



Indonesia Autos

Shifting gears

In this report, we deep dive into the auto sector and analyze the following key topics:

- Industry growth** – We expect +5% growth in 4W wholesale volume to 1.05mn units in 2024F, but structural growth led by a potential doubling of *GDP/capita in the next decade* should boost **4W wholesales to 2.5mn units by 2032F** (a 11.5% CAGR over 2024-32F), in part, led by **infrastructure reforms**.
- We assess the short-term and long-term implications from government incentives to boost EV penetration in the sector.** While *short term demand might be weak* (at least until 1H24F) due to weak purchasing power and rise in NPLs, we expect EV sales to contribute 5% of 4W wholesales (vs 1.7% in 2023).
- We highlight the **structural change in the economics** of owning an EV – with **operating expenses** of owning an EV (fuel, tax, and service) **-83% and -86% lower** vs internal combustion engine (ICE) and hybrid vehicles, respectively...
- ... which should result in winners and laggards** in the automotive value chain. We believe **spare parts companies** that are agnostic to supplying parts should be the initial winners, also supported by minimum local content requirements.

We remain cautious in the near term, but maintain our long-term bullish call on the sector. Our top picks are: DRMA IJ, ASII IJ, SMSM IJ and AUTO IJ (all rated Buy).

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Selamat Sempurna SISM.JK SISM IJ

EQUITY: AUTOS & AUTO PARTS

Dividend and stable compounder

Initiate coverage at Buy and TP of IDR2,500

We initiate coverage of Selamat Sempurna (SISM), Southeast Asia's largest filter manufacturer by market share, according to SISM's in-house survey, with a Buy rating and a TP of IDR2,500, implying 23% upside from the current price. We like SISM for its: 1) strong aftermarket presence; 2) quality earnings; and 3) stable dividend play

Stable dividend payout may limit downside from auto industry's cyclicality

We notice SISM has paid out a cumulative dividend of around IDR688/share since 2011 (Fig. 13) – or an average annual yield of 5%. We believe the company's **strong FCF generation business model** is one of the reasons to own the stock. We expect that SISM will continue to have a minimum dividend payout of 65%.

Strong aftermarket presence with loyal customers

Majority (>90%) of SISM's revenue comes from the aftermarket division. We think this represents SISM's strong brand equity and loyal customer base. By partnering with global players such as Donaldson (DCI US, non-rated), SISM has been increasing its expertise and thus able to maintain strong presence in the aftermarket segment. As such, we expect a 6%/7% revenue/NPAT CAGR over 2022-2025F, primarily driven by its filter business, which is agnostic in nature (heavy equipment, passenger, commercial, etc.).

Quality of earnings throughout the cycle warrants a re-rating

SISM has maintained its earnings stability throughout economic cycles, which we think warrants a premium on its valuation. As a bigger part of its revenue comes from overseas (contributed 60% of revenues in 9M23, according to the company), SISM's ASP could be raised further should IDR depreciate, minimising earnings volatility.

Undemanding valuation; initiate at Buy with DCF-based TP of IDR2,500

SISM's strong profitability, ROE and net margin are potential catalysts for a re-rating, in our view. Our TP of IDR2,500 is based on DCF valuation assuming a 6.5% risk-free rate, 7.2% equity risk premium, beta of 1.0, and a terminal growth rate of 2.0%. The period of which cashflows are discounted are 2025F-2030F. The benchmark index is JCI. At our TP, SISM would trade at 14.7x FY24F P/E (vs. 11.9x currently). Downside risks to our call are: 1) intensifying competition landscape; 2) significant surge in raw materials price that may impede margin; 3) new industry landscape that requires lesser products from SISM or less frequent to purchase; and 4) low liquidity of the stock.

Year-end 31 Dec	FY22		FY23F		FY24F		FY25F	
Currency (IDR)	Actual	Old	New	Old	New	Old	New	
Revenue (bn)	4,894	0	5,153	0	5,503	0	5,793	
Reported net profit (bn)	848	0	921	0	982	0	1,052	
Normalised net profit (bn)	848	0	921	0	982	0	1,052	
FD normalised EPS	147.31		159.91		170.52		182.68	
FD norm. EPS growth (%)	28.1		8.6		6.6		7.1	
FD normalised P/E (x)	13.8	–	12.7	–	11.9	–	11.1	
EV/EBITDA (x)	8.6	–	7.7	–	7.0	–	6.3	
Price/book (x)	4.0	–	3.6	–	3.3	–	3.0	
Dividend yield (%)	4.2	–	5.1	–	5.7	–	6.4	
ROE (%)	31.3		30.2		29.2		28.6	
Net debt/equity (%)	net cash		net cash		net cash		net cash	

Source: Company data, Verdhana estimates

Rating Starts at	Buy
Target price Starts at	IDR 2,500
Closing price 1 March 2024	IDR 2,030
Implied upside	+23.2%
Market Cap (USD mn)	745.3
ADT (USD mn)	0.3

Relative performance chart



Source: LSEG, Verdhana

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Key data on Selamat Sempurna

Performance

(%)	1M	3M	12M		
Absolute (IDR)	-1.5	8.6	31.8	M cap (USDm)	745.3
Absolute (USD)	-1.0	7.1	28.0	Free float (%)	41.5
Rel to Jakarta Stock Exchange Composite Index	-3.0	4.9	24.9	3-mth ADT (USDm)	0.3

Income statement (IDRbn)

Year-end 31 Dec	FY21	FY22	FY23F	FY24F	FY25F
Revenue	4,163	4,894	5,153	5,503	5,793
Cost of goods sold	-2,826	-3,289	-3,428	-3,668	-3,852
Gross profit	1,337	1,605	1,724	1,835	1,941
SG&A	-407	-431	-453	-489	-509
Employee share expense	0	0	0	0	0
Operating profit	931	1,174	1,272	1,346	1,431
EBITDA	1,070	1,316	1,429	1,507	1,598
Depreciation	-139	-143	-157	-162	-167
Amortisation	0	0	0	0	0
EBIT	931	1,174	1,272	1,346	1,431
Net interest expense	-12	-10	20	31	44
Associates & JCEs	3	8	9	10	11
Other income	0	0	0	0	0
Earnings before tax	922	1,172	1,301	1,387	1,486
Income tax	-194	-236	-286	-305	-327
Net profit after tax	728	936	1,014	1,082	1,159
Minority interests	-66	-88	-94	-100	-107
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	662	848	921	982	1,052
Extraordinary items	0	0	0	0	0
Reported NPAT	662	848	921	982	1,052
Dividends	-403	-489	-599	-668	-747
Transfer to reserves	259	359	322	314	305

Valuations and ratios

Reported P/E (x)	17.7	13.8	12.7	11.9	11.1
Normalised P/E (x)	17.7	13.8	12.7	11.9	11.1
FD normalised P/E (x)	17.7	13.8	12.7	11.9	11.1
Dividend yield (%)	3.4	4.2	5.1	5.7	6.4
Price/cashflow (x)	23.7	10.9	9.0	8.4	7.8
Price/book (x)	4.6	4.0	3.6	3.3	3.0
EV/EBITDA (x)	10.8	8.6	7.7	7.0	6.3
EV/EBIT (x)	12.4	9.6	8.6	7.8	7.1
Gross margin (%)	32.1	32.8	33.5	33.3	33.5
EBITDA margin (%)	25.7	26.9	27.7	27.4	27.6
EBIT margin (%)	22.4	24.0	24.7	24.5	24.7
Net margin (%)	15.9	17.3	17.9	17.8	18.2
Effective tax rate (%)	21.0	20.1	22.0	22.0	22.0
Dividend payout (%)	60.9	57.7	65.0	68.0	71.0
ROE (%)	27.6	31.3	30.2	29.2	28.6
ROA (pretax %)	31.7	35.8	37.3	38.4	39.7

