

## Selamat Sempurna

SMSM IJ / SMSM.JK

➤ **Market Cap**  
**US\$556.0m**  
 Rp6,860,022m

➤ **Avg Daily Turnover**  
**US\$0.06m**  
 Rp678.6m

➤ **Free Float**  
**41.9%**  
 1,440 m shares

Current **Rp4,765**  
 Target **Rp4,950**   
 Prev. Target **Rp4,450**  
 Up/Downside **3.9%**

## COMPANY NOTE

### STOCK RATING

ADD

**HOLD**

REDUCE

### Notes from the Field



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Company Visit  Expert Opinion   
 Channel Check  Customer Views

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## Another strong year ahead

While the weaker rupiah has been the key support for revenue growth and margin expansion, SMSM's strategy of entering new export markets has worked well. In view of the market's expectation of a sustained recovery in global auto sales, the growth outlook should remain positive in 2015. But SMSM's valuations already price this in.

We upgrade our FY14-16 earnings forecasts by 9-15% for the stronger growth in the filter business. Our DCF-based target price is increased to Rp4,950 (WACC:12%) as we roll forward our valuation period. We maintain our Hold rating as the market has already priced in the anticipated strong growth outlook for SMSM

### Export and currency boosts ➤

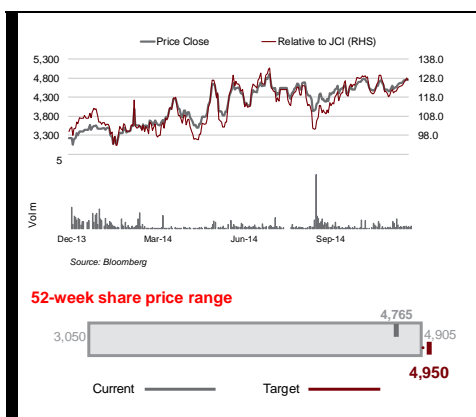
Slowing domestic auto sales and a slowdown in mining activities dragged down SMSM's domestic revenue in 9M14. Nonetheless, the overall sales volume for key filter products grew at a strong pace of 10% yoy (vs. flattish growth in 2012-13). Penetration into new export markets helped to boost export revenue by 34% yoy, more than covering the 10% yoy drop in domestic sales. Additionally, the weaker rupiah has been a boon to margins and revenue (+16% yoy) in 9M14. In view of continued growth from the export market, we have raised our sales volume growth forecast for 2015-16 from 2% to 5-6%.

### Expansion and acquisition ➤

In the domestic market, the company's strategy remains centred on cementing its market share through organic expansion and acquisition. The aim is to grab more market share in the replacement market in second and third tier cities. On the acquisition front, aside from the purchase of a small distribution company, finding a more meaningful target is taking time though we think this can be delivered in 2015. For the Hydraxale business (6% of revenue), the company will start offering product variants to the construction and auto sectors to lower its exposure to the mining sector.

### Decent growth but priced in ➤

Strong earnings delivery, a US\$ revenue stream and a more diversified revenue profile due to higher exposure to the export market should remain the positives for the stock. However, the stock is already trading at 17x FY15 P/E, 65% above its historical average.



### Financial Summary

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue (Rpb)	2,269	2,373	2,681	2,928	3,178
Operating EBITDA (Rpb)	402.6	432.5	563.6	625.8	685.5
Net Profit (Rpb)	251.6	320.4	355.0	409.3	454.5
Core EPS (Rp)	169.9	187.1	252.9	285.9	317.3
Core EPS Growth	19.2%	10.1%	35.2%	13.1%	11.0%
FD Core P/E (x)	28.04	25.47	18.84	16.67	15.02
DPS (Rp)	130.0	85.0	124.5	176.1	273.5
Dividend Yield	2.73%	1.78%	2.61%	3.70%	5.74%
EV/EBITDA (x)	18.33	16.63	12.39	11.02	10.05
P/FCFE (x)	32.24	38.21	32.09	23.52	16.54
Net Gearing	31.5%	19.7%	(4.0%)	(12.0%)	(13.0%)
P/BV (x)	10.63	8.19	6.85	6.00	5.75
ROE	39.1%	36.3%	39.6%	38.4%	39.1%
% Change In Core EPS Estimates			9.4%	13.1%	15.3%
CIMB/consensus EPS (x)			1.02	1.06	1.07

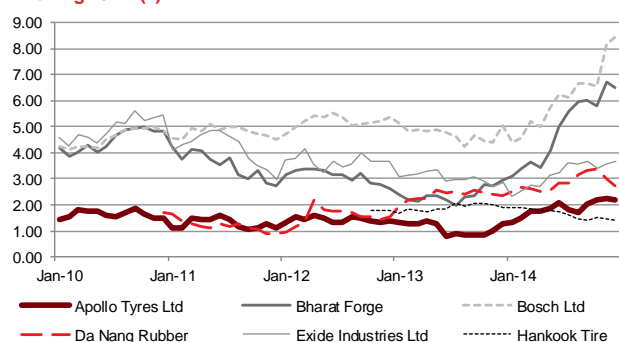
SOURCE: CIMB, COMPANY REPORTS

## PEER COMPARISON

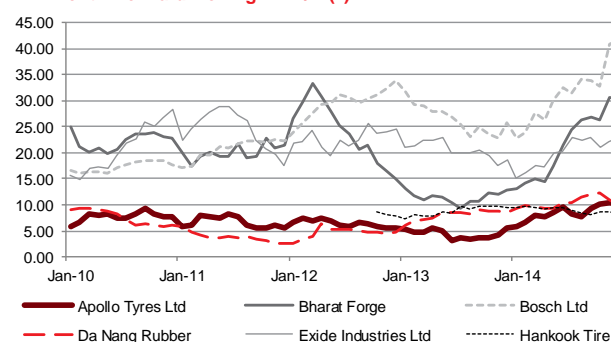
### Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US\$m	Price	Target Price	Upside
Apollo Tyres Ltd	APTY IN	IN	ADD	1,869	227.7	273.9	20.3%
Bharat Forge	BHFC IN	IN	ADD	3,621	965	1,029	6.7%
Bosch Ltd	BOS IN	IN	ADD	9,964	19,681	18,327	-6.9%
Da Nang Rubber	DRC VN	VN	HOLD	204	52,500	57,959	10.4%
Exide Industries Ltd	EXID IN	IN	REDUCE	2,394	174.7	144.0	-17.5%
Hankook Tire	161390 KS	KR	ADD	5,899	52,500	66,000	25.7%
Motherson Sumi Systems Ltd	MSS IN	IN	ADD	6,018	423.3	515	21.6%
<b>Selamat Sempurna</b>	<b>SMSM IJ</b>	<b>ID</b>	<b>HOLD</b>	<b>556</b>	<b>4,765</b>	<b>4,950</b>	<b>3.9%</b>
Southern Rubber	CSM VN	VN	ADD	134	42,700	44,518	4.3%

