

Wednesday, 11 July 2012

AUTOMOTIVE PARTS SECTOR/COMPANY UPDATE

**BUY**

Bloomberg Code	SMSM IJ
Price, Rp	2,000
Mkt Cap Rp bn	2,878
Target Price, Rp	2,506

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# Selamat Sempurna

## Completely integrated

### Sense of utilization

We visited SMSM main manufacturing filter factories in Tangerang, West Java, where it lies on vast 40ha manufacturing complex within the 75ha area owned by its holding company, the ADR Group. SMSM has six factories in total, to support its manufacturing activities from producing key parts from its raw materials, the assembly line, till the packaging and completed with 15,000m<sup>2</sup> warehouse area. The filter factory is fully operated as it labors around 2,000 people, divided into 2-3 shifts per day with some machines which fully operated for 24-hours. To date, filter sales contributes up to 70% of SMSM's revenue, has a maximum capacity of 96mn units per annum and has product variations up to 5,000 types. In 2012, we believe the company can utilize its filter production up to 65% of its total capacity.

### The Kaizen approach to quality

Most of SMSM's main raw materials are imported products, such as papers for filters came from distributor in Korea, and the steel plates also came from Posco Korea. The company maintained its supplies by ordered in 3-months inventory and buy at spot price. From its experience, management had chosen to use imported paper and steel plate because it has better quality and durability compared to local producers. SMSM main sales destination to overseas countries has imposed the company to produce qualified products that should meet the international minimum requirements. In addition, SMSM also has the laboratory to do quality assessment and maintained the quality of its products, while at the same time the laboratory also has been use to examine defect items which then allows the company to take further actions to continuously improve its product quality.

### Vertically integrated within the group

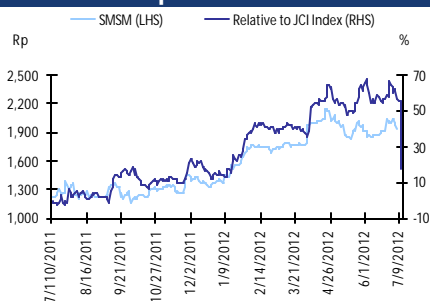
SMSM manufacturing process showed remarkable vertical integration within the ADR Group which allows the company to capture the margins from various parts of value chain process as well as to maintain the supply level of raw materials. Vertical integration gives room for the company to save in transport costs, experience faster turnover, and to have flexibility in adjusting to changes in product specifications. Furthermore, with the new acquisition of sister company, PT Hydraxle Perkasa (HP), SMSM can have a steady supply of customized steel plates along with the custom molds produced in HP which enables SMSM to sustain as one of the company that have comprehensive range of product variations, especially in filter products.

### Maintained BUY

In addition to the strong track record of revenue and dividend growth plus the robust financials, we see SMSM also demonstrate solid competence in vertically-integrated manufacturing. We believe the company still on its track to capture the growth opportunity in filters and radiators market demand. Our Target Price of Rp2,506 implies PER FY12-13 of 15.0-13.3x and currently trades at PER FY12-13 of 11.9-10.3x, lower compared with the 12.9-10.6x peer averages. Remain attractive, BUY maintained.

Year to Dec, Rp bn	2010	2011	2012F	2013F	2014F
Revenue, Rp bn	1,562	1,808	2,033	2,286	2,571
EBITDA, Rp bn	305	386	434	486	543
EBITDA Growth, %	14.6	26.7	12.3	11.9	11.9
Net Profit, Rp bn	150	201	236	271	312
Core Profit, Rp bn	151	193	235	272	313
Core EPS, Rp	105	134	163	189	217
Core EPS Growth, %	11.2	27.9	21.7	15.4	15.1
Net Gearing, %	51.0	40.6	49.7	39.2	27.2
PER, x	23.9	17.9	15.3	13.3	11.5
Core PER, x	23.8	18.6	15.3	13.3	11.5
PBV, x	6.9	5.9	5.2	4.5	3.8
EV/EBITDA, x	12.7	10.0	9.1	8.1	7.1
Dividend Yield, %	3.8	4.0	4.2	4.5	4.8

### SMSM relative price to JCI Index



Danareksa research reports are also available at Reuters Mulfex and First all Direct and Bloomberg.

