



## Selamat Sempurna

SMSM IJ / SMSM.JK

## COMPANY NOTE

Market Cap  
**US\$417.1m**  
Rp5,103,627m

Avg Daily Turnover  
**US\$0.21m**  
Rp2,441m

Free Float  
**41.9%**  
1,440 m shares

Current **Rp3,545**  
Target **Rp3,400**  
Prev. Target **Rp3,225**  
Up/Downside **-4.1%**

### STOCK RATING

ADD

**HOLD**

REDUCE

### Notes from the Field



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Company Visit  Expert Opinion   
Channel Check  Customer Views

“ We expect Hydraxle business to continue to stabilise in the coming quarters.

– Andri Pribadi, CFO

## Diversity and momentum

SMSM stands out in an uncertain economic environment due to its diverse earnings sources and positive outlook in key markets and the huge boost to earnings provided by the weaker rupiah. However, the recent spike in share price seems to have priced in the positives.

We cut our EPS targets to account for the funding cost for the recent warehouse purchase. Despite that, our DCF-based target price is raised as a result of the higher net gearing and lower WACC (13.3%). We downgrade our rating from Add to Hold, as SMSM's premium as a defensive name has priced in the near-term positives.

### Fundamentally resilient ▶

Despite the challenging demand environment, SMSM has been able to deliver its earnings guidance in the past three years. Although organic growth during this period (excluding the US\$ appreciation) was in the single digit yoy compared to the historical 10-15%, SMSM was able to counter this through M&As and the sale of more higher-value filters. To sustain margins, SMSM is moving up the value chain by capturing more sales from bus, truck, and heavy equipment machinery filters, as opposed to just car filters.

### Positive business outlook ▶

The demand environment in SMSM's key markets of the US, Russia and the

domestic heavy equipment segment are turning more encouraging. There are signs of a more bullish sentiment in the US, while Russia should fare better after the big drop in sales this year due to seasonal factors. The domestic heavy equipment segment bottomed in 1H13 and is poised to grow from a low base. The labour cost increase should also be muted in 2014, due to the lower increase in minimum wages. We expect SMSM to pay out a healthy dividend in the coming quarters, given that it will have lower cash needs in 2014, vs. 2013 when it had to finance acquisitions, maturing bonds and warehouse capex.

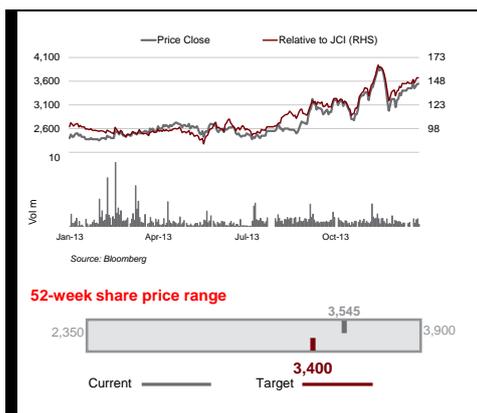
### Expectation running high ▶

As one of the few US\$ earners in Indonesia, SMSM's share price has benefitted from ongoing concerns over rupiah weakness. Despite that, the rolling forward P/E valuation of 16.0x is near SMSM's historical peak. Though sentiments may maintain SMSM at a high valuation in the near term, the potential downside, should the rupiah stabilise, indicates a better entry point in future.

### Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Rpb)	2,072	2,164	2,383	2,686	2,954
Operating EBITDA (Rpb)	335.4	374.7	390.9	477.4	522.9
Net Profit (Rpb)	212.2	233.2	276.9	314.5	349.7
Core EPS (Rp)	142.5	157.1	171.8	218.5	242.9
Core EPS Growth	34.6%	10.2%	9.4%	27.2%	11.2%
FD Core P/E (x)	24.87	22.57	20.63	16.23	14.60
DPS (Rp)	80.0	130.0	66.7	162.4	156.4
Dividend Yield	2.26%	3.67%	1.88%	4.58%	4.41%
EV/EBITDA (x)	16.41	14.73	14.04	11.29	10.25
P/FCFE (x)	39.98	18.97	82.73	21.15	22.69
Net Gearing	36.7%	33.4%	16.3%	4.0%	(2.4%)
P/BV (x)	7.70	7.91	6.18	5.63	4.95
ROE	34.7%	34.6%	33.6%	36.3%	36.1%
% Change In Core EPS Estimates			0.00%	(0.78%)	(0.94%)
CIMB/consensus EPS (x)			1.16	1.13	1.09

SOURCE: CIMB, COMPANY REPORTS

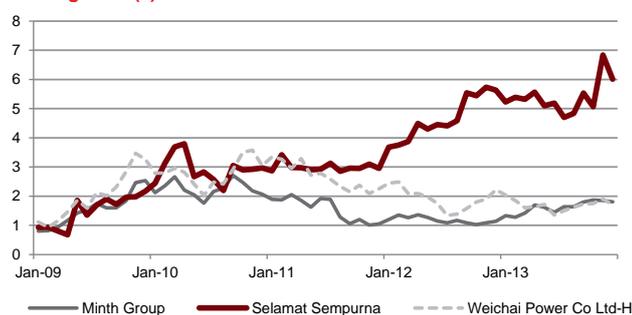


## PEER COMPARISON

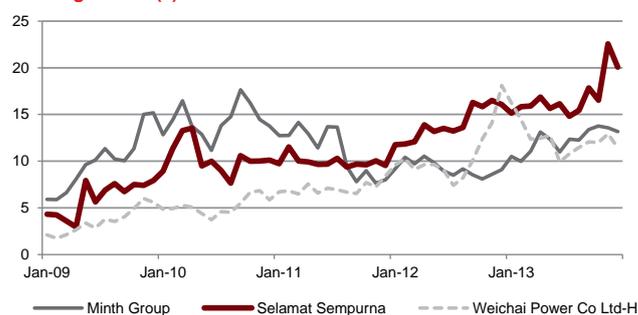
### Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US\$m	Price	Target Price	Upside
Minth Group	425 HK	HK	HOLD	2,145	15.24	16.80	10.2%
<b>Selamat Sempurna</b>	<b>SMSM IJ</b>	<b>ID</b>	<b>HOLD</b>	<b>417</b>	<b>3,545</b>	<b>3,400</b>	<b>-4.1%</b>
Weichai Power Co Ltd-H	2338 HK	HK	HOLD	6,210	29.35	34.30	16.9%

