

Proves Agile Business Expansion

KINO is a fast-moving consumer goods (FMCG) company whose business segments subsuming personal care products, food & beverages, and pharmaceuticals with a focus on strengthening its brands in the mass market. Besides, portfolio diversification is one of KINO's strategies to support inorganic growth. Since its initial incorporation, KINO is committed to sustainable innovation in creating leading products and new market segments whose distribution networks across Indonesia and overseas markets.

3Q19 Outstanding Performance amid Soft Consumption

In 3Q19, KINO posted the revenue growth of Rp1.26 trillion or a 41% y-y increase and a 3% q-q gain. This growth was driven by its business segments. The personal care segment in 3Q19 contributed 44% to revenues or a 21% y-y increase. Meanwhile, the beverage segment contributing 38% to revenues recorded strong growth of 17% y-y. The food and pharmaceutical segments succeeded in posting revenues of Rp119 billion and Rp106 billion, respectively. The two segments posted soaring sales on the back of existing products with high upside potential, while the pharmaceutical segment is supported by sales of food supplement syrup, "Lola Remedios" sold in the Philippines. Furthermore, the new segment of pet food posted revenues of Rp8 billion contributing less than 1% to revenues. Despite consumers' soft consumption, KINO was capable of successfully securing double-digit growth.

Reliance on A&P to Increase Brand Awareness

KINO is committed to innovation and carries out strategic and proper marketing activities in order to accelerate product penetration as the FMCG industry faces rapid changes and low barriers to entry. In 9M19, the A&P costs reached Rp703 billion or a 27.5% y-y increase or 20% of sales. Based on our discussions with KINO investor relations, the A&P expenses are one of the company's biggest expenses and their proportions are likely to keep increasing as they are keys to boost demand. In addition, interest expenses also increased by 34% y-y equal to Rp55 billion. Albeit the increasing A&P expenses, KINO still posted cumulative growth in operating profits and net profits by 65% y-y and 320% y-y, respectively. The surging growth was attributable to KINO's purchase of PT KFI (Kino Food Indonesia) shares. Excluding the corporate action, its 9M19 bottom-line grew by 69% y-y or equal to Rp117 billion.

Initiate BUY with Price Target of IDR4,680/Share

We view that the key to KINO's sound performance is all its business segments posting buoyant sales and its agility to make fortunes from opportunities. Despite Indonesia's stagnant economic growth, intense competition in FMCG industry, KINO is proven to attain the double-digit topline. Thus, we initiate BUY for KINO shares with the target price of Rp4,680 based on a 10-year DCF valuation. Our WACC assumption of 8.23% based on assumption as follows: Risk-free (Rf) rate of 7.1%; market risk premium (MRP) of 5.2%, terminal growth rate of 5%, and equity beta of 0.3x.

PT Kino Indonesia Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	3,612	4,649	5,468	6,460
<i>Growth (%)</i>	14.3%	28.7%	17.3%	18.2%
EBIT	234	367	394	544
Net Profit	150	505	285	420
EPS (IDR)	105	353	200	294
P/E	26.6x	11.1x	19.6x	13.3x
P/BV	1.8x	2.1x	1.9x	1.7x
EV/EBITDA	17.3x	16.1x	14.4x	10.7x
ROE (%)	6.1%	20.6%	10.2%	13.6%
ROA (%)	3.6%	12.1%	5.9%	7.8%
Dividend Yield	1.0%	0.8%	1.1%	1.2%

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Initiation Report | Nov 21, 2019

BUY

Dec. 2020 Price Target (IDR)	4,680
Consensus Price (IDR)	N/A
TP to Consensus Price	N/A
vs. Last Price	16.05%

Shares data

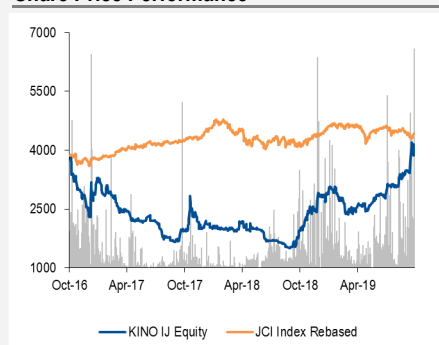
Last Price (IDR)	4,040
Price Date as of	Oct. 17, 2019
52 wk Range (Hi/Lo)	4,200 / 1,500
Free Float (%)	10.26
Outstanding sh.(mn)	1,429
Market Cap (IDR bn)	5,557
Market Cap (USD mn)	395
Avg. Trd Vol - 3M (mn)	0.70
Avg. Trd Val - 3M (bn)	2.46
Foreign Ownership	14.8%

Consumer Goods Industry

Cosmetics and Household

Bloomberg	KINO IJ
Reuters	KINO.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	44.3%	19.9%	46.9%	164.1%
Rel. Ret.	44.5%	20.8%	47.1%	159.0%

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Summary of Financials

INCOME STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Sales	3,612	4,649	5,456	6,447
<i>Growth</i>	14.3%	28.7%	17.3%	18.2%
COGS	(1,968)	(2,475)	(3,086)	(3,454)
Gross Profit	1,643	2,174	2,369	2,993
<i>Gross Margin</i>	45.5%	46.8%	43.4%	46.4%
Operating Expenses	(1,409)	(1,807)	(1,975)	(2,450)
EBIT	234	367	394	544
<i>EBIT Margin</i>	6.5%	7.9%	7.2%	8.4%
Depreciation	47	57	78	86
Interest Expenses	(61)	(77)	(80)	(89)
EBT	200	587	347	493
Income Tax	(50)	(77)	(59)	(69)
Minority Interest	-	(5)	(3)	(4)
Net Profit	150	505	285	420
<i>Growth</i>	36.0%	236.1%	-43.5%	47.2%
<i>Net Profit Margin</i>	4.2%	10.9%	5.2%	6.5%

