



Selamat Sempurna

SMSM IJ / SMSM.JK

▶ **Market Cap**
US\$376.7m
Rp3,635,164m

▶ **Avg Daily Turnover**
US\$0.12m
Rp1,122m

▶ **Free Float**
41.9%
1,440 m shares

Current **Rp2,525**
Target ▶ **Rp2,600**
Previous Target **Rp2,600**
Up/downside **3.0%**

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	7.7	12.5	67.3
Absolute	6.3	16.1	80.4

Major shareholders

	% held
Adrindo Inti Perkasa	58.1

Lofty valuation a big negative

We expect more pain for Selamat Sempurna before things get better. Although 2013 could see catalysts coming from LCGC and normalising global demand, we believe the near-term earnings risk from a weak domestic heavy equipment industry should not be overlooked.

We downgrade SMSM from Neutral to Underperform on the back of rich valuation and earnings risks. Our EPS forecasts and DCF-based target price are maintained. A weak FY12 result could act as a downside catalyst.

Demand headwinds ▶

Domestic headwinds have yet to subside, with demand from the heavy equipment industry appearing to have deteriorated in 4Q12. Having caused SMSM sales in this segment (approx. 20% of earnings, including Hydraxle) to slow down in 3Q12, persistent demand weakness could drag SMSM's earnings growth to a weak single digit for FY12, with a muted yoy growth expected in 1H13.

Manageable fallout from minimum wage hike ▶

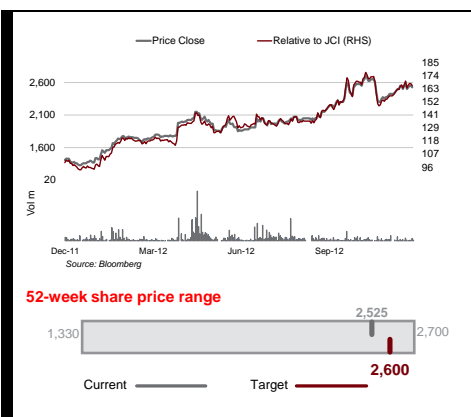
Although labour cost makes up 14% of SMSM's sales, higher than peers' 6-10%, only a small number of its workers are currently paid less than the 2013 Rp2.2m minimum wage threshold. Considering that the average take home pay for SMSM's factory workers stands at Rp2.7m, its margin should be relatively resilient

in the face of the upcoming wage hike. SMSM also plans to cut non-productive workers and reduce the overtime pay of existing employees, which should lead to cost savings. This will be done by adding an additional shift and distributing the overtime hours to the new workers for new shifts.

Many risks lie ahead ▶

With a valuation of 15.3x 2013 P/E (against ASEAN peers' 6.4-10.1x range), we believe its current share price is rather lofty. SMSM has risen by 86% YTD, while its forward P/E valuation has re-rated from a 30% discount to the market to a 13% premium, currently.

No thanks to its high valuation, SMSM has been sensitive to weak results of late, with its share price plunging by more than 12% (15% from the peak) after the weak 3Q12 results were released. Moreover, the consequent price rebound occurred on low-trading volume. The next few quarters looks challenging, in our view, as its OEM low-cost green car (LCGC) project is only expected to make an impact in late-2013.



Financial Summary

	Dec-10A	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Revenue (Rpb)	1,562	1,808	1,908	2,315	2,766
Operating EBITDA (Rpb)	232.5	302.1	316.4	366.2	437.1
Net Profit (Rpb)	150.4	200.9	218.9	240.0	289.0
Core EPS (Rp)	105.9	135.2	145.1	164.9	198.9
Core EPS Growth	12.2%	27.6%	7.4%	13.6%	20.6%
FD Core P/E (x)	23.84	18.68	17.40	15.31	12.70
DPS (Rp)	90.0	80.0	100.0	125.1	153.5
Dividend Yield	3.56%	3.17%	3.96%	4.96%	6.08%
EV/EBITDA (x)	16.95	13.04	12.69	11.06	9.30
P/FCFE (x)	24.75	30.44	24.45	19.23	15.48
Net Gearing	46.6%	36.7%	40.1%	38.3%	34.8%
P/BV (x)	7.00	6.00	5.33	4.90	4.48
Recurring ROE	30.0%	34.6%	32.5%	33.3%	36.9%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.95	0.88	0.90

