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Equity | Indonesia | AUTOMOTIVE

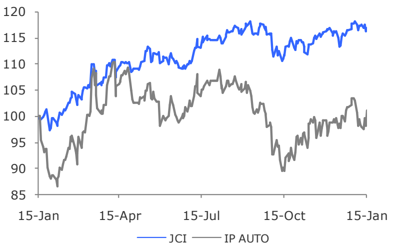
Automotive

20 January 2015

Initiating Coverage

Neutral

Sector Index Performance (JAKAUTO)			
	3M	6M	12M
Absolute (%)	12.8	-3.9	1.0
Relative to JCI (%)	8.0	-5.4	-16.6
52whigh/low (Rp)	18,713 / 14,659		



Source: Bloomberg

Beyond the domestic market

- **Plenty of room for local content**
- **Lucrative replacement market**
- **Exports another promising area**
- **Our top pick is AUTO with a target price of Rp4,600**

To benefit from localization. The domestic automotive industry has expanded its capacity in the past two years. Indonesia has quietly becoming an alternative production base in the region, competing with Thailand. Vehicles such as LCGC have high local content. This rapid investment in production capacity should benefit local automotive component companies, especially from increasing demand for OEM products. Moreover, we expect further investment in a wider range of components to increase the local content of locally manufactured vehicles. We believe there is still plenty of room to increase the localization of parts.

Growing replacement market. The 4W and 2W population has grown rapidly over the past couple of years. This higher population will need regular maintenance, making replacement parts necessary. The increasing number of vehicles, both 4W and 2W, represents a potential market for third parties and OEM replacement parts. The 4W penetration ratio remains low, hence allowing the secondary car market to remain lucrative. In order to achieve a high resale value, owners must ensure proper maintenance. Therefore, demand for replacement parts remains high.

Indirect and direct exports. We also see potential in the export market, supported by the weaker Rupiah, which renders domestic products more attractive. The automotive industry within the region is also growing, providing a potential market for replacement parts. Moreover, the government is encouraging exports of vehicles to neighboring countries. With increased demand from the replacement parts market and exports of vehicles, we expect to see a positive impact on the automotive components industry.

Top pick. We initiate coverage on the automotive component industry with two companies, Astra Otoparts (AUTO IJ) and Selamat Sempurna (SMSM IJ). AUTO is our top pick with a target price of Rp4,600, as we believe the valuation of SMSM is already rich at current levels. AUTO is geared more towards manufacturing in the domestic automotive industry, while SMSM targets the replacement market. With a growing automotive industry driven by both component and principal manufacturers, we believe AUTO is in a better position to capture such growth, hence our Buy call on the stock.

Stock	Ticker	Rating	Price (Rp)	TP (Rp)	14F P/E (x)	15F P/E (x)	14F P/B (x)	15F P/B (x)	14F ROA (%)	14F ROE (%)
Astra Otoparts	AUTO IJ	Buy	3,800	4,600	17.5	16.2	1.7	1.7	7.1	10.3
Selamat Sempurna	SMSM IJ	Hold	4,895	5,100	23.6	18.8	6.0	5.0	17.4	27.4

Source: Bloomberg, IndoPremier *Note: Share prices as of closing 15 January 2015*

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Please see pages 28-30 of this report for important disclosures.

Growing Auto Industry

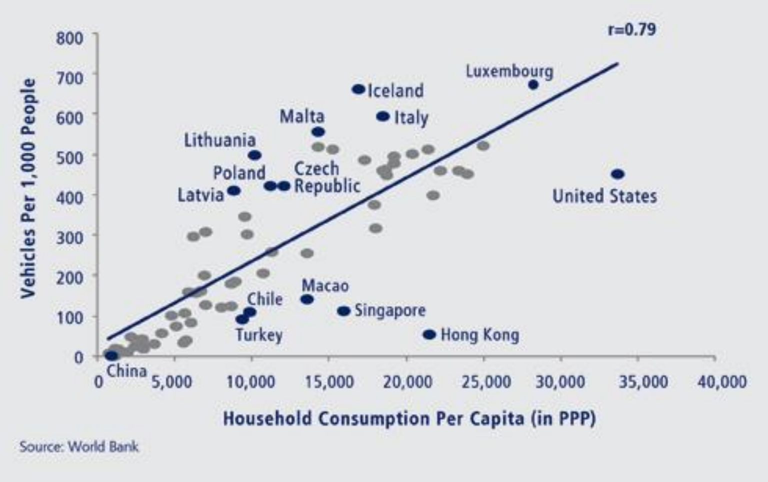
Over the past several years, the auto industry (4W and 2W) has grown rapidly, supported by the rising middle class as Indonesia's GDP per capita hit US$2,500-3,000. This threshold is the sweet spot for motorization that should lead to strong growth in demand for 4W as well as 2W. Poor public transportation systems have forced people to invest in their own means of transportation. Rising purchasing power, coupled with affordable vehicle prices plus poor transportation systems, is the perfect recipe to create demand for the auto industry. There are several drawbacks, such as price, to purchasing a newer model in Indonesia, especially for 4W, forcing people to seek automotive parts in order to repair older vehicles instead of buying a new replacement model. Demand for new cars and repairs for older models create a lucrative market for the auto component industry.

The component industry is dependent on two main markets: 1) the new vehicle production market, and 2) the replacement market. The components used in the production line are also known as Original Equipment for Manufacturer (OEM). Demand for OEM parts comes from new vehicle production, and determined by production capacity of the principal manufacturers. Meanwhile, components that are used for services and repairs are intended for the replacement market, where demand is derived from the existing vehicle population. But another potential market is the export market, where components could be used either for production (OEM parts) or for replacement.

Production of new vehicle

According to the World Bank, Indonesia's GDP per capita hit US$3,475 in FY13, surpassing the sweet spot for motorization of US$3,000. Indonesia achieved a GDP per capita of US$2,947 in FY10. There is a strong correlation between rising income and motorization, as proven by the World Bank with R2 = 0.79 using global data in 2012. Indonesia has also proven this correlation as demand for 4W took off in FY10 when the GDP per capita hit the US$3,000 threshold.

Fig. 1 : Car consumption and income per capita

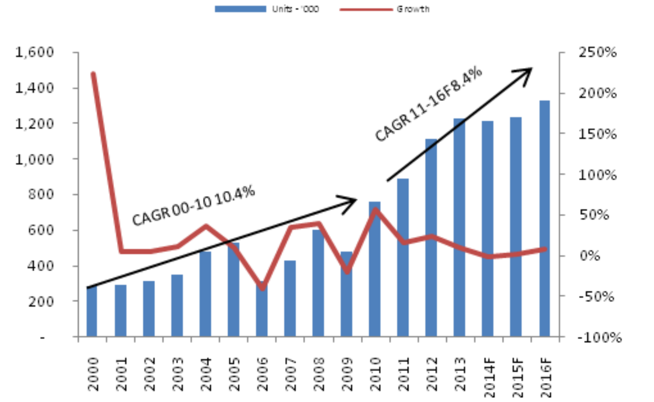


Source : World Bank

The penetration ratio for 4W stands at a mere 39 cars for every 1,000 population, fairly low compared to other developing economies. This indicates a huge potential for car sales in the future. Indonesia surpassed 1.0mn total car sales in FY12. We estimate auto demand will reach 1.2mn in FY15, up 1.5% from last year. Indonesia's auto volume matched Thailand's domestic demand of approximately 1.3mn units in FY13. Thailand's total car production volume reached 1.7mn units for the year to Nov14, of which exports accounted about 60%. Therefore, in terms of becoming a production base in the region, Indonesia is still behind Thailand.

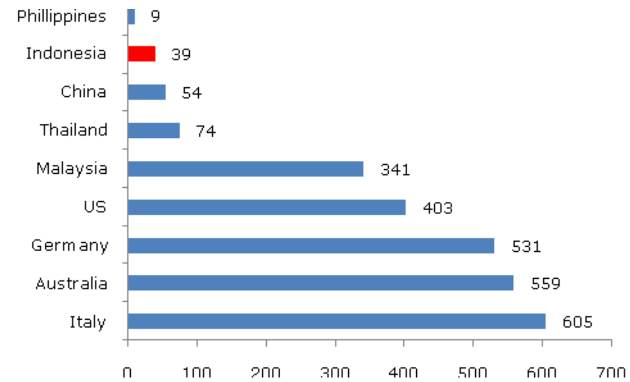
The Indonesian auto industry is facing short-term headwinds from lower purchasing power as a result of the removal of fuel subsidy, weaker Rupiah that resulted in higher production cost, and higher borrowing costs. The government has recently altered the subsidy scheme to be based on a fixed price per liter. Therefore, subsidized fuel will move in a similar direction as the oil price. Thanks to the weaker oil price, we expect an improvement in purchasing power. Despite the headwinds, we are confident that the automotive industry has significant room for growth, which would also have a positive impact on the component industry.

Fig. 2 : Auto demand has accelerated starting in 2010



Source : Gaikindo, IndoPremier

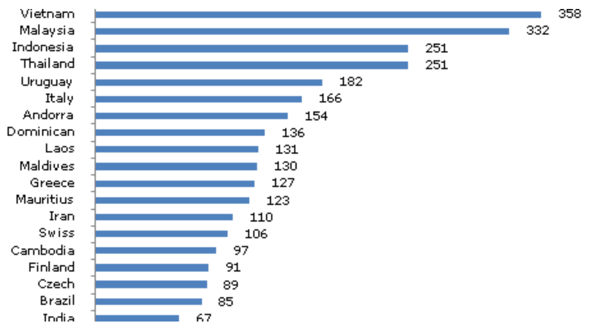
Fig. 3 : Number of passenger cars per 1,000 population



Source : WorldBank

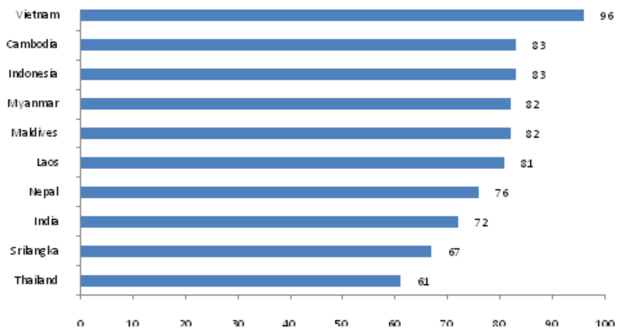
Motorcycle penetration is already relatively high, leaving limited room for further growth. The replacement market remains an attractive opportunity as people could upgrade or simply replace their current motorcycle. High usage, combined with severe congestion, generally shortens product lifecycle, therefore encouraging replacement. We expect motorcycle sales volume to reach 8.0mn units in FY15, a growth of 2.0% yoy. Indonesia's motorcycle production volume is superior to that of Thailand, which manufactured only 2.2mn units of motorcycles in FY13. Thailand's motorcycle market has already peaked and entered maturity since 2012. We believe Indonesia still has moderate room to grow, especially in the rural areas where motorization is still considerably low.

