

5 NOVEMBER 2018

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	KLBF JJ
Sector	Consumer
Current Price	Rp1,550
Target Price	Rp1,800
Prev. Target Price	Rp1,300
Upside/Downside	16.1%
Share Out (bn shares)	46.9
Market Cap (Rp bn)	73,590
52 – w range (low-high)	Rp1,260–Rp1,690
52 – w average daily	Rp1,462

PRICE CHART



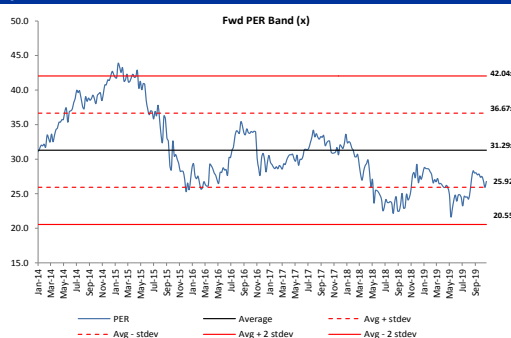
Source: Bloomberg

SHAREHOLDERS INFORMATION

PT Gira Sole Prima	10.2%
PT Santa Seha Sanadi	9.7%
PT Diptanala Bahana	9.5%
PT Lucasta Murni Cemerlang	9.4%
PT Ladang Ira Panen	9.2%
PT Bina Arta Charisma	8.5%
Public (below 5%)	43.5%

Source: Company data

P/E BAND



Source: Bloomberg

PT KALBE FARMA TBK

A MIGHTY CONCEPT: HEALTH FOR ALL

KLBF 9M19 sales/ net profit of Rp16.8tn (+7.3% YoY)/ Rp1.9tn (+6.2% YoY) came in-line as expected, made up to 74% of FY19 Rp2.4tn consensus forecast. GPM remained stable from 11.5% in 9M18 to 11.4% YoY, and strong earnings growth driven by cost efficiencies despite flattish revenue growth. We expect KLBF continued its discipline in managing costs by reducing promotional expenses. Hence, we reiterate KLBF coverage and roll forward our valuation basis to FY20F. BUY recommendation with new TP of Rp 1,800/share this implies PER and EV/EBITDA 2020F of 22.7x and 15.3x, respectively.

Earnings broadly in-line due costs efficiencies

KLBF booked 3Q19 revenue remained somewhat stable at -2.8% QoQ to Rp 5.8 tn, totaling to Rp 16.8tn in 9M19, which is in-line with consensus estimates at 71.5% of full year forecast. Segment-wise; 1) Nutritional's sales grew by+4.6% YoY to Rp 4.6tn while the GPM dropped by -1.3% YoY mostly due higher skimmed milk price (+24% YoY) and weakening product mix 2) Pharmaceutical's revenue grew by 6.6% YoY to Rp 3.9tn in 9M19, while GPM stable at 54.2% on the back of higher licensed drug and un-branded generics, sales jumped by 17% YoY and 4% YoY, along recovering from the hospital sector. 3) Consumer health only grew 1.9% YoY to Rp 2.7 tn with GPM slightly improved 5bps to 7% given the lower sugar price trend -6.8% YoY in 3Q19. In bottom-line company's booked 3Q19 net profit Rp 657 bn (+11.7% YoY), bringing 9M19 net profit to Rp 1.9tn (+6.2% YoY), forming 74% for FY19 consensus estimates. Nevertheless the strong earnings growth was driven by cost efficiencies, particularly in marketing spending (-3% YoY).

Benefited from upcoming tax cut incentives and increasing from BPJS premiums

The Government will impose up to a 300% tax deduction for companies who invest in R&D (Government Regulation No.45/2019). R&D spending amount of 1.2% of sales, company might enjoy Rp 99bn in incentives which could paving the way for higher earnings growth next year at least +3%. KLBF could also benefit from increase the BPJS Kesehatan premiums, this bring positive impact, as the company regularly provides drugs and healthcare products. On the other hand, the adoption of multi-winner bidding in the e-catalogue system and price ceiling adjustments might also be future catalysts.

Reiterate – with TP Rp 1.800/share

KLBF's continued its discipline in managing costs by reducing certain ineffective promotional expenses. While the result is still on track, we reinitiate a BUY recommendation with a new TP of Rp 1.800/share. This implies PER and EV/EBITDA 2020F of 22.7x and 15.3x, respectively. Based on yesterday's closing price, KLBF was traded at a valuation of 27.4x PER and 18.7x EV/EBITDA 2019F.

