

Kino Indonesia (KINO; Buy)

Robust earnings on rising margin

- **FY15 core profit doubled, well ahead of expectations**
- **Robust personal care and beverage sales support margin**
- **Accounts Receivable Turnover worsens due to economic slowdown**
- **Maintain BUY with TP of Rp5,600**

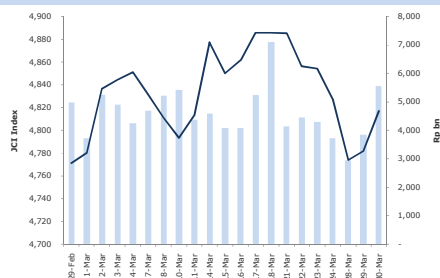
Stronger than expected result. KINO reported net profit of Rp263bn in FY15 (+152.8% yoy), which was 19% above our/consensus estimates. Although revenue only grew by 8% (vs. 2014: 47%), most importantly the growth was driven by its high margin personal care and beverage businesses which grew by 21.6% and 15.1%, respectively (better than expected), while the low margin food distribution business declined by 27.4%. As of FY15, the pharma division only accounted for 0.2% of total sales; however we expect a higher contribution to come from this division post the acquisition.

Higher GPM on better sales mix. The better than expected earnings were attributable to higher than expected margins. The company's GPM expanded 600bps to 40.7% due to a better sales mix of high margin personal care and beverage. In FY15, GPM of personal care and beverage were 53.1% (+3% yoy) and 39.3% (+4.5% yoy), respectively, which were higher than our estimates. To note, the company imposed an ASP hike of 5-6% for personal care and 3-4% for beverages. In addition, raw material costs improved 5bps (as % of non-food sales) on lower commodity prices such as aluminum, sugar and alcohol. Meanwhile, operating expenses remained stable at 29.8% of total sales on stable A&P and G&A expenses. Going forward, we expect the A&P expense to be maintained at 16% of total opex in order to stimulate demand and increase brand awareness.

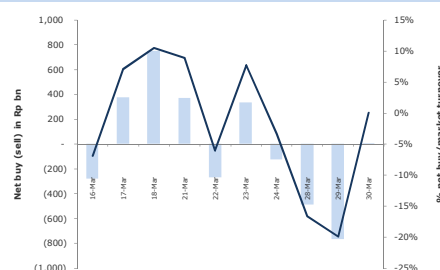
Accounts receivable worsen. Receivable turnover lengthened to 94 days from 49.5 days in 2104. However, it is still an improvement compared to 158 days and 116 days in 6M15 and 8M15, respectively. We suspect this is a reflection of the economic slowdown during FY15 thus the company offered more leniency on payment terms in face of the economic slowdown. Meanwhile, its inventory and payable turnover days were more stable at 58 days and 78 days (vs. 2014: 54 days and 70 days), respectively. We expect AR and AP turnover days to shorten thus resulting in a better net operating cycle.

Maintain BUY at TP Rp5,600. Our DCF based target price implies 17F P/E of 20.6x and EV/EBITDA of 18.0x. We like Kino as it is well-positioned in high-growth Indonesia FMCG segments with strong revenue growth as proven during FY15. We forecast revenue/EBIT to grow at a 19%/20% CAGR in 2015-2017F on the back of improving margins. We believe growth will be sustained by the company's product mix, strong innovation culture and nationwide distribution network. Therefore, we maintain our BUY rating on the stock.

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	4,817	0.7%	-12.7%	4.9%
LQ45	835	0.7%	-13.1%	5.5%
DJI	17,717	0.5%	-0.3%	1.7%
SET	1,410	1.3%	-6.4%	9.5%
HSI	20,803	2.1%	-16.5%	-5.1%
NKY	16,879	-1.3%	-12.1%	-10.8%
FTSE	6,203	1.6%	-8.4%	-0.6%
FSSTI	2,873	1.9%	-16.7%	-0.3%
EIDO	23	1.5%	-15.9%	11.9%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	38.3	0.1%	-21.3%
CPO/tonne	615.8	-1.2%	10.0%
Soy/bushel	9.1	-0.8%	-5.5%
Rubber/kg	1.6	0.0%	-7.0%
Nickel/tonne	8,386	-0.3%	-34.6%
Tins/tonne	16,898	0.3%	-0.5%
Copper/tonne	4,903	-0.3%	-19.7%
Gold/try.oz (Spot)	1,225	-1.4%	3.5%
Coal/tonne*	51.1	-2.4%	-10.8%
Corn/bushel	3.6	-1.6%	-7.8%
Wheat/bushel**	159.3	-3.2%	-21.1%

