



Rating
Buy

Asia
Indonesia

Automobiles &
Components

Company
Selamat Sempurna

Reuters SMSGM.JK Bloomberg SMSGM IJ Exchange JKT Ticker SMSGM

Date
25 February 2013

Coverage Change

Price at 22 Feb 2013 (IDR)	2,400
Price target - 12mth (IDR)	2,950
52-week range (IDR)	2,668 - 1,581
Jakarta Comp. Index	4,651.12

Best of both worlds: growth and dividend: Initiating at Buy

One of the few local manufacturers with global vision; initiating with Buy

SMSGM is the largest filter manufacturer in South East Asia and one of the few local manufacturing companies that can successfully compete on a global scale. SMSGM's profitability is superior to other auto-related peers', yielding an average c.30% ROE over the last three years and EBIT margin of c.15%, whilst earnings grew at a 25% CAGR over FY06-11. SMSGM's proven track record and well-established worldwide network give it a good platform to deliver robust growth. Domestic demand is strong, especially given the introduction of the low-cost green car (LCGC), while export market recovery is a possibility. Buy.

Twin drivers: strong domestic market and potential export recovery

The export market should continue to account for a majority of SMSGM's business, but the domestic business contribution has risen significantly, from c.20% of total revenue in 2006 to c.30% in 9M12. With strong brand equity (c.35% domestic market share), competitive pricing (c.40% lower than OEM parts) and an unconventional capacity to produce for both the aftermarket and OEMs, SMSGM should benefit from the introduction of low-cost cars in Indonesia. Moreover, our economists are turning more positive on the US and EU, suggesting upside risk to what we consider conservative FY13F earnings.

Ample production capacity and strong FCF generation = good dividend yield

We also like the stock because of its high dividend yield (an estimated 4-5% yield in the next few years based on the current share price). Solid EBITDA generation is complemented by low capex requirements as SMSGM only recently expanded its production capacities, thus allowing it to continue paying high dividends (over the last four years, the dividend payout ratio has been consistently above 75%).

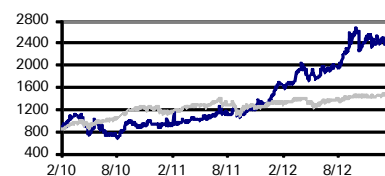
Some c.20% potential stock price upside; target price of Rp2,950/share

Our target price is based on a 10-year DCF (RFR: 4.5%, ERP: 7.5% and WACC: 11%) and implies a forward multiple of 15x FY14F earnings and PEG of 0.7x. At the current price, SMSGM trades largely at par with ASII.JK and AUTO.JK, albeit at a premium to other domestic auto-related peers due to its 1) superior profitability, 2) more stable earnings profile, and 3) higher FCF/dividend generation. Key risks include: raw materials, FX and macro (see p. 5).

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.0	-2.8	45.7
Jakarta Comp. Index	5.3	7.3	16.4

Forecasts And Ratios

Year End Dec 31	2010A	2011A	2012E	2013E	2014E
Sales (IDRbn)	1,562	1,808	1,930	2,383	2,800
EBITDA (IDRbn)	301	382	459	532	602
Reported NPAT (IDRbn)	150.4	200.9	210.1	230.9	282.6
PER (x)	8.4	7.8	16.4	15.0	12.2
Yield (net) (%)	9.3	12.0	4.0	4.3	5.7

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/Hong Kong

This research has been prepared in association with PT Deutsche Bank Verdhana Indonesia. The opinions contained in this report are those of PT Deutsche Bank Verdhana Indonesia.

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Model updated: 22 February 2013

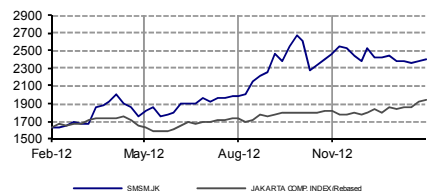
Running the numbers

Asia	
Indonesia	
Automobiles & Components	
Selamat Sempurna	
Reuters: SMSM.JK	Bloomberg: SMSM IJ
Buy	
Price (22 Feb 13)	IDR 2,400
Target Price	IDR 2,950
52 Week range	IDR 1,581 - 2,668
Market Cap (bn)	IDRm 3,455
	USDm 356

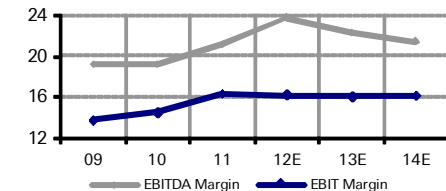
Company Profile

Selamat Sempurna (SMSM.JK) was founded in 1976 and has since grown to become the leading filter and radiator manufacturer in the region. SMSM is part of the ADR Group (PT Adrindo Intiperkasa), a well-known Indonesian conglomerate with decades of experience in the auto parts industry. Other products include engine gaskets, brake/fuel pipes, fuel tanks and rubber parts, whilst through its subsidiary it produces dump body and hoist.

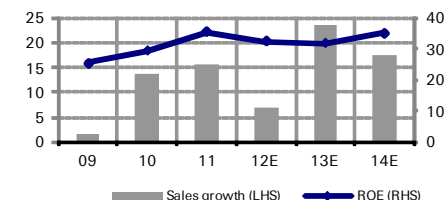
Price Performance



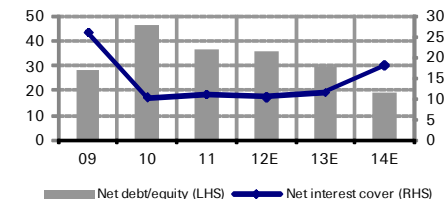
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2009	2010	2011	2012E	2013E	2014E
DB EPS (IDR)	92.28	104.48	139.52	145.92	160.38	196.29
Reported EPS (IDR)	92.28	104.48	139.52	145.92	160.38	196.29
DPS (IDR)	98.13	81.35	130.00	94.85	104.25	137.41
BVPS (IDR)	346.4	361.3	420.8	472.8	528.9	587.8
Weighted average shares (m)	1,440	1,440	1,440	1,440	1,440	1,440
Average market cap (IDRbn)	628	1,259	1,558	3,455	3,455	3,455
Enterprise value (IDRbn)	818	1,565	1,861	3,940	3,961	3,926

Valuation Metrics

P/E (DB) (x)	4.7	8.4	7.8	16.4	15.0	12.2
P/E (Reported) (x)	4.7	8.4	7.8	16.4	15.0	12.2
P/BV (x)	1.76	2.62	3.04	5.08	4.54	4.08
FCF Yield (%)	31.3	2.9	8.4	3.5	4.5	6.7
Dividend Yield (%)	22.5	9.3	12.0	4.0	4.3	5.7
EV/Sales (x)	0.6	1.0	1.0	2.0	1.7	1.4
EV/EBITDA (x)	3.1	5.2	4.9	8.6	7.4	6.5
EV/EBIT (x)	4.3	6.9	6.3	12.6	10.3	8.7

Income Statement (IDRbn)

Sales revenue	1,375	1,562	1,808	1,930	2,383	2,800
Gross profit	316	369	461	482	582	684
EBITDA	264	301	382	459	532	602
Depreciation	75	73	86	145	147	149
Amortisation	0	0	0	0	0	0
EBIT	190	228	297	314	385	453
Net interest income(expense)	-7	-22	-27	-30	-33	-25
Associates/affiliates	0	0	0	4	0	5
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	3	-1	10	10	0	0
Profit before tax	186	205	280	297	351	433
Income tax expense	43	40	60	64	79	100
Minorities	10	14	18	23	41	51
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	133	150	201	210	231	283
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	133	150	201	210	231	283

Cash Flow (IDRbn)

Cash flow from operations	258	154	231	220	256	331
Net Capex	-62	-118	-100	-100	-100	-100
Free cash flow	197	36	131	120	156	231
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-186	-141	-117	-187	-137	-150
Net inc/(dec) in borrowings	-26	115	-82	93	-29	-1
Other investing/financing cash flows	10	-4	70	0	0	0
Net cash flow	-5	6	2	27	-9	80
Change in working capital	63	-96	-77	-145	-164	-146

Balance Sheet (IDRbn)

Cash and other liquid assets	9	14	17	43	35	114
Tangible fixed assets	341	377	398	556	509	460
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	10	8	8	14	14	19
Other assets	581	668	715	875	1,089	1,247
Total assets	942	1,067	1,137	1,489	1,646	1,840
Interest bearing debt	164	279	262	356	327	326
Other liabilities	234	219	204	266	330	390
Total liabilities	397	499	466	622	657	716
Shareholders' equity	499	520	606	681	761	846
Minorities	46	48	65	186	227	278
Total shareholders' equity	544	568	671	866	989	1,124
Net debt	155	265	246	313	293	212

Key Company Metrics

Sales growth (%)	1.6	13.6	15.8	6.8	23.5	17.5
DB EPS growth (%)	45.2	13.2	33.5	4.6	9.9	22.4
EBITDA Margin (%)	19.2	19.3	21.1	23.8	22.3	21.5
EBIT Margin (%)	13.8	14.6	16.4	16.3	16.1	16.2
Payout ratio (%)	106.3	77.9	93.2	65.0	65.0	70.0
ROE (%)	25.4	29.5	35.7	32.7	32.0	35.2
Capex/sales (%)	4.5	7.6	5.7	5.2	4.2	3.6
Capex/depreciation (x)	0.8	1.6	1.2	0.7	0.7	0.7
Net debt/equity (%)	28.5	46.6	36.7	36.1	29.6	18.8
Net interest cover (x)	26.1	10.3	11.1	10.4	11.5	18.0

Source: Company data, Deutsche Bank estimates

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Investment thesis

Outlook

We initiate coverage on Selamat Sempurna (SMSM.JK) with a Buy. We believe the company is well positioned to deliver robust earnings growth over the next few years, driven by strong domestic automotive growth, especially with the introduction of the low-cost green car (LGCC) in Indonesia, and a potential recovery in the export market.

The export market should still account for a majority of SMSM's business. However, we believe domestic business growth should not be underestimated. Indeed, over the last few years the company has seen a rising contribution from the domestic business (from c.20% of total revenue in 2006 to c.30% in 9M12). With strong brand equity – a globally recognised brand commanding c.35% domestic market share – SMSM should be a prime beneficiary of strong automotive sales growth in Indonesia, while the introduction of the low-cost green car (LCGC) initiative is likely the next leg up.

Moreover, our US and EU economists have turned more positive on their assessment of growth momentum in their regions – potentially affording some upside risk to what we consider our conservative FY13 earnings forecast. Even in the event that the export market remains lacklustre, SMSM's products (high-turnover and low-cost auto parts that inevitably need to be replaced over time) and market (c.95% of sales from the aftermarket/replacement segment) mean that demand should be relatively resilient compared to OEMs'. SMSM's largest export market is the US, in partnership with Donaldson (ticker: DCI), a well-known filtration company.

We see less competition in filter products compared to other auto parts (e.g. tires), and SMSM is already positioned at competitive price points (some c.40% lower than OEM parts). SMSM's profitability is also superior to other auto-related peers' (see page 13 for more details), yielding an average c.30% ROE over the last three years, an average EBIT margin of c.15% and asset turnover of c.1.5x. Note that gross margins have remained relatively stable at the 22-25% level over the last six years.

We also like SMSM for its high dividend yield (an estimated 4-5% yield in the next few years based on the current share price). We forecast the company to generate strong operating profit of Rp400-500bn over the next few years. Meanwhile, given its ample production capacity, which it has only recently expanded, capex should be relatively low, in the Rp100bn per annum range. This should allow SMSM to continue to record a high dividend payout ratio (over the last four years, the dividend payout ratio has been consistently above 75%).

SMSM delivered a solid 25% five-year earnings CAGR in 2006-2011. We opt to be conservative in our FY12 and FY13 estimates to limit any downside earnings risk, forecasting relatively undemanding earnings growth of 5% and 10% yoy in FY12 and FY13, respectively. But beyond FY13, we estimate robust earnings growth of 22% yoy in FY14 and 20% yoy in FY15. We expect profit margins to remain stable. Overall, we believe SMSM is a well-run company with a strong management team equipped with decades of industry experience. Indeed, SMSM is one of the few local manufacturing companies that can successfully compete on a global scale.



Valuation

Our Rp2,950 target price is based on a 10-year DCF (RFR: 4.5%, ERP: 7.5% and WACC: 11%) and implies a forward multiple of 15x FY14F earnings and PEG ratio of 0.7x. At the current price, SMSM trades largely at par with ASII.JK and AUTO.JK, albeit at a premium to other domestic auto-related peers. We believe such a premium is supported by SMSM's 1) superior profitability, 2) more stable earnings profile – with lower competition risk compared to other domestic auto-related peers (e.g. tires), and 3) stronger FCF generation, and hence potentially higher dividend yield.

Key risks

- **Raw materials volatility:** Raw materials account for c.70% of SMSM's total COGS, and include steel plates, aluminium, paper, zinc and copper, most of which need to be imported. Hence, volatility in raw material prices can adversely impact profit margins.
- **Currency fluctuations:** Export revenue accounts for c.70% of SMSM's total revenue, while we estimate c.40% of COGS is import-related; hence, the company still carries a currency mismatch. Fluctuations in foreign exchanges could adversely impact the company.
- **Macroeconomic risk:** Although SMSM derives a majority (c.95%) of its business from the aftermarket (replacement segment), in which demand is relatively more resilient than the OEM market, the distributor inventory cycle is still somewhat driven by macroeconomic expectations. A slower-than-expected recovery in key export markets, or lower-than-expected domestic economic growth, could impact consumption and distributor restocking/destocking inventory patterns.
- **Competition risk:** Although we see less competition risk in SMSM's filter business compared to other types of auto-parts and components (e.g. tires), it is nonetheless exposed to competition risk given the nature of the product (high turnover and lack of differentiation). Moreover, we note that there are many counterfeit products in the market, which could be difficult for the layperson to identify visually.



Valuation

We initiate coverage on SMSM with a Buy, seeing some c.20% stock price upside potential from the current level. Our 12-month forward target price of Rp2,950/share is based on a 10-year DCF, and implies a forward multiple of 15x FY14F earnings and a PEG ratio of 0.7x. See Figure 1 for our DCF valuation summary.

At the current price, SMSM trades at c.15x and c.12x FY13F-14F P/E, respectively, implying a PEG ratio of 0.9x and 0.6x; largely at par with the current market (JCI) valuation of 14.2x and 12.5x FY13F-14F, respectively.

We illustrate SMSM's valuation peer comps in Figure 6. SMSM trades at par with ASII.JK and AUTO.JK, albeit at a premium to other domestic auto-related peers. We believe this is driven by SMSM's 1) superior profitability (see Figure 7), 2) more stable earnings profile – with lower competition risk compared to other domestic auto-related peers (e.g. tires), and 3) stronger free cash flow generation, potentially leading to higher dividend yield.

