

Company Visit Note

Selamat Sempurna: The Consistent Component Player

Selamat Sempurna (SMSM) manufactures filters and radiators for autos and heavy industry. 60% of sales is via exports to over 100 countries, now complemented by rapidly growing local sales. SMSM's Sales have grown every year for the last 20 years & net profit for the last decade. Based on Bloomberg FY13E consensus the stock trades at 16x PE and has a 4.6% dividend yield.

- Global exporter of auto parts.** SMSM manufactures auto component products: mainly filters (65% of revenues) and radiators (18% of revenues). 62% of Sales come from exports to over 100 countries. Domestic sales have grown at 30% pa over the last 5 years. Their in-house brand trademark is registered in over 100 countries.
- Resilient earnings and consistent dividend:** SMSM's diversified customer base has resulted in consistent performance. They have booked sales growth for 20 consecutive years, and net profit has grown every year in the last decade. Over the last 5 years, sales & net profit have grown at 15% and 24% respectively. Dividends have been raised every year for the last 7 years.
- Guidance better than consensus, steel duties a risk:** Management expects both Sales and Net Profit to grow 13% in FY13E assuming flat margins. Capacity utilization for main products stood at 45-55%. Management expects to maintain a >70% dividend payout ratio. Management highlighted the recent imposition of customs duty on steel imports as a risk to margins. Management doubt that they can increase their pricing in the near term as this would reduce their global competitiveness.
- Consensus & Valuation:** SMSM currently trades at 16x consensus FY13PE. Management guidance implies FY13E PAT of Rp 263bn, 10% above current consensus. Consensus dividend yield is 4.6% for FY13E.

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Selamat Sempurna (Reuters: SMSM.JK, Bloomberg: SMSM IJ)

year-end Dec	FY09	FY10	FY11	FY12	FY13E	FY14E	Stock data	
Revenue (Rp bn)	1,375	1,562	1,808	2,164	2,385	2,720	Shares O/S (mn)	1,440
Net profit (Rp bn)	133	150	201	233	238	281	Market Cap (Rp bn)	3,815
EPS (Rp)	92	104	140	162	166	195	Market Cap (\$ mn)	393
DPS (Rp)	25	95	100	NA	117	142	Price (Rp)	2,650
Sales growth (Y/Y %)	1.6	13.6	15.8	19.7	10.2	14.0	Date of Price	11-Apr-13
EPS growth (Y/Y %)	43.8	13.0	34.6	15.7	2.5	17.5	Free float(%)	42.00
ROCE (%)	25.5	28.3	30.2	32.6	NA	NA	Avg Daily Volume (mn)	1.01
ROE (%)	25.4	29.6	35.7	37.3	33.1	33.2	Avg Daily Value (Rp bn)	2.50
P/Sales (x)	0.8	1.0	1.1	1.7	1.6	1.4	Avg Daily Value (\$ mn)	0.26
P/E (x)	8.2	10.3	9.7	15.6	16.0	13.6	JCI	4,924
P/B (x)	2.2	3.0	3.2	5.6	5.1	4.6	Exchange Rate	9,706
Dividend yield (%)	3.3	8.9	7.4	NA	4.6	5.4	Fiscal Year End	Dec

Source: Company data, Bloomberg

Indonesia Strategy, Financials and Autos

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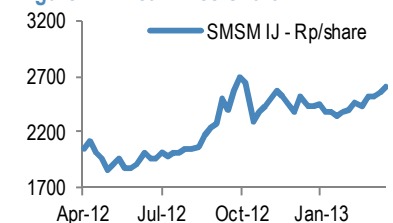
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SMSM.JK, Not Covered

Rp2650, 11 April 2013

Figure 1: 1-Year Price Chart



Source: Bloomberg.

