

Thursday, 18 April 2019

## BUY Upgrade

Last price (IDR)	2,520
Target Price (IDR)	3,400
Upside/Downside	+34.9%
Previous Target Price (IDR)	2,800

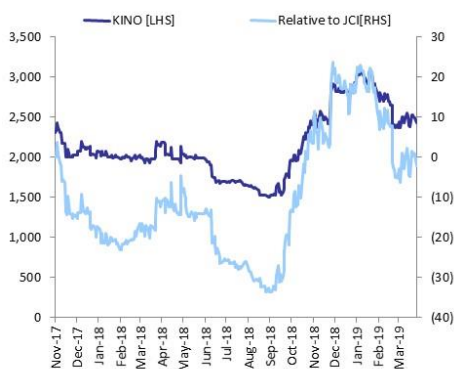
### Stock Statistics

Sector	CONSUMER
Bloomberg Ticker	KINO IJ
No of Shrs (mn)	1,429
Mkt. Cap (IDRbn/USDmn)	3,600/256
Avg. daily T/O (IDRbn/USDmn)	1.3/0.1

### Major shareholders (%)

PT KINO INVESTINDO	69.5
DBSSG S/A NUSANTARA FMCG LIMITED	10.7
Estimated free float	10.5

### KINO relative to JCI Index



Source : Bloomberg



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## Kino Indonesia (KINO IJ)

### Enticing turnaround story

**KINO offers investors an enticing turnaround story thanks to successful distribution revamping which puts the company in a better position to tap segmented niche markets in consumer products. All in all, we believe the improving performance will translate into strong FY19 earnings growth of 25% yoy. Upgrade to BUY.**

**Expect the solid growth to continue.** KINO recorded much better sales performance in 2018 buoyed by successful distribution revamping. This year, the company is optimistic that the improvements will continue, especially with the support from several new products which were launched last year: (1) Lola Remedios – a herbal remedy entering the Philippines’ market in November 2018; (2) Sasha Toothpaste – a halal product targeting the Muslim community with plans for more aggressive promotions starting in 2Q19 and (3) pet food - with its Pro Diet and Pro Balance brands. Furthermore, this year’s food revenues will get a timely boost from the full consolidation of Morinaga Kino Indonesia (MKI).

**FY19F earnings estimated to grow 25% yoy.** Following the release of strong FY18 results, we estimate that KINO’s FY19 revenues will grow briskly by 20% yoy to IDR4.3tn. According to the management, its personal care products – including its Ellips brand (Hair Vitamin) – are enjoying strong demand in both local and export markets. To cater to the growing demand, additional capacity is expected to come onstream in 2Q-3Q19. For beverages, its products are continuing to gain market share - approaching that of its closest competitor Cap Badak (in FY18, the revenues growth of KINO’s beverages reached 25% yoy). To promote its new products, we believe that the FY19F A&P expenses will be little changed from those incurred in FY18. Against this backdrop, we revise up our FY19F earnings estimate by 7.8% to IDR188bn (+25% yoy).

**Upgrade to BUY.** Based on our survey, Sasha toothpaste is already available in major minimarkets at competitive prices. For pet food, Nestle Purina is the leader in Indonesia’s market - with 29% market share, followed by Mars Pedigree (26%) – based on data from Mordor Intelligence. All in all, we like the stock for its attractive valuation of 18.5x FY19F with FY19F earnings growth that is estimated to surpass that of the sector. Taking into account our new forecast, we upgrade our recommendation to BUY with a higher TP of IDR3,400 (FY19F PE 25.9x) – based on DCF valuation (WACC 11.6%, TG 5%).

### Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	3,161	3,612	4,342	4,992	5,623
EBITDA (IDRbn)	212	275	339	407	527
EBITDA Growth (%)	(21.4)	29.8	23.2	20.0	29.5
Net profit (IDRbn)	110	150	188	232	315
EPS (IDR)	77.3	105.1	131.4	162.6	220.5
EPS growth (%)	(38.9)	35.9	25.1	23.7	35.6
BVPS (IDR)	1,412.6	1,511.3	1,621.7	1,758.0	1,946.0
DPS (IDR)	25.0	27.0	21.0	26.3	32.5
PER (x)	31.4	23.1	18.5	14.9	11.0
PBV (x)	1.7	1.6	1.5	1.4	1.2
Dividend yield (%)	1.0	1.1	0.9	1.1	1.3
EV/EBITDA (x)	17.4	13.9	10.9	9.3	7.1

