

Kalbe Farma Tbk (KLBF)

Flat Growth Ahead

Growth of 2.4% in Sales

KLBF's sales grew by 2.4% from IDR4.89 trillion in 1Q17 into IDR5.01 trillion in 1Q18. The growth was boosted by the sales growth of 3.6%, 2.1%, 2.8%, and 0.5% respectively posted by the prescription drugs, the nutritional food, the distribution, and the consumer health.

Lowest Sales Growth by the Nutritional Food

Based on the Nielsen Retail data, **the sales volume of dairy powder in Indonesia edged down 2.5%** from 203 million tons in 2016 into 198 million tons in 2017. We estimate that **the downtrend likely impacted on the nutritional food**. Of note, **the nutritional food posted the 1Q18 growth of 2.1% the last-5-year-lowest growth**.

Partnership Obligatory

Based on the government regulation Number 26/Permentan/PK.450/7/2017 Article 23 & 24 on Dairy Supplies and Distribution, the producers of processed dairy products **are obligated to build the partnership with farmers**, farmers groups, and or cooperatives with a view to making use Local Fresh Dairy appropriate to the real production capacities. **The regulation likely sends KLBF's capex to soar and lower its gross margin**.

Target Price of IDR1,730

We use an estimate of forward of P/E of 30.8x (the 3-year average) as the basis of valuation method for obtaining the target price of December 2018. The target price implies a 2018E P/E of 32.3x. Now, KLBF is traded at a discount of a 2018/E P/E of 28.3x.

Kalbe Farma, Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Sales	19,374	20,182	21,034	21,926
<i>Sales growth</i>	8.3%	4.2%	4.2%	4.2%
EBITDA	3,382	3,608	3,697	3,884
Net profit	2,300	2,404	2,511	2,639
EPS (IDR)	49	51	54	56
<i>EPS growth</i>	14.7%	4.5%	4.5%	5.1%
BVPS (IDR)	266	296	328	360
EBITDA margin	17.5%	17.9%	17.6%	17.7%
NPM	11.9%	11.9%	11.9%	12.0%
ROE	19.7%	18.2%	17.2%	16.4%
ROA	15.9%	15.1%	14.4%	13.8%
ROIC	18.8%	17.7%	16.6%	16.7%
P/E	30.9x	29.5x	28.3x	26.9x
P/BV	5.7x	5.1x	4.6x	4.2x
EV/EBITDA	20.4x	19.2x	18.6x	17.5x
DPS (IDR)	19	22	23	24
<i>Dividend yield</i>	1.3%	1.5%	1.5%	1.6%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Company Report | May 04, 2018

Hold

Dec 2018 TP (IDR)	1,730
Consensus Price (IDR)	1,647
TP to Consensus Price	+5.0%
vs. Last Price	+14.2%

Shares data

Last Price (IDR)	1,515
Price date as of	May 02, 2018
52 wk range (Hi/Lo)	1,785/1,400
Free float (%)	43.3
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	78,750
Market Cap (USD mn)	5,800
Avg. Trd Vol - 3M (mn)	21.49
Avg. Trd Val - 3M (bn)	35.44
Foreign Ownership	18.1%

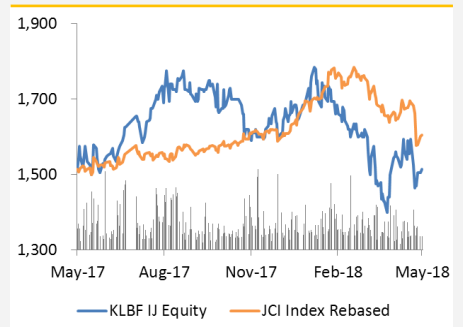
Consumer Specialty

Pharmaceutical & Nutritional Product	
Bloomberg	KLBF IJ
Reuters	KLBF.JK

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Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-10.4%	-1.9%	-8.7%	0.0%
Rel. Ret.	-5.0%	1.7%	0.6%	-5.9%

A Glance at KLBF

Established in 1966, KLBF has marked a tremendous development from a modest business in a garage to the leading pharmaceutical producer in Indonesia. Not only does KLBF penetrate into ASEAN, Nigeria, and South Africa's markets but it also becomes a national-health-product producer competently competing in the export market.