Table 1: 1 Year price performance

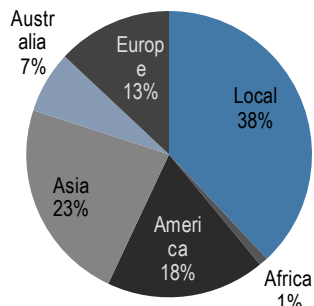
	1M	3M	6M	12M
Absolute	7.1	9.3	2.9	33.2
Relative	5.6	(5.1)	(12.0)	13.9

Source: Bloomberg.

See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

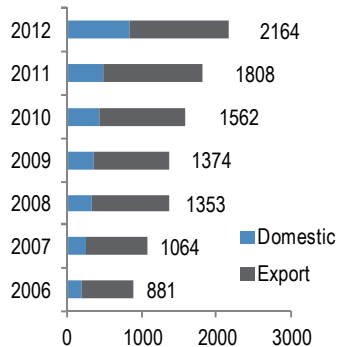
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Figure 2: Sales by Region (FY12)



Source: Company data.

Figure 3: Exports contribute >60% of Sales



Source: Company data

Table 2: Capacity and % Utilization

	Capacity ('000 unit)	FY12 % util.
Filtration	96,000	54.0%
Heat exchanger		
-Aluminum	1,500	46.9%
-Copper brass	450	12.9%
Dump body mfg	10	38.7%
Brake Pipe	1,800	48.4%
Fuel tank	96	70.8%
Muffler	76	55.3%

Source: Company data

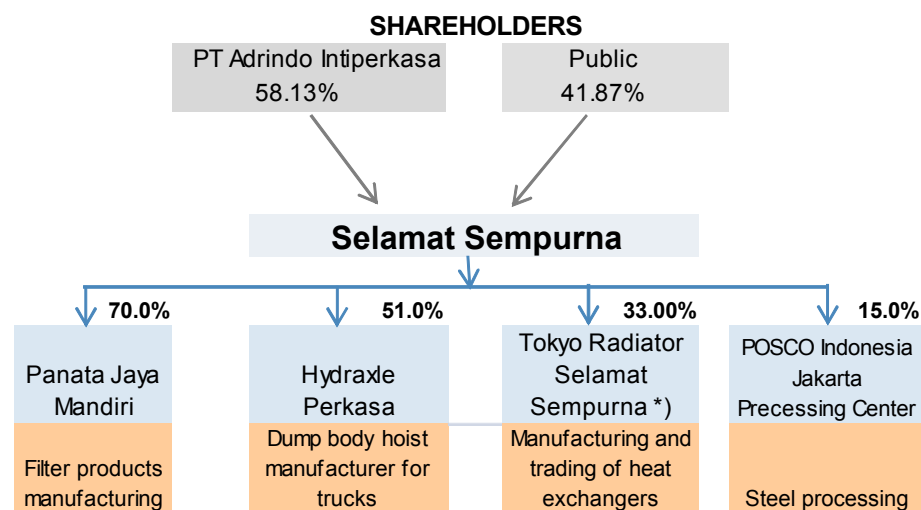
The Local Global Exporter

PT Selamat Sempurna (SMSM IJ) manufactures parts for heavy equipment and auto industry: filters, radiators, coolers, condensers, brake pipe, fuel pipes, fuel tanks, exhaust systems and press parts. 57% of the products are sold to replacement market, while for OEM (Original Equipment Manufacturers) SMSM sells to brand owners such as Toyota and Mercedes. They are currently one of the largest filter manufacturers in the region and have an extensive range of product with over 5,000 SKUs. Their products are marketed in over 100 countries worldwide. Their in house brand, 'Sakura' filter and 'ADR' radiator have trademark registrations in more than 100 countries. Filters account for 65% of Revenues, and radiators (18%) and truck body building parts (12%) for most of the rest.

The company has access to global technical expertise. They have technical agreements with Donaldson Company Inc (a US-based worldwide leader in filtration industry) since 1983 and Tokyo Radiator Mfg (Japan-based heat exchange part manufacturer) since 1994.

