

October 15<sup>th</sup>, 2010

# Selamat Sempurna, Tbk

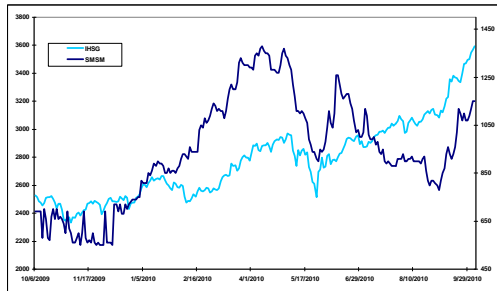
## Secondary Report

**Target Price**

<b>Low</b>	<b>High</b>
<b>1,600</b>	<b>1,760</b>

**Automotive Component Industry**

### Historical Chart



Source : Bloomberg

### Stock Information

	Rp
Ticker code	SMSM
Market price as of October 14 <sup>th</sup> 2010	1,120
Market price – 52 week high	1,380
Market price – 52 week low	550
Market cap – 52 week high (bn)	1,986
Market cap – 52 week low (bn)	878

### Stock Valuation

	Last	Current
High	1,780	1,760
Low	1,620	1,600

### Shareholders

	(%)
PT Adrindo Intiperkasa	58.13
Public (each below 5%)	41.87

### Business Profile

PT Selamat Sempurna, Tbk ("SMSM") is a national automotive component producer that established in 1976. SMSM's core business consists of manufacturing automotive radiator and filter under the brand name of ADR and SAKURA, respectively, or under other private brand name. Nowadays, SMSM's capacity of production of filter and radiator products have reached 72 million and 1.95 million units per year, respectively, and has been used in over 100 countries. Nowadays, SMSM's radiator products mostly used for Original Equipment Manufacturing ("OEM") parts, while filter products mostly used for after sales cars.

### Target Price Adjustment

We maintain our opinion that SMSM's share is still undervalue, based on the following considerations:

- Conducive macroeconomic condition during 1H10, as shown by the increased of Gross Domestic Product ("GDP") as much as 6.2% YoY and 2.8% QoQ. This increased can be interpreted as an increased of Indonesian people purchasing power which at the end will effect their ability to maintain their cars condition by purchasing more automotive products, such as SMSM's products.
- Sales of car in Indonesia during 1H10 reached 369,367 units, significantly increased by 75.7% YoY compared to 1H09 which only reached 210,246 units. This phenomena is mostly caused by the postponed of increased in vehicle tax and change of car ownerships name tariff by the local government of DKI Jakarta.
- Number of car sales in America showed a sign of recovery since 3Q09, with a sharp growth of 19.53% QoQ, or reach 34.82 units. Although ever experience a drop of minus 6.92% QoQ during 4Q09, the volume of car sales in 1Q10 and 2Q10 improved by 1.85% QoQ and 3.24% QoQ, respectively.
- The issuance Rp 240 bn new bond by SMSM in July 2010 to replace its bank loan, will decrease SMSM's interest expense.
- Risk free rate, equity premium, and beta assumption are 9.1%, 4.5%, and 0.54X respectively with no specific risk.

### Business Prospects

Increased of Indonesian people purchasing power, and number of car sales in 1H10 in Indonesia and America, boost SMSM's revenue as it translate in 20.27% YoY growth of sales during 1H10. Along with cost efficiency management, we estimate SMSM's sales will raise 21.36% YoY to Rp 1,668.3 bn in 2010 and grow 13.43% CAGR in 2009 – 2014, accompanied with a 23.7% of net income growth in 2010 to reach Rp 164.3 bn and 13.18% CAGR growth during 2009 – 2014 period.

