

SMSM: Dedicated Heavy Equipment Parts Manufacturer

BUY

Target Price : Rp1,870

Last Price : Rp1,455

Upside : 28.5%

Company Profile

PT Selamat Sempurna Tbk is an Indonesia-based company engaged in manufacturing automotive parts, primarily filters. Its other products include radiators; coachwork, comprising hydraulic and automotive components, such as coachwork, tanks, dump trucks, trailers and dump hoists, as well as other automotive components, including fuel tanks, mufflers and brake pipes. The Company also distributes its products to aftermarket sectors in Indonesia. It markets its filters and radiators under the brand names Sakura and ADR, respectively. Some of its subsidiaries are PT Panata Jaya Mandiri, PT Hydraxle Perkasa and PT Selamat Sempurna Perkasa.

Stock Stats

Market Capitalization (Billion) : Rp8,379
 Shares Outstanding (Billion) : 5.76
 52 Weeks Highest Price : Rp1,625
 52 Weeks Lowest Price : Rp1,225
 YTD Performance : 3.9%

Shareholders

PT Adrindo Initperkasa : 58.1%
 Public : 41.9%

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PT Selamat Sempurna Tbk (SMSM.IJ) is an auto part manufacturer with export focus that produce 3 main products: 1) Filter – under the well-known brand Sakura 2) Radiator – under the brand ADR 3) Body making – focuses only for domestic market. We forecast EPS growth of 12% for 2019F due to the high demand in heavy equipment product both in global and domestic market. We Initiate with Buy recommendation and target price of Rp1,870/share.

Tapping international market through strategic partnership. SMSM produces Filter as the main product which 70% of total sales. To tap the global market SMSM partnered with Donaldson Co. Inc, a US based worldwide leader for filtration industry. This partnership is sealed under PT Panata Jaya Mandiri (PJM) where SMSM owns 70% of the company. SMSM also bought 44% shares of Sure Filter Co., Ltd. A sole distributor of filter and radiator products in Thailand.

Shifting into higher margin product. SMSM currently selling auto filter which is used by passenger car. The auto filter relatively has lower margin compared to heavy duty filter that is used by heavy equipment. With rising global and domestic demand for heavy equipment, SMSM will be able to capture the opportunity to increase its margin for filter product.

Consistent quarterly dividend payment to investors. We like SMSM commitment in paying dividend to investors. The company consistently paid dividend for the last 13 years consecutively with average dividend ratio of 65%. Most recent dividend payment for 2017 is 66% equal to Rp57.42/shares which indicate current dividend yield of 4.0%.

Valuation. We feel the dividend discount model is suitable for the valuation as SMSM has consistent quarterly dividend payment. The valuation shows target price of Rp1,870/share which equal to forward PER 2019F of 15.1x with EPS growth of 21%. We assume SMSM pay dividend at ratio of 50%, CAPM of 7.3% and sustainable growth rate of 4%.

Figure1. Financial Highlights

	2015	2016	2017	2018F	2019F	2020F
Revenue	2,804	2,880	3,340	3,775	4,324	4,983
Gross Profit	871	934	1,007	1,095	1,301	1,569
Gross Profit Margin (%)	31.1%	32.4%	30.1%	29.0%	30.1%	31.5%
Operating Profit	604	668	724	772	925	1,119
Operating Margin (%)	21.5%	23.2%	21.7%	20.5%	21.4%	22.4%
Net Profit	462	502	556	586	711	864
Net Profit Margin (%)	16.5%	17.4%	16.6%	15.5%	16.4%	17.3%
EPS	74	79	97	102	124	150
ROA (%)	21%	22%	23%	20%	21%	22%
ROE (%)	32%	32%	30%	28%	28%	28%

Source: Company, ASI forecast

Company Background

PT Selamat Sempurna Tbk (SMSM) is the flagship of ADR group, a company based in Jakarta primarily engaged in automotive part manufacturing which includes filter, radiator, oil, coolers, condenser, brake pipe, fuel pipes, fuel tanks, exhaust systems and press parts.

