

Friday, 2 November 2012

HOLD

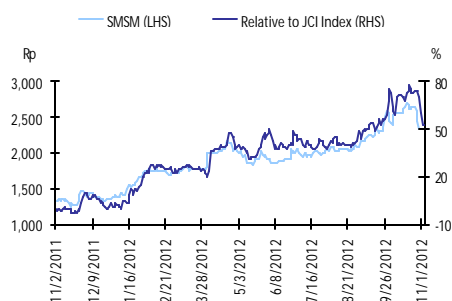
Bloomberg Code	SMSM IJ
Price, Rp	2,325
Mkt Cap Rp bn	3,347
Target Price, Rp	2,550

Joko Sogie

(62-21) 350 9888 ext 3512
jokos@danareksa.com

Last Recommendation

	Rec.	Target Price
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

AUTOMOTIVE PARTS SECTOR/9M12 RESULT

Selamat Sempurna**9M12 Result – Below expectations****Driven by inorganic growth**

SMSM continued to record growth at the top and bottom lines in 9M12, mainly thanks to inorganic growth following the consolidation of Hydraxle Perkasa (HP) in August 2012. Revenues grew 4.1% yoy to Rp 1.4 trillion with net profits up 6.5% yoy to Rp 157 bn. The gross margin expanded by 60bps to 25.3% in 9M12, driven by lower material costs in addition to the boost in margins coming from consolidation of HP. On a qoq basis, 3Q12 revenues fell slightly by 0.6% due to fewer operational days in 3Q related to the Idul Fitri holidays.

Challenging year for its main products

SMSM has faced a tough year in 2012, as revenues from filter products only showed growth of 0.2% yoy while radiator's experienced negative growth of 8.9% yoy. The decline in radiator revenues owed more to lower volumes, reflecting the slowing demand and more inventory channeling in the US market. In the year up to September 2012, the company continued to rely on the domestic market to deliver growth (domestic sales increased 19.3% yoy in 9M12), while, at the same time, exports dipped 1.5% yoy. Looking forward, the company will maintain its strategy of shifting from the US & European markets to Asia and the domestic market in a bid to maintain its strong track record of revenues growth in the last 19 years.

Sales volume forecasts trimmed

In 9M12, filter and radiator sales volume declined by 4.9% yoy and 16.7% yoy, respectively, due to slowing demand in export markets. We believe, however, that sales volume will rebound in the last quarter of 2012 as more distributors will stock up on inventory. This will help the company to meet its FY12 target. However, to align our numbers with the company's performance so far, we have cut our forecast for filter and radiator sales volume. For FY12, we expect the sales volume for filters to decline by 5.0% yoy while radiator sales volume –for which we are slightly pessimistic– is expected to decline by 12% yoy. All in all, our FY12 revenues estimate (SMSM only) is trimmed by 8.3% and our EBITDA estimate is cut 7.5%.

Still... a sound balance sheet

SMSM's balance sheet remains healthy as the net gearing is still manageable at 30% as of September 2012 (vs. 24% as of June 2012). Gearing increased as the company drew down more bank loans in 3Q12 (Rp 83 bn). In addition, the inventory level also increased from 79 days in 6M12 to 109 days in 9M12 as the company stocked more inventory to support demand in the last quarter. We believe that inventory will drop to below 90 days in the last quarter, which, in our view, is normal for a manufacturing company.

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	196	216	249
Core Profit, Rp bn	151	193	196	217	249
Core EPS, Rp	105	134	136	150	173
Core EPS Growth, %	11.2	27.9	1.2	10.7	15.1
Net Gearing, %	46.7	36.7	26.6	24.3	20.6
PER, x	21.8	16.4	18.7	17.0	14.8
Core PER, x	21.7	17.0	18.8	16.9	14.7
PBV, x	5.8	4.9	4.3	4.0	3.6
EV/EBITDA, x	11.6	9.1	9.5	8.1	7.2
Yield, %	4.2	4.4	4.6	4.9	5.2

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.

Downgrade to HOLD, with a TP of Rp2,550

We trim our TP to Rp2,550 from Rp2,575 after we roll over the valuation to 2013. We also have lower sales volume estimates for filter and radiator products. Our new TP implies PER FY13-14 of 17.0x-14.8x. Although we downgrade our recommendation to HOLD due to its limited potential upside, we still like the company as: 1) the management has worked hard to keep its promise to deliver top line growth despite the challenging export market this year and 2) the company is a consistent dividend player.

