

Selamat Sempurna

SMSM IJ / SMSM JK

FLASH NOTE

➤ **Market Cap**
US\$264.2m
Rp2,375,454m

➤ **Avg Daily Turnover**
US\$0.16m
Rp1,484m

➤ **Free Float**
41.9%
1,440 m shares

Current **Rp1,650**
Target ➤ **Rp1,950**
Previous Target **Rp1,950**
Up/downside **18.2%**

SHORT TERM (3 MTH) **LONG TERM**
TRADING BUY **OUTPERFORM**
TRADING SELL NEUTRAL
UNDERPERFORM

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	18.9	24.7	44.8
Absolute	21.3	26.9	57.1

Major shareholders

	% held
Adrindo Inti Perkasa	58.1

Auto parts empire

Our visit to the group's main factories showed impressive vertical integration of auto-parts manufacturing. This should allow the group to capture production-supply margins, as well as ensure a stable and competitive supply of inputs for Selamat Sempurna.

We maintain our DCF target price (WACC 13.4%) and OUTPERFORM rating. Catalysts remain a highly competitive operation, high ROEs and generous dividend payouts. Stock provides attractive exposure to the Indonesian heavy-equipment and auto sectors.

What Happened ➤

We visited Selamat Sempurna and the ADR Group's main manufacturing plant in Tangerang, a 45-minute drive from central Jakarta, to the west. The factories are located in a massive 40ha manufacturing complex which sits on 75Ha of land. There are six factories producing key parts for Selamat Sempurna's filters and radiators, such as key raw materials, components and packaging.

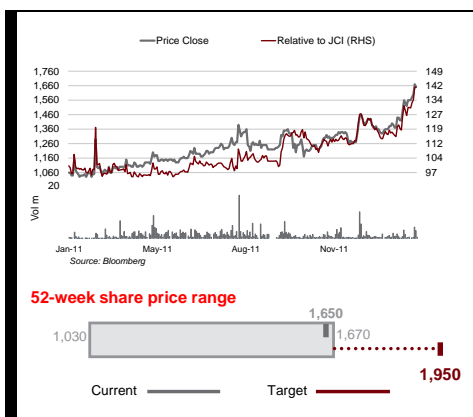
What We Think ➤

The factories are vertically integrated, allowing the group to capture margins from various parts of the

value chain. Selamat Sempurna is its flagship and clearly benefits from the ADR Group's competitive costing and stable supply chain. Its size also offers economies of scale. Vertical integration in the same location surely allows for savings in transport, shorter turnaround times and flexibility in adjusting to changes in specs and technology.

What You Should Do ➤

Selamat Sempurna remains a good proxy for the boom in Indonesia's heavy-equipment and auto sectors. Its solid manufacturing capability, strong track record and robust financials should allow the group to benefit from rising investment in the auto sector, in particular. While the share price has risen 16% since our initiation on 6 Jan, upside remains. Valuations of 11.6-10.0x CY11-12 P/E on 15.3% growth, compared with the 15.6-12.1x peer averages, remain attractive.



Financial Summary

	Dec-09A	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Revenue (Rpb)	1,375	1,562	1,834	2,085	2,471
Operating EBITDA (Rpb)	266.1	304.9	393.6	444.3	518.1
Net Profit (Rpb)	132.9	150.4	208.1	237.3	282.3
Core EPS (Rp)	94.4	105.0	142.7	164.6	195.8
Core EPS Growth	18.0%	11.2%	36.0%	15.3%	19.0%
FD Core P/E (x)	17.48	15.72	11.56	10.02	8.42
DPS (Rp)	125.0	90.0	80.7	136.8	151.8
Dividend Yield	7.58%	5.45%	4.89%	8.29%	9.20%
EV/EBITDA (x)	9.65	8.53	6.80	5.92	5.35
P/FCFE (x)	14.29	19.06	26.71	14.31	12.79
Net Gearing	28.5%	32.6%	36.4%	27.1%	41.3%
P/BV (x)	4.77	4.57	3.89	3.64	3.32
Recurring ROE	26.0%	29.7%	36.3%	37.5%	41.2%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.10	1.06	1.10

SOURCE: CIMB, COMPANY REPORTS

The ADR Group ▶

Established in 1973, the ADR Group is a group of companies focusing on the production and distribution of auto components. It has four business divisions: Automotive (Automotive Components Industry and Truck Vehicle Distribution), Agro (MDF plant, palm oil, and forest plantations), Property (directly owned or jointly developed and managed property projects, such as office towers, condominiums, malls and industrial estates in Jakarta and Batam), and Investment.

Companies under the auto business ▶

The ADR Group's automotive business has five manufacturing companies and four distribution companies. With the exception of Selamat Sempurna's Kamal radiator plant, all five manufacturing companies are located on 75ha of land in Tangerang, 40ha already fully utilised.

