



Rating
Hold

Asia
Indonesia

Automobiles &
Components

Company
Selamat Sempurna

Reuters
SMSM.JK

Bloomberg
SMSM IJ

Exchange
JKT

Ticker
SMSM

Date
6 June 2014

Recommendation
Change

Price at 5 Jun 2014 (IDR)	4,675
Price target - 12mth (IDR)	4,200
52-week range (IDR)	4,675 - 2,375
Jakarta Comp. Index	4,935.56

Rich valuation; downgrading to Hold

Nicholas Nugroho

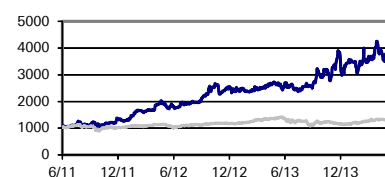
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Key changes

Rating	Buy to Hold	↓
Price target	2,950.00 to 4,200.00	↑ 42.4%
Sales (FYE)	2,800 to 2,700	↓ -3.6%
Op prof margin (FYE)	16.2 to 19.0	↑ 17.4%
Net profit (FYE)	282.2 to 343.9	↑ 21.9%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	23.5	31.7	73.1
Jakarta Comp. Index	1.9	5.9	-1.3

Source: Deutsche Bank

Stock currently over-valued, above target price; downgrading to Hold

SMSM has performed well (it has rallied 36% YTD and 93% since the beginning of 2013). At Rp4,675/share, it is trading at 19.6x and 17.7x FY14F-15F P/E, and above our Rp4,200/share revised target price. We remain confident of the company's ability to deliver earnings growth. In this note, we update our financial forecasts – now expecting net profit of Rp344bn (+7%) in FY14, Rp380bn (10%) in FY15 and Rp441bn (16%) in FY16. This represents earnings upgrade of 22%, 12%, and 8% for FY14F, FY15F, and FY16F, respectively (see Figure 1). Notwithstanding, we believe the stock is rich on valuation, and hence we downgrade our recommendation to Hold.

Solid sales volume and profit margin

Earnings momentum is robust. We expect SMSM to grow filter volume by 14% yoy each in FY14F and FY15F, whilst radiator volume to remain flat this year, before increasing 13% yoy in FY15F. Prices and profit margins are firm, thanks to a stronger USD against IDR. Recall that SMSM is a net beneficiary of the stronger USD, as SMSM is still primarily an exporter. We estimate gross margin of c.27% in FY14F-16F (vs. previous forecast of c.24%). The uplift in gross margin is also on the back of SMSM's recent acquisitions of its domestic distribution and materials supplier companies (previously outside of SMSM, but are now c.100% owned and integrated into SMSM). Overall, we expect +11% and +10% NP and EBITDA CAGR 2013-2016F, respectively.

Ample production capacity supports strong balance sheet

At less than 60% utilization capacity rate (filter utilization rate in FY13 was 56%, radiator 40% and body maker 27%), SMSM's balance sheet should remain robust – with no imminent capital needs. Net debt-to-equity ratio is at mere 0.11x in FY14F and 0.01x in FY15F, before turning into net cash in FY16F. Combined with strong FCF generation, SMSM should be able to continue to pay dividends generously. See Figures 2 to 6 for forecasts.

Target price (TP) of Rp4,200/share based on DCF and FY15 reference year

We derive our TP based on DCF, assuming RFR 6.2%, ERP 7.5% and WACC 12.0%. See Figure 9. Our TP implies valuations of 17.6x and 15.9x FY14F-15F P/E, respectively. Upside risk include better sales volume than anticipated in the event export rises faster than expected and/or hydraxle recovers. Downside risk includes currency and raw material volatility (see page 8 for details).

Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (IDRbn)	2,269	2,373	2,700	3,121	3,668
EBITDA (IDRbn)	515	592	637	699	782
Reported NPAT (IDRbn)	251.6	320.4	343.9	379.6	440.5
PER (x)	11.3	12.3	19.6	17.7	15.3
EV/EBITDA (x)	6.4	7.3	11.0	9.9	8.7

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: 06 June 2014

Running the numbers

Asia
Indonesia
Automobiles & Components

Selamat Sempurna

Reuters: SMSM.JK Bloomberg: SMSM IJ

Hold

Price (5 Jun 14) IDR 4,675
Target Price IDR 4,200
52 Week range IDR 2,375 - 4,675
Market Cap (bn) IDRm 6,730
USDm 568

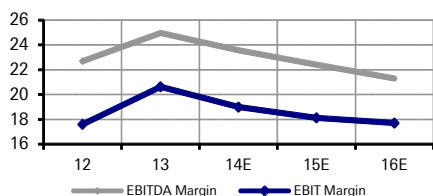
Company Profile

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.

