

10 August 2023

Consumer Cyclical | Consumer Products

## Indah Kiat Pulp & Paper (INKP IJ)

# Buy

### Neglected Asian Champion; Initiate BUY

Target Price (Return): IDR22,975 (136%)  
Price (Market Cap): IDR9,750 (USD3,505m)  
ESG score: 3.1 (out of 4)  
Avg Daily Turnover (IDR/USD) 57,588m/3.81m

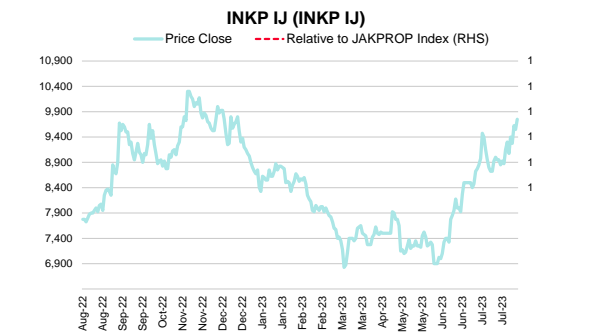
- **Initiating coverage with BUY and IDR22,975 TP, 136% upside with c.1% yield.** INKP is currently trading at a cheap valuation of 4.4x PER of 2024F PER – a significant 68.1% discount to peers. As an integrated pulp and paper producer with the lowest production cash cost, rising pulp price threshold, and new capacity line revenue kicking in from 4Q24, INKP deserves premium valuation. Our TP is based on 10.2x PER – still cheap at 25.3% discount to peers – and includes ESG premium of 2% as its ESG score is 10 bps above the country median.
- **New capacity line in Karawang to strengthen margin.** Assuming only 20% of its total production capacity of 3.9 m tons translate to sales in 2024F, our sensitivity analysis suggests INKP GPM to be 58bps better than during its pre-expansion, when pulp price was down by USD100/ton. Hence, growing capacity utilisation by 63.3% in 2025F should strengthen its GPM during the pulp price bust.
- **Potential pulp price increment on depleting inventory and growing industry integration.** Global bleached hardwood kraft (BHK) producers' inventory days should deplete during 3Q23 and 4Q23 on the back of growing demand from China during the mid-autumn festival period. Note that China's pulp consumption accounted for c.33-36% of global market pulp supply. Additionally, INKP's industrial white paper new capacity line would integrate c.2-3 m tons of the market pulp, resulting in increased scarcity of BHK pulp supply in the market.
- **Rising marginal cost to limit pulp supply and maintain price growth.** Growing inflation pressure results in higher production and marginal costs. This would hinder pulp capacity expansion, particularly for producers outside Indonesia and Brazil that have higher cash cost production and non-integrated production. Additionally, annual bleached chemical pulp (BCP) supply disruption grew to 2 m tons. Hence, the growing demand but limited growth in supply would lead to higher pulp prices.
- **INKP deserves its premium valuation** when compared to its peers in the industry, given its sturdy OPM during the 2019 pulp price bust. When pulp prices dropped from its peak in 2018, INKP's OPM outperformed at 17.4% vs peers' below 15%.
- **Asia Pulp & Paper (APP) commands 10% of global BCP market.** INKP's parent APP's total market capacity, including Paper Excellence and Domtar pulps, reaches 5.6 m tons – the second largest after Brazil's Suzano. We note that Suzano (3.6 m tons) and Fibria (7.3 m tons) merged in 2019, boosting its total pulp capacity to 10.9 m tons. INKP alone has c.1.9 m tons market pulp – c.33.9% of APP's total market pulp capacity.
- **Downside risks include** weakening China economy, FX volatility, hikes in interest rates, unfavourable government regulations, and project delays.

### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.7	10.2	34.5	14.0	25.4
Relative	11.7	10.2	34.5	14.0	25.4
52-wk Price low/high (IDR)				6,825 – 10,300	



Source: Bloomberg

### Overall ESG Score: 3.10 (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's (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.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (USDm)	3,517	4,003	3,703	4,872	6,634
Recurring net profit (USDm)	504	792	522	741	1,003
Recurring net profit growth (%)	96.5	57.2	(34.0)	41.9	35.2
Recurring P/E (x)	6.96	4.43	6.71	4.73	3.50
P/B (x)	0.7	0.6	0.6	0.5	0.4
P/CF (x)	5.02	5.96	3.44	3.71	5.15
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	9.56	5.92	10.13	7.99	5.60
Return on average equity (%)	11.7	16.5	10.0	12.3	14.3
Net debt to equity (%)	52.7	37.3	47.3	54.6	44.9

Source: Company data, RHB

See important disclosures at the end of this report

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## 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-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Recurring EPS	0.09	0.14	0.10	0.14	0.18
	DPS	0.00	0.00	0.00	0.00	0.00
	BVPS	0.87	1.02	1.13	1.27	1.46
	Return on average equity (%)	11.7	16.5	10.0	12.3	14.3
<b>Valuation basis</b> PER	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Recurring P/E (x)	6.96	4.43	6.71	4.73	3.50
	P/B (x)	0.7	0.6	0.6	0.5	0.4
	FCF Yield (%)	13.2	14.4	(25.5)	(21.8)	12.0
	Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5
<b>Key drivers</b> i. Higher pulp price; ii. China economy recovery; iii. Integration of pulp production to limit BHK supply.	EV/EBITDA (x)	9.56	5.92	10.13	7.99	5.60
	EV/EBIT (x)	6.55	4.60	7.10	5.88	4.29
	<b>Income statement (USDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total turnover	3,517	4,003	3,703	4,872	6,634
	Gross profit	1,228	1,590	1,208	1,659	2,243
<b>Key risks</b> i. Pulp & paper price volatility; ii. FX volatility; iii. Higher interest rate.	EBITDA	588	885	598	855	1,154
	Depreciation and amortisation	271	253	255	307	353
	Operating profit	859	1,138	852	1,162	1,507
	Net interest	(240)	(238)	(267)	(303)	(322)
	Pre-tax profit	663	1,047	733	1,007	1,333
<b>Company Profile</b> PT Indah Kiat Pulp & Paper Tbk is part of APP Group, the largest pulp & paper producer. Established in 1976, INKP has emerged as a major player in pulp and paper industry in the Asian market. The company engages in two main activities: Cultural paper and pulp, and industrial paper and tissue products. The product range comprises of pulp and papers for writing and printing, photocopying, and packaging. It boasts a formidable market presence across Indonesia, Asia, the United States, Australia, the Middle East, Africa, and Europe.	Taxation	(136)	(190)	(147)	(201)	(267)
	Reported net profit	527	858	587	805	1,067
	Recurring net profit	504	792	522	741	1,003
	<b>Cash flow (USDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	(131)	(548)	184	(193)	(774)
	Cash flow from operations	699	588	1,019	945	681
	Capex	(235)	(85)	(1,912)	(1,711)	(261)
	Cash flow from investing activities	(392)	(141)	(1,809)	(1,882)	(583)
	Dividends paid	(19)	(19)	(19)	(19)	(19)
	Cash flow from financing activities	(99)	(223)	446	1,490	831
	Cash at beginning of period	871	1,059	1,265	921	327
	Net change in cash	208	225	(344)	552	929
	Ending balance cash	1,078	1,284	921	1,474	1,257
	<b>Balance sheet (USDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	1,059	1,265	921	327	708
	Tangible fixed assets	3,430	3,263	4,846	6,178	6,014
	Total investments	388	359	371	474	644
	Total assets	8,978	9,641	10,671	11,947	13,485
	Short-term debt	1,899	1,833	1,954	2,118	2,475
	Total long-term debt	1,670	1,523	1,885	2,011	1,832
	Total liabilities	4,220	4,036	4,498	4,987	5,477
	Total equity	4,759	5,605	6,173	6,960	8,008
	Total liabilities & equity	8,978	9,641	10,671	11,947	13,485
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	17.8	13.8	(7.5)	31.6	36.2
	Recurrent EPS growth (%)	96.5	57.2	(34.0)	41.9	35.2
	Gross margin (%)	34.9	39.7	32.6	34.0	33.8
	Operating EBITDA margin (%)	16.7	22.1	16.1	17.6	17.4
	Net profit margin (%)	15.0	21.4	15.8	16.5	16.1
	Dividend payout ratio (%)	3.6	2.2	3.2	2.3	1.7
	Capex/sales (%)	6.7	2.1	51.6	35.1	3.9
	Interest cover (x)	3.41	4.48	3.02	3.73	4.58

Source: Company data, RHB

## Pulp price recovery in 2Q24

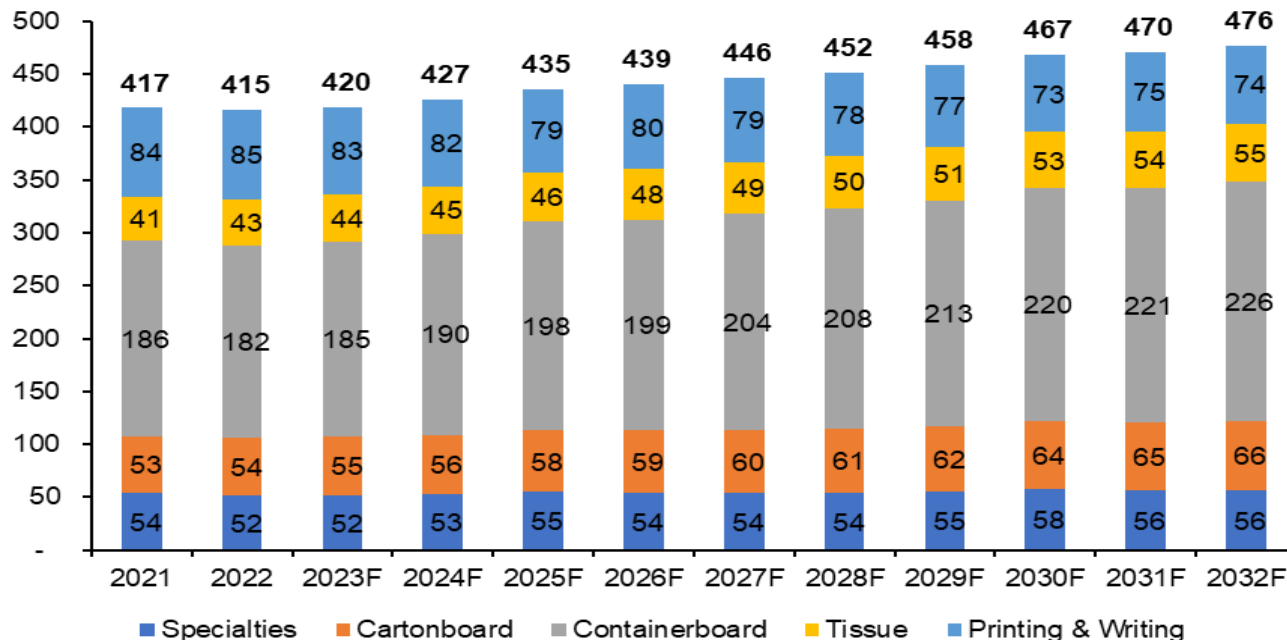
We estimate INKP pulp ASPs in 2023 and 2024 to reach USD627 and USD575 per ton (vs 2022's USD648 per ton), on the back of depleting BHK inventory and growing demand triggered by: i. A better China GDP growth in 2024F; ii. Growing BHK pulp share towards tissue production; iii. Growing Ivory paper share in packaging demand; iv. BHK cost competitiveness compare to Bleached Softwood Kraft (BSK) pulp; v. Growing pulp and paper integration to limit market pulp supply; and vi. Growing demand outpacing supply.

