Kalbe Farma (KLBF IJ)

Growth Muted By Margin Headwinds

BUY (Maintained)	
Share Price	Rp705
Target Price	Rp1,100
Upside	+56%
Previous TP	Rp1,800

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Highlights

- Revenue growth should remain resilient, while bottom line comes under pressure as margin headwinds build from 2Q26.
- Following the 41.5% YTD correction, much of the downside appears priced in, with long-term growth initiatives and a higher-value product mix supporting gradual re-rating.
- Maintain BUY with a lower target price of Rp1,100.

Analysis

- **2Q26 top-line expected to remain in line.** Based on our recent meeting with Kalbe Farma (KLBF), 2Q26 revenue growth is expected to remain intact, with yoy growth tracking a similar pace to 1Q26 (+9.4%) and remaining within its 2026 guidance of 8-10%. Growth should continue to be driven by the prescription pharma and distribution segments, while the consumer health and nutrition businesses remain soft amid weak purchasing power. Meanwhile, the pharma business remains relatively less price-sensitive, although demand for generic drugs under the BPJS programme has moderated, the branded generics and specialty segments remain resilient. Export sales (8% to sales) are also expected to remain robust, with management guiding for double-digit growth. 1Q26 revenue contribution was 27% for prescription pharma, 14% consumer health, 22% nutritionals and 36% distribution and logistics. The 9.4% 1Q26 revenue growth was mainly driven by distribution and logistics.
- **However, margin pressure will build from 2Q26 and intensify in 3Q26.** We expect margin pressure to become evident from 2Q26, primarily due to rupiah depreciation, as 30% of COGS comprises raw materials, which are primarily US dollar-denominated. Margin pressure should intensify further in 3Q26 as the cost increase of about 30% in oil-linked Active Pharmaceutical Ingredient (API) (~15% to COGS) begins to be reflected. Although the company has partially offset rising input costs by raising ASP by 3-5% on selected products across its consumer health and nutrition portfolio, pricing remains constrained in the prescription pharma segment due to budget pressure in the BPJS channel, limiting its ability to fully pass through higher costs. We expect 2026 gross margin to decline to 37.5% (from 39.8% in 2025).

Key Financials

Year to 31 Dec (Rpb)	2024	2025	2026F	2027F	2028F
Net turnover	32,628	35,325	38,125	41,295	44,615
EBITDA	4,783	5,228	5,070	5,818	6,276
Operating profit	4,170	4,638	4,422	5,133	5,563
Net profit	3,241	3,665	3,467	4,030	4,388
EPS (Rp)	69.2	78.3	74.1	86.1	93.7
PE (x)	10.2	9.0	9.5	8.2	7.5
P/B (x)	1.3	1.3	1.3	1.2	1.1
EV/EBITDA (x)	6.0	5.5	5.5	4.6	4.1
Dividend yield (%)	4.5	5.0	6.1	5.8	6.7
Net margin (%)	9.9	10.4	9.1	9.8	9.8
Net debt/(cash) to equity (x)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Interest cover (x)	60.2	91.3	78.2	76.1	84.0
ROE (%)	14.2	15.7	14.0	15.0	15.1
UOBKH/Consensus (x)	-	-	0.95	1.02	1.03

Source: KLBF, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Health Care
Bloomberg ticker:	KLBF IJ
Shares issued (m):	46,813
Market cap (Rpb):	33,003
Market cap (US$m):	1,827
3-mth avg daily t'over (US$m):	3.5

Price Performance (%)

52 week high/low				Rp1,560/Rp630
1mth	3mth	6mth	1yr	YTD
(4.7)	(28.1)	(42.2)	(54.8)	(41.5)

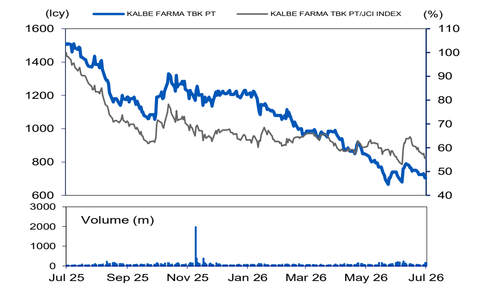
Major Shareholders

Major Shareholders	(%)
Ladang Ira Panen	10.5
Gira Sole Prima	10.3
Santa Sena Sanadi	10.1
Diptanala Bahana	9.5
Lucasta Murni Cemerlang	9.5
Bina Artha Charisma	8.2

