BUY

Target Price, Rp	5,300
Upside	18.3%

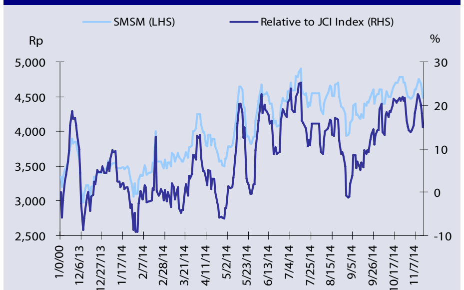
SMSM IJ/SMSM JK

Last Price, Rp	4,480
No. of shares (bn)	1,439
Market Cap, Rp bn	**6,447**
(US$ mn)	528
3M T/O, US$mn	0.2

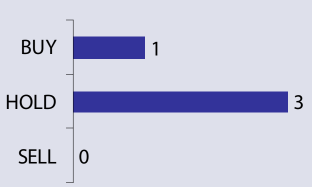
Last Recommendation

09-May-14	BUY	Rp 4,350
09-Jan-14	HOLD	Rp 3,350
17-Dec-13	BUY	Rp 3,350

SMSM relative to JCI Index



Market Recommendation



Danareksa vs Consensus

	Our	Cons	% Diff
Target price, IDR	5,300	4,200	26.2
EPS 14F, Rp	256	232	10.3
PE 14F, x	17.5	19.3	-9.3

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

AUTOMOTIVE PARTS SECTOR/COMPANY UPDATE

Selamat Sempurna

Riding a strong tailwind

SMSM's better-than-expected 9M14 results prompted us to revise up our estimates for the company's FY14F/FY15F earnings by 12%/7% on the back of export sales recovery and a boost from the weak rupiah which improved the company's profitability. Looking ahead, we continue to believe that SMSM is one of the best plays on both the weaker rupiah and global economic recovery which kick-started exports growth. Other positives underpinning the company's rather high valuation are its cash rich position and superior ROE. Maintain BUY with a DCF-based 2015 Target Price of Rp5,300, implying 18.2x P/E. Poor share liquidity remains a matter of concern, however, possibly affecting the share price in the short-term.

Blue sky scenario

Closer scrutiny of the 9M14 result reveals that SMSM has gained good traction, not only in regard to growth but profitability as well. Filter and export sales – the two main drivers of SMSM's growth performance – have grown hand in hand. Furthermore, the company also benefitted from the weak rupiah in the form of higher ASP (+12%ytd) without any increase in product prices. As such, the higher contribution from filter sales driven by export markets during a period of rupiah weakness will create a blue sky scenario for SMSM. Looking ahead, we believe the growth story is not over yet and expect the company to post 14%/12% revenues growth in FY14F/FY15F vis-à-vis 7% CAGR in 2011-2013 with the catalysts coming from: 1) the organic sales volume growth from filter products, 2) stronger demand on the exports side, and 3) the weak rupiah that will keep ASP elevated.

Preserved profitability

SMSM succeeded in lifting its gross margin to a solid 28.7% in 9M14 from 26.4%/26.9% in FY12/FY13 thanks to higher export sales, a weakening rupiah, and stable steel prices. Around 70% of the company's COGS are raw material costs, with more than 60% of the raw materials being imported steel-related products. Overall, the USD costs component is only around 40% of the company's COGS while the export (USD) sales portion is around 70%. In short, SMSM benefits from its natural hedge as its USD sales portion is higher compared to its USD costs component. Thus, we expect the high gross margin (28.7%/28.4% in FY14F/FY15F) to be maintained commensurate with benign steel prices and the higher export sales contribution.

BUY: Combination of a good dividend play and value stock

In our view, SMSM's premium valuation is justified due to: 1) its superior ROE and stronger balance sheet, 2) the company's greater exposure to export markets amidst the weak rupiah, and 3) its generous dividend policy and sound corporate governance as reflected in 21 years of consecutive revenues growth. We believe SMSM is well placed to weather any domestic turbulence. All in all, utilizing the DCF valuation, we roll over our valuation to 2015 with a revised Target Price of Rp5,300, implying 18.2x P/E.