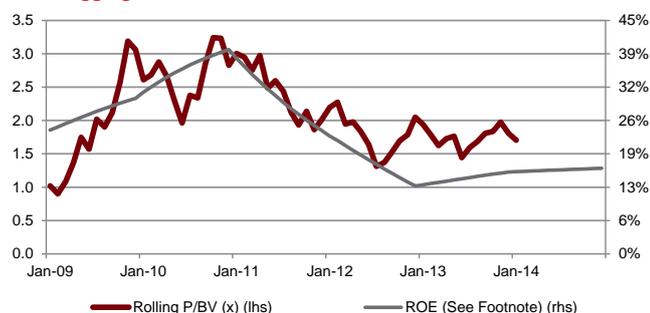
### Rolling P/BV (x)



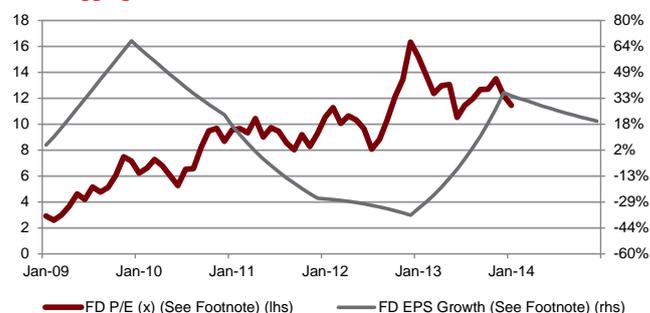
### Rolling FD P/E (x)



### Peer Aggregate: P/BV vs ROE



### Peer Aggregate: FD P/E vs FD EPS Growth



### Valuation

	FD P/E (x) (See Footnote)			P/BV (x)			EV/EBITDA (x)		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Minth Group	15.11	12.45	10.66	1.90	1.71	1.53	10.13	8.25	6.82
<b>Selamat Sempurna</b>	<b>22.57</b>	<b>20.63</b>	<b>16.23</b>	<b>7.91</b>	<b>6.18</b>	<b>5.63</b>	<b>14.73</b>	<b>14.04</b>	<b>11.29</b>
Weichai Power Co Ltd-H	14.98	10.71	8.98	1.84	1.60	1.38	8.77	7.51	6.59

### Growth and Returns

	FD EPS Growth (See Footnote)			ROE (See Footnote)			Dividend Yield		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Minth Group	6.8%	21.4%	16.9%	13.2%	14.5%	15.2%	2.16%	2.53%	2.97%
<b>Selamat Sempurna</b>	<b>10.2%</b>	<b>9.4%</b>	<b>27.2%</b>	<b>34.6%</b>	<b>33.6%</b>	<b>36.3%</b>	<b>3.67%</b>	<b>1.88%</b>	<b>4.58%</b>
Weichai Power Co Ltd-H	-50.1%	39.8%	19.3%	12.8%	16.0%	16.5%	1.00%	1.41%	1.71%

SOURCE: CIMB, COMPANY REPORTS

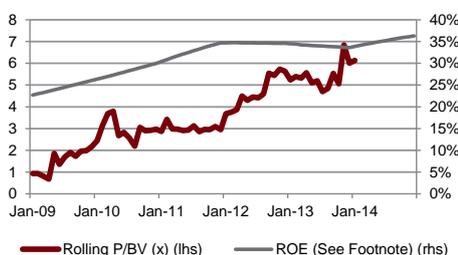
Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends. NPAT/EPS values for calculations and valuations are based on recurring and normalised values for GAAP and IFRS accounting standard companies respectively.

## BY THE NUMBERS

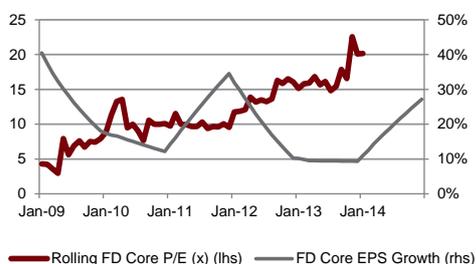
### Share price info

Share px perf. (%)	1M	3M	12M
Relative	12	25.4	53.8
Absolute	12.5	20.2	49.3
Major shareholders	% held		
Adrindo Inti Perkasa	58.1		

### P/BV vs ROE



### FD Core P/E vs FD Core EPS Growth



Weakening rupiah likely to boost margins

### Profit & Loss

(Rpb)	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
<b>Total Net Revenues</b>	<b>2,072</b>	<b>2,164</b>	<b>2,383</b>	<b>2,686</b>	<b>2,954</b>
<b>Gross Profit</b>	<b>502</b>	<b>547</b>	<b>579</b>	<b>690</b>	<b>756</b>
<b>Operating EBITDA</b>	<b>335</b>	<b>375</b>	<b>391</b>	<b>477</b>	<b>523</b>
Depreciation And Amortisation	(7)	(12)	(13)	(14)	(15)
<b>Operating EBIT</b>	<b>328</b>	<b>363</b>	<b>378</b>	<b>463</b>	<b>508</b>
Total Financial Income/(Expense)	(30)	(27)	(21)	(16)	(11)
Total Pretax Income/(Loss) from Assoc.	0	(1)	0	0	0
Total Non-Operating Income/(Expense)	11	10	37	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>310</b>	<b>345</b>	<b>394</b>	<b>447</b>	<b>497</b>
Exceptional Items	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>310</b>	<b>345</b>	<b>394</b>	<b>447</b>	<b>497</b>
Taxation	(68)	(76)	(79)	(89)	(99)
Exceptional Income - post-tax	0	0	0	0	0
<b>Profit After Tax</b>	<b>242</b>	<b>269</b>	<b>315</b>	<b>358</b>	<b>398</b>
Minority Interests	(29)	(35)	(38)	(43)	(48)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax	0	0	0	0	0
Other Adjustments - post-tax	0	0	0	0	0
<b>Net Profit</b>	<b>212</b>	<b>233</b>	<b>277</b>	<b>315</b>	<b>350</b>
Recurring Net Profit	205	226	247	315	350
<b>Fully Diluted Recurring Net Profit</b>	<b>205</b>	<b>226</b>	<b>247</b>	<b>315</b>	<b>350</b>

The recent acquisitions have not impacted SMSM's ability to pay dividends due to its strong cashflow

