting services in order to win the competition. We view the acquisition of nickel mining sites as intense over the medium term to secure future raw material supply. The government, through PT Indonesia Asahan Aluminium (Persero), also acquired a 20% stake in INCO in October 2020 in order to secure future supply for high value-added products.

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