

# Kalbe Farma (KLBF IJ)

20 May 2015

## Company Update

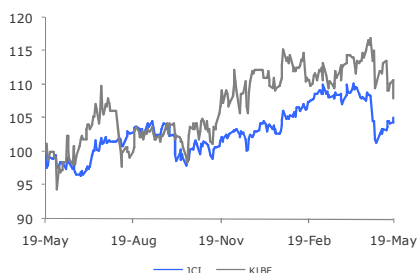
### BUY (Unchanged)

#### StockData

Target price (Rp)	Rp2,000
Prior TP (Rp)	Rp1,970
Shareprice (Rp)	Rp1,780
Upside/downside (%)	+12.4
Sharesoutstanding (m)	47
Marketcap. (US\$ m)	6
Free float (%)	43.3
Avg. 6m dailyT/O (US\$ m)	n/a

#### Price Performance

	3M	6M	12M
Absolute (%)	(1.1)	2.3	10.2
Relative to JCI (%)	0.3	(0.6)	4.5
52whigh/low (Rp)	1,780 - 1,540		



#### Major Shareholders

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

	2015F	2016F
Latest EPS (Rp)	49.3	58.5
Vs. Prior EPS (%)	(15.6)	(18.8)
Vs. Consensus (%)	(4.6)	(4.0)

Source: Bloomberg

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## A bitter pill for a healthy future

- Expect demand recovery in 2H15
- Nutritionals has the highest growth potential
- Revise revenue and EPS growth to 8.2% and 12.0% for FY15F
- Retain Buy rating at a new TP of Rp2,000

**Mediocre growth for FY15F.** We expect Kalbe to deliver mediocre performance this year and a gradual turnaround is only expected to start in 2H15 as April and May sales have yet to see a strong pickup, based on our discussions with the company. We believe Kalbe's performance should be better in the remaining quarters on seasonality, while we expect the commencement of government infrastructure projects to lend further support and Kalbe's continuous marketing activities to start translating into revenues. We estimate revenue growth of 8.2% and 12.3% in FY15F and FY16F, respectively with the nutritionals division being the growth driver.

**Nutritionals a panacea.** We expect margins to expand for Kalbe's nutritional division, given that raw material prices, especially skimmed milk powder, have declined by 45% since last year's peak, and high-cost inventory has been cleared. We believe the strong support for Kalbe's nutritionals division is coming from the company's winning strategy of effective 'below-the-line' marketing campaigns, e.g. fun walks. Also, the additional powdered and liquid milk facilities should help accelerate its penetration into Indonesia's low dairy consumption per capita market, in our view. We believe Kalbe's focus on a niche segment should also allow it to maintain large margins, given it has more flexibility to pass through cost increases to consumers.

**Earnings revised downward.** We have slashed our overly optimistic revenue assumptions by 8.7% and 9.5%, but increased our gross margin by 150bps and 170bps for FY15F and FY16F, respectively. As a result, our revenue/EPS growth rates fall to 8.2% and 12.3%/12.0% and 18.6% within the same period. Given our expectation of macro improvement and the full commencement of the government's infrastructure projects, we expect a strong recovery starting 2016 – this should help drive Kalbe's 14.1% EPS CAGR over FY15F-18F.

**Retain Buy at TP Rp2,000.** We acknowledge a lack of near-term catalysts to support share performance, but we see the recent weakness as a strong entry point for long-term investors. We keep our Buy rating and roll-over our valuation to FY16F with a new TP of Rp2,000, based on 34x FY16F earnings. We apply a premium to Kalbe given the company's strong brand equity, sturdy balance sheet, robust innovation pipeline, and pricing stability. A sharp depreciation in Rp currency and steep increase in commodity prices would act as downside risks.

Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Revenue (RpBn)	16,002	17,369	18,788	21,100	23,744
EBITDA (RpBn)	2,734	3,007	3,387	3,963	4,693
EBITDA Growth (%)	16.9	10.0	12.7	17.0	18.4
Net Profit (RpBn)	1,920	2,065	2,313	2,742	3,270
EPS (Rp)	39	44	49	59	70
EPS Growth (%)	15.1	12.0	12.0	18.6	19.3
Net Gearing (%)	(9.9)	(16.3)	(20.7)	(22.9)	(25.5)
PER (x)	44.9	40.1	35.8	30.2	25.3
PBV (x)	10.1	8.4	7.4	6.4	5.5
Dividend Yield (%)	1.2	1.0	1.1	1.3	1.7
EV/EBITDA (x)	30.6	28.0	25.1	21.6	18.4

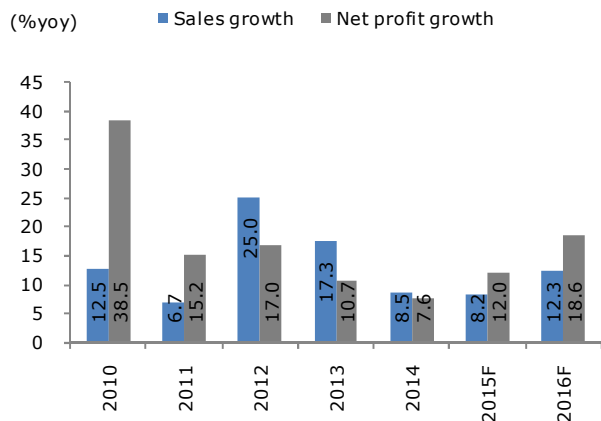
Source: KLBF, IndoPremier

Share Price Closing as of: 15-May-2015

Refer to Important disclosures on the last of this report

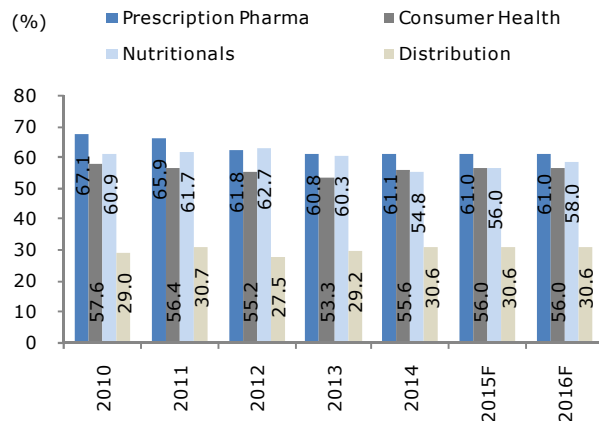
## KLBF Company Update

**Fig. 1: Revenue and net profit growth**



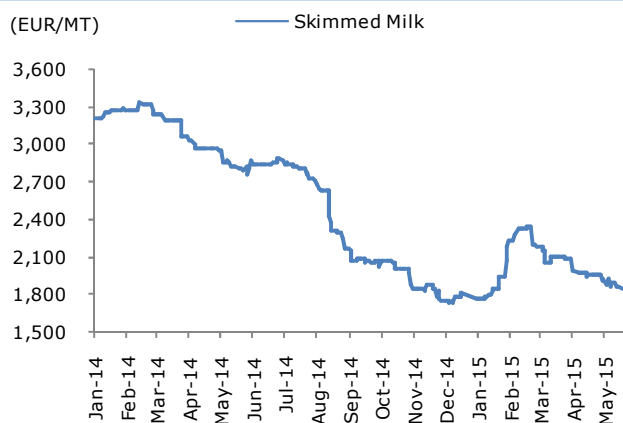
Source : Kalbe Farma; IndoPremier

**Fig. 2: Gross margins remain healthy**



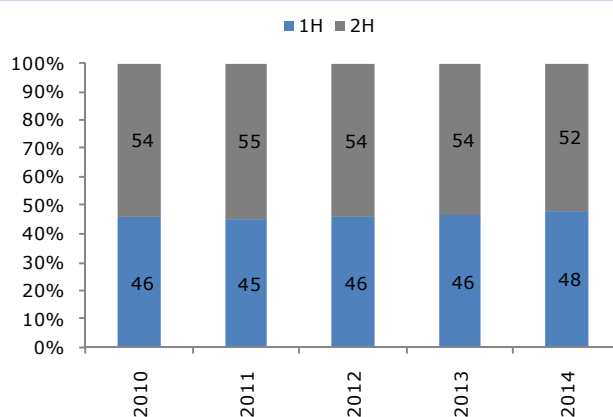
Source : Kalbe Farma; IndoPremier

**Fig. 3: Skimmed milk prices declined 45% from FY14's peak**



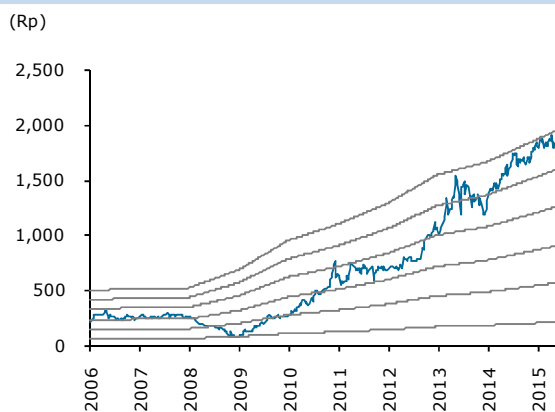
Source : Bloomberg; IndoPremier

**Fig. 4: Stronger 2H sales on a seasonal basis**



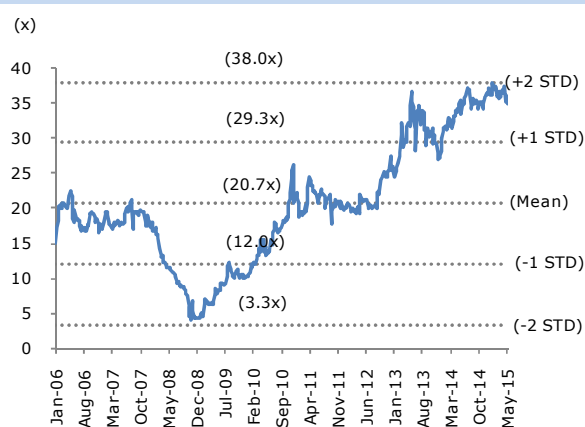
Source : Kalbe Farma; IndoPremier

**Fig. 5: P/E Band Chart**



Source : Bloomberg; Kalbe Farma; IndoPremier

**Fig. 6: Historical P/E**



Source : Bloomberg; IndoPremier