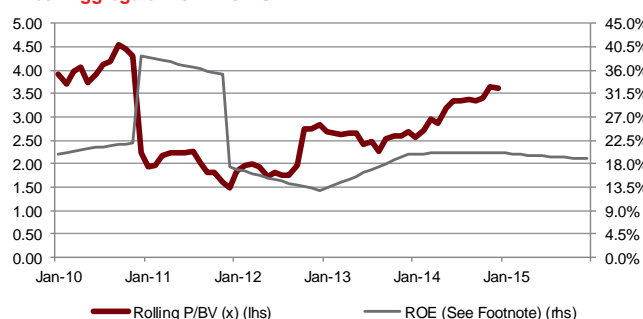
### Rolling P/BV (x)



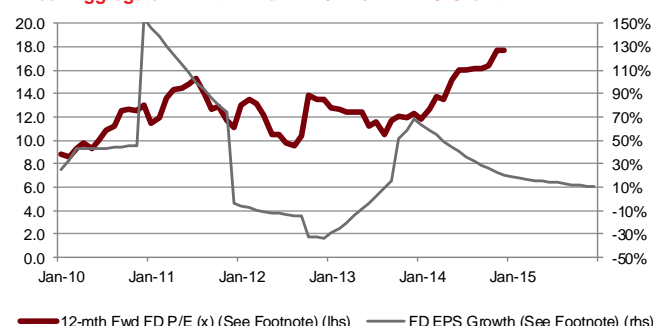
### 12-month Forward Rolling FD P/E (x)



### Peer Aggregate: P/BV vs ROE



### Peer Aggregate: 12-mth Fwd FD P/E vs FD EPS Growth



### Valuation

	FD P/E (x) (See Footnote)			P/BV (x)			EV/EBITDA (x)		
	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15
Apollo Tyres Ltd	14.18	11.70	10.23	2.71	2.19	1.83	7.70	6.22	6.00
Bharat Forge	57.89	37.53	30.32	8.71	6.52	5.29	24.45	18.25	15.39
Bosch Ltd	69.85	50.20	41.80	9.82	8.43	7.24	45.16	34.49	27.27
Da Nang Rubber	11.62	11.57	9.96	3.16	2.74	2.34	8.76	7.68	6.92
Exide Industries Ltd	29.65	26.43	22.95	4.06	3.69	3.32	15.78	13.89	11.98
Hankook Tire	8.81	8.10	8.42	1.66	1.39	1.21	5.86	5.48	5.29
Motherson Sumi Systems Ltd	46.56	32.24	21.63	13.36	10.86	8.23	15.87	12.46	9.06
<b>Selamat Sempurna</b>	<b>25.47</b>	<b>18.84</b>	<b>16.67</b>	<b>8.19</b>	<b>6.85</b>	<b>6.00</b>	<b>16.63</b>	<b>12.39</b>	<b>11.02</b>
Southern Rubber	8.45	7.67	6.08	2.36	1.81	1.39	6.83	5.20	4.33

### Growth and Returns

	FD EPS Growth (See Footnote)			ROE (See Footnote)			Dividend Yield		
	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15
Apollo Tyres Ltd	48.1%	21.2%	14.4%	21.7%	20.7%	19.5%	0.30%	0.41%	0.60%
Bharat Forge	42.3%	54.3%	23.8%	16.1%	19.9%	19.3%	0.33%	0.50%	0.58%
Bosch Ltd	-7.7%	39.2%	20.1%	14.9%	18.3%	18.7%	0.28%	0.24%	0.37%
Da Nang Rubber	20.3%	0.4%	16.2%	29.5%	25.4%	25.4%	3.17%	3.81%	3.81%
Exide Industries Ltd	-1.5%	12.2%	15.2%	14.3%	14.6%	15.2%	0.86%	1.12%	1.14%
Hankook Tire	218.7%	8.7%	-3.8%	20.7%	18.7%	15.3%	0.76%	0.76%	0.76%
Motherson Sumi Systems Ltd	68.4%	44.4%	49.0%	32.2%	37.2%	43.3%	0.56%	0.86%	1.30%
<b>Selamat Sempurna</b>	<b>10.1%</b>	<b>35.2%</b>	<b>13.1%</b>	<b>36.3%</b>	<b>39.6%</b>	<b>38.4%</b>	<b>1.78%</b>	<b>2.61%</b>	<b>3.70%</b>
Southern Rubber	22.1%	10.1%	26.3%	30.7%	26.7%	25.9%	2.96%	0.00%	0.00%

SOURCE: CIMB, COMPANY REPORTS

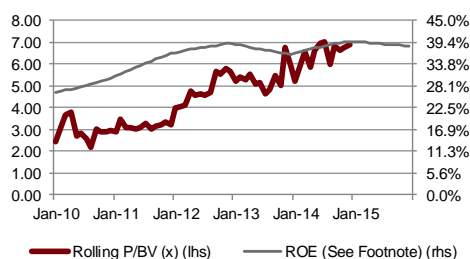
Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends. NPAT/EPS values for calculations and valuations are based on recurring and normalised values for GAAP and IFRS accounting standard companies respectively.

