

Wednesday, 01 August 2012

**BUY**

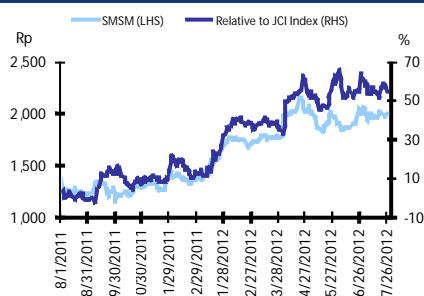
Bloomberg Code	SMSM IJ
Price, Rp	2,000
Mkt Cap Rp bn	2,915
Target Price, Rp	2,513

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**Last Recommendation**

	<b>Rec.</b>	<b>Target Price</b>
11-Jul-12	BUY	Rp 2,506

**SMSM relative price to JCI Index**

## AUTOMOTIVE PARTS SECTOR/1H12 RESULT

**Selamat Sempurna****1H12 Result - Slightly Below Expectations****Top line slightly below expectations**

The 1H12 result is slightly below expectations at the top line, but still inline at the bottom line. Revenues reached Rp 893 bn in 1H12 (+2.1% YoY, +10.3% QoQ), reaching 43.9% of our full year forecast. The increase in revenues was supported by higher filter sales (+1.4% YoY, +11.8% QoQ) which contributed 77% of revenues, and higher domestic market sales (+22.1% YoY, +10.3% QoQ), despite lower radiator sales (-12.9% YoY, +8.1% QoQ) which contributed only 19% of revenues and lower export market sales (-4.9% YoY, +10.3% QoQ). In our view, SMSM has taken some strategic moves in response to the global economic weakness by focusing more on the domestic market and the Asian market, which both recorded a larger share of revenues. At the bottom line, SMSM's net income grew by 13.4% YoY and by 33.1% QoQ to Rp 112 bn, representing 46.8% of our full year forecast - i.e. inline.

**Improving margins**

Margins wise, SMSM's gross margin has improved to 26.1% in 1H12 from 25.0% in 1H11 due to declining in raw material prices and the success of cost reduction program. Although there is a slight increase in the opex to sales ratio, the operating margin still increased to 17.6% in 1H12. The net margin also saw an improvement. It increased to 12.6% in 1H12 from 11.3% in 1H11. We believe the company's good inventory management has helped it cope with the fluctuations in raw material prices.

**Gearing maintained**

On July 9, SMSM made quarterly interest payments of Rp 4.22 bn on its existing SMSM02B and SMSM02C bonds totaling Rp 160 bn. This year, the bonds maintained their idAA- rating from Pefindo Credit Rating, supported by the company's revenues growth and very strong cash flow protection. We believe the company's net gearing will remain at its 1Q12 level of 32% in 1H12, allowing SMSM to undertake expansion through debt financing if required.

**Maintain BUY with TP of Rp2,513**

We maintain our BUY call on the stock, confident that the company can meet our FY12 revenues target of Rp 2 trillion despite the weak conditions in its export markets, supported by efforts to focus on the domestic market and diversify its export markets. We adjust our new risk free rate to 6.5% with a risk premium of 7.4%. Our Target Price of Rp2,513 implies PER FY12-13 of 15.0-13.3x. At the current share price, the stock trades at PER FY12 of 12.0x.

Year to Dec	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, %	46.7	36.7	44.3	35.1	24.4
PER, x	24.1	18.0	15.1	13.3	11.6
Core PER, x	23.9	18.7	15.1	13.3	11.6
PBV, x	6.4	5.4	4.7	4.1	3.5
EV/EBITDA, x	12.7	10.0	9.1	8.1	7.1
Dividend Yield, %	3.8	4.0	4.2	4.5	4.7