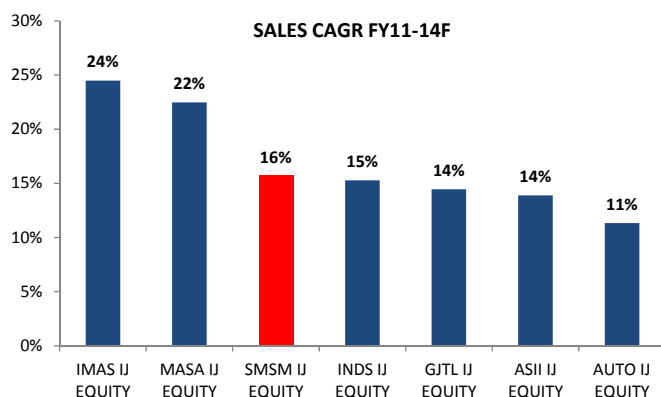
Figure 1: DCF valuation summary

	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F
EBIT (after tax)	298	353	417	488	570	593	612	626	639	646	649
Depreciation	147	149	149	130	137	123	129	113	118	123	128
Working Capital Decrease (Increase)	(164)	(146)	(184)	(202)	(245)	(83)	(85)	(68)	(51)	(52)	(46)
Less : Capital Expenditure	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Free Cash Flow (Rp bn)	182	255	282	316	362	533	556	571	606	617	631

Terminal growth rate	3.0%	Risk-free rate	4.5%
Terminal value	8,129 Rp bn	Equity risk premium	7.5%
PV of FCF	4,775 Rp bn	Beta	1.1
Net (debt)/cash	(313) Rp bn	Cost of equity	12.6%
Less: Minority interest	(227) Rp bn	Cost of debt (after tax)	6.2%
Equity value	4,235 Rp bn	WACC	11.0%
Shares outstanding	1,440 mn shares		
NPV/share	2,942 Rp/share		
Target price	2,950 Rp/share		

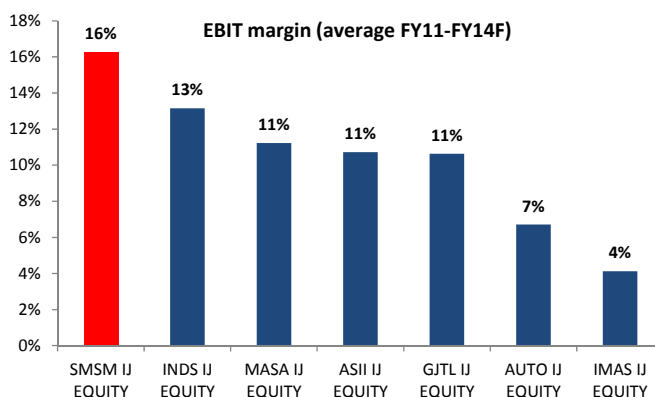
Source: Deutsche Bank Our 3% terminal growth rate assumption is conservatively set below expected long-term inflation.

Figure 2: Domestic comps – Sales



Source: Deutsche Bank and Bloomberg Finance LP

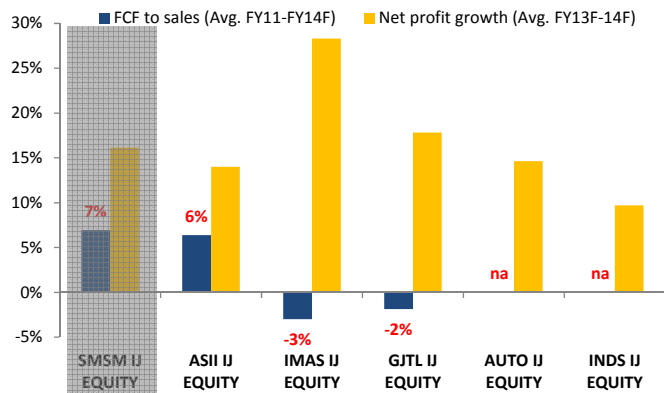
Figure 3: Domestic comps – EBIT margin



Source: Deutsche Bank and Bloomberg Finance LP

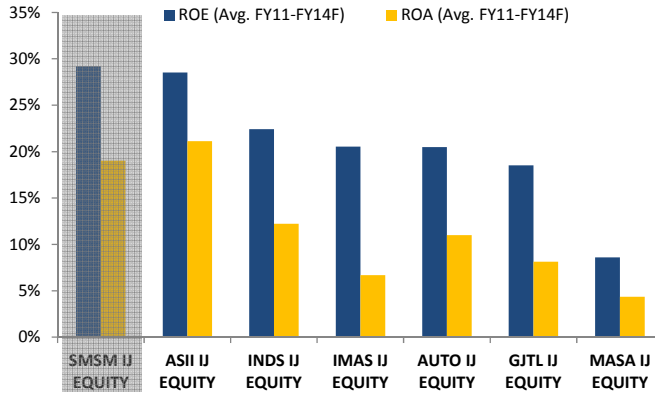


Figure 4: Domestic comps – Free cash flow and net profit



Source: Deutsche Bank and Bloomberg Finance LP

Figure 5: Domestic comps – ROE/ROA



Source: Deutsche Bank and Bloomberg Finance LP

Figure 6: Valuation comps

Ticker	Company	Country	Mkt cap US\$m	Price Local	P/E(x)		PEG	EV/EBITDA (x)		P/B (x)		EPS %	
					FY13F	FY14F	FY13/14F	FY13F	FY14F	FY13F	FY14F	FY13F	FY14F
INDS II EQUITY	INDOSPRING TBK	ID	142	4,350	8.3	7.7	0.7	na	na	1.6	1.4	17%	8%
AUTO II EQUITY	ASTRA OTOPARTS	ID	1,525	3,825	14.9	12.1	1.0	18.7	16.3	2.8	2.5	7%	22%
ASII II EQUITY	ASTRA INTERNATIO	ID	32,452	7,750	14.4	12.6	1.0	12.8	10.9	3.8	3.3	13%	14%
IMAS II EQUITY	INDOMOBIL SUKSES	ID	1,545	5,400	13.2	10.5	0.5	15.4	12.2	2.3	2.0	29%	26%
GJTL II EQUITY	GAJAH TUNGGAL	ID	739	2,050	6.3	5.4	0.4	4.3	3.4	1.1	0.9	15%	17%
MASA II EQUITY	MULTISTRADA ARAH	ID	351	370	11.2	9.7	0.2	7.5	7.3	0.9	0.8	81%	15%
AVERAGE					11.4	9.7	0.6	11.8	10.0	2.1	1.8	27%	17%
DCI US EQUITY	DONALDSON CO INC	US	5,514	38	21.4	19.1	3.1	12.6	11.1	5.2	4.5	2%	12%
CMI US EQUITY	CUMMINS INC	US	22,447	119	13.6	11.5	1.2	8.1	6.8	2.9	2.4	4%	18%
CLC US EQUITY	CLARCOR INC	US	2,605	52	20.2	18.3	2.3	10.6	9.2	na	na	7%	11%
SO IM EQUITY	SOGEFI	IT	351	2	6.5	5.6	0.4	4.0	3.4	1.1	1.0	16%	15%
AVERAGE					15.4	13.6	1.8	8.8	7.6	3.1	2.6	7%	14%
425 HK EQUITY	MINTH GROUP LTD	HK	1,623	12	10.6	9.5	0.9	5.6	5.1	1.4	1.2	14%	11%
881 HK EQUITY	ZHONGSHENG GROUP	HK	3,170	13	11.5	9.0	0.2	7.8	6.4	2.1	1.8	73%	29%
868 HK EQUITY	XINYI GLASS HOLD	HK	2,781	6	13.0	11.4	0.5	9.4	7.8	2.1	1.9	43%	14%
AVERAGE					11.7	10.0	0.5	7.6	6.4	1.9	1.6	43%	18%
601311 CH EQUITY	CAMEL GROUP CO-A	CH	1,574	12	18.0	15.2	1.1	na	na	1.3	1.1	14%	19%
600741 CH EQUITY	HUAYU AUTOM-A	CH	4,472	11	8.2	7.4	0.9	na	na	1.4	1.3	8%	11%
600660 CH EQUITY	FUYAO GROUP-A	CH	2,860	9	10.1	9.0	0.8	na	na	2.1	na	12%	12%
600507 CH EQUITY	FANGDA SPECIAL-A	CH	1,187	6	11.5	9.5	0.6	na	na	1.9	1.6	17%	22%
AVERAGE					12.0	10.3	0.8	na	na	1.7	1.3	13%	16%
MSS IN EQUITY	MOTHERSON SUMI	IN	2,162	200	14.3	10.8	0.3	6.7	5.4	4.2	3.2	57%	32%
KKC IN EQUITY	CUMMINS INDIA	IN	2,460	483	17.4	14.2	1.0	13.4	10.9	5.4	4.8	13%	22%
EXID IN EQUITY	EXIDE INDUS LTD	IN	2,011	129	16.3	12.6	0.6	na	na	3.3	2.9	25%	29%
BOS IN EQUITY	BOSCH LTD	IN	5,179	8,969	23.8	21.2	2.0	na	na	na	na	12%	12%
AVERAGE					18.0	14.7	1.0	10.0	8.2	4.3	3.6	27%	24%
DV MK EQUITY	DELLOYD VENTURES	MY	100	3	na	na	na	na	na	na	na	na	na
APM MK EQUITY	APM AUTOMOTIVE	MY	362	6	7.6	7.0	0.6	3.0	3.4	1.2	1.1	16%	9%
AVERAGE					7.6	7.0	0.6	3.0	3.4	1.2	1.1	16%	9%
SAT TB EQUITY	SOMBOON ADVANCE	TH	430	38	12.1	10.7	0.7	7.3	6.4	2.3	2.1	21%	14%
STANLY TB EQUITY	THAI STANLEY ELE	TH	652	254	10.7	9.9	1.1	5.4	4.6	1.8	1.6	12%	7%
AVERAGE					11.4	10.3	0.9	6.4	5.5	2.0	1.8	17%	10%
JCI INDEX	JAKARTA COMPOSITE	ID	301,398	4,610	14.3	12.5	1.2	11.0	8.8	3.0	2.5	15%	18%
SMSM II EQUITY	SELAMAT SEMPURNA	ID	354	2,375	14.8	12.1	0.9	7.4	6.5	4.5	4.0	10%	22%

Source: Deutsche Bank (for SMSM) and Bloomberg Finance LP (for all others) Pricing and data as of 18 February 2013.

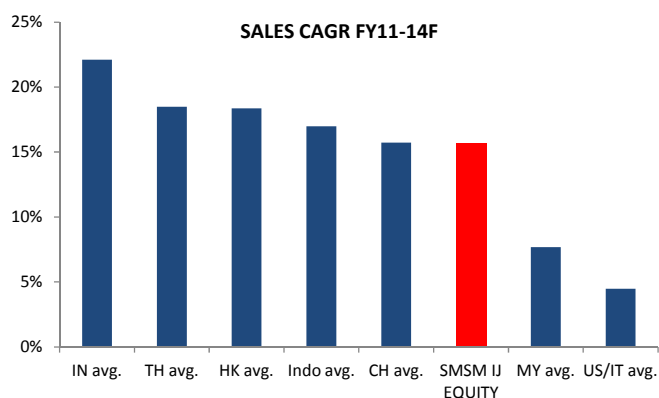


Figure 7: Profitability comps

	SALES CAGR	EBIT margin	Net profit growth		FCF to sales		ROE	ROA	Asset turnover	Dividend yield	Dividend payout ratio
	FY11-FY14F	Avg. FY11-FY14F	FY13F	FY14F	FY11	Avg. FY11-FY14F	Avg. FY11-FY14F	Avg. FY12F-FY14F	FY11	Avg. FY11-FY14F	Avg. FY11-FY14F
INDS IJ EQUITY	15%	13%	14%	5%	-3%	na	22%	12%	1.3	4.0%	27%
AUTO IJ EQUITY	11%	7%	7%	22%	-2%	na	20%	11%	1.2	3.0%	42%
ASII IJ EQUITY	14%	11%	13%	15%	2%	6%	29%	21%	1.2	3.1%	45%
IMAS IJ EQUITY	24%	4%	31%	25%	-10%	-3%	21%	7%	1.5	1.5%	18%
GJTL IJ EQUITY	14%	11%	14%	21%	-4%	-2%	19%	8%	1.1	0.5%	4%
MASA IJ EQUITY	22%	11%	nm	nm	-12%	-15%	9%	4%	0.7	0.5%	8%
AVERAGE	17%	9%	16%	18%	-5%	-3%	20%	11%	1.2	2.1%	24%
DCI US EQUITY	6%	14%	0%	11%	8%	9%	29%	na	1.4	1.1%	19%
CMI US EQUITY	1%	13%	3%	16%	8%	8%	27%	14%	1.6	1.7%	20%
CLC US EQUITY	3%	16%	5%	11%	9%	na	14%	na	1.0	1.0%	19%
SO IM EQUITY	8%	6%	11%	23%	5%	3%	15%	na	1.3	7.9%	53%
AVERAGE	4%	13%	5%	15%	7%	7%	21%	14%	1.4	2.9%	28%
425 HK EQUITY	14%	21%	13%	10%	10%	9%	14%	10%	0.5	2.7%	30%
881 HK EQUITY	23%	5%	79%	32%	-6%	-2%	18%	4%	1.9	1.1%	17%
868 HK EQUITY	18%	17%	47%	15%	-21%	-2%	16%	9%	0.6	3.6%	47%
AVERAGE	18%	15%	46%	19%	-6%	2%	16%	8%	1.0	2.4%	32%
601311 CH EQUITY	25%	13%	22%	24%	-23%	-3%	16%	11%	1.0	2.9%	42%
600741 CH EQUITY	14%	8%	8%	12%	6%	na	17%	12%	1.3	3.0%	25%
600660 CH EQUITY	13%	20%	14%	20%	2%	17%	23%	na	0.8	4.8%	51%
600507 CH EQUITY	4%	6%	34%	26%	4%	na	20%	na	1.5	na	na
600151 CH EQUITY	22%	nm	nm	nm	-88%	na	-1%	na	0.3	na	na
AVERAGE	16%	12%	20%	20%	-20%	7%	15%	11%	1.0	3.6%	39%
MSS IN EQUITY	40%	5%	58%	33%	0%	2%	27%	4%	1.7	2.1%	30%
KKC IN EQUITY	16%	17%	13%	19%	na	na	32%	21%	na	2.8%	49%
EXD IN EQUITY	21%	12%	27%	27%	4%	7%	20%	na	1.4	1.4%	23%
BOS IN EQUITY	11%	14%	12%	na	2%	na	24%	na	1.2	1.0%	17%
AVERAGE	22%	12%	28%	26%	2%	4%	26%	13%	1.4	1.8%	30%
DV MK EQUITY	na	nm	na	na	na	na	13%	8%	0.8	na	na
APM MK EQUITY	8%	16%	16%	9%	8%	6%	16%	11%	1.1	5.0%	36%
AVERAGE	8%	16%	16%	9%	8%	6%	14%	10%	1.0	5.0%	36%
SAT TB EQUITY	20%	11%	22%	13%	-21%	0%	17%	10%	0.8	3.0%	38%
STANLY TB EQUITY	17%	15%	13%	11%	-13%	4%	16%	15%	1.0	3.3%	37%
AVERAGE	18%	13%	17%	12%	-17%	2%	16%	12%	0.9	3.1%	37%
SMSM IJ EQUITY	16%	16%	10%	22%	7%	7%	29%	19%	1.6	5.4%	73%

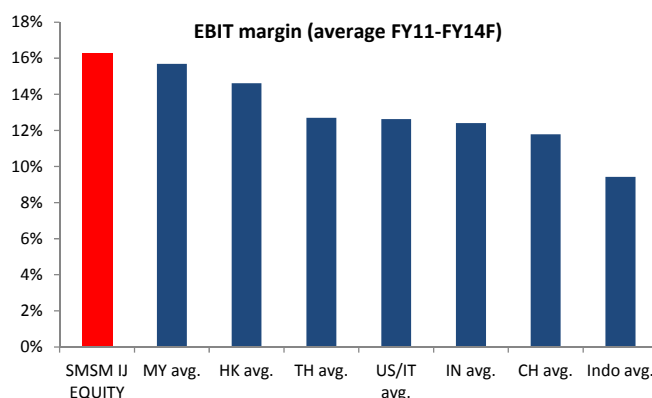
Source: Deutsche Bank and Bloomberg Finance LP