## BY THE NUMBERS

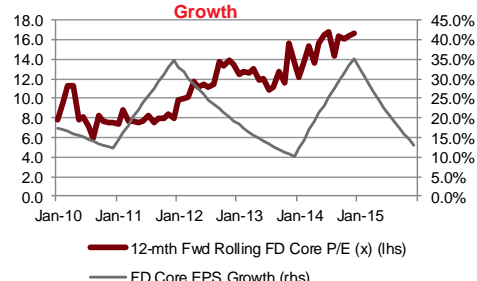
### Share price info

Share px perf. (%)	1M	3M	12M
Relative	-2.6	11.7	32.9
Absolute	1.4	12.1	53.7
Major shareholders	% held		
Adrindo Inti Perkasa	58.1		

### P/BV vs ROE



### 12-mth Fwd FD Core P/E vs FD Core EPS Growth



We forecast earnings to grow at 13% in 2015 on the back of global economic recovery

### Profit & Loss

(Rpb)	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
<b>Total Net Revenues</b>	<b>2,269</b>	<b>2,373</b>	<b>2,681</b>	<b>2,928</b>	<b>3,178</b>
<b>Gross Profit</b>	<b>600</b>	<b>638</b>	<b>800</b>	<b>884</b>	<b>965</b>
<b>Operating EBITDA</b>	<b>403</b>	<b>432</b>	<b>564</b>	<b>626</b>	<b>686</b>
Depreciation And Amortisation	(14)	(11)	(12)	(12)	(13)
<b>Operating EBIT</b>	<b>389</b>	<b>421</b>	<b>552</b>	<b>613</b>	<b>673</b>
Financial Income/(Expense)	(29)	(27)	(18)	(9)	(2)
Pretax Income/(Loss) from Assoc.	(1)	(4)	(4)	(4)	(4)
Non-Operating Income/(Expense)	11	69	(9)	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>370</b>	<b>459</b>	<b>521</b>	<b>600</b>	<b>666</b>
Exceptional Items	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>370</b>	<b>459</b>	<b>521</b>	<b>600</b>	<b>666</b>
Taxation	(83)	(108)	(131)	(151)	(168)
Exceptional Income - post-tax	0	0	0	0	0
<b>Profit After Tax</b>	<b>287</b>	<b>351</b>	<b>389</b>	<b>449</b>	<b>499</b>
Minority Interests	(35)	(30)	(34)	(40)	(44)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax	0	0	0	0	0
Other Adjustments - post-tax	0	0	0	0	0
<b>Net Profit</b>	<b>252</b>	<b>320</b>	<b>355</b>	<b>409</b>	<b>455</b>
Recurring Net Profit	245	269	364	412	457
<b>Fully Diluted Recurring Net Profit</b>	<b>245</b>	<b>269</b>	<b>364</b>	<b>412</b>	<b>457</b>

Low capex needs ensure a sustainably high dividend payout ratio

### Cash Flow

(Rpb)	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
<b>EBITDA</b>	<b>402.6</b>	<b>432.5</b>	<b>563.6</b>	<b>625.8</b>	<b>685.5</b>
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0	0.0
Change In Working Capital	1.2	111.2	(105.7)	(81.0)	(83.8)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Other Non-Cash (Income)/Expense</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Other Operating Cashflow</b>	<b>124.1</b>	<b>32.1</b>	<b>98.0</b>	<b>101.5</b>	<b>77.2</b>
Net Interest (Paid)/Received	(28.8)	(27.1)	(18.1)	(9.4)	(2.4)
Tax Paid	(82.8)	(107.8)	(131.2)	(151.0)	(167.6)
<b>Cashflow From Operations</b>	<b>416.4</b>	<b>440.9</b>	<b>406.6</b>	<b>485.9</b>	<b>509.0</b>
Capex	(115.7)	(96.8)	(74.2)	(74.2)	(74.2)
Disposals Of FAs/subsidiaries	2.7	46.2	0.0	0.0	0.0
Acq. Of Subsidiaries/Investments	(150.6)	(101.0)	0.0	0.0	0.0
Other Investing Cashflow	(2.4)	(55.3)	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(266.0)</b>	<b>(206.9)</b>	<b>(74.2)</b>	<b>(74.2)</b>	<b>(74.2)</b>
Debt Raised/(repaid)	62.4	(54.4)	(118.6)	(120.0)	(20.0)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(167.2)	(158.9)	(179.2)	(253.5)	(393.8)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>(104.7)</b>	<b>(213.3)</b>	<b>(297.8)</b>	<b>(373.5)</b>	<b>(413.8)</b>
Total Cash Generated	45.6	20.6	34.6	38.1	20.9
<b>Free Cashflow To Equity</b>	<b>212.8</b>	<b>179.5</b>	<b>213.8</b>	<b>291.6</b>	<b>414.7</b>
<b>Free Cashflow To Firm</b>	<b>181.5</b>	<b>264.2</b>	<b>355.2</b>	<b>425.8</b>	<b>441.9</b>

## BY THE NUMBERS

### Balance Sheet

(Rpb)	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Cash And Equivalents	63	93	128	166	187
Total Debtors	469	561	634	692	750
Inventories	425	398	448	483	519
Total Other Current Assets	29	45	53	60	66
<b>Total Current Assets</b>	<b>986</b>	<b>1,097</b>	<b>1,263</b>	<b>1,400</b>	<b>1,523</b>
Fixed Assets	514	492	448	398	343
Total Investments	37	36	36	36	36
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	19	76	76	76	76
<b>Total Non-current Assets</b>	<b>570</b>	<b>604</b>	<b>560</b>	<b>510</b>	<b>454</b>
Short-term Debt	128	212	0	0	0
Current Portion of Long-Term Debt	142	0	80	0	0
Total Creditors	97	164	185	202	220
Other Current Liabilities	113	147	163	177	190
<b>Total Current Liabilities</b>	<b>481</b>	<b>523</b>	<b>428</b>	<b>380</b>	<b>410</b>
Total Long-term Debt	80	80	0	0	0
Hybrid Debt - Debt Component	0	0	0	0	0
Total Other Non-Current Liabilities	85	91	185	145	125
<b>Total Non-current Liabilities</b>	<b>164</b>	<b>171</b>	<b>185</b>	<b>145</b>	<b>125</b>
Total Provisions	1	0	0	0	0
<b>Total Liabilities</b>	<b>646</b>	<b>694</b>	<b>613</b>	<b>525</b>	<b>535</b>
Shareholders' Equity	645	838	1,001	1,144	1,192
Minority Interests	265	169	208	242	250
<b>Total Equity</b>	<b>910</b>	<b>1,007</b>	<b>1,209</b>	<b>1,386</b>	<b>1,442</b>

