

11 APRIL 2019

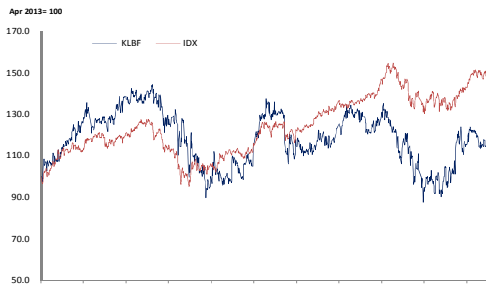
COMPANY UPDATE

NEUTRAL

STOCK INFORMATION

Bloomberg Code	KLBF IJ
Sector	Consumer
Current Price	Rp1,540
Target Price	Rp1,400
Upside/Downside	-9.1%
Share Out (bn shares)	46.9
Market Cap (Rp bn)	72,188
52 – w range (low-high)	Rp1,155– Rp1,635
52 – w average daily	Rp1,425

PRICE CHART



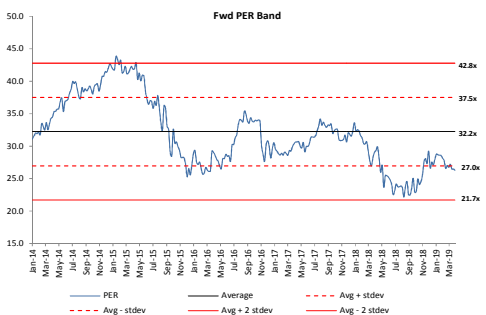
Source: Bloomberg

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

PT KALBE FARMA TBK

SUSTAINABLE MARGIN AMID IDR PRESSURE

KLBF booked a total sales of Rp21.01 trillion during 2018, grew 4.4% YoY from Rp4.2 trillion in 2017, which was in line with our expectation, made up 99.5% of our FY18F Rp21.18 trillion. The net income came in Rp2.46 trillion (+2.2% YoY) formed only 98.1% our FY18F Rp2.5 trillion, mostly due to much lower than expected GPM (-190bps YoY) related to weak Rupiah, despite ASP increase of selected OTC and Nutritional products by 3-4% in 3Q18. We maintain our NEUTRAL recommendation on the stock.

Sluggish 2018's Performance as a Result of Moderate Consumption

Despite the 5-year high GDP growth in FY18 of 5.17% (vs 5.07% in FY17) and relatively low inflation of 3.13%, the consumption during the period remained moderate. This, resulted in slowdown in KLBF non-pharma sales growth, particularly the sales of nutritionals division of Rp6.3 trillion (+3.4% YoY vs 3yr-avg growth of c.10%), and consumer health sales of Rp3.57 trillion (+4.4% YoY vs 3-yr avg growth of c.5.5%). Meanwhile, the pharma division sales slightly grew by 2.8% YoY in which the contribution of unbranded generics sales were up by 1% to 19% given the wider implementation of JKN.

Control Margins through Opex Efficiencies

Albeit with a 3-4% ASP increase of selected OTC and nutritional products in 3Q18, the FY18's GPM squeezed by 190bps, mainly attributable to 1) product mix; 2) combination of weak Rupiah (-6.05% YoY), global oil price improvement, and environmental regulation in China that led to heavier RM costs by 120bps; 3) increase in skim milk powder price by more than 16% YoY, and 4) higher contribution of lowest-margin unbranded generics (note that in this segment, the company's room to pass through its pricing is very limited due to increasing price competition related to BPJS Kesehatan program). In order to compensate the drop in GPM, the company cut its opex, i.e promotion expenses particularly in 4Q18 (promotion/ sales ratio declined from 8.9% FY17 to 7.7% in FY18). This resulted in slight decline in both EBIT margin and NPM by only 40bps YoY to 15.2% and -30bps YoY to 11.7%, respectively.

More Optimistic View

Considering the competitive landscape and current fluctuation in Rupiah, the company targeted a sales/EPS growth by 6-8% this year (vs 5-7% growth target last year), while maintaining its operating profit margin between 14.5%-15.5%. Total capex plan is around Rp 1.5 – 2.0 tn, in which Rp1.5 trillion will be used for construction of production facility in Myanmar (commenced in Feb19), Bintang Toedjoe's OTC Production factory and Enseval distribution center in Deltamas, while the remaining Rp500 billion is budgeted for development of raw material and biological factory.

NEUTRAL – Higher TP at Rp 1,400 per share (prev TP Rp1,300/ share)

We made a slight upward adjustment in our projection particularly in 2019F onwards, as we believe the Rupiah will continue to strengthen following the Fed rate policy and US-China trade war that is expected to reach agreement this year, as well as stronger CCI during 1Q19, which indicates a better consumption. Thus, we come up with new higher TP of Rp1,400/ share, which implies PER and EV/EBITDA 2019F of 24.8x and 16.9x, respectively. Based on yesterday's closing price, KLBF was traded at a valuation of 27.3x PER and 18.6x EV/EBITDA 2019F. Despite an upgrade in our TP, we remain NEUTRAL on the stock.

