

Tuesday, 07 August 2012

AUTOMOTIVE PARTS SECTOR/COMPANY UPDATE

BUY

Bloomberg Code	SMSM IJ
Price, Rp	2,075
Mkt Cap Rp bn	2,987
Target Price, Rp	2,575

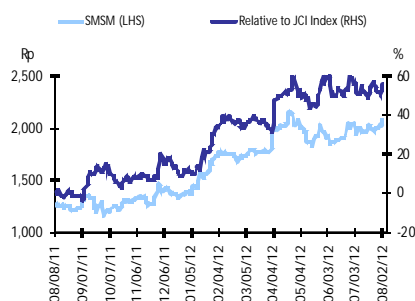
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Last Recommendation

	Rec.	Target Price
01-Aug-12	BUY	Rp 2,513
11-Jul-12	BUY	Rp 2,506

SMSM relative price to JCI Index

Selamat Sempurna

Optimism Remains Despite The Challenging Year

Weaker growth in its export markets

Revenues rose 2.2% YoY to Rp 893 bn in 1H12. The increase in revenues was supported by higher filter and domestic market sales, despite the lower radiator and export market sales. This year has been a challenging year for SMSM due to the challenging export markets, especially the US and Europe. However, we still believe the company will enjoy growth - both in revenues and at the bottom line (by 9.7% and 7.9%, respectively) - driven by the increasing demand from the OEM domestic market following the 28% YoY increase in 1H12 car sales in addition to a more robust replacement market thanks to the higher number of cars on the road. This year, we expect filters and radiators sales volume to grow by 2.5% and 1.5%. In addition, we also believe that growth from the domestic market will cover any weakness in its export markets. In the long run, we expect SMSM's filters and radiators sales volume to grow by CAGR FY11-14 of 5.0% and 4.0%, respectively.

51% ownership in PT Hydraxle Perkasa

On 1 August 2012, SMSM exercised its option to increase its ownership in PT Hydraxle Perkasa (HP) to 51% from 49%. SMSM bought another 60 mn shares in HP for Rp 9.42 bn at a price of Rp 157 per share, funded from SMSM's internal cash flow. The HP shares sold to SMSM are entirely new shares. Recall that on 1 May 2012, SMSM bought a 49% stake in HP for Rp 113bn with fresh external financing provided by Mizuho Bank of Rp 113 bn. HP will use the cash to repay its bank loan and to fund further expansion. With this acquisition, SMSM's sales will be more balanced given that HP is a domestic-oriented player.

Value enhancement but with lower margins

HP will contribute up to 14% of SMSM's revenues in FY12. Given the solid production growth in the mining and plantations sectors coupled with HP's extensive marketing network, we expect HP to book revenues of Rp 357 bn in FY12 (15% growth YoY). This is expected to raise the consolidated revenues growth to 9.7% in FY12 (SMSM only 8.7%). However, the consolidated gross margins may be squeezed by 170 bps to 24.2% from 25.9% since HP's products carry lower margins than SMSM's. At the same time, HP will guarantee continuity in the supply of molding products needed by SMSM. In terms of the balance sheet, consolidated net gearing will be maintained at around 42.9%.

Year end to Dec	2010	2011	2012F	2013F	2014F
Revenue, Rp bn	1,562	1,808	2,323	2,571	2,902
EBITDA, Rp bn	305	386	473	522	583
EBITDA Growth, %	14.6	26.7	22.5	10.2	11.8
Net Profit, Rp bn	150	201	229	249	285
Core Profit, Rp bn	151	193	229	249	285
Core EPS, Rp	105	134	159	173	198
Core EPS Growth, %	11.2	27.9	18.3	8.8	14.8
Net Gearing, %	46.7	36.7	42.9	38.3	31.6
PER, x	23.2	17.4	16.2	14.9	13.0
Core PER, x	23.1	18.1	16.2	14.9	13.0
PBV, x	6.2	5.2	4.2	3.8	3.3
EV/EBITDA, x	12.3	9.7	8.6	7.8	7.0
Dividend Yield, %	3.9	4.1	4.4	4.6	4.9

