

PT Kalbe Farma Tbk.

A Clean Bill of Health

KLBF is Indonesia's largest pharmaceutical company with market share of 11%. KLBF's consolidated net sales increased by 3.9% yoy to IDR 15.7 trillion in 9M18 (IDR 5.3 trillion in 3Q18 vs IDR 5.4 trillion in 2Q18). Net income was IDR 1.8 trillion in 9M18, a slight increase of 1.4% yoy. We set KLBF price target at IDR 1,700, which the price target reflects PER'19E 30.45x.

Largest Pharmaceutical Company in Indonesia. KLBF is Indonesia's largest pharmaceutical company. Based on the 2016 ITMA YTD IMS Health release, KLBF has a market share of 11%.

9M18 Summary. KLBF's consolidated net sales increased by 3.9% to IDR 15.7 trillion in 9M18 (IDR 5.3 trillion in 3Q18), with all of the divisions contributing to the increase, due to volume growth across the divisions and higher average selling prices. The number represented 72% of our sales estimates. Net income was IDR 1.8 trillion in 9M18, a slight increase of 1.4%.

Positive Outlook. As the fourth most populous country in the world, Indonesia is considered as one of the largest consumer base for healthcare products and services. Meanwhile, spending on healthcare is very low in comparison to neighboring countries. Spending for nutritional products is also below other ASEAN countries, which creates plenty of market growth opportunities. The healthcare market is also supported by Indonesia's favorable demographics. Increased health awareness and rising personal incomes in the fast growing higher-end segment will lift demands for services beyond those provided through the JKN scheme. This higher-end segment will also drive higher consumer spending on nutritional products and food supplements.

VALUATION & RECOMMENDATION

We set **KLBF price target at IDR 1,700**, where the price target reflects PER'19E 30.45x. Comparing the closing price of KLBF on Thursday (10/01) at the level of IDR 1,600, where there is still an upside potential of 6.3%, **we recommend Neutral for KLBF.**

Exhibit 01– Key Metrics

Key Metrics	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Revenue (bn IDR)	16,002	17,369	17,887	19,374	20,182	21,244	22,500
COGS (bn IDR)	8,323	8,893	9,296	9,886	10,370	11,015	11,670
Gross Profit (bn IDR)	7,679	8,476	8,592	9,488	9,812	10,228	10,830
Net Income (bn IDR)	1,920	2,065	2,004	2,303	2,404	2,487	2,617
EPS (IDR)	41	44	43	49	51	53	56
Revenue Growth	17.35%	8.54%	2.99%	8.31%	4.17%	5.26%	5.91%
EPS Growth	11.11%	7.32%	-2.82%	14.73%	4.53%	3.46%	5.22%
ROA	16.96%	16.60%	14.63%	15.12%	14.47%	13.74%	13.31%
ROE	22.58%	21.15%	18.32%	18.48%	17.30%	16.34%	15.78%
PE Ratio	41.46	38.64	39.76	34.65	33.15	32.04	30.45
PBV	10.81	9.38	8.16	7.29	6.39	5.74	5.24

Source : Company, MCS Research

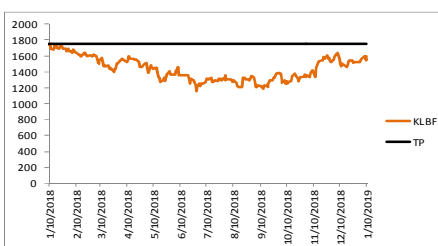
11 January 2019

Neutral (+6.3%)

Price (10/01)	IDR 1,600
Target Price	IDR 1,700
Ticker	KLBF
Industry	Consumer Goods

Helen

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Company Description

PT Kalbe Farma Tbk (KLBF) is Indonesia's and Southeast Asia's largest listed pharmaceutical company. KLBF has four business divisions: Prescription Pharmaceutical Division, Consumer Health Division, Nutritionals Division and Distribution and Logistics Division.