	2007	2008	2009	2010P	2011P
Revenue (Rp bn)	1,064.1	1,353.6	1,374.7	1,668.3	2,004.3
Pre-tax Profit (Rp bn)	130.6	143.6	185.9	242.1	289.9
Net Profit (Rp bn)	80.3	91.5	132.9	164.3	196.8
EPS (Rp)	56	64	92	114	137
EPS Growth (%)	21.7	14.3	44.2	23.7	19.7
P/E (x)	17.9	15.6	10.8	8.8	7.3
PBV (x)	3.0	2.6	2.9	2.5	2.1

Source: PT Selamat Sempurna Tbk., Pefindo Equity &amp; Index Valuation Division Estimates

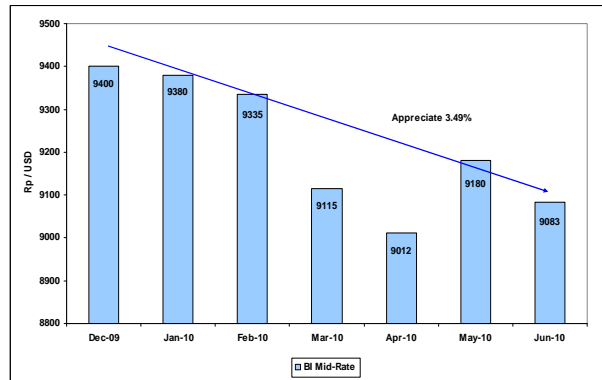
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**Favorable Macroeconomic Condition**

During 2Q10 the Indonesian economy managed a respectable performance, as measured with Gross Domestic Product (“GDP”) has grown 2.8% QoQ, or 6.2% YoY. At the same time, inflation during January 2009 until June 2010 period has significantly dropped from 9.17% to just 5.05%, respectively. These twin achievements paved the way for Rupiah appreciation during 1H10. Using Bank Indonesia (“BI”) middle exchange rate as a reference, Rupiah has appreciate from Rp 9,400 / USD 1 on December 2009, to Rp 9,083 / USD 1 on June 2010. With this increased of GDP, the Indonesian people purchasing power also improved, which at the end will effect their ability to maintain their cars by buying automotive parts, such as SMSM’s products.

**Figure 1 : BI’s Middle Exchange Rate**



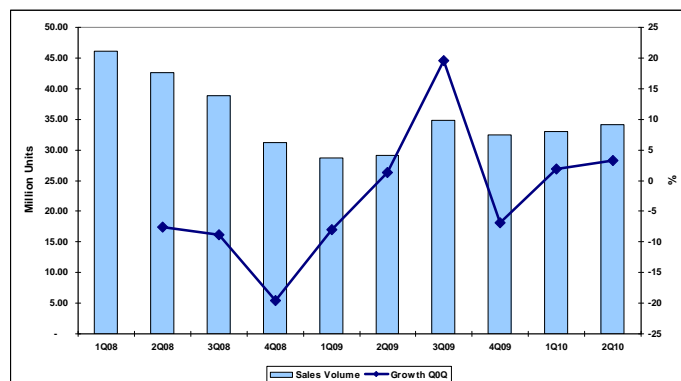
Source: Bank of Indonesia, Pefindo Equity & Index Valuatoin Division

**Worldwide Car Sales is Expected to Rise**

Worldwide new car sales is expected to rise by 7% this year, as reported by Alix Partners, an International Research Company, in their publication on June 14, 2010. As said in this report, new car sales in China will reach 20 million in the next five years, two times from the 2007 volume. In the North America the new car sales is projected to increase by 12% in 2010.

In America, the number of car sales in 2Q10 reached 34.08 million units or improved by 3.24% QoQ compared to 1Q10 which only reached 33.01 million units. This improvement of sales can be identified as a sign of “rebound” after financial crisis that strike America during 1Q08 – 2Q09, as reflected by significant drop of number of car sales from 46.05 million unit in 1Q08 to just 29.13 million units in 2Q09.

