

April 29, 2013

# Selamat Sempurna, Tbk

## Secondary Report

**Target Price**

<b>Low</b>	<b>High</b>
<b>2,925</b>	<b>3,300</b>

**Automotive and Components**

### Stock Performance



Source: Bloomberg, Pefindo Equity & Index Valuation Division



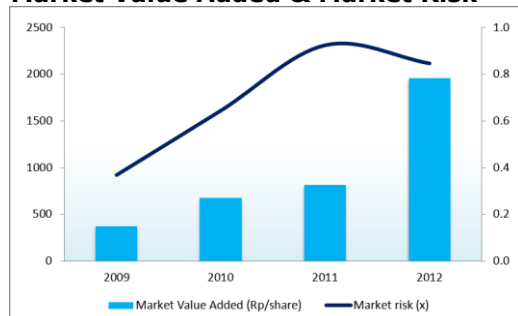
**PT SELAMAT SEMPURNA Tbk.**  
MEMBER OF ADR GROUP

### Ample Room to Grow

### Stock Information

	IDR
Ticker code	SMSM
Market price as of April 26, 2013	2,675
Market price – 52 week high	2,700
Market price – 52 week low	1,770
Market cap – 52 week high (bn)	3,887
Market cap – 52 week low (bn)	2,548

### Market Value Added & Market Risk



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

### Stock Valuation

	Last	Current
High	2,750	3,300
Low	2,500	2,925

### Shareholders

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

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Established in January, 1976, PT Selamat Sempurna Tbk (SMSM) is the largest filter manufacturer in Indonesia, and also makes a wide range of other products including radiators, oil coolers, condensers, brake pipes, fuel pipes, fuel tanks, exhaust systems, press parts, dump bodies, tanks, boxes, trailers, dump hoists, steel slitting equipment, shearing equipment, molding and dies. SMSM exports its products to, and has registered its trademarks in, more than 100 countries worldwide. The Company has recorded 20 years of consecutive sales growth and 10 years of consecutive net income growth. SMSM has two subsidiaries: PT Panata Jaya Mandiri, a manufacturer of filter products particularly for heavy duty engines; and PT Hydraxle Perkasa, a dump truck and hoist assembler. SMSM also has two associated companies: PT Tokyo Radiator Selamat Sempurna (TRSS), a manufacturer of heat exchangers; and PT POSCO Indonesia Jakarta Processing Center (POSCO-IJPC), a steel processing company.

**INVESTMENT PARAMETER**

**Target Price Adjustment**

We have made several adjustments to our previous forecast and adjusted our target price to **IDR2,925–IDR3,300** per share, based on the following considerations:

- SMSM’s net revenue in 2012 outperformed our estimate by about 3.5%. SMSM continues to grow, with net revenue growth of 20% and net income growth of 16%. The acquisition of Hydraxle Perkasa (HP) last year also contributed to this.
- Although global car sales (including light trucks) are estimated to grow 4% this year, constrained by sluggish demand mainly in Europe, SMSM’s export sales grew 24% quarter-on-quarter (q-o-q) or 11% year-on-year (y-o-y) during 4Q12, giving optimism going into 2013 that global economic conditions are improving. Moreover, SMSM already has agreements with reputable original equipment suppliers from Europe and the US.
- SMSM’s products have wide opportunities in export markets, as can be seen by its filter market share which accounts for less than 1% of the targeted filtration market that estimates see reaching USD16 billion. The Company fully supports the low cost green car program (LCGC) and has been cooperating with several major car manufacturers.
- The rise in regional minimum wages, electricity tariffs and a possible increase in fuel prices is expected not to impact the Company. Therefore, in 2013 we expect SMSM will maintain its gross margin at around 25%-25.5% and its net profit at around 10.5%-11%. We also estimate that SMSM will have a strong cash position as we project its 2013 EBITDA at more than IDR500 billion and its leverage will remain low at net-debt to equity of 0.4x.
- Risk-free rate, equity premium, and beta assumption are 5.5%, 6.8% and 1.0x, respectively.

**Business Prospects**

The global economy is projected to grow gradually to 3.3%, along with the easing of the factors that led to the economic slowdown. Markets in China and the US are expected to push global car sales. The US market is expected to recover, particularly in the demand for light vehicles supported by the gradual recovery of the housing market, falling unemployment rates, and banks offering greater access to loans and lower interest rates. Along with the steady pace of Indonesia’s economy and rising investment in the automotive industry, we are optimistic on the outlook of Indonesia’s automotive and components industries in the future.

