

Stands to Benefit from State Health Care

The National Health Insurance (JKN) promoting massive medicine production is a potent driver for pharma earnings. Despite BPJS ballooning deficit, the increasing participants of JKN accelerate KLBF's medicine sales. Besides, tax refunds for the pharmaceutical industry is a positive catalyst for pharma's path ahead.

Efficiency: A Key to 2Q19 Rising Earnings

The success in keeping efficiency in check was a boost for KLBF's sound performance in 2Q19. Its revenues edged up to IDR5.3 trillion (+8.3% y-y or +9.7% q-q). KLBF, on a cumulative basis, posted revenues of IDR11.2 trillion (+7.6% y-y). EBIT and net profits also surged to IDR858 billion (+14.8% y-y) and IDR663 billion (+5.9% y-y). Of note, the skyrocketing numbers were attributable to declines in the 2Q19 promotion costs to IDR466 billion (-3.6% q-q) and the rupiah stable exchange rates for the US dollar. We project that in FY2019 KLBF likely secures earnings of IDR2.6 trillion or an 8.5% increase (vs. KLBF's guideline of 6%-8%).

Segmental Highlights

Based on sales breakdown, the distribution & logistics segment was the main contributor (31%) to net sales as the segment posted an 11.6% y-y increase to IDR3.4 trillion. Then, the prescription drugs segment was the second's biggest contributor (24%) to net sales, with a 7% increase to IDR2.6 trillion (+7.7% y-y). Of note, KLBF's branded generics dominated the market with the total sales of 51%; licensed products of 28%, and unbranded generics of 21%. Besides, the consumer health and nutritional food segments respectively secured a 5% sales increase to IDR1.9 trillion and IDR 3.1 trillion. To keep their body fit during fasting month and Idulfitri exodus, consumers consumed more nutritional food and supplements, and that became a positive catalyst for the selling of KLBF's health food and beverages.

JKN: A Potent Driver for Pharma

Participants of JKN keep increasing every year and has reached 223 people in August 2019. The increasing participants of JKN are boosts for the sales of unbranded generics, easily bought by consumers. The increase inevitably throttled pharma's revenue margins because the selling prices of unbranded generics are set by the government. To counter declines in sales due to the easy purchase of unbranded generics, KLBF boosts sales of its generics through its subsidiary, PT Hexpharm Jaya, producing 2.8-3 billion generics per year. Besides, PMK Number 117/PMK.03/2019 on Tax Refunds for Pharma and Distributors of Medical Devices stands for KLBF's benefits. The regulation of the Minister of Finance aims to maintain the liquidities of those taxpayers and ensure the sustainability of JKN. In FY18, KLBF's DER ratio was at a2.3x high level because most of its products use imported raw materials.

Maintain Hold Recommendation at Price Target of IDR1,730

We maintain Hold recommendation on KLBF at the price target of IDR1,730 based on a 28.8x P/E forward valuation estimate with a 10.5% upside potential of the current stock price. The risks of the target price are the rupiah depreciation, any changes in policies on JKN, consumers' sluggish purchasing prices.

Kalbe Farma Tbk | Summary

	2018A	2019E	2020F	2021F
Net Sales	21,074	22,319	23,555	24,855
<i>Sales Growth</i>	4.4%	5.9%	5.5%	5.5%
EBITDA	3,676	3,888	4,117	4,543
Net Profit	2,475	2,666	2,834	3,035
EPS (IDR)	52	57	60	65
<i>EPS Growth</i>	2.2%	8.5%	6.3%	7.1%
BVPS	326	358	390	426
EBITDA ,margin	17.4%	17.4%	17.5%	18.3%
NPM	11.7%	11.9%	12.0%	12.2%
ROE	16.1%	15.9%	15.5%	15.2%
ROA	13.5%	13.5%	13.3%	13.2%
ROIC	15.5%	15.4%	15.0%	14.8%
P/E	32.2x	26.7x	24.7x	23.1x
P/BV	5.2x	4.3x	3.8x	3.5x
EV/EBITDA	21.0x	17.7x	16.3x	14.7x
DPS (IDR)	25	26	28	29
<i>Dividend Yield</i>	1.5%	1.7%	1.9%	2.0%

