

# Kino Indonesia Tbk (KINO IJ)

## Expect Soft Earnings in 2020

Kino posted strong performance in 1Q20, supported by personal care and beverage segments as its main contributors. In addition, KINO decided to liquidate its two joint ventures with the Malee group as a form of streamlining its organizational structure and changing the company's business model. Coupled this with the eroding purchasing power due to the pandemic, we project KINO's short-term profitability to take a hit. However, we still view KINO as a HOLD for longer-term investment option.

### KINO's 1Q20 Revenue Grows by 11% to IDR1.1tn

KINO recorded IDR1.1tn revenue (+11.0% yoy, -7%qoq). This was supported by all segments which recorded positive revenue except pharmaceutical, which was down by -4.6% yoy. KINO's largest contributor, the personal care and beverage lines booked +7.5% yoy and +14.5% yoy revenue growth respectively. During this COVID-19 pandemic, we expect personal care segment to continue recording positive performance, contributing 11.2% revenue growth in FY20 due to the high demand of hygiene products. We also believe the management has captured this opportunity by increasing the production of hand sanitizer in order to fulfill the demand. On the margins side, GPM recorded an increase of 460bps to 49.9%, which we believe was caused by lower raw material purchasing for efficiency. Subsequently, operating profit increased by 14.2% yoy to IDR70bn with OPM slightly increased by 20bps to 6.3%. Meanwhile, excluding the one-off gain transaction in 1Q19, NPM expanded by 130bps to 5.2%. All in all, KINO's 1Q20 net profit was IDR58 bn.

### Focused on Business Expansion, but Maintaining Liquidity

In 1Q20, KINO reported an interest expense amounted to IDR24bn or surged by 73.4% yoy from IDR13bn in the first quarter last year. This increase was caused by an increase in bank loan along with the management's decision to continue expanding its business amid the challenging environment. In order to maintain sufficient liquidity, KINO has secured the loan facility from previous year and obtained additional loan facility in this year, which is likely to be used to increase production capacity. Thus, the total debt is around IDR1.28bn in 1Q20, leading DER higher by 45.97% compare to 1Q19 at 25.9%.

### Liquidation of Joint Venture (JV) with Malee Group

Based on company's disclosure to IDX (6/17), KINO decided to liquidate Kino Malee Indonesia and Malee Kino (Thailand) Company Limited considering the limitations of premium quality raw materials. As a note, established in 2017, Kino Malee Indonesia was controlled by KINO with a 51% stake and Malee Kino was owned by KINO with a 49% stake. The management still believe in the potential sales of Malee's packaged juice products especially with their premium ingredients. So, KINO prefers to export and import the products directly in order to maintain cost-efficiency. We believe this corporate action will have an impact on profitability in the short to medium term. However, we have not factored the result of the decision in our estimates for now.

### Downgrade to Hold

We revised down our FY20 revenue and net profit estimates, as we concern this pandemic will erode purchasing power. We downgrade our recommendation price to Hold with a target price of IDR2,950 based on a 10-year DCF valuation. Our WACC assumption of 7.6% as follows: Risk free rate of 7.1% and equity beta of 0.7x. However, we still prefer KINO for longer-term investment as it has proven to be one of the most resilient companies during the pandemic and is consistent in innovating.

### PT Kino Indonesia Tbk | Summary

	2019A	2020F	2021F	2022F
<b>Sales</b>	4.679	4.759	4.965	5.347
<b>Growth (%)</b>	29,5%	1,7%	4,3%	7,7%
<b>EBIT</b>	357	264	327	395
<b>Net Profit</b>	513	288	300	332
<b>EPS (IDR)</b>	359	201	210	232
<b>P/E</b>	9.6x	16.9x	18.7x	16.9x
<b>P/BV</b>	1.8x	1.7x	1.8x	1.7x
<b>EV/EBITDA</b>	14.0x	16.9x	18.1x	15.4x
<b>ROE (%)</b>	21.0%	10.3%	10.0%	10.2%
<b>ROA (%)</b>	12.4%	5.6%	5.3%	5.3%
<b>Dividend Yield</b>	1.7%	3.0%	1.6%	1.6%

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

## Company Report | June 26, 2020

# HOLD

<b>Target Price (IDR)</b>	<b>2,950</b>
Consensus Price (IDR)	3.299
TP to Consensus Price	-10.5%
vs. Last Price	-13.4%

### Shares data

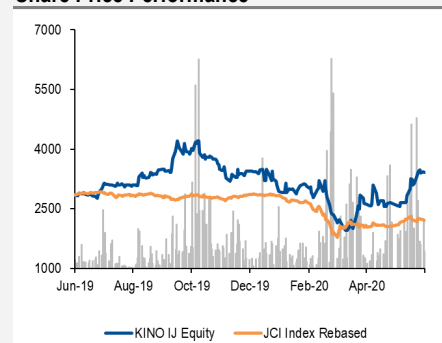
Last Price (IDR)	3,410
Price Date as of	June. 23, 2020
52 wk Range (Hi/Lo)	4,200 / 1,500
Free Float (%)	7.37
Outstanding sh.(mn)	1,429
Market Cap (IDR bn)	4,786
Market Cap (USD mn)	339
Avg. Trd Vol - 3M (mn)	2.02
Avg. Trd Val - 3M (bn)	5.48
Foreign Ownership	14.8%

### Consumer Goods Industry

#### Cosmetics and Household

Bloomberg	KINO IJ
Reuters	KINO.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	0.9%	32.7%	58.6%	19.6%
Rel. Ret.	23.2%	27.2%	34.7%	42.1%

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## Summary of Financials

### INCOME STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
<b>Sales</b>	<b>4.679</b>	<b>4.759</b>	<b>4.965</b>	<b>5.347</b>
<i>Growth</i>	29,5%	1,7%	4,3%	7,7%
COGS	(2.488)	(2.475)	(2.552)	(2.706)
<b>Gross Profit</b>	<b>2.191</b>	<b>2.284</b>	<b>2.413</b>	<b>2.641</b>
<i>Gross Margin</i>	46,8%	48,0%	48,6%	49,4%
Operating Expenses	(1.834)	(2.020)	(2.085)	(2.246)
<b>EBIT</b>	<b>357</b>	<b>264</b>	<b>327</b>	<b>395</b>
<i>EBIT Margin</i>	7,6%	5,5%	6,6%	7,4%
Depreciation	88	120	87	98
Interest Expenses	(83)	(121)	(180)	(222)
<b>EBT</b>	<b>636</b>	<b>382</b>	<b>398</b>	<b>440</b>
Income Tax	(120)	(95)	(99)	(110)
Minority Interest	(3)	1	1	1
<b>Net Profit</b>	<b>513</b>	<b>288</b>	<b>300</b>	<b>332</b>
<i>Growth</i>	241,7%	-43,9%	4,1%	10,7%
<i>Net Profit Margin</i>	11,0%	6,0%	6,0%	6,2%

### PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	21,0%	10,3%	10,0%	10,2%
ROA	12,4%	5,6%	5,3%	5,3%
ROIC	7,7%	4,7%	5,1%	5,5%
Cash Dividend (IDR bn)	81	145	90	92
Dividend Yield	1,66%	2,98%	1,61%	1,64%
Payout Ratio	16%	28%	31%	31%
DER	39,4%	48,0%	55,1%	58,5%
Net Gearing	78%	92%	100%	102%
LT Debt to Equity	5,3%	10,5%	9,9%	7,3%
Debt Ratio	22,7%	25,1%	29,8%	29,4%
Financial Leverage	182,9%	188,2%	192,4%	199,0%
Current Ratio	134,7%	127,2%	123,8%	114,7%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	1.429	1.429	1.429	1.429
Share Price (IDR)	3.430	3.410	3.920	3.920
Market Cap (IDR tn)	4,9	4,9	5,6	5,6

