

August 19, 2014

Selamat Sempurna, Tbk

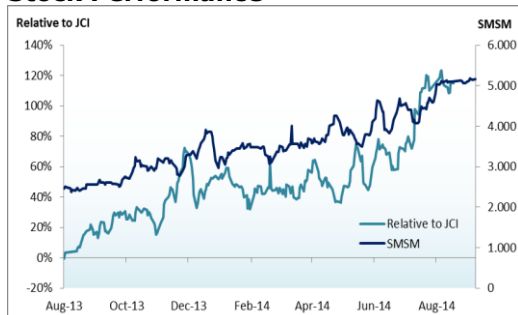
Secondary Report

Target Price

Low	High
4,835	5,525

Automotive and Components

Stock Performance



Source: Bloomberg, PEFINDO Equity & Index Valuation Division



PT SELAMAT SEMPUrna Tbk.
MEMBER OF ADR GROUP

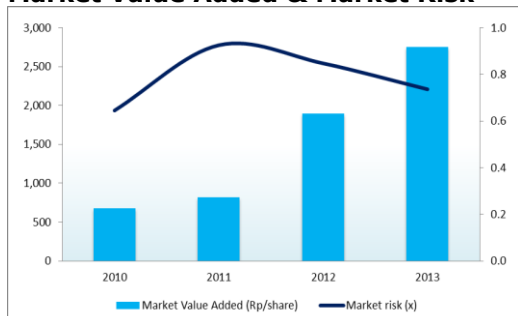
Improving Export Market, Stronger Cash



Stock Information

	IDR
Ticker code	SMSM
Market price as of August 18, 2014	4,505
Market price – 52 week high	4,905
Market price – 52 week low	2,500
Market cap – 52 week high (bn)	7,062
Market cap – 52 week low (bn)	3,599

Market Value Added & Market Risk



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



Stock Valuation

	Last	Current
High	3,800	5,525
Low	3,500	4,835

Shareholders

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

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PT Selamat Sempurna Tbk (SMSM) is Indonesia's filter king and is part of the respected ADR Group. As well as filters, it also manufactures a wide range of other automotive components 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 has an extensive range of products that involve about 8,000 parts distributed to the aftermarket and original equipment manufacturers (OEMs). It exports its products to, and has registered trademarks in, more than 100 countries worldwide. Its success is supported by strong brands in its portfolio including Sakura, ADR-Radiator, ADR-Brake Parts, ADR-Dump Hoist, and ADR-Coolant. In a recent development, it continues to develop an integrated business through acquisitions of its sister companies, the latest of which was PT Cahya Mitra Gemiliang (CMG), its distributor in the aftermarket for North Sumatra and Aceh. SMSM has booked consecutive revenue growth for more than 20 years.

INVESTMENT PARAMETER

Target price adjustment

We have made several adjustments to our previous forecast and adjusted our target price to **IDR4,835–IDR5,525** per share, based on the following considerations:

- SMSM benefitted from a weakening Rupiah and the positive development of the global automotive market. Its exports contribution to net revenue rose from 59% in FY2012 to 62% in FY2013 and 68% in 1H2014. Export net revenue rose 11% in FY2013 and 37% during 1H2014, while domestic net revenue slightly declined, mainly due to weakening carrosserie sales.
- Export sales to almost all major countries grew by double digit in 1H2014, indicating the strong demand of the global automotive market. Sales to the US, its largest export destination, jumped 33% year-on-year (YoY) in line with the improving automotive market there. Accordingly, we are revising up our revenue projections in the previous report, particularly for FY2014 and FY2015 by 7% and 5%, respectively.
- We expect SMSM’s gross margin to stay at more than 26%, thanks to declining steel prices, improving export markets, and a weakening Rupiah, while the performance of its subsidiary, Hydraxle Perkasa, is still unfavorable.
- As SMSM maintains modest capex, if we assume going forward its dividend payout ratio at 60%, and there are no plans for large cash acquisitions, it will be a net-cash company in 2016, based on our estimates. Further, we expect SMSM’s return on equity (ROE) will remain thick at more than 30% with a stronger balance sheet, and its EBITDA will continue to climb.
- In June 2014, SMSM acquired PT Cahaya Mitra Gemiliang through its subsidiary PT Prapat Tunggal Cipta (PTC), its sole distributor for the local market. CMG is SMSM’s distributor in the aftermarket for North Sumatra and Aceh. The acquisition is small in terms of value (IDR10.5 billion), but we believe it will have a positive impact for SMSM’s performance, particularly in the domestic market.
- Its risk-free rate, equity premium, and beta assumption are 8.3%, 3.0% and 0.7x, respectively.

