Kimia Farma Tbk (KAEF)

Aggressive Expansions

Company Report | Oct 22, 2018

Increment of 20.2% in Sales

KAEF's sales are projected to surge by 20.2% from IDR6.12 trillion in 2017 to IDR7.36 trillion in 2018. The increment was backed by **the sales growth of 24% y-y and 33% y-y posted by the pharma retail division in 1Q18 and 2Q18, respectively**. This division contributed 56% to KAEF's overall sales.

Net Profit, Lowered by Interest Expenses

KAEF's net profit grew by 29% from IDR66 billion in 2Q17 to IDR85 billion in 2Q18. However, we estimate that **its net profit is likely to decline by 9.5%** from IDR327 billion in 2017 to IDR296 billion in 2018. Although its EBITDA grows by 26% from IDR623 billion in 2017 to IDR783 billion in 2018, **its interest expenses are estimated to edged up 125%** from IDR86 billion in 2017 to IDR194 billion in 2018. It is attributable to the decline in net profit margin of 2018.

Expecting Soaring Sales by Making the Best Use of New Factory

Based on KAEF's capex pipeline posting a steep increment from IDR2.2 trillion in 2017 to IDR4.4 trillion in 2018, KAEF is estimated to experience **the hike in interest expenses likely to impact on its performance prior to the full operation of its Banjaran-based factory.** Its EBT is likely to be stable after its Banjaran-based factory actively operates.

Target Price of IDR2,890

We estimate a forward P/E of 51.8x (1 SD above the 3-year average of 39.5x) to obtain the target price of December of 2019. The target price implies a 2019E P/E of 67.3x. Now, KAEF is traded at a 2018E P/E of 47.1x.

Kimia Farma Tbk | Summary (IDR bn)

	2017	2018E	2019F	2020F
Sales	6,127	7,366	8,968	10,936
Sales growth	*5.4%*	*20.2%*	*21.7%*	*21.9%*
EBITDA	623	783	958	1,161
Net Profit	327	296	238	311
EPS (IDR)	59	53	43	56
EPS growth	*22.2%*	*-9.5%*	*-19.4%*	*30.4%*
BVPS (IDR)	463	513	540	583
EBITDA margin	*10.2%*	*10.6%*	*10.7%*	*10.6%*
NPM	*5.3%*	*4.0%*	*2.7%*	*2.8%*
ROE	*12.7%*	*10.4%*	*8.0%*	*9.6%*
ROA	*5.4%*	*3.7%*	*2.7%*	*3.1%*
ROIC	*8.1%*	*7.1%*	*8.5%*	*9.2%*
P/E	45.9x	47.1x	58.5x	44.8x
P/BV	5.8x	4.9x	4.7x	4.3x
EV/EBITDA	26.0x	21.0x	17.8x	15.2x
DPS (IDR)	18	16	13	17
Dividend yield	*3.6%*	*3.5%*	*2.9%*	*3.7%*

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Dec 2019 TP (IDR)	2,890
Consensus Price (IDR)	2,170
TP to Consensus Price	+33.2%
vs. Last Price	+15.1%

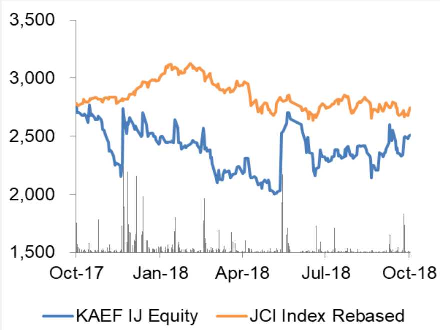
Shares data	
Last Price (IDR)	2,510
Price date as of	Oct 17, 2018
52 wk range (Hi/Lo)	2,770 / 2,000
Free float (%)	5.5
Outstanding sh.(mn)	5,554
Market Cap (IDR bn)	13,885
Market Cap (USD mn)	914
Avg. Trd Vol - 3M (mn)	0.39
Avg. Trd Val - 3M (bn)	0.95
Foreign Ownership	1.1%

Health Care

Pharmaceuticals

Bloomberg	**KAEF IJ**
Reuters	**KAEF.JK**

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-3.5%	7.3%	9.6%	-9.7%
Rel. Ret.	4.0%	6.5%	9.5%	-8.4%

