

PT. Kalbe Farma Tbk.

HOLD

Investment Consideration

Positive impact from PP No. 45 2019

- The Indonesian government recently issued government circular No. 45 2019 on tax deduction for Research & Development (R & D) and vocational training expenses.
- Based on the circular, the amount of tax deduction allowed will be equal to a maximum of 300% of gross profit. This will give a positive impact to KLBF and provide incentive for the company to invest more in R&D.
- As of June 2019, KLBF's R&D expenses reached IDR 134 billion or 3% of total operating expenses.
- KLBF is still awaiting more details about this.

Focus on speciality product

- KLBF expects the prescription pharmaceutical division revenue will be boosted by specialty products such as oncology products and biological based products in 2020 as KLBF's domestic biosimilar facility will be operating commercially in early 2020.
- As of 1H2019, most of the Prescription Pharmaceutical division revenue came from branded generic product at 51%, while unbranded generic product and licensed products contributed 21% and 28% respectively.
- Of the prescription pharmaceutical revenue, oncology and biological-based products (unbranded generic products) contributed 7%-8% and are targeted to reach 20%-25% within the next 3 – 5 years. With their focus shifting to specialty products with better margins, KLBF will be able to better manage their sales mix which improves margins, and we expect the margin improvement will take place in 2020.

Valuation: HOLD TP 1,850 with 11% upside

- We are targeting KLBF to trade at 30x 2020F PE within a year. Target Price is IDR 1,850 which represents 11% upside. HOLD

Financial Highlights	2014 A	2015 A	2016A	2017A	2018A	2019F	2020F
Revenue (In IDR Bn)	17,369	17,887	19,374	20,182	21,074	22,577	24,208
Gross Profit (In IDR Bn)	8,476	8,592	9,488	9,812	9,848	10,385	11,136
Operating Profit (In IDR Bn)	2,612	2,515	3,161	3,312	3,410	3,499	3,873
EBITDA (In IDR Bn)	3,062	3,029	3,516	3,681	3,762	4,271	4,527
Net Profit (In IDR Bn)	2,065	2,004	2,300	2,404	2,457	2,614	2,895
EPS (In IDR)	44	43	49	51	52	56	62
GPM (%)	48.8%	48.0%	49.0%	48.6%	46.7%	46.0%	46.0%
OPM (%)	15.0%	14.1%	16.3%	16.4%	16.2%	15.5%	16.0%
NPM (%)	11.9%	11.2%	11.9%	11.9%	11.7%	11.6%	12.0%
EBITDA Margin (%)	17.6%	16.9%	18.1%	18.2%	17.9%	18.9%	18.7%
ROE (%)	22.0%	19.1%	19.3%	18.1%	16.8%	16.8%	17.3%
Tot. debt / equity (x)	0.28	0.26	0.23	0.20	0.20	0.22	0.22
Current Ratio (x)	3.40	3.70	4.13	4.51	4.66	4.55	4.45

Source: Company and Binaartha

24 September 2019
Consumer Goods

Price	IDR	1,665
Target Price	IDR	1,850
JKSE Index		6,206.199



Stock Information

Bloomberg Code	KLBF IJ
Market Cap (IDR bn)	78,750.2
52-week high (IDR)	1,690
52-week low (IDR)	1,200
Shares issued (mn)	46,875.1
6-m avg. daily Val (IDR)	1,492
Free float	42.83%

Major share holders

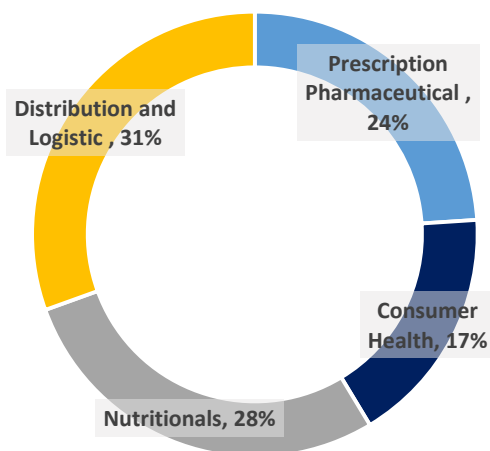
PT Gira Sole Prima	10.19%
PT Santa Seha Sanadi	9.84%
PT Diptanala Bahana	9.50%
PT Lucasta Murni Cemerlang	9.47%
PT Ladang Ira Panen	9.49%
PT Bina Arta Charisma	8.68%
Public	42.83%

