

15 January 2025

Consumer Cyclical | Consumer Products

## Indah Kiat Pulp & Paper (INKP IJ)

**Buy** (Maintained)

Prices Up On Seasonality, Lower China Output; BUY

Target Price (Return): IDR13,625 (+112%)  
Price (Market Cap): IDR6,425 (USD2,159m)  
ESG score: 3.1 (out of 4)  
Avg Daily Turnover (IDR/USD) 28,811m/1.83m

- **Maintain BUY and IDR13,625 TP, 112% upside.** We maintain our positive outlook on Indah Kiat Pulp & Paper as it shifts its focus from a heavy reliance on pulp price growth to downstream products, providing more stable pricing and growth fuelled by increasing volumes. The industry should see pricing improvement on the stoppage of Shandong Chenming's production of c.5m tonnes of paper & packaging (p&p), which would limit global supply. Our FY25F TP reflects 9x P/E – still cheap, at a 33% discount to peers, and with a 2% ESG premium.

- **Challenges from the commencement of China's integrated mills but...** In the next five years, there would be another c.4.5m tonnes of pulp facility built in China for p&p mills integration to seek for more profitability. This would potentially reduce market pulp demand, while we should expect market pulp additional capacity in the next five years of c.7.2m tonnes (Suzano's Cerrado 2.55m tonnes, Liansheng's 1.3m tonnes, APP's OKI 3m tonnes and CMPC's 350k tonnes), thereby potentially pressuring pulp price.

- **...offset by the closure of c.5m tonnes p&p production.** However, China's pulp integration development should face competitiveness issues as China heavily relies on pulpwood imports, of which prices are higher leading to lower margins. Evidently, Shandong Chenming (capacity Bleached Hardwood Kraft (BHK) of c.3m tonnes and p&p of c.7m tonnes) announced the stoppage of its p&p production of c.5m tonnes due to operating loss of USD29.6m in 2023 and USD8.6m in 9M24. Additionally, the heavy interest expense of c.USD230-240m pa could led to a net loss. This shows that China's integration of pulp and paper production would lead to inefficient operations and lower profitability as the machines need to run continuously despite the slower demand. Note that pulp production cash cost in China has reached c.362-424/tonne vs USD225-270/tonne in Indonesia.

- **Short- to mid-term pulp price improvement on seasonality and stoppage of Shandong Chenming production.** As of Nov 2024, BHK pulp shipment was up by 3.3% MoM and 0.5% YoY mainly driven by China due to the incoming Lunar New Year. With China importing BHK pulp at USD583/tonne (-7.5% MoM) that resulted in the spread with the exported p&p at USD262/tonnes (20.6% MoM) in Nov 2024, we expect pulp prices to improve in Jan 2025 supported also by the stoppage of Shandong Chenming's production which has limited market supply. As at Dec 2024, BHK pulp prices reached USD545/tonne (-1.1% MoM, -15.3% YoY). We expect 1Q25 BHK prices to reach USD560/tonne while Indonesia's export freight on board price should reach USD520-540/tonne, but note that price improvement should reflect on INKP's revenue in 2Q25 due to the time lag between order and shipment.

- **Downside risks.** Weakening China economy, FX volatility, higher interest rates, and unfavourable regulations.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	4,003	3,479	3,453	4,876	7,411
Recurring net profit (USDm)	792	374	364	502	665
Recurring net profit growth (%)	57.2	(52.7)	(2.8)	37.9	32.5
Recurring P/E (x)	2.73	5.76	5.93	4.30	3.25
P/B (x)	0.4	0.4	0.3	0.3	0.3
P/CF (x)	3.67	3.59	2.12	10.65	na
Dividend Yield (%)	0.9	0.9	0.9	0.9	0.9
EV/EBITDA (x)	2.80	3.78	5.55	4.91	4.21
Return on average equity (%)	16.5	7.1	6.5	8.1	9.7
Net debt to equity (%)	37.3	34.3	60.3	69.7	72.5

