

December 22, 2015

## Selamat Sempurna, Tbk

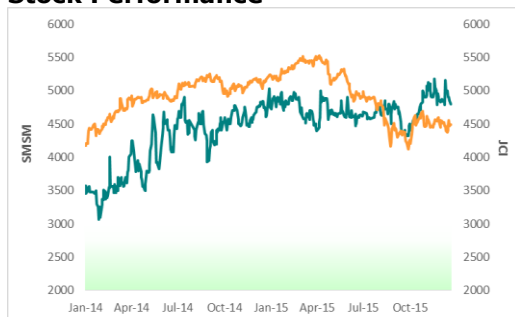
### Secondary Report

**Target Price**

<b>Low</b>	<b>High</b>
<b>4,915</b>	<b>5,850</b>

**Automotive and Components**

#### Stock Performance



Source: Bloomberg, PEFINDO Research & Consulting - Equity & Index Valuation Division



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

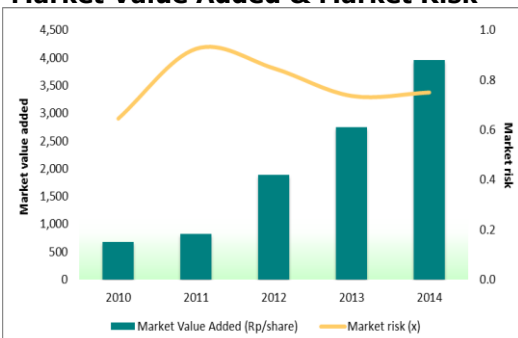
### Pursuing Wider Opportunities



#### Stock Information

	IDR
Ticker code	SMSM
Market price as of December 21, 2015	4,850
Market price – 52 week high	5,175
Market price – 52 week low	4,320
Market cap – 52 week high (bn)	7,450
Market cap – 52 week low (bn)	6,219

#### Market Value Added & Market Risk



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



#### Stock Valuation

	Last	Current
High	5,950	5,850
Low	5,025	4,915

#### Shareholders

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

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PT Selamat Sempurna Tbk (SMSM) is a flagship business of ADR Group, a reputable group with main business activities of production and distribution of automotive parts or components. Supported by a sizeable installed capacity and extensive line of products, SMSM is "the king" of filter manufacturer in the region. Not only filter, it also has wide-ranging products for radiator. Therefore, SMSM offers more filter and radiator products than its peers do. About 70% of its revenue comes from global market. Its products are exported to more than 115 countries and are supported with trademark registration in more than 100 countries. The products are mainly sold to aftermarket segment, accounting for 90% of the Company's revenue. The Company, since few years ago, has developed an integrated business by acquiring and consolidating its sister companies. The latest acquisition made by SMSM was on Bradke Synergies Sdn Bhd (Bradke), a Malaysia-based filter producer and, at the same time, SMSM's sole distributor for Malaysian and Australian market. This is not a sister company, however, SMSM has a close relationship with the acquired company. With such acquisition, SMSM will steadily grow in the future.

## INVESTMENT PARAMETER

### Global auto sales to grow moderately

We expect global economy to recover in 2016, growing by 3.6% vs. 3.1% in 2015, based on IMF projection. However, the global economy will face a challenge from the resurgence of central banks' divergence policies, mainly in emerging markets. Emerging market, with its structural frailties remaining largely unrepaired, remains vulnerable to the U.S. tightening monetary policy, while China's economy has still been decelerating. Following global economy recovery expectation, global auto sales in 2016 is estimated to grow moderately, better than in 2015. Based on Moody's estimate, global auto sales will rebound modestly and grow by 5.1% and 4.7% for 2016 and 2017, respectively, up from only 2.1% in 2015. The growth will be mainly underpinned by a steady sales growth in U.S., West Europe, and India markets. However, we will still see some slowdown in China and Japan.

### Sluggish domestic car sales, but will improve eventually

Domestic car sales performance has been sluggish, which will continue into the end of 2015. Up to November 2015, the car sales has dropped by 16.6% YoY, to 941,008 units, which, if annualized, will be below last year's performance of 1.2 million units. We expect sales for 2016 to rise moderately in line with the improving expectation of domestic economy. As the current administration has been focused on increasing the quality of state budget, accelerating infrastructures projects as well as reforming policies and regulations to stimulate trade and investment, we are of view that the economy is going to grow faster in 2016. However, the risk of achieving the economic growth target of 5.3% is looming, on the back of uncertain recovery of global economy and slowdown in China, the world's economic powerhouse.

