

Kalbe Farma (KLBF IJ)

28 January 2015

Company Update

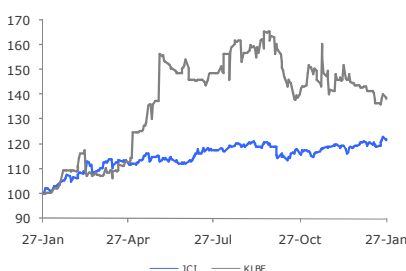
BUY (unchanged)

Stock Data

Target price (Rp)	Rp1,970
Prior TP (Rp)	Rp1,970
Shareprice (Rp)	Rp1,855
Upside/downside (%)	+6.2
Sharesoutstanding (m)	47
Marketcap. (US\$ m)	6,936
Free float (%)	43.3
Avg. 6m dailyT/O (US\$ m)	n/a

Price Performance

	3M	6M	12M
Absolute (%)	8.8	7.2	31.6
Relative to JCI (%)	5.3	3.7	10.5
52w high/low (Rp)	1,855 / 1,390		



Major Shareholders

Kalbe's Founders	56.7%
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Estimate Change; Vs. Consensus

	2014F	2015F
Latest EPS (Rp)	47.9	58.4
Vs. Prior EPS (%)	n.a	n.a
Vs. Consensus (%)	5.7	7.0

Source: Bloomberg

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Optimistic outlook for 2015

- **Management is more optimistic for 2015**
- **Lower input costs should boost margins**
- **However, FY14 results are likely below expectations**
- **Retain BUY recommendation at TP Rp1,970**

More optimism from management. Kalbe Farma (KLBF IJ)'s management has turned more positive on the company's growth prospects for FY15, and expects top-line growth of 10-14%, higher than the 8-9% yoy growth expected for FY14. Although no revenue guidance was provided per division, except for management expectation of flat revenue (no growth) for Kalbe's distribution arm, our back-of-the-envelope calculation suggests that other business divisions (ethical, consumer health and nutritional) have to grow at least 15% to achieve management's FY15 target. We believe Kalbe's upbeat revenue target is viable given a recovery in consumers' purchasing power alongside higher demand for generic drugs from universal healthcare patients. In addition, in a bid to gain market share, management may delay a price hike for its nutritional products this year, in contrast to its annual price hike of 4-5%.

Lower costs lead to better margins. We expect lower input costs and a better product mix to result in higher consolidated margins for Kalbe. Kalbe is benefiting from lower raw material prices, in particular skimmed milk powder, the price of which has declined by 42% since last year's peak, and lower PET packaging which is linked to crude oil price. In addition, we believe the lower input costs will more than offset higher utilities costs and wages, which should allow Kalbe to achieve higher profitability in FY15. Kalbe is most sensitive to currency fluctuations as 80% of its cost is USD-linked. We estimate that every 1% depreciation in the rupiah would cut Kalbe's earnings by 0.4%.

FY14 - likely below expectations. Management indicated that FY14 revenue will likely grow by only 8-9%, missing the company's own target of 11-13%, on the back of lower-than-expected sales from third party principal products. In addition, Kalbe has terminated a distribution agreement with one principal engaging in FMCG business in December last year, wiping out 3-4% of Kalbe's consolidated sales. Since distribution is a low-margin business, we believe the impact on earnings would be insignificant, potentially reducing consolidated gross margin by only 60-70bps.

Solid outlook, retain BUY. We have yet to incorporate new revenue guidance into our financial model pending the release of FY14 results. We retain our BUY recommendation at TP Rp1,970 on the back of the company's improving outlook. We continue to believe that Kalbe is one of the beneficiaries of government's universal healthcare scheme and rising health awareness among Indonesia's middle class.

Year To 31 Dec	2012A	2013A	2014F	2015F	2016F
Revenue(RpBn)	13,636	16,002	17,934	20,584	23,663
EBITDA(RpBn)	2,338	2,734	3,283	4,007	4,877
EBITDA Growth (%)	9.6	16.9	20.1	22.0	21.7
Net Profit(RpBn)	1,734	1,920	2,243	2,736	3,375
EPS (Rp)	34	39	48	58	72
EPS Growth (%)	17.0	15.1	21.7	22.0	23.4
Net Gearing (%)	(22.5)	(9.9)	(16.3)	(18.8)	(22.8)
PER (x)	54.3	47.2	38.8	31.8	25.8
PBV (x)	12.8	10.7	8.7	7.3	6.2
Dividend Yield (%)	1.0	1.1	0.9	1.2	1.4
EV/EBITDA (x)	39.6	31.5	26.0	21.1	17.2

