

Kalbe Farma Tbk (KLBF)

Intact Growth Potential

Company Report | Dec 15, 2017

Buy

Dec 2018 TP (IDR)	2,020
Consensus Price (IDR)	1,711
TP to Consensus Price	+18.0%
vs. Last Price	+19.2%

Shares data

Last Price (IDR)	1,695
Price date as of	Dec 14, 2017
52 wk range (Hi/Lo)	1,775/1,430
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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4.2% Sales Growth

KLBF posted the growth of 4.2% in sales from IDR4.82 trillion in 3Q16 into IDR5.02 trillion in 3Q17. **The nutritional food division** posting the growth of 9% and **the prescription drugs division** posting the growth of 8% **were the bolster for the growth in sales.**

Slight Growth of 1.2% in Net Profit

KLBF booked the net profit nudging up 1.2% from IDR556 billion in 3Q16 into IDR563 billion 3Q17. It **succeeded to maintain the stable gross profit margin for its four business divisions.** The nutritional food, prescription drugs, and consumer health divisions have the gross profit margin at the average of 56%, while the distribution & packaging division has the gross profit margin at the average of 30%.

Maintaining Optimism in 2018

The robust purchasing power and the growth in the middle class segment in Indonesia are the potent driver for KLBF's sales growth in the coming years. We estimate that in 2018, it will be capable of posting the upward sales of 7.4% into IDR21.8 trillion.

Target Price Rp2.020

We use an estimate of forward P/E of 34.3x (+0.5 SD higher than the 3 years average of 32.3x) as the basis of valuation method to obtain the target price of December 2018. This target price implies a 2018/E P/E of 37.0x. Now, KLBF is traded at a discount at a 2017/E P/E of 33.2x.

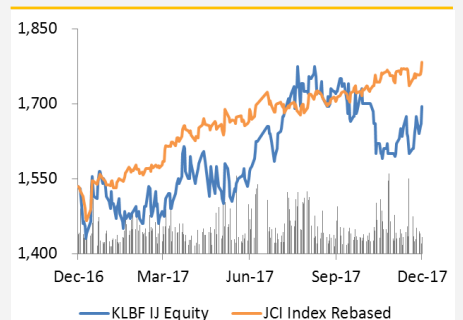
Kalbe Farma, Tbk | Summary (IDR bn)

	2016/12A	2017/12E	2018/12E	2019/12E
Sales	19,374	20,348	21,849	23,565
<i>Sales growth</i>	8.3%	5.0%	7.4%	7.9%
EBITDA	3,382	3,560	3,780	4,097
Net profit	2,300	2,396	2,559	2,765
EPS (IDR)	49	51	55	59
<i>EPS growth</i>	14.7%	4.2%	6.8%	8.0%
BVPS (IDR)	266	296	328	362
EBITDA margin	17.5%	17.5%	17.3%	17.4%
NPM	11.9%	11.8%	11.7%	11.7%
ROE	19.7%	18.2%	17.5%	17.1%
ROA	15.9%	14.8%	14.2%	14.0%
ROIC	18.8%	17.5%	16.9%	17.4%
P/E	30.9x	33.2x	31.1x	28.7x
P/BV	5.7x	5.7x	5.2x	4.7x
EV/EBITDA	20.4x	21.5x	20.2x	18.5x
DPS (IDR)	19	22	23	24
<i>Dividend yield</i>	1.3%	1.3%	1.4%	1.4%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Share Price Performance



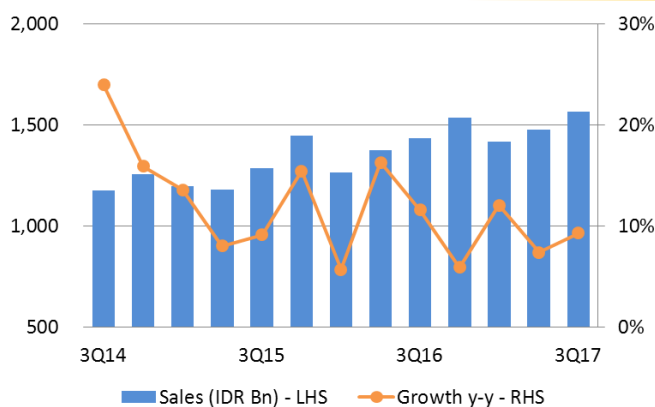
	YTD	1M	3M	12M
Abs. Ret.	12.3%	5.9%	-1.7%	10.4%
Rel. Ret.	-3.6%	3.8%	-6.2%	-5.7%

