

Kalbe Farma (KLBF JJ)

02 August 2016

Results Note

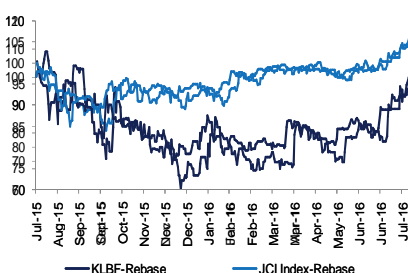
HOLD (from BUY)

Stock Data

Target price (Rp)	Rp1,600
Prior TP (Rp)	RP1,600
Shareprice (Rp)	Rp1,710
Upside/downside (%)	(6.4)
Sharesoutstanding (m)	47
Marketcap. (US\$ m)	6
Free float (%)	43.3
Avg. 6m dailyT/O (US\$ m)	5.4

Price Performance

	3M	6M	12M
Absolute (%)	27.6	30.5	3.0
Relative to JCI (%)	19.1	16.8	-5.5
52w high/low (Rp)	1,710 - 1,185		



Major Shareholders

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

	2016F	2017F
Latest EPS (Rp)	47	53
Vs. Prior EPS (%)	0.0	0.0
Vs. Consensus (%)	2.3	-0.1

Source: Bloomberg

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In A Recovery Mode

- Earnings grew 9.1% yoy in 2Q16, slightly ahead of consensus.
- Margin expansion on favorable raw material and packaging cost.
- New biopharma factory to reduce imported raw materials.
- Strong share price led to our HOLD (from BUY) as TP is unchanged.

Earnings slightly ahead of consensus. KLBF reported earnings of 9.1% yoy in 2Q16 on the back of 11.9% yoy revenue growth in 2Q16. The revenue growth is mainly driven by its nutritional division, which reported 16.3% yoy growth. The distribution division reported growth of 13.4% yoy, followed by consumer health at 9.6% yoy and pharma division at 7.0%. The growth is mainly supported by volume as the company has not raised ASP this year. The positive recovery in its nutritional division is mainly impacted by the fasting season, which falls during the 2Q16. Products including *Fatigon* and *Promag* are showing better sales during fasting season. Meanwhile we expect the recovery in another division to continue during the 2H as happened historically.

Margin improvement. The overall gross profit has been improving after hitting a bottom in 4Q15. The gross margin grew 12.5% yoy and currently stands at 49.3% (vs. 4Q15:45.8%) due to lower raw material cost. KLBF has benefited from IDR strengthening as 55% of its raw materials are USD-linked. We expect further improvement in USD/IDR exchange rate will improve the gross margin given that USD has depreciated by 5.2% YTD against IDR. At the operating level, the margin expanded 25bps to 15.7% despite higher selling expense by 12.2% yoy. The R&D expense is relatively stable at 1.9% of total sales in 2Q16. Meanwhile, A&P spending jumped to Rp536bn in 2Q16 (vs. 1Q16:Rp348bn). We consider the increase in A&P spending as a positive effort to increase brand awareness and translate into more brand activities.

Less reliance on imported raw materials. We expect the new biopharma factory to lessen the dependence on imported raw materials going forward, which we expect to improve the company's GP margin by the time of completion. This new factory is expected to be commercialized in the beginning of 2018 after finalizing all the compliance from Indonesian Foods and Drugs Agency (BPOM). In addition, the new government's regulation has allowed foreign companies to have 100% ownership on pharmaceutical raw materials facilities which will further assure the raw material availability in Indonesia.

HOLD at TP Rp1,600. Our DCF-based TP implies FY17F P/E of 30.1x with 12.3% earnings growth over the next two years. Although we continue to like the stock due to wide product portfolio and strong distribution network which will support company's growth going forward, we think that the current valuation is slightly demanding. Therefore, we downgrade to HOLD (from BUY).

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	17,369	17,888	19,576	21,621	24,387
EBITDA (RpBn)	3,007	2,933	3,218	3,598	4,462
EBITDA Growth (%)	10.0	(2.5)	9.7	11.8	24.0
Net Profit (RpBn)	2,080	2,034	2,216	2,492	3,154
EPS (Rp)	44	43	47	53	67
EPS Growth (%)	12.9	(2.2)	8.9	12.5	26.5
Net Gearing (%)	(15.4)	(24.8)	(30.3)	(33.3)	(41.2)
PER (x)	38.5	39.4	36.2	32.2	25.4
PBV (x)	9.4	8.2	7.3	6.5	5.8
Dividend Yield (%)	1.0	1.1	1.1	1.4	1.6
EV/EBITDA (x)	27.1	28.2	25.9	23.4	19.2

