

Thursday, 14 June 2012

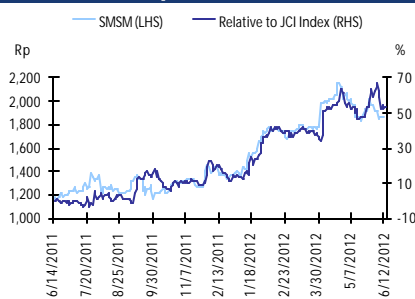
**BUY**

Bloomberg Code	SMSM IJ
Price, Rp	1,870
Mkt Cap Rp bn	2,692
Target Price, Rp	2,506

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**SMSM relative price to JCI Index**

## AUTOMOTIVE PARTS SECTOR/COMPANY UPDATE

# Selamat Sempurna

## A Lucrative Acquisition

**TP raised to Rp2,506, maintain BUY**

Although our sales target remains unchanged, we slightly raise our net earnings forecast because of the acquisition of a 49% stake in PT Hydraxle Perkasa, its sister company. We also adjust our macro assumptions, as well as the debt portion in our WACC calculations (to 40% from 30% previously) and our cost of debt assumption (to 10.5% from 11% previously). Consequently, we raise our Target Price to Rp2,506, implying PER FY12-13 of 15.0-13.3x. The stock currently trades at an attractive valuation of 11.2-9.9x PER FY12-13. BUY maintained.

**New Acquisition: PT Hydraxle Perkasa**

On 1 May, SMSM bought a 49% stake in PT Hydraxle Perkasa (HP), its sister company, which, according to GIAMM, is the largest manufacturer of dump body hoists for trucks in Indonesia. In the transaction, SMSM bought 720,588 shares in HP for Rp 113bn or Rp 157/share. This implies PER FY11 for HP of 7.0x. The HP shares sold to SMSM are entirely new shares. Proceeds raised from the transaction will be used by HP to repay its entire debts of Rp 42bn with the remainder used to fund expansion of its facilities and for working capital. SMSM has the option to buy another 2% stake in HP before 31 December.

**Earnings Boost from the New Acquisition**

SMSM's needs for molds and dies are met by HP. As a result, the acquisition of a 49% stake in HP will guarantee continuity in the supply of molding products. In FY08-11, HP's revenues and net profits grew by CAGR 24.3% and 84.1%, respectively. Looking ahead, with further strong growth anticipated in Indonesia's mining sector, we expect HP's net earnings to show stronger growth. SMSM's share of HP profits shall be incorporated using the equity method. Moreover, the acquisition should also be earnings boosting, we believe, since our estimates for SMSM's net profits in FY12-13-14 are lifted to Rp 240bn-272bn-312bn (or 2-6% higher than our previous forecast). To fund the acquisition, SMSM has obtained a loan facility without collateral from Mizuho Bank. In this regard, we assume SMSM takes on additional loans of Rp 100bn in FY12. Following the acquisition we now forecast SMSM's gearing ratio to increase to 49% (compared to our previous forecast of 30%).

**Generous Final Dividends of Rp50/share**

SMSM has announced a FY11 final dividend of Rp 50/share. This comes after the interim dividend of Rp 50/share. Hence, in total, SMSM shall distribute 72% of its FY11 net profits as dividends to its shareholders – as we had previously forecast. SMSM's final dividend of Rp 50/share offers the shareholders an attractive yield of 2.7% at the current share price. The cum-date will be on 29 June with the dividends paid on 17 July. Reflecting the company's guidelines of delivering sustained dividends growth, we forecast SMSM's dividends per share to grow by 6% CAGR in FY12-14, assuming that interim dividends distributed to shareholders are 50% of the total dividends. This suggests a DPR of around 60% in FY12-14 and a dividend yield in FY12 of 5.7% at the current share price.

