



Selamat Sempurna

SMSM IJ / SMSM JK

➤ **Market Cap**
US\$222.7m
Rp2,044,330m

➤ **Avg Daily Turnover**
US\$0.15m
Rp1,314m

➤ **Free Float**
41.9%
1,440 m shares

Current **Rp1,420**
Target **Rp1,950**
Previous Target **N/A**
Up/downside **37.3%**

SHORT TERM (3 MTH) **LONG TERM**
TRADING BUY **OUTPERFORM**
TRADING SELL **NEUTRAL**
UNDERPERFORM

Notes from the Field



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Company Visit ☒ Expert Opinion ☐
Channel Check ☒ Customer Views ☐

"...We are not selling just a product, but also a brand..."

— Ang Andri Pribadi,
Director

Filter king

Earnings grew by a 23% CAGR in the past three years for this largest filter maker in the country, with dividend payments exceeding 90% of earnings. The outlook is equally rosy, given surging car sales and an investment boom in the auto sector. Initiate with Outperform.

As the leader in aftermarket replacement filters and radiators, Selamat Sempurna could deliver >37% ROE in the next three years, in our estimation. We have a DCF TP (WACC 13.4%) which implies 11.8-9.9x CY12-13 earnings.

Strong growth record ➤

Core profit almost doubled over the past three years on 14% p.a. sales growth. Net profit growth grew in each of the past six years despite a doubling of fuel prices in 2005 and the 2008 global financial meltdown. Its momentum should strengthen on a pick-up in new car and heavy-equipment sales.

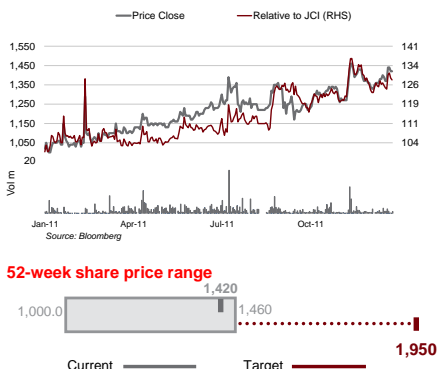
Efficient use of capital ➤

Dividend payouts were 94%, 98% and 92% in the past three years, standing out in corporate Indonesia. Net gearing was 38% at end-Sep 11, while ROEs could rise from 18% in 2008 to some 37% in FY11. ROEs are

on pace to hit 44% in three years, in our estimates, 20% higher than peers' average of 24%. While dividend payouts may moderate to 84% in 2015 with gearing still under 50%, yields should still be much ahead of peers.

Underappreciated ➤

The stock is underappreciated, given its trading discounts to peers despite its YTD outperformance. Under-coverage and a small cap might be the reasons. On DCF (WACC 13.4%, LTG 5.0%), we value it at Rp1,950. DDM modelling (16.1% CoE) given its high payouts suggests a value of Rp1,750. Our DCF TP implies 11.8-9.9x CY12-13 earnings vs. its peers' 7.3-15.5x for CY12. Catalysts are an unchanged buoyant auto outlook, sustained high payouts and robust growth, in our reckoning. A distant possibility is the unlocking of the property value of its Kamal Muara plant.



Financial Summary

	Dec-09A	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Revenue (Rpb)	1,375	1,562	1,834	2,085	2,471
Operating EBITDA (Rpb)	266.1	304.9	393.6	444.3	518.1
Net Profit (Rpb)	132.9	150.4	208.1	237.3	282.3
Core EPS (Rp)	94.4	105.0	142.7	164.6	195.8
Core EPS Growth	18.0%	11.2%	36.0%	15.3%	19.0%
FD Core P/E (x)	15.04	13.53	9.95	8.63	7.25
DPS (Rp)	125.0	90.0	80.7	136.8	151.8
Dividend Yield	8.8%	6.3%	5.7%	9.6%	10.7%
EV/EBITDA (x)	8.40	7.45	5.95	5.18	4.71
P/FCFE (x)	12.30	16.41	22.99	12.31	11.00
Net Gearing	28.5%	32.6%	36.4%	27.1%	41.2%
P/BV (x)	4.11	3.94	3.34	3.14	2.86
Recurring ROE	26.0%	29.7%	36.3%	37.5%	41.2%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			1.10	1.06	1.10

SOURCE: CIMB, COMPANY REPORTS

IMPORTANT DISCLOSURES. INCLUDING ANY REQUIRED RESEARCH CERTIFICATIONS, ARE PROVIDED AT THE END OF THIS REPORT.

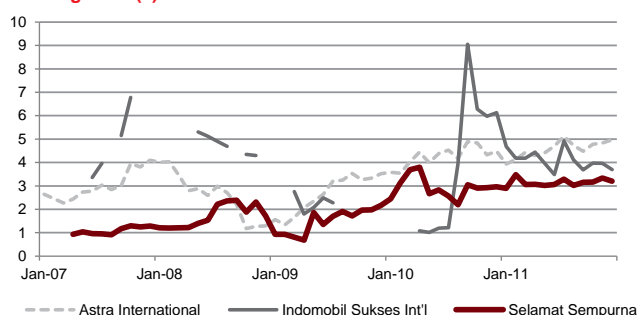
Designed by Eight, Powered by EFA

PEER COMPARISON

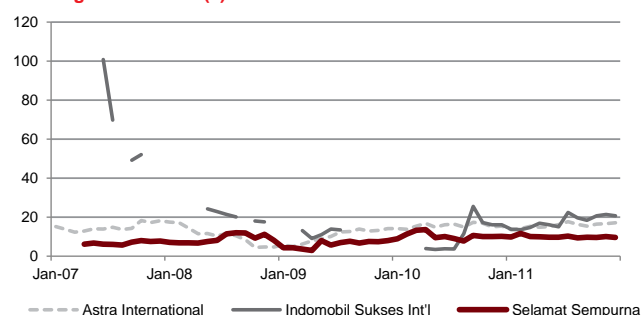
Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US\$m	Price	Target Price	Upside
Astra International	ASII IJ	ID	OUTPERFORM	33,847	76,750	77,200	0.6%
Indomobil Sukses Int'l	IMAS IJ	ID	OUTPERFORM	2,184	14,500	14,900	2.8%
Selamat Sempurna	SMSM IJ	ID	OUTPERFORM	223	1,420	1,950	37.3%

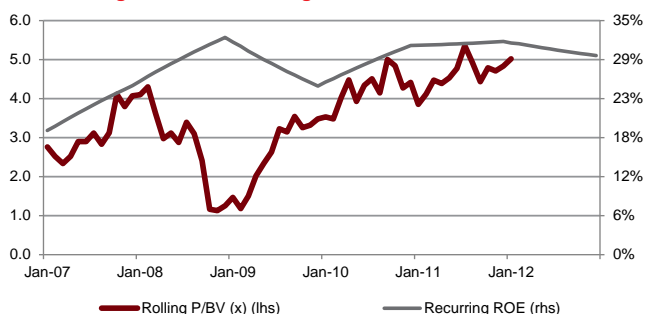
Rolling P/BV (x)



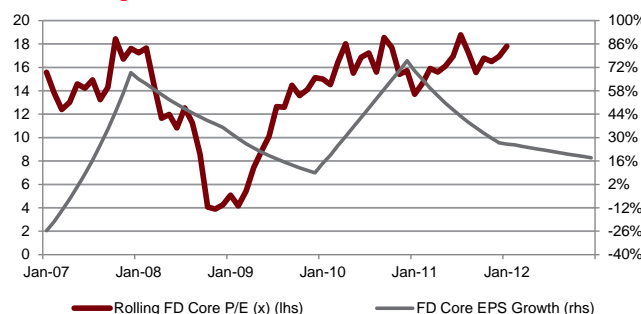
Rolling FD Core P/E (x)



Peer Average: P/BV vs Recurring ROE



Peer Average: FD Core P/E vs FD Core EPS Growth



Valuation

	FD Core P/E (x)			P/BV (x)			EV/EBITDA (x)		
	Dec-10	Dec-11	Dec-12	Dec-10	Dec-11	Dec-12	Dec-10	Dec-11	Dec-12
Astra International	21.60	17.77	15.49	6.30	5.15	4.29	17.51	13.52	11.32
Indomobil Sukses Int'l	30.91	23.38	15.49	11.77	4.18	3.42	46.69	37.27	22.49
Selamat Sempurna	13.53	9.95	8.63	3.94	3.34	3.14	7.45	5.95	5.18

Growth and Returns

	FD Core EPS Growth			Recurring ROE			Dividend Yield		
	Dec-10	Dec-11	Dec-12	Dec-10	Dec-11	Dec-12	Dec-10	Dec-11	Dec-12
Astra International	44.3%	21.5%	14.7%	32.3%	31.9%	30.2%	1.24%	1.77%	2.15%
Indomobil Sukses Int'l	700.1%	32.2%	51.0%	55.6%	24.7%	24.3%	0.00%	0.00%	1.12%
Selamat Sempurna	11.2%	36.0%	15.3%	29.7%	36.3%	37.5%	6.34%	5.68%	9.63%

SOURCE: CIMB, COMPANY REPORTS

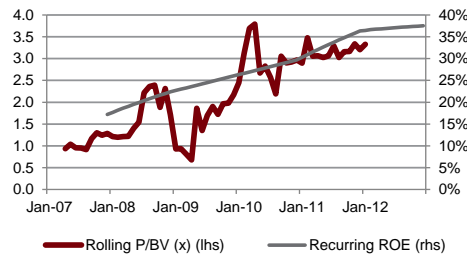
Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

BY THE NUMBERS

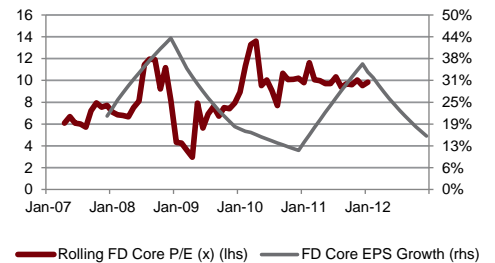
Share price info

Share px perf. (%)	1M	3M	12M
Relative	-5.3	6.5	26.1
Absolute	-0.7	13.6	36.5
Major shareholders			% held
Adrindo Inti Perkasa			58.1

P/BV vs Recurring ROE



FD Core P/E vs FD Core EPS Growth



Gross margins superior to peers, underpinned by a strong brand

Profit & Loss

(Rpb)	Dec-09A	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Revenue	1,375	1,562	1,834	2,085	2,471
Cost Of Sales	(1,058)	(1,193)	(1,375)	(1,563)	(1,853)
Gross Profit	316.3	368.8	458.3	521.6	617.9
Total Operating Costs	(126.5)	(140.9)	(149.7)	(170.0)	(201.0)
Operating Profit	189.8	227.8	308.6	351.6	417.0
Operating EBITDA	266.1	304.9	393.6	444.3	518.1
Depreciation And Amortisation	(76.3)	(77.1)	(85.0)	(92.7)	(101.1)
Operating EBIT	189.8	227.8	308.6	351.6	417.0
Net Interest Income	(7.26)	(22.23)	(26.63)	(26.73)	(30.43)
Exchange Gains	(16.72)	(4.73)	(4.73)	(4.73)	(4.73)
Other Income	12.78	3.87	8.00	5.13	5.13
Associates' Profit	7.28	0.00	0.00	0.00	0.00
Profit Before Tax (pre-EI)	185.9	204.8	285.2	325.3	386.9
Exceptional Items	-	-	-	-	-
Pre-tax Profit	185.9	204.8	285.2	325.3	386.9
Taxation	(42.91)	(39.92)	(57.05)	(65.06)	(77.39)
Profit After Tax	143.0	164.8	228.2	260.2	309.5
Minority Interests	(10.10)	(14.43)	(20.10)	(22.92)	(27.27)
Net Profit	132.9	150.4	208.1	237.3	282.3
Recurring Net Profit	135.9	151.1	205.5	237.0	282.0

Cash generation to support capex and dividend payments while maintaining gearing

Cash Flow

(Rpb)	Dec-09A	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Pre-tax Profit	185.9	204.8	285.2	325.3	386.9
Depreciation And Non-cash Adj.	93.0	104.0	111.6	119.4	131.5
Change In Working Capital	41.0	(84.0)	(158.9)	5.4	(196.1)
Tax Paid	(42.91)	(39.92)	(57.05)	(65.06)	(77.39)
Other Operating Cashflow	(16.19)	(33.65)	(28.83)	(40.99)	(41.83)
Cashflow From Operations	260.7	151.2	152.1	344.1	203.2
Capex	(53.3)	(103.9)	(99.9)	(100.2)	(117.0)
Disposals Of FAs/subsidiaries	0.62	0.91	3.51	3.35	2.67
Acq. Of Subsidiaries/investments	0.51	(1.86)	0.00	0.00	0.00
Other Investing Cashflow	(8.95)	(14.73)	0.87	(0.09)	(2.35)
Cash Flow From Investing	(61.1)	(119.6)	(95.5)	(97.0)	(116.7)
Debt Raised/(repaid)	(26.1)	115.2	59.0	(54.4)	129.7
Equity Raised/(Repaid)	-	-	-	-	-
Dividends Paid	(185.8)	(141.3)	(116.1)	(196.9)	(218.6)
Net Cash Interest	(7.26)	(22.23)	(26.63)	(26.73)	(30.43)
Other Financing Cashflow	7.26	22.23	26.63	26.73	30.43
Cash Flow From Financing	(211.9)	(26.1)	(57.2)	(251.3)	(88.9)
Total Cash Generated	(12.28)	5.56	(0.59)	(4.17)	(2.38)
Change In Net Cash	13.8	(109.6)	(59.6)	50.2	(132.1)
Free Cashflow To Equity	166.3	124.6	88.9	166.0	185.8

