OSK

INDONESIA EQUITY
Investment Research

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Initiation of Coverage

Selamat Sempurna

A Steady Dividend Stock

BUY Ý

Target	IDR2,050
Previous	**N/A**
Price	**IDR1,330**

Automotive Parts

Selamat Sempurna produces automotive filters and radiators to the domestic market and exports to 105 countries.

Stock Statistics

Bloomberg Ticker	SMSM IJ
Share Capital (m)	1,439.7
Market Cap (IDRbn)	1,914.8
52 week H│L Price (IDR)	1,390│ 980
3mth Avg Vol ('000)	1,965.6
YTD Returns	24.3
Beta (x)	0.9

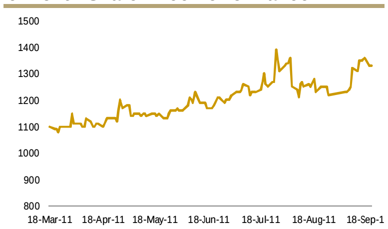
Major Shareholders (%)

PT. Adrindo Intiperkasa	58.0

Share Performance (%)

Month	Absolute	Relative
1m	8.1	10.5
3m	13.7	13.1
6m	20.9	13.5
12m	38.5	27.2

6-month Share Price Performance



We initiate coverage on Selamat Sempurna (SMSM) with a BUY recommendation, based on: i) its high dividend yield; ii) high profitability; and iii) stable revenue growth prospects. We expect ROE to improve to 36.3% in 2013 from 29.6% in 2010, fuelled by higher utilization, and the stock's dividend yield to jump to 10.7% from 7.1%. Our target price of IDR2,050 implies a 13.1x-11.5x PE on FY12-FY13 earnings. The counter is currently trading at 8.5x-7.5x FY12-FY13 earnings.

High dividend yield. SMSM's high dividend payout ratio of 91% for 2010 earnings (its policy is a minimum 45% DPR if net income exceeds IDR30bn) makes the stock one of the best dividend payers, with a 7.1% dividend yield for 2010 earnings at the current price. We expect dividend yield to reach 7.9% for 2011 versus the average of 2.6% among other dividend paying stocks in the Jakarta Stock Exchange.

Stable topline growth. Sales have always been increasing every year in the last 18 years, with a CAGR of 13% in the last five years, which we believe would be the normal growth rate for the next three years. Growth will be supported by the penetration of new markets overseas and increasing domestic demand. Some 95% of SMSM's sales are to the replacement market, which is naturally quite resilient.

Steady margin; high profitability. SMSM is good at maintaining margin even amid raw material price fluctuations. In the last five years, its gross margin has ranged from 22%-24%, which gave rise to a net income CAGR of 18%. We see stable margins of ~24% within the next three years, which will translate into a net income CAGR of 20%. The steady margin will be driven by solid inventory management and cost reduction measures, which in turn gradually lifted ROE from 15.4% in FY06 to 30.5% in 1H11. We expect ROE to reach 36.3% in FY13.

Ample room to grow even at low capex. SMSM increased its radiator and de-bottlenecked filter production capacity in the last two years to ramp up capacity by 33% and 63% respectively. As a result, its current utilized production capacity is only 48% for radiators and 56% for filters. Hence, we believe that the company does not need to spend high capex in the short term to support growth.

Risk. The main business risks are: i) raw material supply, ii) extreme movements in raw material prices, and iii) fluctuations in foreign currency.