The global demand for paper and paperboard (excluding newspaper) is projected to grow c.5 m tons per year (Figure 1) – an additional pulp demand of c.5-6 m tons per year. Note that conversion rate of each type of paper and paper board varies from 0.8–1.1x. China, in particular, plays a key role in global demand as its paper and paperboard consumption accounts for c.30% of total global demand. Hence, a drop of 2.4 m tons in China's consumption in 2022 had a major impact on global demand growth.

In particular, the gap between BHK pulp capacity (excluding integrated) and its demand is expected to narrow in 2026F (Figure 2). We expect additional capacity to be limited, given the rising cash cost production, unplanned annual BCP supply disruption that reaches 2 m tons in 2020-21 from 1.2 m tons in 2017-19 (Figure 3), and growing pulp and paper production integration. Hence, BHK pulp price should be strengthening each year. Note that Figure 2's market pulp supply of 47.5 m tons in 2026 has not taken into account INKP's industrial white paper capacity expansion of 3 m tons. Because of this, we expect the market pulp demand to reach 46.1 m tons, narrowing the gap between pulp demand and capacity.

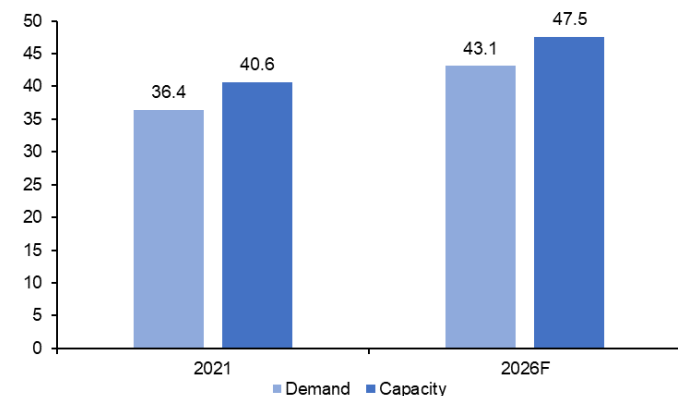
Global digitalisation limits the growth of pulp demand for printing and writing paper consumption. However, the growing e-commerce sales and eco-friendly packaging demand to replace plastic positively impacts the growth of carton board and containerboard demands. The demand for global paper and paperboard is expected to keep growing by 7-8 m tons per year.

**Figure 1: Global paper and paperboard demand (excluding newspaper), 2021 – 2032F**



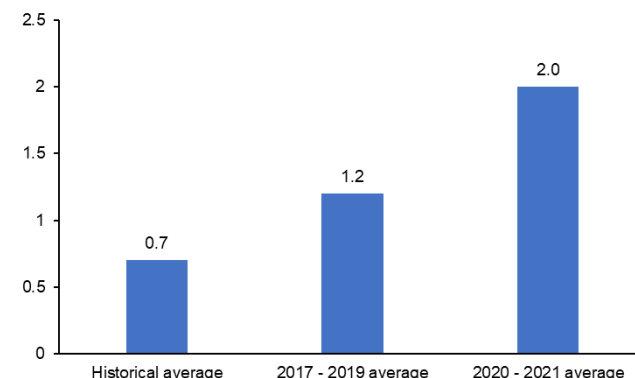
Source: AFRY, Suzano BI

Figure 2: BHK demand vs capacity (in m tons)



Source: AFRY, Suzano BI

Figure 3: Historical unplanned BCP supply disruption (in m tons)



Source: Suzano BI, Fastmarkets RISI, Hawkins Wright, Brian McClay

### China demand recovery to deplete swelling inventory

A better GDP growth of 4.5% expected in 2024 (based on our economist's estimates in the [Path Finder – Separate the Noise from Reality](#) report) could stimulate demand for paper and paperboard. This would result in the recovery of demand for pulp – helping to deplete the current swelling global BHK inventory to c.40 days.

As of 2Q23, global BHK pulp inventory reached 61 days (from 59 days in 1Q23 and 47 days in 4Q22) – one of the causes for its price decline (Figure 4). The swelling inventory was mainly due to weak paper and paperboard consumption from China in 2022 (Figure 5), coupled with the weakening CNY to USD in 2Q23 (Figure 6) and high pulp prices, which resulted in significant dwindling of pulp demand in China. Additionally, the Chinese Government reduced a wide range of paper and paperboard import duties to 0% from 5-6% – triggering demand for imports while weakening the demand for BHK.

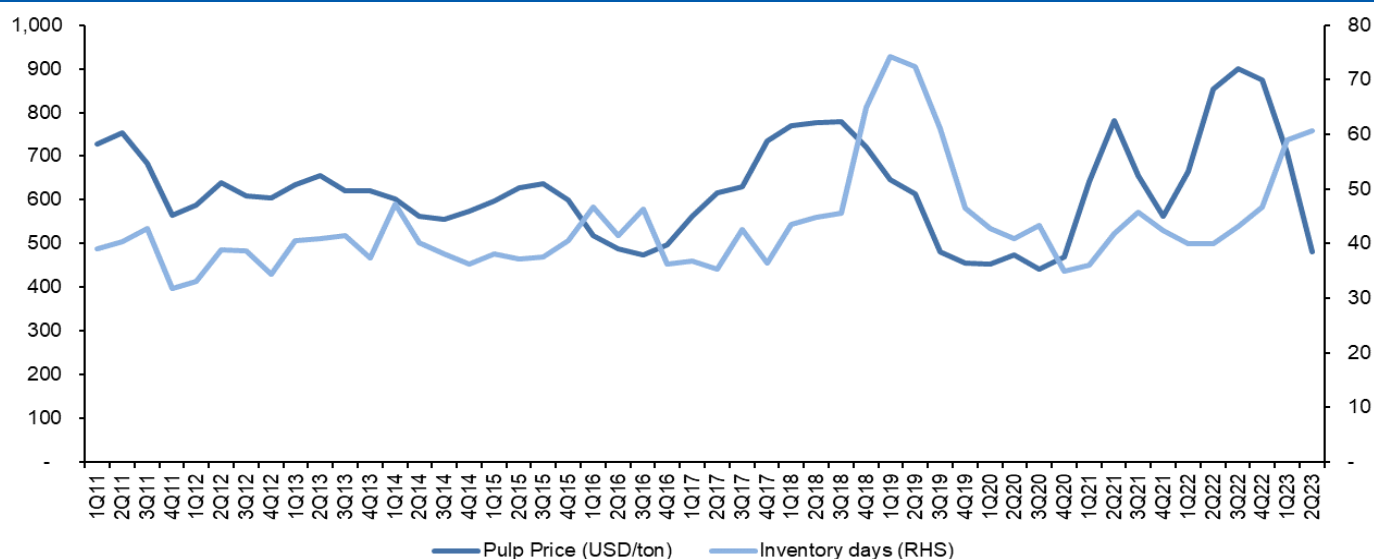
Historically, swelling the global pulp inventory took approximately 3-4 quarters to normalise to c.40 days. Therefore, we expect the pulp prices to start recovering from 2Q24-end. In 3Q23, the Mid-Autumn festival would partly help deflate the swelling inventory. However, we remain cautious in the quarter on the more competitive prices from imported paper and paperboard, while 4Q23's demand growth should be relatively flat. We expect BHK supplies to grow in the market as some major players expanded their supply capacities to start production in 2023 – c.3.66 m tons, with an additional 5.11 m tons for 2024 (Figure 7). However, as major players Nine Dragons, CMPC and UPM Communication Paper's BHK capacity would be integrated pulp, the addition for the market pulp would only be 4.01 m tons by 2024F.

For 1Q24, with the Lunar new year celebrations and the end of import duties relaxation, China's local paper producers are expected to maximise paper and paperboard utilisation to fulfil local demand. This would trigger an increased pulp demand, and normalise the global inventory at the same time. For 2Q24, with the expectation of a better economic outlook, growing consumer spending, and normalising of inventory levels, pulp prices should gradually recover. Additionally, the growing usage of BHK, ie to produce tissues and packaging, should be a positive catalyst for BHK price growth.

