

Selamat Sempurna

SMSM IJ / SMSM.JK

FLASH NOTE

➤ **Market Cap**
US\$350.7m
 Rp3,491,197m

➤ **Avg Daily Turnover**
US\$0.14m
 Rp1,410m


➤ **Free Float**
41.9%
 1,440 m shares

Current **Rp2,425**
 Target ➤ **Rp2,850**
 Prev. Target **Rp2,850**
 Up/Downside **17.5%**

SHORT TERM (3 MTH) **LONG TERM**

TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	UNDERPERFORM

CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-0.5	4.6	13.8
Absolute	-9.4	-4.9	23.1

Major shareholders	% held
Adrindo Inti Perkasa	58.1

Expanding its value chain

SMSM's acquisition of its distributor and raw materials supplier is priced fairly and is a positive integration move for the auto parts company. Though growth is muted, SMSM is still a key defensive pick due to strong capital management and favourable currency exposure.

We increase our EPS forecasts to account for the acquisition but maintain our DCF-based target price (WACC: 13.1%, LTG: 5.0%) given a lower immediate dividend pay-out ratio following the acquisition. Our Outperform rating is retained as SMSM is resilient to rising interest rates and a weaker rupiah.

What Happened ➤

Effective July 2013, SMSM acquired 100% of its domestic distributor, PT Prapat Tunggal Cipta (PTC), and one of SMSM's raw material suppliers, PT Selamat Sempana Perkasa (SSP). It bought the stakes mainly from Adrindo Inti Sarana, owned by Eddy Hartono, the group's founder who was also selling a small stake directly. The price tag of Rp51bn for PTC implies 3.8x FY12 P/E and 1.0x FY12 P/BV while the Rp45bn price for SSP works out to 9.9x FY12 P/E and 1.0x FY12 P/BV.

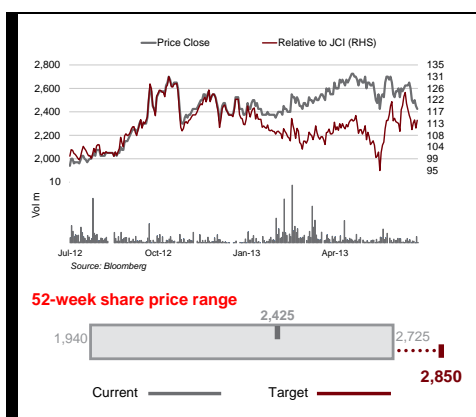
What We Think ➤

Through these acquisitions, SMSM is integrating its auto parts business, both upwards and downwards. We take a positive view of the deal given

the fair purchase price and close proximity to SMSM's core business. The acquisition is earnings-and ROE-accretive, raising FY13 earnings by c.5% assuming 100% debt financing. It has little impact on SMSM's sales mix since both acquired companies dealt mainly with SMSM. The acquisition will raise net gearing from 36% to 52%. We do not foresee any future substantial acquisition of related-party companies as there is not much option left in the group. Dinamikajaya Bumipersada, the biggest company left in the group, is smaller than PTC, SSP and the previously acquired Hydraxle.

What You Should Do ➤

Despite falling, SMSM's share price has outperformed the market over the past few months because SMSM benefits from a depreciating rupiah (2.4% net profit rise for 1% rupiah dip). The impact of rising borrowing costs will also be buffered by the recent maturing of a bond with a high interest rate of 10.3%. SMSM remains a key defensive pick against rupiah and interest rate concerns.



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Rpb)	2,072	2,164	2,377	2,584	2,814
Operating EBITDA (Rpb)	335.4	374.7	392.6	428.6	468.4
Net Profit (Rpb)	212.2	233.2	252.3	275.1	302.5
Core EPS (Rp)	142.5	157.1	171.4	191.1	210.1
Core EPS Growth	34.6%	10.2%	9.1%	11.5%	10.0%
FD Core P/E (x)	17.02	15.44	14.15	12.69	11.54
DPS (Rp)	80.0	130.0	108.5	161.2	185.0
Dividend Yield	3.30%	5.36%	4.47%	6.65%	7.63%
EV/EBITDA (x)	11.60	10.42	9.79	8.73	7.84
P/FCFE (x)	27.35	12.97	30.94	15.18	12.97
Net Gearing	36.7%	33.4%	18.4%	5.6%	(2.4%)
P/BV (x)	5.26	5.41	4.71	4.45	4.25
Recurring ROE	34.7%	34.6%	35.6%	36.1%	37.7%
% Change In Core EPS Estimates			4.94%	4.40%	2.97%
CIMB/consensus EPS (x)			1.08	1.01	0.88