Business prospects

Global automotive sales in 2013 hit a new record, exceeding 80 million vehicles on the back of encouraging sales in China and the US. China recorded 21.9 million new vehicles sales and grew 15% YoY, while the US market booked sales of 15.6 million vehicles, the highest in six years. It is estimated that global automotive sales will hit 85 million vehicles this year, and 100 million in 2018, with China forecasted to contribute one-third. Emerging markets such as India, Russia, Brazil, Indonesia, Argentina, and Chile will be the growth drivers for global sales. Indonesia is the second largest car market in ASEAN after Thailand, with sales reaching 1.23 million in 2013. Indonesian automotive products have been exported to more than 80 countries worldwide. Low cost green cars (LCGC) will be the booster for Indonesia’s automotive industry, particularly in the ASEAN Economic Community (AEC) era which will come into play in 2015, by helping issues such as increasing gasoline consumption and pollution. There is a great opportunity for SMSM to grow in the future, and we believe it will actively utilize the momentum.

Table 1: Performance Summary

	2011	2012	2013	2014P	2015P
Revenue [IDR bn]	2,072	2,269	2,373	2,770	3,119
Pre-tax profit [IDR bn]	310	370	459	531	590
Net profit [IDR bn]	212	219	308	375	419
EPS [IDR]	147	152	214	261	291
EPS growth [%]	41.1	3.3	40.4	22.0	11.5
P/E [x]	9.2	16.6	16.1	17.3*	15.5*
PBV [x]	2.5	4.0	4.9	3.9*	3.4*

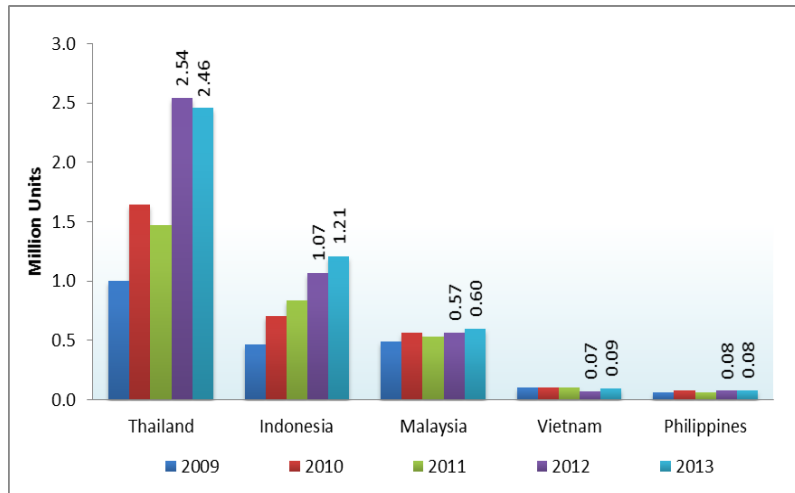
Source: PT Selamat Sempurna Tbk, PEFINDO Equity & Index Valuation Division Estimates
* Based on SMSM’s share price as of August 18, 2014 – IDR4,505/share

BUSINESS INFORMATION

Positive development of domestic automotive industry

Indonesia is the second largest car market in ASEAN after Thailand, with sales reaching 1.23 million in 2013, only slightly behind Thailand's 1.33 million. This year, as the Thai market is shrinking due to political instability, Indonesia is estimated to take over as the top position. Domestic car sales growth is estimated to stay positive, but there are challenges in the domestic market such as the weakening foreign exchange, a high interest rate environment, an increasing electricity tariff, and uncertainty over the minimum wage rise. Meanwhile, in the export market, the competitiveness of Indonesia's automotive products is rising, and export destinations have reached more than 80 countries worldwide. Four-wheel (4W) completely build up (CBU) or readily made exports in 2013 reached 170,000 units while completely knock down (CKD) or ready to assemble accounted for 105,000 units. This year, it is expected to hit 200,000 units and 110,000 units for CBU and CKD exports, respectively.