Fig. 4: Motorcycle density per 1,000 population (units)



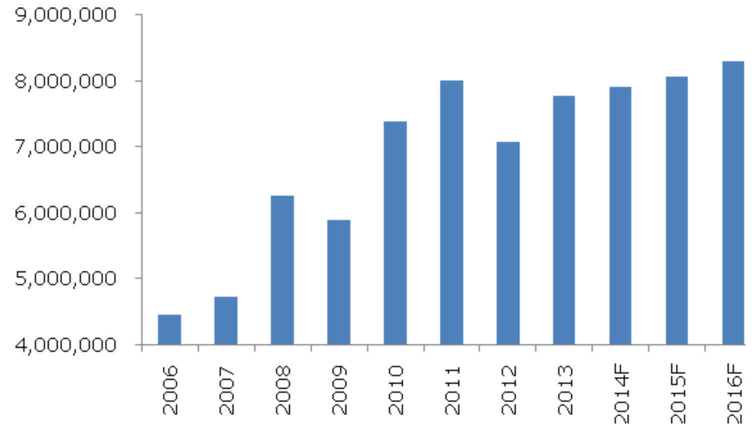
Source : Gaikindo, IndoPremier

Fig. 5: Motorcycle density in ASEAN, motorcycles per 1,000 population



Source : WorldBank

Fig. 6 : Motorcycle sales in Indonesia FY06-16F.



Source : AISI, IndoPremier

Indonesia has moved up the ladder

The emerging economies, including Indonesia, have increased their significance in the global car production. Increased purchasing power, low penetration, and large population have encouraged the shift of production facilities location to emerging countries. Indonesia ranked 15th in 2012 as demand for cars hit around 1.1mn, up from its 25th rank back in FY00 when demand was only 292,000 units. Thailand's production capacity of 2.5mn ranked 9th in FY12, up from 19th in FY00. China, India and Brazil have also increased their production capacities significantly, mainly supported by strong domestic demand.

Fig. 7 : Country ranking of automotive production capacity

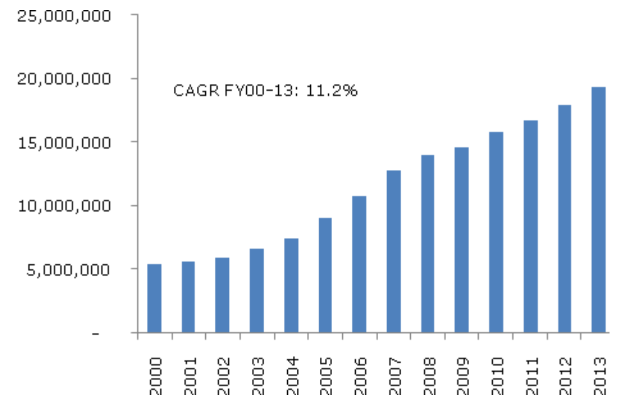
Rank 2012	Country	No of vehicle	Share %	Rank 2000	No of vehicle	Share %
1	China	22,116,825	25.3%	8	2,069,069	3.5%
2	USA	11,045,902	12.7%	1	12,799,875	21.9%
3	Japan	9,630,070	11.0%	2	10,140,796	17.4%
4	Germany	5,718,222	6.6%	3	5,526,615	9.5%
5	South Korea	4,521,429	5.2%	5	3,114,998	5.3%
6	India	3,880,938	4.4%	15	801,360	1.4%
7	Brazil	3,740,418	4.3%	12	1,681,517	2.9%
8	Mexico	3,052,395	3.5%	9	1,935,527	3.3%
9	Thailand	2,457,057	2.8%	19	411,721	0.7%
10	Canada	2,379,806	2.7%	7	2,961,636	5.1%
11	Russia	2,175,311	2.5%	13	1,205,581	2.1%
12	Spain	2,163,338	2.5%	6	3,032,874	5.2%
13	France	1,740,000	2.0%	4	3,348,361	5.7%
14	UK	1,597,433	1.8%	10	1,813,894	3.1%
15	Indonesia	1,208,211	1.4%	25	292,710	0.5%
19	Slovakia	900,000	1.0%	29	181,783	0.3%
23	Malaysia	601,407	0.7%	26	282,830	0.5%
	Others	8,371,231	9.6%		6,773,015	11.6%
	Total	87,299,993			58,374,162	

Source : OICA

Vehicle population, a market for components

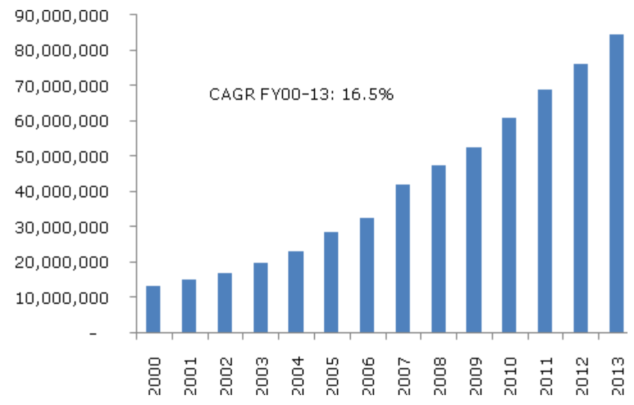
Indonesia's total 4W population reached about 19.4mn units in FY13 and has been growing at a CAGR of 11.2% since FY00. The motorcycle population is much higher, standing at 85mn units as of FY13 with a CAGR of 16.5%. Prolonged life-time of vehicles, both for 2W and 4W, is caused by the limited purchasing power of Indonesians. This is also evidenced by the strong used-car market as affordability has remained low. However, this could slightly change due to the introduction of more lower-priced vehicles such as the LCGC. With such prolonged life time, service and component replacement have become important. Any shift to buying new cars would support OEM components in auto production. So either way, the component industry would benefit from the huge population base.

Fig. 8 : 4W population and growth



Source : CEIC

Fig. 9 : 2W population and growth

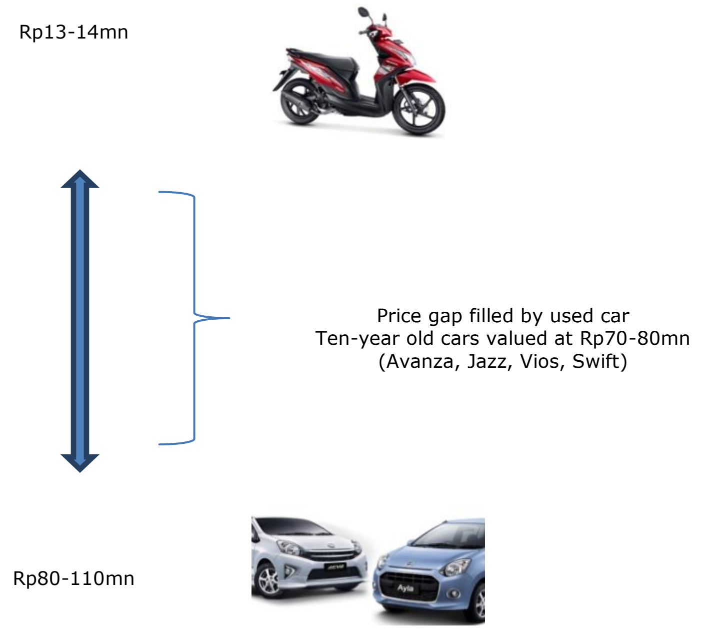


Source : CEIC

LCGC opens a new segment

The introduction of LCGC with a price point of around Rp100mn has opened up a new segment in 4W. If we go back to FY04, Toyota-Daihatsu at that time introduced the twin sisters Avanza-Xenia, starting at a price point of Rp100mn. However, with raising inflation and the continuous weakening of the Rupiah, the twin sisters' prices have increased to Rp150mn in FY14. The introduction of LCGC was packaged with an exemption to the luxury goods tax to target first-time car owners. Nonetheless, the price difference between a motorcycle and the cheapest car remains significant. The fast-selling motorcycles are scooters, which are offered at only Rp12mn, or a mere one-eighth of the cheapest car. This significant price difference is filled in by the used-cars market. Service, maintenance, registration tax and fuel consumption are also important considerations before people upgrade from motorcycle to cars.

Fig. 10: Significant price gap between LCGC and motorcycle



Source : ASII, IndoPremier

Nature of supply chain of the component industry

In recent years, the automotive industry has also been affected by globalization as production facilities are relocated to different sites around the globe. This recent trend has led to growth and the increasing global reach of first-tier automotive suppliers – often known as mega-suppliers – such as Denso from Japan, Bosch from Germany and Delphi from the US. In parallel to the relocations of the automotive assembly to overseas locations, automotive assemblers, particularly the Japanese, have required their first-tier suppliers to follow them. This also was the case in Indonesia as 90% of production share is dominated by Japanese assemblers. The existence of mega suppliers in Indonesia is represented by the presence of Denso Indonesia, Aisin Seiki, Akebono brake and Bosch Indonesia.

Generally, tier-1 suppliers also depend on tier-2 and tier-3 component manufacturers to manufacture sub-components. The increasing presence of car assemblers will need to be followed by increasing number of components manufacturers. This will open up the opportunity for both new investments and expansions of existing lines of operations in the component industry. Four out of the top ten mega suppliers have presence in Indonesia. This shows the strategic importance of Indonesia in increasing production capacity.

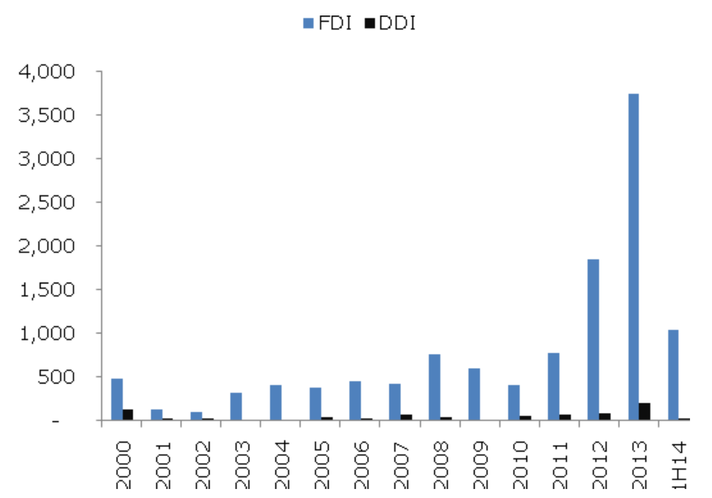
Fig. 11: List of Global component supplier

Rank	Company	Country	Presence in Indonesia
1	Robert Bosch GmBH	Germany	Bosch Indonesia
2	Denso Corp	Japan	JV with AUTO
3	Continental AG	Germany	
4	Magna International	Canada	
5	Aisin Seiki	Japan	JV with AUTO
6	Johnson Controls	USA	
7	Faurencia	France	
8	Hyundai Mobis	Korea	
9	Friedrichshafen	Germany	
10	Yazaki	Japan	Autocomp Indonesia
12	Delphi	USA	Delphi EEA Indonesia
17	Toyota Bashoku	Japan	Toyota Bashoku Indonesia
28	Toyoda Gosei	Japan	JV with AUTO
31	MagnetiMarelli	Italia	
96	Akebono Brake Industry	Japan	JV with AUTO

Source : PWC

In recent years, Indonesia has enjoyed strong foreign direct investments, in particular from the Japanese auto assemblers. We feel that the Japanese assemblers are looking at Indonesia as an alternative production base for the ASEAN market, given the political instability in Thailand as well as threat from natural disasters that might disrupt the production process. FDI in the auto sector has spiked up starting in FY10-11. However, the interest to invest mostly comes from foreign investors with the domestic side indicating very limited interest. We believe that investment in the auto sector will be largely driven by foreign assemblers but will not yet be followed by domestic investors, especially in components.