SOURCE: CIMB, COMPANY REPORTS

Figure 1: PTC acquisition breakdown

PT Prapat Tunggal Cipta

Shareholders	Shareholders compositions			
	Before transaction		After transaction	
	Number of shares	%	Number of shares	%
PT Adrindo Intisarana	496.724.800	99,15	-	-
Eddy Hartono	4.275.200	0,85	1	0,0000002
SMSM	-	-	500.999.999	99.9999998
Total	501.000.000	100	501.000.000	100

Acquisition price (Rp bn)	50.6
Implied valuation FY12 P/BV (x)	1.0
Implied valuation FY12 P/E (x)	3.8

SOURCES: COMPANY REPORTS

Figure 2: SSP acquisition breakdown

PT Selamat Sempana Perkasa

Shareholders	Shareholders compositions			
	Before transaction		After transaction	
	Number of shares	%	Number of shares	%
PT Adrindo Intisarana	438.325.000	98,50	-	-
Eddy Hartono	6.675.000	1,50	1	0,0000002
SMSM	-	-	444.999.999	99.9999998
Total	445.000.000	100	445.000.000	100

Acquisition price (Rp bn)	44.9
Implied valuation FY12 P/BV (x)	1.0
Implied valuation FY12 P/E (x)	9.9

SOURCES: COMPANY REPORTS

Figure 3: PTC distributes SMSM aftermarket products in the domestic market



Figure 4: SSP manufactures rubber components and industrial adhesives



Figure 5: Acquisition is accretive, resulting in 5% increase in net profit

Pro forma P&L (Rp bn)	SMSM pre acquisition (2013F numbers)	PTC (2012 numbers)	SSP (2012 numbers)	Adjustments	SMSM post acquisition	Change (pre vs post acquisition)
Revenues	2,261	290	115	(298)	2,367	4.7%
COGS	(1,702)	(250)	(101)	299	(1,755)	3.1%
Gross profit	559	39	13	1	612	9.6%
SG&A expenses	(192)	(21)	(7)	0	(220)	14.3%
Operating profit	367	19	6	1	392	7.1%
Net interest expenses	(25)	(1)	(1)	0	(26)	5.6%
Interest expenses related to acquisition*	0	0	0	(7)	(7)	N/A
Other expenses	7	0	0	(1)	7	-4.3%
Pretax profit	349	18	6	0	366	5.0%
Tax expenses	(70)	(5)	(2)	0	(76)	9.1%
Minority interest	(38)	0	0	0	(38)	0.0%
Net profit	241	13	4	0	252	4.6%

*assume Rp96bn acquisition is 100% funded by a loan with a 7% p.a. interest rate

SOURCES: CIMB, COMPANY REPORTS

Figure 6: ROE is raised slightly while net gearing increases from 36% to 52% though it should drop below 50% by year-end

Pro forma balance sheet items	SMSM 1Q13 numbers	PTC (2012 numbers)	SSP (2012 numbers)	Adjustments	SMSM post acquisition	Change (pre vs post acquisition)
Cash	50	3	0	0	53	7.5%
Asset	1,388	126	66	(69)	1,510	8.8%
Debt	300	9	7	96*	413	37.5%
Liabilities	527	75	21	26	649	23.2%
Equity	696	50	45	(96)	696	-0.1%

Pro forma ratios	SMSM pre-acquisition	PTC (2012 numbers)	SSP (2012 numbers)	SMSM post acquisition
Gross profit margin	25%	14%	12%	26%
Operating profit margin	16%	6%	6%	17%
Net profit margin	11%	5%	4%	11%
Net debt/equity	36%	11%	16%	52%
ROE	35%	26%	10%	36%
ROA	17%	11%	7%	17%

