

SMSM: 1H19 Whoever Lose the Trade Wars, SMSM Wins

BUY

Target Price : Rp 1,600
Last Price : Rp 1,270
Upside : 26.0%

Company Profile

PT Selamat Sempurna Tbk is an Indonesia-based company engaged in manufacturing automotive parts, primarily filters. Its other products include radiators; coachwork, comprising hydraulic and automotive components, such as coachwork, tanks, dump trucks, trailers and dump hoists, as well as other automotive components, including fuel tanks, mufflers and brake pipes. The Company also distributes its products to aftermarket sectors in Indonesia. It markets its filters and radiators under the brand names Sakura and ADR, respectively. Some of its subsidiaries are PT Panata Jaya Mandiri, PT Hydraxle Perkasa and PT Selamat Sempana Perkasa.

Stock Stats

Market Capitalization (Tn) : Rp7.31
 Shares Outstanding (Bn) : 5.76
 52 Weeks Highest Price : Rp1,825
 52 Weeks Lowest Price : Rp1,250
 YTD Performance : -9.29%

Shareholders

PT Adrindo Initperkasa : 58.1%
 Public : 41.9%

Research Analyst

Frederik Rasali

Contact: Frederik.Rasali@arthasekuritas.com

Research Team

Contact: Research@arthasekuritas.com

We keep our BUY recommendation on SMSM while downgrading our TP to Rp1,600/share (previously: Rp1,880). Our TP downgrade influenced by the poor performing body maker division and slower filtration sales in 2019 as domestic demand waning. Despite the slow domestic demand, we view recent dispute between China and US will put a strong foothold for SMSM to capture the export market.

Lower raw material price due to trade wars. US steel mill product import decreases in 2019 as the impact of trade wars taken into effect. This influenced China as the largest steel producer with total of 89.1 million tons to dump their production to other countries. This pushes steel price down to 3,729 CNY/MT (-13.4% YoY) where steel contributes 40% of total raw material cost in SMSM. Thus, we assume SMSM to retain its gross profit margin FY19F 30.7% (vs FY18: 30.3%)

There is opportunity in every crisis. Our view on recent trade wars escalation that US president Trump asked corporates to seek alternatives from China has opened up new opportunity for other country to seize. With good relationship with US filter manufacturer, Donaldson Company, SMSM has a higher chance to be assigned as a part of Donaldson's alternative of their Chinese manufacturer. In the other hand, SMSM could grab further Chinese market both directly or indirectly through SMSM subsidiary Bradke Synergies and Sure Filter located in Malaysia and Thailand. We expect the picking up exports will be fully accounted in 2020.

Adjusting FY19F target as domestic market slowing down. Due to worsening coal mining industry performance, SMSM body maker division sales 1H19 suffer a slowdown to Rp16.7 billion (-35,35% YoY). We expect the body maker division will not recover along 2019 as the growth of Indonesia coal mining industry expected to be minimum. Hence, we lower our body maker sales forecast FY19 F to Rp174.5 bn and Rp194.1 bn for FY20F (-49.0%; 11.2% YoY)

Reiterate BUY recommendation. We like SMSM due to their business adaptability. As the domestic market slowdown, SMSM could seize opportunity to the global market while maintain its net profit margin. Our new price target of Rp1,600/shares reflect a 13.62x and 12.24x PER 2019F, 2020F supported by strong 2019F 16.5% net profit margin

Figure1. 1H19 Financial Highlights (Billion Rupiah) – Adjusted Forecast

	1H18	1H19	% YoY	% Target
Net Sales	1,793	1,772	-1.2%	43%
Gross Profit	494	501	1.4%	39%
GP Margin	27.6%	28.3%		
Operating Profit	334	333	-0.3%	43%
OP Margin	18.6%	18.6%		
Net Income	332	333	0.3%	57%
NI Margin	19%	19%		

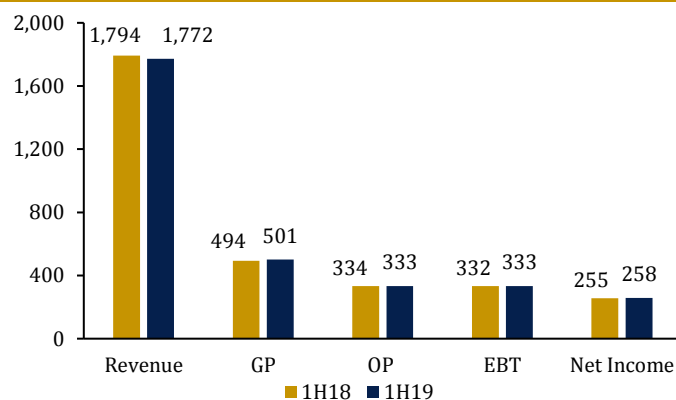
Source: Company

Figure 2. Forecast Adjustment FY19F (Billion Rupiah)