### Key Ratios

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue Growth	9.5%	4.6%	13.0%	9.2%	8.5%
Operating EBITDA Growth	20.0%	7.4%	30.3%	11.1%	9.5%
Operating EBITDA Margin	17.7%	18.2%	21.0%	21.4%	21.6%
Net Cash Per Share (Rp)	(199.4)	(138.1)	33.3	115.4	129.9
BVPS (Rp)	448.2	581.8	695.2	794.6	828.1
Gross Interest Cover	12.50	13.90	24.14	43.24	94.49
Effective Tax Rate	22.4%	23.5%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	74.4%	38.2%	50.5%	61.9%	86.6%
Accounts Receivables Days	72.16	78.83	80.91	82.24	82.71
Inventory Days	93.33	86.49	82.04	83.12	82.91
Accounts Payables Days	21.80	27.48	33.87	34.60	34.90
ROIC (%)	25.6%	27.1%	35.0%	37.5%	40.5%
ROCE (%)	31.8%	33.2%	43.0%	46.2%	47.9%

High dividend payout has increased its ROE

### Key Drivers

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
ASP (% chg, main prod./serv.)	3.1%	9.2%	10.0%	7.0%	5.0%
Unit sales grth (% , main prod./serv.)	-1.9%	-0.9%	9.0%	5.0%	5.0%
Util. rate (% , main prod./serv.)	59.5%	59.0%	64.3%	67.5%	70.9%
ASP (% chg, 2ndary prod./serv.)	6.9%	5.1%	0.0%	2.0%	2.0%
Unit sales grth (% ,2ndary prod/serv)	-9.7%	-1.5%	2.0%	0.0%	0.0%
Util. rate (% , 2ndary prod/serv)	40.1%	39.4%	40.2%	40.2%	40.2%
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY

# Another strong year ahead

## BACKGROUND

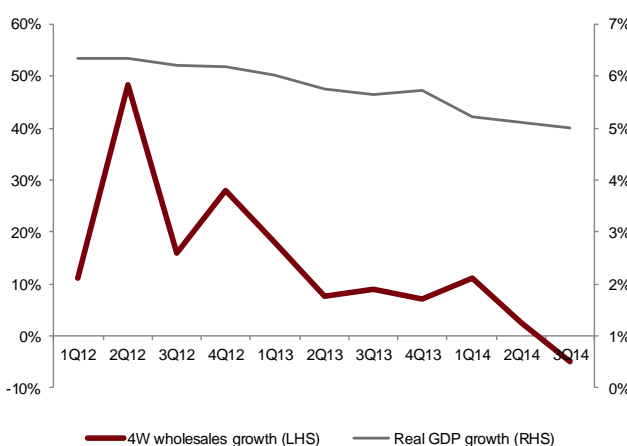
### Domestic market – slowing in 2014, recovery prospect in 2015 ➤

Slowing domestic auto sales and moderating mining activities dragged down SMSM's domestic revenue by 10% yoy in 9M14. Slower GDP growth pulled down domestic demand for auto, which shrank by 5%yoy in 3Q14 (9M14: +2% yoy), a 3-year low. This resulted in a 5% yoy drop in SMSM's auto parts sales, mainly driven by the drop in radiator sales which largely went to the OEM market. This was made worse by the 28% revenue decline for the Hydraxale business, the majority of which is from the mining sector.

History reveals that a fuel subsidy cut is positive for macro conditions (higher M2 growth) which drives car sales recovery although in the case of the 2005 and 2008 fuel price hikes, sales only recovered 10-19 months after the fuel price increase. The short-term impact on auto sales, however, could hinge on incomes at the time of the fuel price hike. The latter was exemplified in 2013 where the sales recovered after only three months given the strong income growth at the time.

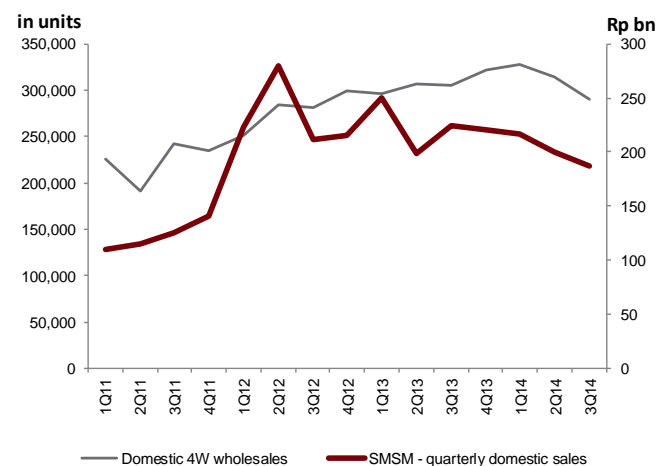
In view of the past trends, we think that sales are unlikely to recover quickly given the recent weakness in Indonesia's GDP growth and the possibility of an increase in the vehicle progressive tax rate (for the Greater Jakarta area which accounts for 21% of total national sales). Our base-case forecast is for an 8% recovery in auto sales in 2015 from 2014's low base. However, there is downside risk to our forecast if incomes and consumer confidence fail to recover.