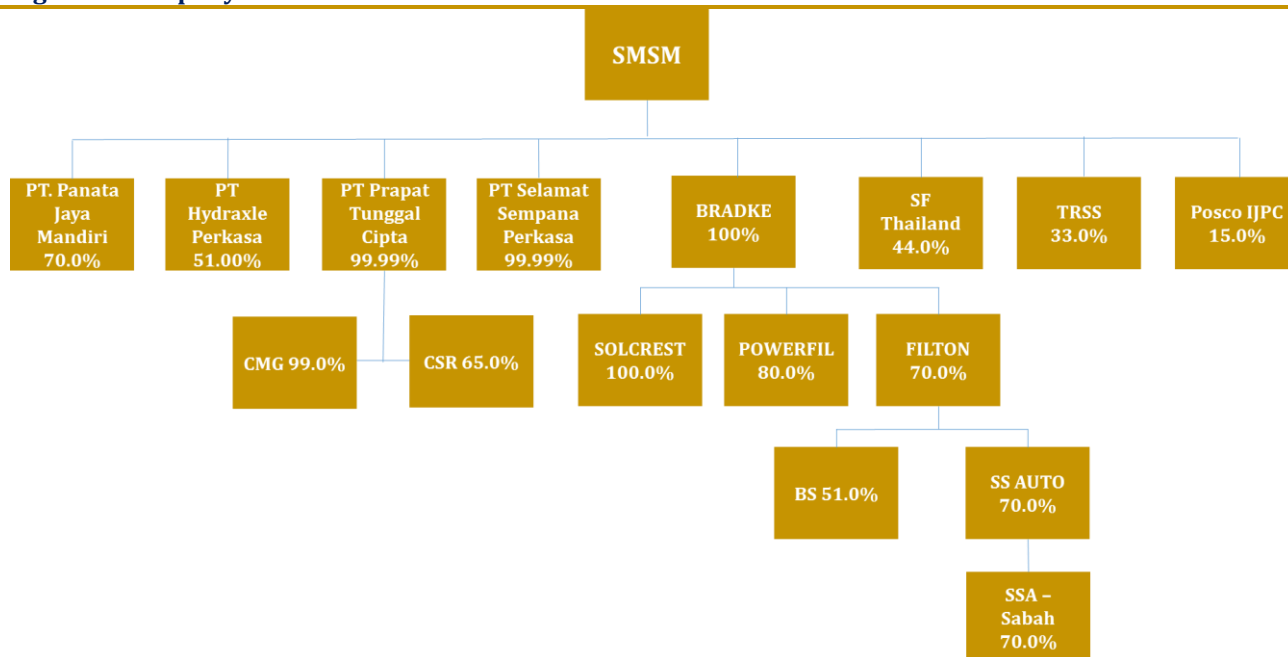
Figure 2. Shareholder Structure (November 2018)

Shareholder	Number of Shares	Ownership
PT Adrindo Intiperkasa	3,347,263,708.00	58.13%
Foreign Institution	1,046,454,288	18.17%
Local Institution	468,242,172	8.13%
Foreign Individuals	6,989,600	0.12%
Local Individuals	867,359,860	15.06%
Pension Fund	5,278,200	0.09%
Broker	17,087,612	0.30%
Total	5,758,675,440	100.00%

Source: KSEI

SMSM is well known as the largest filter and radiator manufacturer in the region under Sakura filter brand which has been registered to more than 90 countries. SMSM own several subsidiary and investment in associate to manufacture each product and penetrate the global market which include a joint venture with Donaldson Company Inc. a worldwide leader in filtration Industry and Tokyo Radiator.

Figure 3. Company Structure



Source: Company

Figure 4. Subsidiaries and Associates

Subsidiary	% Ownership	Type of Ownership	Location	Activity
Bradke Synergies Sdn Bhd	100%	Subsidiary	Malaysia	Investment Holding Company
PT Hydraxle Perkasa	51%	Subsidiary	Curug	Body Maker manufacture
PT Panata Jaya Mandiri	70%	Subsidiary	Curug	Filter Manufacture
PT POSCO Indonesia Jakarta Processing Center	15%	Associate	Karawang	Steel Processing Industry
PT Prapat Tunggal Cipta	99.99%	Subsidiary	Jakarta	Sole Distributor
PT Selamat Sempana Perkasa	99.99%	Subsidiary	Curug	Rubber Manufacture
PT Tokyo Radiator Selamat Sempurna	33%	Associate	Curug	Radiator Manufacture