Growth (%)

Revenue	28.7	17.6	5.3	6.8	5.3
EBITDA	26.9	23.0	8.6	5.5	6.0
Normalised EPS	35.7	28.1	8.6	6.6	7.1
Normalised FDEPS	35.7	28.1	8.6	6.6	7.1

Source: Company data, Verdhana estimates

Cashflow statement (IDRbn)

Year-end 31 Dec	FY21	FY22	FY23F	FY24F	FY25F
EBITDA	1,070	1,316	1,429	1,507	1,598
Change in working capital	-349	45	-136	-118	-91
Other operating cashflow	-228	-290	-1	0	0
Cashflow from operations	493	1,071	1,292	1,390	1,506
Capital expenditure	-232	-384	-239	-255	-264
Free cashflow	261	687	1,053	1,135	1,243
Reduction in investments					
Net acquisitions	0	0	0	0	0
Dec in other LT assets	-7	-33	-9	-32	-19
Inc in other LT liabilities	-26	-11	0	0	0
Adjustments	104	171			
CF after investing acts	332	815	1,044	1,104	1,224
Cash dividends	-403	-489	-599	-668	-747
Equity issue	0	0	0	0	0
Debt issue	27	71	-56	0	0
Convertible debt issue	0	0	0	0	0
Others	20	-76	3	-3	-2
CF from financial acts	-356	-495	-652	-671	-749
Net cashflow	-23	320	392	433	475
Beginning cash	685	661	982	1,373	1,806
Ending cash	661	982	1,373	1,806	2,281
Ending net debt	-485	-751	-1,218	-1,650	-2,125

Balance sheet (IDRbn)

As at 31 Dec	FY21	FY22	FY23F	FY24F	FY25F
Cash & equivalents	661	982	1,373	1,806	2,281
Marketable securities	0	0	0	0	0
Accounts receivable	932	904	1,053	1,124	1,184
Inventories	1,100	1,169	1,130	1,209	1,270
Other current assets	102	68	100	107	113
Total current assets	2,795	3,122	3,656	4,247	4,847
LT investments	70	81	90	99	110
Fixed assets	712	842	770	704	636
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	292	335	331	351	358
Total assets	3,869	4,380	4,848	5,401	5,951
Short-term debt	123	106	88	88	88
Accounts payable	270	263	306	327	344
Other current liabilities	276	336	299	318	335
Total current liabilities	670	705	692	733	767
Long-term debt	53	124	68	68	68
Convertible debt	0	0	0	0	0
Other LT liabilities	234	232	328	489	656
Total liabilities	957	1,061	1,088	1,289	1,491
Minority interest	391	423	549	585	627
Preferred stock	0	0	0	0	0
Common stock	194	199	199	199	199
Retained earnings	2,298	2,655	2,977	3,291	3,596
Proposed dividends	0	0	0	0	0
Other equity and reserves	29	42	34	35	37
Total shareholders' equity	2,521	2,896	3,211	3,526	3,833
Total equity & liabilities	3,869	4,380	4,848	5,401	5,951

Liquidity (x)

Current ratio	4.17	4.43	5.28	5.80	6.32
Interest cover	79.1	122.6	-	-	-

Leverage

Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Per share

Reported EPS (IDR)	114.96	147.31	159.91	170.52	182.68
Norm EPS (IDR)	114.96	147.31	159.91	170.52	182.68
FD norm EPS (IDR)	114.96	147.31	159.91	170.52	182.68
BVPS (IDR)	437.74	502.96	557.53	612.27	665.60
DPS (IDR)	70.00	84.94	103.94	115.96	129.70

Activity (days)

Days receivable	81.7	68.5	69.3	72.4	72.7
Days inventory	142.1	125.9	122.4	116.7	117.4
Days payable	34.9	29.6	30.3	31.6	31.8
Cash cycle	188.9	164.8	161.4	157.5	158.3

Source: Company data, Verdhana estimates

Company profile

PT Selamat Sempurna Tbk. (SMSM), established on January 19, 1971, is a leading manufacturer of automotive and industrial parts in Indonesia. The company has a diverse portfolio of manufacturing filters, radiators, oil coolers, condensers, brake pipes, fuel pipes, fuel tanks, exhaust systems, and press parts. The core of SMSM's business is its Sakura Filter and ADR Radiator brands.

Valuation Methodology

Our TP of IDR2,500 is based on DCF valuation assuming a 6.5% risk-free rate, 7.2% equity risk premium, beta of 1.0, and a terminal growth rate of 2.0%. The period of which cashflows are discounted are 2025F-2030F. The benchmark index is JCI.

Risks that may impede the achievement of the target price

Downside risks to our call are: 1) intensifying competition landscape, 2) significant surge in raw materials price that may impede margin; 3) new industry landscape that requires lesser products from SMSM or less frequent to purchase, and 4) low liquidity of the stock.

ESG

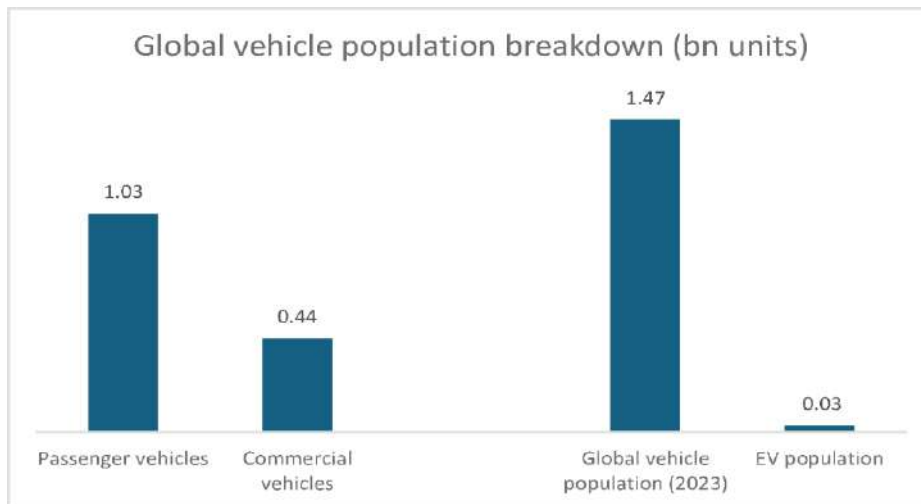
As an auto parts manufacturer, SMSM continues to invest in responsible manufacturing, primarily in waste treatment and energy usage. Company gradually streamlines production activity to be more energy efficient. Besides that, SMSM also allocate funds for social matters, related to health, education, and surrounding society development.

Industry overview

As SMSM's business mainly operates in the auto after-market segment, car population plays a big role in its business growth. According to Hedges & Company, the number of cars in the world is estimated to be around **1.47bn vehicles**. And **OICA** estimates 29-30% of the global car population is commercial vehicles.

