

Kalbe Farma Tbk (KLBF)

Stable Growth

Company Report | Oct 26 2018

Buy

Dec 2019 TP (IDR) **1,730**

Consensus Price (IDR)	1,399
TP to Consensus Price	+23.7%
vs. Last Price	+29.1%

Shares data

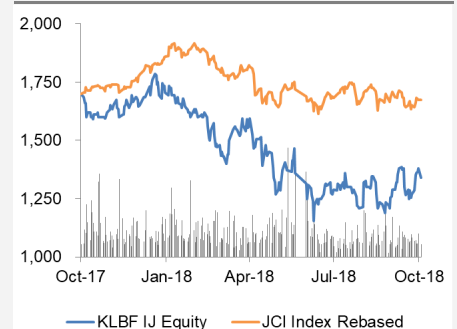
Last Price (IDR)	1,340
Price date as of	Oct 22, 2018
52 wk range (Hi/Lo)	1,785 / 1,155
Free float (%)	43.2
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	62,812
Market Cap (USD mn)	4,134
Avg. Trd Vol - 3M (mn)	16.30
Avg. Trd Val - 3M (bn)	20.98
Foreign Ownership	18.1%

Consumer Health

Pharmaceutical & Nutritional Products

Bloomberg	KLBF IJ
Reuters	KLBF.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-20.7%	3.9%	3.9%	-21.2%
Rel. Ret.	-12.6%	5.8%	4.4%	-19.7%

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Single-Digit Growth in Sales

KLBF is projected to post the growth of 3.4% in 2018's sales. The growth is a lot lower than the growth of 4.2% in 2017. It aligns the survey disclosing the decline in Indonesia's retail sales growth from 3.5% in 2017 to 3.03% y-t-d in 2018.

Adjustment to Selling Prices of Pharmaceutical Drugs

The U.S. dollar strengthening further against the rupiah during 2018 leads to the adjustment to selling prices of pharmaceutical drugs by pharmaceutical companies; **KLBF has raised the selling prices of its products by 3%-4% in 3Q18**, for example.

Generic Drugs Posting Double-Digit Growth in Sales

KLBF targets that **the sales of drugs distributed to the Healthcare and Social Security Agency (BPJS Kesehatan) grow by 10%-15% in 2019**. Although the sales only contribute 3%-4% to KLBF's overall sales or contributing 15%-16% to the sales posted by the prescription drugs, the sales are capable of stably settling at double-digit growth. KLBF's generic drugs are produced by its subsidiary, PT Hexpharm Jaya (HJ). HJ has a factory covering on areas of 19,000 sqm and operates at the production capacities of 300 million tablets per month. Indeed, it supports the national health insurance program (Jaminan Kesehatan Nasional, "JKN) by supplying quality generic drugs, with affordable prices.

Target Price of IDR1,730

We use an estimate of forward P/E of 29.5x (the 3-year average) as the basis of valuation method for obtaining the target price of December 2019. The target price implies a 2019/E P/E of 31.1x. Now, KLBF is traded at a discount on a 2018/E P/E of 26.0x.

Kalbe Farma Tbk | Summary (IDR bn)