FYE 12Mth (IDRbn)	FY09	FY10	FY11f	FY12 f	FY13f
Revenue	1,375	1,562	1,816	2,025	2,277
Net Profit	133	150	189	225	256
% chg y-o-y	45.2	13.2	25.8	19.0	13.7
EPS (IDR)	92	104	131	156	178
DPS (IDR)	90	95	105	125	142
Dividend yield (%)	6.8	7.1	7.9	9.4	10.7
ROAE (%)	25.4	29.6	33.0	34.7	36.3
ROAA (%)	14.2	15.0	17.2	19.3	20.8
PER (x)	14.4	12.7	10.1	8.5	7.5
BV/share (IDR)	346	361	436	467	513
P/BV (x)	3.8	3.7	3.1	2.9	2.6
EV/ EBITDA (x)	7.8	7.1	5.7	5.1	4.5

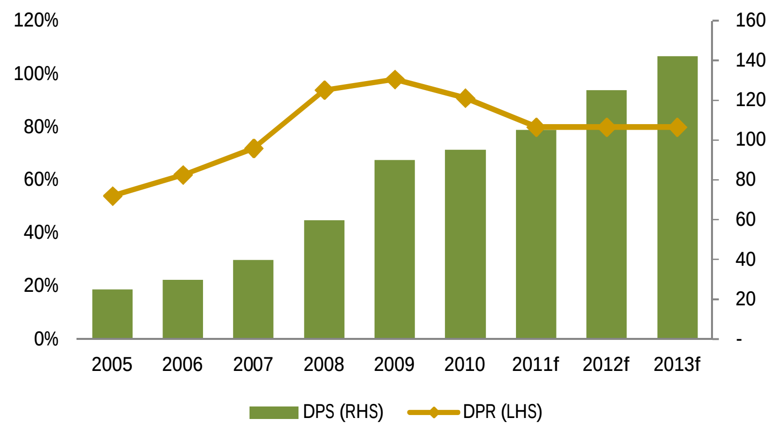
INVESTMENT THESIS

Prominent dividend payers

Historically, SMSM has been adopting a high payout ratio in the last few years that has left it with a minimal cash balance, which shows the company's good intention of distributing its income. In addition, we also like the fact that even given its high dividend payout ratio, SMSM is still be able to maintain low leverage.

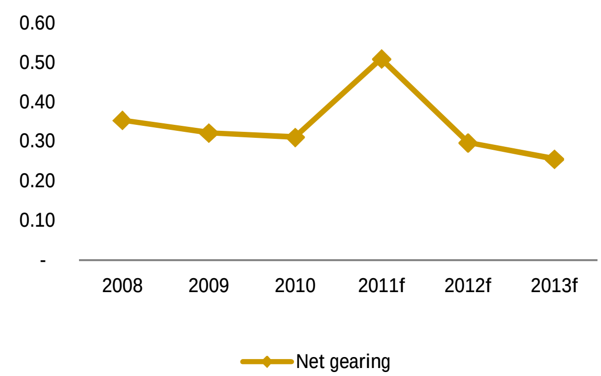
We expect SMSM's payout ratio to go down slightly as the first tranches of the company's bonds started to mature from July, considering that it intends to maintain its bank loan at a low level. However, in terms of nominal value, we still expect its dividend to grow by 11%-19%-14% in 2011-2012-2013 respectively. The interim-final dividend timing also may differ from last year, with the final dividend comprising the major portion, as opposed to last year.

Figure 1: Dividend per share (IDR) and dividend payout ratio (%)



Source: Company, OSK Research

Figure 2: Relatively low leverage



Source: Company, OSK Research

Figure 3: Dividend policy

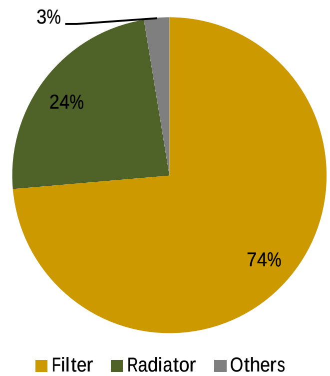
Net income	Minimum DPR
IDR 0-10bn	35%
IDR 10-30bn	40%
> IDR 30bn	45%