### BALANCE SHEET

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	268	349	431	631
Receivables	1.370	1.611	1.371	1.797
Inventories	557	670	740	810
<b>Total Current Assets</b>	<b>1.370</b>	<b>1.611</b>	<b>1.371</b>	<b>1.797</b>
Net Fixed Assets	2.160	2.436	2.741	3.060
Other Non Current Asset	201	265	265	236
<b>Total Assets</b>	<b>4.696</b>	<b>5.516</b>	<b>5.746</b>	<b>6.751</b>
Payables	565	716	435	495
ST Bank Loan	922	1.079	1.402	1.737
LT Debt	142	303	308	248
<b>Total Liabilities</b>	<b>1.993</b>	<b>2.637</b>	<b>2.643</b>	<b>3.358</b>
Capital Stock + APIC	853	853	853	853
Retained Earnings	1.220	1.363	1.573	1.812
<b>Shareholders' Equity</b>	<b>2.703</b>	<b>2.879</b>	<b>3.104</b>	<b>3.393</b>

### VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	9,6x	16,9x	18,7x	16,9x
Price/Book Value	1,8x	1,7x	1,8x	1,7x
Price/Sales	1,0x	1,0x	1,1x	1,0x
PE/EPS Growth	0,0x	-0,4x	4,6x	1,6x
EV/EBITDA	14,0x	16,9x	18,1x	15,4x
EV/EBIT	17,5x	24,5x	22,9x	19,2x
EV (IDR bn)	6.240	6.481	7.490	7.601
Sales CAGR (3-Yr)	-	-	11,2%	4,6%
EPS CAGR (3-Yr)	-	-	25,9%	-13,5%
Basic EPS (IDR)	359	201	210	232
Diluted EPS (IDR)	359	201	210	232
BVPS (IDR)	1.892	2.015	2.173	2.375
Sales PS (IDR)	3.275	3.331	3.476	3.743
DPS (IDR)	57	102	63	64

### CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	17	299	222	379
Investing Cash Flow	(332)	(414)	(392)	(411)
Financing Cash Flow	331	163	253	232
<b>Net Changes in Cash</b>	<b>17</b>	<b>48</b>	<b>83</b>	<b>200</b>

### TOP OWNERSHIP

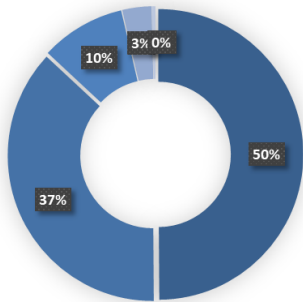
By Geography	% Shareholders	%
Indonesia	84,0	Kino Investindo 69,5
Unknown	12,2	Harry Sanusi 11,8
United States	2,3	DBSSG S/A Nusantara 10,9
United Kingdom	0,3	Matthews International 2,2

Source: Company Data, NHKSI Research

## Key Charts

### KINO's Revenue Breakdown

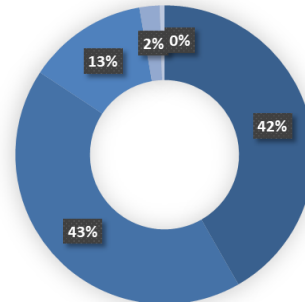
■ Personal Care ■ Beverages ■ Food ■ Pharmaceutical ■ Pet Food