*assume Rp96bn acquisition is 100% funded by a loan with a 7% p.a. interest rate

SOURCES: CIMB, COMPANY REPORTS

Figure 7: Sector comparison – CIMB coverage

Company	Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY 2013	CY 2014		CY 2013	CY 2014	CY 2013	CY 2014	CY 2015	CY 2013	CY 2014	CY 2013	CY 2014
Astra International	ASII IJ	OUTPERFORM	6,500	8,150	26,431	13.7	12.0	7.2%	3.17	2.73	24.9%	24.5%	23.3%	10.1	8.4	3.3%	3.3%
Selamat Sempurna	SMSM IJ	OUTPERFORM	2,425	2,850	351	14.2	12.7	8.0%	4.71	4.45	35.9%	36.1%	37.7%	9.7	8.7	4.5%	6.6%
Indonesia average						13.9	12.3	7.6%	3.94	3.59	30.4%	30.3%	30.5%	9.9	8.6	3.9%	5.0%
Tan Chong Motor Holdings	TCM MK	OUTPERFORM	6.60	8.00	1,342	12.2	9.9	44.5%	2.02	1.76	17.4%	19.0%	17.2%	7.3	6.2	3.0%	3.8%
UMW Holdings	UMWH MK	NEUTRAL	14.48	14.70	5,271	13.5	12.8	9.0%	3.15	2.87	25.1%	23.5%	23.0%	6.9	6.6	4.4%	4.6%
Malaysia average						12.8	11.4	26.7%	2.58	2.32	21.3%	21.2%	20.1%	7.1	6.4	3.7%	4.2%
Brilliance China Automotive	1114 HK	NEUTRAL	8.52	8.50	5,521	12.2	9.7	21.9%	2.64	2.08	24.1%	23.9%	22.4%	na	na	0.0%	0.0%
Dongfeng Motor Group	489 HK	OUTPERFORM	9.58	16.00	10,643	6.0	5.6	10.0%	1.06	0.91	19.0%	17.4%	15.9%	2.9	2.1	2.3%	2.5%
Geely Automobile Holdings	175 HK	OUTPERFORM	2.97	4.60	3,168	7.4	6.0	14.4%	1.16	0.99	17.1%	17.9%	16.1%	5.1	3.6	1.6%	2.0%
Great Wall Motor	2333 HK	NEUTRAL	33.60	33.40	16,285	13.1	11.3	11.0%	3.12	2.59	25.8%	25.0%	22.4%	8.6	7.1	2.3%	2.7%
Guangzhou Auto - H	2238 HK	OUTPERFORM	6.97	7.70	7,638	12.7	8.3	46.1%	1.03	0.95	8.2%	11.9%	11.2%	na	na	3.7%	5.8%
Qingling Motors Company-H	1122 HK	OUTPERFORM	1.91	2.29	611	10.5	9.5	12.1%	0.51	0.50	4.9%	5.3%	5.8%	4.9	4.5	7.9%	8.8%
Minth Group	425 HK	NEUTRAL	13.46	9.80	1,882	12.4	11.0	11.8%	1.56	1.42	13.2%	13.5%	14.1%	7.1	6.0	2.5%	2.9%
Weichai Power Co Ltd-H	2338 HK	NEUTRAL	22.70	28.60	5,596	9.0	7.5	13.7%	1.03	0.91	12.1%	12.9%	12.8%	4.3	3.8	0.3%	0.4%
Hong Kong average						10.4	8.6	17.6%	1.51	1.29	15.6%	16.0%	15.1%	5.5	4.5	2.6%	3.1%
Average all countries						11.4	9.7	17.5%	2.10	1.85	19.0%	19.2%	18.5%	6.7	5.7	3.0%	3.6%

SOURCES: CIMB, COMPANY REPORTS

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Score Range:	90 – 100	80 – 89	70 – 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good		N/A

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Spitzer Chart for stock being researched (2 year data)



Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2013

1077 companies under coverage

	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	52.5%	7.4%
Neutral	33.6%	4.7%
Underperform/Sell/Trading Sell	14.0%	5.5%

Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.	OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.
NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.	NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.	UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.	TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.	TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.

AAV – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.