Figure 1: Car Production in ASEAN Countries

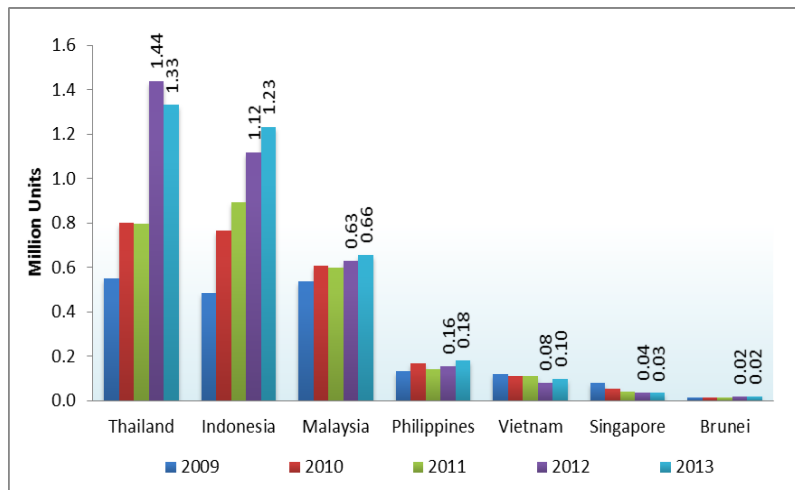


Source: ASEAN Automotive Federation, Kontan, PEFINDO Equity & Index Valuation Division

LCGC to boost automotive industry in the AEC era

With an increasing number of cars on the road, demand for environmentally friendly cars is on the rise, with increasing gasoline consumption and pollution the main issues. Therefore low cost green cars (LCGCs) will boost Indonesia's automotive industry, particularly for the ASEAN Economic Community (AEC) which will begin in 2015. In 2013, sales of environmentally friendly cars in ASEAN reached 275,000 units, and it is estimated that they will grow 15%-20% with a market share of 11%-12% within the next 2-3 years.

Figure 2: Car Sales in ASEAN Countries

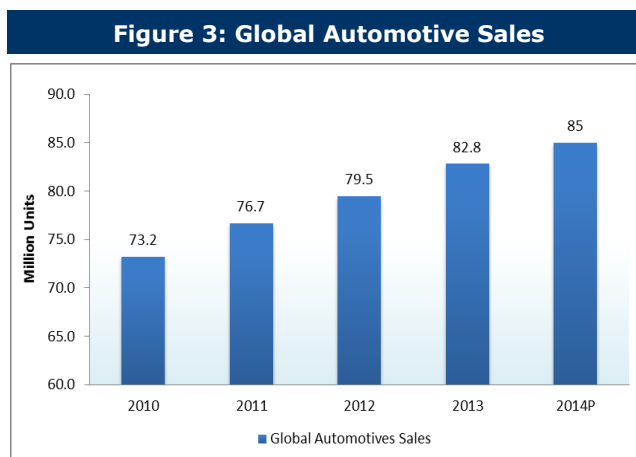


Source: ASEAN Automotive Federation, Kontan, PEFINDO Equity & Index Valuation Division

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Global auto market: a new record

In 2013, global automotive sales exceeded 80 million vehicles for the first time, reaching 82.8 million vehicles, a rise of 4.2% YoY, based on IHS Automotive research. China, the fastest growing automotive market, recorded 21.9 million new sales, growing 15% YoY. The US market booked sales of 15.6 million, up 7.6% YoY and the highest for six years, due to strong sales of large vehicles in the midst of a low interest rates environment.



Source: IHS Automotive, PEFINDO Equity & Index Valuation Division

It is estimated that global automotive sales will hit 85 million vehicles in 2014. The US market is expected to grow 4% as last year’s sales were high, while the European market will have a modest rebound due to a lingering price war. In Japan, as the third largest automotive market, there will be decreasing sales due to the consumption-tax rise from 5% to 8%. China and India will be the main drivers of sales growth, with the markets expected to expand 10%-11% this year. Looking forward, it is estimated that the global automotive market will record sales of 100 million vehicles in 2018 with China forecasted to contribute one-third. Emerging markets such as India, Russia, Brazil, Indonesia, Argentina, and Chile will be the growth driver for global sales.

New acquisition

In June 2014, SMSM acquired PT Cahaya Mitra Gemilang through its subsidiary PT Prapat Tunggal Cipta (PTC), its sole distributor for the local market. CMG is SMSM’s distributor in the aftermarket for North Sumatra and Aceh. With an acquisition value of IDR10.5 billion, the Company expects to strengthen its vertical integration particularly in the downstream sector. Although the acquisition is small in terms of price, we believe it will have a positive impact on SMSM’s performance, particularly in the domestic market.