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

Company Update | Aug, 28 2019

Hold

Dec 2019 TP (IDR)	1,730
Consensus Price (IDR)	1,565
TP to Consensus Price	+8.3%
vs. Last Price	+10.5%

Shares data

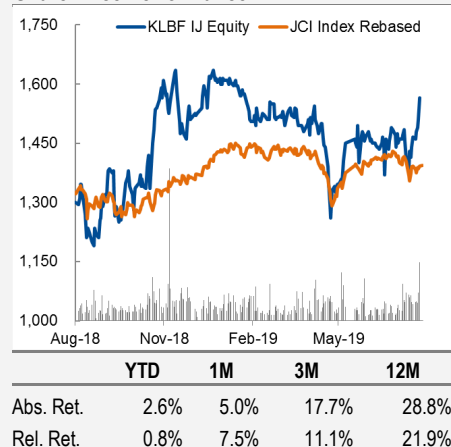
Last Price (IDR)	1,565
Price date as of	Aug 19, 2019
52 wk range (Hi/Lo)	1,635 / 1,190
Free float (%)	42.8
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	73,594
Market Cap (USD mn)	5,158
Avg. Trd Vol - 3M (mn)	22.64
Avg. Trd Val - 3M (bn)	32.75
Foreign Ownership	19.9%

Consumer Health

Pharmaceutical & Nutritional Products

Bloomberg	KLBF IJ
Reuters	KLBF.JK

Share Price Performance

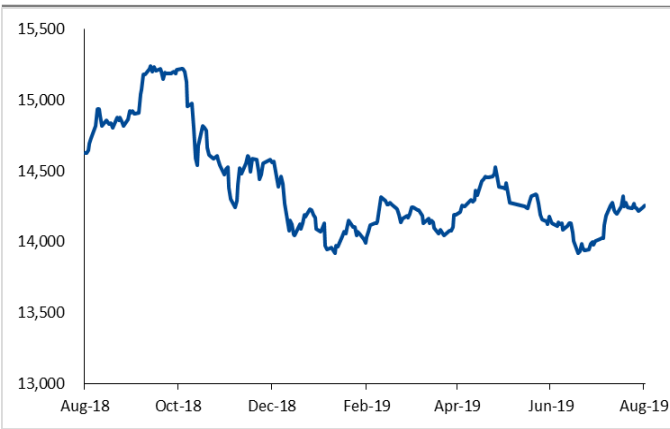


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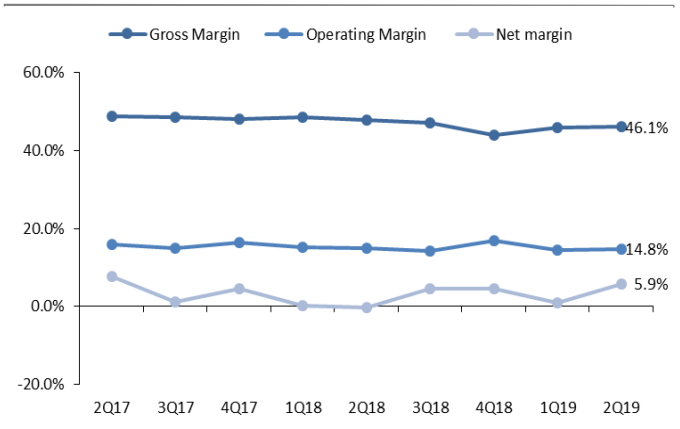
Performance highlights in chart

Steady USDIDR will minimize pressure on gross margin



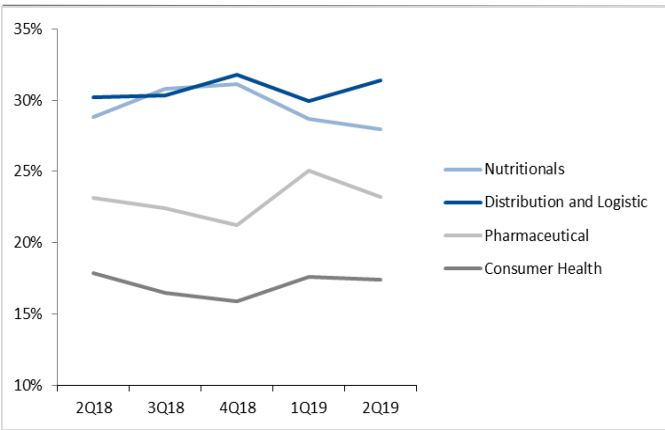
Source: JPMorgan, Bloomberg, NHKS Research