PROFITABILITY & STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	6.1%	20.6%	10.2%	13.6%
ROA	3.6%	12.1%	5.9%	7.8%
ROIC	6.3%	8.6%	8.2%	10.5%
Cash Dividend (IDR bn)	39	46	60	67
Dividend Yield	0.96%	0.82%	1.07%	1.20%
Payout Ratio	26%	30%	12%	23%
DER	26.3%	37.0%	38.2%	36.2%
Net Gearing	62%	72%	68%	60%
LT Debt to Equity	0.2%	0.0%	0.1%	0.1%
Debt Ratio	16.0%	21.3%	22.4%	20.2%
Financial Leverage	169.8%	172.4%	170.6%	179.1%
Current Ratio	150.1%	121.3%	120.4%	118.7%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	1,429	1,429	1,429	1,429
Share Price (IDR)	2,800	3,920	3,920	3,920
Market Cap (IDR tn)	4.0	5.6	5.6	5.6

BALANCE SHEET

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	240	306	412	582
Receivables	968	1,157	1,040	1,242
Inventories	519	659	685	829
Total Current Assets	1,976	2,305	2,352	2,940
Net Fixed Assets	1,424	2,185	2,390	2,666
Other Non Current Asset	192	235	218	233
Total Assets	3,592	4,725	4,961	5,838
Payables	545	690	681	876
ST Bank Loan	572	1,004	1,107	1,178
LT Debt	4	1	4	3
Total Liabilities	1,405	2,013	2,053	2,578
Capital Stock + APIC	853	853	853	853
Retained Earnings	788	1,255	1,480	1,833
Shareholders' Equity	2,187	2,711	2,907	3,260

VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price/Earnings	26.6x	11.1x	19.6x	13.3x
Price/Book Value	1.8x	2.1x	1.9x	1.7x
Price/Sales	1.1x	1.2x	1.0x	0.9x
PE/EPS Growth	0.7x	0.0x	-0.5x	0.3x
EV/EBITDA	17.3x	16.1x	14.4x	10.7x
EV/EBIT	20.8x	18.6x	17.3x	12.4x
EV (IDR bn)	4,853	6,815	6,816	6,715
Sales CAGR (3-Yr)	-	-	-	21.3%
EPS CAGR (3-Yr)	-	-	-	40.9%
Basic EPS (IDR)	105	353	200	294
Diluted EPS (IDR)	105	353	200	294
BVPS (IDR)	1,531	1,898	2,035	2,282
Sales PS (IDR)	2,528	3,255	3,819	4,513
DPS (IDR)	27	32	42	47

CASH FLOW STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Operating Cash Flow	105	59	372	541
Investing Cash Flow	(210)	(410)	(284)	(373)
Financing Cash Flow	(7)	315	18	2
Net Changes in Cash	(112)	(36)	106	170

TOP OWNERSHIP

By Geography	% Shareholders		%
Indonesia	85.2	Kino Investindo	69.5
Unknown	10.1	DBSSG S/A Nusantara	10.7
United States	4.3	Sanusi Harry	9.5
United Kingdom	0.3	Matthews International	4.0

Source: Company Data, NHKS Research

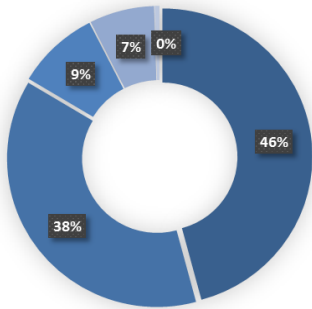
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Key Charts

KINO's Revenue Breakdown

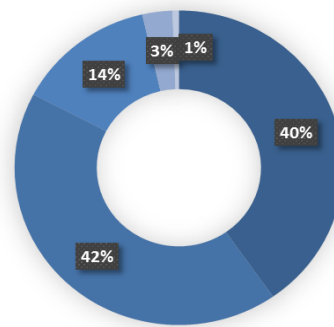
■ Personal Care ■ Beverages ■ Food ■ Pharmaceuticals ■ Pet Food



Source: Company Data, NHKS Research

KINO's Cost per Total Sales

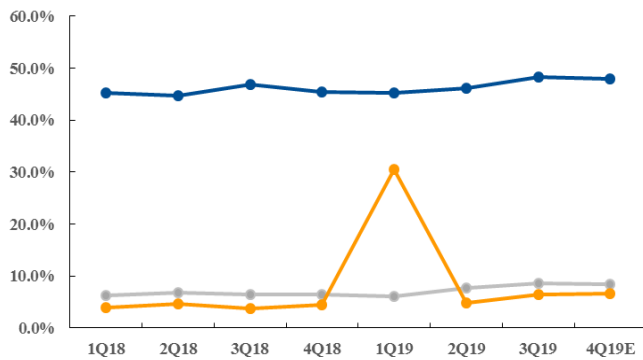
■ Personal Care ■ Beverages ■ Food ■ Pharmaceutical ■ Pet Food



