

6 May 2025

Consumer Cyclical | Consumer Products

Indah Kiat Pulp & Paper (INKP IJ)

Buy (Maintained)

Weak Market On China-US Tensions; Still BUY

Target Price (Return): IDR9,050 (+55%)
 Price (Market Cap): IDR5,850 (USD1,947m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (IDR/USD) 53,124m/3.17m

- **Keep BUY, with new IDR9,050 TP from IDR13,625, 55% upside.** We cut our FY25F-26F earnings by 20.7% and 30% based on limited pulp price hike and weakening industrial paper prices from the US trade war tariffs and higher interest expense due to capacity expansion financing. Meanwhile, new capacity commencement which expected start in 4Q24 should provide minimum support for FY25F earnings. Indah Kiat Pulp & Paper is currently trading at a cheap valuation of 5.1x P/E, a 30% discount to its peer average.
- **Tariffs chill post-holiday pulp demand, leaving 2Q25 prices exposed to a supply wave.** Post Lunar New Year restock and the rush to ship ahead of the US' 145 % tariff and China's 125 % retaliation tariff in early April, Chinese buyers have stepped back, driving bleached hardwood kraft (BHK) import prices down from USD600/tonne to roughly USD595/tonne by the end of April while resale hovers below USD514/tonne – a widening USD81/tonne gap that underscores buyers' bargaining power. Arauco (fifth largest market pulp producer) and other Latin-American suppliers are granting USD40-50/tonne spot discounts to clear inventory, abruptly ending the run of increases posted in 1Q25. We expect May and June BHK pulp prices to move at USD560-580/tonne vs USD713-740/tonne in May and Jun 2024.
- **Potential margin erosion in 2Q25 and 3Q25 on paper and packaging segment.** Paper and packaging export prices out of China have already fallen 4.2 % YTD in March, and the escalating US-China tariff confrontation threatens deeper cuts just as seasonal demand eases. With roughly 65 % of INKP's topline tied to downstream grades – cultural paper, industrial paper and converted packaging – we see a clear downside risk to realised ASPs and operating leverage over the next two quarters.
- **Expect forex gain or loss that impact earnings volatility.** Every 1% USD strengthening will positively impact INKP's earnings by c.USD26.9m or 6.3% of our FY25F. Note that the USD/IDR as a base at the beginning of the year was at IDR16,162 and end of March at IDR16,588, hence should the IDR strengthen in the end of June, INKP may face forex losses which could further erode its 2Q25 earnings.
- **Undemanding valuation.** INKP is currently trading at a cheap valuation at 4.7x FY25 P/E, a 55% discount to peers. Based on our analysis, post the effective date of INKP's removal from the MSCI Global Standard Indexes, the outflow has reached its end, and as such, we believe the stock's downside will be limited. Our TP is based on 7x P/E – still cheap, at a 46.9% discount to peers – and includes a 2% ESG premium.
- **Downside risks:** Weakening China economy, FX volatility, higher interest rates, heightened tension on US-China trade war, and unfavourable regulations.

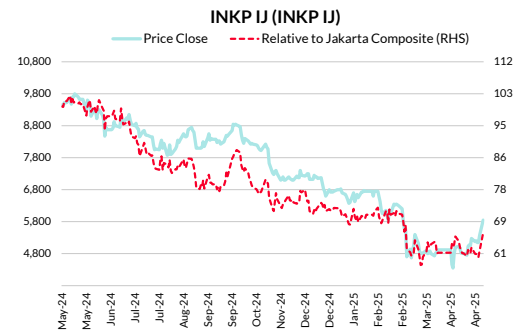
Analyst

Wendy Chandra
 +6221-5094 0989
wendy@rhbgroup.com



Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|---------------|------|-------|--------|--------|
| Absolute | (14.0) | 18.9 | (9.0) | (19.6) | (37.3) |
| Relative | (10.5) | 14.0 | (6.3) | (10.8) | (33.0) |
| 52-wk Price low/high (IDR) | 4,350 – 9,800 | | | | |