Source: Company Data, NHKSI Research

### KINO's COGS Breakdown

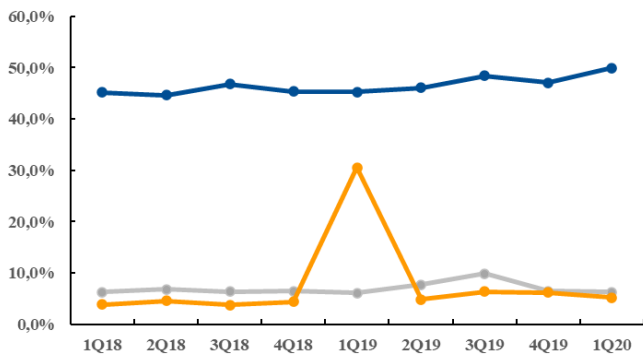
■ Personal Care ■ Beverages ■ Food ■ Pharmaceutical ■ Pet Food



Source: Company Data, NHKSI Research

### KINO's Margin Ratio

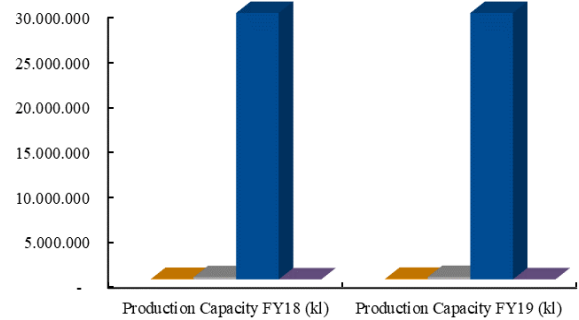
— Gross Profit Margin — EBIT Margin — Net Profit Margin



Source: Company Data, NHKSI Research

### KINO's Production Capacity

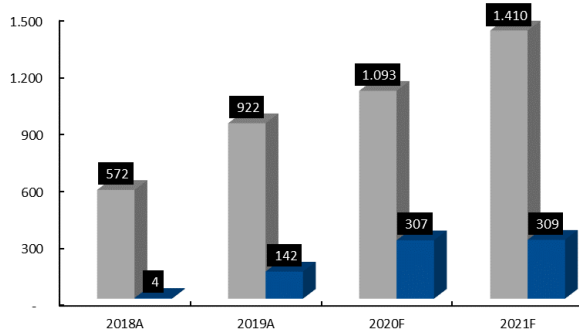
■ Personal Care ■ Beverages ■ Food Product ■ Pharmaceutical



Source: Company Data, NHKSI Research

### KINO's Debt Portion

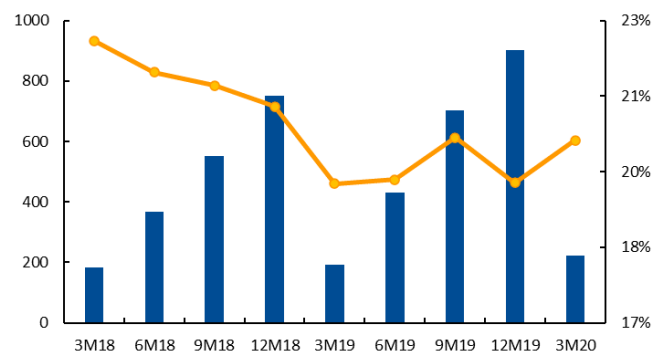
■ ST Debt (bn) ■ LT Debt (bn)



Source: Company Data, NHKSI Research

### KINO's Budget for Advertising & Promotions

■ Advertising and Promotion — A&P % Sales



Source: Company Data, NHKSI Research

## Company Background

PT Kino Indonesia Tbk (Kino) was initially a distribution company named PT Dutalestari Sentratama (DLS), incorporated in 1991. Embracing the opportunities at the time, DLS developed its business by establishing PT Kino Sentra Industrindo (KSI) as a company producing snacks in 1997, which continued to actively create various kinds of snack products such as candy, snacks, and chocolate, as well as produce flavoured drinks in the form of powders which are now sold in the Indonesian and international markets. The first product launched by KSI was “Kino Candy”