**Figure 2: Number of Car Sales in America**



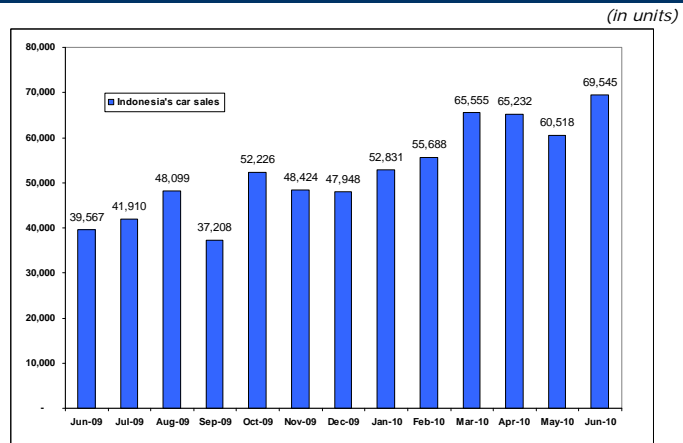
Source: Bloomberg, Pefindo Equity & Index Valuation Division

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**Leader in Terms of Number of Car Sales in ASEAN**

Indonesia successfully beats Thailand for the first time after three decades in the number of car sales during 1H10. Based on the data from Asean Automotive Federation (“AAF”), the total of number car sales in Indonesia during January – May 2010 period has reached 299,824 units, while Thailand only managed to sell around 286,135 units. In June 2010, domestic car sales reached 69,545 units, overcome this year monthly record of 65,555 units in March 2010, due to the high demand in facing Ramadhan and Lebaran period. As a result the total of car sales in Indonesia during 1H10 reached 369,367 units, significantly increased by 75.7% compared to 1H09 which only reached 210.246 units. This phenomena is also caused by the postponed of increased in vehicle tax and change of car ownerships name tariff by the local government of DKI Jakarta.

**Figure 3 : Number of Car Sales in Indonesia**



Source: Gaikindo, Pefindo Equity & Index Valuation Division

**Cost Efficiency**

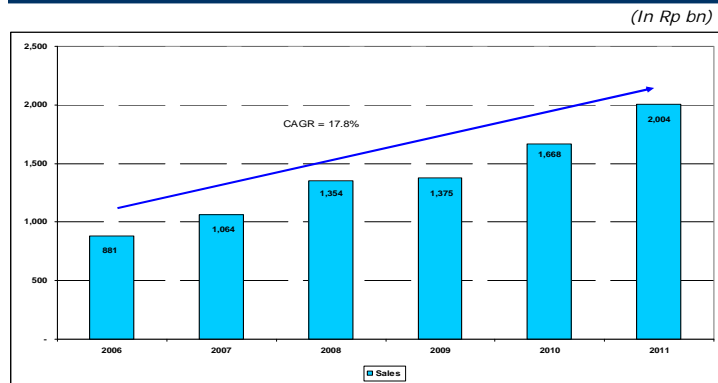
In July 2010, SMSM issue new bond as much as Rp 240 bn, which divided into three series, Serie A totaled of Rp 80 bn with coupon rate of 8.9% and will matured on July 13<sup>th</sup>, 2011, Serie B totaled of Rp 80 bn with coupon rate of 10.3% and will matured on July 8<sup>th</sup>, 2013, and Serie C totaled of Rp 80 bn with coupon rate of 10.8% and will matured on July 8<sup>th</sup>, 2015. Proceed of this issuance will be used to pay SMSM's loan to PT Bank Mandiri Tbk, as much as Rp 107 bn with interest rate of 9.75% p.a. paid effectively per month, and to PT Bank Mizuho Indonesia as much as US\$ 10,000,000,- with interest rate of Cost of Fund plus 1.75% margin, and as much as Rp 60 bn to finance its working capital requirement. Although it may seems that the new bond offers a higher interest rate than the retired loan, but considered many macroeconomic indicators, such as inflation, that expected to risen in the future, this new bond issuance will provide a better interest expense for SMSM in the future. SMSM also has an option to call this new bond, one year after the issuance, which will provide more benefit to SMSM.

**SMSM Business Prospects**

Supported by favorable national and international automotive industry condition, SMSM is able to book 20.27% growth of sales during 1H10, or reached Rp 769.26 bn. It is even better for SMSM's net income growth during 1H10, as it rise by 22.73% from Rp 60 bn in 1H09 to Rp 73.26 bn in 1H10. Looking back at this superb performance in 1H10, we estimate SMSM's sales will raise 21.36% YoY to Rp 1,668.3 bn in 2010 and grow 13.4% CAGR in 2009 – 2014, accompanied with a 23.7% of net income growth in 2010 to reach Rp 164.3 bn and 13,17% CAGR growth during 2009 – 2014 period.

