

## Company Update

**Wilbert**

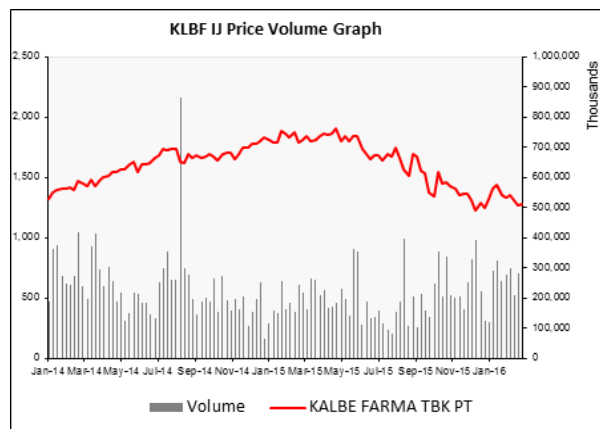
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PT Kalbe Farma Tbk is the market leader in Indonesia pharmaceutical industry. Through its subsidiaries, the company also engages in manufacturing of consumer health and nutritional products. In addition, the company also operates in distribution & logistics industry.

**Current Price: IDR 1,320**
**52-Week Target Price: IDR 1,395**
*Previous Target Price: IDR 1,440*

**Share Price Performance**

Price (IDR)	1,320
52-Week High (04/23/15)	1,915
52-Week Low (12/10/15)	1,135
52-Week Beta	1.08
YTD Change/%	0.00%

**Stock Information**

Market Cap (IDR)	61,875.2B
Shares Out/Float (M)	46,875.1 / 20,303.1 M

**PT Kalbe Farma Tbk (KLBF)**
**Positive Outlook Amidst Challenges Ahead**
**NEUTRAL**

Having recorded weak results this year, we believe KLBF will be able to perform better this year on the back of an economic recovery. However, we view severe challenges such as further slowing down in branded generic drugs sales as well as the uncertainty from Government's plan to lower drugs prices are still in sight. Meanwhile, its specialty and biosimilar drugs development will remain time-consuming, making KLBF to be more attractive in a longer-term. **Therefore, we maintain a NEUTRAL on KLBF with our target price of IDR 1,395/sh (our previous TP at IDR 1,440), which offers a 5.68% potential upside. Currently, KLBF is traded at 29.9x P/E ratio.**

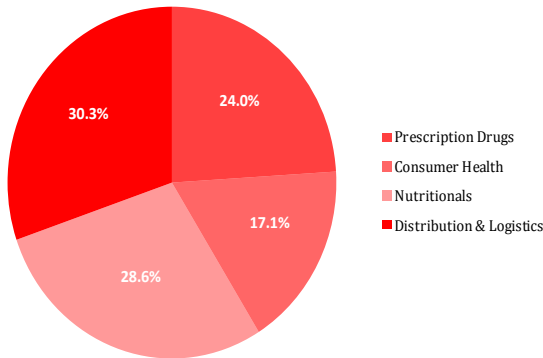
**Weaker unaudited results in challenging time.** The management has revealed KLBF's FY15 unaudited results, which is still in-line with previous management guidance. KLBF merely recorded a 3% YoY rise in its top-line, whereas bottom-line registered declined by 4.3% YoY that eventually translated to lower net income margin (11% vs 11.9% in 2014). Declining profitability was mainly due to the rising costs impacted by significant IDR depreciation last year along with higher operating expenses. Thus, both gross profit margin and operating profit margin were reported at 47.9% (vs 48.8% in 2014) and 14.8% (vs 15.9% in 2014) respectively.

**FY15 performance was mainly supported by non-pharmaceutical divisions.** Taking a deeper look at KLBF's performance, nutritional division appeared to be the major driver by recording a 11.6% YoY growth, which mostly came from volume growth. While its consumer health division also posted positive growth, the prescription pharmaceutical and distribution & logistics divisions had booked declining revenue growth, accounted for 0.8% and 2.2% YoY respectively.