**Table 1: Performance Summary**

	2010	2011	2012	2013P	2014P
Revenue [IDR bn]	1,562	2,072	2,164	2,489	2,850
Pre-tax profit [IDR bn]	205	310	345	399	458
Net profit [IDR bn]	150	212	233	269	309
EPS [IDR]	104	147	162	187	215
EPS growth [%]	13.2	41.1	9.9	15.3	15.0
P/E [x]	10.2	9.2	15.6	14.3*	12.5*
PBV [x]	2.7	2.5	4.4	3.1*	2.9*

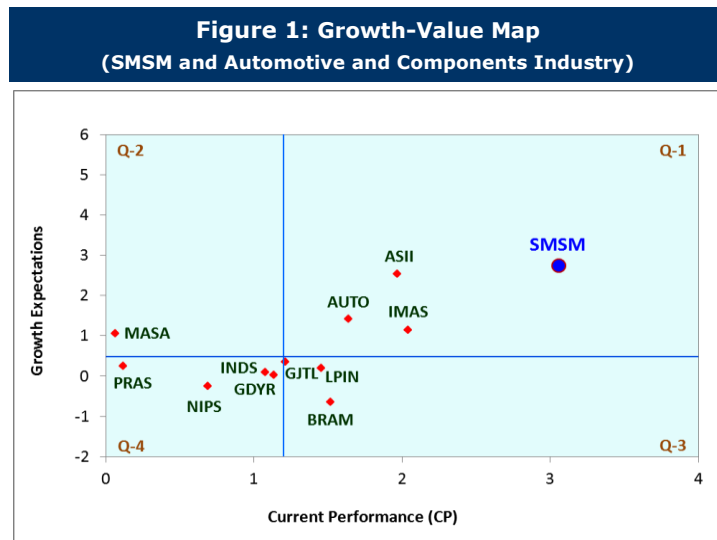
Source: PT Selamat Sempurna Tbk, Pefindo Equity & Index Valuation Division Estimates  
\* Based on SMSM’s share price as of April 26, 2013 – IDR2,675/share

**GROWTH-VALUE MAP**

The Growth-Value Map provides an overview of market expectations for the companies listed on the IDX. The Current Performance (CP) metric, running along the horizontal axis, is a portion of current stock market value that can be linked to the perpetuity of current company’s performance in profitability. The Growth Expectations (GE) metric, plotted on the vertical axis, is the difference between current stock market value and the value of current performance. Both metrics are normalized by the company’s book value.

The Growth-Value Map divides companies into four clusters:

- **Excellent Value Managers (Q-1)**  
Market expects companies in Q-1 to surpass their benchmark in profitability and growth.
- **Expectation Builders (Q-2)**  
Market has relatively low expectations of profitability from companies in Q-2 in the short term, but has growth expectations that exceed the benchmark.
- **Traditionalists (Q-3)**  
Market has low growth expectations of companies in the Q-3, although they showed good profitability in the short term.
- **Asset-loaded Value Managers (Q-4)**  
Market has low expectations in terms of profitability and growth for companies in Q-4.



Source: Pefindo Equity & Index Valuation Division

We classify SMSM in the **Excellent Value Managers (Q-1)** cluster. SMSM’s profitability and future growth opportunities are expected to exceed the market benchmark. Our research shows SMSM as outperforming its peers in the automotive and components industry. We believe that SMSM will continue this excellent performance in the future.

**BUSINESS INFORMATION**

**Optimism for the Domestic Automotive Industry**

We believe that Indonesia’s economy will maintain a growth pace of above 6% on the back of strong domestic consumption, increasing investment, and an improving global economy which can boost export sales. In the automotive industry, investment jumped from USD770 million to USD1.84 billion in 2012, while automotive and components exports climbed 45.9% to USD4.85 billion, one of the highest growths for non-oil and gas exports. Accordingly, we are optimistic on the outlook of Indonesia’s automotive and components industry in the future.

