

23 September 2024

Consumer Cyclical | Consumer Products

Indah Kiat Pulp & Paper (INKP IJ)

Buy (Maintained)

Stagnant P&p Prices Pressure Pulp Prices; Keep BUY

- **Maintain BUY and IDR13,625 TP, 66% upside.** We maintain our call for Indah Kiat Pulp & Paper given its strategy to move away from dependency on pulp and expand towards downstream products, which have more stable prices and volume-driven growth. For the sector, weak China demand for both pulp and paper & packaging (p&p) has led to stagnant prices. Our FY25F TP is based on 9x P/E – still cheap at 24% discount to peers and includes a 2% ESG premium. Downside risks include a weakening economy in China, FX volatility, hike in interest rates, and unfavourable government regulations.
- **Inventory days for Bleached Hardwood Kraft (BHK) remains high at 48 days** due to buyers' continued pressure for lower prices, and weak p&p demand. Continued weakness in shipments to China since April has resulted in a gradual decline in YTD global pulp shipments to +3.1% YoY (Figure 1). We expect pulp demand to recover in September as the spread between p&p prices and BHK starts widening to more than USD200/tonne.
- **Weak China demand to limit room for pulp price hike.** Pulp shipments to China remain weak despite expansion of p&p capacity by c.4m tonnes. In July, shipments to China fell 15.8% MoM and 27.2% YoY. Concurrently, August volume of BHK pulp arrivals reached only 1.28m tonnes (-23.7% YoY), though still up by 26.2% MoM. As a result, China's BHK pulp imports for 8M24 totalled 10.1m tonnes, reflecting a 2.2% YoY decrease.
- **According to China customs data, the August price of imported BHK pulp was at USD690/tonne**, supporting our expectation that pulp producers' 3Q24 revenue should remain higher than 2Q24, when the price was USD648/tonne. However, the recent drop in pulp prices – reaching approximately USD560/tonne – is expected to be reflected in 4Q24 results. Note that orders typically take 2-6 weeks to reach their destinations, with an additional 2-4 weeks before leaving the warehouse.
- **Recent talks with global players indicate pulp prices remain pressured.** Based on discussions with global players, the additional 2.6m tonnes capacity from Suzano's Cerrado mill and China's pulp expansion are putting downward pressure on prices. However, China should be less concerned as its reliance on expensive wood chip imports costing USD160-220/tonne with a 2x conversion rate raises its pulp production costs to USD380-500/tonne, vs integrated producers' lower costs of USD220-260/tonne.
- **INKP's FY25F growth driver.** Industrial paper (brown) is a low-margin product vs INKP's higher-margin graphic paper, which faces stagnant demand and pricing. With pulp utilisation at 98%, sales volume growth is limited, making pulp price recovery crucial for earnings. However, its new facility, set to start in 2Q25, will mainly produce industrial paper (white), reducing pulp price dependency and offering stronger margins due to integrated production and internal pulp sourcing.

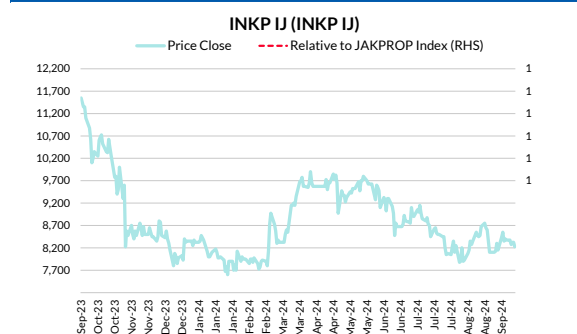
Target Price (Return): IDR13,625 (65.7%)
Price (Market Cap): IDR8,225 (USD2,970m)
ESG score: 3.1 (out of 4)
Avg Daily Turnover (IDR/USD) 41,970m/2.65m

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.2)	(3.0)	(7.9)	(10.6)	(24.7)
Relative	(1.2)	(3.0)	(7.9)	(10.6)	(24.7)
52-wk Price low/high (IDR)	7,600 – 11,550				



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.