### Overseas acquisition, strengthening regional foothold

SMSM just acquired Bradke Synergies Sdn Bhd (Bradke), a holding company with subsidiaries engaging in filters manufacture, machineries supplier to SMSM, as well as sole distributor of SMSM's filters both in Malaysian and Australian market. Bradke is a Malaysian-based company, which was acquired at IDR220 billion. SMSM has a long and close relationship with Bradke which we believe will benefit the acquisition. We think the acquisition will be positive for SMSM, taking the momentum of ASEAN Economic Community (AEC) as well as strengthening its position in the regional market.

### Financial performance remain strong

SMSM's export sales grew moderately by 5.6% YoY for 9M2015 with positive results from U.S., Asia, and domestic markets. Sales to U.S. and Asia saw double digit growth for 9M15, by 10.5% YoY and 13.8% YoY, respectively. In domestic market, SMSM's sales improved by 7.2% YoY, better than export sales growth, despite unfavorable market conditions recently. We like SMSM for its ability to keep its gross margin stable, post the acquisition of Bradke, at 29.7% for 9M2015. Further, EBITDA and net income margins expanded to 26.6% and 16.0%, respectively. Its balance sheet has also become stronger with the equity footing and total assets growing faster than has its debt stock. As a result, the leverage has decreased with net gearing of 0.11x as at 9M2015, from 0.16x at end 2014. We expect SMSM's balance sheet will continue to be stronger with its integrated business model.

### Business prospects

We are confident about SMSM's growth prospect in the future. It has demonstrated steady growth over the past years and has taken relentless measures to extend its product line to penetrate market. Its penetration in global market into hundreds of destinations has been successful and has now started establishing foothold in the regional market through acquisition. With such track record, we believe SMSM will be able to tap more opportunities both in global and domestic markets.

**Table 1: Performance Summary**

	2012	2013	2014	2015P	2016P
Revenue [IDR bn]	2,269	2,382	2,633	2,854	3,177
Pre-tax profit [IDR bn]	370	461	541	562	636
Net profit [IDR bn]	219	308	390	408	462
EPS [IDR]	152	214	271	283	321
EPS growth [%]	3.3	40.4	26.7	4.6	13.2
P/E [x]	16.6	16.1	17.5	17.1*	15.1*
PBV [x]	4.0	4.9	4.1	3.2*	2.9*

Source: PT Selamat Sempurna Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division  
\* Based on SMSM's share price as of December 21, 2015 - IDR4,850/share

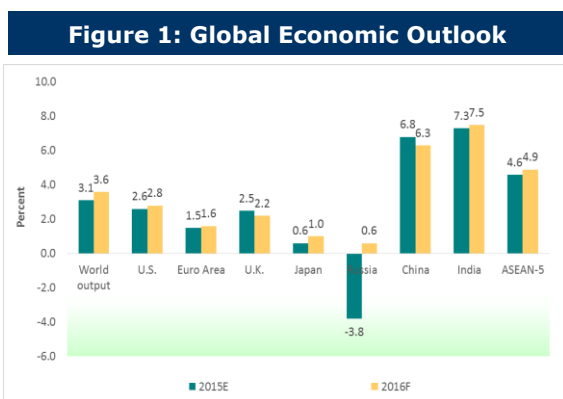
MACROECONOMY & INDUSTRY

**Global and domestic economies expected to rebound**

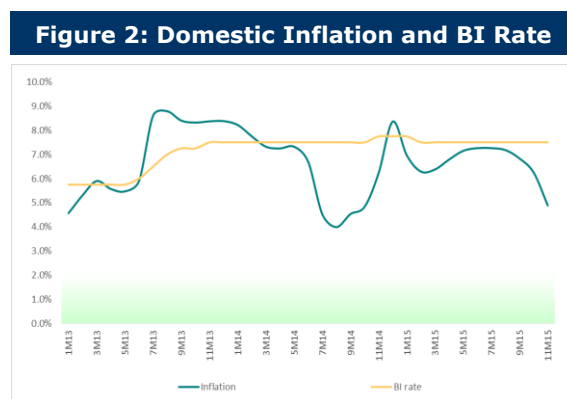
IMF has a forecast for global economy of 3.6% growth next year while it only predicted 3.1% for 2015. IMF also forecasts the emerging markets' GDP growth on average basis to pick up to 4.5% in 2016 vs. 3.9% of 2015's forecast. However, the fund's growth forecast was actually lower than its forecast released in July 2015 of 3.8% for the growth rate of global economy.