Source: Company

Stable Growth

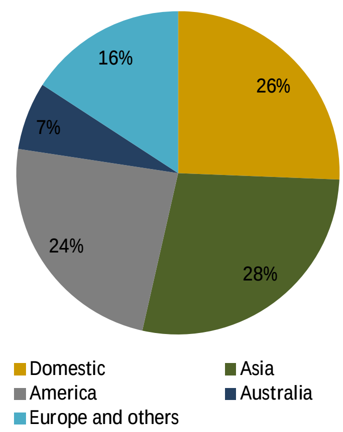
SMSM produces filters under the Sakura brand and ADR brand radiators for the automotive and heavy equipment markets, with 95% of the products sold to replacement market. SMSM also serves OEM (original equipment manufacturers) of world-class brands such as Toyota and Mercedes Benz. Product wise, up to 1H11, filter sales accounted for 74% of revenue, radiator sales, 24%, and other products, 3%. In terms of destination, 1H11 domestic sales accounted for 26% of revenue and exports 74%, with Asia and United States as major destinations. SMSM currently exports to 105 countries.

Figure 4: Revenue by product



Source : Company, OSK Research

Figure 5: Revenue by destination



Source : Company

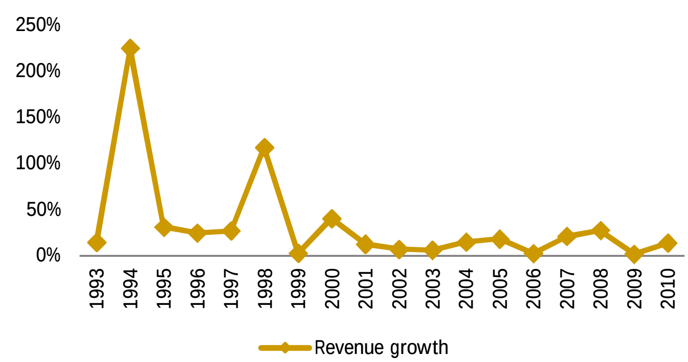
Figure 6: OEM users of SMSM products

Beiben	JCB	Suzuki
Chery	KIA	TCM
Chevrolet	Kobelco	Toyota
Daihatsu	Komatsu	Yanmar
Hino	Kubota	Shanghai Diesel Engine
Honda	Mercedes Benz	Anhui Hualing Automobile
Hyundai	Mitsubishi	
Isuzu	Nissan	

Source: Company, OSK Research

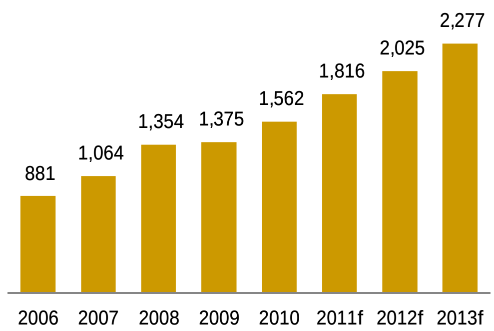
Historically, annual revenue grew consistently from 1992 to 2010, even at the time of major crises such as 1998 and 2008, which was strong proof of resilient demand for its products, especially in the replacement market. In the last five years, revenue has been increasing by a CAGR of 13%, a level we see as its normal revenue growth rate in the mid-term.

Figure 7: Historical revenue growth, always in positive territory



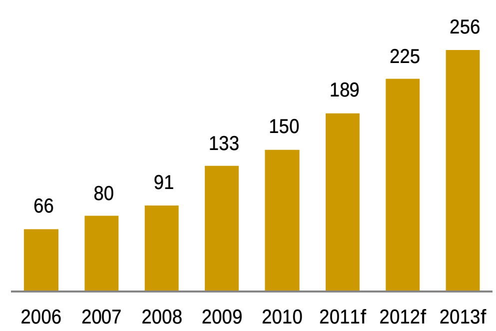
Source: Company, OSK Research

Figure 8: Revenue (IDRbn)



Source : Company, OSK Research

Figure 9: Net income (IDRbn)