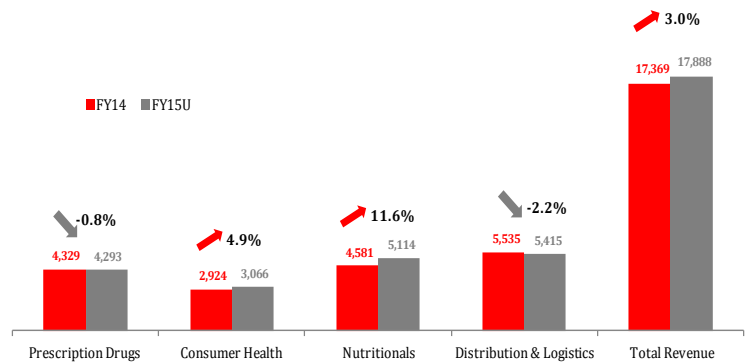
**Management guides a moderate, though more positive outlook in 2016.** Management has announced its guidance for 2016, expecting to see a 8-10% YoY sales growth, operating margin stand at 14-15%, while EPS is expected to grow by 3-10% YoY. We view the guidance to be moderate yet achievable as we see macroeconomic conditions are going better this year.

Financial Highlights	2013	2014	2015E	2016F	2017F
Revenue (IDR bn)	16,002	17,369	17,889	19,741	22,105
EBITDA (IDR bn)	2,759	3,037	3,026	3,423	3,913
Net Income (IDR bn)	1,920	2,065	1,975	2,205	2,525
EPS (IDR)	42	44	43	47	54
EBITDA Margin (%)	17.24	17.48	16.91	17.34	17.70
Net Income Margin (%)	12.00	11.89	11.04	11.17	11.42
EPS growth (%)	12.81	6.16	(3.79)	10.75	14.48
P/E (x)	30.49	41.59	30.43	29.22	25.93
PBV (x)	7.23	9.14	5.97	5.31	4.74

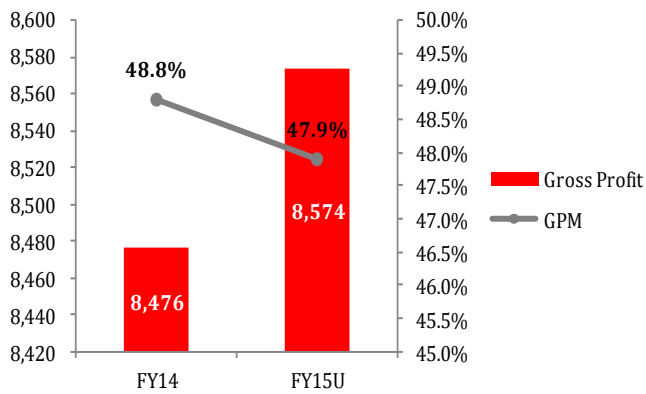
*Source: Company Data, Sinarmas Investment Research*

**KLBF FY 2015 indicative results (unaudited)**
**KLBF's revenue contribution**


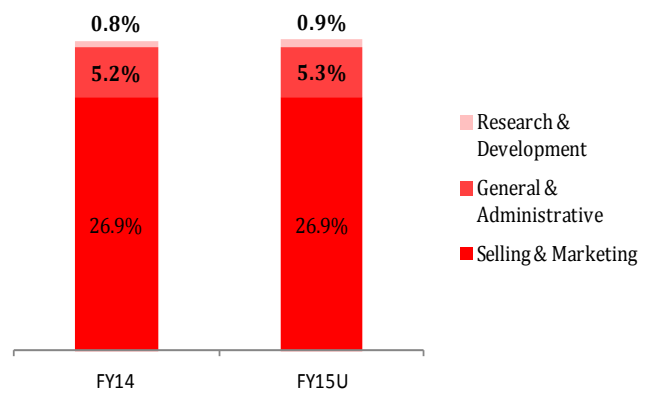
Source: Company, SinarMas Investment Research

