

22 February 2024

Kalbe Farma (KLBF IJ)

Regaining Growth Momentum; Stay BUY

Consumer Non-cyclical | Pharmaceuticals

Buy (Maintained)

Target Price (Return):	IDR1,870 (+26%)
Price (Market Cap):	IDR1,490 (USD4,460m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (IDR/USD)	61,465m/3.95m

Analysts

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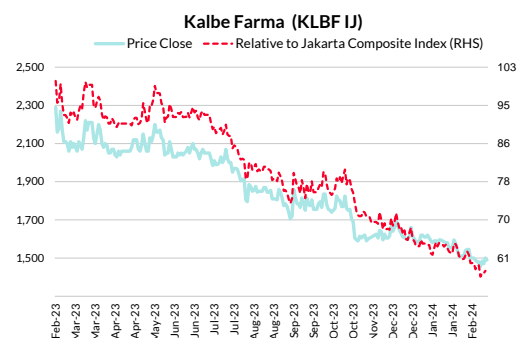


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.5)	(4.2)	(7.2)	(19.3)	(34.9)
Relative	(8.6)	(5.9)	(12.8)	(26.4)	(41.9)
52-wk Price low/high (IDR)				1,455	-2,270

- **Maintain BUY and IDR1,870 TP, 26% upside and c.2% yield.** Kalbe Farma's FY23F topline and bottomline should grow 5.2% YoY and -17.7% YoY – in line with our and consensus estimates. For 2024, it is eyeing for a 6-7% revenue growth (+1.5-2% from new product development, +1% from ASP adjustment and the rest from volume) and 13-15% earnings growth (mainly from normalisation of commodity price). This is also largely in line with our 2024F. KLBF is trading at c.20x 2024F P/E, or around -1.5SD from its 5-year mean. Our TP includes a 6% premium – KLBF's 3.3 ESG score is above our country median.
- **The worst should be over,** and the company mentioned that January-February's run rate remains in line with expectations. The company recently raised ASP by +3-5% for non-Social Insurance Administration Organisation for Health (BPJS Kesehatan) products and is on track to reduce inventory days to around 110-115 days in the next 1-2 years (vs c.130 in 2023 and c.120 days in 2024). KLBF sees the establishment of a trading hub in China bringing positive impact and is mulling to also set up a presence in India to strengthen its raw materials supply.
- **Pharmaceutical products to record topline growth in 2024.** The company continues to expand its generic products to obtain greater economies of scale and improve margin. To date, KLBF sees minimal risk from the potential deficit of BPJS Kesehatan to its cash flow. We believe biologics products will be the company's other growth engine – it has started the commercialisation of two new products (Efesa and Zerpidio), and is in the process to register these products under the Social Insurance Administration Organisation (BPJS) and export to several countries in South-East Asia and the Middle East by 2025. It also planning to enlarge vaccine capabilities post Aventis Pharma acquisition.
- **Opportunities in consumer health and nutritional products.** Management guided that the demand for consumer health products has strengthened post 3Q23. Seeing the potential in the sports products industry, it has launched EJ Sports. The company is also exporting Hydro Coco to China and the Middle East, while affordable nutritional products' (ie Chillgo) margin has yet to expand meaningfully despite the products performing well. The company is still waiting for the potential government free milk programme since detailed specifications have been unclear.
- **Strengthening distribution and logistics business through several initiatives.** It plans to monetise government support on local content by producing several medical equipment and consumable products. Acquisition is also on the cards to propel the growth of these products – we believe it will not be an issue owing to ample cash flow. KLBF's recent JV with Samudra Indonesia (SMDR IJ, NR) should bring about service improvements to its clients. The company has yet to see a positive impact on the JV with Kiat Ananda to enhance its cold chain business, especially consumer food companies.



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	26,261	28,934	30,121	32,465	34,652
Recurring net profit (IDRb)	3,130	3,226	2,758	3,108	3,436
Recurring net profit growth (%)	14.9	3.1	(14.5)	12.7	10.5
Recurring P/E (x)	22.32	21.66	25.34	22.48	20.34
P/B (x)	3.6	3.3	3.2	3.0	2.8
P/CF (x)	20.58	67.22	19.81	18.88	18.16
Dividend Yield (%)	1.9	2.3	2.5	2.3	2.6
EV/EBITDA (x)	14.24	14.10	16.00	14.00	12.61
Return on average equity (%)	17.4	16.9	12.7	13.9	14.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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.

