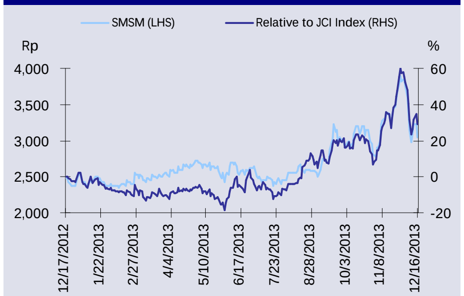
HOLD

Target Price, Rp	3,350
Upside	9.8%
SMSM IJ/SMSM.JK	
Last Price, Rp	3,050
No. of shares (bn)	1,439
Market Cap, Rp bn	**4,389**
(US$ mn)	363
3M T/O, US$mn	0.1

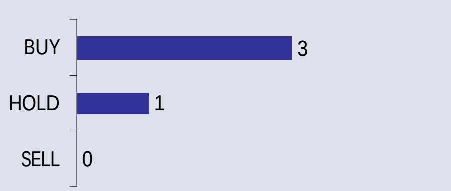
Last Recommendation

31-Jul-13	HOLD	Rp 2,850
15-May-13	HOLD	Rp 2,550
26-Mar-13	HOLD	Rp 2,550

SMSM relative to JCI Index



Market Recommendation



Danareksa vs Consensus

	Our	Cons	% Diff
Target price, IDR	3,350	3,082	8.7
EPS 14F, Rp	194	208	-6.7
PE 14F, x	15.7	14.6	7.5

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

AUTOMOTIVE PARTS SECTOR/COMPANY UPDATE

Selamat Sempurna

Wait for better entry point

With encouraging signs on the global recovery, SMSM should extend its record of 20 years of consecutive revenues growth in 2013 and beyond, supported by the company's group consolidation strategy. Around 60% of its revenues come from exports, and SMSM stands to benefit from both export sales recovery and further rupiah depreciation. Sound corporate governance is also reflected in the company's outstanding track record in achieving unbroken revenues growth in addition to its generous dividend policy. Despite these catalysts, we are concerned by its high multiples, as the stock trades at a relative premium to the market. A rerating of market multiples and a better environment would ease our concerns. HOLD maintained with a new Target Price of Rp3,350. SMSM now trades at 15.7x FY14 P/E, already 1sd above its 3-year trailing average.

Demand recovery in store

SMSM has posted unbroken revenues growth over the last 20 years despite facing economic headwinds. Currently, the company's exports are continuing to grow, aided by its strategic shift away from the US and European markets to Asia in addition to the significant rupiah depreciation. Volume wise, both filter and radiator sales volume picked up in 3Q13. Nonetheless, the proportion of exports to total revenues has now fallen to 61% in 3Q13 from 74% in 1Q11. For 2014, we expect stronger growth in revenues of 12%yoy, following 3%yoy growth in 2013. Our estimate is conservative, nonetheless, as the export recovery is still in an early stage. With the global recovery, the price of steel as the main raw material needs to be closely watched. It has tended to go up since June 2013, and we expect slightly lower gross margins in 2013-2014 at 25.1-24.2%, respectively.

Group consolidation

Back in 2012, SMSM acquired its sister company which specializes in dump trucks, PT Hydraxle Perkasa (HP), to attain inorganic growth. HP performed well in 2012, but not in 2013, due to unfavorable commodity prices which hit volumes. In June 2013, SMSM acquired two more sister companies - PT Selamat Sempana Perkasa (SSP) and PT Prapat Tunggal Cipta (PTC) – in a bid to support growth. In our view, these efforts are aimed at maintaining its strong growth track record despite the challenging market conditions at the current time. These value accretive acquisitions are positive for the company, we believe.

Strong dividends player with high ROE

With a low utilization rate, SMSM only needs Rp100 bn p.a. for maintenance capex. As a result, the company can maintain its gearing at a low level whilst still enjoying a high ROE (>25%). Going forward, we expect more growth in dividends. Over the past three years, SMSM has disbursed more than 70% of its earnings as dividends, providing investors with an attractive dividend yield of 4-5% p.a. For 2013-2014, we expect the company to deliver DPS of Rp110 and Rp116, respectively.

