

Kino Indonesia<sup>(KINO IJ)</sup>

24 November 2016

## Company Update

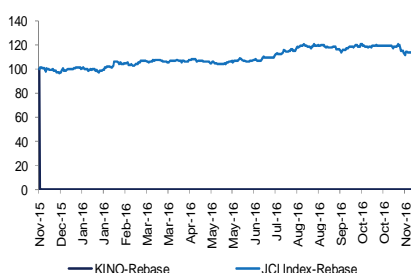
**HOLD**(Unchanged)

## Stock Data

Target price (Rp)	Rp3,700
Prior TP (Rp)	Rp4,400
Shareprice (Rp)	Rp3,000
Upside/downside (%)	+23.3
Sharesoutstanding (m)	1,429
Marketcap. (US\$ m)	318
Free float (%)	16.0
Avg. 6m dailyT/O (US\$ m)	0.4

## Price Performance

	3M	6M	12M
Absolute (%)	-49.4	-48.9	-21.1
Relative to JCI (%)	-45.1	-57.0	-37.6
52w high/low (Rp)	7,075 - 2,990		



## Major Shareholders

Kino Investindo	87.5%
Harry Sanusi	12.5%

## Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	162	189
Vs. Prior EPS (%)	(19.3)	(8.3)
Vs. Consensus (%)	18.5	22.9

Source: Bloomberg

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## Keeping up with Kino

- **Competition remains tough, negative effect might linger until 4Q16.**
- **Earnings downgrade on even lower-than-expected beverage demand.**
- **Halal Certification might temporarily reduce foreign products' entry.**
- **Maintain HOLD with updated TP of Rp3,700 (from Rp4,400).**

**Competition to remain tense.** We believe KINO's segmentation that offers differentiated products in high-growth niche categories has attracted new players to enjoy robust growth. KINO claimed competition is intensifying in its hair vitamin product, *Ellipse*, which is currently facing stiff competition from Chinese brands, especially in the general trade channel. Note that general trade constituted 60% of its distribution channel. Meanwhile, in female hygiene products, KINO is competing head to head with another local company, Sumber Ayu, that came up with new variances and cornered KINO's market share. As a result, KINO will allocate higher A&P spending to stimulate demand and maintain brand awareness. Therefore, we expect KINO's operating margin to deteriorate slightly in the next two years on higher A&P expenses.

**Earnings downgrade.** We cut FY16F and FY17F earnings by 19.5% and 8.1%, as we reduce FY16F and FY17F beverage sales by 4.0% and 3.9%, respectively, on rather muted demand in the beverage division and mounting inventories at distributors' level. Meanwhile, we still maintain our revenue growth estimates for other divisions. Hence, we expect overall gross margin to fall slightly to 40.1% in FY16F before improving slightly to 40.3% in FY17F. Hence, we expect net margin to be at 6.2% and 6.5% in FY16F and FY17F, respectively, on the back of expected better economic conditions in FY17F, boosting demand recovery, especially in non-necessity items such as personal care and beverage products.

**Halal certification to benefit KINO.** We think Halal requirement might help KINO to mitigate emerging competition, especially from foreign players. As a majority of KINO's products are already Halal-certified, we think this serves as a competitive advantage for KINO. Note that the regulation will be applicable for products that enter, circulate and trade in Indonesia, and is expected to be effective by 2019. Given rather complicated procedures to acquire Halal accreditation, we see the impact might hurt smaller businesses due to their limited financial resources to comply with the regulation.

**Maintain HOLD.** With our new assumptions, we adjust our DCF-based TP to Rp3,700, implying FY17F P/E of 19.5x. We still think intense competition in personal care and slow demand in beverage demand will remain a threat for KINO's profitability. Although the current share price implies 23% potential upside to our TP, as a result of US-election results shock, as seen on other Indonesia stocks, we still maintain HOLD on unexpected disappointing performance in 2016.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	3,339	3,604	3,726	4,151	4,686
EBITDA (RpBn)	236	461	401	461	538
EBITDA Growth (%)	29.7	95.2	(13.1)	14.9	16.9
Net Profit (RpBn)	104	263	232	271	319
EPS (Rp)	73	184	162	190	223
EPS Growth (%)	79.1	152.8	(11.9)	16.9	17.7
Net Gearing (%)	92.7	7.3	(27.2)	(19.4)	(14.9)
PER (x)	41.2	16.3	18.5	15.8	13.4
PBV (x)	6.5	2.4	1.5	1.4	1.3
Dividend Yield (%)	0.0	0.0	0.0	1.6	1.9
EV/EBITDA (x)	0.0	9.0	12.6	10.6	8.9