Source: Bloomberg

| Forecasts and Valuation | Dec-23 | Dec-24 | Dec-25F | Dec-26F | Dec-27F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (USDm) | 3,479 | 3,196 | 3,954 | 4,620 | 5,322 |
| Recurring net profit (USDm) | 374 | 380 | 385 | 450 | 574 |
| Recurring net profit growth (%) | (52.7) | 1.5 | 1.3 | 16.7 | 27.6 |
| Recurring P/E (x) | 5.20 | 5.12 | 5.06 | 4.33 | 3.39 |
| P/B (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 |
| P/CF (x) | 3.24 | 4.43 | 4.45 | 5.24 | 3.99 |
| Dividend Yield (%) | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 |
| EV/EBITDA (x) | 3.57 | 5.19 | 5.87 | 5.22 | 4.23 |
| Return on average equity (%) | 7.1 | 6.8 | 6.5 | 7.0 | 8.1 |
| Net debt to equity (%) | 34.3 | 44.8 | 63.1 | 62.0 | 52.4 |

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E Score: 3.2 (EXCELLENT)

S Score: 3.0 (GOOD)

G Score: 3.0 (GOOD)

Please refer to the ESG analysis on the next page

Emissions And ESG

| Trend analysis | Emissions (tCO2e) | Dec-22 | Dec-23 | Dec-24 | Dec-25 |
|---|-------------------|-----------|-----------|-----------|--------|
| In 2024, INKP recorded a 1.3% reduction in greenhouse gas (GHG) emissions from the 2023, achieved through energy efficiency initiatives undertake | Scope 1 | 6,290,470 | 6,395,682 | 6,335,503 | na |
| | Scope 2 | 191,048 | 74,979 | 51,784 | na |
| | Scope 3 | na | na | na | na |
| | Total emissions | 6,481,518 | 6,470,661 | 6,387,287 | na |

Source: Company data, RHB

Latest ESG-Related Developments

INKP has adopted the Sustainability Roadmap Vision (SRV) 2030 from its parent company, APP Group, where goals are centred on three key pillars: Production (carbon footprint reduction), forests (conserving the forest), and people (improving lives).

In 2024, INKP reduced its greenhouse gas (GHG) emission volume carbon intensity by 1.6% compared to its 2023 baseline, installed 21.625 MWp of solar power capacity with an additional 5.39 MWp planned for 2025, and implemented a Vacuum Evaporator (VE) Condensate Segregation System to reduce clean water usage.

During the same year, INKP recorded that 54% of its total energy consumption—amounting to 149,388,066 GJ—was sourced from renewable energy, aligning with its key initiative to reduce reliance on fossil fuels; this reflects a 3.3% decrease in total energy use from the previous year.

Additionally, INKP achieved a 20% reduction in hazardous solid waste generation compared to 2023, demonstrating its ongoing commitment to environmental stewardship

ESG Unbundled

Overall ESG Score: 3.1 (out of 4)

Last Updated: 5 May 2025

E Score: 3.2 (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

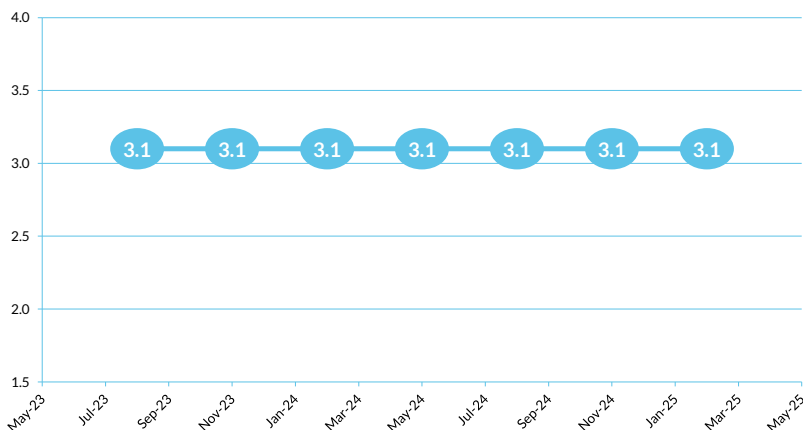
S Score: 3.0 (GOOD)

