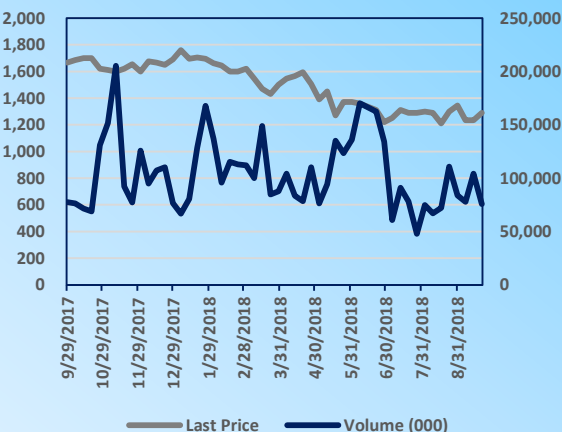


PT. Kalbe Farma Tbk.

HOLD

28 September 2018
Consumer Goods

Price	IDR	1,355
Target Price	IDR	1,410
JKSE Index		5,929.216



Stock Information

Bloomberg Code	KLBF IJ
Market Cap (IDR bn)	61,875.2
52-week high (IDR)	1,785
52-week low (IDR)	1,155
Shares issued (mn)	46,875.1
6-m avg. daily Val (IDR)	1,350
Free float	43.19%

Major share holders

PT Gira Sole Prima	10.19%
PT Santa Seha Sanadi	9.66%
PT Diptanala Bahana	9.50%
PT Lucasta Murni Cemerlang	9.47%
PT Ladang Ira Panen	9.34%
PT Bina Arta Charisma	8.65%
Public	43.19%

USD/ IDR – YE (IDR)

2017	13,480
2018F (6m-avg)	14,293

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Investment Consideration

Increasing ASP

- The Rupiah has depreciated sharply against the USD since June 2018. In June 2017 the Rupiah was IDR 13,941 and has increased 7.7% to reach IDR 15,013 in September 2018. The Impact of the weakening Rupiah on KLBF's COGS is around 3.5% for every 10% rupiah depreciation. If the depreciation is above 5%, it will start to impact KLBF's gross margin.
- To maintain the gross margin, KLBF plans to increase ASPs in the nutritional and consumer health divisions as most of raw materials (like skim milk powder) are imported.
- We are targeting the company to maintain GPM in 2018F at 48%.

Expecting Stable Revenue and Profit

- We revise KLBF's target revenue based on 1H2018 result and Rupiah depreciation, to IDR 20.8 trillion which is slight growth of 3.2% yoy.
- Earlier in 2018, KLBF target for revenue growth was around 7%-9% and has been revised to around 5% - 7%. With operating margin at around 14.5% - 15.5%, EPS growth will be around 5%-7%.
- In 1H2018, KLBF booked revenue of IDR 10.4 trillion up 3.12% yoy. Net profit decreased slightly -0.03% to IDR 1.215 billion.

Focus on Biology based Prescription Pharmaceuticals

- KLBF will focus on biology based prescription pharmaceuticals (Biosimilar) as their Biosimilar plant has been inaugurated in February 2018.
- With the new Biosimilar plant, KLBF has produced speciality-drugs such as Erythropoietin (EPO) a hormone that can produce red blood cells. Later KLBF will be the first to produce insulin in Indonesia.
- We expect the ability to produce speciality-drugs, will help to boost the performance of the pharmaceutical segment.

Valuation: HOLD TP 1,410 with 4% upside

- We targeting a stable KLBF performance in 2018F as KLBF has revised their own targets under pressure from the Rupiah depreciation.
- Using a DCF valuation with WACC at 12.30% we are targeting KLBF to trade at 26x 2019F PE within a year. Target Price is IDR 1,410 which represents 4% upside. HOLD

