

Thursday, 29 November 2012

AUTOMOTIVE PARTS SECTOR/COMPANY UPDATE

HOLD

Bloomberg Code	SMSM IJ
Price, Rp	2,500
Mkt Cap Rp bn	3,599
Target Price, Rp	2,550

Joko Sogje

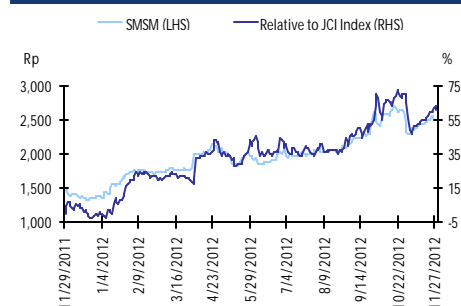
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Selamat Sempurna**Wait and See**

This year has seen weak market demand for SMSM's products and, looking ahead, demand may not pick up much in the short term since the global economic outlook remains uncertain. Longer term, however, we are more upbeat, although the growth in 2013 will very much depend on the speed of global economic recovery. As such, we believe the medium-term catalyst for the stock could be the current uptrend in Indonesia's auto sales in addition to SMSM's commitment to paying good dividends supported by its healthy balance sheet. HOLD maintained with an unchanged Target Price of Rp2,550, implying PE FY13 of 16.1x.

Last Recommendation

	Rec.	Target Price
02-Nov-12	HOLD	Rp 2,550
07-Aug-12	BUY	Rp 2,575
01-Aug-12	BUY	Rp 2,513
11-Jul-12	BUY	Rp 2,506

SMSM relative price to JCI Index**Beyond 2013**

We remain confident that SMSM will record 20 years of consecutive revenues growth (7.9% in FY12), driven by inorganic growth coming from five months of HP's revenues consolidation. De-stocking among US and European distributors early this year caused some pain with the company's export revenues falling 1.5% yoy in 9M12. Past experience, however, suggests that SMSM is fairly resilient to global economic weakness. Note that the company still recorded growth in 1998-1999 (the Asean crisis) and in 2008-2009 (the US crisis). As such, facing falling demand globally, SMSM's strategy is now to expand its distribution channels into Southeast Asia and the Middle East, as well as focusing on the domestic market, thereby reducing its exposure to the US and Europe. We believe the company will still enjoy revenues growth of 20.7% in 2013, driven by: 1) full consolidation of Hydraxle (HP), 2) SMSM's strategy of penetrating the domestic OEM market doubling the OEM share to revenues, 3) ample capacity and manageable capex of Rp100 bn mainly for maintenance and de-bottlenecking, and 4) the good prospects for low-cost green cars (LCGC), sales of which are predicted to increase 4W production by 10-15% next year.

Support from the experts

SMSM, POSCO (Korea) and Daewoo (Korea) injected more capital into the JV company, POSCO-IJPC, on 23 November 2012. SMSM itself injected Rp23.2 bn of additional capital to maintain 15% ownership. The additional capital will be used by POSCO-IJPC to double its steel coils capacity to 240,000 metric tons/year thanks to a new factory in Karawang as the existing factory is already fully utilized. This partnership will help SMSM to secure its main raw material, steel, both in terms of volume and pricing. Furthermore, another JV with Tokyo Radiator Mfg. (Japan), PT Tokyo Radiator Selamat Sempurna, is expected to start commercial operation in April 2013 with capacity of 60,000 units/year. In our view, these joint ventures will help SMSM to strengthen its OEM market and ultimately lead to stronger financial performance in the future.

Year end to Dec	2010	2011	2012F	2013F	2014F
Revenue, Rp bn	1,562	1,808	1,951	2,354	2,658
EBITDA, Rp bn	305	386	412	479	536
EBITDA Growth, %	14.6	26.7	6.5	16.4	11.8
Net Profit, Rp bn	150	201	199	228	262
Core Profit, Rp bn	151	193	201	227	262
Core EPS, Rp	105	134	139	157	182
Core EPS Growth, %	11.2	27.9	3.8	13.0	15.7
Net Gearing, %	46.7	36.7	32.2	20.2	14.1
PER, x	21.6	16.2	18.4	16.1	14.0
Core PER, x	21.5	16.8	18.3	16.2	14.0
PBV, x	5.7	4.8	4.5	3.9	3.4
EV/EBITDA, x	11.5	9.0	9.6	8.1	7.1
Yield, %	3.7	3.9	4.2	4.4	4.7

