Wednesday, 25 April 2012

BUY

Bloomberg Code	SMSM IJ
Price, Rp	2,150
Mkt Cap Rp bn	3,095
Target Price, Rp	2,491

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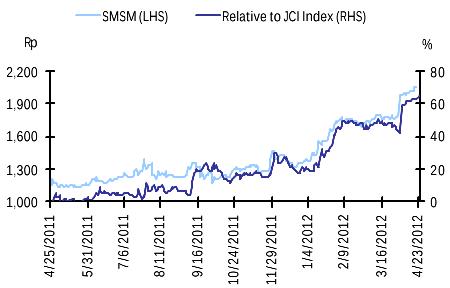
SMSM relative price to JCI Index



Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

AUTOMOTIVE PARTS SECTOR/RE-INITIATING COVERAGE

Selamat Sempurna

"Never Ending Growth"

Reinitiate coverage with BUY, TP of Rp2,491

We reinitiate coverage on SMSM with a BUY recommendation and Target Price of Rp2,491, implying PER FY12-13 of 15.2x-14.0x. Our BUY call is underpinned by: 1) consistent sales growth and stable margins, 2) room to increase production and therefore sales volume, 3) the company's generous dividends policy. In determining our TP, we use a DCF valuation with 3.0% terminal growth and 11.8% WACC. The stock is attractively valued and currently trades at PER FY12-13 of 12.8x-11.1x.

Consistent Growth at the Top and Bottom lines

The company has a sound track record and has recorded 19-year CAGR growth in revenue of 26%. The source of growth has come from: 1) SMSM's ability to offer quality products at competitive prices, 2) strong car sales growth on the domestic market, and 3) the positive impact of global economic growth on demand for its products. Margins are also firm. SMSM has been able to maintain its net profit and EBITDA margins at around 11% and 21%, respectively, thanks to strong pricing power which has compensated for cost increases.

Plenty of Room to Capture Growth

Installed capacity is currently 96 mn units/year for filters and 1.95 mn units/year for radiators. SMSM increased capacity for both filters and radiators in 2010. At the present time, the utilization rate is 54% for filters and 44% for radiators, providing ample room for the company to capture further growth. SMSM will spend about Rp100 bn per year on routine capex, which can easily be financed by internal cash flow.

Attractive Dividends

In the past three years, SMSM has distributed nearly all of its net profits as dividends (DPR above 90% in FY08-10). This is double the company's stated policy of a payout ratio of 45% if net profits are above Rp30 bn. Nonetheless, despite the very generous dividends payout, the company has been able to maintain its gearing around 40%, a healthy level in our view. For fiscal year 2011, we expect the company to distribute final dividends of Rp50/share, translating into a DPR of 72% and dividend yield of 2.4%. At the end of 2011, interim dividends of Rp50/share were distributed.

Year to Dec, Rp bn	2010	2011	2012F	2013F	2014F
Revenue, Rp bn	1,562	1,808	2,033	2,286	2,571
EBITDA, Rp bn	305	386	434	486	543
EBITDA Growth, %	14.6	26.7	12.3	11.9	11.9
Net Profit, Rp bn	150	201	235	256	294
Core Profit, Rp bn	151	193	236	256	294
Core EPS, Rp	105	134	164	178	205
Core EPS Growth, %	11.2	27.9	21.9	8.6	15.0
Net Gearing, %	51.0	40.6	30.0	17.8	6.8
PER, x	23.8	17.9	15.2	14.0	12.2
Core PER, x	23.7	18.6	15.2	14.0	12.2
PBV, x	6.9	5.9	5.0	4.2	3.5
EV/EBITDA, x	12.6	9.9	8.8	7.7	6.7
Dividend Yield, %	3.8	2.0	3.5	3.2	3.7

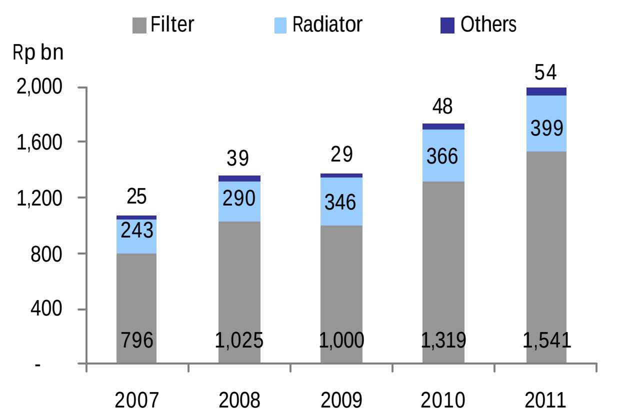
Consistent growth at the top and bottom lines

Main Products: Filters and Radiators

SMSM manufactures filters under the Sakura brand and radiators under the ADR brand. Sakura filters have more than 4,000 part numbers available covering oil, fuel, air, hydraulic, and separator filters for automotive, commercial, and heavy equipment. More than 90% of SMSM filters and radiators are sold to the replacement market with the rest sold to the OEM market.