Table 2: CMG Financial Performance

IDR bn	2011	2012	2013
Net sales	27.5	31.8	34.9
COGS	(23.2)	(26.5)	(28.5)
Gross profit	4.3	5.2	6.4
Operating expenses	(3.2)	(3.5)	(3.9)
Operating profit	1.6	1.8	2.5
Net profit	1.2	1.4	2.0
Current assets	16.8	18.5	21.4
Total assets	17.4	19.1	22.0
Current liabilities	9.3	10.6	11.5
Total liabilities	9.3	10.6	11.5
Equity	8.1	8.5	10.5

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

Acknowledgement

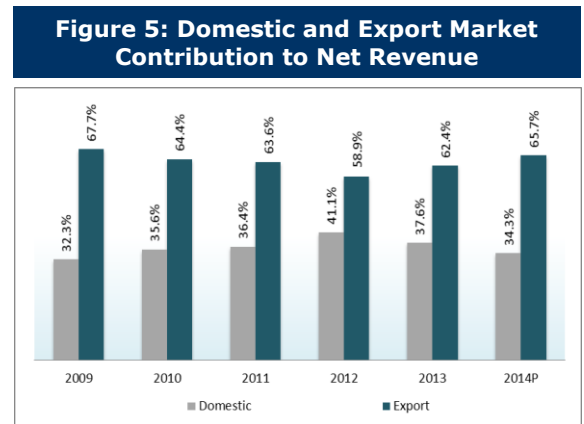
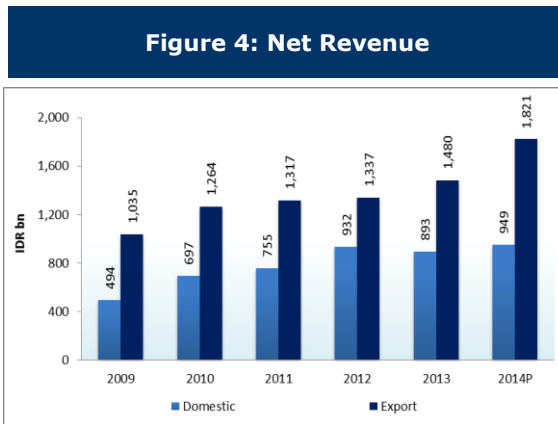
In 2014, SMSM continues to receive recognition of its strong performance, being named as one of the Top Performing Listed Companies for Miscellaneous Industry in the Investor Awards 2014, and as one of the Top 50 Best Companies on the IDX by Forbes Magazine. Therefore, we believe SMSM will maintain and improve its performance in the future to give added value to its shareholders.

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FINANCE

Benefits of weakening Rupiah, improving global automotive market

SMSM's revenue in 2013 was in line with our estimate in our previous report. Based on net revenue, it saw an increasing export contribution from 59% in FY2012 to 62% in FY2013 and 68% in 1H2014, benefitting from the weakening Rupiah and the positive development of the global automotive market. Export net revenue rose 11% YoY in FY2013 and 37% YoY during 1H2014, while domestic net revenue fell 7% YoY. Domestic sales were mainly influenced by carrosserie sales that fell 33% YoY for FY2013 and 19% YoY for 1H2014, in line with the mining and crude palm oil (CPO) industries that remained weak due to low commodity prices. The weakening Rupiah benefitted exporters as it meant the average selling price in Rupiah was higher.



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

Strong export market improvement

SMSM's export markets are showing strong improvement, as shown by an export sales rise of 37% YoY in 1H2014. Export sales to almost all major countries grew by double digits, indicating the strong demand in the global automotive market. Sales to the US, the largest export destination, jumped 33% YoY in line with the improving US automotive market. Other countries that will be the main drivers of the export market are Australia, Singapore (as a trading hub), Russia, Japan, and Ecuador. For the European market, sales to Germany declined in accordance with the country's developing automotive industry, but countries such as the Netherlands, France, Italy, and Belgium rose, giving hope for a stronger export market in Europe.

