INDOPREMIER

Kalbe Farma

BUY

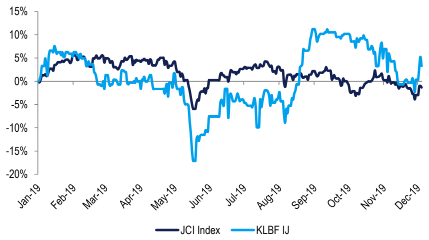
Initiating Coverage | Consumer Staples | KLBF IJ | 05 December 2019

Stock Data

Target price	**Rp1,800**
Prior TP	*N/A*
Current price	Rp1,570
Upside/downside (%)	*+14.6%*
Shares outstanding (mn)	46,875
Market cap (Rp bn)	73,360
Free float	42.7%
Avg. 6m daily T/O (Rp bn)	39.3

Price Performance

	3M	6M	12M
Absolute	-4.8%	11.7%	-1.9%
Relative to JCI	-2.5%	13.3%	-1.2%
52w low/high (Rp)		1,250 - 1,690	



Major Shareholders

PT Gira Sole Prima	10.2%
PT Santa Seha Sanadi	9.8%
PT Diptanala Bahana	9.5%

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A path of gradual recovery

- We expect core earnings to improve by 6.5% CAGR 2019-21F vs. 5.2% CAGR 2014-18 on the back of improving sales and stabilizing margins.
- Better receivable days also may improve FCF and along with normalizing capex, this may translate to better dividend payout.
- Improving earnings outlook underpin our Buy rating. Risk will be regulation uncertainties from the new health minister.

A pick-up in revenue

We expect overall prescription pharma's revenue yoy growth to stabilize to 5-7% in 2019-21F from 4.0% CAGR in FY14-18 following expectation of improving growth outlook from both licensed products and branded generics to 5.0% and 2.0% in 2019-20F from 3.2% and 1.8% CAGR in FY14-18, respectively. We also expect some volume recovery in Kalbe's key brands (i.e. Extra Joss) while others (i.e. Zee) should be able to maintain its market share. ASP however may remain tepid amid lacklustre purchasing power.

Minimal drop in GPM shall allow better earnings stability

While sales shift to unbranded generics stabilize, we see prescription pharmaceuticals GPM's to still decline, albeit at much slower rate with an average of 20 bps p.a. in 2019-21F (vs. an average decline of 170bp p.a. in 2014-18). Stable rupiah against US$ also should help preserve GPM, although we still see some downside particularly from nutritionals amid Kalbe's limitation to increase prices despite the rising skimmed milk prices.

Rising BPJS premium should gradually improve receivables turnover

As government increases BPJS premium in 2020F and targets Rp17tr surplus, we expect faster payment to Kalbe resulting in lower receivable days from 58 days at end-2Q19 and possibly back to around 50 days in the next couple of years. We estimate FCF of Rp1.8tr and Rp2.1tr in FY20/21F. With capex possibly normalizing in 2020F onwards, we see upside to Kalbe's dividend payout (c.50% in FY19).

Higher earnings growth may spark re-rating; initiate with a Buy call

We expect Kalbe to book core earnings recovery of 6.5% CAGR 2019-21F (vs. 5.2% CAGR in 2014-18) which underpin our Buy rating with TP of Rp1,800 (pegged to its 5Y mean). With market sell-offs triggering 1.9% share price de-rating in the past 1M, Kalbe is trading at an attractive 25.9x P/E (around 1 s.d. below its 5-year mean). Risk is regulation uncertainty.

Financial Summary	2017A	2018A	2019F	2020F	2021F
Revenue (Rp bn)	20,182	21,074	22,518	23,882	25,279
EBITDA (Rp bn)	3,671	3,784	3,978	4,307	4,613
EBITDA Growth	5.0%	3.1%	5.1%	8.3%	7.1%
Net Profit (Rp bn)	2,403	2,457	2,604	2,770	2,953
EPS (Rp)	51	52	56	59	63
EPS Growth	4.7%	2.2%	6.0%	6.4%	6.6%
ROE	18.2%	16.8%	16.3%	16.1%	15.9%
PER (x)	30.6	30.0	28.3	26.6	24.9
EV/EBITDA (x)	19.5	18.9	18.1	16.7	15.5
Dividend Yield	1.4%	1.6%	1.7%	2.0%	2.3%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			100%	98%	95%

Sources: Company, IndoPremier *Share price closing as of: 04 December 2019*

Business Overview

Across the business units

Kalbe's revenue was contributed by its four major business units: 1) Prescription pharmaceuticals (24% of 1H19 revenue), 2) Consumer health (17%), 3) Nutritionals (28%), and 4) Distribution and logistics (31%).

We expect Kalbe's revenue to grow by 6.8% yoy in FY19F (9M19: 7.3% yoy growth), a solid improvement from 4.4% yoy growth in FY18. This is partially due to some ASP increase in the consumer health and nutritionals division across 2018-19, along with a one-off late e-tender bidding system in 2018 (2H18 vs. typically early in the year, affecting unbranded generic sales).

Nevertheless, due to the weak purchasing power next year, we do not expect Kalbe to be able to increase its ASP annually as it used to do a couple of years ago. The current ASP increase is mostly to pass on increase of core raw material prices and/or rupiah depreciation against US$, highlighting that 60-65% of Kalbe's COGS is linked to US$.

While GPM significantly dropped since 2016 (largely due to the shift to unbranded generic pharmaceutical products), Kalbe's opex-to-sales ratio has since continued to improve, which allows Kalbe to maintain its EBIT margin relatively unchanged at 15.7-15.9% in 2016-18. This was mainly due to lower A&P costs, A&P costs has trended down from its peak at 9.1% of sales to 8.9% and 7.7% of sales in FY17 and FY18, respectively.

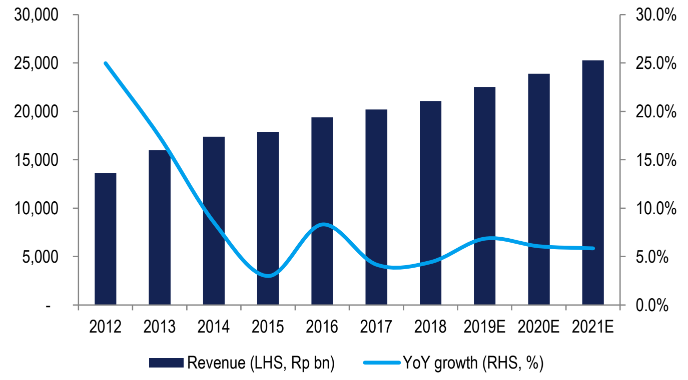
Kalbe has historically employed lower A&P expenses (as % of sales) in 4Q vs. earlier quarters. Similarly, we have seen Kalbe's A&P expenses dropped from 9.0% of sales in 1Q19 to 8.0%/7.1% in 2Q/3Q19. In line with management's guidance, we expect to see A&P expenses to further trend down to 6.9% of sales in 4Q19, thus it's A&P spending to be maintained flat yoy at 7.7% of sales in FY19F.

On a yoy basis, although we may not see Kalbe's A&P spending (and thus opex-to-sales) to be further cut significantly in FY19F onwards, we conservatively estimate EBIT margin to stay between 15.3-15.4% level in 2019-21F.

On a more positive note, we expect rupiah to remain relatively stable at Rp14,200 towards US$ in 2020F/21F, which is positive for KLBF as around 60-65% of its COGS are imported. We estimate that every 1% of rupiah depreciation against US$ in 2020F will lead to a 30bps GPM decline during the year (see Figure 10).

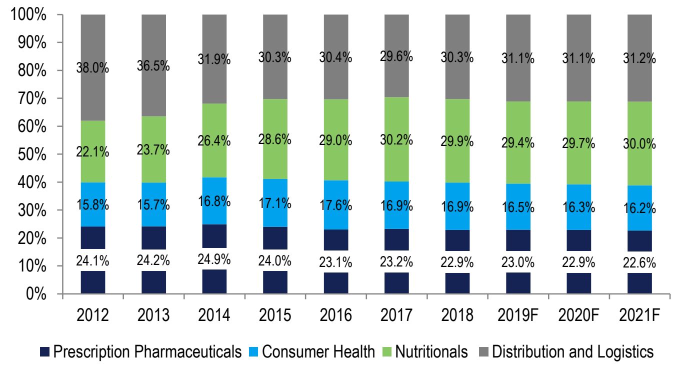
We think the worst is over and earnings growth may pick up to 6.4%/6.6% in 2020F/21F, from 4.7% CAGR during early BPJS implementation days (2014-19F). Nonetheless, expect mid-to-high single digit earnings growth to become a new norm, as we project Kalbe may not be coming back to its double-digits growth period prior to BPJS implementation in 2014 (10.6% CAGR in 2011-14) – see Figure 6.