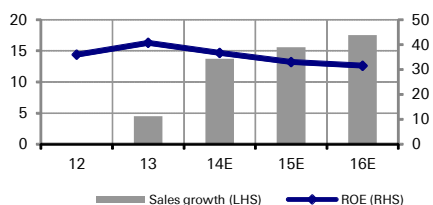
Price Performance



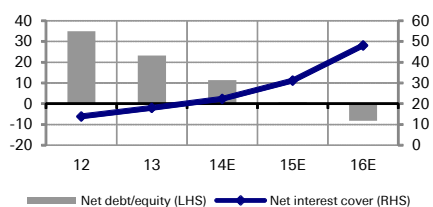
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014E	2015E	2016E
DB EPS (IDR)	174.76	222.58	238.90	263.65	305.98
Reported EPS (IDR)	174.76	222.58	238.90	263.65	305.98
DPS (IDR)	130.00	85.00	100.16	107.50	118.64
BVPS (IDR)	510.6	581.8	720.5	876.7	1,064.0
Weighted average shares (m)	1,440	1,440	1,440	1,440	1,440
Average market cap (IDRbn)	2,842	3,931	6,730	6,730	6,730
Enterprise value (IDRbn)	3,300	4,298	7,033	6,935	6,811

Valuation Metrics

P/E (DB) (x)	11.3	12.3	19.6	17.7	15.3
P/E (Reported) (x)	11.3	12.3	19.6	17.7	15.3
P/BV (x)	4.95	5.93	6.49	5.33	4.39
FCF Yield (%)	9.0	9.5	3.5	4.2	4.9
Dividend Yield (%)	6.6	3.1	2.1	2.3	2.5
EV/Sales (x)	1.5	1.8	2.6	2.2	1.9
EV/EBITDA (x)	6.4	7.3	11.0	9.9	8.7
EV/EBIT (x)	8.3	8.8	13.7	12.2	10.5

Income Statement (IDRbn)

Sales revenue	2,269	2,373	2,700	3,121	3,668
Gross profit	600	638	730	841	980
EBITDA	515	592	637	699	782
Depreciation	116	103	124	133	132
Amortisation	0	0	0	0	0
EBIT	400	490	513	566	650
Net interest income/(expense)	-29	-27	-23	-18	-14
Associates/affiliates	-1	-4	2	2	2
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	370	459	492	550	638
Income tax expense	83	108	118	138	160
Minorities	35	30	30	33	38
Other post-tax income/(expense)	0	0	0	0	0
Net profit	252	320	344	380	441
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	252	320	344	380	441

Cash Flow (IDRbn)

Cash flow from operations	371	481	367	404	430
Net Capex	-114	-106	-130	-120	-100
Free cash flow	257	375	237	284	330
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-187	-122	-144	-155	-171
Net inc/(dec) in borrowings	63	-54	-30	0	0
Other investing/financing cash flows	-92	-168	0	0	0
Net cash flow	40	30	63	129	159
Change in working capital	-32	9	-129	-140	-178

Balance Sheet (IDRbn)

Cash and other liquid assets	63	93	156	285	444
Tangible fixed assets	514	492	498	485	453
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	35	36	38	40	42
Other assets	944	1,080	1,238	1,429	1,678
Total assets	1,556	1,701	1,931	2,240	2,618
Interest bearing debt	381	327	297	297	297
Other liabilities	265	367	397	448	518
Total liabilities	646	694	695	745	816
Shareholders' equity	735	838	1,037	1,262	1,532
Minorities	175	169	199	232	270
Total shareholders' equity	910	1,007	1,236	1,494	1,802
Net debt	318	234	141	12	-147

