

**1Q20 review.** KLBF's 1Q20 performance achieved 24% and 26% of our and street's FY20 estimates. Top-line grew by 8.0% YoY, while bottom-line increased by 12.5% YoY. Strongest growth came from consumer health and distribution segments which rose by 7% and 14% YoY, respectively. Concerns on Covid-19 transmission encourage society to stock-up multivitamin (e.g. Blackmores) and OTC medicines to treat flu, cough, and fever. On the GPM side, distribution's was down by 110bps due to product mix while consumer health's inched up by 280bps due to ASP increase rollover. Overall margin was slightly down on a YoY basis to 45.2% level.

**What to expect in 2020? 1) Maintaining favorable growth amidst rising health awareness.** Albeit expecting the urge to stock-up vitamin and flu remedies to normalize post 1Q20, we think that consumers' demand towards immunity-enhancing products would remain significant as we are heading into gradual economy reopening, thus higher risk of Covid-19 infections. Therefore, we forecast 7.2% and 12.0% growth in consumer health and distribution segments to offset the impact of softer sales on nutritional food and prescription drugs segments due to weaker purchasing power and drop in hospitals traffic. **2) Margin contraction.** We estimate 122bps GPM reduction in FY20 which would start to be seen in 2Q20 on the back of IDR depreciation. We view that company should be able to partially pass on the higher import costs to ASP. **3) Better API supply post China's reopening.** As to our latest conversation with the company, KLBF recently managed to secure 2-3 months worth of raw materials. Improving supply chain condition should largely subside ~IDR 200bn potential sales loss due to supply shortage which the company guided in early Feb.

**We upgrade our call on Kalbe Farma (KLBF) to ADD with target price of IDR 1,540, which implies 27.6x FY20E P/E.** The share is currently traded at 25.3x P/E (-1.3SD from 5-yr average.). In addition to being one of the most resilient companies during current pandemic, we think that KLBF is attractive for long-term play due to its high exposure to healthcare industry, extensive research and development, wide range of product portfolio, and strong nationwide distribution. Worth to note, company has two unlocked earnings boosters: 1) R&D tax deduction, and 2) Biosimilar commercialization. Downside risks to our call: further IDR depreciation, weaker-than-expected purchasing power, and supply shortage of raw materials.

**Paulina**

Equity Analyst

+62 21 392 5550 ext. 610

[paulina@sinarmassekuritas.co.id](mailto:paulina@sinarmassekuritas.co.id)**Stock Information**

Sector	Consumer
Bloomberg Ticker	KLBF IJ
Market Cap. (IDR tn)	65.4
Share Out./Float (mn)	46,875/20,015
Current Price	1,400
52-week Target Price	1,540
Upside	10.0%

**Share Price Performance**

52W High (08/30/19)	1,690
52W Low (03/26/20)	830
52W Beta	1.2
YTD Change	-13.9%

**Relative Valuations**

Trailing P/E	25.3
Forward P/E	25.0
P/BV	4.0

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	21,074	22,633	24,242	25,984	27,718
% growth	4.4%	7.4%	7.1%	7.2%	6.7%
Gross Profit	9,848	10,243	10,676	11,596	12,318
Net Profit	2,457	2,507	2,630	2,877	3,221
% growth	2.2%	2.0%	4.9%	9.4%	11.9%
Gross Margin (%)	46.7%	45.3%	44.0%	44.6%	44.4%
Net Margin (%)	11.7%	11.1%	10.9%	11.1%	11.6%
Return on Equity (%)	16.8%	15.7%	15.1%	15.2%	15.6%
Return on Assets (%)	14.1%	13.1%	12.5%	12.7%	13.1%
EPS (IDR)	52	53	56	61	69