**Waiting for a Low Cost Green Car**

Growing 28.4% y-o-y, domestic car sales hit 1.06 million units in 2012, reaching that target faster than expected. But in 2013 it is estimated to remain flat at 1.1-1.2 million units. Challenges come from new regulations increasing the level of down payments required for sharia financing to match those of conventional financing, but this will only be a temporary challenge. Others include low commodity prices that lead to weakened purchasing power, and an increase in the cost of imported materials in line with depreciation in the rupiah. Car sales can also be boosted by the LCGC program, however it has been delayed awaiting the completion of government regulations. In relation to LCGC, SMSM’s management has confirmed the Company is ready to support it and is cooperating with several car manufacturers.

**Improving Global Economy, but Car Sales Still Constrained**

The growth of the global economy is projected to improve gradually to 3.3% along with the easing of the factors that led to the recent economic crisis. Short-term risks mainly come from unstable Eurozone economies and excessive short-term fiscal policies in the US. Meanwhile, global car sales (including light trucks) are estimated to grow 4% this year, constrained by sluggish demand mainly in Europe. Vehicle purchase lending in Europe from February data is showing deep contractions. Markets in China and the US are expected to push global car sales. In China, for the first two months, sales are expected to rise by 19%. And the US market is expected to recover, particularly in demand for light vehicles supported by the gradual recovery of the housing market, the falling unemployment rate, and friendlier bank support to give greater access to loans with lower interest rates.

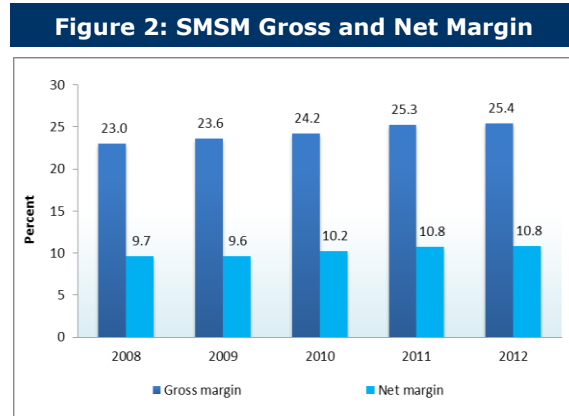
**Table 2: International Car Sales (millions of units)**

	2010	2011	2012	2013P
<b>North America</b>	<b>13.96</b>	<b>15.22</b>	<b>17.07</b>	<b>18.23</b>
US	11.55	12.73	14.40	15.50
<b>Western Europe</b>	<b>12.98</b>	<b>12.8</b>	<b>11.76</b>	<b>11.17</b>
Germany	2.92	3.17	3.08	2.96
<b>Eastern Europe</b>	<b>3.14</b>	<b>3.9</b>	<b>4.14</b>	<b>4.38</b>
Russia	1.91	2.65	2.93	3.08
<b>Asia</b>	<b>22.47</b>	<b>22.5</b>	<b>24.76</b>	<b>26.24</b>
China	9.41	10.04	10.68	11.79
<b>South America</b>	<b>4.27</b>	<b>4.47</b>	<b>4.72</b>	<b>4.98</b>
Brazil	2.69	2.64	2.84	2.98
<b>Global</b>	<b>56.82</b>	<b>58.89</b>	<b>62.45</b>	<b>65.00</b>

Source: Global Auto Report, Pefindo Equity & Index Valuation Division

**Margins Will Remain Intact in Spite of Increasing Costs**

In 2013, companies and industries face challenges from rising regional minimum wages that average 17% for 33 provinces. SMSM believes that it will not be affected significantly considering its average labor wages (IDR2.7 million) exceed the standard minimum set by the government. Meanwhile, a 15% rise in electricity costs since January, and a possible increase in fuel prices, are also expected not to burden the Company since electricity and fuel costs only contribute 2% of COGS. Therefore, in 2013 we expect SMSM will maintain its gross margin at around 25%-25.5% and its net profit at around 10.5%-11%.



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

### Expanding Markets

In the domestic market, SMSM distributes its products through its sole distributors and sub-distributors. Based in major cities such as Jakarta, Surabaya, Medan, Padang, Pekanbaru and Pontianak, sub-distributors cover sales areas from Aceh to Papua. In first quarter 2013, the sole distributor opened new sub-distributor sales areas in Samarinda and South Sulawesi. Meanwhile, for the export market, in 2013 and 2014 SMSM aims to expand in East Europe, Latin America, the Middle East, and Africa, where there is fast growth.