BY THE NUMBERS

Current low capacity utilisation requires modest capex

Balance Sheet

(Rpb)	Dec-09A	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Fixed Assets	341.4	376.8	391.5	398.8	414.5
Intangible Assets	-	-	-	-	-
Other Long Term Assets	25.40	28.61	27.74	27.83	30.18
Total Non-current Assets	366.8	405.4	419.2	426.6	444.7
Total Cash And Equivalents	8.68	14.31	13.72	9.55	7.40
Inventories	254.9	307.0	353.7	401.7	478.3
Accounts Receivable	278.3	313.7	368.3	418.7	496.3
Other Current Assets	32.94	26.67	32.48	36.95	43.91
Total Current Assets	575	662	768	867	1,026
Trade Creditors	160.8	124.8	146.6	166.6	197.5
Short-term Debt	163.7	41.0	100.0	125.0	125.0
Other Current Liabilities	37.7	138.5	65.0	153.2	87.5
Total Current Liabilities	362.3	304.4	311.5	444.9	410.0
Total Long-term Debt	0.0	158.7	158.7	79.4	209.1
Other Liabilities	22.40	28.11	33.00	37.52	44.47
Deferred Tax	12.74	7.46	10.67	12.16	14.47
Total Non-current Liabilities	35.1	194.3	202.4	129.0	268.0
Shareholders' Equity	497.8	519.4	611.3	651.7	715.7
Minority Interests	46.43	49.10	62.16	67.89	76.97
Preferred Shareholders Funds	-	-	-	-	-
Total Equity	544.3	568.5	673.5	719.6	792.6

Key Ratios

	Dec-09A	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Revenue Growth	1.6%	13.6%	17.4%	13.7%	18.5%
Operating EBITDA Growth	(5.5%)	14.6%	29.1%	12.9%	16.6%
Operating EBITDA Margin	19.4%	19.5%	21.5%	21.3%	21.0%
Net Cash Per Share (Rp)	(107.7)	(128.8)	(170.2)	(135.3)	(226.9)
BVPS (Rp)	345.8	360.8	424.6	452.7	497.1
Gross Interest Cover	20.61	9.56	10.93	12.41	13.02
Tax Rate	23.1%	19.5%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	135%	86%	56%	83%	77%
Accounts Receivables Days	69.27	69.18	67.87	69.08	67.58
Inventory Days	93.34	85.97	87.68	88.43	86.67
Accounts Payables Days	39.93	43.70	36.01	36.67	35.86
ROIC (%)	19.2%	23.2%	27.3%	28.3%	30.3%
ROCE (%)	25.8%	31.1%	36.5%	38.1%	40.8%

Key Drivers

	Dec-09A	Dec-10A	Dec-11F	Dec-12F	Dec-13F
ASP (% chg, main prod./serv.)	0.4%	7.6%	6.4%	5.0%	5.0%
Unit sales grth (% , main prod./serv.)	-2.9%	22.5%	12.0%	10.0%	15.0%
Util. rate (% , main prod./serv.)	55.0%	56.0%	62.7%	69.0%	63.5%
ASP (% chg, 2ndary prod./serv.)	-1.9%	-6.8%	1.5%	2.6%	2.2%
Unit sales grth (% , 2ndary prod/serv)	21.8%	13.4%	7.0%	5.0%	8.0%
Util. rate (% , 2ndary prod/serv)	61.4%	44.4%	46.3%	49.0%	52.9%
Unit raw mat ASP (%chg,main)	-40.6%	21.4%	15.0%	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	-24.2%	47.4%	20.4%	N/A	N/A
Total Export Sales Growth (%)	0.8%	10.0%	N/A	N/A	N/A
Export Sales/total Sales (%)	75.3%	72.9%	N/A	N/A	N/A

SOURCE: CIMB, COMPANY REPORTS

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Globally recognized brand with domestic exposure

1. INVESTMENT SUMMARY

1.1 Presence in filter and radiator aftermarkets ►

Founded in 1976, Selamat Sempurna is the leading regional filter and radiator manufacturer for cars and heavy equipment. Since merging with Andhi Chandra Automotive Products in 2006, it has built an extensive portfolio of products, reaching 5,000 SKUs. Products are primarily sold as aftermarket replacement parts under its own well-known brands: Sakura filters and ADR radiators. Only 5% of the company's sales are to OEMs, resulting in superior gross margins to more OEM-oriented peers like Astra Otoparts (AUTO).

Market share of domestic non-OEM replacement parts has been dominant at around 40%. Selamat Sempurna's products are positioned as 'same quality but cheaper' than OEM products. In this market, customers are willing to pay more for quality and brand names since filters and radiators are considered essential for protecting car engines, which are expensive to fix when they break down. Due to this and Selamat Sempurna's long-established product positioning, the company has been successful in staving off competition from cheaper Chinese and local brands.

Notes from the Field

"Local cars and parts manufacturers should be production-ready when the low-cost-car regulation is finalized."

— Budi Darmadi, Industry Ministry's director general of transportation

Figure 1: Among those with the highest margins in the industry

9M11	Gross profit margin	Net profit margin	ROE
SMSM	24.7%	11.3%	28.8%
AMFG	27.4%	11.3%	13.6%
ASII	19.9%	11.2%	25.4%
MASA	18.5%	6.6%	10.3%
AUTO	16.8%	13.8%	23.4%
GJTL	13.7%	9.6%	25.9%
IMAS	12.2%	4.9%	15.1%

SOURCES: CIMB

Figure 2: Mostly high-quality brands



SOURCES: COMPANY REPORTS

1.2 Strong growth record ►

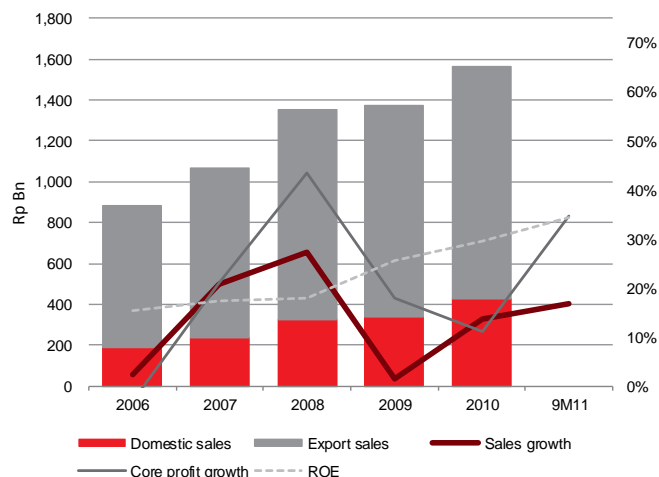
Selamat Sempurna's core profit more than doubled over the past three years on 14% p.a. sales growth, while sales and earnings were maintained or even grew in the most turbulent times. During 2006's doubling of fuel prices, earnings were kept flat despite a severe setback to Indonesia's auto sector, while 2009 core profit grew 18% yoy in the aftermath of the global financial meltdown.

Such performances were sustained by continuous expansion in its export reach and a growing domestic market. To offset the global slowdown, Selamat Sempurna has been expanding to new countries. It already exports to more than 100 countries and is in the process of extending its reach to nine countries in the growing Middle East market.

Domestic sales, by comparison, have been more dynamic due to surging car sales and an investment boom in the auto sector. After growing by 22% p.a. in the past three years, the growth momentum could accelerate further amid growing automotive and heavy equipment sales. Selamat Sempurna is in a

position to benefit from the upcoming introduction of Indonesia's low-cost car scheme through a pick-up in car sales and possible tie-ups with car manufacturers to supply OEM parts. The government previously indicated that it may require Indonesian low-cost cars to have close to 80% local content, potentially raising the need for OEM suppliers.

Figure 3: Sales growth



SOURCES: CIMB, COMPANY REPORTS

Figure 4: Network expansion has mitigated the impact of the economic slowdown

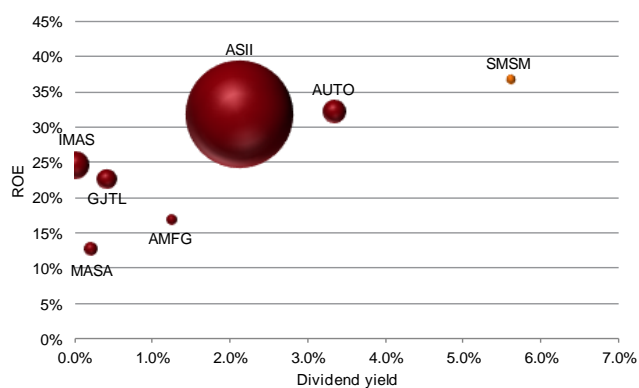


SOURCES: COMPANY REPORTS

1.3 Efficient use of capital ►

Selamat Sempurna has been paying lofty dividends, which together with rising net profit margins, have boosted its ROEs significantly. Dividend payouts were 94%, 98% and 92% in the past three years, standing out in corporate Indonesia. In our estimation, it can maintain payouts at 90% for the next three years before a moderation to 84%, still ahead of peers, assuming gearing at <50%. Yields are currently 5.7%, ahead of its peer group average of 1.7%. ROEs climbed from 18% in FY08 to 31% in 3Q11 and are on pace to hit 41% in 2013, 16% higher than peers' current average of 25%. But its share price has yet to follow. Historically, the market lags in pricing in its surging ROEs, though eventually catching up. Looking at the chart, current valuations still lag its ROE outlook; if history is any indication, its share price might appreciate to match its stout ROE outlook.

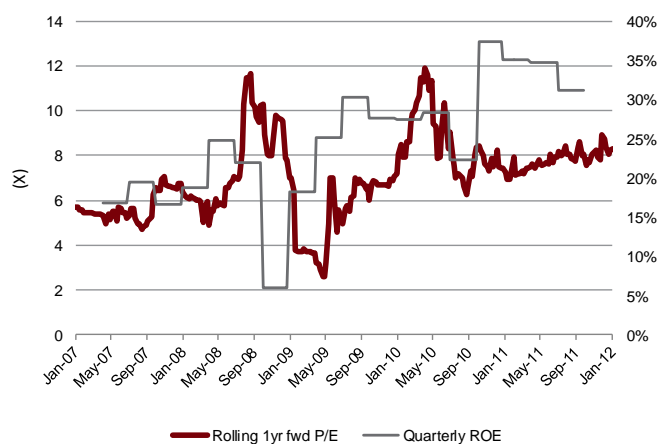
Figure 5: Highest ROEs and yields among Indonesian autos



*Bubble size represents market cap
2011 Bloomberg consensus and CIMB forecast, 2010 numbers when not applicable

SOURCES: CIMB, COMPANY REPORTS

Figure 6: Current valuations lag rising ROEs



SOURCES: CIMB, COMPANY REPORTS

1.4 Hidden property value ►

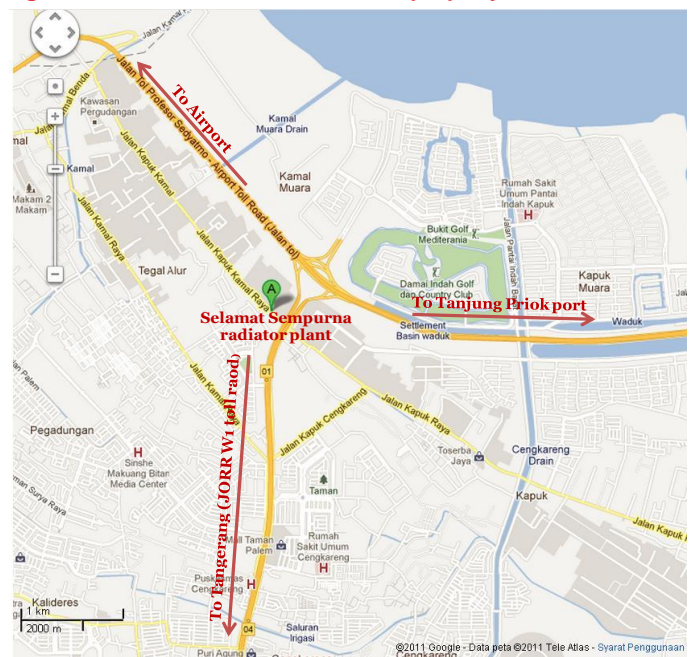
The stock is at a significant discount to peers despite its YTD outperformance, now at 8.7x CY12 P/E vs. 12.0x for its auto parts peers. Under-coverage and a small cap might be the reasons. Equally overlooked has been the value of its 4ha manufacturing site in Kamal Muara, at the intersection of major toll roads in a boom town. Valued on its books at Rp210,000 per sqm, the land's current market value is closer to Rp3m per sqm. Its 11ha manufacturing site at Tangerang is also undervalued at Rp250,000 per sqm, against a market valuation of Rp950,000. Both parcels of land have a combined market value of Rp232bn, or 11% of its current market cap of Rp2tr. The company may integrate all its manufacturing at the Tangerang site in the future to realise the value of its Kamal Muara land asset.

