

# Kalbe Farma Tbk (KLBF IJ)

Stronger than the Storm

Company Update | Apr 16, 2019

We oversee that KLBF's defensive strategies at the end of 2018 will boost the top-line growth figure and margins in next years. The strategies prove to effectively maintain bottom-line margins and cushion rupiah depreciation. We forecast that another to stable USDIDR for most of 2019, the rising public awareness of a healthy lifestyle and Healthcare and Social Security Agency (BPJS Kesehatan) prove a boon for KLBF's growth room in 2019.

## 4Q18: Successes of Defensive Strategies

KLBF, amid volatile USDIDR, succeeded to close 2018 by posting a stable growth performance. Revenues and net profits of 4Q18 edged up by 6.0% y-y to IDR5.4 trillion and 4.6% y-y to IDR653 billion. The performance inevitably drove FY18's revenue higher by 4.4% y-y (vs. FY17 growth of 4.2%). The distribution & logistic segment, climbing higher by 6.8% y-y in FY18 marked its consistency as the biggest contributor to KLBF's revenue.

Despite the stable growth performance, the mighty storm of rupiah depreciation shed off KLBF's gross margins by 43.8% in 4Q18. KLBF's strategies for efficiency, particularly in promotion and market research are capable of cushioning top-line pressures and maintaining bottom line margins of 4Q18. Along with stable USDIDR at the early of 2019, we oversee the defensive strategies are capable of boosting KLBF's margins in years ahead.

## Consistent Top Line Growth

The distribution & logistic and prescription drugs, performance of which lagged from the end of 2017 to the early of 2018 were fundamental to revenues growth of FY18. We oversee that KLBF's successful strategies for accelerating growth of both segments are likely to keep top-line growth in check in years ahead. We are certain that Indonesian authorities' determined efforts to assure that in 2019 BPJS program will cover Indonesian population by 100%. The objective is a positive catalyst for the prescription drug segment as public awareness of proper medical services is on the rise.

## Two New Factories, Supporting Consumer Health Segment

KLBF makes the best use of a growing awareness of a healthy lifestyle to increase production capacities of factories, producing products for the consumer health segment. In 2019, KLBF allocates the capex of IDR1 trillion for the construction of two factories, owned by subsidiaries of Bintang Toedjoe and Saka Farma. We also analyze that KLBF's strategies for penetrating the biological drugs through erythropoietin will strengthen its market presence.

## BUY RECOMMENDATION

The expectancy of upbeat margins along with stable USDIDR underlines our BUY recommendation, with the target price of IDR1,760. The target price is based on the valuation of P/E forward ratio at 29.2x with the possible upside yield of 15.4% from the current stock price.

## Risks of Target Price

Key risks of our target prices: 1) USDIDR depreciation; 2) Termination of BPJS programs; 3) Declines in public's purchasing power.

## Kalbe Farma Tbk | Summary

	2017	2018	2019E	2020E
Net Sales	20,182	21,074	22,110	23,267
Growth	4.2	4.4	4.9	5.2
EBITDA	3,608	3,676	3,785	4,078
Net Profit	2,404	2,457	2,638	2,826
EPS (IDR)	51	52	56	60
Growth	4.2	2.2	7.4	7.1
P/E	33.0	29.0	26.6	24.8
P/BV	5.7	4.7	4.2	3.8
EV/EBITDA	21.5	18.8	18.3	16.9
ROE	17.3	16.1	15.7	15.4
Debt/equity	2.3	2.3	2.2	1.7
Net debt	-2,466	-2,796	-2,962	-3,450

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

## Buy

Dec 2019 TP (IDR)	1,730
Consensus Price (IDR)	1,544
TP to Consensus Price	+12.1%
vs. Last Price	+15.7%

## Shares data

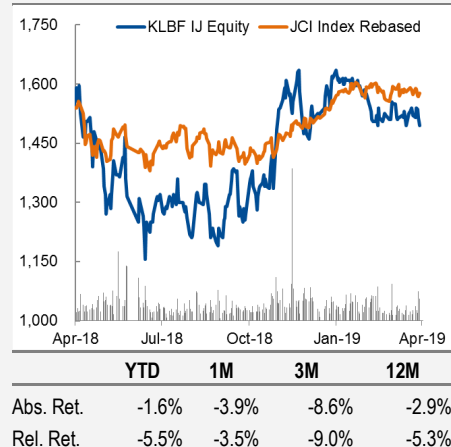
Last Price (IDR)	1,495
Price date as of	Apr 15, 2019
52 wk range (Hi/Lo)	1,635 / 1,155
Free float (%)	43.0
Outstanding sh.(mn)	46,785
Market Cap (IDR bn)	69,844
Market Cap (USD mn)	4,963
Avg. Trd Vol - 3M (mn)	19.25
Avg. Trd Val - 3M (bn)	29.88
Foreign Ownership	19.9%