### Cash Flow

(Rpb)	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	335.4	374.7	390.9	477.4	522.9
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0	0.0
<b>Change In Working Capital</b>	<b>(124.2)</b>	<b>(32.4)</b>	<b>(59.6)</b>	<b>(94.7)</b>	<b>(84.9)</b>
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0	0.0
Other Operating Cashflow	138.1	114.5	185.1	106.7	128.8
Net Interest (Paid)/Received	(29.6)	(27.3)	(21.3)	(16.2)	(10.6)
Tax Paid	(68.1)	(76.2)	(78.8)	(89.5)	(99.4)
<b>Cashflow From Operations</b>	<b>251.5</b>	<b>353.3</b>	<b>416.4</b>	<b>383.7</b>	<b>456.7</b>
Capex	(123.5)	(103.5)	(184.4)	(132.4)	(132.4)
Disposals Of FAs/subsidiaries	2.7	1.5	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	(28.1)	0.0	0.0	0.0
Other Investing Cashflow	(6.5)	(7.8)	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(127.3)</b>	<b>(137.9)</b>	<b>(184.4)</b>	<b>(132.4)</b>	<b>(132.4)</b>
Debt Raised/(repaid)	3.5	53.8	(170.3)	(10.0)	(99.4)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(124.5)	(227.2)	(96.0)	(233.9)	(225.2)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>(121.0)</b>	<b>(173.5)</b>	<b>(266.2)</b>	<b>(243.9)</b>	<b>(324.5)</b>
Total Cash Generated	3.2	41.9	(34.3)	7.4	(0.2)
<b>Free Cashflow To Equity</b>	<b>127.7</b>	<b>269.1</b>	<b>61.7</b>	<b>241.3</b>	<b>225.0</b>
<b>Free Cashflow To Firm</b>	<b>155.7</b>	<b>244.9</b>	<b>255.6</b>	<b>269.8</b>	<b>337.2</b>

## BY THE NUMBERS

A leaner inventory helped lower SMSM's recent working capital needs

### Balance Sheet

(Rpb)	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	18	59	25	32	32
Total Debtors	394	431	491	553	608
Inventories	380	382	462	523	578
Total Other Current Assets	24	27	29	33	36
<b>Total Current Assets</b>	<b>816</b>	<b>899</b>	<b>1,007</b>	<b>1,141</b>	<b>1,255</b>
Fixed Assets	491	489	554	556	546
Total Investments	10	37	37	37	37
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	11	16	16	16	16
<b>Total Non-current Assets</b>	<b>512</b>	<b>542</b>	<b>607</b>	<b>609</b>	<b>599</b>
Short-term Debt	146	174	120	0	0
Current Portion of Long-Term Debt	0	80	0	79	0
Total Creditors	106	106	117	132	145
Other Current Liabilities	88	102	177	197	214
<b>Total Current Liabilities</b>	<b>340</b>	<b>463</b>	<b>414</b>	<b>408</b>	<b>359</b>
Total Long-term Debt	159	80	79	0	0
Hybrid Debt - Debt Component	0	0	0	0	0
Total Other Non-Current Liabilities	40	76	48	158	138
<b>Total Non-current Liabilities</b>	<b>199</b>	<b>156</b>	<b>128</b>	<b>158</b>	<b>138</b>
Total Provisions	6	3	3	3	3
<b>Total Liabilities</b>	<b>545</b>	<b>621</b>	<b>544</b>	<b>569</b>	<b>500</b>
Shareholders' Equity	663	645	826	907	1,031
Minority Interests	120	175	244	275	322
<b>Total Equity</b>	<b>783</b>	<b>820</b>	<b>1,070</b>	<b>1,182</b>	<b>1,354</b>

### Key Ratios

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	32.7%	4.4%	10.1%	12.7%	10.0%
Operating EBITDA Growth	44.2%	11.7%	4.3%	22.1%	9.5%
Operating EBITDA Margin	16.2%	17.3%	16.4%	17.8%	17.7%
Net Cash Per Share (Rp)	(199.6)	(190.5)	(121.1)	(32.6)	22.4
BVPS (Rp)	460.6	448.2	573.9	629.9	716.4
Gross Interest Cover	10.44	12.26	16.00	25.05	39.47
Effective Tax Rate	22.0%	22.1%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	54.3%	80.3%	34.7%	74.4%	64.4%
Accounts Receivables Days	62.32	69.62	70.28	70.61	71.43
Inventory Days	79.89	86.23	85.35	90.09	91.46
Accounts Payables Days	26.87	24.05	22.57	22.74	22.98
ROIC (%)	30.6%	26.3%	26.6%	29.5%	30.0%
ROCE (%)	33.9%	32.5%	31.3%	36.7%	38.9%

### Key Drivers

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
ASP (% chg, main prod./serv.)	7.9%	3.1%	2.0%	7.5%	2.5%
Unit sales grth (% , main prod./serv.)	8.3%	-1.9%	8.0%	5.0%	5.0%
Util. rate (% , main prod./serv.)	60.7%	59.5%	64.3%	67.5%	70.9%
ASP (% chg, 2ndary prod./serv.)	5.1%	6.9%	5.0%	10.0%	10.0%
Unit sales grth (% ,2ndary prod/serv)	3.8%	-9.7%	0.0%	5.0%	5.0%
Util. rate (% , 2ndary prod/serv)	43.5%	39.0%	40.1%	42.1%	44.2%
Unit raw mat ASP (%chg,main)	15.0%	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	20.4%	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	15.7%	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	63.6%	N/A	N/A	N/A	N/A

SOURCE: CIMB, COMPANY REPORTS

# Diversity and momentum

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“ The last two years have been among the more challenging environments for SMSM.

– Andri Pribadi, CFO

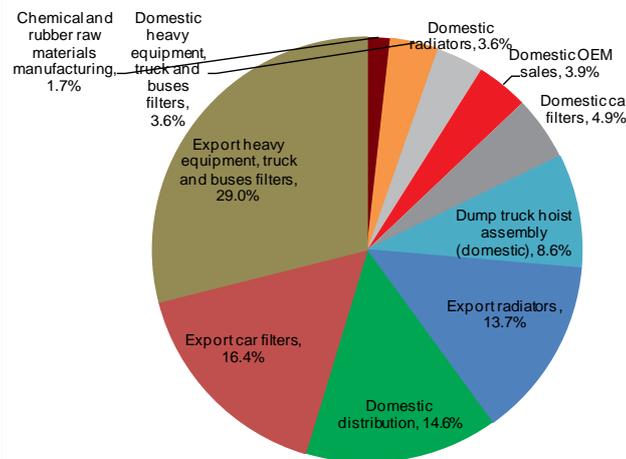
## 1. BACKGROUND

### 1.1 Diverse earnings sources

Post the acquisitions of Hydraxle in 2012, the chemical raw material manufacturer, Selamat Sempana Perkasa, and domestic distribution company, Prapat Tunggal Cipta, SMSM has built an integrated auto parts company with diverse earnings sources, and is able to thrive despite challenging domestic or market-specific challenges. Its focus on the replacement parts market bodes well for sustainable growth, though the company is likely to have reached a more mature growth stage compared to 15-20% organic growth in the past. Due to the nature of the replacement market, the SMSM business, which is very resilient and not cyclical, could constantly grow assuming it can hold its market share.

