

Wednesday, 15 November 2023

HOLD

Downgrade

Last price (IDR)	1,610
Target Price (IDR)	1,600
Upside/Downside	-0.6%
Previous Target Price (IDR)	2,100

Stock Statistics

Sector	Pharmaceutical
Bloomberg Ticker	KLBF JJ
No of Shrs (mn)	46,875
Mkt. Cap (IDRbn/USDmn)	75,235/4,794
Avg. daily T/O (IDRbn/USDmn)	65.5/4.2

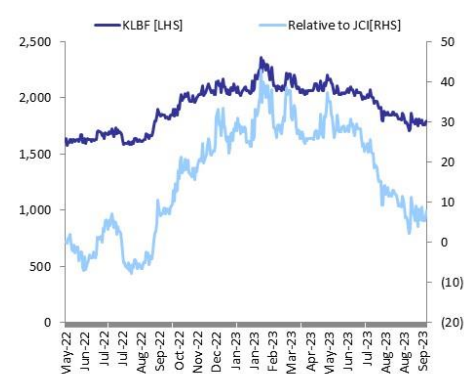
Major shareholders (%)

PT GIRA SOLE PRIMA	10.3
PT SANTA SEHA SANADI	9.9
Estimated free float	40.4

EPS Consensus (IDR)

	2023F	2024F	2025F
Danareksa	57.2	58.8	64.6
Consensus	68.1	78.7	89.2
Danareksa/Cons	(16.0)	(25.3)	(27.6)

KLBF relative to JCI Index



Source : Bloomberg



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Kalbe Farma (KLBF JJ)

Persisting headwind in FY24 from shifting industry trend

We are turning more cautious on KLBF's FY23-25F EPS growth as we see threat for its branded prescription drugs from the persisting rising trend of hospital patients visits from JKN patients in 9M23 (17% CAGR in 2014-22). Against this headwind, we project a lower FY24F earnings growth of 2.9% yoy (21-27% cut in FY23-25F est.) and cut our rating to HOLD with a lower TP of IDR1,600.

Rising trend of JKN patients poses threat to KLBF's prescription drugs. Hospital operators MIKA, HEAL and SILO have reported further increase in revenue portion from JKN patients in 9M23, continuing the trend from the past few years (data shown by National Health Program/ BPJS that showed 17% CAGR in 2014-22 (34% in FY22) increase in total number of visits by JKN patients to healthcare facilities. As this trend appears to persist in 9M23, we see a risk for strong demand growth for generic products to also continue in 2024 onward.

Expect generic drugs to be main driver of FY24 top line growth for prescription segment. We expect KLBF's FY24 growth to hinge on organic growth in its prescription drugs segment, with new oncology/biosimilar products to gradually provide a higher contribution (9M23: 10% of prescriptions/ 2.6% to 9M23 revenues). We forecast 8.9% FY24 revenue growth for the prescription segment (lower than FY23 of 29% yoy including Sanofi), but with generic drugs expected to be the main driver with +17.3% yoy. With higher sales from generic drugs, we forecast margin to contract (FY24F: 47% vs FY23F's 47.9%).

Headwind for consumers segment from soft purchasing power. Amid soft purchasing power and a growing trend of higher spending toward lifestyle, we project sales of Consumer Health and Nutritional products to remain tepid at 4-5% yoy in FY24 and forecast continued low FY24F gross margins of 38.7%. In overall, we project 5.8% yoy revenue growth. We expect KLBF to maintain its FY24F opex/revenues at 27.2% and as such, expect 2.9% yoy earnings growth.

Downgrade rating to HOLD on challenging outlook. KLBF currently trades at 27.7x FY24F PE, with an unexciting growth outlook of 2.9%. We lowered our DCF-based TP to IDR1,600 (WACC 7.9%, Terminal growth 4%) to reflect our revised forecast and roll over our valuation to 2024, implying FY24F PE of 26.8x (in-line with 5-year avg. PE of 26.6x). Upside risk is a quick rebound in Branded prescription/Nutrition/OTC leading to higher margin and stronger sales (upside risk), while downside risk will be from higher-than-expected generic contribution that will put pressure on margin.

Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDRbn)	26,261	28,934	30,389	32,154	34,542
EBITDA (IDRbn)	4,628	4,869	4,235	4,440	4,797
EBITDA Growth (%)	12.6	5.2	(13.0)	4.8	8.0
Net profit (IDRbn)	3,184	3,382	2,650	2,727	2,998
EPS (IDR)	67.9	72.2	56.5	58.2	63.9
EPS growth (%)	16.5	6.2	(21.7)	2.9	9.9
BVPS (IDR)	417.7	434.9	462.5	498.1	538.8
DPS (IDR)	27.7	27.2	28.9	22.6	23.3
PER (x)	23.7	22.3	28.5	27.7	25.2
PBV (x)	3.9	3.7	3.5	3.2	3.0
Dividend yield (%)	1.7	1.7	1.8	1.4	1.4
EV/EBITDA (x)	15.0	14.9	16.9	15.9	14.0

Source : KLBF, BRI Danareksa Estimates

Turning more cautious amid persisting headwind from shifting industry trend in FY24

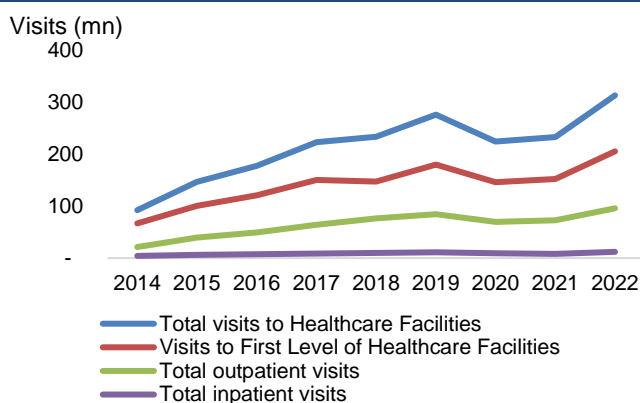
We forecast FY24F lower revenue growth of 5.8% yoy

We note that the revenues portion from JKN patients is increasing for hospitals (MIKA, HEAL, SILO), ranging from 17-18% (for MIKA & SILO vs 2021's 9-13%) and 60-62% for HEAL (vs 2021's 40-43%). Additionally, the total number of visits by JKN patients to healthcare facilities increased by 34% in FY22 (17% CAGR in 2014-22). This may lead to continued high demand for generic products in 2024 onward. For KLBF, 2023 prescription revenues have been supported by additional prescription revenues from Sanofi. However, in 2024, KLBF will depend on organic growth in its prescription drugs segment. New oncology/biosimilar products will gradually provide a higher contribution in 2024 (9M23: 10% of prescriptions or 2.6% to 9M23 revenues). However, the potentially higher demand for generic drugs may exert a drag on margins for prescription drugs going forward. For 2024, we estimate 5.8% yoy top line growth, driven by prescription drugs (8.9% yoy, especially generic drugs with 17.3% yoy growth).

Expect slower FY24F earnings growth to 2.9% yoy

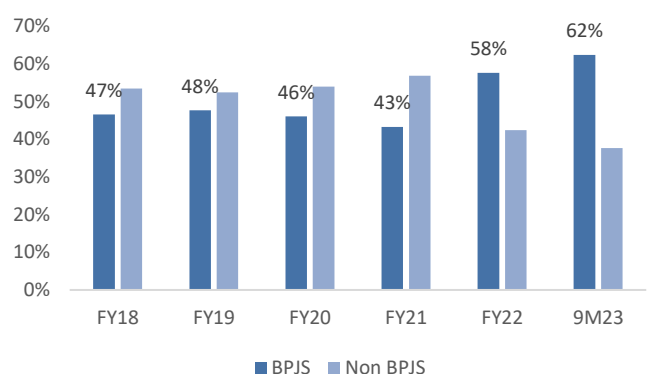
Higher growth in generic products with continued increasing numbers of JKN patients will lead to lower gross margins in the prescription drugs segment (FY24F: 47% vs FY23F's 47.9%). Soft purchasing power with a growing trend of higher spending toward lifestyle may create headwinds for sales of Consumer Health and Nutritional products. As such, we estimate continued low FY24F gross margins of 38.7%. With tepid top line growth, we expect KLBF to maintain its FY24F opex/revenues at 27.3%. This will filter through to 2.9% yoy earnings growth.