Source: Company

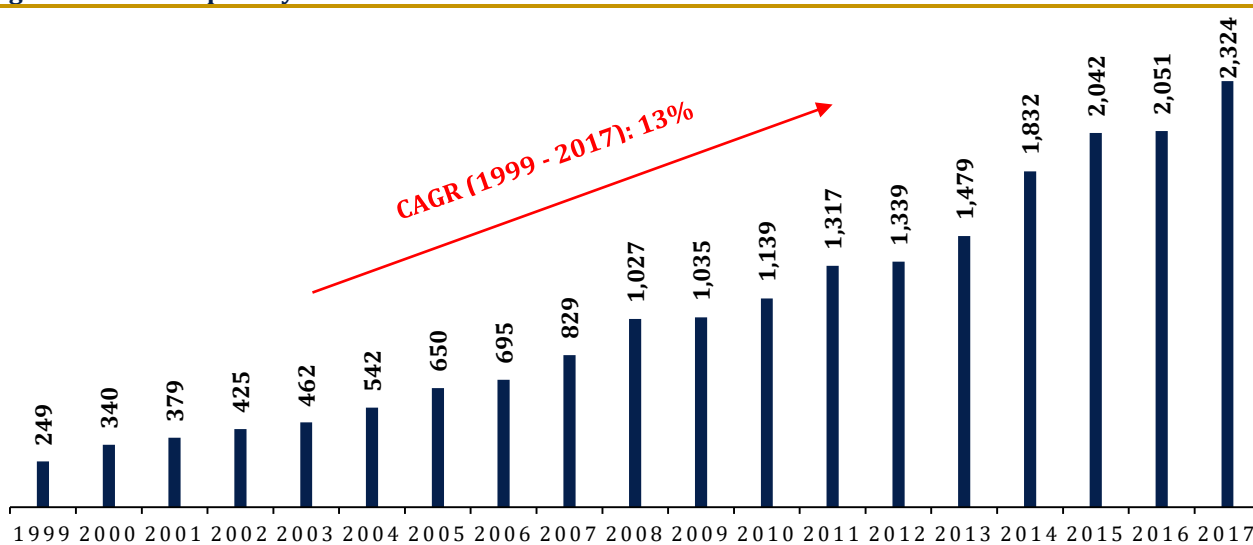
Developing Brand Globally

SMSM has been in the export market for the last 18 years. The initiative to penetrate the global market including joint venture with Donaldson co. Inc. a US based company which is the worldwide market leader in filtration industry under PT Panata Jaya Mandiri (PJM). SSMS owned 70% total ownership of PJM

In expanding the radiator market, SMSM incorporated PT Tokyo Radiator Selamat Sempurna (TRSS) under a joint venture agreement with Tokyo Radiator Mfg. Co., Ltd in January 2012. SMSM owns 33% share ownership of TRSS.

While to expand the South East Asia market, SMSM acquired 100% stakes of Bradke Synergies Sdn Bhd in 2015 with total proceed of Rp220 bn. Bradke is a holding company for companies that manufacture filtration products, supply machineries for automobile industry and sole distributor of SMSM product in Malaysia and Australia.

Figure 5. SMSM Export by value



Source: Company

Business Overview

SMSM business includes manufacturing variety of automobile parts and trading business which divided into 5 categories: filtration, radiators, body maker, trading and other products.

Filter segment is the main revenue contributor of SMSM with total revenue 9M18 of Rp1,587 bn (+17.6% YoY), while the second highest revenue contributor is the trading segment which generates total revenue 9M18 of Rp656.6 (+14.9% YoY)

Filter

The filter business contributes majority of SMSM overall revenue. The filter business uses Sakura Filter brand which holds the largest range of product that has more than 7,000 part numbers for automotives, commercials, trucks and buses, heavy equipments, marines and industrials that exported around the world. SMSM also OEM of several other brand including Donaldson Company for United States market.

Figure 6. SMSM Filter Products



Source: Sakura Filter

Radiator

SMSM radiator business has signed an agreement with Japanese company for technical assistance which materialized through its associated company PT Tokyo Radiator Selamat Sempurna where the product has been exported to more than 30 countries. SMSM produced radiator from copper brass to aluminum for automotive and heavy duty applications.

Figure 7. SMSM Radiator Product



Source: ADR-Radiator

Body Maker

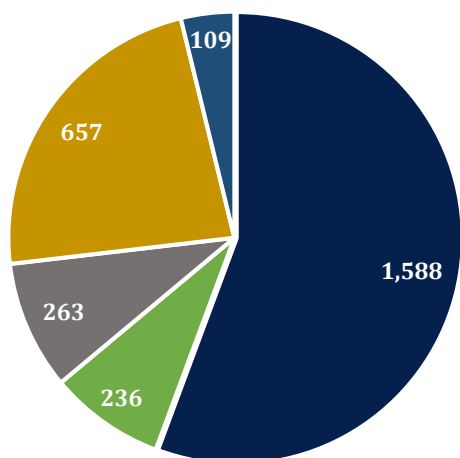
The body marker division is operating under PT Hydraxle Perkasa (HP) where SMSM hold 51% ownership of the company. HP manufactured dump hoist and dump truck body, trailer, mixer, and tank truck focusing 100% of its sales to domestic market.

