PT KIMIA FARMA (PERSERO) Tbk

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Press Release
July 26, 2017

CREDIT PROFILE

PEFINDO affirms “AA-” ratings to PT Kimia Farma (Persero) Tbk and its MTN 2016, outlook “stable”

PEFINDO has affirmed its “AA-” ratings to PT Kimia Farma (Persero) Tbk (KAEF or the Company) and its MTN 2016. The outlook for the Company’s corporate rating is “stable”.

An obligor rated AA differs from the highest-rated obligors only to a small degree, and has a very strong capacity to meet its long-term financial commitments relative to that of other Indonesian obligors.

The minus (-) sign in a particular rating indicates that it is relatively weak within its rating category.

The ratings reflect KAEF’s strategic role in providing certain medicines for the nation, its strong market position in the pharmaceutical industry, and its integrated business operation. However, the ratings are constrained by its higher financial leverage in the near term following significant capital expenditure (capex) programs and lower profitability margins compared to other listed pharmaceutical companies.

The rating could be raised if KAEF is able to consistently achieve its targeted revenue growths with stronger and sustained margins, and significantly improve its market share in the pharmaceutical industry. At the same time, the Company has to be able to improve its financial leverage. The rating could be lowered if its debt to EBITDA ratio exceeds 3x on average for the next 3 years as a result of weaker profitability margins, or if it incurs higher-than-anticipated debt due to significant investments. The rating could also be under pressure if its EBITDA margin declines due to weakening of Rupiah, since 90% of its raw materials are imported.

As the largest state-owned pharmaceutical company, KAEF is not only focused on drug manufacturing but also drug trading, distribution and retail. KAEF trading and distribution activities are handled by its subsidiary PT Kimia Farma Trading and Distribution (KFTD), which has 47 branches nationwide, while its retail activities are carried out by its subsidiary PT Kimia Farma Apotek (KFA), which manages 900 drugstores, 375 health clinics, and 45 laboratories by the end of 2016. KAEF manages 6 production facilities located in Jakarta, Bandung (will be relocated to Banjaran), Semarang, Watudakon, and Medan, which produce several types of products, including consumer health products, generics, branded ethical, antiretroviral, narcotics, contraceptives, and raw materials. The Company’s shareholders as of March 31, 2017 were the Government of Indonesia (90.025%) and the public (9.975%).
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