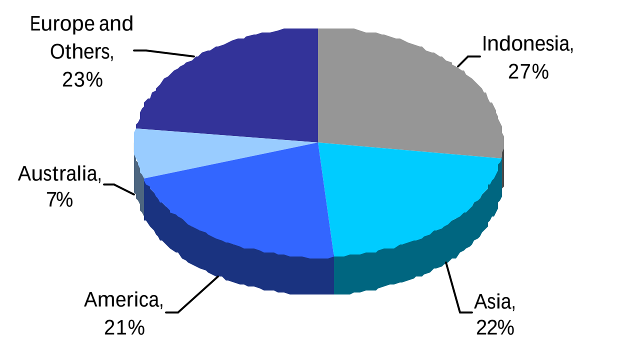
In 2011, filter sales contributed 77% to SMSM's total revenues, radiator sales 20%, and sales of other products the remaining 3%. In regard to the sales destination, the domestic and Asia markets were the major sales destinations for filters. For radiators, however, America was the major sales destination. The export market accounted for 73% of SMSM's revenues in total. Another way of looking at it is that SMSM's revenues are mostly driven by filter sales to the export replacement market (they account for 58% of SMSM's total revenues).

Exhibit 1. Revenues Breakdown, based on Product



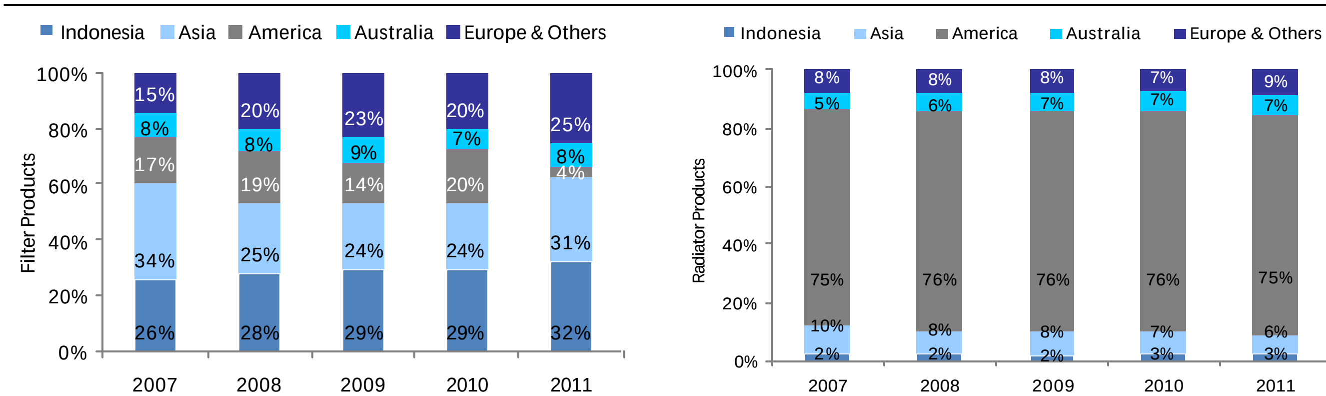
Source: Company

Exhibit 2. 2011 Revenues Breakdown, based on Sales Destination



Source: Company

Exhibit 3. Filters and Radiators Sales Volume Breakdown, based on Sales Destination



Source: Company

Good Quality Products at Affordable Prices

Filters and radiators are considered important parts since they directly affect the car's performance and reliability. Thus, most customers will choose carefully and give careful consideration to the quality of those parts whilst also bearing in mind that the price should be affordable. To satisfy the buyers' needs, SMSM delivers good quality products at affordable prices. This is why SMSM has consistently been competitive even though there are many Chinese-made products sold at very low prices in the marketplace.

In the domestic market, SMSM has a 40% share of the replacement market for filters and radiators. Its closest competitors are the OEM parts. From our sample check in regard to pricing, SMSM products are priced 28-32% lower than OEM parts for filters and around 15% lower than OEM parts for radiators. In the international market, SMSM Sakura filters and ADR radiators are sold in more than 100 countries, including Asia, Australia, America, and Europe. SMSM products meet the international minimum requirements, and can therefore be recognized as having the same quality as the OEM parts but are sold at a more competitive price. In our forecast, we expect a moderate increase in average selling prices: 5% CAGR for filters and 4% CAGR for radiators from 2012-2014.

Exhibit 4. Lower Price compared to OEM parts (Rp)

	Sakura/ADR brand	OEM
Toyota Avanza oil filter	25,000	35,000
Toyota Avanza air filter	85,000	125,000
Toyota Avanza radiator	675,000	800,000

