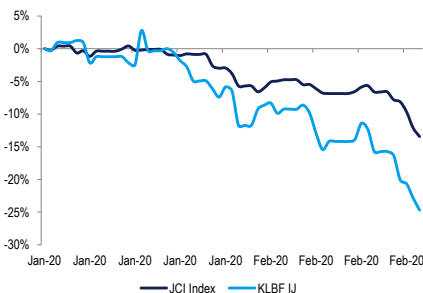


Stock Data

Target price	Rp1,500
Prior TP	Rp1,800
Current price	Rp1,220
Upside/downside	+23%
Shares outstanding (mn)	46,875
Market cap (Rp bn)	57,188
Free float	43%
Avg. 6m daily T/O (Rp bn)	36.8

Price Performance

	3M	6M	12M
Absolute	-17.8%	-26.9%	-18.4%
Relative to JCI	-9.4%	-13.6%	-3.0%
52w low/high (Rp)	1,220 - 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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Bumpy roads, but fundamentals intact

- While KLBF's unaudited FY19 yoy earnings growth of 1.7% is disappointing, FY20 outlook looks better despite lingering corona issue.
- We conservatively pencilled in 6.4%/3.8% yoy sales and earnings growth for FY20 to anticipate worsening purchasing power.
- We, however, feel direct impact from coronavirus can be minimized shall Rupiah appreciates. We maintain our Buy call with lower TP Rp1,500.

Weak FY19 indicative results; below our and consensus' expectations

Yesterday KLBF held its analyst meeting and reported an unaudited FY19 net profit of Rp2.5tr (+1.7% yoy vs. 6-7% yoy target), slightly below at 96%/95% of our and consensus' estimates. FY19 sales however, met its target growth of 7.4% yoy although was mainly driven by low-margin distribution & logistics segment (+15.7% yoy) while consumer health segment sales growth declined by -2.8% yoy on the back of regulatory issues. As a result, gross margin declined by c.150bps to 45.2%

Decent FY20F growth guidance despite coronavirus outbreak

For this year, KLBF targets 6-8% yoy sales growth and 5-6% yoy net profit growth. This has included a worst-case scenario where the company may not be able to proceed with production due to coronavirus (if continues beyond Jun 2020), hence a loss of Rp100-200bn of sales (less than 1% of total) in 2H19. KLBF estimated that affected API's is c.10% of total COGS, while they have enough APIs ready for production until Jun 2020 (our analysis [here](#)).

Cautious stance for FY20F

As weak purchasing power is likely to linger as we enter into 2020F, we pencilled in 6.4% and 3.8% yoy sales and earnings growth, respectively, more conservative than company's guidance. We expect regulatory issues on consumer health products (blue-labelled OTC pharma products, i.e. Komix, Woods, Procold) to slowly resolve but we conservatively expect the segment to post +2% sales growth (lower than company's 4-6% target; but rebound from -2% in FY19). Growth from its RTD beverages (i.e. Hydro Coco) also may see risk if sweetened beverages excise is applied.

Maintain BUY; strengthening rupiah will remain as KLBF's saving grace

We do believe strengthening rupiah may still be KLBF's saving grace as we use lower exchange rate of Rp13,700/US\$ (from previously Rp14,200/US\$). While we cut our FY20-21F EPS by 6-7%, our Buy call is maintained although TP is lowered to Rp1,500, now pegged to 25.5x 2021F P/E (1 s.d below 5-year mean) from previously 30.0x 2020F P/E (5-year mean of 29.5x). Current valuation at 2 s.d. below its 5-year mean is an attractive entry point.

Financial Summary (Rp bn)	2017A	2018A	2019F	2020F	2021F
Revenue	20,182	21,074	22,635	24,083	25,614
EBITDA	3,671	3,784	3,803	4,079	4,383
EBITDA growth	5.0%	3.1%	0.5%	7.2%	7.4%
Net profit	2,403	2,457	2,497	2,593	2,770
EPS (Rp)	51	52	53	55	59
EPS growth	4.7%	2.2%	1.6%	3.8%	6.8%
ROE	18.2%	16.8%	15.7%	15.2%	15.1%
PER (x)	23.8	23.3	22.9	22.1	20.6
EV/EBITDA (x)	14.9	14.3	14.5	13.4	12.4
Dividend yield	1.8%	2.1%	2.1%	2.4%	2.7%
Forecast change			-4.1%	-6.4%	-6.2%
IPS vs. consensus			95%	92%	92%

Sources: Company, IndoPremier




Share price closing as of: 28 February 2020

Fig. 1: KLBF's indicative 4Q/FY19 results: Earnings slightly below our and consensus' estimates