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)	3.75	7.93	8.16	5.92	4.47
P/B (x)	0.5	0.5	0.5	0.4	0.4
P/CF (x)	5.05	4.94	2.91	14.66	na
Dividend Yield (%)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	3.38	4.57	6.34	5.52	4.71
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

Financial Exhibits

Asia Indonesia Consumer Cyclical Indah Kiat Pulp & Paper INKP IJ Buy	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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
Valuation basis PER	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	3.75	7.93	8.16	5.92	4.47
	P/B (x)	0.5	0.5	0.5	0.4	0.4
	FCF Yield (%)	17.0	11.3	(88.0)	(79.3)	(1.0)
	Dividend Yield (%)	0.6	0.6	0.6	0.6	0.6
Key drivers i. Higher pulp price; ii. China economy recovery; iii. Integration of pulp production to limit BHK supply.	EV/EBITDA (x)	3.38	4.57	6.34	5.52	4.71
	EV/EBIT (x)	4.13	5.93	8.27	6.91	5.90
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	4,003	3,479	3,453	4,876	7,411
	Gross profit	1,590	1,132	1,123	1,602	2,240
Key risks i. Pulp & paper price volatility; ii. FX volatility; iii. Higher interest rates.	EBITDA	1,391	1,022	1,020	1,322	1,640
	Depreciation and amortisation	(253)	(234)	(238)	(266)	(331)
	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
Company Profile Indah Kiat Pulp & Paper is part of APP Group, the largest pulp & paper producer.	Taxation	(190)	(138)	(101)	(135)	(176)
	Reported net profit	858	411	404	541	705
	Recurring net profit	792	374	364	502	665
	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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

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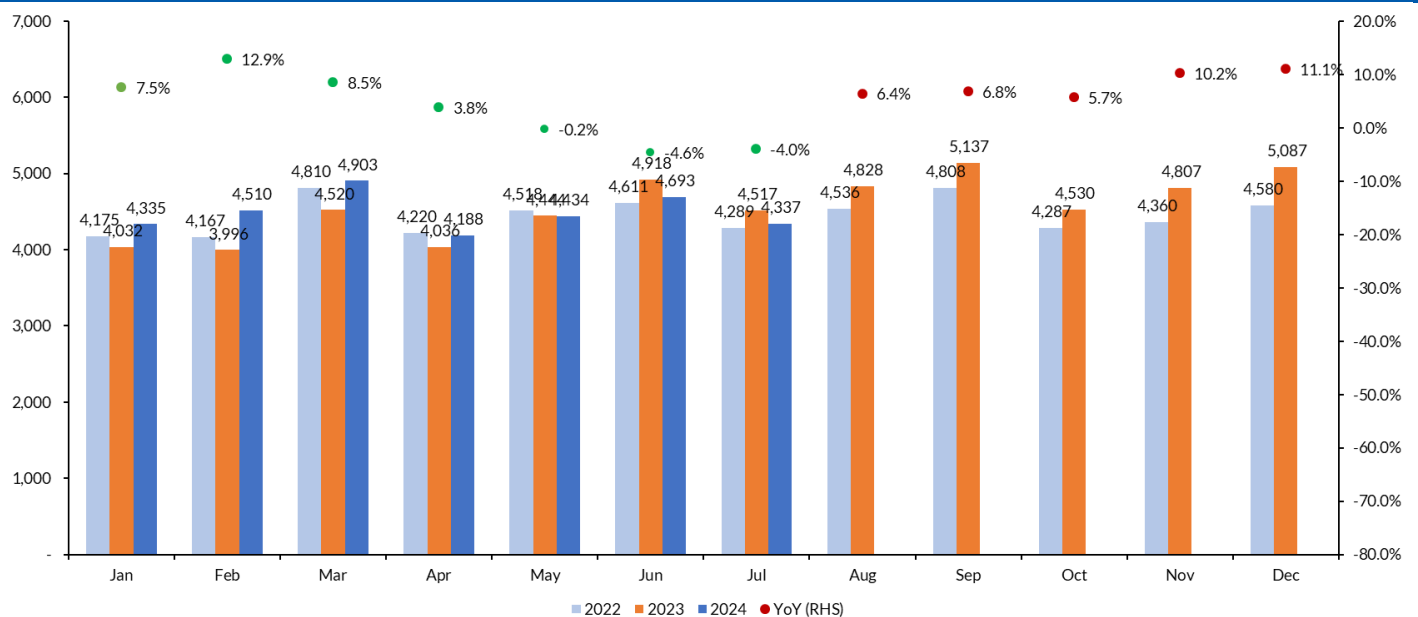
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Figure 1: Global monthly pulp shipments and inventory

