

Kalbe Farma Tbk (KLBF IJ)

Discerns Cost Efficiency Vital to Earnings

Kalbe Farma is one of the leading pharmaceutical companies succeeding to maintain solid net profits growth as it ensures costs in check, continuous quality improvement, updated innovation, and aggressive overseas expansion. Its endeavours to keep its performance outshining sketch a bright outlook.

Cost Efficiency Bolsters 3Q19 Profits

The 3Q19 revenues stood at IDR5.6 trillion (+6.6% y-y, -3% q-q) to show contracted top line along with declining gross profits to IDR2.5 trillion. Meanwhile, GPM was at 45.8%, and the bottom line was at IDR657 billion (+11.7% y-y, -1% q-q). The top line, on a quarterly basis, was contracted, but EBIT showed growth as it contributed revenues of IDR878 billion with OPM of 15.5%. The declining 3Q19 opex to IDR1.7 trillion from IDR1.8 trillion in 2Q19 or a 6% q-q decline was attributable to growing EBIT. In addition, the 9M19 A&P expense, on a cumulative basis, dropped to IDR1.34 trillion from IDR1.39 trillion in 9M18 or a 3% q-q drop. KLBF cumulatively posted revenues of IDR16 trillion or a 7.3% y-y growth aligning with its targeted growth of 6%-8%.

Segmental Highlight

Based on 3Q19 sales breakdown, all segments virtually grew, excluding the consumer health segment. This segment was underperformed as its sales showed a 5.9% y-y decline to IDR820 billion from IDR871 billion in 3Q18. Besides, the distribution & packaging segment enjoyed an 18.0% y-y surge in sales to IDR1.8 trillion from IDR1.6 trillion. Furthermore, the nutritional food and prescription drugs segments secured revenues of IDR1.6 trillion and IDR1.2 trillion, respectively. Aware of the outshining performance of the distribution & packaging segment, KLBF collaborates with PT Enseval Putera Megatrading Tbk (Enseval) to launch a digital transportation platform, namely MONSTRANS. The platform also embodies KLBF's commitment to providing quality services in a digital era as it is optimistic that the platform will keep the distribution & packaging segment posting double-digit growth.

Domestic Sales to Dominate

The 9M19 domestic sales of IDR15 trillion or an 8% y-y growth dominated KLBF's total sales as export sales dropped by 4% y-y to IDR845 billion. Its aggressive business expansion in 3Q19 embodied in the incorporation of a new third-tier company, Kalbe Lanka (Pvt) Ltd formed by KLBF's two subsidiaries: Kalbe International Ltd and PT Dankos Farma. The new company is expected to bolster exports contributing only ~5% to the total revenues.

BUY Rating with Price Target of IDR1,780

We revise higher recommendation for KLBF from HOLD into BUY with the price target of IDR1,780 based on the P/E forward of 30.2x with a 16.7% yield upside potential, deriving from the current stock price. The estimate of a bright outlook is on grounds of cost efficiency, the rupiah appreciation, aggressive innovation, and the government policies on BPJS premiums. Meanwhile, risks arising from the price target are the rupiah depreciation, the unsuccessful implementation of rising BPJS premiums, and soft consumption.

Kalbe Farma Tbk | Summary

	2018A	2019E	2020F	2021F
Net Sales	21,074	22,495	23,744	25,060
Sales Growth	4.4%	6.7%	5.6%	5.5%
EBITDA	3,676	3,945	4,130	4,560
Net Profit	2,475	2,651	2,771	2,982
EPS (IDR)	52	57	59	64
EPS Growth	2.2%	7.9%	4.5%	7.6%
BVPS	326	360	391	426
EBITDA ,margin	17.4%	17.5%	17.4%	18.2%
NPM	11.7%	11.8%	11.7%	11.9%
ROE	16.1%	15.7%	15.1%	14.9%
ROA	13.5%	13.2%	12.8%	12.8%
ROIC	15.5%	14.9%	14.7%	14.5%
P/E	32.2x	26.9x	25.3x	23.5x
P/BV	5.2x	4.2x	3.8x	3.5x
EV/EBITDA	21.0x	17.6x	16.4x	14.7x
DPS (IDR)	25	26	28	29
Dividend Yield	1.5%	1.7%	1.9%	1.9%