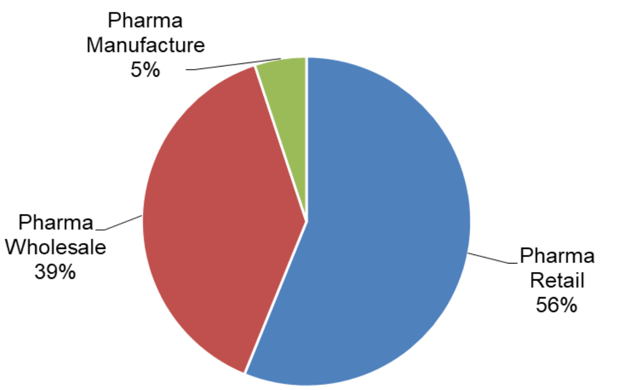
Joni Wintarja

+62 21 797 6202, ext:138

joni.wintarja@nhsec.co.id

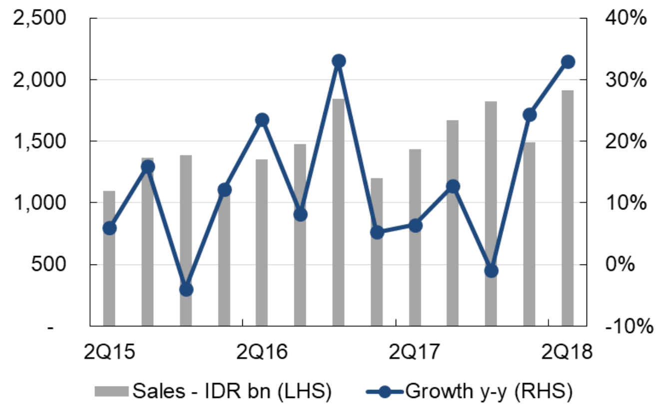
Performance Highlights

KAEF Sales Breakdown | FY2018E



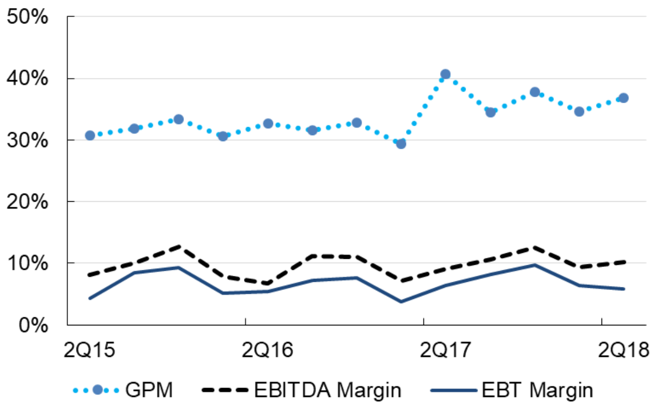
Source: Company, NHKS Research

KAEF Quarterly Sales Growth | 2Q15 - 2Q18



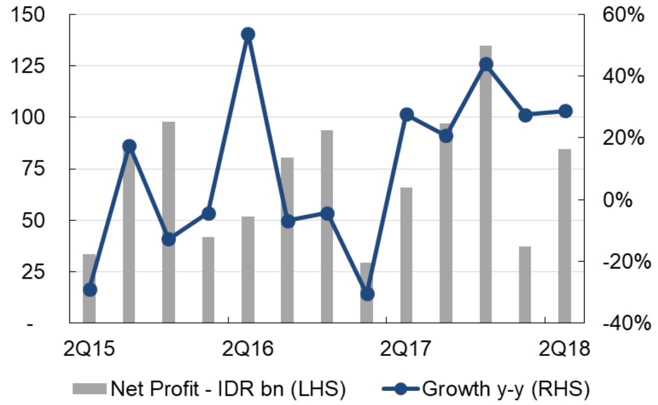
Source: Company, NHKS Research

KAEF Margin | 2Q15 - 2Q18



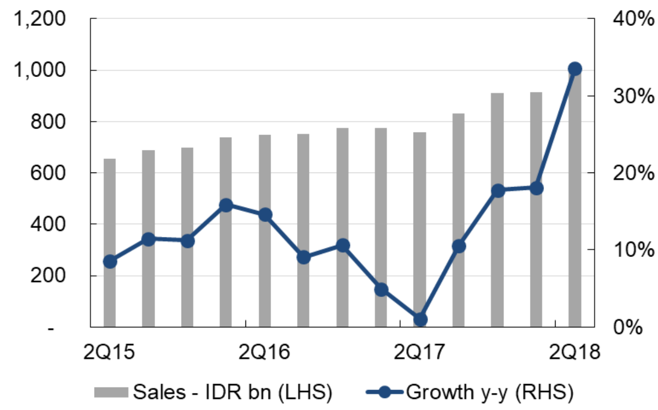
Source: Company, NHKS Research

KAEF Quarterly Profit Growth | 2Q15 - 2Q18



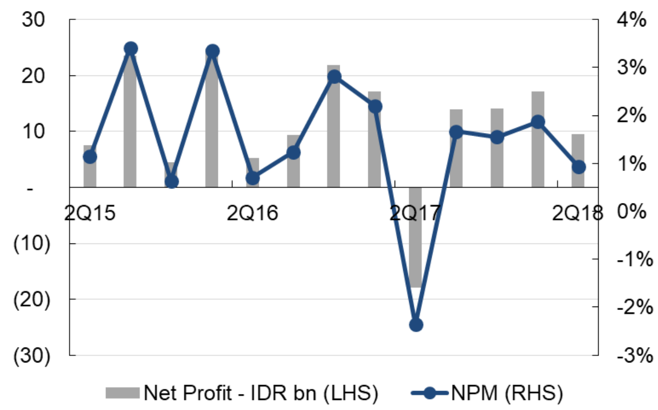
Source: Company, NHKS Research

Pharma Retail Division Sales Growth | 2Q15 - 2Q18



Source: Company, NHKS Research

Pharma Retail Division Net Profit | 2Q15 - 2Q18



Source: Company, NHKS Research

2Q18 review (IDR bn)

	2Q17	3Q17	4Q17	1Q18	2Q18					3Q18E
					Actual	Estimate	y-y	q-q	surprise	
Sales	1,438	1,666	1,826	1,490	1,912	1,598	*33.0%*	*28.3%*	*19.6%*	1,892
Gross Profit	585	576	689	516	705	541	*20.6%*	*36.5%*	*30.4%*	654
Gross Margin	*40.7%*	*34.5%*	*37.8%*	*34.7%*	*36.9%*	*33.8%*	*-3.8%*	2.2%	*3.0%*	*34.5%*
EBIT	109	155	199	96	149	122	*36.9%*	*55.2%*	*22.9%*	176
EBIT Margin	*7.6%*	*9.3%*	*10.9%*	*6.5%*	*7.8%*	*7.6%*	*0.2%*	1.4%	*0.2%*	*9.3%*