Fig. 1: Kalbe's revenue and YoY growth



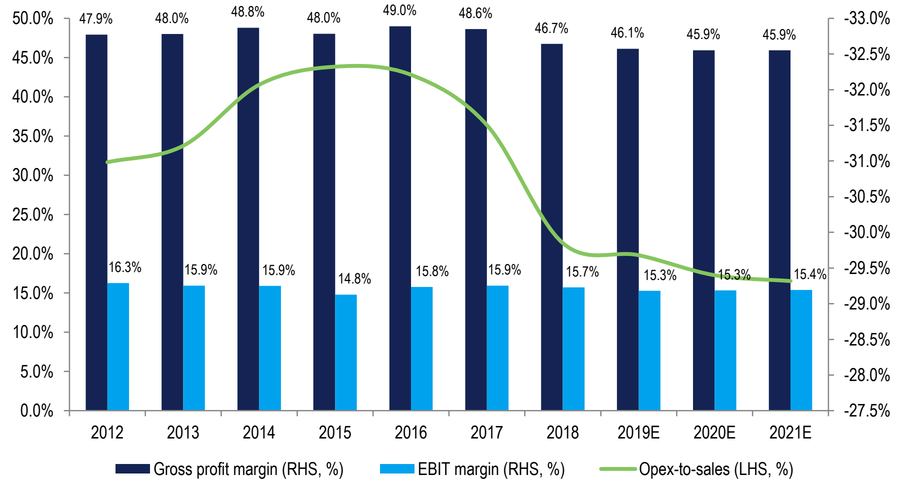
Sources: Company, IndoPremier

Fig. 2: Kalbe's sales breakdown by division



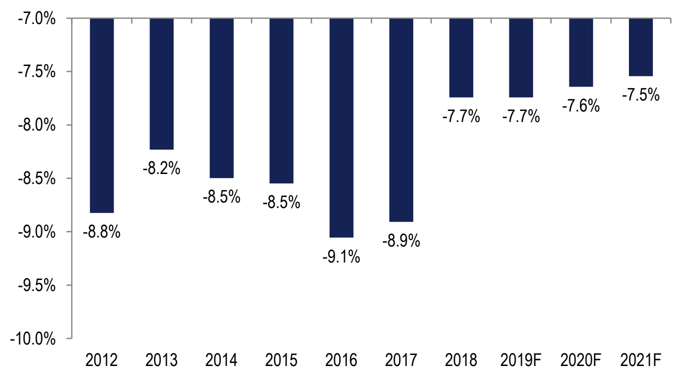
Sources: Company, IndoPremier

Fig. 3: While KLBF's GPM continuously declined in 2016-18, its opex efficiency allows KLBF to maintain its EBIT margin at 15.7-15.9% in 2016-18



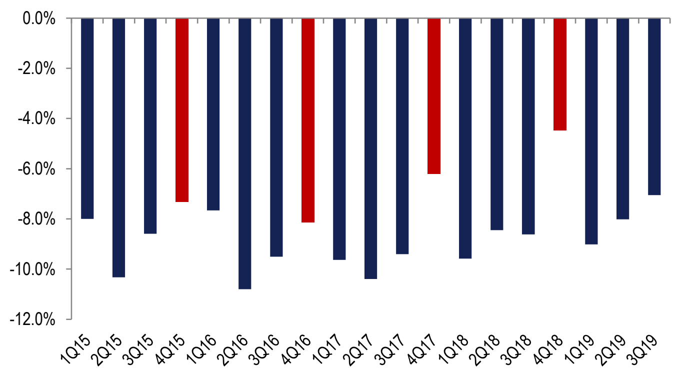
Sources: Company, IndoPremier

Fig. 4: KLBF's A&P spending to sales has continuously trend down over the past couple of years



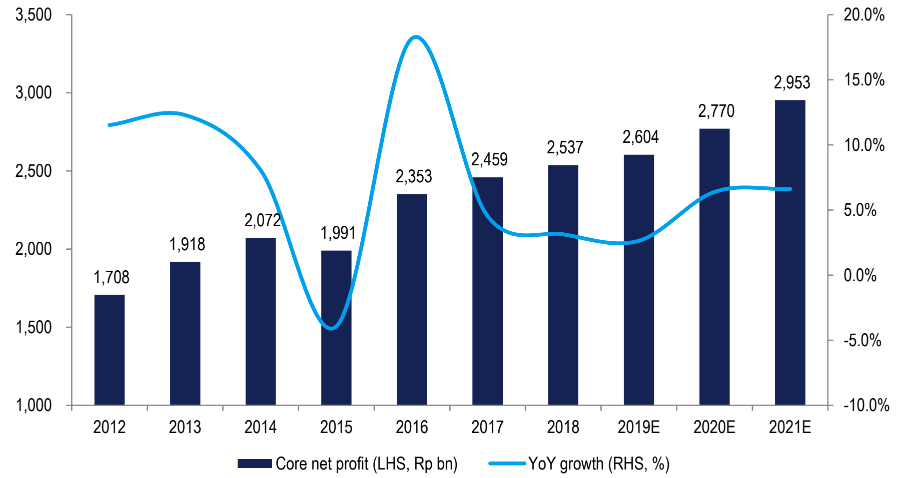
Sources: Company, IndoPremier

Fig. 5: Historically, Kalbe's ASP spending was the lowest in 4Q vs. earlier quarters – we expect to see similar trend in 2019



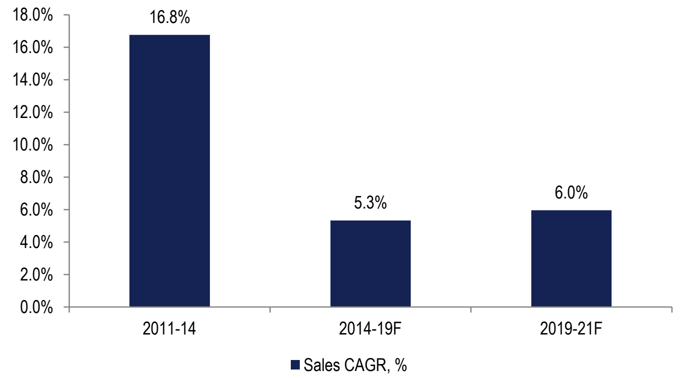
Sources: Company, IndoPremier

Fig. 6: Kalbe's core net profit and YoY growth



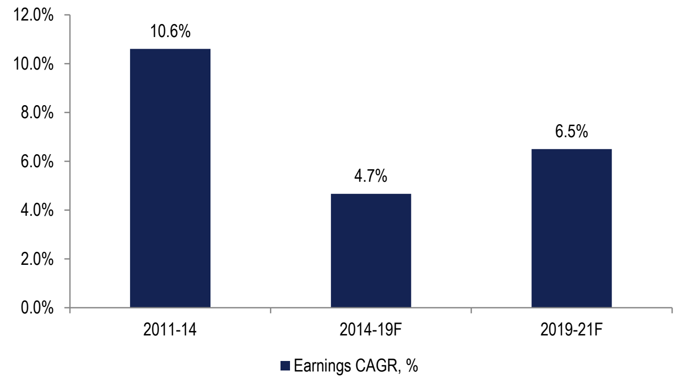
Sources: Company, IndoPremier

Fig. 7: Sales CAGR before BPJS implementation (2011-14), early BPJS implementation (2014-19F), and our estimates going forward (2019F-21F)



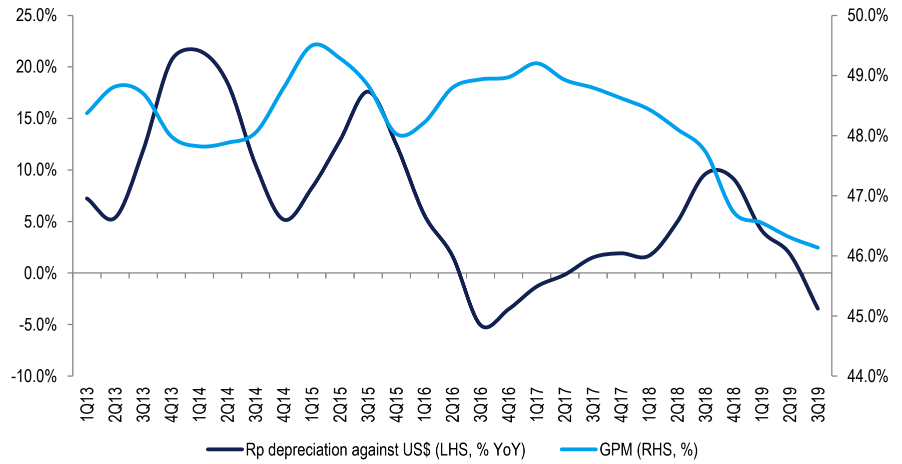
Sources: Company, IndoPremier

Fig. 8: Earnings CAGR before BPJS implementation (2011-14), at early BPJS implementation (2014-19F), and estimates for late BPJS implementation (2019F-21F)



Sources: Company, IndoPremier

Fig. 9: KLBF's gross profit margin is negatively affected by rupiah depreciation against US$ - in a positive note, we see rupiah appreciating against US$ in 3Q19 and expect it to remain stable in the next few quarters



Sources: Company, IndoPremier

Fig. 10: Every 1% rupiah depreciation against US$ will lead to a 30bps GPM decline in 2020F

Average US$ to Rp	% chg from base scenario	GPM, %
13,916	-2.0%	46.5%
14,058	-1.0%	46.2%
14,200	**0.0%**	**45.9%**
14,342	1.0%	45.6%
14,484	2.0%	45.3%

Source: IndoPremier

Prescription pharmaceuticals – Stabilizing revenue and margins

Prescription pharmaceuticals division has been posting relatively stable revenue CAGR of 5.6% in 2015-18, although mainly contributed by unbranded generics which posted 12.5% revenue CAGR in the same period largely due to the continuous increase of National Health Insurance (JKN) beneficiaries growing at 9.9% CAGR in 2015-18.

