



RESULTS COMMENTS

Selamat Sempurna (SMSM.IJ. Rp3,500. HOLD. TP Rp3,350)

1Q14 Result – Better than expected

Better than expected

Taking seasonality into account, SMSM's 1Q14 result is better than expected (note that in the first quarter the company typically books around 20-22% of its full year revenues and net profits). In 1Q14, net profits recorded 51%yoy growth on the back of 26%yoy revenues growth, lower opex, and some gains on derivative transactions amounting to Rp21bn even though the company also suffered forex losses of Rp16bn during the period. Filter products recorded remarkable performance in 1Q14, with sales growth reaching 36%yoy, thanks to the rapid recovery in export markets, although the karoseri business still exerted a drag on revenues growth due to mild commodity prices. All in all, we may incorporate higher growth figures in our forecast to take into account SMSM's better-than-expected exports performance.

Better-than-expected exports growth

SMSM's better-than-expected performance was mainly driven by the strong performance of its main product (filter), which saw 36%yoy higher sales growth in 1Q14. This owed to rapid demand recovery in export markets in almost all regions, with the fastest growth in Europe (+52%yoy), Asia (+47%yoy), and the US (+37%yoy). Going forward, we believe this trend can continue throughout the year, giving a further boost to SMSM's export business as the company's main revenues stream. Domestic sales were flat on a yoy comparison in 1Q14, however, due to weakness in the karoseri (Hydraxle Perkasa) business which stemmed from the depressed commodity prices.

Maintained a gross margin with lower opex

SMSM's gross margin was maintained at a relatively high level of 26.4% in 1Q14, slightly down from 27.1% in 1Q13 due to lower profitability in the karoseri business. Interestingly, the opex to sales ratio fell to only 7.3% in 1Q14 from 10.0% in 1Q13, reflecting greater efficiency in regard to SG&A expenses. Below the operating level, there were significant gains on derivative transactions amounting to Rp21bn and operational forex losses of Rp16bn in 1Q14. As a result, SMSM's net margin improved to 13.2% in 1Q14 from 11.0% in 1Q13.

Solid balance sheet, wait for the large dividends payment

SMSM's balance sheet remains very strong with net gearing of only 13% as of March 2014 since the main financing is still bonds which will mature in 2015. Interestingly, the inventory cycle fell to only 80 days in 1Q14 from 92 days in 1Q13, reflecting the brisker sales. Furthermore, as the company is known to be a high dividend player with a payout ratio of 65-70% in previous years, this year's dividend payment should also be large. At the current share price, we expect a dividend yield of around 4%, although this figure could be higher considering the company's idle cash and no major capex planned in the immediate future.



	1Q13	1Q14	YoY, %	2014F	A/F, %
(in Rp bn)					
Revenues	500	628	25.7	2,596	24.2
Gross profit	136	166	22.3	629	26.4
Operating profit	86	120	39.6	402	29.8
EBITDA	110	143	29.3	543	26.3
Net interest	(8)	(7)	(13.1)	(21)	32.1
Pre-tax income	78	119	52.5	384	31.1
Net profit	55	83	50.9	279	29.7
(in %)					
Gross Margin	27.1	26.4		24.2	
Opex to sales	10.0	7.3		8.7	
Operating Margin	17.2	19.1		15.5	
EBITDA Margin	22.1	22.7		20.9	
Net Margin	11.0	13.2		10.8	

	1Q13	1Q14	YoY, %
(in Rp bn)			
By Product			
Filter	354	481	36.0
Radiator	91	96	6.3
Karoseri	44	38	(13.4)
Distribution	74	76	3.3
Others	59	85	43.8
Elimination	(121)	(148)	22.2
By Geographical			
Domestic	198	198	0.1
Export	301	430	42.5
Asia	102	150	46.5
America	98	133	36.5
Australia	33	43	28.0
Europe and Others	68	104	52.3

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