Figure 8. SMSM Body Maker Products



Source: Hydraxle Perkasa

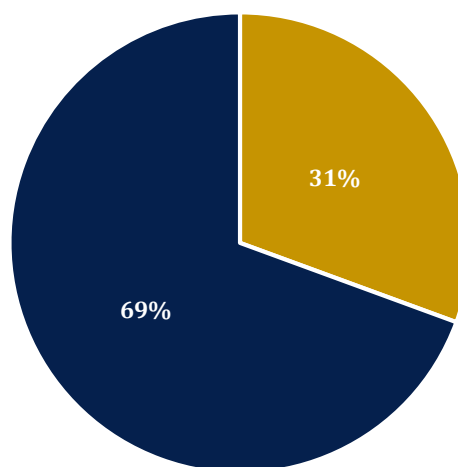
Figure 9. SMSM 9M18 Product Contribution



■ Filter ■ Radiator ■ Body Maker ■ Trading ■ Others

Source: company

Figure 10. 9M18 Oversea vs Domestic Market



■ Indonesia ■ Overseas

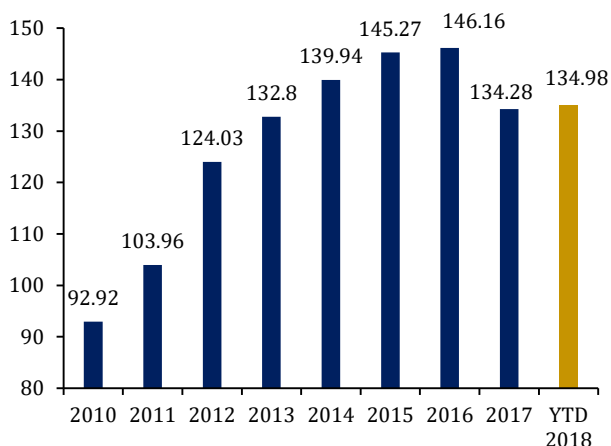
Source: company

Industry analysis

The Raise of Heavy Vehicles

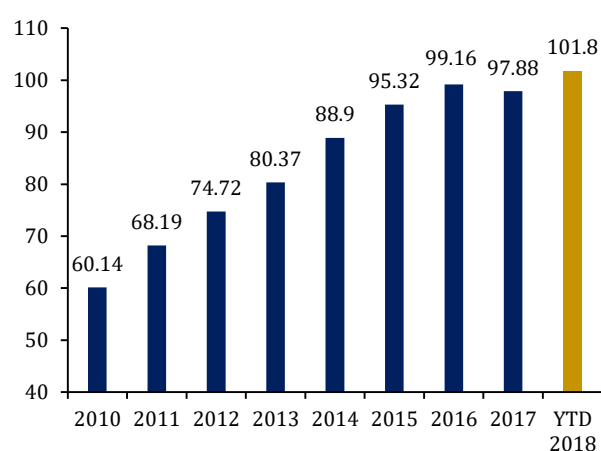
United states automotive production experienced a contraction in 2017 to 132.28 million units (-8.12% YoY) while slightly recover until November 2018 (+0.52% YTD). In the other hand, the heavy vehicles production keeps increasing to 101.8 million in November 2018 (+4.0% YTD) a new high for US heavy vehicles production. The production of heavy equipment in 2010 only took 64.7% of total production and increases to 75.4% in November 2018. In the domestic market, Indonesia recently experience substantial increase in heavy equipment production. Until November 2018, we see increase in production of heavy vehicles to 261,979 units (+12.33% YTD). To capture this opportunity, SMSM is planning to focus more on producing heavy duty filtration products and reduce the passenger car filtration which has lower margin compared to heavy duty filters.