**Table 3: Domestic Distributors**

Sub-Distributor	No. of Sub-Distributors	Sales Area
Jakarta	1	Jakarta, West Java, Central Java, Lampung, South Sumatra, Bengkulu, Sulawesi, Kalimantan (except West Kalimantan)
Surabaya	1	Jawa Timur, Bali, NTT, NTB, Maluku, Papua
Medan	1	Aceh, North Sumatra
Padang	1	West Sumatra and its surroundings
Pekanbaru	1	Riau include Riau Islands
Pontianak	1	West Kalimantan and its surroundings

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

### Investment in the Expansion of PT Tokyo Radiator Selamat Sempurna

SMSM and other shareholders have agreed to make additional paid-in capital to PT Tokyo Radiator Selamat Sempurna (TRSS) of IDR16.50 billion. Maintaining 33% ownership, SMSM needs to invest IDR5.45 billion, bringing its total investment in TRSS to IDR11.12 billion. This will be used to expand TRSS's production capacity from 65k units/year to 150k units/year for radiators and from 50k units/year to 125k units/year for intercoolers. TRSS's factory is expected to begin commercial operation in July 2013 to supply radiators for original equipment manufacturers (OEM), including PT Nissan Motor Indonesia and PT Isuzu Astra Motor Indonesia with whom TRSS has signed agreements. It is expected that TRSS will drive SMSM's sales to OEM in the future.

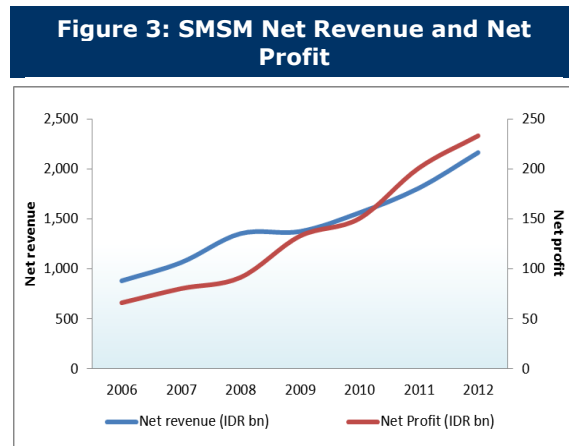
### Investment in the Expansion of PT POSCO Indonesia Jakarta Processing Center

SMSM also plans to inject more capital into PT POSCO Indonesia Jakarta Processing Center (POSCO-IJPC) to double its production capacity to 480k MT/year. SMSM needs to add capital of USD2.32 million to maintain its 15% stake. The new factory, built to anticipate increasing demand, will be located adjacent to the current factory in Karawang, West Java. Although in 2012 POSCO-IJPC recorded negative net income of USD1.1 million, a decline from USD1.2 million the previous year, SMSM's management believes that larger economies of scale can provide more room for profitability in the future.

**FINANCE**

**Maintaining Consecutive Growth**

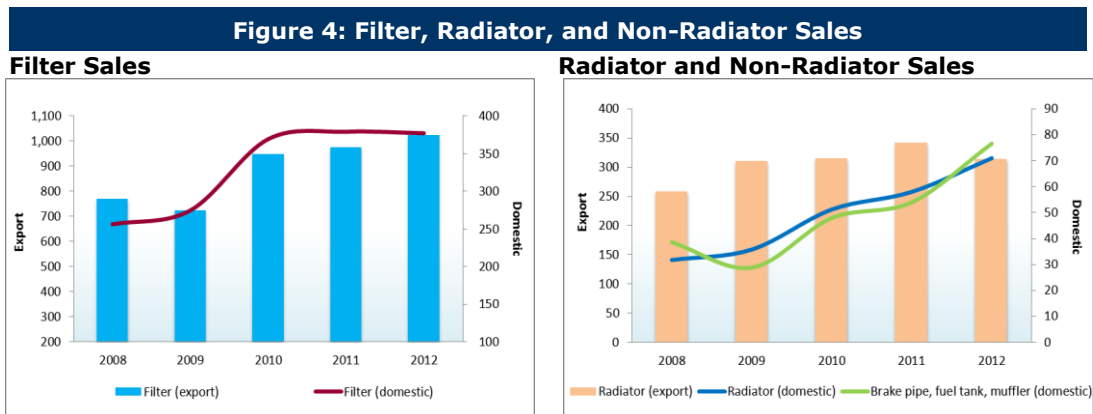
SMSM's net revenue in 2012 outperformed our estimate by about 3.5%. SMSM continues to achieve consecutive growth, and in 2012 the Company recorded net revenue growth of 20% and net income growth of 16%. Last year, inorganic growth was also a contributor as a result of the Hydraxle Perkasa (HP) acquisition. SMSM recorded organic growth of 3%, with organic domestic and export sales growth of 6.8% and 1.5%, respectively. SMSM's management said that the Company will continue to commit to maintaining consecutive growth both in net revenue and net income. Therefore the Company will continuously strengthening its sales penetration both in domestic and export markets, as well as promoting cost reduction activities to enhance production and operational efficiency. The Company will be very selective in its investment activities as it keeps the door open for lucrative opportunities, but without hindering its sustainable growth.