Figure 7: Land assets on its books are undervalued

Location	Area (sqm)	Average book value per sqm (Rp)	Market value per sqm (Rp)	Market value (Rp Bn)
Sidoarjo, Jawa Timur	56,183			
Cianjur, Jawa Barat	859			
Curug, Tangerang	110,636	250,676	950,000	105
Kamal Muara, Penjaringan	42,385	250,676	3,000,000	127
TOTAL	210,063			232

SOURCES: CIMB, COMPANY REPORTS

Figure 8: Kamal Muara is nestled in a property boom area



SOURCES: CIMB, COMPANY REPORTS

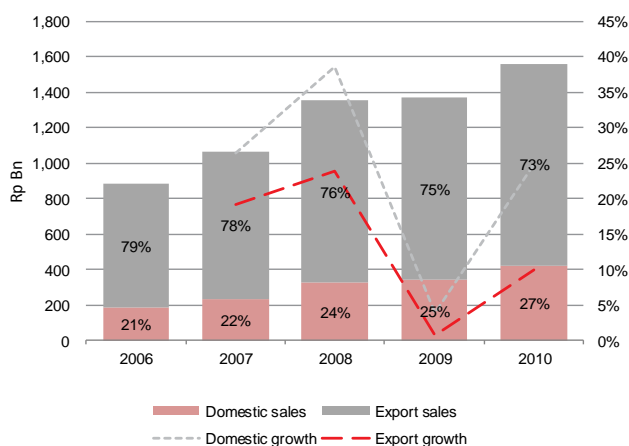
2. BACKGROUND

2.1 Export-minded, but strong domestic presence ►

Selamat Sempurna's products are 73% exported and 27% sold domestically, by value, though domestic sales have been rising, from 21% in 2006 to 27% in 2010. Domestic sales should continue to climb, led by a strong outlook for car sales and heavy-equipment sales in Indonesia.

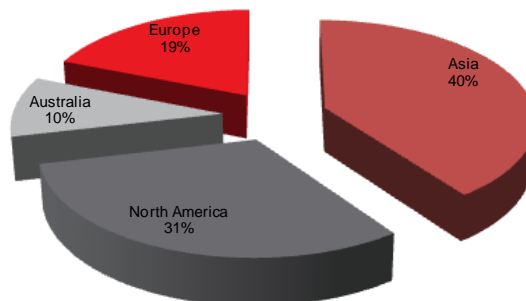
In the export market, Selamat Sempurna's products are sold in over 90 countries, with the US being its single largest destination, followed by Singapore and Japan. Selamat Sempurna is among the very few Indonesian auto-parts companies that can compete globally using its own brands, on account of its good quality, technology, and manufacturing practices.

Figure 9: Domestic growth outpacing exports



SOURCES: COMPANY REPORTS

Figure 10: Asia has taken the lead as the largest export continent



SOURCES: COMPANY REPORTS

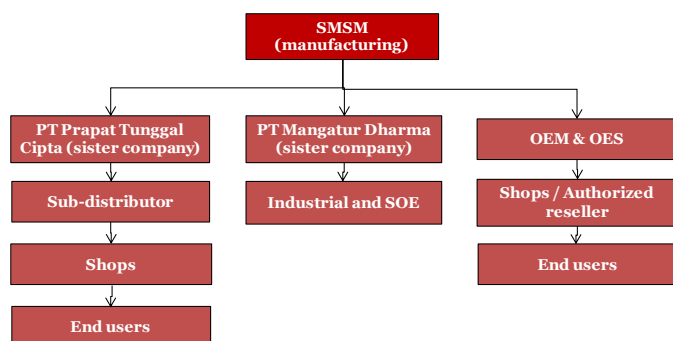
Figure 11: Selamat Sempurna actively participates in international trade shows to strengthen its global foothold



SOURCES: COMPANY REPORTS

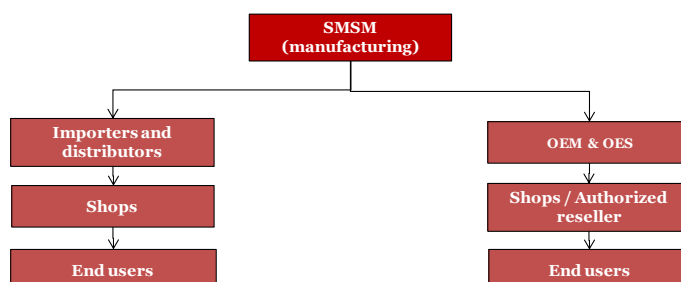
Distribution of products is handled domestically by sister companies, PT Prapat Tunggal Cipta and PT Mangatur Dharma, and globally by various local importers and distributors. Selamat Sempurna strictly limits the number of its retail distributors to discourage price wars and protect margins.

Figure 12: Local distribution is handled by sister companies



SOURCES: COMPANY REPORTS

Figure 13: Exports are handled by external parties



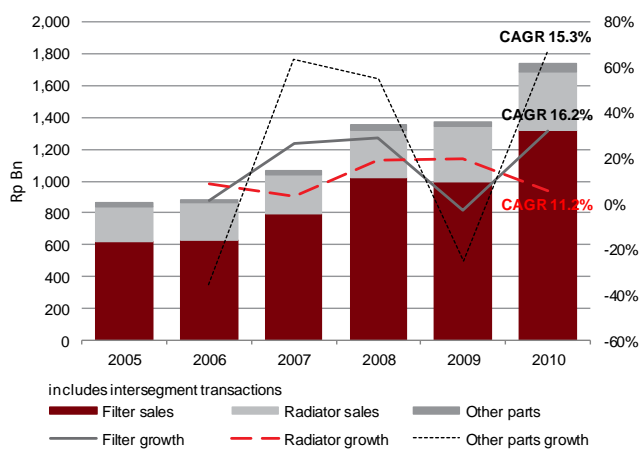
SOURCES: COMPANY REPORTS

2.2 Aftermarket filters driving growth ▶

Selamat Sempurna is a long-time player in the aftermarket filter and radiator markets, with filters making up the bulk of its sales (76% filters, 21% radiators, and 3% other components like fuel tanks, mufflers and brake pipes). Faster-moving filters have been growing faster than radiators. At a 16% 5-year CAGR vs. 11% for radiators, filters are considered to be its bread-and-butter. Only 5% of Selamat Sempurna's aftermarket parts are sold to OEMs. OEM parts manufacturing serves as a stamp of quality for Selamat Sempurna's products.

The company has exposure to both cars and heavy equipment, producing parts for both. Sales volume is quite evenly split between the two, though in terms of value, heavy equipment accounts for a bigger 60% while cars account for 40%. Heavy-equipment parts also generate better margins due to less competition.

Figure 14: Filters are crucial for growth and volume



SOURCES: CIMB, COMPANY REPORTS

Figure 15: The company supplies to prominent OEMs



SOURCES: COMPANY REPORTS

2.3 Building its brand ▶

The company tries to produce good-quality and cheaper aftermarket replacement parts that can match genuine OEM parts. Competition in the export market is more intense than the domestic market.

In the domestic market, it has a 40% share of aftermarket replacement filters and radiators, with the closest competitor being Union Filter, whose distribution reach is much smaller. Other aftermarket brands include a domestic brand (JIMCO), with premium pricing that beats the prices of OEM parts (K&N, HKS, and Denso) and Chinese-made parts which are not very popular on account of a widespread perception of their lower quality. Thus, Selamat Sempurna's biggest threat is actually OEM parts, which command the highest market shares and dictate market prices.

According to our checks at auto-parts trade centres in Jakarta, Selamat Sempurna's products are priced 24-46% lower than OEM parts for popular oil filters. The difference is more than 70% for less popular fuel filters. OEM parts are sold by the largest number of retailers, and thus command the largest market shares, though Selamat Sempurna has a distributor presence in each of the centres we went to. Sales of Selamat Sempurna's products are said to be quite brisk, even by OEM retailers. Selamat Sempurna's products are considered to be of good quality, and it is widely known that the company also manufactures OEM parts.

We found that Selamat Sempurna's Sakura filters compete mostly with OEM parts, as Chinese non-branded parts are not very popular and are not much stocked by retailers since Sakura and OEM parts are already quite affordable. We also found a store stocking a local brand called JIMCO, at 24-37% cheaper than Sakura, though its distribution reach is too small to be a big threat. There

are also premium Japanese brands like K&N and HKS which serve a niche market, due to their high prices which may be 10x times the prices of OEM parts. In the radiator market, Selamat Sempurna's ADR radiators mainly compete with OEM parts and cheaper non-branded parts from China. ADR radiators are around 13% cheaper than OEM parts, while non-branded parts are 23% cheaper than ADR.

In the export market, Selamat Sempurna maintains cheaper but quality alternatives to OEMs, though competition is fiercer due to competing global brands from China, many of which also supply OEM parts to major brands.

Figure 16: Various Selamat Sempurna products



SOURCES: COMPANY REPORTS

Figure 17: 13-77% cheaper than OEM parts

JAKARTA

Price (Rp)	Sakura/ADR	OEM	JIMCO	Non-branded
Toyota Avanza oil filter	25,000	33,000	19,000	-
Toyota Innova oil filter	35,000	65,000	22,000	-
Toyota Innova fuel filter	85,000	370,000	-	-
Toyota Innova air filter	150,000	175,000	-	-
Toyota Avanza radiator	650,000	750,000	-	500,000

UNITED STATES

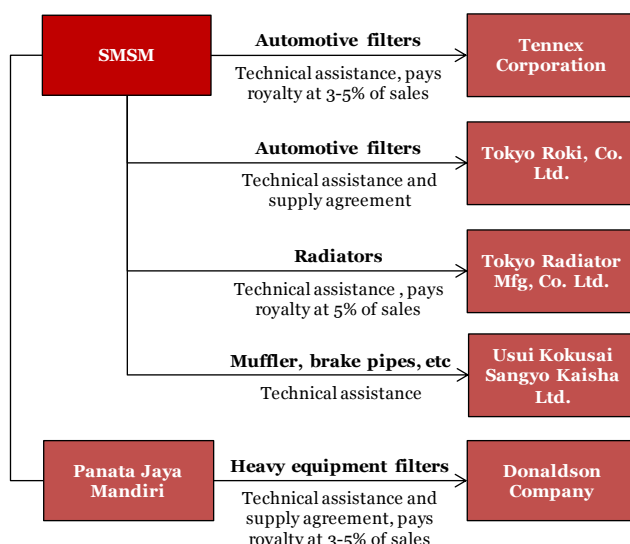
Price (US\$)	Sakura	OEM	ACDelco (U.S. / Made in China)	Mann (German / Made in China)	Fram (U.S. / Made in China)
Toyota Camry Oil filters	6.1	8.0	7.3	7.8	7.5

SOURCES: CIMB

2.4 Collaboration with global players to maintain quality ►

In order to maintain its margins and high-quality products, Selamat Sempurna has been employing new technologies and updating its products to meet the specifications of new cars and new models of heavy equipment. To this end, it has been receiving technical assistance and technological licences from leading global parts manufacturers in exchange for royalties at 2-5% of revenue. In some cases, such as its collaboration with Donaldson and Tokyo Roki, the company also supplies parts for sale under the brands of these global names. After the recent signing of an agreement with Tokyo Roki, management believes there could be more supply agreements to come, providing additional growth impetus on top of the company's own brands.