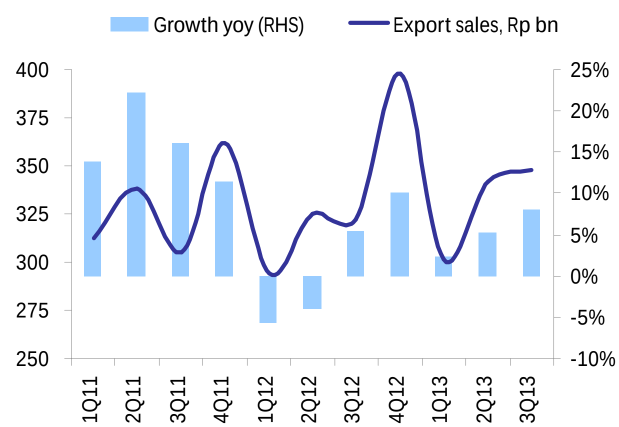
Year end to Dec	2011	2012	2013F	2014F	2015F
Revenue, Rp bn	2,072	2,270	2,327	2,596	2,965
EBITDA, Rp bn	428	508	515	543	642
EBITDA Growth, %	40.4	18.7	1.3	5.5	18.3
Net Profit, Rp bn	212	251	264	279	349
Core Profit, Rp bn	210	252	256	279	349
Core EPS, Rp	146	175	178	194	242
Core EPS Growth, %	39.8	20.1	1.5	9.2	25.0
Net Gearing, %	36.7	31.4	20.1	9.6	(1.3)
PER, x	20.7	17.5	16.7	15.7	12.6
Core PER, x	20.9	17.4	17.2	15.7	12.6
PBV, x	5.6	4.8	4.4	3.9	3.4
EV/EBITDA, x	10.9	9.2	8.9	8.3	6.8
Yield, %	3.3	3.4	3.6	3.8	4.8

Demand recovery in store

SMSM has maintained exports growth by shifting away from the US and European markets to the Asian markets (including the domestic market) on top of opening up new distribution channels in other regions. This strategy has paid off in our view, as sales only contracted in 1Q12-2Q12 (on a yoy basis), after which they quickly recovered. During the bad times, SMSM tried to reduce its exposure to the US and Europe. Asia, by comparison, grew in importance (accounting for 38-41% of exports in recent quarters, or up from 35% in 1Q11). Growing demand for autos in Asia, with the continent now accounting for 52% of global demand, will provide support to auto parts manufacturers.

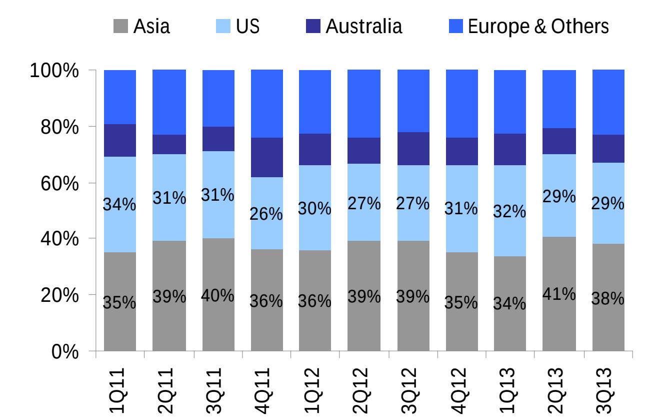
In our view, the exports growth in 2Q-3Q13 mainly owed to rupiah depreciation since volume wise, sales volume of both filters and radiators only picked up in 3Q13, especially for its radiator products, for which sizeable demand came from its US partner, Donaldson. Nonetheless, the proportion of exports to total revenues has now fallen to 61% in 3Q13 from 74% in 1Q11 due to: 1) lower exports growth vis-à-vis domestic growth and 2) the acquisition of sister companies which contribute domestic revenues.