Figure 8: Regional comps – Sales



Source: Deutsche Bank and Bloomberg Finance LP

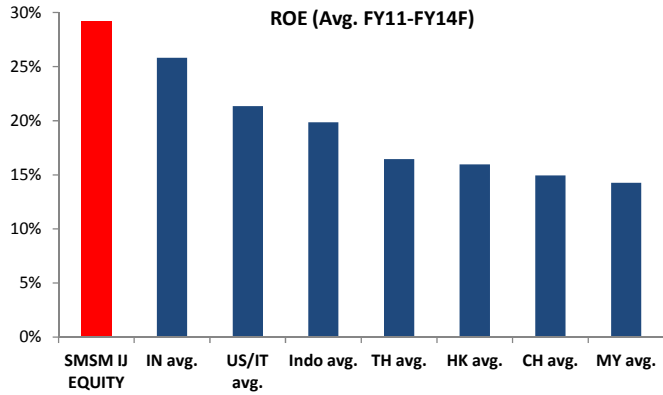
Figure 9: Regional comps – EBIT margin



Source: Deutsche Bank and Bloomberg Finance LP

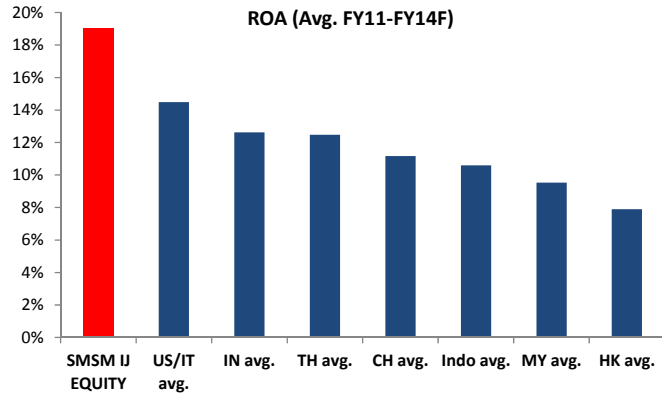


Figure 10: Regional comps – ROE



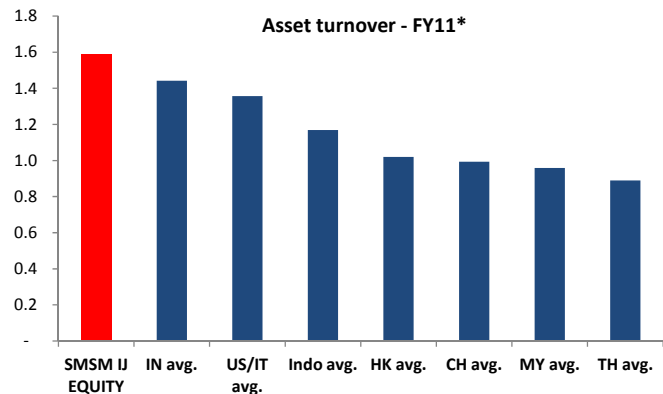
Source: Deutsche Bank and Bloomberg Finance LP

Figure 11: Regional comps – ROA



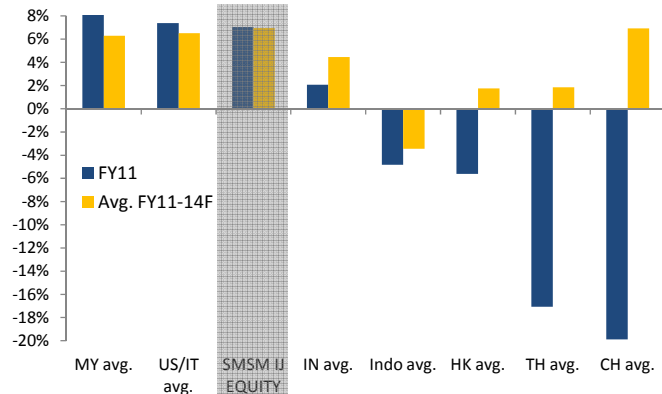
Source: Deutsche Bank and Bloomberg Finance LP

Figure 12: Regional comps – Asset turnover*



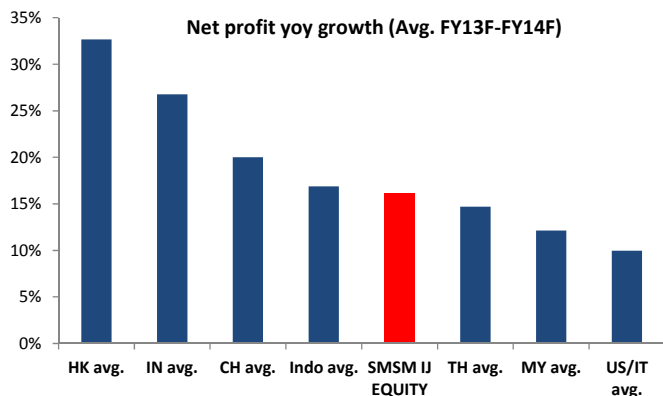
Source: Deutsche Bank and Bloomberg Finance LP * Due to lack of forecast data, we have utilized FY11 comparisons

Figure 13: Regional comps – Free cash flow to sales (%)



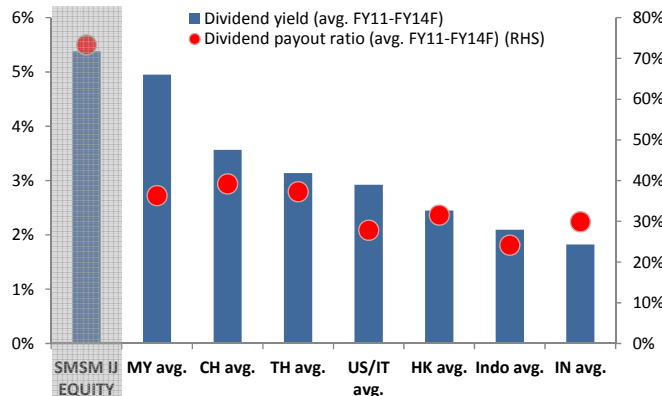
Source: Deutsche Bank and Bloomberg Finance LP

Figure 14: Regional comps – net profit growth



Source: Deutsche Bank and Bloomberg Finance LP

Figure 15: Regional comps – Dividend yield and DPR



Source: Deutsche Bank and Bloomberg Finance LP



Business review

Indonesia's largest filter manufacturer

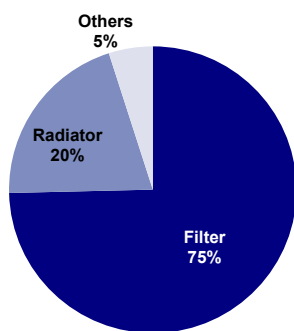
SMSM, Indonesia's largest filter manufacturer, also produces radiators, brake pipes, fuel pipes, oil coolers, condensers, fuel tanks and exhaust systems, with a diverse range of products of more than 5,000 stock keeping units (SKUs). Through its recent acquisition of PT Hydraxle Perkasa (HP) in 2H12 (SMSM now owns 51% of HP), the company also manufactures dump body, tanks, dump hoist, moulding and dies.

Filter and radiators continue to be its key business; the former accounts for 75% of 9M12 total consolidated revenue and the latter 20% of revenue, with other products making up the remaining 5%. In FY13, on the back of HP consolidation, we estimate filter should represent 62% of FY13 revenue, radiator 17% and HP 18%.

SMSM is primarily an aftermarket (replacement market) filter and radiator supplier. Aftermarket sales account for close to 95% of SMSM's sales, at which it is estimated to hold a commanding domestic market share of c.35%. We believe the aftermarket segment enjoys more stable demand than OEM (original equipment manufacturer), with the latter more dependent on new automotive sales. Nonetheless, SMSM's ability to secure OEM contracts with prominent automotive manufacturers (as illustrated in Figure 18) is a testament to its quality, yet competitively priced, product range. In the aftermarket, SMSM's products are sold under the flagship "Sakura" brand filter and "ADR" radiator.

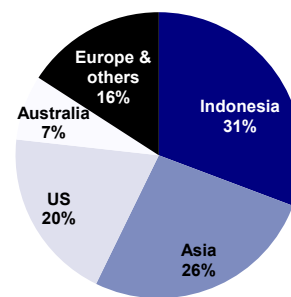
Through its 70%-owned subsidiary, PT Panata Jaya Mandiri (PJM), the company also manufactures filters under the "Donaldson" brand. It primarily serves the heavy machinery market, including heavy equipment, gas turbines, industrial engines and construction equipment. Donaldson (ticker: DCI), owns the other 30% of PJM, which means the company enjoys technical assistance from a worldwide leader in the filtration industry. See Figure 19 for SMSM's company structure.

Figure 16: SMSM revenue breakdown by product (9M12)



Source: Company data

Figure 17: Revenue breakdown by geography (9M12)



Source: Company data

As illustrated in Figure 25, SMSM derives a majority of its business (c.70% as of 9M12) from the export market. It is present in more than 100 countries worldwide, across Asia, America, Australia and Europe. Refer to page 18 for more discussion on the export market.

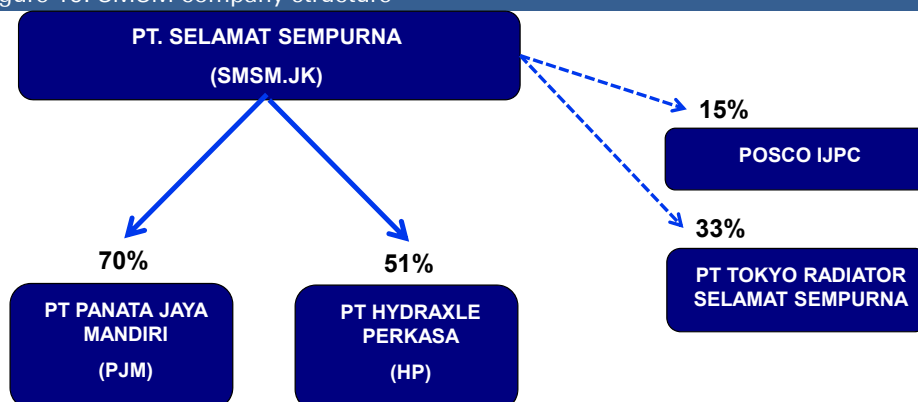


Figure 18: OEM contracts with prominent automotive manufacturers are testament to SMSM's product quality

Toyota	Hyundai	Hino	Kobelco
Daihatsu	Nissan	Isuzu	Yanmar
Mercedes Benz	Chevrolet	Mitsubishi	TCM
Honda	KIA	Komatsu	Shanghai Diesel Engine
Suzuki	Chery	Kubota	Beiben
JCB	Anhui Hualing Automobile		

Source: Company data

Figure 19: SMSM company structure



Subsidiary	SMSM ownership	Partner	Product
PT Panata Jaya Mandiri (PJM)	70%	Donaldson Company Inc., USA	Filter (under brand name "Donaldson")
PT Hydraxle Perkasa (HP)	51%	NA	Dump truck and hoist assembly
Associate	SMSM ownership	Partner	Product
POSCO IJPC	15%	POSCO and DAEWOO International Corporation	Steel processing
PT Tokyo Radiator Selamat Sempurna	33%	Tokyo Radiator Mfg Co Ltd	Heat exchangers (Radiator)

Source: Company data

Well placed in the competitive landscape

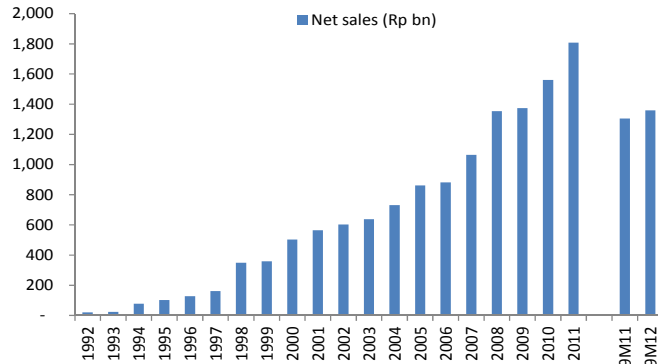
Filters and radiators are considered key auto part components for the performance and reliability of vehicles, so customers are selective in terms of both price and quality. SMSM ticks both of these boxes, offering a quality product that benefits from decades of manufacturing experience, whilst at the same time some c.40% cheaper than its main competitor OEM parts.

Moreover, we are less deterred by competition from lower-priced Chinese-made products, given that filters and radiators account for a relatively small part of the price of the car (the nature of the product generally means consumers are unwilling to sacrifice quality for price). SMSM's strong brand equity and over a decade of market presence certainly give it an edge over other competitors. Meanwhile, in the export market SMSM is positioned as offering high-quality products at lower prices than the first-tier global brands.

In the US market (the largest export market for SMSM, accounting for c.20% of total export sales), SMSM sells filters under the "Donaldson" brand through subsidiary PJM, a joint venture with Donaldson Company Inc., USA, leveraging on Donaldson's global leading brand equity, technical expertise and familiarity with its home-turf.

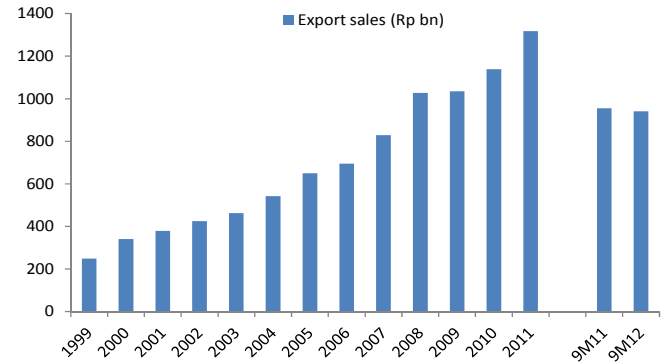


Figure 20: SMSM – Consistent growth in net sales...