Year end to Dec	2012	2013	2014F	2015F	2016F
Revenue, Rp bn	2,269	2,373	2,695	3,008	3,263
EBITDA, Rp bn	508	534	653	720	744
EBITDA Growth, %	18.7	5.2	22.2	10.2	3.3
Net Profit, Rp bn	252	321	368	419	437
Core Profit, Rp bn	239	268	368	419	437
Core EPS, Rp	166	186	256	291	303
Core EPS Growth, %	20.1	12.0	37.3	13.8	4.3
Net Gearing, %	34.3	22.9	10.1	Net cash	Net cash
PER, x	25.6	20.1	17.5	15.4	14.8
Core PER, x	27.0	24.1	17.5	15.4	14.8
PBV, x	7.0	6.3	5.5	4.5	3.9
EV/EBITDA, x	13.3	12.4	10.0	8.9	8.3
Yield, %	2.3	2.6	3.0	3.3	3.6

See important disclosure on the back of this report

Blue sky scenario

SMSM has shown remarkable performance in 2014 following only single-digit growth in 2012-2013 as the global economic slowdown hit demand for its products on export markets. Closer scrutiny of the 9M14 result reveals that SMSM has gained good traction, not only in regard to growth but profitability as well. In 9M14, SMSM's net profits grew a breakneck 42%y-y driven by: 1) solid 16%y-y revenues growth underpinned by export sales recovery, 2) a significant improvement in gross margins (+4.1pps) from higher ASP boosted by the weak rupiah, and 3) the company's greater economies of scale that pushed down opex to sales to only 7.8% in 9M14 from 8.6% in 9M13.

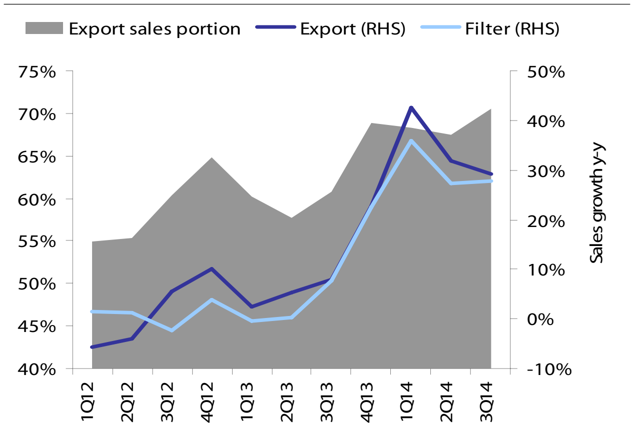
Exhibit 1. Remarkable 9M14 performance (Rp bn)

	9M13	9M14	*y-y, %*	3Q13	2Q14	3Q14	*q-q, %*	*y-y, %*
Revenues	1,664	1,933	*16.2*	572	667	637	*(4.5)*	*11.3*
Gross profit	409	554	*35.5*	137	190	196	*2.9*	*43.0*
Operating profit	266	403	*51.4*	93	137	146	*6.6*	*57.3*
EBITDA	345	478	*38.6*	120	162	173	*6.8*	*43.6*
Net profit	193	274	*42.4*	79	92	98	*6.6*	*24.2*
(%)								
Gross margin	24.6	28.7		23.9	28.5	30.8		
Opex to sales	8.6	7.8		7.8	8.1	7.9		
Operating margin	16.0	20.8		16.2	20.5	22.9		
EBITDA margin	20.7	24.7		21.0	24.2	27.1		
Net margin	11.6	14.2		13.9	13.8	15.5		

