

Kalbe Farma Tbk (KLBF IJ)

Prepping Up for Softer Growth

KLBF reported top line below our expectation, mainly due to a relatively slower pace growth in some segments. With the expectation of further improvement supported by stable rupiah combined with cost efficiency, we remain positive about KLBF's outlook for near to medium term.

3Q20 Revenue Below Our Expectation

Kalbe Farma (KLBF) reported 3Q20 revenue of IDR5.4tn (-2.8% YoY; -5.5% QoQ), achieving 73.6% of our full year forecast and 72.2% of the full year consensus. EBIT slipped by -4.0% YoY, which leads to EBIT margin down to 15.3% YoY in 3Q20 (vs. 15.5% in 3Q19). Subsequently, finance expenses jumped to IDR22bn. This increase was caused by higher level of debt this year. Thus, net profit for 3Q20 stood at IDR640bn (-2.7% YoY; -10.9% QoQ), broadly in line with our estimation. On a cumulative basis, KLBF booked YTD revenue of IDR17.0tn (+1.6% YoY) and net profit of IDR2.0tn (+5.8% YoY). We see a prolonged pandemic has created immediate risk to supply chains and currency volatility, but KLBF's management have performed relative well.

Segment Performance Evaluation

KLBF delivered a weak top line growth this quarter, dragged by a -7.9% YoY decline in distribution segment. This was mainly due to an adverse impact on the portfolio product mix. The prescription drugs segment has continued to fall back into negative growth on this quarter considering the current situation where people still worried about visiting to hospital. On the flip side, consumer health segment has reported zero growth amid tighter competition coupled with lackluster purchasing power. Nevertheless, the nutritional division grew by 1.5% to IDR 1.7tn, supported by the fact that powdered milk category had a slight increase (9M20: 0.4% YoY) in terms of sales volume according to Nielsen.

KLBF Enters Into Distribution Agreement

On Sept 30, PT Amaro Pharma Global (APG), subsidiary of Hetero India in collaboration with KLBF, has agreed to carry out a joint marketing and distribution agreement for Covifor (Remdesivir) drug, approved by FDA for emergency use in treating Covid-19. As the tally of the COVID-19 cases remains high in Indonesia, we believe this drug – priced at IDR1.5mn per unit shall be able to drive revenue growth at least before a proven vaccine can be widely used.

Maintain BUY on KLBF with lower TP of IDR1.750

Our modest top-line growth in FY20F/FY21F leaves net profit to grow 3.9%/4.1%, respectively. We foresee that unfavorable situation will hamper KLBF's segment growth to some extent. Thus, we trimmed down our revenue estimation for FY20F by -4.8%, which resulted in our top line slightly below company guidance. However, we are optimistic that its cost efficiency and stable rupiah against USD should help preserve margins. With a 15.5% potential upside from current share price and target P/E of around of 31.6x (+1SD from its 3-year mean P/E), we recommend KLBF as a BUY.

Kalbe Farma Tbk | Summary

	2019A	2020E	2021F	2022F
Net Sales	22.633	23.210	24.245	25.771
<i>Sales Growth</i>	7,4%	2,5%	4,5%	6,3%
Net Profit	2.507	2.603	2.711	2.864
EPS (IDR)	53	56	58	61
<i>EPS Growth</i>	2,0%	3,9%	4,1%	5,7%
NPM	11,1%	11,2%	11,2%	11,1%
ROE	15,0%	14,1%	13,6%	13,3%
ROA	12,4%	11,3%	11,0%	10,7%
P/E	30,3x	25,4x	24,4x	23,1x
P/BV	4,5x	3,6x	3,3x	3,1x
DPS (IDR)	26	20	27	28
<i>Dividend Yield</i>	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

Company Update | Nov, 12 2020

BUY

Target Price (IDR)	1,750
Consensus Price (IDR)	1,788
TP to Consensus Price	-2.1%
vs. Last Price	+15.5%

Shares data

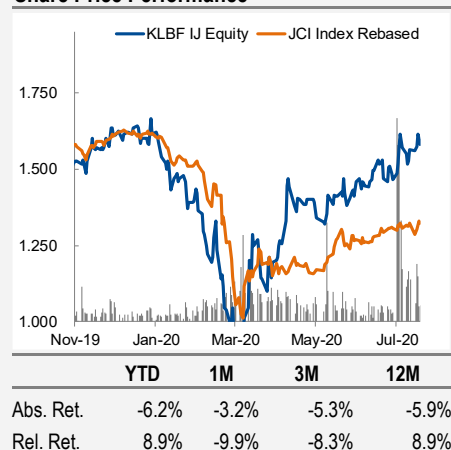
Last Price (IDR)	1,515
Price date as of	Nov 06, 2020
52 wk range (Hi/Lo)	1,665/ 865
Free float (%)	42.7
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	69.375
Market Cap (USD mn)	4,953
Avg. Trd Vol - 3M (mn)	30.63
Avg. Trd Val - 3M (bn)	47.92
Foreign Ownership	18.2%