Source: Company Data, NHKS Research

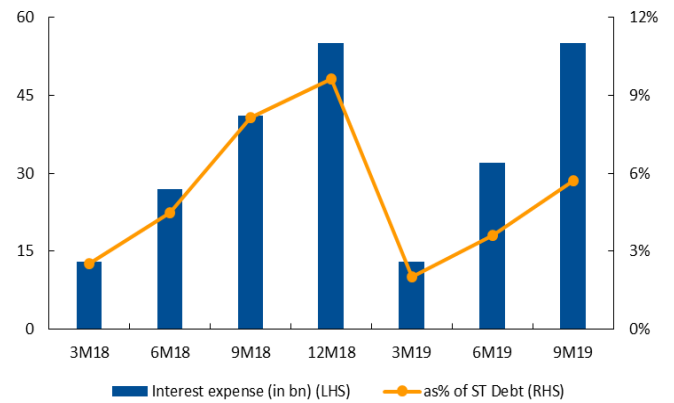
KINO's Margin Ratio

— Gross Profit Margin — EBIT Margin — Net Profit Margin



Source: Company Data, NHKS Research

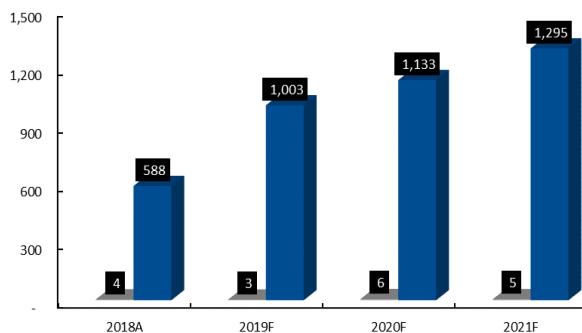
KINO's Interest Expense



Source: Company Data, NHKS Research

KINO's Debt Portion

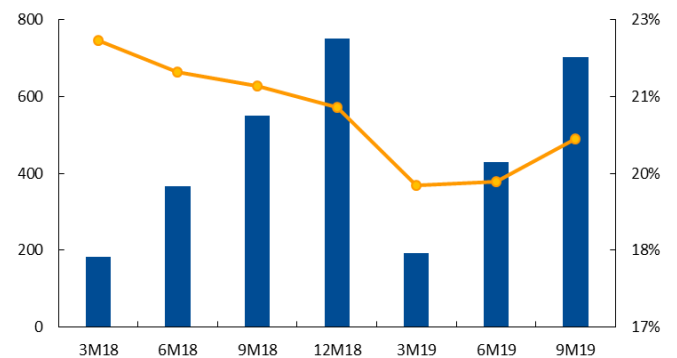
■ ST Debt (bn) ■ LT Debt (bn)



Source: Company Data, NHKS Research

KINO's Budget for Advertising & Promotions

■ Advertising and Promotion — A&P % Sales



Source: Company Data, NHKS Research

Company Background

Founded in 1991, KINO Group, managed by Harry Sanusi, started its business by distributing Cap Kaki Tiga remedy drink products. PT Kino Indonesia is a fast-moving consumer goods company, producing personal-care products, food & beverages, and pharmaceuticals. In 1997, KINO launched its first product, "Kino Candy" —a soft candy with a coffee flavor that was popular at that time. In 2000, KINO diversified while expanding its portfolios to personal-care product by launching Ovale. Another to Ovale, KINO also has popular personal-care products such as Ellips and Resik V. Ellips is one of Kino's popular hair-care product in soft capsules, while Resik V is a feminine hygiene product.

KINO, in 2003, expanded its business portfolio by penetrating baby personal-care products by launching "Sleek baby". The new products embody KINO's awareness of demands for child hygiene and cares. In less than 10 years, KINO managed beverage businesses and obtained license from Wen Ken Drug Co. (Pte) Ltd to produce and sell "Cap Kaki Tiga". Another to Cap Kaki Tiga, it also produces beverage variants such as Cap Panda, Panther, and Segar Sari.

In the same year, KINO in collaboration with Japan-headquartered Morinaga & Company Limited from Japan established a JV company named PT Morinaga Kino Indonesia (PT Kino Food Indonesia) and launched its products such as Hi-Chew, Snack It. In early 2019, PT Kino Indonesia bought all shares owned by Morinaga & Co., Ltd. so that it officially becomes the major shareholder party, controlling PT Kino Food Indonesia.

On Dec. 11th, 2015 PT Kino Indonesia performed IPO on the Indonesia Stock Exchange by establish par value of Rp3,800 per share. Kino Indonesia released 228.57 million shares to public or equal to 16%.

PT Kino Indonesia also expanded its business portfolio by producing pharmaceutical products and personal-care products. Its pharmaceutical products subsume balms, curate medication, ointment, and new drugs. Of note, it also acquires the herbal brand of Dua Putri Dewi, to develop herbal products. Meanwhile, in the personal care segment, KINO acquired the business cosmetodermatology company, namely Ristra.

Kino, in 2018, launched it latest innovation in dog food, Pro Balance, and cat food: Pro Diet. KINO cooperated with Wah Kong Corporation Sdn Bhd (WKC) to establish two joint ventures, namely PT Kino Pet World Indonesia and PT Kino Pet World Marketing Indonesia. KINO figured out promising opportunity, especially in the pet food industry occupying broader markets.

Besides, targeting the domestic market, KINO is also actively exporting its products to overseas markets, especially in Indo-China regions as it collaborates with foreign companies. It consistently innovates new products, with effective product marketing.

Company Background

Indonesia's fast-moving consumer goods industry post moderate growth. Besides, FMCG industry with potential market encourages its players to innovate their products and make inspiring promotions to meet consumers' demands and dominate markets. The industry's target is in line with KINO's consistent innovation, popularizing varied products to consumers.

KINO's product lines



Source: Company Data, NHKS Research

KINO currently has 6 manufacturing facilities located in Java Island. Manufacturing facilities producing personal-care products are located in Cikembar dan Citeureup covering on areas of 27,118 sqm with the total utility of 46%. Manufacturing facilities producing beverage products are located in Cikande, Cidahu, Pandaan built on areas of 37,151 sqm with total utility of 52%. In addition, manufacturing facilities in Sayung and Cikande respectively produce confectionary food and pharmaceutical products. KINO also has 9 direct subsidiaries, 6 indirect subsidiaries, and 1 associated entities.