Figure 11. US Vehicle Assembly (in Millions)



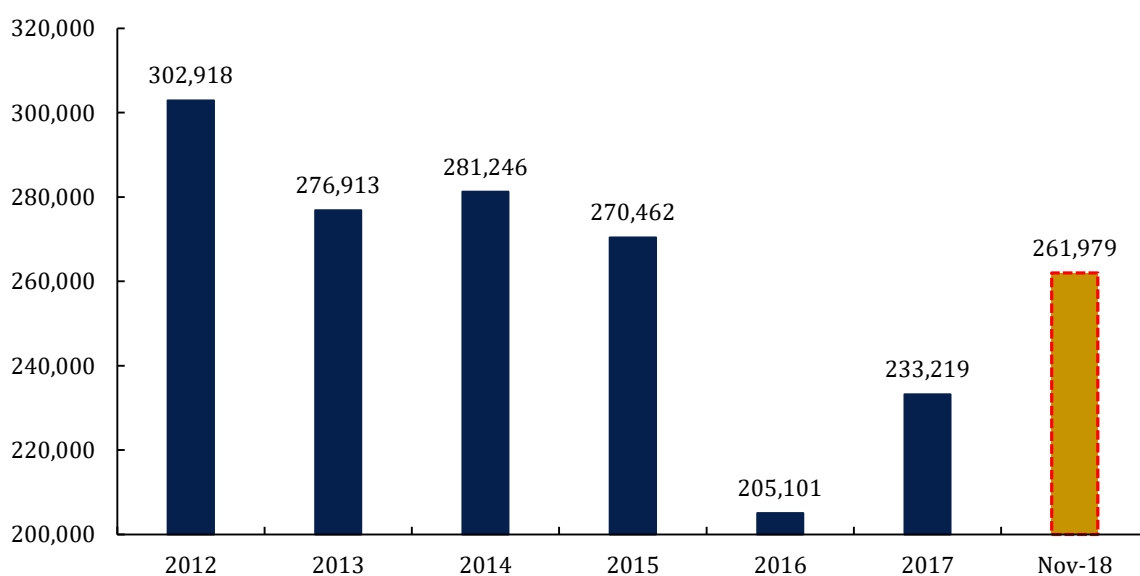
Source: Federal Reserve

Figure 12. US Truck Assembly (in Millions)



Source: Federal Reserve

Figure 13. Indonesia Truck and Pick Up Production (Units)

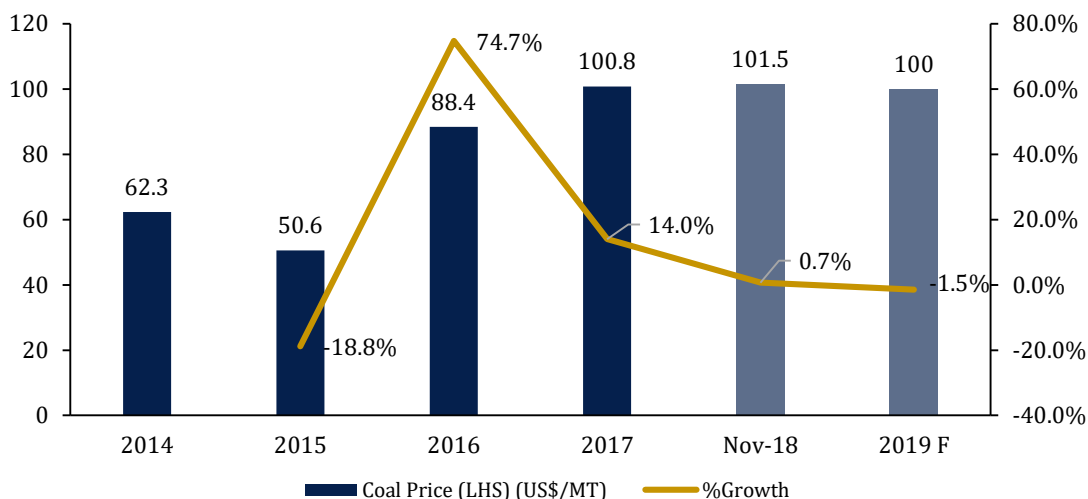


Source: GAIKINDO

2019 Heavy Industry Demand Will Remain Strong

We believe the demand for heavy duty filtration will remain strong in 2019 as mining sector is in recovery. Our view is supported by coal price that remain strong at December 2018 US\$101.6/ton for 6.322 Kcal/kg which pushes the demand of heavy equipment along 2018 higher. We expect the coal price will remain at US\$100/ton in 2019 which will encourage the mining activity globally and especially in Indonesia.