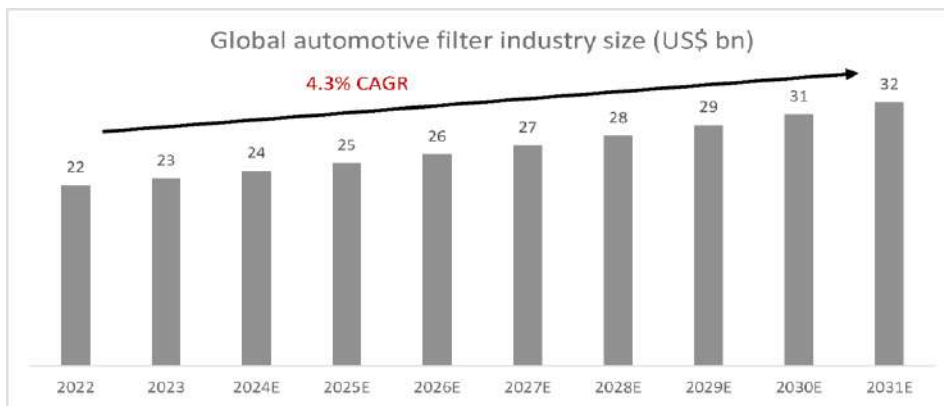
The top two sales contributors of SMSM are filters and radiators – both combined currently contributing around 80-85% of the company's total sales in 9M23.

Fig. 64: Global vehicle population – EV is still a small portion but is growing



Source: OICA, Statista, Verdhana research

Fig. 65: Global automotive filter market size



Source: Precedence, Verdhana research

As 60% of SMSM's business is associated with the export market (it exported to 120 countries with trademark registration in more than 100 countries, according to the company in 9M23), we believe it is important to understand the global automotive industry growth.

According to Precedence, the global automotive filter industry will register a **+4.3% CAGR over 2022-2031E**. Filters include cabin air filters, engine oil filters, steering filters and fuel filters, among others. Cabin air filters take the biggest market share, according to Precedence, as the filters are used in both EVs and ICE.

In terms of segment breakdown, **commercial vehicles accounted for 69%** of the demand for automotive filters in 9M23 as opposed to the passenger vehicle at 31%, according to the company.

SMSM can produce all types of filters, and the majority of its customers are for

commercial vehicles, currently contributing around 67% of the company's total sales, according to the company.

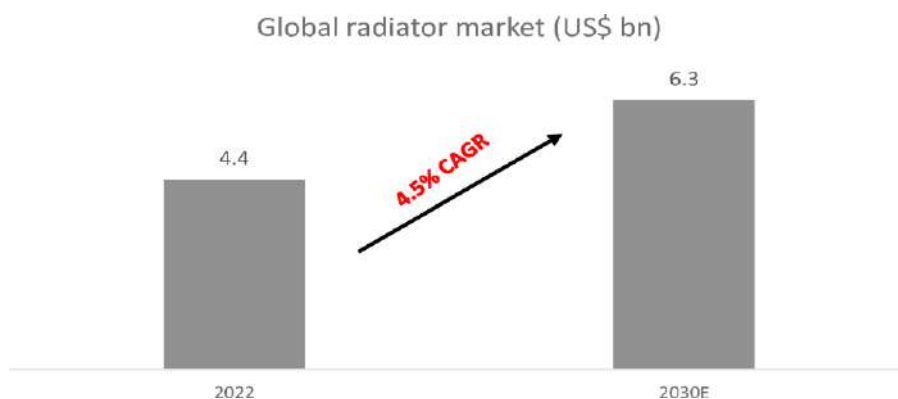
Fig. 66: SMSM's annual filter sales (mn units)



Source: Company data, Verdhana estimates

According to SMSM, among its filter sales in 9M23, 30% are for passenger vehicles and 70% are for commercial vehicles (including trucks, buses and heavy equipment).

Fig. 67: Global radiator market size



Source: Vantage, Verdhana research

Besides filters, SMSM also sells radiators, whose market size, according to Vantage Research, should grow from USD4.4bn in 2022 to USD6.3bn in 2030E, implying a 4.5% CAGR.

Catalysts. We list potential drivers that could present tailwinds to the stock:

1. Increased heavy-duty demand – SMSM's main sales blend is heavy-duty vehicles (9M23: 69%); i.e., trucks, buses, and heavy equipment. This could come from higher mining activities should higher commodity prices emerge. We've noticed newcastle coal price is up +11% in 1M, based on Bloomberg data, and in turn incentivizes the heavy equipment usage, and as shown in UNTR IJ (not-rated)'s heavy equipment sales in Dec-23 and Jan-24, are cumulatively +46% higher vs the sales of heavy equipment in the same period the previous year, according to the company.
2. Higher mobility of passenger cars and taxis – Among passenger vehicles, taxis and rented cars are the most frequent users of filters. As such, higher mobility that results in higher mileage might yield a higher sales volume for SMSM. JSRM IJ (not-rated) has reached record high average traffic of 323mn vehicles in a day, +5% above pre-COVID average traffic of 307mn vehicles in a day, according to JSRM management.
3. Sustained low material prices that lead to margin expansion – SMSM's key raw

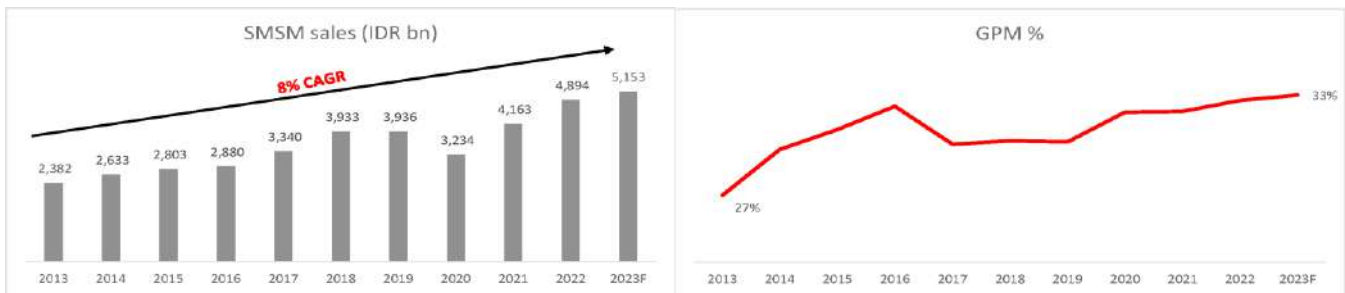
material is iron, the price of which has been declining. Should iron price remain low, SMSM's margins would increase. Iron ore/aluminium prices have dropped -5%/-7% in one year, according to Bloomberg.

Competition. High entry barriers – scale and quality matter

We believe in the filter and radiator industry, scale and quality matter. Scale leads to improved efficiency, which in turn generates operating leverage, enabling a company to offer attractive prices and have competitiveness. Quality will determine the sustainability of a brand and whether customers will make repeat purchases. Our industry survey at workshops and aftermarket suggests that SMSM's filters are among the top 3 filter products.

We estimate SMSM's gross profit margin likely improved from 27% in 2013 to 33% in FY23F. Revenue also likely registered a CAGR of 8% in the same period. This signifies the scale it has achieved.