KINO's Subsidiaries :

Associated Entities	Business Type	Domicile
Malee Kino (Thailand) Co. Ltd	Trading, Construction, Industrial, Land Transportation, Agribusiness, Printing, Workshop, and Service.	Thailand

Company Background

KINO's Subsidiaries :

Directly through the company	Business Type	Domicile
PT Dutalestari Sentratama	General trading, distributor, industry/factory, and service provider.	Indonesia
Kino International Pte. Ltd	Supporting service business	Singapore
PT Ristra Laboratoris Indonesia	Industrial, trading, land transportation, warehouse and service.	Indonesia
PT Kino Food Indonesia	Manufacturing and sales of food products.	Indonesia
PT Ristra Klinik Indonesia	Providing body and health care services and trading.	Indonesia
PT Kino Ecomm Solusindo	Trading via electronic system, mail or internet order (e-commerce).	Indonesia
PT Kino Malee Indonesia	Manufacture of soft drinks and other beverages.	Indonesia
PT Kino Pet World Indonesia (KPI)	Industrial and trading of pet food products.	Indonesia
PT Kino Pet World Marketing Indonesia (KPMI)	Trading and distribution of pet food products.	Indonesia

Indirect Subsidiaries	Business Type	Domicile
Kino Care (M) Sdn. Bhd	Trading of household and personal care products.	Malaysia
Kino Consumer Philippines Inc.	Selling agent of consumer goods products.	Philippines
Kino Vietnam Co. Ltd	Export and import of cosmetic products.	Vietnam
Kino Care Consumer (Cambodia) Co. Ltd	Sales, marketing and distribution of consumer goods products.	Cambodia
PT Kino Malee Trading	Trading	Indonesia
Linanda Consumer India Pvt. Ltd	Industrial and Trading	India

Source: Company Data, NHKS Research

Management Team

Board of Directors' Profiles

President Director: **Harry Sanusi**

Mr. Harry Sanusi is the founder and major shareholder of KINO Group and holds various positions in KINO Group. In 1991, Mr. Harry Sanusi established its first company, PT Dutalestari Sentratama, incorporated PT Kino Sentra Industrindo in 1997. In 1999, he incorporated PT Kinocare Era Kosmetindo whose the current name is PT Kino Indonesia. Mr. Harry Sanusi has been CEO of PT Kino Indonesia Tbk. Besides, he also holds various positions at PT Dutalestari Sentratama, PT Prime Restaurant Indonesia, PT Kino Food Indonesia, Kino Consumer Philippines Inc., Kino Care (M), and Kino Vietnam Co. Ltd.

KINO's President director



Source: Company Data, NHKS Research

Independent Director: **Budi Susanto**

Mr. Budi Susanto was appointed as Independent Director of PT Kino Indonesia Tbk. Previously, Mr. Budi Susanto held the position of Promotion Manager at PT Nutrifood Indonesia from 2002 to 2004. He joined PT Kino Aid Indonesia in 2004, and in 2006 was assigned as Brand Activation Manager and then became Brand Manager and Marketing Manager in 2008. Then, he was appointed as Sales and Marketing Manager of PT Kino Indonesia Tbk in 2009, Head Division Beverage in 2012, General Manager of Product Innovation in 2015 and Product Innovation Director in 2017. Mr. Budi Santoso also has no affiliation with the Board of Commissioners, Directors, and Major and Controlling Shareholders.

Management Team

Board of Directors' Profiles

Lukas Nugroho Yuwono

Mr. Lukas Nugroho has been appointed as one of the Board of Directors since 2018. Before joining the Company, he served as Internal Audit and System Development in 2005 at PT Hartono Istana Teknologi. In 2007, Mr. Lukas Nugroho joined the company and served as Controller at Kino Consumer Philippines Inc., then in 2009 he served as Finance & Accounting Manager, Finance & Accounting General Manager in 2013, and Administration Director in 2017. Since 2018, he was appointed to be a director position at PT Ristra Laboratoris Indonesia, PT Ristra Klinik Indonesia, PT Kino Ecomm Solusindo, PT Kino Pet World Indonesia and PT Kino Marketing Indonesia. Mr. Lukas Nugroho Yuwono also has no affiliation with members of the Board of Commissioners, Directors, or Major and Controlling Shareholders

Budi Muljono

Mr. Budi Muljono has been appointed as one of the Board of Directors since 2018. Before joining the company, he served as Assistant Manager-Financial Analyst of PT TCP Internusa in 2008, and Corporate Finance Manager of PT Surya Semesta Internusa Tbk in 2012. Then, he joined the company in 2017 as a Corporate Finance Division Head and Company Secretary in 2018. Since 2018, he has been appointed as Director of Kino International Pte. Ltd, PT Kino Malee Indonesia, PT Kino Malee Trading, Malee Kino (Thailand) Co. Ltd. In 2019, he was also appointed as director of Kino Care Consumer (Cambodia) Co. Ltd. Mr. Budi Muljono also has no affiliation with members of the Board of Commissioners, Directors, or Major and Controlling Shareholders.

Satria Bakti

Mr. Satria Bakti has been appointed as one of the Board of Director of PT Kino Indonesia Tbk since 2019. Before joining the company, he served as Product Manager of PT Megasurya Mas in 2004, Product Group Manager of PT Siantar Top Tbk in 2005, Brand General Manager of Matrix & L'Oreal Professionel to General Manager Business Development - PT L'Oreal Indonesia's Professional Product Division from 2007 to 2018. Then, he also served as Vice President of PT Green Asia Food Indonesia in 2018. Mr. Satria Bakti also has no affiliation with members of the Board of Commissioners, Directors, and Major and Controlling Shareholders.

