

Company Note

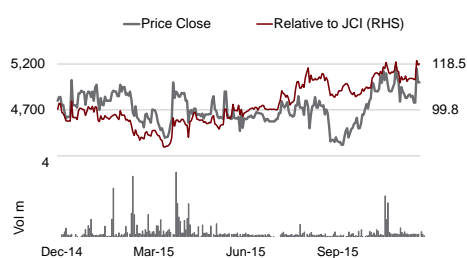
I Indonesia

HOLD (no change)

Current price:	Rp5,000
Target price:	Rp5,100
Previous target:	Rp4,900
Up/downside:	2.0%
Reuters:	SMSM.JK
Bloomberg:	SMSM IJ
Market cap:	US\$514.4m
	Rp7,198,345m
Average daily turnover:	US\$0.07m
	Rp945.2m
Current shares o/s	1,440m
Free float:	41.9%

Key changes in this note

- ▶ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.0	10.3	3.5
Relative (%)	4.2	10.7	18.7

Analyst(s)



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Selamat Sempurna

Fairly valued

- The global economic slowdown hit SMSM's financial performance. 9M15's export sales grew by only 5% yoy vs. 34% yoy in the same period last year.
- The weak rupiah and lower raw material costs have supported margins so far, despite the sales promotions in most of its export markets.
- To support future growth, the company plans to increase its utilisation ratio and expand its presence in export markets by strengthening its distribution channel.
- We roll forward our DCF-based target price to Rp5,100 and maintain our Hold rating as we think the stock is currently fairly valued.

Hindered by global economic conditions

With the export market making up 70% of the company's revenue, it is undeniable that the uncertain global economic conditions have put pressure on its financial performance. As of 9M15, the company had only booked a 5% yoy growth in export sales compared to 34% yoy growth in 9M14. Domestic sales grew by 7% yoy from a low base last year. As a result, total consolidated revenue grew by only 6% yoy in 9M15.

Margins still healthy

Faced with weaker demand, management revealed the company was forced to offer more sales promotions, especially for the export market. Nevertheless, the company was still able to sustain healthy profit margins, thanks to the 10% depreciation in the rupiah since last year. In addition, the lower prices of key raw materials, like steel plate and copper (-33%/-23% yoy), also helped to support margins. Operating margin stood at 20.4% in 9M15 vs. 20.8% in 9M14.

Future strategy

The company recently announced plans to increase its utilisation ratio, especially for filter and radiator products, to grab more market share. With demand staying weak, we think this strategy will drag down margins, as more promotions will inevitably be required to support volume growth. The recent acquisition of Bradke in Jul 15 is yet another part of the plan to bolster the company's presence in the export market, following several earlier acquisitions to strengthen its domestic presence.

Fairly valued

The stock is trading at 15.7x FY16 P/E, slightly above its historical average. We are positive on the company's ability to deliver earnings growth from its diversified earnings profile and its US\$ revenue stream. However, our Hold rating is maintained given the prolonged demand weakness in both its export and domestic markets.

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)	27.42	20.38	18.07	15.73	13.90
DPS (Rp)	85.0	155.0	152.9	251.1	288.1
Dividend Yield	1.70%	3.10%	3.06%	5.02%	5.76%
EV/EBITDA (x)	17.67	13.66	11.96	10.62	9.40
P/FCFE (x)	39.11	43.05	21.66	18.48	15.66
Net Gearing	19.7%	16.0%	(10.5%)	(11.5%)	(13.4%)
P/BV (x)	8.59	7.16	6.10	5.66	5.24
ROE	35.4%	38.3%	36.5%	37.3%	39.2%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.98	0.98	0.97

