

SelamatSempurna(SMSM IJ)

13 April 2015

Company update

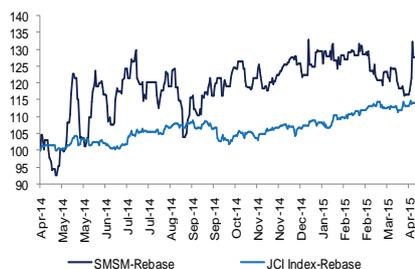
Hold(unchanged)

StockData

Target price (Rp)	Rp5,350
Prior TP (Rp)	5,100
Shareprice (Rp)	Rp4,900
Upside/downside (%)	+9.1
Sharesoutstanding (m)	1,440
Marketcap. (US\$ m)	538
Free float (%)	15.8
Avg. 6m dailyT/O (US\$ m)	0.1

Price Performance

	3M	6M	12M
Absolute (%)	-1.3	2.7	23.8
Relative to JCI (%)	-7.2	-6.5	11.7
52whigh/low (Rp)	4,830 - 3,500		



Major Shareholders

AdrindoIntiperkasa	58.1%
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Estimate Change; Vs. Consensus

	2015	2016
Latest EPS (Rp)	299	350
Vs. Prior EPS (%)	15.4	12.6
Vs. Consensus (%)	-2.9	0.0

Source: Bloomberg

Chandra Pasaribu\*  
+62 21 5793 1167  
chandra.pasaribu@ipc.co.id

\*.PT Indo Premier Securities

To benefit from weaker Rupiah

- Winning on stronger US\$
- Soft steel price supporting margins
- Recovery in body maker division
- Maintain Hold, valuation is rich

**Gaining from exports on weaker Rupiah.** Having significant revenue from exports has been a blessing in disguise for Selamat Sempurna. About 70% of total revenue in FY14 was driven by exports mainly to Asia, US and Europe. Slowing demand in the domestic market, plus a weaker Rupiah, has tilted revenue towards the export market. In FY14, export sales grew 23.8% yoy, while domestic sales fell 11.3% yoy. We expect the export market to remain the growth driver, especially with continuous weak demand in the domestic automotive sector. Improving economic conditions in the US should help boost exports.

**Steel price on the weak side.** About 70% of total COGS is composed of raw materials, mainly dominated by steel. The average price of HRC in China's domestic market dropped 11.5% yoy in FY14 and 20% ytd in 1Q15. About 50% of total steel import is sourced from China. In the local market, Krakatau's (KRAS IJ, Rp422, Not rated) domestic price of HRC only dropped 3.1% yoy, while MEPS carbon steel price index declined by 4.8% in FY14. Weak steel price helped SMSM expand its gross margin by almost 300bps to 29.8% in FY14. We expect this level to sustain throughout FY15, especially with soft steel prices.

**Body maker to revive.** The body maker division was hit hard when coal prices plunged as demand for dump trucks declined significantly. Since last year, the management has initiated a new initiative to manufacture body makers for cement mixing trucks. Rising demand from infrastructure helped the body maker division to recover, but it is yet to return to its peak performance. Quarterly gross profit reached Rp4-5bn in 3Q-4Q14 compared to only Rp2bn in the first two quarters. At its peak, the division was able to generate Rp15-20bn each quarter.

**Maintain Hold.** SMSM's management will stick to its strategy to concentrate on the export filter market, especially with weak demand in the domestic market. The recovery in US and Europe could be a catalyst for SMSM, despite the slower growth in China. Weaker Rupiah will provide short-term benefit on earnings. Recently, the share price has corrected significantly, which we think is against its solid fundamentals. We have upgraded our earnings by 15.3% for FY15 and 9.8% for FY16, to reflect margin expansion. Nevertheless, we think that profit margin will normalize in the long run. As a result our target price is slightly upgraded to Rp5,350, translating to PER FY15-16 of 17.9-15.3x and EV/EBITDA FY15-16 of 10.8-9.2x, but maintain our Hold rating as valuation looks rich.

