

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY HIGHLIGHTS

Update

Kalbe Farma (KLBF IJ/HOLD/Rp1,780/Target: Rp1,700)

Single-digit growth and long lead time in inventory.

Page 2

TRADERS' CORNER

Mayora Indah (MYOR IJ): Technical BUY

Trimegah Bangun Persada (NCKL IJ): Technical BUY

Page 5

REGIONAL MARKET

Market	Close	+ / -	Chg (%)
MSCI Indonesia	7,593.4	11.0	0.1
MSCI Asia-Ex Japan	611.6	6.3	1.0
KLCI	1,450.2	2.0	0.1
FSSTI	3,204.8	2.0	0.1
SET	1,522.6	8.3	0.5
Hang Seng	18,057.5	402.0	2.2
Nikkei	32,402.4	(168.6)	(0.5)
Shanghai Comp	3,132.4	47.7	1.5
Dow Jones	33,963.8	(106.6)	(0.3)

Source: Bloomberg

INDONESIA STOCK EXCHANGE

	Level	+ / -	Chg (%)
Index	7,016.8	25.4	0.4
LQ-45	968.2	1.5	0.2
Value (US\$m)	621.4	(15.5)	(2.4)

FOREIGN TRADE IN IDX

Net (US\$m)	Buy	Sell	Total (%)
20.4	192.3	171.8	29.3

TOP VOLUME

Company	Price (Rp)	Chg (%)	Volume ('000)
GoTo Gojek Tokopedia	87	(1.1)	1,058,374
Bumi Resources Minerals	218	4.8	583,177
Bumi Resources	138	0.7	517,509
Metro Healthcare	525	1.0	293,078
Medco Energi	1,600	5.6	242,441

TOP GAINERS

Company	Price (Rp)	Chg (%)	Volume ('000)
Petrindo Jaya	3,020	9.8	30,670
Medco Energi	1,600	5.6	242,441
Indah Kiat Pulp & Paper	11,500	5.3	14,688
Bumi Resources Minerals	218	4.8	583,177
Prima Andalan	4,950	4.7	398

TOP LOSERS

Company	Price (Rp)	Chg (%)	Volume ('000)
Transcoal Pacific	8,900	(4.8)	11,512
Chandra Asri	2,620	(4.7)	17,668
Nusantara Sejahtera	286	(4.0)	43,925
Kalbe Farma	1,780	(1.9)	23,992
Gudang Garam	24,850	(1.8)	1,073

COMMODITY TREND

	22 Sep 23 Closing	Chg (%)	
		1-day	1-mth
Forex (Rp/US\$)	15,375	0.0	0.5
Crude Oil NYMEX (US\$/bbl)	90.03	0.4	12.8
Coal Fut Newc (US\$/tonne)	160.00	(0.3)	n.a.
Nickel 3M LME	19,418	1.5	(6.6)
Tin 3M LME	26,251	2.5	3.0
Gold SPOT (US\$/oz)	1,925	(0.0)	0.5
CPO Fut Msia (MYR/tonne)	3,647	(0.0)	(5.5)

Source: Bloomberg, UOB Kay Hian

COMPANY UPDATE

Kalbe Farma (KLBF IJ)

Single-digit Growth And Long Lead Time In Inventory

KLBF mentioned that the recent weakness in consumer health sales is likely to continue until end-23 as consumer spending shifts away from preventive medicine to leisure. Cost decline in raw materials such as API and skim milk powder will be reflected only starting 4Q23 given the long lead time of inventory repurchase. KLBF has revised down its 2023 NPAT guidance from 13-15% to flat yoy. Its share price hit its 52-week low recently. Maintain HOLD. Target price: Rp1,700 (4.5% downside).

