

Selamat Sempurna

Sector: Consumer discretionary (Neutral)

NOT RATED

Rating momentum*: ↓

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PX: IDR3,785
JCI: 4,843

Company visit note: Not so "perfectly safe"?

Refreshment market producer

Selamat Sempurna (SMSM IJ-NOT RATED-IDR3,785) was founded in 1976 by ADR Group, and currently it has become one of the largest filter and radiator manufacturers in the region. Currently, the company produces 6,000 filter SKUs in Belitung, Tangerang with a 40% market share in the region and 2,000 radiator SKUs in Kapuk, Jakarta. SMSM mainly focuses on the refreshment market or original replacement, which accounts for 95% of its total sales. On an average, the company sells original replacements at about 40% discount to original equipment manufacturer (OEM) products. SMSM currently has 4 subsidiaries and 2 associate companies. Its sole distributor, PT Prapat Tunggal Cipta, is wholly owned by SMSM (exhibit 5).

Sensitivity analysis: For every -10% USD/IDR, -17% net profit

We have done a sensitivity analysis for SMSM, and we note that for every 10% depreciation in USD/IDR, SMSM's sales in IDR terms drops by about 6.2% (In 2013, 62% of its total sales came from exports mainly in USD account receivable) (exhibit 6). However, SMSM also imports raw materials primarily from South Korea in USD, accounting for 45% of its COGS, thus COGS eventually should drop by about 4.5%. Note that the company hedges its risks through USD16mn in derivative payable, and SMSM reported IDR19.4bn derivative loss in 2013. Overall, this scenario could result in net profit falling by about 17%. Likewise, in 2013 USD/IDR appreciated by some 20% in 2H13, resulting in SMSM's net profit increasing by 30%, after factoring out the gain on sale from fixed assets net of tax.

Substantial forex and extraordinary gains in 2013

SMSM reported IDR308bn in net profits, translating into net margin increase to 14.3% in 2013 from 11.2% in 2012, and EPS growth reached 40%. As mentioned earlier, due to USD/IDR appreciation, SMSM booked IDR51bn in foreign exchange gains from USD account receivables. SMSM also sold a piece of land in Sidoarjo and booked gain of IDR33bn. On the back of 33% sales decline at one of its subsidiaries, PT Hydraxle Perkasa, that sells carrosserie for mining and CPO heavy equipment, SMSM reported much slower EBIT growth of 8.3% in 2013 compared to 18.4% in 2012. Operating profit was helped by the company's efforts in increasing labor efficiency.

Outlook & valuation: Bearish on coal and plantation sector

According to company's guidance, sales growth in 2014F is expected around 10-15%, mostly generated from volume increase in filter and radiator sales. The company has no plan to increase prices as its raw material prices are steady. Capex for this year is expected at IDR100bn, mainly for maintenance and equipment upgrades. As such, we expect USD/IDR to depreciate to about IDR11,300 by the end of 2014 (-7.7% from IDR12,17). We remain bearish on coal and plantation sector, and this should adversely impact the carrosserie sales in 2014E.

Exhibit 1. Company information

Market cap (IDRt/USD\$)	: 5.2/0.5
3M avg.daily t.o.(IDRm/USDk)	: 425/37
Bloomberg code	: SMSM IJ

Exhibit 2. Shareholders information

PT Adrindo Intiperkasa (%)	: 58.1
Djojo Hartono (%)	: 2.3
Surja Hartono (%)	: 2.3
Others (%)	: 3.8
Free Float (%)	: 33.5

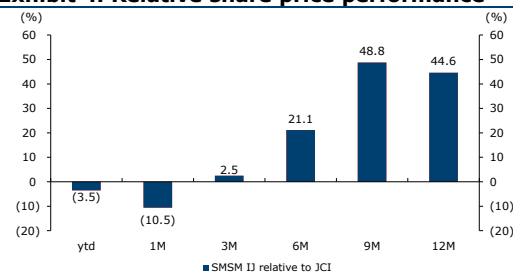
Source: Company

Exhibit 3. Key forecasts and valuations

	2011	2012	2013	1Q14
Sales (IDRb)	2,072	2,269	2,373	628
Net profit (IDRb)	212	219	308	83
EPS (IDR)*	147	152	214	231
EPS growth (%)*	41	3	40	8
EV/EBITDA (x)	15	13	12	42
P/E (x)*	26	25	18	16
BVPS (IDR)	544	632	699	761
PBV (x)	7	6	5	5
DPS (IDR)	85	130	85	-
Yield (%)	2	3	2	-

Source: Company *annualized
Pricing as of 5 May 2014

Exhibit 4. Relative share price performance



Source: Bloomberg

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*Based on consensus' recent changes ↑ (up), ↓ (down), ↔ (unchanged)