Source : KINO, Danareksa Estimates

**Exhibit 1. Revenues and Growth**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**



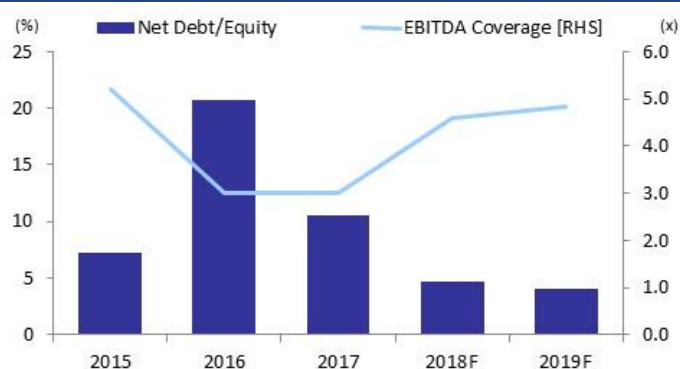
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**



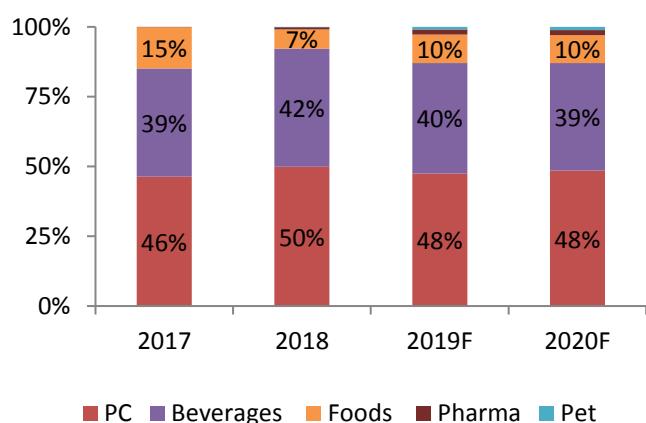
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**



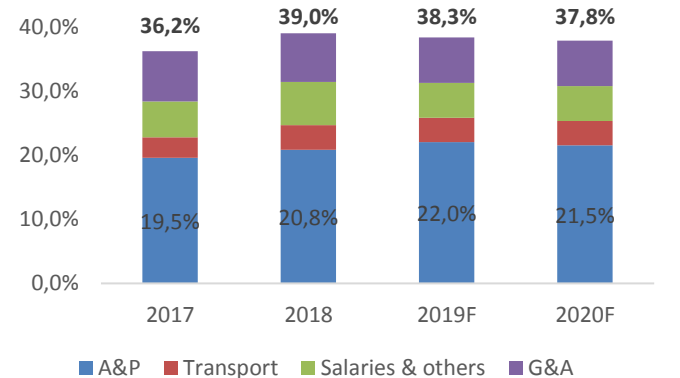
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. Revenue by divisions**