Source: Company

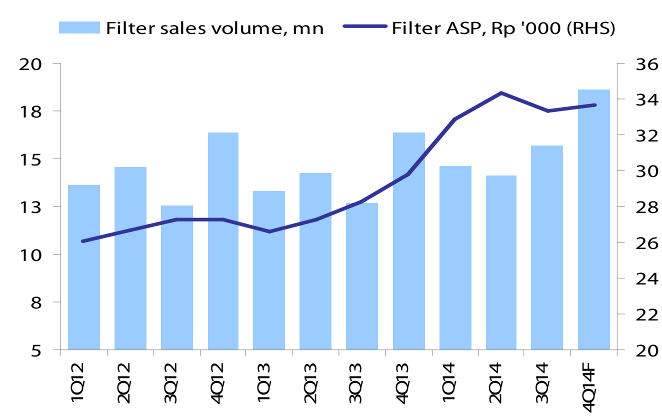
Filter and export sales – the two main drivers of SMSM's growth performance – have grown hand in hand. Filters – as the main product – are the most profitable product. They accounted for 62% of net revenues but a higher 70% at the gross level in 9M14. Commensurate with the growth in export sales, the contribution of export sales to revenues rose from 59%/62% in FY12/FY13 to 69% in 9M14. Furthermore, the company also benefitted from the weak rupiah in the form of higher ASP, with filter ASP increasing 12%ytd without any increase in product prices. As such, the higher contribution from filter sales driven by export markets during a period of rupiah weakness will create a blue sky scenario for SMSM, with both growth and profitability receiving a boost as seen from this year case.

Exhibit 2. Filter and export sales have grown together



Source: Company

Exhibit 3. ASP have benefited from the weaker rupiah



Source: Company

Looking ahead, we believe the growth story is not finished yet – especially since SMSM's market share is less than 1% of the global filtration market. Furthermore, global recovery has already started to be seen in some of the company's major export destinations, such as the US where SMSM's sales grew 27%y-y in 9M14. As such, we expect the company to post 14%/12% revenues growth in FY14F/FY15F vis-à-vis 7% CAGR in 2011-2013 with the catalysts coming from: 1) the organic sales volume growth from filter products, 2) stronger demand on the exports side, and 3) the weak rupiah that will keep ASP elevated. In our view, the stronger filter sales volume and ASP should be sufficient to offset the negative developments in other segments, especially in regard to Karoseri (Hydraxle Perkasa) demand which is still struggling to pick up amidst depressed commodity prices.

Exhibit 4. Major export destinations showing growth momentum

Export sales destination, Rp bn	9M13	9M14	y-y, %	FY11	FY12	y-y, %	FY13	y-y, %
USA	195	246	26.6	276	249	(9.8)	286	14.9
Australia	86	120	39.0	129	124	(3.9)	130	4.8
Singapore	79	111	39.6	125	120	(4.0)	119	(0.0)
Russia	38	69	81.3	78	85	9.0	65	(23.5)
China	56	55	(1.5)	51	43	(15.7)	76	76.7
Japan	36	54	51.4	64	53	(17.2)	53	0.0
Total export	**991**	**1,329**	**34.1**	**1,317**	**1,339**	**1.7**	**1,479**	**10.5**

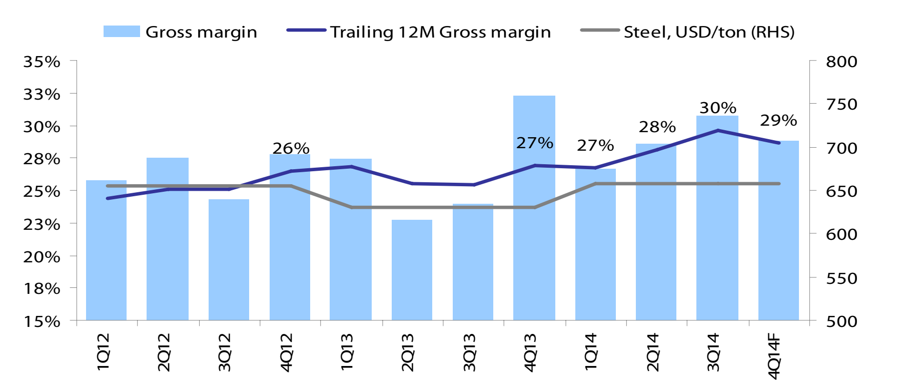
Source: Company

Preserved profitability

SMSM succeeded in lifting its gross margin to a solid 28.7% in 9M14 from 26.4%/26.9% in FY12/FY13 thanks to higher export sales, a weakening rupiah, and stable steel prices. Around 70% of the company's COGS are raw material costs, with more than 60% of the raw materials being imported steel-related products. Presently, SMSM still imports most of its steel from POSCO (Korea) as domestic companies are unable to meet the minimum requirements. Overall, the USD costs component is only around 40% of the company's COGS while the export (USD) sales portion is around 70%.