Source: Danareksa

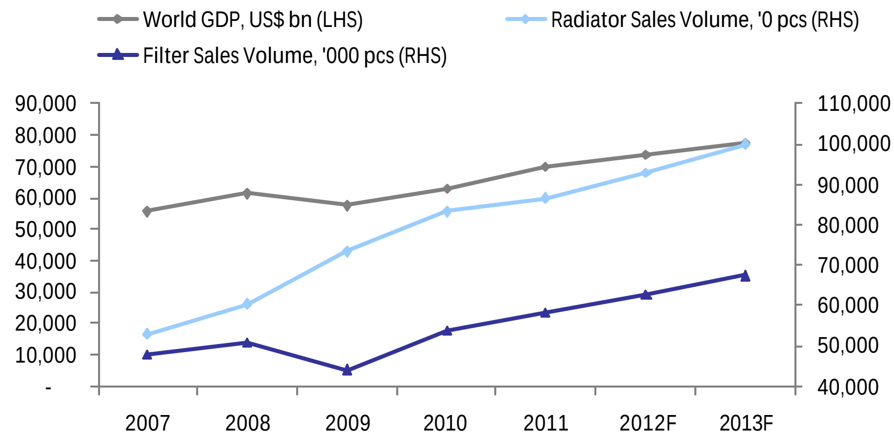
Domestic and Global Market Outlook

SMSM's export sales have increased by 5-year CAGR of 12%. Growth in the global economy and more cars on the road in the region are the drivers of SMSM's export sales. According to the IMF, global GDP growth will face a slowdown in FY12-13, but growth shall still reach around 5%. As such, we still believe that demand for SMSM's products will increase. In a tougher economic climate, customers prefer to find more affordable car parts of the same quality as the more expensive OEM parts. Furthermore, SMSM also plans to increase the number of export destinations as a strategic move. By achieving greater diversification,the company will be less affected if there is turmoil in one region.

SMSM's domestic sales have increased by 5-year CAGR of 20%. Looking ahead, domestic sales should continue to track car sales growth, which is still in a growth trend. In 2011, Indonesia's car sales volume reached 850k, setting a new record. For 2012, Gaikindo (the Indonesian Automotive Industries Association) predicts sales to reach 950k. The growth of domestic car sales is being driven by the growth in Indonesian GDP, low and stable bank interest rates, and attractive offers from ATPM. Some car manufacturers in Indonesia plan to launch several new models in 2012, including low-price cars. Toyota, as one of the market leaders, also wants to increase local content in its Indonesian produced cars (up to 80% in the next three years. Although the automobile industry faces some challenges, notably the increase in the minimum down-payment to 30% and uncertainty in regard to planned fuel price hikes, car sales should still continue to grow as the economy expands further.

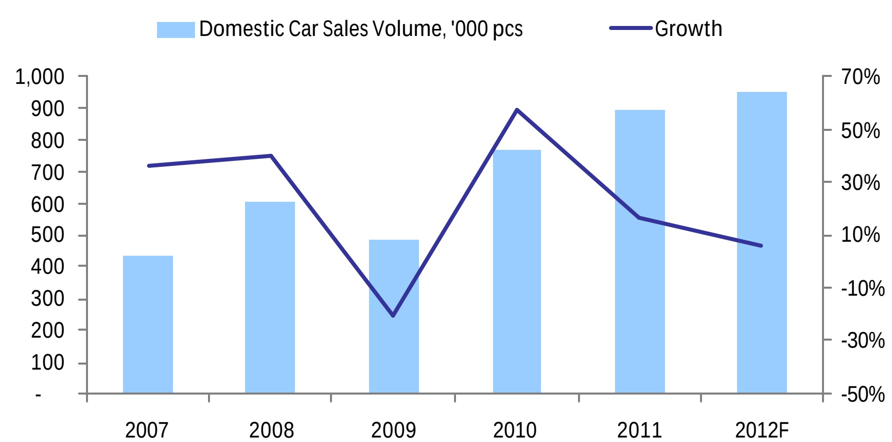
Volume wise, sales of filters and radiators have increased by 5-year CAGR of 5% and 13%, respectively. For 2012-2014, we forecast moderate sales volume growth of 7.5% CAGR for both filters and radiators.

Exhibit 5. Sales Volume Has Increased on Global GDP Growth



Sources: World Economy Outlook Database Sept 2011, IMF; Company; Danareksa

Exhibit 6. Domestic Car Sales Volume



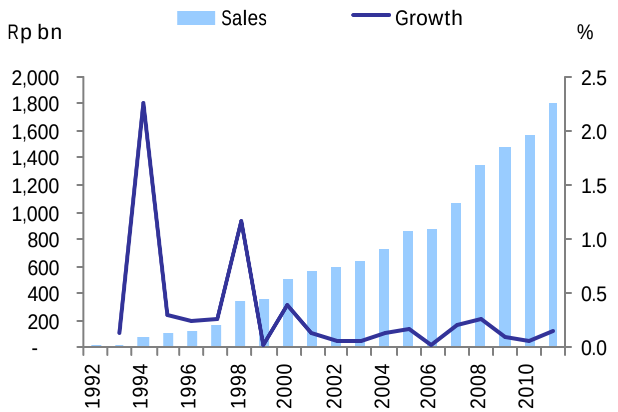
Sources: Company; Gaikindo

Solid Revenues Growth with Maintained Margins

SMSM has recorded consistent growth since 1992, even during times of crisis such as in 1998 (the Asian crisis), 2008 (the crisis in America) and from 2009 till now (the crisis in Europe). This demonstrates the resilience of the demand for the company's products. SMSM booked revenues of around Rp1,800 bn in 2011 and is expected to book more than Rp2,000 bn in revenues in 2012 according to our estimates.