Notes: 2010-2011 SMSM only, 2012F-2014F consolidated SMSM and HP

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

Still an attractive dividend player

On 3 August 2012, SMSM announced FY12 interim dividends of Rp 50/share. This gives investors a yield of 2.5% at the current share price. The cum-date is 4 September with the dividends paid on 21 September. As the company tries to maintain a policy of continuous growth in dividends per share, we expect SMSM's DPS to grow by 6% CAGR in FY12-14 with the distributed final dividends for FY12 of at least Rp 56/share. The total dividends translate into a DPR of 67% and a yield of 5.2% at the current share price.

TP raised to Rp2,575. BUY Maintained

Given the challenging export markets, we reduce our sales volume target for filters and radiators. Nonetheless, all in all, we remain upbeat on the company and believe that it can increase its domestic sales on the back of strong auto sales in the domestic market. Our Target Price is adjusted to reflect the consolidation of HP. At Rp2,575, our higher Target Price offers 27% potential upside, implying PER FY12-13 of 16.1-14.8x. BUY maintained.

Exhibit 1. Details of the Hydraxle Perkasa acquisition

SMSM bought HP's shares

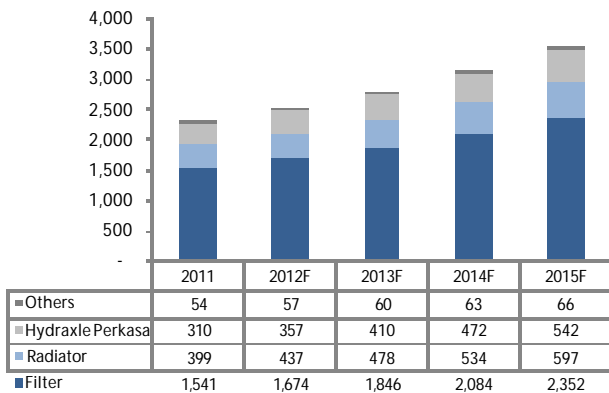
Transaction effective date	1 May, 2012
Number of shares bought, mn	720.59
Price per share, Rp	157.00
Investment value, Rp bn	113.13
SMSM's ownership, %	49.00

SMSM executed its option to purchase more HP shares

Transaction effective date	1 Aug, 2012
Number of shares bought, mn	60.00
Price per share, Rp	157.00
Investment value, Rp bn	9.42
SMSM's ownership, %	51.00
Total investment value in HP, Rp bn	122.55