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	240	272	312
Core Profit, Rp bn	151	193	240	272	313
Core EPS, Rp	105	134	167	189	217
Core EPS Growth, %	11.2	27.9	24.0	13.4	15.1
Net Gearing, %	51.0	40.6	48.7	38.3	26.5
PER, x	24.0	18.0	15.0	13.3	11.6
Core PER, x	23.9	18.7	15.0	13.3	11.5
PBV, x	6.9	6.0	5.2	4.4	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

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

**Exhibit 1. Details of the Hydraxle Perkasa acquisition**

Transaction effective date	1 May, 2012
Number of shares SMSM bought (HP's new shares), mn	721
Price per share, Rp	157
Transaction value, Rp bn	113
SMSM's ownership	49%

**SMSM Option in HP shares**

Effective option date	1 May – 31 December, 2012
Number of additional shares in option, mn	60
Exercise price, Rp	157
SMSM's ownership after exercise option	51%

Source: Company

**Exhibit 2. Hydraxle Perkasa products**

**Production Facility**

(PT) Hydraxle Perkasa began its operations by assembling dump trucks & boats and special purpose vehicles under the brand name ACE Dump (Ace). The company subsequently made further investments in a steel centre, test, die and mold and machinery centre.

**Quality Management System**

CERTIFICATE NO. 0005/0003

**Special Purpose Vehicle**

Water Tank 18.000 L, Vacuum Tank 10.000 L, Table Dump, Loader Truck, Semi Trailer

**Advanced Machineries**

**Main Product**

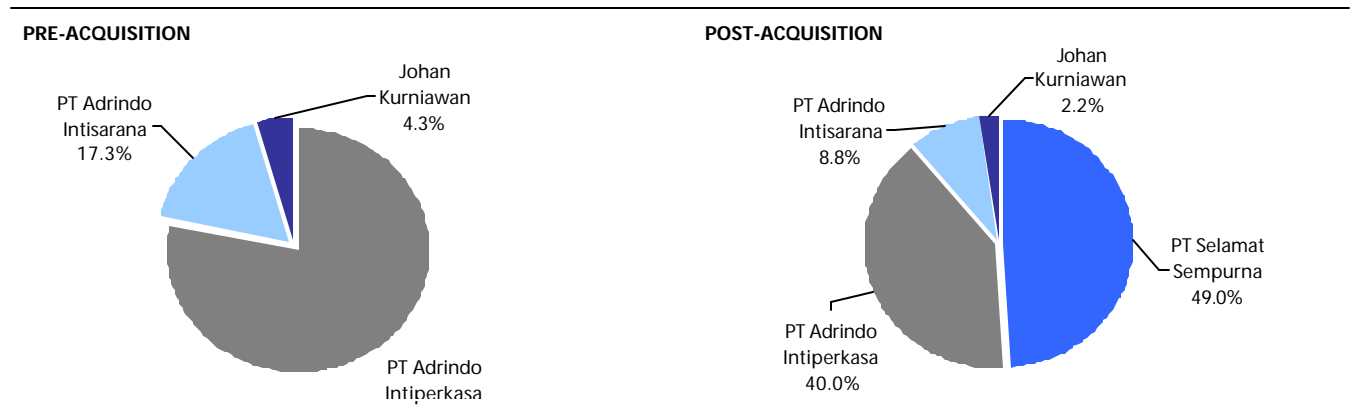
Dump Scooper Crane, Dump Dump 17 Type, Dump Body Telescopier, Dump Body 10M 24, Dump Body 8M0