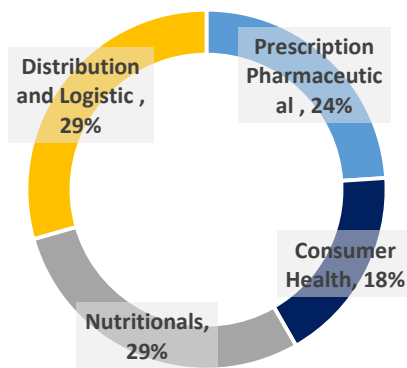
Financial Highlights	2013 A	2014 A	2015 A	2016A	2017A	2018F	2019F	2020F
Revenue (In IDR Bn)	16,002	17,369	17,887	19,374	20,182	20,826	21,459	22,116
Gross Profit (In IDR Bn)	7,679	8,476	8,592	9,488	9,812	9,997	10,300	10,616
Operating Profit (In IDR Bn)	2,468	2,612	2,515	3,161	3,312	3,332	3,433	3,539
EBITDA (In IDR Bn)	2,787	3,062	3,029	3,516	3,681	3,704	3,841	3,970
Net Profit (In IDR Bn)	1,920	2,065	2,004	2,300	2,404	2,440	2,514	2,591
EPS (In IDR)	41	44	43	49	51	52	54	55
GPM (%)	48.0%	48.8%	48.0%	49.0%	48.6%	48.0%	48.0%	48.0%
OPM (%)	15.4%	15.0%	14.1%	16.3%	16.4%	16.0%	16.0%	16.0%
NPM (%)	12.0%	11.9%	11.2%	11.9%	11.9%	11.7%	11.7%	11.7%
EBITDA Margin (%)	17.4%	17.6%	16.9%	18.1%	18.2%	17.8%	17.9%	18.0%
ROE (%)	23.7%	22.0%	19.1%	19.3%	18.1%	17.2%	16.5%	16.0%
Tot. debt / equity (x)	0.35	0.28	0.26	0.23	0.20	0.17	0.19	0.18
Current Ratio (x)	2.84	3.40	3.70	4.13	4.51	5.54	4.66	4.95

Picture: USDIDR vs Skim milk powder price



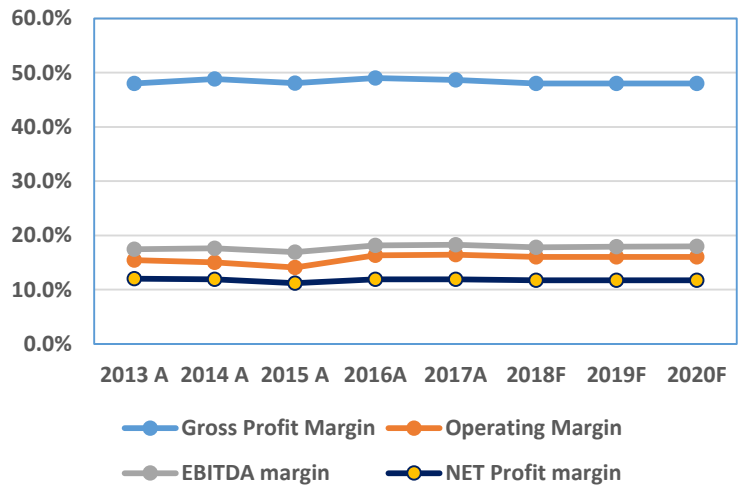
Source: Bloomberg

Chart: Revenue Contribution 1H2018



Source: Company

Chart: GPM, OPM, NPM, EBITDA Margin YoY



Source: Company and Binaartha

Table: Statement of Financial Position in IDR Billion YoY

Statement of Financial Position (IDR. Billion)	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Current Assets								
Cash and cash equivalents	1,426	1,895	2,719	2,896	2,785	1,954	3,836	3,530
Trade receivables	2,273	2,465	2,434	2,726	2,968	3,749	3,152	3,760
Inventory	3,053	3,091	3,003	3,344	3,557	3,633	3,605	3,848
Other current assets	744	671	593	607	734	625	644	663
Total Current Assets	7,497	8,121	8,748	9,573	10,044	9,960	11,238	11,801
Non-Current Assets								
Fixed assets	2,926	3,404	3,938	4,556	5,343	5,753	6,212	6,692
Other non-current assets	892	900	1,009	1,098	1,230	1,458	1,288	1,327
Total Non-current Assets	3,818	4,304	4,948	5,653	6,572	7,211	7,499	8,019
Total Assets	11,315	12,425	13,696	15,226	16,616	17,171	18,737	19,820
Liabilities								
Current Liabilities								
Trade payables	1,531	1,556	1,460	1,947	1,831	1,416	1,854	1,807
Short-term bank loan	584	252	266	135	169	174	129	133
Other current liabilities	1,110	830	906	370	396	208	429	442
Total Current Liabilities	2,641	2,386	2,366	2,317	2,227	1,799	2,412	2,382
Non-current Liabilities								
Long-term Debt Bank Loan	12	13	7	132	144	177	107	149
Others non-current liabilities	163	209	386	313	351	382	371	391
Total Non-current Liabilities	175	222	392	445	495	559	478	540
Total Liabilities	2,815	2,608	2,758	2,762	2,722	2,358	2,890	2,922
Equity								
Minority Interest	392	435	437	555	613	614	643	657
Total Liabilities & Equity	11,315	12,425	13,696	15,226	16,616	17,171	18,737	19,820