(Rp bn)	4Q 19	4Q 18	% YoY	3Q 19	% QoQ	12M 19	12M 18	% YoY	P rev. FY 19F	Comment
Net sales	5,809	5,396	7.7%	5,648	2.9%	22,636	21,074	7.4%	22,518	In line at 101%/100% of ours and consensus'
Gross profit	2,473	2,364	4.6%	2,587	-4.4%	10,236	9,848	3.9%		
EBIT	771	912	-15.5%	870	-11.4%	3,264	3,314	-1.5%	3,440	Slightly below at 95% of both ours and consensus'
PBT	774	891	-13.2%	887	-12.8%	3,348	3,306	1.3%		
Net profit	584	653	-10.6%	657	-11.2%	2,499	2,457	1.7%	2,604	Slightly below at 96%/95% of ours and consensus'
Margin (%)										
Gross margin	42.6%	43.8%		45.8%		45.2%	46.7%			
EBIT margin	13.3%	16.9%		15.4%		14.4%	15.7%			
Net margin	10.0%	12.1%		11.6%		11.0%	11.7%			

Sources: Company, IndoPremier

Fig. 2: Blue-labeled medicine sales has been declining in the past year, as government tightened surveillance over blue-labeled products sold in unauthorized retail spaces

-  **Free medicine** – can be freely sold in all retail spaces, i.e. *warung*, drugstore, pharmacy
-  **Limited-free medicine** – can only be sold in authorized drugstore and pharmacy, but can be bought without doctor's prescription
-  **Potent medicine** – can only be sold in authorized drugstore and pharmacy with doctor's prescription

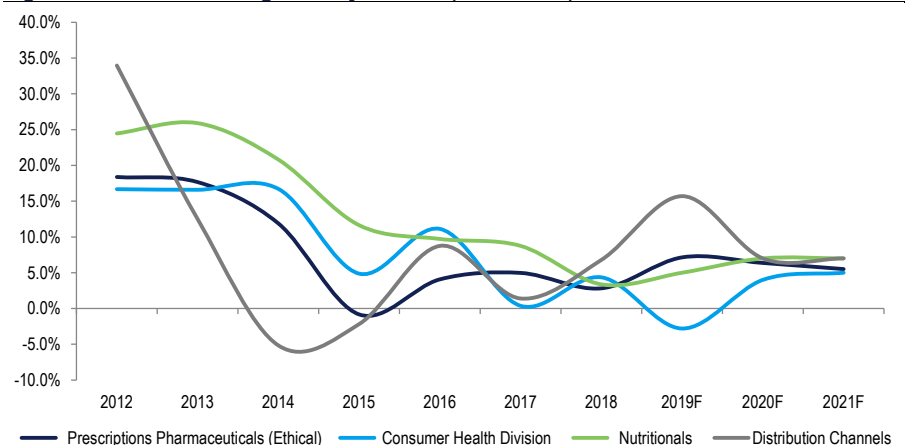
Sources: Various sources, IndoPremier

Fig. 3: Some of KLBF's blue-labeled OTC pharma products (i.e. Komix, Woods, Procold). KLBF held 34% and 41% market share in cough and cold remedies, respectively



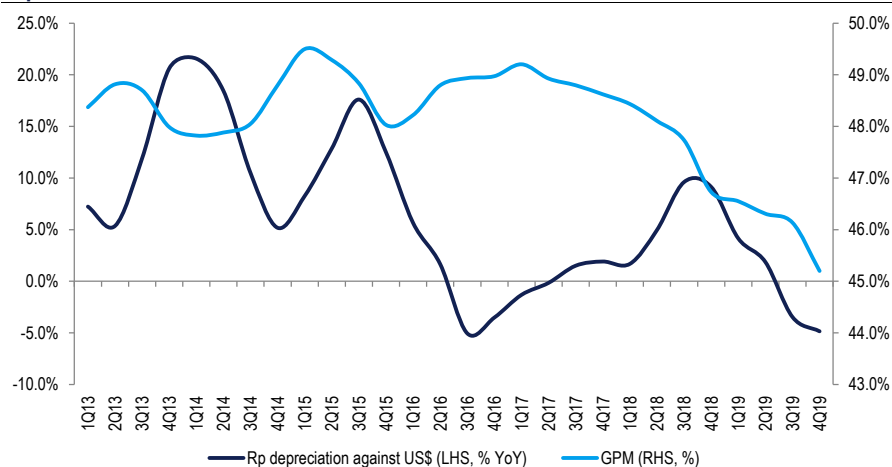
Sources: Various sources, IndoPremier

Fig. 4: KLBF's YoY sales growth by division (2012-2021F)



Sources: Company, IndoPremier

Fig. 5: Despite weakening in the past 10-days, our economist remains in view that rupiah will strengthen in the upcoming quarters. Strengthening rupiah towards US\$ will positively impact KLBF as 60-65% of Kalbe's COGS is linked to US\$



Sources: Bloomberg, IndoPremier

Fig. 6: We estimate that for every 1% rupiah appreciation against the US\$ from our current base case of Rp13,700 per US\$ will lead to a 15bps GPM increase in 2020F

Average US\$ to Rp	% chg from base scenario	GPM, %
13,426	-2.0%	45.1%
13,563	-1.0%	44.9%
13,700	0.0%	44.8%
13,837	1.0%	44.6%
13,974	2.0%	44.5%

