Equity Research

// Company visit note

Selamat Sempurna
Consistent Globally and Locally

NOT RATED

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Indonesia
Automotive

Current price	**Rp4,355**
Price target	**na**
Upside potential	**na**

Stock Data

Bloomberg Ticker	SMSM IJ Equity
Outstanding share (bn)	1.4
Market Cap (Rp tn)	6.3
52 week range (Rp)	2,450 – 5,100
6-M Avg Value(Rp bn)	0.5
YTD Returns (%)	26.2
Beta (x)	0.7

Major Shareholders (%)

PT Adrindo Inti Perkasa	58.1
Public	41.9

Share Price Performance

Share Performance (%)

Month	Absolute	Relative
3m	15.7	6.7
6m	27.7	8.0
12m	79.2	34.7

We recently visit Selamat Sempurna (SMSM IJ), part of the ADR Group, one of the leading automotive component producers in Indonesia with focus on filter and radiator, here are the key takeaways. More than 60% of products are sold overseas and they operate mostly in the replacement market (aftermarket). Currently, SMSM is traded at 18.8x consensus 2014F PE with dividend yield of 3.3% and ROE of 39% and NPM of 13% as of 2013A. Along with consistent growth and passable cost, we believe the company is worth the premium.

- **Experienced global exporter and renowned local player**

SMSM is an auto-parts manufacturer well-known for their "Sakura" car filter brand and "ADR" radiator. Filter and radiator contribute 56% and 17% to revenue respectively. In the last five years, SMSM exported more than 59% of their products to more than 100 countries and around 60% of global sales came from aftermarket segment. In domestic market, SMSM was able to grab 30%-40% of local filter market share. Moreover, due to the nature of operation, around 75% of revenue and 60% of raw material cost are generated in USD and thus the company is able to minimized foreign exchange risk by natural hedging.

- **Consistent performer in various economic conditions**

As SMSM operates mostly in replacement market, SMSM was able to record sales growth even during economic downturn. The decision to go into the replacement market was derived under consideration that automotive sales would be affected during recession and thus would have more severe impact to Original Equipment Manufacturer (OEM) market. By going into replacement market, SMSM's business would be less impacted by economic downturn as existing aftermarket automotives would have to replace filter for at least twice a year and radiator should also be replaced annually.

- **Steady revenue growth and passable cost**

Although 60% of cost are commodity-related raw material (steel 39% and aluminum 20%), SMSM is able to pass on the cost to consumer through ASP increase, which can be seen through a consecutive sales growth while maintaining margin for more than ten years. SMSM was able to record 15% top line CAGR from in the past five years and improve net profit by 23% CAGR in the last five years.

- **Abundant growth opportunity with low capital requirement**

At current capacity, SMSM is able to produce 96mn of filter and 1.95mn of radiators annually. These translate into utilization rate of 56% and 40% of filter and radiator production capacity out of 80% optimal capacity. This means that SMSM have spare capacity for the upcoming demand growth. Furthermore, to increase capacity, SMSM would only be required to add capacity to the section with bottleneck problem without the need to add new production line, which would be capital intensive. Furthermore, since capacity addition in 2011, the company has run more efficiently, proven by lessening cash conversion days and total loans.

- **Worth the premium**

Currently, SMSM is traded at 18.8x consensus 2014F PE with dividend yield of 3.3% and ROE of 39% and NPM of 13%. SMSM offers highest ROE and NPM compared to peers. Despite slower expected three-year-EPS-growth than AUTO, SMSM provides more stable growth and less exposure to forex risk as USD generated from revenue are higher than required USD for raw material purchased. Our belief in SMSM's sustainable growth, resulting from growing global filter and radiator demand, alongside with stable margin generation and strong brand image, leads to a conclusion that SMSM worth to be traded at premium.

