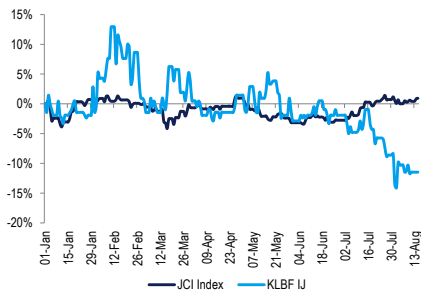


StockData

Target price	Rp2,080
Prior TP	Rp2,400
Current price	Rp1,855
Upside/downside	+12%
Shares outstanding (mn)	46,875
Marketcap (Rpbn)	86,719
Free float	40%
Avg. 6m dailyT/O (Rpbn)	80

Price Performance

	3M	6M	12M
Absolute	-13.6%	-17.0%	16.0%
Relative to JCI	-16.6%	-17.2%	18.5%
52w low/high (Rp)	1,595 – 2,360		



Major Shareholders

PT Ladang Ira Panen	10.5%
PT Gira Sole Prima	10.3%
PT Santa Seha Sanadi	10.1%
PT Diptanala Bahana	9.5%
PT Lucasta Murni Cemerlang	9.5%
PT Bina Arta Charisma	8.2%

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Transitioning to post pandemic with intact growth drivers; upgrade to Buy

- We lowered KLBF’s FY23/24F net profit by -13/-11% to reflect growth normalization post pandemic, in-line with mgmt’s revised FY23F guidance
- Post challenges in 1H23, we expect earnings to sequentially improve in 2H23/FY24F (at est. growth of +7/18% yoy), as its strategic growth drivers are intact
- While we lowered our TP to Rp2,080 (from Rp2,400 prev.), we upgrade our rating to Buy (from Hold prev.) post recent share price corrections

Key cyclical challenges as KLBF transitions from pandemic to endemic

In recent analyst meeting, management shared that KLBF’s growth in 1H23 was facing two major challenges: i) normalization of consumer behaviour post pandemic; and ii) high supply chain cost in FY22. On the former, following the still dominant pandemic-driven spending in 1H23 (Omicron), we expect a more normalized growth base for 2H23. On supply chain, KLBF’s higher inventory days (147/148 days in FY22/1H23 vs 122 days in FY21) reflected its efforts to secure raw materials in FY22. This further implies normalization of raw material prices would take longer time to reflect in its GPM. As management expects inventory days to fall by 15-20 days by Dec23, and another 10-15 days by FY24F, we expect sequential improvement in KLBF’s GPM (FY24F: +89bps).

Strategic drivers intact, but adjust FY23/24F forecasts by -13/-11%

Taking into account the ST challenges, we revise down KLBF’s FY23/24F net profit by -12.9/-11.3% (see Fig 1), in-line with company’s revised FY23F guidance (Fig 2). On top of our expectation of a more normalized growth in 2H23, we also shared management’s optimism that KLBF’s strategic growth driver remains intact namely: i) Biologics (c.10% of pharmaceutical segment, c.2.5% of KLBF’s sales) which we expect to grow significantly in FY24F; ii) Continued strong organic growth from e-catalogue (BPJS) as KLBF continued to add SKUs (+20% yoy in FY23F from c.100 SKU in FY22); iii) Medical device segment (c.4.6% of KLBF’s total sales in 1H23), to ride on the local content requirement for e-catalogue.

Upgrade to buy with TP of Rp2,080 on share price weakness

Despite our earnings downgrade, we expect KLBF’s financial performance shall sequentially improve in 2H23F (at estimated net profit growth of +7% yoy vs. 1H23’s -7% yoy), on normalizing growth base and improving supply chain cost. While we lowered our TP to Rp2,080/sh still based on 26.0x fwd. 12M PE (5yr avg), we upgrade our rating to Buy as we view recent share price corrections (-8/-13% in 1M/3M) to have more than reflected the ST earnings weakness. Key risks: Rp depreciation and supply chain disruption.