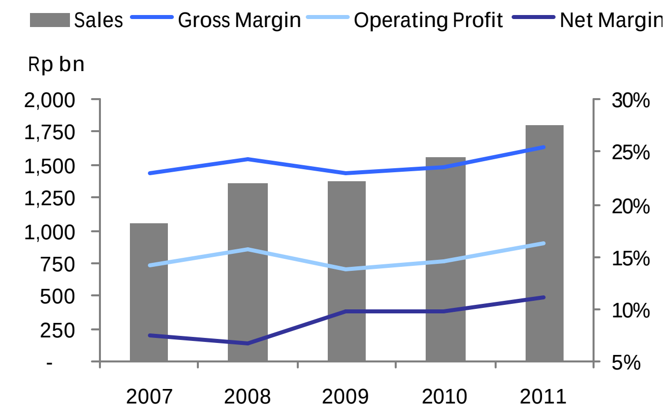
SMSM has maintained its gross margin at 23-25% over the last five years despite fluctuations in the prices of its raw materials. In this period net margins were maintained at 8-11%. This owes to active inventory management, better machine efficiency, and the company's effective distribution channels which enable the company to remain competitive. For 2012-2014 we forecast moderate revenues and net profits growth of 12% CAGR, or within the range of the company forecast for revenues growth of 10-15%.

Exhibit 7. 19 Consecutive Years of Sales Growth



Source: Company

Exhibit 8. Maintained Margins

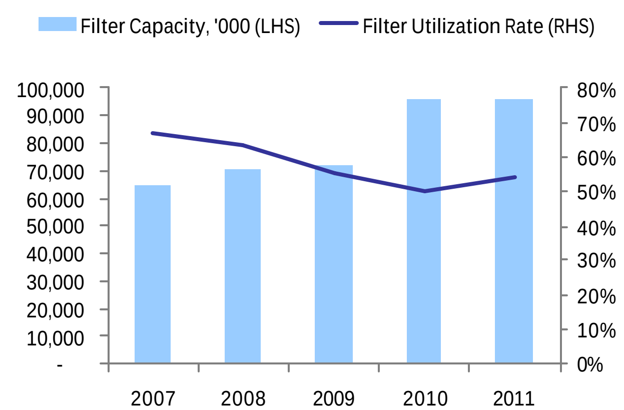


Source: Company

Plenty of room to capture growth

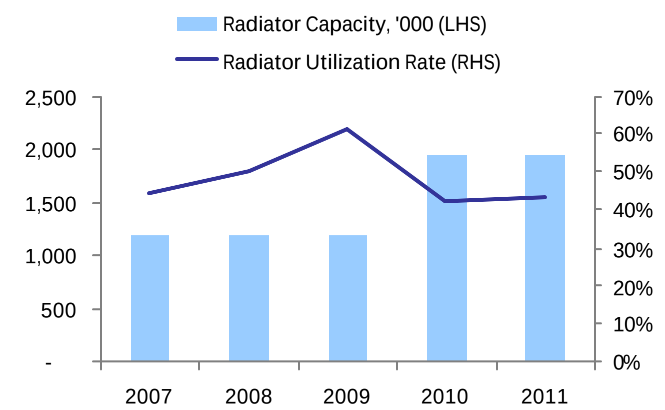
SMSM raised production capacity in 2010 to 96 mn units/year for filters and to 1.95 mn units/year for radiators. In 2011, the company produced 51 mn filters and 848k radiators. From this we can conclude that SMSM's utilization rate is still low - only 54% for filters and 44% for radiators. As such, there is plenty more room to raise production, meaning the company can achieve higher sales if demand increases.