KINO's Board of Director



Budi Susanto



Lukas Nugroho



Budi Muljono



Satria Bakti

Management Team

Board of Commissioners' Profiles

President Commissioner (Independent Commissioner) : **Alfonso Djakaria Rahardja**

Mr. Alfonso Djakaria Rahardja was appointed as President Commissioner and Independent Commissioner of PT Kino Indonesia Tbk since 2015. Before joining Kino, in 1987, he served as General Manager of PT Sanghyang Perkasa, then in 1990 served as General Manager of PT Golden Star. In 1992, he served as Account Director of PT Inter Admark Dentsu Indonesia and Managing Director of PT Fortune Indonesia in 2000. Before serving as Kino's Commissioner and Nomination and Remuneration Committee, he served as a director of PT Kino Indonesia Tbk from 2004 to 2014. Mr. Alfonso Djakaria Rahardja has no affiliation with members of the Board of Commissioners, Directors, or Major and Controlling Shareholders.

KINO's President Commissioner



Source: Company Data, NHKS Research

Independent Commissioner : **Susanto Setiono**

Mr. Susanto Setiono was appointed as Independent Commissioner of PT Kino Indonesia Tbk since 2015. Prior to joining Kino, he served as Credit Analyst of PT Astra International Inc. - Honda Division in 1982, Marketing Manager to Vice President Director of PT Gajah Surya Multifinance in 1986 , Area Manager of Bank Dagang Negara Indonesia for East Java and Bali regions in 1992, General Manager — Credit, Marketing, and Services of Dagang Nasional Indonesia Bank in 1994. He served as President Director of Bank Ganesha in 1997, Business Director of Bank Ganesha in 2010 , and Business Development General Manager of PT Equity Finance Indonesia in 2013. He currently serves as Chairman of the Audit Committee and Member of Kino's Nomination and Remuneration Audit Committee since 2015. Mr. Susanto Setiono has no affiliation with members of the Board of Commissioners, Directors and Major and Controlling Shareholders.

Management Team

Board of Commissioners' Profiles

Adjie Rustam Ramdja

Mr. Adjie Rustam Ramdja was appointed as a commissioner of PT Kino Indonesia Tbk since 2012. Prior to joining Kino, he had held positions as Director of Youth Training and Police Academy Training and Executive Director of the Jakarta Center of Law Enforcement Cooperation in 2006. Then, in 2007, he served as the Head of the Police Operations and Training SDEOPS Cooperation Bureau, the Riau Regional Police Chief in 2009, the Chief of Police Expert Staff in 2010 and the Widyaiswara Utama Sespimti Lemdikpol in 2011. Since 2015, he has also served as Kino's Nomination and Remuneration Committee. Mr. Adjie Rustam Ramdja has no affiliation with members of the Board of Commissioners, Directors, or Major and Controlling Shareholders.

Sidharta Prawira Oetama

Mr. Sidharta Prawira Oetama was appointed as Commissioner of PT Kino Indonesia Tbk since 2016. Prior to joining Kino, he served as Lead Consultant of Booz Allen & Hamilton Ltd Sydney / Melbourne / Auckland in 1997, Senior Business Analyst Goodman Fielder Ltd Sydney in 1998, Divisional Manager, Strategy and Planning - Boral Ltd Sydney Plasterboard in 2003. Various positions in general management at Fletcher Building Auckland and Formica Ltd Bangkok's Southeast Asia Managing Director in 2007, General Manager of Buildings Southeast Asia Bluescope Steel Ltd Bangkok in 2012. Currently, he has been serving as the Co-Head of Operations Team and Managing Director at the Northstar Group since 2014. Mr. Sidharta Prawira Oetama has no affiliation with members of the Board of Commissioners, Directors, or Major and Controlling Shareholders.

KINO's Board of Commissioners



Susanto Setiono



Adjie Rustam Ramdja



Sidharta Prawira Oetama

Source: Company Data, NHKS Research

Competitive Advantages

Stable Dividend Payout Ratio and Reliance on Short-Term Loans

Nearly four years after listing its shares in 2015, KINO managed to maintain a dividend payout ratio in the range of ~20% -35%. In FY18, KINO increased its payout ratio to 35% from FY17's net profits or Rp27 per share, increasing 8% from Rp25 per share. In FY19, it slightly reduced its payout ratio to 30.45% with a dividend of Rp32 per share. Based on the backdrop, we estimate that KINO is capable of maintaining its dividend payout ratio.

In 2019, KINO targets capital expenditure of ~Rp300-400 billion. Based on KINO's public expose in May 2019, the proceeds from the initial public offering in December 2015 reached Rp796.42 billion. As of June 30, 2019, KINO posted Rp772 billion worth of the proceeds from IPO or equal to 96.9%. In detail, Rp374.14 billion or 47% of the total proceeds was allocated for capital expenditure, boosting production capacity, and product development, such as innovation in new variants—especially the personal care products; 23% spent on working capital; 27% spent on purchase or brand acquisition, and capital injection, while the remaining 3% was in form of deposits and current account.

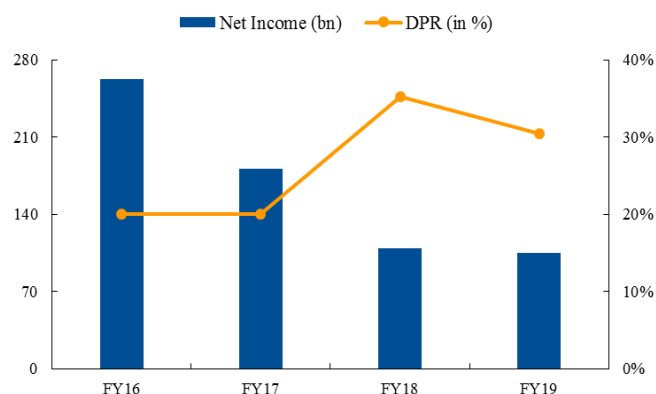
As per current condition, KINO focuses on the more expansive production capacities of its two segments: the personal care products whose factory is located in Cikembar, Sukabumi, West Java and pharmaceutical products whose factory is located in Cikande, Banten. The production capacity of personal care products increased to 42,834 kiloliters or a 3% increase from 2017, while pharmaceutical products increased to 530 kiloliters or a 67% increase from 2017.

