



Selamat Sempurna

SMSM IJ / SMSM.JK

➤ **Market Cap**
US\$514.4m
 Rp6,680,064m

➤ **Avg Daily Turnover**
US\$0.18m
 Rp2,380m

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

Current **Rp4,640**
 Target **Rp4,900**
 Prev. Target **Rp5,200**
 Up/Downside **5.6%**

1QFY15 RESULTS NOTE

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	11.1	0.0	16.2
Absolute	5.3	-3.3	22.4
Major shareholders	% held		
Adrindo Inti Perkasa	58.1		

Facing headwinds

At 20% of our and consensus full-year forecasts, we deem SMSM's 1Q15 core earnings of Rp87bn (-3% yoy) to be below expectation. A weak export market dragged its overall performance and we think that this is going to be challenging for the company given the uncertain global economic condition. As a result, we cut our EPS forecasts for FY15-17 by 9%-10% and lower our DCF-based target price to Rp4,900. We downgrade the stock from Add to Hold as we think the current valuation is just fair; however, the dividend announcement in Jun should be positive for the stock.

Weak export market ➤

1Q15 revenue of Rp597bn (-5% yoy) was only 20% of our and consensus full-year forecasts. Export revenue was surprisingly weak, falling 7% yoy while the domestic market was flat yoy. The weak exports were led by the biggest drop in European countries (-26% yoy) and the US (-9% yoy), with the exception of Asia (+5% yoy). The weak demand was a result of foreign currencies weakening in most of the European countries (-40% yoy), which forced distributors to cut purchases, and a slowing US market. This led to a contraction in overall operating margin, -207bps from FY14, due to higher discounts offered to offset the weak demand. Its filter sales volume fell by 11% yoy; the weaker Rp in 1Q15 failed to offset the drop in sales volume, leading to an 8% drop in filter revenue (70% of filter sales are to the export market).

We expect a recovery though macro is the key risk ➤

Management expects the current weak export market to be temporary and expects sales to normalise in the following quarters. Although this sounds optimistic given that there is limited indication of an economic recovery in some of the European markets, we expect SMSM's strong market knowledge and track record in growing sales in the midst of difficult market conditions to support sales in the coming quarters.

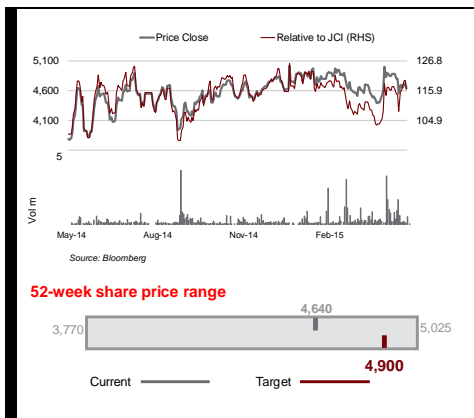
Trading at a fair valuation ➤

The stock is now trading at 16.7 FY15 P/E, 1 s.d. above its three-year average. With a strong dividend payment, expected to be a 55% payout ratio (3.4% yield) and to be announced in Jun, we think the valuation is just fair. A potential catalyst is if the company is able to deliver meaningful earnings growth from 2Q15 onwards.

Results Comparison

FYE Dec-14 (Rp bn)	1Q15	1Q14	yoy % chg	4Q14	qoq % chg	Prev. FY15F	Comments
Revenue	597	629	-5.1	700	-14.7	3,038	Below, 20% of CIMB forecast and consensus
Operating costs	(485)	(484)	0.3	(561)	-13.5	(2,259)	
EBITDA	112	145	-23.1	139	-19.5	779	
EBITDA margin (%)	19%	23%		20%		26%	
Depn & amort.	0	(25)	-100.0	7	-100.0	(108)	
EBIT	112	120	-7.1	145	-23.1	631	Below, 18% of CIMB forecast and 17% of consensus
Interest expense	0	0		(6)		(14)	
Interest & invt inc	(2)	7	-121.7	6	-125.5	21	
Exceptionals	(7)	(8)		0		0	
Pretax profit	104	120	-13.6	146	-28.9	638	Below, 16% of CIMB forecast and 17% of consensus
Tax	(23)	(30)	-22.7	(20)	14.9	(161)	
Tax rate (%)	23%	25%		14%		25%	
Minority interests	0	0		(9)	-100.0	(42)	
Net profit	80	90	-10.5	117	-31.3	436	Below, 18% of CIMB forecast and consensus
Core net profit	87	90	-3.4	112	-22.1	438	Below, 20% of CIMB forecast and consensus
EPS (Rp)	56	62	-10.5	81	-31.3	303	
Core EPS (Rp)	61	63	-3.4	78	-22.1	304	

