

AUTOMOTIVE PARTS/FY14 RESULT

BUY

Target Price, Rp 5,300

Upside 19.1%

SMSM IJ/SMSM.JK

Last Price, Rp 4,450

No. of shares (mn) 1,440

Market Cap, Rp bn 6,407

(US\$ mn) 493

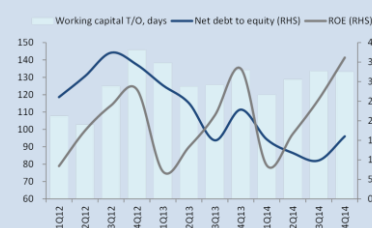
3M T/O, US\$mn 0.2

Last Recommendation

06-Jan-15	BUY	Rp5,300
17-Nov-14	BUY	Rp5,300
09-May-14	BUY	Rp4,350

FY14 Results, A/F, % (ABOVE)

	FY14, Rp bn	A/F, %
Revenues	2,633	97.7
EBITDA	656	100.5
Net profit	391	106.3

Key chart: Gearing and ROE**Danareksa vs. Consensus**

	Our	Cons	% Diff
Target Price, IDR	5,300	4,950	7.1
EPS 2015F, IDR	323	291	11.0
PE 2015F, x	13.8	15.3	-9.8

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

Selamat Sempurna**Enjoying blue sky scenario**

SMSM continued its remarkable record of unbroken revenues growth for the 22nd consecutive year on the back of strong exports recovery and continued rupiah depreciation. At the bottom line, the FY14 net profits grew 21% to Rp391bn, beating expectations, mainly driven by: 1) its export revenues recovery, 2) improvements in gross margins owing to further rupiah depreciation in 2014, and 3) its greater economies of scale that pushed down opex. Encouragingly, on a quarterly basis, even though the revenues growth moderated, the gross margin still expanded to 33% in 4Q14. All in all, we believe the solid performance will continue, i.e. volume growth driven by exports and higher profitability from the rupiah depreciation and soft steel prices. Maintain BUY with an unchanged TP of Rp5,300.

One of Indonesia's best export plays

SMSM's revenues grew 11% to Rp2.6tn driven by exports recovery in FY14. During the period, total export sales jumped 24%, or in contrast to the domestic sales decline of 11%. As such, the contribution from export sales to total sales rose to 70% in FY14 from 62% in FY13. Product-wise, the main exports product (filters) recorded 21% growth in FY14, offsetting the modest performance of other products, especially the depressed dump-truck sales from Hydraxle Perkasa, which contributed to the decline in SMSM's domestic sales. Interestingly, part of the filters sales growth owed to its 8% higher ASP benefiting from rupiah depreciation in 2014, as the USD price remains unchanged.

Still enjoying the blue sky scenario

SMSM's gross margin expanded 2.8pps to 29.8% in FY14 with the gross margin in 4Q14 at an all-time high of 33%. The currently weak rupiah, coupled with the larger exports proportion and soft steel prices, has created a blue sky scenario for SMSM. On top of this, greater economies of scale from higher production volume pushed down the opex to sales ratio to 9% in FY14. Thus, SMSM posted a good result at its bottom line with growth of 21% and a wider net margin of 14.9% in FY14.

Set to become a net cash company

As of December 2014, SMSM's balance sheet remained sound with only 0.16x net gearing. The main financing of Rp80bn bonds will mature in 2015F; thus SMSM may become a net cash company by EOY15F. Nonetheless, higher nominal dividends will be expected going forward considering its low level of planned expansion at the moment.

Maintain BUY

Going forward, we believe the solid performance will continue, i.e. volume growth driven by exports and higher profitability from the rupiah depreciation and soft steel prices. Other positives are its cash rich position and superior ROE. However, we acknowledge that share liquidity risk might persist in the short-term – meaning that small changes in the mood of the market can translate into high volatility. Incorporating the FY14 results, we maintain our BUY call with an unchanged TP of Rp5,300.

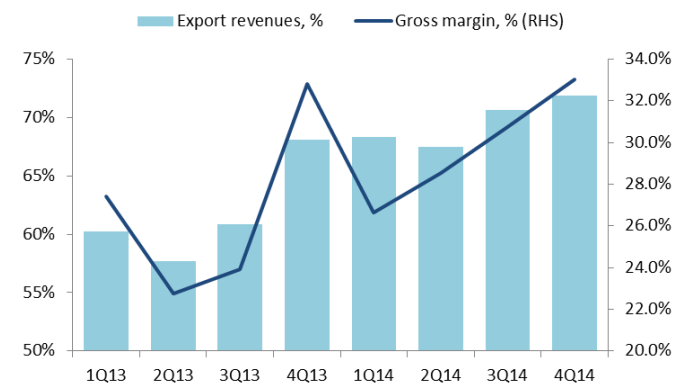
	2013	2014	2015F	2016F	2016F
Revenue, Rp bn	2,382	2,633	2,946	3,210	3,478
EBITDA, Rp bn	537	656	766	800	825
EBITDA Growth, %	5.7	22.3	16.7	4.4	3.2
Net Profit, Rp bn	322	391	465	493	511
Core Profit, Rp bn	284	388	478	507	526
Core EPS, Rp	197	270	332	352	366
Core EPS Growth, %	12.7	36.8	23.2	6.1	3.8
Net Gearing, %	22.9	16.0	Net cash	Net cash	Net cash
PER, x	19.9	16.4	13.8	13.0	12.5
Core PER, x	22.6	16.5	13.4	12.6	12.2
PBV, x	6.3	5.6	4.5	3.7	3.1
EV/EBITDA, x	12.3	10.0	8.4	7.7	7.2
Yield, %	2.6	2.8	3.3	3.5	3.6