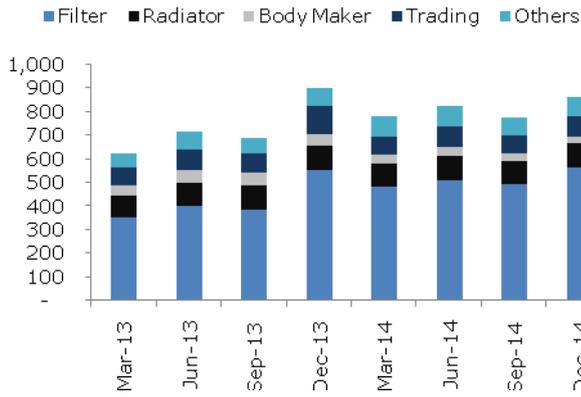
Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Revenue(RpBn)	2,373	2,633	2,952	3,338	3,741
EBITDA(RpBn)	524	656	706	805	907
EBITDA Growth (%)	3.8	25.3	7.5	14.1	12.6
Net Profit(RpBn)	308	390	430	505	584
EPS (Rp)	214	271	299	350	406
EPS Growth (%)	40.6	26.7	10.2	17.3	15.8
Net Gearing (%)	23.2	16.0	(4.0)	(16.3)	(26.7)
PER (x)	22.9	18.1	16.4	14.0	12.1
PBV (x)	7.0	6.2	5.0	4.1	3.4
Dividend Yield (%)	2.3	2.8	2.7	3.2	3.7
EV/EBITDA (x)	13.6	11.0	9.9	8.4	7.2