## KLBF Company Update

**Tab.1:Earnings revision**

	Old		New		Change	
	FY15F	FY16F	FY15F	FY16F	FY15F	FY16F
	(Rpbn)	(Rpbn)	(Rpbn)	(Rpbn)	(%)	(%)
<b>Sales</b>	<b>20,584</b>	<b>23,663</b>	<b>18,788</b>	<b>21,100</b>	<b>-8.7%</b>	<b>-10.8%</b>
Prescription Pharma	5,005	5,756	4,761	5,333	-4.9%	-7.4%
Consumer Health	3,488	4,116	3,363	3,867	-3.6%	-6.1%
Nutritionals	5,642	6,771	5,406	6,379	-4.2%	-5.8%
Distribution	6,448	7,020	5,258	5,521	-18.5%	-21.3%
<b>Gross profit</b>	<b>10,021</b>	<b>11,688</b>	<b>9,426</b>	<b>10,810</b>	<b>-5.9%</b>	<b>-7.5%</b>
Prescription Pharma	2,938	3,367	2,904	3,253	-1.1%	-3.4%
Consumer Health	1,884	2,223	1,883	2,166	0.0%	-2.6%
Nutritionals	3,329	4,062	3,027	3,700	-9.1%	-8.9%
Distribution	1,870	2,036	1,611	1,692	-13.8%	-16.9%
<b>Operating profit</b>	<b>3,719</b>	<b>4,542</b>	<b>3,091</b>	<b>3,614</b>	<b>-16.9%</b>	<b>-20.4%</b>
<b>Net profit</b>	<b>2,736</b>	<b>3,375</b>	<b>2,313</b>	<b>2,742</b>	<b>-15.5%</b>	<b>-18.8%</b>
<b>Margins</b>						
<b>Gross margin (%)</b>	<b>48.7%</b>	<b>49.4%</b>	<b>50.2%</b>	<b>51.2%</b>	<b>1.5%</b>	<b>1.8%</b>
Prescription Pharma (%)	58.7%	58.5%	61.0%	61.0%	2.3%	2.5%
Consumer Health (%)	54.0%	54.0%	56.0%	56.0%	2.0%	2.0%
Nutritionals (%)	59.0%	60.0%	56.0%	58.0%	-3.0%	-2.0%
Distribution (%)	29.0%	29.0%	30.6%	30.6%	1.6%	1.6%
<b>Operating margin (%)</b>	<b>18.1%</b>	<b>19.2%</b>	<b>16.5%</b>	<b>17.1%</b>	<b>-1.6%</b>	<b>-2.1%</b>