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



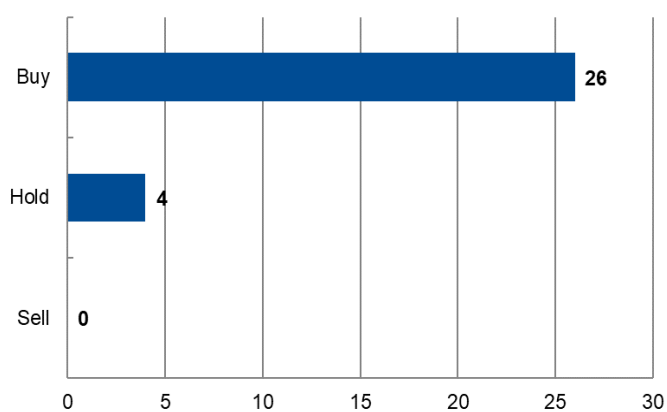
Source: Company Data, NHKSI Research

3-year dynamic forward P/E band



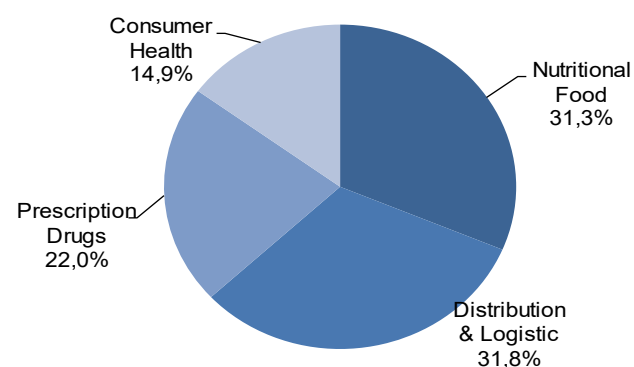
Source: Company Data, NHKSI Research

Consensus of analyst recommendation



Source: Bloomberg, NHKSI Research

KLBF's Revenue Breakdown



Source: Company Data, NHKSI Research

Quarterly review

	3Q19	4Q19	1Q20	2Q20	3Q20					4Q20E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Net Sales	5.648	5.807	5.796	5.809	5.491	5.789	-2,8%	-5,5%	-5,1%	5.807
Gross Profit	2.587	2.480	2.617	2.635	2.519	2.580	-2,6%	-4,4%	-2,4%	2.480
EBIT	878	815	816	902	843	756	-4,0%	-6,5%	11,5%	815
EBITDA	1.009	947	956	1.058	1.005	889	-0,4%	-5,0%	13,1%	947
Net Profit	657	591	669	718	640	605	-2,7%	-10,9%	5,8%	591
Margin										
Gross Margin	45,8%	42,7%	45,2%	45,4%	45,9%	44,6%	0,1%	0,5%	2,9%	42,7%
EBIT Margin	15,5%	14,0%	14,1%	15,5%	15,3%	13,1%	-0,2%	-0,2%	17,5%	14,0%
EBITDA Margin	17,9%	16,3%	16,5%	18,2%	18,3%	15,4%	0,4%	0,1%	19,2%	16,3%
Net Profit Margin	11,6%	10,2%	11,5%	12,4%	11,7%	10,5%	0,0%	-0,7%	11,5%	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

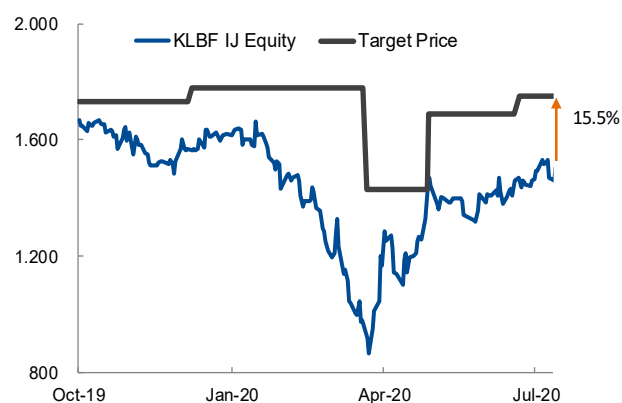
Asia pharmaceutical companies peers analysis

Company	Market Cap	Asset	Sales	Net Profit LTM	Net Profit Growth LTM	Net Profit Margin	ROE	P/E LTM	P/BV
Indonesia									
Kalbe Farma	4.916	1.463	1.583	181	1,97%	11,4%	16,2%	26,5x	4,1x
Kimia Farma	1.271	1.325	661	(1)	N/A	-0,2%	-0,2%	N/A	2,6x
India									
Laurus Labs Ltd	1.935	498	389	36	172,25%	9,3%	15,3%	56,0x	8,1x
Wockhardt Ltd	435	1.085	401	(10)	64,42%	-2,4%	-2,6%	N/A	1,2x
South Korea									
Hugel Inc	2.480	775	166	33	-17,22%	20,1%	5,6%	68,8x	3,7x
Bukwang Pharmaceutical Co	1.378	336	143	2	-97,83%	1,6%	0,8%	646,5x	5,1x
Daewoong Co Ltd	1.154	1.444	1.125	39	4,46%	3,5%	7,6%	20,3x	1,5x
Sam Chun Dang Pharm Co Ltd	1.111	251	153	7	-5,84%	4,3%	5,0%	147,3x	7,3x
Taiwan									
Center Laboratories Inc.	1.070	764	37	45	-74,49%	119,2%	10,1%	20,9x	2,0x
Bangladesh									
Renata Ltd	1.227	292	312	51	24,11%	16,2%	22,4%	24,0x	5,0x