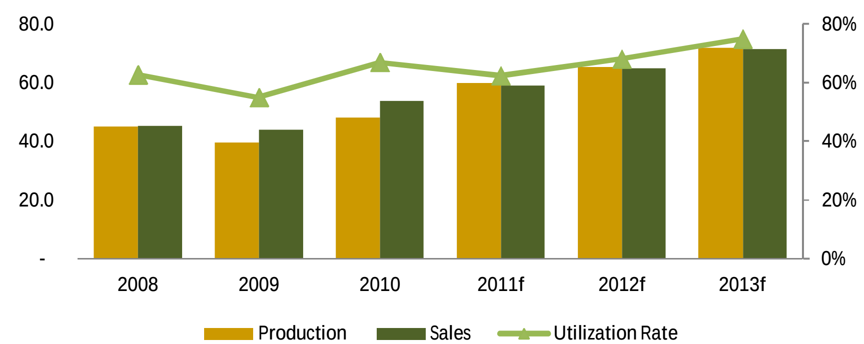


Source : Company, OSK Research

Ample capacity to grow

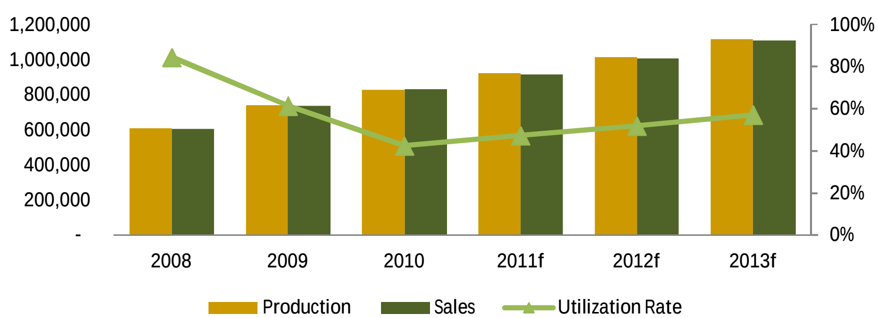
In terms of volume, filter and radiator sales have been increasing by a CAGR of 7% and 12% respectively for the last five years. We expect a moderate ~10% CAGR for filter sales and radiator sales from 2011-2013. This year, the company just increased its filter production capacity to 96m units/year from 72m units/year initially through renewal and debottlenecking while its radiator production capacity stands at 1.95m units/year (1.5m in aluminum and 450k in copper brass). In 1H11, the company manufactured 27m filters and 472k radiators (438k aluminum and 33k copper brass), an indication that there is ample capacity to grow, as its utilized production capacity is only 48% for radiators and 56% for filters

Figure 10: Filter sales (m unit), production (m unit), and utilization rate (%)



Source: Company, OSK Research

Figure 11: Radiator sales (unit) , production (unit) , and utilization rate (%)



Source: Company, OSK Research

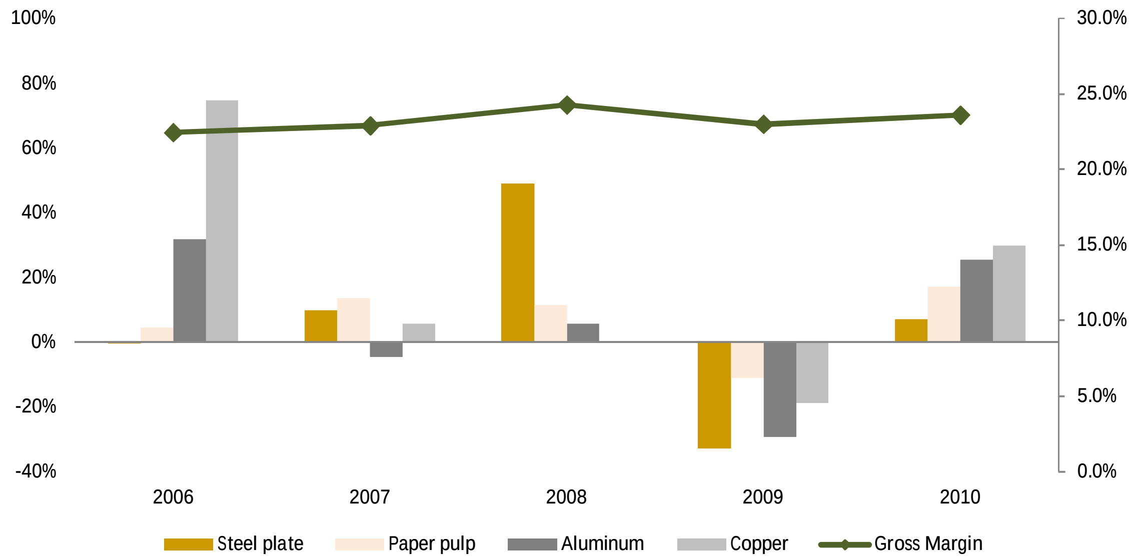
In the global market, SMSM products are positioned as high quality products at a lower price compared with first tier global brands. In the domestic market, Sakura is the market leader with a ~60% share and is also a price leader. SMSM considers itself a one-stop shop with the widest product line among international producers. The nature of its products shields it from the threat of price war from Chinese low-end producers as its product prices are relatively small compared to the price of the entire car while it holds an important role in keeping a car and machines running well.