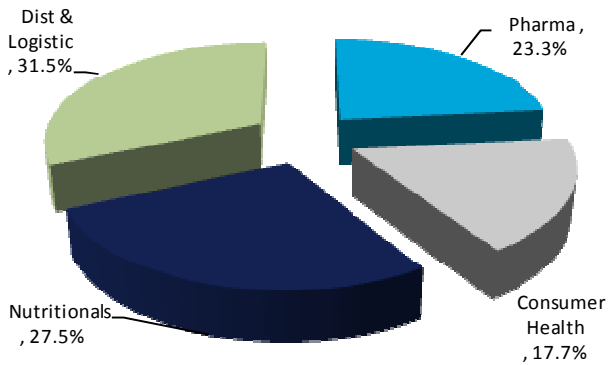
Source: KLBF, IndoPremier

Share Price Closing as of : 29-July-2016

Refer to Important disclosures on the last of this report

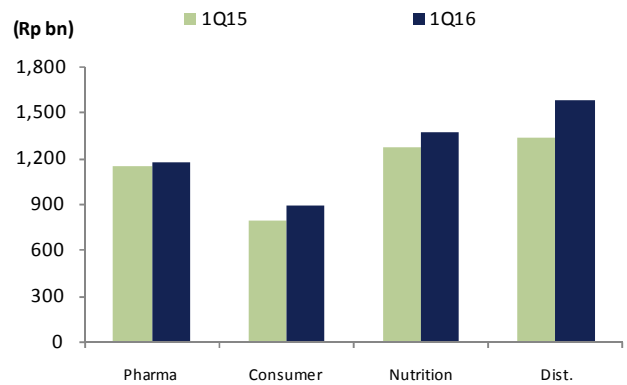
KLBF Results Note

Fig. 1: Sales Mix in 2Q16



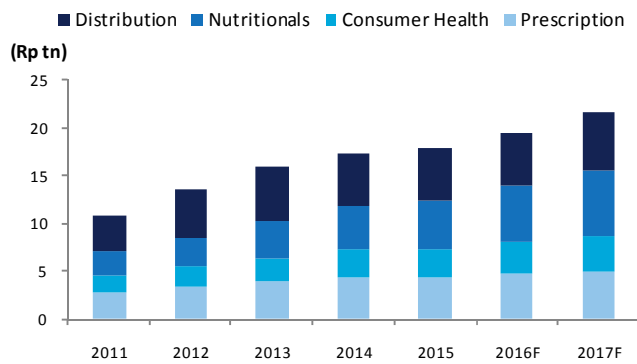
Source: Company

Fig. 2: Sales Growth per division (% , yoy)



