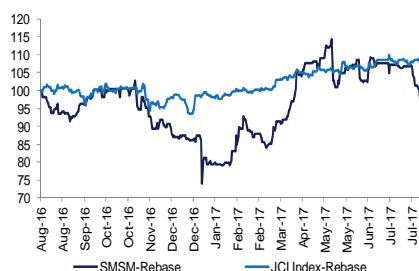


BUY (Upgrade)

StockData	
Target price (Rp)	Rp1,350
Prior TP (Rp)	Rp960
Shareprice (Rp)	Rp1,080
Upside/downside (%)	+25.0
Sharesoutstanding (m)	5,759
Marketcap. (US\$ m)	467
Free float (%)	15.8
Avg. 6m dailyT/O (US\$ m)	0.2

Price Performance			
	3M	6M	12M
Absolute (%)	-13.9	16.1	0.2
Relative to JCI (%)	-16.4	7.5	-6.9
52whigh/low (Rp)	1,280 - 830		



Major Shareholders	
Adrindo Intiperkasa	58.1%

Estimate Change; Vs. Consensus		
	2017F	2018F
Latest EPS (Rp)	82	88
Vs. Prior EPS (%)	+2.8	+4.4
Vs. Consensus (%)	n.a	n.a

Source: Bloomberg

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Early anticipation

- Gradual shift towards heavy equipment filter
- Weaker 2Q17 is expected
- Outstanding growth record
- Upgrade to Buy, TP Rp1,350

Heavy equipment filter, a new growth prospect. Automotive filtration product remains a significant contributor to revenue and profitability of Selamat Sempurna. Filtration product account about 60% of total revenue while 65% of gross profit in FY16. In anticipation of rising popularity of electric vehicle (EV), Selamat Sempurna penetrated the filtration product for heavy machinery. EV products will barely use any filtration products, while heavy machineries are not likely to be replaced by electric motor anytime soon. With the recovery of the commodity prices, demand for heavy equipment has increased significantly. Therefore, we expect a healthy contribution from heavy equipment filtration products.

Soft 2Q17 performance. Selamat Sempurna posted a relatively weaker 2Q17 for two reasons: 1) exceptionally high 1Q17 revenue due to carry over from 4Q16 2) seasonality due to Ramadhan holidays which affected logistics and shipment. Nevertheless we expect normalized revenue in 3Qand 4Q. Topline was able to grew +11.6% yoy in 1H17, but negated by increase of COGS and other costs, leaving the net profit only inched up +2.0% yoy. Revenue and net income was down -2.7% qoq and -10.6% qoq in 2Q17, respectively.

Strong record of growth. We think that Selamat Sempurna is an exceptional company proven by its long growth performance of 24 years for nominal revenue and 14 years for net profit. We view Selamat Sempurna among the few companies that has been able to book 14 years of consecutive growth in net profit. This is solid proof a consistent and prudent management. Selamat Sempurna puts weight on profitability rather than market share due to the fact the company is penetrating the global market, leaving tremendous market opportunity.

Upgrade to Buy. We upgrade our rating to Buy from previously Hold with a new target price of Rp1,350. We are positive on Selamat Sempurna to concentrate more on heavy equipment filtration products and to service the replacement market rather than OEM. Nevertheless, rising steel price would be a challenge to maintain margins. So far, Selamat Sempurna has been able to manage its profitability. Our DCF-target price translates to PER FY17-18 of 16.4-15.3x.

