

Wednesday, 24 November 2021

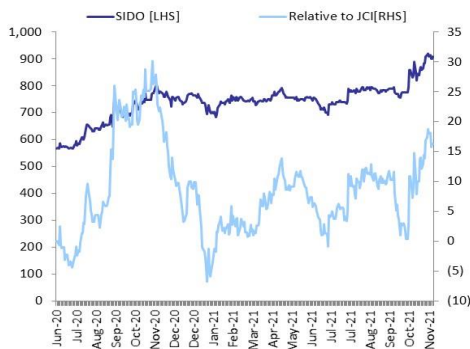
NEUTRAL

Maintain

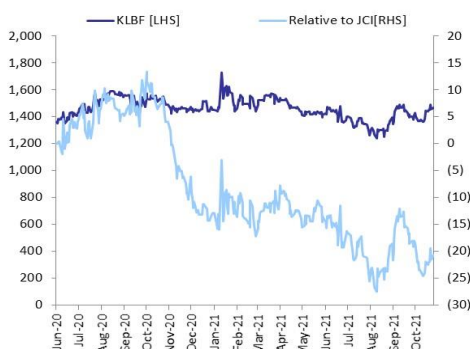
Pharmaceutical

Good prospects

SIDO relative to JCI Index



KLBF relative to JCI Index



Source: Bloomberg

Going into 2022, we estimate solid growth for the pharmaceuticals sector, supported by increasing vaccination rates and continued economic recovery, as well as government backing for more domestic sources in the pharmaceutical industry and lifestyle changes that should translate into higher demand for nutritional products and vitamins. We maintain our neutral stance on the pharmaceuticals sector.

70% vaccination rate targeted by end-2021. By early November 2021, the vaccination rate for Indonesia reached 29% (total of 2 doses) and 46% for just the first dose. President Jokowi targets 70% of Indonesia’s population to be vaccinated against Covid-19 by the end of December 2021. The acceleration of Covid-19 vaccinations is imperative to mitigate the impact of the pandemic as well as support the opening of the economy for further recovery ahead.

Government support for more domestic sources in the pharmaceutical industry. The Ministry of Trade targets the contribution of imported active pharmaceutical ingredients (API) to decline to 40% within the next 5 years (at present 90%). The feasibility of the upstream business in the pharmaceutical industry is affected by economies of scale, which necessitates government intervention and support going forward. At present, Kimia Farma Sungwun Pharmacopia (KFSP) produces 10 API to supply local demand, targeting another 4 new API by the end of 2021. These new API seek to reduce imported raw materials in the pharmaceutical industry by around 6-7.5%. The government is also working to ensure that the domestic industry supplies consumable medical devices (imported products account for around 81% of the products in the E-catalog for the National Health program). The domestic market for consumable medical devices is around IDR607tn.

The Covid-19 pandemic has led to lifestyle changes, with steady demand for nutritional products and supplements. We believe the Covid-19 pandemic for almost 2 years has led to changes in the people’s lifestyles. Based on our survey conducted by Danareksa Research Institute (DRI), only 18% of the total respondents consume vitamins/herbal/traditional supplements on a daily basis. Meanwhile, around 43% of the total respondents rarely consume vitamins/nutritional products and the remaining 39% do not consume them at all. Amid the pandemic, nutritional products/vitamins are the second highest priority (after electricity) for spending as most respondents are more aware of the need to strengthen the immune system. Going into 2022, the government is looking to further mitigate the impact of the pandemic. As such, more vaccinations including booster shots are expected. This will also push demand for medicines and nutritional products/vitamins to strengthen the immune system.

Maintain Neutral. The companies in the pharmaceutical sector reported strong growth amidst the pandemic. Going into 2022, we expect to see normalized earnings in the sector. Our top pick is SIDO, followed by KLBF. With 10% upside to our TP, we maintain our neutral stance.



