

Flash Note: PT Selamat Sempurna Tbk (SMSM) Company Visit

February 9th, 2017

Company Information

PT Selamat Sempurna Tbk (SMSM) manufactures automotive components such as filters, radiators, condensers, air conditioners, brake pipes, fuel pipes, fuel tanks, mufflers, and machinery spare parts. SMSM currently exports to over 115 countries worldwide with Asia, America and Europe comprising of ~28%, 20% and 12% of total revenues. SMSM relies most heavily on export of its filter products with Donaldson being the most recognizable filter product produced by SMSM.

Investment Theses

Since going public in 1996 SMSM has managed to achieve 23 consecutive years of sales growth, 13 years of net income growth and even more attractively 11 years dividend payment growth. Disbursed on a quarterly basis, SMSM has a dividend policy of paying out >45% from net profits every year. A recent change in the company's strategy to cater more towards heavy equipment companies instead of automotive companies has resulted in improved margins for the filter production business (+25bps) as well as the blended gross margin levels (+43bps). According to management, supplying filters and radiators to heavy equipment companies results in better margins as opposed to supplying to the high volume, low margin automobile manufacturing business.

As part of the company's long term goal, SMSM's recent purchase of Bradke Synergies (total investment of USD 100 Mn) has allowed them to reach closer towards the end user of their products as Bradke Synergies represents the company's sole distributor of filter products in Malaysia (Powerfil Auto Parts Sdn Bhd) as well as the company's sole distributor of filter products in Australia (Solcrest Pty Ltd). Via vertical integration, SMSM plans to become more involved with the distribution to go along with the production of their products.

Moving forward, we expect SMSM to continue to achieve sales growth (~5-7% per year) as SMSM operates in a relatively peerless segment within the region. Thanks to a strong cash position and no long term debts, SMSM remains well positioned to conduct further investments should the opportunity arise. **Based on this, we view SMSM as an attractive long term investment with our Target Price of IDR 1,250 derived via Gordon's Growth Model (Expected growth rate 5% , Cost of Equity 13.3%).**

Financial Highlights

Income Statement (IDR Bn)	2013	2014	2015	2016E	2017F	2018F
Net Revenue	2,373.0	2,632.9	2,802.9	2,943.1	3,104.9	3,275.7
COGS	(1,735.3)	(1,847.7)	(1,933.4)	(1,988.0)	(2,076.4)	(2,221.0)
Gross Profit	637.7	785.2	869.5	955.1	1,028.5	1,054.8
Operating Expenses	(216.5)	(236.2)	(288.8)	(320.8)	(344.0)	(369.8)
Finance Income / Expenses	(31.2)	(25.0)	(19.3)	(18.2)	(15.5)	(12.4)
Profit before Income Tax	458.6	542.0	583.7	640.3	692.8	696.3
Income Tax Expense	(107.8)	(119.9)	(122.4)	(140.9)	(152.4)	(153.2)
Net Income	350.8	422.1	461.3	499.4	540.4	543.1
Balance Sheet (IDR Bn)	2013	2014	2015	2016E	2017F	2018F
Cash & Cash Equivalents	93.4	75.9	123.0	169.5	193.4	241.7
Trade Receivables	558.1	574.1	599.9	644.2	674.1	711.4
Inventory	397.7	432.0	560.8	544.7	585.6	617.4
Other Current Assets	45.0	51.2	70.8	69.2	76.3	78.7
Fixed Assets	492.2	492.9	714.9	961.3	1,195.5	1,417.7
Other Non-Current Assets	111.8	131.0	136.6	143.5	148.6	150.8
Total Assets	1,701.1	1,757.6	2,220.1	2,540.6	2,883.1	3,228.8
Account Payables	164.0	152.4	176.8	176.8	184.2	198.2
Other Current Liabilities	357.0	380.8	344.8	350.1	368.2	381.2
Other Non-Current Liabilities	171.3	98.7	208.1	263.6	277.9	293.3
Total Liabilities	694.3	635.5	779.9	817.9	863.2	910.2
Total Equity	1,006.8	1,122.1	1,440.2	1,722.7	2,019.9	2,318.6
Ratios	2013	2014	2015	2016E	2017F	2018F
ROE	35%	38%	32%	29%	27%	23%
ROA	21%	24%	21%	20%	19%	17%
Current Ratio	2.10	2.11	2.39	2.59	2.63	2.69
Debt/ Equity	0.33	0.23	0.22	0.20	0.18	0.16
Debt/ Assets	0.19	0.15	0.14	0.14	0.13	0.11

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