

Slow Revenue Growth amid Weak Consumption

We already expected KINO to record weak performance in 2Q20 as the consequences of lower demand amid the pandemic. This also affected export sales, which dropped significantly due to lockdown restriction in several export destination. At this stage, we still maintain a Hold recommendation.

Weak 2Q Performance

KINO posted revenue of just IDR 1.08tn (-11.5% YoY) in 2Q20, which only represents 49.3% of our estimation FY20. We see that the revenue decline was mainly caused by disappointing sales of 4 of its business segments due to slower demand, which are heavily impacted by the slack in economic activity during the quarter. Personal care (c. 51.0% of total revenue) and Beverages (c. 40.2% of total revenue) segments as the largest contributor to KINO's revenue, both recorded drop in 2Q20 revenue by -4.3% YoY to IDR551bn and -7.9% YoY to IDR 435bn, respectively. Meanwhile, its food sales fell to IDR81 bn (-14.7% YoY), following by pharma segment which recorded a slump in revenue by -87.4% YoY to IDR9 bn. Pharma segment takes the biggest hit as the consequences of significance drop in demand for Lola Remedios caused by lockdown in Philippines. However, their new segment - Pet food has successfully reported a double-digit growth in 2Q20. Despite having weak performance in 2Q20, KINO's earnings were increasing by 2.9% YoY to IDR59bn in 2Q20, excluding the effect of the one-off gain which arose last year.

Slight Margin Expansion

However, KINO recorded gross margin expansion, which rose by 340bps to 49.5% in 2Q20 vs 46.1% in 2Q19. This improvement was mainly due to COGS going down by -17% YoY to IDR546bn. At the same time, opex also dropped by -9.8% YoY as a result of slight decline in advertising and operational budget which led OPM to increase by 270bps to 10.4% along with an increase in profit margin by 80bps to 5.4% YoY. Although KINO experienced tough quarter this year, due to stable Rupiah throughout the quarter, it drove the overall margins to perform better. In addition, we also note that KINO's export sales on cumulative basis was down by -41% YoY to IDR141bn. The export sales have been hit hardest affected by lockdown and social distancing in several main export destinations such as the Philippines, Malaysia, and Vietnam. On another note, DER level is forecasted to move higher as KINO has planned to increase the production capacity amid the subdued economic environment.

Maintain Hold

Given the conservative earnings growth expectation going forward along with limited upside potential, we decided to maintain our recommendation price to Hold with a target price of IDR2.950 based on a 10-year DCF valuation. Our WACC assumption of 8.1% as follows: Risk free rate of 6.8% and equity beta of 0.7x. In addition, we also expect KINO to be able to manage better inventory level which currently has started to show sign of rising in 2Q20 on the back of lockdown-easing and A&P allocation budget to lift domestic sales.

PT Kino Indonesia Tbk | Summary

	2019A	2020F	2021F	2022F
Sales	4.679	4.446	4.528	5.003
Growth (%)	29,5%	-5,0%	1,9%	10,5%
EBIT	439	339	334	420
Net Profit	513	246	230	277
EPS (IDR)	359	172	161	194
P/E	9,6x	19,8x	24,3x	20,2x
P/BV	1,8x	1,7x	1,9x	1,7x
EV/EBITDA	12,1x	15,7x	18,0x	15,5x
ROE (%)	21,0%	8,9%	7,9%	8,9%
ROA (%)	12,4%	4,8%	4,0%	4,5%
Dividend Yield	1,7%	2,4%	1,6%	1,6%

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Company Report | July 06, 2020

HOLD

Target Price (IDR)	2,950
Consensus Price (IDR)	3.008
TP to Consensus Price	-2.0%
vs. Last Price	-11.3%

Shares data

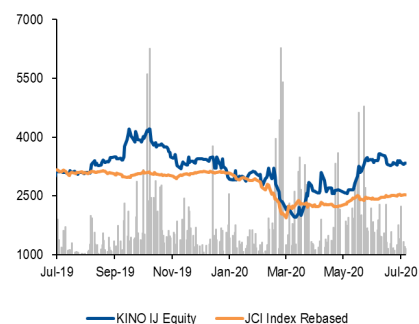
Last Price (IDR)	3,330
Price Date as of	July. 23, 2020
52 wk Range (Hi/Lo)	4,200 / 1,500
Free Float (%)	7.05
Outstanding sh.(mn)	1,429
Market Cap (IDR bn)	4,743
Market Cap (USD mn)	323
Avg. Trd Vol - 3M (mn)	1.67
Avg. Trd Val - 3M (bn)	5.12
Foreign Ownership	14.8%

Consumer Goods Industry

Cosmetics and Household

Bloomberg	KINO IJ
Reuters	KINO.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-1.5%	-2.1%	27.1%	7.1%
Rel. Ret.	17.2%	-6.3%	15.2%	25.9%

Putu Chantika Putri D.

(021) 5088 9129

putu.chantika@nhsec.co.id

Summary of Financials

INCOME STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Sales	4.679	4.446	4.528	5.003
<i>Growth</i>	29,5%	-5,0%	1,9%	10,5%
COGS	(2.488)	(2.289)	(2.282)	(2.481)
Gross Profit	2.191	2.157	2.246	2.522
<i>Gross Margin</i>	46,8%	48,5%	49,6%	50,4%
Operating Expenses	(1.751)	(1.818)	(1.902)	(2.101)
EBIT	439	339	344	420
<i>EBIT Margin</i>	9,4%	7,6%	7,6%	8,4%
Depreciation	78	87	86	95
Interest Expenses	(83)	(132)	(145)	(303)
EBT	636	317	311	368
Income Tax	(120)	(68)	(77)	(92)
Minority Interest	(3)	(3)	(3)	1
Net Profit	513	246	230	277
<i>Growth</i>	241,7%	-52,1%	-6,3%	20,3%
<i>Net Profit Margin</i>	11,0%	5,5%	5,1%	5,5%

PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	21,0%	8,9%	7,9%	8,9%
ROA	12,4%	4,8%	4,0%	4,5%
ROIC	9,5%	6,0%	5,2%	5,7%
Cash Dividend (IDR bn)	81	119	90	92
Dividend Yield	1,66%	2,43%	1,61%	1,64%
Payout Ratio	16%	23%	37%	40%
DER	39,4%	57,0%	67,5%	71,7%
Net Gearing	78%	108%	124%	128%
LT Debt to Equity	5,3%	12,6%	12,2%	9,0%
Debt Ratio	22,7%	29,2%	33,9%	36,0%
Financial Leverage	184,6%	197,2%	199,3%	199,2%
Current Ratio	134,7%	128,8%	123,1%	118,6%
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	355	438	542
Receivables	1.370	1.488	1.579	1.685
Inventories	557	766	845	902
Total Current Assets	1.370	1.488	1.579	1.685
Net Fixed Assets	2.160	2.414	2.640	2.860
Other Non Current Asset	201	260	260	236
Total Assets	4.696	5.527	5.960	6.443
Payables	565	595	541	556
ST Bank Loan	922	1.259	1.655	2.029
LT Debt	142	357	363	290
Total Liabilities	1.993	2.692	2.971	3.210
Capital Stock + APIC	853	853	853	853
Retained Earnings	1.220	1.348	1.488	1.673
Shareholders' Equity	2.703	2.835	2.990	3.234

VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	9,6x	19,8x	24,3x	20,2x
Price/Book Value	1,8x	1,7x	1,9x	1,7x
Price/Sales	1,0x	1,1x	1,2x	1,1x
PE/EPS Growth	0,0x	-0,4x	-3,9x	1,0x
EV/EBITDA	12,1x	15,7x	18,0x	15,5x
EV/EBIT	14,2x	19,7x	22,5x	19,0x
EV (IDR bn)	6.240	6.682	7.762	8.005
Sales CAGR (3-Yr)	-	-	7,8%	2,3%
EPS CAGR (3-Yr)	-	-	15,3%	-18,6%
Basic EPS (IDR)	359	172	161	194
Diluted EPS (IDR)	359	172	161	194
BVPS (IDR)	1.892	1.985	2.093	2.264
Sales PS (IDR)	3.275	3.112	3.170	3.502
DPS (IDR)	57	83	63	64

CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	17	59	70	150
Investing Cash Flow	(332)	(386)	(312)	(314)
Financing Cash Flow	331	408	326	268
Net Changes in Cash	17	81	83	104

TOP OWNERSHIP

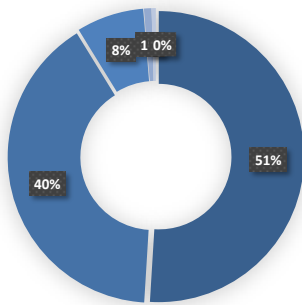
By Geography	% Shareholders	%
Indonesia	84,0	Kino Investindo 69,5
Unknown	12,2	Harry Sanusi 11,8
United States	2,3	DBSSG S/A Nusantara 10,9
United Kingdom	0,3	Matthews International 2,2

Source: Company Data, NHKSI Research

Key Charts

KINO's Revenue Breakdown

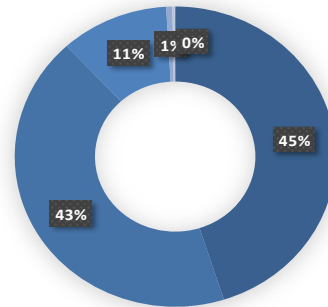
Personal Care Beverages Food Pharmaceuticals Pet Food



Source: Company Data, NHKSI Research

KINO's COGS Breakdown

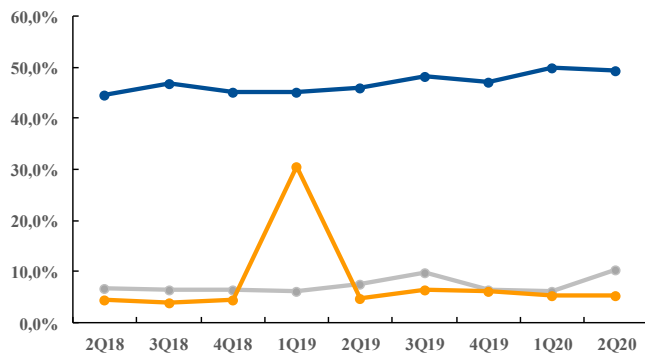
Personal Care Beverages Food Pharmaceutical Pet Food



Source: Company Data, NHKSI Research

KINO's Margin Ratio

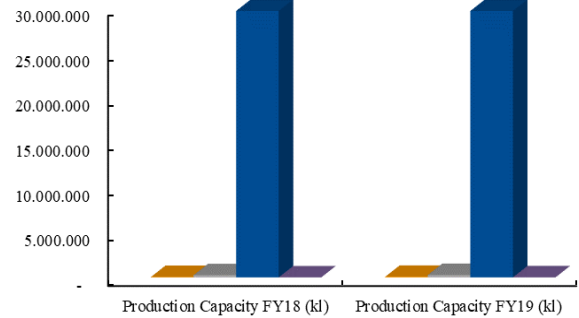
Gross Profit Margin EBIT Margin Net Profit Margin



Source: Company Data, NHKSI Research

KINO's Production Capacity

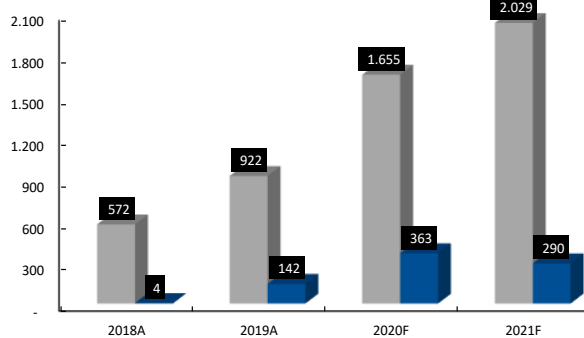
Personal Care Beverages Food Product Pharmaceutical