Stable Growth Marked by Nutritional Food Division

KLBF has 4 business divisions diversified in a balanced proportion. The nutritional food division contributed 30.2% to the total sales. During the last two years, **the nutritional food division posted the stable growth of around 10% y-y**. This division posted the growth of 9% in sales from IDR1.43 trillion in 3Q16 into IDR1.56 trillion in 3Q17.

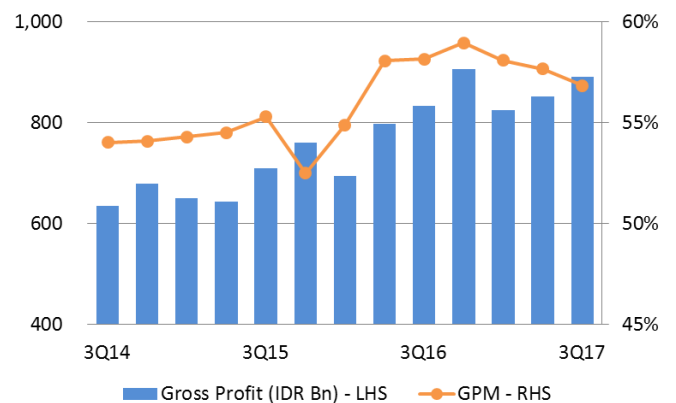
The nutritional food division was also capable of maintaining the stability of its gross profit margin at the level of 57% backed by the decline of 37% in the global dairy milk price from USD2,725/MT in December 2016 into USD1,720/MT in December 2017.

Nutritionals Division y-y Growth | 2014 - 2017



Source: Company, NHKS Research

Nutritionals Gross Profit Margin | 2014 - 2017



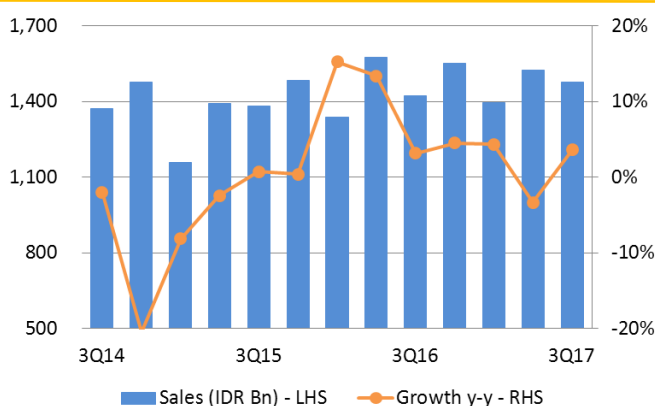
Source: Company, NHKS Research

Distribution & Packaging Division: Margin Stability

The distribution & packaging division contributing 29.3% to KLBF's total sales experienced rebound of 4% in 3Q17 sales after suffering from the decline of 3% y-y in 2Q17 sales. We estimate that this division will grow by 2% in 4Q17; accordingly, its total sales will nudge up 1% in 2017.

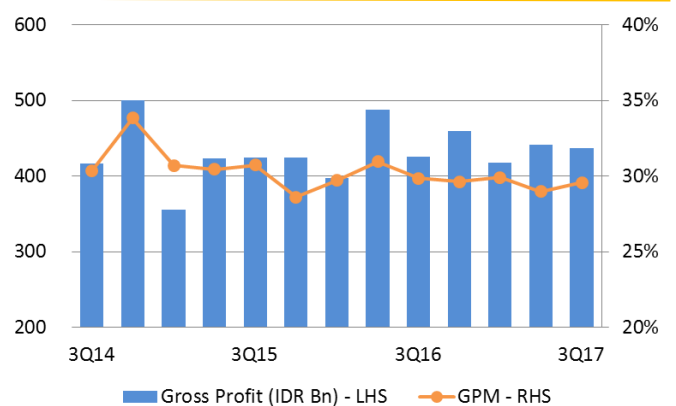
This division is consistently capable of maintaining the stability of its gross profit margin at the average of 30%. It signs that this division maintains well the cooperation to distribute the third party's product and **does not involve in price war**.