In short, SMSM benefits from its natural hedge as its USD sales portion is higher compared to its USD costs component. Thus, in view of the currently benign steel prices, we expect the company to be able to maintain its gross margins at a high level – i.e. above the sustainable 25% historical level. All in all, we expect gross margins of 28.7%/28.4% in FY14F/FY15F. Moreover, greater economies of scale from higher utilization and some plant mechanization undertaken in 2013 will continue to have an impact and will ease the company's opex going forward, we believe.

Exhibit 5. Elevated gross margins thanks to higher exports amidst benign steel prices

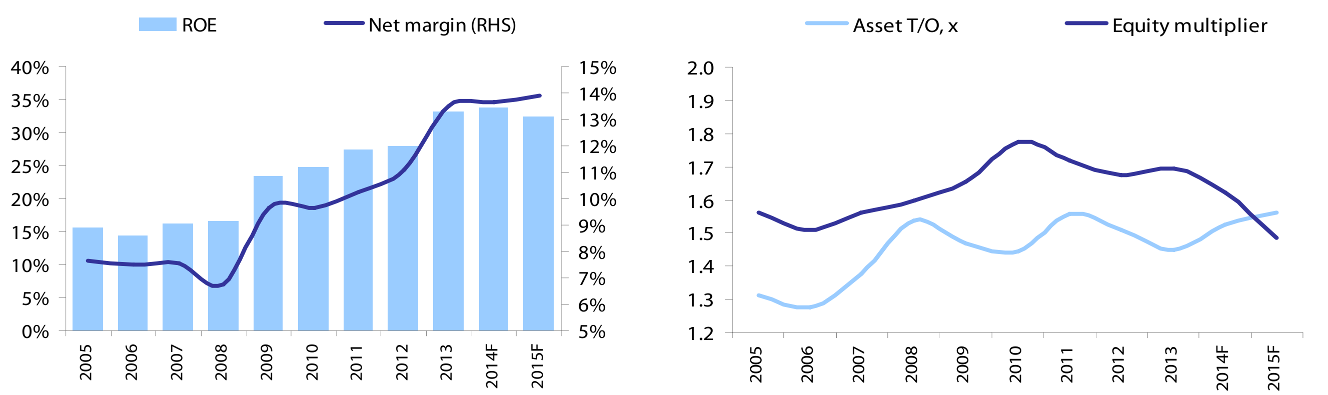


Source: Company, Danareksa Sekuritas

BUY: Combination of a good dividend play and value stock

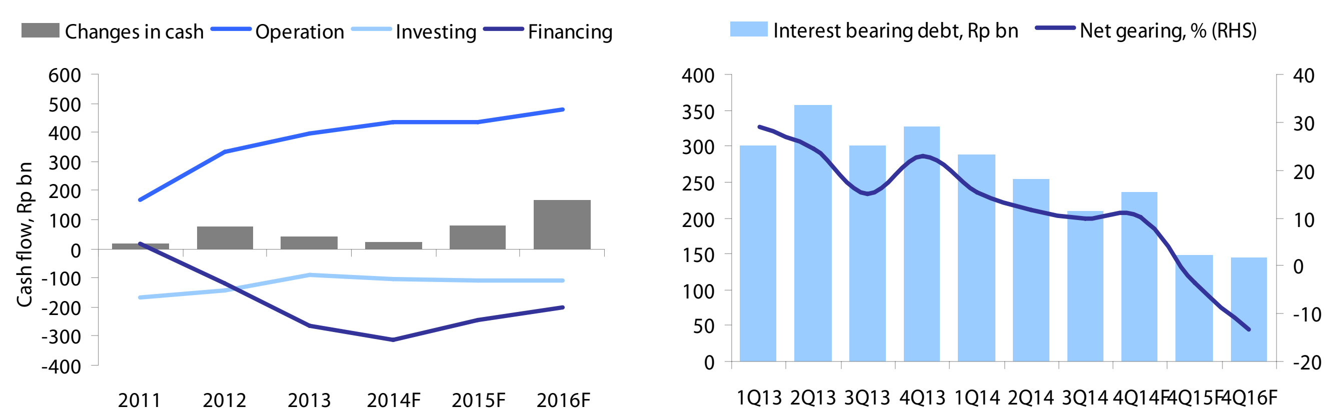
A high ROE is one indication of a well-managed company, especially when this stems from higher profitability and a better use of assets. In SMSM's case, the company's superior ROE (FY13: 33%) is derived from its high profits margin and better assets turnover, as its financial leverage continued to decline. Going forward, SMSM will maintain its modest Rp100bn of annual capex with its last debts obligation of Rp80bn maturing in July 2015. Hence, the balance sheet should be stronger and the company will be net cash sooner-than-expected at the end of 2015, based on our estimates. As such, we feel that the company is in a good position to pursue another acquisition, or besides that, pay out more dividends to shareholders.

