

Kino Indonesia_(KINO IJ)

06 October 2016

Company Update

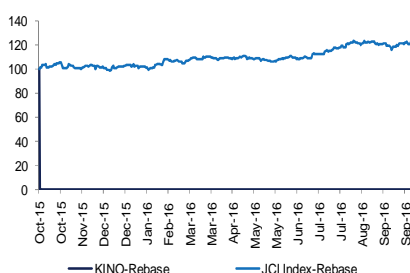
HOLD(from BUY)

Stock Data

Target price (Rp)	Rp4,400
Prior TP (Rp)	Rp7,300
Shareprice (Rp)	Rp4,200
Upside/downside (%)	4.8
Sharesoutstanding (m)	1,429
Marketcap. (US\$ m)	461.6
Free float (%)	16.0
Avg. 6m dailyT/O (US\$ m)	0.5

Price Performance

	3M	6M	12M
Absolute (%)	-36.8	-10.8	n/a
Relative to JCI (%)	-45.7	-22.0	n/a
52w high/low (Rp)	7,175 - 3,400		



Major Shareholders

Kino Investindo	87.5%
Harry Sanusi	12.5%

Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	265	323
Vs. Prior EPS (%)	(24.1)	(35.9)
Vs. Consensus (%)	(17.2)	(28.9)

Source: Bloomberg

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Rising Competition

- Revenue growth guidance cut to 3% due to rising competition.
- Unfavorable court ruling should not affect beverage sales.
- We cut our FY16-17 earnings forecasts by 23.9% and 35.9%.
- We downgrade to HOLD (from BUY) with new TP of Rp4,400.

Expecting weak 2H16 results. Management has indicated that it expects FY16 revenue to grow by only 3% YoY, implying 2H16 sales will decline by 9% HoH (-4% YoY), due to intensifying competition in personal care products, slow recovery in consumer purchasing power, and high inventories at the distributor level caused by excessive stocking prior to the Eid al-Fitr Festival. Hair vitamin and feminine hygiene, which accounted for 25% and 12% of total sales in 2015, respectively, are facing intense competition from competitively priced products from China and South Korea, capturing some market share from Kino. We also expect 2H16 beverage sales to be soft on the back of the slow recovery in consumer purchasing power and mounting distributor inventory.

Trademark court case overblown. Despite the unfavourable court ruling on the Cap Kaki Tiga logo, Kino will continue to produce and distribute all Cap Kaki Tiga products, which accounted for 22% of total sales in 2015. We note that the Cap Kaki Tiga brand is franchised from Wen Ken Drugs Singapore. The products are sold not only in Indonesia, but also in Singapore, Malaysia, Thailand and other countries. Therefore, our view is that any allegation regarding trademark infringement should be addressed to the parent company and not to KINO.

Earnings downgrade. We cut our FY16 and FY17 earnings forecasts by 23.9% and 35.9%, respectively, following a cut in our revenue forecasts by a respective 13.1% and 18.3%. We expect FY16F gross margin in personal care to remain intact at 53%, but slightly decline in beverage segment to 39% due to higher raw material costs such as sugar and aluminium. Due to intensifying competition, we expect higher spending on A&P, consequently putting slight pressure on EBIT margin. Therefore, we lower our EBIT margin assumptions to 10.2% and 9.4% for FY16F and FY17F. Still, we think A&P spending is necessary to solidify KINO's brand equity.

HOLD with lower TP of Rp4,400. Given our new assumptions, we lower our DCF-based (WACC: 11.1%, TG: 6%) TP to Rp4,400, which implies FY17F P/E of 21x. We downgrade the stock to HOLD due to lower-than-expected earnings. We continue to like KINO as it is well-positioned in Indonesia's high-growth FMCG segments. Despite our earnings downgrade for FY16F and FY17F, we expect KINO sales to recover in accordance with improving economic conditions (FY17F revenue growth: 10.7% YoY).

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	3,339	3,604	3,716	4,110	4,564
EBITDA(RpBn)	236	461	441	458	519
EBITDA Growth (%)	29.7	95.2	(4.4)	3.8	13.3
Net Profit(RpBn)	104	263	288	295	340
EPS (Rp)	73	184	201	207	238
EPS Growth (%)	79.1	152.8	9.4	2.7	15.3
Net Gearing (%)	92.7	7.3	(26.1)	(18.6)	(14.6)
PER (x)	95.1	37.6	34.4	33.5	29.1
PBV (x)	14.9	5.6	3.4	3.2	2.9
Dividend Yield (%)	0.0	0.0	0.0	0.9	0.9
EV/EBITDA (x)	0.0	21.2	24.2	22.9	20.0