Distribution Division y-y Growth | 2014 - 2017



Source: Company, NHKS Research

Distribution Gross Profit Margin | 2014 - 2017



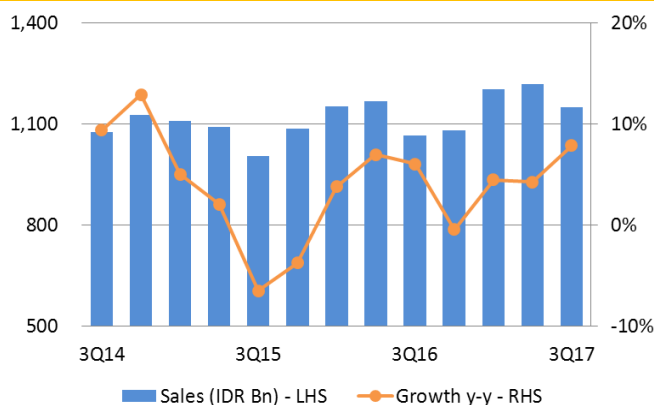
Source: Company, NHKS Research

Consistent Sales Growth Posted by Prescription Drugs Division

The prescription drugs division consistently posted the growth in sales as of 3Q15. In 3Q17, this division posted the growth of 8% in sales from IDR1.06 trillion in 3Q16 into IDR1.15 trillion in 3Q17.

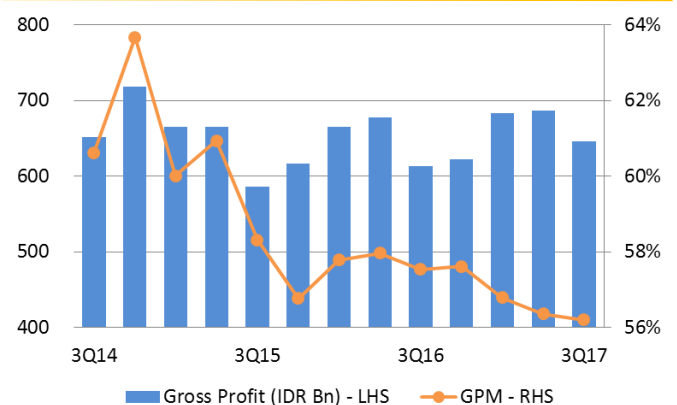
Although this division posted the consistent growth in sales, its gross profit margin consistently endured pressure as of 1Q15. However, **now its gross profit margin has been stable at the average of 56%**. Thus, we estimate that no more will it suffer margin pressure in the coming years after the policy of Healthcare and Social Security Agency is accomplished.

Prescription Drugs Division y-y Growth | 2014 - 2017



Source: Company, NHKS Research

Prescription Drugs Gross Profit Margin | 2014 - 2017



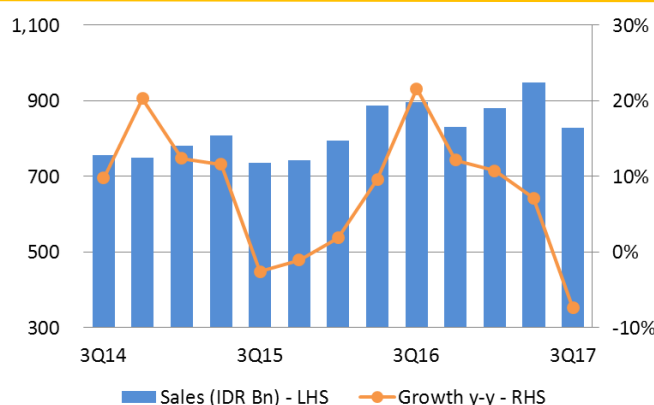
Source: Company, NHKS Research

Consumer Health Division Posting Sluggish Sales

The consumer health division is experiencing the sluggish growth in sales. In 3Q17, this division experienced the decline of 7% y-y in sales from IDR895 billion into IDR829 billion. This division consists of three products, namely over the counter (OTC), energy beverages, and health beverages.