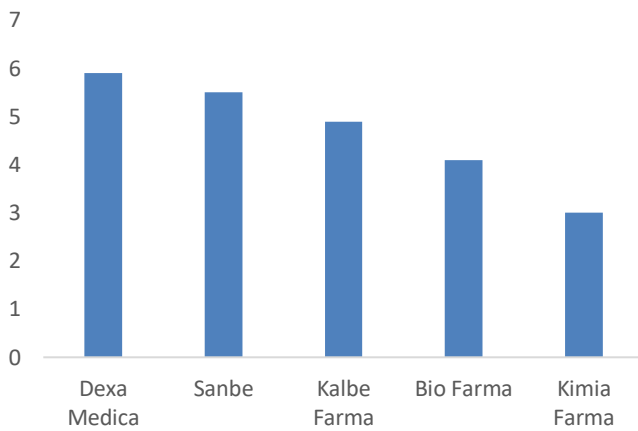
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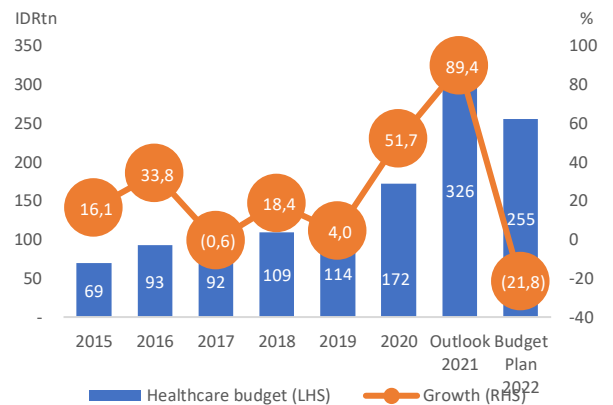
Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			Price (Rp)	Cap. (RpBn)	2021F	2022F	2021F	2022F	2022F
Sido Muncul	SIDO IJ	BUY	1,000	27,300	22.9	20.8	8.3	8.2	39.8
Kalbe Farma	KLBF IJ	BUY	1,900	74,765	24.7	22.6	3.9	3.5	16.2
Kimia Farma	KAEF IJ	SELL	1,500	13,662	177.6	194.0	1.9	1.8	1.0

Exhibit 1. Top 5 Pharmaceutical companies in Indonesia



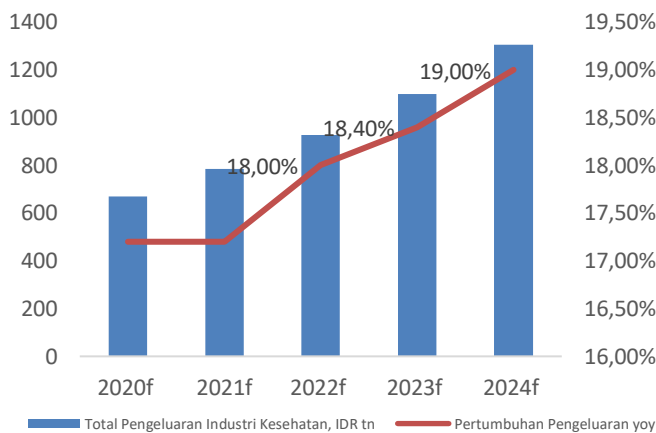
Source: IMS IQVIA 2Q20, Kimia Farma

Exhibit 2. Healthcare budget



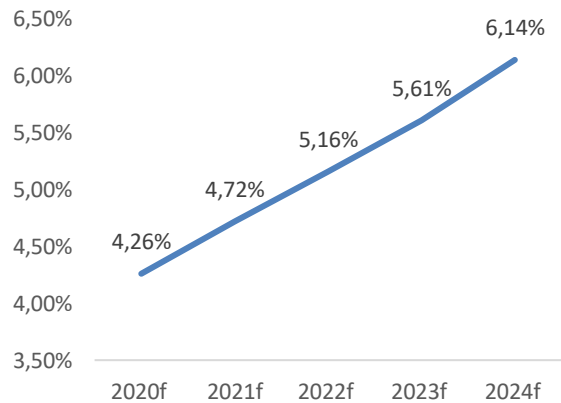
Source: Ministry of Finance

Exhibit 3. The growth in healthcare expenditure in Indonesia



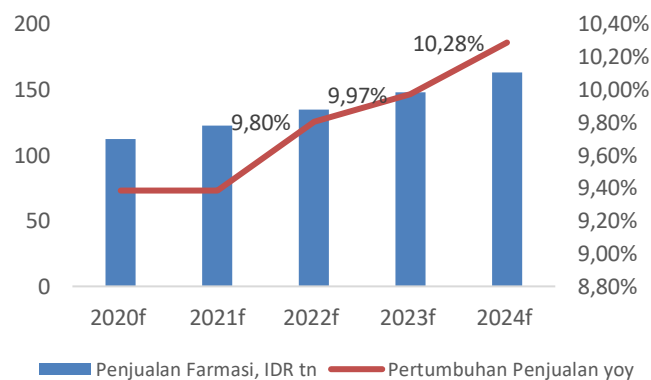
Source: EIU, Fitch Solutions, EMIS, 2021