Stock Data

52-week Range (IDR)	1,155 1,755
Mkt Cap (IDR tn)	74.5
JCI Weight	1.04%
Shares O/S (mn)	46,875
YTD Change	4.61%

Shareholders:

PT Gira Sole Prima	10.17%
PT Santa Seha Sanadi	9.71%
PT Diptanala Bahana	9.49%
PT Lucasta Murni Cemerlang	9.47%
PT Ladang Ira Panen	9.21%
PT Bina Arta Charisma	8.66%
Public	43.29%

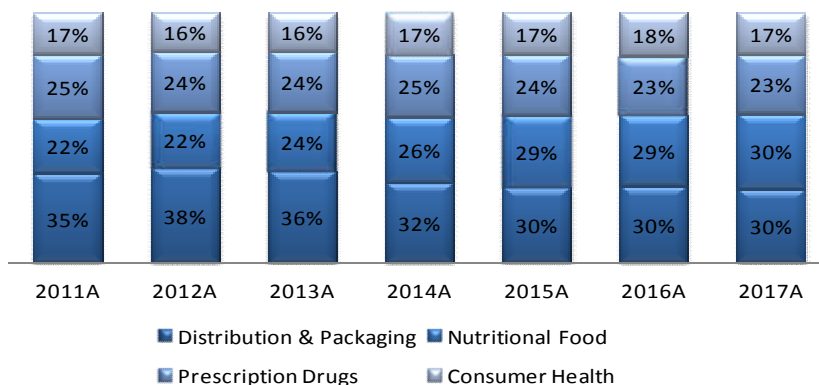
Exhibit 02– 9M18 Financial Summary

in IDR bn	9M17	9M18	YoY	2Q18	3Q18	QoQ	FY18E	%
Revenue	15,090	15,678	3.90%	5,366	5,298	-1.26%	21,244	73.80%
- Cost of Revenue	7,726	8,194	6.07%	2,800	2,808	0.27%	11,015	74.39%
Gross Profit	7,364	7,484	1.63%	2,566	2,490	-2.94%	10,228	73.17%
Operating Income	2,313	2,296	-0.74%	797	745	-6.43%	3,415	67.25%
Net Income	1,779	1,804	1.41%	626	589	-6.04%	2,487	72.56%
Basic Earnings per Share (IDR)	38	38	1.39%	13	13	-6.04%	53	72.55%

Margin	
Gross Margin	48.8% 47.7% 47.8% 47.0% 48.1%
Operating Margin	15.3% 14.6% 14.8% 14.1% 16.1%
Profit Margin	11.8% 11.5% 11.7% 11.1% 11.7%

Sales		9M17	9M18	YoY
Prescription Pharmaceuticals		3,572	3,675	2.9%
Consumer Health		2,658	2,713	2.1%
Nutritionals		4,464	4,629	3.7%
Distribution & Logistics		4,395	4,662	6.1%
Consolidated Sales		15,090	15,678	3.9%

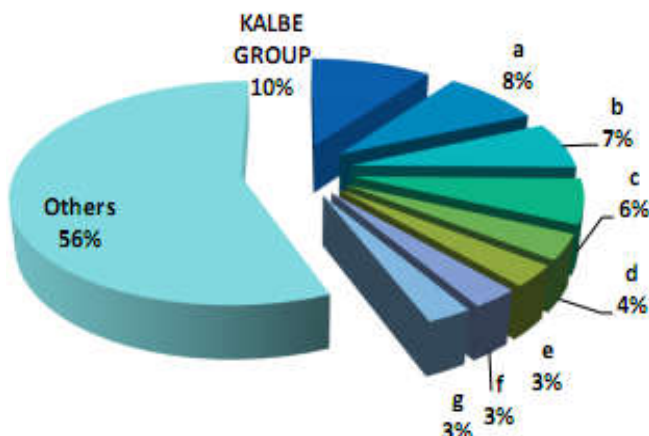
Exhibit 03– Contribution to the Consolidated Net Sales



Source : Company

KLBF is Indonesia's and Southeast Asia's largest listed pharmaceutical company. KLBF has four business divisions: Prescription Pharmaceutical Division, Consumer Health Division, Nutritionals Division and Distribution and Logistics Division.