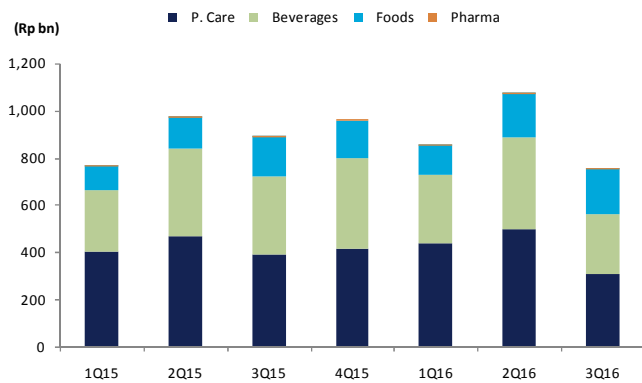
Source: KINO, IndoPremier

Share Price Closing as of : 23 November 2016

Refer to Important disclosures on the last of this report

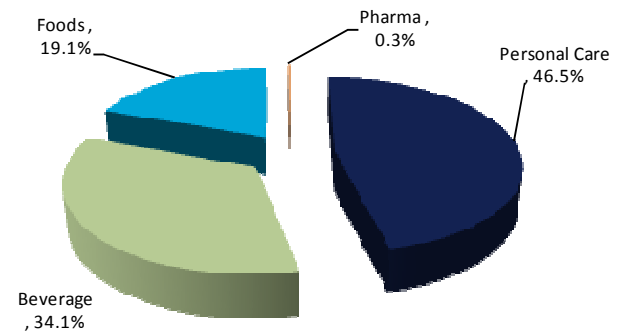
## KINO Company Update

**Fig. 1: Revenue Breakdown Trend (Quarterly)**



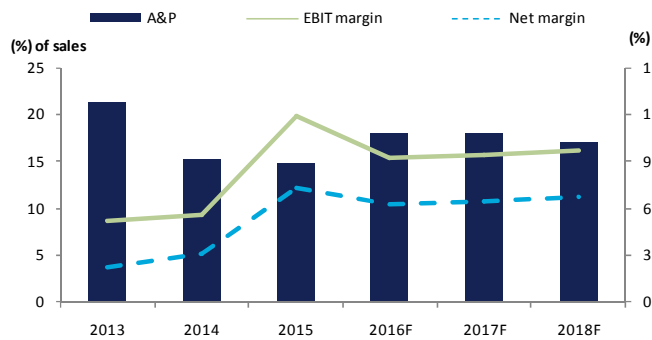
Source: Company, Indo Premier

**Fig. 2: Sales mix as of 9M16**



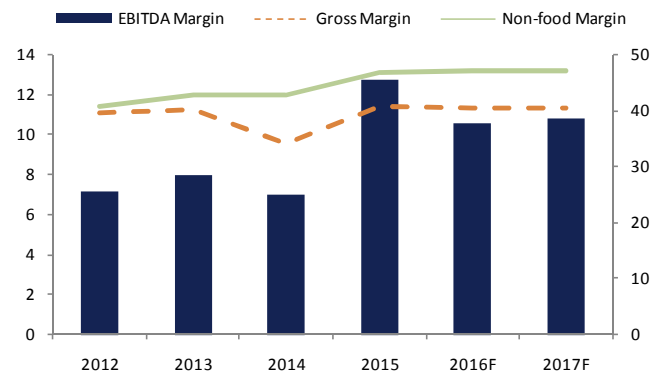
Source: Company, Indo Premier

**Fig. 3: Higher A&P cost to put pressure on EBIT and Net Margin**



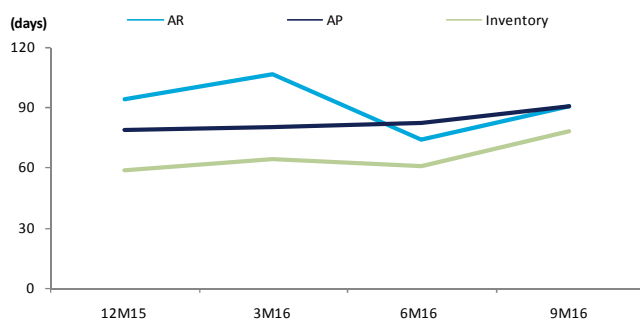
Source: Company, Indo Premier

**Fig. 4: Profitability trend on yearly basis**



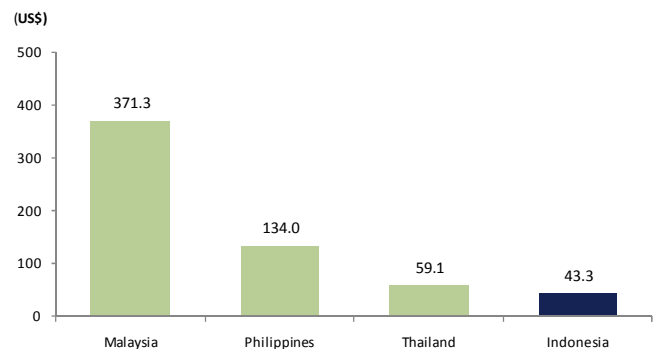
Source: Company, Indo Premier

**Fig. 5: AR, AP, Inventory Days Trend**



Source: Company, Indo Premier

**Fig. 6: Huge Potential of Personal Care Market in Indonesia**



Source: KINO, Euromonitor, IndoPremier forecasts

## KINO Company Update

**Fig. 7: Earnings Revision**

		Old		New		Change	
		FY16F	FY17F	FY16F	FY17F	FY16F	FY17F
		(Rp bn)	(Rp bn)	(Rp bn)	(Rp bn)	(%)	(%)
<b>Sales</b>		<b>3,716</b>	<b>4,110</b>	<b>3,726</b>	<b>4,151</b>	<b>0.3%</b>	<b>1.0%</b>