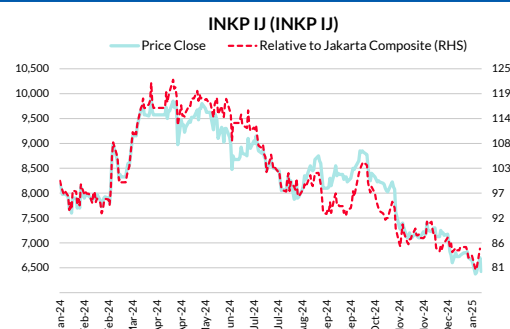
Source: Company data, RHB

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.5)	(10.1)	(22.8)	(24.0)	(20.7)
Relative	(4.6)	(5.9)	(15.6)	(19.7)	(17.6)
52-wk Price low/high (IDR)				6,375	–9,900



Source: Bloomberg

### Overall ESG Score: 3.1 (out of 4)

#### E: EXCELLENT

INKP reduces non-recyclable energy and water consumptions, as well as increase recycled fibre composition and biodegradability on its products through innovation. It has obtained several certifications such as SVLK, PEFC Chain of Custody, Singapore Greenlabel, halal certificates and PROPER BLUE

#### S: GOOD

INKP priorities the health, safety, and well-being of the parties involved in its business through the implementation of APP Employee Welfare Policy, in accordance with International Labour Organisation (ILO) Standard requirements.

#### G: GOOD

INKP implemented Business Code of Conduct (BCoC) and Anti-Bribery & Anti-Corruption Policy to encourage ethical behaviour of stakeholders. To support that, INKP conducts BCoC training and annual survey with employees. It also established a dedicated channel, Integrated Call Centre, which serves as a platform for all stakeholders to express concerns, complaints, ask questions, and submit whistleblower reports and Stakeholder Advisory Forum, which aims to improve the stakeholder's transparency and engagement within its business.

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Consumer Cyclical | Consumer Products

## Financial Exhibits

<b>Asia</b> Indonesia Consumer Cyclical <b>Indah Kiat Pulp &amp; Paper</b> INKP IJ Buy	<b>Financial summary (USD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring EPS	0.14	0.07	0.07	0.09	0.12
	DPS	0.00	0.00	0.00	0.00	0.00
	BVPS	1.02	1.10	1.17	1.26	1.39
	Return on average equity (%)	16.5	7.1	6.5	8.1	9.7
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring P/E (x)	2.73	5.76	5.93	4.30	3.25
	P/B (x)	0.4	0.4	0.3	0.3	0.3
	FCF Yield (%)	23.3	15.6	(121.0)	(109.1)	(1.4)
	Dividend Yield (%)	0.9	0.9	0.9	0.9	0.9
<b>Key drivers</b>	EV/EBITDA (x)	2.80	3.78	5.55	4.91	4.21
	EV/EBIT (x)	3.42	4.90	7.24	6.14	5.28
<b>Key risks</b>	<b>Income statement (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total turnover	4,003	3,479	3,453	4,876	7,411
	Gross profit	1,590	1,132	1,123	1,602	2,240
	EBITDA	1,391	1,022	1,020	1,322	1,640
	Depreciation and amortisation	(253)	(234)	(238)	(266)	(331)
<b>Company Profile</b>	Operating profit	1,138	788	782	1,056	1,309
	Net interest	(238)	(264)	(328)	(429)	(478)
	Pre-tax profit	1,047	550	504	677	881
	Taxation	(190)	(138)	(101)	(135)	(176)
	Reported net profit	858	411	404	541	705
	Recurring net profit	792	374	364	502	665
	<b>Cash flow (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(548)	(3)	420	(597)	(1,072)
	Cash flow from operations	588	601	1,020	203	(30)
	Capex	(85)	(265)	(3,632)	(2,559)	0
	Cash flow from investing activities	(141)	(572)	(2,847)	(1,344)	(884)
	Dividends paid	(19)	(19)	(19)	(19)	(19)
	Cash flow from financing activities	(241)	105	1,802	694	514
	Cash at beginning of period	1,059	1,265	1,400	1,174	885
	Net change in cash	206	135	(25)	(447)	(401)
	Ending balance cash	1,265	1,400	1,375	727	485
	<b>Balance sheet (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	1,265	1,400	1,174	885	478
	Tangible fixed assets	3,263	3,299	6,701	6,444	6,122
	Total investments	359	353	350	487	762
	Total assets	9,641	10,125	12,073	13,540	15,027
	Short-term debt	1,833	1,748	2,010	2,755	3,256
	Total long-term debt	1,523	1,708	3,014	2,942	2,730
	Total liabilities	4,036	4,125	5,688	6,633	7,433
	Total equity	5,605	6,000	6,385	6,908	7,594
	Total liabilities & equity	9,641	10,125	12,073	13,540	15,027
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	13.8	(13.1)	(0.8)	41.2	52.0
	Recurrent EPS growth (%)	57.2	(52.7)	(2.8)	37.9	32.5
	Gross margin (%)	39.7	32.5	32.5	32.9	30.2
	Operating EBITDA margin (%)	34.8	29.4	29.5	27.1	22.1
	Net profit margin (%)	21.4	11.8	11.7	11.1	9.5
	Dividend payout ratio (%)	2.2	4.5	4.6	3.4	2.6
	Capex/sales (%)	2.1	7.6	105.2	52.5	0.0
	Interest cover (x)	4.48	2.66	2.18	2.32	2.64

