

Kalbe Farma Tbk (KLBF IJ)

FY 19's Opportunities Flicker in A Bleaker Quarter

KLBF has succeeded in keeping sales growth at a conservative level, backed by the distribution segment as the biggest contributor to its total revenues amongst other segments. Currently wobbly markets to leave the pharmaceutical industry less favourable underlines lower price target we recommend.

FY19's Unaudited Bottom Line Lowers than Estimate

Based on FY19's unaudited results, KLBF achieved the top-line of IDR22,6 trillion (+7.40% y-y), in line with conservative sales to fall short in the range of 6%-8%. Meanwhile, the top-line performance outperformed our estimate as growth in skimmed milk powder (+5.0% y-y), unbranded generics (+7.1% y-y), and third party sales & distribution (+15.7%) respectively giving their contributions to sales supported the top-line performance. Conversely, the nutritional segment was underperformed as its sales declined 2.8% y-y due to prevailing regulation of valid OTC license provided by pharmacies leading to a downturn in OTC sales. Nevertheless, bottom-line to amount to IDR2.4 trillion (+1.7% y-y) is far below our estimate of 94.3%.

Cautious Stance Is Signal for Weaker Performance

Based on FY19's unaudited profitability ratio, GPM and NPM declined to 45,22% and 11,0%, respectively. We estimate lower margins as unbranded generic kept growing at faster paces compared to other products (i.e., licensed and branded generics) in responses to the increasing number of JKN participants—223 million participants as of February 2020—higher prices of skim milk prices and product mix. Because KLBF recorded lower margins and top-line growth than that in FY18, we revise higher our FY20E estimated revenue from IDR23.7 trillion to IDR24.0 trillion (+6.2% y-y) pursuant with The Company guidance. For FY20E estimated net profits, we make a downward revision from IDR2.7 trillion to IDR2.6 trillion (+4,7% y-y) or in line with the net profit of 4%-5% based on the Company guidance.

All Segments' Sound Performance Is Flickering Hope

We critically take into account the rupiah volatility amid the economic slowdown and soft purchasing power. Indeed, we expect that the consumer health segment records higher growth in FY20E along with other segments. The COVID-19 lethal spread is a blow to the pharmaceutical industry. Of note, KLBF has ensured the adequate stockpiles of raw materials to last for June 2020's medicine production in the shortest time. Should the pandemic spooks in the long run, chances are negative impacts to threaten KLBF's production. But, the Indonesian government's urge to carry health and safety precautions against infectious COVID-19 providing a boost for health products and supplements demand can be a potent driver for KLBF's production.

BUY Recommendation with the Price Target of IDR 1,430

We maintain BUY recommendation with the lower target price of IDR1,430 based on a 25.7x forward P/E and a 15.8 upside yield, deriving from the current stock price. The revised lower target price is on grounds of the currently wobbly markets, the estimated increases in COGS, and the decline in net income. Nevertheless, we oversee that KLBF still proves efficient OpEx and conservative sales amid the volatile economy, and that is the key to our BUY recommendation. Besides, risks arising from our target price are 1) weaker rupiah exchange rate, 2) higher prices of raw materials from suppliers, 3) disruption to raw material supplies, 4) soft purchasing power.

Kalbe Farma Tbk | Summary

		2018A	2019E	2020F	2021F
Net Sales		21,074	22,622	24,028	25,565
	Sales Growth	4.4%	7.3%	6.2%	6.4%
EBITDA		3,676	3,742	3,924	4,260
Net Profit		2,475	2,502	2,619	2,761
EPS (IDR)		52	53	56	64
	EPS Growth	2.2%	1.8%	4.7%	5.4%
BVPS		326	357	387	418
EBITDA ,margin		17.4%	16.5%	16.3%	16.7%
NPM		11.7%	11.1%	10.9%	10.8%
ROE		16.1%	15.0%	14.5%	14.1%
ROA		13.5%	12.5%	12.2%	12.0%
ROIC		15.5%	14.2%	14.0%	13.6%
P/E		32.2x	28.5x	26.8x	25.4x
P/BV		5.2x	4.3x	3.9x	3.6x
EV/EBITDA		21.0x	18.6x	17.4x	15.9x
DPS (IDR)		25	26	26	27
	Dividend Yield	1.5%	1.7%	1.7%	1.8%