EBITDA	131	177	229	140	194	144	*47.6%*	*38.3%*	*35.0%*	199
EBITDA Margin	*9.1%*	*10.6%*	*12.5%*	*9.4%*	*10.2%*	*9.0%*	*1.0%*	0.7%	*1.2%*	*10.5%*
Net Profit	**66**	**97**	**135**	**37**	**85**	**78**	***28.7%***	***127.9%***	***8.3%***	**69**
Net Margin	*4.6%*	*5.8%*	*7.4%*	*2.5%*	*4.4%*	*4.9%*	*-0.1%*	1.9%	*-0.5%*	*3.6%*

Source: Bloomberg, NHKS research

Earnings revision (IDR bn)

		2018E	2019F	2020F
Sales	-Revised	7,366	8,968	10,936
	-Previous	6,879	7,531	8,205
	-Change	*7.1%*	*19.1%*	*33.3%*
Gross Profit	-Revised	2,658	3,235	3,945
	-Previous	2,474	2,623	2,945
	-Change	*7.4%*	*23.4%*	*33.9%*
Gross Margin	-Revised	*36.1%*	*36.1%*	*36.1%*
	-Previous	*36.0%*	*34.8%*	*35.9%*
EBIT	-Revised	648	789	962
	-Previous	533	498	630
	-Change	*21.4%*	*58.3%*	*52.6%*
EBIT Margin	-Revised	*8.8%*	*8.8%*	*8.8%*
	-Previous	*7.8%*	*6.6%*	*7.7%*
EBITDA	-Revised	783	958	1,161
	-Previous	632	655	630
	-Change	*23.9%*	*46.4%*	*84.1%*
EBITDA Margin	-Revised	*10.6%*	*10.7%*	*10.6%*
	-Previous	*9.2%*	*8.7%*	*7.7%*
Net Profit	-Revised	296	238	311
	-Previous	357	337	523
	-Change	*-17.0%*	*-29.2%*	*-40.5%*
Net Margin	-Revised	*4.0%*	*2.7%*	*2.8%*
	-Previous	*5.2%*	*4.5%*	*6.4%*