Fig. 68: Effect of scale and quality – sustained top-line growth and improved GPM

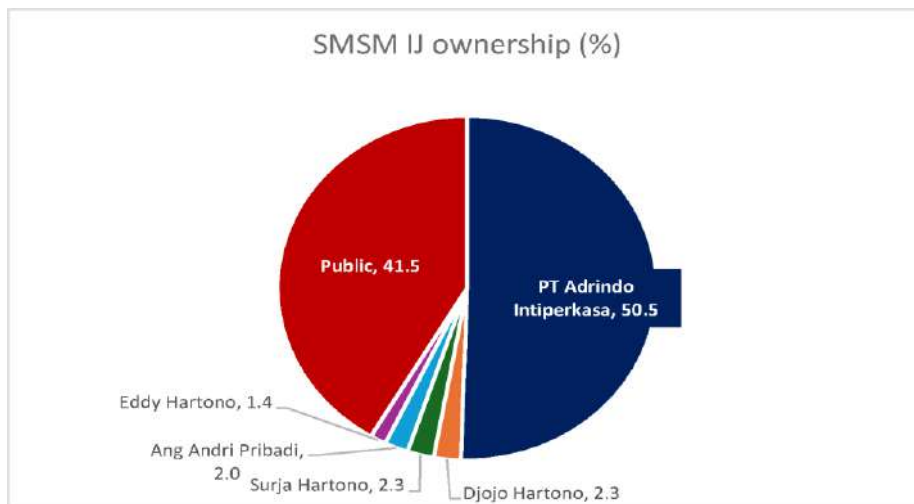


Source: Company data, Verdhana estimates

Company Overview

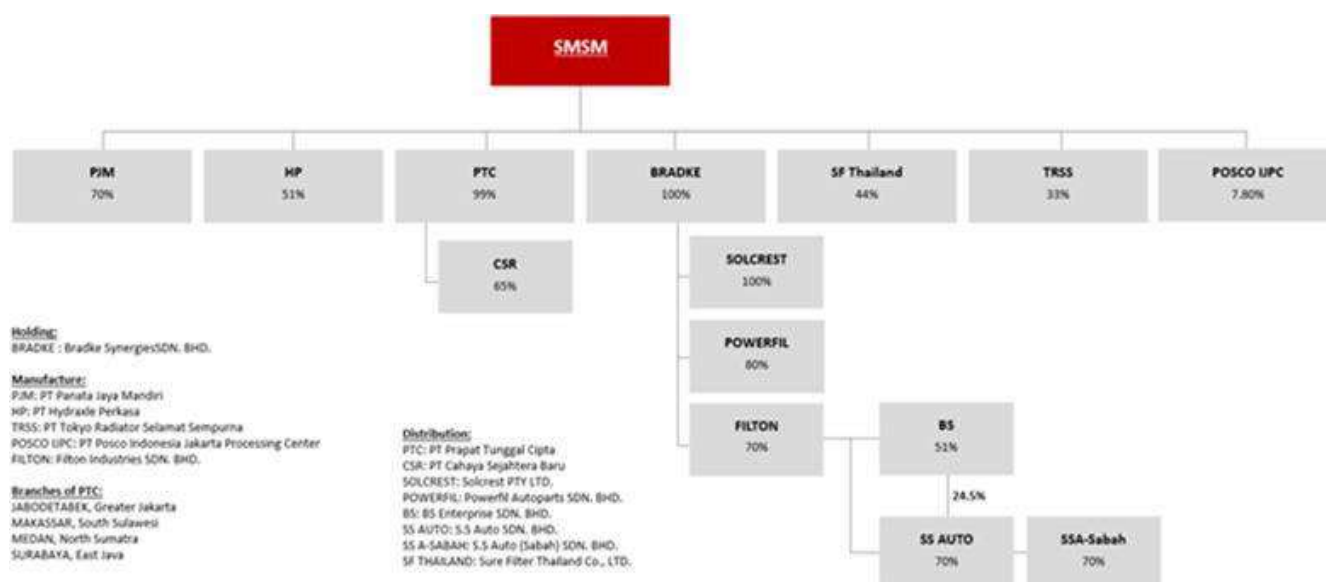
PT Selamat Sempurna Tbk. (SMSM), set up on 19 January 1976, is one of the leading manufacturers of automotive and industrial parts in Indonesia. The company has a diverse portfolio of manufacturing filters, radiators, oil coolers, condensers, brake pipes, fuel pipes, fuel tanks, exhaust systems, and press parts. The core of SMSM's business is its Sakura Filter and ADR Radiator brands.

Fig. 69: SMSM IJ ownership structure as per Jan-24



Source: Company data, Verdhana research

Fig. 70: SMSM IJ subsidiaries



Source: Company data, Verdhana research

Fig. 71: SMSM IJ management profile

Board of Directors	Current and past position
Eddy Hartono	He serves as the President Director since 1983 and is the founder of the ADR Group of Companies. He holds positions across the group, including President Director of PT Adrindo Intiperkasa and other entities within the group.
Djojo Hartono	The Vice President Director, appointed in July 2022, has been with the ADR Group since 1998. He has held various leadership roles across the group and was a former Commissioner of PT Andhi Chandra Automotive Products Tbk.
Ang Andri Pribadi	As the Finance Director since April 2004, Pribadi joined the ADR Group in January 1998. His previous roles include Internal Audit Manager and Deputy General Manager in Finance & Accounting at PT Sac Nusantara.
Aris Setyapranarka	The Operational Director, appointed in June 2011, has been part of the ADR Group since April 2002. Before joining, he was the General Manager at PT Indo Reco Asia and PT IKU Furniture.
Board of Commissioners	Current and past position
Surja Hartono	The President Commissioner, appointed in May 2017, has been part of the ADR Group since 1994. Currently, he holds various leadership roles across the group and was a former Factory Manager of the Company.
Drs. Joseph Pulo	As the Independent Commissioner since July 2022, he also serves as the Independent Commissioner of PT Investindo Nusantara Sekuritas. His previous roles include Director and Commissioner of PT Investindo Nusantara Sekuritas and Finance Director & Corporate Secretary of the Company.

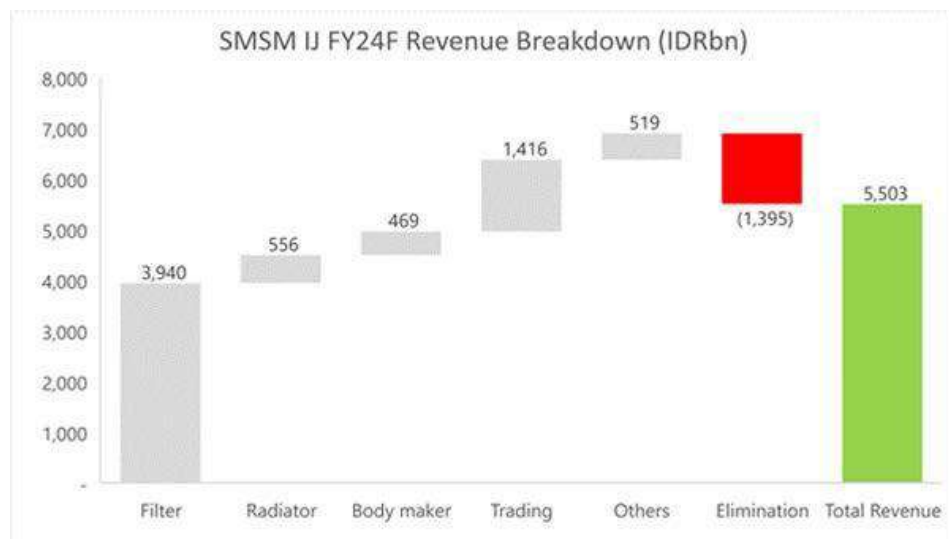
Source: Company, Verdhana research

SMSM has five big operating segments:

1. Filter: SMSM manufactures various types of filters under the Sakura brand.
2. Radiator: The company produces radiators, oil coolers, and condensers.
3. Body Maker: Produce and sell hydraulic and auto components, which include body maker, dump truck, box, trailer, and dump hoist.
4. Trading: Sell SMSM's product to aftermarket.