**Figure 1: Real GDP growth vs. 4W wholesale data – slowing trend, though unsurprising**

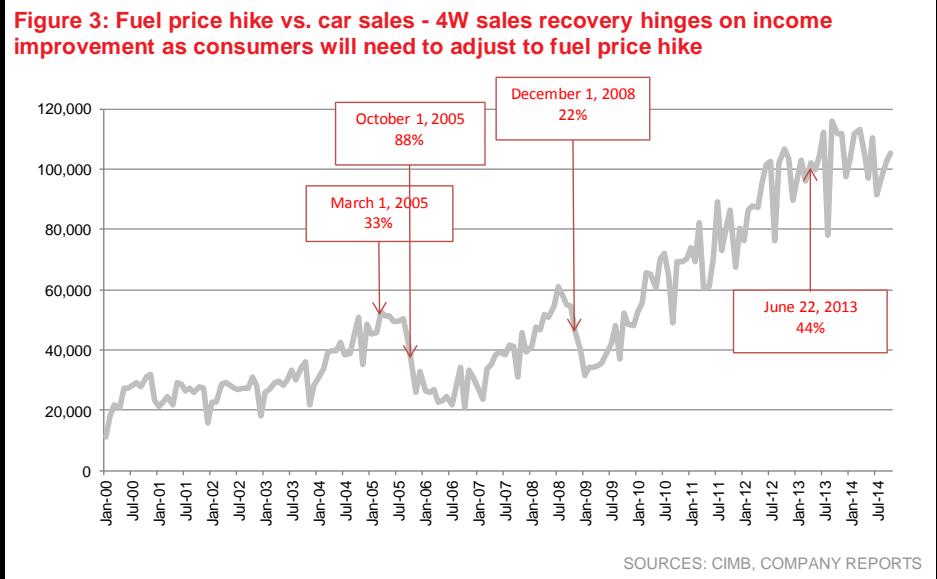


SOURCES: CIMB, COMPANY REPORTS

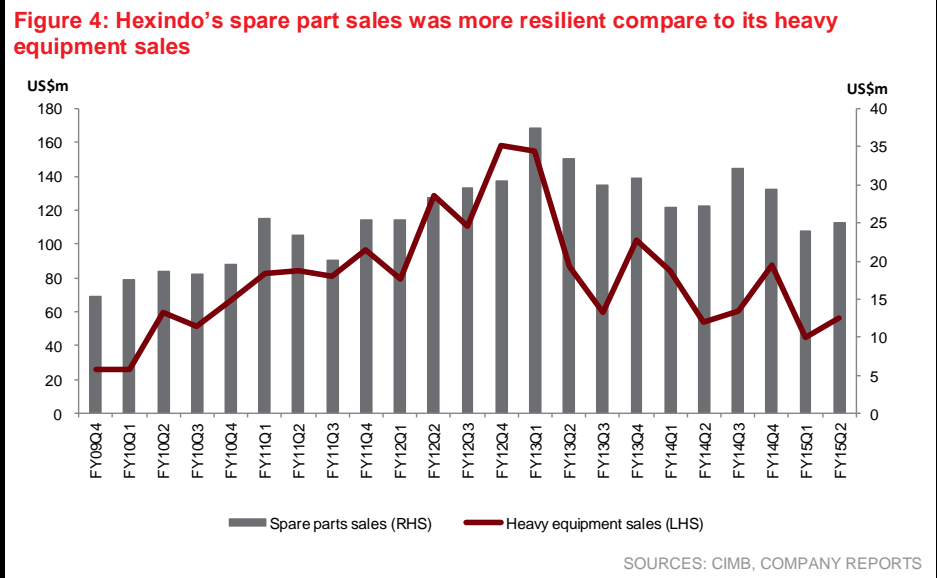
**Figure 2: SMSM's domestic revenue has slowed down, in line with the weakening domestic auto demand**



SOURCES: CIMB, COMPANY REPORTS



While the downside risk for Hydraxale will persist in 2015, SMSM’s 90% exposure to the domestic replacement market should help the company to weather the slowing demand in the domestic auto market. The performance of the parts and services unit for the heavy equipment distributor might be a close proxy for the aftermarket business in general. After a brief period of a drop in demand for parts and services (in line with drop in demand for new equipment), demand for parts and services showed a more stable trend.

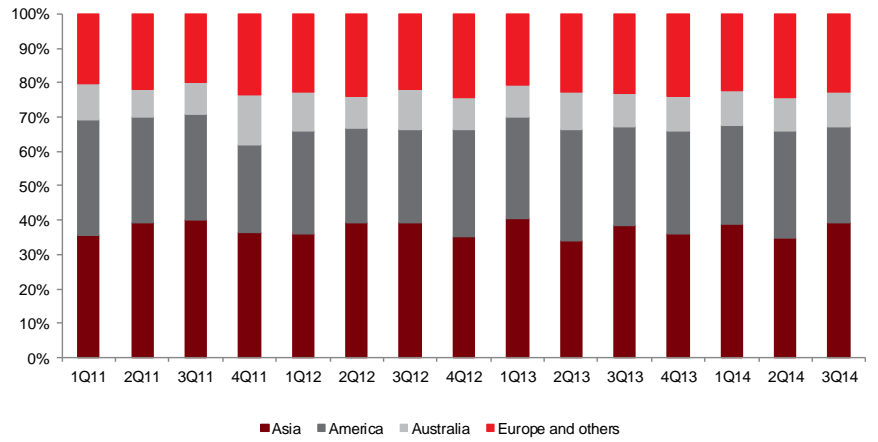


**Export boost ➤**

SMSM’s sales growth to most export destinations showed an upward trajectory in 2014. The economic recovery in the main export markets, namely the US (29% of exports) and European countries (23% of exports) supported auto demand, helping to boost SMSM’s sales.