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 Score: 3.0 (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

ESG Rating History



Source: RHB

Figure 1: Changes to earnings estimates

| | New | | | Old | | | New/old (%) | | |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------------|--------|-------|
| | 2025F | 2026F | 2027F | 2025F | 2026F | 2027F | 2025F | 2026F | 2027F |
| Income statement (USDm) | | | | | | | | | |
| Total turnover | 3,954 | 4,620 | 5,322 | 4,876 | 7,411 | - | (18.9) | (37.7) | - |
| Gross profit | 1,260 | 1,485 | 1,737 | 1,602 | 2,240 | - | (21.4) | (33.7) | - |
| EBIT | 782 | 907 | 1,057 | 1,056 | 1,309 | - | (25.9) | (30.7) | - |
| Net Profit | 429 | 493 | 617 | 541 | 705 | - | (20.7) | (30.0) | - |
| Key metrics | | | | | | | | | |
| Revenue growth (%) | 23.7 | 16.8 | 15.2 | 52.6 | 38.1 | - | | | |
| Gross margin (%) | 31.9 | 32.1 | 32.6 | 32.9 | 30.2 | - | | | |
| EBIT margin (%) | 19.8 | 19.6 | 19.9 | 21.7 | 17.7 | - | | | |
| Net profit margin (%) | 10.8 | 10.7 | 11.6 | 11.1 | 9.5 | - | | | |