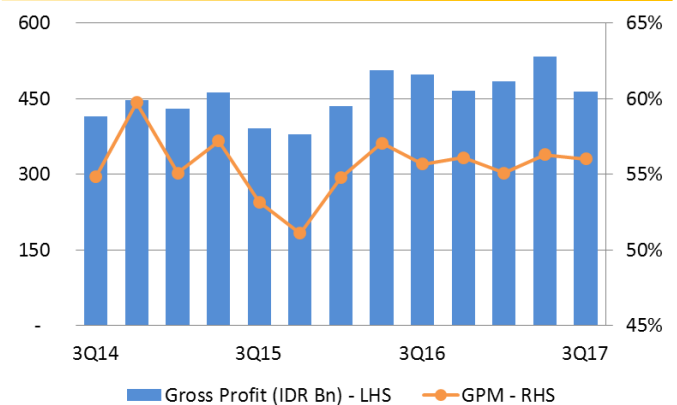
In 3Q17, the sales of energy drink and health drink experienced sales contraction due to **the shifting in sales top during Eid Mubarak season**. Besides, the OTC also experienced the sluggish sales due to the modest growth of this sector in Indonesia. Although the sales lagged, **KLBF was capable of maintaining the stable gross margin growth at the average of 56%**.

Consumer Health Division y-y Growth | 2014 - 2017



Source: Company, NHKS Research

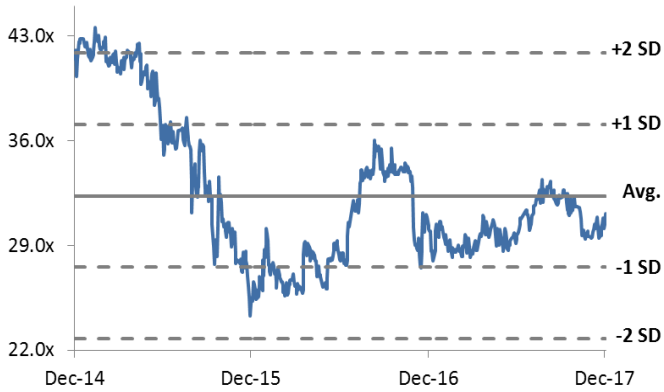
Consumer Health Gross Profit Margin | 2014 - 2017



Source: Company, NHKS Research

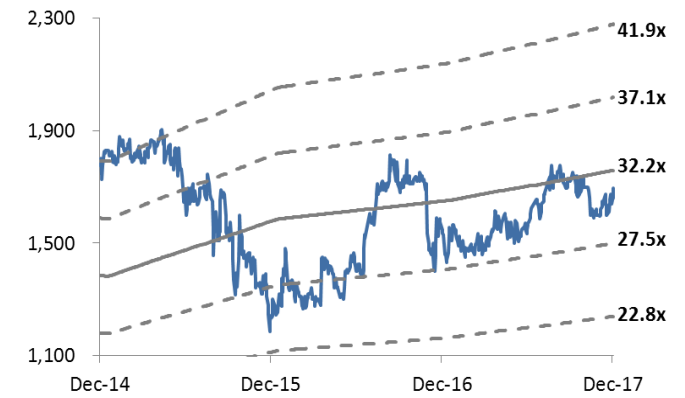
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