Source: NHKS research

KAEF at A Glance

Established by the Dutch Indies Government in 1817, Kimia Farma is the first pharmaceutical industry company in Indonesia. Its initial name was NV Chemicalien Handle Rathkamp & Co. Under the policy of nationalization of ex-Dutch companies in the early of Indonesia's independence period, the Indonesian government in 1958 merged a number of pharmaceutical companies into Perusahaan Negara Farmasi (PNF) Bhinneka Kimia Farma. Then, on August 16th, 1971, PNF's legal entity was altered into a Limited Liability Company; thus, its name was changed into PT Kimia Farma (Persero).

On July 4th, 2001, PT Kimia Farma (Persero) changed its status into a listed company, PT Kimia Farma (Persero). Pursuant to the change, it was listed on Indonesia Stock Exchange with the stock code: KAEF. Having tens of year experiences, KAEF has developed into an integrated health service company in Indonesia.

KAEF's Competitiveness in the Asia Pacific

KAEF as the pharmaceutical company with the second biggest market cap. in Indonesia has a relatively higher P/E among its peers. However, it is potential for posting a double-digit growth with LTM ROE of 14.9%.

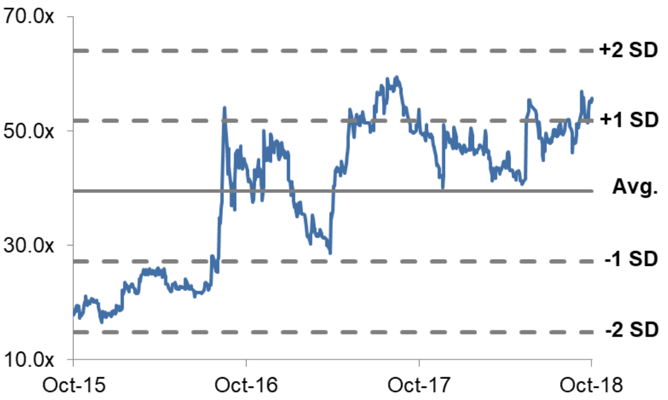
Asia Pacific Cigarette Company

Company	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
Kimia Farma	914	449	507	26	31.54%	5.1%	14.9%	39.3x	5.5x
Kalbe Farma	4,133	1,223	1,507	177	1.41%	11.7%	18.9%	26.1x	4.7x
Indofarma	907	113	115	1	N/A	0.5%	1.4%	1838.1x	26.2x
Tempo Scan Pacific	412	547	719	40	1.76%	5.6%	11.3%	11.5x	1.3x
Merck	156	62	85	10	-14.70%	11.6%	23.4%	17.6x	4.0x
Darya Varia Laboratoria	141	121	117	11	-21.22%	9.4%	13.2%	14.4x	1.9x
Millennium Pharmacon Intl	8	69	163	1	92.83%	0.8%	9.4%	5.1x	0.6x
Pyridam Farma	7	12	18	1	103.90%	3.2%	7.0%	13.4x	0.9x
India									
Merck Ltd	633	155	165	14	18.68%	8.8%	13.4%	49.5x	6.9x
Laurus Labs	554	463	310	26	-11.91%	8.4%	11.9%	24.3x	2.7x
South Korea									
Dongkook Pharmaceutical	484	350	345	39	7.19%	11.3%	16.2%	12.7x	1.9x
Hugel Inc	1,211	769	164	64	11.05%	38.8%	13.6%	18.0x	1.9x
CMG Pharmaceutical	500	106	42	1	-79.93%	1.2%	0.5%	1039.2x	5.6x
Daewoong	826	1,451	1,067	62	39.07%	5.8%	12.8%	10.2x	1.2x
Sam Chun Dang Pharm	789	220	150	14	67.04%	9.2%	10.6%	57.4x	5.7x
Bukwang Pharmaceutical	1,055	221	140	9	133.59%	6.2%	4.2%	116.9x	4.8x
Taiwan									
Center Laboratories	660	1,291	802	29	869.66%	3.7%	13.1%	23.3x	2.9x
TTY Biopharm	651	320	142	55	59.50%	38.5%	32.9%	12.3x	3.9x