**Nutritionals division remains best performer**


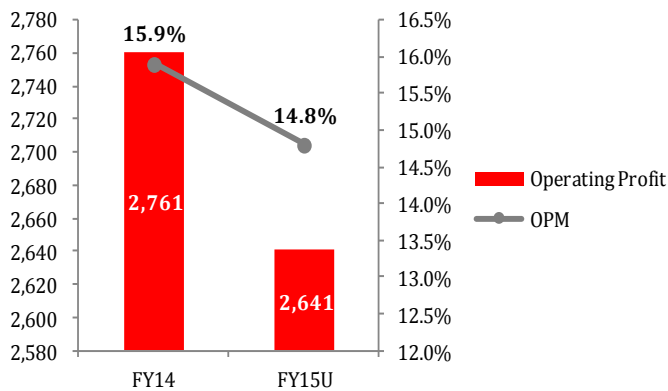
Source: Company, SinarMas Investment Research

**Rising COGS led to lower gross profit**


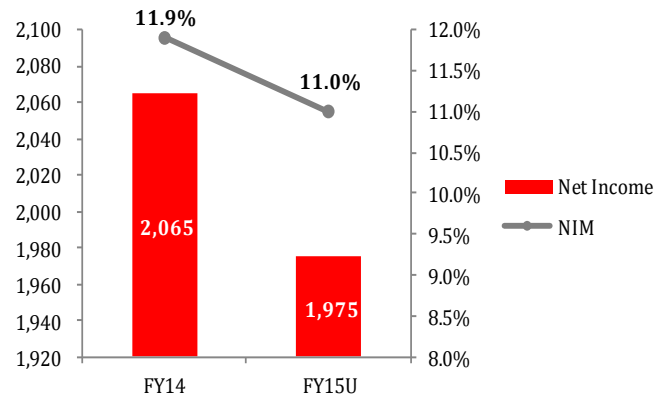
Source: Company, SinarMas Investment Research

**Slightly increase in its operating expenses (OpEx)**


Source: Company, SinarMas Investment Research

**Lower operating profit**


Source: Company, SinarMas Investment Research

**Margin shrinkage in its bottom-line**


Source: Company, SinarMas Investment Research

**KLBF 2016 Outlook**
**KLBF 2016 earnings guidance**

Year-on-year Sales Growth	8% - 10%
Operating Profit Margin	14% - 15%
Earnings per Share Growth	3% - 10%
Dividend Payout Ratio	40% - 50%

*Source: Company, Sinarmas Investment Research*

**Revenue growth by divisions**

Prescription Pharmaceuticals	7% - 8%
Consumer health	low teens
Nutritionals	mid teens
Distribution & Logistics	5% - 6%

*Source: Company, Sinarmas Investment Research*

KLBF's management is more positive this year, expect to see 8 - 10% sales growth this year. For profitability, it aims to maintain OPM level at 14 - 15%, while for bottom-line, the management looks forward to 3 - 10% EPS growth in 2016. Considering the guidance to be quite moderate, we believe KLBF will meet the targets on the back of better macroeconomic conditions this year. So far, we have seen a more stable IDR movement along with better purchasing power, which was reflected by increasing consumer confidence index on the beginning of the year. Stable IDR movement will lead to lower costs as demand boost will be encouraged from better purchasing power. The management also guided 2016 capital expenditure at IDR 1 to 1.5tn with 40% allocated to the pharmaceutical division, 30% to the consumer health division as the rest goes to the others.

We are still neutral on KLBF, deliberating further slowing down in the branded generic sales, resulting from rapid demand growth of the unbranded drugs. Moreover, another uncertainty emerge from the government's plant to push down drug prices, particularly the branded ones. If this happens, it will potentially harm KLBF's profitability as branded drugs still dominate KLBF's drug portfolio. However, we see KLBF to be more attractive for a longer-term investment, given most of its expansion plans (developing specialty drugs and biosimilar products) will need longer time to generate positive contributions.