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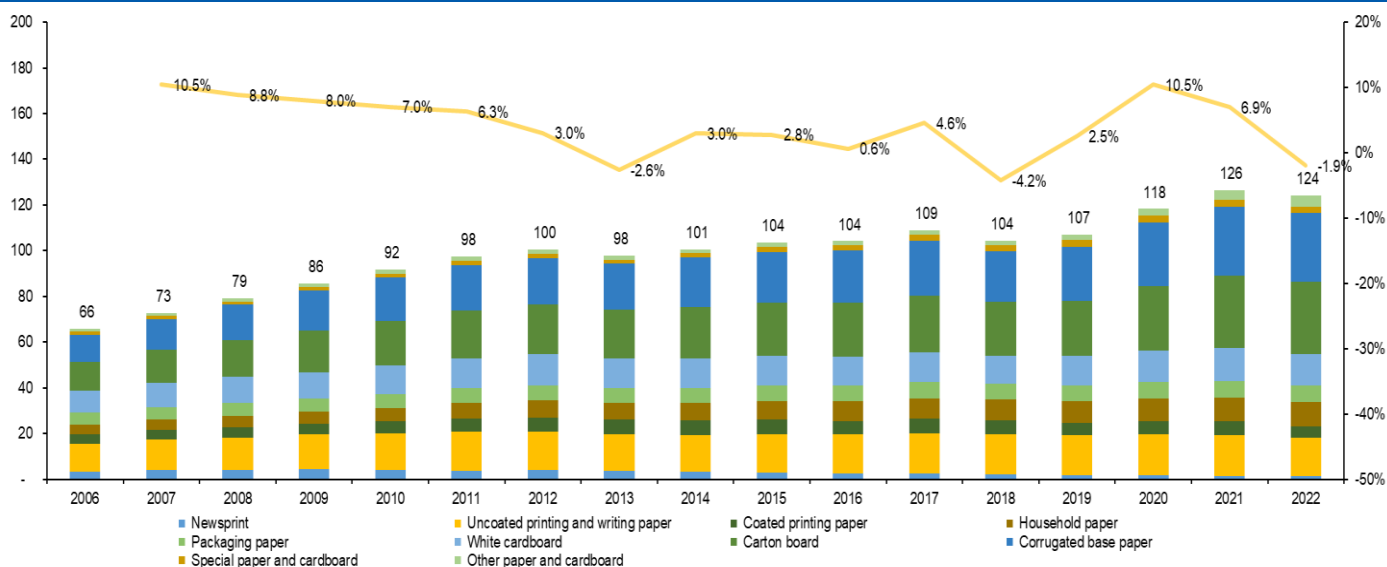
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Figure 4: Pulp inventory days vs pulp price 1Q11 – 2Q23



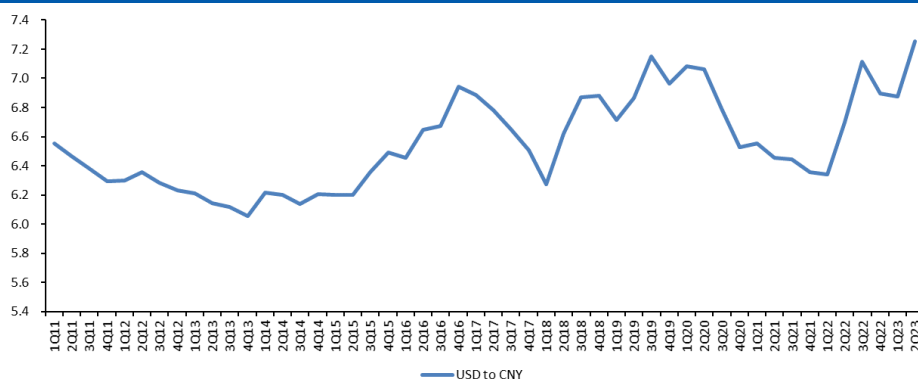
Source: Bloomberg

Figure 5: China's paper & paperboard consumption by type (in m tons), 2006 – 2022



Source: CPA

Figure 6: USD to CNY, 1Q11 – 2Q23



Source: Bloomberg

Figure 7: Pulp capacity expansion, 2023-24

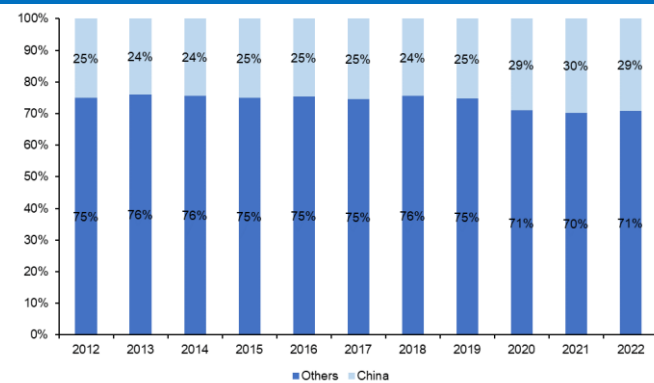
Pulp	Company	Country	Timeline	Capacity (in m tons)
BSK	Metsa Fibre	Finland	3Q23	0.88
	Daio Paper	Japan	2023	0.09
	Sodaro Cell	Sweden	2023	0.15
	Canfor	Canada	1Q23	-0.28
	Stora Enso	Finland	2H23	-0.37
BHK	Arauco	Chile	1Q23	1.56
	UPM	Uruguay	1Q23	2.10
	Nine Dragons	China	4Q23	2.22
	CMPC	Brazil	3Q24	0.35
	Suzano	Brazil	2024	2.55

Source: Fastmarkets, RHB

### China as key pulp price determinant

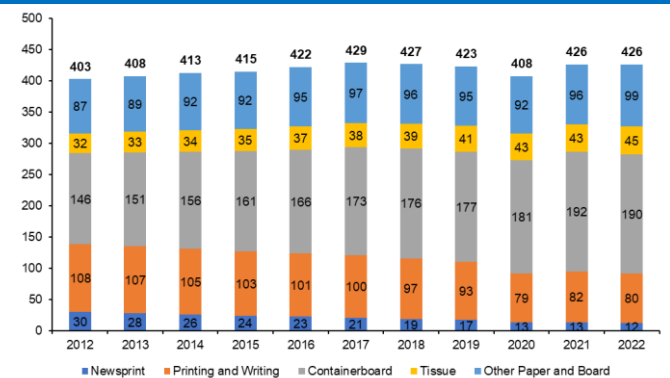
China's paper and paperboard consumption accounted for 29% of global demand (Figure 8 and Figure 9), with its pulp consumption required for production also dominating the global supply. Annually, China imports 24-26 m tons of pulp (Figure 10), – c.33-36% of global market pulp supply – of which, more than 60% is BHK. Therefore, any contraction in China's pulp consumption import would lead to higher global BHK inventory days (Figure 11) and lower pulp prices.

Figure 8: China paper & paperboard consumption as % of global demand, 2012 – 2022



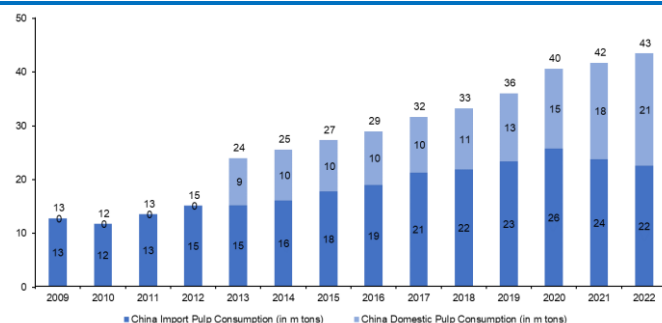
Source: RISI, CMPC, CPA

Figure 9: Global paper & paperboard demand, 2012 – 2022



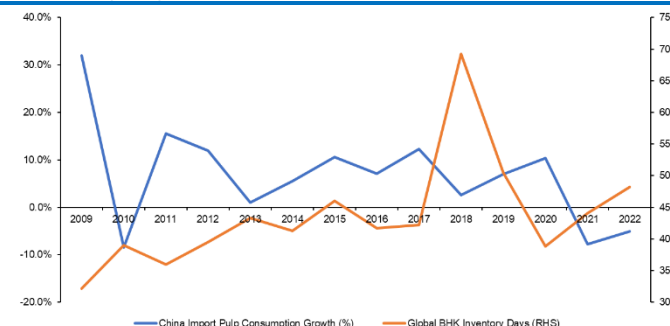
Source: RISI, CMPC

Figure 10: China import and domestic pulp consumption, 2009 – 2022



Source: CPA

Figure 11: China import pulp consumption vs global BHK inventory days, 2009 – 2022



Source: CPA, Bloomberg

### Growing global demand for BHK

BHK would grow its domination in the pulp market given i) Lower price from lower cash cost production; ii) Faster harvesting period for raw materials; and iii) Limited BSK supply due to limited raw materials harvest and additional capacity.



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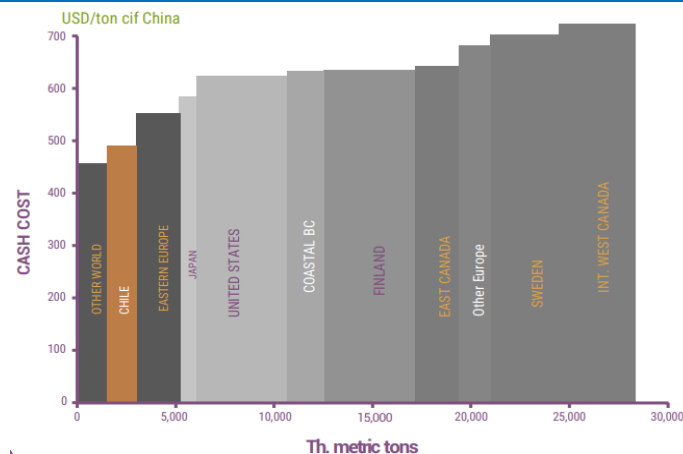
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BHK is mostly made from eucalyptus plant, which takes 7-10 years to harvest. In comparison, BSK production generally uses pine, which takes more than 20 years to harvest. Therefore, given its abundant raw materials supply, BHK is more readily available in the market than BSK and is cheaper.

In terms of cash cost production/ton, BHK pulp's dominant producers have lower cash cost at c.USD320-480/ton compare to BSK cash cost/ton at USD450-620/ton (Figure 12-13). The higher cash cost also reflects higher price for BSK (Figure 14). Looking at Figure 7, we also see that capacity expansion for BSK is less aggressive than BHK, mainly due to limited supply of raw materials and higher cash cost production for BSK. The dependency and tight supply of BSK would potentially lead to a wider price gap to BHK, hence higher production cost for paper and paperboard resulting in margin erosion for producers.