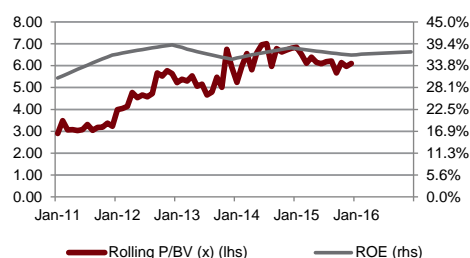
SOURCE: COMPANY DATA, CIMB FORECASTS

BY THE NUMBERS

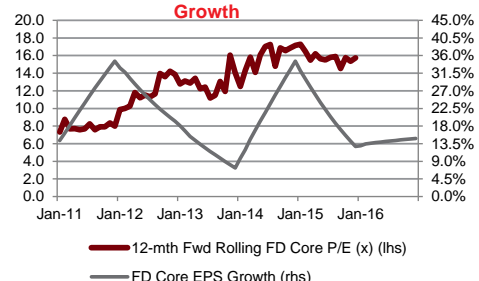
Share price info

Share px perf. (%)	1M	3M	12M
Relative	4.2	10.7	18.7
Absolute	2.0	10.3	3.5
Major shareholders	% held		
Adrindo Inti Perkasa	58.1		

P/BV vs ROE



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



Profit & Loss

(Rpb)	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Net Revenues	2,382	2,633	2,901	3,234	3,625
Gross Profit	647	785	862	968	1,089
Operating EBITDA	426	548	607	683	770
Depreciation And Amortisation	(11)	(10)	(13)	(14)	(14)
Operating EBIT	415	538	594	670	755
Financial Income/(Expense)	(27)	(24)	(10)	1	3
Pretax Income/(Loss) from Assoc.	(4)	(1)	(4)	(4)	(4)
Non-Operating Income/(Expense)	69	18	0	0	0
Profit Before Tax (pre-EI)	452	531	580	667	755
Exceptional Items	0	0	0	0	0
Pre-tax Profit	452	531	580	667	755
Taxation	(108)	(120)	(146)	(168)	(190)
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	344	411	434	499	565
Minority Interests	(30)	(30)	(38)	(44)	(49)
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
Net Profit	314	381	396	455	516
Recurring Net Profit	262	353	398	458	518
Fully Diluted Recurring Net Profit	262	353	398	458	518

Cash Flow

(Rpb)	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
EBITDA	426.3	548.1	607.1	683.4	769.8
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0	0.0
Change In Working Capital	111.2	(88.5)	(67.2)	(95.7)	(113.9)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0	0.0
Other Operating Cashflow	43.3	75.0	172.6	95.0	98.5
Net Interest (Paid)/Received	(27.1)	(23.5)	(10.2)	0.8	3.2
Tax Paid	(108.4)	(119.7)	(146.1)	(167.7)	(189.7)
Cashflow From Operations	445.3	391.3	556.3	515.9	568.0
Capex	(96.8)	(108.9)	(100.6)	(106.3)	(108.4)
Disposals Of FAs/subsidiaries	46.2	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/Investments	(101.0)	0.0	0.0	0.0	0.0
Other Investing Cashflow	(55.3)	0.0	0.0	0.0	0.0
Cash Flow From Investing	(206.9)	(108.9)	(100.6)	(106.3)	(108.4)
Debt Raised/(repaid)	(54.4)	(115.2)	(123.4)	(20.0)	0.0
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	(158.9)	(223.1)	(220.1)	(361.5)	(414.8)
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
Cash Flow From Financing	(213.3)	(338.3)	(343.6)	(381.5)	(414.8)
Total Cash Generated	25.1	(55.9)	112.2	28.1	44.8
Free Cashflow To Equity	184.0	167.2	332.3	389.6	459.6
Free Cashflow To Firm	268.7	310.8	470.0	416.7	465.8

BY THE NUMBERS

Balance Sheet

(Rpb)	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Cash And Equivalents	93	76	150	178	223
Total Debtors	561	575	683	761	852
Inventories	398	432	481	529	587
Total Other Current Assets	45	51	58	66	74
Total Current Assets	1,097	1,134	1,372	1,534	1,737
Fixed Assets	492	493	467	438	402
Total Investments	36	35	36	36	36
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	76	88	76	76	76
Total Non-current Assets	604	616	579	549	513
Short-term Debt	212	132	0	0	0
Current Portion of Long-Term Debt	0	127	0	0	0
Total Creditors	164	152	200	223	250
Other Current Liabilities	147	125	175	192	210
Total Current Liabilities	523	537	375	414	459
Total Long-term Debt	80	0	0	0	0
Hybrid Debt - Debt Component	0	0	0	0	0
Total Other Non-Current Liabilities	91	66	145	125	125
Total Non-current Liabilities	171	66	145	125	125
Total Provisions	0	0	0	0	0
Total Liabilities	694	603	520	539	585
Shareholders' Equity	838	1,005	1,180	1,273	1,372
Minority Interests	169	142	251	271	293
Total Equity	1,007	1,147	1,431	1,544	1,666