'000 tonnes	Jul 2023	May 2024	Jun 2024	Jul 2024	MoM	YoY	7M23	7M24	YoY
Total shipments	4,517	4,434	4,693	4,337	-7.6%	-4.0%	30,463	31,401	3.1%
Shipment by type									
BHK	2,439	2,460	2,761	2,455	-11.1%	0.7%	16,546	17,692	6.9%
Bleached Softwood Kraft (BSK)	1,925	1,836	1,767	1,708	-3.4%	-11.3%	12,817	12,638	-1.4%
Other	153	138	165	175	6.1%	14.2%	1,101	1,071	-2.7%
Shipment by region									
China	1,756	1,326	1,519	1,279	-15.8%	-27.2%	10,963	10,034	-8.5%
Western Europe	883	1,057	1,088	1,042	-4.2%	18.0%	6,382	7,308	14.5%
North America	619	642	663	668	0.8%	7.8%	4,170	4,485	7.6%
Other	1,259	1,409	1,423	1,349	-5.2%	7.1%	8,948	9,574	7.0%
Inventory days									
BHK	45	47	48	48	0	4			
BSK	44	39	39	42	4	(1)			
Shipment to capacity ratio (%)									
Global	86.0%	83.0%	90.8%	80.6%	(10.2)	(5.4)			
China BCP market Price (USD/tonne)									
	774	890	872	842	-3.4%	8.8%			

Source: Bloomberg, RHB

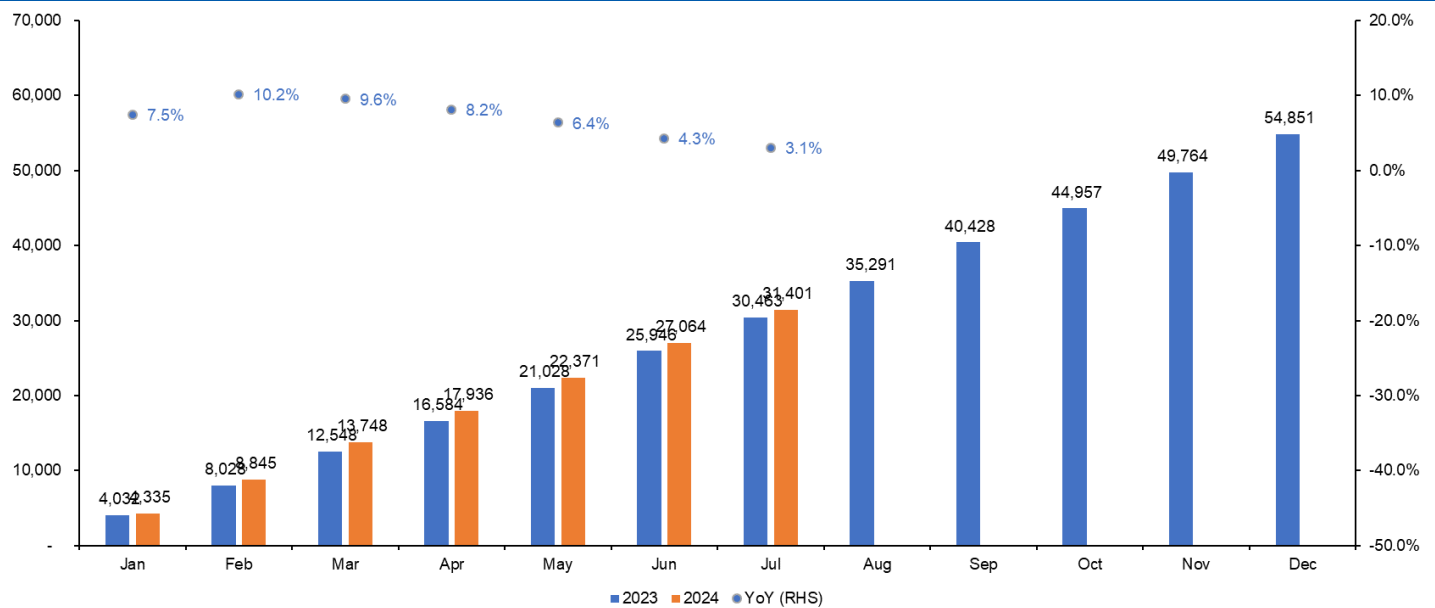
Figure 2: Monthly global pulp shipments for 2022 and 2023 vs Jan-Jul 2024 ('000 tonnes)