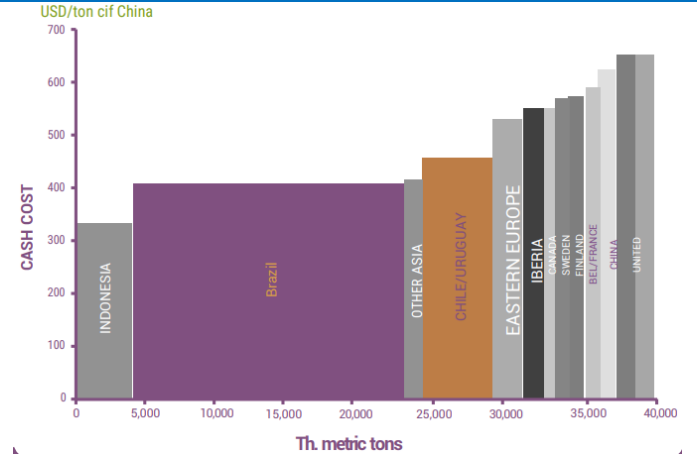
As shown in Figure 9, demand for tissue and other paper and paperboard products has been growing steadily in the past 10 years. These products dominantly use virgin pulp for production. With the increase of BHK usage in tissue production (Figure 16) and growing production of ivory board (Figure 17) over Duplex in China, the demand for BHK is boosted going forward. Additionally, tissue paper demand in Asia dominates total demand but the consumption per capita in most Asian countries is still very low compared to Europe and US (Fig 18-19). We believe there is still ample upside demand growth for tissue paper in Asia, which would also boost demand for BHK. Demand for tissue paper is expected to grow by c.2% annually (0.5-1 m tons/year). A 1-2% growth in tissue production would result in 0.43–0.86 m tons of additional BHK pulp demand each year.

Figure 12: BSK pulp cash cost/ton



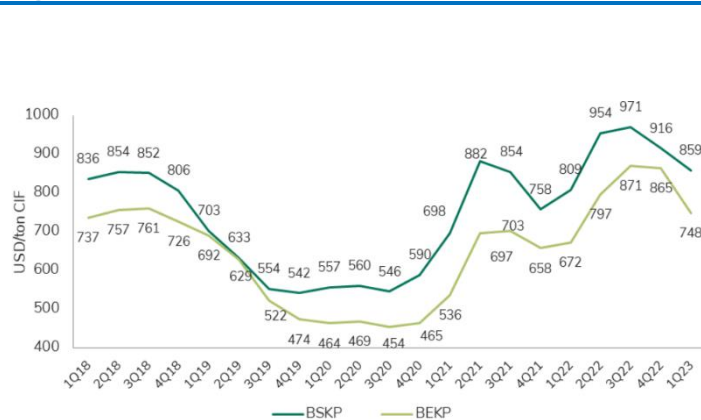
Source: CMPC, Hawkins Wright

Figure 13: BHK pulp cash cost/ton



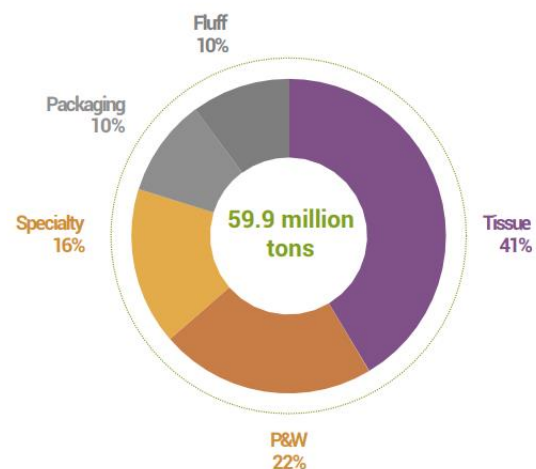
Source: CMPC, Hawkins Wright

Figure 14: Softwood vs hardwood pulp price, 1Q18 – 1Q23



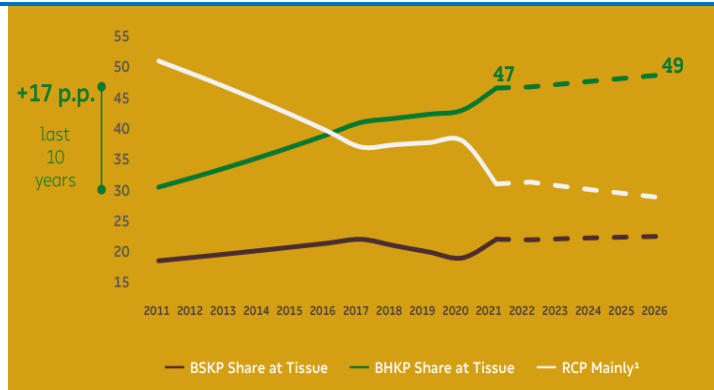
Source: CMPC, Hawkins Wright

Figure 15: Market pulp usage



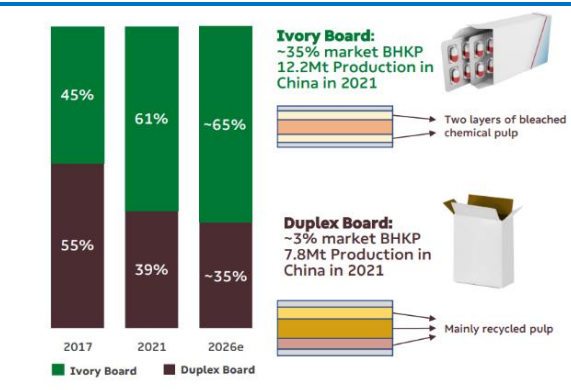
Source: CMPC, Hawkins Wright

Figure 16: Fibers' share in world tissue production (%)



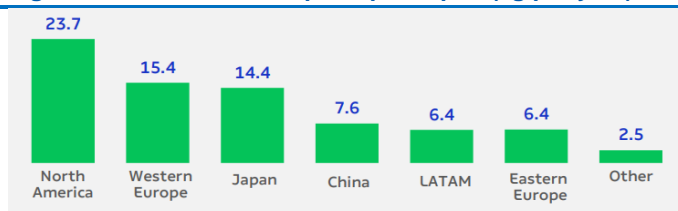
Source: Suzano BI, Fastmarkets RISI, Hawkins Wright, Brian McClay

Figure 17: Cartonboard production in China



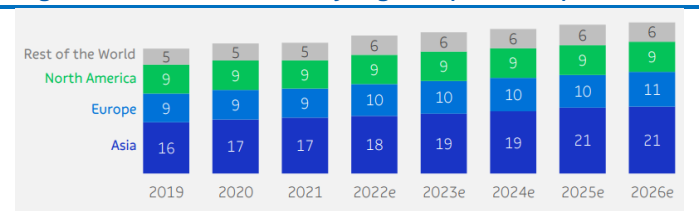
Source: Suzano BI, Fastmarkets RISI, Hawkins Wright, Brian McClay

Figure 18: Tissue consumption per capita (kg per year)



Source: PPPC & RISI

Figure 19: Tissue demand by regions (in m tons)



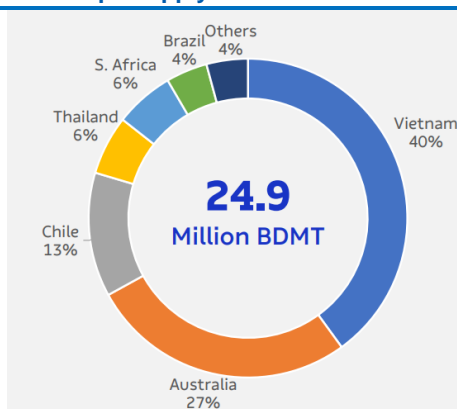
Source: PPPC & RISI

## Marginal growth in cost of production to support INKP's pulp margins

Inflation pressures and the supply shortage of woodchips could lead to higher raw material prices for pulp production. Note that woodchips account for c.70% of the industry's total production costs for pulp. The supply of woodchips is mainly from Vietnam, Australia, and Chile. Vietnam's woodchip production is highly dependent on log imports, which in turn, are impacted by shipping costs and volatility of global log prices. Australia and Chile have seen a lack of new planting activities since 2008. Also, the increasing domestic demand in Chile from Chilean wood pulp, engineered wood, and forestry company Arauco's additional capacity (the MAPA project in Chile) of about 1.56 m tons of pulp per year (Figures 20-21) would absorb market woodchip supply. Therefore, the increasing demand, coupled with limited additional supply, could potentially drive prices up.

On the other hand, Indonesia's pulp producers – particularly INKP – have an abundant supply of logs, as the country has the world's third largest tropical forest. Therefore, while there is a marginal increase in costs (Figure 22), the companies are enjoying margin expansion, as pulp production costs have been relatively stable due to the domestically sourced raw materials (logs). Note that Indonesia strictly prohibits the export of logs, and hence, there is an abundant supply of logs – resulting in cheaper log prices. INKP has also shown that its pulp and cultural paper gross margins are less vulnerable to the waning pulp prices compare to its biggest competitor Suzano (Figure 23).

