

Premier Insight

20 February 2017

Kalbe Farma (KLBF IJ; Buy)

On the path to recovery

- Earnings grew +13.3% yoy in 4Q16, in-line with our/consensus.
- Margin expansion on favorable materials cost and forex rate in 2016.
- Positive catalyst in KLBF's pharmaceutical division.
- TP unchanged at Rp1,700 but rating upgraded to BUY.

Earnings were in-line. KLBF's 4Q16 indicative net profit were reported at Rp572bn (+13.3% yoy), bringing FY16 earnings to reach Rp2.3tn (+13.5% yoy), in-line with our/consensus estimates. Revenue grew 4.8% yoy in 4Q16 which is attributable to stronger sales volume despite subtle ASP hike on selected OTC products only. In 4Q16, the revenue growth is driven by 12.3% yoy growth in consumer health, 5.9% yoy growth in nutritional segment, while pharmaceutical reported slight sales contraction of 0.4%. As of 4Q16, consumer health accounted for 31% of total sales, followed by distribution with 31%, pharmaceutical division with contribution of 22% and consumer health with 17%.

Gross margin expansion. KLBF's gross profit grew 12.8% yoy in 4Q16, where the gross margin stood at 49.3% in 4Q16 (vs. 4Q15: 45.8%). We believe the margin improvement is attributable to favorable raw material cost and relatively strong IDR during 2016. Going forward, we expect the new bio-similar facility to further lessen import dependency and lift-off the margin pressure due to currency exchange risk. Currently, the facility is under the certification process which will take at least another year to complete. At the operating level, operating profit grew 17.8% yoy to reach Rp790bn in 4Q16. As a result, operating margin improved to 15.8% in 4Q16 from 14.1% in 4Q15.

Oncology facility completion in the pipeline. KLBF will start the production of Erythropoietin (Epo), a substance used to restore lost or damaged red blood cells caused by chronic disease such as cancer and kidney failure, by mid to late 2018. Upon the completion, the production capacity will reach 10-11mn units per year. Although this later will be categorized as generic drugs, KLBF will enjoy higher gross margin from this type of drugs and we also see the limited risk on government's price cap due to lack of availability of this particular drugs in Indonesia. In addition, we believe this will further improve KLBF's performance given the growing number of cancer patients in Indonesia.

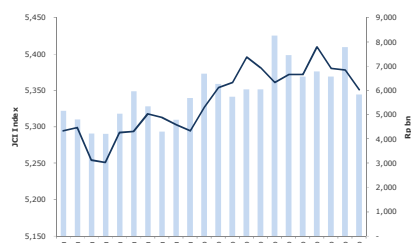
15% upside. Upgrade to BUY. Our DCF-based TP of Rp1,700 implies FY17F P/ of 30x. Recent share price correction post Trump election win in the US led us to upgrade our rating to BUY (from HOLD) given KLBF's improving fundamental. We continue to like the stock due to its wide portfolio, strong distribution network and company's active search for strategic alliance. In addition, we expect the improving consumer purchasing power this year to further support the company's performance going forward.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	17,369	17,888	19,576	21,982	24,850
EBITDA (RpBn)	3,007	2,933	3,328	3,796	4,329
EBITDA Growth (%)	10.0	(2.5)	13.5	14.0	14.0
Net Profit (RpBn)	2,080	2,034	2,307	2,655	3,043
EPS (Rp)	44	43	49	57	65
EPS Growth (%)	12.9	(2.2)	13.4	15.1	14.6
Net Gearing (%)	(15.4)	(24.8)	(29.2)	(31.7)	(35.6)
PER (x)	33.5	34.2	30.2	26.2	22.9
PBV (x)	8.2	7.1	6.4	5.6	5.0
Dividend Yield (%)	1.1	1.3	1.2	1.7	1.9
EV/EBITDA (x)	23.6	24.6	21.9	19.4	17.2