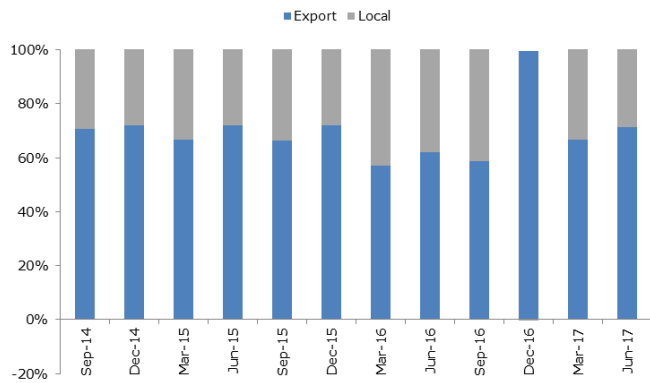
Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	2,803	2,880	3,109	3,365	3,647
EBITDA (RpBn)	694	740	758	806	917
EBITDA Growth (%)	5.7	6.7	2.5	6.2	13.8
Net Profit (RpBn)	428	453	473	506	596
EPS (Rp)	74	79	82	88	104
EPS Growth (%)	9.6	5.9	4.4	7.1	17.7
Net Gearing (%)	13.2	3.8	(2.6)	(12.2)	(22.1)
PER (x)	14.5	13.7	13.2	12.3	10.4
PBV (x)	4.3	3.9	3.3	2.8	2.4
Dividend Yield (%)	1.2	3.4	3.4	3.7	4.3
EV/EBITDA (x)	9.2	8.5	8.1	7.4	6.2

Source: SMSM, IndoPremier

Share Price Closing as of : 2-August-2017

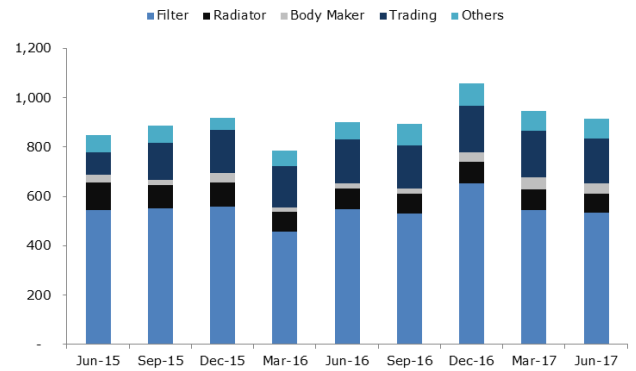
SMSM Company Update

Fig. 1: Revenue breakdown by destination



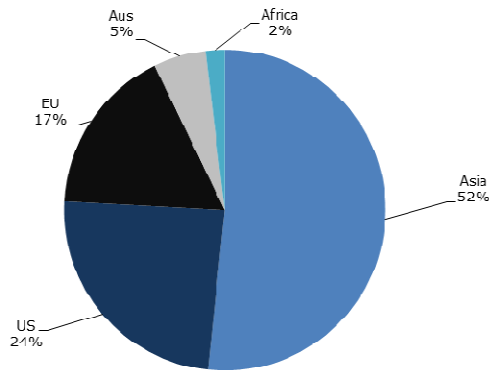
Source: SMSM

Fig. 2: Quarterly revenue breakdown by products



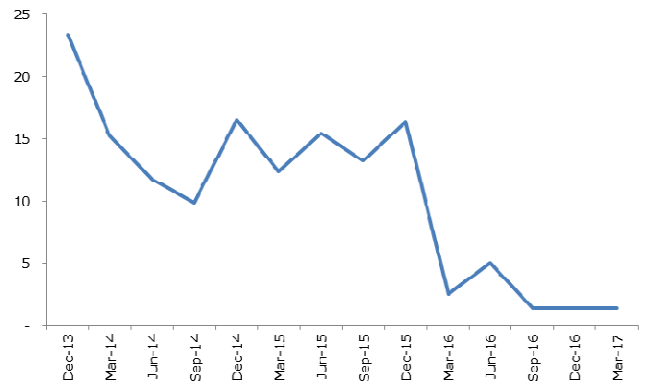
Source: SMSM

Fig. 3: Export sales break down by region



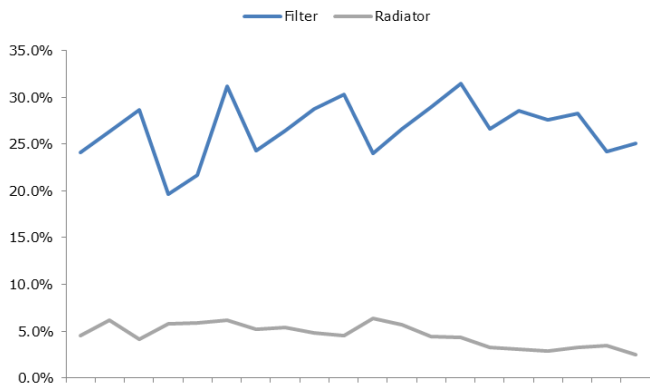
Source: SMSM

Fig. 4: Net gearing (%)



