

# Kalbe Farma Tbk (KLBF)

## Banks on Rupiah Appreciation

Company Report | Dec 04 2018

### Buy

<b>Dec 2019 TP (IDR)</b>	<b>1,840</b>
Consensus Price (IDR)	1,400
TP to Consensus Price	+31.4%
vs. Last Price	+20.7%

#### Shares data

Last Price (IDR)	1,525
Price date as of	Nov 30, 2018
52 wk range (Hi/Lo)	1,785 / 1,155
Free float (%)	43.2
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	74,297
Market Cap (USD mn)	5,219
Avg. Trd Vol - 3M (mn)	22.70
Avg. Trd Val - 3M (bn)	31.58
Foreign Ownership	18.9%

#### Consumer Health

##### Pharmaceutical & Nutritional Products

Bloomberg	<b>KLBF IJ</b>
Reuters	<b>KLBF.JK</b>

#### Sales Growth of 5.5% y-y

KLBF proved its brighter performing by striving to hit sales growth of 5.5% from IDR5 trillion in 3Q17 to IDR5.29 trillion in 3Q18. The figures were higher than the sales of 2.4% y-y and 3.8% y-y in 1Q18 and 2Q18, respectively. **The distribution segment posting 3Q18 higher sales of 9%** in from IDR1.47 trillion in 3Q17 to IDR1.6 trillion in 3Q18 **was the bolster to sales growth**. Meanwhile, other segments also posted the growth hovering at 3%-5% y-y

#### Rupiah Depreciation, Stunting Margins

KLBF's net profits buoyed 4.5% from IDR563 billion in 3Q17 to IDR589 billion in 3Q18, yet its gross profit margins depleted from 48.6% in 3Q17 to 47.0% in 3Q18. **The rupiah depreciation lingers in 2018** causes KLBF's gross margin, on a quarter basis, to slide lower from 48.4% in 1Q18 to 47.8% in 2Q18, and finally settling at 47.0% in 3Q18.

#### KLBF's Performance Dependent on Rupiah's Exchange Rate

KLBF's performance was highly dependent on the rupiah's exchange rate for other's foreign currencies. It is underlined by its mostly-imported raw materials. **The estimate of the rupiah appreciation** is likely to send KLBF's margins higher in 2019.

#### Target Price of Rp1,840

We use an estimate of a forward P/E of 31.0x (0.5 SD higher than the 3-year average of 29.3x) as the basis of the valuation method to obtain the target price of December 2019. The target price implies a 2019/E P/E of 32.9x. Now, KLBF is traded at a discount on a 2018/E P/E of 29.6x.

#### Kalbe Farma Tbk | Summary (IDR bn)

	2017	2018E	2019F	2020F
Sales	20,182	21,012	22,026	23,244
<i>Sales growth</i>	4.2%	4.1%	4.8%	5.5%
EBITDA	3,608	3,531	3,761	4,045
Net Profit	2,404	2,417	2,619	2,795
EPS (IDR)	51	52	56	60
<i>EPS growth</i>	4.5%	0.6%	8.4%	6.7%
BVPS (IDR)	296	324	355	387
EBITDA margin	17.9%	16.8%	17.1%	17.4%
NPM	11.9%	11.5%	11.9%	12.0%
ROE	17.3%	15.9%	15.7%	15.4%
ROA	14.5%	13.2%	13.2%	13.0%
ROIC	16.8%	15.2%	15.1%	14.8%
P/E	33.0x	29.6x	27.3x	25.6x
P/BV	5.7x	4.7x	4.3x	3.9x
EV/EBITDA	21.5x	19.7x	18.4x	17.1x
DPS (IDR)	25	25	27	29
<i>Dividend yield</i>	1.5%	1.6%	1.8%	1.9%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

#### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-9.8%	13.0%	10.5%	-4.7%
Rel. Ret.	-5.1%	8.4%	9.2%	-6.4%