Exhibit 1. Positive export sales



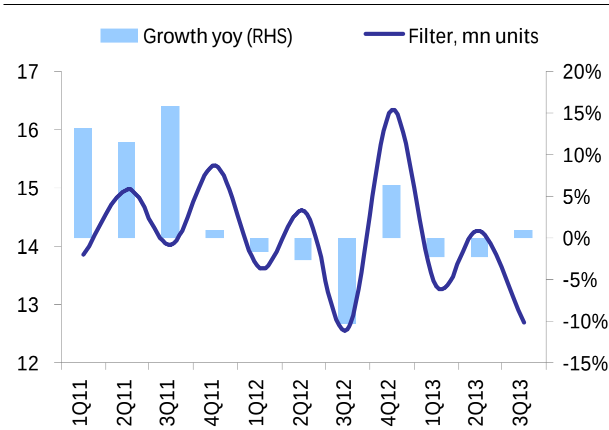
Source: Company

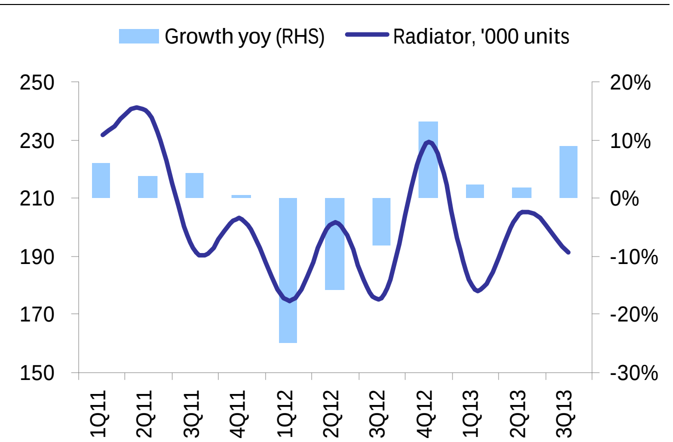
Exhibit 2. Shifting export destination



Source: Company

Exhibit 3. Filter and radiator sales volume just picked up in 3Q13

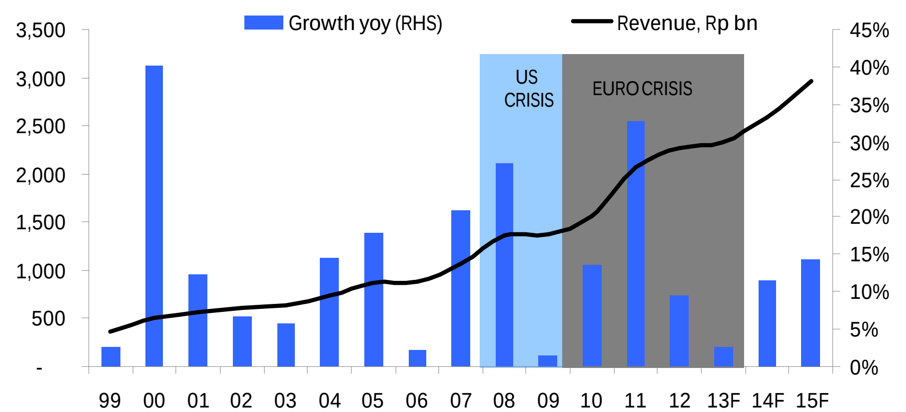




Source: Company

Since 1992, the company has maintained growth momentum even in 1998 (the Asean crisis), in 2009-2010 (the global financial crisis) and in recent years despite the Eurozone crisis. Looking ahead, we expect the growth to continue in 2013 lifted by global economic recovery. Previously, despite the economic headwinds, the company encouragingly posted revenues growth of 40%yoy in 1999/2000 and 14%yoy in 2009/2010. For 2014, we forecast revenues growth of 12%yoy and 2013-2015 CAGR growth of 13%. Our estimates are conservative as the export recovery is still in an early stage and there is also the risk of a slight hiccup in domestic demand due to the unfavorable macroeconomic conditions at the present time, even though LCGC should be a demand booster.