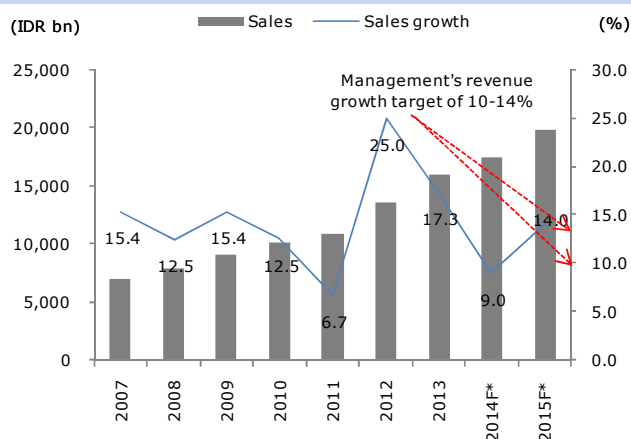
Source : KLBF,IndoPremier

Share Price Closing as of : 27-January-2015

Refer to Important disclosures on the last of this report

KLBF Company Update

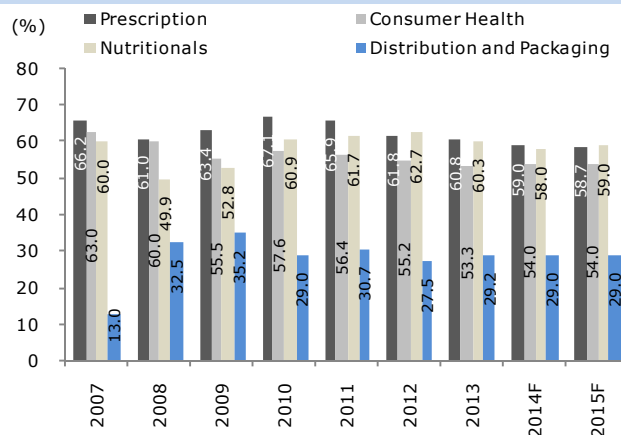
Fig. 1: Higher sales target for 2015



* Kalbe Farma's estimates

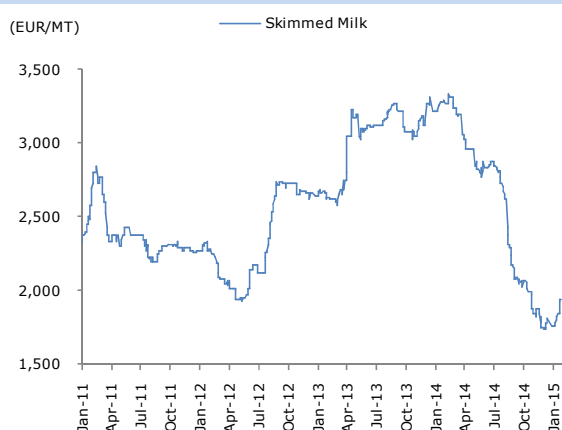
Source : Kalbe Farma; IndoPremier

Fig. 2: Gross margin per division



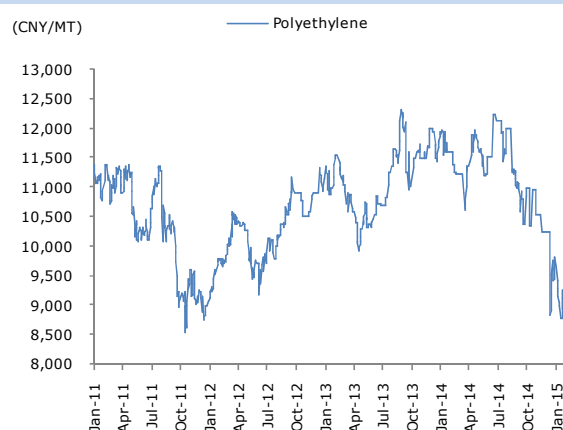
Source : Kalbe Farma; IndoPremier estimates

