

INKP

PT Indah Kiat Pulp & Paper Tbk

Scaling Sustainably, Staying Undervalued

- **Integrated scale and ESG certifications make INKP a top-tier pulp & paper exporter across 120+ countries.**
- **1H25 net profit dropped 41% YoY, hit by weaker forex gains and rising interest expenses.**
- **Capex reached USD 884 million, focused on expanding tissue and packaging lines with green-labeled products.**
- **Valuation remains attractive at 6.7x P/E, with potential rerating on ASP recovery and margin rebound in 2H25–2026.**

Regional Giant with Global Green Edge

PT Indah Kiat Pulp & Paper Tbk (INKP), a flagship of the Asia Pulp & Paper (APP) Sinarmas Group, is Indonesia's largest pulp and paper producer with a vertically integrated structure. Its operations span three industrial complexes: Perawang Mill (Riau, largest and most integrated with pulp, paper, tissue, and chemical plants), Tangerang Mill, and Serang Mill, supporting annual production of over 3 million tons of cultural and industrial paper. Product segments include writing & printing paper (~40% of sales), packaging/containerboard (~35%), and tissue & specialty paper (~25%), sold across 120+ countries. INKP's competitive advantage lies in upstream pulp integration and certifications like ISO 9001/14001, PEFC, and Halal, which open doors to regulated markets including the Middle East, Southeast Asia, and Europe.

1H25 Profit Drops on FX and Financing Headwinds

In 1H25, INKP booked net sales of USD 1.56 billion (-2.4% YoY) due to ASP declines across product lines despite stable volumes. Gross profit fell to USD 475 million (-11.8% YoY) with a margin of 30.4%, while operating profit declined to USD 294 million (-20% YoY). Foreign exchange gains dropped significantly to USD 19 million (vs USD 90 million in 1H24), and interest expense rose to USD 153 million (+11% YoY), contributing to a sharp net profit decline to USD 164 million (-41.3% YoY). Nevertheless, INKP maintained solid liquidity with cash and equivalents at USD 1.89 billion, and operating cash flow reached USD 460 million, backed by disciplined capex disbursement and inventory controls.

Capex Push Targets Eco Packaging and Tissue Growth

Advances for fixed asset purchases rose to USD 884 million (+5.4% YTD), indicating active capex for packaging and tissue line expansion, particularly at Perawang. With rising demand for eco-friendly packaging and hygiene products, INKP is scaling up capacity in tissue and food-grade board, leveraging certifications such as PEFC CoC, Halal (LPPOM MUI), and TKDN (domestic content) to boost local and export sales. Products like IK Copy, Paperline, IK Plus, and E-Paper now carry green labels that are mandatory in Malaysia and Singapore, unlocking new B2B contracts. INKP also benefits from group-wide logistics integration under APP, optimizing delivery from mill to port. Its supply security is supported by upstream plantation and pulp operations under the Sinarmas umbrella, buffering against global pulp price volatility.

Recommend BUY with TP of Rp10,700 per share

We recommend **BUY** INKP with TP of **Rp10,700 per share**, implying 6.7x PE 2026F (regional peers: 7.5x PE 2026F). While earnings remain under pressure from higher financing costs and softer prices, potential recovery in ASPs, improved utilization of new capacity, and operating leverage from Perawang's expansion could support margin rebound in 2H25–2026. **Key risks:** pulp price volatility, rising interest and FX exposure, capex execution delays, ESG/regulatory scrutiny, global overcapacity, and export market disruptions.

Key Financial Highlights

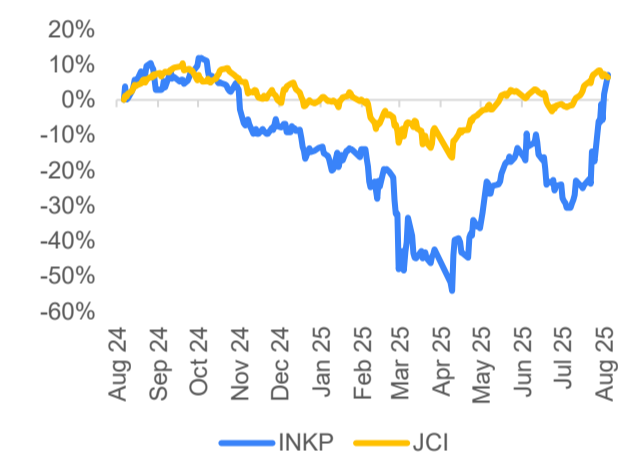
Key Metrics (USD mn)	2022	2023	2024	2025F	2026F
Revenue	4,002.6	3,479.0	3,195.7	3,945.4	4,851.1
Operating Profit	1,138.1	787.7	652.9	865.5	1,176.1
Net Profit	857.5	411.4	424.3	536.7	730.8
Operating Margin (%)	28.4	22.6	20.4	21.9	24.2
Net Margin (%)	21.4	11.8	13.3	13.6	15.1
EPS Growth (%)	69.3	-52.0	3.1	26.5	36.2
Dividend Yield (%)	0.69	0.56	0.56	0.47	0.47

BUY

Stock Information (as of August 5, 2025)

Last Price (Rp)	7,375
Target Price (Rp)	10,700
Potential Upside	45.1%
Market Cap (Rp tn)	40.3
52 Week Range (Rp)	9,000 – 4,220
Free Float	40.5%
Share Out. (bn)	5.5
Beta	1.4

Stock Performance Comparison vs JCI



Shareholders

INKP's Shareholders	%
APP Sinarmas	59.5
Public	40.5

Company Description

INKP's Company Profile

PT Indah Kiat Pulp & Paper Tbk is an Indonesia-based company, which is engaged in the manufacturing of cultural paper, pulp, tissue, and industrial paper. The Company operates in two segments: cultural paper and pulp and industrial paper and tissue products. The cultural paper and pulp products segment consist primarily of cultural paper and other related cultural paper products and pulp.

Rating for Sectors:

Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.

Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.

Underweight : We expect the industry to underperform the primary market index (JCI) over the next 12 months.

Rating for Stocks:

Buy : The stock is expected to give total return (price appreciation + dividend yield) of > +10% over the next 12 months.

Hold : The stock is expected to give total return of > 0% to ≤ +10% over the next 12 months.

Sell : The stock is expected to give total return of < 0% over the next 12 months.

Outperform : The stock is expected to do slightly better than the market return. Equal to “moderate buy”

Underperform : The stock is expected to do slightly worse than the market return. Equal to “moderate sell”

Analyst Certification:

The lead analyst(s) who prepared this equity research report confirm that the opinions stated herein genuinely represent their personal perspectives regarding all the securities or issuers discussed. Additionally, the analyst(s) assert that their remuneration was not, is not, and will not be tied, either directly or indirectly, to any specific recommendations or viewpoints presented in this report.

PREPARED BY AJAIB RESEARCH TEAM



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