Source : SMSM,IndoPremier

Share Price Closing as of : 13-April-2015

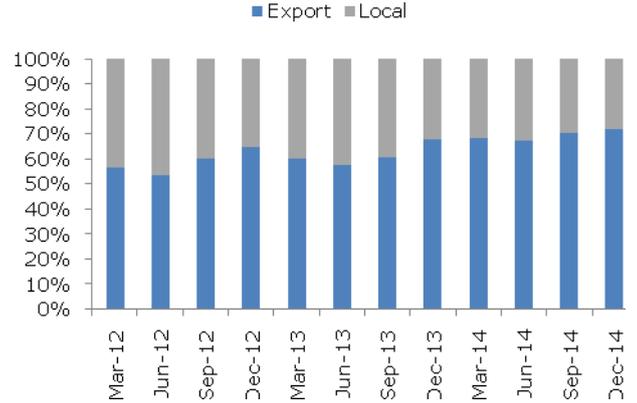
# SMSM Company Update

**Fig. 1: Quarterly sales breakdown (Rpbn)**



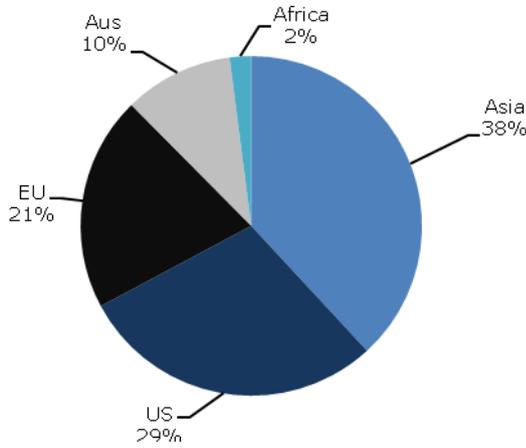
Source : SMSM

**Fig. 2: Export remains a large portion**



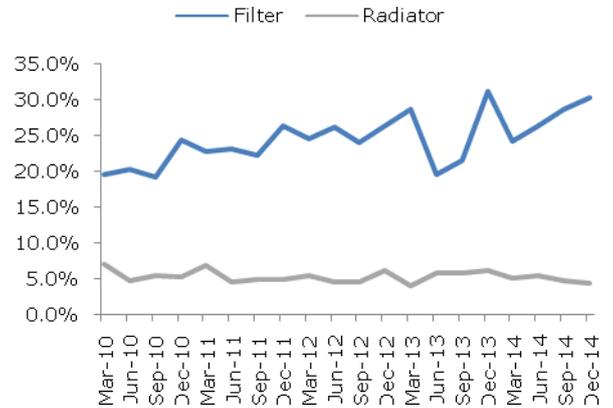
Source : SMSM

**Fig. 3: Main export destination**



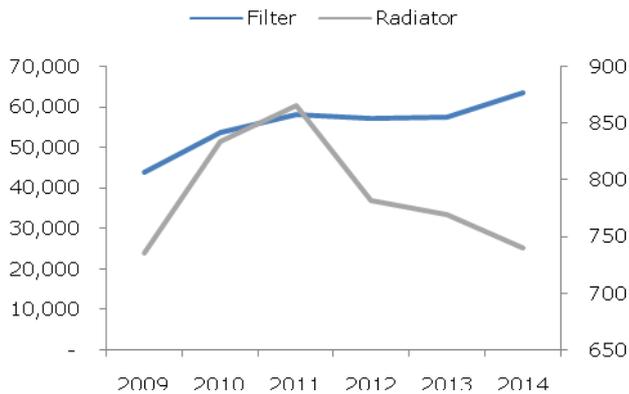
Source : SMSM

**Fig. 4: Quarterly margins of Filter and radiator**



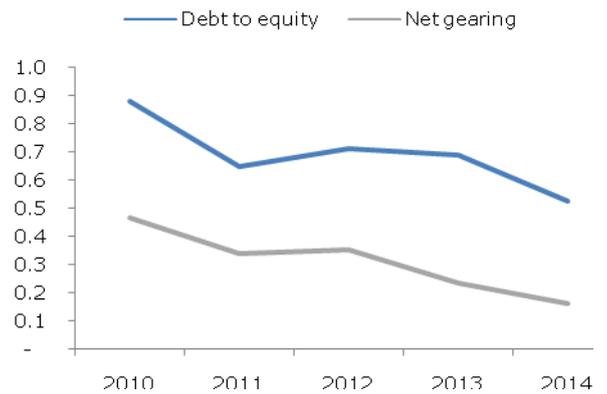
Source : SMSM

**Fig. 5: Production volume of Filter and Radiator ('000 units)**



Source : SMSM

**Fig. 6: Declining gearing with absence of major capex**



Source : SMS

## SMSM Company Update

**Fig 9: Financial Result FY14 highlights**

Rp bn	FY14	FY13	+/- %	4Q14	3Q14	+/- %	FY14 F	% of forecast
Revenue	2,633	2,373	11.0	700	637	9.9	2,671	98.6%
Gross profit	785	638	23.1	231	196	18.0	660	118.9%
Op Profit	548	421	30.1	145	146	(0.1)	423	129.7%
Pre tax income	541	459	18.0	146	143	2.1	402	134.5%
Net income	390	308	26.6	117	85	37.3	314	124.3%
GPM	29.8	26.9		33.0	30.8		24.7	
OPM	20.8	17.8		20.8	22.9		15.8	
NPM	14.8	13.0		16.7	13.4		15.1	

Source: SMSM, IndoPremier

**Fig 8: Earnings revision**

Rp bn	FY15			FY16		
	Old	New	+/- %	Old	New	+/- %
Revenue	3,035	2,952	-2.7	3,433	3,338	-2.8
EBITDA	633	706	11.5	732	805	10.0
Net profit	373	430	15.3	448	505	12.6