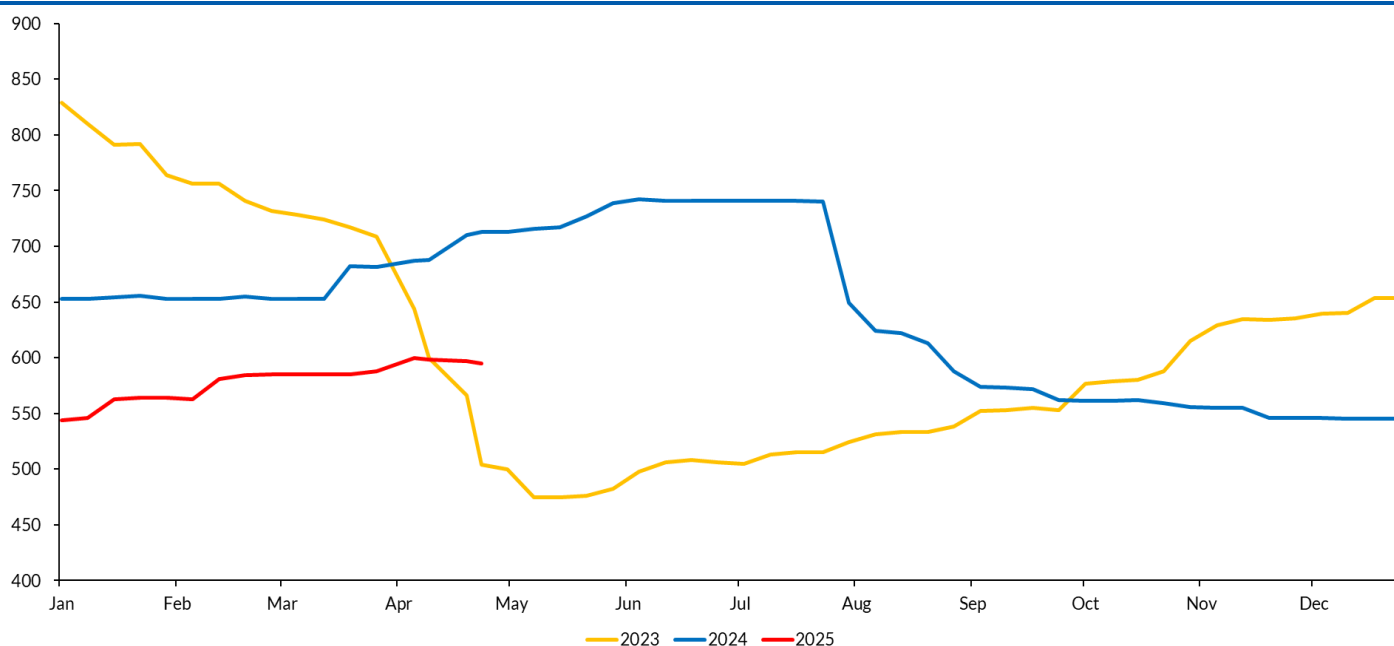
Source: Company data, RHB

Figure 2: RHB vs Street estimates

| Income statement (IDRbn) | RHB | | | Street | | | RHB/Street (%) | | |
|--------------------------|-------|-------|-------|--------|-------|-------|----------------|-------|-------|
| | 2025F | 2026F | 2027F | 2025F | 2026F | 2027F | 2025F | 2026F | 2027F |
| Total turnover | 3,954 | 4,620 | 5,322 | 3,685 | 4,702 | 4,965 | 107.3 | 98.3 | 107.2 |
| Gross margin | 1,260 | 1,485 | 1,737 | 1,175 | 1,587 | 1,849 | 107.2 | 93.5 | 93.9 |
| EBIT | 782 | 907 | 1,057 | 784 | 1,130 | 1,295 | 99.8 | 80.3 | 81.6 |
| Net profit | 429 | 493 | 617 | 480 | 677 | 853 | 89.4 | 72.9 | 72.4 |

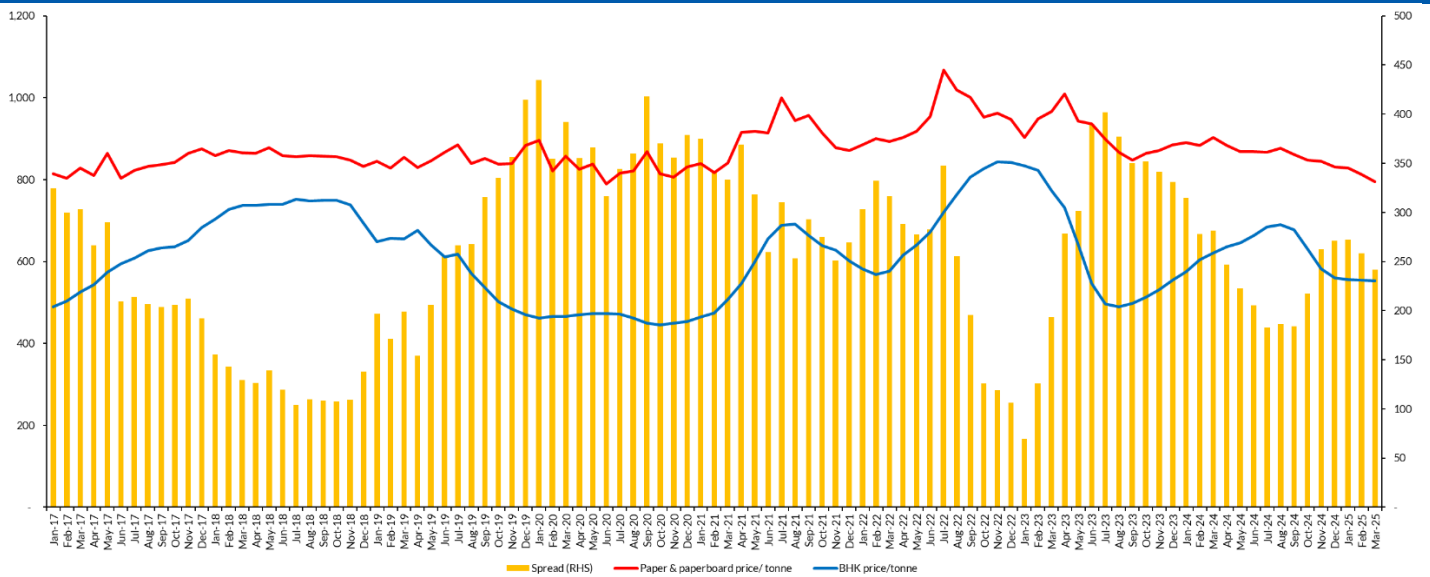
Source: Company data, Bloomberg, RHB

Figure 3: China's BHK market price, 2023 to April 2025



Source: Bloomberg, RHB

Figure 4: China's BHK imports and paper & paperboard export prices, Jan 2016-Dec 2024 (USD/tonnes)