* : 1 week change

** : 1 month change

Source : Bloomberg

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	3,339	3,604	4,335	5,097	5,760
EBITDA(RpBn)	236	461	542	669	744
EBITDA Growth (%)	29.7	95.2	17.5	23.5	11.1
Net Profit(RpBn)	104	263	378	461	514
EPS (Rp)	73	184	264	323	360
EPS Growth (%)	79.1	152.8	43.5	22.2	11.5
Net Gearing (%)	92.7	7.3	(25.3)	(19.8)	(18.2)
PER (x)	51.9	20.5	14.3	11.7	10.5
PBV (x)	8.2	3.0	1.8	1.6	1.4
Dividend Yield (%)	0.0	0.0	0.0	2.1	2.6
EV/EBITDA (x)	0.0	11.4	11.4	9.1	8.2

Source: KINO, IndoPremier

Share Price Closing as of : 29 March 2016

Refer to Important disclosures on the last of this report

Indofood SM (INDF; Hold)

Slower growth, waiting for upbeat

- **Flat net profit growth in FY15, way below our expectation.**
- **Low commodity price and higher operating cost hurt margins.**
- **Downgrade earnings on new guidance.**
- **We downgrade to Hold and cut TP to Rp7,000.**

Weak FY15 results. Indofood Sukses Makmur (INDF) booked FY15 net profit of Rp2.9tn (+0.7% yoy), below our estimates (91% of our FY15 forecast). Net profit margin fell to 5% (from 6% previously), due to higher-than-expected forex loss and higher tax rate at 35% (from 29% last year). Gross profit growth was also flat (+0.8% yoy), on the back of weak sales growth (+0.7% yoy) and tight gross margin at 26.9%. Forex loss in FY15 spiked to Rp1.1tn (42% of total finance expenses compared to 3% last year) due to depreciated IDR/USD exchange rate.

Margins squeezed from falling ASP. Although INDF's core net profit still grew 4% in FY15, assuming the exclusion of forex loss, its operating margin shrank by 30bps to 10.7%. Operating cost grew 2.3% yoy, outpacing its top-line (+0.7% yoy). In our view, INDF failed to maintain its operating margin in the midst of last year's economic slowdown. In addition, the falling ASP in wheat and palm oil put downward pressure on Bogasari and Agribusiness division, reducing its sales growth by 4%/5% yoy, respectively, and further clipped operating margin to 7%/11% (from 7%/15% previously). Bogasari's short-term challenge is apparent from low wheat prices, while in the long term, competition risk is expected to persist. Thus, it brings an additional margin pressure going forward.

Earnings revision. We reduce our earnings forecast by 3% and 6% for FY16F/17F respectively, on the back of incorporating our new sales assumption from its consumer branded products subsidiary (ICBP) and agribusiness. We tweak our ICBP sales growth assumption at 7% for FY16F (from 10% previously) to be in-line with management's conservative guidance. Yet in agribusiness, we revise up our sales assumption by 8% for FY16F to factor in the early uptrend in CPO price. To note, the majority of INDF's consolidated sales was from ICBP (50%), followed by Bogasari (24%), agribusiness (19%), and distribution (7%).

Valuation and risks. Consistent with our earnings downgrade, we cut our DCF-derived TP to Rp7,000 (from Rp7,900) and downgrade our recommendation to Hold. Our TP implies 18.5/16.2x P/E in FY16F/17F, while currently INDF trades at 15.9/13.7x P/E respectively. Upside risk: lower leverage from MINZ divestment, continuing uptrend in CPO price.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	63,594	64,062	67,465	72,922	80,897
EBITDA (RpBn)	6,874	6,877	7,337	8,106	9,088
EBITDA Growth (%)	23.7	0.0	6.7	10.5	12.1
Net Profit (RpBn)	3,885	2,968	3,320	3,796	4,448
EPS (Rp)	443	338	378	432	507
EPS Growth (%)	55.2	(23.6)	11.9	14.3	17.2
Net Gearing (%)	31.0	33.7	13.4	11.4	10.3
PER (x)	15.6	20.5	18.3	16.0	13.7
PBV (x)	1.5	1.4	1.3	1.2	1.2
Dividend Yield (%)	2.1	3.2	2.4	2.7	3.1
EV/EBITDA (x)	7.0	6.7	7.5	6.8	6.1