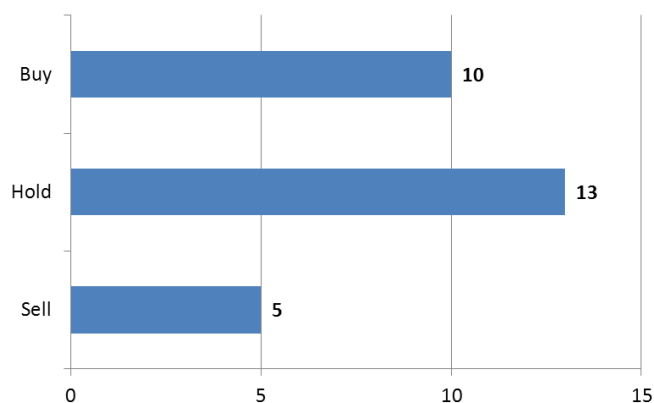
Rating and target price update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
02/06/2017	Buy	1,970 (Dec 2017)	1,470	1,742	+34.0%	+13.1%
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%

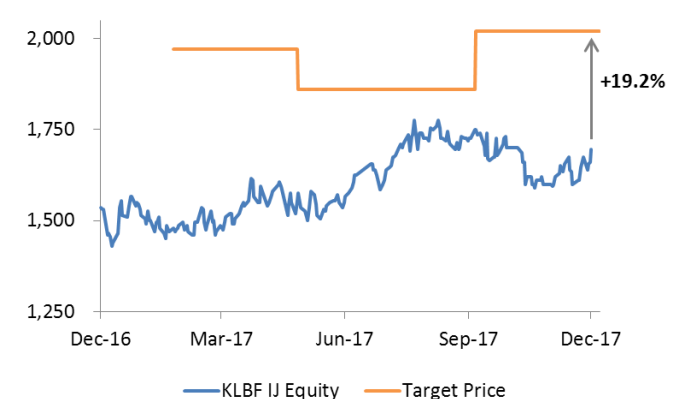
Source: NHKS research, Bloomberg

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)	December 14, 2017	1,695
Target Price (IDR)	Dec 2018	2,020
Analyst: Joni Wintarja	Rating:	Buy

INCOME STATEMENT

in IDR Bn	2016/12A	2017/12E	2018/12E	2019/12E
Sales	19,374	20,348	21,849	23,565
Growth (% y/y)	8.3%	5.0%	7.4%	7.9%
COGS	(9,886)	(10,427)	(11,196)	(12,076)
Gross Profit	9,488	9,921	10,652	11,489
Gross Margin	49.0%	48.8%	48.8%	48.8%
Operating Expenses	(6,503)	(6,791)	(7,292)	(7,864)
EBIT	2,985	3,130	3,361	3,625
EBIT Margin	15.4%	15.4%	15.4%	15.4%
Depreciation	397	430	419	472
EBITDA	3,382	3,560	3,780	4,097
EBITDA Margin	17.5%	17.5%	17.3%	17.4%
Interest Expenses	(18)	(29)	(49)	(47)
EBT	3,091	3,211	3,429	3,705
Income Tax	(740)	(771)	(823)	(889)
Minority Interest	(51)	(44)	(47)	(51)
Net Profit	2,300	2,396	2,559	2,765
Growth (% y/y)	14.7%	4.2%	6.8%	8.0%
Net Profit Margin	11.9%	11.8%	11.7%	11.7%

BALANCE SHEET

in IDR bn	2016/12A	2017/12E	2018/12E	2019/12E
Cash	2,896	3,898	4,349	4,938
Receivables	2,631	2,652	3,021	3,097
Inventories	3,344	3,458	3,846	4,032
Total Current Assets	9,573	10,882	12,004	12,899
Net Fixed Assets	4,556	5,086	5,668	6,275
Other Non Current Assets	1,098	1,181	1,281	1,381
Total Assets	15,226	17,149	18,953	20,554
Payables	1,127	1,081	1,348	1,240
ST Bank Loan	149	339	281	277
Other Current Liab.	1,041	1,382	1,483	1,600
LT Debt	134	145	178	145
Other Non Current Liab.	311	323	298	311
Total Liabilities	2,762	3,269	3,588	3,573
Shareholders' Equity	12,464	13,880	15,364	16,981