<b>Net margin (%)</b>	<b>13.3%</b>	<b>14.3%</b>	<b>12.3%</b>	<b>13.0%</b>	<b>-1.0%</b>	<b>-1.3%</b>

Source: Bloomberg; IndoPremier

**Tab.2:Peer comparison**

Company	Ticker	----- P/E -----			Revenue Growth			EPS Growth			ROE		
		2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
		(x)	(x)	(x)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Indofood CBP	ICBP IJ	29.7	25.8	22.4	20.4	12.9	11.7	8.9	15.4	14.8	19.4	19.9	20.4
Indofood SM	INDF IJ	14.9	13.7	12.7	22.0	5.0	7.8	27.8	8.6	8.3	15.3	15.0	15.0
Unilever Indonesia	UNVR IJ	60.7	54.0	47.8	11.9	10.6	12.5	0.9	12.4	12.9	125.0	126.9	128.5
Mayora Indah	MYOR IJ	52.3	28.7	20.9	18.7	13.1	15.6	(51.4)	82.3	37.1	10.8	18.8	19.9
Nippon Indosari	ROTI IJ	32.0	24.8	19.3	21.3	20.0	21.7	20.3	28.8	28.7	21.4	22.2	23.2
GudangGaram	GGRM IJ	16.8	15.3	13.2	20.8	9.6	11.7	21.5	10.0	15.6	16.8	16.2	16.5
Kalbe Farma	KLBF IJ	38.9	34.1	28.9	10.7	9.9	13.8	9.1	14.3	17.9	23.6	23.3	23.8
Kimia Farma	KAEF IJ	26.6	21.7	18.1	12.4	8.6	17.5	53.7	22.3	20.0	13.9	15.3	16.3
SidoMuncul	SIDO IJ	19.1	18.5	17.6	(5.8)	9.2	5.8	7.2	3.2	5.1	16.1	16.0	16.3
Tempo Scan	TSPC IJ	17.5	15.1	13.1	1.5	10.9	11.1	(22.6)	15.6	15.1	13.1	14.5	15.5
TigaPilar	AISA IJ	15.5	12.1	8.3	50.8	22.4	32.6	18.8	28.6	45.1	15.1	12.7	15.5
<b>Simple Average</b>		<b>29.5</b>	<b>24.0</b>	<b>20.2</b>	<b>16.8</b>	<b>12.0</b>	<b>14.7</b>	<b>8.6</b>	<b>22.0</b>	<b>20.1</b>	<b>26.4</b>	<b>27.3</b>	<b>28.2</b>