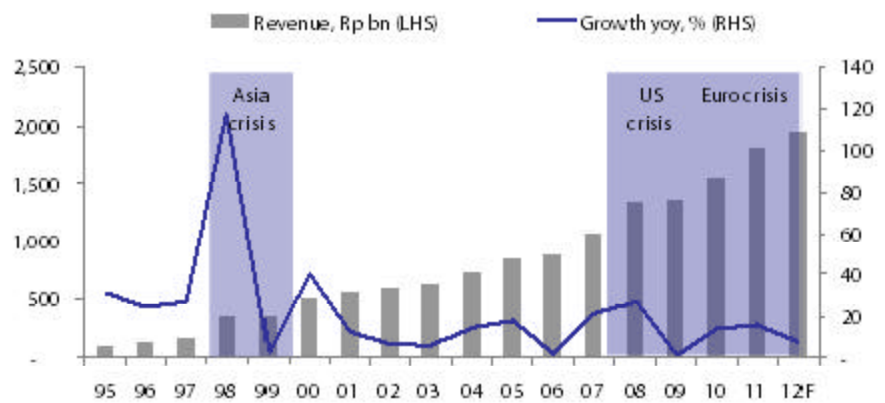
Notes: 2010-2011 SMSM only, 2012F-2014F consolidated SMSM and HP

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

Dividend star

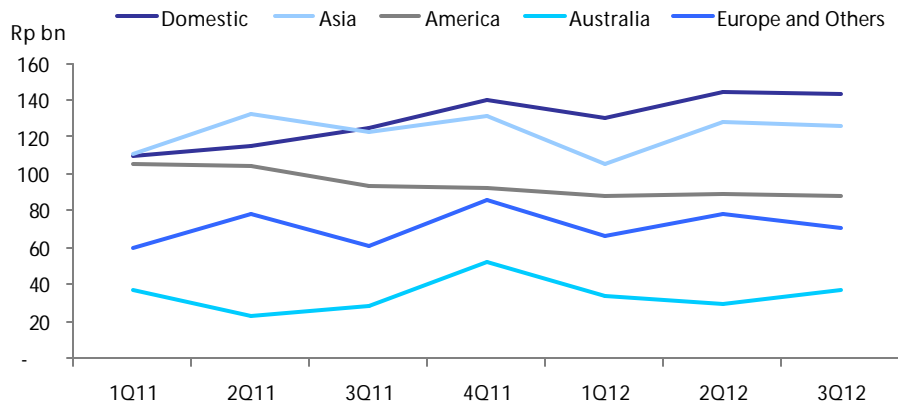
SMSM has a very generous dividend policy. On 9 November 2012, the company announced further FY12 interim dividends of Rp30/share, resulting in total FY12 interim dividends of Rp80/share. This year the dividend yield is expected to reach 4.2% at the current share price. The cum-date is 3 December with the dividends paid on 20 December. Going forward, SMSM aims to maintain its policy of increasing its dividends each year. With ample cash flow and manageable capex as the capacity is still underutilized (at around the 50-60% level), we expect DPS to increase by 6% CAGR in FY12-15, translating into a 65-75% DPR and 4.2-5.0% dividend yield.

Exhibit 1. Revenues still grew during times of crisis

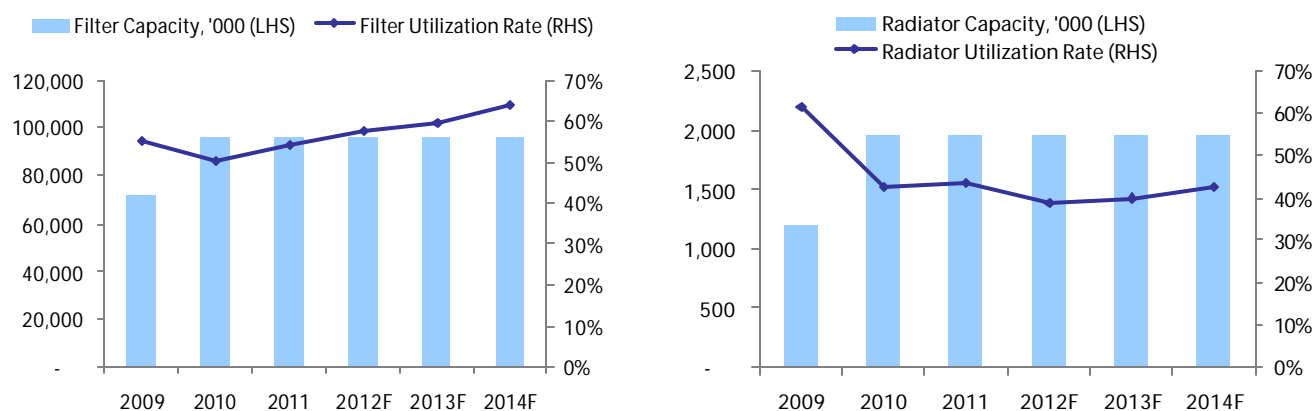


Source: Company, Danareksa

Exhibit 2. Weak US sales in recent quarters dragged down exports but domestic sales improved