In 2016, we could expect to see some shifting in the dynamics of global economy. On one camp, the U.S. central bank will gradually tighten its monetary policy, followed by U.K. central bank. On the other camp, European, Japan, and China central banks will continue their monetary easing program. However, the growth prospect of global economy will still see some challenges coming from emerging markets, since structural frailties in this part of the world remain largely unrepaired. The China's economy, the largest emerging market, is in the state of decelerating, while for average emerging markets they will still have to deal with soft export sales and tax receipt, surging debt level and rising non-performing loans. The emerging markets have also to minimize the impact of U.S. tightening monetary policy may have on their currency exchange volatility and interest rate level.

For the domestic economy, we expect a moderate rebound in 2016. As the current administration has been focused on improving the quality of state budget to attain to more equitable development, accelerating the development of infrastructure, as well as reforming and removing impeding regulations in the areas of trade and investment, the economy will start to enjoy benefit from such policy implementation and hence bring prospect to rebound next year. On the other hand, we see some room for Bank Indonesia to bring down the policy (BI) rate by 25 bps, in line with a manageable inflation rate (4.5%-5%). This year, the inflation is estimated to stay around 3%, a new record low since 2009.



Source: IMF, PEFINDO Research & Consulting - Equity & Index Valuation Division



Source: BPS, PEFINDO Research & Consulting - Equity & Index Valuation Division

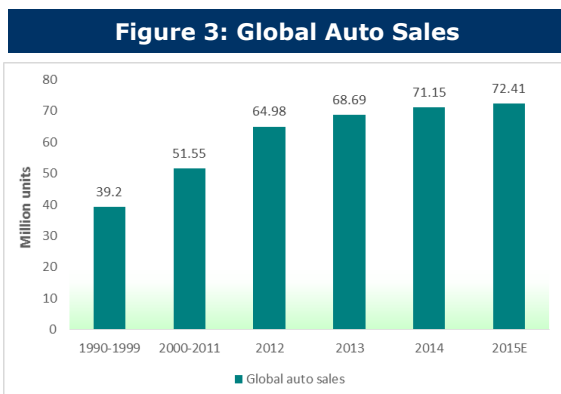
**Moderate growth for global and domestic automotive market**

Global auto sales is estimated to grow moderately in 2016. Based on Moody's estimate, global auto sales is to rebound modestly and grow by 5.1% and 4.7% in 2016 and 2017, respectively, up from only 2.1% in 2015. Global sales growth will be supported from steady sales in U.S., West Europe, and India, but there will be slowdown in China and Japan markets. However, we still expect the China market to continue to take a significant share in global auto sales. Sales in U.S. and West Europe, especially Germany, France, U.K. and Italy, is expected to rise and become the global push. In India, the strong economic growth and lowering interest rate will spur demand in years to come. On the other hand, Japan sales in 2015 has plunged due to rise in sales tax rate and lackluster economy, and will however stabilize in 2016.

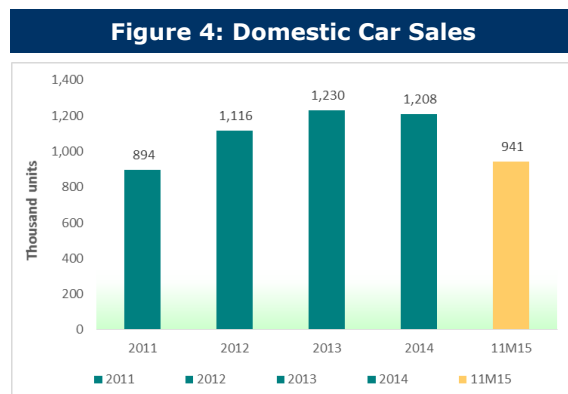
Domestic car sales up to November 2015 recorded 941,008 units or a drop by 16.6% from last year. This condition carries over from last year when sales was practically stagnant as a result of the slowing economy, sharp weakening of Rupiah against the greenback, and reduced purchasing power. Accordingly, this year's car sales will end up below last year's 1.2 million units. Sales for 2016 is expected to rise moderately in line with an improving expectation of faster economic growth (in the enacted 2016 state budget law, the growth is set at 5.3%). However, the risk of achieving the set target remains looming as the economy is still susceptible to the volatility of global economy.