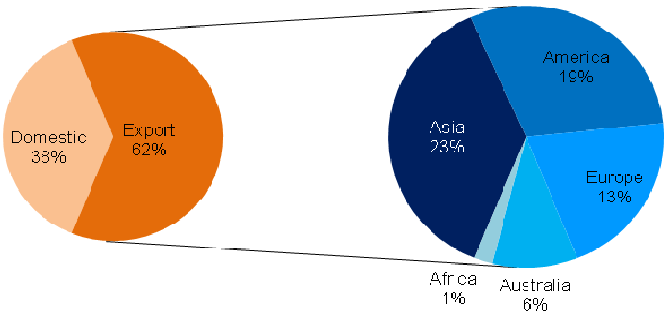
Key investment metrics

FYE Dec (Rp bn)	FY12	FY13	FY14F	FY15F	FY16F
Revenue (Rp bn)	2,269	2,373	2,700	3,042	3,393
Net Profit (Rp bn)	219	308	341	386	425
NPM	9.7%	13.0%	12.6%	12.7%	12.5%
ROE	29.8%	36.8%	32.7%	31.7%	32.5%
Dividend Yield	2.4%	2.6%	2.6%	3.1%	4.1%
PE (x)	28.6	20.4	18.4	16.2	14.8
PBV (x)	8.5	7.5	6.3	5.3	4.7

Source: Sucorinvest

In 2013, 38% of products were sold in domestic market whilst the other 62% were exported to more than 110 countries in 5 continents

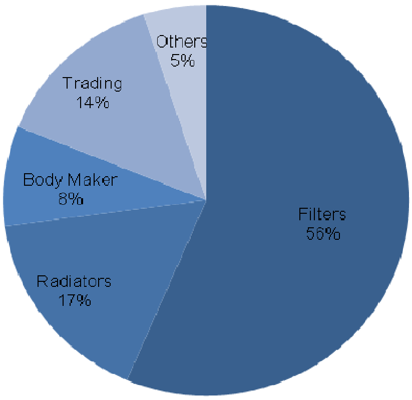
Figure 1: 2013 sales by region



Source: Company

Similar with previous years, filter and radiator bring largest contribution (73%) to total revenue. Although body maker's and trading's contribution raise recently, we believe filter and radiator will remain major contributors for a foreseeable future.

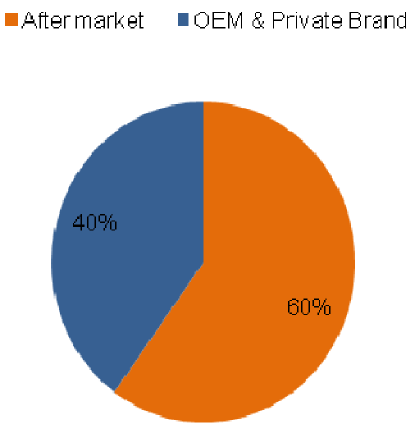
Figure 2: 2013 sales by segment



Source: Company

In the global market, Selamat Sempurna sells 60% in replacement market (after market) segment and 40% in original equipment manufacturer (OEM) and private brand segment. The strategy enables the company to be more resistant to recession