Exhibit 1. SMSM's FY14 Results

	FY13	FY14	y-y%	4Q13	3Q14	4Q14	q-q, %	y-y, %	2014F	A/F, %
(in Rp bn)										
Revenues	2,382	2,633	10.5	718	637	700	9.9	(2.5)	2,695	97.7
Gross profit	644	785	21.9	235	196	231	18.0	(1.8)	773	101.5
Operating profit	424	548	29.3	158	146	145	(0.1)	(7.8)	547	100.2
EBITDA	537	656	22.3	192	173	179	3.5	(7.0)	653	100.5
Net interest	(27)	(24)	(13.0)	(7)	(6)	(5)	(16.5)	(32.2)	(25)	94.3
Pre-tax income	461	541	17.3	187	143	146	2.1	(22.1)	523	103.4
Net profit	322	391	21.3	130	98	117	18.6	(9.9)	368	106.3
(in %)										
Gross Margin	27.0	29.8		32.8	30.8	33.0			28.7	
Opex to sales	9.3	9.0		10.8	7.9	12.2			8.4	
Operating Margin	17.8	20.8		22.0	22.9	20.8			20.3	
EBITDA Margin	22.5	24.9		26.8	27.1	25.5			24.2	
Net Margin	13.5	14.9		18.1	15.5	16.7			13.7	
(in Rp bn)										
By Product										
Filter	1,687	2,046	21.2	550	493	565	14.6	2.8		
Radiator	398	395	(0.8)	106	96	98	2.7	(7.1)		
Karoseri	198	136	(31.0)	48	32	29	(9.3)	(40.1)		
Distribution	364	329	(9.5)	121	79	89	12.2	(26.7)		
Others	270	321	19.1	71	74	79	6.6	10.5		
Elimination	(535)	(595)	11.2	(178)	(136)	(159)	17.1	(10.3)		
By Geographical										
Domestic	902	801	(11.3)	229	187	197	5.3	(14.0)		
Export	1,479	1,832	23.8	488	450	503	11.8	2.9		
Asia	550	699	27.0	176	176	198	12.2	12.5		
America	444	532	19.8	146	126	144	14.3	(1.4)		
Australia	148	190	28.1	49	46	55	18.4	11.7		
Europe and Others	337	412	21.9	118	101	106	4.9	(9.7)		

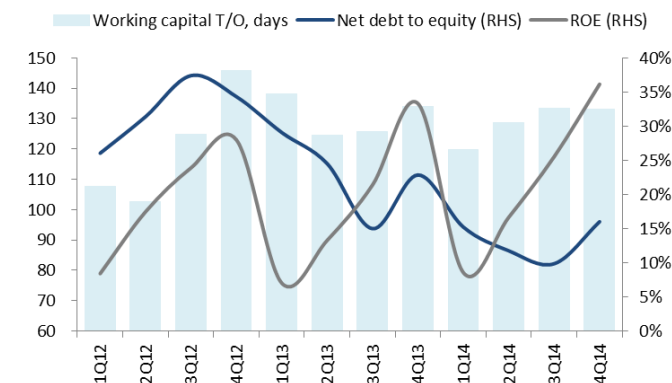
Source: Company, Danareksa Sekuritas

Exhibit 2. Higher export revenues improved gross margin



Source: Company

Exhibit 3. Moving towards being a net cash company



Source: Company

Exhibit 4. Changes in our forecast

	2014	New		Previous		Changes, %	
		2015F	2016F	2015F	2016F	2015F	2016F
(Rp bn)							
Revenues	2,633	2,946	3,210	3,008	3,263	(2.1)	(1.6)
Gross profit	785	918	965	853	888	7.7	8.7
Operating profit	548	653	679	607	624	7.5	8.8
EBITDA	656	766	800	720	744	6.5	7.5
Net Income	391	465	493	419	437	11.0	12.9
(%)							
Gross margin	29.8	31.2	30.1	28.4	27.2	2.8	2.9
Operating margin	20.8	22.2	21.2	20.2	19.1	2.0	2.0
EBITDA margin	24.9	26.0	24.9	23.9	22.8	2.1	2.1
Net margin	14.9	15.8	15.4	13.9	13.4	1.8	2.0