Fig. 12 : FDI and DDI in automotive industry (US$ mn)



Source : BKPM

Fig. 13 : Production capacity expansion of auto manufacturers in Indonesia

	Capacity			
	Existing	New	% increase	in operation
4W				
Nissan Motor Indonesia	100,000	250,000	150.0	2014
Suzuki Indomobil Motor	150,000	250,000	66.7	2016
Honda Prospect Motor	80,000	200,000	150.0	2014
Mitsubishi KramaYudha Manufacturing	120,000	220,000	83.3	na
Astra Daihatsu Motor	460,000	530,000	15.2	2014
Toyota Manufacturing Indonesia	180,000	-		2013
2W				
Astra Honda Motor	4,500,000	5,600,000	24.4	2014
Yamaha Manufacturing Indonesia	3,000,000	-		
Kawasaki Indonesia		150,000		2014

Source : Companies and news

An EIU study ranks Indonesia as the highest for attraction to investment among the ASEAN countries. Indonesia scored the highest in growth potential, thanks to the large young population with rising purchasing power and competitiveness supported by competitive labor wages and abundant labor supply. This indicates that Indonesia has strong potential to take over Thailand as the Detroit of the East.

Fig. 14: ASEAN countries ranked by attractiveness of automotive industry

Current position	Growth potential	Business environment	Competitiveness	Overall
Thailand	Indonesia	Malaysia	Indonesia	Indonesia
Indonesia	Philippines	Thailand	Vietnam	Thailand
Malaysia	Vietnam	Philippines	Thailand	Philippines
Philippines	Thailand	Indonesia	Philippines	Malaysia
Vietnam	Malaysia	Vietnam	Malaysia	Vietnam

Source : EIU

Structure of automotive components industry

Indonesia has about 20 assembly plants that are dominated mostly by Japanese car makers, supported by 250 tier-1 component suppliers and 600 tier 2&3 suppliers as of FY12. Currently, the total installed capacity of the auto industry in Indonesia is 1.2mn, or half of Thailand's 2.5mn capacity. The auto industry in Thailand is supported by 2,390 component suppliers, three times more than in Indonesia. This shows that Thailand's auto industry has more depth compared to Indonesia. However, this also shows that Indonesia's auto component industry has large growth potential, especially with the increasing importance of the auto industry within the region.

Fig. 15: Structure of ASEAN automotive industry

	Number of Assembly plants	Number of Parts suppliers	Employment
Indonesia	20	850	115,000
Thailand	16	2,390	400,000
Malaysia	15	690	47,947

Source : Gaikindo, Journal of Asia Pacific Economy 2013

Government incentives

According to the roadmap of the auto industry designed by the Ministry of Industry, Indonesia's auto industry should concentrate on the production of small sedans, commercial vehicles, motorcycles and components with the emphasis on green technology and fuel efficiency. Nonetheless, the Ministry has pointed out that Indonesia remains less competitive compared to its neighbors such as Thailand and Malaysia due to:

- Insufficient infrastructure in roads, ports, and airports to support logistics
- Insufficient energy supply, especially power generation
- Lack of competence in human resources, which affects productivity
- High dependency on imported raw materials
- Aging machineries, reducing efficiency and productivity

According to a simulation prepared by the Ministry, Thailand's cost of production for one vehicle is 5% lower compared to the cost in Indonesia.

In order to encourage investment in the automotive sector, the government could use fiscal incentives. The government continues to protect the domestic industry by implementing high tariff barriers for Completely Build Up units (CBU). However, this protectionist policy becomes less relevant in the wake of the ASEAN free trade area implementation, where import tariff imposed is only 5%. Incentive provided by the government tends to reduce import tariffs as demonstrated by the incentive for LCGC vehicles. The government is lacking any incentive in the form of income tax reductions or tax holidays as those imposed by Thailand and Malaysia. This is why Indonesia remains relatively less attractive compared to its neighbors.

Both Thailand and Malaysia also provide tax incentives for R&D activities, critical and high value-added parts and components, and any export-oriented cars. This has helped in the development of a deeper auto industry compared to Indonesia. If the government introduces more attractive tax incentive schemes, we believe that auto industry in Indonesia could have a good future.

To encourage investment in the component or parts, the government has provided lower tariffs for incomplete knock down (IKD) than complete knock down (CKD) parts. The IKD system aims to encourage imports of sub-components rather than CKD parts as a whole, thus encouraging the assembly of CKD parts locally (i.e. importing engine parts and assembling engines locally rather than importing engines). By doing so, the government aims to increase the local content of cars manufactured domestically.

Increasing local content

The Government aims for higher local content in order to increase domestic manufacturing in the auto industry. Transfer of technical know-how is expected from high local content as higher value-added parts or critical value parts are being manufactured locally. According to WTO, the local content requirements are not in line with WTO guidelines. Working around this issue by introducing lower import tariffs or tax incentive is not against such guidelines.

Some models such as KijangInnova or Toyota Avanza have been claimed to contain 80-85% local content; even the LCGC models Ayla-Agya are claimed to have targeted their local content to reach up to 100% in the next five years. The local content is calculated on the value of CKD components (engine, transmission, system, axle and chassis & body), concealing a methodological trick since it is not based on sub-components. Consequently, local content ratio based on sub-components could be much lower than the nominal local content ratio calculated based on CKD components. For instance, if a Toyota KijangInnova's primary sub-components are locally produced and 80% of secondary or tertiary sub-components are imported, then it is likely that the real local content ratio could be lower than the nominal. A study conducted by Ritsumeikan Center for Asia Pacific Studies (Japan) suggests that real local content could only be 50% of the nominal local content. Despite having a high nominal local content there is significant room for product localization of secondary and tertiary sub-components. This would provide the opportunity to manufacture a wider range of components or to deepen the component industry.

Fig. 16 : Local content of selected model manufactured domestically

Brand	Model	Local content
Toyota	Avanza	85%
	Etios, Vios	60%
	KijangInnova	80%
	Fortuner	55%
Daihatsu	Xenia	84%
	Ayla/Agya	85%
	Terios/Rush	74%
	Luxio	80%
Honda	Mobilio	86%
	Jazz	50%
Nissan	Livina	60%
	Datsun Go+	79%
Mitsubishi	Colt Diesel	47%

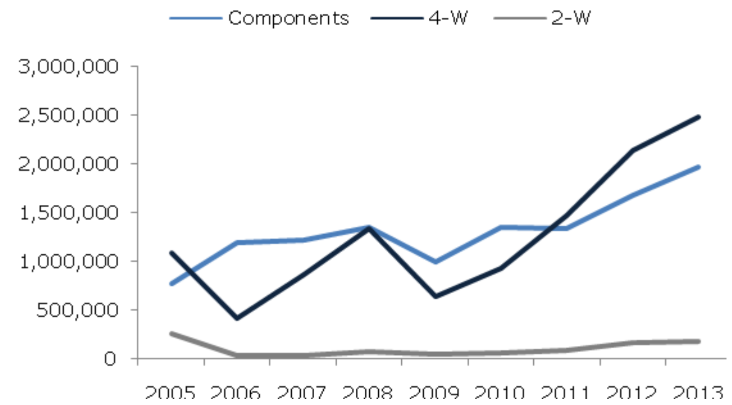
Source : Gaikindo

Another potential: the export market

Indonesian exports in the form of CBU units and components have started to grow since 2010, marking the growing era of the auto industry. In FY13, export of 4W CBU units hit a value of US$2.5mn while components stood at US$2.0mn. Exports of motorcycle remained relatively low at only US$171k in FY13, as Indonesia's motorcycle production was predominantly aimed to meet domestic demand.

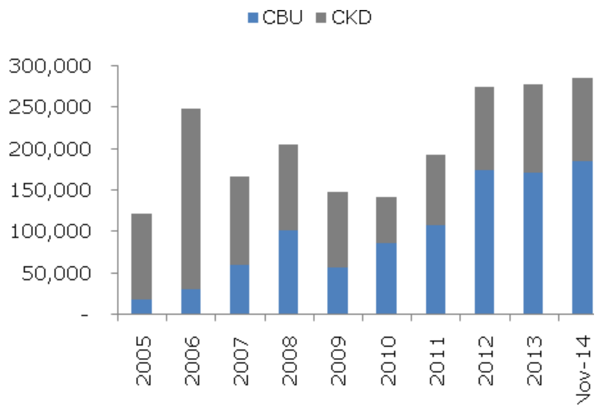
Exports of CBU units will depend on the strategy of the principal manufacturers, whether to allocate the production base of certain models to the region. The Ministry of Industry has expressed strong support to increase exports of the auto industry. However, this will require cooperation across ministries to provide fiscal incentives and infrastructure such as power, road and designated ports for auto exports. Exports of components are independent of the principal manufacturers but will require strong marketing efforts or partnership with foreign distributors.