Exhibit 4. Consistent track record on revenues growth

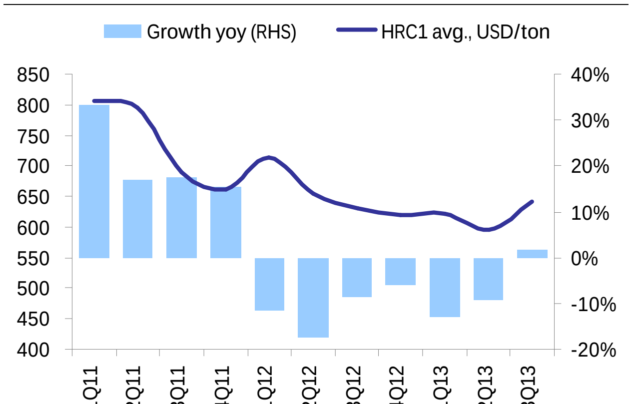


Source: Company, Danareksa Sekuritas

Higher steel prices may pose a challenge

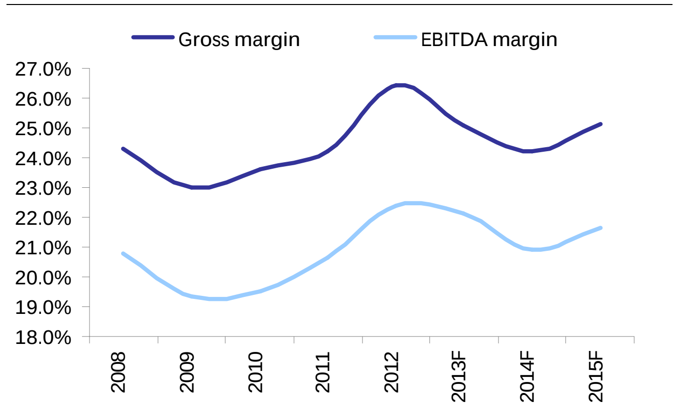
As steel is the main raw material in filter products (>60% of COGS), and filters are the major contributor to SMSM's revenue (>50%), any movement in the steel price will affect the overall gross margin. Most of SMSM's steel are imports from POSCO (Korea), as domestic steel doesn't meet its minimum requirements. With the majority of the revenues generated by exports, however, we believe the company has a natural hedge and that SMSM will not be adversely affected by further rupiah depreciation. With signs of global economic recovery, the steel price has already moved up from its bottom since June 2013 (as seen in a higher 3Q13 average price). All in all, we expect slightly lower gross margins in 2013 and 2014 at 25.1% and 24.2%, respectively.

Exhibit 5. Low steel price started to picked up in 3Q13



Source: Bloomberg

Exhibit 6. Expecting lower gross margin in 2014



Source: Company, Danareksa Sekuritas

Group consolidation

Recall that back in 2012, SMSM acquired its sister company in the ADR Group (holding company) which specializes in dump trucks, PT Hydraxle Perkasa (HP), to attain further growth. In 2012, despite the weak commodity markets, HP recorded decent revenues growth of 11% yoy. However, in 2013, lower commodity prices hit demand for dump trucks, and sales volume sank 40%yoy in 9M13. In 2014, however, HP may see better business conditions supported by firmer commodity price which, in turn, would give a boost to sales of dump trucks.