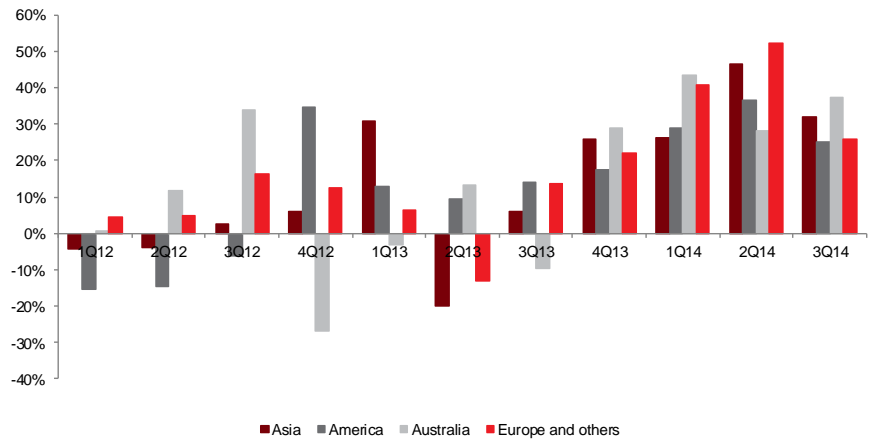
Penetration into new export markets helped SMSM achieve 34% yoy growth in export revenues in 9M14, more than covering the 10% yoy drop in domestic sales. Filter products remain the largest contributor to export sales, accounting for 79% of total sales. The segment registered around 22% annualised revenue growth in 2014.

**Figure 5: SSM's quarterly export breakdown by countries**



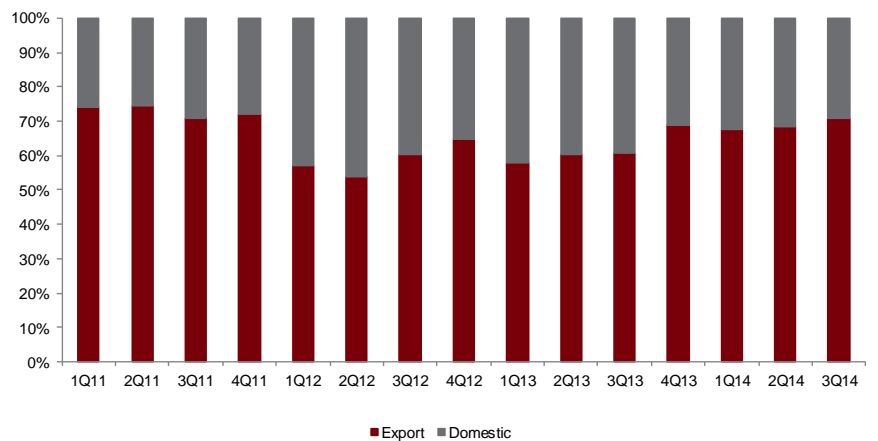
SOURCES: CIMB, COMPANY REPORTS

**Figure 6: SSM's quarterly export sales growth by countries**



SOURCES: CIMB, COMPANY REPORTS

**Figure 7: Domestic vs export revenue contribution**



SOURCES: CIMB, COMPANY REPORTS

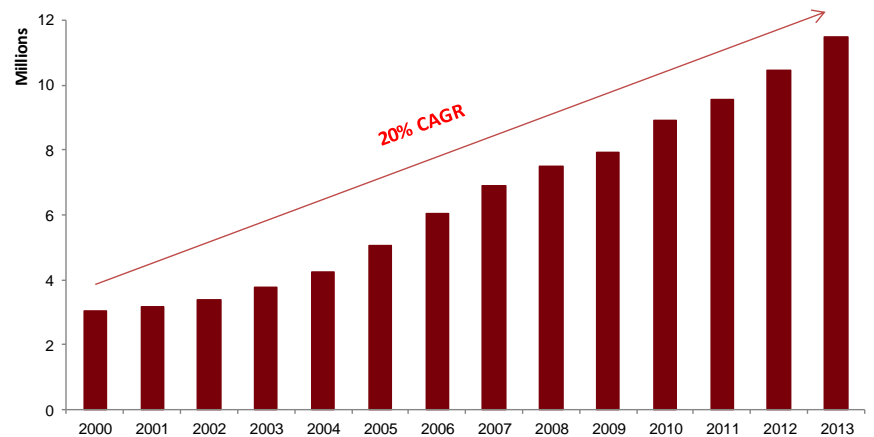


## STRATEGY

### Expansion and acquisition ►

In 2014, the company completed the Rp10.5bn acquisition of its domestic distribution channel for west Indonesia (Aceh and north Sumatra), PT Cahaya Mitra Gemilang. Aside from this small acquisition, finding a more meaningful target is taking time though we think it can be delivered in 2015. Despite the still-challenging outlook for near-term domestic auto demand, we think that expansion in the domestic market remains justified given the still-growing auto population in Indonesia.

**Figure 8: Indonesia's passenger car population – attractive prospect for replacement market**



SOURCES: CIMB, COMPANY REPORTS

### Hydraxale product diversification ►

Hydraxale, which is the group's dump truck hoist installation business, has been hard hit by the weakening global commodity prices. Sales volume fell by 31% yoy in 9M14 and gross margin dropped from 15% in 2013 to 6.3% in 3M14. The strategy now is to have a wide selection of products such as mixer for construction, trailer for container shipping, and carriage for car.

**Figure 9: Mixer for construction trucking**



SOURCES: CIMB

**Figure 10: Trailer for container shipping**



SOURCES: CIMB

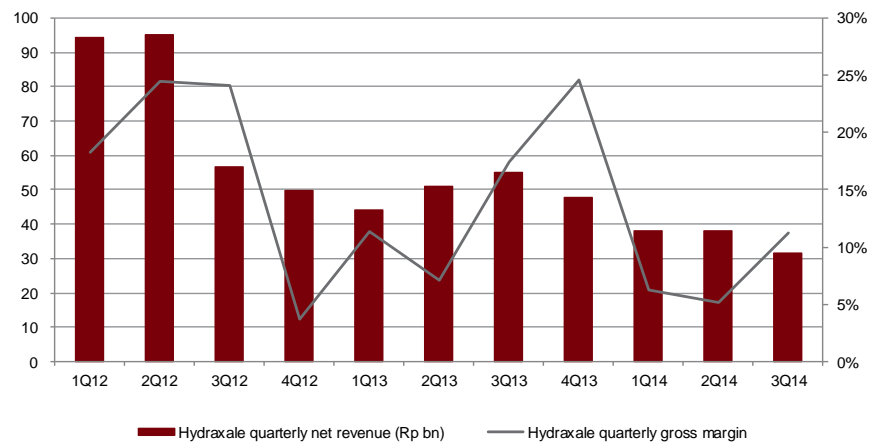
**Figure 11: Car carriage trucking**



SOURCES: CIMB



**Figure 12: Hydraxale business performance**



SOURCES: CIMB, COMPANY REPORTS

### 3QFY14 result preview

#### Highlights ▶

The company booked a 58% yoy jump in Rp184bn earnings in 9M14, led by a weaker rupiah (-17% yoy) and an 11% price decline for steel plate, its key raw material.