## KLBF 1Q20 Results

(IDR Bn)	1Q20	4Q19	1Q20	YoY	QoQ	9M18	9M19	YoY	YoY	YoY
Revenue	5,366	5,807	5,796	<b>8.0%</b>	<b>-0.2%</b>	15,678	16,827	<b>7.3%</b>	24%	24%
Gross Profit	2,498	2,480	2,617	<b>4.8%</b>	<b>5.5%</b>	7,484	7,763	<b>3.7%</b>		
Profit Before Tax	795	828	888	<b>11.7%</b>	<b>7.1%</b>	2,415	2,574	<b>6.6%</b>		
Net Profit	595	591	669	<b>12.5%</b>	<b>13.2%</b>	1,804	1,915	<b>6.2%</b>	24%	26%
Gross Margin	46.6%	42.7%	45.2%			47.7%	46.1%			
PBT Margin	14.8%	14.3%	15.3%			15.4%	15.3%			
Net Margin	11.1%	10.2%	11.5%			11.5%	11.4%			

Source: Company data, Sinarmas Investment Research

## Earnings revision

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	24,207	26,321	24,242	25,984	0.1%	-1.3%
Gross Profit	11,131	12,082	10,676	11,596	-4.1%	-4.0%
Operating Profit	3,520	3,811	3,368	3,632	-4.3%	-4.7%
Net Profit	2,735	2,967	2,663	2,913	-2.6%	-1.8%
EPS (IDR)	58	63	56	61	-3.6%	-2.8%
Gross Margin	46.0%	45.9%	44.0%	44.6%	-1.9%	-1.3%
Operating Margin	14.5%	14.5%	13.9%	14.0%	-0.6%	-0.5%
Net Margin	11.3%	11.3%	11.0%	11.2%	-0.3%	-0.1%

Source: Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Revenue</b>	<b>21,074</b>	<b>22,633</b>	<b>24,242</b>	<b>25,984</b>	<b>27,718</b>
Cost of Good Sold	(11,226)	(12,390)	(13,566)	(14,388)	(15,400)
<b>Gross Profit</b>	<b>9,848</b>	<b>10,243</b>	<b>10,676</b>	<b>11,596</b>	<b>12,318</b>
Operating Expenses	(6,534)	(6,933)	(7,308)	(7,964)	(8,380)
Opex to Sales (%)	-31.0%	-30.6%	-30.1%	-30.7%	-30.2%
Other Income (Expenses)	(103)	(5)	(12)	(7)	(11)
<b>EBIT</b>	<b>3,210</b>	<b>3,305</b>	<b>3,355</b>	<b>3,625</b>	<b>3,927</b>
<b>EBITDA</b>	<b>3,563</b>	<b>3,670</b>	<b>3,917</b>	<b>4,216</b>	<b>4,539</b>
Net Financing Income (Expenses)	96	98	79	85	119
<b>EBT</b>	<b>3,306</b>	<b>3,403</b>	<b>3,435</b>	<b>3,710</b>	<b>4,046</b>
Tax Expenses	(809)	(865)	(772)	(798)	(785)
<b>Net Income</b>	<b>2,457</b>	<b>2,507</b>	<b>2,630</b>	<b>2,877</b>	<b>3,221</b>
<b>EPS</b>	<b>52</b>	<b>53</b>	<b>56</b>	<b>61</b>	<b>69</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
Cash & Equivalents	3,153	3,040	2,542	3,162	4,384
Trade Receivables	3,256	3,573	3,827	4,102	4,375
Inventories	3,475	3,738	4,093	4,341	4,646
Other Current Assets	765	871	931	997	1,071
<b>Total Current Assets</b>	<b>10,648</b>	<b>11,222</b>	<b>11,392</b>	<b>12,601</b>	<b>14,477</b>
Fixed Assets	6,253	7,666	8,995	9,410	9,404
Other Non Current Assets	1,245	1,376	1,461	1,560	1,674
<b>Total Assets</b>	<b>18,146</b>	<b>20,265</b>	<b>21,849</b>	<b>23,572</b>	<b>25,554</b>
Short Term Debt	69	150	150	150	150
Trade Payables	1,700	1,712	1,874	1,988	2,128
Other Current Liabilities	517	716	659	677	712
<b>Total Current Liabilities</b>	<b>2,286</b>	<b>2,577</b>	<b>2,683</b>	<b>2,814</b>	<b>2,990</b>
Long Term Debt	260	648	648	648	648
Other Non Current Liabilities	306	334	366	395	420
<b>Total Liabilities</b>	<b>2,852</b>	<b>3,559</b>	<b>3,697</b>	<b>3,857</b>	<b>4,058</b>
Share & APIC	435	435	435	435	435
Retained Earnings	14,073	15,361	16,738	18,300	20,083
Others	787	910	979	979	979
<b>Total Equity</b>	<b>15,295</b>	<b>16,706</b>	<b>18,152</b>	<b>19,714</b>	<b>21,497</b>
<b>Total Liabilities &amp; Equity</b>	<b>18,146</b>	<b>20,265</b>	<b>21,849</b>	<b>23,572</b>	<b>25,554</b>