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Meanwhile, on the export side, the auto sales is estimated to increase by 15% in 2016 from 2015's estimate of 220k units. The completion of factory expansion by Japanese car makers such as Toyota, Suzuki, Mitsubishi, Honda, and Daihatsu that utilizes the additional capacity as export base. Export market share has now reached about 19% of national production volume. For 2015, up to September, export sales booked double digit growth of 10.8% YoY.



Source: Global Auto Report, PEFINDO Research & Consulting - Equity & Index Valuation Division



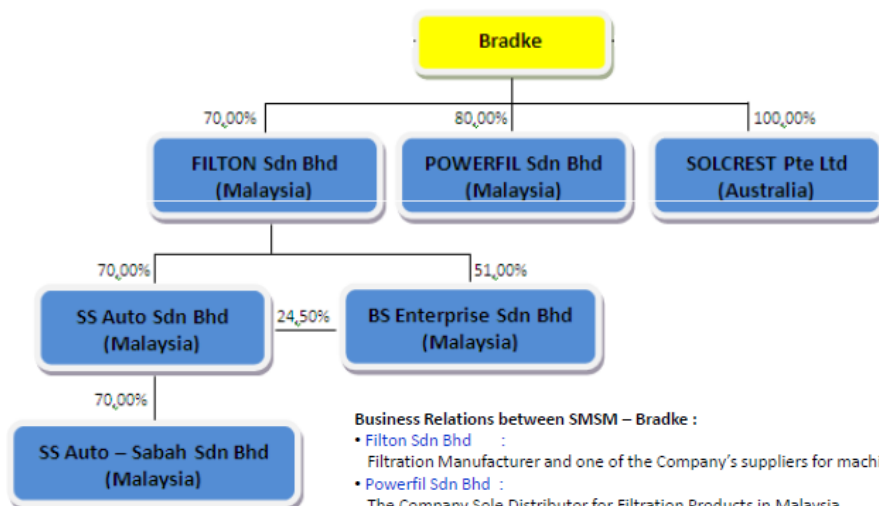
Source: Gaikindo, PEFINDO Research & Consulting - Equity & Index Valuation Division

**BUSINESS INFORMATION**

**Bradke acquisition, overseas expansion**

At the end of 1H2015 SMSM acquired Bradke Synergies Sdn Bhd (Bradke), a company based in Malaysia, at an acquisition value of IDR220 billion for 100% ownership. Bradke is a holding company with subsidiaries engaging in filter manufacture, machineries supplier to SMSM, as well as sole distributor of SMSM's filters both in Malaysia and Australia. Prior to this acquisition, SMSM has acquired its sister companies to be consolidated. However, we see that SMSM already has a close relationship with the acquired company, as Bradke, through its subsidiaries, is SMSM's sole distributor for filter products in Malaysia and Australia. With the acquisition, SMSM has firmed up vertical business integration and expanded its production base to serve the region. This will be positive for SMSM as it will benefit from the implementation of ASEAN Economic Community (AEC). Bradke is believed to give positive contribution, business and financial wise, to SMSM in particular from the distribution business conducted by Bradke's subsidiaries, Powerfil Sdn Bhd (Malaysia) and Solcrest Pte Ltd (Australia).

**Figure 5: Company Structure of Bradke**



- Business Relations between SMSM – Bradke :**
- **Filton Sdn Bhd** : Filtration Manufacturer and one of the Company's suppliers for machine.
  - **Powerfil Sdn Bhd** : The Company Sole Distributor for Filtration Products in Malaysia.
  - **Solcrest Pte Ltd** : The Company Sole Distributor for Filtration Products in Australia

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

**Table 2. Bradke Financial Performance**

MYR million	2012	2013	2014
Net sales	116.8	116.6	117.5
<i>Growth</i>		-0.2%	0.8%
Operating profit	17.9	17.1	17.5
<i>Margin</i>	15.3%	14.6%	14.9%
Net profit	12.2	9.1	12.1
<i>Margin</i>	10.4%	7.8%	10.3%
Current asset	59.3	65.3	60.0
Total asset	115.7	120.3	113.5
Current liabilities	28.3	33.1	24.5
Total liabilities	48.4	53.4	41.5
Equity	67.3	66.9	72.0
<i>Liabilities to equity (x)</i>	0.72	0.80	0.58