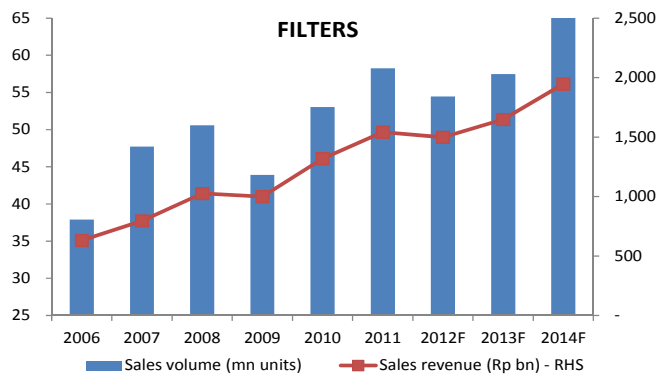
Source: Company data

Figure 21: ...and in export sales



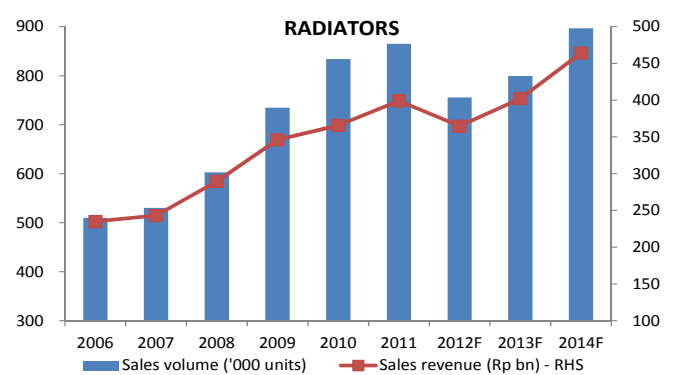
Source: Company data

Figure 22: Sales trend - Filter



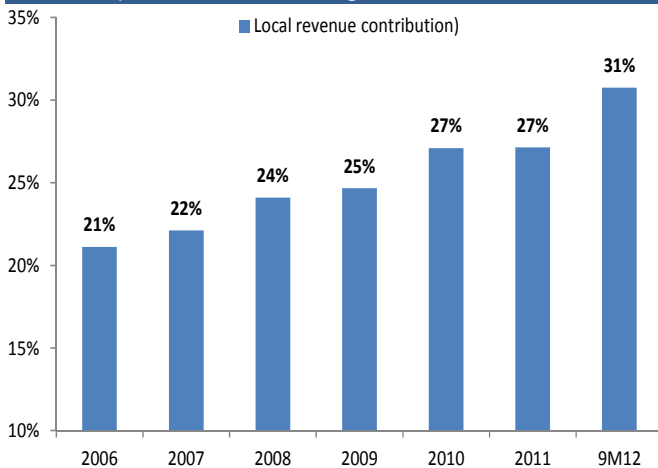
Source: Deutsche Bank and Company data

Figure 23: Sales trend - Radiator



Source: Deutsche Bank and Company data

Figure 24: Rising contribution from domestic business – decent exposure to Indonesia growth



Source: Company data

Figure 25: Wide distribution network and diverse export market

Export sales destination	9M12 (Rp bn)	% to total exports	% to total sales
USA	172	18%	13%
Australia	90	10%	7%
Singapore	86	9%	6%
Russia	59	6%	4%
Japan	37	4%	3%
Netherlands	34	4%	3%
Thailand	33	4%	2%
China	30	3%	2%
Ecuador	27	3%	2%
Malaysia	26	3%	2%
Germany	23	2%	2%
France	19	2%	1%
Belgium	17	2%	1%
Italy	16	2%	1%
Taiwan	15	2%	1%
Iran	15	2%	1%
Sri Lanka	14	1%	1%
Saudi Arabia	14	1%	1%
Canada	13	1%	1%
Philippines	12	1%	1%
Vietnam	12	1%	1%
Myanmar	12	1%	1%
South Africa	11	1%	1%
Chile	11	1%	1%
New Zealand	10	1%	1%
Others	133	14%	10%

US is SMSM's largest market, but partnership with Donaldson in the US market gives confidence

Source: Company data



As illustrated in Figure 24, the domestic market has been a significant growth driver for SMSM, with domestic sales now contributing a decent 30% of total consolidated sales (up from 20% in 2006). With the company's competitive price point and a strong and well-known brand name, it is well positioned to benefit from Indonesia's growth momentum, especially with the introduction of the low-cost green car (LCGC) initiative. Refer to pages 16 to 21 for more discussion on the domestic and export market industry outlook.

Stands out in the auto-related space

We compare SMSM's profitability to other auto-related peers in Figure 26. Overall, SMSM is a clear winner in terms of profitability, and its dividend payout ratio of more than 70% (dividend yield of over 5%) is far above those of peers.

Figure 26: SMSM performance among auto-related peers*

Company	Business	ROE FY11	ROA FY11	EBIT margin FY11	Asset turnover FY11	Net debt to equity FY11	Dividend payout ratio FY11	Free cash flow to sales FY11
SMSM	Auto parts (filters/radiators)	36%	18%	16%	1.6	0.4	72%	7%
INDS	Auto parts (leaf/coil springs)	28%	13%	15%	1.3	0.5	30%	-3%
LPIN	Auto parts (spark plugs)	10%	7%	10%	0.4	(0.3)	0%	5%
NIPS	Auto parts (batteries)	NA	NA	7%	NA	1.2	0%	-13%
PRAS	Auto parts (alloy wheels)	1%	0%	7%	0.7	1.1	0%	-3%
AUTO	Auto parts (various)	24%	16%	7%	1.2	0.1	40%	-2%
	Auto parts average	16%	9%	9%	0.9	0.5	14%	-3%
ASII	Auto distributor	32%	13%	11%	1.2	0.4	45%	2%
IMAS	Auto distributor	27%	8%	4%	1.5	0.6	20%	-10%
	Auto distributor average	30%	11%	7%	1.4	0.5	33%	-4%
GJTL	Tire	17%	6%	9%	1.1	0.7	5%	-4%
MASA	Tire	8%	4%	10%	0.7	1.3	9%	-12%
GDYR	Tire	5%	2%	2%	1.6	0.0	NA	4%
BRAM	Tire cord	6%	4%	10%	1.2	0.1	33%	-4%
	Tires average	9%	4%	7%	1.2	0.5	16%	-4%

Source: Bloomberg Finance LP * All of the above data have all been obtained from one source (Bloomberg Finance LP) to ensure apple-to-apple comparisons

Moreover, we note that SMSM has been able to maintain a relatively stable gross margin in its filter products, ranging 21-24% over the last few years (FY06-9M12), despite much more volatile raw material prices (steel plates and paper) over that period (see Figure 27). Management highlights its ability to implement active inventory management (including adopting c.3 months inventory days), cost reductions through optimising machine efficiency, and some pricing power given that its products are priced below 1st tier products. Gross margin for the radiator products has been much more volatile over FY06-9M12 but, given radiators' smaller contribution to consolidated numbers, overall consolidated gross margin has been maintained in the 22-25% range.

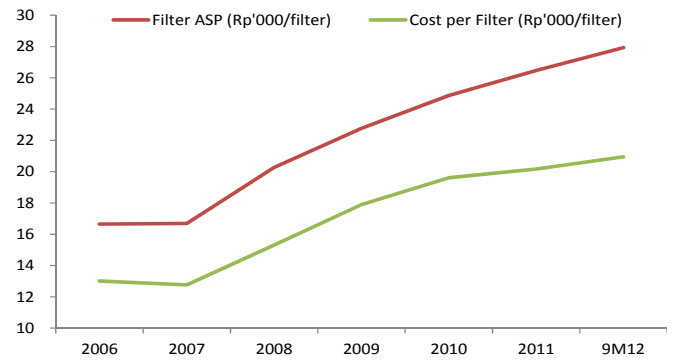


Figure 27: Filter gross margin vs. steel plate price



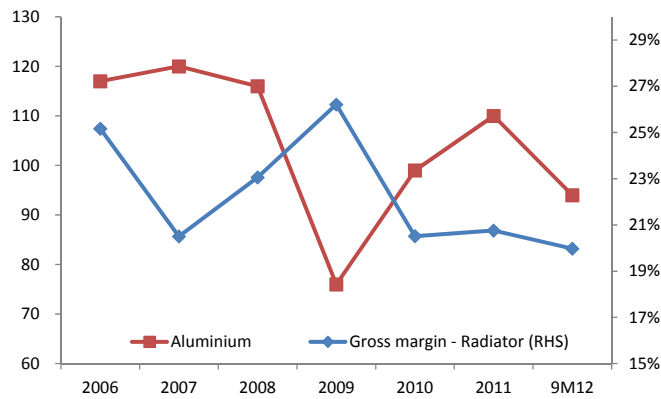
Source: Company data and Bloomberg Finance LP

Figure 28: Filter – ASP and avg. cost per filter



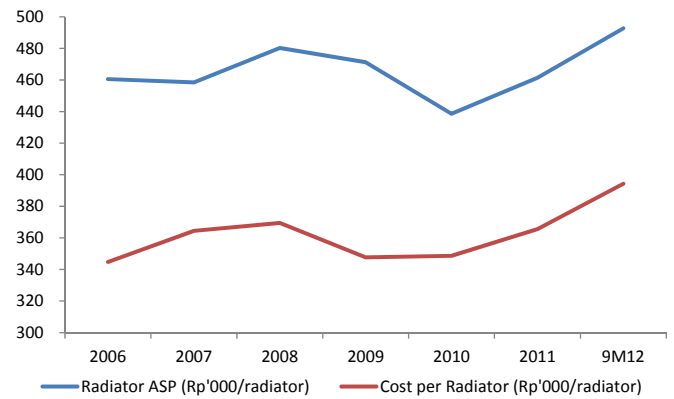
Source: Company data

Figure 29: Radiator gross margin vs. aluminium price



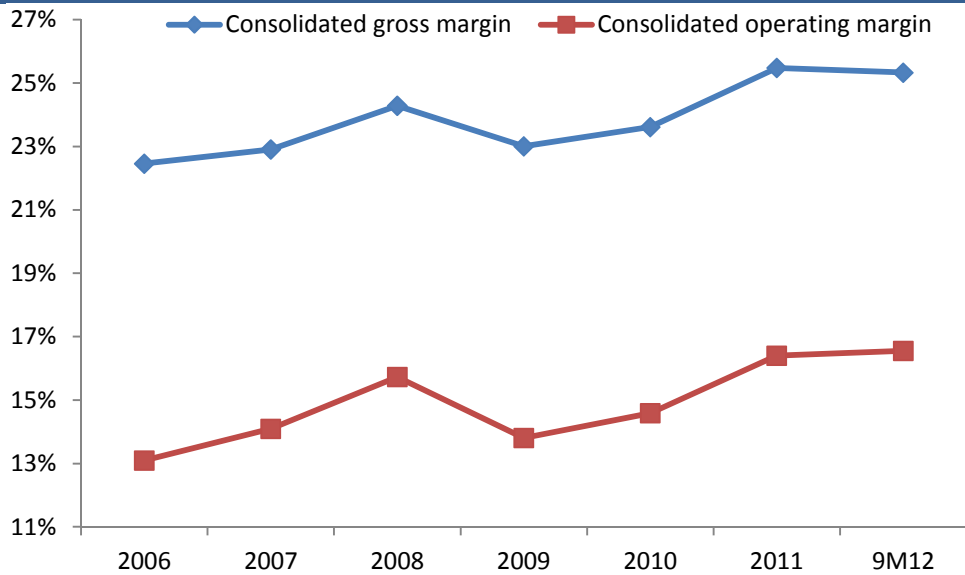
Source: Company data and Bloomberg Finance LP

Figure 30: Radiator – ASP and avg. cost per radiator



Source: Company data

Figure 31: SMSM's consolidated margin has been relatively stable



Source: Company data

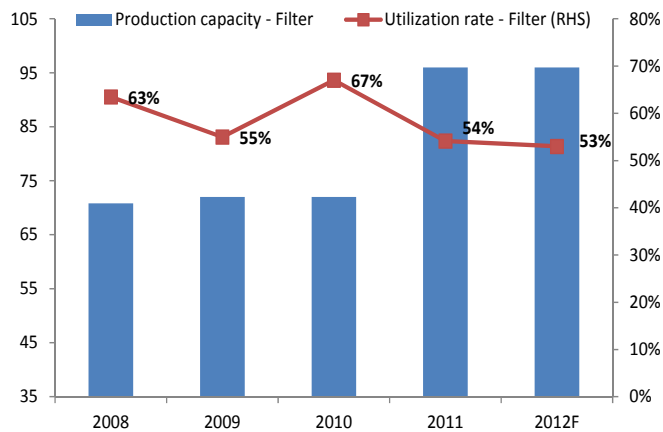


Strong free cash flow generation allows high dividend payout

In FY11, SMSM added some 24m units annual production capacity at its filter production plant (+33% from end-FY10 production capacity). Radiator annual production capacity was up +63% in FY10 vs. FY09 capacity. See Figures 32 and 33. Overall, we see ample production capacity for SMSM to deliver growth.

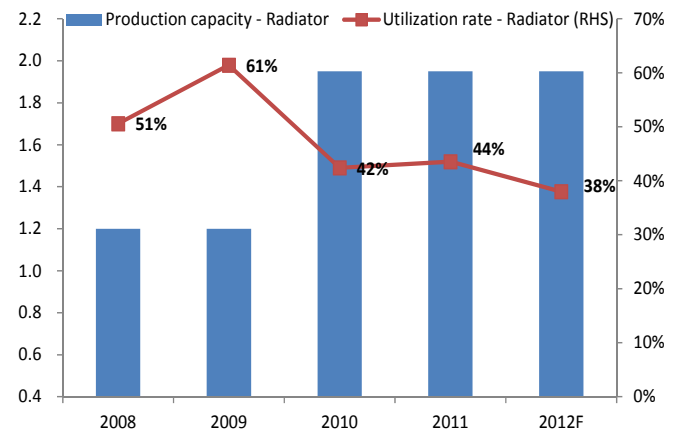
As a result, we believe capex requirements over the next few years will be limited to maintenance capex such as line balancing, mould and dies production and machinery maintenance – equating to around Rp100bn (c.US\$10m) per year. In contrast, we expect SMSM to yield an annual operating profit of around c.Rp400-500bn (c.US\$40-50m) over the next few years; hence, we expect the company to generate robust free cash flow over the next few years, allowing it to maintain a high dividend payout ratio.

Figure 32: Ample capacity to support growth - Filter



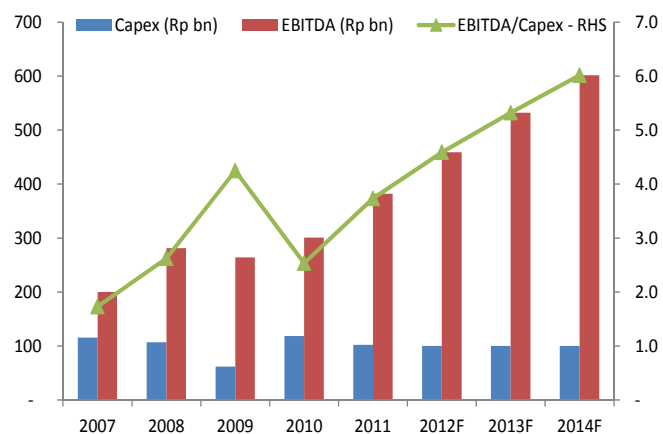
Source: Deutsche Bank and Company data

Figure 33: Ample capacity to support growth - Radiator



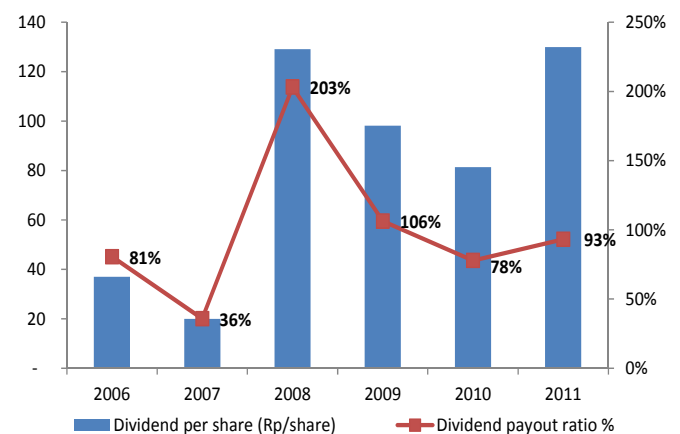
Source: Deutsche Bank and Company data

Figure 34: Low capex requirement – hence strong FCF



Source: Deutsche Bank and Company data

Figure 35: Consistently high dividend payout



Source: Company data



Figure 36: Strong free cash flow generation

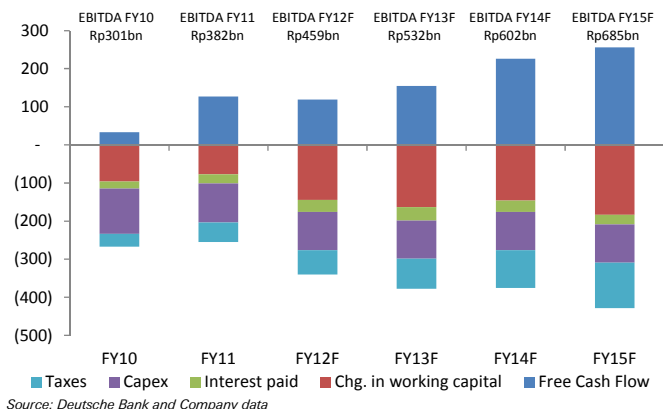
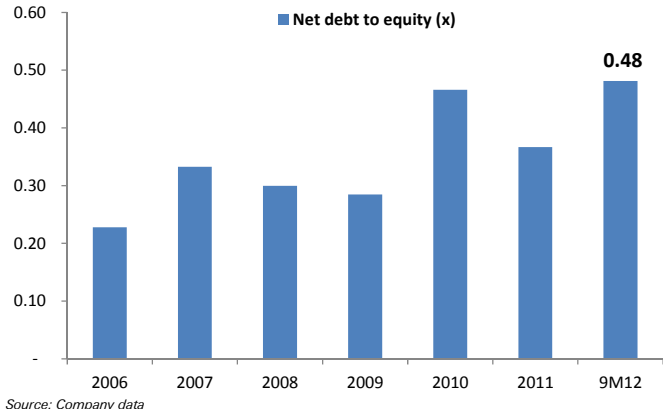


