

## Kalbe Farma

HOLD (unchanged)

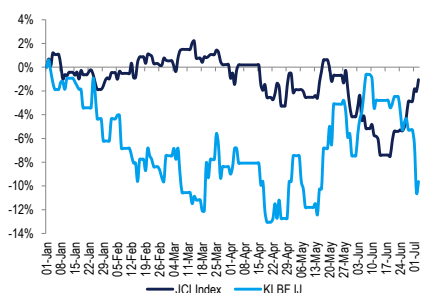
Company Update | Consumer Staples | KLBF IJ | 03 July 2024

## StockData

Target price	Rp1,620
Prior TP	Rp1,620
Current price	Rp1,455
Upside/downside	+11.1%
Shares outstanding (mn)	46,875
Marketcap (Rpbn)	68,203
Free float	40%
Avg. 6m daily T/O (Rpbn)	53

## Price Performance

	3M	6M	12M
Absolute	-1.4%	-10.2%	-26.7%
Relative to JCI	-0.8%	-8.5%	-34.4%
52w low/high (Rp)	1,400 – 2,070		



## 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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## Robust FY24F earnings recovery but weak structural mid-term outlook

- We expect KLBF to deliver net profit growth of +20% yoy in FY24F, among the strongest within staples (vs. staples aggregate of +9% yoy).
- Nonetheless, KLBF's medium term outlooks from consumer health and nutritional segments indicate structural growths deceleration.
- KLBF's ROE needs to improve to drive the stock's valuation re-rating. For now, we maintain HOLD with TP of Rp1,620.

## Strong FY24F earnings expectations; 1Q24 trend to sustain in 2Q24F

Among our consumer staples' coverage, we expect KLBF to deliver the strongest net profit growth of +19.9% yoy (vs. staples aggregates of +9.3% yoy). Apart from top/bottom line growth from low base effect, KLBF's net profit growth is boosted by reversal of one-offs (Rp 111bn) in FY23. Further, our discussion with the company suggests similar trend of growth in 2Q24F from 1Q24's – characterized by strong unbranded generics pharma growth, decent domestic consumer health segment despite soft nutritional & export.

## Expect a far more normalized earnings growth beyond FY24F

Nonetheless, we further assess KLBF's mid-term growth outlook from a segmental perspective. While growth from biologics and medical device are intact, the contributions to consolidated sales are still c.3/5%. Hence, we estimate FY24-26F net profit CAGR to register a more normalized growth of +9.7% as certain segments may face a structurally slower growth outlook.

## Consumer health's growth impairment post universal healthcare

KLBF's consumer health segment previously recorded FY09-14 revenue CAGR of +11.1%. Post the implementation of national universal healthcare, consumer health which consists primarily of OTC medicines, booked a lower CAGR of +2.4% between FY15-23 (1.6% CAGR FY19-23). Going forward, KLBF would need health supplements and herbal products (Bejo Kurma, Slasi) within consumer health, to revive the mid-term growth outlook.

## Nutritionals is also lacking significant growth drivers

Morinaga growing up milk powder is estimated to contribute to c.60% of nutritional's segment revenue. One growth driver for growing up milk powder is birth rate (per 1k population). It's on a consistent decline of -2.1% CAGR in the past 10 years since FY12. On the price side of the revenue equation, the preference for value products (i.e. down trading trend) further implies that milk powder category's growth outlook is indeed quite muted.

## ROE needs to improve to drive KLBF's re-rating; Maintain HOLD

In addition to the challenging mid-term growth outlook, KLBF's ROE has declined significantly from FY14's 23.7% to FY23's 12.2%. Given FY23's low earnings base, we expect ROE to improve in FY24F to 13.2% but ROE needs to further improve to justify the re-rating thesis. Reiterate HOLD.

