September 25, 2015

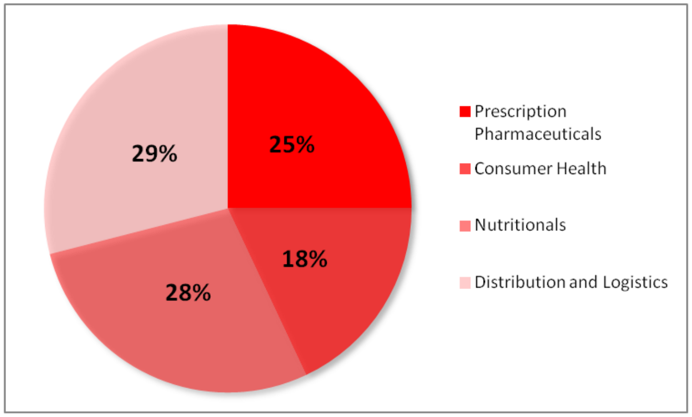
Company Visit Note

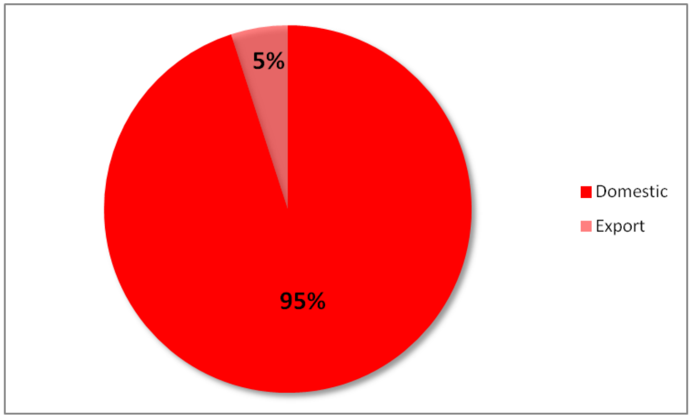
PT Kalbe Farma Tbk (KLBF)

Meeting the management of KLBF on 23rd September 2015, here are some reviews on the company:

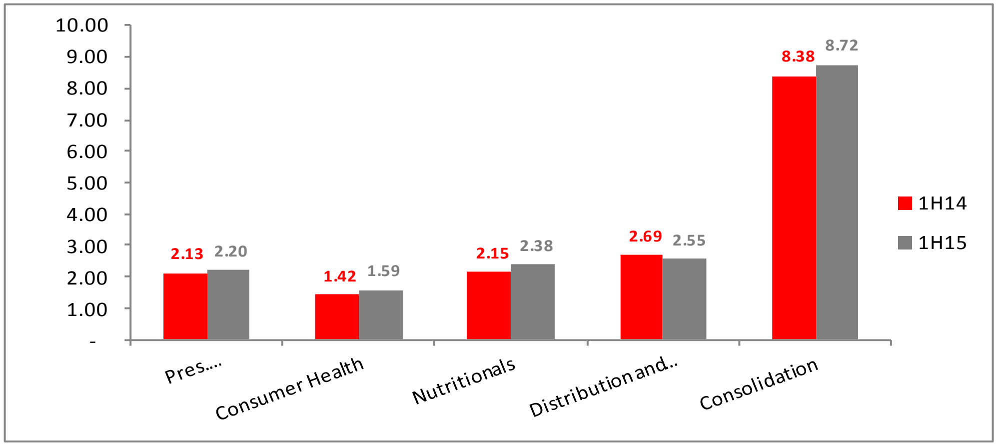
Established in 1966, KLBF currently has beciome the largest publicly-listed pharmaceutical company in Southeast Asia. It operates 4 segments comprises of prescription pharmaceuticals, consumer health, nutritionals, as well as distribution and logistics.

1H15 Sales Breakdown by segments and geographical location





1H15 Segment Sales (IDR Tn)



KLBF holds well-balanced business portfolio led by its distribution and logistics division, accounted for 29% (shown in the graph). KLBF also exports its products to regional, which contributed 5% to its total sales. Management attempts to raise its export portion to 10% by 2020.

In 1H15, KLBF maintained to book positive sales growth for most of its segments, except distribution and logistics division. The consumer health and nutritionals division recorded **12% and 10.8% YoY growth respectively**, followed by **slight growth of 3.6% YoY** from its pharmaceutical division. Meanwhile, the distribution and logistics division recorded **–5.1% YoY decline**. Overall, KLBF booked **4.1% YoY** growth in the period, one of the lowest compared to previous years.

1H15 Segment Results

Prescription pharmaceutical division

- The market leader in industry, holding about 13% market share.
- Booked **slight sales growth (+3.6% YoY) accounted for IDR 2.2tn** in 1H15**,** divided into branded generics (57.6%), licensed products (28.7%), and unbranded generics (13.7%).
- The moderate performance in 1H15 was the results from:
  - Economic slowdown resulted in lower demand.
  - Jaminan Kesehatan Nasional (JKN) implementation led to slower demand for branded and licensed drugs, shifting demand to unbranded one with lower margin.
  - Product recall in February 2015 which estimated to contributed about 5% from its total pharmaceutical sales.

Consumer Health Division

- The leader for Over the Counter (OTC) market and No.2 in energy drink category (Extra Joss).
- In 1H15, the division still recorded **12% YoY sales growth**. OTC market remains strong, though its energy drink category booked significant decrease resulted from the mature state of the industry. Biggest growth contributed from its “Hydro Coco” product.
- The division also supported by **ASP increase by 4%** in April 2015.

Nutritionals Division

- In 1H15, the division booked **10.8% YoY sales growth**, though GPM reported to **decline to 54.4%** compared to 55.7% in 1H14.
- Should be beneficial from low skim milk powder (SKM) price however the effect was depleted by significant IDR depreciation YTD.

Distribution and Logistics Division

- Operated under PT Enseval Putera Megatrading Tbk, transformed into both **a strategic business** and **competitive advantage** for KLBF.
- 1H15 sales reported to decline by **–5.1% YoY**, mainly caused by one of its third party principal decided not to continue the contract with KLBF. This third party principal alone contributed about 12% from the division sales.

Future Key Generators

- To offset the effect of shifting pharmaceutical demand to unbranded generic drugs, KLBF will strengthen its presence in specialty products with higher margin. In middle 2014, KLBF had started the operation and commercialization of its oncology factory, which currently contributes relatively small to its sales. Currently, KLBF has started its construction of biosimilar factory.
- KLBF will entry ready to drink (RTD) milk, expected to start next year as its new dairy factory construction is completed.

2H15 Outlook

Along with KLBF management view, we see that second semester of 2015 will still be tough, with its results expected to be flat from the previous semester. The main concern is prolonged IDR depreciation which potentially to continue through the year. This is because all of its segments (pharmaceutical, consumer health, and nutritionals) are highly exposed to currency risk, as a result of 70% imported raw materials. The currency risks are expected to be minimized by KLBF regulation to have US$ 50 million reserves in its cash. ASP increase is unlikely to happen, especially in pharmaceutical division as the result from tight competition in industry. While its distribution and logistics division still expected to experience negative growth until the end of year. On the other hand, we see that KLBF possess solid financial position as its gearing ratio was recorded at 4.5% with net cash balance of IDR 1.2tn per June 2015. **For KLBF, we recommend to wait and see for its high exposure to US Dollar base cost.**

KLBF Revised Earnings Guidance 2015

YoY Sales Growth	5%-7%
Operating Profit Margin	16%-17%
Earnings per share Growth	6%-8%
Dividend Payout Ratio	40% -50%

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