Exhibit 1. SMSM 9M12 Result

(in Rp bn)	9M12	9M11	%	3Q12	2Q12	%	3Q11	%	FY12F	%
Revenues ^a	1,330	1,306	1.8	437	469	(6.8)	431	1.4	1,802	73.8
Revenues	1,359	1,306	4.1	466	469	(0.6)	431	8.1	1,951	69.7
COGS	(1,015)	(983)	3.2	(355)	(344)	3.0	(327)	8.4	(1,460)	69.5
Gross Profit	344	323	6.6	111	124	(10.6)	104	7.2	491	70.2
Operating Expenses	(119)	(103)	16.3	(43)	(39)	10.9	(31)	38.9	(182)	65.5
Operating Profit	225	220	2.2	68	85	(20.4)	73	(6.4)	309	72.9
EBITDA	294	281	4.7	94	107	(12.2)	94	(0.3)	412	71.4
Other Income (Expenses)	(12)	(15)	(20.3)	(4)	(3)	22.4	(5)	(16.8)	(35)	34.1
Equity Income	7	-	n/a	2	5	(65.2)	-	n/a	7	100.0
Pre-tax Income	220	205	7.1	65	87	(24.7)	67	(3.1)	273	80.3
Income Tax	(46)	(44)	4.8	(14)	(18)	(19.3)	(15)	(3.0)	(55)	83.4
Minority Interest	(16)	(13)	21.1	(6)	(5)	23.3	(4)	45.9	(22)	73.3
Net Profit	157	148	6.5	45	64	(30.0)	49	(7.5)	196	80.2
Core Profit	154	147	4.9	43	63	(30.8)	49	(11.8)	196	78.9
(%)										
Gross Margin	25.3	24.7		23.8	26.5		24.0		25.2	
OpEx to Sales	8.8	7.9		9.3	8.3		7.2		9.3	
Operating Margin	16.6	16.9		14.6	18.2		16.8		15.8	
EBITDA Margin	21.6	21.5		20.2	22.9		21.9		21.1	
Net Margin	11.6	11.3		9.6	13.7		11.3		10.1	
Core Margin	11.4	11.3		9.3	13.3		11.4		10.0	

Notes: ^astrip out revenues consolidated from HP

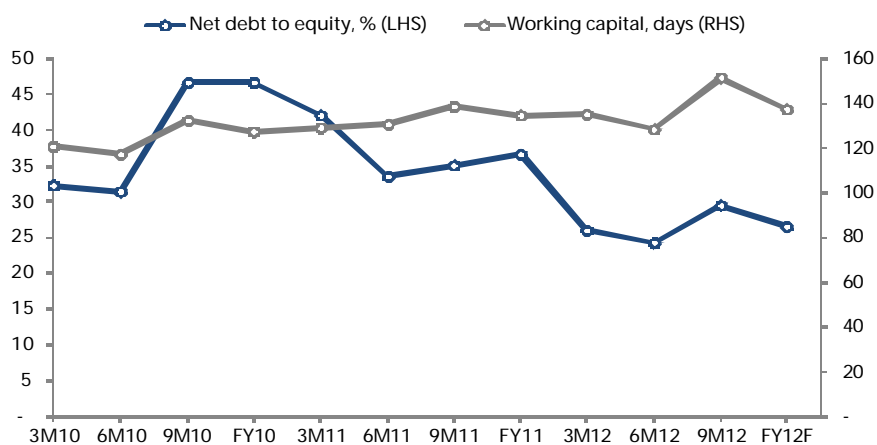
Source: Company, Danareksa Sekuritas

Exhibit 2. SMSM 9M12 Revenues breakdown

	9M12	9M11	%	3Q12	2Q12	%	3Q11	%
(in Rp bn)								
By Product								
Filter	1,111	1,109	0.2	359	397	(9.7)	367	(2.2)
Radiator	272	298	(8.9)	91	94	(3.4)	90	0.3
Karoseri	29	-	n/a	29	-	n/a	-	n/a
Others	66	38	71.9	27	21	30.4	15	74.9
Elimination	(119)	(140)	(15.1)	(40)	(43)	(8.7)	(42)	(5.7)
By Geographical								
Domestic	418	350	19.3	144	144	(0.2)	126	14.4
Export	941	956	(1.5)	322	325	(0.8)	305	5.5
Asia	360	366	(1.9)	126	128	(1.4)	123	2.6
America	266	303	(12.3)	88	89	(1.2)	94	(6.1)
Australia	100	87	14.7	37	30	26.0	28	34.1
Europe and Others	216	199	8.2	71	78	(9.5)	61	16.2
(in %)								
By Product								
Filter	81.8	84.9		77.0	84.8		85.2	
Radiator	20.0	22.8		19.5	20.0		21.0	
Karoseri	2.1	-		6.2	-		-	
Others	4.8	2.9		5.8	4.4		3.6	
Elimination	(8.7)	(10.7)		(8.5)	(9.2)		(9.7)	
By Geographical								
Domestic	30.7	26.8		30.8	30.7		29.1	
Export	69.3	73.2		69.2	69.3		70.9	
Asia	26.5	28.1		27.1	27.3		28.5	
America	19.5	23.2		18.9	19.0		21.7	
Australia	7.4	6.7		8.0	6.3		6.4	
Europe and Others	15.9	15.3		15.2	16.7		14.2	

Source: Company

Exhibit 3. Maintained gearing



Source: Company, Danareksa

Exhibit 4. Forecast changes as cut down filter and radiators sales volume

	2011	Current			Previous			Changes, %		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Filter										
Sales volume, mn	58.2	55.3	57.0	61.3	59.7	62.7	67.4	(7.3)	(9.1)	(9.1)
ASP, Rp	26,460	28,047	29,450	30,922	28,047	29,450	30,922	-	-	-
Radiator										
Sales volume, '000	865.0	761.2	776.4	826.8	877.9	913.0	972.4	(13.3)	(15.0)	(15.0)
ASP, Rp	461,412	498,325	523,241	549,403	498,325	523,241	549,403	-	-	-
(SMSM Only)										
Revenue, Rp bn	1,808	1,802	1,944	2,186	1,966	2,161	2,430	(8.3)	(10.0)	(10.0)
Gross profit, Rp bn	461	468	504	566	509	559	628	(8.0)	(9.7)	(9.7)
Operating profit, Rp bn	297	292	312	353	324	355	401	(9.8)	(12.0)	(11.9)
EBITDA, Rp bn	386	390	420	470	422	462	517	(7.5)	(9.2)	(9.2)

Source: Company, Danareksa

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accept liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.