	Old	New	% Change
Net Sales	4,511	4,168	-7.61%
Gross Profit	1,385	1,279	-7.62%
Operating Profit	969	896	-7.51%
Net Income	743	687	-7.52%

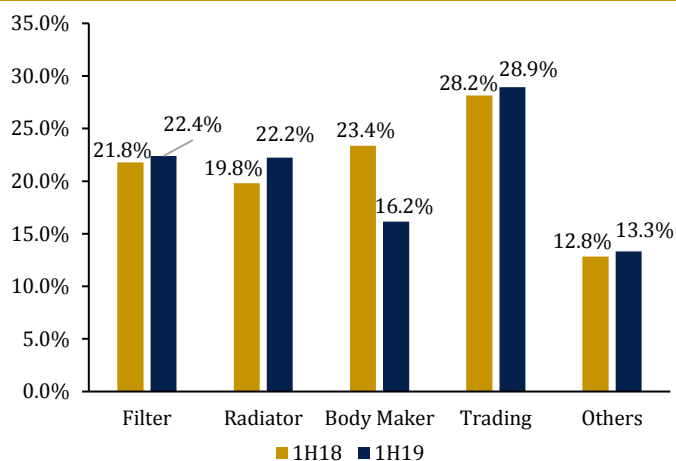
Source: ASI Estimates

Figure 3. Financial Performance 1H19 (Billion Rupiah)



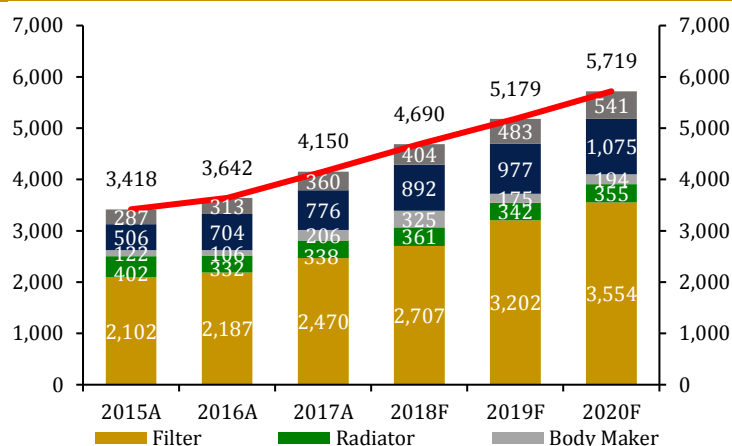
Source: Company

Figure 4. Gross Profit Margin by Product 1H19



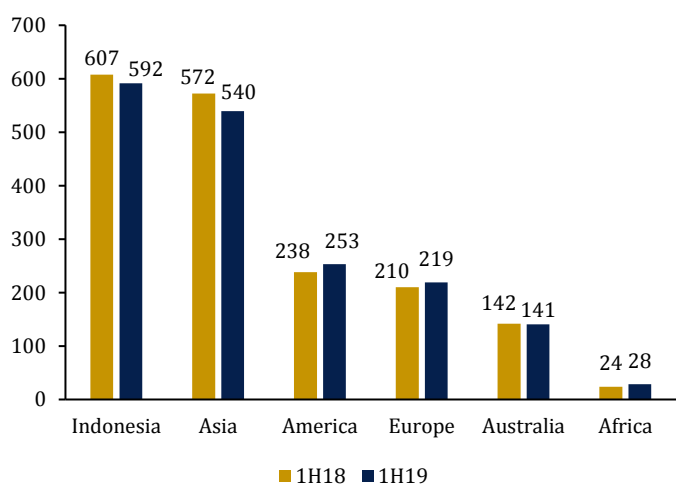
Source: Gaikindo

Figure 5. Revenue Forecast by Product (Billion Rupiah)



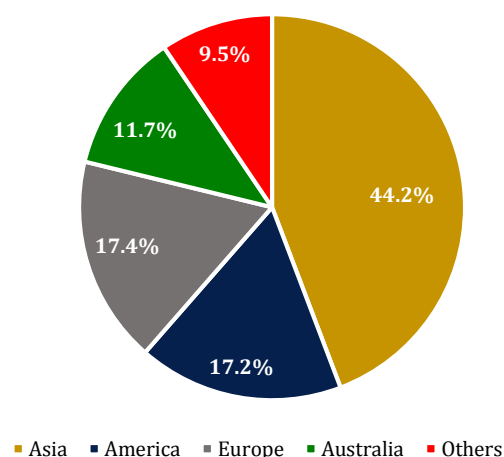
Source: Company, ASI Estimates

Figure 6. Sales by Country 1H19 (Billion Rupiah)