Figure 20: Woodchips supply for Asia in 2018



Source: Suzano

Figure 21: Woodchips supply availability forecast

	2018x2023	2023x2028	
Vietnam	22%	-4%	Lack of new planting after 2008 Increased domestic demand from Arauco MAPA
Australia	-23%	-19%	
Chile	-34%	-10%	
Thailand	39%	10%	
S. Africa	-5%	-3%	
Brazil	33%	8%	
Others	26%	13%	

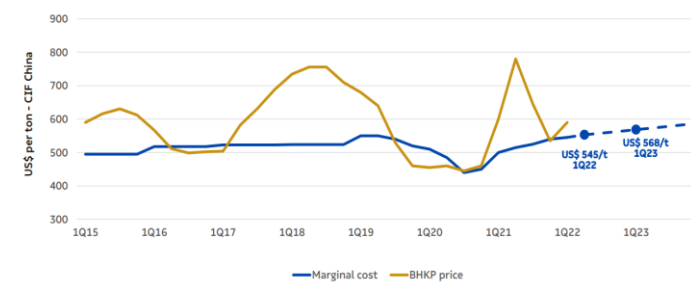
Source: Suzano



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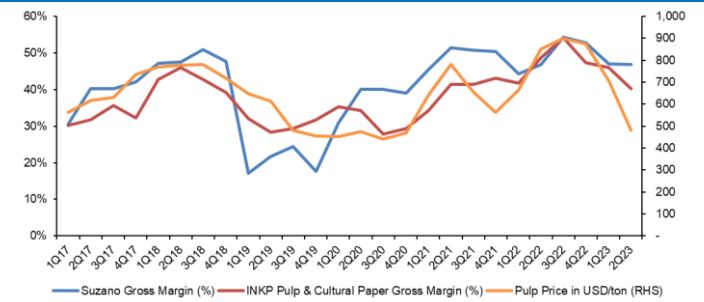
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Figure 22: BHK pulp's marginal cost of production vs its price



Source: Hawkins Wright

Figure 23: Suzano's and INKP's gross margins vs BHK pulp prices



Source: Company, Suzano, CMPC

## New growth engine from 4Q24

### More than doubling its industrial paper capacity

As INKP's pulp and industrial paper capacity has reached its peak (2022: 98.4% and 96.5%), the company started expanding its industrial paper capacity to 6.1 m tons (from 2.2 m tons in 2022; Figure 24), and expects to commence this in 2024. The new line is expected to bring utilisation to 87.3% and double its revenue in 2026F. We believe the investment was at a good cost, as the land acquisition cost was only IDR77k/sqm, which is less than 5% of the industrial land price, which was at USD100-150/sqm. Based on the company's disclosures, the total investment was at USD3.6bn, and funded via 60% debt with the rest via cash (Figure 25).

Figure 24: INKP's production capacity

	Production capacity (ths tons)				
	2022	2023F	2024F	2025F	2026F
Pulp	3,100	3,100	3,100	3,100	3,100
Cultural paper	1,600	1,600	1,600	1,600	1,600
Industrial paper	2,200	2,200	6,100	6,100	6,100
Existing	2,200	2,200	2,200	2,200	2,200
New	-	-	3,900	3,900	3,900
Tissue	108	108	108	108	108
	Utilisation rate (ths tons)				
	2022	2023F	2024F	2025F	2026F
Pulp	98.4%	98.4%	98.4%	98.4%	98.4%
Cultural paper	86.9%	86.9%	86.9%	86.9%	86.9%
Industrial paper	94.9%	98.0%	53.5%	75.8%	91.2%
Existing	94.9%	98.0%	98.0%	98.0%	98.0%
New	-	-	28.4%	63.3%	87.3%
Tissue	50.0%	60.0%	60.0%	60.0%	60.0%

Source: Company data, RHB

Figure 25: INKP Karawang project investment

Investment	Cost (in USD ths)	Land acquisition breakdown	Land area (ha)	Acq. cost (IDR bn)	Land cost (IDR)/ sqm
Land	16,459	Persada Kharisma Perdana	209	146	69,931
Building	602,466	Paramacipta Intinusa	113	102	89,971
Mach. & Eqp.	3,013,593	<b>Total</b>	<b>322</b>	<b>248</b>	<b>76,985</b>
<b>Total</b>	<b>3,632,518</b>				
Year					
Investment	%	Value (in USD ths)	2023	2024	2025
Debt	60%	2,179,564	1,096,916	976,336	106,312
Cash	40%	1,453,043	731,278	650,891	70,874
<b>Total investment</b>		<b>3,632,607</b>	<b>1,828,194</b>	<b>1,627,227</b>	<b>177,186</b>

Source: Company data, RHB

The new capacity should provide 13.8% and 38.3% earnings upside in 2024F and 2025F. Based on our estimates (Figure 26), the new production line for industrial paper should book total revenue of USD931m and USD2,607m in 2024F and 2025F respectively, and net profit of USD69m and USD267m. Therefore, INKP's total revenue for 2024 and 2025 could potentially jump by 31.6% and 36.2% YoY and net profit by 37.3% and 32.4%. Note that our assumption has not taken into account the potential hike in pulp prices, which could expand its gross margins, resulting in stronger bottomline growth.

Our estimates take into account the possibility of production starting at the end of 2Q24, as we expect the development of one mill to take c.1.5 years and production time of about two months to start delivering. Hence, we expect INKP to start booking revenue from the new mills in 4Q24, with the improvements to be seen more significantly from 2025F.

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Figure 26: INKP's new capacity presents an upside to revenue

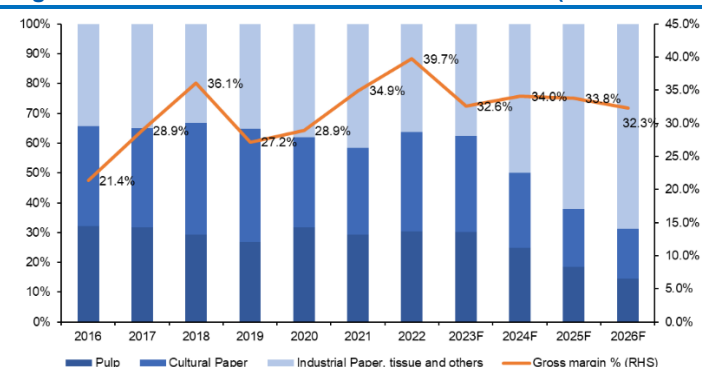
	2023F	2024F	2025F	2026F
Production capacity (thn tons)	-	3,900	3,900	3,900
Utilization rate	-	28.4%	63.3%	87.3%
<b>Sales volume (in thn tons)</b>				
Ivory	-	711	1,606	2,579
Container Board	-	24	633	573
Carton Box	-	40	229	253
<b>ASP/ ton (USD)</b>				
Ivory	-	1,249	1,270	1,287
Container Board	-	652	641	658
Carton Box	-	698	705	712
Total revenue (USD m)	-	931	2,607	3,877
Net profit (USD m)	-	69	267	476
INKP total revenue (before)	3,703	3,941	4,026	4,002
INKP total revenue (after)	3,703	4,872	6,634	7,880
INKP net profit (before)	587	708	771	801
INKP net profit (after)	586	805	1,067	1,171
<b>Upside to INKP</b>				
Revenue	-	23.6%	64.8%	96.9%
Net profit	-	13.8%	38.3%	46.2%

Source: Company data, RHB

### Margin adjustments; still resilient against volatility in pulp prices

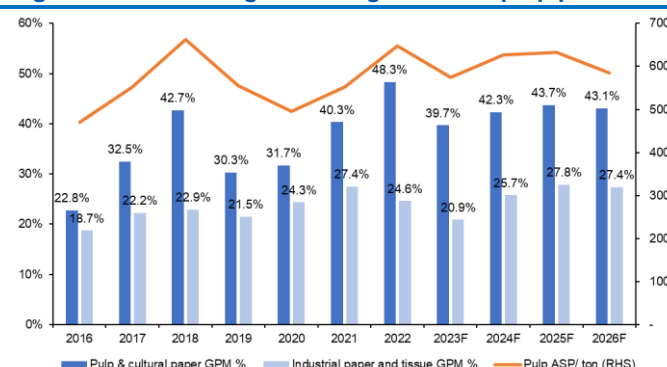
We expect INKP's GPM to be at 34.0% in 2024, as the revenue contribution from its industrial paper segment has started to grow (Figure 27). Note that the GPM of its industrial paper segment is lower than that of pulp, which is more volatile due to pulp prices (Figure 28). The growing share of industrial paper revenue contribution should result in INKP's GPM being more resilient against volatilities in pulp prices, which could otherwise lead to a significant boom and bust of the bottomline.

Figure 27: INKP's revenue contribution vs GPM (2016 – 2026F)



Source: Company

Figure 28: INKP's segment margin vs BHK pulp prices



Source: Company

## Financial outlook

### Normalising pulp prices should lead to 2H23 revenue adjustment for INKP

In 2Q23, BHK pulp prices dipped to USD495/ton – the same level as it was in 3Q19 – from USD748/ton in 1Q23, on the back of swelling inventory levels due to weak demand in 1H23. Going into 2H23, we expect pulp prices to gradually rise by USD20-30/ton to USD520-525/ton in 3Q23, supported by China's mid-autumn festival demand which usually depletes inventory and helps producers raise price.

On the back of normalising pulp prices, we expect INKP's 3Q23 and 4Q23 revenue to move at the same level as it was in 1Q21 and 2Q21 – BHK pulp prices were at USD536 and USD697 per ton. Therefore, on a YoY basis, 3Q23 and 4Q23 topline should see negative growth, as BHK pulp prices were at its peak in 3Q22 and 4Q22. QoQ, 3Q23 revenue should be relatively flat, while the 4Q23 figure should grow by mid-single digits on the expectation of a gradual increment in BHK pulp prices.

Note that 2022 was a strong year for the pulp industry, as BHK pulp prices reached a peak of almost USD900/ton. According to [Fastmarkets](#), the significant jump in prices was mainly due to an unexpected record-high market pulp downtime of c.0.77 m tons in 1Q22, followed by the BHK pulp project expansions by Arauco and UPM totalling 3.6 m tons, coupled with high shipping costs and inflation. The higher costs and inflation benefitted INKP and Suzano – as their margins expanded while cash cost production growth remained decent – while another global pulp producer, Mercer International's margins contracted.

### 1H24 inventory levels expected to ease and pave path for price increase

Going into the year of the Dragon on 10 Feb 2024, we expect strong demand from China – on the back of an expected recovery in the macro outlook – and for inventory to ease to 40-45 days from the current level of c.60 days. Conservatively, we estimate that INKP's pulp ASP will be maintained at USD575/ton in 1H24, driven mainly by its sales volumes. Therefore, we expect 1H24 YoY growth to be in single digits.

### 2H24 robust growth expected from new capacity, pulp price increment

As recovering demand in 1H24 resolves the inventory issue, and INKP's new capacity absorbs c.1 m tons of the market pulp supply, we expect global inventory levels to fall to below 40 days. Therefore, we estimate INKP's BHK ASP will increase gradually from the end of 2Q24 to USD627/ton.

INKP performance in 3Q24 should see both quarterly and yearly growth, mainly driven by higher pulp prices. In 4Q24, both pulp prices and INKP's increased capacity should boost its revenue growth on a QoQ and YoY basis.

### Maintaining a healthy gearing level of 0.62/0.76x in 2023-2024F

INKP's gearing level is still at 0.5x, which is at the lower range among its peers. As its Karawang project investment required USD3.6bn (USD1.46bn cash and USD2.16bn debt), we estimate its 2024F total debt will reach USD5.23bn. Its DER should still be at 0.76x.