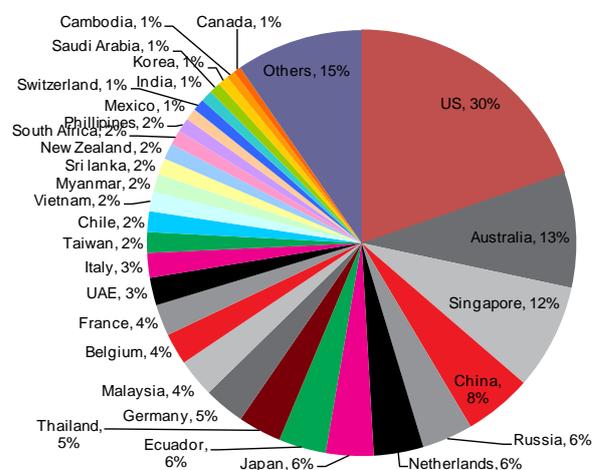
Amid a more challenging outlook for Indonesia, SMSM stands out as having low earnings risks, and should be able to persist in a challenging domestic environment, not only because of its export exposure, but also due to its focus on replacement parts, which is less cyclical than OEM parts.

**Figure 1: Diverse sales sources, with focus on replacement market**



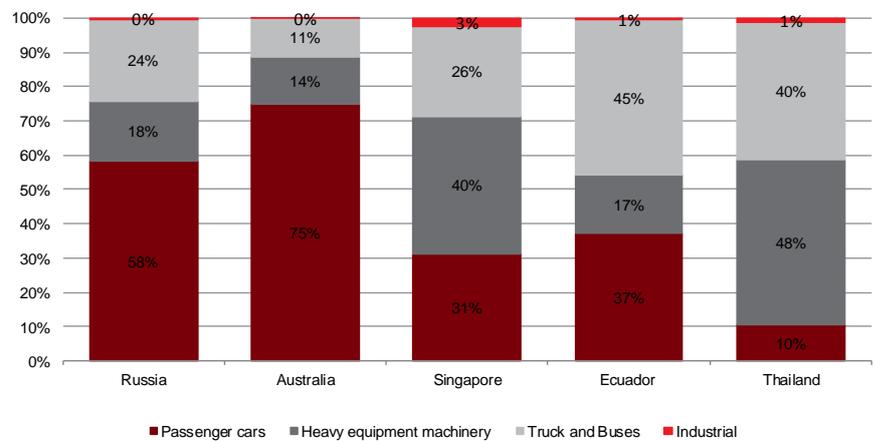
SOURCES: COMPANY REPORTS

**Figure 2: Diverse export market protects overall sales from country-specific risks**



SOURCES: COMPANY REPORTS

**Figure 3: Different product focus in each market. Filter sales by segment in SMSM's top 5 filter export markets**



SOURCES: CIMB, COMPANY REPORTS

## 2. OUTLOOK

### 2.1 Earnings momentum strong in the coming quarters ▶

SMSM's 9M13 organic growth performance was bogged down by sales weakness in the Hydraxle dump truck hoist installation business, from a very high base in 1H12, in addition to weak domestic heavy equipment filter sales and mediocre export growth. However, this could reverse in the coming quarters. Hydraxle's sales are now coming off a lower base vs. 1H13 and showing signs of slight improvement. Moreover, a more positive sentiment in the US market could result in strong 4Q13 orders.

While the overall global business environment is still mixed, it should be less challenging than what SMSM has faced in the last six quarters or so. Domestically, pressure from minimum wage increase should be considerably more muted in 2014, compared to the 40% yoy minimum wage increase in 2013, which pushed SMSM to tweak its production lines and shed less productive workers in 2013.

**Figure 4: Organic sales growth has been slow due to a major yoy drop in Hydraxle dump hoist subsidiary, though it is stabilising**

Sales breakdown, Rp bn	9M12	9M13	yoy growth
<b>Filter</b>			
Local	144	139	-3.5%
Export (in Rp bn)	721	756	4.9%
Export (in US\$ m)	77	75	-1.8%
<b>Radiator</b>			
Local	49	54	10.2%
Export (in Rp bn)	219	235	7.3%
Export (in US\$ m)	23	23	0.5%
<b>Dump hoist (Hydraxle)</b>			
Local	244	149	-38.9%
<b>Distribution</b>			
Local	209	237	13.4%
<b>Others (including OEM parts)</b>			
Local	69	89	29.0%
<b>Total</b>			
Local	715	668	-6.6%
Export (in Rp bn)	941	991	5.3%
Export (in US\$ m)	100	99	-1.4%
<b>TOTAL SALES (Rp bn)</b>	<b>1,656</b>	<b>1,659</b>	<b>0.2%</b>

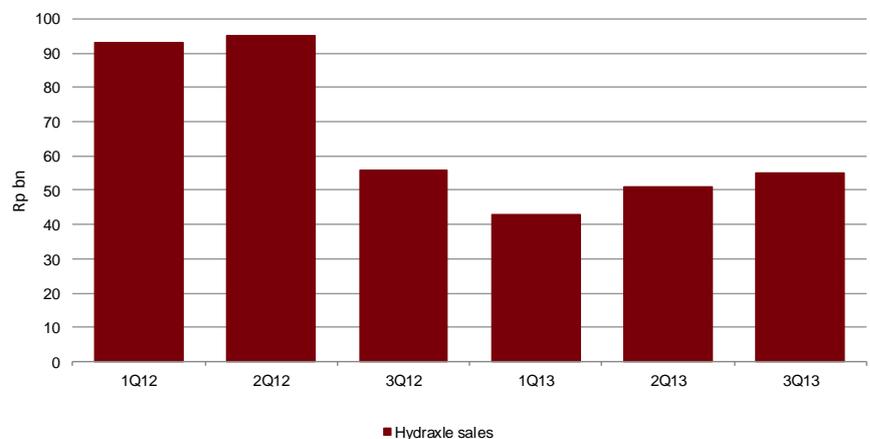
SOURCES: COMPANY REPORTS

**Figure 5: Pro-forma income statement. Recent rupiah weakening, which resulted in forex gain, has lifted net income, despite stagnant sales**

