

Kalbe Farma Tbk (KLBF IJ)

Remains Conservative during Tough Period

KLBF recorded modest top-line and bottom-line growth in 1Q20. This growth was supported by all segments which recorded excellent performance. On the margin side, GPM and OPM both recorded contractions which triggered by COGS. This is an opposite to the NPM which rise was ensured by a lower Opex and foreign currency gain. We project that KLBF will have to bear the challenge caused by the COVID-19 pandemic. Nevertheless, at this point, we still maintain our estimates for FY20 at a conservative growth rate.

1Q20 Results Within Expectation

KLBF posted 8% top-line growth in 1Q20 to IDR5.7 trillion and formed 23.8% higher than our previous estimate. Meanwhile, KLBF reported a bottom-line of IDR669 billion (+12.5 y-y) which was triggered by lower Opex and its underlying benefit from the gain on foreign exchange. Moreover, the COVID-19 outbreak has led KLBF direction to focus on R&D related activities and keep their promotional activities on the sideline. For the record, R&D expense has increased by 8.1% to IDR57 billion. On the margin side, GPM declined by 140 bps to 45.2% due to higher COGS, which led OPM to decrease by 20 bps to 14.1%. However, KLBF has recorded an improved NPM by 50bps to 11.5%. As for FY20, we remain consistent with our estimation with a relatively conservative growth on net profit between 4-5%.

Segment Performance: All Segments Performed Positively

Overall, all segments performed relatively well. The details of 1Q20 segment are as follow: 1) Distribution segment remains as the largest contributor to KLBF's revenue (c.31.1%) grew by 13.5% y-y to IDR1.8 trillion. GPM growth up 24.2% y-y which recorded a margin contraction of 340bps from 1Q19 at 27.6% as the impact of mixed product. 2) The nutritional food segment (c.27.6% from the total revenue) has recorded revenue of IDR1.6 trillion or increased by 5.4%. GPM is relatively stable between 1Q20 and 1Q19. 3) Drugs prescription segment (c.24.1% from the total revenue) grew at slower pace by 5.3% y-y to IDR1.3 trillion. We cautiously believe this segment faced a bearable pressure inflicted by a drop in patients number and product sales following the impact of mobility limitation as well as the staggering decrease in generic drugs price. 4) Consumer health segment (c. 17.2% from the total revenue) recorded a rise of 6.6% y-y to IDR986 billion along with the expanded GPM of 60bps to 56,1% in 1Q20. We still believe that the growth of nutritional foods and consumer health segments continue to solidify until 2Q20, triggered by the increasing public consumption towards vitamin and supplement products amidst the COVID-19 pandemic.

Our view on KLBF in 2Q20

The COVID-19 pandemic that took effect since the beginning of the year has had severe costs that led to the depreciation of IDR currency exchange. This has been our main concern considering the fact that the majority of medical materials are imported. Nevertheless, we believe KLBF has undergone an ASP adaptation to settle this matter. Thus, the COGS in 1Q20 can remain in a stable position. On the other hand, KLBF has purchased raw materials provision adequate for at least 6 months onwards, so the impact can be minimized and the market share stood at the desirable position. Nevertheless, we assume that the trend of the IDR exchange rate tend to appreciate in 2Q20. Aside from this, the challenge that KLBF currently faced was mainly inflicted by the production of Active Pharmaceutical Ingredients (API) in China who faced a serious supply-chain decline following the spike of public demands in medicinal raw materials within the period of the pandemic. Fortunately, in 2Q20, the API production had returned to normal together with most business activities in China. As the situation continues to develop, we believe KLBF can maintain cost of revenue at a stable level in which it can benefit from economy of scale.

BUY Recommendation with Higher TP of Rp1.630/share

We maintain BUY recommendation with higher TP of 1.630 based on a 29x forward P/E and a 17,4% upside yield. KLBF currently trading at 25.8x (-1 SD from its 3-year average). Risks arising from our target price are: 1) Weaker rupiah exchange rate, 2) Higher price of raw material price from suppliers, 3) Disruption of raw material supply, 4) Soft purchasing power.