	Personal Care	1,795	2,030	1,772	2,030	-1.3%	0.0%
	Beverage	1,351	1,453	1,297	1,397	-4.0%	-3.9%
	Foods	563	619	648	712	15.0%	15.1%
	Pharma	7	8	9	12	35.0%	58.5%
<b>Gross profit</b>		<b>1,520</b>	<b>1,688</b>	<b>1,493</b>	<b>1,673</b>	<b>-1.8%</b>	<b>-0.8%</b>
	Personal Care	952	1,076	939	1,076	-1.3%	0.0%
	Beverage	527	567	506	545	-4.0%	-3.9%
	Foods	39	43	45	50	15.0%	15.0%
	Pharma	1.9	1.9	2.6	3.1	34.3%	58.5%
<b>Operating profit</b>		<b>381</b>	<b>386</b>	<b>350</b>	<b>400</b>	<b>-8.2%</b>	<b>3.6%</b>
<b>Net profit</b>		<b>288</b>	<b>295</b>	<b>232</b>	<b>271</b>	<b>-19.5%</b>	<b>-8.1%</b>
<b>Margins</b>							
<b>Gross margin (%)</b>		<b>40.9%</b>	<b>41.1%</b>	<b>40.1%</b>	<b>40.3%</b>	<b>-0.8%</b>	<b>-0.8%</b>
	Personal Care	53.0%	53.0%	53.0%	53.0%	0.0%	0.0%
	Beverage	39.0%	39.0%	39.0%	39.0%	0.0%	0.0%
	Foods	7.0%	7.0%	7.0%	7.0%	0.0%	0.0%
	Pharma	29.0%	25.0%	28.9%	25.0%	-0.1%	0.0%
<b>Operating margin (%)</b>		<b>10.3%</b>	<b>9.4%</b>	<b>9.4%</b>	<b>9.6%</b>	<b>-0.9%</b>	<b>0.2%</b>
<b>Net margin (%)</b>		<b>7.8%</b>	<b>7.2%</b>	<b>6.2%</b>	<b>6.5%</b>	<b>-1.5%</b>	<b>-0.7%</b>

Source: Indo Premier

## KINO Company Update

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
<b>Income Statement</b>					
Net Revenue	3,339	3,604	3,726	4,151	4,686
Cost of Sales	(2,200)	(2,135)	(2,233)	(2,478)	(2,788)
Gross Profit	1,139	1,468	1,493	1,673	1,899
SG&A Expenses	(952)	(1,040)	(1,143)	(1,273)	(1,429)
Operating Profit	187	428	350	400	469
Net Interest	(62)	(85)	(63)	(61)	(70)
Forex Gain (Loss)	(4)	(9)	0	0	0
Others-Net	18	3	7	8	9
Pre-Tax Income	138	337	295	347	409
Income Tax	(34)	(74)	(63)	(76)	(90)
Minorities	0	0	0	0	0
Net Income	104	263	232	271	319
<b>Balance Sheet</b>					
Cash & Equivalent	44	776	1,413	1,304	1,293
Receivable	453	932	663	739	770
Inventory	330	343	367	407	458
Other Current Assets	62	39	76	80	92
Total Current Assets	889	2,090	2,519	2,531	2,614
Fixed Assets - Net	870	1,007	1,408	1,719	2,038
Goodwill	0	0	0	0	0
Non Current Assets	105	114	117	121	125
Total Assets	1,863	3,211	4,044	4,370	4,776
ST Loans	588	707	559	623	703
Payable	426	460	0	475	535
Other Payables	76	123	80	85	95
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	1,090	1,291	1,067	1,183	1,333
Long Term Loans	70	88	78	87	98
Other LT Liab.	40	56	45	45	52
Total Liabilities	1,201	1,435	1,190	1,314	1,483
Equity	462	1,307	2,153	2,153	2,153
Retained Earnings	199	468	700	901	1,139
Minority Interest	1	1	1	1	1
Total SHE + Minority Int.	662	1,777	2,854	3,056	3,293
Total Liabilities & Equity	1,863	3,211	4,044	4,370	4,776

Source: KINO, IndoPremier

## KINO Company Update

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
<b>Cash Flow</b>					
Net Income (Excl.Extraordinary&Min.Int)	104	263	232	271	319
Depr. & Amortization	39	28	(51)	(61)	(69)
Changes in Working Capital	(231)	(411)	170	(64)	(12)
Others	36	76	86	24	65
Cash Flow From Operating	(52)	(44)	436	170	303
Capital Expenditure	(328)	(175)	(353)	(254)	(254)
Others	1	(106)	119	7	6
Cash Flow From Investing	(327)	(280)	(234)	(247)	(248)
Loans	296	136	(158)	73	92
Equity	55	23	846	0	0
Dividends	(22)	0	0	(70)	(81)
Others	27	750	(83)	(67)	(69)
Cash Flow From Financing	357	909	605	(64)	(58)
Changes in Cash	(23)	584	807	(141)	(3)
<b>Financial Ratios</b>					
Gross Margin (%)	34.1	40.7	40.1	40.3	40.5
Operating Margin (%)	5.6	11.9	9.4	9.6	10.0
Pre-Tax Margin (%)	4.1	9.4	7.9	8.4	8.7
Net Margin (%)	3.1	7.3	6.2	6.5	6.8
ROA (%)	6.5	10.4	6.4	6.4	7.0
ROE (%)	18.5	21.6	10.0	9.2	10.0
ROIC (%)	9.8	13.7	7.9	7.7	8.3
Acct. Receivables TO (days)	41.5	70.1	78.2	61.7	58.8
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	8.0	6.3	6.3	6.4	6.4
Payable TO (days)	70.1	75.8	72.6	66.5	66.1
Acct. Payables - Other TO (days)	11.0	17.0	16.6	12.2	11.8
Debt to Equity (%)	99.4	44.8	22.3	23.2	24.3
Interest Coverage Ratio (x)	0.3	0.2	0.2	0.2	0.2
Net Gearing (%)	92.7	7.3	(27.2)	(19.4)	(14.9)

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

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