Exhibit 04– Prescription Pharmaceutical Market Share in 2017

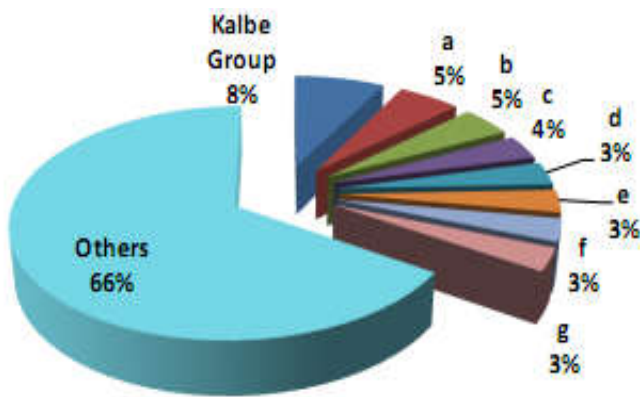


Source : Company

KLBF's Prescription Pharmaceuticals Division features a complete product range for all segments, from unbranded generic drugs, branded generics up to licensed drugs.

Some of KLBF's products include Brainact, Cefspan, Mycoral, Cernevit, Cravit, Neuralgin, Broadced, Neurotam, Hemapo, and CPG.

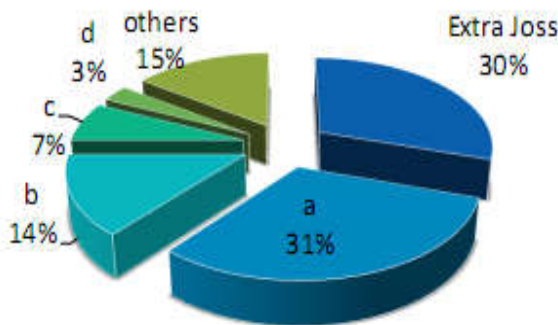
Exhibit 05– Consumer Health Division Market Share in 2017



Source : Company

KLBF’s Consumer Health Division offers over-the-counter drugs with therapeutic benefits, consumer products with health benefits, including supplements and other preventive products, along with energy drinks and healthy ready-to-drink products. KLBF’s over-the-counter portfolio category covers more than 6 therapeutic classes with strong brands, commanding a dominant market share, over recent decades.

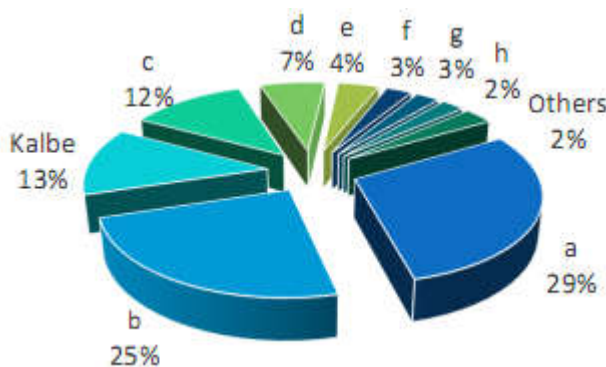
Exhibit 06– Energy Drinks Market Share 2017



Source : Company

Some of KLBF’s products include Pro-mag, Mixagrip, Extra Joss , Komix, Woods, Entrostop, Procold, Fatigon, Hydro Coco, and Original Love Juice.

Exhibit 07– Powdered Milk Market Share



Source : Company

KLBF’s Nutritionals Division showcases a complete product range for all important stages in consumer’s lives, from infants, toddlers, children, teens, adults, expectant and lactating mothers, up to the elderly; as well as nutritional products for consumers with special medical needs.

Exhibit 08– KLB’s Products Market Share

Kalbe’s Products	Market Share 2017
Diabetasol	90%
Milna	54%
Prenagen	58%
Morinaga Chil Mil	11%
Morinaga BMT	11%
Entrasol	13%
Morinaga Chil Kid	7%
Zee	12%
Morinaga Chil School	3%

Source : Company

Some of KLB’s products include Morinaga Chil Kid, Morinaga Chil School, Morinaga Chil Mil, Morinaga BMT, Prenagen, Milna, and Diabetasol, which have been launched over 20 years ago and command dominant market shares in Indonesia. KLB continues to enhance its product portfolio by introducing several new products offering health benefits for consumers such as Zee, Fitbar, Entrasol, Nutrive Benecol and Diva.