**Exhibit 1. ADR Group complex factories**



Sources: Company, Danareksa

**Exhibit 2. SMSM factory lies on massive 40ha land**



Sources: Company, Danareksa

**Exhibit 3. Molding process that can be change easily**



Sources: Company, Danareksa

**Exhibit 4. Thousand variations in SMSM products**



Sources: Company, Danareksa

**Exhibit 5. PT Hydraxle Perkasa**



Sources: Company, Danareksa

**Exhibit 6. Steel plate bought from Posco Korea**



Sources: Company, Danareksa

**Exhibit 7. Cutting process for steel plate**



Sources: Company, Danareksa





**Exhibit 8. Profit and loss (Rp bn)**

	2010	2011	2012F	2013F	2014F
Sales	1,562	1,808	2,033	2,286	2,571
COGS	(1,193)	(1,347)	(1,508)	(1,697)	(1,910)
Gross Profit	369	461	525	589	661
Operating Expenses					
Selling Expense	(78)	(89)	(104)	(117)	(131)
G & A Expense	(63)	(76)	(85)	(94)	(103)
Subtotal	(141)	(164)	(189)	(211)	(235)
Operating Profit	228	297	336	378	427
Other Income (Expenses)					
Interest Income	2	2	1	1	2
Forex Gain (Loss)	(5)	2	1	(0)	(1)
Financing Charges	(24)	(28)	(31)	(33)	(30)
Others	4	8	0	0	0
Subtotal	(23)	(17)	(30)	(32)	(29)
Equity Income	0	0	11	18	21
Pre-tax Income	205	280	317	365	418
Income Tax	(40)	(60)	(63)	(73)	(84)
Minority Interest	(14)	(18)	(18)	(20)	(23)
Net Profit	150	201	236	271	312
Core Profit	151	193	235	272	313

Source: Company and Danareksa Sekuritas

**Exhibit 9. Balance Sheet (Rp bn)**

	2010	2011	2012F	2013F	2014F
Cash & Equivalent	14	17	19	8	66
Trade Receivables	314	358	395	445	500
Inventories	307	325	369	415	467
Other Current Assets	27	20	35	39	44
<b>Total Current Assets</b>	<b>662</b>	<b>719</b>	<b>818</b>	<b>907</b>	<b>1,077</b>
Property, Plant, Equipment	377	398	400	397	390
Investment in Shares of Stocks	8	8	137	156	177
Other Non-current Assets	21	12	12	12	12
<b>Total Non-current Assets</b>	<b>405</b>	<b>418</b>	<b>549</b>	<b>565</b>	<b>579</b>
<b>TOTAL ASSETS</b>	<b>1,067</b>	<b>1,137</b>	<b>1,367</b>	<b>1,472</b>	<b>1,656</b>
Bank Loans	41	103	204	244	245
Trade Payables	125	86	126	141	159
Short-term Portion of Bonds	80	-	80	-	80
Other Current Liabilities	59	75	74	83	94
<b>Total Current Liabilities</b>	<b>304</b>	<b>265</b>	<b>483</b>	<b>469</b>	<b>578</b>
Long-term Portion of Bonds	159	159	80	80	-
Other Liabilities	36	42	42	42	42
<b>Total Non-current Liabilities</b>	<b>194</b>	<b>202</b>	<b>122</b>	<b>122</b>	<b>42</b>
<b>Minority Interest</b>	<b>49</b>	<b>65</b>	<b>69</b>	<b>74</b>	<b>83</b>
Capital Stock	144	144	144	144	144
Additional Paid in Capital	19	19	19	19	19
Retained Earnings	340	427	514	628	773
Other Equity	16	16	16	16	16
<b>Total Equity</b>	<b>519</b>	<b>606</b>	<b>693</b>	<b>807</b>	<b>953</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,067</b>	<b>1,137</b>	<b>1,367</b>	<b>1,472</b>	<b>1,656</b>