Figure 29: Peer gearing ratio

Company	Ticker	Mcap (USDm)	Debt to equity (x)				
			2018	2019	2020	2021	2022
UPM-Kymmene Oyj	UPM FH	17,143	0.1	0.1	0.2	0.2	0.4
International Paper Co	IP US	12,660	1.4	1.3	1.1	0.7	0.7
Suzano SA	SUZB3 BZ	13,177	3.0	3.7	9.9	5.2	2.2
Stora Enso Oyj	STERV FH	9,464	0.5	0.6	0.5	0.4	0.3
Westrock Co	WRK US	8,334	0.6	0.9	1.0	0.8	0.7
Empresas CMPC SA	CMPC CI	4,992	0.5	0.5	0.5	0.6	0.6
Oji Holdings Corp	3861 JT	4,015	0.8	0.8	0.7	0.8	0.8
Indah Kiat Pulp & Paper Tbk PT	INKP IJ	3,391	1.1	1.0	0.9	0.7	0.5
Metsa Board Oyj	METSA FH	2,914	0.3	0.3	0.3	0.2	0.2
Nine Dragons Paper Holdings Lt	2689 HK	2,885	0.9	0.8	0.6	0.7	0.9
Mercer International Inc	MERC US	569	1.8	2.1	2.0	1.8	1.6

Source: Bloomberg, RHB

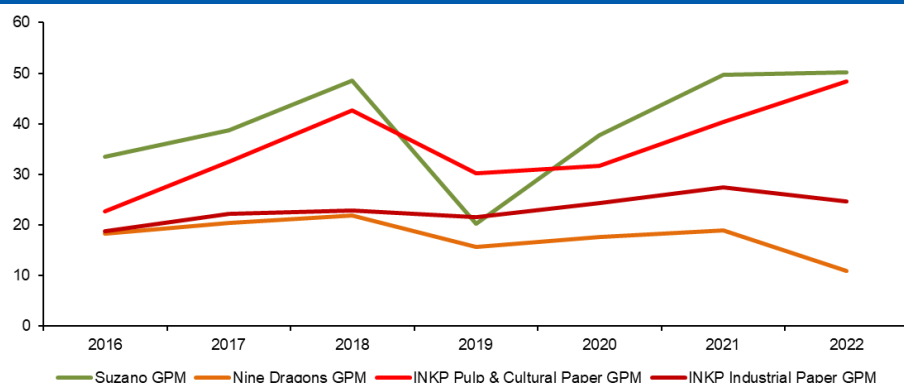
## Valuation and forecasts

### Initiate coverage with BUY and IDR22,975 TP

We initiate our coverage on INKP with a BUY call and TP of IDR22,975, based on 10.2x P/E – a 24% discount to its peers – and with a 2% ESG premium baked in, as its ESG score is above the country median. Our 10.2x P/E is based on the revenue contribution of INKP, where 31.2% is from the pulp business and the rest (68.8%) is from the paper and packaging division. We looked at its closest competitors' P/E valuations, such as Suzano for the pulp business with 14.1x P/E, and Nine Dragons for the paper and packaging business, with a 8.4x P/R valuation to arrive at our 10.2x P/E for INKP.

Note that the GPM for INKP's pulp and cultural paper business is closest to Suzano, and therefore appropriate to use its P/E valuation as a base. For the Industrial paper business, INKP has the upper hand compared to Nine Dragons (Figure 30). However, we remain conservative by not applying a premium valuation.

**Figure 30: Peers' pulp, cultural paper, and industrial paper GPM comparison**



Source: Bloomberg

**INKP is currently trading at a cheap valuation of 4.4x to 2024F P/E**, which is a significant 68.1% discount to its peers.

Under the DCF valuation, INKP should be valued at a USD15.6m market cap, which is far above its current USD3.5m. However, we remain conservative, using a P/E valuation, considering the volatility of pulp prices under a DCF-based valuation. Key risks: A decline in pulp prices, delays in the operation of its new line, and a significant decline in China's economy.

**Figure 31: Peer comparison**

Company	Ticker	Mcap (USDm)	P/E (x)		P/B (x)		Div. yield (%)		ROE (%)	
			2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
UPM-Kymmene Oyj	UPM FH	17,468	23.2	13.5	1.3	1.3	4.9	5.0	4.7	9.8
International Paper Co	IP US	12,404	16.5	18.6	1.5	1.5	5.1	5.2	8.6	7.7
Suzano SA	SUZB3 BZ	13,446	5.9	14.1	1.6	1.4	2.7	1.6	29.8	12.8
Stora Enso Oyj	STERV FH	9,600	58.6	15.6	0.7	0.7	2.7	3.8	0.5	4.6
Westrock Co	WRK US	8,916	12.4	13.4	0.9	0.8	3.2	3.2	6.6	6.4
Empresas CMPC SA	CMPC CI	4,803	9.1	9.7	0.6	0.6	5.4	4.1	5.8	5.8
Oji Holdings Corp	3861 JT	3,945	8.3	8.1	0.6	0.6	2.9	3.0	7.5	7.2
Indah Kiat Pulp & Paper Tbk PT	INKP IJ	3,512	6.0	4.4	0.6	0.5	0.5	0.5	10.0	12.3
Metsa Board Oyj	METSA FH	2,988	25.4	16.0	1.6	1.5	3.5	-	6.2	9.6
Nine Dragons Paper Holdings Lt	2689 HK	2,671	-	8.4	0.4	0.4	0.5	2.9	(3.9)	5.7
Mercer International Inc	MERC US	542	-	14.6	0.8	1.0	3.8	3.8	-	-
<b>Global Weighted Average</b>			<b>19.9</b>	<b>13.7</b>	<b>1.1</b>	<b>1.1</b>				

Source: Bloomberg, RHB

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Figure 32: INKP DCF

USDm	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBIT	1,162	1,507	1,634	1,770	1,881	1,846	1,967	2,170	2,181	2,320	2,490
EBIT (1-t)	930	1,206	1,307	1,416	1,505	1,477	1,574	1,736	1,745	1,856	1,992
Depreciation & amortisation	307	353	358	357	357	356	356	355	355	355	354
Change in working capital	(68)	(342)	(246)	(24)	(32)	1	(26)	(30)	2	(27)	(33)
Capex	(1,627)	(177)	-	-	-	-	-	-	-	-	-
Net free cash flow to firm	(459)	1,040	1,418	1,750	1,829	1,834	1,903	2,061	2,102	2,184	2,313
Terminal value											28,983
PV	(459)	935	1,147	1,272	1,195	1,078	1,005	979	898	839	10,805
WACC	11.2%										
Total discounted firm value	19,692										
Less: Debt	4,101										
Less: Minority interest	0.5										
Equity value	15,591										

Source: RHB

### Peer comparison

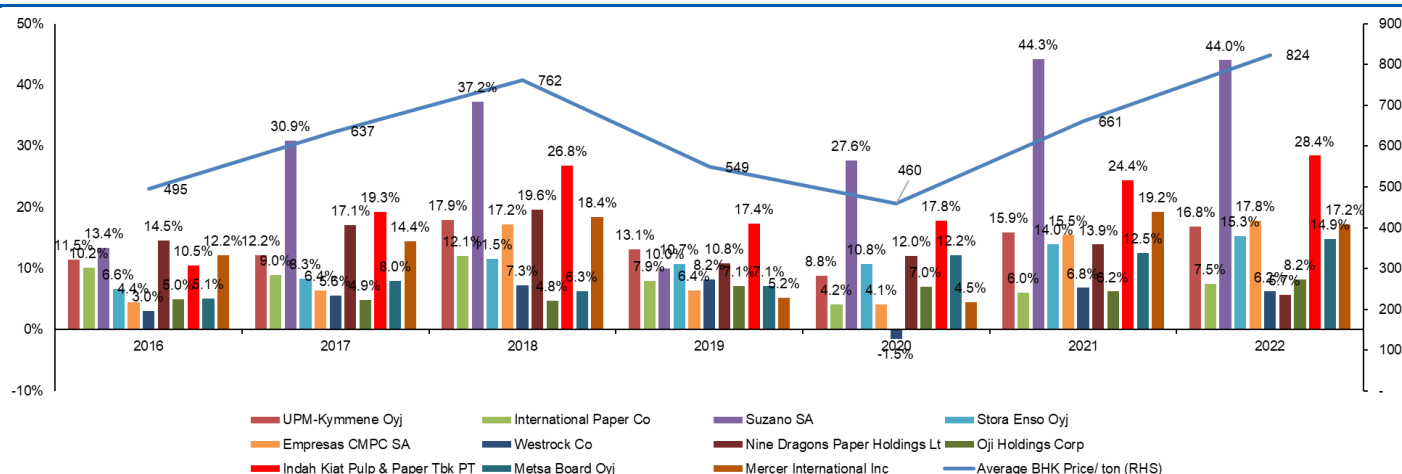
Pulp prices play a key role in determining the OPM of major pulp producers. Suzano's revenue is dominated by its BHK pulp business, and hence its OPM is affected by pulp price volatility. On the other hand, major players in the paper and packaging space, like Nine Dragons and Westrock see OPM expanding when pulp prices are low, but less positively impacted when pulp price rise.

INKP follows the same pattern, albeit less impacted, considering two-thirds of its revenue is contributed by the paper and packaging business. INKP's integrated operations means its OPM is more manageable during the ups and downs of pulp prices.

In terms of operating efficiency and cash cost, BHK producers like Suzano and INKP clearly have the upper hand compared to producers like Mercer, which saw its OPM remaining at 17.2% even during the peak of pulp prices in 2022 (Figure 33). This also support our argument that the high cash cost of BSK would discourage capacity expansions, as any significant drop in pulp prices would lead to potential net losses.

With or without expansions, we believe INKP deserves a better valuation, considering its integrated operations and low cash costs, which results in its OPM being less vulnerable to a significant decline in pulp prices, and therefore making the company more resilient.