SOURCE: CIMB, COMPANY REPORTS



Financial Summary

	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue (Rpb)	2,382	2,633	2,901	3,234	3,625
Operating EBITDA (Rpb)	426.3	548.1	607.1	683.4	769.8
Net Profit (Rpb)	313.7	381.1	396.1	455.3	515.5
Core EPS (Rp)	182.3	245.3	276.8	317.9	359.7
Core EPS Growth	7.3%	34.6%	12.8%	14.9%	13.2%
FD Core P/E (x)	25.45	18.91	16.77	14.60	12.90
DPS (Rp)	85.0	155.0	152.9	251.1	288.1
Dividend Yield	1.83%	3.34%	3.30%	5.41%	6.21%
EV/EBITDA (x)	16.45	12.72	11.11	9.86	8.72
P/FCFE (x)	36.30	39.95	20.10	17.15	14.54
Net Gearing	19.7%	16.0%	(10.5%)	(11.5%)	(13.4%)
P/BV (x)	7.98	6.65	5.66	5.25	4.87
ROE	35.4%	38.3%	36.5%	37.3%	39.2%
% Change In Core EPS Estimates			(9.06%)	(9.17%)	(9.80%)
CIMB/consensus EPS (x)			0.90	0.92	0.92

SOURCE: CIMB, COMPANY REPORTS

Figure 1: Change in assumptions

(Rp bn)	BEFORE			AFTER			%CHANGES		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Revenue	3,038.0	3,413.1	3,856.2	2,901.3	3,234.0	3,625.2	-4.50%	-5.25%	-5.99%
Gross Profit	931.7	1,054.5	1,196.0	862.5	968.0	1,088.8	-7.43%	-8.19%	-8.96%
Filter	674.2	779.0	900.1	608.7	696.9	797.9	-9.72%	-10.54%	-11.36%
Radiator	104.8	106.9	109.1	104.8	106.9	109.1	0.00%	0.00%	0.00%
EBIT	651.7	740.6	842.3	594.4	669.9	755.5	-8.78%	-9.54%	-10.31%
Net profit	435.8	501.5	571.8	396.1	455.3	515.5	-9.11%	-9.21%	-9.84%
Core profit	438.1	503.9	574.1	398.4	457.6	517.8	-9.06%	-9.17%	-9.80%
Sales volume (units)									
Filter	69,322	75,561	82,361	65,506	70,091	74,998	-6%	-7%	-9%
Radiator	739	739	739	739	739	739	0%	0%	0%
ASP (Rp)									
Filter	34,736	36,821	39,030	34,415	36,824	39,401	-1%	0%	1%
Radiator	545,672	556,586	567,718	545,672	556,586	567,718	0%	0%	0%

SOURCES: CIMB, COMPANY REPORTS

Profit & Loss

(Rpb)	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Net Revenues	2,633	2,901	3,234	3,625
Gross Profit	785	862	968	1,089
Operating EBITDA	548	607	683	770
Depreciation And Amortisation	(10)	(13)	(14)	(14)
Operating EBIT	538	594	670	755
Financial Income/(Expense)	(24)	(10)	1	3
Pretax Income/(Loss) from Assoc.	(1)	(4)	(4)	(4)
Non-Operating Income/(Expense)	18	0	0	0
Profit Before Tax (pre-EI)	531	580	667	755
Exceptional Items	0	0	0	0
Pre-tax Profit	531	580	667	755
Taxation	(120)	(146)	(168)	(190)
Exceptional Income - post-tax	0	0	0	0
Profit After Tax	411	434	499	565
Minority Interests	(30)	(38)	(44)	(49)
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	381	396	455	516
Recurring Net Profit	353	398	458	518
Fully Diluted Recurring Net Profit	353	398	458	518

Balance Sheet

(Rpb)	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Cash And Equivalents	76	150	178	223
Total Debtors	575	683	761	852
Inventories	432	481	529	587
Total Other Current Assets	51	58	66	74
Total Current Assets	1,134	1,372	1,534	1,737
Fixed Assets	493	467	438	402
Total Investments	35	36	36	36
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	88	76	76	76
Total Non-current Assets	616	579	549	513
Short-term Debt	132	0	0	0
Current Portion of Long-Term Debt	127	0	0	0
Total Creditors	152	200	223	250
Other Current Liabilities	125	175	192	210
Total Current Liabilities	537	375	414	459
Total Long-term Debt	0	0	0	0
Hybrid Debt - Debt Component	0	0	0	0
Total Other Non-Current Liabilities	66	145	125	125
Total Non-current Liabilities	66	145	125	125
Total Provisions	0	0	0	0
Total Liabilities	603	520	539	585
Shareholders' Equity	1,005	1,180	1,273	1,372
Minority Interests	142	251	271	293
Total Equity	1,147	1,431	1,544	1,666