The five manufacturing companies are:

1. PT Selamat Sempurna Tbk. (since 1976). The flagship of ADR's auto business. Products are filters (76% of sales) and radiators (21%), and to a lesser extent, oil coolers, condensers, brake pipes, fuel pipes, fuel tanks, exhaust systems, and press parts.
2. PT Panata Jaya Mandiri (since 1983). Joint venture between Selamat Sempurna (70% ownership) and Donaldson Company Inc (30%), a prominent US filtration products company. Manufactures filtration products for heavy equipment, gas turbines, industrial engines, construction equipment, and automotives. Also supplies OEM and OES to Hino, Hitachi, Isuzu, Komatsu, Kubota, Mercedes, Nissan Diesel, Toyota, and Yanmar.
3. PT Hydraxle Perkasa (since 1983). Originally began operations in assembling dump trucks and hoists and special purpose vehicles, this company has made further investments in a steel centre, and a tool and die, mould, and machinery centre.
4. PT Selamat Sempana Perkasa (since 1990). Manufactures and exports rubber O-rings, rubber components, rubber compounds, polyurethanes, and plastisol adhesives for auto industries.
5. PT Dinamikajaya Bumipersada (since 1995). Specialises in manufacturing engine gasket kits, plastic injection parts, and packaging.

Figure 1: Selamat Sempurna and Panata Jaya Mandiri manufacture filters and radiators



SOURCES: COMPANY REPORTS

Figure 2: Hydraxle Perkasa assembles dump trucks and manufactures industrial components



SOURCES: COMPANY REPORTS

Figure 3: Selamat Sempana Perkasa manufactures rubber components and industrial adhesives



SOURCES: COMPANY REPORTS

Figure 4: Dinamikajaya Bumipersada manufactures engine gasket kits, plastic injection parts, and packaging



SOURCES: COMPANY REPORTS

The four distribution companies are:

1. PT Prapat Tunggal Cipta (since 1994). Specialises in the distribution of ADR Group's and Selamat Sempurna's products in the Indonesian aftermarket.
2. PT Mangatur Dharma (since 1976). A trading house representing Donaldson products and providing technical sales for various industries from power plants to oil and gas industries.
3. PT Cahaya Mitra Gemilang (since 2001). Specialises in the distribution of ADR Group's and Selamat Sempurna's products in North Sumatra and Nangroe Aceh Darussalam.
4. PT Prima Auto Indonesia (since 2008). A sole agent and distributor of Baotou Bei Ben Heavy Duty Truck Co. Ltd.

Of the nine companies, only Selamat Sempurna and Panata Jaya Mandiri are consolidated under Selamat Sempurna (SMSM).

Vertically integrated, supporting Selamat Sempurna ▶

The nine companies are integrated to capture margins across the value chain of the auto parts business, from producing raw chemicals, small parts, and packaging to distributing end-products to customers. Many of the companies perform key functions for Selamat Sempurna:

1. PT Selamat Sempana Perkasa supplies chemicals, adhesives, and parts such as filter rubber seals to Selamat Sempurna
2. PT Dinamikajaya Bumipersada supplies packaging and parts to Selamat Sempurna
3. PT Prapat Tunggal Cipta, PT Mangatur Dharma and PT Cahaya Mitra Gemilang distribute Selamat Sempurna's and Panata Jaya Mandiri's products in Indonesia.

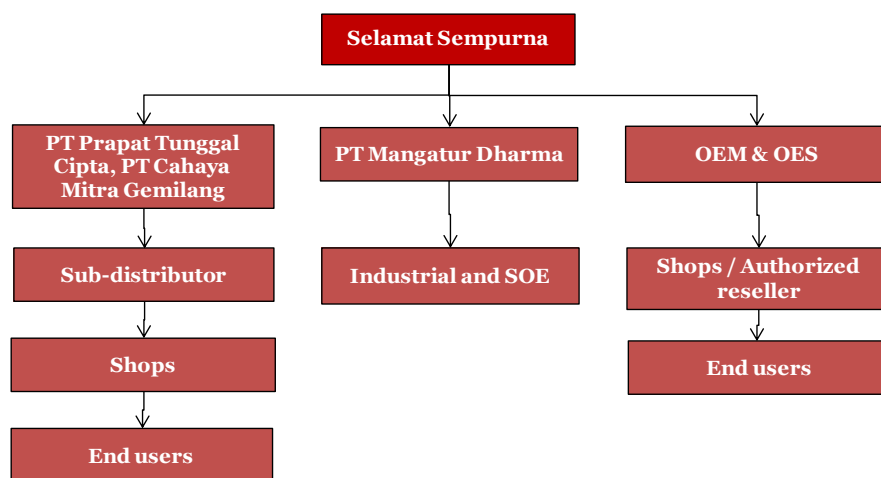
In addition, PT Kurnia Sinar Semesta, a printing company located within the ADR Group's Tangerang manufacturing complex, supplies packaging and printing to Selamat Sempurna.