Source: Company and Binaartha

Table: Income Statement in IDR Billion YoY

Income Statement (IDR.Mn)	2013 A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Revenues	16,002	17,369	17,887	19,374	20,182	20,826	21,459	22,116
Cost of revenues	(8,323)	(8,893)	(9,296)	(9,886)	(10,370)	(10,830)	(11,159)	(11,500)
Gross Profit	7,679	8,476	8,592	9,488	9,812	9,997	10,300	10,616
Operating expense	(5,211)	(5,864)	(6,077)	(6,327)	(6,500)	(6,664)	(6,867)	(7,077)
Operating Profit	2,468	2,612	2,515	3,161	3,312	3,332	3,433	3,539
Other income	104	152	206	(70)	(71)	(75)	(77)	(80)
Pretax income(PBT)	2,573	2,764	2,721	3,091	3,241	3,257	3,356	3,459
Taxes	(602)	(643)	(663)	(740)	(788)	(782)	(805)	(830)
NPAT	1,970	2,121	2,058	2,351	2,453	2,475	2,551	2,629
Minority interest	(51)	(56)	(53)	(51)	(50)	(35)	(36)	(38)
Net Profit	1,920	2,065	2,004	2,300	2,404	2,440	2,514	2,591
EPS (In IDR)	41	44	43	49	51	52	54	55
EBITDA	2,787	3,062	3,029	3,516	3,681	3,704	3,841	3,970

Source: Company and Binaartha

Table: Cash Flow in IDR Billion YoY

Cash Flow (IDR. Billion)	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Cash Flow From Operating Activities								
Net income	1,920	2,065	2,004	2,300	2,404	2,440	2,514	2,591
Depreciation expenses	186	246	284	397	403	410	459	480
Change in working capital	(740)	(410)	176	(696)	(672)	(1,176)	1,219	(900)
Net Cash From Operating Activities	1,366	1,901	2,464	2,001	2,135	1,674	4,192	2,172
Cash Flow From Investing Activities								
Capex	(857)	(725)	(818)	(1,014)	(1,190)	(820)	(918)	(961)
Other non-current assets	(171)	(8)	(110)	(88)	(132)	(228)	170	(39)
Net Cash Used in Investing Activities	(1,028)	(733)	(928)	(1,103)	(1,322)	(1,049)	(748)	(1,000)
Cash Flow From Financing Activities								
Long-term debt	1	1	(6)	126	12	33	(70)	42
Other non-current liabilities	19	46	177	(73)	38	32	(11)	20
Equity	(791)	(747)	(883)	(774)	(973)	(1,521)	(1,480)	(1,540)
Net Cash Provided by (Used in) Financing Activities	(771)	(700)	(713)	(721)	(924)	(1,457)	(1,561)	(1,478)
Net Increase In Cash and Cash Equivalent	(433)	468	824	177	(111)	(831)	1,883	(307)
Cash and Cash Equivalents at Beginning of Period	1,860	1,426	1,895	2,719	2,896	2,785	1,954	3,836
Cash and Cash Equivalents at End of Period	1,426	1,895	2,719	2,896	2,785	1,954	3,836	3,530

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2013 A	2014 A	2015 A	2016A	2017A	2018F	2019F	2020F
Growth (% YoY)								
Sales	17.3%	8.5%	3.0%	8.3%	4.2%	3.2%	3.0%	3.1%
OP	12.2%	5.8%	-3.7%	25.7%	4.8%	0.6%	3.0%	3.1%
EBITDA	19.2%	9.9%	-1.1%	16.1%	4.7%	0.6%	3.7%	3.4%
NP	10.7%	7.6%	-2.9%	14.7%	4.5%	1.5%	3.0%	3.1%
EPS	10.7%	7.6%	-2.9%	14.7%	4.5%	1.5%	3.0%	3.1%
Profitability								
Gross Profit Margin	48.0%	48.8%	48.0%	49.0%	48.6%	48.0%	48.0%	48.0%
Operating Margin	15.4%	15.0%	14.1%	16.3%	16.4%	16.0%	16.0%	16.0%
EBITDA margin	17.4%	17.6%	16.9%	18.1%	18.2%	17.8%	17.9%	18.0%
NET Profit margin	12.0%	11.9%	11.2%	11.9%	11.9%	11.7%	11.7%	11.7%
ROA	17.0%	16.6%	14.6%	15.1%	14.5%	14.2%	13.4%	13.1%
ROE	23.7%	22.0%	19.1%	19.3%	18.1%	17.2%	16.5%	16.0%
Stability								
Total debt/ equity (X)	0.35	0.28	0.26	0.23	0.20	0.17	0.19	0.18
Current ratio (X)	2.84	3.40	3.70	4.13	4.51	5.54	4.66	4.95
Int. Coverage (x)	89.82	53.14	113.76	109.82	89.06	90.00	131.43	112.38
Per Share data (IDR)								
EPS	40.9	44.0	42.8	49.1	51.3	52.1	53.6	55.3
BVS	173	200	224	254	283	303	324	346
SPS	291	341	371	382	413	431	444	458
EBITDA/share	50	59	65	65	75	79	79	82

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**.

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