USD/ IDR – YE (IDR)

2018	14,390
2019F (6m-avg)	14,168

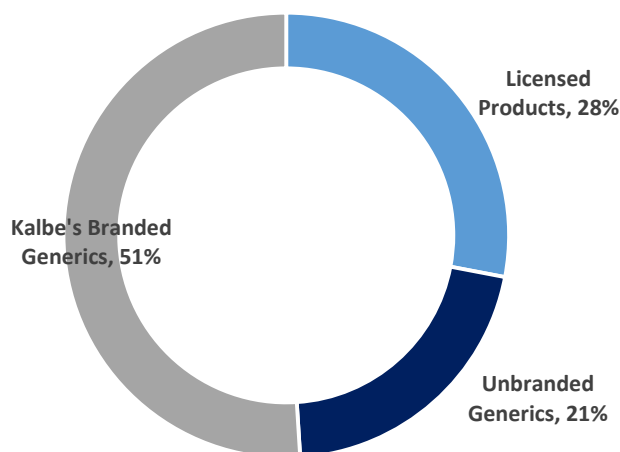
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Chart: Revenue Contribution 1H2019



Source: Company

Chart: Prescription Pharmaceutical Division Revenue Contribution 1H2019



Source: Company

Table: Income Statement in IDR Billion YoY

Income Statement (IDR.Bn)	2014A	2015A	2016A	2017A	2018A	2019F	2020F
Revenues	17,369	17,887	19,374	20,182	21,074	22,577	24,208
Cost of revenues	(8,893)	(9,296)	(9,886)	(10,370)	(11,226)	(12,192)	(13,072)
Gross Profit	8,476	8,592	9,488	9,812	9,848	10,385	11,136
Operating expense	(5,864)	(6,077)	(6,327)	(6,500)	(6,438)	(6,886)	(7,262)
Operating Profit	2,612	2,515	3,161	3,312	3,410	3,499	3,873
Other income	152	206	(70)	(71)	(103)	(7)	(7)
Pretax income(PBT)	2,764	2,721	3,091	3,241	3,306	3,493	3,866
Taxes	(643)	(663)	(740)	(788)	(809)	(838)	(928)
NPAT	2,121	2,058	2,351	2,453	2,497	2,654	2,938
Minority interest	(56)	(53)	(51)	(50)	(40)	(41)	(44)
Net Profit	2,065	2,004	2,300	2,404	2,457	2,614	2,895
EPS (In IDR)	44	43	49	51	52	56	62
EBITDA	3,062	3,029	3,516	3,681	3,762	4,271	4,527

Source: Company and Binaartha

Table: Statement of Financial Position in IDR Billion YoY

Statement of Financial Position (IDR. Billion)	2014A	2015A	2016A	2017A	2018A	2019F	2020F
Current Assets							
Cash and cash equivalents	1,895	2,719	2,896	2,785	3,153	3,102	3,955
Trade receivables	2,465	2,434	2,726	2,968	3,374	3,612	3,529
Inventory	3,091	3,003	3,344	3,557	3,475	3,847	4,125
Other current assets	671	593	607	734	647	740	794
Total Current Assets	8,121	8,748	9,573	10,044	10,648	11,302	12,403
Non-Current Assets							
Fixed assets	3,404	3,938	4,556	5,343	6,253	6,959	7,555
Other non-current assets	900	1,009	1,098	1,230	1,245	1,330	1,156
Total Non-current Assets	4,304	4,948	5,653	6,572	7,498	8,289	8,711
Total Assets	12,425	13,696	15,226	16,616	18,146	19,591	21,113
Liabilities							
Current Liabilities							
Trade payables	1,556	1,460	1,947	1,831	1,959	2,056	2,271
Short-term bank loan	252	266	135	169	96	167	118
Other current liabilities	830	906	370	396	231	258	395
Total Current Liabilities	2,386	2,366	2,317	2,227	2,286	2,482	2,784
Non-current Liabilities							
Long-term Debt Bank Loan	13	7	132	144	260	537	533
Others non-current liabilities	209	386	313	351	306	368	387
Total Non-current Liabilities	222	392	445	495	565	906	920
Total Liabilities	2,608	2,758	2,762	2,722	2,852	3,387	3,704
Equity							
Minority Interest	435	437	555	613	671	651	698
Total Liabilities & Equity	12,425	13,696	15,226	16,616	18,146	19,591	21,113