Source: China Customs

Figure 5: Peer comparison

| Company | Ticker | Mkt cap (USDm) | P/E (x) | | P/BV (x) | | Div yield (%) | | ROE (%) | |
|--------------------------------|-----------|----------------|-------------|-------------|------------|------------|---------------|-------|---------|-------|
| | | | 2025F | 2026F | 2025F | 2026F | 2025F | 2026F | 2025F | 2026F |
| Integrated | | | | | | | | | | |
| UPM-Kymmene Oyj | UPM FH | 14,188 | 13.5 | 9.7 | 1.1 | 1.1 | 6.4 | 6.7 | 8.0 | 11.6 |
| Suzano | SUZB3 BZ | 11,373 | 4.9 | 5.7 | 1.5 | 1.2 | 4.1 | 3.9 | 32.5 | 24.2 |
| Klabin | KLBN11 BZ | 4,132 | 11.8 | 8.9 | 2.6 | 2.2 | 6.4 | 7.4 | 34.0 | 38.3 |
| Empresas CMPC | CMPC CI | 3,898 | 9.3 | 8.2 | 0.5 | 0.3 | 3.5 | 4.4 | 5.3 | 6.7 |
| Indah Kiat Pulp & Paper | INKP IJ | 1,948 | 4.6 | 4.0 | 0.3 | 0.3 | 0.8 | 0.8 | 3.5 | 3.7 |
| Weighted average | | | 9.6 | 7.9 | 1.3 | 1.1 | | | | |
| Non-Integrated | | | | | | | | | | |
| Smurfit WestRock | SW US | 21,547 | 13.7 | 11.0 | 1.2 | 1.1 | 4.2 | 4.2 | 8.4 | 10.1 |
| International Paper Co | IP US | 24,198 | 19.5 | 13.3 | 1.3 | 1.3 | 4.1 | 4.1 | 7.2 | 9.5 |
| Stora Enso Oyj | STERV FH | 7,532 | 16.3 | 10.3 | 0.6 | 0.6 | 3.3 | 4.6 | 3.5 | 6.0 |
| Graphic Packaging Holding Co | GPUS | 6,581 | 10.2 | 8.9 | 1.9 | 1.7 | 2.0 | 2.1 | 19.9 | 20.2 |
| Oji Holdings Corp | 3861 JT | 4,662 | 10.6 | 9.1 | 0.6 | 0.5 | 3.6 | 3.6 | 5.5 | 6.1 |
| Metsa Board Oyj | METSA FH | 1,371 | 28.9 | 15.5 | 1.1 | 1.1 | 3.4 | - | 3.2 | 7.0 |
| Nine Dragons Paper Holdings | 2689 HK | 1,768 | 10.1 | 6.7 | 0.3 | 0.3 | 0.9 | 1.9 | 2.6 | 4.0 |
| Pabrik Kertas Tjiwi Kimia | TKIM IJ | 1,085 | 6.2 | 5.5 | 0.4 | 0.4 | 0.5 | 0.5 | 7.2 | 7.5 |
| Nippon Paper Industries Co | 3863 JT | 864 | 35.4 | 7.4 | 0.3 | 0.3 | 0.9 | 1.4 | 0.8 | 3.4 |
| Weighted average | | | 15.8 | 11.2 | 1.2 | 1.1 | | | | |
| Global weighted average | | | 13.7 | 10.1 | 1.2 | 1.1 | | | | |

Source: Bloomberg, 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

RHB Guide to Investment Ratings

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

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 5093 9888
Fax : +6221 5093 9777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470