Exhibit 4. Indonesia' healthcare expenditure as % to GDP



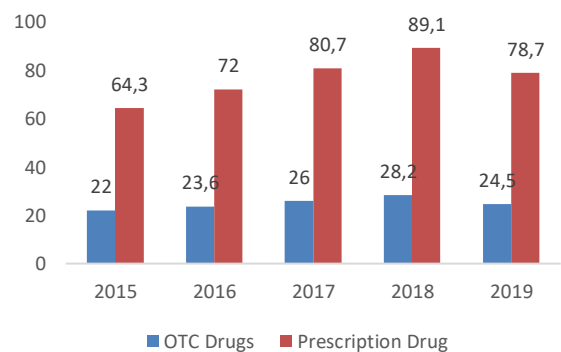
Source: : EIU, Fitch Solutions, EMIS, 2021

Exhibit 5. Total pharmaceutical sales (IDR tn) and yoy growth



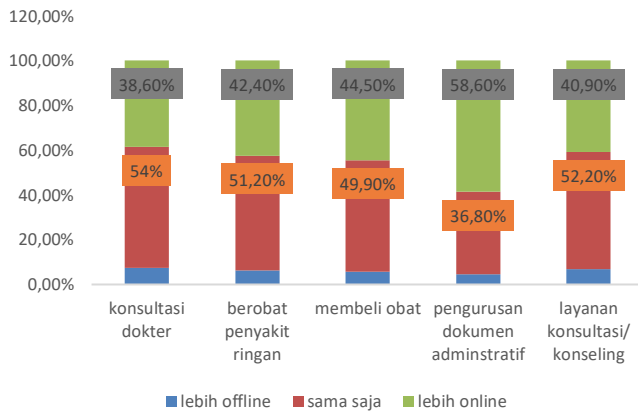
Source: EIU, Fitch Solutions, EMIS, 2021

Exhibit 6. The sales of OTC & prescription products (IDR tn)



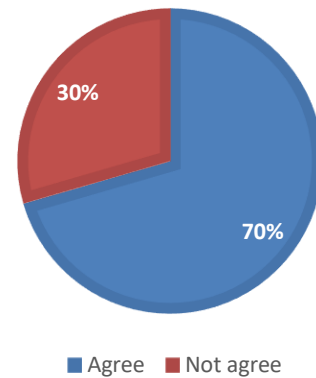
Source: EIU, Fitch Solutions, EMIS, 2021

Exhibit 7. Adoption in digital implementation



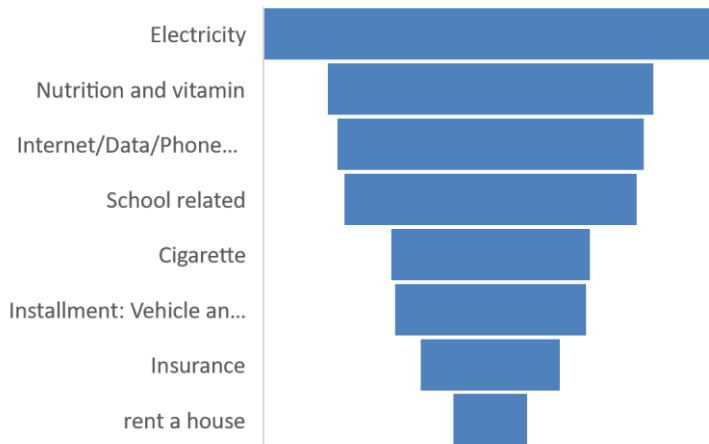
Source: Inventure Indonesia, Alvara, 2021