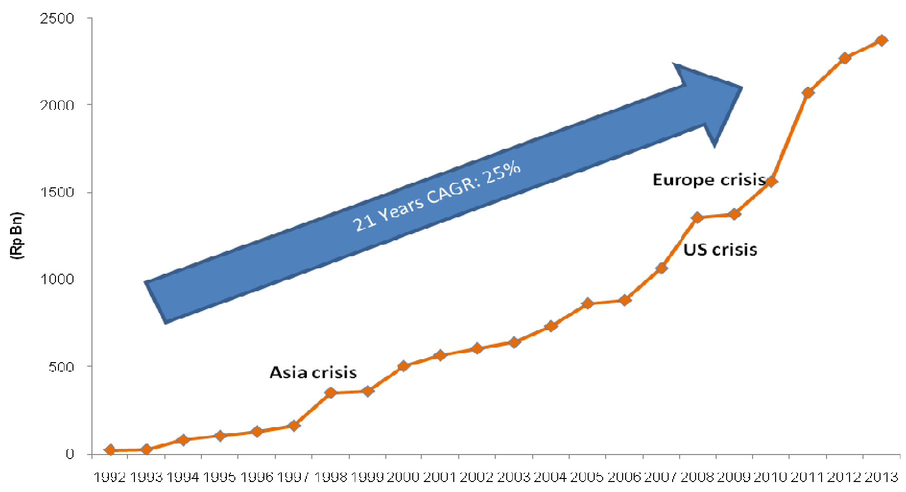
Figure 3: Global target market



Source: Company

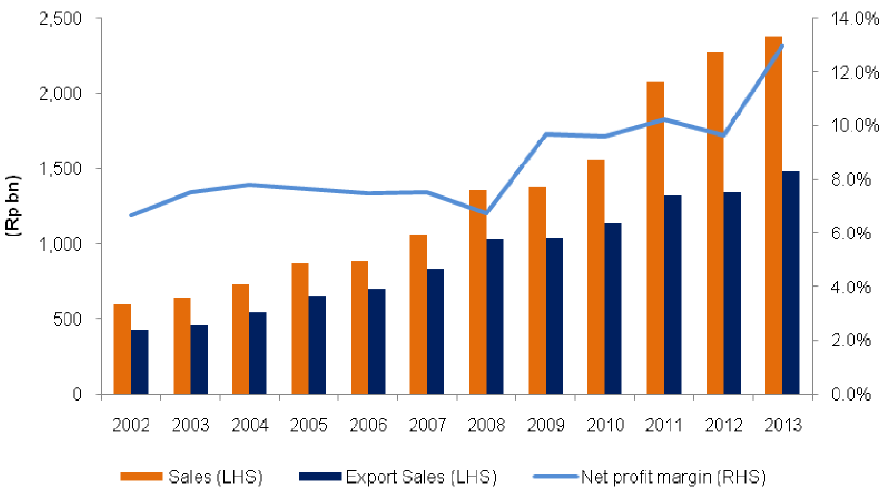
SMSM manages to booked consecutive sales growth for 21 years. The company was able to record sales growth even through crises such as '98 Asian crisis and '08 and '09 US and European crises.

Figure 4: 21 years consecutive sales growth



Export sales have been growing continuously together with sales for more than ten years. Additionally, net profit margin has improved due to the increase in company efficiency

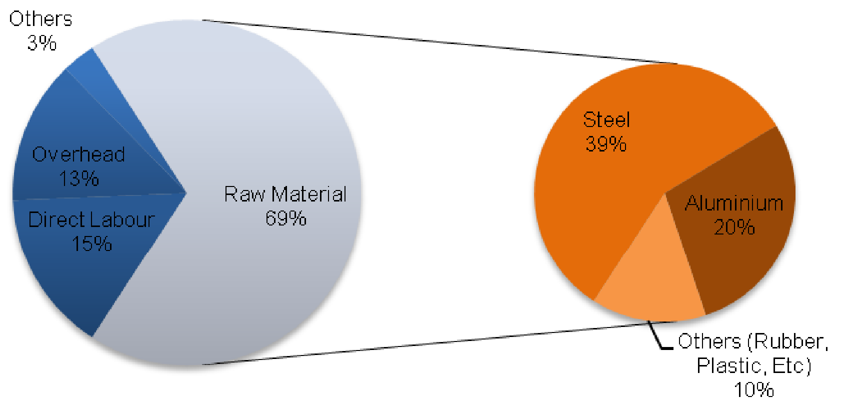
Figure 5: Sales and export sales growth and improving margin



Source: Company

Raw material remains highest contribution to cost of sales (69%), followed by direct labour cost (15%) and manufacturing overhead (13%)

