

Kalbe Farma (KLBF)

Stronger growth and margins expansion

13 July 2023



KLBF II	BUY
Sector	Healthcare.
Price at 12 July 2023 (IDR)	2,000
Price target (IDR)	2,350
Upside/Downside (%)	17.5

Stock Information

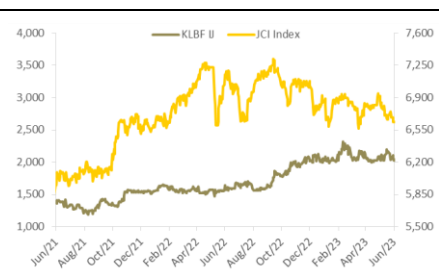
Kalbe Farma (KLBF) is one of leading pharmaceutical company in Indonesia that offers an integrated healthcare solution through its 4 business divisions: the Prescription Pharmaceutical Division, Consumer Health Division, Nutritional Division and Distribution & Logistics Division.

Market cap (IDR bn)	93,281
Shares outstanding (mn)	46,875
52-week range (IDR)	1,565-2,360
3M average daily vol. ('000)	34,595
3M average daily val. (IDR mn)	71,140

Shareholders (%)

Ladang Ira Panen	10.5
Gira Sole Prima	10.3
Santa Seha Sanadi	10.1
Diptanala Bahana	9.5
Lucasta Murni Cemerlang	9.5
Bina Arta Charisma	8.2
Saham Treasury	1.3
Public	40.7

Stock Performance



	1M	3M	12M
Performance (%)	(2.9)	(2.9)	18.5

Source: Bloomberg

Analyst:

Andre Suntono

Andre.suntono@kbvalbury.com

We re-initiate Kalbe Farma (KLBF) with a BUY and TP of IDR2,350 (28.1x '23F P/E) on the back of 1) stronger footage from Sanofi Indonesia acquisition; 2) product optimization in JKN procurement and; 3) margins improvement amid easing cost pressure and 3-5% ASP increase. KLBF is expected to book stronger performance in 2H23 resulting '23F revenue and net profit to grow by 13.3% yoy and 15% yoy, respectively. All in all, we expect KLBF gross and net margin to expand to 40.9% and 11.9%, respectively in 2023F due to lower raw material cost possibility, better product mix and cost management.

Pharmaceutical prescription as the growth engine

KLBF's 100% acquisition of Sanofi Indonesia in Dec '22, was one of the company's strategies to strengthen its pharmaceutical prescription division's portfolio in therapeutic drugs for diabetic and cardiovascular along with new access to vaccines. KLBF also guided for a 3-5% ASP increase on selected products in 2023. Furthermore, the government revises JKN's product procurement process, which now is more flexible for KLBF on price bidding and product inclusion where KLBF has become the biggest supplier with around 100 SKUs or 12.5% of total drugs in e-catalog. As a result, we expect the pharmaceutical division's revenue to grow by around 30% yoy in '23F on the back of sales contribution from Sanofi Indonesia, product optimization in JKN procurement, and higher ASP.

Maintaining solid positioning in consumer health and nutritional divisions

There are also strategies to strengthen its product portfolio in its consumer health and nutritional division. In consumer health division, KLBF will continue to focus on Over The Counter (OTC) products and preventive products. As for nutritional division, KLBF will continue to focus on high nutrition products with affordable price as to cater market needs. KLBF has also guided a 3-5% higher ASP for selected products in both divisions. As a result, we expect KLBF nutritional and consumer health's revenue to grow by 8% yoy and 10% yoy in 2023F, respectively.