9M14 revenue rose by 16% yoy to US\$2,620bn, in line with our and consensus expectation. Domestic demand remained weak (-10% yoy) but exports surged 34% yoy to account for 69% of total revenue.

Overall gross margin was 28.7% in 9M14. Hydraxale business showed a slight improvement, booking a 7.3% gross margin in 9M14 vs. 5.7% in 6M14.

**Figure 13: Results Comparison**

FYE Dec-14 (Rp bn)	3Q14	3Q13	yoy % chg	2Q14	qoq % chg	3Q14 Cum	3Q13 Cum	yoy % chg	Prev. FY14F	Comments
Revenue	637	572	11.3	629	1.3	1,933	1,664	16.2	2,620	In line, 74% of CIMB forecast and 72% of consensus
Operating costs	(533)	(452)	17.9	(486)	9.7	(1,524)	(1,320)	15.5	(2,003)	
EBITDA	104	120	-13.3	143	-27.3	409	345	18.7	617	
EBITDA margin (%)	16%	21%		23%		21%	21%	2.2	24%	
Depn & amort.	41	(28)	250	(23)	281	(7)	(79)	-91.7	(119)	
EBIT	146	93	57.3	120	20.9	403	266	51.4	508	Above, 79% of CIMB forecast and 81% of consensus'
Interest expense	(7)	(7)	-1.9	(15)		(22)	(22)	0.0	(23)	
Interest & invt inc	4	25	-83.6	7	-44.8	15	30	-49.6	(1)	
Exceptionals	0	0		7		0	0		(9)	
Pretax profit	143	110	29.1	120	19.0	396	274	44.4	475	Above, 83% of CIMB forecast and 81% of consensus'
Tax	(36)	(25)	45.7	(30)	18.6	(99)	(62)	61.3	(120)	
Tax rate (%)	25%	22%		25%		25%	23%	11.7	25%	
Minority interests	(7)	6	-213.6	(7)	11.9	(22)	(20)	9.0	(31)	
Net profit	99	92	7.7	83	19.7	274	192	42.7	324	Above, 85% of CIMB forecast and 80% of consensus'
Core net profit	97	73	33.5	73	34.0	265	168	57.8	333	Above, 80% of CIMB forecast and 77% of consensus
EPS (Rp)	69	64	7.7	58	19.7	191	134	42.7	225	
Core EPS (Rp)	68	51	33.5	50	34.0	184	117	57.8	231	

SOURCES: CIMB, COMPANY REPORTS

## VALUATION AND RECOMMENDATION

### Earnings changes ►

In view of the strong YTD achievement in the filter market and continued growth of the export market, we have raised our sales volume growth forecast for 2015-16 from 2% to 5-6%. As a result, we now expect decent 2015 EPS growth of 13%, admittedly a slowdown from 35% in 2014 which was boosted by the weakening rupiah.

**Figure 14: Summary of earnings revision**

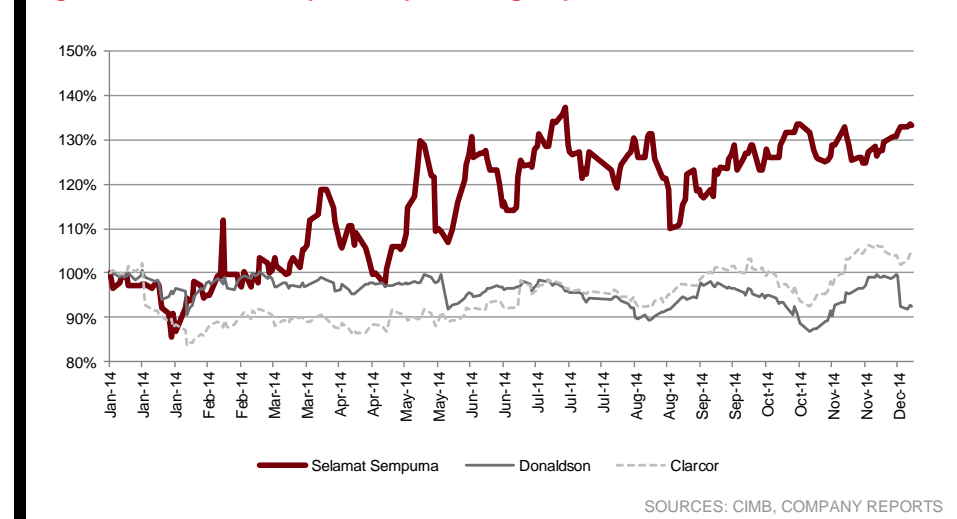
(Rp bn)	BEFORE			AFTER			%CHANGES		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Revenue	2,620.34	2,834.43	3,053.82	2,681	2,928	3,178	2.3%	3.3%	4.1%
Gross profit	750.16	807.01	867.07	800	884	965	6.6%	9.5%	11.3%
EBIT	507.78	545.24	585.43	552	613	673	8.7%	12.5%	14.9%
EBITDA	617.30	669.34	715.12	661	738	802	7.1%	10.2%	12.2%
Core profit	332.90	363.85	396.17	364	412	457	9.4%	13.1%	15.3%

SOURCES: CIMB, COMPANY REPORTS

### Stable earnings growth outlook priced in ►

Strong earnings delivery, a US\$ revenue stream and a more diversified revenue profile due to higher exposure to the export market should remain the positives for the stock. However, the stock is already trading at 17x FY15 P/E, 65% above its historical average which we think has priced in the positive outlook.