Operational efficiency conserves bottom line margin



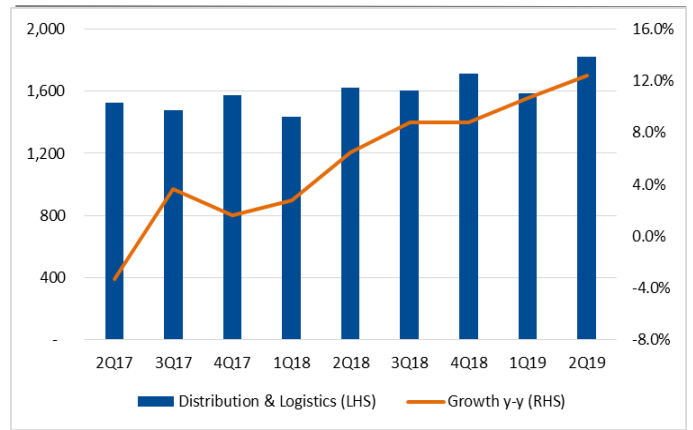
Source: Company Data, NHKS Research

Increasing distribution and consumer segments contribution



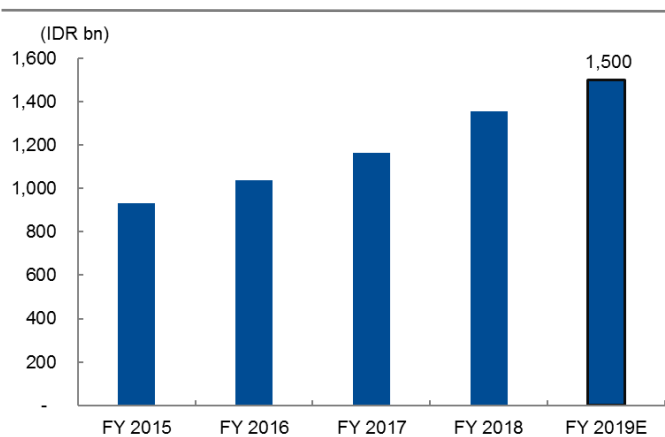
Source: Company Data, NHKS Research

Distribution & Logistic (IDR bn) | 2Q17- 2Q19



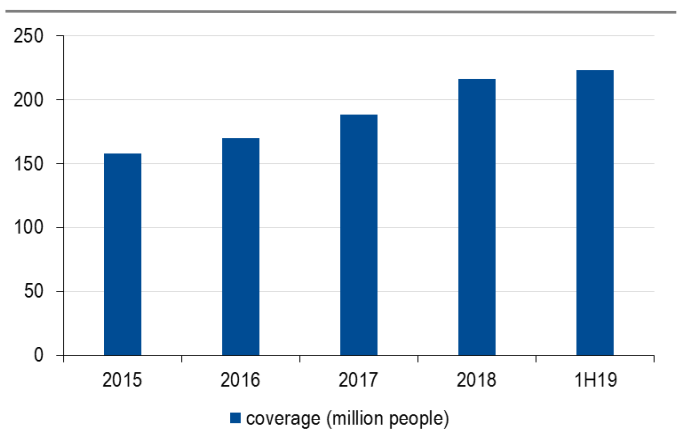
Source: Company Data, NHKS Research

Upward trend of KLBF capital expenditure



Source: Company Data, NHKS Research

BPJS Kesehatan program coverage



Source: Company Data, NHKS Research

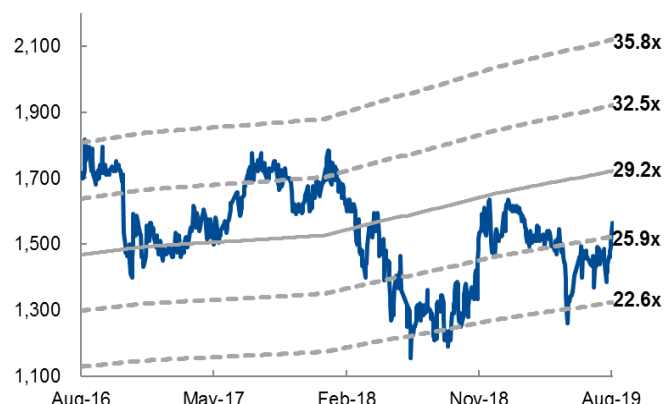
Valuation highlights in chart

3-year forward P/E band



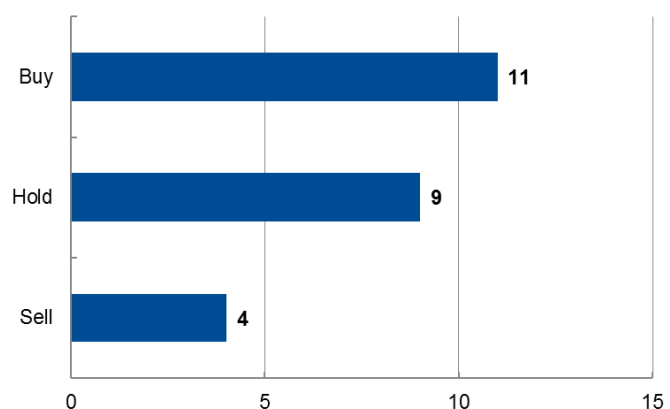
Source: Company Data, NHKS Research

3-year dynamic forward P/E band



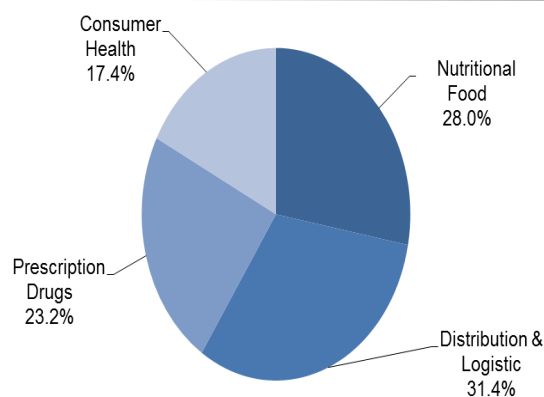
Source: Company Data, NHKS Research

Consensus of analyst recommendation



Source: Bloomberg, NHKS Research

2Q19 Revenue Breakdown



Source: Company Data, Bloomberg, NHKS Research

Quarterly review

	2Q18	3Q18	4Q18	1Q19	2Q19					3Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Net Sales	5,366	5,298	5,396	5,301	5,813		8.3	9.7		5,545
Gross Profit	2,566	2,490	2,364	2,433	2,679		4.4	10.1		2,612
EBIT	799	747	908	764	858		7.3	12.2		854
EBITDA	915	867	1,024	884	983		7.5	11.2		957
Net Profit	626	589	653	595	663		5.9	11.4		674
Margin										
Gross Margin	47.8	47.0	43.8	45.9	46.1		-1.7	0.2		47.1
EBIT Margin	14.9	14.1	16.8	14.4	14.8		-0.1	0.3		15.4
EBITDA Margin	17.0	16.4	19.0	16.7	16.9		-0.1	0.2		17.3
Net Profit Margin	11.7	11.1	12.1	11.2	11.4		-0.3	0.2		12.1

