

Strong 3Q recovery trend with +70% q-q NP

Quick Note

Sales improvement boosted by margin expansion

SMSM reported a strong recovery trend in 3Q20 as net profit (NP) reached IDR150bn (-14% y-y; +70% q-q) driven by improving sales performance on easing lockdown measures and better market demand coupled with overall margin expansion. Revenue in 3Q20 grew to IDR839bn (-17% y-y; +27% q-q) from its 2Q20 low with both domestic and export sales showing q-q improvement. Consolidated gross profit (GP) and EBIT margin also expanded q-q by 300 and 600 basis points, respectively, supported by benign material cost and overall cost efficiency. This brings SMSM's 9M20 NP to IDR353bn (-13% y-y; 70% of our FY20F) on revenue of IDR 2.3tn (-17% y-y; 64% of our FY20F). Overall, the NP is still relatively in line with our FY20F target as we expect the recovery trend to continue in 4Q20 despite some downside risk to our revenue estimate.

Segment breakdown

Recovery was seen across all business segments in 3Q20 with radiator/trading segment (10%/32% of total revenue) posting the strongest growth at +43%/+33% q-q, while filter segment (55% of revenue) posted +18% q-q. On the GP margin side, majority of the segments also recorded margin expansion with the exception of trading segments' relatively stagnant margin. Additionally, the body maker segment still reported a negative GP margin in 3Q20 despite showing a promising recovery trend.

Valuation and risks

Our TP of IDR1,500 is based on a FY21F target P/E multiple of 15.2x, which is still below its +1SD historical level. The stock is currently trading at 14.1x FY21F P/E. Downside risks include: sharp IDR appreciation, prolonged economy lock-down due to COVID-19, and significant jump in raw material costs.

| | |
|-------------------------------|-----------|
| Rating Remains | Buy |
| Target price Remains | IDR 1,500 |
| Closing price 27 October 2020 | IDR 1,395 |

Research Analysts

Indonesia Research Team

Ahmad Maghfur Usman - NSM
ahmad.maghfurusman@nomura.com
+603 2027 6892

Onshore expert

Ryan Daniel (ryan.daniel@verdhana.id), who is employed by PT Verdhana Sekuritas Indonesia ("Verdhana"), has contributed to the content of this report as the onshore expert under a partnership agreement between Nomura and Verdhana. Verdhana and Ryan Daniel are not licensed outside Indonesia.

Fig. 1: SMSM 3Q20 results

| IDR bn | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | % y-y | % q-q | 9M19 | 9M20 | % y-y | %FY20F |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Revenue | 891 | 881 | 1,013 | 1,150 | 803 | 661 | 839 | -17% | 27% | 2,786 | 2,303 | -17% | 64% |
| GP | 266 | 236 | 328 | 363 | 244 | 194 | 272 | -17% | 40% | 829 | 709 | -14% | 66% |
| EBIT | 177 | 145 | 231 | 240 | 153 | 110 | 190 | -18% | 72% | 552 | 454 | -18% | 63% |
| EBITDA | 203 | 173 | 263 | 286 | 186 | 143 | 225 | -14% | 57% | 639 | 554 | -13% | 60% |
| Net interest | (1) | (1) | (2) | (1) | (2) | (2) | (1) | | | (4) | (5) | | |
| FX gain (loss) | (7) | (2) | 2 | (10) | 106 | (84) | 24 | | | (6) | 46 | | |
| Associates | 2 | 2 | 1 | 1 | 2 | (0) | (0) | | | 4 | 1 | | |
| Others | 8 | 12 | 12 | 15 | (81) | 92 | (13) | | | 32 | (2) | | |
| Pre-tax profit | 179 | 154 | 245 | 244 | 178 | 116 | 200 | -18% | 73% | 578 | 495 | -14% | 69% |
| NP | 125 | 109 | 174 | 170 | 115 | 88 | 150 | -14% | 70% | 408 | 353 | -13% | 70% |
| GP margin | 29.8% | 26.7% | 32.3% | 31.5% | 30.4% | 29.3% | 32.4% | 0.0% | 3.1% | 29.8% | 30.8% | 1.0% | |
| EBIT margin | 19.8% | 16.4% | 22.8% | 20.8% | 19.1% | 16.7% | 22.7% | -0.1% | 6.0% | 19.8% | 19.7% | -0.1% | |
| NP margin | 14.0% | 12.4% | 17.1% | 14.8% | 14.3% | 13.3% | 17.8% | 0.7% | 4.5% | 14.6% | 15.3% | 0.7% | |