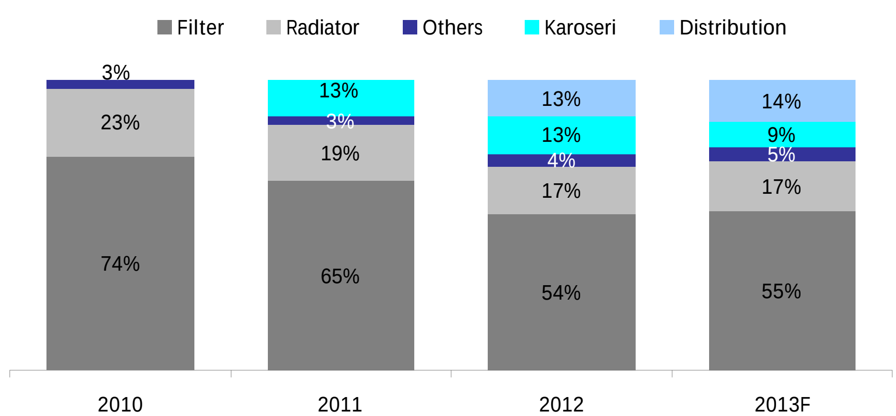
In June 2013, SMSM acquired two more sister companies - PT Selamat Sempana Perkasa (SSP) and PT Prapat Tunggal Cipta (PTC) – in a bid to support growth. SSP acts as SMSM's local distributor while PTC is engaged in rubber derivative products, with both supporting SMSM's business. In our view, these efforts are aimed at maintaining its strong growth track record despite the challenging market conditions at the current time. The prices paid are reasonable and the acquisitions should be value accretive. Furthermore, with all related operations now under one roof, SMSM's cost structure should improve. Going forward, we don't think SMSM will acquire another sister company from the ADR Group, and we may see SMSM look outside the group for a company which has an indirect or direct relationship with the company's main auto-parts business.

Exhibit 7. Enlisted companies under ADR Group

Company	Business	Establish	Revenue FY12	Revenue 9M13	SMSM' ownership%
Panata Jaya Mandiri (PJM)	Filtration products	1983	450	334	70.0
Hydraxle Perkasa (HP)	Dump truck hoists	1983	340	186	51.0
Selamat Sempana Perkasa (SSP)	Rubber derivative products	1990	115	100	99.9
Prapat Tunggal Cipta (PTC)	Domestic distribution	1994	290	237	99.9
Dinamikajaya Bumipersada	Packaging products	1995	n/a	n/a	-
Rubberindo Unggul Perkasa	Rubber compounds	2012	n/a	n/a	-
Mangatur Dharma	Aftermarket distribution	1976	n/a	n/a	-
Cahaya Mitra Gemilang	Aftermarket distribution	2001	n/a	n/a	-

Source: Company

Exhibit 8. Changed in revenue structure

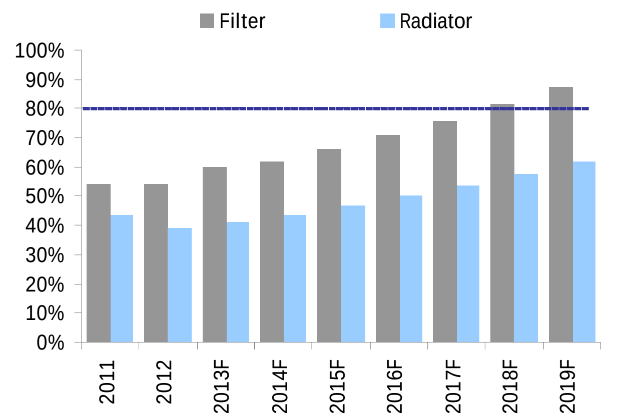


Source: Company, Danareksa Sekuritas

Strong dividends player with high ROE

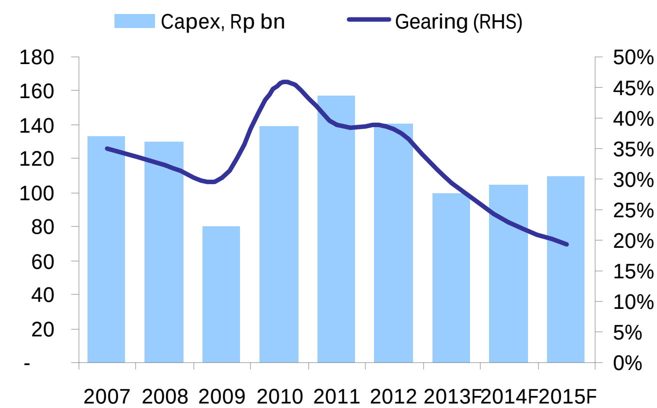
With capacity utilization levels still very low (only 60% for filter capacity and 40% for radiator capacity following its latest expansion in 2009/2010), SMSM only needs Rp100 bn p.a. in capex for machinery maintenance and debottlenecking. We believe that this may remain the case for at least the next three years. With low gearing, the company is well placed to face the higher interest rates environment in 2014.