**Aerial Platforms**

Lift Truck, Aerial Platform, Self Loader

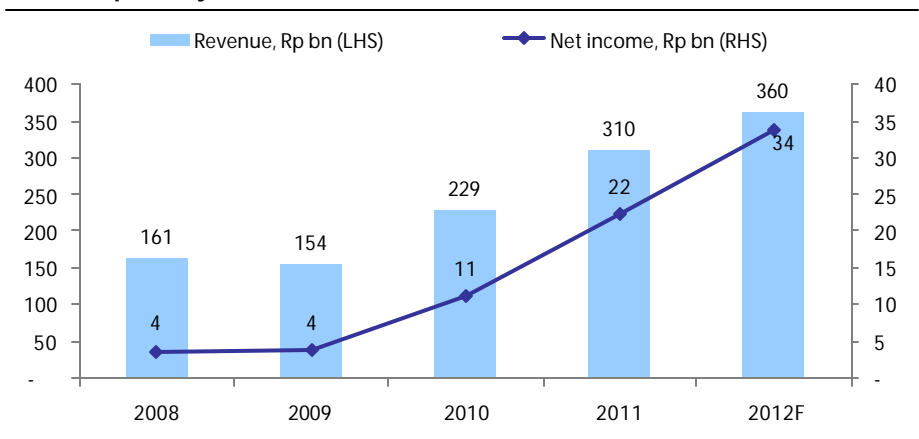
Source: Company

**Exhibit 3. Hydraxle Perkasa's ownership pre-acquisition and post-acquisition**



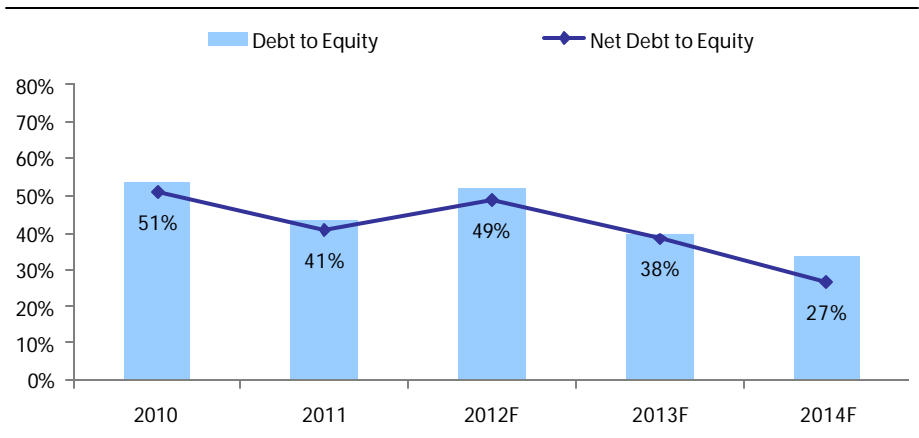
Sources: Company, Danareksa

**Exhibit 4. Hydraxle Perkasa revenues and net profits grew by FY08-11 CAGR of 24.3% and 84.1%, respectively**



Sources: Company, Danareksa

**Exhibit 5. SMSM's net gearing ratio is now expected to increase to 49% in FY12 (prior estimate of 30%) post-acquisition**



Sources: Company, Danareksa

**Exhibit 6. Mizuho's bank loan facility**

Collateral	None
Tenor	2 years
Maturity date	23 April, 2014
Interest rate	COF + 1.5%
Interest payment	Every month, 3-month, 6-month basis

Sources: Company, Danareksa

**Exhibit 7. Forecast changes**

	2011	2012F		2013F		2014F	
	Actual	New	Previous	New	Previous	New	Previous
Rp bn							
Revenue	1,808	2,033	2,033	2,286	2,286	2,571	2,571
Gross profit	461	525	525	589	589	661	661
Operating income	297	336	336	378	378	427	427
EBITDA	386	434	434	486	486	543	543
Other income (expense)	(17)	(29)	(13)	(32)	(27)	(29)	(23)
Equity income	-	17	-	18	-	21	-
Pre-tax income	280	323	322	365	351	419	404
Net income	201	240	235	272	256	312	294
Gross margin, %	25.5	25.8	25.8	25.8	25.8	25.7	25.7
Operating margin, %	16.4	16.5	16.5	16.6	16.6	16.6	16.6
OpEx to sales, %	9.1	9.3	9.3	9.2	9.2	9.1	9.1
EBITDA margin, %	21.4	21.3	21.3	21.2	21.2	21.1	21.1
Net profit margin, %	11.1	11.8	11.6	11.9	11.2	12.1	11.5
Rp/US\$, avg.	8,773	9,061	9,188	8,862	9,188	8,941	9,188
RP/US\$, e.p.	9,068	8,892	9,193	8,920	9,193	9,000	9,193
Inflation, sum of %MoM, %	3.7	4.9	4.9	4.8	4.9	4.0	4.9
Inflation, e.p., %	3.8	5.0	5.0	4.9	5.0	4.1	5.0
3-month deposit rate, avg., %	6.9	5.9	6.1	5.6	6.1	5.5	6.1
3-month deposit rate, e.p., %	6.8	5.6	6.1	5.6	6.1	5.4	6.1
A/R turnover, days	71	70	73	70	73	70	73
Inventory turnover, days	87	88	99	88	99	88	99
A/P turnover, days	23	30	34	30	34	30	34