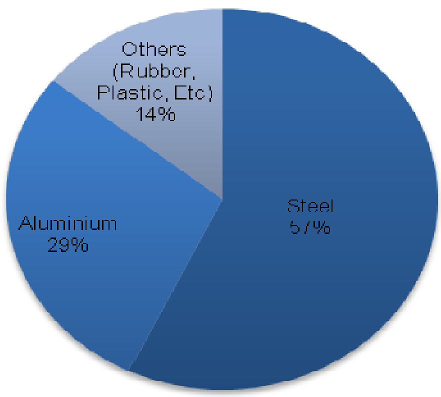
Figure 6: Cost of sales breakdown



Source: Company, Sucorinvest estimate

Figure 7: Raw material cost breakdown

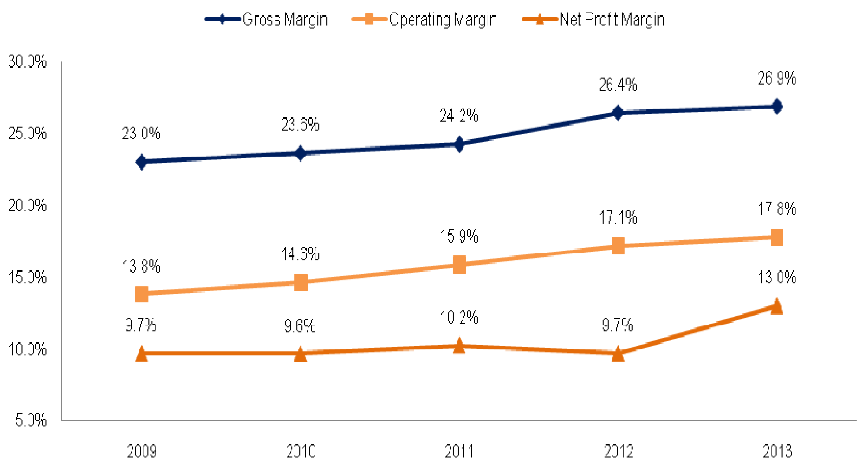
Steel (raw material for filter) and aluminium (raw material for radiator) are major parts of raw material. Most of the raw materials are imported, thus the company needs to pay supplier in USD.



Source: Company, Sucorinvest estimate

Figure 8: Stable profit margins

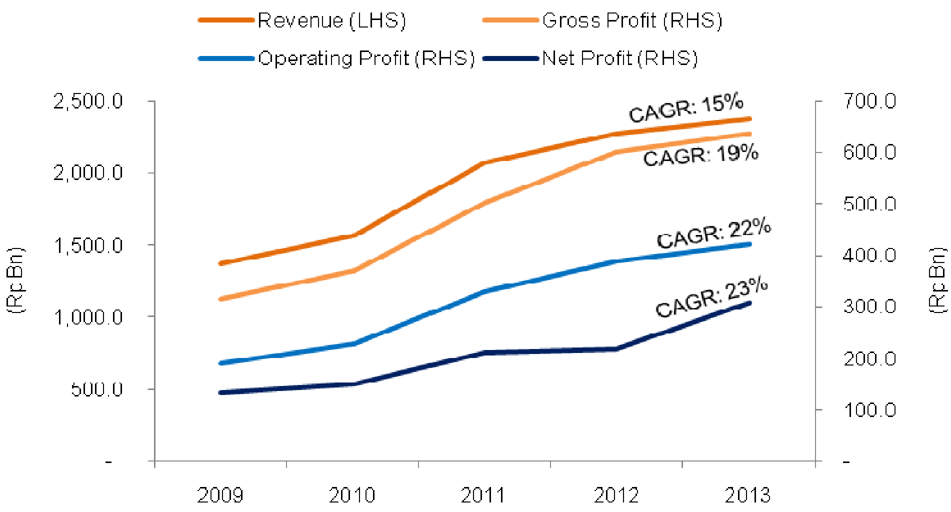
Despite of fluctuating material cost, the company manages to maintain and improve margins as 75% of revenues are also generated in USD, which brings natural hedging ability to the company