Exhibit 9. Low utilization, no need of high capex...



Source: Company, Danareksa Sekuritas

Exhibit 10. ... resulting in low gearing

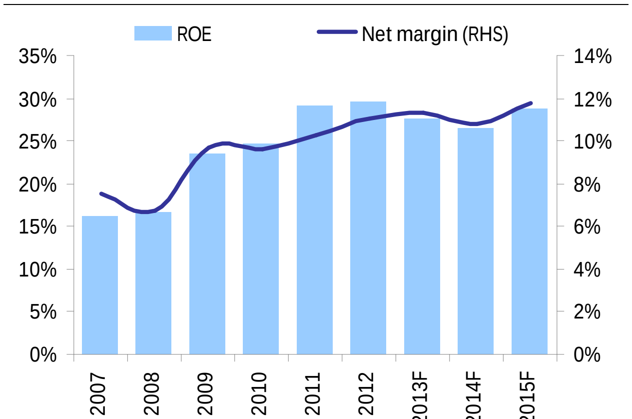


Source: Company, Danareksa Sekuritas

In our view, a high ROE can provide a good indicator of a well-managed company. In this regard, SMSM scores highly with a ROE >25%. This owes mainly to improving net profit margins on the back of better operating efficiency, in our view. Furthermore, dividends are also high: the company's dividend yield >4% p.a.

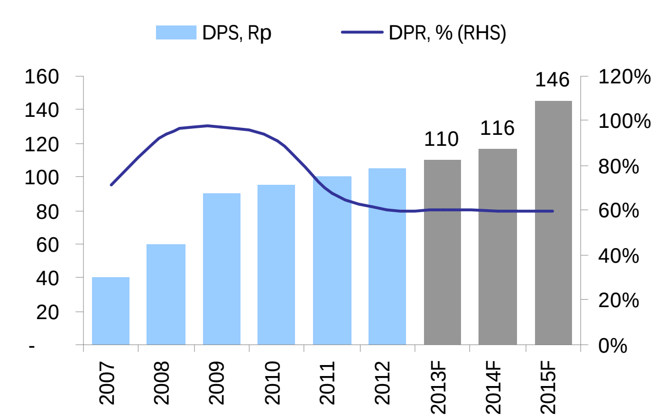
Looking ahead, we believe the management can keep to its promise of raising dividends. Over the past three years, SMSM has disbursed more than 70% of its earnings as dividends, providing investors with an attractive dividend yield of 4-5% p.a. For 2014, we expect higher dividends to be paid given the better outlook for the company and the low capex requirements, supported by the company's good corporate governance and commitment to dividends growth.