Source: Bloomberg

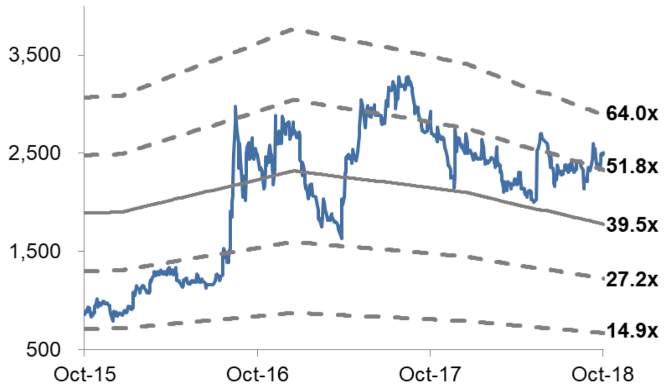
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

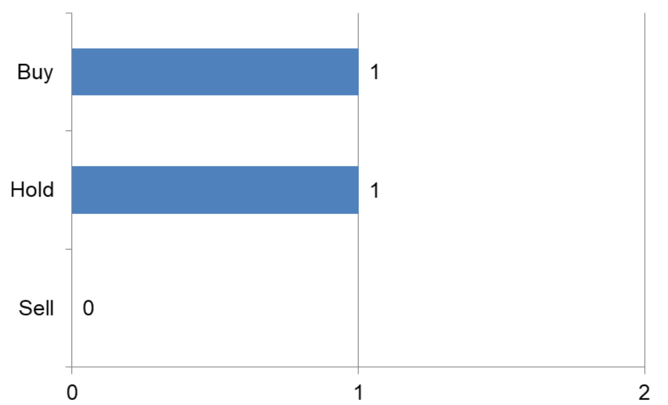
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
07/05/2017	Buy	3,280 (Dec 2017)	2,830	2,600	+15.9%	+26.1%
10/03/2017	Buy	3,280 (Dec 2018)	2,720	2,726	+20.6%	+20.3%
01/31/2018	Buy	3,280 (Dec 2018)	2,460	1,940	+33.3%	+69.1%
10/22/2018	Buy	2,890 (Dec 2019)	2,510	2,170	+15.1%	+33.2%

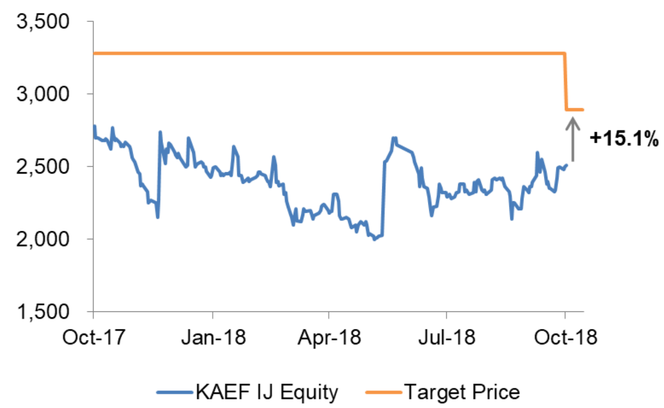
Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

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%

Summary of Financials

INCOME STATEMENT

(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Sales	**6,127**	**7,366**	**8,968**	**10,936**
Growth	*5.4%*	*20.2%*	*21.7%*	*21.9%*
COGS	(3,926)	(4,709)	(5,733)	(6,990)
Gross Profit	**2,202**	**2,658**	**3,235**	**3,945**
Gross Margin	*35.9%*	*36.1%*	*36.1%*	*36.1%*
Operating Expenses	(1,696)	(2,010)	(2,447)	(2,983)
EBIT	**506**	**648**	**789**	**962**
EBIT Margin	*8.3%*	*8.8%*	*8.8%*	*8.8%*
Depreciation	117	135	170	199
EBITDA	**623**	**783**	**958**	**1,161**
EBITDA Margin	10.2%	10.6%	10.7%	10.6%
Interest Expenses	(86)	(194)	(332)	(380)
EBT	**450**	**433**	**322**	**418**
Income Tax	(118)	(135)	(81)	(104)
Minority Interest	(5)	(2)	(3)	(3)
Net Profit	**327**	**296**	**238**	**311**
Growth	*22.2%*	*-9.5%*	*-19.4%*	*30.4%*
Net Profit Margin	*5.3%*	*4.0%*	*2.7%*	*2.8%*