5. Others: Brake pipes, fuel pipes, fuel tanks, exhaust systems, and press parts.

Fig. 72: SMSM's revenue breakdown



Source: Verdhana estimates

Besides automotive-related products, SMSM has also diversified its line of business to household/residential segments. For instance, since November 2021, SMSM has begun selling air purifiers and filters for Heating, Ventilation, and Air Conditioning (HVAC) at the industrial level (i.e., power plant). While the impact on revenue is not yet visible, SMSM's track record and expertise put brand value to its newly developed products.

Fig. 73: Sakura Air Purifier – SMSM's expansion to household segments



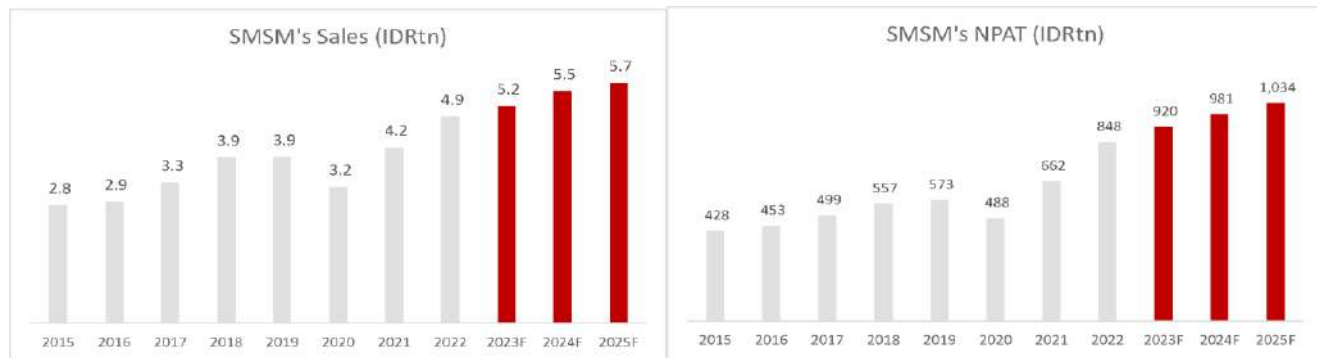
Source: Company data, Verdhana research

Financial analysis

Quality earnings

SMSM's record as the largest filter manufacturer with strong aftermarket presence is shown in its numbers. While it was not fully immune to COVID-19, SMSM's revenue and NPAT quickly rebounded to pre-COVID levels in 2021, even reached record highs. We highlight that SMSM is able to **double** its sales and net profit within the past decade.

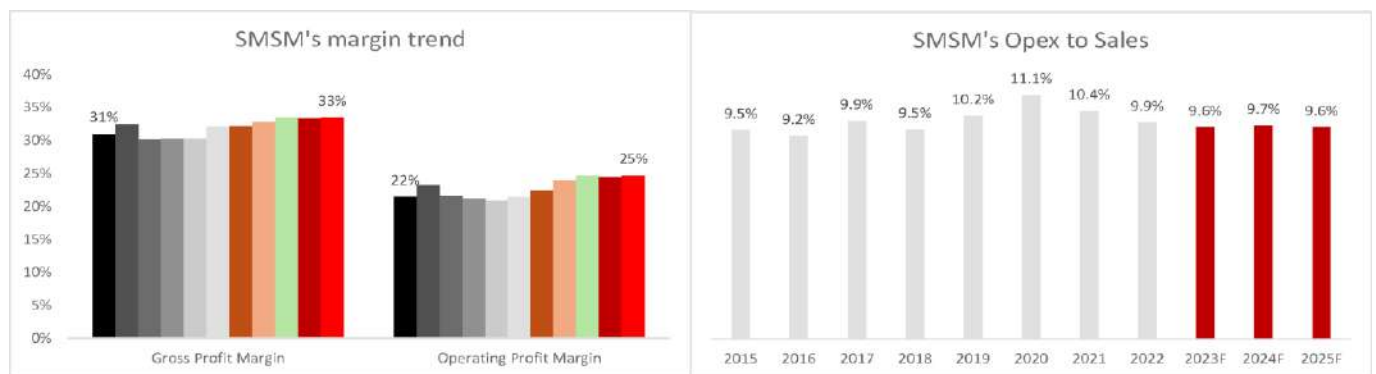
Fig. 74: SMSM's revenue and NPAT trend



Source: Company data, Verdhana estimates

On a CAGR basis over 2015-2022, SMSM was able to grow its revenue/NPAT by 8.3%/10.3% annually, showcasing its stature of a **stable compounder** despite the cyclicity of the auto industry. SMSM was also able to gradually expand its margin, which we think was a product of: 1) SMSM's pricing power (higher margin), and 2) operating leverage (i.e., scale of operation and manageable OpEx).

Fig. 75: SMSM's pricing power and operating leverage



Source: Company data, Verdhana estimates

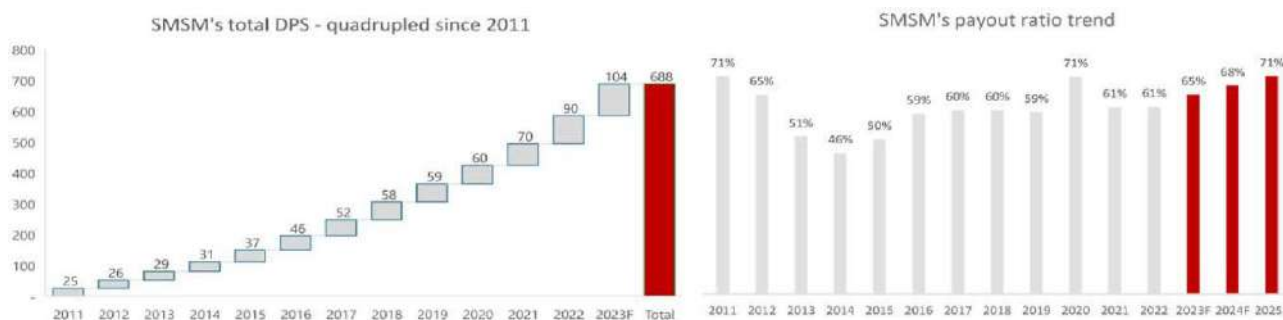
We expect the company to record IDR5.5tn of top-line in FY24F with net profit (before minority interest) of IDR1.1tn, implying 20% net margin in FY24F. While 2023 top-line growth could have moderated amid sluggish aftermarket sales that tracked along with Indonesia's weak 4W volume sales, we think 2024F could be a year of higher growth as election overhang clears and business spending normalizes. As one of the most dominant players in the aftermarket, we think SMSM's booking growth will remain visible, vs. flattish, if not, declining growth for the industry.