Figure 18: Technical assistance to keep up with the latest specs



SOURCES: COMPANY REPORTS

Figure 19: Continuous improvements in product technologies



SOURCES: COMPANY REPORTS

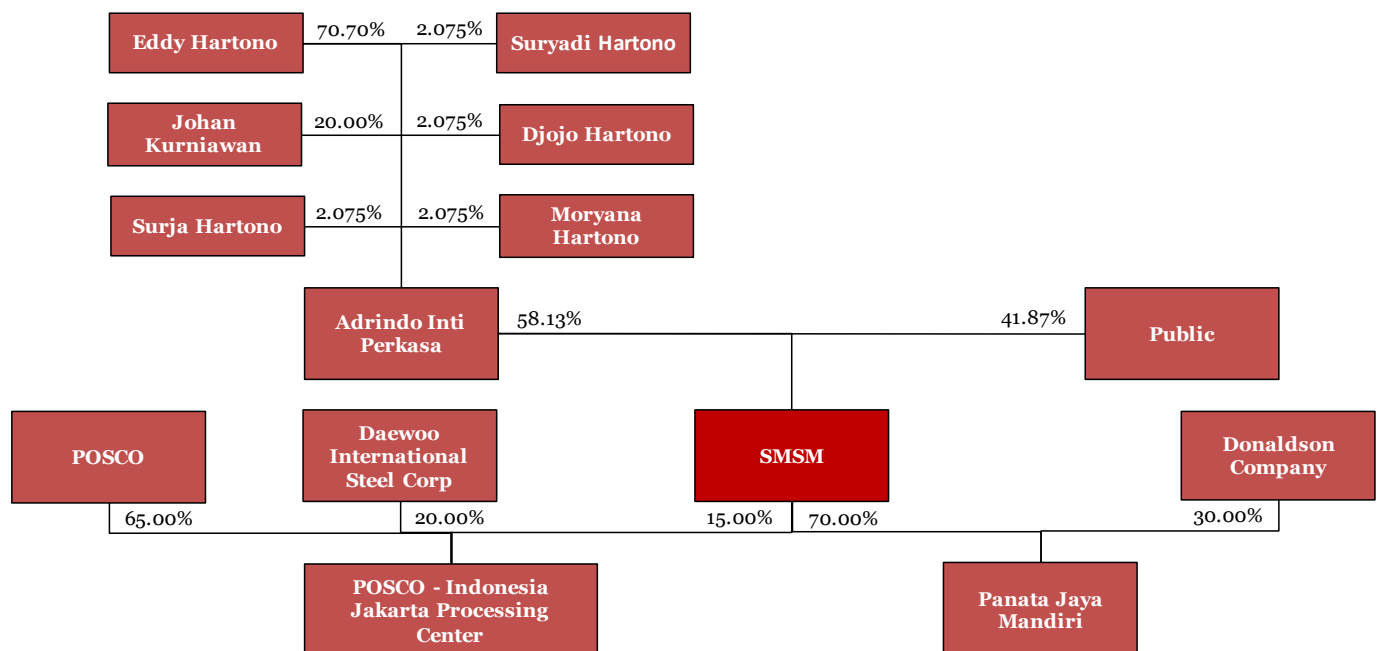
2.5 Long history with a 42% float ▶

Selamat Sempurna is 42% publicly owned, with the rest owned by Adrindo Inti Perkasa. Established in 1973 by the Hartono family, Adrindo's main focus has been on the manufacturing and distribution of automotive components. Besides Selamat Sempurna, Adrindo has subsidiaries manufacturing rubber components, engine gaskets, assembling dump trucks, and distributing Baotou Bei Ben trucks. Adrindo also has investments in plantations and properties, to a much smaller extent than auto parts.

Selamat Sempurna has two subsidiaries. The first is Panata Jaya Mandiri, a 70:30 JV with Donaldson Company, an American filtration system company. Established in 1983, the JV makes heavy equipment and industrial filters (non-auto) with technical assistance and a licence from Donaldson.

The second subsidiary is POSCO-Indonesia Jakarta Processing Center. Selamat Sempurna owns 15% of this subsidiary and buys steel plates from it as raw material. The rest is 65% owned by POSCO and 20% by Daewoo Steel. Established in 2005, the subsidiary procures, processes (slitting and shearing), and distributes steel sheets. Due to its poor profitability and lack of synergies with its main auto manufacturing operation, Selamat Sempurna had trimmed its original 40% ownership to 15% in 2010.

Figure 20: Majority owned by the Hartono family



SOURCES: COMPANY REPORTS

3. OUTLOOK

3.1 Exciting domestic market ▶

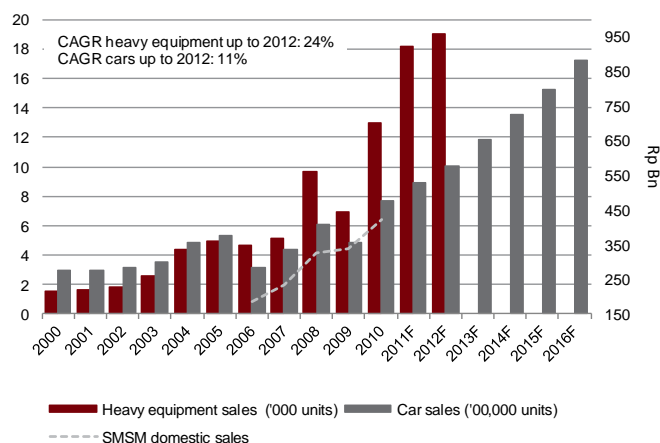
Domestic sales should continue to track auto sales and heavy equipment sales growth. We are expecting the auto sector to grow 14% p.a. in the next five years, or close to 20% p.a.

Catalysts abound for the Indonesian auto market. Already an ASEAN production base for many Japanese car manufacturers, there will be capacity expansion in anticipation of upcoming demand. Toyota is even hoping to increase the local content of its Indonesia-produced cars to 80% in the next three years. Improving infrastructure such as the completion of the Trans-Java toll road should also lift investment in the auto sector further and boost Indonesian car penetration.

Another potential catalyst may come from the faster introduction of Indonesian low-cost cars. Selamat Sempurna can benefit directly and indirectly from this: indirectly from increasing car sales and directly from possible OEM supply agreements for the production of such low-cost cars, since Selamat Sempurna has sufficient capacity and production quality.

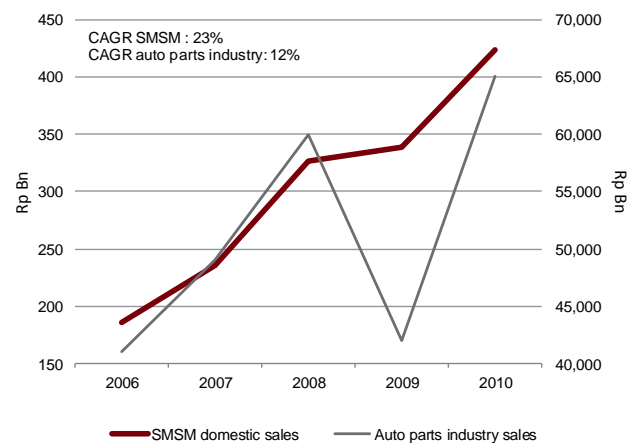
In addition to the auto sector, often overlooked is Indonesia's heavy-equipment sales boom of the past two years. Large mining activity since 2010 has been powering the demand for heavy equipment. Since 2000, heavy-equipment sales have been growing at a 24% CAGR, faster than the 10% for car sales. Moreover, there had been sales spikes in 2010/11, ensuring strong parts demand in the near future. This is beneficial to Selamat Sempurna as its sales here currently dwarf its car segment. A near-term boost here could support any slowing car-sales growth next year. Heavy-equipment parts margins are also better, since competition is less intense.

Figure 21: Current sales just touch the tip of the iceberg



SOURCES: CIMB ESTIMATES, PAABI, HINABI

Figure 22: Selamat Sempurna has outperformed the industry



SOURCES: CIMB

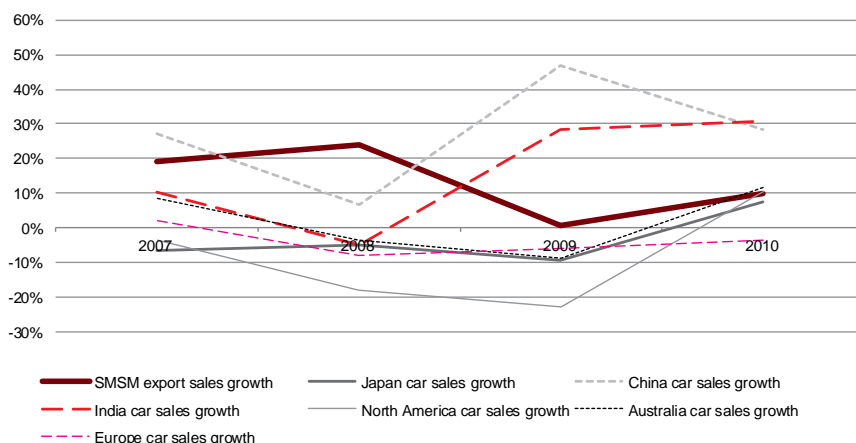
3.2 Foreign market has room for growth ►

Selamat Sempurna's export sales had grown by 13% p.a. in the past four years: 10% in 2010 after 1% during the 2009 slowdown. Since 2007, its export growth has been outperforming car-sales growth in its export destinations, namely the US, Japan, Australia, and Europe, due to Selamat Sempurna's expanding distribution reach and possibly due to shifting consumer preferences during bad times to more affordable non-OEMs. Selamat Sempurna has been less dependent on emerging economies such as India and China due to a higher level of competition from domestic players.

The 2012 growth outlook for Selamat Sempurna's exports should not differ very much from 2011, with growth expected at around 13%. Europe is likely to continue to stall as it already did in 2011, while North America should continue with its modest recovery. As Selamat Sempurna is quite dependent on Japan in Asia, it should benefit from Japan's likely recovery in 2012, from pent-up demand resulting from 2011 production disruptions. Combined with Middle East expansion and additional supply agreements with global parts names, it should be able to counter downside risks from the European market.

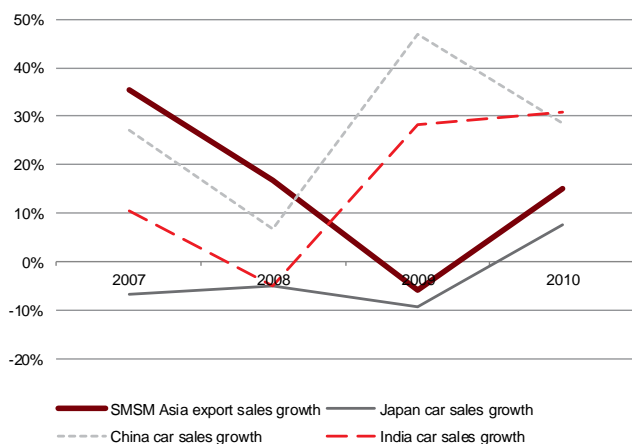
A major slowdown in sales like the 1% export growth in 2009 is not likely, as Selamat Sempurna's major export destinations are in a much better shape today than in 2009.

Figure 23: Export growth is more dependent on developed countries



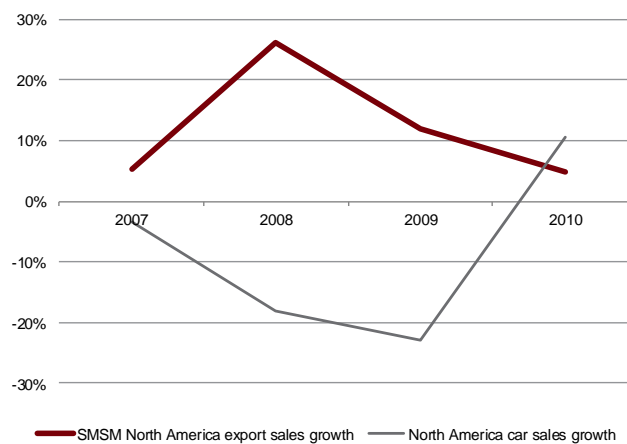
SOURCES: CIMB, CEIC, COMPANY REPORTS

Figure 24: Asian exports do not correlate with emerging markets, but more with Japan



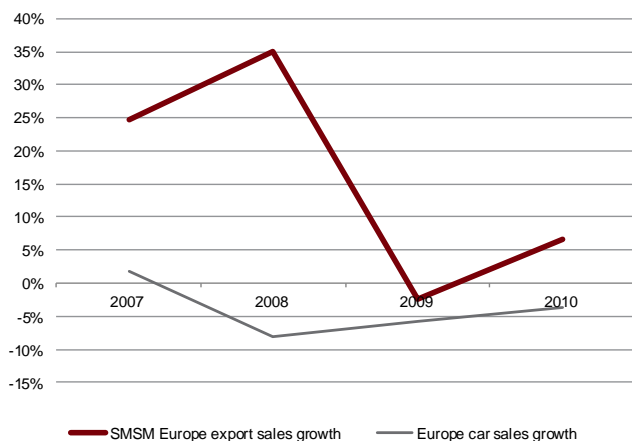
SOURCES: CIMB, CEIC, COMPANY REPORTS

Figure 25: Bucking contraction in North America



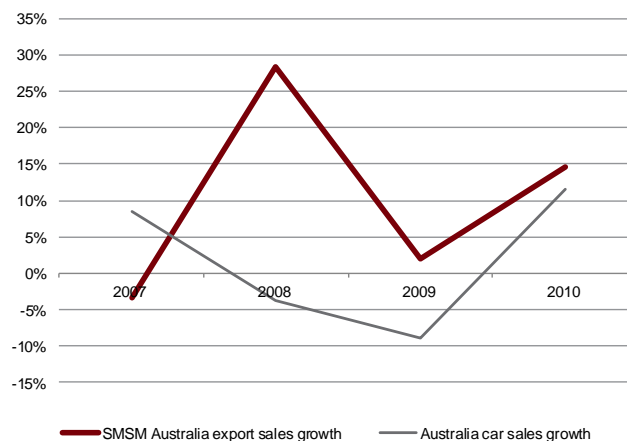
SOURCES: CIMB, CEIC, COMPANY REPORTS

Figure 26: Europe fairly resilient to a downturn



SOURCES: CIMB, CEIC, COMPANY REPORTS

Figure 27: Australian sales have been outgrowing car sales



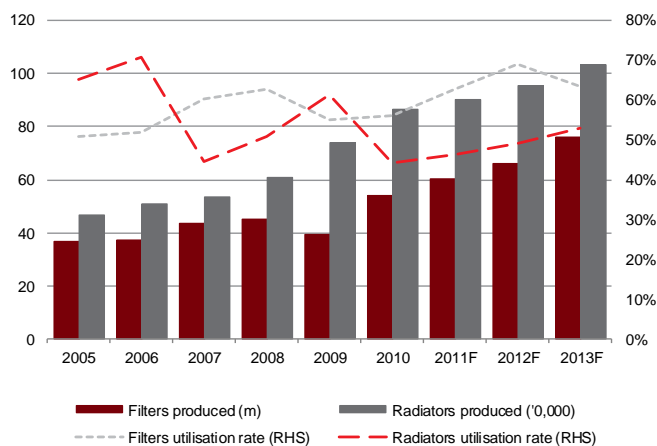
SOURCES: CIMB, CEIC, COMPANY REPORTS

3.3 Robust cash flows ►

After its capacity expansion last year, Selamat Sempurna's factory utilisation is 56% for filters and 44% for radiators. As such, the company projects only Rp100bn of capex for 2012, mainly for maintenance and small debottlenecking. Capex requirements are modest historically against cash from operations, with expansion undertaken conservatively when utilisation reaches the high 60s.