Flattish qoq performance in 2Q23F but expects stronger traction in 2H23F

We expect KLBF's 2Q23F revenue to grow by 14.8% yoy/0.02% qoq to IDR7.9 tn and 2Q23F net profit to grow by 7.2% yoy/0.4% qoq to IDR859.4 bn, despite with lesser working days and potentially higher cost from operation. However, we still expect KLBF' 2023F revenue and net profit to grow by 13.3% yoy and 15% yoy amid stronger pharma prescription growth traction, 3-5% ASP implementation in selected products and lower raw material cost. We expect gross, EBIT and net margins to expand by 40Bps, 70Bps, and 20Bps in '23F. Note that in 1Q23, KLBF's revenue grew by 12.2% yoy, but net profit only inched up by 2.5% yoy due to forex loss and inventory write-off.

Re-initiate BUY with TP of IDR2,230

We re-initiate KLBF with a BUY and target price of IDR2,350 (+17.5% upside) implying 28.1x '23F P/E or at +1.5Stdev of its 5 years historical mean. Note that, several risks to our call includes; 1) increase in raw material cost; 2) a weakening IDR vs USD, and 3) unexpected inventory write-off. KLBF is currently trading at 22x 12M forward P/E or below its 5 year historical mean.

Exhibit 1: Financial Highlights

Year end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	26,261	28,934	32,792	37,293	42,442
EBITDA (IDR bn)	4,371	4,586	5,440	6,251	7,184
Net profit (IDR bn)	3,184	3,382	3,891	4,518	5,224
EPS (IDR bn)	68	73	84	97	112
EPS Growth (%)	16.5	6.2	15.0	16.1	15.6
ROE (%)	15.0	15.3	16.0	16.8	17.5
ROA (%)	12.5	12.5	13.2	13.9	14.5
PER (x)	29.7	27.8	24.2	20.8	18.0
PBV (x)	4.8	4.6	4.2	3.7	3.4
EV/EBITDA (x)	20.2	19.8	16.4	14.2	12.2
Div Yield (%)	1.4	1.7	1.8	2.1	2.5

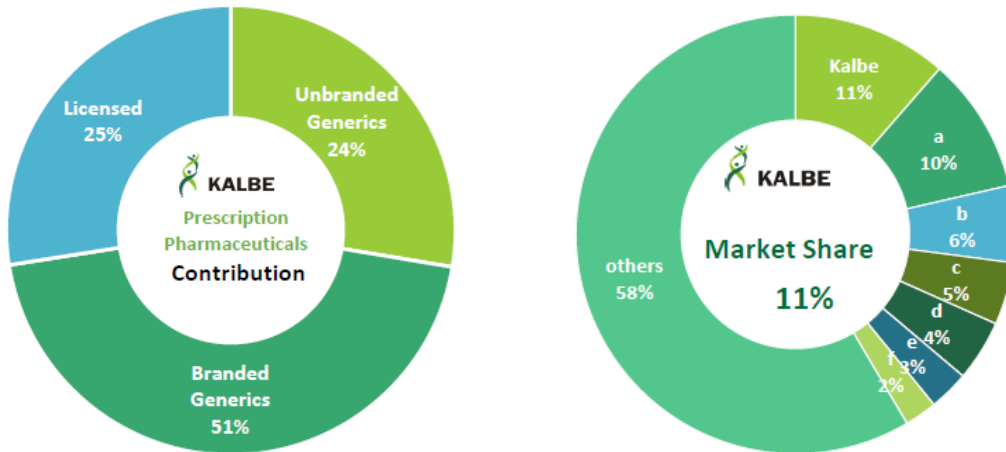
Source: Company, KBVS Research

Kalbe Farma (KLBF)

Pharmaceutical prescription as the growth engine

KLBF's 100% acquisition of Sanofi Indonesia in December 2022, was one of the company's strategies to strengthen its pharmaceutical prescription division's portfolio in therapeutic drugs for diabetic and cardiovascular along with new access to vaccines. KLBF also guided for a 3-5% ASP increase on selected products in 2023.