## Consumer Health

### Pharmaceutical & Nutritional Products

Bloomberg	KLBF IJ
Reuters	KLBF.JK

## Share Price Performance



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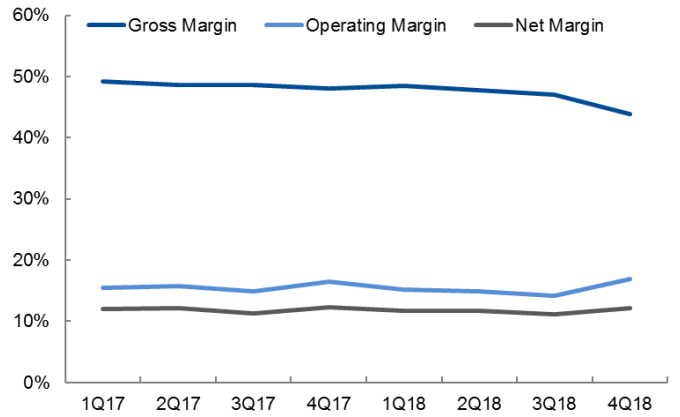
## Performance highlights in chart

### Steady USDIDR will minimize pressure on gross margin



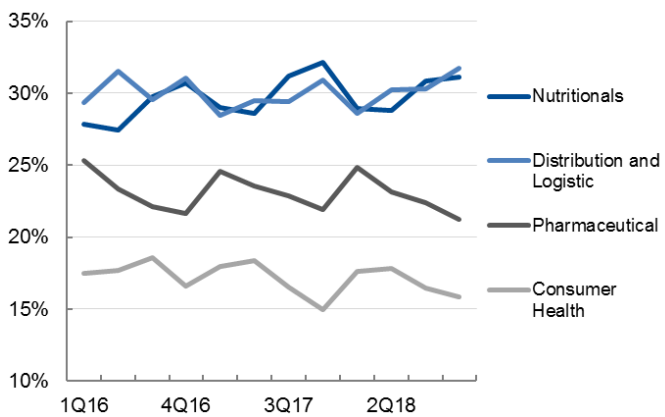
Source: JPMorgan, Bloomberg, NHKS Research

