

Kino Indonesia (KINO IJ)

02 August 2016

Results Note

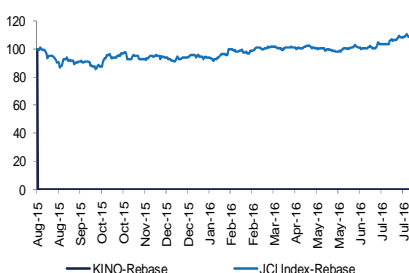
BUY (Unchanged)

Stock Data

Target price (Rp)	Rp7,300
Prior TP (Rp)	Rp6,750
Shareprice (Rp)	Rp6,575
Upside/downside (%)	+11.0
Sharesoutstanding (m)	1,429
Marketcap. (US\$ m)	720
Free float (%)	16.0
Avg. 6m dailyT/O (US\$ m)	0.4

Price Performance

	3M	6M	12M
Absolute (%)	27.7	77.0	73.0
Relative to JCI (%)	16.5	65.3	53.0
52w high/low (Rp)	7,075 - 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 (%)	n/a	n/a
Vs. Consensus (%)	8.9	10.9

Source: Bloomberg

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Solid earnings on stronger margin

- Earnings grew 12.4% yoy in 2Q16, ahead of consensus.
- Gross margin improvement despite higher raw materials cost.
- Receivable T/O worsens but may improve with economic recovery.
- Maintain BUY at new TP of Rp7,300.

Better than expected result. PT. Kino Indonesia (KINO) reported net profit of Rp111.8bn in 2Q16 (+13.7 % yoy), which is ahead of consensus but in-line with our expectation. The revenue grew by 10.5% yoy in 2Q16, driven by 6.4% yoy growth in personal care. Meanwhile, beverages division grew by 3.5% yoy and low margin food business grew significantly by 43.8% yoy in 2Q16. As of 2Q16, the sales mix is as follows: personal care accounted for 46.3%, beverage for 36.0% and foods for 17.4% of total sales. The contribution from pharma division is still insignificant at only 0.3% of total sales in 2Q16; however, we expect higher contribution from this division starting next year as the company has secured its acquisition of Indonesia's traditional pharma company, called Dua Putri Dewi earlier this year. So far, the ASP hike of c.4% only occurred in personal care division.

Gross margin expansion despite higher raw material costs. KINO's overall gross margin excluding foods further improved by 280bps yoy to 51.2% in 2Q16 on better sales mix. Beverage care delivered the highest margin expansion to 45% in 2Q16 (vs. 2Q15:38.1%), while gross margin in personal care shrunk by 40bps to 56.1% in 2Q16. Despite overall gross margin expansion, the raw materials cost slightly increased to 40.5% of total non-food sales in 2Q16 (vs. 2Q15:34.2% of total non-food sales). The operating profit grew 4.6% yoy to Rp150.7bn on stable A&P expense or accounted for 17.7% of total non-food sales in 2Q16. Going forward, we expect the A&P to stay at that level to increase brand awareness and brand equity. Meanwhile, the net margin expanded 30bps yoy to level 10.5% in 2Q16.

Receivable worsens. Receivable turnover lengthened to 99 days in 1H16 from 76 days in 1H15. Meanwhile, its inventory and payable turnover days were more stable at 58 days and 80 days respectively. We suspect the economic slowdown still persists until during 1H16. However, we expect AR and AP turnover days to improve during 2H16 as Indonesia economy starts to show recovery.

BUY at new TP of Rp7,300. We raised our DCF-based TP to Rp7,300 (from Rp6,750) albeit largely due to our lower WACC assumption of 11.1% (from 11.6%) on the back of risk free rate reduction to 7%. Our new TP implies FY17F P/E of 22.6x. We forecast KINO's strong earnings growth this year to be sustained next year and reiterate our BUY ratings on the stock.

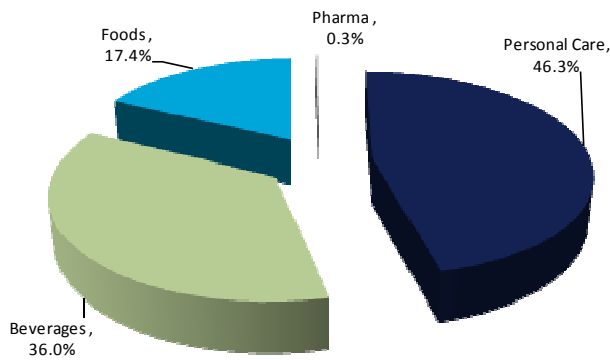
Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	3,339	3,604	4,274	5,028	5,684
EBITDA(RpBn)	236	461	560	674	730
EBITDA Growth (%)	29.7	95.2	21.4	20.4	8.3
Net Profit(RpBn)	104	263	378	461	504
EPS (Rp)	73	184	265	323	353
EPS Growth (%)	79.1	152.8	43.9	21.9	9.2
Net Gearing (%)	92.7	7.3	(25.5)	(20.0)	(18.3)
PER (x)	90.3	35.7	24.8	20.4	18.6
PBV (x)	14.2	5.3	3.1	2.8	2.5
Dividend Yield (%)	0.0	0.0	0.0	1.2	1.5
EV/EBITDA (x)	0.0	20.1	18.1	14.9	13.8