As the number of JKN beneficiary have reached 221.2mn in 9M19, or roughly 83% of Indonesia's total population, we think growth of JKN beneficiary shall slow down to 6.8% CAGR in 2018-21F. Along with the slower growth of the number of JKN beneficiary in 2020F, we expect the growth from unbranded generics to concurrently normalize in the upcoming years to 15%/10% in 2020F/21F.

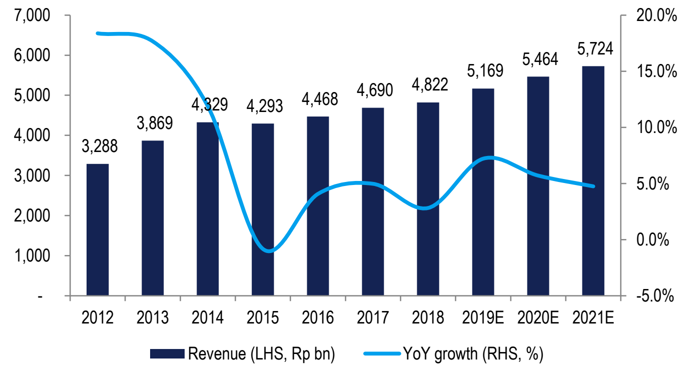
We note that the solid 25% yoy growth of unbranded generics that we estimate in 2019F may be a one-off, given the e-tender drug bidding system which was announced in Jul 2018 (instead of Jan 2018) – hence the lower-based 12.7% unbranded generics revenue growth in 1H18, while this year's e-tender drug bidding system was in Jan 2019.

The volatility on the timing of the e-tender drug bidding system may in turn create some volatility in terms of unbranded generics' revenue growth. Nonetheless, even if the e-tender drug bidding system got delayed in 2020F and unbranded generics grew by only 5-10% yoy (instead of our base case scenario of 15% yoy), it has a minimal impact towards 2020F earnings. We note that for every 5% lower revenue growth in 2020F from our base case scenario, it will result to a 24bps decline in 2020F core earnings margin (see Figure 17).

Meanwhile, we see some upside to growth from higher-margins licensed products and branded generics coming from growth of oncology and biosimilar products, albeit gradually. KLBF first started the operation of its oncology production facility in Oct 2014 and has recently completed the construction of its biosimilar production facility in early 2019. As such, we expect a 6.3% revenue CAGR in 2018-21F for branded generics (vs. 5.6% revenue CAGR in 2015-18).

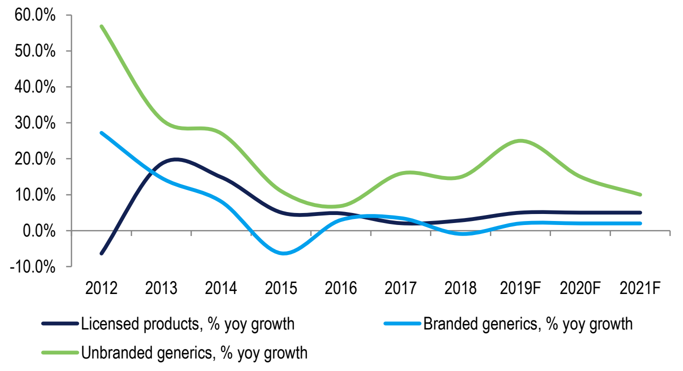
Overall, we expect the division's GPM to continue to fall in the next few years, albeit at a slower pace. Prescription pharmaceuticals' GPM has significantly fallen from 60.8% in 2013 to 54.3% in 2018, and is expected to still fall slightly to 54.2%/53.8%/53.7% in 2019F/20F/21F.

Fig. 11: Prescription pharmaceuticals' revenue and YoY growth



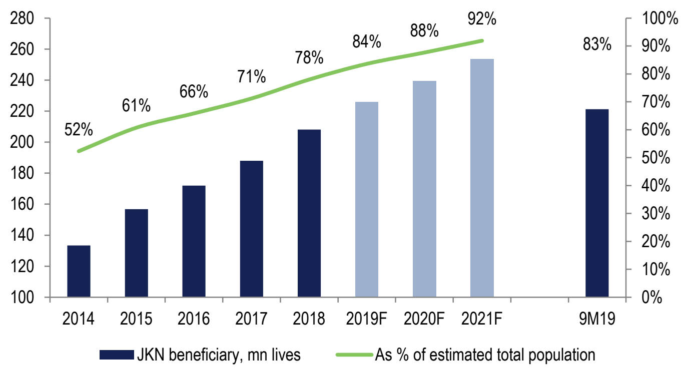
Sources: Company, IndoPremier

Fig. 12: Unbranded generics' sales growth outpaced licensed products' and branded generics' sales growth in the past couple of years, but is expected to normalize in 2020F/21F



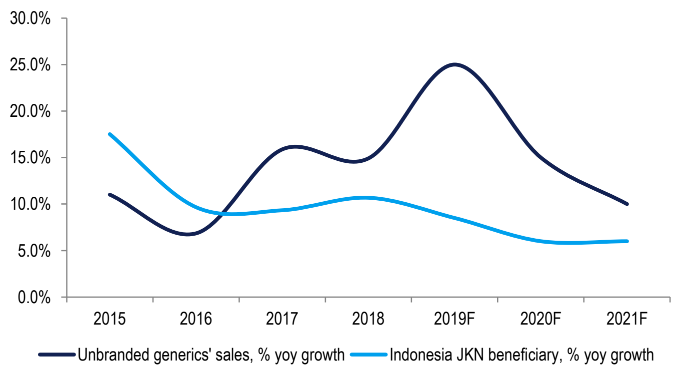
Sources: Company, IndoPremier

Fig. 13: As of 9M19, JKN beneficiary has reached c.83% of Indonesia's total population, showing limited upside to growth



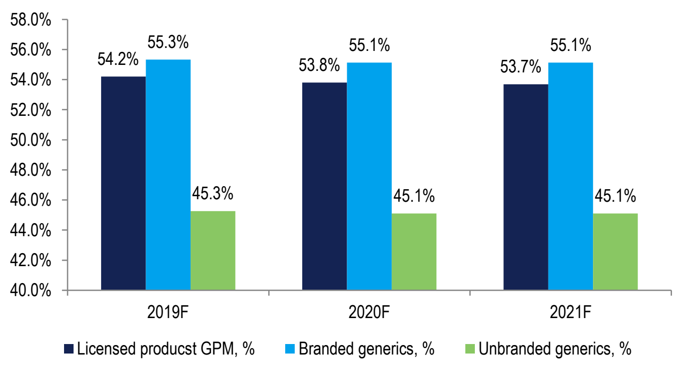
Sources: Company, IndoPremier

Fig. 14: As growth of total number of JKN beneficiary slows down, we expect to see unbranded generics' sales growth to normalize concurrently



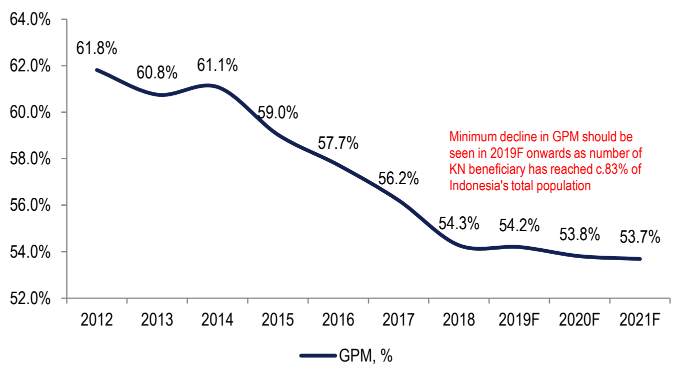
Sources: Company, IndoPremier

Fig. 15: IndoPremier gross profit margin estimates for prescription pharmaceuticals (per division)



Sources: Company, IndoPremier

Fig. 16: Prescription pharmaceutical's GPM – we expect the division's GPM to still drop (albeit at a slower pace) as unbranded generics' sales growth shall continue to outpace licensed products and branded generics sales growth (albeit normalizing)



Sources: Company, IndoPremier

Fig. 17: Unbranded generics pharma's revenue growth sensitivity towards 2020F earnings