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Revenue	28,934	30,449	33,229	35,872	38,789
Net profit	3,382	2,767	3,316	3,710	3,995
EPS	69	59	71	79	85
EPS growth	1.9%	-15.0%	19.9%	11.9%	7.7%
ROE	15.6%	12.2%	13.2%	12.9%	12.2%
PER (x)	21.0	24.6	20.6	18.4	17.1
Dividend yield	2.5%	2.7%	2.3%	2.7%	3.1%
Forecast change			0%	0%	0%
IPS vs. consensus			106%	107%	105%

Source: Company, IndoPremier

Share price closing as of: 03 July 2024

### Segmental analysis:

**Pharmaceutical segment:** Post the implementation of national universal healthcare program, KLBF's pharma segment revenue CAGR of 4.9% in FY15-21 (pre-Sanofi acquisition) was driven by stellar unbranded generics CAGR of 15.0% in FY15-21 - but licensed/branded generics CAGR paled at only 2.6/2.5% during the same period.

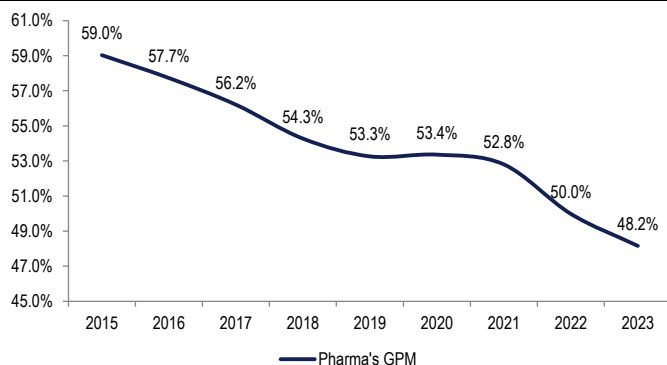
Given the margins differential between pharma sub-segments (licensed and branded pharma' EBIT margin are around high teens, higher compared to unbranded generics' high single digit), the mix changes has resulted in pharma GPM decline from 59.0% in FY15 to 48.2% in FY23 (prior to segmental restatements in 1Q24). On this note, pharma's gross profit's FY15-21 CAGR booked only 3% (lower than pharma sales's CAGR of 4.9%).

On a brighter note, biologics (including oncology and biosimilar) has been touted as the next growth driver in the past few years with healthier margin compared to unbranded generics'. However, its contribution to the segment is still at 10% (c.2.5% of KLBF's consolidated sales) and growth impact to consolidated numbers is still not very meaningful. Additionally, it's worth noting that minority interest in KG Bio is relatively high at 45%. Hence, the sub-segment's stronger growth outlook shall entail a higher minority interest at the bottom line.

**Consumer health segment:** KLBF's consumer health segment's revenue previously recorded FY09-14 CAGR of +11.1%. Post the implementation of national universal healthcare, consumer health which consists primarily of OTC medicines, booked a lower CAGR of +2.4% between FY15-23 (1.6% CAGR FY19-23) – Fig 2.0. Our anecdotal channel checks reveal that grassroots may be more inclined to visit the BPJS clinics (consisting of doctor consultation and medication for a minimal fee), over procuring OTC medication.

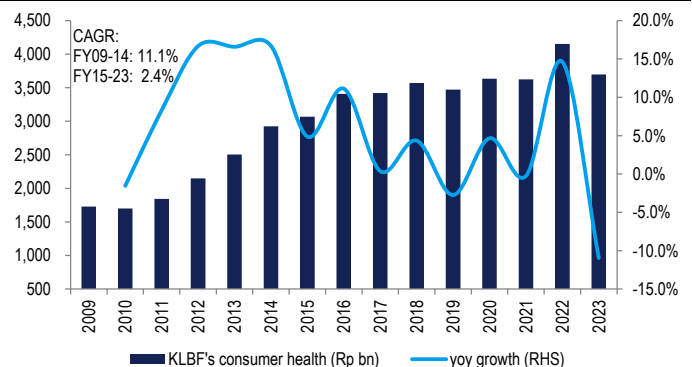
Going forward, KLBF would need health supplements (including energy drink, Xtra Joss) and herbal products (Bejo Kurma, Slasi) within consumer health, to revive the segment's medium term (MT) growth outlook.