We observe that KINO still relies on short-term loans to finance its operational activities. KINO with its aggressive business expansion is capable of paying loans spent on capital for promos and investment in production line addition. Thus, it is capable of responding to market demand. Besides, low interest rates for loans support KINO's strategy for using loans to finance its business expansion as to finance operational using loans is more suitable to KINO's current performance rather than the cost of equities.

Solid, Integrated, and Broad-Scope Distribution Networks

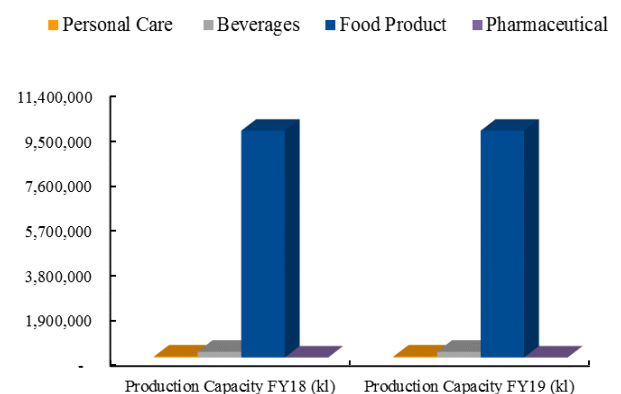
PT Dutalestari Sentratama (DLS), a subsidiary of KINO distributing KINO's products provides access to regional and international markets. It has 33 distribution branches in Indonesia, but the branches are mostly centered in Java and Bali areas with the highest population and the strongest consumption. Aside from domestic market, KINO has penetrated international markets, i.e., Asia, the Middle East, Russia, and Africa. It sells its products to such general trade as conventional stores, and modern trade—supermarkets, hypermarkets, and mini markets. Its distribution network is crucial for its business expansion regardless of digital marketing trend.

KINO's Dividend Payout Ratio



Source: Company Data, NHKS Research

KINO's Production Capacity



Source: Company Data, NHKS Research

Competitive Advantages

Market Leader of Several Products Penetrating Overseas Markets (Indo-China)

KINO's strategy to develop portfolios and identify new markets with high growth prospects encourages it to innovate and become the pioneer in order to meet consumers' demand. Although its several products such as Ellips and Cap Kaki Tiga beverages are familiar to consumers, KINO also adds a new business segment: pet food.

KINO's personal care products contributed ~44% to its total revenues. We oversee that a number of its products have secured their market shares. Ellips, one of its personal care products, as the first hair vitamins marketed in Indonesia gains popularity for its practical packaging and affordable price. Of note, Ellips dominates 80% of hair vitamins market share.

The beverages segment as the second-largest contributor to KINO's total revenues has Cap Kaki Tiga dominating 36% healthy-beverage market share, while Cap Panda dominates 22% Asian-drinks market share. We view that the beverage industry moves rapidly as varied beverage products are sold in markets due to consumers' varied preference—mainly millennials—for different beverages types and flavor. To expand its beverage segment, KINO cooperates with Thailand-headquartered Malee Group to incorporate a joint venture, PT Kino Malee Indonesia. The beverages products sold are fruit juice, low-calorie drinks, canned fruits targeting premium consumers. The cooperation is on grounds of Malee, one of the largest beverages producers in Thailand, to have branding power in Thailand's market; accordingly, KINO and Malee Group incorporated Malee Kino (Thailand) Company Limited as a Thailand--headquartered JV company selling and distributing KINO's personal care products.

KINO's new business segment is pet food. After a discussion with its investor relations team, the segment is potential for making revenues as fostering pets among millennials is the current trend. They choose cats or dogs as their pets and buy pet foods according to the nutrients balance. Observing the trend, KINO and Malaysia-headquartered Wah Kong Corporation Sdn. Bhd., incorporated two joint venture companies, PT Kino Pet World Indonesia and PT Kino Pet World Marketing Indonesia. The two joint ventures market two pet food products, namely Pro Balance (dog food) and Pro Diet (cat food) ingredients of which are human grade.

The pet food segment contributes less than 1% to KINO's revenues, but the segment in 4Q19 is likely capable of posting revenues of Rp23.5 billion or a 32.4% y-y increase from Rp17.7 billion in 2017. PT Kino Ecomm Solusindo, KINO's subsidiary, markets the pet food to Indonesia's e-commerce sites, and therefore it is easy for consumers to purchase these pet food products. PT Kino Ecomm Solusindo distributes the products to varied marketplaces albeit its less than 1% contribution to KINO's total sales. One of marketplaces to cooperate with KINO is Tokopedia selling KINO's various personal care products and with affordable prices.

To date, domestic sales are the largest contributor to KINO's revenues even though it also targets overseas markets with promising prospects. Its current export sales contribute ~11% to total revenues, and to at the export target, KINO cooperates with Cambodia-headquartered VSCP Investment Co., Ltd. to establish a joint venture, Kino Care Consumer (Cambodia) Co., Ltd., to sell and market a number of KINO's products in Cambodia's markets. In addition, KINO markets sachet-packaged food supplement syrup, Lola Remedios, in Philippines, sells Ellips in Asia and other region markets, and collaborates with Thailand-headquartered Malee Group to sell Malee's beverage products in Indonesian market and some of KINO's personal care products in Thai market. We view that KINO's business expansion strategy for cooperating with overseas company is a solution to boost revenues amid intense competition in the domestic market.