Figure 14. Coal ICE New Castle Historical Price



Source: Bloomberg

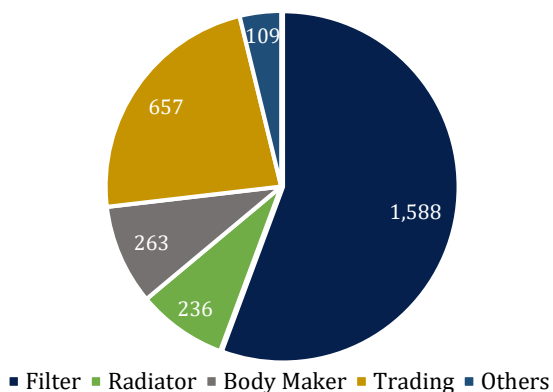
Financial Analysis

The filtration segment contributes majority of SMSM sales with total revenue 9M18 of Rp1.6 tn or 55.7% of total revenue in 9M18 (Rp2.9 tn). We expect filtration division will still be the backbone of SMSM business in 2019. The revenue growth will be driven by shifting product mix of filtration from auto filter which rely on volume sales with low margin into heavy duty filter which has higher margin and volume supported by recent mining industry growth globally.

Minimum Impact from Steel Import Regulation

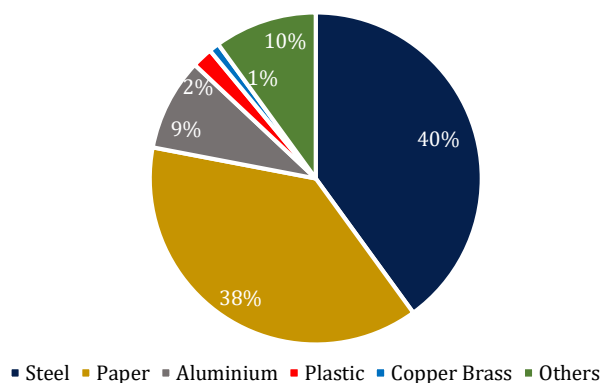
SMSM raw material cost took 38% of total revenue in 9M18 in which steel and paper contribute total of 40% and 38% of raw material cost respectively. Recently Indonesia Ministry of Trade has announced import regulation of steel products under the regulation no 110/2018 which limit the import quota of steel products. However, in the article 26 there is an exception for steel import that will be further use as a production material for export use, thus the impact to SMSM cost is minimum as majority of the production were sold overseas.

Figure 15. 9M Sales Breakdown (Rp Billion)



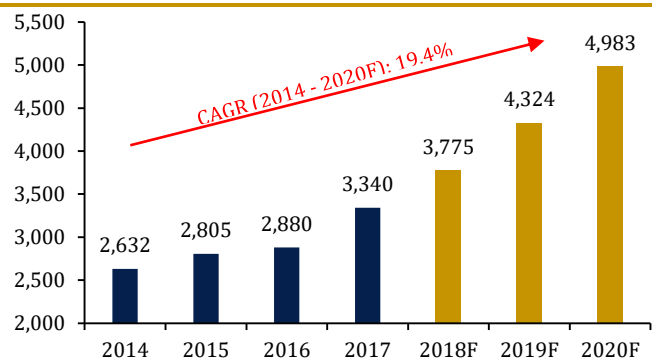
Source: Company

Figure 16. Raw Material cost Breakdown



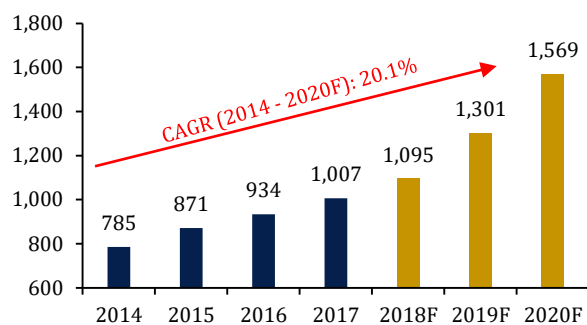
Source: Company

Figure 17. Revenue 2014 – 2020F (IDR Billion)



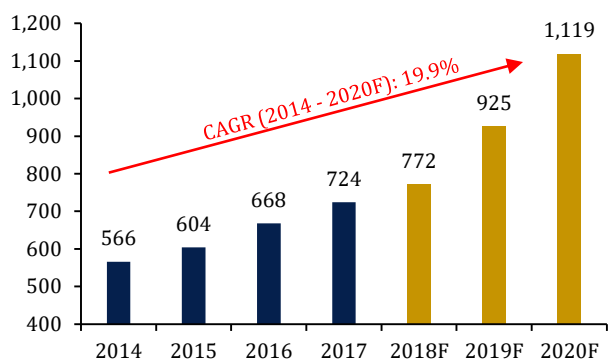
Source: Company, ASI

Figure 18. Gross Profit 2014 – 2020F (IDR Billion)