Undergoing an organic growth, mergers, and acquisitions, KLBF has grown and transformed into an integrated-health-solution provider through its four business groups: the Prescription Pharmaceutical Division (23% contribution), the Consumer Health Division (17% contribution), the Nutritional Division (29% contribution), and the Distribution and Logistics Division (30% contribution).

KLBF's Competitiveness in the Asia Pacific

KLBF has the fourth-biggest dividend yield after China Medical System Holding, Shenzhen Salubris, and Zhejiang. Although it has the lowest net profit margin, it has a high ROE reaching 17.2%. Its relatively high valuation makes it a top pick if any price correction is carried on further.

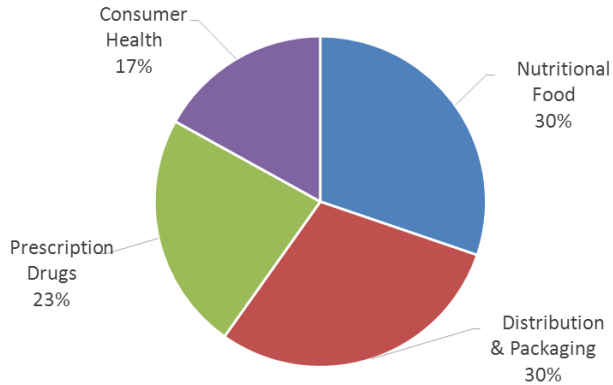
Asia Pacific Pharmaceuticals

Company	Market Cap (USD mn)	Total Asset (USD mn)	Net Profit Growth	Net Profit Margin	ROE	P/E	P/BV	Dividend Yield
KALBE FARMA	4,953	1,223	4.5%	11.9%	17.2%	28.3x	4.6x	1.5%
KIMIA FARMA	839	449	22.2%	5.3%	13.8%	35.9x	4.7x	0.8%
India								
CIPLA LTD	7,232	3,230	-26.0%	7.2%	8.4%	47.8x	3.8x	0.3%
PIRAMAL ENTERPRISES LTD	6,848	7,437	38.4%	22.9%	9.0%	35.0x	2.9x	0.8%
AUROBINDO PHARMA LTD	5,424	2,505	13.7%	15.5%	27.6%	15.7x	3.9x	0.6%
DR. REDDY'S LABORATORIES	5,219	3,389	-43.5%	8.5%	9.6%	29.0x	2.8x	1.0%
TORRENT PHARMACEUTICALS LTD	3,520	1,561	-46.1%	15.9%	23.8%	25.1x	5.4x	0.9%
China								
SICHUAN KELUN PHARMACEUTIC-A	7,694	3,373	65.0%	6.7%	3.7%	51.8x	4.1x	0.4%
TASLY PHARMACEUTICAL GROUP-A	7,648	3,309	17.4%	8.7%	16.5%	34.1x	5.4x	1.2%
ZHEJIANG NHU CO LTD-A	6,854	1,644	132.0%	27.8%	15.7%	13.9x	4.5x	1.7%
SHENZHEN SALUBRIS PHARM-A	6,759	1,055	5.4%	35.6%	24.4%	28.7x	6.7x	1.7%
Hong Kong								
CHINA MEDICAL SYSTEM HOLDING	6,160	1,560	21.7%	31.3%	24.8%	23.4x	5.4x	1.7%
LUYE PHARMA GROUP LTD	3,605	1,654	10.1%	25.7%	14.9%	23.2x	3.4x	0.9%
South Korea								
HANMI PHARM CO LTD	4,885	1,556	1077.2%	6.6%	8.7%	87.2x	7.2x	0.1%
YUHAN CORP	2,593	1,962	-32.3%	7.5%	6.7%	24.2x	1.6x	0.8%
Bangladesh								
SQUARE PHARMACEUTICALS LTD	2,712	652	15.6%	29.1%	23.7%	21.2x	4.6x	1.1%

