

18 October 2024

Consumer Non-cyclical | Pharmaceuticals

Kalbe Farma (KLBF IJ)

Buy (Maintained)

Exploring Various Growth Strategies; BUY

- **Maintain BUY and IDR1,970 TP (17% upside), c.2% yield.** Kalbe Farma recorded steady MoM and QoQ performance in 3Q24, in line with its expectations. It also maintained its FY24 guidance of 6-7% sales growth, 13-15% EPS growth, and c.IDR1trn capex, largely in line with our forecasts. The company expects the impact of the stronger IDR to be reflected mainly in its 4Q24 results, due to the c.4-month inventory lag. It sees raw material prices remaining stable for now.
- **Strong pharmaceutical (pharma) product sales, particularly for generics, oncology, and biologics.** Biologics and oncology products currently make up c.12% of the pharma division's sales. KLBF is in the process of including its recently launched biologics products onto e-catalogue platforms. Its recent acquisition of Sanofi Indonesia has started to bear fruit, with the launch of a new vaccine for the hand, foot, and mouth disease. The company also sees further potential in secretome therapy, which is a significantly cheaper option than stem-cell treatment.
- **Consumer goods segment seeing positive trend; nutritional segment still challenging due to weak purchasing power.** The Extra Joss product continues to see growth in export markets, performing particularly well in Malaysia. Exports of Extra Joss currently account for <10% of sales. KLBF aims to rejuvenate the Extra Joss brand in Indonesia. In the nutritional segment, products like Diabetasol and Entrasol are facing challenges. However, the affordable product segment performed well, with more products set to be launched in 4Q, including a powdered milk product under the Chil-Go brand.
- **Strong performance in export markets, mainly Myanmar, the Philippines, and Malaysia.** KLBF views Vietnam as an attractive market and continues to explore opportunities there. It remains hopeful on its recent collaboration with Alliance Pharma to expand its footprint in Thailand. It also seeking more opportunities in China, considering it only sells its Hydro Coco product there. KLBF currently has no plans to expand into other markets.
- **Staying vigilant on the regulatory landscape.** KLBF is awaiting updates on the sugar tax regulation and other potential regulations pertaining to sugar, salt, and fat content. On the free meals programme, KLBF is prepared to meet demand and views this initiative as a potential upside. While the company expects lower GPM, it anticipates lower opex as there will be no need for distribution or promotional activities.
- **Valuation and ESG.** The counter is trading at 24x FY24F P/E, at around the 5-year mean. Our TP includes a 6% ESG premium as KLBF has an ESG score of 3.3, which is above the country's median of 3.0.

Target Price (Return): IDR1,970 (16.6%)
 Price (Market Cap): IDR1,690 (USD5,108m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (IDR/USD) 50,988m/3.26m

Analysts

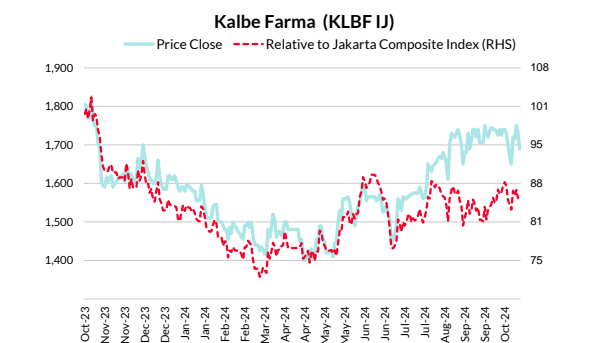
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.0	(0.9)	7.6	16.2	(7.4)
Relative	(0.2)	1.4	1.7	8.9	(17.6)
52-wk Price low/high (IDR)	1,400 – 1,825				



