

8 August 2023

Consumer Non-cyclical | Pharmaceuticals

Kalbe Farma (KLBF IJ)

Buy (from Neutral)

Poised For a Healthier Future; Upgrade To BUY

Target Price (Return): IDR2,200 (18.9%)
 Price (Market Cap): IDR1,850 (USD5,716m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (IDR/USD) 72,319m/4.83m

- U/G to BUY from Neutral, new IDR2,200 TP from IDR2,100, 19% upside.**
 We cut our 2023F-2025F earnings of c.12-14% given Kalbe Farma's recent results and new guidance. However, we trim our risk-free-rate assumption to 6.2% from 7% given a lower government 10-year bond rate and roll forward our valuation base to 2024F. Despite a challenging 1H23, we see a stronger 2H23 performance ahead, especially from 4Q23 onwards, in light of decreasing commodity prices, selective price increases, and a better product mix and stable exchange rate.
- Set to see stronger 2H23 results...** During 1H23, KLBF's operating margins declined to c.13% vs 14.6% in 1H22, given lower gross margins – it continues to still offload old inventory with high pricing points (from 2022). We expect margins to improve in 2H23 as KLBF will start to use lower inventory prices, for which we already see oil and skim milk prices already down c.24% and c.36% YoY. It is also looking to lower inventory days by c.20 days until the end of 2023 vs c.140-150 days in 1H23. We also assume KLBF will continue reducing inventory days to c.110 days in 2024. This should improve working capital and lead to a faster impact on margins improvements from declining commodity prices.
- ...from which KLBF will start to see positive traction** in July on a MoM basis, post the absence of a massive number of public holidays. The recovery pace might be more tangible in 4Q23 on seasonality, unfavourable weather, and election season impacts. The World Health Organisation is said to be preparing for an increased spread of viral diseases ahead – eg dengue, Zika, and Chikungunya – linked to *El Nino*, boosting demand for healthcare products. KLBF sees ample opportunity post a recent Indonesia-China MoU on healthcare, presenting collaborative opportunities for Thalassaemia, monoclonal antibodies, and local raw materials production.
- Multitude growth initiatives to support earnings onward.** The launch of a number of biologic products from 2024 onwards should improve margins given a less-competitive landscape. KLBF plans to sell these products overseas, especially in South-East Asia. The company will allocate higher focus on bolstering its medical equipment business to seize on stronger government support for local content. Post the launch of its medical suture product, KLBF plans to introduce x-ray and dialyser machines in the near term. More products are still to come in the long run, as the company sees lucrative opportunities for higher-margin ultrasound and haemodialysis machines, and tuberculosis antibody test kits. Recent collaboration on cold chain and beauty products should support earnings in the long term too.
- ESG and valuation.** Based on FY24F, it is trading at c.22x P/E, ie c.-1SD to its 5-year P/E band, whilst our TP is based on c.24x – around mean. Our numbers are quite conservative vs Street's and the company's new guidance of 8-10% and 0-1% revenue and EPS growth. Our TP includes 6% ESG premium, as KLBF has a 3.3 ESG score, which is above the country's 3.0 median.

Analysts

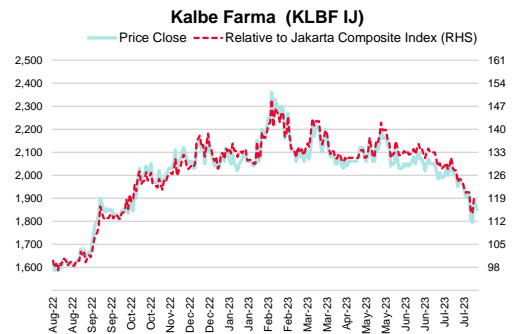
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.5)	(7.0)	(14.0)	(16.3)	16.4
Relative	(11.5)	(9.0)	(15.0)	(15.1)	19.7
52-wk Price low/high (IDR)	1,585 – 2,360				



Source: Bloomberg

Overall ESG Score: 3.3 (out of 4)

E: GOOD

KLBF is actively engaged in improving environmental conditions. It shares information on its biodiversity, supplier selection, and water management. From its sustainability report, we note that the company has highlighted the quantitative measurements it uses to improve the environmental aspects of its business.

S: EXCELLENT

It aims to bring a positive impact across all stakeholder and business aspects. KLBF has been actively engaging in activities to enhance the quality of life for society in general. We have not seen major issues between the company and its employees.