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

**Optimism for 2013**

Growth of SMSM's filter sales in 2012 both for domestic and export markets remained flat with 2011. While radiator export sales in 2012 moderately declined, maintaining its upward trend, domestic radiator and other non-filter sales soared 22% and 42%. Although non-filter sales grew strongly, they only accounted for about 8% of total sales. Management says that this is cyclical, and has been faced by the company several times before, particularly in times of economic crisis. The can be supported by the fact that export sales grew 24% q-o-q or 11% y-o-y during 4Q12, showing optimism that global economic conditions will improve in 2013. Moreover SMSM already holds agreements with some reputable original equipment suppliers from Europe and the US.



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

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### Export Opportunities

Despite declining sales of almost 10%, the US remains the biggest export destination, accounting for 18.6% of total exports in 2012. However, dependency on the US market is declining, as its contribution to total exports in 2008 was 25%. Outside of the US, prominent export destinations are Australia, the Russian Federation, the Netherlands, Thailand, and Ecuador, with each country having a sales growth rate of 15%-30% CAGR for the last four years. Management believes SMSM's products have great opportunities in export markets. One example is that SMSM's filter market share accounts for less than 1% of the targeted filtration market worth an estimated USD16 billion.

**Table 4: The 10 Largest Export Destinations**

	2011		2012	
	Export Contribution	Sales Growth (y-o-y)	Export Contribution	Sales Growth (y-o-y)
US	21.0%	0.7%	18.6%	-9.8%
Australia	9.8%	21.7%	9.3%	-3.9%
Singapore	9.5%	-4.6%	9.0%	-4.0%
Russian Federation	5.9%	66.0%	6.4%	9.0%
Japan	4.9%	16.4%	3.9%	-17.2%
Netherlands	3.2%	19.4%	3.9%	20.9%
Thailand	2.2%	-9.7%	3.4%	64.3%
Ecuador	3.4%	41.9%	3.2%	-2.3%
Malaysia	2.5%	-21.4%	3.1%	27.3%
China	3.6%	14.6%	2.8%	-19.1%

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

### Strong Cash Position for 2013

SMSM is maintaining its capex at around USD100 billion for at least until next year for machine maintenance and working capital. In terms of dividend payment, SMSM disbursed a 2012 interim dividend of 49.4% of its net income (IDR115 billion or IDR80/share) in 4Q11. Assuming SMSM uses the same payout ratio of 72% it did in 2011, the Company will pay about IDR53 billion or IDR37/share as its 2012 final dividend. SMSM also needs to spend IDR80 billion cash for payment of its maturing bond debt in July 2013. We believe that SMSM will have a strong cash position as we estimate its 2013 EBITDA at more than IDR500 billion and the Company will remain a low leverage at a net-debt to equity of 0.4x.

**INDUSTRY COMPARISON**

**Table 5: Performance of SMSM and Its Peers in 2012**

	SMSM	AUTO	INDS	LPIN
Net sales [IDR bn]	2,164	8,277	1,477	69
Gross profit [IDR bn]	547	1,356	294	27
Before tax profit [IDR bn]	345	1,263	181	20
Net profit [IDR bn]	233	1,053	133	17
Total asset [IDR bn]	1,441	8,882	1,665	172
Total liabilities [IDR bn]	621	3,397	528	37
Total equity [IDR bn]	820	5,485	1,137	135
<b>Growth [y-o-y]</b>				
Net sales [%]	4.4	12.4	19.6	9.2
Gross profit [%]	8.8	9.6	8.3	(1.7)
Before tax profit [%]	11.3	0.7	50.1	23.1
Net profit [%]	9.9	4.6	10.8	46.6
<b>Profitability</b>				
Gross profit margin [%]	25.3	16.4	19.9	39.6
Operating profit margin [%]	15.9	15.3	12.2	28.5
ROA [%]	16.2	11.9	8.0	9.6
ROE [%]	28.4	19.2	11.7	12.3
<b>Leverage</b>				
DER [x]	0.8	0.6	0.5	0.3

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



## TARGET PRICE

### VALUATION

- Methodology**

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

Furthermore, we also applied the *Guideline Company Method* (GCM) as a comparison method.