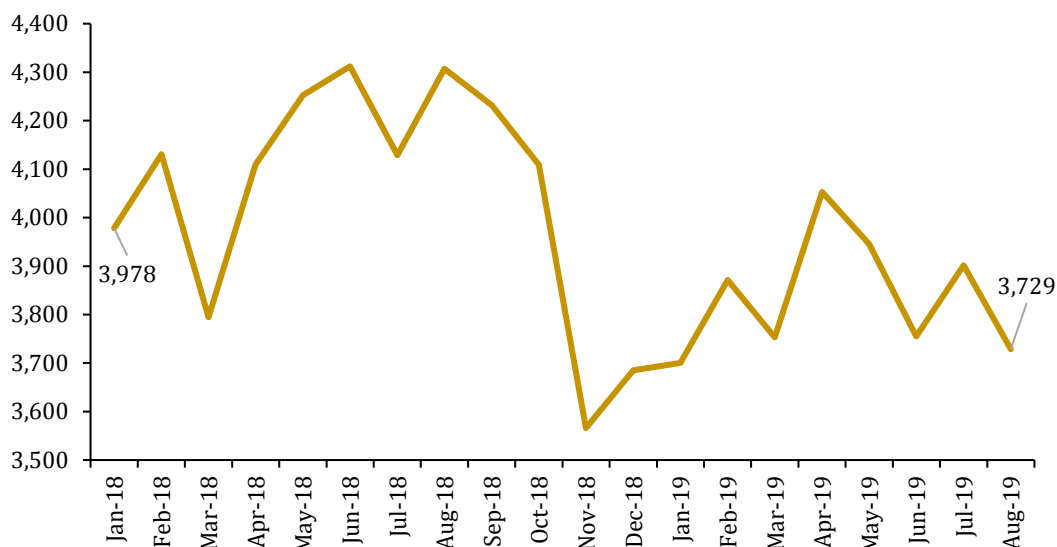
Source: Gaikindo

Figure 7. Export Portion by Country



Source: Company

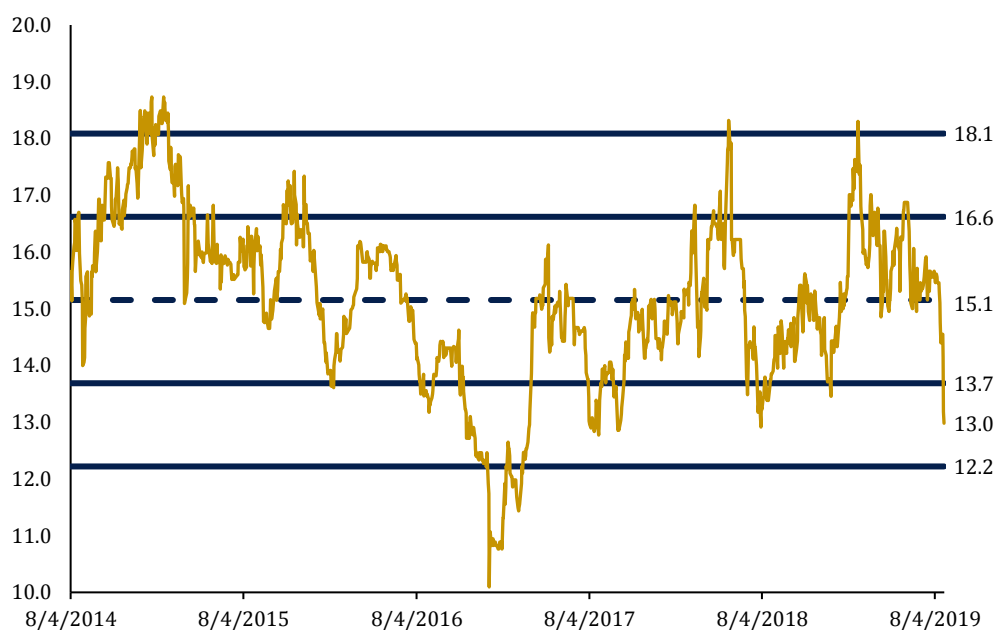
Figure 8. China Hot Rolled Coil Price (CNY/MT)



China hot rolled coil (HRC) steel price at CNY3,749/MT (-13.4% YoY) fall from 2018 price at CNY4,307/MT due to increases in production and shrinking in demand combined. The shrinking in demand is influenced by US tariff to China. This condition will remain the same as long as global manufacturing slow down