### Operational efficiency conserves bottom line margin



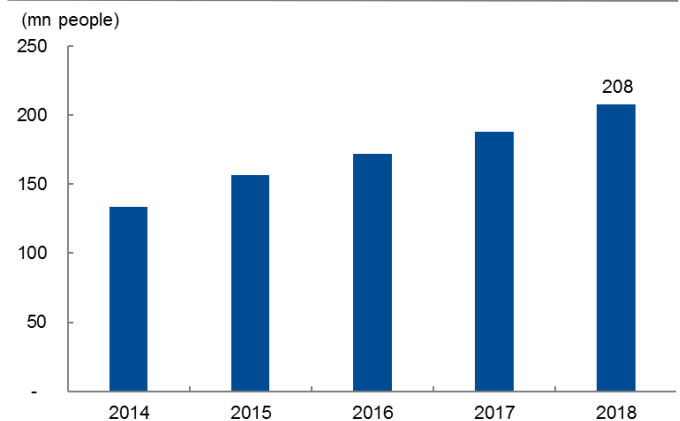
Source: Company Data, NHKS Research

### Increasing nutritionals and distribution segments contribution



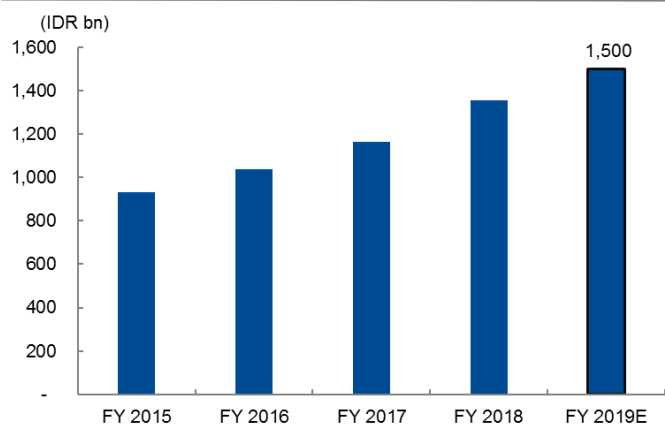
Source: Company Data, NHKS Research

### BPJS Kesehatan program coverage



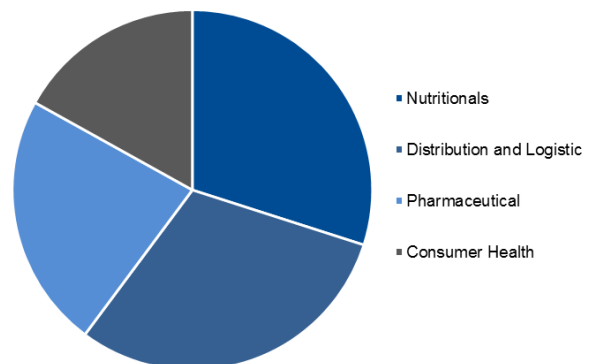
Source: Company Data, NHKS Research

### Upward trend of KLBF capital expenditure



Source: Company Data, NHKS Research

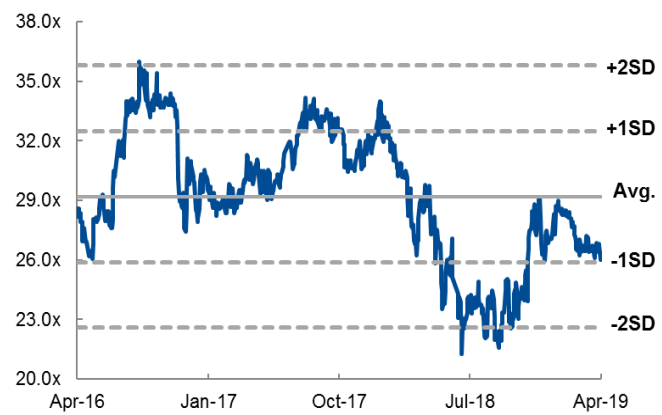
### FY 2018 revenue breakdown



Source: Company Data, NHKS Research

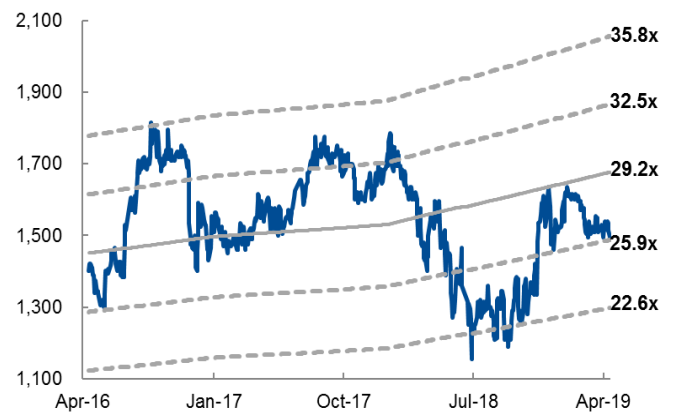
### Valuation highlights in chart

3-year forward P/E band



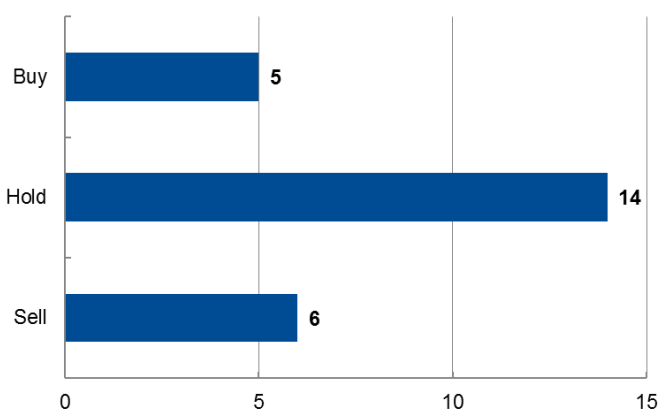
Source: Company Data, NHKS Research

3-year dynamic forward P/E band



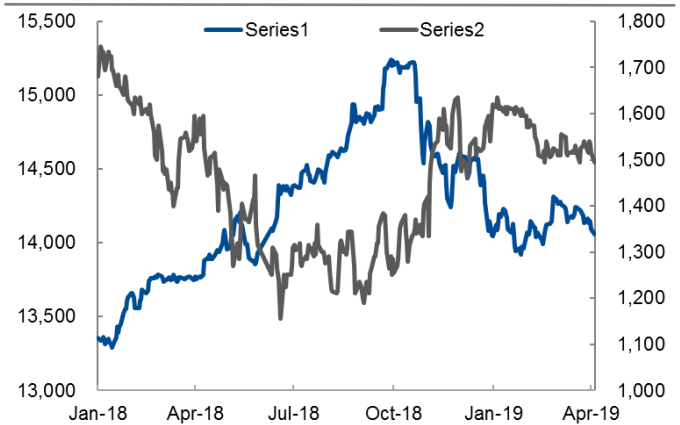
Source: Company Data, NHKS Research

### Consensus of analyst recommendation



Source: Bloomberg, NHKS Research

### KLBF stock price negatively correlated with USDIDR movement



Source: Company Data, Bloomberg, NHKS Research

### Quarterly review

	4Q17	1Q18	2Q18	3Q18	4Q18					1Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
<b>Income statement</b>										
Net Sales	5,092	5,015	5,366	5,298	5,396		6.0	1.9		5,245
Gross Profit	2,448	2,428	2,566	2,490	2,364		-3.4	-5.1		2,516
EBIT	836	758	799	747	908		8.6	21.5		790
EBITDA	953	871	915	867	1,024		7.4	18.1		875
Net Profit	624	589	626	589	653		4.6	10.9		609
<b>Margin</b>										
Gross Margin	48.1	48.4	47.6	47.0	43.8		-4.3	-3.2		48.0
EBIT Margin	16.4	15.1	14.9	14.1	16.8		0.4	2.7		15.1
EBITDA Margin	18.7	17.4	17.0	16.4	19.0		0.3	2.6		16.7
Net Profit Margin	12.3	11.8	11.7	11.1	12.1		-0.2	1.0		11.6