Kalbe Farma Tbk | Summary

	2019A	2020E	2021F	2022F
Net Sales	22,633	24,392	25,877	27,823
Sales Growth	7.4%	7.8%	6.1%	7.5%
Net Profit	2,507	2,640	2,793	2,909
EPS (IDR)	53	56	60	62
EPS Growth	2.0%	5.3%	5.8%	4.1%
NPM	11.1%	10.8%	10.8%	10.5%
ROE	15.0%	14.6%	14.2%	13.8%
ROA	12.4%	11.6%	11.4%	11.0%
P/E	30.3x	25.0x	23.7x	22.7x
P/BV	4.5x	3.7x	3.4x	3.1x
DPS (IDR)	26	24	27	29
Dividend Yield	1.6%	1.7%	1.9%	2.1%

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

BUY

Dec 2020 TP (IDR)	1,630
Consensus Price (IDR)	1,491
TP to Consensus Price	+9.3%
vs. Last Price	+15.6%

Shares data

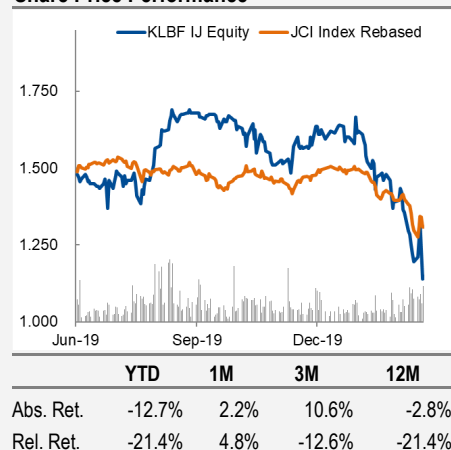
Last Price (IDR)	1,410
Price date as of	Jun 04, 2020
52 wk range (Hi/Lo)	1,690 / 865
Free float (%)	42.7
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	66.797
Market Cap (USD mn)	4,771
Avg. Trd Vol - 3M (mn)	53.80
Avg. Trd Val - 3M (bn)	62.23
Foreign Ownership	18.2%