Source: Company

Figure 9: Revenue and profit growth

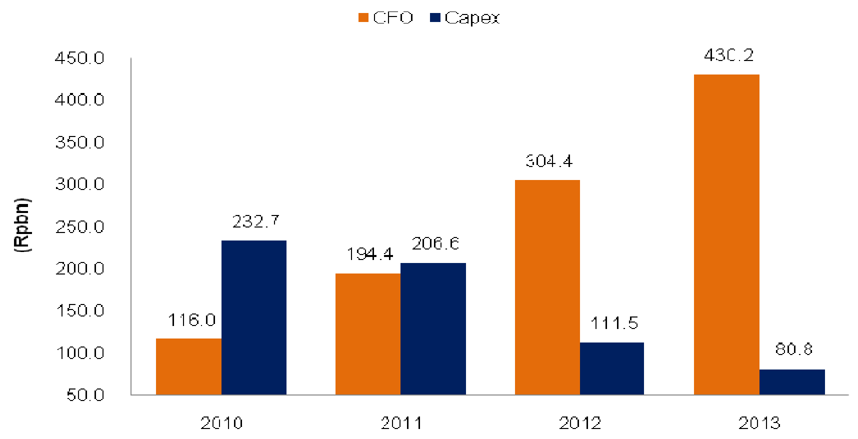
The company was able to generate faster profit growth than revenue due to the natural hedging ability which reduces forex risk, followed by increase in operating efficiency



Source: Company

After adding capacity in 2011, the company still has enough capacity for upcoming demand growth and thus excessive capital spending will not be required in the near future and hence results in higher operating cash flow

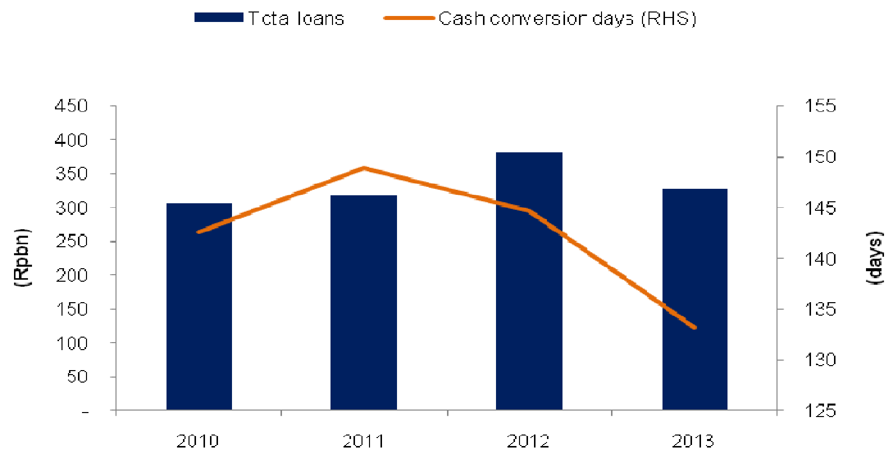
Figure 10: Capital spending and operating cash flow level



Source: Company

Since capacity addition in 2011, the company has run more efficiently, proven by shrinking cash conversion days and total loans.