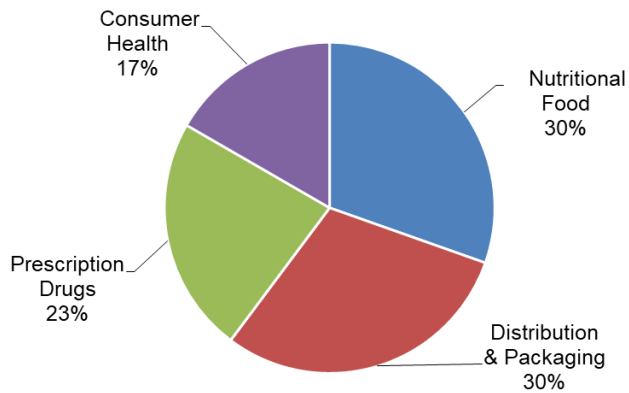
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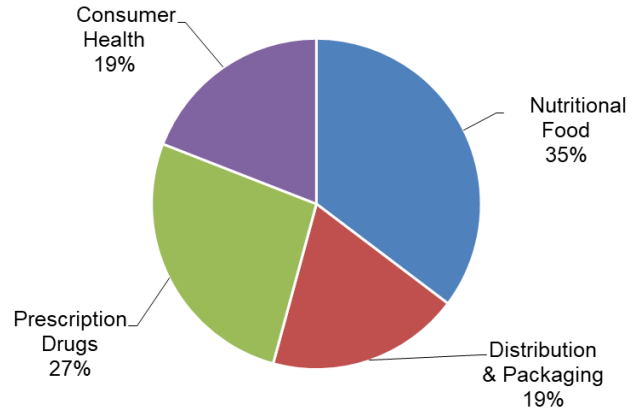
# Performance Highlights