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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	58.80	66.27	73.25
Consumer Non-cyclical	DPS	27.99	34.98	37.48	33.75	38.01
Kalbe Farma	BVPS	408.99	446.32	461.34	493.30	527.91
KLBF IJ	Return on average equity (%)	17.4	16.9	12.7	13.9	14.3
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	22.32	21.66	25.34	22.48	20.34
Our 12M TP is based on a 10-year DCF	P/B (x)	3.6	3.3	3.2	3.0	2.8
	FCF Yield (%)	4.5	0.5	3.6	3.9	4.0
Key drivers	Dividend Yield (%)	1.9	2.3	2.5	2.3	2.6
i. Margin expansion from declining commodity price and stable exchange rate;	EV/EBITDA (x)	14.24	14.10	16.00	14.00	12.61
ii. More favourable government support from better e-catalogue pricing management and increasing local content;	EV/EBIT (x)	16.38	16.23	19.04	16.45	14.73
iii. Higher contribution from licensed drugs.						
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	26,261	28,934	30,121	32,465	34,652
i. The USD appreciation vs the IDR and increasing cost;	Gross profit	11,284	11,704	11,786	12,879	13,782
ii. Unfavourable regulations;	EBITDA	4,628	4,869	4,227	4,766	5,221
iii. Lower-than-expected consumer purchasing power.	Depreciation and amortisation	(606)	(638)	(675)	(712)	(750)
	Operating profit	4,021	4,231	3,552	4,055	4,472
Company Profile	Net interest	53	27	32	49	64
Kalbe Farma produces and develops pharmaceutical products. The company's product offerings include medicine, capsules, syrup, and medicines for eye care, animal health, and nutritional uses. Kalbe Farma serves patients in Indonesia.	Pre-tax profit	4,143	4,459	3,521	4,098	4,526
	Taxation	(911)	(1,009)	(771)	(918)	(1,014)
	Reported net profit	3,184	3,382	2,709	3,103	3,428
	Recurring net profit	3,130	3,226	2,758	3,108	3,436
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(972)	(3,015)	184	(146)	(337)
	Cash flow from operations	3,396	1,040	3,527	3,701	3,847
	Capex	(264)	(686)	(994)	(1,006)	(1,040)
	Cash flow from investing activities	(893)	(1,300)	(1,111)	(1,248)	(1,260)
	Dividends paid	(1,313)	(1,641)	(1,758)	(1,583)	(1,783)
	Cash flow from financing activities	(1,495)	(2,006)	(1,662)	(1,629)	(1,771)
	Cash at beginning of period	5,208	6,216	3,950	4,704	5,528
	Net change in cash	1,009	(2,266)	755	824	816
	Ending balance cash	6,217	3,950	4,704	5,528	6,344
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	6,216	3,950	4,704	5,528	6,345
	Tangible fixed assets	7,994	8,042	8,361	8,656	8,946
	Total assets	25,667	27,241	28,238	29,918	31,777
	Short-term debt	0	706	473	480	498
	Total long-term debt	533	312	316	287	302
	Total liabilities	4,401	5,144	4,930	5,188	5,508
	Total equity	21,266	22,097	23,308	24,730	26,269
	Total liabilities & equity	25,667	27,241	28,238	29,918	31,777
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	13.6	10.2	4.1	7.8	6.7
	Recurrent EPS growth (%)	14.9	3.1	(14.5)	12.7	10.5
	Gross margin (%)	43.0	40.5	39.1	39.7	39.8
	Operating EBITDA margin (%)	17.6	16.8	14.0	14.7	15.1
	Net profit margin (%)	12.1	11.7	9.0	9.6	9.9
	Dividend payout ratio (%)	41.2	48.5	64.9	51.0	52.0
	Capex/sales (%)	1.0	2.4	3.3	3.1	3.0
	Interest cover (x)	70.1	76.8	76.2	90.5	96.2