Exhibit 6. SMSM's superior ROE stems from higher profitability and better assets turnover



Source: Company, Danareksa Sekuritas

Exhibit 7. Positive cash generation with estimated net cash position by the end of 2015

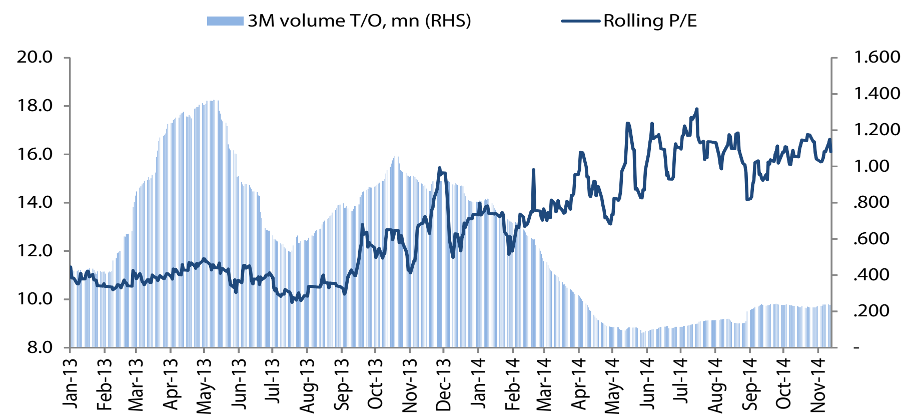


Source: Company, Danareksa Sekuritas

SMSM's better-than-expected 9M14 results prompted us to revise up our estimates on the company's FY14F/FY15F earnings by 12%/7%. Underpinned by ample cash flow and better expectations on earnings growth, the company has distribute interim dividends on two occasions this year amounting to a total of Rp100/share. Hence, with a similar historical dividend payout (52%), we expect the company to pay a total of Rp135/share for its FY14F dividends, offering a 3% yield at the current share price. Over the longer term, SMSM is still committed to its dividend growth policy, and looking at the current ROE level, we believe this trend can be maintained in the future.

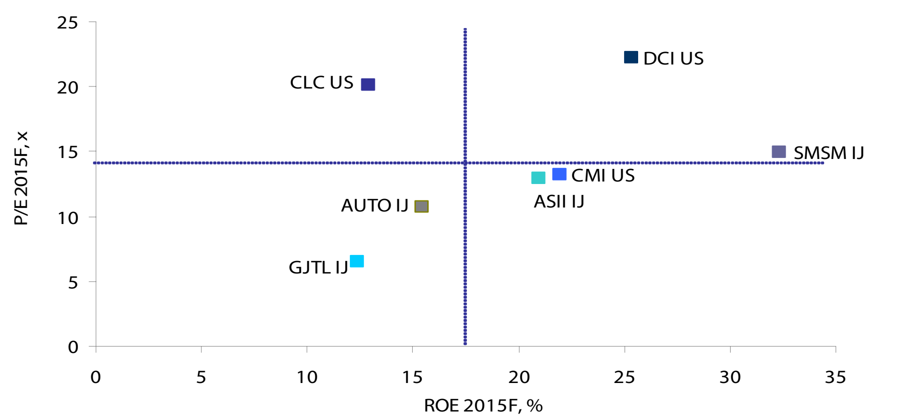
Currently, the company trades at 8% premium to the JCI. This is justified due to: 1) its superior ROE and stronger balance sheet, 2) the company's greater exposure to export markets amidst the weak rupiah, and 3) its generous dividend policy and sound corporate governance as reflected in 21 years of consecutive revenues growth. We believe SMSM is well placed to weather any domestic turbulence. All in all, utilizing the DCF valuation, we roll over our valuation to 2015 with a revised Target Price of Rp5,300, implying 18.2x P/E. Poor share liquidity remains a matter of concern, however, possibly affecting the share price in the short-term.

