

PT DARYA-VARIA LABORATORIA TBK

AN UNDERAPPRECIATED HIDDEN GEM

BUY

Silver Lining Performance

During 2012, DVLA has recorded another stellar performance as the revenue grew 20.8% yoy. Gross margin slightly decreased 130bps. We suspected it was due to weaker IDR against USD (more than 70% of raw material was imported) but it has been compensated by lower selling expenses. Hence, the EBIT Margin gained 130bps and boosted the bottom line growth by 22.8% yoy. Moreover, DVLA has a higher net profit margin compared with other competitors. The latest result brought the company valuation to 15.2x PE 2012. DVLA is trading at a cheap valuation compared with its Indonesia peers which are trading at an average 26x PE.

Who is Darya-Varia Laboratoria

PT Darya-Varia Laboratoria Tbk is one of the top pharmaceutical companies which began the operations in Indonesia since 1976. As of December 2012, Blue Sphere Singapore Pte Ltd (affiliate of United Laboratories, Inc.) owned 92.7% shares of DVLA. Using the affiliated company distribution channel, United Laboratories, Inc (the largest pharmaceutical company in Phillipines) the company distributes its products throughout the South East Asia region. In order to distribute its products in domestic and export market, the company was helped by PT Anugerah Pharmindo Lestari, a third party who distributes the products in domestic market and Winter Flower Holdings Ltd, a related party who handles the distribution channel in the export market.

Capable to Produce Broad Range of Pharmaceutical Products

Currently, the company operates two facilities in Greater Jakarta, producing a broad range of pharmaceutical products:

1. The **Darya-Varia Plant** at Gunung Putri is for softgel and liquid products.
2. The **Pradja Pharin (Prafa) Plant** at Citeureup is for low volume solid products and the toll manufacturing business.

The company has conventional toll manufactures with its affiliate **PT Medifarma Laboratories** at Cimanggis, Depok.

Strong Market Penetration

This company produces many well-known brands, such as Decolgen, Enervon-C, Natur-E, and Neozep. Furthermore, they also have exclusive distribution right from Procter and Gamble Co (P&G) to distribute various products under the brand name "Vicks". Those brands are recognized as one of the most often-used medicines in Indonesia. Unlike in the FMCG industry, consumers in this sector are considerably having more brand loyalty.

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Stock Data

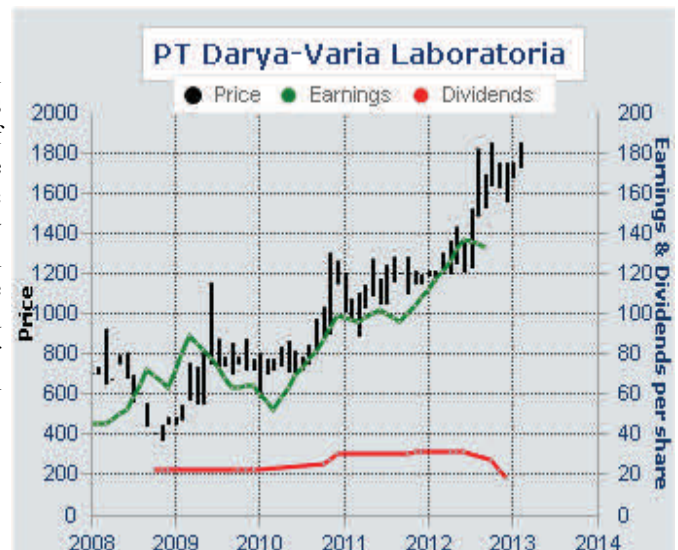
| | |
|----------------------------|-----------------|
| Sector | Pharmaceuticals |
| Price | 2,000 |
| 12-month Target Price 2012 | 3,450 |
| 12-month Rating | Buy |
| Prior | |
| Ticker | DVLA.IJ (BBG) |
| Market Cap | IDR 2.296 Bn |
| Shares Outstanding | 1.120bn |

Top Holders

| | |
|-------------------------------|--------|
| Blue Sphere Singapore Pte Ltd | 92.66% |
| Others | 7.34% |

Source: Bloomberg

DVLA Performance



Source: www.corporateinformation.com

Valuation is still very cheap compared to peers

In terms of PE ratio, the stock is trading at 15.2x, below peers which are trading at an average of 26x PE. We believe DVLA should be traded at least at **3,450** reflecting times 2012 net income. Key reasons for our BUY recommendation: 1) Implementation of UU BPJS next year. 2) Strong brand recognition among Indonesian people. 3) High profitability ratio compared with peers.