**KLBF Sales Breakdown | FY2018E**



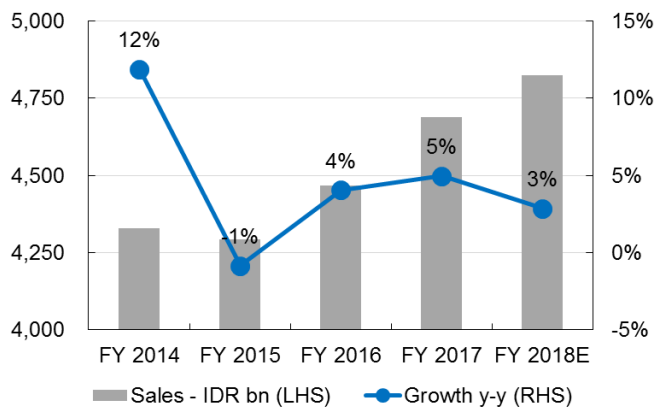
Source: Company, NHKS Research

**KLBF Gross Profit Breakdown | FY2018E**



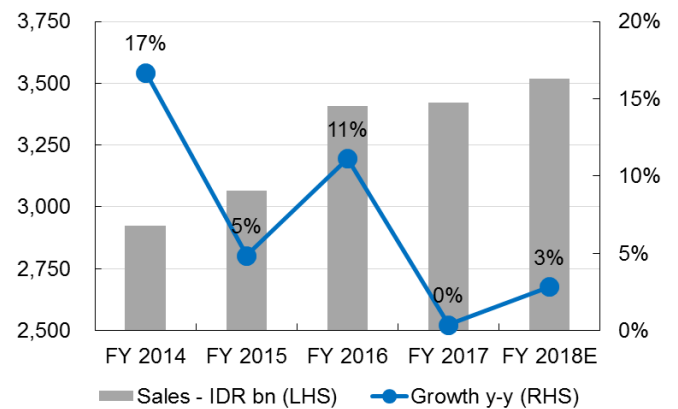
Source: Company, NHKS Research

**Prescription Sales Growth | FY2014 - FY2018E**



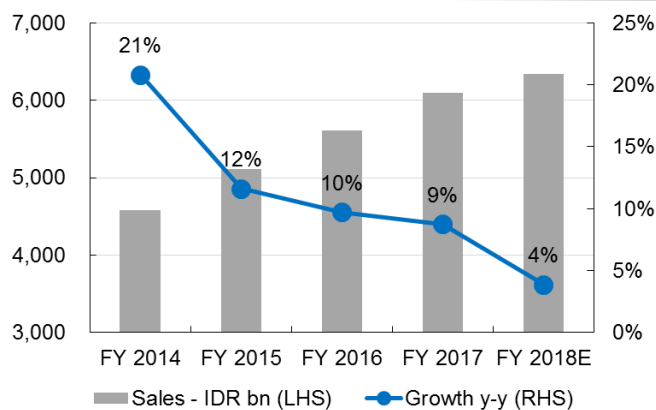
Source: Company, NHKS Research

**Consumer Health Sales Growth | FY2014 - FY2018E**



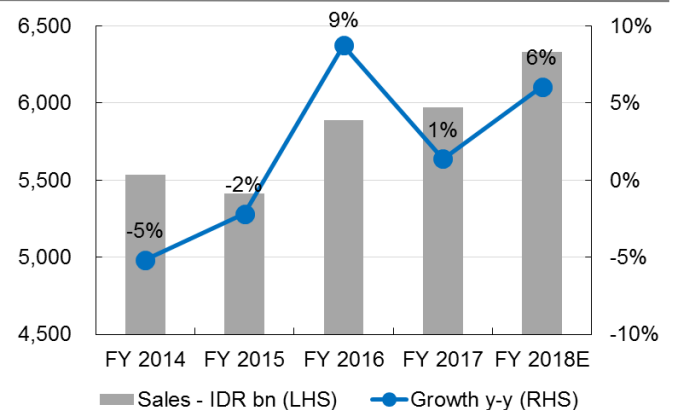
Source: Company, NHKS Research

**Nutritional Sales Growth | FY2014 - FY2018E**



Source: Company, NHKS Research

**Distribution Division Sales Growth | FY2014 - FY2018E**



Source: Company, NHKS Research

## 3Q18 review (IDR bn)

	3Q17	4Q17	1Q18	2Q18	3Q18					4Q18E
					Actual	Estimate	y-y	q-q	surprise	
Sales	5,024	5,092	5,015	5,366	5,298	5,188	5.5%	-1.3%	2.1%	5,333
Gross Profit	2,439	2,448	2,428	2,566	2,490	2,491	2.1%	-2.9%	0.0%	2,537
<i>Gross Margin</i>	48.6%	48.1%	48.4%	47.8%	47.0%	48.0%	-1.5%	-0.8%	-1.0%	47.6%
EBIT	746	836	758	799	747	773	0.2%	-6.5%	-3.3%	781
<i>EBIT Margin</i>	14.9%	16.4%	15.1%	14.9%	14.1%	14.9%	-0.7%	-0.8%	-0.8%	14.7%
EBITDA	936	953	871	915	867	883	-7.4%	-5.3%	-1.8%	879
<i>EBITDA Margin</i>	18.6%	18.7%	17.4%	17.0%	16.4%	17.0%	-2.3%	-0.7%	-0.7%	16.5%
<b>Net Profit</b>	<b>563</b>	<b>624</b>	<b>589</b>	<b>626</b>	<b>589</b>	<b>595</b>	<b>4.5%</b>	<b>-6.0%</b>	<b>-1.1%</b>	<b>613</b>
<i>Net Margin</i>	11.2%	12.3%	11.8%	11.7%	11.1%	11.5%	-0.1%	-0.6%	-0.4%	11.5%

Source: Bloomberg, NHKS research

## Earnings revision (IDR bn)

		2018E	2019F	2020F
Sales	-Revised	21,012	22,026	23,244
	-Previous	20,876	21,743	22,799
	-Change	0.6%	1.3%	2.0%
Gross Profit	-Revised	10,020	10,613	11,237
	-Previous	10,017	10,555	11,078
	-Change	0.0%	0.5%	1.4%
Gross Margin	-Revised	47.7%	48.2%	48.3%
	-Previous	48.0%	48.5%	48.6%
EBIT	-Revised	3,086	3,344	3,566
	-Previous	3,111	3,362	3,535
	-Change	-0.8%	-0.5%	0.9%
EBIT Margin	-Revised	14.7%	15.2%	15.3%
	-Previous	14.9%	15.5%	15.5%
EBITDA	-Revised	3,531	3,761	4,045
	-Previous	3,545	3,799	4,034
	-Change	-0.4%	-1.0%	0.3%
EBITDA Margin	-Revised	16.8%	17.1%	17.4%
	-Previous	17.0%	17.5%	17.7%
<b>Net Profit</b>	-Revised	<b>2,417</b>	<b>2,619</b>	<b>2,795</b>
	-Previous	2,418	2,611	2,749
	-Change	-0.1%	0.3%	1.7%
Net Margin	-Revised	11.5%	11.9%	12.0%
	-Previous	11.6%	12.0%	12.1%