WHAT'S NEW

- **Consumer health sales outlook remains challenging until end-23.** Kalbe Farma (KLBF) mentioned that the weakness in the sales of its consumer health division (OTC drug, herbal medicine and vitamin) should remain weak for the rest of the year. The company indicated that the OTC drugs industry suffered a 9% decline in 1H23. Sido Muncul (SIDO) mentioned that the herbal industry's sales volume declined by 15% yoy in 2Q23 and the herbal industry's sales volume in e-commerce fell by 45% in 2Q23 as consumers are shifting their wallet spending from preventive drugs during the pandemic to leisure and travel now.
- **Decline in API and skim milk powder cost will be reflected in 4Q23.** KLBF mentioned that the cost of its active pharmaceutical ingredient (API) and skim milk powder will decline on a yoy basis starting only in 4Q23. KLBF has purchased a high level of inventory over the past six months and the current cost is still high. New purchases at lower prices will come in starting 4Q23. KLBF will also reduce its inventory days outstanding from 140 days currently to 130 days.
- **Novel products to receive approval by 1Q24.** KLBF mentions that its novel product: GXE-4 is expected to receive Indonesia Food & Drug Administration (BPOM) approval by 1Q24. The local production of bio-similar products will start in 1H24. Recently, KLBF signed an agreement with Henlius for its HLX10 that will widen KLBF's distribution right to include Indonesia, Southeast Asia, Middle East and North Africa.
- **New guidance: Sales growth of 8-10% with a flat NPAT for 2023.** In 1H23, KLBF recorded a 9.4% rise in sales with a 6.6% decline in NPAT. Thus, KLBF is reducing its guidance for 2023 from 13-15% growth in sales and NPAT to an 8-10% growth in sales and 0-1% growth in NPAT. At this point, we are forecasting a 7.2% growth in 2023 sales and a 6% decline in NPAT.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net turnover	26,261	28,934	31,006	33,227	36,365
EBITDA	4,550	4,962	4,688	5,089	5,557
Operating profit	4,010	4,396	4,095	4,469	4,938
Net profit (rep./act.)	3,184	3,382	3,181	3,468	3,827
Net profit (adj.)	3,184	3,382	3,181	3,468	3,827
EPS (Rp)	67.9	72.2	67.9	74.0	81.6
PE (x)	26.2	24.7	26.2	24.1	21.8
P/B (x)	4.3	4.1	3.6	3.3	3.0
EV/EBITDA (x)	18.2	16.7	17.7	16.3	14.9
Dividend yield (%)	1.5	1.6	1.5	1.7	1.8
Net margin (%)	12.1	11.7	10.3	10.4	10.5
Net debt/(cash) to equity (%)	(28.6)	(14.4)	(9.8)	(14.0)	(17.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	17.2	16.9	14.7	14.4	14.6
Consensus net profit	-	-	3,397	3,847	4,276
UOBKH/Consensus (x)	-	-	0.94	0.90	0.90

Source: Kalbe Farma, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Rp1,780
Target Price	Rp1,700
Upside	-4.5%

COMPANY DESCRIPTION

KLBF is the largest pharmaceutical company in Indonesia. It produces and develops pharmaceutical products for human and animal healthcare.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	KLBF IJ
Shares issued (m):	46,875.1
Market cap (Rpb):	83,437.7
Market cap (US\$m):	5,426.8
3-mth avg daily t'over (US\$m):	4.8

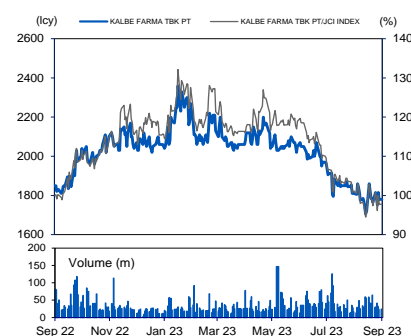
Price Performance (%)

52-week high/low	Rp2,360/Rp1,705				
1mth	3mth	6mth	1yr	YTD	
(4.0)	(11.9)	(19.5)	(4.0)	(14.8)	

Major Shareholders

	%
Gira Sole Prima	10.3
Santa Sena Sanadi	9.9
Diptanala Bahana	9.5
FY23 NAV/Share (Rp)	491
FY23 Net Cash/Share (Rp)	48

PRICE CHART



Source: Bloomberg

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• **New healthcare law should benefit KLBF as more doctors can prescribe KLBF's products.** KLBF thinks that the new healthcare law that was recently passed is beneficial to hospital and pharmaceutical players:

- o More doctors will potentially prescribe KLBF's products more.
- o KLBF thinks that the implementation regulation such as 25% local content requirement to supply into Indonesia Universal Healthcare (JKN) could benefit their local producers.
- o The 8.1% increase in 2023 government healthcare budget will benefit pharmaceutical companies. In the past five years, the government's healthcare budget has continued to increase: from Rp119.9t in 2020, Rp124.4t in 2021, Rp134.8t in 2023 and Rp186.4t in 2024.

• **Surgical suture manufacturing facility is completed.** KLBF's surgical suture production facility was completed in Apr 23. It is still in the early stage of production trials and should ramp up production in 2024. In medical device manufacturing, KLBF thinks that it can import machine while producing local product shell and packaging to satisfy the local contents. KLBF is also actively searching for partners who will conduct transfer of technology in medical device manufacturing.

• **Competition in nutritional segment remains stiff.** ASP increased in 2023 and the affordable ChilGo was launched. However, competitors are also launching affordable products in the market. KLBF mentioned that inventory lead time in skim milk is long and lower raw material cost will be realised only starting 4Q23.