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	26,261	28,934	31,753	34,555	37,694
EBITDA	4,648	3,631	5,275	5,938	6,604
Net profit	3,184	3,382	3,426	4,062	4,541
EPS	68	69	73	87	97
EPS growth	16.4%	1.9%	5.3%	18.6%	11.8%
ROE	16.1%	15.6%	14.8%	15.9%	16.3%
PER (x)	27.2	26.6	25.3	21.3	19.1
Dividend yield	1.5%	2.0%	2.0%	2.1%	2.5%
Forecast change			-13%	-11%	-13%
IPS vs. consensus			96%	101%	101%

Source: Company, IndoPremier

Share price closing as of: 15 August 2023

Key cyclical challenges as KLBF transition from pandemic to endemic

In the recent analyst meeting, management shared that KLBF now faces two major challenges:

- i) Normalization of consumer behaviour post pandemic: This impacts mainly the consumer health segment as consumption of health and herbal supplements has normalized along with reduced health awareness. On the other hand, ethical pharmaceutical segment still grew positively as regular treatments (non-Covid 19 treatments) resume in full-force. Based on market data (IQVIA, NielsenIQ) in Mar23, over the last 12 months, OTC market declined by -9% yoy while ethical pharma still grew +5% yoy. In this regard, KLBF performed better than the market (Mar23 LTM sales growth of +12.2/17.7% yoy for its pharma/consumer health segments).

Looking forward, we expect a more normalized growth base for 2H23 as the pandemic related sales, including vitamins and health supplements, which was still prominent in 1H22 due to Omicron (mid-single-digit of sales) already eased in 2H22 (3-5% of sales). 2H22's level is similar to 1H23's and also pre-pandemic normalized level of vitamins and health supplement sales.

- ii) High supply chain cost in FY22: On supply chain, KLBF higher inventory days (147/148 days in FY22/1H23 vs 122 days in FY21) reflected its efforts to secure its raw material supply, which resulted in a higher lead time. This implies the normalization of raw material prices would take longer time to reflect in its GPM. For instance, the nutritional segment's current GPM is still a reflection of raw materials cost from 12 months ago. Management expects inventory days to decline by 15-20 days by Dec23, and another 10-15 days by FY24F. Along with this, we expect sequential improvement in KLBF's GPM (FY24F: +89bps).

Strategic drivers intact

KLBF's strategic growth driver remains intact as pharmaceutical remain the main growth engine.

- i) Biologics, (c.10% to pharmaceutical segment, c.2.5% of KLBF's sales) is expected to grow significantly in FY24F. The Biologics sub-segment revenue growth is expected to be driven by launches of Ezelin (insulin) and Rituxikal in 1Q23, and novel product developments of HLX10 and GXE4 (Long-acting EPO) with expected approval by early next year. The target market for biologics includes regional market SE Asia and Australia.
- ii) Continued strong organic driver from e-catalogue (BPJS) as KLBF continued to add SKUs (+20% yoy in FY23F from c.100 SKU in FY22); as discussed in our previous report for KLBF ([link](#)), the revamped BPJS e-catalogue procurement system is aimed at reducing unfulfillment and is also supported by the government's regular health budget which grew 30.2% yoy in FY23.
- iii) Medical device segment (c.4.6% of KLBF's total sales) has ample room to grow by riding on the local content requirement for national healthcare system (e-catalogue). After commercializing its surgical suture product in 1Q23 for e-catalogue, KLBF is looking at dialyzer and mobile X-Ray/USG machines (for local assembly) in its pipeline with government hospitals as its target market. We view the segment to book double digit growth in FY23/24F.

