

14th May 2012

## PT Kalbe Farma Tbk

### Top Line Growth Recovery

**HOLD**

An improvement in profit margin as a result of its recent facility upgrade which improves efficiency and the launching of several new products, contributed to KLBF's net profit growth of 15.2% YoY in FY11. Sales growth though came below our expectation, grew by 6.7% YoY in FY11 due to limitation on its average selling price increase. KLBF FY11 bottom line came below our FY11 forecast by 7.1% and also slightly below consensus estimate.

#### Strong start to FY12

After less than inspiring sales growth in FY11, the company has delivered above expectation performance in 1Q12, with 27.7% YoY growth in sales. The company's aggressive marketing strategies and selective price increase on several of its products have driven revenue. Strong sales growth is evident across Kalbe's four business divisions, with distribution division contributing the strongest, rising 55.5% YoY on the back of positive contribution from its newest third party principal, PT Abbott, and from its overall existing principals.

#### Margin slightly decline

KLBF's gross and operating margin slightly decline during 1Q12. Gross margin decreased by 2.8% YoY to 49% in 1Q12, whilst operating margin decreased by 0.3% YoY to 18% in 1Q12. Intense competition, aggressive marketing and promotion, slight change in business mix where distribution— a low margin business, has become the dominant contributors, accounted for 37% of total sales as per 1Q12, were the contributors to lower margin. As a result, we have slightly lowered our operating margin forecast to 17.7% for FY12, and gross margin forecast to 50.5% for FY12, in addition with the expectation that cost of raw materials will remain stable.

#### Recovery in top line growth

Based on KLBF strong start in 1Q12, we have revised our sales to grow by 18.5% FY12 & 13% in FY13, driven by newly added value and by new facilities in Cikarang which will boost generic drugs production. However, we remain caution due to limited selling price increase, especially in its generics product line, where price increase is capped by government regulation.

#### Updating our valuation to IDR 4,050

We have updated our valuation to IDR 4,050 based on our updated assumption on margin and revenue growth. At this price, the company will be trading at 2012E P/E multiples of 22x And 2012E P/B multiples of 4.8x. At current trading price, the stock is near our valuation. Therefore we recommend to hold.

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**Ticker: KLBF**

#### Stock Data

Sector	Pharmaceuticals
Price (14th of May 2012)	3,925
Target Price 2012	4,050
EPS 2011A	158
EPS 2012E	183
EPS 2013F	203
Market Cap (IDR)	39.9 T
Issued Shares (mil)	9,375
Earnings Multiple:	
P/E 2011A	24.8
P/E 2012E	21.4
P/E 2013F	19.3
Five Years Average (annualized historical)	
Sales Growth (%)	12.4
Net Profit Growth (%)	16.9
ROE (%)	23.5
Dividend Payout Ratio (%)	18.2
Top 4 Major Shareholders	
PT Gira Sole Prima	10.17%
PT Santa Seha Sanadi	9.62%
PT Diptanala Bahana	9.49%
Public	40.01%



Source: www.corporateinformation.com

REVENUE FORECAST	2012E	2013F	2014F
Revenue (IDR in bn)	12,930	14,612	16,876
Gross Margin (%)	50.5	49.6	49.4
Revenue Growth (%)	18.5	13	15.5

<i>Fiscal Year End</i>	2010	2011	2012E	2013F	2014F
<b>Income Statement (bn)</b>					
<b>Sales Revenue</b>	<b>10,226</b>	<b>10,912</b>	<b>12,931</b>	<b>14,611</b>	<b>16,876</b>
Cost of Goods Sold	(5,060)	(5,361)	(6,401)	(7,364)	(8,539)
<b>Gross Profit</b>	<b>5,166</b>	<b>5,551</b>	<b>6,530</b>	<b>7,247</b>	<b>8,337</b>
Operating Expenses	(3,375)	(3,583)	(4,241)	(4,690)	(5,383)
<b>Operating Income</b>	<b>1,791</b>	<b>1,968</b>	<b>2,289</b>	<b>2,557</b>	<b>2,953</b>
<b>EPS</b>	<b>137</b>	<b>158</b>	<b>183</b>	<b>203</b>	<b>236</b>
Net Interest Income (Expenses)	(21)	(13)	(11)	-	-
Other Income (Expenses)	0.248	32	58	40	72
<b>Income Before Tax</b>	<b>1,770</b>	<b>1,987</b>	<b>2,336</b>	<b>2,597</b>	<b>3,025</b>
Income Tax Expense	(427)	(464)	(561)	(623)	(726)
Minority Interest	57	41	65	73	84
<b>Net Income</b>	<b>1,286</b>	<b>1,482</b>	<b>1,710</b>	<b>1,900</b>	<b>2,215</b>
<b>Balance Sheet (bn)</b>					
Cash & Cash Equivalents	1,902	2,291	2,122	2,864	3,361
Account Receivables	1,263	1,530	1,590	1,812	2,109
Inventories	1,551	1,705	2,069	2,513	2,936
Other Current Assets	322	430	530	643	759
Net Fixed Assets	1,605	1,860	2,564	2,778	3,049
Total Non-Current Assets	1,994	2,318	3,016	3,289	3,690
<b>Total Assets</b>	<b>7,032</b>	<b>8,274</b>	<b>9,328</b>	<b>11,121</b>	<b>12,856</b>
Current Liabilities	1,146	1,631	1,487	1,929	2,109
Long-Term Liabilities	115	128	142	205	219
<b>Total Liabilities</b>	<b>1,261</b>	<b>1,759</b>	<b>1,629</b>	<b>2,133</b>	<b>2,329</b>
Shareholder's Equity	5,771	6,516	7,699	8,988	10,527
Minority Interest	398	301	366	439	523
<b>Total Equity &amp; Liabilities</b>	<b>7,032</b>	<b>8,274</b>	<b>9,328</b>	<b>11,121</b>	<b>12,856</b>
<b>Cash Flow (bn)</b>					
<b>Operating Cash flow</b>	<b>1,254</b>	<b>1,558</b>	<b>1,523</b>	<b>1,979</b>	<b>2,052</b>
Net Capex	(470)	(469)	(979)	(556)	(681)
Other Investing Items	238	(261)	6	(59)	(130)
<b>Free Cash Flow</b>	<b>1,022</b>	<b>828</b>	<b>550</b>	<b>1,364</b>	<b>1,241</b>
Dividends paid	(253)	(557)	(593)	(684)	(760)
Other financing items	(322)	126	(125)	62	15
<b>Net Cash Flow</b>	<b>447</b>	<b>396</b>	<b>(169)</b>	<b>742</b>	<b>496</b>
<b>KEY RATIO</b>					
Sales Growth (%)	12.5	6.7	18.5	13	15.5
Net Profit Growth (%)	38.4	15.2	15.5	11	16.5
Operating Margin (%)	17.5	18	17.7	17.5	17.5
Payout Ratio (%)	19.7	37.6	40	40	40
Acid-Test Ratio	2.8	2.3	2.5	2.4	2.6
ROE (%)	24.4	24.1	24.1	22.8	22.7
P/E	28.6	24.8	22	19	17
P/BV	6.4	5.6	4.8	4.1	3.5
ROA (%)	19	19.4	19.4	18.6	18.5

**Historical recommendation and valuation: PT Kalbe Farma Tbk**

<b>Date</b>	<b>Coverage</b>	<b>Recommendation</b>	<b>Valuation</b>
20/4/2011	Initiation	Underweight	IDR 3,350
14/5/2012	Update	Hold	IDR 4,050

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