Exhibit 1. Total visits using BPJS increased 17% CAGR

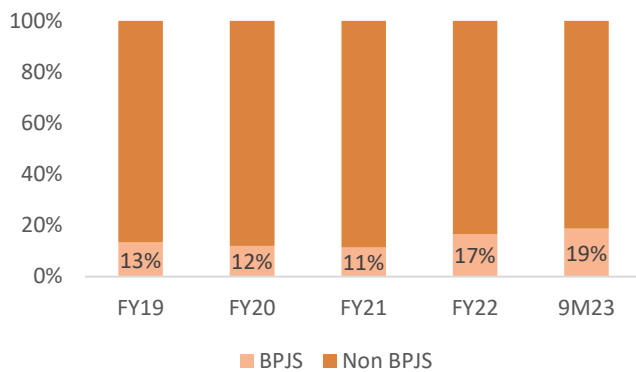


Source: National Health Program

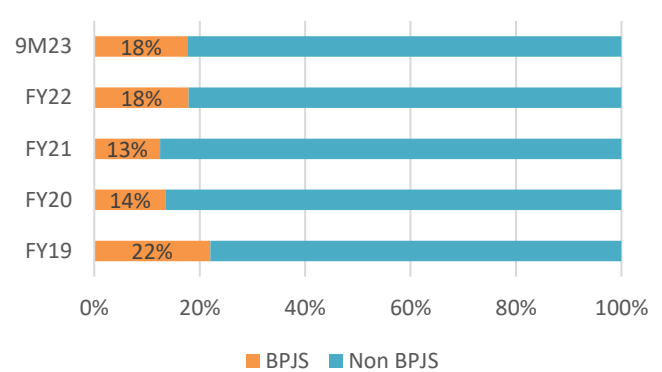
Exhibit 2. HEAL - % revenue of BPJS vs Non BPJS



Source: Company

Exhibit 3. MIKA - % revenue of BPJS vs Non BPJS


Source: Company

Exhibit 4. SILO - % revenue of BPJS vs Non BPJS


Source: Company

Forecast revision summary

- Following the release of the 9M23 result, we lower our FY23 top line estimate by 2.5% given our assumption of 6.4% volume growth mostly driven by value products (including unbranded generics) and lower ASP growth.
- We also estimate lower revenue growth for Nutrition (+1.9% yoy vs previous 5.2% yoy) and Consumer Health (down 12.6% yoy vs -1.6% previously).
- This leads to a lower FY23 gross margin of 38.8% with higher opex/revenues of 27.2%. At the bottom line, we revise down our FY23 net profits estimate by 20.6% to IDR2.65tn, down 21.7% yoy.

Exhibit 5. Earnings revision and key assumptions

	Previous			New			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023	2024	2025
Revenue	31,159	34,175	37,407	30,389	32,154	34,542	-2.5%	-5.9%	-7.7%
Gross profit	12,697	13,989	15,309	11,776	12,447	13,435	-7.2%	-11.0%	-12.2%
Operating profit	4,475	4,903	5,251	3,512	3,670	3,971	-21.5%	-25.1%	-24.4%
Net profit	3,336	3,736	4,045	2,650	2,727	2,998	-20.6%	-27.0%	-25.9%
Gross margin	40.7%	40.9%	40.9%	38.8%	38.7%	38.9%			
Operating margin	14.4%	14.3%	14.0%	11.6%	11.4%	11.5%			
Net margin	10.7%	10.9%	10.8%	8.7%	8.5%	8.7%			
Change in assumption									
	Previous			New					
	2023	2024	2025	2023	2024	2025			
GDP growth	5.00%	5.25%	5.20%	5.1%	5.1%	5.1%			
Inflation	4.30%	3.80%	3.25%	3.1%	3.0%	3.0%			
USD IDR - average	15,550	14,850	14,750	15,665	15,300	15,300			
ASP	1.8%	1.3%	1.2%	1.5%	1.0%	1.2%			
Volume	5.6%	3.2%	3.0%	6.3%	3.1%	4.0%			
Opex/revenue	26.4%	26.6%	26.9%	27.2%	27.3%	27.4%			
A&P/revenue	7.2%	7.2%	7.2%	7.3%	7.3%	7.3%			

Source: BRI Danareksa estimates

3Q23: Lower margins and higher opex put pressure on earnings.

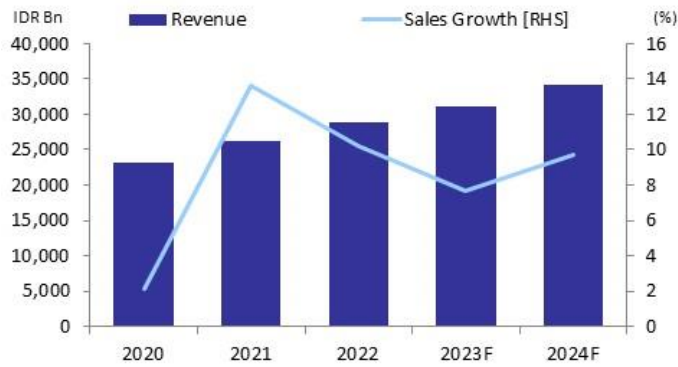
KLBF reported soft 3Q23 top line growth of +1% yoy and 9M23 revenues growth of 6.5% yoy, mainly supported by sales of prescription drugs (+31.4% yoy). Other divisions i.e. Nutrition and Distribution reported low single-digit growth, while Consumer Health/OTC reported -12.1% yoy lower revenues due to normalization post the pandemic and a change in consumer spending habits. The 3Q23 and 9M23 gross margins tanked to 37% and 39.5%, respectively, due to the product mix and higher raw material costs. The normalization in office business with more marketing/events also resulted in higher opex/revenues especially in salaries and A&P expenses. The company maintained a certain cash level in foreign currencies to secure its raw materials. As such, rupiah appreciation by 1.3% by the end of Sept 2023 led to IDR41bn of forex gains. Narrower gross margins and higher opex put pressure on the 9M23 net profits which reached IDR2.1tn, down 17.3% yoy.