Exhibit 9. Filters' Utilization Rate



Source: Company

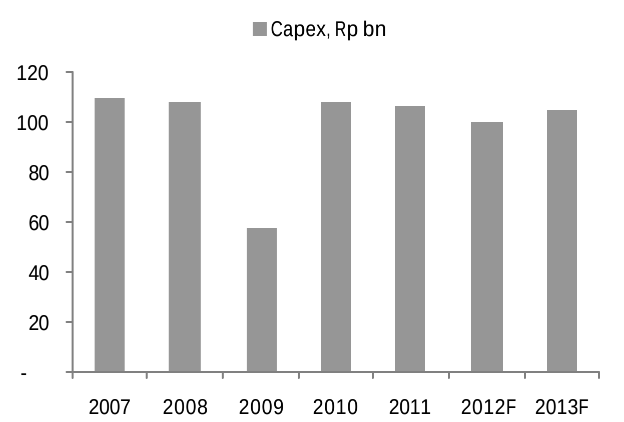
Exhibit 10. Radiators' Utilization Rate



Source: Company

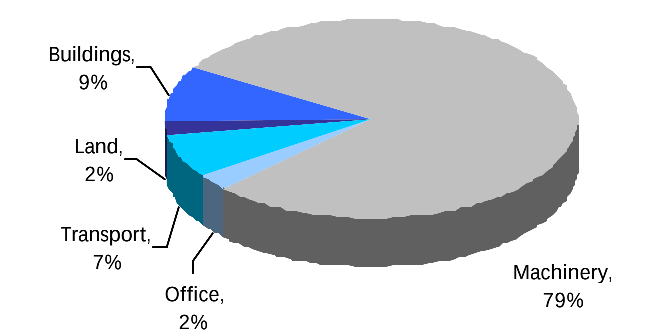
SMSM projects 2012 capex of around Rp100 bn, mainly for machine maintenance. Historically, capex has been funded from its operating cash flow. Going forward, the company will expand and will need more capex when its production utilization reaches more than 80% - which is still far away. With this assumption, we expect that the company's cash flow shall be enough to fund its capex without the need for the company to take on any additional debts in 2012-2014.

Exhibit 11. Steady Capex



Source: Company

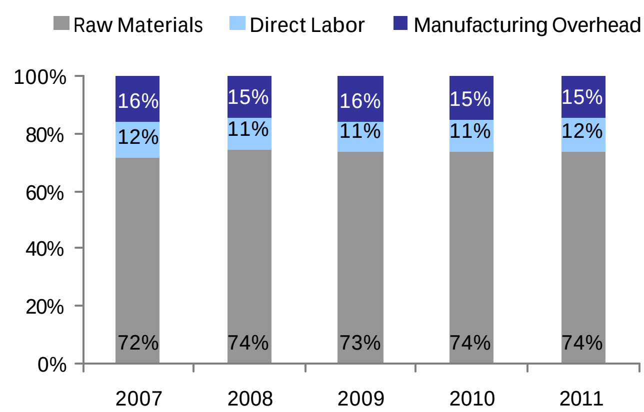
Exhibit 12. Capex Breakdown in 2011



Source: Company

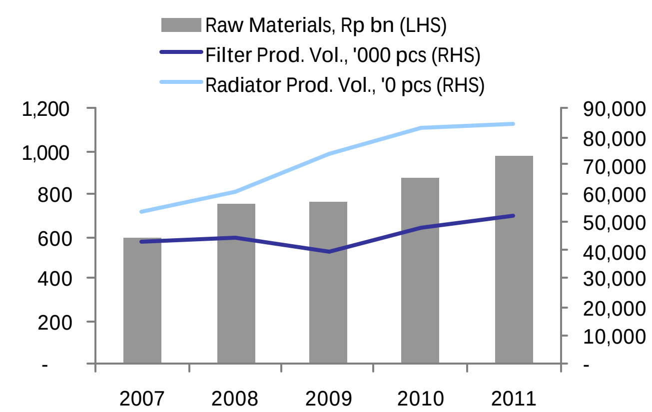
SMSM's manufacturing cost structure has been relatively stable. Of its manufacturing costs in 2011, 74% came from raw materials costs, with 12% being direct labor and 15% being manufacturing overheads. SMSM has to import raw materials since local producers cannot meet SMSM's minimum requirements for its products. The main raw materials used by SMSM are steel plates, paper, aluminum, cooper, and brass. As the company has stated, raw materials are purchased on a spot basis, so any increase in prices will be immediately passed on to customers. An unexpected increase in raw materials prices may squeeze margins, however, as there is a time lag before the higher costs can be passed on to the customers via higher prices. To reduce this risk, the company tries to practice good inventory management (up to two to three months' needs), so price fluctuations can be anticipated.

Exhibit 13. Manufacturing Cost Breakdown



Source: Company

Exhibit 14. Raw Materials and Production Volume



Source: Company

Attractive dividends

Historically, SMSM has distributed dividends generously to its shareholders. In the last 3 years, the dividend payout has reached a minimum 90% of its net profit. In 2011, the company distributed dividends of Rp50 per share, reaching 35.84% of its 2011 net profit. In view of the company's dividend policy, the company should distribute a minimum additional 10% from its 2011 net profit for its final dividend. We expect a final dividend for fiscal year 2011 of Rp50/share, translating into a DPR of 72% and dividend yield of 2.4%. Despite the very generous dividends payout, the company has been able to maintain its gearing around 40%, a healthy level in our view.

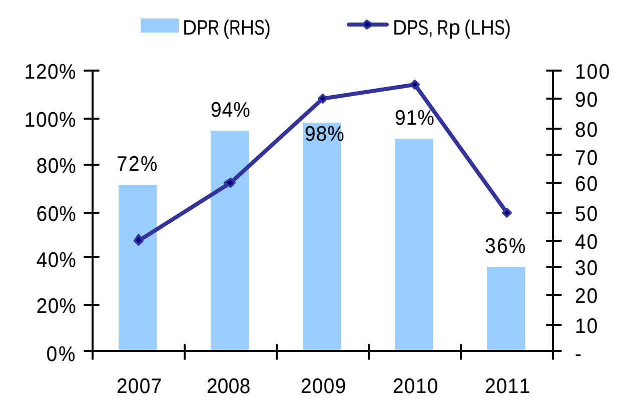
Among its peers, SMSM's dividend yield is larger and above the industry average. With the potential upcoming dividend payment for fiscal year 2011, SMSM's dividend yield is very attractive at the moment.