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**Figure 4 : SMSM's Sales**



Source: PT Selamat Sempurna Tbk. Pefindo Equity & Index Valuation Division Estimates

## TARGET PRICE

### VALUATION

- Methodology**

We apply *Discounted Cash Flow* (DCF) method as the main valuation approach considering the income growth is a value driver in SMSM instead of asset growth.

Furthermore, we also apply *Guideline Company Method* (GCM) as comparison method.

This valuation is based on 100% shares price as of June 30<sup>th</sup>, 2010.

- Value Estimation**

Target price for 12 months based on valuation as per June 30<sup>th</sup>, 2010 is as follows:

- ❖ Using DCF method with discount rate assumption 10.48%, is Rp 1,710 - Rp 1,910 per share.
- ❖ Using GCM method (PBV 3.59X and P/E 12.45X) is Rp 1,330 – Rp 1,420 per share.

In order to obtain a value which represents both value indications, we have weighted both DCF and GCM methods by 70%:30%.

Based on the above calculation, target price of SMSM for 12 month is **Rp 1,600 - Rp 1,760** per share.

**Table 1: DCF Method**

	<b>Conservative</b>	<b>Moderate</b>	<b>Aggressive</b>
PV of Free Cash Flows – Rp bn	563.8	593.5	623.1
PV Terminal Value – Rp bn	2,113.7	2,224.9	2,336.2
Net Debt – Rp bn	(212.2)	(212.2)	(212.2)
Total Equity Value – Rp bn	2,677.5	2,818.4	2,959.3
Number of Share, mn shares	1,440	1,440	1,440
Fair Value per Share, Rp	<b>1,710</b>	<b>1,810</b>	<b>1,910</b>

Source: Pefindo Equity & Index Valuation Division Estimates

**Table 2: Assumption**

Risk free rate (%)	9.1
Risk premium (%)	4.5
Beta (x)	0.5
Cost of Equity (%)	11.5
Marginal tax rate (%)	25.0
<b>WACC (%)</b>	<b>10.48</b>

Source: Bloomberg, Pefindo Equity & Index Valuation Division Estimates

**Table 3 : GCM Comparison**

	SMSM	AUTO	Average
Price, June 30 <sup>th</sup> 2010 (Rp)	1,000	13,050	
Market cap, June 30 <sup>th</sup> 2010 (Rp, bn)	1,440	10,049	
Sales (1H10)	769.26	3,046.02	
Gross Profit (1H10)	173.10	549.89	
Operating Profit (1H10)	110.89	267.30	
Net Profit (1H10)	73.26	568.57	
Total Asset (1H10)	1,009.62	4,975.21	
Total Liabilities (1H10)	426.70	1,373.08	
Total Equity (1H10)	582.92	3,602.13	
<b>Growth (1H10) YoY</b>			
Sales (%)	20.27	25.73	
Gross Profit (%)	14.82	35.58	
Net Profit (%)	22.73	81.26	
<b>Profitability (1H10)</b>			
Gross Margin (%)	22.50	18.05	
Operating Margin (%)	14.42	8.78	
Net Margin (%)	9.52	18.67	
ROA (%)	7.26	11.43	
ROE (%)	12.57	15.78	
<b>Leverage (1H10)</b>			
DER (x)	0.73	0.38	
<b>Valuation, October 2010</b>			
P/E, (x)	11.30	13.60	12.45
P/BV, (x)	3.09	4.08	3.59

Source: Bloomberg, Pefindo Equity & Index Valuation Division Estimates

(Rp bn)