Source: Bloomberg, NHKS research

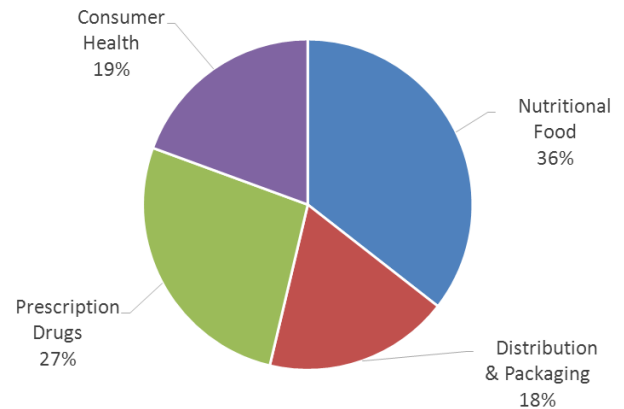
Performance Highlights

KLBF Sales Breakdown | FY2017



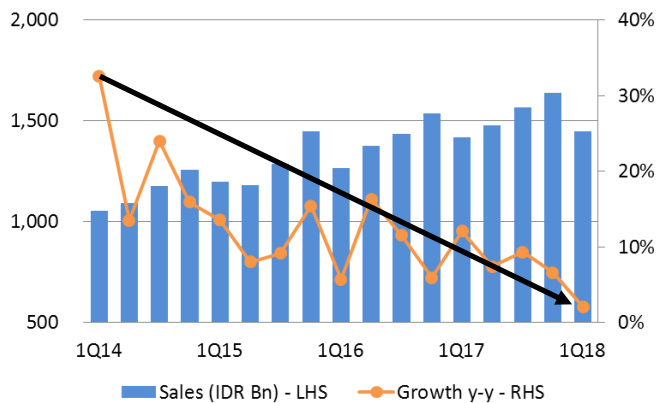
Source: Company, NHKS Research

KLBF Gross Profit Breakdown | FY2017



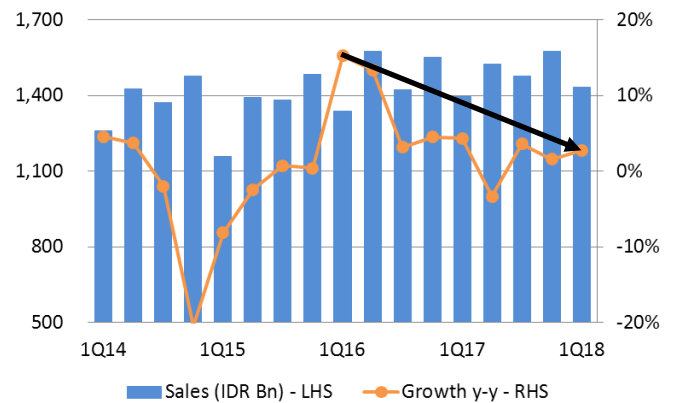
Source: Company, NHKS Research

Nutritional Food y-y Sales Growth | 2014 - 2018



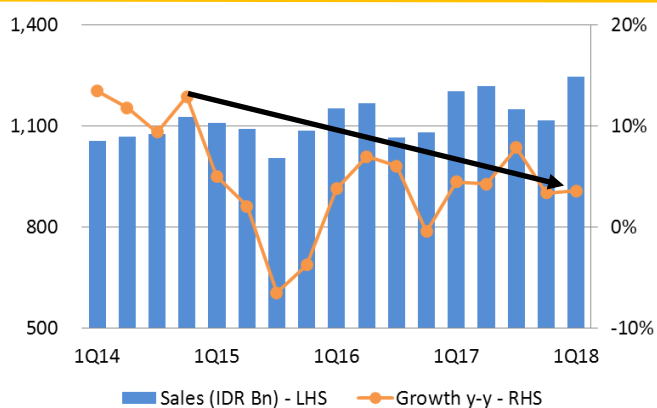
Source: Company, NHKS Research

Distribution y-y Sales Growth | 2014 - 2018



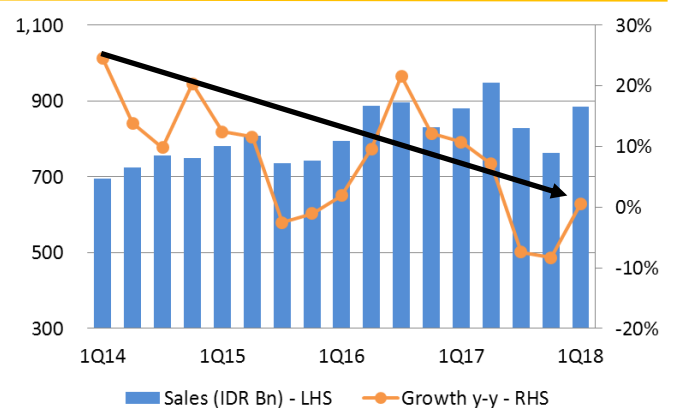
Source: Company, NHKS Research

Prescription Drugs y-y Sales Growth | 2014 - 2018



Source: Company, NHKS Research

Consumer Health y-y Sales Growth | 2014 - 2018



Source: Company, NHKS Research

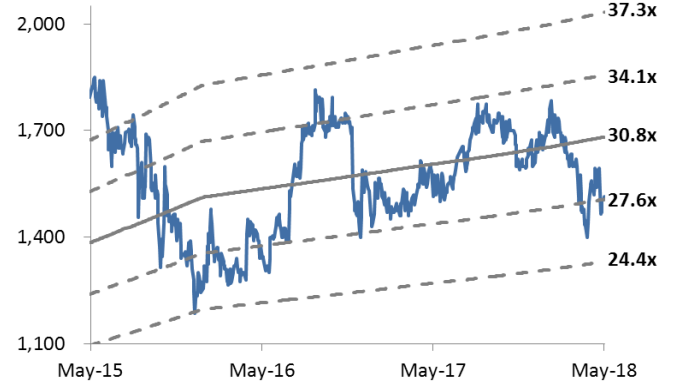
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

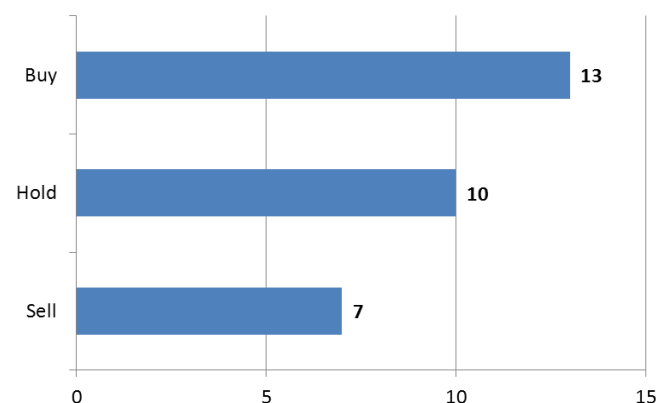
Rating and target price update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
05/10/2017	Buy	1,860 (Dec 2017)	1,515	1,695	+22.8%	+9.7%
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%

Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

- Period: End of year target price
- 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

KLBF Summary		
Last Price (IDR)	May 2, 2018	1,515
Target Price (IDR)	Dec 2018	1,730
Analyst: Joni Wintarja	Rating:	Hold