Source: Company data, Sinarmas Investment Research

<b>Cash Flow (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Net Income</b>	<b>2,457</b>	<b>2,507</b>	<b>2,630</b>	<b>2,877</b>	<b>3,221</b>
Dep. & Amortization	380	395	588	620	646
Chg. In NWC	(78)	(477)	(563)	(457)	(478)
<b>CF from Operating</b>	<b>2,758</b>	<b>2,425</b>	<b>2,655</b>	<b>3,040</b>	<b>3,389</b>
Capital Expenditure	(1,343)	(1,881)	(1,884)	(1,000)	(600)
Chg. in LT Assets	(14)	(131)	(86)	(99)	(113)
Others	111	214	(32)	(35)	(40)
<b>CF from Investing</b>	<b>(1,246)</b>	<b>(1,798)</b>	<b>(2,002)</b>	<b>(1,134)</b>	<b>(753)</b>
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	16	468	-	-	-
Dividends Paid	(1,172)	(1,219)	(1,253)	(1,315)	(1,439)
Others	12	10	101	29	25
<b>CF from Financing</b>	<b>(1,144)</b>	<b>(740)</b>	<b>(1,152)</b>	<b>(1,286)</b>	<b>(1,414)</b>
Chg. in Cash	369	(113)	(499)	620	1,222
Beginning Cash	2,785	3,153	3,040	2,542	3,162
<b>Ending Cash</b>	<b>3,153</b>	<b>3,040</b>	<b>2,542</b>	<b>3,162</b>	<b>4,384</b>

<b>Financial Ratio &amp; Key Assumptions</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Profitability</b>					
Return on Equity	16.8%	15.7%	15.1%	15.2%	15.6%
Return on Assets	14.1%	13.1%	12.5%	12.7%	13.1%
Gross Margin	46.7%	45.3%	44.0%	44.6%	44.4%
Operating Margin	15.2%	14.6%	13.8%	14.0%	14.2%
EBITDA Margin	16.9%	16.2%	16.2%	16.2%	16.4%
Net Margin	11.7%	11.1%	10.9%	11.1%	11.6%
<b>Liquidity</b>					
Current Ratio (x)	4.7	4.4	4.2	4.5	4.8
Quick Ratio (x)	2.8	2.6	2.4	2.6	2.9
<b>Solvency</b>					
Debt to Equity (x)	0.02	0.05	0.04	0.04	0.04
Debt to Assets (x)	0.02	0.04	0.04	0.03	0.03
Interest Cov. (x)	108.0	81.8	72.4	84.9	78.9
<b>Valuation</b>					
Price to Earnings (x)	29.5	28.9	27.6	25.2	22.5
Price to Book (x)	4.7	4.3	4.0	3.7	3.4

Source: Company data, Sinarmas Investment Research

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