

## AUTOMOTIVE PARTS/1Q15 RESULT

**BUY**

Target Price, Rp 5,300

Upside 12.4%

SMSM IJ/SMSM.JK

Last Price, Rp 4,715

No. of shares (mn) 1,440

**Market Cap, Rp bn 6,788**

(US\$ mn) 522

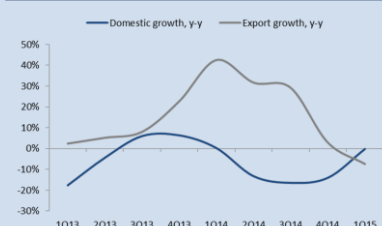
3M T/O, US\$mn 0.2

**Last Recommendation**

01-Apr-15	BUY	Rp5,300
06-Jan-15	BUY	Rp5,300
17-Nov-14	BUY	Rp5,300

**1Q15 Results, A/F, % (BELOW)**

	1Q15, Rp bn	A/F, %
Revenues	597	20.3
EBITDA	135	17.7
Net profit	75	16.2

**Key chart: Revenues growth****Danareksa vs. Consensus**

	Our	Cons	% Diff
Target Price, IDR	5,300	5,088	4.2
EPS 2015F, IDR	323	306	5.6
PE 2015F, x	14.6	15.3	1.9

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

# Selamat Sempurna

## Discerning decline in export market

SMSM's 1Q15 result was dragged down by some issues in the export sales destinations which should have been the key driver for growth given remaining challenges within the domestic market. Taking seasonality into account, SMSM's 1Q15 result is below market expectation. In 1Q15, net profits slid 10%y-y to Rp75bn on the back of 5%y-y decline in revenues and higher opex. Filter products sales decline 8%y-y mainly driven by the 7%y-y decline in the export market as its main contribution. In the meantime, we stick with our figures with expectation of better performance in 2H15F from the export sales recovery. Maintain BUY.

**Export slid from Russia turbulence**

In 1Q15, SMSM's revenues drop 5.1%y-y driven by the decline in export sales. During the period, total export sales decline 7.4%y-y with domestic sales still showing flattish performance. This owed to the significant drop in Russia sales (-74%y-y) as well as in the South American countries due to some administration issue. Worth noting, Russia is one of SMSM's top five export destination, accounted for around 4-6% of total export sales in the past three years. On the other hand, the US market – SMSM's main export destination – still posted a healthy 13.5%y-y growth in 1Q15. Product-wise, only radiator sales that showed positive performance backed by the US market and domestic demand, while filter sales still driven by decline in export and the dump truck sales still posted negative growth from current mild commodity prices. Going forward, the company stated that the administration issue in South American countries have been resolved, plus other countries also has invoice demands since April 2015. This means stronger sales in 2H15F can be expected.

**Gross margin remained relatively high**

SMSM's gross margin remained at a relatively high level of 27.8% in 1Q15, slightly higher from 26.7% in 1Q14. The currently rupiah (to USD) condition, coupled with 67% export sales proportion and soft steel prices has maintained this high gross margin position. Yet, higher opex from increasing royalty and salaries expenses have pressure down the operating margin slightly to 18.7% in 1Q15 (vs. 19.1% in 1Q14). Thus, SMSM's net profit down by 10%y-y with net margin slightly drop to 12.6% in 1Q15.

**Gearing level continue to come down**

SMSM's interest-bearing liabilities stood at Rp214bn as of March 2015, translated into only 0.12x net gearing. With the Rp80bn long-term bonds will be paid off in July 2015, thus SMSM may become a net cash company by EOY15F. However, we acknowledged that inventory days moving higher to 111 days in 1Q15 (vs. the average 3 months cycle) which mainly driven by the lagged export sales. Moreover, the final dividend for FY14 will be announced in 2Q15F, of which we expect around Rp25-30/share will be distributed, translated the FY14's dividend yield of 3% at current share price.

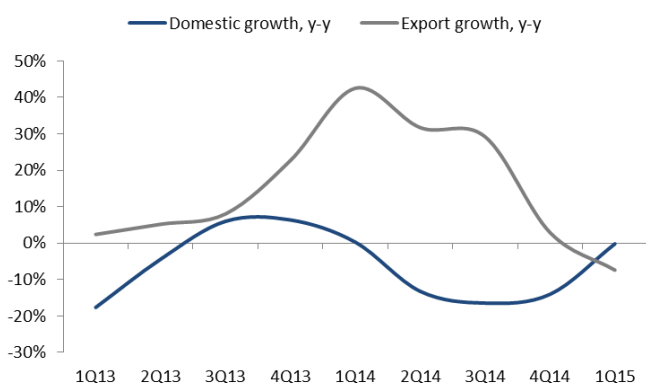
	2013	2014	2015F	2016F	2016F
Revenue, Rp bn	2,382	2,633	2,946	3,210	3,478
EBITDA, Rp bn	537	656	766	800	825
EBITDA Growth, %	5.7	22.3	16.7	4.4	3.2
Net Profit, Rp bn	322	391	465	493	511
Core Profit, Rp bn	284	388	478	507	526
Core EPS, Rp	197	270	332	352	366
Core EPS Growth, %	12.7	36.8	23.2	6.1	3.8
Net Gearing, %	22.9	16.0	Net cash	Net cash	Net cash
PER, x	21.1	17.4	14.6	13.8	13.3
Core PER, x	23.9	17.5	14.2	13.4	12.9
PBV, x	6.7	5.9	4.7	3.9	3.3
EV/EBITDA, x	13.0	10.6	8.8	8.2	7.6
Yield, %	2.4	2.7	3.1	3.3	3.4