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(Rpb)	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Total Net Revenues	1,808	1,908	2,315	2,766
Gross Profit	461	478	556	666
Operating EBITDA	302	316	366	437
Depreciation And Amortisation	(6)	(8)	(9)	(10)
Operating EBIT	297	308	357	427
Total Financial Income/(Expense)	(27)	(28)	(29)	(29)
Total Pretax Income/(Loss) from Assoc.	0	10	13	13
Total Non-Operating Income/(Expense)	10	10	0	0
Profit Before Tax (pre-EI)	280	300	341	412
Exceptional Items	0	0	0	0
Pre-tax Profit	280	300	341	412
Taxation	(60)	(58)	(66)	(80)
Exceptional Income - post-tax	0	0	0	0
Profit After Tax	219	242	276	332
Minority Interests	(18)	(23)	(36)	(43)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax	0	0	0	0
Other Adjustments - post-tax	0	0	0	0
Net Profit	201	219	240	289
Recurring Net Profit	195	209	237	286
Fully Diluted Recurring Net Profit	195	209	237	286

Balance Sheet

(Rpb)	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Total Cash And Equivalents	17	21	30	44
Total Debtors	358	396	481	574
Inventories	325	370	466	556
Total Other Current Assets	20	27	32	39
Total Current Assets	719	815	1,009	1,213
Fixed Assets	398	475	434	381
Total Investments	10	144	157	170
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	10	19	15	15
Total Non-current Assets	418	638	605	566
Short-term Debt	103	133	133	133
Current Portion of Long-Term Debt	0	79	0	79
Total Creditors	86	109	132	158
Other Current Liabilities	72	75	86	103
Total Current Liabilities	262	396	351	473
Total Long-term Debt	159	154	261	196
Hybrid Debt - Debt Component	0	0	0	0
Total Other Non-Current Liabilities	39	38	46	55
Total Non-current Liabilities	198	192	307	251
Total Provisions	6	6	7	8
Total Liabilities	466	594	665	733
Shareholders' Equity	606	682	742	811
Minority Interests	65	178	207	235
Total Equity	671	860	950	1,046

Cash Flow

(Rpb)	Dec-11A	Dec-12F	Dec-13F	Dec-14F
EBITDA	302.1	316.4	366.2	437.1
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0
Change In Working Capital	(68.7)	5.1	(124.5)	(54.6)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0
Other Operating Cashflow	90.9	231.0	141.3	148.1
Net Interest (Paid)/Received	(26.6)	(28.4)	(28.9)	(29.1)
Tax Paid	(60.3)	(58.0)	(65.7)	(79.7)
Cashflow From Operations	237.4	466.2	288.4	421.8
Capex	(96.3)	(103.3)	(101.4)	(100.7)
Disposals Of FAs/subsidiaries	1.9	3.5	2.9	3.4
Acq. Of Subsidiaries/investments	0.0	(133.7)	(5.2)	(10.3)
Other Investing Cashflow	(6.1)	(4.0)	4.4	0.0
Cash Flow From Investing	(100.4)	(237.5)	(99.4)	(107.6)
Debt Raised/(repaid)	(17.5)	(79.9)	0.0	(79.4)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(117.1)	(144.0)	(180.2)	(221.0)
Preferred Dividends	0.0	0.0	0.0	0.0
Other Financing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Financing	(134.6)	(223.9)	(180.2)	(300.4)