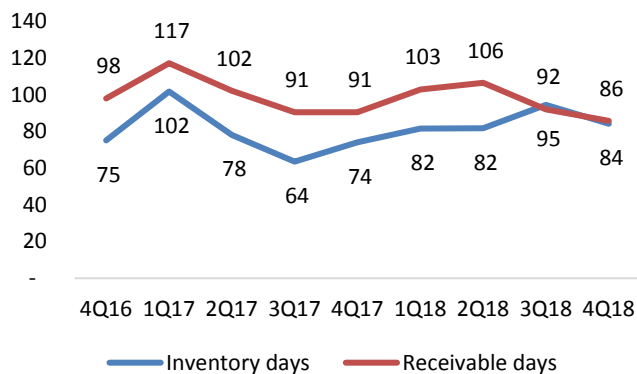


Source: Company, Danareksa Sekuritas estimates

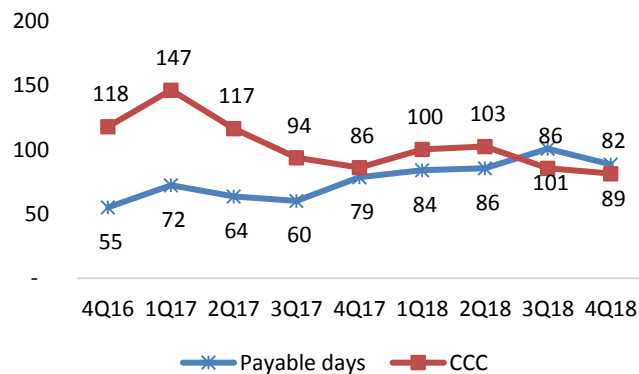
**Exhibit 6. Opex to revenue**



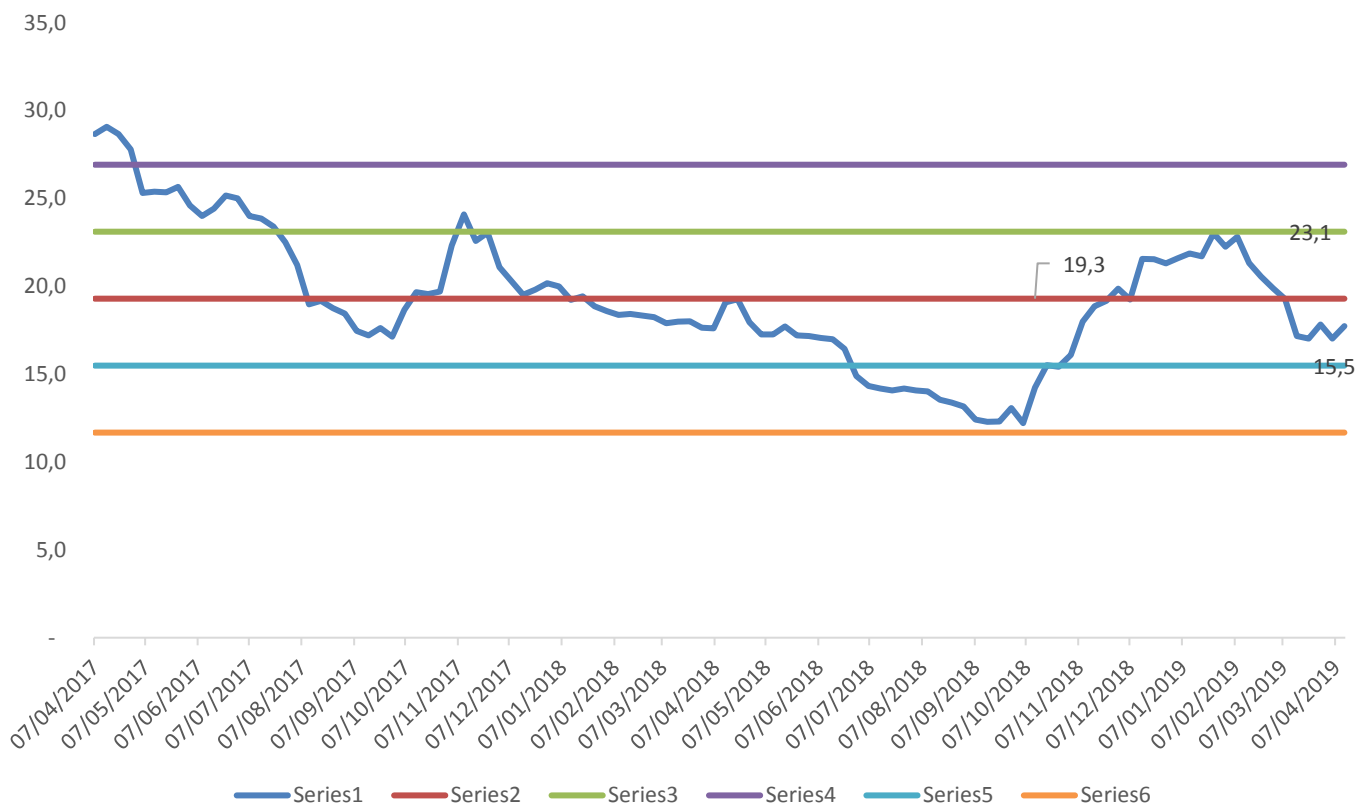
Source: Company, Danareksa Sekuritas estimates

**Exhibit 7. Inventory and receivable days**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 8. Payable days and Cash conversion cycle**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 9. PE Band**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 10. Earnings revision**

	Previous		New		Changes	
	2019	2020	2019	2020	2019	2020
Revenue	3,889	4,407	4,342	4,992	11.7%	13.3%
Gross profit	1,746	1,944	1,959	2,246	12.2%	15.6%
Operating profit	291	317	296	359	1.8%	13.5%
Net profit	174	194	188	232	7.8%	19.7%
Gross margin	44.9%	44.1%	45.1%	45.0%		
Operating margin	7.5%	7.2%	6.8%	7.2%		
Net margin	4.5%	4.4%	4.3%	4.7%		

Source: Company, Danareksa Sekuritas estimates

**Exhibit 11. Sasha toothpaste**


Source: Shopee, Bukalapak \*Retail selling prices in Alfamart and Indomaret starting from IDR12,500/piece