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

BUY

Dec 2020 TP (IDR)	1,430
Consensus Price (IDR)	1,587
TP to Consensus Price	-9.9%
vs. Last Price	+15.8%

Shares data

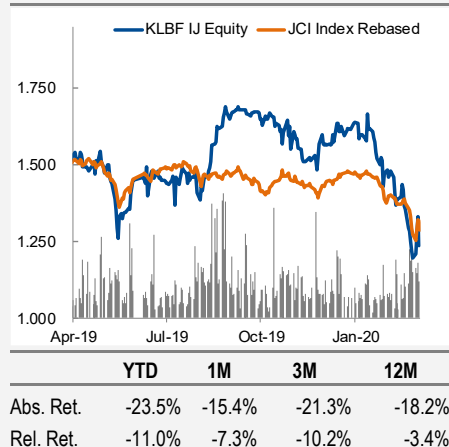
Last Price (IDR)	1,235
Price date as of	Mar 06, 2020
52 wk range (Hi/Lo)	1,690 / 1,195
Free float (%)	42.8
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	73,594
Market Cap (USD mn)	5,158
Avg. Trd Vol - 3M (mn)	22.64
Avg. Trd Val - 3M (bn)	32.75
Foreign Ownership	19.9%

Consumer Health

Pharmaceutical & Nutritional Products

Bloomberg	KLBF IJ
Reuters	KLBF.JK

Share Price Performance



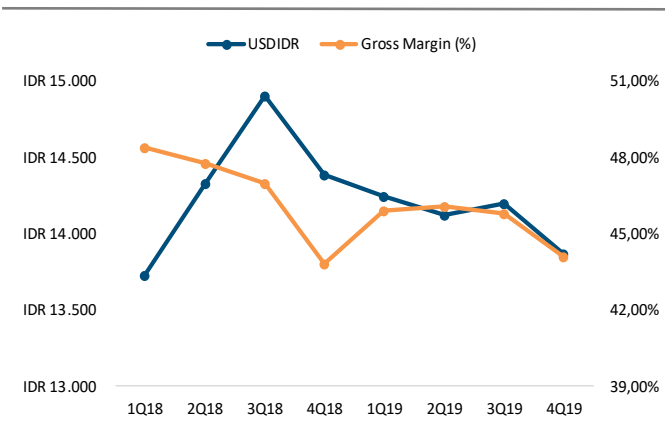
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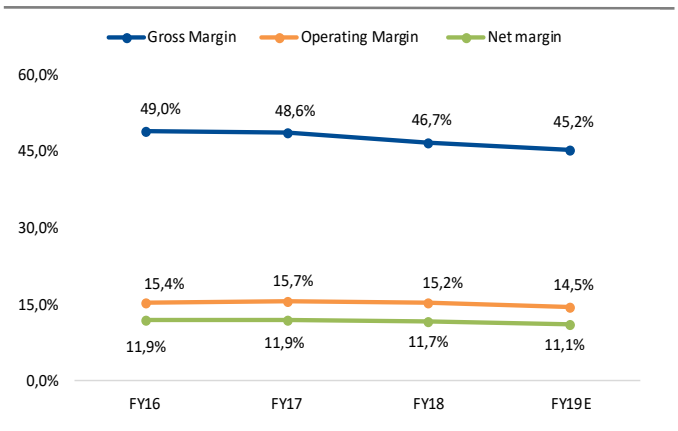
Performance Highlights in Charts