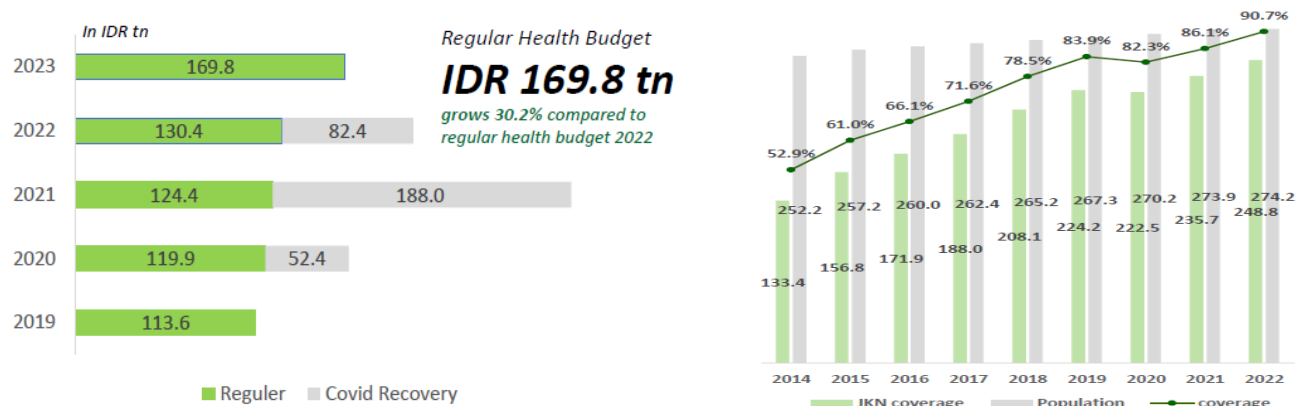
Exhibit 2: Pharmaceutical prescription revenue breakdown in 1Q23 (left) and its market share (right)



Source: Company, KBVS Research

Furthermore, the government made changes to JKN's product procurement process, which now is more flexible for KLBF on price bidding and on selecting which of its unbranded generic products to be included in e-catalog. Note that, currently KLBF has supplied around 100 out of 800 drug types or 12.5% of total drugs in e-catalog, and has made KLBF as the biggest supplier. As a result, we expect KLBF's pharmaceutical division to grow its revenue by around 30% yoy in 2023F on the back of sales contribution from Sanofi Indonesia, a more flexible process in JKN's product procurement, and higher ASP.

Exhibit 3: Government health budget (left) and National Health Insurance coverage (right)



Source: Company, Ministry of Health

Kalbe Farma (KLBF)

Flattish qoq performance in 2Q23F..

We expect KLBF' 2Q23F pharmaceutical revenue to grow by 40.7% yoy/1.9% qoq to IDR1.99 tn or around 25.2% contribution of KLBF's 2Q23F consolidated revenue, on the back of sales contribution from Sanofi Indonesia, a more flexible process in JKN' product procurement, and higher ASP. Note that in 1Q23, KLBF pharmaceutical's revenue grew by 27.5% yoy/11.9% qoq to IDR1.95 tn or 24.8% contribution to its consolidated revenue.

Exhibit 4: Segment results

KLBF 3M22 Segment Results (IDRbn)	3M23	3M22	YoY	1Q23	4Q22	QoQ
Pharmaceutical						
Revenue	1,949	1,529	27.5%	1,949	1,742	12%
Gross profit	969	804	20.6%	969	843	15%
Gross margin	49.7	52.5	(2.8)	49.7	48.4	1.3
Consumer Health						
Revenue	1,102	1,009	9.3%	1,102	888	24.1%
Gross profit	455	442	2.9%	455	386	18.0%
Gross margin	41.3	43.8	(2.6)	41.3	43.4	(2.1)
Nutritionals						
Revenue	2,007	1,886	6.4%	2,007	2,078	-3.4%
Gross profit	1,047	919	14.0%	1,047	1,082	-3.2%
Gross margin	52.2	48.7	3.5	52.2	52.1	0.1
Distribution & Logistic						
Revenue	2,810	2,591	8.5%	2,810	3,044	-7.7%
Gross profit	643	591	8.9%	643	628	2.4%
Gross margin	22.9	22.8	0.1	22.9	20.6	2.3