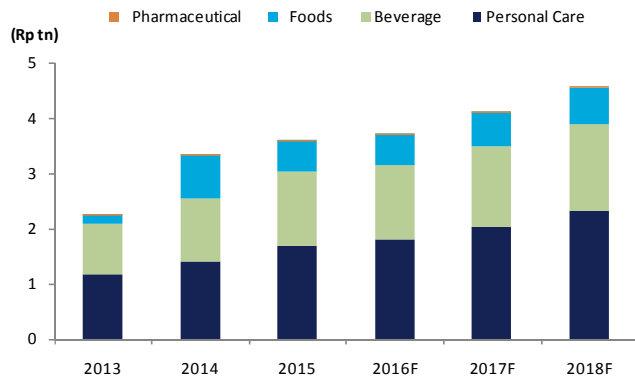
Source: KINO, IndoPremier

Share Price Closing as of : 5 October 2016

Refer to Important disclosures on the last of this report

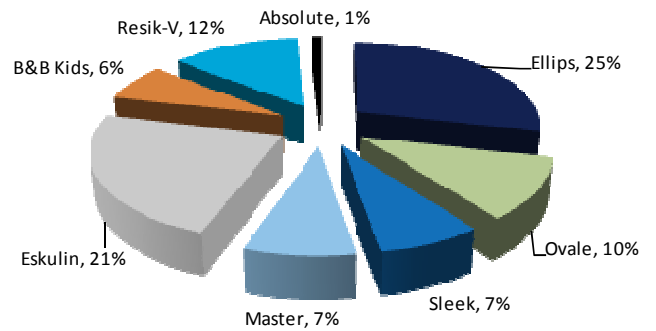
KINO Company Update

Fig. 1: Revenue Trend Per Segment



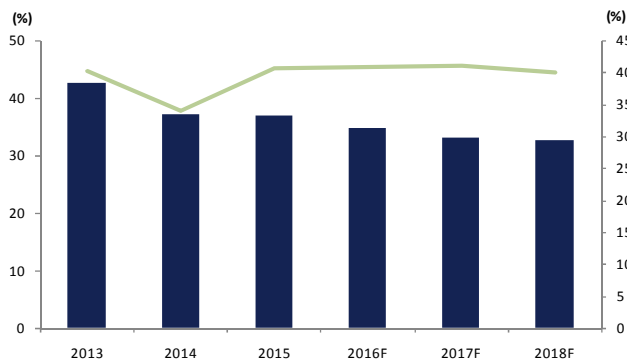
Source: KINO, IndoPremier

Fig. 2: Sales Breakdown in Personal Care Segment as of 2015



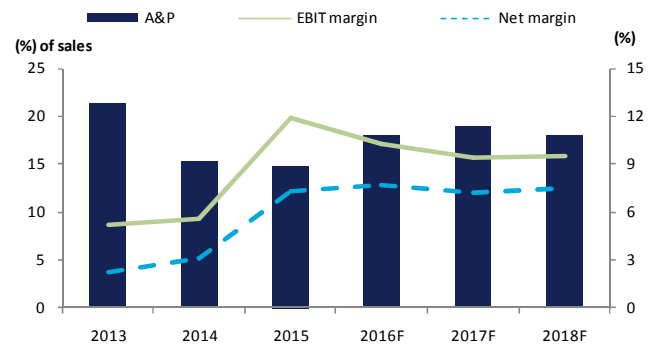
Source: KINO, IndoPremier

Fig. 3: Slight gross margin contraction on higher raw mat



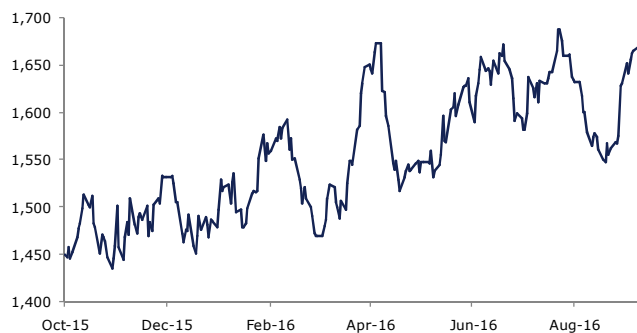
Source: KINO, IndoPremier

Fig. 4: Lower EBIT margin on intensifying A&P spending



Source: KINO, IndoPremier

Fig. 5: Uptrend in aluminium prices...