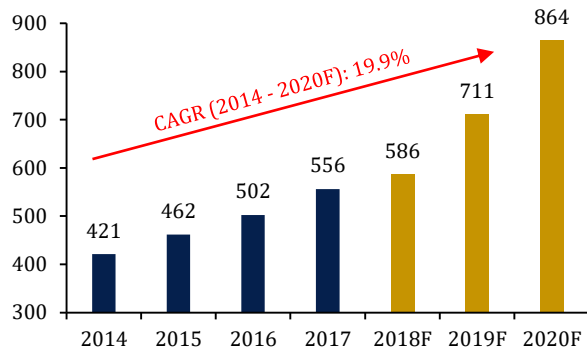
Source: Company, ASI

Figure 19. EBIT 2014 – 2020F (IDR Billion)



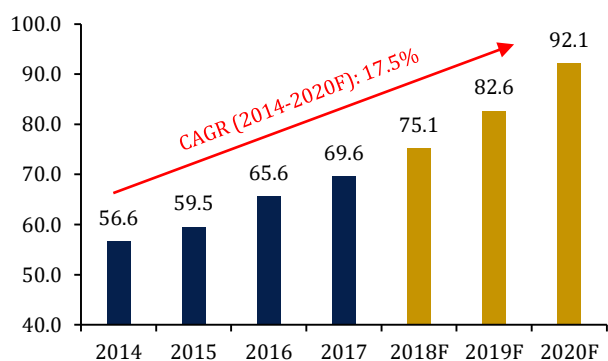
Source: Company, ASI

Figure 20. Net Income 2014 – 2020F (IDR Billion)



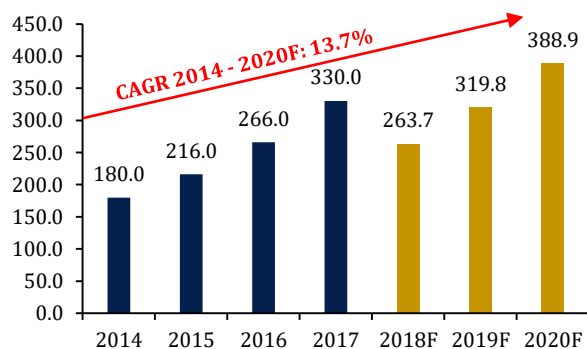
Source: Company, ASI

Figure 19. Filter Sales Volume (in million Units)



Source: Company, ASI

Figure 20. Dividend Payout 2014 -2020F



Source: Company, ASI

Valuation

Initiate Buy with TP of Rp1,870/share

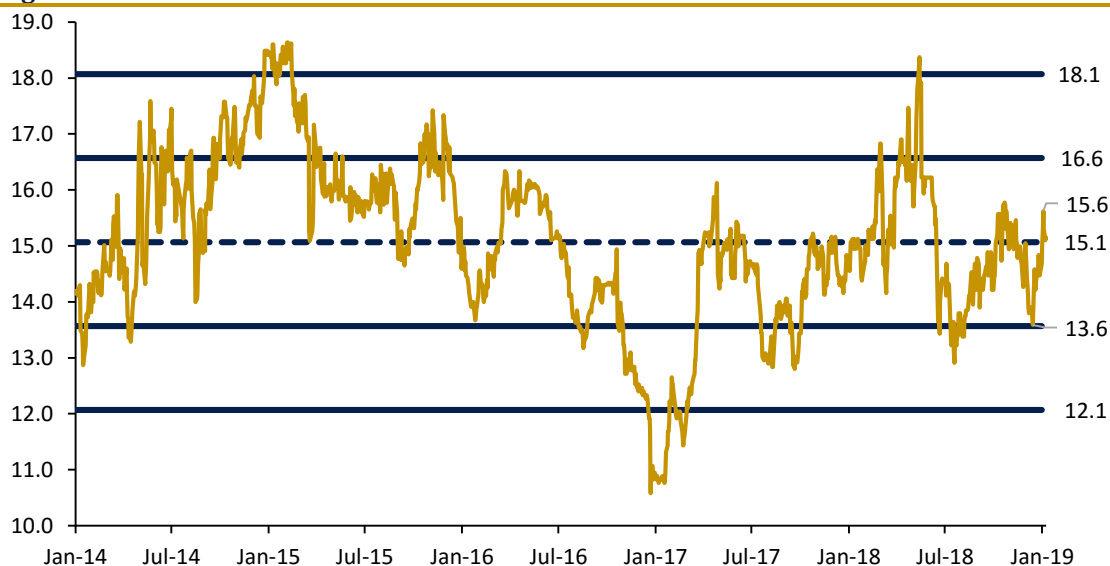
We value SMSM.IJ with TP of Rp1,870/share through dividend discount model with 50% dividend payout ratio, 4% growth rate, beta of -0.1, and risk free rate of 8.0%. Our TP reflects forward PER 2019F of 15.1x on par with 5 years' historical average PER. SMSM fundamental value is supported by its highest in the industry ROE of 30.9% and ROA of 19.8%.