Figure 37: Healthy leverage level



Domestic market: low-cost green car the next growth driver

In the domestic market, SMSM already holds a commanding c.35% market share. Its brand is trusted and well-known among consumers. Indonesia has seen a surge in automotive sales over the last few years. An increasing vehicle population bodes well for SMSM, whose products primarily serve the aftermarket (replacement market). Moreover, as illustrated in Figure 39, much of the incremental growth in car sales in Indonesia has been in lower-priced c.1,500cc MPVs (e.g. Toyota Avanza and Daihatsu Xenia), which generally target more price-conscious consumers. The fact that SMSM's products are priced significantly lower than Toyota's OEM parts positions the company well.

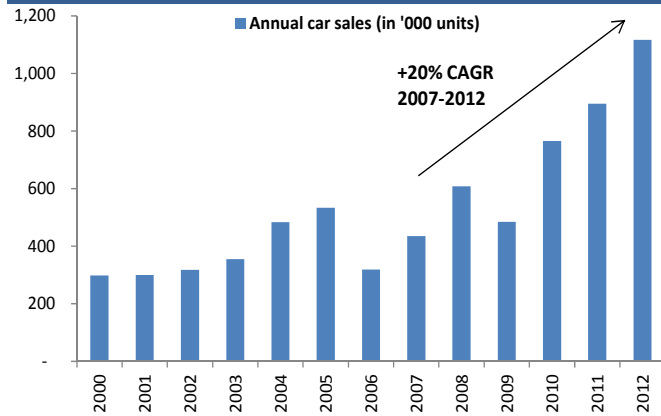
The next leg up for growth in the domestic market should be the introduction of the low-cost green car, which is scheduled to come to the market this year. Astra International (ASII.JK) and its two principals, Toyota and Daihatsu, are ready to benefit from the eco car program through the Low Cost Green Car (LCGC) project. They already have 1) the LCGC product, the Astra Toyota Agya and Astra Daihatsu Ayla, which were unveiled in September 2012, and 2) a new 120,000-unit p.a. factory, completed in October 2012. Meanwhile, the market response has been impressive: Astra's Auto2000 has recorded 20k units on the order book since September 2012 (3,500 units in January 2013). Nissan will also join the party with its new low-cost Datsun model (expected to be launched in 2Q14).

Overall, the industry estimates total sales of LCGC will reach 600,000 units p.a. by c.2015, and it does not expect the LCGC to cannibalise the MPV segment; hence, incremental growth rather than substitution. We believe this is reasonable, especially given the low penetration rate of cars in Indonesia (see Figure 42), and that SMSM could indeed benefit from this, especially when it comes to the replacement cycle. The record-high motorcycle population (we estimate close to 75m as of the end of FY12) also bodes well.

As illustrated in Figure 43 and 44, the commercial vehicle (bus/trucks) and heavy equipment market has also generally seen strong sales growth.

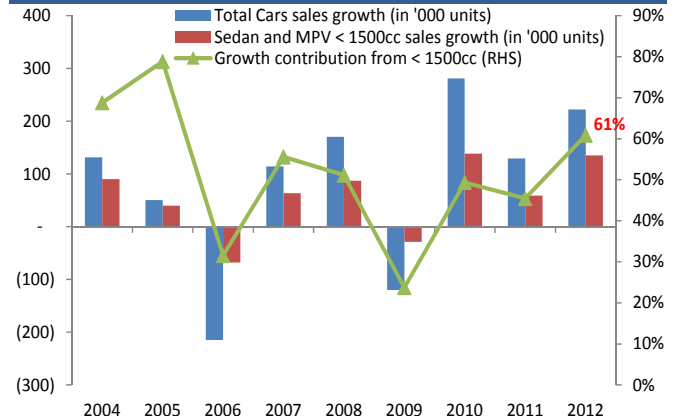


Figure 38: Surging car sales; expanding vehicle population*



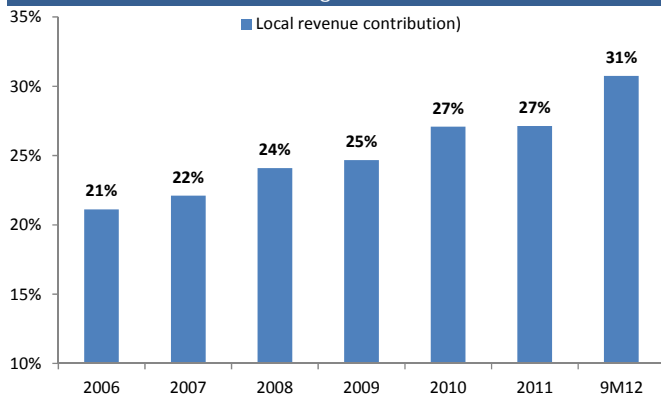
Source: CEIC and GAIKINDO * Includes Commercial bus (5-24 Ton) and Commercial Trucks.

Figure 39: Lower-priced sedan and MPV < 1500cc contribute a lot of the total car sales delta



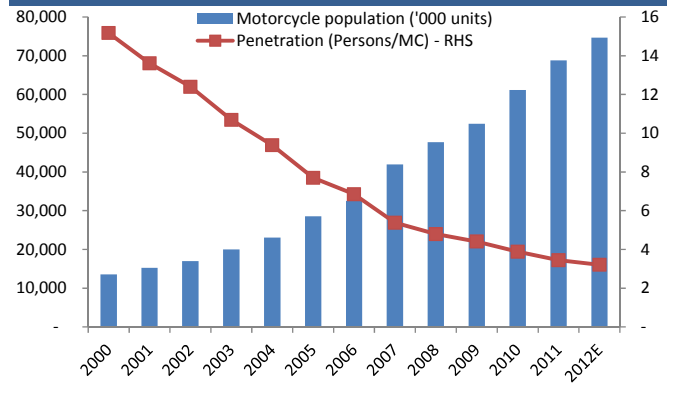
Source: CEIC and GAIKINDO

Figure 40: SMSM's local contribution now a decent 30% of total and could remain high



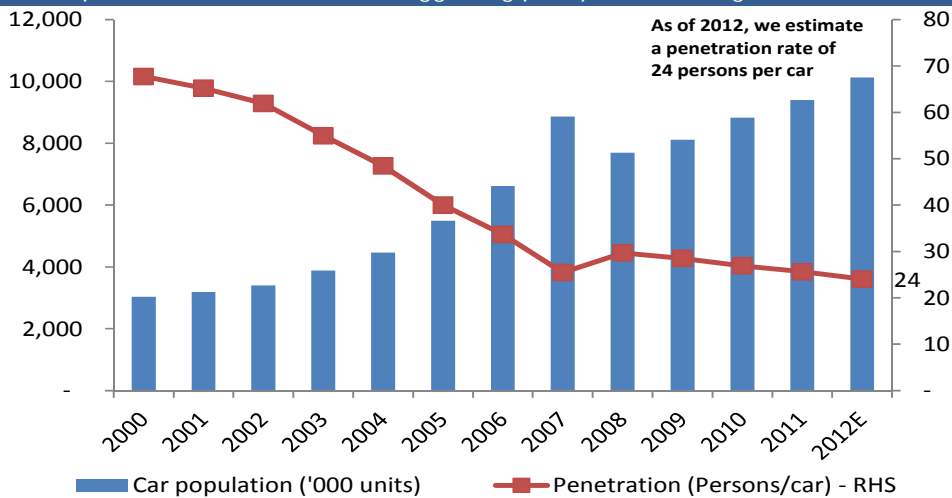
Source: Company data

Figure 41: Motorcycle population in Indonesia



Source: Deutsche Bank, AISI and CEIC

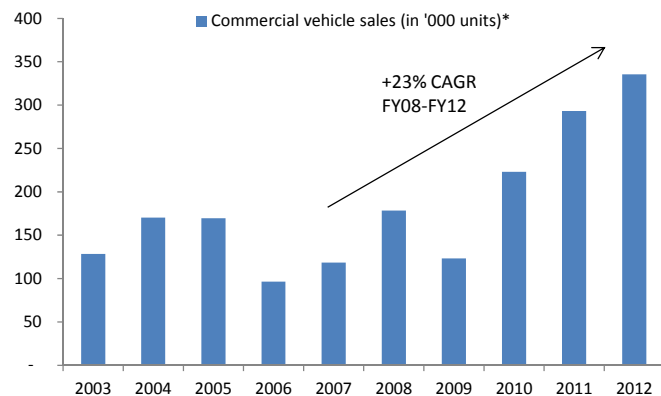
Figure 42: Indonesia car penetration rate is still low, suggesting plenty of room for growth



Source: Deutsche Bank, CEIC and GAIKINDO

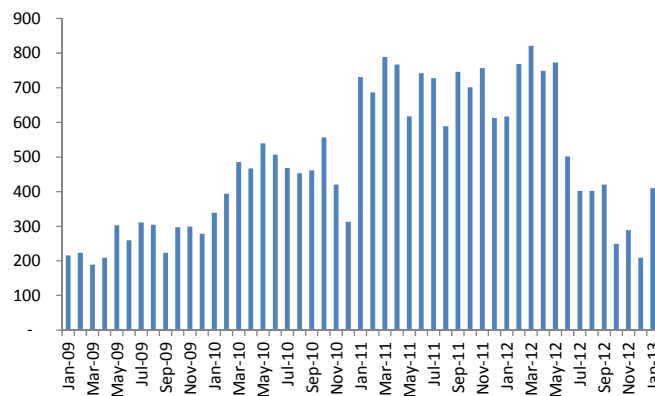


Figure 43: Strong growth in commercial vehicle sales*



Source: Deutsche Bank, CEIC and GAIKINDO * Commercial vehicle includes Bus 5-24 Ton, Trucks and Double cabin > 24 Ton.

Figure 44: Heavy equipment annual sales trend



Source: Deutsche Bank and CEIC

Light at the end of the export tunnel

We believe we are conservative in our FY12-13 earnings forecasts, assuming a filter sales volume decline of -7% yoy in FY12 followed by an increase of +6% yoy in FY13, while we expect radiator sales volume to decline -13% yoy followed by a 6% yoy increase in FY12-13, respectively. See page 23 for more discussion on financials and our forecast. Much of this conservatism is to limit downside earnings risk coming from economic uncertainties in SMSM's export market. However, as illustrated in Figure 21, SMSM has actually been able to maintain relatively robust export sales over the last few years, partly helped by the fact that it primarily serves the replacement market (aftermarket) – customers cannot extend the replacement cycle for filters too long, as that will have an impact on the vehicle's engine.

As a result, we believe there is potential upside risk in the event of stronger global economic performance than expected. Indeed, our US and EU economists have turned somewhat more positive on their assessment of growth momentum in their regions. We note some of their key conclusions:

- Recent developments have reinforced the view that 2013 will see market conditions normalise as systemic fears recede in Europe and the US, and global growth picks up.
- Macro data over the past month suggest that global growth has bottomed out and is now poised to accelerate. Europe remains weak but is improving, the US private sector is strong, and data in China have rebounded across the spectrum.



Figure 45: Composite PMI: positive momentum across all major regions

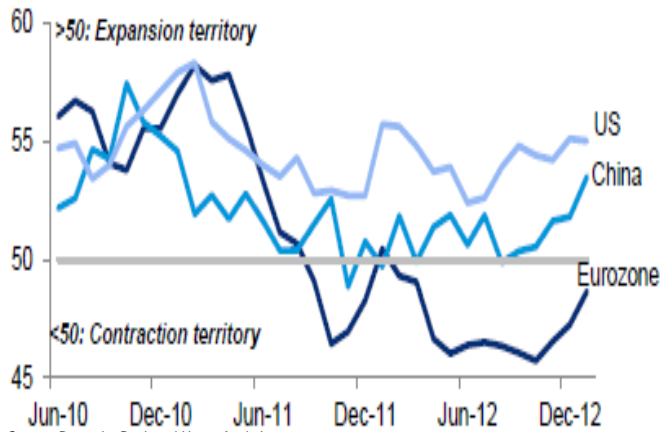
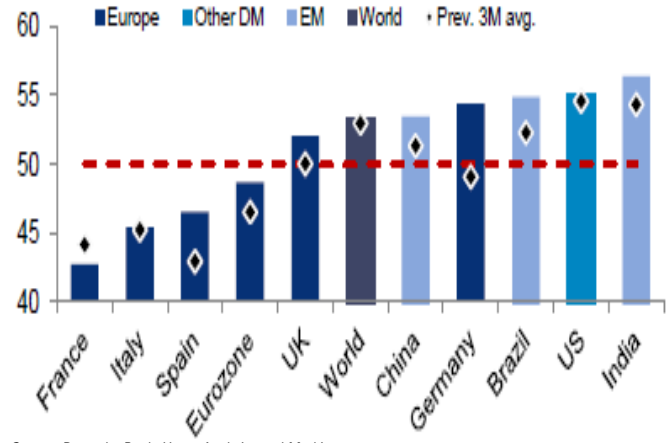


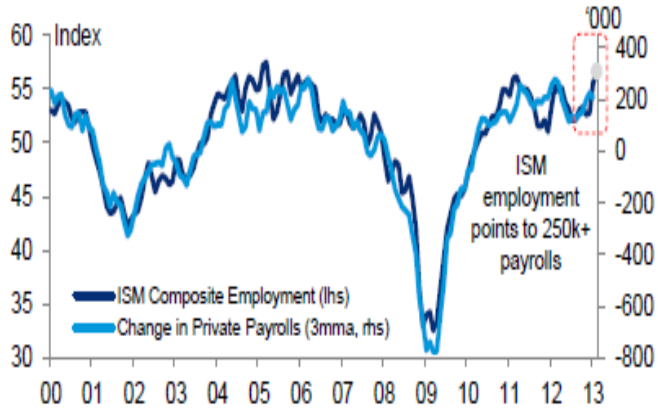
Figure 46: Composite PMIs: data points to slower contraction in Eurozone and expansion elsewhere



- Growth momentum continues as composite PMI numbers improved in January. China stands at 53.5, the highest level since January 2011, Eurozone at 48.6, the highest level since March 2012, and the US at 55.0, similar to last month (55.1), which was the highest since February 2012. As illustrated in Figure 46, 70% of countries/regions reporting a composite PMI are in expansion territory. Among the major countries, only France is below its three-month average.
- The negative Q4 US GDP print at -0.1% masks a positive underlying performance. The US economy actually saw strong core private demand (contributing +2.7pp to GDP), but this was offset by lower public spending and weak inventories (taking GDP 2.1pp lower). Strong December trade figures point to a likely upward revision of the Q4 GDP figure.
- Our US economy analyst believes that the US recovery is well on track and getting stronger on the back of private domestic consumption: 1) private sector deleveraging is almost complete, 2) early cycle sectors, such as autos, indicate an upswing, 3) fiscal uncertainty should abate in 2H, 4) a housing recovery should support construction hiring and household balance sheets, 5) healthy monthly employment gains should return after the weather dent in February, and 6) US consumption should be supported by more jobs, sounder balance sheets and less uncertainty. Figure 47 shows the US ISM composite employment index.
- Sustained positive development in the US auto sector could lead to auto parts and components distributors replenishing inventory following years of depressed automotive sales growth – bringing inventories back to more normalised levels.