Figure 5: Companies within the ADR Group that manufacture and supply key raw materials and parts to Selamat Sempurna

ADR Group companies	Products	% of Selamat Sempurna's total raw material purchases				
		2005	2006	2007	2008	2009
PT Selamat Sempurna Perkasa	Chemicals, components	4.9%	5.3%	4.9%	4.5%	5.7%
PT Dinamikajaya Bumipersada	Packaging, components	1.6%	4.2%	4.5%	4.4%	4.8%
PT Kurnia Sinar Semesta	Packaging	-	0.7%	1.2%	1.4%	1.6%
		6.5%	10.1%	10.6%	10.3%	12.2%

SOURCES: COMPANY PROSPECTUS

Figure 6: PT Prapat Tunggal Cipta, PT Mangatur Dharma and PT Cahaya Mitra Gemilang handle the local distribution of Selamat Sempurna's products



SOURCES: COMPANY REPORTS

Being located in the same manufacturing complex as Selamat Sempurna's filter plant, the group can save quite a bit of transportation costs. Moreover, Selamat Sempurna benefits from a steady supply of specialised raw materials and parts, which could be expensive and unreliable if sourced from external parties. As an example, custom moulds for Selamat Sempurna's products are produced by the group, enabling Selamat Sempurna to react quickly to changing market trends and demands. The group's ability to switch capacity swiftly from car filters to heavy-equipment filters has also been key to its response to demand from the booming heavy-equipment sector.

Figure 7: A massive 40ha manufacturing complex nestled on 75ha of land



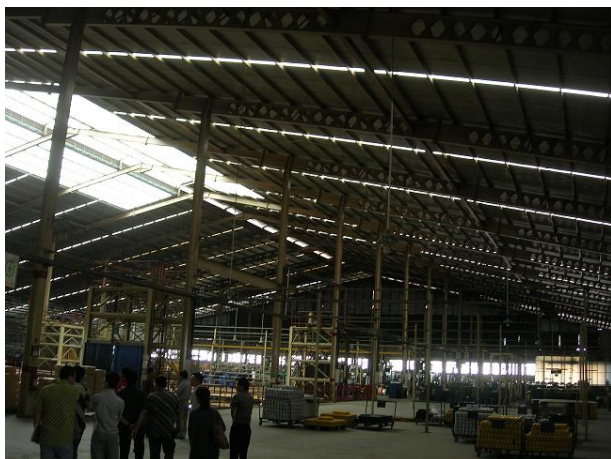
SOURCES: COMPANY REPORTS

Figure 8: Filter factory divided into OEM and non-OEM assembly lines



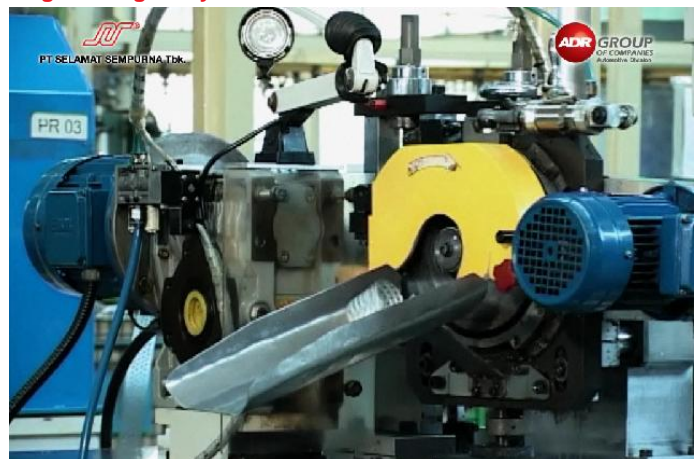
SOURCES: COMPANY REPORTS

Figure 9: Filter factory was busy and fully operational during our visit



SOURCES: CIMB

Figure 10: Filter production consists of several production stages using many different machines



