

Quality auto-parts player tapping into recovery

A more resilient replacement market and large export channels bolster improvement during recovery

Action: Initiating SSM with a Buy and TP of IDR1,350 (24% implied upside)

We initiate on Selamat Sempurna (SSM) with a Buy rating and a target price of IDR1,350. We expect filter and radiator sales volumes to gradually recover in FY21F after a weak FY20F caused by the economic slowdown in both domestic and export markets amidst the COVID-19 pandemic. SSM's focus on the replacement market (c.95% of sales) should help mitigate the revenue decline, as replacement demand tends to be more resilient vs demand from OEMs (original equipment manufacturers). ASP should also benefit from IDR depreciation in FY20F as 65% of the company's revenue is from exports (presence in more than 120 countries). Hence, we expect a valuation re-rating as the economy recovers.

Earnings making a recovery on global re-opening

We estimate a 7% earnings decline in FY20F due to sales volume softness across its products (filters, radiators, and auto bodies) despite a potential ASP increase due to IDR depreciation benefiting export sales. For FY21F, we forecast 5% earnings growth on the back of: 1) modest sales volume recovery for all products as both domestic and global economic activity gradually recovers; 2) normalizing rate of ASP increase post IDR depreciation in FY20F, and; 3) strong cost management resulting in consistent margins delivery. Currently, there are no consensus estimates for the company.

Valuation reverting back to mean as economy stabilizes

Our target price is derived from a FY21F target P/E multiple, assuming +5% earnings growth and a multiple re-rating, whereby, we expect SSM valuation to re-rate to 13.7x FY21F P/E (historical mean) from currently 11.0x FY21F P/E. Our expectation of valuation re-rating is based on: 1) resumption of economic activity and increase in population mobility supporting OEM purchases (from new vehicle purchases) and replacement-parts sales (from increase in maintenance activity); 2) delivery of resilient margins based on operational efficiency, and; 3) improving export market from economies reopening post the strict lock-down measures. Downside risks: sharp IDR appreciation, prolonged economy lock-down due to COVID-19, and significant jump in raw material costs.

Rating Starts at	Buy
Target price Starts at	IDR 1,350
Closing price 16 June 2020	IDR 1,085
Implied upside	+24.4%
Market Cap (USD mn)	445.7
ADT (USD mn)	0.2

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Year-end 31 Dec	FY19	FY20F		FY21F		FY22F	
Currency (IDR)	Actual	Old	New	Old	New	Old	New
Revenue (bn)	3,936		3,779		3,875		4,034
Reported net profit (bn)	578		539		569		595
Normalised net profit (bn)	578		539		569		595
FD normalised EPS	100.29		93.67		98.75		103.26
FD norm. EPS growth (%)	3.7		-6.6		5.4		4.6
FD normalised P/E (x)	10.8		11.6		11.0		10.5
EV/EBITDA (x)	7.0		6.3		5.8		5.3
Price/book (x)	3.0		2.7		2.5		2.3
Dividend yield (%)	5.5		5.2		5.5		5.7
ROE (%)	29.2		24.6		23.6		22.4
Net debt/equity (%)	net cash		net cash		net cash		net cash

Source: Company data, Nomura estimates

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.

Key Data on Selamat Sempurna

Relative Performance Chart



Performance

(%)	1M	3M	12M		
Absolute (IDR)	-4.8	-24.7	-27.4	M cap (USDmn)	445.7
Absolute (USD)	0.7	-19.9	-25.9	Free float (%)	33.9
Rel to Jakarta Stock Exchange Composite Index	-11.7	-27.3	-4.5	3-mth ADT (USDmn)	0.2

Income statement (IDRbn)

Year-end 31 Dec	FY18	FY19	FY20F	FY21F	FY22F
Revenue	3,933	3,936	3,779	3,875	4,034
Cost of goods sold	-2,740	-2,744	-2,636	-2,702	-2,811
Gross profit	1,193	1,192	1,143	1,173	1,223
SG&A	-375	-400	-378	-368	-383
Employee share expense					
Operating profit	818	792	765	805	840
EBITDA	938	926	966	1,016	1,060
Depreciation	-120	-134	-201	-210	-220
Amortisation					
EBIT	818	792	765	805	840
Net interest expense	-7	-6	-3	-1	2
Associates & JCEs	3	5	5	5	5
Other income	13	31	0	0	0
Earnings before tax	828	822	768	809	846
Income tax	-195	-183	-171	-181	-189
Net profit after tax	634	639	597	629	658
Minority interests	-77	-61	-57	-60	-63
Other items					
Preferred dividends					
Normalised NPAT	557	578	539	569	595
Extraordinary items					
Reported NPAT	557	578	539	569	595
Dividends	-334	-346	-324	-341	-357
Transfer to reserves	223	231	216	228	238