PROFITABILITY & STABILITY

	2017/12A	2018/12E	2019/12E	2020/12E
ROE	12.7%	10.4%	8.0%	9.6%
ROA	5.4%	3.7%	2.7%	3.1%
ROIC	8.1%	7.1%	8.5%	9.2%
Cash Dividend (IDR bn)	98	89	72	93
Dividend Yield	3.6%	3.5%	2.9%	3.7%
Payout Ratio	30.0%	30.0%	30.0%	30.0%
DER	78.5%	121.7%	132.3%	141.1%
Net Gearing	80.7%	128.4%	139.2%	147.8%
LT Debt to Equity	34.5%	60.0%	60.3%	68.2%
Capitalization Ratio	44.0%	54.9%	57.0%	58.5%
Equity Ratio	42.2%	35.6%	33.7%	32.3%
Debt Ratio	33.1%	43.3%	44.6%	45.5%
Financial Leverage	237.0%	280.8%	296.6%	309.9%
Current Ratio	154.6%	144.6%	132.5%	131.5%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	5,554	5,554	5,554	5,554
Share Price (IDR)	2,700	2,510	2,510	2,510
Market Cap (IDR tn)	15.0	13.9	13.9	13.9

BALANCE SHEET

(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Cash	990	1,127	1,007	898
Receivables	930	1,211	1,474	1,798
Inventories	1,192	1,524	1,856	2,263
Total Current Assets	**3,662**	**4,518**	**4,993**	**5,614**
Net Fixed Assets	1,690	2,695	3,115	3,634
Other Non Current Asset	744	781	781	781
Total Assets	**6,096**	**7,994**	**8,889**	**10,029**
Payables	879	1,126	1,370	1,671
ST Debt	1,133	1,757	2,157	2,357
LT Debt	887	1,708	1,808	2,208
Total Liabilities	**3,524**	**5,147**	**5,892**	**6,792**
Capital Stock & APIC	623	623	623	623
Retained Earnings	1,946	2,144	2,293	2,533
Shareholders' Equity	**2,573**	**2,847**	**2,997**	**3,236**

VALUATION INDEX

	2017/12A	2018/12E	2019/12E	2020/12E
Price /Earnings	45.9x	47.1x	58.5x	44.8x
Price /Book Value	5.8x	4.9x	4.7x	4.3x
Price/Sales	2.4x	1.9x	1.6x	1.3x
PE/EPS Growth	121.6x	-265.4x	-129.3x	82.5x
EV/EBITDA	26.0x	21.0x	17.8x	15.2x
EV/EBIT	32.0x	25.4x	21.6x	18.3x
EV (IDR bn)	16,192	16,445	17,065	17,608
Sales CAGR (3-Yr)	10.7%	14.9%	15.6%	21.3%
EPS CAGR (3-Yr)	8.5%	4.2%	-3.8%	-1.6%
Basic EPS (IDR)	59	53	43	56
Diluted EPS (IDR)	59	53	43	56
BVPS (IDR)	463	513	540	583
Sales PS (IDR)	1,103	1,326	1,615	1,969
DPS (IDR)	18	16	13	17

CASH FLOW STATEMENT

(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Operating Cash Flow	33	(69)	58	80
Investing Cash Flow	(838)	(1,141)	(589)	(718)
Financing Cash Flow	1,147	1,347	411	528
Net Changes in Cash	**342**	**137**	**(120)**	**(109)**

OWNERSHIP

By Geography	**%**	**Shareholders**	**%**
Indonesia	98.9	Republic of Indonesia	90.0
United States	1.1	ASABRI	4.5
		Wasatch Advisor Inc	0.9
		Brinker Capital Inc	0.2