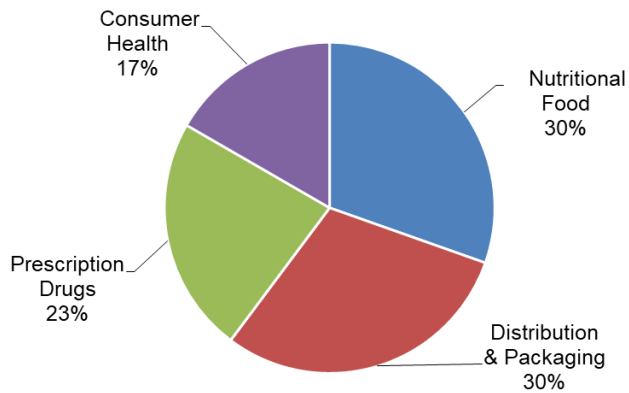
	2017	2018E	2019F	2020F
Sales	20,182	20,876	21,743	22,799
<i>Sales growth</i>	4.2%	3.4%	4.2%	4.9%
EBITDA	3,608	3,545	3,799	4,034
Net Profit	2,404	2,418	2,611	2,749
EPS (IDR)	51	52	56	59
<i>EPS growth</i>	4.5%	0.6%	7.9%	5.3%
BVPS (IDR)	296	324	354	386
EBITDA margin	17.9%	17.0%	17.5%	17.7%
NPM	11.9%	11.6%	12.0%	12.1%
ROE	17.3%	15.9%	15.7%	15.2%
ROA	14.5%	13.1%	13.1%	12.8%
ROIC	16.8%	15.2%	15.1%	14.6%
P/E	33.0x	26.0x	24.1x	22.9x
P/BV	5.7x	4.1x	3.8x	3.5x
EV/EBITDA	21.5x	17.2x	15.9x	14.9x
DPS (IDR)	25	25	27	29
<i>Dividend yield</i>	1.5%	1.9%	2.0%	2.1%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