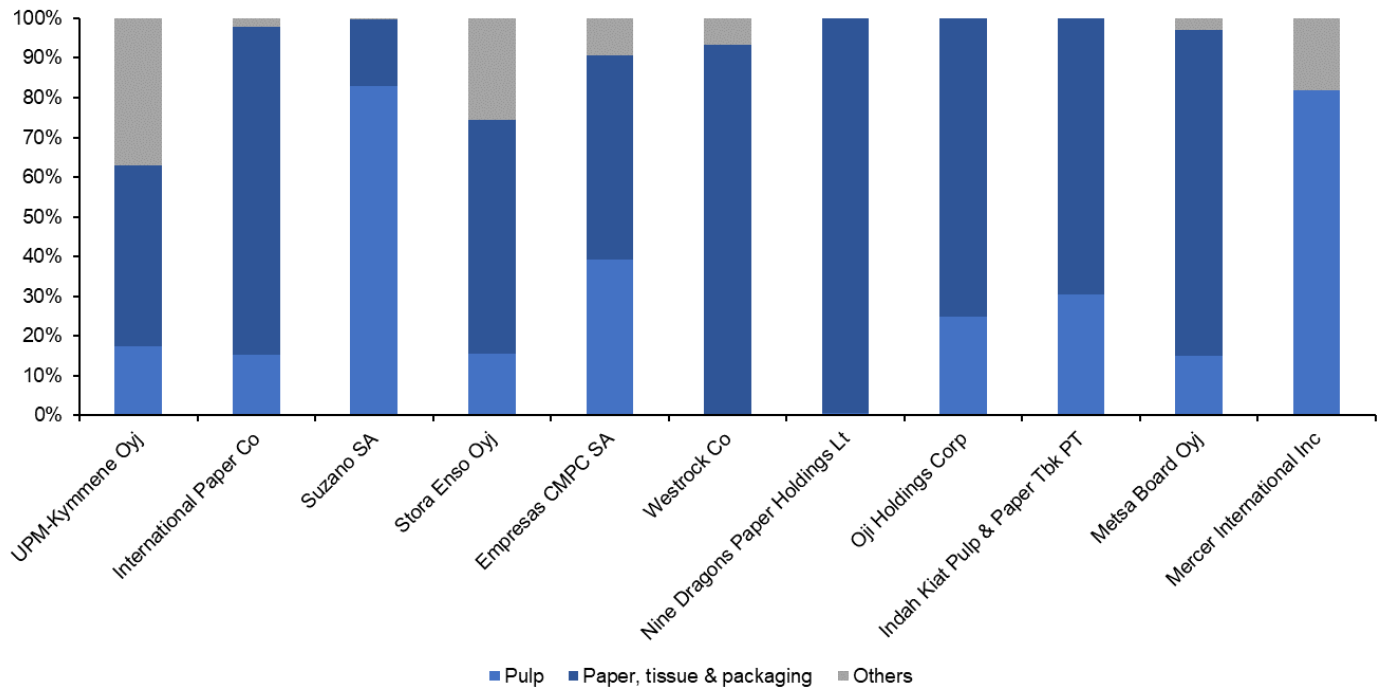
Figure 33: Peers' operating margins



Source: Company, Bloomberg



Figure 34: Peers revenue contributions (as of 2022)



Source: Company data, RHB

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**Financial forecasts and margins sensitivity**

Post INKP's expansion, under our base case of 2024 pulp prices at USD627 per ton, we expect both its GPMs and NPMs to be adjusted by -1.8% and -1.4%. This is due, in our view, to lower GPMs from the industrial paper segment, and after taking into consideration the higher interest expenses stemming from the additional debt to finance the aforementioned expansion. We are also of the view that this expansion – as well as higher revenue contributions from the industrial paper segment – should result in more-resilient GPMs vis-à-vis pulp price volatility.

Based on our sensitivity analysis, under the 2024F base case, every USD50 and USD100 increments in pulp prices will see GPMs rising 1.3% and 2.5%, ie lower margin upsides when compared to the pre-expansion period. On the flip side, every USD50 and USD100 decline in pulp prices will see GPMs contracting by 1.3% and 2.7%. This suggests that the starting contributions from new industrial paper capacity line sales in 2024 would strengthen GPMs by 28bps and 58bps for every USD50 and USD100 drop in pulp prices.

**Figure 35: INKP's margins sensitivity**

After expansion	Base 2024F	Up		Down	
		USD50/ton	USD100/ton	USD50/ton	USD100/ton
Pulp ASP (USD/ton)	627	677	727	577	527
Pulp & cultural paper GPM %	42.4%	44.5%	46.6%	40.0%	37.4%
Industrial paper and tissue GPM %	25.7%	25.7%	25.7%	25.7%	25.7%
<b>Total GPM %</b>	<b>34.0%</b>	<b>35.3%</b>	<b>36.6%</b>	<b>32.7%</b>	<b>31.3%</b>
<b>NPM %</b>	<b>16.5%</b>	<b>17.7%</b>	<b>18.8%</b>	<b>15.3%</b>	<b>14.1%</b>
<b>Change (bps)</b>					
Pulp & cultural paper		2.12	4.16	(2.48)	(5.07)
Industrial paper and tissue		-	-	-	-
<b>Total GPM</b>		1.29	2.53	(1.34)	(2.74)
<b>NPM</b>		1.15	2.25	(1.20)	(2.44)

Before expansion	Base 2024F	Up		Down	
		USD50/ton	USD100/ton	USD50/ton	USD100/ton
Pulp ASP (USD/ton)	627	677	727	577	527
Pulp & cultural paper GPM %	43.4%	44.5%	46.6%	40.0%	37.5%
Industrial paper and tissue GPM %	25.4%	25.4%	25.4%	25.4%	25.4%
<b>Total GPM %</b>	<b>35.9%</b>	<b>37.4%</b>	<b>38.9%</b>	<b>34.3%</b>	<b>32.6%</b>
<b>NPM %</b>	<b>18.0%</b>	<b>19.3%</b>	<b>20.6%</b>	<b>16.5%</b>	<b>15.0%</b>
<b>Change (bps)</b>					
Pulp & cultural paper		1.12	3.16	(3.48)	(5.89)
Industrial paper and tissue		-	-	-	-
<b>Total GPM</b>		1.54	3.01	(1.62)	(3.32)
<b>NPM</b>		1.37	2.67	(1.43)	(2.94)

<b>Income summary (2024F)</b>	<b>Before expansion</b>	<b>After expansion</b>	<b>Upside potential</b>
Revenue	3,941	4,872	23.6%
Gross profit	1,414	1,659	17.3%
Net profit	708	805	13.8%

Source: Company data, RHB

## Company Profile

Established in 1976, INKP has emerged as a major player in the pulp and paper industry in Asia. The company engages in two main activities: Cultural paper and pulp, and industrial paper and tissue products. The products range comprises pulp, writing, and printing paper, as well as photocopying and packaging paper. INKP boasts a formidable market presence across Indonesia, Asia, the US, Australia, the Middle East, Africa, and Europe.

**Figure 36: Company's milestones**

	Description
1990	INKP IPO with a total of 60m shares issued.
1991	<ul style="list-style-type: none"> <li>Distribution of bonus shares on a 5:1 ratio of outstanding shares held, with a total of 91.6m shares.</li> <li>Distribution of bonus shares on a 4:1 ratio of outstanding shares held, with total of 137.5m shares.</li> </ul>
1992	Distribution of bonus shares on a 2:1 ratio of outstanding shares held, with a total of 343.7m shares.
1994	Distribution of stock dividends on a 10:4 ratio of outstanding shares held, with a total of 412.4m shares.
1995	Distribution of stock dividends on a 1,000:24 ratio of outstanding shares held, with total of 34.6m shares.
1996	<ul style="list-style-type: none"> <li>Limited Public Offering I with a par value of IDR1,000 per share and offering price of IDR1,250 per share, with a total share of 410.2m shares distributed.</li> <li>Distribution of stock dividends on 100:8 and 100:13 ratios of outstanding shares held, with the total of 452m shares.</li> <li>Conversion of warrants with a total of 0.8m shares.</li> </ul>
1997	<ul style="list-style-type: none"> <li>Limited Public Offering II with a par value of IDR1,000 per share and offering price of IDR1,000 per share, with a total of 249.5m shares distributed.</li> <li>Conversion of warrants with a total of 281.5m shares issued.</li> </ul>
1998	<ul style="list-style-type: none"> <li>Change in the company's name to Indah Kiat Pulp &amp; Paper.</li> <li>Conversion of warrants with total of 26.7m shares issued.</li> </ul>
1999	Conversion of warrants with a total of 157.7m shares issued.
2000	Conversion of warrants with a total of 1.4m shares issued.
2001	Conversion of warrants with a total of 0.9m shares issued.
2017	Issuance of medium-term notes (MTN) with the total amount of IDR1.5bn.
2018	Issuance of MTN with a total amount of IDR6.6bn.
2019	Issuance of MTN with a total amount of IDR2.2bn.
2020	<ul style="list-style-type: none"> <li>Rated with idA+ (single A plus) by Pemeringkat Efek Indonesia (Pefindo).</li> <li>Issuance of corporate bonds with total amount of IDR6.7bn.</li> </ul>
2021	<ul style="list-style-type: none"> <li>Rated with idA+ (single A plus) and idA+(sy) (single A-plus <i>Shariah</i>) by Pefindo.</li> <li>Issuance of corporate bonds with total amount of IDR8.3bn.</li> <li>Issuance of <i>sukuk mudarabah</i> with total amount of IDR1.7bn.</li> </ul>
2022	<ul style="list-style-type: none"> <li>Rated with idA+ (single A plus) and idA+(sy) (single A-plus <i>Shariah</i>) by Pefindo.</li> <li>Issuance of corporate bonds with total of IDR7.9bn.</li> <li>Issuance of <i>sukuk mudarabah</i> with a total amount of IDR7.6bn.</li> </ul>