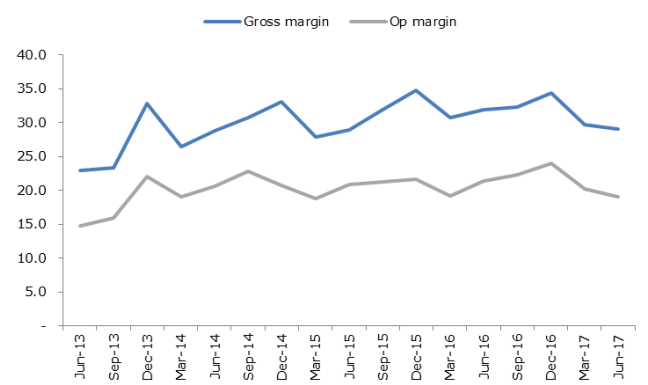
Source: SMSM

Fig. 5: Quarterly margin of filter and radiator



Source: SMSM

Fig. 6: Consolidated gross and operating margin (%)



Source: SMSM

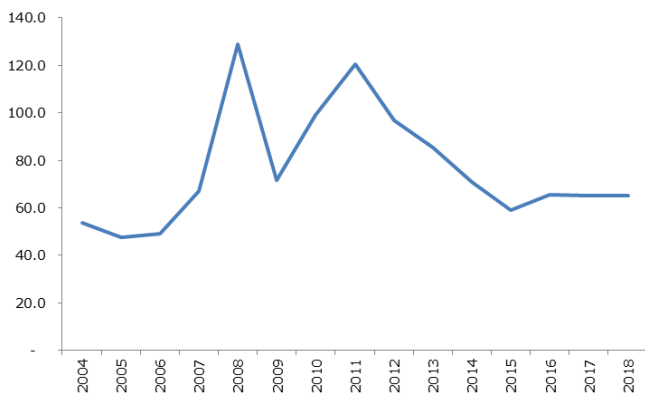
SMSM Company Update

Adjusting to new trends

Ordinary combustion engine will at least require three type filtration products, air filter, oil filter and fuel filter, of which will need to be change regularly. Nevertheless, with concern over carbon emission, electrical vehicle (EV) gained popularity and is expected for higher acceptance. However, EV automaker are still struggling with battery technology to get higher battery capacity and faster recharging. These EV will not use any filter, which will be bad news for Selamat Sempurna. Despite, there will be no significant change overnight, EVs will be the new trend in coming years. Additionally, Selamat Sempurna is dependent on the replacement market. With combustion engines still around for couple of years, there should be sufficient demand for filtration products.

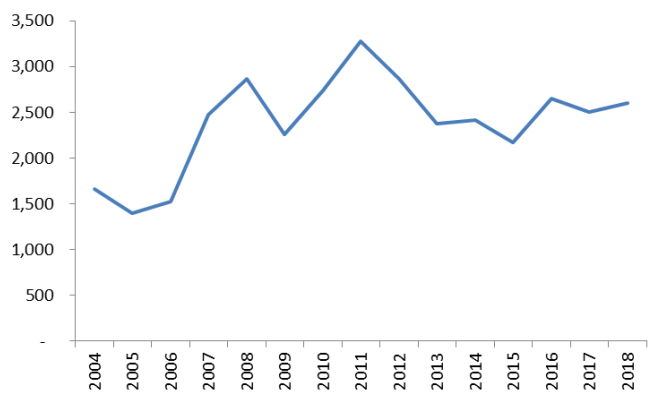
On the other hand, there no clear substitute for heavy equipment which requires high torque. This is requirement is provided by diesel engines. Currently, electrical motor are not able to generate high torque but rather high RPM. Therefore, heavy equipment machinery will still be around until technology development could replace diesel engines. These diesel engines will require air, oil and fuel filters. Therefore, Selamat Sempurna decided to increase penetration of filtration products for heavy equipment.