Source: Company

Exhibit 3. Excess capacity – ample room to grow

Source: Company, Danareksa

Exhibit 4. Capital injection into POSCO-IJPC on 23 November 2012

	Ownership %	Before capital injection		After capital injection	
		USD mn	Rp bn	USD mn	Rp bn
POSCO, Korea	65	8.1	81.1	18.2	181.6
Daewoo International Corp., Korea	20	2.5	25.0	5.6	55.9
Selamat Sempurna (SMSM), Indonesia	15	1.9	18.7	4.2	41.9
Total		12.5	124.8	28.0	279.4

Notes: 1 USD = Rp9,970

Source: Company

Exhibit 5. Support from the experts

Investment	Partnership with	Business	SMSM Ownership, %
PT Panata Jaya Mandiri	Donaldson Inc., US	Heavy equipment filter	70
PT Hydraxle Perkasa	ADR Group (Holding)	Karoseri	51
PT POSCO-IJPC	POSCO and Daewoo, Korea	Steel processing	15
PT Tokyo Radiator SS	Tokyo Radiator, Japan	Radiator manufacturer	33

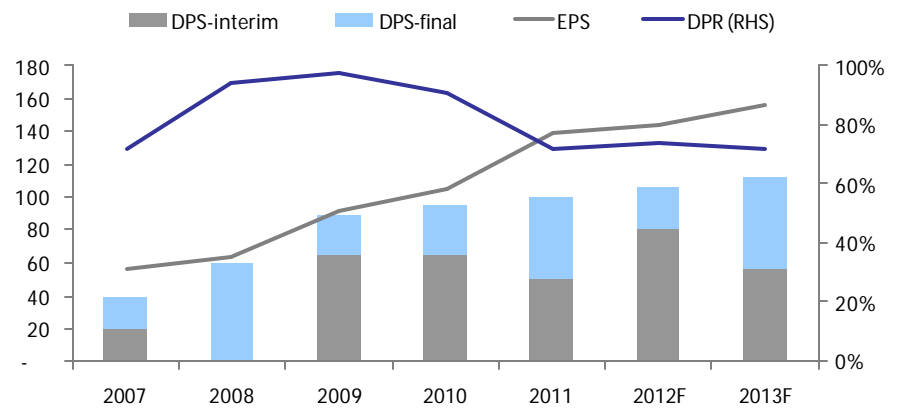
Source: Company

Exhibit 6. SMSM's interim dividends in 2012

Dividend Interim I (3-Aug-12)	Rp50/share	Dividend Interim II Timeline	
Dividend Interim II (9-Nov-12)	Rp30/share		Cum date
EPS FY12F	Rp139/share	Ex date	4 Dec, 2012
Interim DPR	57.6%	Record date	6 Dec, 2012
Interim yield (current price= Rp2,500)	3.2%	Payment date	20 Dec, 2012

Source: Company, Danareksa

Exhibit 7. Maintaining high DPR



Source: Company, Danareksa

Exhibit 8. Profit & Loss, Rp bn

	2010	2011	2012F	2013F	2014F
Revenue	1,562	1,808	1,951	2,354	2,658
COGS	(1,193)	(1,347)	(1,460)	(1,788)	(2,022)
Gross Profit	369	461	491	566	636
Operating Expenses					
Selling Expense	(78)	(89)	(94)	(103)	(116)
G & A Expense	(63)	(76)	(88)	(103)	(115)
Subtotal	(141)	(164)	(182)	(206)	(231)
Operating Profit	228	297	309	359	405
Other Income (Expenses)					
Interest Income	2	2	2	4	4
Forex Gain (Loss)	(5)	2	(1)	2	0
Financing Charges	(24)	(28)	(32)	(35)	(30)
Others	4	8	0	0	0
Subtotal	(23)	(17)	(31)	(29)	(26)
Equity Income	-	-	7	-	-
Pre-tax Income	205	280	278	330	379
Income Tax	(40)	(60)	(56)	(68)	(78)
Minority Interest	(14)	(18)	(22)	(34)	(38)
Net Profit	150	201	199	228	262
Core Profit	151	193	201	227	262