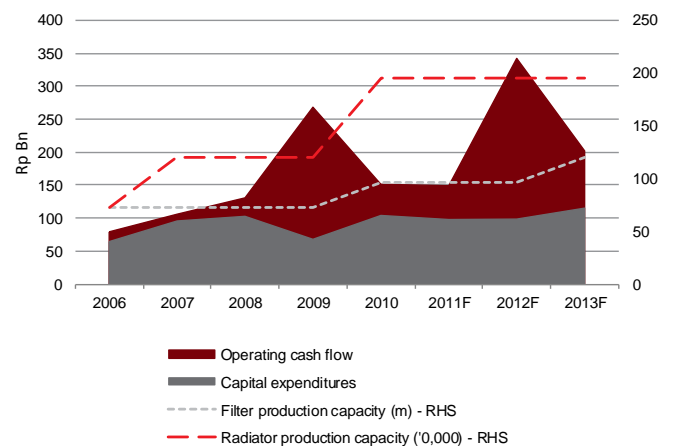
Assuming another round of capacity expansion when utilisation is close to 70%, we estimate that the company's cash flows would still be ample enough for capex without the need to take on additional debt, in line with its past experience. In fact, the company should have the cash to maintain its payouts of more than 90% without the need to gear up much.

Figure 28: Ample idle capacity for the next few years



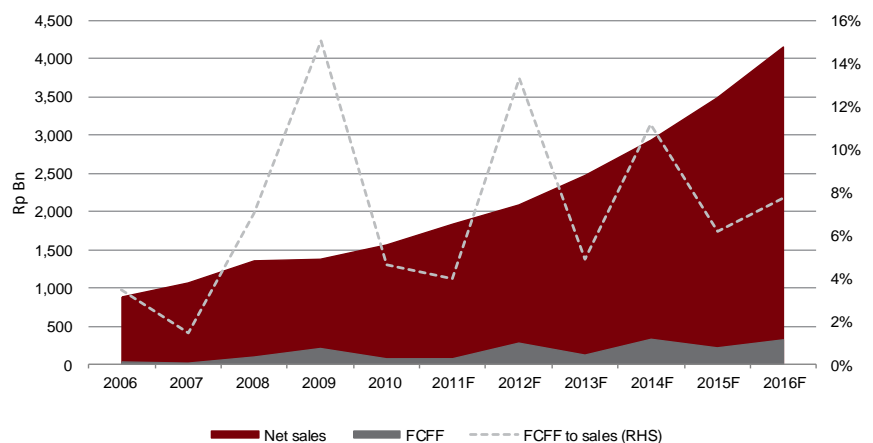
SOURCES: CIMB, COMPANY REPORTS

Figure 29: Rich operating cash flows to satisfy capex



SOURCES: CIMB, COMPANY REPORTS

Figure 30: Free cash flows to increase along with sales



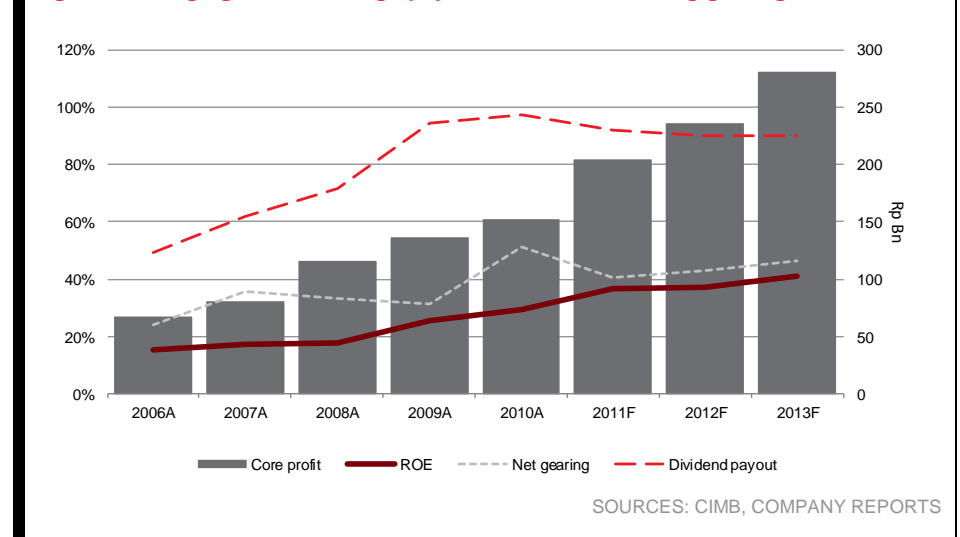
SOURCES: CIMB, COMPANY REPORTS

3.4 Surging ROEs and high dividend payouts ►

Selamat Sempurna's stock historically rallies as its ROE increases and its high dividend payout is maintained, two trends that should continue. Management intends to increase the absolute amounts of its dividends each year, which more or less implies that payouts would be close to 80-90%. We believe that maintaining such high payouts and yet keeping net gearing under 50% is feasible given the company's ample cash flows and strong profitability. Net gearing was 51% in Dec 10 and 38% in Sep 11.

The 90%+ payouts, combined with growing net profit, should lift its ROEs, from 30% in 2010 to a projected 37% in 2011/12, before reaching 41% in 2013. Likely due to low brokers' coverage of the stock, the market historically lags in pricing this in but would eventually catch up. At the moment, it does not appear to have priced in its high ROEs yet, indicating a good buying opportunity.

Figure 31: Surging ROEs and high payouts without burdening gearing



4. FINANCIALS

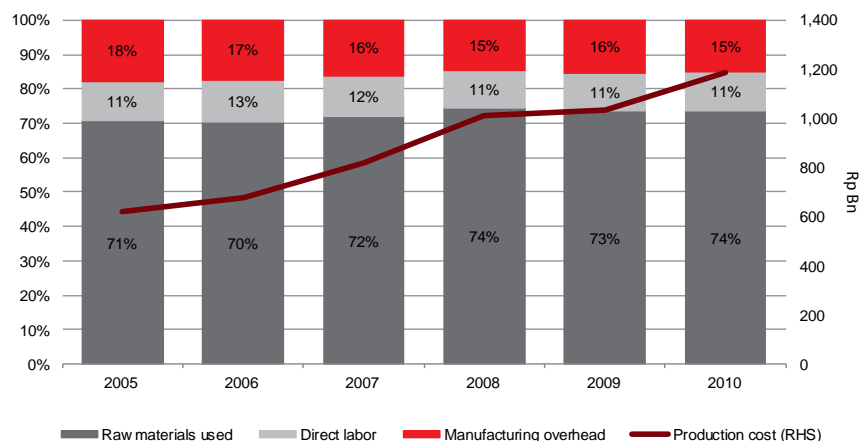
4.1 Weathered 2008 well ►

In the aftermath of the 2008 global slowdown, core profit still grew 18% yoy, in 2009, helped by the sale of a money-losing subsidiary and a lower tax, though topline was rather flat. Domestic sales grew 4%, while export sales grew 1%.

ASPs for its products were flat in 2009 despite changes in costs. Gross margins behaved differently for filters and radiators, with filter margins contracting to 21% from 24%, offset by radiators' margin expansion from 23% to 26%. Overall margins shrank from 24.3% in 2008 to 23% in 2009, though still in line with pre-2008 levels, since the company had increased its prices in 2008. Filter sales volume dropped by 3%, although radiator volume picked up by 22%. All in all, Selamat Sempurna maintained its gross margins at historical levels.

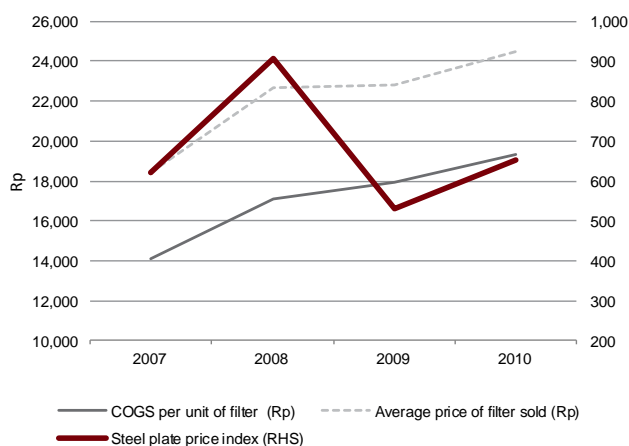
Metal prices in 2008-09 collapsed, though this didn't translate into much lower costs of production, offset as they were by other raw-material costs and fixed manufacturing overheads and labour costs, which did not go down that year. On the other hand, rising metal prices, especially steel plates, could push up raw-material costs like they did in 2008, though at the time the costs could be passed along to customers before the global slowdown set in. It seems that raw-material costs could be passed on without sacrificing much volume during good times, but not during bad times.

Figure 32: Raw materials are a major part of inventory costs at 71-74%



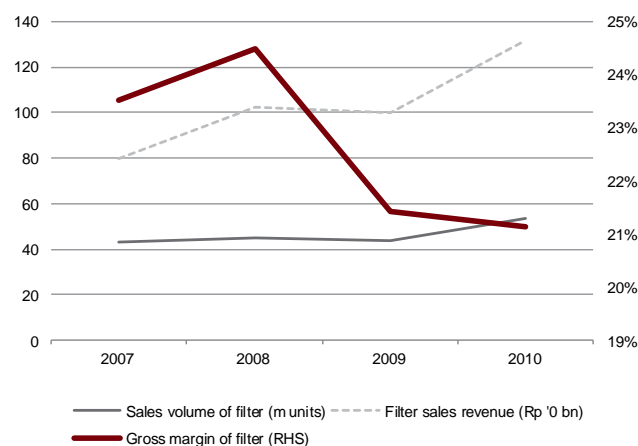
SOURCES: CIMB, COMPANY REPORTS

Figure 33: Higher filter raw material costs were passed on through ASP increases in 2008



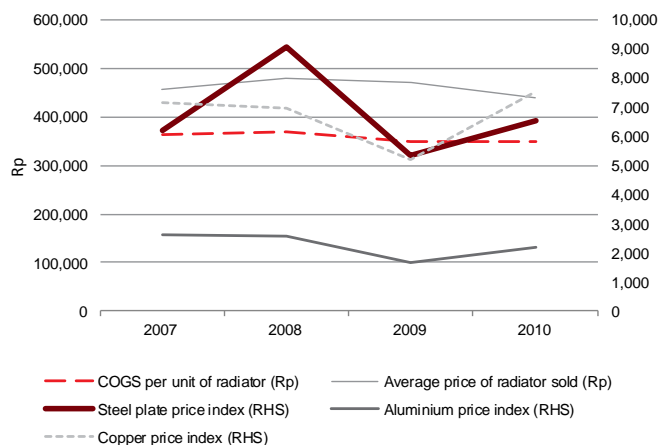
SOURCES: CIMB, BLOOMBERG, COMPANY REPORTS

Figure 34: Filter sales volume and margins were hit



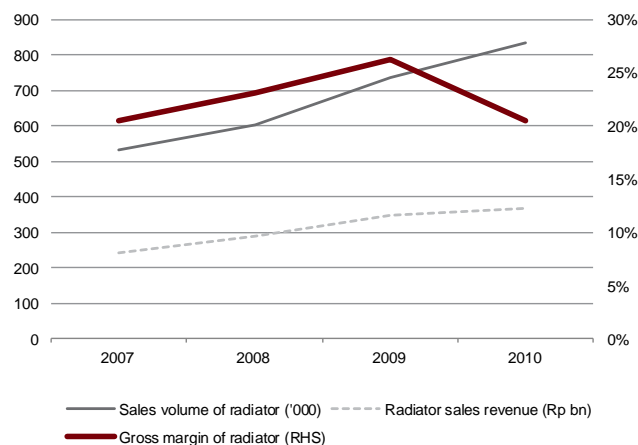
SOURCES: CIMB, COMPANY REPORTS

Figure 35: Unlike filters, radiator COGS was flat despite higher metal prices



SOURCES: CIMB, COMPANY REPORTS

Figure 36: Filter sales and margins were down, but radiator sales and margins picked up the slack



SOURCES: CIMB, COMPANY REPORTS

4.2 Asset turnover and margins to lift ROEs ➤

Using DuPont analysis, the main driver of ROEs (est. 37% in 2011 from 15% in 2006) seems to be a significant improvement in net profit margins. Net profit margins had increased from 7.5% in 2006 to an expected 11.2% in 2011 (+49%). Another component of ROE, asset turnover, had increased from 128% to 163%, likely due to high dividend payouts. Asset/equity or leverage increased from 160% to 200%.