**Appendix I: Financial Statements**

<b>Balance Sheet (in IDR bn)</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016F</b>	<b>2017F</b>
Cash & Equivalents	1,426	1,895	2,059	1,845	1,784
Trade Receivables	2,145	2,347	2,634	2,742	2,947
Inventories	3,053	3,091	3,364	3,546	3,952
Other Current Assets	744	671	691	772	891
Fixed Assets	2,926	3,404	3,966	5,006	5,946
Other Non Current Assets	892	900	957	1,060	1,171
<b>Total Assets</b>	<b>11,315</b>	<b>12,425</b>	<b>13,819</b>	<b>15,135</b>	<b>16,847</b>
Short-term Bank Loans	584	252	352	227	127
Trade Payables	1,531	1,556	1,630	1,702	1,897
Long-Term Debts	-	44	87	87	87
Other Current Liabilities	526	578	634	692	753
Other Non Current Liabilities	175	177	198	218	241
<b>Total Liabilities</b>	<b>2,815</b>	<b>2,608</b>	<b>2,901</b>	<b>2,926</b>	<b>3,106</b>
<b>Total Equity</b>	<b>8,500</b>	<b>9,817</b>	<b>10,918</b>	<b>12,208</b>	<b>13,741</b>

<b>Income Statement (in IDR bn)</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016F</b>	<b>2017F</b>
<b>Revenue</b>	<b>16,002</b>	<b>17,369</b>	<b>17,889</b>	<b>19,741</b>	<b>22,105</b>
COGS	8,323	8,893	9,315	10,213	11,383
<b>Gross Profit</b>	<b>7,679</b>	<b>8,476</b>	<b>8,574</b>	<b>9,528</b>	<b>10,723</b>
Operating Expenses	5,130	5,715	5,950	6,565	7,369
<b>Operating Profit</b>	<b>2,553</b>	<b>2,755</b>	<b>2,642</b>	<b>2,963</b>	<b>3,354</b>
EBITDA	2,759	3,037	3,026	3,423	3,913
<b>Profit Before Tax</b>	<b>2,573</b>	<b>2,764</b>	<b>2,709</b>	<b>3,006</b>	<b>3,423</b>
Tax	602	643	674	741	839
<b>Net Income</b>	<b>1,920</b>	<b>2,065</b>	<b>1,975</b>	<b>2,205</b>	<b>2,525</b>
Earning Per Share	42	44	43	47	54

Cash Flow (in IDR bn)	2013	2014	2015E	2016F	2017F
<b>Net Income</b>	<b>1,920</b>	<b>2,065</b>	<b>1,975</b>	<b>2,205</b>	<b>2,525</b>
Adjustment	236	302	444	521	620
Working Capital	(1,119)	(78)	(481)	(257)	(464)
<b>Operating Cash Flow</b>	<b>1,036</b>	<b>2,289</b>	<b>1,939</b>	<b>2,468</b>	<b>2,681</b>
Capital Expenditure	(971)	(821)	(945)	(1,500)	(1,500)
<b>Investing Cash Flow</b>	<b>(1,003)</b>	<b>(745)</b>	<b>(1,062)</b>	<b>(1,663)</b>	<b>(1,672)</b>
Debt	380	(288)	143	(125)	(100)
Dividend	(891)	(797)	(891)	(852)	(992)
<b>Financing Cash Flow</b>	<b>(466)</b>	<b>(1,076)</b>	<b>(712)</b>	<b>(1,019)</b>	<b>(1,069)</b>
Net Cash Flow	(433)	468	164	(214)	(60)
Beginning Cash	1,860	1,426	1,895	2,059	1,845
<b>Ending Cash</b>	<b>1,426</b>	<b>1,895</b>	<b>2,059</b>	<b>1,845</b>	<b>1,784</b>

Key Ratios (%)	2013	2014	2015E	2016F	2017F
Revenue Growth	17.35	8.54	3.00	10.35	11.98
Operating Profit Growth	13.42	7.91	(4.09)	12.13	13.20
EBITDA Growth	15.44	10.06	(0.35)	13.13	14.32
Net Income Growth	11.01	7.64	(4.03)	11.27	14.12
EPS Growth	12.81	6.16	(3.79)	10.75	14.48
Return on Equity	24.19	22.54	19.05	19.07	19.46
Return on Asset	18.52	17.39	15.05	15.23	15.79
Debt to Equity	7.20	3.16	4.19	2.67	1.61
Dividend Per Share (IDR)	19	17	19	18	21

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