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

## Exhibit 1. SMSM result highlights 1H12

(Rp bn)	1Q 12	2Q 12	QoQ, %	6M 11	6M 12	YoY, %	FY12F	A/F, %
<b>Sales</b>	425	469	10.3	875	893	2.1	2,033	43.9
COGS	(316)	(344)	9.1	(656)	(660)	0.6	(1,508)	43.8
Gross Profit	109	124	13.9	219	233	6.4	525	44.4
Operating Expenses	(37)	(39)	4.7	(71)	(76)	6.4	(189)	40.2
Operating Profit	72	85	18.7	148	157	6.4	336	46.8
<b>EBITDA</b>	92	107	16.2	186	200	7.2	434	46.0
Other Income (Expenses)	(4)	(3)	(21.7)	(10)	(8)	(22.1)	(29)	26.6
Equity Income	-	5	n/a	-	5	n/a	17	30.1
Pre-tax Income	67	87	28.7	138	154	12.1	323	47.8
Income Tax	(15)	(18)	20.0	(30)	(32)	8.6	(65)	49.8
Minority Interest	(5)	(5)	10.8	(9)	(10)	9.0	(18)	53.9
<b>Net Profit</b>	48	64	33.1	99	112	13.4	240	46.8
<b>Core Profit</b>	47	62	31.7	96	110	14.4	240	45.8
Gross Margin, %	25.7	26.5		25.0	26.1		25.8	
OpEx to Sales, %	8.8	8.3		8.2	8.5		9.3	
Operating Margin, %	16.9	18.2		16.9	17.6		16.5	
EBITDA Margin, %	21.7	22.9		21.3	22.3		21.3	
Net Margin, %	11.4	13.7		11.3	12.6		11.8	
Core Margin, %	11.2	13.3		11.0	12.3		11.8	

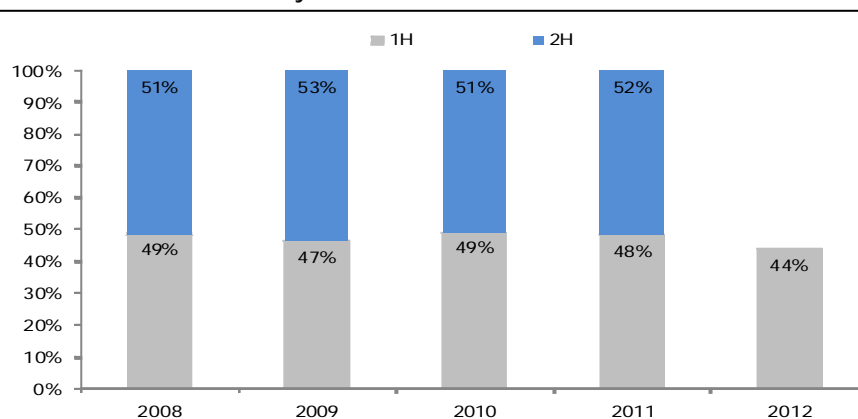
Source: Company, Danareksa Sekuritas

## Exhibit 2. Revenues breakdown 1H12

(Rp bn)	1Q 12	2Q 12	QoQ, %	6M 11	6M 12	YoY, %
<b>By Product</b>						
Filter	355	397	11.8	742	752	1.4
Radiator	87	94	8.1	208	181	(12.9)
Others	18	21	13.2	23	39	69.8
Elimination	(36)	(43)	21.1	(98)	(79)	(19.2)
<b>By Geographical</b>						
<b>Domestic</b>	130	144	10.3	225	274	22.1
<b>Export</b>	294	325	10.3	651	619	(4.9)
Asia	106	128	20.6	244	234	(4.1)
America	89	89	0.4	209	178	(15.0)
Australia	33	30	(10.8)	59	63	5.6
Europe and Others	67	78	17.7	138	145	4.7

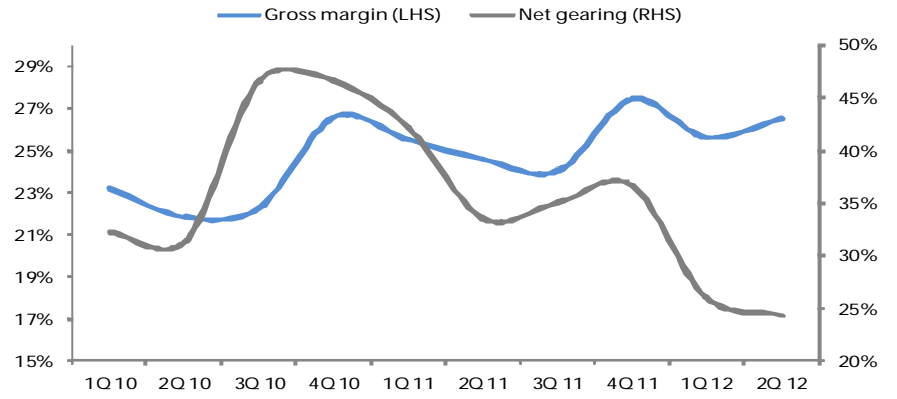
Sources: Company, Danareksa

## Exhibit 3. Revenues seasonality



Sources: Company, Danareksa

Exhibit 4. Improving gross margin and net gearing



Sources: Company, Danareksa

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