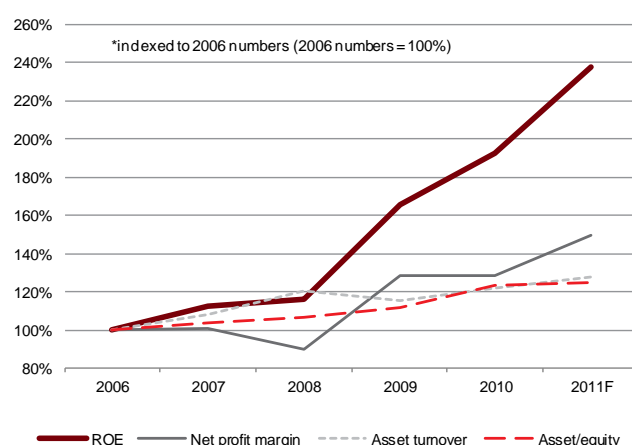
Gross, EBIT and PBT margins all have improved. A decreasing tax rate due to a bigger public float could be a main margin propeller. The dip in PBT/EBIT in 2008 was the result of money-losing subsidiary operations, namely its joint venture with POSCO. Selamat Sempurna had reduced its stake in 2009, contributing to a rebound in its profitability. ROE increases have come mainly from different facets of its business, though margins were encouragingly the biggest driver. This trend continued into 2011.

Figure 37: DuPont analysis: net profit margins the biggest driver of ROEs, followed by asset T/O and leverage

	2006	2007	2008	2009	2010	2011F
ROE	15.4%	17.2%	17.8%	25.4%	29.6%	36.5%
Net profit margin (RHS)	7.5%	7.5%	6.8%	9.7%	9.6%	11.2%
Net profit/Pretax profit (tax burden)	63%	61%	64%	71%	73%	73%
Pretax profit/EBIT (interest burden)	91%	86%	65%	100%	90%	91%
EBIT/Sales (operating profit margin)	13%	14%	16%	14%	15%	17%
Asset turnover	128%	138%	154%	147%	155%	163%
Ave asset/Ave equity	160%	166%	171%	179%	197%	200%

SOURCES: CIMB, COMPANY REPORTS

Figure 38: Net profit margins up the most (49%) vs. asset T/O and leverage



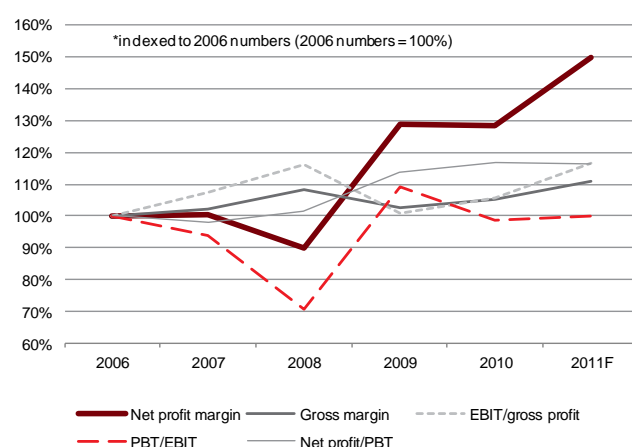
SOURCES: CIMB, COMPANY REPORTS

Figure 39: Gross, EBIT, and PBT margins have been increasing, along with a lower tax rate

	2006	2007	2008	2009	2010	2011F
Net profit margin	7.5%	7.5%	6.8%	9.7%	9.6%	11.2%
Gross margin	22.5%	22.9%	24.3%	23.0%	23.6%	24.9%
EBIT margin	13.1%	14.3%	16.4%	13.5%	14.5%	16.9%
PBT margin	12.0%	12.3%	10.6%	13.5%	13.1%	15.4%
Effective tax rate	30.7%	32.2%	29.3%	23.1%	19.5%	20.0%

SOURCES: CIMB, COMPANY REPORTS

Figure 40: More efficient operations and a lower tax are the top two contributors to net profit margins



SOURCES: CIMB, COMPANY REPORTS

Figure 41: 9M11 results review: sales grew by 17% yoy, margins were up from 22% to 25%, boosting profit

FYE Dec (Rp Bn)	9M10	9M11	yoy % chg	FY10	FY11F	yoy % chg
Revenue	1,119	1,306	16.7	1,562	1,834	17.4
Operating costs	(910)	(1,021)	12.2	(1,258)	(1,439)	14.4
EBITDA	210	285	36.1	304	394	29.7
<i>EBITDA margin (%)</i>	18.7	21.8		19.5	21.5	
Depn & amort.	(54)	(60)	10.9	(77)	(85)	10.2
EBIT	155	225	44.9	227	309	36.3
Interest expense	(17)	(21)	27.7	(24)	(28)	18.5
Interest & invt inc	1	1	16.8	2	2	0.0
Associates' contrib	0	0		0	0	
Exceptionals	0	0		0	0	
Pretax profit	140	205	46.7	205	283	38.1
Tax	(27)	(44)	62.7	(40)	(57)	41.7
Tax rate (%)	19.4	21.5		19.5	20.0	
Minority interests	(10)	(13)	30.7	(14)	(20)	38.1
Net profit	102	148	44.1	150	206	37.1
Core net profit	106	144	36.4	151	204	34.8

SOURCES: CIMB, COMPANY REPORTS

Looking at quarterly P&L since 2008, Selamat Sempurna's sales seem to be subject to seasonality, usually at their highest in the fourth quarter. Its sales growth has been steady after the 2009 slowdown; moreover, gross margins have been climbing, after succumbing to raw-material cost pressure in 2008. In 2009, the sale of a money-losing subsidiary and a lower tax rate from a higher public float contributed to higher profit margins. In 4Q08, Selamat Sempurna incurred a loss from a currency derivative position, dragging down its net profit, though core profit was intact. Since then, it has been more prudent in taking currency-swap positions.

Figure 42: Quarterly P&L: gross margins have returned to pre-2009 levels

Rp Bn	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Net sales	306	353	343	353	312	327	308	427	372	397	350	442	422	454	431
COGS	(243)	(279)	(263)	(240)	(249)	(240)	(227)	(343)	(286)	(311)	(272)	(325)	(314)	(342)	(327)
Gross profit	62	74	80	113	63	88	81	84	86	87	78	118	108	111	104
Selling expense	(14)	(16)	(20)	(20)	(14)	(16)	(17)	(29)	(18)	(18)	(18)	(24)	(18)	(22)	(21)
Depreciation exp - operations	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
G&A expenses	(8)	(10)	(10)	(13)	(11)	(11)	(10)	(14)	(12)	(12)	(10)	(24)	(16)	(13)	(8)
Operating income	39	47	49	79	37	60	53	40	55	56	48	69	73	75	73
EBIT	41	48	40	93	49	44	54	39	50	56	49	72	73	78	73
Total depreciation expenses	(14)	(17)	(18)	(20)	(17)	(18)	(20)	(21)	(17)	(18)	(20)	(23)	(19)	(20)	(22)
EBITDA	55	64	59	113	66	63	74	60	67	74	69	94	92	98	95
Interest income	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0
Forex gain (loss)	0	3	(9)	14	11	(16)	(6)	(5)	(3)	(1)	(2)	2	(5)	(1)	3
Financing expenses	(3)	(3)	(4)	(5)	(3)	(2)	(1)	(4)	(5)	(5)	(7)	(7)	(8)	(7)	(6)
Derivative transaction expenses	2	(2)	0	(43)	(5)	5	0	0	0	0	0	0	0	0	0
Other income (expenses)	2	(2)	0	(43)	(4)	8	5	4	(2)	1	3	1	6	5	(2)
Non-operating income (expenses)	(1)	(1)	(12)	(34)	5	(9)	(2)	(5)	(9)	(4)	(6)	(4)	(7)	(3)	(5)
Equity income (loss) in associates	(0)	3	5	(29)	(3)	0	5	5	0	0	0	0	0	0	0
Profit before tax	37	48	42	16	39	51	55	41	46	52	42	65	66	71	67
Income tax	(11)	(14)	(11)	(6)	(12)	(14)	(14)	(2)	(7)	(11)	(9)	(13)	(14)	(15)	(15)
Minority interest	(3)	(3)	(2)	(2)	(1)	(2)	(2)	(4)	(4)	(3)	(4)	(4)	(4)	(5)	(4)
Net income	23	31	29	8	25	34	39	35	35	38	29	48	48	51	49
Core profit	21	30	35	28	21	40	39	36	40	37	29	46	47	49	48
Seasonality of net sales (quarter / full year)	23%	26%	25%	26%	23%	24%	22%	31%	24%	25%	22%	28%	23%	25%	23%
Sales growth yoy	31%	27%	26%	27%	2%	-3%	-5%	2%	19%	20%	18%	14%	13%	14%	17%
Sales growth qoq	13%	15%	-3%	3%	-12%	5%	-6%	39%	-13%	7%	-12%	26%	-5%	8%	-5%
Gross margin	20.4%	20.9%	23.3%	32.0%	20.2%	26.8%	26.3%	19.8%	23.2%	21.8%	22.3%	26.6%	25.5%	24.6%	24.0%
EBIT margin	13.5%	13.6%	11.8%	26.3%	15.7%	13.5%	17.5%	9.1%	13.5%	14.2%	13.9%	16.2%	17.4%	17.3%	17.0%
EBITDA margin	17.9%	18.2%	17.1%	32.1%	21.2%	19.1%	24.0%	13.9%	17.9%	18.6%	19.7%	21.4%	21.8%	21.6%	22.1%
PBT margin	12.2%	13.7%	12.2%	4.5%	12.5%	15.5%	18.0%	9.5%	12.3%	13.0%	12.1%	14.7%	15.7%	15.8%	15.7%
Net profit margin	7.6%	8.3%	8.3%	6.8%	8.2%	9.3%	10.4%	9.7%	9.5%	9.5%	9.2%	9.6%	11.3%	11.3%	11.3%
Core profit margin	7.9%	7.8%	10.1%	8.1%	5.5%	13.7%	12.3%	8.4%	10.7%	9.3%	8.2%	10.3%	11.2%	10.7%	11.1%
Core profit growth qoq	4%	43%	14%	-18%	-28%	94%	-2%	-9%	11%	-7%	-23%	60%	4%	3%	-1%

SOURCES: CIMB, COMPANY REPORTS

As for its balance sheet, the turnover of key working-capital components (inventory, payables and receivables) has been fairly stable. The exception was during the 2009 global slowdown, when Selamat Sempurna stocked up less in expectation of demand weakness, resulting in low inventory days. Receivables to related parties were up slightly by number of days, though still below 10 days, lower than the company overall receivable days. In terms of funding, net debt to equity had increased from an average of 32% to 37-38% recently as cost of borrowing continued to stabilise. Quarterly ROAE and ROAA trended up from 26% and 14% historically to >31% and >17% in 2011, thanks to increasing profitability and high dividend payouts.