Source: NHKS research

## KLBF at A Glance

Founded in 1966, KLBF has strived from a modest business started in a garage to a leading pharmaceutical company in Indonesia. In the international markets, it has strengthened its business expansion in ASEAN countries, Nigeria, and South Africa. Such business expansions acknowledge its credibility as a well-driven national pharmaceutical company in export markets.

Developing organically through mergers and acquisitions, KLBF expands and transforms its businesses into an integrated healthcare solution embodied in its four well-diversified business divisions: Prescription Pharmaceutical Division (23% contribution), Consumer Health Division (17% contribution), Nutritionals Division (30% contribution), and Distribution & Logistics Division (30% contribution). All four divisions manage comprehensive portfolios of prescription pharmaceuticals and OTC drugs, energy drink and nutrition products, and a robust distribution business serving more than one million outlets across Indonesia's archipelago.

Since its initial establishment, KLBF shrewdly acknowledges the significance of innovation with a view to driving its business growth at the excellent level. Not only does it prioritize researches and developments of generic drugs, but it also aggressively launches varied innovative consumer and nutritional products. Indeed, it initiates and builds strategic alliances with international partners, resulting in venture researches and developments of drugs curing cancers, stem cells innovation, and biotechnology researches. Supported by more than 17,000 employees, KLBF now has marked its milestone as the biggest and leading healthcare solution in Indonesia, with unrivaled marketing, branding, distribution, robust financial, and quality research and development.

### KLBF's Competitiveness in the Asia Pacific

KLBF as the largest listed pharmaceutical company in Southeast Asia has the market capitalization of USD5.1 billion. Despite its large market cap., it is successful to keep its double-digit net profit margin reining at 11.7%; accordingly, its LTM net profit margins are likely to amount to USD175 million, while its LTM ROE hovers at 18.3%.

#### Asia Pacific Pharmaceutical 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
<b>Indonesia</b>									
Kalbe Farma	5,115	1,223	1,493	175	2.19%	11.7%	18.3%	30.0x	5.2x
Kimia Farma	974	449	513	26	26.11%	5.0%	14.5%	38.6x	5.3x
Indofarma	996	113	114	(1)	66.29%	-1.1%	-3.4%	N/A	28.9x
Tempo Scan Pacific	441	547	716	38	1.07%	5.3%	10.7%	12.0x	1.2x
Merck	162	62	85	9	-26.36%	11.2%	21.2%	17.4x	3.6x
Darya Varia Laboratoria	156	121	115	11	-18.15%	9.6%	13.2%	14.5x	1.8x
Millennium Pharmacon Intl	8	69	165	1	50.84%	0.9%	10.2%	5.3x	0.5x
Pyridam Farma	7	12	17	0	-15.18%	2.6%	7.0%	15.3x	0.9x
<b>India</b>									
Merck Ltd	668	155	165	14	18.68%	8.8%	13.4%	50.0x	6.9x
Laurus Labs	592	463	310	26	-11.91%	8.4%	11.9%	24.7x	2.8x
<b>South Korea</b>									
Dongkook Pharmaceutical	504	350	358	42	20.03%	11.7%	16.5%	12.1x	1.8x
Hugel Inc	1,366	769	159	69	11.66%	43.5%	10.5%	19.2x	2.0x
CMG Pharmaceutical	476	106	43	(1)	N/A	-1.5%	-0.7%	N/A	5.3x
Daewoong	893	1,451	1,083	62	27.71%	5.8%	12.5%	10.8x	1.3x
Sam Chun Dang Pharm	854	220	147	13	50.87%	9.0%	10.2%	63.2x	6.1x
Bukwang Pharmaceutical	1,182	221	175	137	1755.88%	78.4%	46.6%	8.6x	3.0x
<b>Taiwan</b>									
Center Laboratories	859	1,291	831	80	N/A	9.7%	31.8%	10.7x	3.0x
TTY Biopharm	661	320	137	57	55.91%	41.4%	32.5%	12.0x	3.7x