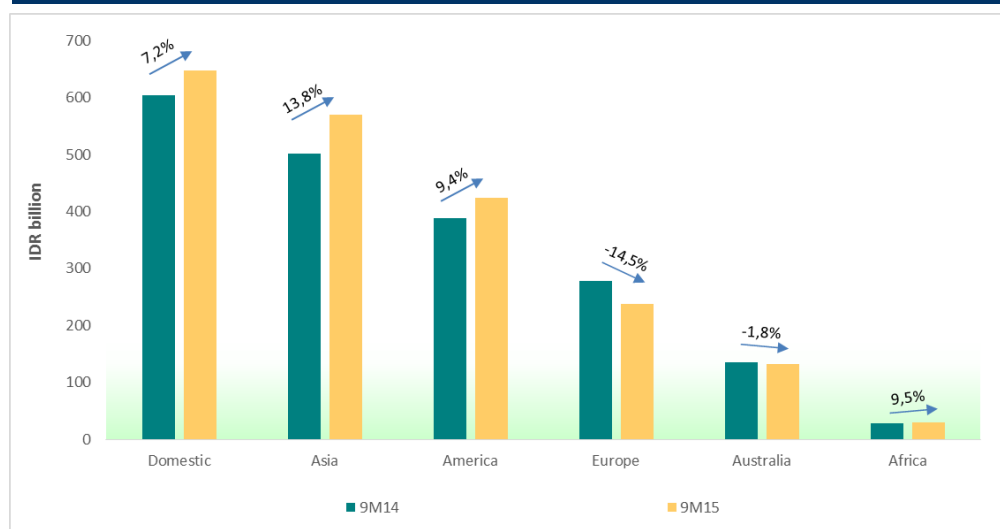
Source: PT Selamat Sempurna Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

## FINANCE

### Positive outcomes from U.S., Asia, and domestic markets

SMSM's export sales grew moderately by 4.9% YoY for 9M2015, dragged by the declining sales in Europe that dropped by 14.5% YoY. The sales drop in Europe was primarily attributable to three countries, Russia (-55% YoY), Germany (-21% YoY) and Netherlands (-15% YoY). U.S. remains the largest single market for SMSM and saw a double digit growth, 10.5% YoY, amidst slow recovery of the economy. Meanwhile, sales to Asian region (ex Indonesia) was able to offset the declining sales to Europe. Asian region booked sales growth of 13.8% YoY with Japan, Thailand, Myanmar, and Philippines as the growth engine, where in those countries the growth rate ranged from 36% to 113% YoY. China, however, remains promising as export sales to China rose by 14.7% YoY for 9M2015 and recorded the fourth largest sales in Asian region. On the other hand, in domestic market, SMSM was able to post growth at 7.2% YoY, better than overall export sales growth. Product wise, filters are the main growth driver, while the sales of other products have been adversely impacted by the sluggish domestic automotive market.

**Figure 6: Revenue in 9M2014 and 9M2015**

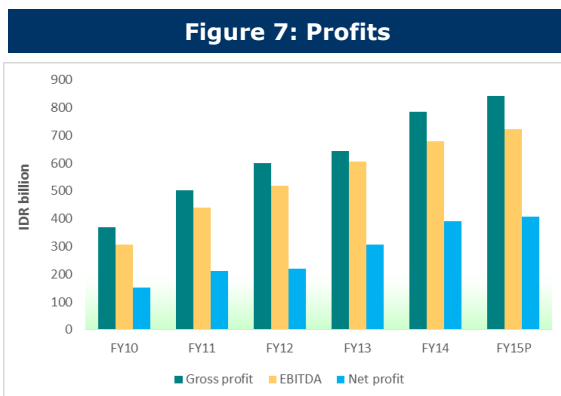


Source: PT Selamat Sempurna Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

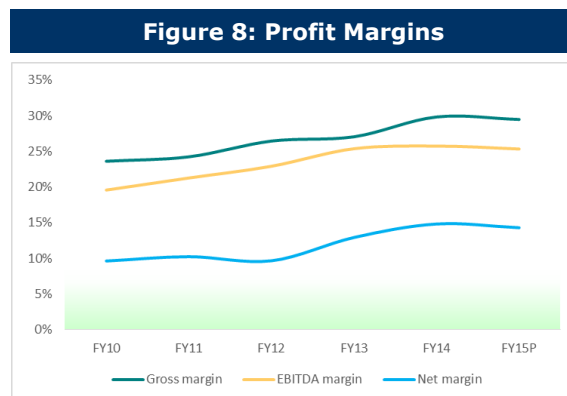
### Profitability to improve

We like SMSM for its ability to keep its gross margin stable at 29.7% for 9M2015 while EBITDA and net income margins expanded to 26.6% and 16.0%, respectively, exceeding those of FY14's. For FY14, the gross margin stood at 29.8%, but its EBITDA and net income margins were only at 25.7% and 14.8%. We see the integration and consolidation of its businesses both vertically or horizontally has brought positive results to SMSM. At least, for the last five years, we can see its profitability measures