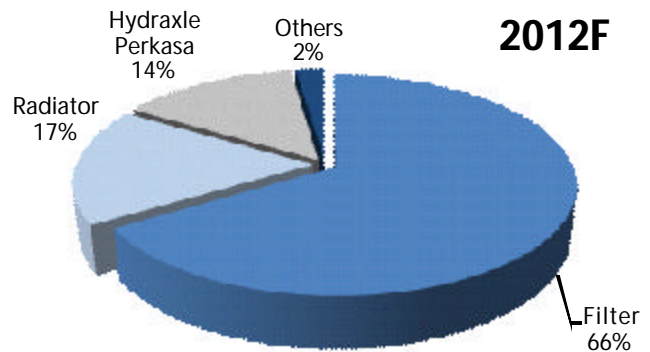
Sources: Company

Exhibit 2. Revenues breakdown after consolidation



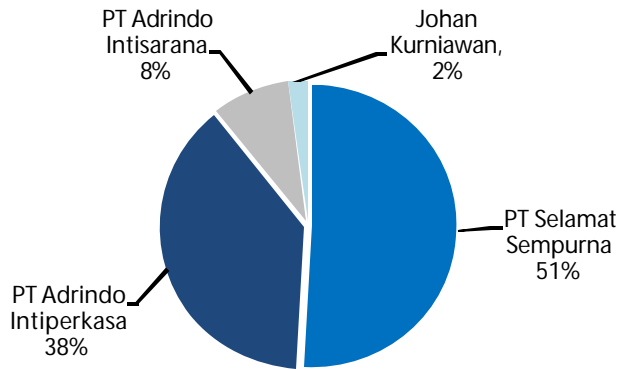
Source: Company, Danareksa Sekuritas

Exhibit 3. Portion of revenues



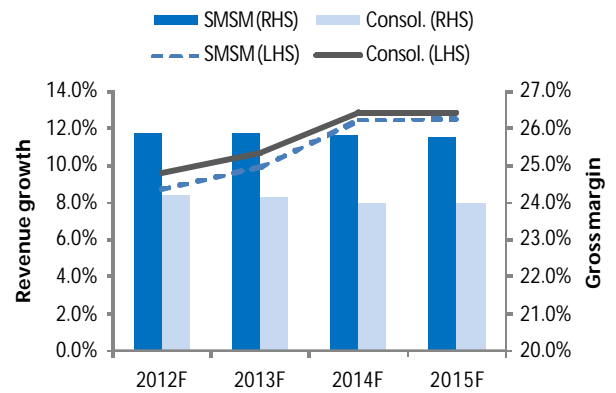
Source: Danareksa Sekuritas

Exhibit 4. Ownership post option exercised



Source: Company, Danareksa Sekuritas

Exhibit 5. Margins and growth after consolidation



Source: Danareksa, Sekuritas

Exhibit 6. Forecast changes in SSM sales volume and ASP

	2011				2012F				2013F				2014F				
		New	Previous	Chg %		New	Previous	Chg %		New	Previous	Chg %		New	Previous	Chg %	
Sales Volume, '000 pcs																	
Filter	58,241	59,697	62,609	(4.7)	62,682	67,304	(6.9)	67,383	72,352	(6.9)							
Radiator	865	878	930	(5.6)	913	1,000	(8.7)	972	1,075	(9.5)							
Average Selling Price, Rp																	
Filter	26,460	28,047	27,783	1.0	29,450	29,172	1.0	30,922	30,631	1.0							
Radiator	461,412	498,325	479,868	3.8	523,241	499,063	4.8	549,403	519,026	5.9							

Source: Danareksa Sekuritas

Exhibit 7. Forecast changes in SMSM sales volume and ASP

	SMSM	2012F Consol.	Chg %	SMSM	2013F Consol.	Chg %	SMSM	2014F Consol.	Chg %
Income Statement, Rp bn									
Revenue	1,966	2,323	18.1	2,161	2,571	19.0	2,430	2,902	19.4
Gross profit	509	563	10.5	559	620	11.0	628	697	11.0
Operating income	324	364	12.4	355	402	13.2	401	452	12.9
EBITDA	422	473	12.2	462	522	12.9	517	583	12.8
Pre-tax income	306	328	7.0	331	358	8.2	380	409	7.7
Net income	228	229	0.6	246	249	1.1	282	285	0.9
Core income	227	229	0.6	246	249	1.1	283	285	0.9
Balance Sheet, Rp bn									
Cash	125	90		77	33		130	76	
Other current assets	772	892		849	986		955	1,112	
Fixed assets	400	501		397	507		390	507	
Other assets	150	150		168	168		189	189	
Total Assets	1,446	1,633		1,492	1,694		1,663	1,884	
Short-term loans	369	389		310	330		410	430	
Other current liabilities	193	233		211	256		238	287	
Long-term loans	80	80		80	80		-	-	
Other liabilities	42	46		42	46		42	46	
Total liabilities	684	749		643	712		690	764	
Minority interest	73	195		75	209		83	231	
Equity	690	690		774	774		890	890	
Total equity	762	884		849	983		973	1,120	
Total liabilities and equity	1,446	1,633		1,492	1,694		1,663	1,884	