Source : INDF, IndoPremier

Share Price Closing as of : 29-March-2016

News & Analysis

Corporates

APLN: Agung Podomoro Land (APLN IJ; Rp295; Buy) reported net profit of Rp809bn in FY15, slight fell by 5% yoy due to lower other income (-25% yoy) and higher effective tax rate. This is 12% above our estimates, but inline with consensus. Revenue and gross profit increased by 13% and 16% yoy to Rp 5.9tn and Rp3tn, respectively. Strong growth boost gross margin to improve to 51.8% from 50.1% in 2014. (Bisnis Indonesia)

(In Rp bn)	FY15	FY14	YoY	4Q15	3Q15	QoQ	Consensus	FY15/ consensus	Ours	FY15/ ours
Revenue	5,971	5,296	13%	2,051	1,143	79%	5,909	101%	5,781	103%
Gross profit	3,090	2,654	16%	1,108	539	105%	2,777	111%	2,910	106%
Operating profit	1,688	1,427	18%	767	165	364%	1,442	117%	1,465	115%
Net profit	809	851	-5%	440	16	2538%	821	99%	722	112%
	FY15	FY14		4Q15	3Q15		FY15		FY15	
Gross Margin	51.8%	50.1%		54.0%	47.2%		47.0%		50.3%	
Operating margin	28.3%	27.0%		37.4%	14.5%		24.4%		25.3%	
Net Margin	13.5%	16.1%		21.5%	1.5%		13.9%		12.5%	

Source: Company

BSDE: Bumi Serpong Damai (BSDE IJ; Rp1,840; Buy) is preparing capex of Rp4tn to fund land acquisition, develop infrastructure and working capital. Company will use internal cash to fund the capex. Company currently have 4,700ha of landbank with 2,900 in in BSD city. (Bisnis Indonesia)

CPIN: Charoen Pokphand Indonesia (CPIN IJ; Rp3,620; Not Rated) posted FY15 net profit of Rp1.84tn, up 5.2% yoy, but came 4.7% below consensus expectation, caused by forex loss of Rp586.8bn (.vs Rp271.4bn in 2014), while EBIT came 13.2% above consensus expectation. (Bisnis Indonesia)

GGRM: Gudang Garam (GGRM IJ; Rp62,800; Buy) reported better than expected earnings of Rp6.4tn (+20%), which is 21%/16% above our/consensus estimate. The revenue was in line with our/consensus estimate with growth of 8%. The GPM increased by almost 200bps on lower COGS.

Comment: Overall, the results are better than our/consensus expectation. Although HMSP recorded higher growth compared to GGRM, but in terms of profitability, GGRM reported much stronger earnings growth (vs. HMSP: earnings growth of 1.8%). (Company)

(in Rp bn)	2015	2014	YoY	4Q15	3Q15	QoQ	vs. forecast 2015	vs. consensus 2015
Revenue	70,366	65,186	7.9%	19,354	17,786	9%	98.8%	100.2%
Gross Profit	15,486	13,380	15.7%	4,908	3,708	32%	114.9%	110.1%
Operating Profit	9,906	8,627	14.8%	3,436	2,564	34%	113.9%	110.0%
Net Profit	6,436	5,369	19.9%	2,329	1,705	37%	121.9%	115.0%
	2015	2014		4Q15	3Q15			
Gross Margin	22.0%	20.5%		25.4%	20.8%			
Operating Margin	14.1%	13.2%		17.8%	14.4%			
Net Margin	9.1%	8.3%		12.0%	9.6%			

Source: Company

KIJA: Kawasan Industri Jababeka (KIJA IJ; Rp256; Not Rated) recorded net profit of Rp338.6bn in FY15 or lower 17% yoy due to higher interest expenses by 163% yoy to Rp117bn. This is far below consensus estimate. As such, net margin fell to 10.8% from 14.5% in 2014. Company also recorded higher opex due to jump in selling expense (+74% yoy), causing slower growth of operating profit. Revenue still managed to increased 12% yoy while gross profit increased 11% yoy. (Bisnis Indonesia)

MIKA: Mitra Keluarga Karyasehat (MIKA IJ; Rp2,400; Not Rated) reported net profit of Rp566.8bn in FY15 or increased 9% yoy due lower net other income of Rp4.9bn (vs Rp41.2bn in 2014). This is inline with consensus estimates. Consequently, net margin dropped slightly to 26.5% from 26.7% in 2014. Revenue still growing strong by 10% yoy to Rp2.1tn and gross margin increased 12% yoy to Rp972bn. Gross margin is reported at 45.4% from 44.4% in 2014. (Bisnis Indonesia)