Source: Company data, RHB

15 January 2025

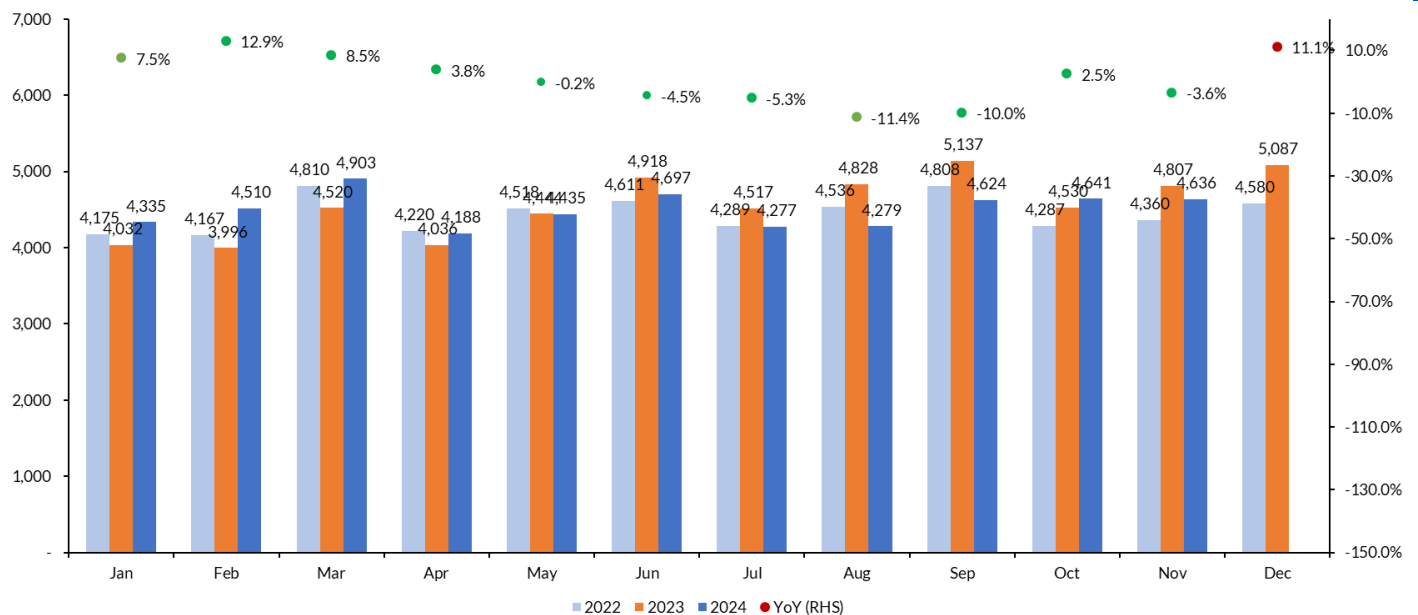
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Figure 1: Global monthly pulp shipments and inventory

