INAF: Key Takeaways

Primarily sell generic medicines
INAF’s revenue breakdown per segment: ~70% medicines and ~30% medical devices & others. Most of medicines products sales are generic medicines sales. With majority of ownership held by the Government (~81%), INAF also operates to support Government’s program, for example, several medicines in the universal health care system (SJSN) are not-economically-feasible, but it is required that those medicines to be produced by INAF.

Targeting capacity expansion of 17%YoY
2015E Capex of Rp100bn is allocated to expand capacity (current utilization 60%) gradually by 17%YoY to 3.5bn tablets, increase portfolio products, and for compliance & regulations. 2015E revenue target is Rp1.7tr (~20%YoY). Management guides 2014E revenue of Rp1.4tr (~7%YoY; FY2013 +16%YoY).

Sensitivity to changes in USD/IDR
The company imported most of the raw materials (primarily from China) for its medicine products. Hence, its earning is sensitive to USD/IDR volatility. With the price of generic medicines controlled by the Government (guidelines revised once a year), INAF finds it difficult to immediately increase the generic medicine’s price as response to higher cost of raw material ( IDR weakness).

Improving efficiency
INAF’s gross margin in 9M14 was 26% (vs. 9M13 30%; FY2013 25%). For medicines products, the margin for generic products is ~10-15%, while OTC and branded medicines ~20-25%. INAF cut its number of managers by more than half to improve efficiency. 10M14 opex ratio was 25.8% (vs. 10M13 33.4%; FY2013 26.3%).

Valuation
Assuming forex of Rp12,000/USD, the company aims 2015E bottom line of Rp34-40bn (~2-3% of 2015E sales; FY2013 Rp-54bn), implying 2015PE of 23.1-27.2x.

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Comparing to its peers
INAF’s gross margin in 9M14 was lower compared with other companies. However, INAF is rather insensitive to USD/IDR volatility because of the government controlled the price of generic medicines.

Investment rating
INAF is a low-risk stock with stable earnings and solid balance sheet. The management guides strong growth in 2014E revenue and continue to invest in capacity expansion.

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PT Indofarma Tbk manufactures and trades drugs. The Company’s products include generic, branded, licensed, and over the counter (OTC) drugs as well as traditional herbs, health food, cosmetics, and supplementary baby food. Through its subsidiaries, Indofarma also produces packaging materials, machinery and equipment, and infrastructure related to pharmaceutical industry.

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Figure 1. INAF’s Sales and COGS Breakdown

Sales Composition 2013
- Medical graph: 24%
- Medicine: 70%
- Others: 6%

COGS Breakdown 2013
- Raw materials used: 25%
- Direct Labor: 6%
- Toll Manufacturing: 5%
- Finished Goods: 64%
- Others: 0%

Source: Company

Figure 2. Front view of INAF’s Building

Source: TRIM Research
Figure 3. Medicine products packaging rooms

Source: TRIM Research

Figure 4. Several of INAF's Products

Source: TRIM Research
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