SOURCES: COMPANY REPORTS

Figure 11: Sector comparison – CIMB coverage

Company	Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY 2011	CY 2012		CY 2011	CY 2012	CY 2011	CY 2012	CY 2013	CY 2011	CY 2012	CY 2011	CY 2012
Astra International	ASII IJ	OUTPERFORM	77,100	77,200	34,774	17.8	15.6	17.8%	5.17	4.30	32.3%	30.2%	28.9%	13.5	11.4	1.8%	2.1%
Indomobil Sukses Int'l	IMAS IJ	OUTPERFORM	14,950	14,900	2,303	27.6	16.0	42.0%	4.31	3.53	25.0%	24.3%	27.2%	29.9	18.6	0.0%	1.1%
Selamat Sempurna	SMSM IJ	OUTPERFORM	1,650	1,950	265	11.6	10.0	24.0%	3.89	3.64	37.6%	37.1%	41.2%	6.6	5.9	4.9%	8.3%
Indonesia average						18.2	15.5	27.9%	5.10	4.24	31.9%	29.8%	28.9%	13.8	11.6	1.7%	2.1%
Proton Holdings	PROH MK	NEUTRAL	5.41	5.50	976	39.2	28.5	3.6%	0.54	0.53	1.4%	1.9%	2.4%	5.6	5.5	1.4%	1.4%
Tan Chong Motor Holdings	TCM MK	NEUTRAL	4.29	4.60	947	11.2	9.9	13.6%	1.54	1.38	14.4%	14.9%	15.8%	7.6	6.9	2.3%	2.4%
UMW Holdings	UMWH MK	NEUTRAL	6.91	7.00	2,653	13.0	11.5	12.8%	1.85	1.73	14.9%	15.6%	15.8%	5.7	5.8	4.2%	4.8%
Malaysia average						14.7	12.8	10.0%	1.17	1.10	8.2%	8.9%	9.5%	6.0	5.9	3.2%	3.6%
Brilliance China Automotive	1114 HK	NEUTRAL	8.09	8.80	5,234	20.7	14.0	39.4%	4.15	3.20	21.9%	25.8%	26.6%	38.2	33.7	0.0%	0.0%
Dongfeng Motor Group	489 HK	OUTPERFORM	14.50	18.20	16,105	9.3	8.2	9.4%	2.23	1.81	26.4%	24.3%	21.8%	4.4	3.3	1.6%	1.7%
Geely Automobile Holdings	175 HK	OUTPERFORM	2.30	3.40	2,211	9.1	7.3	23.3%	1.48	1.25	17.3%	18.7%	20.0%	5.3	4.1	1.4%	1.7%
Great Wall Motor	2333 HK	OUTPERFORM	13.20	19.00	5,798	8.4	7.7	21.0%	1.73	1.60	26.0%	22.7%	22.0%	4.7	3.7	2.4%	2.6%
Guangzhou Auto - H	2238 HK	NEUTRAL	8.06	7.10	6,388	11.3	8.9	9.8%	1.44	1.28	13.1%	15.2%	15.9%	3.7	2.7	2.5%	3.2%
Qingling Motors Company-H	1122 HK	OUTPERFORM	2.11	3.50	675	10.6	8.7	27.0%	0.59	0.58	5.5%	6.8%	7.9%	-1.6	-1.5	7.8%	9.5%
Minth Group	425 HK	NEUTRAL	8.45	7.50	1,173	8.7	8.8	6.0%	1.22	1.12	14.3%	13.1%	13.4%	4.2	3.8	3.9%	3.9%
Weichai Power Co Ltd-H	2338 HK	NEUTRAL	42.00	43.60	9,027	9.7	9.3	0.0%	2.41	1.95	27.2%	23.1%	19.8%	4.9	4.5	1.1%	1.1%
Hong Kong average						10.1	8.8	17.0%	1.98	1.68	21.2%	20.7%	19.8%	5.0	4.0	1.7%	1.9%
Average all countries						12.8	11.0	18.3%	2.56	2.19	21.9%	21.4%	20.8%	7.5	6.3	1.7%	2.1%

SOURCES: CIMB, COMPANY REPORTS

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Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock	Sector
<p>OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.</p>	<p>OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.</p>
<p>NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.</p>	<p>NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.</p>
<p>UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.</p>	<p>UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.</p>
<p>TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.</p>	<p>TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.</p>
<p>TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.</p>	<p>TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.</p>

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

ADVANC - Excellent, AMATA - Very Good, AOT - Excellent, AP - Very Good, BANPU - Excellent, BAY - Excellent, BBL - Excellent, BCP - Excellent, BEC - Very Good, BECL - Very Good, BGH - not available, BH - Very Good, BIGC - Very Good, BTS - Very Good, CCET - Good, CK - Very Good, CPALL - Very Good, CPF - Very Good, CPN - Excellent, DELTA - Very Good, DTAC - Very Good, GLOBAL - not available, GLOW - Very Good, HANA - Very Good, HEMRAJ - Excellent, HMPRO - Very Good, ITD - Good, IVL - Very Good, KBANK - Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR - Very Good, MCOT - Excellent, MINT - Very Good, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - not available, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI - Very Good, SPALI - Very Good, STA - Very Good, STEC - Very Good, TCAP - Very Good, THAI - Very Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Very Good, TUF - Very Good: