

# Kino Indonesia

Non-rated

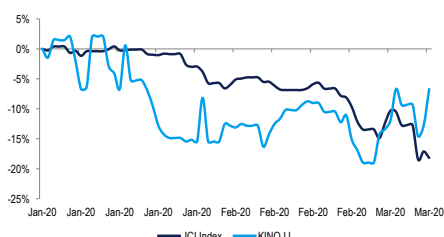
Consumer Staples | KINO IJ | 12 March 2020

## Stock Data

Target price	N/A
Prior TP	N/A
Current price	Rp3,200
Upside/downside	N/A
Shares outstanding (mn)	1,429
Market cap (Rp bn)	4,571
Free float	9%
Avg. 6m daily T/O (Rp bn)	4.4

## Price Performance

	3M	6M	12M
Absolute	-2.4%	-4.5%	32.2%
Relative to JCI	14.2%	14.2%	51.1%
52w low/high (Rp)	2,360 – 4,200		



## Major Shareholders

PT Kino Investindo	69.5%
DBSSG Nusantara FMCG Ltd	10.7%
Harry Sanusi	10.4%

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## An underrated consumer play

- We recently hosted a local NDR for KINO, a well-renowned FMCG player in Indonesia with niche market segment.
- During our NDR, management stated that it will be able to book robust sales/profit growth in 2019 (vs. sector's 6/13% yoy).
- High-margins personal care and pharmaceutical products shall be its growth driver in 2020.

### A unique product preposition allows solid growth

KINO is a well-renowned FMCG player in Indonesia, leading the market in niche segments, such as hair vitamins (Ellips) and baby accessories cleanser (Sleek Baby). Serving an under-penetrated market allows the company to thrive despite slowdown in consumption, during our NDR management stated that it shall be able to book robust sales/profit growth in 2019 (guidance will be >30% yoy growth in 2019) vs. the sector's 5.9% and 13.4%.

### Focusing in underpenetrated and export market in 2020

In 2020F, KINO will focus on 4 key brands: Ellips, Sleek Baby, Sasha, and Lola Remedios largely due to its under-penetrated market. These products are expected to post another double-digits growth this year, supporting KINO's growth target of 15% and 30% yoy sales and earnings growth. At the same time, KINO will also boost its export sales to 13% of sales from 10% in 2019 with Philippines as one of KINO's key export market (especially in traditional medicine segment through Lola Remedios).

### Positive margin trajectory

By focusing mainly on personal care and pharmaceutical products with higher GPM (vs. its overall GPM of 46.7% - see Figure 7), KINO's overall GPM is expected to increase further. The two divisions combined are expected to contribute to around 70% of its sales in the next few years (9M19: 53%). This, along with better distribution network and more efficient A&P expenses, should give further boost to earnings in FY20F onwards.

### One of the cheapest consumer companies with bright outlook ahead

KINO is one of the cheapest consumer staples companies in our universe. Despite its bright FY19 performance and FY20F outlook, share price fell c.13% YTD on the back of market sell-offs, which prompt the company to likely take part in OJK's emergency buyback program. Coronavirus direct impact to KINO also seems manageable (<5% of total COGS); while sales may be disrupted in several area (i.e. Bali and export to China) but growth is relatively in line with FY20F target.

Financial Summary (Rp bn)	2014A	2015A	2016A	2017A	2018A
Revenue	3,339	3,604	3,493	3,161	3,612
EBITDA	235	461	278	230	282
EBITDA growth	N/A	96.0%	-39.8%	-17.1%	22.3%
Net profit	104	263	181	110	150
EPS (Rp)	112	234	126	77	105
EPS growth	N/A	108.9%	-46.2%	-38.9%	36.4%
ROE	0%	22%	9.7%	5.5%	7.1%
PER (x)	26.2	12.5	23.3	38.1	27.9
EV/EBITDA (x)	20.4	9.1	16.1	18.6	15.6
Dividend yield	1.6%	0.0%	1.3%	0.9%	0.9%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			N/A	N/A	N/A

Source: Company, Indo Premier

Share price closing as of: 11 March 2020

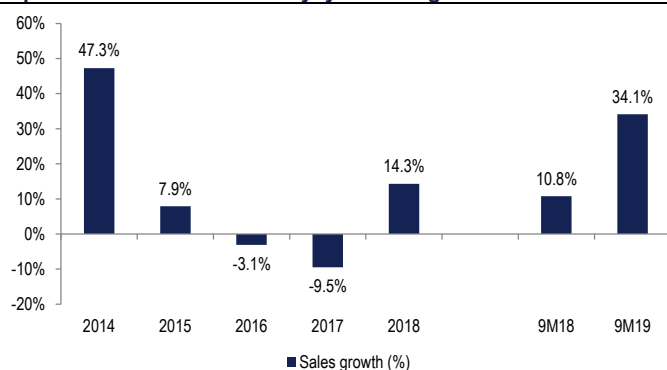
## Company background

### Brief history

Kino Group started their business as a distribution company in 1991, but then started to manufacture their first product called “Kino Candy” in 1997, which was very popular back in the day. As the company grows larger, they also started to expand into other product categories, such as personal care, beverages and pharmaceutical products. Some of their most prominent products include Cap Kaki Tiga, Ellips, Eskulin and Sleek Baby. Kino has also started to expand their presence abroad, currently operating or distributing to Philippines, Vietnam, Thailand, Japan and Africa just to name a few. The company decided to go public in 2015 in order to further expand their business.

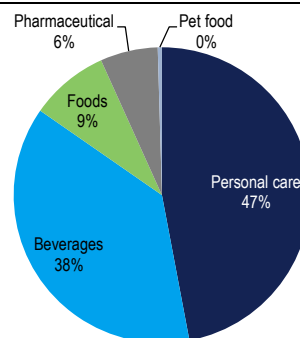
KINO’s products are broken down into four segments: personal care, beverages, food & pet food and pharmaceutical. Personal care and beverages contribute a large chunk of the company’s revenue at 47% and 38% respectively, followed by food & pet food (9%) and pharmaceutical (6%).

**Fig. 1: KINO has portrayed strong sales growth since 2018; it is expected to book around 30% yoy revenue growth in 2019**



Source: Company, Indo Premier

**Fig. 2: KINO’s sales breakdown by segment**



Source: Company, Indo Premier

### Personal care

Personal care segment has the largest contribution in terms of both sales and gross profit, contributing 47% and 55% respectively to KINO’s total. Their most prominent product in the segment is Ellips hair vitamin, as it commands an 80% market share in Indonesia (Nielsen, Sep 2019), beating Unilever and other international brands. Ellips also managed to gain significant traction abroad especially in South East Asia and Japan. Other well-known brands in the segment include Sleek Baby, Eskulin and Sasha.

Fig. 3: KINO's personal care product portfolio



Source: Company

### Beverages

Beverage segment is second largest contributor to KINO as it makes up 38% of the company's total sales and 32% of gross profit. The most recognizable brand in this segment is Cap Kaki Tiga, as it commands a 36% market share in the country's remedy drink market, according to Nielsen (Sep 2019). KINO obtained the license to manufacture, market and distribute Cap Kaki Tiga from Wen Ken Drug Co. Ltd, a Singaporean pharmaceutical company, back in 2011. Other brands in this segment include Cap Panda and Panther energy drink.

Fig. 4: KINO's beverage product portfolio



Source: Company

### Food and pet food

This used to be the core of the company's business, as they start by manufacturing candies. However the segment's growth has been relatively lacklustre, as they now only contribute 9% and 3% of total sales and gross profit respectively. Some recognizable brands in this segment include Kino Candy, Hi-Chew and Segar Sari.

Fig. 5: KINO's food product portfolio



Source: Company

### Pharmaceutical

This is the most recent segment the company ventured into, after they acquire a number of brands including, Dua Putri Dewi, Samurat and Resik Wangi from PT Surya Herbal in 2016. Currently pharmaceutical is only contributing 6% to revenue and 10% to gross profit, albeit posting a tremendous growth. The company's most successful brand in this segment is Lola Remedios, which they launched in the Philippines in 2018 and gained significant traction, as they market it as a local brand. They managed to gain market share of around 60-70% in the Philippines and being one of the first to enter this herbal supplement market. According to the company the pharmaceutical segment has a huge growth potential and will be one of KINO's main focus going forward. Currently the strategy is to enlarge Lola Remedios' presence in Philippines' GT (general trade) market.

Fig. 6: KINO's pharmaceutical product portfolio



Source: Company

## Financials

### Solid product mix and cost efficiency to further boost earnings

As KINO focuses on growing higher-margins personal care and pharmaceutical products, i.e. Ellips, Sleek Baby, Sasha, and Lola Remedios, we expect KINO's overall GPM to increase further. As of 9M19, KINO's overall GPM increased by 115 bps yoy to 46.7%.