Source: Company, KBVS Research

We expect consumer health' 2Q23F revenue to grow by 2.4% yoy/5.6% qoq to IDR1.16 tn due to the potential sales increase of KLBF's antacids product (i.e: promag) and other health supplement products during fasting month of Holy Ramadan. Meanwhile, we still expect KLBF's 2Q23F nutritionals and distribution division to grow their revenue by 7.7% yoy and 10.8% yoy, respectively, but also has anticipated minor contraction on qoq basis. Therefore, we expect KLBF' 2Q23F revenue to grow by 14.8% yoy/0.02% qoq to IDR7.9 tn and 2Q23F net profit to grow by 7.2% yoy/0.4% qoq to IDR859.4 bn, despite with lesser working days and potential higher cost from operation. Note that in 1Q23, KLBF's revenue grew by 12.2% yoy, but net profit only inched up by 2.5% yoy due to forex loss and inventory write-off.

Exhibit 5: KLBF 3M23 financial results

KLBF 3M22 Results (IDRbn)	3M23	3M22	YoY	1Q23	4Q22	QoQ	2023F	% to '23F	Cons'	% to Cons'
Revenue	7,869	7,016	12.2%	7,869	7,752	1.5%	32,792	24%	32,641	24%
COGS	(4,650)	(4,087)	13.8%	(4,650)	(4,782)	-2.8%	(19,364)			
Gross profit	3,219	2,929	9.9%	3,219	2,970	8.4%	13,428	24%	13,220	24%
Operating expenses	(2,069)	(1,878)	10.2%	(2,069)	(1,829)	13%	(8,399)			
Operating profit	1,150	1,051	9.4%	1,150	1,140	1%	5,028	23%	4,240	27%
Profit before tax	1,096	1,092	0.3%	1,096	1,222	-10%	3,962			
Tax expense	(242)	(240)	1.0%	(242)	(307)	-21%	(1,159)			
Net profit	856	835	2.5%	856	897	-5%	3,891	22%	3,382	25%
Margins (%)										
Gross margin	40.9	41.7	(0.8)	40.9	38.3	2.6				
Operating margin	14.6	15.0	(0.4)	14.6	14.7	(0.1)				
Pretax margin	13.9	15.6	(1.6)	0.1	0.2	(0.0)				
Net margin	10.9	11.9	(1.0)	10.9	11.6	(0.7)				

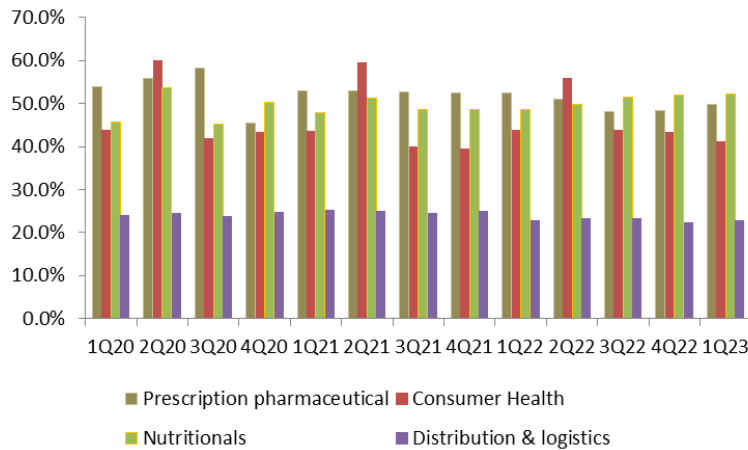
Source: Company, KBVS Research, Bloomberg

Kalbe Farma (KLBF)