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

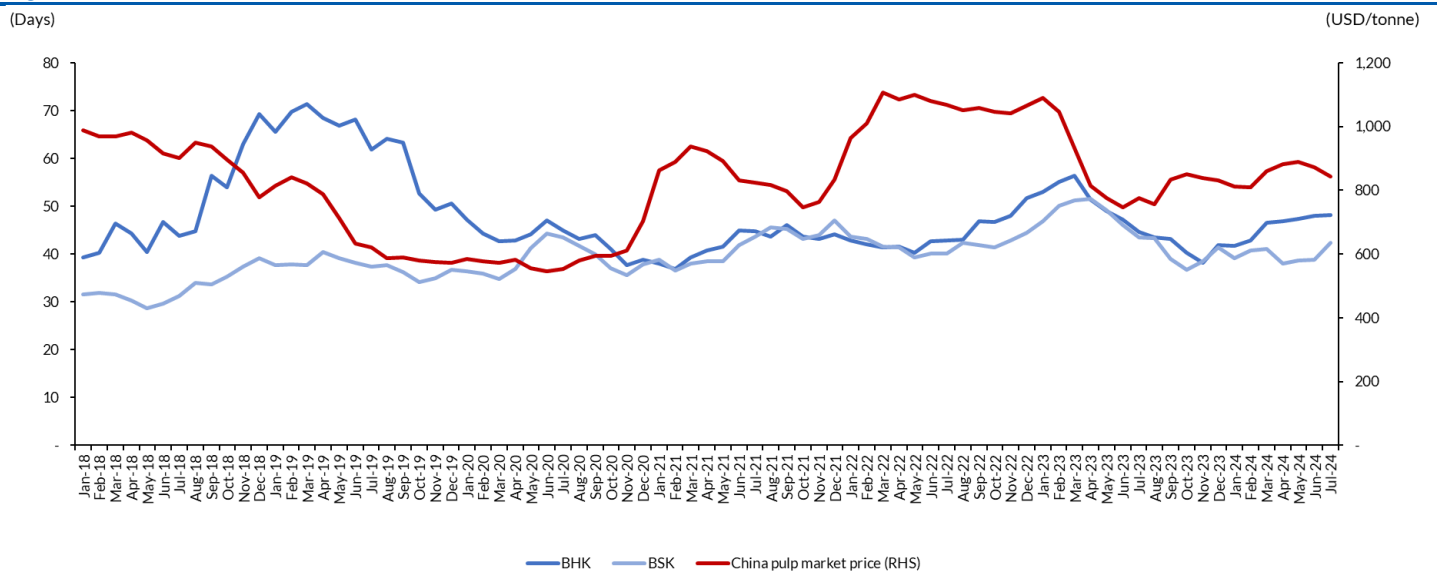
Source: Bloomberg

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



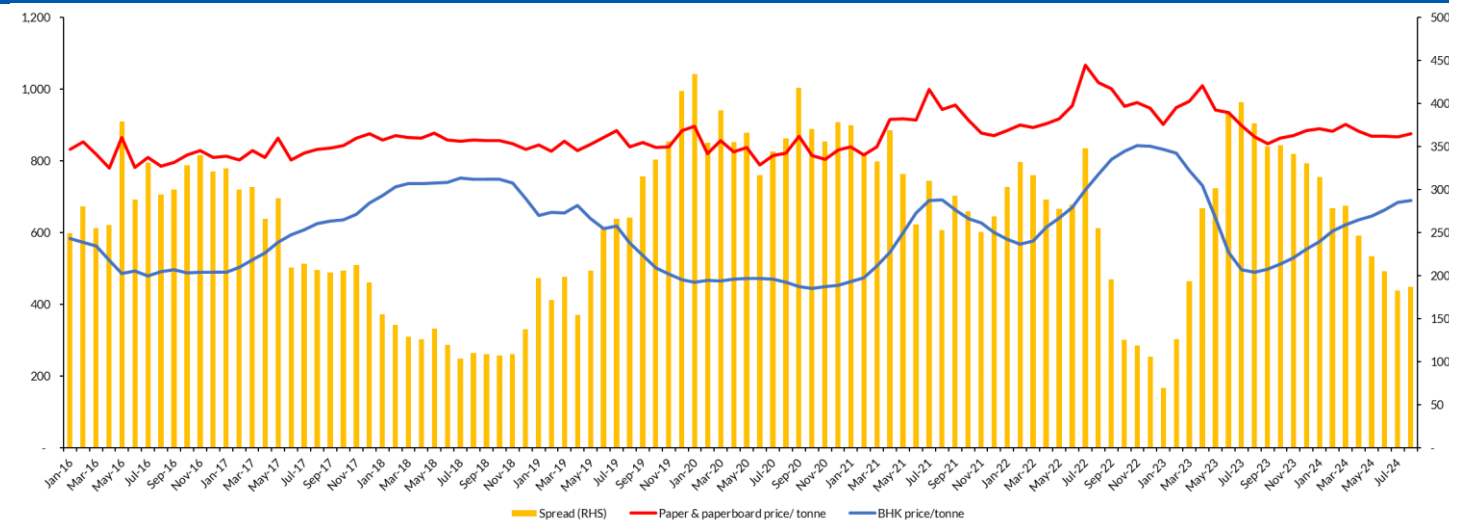
Source: Bloomberg

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