Valuations and ratios

Reported P/E (x)	11.2	10.8	11.6	11.0	10.5
Normalised P/E (x)	11.2	10.8	11.6	11.0	10.5
FD normalised P/E (x)	11.2	10.8	11.6	11.0	10.5
Dividend yield (%)	5.3	5.5	5.2	5.5	5.7
Price/cashflow (x)	12.3	10.4	7.3	8.0	7.8
Price/book (x)	3.4	3.0	2.7	2.5	2.3
EV/EBITDA (x)	7.0	7.0	6.3	5.8	5.3
EV/EBIT (x)	8.0	8.1	8.0	7.3	6.7
Gross margin (%)	30.3	30.3	30.3	30.3	30.3
EBITDA margin (%)	23.8	23.5	25.6	26.2	26.3
EBIT margin (%)	20.8	20.1	20.3	20.8	20.8
Net margin (%)	14.2	14.7	14.3	14.7	14.7
Effective tax rate (%)	23.5	22.3	22.3	22.3	22.3
Dividend payout (%)	60.0	60.0	60.0	60.0	60.0
ROE (%)	28.0	29.2	24.6	23.6	22.4
ROA (pretax %)	32.2	28.5	27.6	29.6	30.8

Growth (%)

Revenue	17.8	0.1	-4.0	2.5	4.1
EBITDA	19.3	-1.3	4.4	5.1	4.3
Normalised EPS	11.5	3.7	-6.6	5.4	4.6
Normalised FDEPS		3.7	-6.6	5.4	4.6

Source: Company data, Nomura estimates

Cashflow statement (IDRbn)

Year-end 31 Dec	FY18	FY19	FY20F	FY21F	FY22F
EBITDA	938	926	966	1,016	1,060
Change in working capital	-228	-118	68	-43	-61
Other operating cashflow	-203	-209	-178	-188	-196
Cashflow from operations	507	598	856	786	803
Capital expenditure	-143	-96	-100	-150	-100
Free cashflow	364	502	756	636	703
Reduction in investments					
Net acquisitions					
Dec in other LT assets					
Inc in other LT liabilities					
Adjustments	5	12	0	0	0
CF after investing acts	369	514	756	636	703
Cash dividends	-299	-334	-331	-335	-351
Equity issue					
Debt issue	-16	-9	0	0	0
Convertible debt issue					
Others	-58	6	-31	-24	-12
CF from financial acts	-373	-337	-362	-360	-364
Net cashflow	-4	177	394	276	339
Beginning cash	71	67	244	638	914
Ending cash	67	244	638	914	1,253
Ending net debt	-123	-517	-793	-1,132	

Balance sheet (IDRbn)

As at 31 Dec	FY18	FY19	FY20F	FY21F	FY22F
Cash & equivalents	67	244	638	914	1,253
Marketable securities					
Accounts receivable	937	1,020	980	1,004	1,046
Inventories	758	784	753	771	803
Other current assets	92	91	87	89	93
Total current assets	1,854	2,138	2,457	2,779	3,194
LT investments					
Fixed assets	749	751	649	589	469
Goodwill					
Other intangible assets					
Other LT assets	198	218	252	292	324
Total assets	2,801	3,107	3,359	3,660	3,988
Short-term debt	91	93	93	93	93
Accounts payable	252	260	250	256	267
Other current liabilities	128	108	112	109	113
Total current liabilities	470	461	454	457	472
Long-term debt	32	28	28	28	28
Convertible debt					
Other LT liabilities	148	175	168	172	180
Total liabilities	651	665	651	658	680
Minority interest	287	353	410	470	533
Preferred stock					
Common stock	194	194	194	194	194
Retained earnings	1,966	2,227	2,433	2,670	2,930
Proposed dividends	-299	-334	-331	-335	-351
Other equity and reserves	3	2	2	2	2
Total shareholders' equity	1,863	2,089	2,297	2,531	2,774
Total equity & liabilities	2,801	3,107	3,359	3,660	3,988

Liquidity (x)

Current ratio	3.94	4.64	5.41	6.08	6.76
Interest cover	115.6	140.5	298.1	1,189.0	-