Table 3: Top Export Destinations

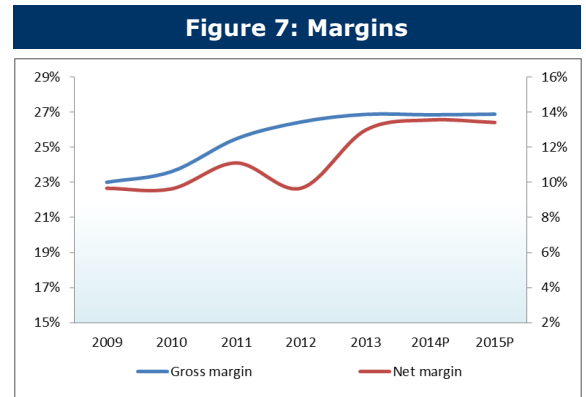
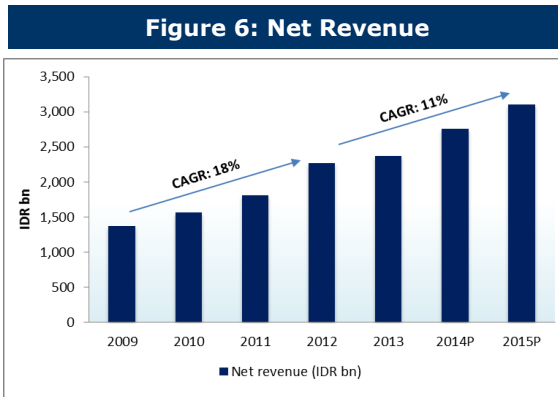
	1H2014	1H2013	Growth
USA	166.0	124.7	33.1%
Australia	78.4	57.8	35.6%
Singapore	71.4	50.4	41.6%
Russian Federation	47.2	23.9	97.3%
China	41.2	39.9	3.1%
Japan	37.7	25.0	50.5%
Ecuador	31.5	24.0	31.5%
Malaysia	29.0	17.8	62.8%
Netherlands	27.8	23.5	18.3%
Thailand	26.0	21.4	21.6%
France	25.5	16.2	57.2%
Italy	20.0	11.5	74.9%
Belgium	20.0	15.1	33.1%
Germany	19.3	20.0	-3.3%

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

Revising revenue up, solid margins

Looking at the encouraging export market, we are revising up our revenue projections in the previous report, particularly for FY2014 and FY2015 by 7% and 5%, and expect SMSM will maintain its consecutive growth. Despite increasing raw material prices, SMSM has the power to bargain to raise the selling prices to its distributors. Some 30%-40% of SMSM's cost of goods sold (COGS) comes from imported raw materials. However, currently it is benefiting from declining steel prices, an improving export market, and a weakening Rupiah. We expect these factors will support SMSM's gross margin to stay at more than 26%, as it was in FY2012 and FY2013, while the performance of its subsidiary, Hydraxle Perkasa, is still unfavorable.

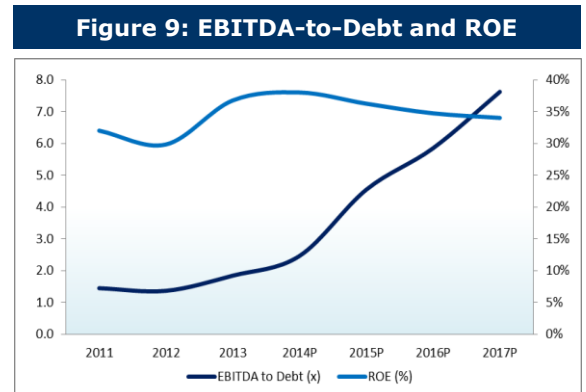
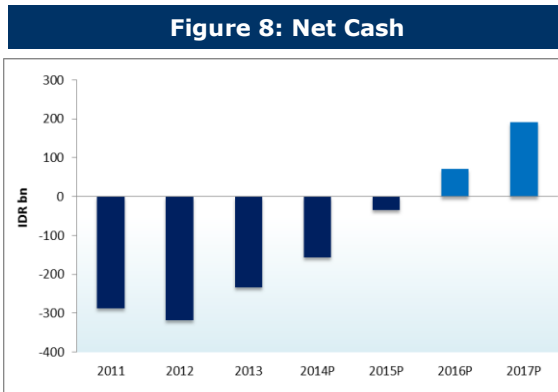
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Source: PT Selamat Sempurna Tbk, PEFINDO Equity & Index Valuation Division Estimates

Stronger balance sheet

SMSM is still a dividend paying company and for FY2013, its payout ratio was 54%. We expect it will continue to distribute the dividend with a payout ratio of 60% or more in the future. It will also maintain modest capex at IDR100 billion. With such conditions, and if there are no acquisition plans requiring a large level of cash, it will be a cash rich company within several years. It has only an IDR80 billion outstanding bond that will mature in July 2015. Therefore, based on our calculations, SMSM will be a net-cash company in 2016. We also expect its ROE will remain heavy at more than 30% with a stronger balance sheet, and its EBITDA will continue to climb.



