

**BUY**

Target Price, Rp 4,350

Upside (0.3%)

SMSM IJ/SMSMJK

Last Price, Rp 4,365

No. of shares (mn) 1,439

**Market Cap, Rp bn 6,284**

(US\$ mn) 544

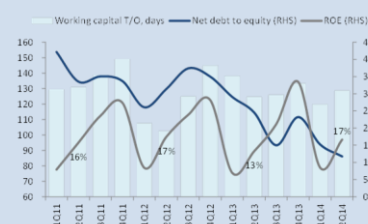
3M T/O, US\$mn 0.2

**Last Recommendation**

09-May-14	BUY	Rp4,350
09-Jan-14	HOLD	Rp3,350
17-Dec-13	BUY	Rp3,350

**1H14 Result, A/F, % (Above)**

	1H14, Rp bn	A/F, %
Revenues	1,296	47.8
EBITDA	305	50.7
Net profit	176	53.8

**Key chart: Gearing****Danareksa vs. Consensus**

	Our	Cons	% Diff
Target Price, IDR	4,350	4,133	5.3
EPS 2014F, IDR	198	232	-14.7
PE 2014F, x	19.2	18.8	2.1

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Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

## AUTOMOTIVE PARTS/1H14 RESULT

# Selamat Sempurna

## The export beneficiary

SMSM's net profits in 1H14 grew a brisk 55.1%y-y to Rp176bn driven by: 1) solid revenues growth of 18.7%y-y in 1H14 due to the recovery in export sales, 2) improvements in the gross margin thanks to the weak USD/IDR exchange rate, and 3) greater efficiencies in the company's opex. Thus, even though the revenues numbers are inline with our expectations, the bottom line is above. All in all, we may raise our margin assumption in our forecast to reflect SMSM's better-than-expected profitability.

**Solid y-y and q-q result**

SMSM's revenues grew a brisk 18.7%y-y in 1H14 to Rp1.3tn thanks to the recovery in the export market. On a quarterly basis, the revenues were up 6.1%q-q and 12.7%y-y in 2Q14. Thus, our sales growth target of 14% for 2014 seems to be lower in view of the first semester performance. However, we still have concerns on the company's main challenge in the domestic karoseri business which has dragged down earnings since 2011 due to depressed commodity prices up to the present time.

**Export growth recovery continue**

SMSM solid performance in 1H14 was mainly driven by the strong performance of its main product, filter, which saw a 31%y-y higher sales growth in 1H14. This is driven by the global economic recovery as seen in the 37%y-y export sales growth. All regions posted a strong recovery, with the fastest growth in European market (+46%y-y). Thus, the good set of result in export has offset the single digit growth in domestic market due to weakness in the karoseri business which stemmed from depressed commodity prices. Going forward, we believe this trend can continue throughout the year, giving a further boost to SMSM's export business as the company's main revenues stream.

**Higher gross margin with lower opex**

SMSM's gross margin was maintained at a relatively high level of 27.6% in 1H14. In 2Q14, the company booked a better gross margin of 28.5%. In our view, this owed to the weak rupiah at the present time and the low price of steel as the main raw material. Encouragingly, the opex to sales ratio fell to 7.8% in 1H14 from 9.0% in 1H13, reflecting greater efficiency in regard to SG&A expenses. As a result, SMSM's net margin improved to 13.6% in 1H14 from 10.4% in 1H13.

**Moving towards being a net cash company**

SMSM's balance sheet is still very strong with net gearing of only 12% as of June 2014 since the main financing is still bonds which will mature in 2015. Thus, we estimate the company may become a net cash company next year. This, in turn, will result in higher return-on-equity. Furthermore, as the company is known to be a high dividend player with a payout ratio of 65-70% in previous years. At the current share price, we expect a dividend yield of around 3%, although this figure could be higher considering the company's idle cash and no major capex planned in the immediate future.