Consumer Health

Pharmaceutical & Nutritional Products

Bloomberg	KLBF IJ
Reuters	KLBF.JK

Share Price Performance



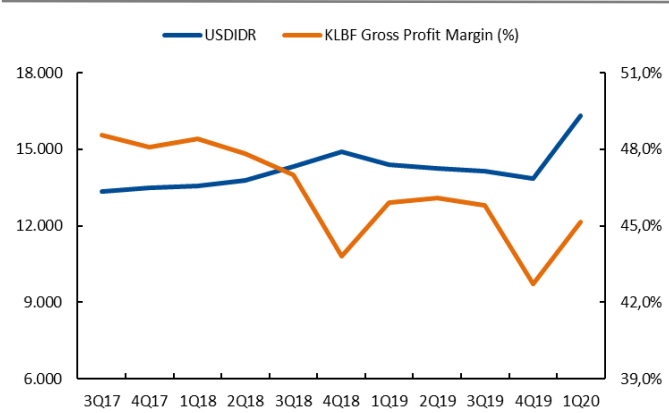
Putu Chantika Putri Dhammayanti

(021) 5088 9129

putu.chantika@nhsec.co.id

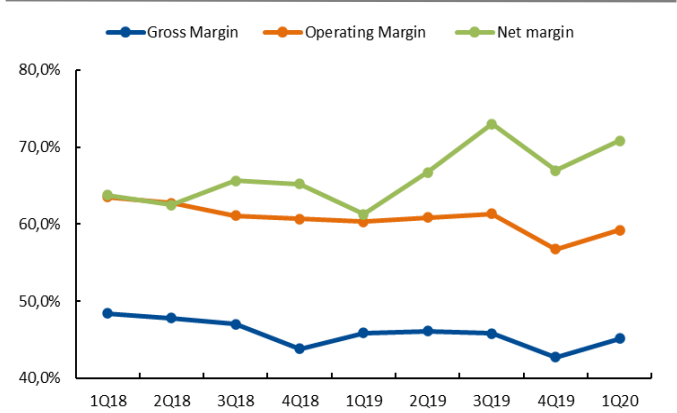
Performance Highlights in Charts

Stronger Rupiah in FY19



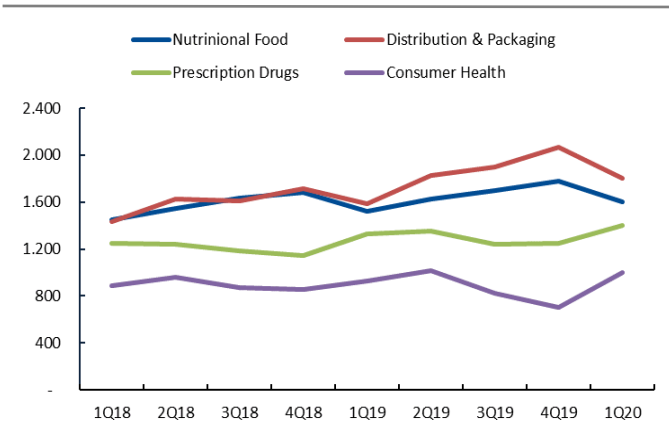
Source: Bloomberg, NHKSI Research

Upward Trends of KLB's Margin Ratios



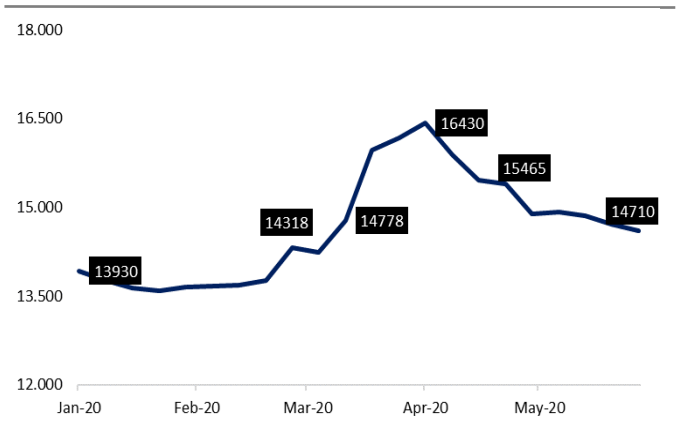
Source: Company Data, NHKSI Research

Distribution Segment Gives the Largest Contribution to KLB's Revenues (IDR tn)



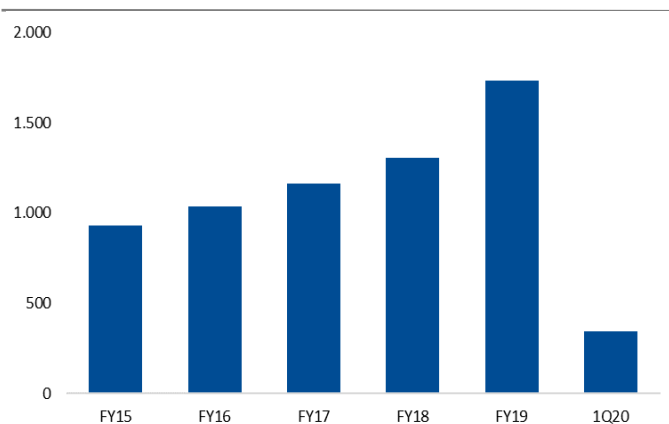
Source: Company Data, NHKSI Research

USD/IDR Trend (YTD)



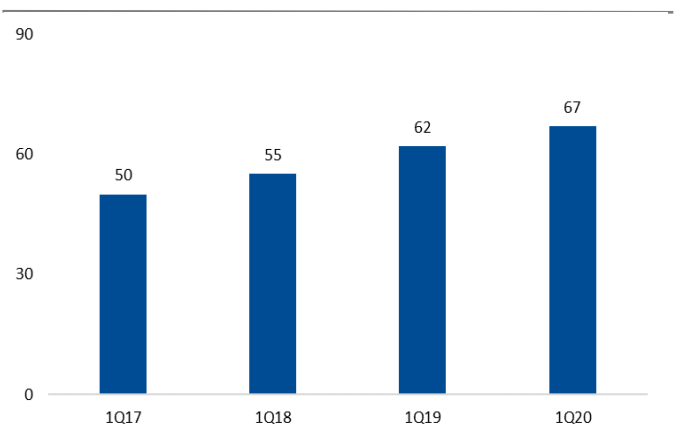
Source: NHKSI Research

KLB's Capex (in IDR Bn)