Source: IndoPremier

## SMSM Company Update

Year To 31 Dec (RpBn)	2013A	2014A	2015F	2016F	2017F
<b>Income Statement</b>					
Net Revenue	2,373	2,633	2,952	3,338	3,741
Cost of Sales	(1,735)	(1,848)	(2,100)	(2,366)	(2,643)
Gross Profit	638	785	851	973	1,099
SG&A Expenses	(216)	(237)	(264)	(292)	(324)
Operating Profit	421	548	587	680	775
Net Interest	(27)	(24)	(7)	1	13
Forex Gain (Loss)	0	0	0	0	0
Others-Net	64	17	0	0	0
Pre-Tax Income	459	541	580	681	788
Income Tax	(108)	(120)	(128)	(150)	(173)
Minorities	(30)	(30)	(23)	(27)	(31)
Net Income	308	390	430	505	584
<b>Balance Sheet</b>					
Cash & Equivalent	93	76	157	379	651
Receivable	561	575	607	687	770
Inventory	398	432	460	519	579
Other Current Assets	45	51	57	65	73
Total Current Assets	1,097	1,134	1,282	1,649	2,073
Fixed Assets - Net	492	493	475	450	418
Goodwill	0	0	0	0	0
Non Current Assets	70	74	74	74	74
Total Assets	1,701	1,749	1,880	2,222	2,614
ST Loans	146	132	0	0	0
Payable	164	152	0	194	217
Other Payables	122	101	108	122	136
Current Portion of LT Loans	66	127	0	0	0
Total Current Liab.	498	513	281	316	353
Long Term Loans	115	0	101	101	101
Other LT Liab.	82	89	92	95	98
Total Liabilities	694	603	474	512	552
Equity	193	194	194	194	194
Retained Earnings	644	811	1,048	1,325	1,647
Minority Interest	169	142	164	191	222
Total SHE + Minority Int.	1,007	1,147	1,406	1,710	2,062
Total Liabilities & Equity	1,701	1,749	1,880	2,222	2,614

Source : SMSM, IndoPremier

## SMSM Company Update

Year to 31 Dec	2013A	2014A	2015F	2016F	2017F
<b>Cash Flow</b>					
Net Profit	338	420	453	531	615
Depr. & Amortization	103	102	118	125	131
Changes in Working Capital	3	(77)	(36)	(112)	(117)
Others	2	(6)	(12)	(29)	(39)
Cash Flow From Operating	458	441	522	515	591
Capital Expenditure	(133)	(107)	(100)	(100)	(100)
Others	2	6	6	14	26
Cash Flow From Investing	(131)	(101)	(94)	(86)	(74)
Loans	(54)	(68)	(158)	0	0
Equity	7	0	0	0	0
Dividends	(166)	(195)	(193)	(227)	(263)
Others	(126)	(56)	9	13	18
Cash Flow From Financing	(339)	(318)	(342)	(214)	(245)
Changes in Cash	(12)	22	86	215	272
<b>Financial Ratios</b>					
Gross Margin (%)	26.9	29.8	28.8	29.1	29.4
Operating Margin (%)	17.8	20.8	19.9	20.4	20.7
Pre-Tax Margin (%)	19.3	20.6	19.7	20.4	21.1
Net Margin (%)	13.0	14.8	14.6	15.1	15.6
ROA (%)	18.9	22.6	23.7	24.6	24.2
ROE (%)	32.1	36.2	33.7	32.4	31.0
ROIC (%)	28.4	32.5	32.2	35.0	34.3
Acct. Receivables TO (days)	78.8	78.5	73.0	70.7	71.0
Acct. Receivables - Other TO (days)	0.4	0.2	0.1	0.1	0.1
Inventory TO (days)	4.2	4.5	4.7	4.8	4.8
Payable TO (days)	27.5	31.2	28.2	28.3	28.4
Acct. Payables - Other TO (days)	0.8	0.6	0.7	0.7	0.7
Debt to Equity (%)	32.5	22.6	7.2	5.9	4.9
Interest Coverage Ratio (x)	0.1	0.1	0.0	0.0	0.0
Net Gearing (%)	23.2	16.0	(4.0)	(16.3)	(26.7)

Source : SMSM, IndoPremier

## Head Office

### PT INDO PREMIER SECURITIES

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

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