

5 NOVEMBER 2018

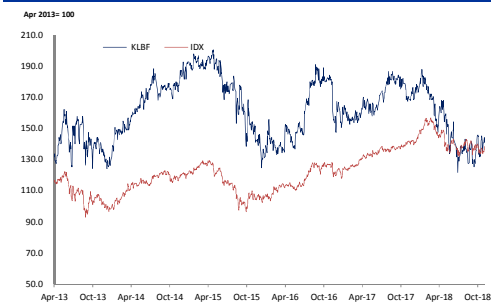
COMPANY UPDATE

NEUTRAL

STOCK INFORMATION

Bloomberg Code	KLBF IJ
Sector	Consumer
Current Price	Rp1,360
Target Price	Rp1,300
Prev. Target Price	Rp1,600
Upside/Downside	-4.4%
Share Out (bn shares)	46.9
Market Cap (Rp bn)	63,750
52 – w range (low-high)	Rp1,155– Rp1,785
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

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PT KALBE FARMA TBK

BITTER PILLS

KLBF 9M18 sales/ net profit of Rp15.68 trillion (+3.9% YoY)/ Rp1.8 trillion (+1.4% YoY) were below than expected, only made up 71.5% of FY18F Rp21.92 trillion in line with moderate consumption during the year. Though the company has selectively increased the selling price by 3-5%, GPM declined by 110bps YoY from 48.8% in 9M17 to only 47.7%, mostly due to sharp IDR depreciation that directly affected the raw material cost (>90% RM were still imported). In order to compensate the drop in GPM, the company has conducted efficiencies in opex, particularly in marketing spending. We made downward adjustments to our projection to reflect company's lower target guidance and come up with new TP of Rp1,300 per share.

Moderate Consumption resulted in Soft Overall Performance

Despite the respectable GDP growth in 3Q18E of 5.25% (vs 5.07% in FY17) and relatively low inflation YTD, the consumption during the period remains moderate. This, resulted in slowdown in KLBF non-pharma sales growth, particularly the sales of nutritionals division of Rp4.63 trillion (+3.7% YoY vs 3-yr-avg growth of c.10%), and consumer health sales of Rp2.71 trillion (+2.1% YoY vs 3-yr avg growth of c.7%). Meanwhile, the pharma division sales slightly grew by 2.9% YoY in which the contribution of unbranded generics sales were up by 1% to 19% given the wider implementation of JKN.

Bitter Pills: Weak Currency + Rising RM Costs

Segmental-wise, the GPM of nutritional products and pharma was hit the most, down by 200bps to 55.5% and 140bps to 55%, respectively due to the 1) skim milk powder price which hiked by 16.2% YTD, 2) the aforementioned higher contribution of lowest-margin unbranded generics, 3) the sharp IDR depreciation (-12.7% YTD) and 4) recent environmental regulation in China and improvement in global oil price that directly affected the raw material costs. To compensate the drop in GPM, the company continue to do efficiencies in opex particularly in marketing and people spending. This, resulted in slight decline in both EBIT margin and net profit margin by -40bps to 15.0% and -30bps to 11.5%, respectively.

Lower Target Guidance

Considering the competitive landscape and current fluctuation in Rupiah, the company revised its previous single digit sales/EPS growth of 7-9% to only 5-7%, while maintaining its operating profit margin between 14.5%-15.5%. Total capex plan is around Rp 1 - 1.5 tn, whereby around 50% will be spent on consumer health plants construction for additional capacity. On the more positive note, the company is raising the DPR to 45-55% by taking into account the cash availability and internal fund requirement.

NEUTRAL – Lower TP at Rp 1,300 per share (prev TP Rp1,600/ share)

To reflect 9M18 lower than expected result and company's lower guidance, we make some downward adjustments to our projection and come up with new lower TP of Rp1,300/ share. This implies PER and EV/EBITDA 2019F of 24.4x and 16.6x, respectively. Based on yesterday's closing price, KLBF was traded at a valuation of 23.7x PER and 15.7x EV/EBITDA 2019F. Hence, we remain NEUTRAL on the stock.

Financial Summary

(Rp billion)	2016A	2017A	2018F	2019F	2020F
Revenue	19,374	20,182	21,183	22,573	23,946
EBITDA	3,388	3,562	3,554	3,798	4,180
Net profit	2,300	2,404	2,505	2,689	2,949
EPS (Rp)	49	51	53	57	63
PER (x)	27.7	26.5	25.5	23.7	21.6
BVPS (Rp)	266	296	326	361	398
PBV (x)	5.1	4.6	4.2	3.8	3.4
EV/EBITDA (x)	18.0	17.2	16.9	15.7	14.1
Dividend yield (%)	1.4	1.6	1.7	1.8	1.9
RoE (%)	19.7	18.2	17.2	16.7	16.6