'000 tonnes	Nov 2023	Sep 2024	Oct 2024	Nov 2024	MoM	YoY	11M23	11M24	YoY
<b>Total shipments</b>	4,807	4,624	4,641	4,636	-0.1%	-3.6%	49,761	49,527	-0.5%
<b>Shipment by type</b>									
BHK	2,668	2,688	2,595	2,681	3.3%	0.5%	27,368	28,027	2.4%
Bleached Softwood Kraft (BSK)	1,986	1,787	1,905	1,812	-4.9%	-8.7%	20,658	19,849	-3.9%
Other	153	148	141	143	1.4%	-7.1%	1,735	1,652	-4.8%
<b>Shipment by region</b>									
China	1,916	1,643	1,703	1,809	6.2%	-5.6%	18,652	16,566	-11.2%
Western Europe	951	1,001	1,012	977	-3.5%	2.7%	10,148	11,199	10.4%
North America	625	634	643	615	-4.4%	-1.6%	6,754	7,035	4.2%
Other	1,315	1,346	1,283	1,235	-3.7%	-6.0%	14,208	14,728	3.7%
<b>Inventory days</b>									
BHK	38	54	53	52	(1)	14			
BSK	38	49	45	44	(1)	6			
<b>Shipment to capacity ratio (%)</b>									
Global	93.1%	89.1%	85.4%	88.0%	2.6	(10.7)			
<b>China BCP market Price (USD/tonne)</b>									
	837	881	876	864	-1.4%	3.2%			

Source: Bloomberg, RHB

Figure 2: Monthly global pulp shipments for 2022 and 2023 vs Jan-Nov 2024 ('000 tonnes)



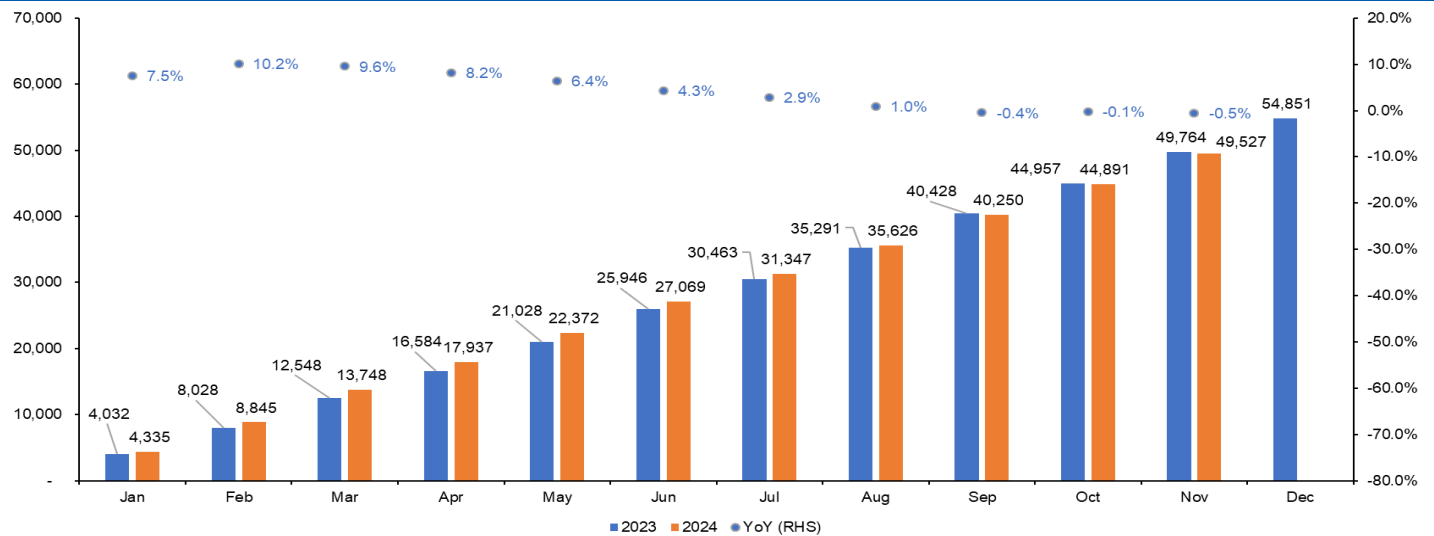
Note: \*Green bullets are 2024 YoY growth and red bullets are 2023 YoY growth