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

Hold

Dec 2020 TP (IDR)	1,780
Consensus Price (IDR)	1,737
TP to Consensus Price	+2.5%
vs. Last Price	+16.7%

Shares data

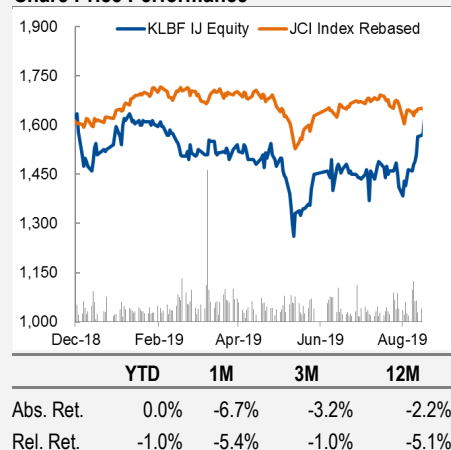
Last Price (IDR)	1,525
Price date as of	Nov 22, 2019
52 wk range (Hi/Lo)	1,690 / 1,190
Free float (%)	42.8
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	73.594
Market Cap (USD mn)	5,158
Avg. Trd Vol - 3M (mn)	22.64
Avg. Trd Val - 3M (bn)	32.75
Foreign Ownership	19.9%

Consumer Health

Pharmaceutical & Nutritional Products

Bloomberg	KLBF IJ
Reuters	KLBF.JK

Share Price Performance

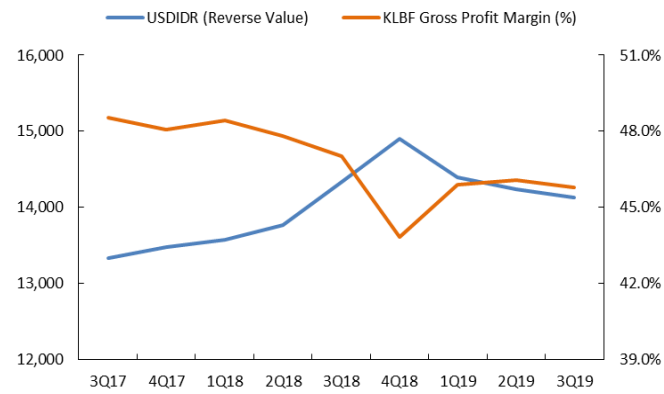


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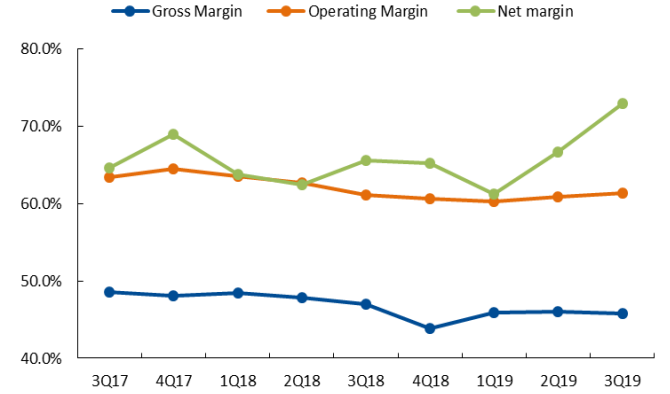
Performance highlights in chart