Leverage

Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Per share

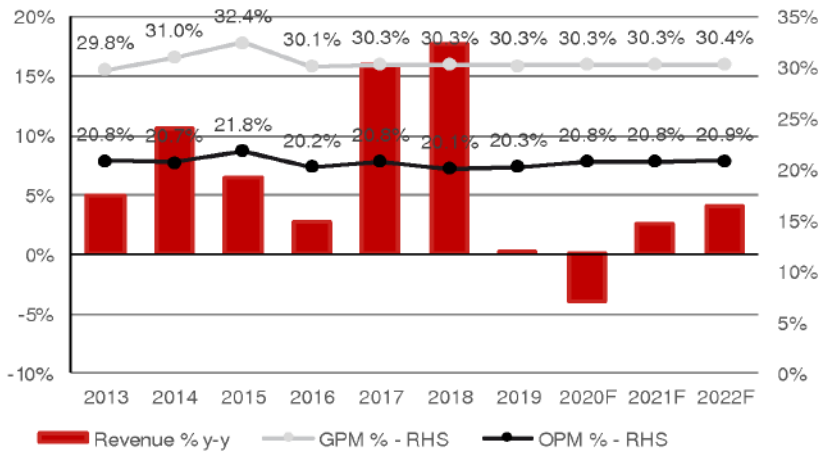
Reported EPS (IDR)	96.71	100.29	93.67	98.75	103.26
Norm EPS (IDR)	96.71	100.29	93.67	98.75	103.26
FD norm EPS (IDR)	96.71	100.29	93.67	98.75	103.26
BVPS (IDR)	323.55	362.78	398.96	439.50	481.72
DPS (IDR)	58.00	60.15	56.18	59.23	61.93

Activity (days)

Days receivable	86.9	90.7	96.8	93.4	92.7
Days inventory	101.0	102.5	106.7	103.0	102.2
Days payable	33.5	34.0	35.4	34.2	33.9
Cash cycle	154.4	159.2	168.1	162.2	161.0

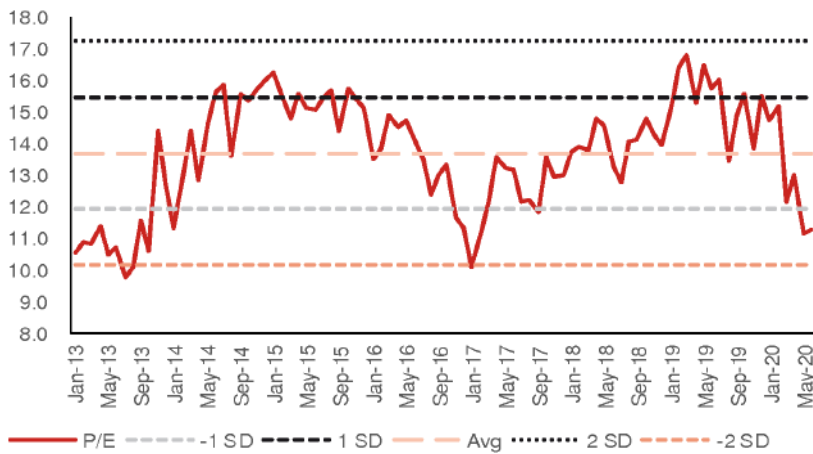
Source: Company data, Nomura estimates

Fig. 26: SSM's profitability trend



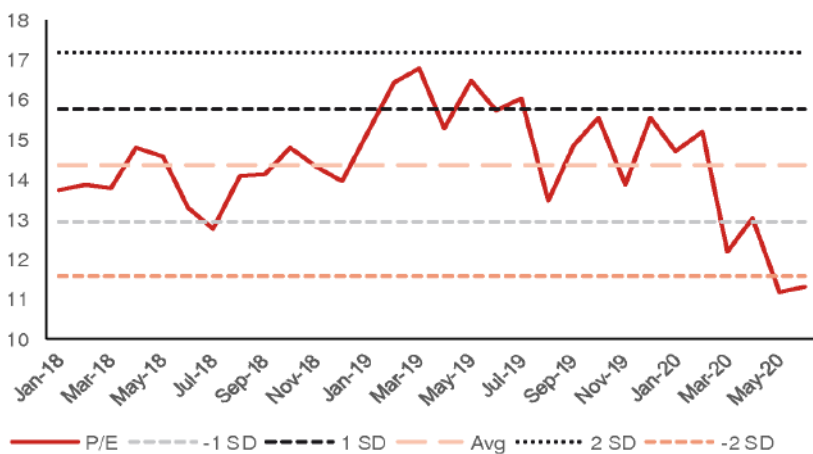
Source: Company data, Nomura estimates

Fig. 27: SSM's 8-year historical P/E bands



Source: Bloomberg, Nomura estimates

Fig. 28: SSM's 2-year historical P/E bands



Source: Bloomberg, Nomura estimates