Fig. 17: Export value of components. 4W and 2W (US$)



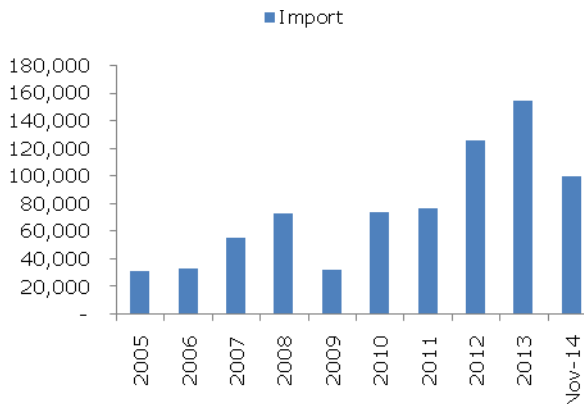
Source : BI

Fig. 18 : 4W exports in CBU and CKD (units)



Source : Gaikindo

Fig. 19 : 4W imports in CBU (units)

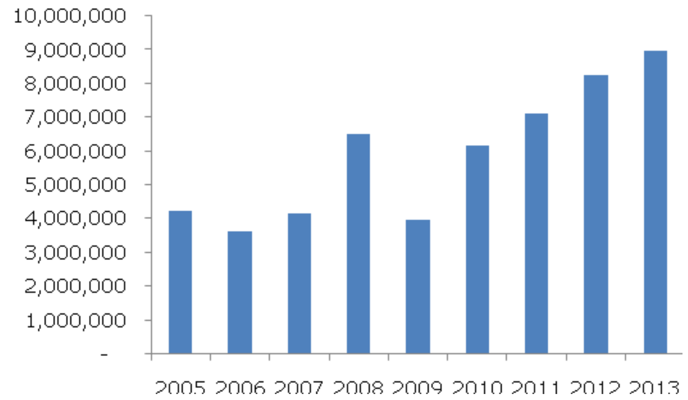


Source : Gaikindo

Import substitution

Although Indonesia's favorite models have high local content, this is misleading in light of significant imports of secondary and tertiary sub-components. In fact, component import reached almost US$9.0mn in FY13, creating a trade balance deficit of US$6.6mn, even after taking into account the total export of CBU, motorcycle and components. This shows that imported content remains relatively high despite the high local content ratio. If the local industries are able to match the expertise required to produce the imported components and their product excellence, it would open up a huge opportunity to substitute the imported components that are currently being used by the domestic market. This is also an area to be explored by the auto component industry.

Fig. 20 : Import value of components (US$)

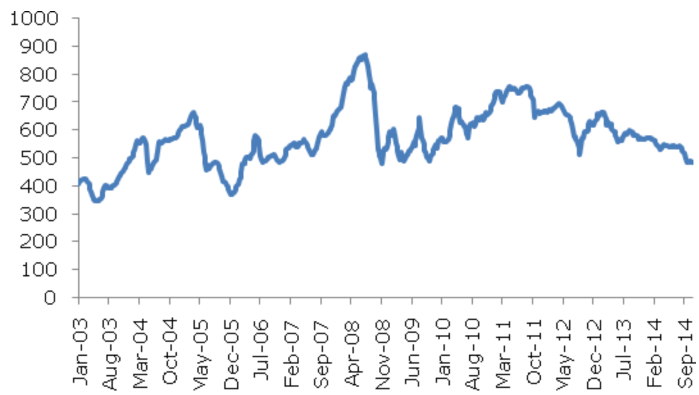


Source : BI

Inconsiderable pressure from steel price

The main raw material for auto components manufacturing is steel. With the growth of the Asian region slowing down, steel price has stayed relatively on the low side. This reduces pressure on production cost. Nonetheless, with rising fuel cost as a result of lower subsidy, wages are likely to increase accordingly. This could put some pressure on the margins of the component companies. We are confident that wage increases will be compensated by higher sales price.

Fig. 21 : Steel price (US$/ton)



Source : Bloomberg

INDOPREMIER

Astra Otoparts (AUTO IJ)

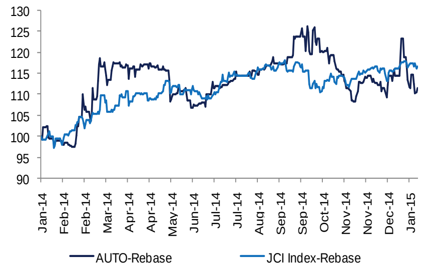
Initiating Coverage

BUY

Equity | Indonesia | Automotive

Stock Data	
Target price (Rp)	Rp4,600
Prior TP (Rp)	*n.a*
Share price (Rp)	Rp3,800
Upside/downside (%)	*+21.1*
Shares outstanding (m)	4,819
Market cap. (US$ m)	1,459
Free float (%)	20.0
Avg. 6m daily T/O (US$ m)	0.1

Price Performance	3M	6M	12M
Absolute (%)	-7.3	-1.8	11.9
Relative to JCI (%)	-10.5	-3.0	-4.0
52whigh/low (Rp)	3,800 / 3,320		



Major Shareholders	
Astra International	80.0%
Aberdeen	2.0%

Estimate Change; Vs. Consensus	2014	2015
Latest EPS (Rp)	227	245
Vs. Prior EPS (%)	n.a	n.a
Vs. Consensus (%)	0.8	-9.6

Source: Bloomberg

Beyond domestic market

- **Secure demand from OEMs**
- **Tie-up with tier-1 suppliers**
- **Preferred partner for potential new JVs**
- **BUY, Tp Rp4,600**

Captive OEM market. OEM parts contributed 50% of Astra Otoparts' (AUTO) revenue in FY13, 7% of which were sold to the replacement market and 4.7% to the export market. OEM is a captive market for AUTO, ensuring high utilization rate of its production capacity as well as that of its subsidiaries. Despite securing repeat orders with long-term commitment, AUTO's margin is relatively capped, with price adjustment lagging behind any increase in the price of raw materials. High competition in the domestic automotive market has negatively affected AUTO's margins in the short term. However, we remain optimistic for the long run as penetration of 4W remains low and given the robust replacement market for 2W (despite entering maturity).

Partnering with tier-1 suppliers. AUTO acts as a holding company for its 14 consolidated subsidiaries, 18 associates and jointly controlled companies, and 2 cost companies. AUTO has strong relationships with tier-1 component manufacturers such as Aisin, Akebono, Denso, Kayaba, Toyoda Gosei, Pirelli, SKF, and GS-Yuasa. Having such strong partners allows AUTO subsidiaries and jointly controlled companies to supply to major manufacturers in Indonesia. Toyota-Daihatsu has the largest manufacturing plant in Indonesia and is a key customer of AUTO. Other Japanese manufacturer such as Honda, Mazda, Nissan and Mitsubishi procure auto parts from AUTO.

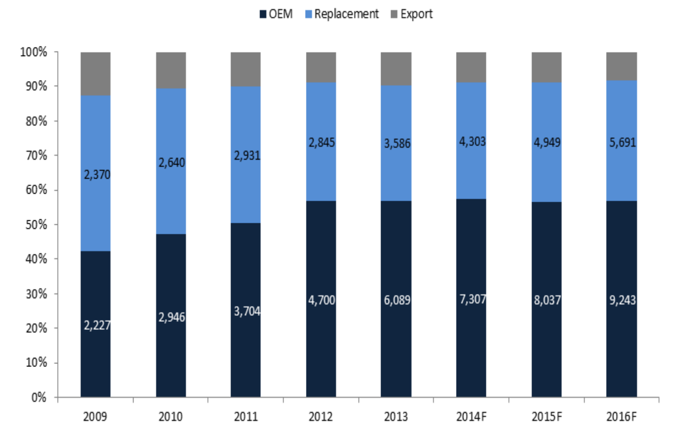
Preferred partner in components. Its extensive relationships with many tier-1 auto components supplier is solid proof of AUTO's managerial and financial expertise. Increasing production capacity will need to be supported by additional capacity and variety of parts. We believe that AUTO is a preferred partner of the auto component manufacturers who are willing to invest in Indonesia. With a growing automotive industry, AUTO should strategically benefit from its solid partnerships with various component manufacturers.

Steady dividend payment. It solid balance sheet with sound operational cash flow has allowed AUTO to distribute consistent dividends with payout ratios ranging at 20-48% in FY10-13. We expect AUTO to maintain dividend distribution with a payout ratio of 30%. A lower payout is warranted, in our view, due to growth opportunities. However, if growth opportunities diminish, AUTO is likely to increase its payout ratio.

Year To 31 Dec	2012A	2013A	2014F	2015F	2016F
Revenue(RpBn)	8,277	10,702	12,740	14,229	16,301
EBITDA(RpBn)	670	972	1,042	1,272	1,449
EBITDA Growth (%)	2.2	45.1	7.2	22.1	13.9
Net Profit(RpBn)	1,053	1,006	1,029	1,179	1,245
EPS (Rp)	262	236	227	245	258
EPS Growth (%)	4.6	(9.9)	(4.0)	8.0	5.5
Net Gearing (%)	18.1	(12.0)	4.4	18.2	13.2
PER (x)	15.2	16.8	17.5	16.2	15.4
PBV (x)	2.9	1.8	1.7	1.7	1.6
Dividend Yield (%)	2.0	1.7	1.6	1.8	1.9
EV/EBITDA (x)	25.4	17.3	18.8	16.7	14.3

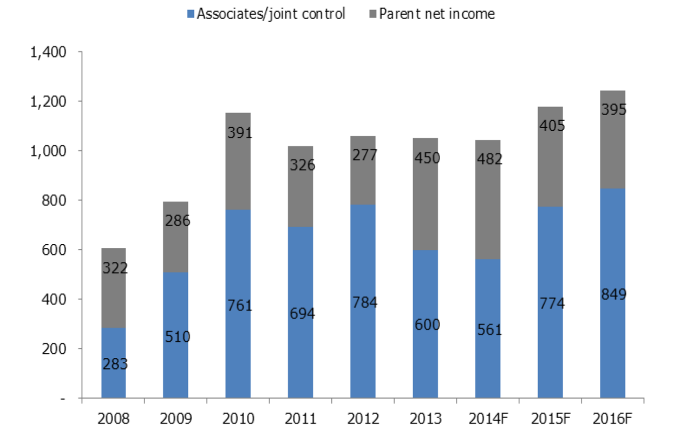
Source : AUTO, IndoPremier *Share Price Closing as of : 15-January-2015*

Fig. 1: Revenue breakdown (Rpbn)



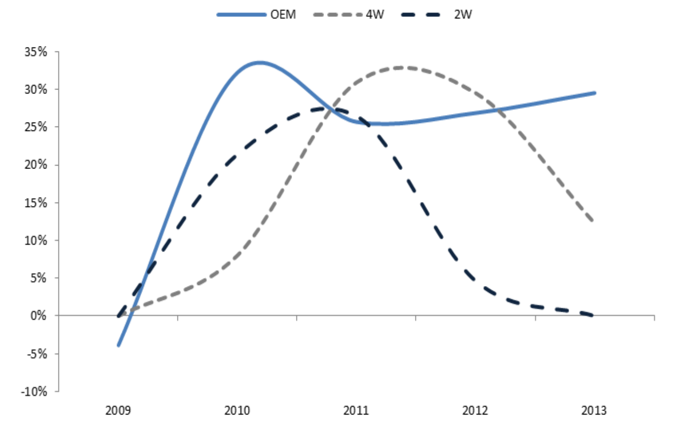
Source : AUTO, IndoPremier

Fig. 2: Net Income from parents and associates (Rpbn)