Income statement, Rp Bn	9M12	9M13	yoy growth
Net sales	1,656	1,659	0%
COGS	(1,226)	(1,255)	
<b>Gross profit</b>	<b>429</b>	<b>404</b>	<b>-6%</b>
Selling expense	(81)	(74)	-9%
Depreciation expenses - operations	(10)	(8)	-18%
G&A expenses	(58)	(58)	0%
<b>Operating income</b>	<b>280</b>	<b>264</b>	<b>-6%</b>
Interest income	1	2	
Forex gain (loss)	10	38	
Financing expenses	(23)	(22)	
Other income (expenses)	(3)	(7)	
Non-operating income (expenses)	(14)	12	
Equity income (loss) in associates	0	(3)	
<b>Profit before tax</b>	<b>266</b>	<b>272</b>	<b>2%</b>
Income tax	(60)	(61)	
Minority interest	(29)	(21)	
<b>Net income</b>	<b>177</b>	<b>190</b>	<b>8%</b>
<b>Gross margin</b>	<b>26%</b>	<b>24%</b>	
<b>Operating income margin</b>	<b>17%</b>	<b>16%</b>	

SOURCES: COMPANY REPORTS

**Figure 6: Hydraxle sales bottomed in 1H13. The high base effect is likely to taper in the coming quarters**



SOURCES: COMPANY REPORTS

## 2.2 Lift from the weakening rupiah ▶

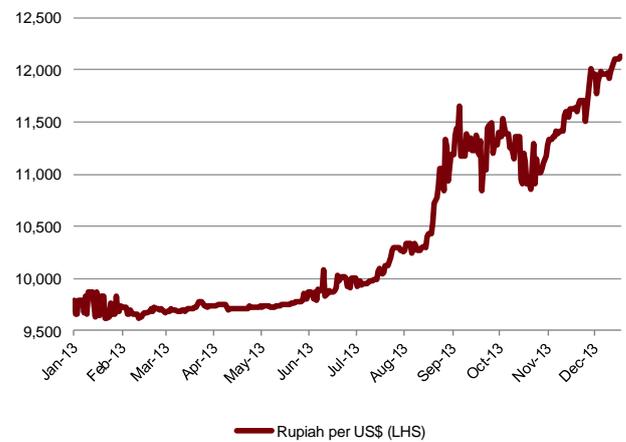
SMSM's net profit should benefit from the rupiah weakening against the US\$, which has weakened by 24% YTD and 6% in 4Q13 alone. When compared yoy, earnings growth could look especially strong in the next three quarters. Our sensitivity analysis calculates that SMSM net profit in rupiah terms should strengthen by 1.3% for every 1% of weakening in the rupiah. A 24% weakening in the rupiah could theoretically result in a boost of close to 31%. This is because SMSM has an overall net US\$ exposure due to its export focus. The upside from rupiah weakness should more than offset the increasing raw materials cost, which increased by 5% yoy in 2013, which in our calculation, negatively impacts net profit by about 6%.

**Figure 7: Foreign exchange sensitivity. In our calculation, SMSM profit could benefit by 1.3% for every 1% rupiah weakening against US\$**

	mil US\$
Estimated US\$ sales	134
Estimated US\$ COGS (imported raw materials)	(78)
US\$ net cash	2
US\$ forward / hedge w/ Mizuho and Mandiri	(15)
<b>Net US\$ exposure</b>	<b>44</b>
Impact to 2014F net profit for every 1% of Rp weakness against US\$	<b>1.3%</b>

SOURCES: CIMB

**Figure 8: Rupiah has weakened by 24% YTD, 6% in 4Q13 alone**



SOURCES: BLOOMBERG

**Figure 9: Steel price sensitivity. A steel price increase of 5% this year is not likely to offset higher upside from the weaker Rp**

Raw materials COGS as % of COGS	72%
Steel-related raw materials	30%
2014F COGS (Rp bn)	1,996
2014F steel related COGS (Rp bn)	431
2014F core profit (Rp bn)	317
Impact to net profit for every 1% increase in steel price in Rp terms	<b>-1.1%</b>

SOURCES: CIMB, COMPANY REPORTS

**Figure 10: Steel prices declined in US\$ terms, but rose slightly in Rp terms, 5% on average yoy this year and 6% qoq in 4Q13**



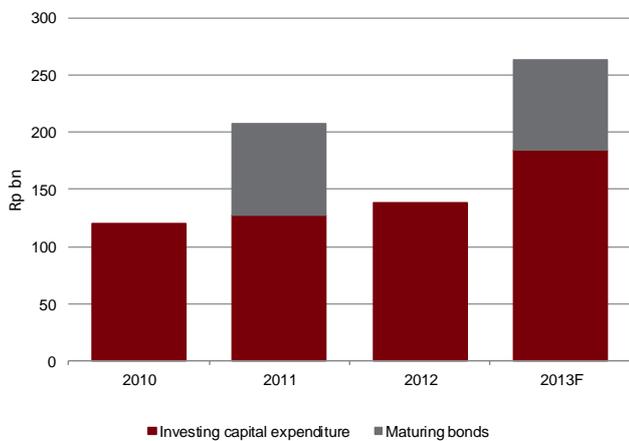
SOURCES: BLOOMBERG

### 2.3 Large dividend windfall likely in the near term ▶

We expect SMSM's 2014 dividend yield to be around 5%, and a big chunk is coming in around May 2014. This is because the interim dividend for 2013 profit was unusually small, due to various cash needs, such as the SSP and PTC acquisitions, capex to buy a warehouse and bond repayment. SMSM is still committed to its usual dividend policy of increasing nominal dividend every day, which could result in an unusually large final dividend payment in May.