Source: Company Data, NHKSI Research

Upward Trend KLB's R&D Expense (in IDR Bn)



Source: Company Data, NHKSI Research

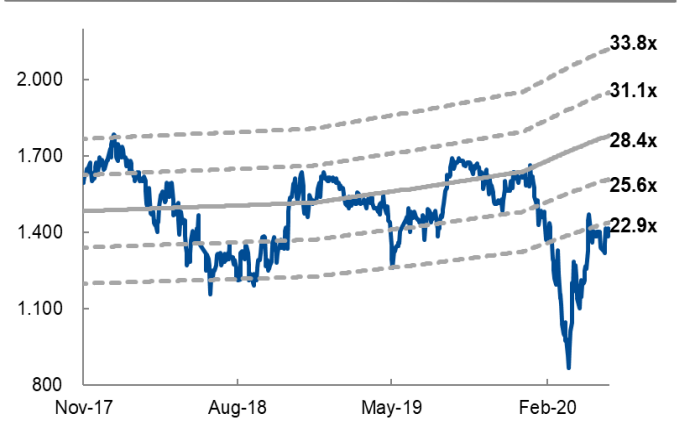
Valuation highlights in charts

3-year forward P/E band



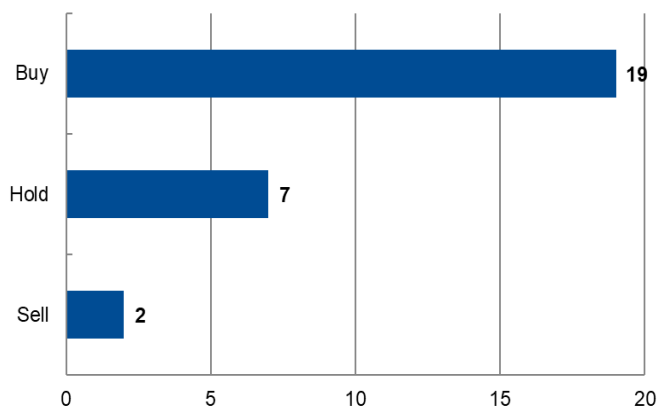
Source: Company Data, NHKSI Research

3-year dynamic forward P/E band



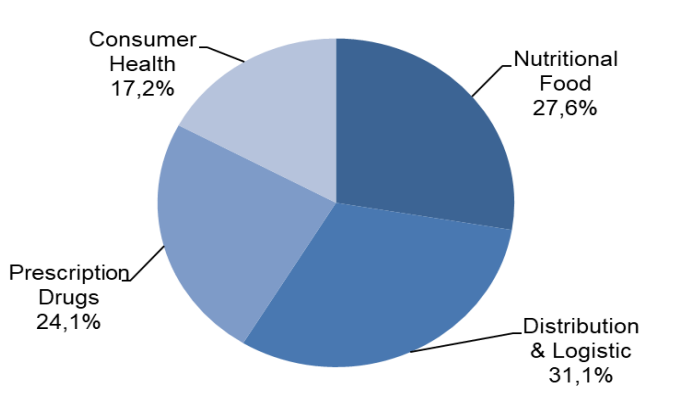
Source: Company Data, NHKSI Research

Consensus of analyst recommendation



Source: Bloomberg, NHKSI Research

KLBF's Revenue Breakdown



Source: Company Data, NHKSI Research

Quarterly review

	1Q19	2Q19	3Q19	4Q19	1Q20					2Q20E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Net Sales	5,366	5,813	5,648	5,807	5,796	5,774	8.0	-0.2	0.4%	6,146
Gross Profit	2,498	2,679	2,587	2,480	2,617	2,667	4.8	5.5	-1.9%	2,746
EBIT	764	858	878	815	816	879	6.8	0.1	-7.1%	779
EBITDA	884	983	1,009	947	956	945	8.1	1.0	1.2%	901
Net Profit	595	663	657	591	669	669	12.5	13.2	0.0%	630
Margin										
Gross Margin	46.6	46.1	45.8	42.7	45.2	46.2	-1.4	2.4	-2.2%	44.7
EBIT Margin	14.2	14.8	15.5	14.0	14.1	15.2	-0.2	0.0	-7.5%	12.7
EBITDA Margin	16.5	16.9	17.9	16.3	16.5	16.4	0.0	0.2	0.8%	14.7
Net Profit Margin	11.1	11.4	11.6	10.2	11.5	11.6	0.5	1.4	-0.3%	10.2

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

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	4,771	1,463	1,629	182	4.8	11.2	16.3	25.9	4.1
Kimia Farma	476	1,325	665	(1)	N/A	-0.1	-0.2	N/A	0.9
India									
Laurus Labs Ltd	671	498	401	36	172.25	9.0	15.3	19.8	2.9
Wockhardt Ltd	375	1,085	401	(6)	77.69	-1.5	-1.6	N/A	1.1
South Korea									
Hugel Inc	1,503	775	166	31	-42.5	18.7	5.1	47.4	2.5
Bukwang Pharmaceutical Co	1,675	336	144	(9)	N/A	-6.5	-3.2	N/A	6.8
Daewoong Co Ltd	1,195	1,444	1,164	56	141.29	4.8	11.0	16.2	1.7