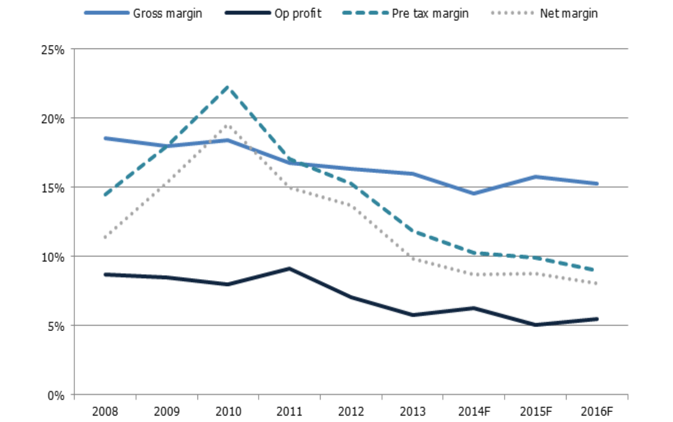
Source : AUTO, IndoPremier

Fig. 3: OEM sales growth vs 4W & 2W volume growth



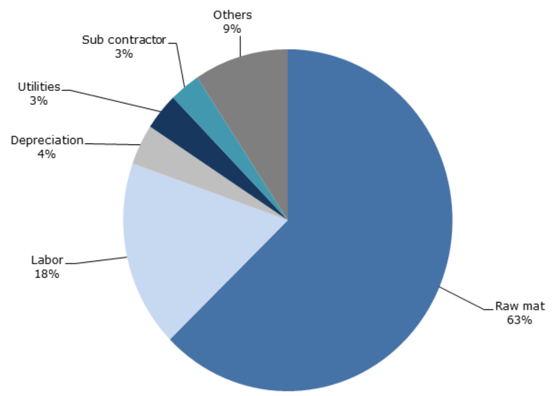
Source : AUTO, IndoPremier

Fig. 4: Profit margins



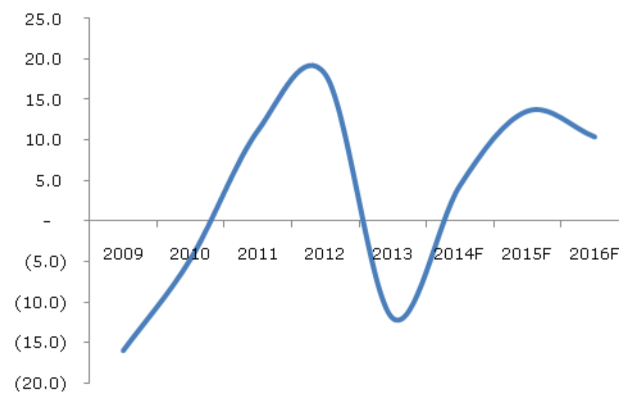
Source : AUTO, IndoPremier

Fig. 5: COGS breakdown dominated by raw materials



Source : AUTO, IndoPremier

Fig. 6: Low gearing, allowing consistent dividend distribution



Source : AUTO, IndoPremier

OEM main market

88% of AUTO's total revenue in 9M14 was generated by the OEM market, with 6.9% allocated for third party replacement market and 4.7% for exports. Around two-thirds of the OEM parts (or 59% of total revenue) were shipped to manufacturing plants with the remainder offered as replacement parts under each principal's brand. This shows that AUTO, through its subsidiaries and associate companies, has close ties with principal manufacturers. This relationship arises from the fact that most of AUTO’s subsidiaries and associates are partnered with tier-1 component manufacturers.

We expect OEM parts to contribute around 57-59% of total revenue in FY14-16F, given the exclusive relationship between AUTO, Astra International, tier-1 suppliers and the Japanese principals. We expect OEM revenue to grow at a FY13-16F CAGR of 14.9%. Growth from OEM parts is contributed by organic growth from higher demand for existing parts plus non-organic growth from the additional parts to be manufactured locally.

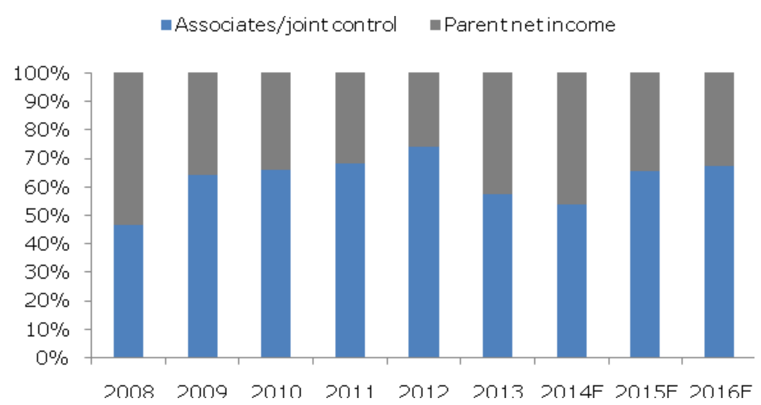
Fig. 7: Main customers of Otoparts in 4W and 2W

Source : AUTO

Associates and jointly controlled companies becoming more dominant

AUTO’s net income is driven by consolidated subsidiaries and associate companies and jointly controlled companies. We expect that in the future, net income contribution from associate companies and entities under common control will grow faster than the subsidiaries. The reason behind this expectation is the potential additional JVs to manufacture new parts or increasing capacity from existing JVs. AUTO will need the technical know-how from its partners while the partners will need AUTO for distribution and local knowledge. We expect the number of JVs to grow in the future, especially in light of the growing auto and motorcycle industry. At the moment, AUTO has 7 business units, 14 consolidated subsidiaries, 18 associate companies and jointly controlled companies, and 2 cost companies.

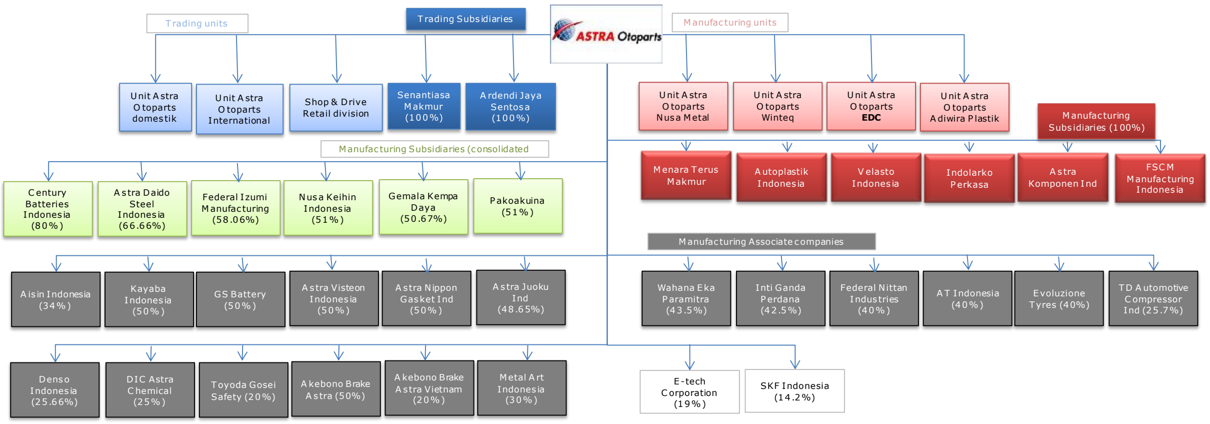
Fig. 8 : Rising net income contribution from subsidiaries



Source : AUTO, IndoPremier

EvoluzioneTyres is among the latest addition, established in collaboration with Pirelli, Italy. AUTO holds 40% stake in this JV, with the remaining owned by Pirelli. This JV will have a manufacturing capacity of 7.0m motorcycle tires. Around 50% will be sold to the domestic market with the remaining designated for export. The 2W tire market remains very competitive with Gajah Tunggal (GJTL IJ, Rp1,280, not rated) acting as the market leader with a production capacity of 27mn p.a. and sales volume of 24.4mn in FY13. Total domestic motorcycle demand was 52.3mn, translating to 47% domestic market share. Therefore, Evoluzionetyres is only aiming to grab 6.7% of the domestic market share (replacement only). Meanwhile, AHM is producing approximately 3.5mn motorcycles each year, which translate to 7.0mn tires. Therefore, Evoluzionetyres capacity will fit the industry needs. The company will aim at the broad market tire for scooters and under bows.

Fig. 9 : Corporate structure of Otoparts



Source : AUTO, IndoPremier

Capped margins from OEM

Supplying a principal manufacturer such as Toyota-Daihatsu ensures revenue flow from OEM. However, given the inherent nature of dealing with an auto manufacturer, margins of such products are relatively capped. Moreover, a weak auto industry may create pressure on the component manufacturers. Additionally, an increase in raw materials cost does not immediately translate into higher prices; such adjustments are generally made based on a quarterly review. All this is the price to be paid for the assurance of steady flow of demand for components. OEM component manufacturers have little control over pricing, which is mainly dictated by the auto principal manufacturers. This forms a stable margin environment for the company.

Parts dedicated for production

By design, Astra Otoparts' revenue is highly driven by OEM parts as the types of parts manufactured by AUTO and its subsidiaries are mainly for production purposes. The fast-moving parts manufactured by AUTO are batteries, bearings, spark plugs, tires, filters, and shock absorbers, which represent only 10% of the total 70 types of parts manufactured. AUTO is designed to support the manufacturing arms under Toyota Motor Manufacturing Indonesia (TMMIN) of Astra International, which only holds 5%. Nevertheless, TMMIN serves both the domestic and export markets. Up to 2014, total production of TMMIN was 518,000 units (372k for domestic and 146k for export).

Fig. 10 : Types of parts manufactured by AUTO and subsidiaries

Electrical parts	Battery, Horn, Head lamp, Rear combination lamp, Front combination lamp, Electric mirror, Air conditioning, Bulb headlamp, Reflector assy, Lamp assy, Compressor, Alternator, Motor starter, Electronic instrument cluster
Engine Group	Cylinder, Cylinder block, Engine piston, Engine valve, Gasket, Camshaft, Filter (air, oil, fuel), Intake manifold, Exhaust manifold, Rubber hose, Engine mounting, Air cleaner, Flywheel, Pulley, Oil Pan, Spark plug, Coil ignition, Oxygen Sensor, Radiator, Engine Bearing
Body & Chassis Group	Door frame, Door handle, Door lock, Hood lock & hinge, Window regulator, Steering wheel, Shock absorber, Stay damper, Brake system, Knuckle steering, Wheel bearing, Wheel rim, Front fork, Disc brake, Motorcycle tires, Motorcycle chain, Frame chassis & press parts
Power Train Group	Engine transmission, Clutch system, Pressure plate, Shift lever assy, Rear axle, Propeller shaft
Others	Tool set, Mechanical jack, Toll steel, Machinery steel, Stainless Steel, Heat treatment, Machining plate service, Special purpose machinery & equipment, Automation & Robotics integration, Colorant & compound

Source : AUTO

Valuation, TP Rp4,600

Due to the unique structure of AUTO, we have used two DCF calculations to arrive at our valuation: the first to represent the free cash flow of the parent company based on EBITDA, and the second to represent the free cash flow from non-consolidated subsidiaries based on net income contribution. The free cash flow for the parent company is based on WACC of 11.5% using the following assumptions: risk free of 8%, equity risk premium of 6%, cost of debt of 11.5% and debt to equity of 70:30. Long-term growth rate is set at 6%. Meanwhile, the free cash flow for non-consolidated companies is discounted using cost of equity set at 13%.