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

Source: Company, Danareksa Sekuritas

Exhibit 9. Balance Sheet, Rp bn

	2010	2011	2012F	2013F	2014F
Cash & Equivalent	14	17	123	113	153
Trade Receivables	314	358	394	429	483
Inventories	307	325	388	424	479
Other Current Assets	27	20	36	38	43
Total Current Assets	662	719	941	1,004	1,157
Property, Plant, Equipment	377	398	501	507	507
Other Non-current Assets	29	20	26	26	26
Total Non-current Assets	405	418	527	533	533
TOTAL ASSETS	1,067	1,137	1,469	1,537	1,691
Bank Loans	41	103	227	225	225
Trade Payables	125	86	136	149	168
Short-term Portion of Bonds	80	-	80	0	80
Other Current Liabilities	59	75	79	84	93
Total Current Liabilities	304	265	521	458	566
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	196	222	254
Capital Stock	144	144	144	144	144
Additional Paid in Capital	19	19	19	19	19
Retained Earnings	340	427	446	553	646
Other Equity	16	16	16	16	16
Total Equity	568	671	625	732	825
TOTAL LIABILITIES AND EQUITY	1,067	1,137	1,469	1,537	1,691

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

Source: Company, Danareksa Sekuritas

Exhibit 10. Cash flow, Rp bn

	2010	2011	2012F	2013F	2014F
Depreciation	73	86	109	120	131
Minority Interest	3	16	19	26	32
Working Capital Changes	(123)	(100)	22	(57)	(90)
Decrease (Increase) in Other Assets	6	6	(17)	(2)	(4)
Increase (Decrease) in Other Liabilities	22	23	(10)	5	9
Cash Flow from Operation	130	232	323	319	340
Capital expenditures	(108)	(107)	(120)	(126)	(131)
Others	(3)	9	0	0	0
Cash Flow from Investing	(112)	(98)	(120)	(126)	(131)
Net proceed (Payment) of Loans	116	(17)	(22)	(82)	(0)
Payment of Cash Dividend	(141)	(117)	(196)	(129)	(179)
Cash Flow from Financing	(26)	(134)	(218)	(211)	(179)
Change in Cash	(7)	0	(15)	(17)	30

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

Source: Company, Danareksa Sekuritas

Exhibit 11. Ratios

	2010	2011	2012F	2013F	2014F
Profitability					
Gross Margin, %	23.6	25.5	25.2	24.0	23.9
OpEx to Sales, %	9.0	9.1	9.3	8.8	8.7
Operating Margin, %	14.6	16.4	15.8	15.3	15.2
EBITDA Margin, %	19.5	21.4	21.1	20.4	20.2
Pre-tax Income Margin, %	13.1	15.5	14.2	14.0	14.3
Net Margin, %	9.6	11.1	10.2	9.7	9.9
Core Margin, %	9.7	10.7	10.3	9.6	9.9
ROAE, %	27.1	32.4	24.9	25.7	25.8
ROAA, %	15.0	18.2	13.7	15.2	16.3
Leverage					
Debt to Equity, %	49.2	39.1	47.1	32.0	28.3
Net Debt to Equity, %	46.7	36.7	32.2	20.2	14.1
Interest Coverage, x	9.6	10.4	9.6	10.4	13.3
Turnover					
Trade Receivables, days	72	71	73	63	62
Inventories, days	93	87	95	82	80
Trade Payables, days	38	23	30	29	28
Growth					
Sales, %	13.6	15.8	7.9	20.7	12.9
Gross Profit, %	16.6	24.9	6.5	15.3	12.3
Operating Profit, %	20.1	30.1	4.1	16.4	12.6
EBTIDA, %	14.6	26.7	6.5	16.4	11.8
Pre-tax Income, %	10.2	36.5	(0.7)	19.0	14.7
Net Profit, %	13.2	33.5	(0.7)	14.2	15.2
Core Profit, %	11.2	27.9	3.8	13.0	15.7
Valuation (TP)					
PER, x	21.6	16.2	18.4	16.1	14.0
Core PER, x	21.5	16.8	18.3	16.2	14.0
PBV, x	5.7	4.8	4.5	3.9	3.4
Dividend Yield, %	3.7	3.9	4.2	4.4	4.7
EV/EBITDA, x	11.5	9.0	9.6	8.1	7.1

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

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