Fig. 3: Skimmed milk prices declined 42% from FY14's peak



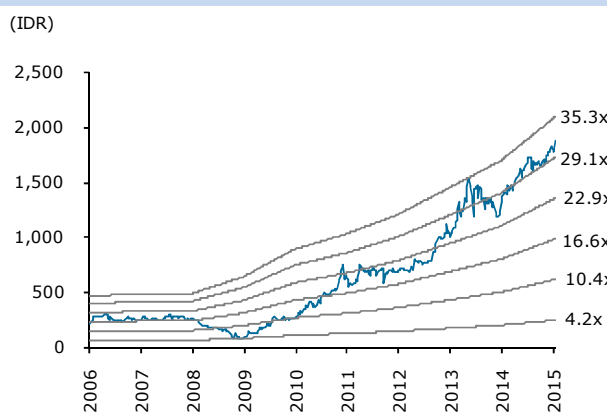
Source : Bloomberg; IndoPremier

Fig. 4: ...as well as polyethylene prices



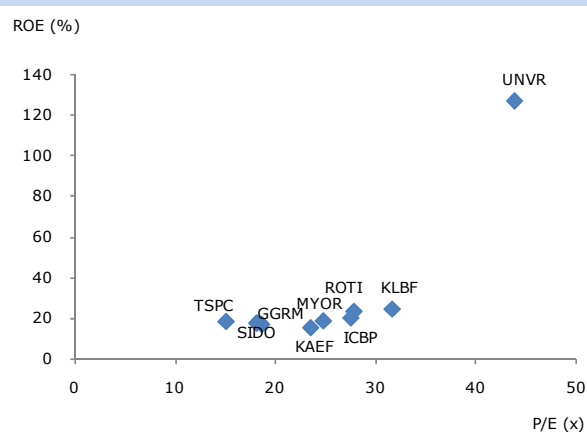
Source : Bloomberg; IndoPremier

Fig. 5: P/E Band Chart



Source : Bloomberg; IndoPremier estimates

Fig. 6: Peers comparison (FY15F)



Source : Bloomberg consensus estimates; IndoPremier estimates

KLBF Company Update

Year To 31 Dec (RpBn)	2012A	2013A	2014F	2015F	2016F
Income Statement					
Net Revenue	13,636	16,002	17,934	20,584	23,663
Cost of Sales	(7,103)	(8,323)	(9,325)	(10,563)	(11,974)
Gross Profit	6,533	7,679	8,609	10,021	11,688
SG&A Expenses	(4,316)	(5,130)	(5,563)	(6,302)	(7,146)
Operating Profit	2,218	2,549	3,046	3,719	4,542
Net Interest	57	22	20	33	56
Forex Gain (Loss)	20	1	11	0	29
Others-Net	13	1	(5)	(5)	(5)
Pre-Tax Income	2,308	2,573	3,072	3,747	4,623
Income Tax	(533)	(602)	(768)	(937)	(1,156)
Minorities	(41)	(51)	(61)	(74)	(92)
Net Income	1,734	1,920	2,243	2,736	3,375
Balance Sheet					
Cash & Equivalent	1,860	1,426	2,137	2,725	3,708
Receivable	1,938	2,273	2,360	2,709	3,114
Inventory	2,115	3,053	2,896	3,280	3,718
Other Current Assets	528	744	818	900	990
Total Current Assets	6,442	7,497	8,211	9,614	11,530
Fixed Assets - Net	2,255	2,926	3,588	4,179	4,704
Goodwill	0	0	0	0	0
Non Current Assets	721	892	981	1,080	1,188
Total Assets	9,418	11,315	12,780	14,873	17,422
ST Loans	204	584	500	500	500
Payable	1,100	1,531	0	1,669	1,892
Other Payables	587	526	578	636	700
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	1,892	2,641	2,552	2,806	3,092
Long Term Loans	0	0	0	0	0
Other LT Liab.	155	175	192	211	232
Total Liabilities	2,046	2,815	2,744	3,017	3,325
Equity	(197)	475	475	475	475
Retained Earnings	7,251	7,633	9,129	10,906	13,100
Minority Interest	318	392	431	474	521
Total SHE + Minority Int.	7,372	8,500	10,035	11,855	14,097
Total Liabilities & Equity	9,418	11,315	12,780	14,872	17,421

Source : KLBF, IndoPremier

KLBF Company Update

Year to 31 Dec	2012A	2013A	2014F	2015F	2016F
Cash Flow					
Net Profit	1,775	1,970	2,304	2,810	3,467
Depr. & Amortization	120	185	237	288	335
Changes in Working Capital	(763)	(865)	2	(551)	(635)
Others	129	(144)	(335)	(117)	(158)
Cash Flow From Operating	1,261	1,146	2,208	2,430	3,009
Capital Expenditure	(778)	(1,026)	(988)	(977)	(968)
Others	188	50	49	63	85
Cash Flow From Investing	(590)	(976)	(939)	(915)	(882)
Loans	64	379	(84)	0	0
Equity	(37)	(41)	0	0	0
Dividends	(965)	(965)	(797)	(1,009)	(1,231)
Others	58	778	27	33	39
Cash Flow From Financing	(879)	152	(854)	(977)	(1,192)
Changes in Cash	(207)	322	415	539	934
Financial Ratios					
Gross Margin (%)	47.9	48.0	48.0	48.7	49.4
Operating Margin (%)	16.3	15.9	17.0	18.1	19.2
Pre-Tax Margin (%)	16.9	16.1	17.1	18.2	19.5
Net Margin (%)	12.7	12.0	12.5	13.3	14.3
ROA (%)	19.6	18.5	18.6	19.8	20.9
ROE (%)	25.0	24.2	24.2	25.0	26.0
ROIC (%)	26.6	24.7	24.4	25.5	26.7
Acct. Receivables TO (days)	47.8	48.0	47.1	44.9	44.9
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	3.7	3.2	3.1	3.4	3.4
Payable TO (days)	55.3	57.7	58.8	54.3	54.3
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	2.8	6.9	5.0	4.2	3.5
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	(22.5)	(9.9)	(16.3)	(18.8)	(22.8)

Source : KLBF, IndoPremier

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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.

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