WTON: Wijaya Karya Beton (WTON IJ; Rp995; Not Rated) has obtained new contract of Rp1tn in 1Q16 or 23.3% to target FY16. This is 33% higher yoy. Company has secured Medan – Bandar Kalipa railway with elevated track, building projects and power plant in North Sumatera (Rp80bn). Carry over is recorded at Rp1.72tn. (Kontan)

ACES (IDR Bn)	FY14	FY15	YoY	Consensus	% Achieved
Revenue	4,541.5	4,742.5	4%	4,807.0	98.7%
Gross Profit	2,193.6	2,253.7	3%	2,260.9	99.7%
Operating Profit	728.5	768.9	6%	665.6	115.5%
EBIT	692.3	736.6	6%	666.7	110.5%
Net Income	556.7	584.9	5%	561.7	104.1%
Gross Margin	48.3%	47.5%			
Operating Margin	16.0%	16.2%			
EBIT Margin	15.2%	15.5%			
Net Margin	12.3%	12.3%			

Source: Company

MAPI (IDR Bn)	FY14	FY15	YoY	Consensus	% Achieved
Revenue	11,822.1	12,832.8	9%	12,848.0	99.9%
Gross Profit	5,469.7	5,782.7	6%	5,812.0	99.5%
EBIT	177.7	148.0	-17%	452.6	32.7%
Net Income	78.2	30.1	-62%	84.5	35.6%
Gross Margin	46.3%	45.1%			
EBIT Margin	1.5%	1.2%			
Net Margin	0.7%	0.2%			

Source: Company

RALS (IDR Bn)	FY14	FY15	YoY	Consensus	% Achieved
Revenue	5,131.4	5,533	8%	5,491	100.8%
Gross Profit	2,047.8	1,996	-3%	1,989.6	100.3%
Operating Profit	299.2	250.7	-16%	241.9	103.6%
EBIT	388.9	364.6	-6%	238.5	152.9%
Net Income	355.7	336.1	-6%	318.0	105.7%
Gross Margin	39.9%	36.1%			
Operating Margin	5.8%	4.5%			
EBIT Margin	7.6%	6.6%			
Net Margin	6.9%	6.1%			

Source: Company

Markets & Sectors

Banks sector: The Finance Ministry has issued a regulation requiring banks to report credit card customer transaction data on a monthly basis starting from 31 May as part of efforts to raise tax revenue and compliance. There are 23 banks targeted for this reporting requirement covering most of the country's largest banks but also include a few selected small banks such as Bank Bukopin, Bank MNC Internasional, Bank ICBC Indonesia, Bank Sinarmas, Bank QNB Indonesia and AEON Credit Services. Foreign banks included in this list are Citibank, HSBC and StanChart. (Jakarta Post).

Comment: This regulation may lead some high income customers to switch out their credit card transactions from these banks in the list to smaller local and foreign banks that are not included in the list in order to avoid scrutiny from tax officials. However, we expect any negative impact on bank earnings from lower credit card fee incomes to be insignificant

Transportation sector: In response to yesterday fuel price cut, Ministry of Transportation Ignasius Jonan stated that he would issue a ministerial regulation to all provincial governors to reduce all land public transportations' upper and lower band tariff by c.3%. To note, lower band tariff is set at Rp7,500, while the upper band tariff is at Rp8,500. (Bisnis Indonesia)

Economics

Domestic Fuel Price: The government on Mar 30 decided to lower domestic prices of fuel of RON85 (or *Premium*) and diesel fuel (known domestically as *Solar*), each by Rp500 per liter. The price is now at Rp6,450 for *Premium* and Rp5,150 for *Solar*, whereas kerosene price is maintained at the prevailing level of Rp2,500. Across Java, Madura, and Bali (Jamali), prices are Rp100 higher. Revised prices will be valid starting on April 1. Earlier on the same day, it also revised down prices of fuel of RON90 (or *Pertalite*), RON92 (known as *Pertamax*), RON95 (*Pertamax Plus*), and Refined Diesel Fuel (or *Pertamina Dex*) each by Rp200. The price increase is sought to last at least six months ahead until Sep16 in order to maintain prices stable during the Eid ul-Fitr. (Kontan, Kompas)

Comment: We are positive on the revision of domestic fuel prices as it will help maintain inflation stable and within the central bank's target range of $4\pm1\%$ by year end. The government is also expecting a down revision on transportation cost following the change in fuel prices. Based on earlier study (UGM, 2015) decrease in Solar price by 16% can affect lower transportation cost by 5-10% (or elasticity of 0.3-0.6) and also logistic and food by 3.5% (or elasticity of 0.2).

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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