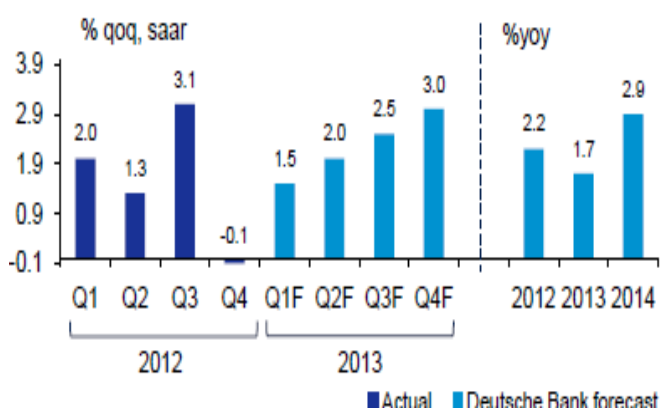


Figure 47: US labour market improvement is real: ISM employment component points to 250k+ new jobs/month



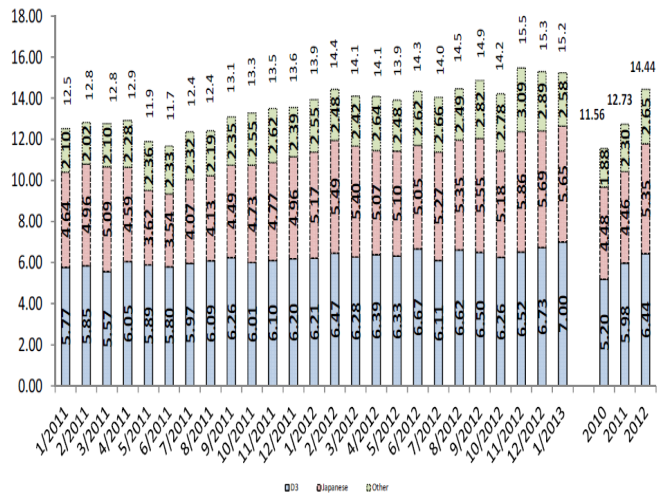
Source: Deutsche Bank, BLS and ISM

Figure 48: US growth to remain slow in 1H13 before accelerating in 2H



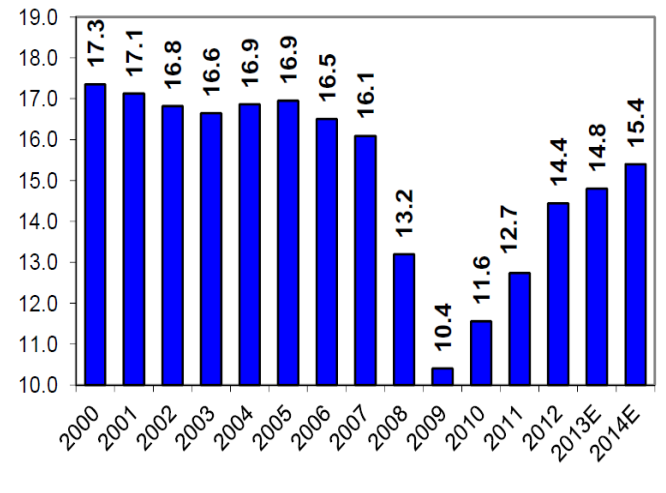
Source: Deutsche Bank and BEA

Figure 49: Monthly U.S. SAAR by OEM group



Source: Deutsche Bank, Ward's

Figure 50: Annual U.S. Light vehicle sales and forecast

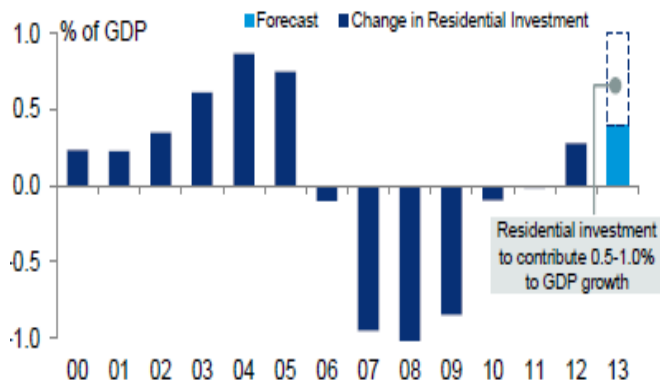


Source: Deutsche Bank, Ward's

- In the US housing market, our US analyst believes that 2012 marked a turning point, with house prices up more than 5%, whilst residential investment grew 12% and added 0.3% to GDP – the first positive contribution since 2005. The demand and supply fundamentals look healthy, supported by a firming labour market, all-time-high affordability and record-low mortgage rates, while the supply of new homes could be worked off in under five months, the lowest level since 2005.
- DB projects US house prices to rise 4% in 2013, adding USD85bn to personal consumption. Residential investment may add 0.5%-1% to GDP growth in 2013 directly. The knock-on effect on consumption, bank balance sheets and credit could lead to a virtuous cycle of growth and investment – adding at least an extra 0.5% to US GDP.

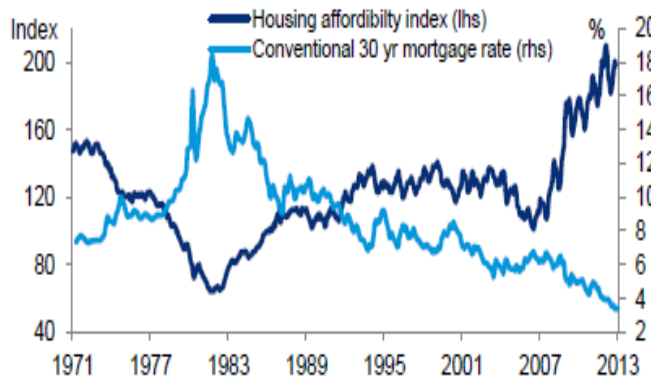


Figure 51: Homebuilding to contribute 0.5-1% to GDP in 2013



Source: Deutsche Bank, BEA and Haver Analytics

Figure 52: Housing affordability near all-time high as mortgage rates have hit record lows



Source: Deutsche Bank, Haver Analytics, NAR and FRB

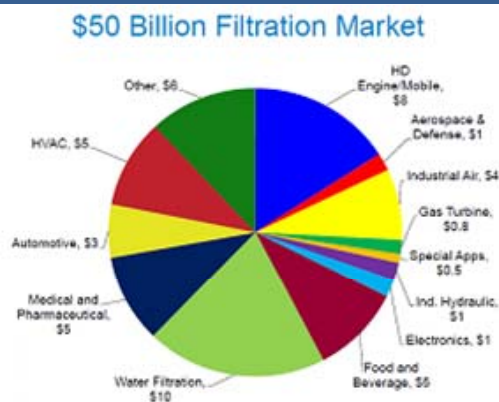
- Overall, Deutsche Bank expects 1) global growth of 3.1% in 2013 and 4.0% in 2014; 2) US growth of 1.7% in 2013 before rebounding to 2.9% in 2014 (stronger US growth from 2H13 following resolution of near-term fiscal uncertainty); 3) Eurozone growth of -0.3% in 2013 and 1.1% in 2014 (a pick-up in 2H amid stronger global growth, reduced austerity and improving credit conditions); 4) EM growth at 5.4% in 2013 and 6.1% in 2014; and 5) China to return to trend growth in 2H13.

Figure 53: Deutsche Bank GDP growth forecasts

	2011	2012E	2013F	2014F
Global	3.8	2.9	3.1	4.0
US	1.8	2.2	1.7	2.9
Eurozone	1.4	-0.5	-0.3	1.1
Germany	3.0	0.7	0.3	1.5
Japan	-0.5	2.1	1.2	0.7
UK	0.9	-0.1	0.9	1.8
China	9.3	7.7	8.2	8.9
India	7.9	4.6	6.8	7.1
EM (Asia)	7.6	5.9	6.8	7.4
EM (Lat Am)	4.2	2.7	3.5	4.0
EM (CEEMEA)	4.9	2.9	3.5	3.9
EM	6.4	4.7	5.5	6.1
DM	1.4	1.2	1.0	2.0

Source: Deutsche Bank and Bloomberg Finance LP

Figure 54: Donaldson estimates the US filtration market at USD50bn; plenty of growth opportunities for SMSM



Source: Donaldson market research

Hydraxle acquisition

SMSM recently acquired a 51% stake in sister company PT Hydraxle Perkasa, the largest manufacturer of dump hoist in Indonesia, serving the mining, plantation and construction industries. HP has a commanding market share of around 30% in dump hoist installation (c.85% of HP's revenue), whilst its closest competitor has a 15% market share. One of the oldest dump truck assemblers in Indonesia, HP sells its product under the well-known "ADR" brand. Compared to its competitors, HP has wider integration, with production processes such as steel moulding, bending and slitting all done in-house. HP has the capability to produce loader trucks, trailers, flatbed tow, etc, and it also produces moulding and dies, which are used in SMSM's production of filters and radiators.



The business process is generally as follows: 1) truck dealerships (HP's customers) send truck chassis to HP, 2) HP installs the hoist and dump system as per the customer's requirements, and 3) HP returns the finished trucks to the dealers. HP's key customers include Hino Trucks, Nissan, Fuso and Isuzu.

The transaction was done in two stages: 1) on 1 May 2012 SMSM acquired 49% of HP and the option to acquire another 2% stake, and 2) on 1 August 2012, SMSM exercised this option, bringing its stake in HP to a majority 51%.

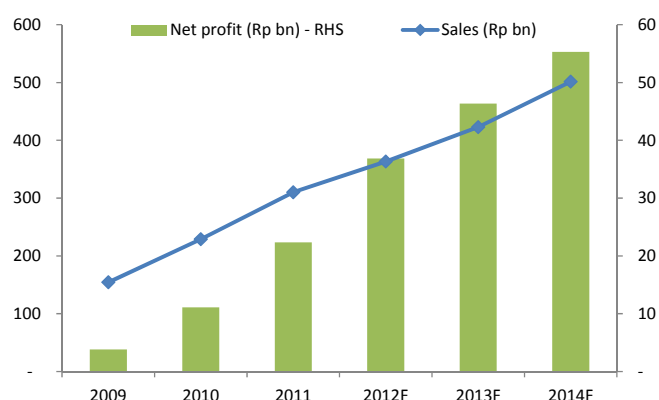
The total purchase consideration for the 51% HP stake was c.Rp122.5bn (first 49% stake cost Rp113bn and the remaining 2% stake cost Rp9.4bn, to total acquire 781m shares in HP at Rp157/share), which translates to an attractive implied valuation of 6.5x HP's FY12F earnings.

Figure 55: HP acquisition at an attractive 6.5x FY12F P/E

Transaction date	1-May-12
Ownership acquired	49%
Number of shares bought (mn shares)	721
Price per share (Rp/share)	157
Transaction value (Rp bn)	113.2
Transaction date	1-Aug-12
Additional ownership acquired	2%
Additional number of shares (mn shares)	60
Price per share (Rp/share)	157
Transaction value (Rp bn)	9.4
Total transaction value for 51% stake (Rp bn)	122.6
Implied 100% HP	240
FY12F net income	37
Implied FY12F P/E	6.5

Source: Deutsche Bank and Company data

Figure 56: HP sales and profit trend



Source: Deutsche Bank and Company data

Figure 57: HP's products



Source: Company presentation



Financials and forecasts

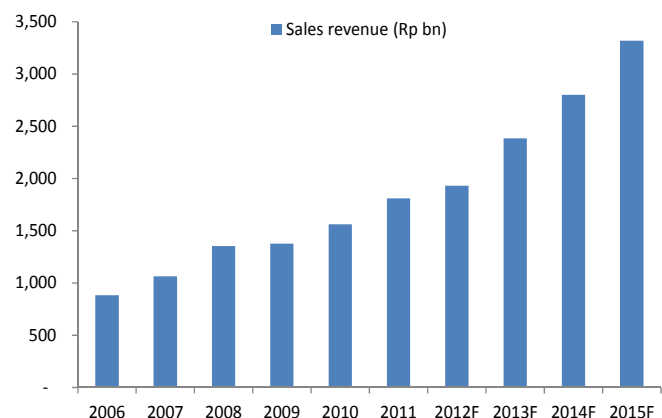
SMSM has delivered solid earnings growth over the past five years, with a five-year CAGR (2006-2011) of 25% (see Figure 59 for earnings trend). During this period, revenue grew at a 15% CAGR, while gross and operating margin remained relatively stable in the 22-25% and 13-16% ranges, respectively. We remain confident on the company's ability to deliver strong growth in the future, although we are conservative in our FY13 estimates to limit any downside earnings risk.

We estimate undemanding earnings growth of 5% and 10% yoy in FY12 and FY13, respectively, on the back of slower export growth expectations for these years. Indeed, in 9M12 export revenue declined 2% yoy, although domestic revenue remained robust at +19% yoy (see Figure 60). We see the recent decline in export sales as partly the result of distributor inventory adjustment – but we should eventually see a swift recovery, especially considering the nature of SMSM's products (high-turnover and low-cost auto parts that need to be replaced over time to avoid vehicle engine damage) and the nature of its market (i.e. primarily aftermarket (replacement), which enjoys more resilient demand than OEM).

Indeed, our conservative forecast in FY13 should limit downside earnings risk and could mean potential earnings upside in the event of a stronger-than-expected recovery in the export market leading to a faster distributor inventory replenishment cycle.