**Fig. 1: KLBF's Pharma GPM dilution on mix changes**



Source: Company, Indo Premier

**Fig. 2: KLBF's consumer health sales trajectory**

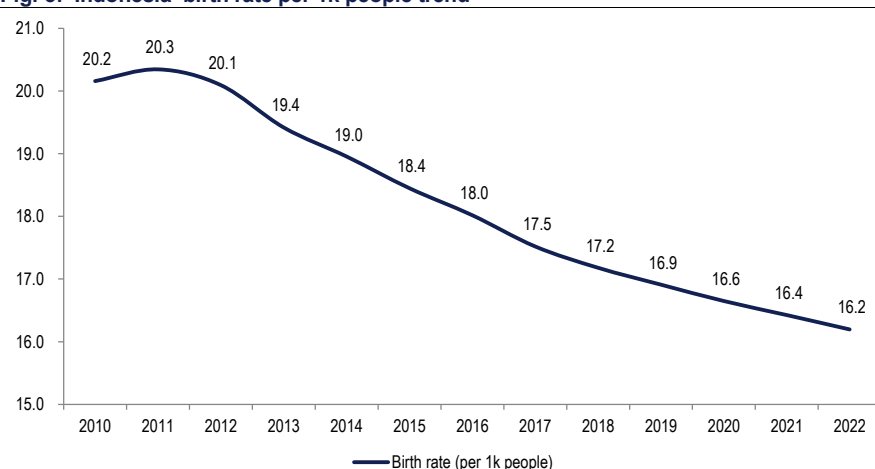


Source: Company, Indo Premier

**Nutritionals segment:** Morinaga growing up milk powder is estimated to contribute to c.60% of nutritional's segment revenue. One growth driver for growing up milk powder is birth rate (per 1k population). It's on a consistent decline of -2.1% CAGR in the past 10 years since FY12 – Fig 3. On the price side of the revenue equation, the preference for value products (i.e. down trading trend) further implies that milk powder category's growth outlook is indeed quite muted.

In recent years, nutritionals segment sales have booked CAGR of 4.8% in FY19-23 (vs. 7.6% in FY14-19). Going forward, considering the declining birth rates and down trading trend in the industry, we expect the segment's growth to decelerate to FY24-26F CAGR of 3% (volume growth of 1% and price growth of 2%).

**Fig. 3: Indonesia' birth rate per 1k people trend**

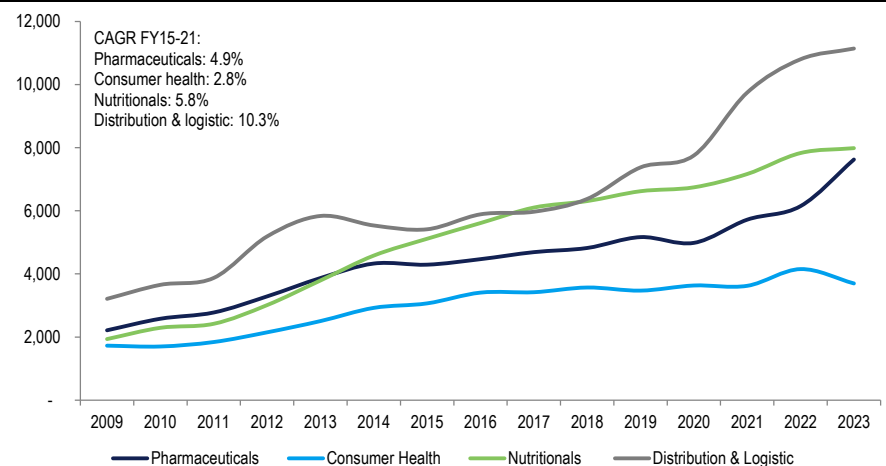


Source: Worldbank, Indo Premier

**Distribution & logistics segment** has been the leading sales driver between FY15-21 (pre-Kalventis acquisition) with CAGR of 10.3% (vs. KLBF's other segments' 4.8%) – Fig 4. On top of new principal acquisitions, KLBF's distribution & logistics arm also consists of medical device sales – the outlook of which is quite promising, capitalizing on the national universal healthcare's requirement on local content for medical devices.