Source: Nomura estimates, Company data

Fig. 2: SMSM pre-elimination revenue breakdown (IDR bn)

| Revenue | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | % y-y | % q-q | 9M19 | 9M20 | % y-y |
|--------------------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|
| Domestic | 308 | 284 | 355 | 410 | 293 | 177 | 215 | -39% | 22% | 947 | 684 | -28% |
| Export | 583 | 598 | 659 | 740 | 510 | 484 | 624 | -5% | 29% | 1,839 | 1,619 | -12% |
| Revenue (pre-elim) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | % y-y | % q-q | 9M19 | 9M20 | % y-y |
| Filter | 659 | 668 | 721 | 810 | 579 | 522 | 616 | -15% | 18% | 2,049 | 1,716 | -16% |
| Radiator | 79 | 78 | 92 | 99 | 81 | 63 | 91 | -1% | 43% | 249 | 236 | -5% |
| Body maker | 48 | 55 | 86 | 98 | 36 | 9 | 13 | -85% | 36% | 190 | 58 | -69% |
| Trading | 227 | 198 | 280 | 283 | 245 | 204 | 272 | -3% | 33% | 704 | 721 | 2% |
| Others | 105 | 82 | 99 | 108 | 92 | 59 | 60 | -39% | 2% | 286 | 210 | -26% |

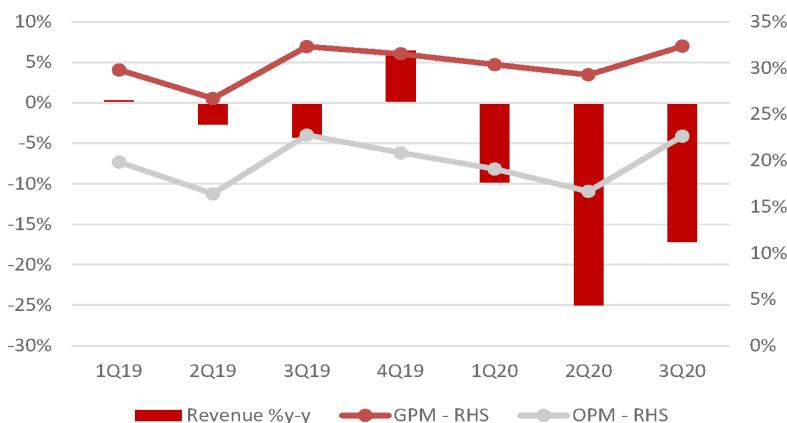
Source: Nomura estimates, Company data

Fig. 3: SMSM pre-elimination GP breakdown

| Gross profit (pre-elim) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | % y-y | % q-q | 9M19 | 9M20 | % y-y |
|-------------------------|-------|-------|-------|-------|-------|--------|--------|-----------|-----------|-------|-------|-----------|
| Filter | 154 | 144 | 189 | 237 | 132 | 120 | 163 | -14% | 36% | 486 | 415 | -15% |
| Radiator | 18 | 17 | 26 | 35 | 20 | 17 | 28 | 10% | 64% | 60 | 65 | 7% |
| Body maker | 7 | 10 | 15 | 16 | 2 | (4) | (1) | -110% | -62% | 31 | (3) | -110% |
| Trading | 64 | 58 | 82 | 71 | 72 | 55 | 71 | -13% | 29% | 204 | 197 | -3% |
| Others | 18 | 7 | 19 | 14 | 13 | 3 | 8 | -58% | 173% | 44 | 24 | -46% |
| GPM % (pre-elim) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | y-y (ppt) | q-q (ppt) | 9M19 | 9M20 | y-y (ppt) |
| Filter | 23.3% | 21.5% | 26.2% | 29.3% | 22.8% | 23.0% | 26.5% | 0.2% | 3.5% | 23.7% | 24.2% | 0.4% |
| Radiator | 22.5% | 22.0% | 27.7% | 35.1% | 24.3% | 27.0% | 30.9% | 3.2% | 3.9% | 24.3% | 27.5% | 3.3% |
| Body maker | 14.4% | 17.7% | 17.0% | 16.3% | 5.9% | -42.1% | -11.7% | -28.7% | 30.3% | 16.5% | -5.6% | -22.1% |
| Trading | 28.4% | 29.5% | 29.2% | 25.0% | 29.2% | 26.9% | 26.1% | -3.1% | -0.8% | 29.0% | 27.4% | -1.6% |
| Others | 16.9% | 8.7% | 19.0% | 12.7% | 13.9% | 4.9% | 13.2% | -5.9% | 8.3% | 15.3% | 11.2% | -4.1% |