Data was generated on March 21, 2013

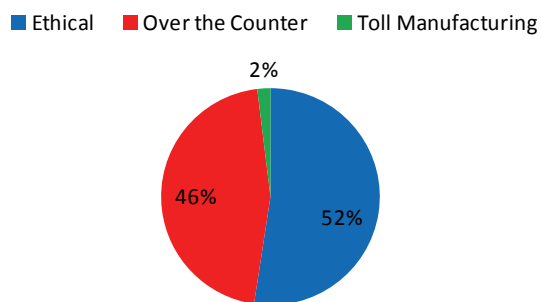
FLASH NOTE

| Tkr & Exch | Market Cap | Last Price | P/E | EPS Growth | DER | ROE | Gross Margin | Profit Margin |
|----------------|------------------|--------------|-------------|-------------|------------|-------------|--------------|---------------|
| Average | 15,199,676 | 26,688 | 26.6 | 4.2 | 3.5 | 18.7 | 40.2 | 8.6 |
| KLBF IJ | 62,967,288 | 1,240 | 33.7 | 16.8 | 1.7 | 26.9 | 48.1 | 12.4 |
| TSPC IJ | 15,750,000 | 3,500 | 25.4 | 6.1 | 4.8 | 19.9 | 37.4 | 8.7 |
| KAEF IJ | 5,831,700 | 1,050 | 29.0 | 17.8 | 1.9 | 15.3 | 34.1 | 5.9 |
| DVLA IJ | 2,268,000 | 2,025 | 15.2 | 22.8 | 0.3 | 17.7 | 59.9 | 13.7 |
| INAF IJ | 976,269 | 315 | 23.7 | 14.9 | 11.8 | 6.7 | 23.5 | 4.9 |

Source: Bloomberg, Sinarmas Investment Research Estimates

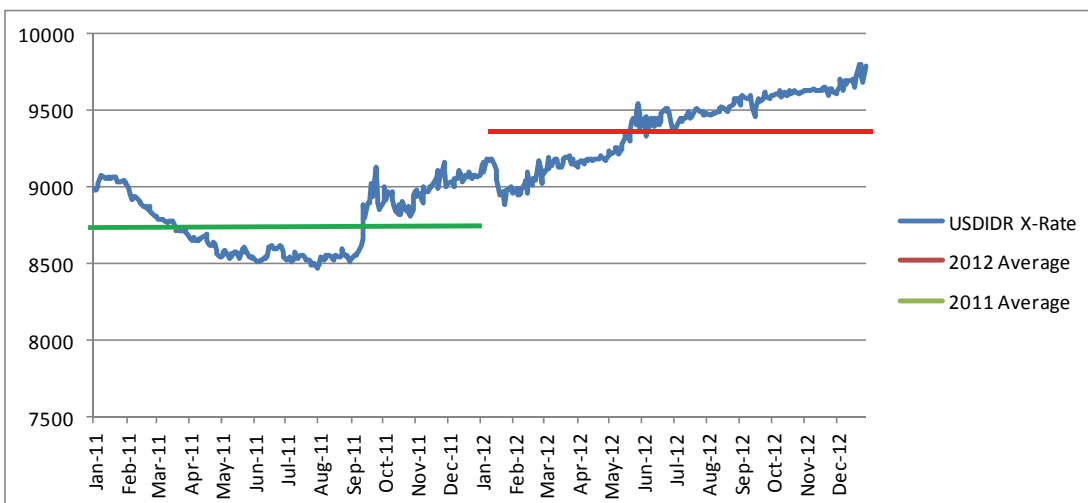
Over-the-counter and ethical products were the biggest revenue contributor.

As of 2012



Source: Bloomberg, Sinarmas Investment Research Estimates

USDIDR Exchange Rate was weakened during 2012, hence, DVLA recorded lower gross margin since more than 70% of its raw material was paid by USD.



Source: Bloomberg, Sinarmas Investment Research

PT DARYA-VARIA LABORATORIA TBK

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