Source: Company data and Lotus Andalan Research

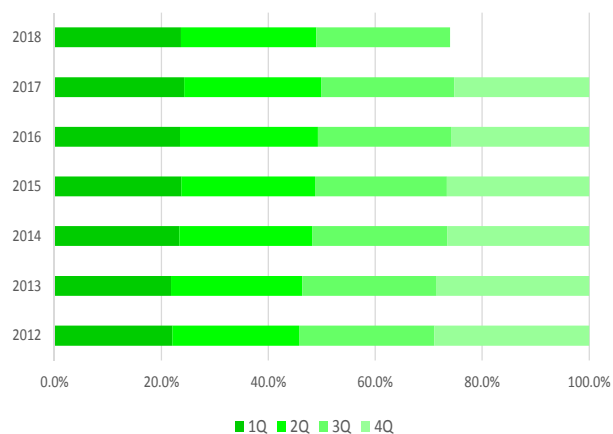
Please see important disclosures at the end of this report

Interim Financial Result

	9M17	9M18	YoY	FY18F	Coverage	2Q18	3Q18	QoQ	Comment
P/L (In Rp billion)									
Revenue	15,089.9	15,678.3	3.9%	21,921.6	71.5%	5,365.6	5,297.8	-1.3%	Below expected, due to persistent weak purchasing power
Cost of revenue	7,725.8	8,194.4	6.1%	11,250.3	72.8%	2,800.0	2,807.6	0.3%	
Gross profit	7,364.1	7,483.9	1.6%	10,671.3	70.1%	2,565.6	2,490.1	-2.9%	
Operating Expense	5,045.5	5,138.4	1.8%	7,312.5	70.3%	1,753.9	1,722.0	-1.8%	
Operating profit	2,318.6	2,345.5	1.2%	3,358.9	69.8%	811.7	768.1	-5.4%	Opex efficiencies particularly in promotion & marketing costs
Net Profit	1,779.4	1,804.4	1.4%	2,559.6	70.5%	626.6	588.8	-6.0%	
Profitability									
Gross margin	48.8%	47.7%		48.7%		47.8%	47.0%		Drop in GPM YoY due to sharp Rupiah depreciation which directly affected the raw material cost
EBIT margin	15.4%	15.0%		15.3%		15.1%	14.5%		
Net margin	11.8%	11.5%		11.7%		11.7%	11.1%		

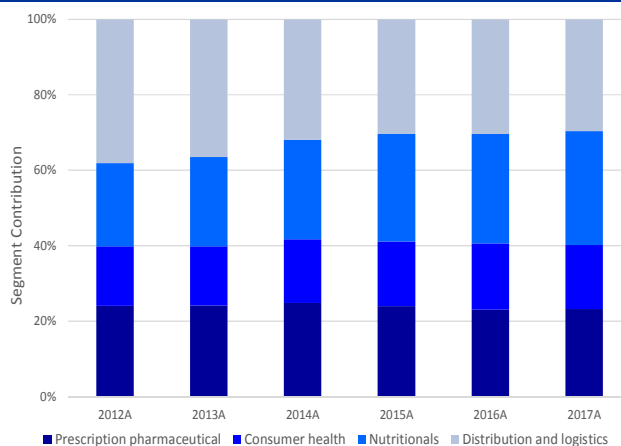
Source: Company data and Lotus Andalan Research

Quarterly performance



Source: Company data, Lotus Andalan Research

Segment Contribution



Source: Company data, Lotus Andalan Research

Forecast Changes

	2018F	Previous 2019F	2020F	2018F	New 2019F	2020F	2018F	% change 2019F	2020F
Sales	21,922	23,674	23,946	21,183	22,573	23,946	-3.4%	-4.7%	0.0%
Gross Profit	10,671	11,601	11,626	10,226	10,946	11,626	-4.2%	-5.6%	0.0%
Operating Profit	3,359	3,742	3,854	3,292	3,512	3,854	-2.0%	-6.1%	0.0%
Net Income	2,560	2,865	2,949	2,505	2,689	2,949	-2.1%	-6.1%	0.0%
Sales growth	8.6%	8.0%	6.1%	5.0%	6.6%	6.1%	-3.7%	-1.4%	0.0%
Financial Ratios									
Gross margin	48.7%	49.0%	48.6%	48.3%	48.5%	48.6%	-0.4%	-0.5%	0.0%
Operating margin	15.3%	15.8%	16.1%	15.5%	15.6%	16.1%	0.2%	-0.2%	0.0%
Net margin	11.7%	12.1%	12.3%	11.8%	11.9%	12.3%	0.1%	-0.2%	0.0%