Exhibit 15. Attractive Dividends

Net Profit (Rp)	Minimum Dividend Payout Ratio %
Up to 10 bn	35
Between 10 – 30 bn	40
Above 30 bn	45

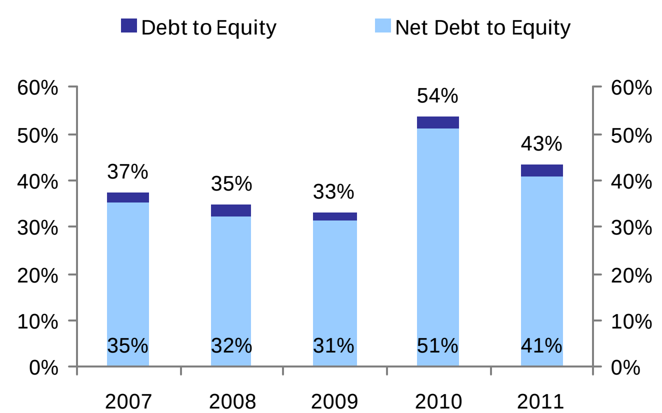
Source: Company

Exhibit 16. Stable High Dividend Payout Ratio



*Note: *Dividend Final FY2011 not included*
Source: Company, Danareksa

Exhibit 17. SMSM's Net Gearing



Source: Company, Danareksa

Exhibit 18. Dividend Yield among Peers (%)

Company	Description	2007	2008	2009	2010	2011*
SMSM IJ	Automotive components manufacture	4.65	19.23	3.33	8.88	4.69
ASII IJ	Holding automotive manufacture	1.77	8.25	3.23	2.93	2.49
INDS IJ	Automotive components manufacture	-	-	20.00	-	n/a
AUTO IJ	Automotive components manufacture	7.07	8.40	10.40	4.24	n/a
GJTL IJ	Tire manufacture	1.02	-	3.53	0.52	n/a
MASA IJ	Tire manufacture	0.47	-	0.49	0.30	n/a
Average		**2.24**	**9.26**	**5.85**	**3.38**	**-**

Source: Bloomberg
*Note: *for fiscal year 2011 use Bloomberg Consensus*

Valuation

We arrive at a Target Price of Rp2,491. We use a Discounted Cash Flow valuation with 8.5% risk free rate, 5.5% risk premium, and 3.0% terminal growth. Our TP implies PER FY12-13 of 15.2x-14.0x. Currently the stock trades at PER FY12-13 of 12.8x-11.1x, or lower than the industry average of PER FY12-13 of 13.1x-11.2x.

Exhibit 19. WACC Calculation

WACC Calculation	
Risk Free Rate, %	8.5
Equity Risk Premium, %	5.5
Equity Beta	0.8
Cost of Equity, %	13.2
Cost of Debt, %	11.0
Tax Rate, %	22.0
Target Debt Equity, %	
Debt	30.0
Equity	70.0
WACC, %	**11.8**
Terminal Growth, %	**3.0**

Source: Danareksa

Exhibit 20. DCF Calculation

	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
DCF Based, Rp bn											
EBIT	336	378	427	473	524	559	597	636	678	723	770
Tax on EBIT	(74)	(83)	(94)	(104)	(115)	(123)	(131)	(140)	(149)	(159)	(169)
Depreciation	98	107	117	127	137	149	160	172	185	199	213
Capex	(100)	(105)	(110)	(116)	(121)	(128)	(134)	(141)	(148)	(155)	(163)
"WC	(79)	(84)	(95)	(94)	(104)	(86)	(93)	(101)	(109)	(118)	(128)
FCFF	181	213	244	286	320	371	398	427	457	489	523
Terminal Value											5,299
Discounted Cash Flow	181	191	196	205	205	213	204	196	188	180	1,911
Enterprise Value	3,867										
Net Debt	(215)										
Equity Value	3,652										
Minority Interest	(65)										
Net Equity Value	3,586										
Number of Shares, bn	1.44										
Net Equity Value per shares	**2,491**										

Source: Danareksa

Exhibit 21. Peers' Comparison

Company	Last Price) Rp	Market Cap Rp bn	P/E 2012F x	P/E 2013F x
ASII IJ	73,300	296,744	15.2	13.3
AUTO IJ	3,550	13,688	12.8	11.1
GJTL IJ	2,550	8,886	9.1	7.6
MASA IJ	590	5,418	15.5	13.1
SMSM IJ	**2,050**	**2,951**	**12.8**	**11.1**
Average			**13.1**	**11.2**

Source: Bloomberg (as of April 20, 2012)

Exhibit 22. TP Sensitivity to Terminal Growth and WACC

		Terminal Growth				
		-1%	-0.5%	**Base Case**	+0.5%	+1%
WACC	-1%	2,542	2,604	2,672	2,747	2,831
	-0.5%	2,455	2,515	2,580	2,652	2,731
	Base Case	2,372	2,429	**2,491**	2,560	2,636
	+0.5%	2,293	2,347	2,406	2,472	2,545
	+1%	2,216	2,268	2,325	2,388	2,458