G: EXCELLENT

KLBF engages Big-4 auditors, is in a net cash position, and has sound management strategies. It also provides easy access to management – the most transparent among pharma companies. It sets up calls with management twice a year. It also complies with current regulations, such as regularly conducting shareholder meetings and ensuring equal distribution of public information to all investors.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	26,261	28,934	31,183	34,158	36,849
Recurring net profit (IDRb)	3,130	3,226	3,277	3,662	4,051
Recurring net profit growth (%)	14.9	3.1	1.6	11.7	10.6
Recurring P/E (x)	27.72	26.89	26.47	23.69	21.42
P/B (x)	4.5	4.1	3.9	3.6	3.3
P/CF (x)	25.55	83.46	19.76	21.13	21.27
Dividend Yield (%)	1.5	1.9	2.0	2.2	2.4
EV/EBITDA (x)	17.89	17.57	17.03	15.22	13.74
Return on average equity (%)	17.4	16.9	15.3	15.9	16.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	66.74	68.79	69.88	78.08	86.39
Consumer Non-cyclical	DPS	27.99	34.98	37.48	40.01	45.10
Kalbe Farma	BVPS	408.99	446.32	473.83	511.81	552.97
KLBF IJ	Return on average equity (%)	17.4	16.9	15.3	15.9	16.3
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	27.72	26.89	26.47	23.69	21.42
Our 12-month TP is based on a 10-year DCF	P/B (x)	4.5	4.1	3.9	3.6	3.3
	FCF Yield (%)	3.6	0.4	3.9	3.5	3.4
	Dividend Yield (%)	1.5	1.9	2.0	2.2	2.4
Key drivers	EV/EBITDA (x)	17.89	17.57	17.03	15.22	13.74
i. Margins expansion from declining commodity prices and a stable exchange rate;	EV/EBIT (x)	20.58	20.22	19.75	17.53	15.74
ii. More favourable government support from better e-catalogue pricing management and increasing local content requirements;						
iii. Higher contributions from licensed drugs.						
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	26,261	28,934	31,183	34,158	36,849
i. The USD appreciation vs the IDR and increasing costs;	Gross profit	11,284	11,704	12,741	13,990	15,113
ii. Unfavourable regulations;	EBITDA	4,628	4,869	4,915	5,435	5,969
iii. Lower-than-expected consumer purchasing power.	Depreciation and amortisation	(606)	(638)	(676)	(715)	(756)
	Operating profit	4,021	4,231	4,239	4,720	5,213
Company Profile	Net interest	53	27	83	110	131
Kalbe Farma produces and develops pharmaceutical products. The company's product offerings include medicines, capsules, syrups, and medicines for eye care, animal health, and nutritional uses. Kalbe Farma serves patients in Indonesia.	Pre-tax profit	4,143	4,459	4,343	4,853	5,364
	Taxation	(911)	(1,009)	(983)	(1,098)	(1,214)
	Reported net profit	3,184	3,382	3,294	3,680	4,068
	Recurring net profit	3,130	3,226	3,277	3,662	4,051
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(972)	(3,015)	511	(298)	(723)
	Cash flow from operations	3,396	1,040	4,392	4,106	4,080
	Capex	(264)	(686)	(1,029)	(1,059)	(1,105)
	Cash flow from investing activities	(893)	(1,300)	(1,146)	(1,300)	(1,326)
	Dividends paid	(1,313)	(1,641)	(1,758)	(1,877)	(2,115)
	Cash flow from financing activities	(1,495)	(2,006)	(1,701)	(1,921)	(2,080)
	Cash at beginning of period	5,208	6,216	3,950	5,495	6,379
	Net change in cash	1,009	(2,266)	1,545	884	674
	Ending balance cash	6,217	3,950	5,495	6,379	7,054
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	6,216	3,950	5,495	6,379	7,054
	Tangible fixed assets	7,994	8,042	8,395	8,739	9,089
	Total assets	25,667	27,241	28,880	30,949	33,204
	Short-term debt	0	706	457	472	509
	Total long-term debt	533	312	326	300	318
	Total liabilities	4,401	5,144	5,011	5,375	5,783
	Total equity	21,266	22,097	23,868	25,574	27,422
	Total liabilities & equity	25,667	27,241	28,880	30,949	33,204
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	13.6	10.2	7.8	9.5	7.9
	Recurrent EPS growth (%)	14.9	3.1	1.6	11.7	10.6
	Gross margin (%)	43.0	40.5	40.9	41.0	41.0
	Operating EBITDA margin (%)	17.6	16.8	15.8	15.9	16.2
	Net profit margin (%)	12.1	11.7	10.6	10.8	11.0
	Dividend payout ratio (%)	41.2	48.5	53.4	51.0	52.0
	Capex/sales (%)	1.0	2.4	3.3	3.1	3.0
	Interest cover (x)	70.1	76.8	151.9	173.3	180.0