..but stronger 2H23F performance on efforts to expand margin

In our meeting, KLBF shared that they will continue to push sales on products that have better margin, such as; bio-similar (locally produced biologic products) from pharmaceutical division and herbal (plant) based products from the consumer health division as both offers lower cost input than Active Pharmaceutical Ingredients (API) based products. KLBF expects bio-similar sales could contribute around 15% of its pharmaceutical revenue or increases from 9-10% contribution, currently. Note that, KLBF's bio-similar products has EBIT margin of 18-20% or similar to branded generics and licensed, which is higher than unbranded generics that has EBIT margin of only 8-10%. On that backdrop, we expect KLBF's 2023F revenue and net profit to grow by 13.3% yoy and 15% yoy amid stronger pharma prescription growth traction, 3-4% ASP implementation in selected products and lower raw material cost.

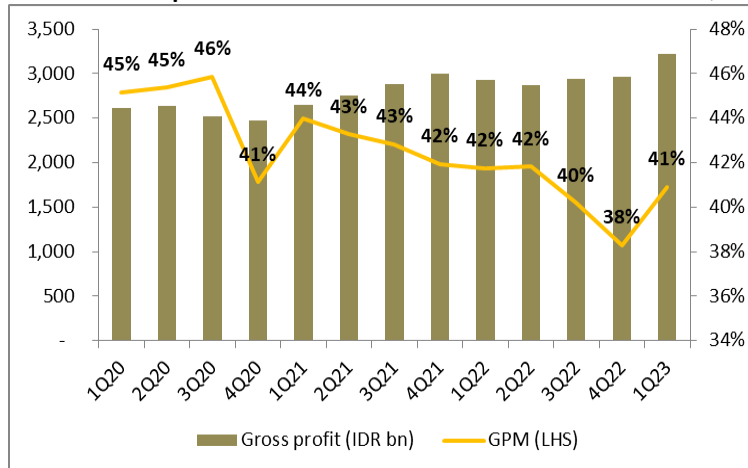
Exhibit 6: Gross margin by segment - quarterly



Source: Company, KBVS Research

KLBF also expects for lower raw material cost in 2H23F as around 70% of KLBF' COGS are from imported raw material, such as API for Pharmaceutical and consumer health products and skim milk powder for nutritionals products. All in all, we expect KLBF' gross, EBIT and net margin to expand by 40Bps, 70Bps, and 20Bps respectively in 2023F on the back of lower raw material cost possibility in 2H23F, better product mix and cost management.

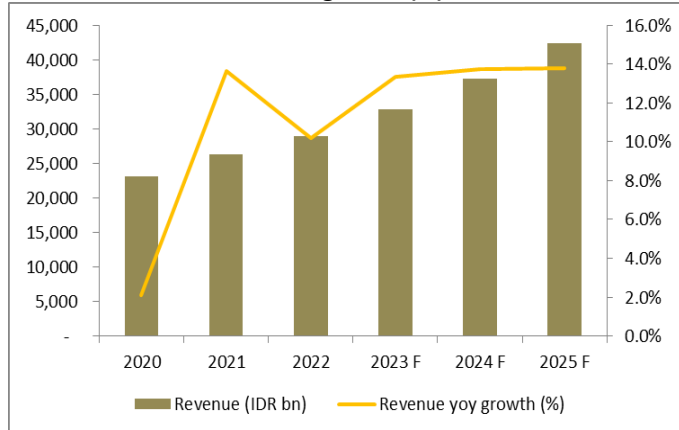
Exhibit 7: Cost pressure from raw material started to ease in 1Q23



Source: Company, KBVS Research

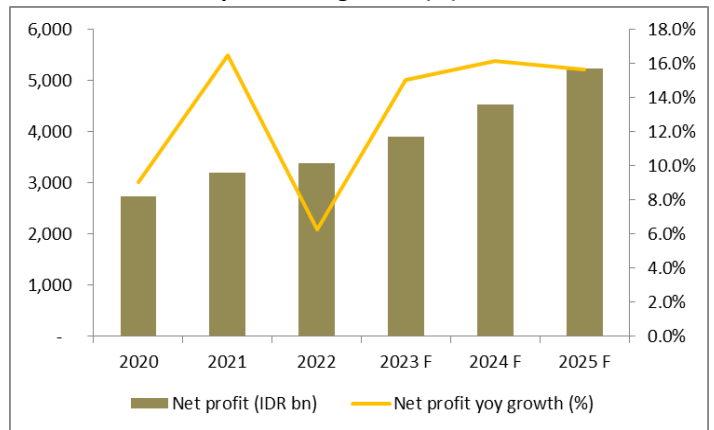
Kalbe Farma (KLBF)

Exhibit 8: KLBF revenue and growth (%)



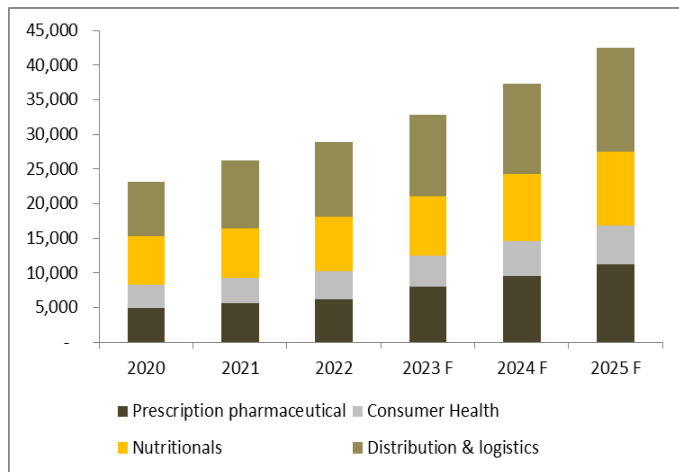
Source: Company, KBVS Research

Exhibit 9: KLBF net profit and growth (%)



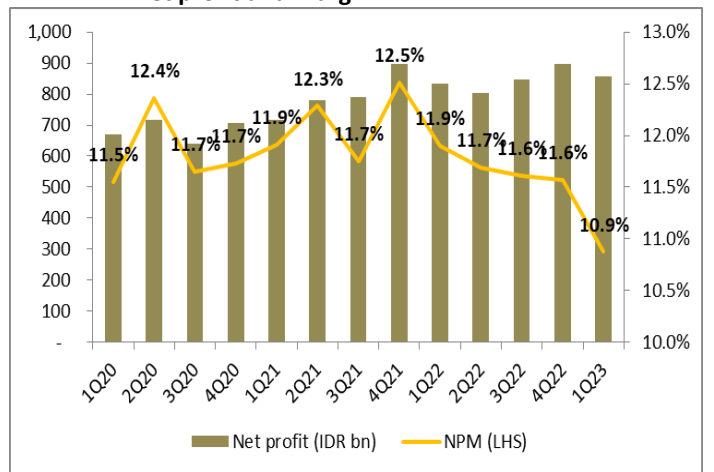
Source: Company, KBVS Research

Exhibit 10: Revenue contribution of each segment



Source: Company, KBVS Research

Exhibit 11: Forex loss & inventory write-off pressured 1Q23 net profit and margin



Source: Company, KBVS Research

Exhibit 12: Trading at 22x - 12M fwd P/E or below its 5year historical mean of 23.8x



Source: Company, KBVS Research

Kalbe Farma (KLBF)

FINANCIAL TABLES

Exhibit 10: Profit & loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue	26,261	28,934	32,792	37,293	42,442
COGS	(14,977)	(17,229)	(19,364)	(21,996)	(24,997)
Gross profit	11,284	11,704	13,428	15,297	17,445
Operating profit	4,021	4,231	5,028	5,807	6,704
EBITDA	4,371	4,586	5,440	6,251	7,184
Profit before income tax	4,143	4,459	5,121	5,928	6,840
Tax benefit (expenses)	(911)	(1,009)	(1,159)	(1,341)	(1,547)
Minority interests	(48)	(68)	(71)	(69)	(69)
Net profit	3,184	3,382	3,891	4,518	5,224
EPS	68	73	84	97	112

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current assets					
Cash and cash equivalents	6,216	3,950	5,543	6,254	6,888
Trade receivables	3,431	4,614	5,390	6,130	6,977
Inventories - net	5,087	7,027	6,632	7,232	8,218
Other current assets	978	1,119	1,196	1,295	1,479
Total current assets	15,712	16,710	18,761	20,911	23,562
Non-current assets					
Fixed assets	7,994	7,957	8,263	8,652	9,135
Other non-current assets	1,960	2,574	2,663	3,165	3,629
Total non-current assets	9,954	10,531	10,926	11,816	12,764
Total assets	25,667	27,241	29,687	32,727	36,326
Current liabilities					
Trade payables	1,668	1,997	2,059	2,339	2,658
Short-term bank loan	-	706	650	577	502
Other payables	1,867	1,729	1,912	2,093	2,394
Total current liabilities	3,535	4,431	4,621	5,009	5,555
Non-current liabilities					
Long-term bank loan	490	287	287	287	287
Other non-current liabilities	376	426	432	490	566
Total non-current liabilities	866	713	719	777	853
Minority interests	1,686	1,712	1,783	1,852	1,921
Total equity	19,580	20,385	22,565	25,089	27,997
Total liabilities and equity	25,667	27,241	29,687	32,727	36,326

Source: Company, KBVS Research

Kalbe Farma (KLBF)

Exhibit 12: Cash flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net profit	3,184	3,382	3,891	4,518	5,224
Depreciation & amortization	483	790	747	805	868
Changes in working capital	(872)	(2,884)	(175)	(980)	(1,377)
Others	(123)	(246)	86	2	(19)
CF from operating activities	2,672	1,042	4,549	4,345	4,696
Capex	(264)	(686)	(984)	(1,119)	(1,273)
Others	(685)	(680)	(158)	(576)	(543)
CF from investing activities	(949)	(1,367)	(1,142)	(1,695)	(1,816)
Change in debt	(532)	542	(187)	(72)	(75)
Dividends paid	(1,310)	(1,631)	(1,733)	(1,994)	(2,315)
Others	1,127	(852)	107	127	145
CF from financing activities	(715)	(1,942)	(1,813)	(1,939)	(2,245)
Change in cash flow	1,008	(2,266)	1,593	711	635
Cash and cash equivalents, beginning	5,208	6,216	3,950	5,543	6,254
Cash and cash equivalents, ending	6,216	3,950	5,543	6,254	6,888

Source: Company, KBVS Research

Exhibit 10: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Growth (%)					
Revenue	13.6	10.2	13.3	13.7	13.8
Gross profit	10.1	3.7	14.7	13.9	14.0
Operating profit	13.1	5.2	18.9	15.5	15.4
EBITDA	12.4	4.9	18.6	14.9	14.9
Net profit	16.5	6.2	15.0	16.1	15.6
Profitability (%)					
Gross margin	43.0	40.5	40.9	41.0	41.1
Operating margin	15.3	14.6	15.3	15.6	15.8
EBITDA margin	16.6	15.9	16.6	16.8	16.9
Net margin	12.1	11.7	11.9	12.1	12.3
ROA	12.4	12.4	13.1	13.8	14.4
ROE	16.3	16.6	17.2	18.0	18.7
Solvency (x)					
Current ratio	4.4	3.8	4.1	4.2	4.2
Quick ratio	3.0	2.2	2.6	2.7	2.8
Debt to equity	0.0	0.1	0.0	0.0	0.0
Interest coverage	70.1	76.8	91.4	104.0	121.2
Net gearing	(0.3)	(0.1)	(0.2)	(0.2)	(0.2)