Source: Danareksa

Exhibit 23. Key Assumptions

	2010	**2011**	**2012F**	**2013F**	**2014F**
Sales Volume, '000 pcs					
Filter	53,777	58,241	62,609	67,304	72,352
Radiator	833	865	930	1,000	1,075
Average Selling Price, Rp					
Filter	24,521	26,460	27,783	29,172	30,631
Radiator	439,269	461,412	479,868	499,063	519,026
Manufacturing Cost per Unit, Rp					
Filter					
Raw Materials	11,919	12,500	13,125	13,781	14,470
Direct Labor	1,785	1,957	2,075	2,199	2,331
Manufacturing Overhead	2,306	2,095	2,697	2,832	2,974
Radiator					
Raw Materials	248,558	246,257	256,107	266,351	277,005
Direct Labor	38,424	39,309	41,274	43,338	45,505
Manufacturing Overhead	55,820	64,841	77,461	69,412	72,188
Sales Breakdown					
Filter, Rp bn	1,319	1,541	1,739	1,963	2,216
Radiator, Rp bn	366	399	446	499	558
Others, Rp bn	48	54	57	60	63
Elimination, Rp bn	(171)	(186)	(210)	(236)	(265)
Total Sales, Rp bn	1,562	1,808	2,033	2,286	2,571

Source: Company, Danareksa

A brief profile

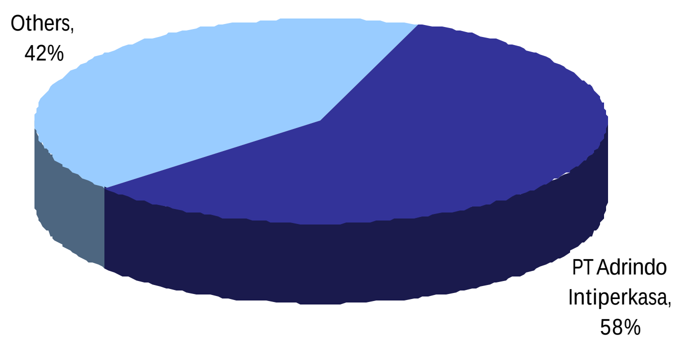
PT Selamat Sempurna Tbk. was established in Indonesia on January 19, 1976 under the flagship of the ADR Group (automotive division) and listed on the Indonesia Stock Exchange in 1996 with the ticker "SMSM". SMSM manufactures filters, radiators, oil coolers, condensers, brake pipes, fuel pipes, fuel tanks, exhaust systems, and press parts. SMSM is currently known as one of the largest manufacturers of filters and radiators in the region.

Exhibit 24. Subsidiary and Associated Company Investments

Company Name	Joint Venture	Business	SMSM ownership
PT Panata Jaya Mandiri	Donaldson Inc. USA	Manufacturing filters for heavy equipment, gas turbinesi industrial engines, construction equipment and automobiles	70%
PT Posco–IJPC	Posco and Daewoo International Corporation	Steel processing	15%

Source: Company

Exhibit 25. Ownership Structure



Source: Company

In 2010, SMSM issued Selamat Sempurna II Year 2010 Bonds Payable with a fixed rate coupon payment, rated "id AA-" by Pefindo. The bond's total nominal value is Rp240 bn, of which each series' nominal value is Rp80 bn. The funds were used to repay the company's bank loans, increase its working capital, and to purchase raw materials needed for production. The Series A bonds already matured in July 2011 and the bondholders were fully repaid.

Exhibit 26. SMSM's Existing Bonds

Series	Principal	Coupon Rate	Announcement Date	Maturity Date
SMSM02B	Rp80 bn	10.3%	July 2010	July 2013
SMSM02C	Rp80 bn	10.8%	July 2010	July 2015

Source: Company

Financial Summary

Exhibit 27. Profit & loss (Rp bn)

	2010	2011	2012F	2013F	2014F
Sales	1,562	1,808	2,033	2,286	2,571
COGS	(1,193)	(1,347)	(1,508)	(1,697)	(1,910)
Gross Profit	369	461	525	589	661
Operating Expenses					
Selling Expense	(78)	(89)	(104)	(117)	(131)
G & A Expense	(63)	(76)	(85)	(94)	(103)
Subtotal	(141)	(164)	(189)	(211)	(235)
Operating Profit	228	297	336	378	427
Other Income (Expenses)					
Interest Income	2	2	2	2	4
Forex Gain (Loss)	(5)	2	(0)	-	-
Financing Charges	(24)	(28)	(15)	(29)	(27)
Others	4	8	-	-	-
Subtotal	(23)	(17)	(13)	(27)	(23)
Pre-tax Income	205	280	322	351	404
Income Tax	(40)	(60)	(69)	(75)	(86)
Minority Interest	(14)	(18)	(18)	(20)	(23)
Net Profit	150	201	235	256	294
Core Profit	151	193	236	256	294