Source: Bloomberg

15 January 2025

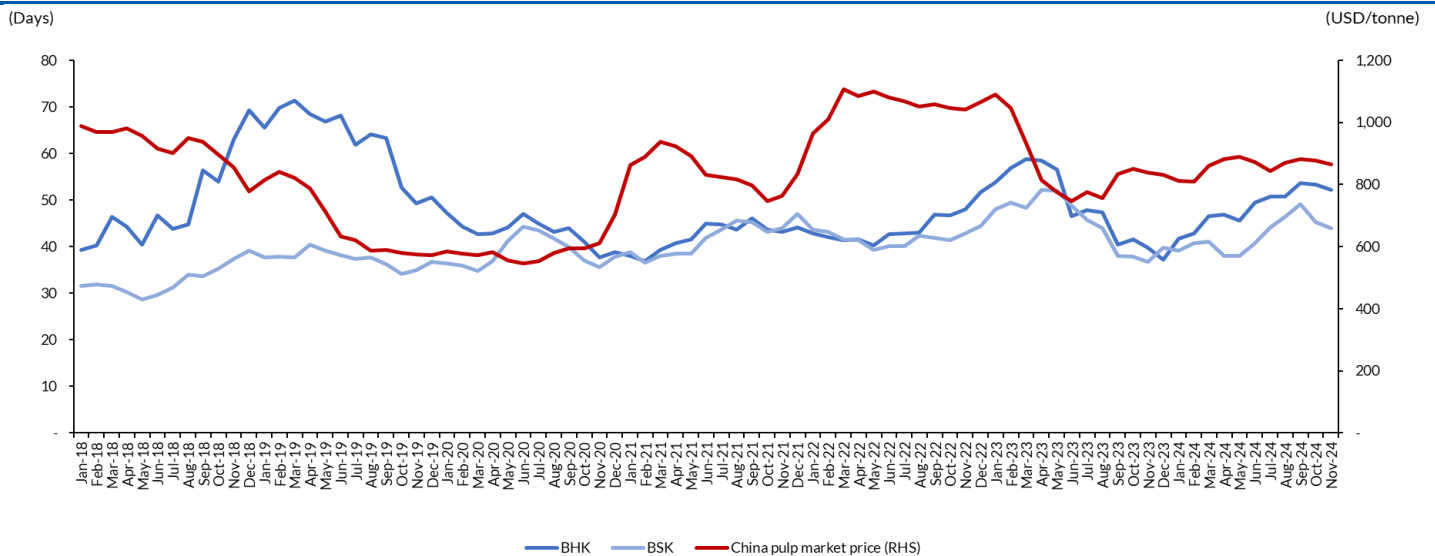
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Figure 3: Cumulative global pulp shipments in 2023 vs Jan-Nov 2024 ('000 tonnes)