Stronger Rupiah in FY19



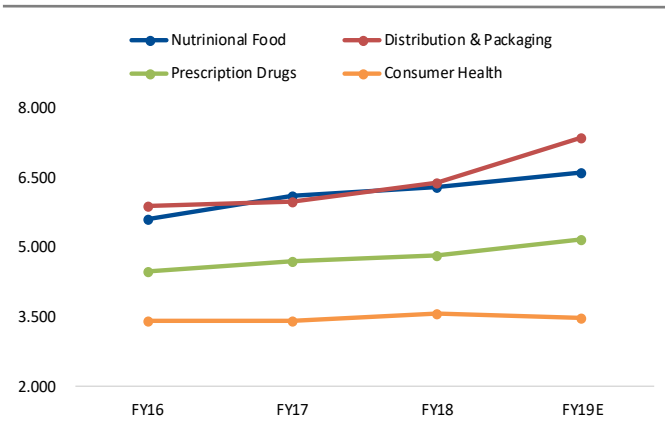
Source: Bloomberg, NHKSI Research

Downward Trends of KLBf's Margin Ratios



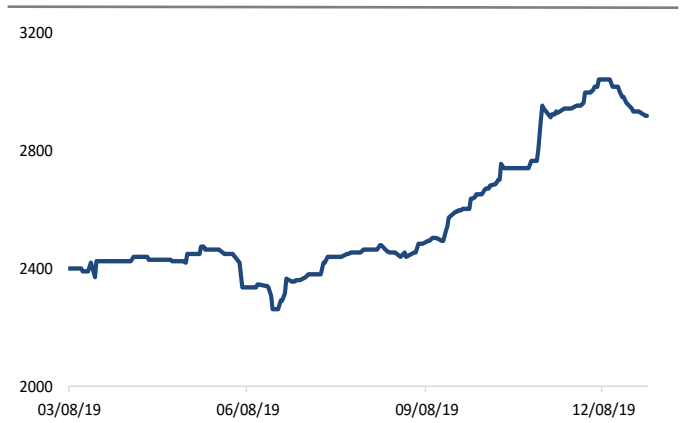
Source: Company Data, NHKSI Research

Distribution Segment Gives the Largest Contribution to KLBf's Revenues (IDR Bn)



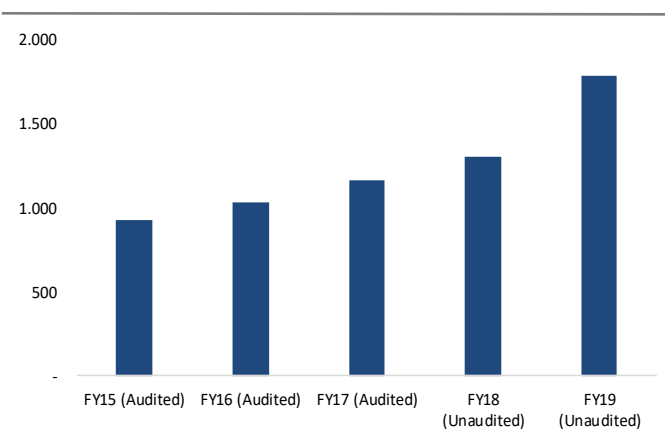
Source: Company Data, NHKSI Research

Prices of Skim Hike (EUR/Mt)