Source: Bloomberg

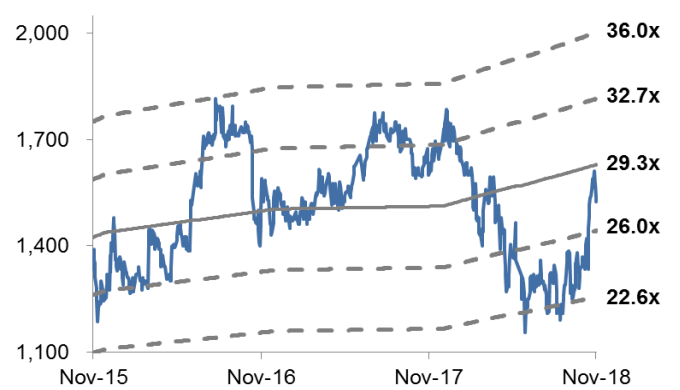
## Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

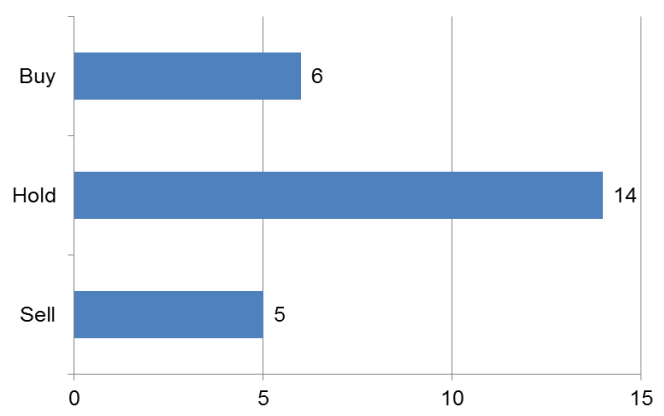
## Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
12/15/2017	Buy	2,020 (Dec 2018)	1,695	1,711	+19.2%	+18.0%
05/04/2018	Hold	1,730 (Dec 2018)	1,515	1,647	+14.2%	+5.0%
10/26/2018	Buy	1,730 (Dec 2019)	1,340	1,399	+29.1%	+23.7%
12/04/2018	Buy	1,840 (Dec 2019)	1,525	1,400	+20.7%	+31.4%

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
<b>Sales</b>	<b>20,182</b>	<b>21,012</b>	<b>22,026</b>	<b>23,244</b>
<i>Growth</i>	4.2%	4.1%	4.8%	5.5%
COGS	(10,370)	(10,991)	(11,413)	(12,007)
<b>Gross Profit</b>	<b>9,812</b>	<b>10,020</b>	<b>10,613</b>	<b>11,237</b>
<i>Gross Margin</i>	48.6%	47.7%	48.2%	48.3%
Operating Expenses	(6,653)	(6,934)	(7,269)	(7,671)
<b>EBIT</b>	<b>3,159</b>	<b>3,086</b>	<b>3,344</b>	<b>3,566</b>
<i>EBIT Margin</i>	15.7%	14.7%	15.2%	15.3%
Depreciation	449	445	417	479
<b>EBITDA</b>	<b>3,608</b>	<b>3,531</b>	<b>3,761</b>	<b>4,045</b>
<i>EBITDA Margin</i>	17.9%	16.8%	17.1%	17.4%
Interest Expenses	(26)	(19)	(14)	(11)
<b>EBT</b>	<b>3,241</b>	<b>3,235</b>	<b>3,506</b>	<b>3,741</b>
Income Tax	(788)	(779)	(844)	(901)
Minority Interest	(50)	(39)	(42)	(45)
<b>Net Profit</b>	<b>2,404</b>	<b>2,417</b>	<b>2,619</b>	<b>2,795</b>
<i>Growth</i>	4.5%	0.6%	8.4%	6.7%
<i>Net Profit Margin</i>	11.9%	11.5%	11.9%	12.0%