Exhibit 8. Poor share liquidity may affect the share price in the short-term



Source: Bloomberg

Exhibit 9. Superior ROE compared to global auto-parts companies



Source: Bloomberg

Exhibit 10. Changes in our forecast

		New			Previous			Changes, %		
	2013	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
(Rp bn)										
Revenues	2,373	2,695	3,008	3,263	2,710	3,094	3,457	(0.6)	(2.8)	(5.6)
Gross profit	638	773	853	888	711	814	891	8.7	4.7	(0.3)
Operating profit	421	547	607	624	472	551	602	15.9	10.3	3.7
EBITDA	534	653	720	744	602	689	749	8.5	4.4	(0.8)
Net Income	321	368	419	437	327	393	439	12.5	6.5	(0.5)
Gross margin	26.9	28.7	28.4	27.2	26.3	26.3	25.8	2.4	2.0	1.5
Operating margin	17.8	20.3	20.2	19.1	17.4	17.8	17.4	2.9	2.4	1.7
EBITDA margin	22.5	24.2	23.9	22.8	22.2	22.3	21.7	2.0	1.7	1.1
Net margin	13.5	13.7	13.9	13.4	12.1	12.7	12.7	1.6	1.2	0.7
Main product - Filter										
Sales volume, mn	56.6	63.1	69.7	74.0	63.0	68.8	73.1	0.0	1.4	1.2
ASP, Rp '000	29.8	33.7	34.7	35.7	30.5	31.7	33.0	10.5	9.4	8.3

Source: Company, Danareksa Sekuritas

Valuation-check using the DDM model

As SMSM has a consistent dividend growth policy, we simply perform a valuation-check on the company's value utilizing the DDM model. The main caveat to using the DDM model is that it is often very sensitive to assumptions made regarding growth rates, the time frame, and the required return – hence it's rarely utilized for Indonesian stocks where modest volatility still persists. Based on our calculation with a cost of equity of 13.9% (market beta) and 25% long-term ROE and 55% dividend-payout, we arrive at a valuation of Rp5,500/share.

Exhibit 11. SMSM's valuation-check using the DDM model

	2015F	2016F	2016F	2018F	2019F	2020F
DDM Based, Rp						
Cost of Equity, %	13.9					
Long-term ROE, %	25.0					
Long-term DPR, %	55.0					
Terminal Growth, %	11.3					
Dividend per share	150	160	170	180	200	215
Terminal Value						9,026
Discounted Value	150	140	131	122	119	4,821
Net Equity Value per shares	**5,500**					

Source: Danareksa Sekuritas

Exhibit 12. Profit and loss (Rp bn)

	2012	2013	2014F	2015F	2016F
Revenue	2,269	2,373	2,695	3,008	3,263
COGS	1,669	1,735	1,922	2,155	2,375
Gross Profit	600	638	773	853	888
Operating Expenses	211	216	226	246	264
Operating Profit	389	421	547	607	624
Net Interest	(29)	(27)	(25)	(15)	(6)
Other Income (Expenses)	10	65	1	1	1
Pre-tax Income	370	459	523	594	620
Income Tax	(83)	(108)	(123)	(140)	(146)
Minority Interest	(35)	(30)	(32)	(36)	(38)
Net Profit	252	321	368	419	437
Core Profit	239	268	368	419	437

Source: Company, Danareksa Sekuritas

Exhibit 13. Balance sheet (Rp bn)