Source: Company data, RHB

Figure 37: INKP's board of commissioners

Name	Position	Description
<p>Saleh Husin</p> 	President Commissioner	Saleh Husin was previously Industry Minister (2014-2016) and Hanura Party Vice Chairman (2017-2018). He concurrently serves as President Commissioner of Pabrik Kertas Tjiwi Kimia and Director of CV Guna Citra Bersama and CV Abadi Langgeng Wijaya (since 2017), as well as Chairman of Majelis Wali Amanat Universitas Indonesia and Tim Ahli Wakil Presiden Republik Indonesia (since 2019).
<p>Sukirta Mangku Djaja</p> 	Commissioner	Sukirta Mangku Djaja began his career as the member of the accounting staff at Tunas Bintang Motor and later as the department head in the tax division at the company and the Sinar Mas Group in 1983. Sukirta had served as a commissioner with Lontar Papyrus Pulp & Paper Industry (1994-Jul 2018). He currently serves as a commissioner with Pabrik Kertas Tjiwi Kimia, OKI Pulp & Paper Mills, and INKP.
<p>Kosim Sutiono</p> 	Commissioner	Kosim Sutiono was appointed as a commissioner with INKP in 2017. He was also appointed as the chief financial officer of Pindo Deli Pulp and Paper Mills in 2006 and as director of both Pindo Deli Pulp and Paper Mills in 2011 and Lontar Papyrus Pulp & Paper Industry in 2018.
<p>Andrie Setiawan Yapsir</p> 	Commissioner	Andrie Setiawan Yapsir was been an INKP commissioner since his appointment in 2022. He was the company's uncoated paper business unit head (2015-2018), deputy CEO forestry (2018-2020), and Chairman's Office Head (2020-current). Currently, Andrie has served as a commissioner with Pabrik Kertas Tjiwi Kimia since Jun 2022.
<p>Pande Putu Raka</p> 	Independent Commissioner	Pande Putu Raka serves as INKP's independent commissioner and concurrently serves as an independent commissioner for Pabrik Kertas Tjiwi Kimia, Lontar Papyrus Pulp & Paper Industry, and OKI Pulp & Paper Mills. Previously, Pande had served as an independent commissioner with Pindo Deli Pulp and Paper Mills (2006-2015) and Lontar Papyrus Pulp & Paper Industry (2006-2015, 2018). He was appointed as Nomination and Remuneration Committees' Chairman of OKI Pulp & Paper Mills (Mar-Dec 2021), Pabrik Kertas Tjiwi Kimia, and INKP (since 2015) and Lontar Papyrus Pulp & Paper (since 2021).
<p>Ramelan</p> 	Independent Commissioner	Ramelan has served as INKP's independent commissioner since 2007. Concurrently, he serves as a member of the Department of Defence's Legal Experts team, an independent commissioner with Pabrik Kertas Tjiwi Kimia, a legal advisor for Kereta Api Indonesia, and a professional in the Attorney General's Office. Ramelan was also appointed as Pabrik Kertas Tjiwi Kimia's audit committee's chairman since 2014.
<p>Rizal Affandi Lukman</p> 	Independent Commissioner	Rizal Affandi Lukman was appointed as an independent commissioner with Krakatau Wajutama (2013-2014), Pertamina Hulu Energi (2013-2016), and chairman of the supervisory board with Perum Peruri (2017-2021) before being appointed as INKP's independent commissioner in 2021. Rizal concurrently serves as an independent commissioner with Pabrik Kertas Tjiwi Kimia. He was also appointed as audit committee member with INKP, Lontar Papyrus Pulp & Paper Industry, and Pabrik Kertas Tjiwi Kimia.

Source: Company data

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Figure 38: INKP's board of directors

Name	Position	Description
Hendra Jaya Kosasih 	President Director	Hendra Jaya Kosasih joined INKP in 1987. His previous position included being the president director (1994-2001) and vice president director of Lontar Papyrus Pulp & Paper Industry (2001-Jul 2018), and vice president director of INKP (1997-2017) and Pabrik Kertas Tjiwi Kimia (2002-2018). Hendra currently serves as vice president director of Pindo Deli Pulp And Paper Mills, president director of OKI Pulp & Paper Mills and Indah Kiat Pulp & Paper, and as a commissioner with Uni-Charm Indonesia and OJI Sinar Mas Packaging.
Suhendra Wiriadinata 	Vice President Director	Suhendra Wiriadinata joined Pabrik Kertas Tjiwi Kimia and was appointed as a director (2011-2017) and president director (since Jun 2017). Previously, he served as director, commissioner and president commissioner at Pindo Deli Pulp And Paper Industry until 2022. Suhendra held the position of director (2011-2019) and was later appointed as INKP's vice president director in 2019.
Didi Harsa Tanaja 	Director	Didi Harsa Tanaja held the position as an import assistant at NV Sidik Bogor (1972-1973), and procurement and export manager at Squibb Indonesia (1973-1989) before joining INKP in 1989. Didi was appointed as an INKP director in 2003.
Agustian R Partawidjaja 	Director	Agustian R Partawidjaja first joined Sinar Mas Group as division head of corporate communication and public relations in 2000. He served as INKP's corporate secretary (2002-Jun 2017), director & corporate secretary (2003-2015), and was reappointed as director of Pabrik Kertas Tjiwi Kimia (since 2017). Agustian previously held the position of director of Pindo Deli Pulp and Paper Mills (2011-2018) and Lontar Papyrus Pulp & Paper Industry (2011-Jul 2018).
Lioe Djohan (Djohan Gunawan) 	Director	Lioe Djohan (Djohan Gunawan) joined Sinar Mas Group in 1992 to handle marketing exports. He was appointed as INKP director in 2010, a position that he continues to hold.
Kurniawan Yuwono 	Director	Kurniawan Yuwono joined Sinarmas Pulp and Paper Products in 1997. He was an assistant manager with Asia Pulp and Paper Singapore (1999-2002) and has been a director with Uni-Charm Indonesia since 2006. Kurniawan was appointed as a director with Lontar Papyrus Pulp & Paper Industry (Apr 2011-Nov 2019). He was appointed a commissioner of OKI Pulp & Paper Mills in Nov 2022.
Heri Santoso Liem 	Director & Corporate Secretary	Heri Santoso Liem started his career at Prasetyo, Utomo & Co as a junior auditor with his last position there as a supervisor (1994-1999). He was also with Pindo Deli Pulp And Paper Mills (1999-2009), a corporate secretary for Dian Swastatika Sentosa (2009-Mar 2011), and director & corporate secretary with Pabrik Kertas Tjiwi Kimia (Jun 2015-Jun 2017).

Source: Company data

## ESG

### Environment

INKP complies with all applicable laws and regulations at the national level. The company's policies and operational procedures, which are constantly monitored, incorporate Indonesia's laws and regulations. Through its ISO 14001:2015 Environmental Management System and ISO50001:2018 Energy Management System, INKP also adheres to worldwide environmental management standards and the circular economy.

The company measures every aspect – comprising water use, energy, and greenhouse gas emissions – every year. It also remains committed to preserving the environment within its operations by reducing emissions, and intensity in energy and water usage. As at 2022, INKP has been gradually reducing such intensity.

**Figure 39: INKP environment aspect intensity**

	Unit	2022	2021	2020	2018 (baseline)
<b>Water intensity</b>	M3/t	25	27	26	28
<b>Energy intensity</b>	GJ/ton	23	23	23	25
<b>Carbon intensity</b>	tCO2e/ton	0.99	1.03	0.99	1.04

Source: Company data, RHB

As a pulp and paper company, INKP's raw materials are dominantly from nature – notably wood. Therefore, the company is strictly committed towards ensuring that it only sources pulpwood from suppliers that are compliant with its Forest Conservation Policy and Responsible Fibre Procurement and Purchasing Policies. Therefore, 100% of its fibre suppliers provide raw materials that are from sustainably managed plantations and have sustainable production forest management standards and legal timber verifications or PHPL and VLK.

### Social

INKP priorities the health, safety, and well-being of all parties involved in its businesses through the implementation of Asia Pulp & Paper or APP Employee Welfare Policy – in accordance with the International Labour Organisation's requirement standards. The company is also committed by the implementation of occupational health & safety training and principles or SMK3 and K3 to prevent workplace accidents. INKP forbids any kind of human rights violation within its operations or through its suppliers by implementing human rights policies. The company also conducts regular audit and assessments in accordance with recognised principles. INKP strives to improve the lives of the communities it operates within by enhancing new skills and knowledge while also promoting sustainable livelihood.

### Governance

INKP promotes good corporate governance practices by implementing a Business Code of Conduct (BCoC) and Anti-Bribery & Anti-Corruption (ABAC) policy to encourage the ethical behaviour of stakeholders. To support that, the company conducts BCoC training and annual surveys with its employees. It also undertakes fraud risk assessments and due diligence reviews. Moreover, INKP has established a dedicated channel – Integrated Call Centre (ICC) – that serves as a platform for all stakeholders to express concerns, raise complaints, ask questions, and submit whistle-blower reports. There is also the Stakeholder Advisory Forum (SAF), which aims to improve stakeholder transparency and engagement within INKP's businesses.



Recommendation Chart

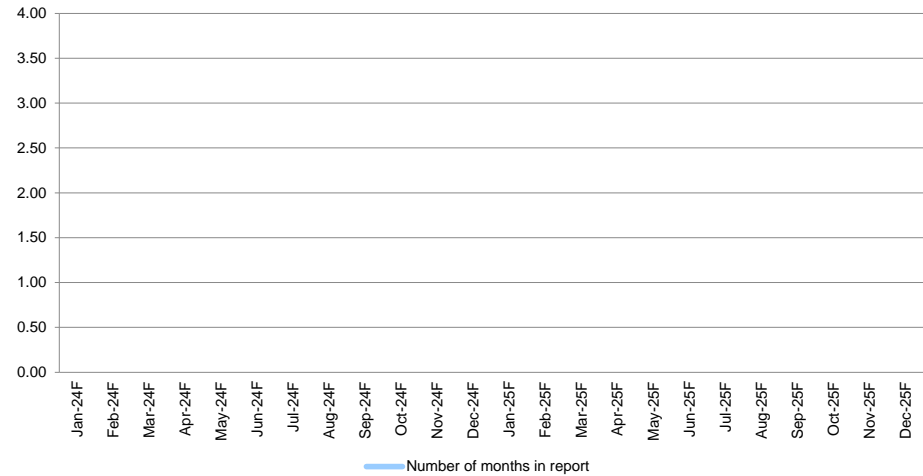


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-01-17	Not Rated	na	8,725

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Not Rated:</b>	Stock is not within regular research coverage

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