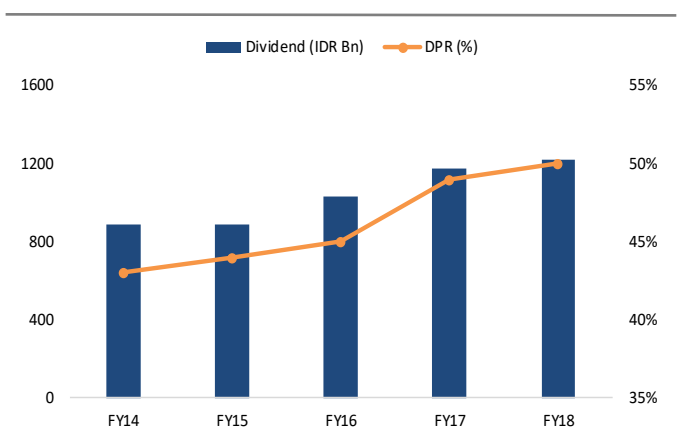
Source: Company Data, NHKSI Research

Upward trend of KLBf's CapEx



Source: Company Data, NHKSI Research

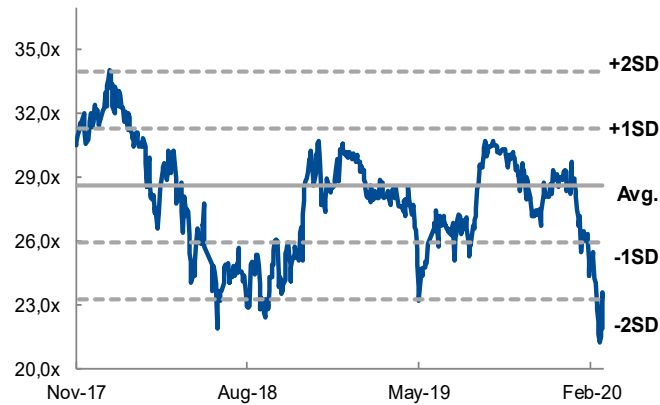
KLBf's Dividend Payments



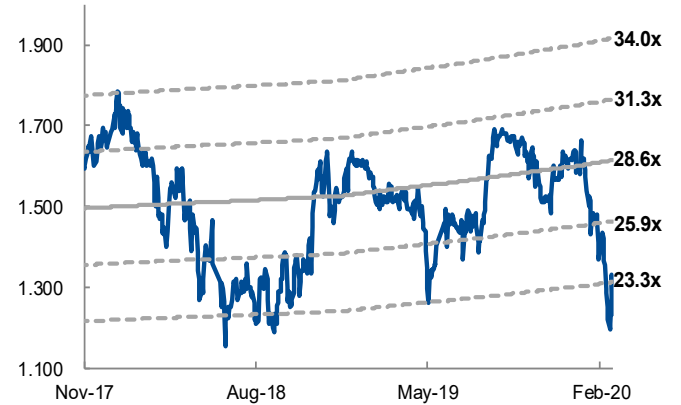
Source: Company Data, NHKSI Research

Valuation Highlights in Charts

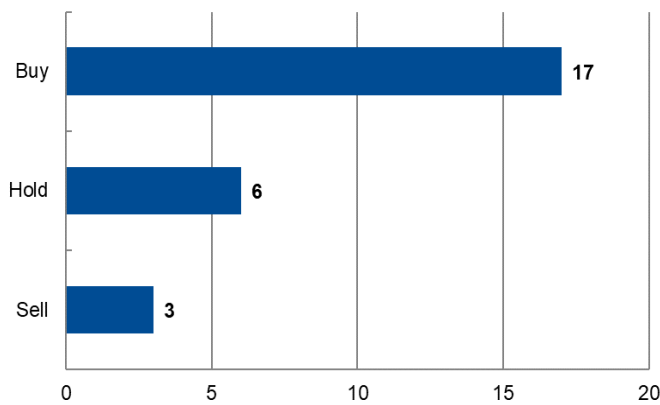
3-year forward P/E band



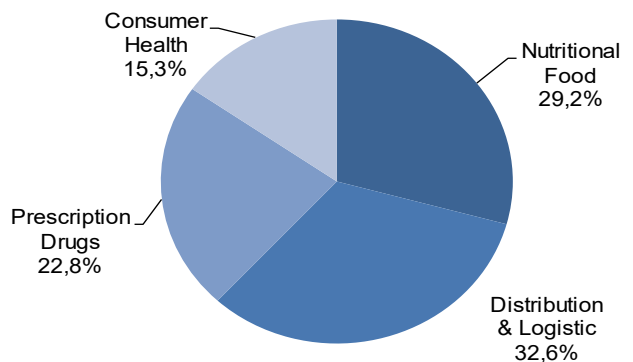
3-year dynamic forward P/E band



Consensus of analyst recommendation



KLBF's Revenue Breakdown



Quarterly review

	4Q18	1Q19	2Q19	3Q19	4Q19					1Q20E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Net Sales	5,396	5,301	5,301	5,648	5,800	5,733	8.6	3.7	2.2%	5,744
Gross Profit	2,364	2,433	2,433	2,587	2,585	2,669	9.3	-0.1	-3.1%	2,667
EBIT	908	764	764	878	780	983	-14.1	-11.1	-20.6%	879
EBITDA	1,024	884	884	1,009	866	1,069	-15.4	-14.2	-19.0%	945
Net Profit	653	595	595	657	586	736	-10.2	-10.8	-20.4%	669
Margin										
Gross Margin	43.8	45.9	46.1	45.8	44.1	46.6	0.3	-1.7	-5.2%	46.2
EBIT Margin	16.8	14.4	14.8	15.5	13.3	17.1	-3.5	-2.2	-22.4%	15.2
EBITDA Margin	19.0	16.7	16.9	17.9	14.8	18.6	-4.3	-3.1	-20.7%	16.4
Net Profit Margin	12.1	11.2	11.4	11.6	10.0	12.8	-2.1	-1.6	-22.1%	11.6