EARNINGS REVISION/RISK

- **No changes to 2023/24 NPAT.** At this point, we do not change our forecast and will wait for 3Q23 results to revisit our model.
- **Sensitivity analysis.** For every 10% increase in ASP, 2024 NPAT could rise by 64.2%. For every 10% cost increase, 2024 NPAT could decline by 54.3%. For every 10% volume increase, 2024 NPAT could grow by 27.3%. For every 10% depreciation of the rupiah against the US dollar, 2024 NPAT could fall by 27.6%.

EARNINGS SENSITIVITY

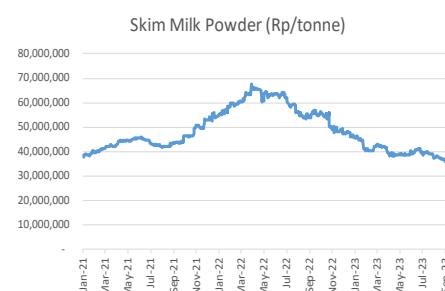
Description	Change	Op Profit		Net Income	
		2023F	2024F	2023F	2024F
ASP	+10%	65.6%	64.9%	64.8%	64.2%
Volume	+10%	28.0%	27.6%	27.6%	27.3%
Cost	+10%	-55.6%	-54.9%	-54.9%	-54.3%
IDR	+10%	-28.3%	-28.0%	-27.9%	-27.6%
Milk	+10%	-6.6%	-6.5%	-6.5%	-6.5%

Source: KLBF, Bloomberg, UOB Kay Hian

VALUATION/RECOMMENDATION

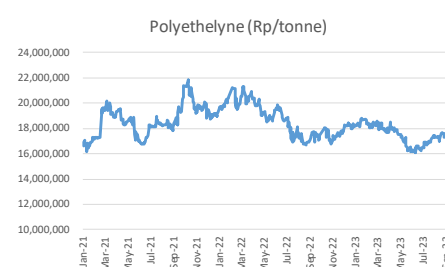
- **Maintain HOLD with a target price of Rp1,700.** Our target price is derived by using historical five-year average PE (24.1x) applied to average 2023 and 2024 EPS. The average PE used is because we think that KLBF's share price should be in line with historical valuation as NPAT growth slows. With a 4.5% downside, we maintain HOLD with a target price of Rp1,700.

SKIM MILK POWDER FORWARD PRICES



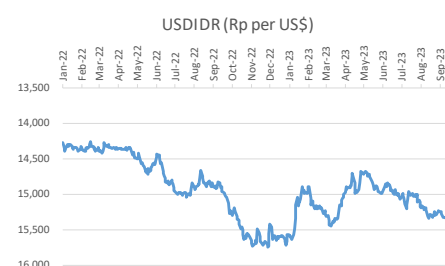
Source: Bloomberg

POLYETHYLENE FORWARD PRICES



Source: Bloomberg

US\$/IDR EXCHANGE RATE



Source: Bloomberg

PE BAND (BEST 12-MONTH FORWARD)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Net turnover	28,934	31,006	33,227	36,365
EBITDA	4,962	4,688	5,089	5,557
Deprec. & amort.	567	593	619	619
EBIT	4,396	4,095	4,469	4,938
Total other non-operating income	36	36	36	36
Net interest income/(expense)	27	28	30	31
Pre-tax profit	4,459	4,159	4,535	5,005
Tax	(1,009)	(915)	(998)	(1,101)
Minorities	(68)	(64)	(70)	(77)
Net profit	3,382	3,181	3,468	3,827
Net profit (adj.)	3,382	3,181	3,468	3,827

BALANCE SHEET

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Fixed assets	7,957	10,110	10,307	10,544
Other LT assets	2,574	2,716	2,865	3,023
Cash/ST investment	3,950	3,146	4,411	5,715
Other current assets	12,760	13,733	14,550	15,563
Total assets	27,241	29,706	32,133	34,845
ST debt	706	582	589	589
Other current liabilities	3,725	3,584	3,831	4,145
LT debt	312	312	312	312
Other LT liabilities	401	423	446	471
Shareholders' equity	20,385	23,029	25,110	27,406
Minority interest	1,712	1,776	1,846	1,922
Total liabilities & equity	27,241	29,706	32,133	34,845