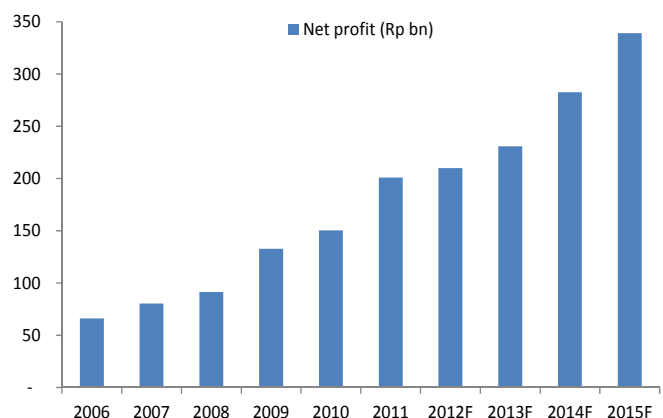
Beyond FY13, we estimate robust earnings growth of 22% yoy in FY14 and 20% yoy in FY15 (earnings CAGR of 17% and sales CAGR of 20% in FY12-15). SMSM has ample production capacity to support this growth, having only recently expanded its production capacities. We expect the domestic market to remain a key growth contributor, especially given the introduction of LCGC and the recent acquisition of Hydraxle (see page 16 for more discussion on LCGC and page 21 for more on the Hydraxle acquisition). We expect gross and operating margins to remain stable over the next few years and look for solid free cash flow generation. The dividend payout ratio should remain high at above 65% – implying a dividend yield of c.4-5% based on the current stock price.

Figure 58: Sales forecasts



Source: Deutsche Bank and Company data

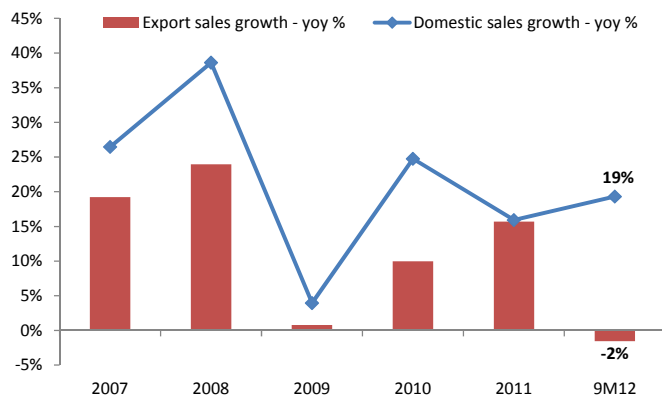
Figure 59: Earnings forecasts



Source: Deutsche Bank and Company data

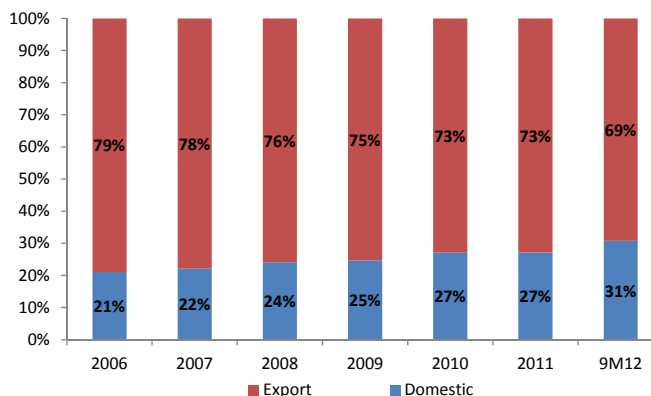


Figure 60: Domestic business is a key growth driver...



Source: Company data

Figure 61: ...but exports still a large market



Source: Company data

Figure 62: SMSM – consolidated income statement

	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F
Revenue	1,064	1,354	1,375	1,562	1,808	1,930	2,383	2,800	3,317
% yoy	21%	27%	2%	14%	16%	7%	23%	17%	18%
- SMSM (excl. HP)	1,064	1,354	1,375	1,562	1,808	1,779	1,961	2,298	2,709
- Hydraxle Perkasa	-	-	-	-	-	151	423	501	608
COGS	820	1,025	1,058	1,193	1,347	1,448	1,802	2,116	2,508
% yoy	20%	25%	3%	13%	13%	7%	24%	17%	19%
Gross profit	244	329	316	369	461	482	582	684	809
Gross margin	22.9%	24.3%	23.0%	23.6%	25.5%	25.0%	24.4%	24.4%	24.4%
% yoy	23%	35%	-4%	17%	25%	5%	21%	18%	18%
OPEX	94	116	126	141	164	168	197	231	273
% of sales	8.8%	8.6%	9.2%	9.0%	9.1%	8.7%	8.3%	8.3%	8.2%
- SMSM (excl. HP)	94	116	126	141	164	162	178	209	246
- Hydraxle Perkasa	-	-	-	-	-	7	19	23	27
Operating profit	150	213	190	228	297	314	385	453	536
Operating margin	14.1%	15.7%	13.8%	14.6%	16.4%	16.3%	16.1%	16.2%	16.2%
% yoy	30%	42%	-11%	20%	30%	6%	23%	18%	18%
Other income/(expenses)	(19)	(69)	(4)	(23)	(17)	(20)	(33)	(25)	(21)
Net interest expense	(13)	(58)	(7)	(22)	(27)	(30)	(33)	(25)	(21)
Forex gain/(losses)	2	8	(17)	(5)	2	10	-	-	-
Others	(9)	(20)	20	4	8	-	-	-	-
Associate profit/(loss)	-	-	-	-	-	4	-	5	5
Pre-tax profit	131	144	186	205	280	297	351	433	520
Income Tax	42	42	43	40	60	64	79	100	120
Tax rate %	32%	29%	23%	19%	22%	22%	23%	23%	23%
Minority Interest	8	10	10	14	18	23	41	51	61
Net profit	80	91	133	150	201	210	231	283	339
Net margin	7.5%	6.8%	9.7%	9.6%	11.1%	10.9%	9.7%	10.1%	10.2%
% yoy	21%	14%	45%	13%	34%	5%	10%	22%	20%
Earnings per share (Rp/shr)	56	64	92	104	140	146	160	196	236
Dividends paid (Rp bn)	29	186	141	117	187	137	150	198	237
Dividend payout ratio	36%	203%	106%	78%	93%	65%	65%	70%	70%
Dividend per share (Rp/shr)	20	129	98	81	130	95	104	137	165

Source: Deutsche Bank and Company data

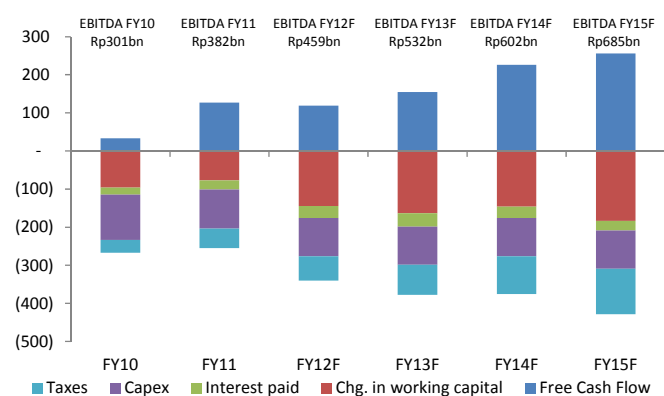


Figure 63: Key assumptions summary

	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F
Sales revenue (Rp bn)	1,064	1,354	1,375	1,562	1,808	1,930	2,383	2,800	3,317
Filter - net	796	1,025	1,000	1,148	1,355	1,341	1,475	1,742	2,069
Growth	26%	29%	-3%	15%	18%	-1%	10%	18%	19%
Radiator	243	290	346	366	399	365	402	464	543
Growth	3%	19%	20%	6%	9%	-9%	10%	15%	17%
Others	25	39	29	48	54	73	84	93	97
Growth	63%	55%	-25%	66%	13%	35%	15%	10%	5%
Hydraxle	-	-	-	-	-	151	423	501	608
Growth	-	-	-	-	-	nm	179%	19%	21%
Sales volume ('000 units)									
Filter	47,714	50,578	43,889	53,018	58,241	54,442	57,456	65,261	74,400
Growth	26%	6%	-13%	21%	10%	-7%	6%	14%	14%
Radiator	530	603	735	834	865	756	800	897	1,034
Growth	4%	14%	22%	14%	4%	-13%	6%	12%	15%
Karoseri (Hydraxle)	na	na	na	na	3.3	3.9	4.5	5.2	6.2
Growth	na	na	na	na	na	19%	13%	17%	19%
Production capacity ('000 units)									
Filter	na	70,800	72,000	72,000	96,000	96,000	96,000	96,000	96,000
Utilization rate %	na	63%	55%	67%	54%	53%	57%	66%	78%
Radiator	na	1,200	1,200	1,950	1,950	1,950	1,950	1,950	1,950
Utilization rate %	na	51%	61%	42%	44%	38%	41%	46%	53%
Karoseri (Hydraxle)	na	na	na	na	10	10	10	10	10
Utilization rate %	na	na	na	na	35%	42%	46%	52%	62%
Average selling price (Rp'000/unit)									
Filter	17	20	23	25	26	28	29	30	31
Growth	0%	22%	12%	9%	6%	4%	4%	4%	4%
Radiator	458	480	471	439	461	483	503	517	525
Growth	0%	5%	-2%	-7%	5%	5%	4%	3%	2%
Karoseri (Hydraxle)	na	na	na	na	79,289	82,460	85,758	88,331	90,981
Growth	na	na	na	na	na	4%	4%	3%	3%
Gross margin									
Filter	23.5%	24.5%	21.4%	21.1%	23.8%	25.0%	24.8%	24.8%	24.7%
Radiator	20.5%	23.1%	26.2%	20.5%	20.8%	20.1%	19.9%	19.8%	19.8%
Hydraxle	na	na	9.1%	11.8%	13.9%	19.0%	20.0%	20.0%	20.0%

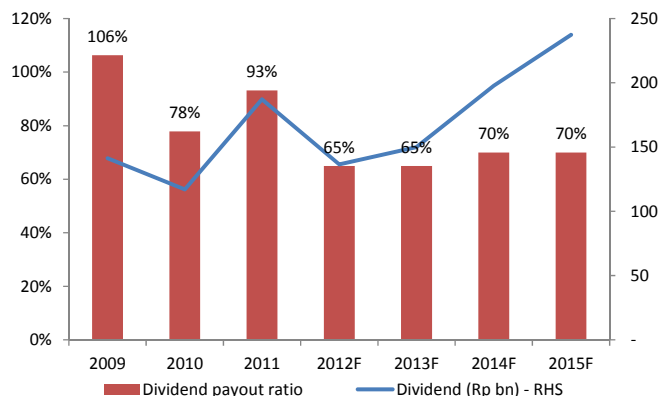
Source: Deutsche Bank and Company data

Figure 64: Free cash flow



Source: Deutsche Bank and Company data

Figure 65: Dividends



Source: Deutsche Bank and Company data

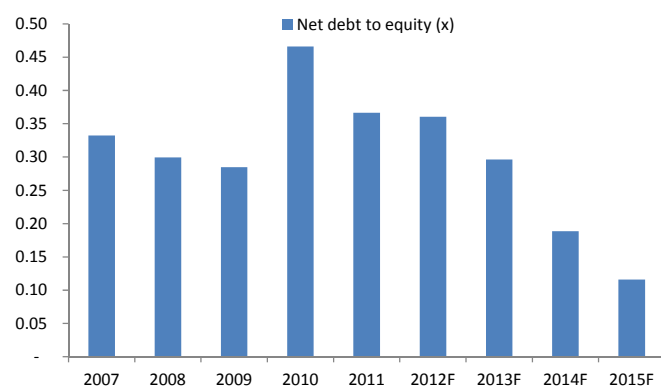


Figure 66: SMSM – consolidated balance sheet

	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F
Cash & cash equivalents	9	14	9	14	17	43	35	114	96
Receivables	208	244	279	314	358	428	529	621	736
Inventories	245	286	255	307	325	444	553	649	770
Prepaid tax & others	13	11	32	26	20	29	36	42	50
Current assets	475	555	575	662	719	945	1,152	1,427	1,651
Fixed asset - net	319	358	341	377	398	556	509	460	411
- cost	780	883	949	1,048	1,152	1,452	1,552	1,652	1,752
- accumulated depreciation	469	537	612	685	771	916	1,063	1,212	1,361
- construction in progress	8	13	5	13	16	20	20	20	20
Advances for purchases	7	6	9	15	6	6	8	9	11
Property investment	2	2	2	2	2	2	2	2	2
Associates	24	4	10	8	8	14	14	19	24
Others	3	3	4	4	4	(35)	(39)	(78)	(106)
TOTAL ASSETS	830	930	942	1,067	1,137	1,489	1,646	1,840	1,994
Short-term bank loans	180	190	164	41	103	133	185	184	183
Payables	79	83	174	137	109	158	196	233	277
Advances from customers	-	-	1	-	-	-	-	-	-
Accruals	18	28	24	46	52	58	72	85	100
LT loans due within one year	-	-	-	80	-	80	-	80	-
Others	1	5	-	-	-	-	-	-	-
Current liabilities	278	305	362	304	265	430	453	581	559
Long-term loans	-	-	-	159	159	143	143	63	63
Deferred tax liabilities	23	18	13	7	6	2	2	2	2
Pension obligation	15	18	22	28	36	48	60	70	83
TOTAL LIABILITIES	316	341	397	499	466	622	657	716	707
Excess of equity share	1	1	1	1	-	-	-	-	-
Minority Interest	31	41	46	48	65	186	227	278	339
Paid up capital	144	144	144	144	144	144	144	144	144
Share premium	19	19	19	19	19	19	19	19	19
Others	17	16	15	16	16	17	17	17	17
Retained earnings	302	366	319	340	427	500	581	666	768
TOTAL EQUITY	514	588	544	568	671	866	989	1,124	1,287
	-	-	-	-	-	-	-	-	-

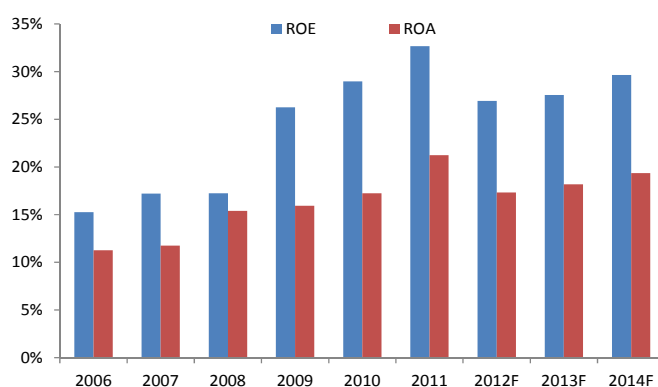
Source: Deutsche Bank and Company data

Figure 67: Net debt to equity



Source: Deutsche Bank and Company data

Figure 68: ROE and ROA



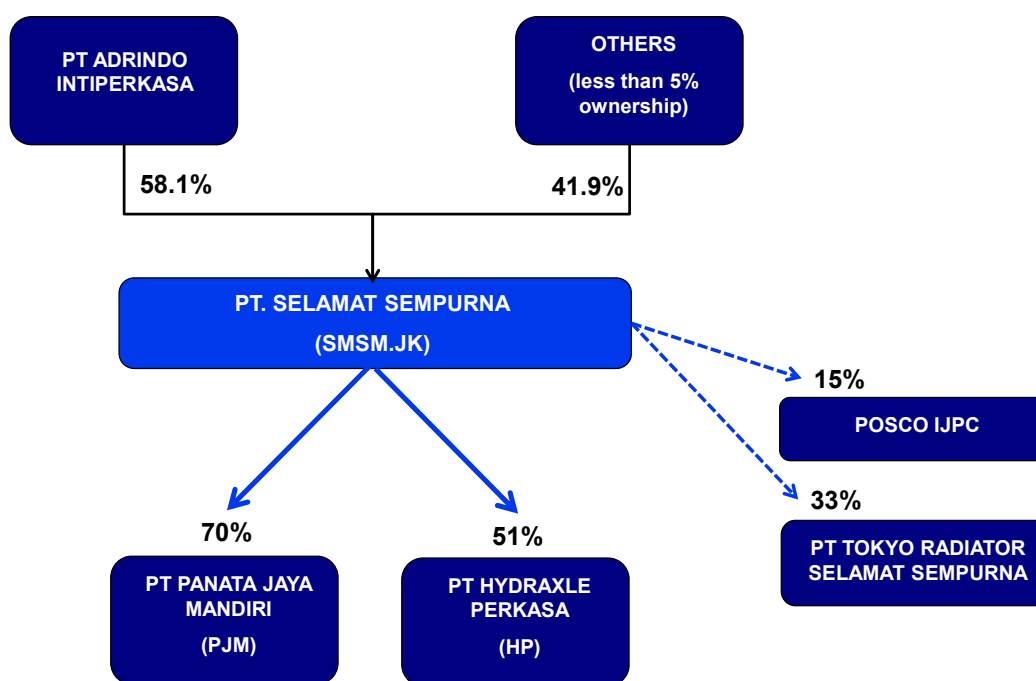
Source: Deutsche Bank and Company data



Company background

Selamat Sempurna (SMSM.JK) was founded in 1976 and has since grown to become the leading filter and radiator manufacturer in the region. SMSM is part of the ADR Group (PT Adrindo Intiperkasa), a well-known Indonesian conglomerate with decades of experience in the auto parts industry. The group initially started as an automotive radiator producer and gradually diversified to become a comprehensive automotive parts and components producer. Over the past two decades, it has expanded not only through acquisitions (e.g. acquired PT Andhi Chandra Automotive Products Tbk in 1976), but also by going into joint ventures with the likes of Donaldson to produce filters, POSCO and Daewoo for engaging in the steel processing industry, and Tokyo Radiator Manufacturing Co Ltd to produce radiators. SMSM has been listed on the IDX since 1996.