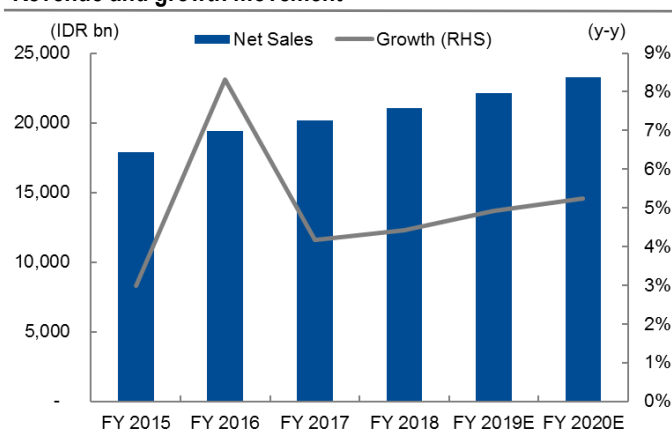
Unit: IDR bn, %, USD/ton

Source: Company Data, NHKS Research

## Company Overview

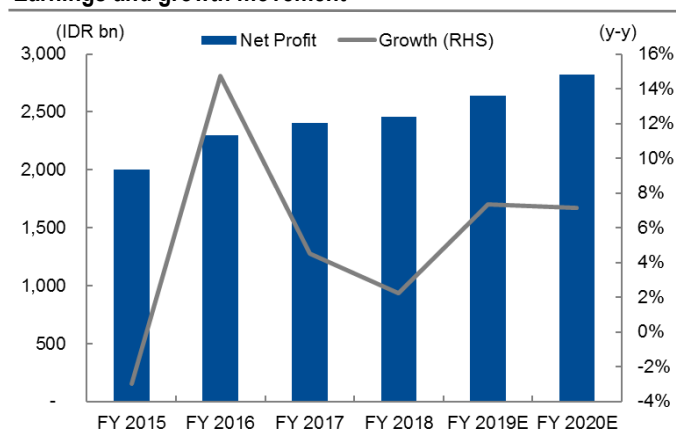
- PT Kalbe Farma Tbk (KLBF IJ) is an Indonesian pharmaceutical maker, founded in 1966.
- KLBF obtains its profits, contributed by four segments, e.g., prescription, consumer health, nutritionals, and distribution & logistic.
- KLBF has such several well-known subsidiaries as Bintang Toedjoe, Saka Farma, Enseval Putera Megatrading (EPMT IJ), Kalbe Morinaga, Sanghiang Perkasa, Kalbe Blackmores Nutrition, Kalbe International Pte. Ltd.
- Despite its expansion of developing two new factories, KLBF, at the early of 2019, promotes the development in the health ecosystem. KLBF cooperates with Grab Indonesia to synergize its digital-based services, i.e. 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
<b>Indonesia</b>									
Kalbe Farma	4,963	1,258	1,482	173	2.2	11.7	17.6	28.4	4.8
Kimia Farma	1,342	656	524	29	27.3	5.6	14.6	45.4	5.9
<b>India</b>									
Merck Ltd	937	252	124	123	793.1	98.8	73.8	64.0	4.2
Wockhardt Ltd	722	1,253	611	(94)	-210.8	-15.5	-19.7	N/A	1.8
<b>South Korea</b>									
Hugel Inc	1,524	825	166	63	-4.2	38.2	10.6	21.8	2.3
Bukwang Pharmaceutical Co	1,037	443	177	132	1213.5	75.0	46.6	8.1	2.9
Daewoong Co Ltd	1,059	1,430	1,119	27	54.9	2.4	5.4	30.0	1.6
Sam Chun Dang Pharm Co Ltd	924	235	146	9	-29.8	6.2	6.9	102.4	6.8
<b>Taiwan</b>									
Center Laboratories Inc.	919	1,291	718	202	2333.5	28.1	31.8	4.6	3.2
Obi Pharma Inc.	898	175	0	(41)	11.4	-9162.9	23.4	N/A	5.9
<b>Bangladesh</b>									
Renata Ltd	1,103	255	242	41	17.3	16.7	22.4	28.2	5.6

Unit: IDR bn, %, X

Source: Bloomberg, NHKS Research

## Summary of Financials

INCOME STATEMENT				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
<b>Net Sales</b>	<b>20,182</b>	<b>21,074</b>	<b>22,110</b>	<b>23,267</b>
<i>Growth</i>	4.2%	4.4%	4.9%	5.2%
COGS	(10,370)	(11,226)	(11,672)	(12,245)
<b>Gross Profit</b>	<b>9,812</b>	<b>9,848</b>	<b>10,439</b>	<b>11,022</b>
<i>Gross Margin</i>	48.6%	46.7%	47.2%	47.4%
Operating Expenses	(6,653)	(6,635)	(7,015)	(7,352)
<b>EBIT</b>	<b>3,159</b>	<b>3,213</b>	<b>3,423</b>	<b>3,670</b>
<i>EBIT Margin</i>	15.7%	15.2%	15.5%	15.8%
Depreciation	449	463	361	409
<b>EBITDA</b>	<b>3,608</b>	<b>3,676</b>	<b>3,785</b>	<b>4,078</b>
<i>EBITDA Margin</i>	17.9%	17.4%	17.1%	17.5%
Interest Expenses	(26)	(20)	(24)	(25)
<b>EBT</b>	<b>3,241</b>	<b>3,306</b>	<b>3,524</b>	<b>3,776</b>
Income Tax	(788)	(809)	(841)	(901)
Minority Interest	(50)	(40)	(45)	(49)
<b>Net Profit</b>	<b>2,404</b>	<b>2,457</b>	<b>2,638</b>	<b>2,826</b>
<i>Growth</i>	4.5%	2.2%	7.4%	7.1%
<i>Net Profit Margin</i>	11.9%	11.7%	11.9%	12.1%