Source: Bloomberg; IndoPremier

## KLBF Company Update

Year To 31 Dec (RpBn)	2013A	2014A	2015F	2016F	2017F
<b>Income Statement</b>					
Net Revenue	16,002	17,369	18,788	21,100	23,744
Cost of Sales	(8,323)	(8,893)	(9,362)	(10,289)	(11,317)
Gross Profit	7,679	8,476	9,426	10,810	12,426
SG&A Expenses	(5,130)	(5,715)	(6,335)	(7,197)	(8,132)
Operating Profit	2,549	2,761	3,091	3,614	4,294
Net Interest	22	11	61	77	102
Forex Gain (Loss)	1	14	(36)	0	0
Others-Net	1	(22)	(22)	(22)	(22)
Pre-Tax Income	2,573	2,764	3,093	3,668	4,374
Income Tax	(602)	(643)	(719)	(853)	(1,017)
Minorities	(51)	(56)	(61)	(73)	(87)
Net Income	1,920	2,065	2,313	2,742	3,270
<b>Balance Sheet</b>					
Cash & Equivalent	1,426	1,895	2,826	3,474	4,318
Receivable	2,273	2,347	2,499	2,806	3,158
Inventory	3,053	3,091	3,234	3,555	3,910
Other Current Assets	744	789	868	954	1,050
Total Current Assets	7,497	8,121	9,426	10,789	12,436
Fixed Assets - Net	2,926	3,404	4,028	4,584	5,077
Goodwill	0	0	0	0	0
Non Current Assets	892	900	990	1,089	1,198
Total Assets	11,315	12,425	14,444	16,462	18,710
ST Loans	584	252	500	500	500
Payable	1,531	1,133	0	1,541	1,695
Other Payables	526	1,001	1,101	1,211	1,332
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	2,641	2,386	3,003	3,252	3,527
Long Term Loans	0	44	0	0	0
Other LT Liab.	175	177	195	215	236
Total Liabilities	2,815	2,608	3,198	3,467	3,763
Equity	475	481	481	481	481
Retained Earnings	7,633	8,901	10,285	11,986	13,886
Minority Interest	392	435	479	527	580
Total SHE + Minority Int.	8,500	9,817	11,245	12,994	14,946
Total Liabilities & Equity	11,315	12,425	14,443	16,461	18,710

Source : KLBF,IndoPremier

## KLBF Company Update

Year to 31 Dec	2013A	2014A	2015F	2016F	2017F
<b>Cash Flow</b>					
Net Profit	1,970	2,121	2,374	2,815	3,357
Depr. & Amortization	185	246	297	349	399
Changes in Working Capital	(865)	(458)	(33)	(497)	(561)
Others	(144)	(322)	258	(121)	(158)
Cash Flow From Operating	1,146	1,586	2,895	2,547	3,037
Capital Expenditure	(1,026)	(732)	(1,010)	(1,005)	(1,001)
Others	50	63	90	106	132
Cash Flow From Investing	(976)	(669)	(919)	(899)	(869)
Loans	379	(288)	204	0	0
Equity	(41)	0	0	0	0
Dividends	(965)	(797)	(929)	(1,041)	(1,371)
Others	778	1	32	38	45
Cash Flow From Financing	152	(1,084)	(693)	(1,003)	(1,326)
Changes in Cash	322	(166)	1,283	645	842
<b>Financial Ratios</b>					
Gross Margin (%)	48.0	48.8	50.2	51.2	52.3
Operating Margin (%)	15.9	15.9	16.5	17.1	18.1
Pre-Tax Margin (%)	16.1	15.9	16.5	17.4	18.4
Net Margin (%)	12.0	11.9	12.3	13.0	13.8
ROA (%)	18.5	17.4	17.2	17.7	18.6
ROE (%)	24.2	22.5	22.0	22.6	23.4
ROIC (%)	24.7	23.1	22.9	23.5	24.4
Acct. Receivables TO (days)	48.0	48.5	47.1	45.9	45.8
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	3.2	2.9	3.0	3.0	3.0
Payable TO (days)	57.7	54.7	49.4	52.2	52.2
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	6.9	3.0	4.4	3.8	3.3
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	(9.9)	(16.3)	(20.7)	(22.9)	(25.5)

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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