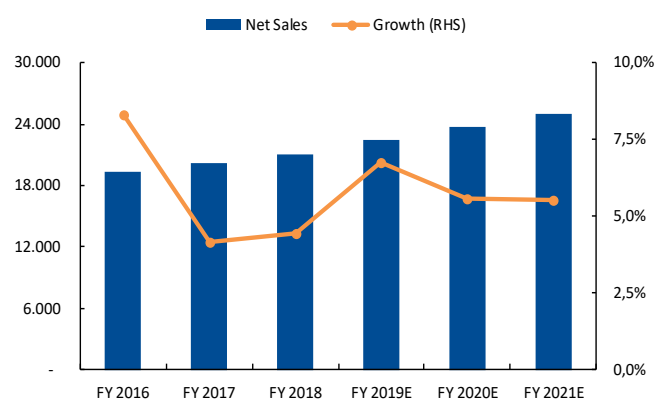
Unit: IDR bn, %, USD/ton

Source: Company Data, NHKSI Research

Company Overview

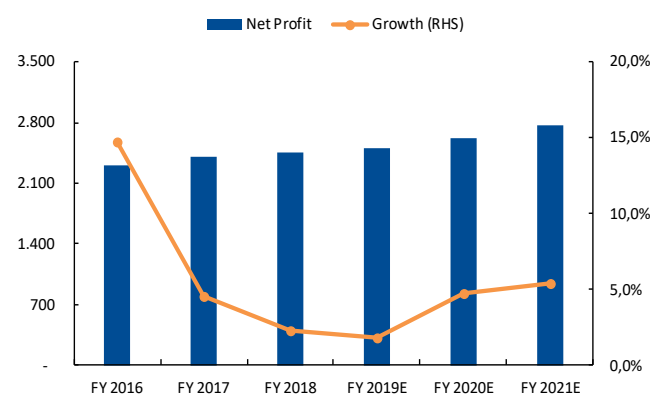
- PT Kalbe Farma Tbk (KLBF), founded in 1966, is a leading pharmaceutical company in Indonesia.
- KLBF expands and transforms its businesses into an integrated healthcare solution embodied in its four well-diversified business divisions: Prescription Pharmaceutical (23% contribution), Consumer Health (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.

Revenues and Growth Movement



Source: Company Data, NHKSI Research

Earnings and Growth Movement



Source: Company Data, NHKSI 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	5,217	1,258	1,552	179	5.8	11.6	17.6	28.7	4.8
Kimia Farma	707	785	582	16	-35.5	2.8	4.7	42.9	1.4
India									
Laurus Labs Ltd	504	481	320	13	-44.06	4.2	6.2	38.3	2.3
Wockhardt Ltd	384	1,130	595	(28)	68.0	-4.7	-7.0	N/A	1.0
South Korea									
Hugel Inc	1,600	825	182	42	-36.4	22.9	7.4	29.1	2.2
Bukwang Pharmaceutical Co	782	443	138	(15)	N/A	-11.0	-5.1	N/A	2.8
Daewoong Co Ltd	606	1,430	1,162	36	-38.9	3.1	7.0	12.9	0.9
Sam Chun Dang Pharm Co Ltd	566	235	156	10	-12.0	6.4	7.4	56.8	4.1
Taiwan									
Center Laboratories Inc.	812	666	303	122	56.57	102.1	36.3	7.0	2.0
Bangladesh									
Renata Ltd	1,222	255	246	41	13.2	16.7	21.6	31.0	6.0