Unbranded generics pharma rev. growth (%)	Earnings (Rp bn)	Changes (%)
5.0%	2,756	-0.49%
10.0%	2,763	-0.24%
15.0%	2,770	0.0%
20.0%	2,777	0.2%
25.0%	2,783	0.5%

Sources: Company, AC Nielsen

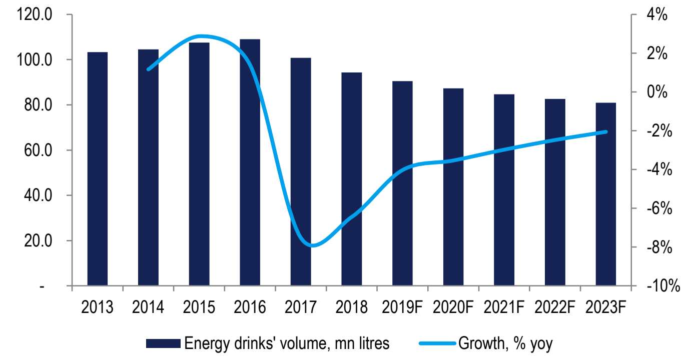
Consumer health – High brand loyalty to OTC pharmaceutical brands shall allow Kalbe to maintain its dominance

In the past few years, consumer's health growth rate has been slowing amid Extra Joss (c.20% of consumer health sales) losing popularity, in line with the decline in energy drinks industry.

Euromonitor reported off-trade sales of energy drinks decline a total of c.6% both volume and value CAGR in 2015-18, with the two market leaders of the RTD energy drinks Kratingdaeng and M-150 being no exception. The only growing RTD energy drinks brand, according to Euromonitor, is Panther (product of KINO) which targets a younger market (i.e. teenagers) in addition to the usual adult men target market.

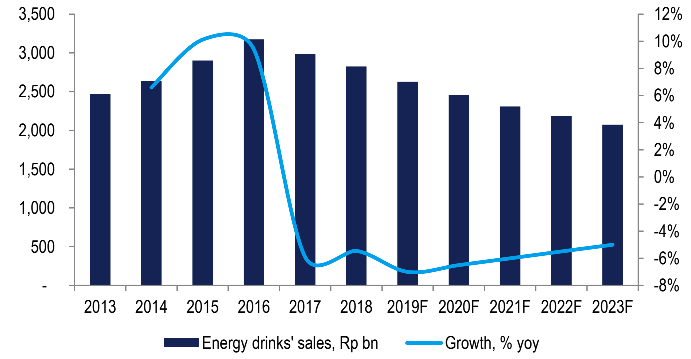
We see Kalbe's effort to penetrate the younger market by launching Extra Joss Shake in 3Q18. Although we think it will yet to boost the brand's growth in the near future, we believe the overall brand's declining trajectory has slowed down.

Fig. 18: Energy drinks' volume has significantly declined since 2017, and is expected to continue declining (albeit at a slower pace) in the next few years



Source: Euromonitor

Fig. 19: Energy drinks' sales has significantly declined since 2017, and is expected to continue declining (albeit at a slower pace) in the next few years

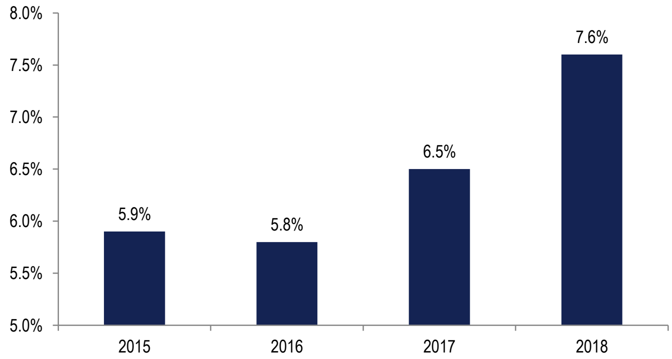


Source: Euromonitor

Fig. 20: Panther (which targets a younger market) has been doing well in the past couple of years. In 3Q18, KLBF also launched Extra Joss Shake aiming for a similar target market

Sources: Company, IndoPremier

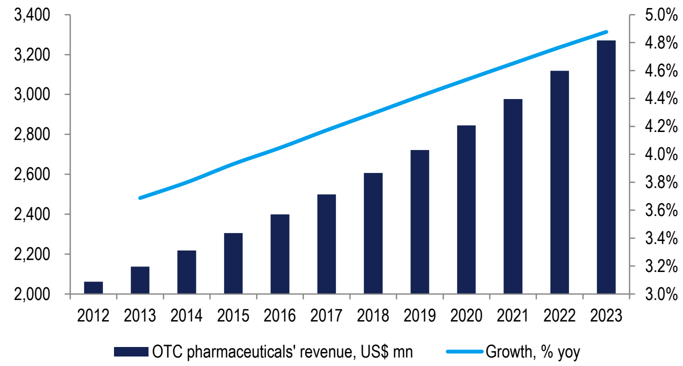
Fig. 21: Panther has continuously gained significant market share since it was launched in 2015, albeit the industry's declining popularity



Source: Euromonitor

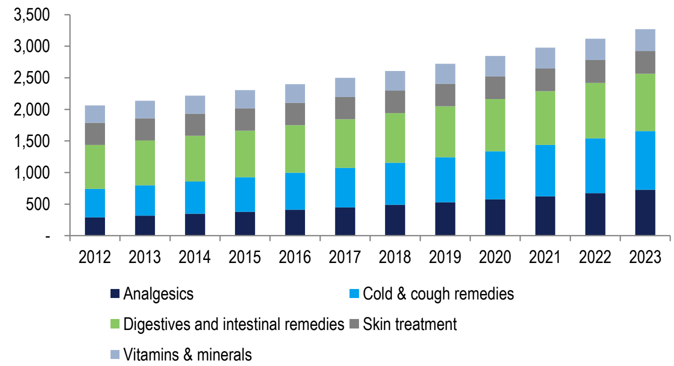
Meanwhile, OTC pharmaceutical products shall continue to show stable growth. Statista estimated the OTC pharmaceuticals market to grow by 4.7% CAGR in 2019F-23F, with cold and cough remedies (expected to grow by 6.8% CAGR in 2019F-23F), as well as digestives and intestinal remedies (expected to grow by 2.9% CAGR in 2019F-23F) – in which Kalbe owns a significant market share and is expected to retain them considering loyalty to OTC pharmaceutical products tend to be higher.

Fig. 22: OTC pharmaceuticals' sales and YoY growth



Sources: Statista, IndoPremier

Fig. 23: Analgesics and cold & cough remedies are expected to lead sales growth with 8.3% and 6.8% CAGR in 2019-23F, respectively



Source: Statista

Fig. 24: Kalbe's market share in various therapeutic class in the OTC pharmaceuticals market

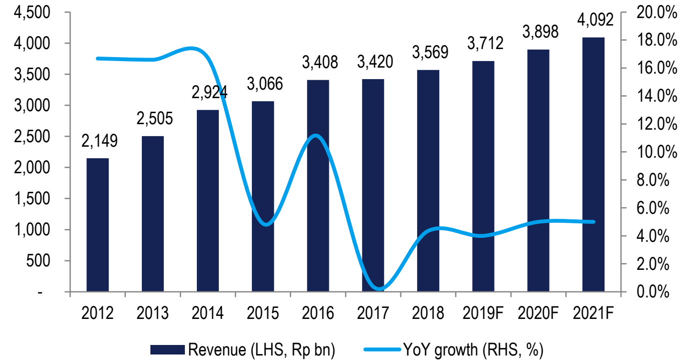
Therapeutic Class	Kalbe's Products	2017 Market Share, %
OTC - Antacid	Promag, Waisan	75%
OTC - Anti diarrhea	Neo Entrostop	45%
OTC - Cough remedies	Komix, Woods, Mixadin	34%
OTC - Cold remedies	Mixagrip Reg, Mixagrip FB, Procold	41%
OTC - Children multivitamin	Cerebrofort, Sakatonik ABC	35%

Sources: Company, AC Nielsen

RTD beverages, particularly Hydro Coco, should be able to post solid growth, though we estimate the latter to have lower gross margins vs. OTC pharmaceuticals or energy drinks.

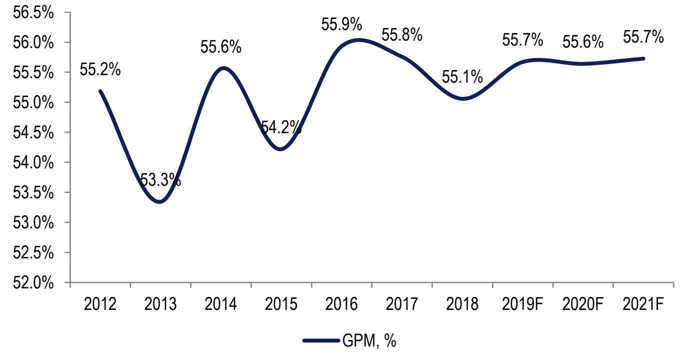
Overall, we expect revenue growth from the consumer health division (Figure 25) to grow by 4.7% CAGR in 2018-21F, relatively stable vs. 5.2% CAGR in 2015-18. With rupiah stabilizing, we expect to see the division's GPM to remain concurrently stable.