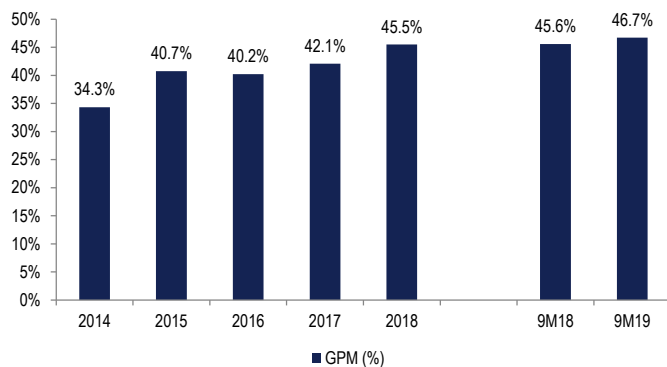
While KINO has experienced -6.4% sales drop CAGR in 2015-17, largely due to inefficient distribution network, it has since eliminate inefficient distributors. As its distribution network gradually recovers, KINO's solid sales growth in the past two years allows the company to earn better operating leverage.

KINO also employs a significant portion of A&P (20.2% of sales as of 9M19), given the need to educate the market due to its unique product prepositions. Given that KINO's strategy is to enter more niche product categories (i.e. hair vitamins and halal toothpaste), considerable A&P spending is necessary in order to educate the market. With products such as Lola Remedios and Sasha halal toothpaste still in the early stage, the company is still planning to be relatively aggressive on A&P going forward in order to further improve product awareness and gain market share.

The company is also aware about the possible rate card increase from major FTA TV stations this year, hence they might try to mitigate this by reducing their advertising frequency if necessary. So far around 70% of the company's A&P spending is BTL (below-the-line) advertising, while the remaining 30% is ATL (above-the-line) with majority spent on FTA TV. The company is targeting to at least maintain their A&P to sales in 2020F onwards.

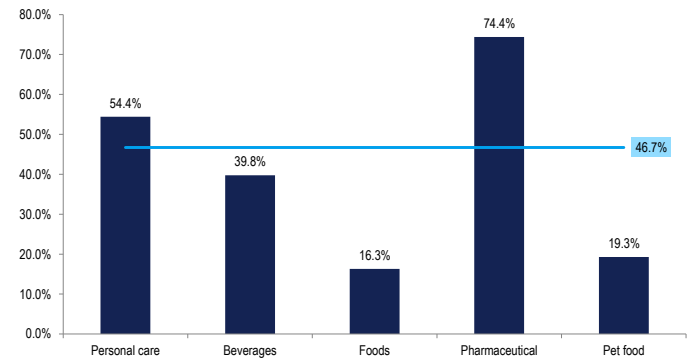


**Fig. 7: KINO's GPM has continuously improved in the past 3 years; largely as products portfolio shifted to the higher-margins personal care and pharmaceutical products**



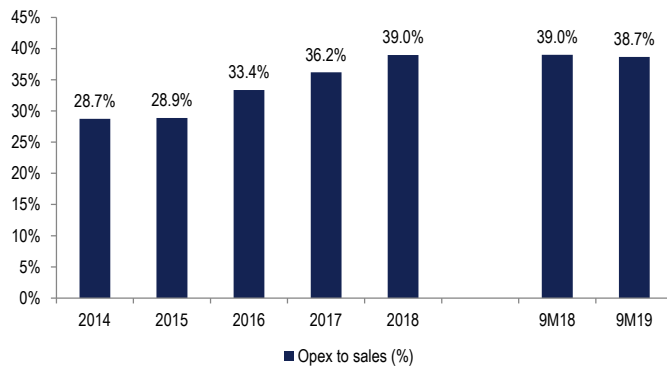
Source: Company, Indo Premier

**Fig. 8: KINO's personal care and pharmaceutical products' GPM are significantly higher than its F&B segments (as of 9M19). Hence, a shift in product mix to the former products will allow KINO's GPM to increase**



