

Kalbe Farma Tbk (KLBF IJ)

Remains Optimistic Despite Headwinds

KLBF 2Q20 earnings exceeded our expectations, with the modest growth in distribution and consumer health segment, but weighed down by prescription drugs and nutrition segment. We also see the new catalyst which is vaccine development will have a double edged sword effect on KLBF. Meanwhile, we expect a better second half of 2020 both revenue and earnings, thus we maintain our Buy recommendation.

2Q20 Results: Earnings Exceeded Our Expectation

Kalbe Farma (KLBF) recorded -0.1% YoY revenue growth and 8.3% YoY net profit growth in 2Q20. On cumulative basis, KLBF booked revenue of IDR11.6tn (+3.8% YoY) and net profit of IDR1.4tn (+10.1% YoY). In the midst of challenging quarter, KLBF revenue was mainly driven by distribution segment and consumer health segment. KLBF's distribution segment as the largest contributor to revenue (c. 34%), still reported positive performance with +7.2% in 2Q20, lower compared to +12.4% in 2Q19. We believe the slower pace of growth in distribution segment due to several regions in Indonesia have implemented large-scale social restriction (PSBB), thus become a major challenge for distribution segment. Subsequently, KLBF's consumer health segment saw strong sales growth in 2Q20, increased by 6.2% YoY (vs. 5.9% YoY), supported by one of product i.e. Promag which has better seasonal sales during fasting period. However, prescription drugs have recorded a significant drop by -13.6% YoY to IDR 1.1tn in 2Q20, which we believe because of people are worried about visiting to hospital. Similarly, nutrition segment also recorded slight decreased in revenue by -0.6% YoY to IDR1.6tn.

Optimistic View This Year

Despite the enormous challenges and uncertainties that will be confronted throughout this year, our outlook in the longer term remains optimistic. We still expect both revenue and net profit for FY20F to remain muted with low single digit growth. This growth should also be in line with the recovery expectation of KLBF's distribution segment to be able to achieve double digit growth, along with the government's decision to relax the restriction starting in 3Q20. In addition, one of the new catalysts for KLBF came from the collaboration with Genexine (a pharmaceutical company from South Korea) to develop a Genexine's DNA vaccine GX-19. Of note, currently KLBF is preparing a phase 2 clinical trial process in Indonesia and predicts that Covid-19 vaccine will be distributed by mid-2021 if all goes well.

Maintain BUY Recommendation with a higher TP of IDR1.870

We retain our Buy Recommendation on KLBF with a higher target price of IDR1.870 (previously 1.630). We derived our target price by applying a target P/E of around 34.0x (+0.2SD from its 3-year mean P/E). We believe KLBF's long term growth story remains intact. Risk to our call include development vaccine might took longer than expected, weaker rupiah exchange rate, some countries that might be back into lockdown cause disruption in raw material, and soft purchasing power.

Kalbe Farma Tbk | Summary

		2019A	2020E	2021F	2022F
Net Sales		22.633	23.491	24.493	25.984
	Sales Growth	7,4%	3,8%	4,3%	6,1%
Net Profit		2.507	2.588	2.681	2.795
EPS (IDR)		53	55	57	60
	EPS Growth	2,0%	3,2%	3,6%	4,2%
NPM		11,1%	11,0%	10,9%	10,8%
ROE		15,0%	14,1%	13,5%	13,1%
ROA		12,4%	11,2%	10,9%	10,5%
P/E		30,3x	25,5x	24,7x	23,6x
P/BV		4,5x	3,6x	3,3x	3,1x
DPS (IDR)		26	20	27	28
	Dividend Yield	1,6%	1,4%	1,9%	2,0%

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)	1,870
Consensus Price (IDR)	1,683
TP to Consensus Price	+11.1%
vs. Last Price	+15.1%

Shares data

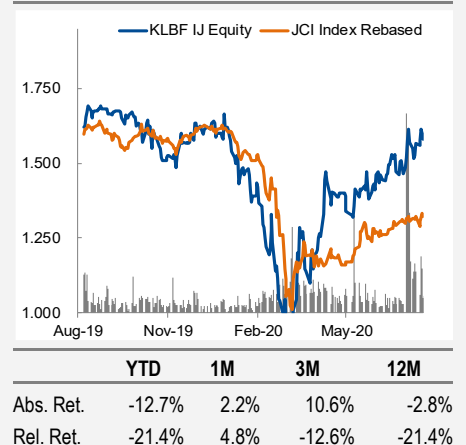
Last Price (IDR)	1,625
Price date as of	Aug 13, 2020
52 wk range (Hi/Lo)	1,690 / 865
Free float (%)	42.7
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	76.172
Market Cap (USD mn)	5,111
Avg. Trd Vol - 3M (mn)	60.08
Avg. Trd Val - 3M (bn)	91.57
Foreign Ownership	18.2%

Consumer Health

Pharmaceutical & Nutritional Products

Bloomberg	KLBF IJ
Reuters	KLBF.JK

Share Price Performance



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Valuation highlights in charts