INCOME STATEMENT

in IDR Bn	2016/12A	2017/12A	2018/12E	2019/12E
Sales	19,374	20,182	21,034	21,926
Growth (% y/y)	8.3%	4.2%	4.2%	4.2%
COGS	(9,886)	(10,370)	(10,853)	(11,288)
Gross Profit	9,488	9,812	10,181	10,638
Gross Margin	49.0%	48.6%	48.4%	48.5%
Operating Expenses	(6,503)	(6,653)	(6,905)	(7,198)
EBIT	2,985	3,159	3,276	3,440
EBIT Margin	15.4%	15.7%	15.6%	15.7%
Depreciation	397	449	420	444
EBITDA	3,382	3,608	3,697	3,884
EBITDA Margin	17.5%	17.9%	17.6%	17.7%
Interest Expenses	(18)	(26)	(21)	(18)
EBT	3,091	3,241	3,377	3,550
Income Tax	(740)	(788)	(820)	(862)
Minority Interest	(51)	(50)	(46)	(49)
Net Profit	2,300	2,404	2,511	2,639
Growth (% y/y)	14.7%	4.5%	4.5%	5.1%
Net Profit Margin	11.9%	11.9%	11.9%	12.0%

BALANCE SHEET

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	2,896	2,785	3,321	3,749
Receivables	2,631	2,876	3,078	3,129
Inventories	3,344	3,557	3,666	3,847
Total Current Assets	9,573	10,044	10,948	11,579
Net Fixed Assets	4,556	5,343	6,179	7,008
Other Non Current Assets	1,098	1,230	1,214	1,214
Total Assets	15,226	16,616	18,341	19,801
Payables	1,127	1,109	1,232	1,202
ST Bank Loan	149	173	151	115
Other Current Liab.	1,041	945	1,138	1,187
LT Debt	134	146	114	91
Other Non Current Liab.	311	349	353	338
Total Liabilities	2,762	2,722	2,988	2,933
Shareholders' Equity	12,464	13,894	15,353	16,867