Figure 69: Corporate structure



Source: Company data

The company's two main products are filter and radiator, which are used in a range of segments including automotive, trucks, and heavy equipment. These parts are produced at its two production centres in Greater Jakarta in order to meet both domestic and export demand. SMSM exports to more than 100 countries, mostly catering to the after/replacement market. SMSM also produces other types of products such as engine gaskets, brake/fuel pipes, fuel tanks, and rubber parts, while through its subsidiary Hydraxle Perkasa it produces dump body, tanks, dump hoist, moulding and dies. SMSM's flagship brand is "Sakura" for filters and "ADR" for radiator, while through its PT Panata Jaya Mandiri (PJM) subsidiary it produces filters under the Donaldson brand name.

SMSM has a diverse range of products. In the filter segment, for example, it produces oil filter, fuel filter, air filter, hydraulic filter, cabin air filter, transmission filter, air/oil separator and coolant filter.



Figure 70: SMSM's filter products



PRODUCT RANGE

Air Filter
To most vital in keeping the contamination out of the intake system. It prevents contaminants from being mixed with the fuel before entering the combustion chamber.

Oil Filter
Provides clean lubricant oil to the engine. It prevents contaminants from being mixed with the fuel before entering the combustion chamber.

Fuel Filter
Keeps the engine clean. Clean fuel will prevent the wear of the injector and maintain higher fuel efficiency.

Cabin Air Filter
Protects passengers from airborne contaminants, such as pollen, bacteria, dust and smog. It helps improve the air conditioning and air quality providing the user better experience and health.

Transmission Filter
Modern transmissions are required to provide good torque, operate smoothly and function more reliably. Sakura Transmission Filter makes sure the transmission fluid is clean and the transmission life long. Use for better performance.

Racing Air Filter
Provide the highest quality to increase the engine performance, torque and torque with the ability to capture more dust, and more efficient. Clear the filter every 1,000 km. Depending on conditions and driving habits, use you will save fuel and money.

Coolant Filter
Design for cooling system protection and security against corrosion.

Hydraulic Filter
Provides protection and purifying the hydraulic system.

Air / Oil Separator
Removes residual oil from the air on the exit line of compressor to enhance machine life.

Fuel Filter / Water Separator
Removes water contamination to ensure clean fuel is delivered to the engine. Fuel/Water Separator provides effective protection for engine used in industrial, industrial and marine applications.

Industrial Filter
Sakura Filters offers a wide range of CEI / WIPAC Filters to optimized performance of the machine system.

Others Filter
Sakura Filters also provide various products such as:
• Blow By Gas Filters,
• Detuning Fuels Filters,
• Gas Collectors,
• Gas Filters,
• Ultra Filters,
• and many more to complete the full range of applications.

SPIN-ON FILTER



- STEEL REINFORCED SPRING
- HEAVY DUTY END CAP SEALS
- HIGH PERFORMANCE MEDIA
- THICKER BODY
- SPRINK PERFORMANCE TUBE
- HEAVY DUTY BASE PLATE

ELEMENT FILTER



- HEAVY DUTY SEAL
- PLATE FRAME MEDIA
- HEAVY DUTY TUBES
- HEAVY DUTY BASE PLATE

Sakura filters are manufactured by the ADR Group of Companies, a group that has been providing automotive and industrial parts solution, for the OEM, for more than 39 years.

In the filtration business, Sakura Filters offer the largest range of applications of more than 5,000 part numbers. It covers Automotive, Commercial, Heavy Equipment, and Industrial sectors. Now, offering one of the largest range of Heavy Duty and Commercial Products in the SAKURA brand, including American, European and Asian lines.

The Sakura Filters are designed and manufactured in accordance to SAE, JIS, and DIN standards, to meet the efficiency, life expectancy, vibration, impulse, and other criteria, accordingly.


The Sakura Filters and other ADR Group products, manufactured by the Group, are ISO/TS compliance companies.

All the products are tested to the ISO/IEC 17025:2005 standard and accredited laboratory.


Source: Company presentation

Figure 71: SMSM's radiator products

AUTOMOTIVE RADIATOR

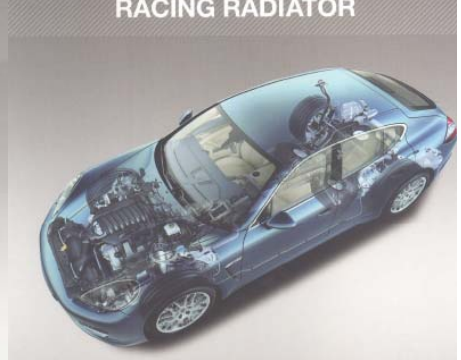
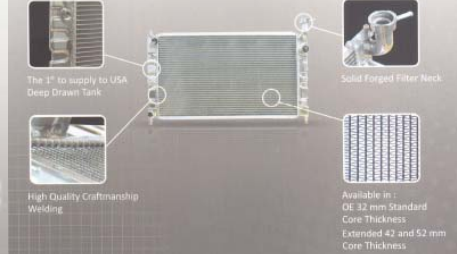


ADR Radiator manufactures high efficiency radiator cores that keep high performance engine cooling. Winning performance in the OE quality radiators and after-market.



ADR Radiator is designed in the side view clear view fan face.

RACING RADIATOR

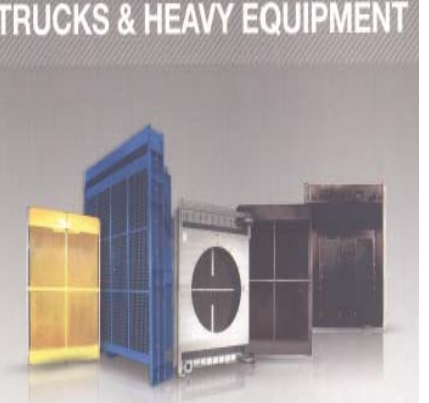
The 1" to supply to USA Deep Drawn Tank

High Quality Craftmanship Welding

Solid Forged Filter Neck

Available in:
OE 32 mm Standard Core Thickness
Extended 43 and 52 mm Core Thickness

TRUCKS & HEAVY EQUIPMENT



All-Metal Heavy-Duty Radiators for Most Application

ADR Radiators also have replacements for a variety of commercial applications. Among the products, ADR is introducing heavy-duty radiators for:

- Lift Trucks & Loaders
- Agricultural & Construction Equipment
- Generators
- Buses & Trucks

Source: Company presentation



Figure 72: Awards and appreciation

Awards & appreciation

2011

Appreciation for Best Vendor Performance in Delivery from PT Suzuki Indomobil Motor
 Appreciation for Best Vendor Contribution for Automobile part from PT Suzuki Indomobil Motor
 Appreciation of Delivery Performance from PT Hino Motors Manufacturing Indonesia
 Indonesia Export Award Category for Global Brand Creator from the Government of Republic of Indonesia
 Appreciation for Asia's Best Companies from FinanceAsia Magazine
 Appreciation of Best in Marketing Driving Company from Marketing Magazine
 Appreciation of Best in International Marketing from Marketing Magazine
 Appreciation for Software Asset Management from Microsoft Corporation
 Top 50 Indonesia Global Brand & Top 250 Indonesia Original Brand from SWA Magazine
 Recognition as The Largest Seller and Manufacturer of Filter Product in Indonesia from Museum Rekor Dunia - Indonesia
 Recognition as the Greatest Number of Filter Brand Registration and The Most Comprehensive Range Product from Rekor Bisnis
 Appreciation of Valuable Contribution from PT Astra Multi Trucks Indonesia

2012

The Best Brand Champion of Most Widely Used Car Oil Filter
 The Brand Champion of Most Widely Used Car Air Filter

Source: Company data

Figure 73: SMSM board of commissioners and directors

BOARD OF COMMISSIONERS

Name	Position	Education and Career
Suryadi	President Commissioner	An Indonesian citizen, born in 1947. Mr. Suryadi was appointed President Commissioner of the Company in 2008. He joined the ADR Group of Companies in 1988 and currently serves as President Director of PT Mangatur Dharma and Commissioner of PT Panata Jaya Mandiri. He is a former Assistant Lecturer Werkzeug Maschinen Labor RWTH Aachen (1981-1982), Customer Service of PT Computa (1982-1983), General Manager of PT Super Adi Teknik Indonesia (1983-1988), and President Commissioner of Andhi Chandra Automotive Products Tbk. (2000-2006). He graduated from RWTH University, Aachen in 1981.
Johan Kurniawan	Commissioner	An Indonesian citizen, born in 1953. Mr. Kurniawan was appointed Commissioner of the Company in 1983. He is one of the founders of ADR Group of Companies and currently serves as President Commissioner of PT Hydraxle Perkasa and PT Prapat Tunggal Cipta. He is a former President Commissioner of PT Andhi Chandra Automotive Products Tbk. (1998-2000). He graduated from Senior High School, Medan in 1971 and was Division Head of FAM & Administration ADR Group of Companies
Handi Hidayat Suwardi	Independent Commissioner	An Indonesian citizen, born in 1945. Mr. Hidayat was appointed Independent Commissioner of the Company in November 2006. He is a former Sales Manager of PT Buwono Intracon, Director of the Company (1983-2000) and Commissioner of the Company (2000-2001). He holds a Diploma degree.

BOARD OF DIRECTORS

Name	Position	Education and Career
Eddy Hartono	President Director	An Indonesian citizen, born in 1946. Mr. Hartono was appointed President Director of the Company in 1983. He is the founder of ADR Group of Companies and currently serves as President Director of PT Adrindo Intiperkasa, PT Adrindo Intisarana, PT Panata Jaya Mandiri and PT Hydraxle Perkasa. He graduated from Senior High School, Medan in 1964.
Surja Hartono	Director	An Indonesian citizen, born in 1972. Mr. Hartono was appointed Director of the Company in May 2000. He joined the ADR Group of Companies in 1994 and currently serves as Director of PT Adrindo Intiperkasa and Director of PT Adrindo Intisarana.
Ang Andri Pribadi	Director	An Indonesian citizen, born in 1966. Mr. Pribadi was appointed Director of the Company in April 2004. He joined the ADR Group of Companies in January 1998 and currently serves as Corporate Secretary of the Company and Division Head of FAM & Administration ADR Group of Companies.
Lucas Aris Setyapranarka	Director	An Indonesian citizen, born in 1961. Mr. Setyapranarka was appointed Director of the Company in June 2011. He joined the ADR Group of Companies in April 2002. He is a former General Manager of PT Indo Reco Asia dan PT IKU Furniture (1999-2002). He graduated from Academy of Industrial Engineering Techniques St Mikael, Solo in 1984.
Hengkie Ong	Director	An Indonesian citizen, born in 1969. Mr. Ong was appointed Director of the Company in June 2011. He joined the ADR Group of Companies in September 2007. He is a former HRD Manager of PT Propan Raya ICC (1996-2007) and PT Delami Garment (1995-1996). He graduated from Maranatha Christian University, Bandung in 1996 and Master of HR Management STIE IBEK, Jakarta in 2000.

Source: Company



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Selamat Sempurna	SMSM.JK	2,400.00 (IDR) 22 Feb 13	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

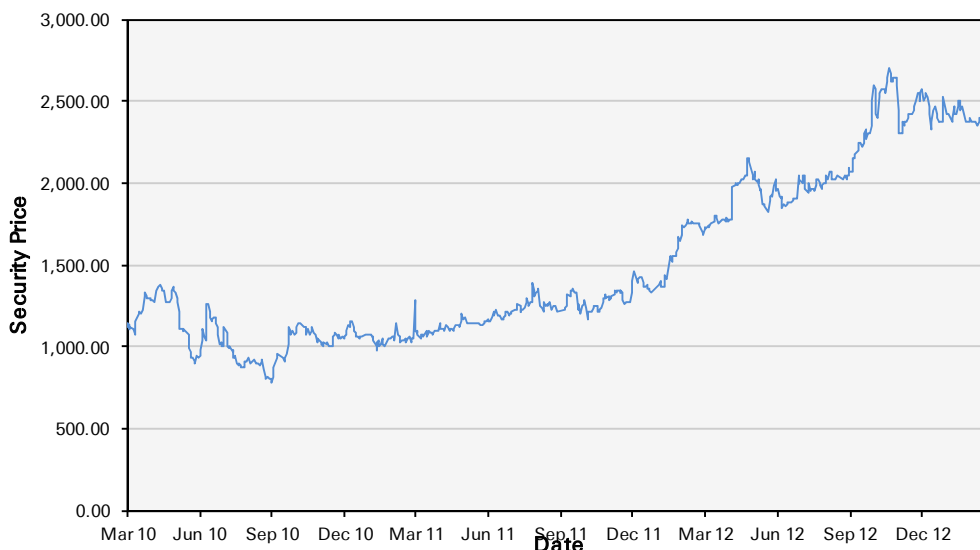
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.egsr?ricCode=SMSM.JK>

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Historical recommendations and target price: Selamat Sempurna (SMSM.JK)

(as of 2/22/2013)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002



Equity rating key

Equity rating dispersion and banking relationships

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

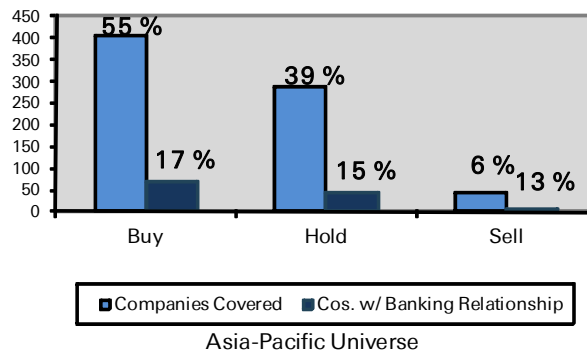
1. Newly issued research recommendations and target prices always supersede previously published research.

2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period





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