Sources: Danareksa, Danareksa Research Institute (DRI)

**Scenario-case: Option exercised! SMSM increases its stake in HP to 51%**

What will happen in the case that SMSM exercises its option to raise its ownership in HP from 49% to 51% before year-end? Well, the value of the deal would increase from Rp 113bn to Rp 118bn for 2% additional shares but this will be compensated for by higher growth with the consolidation of HP. In this case, we assume HP's earnings and assets will be consolidated into SMSM's financial statement. The consolidation would lift SMSM's revenues by up to Rp 360-415bn in FY12-13 and secure its cash flow. SMSM will also gain access to new market segments for the dump body hoists of trucks, a market with good potential given the strong growth in Indonesia's mining sector. In the consolidated financial statements, the revenues, EBITDA and net income will increase by around 17-18%, 13%, and 7%, respectively, in FY12-13.

**Exhibit 8. SMSM consolidated financial statements**

	2012F			2013F		
	SMSM	Consolidated	Chg, %	SMSM	Consolidated	Chg, %
<b>Income Statement, Rp bn</b>						
Revenue	2,033	2,393	17.7	2,286	2,701	18.1
Gross profit	525	586	11.6	589	655	11.3
Operating income	336	383	13.9	378	429	13.4
EBITDA	434	492	13.3	486	549	13.0
Pre-tax income	306	353	15.3	347	397	14.6
Net income	227	244	7.6	257	276	7.4
Core income	227	244	7.6	257	276	7.4
<b>Balance Sheet, Rp bn</b>						
Cash	24	32	31.1	13	32	145.8
Other current assets	799	918	15.0	899	1,036	15.3
Fixed assets	400	507	26.8	397	517	30.1
Other assets	150	150	0.0	168	168	0.0
<b>Total Assets</b>	<b>1,372</b>	<b>1,607</b>	<b>17.1</b>	<b>1,477</b>	<b>1,753</b>	<b>18.7</b>
Short-term loans	284	326	14.9	244	286	17.4
Other current liabilities	200	242	21.1	224	271	20.9
Long-term loans	80	80	-	80	80	-
Other liabilities	42	46	8.9	42	46	8.9
<b>Total liabilities</b>	<b>606</b>	<b>694</b>	<b>14.6</b>	<b>591</b>	<b>684</b>	<b>15.8</b>
Minority interest	69	215	212.0	74	257	247.2
<b>Total equity</b>	<b>698</b>	<b>698</b>	<b>-</b>	<b>812</b>	<b>812</b>	<b>-</b>
<b>Total liabilities and equity</b>	<b>1,372</b>	<b>1,607</b>	<b>17.1</b>	<b>1,477</b>	<b>1,753</b>	<b>18.7</b>

Sources: Company, Danareksa

Furthermore, the revenues and EBITDA growth will be higher than before pre-acquisition because HP is forecasted to enjoy higher growth rates (we estimate HP revenues CAGR 15% in FY12-13) compared to SMSM revenues CAGR 12% in FY12-13. In addition, for comparison, HP fixed asset turnover ratio 3.6x is lower than SMSM's 5.1x, explaining that HP is still in under-utilization capacity phase. For instance, If HP fixed asset turnover ratio enhanced to 5.0x (similar to SMSM), HP's sales in FY12 should be improved to Rp 536bn, an increase of 49% compared to HP's forecasted revenues in FY12.

**Exhibit 9. Growth and asset turnover comparison**

	2012F			2013F		
	SMSM	HP	Consolidated	SMSM	HP	Consolidated
Revenue growth, %	12.4	16.3	13.0	12.5	15.0	12.8
EBITDA growth, %	12.3	36.8	14.7	11.9	9.6	11.7
Net income growth, %	13.0	51.0	15.0	13.2	10.4	13.0
Total asset turnover, x	1.6	1.1	1.6	1.6	1.1	1.6
Fixed asset turnover, x	5.1	3.6	4.8	5.7	3.7	5.3