Steady margin; high profitability

We like the fact that SMSM is able to maintain its gross margin within the 22%-24% range of in the last five years even in the face of volatile raw material prices. The main raw materials for filter are steel plates and paper. The raw materials for radiators are aluminum (for aluminum radiator), cooper, and brass (for cooper brass radiator).

The company has been achieving steady gross margins via active inventory management and cost reduction through optimizing machine efficiency. In the past one year, SMSM also been utilizing discount by accelerating payment to suppliers, but this also resulted in a tighter cash flow during that period.

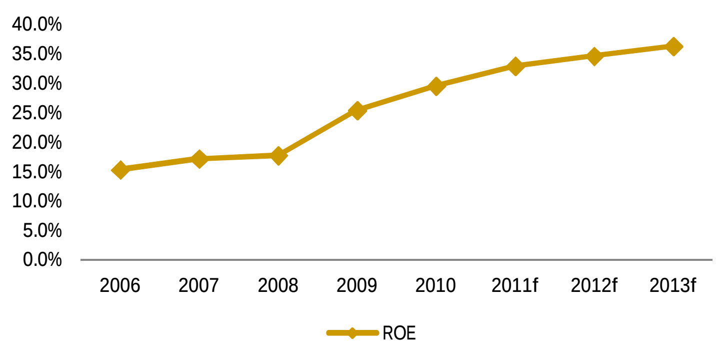
Figure 12: Gross margin (RHS) and raw material price change (LHS)



Source: Bloomberg, Company, OSK Research

We expect the moderate revenue growth and steady margins to lift ROE to 36.3% in 2013 from 30.5% in 1H11. In the past five years, the company's ROE has increased from 15.4% in 2006 to 29.6% in 2010. Our expectation of increasing ROE is driven by higher utilization.

Figure 13: Return on equity



Source: Company, OSK Research

Company background

Founded in 1976, Selamat Sempurna is a part of ADR Group and currently one of the largest filter and radiator manufacturers in the region. The Company manufactures filters, radiators, oil coolers, condensers, brake pipes, fuel pipes, fuel tanks, exhaust systems, and press parts. Currently, SMSM owns 70% of PT Panata Jaya Mandiri, a joint venture with Donaldson Inc. USA and also 15% in PT POSCO IJPC, a joint venture with Posco and Daewoo International Corporation from Korea. Below are examples of SMSM products.