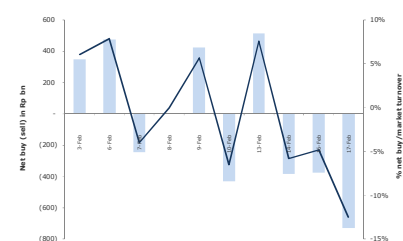
Source: KLBF, IndoPremier

Share Price Closing as of : 16 February 2016

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,351	-0.5%	13.9%	1.0%
LQ45	887	-0.8%	8.2%	0.3%
DJI	20,624	0.0%	25.8%	4.4%
SET	1,578	0.1%	19.5%	2.3%
HSI	24,034	-0.3%	24.6%	9.2%
NKY	19,235	-0.6%	20.5%	0.3%
FTSE	7,300	0.3%	22.7%	2.2%
FSSTI	3,108	0.4%	17.0%	7.9%
EIDO	25	-0.9%	11.0%	1.8%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	53.4	0.1%	74.2%
CPO/tonne	641.6	-2.4%	9.4%
Soy/bushel	10.2	-0.5%	16.2%
Rubber/kg	2.8	-2.0%	109.8%
Nickel/tonne	10,994	-0.2%	31.2%
Tins/tonne	19,676	0.1%	25.2%
Copper/tonne	5,945	-0.6%	29.6%
Gold/try.oz (Spot)	1,235	-0.3%	0.7%
Coal/tonne	79.9	-0.1%	57.1%
Corn/bushel	3.5	-1.3%	0.1%
Wheat/bushel*	122.8	0.2%	-25.0%

* : 1 month change

Source : Bloomberg

News & Analysis

Corporates

AMRT: Sumber Alfaria (AMRT; Rp550; Not Rated) reported earnings of Rp601bn (+33.4% yoy) on the back of 16.2% yoy of revenue growth in 2016. Gross margin expanded to 19.4% in 2016 from 19.1% in 2015. (Company)

BBTN: Bank Tabungan (BBTN IJ; Rp2,170; Buy) reported strong demand for mortgage loans during Indonesia Property Expo 2017 held in past nine days. The bank booked potential lending of Rp5.9tn, which was ahead of its expectation, in part due to its promotion of 4.67% first-year lending rate vs. 5% for subsidized loans (fixed rate during entire loan tenure), downpayment of 5% for non-subsidized loans and discounted admin fees. Nearly 90% of this came from non-subsidized mortgage loan applications. The bank has targeted to fund 650,000 low cost housing units in 2017 vs. 595,540 units realised in 2016. (Bisnis Indonesia)

Comment: We view this as reflection of strong underlying demand for affordable homes in Indonesia despite BBTN's gimmicky low fixed rate, which applies only for the first year. This potential loans of Rp5.9tn amounted to more than two times the bank's average monthly mortgage loan disbursement of Rp2.6tn in 2016. BBTN remains one of our Top Buy picks in Indonesia.

INCO: Vale Indonesia (INCO IJ; Rp2,790; Hold) targets 2017 nickel matte production volumes of 80k tons. Technical malfunction on one of INCO's electric furnace is currently being mitigated and will be repaired soon. (Investor Daily)

Comment: FY17 production volume target is in-line with our forecast. At this stage, we maintain our estimates and valuation. We maintain our Hold recommendation.

KLBF: Kalbe Farma (KLBF IJ; Rp1,470; Buy) reported indicative earnings of Rp2.3tn in 2016 (+13.5% yoy), in-line with our/consensus estimates, on the back of 8.3% yoy revenue growth. All segments booked positive growth which is mainly driven by volume. Gross margin expanded to 49% in 2016 from 48.1% in 2015 on favorable raw materials cost and stable USD/IDR foreign exchange rate. (Company)

Comment: Recent share price correction post Trump election win in the US provides 15% upside to our TP. Therefore, we upgraded to BUY on KLBF.

WSKT: Waskita Karya's (WSKT IJ; Rp2,560; Buy) subsidiaries, Waskita Toll Road, obtained fresh fund of Rp3.5tn from PT Taspen and PT Sarana Multi Infrastruktur which both injected equity to WTR through non-government budget investment payment scheme (PINA). After the injection, Taspen and SMI have 16.6% and 12.4% while WSKT now owns 70.9% of WTR's ownership with equity increased to Rp10tn from previously Rp6.5tn. (Kontan)

Comment: The injection of SMI and Taspen may subject to government approval but it is positive for WSKT as it will have its working capital improved which can be used to finance future projects.

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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