have steadily expanded. We are also optimistic that the recent acquisition made by SMSM will bring positive impact to the overall business and its profitability on the back of integration story and improving efficiency.



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

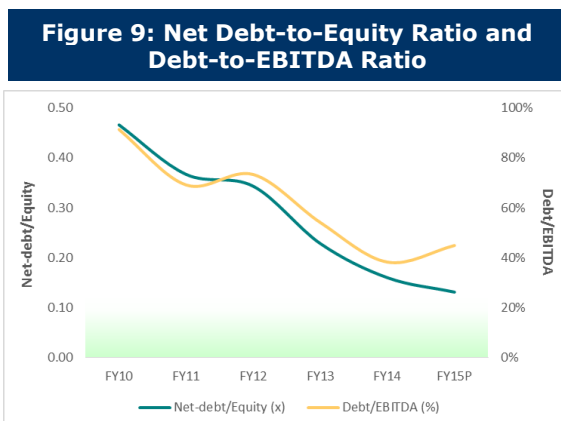


Source: PT Steel Pipe Industry of Indonesia Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

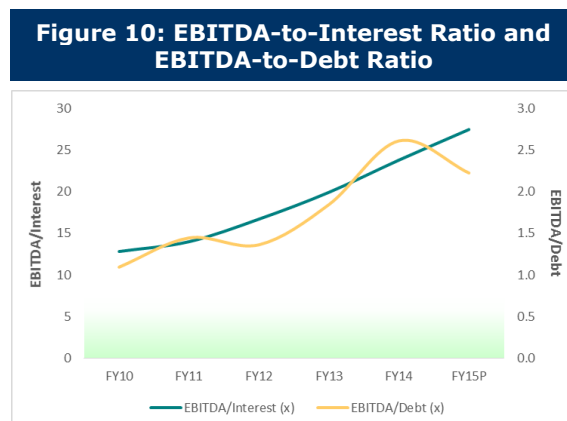
**Stronger balance sheet**

Post the acquisition of Bradke, SMSM's balance sheet has become stronger with its equity and total assets growing faster than has its debt stock. Based on 9M2015's position vs. FY14's position, the Company's capitalization and total assets grew by 29% and 33%, respectively, vs. the increase by 14% in debt level. As a result, the Company's net gearing ratio improved to 0.11x for 9M2015 from 0.16x for FY14. Further, its interest coverage ratio has also improved as the EBITDA-to-interest ratio rose significantly to 27.8x vs. 23.8x in FY14. SMSM has paid off its outstanding bond issued in 2010 and now it uses only bank loan as source of borrowing.

We also like SMSM for its liquidity measures as at 9M2015. Post the acquisition of Bradke, SMSM's cash position increased by 80% in 9M2015 vs. FY14's. We thus expect SMSM's balance sheet to continue going stronger, supported by its integrated business model.



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



Source: PT Steel Pipe Industry of Indonesia Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

## INDUSTRY COMPARISON

**Table 3: Performance of SMSM and Its Peers in 9M2015**

	SMSM	AUTO	INDS
Revenue [IDR bn]	2,042	8,670	1,205
Gross profit [IDR bn]	605	1,265	132
Before tax profit [IDR bn]	445	232	(6)
Net profit [IDR bn]	333	179	(5)
Total asset [IDR bn]	2,329	14,591	2,411
Total liabilities [IDR bn]	851	4,567	623
Total equity [IDR bn]	1,477	10,024	1,789
<b>Growth [Y-o-Y]</b>			
Net sales [%]	5.6	(5.5)	(12.5)
Gross profit [%]	9.3	(8.6)	(43.6)
Before tax profit [%]	12.5	(72.8)	(104.5)
Net profit [%]	12.8	(72.1)	(104.6)
<b>Profitability</b>			
Gross profit margin [%]	29.7	14.6	10.9
Operating profit margin [%]	21.8	2.7	(0.5)
ROA [%]*	19.1	1.6	(0.3)
ROE [%]*	30.1	2.4	(0.3)
<b>Leverage</b>			
Liabilities to equity [x]	0.6	0.5	0.3

Source: Bloomberg, PT Selamat Sempurna Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division  
\* annualized

## TARGET PRICE

### VALUATION

- Methodology**

We employed 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 used the *Guideline Company Method* (GCM) as a comparison method.