Sam Chun Dang Pharm Co Ltd	744	251	156	7	-8.3	4.7	5.6	101.0	5.5
Taiwan									
Center Laboratories Inc.	1,108	764	45	4	-97.46	9.9	1.0	195.6	2.4
Bangladesh									
Renata Ltd	1,066	292	286	47	21.6	16.4	21.9	23.1	46.3

Unit: IDR bn, %, X

Source: Bloomberg, NHKSI Research

Summary of Financials

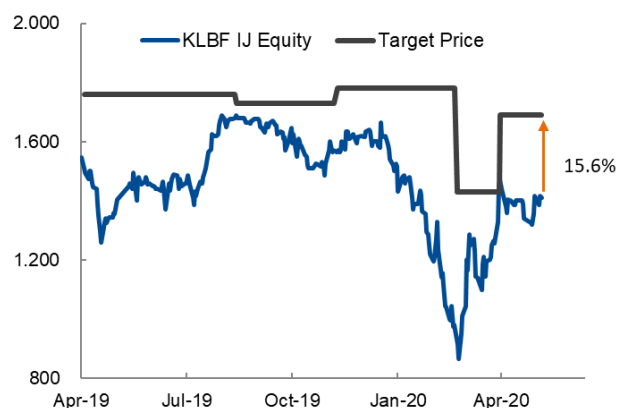
INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
Net Sales	22.633	24.392	25.877	27.823	ROE	15,0%	14,6%	14,2%	13,8%
<i>Growth</i>	7,4%	7,8%	6,1%	7,5%	ROA	12,4%	11,6%	11,4%	11,0%
COGS	(12.390)	(13.561)	(14.641)	(15.896)	ROIC	14,1%	12,9%	12,6%	12,2%
Gross Profit	10.243	10.832	11.236	11.926	Cash Dividend (IDR bn)	1.219	1.128	1.287	1.362
<i>Gross Margin</i>	45,3%	44,4%	43,4%	42,9%	Dividend Yield	1,6%	1,7%	1,9%	2,1%
Operating Expenses	(6.928)	(7.534)	(7.711)	(8.236)	Payout Ratio	48,6%	42,7%	46,1%	46,8%
EBIT	3.315	3.298	3.525	3.691	DER	4,9%	6,9%	8,5%	8,6%
<i>EBIT Margin</i>	14,6%	13,5%	13,6%	13,3%	Net Gearing	5,2%	7,3%	9,0%	9,0%
Depreciation	508	529	674	654	LT Debt to Equity	3,9%	4,5%	8,3%	7,3%
EBITDA	3.823	3.827	4.199	4.345	Capitalization Ratio	4,7%	6,5%	7,8%	7,9%
<i>EBITDA Margin</i>	16,9%	15,7%	16,2%	15,6%	Equity Ratio	82,4%	79,2%	79,8%	79,8%
Interest Expenses	(31)	(62)	(102)	(137)	Debt Ratio	4,0%	5,5%	6,8%	6,9%
EBT	3.397	3.526	3.731	3.886	Financial Leverage	102,2%	104,1%	99,3%	100,0%
Income Tax	(859)	(859)	(852)	(901)	Current Ratio	435,5%	340,8%	439,1%	407,5%
Minority Interest	(31)	(35)	(37)	(38)	Par Value (IDR)	10	10	10	10
Net Profit	2.507	2.640	2.793	2.909	Total Shares (mn)	46.875	46.875	46.875	46.875
<i>Growth</i>	2,0%	5,3%	5,8%	4,1%	Share Price (IDR)	1.620	1.410	1.410	1.410
<i>Net Profit Margin</i>	11,1%	10,8%	10,8%	10,5%	Market Cap (IDR tn)	75,9	66,1	66,1	66,1

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
Cash	3.236	3.393	3.655	4.078	Price /Earnings	30,3x	25,0x	23,7x	22,7x
Receivables	3.573	3.043	3.509	3.773	Price /Book Value	4,5x	3,7x	3,4x	3,1x
Inventories	3.753	4.108	4.244	4.608	Price/Sales	3,4x	2,7x	2,6x	2,4x
Total Current Assets	11.223	12.231	13.140	14.168	PE/EPS Growth	15,0x	4,7x	4,1x	5,5x
Net Fixed Assets	7.666	9.226	10.022	10.926	EV/EBITDA	19,5x	17,0x	15,5x	14,9x
Other Non Current Assets	1.376	1.398	1.409	1.415	EV/EBIT	22,5x	19,7x	18,5x	17,6x
Total Assets	20.265	22.855	24.571	26.509	EV (IDR bn)	74.428	64.967	65.124	64.853
Payables	1.216	1.579	1.480	1.607	Sales CAGR (3-Yr)	5,3%	6,5%	7,1%	7,1%
ST Bank Loan	169	426	37	283	EPS CAGR (3-Yr)	2,9%	3,2%	4,4%	5,1%
LT Debt	648	823	1.630	1.536	Basic EPS (IDR)	53	56	60	62
Total Liabilities	3.559	4.756	4.967	5.357	Diluted EPS (IDR)	53	56	60	62
Capital Stock & APIC	435	435	435	435	BVPS (IDR)	356	386	418	451
Retained Earnings	15.361	16.646	18.152	19.699	Sales PS (IDR)	483	520	552	594
Shareholders' Equity	16.706	18.099	19.604	21.151	DPS (IDR)	26	24	27	29

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E	By Geography	% Shareholders	%	
Operating Cash Flow	2.674	2.869	2.613	3.196	Indonesia	81,8	Gira Sole Prima	10,2
Investing Cash Flow	(1.940)	(1.918)	(1.481)	(1.564)	United States	7,0	Santa Seha Sanadi	9,9
Financing Cash Flow	(636)	(724)	(870)	(1.209)	United Kingdom	3,3	Diptanala Bahana	9,5
Net Changes in Cash	98	226	262	423	Canada	2,4	Lucasta Mumi Cemerlang	9,5

Source: Company Data, NHKSI 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
2020.06.04	Buy	IDR1,630 (12M)	IDR1,491

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%.
- This document is strictly confidential and is being supplied to you solely for your information. The recipients of this report must make their own independent decisions regarding any securities or financial instruments mentioned herein. This document may not be quoted, reproduced, exhibited, redistributed, transmitted, edited, translated, or published, in whole or in part, for any purpose without notice. Any failure to comply with this restriction may constitute a violation of civil or criminal laws.

DISCLAIMER

This report and any electronic access hereto are restricted and intended only for the clients and related entities of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not suitable for all investors. Although the information hereof is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, and agents are held harmless from any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents are liable for errors, omissions, misstatements, negligence, inaccuracy contained herein. All rights reserved by PT NH Korindo Sekuritas Indonesia.
