PT SELAMAT SEMPURNA Tbk

Analysts: *Rian Abdi Gunawan / Yogie Perdana*

Phone/Fax/E-mail: *(62-21) 72782380 / 72782370 /Rian.gunawan@pefindo.co.id/ Yogie.perdana@pefindo.co.id*

CREDIT PROFILE

Corporate Rating	*idAA/Stable*
Rated Issues	
Bond II/2010/series C	*idAA*
Rating Period	
April 1, 2015 – April 1, 2016	
Rating History	
APR 2014	*idAA-/Stable*
APR 2013	*idAA-/Stable*
APR 2012	*idAA-/Stable*
APR 2011	*idAA-/Stable*
APR 2010	*idAA-/Stable*
APR 2005	*idA+/Stable*
JUL 2004	*idA/Stable*

FINANCIAL HIGHLIGHTS

As of/for the year ended	Dec-2014 (Audited)	Dec-2013 (Audited)	Dec-2012 (Audited)	Dec-2011 (Audited)
Total Adjusted Assets [IDR Bn.]	1,749.4	1,712.7	1,565.2	1,445.3
Total Adjusted Debt [IDR Bn.]	265.9	335.6	381.4	321.9
Total Adjusted Equity [IDR Bn.]	1,146.8	1,016.8	918.2	878.3
Total Sales [IDR Bn.]	2,632.9	2,381.9	2,269.3	2,072.4
EBITDA [IDR Bn.]	655.8	534.1	508.0	428.1
Net Income after MI [IDR Bn.]	420.4	338.2	219.3	212.3
EBITDA Margin [%]	24.9	22.5	22.4	20.7
Adjusted Debt/ EBITDA [X]	0.4	0.6	0.8	0.8
Adjusted Debt/Adj. Equity [X]	0.2	0.3	0.4	0.4
FFO/ Adj. Debt [%]	192.9	119.5	104.0	102.6
EBITDA/IFCCI [X]	23.1	17.7	16.3	13.6
USD Exchange Rate [IDR/USD]	12,440	12,189	9,670	9,068

EBITDA = (Core operating Profit + Depreciation Exp + Amortization Exp), exclude other income & other expense
FFO = EBITDA – IFCCI + Interest Income – Current Tax Expense
IFCCI = (Gross Interest Expense + Other Financial Charges + Capitalized Interest); FX Loss not included CF = Cash Flow
IP = Interest Payment MI = Minority Interest NR = Not Relevant
The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to PEFINDO's definitions.

RATIONALE

PEFINDO has upgraded the ratings of PT Selamat Sempurna Tbk (SMSM or the Company) and its outstanding Bond II/2010 series C amounting to IDR80 billion (which will due on July 8, 2015) to **"idAA"** from **"idAA-"**. The rating upgrade was supported by our expectation that the Company could maintain its stable revenue growth and sound financial profile in the medium term. The outlook of the corporate rating is **"stable"**. The ratings reflect SMSM's relatively strong presence in the replacement market of automotive filter, very conservative capital structure, and very strong cash flow protection figures. The ratings, however, are still constrained by SMSM's exposure to commodity price volatility.

SMSM is one of the leading auto-component companies in Indonesia, producing filter, radiator, dump hoists, and other automotive products such as brake pipes, mufflers, and fuel tanks for many types of cars, heavy equipment, and other transportation vehicles. SMSM has four major production facilities, which include a filter factory with production capacity of 96 million units per year, a radiator factory of almost two million units per year, a factory for its carrosserie products which produces dump hoists of almost ten thousand units per year, and a rubber parts manufacturing with annual capacity of 165 million units. As of December 31, 2014, SMSM's shareholders consisted of PT Adrindo Intiperkasa – ADR Group (58.1%) and public (41.9%).

Supporting factors for the above ratings are:

- ***Relatively strong presence in the replacement market.*** With the Company's self-owned brand, namely "Sakura" for its filter products and "ADR" for its radiators, we view that SMSM has a relatively strong presence in the replacement market. By around 90% of SMSM's products are sold to the replacement market, which in our view, is more resilient than the Original Equipment Manufacturer (OEM) market. During various economic cycles in domestic and global market, SMSM could post consecutive revenue growth for more than twenty years, and five years compound annual growth rate (CAGR) sales of 14.0%. Strong market presence is also indicated by wide market penetration to 113 countries around the world. Despite a declining trend in filter and radiator sales in domestic market due to stagnancy in automotive market sales, SMSM could maintain a satisfactory sales growth in overseas market and diversify its business segmentation to heavy duties products. The strategy has effectively proven to support their sales, as being reflected by 10.5% sales growth to IDR2.6 trillion in 2014, from IDR2.4 trillion in 2013. With the Company's high brand recognition for its filter and radiator products in the domestic and overseas market, we project that SMSM could maintain its strong position in the industry in the near to medium term.
- ***Very conservative capital structure***. We expect that SMSM's capital structure will remain very conservative with debt to Earnings before Interest, Tax, Depreciation and Amortization expense (EBITDA) ratio of 0.4x and debt to equity ratio (DER) of 0.2x as of December 2014. In the near term, we expect SMSM's financial leverage to stay at a conservative level as the Company has no plan to have major expansion in the medium term. Considering the Company's ample production capacity, its future capital expenditure is expected to be around IDR100 billion per year, of which, will be funded using its internal operating cash flow. SMSM's debt to EBITDA ratio is expected to reach around 0.1x in the near term.
- ***Very strong cash flow protection***. The Company's cash flow protection remains very strong as reflected by its debt coverage, measured by Fund from operation (FFO) to total debt of more than 190%, and its interest coverage measured by EBITDA to interest expense, financial charges, and capitalized interest (IFCCI) ratios at 23.1x in 2014. The very strong cash flow protection is attributable to the Company's stable profitability and conservative capital structure. Following the Company's strong effort to widen its distribution network and market coverage, we expect the Company could improve its revenue and profitability which will support SMSM's debt and interest coverage to stay at a strong level at more than 400% and 40.0x, respectively, in the near term due to better profitability and lower level of debt.

Constraining factor for the above ratings is:

- ***Exposure to volatility of raw material price.*** Most of the Company's raw materials are imported, which represents 69.4% of total raw material purchase and 49% of its cost of goods sold in 2014. The Company's imported raw materials include steel plates, filter paper, aluminum, and brass-copper strip, all of which are commodity with prices fluctuating depending on the global supply and demand dynamics. An unexpected increase in raw material prices, in our view, may squeeze SMSM's margins as the Company could not immediately pass on the increases to its customers.

OUTLOOK

A **"stable"** outlook is assigned to the Company's corporate rating. The rating may be raised if SMSM could further increase its market position globally, while maintaining its very strong financial profile. However, the rating may be lowered if the Company finances its capital expenditure and business expansions with significant amount of debt above our expectation following the lower than expected business growth.