This valuation is based 100% on the shares price as of December 21, 2015, using SMSM's Financial Report (unaudited) for the period ending September 30, 2015 as the basis for the analysis.

- Value Estimation**

We applied a cost of capital and cost of equity of 11.2% and 10.7% in our valuation based on the following assumptions:

**Table 4: Assumption**

Risk free rate [%]*	8.7
Risk premium [%]*	5.4
Beta [x]**	0.5
Cost of Equity [%]	11.2
Marginal tax rate [%]	22.0
<b>WACC [%]</b>	<b>10.7</b>

Source: Bloomberg, PEFINDO Research & Consulting - Equity & Index Valuation Division

\* as of December 21, 2015

\*\* PEFINDO Beta as of December 17, 2015

The target price for 12 months, based on the valuation as of December 21, 2015, is as follows:

- ❖ Using the DCF method with a discount rate assumption of 10.7%, it is IDR5,432-IDR6,016 per share.
- ❖ Using the GCM method (P/E 17.0x and P/BV 3.2x), it is IDR3,703-IDR5,453 per share.

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

Based on the above calculation, the target price of SMSM for 12 months is **IDR4,915-IDR5,850** per share.

**Table 5: Summary of DCF Method Valuation**

	Conservative	Moderate	Optimist
PV of Free Cash Flows [IDR bn]	1,501	1,580	1,659
PV of Terminal Value [IDR bn]	6,479	6,820	7,161
Non-Operating Assets [IDR bn]	136	136	136
Debt [IDR bn]	(296)	(296)	(296)
Number of Shares [mn shares]	1,440	1,440	1,440
Fair Value per Share [IDR]	<b>5,432</b>	<b>5,724</b>	<b>6,016</b>

Source: PEFINDO Research & Consulting - Equity & Index Valuation Division



**Table 6: GCM Comparison**

	SMSM	AUTO	Average
P/E [x]	14.9	19.1	<b>17.0</b>
P/BV [x]	5.6	0.9	<b>3.2</b>

Source: Bloomberg, PEFINDO Research & Consulting - Equity & Index Valuation Division

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

	Multiple [x]	Est. EPS [IDR]	Est. BV/share [IDR]	Value [IDR]
P/E	17.0	321	-	<b>5,453</b>
P/BV	3.2	-	1,153	<b>3,703</b>

Source: Bloomberg, PEFINDO Research & Consulting - Equity & Index Valuation Division

**Table 8: Fair Value Reconciliation**

	Fair Value per Share [IDR]		
	DCF	GCM	Average
Upper limit	6,016	5,453	<b>5,850</b>
Bottom limit	5,432	3,703	<b>4,915</b>
Weight	70%	30%	

Source: PEFINDO Research & Consulting - Equity & Index Valuation Division

**Table 9: Consolidated Statement of Comprehensive Income**

IDR bn	2012	2013	2014	2015P	2016P
Net revenue	2,269	2,382	2,633	2,854	3,177
COGS	(1,669)	(1,738)	(1,848)	(2,013)	(2,238)
<b>Gross profit</b>	<b>600</b>	<b>644</b>	<b>785</b>	<b>841</b>	<b>938</b>
Operating expense	(211)	(220)	(237)	(265)	(295)
<b>Operating profit</b>	<b>389</b>	<b>424</b>	<b>548</b>	<b>576</b>	<b>644</b>
EBITDA	520	604	678	723	799
Other income (charges)	(19)	37	(7)	(13)	(7)
<b>Pre-tax profit</b>	<b>370</b>	<b>461</b>	<b>541</b>	<b>562</b>	<b>636</b>
Tax	(83)	(108)	(120)	(124)	(140)
<b>Net profit</b>	<b>219</b>	<b>308</b>	<b>390</b>	<b>408</b>	<b>462</b>