Source: IndoPremier

Fig. 7: Forecast change

	Previous		New		Changes	
	2020F	2021F	2020F	2021F	2020F	2021F
Financial Perform. (Rp bn)						
Net sales	23,882	25,279	24,083	25,614	0.8%	1.3%
Gross profit	10,968	11,605	10,786	11,459	-1.7%	-1.3%
EBIT	3,662	3,889	3,435	3,658	-6.2%	-5.9%
EBITDA	4,307	4,613	4,079	4,383	-5.3%	-5.0%
Core net profit	2,770	2,953	2,593	2,770	-6.4%	-6.2%
Core EPS (Rp)	59	63	55	59	-6.4%	-6.2%
Profitability (%)						
Gross margin	45.9%	45.9%	44.8%	44.7%	-1.1%	-1.2%
EBIT margin	15.3%	15.4%	14.3%	14.3%	-1.1%	-1.1%
Net margin	11.6%	11.7%	10.8%	10.8%	-0.8%	-0.9%

Source: IndoPremier

Fig. 8: KLBF is currently trading at 21.0x 12M forward P/E, or close to 2 s.d. below its historical 5-year mean – an attractive entry point



Sources: Bloomberg, IndoPremier

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Revenue	20,182	21,074	22,635	24,083	25,614
Cost of Sales	(10,369)	(11,226)	(12,398)	(13,297)	(14,155)
Gross Profit	9,813	9,848	10,237	10,786	11,459
SG&A Expenses	(6,597)	(6,534)	(6,972)	(7,351)	(7,801)
Operating Profit	3,216	3,314	3,265	3,435	3,658
Net Interest	98	96	81	75	88
Forex Gain (Loss)	0	0	0	0	0
Others-Net	(73)	(103)	0	0	0
Pre-Tax Income	3,241	3,306	3,347	3,510	3,746
Income Tax	(788)	(809)	(810)	(878)	(937)
Minorities	(50)	(40)	(40)	(40)	(40)
Net Income	2,403	2,457	2,497	2,593	2,770

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash & Equivalent	2,971	3,332	2,741	2,926	3,171
Receivable	2,968	3,374	3,566	3,517	3,487
Inventory	3,557	3,475	3,883	4,164	4,433
Other Current Assets	546	468	487	500	514
Total Current Assets	10,043	10,648	10,678	11,108	11,605
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	19,670	20,989	22,293
ST Loans	169	69	53	37	20
Payable	1,398	1,700	1,711	1,835	1,953
Other Payables	290	448	407	437	465
Current Portion of LT Loans	5	28	72	72	72
Total Current Liab.	2,227	2,286	2,468	2,621	2,767
Long Term Loans	146	260	430	358	286
Other LT Liab.	349	306	306	306	306
Total Liabilities	2,722	2,852	3,203	3,285	3,359
Equity	435	435	435	435	435
Retained Earnings	12,788	14,073	15,321	16,518	17,709
Minority Interest	613	671	711	751	792
Total SHE + Minority Int.	13,894	15,295	16,467	17,704	18,935
Total Liabilities & Equity	16,616	18,146	19,670	20,989	22,293

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
EBIT	3,216	3,314	3,265	3,435	3,658
Depr. & Amortization	455	471	538	644	724
Changes in Working Capital	(688)	(110)	(466)	(76)	(90)
Others	(975)	(904)	(729)	(802)	(848)
Cash Flow From Operating	2,008	2,771	2,608	3,201	3,444
Capital Expenditure	(1,164)	(1,307)	(2,000)	(1,500)	(1,500)
Others	50	17	(32)	(32)	(32)
Cash Flow From Investing	(1,114)	(1,290)	(2,032)	(1,532)	(1,532)
Loans	38	(126)	198	(88)	(88)
Equity	0	0	0	0	0
Dividends	(1,047)	(1,191)	(1,249)	(1,395)	(1,580)
Others	33	177	(116)	0	0
Cash Flow From Financing	(976)	(1,140)	(1,167)	(1,483)	(1,668)
Changes in Cash	(73)	368	(591)	185	244

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross Margin	48.6%	46.7%	45.2%	44.8%	44.7%
Operating Margin	15.9%	15.7%	14.4%	14.3%	14.3%
Pre-Tax Margin	16.1%	15.7%	14.8%	14.6%	14.6%
Net Margin	11.9%	11.7%	11.0%	10.8%	10.8%
ROA	15.1%	14.1%	13.2%	12.8%	12.8%
ROE	18.2%	16.8%	15.7%	15.2%	15.1%
ROIC	19.7%	18.1%	16.7%	16.0%	16.1%
Acct. Receivables TO (days)	51.5	54.9	57.5	53.3	49.7
Inventory TO (days)	121.5	114.3	114.3	114.3	114.3
Payable TO (days)	52.4	50.4	50.4	50.4	50.4
Debt to Equity	2.3%	2.3%	3.4%	2.6%	2.0%
Interest Coverage Ratio (x)	89.3	111.4	95.6	129.3	166.4
Net Gearing	-19.1%	-19.5%	-13.3%	-13.9%	-14.7%

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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