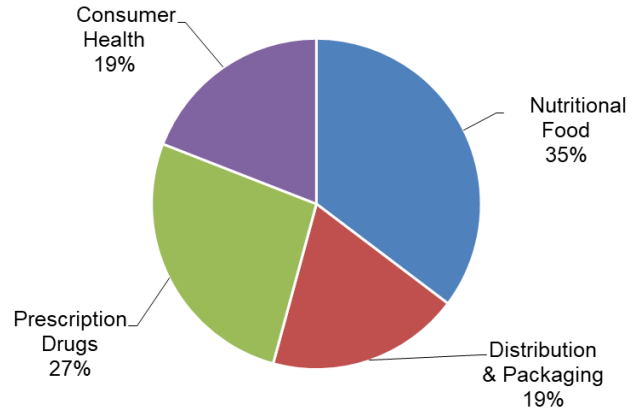
Performance Highlights

KLBF Sales Breakdown | 2Q16 - 2Q18



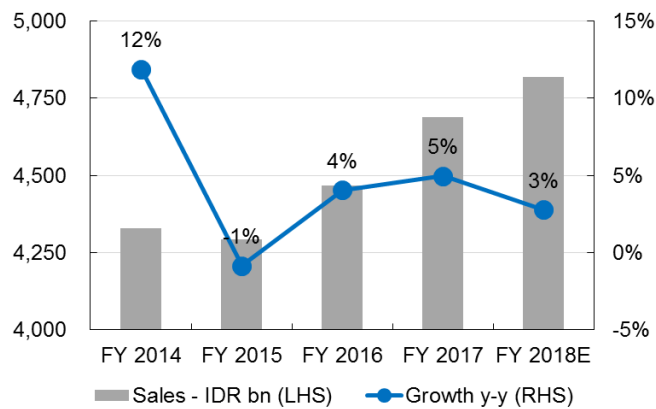
Source: Company, NHKS Research

KLBF Gross Profit Breakdown | 2Q16 - 2Q18



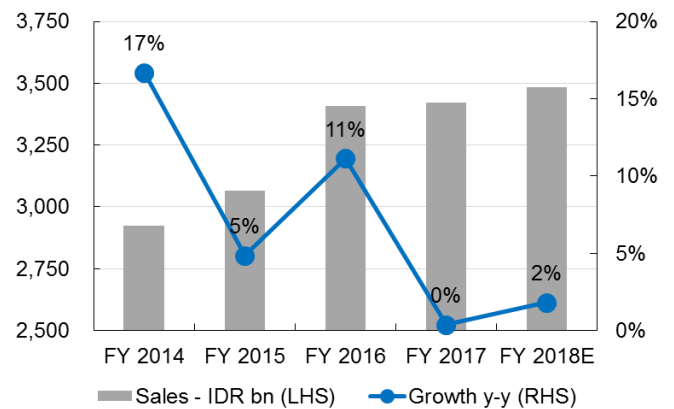
Source: Company, NHKS Research

Prescription Sales Growth | FY2014 - FY2018E



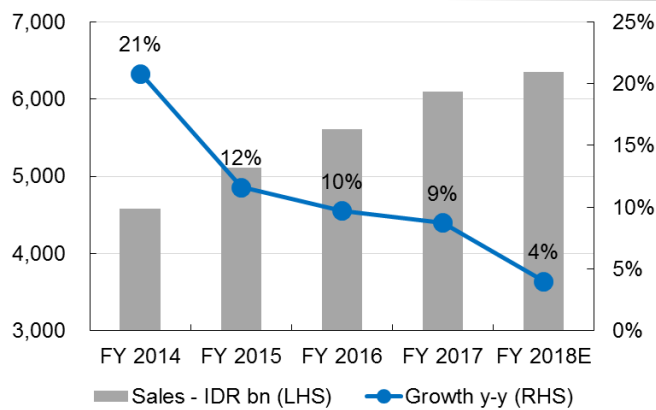
Source: Company, NHKS Research

Consumer Health Sales Growth | FY2014 - FY2018E



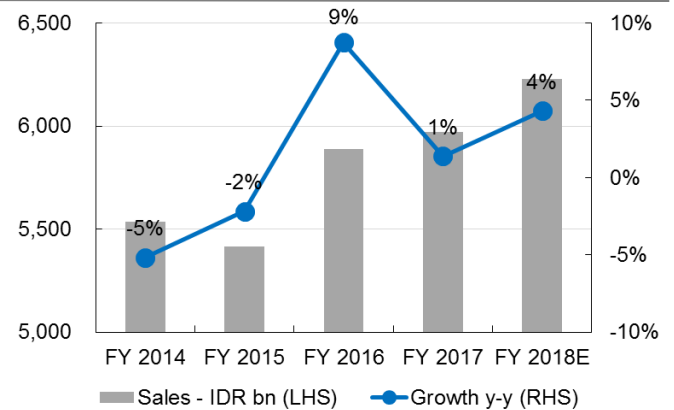
Source: Company, NHKS Research

Nutritional Sales Growth | FY2014 - FY2018E



Source: Company, NHKS Research

Distribution Division Sales Growth | FY2014 - FY2018E



Source: Company, NHKS Research

2Q18 review (IDR bn)

	2Q17	3Q17	4Q17	1Q18	2Q18					3Q18E
					Actual	Estimate	y-y	q-q	surprise	
Sales	5,168	5,024	5,092	5,015	5,366	5,447	3.8%	7.0%	-1.5%	5,188
Gross Profit	2,514	2,439	2,448	2,428	2,566	2,645	2.0%	5.7%	-3.0%	2,491
<i>Gross Margin</i>	48.7%	48.6%	48.1%	48.4%	47.8%	48.6%	-0.8%	-0.6%	-0.7%	48.0%
EBIT	818	746	836	758	799	876	-2.3%	5.4%	-8.8%	773
<i>EBIT Margin</i>	15.8%	14.9%	16.4%	15.1%	14.9%	16.1%	-0.9%	-0.2%	-1.2%	14.9%
EBITDA	889	936	953	871	915	979	2.9%	5.0%	-6.5%	883
<i>EBITDA Margin</i>	17.2%	18.6%	18.7%	17.4%	17.0%	18.0%	-0.2%	-0.3%	-0.9%	17.0%
Net Profit	628	563	624	589	626	665	-0.3%	6.3%	-5.9%	595
<i>Net Margin</i>	12.2%	11.2%	12.3%	11.8%	11.7%	12.2%	-0.5%	-0.1%	-0.5%	11.5%

Source: Bloomberg, NHKS research

Earnings revision (IDR bn)

