

## 1Q20: Softer revenue partially offset by forex gain

### Quick Note

#### Net profit reached IDR115bn in 1Q20 (-8% y-y; -32% q-q)

Net profit performance was supported by a forex gain on IDR depreciation amid a softer revenue environment and implies 21% of our FY20F (relatively in line, see *Fig. 1* for details). 1Q20 revenue already showed softness due to the COVID-19 pandemic, although lockdowns started only toward the end of the quarter, with revenue declining 10% y-y and 30% q-q to IDR803bn, or 21% of our FY20 forecast. GP margin in 1Q20 was resilient at 30.4% (+0.6pp y-y) despite EBIT margin slightly contracting to 19.1% (-0.7pp y-y) due to higher salary expense.

#### Domestic and trading segment performed better

Domestic revenue in 1Q20, albeit lower, was more resilient at -5% y-y compared to exports at -12% y-y, as several countries started to implement strict lockdown measures, which also hindered product delivery. SMSM management mentioned that June has started to show early signs of positive recovery from the export market due to a number of countries easing their lock-down measures. Among segments, trading performed the best, with pre-elimination revenue growing +8% y-y, while filter was softer at -12% y-y and carrosserie (body maker) performed the worst at -25% y-y. Despite this, pre-elimination GP margin for filter remained quite resilient along with trading segment margin (see *Fig. 2*).

#### Valuation and recommendation

We maintain our Buy call on SMSM with TP of IDR1,350, as we expect SMSM to benefit from gradual resumption in global economic activity through increase in auto parts demand and will continue to deliver resilient margins on the back of its operational efficiency. Our target price is derived from a FY21F target P/E multiple of 13.7x, which is at its historical mean. Downside risks: sharp IDR appreciation, prolonged lock-down due to COVID-19, and significant jump in raw material costs. The stock is currently trading at a FY21F P/E of 10.9x and offers dividends yielding 5.2-5.7% for FY20F-22F.

Rating Remains	Buy
Target price Remains	IDR 1,350
Closing price 26 June 2020	IDR 1,080

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Fig. 1: SMSM 1Q20 results

IDR bn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	% y-y	% q-q	%FY20F
Revenue	888	905	1,059	1,081	891	881	1,013	1,150	803	-10%	-30%	21%
GP	253	240	344	355	266	236	328	363	244	-8%	-33%	21%
EBIT	173	154	260	231	177	145	231	240	153	-13%	-36%	20%
Net interest	(1)	(2)	(3)	(1)	(1)	(1)	(2)	(1)	(2)			
FX gain (loss)	-	-	-	24	(7)	(2)	2	(10)	106			
Associates	1	1	2	(0)	2	2	1	1	2			
Others	-	-	-	(11)	8	12	12	15	(81)			
Pre-tax profit	177	155	259	237	179	154	245	244	178	0%	-27%	23%
NP	119	102	179	157	125	109	174	170	115	-8%	-32%	21%
GP margin	28.5%	26.6%	32.5%	32.9%	29.8%	26.7%	32.3%	31.5%	30.4%	0.6%	-1.2%	
EBIT margin	19.5%	17.0%	24.6%	21.4%	19.8%	16.4%	22.8%	20.8%	19.1%	-0.7%	-1.7%	
NP margin	13.4%	11.2%	16.9%	14.5%	14.0%	12.4%	17.1%	14.8%	14.3%	0.3%	-0.4%	