Figure 43: Quarterly balance sheet

Rp Bn	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Cash and cash equivalents	8	10	15	14	24	57	38	9	17	29	22	14	26	38	10
Trade receivables	227	246	235	243	253	222	229	278	255	273	247	314	301	328	295
<i>Related parties</i>	21	22	22	13	15	26	26	49	32	44	48	47	42	45	37
<i>Non-related parties</i>	206	223	213	231	238	196	203	229	223	228	199	266	260	283	258
Other receivables	2	3	0	1	2	3	4	1	1	1	1	0	3	3	0
Inventories	238	265	279	286	185	140	163	255	318	310	330	307	318	351	382
Prepaid taxes	6	4	5	6	2	4	10	21	14	10	13	9	6	7	8
Prepaid expenses	1	1	2	1	2	1	1	1	4	2	2	2	1	2	3
Purchase advances	9	13	7	3	4	7	11	10	11	8	9	15	9	14	13
Current assets	490	543	543	555	471	434	456	575	620	633	624	662	665	743	711
Investment in shares	24	27	32	4	1	2	6	10	8	8	8	8	8	8	8
PP&E	329	350	359	358	357	359	358	341	339	343	358	377	378	373	391
Advances for PP&E purchases	23	10	8	6	6	9	11	9	18	20	18	15	21	26	16
Property investments	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Others	3	3	3	3	3	4	4	4	3	3	3	4	4	4	4
Non-current assets	381	392	405	375	370	376	382	367	370	376	389	405	413	413	421
TOTAL ASSETS	871	934	947	930	842	810	838	942	990	1,010	1,013	1,067	1,078	1,156	1,131
Bank loans	175	165	169	190	92	57	105	164	205	212	49	41	49	25	91
Trade payables	99	155	132	71	61	104	106	161	130	132	96	125	91	120	99
Taxes payable	9	14	13	12	15	22	22	13	8	7	4	13	12	15	15
Accrued expenses	11	17	19	28	21	28	26	24	23	36	35	46	29	44	43
Advance received and other payables	1	1	2	5	2	2	1	1	2	2	1	0	0	0	4
Bonds payable - current maturities	0	0	0	0	0	0	0	0	0	0	79	80	80	80	0
Current liabilities	295	351	334	305	191	212	261	362	370	390	263	304	261	284	252
Deferred tax liabilities	19	20	19	18	16	14	13	13	11	10	9	7	6	5	4
Employee benefits obligation	16	17	17	18	19	20	22	22	25	26	27	28	32	33	32
Bonds payable - long term	0	0	0	0	0	0	0	0	0	0	159	159	159	159	159
Non-current liabilities	35	37	36	36	36	35	34	35	36	36	194	194	196	197	195
TOTAL LIABILITIES	331	388	370	341	227	247	295	397	406	426	458	499	458	481	447
Equity in associates	1	1	1	1	1	1	1	1	1	1	1	1	0	0	0
Minority interests	34	37	39	41	43	42	42	46	49	47	47	48	53	55	60
SHAREHOLDERS' EQUITY	505	508	537	546	572	520	501	498	534	536	507	519	568	619	625
TOTAL LIABILITIES & S/E	871	934	947	930	842	810	838	942	990	1,010	1,013	1,067	1,078	1,156	1,131
Total debt	175	165	169	190	92	57	105	164	205	212	287	279	288	264	249
Working capital	194	192	208	250	281	222	196	213	250	244	360	357	404	459	459
Inventory + Receivables - Payables	358	345	370	448	363	239	268	360	436	444	400	404	440	467	562
Annualized															
Days in inventory	91	82	94	107	86	62	61	56	92	92	107	89	91	89	102
Days of receivables	65	62	64	62	73	67	68	55	66	61	68	58	67	64	66
Related party days of receivables	6	6	6	5	4	6	8	8	10	9	12	10	10	9	9
Days of payables	32	38	47	37	41	39	38	28	38	40	36	33	30	26	28
Days of working capital (curr assets - curr liab)	58	50	53	59	78	70	62	44	57	57	79	74	82	87	97
Days of (Inv+Rec-Pay)	109	91	95	106	119	84	75	67	98	101	110	83	91	91	109
Cost of debt	7.9%	7.9%	10.1%	107.3%	21.3%	-29.9%	17.8%	10.9%	9.8%	9.6%	11.3%	10.2%	10.8%	10.6%	9.7%
Debt/Equity	35%	32%	31%	35%	16%	11%	21%	33%	38%	40%	56%	54%	51%	43%	40%
Net Debt/Equity	33%	30%	29%	32%	12%	0%	13%	31%	35%	34%	52%	51%	46%	37%	38%
ROAE	18.7%	24.8%	22.0%	6.0%	18.2%	25.1%	30.2%	27.7%	27.4%	28.3%	22.4%	37.4%	35.1%	34.7%	31.2%
ROAA	10.9%	13.9%	12.2%	3.5%	11.5%	16.6%	18.7%	15.6%	14.7%	15.2%	11.6%	18.4%	17.8%	18.4%	17.0%

SOURCES: CIMB, COMPANY REPORTS

5. RISKS

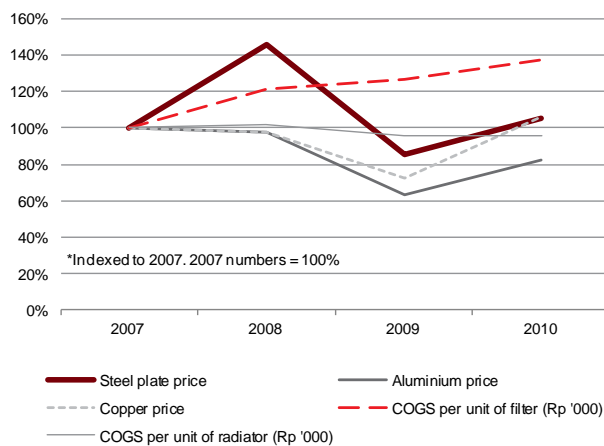
5.1 Spike in metal prices ►

Selamat Sempurna uses four main raw materials: steel plates, copper, zinc, and paper. Together, they contribute more than 30% to raw-material costs. Selamat Sempurna has to import most of these, since locally-produced metals are not good enough for its needs.

To counter price volatility, the company has been maintaining 3-month inventories. This could be quite effective in hedging short-term spikes in raw-material prices, though not prolonged ones.

Due to the sizeable 30% metal component in raw materials, Selamat Sempurna is not immune to prolonged spikes in metal prices, like in 2008. During good times however, it can pass along higher costs to buyers, like in the first half of 2008.

Figure 44: Costlier steel plates in 2008 drove up costs



SOURCES: CIMB, BLOOMBERG, COMPANY REPORTS

Figure 45: 3-month inventories as physical hedges, with the exception of 2009 (GFC)



SOURCES: CIMB, COMPANY REPORTS

5.2 Exchange-rate volatility ►

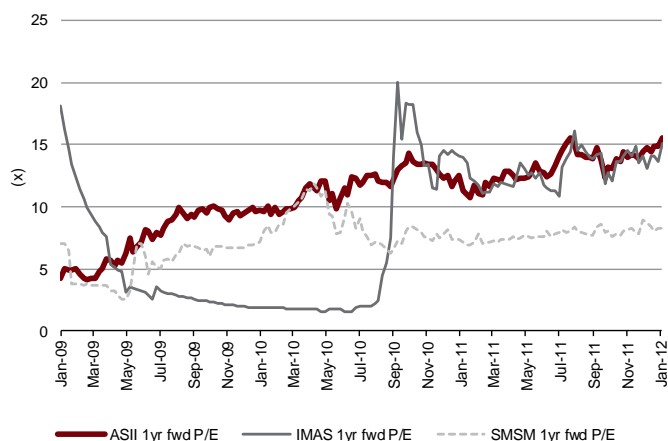
Selamat Sempurna is vulnerable to exchange-rate volatility as 74% of its products are exported while it imports 57% of its raw materials (71% of COGS), resulting in roughly US\$40m of net sales exposure. To hedge its currency risks, it maintains some US\$-Rp currency forward contracts. As of Sep 11, currency forward contracts stood at US\$22m, leaving roughly about US\$18m revenue exposure to US\$. Selamat Sempurna benefits when the US\$ strengthens.

6. VALUATION AND RECOMMENDATION

6.1 Attractive valuations vs. Indonesian and global peers ►

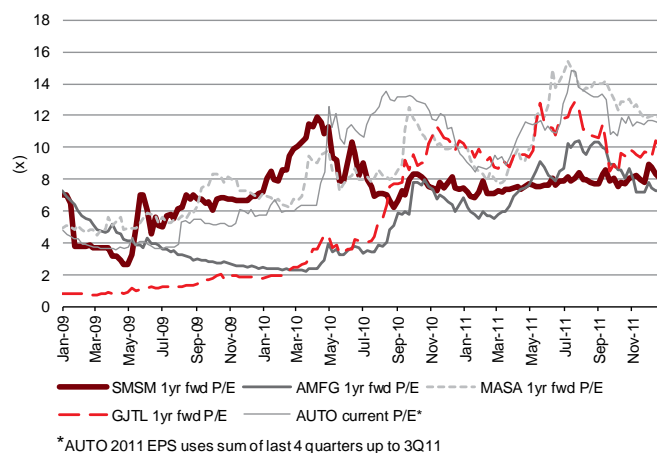
At 9.9x CY11 P/E, Selamat Sempurna is trading at a 20% discount to global auto parts peers despite its superior ROEs and exposure to Indonesia's booming auto and heavy-equipment sectors. With a strong Indonesian outlook, stocks like IMAS and ASII have been outperforming the market. Selamat Sempurna has yet to follow. Its valuations were close to ASII at the beginning of 2009 but the gap has been widening. Auto parts peers like AUTO, MASA, and GJTL have also appreciated since 2009, not followed by Selamat Sempurna that much. Given its ROE and EPS growth prospects, we believe there is room for a re-rating closer to peers.

Figure 46: Its gap with ASII and IMAS has opened



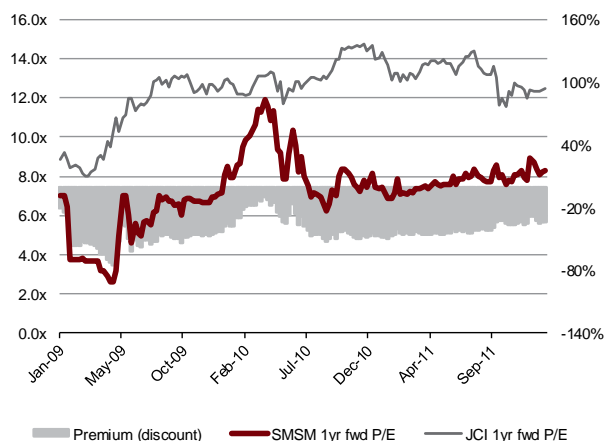
SOURCES: CIMB

Figure 47: Lagging auto parts peers except AMFG



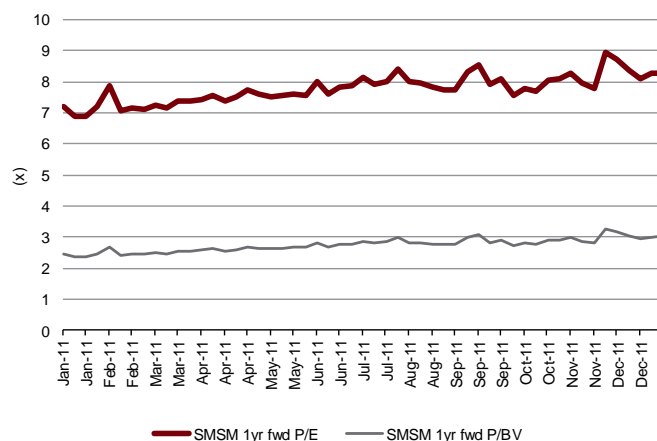
SOURCES: CIMB

Figure 48: Still trading at a substantial discount to the JCI



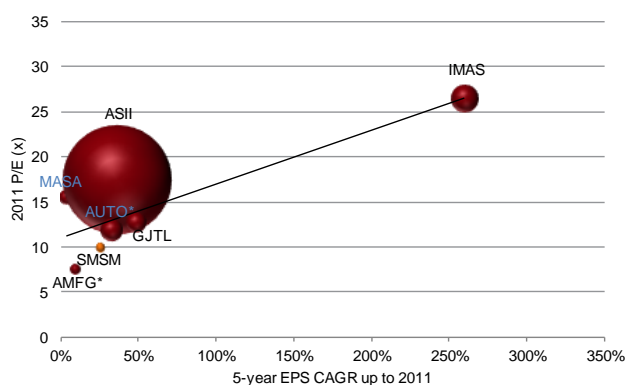
SOURCES: CIMB

Figure 49: Slower appreciation throughout 2011 than peers



SOURCES: CIMB

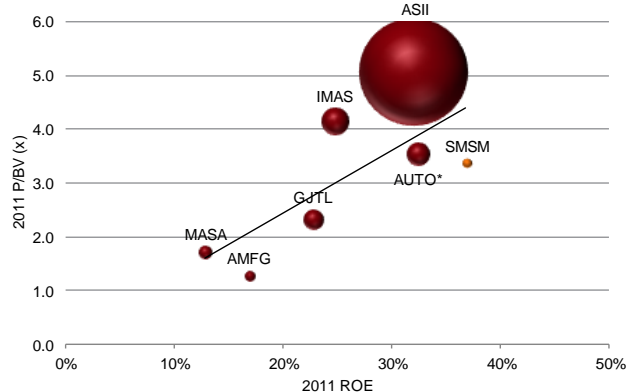
Figure 50: Trading at lower P/Es despite stellar growth



*Bubble size represents market cap. 2011 Bloomberg consensus and CIMB forecast, except 2010 numbers for AUTO P/E and CAGR and AMFG's CAGR

SOURCES: CIMB

Figure 51: Undemanding P/BV valuations despite surging ROEs



*Bubble size represents market cap. 2011 Bloomberg consensus and CIMB forecast, except 2010 numbers for AUTO's ROE

SOURCES: CIMB

Figure 52: Lower valuations than global peers despite its highest ROEs and dividend yields