This valuation is based 100% on shares price as of April 26, 2013, using SMSM's Financial Report of December 31, 2012 as the basis for the fundamental analysis.

- Value Estimation**

We used a cost of capital and cost of equity of 11.0% and 12.2% based on the following assumptions:

**Table 6: Assumption**

Risk free rate [%]*	5.5
Risk premium [%]*	6.8
Beta [x]**	1.0
Cost of Equity [%]	12.2
Marginal tax rate [%]	22.0
<b>WACC [%]</b>	<b>11.0</b>

Source: Bloomberg, Pefindo Equity & Index Valuation Division Estimates

\* as of April 26, 2013

\*\* PEFINDO Beta as of April 25, 2012

The target price for 12 months, based on the valuation as per April 26, 2013, is as follows:

- ❖ Using the DCF method with a discount rate assumption of 11.0%, it is IDR3,091–IDR3,439 per share.
- ❖ Using the GCM method (P/E 13.5x and P/BV 3.4x), it is IDR2,523–IDR2,978 per share.

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

Based on the above calculation, the target price of SMSM for 12 months is **IDR2,925–IDR3,300** per share.

**Table 7: Summary of DCF Method Valuation**

	Conservative	Moderate	Optimist
PV of Free Cash Flows [IDR bn]	1,233	1,298	1,363
PV of Terminal Value [IDR bn]	3,523	3,708	3,894
Non-Operating Assets [IDR bn]	59	59	59
Debt [IDR bn]	(365)	(365)	(365)
Number of Shares [mn shares]	1,440	1,440	1,440
Fair Value per Share [IDR]	<b>3,091</b>	<b>3,265</b>	<b>3,439</b>

Source: Pefindo Equity & Index Valuation Division Estimates

**Table 8: GCM Comparison**

	SMSM	AUTO	LPIN	Average
P/E [x]	16.7	14.3	9.5	<b>13.5</b>
P/BV [x]	6.0	2.9	1.3	<b>3.4</b>

Source: Bloomberg, Pefindo Equity & Index Valuation Division

**Table 9: Summary of GCM Method Valuation**

	Multiple [x]	Est. EPS [IDR]	Est. BV/share [IDR]	Value [IDR]
P/E	13.5	187	-	<b>2,523</b>
P/BV	3.4	-	869	<b>2,978</b>

Source: Bloomberg, Pefindo Equity & Index Valuation Division Estimates

**Table 10: Fair Value Reconciliation**

	Fair Value per Share [IDR]		
	DCF	GCM	Average
Upper limit	3,439	2,978	<b>3,300</b>
Bottom limit	3,091	2,523	<b>2,925</b>
Weight	70%	30%	

Source: Pefindo Equity & Index Valuation Division Estimates

Note: average price is rounded according to the fractional price prevailing on the IDX

**Table 11: Income Statement** (IDR bn)

	2010	2011	2012	2013P	2014P
Net revenue	1,562	2,072	2,164	2,489	2,850
COGS	(1,193)	(1,570)	(1,617)	(1,856)	(2,127)
<b>Gross profit</b>	<b>369</b>	<b>502</b>	<b>547</b>	<b>633</b>	<b>723</b>
Operating expense	(141)	(174)	(184)	(215)	(246)
<b>Operating profit</b>	<b>228</b>	<b>328</b>	<b>363</b>	<b>417</b>	<b>477</b>
EBITDA	306	441	486	545	612
Other income (charges)	(23)	(19)	(18)	(19)	(19)
<b>Pre-tax profit</b>	<b>205</b>	<b>310</b>	<b>345</b>	<b>399</b>	<b>458</b>
Tax	(40)	(68)	(76)	(88)	(101)
<b>Net profit</b>	<b>150</b>	<b>212</b>	<b>233</b>	<b>269</b>	<b>309</b>