Source: Company data, Nomura estimates

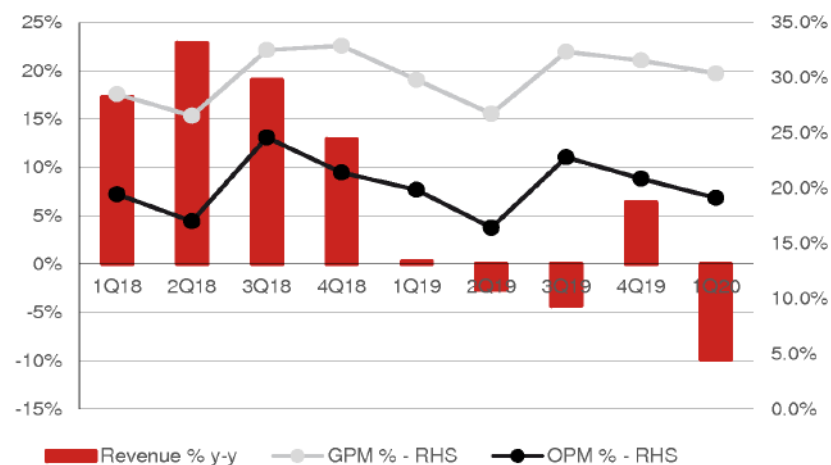
Fig. 2: Revenue and GP breakdown

IDR'bn

Revenue	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	% y-y	% q-q
Domestic	308	299	363	351	308	284	355	410	293	-5%	-28%
Export	580	606	696	730	583	598	659	740	510	-12%	-31%
Revenue (pre-elim)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	% y-y	% q-q
Filter	658	639	751	848	659	668	721	810	579	-12%	-29%
Radiator	75	76	93	85	79	78	92	99	81	3%	-18%
Body maker	73	87	104	60	48	55	86	98	36	-25%	-63%
Trading	210	208	239	232	227	198	280	283	245	8%	-13%
Others	104	91	113	123	105	82	99	108	92	-13%	-15%
Gross profit (pre-elim)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	% y-y	% q-q
Filter	148	135	219	232	154	144	189	237	132	-14%	-44%
Radiator	15	15	25	24	18	17	26	35	20	11%	-43%
Body maker	16	21	19	17	7	10	15	16	2	-69%	-86%
Trading	60	58	67	73	64	58	82	71	72	11%	1%
Others	16	9	18	19	18	7	19	14	13	-28%	-7%
GPM % (pre-elim)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	y-y (ppt)	q-q (ppt)
Filter	22.4%	21.1%	29.1%	27.3%	23.3%	21.5%	26.2%	29.3%	22.8%	-0.5%	-6.5%
Radiator	20.2%	19.4%	27.3%	28.2%	22.5%	22.0%	27.7%	35.1%	24.3%	1.7%	-10.9%
Body maker	22.2%	24.3%	18.1%	28.1%	14.4%	17.7%	17.0%	16.3%	5.9%	-8.5%	-10.3%
Trading	28.4%	27.9%	28.2%	31.6%	28.4%	29.5%	29.2%	25.0%	29.2%	0.8%	4.2%
Others	15.7%	9.5%	15.4%	15.7%	16.9%	8.7%	19.0%	12.7%	13.9%	-3.0%	1.2%

Source: Company data, Nomura estimates

Fig. 3: SMSM's profitability trend



Source: Company data, Nomura estimates

# Appendix A-1

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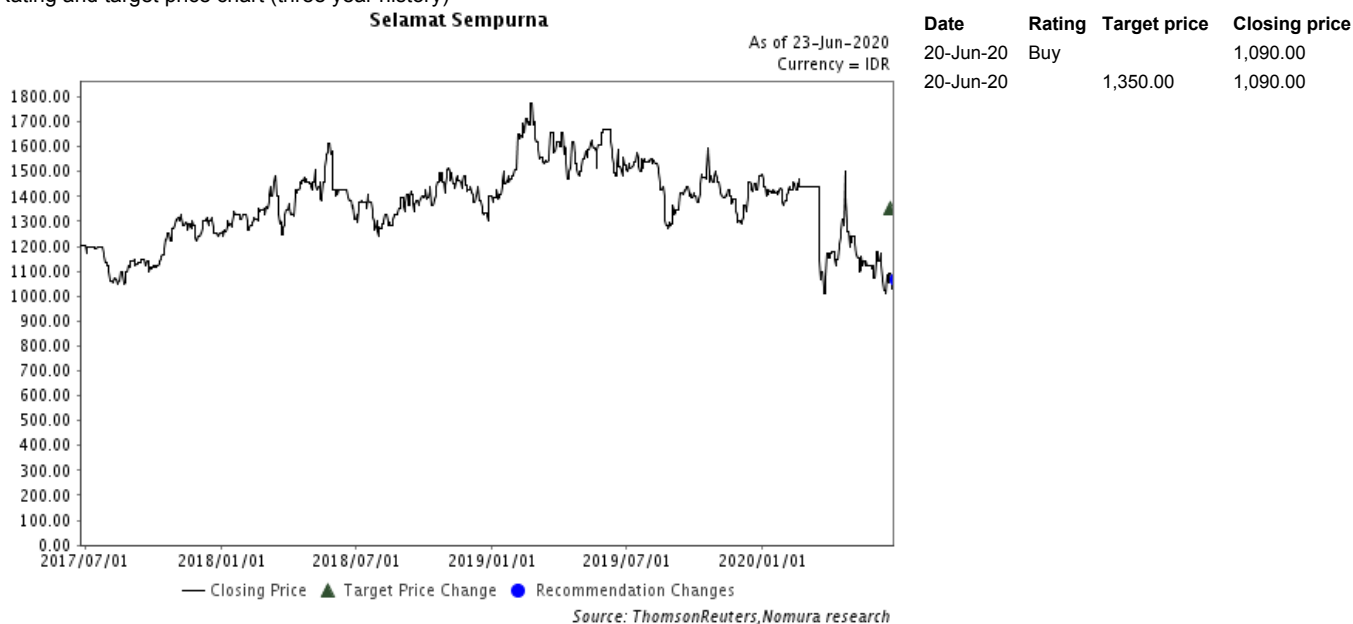
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Selamat Sempurna	SMSM IJ	IDR 1,080	26-Jun-2020	Buy	N/A	

### Selamat Sempurna (SMSM IJ)

IDR 1,080 (26-Jun-2020) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our target price of IDR 1,350 is based on FY21F target P/E multiple of 13.7x, which is at their historical mean. The benchmark index of the stock is JCI Index.

**Risks that may impede the achievement of the target price** Downside risks: sharp IDR appreciation, prolonged economy lock-down due COVID-19 pandemic, and significant increase in raw material prices.

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