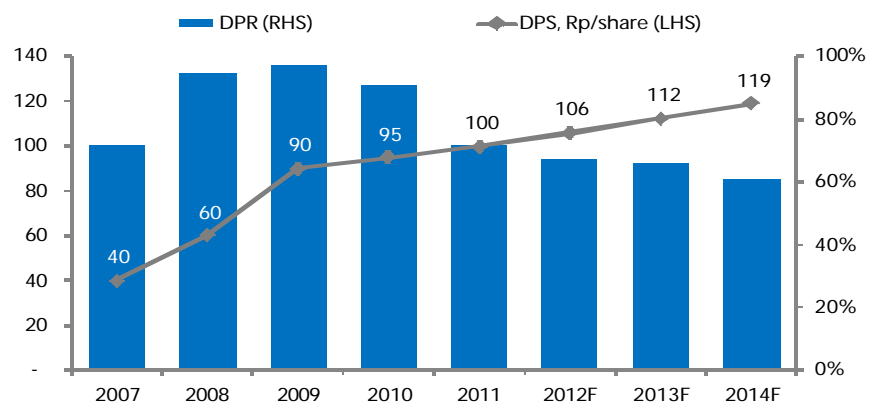
Source: Danareksa Sekuritas

Exhibit 8. SMSM's interim dividends for FY12

Dividend Interim	Rp 50/share	Dividend Interim Payment Details	
EPS 2012F (SMSM only)	Rp 158/share	Cum dividend	4 Sept, 2012
DPR	32%	Ex dividend	5 Sept, 2012
Dividend yield (current price= Rp2,025)	2.5%	Record date	7 Sept, 2012
		Dividend payment date	21 Sept, 2012

Sources: Company, Danareksa Sekuritas

Exhibit 9. DPS growth of 5.4% CAGR FY09-11 and expected to grow by 6% CAGR FY12-14



Sources: Company, Danareksa Sekuritas

Exhibit 10. Profit and Loss (Rp bn)

	2010	2011	2012F	2013F	2014F
Revenue	1,562	1,808	2,323	2,571	2,902
COGS	(1,193)	(1,347)	(1,760)	(1,951)	(2,205)
Gross Profit	369	461	563	620	697
Operating Expenses					
Selling Expense	(78)	(89)	(103)	(113)	(127)
G & A Expense	(63)	(76)	(96)	(105)	(117)
Subtotal	(141)	(164)	(199)	(218)	(244)
Operating Profit	228	297	364	402	452
Other Income (Expenses)					
Interest Income	2	2	5	7	6
Forex Gain (Loss)	(5)	2	1	(0)	(1)
Financing Charges	(24)	(28)	(42)	(50)	(49)
Others	4	8	-	-	-
Subtotal	(23)	(17)	(36)	(43)	(43)
Equity Income	-	-	-	-	-
Pre-tax Income	205	280	328	358	409
Income Tax	(40)	(60)	(68)	(74)	(84)
Minority Interest	(14)	(18)	(31)	(36)	(40)
Net Profit	150	201	229	249	285
Core Profit	151	193	229	249	285

Notes: 2010-2011 SMSM only, 2012F-2014F consolidated SMSM and HP

Source: Company and Danareksa Sekuritas

Exhibit 11. Balance Sheet (Rp bn)

	2010	2011	2012F	2013F	2014F
Cash & Equivalent	14	17	90	33	76
Trade Receivables	314	358	433	479	540
Inventories	307	325	420	465	526
Other Current Assets	27	20	39	42	47
Total Current Assets	662	719	982	1,019	1,187
Property, Plant, Equipment	377	398	501	507	507
Other Non-current Assets	29	20	150	168	189
Total Non-current Assets	405	418	651	675	697
TOTAL ASSETS	1,067	1,137	1,633	1,694	1,884
Bank Loans	41	103	309	330	350
Trade Payables	125	86	149	165	187
Short-term Portion of Bonds	80	-	80	-	80
Other Current Liabilities	59	75	84	91	101
Total Current Liabilities	304	265	623	586	718
Long-term Portion of Bonds	159	159	80	80	-
Other Liabilities	36	42	46	46	46
Total Non-current Liabilities	194	202	126	126	46
Minority Interest	49	65	195	209	231
Capital Stock	144	144	144	144	144
Additional Paid in Capital	19	19	19	19	19
Retained Earnings	340	427	510	595	710
Other Equity	16	16	16	16	16
Total Equity	568	671	690	774	890
TOTAL LIABILITIES AND EQUITY	1,067	1,137	1,633	1,694	1,884