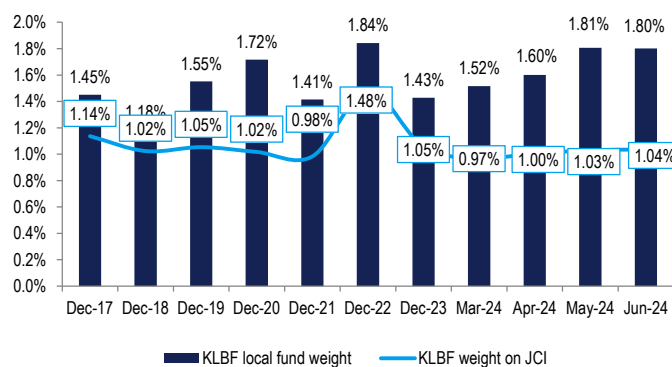
KLBF has been exploring potential local assembly collaborations with foreign principals (such as mobile X-Ray and mobile USG machines) as Indonesia bolsters the national healthcare's diagnostics capabilities. Local manufacturing of medical consumables such as surgical suture is also already commercialized by KLBF in recent years. Nonetheless, medical device currently contributes c.5% to KLBF's consolidated sales; hence impact from the segment's high growth is yet to be material.

**Fig. 4: KLBF' sales per segment (Rp bn)**



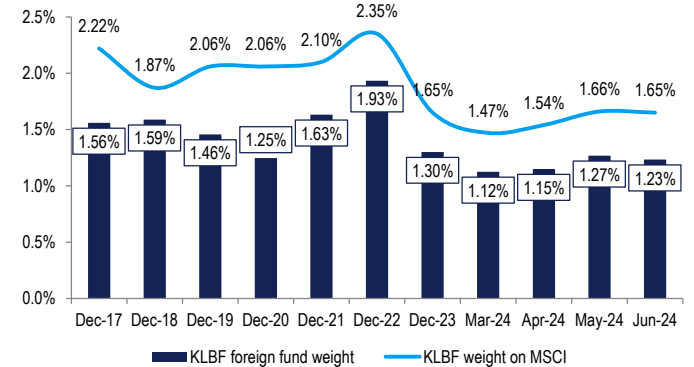
Source: Company, Indo Premier

**Fig. 5: KLBF's local fund position vs. JCI**



Source: KSEI, Indo Premier

**Fig. 6: KLBF's foreign fund position vs. MSCI**



Source: KSEI, MSCI, Indo Premier

**Fig. 7: KLBF is currently trading at 19.4x 12M forward P/E, or around 1.6 s.d. below its historical 5-year mean**



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net Revenue	28,934	30,449	33,229	35,872	38,789
Cost of Sales	(17,229)	(18,626)	(20,225)	(21,636)	(23,348)
<b>Gross Profit</b>	<b>11,704</b>	<b>11,823</b>	<b>13,004</b>	<b>14,236</b>	<b>15,442</b>
SG&A Expenses	(7,473)	(8,130)	(8,742)	(9,463)	(10,300)
<b>Operating Profit</b>	<b>4,231</b>	<b>3,694</b>	<b>4,262</b>	<b>4,773</b>	<b>5,142</b>
Net Interest	27	(7)	31	31	31
Forex Gain (Loss)	156	0	0	0	0
Others-Net	9	(108)	0	0	0
<b>Pre-Tax Income</b>	<b>4,459</b>	<b>3,606</b>	<b>4,320</b>	<b>4,831</b>	<b>5,200</b>
Income Tax	(1,009)	(828)	(992)	(1,109)	(1,194)
Minorities	(68)	(12)	(12)	(12)	(12)
<b>Net Income</b>	<b>3,382</b>	<b>2,767</b>	<b>3,316</b>	<b>3,710</b>	<b>3,995</b>