Exhibit 11. High ROE came from improving net margin



Source: Company, Danareksa Sekuritas

Exhibit 12. High dividend player



Source: Company, Danareksa Sekuritas

Valuation – expensive at the moment

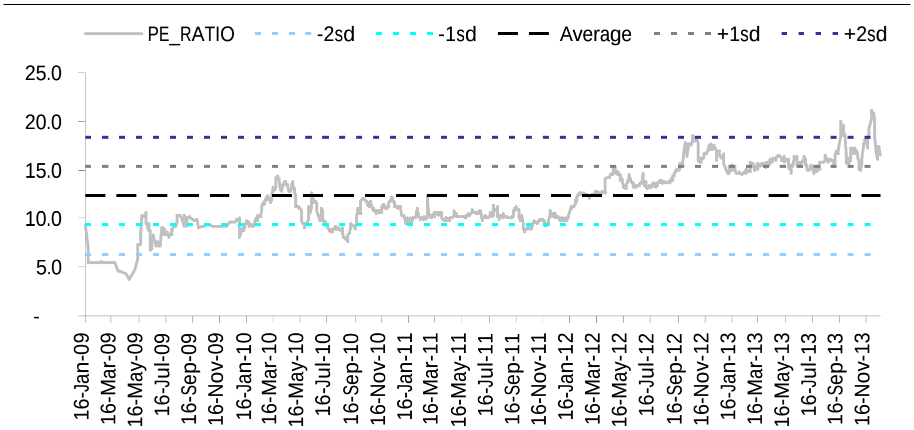
SMSM has a small market cap and the share price has been quite volatile over the last few months on high trading volume. On the fundamentals, improvements are apparent but the pace of change is still rather slow. Despite all the catalysts, the stock looks fully valued, in our view. Currently, the company trades at FY14 P/E of 15.7x, already 1sd above its trailing 3-year average. A rerating could be warranted if the company can post solid or better-than-expected results, especially in 1Q14, where we hope to see an improvement. Presently, a rerating is unlikely given the market multiple. We have slightly tweaked our numbers and roll over our valuation using the 2014 figures and arrive at a new Target Price of Rp3,350, implying FY14-15 P/E of 17.3-13.8x. Maintain HOLD for the time being.

Exhibit 13. Our DCF calculation

	2014F	2015F	2016F	2016F	2018F	2019F
DCF Based, Rp bn						
EBIT	402	491	560	650	768	918
Tax on EBIT	(80)	(98)	(112)	(130)	(154)	(184)
Depreciation	141	151	162	174	186	173
Capex	(105)	(110)	(116)	(122)	(128)	(134)
WC	(90)	(116)	(144)	(170)	(201)	(240)
FCFF	268	318	350	401	471	533
Terminal Value						5,833
Discounted Cash Flow	268	286	282	290	306	3,703
Enterprise Value	5,133					
Net Debt	(107)					
Equity Value	5,026					
Minority Interest	(201)					
Net Equity Value	4,825					
Number of Shares, bn	1.44					
Net Equity Value per shares	3,350					

Source: Danareksa Sekuritas

Exhibit 14. The stocks currently trades at 1sd above its 3-years trailing average



Source: Bloomberg

Exhibit 15. Forecast changes

	2012	New 2013F	New 2014F	New 2015F	Previous 2013F	Previous 2014F	Previous 2015F	Changes, % 2013F	Changes, % 2014F	Changes, % 2015F
USDIDR, e.p	9,670	11,500	10,500	9,482	9,059	9,000	9,127	27.0	16.7	3.9
USDIDR, avg.	9,419	10,413	10,500	9,451	9,185	8,941	9,067	13.4	17.4	4.2
(Rp bn)										
Revenue	2,270	2,327	2,596	2,965	2,302	2,511	2,741	1.1	3.4	8.2
Gross profit	600	584	629	745	576	629	688	1.5	(0.0)	8.3
Operating profit	389	383	402	491	380	418	461	0.6	(3.9)	6.4
EBITDA	508	515	543	642	500	547	589	3.0	(0.7)	8.9
Net Income	251	264	279	349	248	276	310	6.3	1.1	12.6

Source: Company, Danareksa Sekuritas

Exhibit 16. Profit and loss (Rp bn)

	2011	2012	2013F	2014F	2015F
Revenue	2,072	2,270	2,327	2,596	2,965
COGS	1,570	1,670	1,743	1,967	2,220
Gross Profit	502	600	584	629	745
Operating Expenses	174	211	202	227	254
Operating Profit	328	389	383	402	491
Net Interest	(30)	(29)	(27)	(21)	(18)
Other Income (Expenses)	11	9	7	4	4
Pre-tax Income	310	369	363	384	477
Income Tax	(68)	(83)	(73)	(77)	(95)
Minority Interest	(29)	(35)	(26)	(28)	(33)
Net Profit	212	251	264	279	349
Core Profit	210	252	256	279	349