Fig. 1: Forecast changes

	Previous			New			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Financial Perform. (Rp bn)									
Net sales	32,972	36,641	40,733	31,753	34,555	37,694	-3.7%	-5.7%	-7.5%
Gross profit	13,561	15,195	17,004	12,941	14,389	15,998	-4.6%	-5.3%	-5.9%
EBIT	5,126	5,871	6,653	4,594	5,201	5,811	-10.4%	-11.4%	-12.7%
EBITDA	5,807	6,609	7,446	5,275	5,938	6,604	-9.2%	-10.1%	-11.3%
Net profit	3,932	4,581	5,193	3,426	4,062	4,541	-12.9%	-11.3%	-12.6%
Core profit	3,932	4,581	5,193	3,575	4,062	4,541	-9.1%	-11.3%	-12.6%
Profitability (%)									
Gross margin	41.1%	41.5%	41.7%	40.8%	41.6%	42.4%	-0.4%	0.2%	0.7%
EBIT margin	15.5%	16.0%	16.3%	14.5%	15.1%	15.4%	-1.1%	-1.0%	-0.9%
Net profit margin	11.9%	12.5%	12.7%	10.8%	11.8%	12.0%	-1.1%	-0.7%	-0.7%
Revenue for each segment									
Pharmaceuticals	7,693	8,592	9,608	8,039	9,450	11,112	4.5%	10.0%	15.7%
Consumer health	4,568	5,025	5,527	4,111	4,440	4,795	-10.0%	-11.6%	-13.2%
Nutritionals	8,614	9,475	10,423	8,261	8,757	9,282	-4.1%	-7.6%	-10.9%
Distribution	12,098	13,549	15,175	11,341	11,909	12,504	-6.3%	-12.1%	-17.6%
Total revenue growth	32,972	36,641	40,733	31,753	34,555	37,694	-3.7%	-5.7%	-7.5%
Revenue growth for each segment									
Pharmaceuticals	25.1%	11.7%	11.8%	25.1%	17.5%	17.6%	0.0%	5.9%	5.8%
Consumer health	10.0%	10.0%	10.0%	10.0%	8.0%	8.0%	0.0%	-2.0%	-2.0%
Nutritionals	10.0%	10.0%	10.0%	10.0%	6.0%	6.0%	0.0%	-4.0%	-4.0%
Distribution	12.0%	12.0%	12.0%	12.0%	5.0%	5.0%	0.0%	-7.0%	-7.0%
Total revenue growth	14.0%	11.1%	11.2%	14.0%	8.8%	9.1%	0.0%	-2.3%	-2.1%
Gross profit for each segment									
Pharmaceuticals	4,051	4,610	5,155	4,035	4,828	5,693	-0.4%	4.7%	10.5%
Consumer health	2,535	2,806	3,102	2,334	2,549	2,763	-7.9%	-9.1%	-10.9%
Nutritionals	4,311	4,795	5,404	3,983	4,281	4,662	-7.6%	-10.7%	-13.7%
Distribution	2,665	2,985	3,343	2,589	2,730	2,879	-2.8%	-8.5%	-13.9%
Gross profit margin for each segment									
Pharmaceuticals	52.7%	53.7%	53.7%	50.2%	51.1%	51.2%	-2.5%	-2.6%	-2.4%
Consumer health	55.5%	55.8%	56.1%	56.8%	57.4%	57.6%	1.3%	1.6%	1.5%
Nutritionals	50.0%	50.6%	51.8%	48.2%	48.9%	50.2%	-1.8%	-1.7%	-1.6%
Distribution	22.0%	22.0%	22.0%	22.8%	22.9%	23.0%	0.8%	0.9%	1.0%

Source: Company, Indo Premier

Fig. 2: KLBF FY23F guidance

	FY23F	
	Previous	New
Sales	13-15% yoy grow th	8-10% yoy grow th
Net profit	13-15% yoy grow th	0-1% yoy grow th
Dividend Payout Ratio	45-55%	45-55%
Segment sales		
Pharmaceuticals	21-24% yoy grow th	28-30% yoy grow th
Consumer health	9-12% yoy grow th	-2% to flat yoy grow th
Nutritionals	9-12% yoy grow th	5-6% yoy grow th
Distribution	12-15% yoy grow th	4-6% yoy grow th

Source: Company, Indo Premier

Fig. 3: KLBF is currently trading at 22.6x 12M forward P/E, or around 0.8 s.d. below its historical 5-year mean