3-year forward P/E band



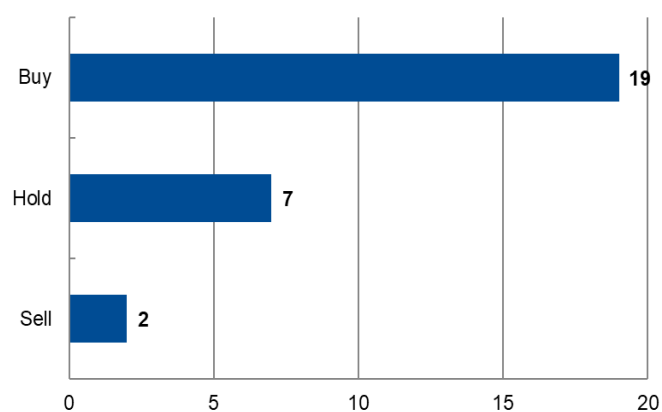
Source: Company Data, NHKSI Research

3-year dynamic forward P/E band



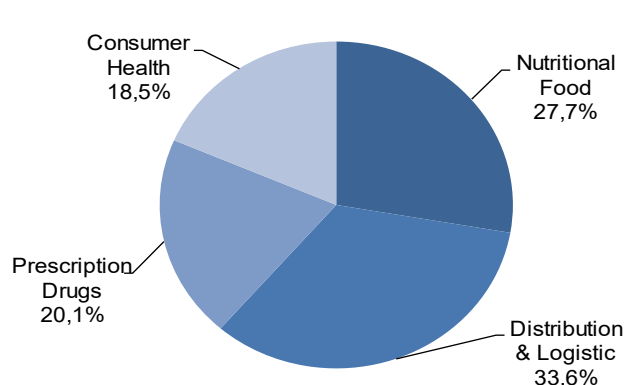
Source: Company Data, NHKSI Research

Consensus of analyst recommendation



Source: Bloomberg, NHKSI Research

KLBF's Revenue Breakdown



Source: Company Data, NHKSI Research

Quarterly review

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Net Sales	5.813	5.648	5.807	5.796	5.809	6.146	-0,1%	0,2%	-5,5%	5.789
Gross Profit	2.679	2.587	2.480	2.617	2.635	2.746	-1,6%	0,7%	-4,0%	2.580
EBIT	858	878	815	816	902	779	5,1%	10,5%	15,8%	756
EBITDA	983	1.009	947	956	1.058	901	7,6%	10,7%	17,4%	889
Net Profit	663	657	591	669	718	630	8,3%	7,3%	14,0%	605
Margin										
Gross Margin	46,1%	45,8%	42,7%	45,2%	45,4%	44,7%	-0,7%	0,2%	1,5%	44,6%
EBIT Margin	14,8%	15,5%	14,0%	14,1%	15,5%	12,7%	0,8%	1,4%	22,5%	13,1%
EBITDA Margin	16,9%	17,9%	16,3%	16,5%	18,2%	14,7%	1,3%	1,7%	24,3%	15,4%
Net Profit Margin	11,4%	11,6%	10,2%	11,5%	12,4%	10,3%	1,0%	0,8%	20,6%	10,5%

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	5.111	1.463	1.610	184	5,47%	11,4%	17,0%	28,9x	4,7x
Kalbe Farma	1.248	1.325	668	(1)	N/A	-0,1%	-0,2%	N/A	2,7x
Kimia Farma									
India									
Laurus Labs Ltd	1.446	1.085	401	(10)	64,42%	-2,4%	-2,6%	N/A	1,3x
Wockhardt Ltd	477	1,085	401	(6)	77.69	-1.5	-1.6	N/A	1.1
South Korea									
Hugel Inc	1.750	775	163	33	-34,32%	20,5%	5,1%	51,6x	2,9x
Bukwang Pharmaceutical Co	1.936	336	143	2	-97,83%	1,6%	-3,2%	971,1x	7,7x
Daewoong Co Ltd	1.678	1.444	1.164	39	4,46%	4,8%	11,0%	31,5x	2,3x
Sam Chun Dang Pharm Co Ltd	1.027	251	153	7	-5,84%	4,3%	5,6%	146,7x	7,3x
Taiwan									
Center Laboratories Inc.	1.117	764	37	45	-74,49%	119,2%	1,0%	22,5x	2,3x
Bangladesh									
Renata Ltd	1.229	292	286	47	21,65%	16,4%	21,9%	26,4x	53,1x