Source: Company, Danareksa Sekuritas

Exhibit 5. Profit and loss (IDR bn)

	2013	2014	2015F	2016F	2016F
Revenue	2,382	2,633	2,946	3,210	3,478
COGS	1,738	1,848	2,028	2,244	2,473
Gross Profit	644	785	918	965	1,005
Operating Expenses	220	237	266	286	307
Operating Profit	424	548	653	679	698
EBITDA	537	656	766	800	825
Net Interest	(27)	(24)	(14)	(0)	9
Other Income (Expenses)	64	17	1	1	1
Pre-tax Income	461	541	640	681	709
Income Tax	(108)	(120)	(142)	(151)	(157)
Minority Interest	(30)	(30)	(34)	(37)	(41)
Net Profit	322	391	465	493	511
Core Profit	284	388	478	507	526

Source: Company, Danareksa Sekuritas

Exhibit 6. Balance sheet (IDR bn)

	2013	2014	2015F	2016F	2016F
Cash & Equivalent	95	76	109	338	576
Trade Receivables	562	574	655	713	773
Inventories	402	432	479	530	584
Other Current Assets	50	52	58	63	69
Total Current Assets	1,108	1,134	1,301	1,645	2,002
Property, Plant, Equipment	493	493	495	491	480
Investment in Shares of Stocks	36	35	36	37	39
Other Non-current Assets	76	88	88	88	88
Total Non-current Assets	605	616	619	616	607
TOTAL ASSETS	1,713	1,749	1,920	2,261	2,609
Bank Loans	212	180	100	100	100
Trade Payables	164	152	169	187	206
Short-term Portion of Bonds	-	80	-	-	-
Other Current Liabilities	148	125	146	157	169
Total Current Liabilities	525	537	415	445	475
Long-term Portion of Bonds	80	-	-	-	-
Other Liabilities	56	66	72	80	88
Total Non-current Liabilities	171	66	72	80	88
Minority Interest	169	142	157	185	213
Capital Stock	144	144	144	144	144
Additional Paid in Capital	49	50	50	50	50
Retained Earnings	644	811	1,082	1,358	1,639
Other Equity	10	-	-	-	-
Total Equity	1,017	1,147	1,432	1,737	2,046
TOTAL LIABILITIES AND EQUITY	1,713	1,749	1,920	2,261	2,609

Source: Company, Danareksa Sekuritas

Exhibit 7. Cash flow (IDR bn)

	2013	2014	2015F	2016F	2016F
Pretax Profit	461	541	640	681	709
Minority Interest	(30)	(30)	(34)	(37)	(41)
Tax	(105)	(136)	(136)	(148)	(154)
Depreciation	113	108	113	120	128
Change in W/C	9	(72)	(101)	(89)	(92)
Others	(51)	5	7	7	8
Cash Flow from Operation	397	417	489	534	558
Capex	(91)	(108)	(115)	(116)	(117)
Investment	1	1	(1)	(1)	(1)
Cash Flow from Investing	(90)	(107)	(116)	(117)	(119)
ST Debt	22	(33)	(80)	-	-
Current Portion of LT Debt	(80)	80	(80)	-	-
LT Debt	4	(115)	-	-	-
Equity	(101)	(38)	15	28	28
Dividend	(122)	(223)	(194)	(216)	(230)
Cash Flow from Financing	(278)	(329)	(339)	(188)	(202)
Change in Cash	29	(19)	33	229	238

Source: Company, Danareksa Sekuritas

Exhibit 8. Key ratios

	2013	2014	2015F	2016F	2016F
Profitability, %					
Gross Margin	27.0	29.8	31.2	30.1	28.9
Operating Margin	17.8	20.8	22.2	21.2	20.1
Net Margin	13.5	14.9	15.8	15.4	14.7
Core Margin	11.9	14.7	16.2	15.8	15.1
ROAE	33.3	36.2	36.0	31.1	27.0
ROAA	19.7	22.6	25.3	23.6	21.0
Leverage					
Debt to Equity, %	32.2	22.6	7.0	5.8	4.9
Net Debt to Equity, %	22.9	16.0	Net cash	Net cash	Net cash
Interest Coverage, x	14.0	19.3	34.5	61.1	62.7
Turnover, days					
Trade Receivables	85	78	80	80	80
Inventories	83	84	85	85	85
Trade Payables	34	30	30	30	30
Growth, %					
Sales	5.0	10.5	11.9	8.9	8.4
Gross Profit	7.3	21.9	17.0	5.1	4.1
Operating Profit	9.0	29.3	19.1	4.1	2.7
EBITDA	5.7	22.3	16.7	4.4	3.2
Net Profit	28.1	21.3	18.8	6.1	3.8
Core Profit	12.7	36.8	23.2	6.1	3.8

Source: Company, Danareksa Sekuritas

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