Fig. 7: Coal price benchmark (US\$/ton)



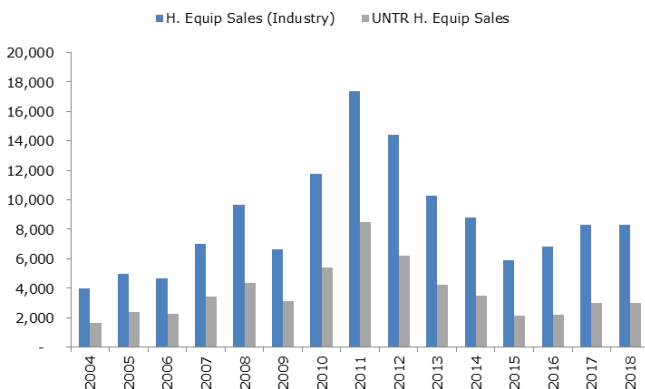
Source: Bloomberg

Fig. 8: CPO price (MYR/ton)



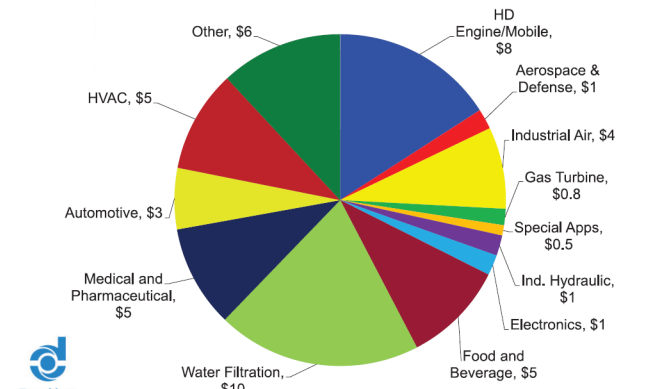
Source: Bloomberg

Fig 9 : Heavy equipment sales volume



Source: HIMABI, UNTR

Fig. 10: US\$50bn filtration market

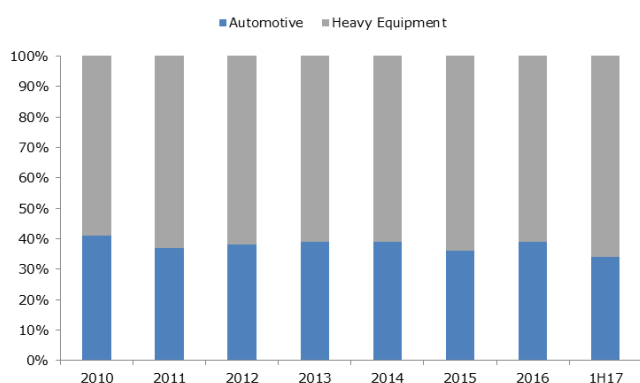


Source: Donaldson

The heavy equipment filtration product has gross margin of 40-45% compared to automotive filtration product of 30-35%. Moreover, the heavy equipment market is less competitive due to higher specification. Demand from heavy equipment should be less volatile due to 24-hours operation. Nevertheless, demand from heavy equipment segment varies with commodity prices. With recent surge in commodity prices, we expect a positive correlation for demand in spare parts including filtration product.

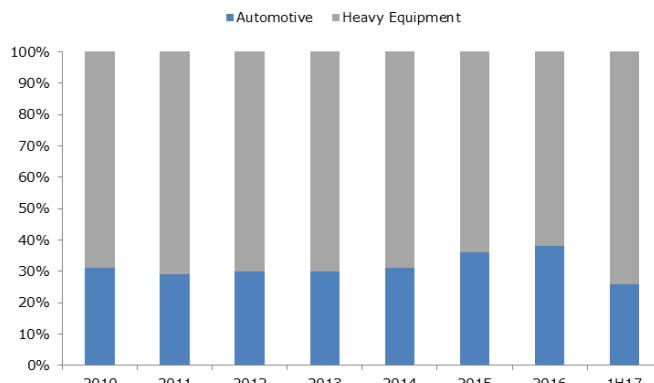
SMSM Company Update

Fig 11 : Export filter breakdown by type



Source: SMSM

Fig. 12: Domestic filter breakdown by type



Source: SMSM

For further diversification, Selamat Sempurna explores the possibility to produce air filter for buildings. Trend in advance economies indicates higher health awareness, which translate into air purifier. Such device will be equipped with air filter to improve air quality. With growing economy, Indonesia's health awareness might also improve, especially in large cities. This could be the next thing as demand from automotive tends to mature.