Key Company Metrics

Sales growth (%)	nm	4.6	13.8	15.6	17.5
DB EPS growth (%)	na	27.4	7.3	10.4	16.1
EBITDA Margin (%)	22.7	25.0	23.6	22.4	21.3
EBIT Margin (%)	17.6	20.6	19.0	18.1	17.7
Payout ratio (%)	74.4	38.2	41.9	40.8	38.8
ROE (%)	36.0	40.8	36.7	33.0	31.5
Capex/sales (%)	5.2	6.4	4.8	3.8	2.7
Capex/depreciation (x)	1.0	1.5	1.1	0.9	0.8
Net debt/equity (%)	35.0	23.2	11.4	0.8	-8.2
Net interest cover (x)	13.9	18.1	22.4	31.2	48.1

Source: Company data, Deutsche Bank estimates

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Financial & forecast

Figure 1: Key forecast changes summary

	New			Old			Change		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Sales	2,700	3,121	3,668	2,800	3,317	3,890	-4%	-6%	-6%
Gross profit	730	841	980	684	809	951	7%	4%	3%
Gross margin	27.0%	26.9%	26.7%	24.4%	24.4%	24.4%			
Opex	232	275	330	231	273	322	0%	0%	2%
Opex % sales	8.6%	8.8%	9.0%	8.3%	8.2%	8.3%			
Other operating income/(expense)	15	-	-	-	-	-	na	na	na
Operating profit	513	566	650	453	536	629	13%	6%	3%
Operating margin	19.0%	18.1%	17.7%	16.2%	16.2%	16.2%			
Interest income/(expense) - net	(23)	(18)	(14)	(26)	(20)	(10)	-11%	-9%	31%
Associates income	2	2	2	5	5	6	-60%	-60%	-60%
Pre-tax profit	492	550	638	432	521	624	14%	6%	2%
Pre-tax margin	18.2%	17.6%	17.4%	15.4%	15.7%	16.0%			
Income tax	118	138	160	99	120	143	19%	15%	11%
Minority interest	30	33	38	51	61	71	-41%	-46%	-46%
Net profit	344	380	441	282	340	409	22%	12%	8%
Net margin	12.7%	12.2%	12.0%	10.1%	10.2%	10.5%			

Source: Deutsche Bank estimates

Figure 2: Income statement summary (Rp bn)

PT Selamat Sempurna PROFIT AND LOSS (in Rp bn)	A 2012	A 2013	F 2014	F 2015	F 2016
Revenue	2,269	2,373	2,700	3,121	3,668
% of growth		5%	14%	16%	18%
COGS	1,669	1,735	1,970	2,280	2,689
Gross profit	600	638	730	841	980
Gross Margin	26.4%	26.9%	27.0%	26.9%	26.7%
Operating expense	211	216	232	275	330
% of sales	9.3%	9.1%	8.6%	8.8%	9.0%
Other operating income	16	91	30	-	-
Other operating expense	(5)	(23)	(15)	-	-
Operating profit	400	490	513	566	650
Operating Margin	17.6%	20.6%	19.0%	18.1%	17.7%
% of growth		23%	5%	10%	15%
Other income/(expenses)					
Interest income	2	3	5	8	13
Forex gain/(losses)	-	-	-	-	-
Interest exp. & bank charges	(31)	(30)	(27)	(26)	(26)
Other income/(expenses)	-	-	-	-	-
Total others	(29)	(27)	(23)	(18)	(14)
Share of associate profit (loss)	(1)	(4)	2	2	2
Profit B4 Income Tax	370	459	492	550	638
Pre-tax margin	16.3%	19.3%	18.2%	17.6%	17.4%
Income Tax	83	108	118	138	160
Minority Interest	35	30	30	33	38
Net Profit	252	320	344	380	441
Net Margin	11.1%	13.5%	12.7%	12.2%	12.0%
% of growth		27%	7%	10%	16%