Figure 14: Automotive Filter

Source : Company

Figure 15: Cabin Air Filter

Source : Company

Figure 16: Fuel Injection Filter

Source : Company

Figure 17: Radiator

Source : Company

Valuation

We value SMSM using a discounted cash flow (DCF) approach, with which we arrive at a fair value of IDR2,051 per share. As such, we are setting our one year target at IDR2,050. We use cost of capital and cost of equity of 12.1 % and 13.0% respectively on following assumptions below:

a) Risk-free rate of 8.5%
b) Risk premium of 5.0%
c) Beta of 0.9.
d) Rupiah cost of debt of 10.5%
e) Income tax rate of 25%
f) Debt/Equity target of 20/80.
g) Terminal growth value of 3%

SMSM is currently trading at a 10.9x trailing PE, or 10.1x FY11 PE, which is below the industry average at 11.7x and 11.2x. Its profitability is also higher than the industry average while its gearing is maintained at a relatively low level. In average, Indonesian auto parts companies' profitability is quite high relative to their Chinese counterparts, but are trading at lower multiples. Compared to the rest, Indonesian auto parts stocks are slightly more expensive, although their profitability is more superior.

Figure 18: Peer comparison

Ticker	Country	Trailing PE	FY11 PE	FY 12 PE	Trailing ROE (%)	Gearing (%)
SMSM IJ	Indonesia	10.9	10.1	8.5	30.5	33.5
AUTO IJ	Indonesia	12.7	n/a	n/a	28.4	4.8
INDS IJ	Indonesia	7.7	n/a	n/a	24.6	42.4
002555 CH	China	29.8	19.5	14.0	30.3	Net cash
002126 CH	China	17.2	15.8	11.6	21.3	67.6
002590 CH	China	14.9	18.1	14.8	37.3	6.6
SF IN	India	11.2	10.2	7.8	22.5	138.3
BNCO IN	India	8.3	8.2	5.6	19.8	n/a
SDC IN	India	8.1	10.8	8.7	11.7	152.8
APM MK	Malaysia	7.5	7.2	6.2	16.1	Net cash
DV MK	Malaysia	5.3	6.2	5.2	n/a	Net cash
SAT TB	Thailand	10.9	9.9	8.4	18.6	53.6
TSC TB	Thailand	10.9	9.2	8.3	18.8	Net cash
AH TB	Thailand	9.1	8.6	7.7	10.8	94.1
Average		11.7	11.2	8.9	22.4	

Source: OSK Research, Bloomberg

Business risks

The main business risks are:

1. Raw material supply
   The availableness of raw material supply is crucial for the production continuity. Historically, raw material suppliers would not always be able to fulfill orders within short times. In order to manage such risk, the company usually stores up raw material inventory for two up to three months' needs.

2. Extreme movement in raw material prices
   Movements in raw material prices will affect production costs and margins. The company manages the risk through active inventory management and continuously implementing the cost reduction program.

3. Fluctuations in foreign currency
   As a large portion of revenue and production cost are in foreign currency, fluctuations in forex will affect the company's profitability. However this is not a major risk as a large part of the forex effect from revenue is being offset by the cost of goods sold portion.

FINANCIALS

BALANCE SHEET	2008	2009	2010	2011f	2012f	2013f
Cash	14	9	14	10	28	9
AR	243	278	314	365	407	457
Other receivables	1	1	0	1	1	1
Inventories	286	255	307	333	367	409
Prepaids	11	32	26	30	34	38
Total Current Asset	555	575	662	738	836	914
PPE	358	341	377	364	344	318
PPE advances	6	9	15	11	11	11
Investment - stock	4	10	8	8	8	8
Investment - property	2	2	2	2	2	2
Others	3	4	4	4	4	4
Total Non Current Asset	375	367	405	388	369	342
Total Asset	930	942	1,067	1,126	1,205	1,257
ST loans	190	164	41	36	40	68
AP	71	161	125	144	161	181
Accrued, advances and payables	45	38	59	68	76	86
Bonds - ST portion	-	-	80	-	80	-
Total Current Liabilities	305	362	304	249	357	335
Deffered tax liabilities	18	13	7	7	7	7
Employees benefit	18	22	28	31	34	37
Bonds	-	-	159	160	80	80
Total Non Current Liabilities	36	35	194	198	121	125
Goodwill	1	1	1	1	1	1
Minority Interest	41	46	48	51	54	58
Capital stock	144	144	144	144	144	144
Additional pic	19	19	19	19	19	19
Others	16	15	16	16	16	16
Retained earnings	366	319	340	448	492	559
Total Equity	546	498	519	628	672	738
Total Equity and Liabilities	930	942	1,067	1,126	1,205	1,257