Notes: 2010-2011 SMSM only, 2012F-2014F consolidated SMSM and HP

Source: Company and Danareksa Sekuritas

Exhibit 12. Cash Flow (Rp bn)

	2010	2011	2012F	2013F	2014F
Net Income	150	201	229	249	285
Depreciation	73	86	109	120	131
Minority Interest	3	16	18	14	22
Working Capital Changes	(123)	(100)	(36)	(74)	(100)
Decrease (Increase) in Other Assets	66	(143)	(22)	(26)	
Increase (Decrease) in Other Liabilities	22	23	(4)	6	10
Cash Flow from Operation	130	232	173	293	322
Capital expenditures	(108)	(107)	(120)	(126)	(131)
Others	(3)	9	-	-	-
Cash Flow from Investing	(112)	(98)	(120)	(126)	(131)
Net proceed (Payment) of Loans	116	(17)	(22)	(60)	21
Payment of Cash Dividend	(141)	(117)	(163)	(184)	(191)
Cash Flow from Financing	(26)	(134)	(184)	(243)	(170)
Change in Cash	(7)	0	(131)	(76)	20

Notes: 2010-2011 SMSM only, 2012F-2014F consolidated SMSM and HP

Source: Company and Danareksa Sekuritas

Exhibit 13. Key Ratios

	2010	2011	2012F	2013F	2014F
Profitability					
Gross Margin, %	23.6	25.5	24.2	24.1	24.0
OpEx to Sales, %	9.0	9.1	8.6	8.5	8.4
Operating Margin, %	14.6	16.4	15.7	15.6	15.6
EBITDA Margin, %	19.5	21.4	20.4	20.3	20.1
Pre-tax Income Margin, %	13.1	15.5	14.1	13.9	14.1
Net Margin, %	9.6	11.1	9.9	9.7	9.8
Core Margin, %	9.7	10.7	9.8	9.7	9.8
ROAE, %	27.1	32.4	27.5	26.6	27.1
ROAA, %	15.0	18.2	14.5	14.9	15.9
Leverage					
Debt to Equity, %	49.2	39.1	53.1	41.7	38.4
Net Debt to Equity, %	46.7	36.7	42.9	38.3	31.6
Interest Coverage, x	9.6	10.4	8.7	8.1	9.3
Turnover					
Trade Receivables, days	72	71	64	64	63
Inventories, days	93	87	82	82	81
Trade Payables, days	38	23	27	29	29
Growth					
Sales, %	13.6	15.8	9.7	10.7	12.9
Gross Profit, %	16.6	24.9	11.7	10.2	12.3
Operating Profit, %	20.1	30.1	10.6	10.4	12.6
EBTIDA, %	14.6	26.7	10.4	10.2	11.8
Pre-tax Income, %	10.2	36.5	5.9	9.3	14.2
Net Profit, %	13.2	33.5	7.9	8.5	14.6
Core Profit, %	11.2	27.9	11.9	8.8	14.8
Valuation (TP)					
PER, x	23.2	17.4	16.2	14.9	13.0
Core PER, x	23.1	18.1	16.2	14.9	13.0
PBV, x	6.2	5.2	4.2	3.8	3.3
Dividend Yield, %	3.9	4.1	4.4	4.6	4.9
EV/EBITDA, x	12.3	9.7	8.6	7.8	7.0

Notes: 2010-2011 SMSM only, 2012F-2014F consolidated SMSM and HP

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