## Peers Comparison

### Global Companies

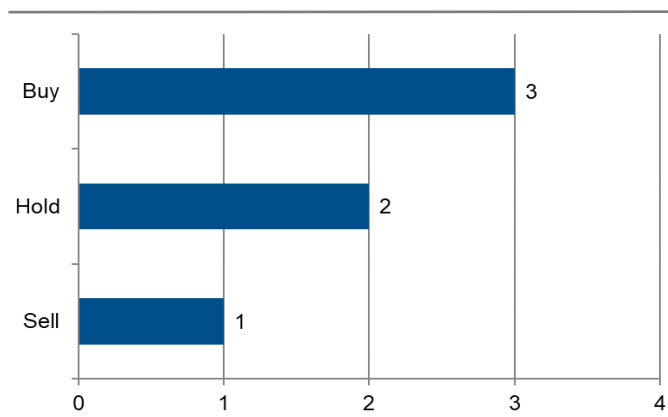
	Market Cap	Total Asset	Sales Growth LTM	Gross Margin LTM	Operating Margin LTM	Net Profit Growth LTM	ROE LTM	P/E LTM	Dividend Yield
<b>Indonesia</b>									
KINO INDONESIA	339	339	29,5%	46,8%	9,4%	-35,8%	10,5%	17,6x	3,2%
UNILEVER INDONESIA	21.329	1.491	2,7%	51,3%	23,6%	-16,6%	92%	40,1x	3,1%
<b>United States</b>									
ULTA BEAUTY INC	10.936	4.864	10,1%	36,2%	12,2%	-36,6%	23,6%	25,6x	N/A
ESTEE LAUDER	28.212	41.124	0,9%	64,3%	18,7%	-12,8%	7,5%	23,5x	2,7%
MONDELEZ INTERNATIONAL INC	72.558	64.549	-0,3%	40,0%	14,9%	14,2%	14,4%	20,3x	2,2%
PROCTOR & GAMBLE	291.854	115.095	1,3%	48,6%	8,1%	-54,8%	9,6%	24,4x	2,6%
<b>Korea</b>									
COSMECCA KOREA CO LTD	94	304	14,4%	18,4%	2,4%	-28,1%	4,5%	19,4x	N/A
<b>France</b>									
L'OREAL	176.256	49.194	10,9%	73,0%	17,7%	-3,7%	13,3%	42,1x	N/A
<b>Sweden</b>									
SWEDENCARE AB	197	16	27,9%	#VALUE!	29,1%	10,4%	23,8%	62,0x	0,6%

Unit: USD mn, %, X

Source: Bloomberg, NHKSI Research

## Valuation and Highlight

### Analyst Coverage Rating



Source: Bloomberg

### Rating and target price update

Date	Rating	Target price	Consensus
2019.11.21	Buy	IDR4,680 (12M)	N/A
2020.06.20	Hold	IDR2,950 (12M)	IDR3,299

Source: NHKSI research, Bloomberg

### 1Q20 review (IDR bn)

	1Q19	2Q19	3Q19	4Q19	1Q20			2Q20E
					Actual	y-y	q-q	
Sales	1,002	1,221	1,261	1,195	1,113	11.0%	-6.9%	1,138
Gross Profit	454	563	611	563	556	1.7%	-1.3%	541
<i>Gross Margin</i>	45,3%	46,1%	48,4%	47,1%	49,9%	10.2%	6.0%	47.5%
EBIT	61	94	125	77	70	14.2%	-9.6%	61
<i>EBIT Margin</i>	6,1%	7,7%	9.9%	6.5%	6.3%	2.8%	-3.0%	5.4%
<b>Net Profit</b>	<b>39</b>	<b>57</b>	<b>80</b>	<b>74</b>	<b>58</b>	<b>48.3%</b>	<b>71.9%</b>	<b>1,430</b>
<i>Net Margin</i>	3.9%	4.7%	6.3%	6.2%	5.2%	34.0%	-16.2%	5.6%

### NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
  - Buy : Greater than +15%
  - Hold : -15% to +15%
  - Sell : Less than -15%

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