Fig. 25: Consumer health's revenue and YoY growth



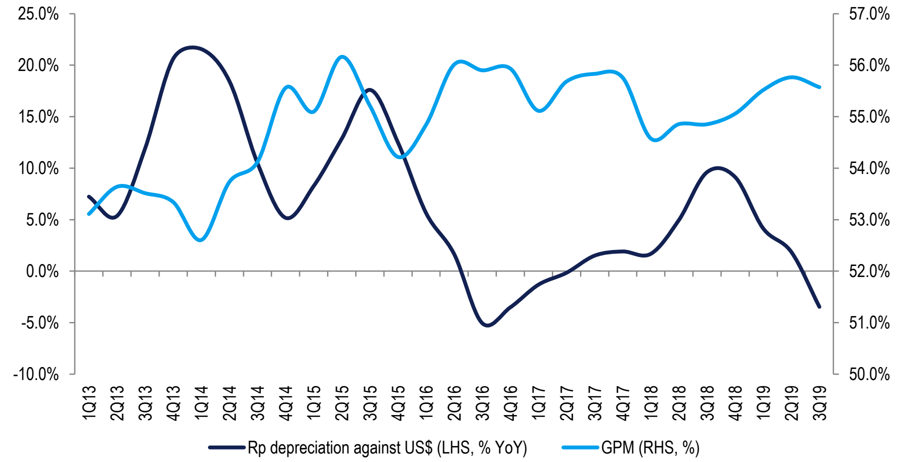
Sources: Company, IndoPremier

Fig. 26: Consumer health's gross profit margins



Sources: Company, IndoPremier

Fig. 27: Consumer health's gross profit margins is negatively correlated with rupiah depreciation against US$



Sources: Company, IndoPremier

<u>Nutritionals – Threat to GPM continues</u>

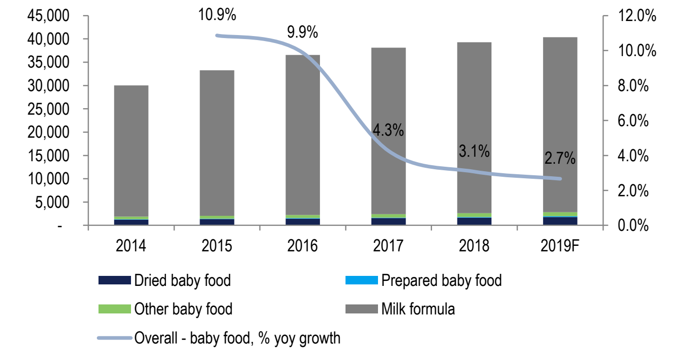
We expect to see nutritionals division booking better sales growth of 7.0% in 2020/21F (vs. 3.4%/5.0% in 2018/2019F); albeit still significantly lower than what it used to book prior to 2018 (10.0% CAGR in 2014-17).

Some reasons include, shifting trend to breastfeeding, which causes slower growth of baby and toddler's milk formula amid aggressive campaign on breastfeeding. Government also regulates that no marketing activity for baby formula is allowed in Indonesia. This was amid the low prevalence rate of breastfeeding mother (below 50%) amid significant annual improvement from 29.5% in 2016 to 35.7% in 2017.

Euromonitor recorded a significant growth slowdown of baby food sales in Indonesia over the past couple of years; from 10.9% yoy growth in 2015 to 2.7% yoy growth estimated in 2019F, with huge decline on milk formula sales among others.

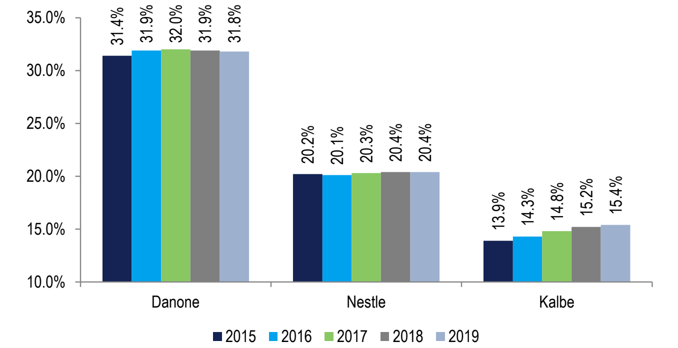
Good thing is, according to Euromonitor, Kalbe still managed to grab a pretty significant market share from its competitors, which we believe allows it to grow at a faster pace in its baby food category (8.9% CAGR in 2015-18) vs. the industry growing at 5.7% CAGR in the same time period. This is on top on positive growth portrayed by some of its other brands categorized under the division, i.e. children milk product Zee, which according AC Nielsen and company estimates recorded a significant market share increase from 12% in 2017 to 16% in 2018.

Fig. 28: Baby food sales growth in Indonesia has been slowing down since a couple of years ago



Sources: Company, IndoPremier

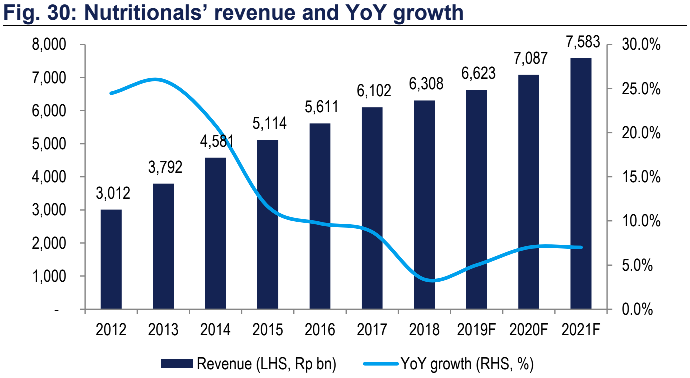
Fig. 29: On a positive note, Kalbe (third-largest player) is one of the few companies that managed to gain market share across the past few years



Sources: Company, IndoPremier

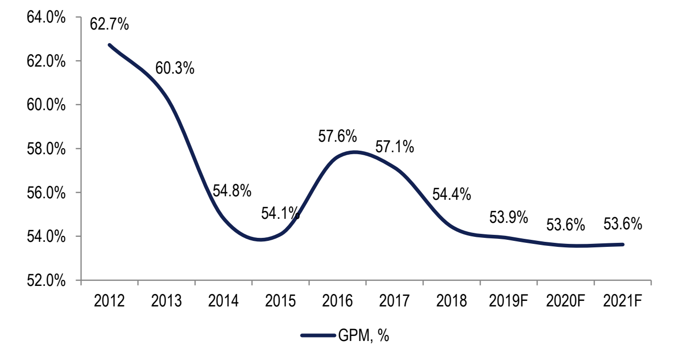
Nonetheless, we see pressure on nutritionals division's GPM to continue, mainly as skim milk price continues to trend up, highlighting that 90% of the division's products are milk-based. KLBF has increased ASP by 3-5% twice within less than a year (in Jul 2018 and May 2019), but further price increase is probably necessary given that skim milk price has went up by more than c.19% since early-Jun 2019 (c.40% YTD). Furthermore, lower ASP product (i.e. Zee) is booking higher sales growth compared to other nutritional products (i.e. Morinaga) with higher ASP, causing a shift in product mix to lower ASP products. Overall, we estimate the division's GPM to shrink by 50bps in 2019F to 53.9%, by another 30bps in 2020F to 53.6% and remain flat at 53.6% in 2021F.

Fig. 30: Nutritionals' revenue and YoY growth



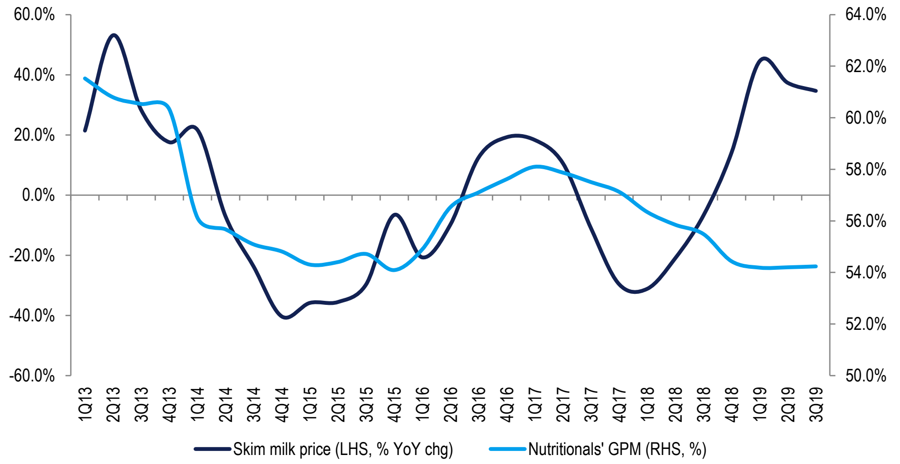
Sources: Company, IndoPremier

Fig. 31: Nutritionals' gross profit margins



Sources: Company, IndoPremier

Fig. 32: Nutritionals' gross profit margins vs. skim milk price changes



Sources: Company, IndoPremier

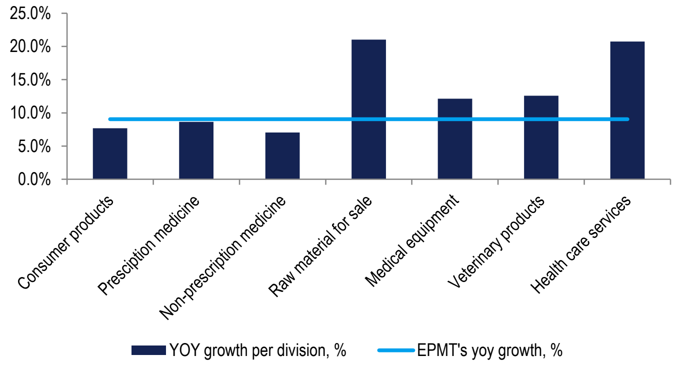
Distribution and logistics – Solid third-parties raw material sales growth; negatively impacting GPM