Exhibit 09– KLB’s Distribution Network



Source : Company

Distribution and Logistic Division, run by its subsidiary PT Enseval Putera Megatrading Tbk (EPMT), is responsible for delivering KLB’s and third party principal products.

Some of the major third party principals include PT Interbat Pharmaceutical Industry, PT Kara Santan Pertama, and PT Beiersdorf Indonesia.

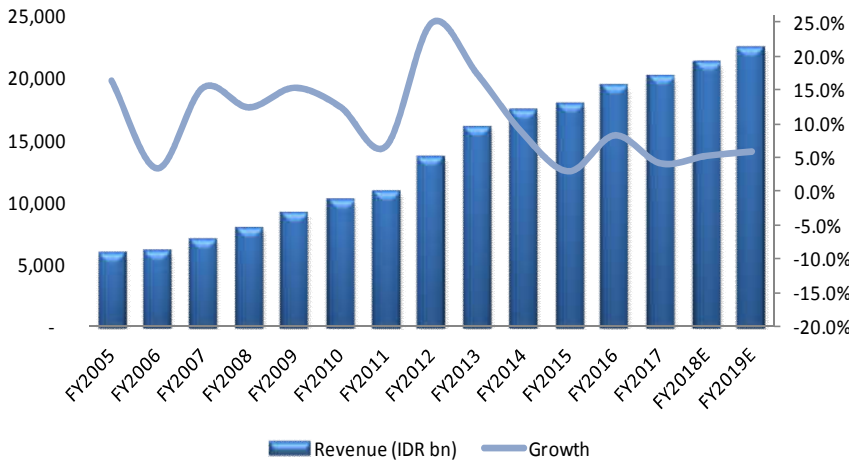
Exhibit 10– Distribution Network

	Prescription Pharmaceuticals	Consumer Health	Nutritionals	Distribution & Logistics
Infra-structures	<ul style="list-style-type: none"> • Around 1,500 medical representatives 	<ul style="list-style-type: none"> • Approximately 450 marketing and sales force 	<ul style="list-style-type: none"> • Over 600 marketing personnel 	<ul style="list-style-type: none"> • > 1,700 sales & marketing personnel • Total of > 6,000 employees • 74 marketing branches throughout Indonesia • 47 own branches & 27 at subsidiaries • > 1,000 trucks • > 500 motorcycles
Indonesia Coverage	<ul style="list-style-type: none"> • Market coverage • 70% of GP market • 90% of specialist market • 100% of all hospitals • 100% pharmacy 	<ul style="list-style-type: none"> • Directly cover 200,000 outlets • Products available in over 1mn outlets 	<ul style="list-style-type: none"> • Market Coverage throughout Indonesia 	<ul style="list-style-type: none"> • 30% of consumer outlets • 100% of prescription pharma market
Comments	<ul style="list-style-type: none"> • Largest marketing team in Indonesia 		<ul style="list-style-type: none"> • Most developed telemarketing team in the nutritional sector 	<ul style="list-style-type: none"> • Largest sales force in Indonesia

Source : Company

KLB’s distribution and Logistic network for pharmaceuticals products is the most extensive in Indonesia. Supported by 2 Regional Distribution Centers (RDC) in Jakarta and Surabaya, and 74 branches in 54 cities, KLB reaches more than 1 million outlets all over Indonesia, both directly and indirectly, in cooperation with local sub-distributors.