Unit: IDR bn, %, X

Source: Bloomberg, NHKSI Research

Summary of Financials

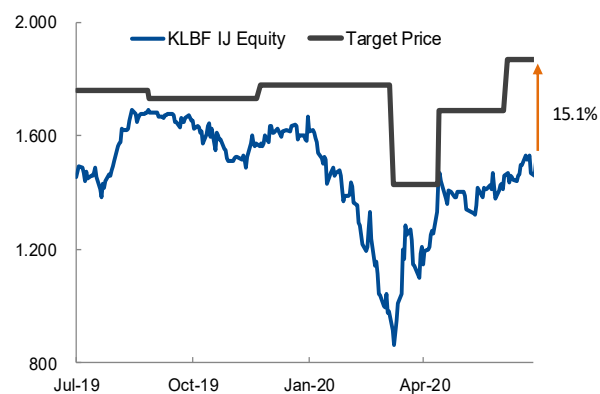
INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
Net Sales	22.633	23.491	24.493	25.984	ROE	15,0%	14,1%	13,5%	13,1%
<i>Growth</i>	7,4%	3,8%	4,3%	6,1%	ROA	12,4%	11,2%	10,9%	10,5%
COGS	(12.390)	(13.033)	(13.849)	(14.782)	ROIC	14,1%	12,7%	12,1%	11,7%
Gross Profit	10.243	10.458	10.644	11.201	Cash Dividend (IDR bn)	1.219	937	1.262	1.307
<i>Gross Margin</i>	45,3%	44,5%	43,5%	43,1%	Dividend Yield	1,6%	1,4%	1,9%	2,0%
Operating Expenses	(6.928)	(7.248)	(7.299)	(7.691)	Payout Ratio	48,6%	36,2%	47,1%	46,8%
EBIT	3.315	3.210	3.345	3.510	DER	4,9%	6,8%	8,3%	9,6%
<i>EBIT Margin</i>	14,6%	13,7%	13,7%	13,5%	Net Gearing	5,2%	7,2%	8,7%	10,0%
Depreciation	508	571	656	664	LT Debt to Equity	3,9%	3,6%	3,8%	4,4%
EBITDA	3.823	3.781	4.002	4.175	Capitalization Ratio	4,7%	6,4%	7,7%	8,8%
<i>EBITDA Margin</i>	16,9%	16,1%	16,3%	16,1%	Equity Ratio	82,4%	79,8%	80,5%	79,9%
Interest Expenses	(31)	(78)	(102)	(135)	Debt Ratio	4,0%	5,4%	6,7%	7,7%
EBT	3.397	3.389	3.511	3.660	Financial Leverage	102,2%	103,2%	99,1%	100,8%
Income Tax	(859)	(859)	(763)	(790)	Current Ratio	435,5%	350,3%	355,2%	339,2%
Minority Interest	(31)	(38)	(39)	(41)	Par Value (IDR)	10	10	10	10
Net Profit	2.507	2.588	2.681	2.795	Total Shares (mn)	46.875	46.875	46.875	46.875
<i>Growth</i>	2,0%	3,2%	3,6%	4,2%	Share Price (IDR)	1.620	1.410	1.410	1.410
<i>Net Profit Margin</i>	11,1%	11,0%	10,9%	10,8%	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	3.972	4.188	4.429	Price /Earnings	30,3x	25,5x	24,7x	23,6x
Receivables	3.573	3.442	3.657	3.880	Price /Book Value	4,5x	3,6x	3,3x	3,1x
Inventories	3.753	4.517	4.394	4.690	Price/Sales	3,4x	2,8x	2,7x	2,5x
Total Current Assets	11.223	12.760	13.085	13.836	PE/EPS Growth	15,0x	7,9x	6,9x	5,6x
Net Fixed Assets	7.666	8.863	10.088	11.398	EV/EBITDA	19,5x	17,0x	16,1x	15,5x
Other Non Current Assets	1.376	1.398	1.409	1.415	EV/EBIT	22,5x	20,0x	19,3x	18,4x
Total Assets	20.265	23.021	24.582	26.649	EV (IDR bn)	74.428	64.306	64.485	64.644
Payables	1.216	1.452	1.400	1.495	Sales CAGR (3-Yr)	5,3%	5,2%	5,1%	4,7%
ST Bank Loan	169	594	887	1.104	EPS CAGR (3-Yr)	2,9%	2,5%	3,0%	3,7%
LT Debt	648	656	757	941	Basic EPS (IDR)	53	55	57	60
Total Liabilities	3.559	4.640	4.782	5.361	Diluted EPS (IDR)	53	55	57	60
Capital Stock & APIC	435	435	435	435	BVPS (IDR)	356	392	422	454
Retained Earnings	15.361	17.012	18.430	19.918	Sales PS (IDR)	483	501	523	554
Shareholders' Equity	16.706	18.381	19.800	21.287	DPS (IDR)	26	20	27	28

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E	By Geography	% Shareholders	%	
Operating Cash Flow	2.674	2.855	2.976	3.129	Indonesia	81,8	Gira Sole Prima	10,2
Investing Cash Flow	(1.940)	(1.783)	(1.892)	(1.980)	United States	7,0	Santa Seha Sanadi	9,9
Financing Cash Flow	(636)	(267)	(868)	(907)	United Kingdom	3,3	Diptanala Bahana	9,5
Net Changes in Cash	98	805	216	241	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
2020.08.10	Buy	IDR1,870(12M)	IDR1,683

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%.
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