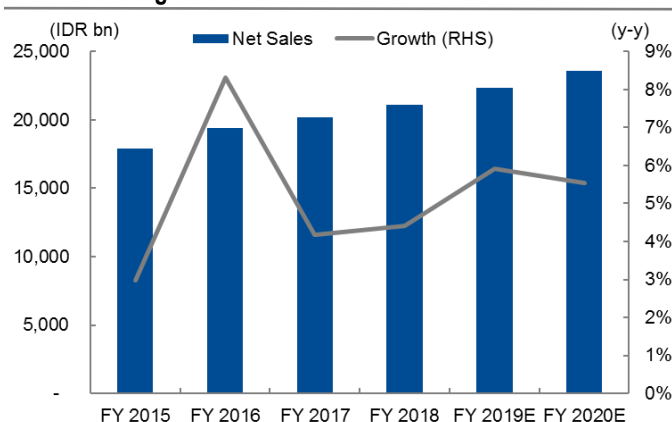
Unit: IDR bn, %, USD/ton

Source: Company Data, NHKS Research

Company Overview

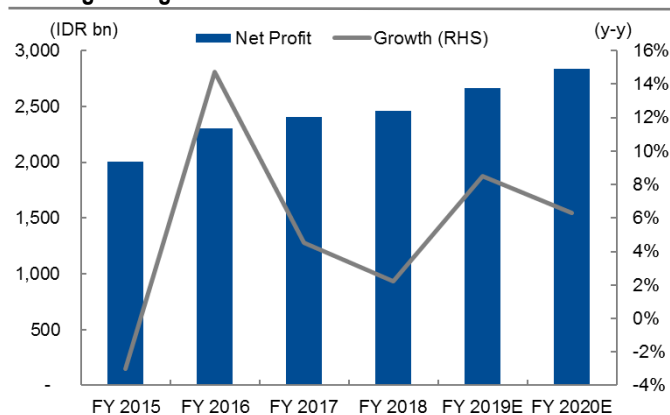
- PT Kalbe Farma Tbk (KLBF), founded in 1966, is a leading pharmaceutical company in Indonesia.
- KLBF expands and transforms its businesses into an integrated healthcare solution embodied in its four well-diversified business divisions: Prescription Pharmaceutical (23% contribution), Consumer Health (17% contribution), Nutritionals (30% contribution), and Distribution & Logistics (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.
- It has key subsidiaries, i.e. Bintang Toedjoe, Saka Farma, Enseval Putera Megatrading (EPMT IJ), Kalbe Morinaga, Sanghiang Perkasa, Kalbe Blackmores Nutrition, and Kalbe International Pte. Ltd.
- KLBF shrewdly acknowledging disruptive tech. altering business operations ties cooperation with Grab Indonesia to synergize a number of its digital-based services such as Kalbe Home Delivery, klikdokter.com, and kalbestore.com.

Revenue and growth movement



Source: Company Data, NHKS Research

Earnings and growth movement



Source: Company Data, NHKS Research

Asia pharmaceutical companies peers analysis

Company	Market Cap	Asset	Sales	Net Profit LTM	Net Profit Growth LTM	Net Profit Margin	ROE	P/E LTM	P/BV
Indonesia									
Kalbe Farma	5,158	1,258	1,514	173	4.0	11.4	17.9	29.4	5.0
Kimia Farma	1,269	656	541	28	19.3	5.1	16.6	45.3	8.0
India									
Laurus Labs Ltd	502	481	320	13	-44.06	4.2	6.2	38.2	2.3
Wockhardt Ltd	426	1,130	595	(28)	68.0	-4.7	-7.0	N/A	1.1
South Korea									
Hugel Inc	1,607	825	170	54	-13.2	31.5	9.3	23.8	2.2
Bukwang Pharmaceutical Co	733	443	172	114	1267.5	66.5	45.5	6.8	2.6
Daewoong Co Ltd	7,60	1,430	1,158	39	-34.9	3.4	7.6	15.3	1.1
Sam Chun Dang Pharm Co Ltd	560	235	148	7	-36.8	5.0	5.5	78.3	4.3
Taiwan									
Center Laboratories Inc.	809	666	303	172	508.7	56.9	53.5	4.9	1.9
Obi Pharma Inc.	856	154	0	(45)	-22.5	30.0	24.2	15.6	3.7
Bangladesh									
Renata Ltd	1,138	255	246	41	13.2	16.7	21.6	28.7	5.5