Exhibit 11– Revenue

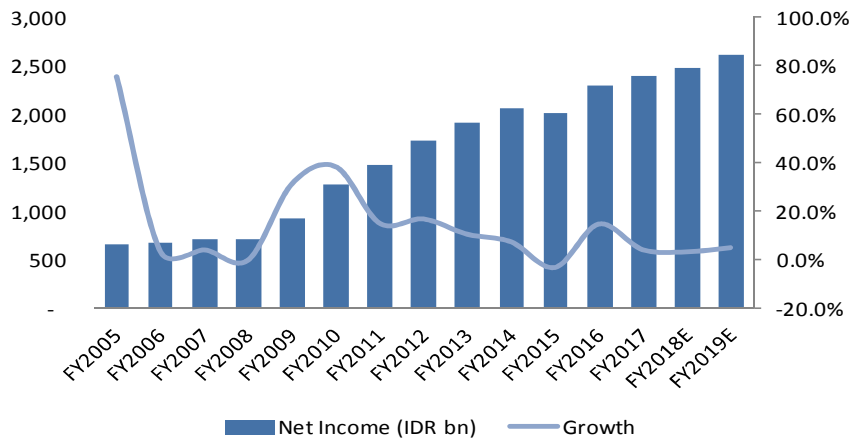


Revenue increased from IDR 7.88 trillion in 2008 to IDR 20.18 trillion in 2017, representing a CAGR of 11.02%.

KLBF’s consolidated net sales increased by 3.9% to IDR 15.7 trillion in 9M18 (IDR 5.3 trillion in 3Q18), with all of the divisions contributing to the increase, due to volume growth across the divisions and higher average selling prices. The number represented 72% of our sales estimates.

Source : Company, Bloomberg, MCS Research

Exhibit 12– Net Income

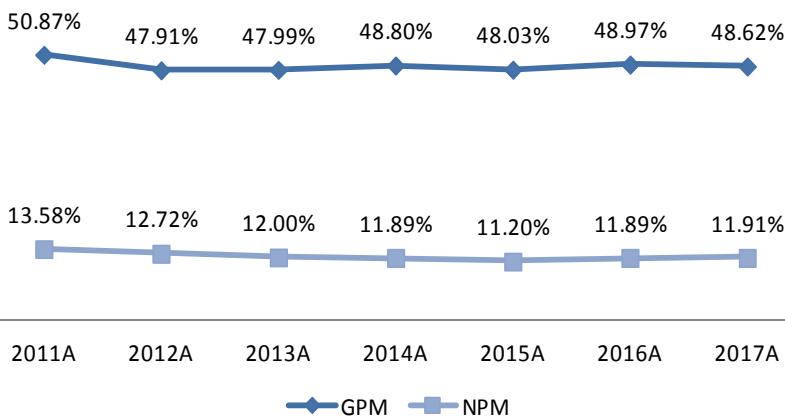


Net income increased from IDR 707 billion in 2008 to IDR 2.04 trillion in 2017, representing a CAGR of 14.57%.

KLBF recorded a net income of IDR 1.8 trillion in 9M18 (IDR 589 billion in 3M18 vs IDR 626 billion in 2Q18), a slight increase of 1.4%. The number represented 72.6% of our sales estimates.

Source : Company, Bloomberg, MCS Research

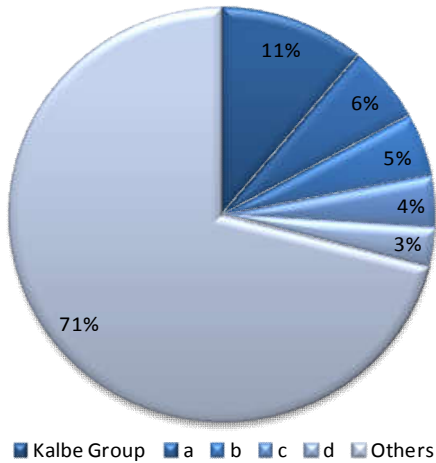
Exhibit 13– Margin



KLBF maintained expense efficiency to keep stable margin.