Financial Forecast and Valuation

Maintain Double-Digit Topline Growth for FY20F

We estimate KINO to be able to post revenue growth of 21.3% y-y in FY20F, supported by rising product volume and ASP in each of business lines to meet domestic and overseas demands. The 2020F growth is slightly lower than the FY19F growth reaching 33% y-y, while KINO's target falls short in the range of 25%. We are optimistic but cautious about Indonesia's 2020 stagnant economic growth of 5.2% in 2020. Besides, consumers' purchasing power is likely soft as the government plans to raise several tariffs. However, low loan rates in 2019 to be likely retained amid the volatile global state prove a boon for KINO to obtain low loan rates; accordingly, KINO's bottom line in FY2020F keeps in check.

Stable Operational Profit Margins and Solid Flow Cash Free in 2020F

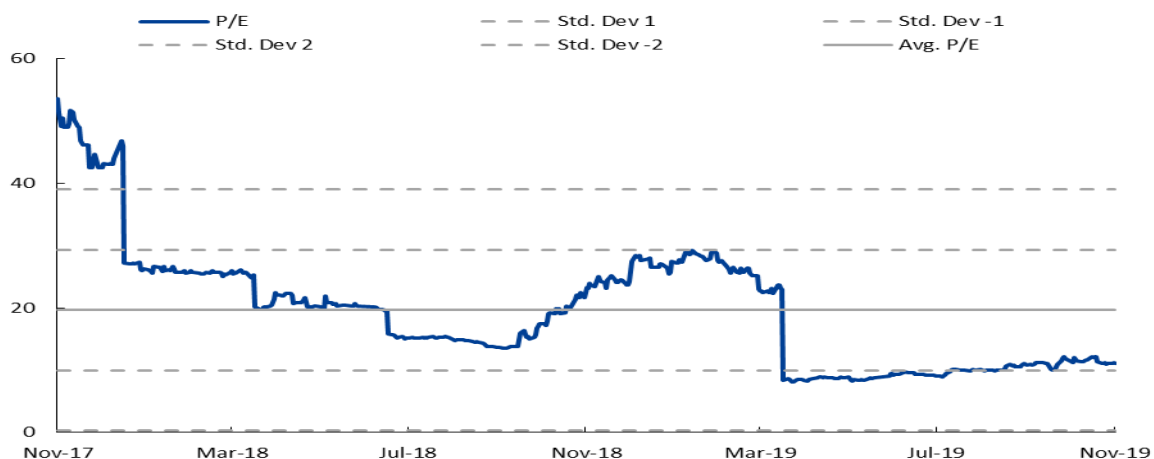
We estimate that OPM for 2019F-2021F falls short in the range of 7%-8% even though KINO, until the medium term, is still dependent on A&P to market its products to consumers as consumers' loyalty to KINO's products strengthen. Besides, the 2020 the provincial minimum wage (UMP) increasing by 8.5% (vs. 8.03% in 2019) will slightly reduce operating profits, and therefore KINO is expected to improve efficiency, leading to keeping-in-check operational profit margins.

We estimate KINO can book positive free cash flow in 2020F in line with positive operational cash flow. In 2019, we also estimate KINO to book negative cash flow equal to FY17A and FY18A. For the record, we believe KINO has strong financial stability because KINO still relies on funding from short-term debt to finance its operational activities. Until now, KINO has never taken corporate actions, such as issuing bonds, Islamic bonds and convertible bonds. In addition, we estimate that KINO only requires capital expenditure of Rp300-Rp400 billion per year to repair, maintain and increase production capacity so that KINO will have positive free cash flow based on the stable ratio of estimated CapEx to sales.

Valuation

We initiate BUY for KINO shares with the target price of Rp4,680 applying a 10-year DCF valuation. Our WACC assumption of 8.23% derives from the following assumptions: Risk-free (Rf) rate of 7.1%, market risk premium (MRP) of 5.2%, terminal growth rate of 5%, and equity beta of 0.3x. We observe that KINO's varied business portfolios strengthen its product brands and dominate domestic and overseas markets. KINO's strength will make it agile to manage revenues margins. The risks from the target price are 1) Higher-than-estimate inflation; 2) Significant declines in consumers' consumption; 3) Increasing oil prices; 4) Increases in tariffs softening consumption.