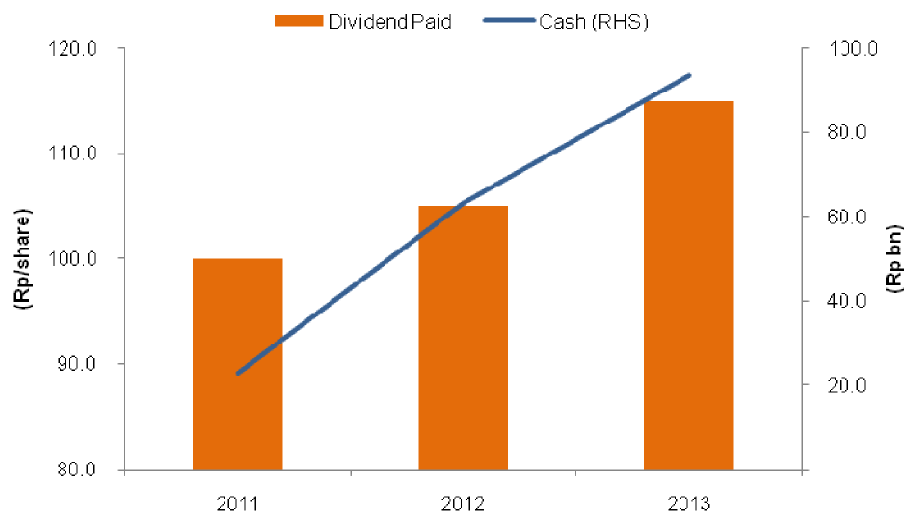
Figure 11: Loans level and cash conversion days



Source: Company

As a result of increasing efficiency and low level of capital spending, company has higher level of cash to be distributed which results in higher dividend

Figure 12: Dividend and cash level



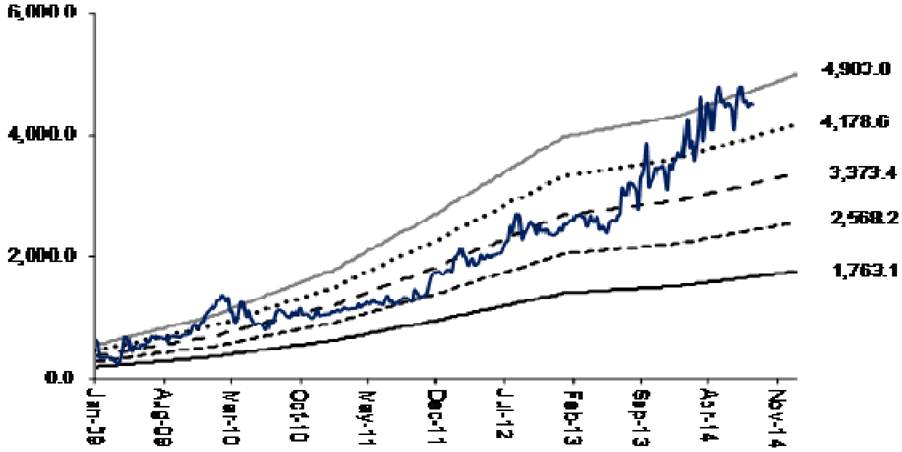
Source: Company

Figure 13: Relative comparison

Company name	Ticker	Mkt Cap (Rp mn)	ROE	NPM	Div Yield	P/E 13A	P/E 14F	P/E 15F	3yr EPS CAGR	EPS CAGR
Selamat Sempurna	SMSM IJ	6,334,543	39.2%	13.0%	3.3%	20.6	18.8	16.6	27.9%	11.3%
Astra Otoparts	AUTO IJ	19,206,636	14.6%	9.4%	2.3%	19.1	14.2	12.3	-7.3%	22.2%
Indospring	INDS IJ	1,368,281	10.2%	8.6%	3.7%	9.4	na	na	11.9%	na
Auto-part sector		**26,909,460**	**20%**	**10%**	**3%**	**18.9**	**14.6**	**12.7**	**2%**	**18%**