Bloomberg ticker	Bloomberg short name	Price (index currency)	Market cap (US\$ m)	P/E (x) CY2011	P/E (x) CY2012	3-yr EPS CAGR (%) up to 2012	P/BV (x) CY2011	P/BV (x) CY2012	ROE (%) CY2011	ROE (%) CY2012	Div yield (%) CY2011	Div yield (%) CY2012
SMSM IJ	SELAMAT SEMPURNA	1,420	223	9.9	8.6	20.4	3.3	3.1	37.6	37.7	5.7	9.6
MASA IJ	MULTISTRADA ARAH	510	510	15.6	12.0	14.0	1.7	1.8	12.7	13.5	N/A	N/A
GJTL IJ	GAJAH TUNGGAL	2,975	1,129	13.2	10.1	4.4	2.3	1.9	22.5	21.6	N/A	N/A
ASII IJ	ASTRA INTERNA	76,750	33,847	17.8	15.5	26.2	5.2	4.3	32.3	30.2	1.8	2.2
IMAS IJ	INDOMOBIL SUKSES	14,500	2,184	26.7	15.5	151.8	4.2	3.4	25.0	24.3	0.0	1.1
AMFG IJ	ASAHIMAS	6,450	305	7.6	7.3	78.3	1.3	1.1	16.9	15.5	1.2	3.3
Indonesia average				15.1	11.5	49.2	3.0	2.6	24.5	23.8	2.2	4.0
425 HK	MINTH GROUP	8.6	1,192	8.7	7.5	12.7	1.2	1.1	14.8	15.1	2.7	3.0
881 HK	ZHONGSHENG GROUP	14.0	3,441	18.9	12.6	N/A	3.6	2.9	20.6	24.3	1.3	2.1
601311 CH	CAMEL GROUP	18.0	1,198	21.3	14.1	-19.9	N/A	N/A	18.7	17.7	N/A	N/A
600741 CH	HUAYU AUTO	9.7	3,961	8.2	7.1	25.6	1.5	1.3	18.4	18.5	3.6	5.4
600660 CH	FUYAU GROUP	8.1	2,560	9.5	8.0	21.6	2.4	1.9	26.7	26.7	3.8	6.8
600507 CH	FANGDA SPECIAL	4.1	854	8.6	7.5	164.2	N/A	N/A	21.9	23.4	N/A	N/A
600151 CH	SHANGHAI AEROSPA	7.1	1,084	28.6	28.6	35.7	N/A	N/A	3.2	5.1	N/A	N/A
China average				14.8	12.2	40.0	2.2	1.8	17.8	18.7	2.9	4.3
868 HK	XINYI GLASS	4.6	2,182	9.5	7.9	38.6	2.1	1.8	23.1	23.4	5.0	6.0
Hong Kong average				9.5	7.9	38.6	2.1	1.8	23.1	23.4	5.0	6.0
MSS IN	MOTHERSON SUMI	156	1,172	17.6	16.4	15.0	4.1	3.4	25.7	19.3	1.5	2.0
KKC IN	CUMMINS INDIA	392	2,107	18.3	20.5	17.7	6.0	N/A	35.6	N/A	2.7	2.6
EXID IN	EXIDE INDUSTRIES	121	1,997	17.2	17.3	4.5	4.1	3.6	26.5	21.3	0.9	1.2
BOS IN	BOSCH LIMITED	7,133	4,346	21.1	18.4	27.4	4.5	3.7	22.6	21.4	0.7	0.8
India average				18.5	18.1	16.1	4.7	3.6	27.6	20.6	1.5	1.6
DV MK	DELLOYD VENTURES	3.5	110	6.1	6.2	12.8	N/A	N/A	17.3	12.3	3.5	3.5
APM MK	APM AUTOMOTIVE	4.5	288	7.8	7.0	19.9	1.1	1.0	15.0	15.4	5.7	6.4
Malaysia average				6.9	6.6	16.4	1.1	1.0	16.1	13.9	4.6	4.9
STANLY TB	THAI STANLEY ELEC	147	354	7.7	9.9	6.0	1.3	1.3	18.3	13.8	4.8	3.9
SAT TB	SOMBOON ADVANCE	21	228	11.9	8.3	34.9	1.6	1.4	11.6	15.7	2.7	3.9
Thailand average				9.8	9.1	20.4	1.5	1.4	15.0	14.7	3.7	3.9
Average all countries				12.4	10.9	30.1	2.4	2.0	20.7	19.2	3.3	4.1

SOURCES: CIMB, BLOOMBERG CONSENSUS

6.2 OUTPERFORM with Rp1,950 DCF target price ►

We derive our TP using DCF with a WACC assumption of 13.4%. Our valuation is supported by DDM valuation of Rp1,750, given Selamat Sempurna's high dividend payouts. Our TP implies 11.8-9.9x CY12-13 earnings vs. its peers' trading range of 7.3-15.4x for CY12. Our TP has not taken into account the under-valuation of the company's land assets.

We initiate coverage with an OUTPERFORM rating, premised on a surging ROE outlook, supported by sustained dividend payouts and 14-19% p.a. sales growth. Catalysts could include strong auto and heavy-equipment dynamics and a distant possibility of unlocking the property value of its Kamal Muara land asset, we believe.

Figure 53: Valuation assumptions

Risk-free rate	7.0%	Cost of debt	10.2%
Risk premium	10.0%	Tax rate	20%
Beta	0.91	After tax cost of debt	8.2%
Cost of equity	16.1%	Target debt/equity	50.2%
Long-term growth rate	5.0%	WACC	13.4%

SOURCES: CIMB

Figure 54: Earnings sensitivity: sales as the key profit driver

2012 yoy sales growth	2012 net profit (Rp Bn)	% deviation from base	2012 net profit growth	2012 ROE	Dividend yield (interim and final from 2012 profit)
9.6%	226	-4.6%	8.7%	35.8%	9.9%
11.6%	232	-2.1%	11.5%	36.7%	10.2%
Base (13.7%)	237	0.0%	13.9%	37.6%	10.4%
15.6%	242	2.1%	16.3%	38.4%	10.7%
17.7%	248	4.6%	19.2%	39.2%	10.9%

SOURCES: CIMB, COMPANY REPORTS

Figure 55: SWOT

STRENGTHS	WEAKNESSES
- Strong brand to protect margins	- Vulnerable to rupiah strength and weakness
- Globally competitive production and quality	- Vulnerable to metal price volatility
- Modest capex requirements	- Export still dependent on developed markets
OPPORTUNITIES	THREATS
- Increasing production sourcing by global brands	- Decreasing OEM prices
- Room for network expansion in export markets	- Increasing competition from Chinese manufacturers
- Growing needs of local OEM producers	- Competition from domestic players

SOURCES: CIMB

Figure 56: Key assumptions

	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F
Sales volume ('000)										
Filters	43,200	50,578	43,889	53,778	60,231	66,254	76,192	87,621	100,765	115,879
Radiators	531	603	735	833	891	936	1,011	1,092	1,179	1,273
Average price per unit sold (Rp)										
Filters	18,430	20,274	22,778	24,521	26,090	27,394	28,764	30,202	31,713	33,298
Radiators	457,280	480,208	471,178	439,125	445,712	457,301	467,361	479,045	491,501	505,017
Sales (Rp Bn)										
Filters	796	1,025	1,000	1,319	1,571	1,815	2,192	2,646	3,195	3,859
Radiators	243	290	346	366	397	428	472	523	580	643
Others	25	39	29	48	52	54	59	63	68	74
Elimination of intersegment	0	0	0	(171)	(187)	(213)	(252)	(299)	(356)	(423)
Total sales	1,064	1,354	1,375	1,562	1,834	2,085	2,471	2,934	3,488	4,152
Weighting excl. elimination										
Filters	75%	76%	73%	76%	78%	79%	80%	82%	83%	84%
Radiators	23%	21%	25%	21%	20%	19%	17%	16%	15%	14%
Others	2%	3%	2%	3%	3%	2%	2%	2%	2%	2%
Production ('000)										
Filters	43,328	45,217	39,596	58,505	61,737	68,739	79,050	90,907	104,543	120,225
Radiators	533	608	737	865	903	955	1,031	1,114	1,203	1,299
Capacity utilization										
Filters	60%	63%	55%	56%	63%	69%	63%	63%	63%	58%
Radiators	44%	51%	61%	44%	46%	49%	53%	57%	62%	49%
Manufacturing cost per unit (Rp)										
Filters										
Raw materials	10,136	12,492	14,331	11,466	12,986	13,440	14,226	15,009	15,819	16,673
Labor	1,700	1,888	2,131	1,740	1,777	1,815	1,854	1,893	1,934	1,975
Overhead	2,277	2,443	3,040	2,374	2,493	2,617	2,748	2,885	3,030	3,181
Radiators										
Raw materials	255,100	275,679	241,307	209,507	218,411	227,147	236,233	245,682	255,510	265,730
Labor	42,788	41,673	35,887	31,790	28,161	24,947	22,099	19,576	17,342	15,362
Overhead	57,308	53,904	51,185	43,374	43,374	43,374	43,374	43,374	43,374	43,374
Gross margin	22.9%	24.3%	23.0%	23.6%	25.0%	25.0%	25.0%	24.9%	24.9%	24.8%
Dividend payout	62%	72%	94%	98%	92%	90%	90%	90%	84%	90%
Net debt / equity	36%	33%	31%	51%	40%	42%	46%	48%	49%	50%

SOURCES: CIMB

Figure 57: Sector comparison – CIMB coverage

Company	Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY 2011	CY 2012		CY 2011	CY 2012	CY 2011	CY 2012	CY 2013	CY 2011	CY 2012	CY 2011	CY 2012
Astra International	ASII IJ	OUTPERFORM	76,750	77,200	33,847	17.8	15.5	17.8%	5.15	4.29	32.3%	30.2%	28.9%	13.1	11.1	1.8%	2.2%
Indomobil Sukses Int'l	IMAS IJ	OUTPERFORM	14,500	14,900	2,184	26.7	15.5	42.0%	4.18	3.42	25.0%	24.3%	27.2%	28.7	17.9	0.0%	1.1%
Selamat Sempurna	SMSM IJ	OUTPERFORM	1,420	1,950	223	9.9	8.6	22.7%	3.34	3.14	37.6%	37.7%	41.2%	5.7	5.1	5.7%	9.6%
Indonesia average						18.0	15.4	27.5%	5.06	4.21	31.9%	29.8%	28.9%	13.4	11.3	1.7%	2.1%
Proton Holdings	PROH MK	TRADING BUY	5.18	5.45	908	37.5	27.3	3.6%	0.52	0.50	1.4%	1.9%	2.4%	5.2	5.3	1.4%	1.5%
Tan Chong Motor Holdings	TCM MK	NEUTRAL	4.25	4.60	912	11.1	9.8	13.6%	1.52	1.36	14.4%	14.9%	15.8%	7.3	6.7	2.3%	2.5%
UMW Holdings	UMWH MK	NEUTRAL	6.99	7.00	2,607	13.2	11.6	12.8%	1.87	1.75	14.9%	15.6%	15.8%	5.6	5.8	4.2%	4.7%
Malaysia average						14.6	12.7	10.0%	1.16	1.10	8.2%	8.9%	9.5%	5.8	5.8	3.2%	3.6%
Brilliance China Automotive	1114 HK	NEUTRAL	8.92	8.80	5,761	22.8	15.4	39.4%	4.57	3.52	21.9%	25.8%	26.6%	42.8	38.1	0.0%	0.0%
Dongfeng Motor Group	489 HK	OUTPERFORM	14.28	18.20	15,839	9.1	8.1	9.4%	2.19	1.78	26.4%	24.3%	21.8%	4.3	3.2	1.6%	1.7%
Geely Automobile Holdings	175 HK	OUTPERFORM	2.03	3.40	1,949	8.0	6.4	23.3%	1.31	1.10	17.3%	18.7%	20.0%	4.7	3.7	1.6%	1.9%
Great Wall Motor	2333 HK	OUTPERFORM	12.70	19.00	5,595	8.1	7.4	21.0%	1.66	1.53	26.0%	22.7%	22.0%	4.4	3.5	2.5%	2.7%
Guangzhou Auto - H	2238 HK	NEUTRAL	7.38	7.10	5,841	10.3	8.2	9.8%	1.32	1.17	13.1%	15.2%	15.9%	3.1	2.2	2.8%	3.5%
Qingling Motors Company-H	1122 HK	OUTPERFORM	2.23	3.50	713	11.2	9.2	27.0%	0.62	0.62	5.5%	6.8%	7.9%	-1.3	-1.2	7.4%	9.0%
Minth Group	425 HK	NEUTRAL	8.60	7.50	1,192	8.9	9.0	6.0%	1.24	1.14	14.3%	13.1%	13.4%	4.3	3.9	3.9%	3.8%
Weichai Power Co Ltd-H	2338 HK	NEUTRAL	38.90	43.60	8,442	9.0	8.6	0.0%	2.22	1.81	27.2%	23.1%	19.8%	4.4	4.0	1.2%	1.2%
Hong Kong average						9.8	8.6	17.0%	1.92	1.63	21.2%	20.7%	19.8%	4.8	3.8	1.7%	1.9%
Average all countries						12.6	10.8	18.2%	2.51	2.14	21.9%	21.4%	20.8%	7.2	6.1	1.8%	2.1%

SOURCES: CIMB

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Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.	OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.
NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.	NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.	UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.	TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.	TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2010.

ADVANC - Excellent, **AMATA** - Excellent, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Very Good, **BCP** - Excellent, **BEC** - Very Good, **BECL** - Excellent, **BGH** - Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Good, **CCET** - Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Excellent, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **GLOBAL** - not available, **GLOW** - Very Good, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **ITD** - Very Good, **IVL** - not available, **KBANK** - Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Very Good, **PSL** - Excellent, **PTT** - Excellent, **PTTAR** - Excellent, **PTTCH** - Excellent, **PTTEP** - Excellent, **QH** - Very Good, **RATCH** - Excellent, **ROBINS** - Excellent, **ROJNA** - Very Good, **SAMART** - Excellent, **SAMTEL** - Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Very Good, **SPALI** - Very Good, **STA** - Good, **STEC** - Very Good, **TASCO** - Very Good, **THAI** - Very Good, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTA** - Excellent, **TTW** - Very Good, **TUF** - Very Good.