Source: Company data, Deutsche Bank estimates



Figure 3: Key forecast assumptions

PT Selamat Sempurna Sales (Rp bn)	A 2012	A 2013	F 2014	F 2015	F 2016
SALES REVENUE (Rp bn)					
Filter	1,560	1,687	2,057	2,410	2,776
Growth		8%	22%	17%	15%
Radiator	385	398	404	464	526
Growth		3%	1%	15%	13%
Trading	290	329	369	431	495
Growth		13%	12%	17%	15%
% of filter and radiator	15%	16%	15%	15%	15%
Body maker	296	198	185	222	370
Growth		-33%	-6%	20%	67%
Others	237	270	297	311	327
Growth		14%	10%	5%	5%
% of total revenue	10%	11%	11%	10%	9%
Elimination	(498)	(509)	(612)	(717)	(826)
% of Filter and trading	-27%	-25%	-25%	-25%	-25%
Total	2,269	2,373	2,700	3,121	3,668
Growth		5%	14%	16%	18%
SALES VOLUME					
Filter (mn units)	57	57	65	73	82
Growth		-1%	14%	14%	12%
% of production	110%	106%	105%	104%	103%
Radiator (mn units)	0.78	0.77	0.78	0.88	0.98
Growth		-2%	1%	13%	11%
% of production	103%	100%	100%	100%	100%
Body maker ('000 units)	3.98	2.67	2.50	3.00	5.00
Growth		-33%	-6%	20%	67%
% of production	103%	99%	100%	100%	100%
PRODUCTION VOLUME					
Filter (mn units)	52	54	61	71	80
Growth		4%	15%	15%	13%
Radiator (mn units)	0.76	0.77	0.78	0.88	0.98
Growth		1%	1%	13%	11%
Body maker ('000 units)	3.87	2.70	2.50	3.00	5.00
Growth		-30%	-7%	20%	67%
PRODUCTION CAPACITY					
Filter (mn units)	96	96	96	96	96
Addition		-	-	-	-
Utilization rate	54%	56%	64%	74%	83%
Radiator (mn units)	1.95	1.95	1.95	1.95	1.95
Addition		-	-	-	-
Utilization rate	39%	40%	40%	45%	50%
Body maker ('000 units)	10.0	10.0	10.0	10.0	10.0
Addition		-	-	-	-
Utilization rate	39%	27%	25%	30%	50%
SELLING PRICE (Rp'000/unit)					
Filter	27	30	32	33	34
Growth		9%	7%	3%	3%
Gross margin	25.4%	25.8%	25.3%	25.0%	25.0%
Radiator	493	518	518	528	539
Growth		5%	0%	2%	2%
Gross margin	21.3%	23.7%	23.3%	23.0%	23.0%
Body maker	74,283	74,041	74,041	74,041	74,041
Growth			0%	0%	0%

Source: Company data, Deutsche Bank estimates



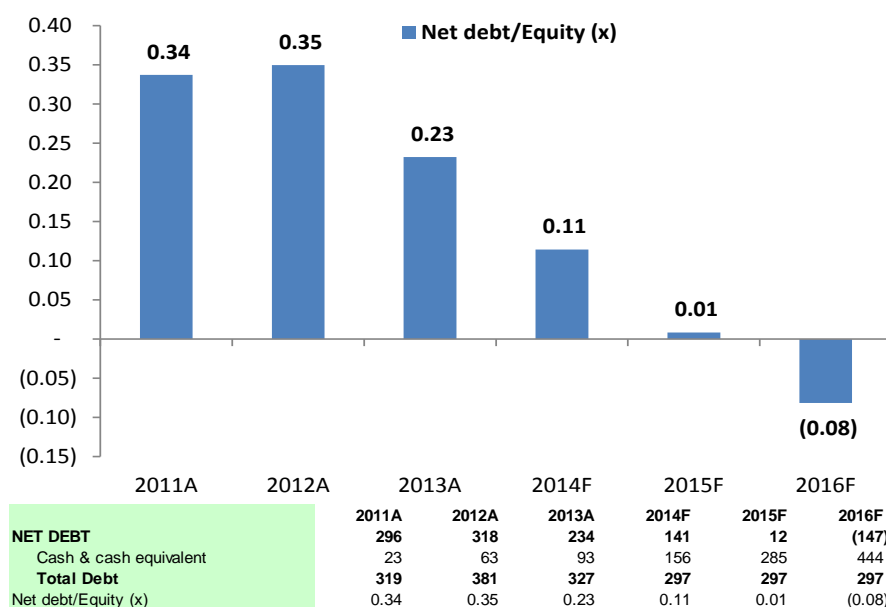
Figure 4: Balance sheet summary (Rp bn)