Source : Company, Bloomberg, MCS Research

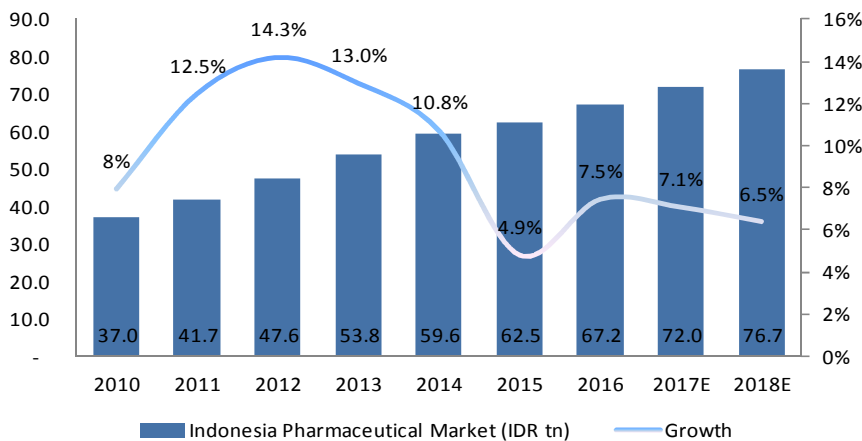
Exhibit 14– Indonesia Pharmaceutical Market Share



Indonesia pharmaceutical industry is a fragmented industry, meaning there is no particular company that dominates. There are around 200 pharmaceutical companies operating with the five largest companies controlling around 29% market share. Based on the 2016 ITMA YTD IMS Health release, KLBF has a market share of 11% and the remaining 71% market share is dominated by various companies with a market share below 3%.

Source: IMS Health ITMA YTD 12 2016

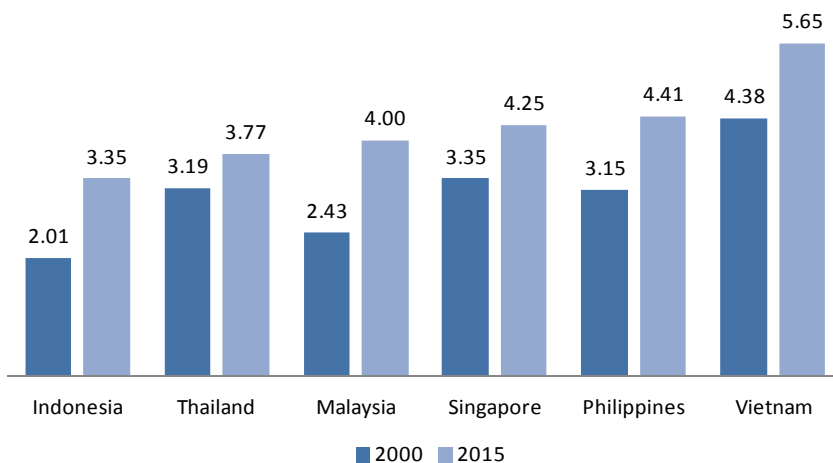
Exhibit 15– Indonesia Pharmaceutical Market



The pharmaceutical industry is projected to grow by + 6.46% on an annual basis in 2018. The increase in BPJS program and the increase in consumption of private hospitals are the drivers of this growth amid pressure from the weakening of the Rupiah.

Source: Various Sources

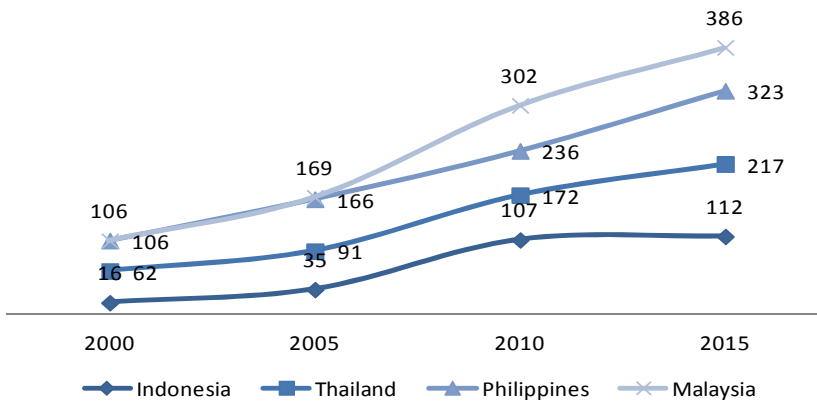
Exhibit 16– Healthcare Expenditure (% GDP)



Healthcare expenditures in Indonesia is lower compared to other countries. The total healthcare spending of the ASEAN 6 nations (Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam), which was an estimated USD 420 billion in 2017, is projected to increase by 70% over the next two decades, driven by the increasing age of these countries' populations, the high rates of smoking in some countries, lack of exercise and unhealthy diets.