Source: KINO, IndoPremier

Share Price Closing as of : 1 August, 2016

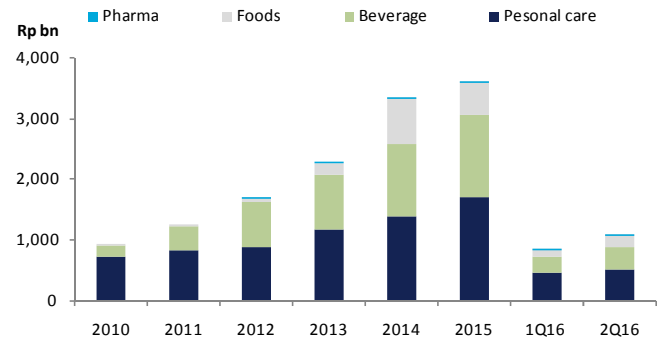
KINO Results Note

Fig. 1: Sales Mix in 2Q16



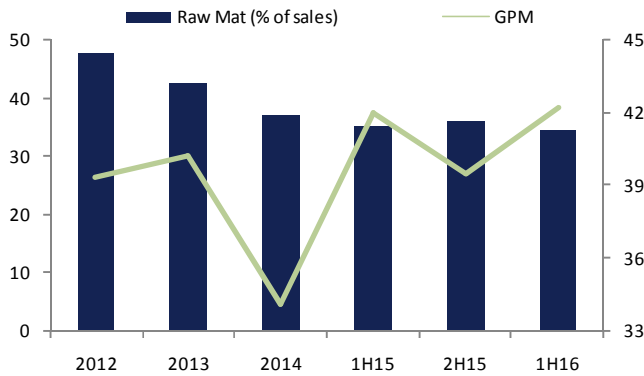
Source: Company, IndoPremier

Fig. 2: Revenue Growth by Division



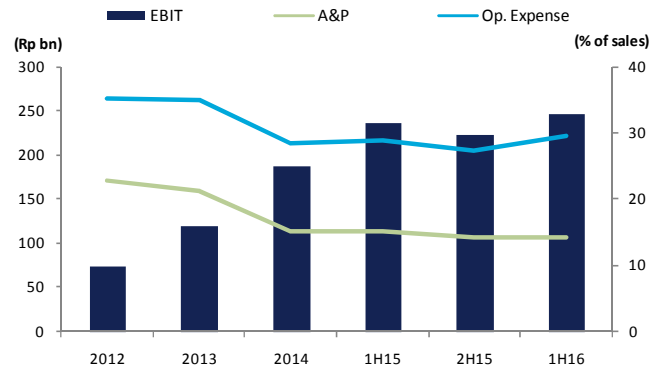
Source: Company, IndoPremier

Fig. 3: GP Expansion on favourable raw material costs



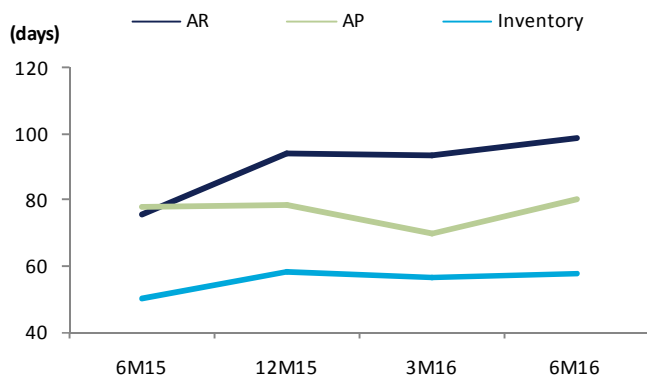
Source: Company, IndoPremier

Fig. 4: Milder A&P spending leads to improving EBIT



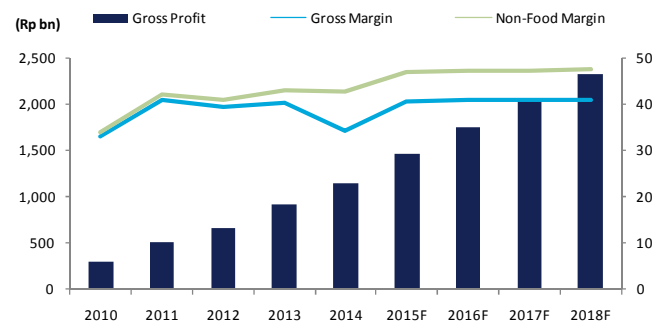
Source: Company, IndoPremier

Fig. 5: AP, AR, Inventory Turnover Trend (days)



Source: Company, IndoPremier

Fig. 6: Kino's Profit Margin Trend (% of revenue)



Source: Company, IndoPremier

KINO Results Note

Fig. 7: Earnings result

(in Rp bn)	2Q16	2Q15	YoY	2Q16	1Q16	QoQ
Revenue	1,078.1	975.2	10.5%	1,078.1	860.5	25.3%
- Personal Care	499.0	469.0	6.4%	499.0	441.9	12.9%
- Beverage	387.7	374.6	3.5%	387.7	284.7	36.2%
- Foods	188.0	130.8	43.8%	188.0	132.7	41.7%
Gross Profit	468.5	419.2	11.8%	468.5	350.4	33.7%
Operating Profit	150.7	144.1	4.6%	150.7	94.8	59.0%
Net Profit	113.1	99.5	13.7%	113.1	70.6	60.2%
Gross Margin (%)	43.5%	43.0%		43.5%	40.7%	
Operating Margin (%)	14.0%	14.8%		14.0%	11.0%	
Net Margin (%)	10.5%	10.2%		10.5%	8.2%	
Turnover (days)	1H16	1H15				
- Receivables	99.1	76.0				
- Payables	80.2	77.8				
- Inventory	58.1	50.1				

Source: IndoPremier

KINO Results Note

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 Results Note

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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