Exhibit 8. Preference to use telemedicine



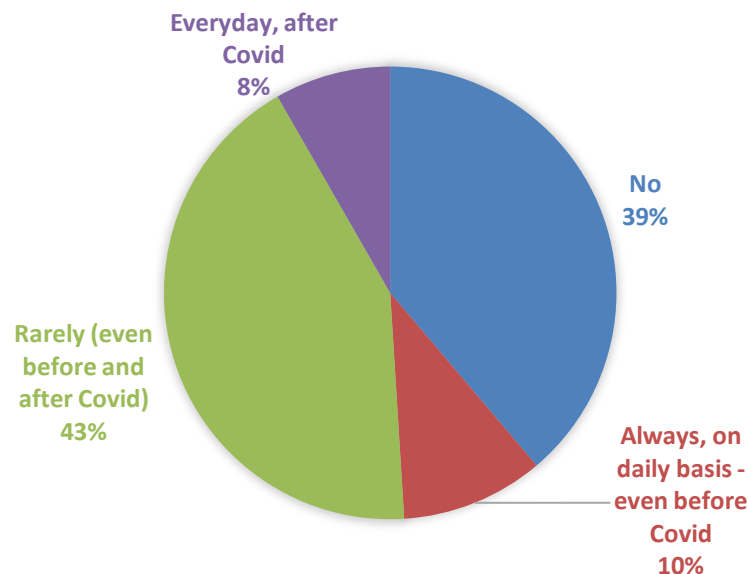
Source: Inventure Indonesia, Alvara, 2021

Exhibit 9. What are your top spending priorities now? (after spending on consumer staples)



Source: BRI Danareksa survey

Exhibit 10. Most respondents do not consume vitamins on a daily basis



Source: BRI Danareksa Survey

Exhibit 11. Company outlook 2022

Ticker	Target Price	Rating	Summary
SIDO	1,000	Buy	<ul style="list-style-type: none"> SIDO expects another strong quarter in 4Q21 supported by continued economic recovery. Greater coverage of outlets - especially in eastern Indonesia – will help to raise market share, while solid performance of new and existing products will support growth in 2022 onwards. Going into 2022, the company is optimistic of booking 15% yoy top and bottom-line growth in 2022. A wider distribution network in GT and MT including the rosy prospects in eastern Indonesia combined with new products ((Vitamin C1000 new flavor, RTD variants and also supplemental products (soft gel, JSH, Sambiloto etc) should sustain solid growth in the future. Maintain BUY recommendation with a TP of IDR1,000 – based on DCF valuation (WACC of 9% and Terminal Growth of 4%) with an implied FY22F PE of 22.8x
KLBF	1,900	Buy	<ul style="list-style-type: none"> Going into 2022, the company is optimistic of booking double-digit growth in both the top and bottom line. We estimate FY22F earnings growth of 9.4% yoy. In our view, Kalbe stands to benefit from persisting concerns over Covid-19 with growing awareness of the importance of maintaining a healthy lifestyle and the need for appropriate medications. We maintain our BUY recommendation with a TP of IDR1,900 based on DCF valuation.
KAEF	1,500	Sell	<ul style="list-style-type: none"> Kimia Farma reported solid revenues growth amid the pandemic, driven by covid-19 related products. However, we see pressure on margins following the unfavorable product mix. Despite efficiencies in opex, we also expect higher interest expenses. We maintain our SELL recommendation with a TP of IDR1,500.

Source: Company, BRIDS

Exhibit 12. Financial ratio 2022F

Financial ratios	SIDO	KLBF	KAEF
Sales growth (%)	11.5	9.1	7.7
EBITDA growth (%)	11.6	8.8	1.0
Operating profit growth (%)	11.1	8.8	(0.6)
Net profit growth (%)	10.5	9.4	(8.4)
Gross margin (%)	56.3	43.4	36.0
EBITDA Margin (%)	35.2	17.7	6.1
Operating margin (%)	37.3	15.2	4.5
Net margin (%)	29.9	11.7	0.6
ROAA (%)	32.3	12.9	0.4
ROAE (%)	39.8	16.2	1.0
Net gearing (x)	nc	nc	1.1
Interest Coverage (x)	2,386	139.9	0.9

Source: Company, BRIDS