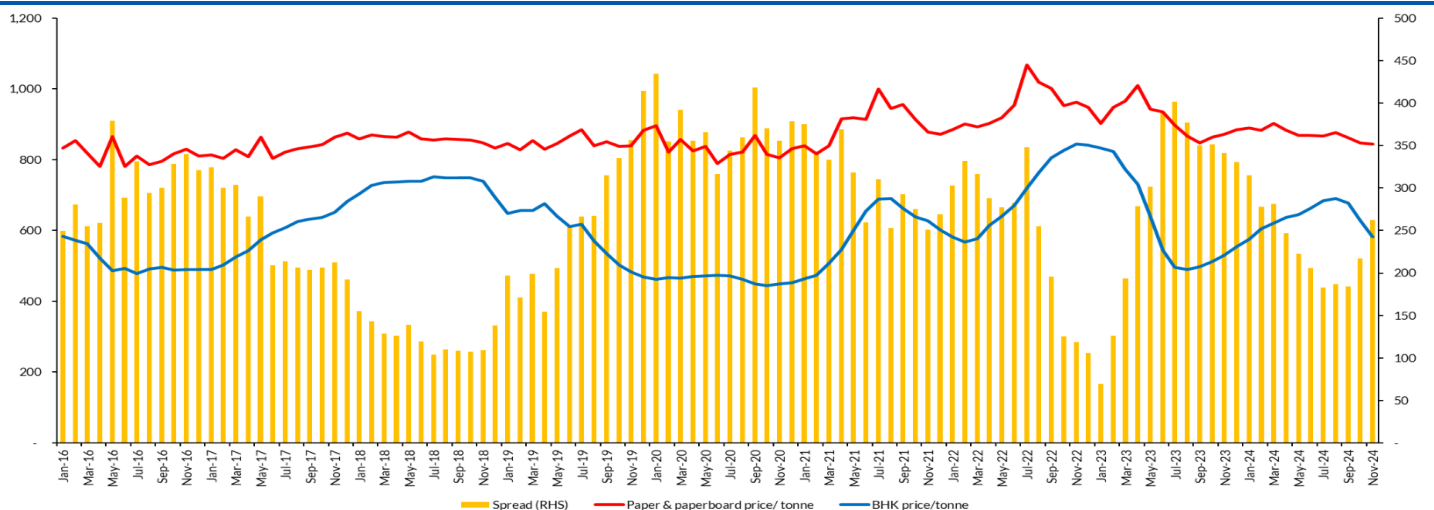
Source: Bloomberg

Figure 4: China's pulp market price; BHK and BSK inventory days (Jan 2018-Nov 2024)



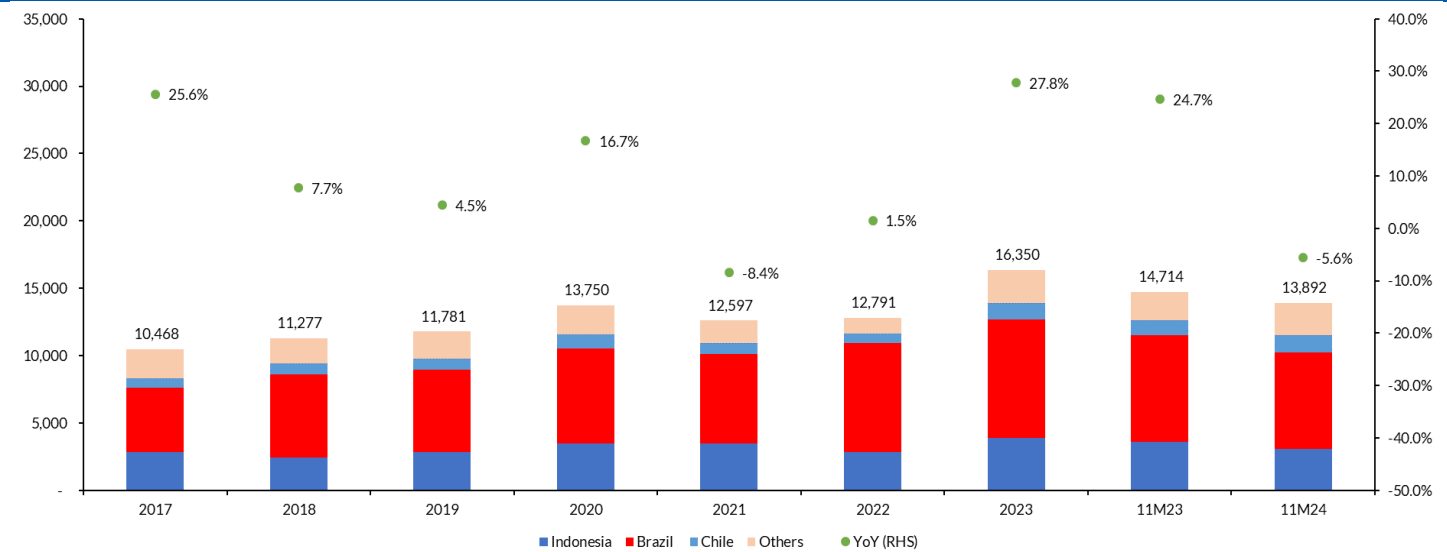
Source: Bloomberg

Figure 5: China's BHK imports and paper & paperboard export prices, Jan 2016-Nov 2024 (USD/tonnes)