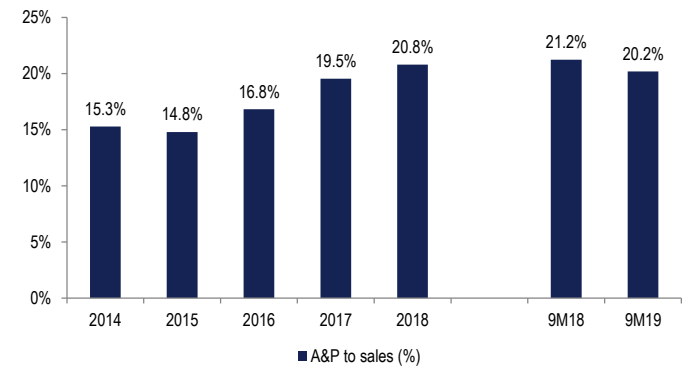
Source: Company, Indo Premier

**Fig. 9: KINO's opex as % of sales (2014-18, 9M18 vs 9M19)**



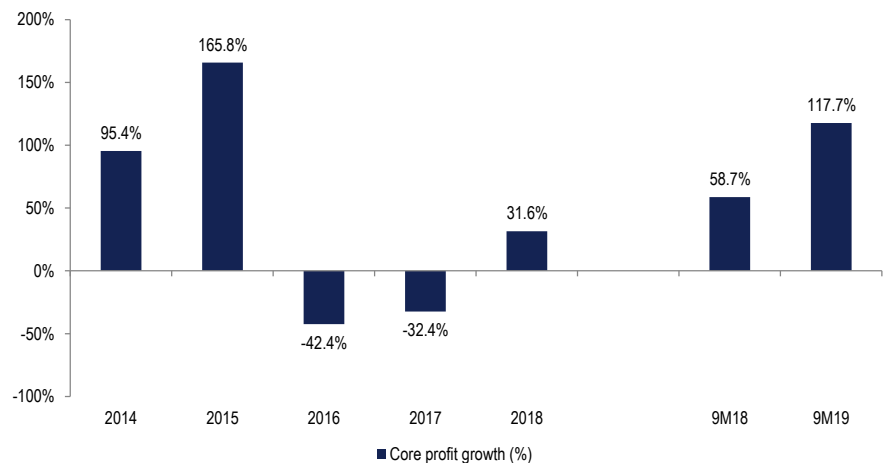
Source: Company, Indo Premier

**Fig. 10: KINO's A&P expenses as % of sales (2014-18, 9M18 vs 9M19)**



Source: Company, Indo Premier

**Fig. 11: KINO's core net profit growth (2014-18, 9M18 vs 9M19)**



Source: Company, Indo Premier

## Valuations

**Fig. 12: KINO is currently at 15.3x 12M forward P/E, or at 16% discount from its historical 3-year mean of 18.1x**



Source: Bloomberg, Indo Premier

**Fig. 13: Peers comparison table**

Fig. 15: Peers comparison table

Company	Bloomberg Ticker	Current Price	Market Cap	3-year EPS CAGR	P/E (x)		ROE (%)		EV/EBITDA (x)		Div. Yield (%)	
		(Rp)	(Rp bn)	(%)	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Consumer Staples												
Kino Indonesia	KINO IJ	2,990	4,272	31.7%	15.4	12.5	10.3%	11.5%	10.2	8.9	1.8%	1.8%
Indofood Sukses Makmur	INDF IJ	6,750	59,268	17.8%	10.0	9.4	11.1%	11.2%	5.5	5.2	6.3%	7.4%
Indofood CBP	ICBP IJ	10,775	125,657	11.6%	23.9	22.0	19.4%	18.8%	13.6	12.5	2.0%	2.1%
Unilever Indonesia	UNVR IJ	7,100	270,865	6.1%	35.2	33.4	141.7%	139.9%	23.8	22.8	13.6%	2.8%
Kalbe Farma	KLBF IJ	1,155	54,141	4.1%	20.9	19.5	15.2%	15.1%	12.7	11.7	2.5%	2.9%
Average			514,203	8.8%	27.9	26.2	82.3%	81.3%	17.9	17.0	8.7%	3.2%

Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2014A	2015A	2016A	2017A	2018A
Net revenue	3,339	3,604	3,493	3,161	3,612
Cost of sales	(2,193)	(2,135)	(2,089)	(1,830)	(1,968)
<b>Gross profit</b>	<b>1,146</b>	<b>1,468</b>	<b>1,404</b>	<b>1,330</b>	<b>1,643</b>
SG&A Expenses	(960)	(1,040)	(1,165)	(1,144)	(1,407)
<b>Operating profit</b>	<b>186</b>	<b>428</b>	<b>239</b>	<b>187</b>	<b>236</b>
Net interest	(59)	(85)	(61)	(54)	(44)
Forex gain (loss)	(4)	(9)	(0)	(1)	(0)
Others	13	13	38	13	23
<b>Pre-tax income</b>	<b>138</b>	<b>337</b>	<b>219</b>	<b>141</b>	<b>200</b>
Income tax	(34)	(74)	(38)	(31)	(50)
Minority interest	(0)	(0)	(1)	1	0
<b>Net income</b>	<b>103</b>	<b>263</b>	<b>181</b>	<b>110</b>	<b>150</b>