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net Revenue	26,261	28,934	31,753	34,555	37,694
Cost of Sales	(14,977)	(17,229)	(18,813)	(20,167)	(21,696)
Gross Profit	11,284	11,704	12,941	14,389	15,998
SG&A Expenses	(7,262)	(7,473)	(8,347)	(9,187)	(10,188)
Operating Profit	4,021	4,231	4,594	5,201	5,811
Net Interest	53	27	6	100	109
Forex Gain (Loss)	0	156	(61)	0	0
Others-Net	(12)	9	(61)	0	0
Pre-Tax Income	4,143	4,459	4,516	5,338	5,956
Income Tax	(911)	(1,009)	(1,022)	(1,208)	(1,348)
Minorities	(48)	(68)	(68)	(68)	(68)
Net Income	3,184	3,382	3,426	4,062	4,541
Core Profit	3,193	3,255	3,575	4,062	4,541

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & Equivalent	6,475	3,950	7,671	8,676	9,816
Receivable	3,545	4,614	4,477	4,872	5,315
Inventory	5,087	7,027	4,893	5,245	5,642
Other Current Assets	605	1,119	1,121	1,162	1,207
Total Current Assets	15,712	16,710	18,161	19,955	21,980
Fixed Assets - Net	7,994	7,957	8,195	8,497	8,748
Goodwill	0	0	0	0	0
Non-Current Assets	9,954	10,531	11,225	11,981	12,680
Total Assets	25,667	27,241	29,386	31,935	34,660
ST Loans	0	706	0	0	0
Payable	2,379	2,681	2,762	2,961	3,186
Other Payables	552	446	545	584	628
Current Portion of LT Loans	94	150	0	0	0
Total Current Liab.	3,535	4,431	3,830	4,106	4,418
Long Term Loans	490	287	811	811	811
Other LT Liab.	376	426	426	426	426
Total Liabilities	4,401	5,144	5,067	5,343	5,654
Equity	469	469	469	469	469
Retained Earnings	18,747	20,498	22,090	24,295	26,641
Minority Interest	1,686	1,712	1,780	1,848	1,916
Total SHE + Minority Int.	21,266	22,097	24,339	26,612	29,025
Total Liabilities & Equity	25,667	27,241	29,406	31,955	34,680

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
EBIT	4,021	4,231	4,594	5,201	5,811
Depr. & Amortization	626	160	681	737	794
Changes in Working Capital	(924)	(3,389)	2,525	(512)	(574)
Others	(898)	(936)	(1,039)	(1,071)	(1,202)
Cash Flow From Operating	2,826	65	6,761	4,355	4,828
Capital Expenditure	(504)	(488)	(1,000)	(1,000)	(1,000)
Others	(552)	(689)	(395)	(493)	(493)
Cash Flow From Investing	(1,056)	(1,177)	(1,395)	(1,493)	(1,493)
Loans	(221)	559	(332)	0	0
Equity	0	0	0	0	0
Dividends	(1,373)	(1,718)	(1,834)	(1,857)	(2,195)
Others	848	(895)	581	0	0
Cash Flow From Financing	(745)	(2,054)	(1,585)	(1,857)	(2,195)
Changes in Cash	1,008	(3,010)	3,721	1,005	1,140

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross Margin	43.0%	40.5%	40.8%	41.6%	42.4%
Operating Margin	15.3%	14.6%	14.5%	15.1%	15.4%
Pre-Tax Margin	15.8%	15.4%	14.2%	15.4%	15.8%
Net Margin	12.1%	11.7%	10.8%	11.8%	12.0%
ROA	13.2%	12.8%	12.1%	13.2%	13.6%
ROE	16.1%	15.6%	14.8%	15.9%	16.3%
Acct. Receivables TO (days)	49.6	38.1	51.5	51.5	51.5
Inventory TO (days)	105.9	94.9	94.9	94.9	94.9
Payable TO (days)	52.1	39.6	53.6	53.6	53.6
Debt to Equity	2.7%	5.2%	3.3%	3.0%	2.8%
Interest Coverage Ratio (x)	70.1	76.8	80.4	91.0	101.6
Net Gearing	-27.7%	-12.7%	-28.2%	-29.6%	-31.0%

Source: Company, Indo Premier

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

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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