Key Ratios

	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue Growth	5.0%	10.5%	10.2%	11.5%	12.1%
Operating EBITDA Growth	5.9%	28.6%	10.8%	12.6%	12.6%
Operating EBITDA Margin	17.9%	20.8%	20.9%	21.1%	21.2%
Net Cash Per Share (Rp)	(138.1)	(127.6)	104.3	123.8	154.9
BVPS (Rp)	581.8	698.1	819.6	884.1	953.3
Gross Interest Cover	13.7	18.9	41.9	94.1	121.5
Effective Tax Rate	24.0%	22.5%	25.2%	25.2%	25.1%
Net Dividend Payout Ratio	39.0%	58.6%	55.6%	79.4%	80.5%
Accounts Receivables Days	78.53	78.48	78.88	81.35	80.92
Inventory Days	86.49	81.95	81.69	81.54	80.31
Accounts Payables Days	27.48	31.24	31.52	34.11	33.98
ROIC (%)	26.7%	34.1%	34.9%	38.6%	41.5%
ROCE (%)	32.7%	40.1%	42.2%	45.6%	47.7%
Return On Average Assets	22.5%	24.9%	23.9%	24.7%	26.0%

Key Drivers

	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
ASP (% chg, main prod./serv.)	9.2%	7.9%	7.0%	7.0%	7.0%
Unit sales grth (% , main prod./serv.)	-0.9%	12.3%	3.0%	7.0%	7.0%
Util. rate (% , main prod./serv.)	59.0%	66.2%	68.2%	73.0%	78.1%
ASP (% chg, 2ndary prod./serv.)	5.1%	3.3%	2.0%	2.0%	2.0%
Unit sales grth (% ,2ndary prod/serv)	-1.5%	-3.9%	0.0%	0.0%	0.0%
Util. rate (% , 2ndary prod/serv)	39.4%	37.9%	37.9%	37.9%	37.9%
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 DATA

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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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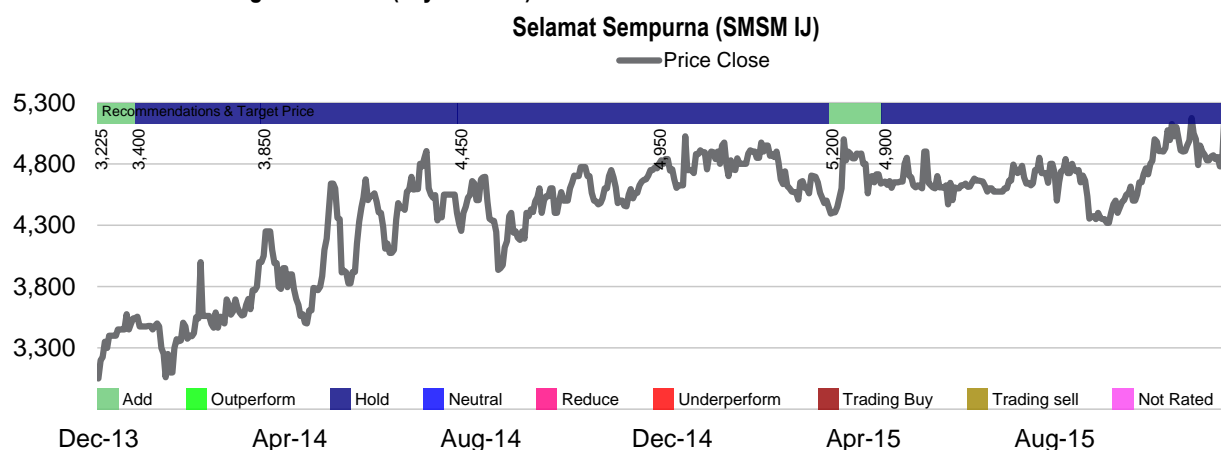
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2015		
1528 companies under coverage for quarter ended on 30 September 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.1%	6.0%
Hold	30.4%	3.5%
Reduce	10.9%	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 2015, Anti-Corruption Progress Indicator 2015.