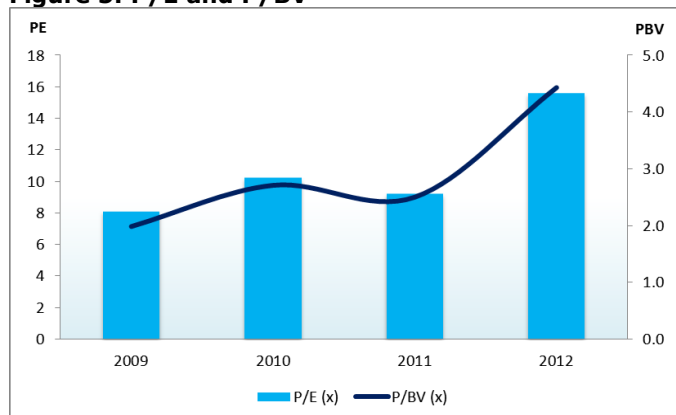
Source: PT Selamat Sempurna Tbk, Pefindo Equity & Index Valuation Division Estimates

**Table 12: Balance Sheet** (IDR bn)

	2010	2011	2012	2013P	2014P
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	14	18	59	66	69
Receivables	314	394	431	445	510
Inventory	307	380	382	407	466
Other assets	26	24	27	30	33
<b>Total current assets</b>	<b>662</b>	<b>816</b>	<b>899</b>	<b>948</b>	<b>1,078</b>
Fixed assets	377	491	489	501	507
Other assets	29	21	53	55	56
<b>Total assets</b>	<b>1,067</b>	<b>1,328</b>	<b>1,441</b>	<b>1,503</b>	<b>1,641</b>
<b>Liabilities</b>					
Trade payables	125	106	106	153	175
Short-term debt	121	164	277	213	322
Other short-term liabilities	59	70	79	87	96
Long-term debt	159	159	111	127	61
Other long-term liabilities	36	46	47	54	62
<b>Total Liabilities</b>	<b>499</b>	<b>545</b>	<b>621</b>	<b>634</b>	<b>716</b>
Minority interest	49	120	175	184	193
<b>Total Equity</b>	<b>568</b>	<b>783</b>	<b>820</b>	<b>869</b>	<b>925</b>

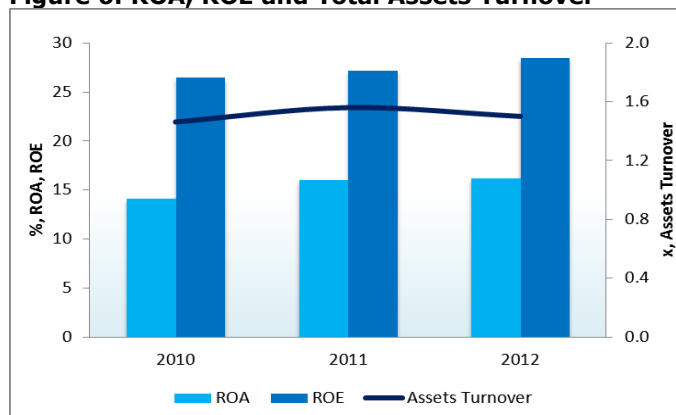
Source: PT Selamat Sempurna Tbk, Pefindo Equity & Index Valuation Division Estimates

**Figure 5: P/E and P/BV**



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

**Figure 6: ROA, ROE and Total Assets Turnover**



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

**Table 13: Key Ratios**

	2010	2011	2012	2013P	2014P
<b>Growth [%]</b>					
Net revenue	13.6	32.7	4.4	15.0	14.5
Operating profit	20.1	44.2	10.5	15.0	14.3
EBITDA	13.4	44.2	10.3	12.1	12.3
Net profit	13.2	41.1	9.9	15.3	15.0
<b>Profitability [%]</b>					
Gross margin	23.6	24.2	25.3	25.4	25.4
Operating margin	14.6	15.9	16.8	16.8	16.7
EBITDA margin	19.6	21.3	22.5	21.9	21.5
Net margin	9.6	10.2	10.8	10.8	10.9
ROA	14.1	16.0	16.2	17.9	18.8
ROE	26.5	27.1	28.4	30.9	33.4
<b>Solvability [x]</b>					
Debt to equity	0.9	0.7	0.8	0.7	0.8
Debt to asset	0.5	0.4	0.4	0.4	0.4
<b>Liquidity [x]</b>					
Current Ratio	2.2	2.4	1.9	2.1	1.8
Quick Ratio	1.2	1.3	1.1	1.2	1.0

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

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