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Revenue	20,182	21,074	22,499	24,034	25,793
EBITDA	3,562	3,639	3,720	4,072	4,467
Net profit	2,404	2,457	2,649	2,910	3,205
EPS (Rp)	51	52	57	62	68
PER (x)	30.0	29.4	27.3	24.8	22.5
BVPS (Rp)	296	326	357	393	433
PBV (x)	5.2	4.7	4.3	3.9	3.6
EV/EBITDA (x)	19.6	19.1	18.6	16.9	15.2
Dividend yield (%)	1.5	1.6	1.6	1.8	1.9
RoE (%)	18.2	16.8	16.5	16.5	16.5

Source: Company data and Lotus Andalan Research

Febby Stephanie

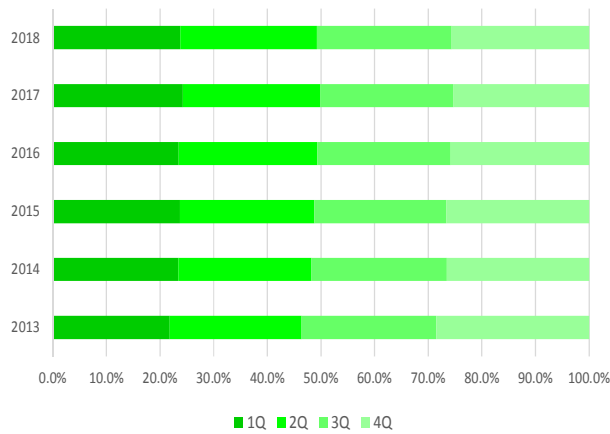
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Interim Financial Result									
	FY17	FY18	YoY	FY18F	Coverage	3Q18	4Q18	QoQ	Comment
<b>P/L (In Rp billion)</b>									
Revenue	20,182.1	21,074.3	4.4%	21,182.6	99.5%	5,297.8	5,396.0	1.9%	Slowdown due to moderate consumption
Cost of revenue	10,369.8	11,226.4	8.3%	10,957.1	102.5%	2,807.6	3,031.9	8.0%	
Gross profit	9,812.3	9,847.9	0.4%	10,225.5	96.3%	2,490.1	2,364.1	-5.1%	
Operating Expense	6,653.3	6,634.9	-0.3%	6,933.9	95.7%	1,722.0	1,496.5	-13.1%	
Operating profit	3,159.0	3,213.0	1.7%	3,291.6	97.6%	768.1	867.5	12.9%	Opex efficiencies particularly in promotion, marketing R&D costs
Net Profit	2,403.6	2,457.1	2.2%	2,504.6	98.1%	588.8	652.9	10.9%	
<b>Profitability</b>									
Gross margin	48.6%	46.7%		48.3%		47.0%	43.8%		Drop in GPM YoY mainly due to IDR depreciation
EBIT margin	15.7%	15.2%		15.5%		14.5%	16.1%		
Net margin	11.9%	11.7%		11.8%		11.1%	12.1%		

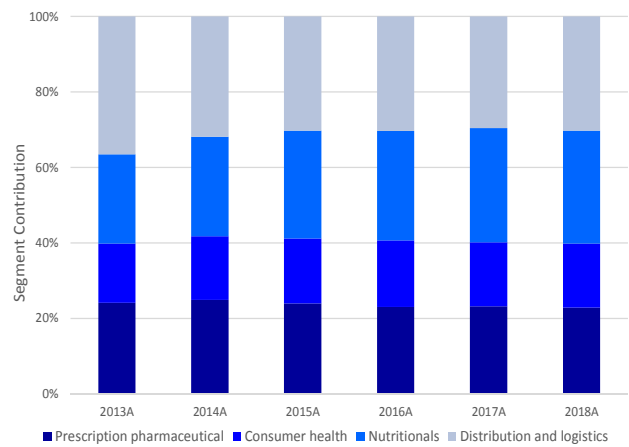
Source: Company data and Lotus Andalan Research