Exhibit 6. 3Q23 earnings

KLBF	3Q22	2Q23	3Q23	yoy	qoq	9M22	9M23	yoy	2023F	A/F	A/C
Revenue - IDR bn	7,307	7,310	7,382	1.0%	1.0%	21,182	22,561	6.5%	30,389	74.2%	72.7%
COGS	4,371	4,353	4,651	6.4%	6.8%	12,447	13,654	9.7%	18,612		
Gross profit	2,936	2,956	2,731	-7.0%	-7.6%	8,735	8,907	2.0%	11,776	75.6%	70.5%
Opex	1,860	2,079	2,044	9.9%	-1.7%	5,634	6,192	9.9%	8,265		
Operating profit	1,077	878	687	-36.2%	-21.7%	3,101	2,715	-12.4%	3,512	77.3%	63.7%
Pretax profit	1,111	843	712	-36.0%	-15.6%	3,247	2,651	-18.4%	3,480		
Net profit	859	673	536	-37.6%	-20.4%	2,496	2,065	-17.3%	2,650	77.9%	63.3%
Gross margin	40.2%	40.4%	37.0%			41.2%	39.5%		38.8%		
Opex to revenue	25.4%	28.4%	27.7%			26.6%	27.4%		27.2%		
Operating margin	14.7%	12.0%	9.3%			14.6%	12.0%		11.6%		
Pretax margin	15.2%	11.5%	9.6%			15.3%	11.8%		11.5%		
Net margin	11.8%	9.2%	7.3%			11.8%	9.2%		8.7%		
By divisions											
	3Q22	2Q23	3Q23	yoy	qoq	9M22	9M23	yoy			
Revenue (IDR bn)											
Prescription	1,466	1,929	1,913	30.5%	-0.9%	4,406	5,791	31.4%			
Nutrition	2,033	1,927	1,962	-3.5%	1.8%	5,753	5,895	2.5%			
Consumer Health	1,119	953	813	-27.3%	-14.6%	3,265	2,869	-12.1%			
Distribution	2,689	2,501	2,694	0.2%	7.7%	7,758	8,006	3.2%			
Gross margin											
Prescription	48.1%	49.6%	46.2%			50.6%	48.5%				
Nutrition	48.5%	47.8%	47.8%			49.9%	47.8%				
Consumer Health	56.1%	53.9%	50.9%			56.1%	54.9%				
Distribution	22.9%	22.6%	18.4%			23.3%	21.3%				

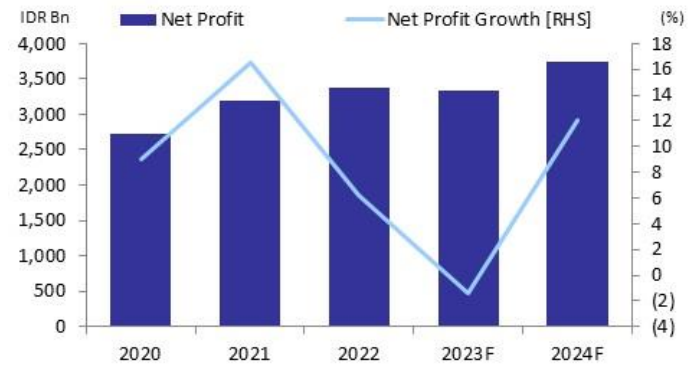
Source: BRI Danareksa estimates

Exhibit 7. Revenues and Growth



Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 8. Net Profits and Growth



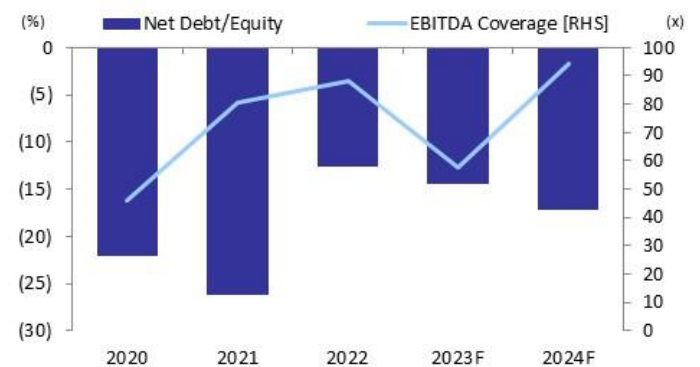
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 9. Margins



Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 10. Gearing Level



Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 11. Income Statement

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Revenue	26,261	28,934	30,389	32,154	34,542
COGS	(14,977)	(17,229)	(18,612)	(19,707)	(21,108)
Gross profit	11,284	11,704	11,776	12,447	13,435
EBITDA	4,628	4,869	4,235	4,440	4,797
Oper. profit	4,021	4,231	3,512	3,670	3,971
Interest income	111	82	65	72	108
Interest expense	(57)	(55)	(101)	(101)	(101)
Forex Gain/(Loss)	0	0	11	(20)	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	68	201	(7)	0	0
Pre-tax profit	4,143	4,459	3,480	3,622	3,979
Income tax	(911)	(1,009)	(759)	(819)	(900)
Minority interest	(48)	(68)	(71)	(75)	(81)
Net profit	3,184	3,382	2,650	2,727	2,998
Core Net Profit	3,184	3,382	2,639	2,747	2,998

Exhibit 12. Balance Sheet

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	6,216	3,950	4,109	4,890	8,549
Receivables	3,543	4,788	4,980	5,270	5,661
Inventory	5,087	7,027	7,175	7,592	5,661
Other Curr. Asset	607	800	840	882	926
Fixed assets - Net	7,994	7,957	8,381	8,804	8,921
Other non-curr.asset	1,960	2,574	2,550	2,527	2,483
Total asset	25,667	27,241	28,181	30,110	32,347
ST Debt	94	856	732	732	732
Payables	2,378	2,680	2,338	2,468	2,644
Other Curr. Liabilities	1,063	895	932	977	1,038
Long Term Debt	533	312	302	302	302
Other LT. Liabilities	333	401	412	423	435
Total Liabilities	4,401	5,144	4,716	4,902	5,151
Shareholder's Funds	19,580	20,385	21,682	23,349	25,256
Minority interests	1,686	1,712	1,783	1,859	1,940
Total Equity & Liabilities	25,667	27,241	28,181	30,110	32,347

Exhibit 13. Cash Flow

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Net income	3,184	3,382	2,650	2,727	2,998
Depreciation and Amort.	449	769	836	908	965
Change in Working Capital	(997)	(2,883)	(683)	(576)	1,715
Other Oper. Cash Flow	(1)	(525)	23	21	20
Operating Cash Flow	2,635	743	2,827	3,080	5,698
Capex	(757)	(1,098)	(1,216)	(1,286)	(1,036)
Others Inv. Cash Flow	(86)	159	65	72	108
Investing Cash Flow	(843)	(939)	(1,151)	(1,214)	(928)
Net change in debt	(533)	544	(134)	0	0
New Capital	303	(945)	0	0	0
Dividend payment	1,300	1,273	1,353	1,060	1,091
Other Fin. Cash Flow	758	(29)	(29)	(25)	(20)
Financing Cash Flow	1,828	843	1,189	1,035	1,071
Net Change in Cash	3,621	647	2,865	2,900	5,841
Cash - begin of the year	5,208	6,216	3,950	4,109	4,890
Cash - end of the year	6,216	3,950	4,109	4,890	8,549

Exhibit 14. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Growth (%)					
Sales	13.6	10.2	5.0	5.8	7.4
EBITDA	12.6	5.2	(13.0)	4.8	8.0
Operating profit	13.1	5.2	(17.0)	4.5	8.2
Net profit	16.5	6.2	(21.7)	2.9	9.9
Profitability (%)					
Gross margin	43.0	40.5	38.8	38.7	38.9
EBITDA margin	17.6	16.8	13.9	13.8	13.9
Operating margin	15.3	14.6	11.6	11.4	11.5
Net margin	12.1	11.7	8.7	8.5	8.7
ROAA	13.2	12.8	9.6	9.4	9.6
ROAE	17.2	16.9	12.6	12.1	12.3
Leverage					
Net Gearing (x)	(0.3)	(0.1)	(0.1)	(0.2)	(0.3)
Interest Coverage (x)	70.1	76.8	34.8	36.4	39.4

Source : KLBF, BRI Danareksa Estimates

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