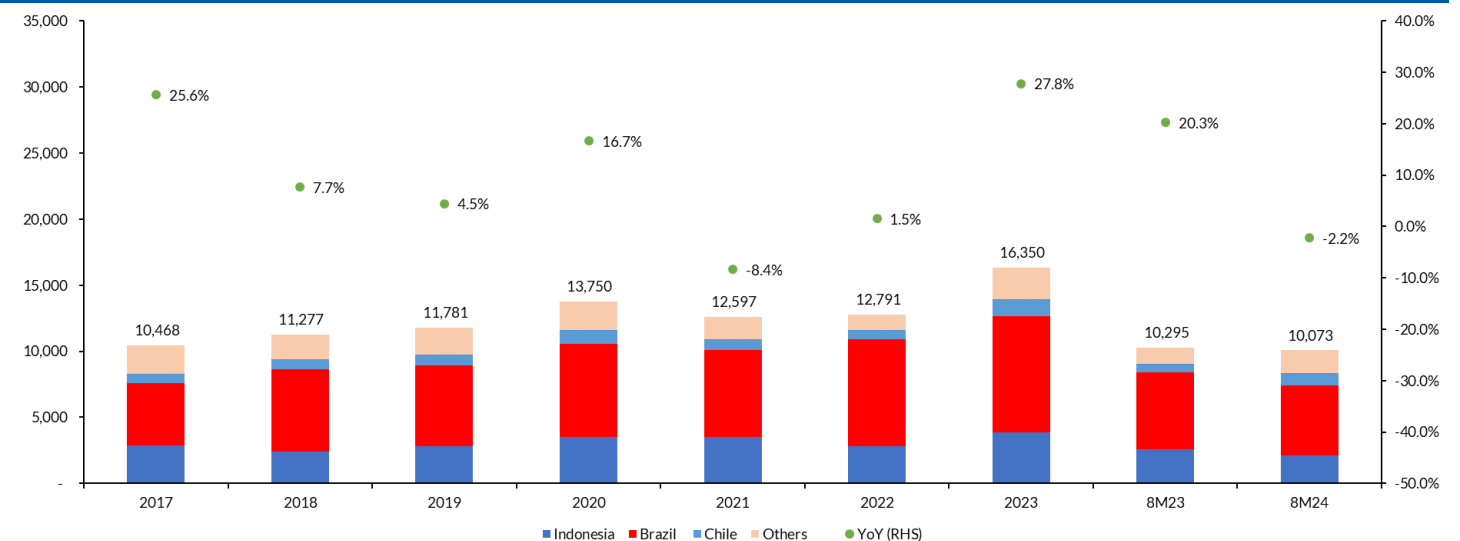
Source: Bloomberg

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



Source: China Customs

Figure 6: China's BHK imports by origin country; 2017-2023 and 8M23 vs 8M24 ('000 tonnes)