Unit: IDR bn, %, X

Source: Bloomberg, 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
2020.11.12	Buy	IDR1,750(12M)	IDR1,788

Source: 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	23.210	24.245	25.771	ROE	15,0%	14,1%	13,6%	13,3%
<i>Growth</i>	7,4%	2,5%	4,5%	6,3%	ROA	12,4%	11,3%	11,0%	10,7%
COGS	(12.390)	(12.829)	(13.594)	(14.497)	ROIC	14,1%	12,8%	12,3%	12,0%
Gross Profit	10.243	10.381	10.651	11.273	Cash Dividend (IDR bn)	1.219	938	1.269	1.322
<i>Gross Margin</i>	45,3%	44,7%	43,9%	43,7%	Dividend Yield	1,6%	1,4%	1,9%	2,0%
Operating Expenses	(6.928)	(7.106)	(7.225)	(7.628)	Payout Ratio	48,6%	36,0%	46,8%	46,1%
EBIT	3.315	3.275	3.426	3.645	DER	4,9%	6,8%	8,3%	9,6%
<i>EBIT Margin</i>	14,6%	14,1%	14,1%	14,1%	Net Gearing	5,2%	7,2%	8,7%	10,1%
Depreciation	508	599	643	652	LT Debt to Equity	3,9%	3,5%	3,8%	4,4%
EBITDA	3.823	3.874	4.069	4.297	Capitalization Ratio	4,7%	6,4%	7,7%	8,8%
<i>EBITDA Margin</i>	16,9%	16,7%	16,8%	16,7%	Equity Ratio	82,4%	80,0%	80,7%	80,1%
Interest Expenses	(31)	(82)	(103)	(136)	Debt Ratio	4,0%	5,4%	6,7%	7,7%
EBT	3.397	3.442	3.584	3.787	Financial Leverage	102,2%	103,1%	99,1%	100,8%
Income Tax	(859)	(859)	(785)	(818)	Current Ratio	435,5%	361,8%	368,6%	352,5%
Minority Interest	(31)	(53)	(55)	(59)	Par Value (IDR)	10	10	10	10
Net Profit	2.507	2.603	2.711	2.864	Total Shares (mn)	46.875	46.875	46.875	46.875
<i>Growth</i>	2,0%	3,9%	4,1%	5,7%	Share Price (IDR)	1.620	1.410	1.410	1.410
<i>Net Profit Margin</i>	11,1%	11,2%	11,2%	11,1%	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	4.690	4.836	5.143	Price /Earnings	30,3x	25,4x	24,4x	23,1x
Receivables	3.573	3.358	3.620	3.848	Price /Book Value	4,5x	3,6x	3,3x	3,1x
Inventories	3.753	4.388	4.313	4.599	Price/Sales	3,4x	2,8x	2,7x	2,6x
Total Current Assets	11.223	13.107	13.453	14.268	PE/EPS Growth	15,0x	6,6x	5,9x	4,1x
Net Fixed Assets	7.666	8.596	9.815	11.121	EV/EBITDA	19,5x	16,4x	15,7x	14,9x
Other Non Current Assets	1.376	1.398	1.409	1.415	EV/EBIT	22,5x	19,4x	18,7x	17,6x
Total Assets	20.265	23.100	24.676	26.804	EV (IDR bn)	74.428	63.677	63.929	64.028
Payables	1.216	1.348	1.375	1.466	Sales CAGR (3-Yr)	5,3%	4,8%	4,8%	4,4%
ST Bank Loan	169	604	893	1.113	EPS CAGR (3-Yr)	2,9%	2,7%	3,3%	4,5%
LT Debt	648	653	761	948	Basic EPS (IDR)	53	56	58	61
Total Liabilities	3.559	4.622	4.757	5.342	Diluted EPS (IDR)	53	56	58	61
Capital Stock & APIC	435	435	435	435	BVPS (IDR)	356	394	425	458
Retained Earnings	15.361	17.027	18.467	20.009	Sales PS (IDR)	483	495	517	550
Shareholders' Equity	16.706	18.478	19.919	21.461	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	3.442	2.891	3.186	Indonesia	81,8	Gira Sole Prima	10,2
Investing Cash Flow	(1.940)	(1.709)	(1.873)	(1.964)	United States	7,0	Santa Seha Sanadi	9,9
Financing Cash Flow	(636)	(210)	(873)	(915)	United Kingdom	3,3	Diptanala Bahana	9,5
Net Changes in Cash	98	1.523	146	308	Canada	2,4	Lucasta Murni Cemerlang	9,5

Source: Company Data, NHKSI Research

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to 15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

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