Steady USDIDR will minimize pressure on gross margin



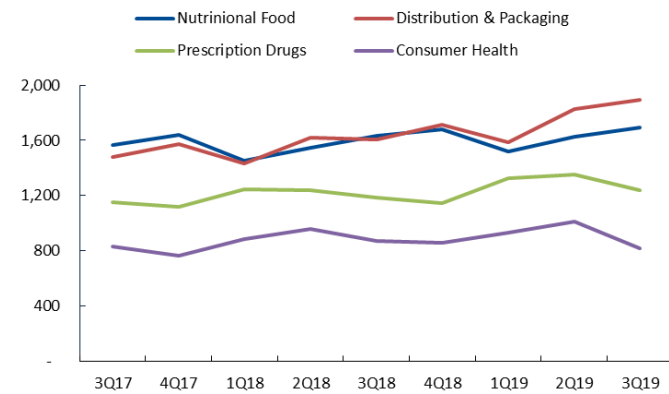
Source: JPMorgan, Bloomberg, NHKS Research

KLBF's Margin Ratio



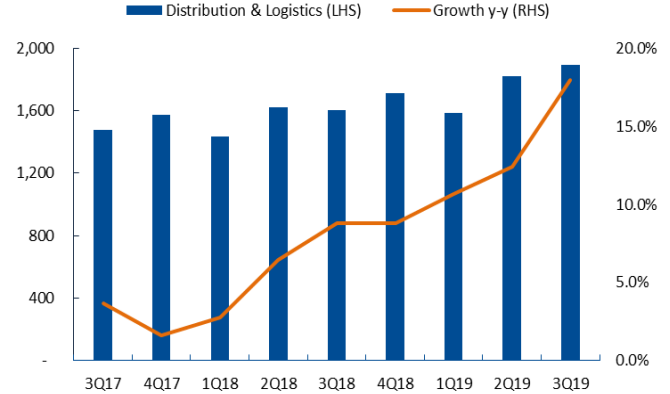
Source: Company Data, NHKS Research

Increasing distribution and consumer segments contribution



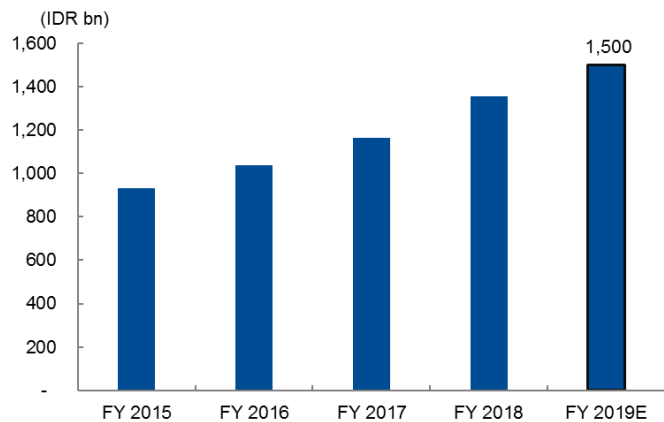
Source: Company Data, NHKS Research

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



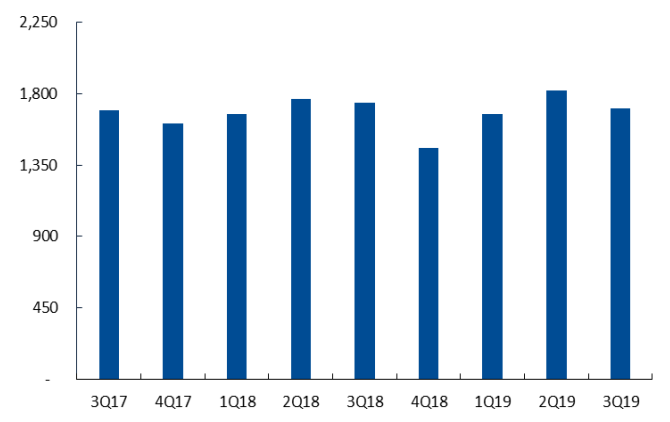
Source: Company Data, NHKS Research

Upward trend of KLBF capital expenditure



Source: Company Data, NHKS Research

Operating Expenses (IDR bn) | 3Q17–3Q19



Source: Company Data, NHKS Research

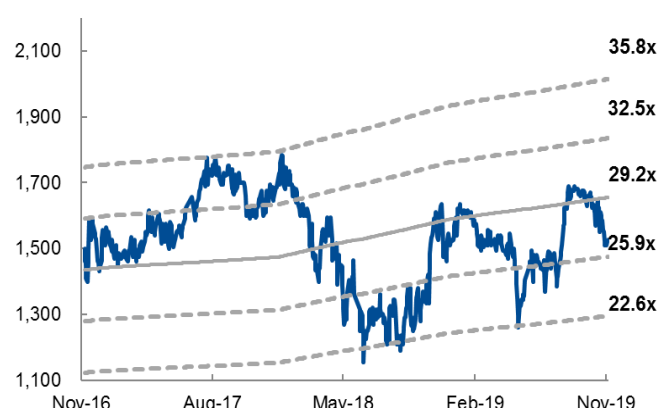
Valuation highlights in chart

3-year forward P/E band



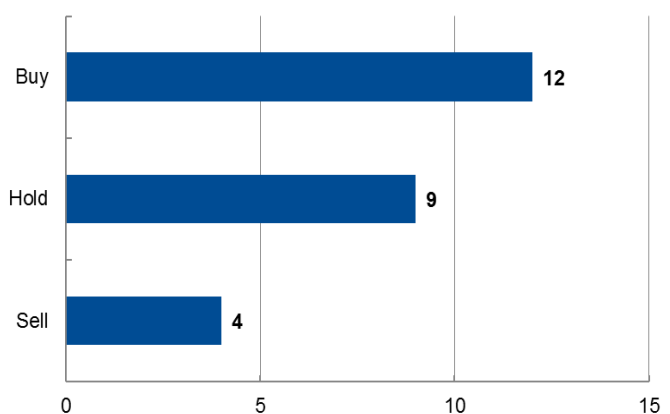
Source: Company Data, NHKS Research

3-year dynamic forward P/E band