Unit: IDR bn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

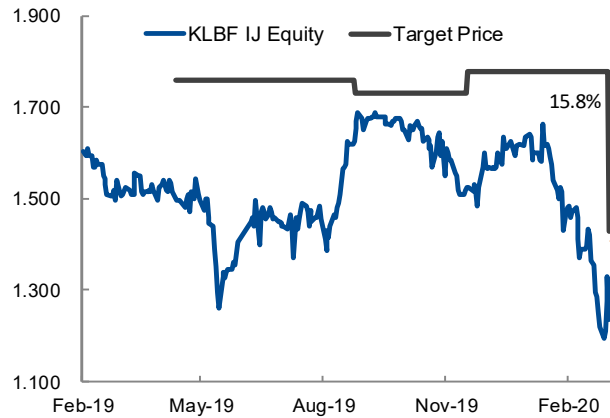
INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E		2018/12A	2019/12E	2020/12E	2021/12E
Net Sales	21.074	22.622	24.028	25.565	ROE	16,1%	15,0%	14,5%	14,1%
<i>Growth</i>	4,4%	7,3%	6,2%	6,4%	ROA	13,5%	12,5%	12,2%	11,9%
COGS	(11.226)	(12.338)	(13.118)	(13.913)	ROIC	15,5%	14,2%	14,0%	13,6%
Gross Profit	9.848	10.284	10.910	11.652	Cash Dividend (IDR bn)	1.172	1.219	1.220	1.277
<i>Gross Margin</i>	46,7%	45,5%	45,4%	45,6%	Dividend Yield	1,5%	1,7%	1,7%	1,8%
Operating Expenses	(6.635)	(7.004)	(7.449)	(8.027)	Payout Ratio	47,7%	48,7%	46,6%	46,3%
EBIT	3.213	3.280	3.461	3.625	DER	2,3%	4,2%	2,8%	2,3%
<i>EBIT Margin</i>	15,2%	14,5%	14,4%	14,2%	Net Gearing	2,5%	4,5%	3,0%	2,4%
Depreciation	463	462	463	635	LT Debt to Equity	1,7%	3,4%	1,6%	1,3%
EBITDA	3.676	3.742	3.924	4.260	Capitalization Ratio	2,3%	4,1%	2,7%	2,3%
<i>EBITDA Margin</i>	17,4%	16,5%	16,3%	16,7%	Equity Ratio	84,3%	83,6%	84,1%	84,8%
Interest Expenses	(20)	(31)	(61)	(42)	Debt Ratio	2,0%	3,5%	2,4%	2,0%
EBT	3.306	3.366	3.524	3.715	Financial Leverage	99,2%	100,8%	99,5%	99,2%
Income Tax	(809)	(825)	(863)	(910)	Current Ratio	465,8%	472,6%	435,2%	443,5%
Minority Interest	(40)	(40)	(42)	(44)	Par Value (IDR)	10	10	10	10
Net Profit	2.457	2.502	2.619	2.761	Total Shares (mn)	46.875	46.875	46.875	46.875
<i>Growth</i>	2,2%	1,8%	4,7%	5,4%	Share Price (IDR)	1.690	1.520	1.495	1.495
<i>Net Profit Margin</i>	11,7%	11,1%	10,9%	10,8%	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	3.442	3.797	4.221	Price /Earnings	32,2x	28,5x	26,8x	25,4x
Receivables	3.256	3.450	3.279	3.488	Price /Book Value	5,2x	4,3x	3,9x	3,6x
Inventories	3.475	3.841	3.971	4.212	Price/Sales	3,8x	3,1x	2,9x	2,7x
Total Current Assets	10.648	11.264	11.791	12.559	PE/EPS Growth	14,5x	15,7x	5,7x	4,7x
Net Fixed Assets	6.253	7.498	8.534	9.352	EV/EBITDA	21,0x	18,6x	17,3x	15,8x
Other Non Current Assets	1.245	1.231	1.225	1.221	EV/EBIT	24,0x	21,2x	19,6x	18,6x
Total Assets	18.146	19.994	21.550	23.132	EV (IDR bn)	77.210	69.447	67.724	67.244
Payables	1.290	1.218	1.401	1.486	Sales CAGR (3-Yr)	5,6%	5,3%	6,0%	6,7%
ST Bank Loan	97	134	227	195	EPS CAGR (3-Yr)	7,0%	2,8%	2,9%	4,0%
LT Debt	260	573	285	261	Basic EPS (IDR)	52	53	56	59
Total Liabilities	2.852	3.272	3.310	3.408	Diluted EPS (IDR)	52	53	56	59
Capital Stock & APIC	435	435	435	435	BVPS (IDR)	326	357	387	418
Retained Earnings	14.073	15.356	16.756	18.240	Sales PS (IDR)	450	483	513	545
Shareholders' Equity	15.295	16.722	18.122	19.606	DPS (IDR)	25	26	26	27

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E	By Geography	% Shareholders	%	
Operating Cash Flow	2.843	2.691	3.144	3.206	Indonesia	80,1	Gira Sole Prima	10,2
Investing Cash Flow	(1.400)	(1.661)	(1.372)	(1.449)	United States	7,3	Santa Seha Sanadi	9,7
Financing Cash Flow	(1.074)	(741)	(1.416)	(1.333)	United Kingdom	5,6	Diptanala Bahana	9,5
Net Changes in Cash	369	289	355	424	Canada	2,5	Ladang Ira Panen	9,5

Source: Company Data, NHKS Research

Closing and target price update



Source: NHKSI 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
2019.11.22	Buy	IDR1,780 (12M)	IDR1,737
2020.03.06	Buy	IDR1,430 (12M)	IDR1,587

Source: NHKSI 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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