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & Equivalent	3,950	3,232	3,961	4,617	5,266
Receivable	4,614	4,652	5,538	5,979	6,465
Inventory	7,027	6,792	7,503	8,026	8,661
Other Current Assets	1,119	1,241	1,263	1,305	1,351
<b>Total Current Assets</b>	<b>16,710</b>	<b>15,918</b>	<b>18,265</b>	<b>19,928</b>	<b>21,744</b>
Fixed Assets - Net	7,957	7,978	7,982	7,951	7,885
Goodwill	0	0	0	0	0
<b>Non-Current Assets</b>	<b>10,531</b>	<b>11,140</b>	<b>11,790</b>	<b>12,206</b>	<b>12,582</b>
<b>Total Assets</b>	<b>27,241</b>	<b>27,058</b>	<b>30,055</b>	<b>32,134</b>	<b>34,326</b>

ST Loans	706	121	0	0	0
Payable	2,681	1,691	2,247	2,404	2,594
Other Payables	446	369	443	473	511
Current Portion of LT Loans	150	179	0	0	811
<b>Total Current Liab.</b>	<b>4,431</b>	<b>3,243</b>	<b>3,413</b>	<b>3,651</b>	<b>4,751</b>
Long Term Loans	287	298	811	811	0
Other LT Liab.	426	396	396	396	396
<b>Total Liabilities</b>	<b>5,144</b>	<b>3,938</b>	<b>4,620</b>	<b>4,858</b>	<b>5,147</b>

Equity	469	469	469	469	469
Retained Earnings	20,498	21,507	23,253	25,083	26,974
Minority Interest	1,712	1,701	1,713	1,724	1,736
<b>Total SHE + Minority Int.</b>	<b>22,097</b>	<b>23,120</b>	<b>25,435</b>	<b>27,276</b>	<b>29,179</b>
<b>Total Liabilities &amp; Equity</b>	<b>27,241</b>	<b>27,058</b>	<b>30,055</b>	<b>32,134</b>	<b>34,326</b>

Source: Company, Indo Premier

\*Indicative result on income statement

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
EBIT	4,231	3,694	4,262	4,773	5,142
Depr. & Amortization	160	(289)	724	765	806
Changes in Working Capital	(3,389)	(557)	(1,149)	(768)	(878)
Others	(936)	(915)	(1,215)	(1,051)	(1,136)
<b>Cash Flow From Operating</b>	<b>65</b>	<b>1,932</b>	<b>2,622</b>	<b>3,720</b>	<b>3,934</b>
Capital Expenditure	(601)	(678)	(689)	(689)	(689)
Others	(689)	(659)	(404)	(493)	(493)
<b>Cash Flow From Investing</b>	<b>(1,290)</b>	<b>(1,337)</b>	<b>(1,093)</b>	<b>(1,182)</b>	<b>(1,182)</b>
Loans	559	(545)	213	0	0
Equity	0	0	0	0	0
Dividends	(1,718)	(1,950)	(1,570)	(1,881)	(2,103)
Others	(895)	(5)	557	0	0
<b>Cash Flow From Financing</b>	<b>(2,054)</b>	<b>(2,500)</b>	<b>(801)</b>	<b>(1,881)</b>	<b>(2,103)</b>
<b>Changes in Cash</b>	<b>(3,123)</b>	<b>(1,904)</b>	<b>728</b>	<b>657</b>	<b>649</b>

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross Margin	40.5%	38.8%	39.1%	39.7%	39.8%
Operating Margin	14.6%	12.1%	12.8%	13.3%	13.3%
Pre-Tax Margin	15.4%	11.8%	13.0%	13.5%	13.4%
Net Margin	11.7%	9.1%	10.0%	10.3%	10.3%
ROA	12.8%	10.2%	11.6%	11.9%	12.0%
ROE	15.6%	12.2%	13.7%	14.1%	14.2%
Acct. Receivables TO (days)	51.5	55.5	60.8	60.8	60.8
Inventory TO (days)	128.3	135.4	135.4	135.4	135.4
Payable TO (days)	53.6	42.8	40.6	40.6	40.6
Debt to Equity	5.2%	2.6%	3.2%	3.0%	2.8%
Interest Coverage Ratio (x)	76.8	38.8	74.5	83.5	89.9
Net Gearing	-12.7%	-11.4%	-12.4%	-14.0%	-15.3%

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

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