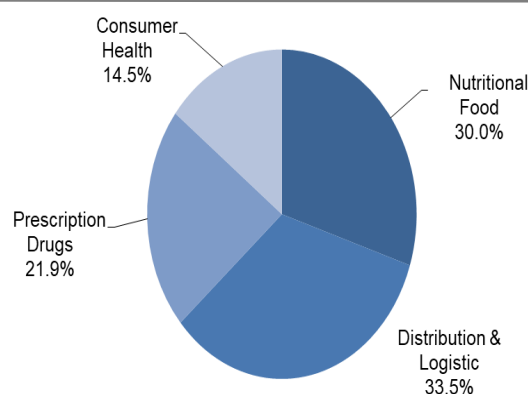
Source: Company Data, NHKS Research

Consensus of analyst recommendation



Source: Bloomberg, NHKS Research

3Q19 Revenue Breakdown



Source: Company Data, NHKS Research

Quarterly review

	3Q18	4Q18	1Q18	2Q19	3Q19					4Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Net Sales	5,298	5,396	5,301	5,301	5,813	5,545	6.6	-2.8	1.9%	5,733
Gross Profit	2,490	2,364	2,433	2,433	2,679	2,612	3.9	-3.5	-1.0%	2,669
EBIT	747	908	764	764	858	854	17.4	2.3	2.8%	983
EBITDA	867	1,024	884	884	983	957	16.4	11.2	5.4%	1,069
Net Profit	589	653	595	595	657	674	11.7	11.4	-2.5%	736
Margin										
Gross Margin	47.0	43.8	45.9	45.9	46.1	47.1	-1.2	-0.3	-2.8%	46.5
EBIT Margin	14.1	16.8	14.4	14.4	14.8	15.4	1.4	0.8	0.9%	17.1
EBITDA Margin	16.4	19.0	16.7	16.7	16.9	17.3	1.5	0.9	3.5%	18.6
Net Profit Margin	11.1	12.1	11.2	11.2	11.4	12.2	0.5	0.2	-4.3%	12.6