		2018E	2019F	2020F
Sales	-Revised	20,876	21,743	22,799
	-Previous	21,034	21,926	22,858
	-Change	-0.8%	-0.8%	-0.3%
Gross Profit	-Revised	10,017	10,555	11,078
	-Previous	10,181	10,638	11,116
	-Change	-1.6%	-0.8%	-0.3%
Gross Margin	-Revised	48.0%	48.5%	48.6%
	-Previous	48.4%	48.5%	48.6%
EBIT	-Revised	3,111	3,362	3,535
	-Previous	3,276	3,440	3,612
	-Change	-5.1%	-2.3%	-2.1%
EBIT Margin	-Revised	14.9%	15.5%	15.5%
	-Previous	15.6%	15.7%	15.8%
EBITDA	-Revised	3,545	3,799	4,034
	-Previous	3,697	3,884	4,117
	-Change	-4.1%	-2.2%	-2.0%
EBITDA Margin	-Revised	17.0%	17.5%	17.7%
	-Previous	17.6%	17.7%	18.0%
Net Profit	-Revised	2,418	2,611	2,749
	-Previous	2,511	2,639	2,774
	-Change	-3.7%	-1.1%	-0.9%
Net Margin	-Revised	11.6%	12.0%	12.1%
	-Previous	11.9%	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 USD4.1 billion. It is successful in controlling its double-digit net profit margin to reign at 11.7%; accordingly, its net profit margin is likely to stably hover around at 12%.

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
Indonesia									
Kalbe Farma	4,133	1,223	1,507	177	1.41%	11.7%	18.9%	26.1x	4.7x
Kimia Farma	914	449	507	26	31.54%	5.1%	14.9%	39.3x	5.5x
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

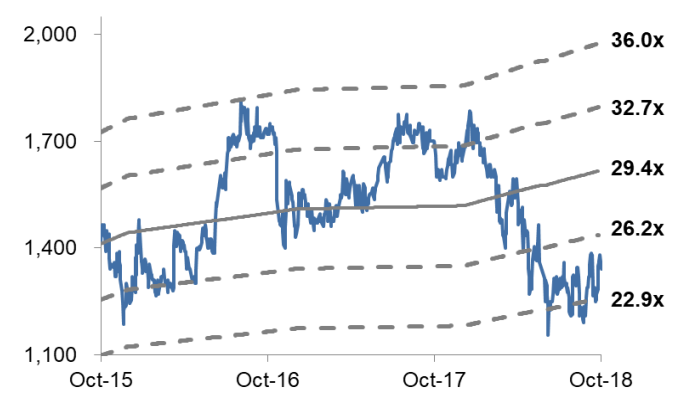
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

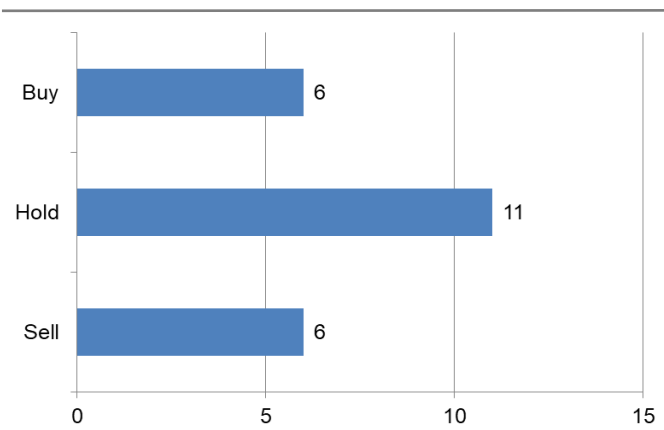
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
09/18/2017	Buy	2,020 (Dec 2018)	1,725	1,812	+17.1%	+11.5%
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%