Source: Company, Danareksa Sekuritas

Exhibit 17. Balance sheet (Rp bn)

	2011	2012	2013F	2014F	2015F
Cash & Equivalent	18	63	91	151	270
Trade Receivables	394	467	485	541	618
Inventories	380	432	436	492	555
Other Current Assets	24	32	35	39	44
Total Current Assets	816	994	1,046	1,222	1,487
Property, Plant, Equipment	491	514	482	446	405
Investment in Shares of Stocks	8	35	37	40	44
Other Non-current Assets	13	21	39	39	39
Total Non-current Assets	512	570	558	525	488
TOTAL ASSETS	1,328	1,563	1,604	1,747	1,975
Bank Loans	146	191	210	178	253
Trade Payables	106	104	145	164	185
Short-term Portion of Bonds	-	80	-	80	-
Other Current Liabilities	88	107	113	122	133
Total Current Liabilities	340	481	468	544	571
Long-term Portion of Bonds	159	80	80	-	-
Other Liabilities	46	56	67	81	95
Total Non-current Liabilities	205	167	147	81	95
Minority Interest	120	175	184	201	227
Capital Stock	144	144	144	144	144
Additional Paid in Capital	35	42	54	54	54
Retained Earnings	427	459	607	723	884
Other Equity	57	95	-	-	-
Total Equity	783	916	989	1,122	1,309
TOTAL LIABILITIES AND EQUITY	1,328	1,563	1,604	1,747	1,975

Source: Company, Danareksa Sekuritas

Exhibit 18. Cash flow (Rp bn)

	2011	2012	2013F	2014F	2015F
Pretax Profit	310	369	363	384	477
Minority Interest	(29)	(35)	(26)	(28)	(33)
Tax	(56)	(88)	(77)	(75)	(94)
Depreciation	100	119	132	141	151
Change in W/C	(94)	(114)	24	(90)	(116)
Others	15	6	(4)	14	14
CFO	245	257	411	347	401
Capex	(138)	(142)	(100)	(105)	(110)
Investment	-	(27)	(2)	(3)	(4)
CFI	(138)	(169)	(102)	(108)	(114)
ST Debt	77	45	19	(32)	75
Current Portion of LT Debt	(80)	80	(80)	80	(80)
LT Debt	1	(48)	(31)	(80)	-
Equity	24	100	(74)	16	26
Dividend	(115)	(187)	(115)	(163)	(189)
CFF	(93)	(10)	(282)	(178)	(168)
Change in Cash	13	77	28	60	119

Source: Company, Danareksa Sekuritas

Exhibit 19. Ratios

	2011	2012	2013F	2014F	2015F
Profitability, %					
Gross Margin	24.2	26.4	25.1	24.2	25.1
Operating Margin	15.9	17.1	16.4	15.5	16.5
Net Margin	10.2	11.1	11.3	10.8	11.8
Core Margin	10.1	11.1	11.0	10.8	11.8
ROAE	29.2	29.6	27.7	26.5	28.7
ROAA	16.7	17.4	16.7	16.7	18.8
Leverage					
Debt to Equity, %	38.9	38.2	29.3	23.0	19.3
Net Debt to Equity, %	36.7	31.4	20.1	9.6	(1.3)
Interest Coverage, x	10.4	12.5	12.8	15.2	18.9
Turnover, days					
Trade Receivables	68.4	74.0	75.0	75.0	75.0
Inventories	87.2	93.1	90.0	90.0	90.0
Trade Payables	24.4	22.4	30.0	30.0	30.0
Growth, %					
Sales	32.7	9.5	2.5	11.5	14.2
Gross Profit	36.2	19.5	(2.6)	7.6	18.4
Operating Profit	44.2	18.4	(1.6)	5.0	22.2
EBITDA	40.4	18.7	1.3	5.5	18.3
Net Profit	41.1	18.2	5.1	6.0	25.0
Core Profit	39.8	20.1	1.5	9.2	25.0

Source: Company, Danareksa Sekuritas