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Company
**Selamat Sempurna
Alert**

Reuters: SMSM.JK Bloomberg: SMSM IJ Exchange: JKT Ticker: SMSM

Date
31 July 2013

Results

Price at 30 Jul 2013 (IDR)	2,450
Price target - 12mth (IDR)	2,950
52-week range (IDR)	2,725 - 1,930
Jakarta Comp. Index	4,608.49

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Hydraxle still a drag to earnings

Overall, SMSM's key business (filter and radiator manufacturing) tracks well with our forecast; 1H13 sales volume is some 48% of our FY13F. In terms of revenue, 1H13 filter and radiator is some 46% and 47% of our FY13F forecast, respectively. Hence, earnings weakness is largely due to SMSM's 51%-owned subsidiary, Hydraxle, which continue to see sales headwinds (Hydraxle's 1H13 revenue down 41% yoy, albeit seeing qoq improvement; +22% qoq in 2Q). The recent acquisition of distribution and materials supplier businesses (PTC and SSP) did help to support earnings. See table below for details – note that historical data has been adjusted to give retrospective effect to Hydraxle, PTC and SSP acquisitions. Consolidated gross margin saw a contraction in 1H13 to 24.6%. In addition to lower margin from Hydraxle, we believe higher labor cost in key business manufacturing also drags – especially given muted ASP increase yoy. Filter and radiator 1H13 gross profit represents 44% and 47% of our FY13F, respectively. Overall, on an adjusted basis, 1H13 net profit declined 12% yoy, as Hydraxle's segmental 1H13 net profit is down 67% yoy (albeit saw a 108% qoq increase in 2Q). Nonetheless, 1H13 net profit overall still represents 48% of our FY13F – as the weakness in Hydraxle was somewhat offset by contribution from recently acquired distribution company and as key filter and radiator businesses still tracks well with our forecast.

Figure 1: 1H13 results summary

In Rp bn	2Q12*	1Q13*	2Q13	yoy %	qoq %	1H12*	1H13*	yoy %	FY13F	% DB FY13F
Sales	587	500	590	1%	18%	1,122	1,089	-3%	2,383	46%
Gross profit	162	137	131	-19%	-4%	299	268	-11%	582	46%
Gross margin	27.5%	27.3%	22.2%			26.7%	24.6%		24.4%	
OPEX	51	50	47			99	96		197	
% of sales	8.7%	10.0%	7.9%			8.8%	8.9%		8.3%	
Operating profit	111	87	84	-24%	-3%	201	171	-15%	385	44%
Other inc/(exp)	(3.8)	(7.6)	(2.5)			(9.6)	(10.1)		(33.4)	
Pre-tax profit	107	79	82	-23%	3%	191	161	-16%	351	46%
NPAT before MI	83	61	63	-24%	3%	148	125		272	46%
Minority interest	12	6	7			21	13		41	31%
Net profit	71	56	56	-21%	0%	127	112	-12%	231	48%
Net margin	12.0%	11.2%	9.5%			11.3%	10.3%		9.7%	
Filter (gross) - Rp bn	397	354	398	0%	13%	752	752	0%	1,647	46%
Radiator - Rp bn	94	91	100	7%	11%	181	191	5%	402	47%
Filter volume (mn units)	14.4	13.3	14.3	-1%	7%	27.2	27.6	1%	57.5	48%
Radiator volume (mn units)	0.20	0.18	0.21	2%	15%	0.38	0.38	2%	0.80	48%

Source: Deutsche Bank and Company data * Numbers are restated to give retrospective effect to acquisition of Hydraxle, PTC and SSP

Stock data

Market cap (IDRbn)	3,527
Market cap (USDm)	342
Shares outstanding (m)	1,439.7
Major shareholders	-
Free float (%)	42
Avg daily value traded (USDm)	0.000

Source: Deutsche Bank

Key data

FYE 12/31	2011A	2012E	2013E
Sales (IDRbn)	1,808	1,930	2,383
Net Profit (IDRbn)	200.9	210.1	230.9
DB EPS (IDR)	139.52	145.92	160.38
PER (x)	7.8	16.8	15.3
Yield (net) (%)	12.0	3.9	4.3

Source: Deutsche Bank

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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