Income Statement	2007	2008	2009	2010P	2011P
Sales	1,064.1	1,353.6	1,374.7	1,668.3	2,004.3
COGS	(820.3)	(1,024.8)	(1,058.4)	(1,270.5)	(1,530.5)
<b>Gross Profit</b>	<b>243.8</b>	<b>328.8</b>	<b>316.3</b>	<b>397.8</b>	<b>473.8</b>
Operating Expense	(93.8)	(115.8)	(126.5)	(139.0)	(161.7)
<b>Operating Profit</b>	<b>150.0</b>	<b>212.9</b>	<b>189.8</b>	<b>258.8</b>	<b>312.1</b>
Other Income (Charges)	(19.4)	(69.3)	(3.9)	(16.7)	(22.2)
<b>Pre-tax Profit</b>	<b>130.6</b>	<b>143.6</b>	<b>185.9</b>	<b>242.1</b>	<b>289.9</b>
Tax	(42.1)	(42.1)	(42.9)	(60.5)	(72.5)
<b>Minority Interest</b>	<b>(8.2)</b>	<b>(10.0)</b>	<b>(10.1)</b>	<b>(17.2)</b>	<b>(20.7)</b>
<b>Net Profit</b>	<b>80.3</b>	<b>91.5</b>	<b>132.9</b>	<b>164.3</b>	<b>196.8</b>

Source: PT Selamat Sempurna Tbk., Pefindo Equity & Index Valuation Division Estimates

Ratio	2007	2008	2009	2010P	2011P
<b>Growth (%)</b>					
Sales	20.8	27.2	1.6	21.4	20.1
Operating Profit	29.9	41.9	(10.9)	36.4	20.6
EBITDA	68.6	38.0	(0.6)	28.9	15.5
Net Profit	21.7	14.3	44.2	23.7	19.7
<b>Profitability (%)</b>					
Gross Margin	22.9	24.3	23.0	23.9	23.6
Operating Margin	14.1	15.7	13.8	15.5	15.6
EBITDA Margin	18.5	20.1	19.6	20.8	20.0
Net Margin	7.5	6.8	9.6	9.9	9.8
ROA	9.7	9.8	14.1	14.9	16.9
ROE	16.7	16.7	26.7	28.7	28.5
<b>Solvability (X)</b>					
Debt to Equity	0.7	0.6	0.8	0.9	0.6
Debt to Asset	0.4	0.4	0.4	0.4	0.4
<b>Liquidity (X)</b>					
Current Ratio	1.7	1.8	1.6	1.7	2.2
Quick Ratio	0.8	0.8	0.8	1.0	1.2

Source: PT Selamat Sempurna Tbk., Pefindo Equity & Index Valuation Division Estimates

(Rp bn)

Balance Sheet	2007	2008	2009	2010P	2011P
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	8.9	13.6	8.7	81.3	37.8
Receivables	207.9	244.4	279.1	361.8	434.6
Inventory	245.1	286.4	254.9	295.9	356.4
Other Assets	13.0	10.8	32.2	32.2	32.2
<b>Total Current Assets</b>	<b>474.9</b>	<b>555.2</b>	<b>574.9</b>	<b>771.2</b>	<b>861.0</b>
Fixed Assets	318.7	358.5	341.4	308.5	275.0
Other Assets	36.5	16.0	25.4	25.2	25.2
<b>Total Assets</b>	<b>830.0</b>	<b>929.8</b>	<b>941.7</b>	<b>1,105.0</b>	<b>1,161.3</b>
<b>Liabilities</b>					
Trade payables	52.7	51.3	128.2	97.5	115.7
Short-term loan	180.0	189.8	163.7	256.9	176.9
Other Short-term payables	45.2	64.2	70.3	96.2	96.2
Long-term Liabilities	37.8	35.9	35.1	36.2	36.2
<b>Total Liabilities</b>	<b>315.6</b>	<b>341.3</b>	<b>397.4</b>	<b>486.8</b>	<b>425.0</b>
<b>Minority Interest</b>	<b>32.3</b>	<b>42.2</b>	<b>46.4</b>	<b>46.4</b>	<b>46.4</b>
<b>Total Equity</b>	<b>482.2</b>	<b>546.2</b>	<b>497.8</b>	<b>571.8</b>	<b>689.8</b>

Source: PT Selamat Sempurna Tbk., Pefindo Equity & Index Valuation Division Estimates

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