Diversification of procurement of steel and filter

Previously, most of raw materials of steel and filter is procured from South Korea. With escalating political tension in the Korea Peninsula, Selamat Sempurna decided to look for alternative procurement from China. This strategy has been successful implemented as Korea-China procurement has reached 50:50. We think that the company has optimized its procurement strategy with rising political tension in Korea.

Strong balance sheet

As of Mar17, Selamat Sempurna's balance sheet is nearly debt free. Routine capex is expected to reach Rp150bn for FY17 and FY18, as the company plans to rejuvenate its machinery to maintain service level performance. Usually, the company spends capex of only Rp100bn mostly used for dice molding. With EBITDA of Rp789bn in FY17 and Rp839bn in FY18, the company has sufficient room for acquisition activity. Selamat Sempurna has addressed its intention for vertical integration to the downstream. Upstream integration is less likely due to lack of economical scale. Furthermore, the management will maintain dividend payout at a minimum of 45%. Higher DPO will largely depend on capex and absence of acquisition. Based on our estimate, 45% DPO will translate to a yield of 3.3-3.5% in FY17-18.

Excellent growth record

Selamat Sempurna posted an excellent record of both sales and net profit. Sales did grow in 24 consecutive years resulting a CAGR FY92-16 of 23%, while net profit grew in consecutive 14 years, posting a CAGR FY02-16 of 17%. We did a cross check based on Bloomberg data base that goes back only 10 years. There were only 15 companies that were able to post net profit growth in consecutive 10 years. Therefore, Selamat Sempurna's achievement is outstanding showing strong commitment from the shareholders and management for sustainable growth.

Fig 13: List of companies with 10-years consecutive growth

1	BBRI	9	PTPP
2	BBCA	10	KAEF
3	ICBP	11	ROTI
4	BFIN	12	MAYA
5	MKPI	13	MREI
6	WIKA	14	BACA
7	JRPT	15	EKAD
8	ACES		

Source: Bloomberg, IndoPremier

SMSM Company Update

Normalized coming quarters.

Selamat Sempurna booked net income growth of +2.0% yoy in 1H17, mainly affected by seasonality. In 1Q17, net profit grew 22.4% yoy due to support by delayed delivery from 4Q16 which were booked in 1Q17. Entering 2Q17, net profit fell -10.6% qoq affected by Ramadhan holidays when 10 days were ineffective. We expect normalized sales and net profit growth in 3Q and 4Q, which will lead to a sales growth of 8.0% yoy in FY17 and net profit growth of 4.4% yoy.

Fig 14: 1H17 result highlights

	1H17	1H16	+/- %	2Q17	1Q17	+/- %	FY17F	% of forecast
Revenue	1,494	1,338	11.6	737	757	(2.7)	3,109	48.0%
Gross profit	439	419	4.6	214	225	(4.7)	969	45.3%
Op Profit	293	272	7.7	140	153	(8.1)	637	46.0%
Pre tax income	312	293	6.4	148	164	(9.5)	672	46.4%
Net income	213	208	2.0	100	112	(10.6)	473	44.9%
GPM	29.4	31.3		29.1	29.7		31.2	
OPM	19.6	20.3		19.1	20.2		20.5	
NPM	14.2	15.6		13.6	14.8		21.6	

Source: SMSM

Fig 15: Earnings revision summary

	FY17			FY18		
	Old	New	+/- %	Old	New	+/- %
Revenue	3144	3,109	-1.1%	3449	3,365	-2.4%
EBITDA	756	758	0.3%	788	806	2.2%
Net profit	460	473	2.8%	485	506	4.4%