PROFITABILITY & STABILITY				
	2017/12A	2018/12E	2019/12E	2020/12E
ROE	17.3%	16.1%	15.7%	15.4%
ROA	14.5%	13.5%	13.5%	13.2%
ROIC	16.8%	15.5%	15.2%	15.0%
Cash Dividend (IDR bn)	1,172	1,198	1,286	1,378
Dividend Yield	1.5%	1.7%	1.8%	2.0%
Payout Ratio	48.8%	48.8%	48.8%	48.8%
DER	2.3%	2.3%	2.2%	1.7%
Net Gearing	2.4%	2.5%	2.3%	1.8%
LT Debt to Equity	1.0%	1.7%	1.6%	1.3%
Capitalization Ratio	2.2%	2.3%	2.2%	1.7%
Equity Ratio	83.6%	84.3%	85.7%	85.5%
Debt Ratio	1.9%	2.0%	1.9%	1.5%
Financial Leverage	115.5%	113.9%	113.2%	111.6%
Current Ratio	450.9%	465.8%	501.6%	471.2%
Par Value (IDR)	10	10	10	10
Total Shares (mn)	46,875	46,875	46,875	46,875
Share Price (IDR)	1,690	1,520	1,495	1,495
Market Cap (IDR tn)	79.2	71.3	70.1	70.1

BALANCE SHEET				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Cash	2,785	3,153	3,335	3,767
Receivables	2,876	3,256	3,468	3,607
Inventories	3,557	3,475	3,445	3,815
<b>Total Current Assets</b>	<b>10,044</b>	<b>10,648</b>	<b>11,067</b>	<b>11,980</b>
Net Fixed Assets	5,343	6,253	7,129	8,056
Other Non Current Assets	1,230	1,245	1,362	1,362
<b>Total Assets</b>	<b>16,616</b>	<b>18,146</b>	<b>19,559</b>	<b>21,398</b>
Payables	1,109	1,290	1,108	1,408
ST Bank Loan	173	97	102	86
LT Debt	146	260	272	230
<b>Total Liabilities</b>	<b>2,722</b>	<b>2,852</b>	<b>2,797</b>	<b>3,097</b>
Capital Stock & APIC	435	435	435	435
Retained Earnings	12,788	14,073	15,513	17,053
<b>Shareholders' Equity</b>	<b>13,894</b>	<b>15,295</b>	<b>16,761</b>	<b>18,301</b>

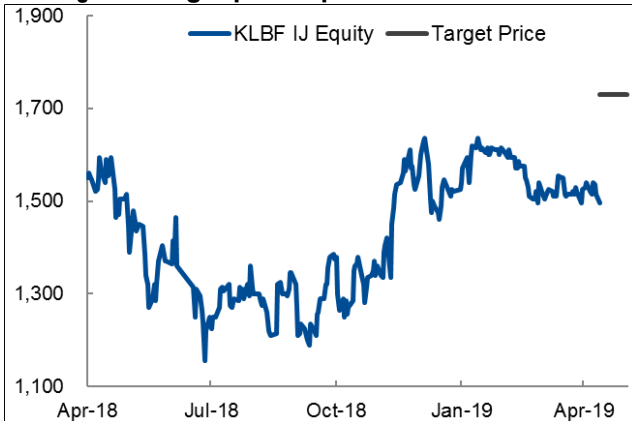
VALUATION INDEX				
	2017/12A	2018/12E	2019/12E	2020/12E
Price /Earnings	33.0x	29.0x	26.6x	24.8x
Price /Book Value	5.7x	4.7x	4.2x	3.8x
Price/Sales	3.9x	3.4x	3.2x	3.0x
PE/EPS Growth	7.3x	13.0x	3.6x	3.5x
EV/EBITDA	21.5x	18.8x	17.9x	16.5x
EV/EBIT	24.5x	21.6x	19.8x	18.4x
EV (IDR bn)	77,425	69,241	67,930	67,442
Sales CAGR (3-Yr)	5.1%	5.6%	4.5%	4.9%
EPS CAGR (3-Yr)	5.2%	7.0%	4.7%	5.5%
Basic EPS (IDR)	51	52	56	60
Diluted EPS (IDR)	51	52	56	60
BVPS (IDR)	296	326	358	390
Sales PS (IDR)	431	450	472	496
DPS (IDR)	25	26	27	29

CASH FLOW STATEMENT				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Operating Cash Flow	2,080	2,819	2,678	3,105
Investing Cash Flow	(1,221)	(1,309)	(1,341)	(1,330)
Financing Cash Flow	(932)	(1,018)	(1,155)	(1,343)
<b>Net Changes in Cash</b>	<b>(73)</b>	<b>492</b>	<b>182</b>	<b>431</b>

OWNERSHIP		
By Geography	% Shareholders	%
Indonesia	80.1	Gira Sole Prima 10.2
United States	7.3	Santa Seha Sanadi 9.7
United Kingdom	5.6	Diptanala Bahana 9.5
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

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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