Source: Bloomberg, Indo Premier

Fig. 6: ...and sugar prices since the bottom in 2015



Source: Bloomberg, Indo Premier

KINO Company Update

Fig. 7: Earnings Revision

		Old		New		Change	
		FY16F	FY17F	FY16F	FY17F	FY16F	FY17F
		(Rp bn)	(Rp bn)	(Rp bn)	(Rp bn)	(%)	(%)
Sales		4,274	5,028	3,716	4,110	-13.1%	-18.3%
	Personal Care	2,054	2,472	1,795	2,030	-12.6%	-17.9%
	Beverage	1,537	1,750	1,351	1,453	-12.1%	-17.0%
	Foods	676	797	563	619	-16.7%	-22.3%
	Pharma	8	9	7	8	-13.0%	-16.7%
Gross profit		1,743	2,054	1,520	1,688	-12.8%	-17.8%
	Personal Care	1,095	1,322	952	1,076	-13.1%	-18.7%
	Beverage	599	674	527	567	-12.1%	-15.9%
	Foods	47	56	39	43	-16.7%	-22.3%
	Pharma	1.4	1.9	1.9	1.9	40.1%	4.2%
Operating profit		499	602	381	386	-23.7%	-35.9%
Net profit		378	461	288	295	-23.9%	-35.9%
Margins							
Gross margin (%)		40.8%	40.8%	40.9%	41.1%	0.1%	0.2%
	Personal Care	53.3%	53.5%	53.0%	53.0%	-0.3%	-0.5%
	Beverage	39.0%	38.5%	39.0%	39.0%	0.0%	0.5%
	Foods	7.0%	7.0%	7.0%	7.0%	0.0%	0.0%
	Pharma	18.0%	20.0%	29.0%	25.0%	11.0%	5.0%
Operating margin (%)		11.7%	12.0%	10.2%	9.4%	-1.4%	-2.6%
Net margin (%)		8.8%	9.2%	7.7%	7.2%	-1.1%	-2.0%

Source: KINO, IndoPremier

KINO Company Update

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	3,339	3,604	3,716	4,110	4,564
Cost of Sales	(2,200)	(2,135)	(2,196)	(2,422)	(2,736)
Gross Profit	1,139	1,468	1,520	1,688	1,828
SG&A Expenses	(952)	(1,040)	(1,139)	(1,302)	(1,392)
Operating Profit	187	428	381	386	436
Net Interest	(62)	(85)	(32)	(18)	(17)
Forex Gain (Loss)	(4)	(9)	0	0	0
Others-Net	18	3	11	12	18
Pre-Tax Income	138	337	360	380	437
Income Tax	(34)	(74)	(71)	(84)	(96)
Minorities	0	0	(1)	(1)	(1)
Net Income	104	263	288	295	340
Balance Sheet					
Cash & Equivalent	44	776	1,316	1,278	950
Receivable	453	932	662	732	750
Inventory	330	343	361	398	450
Other Current Assets	62	39	75	79	89
Total Current Assets	889	2,090	2,414	2,487	2,239
Fixed Assets - Net	870	1,007	1,481	1,803	2,135
Goodwill	0	0	0	0	0
Non Current Assets	105	114	117	121	125
Total Assets	1,863	3,211	4,012	4,410	4,499
ST Loans	588	707	557	699	456
Payable	426	460	0	464	525
Other Payables	76	123	79	83	94
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	1,090	1,291	1,058	1,246	1,075
Long Term Loans	70	88	0	0	0
Other LT Liab.	40	56	43	44	51
Total Liabilities	1,201	1,435	1,101	1,290	1,125
Equity	462	1,307	2,153	2,153	2,153
Retained Earnings	199	468	756	965	1,216
Minority Interest	1	1	2	3	4
Total SHE + Minority Int.	662	1,777	2,911	3,121	3,373
Total Liabilities & Equity	1,863	3,211	4,012	4,410	4,499

Source: KINO, IndoPremier

KINO Company Update

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	104	263	288	296	341
Depr. & Amortization	39	28	(138)	(72)	(82)
Changes in Working Capital	(231)	(411)	169	(60)	1
Others	36	76	55	(19)	13
Cash Flow From Operating	(52)	(44)	374	145	272
Capital Expenditure	(328)	(175)	(338)	(254)	(254)
Others	1	(106)	145	13	12
Cash Flow From Investing	(327)	(280)	(193)	(240)	(242)
Loans	296	136	(238)	141	(242)
Equity	55	23	846	0	0
Dividends	(22)	0	0	(86)	(89)
Others	27	750	(80)	(30)	(21)
Cash Flow From Financing	357	909	529	25	(352)
Changes in Cash	(23)	584	710	(71)	(322)
Financial Ratios					
Gross Margin (%)	34.1	40.7	40.9	41.1	40.1
Operating Margin (%)	5.6	11.9	10.2	9.4	9.6
Pre-Tax Margin (%)	4.1	9.4	9.7	9.2	9.6
Net Margin (%)	3.1	7.3	7.7	7.2	7.5
ROA (%)	6.5	10.4	8.0	7.0	7.6
ROE (%)	18.5	21.6	12.3	9.8	10.5
ROIC (%)	9.8	13.7	10.7	8.5	9.2
Acct. Receivables TO (days)	41.5	70.1	78.3	61.9	59.3
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	8.0	6.3	6.2	6.4	6.5
Payable TO (days)	70.1	75.8	73.3	66.7	66.0
Acct. Payables - Other TO (days)	11.0	17.0	16.8	12.2	11.8
Debt to Equity (%)	99.4	44.8	19.1	22.4	13.5
Interest Coverage Ratio (x)	0.3	0.2	0.2	0.1	0.1
Net Gearing (%)	92.7	7.3	(26.1)	(18.6)	(14.6)

Source: KINO, IndoPremier

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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.

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