Balance Sheet Metrics

FY25 NAV/Share (Rp)	528
FY25 Net Cash/Share (Rp)	89

Price Chart



Source: Bloomberg

Company Description

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

- **Long-term growth initiatives remain intact.** KLBF continues to invest in line with the government's pharma localisation agenda, budgeting Rp1t capex this year (in line with 2025) for maintenance and capacity expansion. It is expanding its specialty pharma portfolio (eg insulin, GLP-1, and cell therapy) while broadening its medical device offerings (eg dialysers and CT scanners).
- **Expect promotion expenses to normalise this year.** Given the challenging input cost environment, we expect the company to optimise its operating expenses, particularly promotion spending, which will partially offset margin pressure. This follows elevated A&P spending last year, with promotion expenses rising to 8.2% of sales (vs the 2020-24 average of ~7%) due to brand rejuvenation initiatives supporting its consumer health and nutrition businesses. In line with this, management guides for a more prudent marketing strategy this year, shifting from traditional TV advertising to more cost-efficient digital channels.
- **Sensitivity analysis.** Based on our analysis, every 5% increase in API and milk powder prices would reduce net profit by 4.6% and 1.4%, respectively. Around 30% of COGS is raw materials, half of which are US dollar-denominated APIs, making earnings particularly sensitive to oil prices and USD/IDR. According to the company, every Rp100 depreciation in the rupiah reduces gross margin by 10bps.
- **Much of the downside has been priced in.** The share price has fallen 41.5% ytd, significantly more than the earnings downgrades would imply, suggesting the sell-off has been driven primarily by a confluence of negative sentiment (MSCI exclusion in Nov 25, macroeconomic weakness, geopolitical tensions, higher oil prices, and rupiah depreciation). As a result, the stock has sharply de-rated to 9.5x PE (similar to -2SD to the three-year historical average). While we expect limited near-term catalysts, we think the current valuation implies limited downside risk. We remain constructive on the company's long-term outlook, underpinned by its resilient business, ongoing expansion, and the recent easing in oil prices, which should provide a positive tailwind for margins.

Earnings Revision/Risk

- **We lower our 2026 net profit forecast by 12.2%,** cutting our gross margin assumption to 37.5% from 40.2% on higher API costs and rupiah depreciation.
- **Risks:** a) raw material cost fluctuation, b) rupiah depreciation, and c) weak purchasing power.

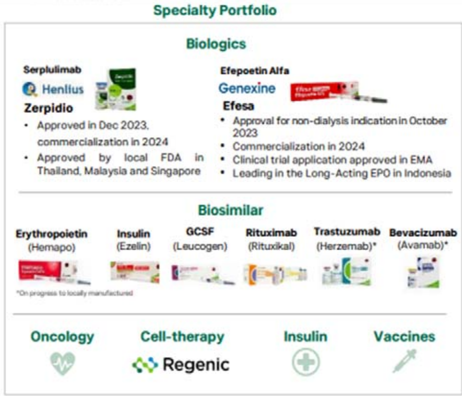
Valuation/Recommendation

- **Maintain BUY with a lower target price of Rp1,100 (from Rp1,800).** We lower our earnings forecasts and cut our target PE multiple to 15x (from 21x), equivalent to -1SD to its three-year forward historical average, to reflect a more challenging near-term earnings outlook amid its high indirect exposure to high oil prices, persistent macro headwinds, and weaker market sentiment.
- **Scope for valuation re-rating.** KLBF currently trades at 9.5x 2026F PE, representing a significant discount to its global peers (~17x 2026F PE). Globally, pharmaceutical companies with greater exposure to specialty and branded products typically command higher valuation multiples and structurally higher margins than generic-focused peers (see page 4). As KLBF gradually shifts its portfolio toward higher-value branded and specialty pharmaceuticals, we think the stock could see a gradual valuation re-rating over time.

Share Price Catalyst

- a) Rupiah stabilisation, b) easing oil prices, and c) execution of expansion initiatives.

Specialty Pharma Products



Source: KLBF

Medical Device Localisation

Source: KLBF

Earnings Revision

(Rpb)	New 2026F	Old 2026F	Chg (%) 2025F
Revenue	38,125	38,970	-2.2
Gross profit	14,283	15,663	-8.8
GP margin (%)	37.5%	40.2%	
Op. profit	4,422	4,986	-11.3
Op. margin (%)	11.6%	12.8%	
Pre-tax profit	4,545	5,137	-11.5
PBT margin (%)	11.9%	13.2%	
Net profit	3,467	3,947	-12.2
Net margin (%)	9.1%	10.1%	