Stable dividend play

SMSM has consistently paid shareholders dividend for 18 years (including 2023), representing an average payout ratio of 60%. The company continues to guide for and commit to annual dividend split into four payments (3x interim, 1 final dividend). With

consistent growth in profit while having limited usage of capital expenditure, we think SMSM could maintain >65% payout ratio in coming years. Indeed, SMSM's dividend per share (DPS) quadrupled from 2011 to 2023. SMSM also has a policy of having a minimum 45% payout ratio, according to SMSM's prospectus.

Fig. 76: SMSM's dividend per share continues to increase, cumulatively reaching IDR688/sh over 2011-2023F

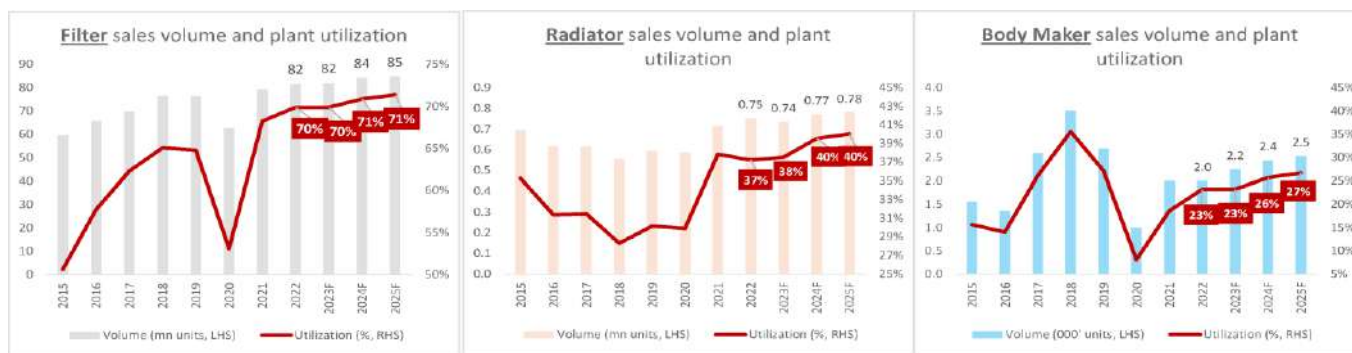


Source: Company data, Verdhana estimates

Room for expansion of operating leverage

We believe SMSM will continue to see improved operating leverage as it has not fully utilized its factory capacity. SMSM has three key parts in manufacturing: 1) filters; 2) radiators; and 3) body makers. The three combined currently accounts for 85-90% of SMSM's total revenue. However, in terms of plant utilization, these three components could accommodate higher demand as there is still room to raise its utilization rate. This, we think, could lead to margin expansion due to further operating leverage. In addition, the company is able to pass through increased material cost with a lag of ~6 months, based on our estimates.

Fig. 77: SMSM's filter, radiator, and body maker sales volume and utilization



Source: Company data, Verdhana estimates

We estimate that the utilization rates of filter/radiator/body maker stood at 70%/38%/23% in FY23F, which we believe have significant room for improvement as 4W volume will continue to rise over time. We expect the blended volume to gradually grow by 2-3% annually, while blended ASP to grow by 3-5% annually. Both combined, should lead to higher top-line and profitability for SMSM. As such, we expect SMSM's revenue/profit to grow by 7%/5% and 7%/7%, in FY24F/FY25F.

Fig. 78: SMSM's revenue and revenue growth by segment

IDRbn	2019	2020	2021	2022	2023F	2024F	2025F
Revenue	3,936	3,234	4,163	4,894	5,153	5,503	5,793
Filter	2,859	2,430	3,093	3,524	3,689	3,940	4,130
Radiator	348	333	416	501	510	556	586
Trading	987	1,008	1,192	1,341	1,361	1,416	1,485
Body maker	287	82	216	349	411	469	511
Others	393	292	419	387	485	519	544
Elimination	(938)	(911)	(1,173)	(1,208)	(1,303)	(1,395)	(1,464)
% y-y	2019	2020	2021	2022	2023F	2024F	2025F
Revenue	0%	-18%	29%	18%	5%	7%	5%
Filter	-1%	-15%	27%	14%	5%	7%	5%
Radiator	6%	-4%	25%	20%	2%	9%	5%
Trading	11%	2%	18%	13%	1%	4%	5%
Body maker	-16%	-71%	163%	62%	18%	14%	9%
Others	-9%	-26%	44%	-8%	25%	7%	5%
Elimination	-2%	-3%	29%	3%	8%	7%	5%

Source: Company data, Verdhana estimates

Fig. 79: SMSM key segments' ASP and quantity breakdown

Segments Breakdown	2019	2020	2021	2022	2023F	2024F	2025F
Filter (IDRbn)	2,859	2,430	3,093	3,524	3,689	3,940	4,130
ASP (IDR'000/unit)	37	39	39	43	45	47	49
Quantity (mn units)	76	63	79	82	82	84	85
ASP growth	-1%	4%	1%	11%	4%	4%	4%
Quantity growth	0%	-18%	27%	3%	1%	3%	1%
Radiator (IDRbn)	348	333	416	501	510	556	586
ASP (IDR'000/unit)	586	567	582	666	693	721	751
Quantity (mn units)	0.59	0.59	0.72	0.75	0.74	0.77	0.78
ASP growth	-1%	-4%	25%	20%	2%	9%	5%
Quantity growth	7%	-3%	3%	15%	4%	4%	4%
Body maker (IDRbn)	287	82	216	349	411	469	511
ASP (IDR'000/unit)	106,600	81,981	107,855	174,349	183,066	192,219	201,830
Quantity ('000 units)	2.7	1.0	2.0	2.0	2.2	2.4	2.5
ASP growth	-1%	-71%	163%	62%	18%	14%	9%
Quantity growth	7%	-23%	32%	62%	5%	5%	5%