### PROFITABILITY & STABILITY

	2017/12A	2018/12E	2019/12E	2020/12E
ROE	17.3%	15.9%	15.7%	15.4%
ROA	14.5%	13.2%	13.2%	13.0%
ROIC	16.8%	15.2%	15.1%	14.8%
Cash Dividend (IDR bn)	1,172	1,178	1,277	1,363
Dividend Yield	1.5%	1.6%	1.8%	1.9%
Payout Ratio	48.8%	48.8%	48.8%	48.8%
DER	2.3%	1.6%	1.1%	0.6%
Net Gearing	2.4%	1.7%	1.1%	0.6%
LT Debt to Equity	1.0%	1.0%	0.6%	0.3%
Capitalization Ratio	2.2%	1.6%	1.1%	0.6%
Equity Ratio	83.6%	82.8%	83.8%	84.7%
Debt Ratio	1.9%	1.3%	0.9%	0.5%
Financial Leverage	115.5%	114.3%	115.3%	114.1%
Current Ratio	450.9%	407.0%	405.4%	412.4%
Par Value (IDR)	10	10	10	10
Total Shares (mn)	46,875	46,875	46,875	46,875
Share Price (IDR)	1,690	1,525	1,525	1,525
Market Cap (IDR tn)	79.2	71.5	71.5	71.5

### BALANCE SHEET

(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Cash	2,785	2,947	3,140	3,287
Receivables	2,876	3,143	3,408	3,506
Inventories	3,557	3,758	3,838	4,154
<b>Total Current Assets</b>	<b>10,044</b>	<b>10,733</b>	<b>11,241</b>	<b>11,816</b>
Net Fixed Assets	5,343	6,330	7,324	8,334
Other Non Current Asset	1,230	1,278	1,278	1,278
<b>Total Assets</b>	<b>16,616</b>	<b>18,341</b>	<b>19,843</b>	<b>21,427</b>
Payables	1,109	1,169	1,244	1,295
ST Bank Loan	173	88	82	43
LT Debt	146	153	99	63
<b>Total Liabilities</b>	<b>2,722</b>	<b>3,150</b>	<b>3,211</b>	<b>3,278</b>
Capital Stock & APIC	435	435	435	435
Retained Earnings	12,788	14,033	15,474	16,992
<b>Shareholders' Equity</b>	<b>13,894</b>	<b>15,191</b>	<b>16,632</b>	<b>18,150</b>

### VALUATION INDEX

	2017/12A	2018/12E	2019/12E	2020/12E
Price /Earnings	33.0x	29.6x	27.3x	25.6x
Price /Book Value	5.7x	4.7x	4.3x	3.9x
Price/Sales	3.9x	3.4x	3.2x	3.1x
PE/EPS Growth	7.3x	52.4x	3.3x	3.8x
EV/EBITDA	21.5x	19.7x	18.4x	17.1x
EV/EBIT	24.5x	22.5x	20.7x	19.4x
EV (IDR bn)	77,425	69,501	69,248	69,026
Sales CAGR (3-Yr)	5.1%	5.5%	4.4%	4.8%
EPS CAGR (3-Yr)	5.2%	6.4%	4.4%	5.2%
Basic EPS (IDR)	51	52	56	60
Diluted EPS (IDR)	51	52	56	60
BVPS (IDR)	296	324	355	387
Sales PS (IDR)	431	448	470	496
DPS (IDR)	25	25	27	29

### CASH FLOW STATEMENT

(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Operating Cash Flow	2,080	2,832	2,862	2,978
Investing Cash Flow	(1,221)	(1,383)	(1,431)	(1,479)
Financing Cash Flow	(932)	(1,199)	(1,239)	(1,351)
<b>Net Changes in Cash</b>	<b>(73)</b>	<b>249</b>	<b>193</b>	<b>147</b>

### OWNERSHIP

By Geography	% Shareholders	%
Indonesia	81.1	Gira Sole Prima 10.2
United States	7.6	Santa Seha Sanadi 9.7
United Kingdom	4.3	Diptanala Bahana 9.5
Canada	2.2	Lucasta Murni C. 9.5

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