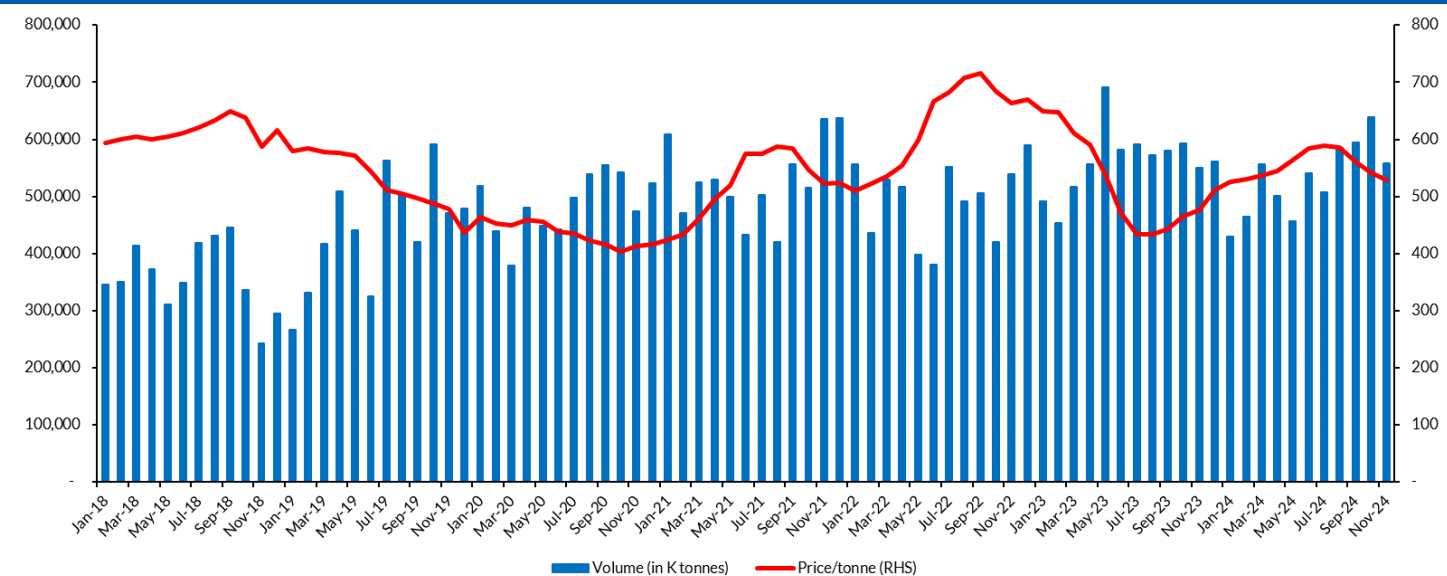
Source: China Customs

Figure 6: China's BHK imports by country of origin; 2017-2023 and 11M23 vs 11M24 ('000 tonnes)



Source: China Customs

Figure 7: Indonesia's BHK export volume and price (Jan 2018 to Nov 2024)



Source: Indonesian Customs

15 January 2025

Consumer Cyclical | Consumer Products

Figure 8: Peer comparison

Company	Ticker	Mkt cap (USDm)	P/E (x)		P/BV (x)		Div yield (%)		ROE (%)	
			2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Integrated										
UPM-Kymmene Oyj	UPM FH	14,860	16.4	12.6	1.3	1.3	5.6	5.7	7.5	10.1
Suzano SA	SUZB3 BZ	12,871	-	7.5	1.7	1.5	2.0	2.7	2.1	19.7
Klabin SA	KLBN11 BZ	4,528	9.4	9.3	2.8	2.9	8.8	9.7	16.1	22.8
Empresas CMPC SA	CMPC CI	4,021	7.6	9.7	0.5	0.5	6.3	4.0	6.8	5.4
Indah Kiat Pulp & Paper*	INKP IJ	2,158	5.6	4.2	0.4	0.3	0.8	0.8	6.5	8.1
Weighted average			8.5	9.7	1.5	1.4				
Non-Integrated										
Smurfit WestRock	SW US	27,146	26.5	15.4	1.6	1.5	2.2	2.6	8.5	13.1
International Paper Co	IP US	18,722	43.7	17.8	2.3	2.2	3.4	3.5	6.0	12.0
Stora Enso Oyj	STERV FH	7,881	22.4	15.2	0.7	0.7	2.5	3.6	1.4	4.7
Graphic Packaging Holding Co	GPK US	8,053	10.6	10.0	2.6	2.2	1.5	1.6	25.6	22.8
Oji Holdings Corp	3861 JT	3,778	10.4	9.9	0.6	0.5	2.8	4.1	5.7	5.3
Metsa Board Oyj	METSA FH	1,639	46.7	15.6	1.3	1.2	1.5	3.0	2.4	8.4
Nine Dragons Paper Holdings	2689 HK	1,820	16.5	8.8	0.3	0.3	0.4	1.1	1.7	3.2
Nippon Paper Industries	3863 JT	632	6.6	87.3	0.2	0.2	0.7	1.2	3.7	0.2
Weighted average			28.0	15.6	1.7	1.6				
Global weighted average			21.1	13.5	1.6	1.5				