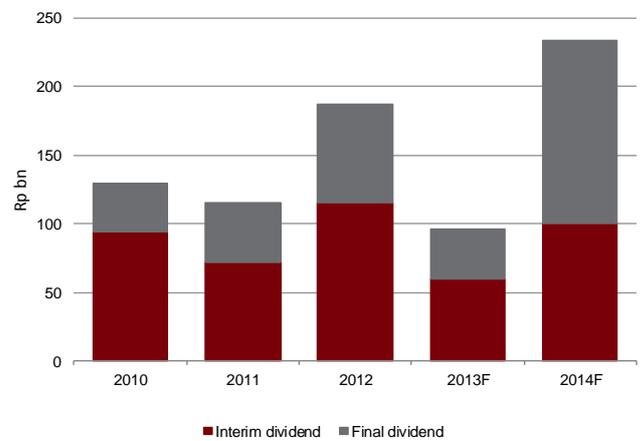
SMSM cash flow is strong as usual, especially since the weakening rupiah has made the company US\$ revenues to be bigger in terms of Rupiah. SMSM has also trimmed its inventory days for raw materials from 3-3.5 months to 2.5 months to balance its cashflow needs. The increase in borrowing rates by 2% should not affect SMSM much as the company's gearing is relatively low at 18%. Should rupiah interest rates increase excessively, SMSM can still swap its borrowings from rupiah to US\$ from its US\$ loan facility, which would match the liability with its US\$ revenue.

**Figure 11: Large capex and debt repayment needs in 2013 has prompted a lower interim dividend payment in 2013**



SOURCES: CIMB

**Figure 12: As a result, final dividend amount to be paid around May 2014 may be unusually large**



SOURCES: CIMB

**Figure 13: The major capex needs in 2013 was related to a warehouse in Karawang, bought to serve SMSM's OEM customers better**

Usage	Warehouse for SMSM OEM products
Location	Suryacipta City of Industry, Karawang, Indonesia
Size	33,316 square metres
Transaction value	US\$ 4,497,660
Auto manufacturers in close proximity	Daihatsu, Isuzu, Kia

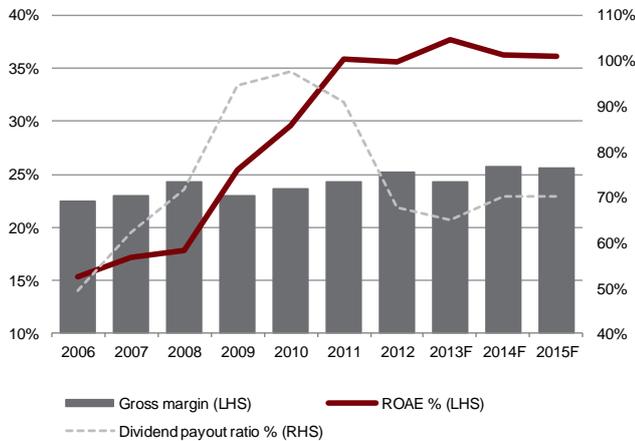
SOURCES: CIMB, COMPANY REPORTS

## 2.4 Sustainable investment strategy ▶

SMSM remains a beneficiary of increasing foreign investments to Indonesia's auto parts industry, especially by automakers besides Toyota. SMSM's biggest auto manufacturer partners include Daihatsu, Nissan and Isuzu. Despite that, SMSM's forays into the OEM segment have been modest compared to competitors such as Astra Otoparts, possibly as SMSM places importance on consistency of its earnings and cashflow delivery. Forays into OEM segments require high investments that could weigh on short-term profit, such as SMSM's recent joint-venture with Tokyo Radiator, which was still at a Rp10bn loss during its first four months of operations up to Sep 2013, against an initial investment of Rp34bn (33% SMSM, 67% Tokyo Radiator).

Instead of a major investment into the OEM segment, SMSM chooses to grow its OEM business fairly in line with its core replacement/aftermarket parts business, keeping its ROE at a high 35% (vs. 15-16% for more OEM-oriented auto parts companies). Gross margin has been kept high, while a leaner inventory is likely to help sustain ROE. Using the Dupont analysis, asset turnover has been the key ROE driver, aided by a more modest improvement in operating profit margin and leverage (asset/equity) ratio.

**Figure 14: Gross margin and/or leaner inventory have been ROE drivers, keeping it high despite reduced payouts and more acquisitions**



SOURCES: CIMB, COMPANY REPORTS

**Figure 15: According to Dupont analysis, asset turnover has been the main driver of ROAE in recent years.**

Year	ROAE	Net profit margin	Net profit / Pretax profit (tax burden)	Pretax profit / EBIT (interest burden)	EBIT / Sales (operating profit margin)	Asset turnover (x)	Avg. asset / Avg. equity
2006	15%	8%	63%	91%	13%	1.3	160%
2007	17%	8%	61%	86%	14%	1.4	166%
2008	18%	7%	64%	65%	16%	1.5	171%
2009	25%	10%	71%	100%	14%	1.5	179%
2010	30%	10%	73%	90%	15%	1.6	197%
2011	36%	10%	69%	91%	16%	1.7	203%
2012	36%	11%	68%	92%	17%	1.6	212%
2013F	38%	12%	70%	95%	17%	1.6	208%
2014F	36%	12%	70%	97%	17%	1.6	194%
2015F	36%	12%	70%	98%	17%	1.6	186%

SOURCES: CIMB, COMPANY REPORTS

## 2.5 Modestly geared with an option to borrow in US\$ ▶

As SMSM grows its OEM business contribution relatively in line with its core replacement parts business and non-organic growth, net gearing remains modest at sub-30% level, similar to the level five years ago. The fairly low level of gearing shields SMSM from the effects of increasing borrowing cost. Moreover, if needed, SMSM could opt to convert some of its Rp borrowing into US\$ borrowing, which has a much lower cost of funds. SMSM, being a US\$ earner, could match US\$ debt obligations with its US\$ revenue. Due to these reasons, SMSM is the defensive pick in the Indonesian auto parts space.

## 3. VALUATION AND RECOMMENDATION

### 3.1 Valuation at a premium on consistent delivery ▶

Comparing SMSM with peers shows that SMSM valuation is trading at a significant premium to domestic and regional Southeast Asian players, though this is partly due to SMSM's value as a US\$ earner, defensive diverse global exposure and its better recent track record. After the recent spike, SMSM's ROE divided by P/BV is verging towards global peers listed in the US, such as CLC, DCI and CMI. Compared to SMSM, the US-listed players are similarly diverse in its global sales exposure; however, they are arguably playing in higher tech and value-added segments. SMSM's valuation might moderate away from US peers in a less bearish Indonesian market.