Source: Company data, Verdhana estimates

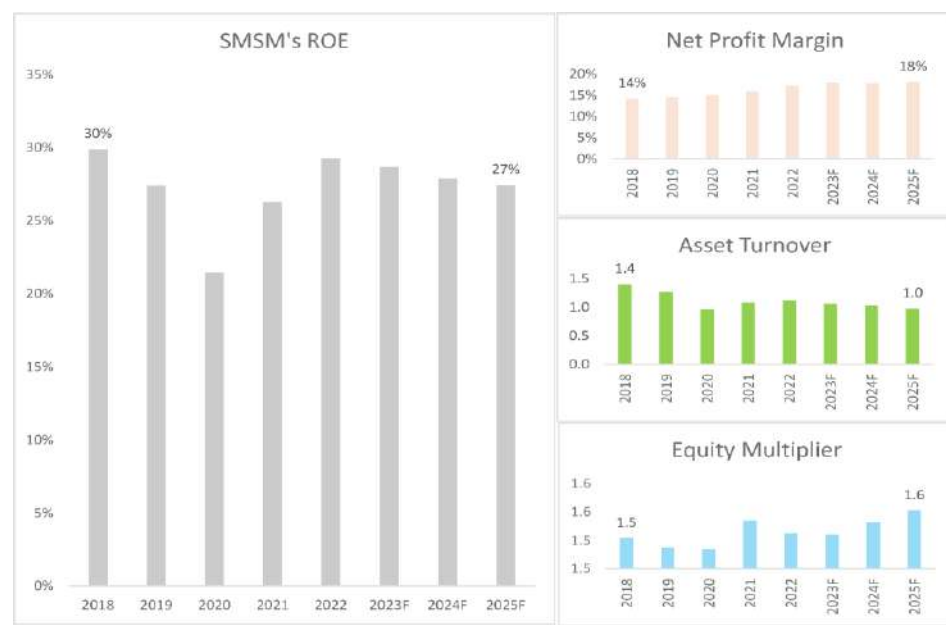
Fig. 80: SMSM's operational metrics

Operational Metrics	2019	2020	2021	2022	2023F	2024F	2025F
Filter (mn units)							
Sales Volume	76	63	79	82	82	84	85
Production Volume	72	59	76	77	77	78	79
Production Capacity	111	111	111	111	111	111	111
Utilization rate (%)	65%	53%	68%	70%	70%	71%	71%
Radiator (mn units)							
Sales Volume	0.59	0.59	0.72	0.75	0.74	0.77	0.78
Production Volume	0.59	0.58	0.74	0.73	0.73	0.77	0.78
Production Capacity	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Utilization rate (%)	30%	30%	38%	37%	38%	40%	40%
Body maker ('000 units)							
Sales Volume	2.70	1.00	2.00	2.00	2.25	2.44	2.53
Production Volume	2.71	0.81	1.86	2.32	2.32	2.57	2.67
Production Capacity	10	10	10	10	10	10	10
Utilization rate (%)	27%	8%	19%	23%	23%	26%	27%

Source: Company data, Verdhana estimates

We believe that SMSM's revenue and profit will continue to be driven by **filter components**, be it in passenger, heavy equipment, residentials, or industrials segments. With strong brand value and aftermarket presence, we think SMSM could continue to hike its filter ASP by 4-5% per annum. In addition, the radiator and body maker segments could be the impetus as SMSM has been able to hike prices while maintaining volume growth in the past. With significant headroom in plant utilization, any additional volume would lead to higher margin for the company as operating leverage kicks in, in our view.

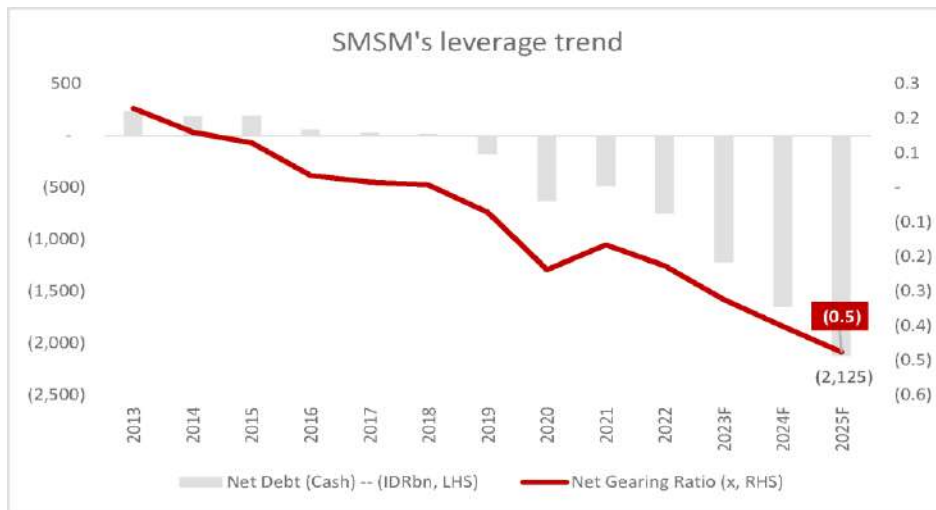
Fig. 81: SMSM's ROE and Dupont breakdown



Source: Company data, Verdhana estimates

We believe SMSM could continue to maintain ROE at healthy levels of 27-30% in 2023F-2025F as we expect it to have margin improvement, primarily due to economies of scale. One upside to ROE could come from better utilization of assets (i.e., asset turnover) which could further drive up ROE.

Fig. 82: SMSM's leverage level



Source: Company data, Verdhana estimates

As capital expenditure necessities are limited (due to plenty headroom in utilization), we think SMSM could continue to extend its net cash, which in turn could lead to a higher dividend payout. Any expansion plan could also be supported by internal cash, which limits margin erosion possibility due to debt onboarding

Valuation

Fig. 83: SMSM's DCF Valuation

IDRbn	2024F	2025F	2026F	2027F	2028F	2029F	2030F	Terminal Value
Debt Weighting (%)	3.6%							
After tax Cost of Debt (%)	7.7%							
Cost of Debt (%)	9.9%							
Tax Rate (%)	22.0%							
Equity Weighting (%)	96.4%							
Cost of Equity	13.7%							
Rf (%)	6.5%							
Beta	1.0							
Equity Risk Premium (%)	7.2%							
WACC	13.5%							
Terminal Growth	2.0%							
EBITDA	1,507	1,598	1,745	1,890	2,028	2,177	2,335	
CFO	1,390	1,506	1,621	1,775	1,928	2,072	2,225	
(-) CapEx	(255)	(264)	(274)	(284)	(295)	(307)	(319)	
FCFF	1,135	1,243	1,348	1,491	1,633	1,765	1,907	15,627
		1	2	3	4	5	6	6
PV Factor		88%	78%	68%	60%	53%	47%	47%
PV Value		1,095	1,046	1,019	983	936	891	7,300
Equity Value (IDRbn)	13,270							
Net Debt (Cash)	(1,650)							
Less: Minority Interest	585							
Enterprise Value (IDRbn)	14,335							
# of share outstanding (bn)	5.8							
Target Price (IDR/share)	2,500							

Source: Verdhana estimates

We value SMSM using a DCF valuation assuming a 6.5% risk-free rate, 7.2% equity risk premium, beta of 1.0, and a terminal growth rate of 2.0%. The period of which cashflows are discounted are 2025F-2030F. The benchmark index is JCI. At our TP of IDR2,500, SMSM would trade 14.7x 2024F P/E vs. current price at 11.9x 2024F P/E.