As part of the company's vertical integration strategy, in August 2012 SMSM completed a 51% acquisition of PT Hydraxle Perkasa, a manufacturer of dump body, boxes, trailers, etc for trucks. Management said that the aim of the acquisition was to increase their presence in the domestic market.

Table 3: Company Structure



*)expected commercial operation in June 2013

Source: Company data

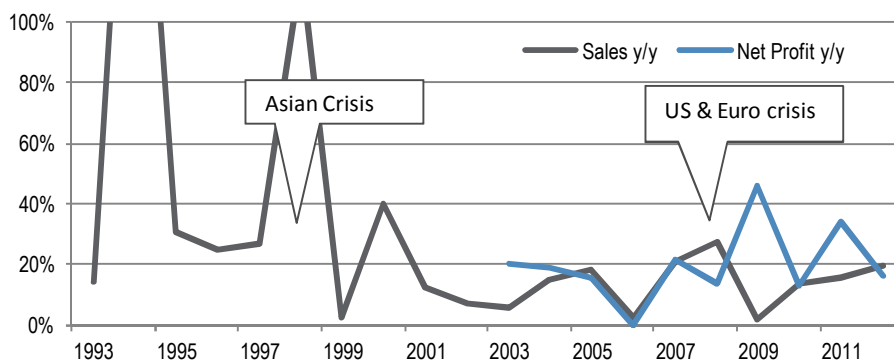
Consistent Track Record of Financial Performance

SMSM's well-diversified customer base both local and across the globe has resulted in resilient earnings streams over the past several years.

- Sales have grown every year for the last 20 years.
- Net profits have grown every year in the last 10 years
- Dividends have been increased every year for the last 7 years.
- RoE has increased every year since FY06 and was 27% in FY12.

Over the last 5 years (FY07-FY12) SMSM has generated a CAGR of 15% in Sales and 24% in Net Profits. Dividends have grown at 29% pa over the last 7 years.

Figure 4: Earnings resilience: sales and net profit growth record



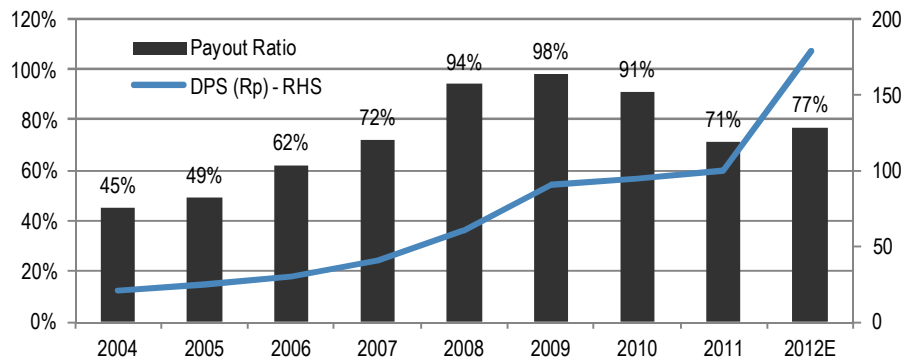
SMSM IJ has booked Sales growth every year in last 20 years and Profit Growth in last 10 years; even during 97/98 Asian crisis and 08/09 Global crisis.

Source: Company data.

Dividend Payout of over 70% per annum.

SMSM's stated dividend policy is that 45% of Net Profit will be distributed if Net Profit is higher than Rp30bn. FY12 Net Income was Rp233bn. Over the last five years, actual payout ratio has been higher; ranging from 71% to 98%. At their analyst meeting, management emphasized their commitment to maintain payout ratios at over 70%. Consensus estimates SMSM currently trades at a dividend yield of 4.6% (see Peers Valuation - Table 7).

Figure 5: Dividends



Source: Company data.

Note: For FY12, management is guiding 77% dividend payout

Company has been able to keep payout ratio above 70% since 2007.

FY13E guidance for 13% PAT growth, duties a risk

FY13E Guidance: 13% Sales and Net profit growth

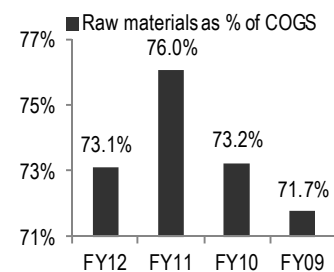
Management guidance for FY13E is to book Rp2.45trillion Sales (up 13% y/y) and Rp264bn in Net Profit (up 13% y/y) in FY13E. Leverage is targeted to be maintained at 0.73x D/E Ratio (vs FY12's 0.76x). Regular maintenance capex is expected at minimum Rp100bn. SMSM operated at a 47-54% capacity utilization for its main products in 2012.

Table 4: FY13E Guidance

	FY13E	FY12	FY11	FY10
Sales (Rp bn)	2450	2164	1808	1562
y/y	13.2%	19.7%	15.7%	13.6%
Net Profit (Rp bn)	264	233	201	150
y/y	13.3%	15.9%	34.0%	12.8%
Net Margin (%)	10.8%	10.8%	11.1%	9.6%
ROA (%)	16%	16%	18%	14%
Debt / Equity (x)	0.73	0.76	0.70	0.96
EPS (Rp)	184	162	140	104

Source: Company presentation

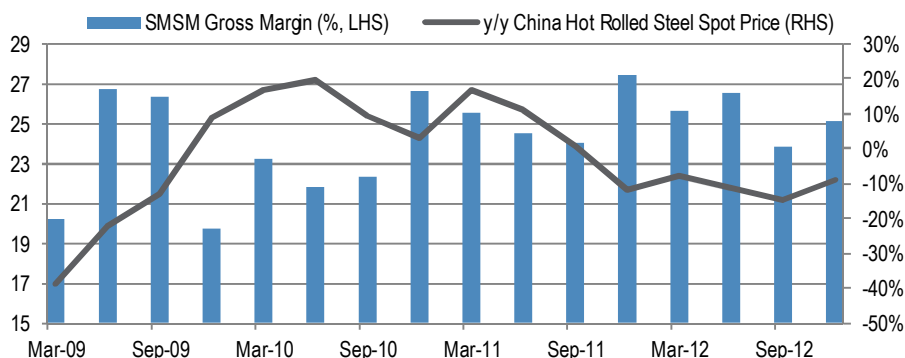
Figure 6: Raw materials represent more than 70% of COGS



Source: Company data.

Management identified domestic input costs (HR steel prices) as risk to FY13 margins. The landed cost of HR steel in Indonesia has risen after the recent imposition of higher customs duties. This could increase raw material cost, which is already 71-76% of COGS in FY09-FY12. Raw material inventory is currently secured only for 3-4 months. Management said that they do not expect to pass on higher costs in the short term to customers. *We discuss the customs duty on Steel rolled products in the appendix*

Figure 7: SMSM's Gross Margin (%) Trend and China Hot Rolled Steel Price (%/y)



Source: Company data, Bloomberg.

Table 5: 1 Year price performance

	1M	3M	6M	12M
Abs	7.1	9.3	2.9	33.2
Rel	5.6	(5.1)	(12.0)	13.9

Source: Bloomberg.