Key Risks: 1) Raw material costs fluctuation, 2.) USD and IDR volatility, and 3.) changing regulation from government

Financial Summary

(Rp billion)	2016A	2017A	2018F	2019F	2020F
Revenue	20,182	21,074	22,499	24,034	25,793
EBITDA	3,562	3,639	3,720	4,072	4,467
Net profit	2,404	2,457	2,649	2,910	3,205
EPS (Rp)	51	52	57	62	68
PER (x)	30.2	29.6	27.4	25.0	22.7
BVPS (Rp)	296	326	357	393	433
PBV (x)	5.2	4.8	4.3	3.9	3.6
EV/EBITDA (x)	19.7	19.2	18.7	17.0	15.3
Dividend yield (%)	1.4	1.6	1.6	1.8	1.9
RoE (%)	18.2	16.8	16.5	16.5	16.5

Source: Company data and Lotus Andalan Research

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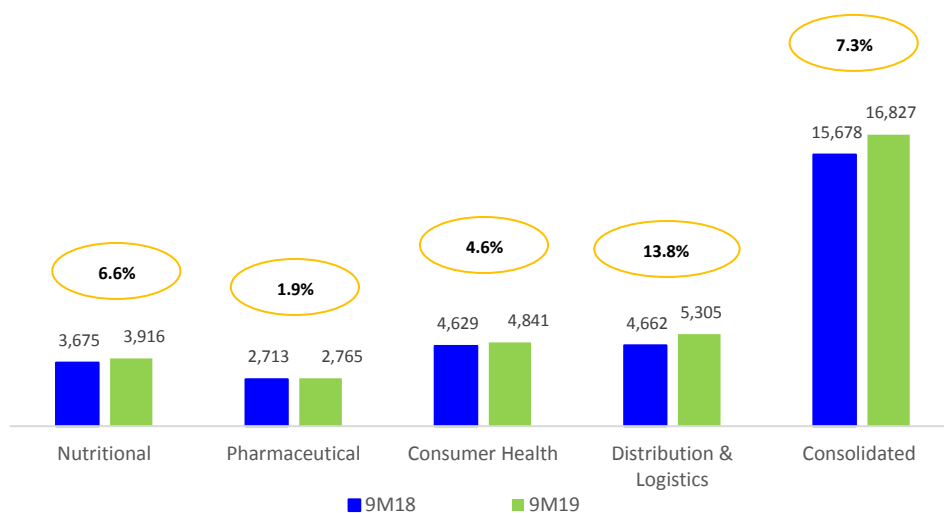
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## Interim Financial Result

	9M18	9M19	YoY	FY19F	Coverage	2Q19	3Q19	QoQ	Comment
<b>P/L (In Rp billion)</b>									
Revenue	15,678	16,827	7.3%	22,498.8	74.8%	5,813	5,648	-2.8%	
Cost of revenue	8,194	9,064	10.6%	11,908.7	76.1%	3,134	3,158	0.8%	
Gross profit	7,484	7,763	3.7%	10,590.0	73.3%	2,679	2,490	-7.1%	
Operating Expense	5,174	5,270	1.9%	7,139.9	73.8%	1,821	1,620	-11.0%	
Operating profit									Opex efficiencies particularly in promotion & marketing costs
Net Profit	2,310	2,493	7.9%	3,450.2	72.3%	858	870	1.4%	
	1,804	1,916	6.2%	2,649.0	72.3%	663	657	-0.9%	
<b>Profitability</b>									
Gross margin									Drop in GPM YoY due to sharp Rupiah depreciation
	47.7%	46.1%		47.1%		46.1%	44.1%		
EBIT margin	14.7%	14.8%		15.3%		14.8%	15.4%		
Net margin	0.0%	0.0%		0.0%		0.0%	0.0%		