PT Selamat Sempurna Balance Sheet (in Rp bn)	A 2011	A 2012	A 2013	F 2014	F 2015	F 2016
Current Assets						
Cash & cash equivalents	23	63	93	156	285	444
Receivables	428	467	558	648	749	880
Other receivables-net	1	2	3	3	3	3
Inventories	427	425	398	453	524	618
Advance payments	16	6	11	12	14	16
Prepaid tax & others	10	23	34	39	45	53
TOTAL CURRENT ASSETS	904	986	1,097	1,311	1,621	2,016
Fixed Assets						
Cost	1,393	1,504	1,585	1,715	1,835	1,935
Acc. depreciation	874	990	1,093	1,217	1,350	1,482
TOTAL FIXED ASSETS	518	514	492	498	485	453
Deferred tax assets	2	3	6	6	6	6
Other Assets						
Advance for purchases of PPE	6	8	63	51	37	19
Property investment	2	2	-	-	-	-
Associates	8	35	36	38	40	42
Others	4	8	7	26	51	82
TOTAL OTHER ASSETS	21	53	106	116	128	143
TOTAL ASSETS	1,445	1,556	1,701	1,931	2,240	2,618
Current Liabilities						
Bank loans	159	128	146	133	133	133
Payables	101	97	164	177	205	242
Other payables	7	6	2	2	2	2
Tax payable	27	35	53	69	75	88
Advances from customers	7	7	12	12	12	12
Accruals	36	42	46	39	46	54
LT liabilities - within one year						
LT-Loans	-	142	66	60	60	60
Others	21	23	33	33	33	33
TOTAL CURRENT LIABILITIES	359	481	523	526	567	624
LT Liabilities						
LT-Loans	159	111	115	104	104	104
Deferred tax liabilities	4	1	-	-	-	-
Pension obligation	44	53	56	64	74	87
TOTAL LT LIABILITIES	208	165	171	168	179	192
Minority Interest	120	175	169	199	232	270
Shareholders' Equity						
Paid up capital	144	144	144	144	144	144
Additional paid-in cap	35	42	49	49	49	49
Others	153	90	-	-	-	-
Retained earnings	427	459	644	844	1,069	1,339
TOTAL SHAREHOLDERS' EQUITY	878	910	1,007	1,236	1,494	1,802
TOTAL LIABILITIES & EQUITY	1,445	1,556	1,701	1,931	2,240	2,618

Source: Company data, Deutsche Bank estimates



Figure 5: Net debt to equity



Source: Deutsche Bank

Figure 6: Cash flow statement summary (Rp bn)

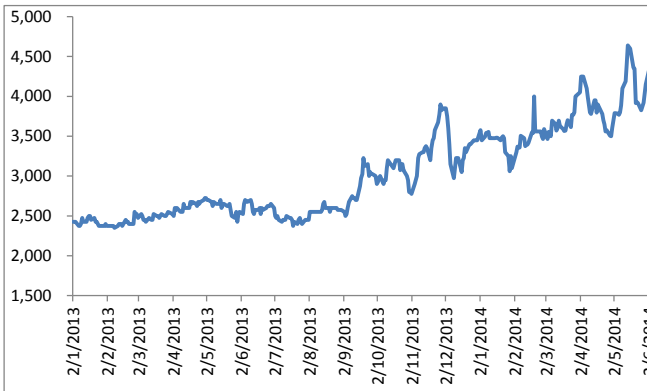
PT Selamat Sempurna CASH FLOWS	A	A	F	F	F
	2012	2013	2014	2015	2016
EBITDA	515	592	637	699	782
Capex	(117)	(152)	(130)	(120)	(100)
Cash at the beginning	23	63	93	156	285
Interest paid	(30)	(32)	(27)	(26)	(26)
Sale of FA	3	46	-	-	-
Additional (repayment) of loans	63	(54)	(30)	-	-
Chg. working capital	(32)	9	(129)	(140)	(178)
Taxes	(83)	(92)	(118)	(138)	(160)
Dividend	(187)	(122)	(144)	(155)	(171)
Others	(92)	(168)	-	-	-
Total	61	90	152	277	432
Interest Income	2	3	5	8	13
Cash at YE	63	93	156	285	444
Free Cash Flow:	252	325	232	275	317
EBITDA	515	592	637	699	782
Chg. in working capital	(32)	9	(129)	(140)	(178)
Interest paid	(30)	(32)	(27)	(26)	(26)
Capex	(117)	(152)	(130)	(120)	(100)
Taxes	(83)	(92)	(118)	(138)	(160)