Source: Company and Danareksa Sekuritas

**Exhibit 10. Cash Flow (Rp bn)**

	2010	2011	2012F	2013F	2014F
Net Income	150	201	236	271	312
Depreciation	73	86	98	107	117
Minority Interest	3	16	4	5	9
Working Capital Changes	(123)	(100)	(42)	(80)	(90)
Decrease (Increase) in Other Assets	6	6	(15)	(4)	(5)
Increase (Decrease) in Other Liabilities	22	23	(1)	9	11
<b>Cash Flow from Operation</b>	<b>130</b>	<b>232</b>	<b>279</b>	<b>309</b>	<b>354</b>
Acquisition of Property, Plant, and Equipment	(108)	(107)	(100)	(105)	(109)
Decrease (Increase) in advances for purchases of PPE	(6)	9	-	-	-
Decrease (Increase) in investment property	-	-	-	-	-
Decrease (Increase) in investment in stock	3	-	(130)	(18)	(21)
<b>Cash Flow from Investing</b>	<b>(112)</b>	<b>(98)</b>	<b>(230)</b>	<b>(123)</b>	<b>(130)</b>
Net proceed (Payment) of Bank Loans	(123)	62	101	40	1
Increase (Payment) of Bonds	238	(79)	1	(80)	-
Payment of Cash Dividend	(141)	(117)	(148)	(157)	(167)
<b>Cash Flow from Financing</b>	<b>(26)</b>	<b>(134)</b>	<b>(47)</b>	<b>(197)</b>	<b>(166)</b>
<b>Change in Cash</b>	<b>(7)</b>	<b>0</b>	<b>2</b>	<b>(11)</b>	<b>58</b>

Source: Company and Danareksa Sekuritas

**Exhibit 11. Key Ratios**

	2010	2011	2012F	2013F	2014F
<b>Profitability</b>					
Gross Margin, %	23.6	25.5	25.8	25.8	25.7
OpEx to Sales, %	9.0	9.1	9.3	9.2	9.1
Operating Margin, %	14.6	16.4	16.5	16.6	16.6
Pre-tax Income Margin, %	13.1	15.5	15.6	15.9	16.3
Net Margin, %	9.6	11.1	11.6	11.9	12.1
Core Margin, %	9.7	10.7	11.6	11.9	12.2
ROAE, %	29.6	35.7	36.3	36.2	35.4
ROAA, %	15.0	18.2	18.8	19.1	19.9
<b>Leverage</b>					
Debt to Equity, %	53.8	43.3	52.5	40.1	34.1
Net Debt to Equity, %	51.0	40.6	49.7	39.2	27.2
Interest Coverage, x	9.6	10.4	10.8	11.6	14.1
<b>Turnover</b>					
Trade Receivables, days	72.3	71.3	70.0	70.0	70.0
Inventories, days	92.7	86.7	88.0	88.0	88.0
Trade Payables, days	37.7	23.1	30.0	30.0	30.0
<b>Growth</b>					
Sales, %	13.6	15.8	12.4	12.5	12.5
Gross Profit, %	16.6	24.9	13.9	12.3	12.3
Operating Profit, %	20.1	30.1	13.2	12.7	12.7
EBITDA, %	14.6	26.7	12.3	11.9	11.9
Pre-tax Income, %	10.2	36.5	13.4	14.9	14.8
Net Profit, %	13.2	33.5	17.3	15.1	15.0
Core Profit, %	11.2	27.9	21.7	15.4	15.1
<b>Valuation (TP)</b>					
PER, x	23.9	17.9	15.3	13.3	11.5
Core PER, x	23.8	18.6	15.3	13.3	11.5
PBV, x	6.9	5.9	5.2	4.5	3.8
Dividend Yield, %	3.8	4.0	4.2	4.5	4.8
EV/EBITDA, x	12.7	10.0	9.1	8.1	7.1

Source: Company and Danareksa Sekuritas

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