Unit: IDR bn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E		2018/12A	2019/12E	2020/12E	2021/12E
Net Sales	21,074	22,319	23,555	24,855	ROE	16.1%	15.9%	15.5%	15.2%
<i>Growth</i>	4.4%	5.9%	5.5%	5.5%	ROA	13.5%	13.5%	13.3%	13.2%
COGS	(11,226)	(11,953)	(12,439)	(13,119)	ROIC	15.5%	15.4%	15.0%	14.8%
Gross Profit	9,848	10,365	11,116	11,736	Cash Dividend (IDR bn)	1,172	1,198	1,300	1,382
<i>Gross Margin</i>	46.7%	46.4%	47.2%	47.2%	Dividend Yield	1.5%	1.7%	1.9%	2.0%
Operating Expenses	(6,635)	(6,912)	(7,443)	(7,805)	Payout Ratio	47.7%	44.9%	45.9%	45.5%
EBIT	3,213	3,454	3,673	3,931	DER	2.3%	2.3%	1.8%	1.3%
<i>EBIT Margin</i>	15.2%	15.5%	15.6%	15.8%	Net Gearing	2.5%	2.4%	1.9%	1.3%
Depreciation	463	434	444	611	LT Debt to Equity	1.7%	0.8%	0.9%	0.6%
EBITDA	3,676	3,888	4,117	4,542	Capitalization Ratio	2.3%	2.2%	1.8%	1.3%
<i>EBITDA Margin</i>	17.4%	17.4%	17.5%	18.3%	Equity Ratio	84.3%	85.2%	86.0%	86.8%
Interest Expenses	(20)	(27)	(29)	(27)	Debt Ratio	2.0%	2.0%	1.5%	1.1%
EBT	3,306	3,553	3,777	4,045	Financial Leverage	99.2%	99.0%	99.0%	99.1%
Income Tax	(809)	(844)	(897)	(961)	Current Ratio	465.8%	456.1%	482.9%	495.3%
Minority Interest	(40)	(43)	(46)	(49)	Par Value (IDR)	10	10	10	10
Net Profit	2,457	2,666	2,834	3,035	Total Shares (mn)	46,875	46,875	46,875	46,875
<i>Growth</i>	2.2%	8.5%	6.3%	7.1%	Share Price (IDR)	1,690	1,520	1,495	1,495
<i>Net Profit Margin</i>	11.7%	11.9%	12.0%	12.2%	Market Cap (IDR tn)	79.2	71.3	70.1	70.1

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E		2018/12A	2019/12E	2020/12E	2021/12E
Cash	3,153	3,527	3,883	4,380	Price /Earnings	32.2x	26.7x	24.7x	23.1x
Receivables	3,256	3,045	3,214	3,391	Price /Book Value	5.2x	4.3x	3.8x	3.5x
Inventories	3,475	3,978	4,139	4,366	Price/Sales	3.8x	3.2x	3.0x	2.8x
Total Current Assets	10,648	11,346	12,017	12,925	PE/EPS Growth	14.5x	3.1x	3.9x	3.3x
Net Fixed Assets	6,253	7,083	7,991	8,792	EV/EBITDA	21.0x	17.7x	16.3x	14.7x
Other Non Current Assets	1,245	1,253	1,257	1,259	EV/EBIT	24.0x	19.9x	18.3x	17.0x
Total Assets	18,146	19,682	21,264	22,976	EV (IDR bn)	77,210	68,894	67,311	66,743
Payables	1,290	1,277	1,329	1,401	Sales CAGR (3-Yr)	5.6%	4.8%	5.3%	5.7%
ST Bank Loan	97	259	155	148	EPS CAGR (3-Yr)	7.0%	5.1%	5.6%	7.3%
LT Debt	260	126	173	111	Basic EPS (IDR)	52	57	60	65
Total Liabilities	2,852	2,919	2,967	3,026	Diluted EPS (IDR)	52	57	60	65
Capital Stock & APIC	435	435	435	435	BVPS (IDR)	326	358	390	426
Retained Earnings	14,073	15,541	17,075	18,729	Sales PS (IDR)	450	476	502	530
Shareholders' Equity	15,295	16,763	18,297	19,950	DPS (IDR)	25	26	28	29

CASH FLOW STATEMENT					OWNERSHIP		
(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E	By Geography	% Shareholders	%
Operating Cash Flow	2,843	2,817	3,068	3,363	Indonesia	80.1	Gira Sole Prima 10.2
Investing Cash Flow	(1,400)	(1,272)	(1,356)	(1,414)	United States	7.3	Santa Seha Sanadi 9.7
Financing Cash Flow	(1,074)	(1,171)	(1,356)	(1,452)	United Kingdom	5.6	Diptanala Bahana 9.5
Net Changes in Cash	369	374	356	497	Canada	2.5	Ladang Ira Panen 9.5

Source: Company data, NHKS Research

Closing and target price update



Source: NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2019.04.15	Buy	IDR1,730 (12M)	IDR1,543
2019.08.19	Hold	IDR1,730 (12M)	IDR1,565

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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