Source: Company data and Lotus Andalan Research

## Quarterly performance



Source: Company data, Lotus Andalan Research

## FINANCIAL HIGHLIGHTS OF PT KALBE FARMA, TBK

In Rp Billion											
<b>BALANCE SHEET</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>INCOME STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
<b>ASSETS</b>	2,785	3,153	3,328	3,472	4,197	<b>Revenue</b>	<b>20,182</b>	<b>21,074</b>	<b>22,499</b>	<b>24,034</b>	<b>20,182</b>
Cash & cash equivalents	2,876	3,256	3,287	3,585	3,881	COGS	(10,370)	(11,226)	(11,909)	(12,612)	(10,370)
Accounts receivable	3,557	3,475	3,823	4,083	4,306	<b>Gross profit</b>	<b>9,812</b>	<b>9,848</b>	<b>10,590</b>	<b>11,422</b>	<b>9,812</b>
Inventories - net	825	765	850	921	967	Operating expenses	(6,653)	(6,635)	(7,140)	(7,636)	(6,653)
Other current assets	<b>10,044</b>	<b>10,648</b>	<b>11,289</b>	<b>12,061</b>	<b>13,351</b>	<b>Operating profit</b>	<b>3,159</b>	<b>3,213</b>	<b>3,450</b>	<b>3,786</b>	<b>3,159</b>
<b>Total current assets</b>	5,343	6,253	7,195	7,953	8,601	<b>EBITDA</b>	<b>3,562</b>	<b>3,639</b>	<b>3,720</b>	<b>4,072</b>	<b>3,562</b>
Fixed assets	1,230	1,245	1,325	1,433	1,527	Interest expense	(36)	(30)	(26)	(18)	(36)
Other non-current assets	<b>6,572</b>	<b>7,498</b>	<b>8,520</b>	<b>9,386</b>	<b>10,128</b>	Other income (expenses)	(16)	(3)	(9)	(11)	(16)
<b>Total Non-current assets</b>	<b>16,616</b>	<b>18,146</b>	<b>19,808</b>	<b>21,447</b>	<b>23,479</b>	<b>Total other income/(expenses)</b>	<b>(53)</b>	<b>(32)</b>	<b>(34)</b>	<b>(28)</b>	<b>(53)</b>
<b>TOTAL ASSETS</b>						<b>Income before tax</b>	<b>3,106</b>	<b>3,181</b>	<b>3,416</b>	<b>3,758</b>	<b>3,106</b>
<b>LIABILITIES &amp; EQUITY</b>	169	69	62	44	39	Tax expense	(788)	(809)	(860)	(948)	(788)
Short term loans	1,109	1,290	1,324	1,393	1,476	<b>Net profit before minority interest</b>	<b>2,318</b>	<b>2,371</b>	<b>2,555</b>	<b>2,810</b>	<b>2,318</b>
Accounts payable	950	927	1,091	1,118	1,195	Minority interest	(50)	(40)	(53)	(54)	(50)
Other payables	<b>2,227</b>	<b>2,286</b>	<b>2,477</b>	<b>2,555</b>	<b>2,711</b>	<b>Net profit</b>	<b>2,269</b>	<b>2,331</b>	<b>2,503</b>	<b>2,757</b>	<b>2,269</b>
<b>Total Current Liabilities</b>	<b>495</b>	<b>565</b>	<b>584</b>	<b>455</b>	<b>457</b>	<b>EPS (Rp)</b>	<b>51</b>	<b>52</b>	<b>57</b>	<b>62</b>	<b>51</b>
<b>Total Non-Current Liabilities</b>	469	469	469	469	469	<b>KEY FINANCIAL RATIOS</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Capital Stock	24	82	44	50	58	<b>Growth (%)</b>					
Other items	613	671	681	741	799	Revenue	8.3	4.2	4.4	6.8	6.8
Non-controlling interest	12,788	14,073	15,554	17,178	18,985	Gross profit	10.4	3.4	0.4	7.5	7.9
RE	<b>13,894</b>	<b>15,295</b>	<b>16,747</b>	<b>18,438</b>	<b>20,312</b>	Operating Profit	12.3	5.6	1.7	7.4	9.7
<b>Total Equity</b>	<b>16,616</b>	<b>18,146</b>	<b>19,808</b>	<b>21,447</b>	<b>23,479</b>	EBITDA	12.4	5.1	2.2	2.2	9.4
<b>TOTAL LIABILITIES &amp; EQUITY</b>	2,785	3,153	3,328	3,472	4,197	Net Profit	14.7	4.5	2.2	7.8	9.9
<b>CASH FLOW STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>Profitability (%)</b>					
Net profit	2,404	2,457	2,649	2,910	3,205	Gross margin	49.0	48.6	46.7	47.1	47.5
Depreciation & Amortization	403	426	270	286	310	Operating margin	15.4	15.7	15.2	15.3	15.8
Change in WC	(477)	(115)	(346)	(488)	(437)	EBITDA margin	17.5	17.7	17.3	16.5	16.9
Others	(229)	38	79	(44)	32	Net Profit margin	11.9	11.9	11.7	11.8	12.1
<b>Net Operating Cash Flow</b>	<b>2,101</b>	<b>2,806</b>	<b>2,652</b>	<b>2,664</b>	<b>3,110</b>	ROAA	15.9	15.1	14.1	14.0	14.1
Change in fixed assets - net	(1,190)	(1,336)	(1,212)	(1,044)	(958)	ROAE	19.7	18.2	16.8	16.5	16.5
Others	(132)	(15)	(80)	(108)	(94)	<b>Solvency (x)</b>					
<b>Net Investing Cash Flow</b>	<b>(1,322)</b>	<b>(1,352)</b>	<b>(1,292)</b>	<b>(1,152)</b>	<b>(1,052)</b>	Current ratio	4.1	4.5	4.7	4.6	4.7
Change in borrowings - net	46	16	(43)	(171)	(19)	Quick ratio	2.7	2.9	3.1	3.0	3.1
Change in equity	58	115	(28)	66	67	DER	0.0	0.0	0.0	0.0	0.0
Change in other liabilities	38	(45)	54	23	16	EBITDA coverage	120.4	97.9	122.4	144.5	232.6
Dividend payment	(1,048)	(1,191)	(1,168)	(1,286)	(1,398)						
Adjustment	17	19	-	-	-						
<b>Net Financing Cash Flow</b>	<b>(890)</b>	<b>(1,086)</b>	<b>(1,185)</b>	<b>(1,367)</b>	<b>(1,334)</b>						
<b>Change in cash</b>	<b>(111)</b>	<b>369</b>	<b>175</b>	<b>144</b>	<b>724</b>						
Cash at the beginning period	2,896	2,785	3,153	3,328	3,472						
Cash at the ending period	2,785	3,153	3,328	3,472	4,197						

Source: Company data and Lotus Andalan Research

**Notes:**

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **Neutral** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

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