The parent company's discounted cash flow results in a share value of Rp1,619, while the discounted cash flow to equity from subsidiaries results in a value per share of Rp2,979. This results in a total value for AUTO of Rp4,599, or rounded up to our target price of Rp4,600.

Fig. 11 : DCF of parent company

	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
EBITDA	1,272	1,449	1,741	1,983	2,256	2,492	2,556	2,613	2,661	2,699
change in W/C	(149)	(182)	(332)	(261)	(305)	(280)	(160)	(175)	(187)	(194)
Capex	(2,500)	(600)	(800)	(880)	(968)	(1,065)	(1,118)	(1,174)	(1,233)	(1,294)
Tax on EBIT	(159)	(154)	(198)	(252)	(331)	(392)	(403)	(399)	(391)	(380)
FCF	(1,535)	514	411	590	652	754	875	865	850	831
Terminal value										15,881
FCF	1,847									
Terminal value	5,939									
Enterprise value	7,786									
Net debt	18									
Equity value	7,805									
Equity value per share	1,619									

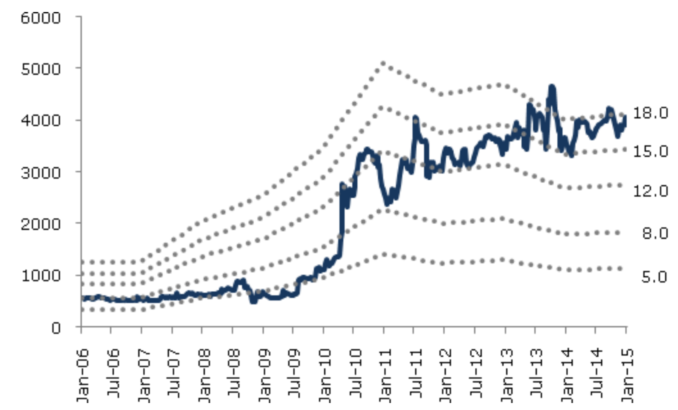
Source : IndoPremier

Fig. 12 : DCF of subsidiaries

	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Net income contribution	774	849	928	1,018	1,109	1,199	1,289	1,386	1,492	1,607
Terminal value		-	-	-	-	-	-	-	-	25,046
FCF	5,888									
Terminal value	8,471									
Equity value	14,360									
Equity value per share	2,979									

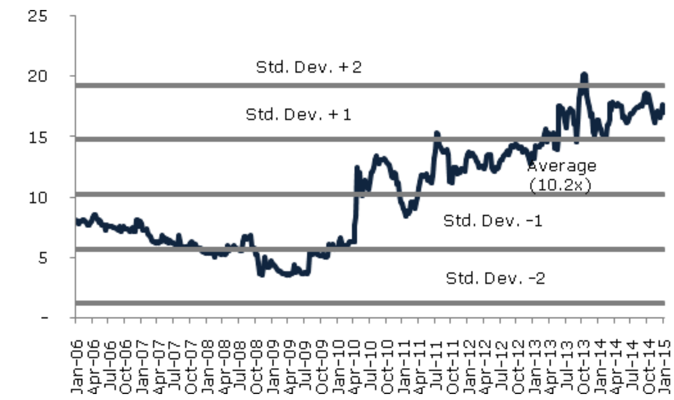
Source : IndoPremier

Fig. 13: PE Band



Source : Bloomberg, IndoPremier

Fig. 14: Trading within +2-std



Source : Bloomberg, IndoPremier

Year To 31 Dec (RpBn)	2012A	2013A	2014F	2015F	2016F
Income Statement					
Net Revenue	8,277	10,702	12,740	14,229	16,301
Cost of Sales	(6,921)	(8,990)	(10,887)	(11,987)	(13,815)
Gross Profit	1,356	1,712	1,853	2,242	2,486
SG&A Expenses	(881)	(1,041)	(1,210)	(1,460)	(1,693)
Operating Profit	476	672	643	783	793
Net Interest	(70)	10	28	(149)	(178)
Forex Gain (Loss)	0	0	0	0	0
Others-Net	858	587	636	774	849
Pre-Tax Income	1,263	1,269	1,306	1,408	1,465
Income Tax	(127)	(211)	(201)	(159)	(154)
Minorities	(83)	(52)	(76)	(70)	(66)
Net Income	1,053	1,006	1,029	1,179	1,245
Balance Sheet					
Cash & Equivalent	652	1,474	2,816	1,154	1,091
Receivable	1,188	1,651	1,851	2,101	2,430
Inventory	1,155	1,605	1,781	2,036	2,352
Other Current Assets	211	300	311	345	396
Total Current Assets	3,206	5,030	6,759	5,637	6,269
Fixed Assets - Net	2,084	3,183	5,033	7,044	6,988
Goodwill	6	130	130	130	130
Non-Current Assets	282	363	344	344	344
Total Assets	8,882	12,618	16,465	17,768	18,802
ST Loans	1,095	62	0	0	0
Payable	812	1,511	0	1,672	2,028
Other Payables	694	929	1,039	1,224	1,390
Current Portion of LT Loans	150	159	159	159	159
Total Current Liab.	2,752	2,661	2,644	3,054	3,577
Long Term Loans	402	108	3,118	3,046	2,537
Other LT Liab.	243	289	347	416	500
Total Liabilities	3,397	3,059	6,109	6,516	6,614
Equity	449	3,438	3,438	3,438	3,438
Retained Earnings	4,683	5,180	5,900	6,726	7,597
Minority Interest	353	940	1,016	1,087	1,153
Total SHE + Minority Int.	5,485	9,559	10,355	11,251	12,188
Total Liabilities & Equity	8,882	12,618	16,465	17,768	18,802

Source : AUTO, IndoPremier

Year to 31 Dec	2012A	2013A	2014F	2015F	2016F
Cash Flow					
Net Profit	1,136	1,058	1,105	1,249	1,311
Depr. & Amortization	194	937	400	490	656
Changes in Working Capital	(70)	(63)	(355)	(149)	(182)
Others	17	(93)	(23)	163	200
Cash Flow From Operating	1,276	1,838	1,126	1,753	1,985
Capital Expenditure	(746)	(2,240)	(2,231)	(2,500)	(600)
Others	(569)	(488)	(93)	(255)	(358)
Cash Flow From Investing	(1,314)	(2,728)	(2,324)	(2,755)	(958)
Loans	751	(1,317)	2,948	(72)	(509)
Equity	0	2,965	0	0	0
Dividends	(314)	(302)	(309)	(354)	(373)
Others	(42)	515	(89)	(237)	(213)
Cash Flow From Financing	394	1,861	2,550	(663)	(1,094)
Changes in Cash	356	971	1,352	(1,665)	(67)
Financial Ratios					
Gross Margin (%)	16.4	16.0	14.5	15.8	15.3
Operating Margin (%)	5.7	6.3	5.0	5.5	4.9
Pre-Tax Margin (%)	15.3	11.9	10.3	9.9	9.0
Net Margin (%)	12.7	9.4	8.1	8.3	7.6
ROA (%)	13.3	9.4	7.1	6.9	6.8
ROE (%)	20.6	13.4	10.3	10.9	10.6
ROIC (%)	17.9	14.0	11.3	10.3	9.9
Acct. Receivables TO (days)	43.7	44.1	46.0	46.1	46.3
Acct. Receivables - Other TO (days)	4.9	4.3	4.2	4.6	4.5
Inventory TO (days)	6.6	6.5	6.4	6.3	6.3
Payable TO (days)	39.7	47.2	49.6	47.5	48.9
Acct. Payables - Other TO (days)	4.0	3.8	4.2	4.2	4.1
Debt to Equity (%)	30.0	3.4	31.6	28.5	22.1
Interest Coverage Ratio (x)	0.2	0.1	0.3	0.4	0.4
Net Gearing (%)	18.1	(12.0)	4.4	18.2	13.2

Source : AUTO,IndoPremier

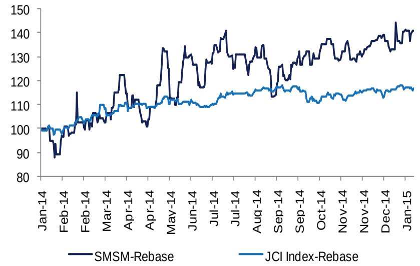
Selamat Sempurna (SMSM IJ)

Initiation

HOLD

Stock Data	
Target price (Rp)	Rp5,100
Prior TP (Rp)	*n.a*
Share price (Rp)	Rp4,895
Upside/downside (%)	*+4.2*
Shares outstanding (m)	1,440
Market cap. (US$ m)	561
Free float (%)	15.8
Avg. 6m daily T/O (US$ m)	0.1

Price Performance	3M	6M	12M
Absolute (%)	4.0	7.7	39.9
Relative to JCI (%)	0.9	6.5	24.0
52whigh/low (Rp)	4,895 / 3,060		



Major Shareholders	
Adrindo Intiperkasa	58.1%

Estimate Change; Vs. Consensus	2014	2015
Latest EPS (Rp)	207	259
Vs. Prior EPS (%)	n.a	n.a
Vs. Consensus (%)	-13.4	-1.8

Source: Bloomberg

Soundness reflected in valuation

- **Focus on replacement market**
- **OEM product supply ensures quality**
- **Steady dividend distribution**
- **Hold rating given rich valuation**

Automotive replacement market a cash cow. About 88% of Selamat Sempurna's (SMSM) total revenue as of FY13 was driven by sales of filters (air and oil) and radiators. The filtration product contributed about 71% of total revenue in FY13. About 90% of revenue was generated by the recurring aftermarket. With the growing 4W population in Indonesia, SMSM is well positioned to capture this market's potential -- especially in Indonesia, where servicing vehicles in authorized workshops is considered expensive. Third-party parts such as Sakura (brand name of SMSM) then becomes a cheaper solution for maintenance and replacement.