Source: Company Data, NHKSI Research

KINO's Debt Portion

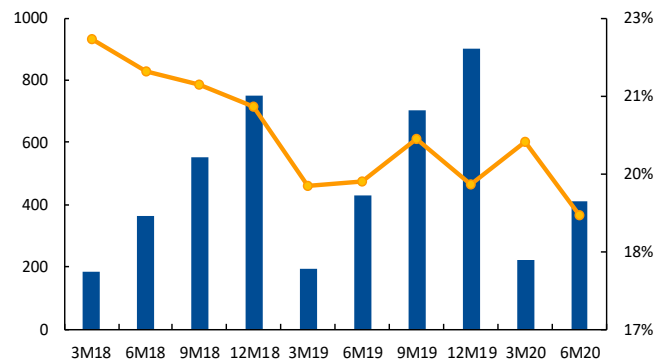
ST Debt (bn) LT Debt (bn)



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

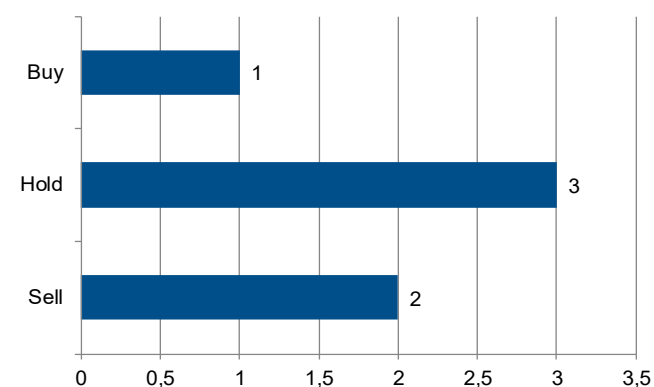
	Market Cap	Total Asset	Sales Growth LTM	Gross Margin LTM	Operating Margin LTM	Net Profit Growth LTM	ROE LTM	P/E LTM	Dividend Yield
Indonesia									
KINO INDONESIA	323	339	29,5%	46,8%	9,4%	-38,3%	10,7%	17,4x	3,3%
UNILEVER INDONESIA	21.796	1.491	2,7%	51,3%	23,6%	-21,0%	105%	43,7x	1,0%
United States									
ULTA BEAUTY INC	10.868	4.864	10,1%	36,2%	12,2%	-36,6%	23,6%	25,4x	N/A
ESTEE LAUDER	30.853	41.124	0,9%	64,3%	18,7%	34,3%	7,5%	25,6x	2,4%
MONDELEZ INTERNATIONAL INC	79.258	64.549	-0,3%	40,0%	14,9%	-7,7%	13,2%	21,6x	2,1%
PROCTOR & GAMBLE	324.606	120.700	4,8%	50,3%	22,1%	234,3%	27,6%	25,6x	2,3%
Korea									
COSMECCA KOREA CO LTD	125	304	14,4%	18,4%	2,4%	-28,1%	4,5%	25,6x	N/A
France									
L'OREAL	186.627	49.194	10,9%	73,0%	17,7%	-17,8%	11,6%	49,0x	1,4%
Sweden									
SWEDENCARE AB	266	16	27,9%	#VALUE!	29,1%	0,6%	15,0%	76,3x	0,5%

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

2Q20 review (IDR bn)

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	y-y	q-q	Surprise	
Sales	1,221	1,261	1,195	1,113	1,081	1,138	-11.4%	-2.9%	-5.0%	1,114
Gross Profit	563	611	563	556	546	541	-3.0%	-1.8%	0.9%	528
<i>Gross Margin</i>	46,1%	46,4%	48,4%	49,9%	49,5%	47,5%	3.4%	-0.4%	2.0%	47.3%
EBIT	94	125	125	70	49	61	-47.8%	-30.0%	-19.6%	60
<i>EBIT Margin</i>	7,7%	9,9%	9,9%	6,3%	4,5%	5,4%	-3,2%	-1,8%	-0,9%	5,3%
Net Profit	57	80	80	58	59	64	3.5%	1.7%	-7.8%	73
<i>Net Margin</i>	4.7%	6.3%	6.3%	5.2%	5.2%	5.4%	0.5%	0.0%	-0.2%	6.5%

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%
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