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					PROFITABILITY & STABILITY				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E		2017/12A	2018/12E	2019/12E	2020/12E
Sales	20,182	20,876	21,743	22,799	ROE	17.3%	15.9%	15.7%	15.2%
<i>Growth</i>	4.2%	3.4%	4.2%	4.9%	ROA	14.5%	13.1%	13.1%	12.8%
COGS	(10,370)	(10,859)	(11,187)	(11,721)	ROIC	16.8%	15.2%	15.1%	14.6%
Gross Profit	9,812	10,017	10,555	11,078	Cash Dividend (IDR bn)	1,172	1,179	1,273	1,340
<i>Gross Margin</i>	48.6%	48.0%	48.5%	48.6%	Dividend Yield	1.5%	1.9%	2.0%	2.1%
Operating Expenses	(6,653)	(6,907)	(7,193)	(7,543)	Payout Ratio	48.8%	48.8%	48.8%	48.8%
EBIT	3,159	3,111	3,362	3,535	DER	2.3%	2.1%	1.6%	1.1%
<i>EBIT Margin</i>	15.7%	14.9%	15.5%	15.5%	Net Gearing	2.4%	2.2%	1.7%	1.1%
Depreciation	449	435	437	499	LT Debt to Equity	1.0%	1.1%	0.8%	0.6%
EBITDA	3,608	3,545	3,799	4,034	Capitalization Ratio	2.2%	2.1%	1.6%	1.1%
<i>EBITDA Margin</i>	17.9%	17.0%	17.5%	17.7%	Equity Ratio	83.6%	82.5%	83.3%	84.4%
Interest Expenses	(26)	(23)	(23)	(19)	Debt Ratio	1.9%	1.7%	1.3%	0.9%
EBT	3,241	3,250	3,508	3,693	Financial Leverage	115.5%	114.3%	115.8%	114.9%
Income Tax	(788)	(793)	(856)	(901)	Current Ratio	450.9%	397.1%	398.4%	413.8%
Minority Interest	(50)	(38)	(41)	(43)	Par Value (IDR)	10	10	10	10
Net Profit	2,404	2,418	2,611	2,749	Total Shares (mn)	46,875	46,875	46,875	46,875
<i>Growth</i>	4.5%	0.6%	7.9%	5.3%	Share Price (IDR)	1,690	1,340	1,340	1,340
<i>Net Profit Margin</i>	11.9%	11.6%	12.0%	12.1%	Market Cap (IDR tn)	79.2	62.8	62.8	62.8

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E		2017/12A	2018/12E	2019/12E	2020/12E
Cash	2,785	2,979	3,380	3,560	Price /Earnings	33.0x	26.0x	24.1x	22.9x
Receivables	2,876	3,200	3,367	3,519	Price /Book Value	5.7x	4.1x	3.8x	3.5x
Inventories	3,557	3,670	3,776	4,025	Price/Sales	3.9x	3.0x	2.9x	2.8x
Total Current Assets	10,044	10,747	11,385	11,984	PE/EPS Growth	7.3x	42.1x	3.0x	4.3x
Net Fixed Assets	5,343	6,240	7,132	8,027	EV/EBITDA	21.5x	17.2x	15.9x	14.9x
Other Non Current Asset	1,230	1,416	1,416	1,416	EV/EBIT	24.5x	19.6x	18.0x	17.0x
Total Assets	16,616	18,403	19,932	21,427	EV (IDR bn)	77,425	60,858	60,404	60,157
Payables	1,109	1,123	1,232	1,236	Sales CAGR (3-Yr)	5.1%	5.3%	3.9%	4.1%
ST Bank Loan	173	152	136	98	EPS CAGR (3-Yr)	5.2%	6.5%	4.3%	4.6%
LT Debt	146	166	130	101	Basic EPS (IDR)	51	52	56	59
Total Liabilities	2,722	3,229	3,327	3,345	Diluted EPS (IDR)	51	52	56	59
Capital Stock & APIC	435	435	435	435	BVPS (IDR)	296	324	354	386
Retained Earnings	12,788	14,034	15,466	16,942	Sales PS (IDR)	431	445	464	486
Shareholders' Equity	13,894	15,174	16,606	18,081	DPS (IDR)	25	25	27	29

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E	By Geography	% Shareholders	%	
Operating Cash Flow	2,080	2,843	2,980	2,904	Indonesia	81.1	Gira Sole Prima	10.2
Investing Cash Flow	(1,221)	(1,454)	(1,347)	(1,384)	United States	7.6	Santa Seha Sanadi	9.7
Financing Cash Flow	(932)	(1,138)	(1,232)	(1,340)	United Kingdom	4.3	Diptanala Bahana	9.5
Net Changes in Cash	(73)	251	401	180	Canada	2.2	Lucasta Murni C.	9.5

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