

Selamat Sempurna

FLASH NOTE

SMSM IJ / SMSM.JK

➤ **Market Cap**
US\$503.6m
 Rp6,716,055m

➤ **Avg Daily Turnover**
US\$0.11m
 Rp1,415m

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

Current **Rp4,665**
 Target ➤ **Rp4,900**
 Prev. Target **Rp4,900**
 Up/Downside **5.0%**

STOCK RATING

ADD

HOLD

REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	3.3	14.6	-0.3
Absolute	0.4	5.9	1.6

Major shareholders	% held
Adrindo Inti Perkasa	58.1

Acquisition to boost growth

We view the acquisition of Bradke, a Malaysian auto-parts holding company, as potentially positive for SMSM, considering that Bradke's idle capacity in filter products and the additional margin from its distribution business should be earnings accretive. While we expect this transaction to offer earnings upside, we keep our earnings forecasts and DCF-based target price for now, as we await more details and transaction approval from the Malaysian Investment Development Authority (MIDA). Our Hold rating is intact given the still challenging demand from both export and domestic markets.

What Happened

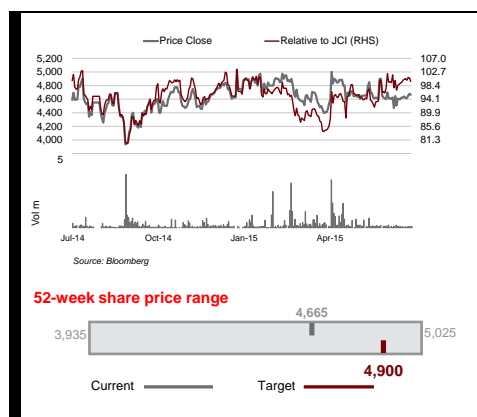
SMSM has announced the acquisition of a 100% stake in Bradke Synergies Sdn Bhd, a Malaysian auto-parts holding company. Almost 60% of Bradke's revenue comes from Falton, its filter manufacturing and distribution business. Besides this, Bradke is also the sole distributor of SMSM's products in Malaysian (through its subsidiary Powerfil) and Australian markets (through Solcrest). The transaction is valued at Rp220bn, which translates into 5.2x FY14 P/E or 0.89x FY14 P/BV for Bradke. The acquisition will be debt-funded through US\$16m worth of MTNs with a floating interest rate.

What We Think

Upon completion of the acquisition, Bradke should contribute to 10-15% of SMSM's earnings (based on Bradke's historical numbers). We expect the acquisition of Bradke to be earnings accretive for the group. We expect potential synergies to come from the idle capacity in Bradke's filter manufacturing capacity (of 15k units p.a.), which currently is less than 50% utilised vs. SMSM's filter capacity of 96k/year with 56% utilisation. SMSM will also benefit from the distribution business' higher margins, which is held through Powerfil (Malaysian market) and Solcrest (Australian market). SMSM's revenue contribution from Malaysia/Australia stood at 3%/10% in 1Q15. The all-debt funding should raise SMSM's net gearing to a still manageable level of 27%, while principal payments (from Dec 2016 until Dec 2018) should also be manageable given SMSM's EBITDA of Rp600bn-800bn.

What You Should Do

The stock is now trading at 17x FY15 P/E, 1 s.d. above its historical average, with a 3-year EPS CAGR of 14%. Given the weak demand from domestic and export markets, we think that its valuation is fair for now.