OEM products ensure quality. SMSM serves a wide range of global brands by supplying filtration products and radiators as OEM parts to companies such as Toyota, Daihatsu, Honda, Nissan, Mazda, and Mitsubishi, as well as heavy equipment manufacturers such as Caterpillar, Komatsu, MAN, and Kobelco. OEM sales only contributed about 5% of total revenue in FY13. Despite the small proportion, serving the OEM segment serves a strategic purpose with regard to quality assurance, especially for the replacement market. SMSM will maintain its focus on the replacement market while ensuring the quality of its products is up to standard by serving the OEM segment.

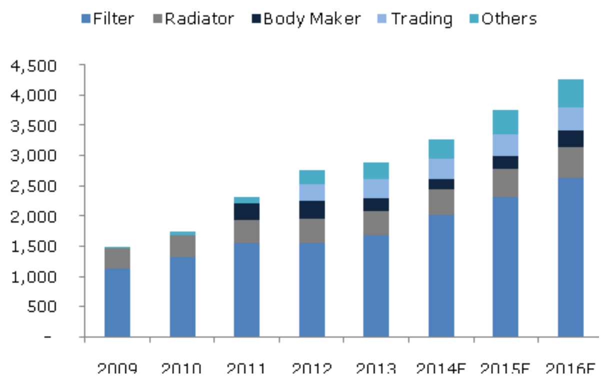
Consistent dividend policy. SMSM has distributed dividends for nine consecutive years, with a lucrative dividend payout of 45-98%. The company had a very low gearing of only 11.2% in FY14, which should allow the company to sustain its high dividend payout policy. Routine capex is estimated at Rp100bn per year; meanwhile, we expect the company to generate an EBITDA of Rp535bn in FY14. Having such strong cash flow should allow SMSM to continue such dividend policy. Assuming SMSM distributes 50% of its net profit in FY14, its dividend yield could reach about 2.x%.

Natural hedge. In FY13, total export revenue reached Rp1.5tn or around 62% of total revenue. About 23% of exports went to the Asia region, 19% to the US and 19% to Europe. Meanwhile, 70% of total costs consisted of raw materials, dominated mainly by steel. SMSM is naturally hedged from currency movements as export revenue hedges the raw material needs. As of Sep14, SMSM's total debt was Rp81bn, Rp50bn of which was a US$ denominated L/C facility used to import raw materials.

Year To 31 Dec	2012A	2013A	2014F	2015F	2016F
Revenue(RpBn)	2,269	2,373	2,671	3,035	3,433
EBITDA(RpBn)	504	524	535	633	732
EBITDA Growth (%)	19.3	3.8	2.2	18.2	15.7
Net Profit(RpBn)	219	308	298	373	448
EPS (Rp)	152	214	207	259	312
EPS Growth (%)	3.3	40.6	(3.2)	25.2	20.1
Net Gearing (%)	35.0	23.2	11.2	(7.8)	(18.0)
PER (x)	32.1	22.8	23.6	18.8	15.7
PBV (x)	7.7	7.0	6.0	5.0	4.2
Dividend Yield (%)	2.2	2.4	2.1	2.4	2.9
EV/EBITDA (x)	14.6	13.9	13.4	10.9	9.2

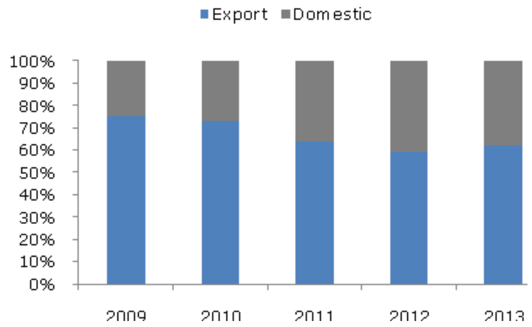
Source : SMSM, IndoPremier *Share Price Closing as of : 15-January-2015*

Fig. 1: Revenue breakdown by product (Rpbn)



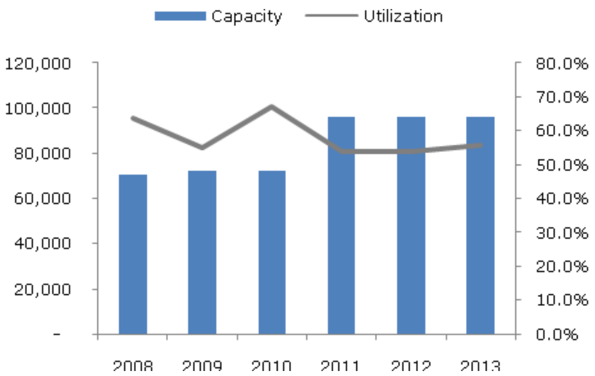
Source : SMSM, IndoPremier

Fig. 2: Domestic vs export revenue contribution



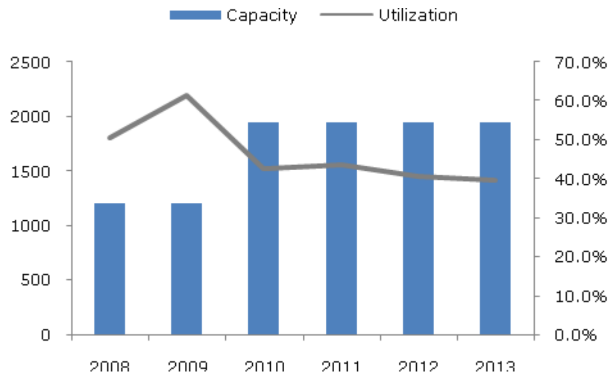
Source : SMSM, IndoPremier

Fig. 3: Filter production capacity and utilization rate



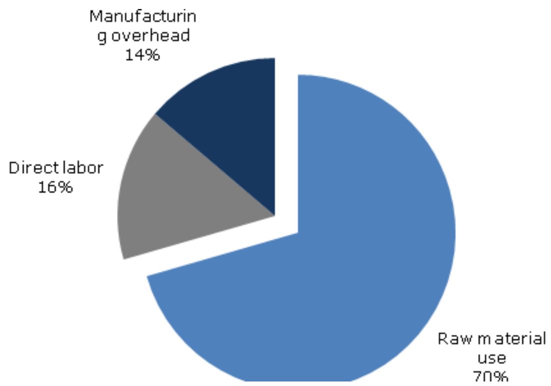
Source : SMSM, IndoPremier

Fig. 4: Radiator production capacity and utilization rate



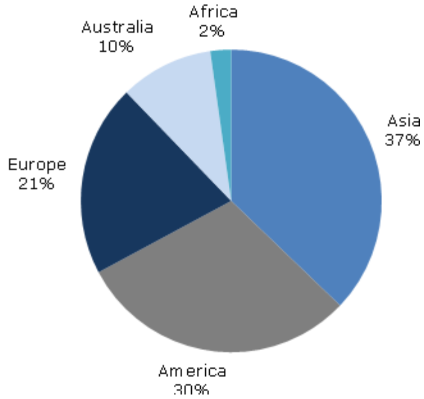
Source : SMSM, IndoPremier

Fig. 5: COGS breakdown dominated by raw materials



Source : SMSM, IndoPremier

Fig. 6: Export destination countries



Source : SMSM, IndoPremier

Key drivers: replacement market and filtration products

About 71% of total revenue is generated by filtration products, followed by 17% revenue contribution from radiators. These two products are currently the main drivers of SMSM's revenue. Additionally, these products are aimed at the replacement market both for domestic as well as for exports. About 5% of total revenue is designated to fulfill the demand of OEM. Nevertheless, OEM parts are important to ensure product quality and functions as a marketing tool and enhances brand equity. OEM parts carry a smaller margin compared to products aimed for the replacement market. Additionally, price adjustment for OEM parts usually comes at a lag despite the immediate cost impact of higher raw material prices. SMSM considers OEM parts as crucial for strategic marketing rather than a lucrative segment. The company continues to focus on the replacement market as the cash cow.

SMSM has more than 6,000 part numbers available for filtration products, which mainly consist of several types of air and oil filters for both automotive and heavy equipment. Meanwhile, for radiator products, SMSM manufactures two types of radiator, aluminum and copper brass. However, the copper brass radiator will be gradually discontinued as demand tilts towards aluminum radiators. 80% of radiator products are sold to the export market, with the remaining 20% sold as OEM part to local auto manufacturers.

Fig. 7 : Filtration products for automotive

Source : SMSM

Fig. 8 : Filtration products for heavy equipment

Source : SMSM

Fig. 9 : Radiator products for automotive and non-automotive

Source : SMSM

Fig. 10 : List of OEM and OES of Selamat Sempurna

Anhui HA	Hitachi	Mercedes-Benz
Bei Ben	Holden	Mitsubishi
Carrier	Honda	Nissan
Caterpillar	Hyundai	Shanghai DE
Chery	Isuzu	Shantui CM
Chevrolet	JCB	Suzuki
CNH (New Holland)	KIA	TCM
Daihatsu	Kobelco	Toyota
Ford	Komatsu	UD Trucks
Foton	Kubota	Yanmar
Greatwall	MAN	
Hino	Mazda	

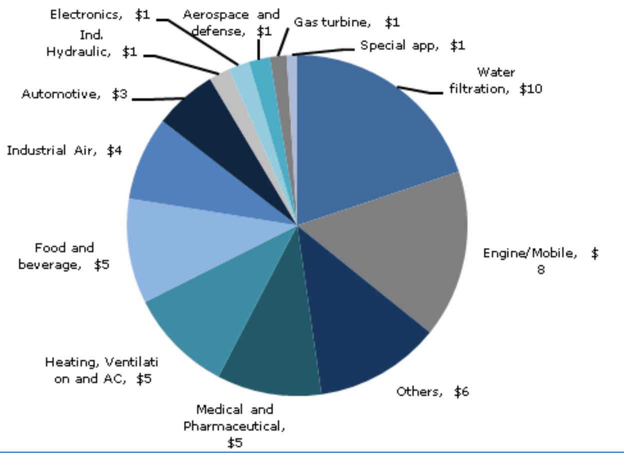
Source : SMSM

Potential of filtration market

According to Donaldson Company Inc. of the US, the total global filtration market has a potential of US$50bn. The top four sectors of filtration are: 1) Water: US$10bn, 2) Engine/Mobile: US$8bn, 3) Food and Beverage: US$5bn, and 4) Medical and Pharmaceutical: US$5bn. SMSM itself foresees the potential market at US$16bn, comprising Engine/Mobile, Industrial Air, Automotive and Industrial Hydraulic. At the moment, SMSM is concentrating on serving the engine/mobile and automotive segments. Having still a huge potential in the filtration market, SMSM is not planning to manufacture other automotive parts any time soon.

