

7 May 2013

PT DARYA-VARIA LABORATORIA TBK

SMALL CAP STOCK, STRONG BRAND

BUY

DVLA reported 1Q13 net income of Rp 44 billion, up 19% yoy. The reported result is ahead of its benchmark and industry peers. However, unlike the bottom line performance, the top line only grew by 4% yoy. A hefty decline in top line growth was caused by 44% yoy drop in export sales as the demand softened. This export sales contributed to 8% of Co's 1Q13 sales. While the export sales slumped, the domestic sales were still sound, recording 12% jump compared to 4Q12 achievement. Thus we still have positive view on DVLA's forward outlook as our main catalyst is BPJS implementation next year.

We maintain BUY with target price of IDR 3,450 reflecting 22 times trailing 12 months net income (60% discount to KLBF's trailing 12M PE). There is more than 50% potential upside from yesterday's closing price. 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.

Strong Market Penetration

The company produces many well-known brands, such as Decolgen, Biogesic, Enervon-C, Natur-E, and Neozep. Likewise, they 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.

Big Opportunities for Healthcare Sector

Last year, Indonesia has established itself as one of the world's fastest growing economies in the world, overtaking India in term of growth rate. Although the economy is growing at a magnificent pace, the spending on healthcare is very low in comparison to neighboring countries. Recent World Bank statistics showed that each Indonesian spend \$95 per annum on average. This amount is far behind those spent by Malaysian(\$340) and Thai(\$202). However, Indonesia pharmaceutical market is growing rapidly. It has registered an average double digit growth of 14% in the pharmaceutical sector between 2009 and 2011. Furthermore, application of new healthcare related regulation in 2014 will substantially boost the national healthcare spending. Indonesian government has committed as much as IDR 25 trillion or IDR 15,500 for every low-income person eligible to this program in order to meet their pledge to provide universal healthcare for its 250 million citizens by January 1, 2014.

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Stock Data

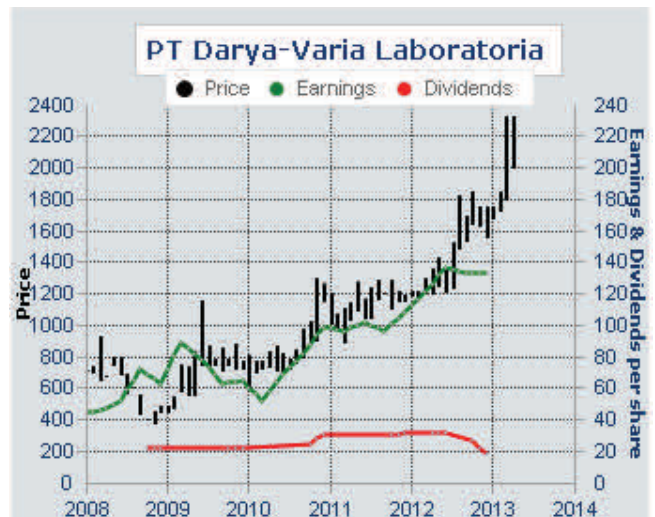
Sector	Pharmaceuticals
Price	2,300
12-month Target Price 2012	3,450
12-month Rating	Buy
Prior	
Ticker	DVLA.IJ (BBG)
Market Cap	IDR 2.576 Bn
Shares Outstanding	1.120bn

Top Holders

Blue Sphere Singapore Pte Ltd	92.66%
Others	7.34%

Source: Bloomberg

DVLA Performance



Source: www.corporateinformation.com

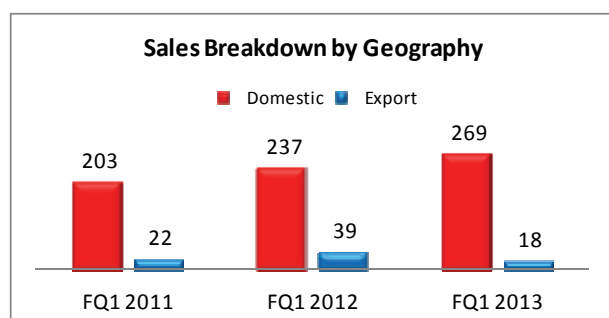
In bn IDR	FQ1 2011	FQ1 2012	FQ1 2013	FY 2011	FY 2012	FY 2013E
Revenue	225	277	287	900	1,087	1,128
<i>growth</i>	3%	23%	4%	-3%	21%	4%
Domestic	203	237	269	792	924	1,044
<i>growth</i>	-7%	17%	13%	-6%	17%	13%
Export	22	39	18	108	163	84
Cost of Revenue	77	109	108	349	436	424
Gross Profit	148	167	179	551	651	704
<i>gross margin</i>	66%	60%	62%	61%	60%	62%
Operating Expenses	117	143	123	408	464	
EBIT	31	49	56	143	187	221
<i>EBIT margin</i>	14%	18%	20%	16%	17%	20%
Depreciation	6	7	6	15	22	22
EBITDA	37	56	62	159	209	243
<i>EBITDA margin</i>	17%	20%	22%	18%	19%	22%
Interest Expense	-	-	-	-	-	
Foreign Exchange Losses (Gains)	3	-	-	0	-	
Net Non-Operating Losses (Gains)	(2)	(2)	(3)	(23)	(17)	(17)
Pretax Income	30	51	59	167	204	238
Income Tax Expense	8	14	16	45	56	60
Income Before XO Items	22	37	43	121	149	179
Minority Interests	-	-	-	-	-	-
Net Income	22	37	44	121	149	179
<i>net margin</i>	10%	13%	15%	13%	14%	16%
<i>growth</i>	-13%	64%	19%	10%	23%	20%

Source: Bloomberg, Sinarmas Investment Research

In the First Quarter 2013, DVLA performed moderately well compared with peers in term of profitability. Despite its relatively low market capitalization, the company has built a strong brand recognition in Indonesia.

Tkr & Exch	Mkt Cap	Current Price	P/E	ROE	GM	EBIT MAR-GIN	PM	Rev. Growth	EPS Growth
Average	19,257 B		27	17	46	19	14	17	25
DVLA IJ	2,576 B	2,300	17	18	62	20	15	4	18
KLBF IJ	68,553 B	1,350	36	25	48	16	13	16	10
MERK IJ	4,748 B	212,000	32	20	49	30	23	52	110
TSPC IJ	15,300 B	3,400	24	7	40	25	15	3	6
KAEF IJ	5,109 B	920	26	15	29	3	3	13	(20)

Source: Bloomberg, Sinarmas Investment Research



Although the export sales declined in 1Q13, domestic sales was still on the track with 13% growth yoy, bolstered by strong brand presence in Indonesia.

Source: Bloomberg, Sinarmas Investment Research

Date	Coverage	Recommendation	Valuation
21 March 2013	Flash Note	BUY	3,450
7 May 2013	Flash Note	BUY	3,450

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