**Figure 15: SMSM's share price outperforming its peers**



### Attractive dividend play ►

The company announced its second interim dividend of Rp60 on 31 Oct, taking its total interim dividend to Rp100, translating into a 35% payout based on our 2014 EPS. Our forecast for the full year, which works out to a 52% payout ratio in 2014, factors in another Rp49 DPS to be paid out, or 1% yield based on the current price.

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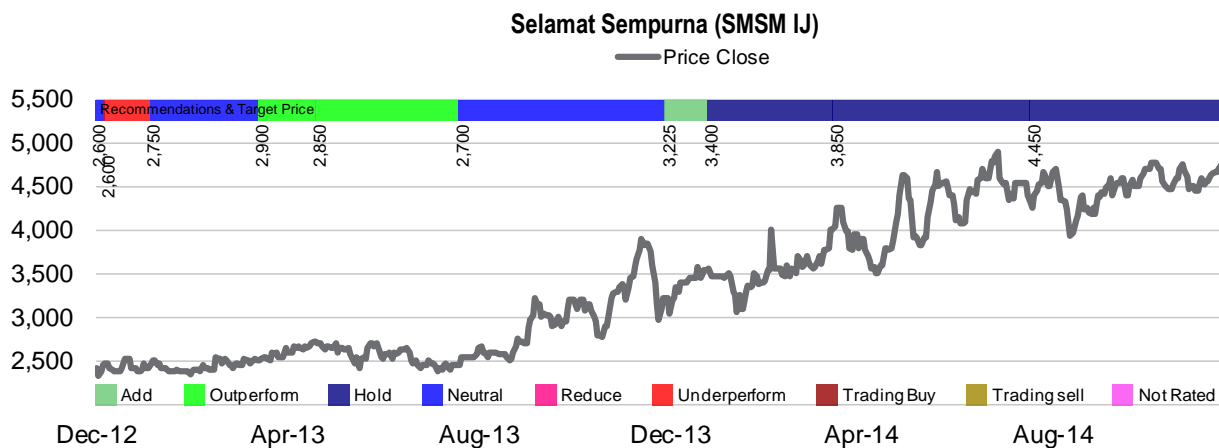
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1552 companies under coverage for quarter ended on 30 September 2014		
	Rating Distribution (%)	Investment Banking clients (%)
Add	54.9%	5.0%
Hold	29.5%	2.3%
Reduce	15.6%	1.0%

**Spitzer Chart for stock being researched ( 2 year data )**



**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2014.**

**AAV** – Very Good, **ADVANC** – Very Good, **AEONTS** – not available, **AMATA** - Good, **ANAN** – Very Good, **AOT** – Very Good, **AP** - Good, **ASK** – Very Good, **ASP** – Very Good, **BANPU** – Very Good, **BAY** – Very Good, **BBL** – Very Good, **BCH** – not available, **BCP** - Excellent, **BEAUTY** – Good, **BEC** - Good, **BECL** – Very Good, **BGH** - not available, **BH** - Good, **BIGC** - Very Good, **BJC** – Good, **BLA** – Very Good, **BMCL** - Very Good, **BTS** - Excellent, **CCET** – Good, **CENDEL** – Very Good, **CHA** – not available, **CK** – Very Good, **CPALL** – not available, **CPF** – Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DEMCO** – Good, **DTAC** – Very Good, **EA** - Good, **ECL** – not available, **EGCO** - Excellent, **GFPT** - Very Good, **GLOBAL** - Good, **GLOW** - Good, **GRAMMY** - Excellent, **HANA** - Excellent, **HEMRAJ** – Very Good, **HMPRO** - Very Good, **ICHI** - not available, **INTUCH** - Excellent, **ITD** – Good, **IVL** - Excellent, **JAS** – not available, **JUBILE** – not available, **KAMART** – not available, **KBANK** - Excellent, **KCE** - Very Good, **KGI** – Good, **KKP** – Excellent, **KTB** - Excellent, **KTC** – Good, **LH** - Very Good, **LPN** – Very Good, **M** - not available, **MAJOR** - Good, **MAKRO** – Good, **MBKET** – Good, **MC** – Very Good, **MCOT** – Very Good, **MEGA** – Good, **MINT** - Excellent, **OFM** – Very Good, **OISHI** – Good, **PS** – Very Good, **PSL** - Excellent, **PTT** - Excellent, **PTTEP** - Excellent, **PTTGC** - Excellent, **QH** – Very Good, **RATCH** – Very Good, **ROBINS** – Very Good, **RS** – Very Good, **SAMART** - Excellent, **SAPPE** - not available, **SAT** – Excellent, **SAWAD** – not available, **SC** – Excellent, **SCB** - Excellent, **SCBLIF** – Good, **SCC** – Very Good, **SCCC** - Good, **SIM** - Excellent, **SIRI** - Good, **SPALI** - Excellent, **STA** – Very Good, **STEC** - Good, **SVI** – Very Good, **TASCO** – Good, **TCAP** – Very Good, **THAI** – Very Good, **THANI** – Very Good, **THCOM** – Very Good, **THRE** – not available, **THREL** – Good, **TICON** – Good, **TISCO** - Excellent, **TK** – Very Good, **TMB** - Excellent, **TOP** - Excellent, **TRUE** – Very Good, **TTW** – Very Good, **TUF** - Good, **VGI** – Very Good, **WORK** – not available.

**CIMB Recommendation Framework**

**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

*\*Prior to December 2013 CIMB recommendation framework for stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange were based on a stock's total return relative to the relevant benchmarks total return. Outperform: expected to exceed by 5% or more over the next 12 months. Neutral: expected to be within +/-5% over the next 12 months. Underperform: expected to be below by 5% or more over the next 12 months. Trading Buy: expected to exceed by 3% or more over the next 3 months. Trading Sell: expected to be below by 3% or more over the next 3 months. For stocks listed on Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Outperform: Expected positive total returns of 10% or more over the next 12 months. Neutral: Expected total returns of between -10% and +10% over the next 12 months. Underperform: Expected negative total returns of 10% or more over the next 12 months. Trading Buy: Expected positive total returns of 10% or more over the next 3 months. Trading Sell: Expected negative total returns of 10% or more over the next 3 months.*