KLBF also has a 92.5% ownership in its listed distribution arm, Enseval Megatrading. As of 1H19, Kalbe Group remains as the highest revenue contributor (71% of sales), followed by third party principals (16%), raw material trading (9%), and medical devices (4%).

In 1H19, distribution and logistics division posted a solid 11.6% yoy net sales growth. Across the products within the EPMT, third parties raw material sales posted highest growth of 21.0% yoy in 1H19, which is likely to explain the 300 bps GPM decline to 27.5% in 1H19 since its GPM is lower than other products (i.e. medical equipment).

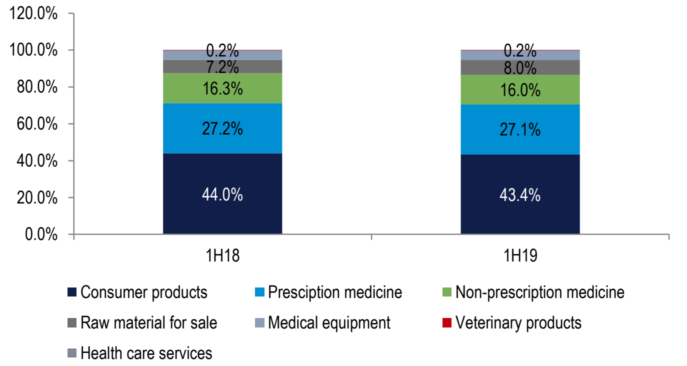
While we expect distribution and logistics division's sales growth to remain high at 10.0% yoy in FY19F, we estimate GPM to decline by 100 bps to 27.7% during the same period, still due to changes in product portfolio mix.

Fig. 33: EPMT's YoY sales growth per division



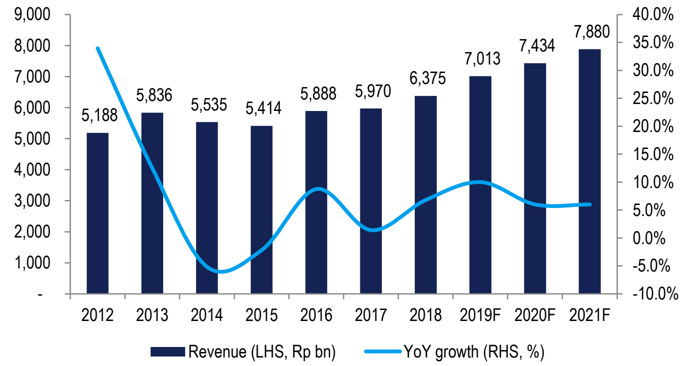
Sources: EPMT, IndoPremier

Fig. 34: EPMT's sales breakdown per division, as % of total



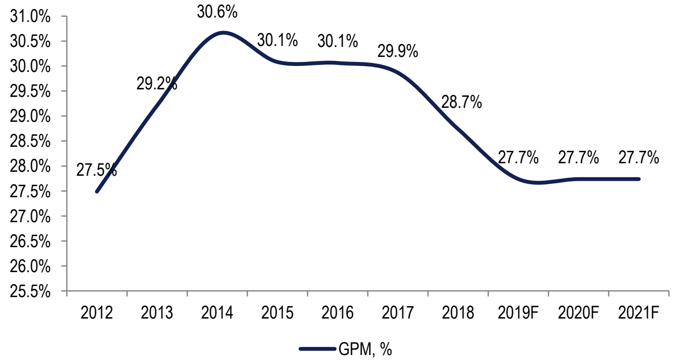
Sources: EPMT, IndoPremier

Fig. 35: Distribution and logistics' revenue and YoY growth (%)



Sources: Company, IndoPremier

Fig. 36: Distribution and logistics' gross profit margins



Sources: Company, IndoPremier

Healthy balance sheet

On 24 Oct 2019, President Jokowi has signed a Presidential Decree No. 75/2019 that regulates new scheme for National Health Insurance (JKN), raising premiums for subsidized beneficiaries and non-regular works (Figure 37).

For private workers, government increases salary threshold for the calculation of the premiums to a maximum of Rp12mn (previously Rp8mn). The premium of 5% from monthly salary for regular workers (private workers and civil servants), is to be paid 4% by employer and 1% by employee (previously 3% by employer and 2% by employee).

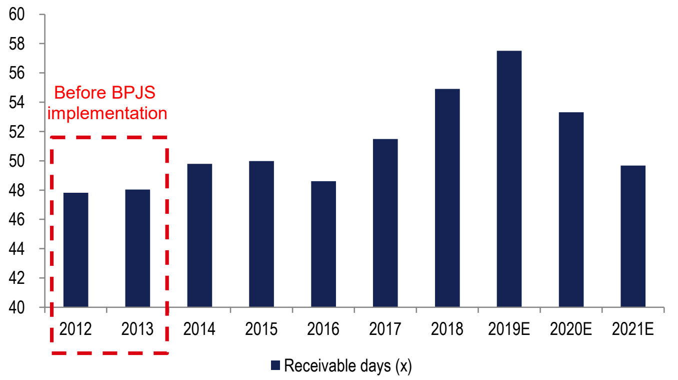
As BPJS is then expected to record a surplus of Rp17.2tr in 2020F (according to Ministry of Finance), we expect faster payments to hospitals, which in return may gradually benefit Kalbe, as we shall see lower receivable days from 58 days at end-2Q19 and possibly back to around 50 days in the next couple of years.

Fig. 37: JKN premium for subsidized beneficiaries and non-regular workers

	Old Scheme	New Scheme
Subsidized beneficiaries (PBI), Rp	23,000	42,000
% YoY change		*+83%*
Non-regular workers (Class III), Rp	25,500	42,000
% YoY change		*+65%*
Non-regular workers (Class II), Rp	51,000	110,000
% YoY change		*+116%*
Non-regular workers (Class II), Rp	80,000	160,000
% YoY change		*+100%*

Sources: Company, IndoPremier

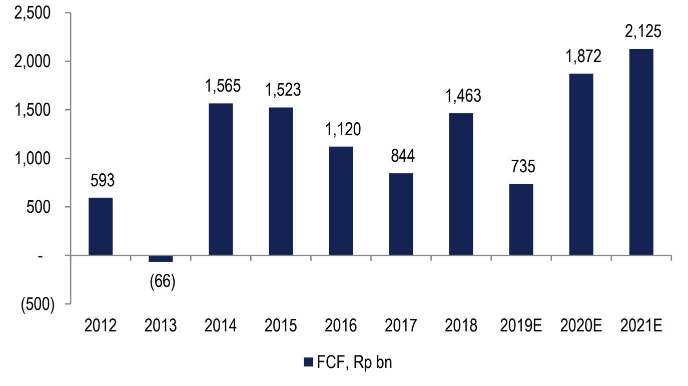
Fig. 38: Post-JKN premium increase, we expect to see inventory days trending down to around 50 days.



Sources: Company, IndoPremier

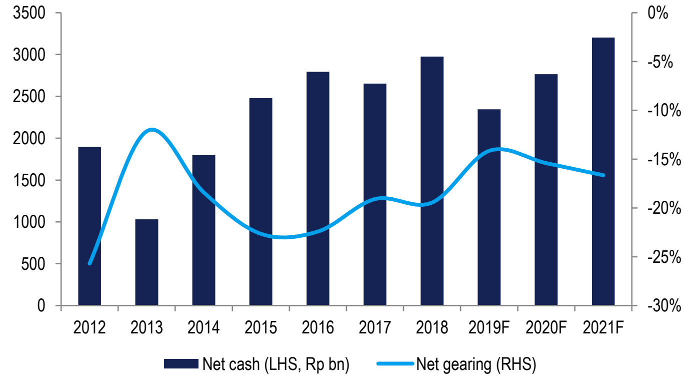
As a result, we expect KLBF to record a FCF of Rp735bn in 2019F, further increase to Rp1.9tr in 2020F and to Rp2.1tr in 2021F, especially as we see capex normalizing down to Rp1.5tr in 2020F (from Rp2.0tr in 2019F). It will also remain at a net cash position, estimated at Rp2.3tr, Rp2.8tr and Rp3.2tr net cash, respectively, in 2019F, 2020F and 2021F.

Fig. 39: We expect KLBF to generate Rp1,872bn and Rp2,125bn FCF in FY20F and FY21F, respectively



Sources: Company, IndoPremier

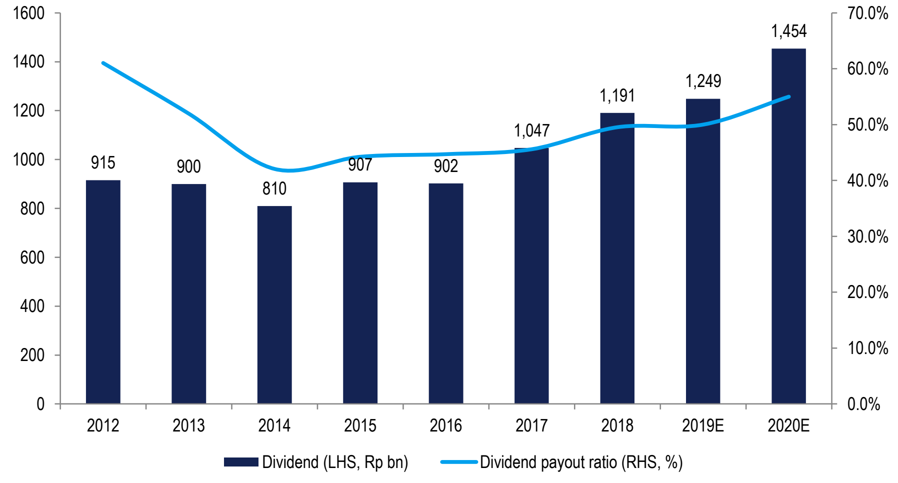
Fig. 40: We project KLBF to be in a net cash position of Rp2,764bn and Rp3,203bn in FY20F and FY21F, respectively



Sources: Company, IndoPremier

Assuming no big investment in the coming years, with improvements in FCF, we expect KLBF's dividend payout to increase to 55% in 2020F and 60% in 2021F (from 50% in 2019F). This shall imply a decent dividend yield of 2.0-2.3% in 2020-21F.

Fig. 41: Dividend (in bn) and its payout ratio (%)



Sources: Company, IndoPremier

Valuation and recommendation

Share price dropped c.2% in the past 1M; initiate with a Buy and TP Rp1,800

We initiate KLBF with a Buy call and a TP Rp1,800, which is based on 30.0x 2020F P/E (5-year mean). We think the worst may be over for KLBF, as we expect the company to book 6.5% earnings CAGR in 2019-21F (vs. 2.9% CAGR in 2017-19).

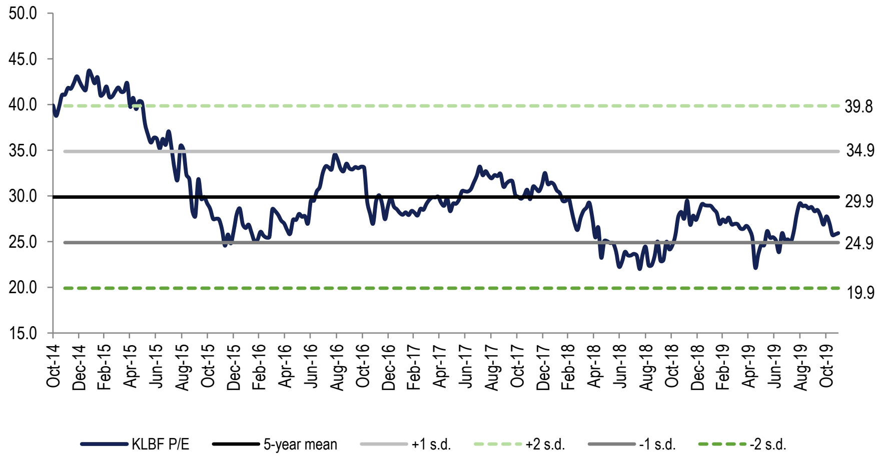
We note that KLBF's share price significant de-rated from its peak at 43.6x P/E in Jan 2015, largely as its earnings dropped by 3.9% in FY15 following the implementation of BPJS. We think earnings improvement in 2020F onwards may be a re-rating catalyst for KLBF.

Indeed, ground-breaking catalyst may be yet to be seen, but in the past 1M, KLBF's share price has dropped by c.-1.9%, in line with JCI that dropped c.-1.7% and JAKCONS index that dropped c.-2.4% in the same time period.

With the new Health Minister, Dr. Terawan, recently elected this may also add up on investors' concern of possible new regulations surrounding healthcare industry. Dr. Terawan has also recently shared his hope that JKN premium for non-regular workers (class 3) to remain at Rp25,500, showing a more populist view.

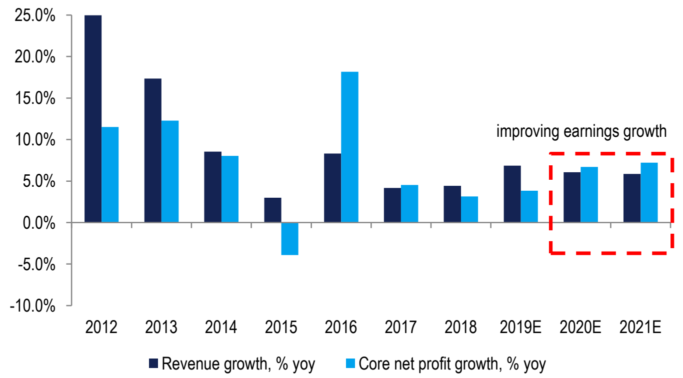
We think, however, having a populist health ministry may not necessarily be bad for the industry, especially as these regulations may help to support the development of domestic medicines in order to minimize the needs to import them, while also providing cheaper alternatives for the customers.

Fig. 42: KLBF is currently trading at 25.9x 12M forward P/E, or closer to 1 s.d. below its historical 5-year mean



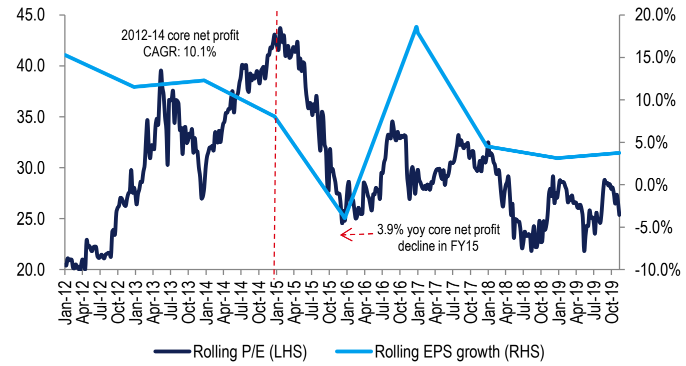
Sources: Bloomberg, IndoPremier

Fig. 43: We expect to see better core net profit growth of 6.5% CAGR in 2019-21F (vs. 2.9% core net profit CAGR in 2017-19F)



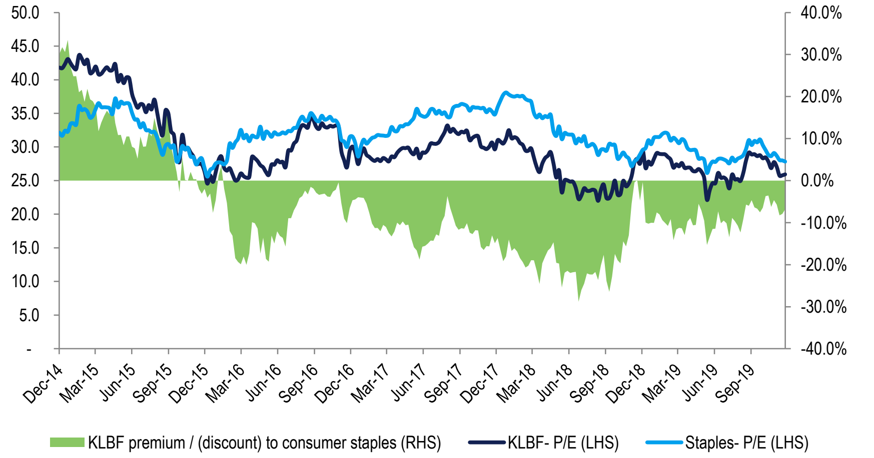
Sources: Bloomberg, IndoPremier

Fig. 44: KLBF's valuation is positively correlated with its core EPS growth



Sources: Bloomberg, IndoPremier

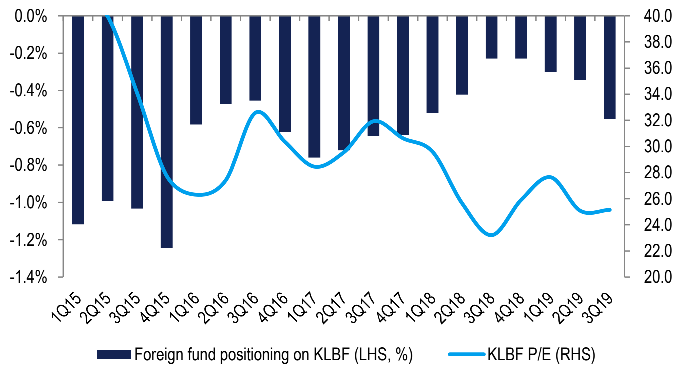
Fig. 45: KLBF is trading at 6.8% discount to the consumer staples sector (vs. 5-yr avg discount of 6.9%)



Sources: Bloomberg, IndoPremier

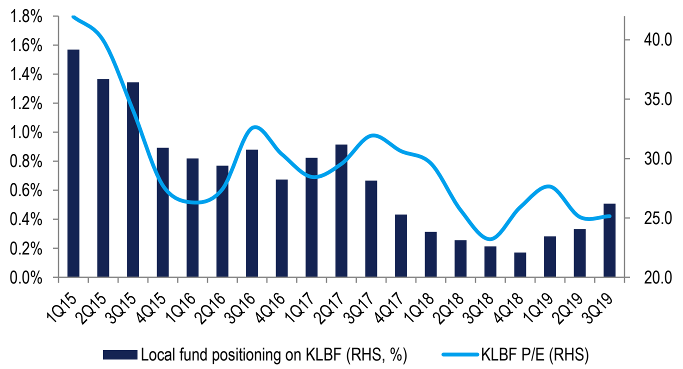
In line with other defensive consumer staples peers, KLBF's valuation is also largely influenced by local fund positioning vs. foreign. We have seen local fund positioning climbed up since its bottom (0.2% above JCI weighting) at end of 4Q18 to 0.5% above JCI weighting at end-3Q19, although on a mom basis we see a marginal decline in Sep and Oct 2019. Nevertheless, the increase in local fund positioning in the past few quarters were offset by the decrease in foreign fund positioning, hence valuation has not been able to re-rate much. Interestingly, we started to see some pickups in Oct 2019.

Fig. 46: Foreign fund positioning on KLBF vs. MSCI weighting



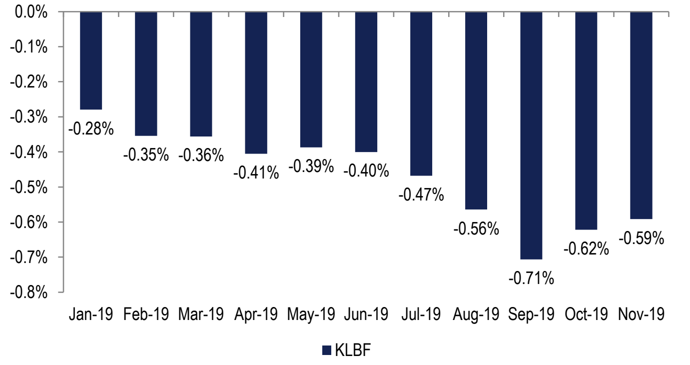
Sources: KSEI, Bloomberg, Company, IndoPremier

Fig. 47: Local fund positioning on KLBF vs. JCI weighting



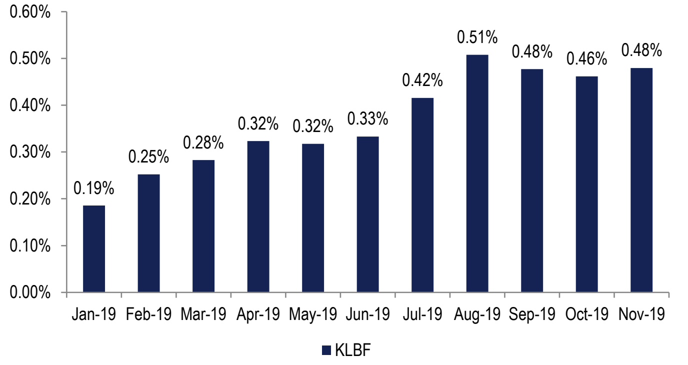
Sources: KSEI, Bloomberg, Company, IndoPremier

Fig. 48: Foreign fund positioning on KLBF vs. MSCI weighting



Sources: KSEI, Bloomberg, Company, IndoPremier

Fig. 49: Local fund positioning on KLBF vs. JCI weighting



Sources: KSEI, Bloomberg, Company, IndoPremier

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Revenue	20,182	21,074	22,518	23,882	25,279
Cost of Sales	(10,369)	(11,226)	(12,133)	(12,915)	(13,673)
Gross Profit	**9,813**	**9,848**	**10,385**	**10,968**	**11,605**
SG&A Expenses	(6,597)	(6,534)	(6,944)	(7,305)	(7,716)
Operating Profit	**3,216**	**3,314**	**3,440**	**3,662**	**3,889**
Net Interest	98	96	84	84	102
Forex Gain (Loss)	0	0	0	0	0
Others-Net	(73)	(103)	0	0	0
Pre-Tax Income	**3,241**	**3,306**	**3,525**	**3,747**	**3,991**
Income Tax	(788)	(809)	(881)	(937)	(998)
Minorities	(50)	(40)	(40)	(40)	(40)
Net Income	**2,403**	**2,457**	**2,604**	**2,770**	**2,953**

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash & Equivalent	2,971	3,332	2,901	3,230	3,582
Receivable	2,968	3,374	3,548	3,488	3,441
Inventory	3,557	3,475	3,800	4,045	4,282
Other Current Assets	546	468	486	498	511
Total Current Assets	**10,043**	**10,648**	**10,734**	**11,262**	**11,816**
Fixed Assets - Net	5,343	6,253	7,762	8,666	9,492
Goodwill	0	0	0	0	0
Non-Current Assets	**6,574**	**7,498**	**8,993**	**9,881**	**10,689**
Total Assets	**16,616**	**18,146**	**19,727**	**21,143**	**22,505**
ST Loans	169	69	53	37	20
Payable	1,398	1,700	1,674	1,782	1,887
Other Payables	5	28	72	72	72
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	**2,227**	**2,286**	**2,418**	**2,549**	**2,676**
Long Term Loans	146	260	430	358	286
Other LT Liab.	349	306	306	306	306
Total Liabilities	**2,722**	**2,852**	**3,153**	**3,213**	**3,268**
Equity	493	550	435	435	435
Retained Earnings	12,788	14,073	15,428	16,744	18,011
Minority Interest	613	671	711	751	792
Total SHE + Minority Int.	**13,894**	**15,295**	**16,574**	**17,930**	**19,237**
Total Liabilities & Equity	**16,616**	**18,146**	**19,727**	**21,143**	**22,505**

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Income	2,453	2,497	2,644	2,810	2,993
Depr. & Amortization	356	340	491	596	674
Changes in Working Capital	(930)	170	(549)	(64)	(73)
Others	(261)	96	(380)	54	(128)
Cash Flow From Operating	**1,618**	**3,103**	**2,206**	**3,396**	**3,466**
Capital Expenditure	(1,293)	(1,267)	(1,986)	(1,484)	(1,482)
Others	143	136	119	111	124
Cash Flow From Investing	**(1,150)**	**(1,130)**	**(1,867)**	**(1,373)**	**(1,358)**
Loans	47	15	154	(88)	(88)
Equity	0	0	0	0	0
Dividends	(1,047)	(1,191)	(1,249)	(1,454)	(1,686)
Others	58	42	(110)	14	18
Cash Flow From Financing	**(942)**	**(1,134)**	**(1,205)**	**(1,529)**	**(1,756)**
Changes in Cash	**(473)**	**839**	**(866)**	**494**	**352**

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross Margin	48.6%	46.7%	46.1%	45.9%	45.9%
Operating Margin	15.9%	15.7%	15.3%	15.3%	15.4%
Pre-Tax Margin	16.1%	15.7%	15.7%	15.7%	15.8%
Net Margin	11.9%	11.7%	11.6%	11.6%	11.7%
ROA	15.1%	14.1%	13.7%	13.6%	13.5%
ROE	18.2%	16.8%	16.3%	16.1%	15.9%
ROIC	19.7%	18.1%	17.4%	17.0%	16.9%
Acct. Receivables TO (days)	51.5	54.9	56.1	53.8	50.0
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	121.5	114.3	109.4	110.9	111.1
Payable TO (days)	52.4	50.4	50.7	48.8	49.0
Acct. Payables - Other TO (days)	0.3	0.5	1.5	2.0	1.9
Debt to Equity	2.3%	2.2%	2.9%	2.2%	1.6%
Interest Coverage Ratio (x)	102.0	127.3	116.5	162.1	209.9
Net Gearing	-17.8%	-18.5%	-13.5%	-14.8%	-16.1%

Sources: Company, IndoPremier

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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