	2011	2012	2013F	2014F	2015F
Cash & Equivalent	66	95	117	199	365
Trade Receivables	467	562	561	627	680
Inventories	429	402	480	539	594
Other Current Assets	32	50	45	50	54
Total Current Assets	**994**	**1,108**	**1,203**	**1,414**	**1,692**
Property, Plant, Equipment	515	493	488	483	474
Investment in Shares of Stocks	35	36	37	39	40
Other Non-current Assets	21	76	94	94	94
Total Non-current Assets	**571**	**605**	**620**	**616**	**608**
TOTAL ASSETS	**1,565**	**1,713**	**1,823**	**2,030**	**2,300**
Bank Loans	191	212	128	124	122
Trade Payables	97	164	160	180	198
Short-term Portion of Bonds	80	-	80	-	-
Other Current Liabilities	114	148	203	215	226
Total Current Liabilities	**481**	**525**	**570**	**518**	**546**
Long-term Portion of Bonds	80	80	-	-	-
Other Liabilities	54	56	60	63	66
Total Non-current Liabilities	**165**	**171**	**87**	**87**	**88**
Minority Interest	175	169	183	203	230
Capital Stock	144	144	144	144	144
Additional Paid in Capital	42	49	50	50	50
Retained Earnings	459	644	789	1,028	1,241
Other Equity	98	10	-	-	-
Total Equity	**918**	**1,017**	**1,166**	**1,425**	**1,665**
TOTAL LIABILITIES AND EQUITY	**1,565**	**1,713**	**1,823**	**2,030**	**2,300**

Source: Company, Danareksa Sekuritas

Exhibit 14. Cash flow (Rp bn)

	2012	2013	2014F	2015F	2016F
Pretax Profit	370	459	523	594	620
Minority Interest	(35)	(30)	(32)	(36)	(38)
Tax	(92)	(105)	(129)	(137)	(143)
Depreciation	119	113	106	112	119
Change in W/C	(31)	9	(21)	(100)	(85)
Others	4	(51)	(10)	3	3
CFO	**335**	**395**	**437**	**437**	**476**
Capex	(116)	(91)	(102)	(107)	(110)
Investment	(27)	1	(1)	(1)	(1)
CFI	**(143)**	**(90)**	**(103)**	**(108)**	**(111)**
ST Debt	31	22	(85)	(4)	(2)
Current Portion of LT Debt	80	(80)	80	(80)	-
LT Debt	(48)	4	(87)	(4)	(2)
Equity	8	(87)	4	21	27
Dividend	(187)	(122)	(223)	(180)	(223)
CFF	(117)	(263)	(311)	(247)	(200)
Change in Cash	**76**	**41**	**22**	**82**	**166**

Source: Company, Danareksa Sekuritas

Exhibit 15. Ratios

	2012	2013	2014F	2015F	2016F
Profitability, %					
Gross Margin	26.4	26.9	28.7	28.4	27.2
Operating Margin	17.1	17.8	20.3	20.2	19.1
Net Margin	11.1	13.5	13.7	13.9	13.4
Core Margin	10.5	11.3	13.7	13.9	13.4
ROAE	28.0	33.1	33.7	32.3	28.3
ROAA	16.7	19.6	20.8	21.7	20.2
Leverage					
Debt to Equity, %	41.5	32.2	20.2	10.4	8.6
Net Debt to Equity, %	34.3	22.9	10.1	Net cash	Net cash
Interest Coverage, x	12.5	13.9	18.1	28.5	38.5
Turnover, days					
Trade Receivables	74	85	75	75	75
Inventories	92	83	90	90	90
Trade Payables	21	34	30	30	30
Growth, %					
Sales	9.5	4.6	13.6	11.6	8.5
Gross Profit	19.5	6.3	21.2	10.3	4.1
Operating Profit	18.4	8.3	29.8	11.0	2.8
EBITDA	18.7	5.2	22.2	10.2	3.3
Net Profit	18.5	27.4	14.8	13.8	4.3
Core Profit	20.1	12.0	37.3	13.8	4.3

Source: Company, Danareksa Sekuritas