Figure 16: Regional sector comparison

Peers ticker	Market cap (US\$ m)	Name	Main products	FY14F P/E (x)	FY15F P/E (x)	2014F-2015F EPS Growth	2014F dividend yield	2014F ROAE	2014F ROAE / PBV
SMSM IJ	422	Selamat Sempurna	Filter and radiator	16.2	14.6	11.2%	4.6%	36.3%	6.5%
AUTO IJ	4,127	Astra Otoparts	Various auto part	12.3	10.2	20.2%	3.2%	14.5%	8.7%
MASA IJ	266	Multistrada Arah Sarana	Automotive tyre	9.7	N/A	N/A	N/A	8.2%	11.5%
GJTL IJ	466	Gajah Tunggal	Automotive tyre	4.9	4.2	16.8%	1.3%	17.3%	23.1%
<b>Indonesian auto parts average</b>				<b>10.8</b>	<b>9.7</b>	<b>16.1%</b>	<b>3.0%</b>	<b>19.1%</b>	<b>12.5%</b>
ASII IJ	22,882	Astra International	Car, heavy equipment	13.3	11.6	14.6%	3.4%	23.5%	7.9%
<b>Total Indonesian average</b>				<b>11.3</b>	<b>10.2</b>	<b>15.7%</b>	<b>3.1%</b>	<b>20.0%</b>	<b>11.5%</b>
<b>Thailand and Malaysia</b>									
STANLY TB	475	Thai Stanley Electric	Automotive light bulb	10.0	9.2	8.7%	3.5%	14.5%	10.1%
SAT TB	184	Somboon Advance Technology	Axle shaft, spring, brake	6.9	6.6	5.7%	5.0%	14.2%	13.8%
IHL TB	76	Interhides	Leather automotive upholstery	11.7	10.5	10.7%	4.3%	20.3%	9.4%
AH TB	137	Aapico Tech	Car assembly jig and dye	5.5	5.4	2.1%	7.1%	13.5%	17.8%
APM MK	345	APM Automotive Holdings	Various auto part	9.1	9.1	-0.3%	4.2%	13.0%	10.7%
<b>Thai and Malaysian auto parts average</b>				<b>8.6</b>	<b>8.2</b>	<b>5.4%</b>	<b>4.8%</b>	<b>15.1%</b>	<b>12.4%</b>
<b>Other global peers</b>									
CLC US	3,193	Clarcor Inc	Industrial and auto filter	23.4	21.2	10.3%	0.9%	N/A	N/A
DCI US	6,390	Donaldson Co Inc	Filtration system and part	24.2	21.5	12.4%	1.2%	23.4%	4.5%
CMI US	26,036	Cummins Inc	Engine and engine part	15.1	12.4	21.0%	1.7%	21.5%	7.0%
<b>Average others</b>				<b>20.9</b>	<b>18.4</b>	<b>14.6%</b>	<b>1.3%</b>	<b>22.5%</b>	<b>5.8%</b>
<b>Average - ALL</b>				<b>12.5</b>	<b>11.4</b>	<b>11.1%</b>	<b>3.4%</b>	<b>18.4%</b>	<b>10.9%</b>

SOURCES: CIMB, BLOOMBERG, COMPANY REPORTS

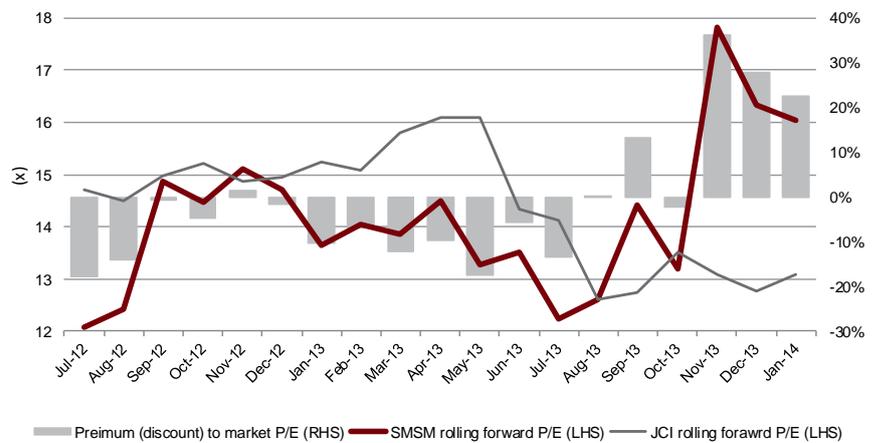
### 3.2 Potential upside and downside ►

Since 2H12, SMSM has been trading at 14.4x rolling P/E on average. The current valuation is 16.0x. Its valuation recently peaked at 17.8x P/E and its low point could be a 17% discount to market P/E, which implies 10.9x P/E.

In our best case scenario, which assumes a 13.6% 2014 earnings growth and 4.6% dividend yield, the potential total return to end-2014 is 18%. P/E multiple would be maintained at 16.0x forward P/E at end-2014 and a bearish market sentiment persists.

On the other hand, in our base case, which assumes the market sentiment to recover in 2H14 (JCI index target of 5,100 and a market P/E target of 15.2x), the total return for SMSM is only 0%. In this case, SMSM P/E would normalise to 13.8x at end-2014, a 9% discount to market P/E. In the meantime, SMSM share price is likely to remain volatile until macro and political uncertainties subside in 2H14.