CASH FLOW STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	2,300	2,404	2,511	2,639
Deprec & Amortization	397	449	420	444
Chg. In Working Capital	(463)	(773)	(52)	(183)
CFO	2,233	2,080	2,879	2,900
Capex	(1,099)	(1,164)	(1,222)	(1,274)
CFI	(1,121)	(1,221)	(1,203)	(1,289)
Dividends Paid	(891)	(1,031)	(1,077)	(1,125)
Net Borrowing (PMT)	(94)	72	(54)	(58)
CFE	(916)	(932)	(1,106)	(1,183)
Net Changes in Cash	196	(73)	570	428

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	81.9	Gira Sole Prima, PT 10.2
United States	7.2	Santa Seha Sanadi, PT 9.7
Britain	2.8	Diptanala Bahana, PT 9.5
Luxembourg	2.8	Lucasta Murni C. 9.5

PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	19.7%	18.2%	17.2%	16.4%
ROA	15.9%	15.1%	14.4%	13.8%
ROIC	18.8%	17.7%	16.6%	16.7%
EBITDA/Equity	28.9%	27.4%	25.3%	24.1%
EBITDA/Assets	15.9%	15.1%	14.4%	13.8%
Cash Dividend (IDR bn)	891	1,031	1,077	1,125
Dividend Yield (%)	1.3%	1.5%	1.5%	1.6%
Payout Ratio (%)	44.4%	44.8%	44.8%	44.8%
DER	2.3%	2.3%	1.7%	1.2%
Net Gearing	2.4%	2.4%	1.8%	1.3%
LT Debt to Equity	1.1%	1.0%	0.7%	0.5%
Capitalization Ratio	2.2%	2.2%	1.7%	1.2%
Equity Ratio	81.9%	83.6%	83.7%	85.2%
Debt Ratio	1.9%	1.9%	1.4%	1.0%
Financial Leverage	117.1%	115.5%	113.6%	113.8%
Current Ratio	413.1%	450.9%	434.2%	462.4%
Quick Ratio	238.5%	254.2%	253.8%	274.6%
Cash Ratio	125.0%	125.0%	131.7%	149.7%
Cash Conversion Cycle	123.6	131.9	133.8	133.8
Par Value (IDR)	10	10	10	10
Total Shares (mn)	46,875	46,875	46,875	46,875
Share Price (IDR)	1,515	1,515	1,515	1,515
Market Cap (IDR tn)	71.0	71.0	71.0	71.0

VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	30.9x	29.5x	28.3x	26.9x
Price /Book Value	5.7x	5.1x	4.6x	4.2x
Price/Sales	3.7x	3.5x	3.4x	3.2x
PE/EPS Growth	2.1x	6.5x	6.3x	5.3x
EV/EBITDA	20.4x	19.2x	18.6x	17.5x
EV/EBIT	23.1x	21.9x	21.0x	19.8x
EV (IDR bn)	69,017	69,222	68,656	68,170
Sales CAGR (3-Yr)	6.6%	5.1%	5.6%	4.2%
EPS CAGR (3-Yr)	6.2%	5.2%	7.8%	4.7%
Basic EPS (IDR)	49	51	54	56
Diluted EPS (IDR)	49	51	54	56
BVPS (IDR)	266	296	328	360
Sales PS (IDR)	413	431	449	468
DPS (IDR)	19	22	23	24

DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	2,270	2,391	2,481	2,605
+Depr./Amor.	397	449	420	444
-CAPEX	(1,099)	(1,164)	(1,222)	(1,274)
-Incr. (Decr.) in Working Cap.	(463)	(773)	(52)	(183)
(Unlevered) FCFF	1,105	903	1,627	1,592
WACC				
Cost of Debt (Tax Adj.)	8.9%	8.5%	8.5%	8.5%
Cost of Equity (COE)	10.1%	12.6%	12.6%	12.6%
WACC (%)	10.1%	12.6%	12.6%	12.6%
RIM				
Spread (FROE-COE) (%)	11.0%	6.7%	5.4%	4.6%
Residual Income (IDR bn)	1,200	830	757	701
Equity Charge	1,100	1,574	1,754	1,939
EVA				
Invested Capital (IDR bn)	11,337	12,747	14,213	15,618
ROIC-WACC (%)	10.0%	6.1%	4.8%	4.1%
EVA (IDR mn)	1,130	784	688	635

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