Source: China Customs

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Figure 7: 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	18,281	15.7	12.3	1.4	1.4	5.0	5.1	9.0	11.7
Suzano SA	SUZB3 BZ	13,090	10.9	7.8	1.4	1.3	3.0	2.1	12.4	15.7
Klabin SA	KLBN11 BZ	4,967	11.7	14.3	2.3	2.1	6.0	6.1	22.5	19.9
Empresas CMPC SA	CMPC CI	4,263	7.0	7.3	0.5	0.5	6.0	4.9	8.1	7.8
Indah Kiat Pulp & Paper*	INKP IJ	3,049	5.9	4.5	0.5	0.4	0.6	0.6	8.1	9.8
Weighted average			11.4	9.7	1.4	1.3				
Non-Integrated										
Smurfit WestRock PLC	SW US	23,984	16.2	11.0	1.4	1.3	3.0	3.7	10.0	13.0
International Paper Co	IP US	16,903	31.6	17.2	2.0	2.0	3.8	3.8	7.2	11.4
Stora Enso Oyj	STERV FH	10,226	23.0	13.8	0.8	0.8	2.6	3.4	3.6	6.0
Graphic Packaging Holding Co	GPK US	8,889	11.0	10.2	2.9	2.4	1.4	1.5	27.0	23.8
Oji Holdings Corp	3861 JT	4,114	10.4	7.6	0.6	0.5	2.8	4.1	5.7	7.0
Metsa Board Oyj	METSA FH	2,509	25.5	11.5	1.4	1.3	3.2	3.8	5.5	12.0
Nine Dragons Paper Holdings Lt	2689 HK	1,810	15.9	5.7	0.3	0.3	0.7	2.3	1.7	5.4
Nippon Paper Industries Co Ltd	3863 JT	782	7.5	29.9	0.3	0.2	0.6	1.0	3.7	0.8
Weighted average			21.1	13.4	1.5	1.4				
Global weighted average			17.0	11.9	1.5	1.4				

Note: *P/E based on reported EPS

Source: Bloomberg, RHB

Emissions And ESG

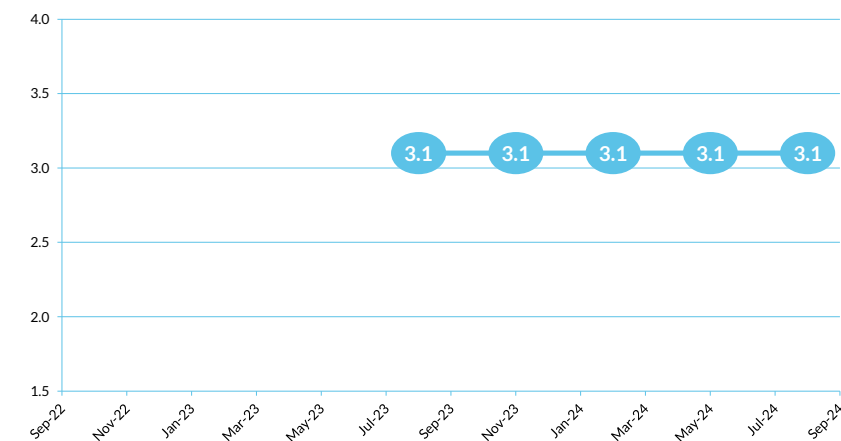
Trend analysis	Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
In 2023, INKP recorded a 4% reduction in greenhouse gas (GHG) emissions from the 2018 baseline through energy efficiency initiatives.	Scope 1	6,638,017	6,296,638	6,444,964
	Scope 2	206,849	190,645	74,979
	Scope 3	na	na	na
	Total emissions	6,844,866	6,487,283	6,519,943

Source: Company data, RHB

Latest ESG-Related Developments

- In 2022, INKP partnered with conservation groups and experts, including the Sumatran Tiger Forum and Indonesian Elephant Conservation Forum, to aid the Ministry of Environment and Forestry in sustainable strategies for preserving key species and habitats.
- 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). That year, its RE usage rose by 6.2% due to its energy efficiency programme and the acquisition of unbundled RE certificates (RECs) from Perusahaan Listrik Negara for the IKS (Serang) mill. In 2023, it also installed solar power plants with a total capacity of 8.765MWp at its IKT (Tangerang) and IKS (Serang) mills. Additionally, a 12.86MWp solar power plant will become operational at its IKP mill in the coming years. In 2023, the IKP mill received the Green Industry Standard certificate for its pulp and cultural paper products – this was 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. The IKT mill, in cooperation with the Tangerang Regency Government, has planted 150,000 Avicennia marina mangrove trees from 2018 to 2023 to protect the northern coastal areas from erosion.

ESG Rating History



Source: RHB

Recommendation Chart



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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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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