**Quarterly performance**



Source: Company data, Lotus Andalan Research

**Segment Contribution**



Source: Company data, Lotus Andalan Research

## FINANCIAL HIGHLIGHTS OF PT KALBE FARMA, TBK

In Rp Billion											
<b>BALANCE SHEET</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>INCOME STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
<b>ASSETS</b>											
Cash & cash equivalents	2,785	3,153	3,328	3,472	4,197	Revenue	20,182	21,074	22,499	24,034	25,793
Accounts receivable	2,876	3,256	3,287	3,585	3,881	COGS	(10,370)	(11,226)	(11,909)	(12,612)	(13,507)
Inventories - net	3,557	3,475	3,823	4,083	4,306	Gross profit	9,812	9,848	10,590	11,422	12,286
Other current assets	825	765	850	921	967	Operating expenses	(6,653)	(6,635)	(7,140)	(7,636)	(8,129)
<b>Total current assets</b>	<b>10,044</b>	<b>10,648</b>	<b>11,289</b>	<b>12,061</b>	<b>13,351</b>	Operating profit	3,159	3,213	3,450	3,786	4,157
Fixed assets	5,343	6,253	7,195	7,953	8,601	EBITDA	3,562	3,639	3,720	4,072	4,467
Other non-current assets	1,230	1,245	1,325	1,433	1,527	Interest expense	(36)	(30)	(26)	(18)	(9)
<b>Total Non-current assets</b>	<b>6,572</b>	<b>7,498</b>	<b>8,520</b>	<b>9,386</b>	<b>10,128</b>	Other income (expenses)	(16)	(3)	(9)	(11)	(8)
<b>TOTAL ASSETS</b>	<b>16,616</b>	<b>18,146</b>	<b>19,808</b>	<b>21,447</b>	<b>23,479</b>	Total other income/(expenses)	(53)	(32)	(34)	(28)	(17)
<b>LIABILITIES &amp; EQUITY</b>						Income before tax	3,106	3,181	3,416	3,758	4,140
Short term loans	169	69	62	44	39	Tax expense	(788)	(809)	(860)	(948)	(1,041)
Accounts payable	1,109	1,290	1,324	1,393	1,476	Net profit before minority interest	2,318	2,371	2,555	2,810	3,099
Other payables	950	927	1,091	1,118	1,195	Minority interest	(50)	(40)	(53)	(54)	(56)
<b>Total Current Liabilities</b>	<b>2,227</b>	<b>2,286</b>	<b>2,477</b>	<b>2,555</b>	<b>2,711</b>	Net profit	2,269	2,331	2,503	2,757	3,043
<b>Total Non-Current Liabilities</b>	<b>495</b>	<b>565</b>	<b>584</b>	<b>455</b>	<b>457</b>	EPS (Rp)	51	52	57	62	68
Capital Stock	469	469	469	469	469						
Other items	24	82	44	50	58						
Non-controlling interest	613	671	681	741	799						
RE	12,788	14,073	15,554	17,178	18,985						
<b>Total Equity</b>	<b>13,894</b>	<b>15,295</b>	<b>16,747</b>	<b>18,438</b>	<b>20,312</b>						
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>16,616</b>	<b>18,146</b>	<b>19,808</b>	<b>21,447</b>	<b>23,479</b>						
<b>CASH FLOW STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>KEY FINANCIAL RATIOS</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Net profit	2,404	2,457	2,649	2,910	3,205	Growth (%)					
Depreciation & Amortization	403	426	270	286	310	Revenue	8.3	4.2	4.4	6.8	6.8
Change in WC	(477)	(115)	(346)	(488)	(437)	Gross profit	10.4	3.4	0.4	7.5	7.9
Others	(229)	38	79	(44)	32	Operating Profit	12.3	5.6	1.7	7.4	9.7
<b>Net Operating Cash Flow</b>	<b>2,101</b>	<b>2,806</b>	<b>2,652</b>	<b>2,664</b>	<b>3,110</b>	EBITDA	12.4	5.1	2.2	2.2	9.4
Change in fixed assets - net		(1,336)	(1,212)	(1,044)	(958)	Net Profit	14.7	4.5	2.2	7.8	9.9
Others	(1,190)	(132)	(80)	(108)	(94)	Profitability (%)					
<b>Net Investing Cash Flow</b>	<b>(1,322)</b>	<b>(1,352)</b>	<b>(1,292)</b>	<b>(1,152)</b>	<b>(1,052)</b>	Gross margin	49.0	48.6	46.7	47.1	47.5
Change in borrowings - net	46	16	(43)	(171)	(19)	Operating margin	15.4	15.7	15.2	15.3	15.8
Change in equity	58	115	(28)	66	67	EBITDA margin	17.5	17.7	17.3	16.5	16.9
Change in other liabilities	38	(45)	54	23	16	Net Profit margin	11.9	11.9	11.7	11.8	12.1
Dividend payment	(1,048)	(1,191)	(1,168)	(1,286)	(1,398)	ROAA	15.9	15.1	14.1	14.0	14.1
Adjustment	17	19	-	-	-	ROAE	19.7	18.2	16.8	16.5	16.5
<b>Net Financing Cash Flow</b>	<b>(890)</b>	<b>(1,086)</b>	<b>(1,185)</b>	<b>(1,367)</b>	<b>(1,334)</b>	Solvency (x)					
<b>Change in cash</b>	<b>(111)</b>	<b>369</b>	<b>175</b>	<b>144</b>	<b>724</b>	Current ratio	4.1	4.5	4.7	4.6	4.7
Cash at the beginning period	2,896	2,785	3,153	3,328	3,472	Quick ratio	2.7	2.9	3.1	3.0	3.1
Cash at the ending period	2,785	3,153	3,328	3,472	4,197	DER	0.0	0.0	0.0	0.0	0.0
						EBITDA coverage	120.4	97.9	122.4	144.5	232.6
						Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash

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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