**Figure 17: SMSM premium against JCI index has widened due to its rarity as a US\$ earner in the index**



SOURCES: CIMB

**Figure 18: 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 2013	CY 2014		CY 2013	CY 2014	CY 2013	CY 2014	CY 2015	CY 2013	CY 2014	CY 2013	CY 2014
Astra International	ASII IJ	HOLD	6,800	6,800	22,500	15.0	12.9	-0.9%	3.34	2.89	25.7%	23.9%	22.7%	10.6	9.2	3.2%	3.0%
Selamat Sempurna	SMSM IJ	HOLD	3,545	3,400	417	20.6	16.2	6.8%	6.18	5.63	36.9%	36.3%	36.1%	12.5	11.0	1.9%	4.6%
<b>Indonesia average</b>						<b>17.8</b>	<b>14.6</b>	<b>3.0%</b>	<b>4.76</b>	<b>4.26</b>	<b>31.3%</b>	<b>30.1%</b>	<b>29.4%</b>	<b>11.5</b>	<b>10.1</b>	<b>2.5%</b>	<b>3.8%</b>
Tan Chong Motor Holdings	TCM MK	ADD	5.84	7.73	1,164	10.8	10.1	38.7%	1.79	1.58	18.1%	16.5%	16.6%	6.6	6.6	3.6%	3.3%
UMW Holdings	UMWH MK	HOLD	12.08	12.77	4,307	16.2	15.0	-1.3%	2.77	2.58	18.0%	17.8%	18.6%	8.4	8.8	4.5%	4.0%
<b>Malaysia average</b>						<b>13.5</b>	<b>12.6</b>	<b>18.7%</b>	<b>2.28</b>	<b>2.08</b>	<b>18.0%</b>	<b>17.2%</b>	<b>17.6%</b>	<b>7.5</b>	<b>7.7</b>	<b>4.0%</b>	<b>3.6%</b>
Brilliance China Automotive	1114 HK	HOLD	11.88	12.80	7,699	13.0	10.8	30.2%	3.63	2.88	31.1%	29.8%	27.6%	na	na	1.7%	2.1%
Dongfeng Motor Group	489 HK	ADD	11.44	16.80	12,711	7.0	6.6	10.4%	1.25	1.08	19.0%	17.4%	15.9%	3.7	2.9	2.0%	2.1%
Geely Automobile Holdings	175 HK	ADD	3.43	5.90	3,893	8.8	6.7	17.3%	1.56	1.30	17.8%	19.8%	17.8%	5.1	3.5	1.3%	1.8%
Great Wall Motor	2333 HK	HOLD	39.35	52.90	18,350	11.4	9.5	24.9%	3.34	2.64	33.0%	31.1%	27.6%	7.9	6.3	2.7%	3.2%
Guangzhou Auto - H	2238 HK	ADD	8.11	11.40	7,516	11.8	8.7	64.1%	1.15	1.06	10.1%	12.7%	12.8%	na	na	4.3%	5.9%
Qingling Motors Company-H	1122 HK	ADD	2.17	2.81	695	11.9	10.7	13.0%	0.57	0.56	4.8%	5.3%	5.6%	5.0	4.9	7.1%	7.9%
Minh Group	425 HK	HOLD	15.24	16.80	2,145	12.5	10.7	19.0%	1.71	1.53	14.5%	15.2%	16.1%	8.8	7.3	2.5%	3.0%
Weichai Power Co Ltd-H	2338 HK	HOLD	29.35	34.30	6,210	10.7	9.0	24.6%	1.60	1.38	15.8%	16.5%	16.1%	7.7	6.6	1.4%	1.7%
<b>Hong Kong average</b>						<b>10.9</b>	<b>9.1</b>	<b>25.4%</b>	<b>1.85</b>	<b>1.56</b>	<b>18.2%</b>	<b>18.5%</b>	<b>17.4%</b>	<b>6.4</b>	<b>5.2</b>	<b>2.9%</b>	<b>3.5%</b>
<b>Average all countries</b>						<b>12.5</b>	<b>10.6</b>	<b>20.6%</b>	<b>2.41</b>	<b>2.09</b>	<b>20.4%</b>	<b>20.2%</b>	<b>19.5%</b>	<b>7.6</b>	<b>6.7</b>	<b>3.0%</b>	<b>3.5%</b>

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

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

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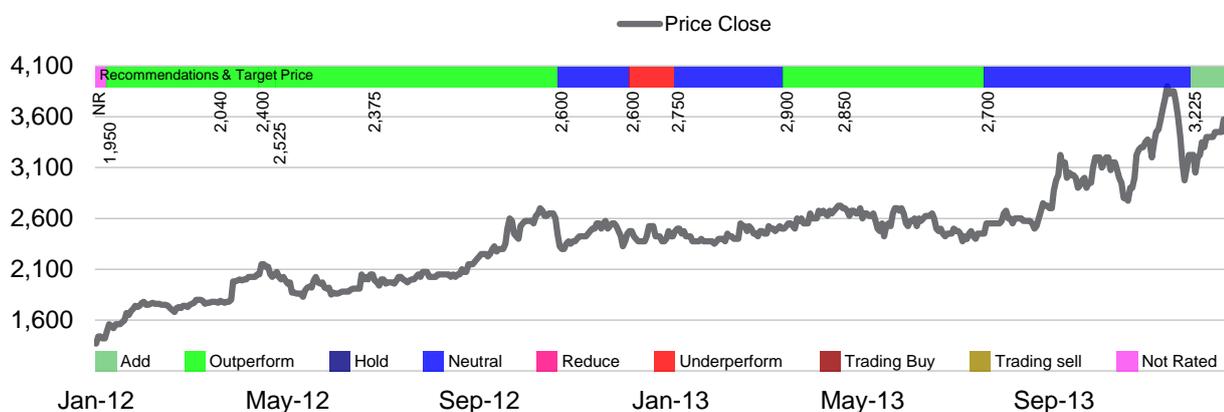
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#### Spitzer Chart for stock being researched ( 2 year data )



Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2013

1297 companies under coverage for quarter ended on 31 December 2013

	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	50.4%	6.9%
Neutral/Hold	33.3%	6.5%
Underperform/Sell/Trading Sell/Reduce	16.3%	4.9%

As at the time of publishing this report CIMB is phasing in an absolute recommendation structure for stocks (Framework #1). Please refer to all frameworks for a definition of any recommendations stated in this report.

#### CIMB Recommendation Framework #1

Stock Ratings	Definition
<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock.

Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition
<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition
<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

#### CIMB Stock Recommendation Framework #2 \*

<b>Outperform</b>	The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.
<b>Neutral</b>	The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

<b>Underperform</b>	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.
<b>Trading Buy</b>	The stock's total return is expected to exceed a relevant benchmark's total return by 3% or more over the next 3 months.
<b>Trading Sell</b>	The stock's total return is expected to be below a relevant benchmark's total return by 3% or more over the next 3 months.

*\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay 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.*  
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### **CIMB Stock Recommendation Framework #3 \*\***

<b>Outperform</b>	Expected positive total returns of 10% or more over the next 12 months.
<b>Neutral</b>	Expected total returns of between -10% and +10% over the next 12 months.
<b>Underperform</b>	Expected negative total returns of 10% or more over the next 12 months.
<b>Trading Buy</b>	Expected positive total returns of 10% or more over the next 3 months.
<b>Trading Sell</b>	Expected negative total returns of 10% or more over the next 3 months.

*\*\* This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore 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.*

### **Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.**

AAV – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.