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)	25.59	19.01	16.86	14.68	12.97
DPS (Rp)	85.0	155.0	152.9	251.1	288.1
Dividend Yield	1.82%	3.32%	3.28%	5.38%	6.18%
EV/EBITDA (x)	16.53	12.78	11.17	9.91	8.77
P/FCFE (x)	36.49	40.17	20.21	17.24	14.61
Net Gearing	19.7%	16.0%	(10.5%)	(11.5%)	(13.4%)
P/BV (x)	8.02	6.68	5.69	5.28	4.89
ROE	35.4%	38.3%	36.5%	37.3%	39.2%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.95	0.98	0.95

SOURCE: CIMB, COMPANY REPORTS

Figure 1: Bradke's financial highlights

Ringgit Malaysia	2014	2013	2012
Current assets	60,039,392	65,310,356	59,283,356
Total assets	113,531,864	120,251,283	115,690,839
Current liabilities	24,456,014	33,097,926	28,318,983
Total liabilities	41,514,319	53,386,104	48,367,233
Equity	72,017,545	66,865,179	67,323,606
Net sales	117,487,879	116,575,729	116,785,163
Income from operation	17,510,925	17,057,808	17,897,141
Net income	12,098,896	9,096,373	12,192,673

MYR = IDR	2014	2013	2012
Average	3,039	3,313	3,628
Ending	3,202	3,716	3,542

Rp bn	2014	2013	2012
Current assets	192	243	210
Total assets	364	447	410
Current liabilities	78	123	100
Total liabilities	133	198	171
Equity	231	248	238
Net sales	357	386	424
Income from operation	53	57	65
Net income	37	30	44

Vertical Analysis	2014	2013	2012
D/E	0.58	0.80	0.72

%yoy	2014	2013
Net sales	-8%	-9%
Income from operation	-6%	-13%
Net income	22%	-32%

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

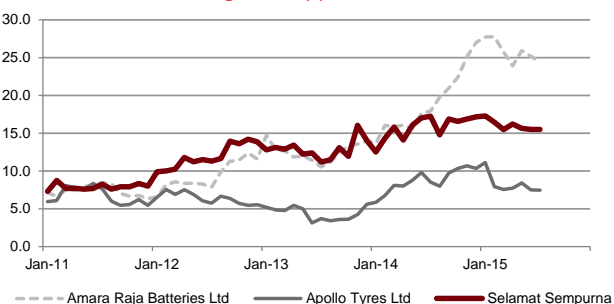
Cash Flow

(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)
Cash Flow 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%
Return On Average Assets	24.9%	23.9%	24.7%	26.0%

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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Corporate Governance Report:

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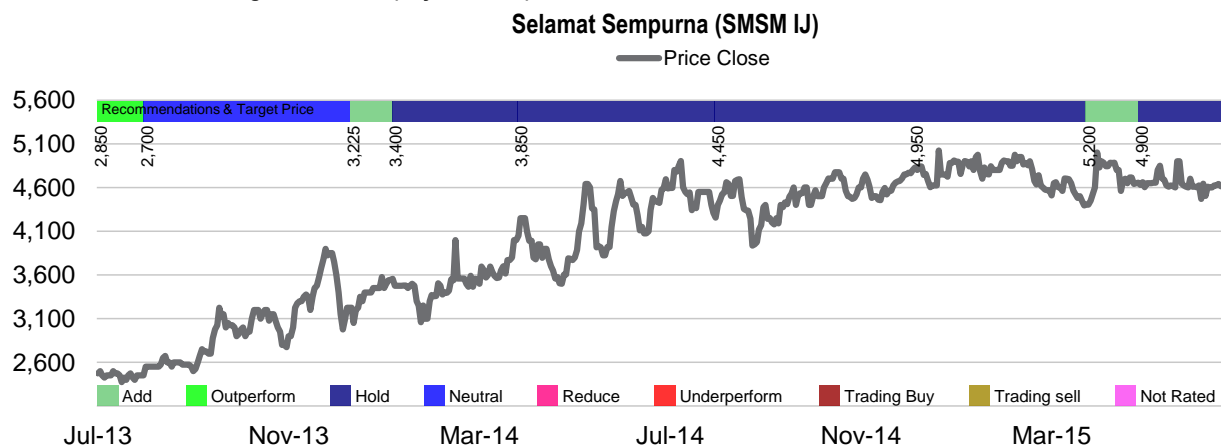
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2015		
1420 companies under coverage for quarter ended on 31 March 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.4%	6.6%
Hold	31.3%	3.8%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