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Selamat Sempurna

Year to 31 December	2010	2011	2012	2013	1Q14
PROFIT & LOSS (IDRb)					
Sales	1,562	2,072	2,269	2,373	628
Gross profit	369	502	600	638	166
EBITDA	232	335	402	432	122
Depreciation & amortization	5	7	13	11	2
EBIT	228	328	389	421	120
Net interest income/(expense)	(22)	(30)	(28)	(27)	(7)
Forex gain/(losses)	(5)	2	11	51	(16)
Other income/(expense)	4	8	(2)	14	22
Pre-tax profit	205	310	370	459	119
Taxes	(40)	(68)	(83)	(108)	(30)
Minority interest	(14)	(29)	(35)	(30)	(6)
Proforma adjustment	-	-	(32)	(13)	-
Net profit	150	212	219	308	83

Substantial forex loss due to USD/IDR depreciation in 1Q14

BALANCE SHEET (IDRb)

Cash and equivalents	14	18	63	93	121
Trade receivables	314	394	469	561	521
Inventories	307	380	425	398	410
Fixed assets	377	491	514	492	494
Other assets	55	45	85	157	171
Total assets	1,067	1,327	1,556	1,701	1,716
Interest bearing liabilities	279	305	381	327	288
Trade payables	125	106	103	166	169
Other liabilities	94	134	162	201	164
Total liabilities	499	545	646	694	620
Minority interest	49	120	175	169	175
Shareholders' equity	568	726	820	1,007	1,096

SMSM made large advance payment for fixed assets

CASH FLOW (IDRb)

EBIT	228	328	389	421	120
Depreciation	73	142	163	103	158
Working capital	(240)	(53)	(134)	18	(25)
Other operating items	22	17	8	20	6
Operating cash flow	7	307	256	448	222
Net capital expenditure	(108)	(256)	(186)	(81)	(162)
Free cash flow	(101)	51	70	368	60
Investing cash flow	(112)	(249)	(221)	(137)	(238)
Equity raised / (bought)	0	0	0	0	2
Net borrowings	233	(80)	89	(73)	(72)
Dividend	(130)	(123)	(187)	(122)	0
Other financing	6	148	109	(86)	160
Financing cash flow	110	(55)	11	(281)	88
Net cash flow	6	3	46	30	71
Cash flow at end	14	18	63	93	121

Restatement in subsidiaries

RATIOS

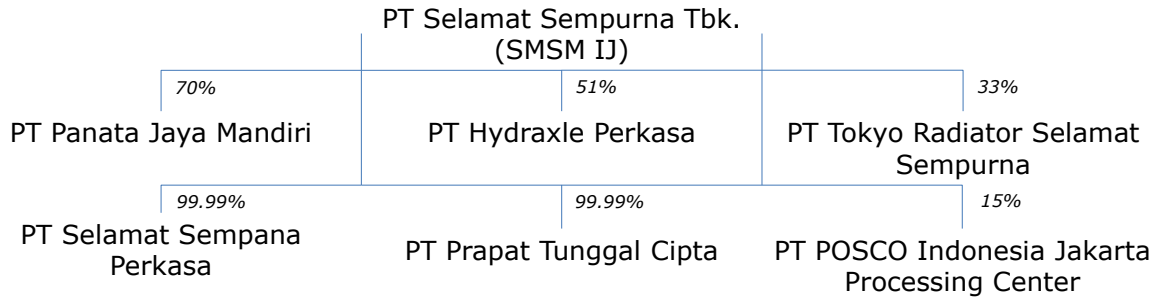
ROAE (%)	27.0	32.8	28.4	33.7	8.5
ROAA (%)	15.0	17.7	15.2	18.9	5.4
EBITDA margin (%)	14.9	16.2	17.7	18.2	19.3
EBIT margin (%)	14.6	15.9	17.1	17.8	19.1
Net margin (%)	10.6	11.7	11.2	14.3	14.2
Payout ratio (%)	86.1	57.9	85.3	39.7	-
Current ratio (x)	2.2	2.4	2.1	2.1	2.4
Interest coverage (x)	10.3	11.1	13.7	15.6	17.4
Net gearing (%)	11.0	24.4	14.5	11.7	3.8
Debts to assets (%)	46.7	41.1	41.5	40.8	36.1
Debtor turnover (days)	69	62	69	79	66
Creditor turnover (days)	33	20	17	21	20
Inventory turnover (days)	66	61	65	63	56

EBIT margin improved on the back of increasing labor efficiency

Source: Company

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Exhibit 5. SMSM's subsidiaries, 2013



In June 2013, SMSM achieved vertical integration, by acquiring PT Prapat Tunggal Cipta and PT Selamat Sempana Perkasa

Source: Company

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Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, Financial Futures Association of Japan

Japan Securities Investment Advisers Association

Type II Financial Instruments Firms Association