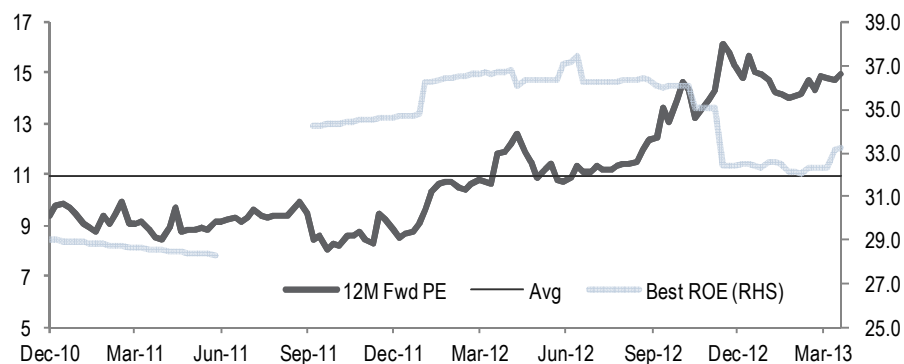
Stock is currently trading at 16x forward PE, above its average of 11x.

Earnings & Valuation

Current consensus Net profit Estimates for SMSM project FY13E PAT of Rp 238bn. Management guidance implies net profits that are 10% higher.

SMSM has appreciated 33% over the last year but has underperformed the JCI over the last 3 & 6 months. The stock currently trades at a 16x FY13 consensus PE multiple and a dividend yield of 4.6%.

Figure 8: SMSM: 12m Fwd PE and ROE



Source: Bloomberg.

Table 6: Peer Valuations

Ticker	Price (Rp)	MCap US\$m	P/E 13E	PB 13E	ROE 13E	Div Yld 13E	Description
AUTO IJ	3,875	1,540	16.0	2.8	18.5	2.7	PT Astra Otoparts Tbk manufactures and distributes a comprehensive range of automotive and motorcycle parts. The Company produces a wide range of forged, cast, electrical, rubber and plastic automotive parts, and (OEM) original equipment manufacturing. Astra Otoparts also produces replacement market automobile and motorcycles parts for local and foreign markets.
MASA IJ	420	397	10.8	1.0	8.1	0.0	Multistrada Arah Sarana Tbk manufactures vehicle tires.
GJTL IJ	2,600	934	8.0	1.4	18.8	0.5	PT Gajah Tunggal Tbk manufactures goods made of rubber, primarily tires and tubes for vehicles. Through its subsidiaries, the Company also manufactures nylon cords, polyesters, ethylene glycol, petrochemical, nylon filament yarns, polyester-chips as raw material for nylon cords and tire yarns as well as synthetic rubber and rims. Gajah Tunggal also trades car accessories.
INDS IJ	4,275	139	NA	NA	20.8	NA	PT Indospring Tbk manufactures leaf and coil springs for motor vehicles under license of Mitsubishi Steel Manufacturing, Japan. The Company also manufactures valve springs with license agreement with Murata Spring Co. Ltd., Japan. Through its subsidiaries, the Company also operates in the rolling mill industry.
SMSM IJ	2,525	375	15.2	4.9	33.1	4.6	PT Selamat Sempurna Tbk manufactures automotive components such as filters, radiators, condensers, air conditioners, brake pipes, fuel pipes, fuel tanks, mufflers, and machinery spare parts.

Source: Bloomberg, as of close 11 April 2013

Appendix: Anti Dumping Duty on Steel Products

In order to protect domestic steel producers, Government of Indonesia has applied an anti-dumping customs duty on rolled steel products Indonesia (October 2012 and March 2013). Hot rolled from China, Ukraine and Singapore (see detail in Table 5) and cold rolled coil from China, Taiwan, Japan, Vietnam and Korea (Table 6) are covered by these duties.

Indonesia anti-dumping commission (KADl) initiated its probe in June 2011, based on a request by Krakatau Steel (KRAS IJ).

Indonesia imposed anti-dumping duty on both cold (Oct-12) and hot rolled (Mar-13) coil imports ranging from 5.9% to 55.6%.

The government has argued such import duties are necessary to protect domestic producers while creating platform for a fair competition.