Balance Sheet (Rp bn)	2014A	2015A	2016A	2017A	2018A
Cash & equivalent	44	776	494	475	372
Receivable	453	932	931	871	1,023
Inventory	330	343	410	385	519
Other current assets	62	39	41	65	62
<b>Total current assets</b>	<b>889</b>	<b>2,090</b>	<b>1,876</b>	<b>1,795</b>	<b>1,976</b>
Fixed assets	870	1,007	1,222	1,247	1,424
Goodwill	0	0	0	0	0
<b>Total non-current assets</b>	<b>975</b>	<b>1,121</b>	<b>1,408</b>	<b>1,442</b>	<b>1,616</b>
<b>Total assets</b>	<b>1,863</b>	<b>3,211</b>	<b>3,285</b>	<b>3,238</b>	<b>3,592</b>
ST loans	547	658	699	518	572
Payable	435	465	418	460	610
Other payables	50	63	69	77	117
Current portion of LT loans	42	48	32	28	16
<b>Total current liab.</b>	<b>1,090</b>	<b>1,291</b>	<b>1,221</b>	<b>1,086</b>	<b>1,316</b>
Long term loans	70	88	48	20	4
Other LT liab.	40	56	64	77	85
<b>Total liabilities</b>	<b>1,201</b>	<b>1,435</b>	<b>1,332</b>	<b>1,182</b>	<b>1,405</b>
Equity	54	850	850	853	853
Retained earnings	199	468	600	671	788
Minority interest	1	1	23	37	28
<b>Total SHE + minority int.</b>	<b>662</b>	<b>1,777</b>	<b>1,952</b>	<b>2,055</b>	<b>2,187</b>
<b>Total liabilities &amp; equity</b>	<b>1,863</b>	<b>3,211</b>	<b>3,285</b>	<b>3,238</b>	<b>3,592</b>

Source: Company, Indo Premier



Cash Flow Statement (Rp bn)	2014A	2015A	2016A	2017A	2018A
Net income	186	428	239	187	236
Depr. & amortization	49	33	39	44	46
Changes in working capital	(342)	(387)	(164)	113	(95)
Others	15	(147)	(102)	(103)	(82)
<b>Cash flow from operating</b>	<b>(92)</b>	<b>(73)</b>	<b>12</b>	<b>240</b>	<b>105</b>
Capital expenditure	(182)	(108)	(164)	(55)	(204)
Others	(34)	(127)	(84)	17	(6)
<b>Cash flow from investing</b>	<b>(216)</b>	<b>(235)</b>	<b>(247)</b>	<b>(37)</b>	<b>(210)</b>
Loans	301	146	(10)	(212)	28
Equity	55	796	0	0	0
Dividends	(43)	0	(53)	(36)	(39)
Others	(25)	(13)	13	17	4
<b>Cash flow from financing</b>	<b>289</b>	<b>929</b>	<b>(50)</b>	<b>(230)</b>	<b>(7)</b>
<b>Changes in cash</b>	<b>(19)</b>	<b>622</b>	<b>(289)</b>	<b>(26)</b>	<b>(110)</b>

Key Ratios	2014A	2015A	2016A	2017A	2018A
Gross margin	34.3%	40.7%	40.2%	42.1%	45.5%
Operating margin	5.6%	11.9%	6.8%	5.9%	6.5%
Pre-tax margin	4.1%	9.4%	6.3%	4.5%	5.5%
Net margin	3.1%	7.3%	5.2%	3.5%	4.2%
ROA	N/A	10.4%	5.6%	3.4%	4.4%
ROE	N/A	21.6%	9.7%	5.5%	7.1%
ROIC	N/A	14.1%	8.1%	4.9%	6.1%
Acct. receivables TO (days)	24.7	70.1	97.3	104.1	95.7
Inventory TO (days)	27.5	57.5	65.8	79.3	83.8
Payable TO (days)	36.2	76.8	77.1	87.6	99.1
Debt to equity	99.4%	44.7%	39.9%	27.5%	27.1%
Interest coverage ratio (x)	3.1	4.8	2.7	2.7	4.2
Net gearing	92.7%	1.0%	14.6%	4.4%	10.1%

Source: Company, Indo Premier

## 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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