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

INDUSTRY COMPARISON

Table 4: Performance of SMSM and Its Peers in 1H2014

	SMSM	AUTO	INDS
Revenue [IDR bn]	1,296	6,227	940
Gross profit [IDR bn]	358	922	169
Before tax profit [IDR bn]	253	632	107
Net profit [IDR bn]	175	454	82
Total assets [IDR bn]	1,782	13,440	2,372
Total liabilities [IDR bn]	598	3,807	537
Total equity [IDR bn]	1,184	9,633	1,835
Growth [YoY]			
Net sales [%]	18.7	25.5	12.1
Gross profit [%]	31.7	19.3	7.9
Before tax profit [%]	54.8	1.7	1.3
Net profit [%]	75.0	(11.2)	(0.1)
Profitability			
Gross profit margin [%]	27.6	14.8	18.0
Operating profit margin [%]	19.5	10.2	11.4
ROA [%]	13.1	4.5	4.6
ROE [%]	19.7	6.3	6.0
Leverage			
DER [x]	0.5	0.4	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 the price of 100% of shares as of August 18, 2014, using SMSM's Financial Report of June 30, 2014 as the basis for the fundamental analysis.

- Value estimation**

We used a cost of capital and cost of equity of 9.9% and 10.4% based on the following assumptions:

Table 5: Assumptions

Risk free rate [%]*	8.3
Risk premium [%]*	3.0
Beta [x]**	0.7
Cost of equity [%]	10.4
Marginal tax rate [%]	23.5
WACC [%]	9.9

Source: Bloomberg, PEFINDO Equity & Index Valuation Division Estimates

* as of August 18, 2014

** PEFINDO Beta as of August 14, 2014

The target price for 12 months, based on the valuation as per August 18, 2014, is as follows:

- ❖ Using the DCF method with a discount rate assumption of 9.9%, it is IDR5,213–IDR5,772 per share.
- ❖ Using the GCM method (P/E 18.9x and P/Sales 2.1x), it is IDR3,954–IDR4,921 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 **IDR4,835–IDR5,525** per share.

Table 6: Summary of DCF Method Valuation

	Conservative	Moderate	Optimist
PV of free cash flows [IDR bn]	1,586	1,669	1,753
PV of terminal value [IDR bn]	6,058	6,377	6,696
Non-operating assets [IDR bn]	114	114	114
Debt [IDR bn]	(253)	(253)	(253)
Number of shares [mn shares]	1,440	1,440	1,440
Fair value per share [IDR]	5,213	5,492	5,772

Source: PEFINDO Equity & Index Valuation Division Estimates

Table 7: GCM Comparison

	SMSM	AUTO	Average
P/E [x]	17.4	20.3	18.9
P/Sales [x]	2.5	1.6	2.1

Source: Bloomberg, PEFINDO Equity & Index Valuation Division

Table 8: Summary of GCM Method Valuation

	Multiple [x]	Est. EPS [IDR]	Est. sales/share [IDR]	Value [IDR]
P/E	18.9	261	-	4,921
P/Sales	2.1	-	1,924	3,954

Source: Bloomberg, PEFINDO Equity & Index Valuation Division Estimates

Table 9: Fair Value Reconciliation

	Fair value per share [IDR]		
	DCF	GCM	Average
Upper limit	5,772	4,921	5,525
Bottom limit	5,213	3,954	4,835
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 10: Consolidated Statement of Comprehensive Income

IDR bn	2011	2012	2013	2014P	2015P
Net revenue	2,072	2,269	2,373	2,770	3,119
COGS	(1,570)	(1,669)	(1,735)	(2,026)	(2,281)
Gross profit	502	600	638	744	839
Operating expense	(174)	(211)	(216)	(217)	(244)
Operating profit	328	389	421	526	594
EBITDA	441	520	602	672	727
Other income (charges)	(19)	(19)	37	4	(4)
Pre-tax profit	310	370	459	531	590
Tax	(68)	(83)	(108)	(125)	(139)
Net profit	212	219	308	375	419