Source: Nomura estimates, Company data

Fig. 4: SMSM profitability trend



Source: Nomura estimates, Company data

Appendix A-1

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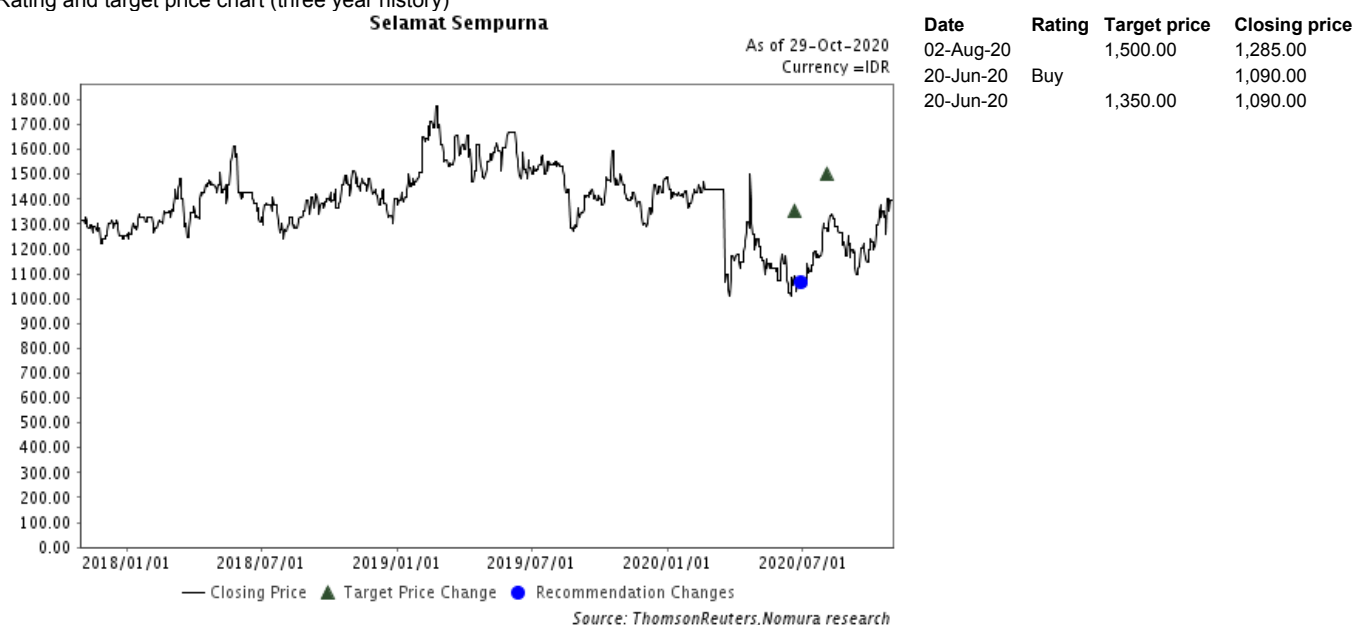
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| Issuer | Ticker | Price | Price date | Stock rating | Sector rating | Disclosures |
|------------------|---------|-----------|-------------|--------------|---------------|-------------|
| Selamat Sempurna | SMSM IJ | IDR 1,395 | 27-Oct-2020 | Buy | N/A | |

Selamat Sempurna (SMSM IJ)

IDR 1,395 (27-Oct-2020) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of IDR 1,500 is based on FY21F target P/E multiple of 15.2x, which is still below its +1SD historical level. The benchmark index of the stock is JCI Index.

Risks that may impede the achievement of the target price Downside risks: sharp IDR appreciation, prolonged economy lock-down due COVID-19 pandemic, and significant increase in raw material prices.

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