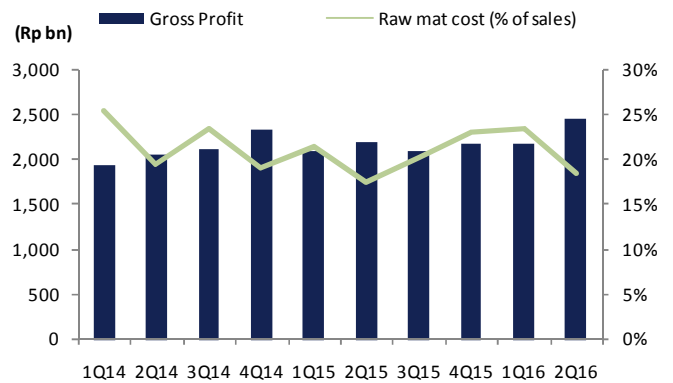
Source: Company

Fig. 3: Divisional Sales Breakdown



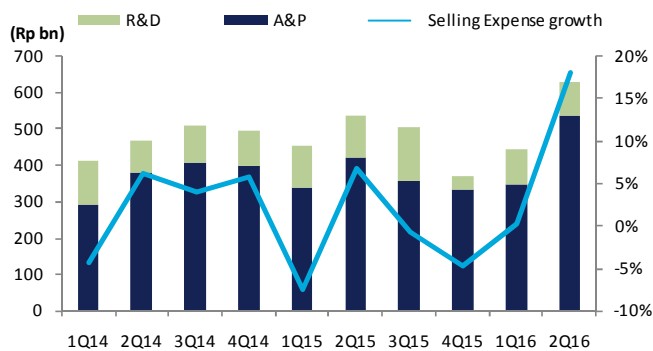
Source: KLBF, IndoPremier

Fig. 4: Gross Margin and Raw Materials Cost



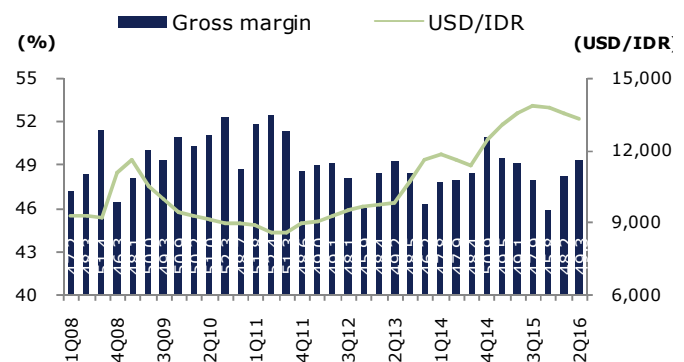
Source: KLBF, IndoPremier

Fig. 5: A&P and R&D Trend on quarterly basis



Source: KLBF, IndoPremier

Fig. 6: Gross Margin vs. USD/IDR exchange rate



Source: KLBF, IndoPremier, Bloomberg

KLBF Results Note

Fig. 7: Earnings Result

(in Rp bn)	2Q16	2Q15	YoY	2Q16	1Q16	QoQ
Revenue	5,006	4,473	11.9%	5,006	4,550	10.0%
Pharma	1,169	1,092	7.0%	1,169	1,152	1.5%
Consumer Health	886	808	9.6%	886	795	11.4%
Nutritionals	1,375	1,182	16.3%	1,375	1,267	8.5%
Dist & Logistic	1,577	1,391	13.4%	1,577	1,336	18.0%
Gross Profit	2,469	2,196	12.5%	2,469	2,194	12.6%
Operating Profit	787	692	13.7%	787	728	8.1%
Net Profit	583	534	9.1%	583	563	3.5%
Gross Margin	49.3%	49.1%		49.3%	48.2%	
Operating Margin	15.7%	15.5%		15.7%	16.0%	
Net Margin	11.6%	11.9%		11.6%	12.4%	

Source: KLBF, IndoPremier

KLBF Results Note

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	17,369	17,888	19,576	21,621	24,387
Cost of Sales	(8,893)	(9,296)	(10,137)	(11,160)	(12,284)
Gross Profit	8,476	8,592	9,439	10,461	12,103
SG&A Expenses	(5,715)	(5,946)	(6,549)	(7,227)	(8,020)
Operating Profit	2,761	2,646	2,890	3,234	4,084
Net Interest	27	77	88	102	135
Forex Gain (Loss)	14	0	(12)	0	0
Others-Net	(22)	(8)	(8)	(8)	(8)
Pre-Tax Income	2,779	2,716	2,959	3,328	4,211
Income Tax	(643)	(628)	(684)	(769)	(974)
Minorities	(56)	(54)	(59)	(66)	(83)
Net Income	2,080	2,034	2,216	2,492	3,154
Balance Sheet					
Cash & Equivalent	1,895	2,719	3,709	4,608	6,174
Receivable	2,347	2,337	2,574	2,843	3,207
Inventory	3,091	3,003	3,333	3,669	3,702
Other Current Assets	789	689	758	834	917
Total Current Assets	8,121	8,748	10,374	11,954	14,000
Fixed Assets - Net	2,926	3,405	3,939	4,328	4,373
Goodwill	0	0	0	0	0
Non Current Assets	892	914	1,009	1,009	1,110
Total Assets	11,939	13,067	15,322	17,292	19,483
ST Loans	584	252	266	500	500
Payable	1,531	1,133	0	1,500	1,651
Other Payables	526	1,001	1,074	1,181	1,299
Current Portion of LT Loans	0	0	2	0	0
Total Current Liab.	2,641	2,386	2,366	3,181	3,450
Long Term Loans	0	44	128	0	0
Other LT Liab.	175	245	265	291	320
Total Liabilities	2,815	2,675	2,758	3,472	3,770
Equity	475	437	480	480	480
Retained Earnings	7,633	8,893	9,985	11,340	12,724
Minority Interest	392	434	473	520	573
Total SHE + Minority Int.	8,500	9,764	10,938	12,341	13,777
Total Liabilities & Equity	11,315	12,439	13,696	15,812	17,548

Source: KLBF, IndoPremier

KLBF Results Note

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	2,137	2,088	2,275	2,558	3,237
Depr. & Amortization	185	246	286	328	364
Changes in Working Capital	370	(298)	(682)	(137)	(253)
Others	(121)	(287)	425	(157)	(179)
Cash Flow From Operating	2,571	1,748	2,304	2,593	3,169
Capital Expenditure	(1,026)	(747)	(916)	(718)	(509)
Others	79	101	113	126	159
Cash Flow From Investing	(947)	(645)	(803)	(592)	(350)
Loans	379	(288)	100	104	0
Equity	(41)	0	0	0	0
Dividends	(797)	(907)	(861)	(1,108)	(1,246)
Others	755	51	77	49	57
Cash Flow From Financing	296	(1,143)	(684)	(954)	(1,190)
Changes in Cash	1,920	(41)	817	1,046	1,629
Financial Ratios					
Gross Margin (%)	48.8	48.0	48.2	48.4	49.6
Operating Margin (%)	15.9	14.8	14.8	15.0	16.7
Pre-Tax Margin (%)	16.0	15.2	15.1	15.4	17.3
Net Margin (%)	12.0	11.4	11.3	11.5	12.9
ROA (%)	18.6	16.3	15.6	15.3	17.2
ROE (%)	26.2	22.3	21.4	21.4	24.2
ROIC (%)	27.1	23.3	22.7	22.6	25.5
Acct. Receivables TO (days)	48.5	47.8	45.8	45.7	45.3
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	2.9	3.1	3.2	3.2	3.3
Payable TO (days)	54.0	52.3	38.8	41.3	46.8
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	6.9	3.0	3.6	4.1	3.6
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	(15.4)	(24.8)	(30.3)	(33.3)	(41.2)

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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