INCOME STATEMENT	2008	2009	2010	2011f	2012f	2013f
Net sales	1,354	1,375	1,562	1,816	2,025	2,277
COGS	(1,025)	(1,058)	(1,193)	(1,380)	(1,536)	(1,731)
Gross profit	329	316	369	436	488	546
Selling expenses	(70)	(76)	(78)	(86)	(96)	(108)
G&A	(46)	(50)	(63)	(66)	(70)	(77)
Operational expenses	(116)	(126)	(141)	(152)	(166)	(185)
Operational profit	213	190	228	284	322	361
Interest income	2	2	2	2	2	2
Forex gain(loss)	8	(17)	(5)	(6)	-	-
Financial charges	(59)	(9)	(24)	(24)	(21)	(19)
Others	1	13	4	0	0	0
Others	(48)	(11)	(23)	(29)	(19)	(16)
Income from associates	(21)	7	-	-	-	-
EBT	144	186	205	254	303	344
Income tax	(42)	(43)	(40)	(51)	(61)	(69)
EAT	102	143	165	204	242	275
Minority interest	(10)	(10)	(14)	(14)	(17)	(19)
Net profit	91	133	150	189	225	256

STATEMENT OF CASH FLOW	2008	2009	2010	2011f	2012f	2013f
From customer	1,318	1,340	1,526	1,765	1,983	2,226
Paid to supplier and employees	(1,031)	(906)	(1,244)	(1,304)	(1,461)	(1,654)
Cash provided by operations	287	434	283	461	522	572
Financing charges	(59)	(9)	(19)	(24)	(21)	(19)
Operating expenses	(65)	(87)	(84)	(152)	(166)	(185)
Income and value added tax	(46)	(62)	(34)	(51)	(61)	(69)
Other operating cash flow	14	(7)	6	5	5	6
Operating cash flow	131	268	151	238	278	305
PPE - acquisition	(101)	(53)	(104)	(100)	(100)	(100)
Other investing cash flow	(6)	(8)	(16)	33	31	33
Investing Cash Flow	(107)	(61)	(120)	(67)	(69)	(67)
Bonds	-	-	238	(78)	-	(80)
Cash dividend payment	(29)	(180)	(130)	(81)	(181)	(189)
Bank loans	10	(26)	(123)	(5)	4	28
Cash dividend payment to minority	-	(6)	(12)	(12)	(14)	(16)
Financing Cash Flow	(19)	(212)	(26)	(176)	(191)	(257)
Net change	5	(5)	6	(5)	19	(19)
Beginning balance	9	14	9	14	10	28
Ending balance	14	9	14	10	28	9

Ratios	2008	2009	2010	2011f	2012f	2013f
Profitability Ratio						
Gross margin (%)	24.3	23.0	23.6	24.0	24.1	24.0
EBITDA margin (%)	15.7	19.4	19.5	20.2	20.3	20.0
Operating margin (%)	15.7	13.8	14.6	15.6	15.9	15.8
Pre-tax margin (%)	10.6	13.5	13.1	14.0	15.0	15.1
Net margin (%)	6.8	9.7	9.6	10.4	11.1	11.2
ROAE (%)	17.8	25.4	29.6	33.0	34.7	36.3
ROAA(%)	10.4	14.2	15.0	17.2	19.3	20.8
Activity Ratio						
Net debt/equity (x)	0.3	0.3	0.5	0.3	0.3	0.2
Interest coverage (x)	3.6	20.6	9.6	11.6	15.3	19.3
Asset turnover (x)	1.5	1.5	1.5	1.6	1.7	1.8

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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