CASH FLOW STATEMENT

in IDR bn	2016/12A	2017/12E	2018/12E	2019/12E
Net Income	2,300	2,396	2,559	2,765
Deprec & Amortization	397	427	419	472
Chg. In Working Capital	(463)	32	(301)	(297)
CFO	2,233	2,855	2,676	2,939
Capex	(1,099)	(1,003)	(1,001)	(1,079)
CFI	(1,121)	(1,041)	(1,125)	(1,167)
Dividends Paid	(891)	(1,031)	(1,074)	(1,147)
Net Borrowing (PMT)	(94)	178	(25)	(37)
CFF	(916)	(833)	(1,099)	(1,184)
Net Changes in Cash	196	981	452	589

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	2017/12E	2018/12E	2019/12E
ROE	19.7%	18.2%	17.5%	17.1%
ROA	15.9%	14.8%	14.2%	14.0%
ROIC	18.8%	17.5%	16.9%	17.4%
EBITDA/Equity	28.9%	27.0%	25.9%	25.3%
EBITDA/Assets	15.9%	14.8%	14.2%	14.0%
Cash Dividend IDR bn)	891	1,031	1,074	1,147
Dividend Yield (%)	1.3%	1.3%	1.4%	1.4%
Payout Ratio (%)	44.4%	44.8%	44.8%	44.8%
DER	2.3%	3.5%	3.0%	2.5%
Net Gearing	2.4%	3.7%	3.1%	2.6%
LT Debt to Equity	1.1%	1.0%	1.2%	0.9%
Capitalization Ratio	2.2%	3.4%	2.9%	2.4%
Equity Ratio	81.9%	80.9%	81.1%	82.6%
Debt Ratio	1.9%	2.8%	2.4%	2.1%
Financial Leverage	117.1%	115.6%	117.3%	117.2%
Current Ratio	413.1%	388.5%	385.7%	413.8%
Quick Ratio	238.5%	233.8%	236.8%	257.8%
Cash Ratio	125.0%	139.1%	139.7%	158.4%
Cash Conversion Cycle	123.6	127.8	126.8	127.3
Par Value (IDR)	10	10	10	10
Total Shares (mn)	46,875	46,875	46,875	46,875
Share Price (IDR)	1,515	1,695	1,695	1,695
Market Cap (IDR tn)	71.0	79.5	79.5	79.5

VALUATION INDEX

	2016/12A	2017/12E	2018/12E	2019/12E
Price /Earnings	30.9x	33.2x	31.1x	28.7x
Price /Book Value	5.7x	5.7x	5.2x	4.7x
Price/Sales	3.7x	3.9x	3.6x	3.4x
PE/EPS Growth	2.1x	8.0x	4.6x	3.6x
EV/EBITDA	20.4x	21.5x	20.2x	18.5x
EV/EBIT	23.1x	24.5x	22.7x	20.9x
EV (IDR bn)	69,017	76,705	76,228	75,602
Sales CAGR (3-Yr)	6.6%	5.4%	6.9%	6.7%
EPS CAGR (3-Yr)	6.2%	5.1%	8.5%	6.3%
Basic EPS (IDR)	49	51	55	59
Diluted EPS (IDR)	49	51	55	59
BVPS (IDR)	266	296	328	362
Sales PS (IDR)	413	434	466	503
DPS (IDR)	19	22	23	24

DCF, RIM & EVA

	2016/12A	2017/12E	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	2,270	2,379	2,554	2,755
+Depr./Amor.	397	427	419	472
-CAPEX	(1,099)	(1,003)	(1,001)	(1,079)
-Incr. (Decr.) in Working Cap. (Unlevered) FCF	(463)	32	(301)	(297)
WACC	1,105	1,836	1,671	1,851
Cost of Debt (Tax Adj.)	8.9%	8.4%	8.5%	8.4%
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%	6.6%	5.8%	5.4%
Residual Income (IDR bn)	1,200	822	806	825
Equity Charge	1,100	1,574	1,753	1,940
EVA				
Invested Capital (IDR bn)	11,337	12,747	14,363	15,823
ROIC-WACC (%)	10.0%	6.1%	5.2%	4.8%
EVA (IDR mn)	1,130	773	744	760

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