Source: Lotus Andalan Research

FINANCIAL HIGHLIGHTS OF PT KALBE FARMA, TBK

In Rp Billion											
BALANCE SHEET	2016A	2017A	2018F	2019F	2020F	INCOME STATEMENT	2016A	2017A	2018F	2019F	2020F
ASSETS						Revenue	19,374	20,182	21,183	22,573	23,946
Cash & cash equivalents	2,896	2,785	4,001	4,215	4,797	COGS	(9,886)	(10,370)	(10,957)	(11,627)	(12,320)
Accounts receivable	2,631	2,876	2,612	2,783	2,952	Gross profit	9,488	9,812	10,226	10,946	11,626
Inventories - net	3,344	3,557	3,641	3,877	3,895	Operating expenses	(6,497)	(6,653)	(6,934)	(7,434)	(7,772)
Other current assets	701	825	808	867	938	Operating profit	2,991	3,159	3,292	3,512	3,854
Total current assets	9,573	10,044	11,061	11,743	12,582	EBITDA	3,388	3,562	3,554	3,798	4,180
Fixed assets	4,556	5,343	6,309	7,258	8,143	Interest expense	(28)	(36)	(32)	(26)	(21)
Other non-current assets	1,098	1,230	1,230	1,322	1,417	Other income (expenses)	(4)	(16)	(15)	(13)	(17)
Total Non-current assets	5,653	6,572	7,539	8,579	9,560	Total other income/(expenses)	(32)	(53)	(47)	(39)	(38)
TOTAL ASSETS	15,226	16,616	18,600	20,322	22,142	Income before tax	2,959	3,106	3,245	3,473	3,816
LIABILITIES & EQUITY						Tax expense	(740)	(788)	(818)	(875)	(963)
Short term loans	135	169	152	137	96	Net profit before minority interest	2,219	2,318	2,426	2,598	2,853
Accounts payable	1,127	1,109	1,547	1,648	1,761	Minority interest	(51)	(50)	(57)	(59)	(62)
Other payables	1,055	950	1,124	1,163	1,210	Net profit	2,167	2,269	2,369	2,539	2,792
Total Current Liabilities	2,317	2,227	2,823	2,948	3,067	EPS (Rp)	49	51	53	57	63
Total Non-Current Liabilities	445	495	488	471	399	KEY FINANCIAL RATIOS	2016A	2017A	2018F	2019F	2020F
Capital Stock	469	469	469	469	469	Growth (%)					
Other items	25	24	13	21	19	Revenue	3.0	8.3	4.2	5.0	6.6
Non-controlling interest	555	613	603	658	703	Revenue	1.4	10.4	3.4	4.2	7.0
RE	11,416	12,788	14,204	15,755	17,485	Gross profit	(3.4)	12.3	5.6	4.2	6.7
Total Equity	12,464	13,894	15,289	16,903	18,676	Operating Profit	(1.6)	12.4	5.1	(0.2)	6.9
TOTAL LIABILITIES & EQUITY	15,226	16,616	18,600	20,322	22,142	EBITDA	(3.0)	14.7	4.5	4.2	7.4
						Net Profit					
CASH FLOW STATEMENT	2016A	2017A	2018F	2019F	2020F	Profitability (%)					
Net profit	2,300	2,404	2,505	2,689	2,949	Gross margin	48.0	49.0	48.6	48.3	48.5
Depreciation & Amortization	397	403	262	286	326	Operating margin	14.9	15.4	15.7	15.5	15.6
Change in WC	(559)	(477)	620	(307)	(74)	EBITDA margin	16.9	17.5	17.7	16.8	16.8
Others	(9)	(229)	191	(20)	(23)	Net Profit margin	11.2	11.9	11.9	11.8	11.9
Net Operating Cash Flow	2,129	2,101	3,578	2,648	3,178	ROAA	15.3	15.9	15.1	14.2	13.8
Change in fixed assets - net	(1,014)	(1,190)	(1,229)	(1,235)	(1,211)	ROAE	19.4	19.7	18.2	17.2	16.7
Others	(85)	(132)	(0)	(92)	(96)	Solvency (x)					
Net Investing Cash Flow	(1,100)	(1,322)	(1,229)	(1,327)	(1,306)	Current ratio	3.7	4.1	4.5	3.9	4.0
Change in borrowings - net	(126)	46	(14)	(64)	(139)	Quick ratio	2.4	2.7	2.9	2.6	2.7
Change in equity	116	58	(21)	63	43	DER	0.0	0.0	0.0	0.0	0.0
Change in other liabilities	48	38	(9)	32	26	EBITDA coverage	126.1	120.4	97.9	112.4	148.8
Dividend payment	(902)	(1,048)	(1,088)	(1,138)	(1,220)	Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Adjustment	11	17	-	-	-						
Net Financing Cash Flow	(852)	(890)	(1,133)	(1,107)	(1,290)						
Change in cash	177	(111)	1,216	215	582						
Cash at the beginning period	2,719	2,896	2,785	4,001	4,215						
Cash at the ending period	2,896	2,785	4,001	4,215	4,797						

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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