Source: China Bureau of Statistics

Figure 9. SMSM 5 Years PE Band



SMSM currently priced at 13.0x PER which implies -1.5 std dev from its average

Source: Bloomberg

Figure 10. SMSM Peer Comparison

Ticker	Market Cap (IDR Billion)	PER (TTM)	PBV	ROE	ROA	DER
SMSM	7,310	15.41	3.79	29.50%	20.40%	0.05
AUTO	6,458	9.92	0.63	6.30%	4.10%	0.07
NIPS	461	30.88	0.52	1.70%	0.70%	0.68
INDS	1,352	12.17	0.62	5.10%	4.50%	0.03
Industry		19.08	2.46	10.16%	6.18%	25.47

Source: companies

Key Financials (IDR Billion)

Balance Sheet	2017	2018	2019F	2020F	2021F		2017	2018	2019F	2020F	2021F
Cash and Equivalent	71	67	190	321	409	Long Term Employee Benefit Liabilities	155	148	141	134	127
Account Receivable	767	936	1,005	1,139	1,245	Deferred Tax Liabilities	0	0	0	0	0
Other Receivable	2	6	6	6	6	Long Term Bank Loans	33	25	29	21	14
Derivative Receivable	7	3	3	3	3	Hire Purchase Payables	6	7	0	0	0
Inventories	657	758	825	916	1,019	Total Non-Current Liabilities	194	180	170	155	140
Advances	24	18	25	28	31	Total Liabilities	614	650	581	676	661
Prepaid- Expenses	3	4	4	4	4	Equity					
Prepaid Tax	40	62	67	76	84	Issued Capital	144	144	144	144	144
changes	-4	22	0	0	0	Additional Paid-in Capital	50	50	50	50	50
Total Current Assets	1,571	1,854	2,125	2,491	2,801	Other Components of Equity	6	3	3	3	3
Deferred Tax Assets	39	40	41	42	44	Retained Earnings	1,392	1,666	1,991	2,371	2,789
changes	4	1	1	1	1	Non-Controlling Interests	237	287	316	349	385
Investment in Associates	24	51	61	92	147	Total Equity	1,829	2,150	2,504	2,916	3,372
Non-Current Financial Asset	15	15	15	15	15	Total Liabilities and Equity	2,443	2,800	3,085	3,593	4,032
Net Fixed Assets	684	749	751	861	934						
Advance Purchases of Fixed Assets	33	13	13	13	13		2017	2018	2019F	2020F	2021F
Investment Property	63	63	63	63	63	Net Sales	3,340	3,933	4,168	4,603	5,118
Other Non-Current Assets	15	16	16	16	16	COGS	-2,333	-2,740	-2,888	-3,176	-3,531
Total Non-Current Assets	873	947	960	1,102	1,232	Gross Profit	1,007	1,193	1,279	1,427	1,586
Total Assets	2,444	2,801	3,085	3,593	4,032	Selling Expenses	-178	-198	-210	-232	-258
Liabilities						General and Admin	-153	-176	-186	-210	-238
Short Term Bank Loans	54	45	23	11	6	Other Operating Income	48	34	34	34	34
Account Payables	195	251	195	275	248	Other Operating Expenses	0	-21	-21	-21	-21
Other Payables	6	4	4	5	5	Operating Profit	724	832	896	998	1,104
Taxes Payables	59	70	83	98	115	Finance Income	3	3	3	9	16
Changes	4	11	13	15	17	Finance Charges	-10	-9	-5	-3	-2
Benefit Liabilities	34	33	36	40	45	Income from Associates	4	3	3	3	3
Accrued Expenses	43	37	39	60	67	Pre-Tax Income	721	829	897	1,007	1,121
Advance from Customers	17	17	18	20	22	Income Tax Expenses	-165	-194	-210	-236	-262
Long Term Bank Loans	9	9	8	8	8	Net Income	556	635	687	771	858
Hire Purchase Payables	3	4	4	4	4						

Disclaimer

INVESTMENT RATINGS: Indicators of expected total return (price appreciation plus dividend yield) within the 12-month period from the date of the last published report, are: Buy (10% or higher), Neutral (-10% to 10%) and Sell (-10% or lower).

DISCLAIMER: This report is issued by PT Artha Sekuritas Indonesia, a member of the Indonesia Stock Exchanges (IDX) and supervised by the Financial Services Authority (OJK). We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of Artha Sekuritas Indonesia only and are subject to change without notice. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of the addressee only and is not to be taken as substitution for the exercise of judgment by the addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities.



PT Artha Sekuritas Indonesia

A Member of the Indonesia Stock Exchange

Equity Tower, Lt. 22 E-F
Sudirman Central Business District Lot 9
Jalan Jendral Sudirman Kav 52-53
Jakarta Selatan, 12190

Telephone +(62) (21) 515 2338

Fax +(62) (21) 515 2339

Email cs@arthasekuritas.com

Website www.arthasekuritas.com