Source: Company, KBVS Research

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KB Valbury Sekuritas

Headquarters

Sahid Sudirman Center Lantai 41 Unit AC
Jl. Jenderal Sudirman No. 86
Kelurahan Karet Tengsin, Kecamatan Tanah Abang
Jakarta Pusat 10220, Indonesia
T +62 21 250 98 300
F +62 21 255 33 778

Branch Office

Jakarta - Kelapa Gading

Rukan Plaza Pasifik
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta 11620
T +62 21 - 29451577

Jakarta - Puri Indah

Rukan Grand Aries Niaga
Blok E.1 No. 1 V Jl. Taman Aries, Kembangan,
Jakarta 14450
T +62 21 - 22542390
F +62 21 - 29264310

Jakarta - Pluit

Jl. Pluit Putra Raya No. 2
Jakarta 14240
T +62 21 - 29254300
F +62 21 - 22542391

Bandung

Jl. HOS Cokroaminoto No. 82
Bandung 40171
T +62 22 - 87255888
T +62 22 - 87255800
F +62 22 - 87255811

Semarang

Candi Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T +62 24 - 3521888
T +62 24 - 8501122
F +62 24 - 8507450

Yogyakarta

Jl. Magelang KM 5.5 no. 75
Yogyakarta 55284
T +62 274 - 4469500
T +62 274 - 6231111
F +62 274 - 623222

Galeri Investasi

Jakarta

Citra Garden 6 Ruko Sixth Avenue
Blok J.1 A/18 Cengkareng,
Jakarta Barat 11820
T +62 21 52392181

Semarang

Jl. MT Haryono 637 Semarang
T +62 24 8415195

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118

Surabaya

Pakuwon Center Tunjungan Plaza Lantai 21
Jl. Embong Malang No.1
Surabaya 60261
T +62 31 - 2955777
T +62 31 - 2955788
F +62 31 - 2955716

Solo

Jl. Ronggo Warsito no. 34
Solo 57118
T +62 271 632888
F +62 271 656988

Malang

Jl. Pahlawan Trip no. 7
Malang 65112
T +62 341 - 585888
F +62 341 - 560056

Denpasar

Komplek Ibis Styles Hotel
Jl. Teuku Umar No. 177
Denpasar Bali 80114
T +62 361 - 255888
T +62 361 - 225229
F +62 361 - 225339

Banjarmasin

Jl. Gatot Subroto No.33 Kel. Kebun Bunga
Kec. Banjarmasin Timur
Kalimantan Selatan 70235
T +62 511 - 3265918
F +62 511 - 3253432

Manado

Kawasan Megamas, Ruko Megaprofit
Blok IF2 No. 38 Manado. 95254
T +62 431 7917 836
F +62 431 880 2129

Padang

Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Salatiga

Jl. Diponegoro No. 68, Rt. 007 Rw. 011,
Kel. Salatiga, Kec. Sidorejo 50711
T +62 298 313007

Medan

Komplek Jati Junction No. P5-5A
Jl. Perintis Kemerdekaan
Medan 20218
T +62 61 - 88816222
F 62 61 - 88816333

Pekanbaru

Komplek CNN Blok A no. 3
Pekanbaru 28291
T +62 761 - 839393
F +62 761 - 839313

Padang

Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Palembang

Komp. PTC Mall Blok I No. 7 Jl. R. Sukamto
Kel. 8 Ilir Kec. Ilir Timur II
Palembang 30114
T 07115700281

Makassar

Kompleks RUKO Citraland City Losari Makassar,
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard
Kel. Maccini Sombala, Kec. Tamalate
Makassar, Sulawesi Selatan 90111
T +62 411 6000818

Galeri Investasi BEI - KBVS

Yogyakarta
Universitas Kristen Duta Wacana
T +62 274 - 544032

Manado
Universitas Prisma Manado
T 0431 8800850

Jakarta
Universitas Gunadarma
T +62 21 - 8727541