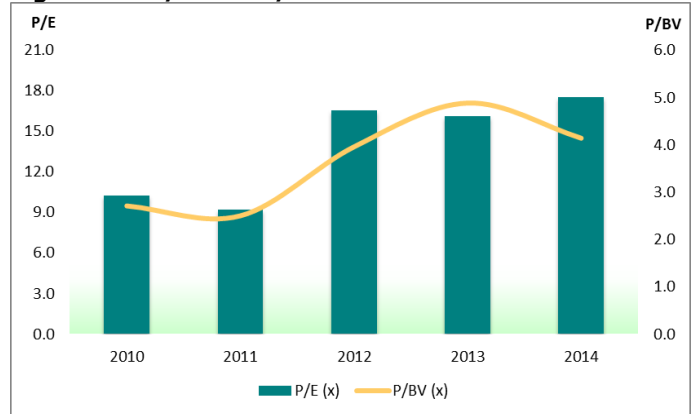
Source: PT Selamat Sempurna Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

**Table 10: Consolidated Statement of Financial Position**

IDR bn	2012	2013	2014	2015P	2016P
<b>Assets</b>					
Cash and cash equivalents	66	95	76	157	162
Receivables	470	565	575	692	771
Inventory	429	402	432	607	675
Other assets	29	47	51	80	92
<b>Total current assets</b>	<b>995</b>	<b>1,108</b>	<b>1,134</b>	<b>1,536</b>	<b>1,700</b>
Fixed assets	515	493	493	785	786
Other assets	56	112	123	136	145
<b>Total assets</b>	<b>1,565</b>	<b>1,713</b>	<b>1,749</b>	<b>2,457</b>	<b>2,631</b>
<b>Liabilities</b>					
Trade payables	103	166	152	215	239
Short-term debt	294	237	283	234	243
Other short-term liabilities	85	121	101	235	260
Long-term debt	111	115	-	133	90
Other long-term liabilities	54	56	66	126	138
<b>Total Liabilities</b>	<b>647</b>	<b>696</b>	<b>603</b>	<b>943</b>	<b>970</b>
Minority interest	175	169	142	149	156
<b>Total Equity</b>	<b>918</b>	<b>1,017</b>	<b>1,147</b>	<b>1,515</b>	<b>1,661</b>

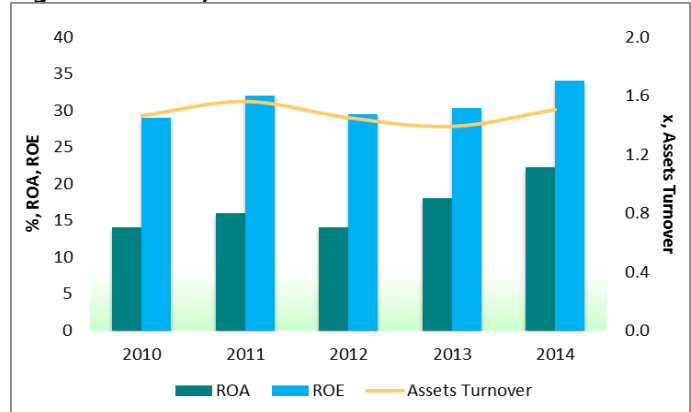
Source: PT Selamat Sempurna Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

**Figure 11: P/E and P/BV**



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

**Figure 12: ROA, ROE and Total Assets Turnover**



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

**Table 11: Key Ratios**

	2012	2013	2014	2015P	2016P
<b>Growth [%]</b>					
Net revenue	9.5	5.0	10.5	8.4	11.3
Operating profit	18.4	9.0	29.3	5.0	11.8
EBITDA	18.0	16.2	12.2	6.7	10.5
Net profit	3.3	40.4	26.7	4.6	13.2
<b>Profitability [%]</b>					
Gross margin	26.4	27.0	29.8	29.5	29.5
Operating margin	17.1	17.8	20.8	20.2	20.3
EBITDA margin	22.9	25.4	25.7	25.3	25.2
Net margin	9.7	12.9	14.8	14.3	14.5
ROA	14.0	18.0	22.3	16.6	17.5
ROE	29.5	30.3	34.0	26.9	27.8
<b>Solvability [x]</b>					
Liabilities to equity	0.7	0.7	0.5	0.6	0.6
Liabilities to asset	0.4	0.4	0.3	0.4	0.4
<b>Liquidity [x]</b>					
Current Ratio	2.1	2.1	2.1	2.2	2.3
Quick Ratio	1.2	1.3	1.3	1.4	1.4

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

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