

**PT Indah Kiat Pulp and Paper Tbk (INKP) held a public expose yesterday. Here are some key takeaways from the event:**

**Financial Overview.** INKP's performance was robust in 1Q18. Revenue rose to USD 843mn (+13.1% YoY), while net income significantly jumped by 80.8% YoY to USD 155.1mn. Main reason behind the outstanding performance was favorable pulp price, noting 1Q18 average pulp price (China BHKP benchmark) was 33.1% YoY higher at USD 760, compared to USD 571 in 1Q17. Margins were also recorded higher in 1Q18. INKP's gross, operating and net margin had increased to 35.9%, 28.4% and 18.4% respectively (vs 26.2%, 17.4%, and 11.5% in 1Q17).

**Industry outlook.** Management believe that pulp and paper industry outlook remains positive. Overall, the industry is forecasted to grow by 3% CAGR16-20, with pulp, packaging and tissue to grow at 4%, 3% and 5% respectively, while paper is estimated to be flat due to digitalization. In addition, pulp price should remain high on the back of supportive supply-demand.

**Upcoming project.** Having finished their expansion into tissue business with 108,000 tons of annual production capacity which is expected to be commercialized starting this year, management has announced their upcoming greenfield project. INKP is currently looking forward to the development of integrated white packaging plant in Karawang, expected to be completed by 2Q20. This plant, which is forecasted to have an annual production capacity of 750,000 tons, signifies the company's intention to focus on a more promising segment, which is packaging. In the future, the plant will manufacture packaging products such as food-grade, e-commerce, to cigarette boxes etc. The company allocates USD 618mn budget this year to fund new plant development, tissue business, and maintenance costs.

**We keep our optimism on the pulp and paper industry, as pulp price remains favorable and potential volume growth in the industry for the next upcoming years. Noting the recent significant appreciation of its share price, we are currently reviewing our model.**

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