Source: Company, Sucorinvest

Figure 14: P/E band



Source: Company, Sucorinvest

Financial summary

Income Statement (Rp bn)	2010	2011	2012	2013
Revenue	**1,561.8**	**2,072.4**	**2,269.3**	**2,373.0**
Cost of sales	1,193.0	1,570.3	1,669.3	1,735.3
Gross Profit	**368.8**	**502.2**	**600.0**	**637.7**
Operating expenses	140.9	173.7	211.1	216.5
Operating Income	**227.8**	**328.5**	**388.8**	**421.2**
Interest expense	23.8	31.5	31.1	30.3
Net Non-operating loses (gains)	(0.7)	(12.6)	(11.9)	(67.7)
EBT	**204.8**	**309.6**	**369.7**	**458.6**
Income Tax Expense	39.9	68.1	82.8	107.8
Net Profit	**150.4**	**212.2**	**219.3**	**307.9**
Balance sheet (Rp bn)	**2010**	**2011**	**2012**	**2013**
Cash and equivalent	14.7	22.7	63.1	93.4
Receivable	340.8	428.0	466.8	558.1
Inventories	350.0	426.8	424.6	397.7
Net Fixed Assets	452.4	518.2	514.0	492.2
Total Assets	**1,218.7**	**1,445.3**	**1,556.2**	**1,701.1**
Accounts Payable	137.7	101.5	97.3	164.0
ST Borrowings	148.0	159.4	270.4	212.4
LT Borrowings	158.7	159.3	111.0	114.8
Total Liabilities	**545.3**	**567.0**	**646.1**	**694.3**
Total Equity	**573.7**	**758.5**	**735.0**	**837.6**
Net Debt (cash)	292.0	296.0	318.3	233.8
Cash Flow (Rp bn)	**2010**	**2011**	**2012**	**2013**
NetProfit	150.4	212.2	219.3	307.9
Depreciation	121.6	140.8	115.6	102.6
Change in WC	(180.6)	(200.2)	(40.8)	2.2
Cash From Operating Activities	**116.0**	**194.4**	**304.4**	**430.2**
Capital Expenditures	(232.7)	(206.6)	(111.5)	(80.8)
Other Investing Activities	(3.2)	6.0	(33.2)	(55.9)
Cash From Investing Activities	**(235.9)**	**(200.6)**	**(144.7)**	**(136.7)**
Dividend Paid	(129.6)	(125.8)	(187.2)	(122.4)
Change in LT Liabilities	143.0	12.0	62.8	(54.2)
Change in Equity	15.8	-	7.2	6.8
Others	96.6	128.0	(2.1)	(93.5)
Cash from Financing Activities	**125.8**	**14.2**	**(119.3)**	**(263.2)**
Net Changes in Cash	**6.0**	**8.0**	**40.4**	**30.3**
Beginning Balance	8.7	14.7	22.7	63.1
Ending Balance	14.7	22.7	63.1	93.4
Financial Ratios	**2010**	**2011**	**2012**	**2013**
ROA	12%	15%	14%	18%
ROE	26%	28%	30%	37%
Gross Margin	24%	24%	26%	27%
EBIT Margin	15%	16%	17%	18%
Net Margin	10%	10%	10%	13%
D/E Ratio	53%	42%	52%	39%
Net Gearing (x)	0.5	0.4	0.4	0.3
Interest Coverage (x)	9.6	10.4	12.5	13.9
Days receivable	78.6	74.4	74.1	84.7
Days payable	41.6	23.3	21.0	34.0
Days inventory	105.6	97.8	91.6	82.5
Dividend Payout Ratio	98%	84%	88%	56%
Dividend Yield	2%	2%	3%	2%
Sales Growth	14%	33%	9%	5%
Operating Income Growth	20%	44%	18%	8%
Net Income Growth	13%	41%	3%	40%

Sucorinvest rating definition, analysts certification, and important disclosure

Ratings for Sectors

Overweight	: We expect the industry to perform better than the primary market index (JCI) over the next 12 months.
Neutral	: We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.
Underweight	: We expect the industry to underperform the primary market index (JCI) over the next 12 months.

Ratings for Stocks

Buy	: We expect this stock to give return (excluding dividend) of above 10% over the next 12 months.
Hold	: We expect this stock to give return of between -10% and 10% over the next 12 months.
Sell	: We expect this stock to give return of -10% or lower over the next 12 months.

Analyst Certification

The research analyst(s) primarily responsible for the preparation of this research report hereby certify that all of the views expressed in this research report accurately reflect their personal views about any and all of the subject securities or issuers. The research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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