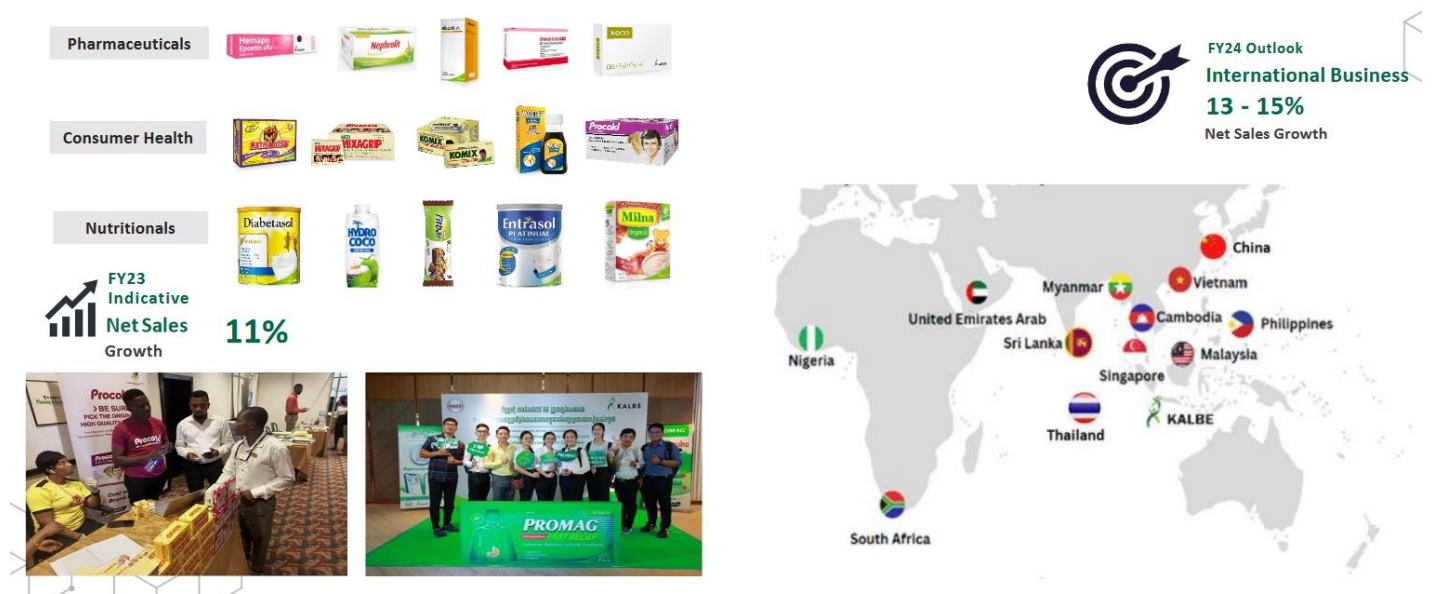
Source: Company data, RHB

Figure 1: The company aims to expand its medical equipment business...



Source: Company data, RHB

Figure 2: ...as well as its international business



Source: Company data, RHB

Figure 3: Newly launched consumer health products in a bid to capitalise on rising sport activities



Source: Company data, RHB

Emissions And ESG

Trend analysis

The company has several initiatives to lower manage its emissions from its business activities, it is already starting to see healthier CO₂ emissions reduction from renewable energy sources.

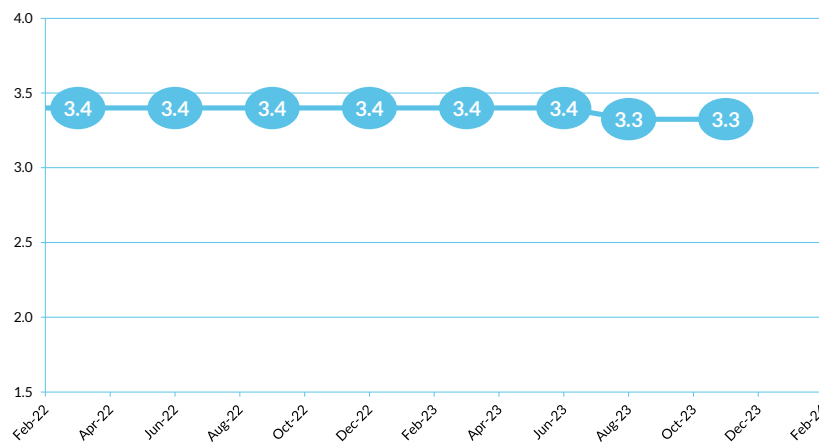
Emissions (tCO ₂ e)	Dec-20	Dec-21	Dec-22
Scope 1	14,233	20,896	24,392
Scope 2	63,726	80,646	97,935
Scope 3	na	na	na
Total emissions	77,959	101,542	122,327

Source: Company data, RHB

Latest ESG-Related Developments

- Supporting the initiative of reducing emissions by partly converting its transportation for distribution by using electric motorcycles.
- Supporting energy efficiency by installing solar panels in its new production facilities.
- Supporting nutrition for mothers and children in collaboration with National Family Planning Indonesia or BKKBN and YARSI University, covering nutrition improvement for 82 pregnant women and 60 lactating mothers.
- Increasing its participation in the e-catalogue platform to widen access to healthcare and meet the local content requirement.
- Developing a foster village in Wonogiri through clean water access for two villages covering 200 households, as well as eco-friendly waste management, and economic empowerment

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-01-24	Buy	1,870	1,595
2023-11-24	Buy	1,930	1,595
2023-08-08	Buy	2,200	1,855
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

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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