Source: Company data, Deutsche Bank estimates



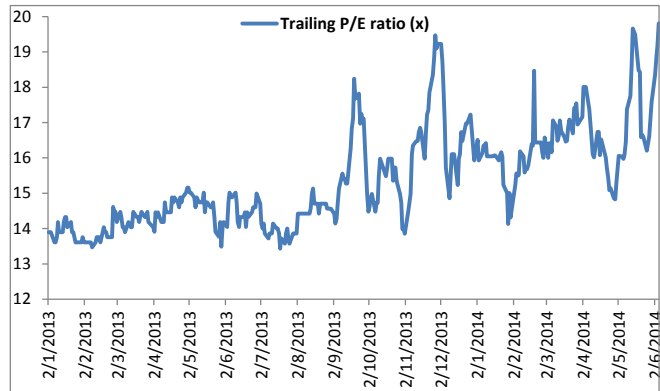
Valuation and risk

Figure 7: Stock price performance (Rp/share)



Source: Deutsche Bank

Figure 8: Trailing P/E ratio (x)



Source: Deutsche Bank

Figure 9: DCF valuation summary

	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
EBIT (after tax)	426	489	543	588	630	652	674	694	714	735	756
Depreciation	133	132	129	125	120	114	119	124	129	134	139
Working Capital Decr./ (Incr.)	(140)	(178)	(128)	(112)	(106)	(68)	(73)	(48)	(50)	(51)	(52)
Less : CAPEX	(120)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Free Cash Flow (Rp.bn)	299	343	444	502	544	599	620	671	694	718	743

Terminal growth rate	6.0%	Risk-free rate	6.2%
Terminal Value (Rp bn)	13,186	Equity risk premium	7.5%
PV of FCF	6,433	Beta	1
Net (debt)/cash	(141)	Cost of equity	12.6%
Less: Minority interest	(232)	Cost of debt (after ta)	6.7%
Equity value	6,059	WACC	12.0%
Shares outstanding	1,440		
NPV/shr	4,209		

Source: Deutsche Bank estimates

Key risks

Upside risks

- Stronger top-line growth than expected:** Sales volume on key products (filter and radiator) was largely flat yoy in FY13 (-1% yoy for filter, and -2% for radiator). Coming into FY14, volume have picked – especially on the back of recovery in export sales. We forecast volume growth of 14% yoy for filter products, and flat yoy for radiators. Better filter export recovery than anticipated and/or stronger growth in radiator volume will provide some upside earnings risks.
- Rupiah depreciation:** SMSM is a net beneficiary of a stronger USD against IDR, as export revenue, which is largely paid in USDs,



outweighs the USD COGS component. Off late, IDR is once again under pressure. Persistent pressure on IDR could support SMSM's high product pricing and margins (in IDR terms).

Downside 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.
- **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.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Selamat Sempurna	SMSM.JK	4,675.00 (IDR) 5 Jun 14	NA

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

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

(as of 6/5/2014)



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

1. 25/02/2013: Upgrade to Buy, Target Price Change IDR2,950.00



Equity rating key

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 projected 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.

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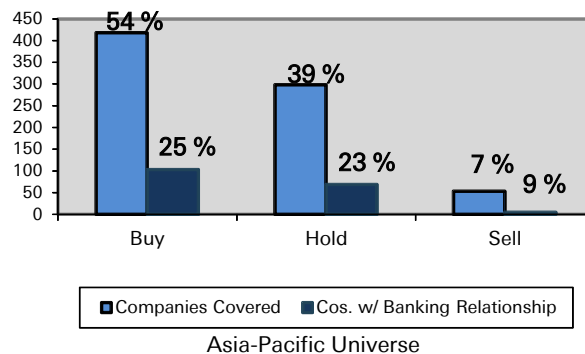
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Equity rating dispersion and banking relationships





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