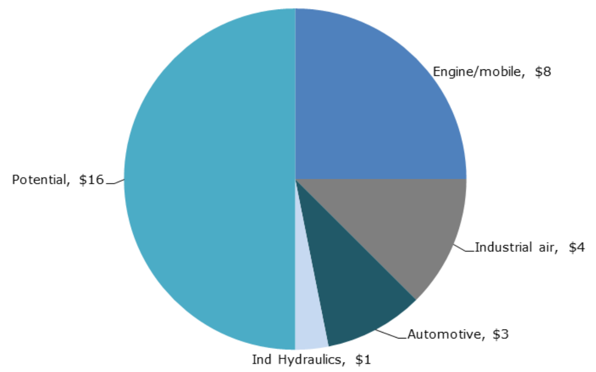
Moreover, the company has not immediately boosted its production capacity. Utilization of the filter capacity hit 55% in FY13 and the company expects this to reach around 65% in FY14. Therefore, the company still has sufficient room for growth over the next 2-3 years. The rule of thumb is that if capacity utilization reaches 80%, then the company will need to start investing in capacity upgrade. Adding new capacity might take 12-18 months of construction. We have assumed that the company will increase its capacity by 14mn, bringing total capacity to 110mn units by FY17.

Fig. 11 : Filtration world market



Source : SMSM, Donaldson

Fig. 12 : SMSM will concentrate on particular filtration products



Source : SMSM, Donaldson

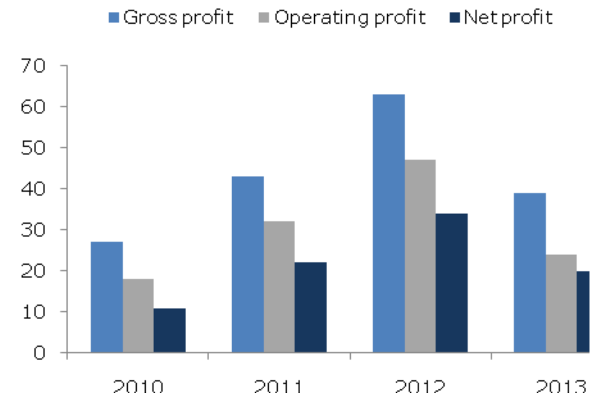
Dependency on imported raw materials

70% of total cost of goods sold consisted of raw materials, dominated mainly by imported steel. Local steel manufacturer are still not able to meet the standard requirements of steel for automotive parts. SMSM imports steel from Posco Korea. The good news is that steel price is on the weaker side, leaving margins relatively intact. However, the stronger US$ might affect imported raw material cost, including steel. Thanks to the 60% revenue contribution from the export market, the company has a natural hedge against imported raw materials. Moreover, since a large portion of its revenue is driven by the replacement market, SMSM has better price control if input prices increase.

Technical assistance mostly from Japan
To achieve the product quality acceptable to the export market, SMSM has sought technical assistance from various partners. For filter manufacturing, SMSM has obtained technical assistance from Donaldson Company USA (since 1984), Mahle Japan Limited (1985) and Tokyo Roki (1988). For radiator manufacturing, SMSM has received technical assistance from Tokyo Radiators Mfg (1979). For other products such as brake pipes, SMSM has received technical assistance from Usui Kokusai Sangyo Kaisha (1982), from ShinMaywa Industrial (1982) for body maker, and from Sueyoshi Kogyo (2013) for fuel tanks and hydraulic tank.

Body maker segment needs to be revived
One SMSM subsidiary, Hydraxle Perkasa, manufactures dump hoist and body maker for dump truck, trailer, mixer and tank. Over the past few years, Hydraxle Perkasa's revenue has been driven mainly by the mining sector, especially coal. Given the weak coal price, orders from the coal mining sector have declined dramatically. However, we think that the worst is over as the company has tried to diversify its business away from the mining sector. Demand for mixer trucks for concrete cement has increased significantly, in line with growing property and infrastructure development. SMSM has captured this opportunity by building mixer trucks. Nonetheless, SMSM will need to find new markets for the body maker business to replace lost revenue from the mining sector.

Fig. 13: Body maker profitability profile (Rp bn)



Source : SMSM

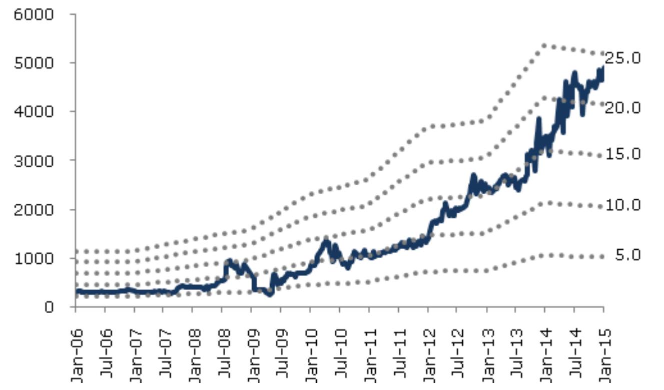
Valuation looks rich; HOLD
We base our valuation of SMSM on DCF assuming a risk free rate of 8%, an equity risk premium of 6%, cost of debt 11%, debt to equity ratio of 70:30 and terminal growth of 6%. This leads to a WACC of 12.0% and DCF value of Rp5,088 per share (rounded up to Rp5,100), which equates to only 4.2% potential upside. We therefore have a HOLD call on the stock.

Fig. 14 : DCF of subsidiaries (Rp bn)

	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
EBITDA	633	732	828	917	1,015	1,113	1,128	1,230	1,349	1,491
change in W/C	(17)	(120)	(126)	(129)	(145)	(157)	(120)	(143)	(210)	(215)
Capex	(100)	(100)	(100)	(150)	(150)	(150)	(150)	(150)	(150)	(200)
Tax on EBIT	(111)	(133)	(155)	(175)	(200)	(222)	(227)	(252)	(280)	(314)
FCF	404	379	447	462	521	584	631	685	708	762
Terminal value										12,876
DCF	2,892									
Terminal value	4,542									
Enterprise value	7,434									
Net debt	(109)									
Equity value	7,325									
Equity per share	5,088									

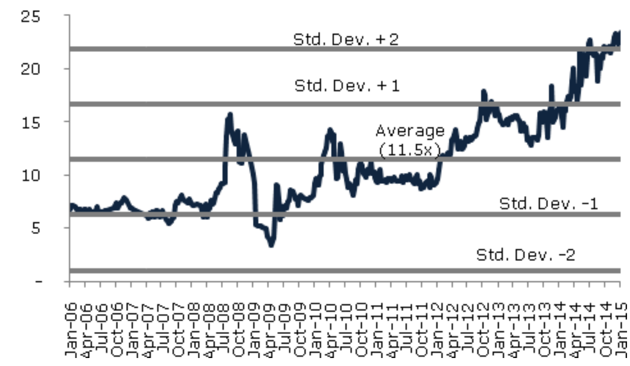
Source : IndoPremier

Fig. 15: PE band



Source : IndoPremier, Bloomberg

Fig. 16: Surpassing 2-std



Source : IndoPremier, Bloomberg

Year To 31 Dec (RpBn)	2012A	2013A	2014F	2015F	2016F
Income Statement					
Net Revenue	2,269	2,373	2,671	3,035	3,433
Cost of Sales	(1,669)	(1,735)	(2,011)	(2,261)	(2,538)
Gross Profit	600	638	660	773	895
SG&A Expenses	(211)	(216)	(238)	(263)	(292)
Operating Profit	389	421	423	510	603
Net Interest	(29)	(27)	(20)	(6)	2
Forex Gain (Loss)	0	0	0	0	0
Others-Net	10	64	0	0	0
Pre-Tax Income	370	459	402	504	605
Income Tax	(83)	(108)	(89)	(111)	(133)
Minorities	(36)	(30)	(16)	(20)	(24)
Net Income	219	308	298	373	448
Balance Sheet					
Cash & Equivalent	63	93	70	211	402
Receivable	469	561	589	627	710
Inventory	425	398	496	496	556
Other Current Assets	29	45	44	50	56
Total Current Assets	986	1,097	1,199	1,383	1,724
Fixed Assets - Net	514	492	480	457	428
Goodwill	0	0	0	0	0
Non-Current Assets	18	70	15	15	15
Total Assets	1,556	1,701	1,735	1,897	2,208
ST Loans	128	146	100	0	0
Payable	97	164	0	186	209
Other Payables	90	122	113	127	142
Current Portion of LT Loans	142	66	0	0	0
Total Current Liab.	458	498	378	312	351
Long Term Loans	111	115	101	101	101
Other LT Liab.	77	82	84	86	89
Total Liabilities	646	694	563	500	541
Equity	186	193	193	193	193
Retained Earnings	459	644	794	999	1,246
Minority Interest	265	169	185	205	228
Total SHE + Minority Int.	910	1,007	1,172	1,397	1,667
Total Liabilities & Equity	1,556	1,701	1,735	1,897	2,208

Source : SMSM, IndoPremier

Year to 31 Dec	2012A	2013A	2014F	2015F	2016F
Cash Flow					
Net Profit	255	338	314	393	472
Depr. & Amortization	219	103	113	123	129
Changes in Working Capital	(29)	3	(129)	(13)	(115)
Others	1	2	20	(16)	(20)
Cash Flow From Operating	479	458	318	487	467
Capital Expenditure	(220)	(133)	(45)	(100)	(100)
Others	(25)	2	4	7	16
Cash Flow From Investing	(245)	(131)	(41)	(93)	(84)
Loans	63	(54)	(126)	(100)	0
Equity	7	7	0	0	0
Dividends	(151)	(166)	(149)	(168)	(202)
Others	(39)	(126)	(8)	6	10
Cash Flow From Financing	(120)	(339)	(284)	(262)	(191)
Changes in Cash	114	(12)	(6)	132	191
Financial Ratios					
Gross Margin (%)	26.4	26.9	24.7	25.5	26.1
Operating Margin (%)	17.1	17.8	15.8	16.8	17.6
Pre-Tax Margin (%)	16.3	19.3	15.1	16.6	17.6
Net Margin (%)	9.7	13.0	11.2	12.3	13.1
ROA (%)	14.6	18.9	17.4	20.6	21.9
ROE (%)	24.5	32.1	27.4	29.1	29.3
ROIC (%)	21.1	28.4	25.7	30.7	32.8
Acct. Receivables TO (days)	72.0	78.8	78.1	72.7	70.6
Acct. Receivables - Other TO (days)	0.3	0.4	0.4	0.4	0.4
Inventory TO (days)	3.9	4.2	4.5	4.6	4.8
Payable TO (days)	21.7	27.5	29.9	28.3	28.4
Acct. Payables - Other TO (days)	1.4	0.8	0.4	0.4	0.4
Debt to Equity (%)	41.9	32.5	17.2	7.2	6.1
Interest Coverage Ratio (x)	0.1	0.1	0.1	0.0	0.0
Net Gearing (%)	35.0	23.2	11.2	(7.8)	(18.0)

Source : SMSM, IndoPremier

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HOLD	: Expected total return between -10% and 10% within a 12-month period
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