Source: Bloomberg, RHB

## Emissions And ESG

### Trend analysis

In 2023, INKP recorded a 4% reduction in greenhouse gas (GHG) emissions from the 2018 baseline, achieved through energy efficiency initiatives undertaken.

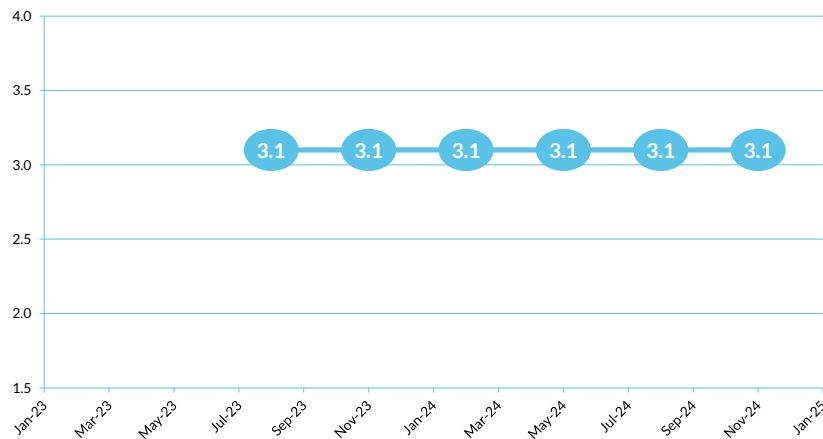
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	6,638,017	6,296,638	6,444,964
Scope 2	206,849	190,645	74,979
Scope 3	na	na	na
Total emissions	6,844,866	6,487,283	6,519,943

Source: Company data, RHB

## Latest ESG-Related Developments

- INKP has adopted the Sustainability Roadmap Vision (SRV) 2030 from parent company, APP Group. The goals are centred around three key pillars: Production (Carbon Footprint Reduction), Forests (Conserving the Forest), and People (Improving Lives). In 2023, INKP has achieved a 4% reduction in GHG emissions from the 2018 baseline through energy efficiency initiatives.
- In 2023, INKP's renewable energy use increased by 6.2% due to energy efficiency programme and the acquisition of unbundled Renewable Energy Certificates (RECs) from PLN for the IKS (Serang) mill. INKP also installed its solar power plants with a total capacity of 8.765 MWp at its IKT (Tangerang) and IKS mills. Also, a solar power plant with a capacity of 12.86 MWp will become operational at its Indah Kiat Perawang (IKP) mill in the coming years. The mill received the Green Industry Standard certificate for its pulp and cultural paper products, awarded after thorough inspections by an independent and competent Green Industry Certification Body.
- In 2023, INKP supported conservation funding and collaborated with the Directorate General of Ecosystem Conservation, experts, and stakeholders to aid the Ministry of Environment and Forestry in sustainable conservation efforts for Sumatran tigers, elephants, biodiversity, and their habitats. IKS also helped provide clean water to 450 families by constructing nine boreholes, adding to the existing 147 clean water points. Community-led management aims for sustainable use.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-09-06	Buy	13,625	8,150
2024-06-18	Buy	15,250	8,675
2024-04-09	Buy	15,250	9,575
2023-08-10	Buy	22,975	9,800
2023-01-17	Not Rated	na	8,725

Source: RHB, Bloomberg



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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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