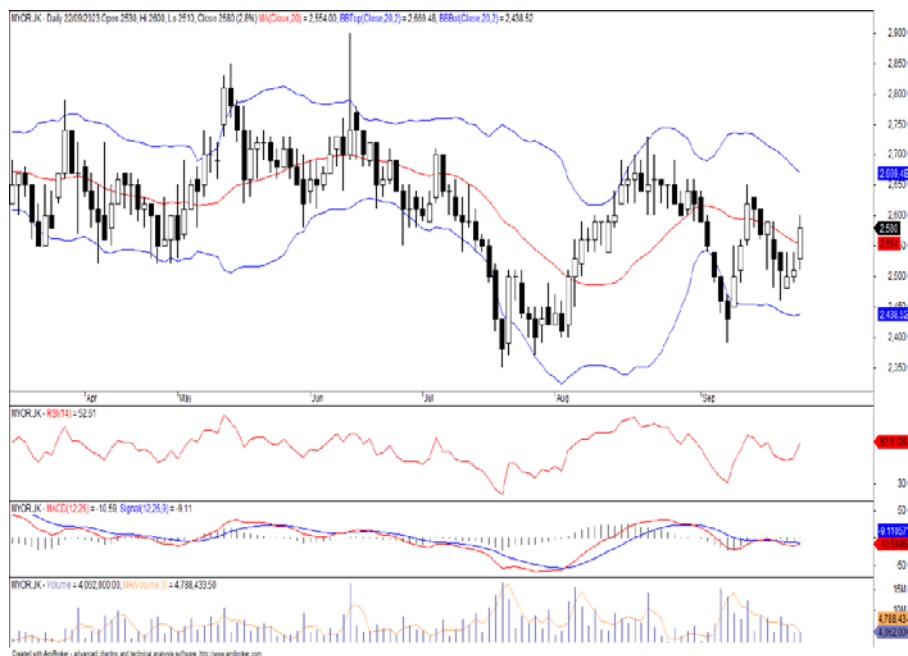
CASH FLOW

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Operating	1,272	2,540	3,467	3,693
Pre-tax profit	4,459	4,159	4,535	5,005
Tax	(1,009)	(915)	(998)	(1,101)
Deprec. & amort.	567	593	619	619
Working capital changes	(2,821)	(1,017)	(539)	(635)
Other operating cashflows	76	(281)	(151)	(196)
Investing	(1,370)	(1,624)	(965)	(1,014)
Capex (growth)	(870)	(1,483)	(816)	(856)
Investments	0.0	0.0	0.0	0.0
Others	(500)	(142)	(149)	(158)
Financing	(2,406)	(1,709)	(1,227)	(1,366)
Dividend payments	(1,353)	(1,272)	(1,387)	(1,531)
Issue of shares	(945)	(457)	0.0	0.0
Proceeds from borrowings	391	0.0	7.0	0.0
Loan repayment	0.0	(124)	0.0	0.0
Others/interest paid	(499)	143	153	165
Net cash inflow (outflow)	(2,504)	(794)	1,276	1,314
Beginning cash & cash equivalent	6,216	3,950	3,146	4,411
Changes due to forex impact	238	(10)	(10)	(10)
Ending cash & cash equivalent	3,950	3,146	4,411	5,715

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	17.2	15.1	15.3	15.3
Pre-tax margin	15.4	13.4	13.6	13.8
Net margin	11.7	10.3	10.4	10.5
ROA	12.8	11.2	11.2	11.4
ROE	16.9	14.7	14.4	14.6
Growth				
Turnover	10.2	7.2	7.2	9.4
EBITDA	9.1	(5.5)	8.5	9.2
Pre-tax profit	7.6	(6.7)	9.0	10.4
Net profit	6.2	(6.0)	9.0	10.4
Net profit (adj.)	6.2	(6.0)	9.0	10.4
EPS	6.2	(6.0)	9.0	10.4
Leverage				
Debt to total capital	4.4	3.5	3.2	3.0
Debt to equity	5.0	3.9	3.6	3.3
Net debt/(cash) to equity	(14.4)	(9.8)	(14.0)	(17.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

TRADERS' CORNER



Mayora Indah (MYOR IJ)

Technical BUY with 6.5% potential return

Resistance: Rp2,650, Rp2,730

Support: Rp2,480, Rp2,390

Stop-loss: Rp2,500

Share price closed with strong gains and formed a long-body bullish candlestick. Momentum is looking more positive; hence, we see potential for more rallies ahead and challenge the resistance at Rp2,650 and Rp2,730. Technical indicator RSI is sloping upwards and is back above its centre line, while the MACD has the potential to form a bullish crossover signal. Buy at Rp2,560 and take profit at Rp2,730.

Approximate timeframe: 2-4 weeks.

Our institutional research has a fundamental BUY and target price of Rp3,200.



Trimegah Bangun Persada (NCKL IJ)

Technical BUY with 5% potential return

Resistance: Rp1,175, Rp1,205

Support: Rp1,080, Rp1,020

Stop-loss: Rp1,080

Share price closed higher and formed a bullish candlestick. The trend is bullish; hence, we expect more upside pressure to take place and challenge the resistance at Rp1,175 and Rp1,205. Technical indicator RSI is sloping upwards and is approaching its centre line, while the MACD remains on a bullish crossover. Buy at Rp1,140 and take profit at Rp1,200.

Approximate timeframe: 2-4 weeks.

Our institutional research has a fundamental BUY and target price of Rp1,190.

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