Year end to Dec	2012	2013	2014F	2015F	2016F
Revenue, Rp bn	2,269	2,373	2,710	3,094	3,457
EBITDA, Rp bn	508	534	602	689	749
EBITDA Growth, %	18.7	5.1	12.7	14.4	8.8
Net Profit, Rp bn	252	321	327	393	439
Core Profit, Rp bn	252	282	327	393	439
Core EPS, Rp	175	196	227	273	305
Core EPS Growth, %	20.1	11.9	16.0	20.1	11.7
Net Gearing, %	35.0	23.2	11.4	1.8	Net cash
PER, x	25.0	19.6	19.2	16.0	14.3
Core PER, x	25.0	22.3	19.2	16.0	14.3
PBV, x	6.9	6.2	5.4	4.6	4.0
EV/EBITDA, x	12.9	12.1	10.6	9.1	8.2
Yield, %	2.4	2.6	3.1	3.7	4.2

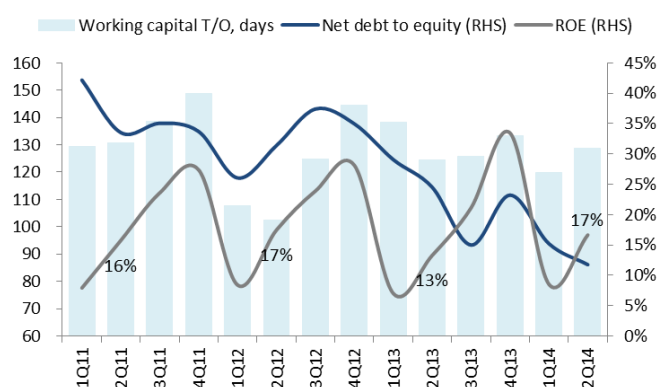
## Exhibit 1. SMSM's 1H14 Result

	1H13	1H14	y-y%	2Q13	1Q14	2Q14	q-q, %	y-y, %	2014F	A/F, %
<b>(in Rp bn)</b>										
Revenues	1,092	1,296	18.7	592	629	667	6.1	12.7	2,710	47.8
Gross profit	272	358	31.7	135	168	190	13.5	41.4	711	50.3
Operating profit	173	257	48.2	87	120	137	13.4	57.0	472	54.4
EBITDA	224	305	35.9	113	143	162	12.8	42.5	602	50.7
Net interest	(14)	(13)	(7.8)	(6)	(7)	(6)	(14.7)	(0.8)	(26)	49.1
Pre-tax income	163	253	54.8	85	120	133	10.9	57.3	447	56.6
Net profit	113	176	55.1	58	84	92	10.3	59.6	327	53.8
<b>(in %)</b>										
Gross Margin	24.9	27.6		22.7	26.7	28.5			26.3	
Opex to sales	9.0	7.8		8.0	7.5	8.1			8.8	
Operating Margin	15.9	19.8		14.7	19.1	20.5			17.4	
EBITDA Margin	20.6	23.5		19.2	22.8	24.2			22.2	
Net Margin	10.4	13.6		9.8	13.3	13.8			12.1	

	1H13	1H14	y-y%	2Q13	1Q14	2Q14	q-q, %	y-y, %
<b>(in Rp bn)</b>								
<b>By Product</b>								
Filter	752	988	31.4	398	481	507	5.4	27.3
Radiator	191	202	5.8	100	96	105	9.5	5.3
Karoseri	95	76	(19.8)	51	38	38	0.4	(25.3)
Distribution	162	161	(0.4)	88	76	85	12.1	(3.5)
Others	135	169	24.5	76	85	84	(1.3)	9.6
Elimination	(243)	(300)	23.4	(122)	(148)	(151)	2.2	24.6
<b>By Geographical</b>								
Domestic	449	417	(7.2)	250	199	217	9.0	(13.2)
Export	643	880	36.8	342	430	450	4.7	31.7
Asia	241	325	34.9	138	150	175	16.7	26.3
America	198	262	32.7	100	133	129	(2.9)	29.0
Australia	66	89	35.7	32	43	46	7.6	43.7
Europe and Others	139	204	46.4	71	104	100	(3.9)	40.8

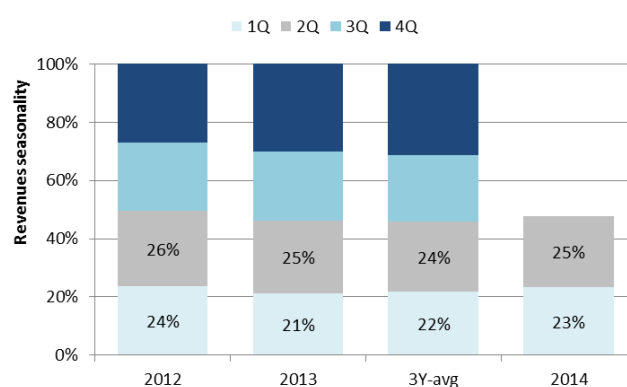
Source: Company, Danareksa Sekuritas

## Exhibit 2. Moving towards being a net cash company



Source: Company

## Exhibit 3. Inline with the seasonality



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