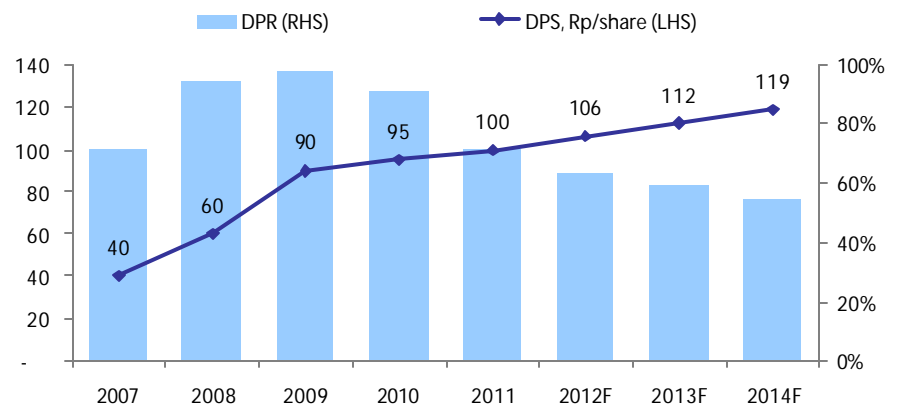
Sources: Company, Danareksa

**Exhibit 10. SMSM's dividends for FY11**

Dividend Interim	Rp 50/share	<b>Final Dividend Payment Details</b>	
Dividend Final	Rp 50/share	Cum dividend	29 June, 2012
Total Dividend	Rp 100/share	Ex dividend	2 July, 2012
EPS	Rp 140/share	Record date	4 July, 2012
DPR	72%	Dividend payment date	17 July, 2012
Dividend yield (current price= Rp1,870)	5.3%		

Sources: Company, Danareksa

**Exhibit 11. DPS growth of 5.4% CAGR FY09-11 and expected to reach 6% CAGR FY12-14**



Sources: Company, Danareksa

**Exhibit 12. 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	-	-	-
Subtotal	(23)	(17)	(29)	(32)	(29)
Equity Income	-	-	17	18	21
Pre-tax Income	205	280	323	365	419
Income Tax	(40)	(60)	(65)	(73)	(84)
Minority Interest	(14)	(18)	(18)	(20)	(23)
Net Profit	150	201	240	272	312
Core Profit	151	193	240	272	313

Source: Company and Danareksa Sekuritas

**Exhibit 13. Balance Sheet (Rp bn)**

	2010	2011	2012F	2013F	2014F
Cash & Equivalent	14	17	24	13	71
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>823</b>	<b>912</b>	<b>1,082</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>1,372</b>	<b>1,477</b>	<b>1,661</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>484</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	519	633	778
Other Equity	16	16	16	16	16
<b>Total Equity</b>	<b>519</b>	<b>606</b>	<b>698</b>	<b>812</b>	<b>958</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,067</b>	<b>1,137</b>	<b>1,372</b>	<b>1,477</b>	<b>1,661</b>

Source: Company and Danareksa Sekuritas

**Exhibit 14. Cash Flow (Rp bn)**

	2010	2011	2012F	2013F	2014F
Net Income	150	201	240	272	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>284</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>7</b>	<b>(11)</b>	<b>58</b>

Source: Company and Danareksa Sekuritas

**Exhibit 15. 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	15.9	16.0	16.3
Net Margin, %	9.6	11.1	11.8	11.9	12.1
Core Margin, %	9.7	10.7	11.8	11.9	12.2
ROAE, %	29.6	35.7	36.8	36.0	35.3
ROAA, %	15.0	18.2	19.1	19.1	19.9
<b>Leverage</b>					
Debt to Equity, %	53.8	43.3	52.1	39.9	33.9
Net Debt to Equity, %	51.0	40.6	48.7	38.3	26.5
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
EBTIDA, %	14.6	26.7	12.3	11.9	11.9
Pre-tax Income, %	10.2	36.5	15.4	13.0	14.8
Net Profit, %	13.2	33.5	19.6	13.1	15.0
Core Profit, %	11.2	27.9	24.0	13.4	15.1
<b>Valuation (TP)</b>					
PER, x	24.0	18.0	15.0	13.3	11.6
Core PER, x	23.9	18.7	15.0	13.3	11.5
PBV, x	6.9	6.0	5.2	4.4	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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