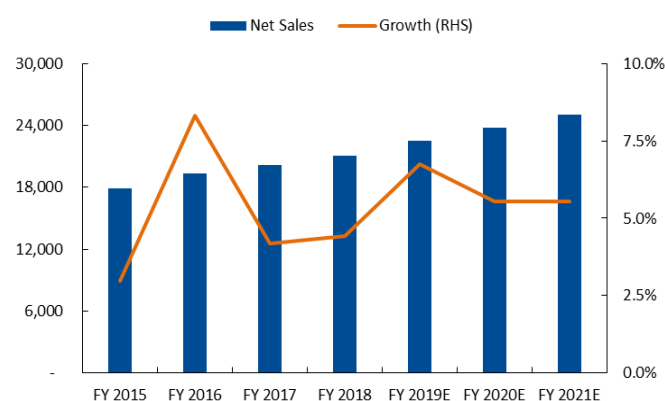
Unit: IDR bn, %, USD/ton

Source: Company Data, NHKS Research

Company Overview

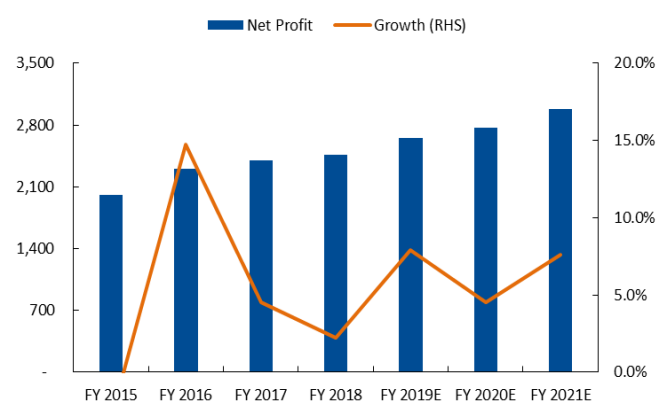
- PT Kalbe Farma Tbk (KLBF), founded in 1966, is a leading pharmaceutical company in Indonesia.
- KLBF expands and transforms its businesses into an integrated healthcare solution embodied in its four well-diversified business divisions: Prescription Pharmaceutical (23% contribution), Consumer Health (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.
- KLFB 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	5,217	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