KINO's Trailing PE band



Source: Bloomberg, NHKS Research

Peers Comparison

Global Companies

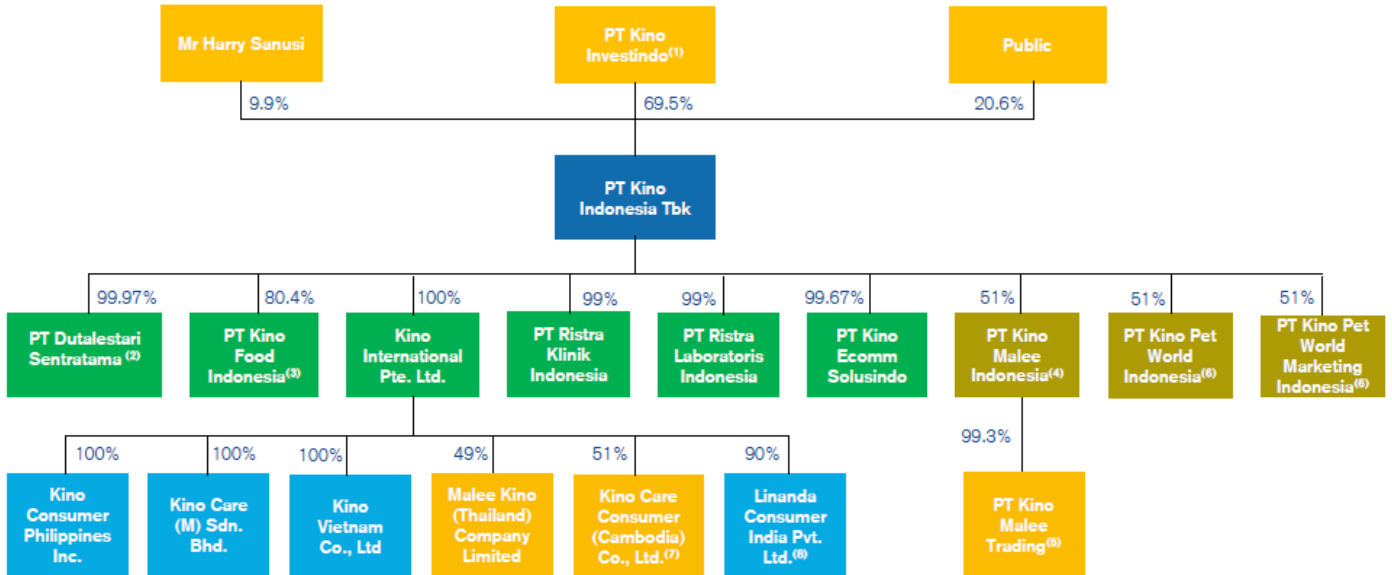
	Market Cap	Total Asset	Sales Growth LTM	Gross Margin LTM	Operating Margin LTM	Net Profit Growth LTM	ROE LTM	P/E LTM	Dividend Yield
Indonesia									
KINO INDONESIA	395	249	14.3%	45.5%	6.5%	180.2%	19.6%	12.5x	0.8%
UNILEVER INDONESIA	23,556	1,409	1.5%	50.5%	29.4%	-19.3%	92%	45.3x	2.7%
MAYORA INDONESIA	3,411	1,219	15.6%	26.6%	10.9%	-3.1%	21%	28.0x	1.3%
United States									
ULTA BEAUTY INC	14,119	3,191	14.1%	35.9%	12.7%	11.8%	38.3%	20.2x	N/A
ESTEE LAUDER	27,700	38,241	9.0%	62.8%	20.1%	-14.8%	7.4%	25.4x	2.5%
MONDELEZ INTERNATIONAL INC	78,568	62,729	0.2%	39.9%	12.8%	23.0%	14.6%	22.0x	2.0%
PROCTOR & GAMBLE	293,984	115,095	1.3%	48.6%	8.1%	-60.0%	7.6%	27.2x	2.5%
Korea									
COSMECCA KOREA CO LTD	119	283	66.3%	17.1%	3.2%	-64.6%	3.2%	33.9x	0.8%
France									
L'OREAL	149,991	44,042	3.5%	72.8%	17.9%	3.3%	15.3%	33.9x	1.6%
Sweden									
SWEDENCARE AB	116	13	16.0%	N/A	29.7%	38.4%	27.9%	40.0x	N/A

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

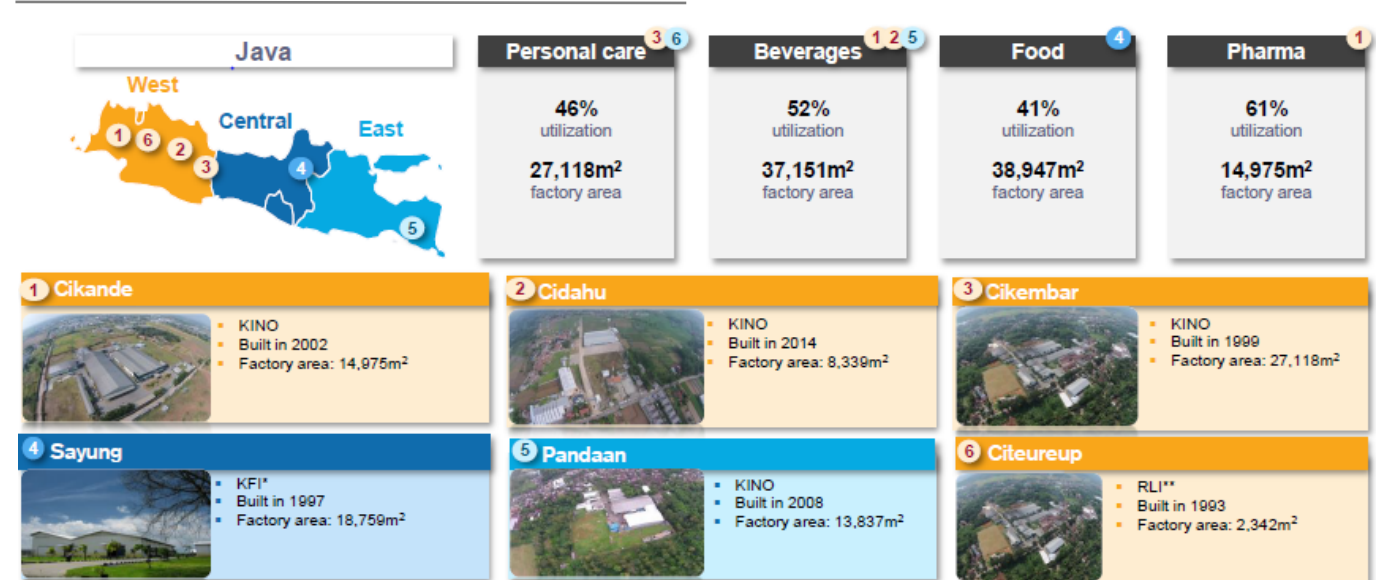
Appendices

KINO's Corporate Structure



Source: Company Presentation

KINO's Manufacturing Facilities



Source: Company Presentation

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