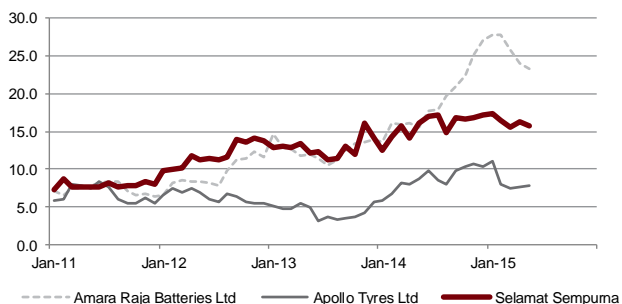
Cash Flow

(Rpb)	Dec-14A	Dec-15F	Dec-16F	Dec-17F
EBITDA	548.1	607.1	683.4	769.8
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0
Change in Working Capital	(88.5)	(67.2)	(95.7)	(113.9)
(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	75.0	172.6	95.0	98.5
Net Interest (Paid)/Received	(23.5)	(10.2)	0.8	3.2
Tax Paid	(119.7)	(146.1)	(167.7)	(189.7)
Cashflow From Operations	391.3	556.3	515.9	568.0
Capex	(108.9)	(100.6)	(106.3)	(108.4)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	(108.9)	(100.6)	(106.3)	(108.4)
Debt Raised/(repaid)	(115.2)	(123.4)	(20.0)	0.0
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	(223.1)	(220.1)	(361.5)	(414.8)
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	(338.3)	(343.6)	(381.5)	(414.8)
Total Cash Generated	(55.9)	112.2	28.1	44.8
Free Cashflow To Equity	167.2	332.3	389.6	459.6
Free Cashflow To Firm	310.8	470.0	416.7	465.8

Key Ratios

	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue Growth	10.5%	10.2%	11.5%	12.1%
Operating EBITDA Growth	28.6%	10.8%	12.6%	12.6%
Operating EBITDA Margin	20.8%	20.9%	21.1%	21.2%
Net Cash Per Share (Rp)	(127.6)	104.3	123.8	154.9
BVPS (Rp)	698.1	819.6	884.1	953.3
Gross Interest Cover	18.9	41.9	94.1	121.5
Effective Tax Rate	22.5%	25.2%	25.2%	25.1%
Net Dividend Payout Ratio	58.6%	55.6%	79.4%	80.5%
Accounts Receivables Days	78.48	78.88	81.35	80.92
Inventory Days	81.95	81.69	81.54	80.31
Accounts Payables Days	31.24	31.52	34.11	33.98
ROIC (%)	34.1%	34.9%	38.6%	41.5%
ROCE (%)	40.1%	42.2%	45.6%	47.7%

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



Key Drivers

	Dec-14A	Dec-15F	Dec-16F	Dec-17F
ASP (% chg, main prod./serv.)	7.9%	7.0%	7.0%	7.0%
Unit sales grth (% , main prod./serv.)	12.3%	3.0%	7.0%	7.0%
Util. rate (% , main prod./serv.)	66.2%	68.2%	73.0%	78.1%
ASP (% chg, 2ndary prod./serv.)	3.3%	2.0%	2.0%	2.0%
Unit sales grth (% ,2ndary prod/serv)	-3.9%	0.0%	0.0%	0.0%
Util. rate (% ,2ndary prod/serv)	37.9%	37.9%	37.9%	37.9%
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

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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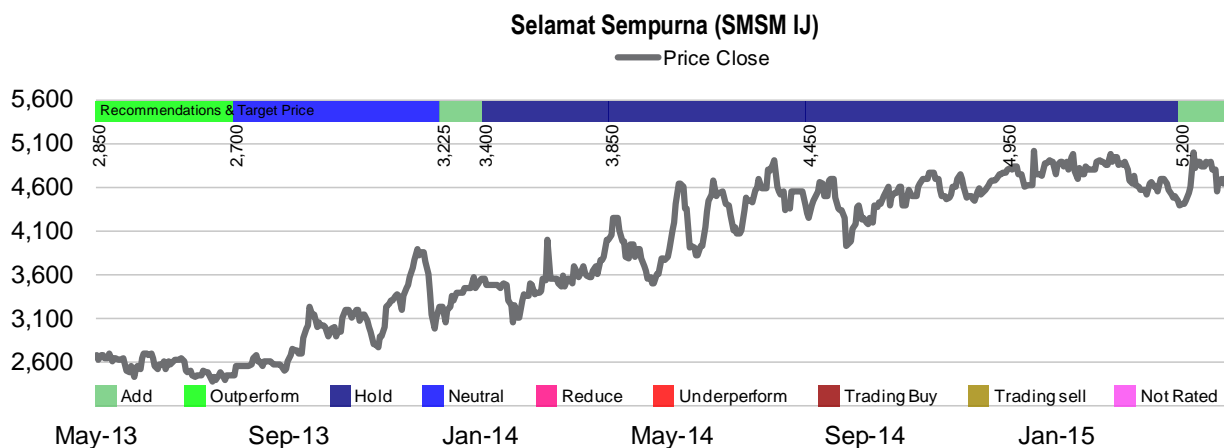
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2015		
1420 companies under coverage for quarter ended on 31 March 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.4%	6.6%
Hold	31.3%	3.8%
Reduce	13.2%	1.3%

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, **CENTEL** – Very Good, **CHG** – 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.*