Source: Company and Binaartha

Table: Cash Flow in IDR Billion YoY

Cash Flow (IDR. Billion)	2014A	2015A	2016A	2017A	2018A	2019F	2020F
Cash Flow From Operating Activities							
Net income	2,065	2,004	2,300	2,404	2,457	2,614	2,895
Depreciation expenses	246	284	397	403	426	707	595
Change in working capital	(410)	176	(696)	(672)	(177)	(510)	55
Net Cash From Operating Activities	1,901	2,464	2,001	2,135	2,706	2,811	3,545
Cash Flow From Investing Activities							
Capex	(725)	(818)	(1,014)	(1,190)	(1,336)	(1,413)	(1,191)
Other non-current assets	(8)	(110)	(88)	(132)	(15)	(84)	173
Net Cash Used in Investing Activities	(733)	(928)	(1,103)	(1,322)	(1,352)	(1,498)	(1,017)
Cash Flow From Financing Activities							
Long-term debt	1	(6)	126	12	115	277	(4)
Other non-current liabilities	46	177	(73)	38	(45)	63	19
Equity	(747)	(883)	(774)	(973)	(1,057)	(1,704)	(1,690)
Net Cash Provided by (Used in) Financing Activities	(700)	(713)	(721)	(924)	(986)	(1,364)	(1,675)
Net Increase In Cash and Cash Equivalent	468	824	177	(111)	369	(51)	853
Cash and Cash Equivalents at Beginning of Period	1,426	1,895	2,719	2,896	2,785	3,153	3,102
Cash and Cash Equivalents at End of Period	1,895	2,719	2,896	2,785	3,153	3,102	3,955

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2014 A	2015 A	2016A	2017A	2018A	2019F	2020F
Growth (% YoY)							
Sales	8.5%	3.0%	8.3%	4.2%	4.4%	7.1%	7.2%
OP	5.8%	-3.7%	25.7%	4.8%	2.9%	2.6%	10.7%
EBITDA	9.9%	-1.1%	16.1%	4.7%	2.2%	13.5%	6.0%
NP	7.6%	-2.9%	14.7%	4.5%	2.2%	6.4%	10.7%
EPS	7.6%	-2.9%	14.7%	4.5%	2.2%	6.4%	10.7%
Profitability							
Gross Profit Margin	48.8%	48.0%	49.0%	48.6%	46.7%	46.0%	46.0%
Operating Margin	15.0%	14.1%	16.3%	16.4%	16.2%	15.5%	16.0%
EBITDA margin	17.6%	16.9%	18.1%	18.2%	17.9%	18.9%	18.7%
NET Profit margin	11.9%	11.2%	11.9%	11.9%	11.7%	11.6%	12.0%
ROA	16.6%	14.6%	15.1%	14.5%	13.5%	13.3%	13.7%
ROE	22.0%	19.1%	19.3%	18.1%	16.8%	16.8%	17.3%
Stability							
Total debt/ equity (X)	0.28	0.26	0.23	0.20	0.20	0.22	0.22
Current ratio (X)	3.40	3.70	4.13	4.51	4.66	4.55	4.45
Int. Coverage (x)	53.14	113.76	109.82	89.06	111.18	48.79	59.10
Per Share data (IDR)							
EPS	44.0	42.8	49.1	51.3	52.4	55.8	61.8
BVS	200	224	254	283	312	332	357
SPS	341	371	382	413	431	450	482
EBITDA/share	59	65	65	75	79	80	91

Source: Company and Binaartha

Stock Ratings:

- Buy : a recommendation to purchase the security with upside potential of **20% or greater**
- Hold : a recommendation to neither buy nor sell a security with upside potential of **0-19%**.
- Sel : a recommendation to close out a long position in a security with upside potential **below 0% or negative**.

RESEARCH TEAM
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