Source: Company data, RHB

Figure 1: Changes in forecasts

	New			Old			New/old (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Income statement (IDRbn)									
Total turnover	31,183	34,158	36,849	32,747	36,089	39,233	(4.8)	(5.3)	(6.1)
Gross profit	12,741	13,990	15,113	13,435	15,060	16,311	(5.2)	(7.1)	(7.3)
EBITDA	4,915	5,435	5,969	5,542	6,254	6,748	(11.3)	(13.1)	(11.6)
Pre-tax profit	4,343	4,853	5,364	5,063	5,630	6,090	(14.2)	(13.8)	(11.9)
Net profit	3,294	3,680	4,068	3,841	4,298	4,649	(14.2)	(14.4)	(12.5)
Key metrics									
EPS (IDR)	70	78	87	82	92	99	(14.2)	(14.4)	(12.5)
Revenue growth (%)	7.8	9.5	7.9	13.2	10.2	8.7			
EPS growth (%)	(2.6)	11.7	10.5	13.6	11.9	8.2			
EBITDA margin (%)	15.8	15.9	16.2	16.9	17.3	17.2			
Net profit margin (%)	10.6	10.8	11.0	11.7	11.9	11.8			
Return on average equity (%)	15.5	15.9	16.3	17.9	18.2	18.0			

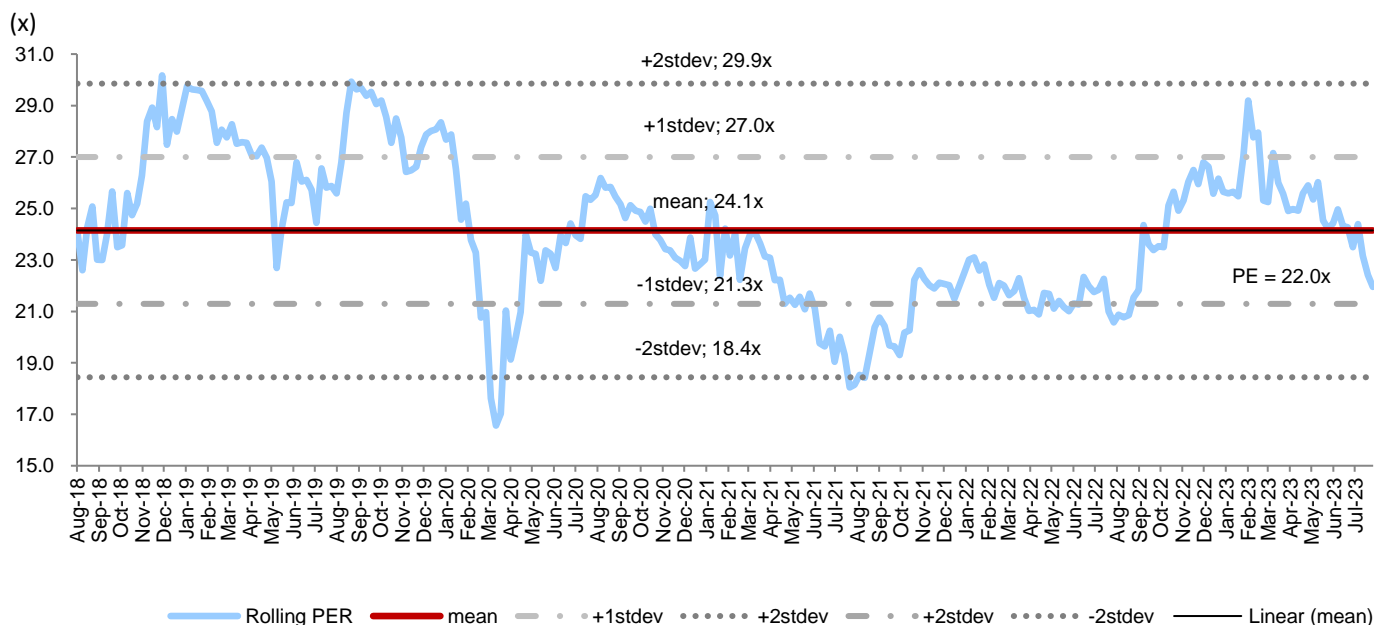
Source: Company data, RHB

Figure 2: RHB vs Streets' estimates

IDRbn	RHB			Consensus			RHB/consensus (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	31,183	34,158	36,849	32,565	35,547	38,971	95.8	96.1	94.6
Gross profit	12,741	13,990	15,113	13,465	14,749	16,186	94.6	94.9	93.4
EBITDA	4,915	5,435	5,969	5,586	6,192	6,921	88.0	87.8	86.2
EBIT	4,239	4,720	5,213	4,832	5,422	6,021	87.7	87.1	86.6
Profit before tax	4,343	4,853	5,364	4,933	5,607	6,171	88.0	86.5	86.9
NPAT	3,294	3,680	4,068	3,754	4,242	4,716	87.8	86.7	86.3