## Exhibit 1. SSM's 1Q15 results

	1Q14	1Q15	y-y%	1Q14	4Q14	1Q15	q-q, %	y-y, %	2015F	A/F, %	2015C	A/C, %
<b>(in Rp bn)</b>												
Revenues	629	597	(5.1)	629	700	597	(14.7)	(5.1)	2,946	20.3	3,014	19.8
Gross profit	168	166	(1.0)	168	231	166	(28.2)	(1.0)	918	18.1	904	18.4
Operating profit	120	112	(7.1)	120	145	112	(23.1)	(7.1)	653	17.1	618	18.1
EBITDA	143	135	(5.5)	143	179	135	(24.2)	(5.5)	766	17.7	721	18.8
Net interest	(7)	(6)	(10.0)	(7)	(5)	(6)	26.1	(10.0)	(14)	44.4		
Pre-tax income	120	104	(13.6)	120	146	104	(28.9)	(13.6)	640	16.2	615	16.9
Net profit	84	75	(10.3)	84	117	75	(35.7)	(10.3)	465	16.2	440	17.1
<b>(in %)</b>												
Gross Margin	26.7	27.8		26.7	33.0	27.8			31.2		30.0	
Opex to sales	7.5	9.1		7.5	12.2	9.1			9.0		9.5	
Operating Margin	19.1	18.7		19.1	20.8	18.7			22.2		20.5	
EBITDA Margin	22.8	22.7		22.8	25.5	22.7			26.0		23.9	
Net Margin	13.3	12.6		13.3	16.7	12.6			15.8		14.6	
<b>(in Rp bn)</b>												
<b>By Product</b>												
Filter	481	445	(7.6)	481	565	445	(21.3)	(7.6)				
Radiator	96	101	4.9	96	98	101	2.9	4.9				
Karoseri	38	31	(19.6)	38	29	31	6.8	(19.6)				
Distribution	77	84	9.9	77	89	84	(5.0)	9.9				
Others	85	80	(5.5)	85	79	80	2.1	(5.5)				
Elimination	(148)	(144)	(2.7)	(148)	(159)	(144)	(9.6)	(2.7)				
<b>By Geographical</b>												
Domestic	199	199	(0.2)	199	197	199	1.0	(0.2)				
Export	430	398	(7.4)	430	503	398	(20.8)	(7.4)				
Asia	150	157	5.0	150	198	157	(20.5)	5.0				
America	133	121	(9.4)	133	144	121	(16.2)	(9.4)				
Australia	43	41	(4.1)	43	55	41	(24.9)	(4.1)				
Europe and Others	104	79	(23.9)	104	106	79	(25.8)	(23.9)				

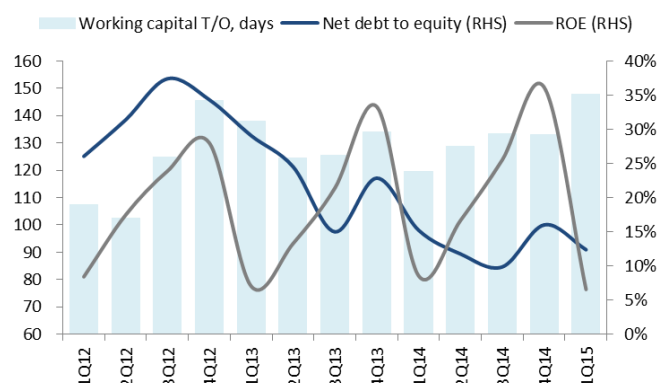
Source: Company, Danareksa Sekuritas, Bloomberg

## Exhibit 2. Export slid in 1Q15



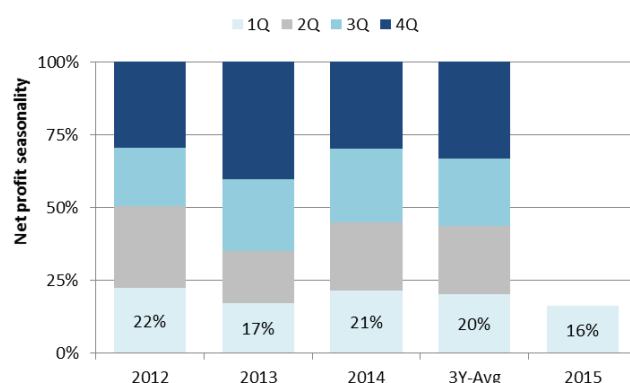
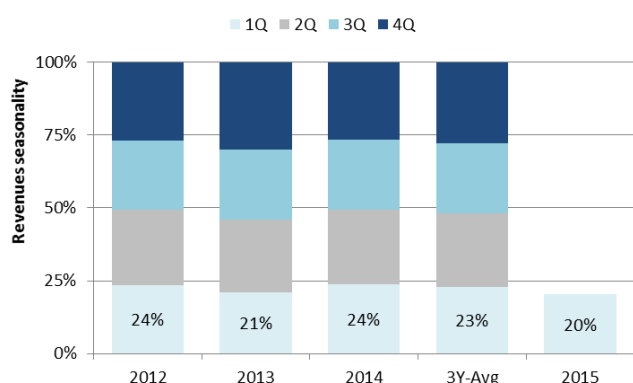
Source: Company

## Exhibit 3. Moving towards being a net cash company



Source: Company

## Exhibit 4. Seasonality in revenues and net profit



Source: Company

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