Table 7: Anti dumping duty on hot rolled iron and steel plates

Exporter Country	% duty
China	10.47%
Singapore	12.33%
Ukraine	12.50%

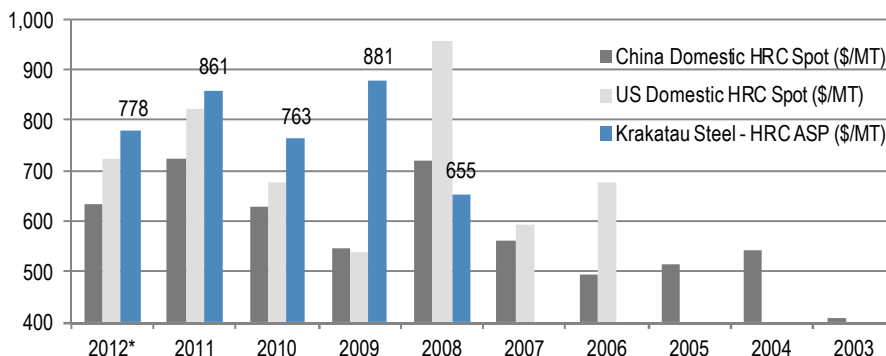
Source: Indonesia Ministry of Finance. This duty is valid from Oct-2012 to Apr-2014 (3.5 years)

Table 8: Anti dumping duty on imported cold rolled coil and steel

Exporter Country	Company	%duty	Exporter Country	Company	%duty
China	Wuhan Iron and Steel Company Ltd	13.60%	Japan	JFE Steel Corp	18.60%
	Qinhuangdao Tongye Cold Rolled Steel Strip Co. Ltd	43.50%		Kobe Steel Ltd	18.60%
	Others	43.50%		Nippon Steel Corp	55.60%
				Nisshin Steel Co Ltd	55.60%
Taiwan	China Steel Corp	7%	Sumitomo Metal Industries Ltd	55.60%	
	Synn Industrial Co Ltd	5.90%	Others	55.60%	
	Sheng Yu Steel Co Ltd	12.30%	Korea	Dongbu Steel Co Ltd	10.60%
	Ton Yi Industrial Corp	11%		Dongkuk Industries Co	10.10%
	Kao Hsing Chang Iron % Steel Corp	20.60%	Hyundai HYSCO	11%	
	Others	20.60%	POSCO	10.90%	
		Others	11.00%		
Vietnam	POSCO - Vietnam Co Ltd	12.30%			
	Others	27.80%			

Source: Indonesia Ministry of Finance. This duty is valid for 3 years (Mar 2013 - Mar 2016)

Figure 9: Domestic HRC Price were higher than US/ Chinese Spot prices in FY09-FY11



Source: Bloomberg, Krakatau Steel presentation. Prices are average for year.

*) For Krakatau Steel's ASP as of 9M12

SELAMAT SEMPURNA

Profit and loss statement

Rp billion, Year-end Dec.	FY08	FY09	FY10	FY11	FY12
Revenues	1,354	1,375	1,562	1,808	2,164
% change Y/Y	27.2%	1.6%	13.6%	15.8%	19.7%
Gross margin (%)	24.3%	23.0%	23.6%	25.5%	25.3%
EBITDA	281.5	266.1	304.9	386.5	474.6
% change Y/Y	37.3%	-5.5%	14.6%	26.7%	22.8%
EBITDA margin (%)	20.8%	19.4%	19.5%	21.4%	21.9%
EBIT	212.9	189.8	227.8	296.5	363.0
% change Y/Y	42.0%	-10.9%	20.1%	30.1%	22.4%
EBIT margin (%)	15.7%	13.8%	14.6%	16.4%	16.8%
Net interest	(69)	(4)	(23)	(17)	(18)
Earnings before tax	143.6	185.9	204.8	279.6	344.7
% change Y/Y	10.0%	29.4%	10.2%	36.5%	23.3%
Tax	(42.1)	(42.9)	(39.9)	(60.3)	(76.2)
as % of EBT	29.3%	23.1%	19.5%	21.6%	22.1%
Net income	91.5	132.9	150.4	200.9	233.2
% change Y/Y	13.9%	45.2%	13.2%	33.5%	16.1%
Shares outstanding (bn)	1.4	1.4	1.4	1.4	1.4
EPS	64.0	92.0	104.0	140.0	162.0
% change Y/Y	14.3%	43.8%	13.0%	34.6%	15.7%