Source: KLBF, UOB Kay Hian

Global Peer Comparison

	Market Cap (US$m)	----- P/B ----- 2026F (x)	----- P/E ----- 2026F (x)	ROE 2026F (%)	GPM 2025 (%)	OPM 2025 (%)	Net Gearing (%)
Propietary (Patent, Biologic Led)							
Hansoh Pharmaceutical Group	25,373	4.3	29.0	15.6	90.0	39.6	-89
Changchun High-Tech Industry	4,340	1.3	21.5	6.7	82.1	15.4	-6.4
Average		2.8	25.2	11.4	(47.7)	86.1	
Specialty/Branded Generics Led							
Richter Gedeon Nyrt	7,083	1.4	8.5	17.0	69.0	31.3	-16.9
Recordati Industria Chimical	12,267	4.9	16.1	19.7	68.3	28	106.2
Almirall SA	2,672	1.5	26.2	7.6	64.6	12.1	-0.9
Average		2.6	16.9	14.8	67.3	23.8	
Generics Led							
Sawai Group Holdings Co	1,205	1.0	13.4	10.0	30.0	12.4	44.6
Towa Pharmaceutical Co	1,306	1.1	9.9	12.1	34.0	17.5	102
Aspen Pharmacare Holdings	4,059	0.7	19.3	5.6	44.8	22.7	35
China Resources Double Crane	2,645	1.4	10.2	13.2	58.0	17.1	-9.6
Average		1.1	13.2	10.2	41.7	17.4	
Kalbe Farma	1,827	1.3	9.5	13.3	39.8	13.1	-16.8

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rpb)	2025	2026F	2027F	2028F
Net turnover	35,325	38,125	41,295	44,615
EBITDA	5,228	5,070	5,818	6,276
Deprec. & amort.	589	648	685	714
EBIT	4,638	4,422	5,133	5,563
Total other non-operating income/(expense)	12	15	19	23
Net interest income/(expense)	128	108	118	148
Pre-tax profit	4,778	4,545	5,270	5,734
Tax	(1,034)	(984)	(1,140)	(1,241)
Minorities	(79)	(95)	(100)	(105)
Net profit	3,665	3,467	4,030	4,388

Balance Sheet

Year to 31 Dec (Rpb)	2025	2026F	2027F	2028F
Fixed assets	8,333	8,511	8,721	8,974
Other LT assets	3,858	4,005	4,158	4,318
Cash/ST investment	4,331	5,497	6,177	7,154
Other current assets	14,177	15,023	16,214	17,445
Total assets	30,700	33,037	35,272	37,892
ST debt	134	141	148	156
Other current liabilities	5,202	6,094	6,165	6,558
LT debt	21	21	22	22
Other LT liabilities	614	645	677	711
Shareholders' equity	23,313	24,704	26,824	29,003
Minority interest	1,416	1,432	1,436	1,441
Total liabilities & equity	30,700	33,037	35,272	37,892

Cash Flow

Year to 31 Dec (Rpb)	2025	2026F	2027F	2028F
Operating	3,271	3,881	3,532	4,202
Net profit	3,665	3,467	4,030	4,388
Deprec. & amort.	589	648	685	714
Working capital changes	(1,692)	(491)	(1,076)	(788)
Other operating cashflows	708	257	(107)	(112)
Investing	(800)	(973)	(1,048)	(1,126)
Capex (growth)	(653)	(826)	(895)	(967)
Investments	-	-	-	-
Others	(147)	(147)	(153)	(159)
Financing	(2,863)	(1,742)	(1,804)	(2,099)
Dividend payments	(1,635)	(2,016)	(1,907)	(2,216)
Proceeds & repay borrowings	(224)	7	7	8
Others	(1,004)	266	95	109
Net cash inflow (outflow)	(392)	1,166	680	977
Beginning cash & cash equivalent	4,723	4,331	5,497	6,177
Change due to forex impact, others	0	0	0	0
Ending cash & cash equivalent	4,331	5,497	6,177	7,154

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	14.8	13.3	14.1	14.1
Pre-tax margin	13.5	11.9	12.8	12.9
Net margin	10.4	9.1	9.8	9.8
ROA	11.9	10.5	11.4	11.6
ROE	15.7	14.0	15.0	15.1
Growth				
Turnover	8.3	7.9	8.3	8.0
EBITDA	9.3	(3.0)	14.8	7.9
Pre-tax profit	13.3	(4.9)	15.9	8.8
Net profit	13.1	(5.4)	16.2	8.9
EPS	13.1	(5.4)	16.2	8.9
Leverage				
Debt to total capital (x)	0.01	0.00	0.00	0.00
Debt to equity (x)	0.01	0.01	0.01	0.01
Net debt/(cash) to equity (x)	(0.2)	(0.2)	(0.2)	(0.2)
Interest cover (x)	91.3	78.2	76.1	84.0