Source: Company, Danareksa

Exhibit 28. Balance sheet (Rp bn)

	2010	2011	2012F	2013F	2014F
Cash & Equivalent	14	17	48	31	114
Trade Receivables	314	358	405	456	512
Inventories	307	325	411	462	520
Other Current Assets	27	20	20	20	20
Total Current Assets	662	719	884	969	1,167
Property, Plant, Equipment	377	398	400	397	391
Investment in Shares of Stocks	8	8	8	8	8
Other Non-current Assets	21	12	12	12	12
Total Non-current Assets	405	418	420	417	411
TOTAL ASSETS	**1,067**	**1,137**	**1,304**	**1,386**	**1,578**
Bank Loans	41	103	104	104	104
Trade Payables	125	86	141	158	178
Short-term Portion of Bonds	80	-	80	-	80
Other Current Liabilities	59	75	75	75	75
Total Current Liabilities	**304**	**265**	**399**	**337**	**437**
Long-term Portion of Bonds	159	159	80	80	-
Other Liabilities	36	42	42	42	42
Total Non-current Liabilities	**194**	**202**	**122**	**122**	**42**
Excess of Equity Share in Net Assets of Subsidiary over Cost of Investments	1	-	-	-	-
Minority Interest	48	65	65	70	79
Capital Stock	144	144	144	144	144
Additional Paid in Capital	19	19	19	19	19
Retained Earnings	340	427	538	679	841
Other Equity	16	16	16	16	16
Total Equity	**519**	**606**	**717**	**858**	**1,020**
TOTAL LIABILITIES AND EQUITY	**1,067**	**1,137**	**1,304**	**1,386**	**1,578**

Source: Company, Danareksa

Exhibit 29. Cashflows (Rp bn)

	2010	2011	2012F	2013F	2014F
Net Income	150	201	235	256	294
Depreciation	73	86	98	107	117
Minority Interest	3	16	1	4	10
Working Capital Changes	(123)	(100)	(79)	(84)	(95)
Decrease (Increase) in Other Assets	6	6	-	-	-
Increase (Decrease) in Other Liabilities	22	23	-	-	-
Cash Flow from Operation	**130**	**232**	**255**	**283**	**326**
Acquisition of property, plan and equipment	(108)	(107)	(100)	(105)	(110)
Decrease (Increase) in advances for purchases of PPE	(6)	9	-	-	-
Decrease (Increase) in investment property	-	-	-	-	-
Decrease (Increase) in investment in stock	3	-	-	-	-
Cash Flow from Investing	**(112)**	**(98)**	**(100)**	**(105)**	**(110)**
Net proceed (Payment) of Bank Loans	(123)	62	0	-	-
Increase (Payment) of Bonds	238	(79)	1	(80)	-
Payment of Cash Dividend	(141)	(117)	(124)	(115)	(133)
Cash Flow from Financing	**(26)**	**(134)**	**(123)**	**(195)**	**(133)**
Change in Cash	(7)	0	32	(17)	83

Source: Company, Danareksa

Exhibit 30. Key Ratios

	2010	2011	2012F	2013F	2014F
Profitability					
Gross Margin, %	23.6	25.5	25.8	25.8	25.7
OpEx to Sales, %	9.0	9.1	9.3	9.2	9.1
Operating Margin, %	14.6	16.4	16.5	16.6	16.6
Pre-tax Income Margin, %	13.1	15.5	15.9	15.4	15.7
Net Margin, %	9.6	11.1	11.6	11.2	11.5
Core Margin, %	9.7	10.7	11.6	11.2	11.5
ROAE, %	29.6	35.7	35.6	32.5	31.4
ROAA, %	15.0	18.2	19.3	19.0	19.9
Leverage					
Debt to Equity, %	53.8	43.3	36.8	21.4	18.0
Net Debt to Equity, %	51.0	40.6	30.0	17.8	6.8
Interest Coverage, x	9.6	10.4	22.5	12.9	15.6
Turnover					
Trade Receivables, days	72.3	71.3	72.7	72.7	72.7
Inventories, days	92.7	86.7	99.5	99.5	99.5
Trade Payables, days	37.7	23.1	34.0	34.0	34.0
Growth					
Sales, %	13.6	15.8	12.4	12.5	12.5
Gross Profit, %	16.6	24.9	13.9	12.3	12.3
Operating Profit, %	20.1	30.1	13.2	12.7	12.7
EBTIDA, %	14.6	26.7	12.3	11.9	11.9
Pre-tax Income, %	10.2	36.5	15.3	9.0	14.9
Net Profit, %	13.2	33.5	17.2	8.8	15.0
Core Profit, %	11.2	27.9	21.9	8.6	15.0
Valuation (TP)					
PER, x	23.8	17.9	15.2	14.0	12.2
Core PER, x	23.7	18.6	15.2	14.0	12.2
PBV, x	6.9	5.9	5.0	4.2	3.5
Dividend Yield, %	3.8	2.0	3.5	3.2	3.7
EV/EBITDA, x	12.6	9.9	8.8	7.7	6.7

Source: Company, Danareksa