### Exhibit 12. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>3,161</b>	<b>3,612</b>	<b>4,342</b>	<b>4,992</b>	<b>5,623</b>
COGS	(1,830)	(1,968)	(2,383)	(2,746)	(3,079)
<b>Gross profit</b>	<b>1,330</b>	<b>1,643</b>	<b>1,959</b>	<b>2,246</b>	<b>2,544</b>
<b>EBITDA</b>	<b>212</b>	<b>275</b>	<b>339</b>	<b>407</b>	<b>527</b>
<b>Oper. profit</b>	<b>187</b>	<b>236</b>	<b>296</b>	<b>359</b>	<b>475</b>
Interest income	17	11	14	15	19
Interest expense	(70)	(56)	(57)	(62)	(70)
Forex Gain/(Loss)	(1)	0	0	0	0
Income From Assoc. Co's	(4)	(14)	0	0	0
Other Income (Expenses)	13	23	(3)	(2)	(2)
<b>Pre-tax profit</b>	<b>141</b>	<b>200</b>	<b>251</b>	<b>310</b>	<b>420</b>
Income tax	(31)	(50)	(63)	(78)	(105)
Minority interest	1	0	0	0	0
<b>Net profit</b>	<b>110</b>	<b>150</b>	<b>188</b>	<b>232</b>	<b>315</b>
<b>Core Net Profit</b>	<b>111</b>	<b>150</b>	<b>188</b>	<b>232</b>	<b>315</b>

### Exhibit 13. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	350	240	368	397	489
Receivables	871	1,023	1,038	1,210	1,368
Inventory	385	519	500	589	669
Other Curr. Asset	65	62	69	66	68
Fixed assets - Net	1,247	1,424	1,641	1,793	1,909
Other non-curr.asset	195	192	192	192	192
<b>Total asset</b>	<b>3,238</b>	<b>3,592</b>	<b>3,940</b>	<b>4,379</b>	<b>4,826</b>
ST Debt	546	588	580	693	751
Payables	432	545	742	873	992
Other Curr. Liabilities	108	183	183	183	183
Long Term Debt	20	4	9	8	10
Other LT. Liabilities	77	85	82	83	82
<b>Total Liabilities</b>	<b>1,182</b>	<b>1,405</b>	<b>1,596</b>	<b>1,839</b>	<b>2,019</b>
Shareholder's Funds	2,018	2,159	2,317	2,511	2,780
Minority interests	37	28	28	28	28
<b>Total Equity &amp; Liabilities</b>	<b>3,238</b>	<b>3,592</b>	<b>3,940</b>	<b>4,379</b>	<b>4,826</b>

#### Exhibit 14. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	110	150	188	232	315
Depreciation and Amort.	25	39	43	48	52
Change in Working Capital	132	(173)	201	(130)	(119)
Other Oper. Cash Flow	34	123	35	51	50
<b>Operating Cash Flow</b>	<b>301</b>	<b>139</b>	<b>468</b>	<b>200</b>	<b>298</b>
Capex	(50)	(216)	(261)	(200)	(169)
Others Inv. Cash Flow	0	7	14	15	19
<b>Investing Cash Flow</b>	<b>(50)</b>	<b>(209)</b>	<b>(246)</b>	<b>(184)</b>	<b>(150)</b>
Net change in debt	(213)	25	(3)	111	61
New Capital	33	14	0	0	0
Dividend payment	(36)	(39)	(30)	(38)	(46)
Other Fin. Cash Flow	(70)	(56)	(57)	(62)	(70)
<b>Financing Cash Flow</b>	<b>(286)</b>	<b>(55)</b>	<b>(90)</b>	<b>12</b>	<b>(56)</b>
<b>Net Change in Cash</b>	<b>(35)</b>	<b>(125)</b>	<b>132</b>	<b>27</b>	<b>92</b>
Cash - begin of the year	377	350	240	368	397
Cash - end of the year	350	240	368	397	489

#### Exhibit 15. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	(9.5)	14.3	20.2	15.0	12.6
EBITDA	(21.4)	29.8	23.2	20.0	29.5
Operating profit	(21.9)	26.3	25.4	21.4	32.0
Net profit	(38.9)	35.9	25.1	23.7	35.6
<b>Profitability (%)</b>					
Gross margin	42.1	45.5	45.1	45.0	45.2
EBITDA margin	6.7	7.6	7.8	8.2	9.4
Operating margin	5.9	6.5	6.8	7.2	8.4
Net margin	3.5	4.2	4.3	4.7	5.6
ROAA	3.4	4.4	5.0	5.6	6.8
ROAE	5.6	7.2	8.4	9.6	11.9
<b>Leverage</b>					
Net Gearing (x)	0.1	0.2	0.1	0.1	0.1
Interest Coverage (x)	2.7	4.2	5.2	5.8	6.7

Source : KINO, Danareksa Estimates

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