Figure 21. SMSM Peers Comparison

Ticker	Market Cap (IDR Billion)	PER (TTM)	PBV	ROE	ROA	DER
SMSM	8,379	14.62	4.69	30.94%	19.80%	0.09
AUTO	7,856	13.20	0.79	6.00%	3.8%	0.03
NIPS	670	23.83	0.74	3.1%	1.5%	0.6
INDS	1424	10.51	0.65	6.2%	5.4%	0.01
Industry		17.87	1.66	11.22%	6.67%	33.4

Source: Reuters, ASI

Figure 21. 5 Years Historical PE Band



Source: Reuters, ASI

Key Financials (IDR Billion)

Balance Sheet	2016	2017	2018F	2019F	2020F		2016	2017	2018F	2019F	2020F
Cash and Equivalent	97	71	130	174	404	Long Term Employee Benefit Liabilities	125	155	192	239	298
Account Receivable	728	767	950	1,254	1,367	Deferred Tax Liabilities	0	0	0	0	0
Other Receivable	4	2	2	2	2	Long Term Bank Loans	38	33	36	29	21
Derivative Receivable	6	7	0	0	0	Hire Purchase Payables	4	6	3	0	0
Inventories	555	657	811	894	1,032	Total Non-Current Liabilities	167	194	231	268	320
Advances	18	24	18	26	30	Total Liabilities	675	614	752	758	717
Prepaid- Expenses	2	3	4	4	4	Equity					
Prepaid Tax	44	40	38	46	56	Issued Capital	144	144	144	144	144
changes	-12	-4	0	0	0	Additional Paid-in Capital	50	50	50	50	50
Total Current Assets	1,454	1,571	1,952	2,400	2,895	Other Components of Equity	-9	6	20	20	20
Deferred Tax Assets	35	39	44	49	56	Retained Earnings	1,193	1,392	1,648	2,096	2,641
changes	0	4	5	6	7	Non-Controlling Interests	202	237	257	293	336
Investment in Associates	20	24	53	63	92	Total Equity	1,580	1,829	2,120	2,603	3,192
Non-Current Financial Asset	15	15	15	15	15	Total Liabilities and Equity	2,255	2,443	2,871	3,361	3,909
Net Fixed Assets	658	684	730	756	774	Income Statement					
Advance Purchases of Fixed Assets	63	33	0	0	0	Net Sales	2,880	3,340	3,775	4,324	4,983
Investment Property	0	63	63	63	63	COGS	-	-	-2,680	-3,022	-3,413
Other Non-Current Assets	9	15	15	15	15		1,946	2,333			
Total Non-Current Assets	800	873	919	961	1,014	Gross Profit	934	1,007	1,095	1,301	1,569
Total Assets	2,254	2,444	2,871	3,361	3,909	Selling Expenses	-160	-178	-202	-231	-272
Liabilities						General and Admin	-145	-153	-169	-193	-227
Short Term Bank Loans	105	54	113	57	28	Other Operating Income	48	48	48	48	48
Account Payables	246	195	246	251	198	Other Operating Expenses	-9	0	0	0	0
Other Payables	10	6	6	7	7	Operating Profit	668	724	772	925	1,119
Taxes Payables	55	59	70	84	101	Finance Income	3	3	2	5	7
Benefit Liabilities	29	34	38	42	47	Finance Charges	-15	-10	-15	-9	-5
Accrued Expenses	38	43	75	86	65	Income from Associates	2	4	2	2	2
Advance from Customers	15	17	19	22	25	Pre-Tax Income	658	721	760	922	1,122
Long Term Bank Loans	8	9	8	8	8	Income Tax Expenses	-156	-165	-174	-211	-257
Hire Purchase Payables	2	3	3	3	3	Net Income	502	556	586	711	865
Total Current Liabilities	508	420	520	490	398						

Disclaimer

INVESTMENT RATINGS: Indicators of expected total return (price appreciation plus dividend yield) within the 12-month period from the date of the last published report, are: Buy (10% or higher), Neutral (-10% to 10%) and Sell (-10% or lower).

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