Balance sheet

Rp billion, Year-end Dec.	FY08	FY09	FY10	FY11	FY12
Cash and cash equivalents	13.6	8.7	14.3	16.6	59.4
Marketable Sec.	-	-	-	-	-
Accounts receivable	243.4	278.3	313.7	357.9	429.2
Inventories	286.4	254.9	307.0	324.5	381.7
Others	11.8	32.9	26.7	19.9	29.0
Current assets	555.2	574.9	661.7	718.9	899.3
LT Assets	16.0	25.4	28.6	20.2	53.1
Net fixed assets	358.5	341.4	376.8	397.7	488.9
Total assets	929.8	941.7	1,067.1	1,136.9	1,441.2
ST loans	189.8	163.7	120.6	103.2	254.0
Payables	70.8	160.8	124.8	86.5	106.2
Others	44.8	37.7	58.9	75.0	102.4
Total current liabilities	305.4	362.3	304.4	264.7	462.5
Long term debt	-	-	158.7	159.3	111.0
Other liabilities	36.8	36.0	36.4	42.2	47.4
Total liabilities	342.2	398.3	499.4	466.2	620.9
Shareholders' equity	587.5	543.4	567.7	670.6	820.3
BVPS (Rp)	379.4	345.8	360.8	420.8	448.2

Cash flow statement

Rp billion, Year-end Dec.	FY08	FY09	FY10	FY11	FY12
Net profit	91	133	150	201	233
Depreciation & amortisation	69	76	77	90	112
Change in working capital	53	(37)	145	97	(17)
Non Cash Items	(82)	96	(221)	(158)	26
Cash flow from operations	131	268	151	230	353
Capex	(101)	(53)	(119)	(102)	(103)
Disposal/ (purchase)	0	1	1	2	1
Other Investing Flows	(6)	(8)	(2)	(0)	(36)
Free cash flow	24	207	32	129	215
Equity raised/ (repaid)	-	-	-	-	-
Debt raised/ (repaid)	10	(26)	115	(18)	60
Other	0	0	(12)	6	(5)
Dividends paid	(29)	(186)	(130)	(115)	(227)
Beginning cash	9	14	9	14	17
Ending cash	14	9	14	17	59
DPS (Rp)	125	25	95	100	#N/A N/A

Ratio analysis

% , Year-end Dec.	FY08	FY09	FY10	FY11	FY12
EBITDA margin	20.8%	19.4%	19.5%	21.4%	21.9%
Operating margin	15.7%	13.8%	14.6%	16.4%	16.8%
Net profit margin	6.8%	9.7%	9.6%	11.1%	10.8%
SG&A/sales	8.6%	9.2%	9.0%	9.1%	8.5%
Sales per share	940	955	1,085	1,256	1,503
Sales growth	27.2%	1.6%	13.6%	15.8%	19.7%
Net profit growth	13.9%	45.2%	13.2%	33.5%	16.1%
EPS growth	14.3%	43.8%	13.0%	34.6%	15.7%
Interest coverage (x)	(4.1)	(67.9)	(13.2)	(22.9)	(26.0)
Net debt to total capital	19.2%	16.6%	25.2%	21.9%	22.1%
Net debt to equity	30.0%	28.5%	46.7%	36.7%	37.2%
Sales/assets	145.6%	146.0%	146.4%	159.0%	150.1%
Assets/equity	1.6	1.7	1.9	1.7	1.8
ROE (%)	17.8%	25.4%	29.6%	35.7%	37.3%
ROCE (%)	25.2%	25.5%	28.3%	30.2%	32.6%

Source: Company data

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