AAV – Very Good, 3B, ADVANC – Excellent, 3A, AEONTS – Good, 1, AMATA – Very Good, 2, ANAN – Very Good, 3A, AOT – Very Good, 2, AP – Good, 3A, ASK – Very Good, 3B, ASP – Very Good, 4, BANPU – Very Good, 4, BAY – Very Good, 4, BBL – Very Good, 4, BCH – not available, no progress, BCP – Excellent, 5, BDMS – Very Good, 3B, BEAUTY – Good, 2, BEC – Good, 3B, BECL – Very Good, 3B, BH – Good, 2, BIGC – Excellent, 3A, BJC – Good, 1, BLA – Very Good, 4, BMCL – Very Good, 1, BTS – Excellent, 3A, CBG – Good, 1, CCET – not available, 1, CENTEL – Very Good, 3A, CHG – Good, 3B, CK – Excellent, 3B, COL – Very Good, 3A, CPALL – Good, 3A, CPF – Very Good, 3A, CPN – Excellent, 5, DELTA – Very Good, 3A, DEMCO – Very Good, 3A, DTAC – Excellent, 3A, EA – not available, 3A, ECL – Good, 4, EGCO – Excellent, 4, EPG – not available, 3B, GFPT – Very Good, 3A, GLOBAL – Very Good, 2, GLOW – Good, 3A, GRAMMY – Excellent, 3B, GUNKUL – Very Good, 1, HANA – Excellent, 4, HEMRAJ – Very Good, 2, HMPRO – Excellent, 3A, ICHI – Very Good, 3A, INTUCH – Excellent, 4, ITD – Good, 1, IVL – Excellent, 4, JAS – not available, 3A, JASIF – not available, no progress, JUBILE – Good, 3A, KAMART – not available, no progress, KBANK – Excellent, 4, KCE – Excellent, 4, KGI – Good, 4, KKP – Excellent, 4, KSL – Very Good, 2, KTB – Excellent, 4, KTC – Very Good, 3A, LH – Very Good, 3B, LPN – Excellent, 3A, M – Good, 2, MAJOR – Good, 1, MAKRO – Good, 3A, MBKET – Good, 2, MC – Very Good, 3A, MCOT – Excellent, 3A, MEGA – Very Good, 2, MINT – Excellent, 3A, MTLN – Good, 2, NYT – Good, no progress, OISHI – Very Good, 3B, PLANB – Good, 3B, PS – Excellent, 3A, PSL – Excellent, 4, PTT – Excellent, 5, PTTEP – Excellent, 4, PTTGC – Excellent, 5, QH – Very Good, 2, RATCH – Excellent, 3A, ROBINS – Excellent, 3A, RS – Very Good, 1, SAMART – Excellent, 3B, SAPPE – Good, 3B, SAT – Excellent, 5, SAWAD – Good, 1, SC – Excellent, 3B, SCB – Excellent, 4, SCBLIF – not available, no progress, SCC – Excellent, 5, SCCC – Good, 3A, SIM – Excellent, 3B, SIRI – Good, 1, SPALI – Excellent, 3A, STA – Very Good, 1, STEC – Very Good, 3B, SVI – Very Good, 3A, TASCO – Very Good, 3A, TCAP – Very Good, 4, THAI – Very Good, 3A, THANI – Very Good, 5, THCOM – Excellent, 4, THRE – Very Good, 3A, THREL – Very Good, 3A, TICON – Very Good, 3A, TISCO – Excellent, 4, TK – Very Good, 3B, TMB – Excellent, 4, TPCB – Good, 3B, TOP – Excellent, 5, TRUE – Very Good, 2, TTW – Very Good, 2, TU – Very Good, 3A, VGI – Excellent, 3A, WORK – not available, no progress.

Comprises level 1 to 5 as follows:

Level 1: Committed

Level 2: Declared

Level 3: Established (3A: Established by Declaration of Intent, 3B: Established by Internal Commitment and Policy)

Level 4: Certified

Level 5: Extended.

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.

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