Source : World Bank

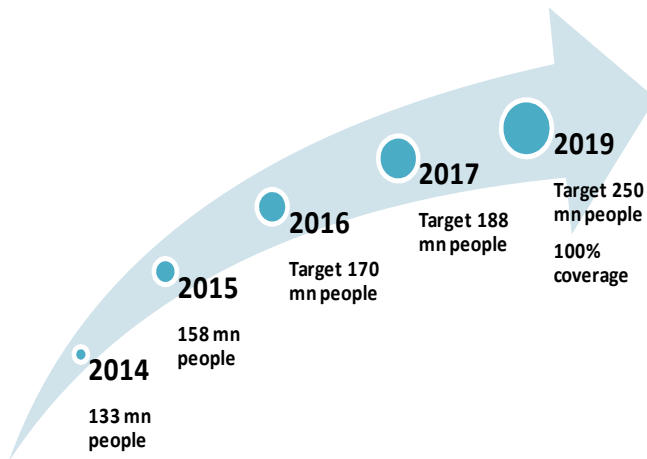
Exhibit 17– Healthcare Expenditure per Capita (USD)



Source: World Bank

In 2015, Indonesia spent the least for healthcare per capita, below Singapore (USD 3,681 per capita), Malaysia (USD 386 per capita), Thailand (USD 217 per capita) and Philippines (USD 323 per capita). Even so, healthcare spending has shown a significant increase from the level of USD 16 per capita in 2000. In the period 2000-2015, healthcare expenditure grew CAGR 10.22%.

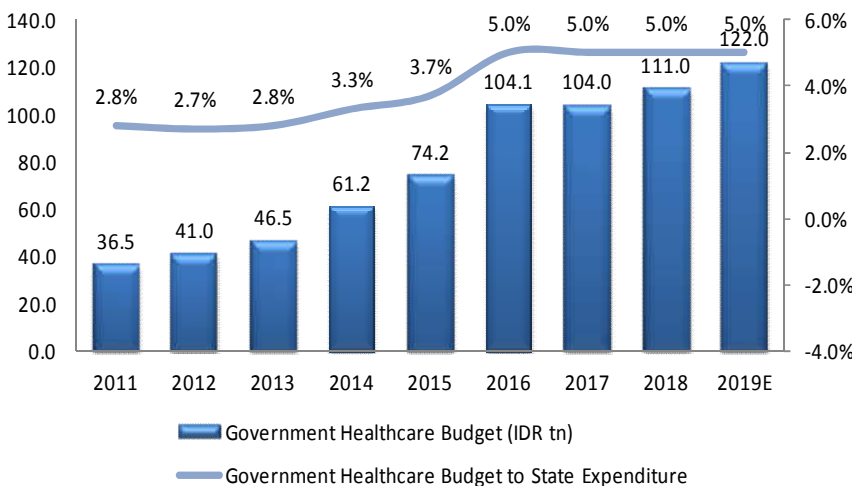
Exhibit 18– JKN



Source: Various Sources

Jaminan Kesehatan Nasional (JKN) is a national health insurance scheme launched by Indonesia in 2014. It covers 203.27 million people per October 2018 and aims to provide Universal Health Coverage (UHC) to the whole population by 2019. This will make its insurance scheme the largest universal healthcare program in the world.

Exhibit 19– Healthcare Budget



Source : Kemenkeu

The ratio of the health budget to the state budget before JKN implementation in 2014 was below the level of 3%, but after the implementation of JKN in 2014, the ratio increased to 3.3% in 2014 and finally rose to reach the 5% level in the year 2016.

Going forward, the JKN program continues to become the major driver behind the development in the pharmaceuticals industry, particularly in the unbranded generic product segment. Relative to the total ethical market, shares of unbranded generic products will continue growing as more Indonesians rely on the JKN program.

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