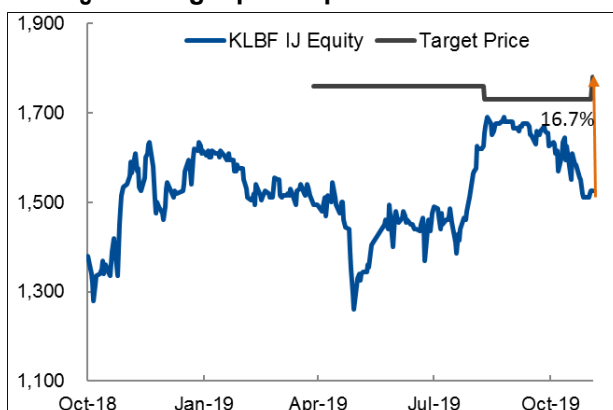
INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E		2018/12A	2019/12E	2020/12E	2021/12E
Net Sales	21,074	22,495	23,744	25,060	ROE	16.1%	15.7%	15.1%	14.9%
<i>Growth</i>	4.4%	6.7%	5.6%	5.5%	ROA	13.5%	13.2%	12.8%	12.8%
COGS	(11,226)	(12,128)	(12,573)	(13,264)	ROIC	15.5%	14.9%	14.7%	14.5%
Gross Profit	9,848	10,367	11,171	11,795	Cash Dividend (IDR bn)	1,172	1,219	1,293	1,351
<i>Gross Margin</i>	46.7%	46.1%	47.0%	47.1%	Dividend Yield	1.5%	1.7%	1.8%	1.9%
Operating Expenses	(6,635)	(6,884)	(7,503)	(7,869)	Payout Ratio	47.7%	46.0%	46.7%	45.3%
EBIT	3,213	3,483	3,668	3,927	DER	2.3%	4.2%	2.8%	2.3%
<i>EBIT Margin</i>	15.2%	15.5%	15.4%	15.7%	Net Gearing	2.5%	4.5%	3.0%	2.4%
Depreciation	463	462	462	634	LT Debt to Equity	1.7%	3.4%	1.6%	1.3%
EBITDA	3,676	3,945	4,130	4,560	Capitalization Ratio	2.3%	4.1%	2.7%	2.3%
<i>EBITDA Margin</i>	17.4%	17.5%	17.4%	18.2%	Equity Ratio	84.3%	84.0%	85.0%	85.7%
Interest Expenses	(20)	(31)	(61)	(42)	Debt Ratio	2.0%	3.6%	2.4%	2.0%
EBT	3,306	3,568	3,729	4,014	Financial Leverage	99.2%	100.3%	98.9%	99.1%
Income Tax	(809)	(875)	(915)	(984)	Current Ratio	465.8%	484.9%	449.1%	466.0%
Minority Interest	(40)	(42)	(44)	(47)	Par Value (IDR)	10	10	10	10
Net Profit	2,457	2,651	2,771	2,982	Total Shares (mn)	46,875	46,875	46,875	46,875
<i>Growth</i>	2.2%	7.9%	4.5%	7.6%	Share Price (IDR)	1,690	1,520	1,495	1,495
<i>Net Profit Margin</i>	11.7%	11.8%	11.7%	11.9%	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	3,414	3,693	4,314	Price /Earnings	32.2x	26.9x	25.3x	23.5x
Receivables	3,256	3,585	3,240	3,419	Price /Book Value	5.2x	4.2x	3.8x	3.5x
Inventories	3,475	3,716	4,184	4,414	Price/Sales	3.8x	3.2x	3.0x	2.8x
Total Current Assets	10,648	11,246	11,861	12,785	PE/EPS Growth	14.5x	3.4x	5.6x	3.1x
Net Fixed Assets	6,253	7,607	8,509	9,299	EV/EBITDA	21.0x	17.6x	16.4x	14.7x
Other Non Current Assets	1,245	1,231	1,225	1,221	EV/EBIT	24.0x	19.9x	18.5x	17.1x
Total Assets	18,146	20,085	21,595	23,305	EV (IDR bn)	77,210	69,482	67,835	67,160
Payables	1,290	1,175	1,343	1,417	Sales CAGR (3-Yr)	5.6%	5.1%	5.6%	5.9%
ST Bank Loan	97	135	229	199	EPS CAGR (3-Yr)	7.0%	4.9%	4.9%	6.7%
LT Debt	260	579	289	266	Basic EPS (IDR)	52	57	59	64
Total Liabilities	2,852	3,213	3,245	3,324	Diluted EPS (IDR)	52	57	59	64
Capital Stock & APIC	435	435	435	435	BVPS (IDR)	326	360	391	426
Retained Earnings	14,073	15,506	16,984	18,615	Sales PS (IDR)	450	480	507	535
Shareholders' Equity	15,295	16,872	18,350	19,981	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	2,765	3,125	3,445	Indonesia	80.1	Gira Sole Prima	10.2
Investing Cash Flow	(1,400)	(1,770)	(1,356)	(1,420)	United States	7.3	Santa Seha Sanadi	9.7
Financing Cash Flow	(1,074)	(734)	(1,489)	(1,405)	United Kingdom	5.6	Diptanala Bahana	9.5
Net Changes in Cash	369	260	280	621	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
2019.11.22	Buy	IDR1,780 (12M)	IDR1,737

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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