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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	28,934	30,449	32,472	34,671	36,916
Recurring net profit (IDRb)	3,226	2,829	3,217	3,552	3,871
Recurring net profit growth (%)	3.1	(12.3)	13.7	10.4	9.0
Recurring P/E (x)	24.57	28.02	24.63	22.32	20.48
P/B (x)	3.8	3.6	3.4	3.1	2.9
P/CF (x)	76.24	27.61	20.43	20.34	18.60
Dividend Yield (%)	2.1	2.2	2.1	2.3	2.6
EV/EBITDA (x)	16.03	17.89	15.53	14.08	12.84
Return on average equity (%)	16.9	12.9	14.1	14.5	14.7
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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	Recurring EPS	68.79	60.32	68.60	75.73	82.54
Consumer Non-cyclical	DPS	34.98	37.98	34.87	39.21	43.54
Kalbe Farma	BVPS	446.32	467.83	502.70	538.43	576.56
KLBF IJ	Return on average equity (%)	16.9	12.9	14.1	14.5	14.7
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Our 12M TP is based on a 10-year DCF	Recurring P/E (x)	24.57	28.02	24.63	22.32	20.48
	P/B (x)	3.8	3.6	3.4	3.1	2.9
	FCF Yield (%)	0.4	2.4	3.6	3.6	4.0
	Dividend Yield (%)	2.1	2.2	2.1	2.3	2.6
Key drivers	EV/EBITDA (x)	16.03	17.89	15.53	14.08	12.84
i. Margin expansion from declining commodity prices;	EV/EBIT (x)	18.45	21.16	18.15	16.36	14.84
ii. More favourable government support from better e-catalogue pricing management and increasing local content;						
iii. Higher contribution from licensed drugs.						
Key risks	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. The USD appreciation vs the IDR and increasing costs;	Total turnover	28,934	30,449	32,472	34,671	36,916
ii. Unfavourable regulations;	Gross profit	11,703	11,823	12,773	13,704	14,657
iii. Lower-than-expected consumer purchasing power.	EBITDA	4,869	4,369	4,941	5,388	5,835
	Depreciation and amortisation	(638)	(675)	(712)	(750)	(789)
	Operating profit	4,231	3,694	4,228	4,638	5,046
	Net interest	27	(7)	20	51	65
	Pre-tax profit	4,459	3,606	4,234	4,669	5,087
	Taxation	(1,009)	(828)	(948)	(1,046)	(1,139)
	Reported net profit	3,382	2,767	3,207	3,536	3,852
	Recurring net profit	3,226	2,829	3,217	3,552	3,871
Company Profile	Cash flow (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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.	Change in working capital	(3,015)	(460)	91	(350)	(335)
	Cash flow from operations	1,040	2,871	3,879	3,898	4,261
	Capex	(686)	(1,005)	(1,007)	(1,040)	(1,071)
	Cash flow from investing activities	(1,300)	(1,592)	(1,154)	(1,265)	(1,301)
	Dividends paid	(1,641)	(1,781)	(1,636)	(1,839)	(2,042)
	Cash flow from financing activities	(2,006)	(1,996)	(1,065)	(1,834)	(2,019)
	Cash at beginning of period	6,216	3,950	3,232	4,893	5,691
	Net change in cash	(2,266)	(718)	1,660	799	941
	Ending balance cash	3,950	3,232	4,892	5,692	6,632
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	3,950	3,232	4,893	5,691	6,621
	Tangible fixed assets	8,042	8,372	8,666	8,956	9,238
	Total assets	27,241	27,058	29,915	31,792	33,788
	Short-term debt	706	121	481	499	515
	Total long-term debt	312	319	272	286	308
	Total liabilities	5,144	3,938	4,716	5,004	5,306
	Total equity	22,097	23,120	25,199	26,788	28,482
	Total liabilities & equity	27,241	27,058	29,915	31,792	33,788
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	10.2	5.2	6.6	6.8	6.5
	Recurrent EPS growth (%)	3.1	(12.3)	13.7	10.4	9.0
	Gross margin (%)	40.4	38.8	39.3	39.5	39.7
	Operating EBITDA margin (%)	16.8	14.3	15.2	15.5	15.8
	Net profit margin (%)	11.7	9.1	9.9	10.2	10.4
	Dividend payout ratio (%)	48.5	64.4	51.0	52.0	53.0
	Capex/sales (%)	2.4	3.3	3.1	3.0	2.9
	Interest cover (x)	76.8	38.8	93.7	98.9	102.8

Source: Company data, RHB

Emissions And ESG

Trend analysis

The company has made a number of efforts to lower its emissions from its business activities, with KLBF already starting to see CO2 emission reductions.

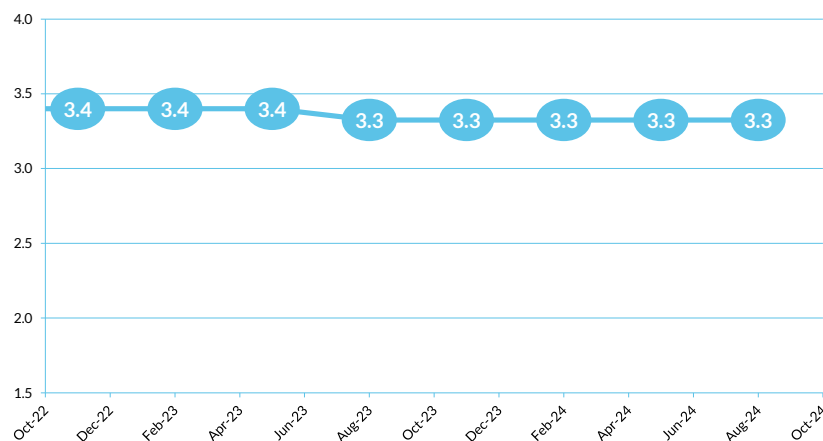
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	20,896	24,392	18,485
Scope 2	80,646	97,935	75,530
Scope 3	na	na	na
Total emissions	101,542	122,327	94,015

Source: Company data, RHB

Latest ESG-Related Developments

- Supports the initiative of reducing emissions by partly converting the distribution transportation fleet to electric motorcycles.
- Supports energy efficiency by installing solar panels at its new production facilities.
- Supports nutrition for mothers and children in collaboration with the National Population & Family Planning Board or BKKBN and YARSI University.
- Increase participation in e-catalogue platforms to widen access to healthcare and meet local content requirements.
- Improved the community in Wonogiri through clean water access for two villages covering 200 households, along with eco-friendly waste management and economic empowerment.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-07	Buy	1,970	1,650
2024-06-20	Buy	1,850	1,560
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

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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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
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