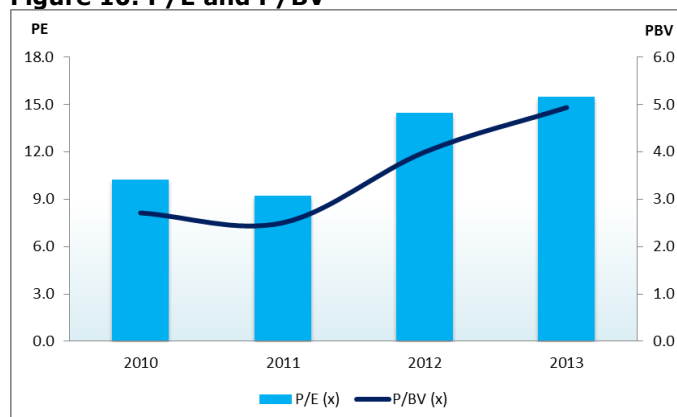
Source: PT Selamat Sempurna Tbk, PEFINDO Equity & Index Valuation Division Estimates

Table 11: Consolidated Statement of Financial Position

IDR bn	2011	2012	2013	2014P	2015P
Assets					
Cash and cash equivalents	18	59	93	116	125
Receivables	394	431	561	565	636
Inventory	380	382	398	466	525
Other assets	24	27	45	70	80
Total current assets	816	899	1,097	1,217	1,366
Fixed assets	491	489	492	523	527
Other assets	21	53	112	137	102
Total assets	1,328	1,441	1,701	1,877	1,995
Liabilities					
Trade payables	106	106	164	205	231
Short-term debt	164	277	237	195	173
Other short-term liabilities	70	79	122	137	155
Long-term debt	159	111	115	112	26
Other long-term liabilities	46	47	56	62	68
Total liabilities	545	621	694	712	653
Minority interest	120	175	169	178	187
Total equity	783	820	1,007	1,165	1,342

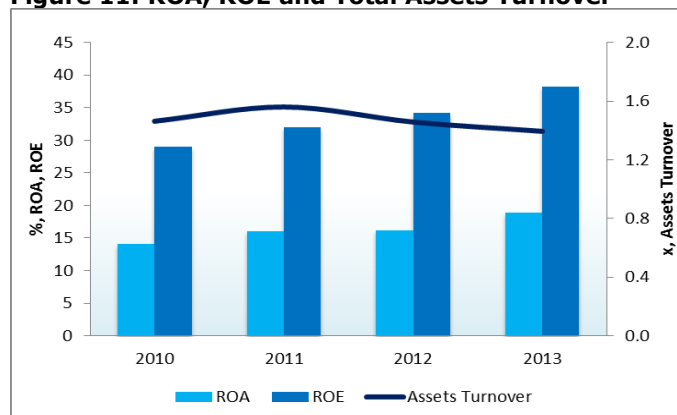
Source: PT Selamat Sempurna Tbk, PEFINDO Equity & Index Valuation Division Estimates

Figure 10: P/E and P/BV



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

Figure 11: ROA, ROE and Total Assets Turnover



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

Table 12: Key Ratios

	2011	2012	2013	2014P	2015P
Growth [%]					
Net revenue	32.7	4.4	4.6	16.7	12.6
Operating profit	44.2	10.5	8.3	25.0	12.9
EBITDA	44.2	10.3	15.7	11.7	8.1
Net profit	41.1	9.9	27.4	22.0	11.5
Profitability [%]					
Gross margin	24.2	25.3	26.9	26.9	26.9
Operating margin	15.9	16.8	17.8	19.0	19.1
EBITDA margin	21.3	22.5	25.4	24.3	23.3
Net margin	10.2	10.8	13.5	13.6	13.4
ROA	16.0	16.2	18.8	20.0	21.0
ROE	32.0	36.1	38.3	38.0	36.3
Solvability [x]					
Debt to equity	0.7	0.8	0.7	0.6	0.5
Debt to asset	0.4	0.4	0.4	0.4	0.3
Liquidity [x]					
Current ratio	2.4	1.9	2.1	2.3	2.4
Quick ratio	1.3	1.1	1.3	1.4	1.5

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

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