Risks

Downside risks to our call include:

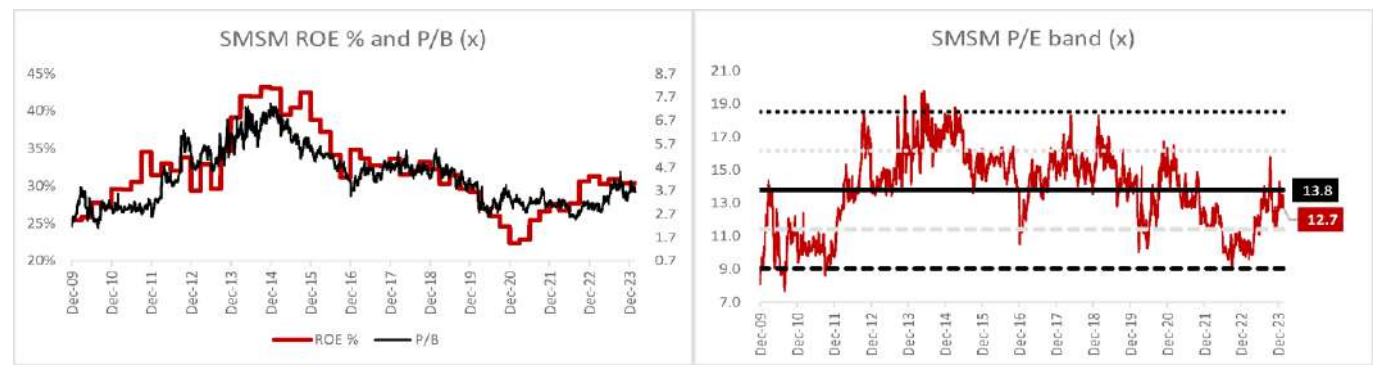
1. Intensifying competition landscape which potentially result in price war and thus lower margins,
2. Significant surge in raw materials price that can't be transferred to selling price;
3. New industry landscape that requires lesser products from SMSM or less frequent to purchase
4. Low liquidity of the stock

Fig. 84: SMSM – Peers comparison

			Mkt cap		Sales growth (%)		GPM %		NPAT growth %		P/E (x)		Net margin (%)		ROE %	
			USDm	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	
Asia																
7259 JP	AISIN CORP	Buy	11,160	3%	4%	12%	12%	60%	15%	10.1	8.8	3%	4%	8.3%	9.0%	
6902 JP	DENSO CORP	Buy	57,978	5%	5%	17%	18%	50%	12%	16.6	14.8	7%	7%	10.4%	11.1%	
5802 JP	SUMITOMO ELECTRIC INDUSTRIES	Buy	11,769	3%	2%	17%	17%	36%	17%	11.6	9.9	3%	4%	7.1%	7.9%	
603305 CH	NINGBO XUSHENG GROUP CO LT-A	NR	1,988	28%	28%	25%	24%	27%	28%	14.1	11.1	15%	15%	14.0%	15.3%	
002126 CH	ZHEJIANG YINLUN MACHINERY -A	NR	2,028	23%	21%	21%	22%	37%	33%	17.6	13.2	6%	7%	13.9%	15.8%	
300580 CH	WUXI BEST PRECISION MACHIN-A	NR	1,387	27%	27%	35%	35%	25%	27%	28.8	22.8	20%	20%	12.3%	13.7%	
601058 CH	SAILUN GROUP CO LTD-A	NR	6,554	23%	15%	25%	25%	22%	15%	1.8	1.5	11%	12%	20.6%	20.1%	
603197 CH	SHANGHAI BAOLONG AUTOMOTIV-A	NR	1,428	29%	25%	28%	28%	30%	29%	18.4	14.3	7%	7%	16.2%	17.6%	
AH TB	AAPICO HITECH PCL	NR	235	4%	7%	12%	12%	7%	8%	4.3	3.9	6%	6%	15.4%	14.6%	
Asia Average			9,136	18%	15%	29%	29%	34%	21%	19.8	16.0	9%	10%	15.4%	16.5%	
EMEA																
FRVIA FP	FORVIA	NR	2,804	6%	3%	15%	16%	54%	19%	3.4	2.8	3%	3%	14.1%	16.3%	
FR FP	VALEO	NR	2,780	8%	7%	19%	19%	81%	38%	4.1	3.0	3%	3%	13.2%	18.0%	
MG CN	MAGNA INTERNATIONAL INC	NR	15,795	5%	5%	14%	15%	22%	14%	7.5	6.5	5%	5%	15.2%	15.3%	
HFD LN	HALFORDS GROUP PLC	NR	422	3%	4%	48%	49%	-5%	34%	10.3	7.7	2%	2%	6.3%	8.0%	
CON GR	CONTINENTAL AG	NR	16,132	3%	4%	25%	25%	23%	23%	8.4	6.8	4%	5%	11.4%	13.2%	
SHA GR	SCHAEFFLER AG - PREF	NR	4,821	3%	4%	25%	25%	16%	15%	6.2	5.4	4%	5%	16.6%	16.9%	
GEST SM	GESTAMP AUTOMOCION SA	NR	1,865	5%	4%	37%	0%	16%	22%	4.3	3.5	3%	4%	14.0%	15.1%	
EMEA Average			6,374	4%	4%	26%	21%	30%	24%	6.3	5.1	3%	4%	13.0%	14.7%	
US																
VC US	VISTEON CORP	NR	3,110	9%	10%	14%	15%	20%	20%	10.9	9.1	6%	7%	21.3%	20.8%	
LEA US	LEAR CORP	NR	7,834	5%	5%	9%	9%	25%	13%	7.7	6.8	4%	4%	18.1%	18.1%	
BWA US	BORGWARNER INC	Neutral	7,153	10%	10%	19%	20%	12%	6%	7.1	6.7	6%	6%	14.0%	14.0%	
AXL US	AMERICAN AXLE & MFG HOLDINGS	NR	810	0%	1%	11%	12%	46%	96%	18.0	9.2	1%	1%	9.4%	13.3%	
DAN US	DANA INC	NR	1,805	5%	5%	10%	10%	55%	43%	9.8	6.8	2%	2%	10.8%	12.3%	
ADNT US	ADIANT PLC	NR	3,097	3%	2%	8%	8%	44%	20%	8.7	7.3	2%	3%	11.8%	13.5%	
APT V US	APTIV PLC	NR	22,181	8%	7%	19%	20%	26%	23%	11.4	9.3	8%	10%	14.6%	15.5%	
US Average			6,570	5%	6%	13%	14%	33%	32%	10.5	7.9	4%	5%	14.3%	15.4%	
Global Average			7,360	9%	8%	23%	21%	32%	25%	12.2	9.6	6%	6%	14.2%	15.5%	
SMSM IJ	SELAMAT SEMPURNA PT	Buy	744	7%	5%	33%	34%	7%	7%	11.9	11.1	18%	18%	29.2%	28.6%	

Source: Bloomberg consensus estimate for NR (Not Rated) stocks, Verdhana estimates. Pricing as of 1st March 2024.

Fig. 85: SMSM's historical ROE and multiples band



Source: Bloomberg Finance LP, Verdhana research

Fig. 86: Sensitivity to 2024F earnings

		Filter plant - factory utilization						
		65%	67%	69%	71%	73%	75%	77%
Filter ASP growth yoy %	-2%	872	893	914	935	957	978	999
	0%	886	907	929	951	972	994	1,016
	2%	900	922	944	966	988	1,010	1,032
	4%	914	936	959	981	1,004	1,026	1,049
	6%	928	951	974	997	1,020	1,043	1,066
	8%	942	965	989	1,012	1,035	1,059	1,082
	10%	956	980	1,004	1,027	1,051	1,075	1,099

Source: Verdhana estimates

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A rating of 'Buy', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of 'Neutral', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of 'Reduce', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of 'Suspended', indicates that the rating, target price, and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as 'Not Rated' or 'No Rating' are not in regular research coverage. Benchmark is Indonesia Composite Index ('IDX Composite'). A 'Target Price', if discussed, indicates the analyst's forecast for the share price with a 12-month time horizon, reflecting in part of the analyst's estimates for the company's earnings, and may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market in general.

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