Source: Company data, RHB

Figure 3: KLBF's 5-year P/E band



Source: Bloomberg, Company data, RHB

Figure 4: It plans to add more biologic products to its stable

Portfolio**Novel Products****Focus on immuno-oncology products portfolio**

- Henlius - **HLX10** – obtained approval in China, registration process in Indonesia

Clinical Development

- Genexine Long-Acting EPO **GXE4** - phase 3
Completed recruitment of 386 patients, clinical trial result by 2023
- Genexine **GXI7** - phase 2

Biosimilar (local production)Erythropoietin
(Hemapo)GCSF
(Leucogen)Insulin
(Ezelin)Rituximab
(Rituxikal)Bevacizumab
(Avamab)Trastuzumab
(Herzemab)

- ◆ The launch of a number of biologic products from 2024 onwards should improve margins with a less-competitive landscape

Source: Company data

Figure 5: DCF valuation

IDRbn	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBIT	4,720	1,057	1,466	1,731	2,101	2,400	2,732	3,068	3,398	3,728	4,078
EBIT (1-t)	3,652	4,033	4,386	4,723	5,059	5,409	5,772	6,149	6,542	6,948	7,371
Depreciation & amortisation	715	756	797	837	875	912	948	983	1,021	1,061	1,103
Change in working capital	(304)	(740)	(707)	(746)	(779)	(813)	(846)	(881)	(920)	(1,022)	(997)
Capex	(1,059)	(1,105)	(1,143)	(1,094)	(1,077)	(1,050)	(1,015)	(1,023)	(1,085)	(1,149)	(1,215)
Net free cash flow to firm	3,004	2,944	3,333	3,719	4,079	4,459	4,860	5,228	5,558	5,838	6,261
Terminal Value											134,987
PV	3,004	2,721	2,847	2,936	2,976	3,007	3,029	3,012	2,960	2,873	64,249
Total discounted firm value	93,615										
Less: net debt	(5,472)										
Less: minority interest	1,571										
Equity value	97,516										
Number of shares (bn)	47										
Equity value per share (IDR)	2,079										
ESG premium (discount)	6%										
TP	2,204										
Assumptions											
Risk free rate	6.2%										
Beta	0.4										
Equity market premium	6%										
WACC	8.2%										
Terminal growth	3%										

Source: Company data, Bloomberg, RHB

Recommendation Chart

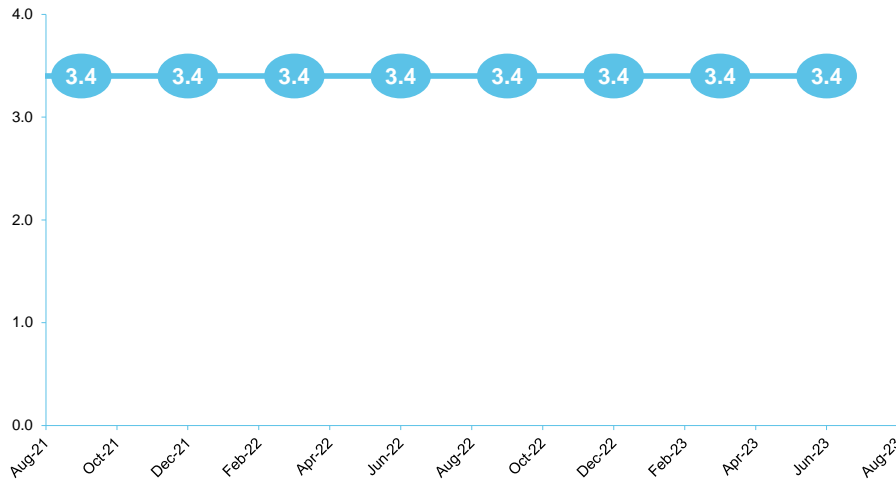


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-04-16	Neutral	2,100	2,060
2022-12-15	Neutral	2,000	2,050
2022-08-18	Neutral	1,670	1,635
2022-05-08	Neutral	1,740	1,640
2022-02-22	Neutral	1,710	1,620
2021-11-23	Neutral	1,630	1,610
2021-09-09	Buy	1,680	1,490
2021-07-28	Buy	1,650	1,315
2021-04-08	Neutral	1,650	1,565
2021-02-02	Buy	1,750	1,520
2020-07-14	Buy	1,700	1,505
2020-03-09	Buy	1,850	1,140
2019-12-26	Buy	1,850	1,595
2019-11-11	Buy	2,000	1,555
2019-11-01	Buy	2,000	1,625

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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