Source: IndoPremier

SMSM Company Update

Year To 31 Dec (RpBn)	2015A	2016A	2017F	2018F	2019F
Income Statement					
Net Revenue	2,803	2,880	3,109	3,365	3,647
Cost of Sales	(1,933)	(1,946)	(2,140)	(2,330)	(2,479)
Gross Profit	870	934	969	1,035	1,168
SG&A Expenses	(289)	(305)	(332)	(360)	(391)
Operating Profit	581	629	637	674	777
Net Interest	(21)	(12)	(7)	1	24
Forex Gain (Loss)	0	0	0	0	0
Others-Net	24	41	42	45	47
Pre-Tax Income	584	658	672	720	848
Income Tax	(122)	(156)	(148)	(158)	(187)
Minorities	(34)	(49)	(51)	(55)	(65)
Net Income	428	453	473	506	596
Balance Sheet					
Cash & Equivalent	123	97	151	349	578
Receivable	614	738	797	862	935
Inventory	561	555	611	665	707
Other Current Assets	71	65	70	75	82
Total Current Assets	1,369	1,454	1,628	1,952	2,302
Fixed Assets - Net	715	658	687	706	696
Goodwill	0	0	0	0	0
Non Current Assets	70	87	87	87	87
Total Assets	2,220	2,255	2,457	2,800	3,140
ST Loans	77	105	0	0	0
Payable	177	246	0	192	204
Other Payables	143	118	130	142	151
Current Portion of LT Loans	141	10	0	0	0
Total Current Liab.	538	479	306	333	354
Long Term Loans	95	42	101	78	0
Other LT Liab.	147	154	158	163	168
Total Liabilities	780	675	565	574	522
Equity	194	194	194	194	194
Retained Earnings	1,026	1,184	1,444	1,723	2,051
Minority Interest	220	202	254	309	374
Total SHE + Minority Int.	1,440	1,580	1,892	2,225	2,618
Total Liabilities & Equity	2,220	2,255	2,457	2,800	3,140

Source: SMSM, IndoPremier

SMSM Company Update

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	461	502	524	562	661
Depr. & Amortization	96	92	121	131	140
Changes in Working Capital	(81)	(98)	(179)	(100)	(100)
Others	(12)	(7)	(38)	(50)	(84)
Cash Flow From Operating	464	490	428	543	618
Capital Expenditure	(314)	(53)	(150)	(150)	(130)
Others	7	16	6	13	24
Cash Flow From Investing	(307)	(38)	(144)	(137)	(106)
Loans	54	(157)	(56)	(23)	(78)
Equity	0	0	0	0	0
Dividends	(72)	(209)	(213)	(228)	(268)
Others	53	(34)	38	43	65
Cash Flow From Financing	35	(399)	(230)	(207)	(282)
Changes in Cash	192	54	54	199	229
Financial Ratios					
Gross Margin (%)	31.0	32.4	31.2	30.8	32.0
Operating Margin (%)	20.7	21.8	20.5	20.0	21.3
Pre-Tax Margin (%)	20.8	22.9	21.6	21.4	23.2
Net Margin (%)	15.3	15.7	15.2	15.1	16.4
ROA (%)	21.5	20.2	20.1	19.3	20.1
ROE (%)	33.1	30.0	27.2	24.6	24.6
ROIC (%)	29.9	29.7	29.3	27.8	29.2
Acct. Receivables TO (days)	76.4	84.2	88.9	88.8	88.7
Acct. Receivables - Other TO (days)	1.0	1.5	1.2	1.2	1.2
Inventory TO (days)	3.9	3.5	3.7	3.7	3.6
Payable TO (days)	31.1	39.6	36.0	28.8	29.1
Acct. Payables - Other TO (days)	5.1	5.6	1.8	1.8	1.8
Debt to Equity (%)	21.8	9.9	5.4	3.5	0.0
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	13.2	3.8	(2.6)	(12.2)	(22.1)

Source: SMSM, IndoPremier

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

The views expressed in this research report accurately reflect the analysts personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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