Key Ratios

	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Revenue Growth	15.8%	5.5%	21.3%	19.5%
Operating EBITDA Growth	29.9%	4.7%	15.7%	19.4%
Operating EBITDA Margin	16.7%	16.6%	15.8%	15.8%
Net Cash Per Share (Rp)	(170.8)	(239.3)	(252.4)	(253.2)
BVPS (Rp)	420.8	473.5	515.6	563.4
Gross Interest Cover	10.44	10.15	11.56	13.75
Effective Tax Rate	21.6%	19.3%	19.2%	19.3%
Net Dividend Payout Ratio	57.3%	65.8%	75.1%	76.5%
Accounts Receivables Days	67.79	72.30	69.08	69.56
Inventory Days	85.55	88.89	86.76	88.74
Accounts Payables Days	28.62	24.98	24.98	25.16
ROIC (%)	27.6%	25.9%	25.9%	28.3%
ROCE (%)	33.2%	28.6%	27.8%	30.5%

Key Drivers

	Dec-11A	Dec-12F	Dec-13F	Dec-14F
ASP (% chg, main prod./serv.)	8.0%	0.0%	0.2%	5.0%
Unit sales grth (% , main prod./serv.)	8.2%	-0.4%	10.0%	15.0%
Util. rate (% , main prod./serv.)	60.6%	60.4%	66.4%	76.3%
ASP (% chg, 2ndary prod./serv.)	5.1%	-5.0%	0.0%	4.0%
Unit sales grth (% ,2ndary prod/serv)	3.8%	-1.5%	10.0%	5.0%
Util. rate (% , 2ndary prod/serv)	44.2%	44.8%	48.7%	50.8%
Unit raw mat ASP (%chg,main)	15.0%	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	20.4%	N/A	N/A	N/A
Total Export Sales Growth (%)	15.7%	N/A	N/A	N/A
Export Sales/total Sales (%)	72.9%	N/A	N/A	N/A

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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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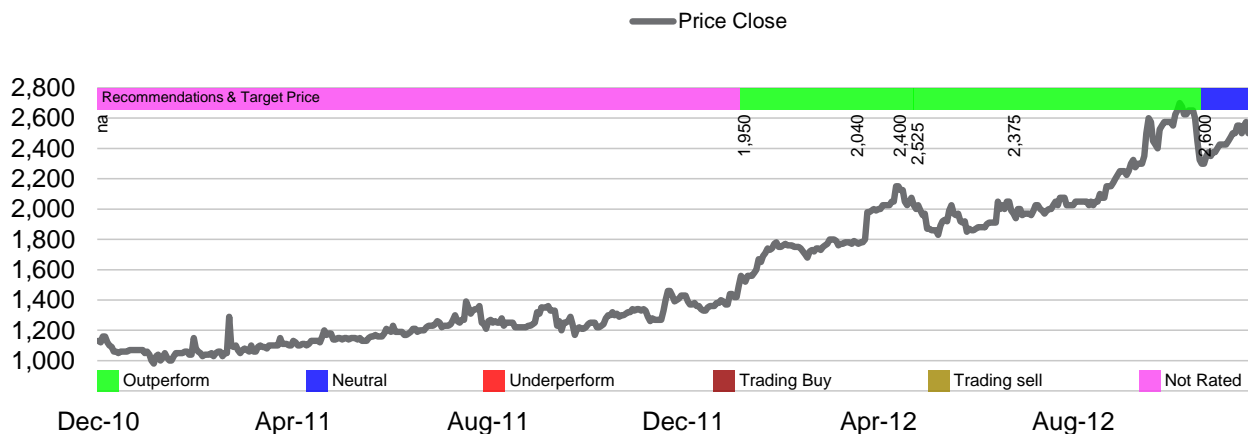
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Spitzer Chart for stock being researched (2 year data)



Distribution of stock ratings and investment banking clients for quarter ended on 31 October 2012 805 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	55.6%	6.1%
Neutral	33.6%	1.9%
Underperform/Sell/Trading Sell	10.9%	4.8%

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, Jakarta Stock Exchange, Australian Securities Exchange, Korea Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay 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
OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.	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 +10% or better over the next 12 months.
NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.	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 +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.	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 -10% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.	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 +10% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.	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 -10% or worse over the next 3 months.

** 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.

AAV – not available, **ADVANC** - Excellent, **AMATA** - Very Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** - Good, **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, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** - Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – 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, **RS** – Excellent, **SC** – 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, **THCOM** – Very Good, **TICON** – Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TUF** - Very Good, **WORK** – Good.