

Kino Indonesia (KINO IJ)

18 May 2016

Company Update

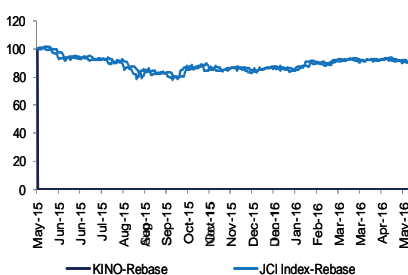
BUY (Unchanged)

Stock Data

Target price (Rp)	Rp6,750
Prior TP (Rp)	Rp5,600
Shareprice (Rp)	Rp5,775
Upside/downside (%)	+16.9
Sharesoutstanding (m)	1,429
Marketcap. (US\$ m)	620
Free float (%)	16.0
Avg. 6m dailyT/O (US\$ m)	0.3

Price Performance

	3M	6M	12M
Absolute (%)	55.0	52.0	52.0
Relative to JCI (%)	54.4	46.1	46.1
52w high/low (Rp)	5,925 - 3,400		



Major Shareholders

Kino Investindo	87.5%
Harry Sanusi	12.5%

Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	268	322
Vs. Prior EPS (%)	17.5	8.1
Vs. Consensus (%)	16.2	15.3

Source: Bloomberg

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Continued Robust Growth

- Expect demand acceleration in 2Q as Ramadan season approaches.
- Better sales mix leads to better margin.
- Upgrade earnings on better-than-expected margin in 1Q16.
- Maintain BUY rating with new TP Rp6,750.

Demand acceleration during 2Q16. Kino Indonesia reported stellar earnings growth of 69% yoy in 1Q16 on the back of 11.6%yoy revenue growth, much higher than the growth achieved by its peers, namely, Kalbe Farma (KLBF IJ; Rp1,600; BUY) and Unilever Indonesia (UNVR IJ; Rp42,500; HOLD) with earnings growth of +6.5%yoy and -1.4%yoy, respectively. Personal care reported growth of 8.1%yoy in 1Q16 while the beverage division grew at 10.4%yoy. We expect demand to accelerate as we approach the Ramadan festive season. In addition, the consumer confidence index has been gradually improving to an average 110 level since the beginning of the year.

Personal care has highest growth potential. KINO's overall gross margin excluding foods improved by 90bps yoy in 1Q16 on lower raw material costs and better sales mix. Raw material costs were reported at 36.3% of total sales in 1Q16 (vs. 1Q15: 42.2%). Although personal care only posted single-digit earnings growth in 1Q16, gross margin expanded by 70bps yoy to 52.1%. Meanwhile, the beverage division reported a wider margin of 38.6% in 1Q16 vs 37.4% in 1Q15. For 1Q16, personal care accounted for 51.3% of total sales, while the beverages and foods divisions accounted for 33.1% and 13.4%, respectively. We expect overall gross margin to be sustained at the 40.8% level in FY16F and FY17F.

Earnings upgrade. We upgrade our earnings estimates by 16.2% and 8.4% for FY16F and FY17F, respectively, following better margins in 1Q16. We expect personal care to continue to post double-digit growth in FY16F and FY17F. However, we expect the beverage division to experience a further slowdown especially due to slow demand in the commodity producing areas such as Kalimantan and Sumatera. We note that the company will not impose any increase in beverage prices given the slow pickup in beverage demand.

Maintain BUY. We retain our BUY rating with a new DCF-based TP of Rp6,750, which implies FY17F P/E of 20.9x and EV/EBITDA of 16.0x. We continue to believe that Kino is one of the biggest beneficiaries of rising income levels and, consequently, an expanding middle class in Indonesia. In addition, most of Kino's products are Halal certified, which should attract more Muslim consumers as the majority of the Indonesian population are Muslim. In recognition of this trend, UNVR is mimicking Kino's strategy by recently promoting its Halal certification to gain consumers' confidence in its products.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	3,339	3,604	4,274	5,028	5,684
EBITDA(RpBn)	236	461	560	674	730
EBITDA Growth (%)	29.7	95.2	21.4	20.4	8.3
Net Profit(RpBn)	104	263	378	461	504
EPS (Rp)	73	184	265	323	353
EPS Growth (%)	79.1	152.8	43.9	21.9	9.2
Net Gearing (%)	92.7	7.3	(25.5)	(20.0)	(18.3)
PER (x)	79.3	31.4	21.8	17.9	16.4
PBV (x)	12.5	4.6	2.7	2.5	2.2
Dividend Yield (%)	0.0	0.0	0.0	1.4	1.7
EV/EBITDA (x)	0.0	17.6	16.1	13.2	12.2

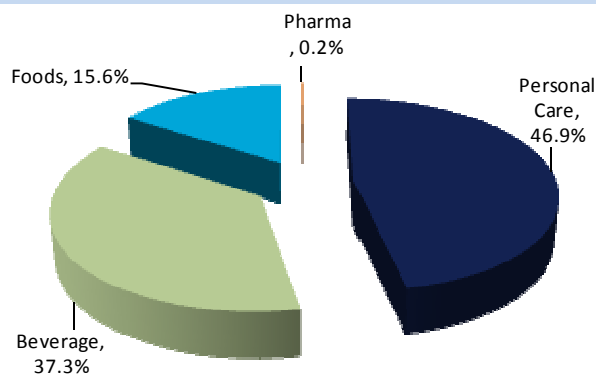
Source: KINO, IndoPremier

Share Price Closing as of : 17 May 2016

Refer to Important disclosures on the last of this report

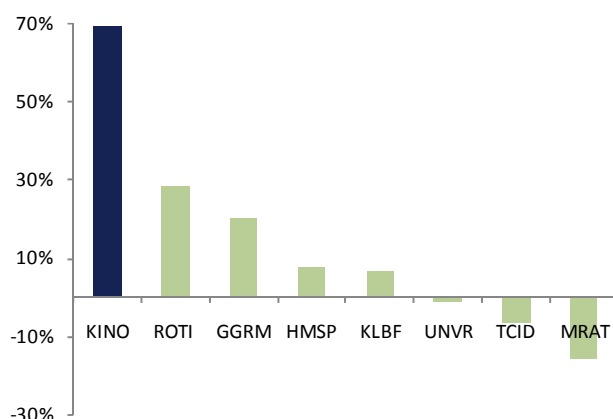
KINO Company Update

Fig. 1: Sales Mix FY15



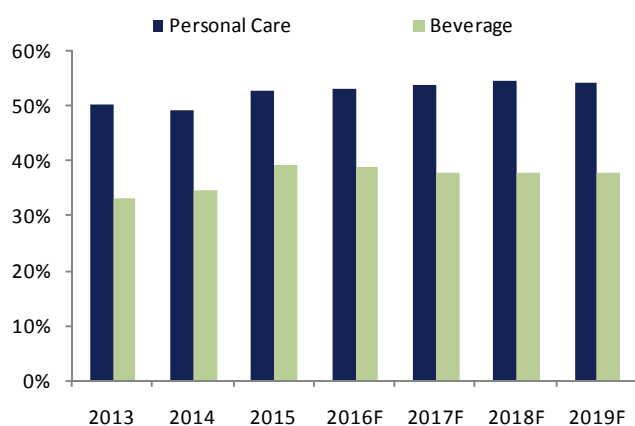
Source: Company, indopremier

Fig. 2: Net profit growth comparison among peers in 1Q16



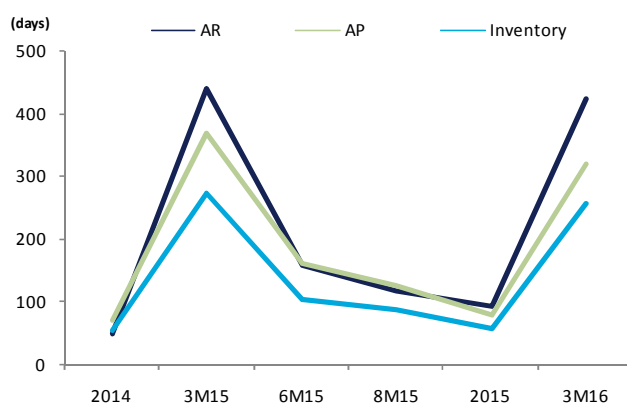
Source: Company, Indopremier

Fig. 3: Improving Gross Profit Trend per segment



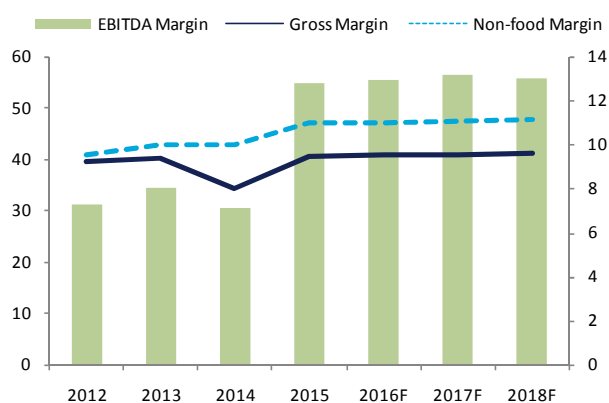
Source: Company, Indopremier

Fig. 4: AR, AP, Inventory Trends are usually better during 2H



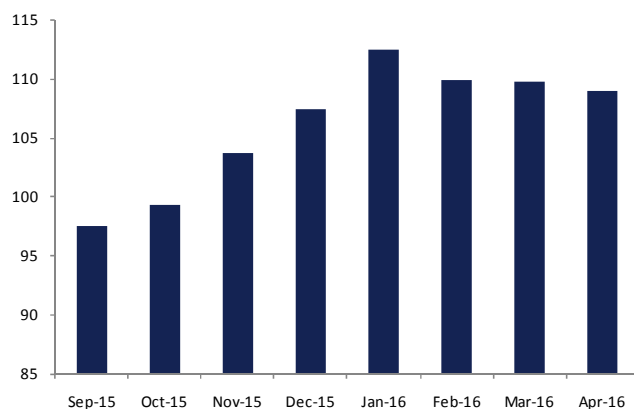
Source: Company, Indopremier

Fig. 5: Kino's Profit Margin Trend (% of revenue)



Source: Company, Indopremier

Fig. 6: Pickup in Consumer Confidence Index since Sept 2015



Source: Trading Economics, Indopremier

KINO Company Update

Fig. 7: Earnings Revision

	Old		New		Change	
	FY16F (Rp bn)	FY17F (Rp bn)	FY16F (Rp bn)	FY17F (Rp bn)	FY16F (%)	FY17F (%)
Sales	4,358	5,124	4,274	5,028	-1.9%	-1.9%
Personal Care	2,054	2,472	2,054	2,472	0.0%	0.0%
Beverage	1,597	1,818	1,537	1,750	-3.8%	-3.8%
Foods	698	823	676	797	-3.2%	-3.2%
Pharma	9	11	8	9	-13.8%	-13.8%
Gross profit	1,707	2,067	1,743	2,054	2.1%	-0.6%
Personal Care	1,089	1,335	1,095	1,322	0.6%	-0.9%
Beverage	575	673	599	674	4.2%	0.1%
Foods	42	58	47	56	13.0%	-3.2%
Pharma	1.6	1.9	1.4	1.9	-13.8%	-4.5%
Operating profit	437	563	499	602	14.3%	6.8%
Net profit	325	425	378	461	16.2%	8.4%
Margins						
Gross margin (%)	39.2%	40.3%	40.8%	40.8%	1.6%	0.5%
Personal Care	53.0%	54.0%	53.3%	53.5%	0.3%	-0.5%
Beverage	36.0%	37.0%	39.0%	38.5%	3.0%	1.5%
Foods	6.0%	7.0%	7.0%	7.0%	1.0%	0.0%
Pharma	18.0%	18.1%	18.0%	20.0%	0.0%	2.0%
Operating margin (%)	10.0%	11.0%	11.7%	12.0%	1.7%	1.0%
Net margin (%)	7.5%	8.3%	8.8%	9.2%	1.4%	0.9%

Source: KINO, IndoPremier

KINO Company Update

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	3,339	3,604	4,274	5,028	5,684
Cost of Sales	(2,200)	(2,135)	(2,531)	(2,974)	(3,359)
Gross Profit	1,139	1,468	1,744	2,054	2,325
SG&A Expenses	(952)	(1,040)	(1,244)	(1,452)	(1,677)
Operating Profit	187	428	500	602	648
Net Interest	(62)	(85)	(36)	(24)	(24)
Forex Gain (Loss)	(4)	(9)	0	0	0
Others-Net	18	3	13	15	23
Pre-Tax Income	138	337	476	593	647
Income Tax	(34)	(74)	(97)	(130)	(142)
Minorities	0	0	(1)	(1)	(1)
Net Income	104	263	378	461	504
Balance Sheet					
Cash & Equivalent	44	776	1,408	1,526	1,249
Receivable	453	932	761	895	934
Inventory	330	343	416	489	552
Other Current Assets	62	39	87	97	111
Total Current Assets	889	2,090	2,672	3,008	2,847
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	4,270	4,931	5,107
ST Loans	588	707	641	855	568
Payable	426	460	0	570	644
Other Payables	76	123	91	102	115
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	1,090	1,291	1,218	1,527	1,328
Long Term Loans	70	88	0	0	0
Other LT Liab.	40	56	50	54	62
Total Liabilities	1,201	1,435	1,268	1,581	1,390
Equity	462	1,307	2,153	2,153	2,153
Retained Earnings	199	468	846	1,194	1,559
Minority Interest	1	1	2	4	4
Total SHE + Minority Int.	662	1,777	3,002	3,351	3,717
Total Liabilities & Equity	1,863	3,211	4,270	4,931	5,107

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	379	463	505
Depr. & Amortization	39	28	(138)	(72)	(82)
Changes in Working Capital	(231)	(411)	91	(111)	(15)
Others	36	76	59	(25)	13
Cash Flow From Operating	(52)	(44)	390	254	420
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	(154)	214	(286)
Equity	55	23	846	0	0
Dividends	(22)	0	0	(114)	(138)
Others	27	750	(77)	(33)	(26)
Cash Flow From Financing	357	909	615	68	(451)
Changes in Cash	(23)	584	813	81	(273)
Financial Ratios					
Gross Margin (%)	34.1	40.7	40.8	40.9	40.9
Operating Margin (%)	5.6	11.9	11.7	12.0	11.4
Pre-Tax Margin (%)	4.1	9.4	11.1	11.8	11.4
Net Margin (%)	3.1	7.3	8.9	9.2	8.9
ROA (%)	6.5	10.4	10.1	10.0	10.0
ROE (%)	18.5	21.6	15.8	14.5	14.3
ROIC (%)	9.8	13.7	13.3	12.1	12.2
Acct. Receivables TO (days)	41.5	70.1	72.3	60.1	58.7
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	8.0	6.3	6.7	6.6	6.5
Payable TO (days)	70.1	75.8	68.2	64.8	66.0
Acct. Payables - Other TO (days)	11.0	17.0	15.5	11.9	11.8
Debt to Equity (%)	99.4	44.8	21.4	25.5	15.3
Interest Coverage Ratio (x)	0.3	0.2	0.1	0.1	0.1
Net Gearing (%)	92.7	7.3	(25.5)	(20.0)	(18.3)

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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