

BUSINESS VALUATION AND COMPETITIVE ADVANTAGE ASSESSMENT USING GREENWALD'S METHOD: CASE STUDY OF PT. SELAMAT SEMPURNA, TBK.

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OPENING PARAGRAPH

On today's fast-growing market and industry, investors should be careful with their decision to make investment in a company. Strong growth doesn't guarantee that a company has healthy financial condition and can't predict the future business of a company with sufficient degree of accuracy. The DCF methodology in the perspective of value investors has greater margin of error due to its high dependency on growth assumptions. Furthermore, DCF method ignores balance sheet and only emphasize on earning report (Columbia Business 2015). Value investing approach in other side will start valuation process from balance sheet as the source of reliable assumptions of company financial health. Afterward based on current earnings and cash flows, the calculation of company's earning power can be made. The "moat" test is also important step to assess the value of company from qualitative perspective, the company which has strong competitive advantage and good management capability would bring higher success probability and would continue provide value to shareholders or investors in the future. The growth then can be taken into account on valuation process if a company has strong balance sheet, earning power, competitive advantage, and good management capability (Columbia Business 2015). This case study will conduct the mechanic of valuation process using value investing approach that was developed by Prof. Bruce Greenwald, the company under study is PT. Selamat Sempurna, Tbk. (SMSM), a company which produce automotive parts (Auto Parts industry). Using this approach, comprehensive business valuation and prospect of PT. Selamat Sempurna, Tbk. can be determined.

COMPANY BACKGROUND

PT. Selamat Sempurna. Tbk. (SMSM) is the flagship of ADR Group which focus on automotive parts industry, its activities including production and distribution of automotive parts and components. SMSM is the largest filter manufacturer in the region with the most comprehensive range of products. SMSM has more than 7,000 parts, which is viewed as the most exhaustive filter and radiator manufacturers. The products are distributed to more than 115 countries worldwide with Trademark Registration in more than 90 countries. SMSM has been focusing in aftermarket sales which contributed to 90% of its revenue (Pefindo 2015). Outside the filter and radiator, SMSM also produce other automotive components such as oil coolers, condensers, brake pipes, fuel pipes, fuel tanks, exhaust systems, and press parts. SMSM has been listed as a public company since 1996, and now is listed in the Indonesia Stock Exchange (PT. Selamat Sempurna, Tbk. 2018).

SMSM also has numbers of subsidiaries that supporting its businesses, having numbers of subsidiaries was part of their business to strengthening their integrative value chain. SMSM has distributors companies as well as manufacturers companies, many of them are a joint venture company. For example, SMSM owns a 70% share in PT Panata Jaya Mandiri, and also owns a 15% share in PT POSCO IJPC, a joint venture company with Posco and Daewoo International Corporation, Korea. SMSM owns a 33% share in PT Tokyo Radiator Selamat Sempurna, a joint venture company with Tokyo Radiator Manufacturing Co.Ltd.. Japan (PT. Selamat Sempurna, Tbk. 2018).

Business Prospect

Due to its strong market penetration in global market, covering more than 115 countries, SMSM has strong market penetration in North America, Asia, Western Europe, South America, and Eastern Europe. With extensive products and wide applications in many industries, including and not limited to automotive, construction, mining, marine, and agriculture. SMSM has sustainable market demand and growth in domestic and global market. The extensive products and the wide applications are the keys for SMSM competitive advantage. Currently all flagship SMSM products are have good quality and well recognized by the market, the products not only for aftermarket segment but also for original equipment manufacturers (OEM) segments and original equipment suppliers (OES) segments (Pefindo 2015).

PT. Selamat Sempurna, Tbk. has diversified global market which make them not to rely heavily on certain market region, this is due to SMSM's market diversification strategy. With this diversified export market, SMSM has an advantage from any downside risk occurring in certain geographic areas. In domestic, SMSM has prospect due to government policies and commitment to accelerate infrastructure development such as: roads, bridges, toll roads, ports, etc. that will accelerate the growth of

automotive industry (Pefindo 2015).

Industry and Competition

SMSM is categorized as a company in Auto Parts industry. Company main business is automotive filtration system. SMSM has widely recognized as 'king' of filter, market leader in region, and its second major product is automotive radiator. For filter and radiator products, SMSM facing competition from local manufacturer in Indonesia such as Denso, Buanatama, Three Star, HRL etc, meanwhile in each exporting country, SMSM also facing competitor from its country local manufacturer and global player such as Donaldson, Clarcor, Cummins, etc. The Auto Parts industry prospect closely related to Automotive industry, meanwhile Automotive industry also related to GDP growth of each country (Indonesia Investment 2018).

SPECIFIC AREA OF INTEREST

The valuation and business assessment process of this case study are conducted from investors point of view who want to assess the attractiveness of investment in PT. Selamat Sempurna, Tbk. Therefore, the analysis is more on the external point of view of the company under study, which rely on the study of company annual report, financial report, business model, and business trends from various news and research. The major internal company business strategies in the future are analyzed based on annual report, corporate announcement, and other 3rd party analysis, there are no information from the insider. This applied also for peer's companies under study.

The valuation and competitive advantage results will not only useful for investors who want to buy the entire business, but also for the investors who want to buy company individual share, and even the result can be useful for investors who want to enter similar business. What investors should be noted that since the valuation of company mostly focused on the mechanical aspects of financial analysis, the valuation mechanic is only one of many approach that can't effectively capture whole company valuation, which need looking at beyond mechanical modelling. Many non-financial factors that probably drives valuation are not captured on the financial statements.

Before entering step-by-step valuation process, knowing the company overall strategy and industry condition are essential information. To analyze the external factors, PESTEL analysis and Porter's 5-Forces analysis will be conducted, meanwhile to analyze the internal factors, author study the industry value chain and Diamond Strategy framework for company internal strategy analysis.

External Factors Analysis

Based on PESTEL analysis, numbers of potential growth arise due to political, economic, and social factor in Indonesia. For example in political factor, trade war between US and China potentially open the market to both countries from Indonesia. From economic perspective, stable GDP growth increase customer purchase power. Meanwhile, from social perspective the combination of growing population, increasing middle-income class population and low passenger vehicle ownership provide high potential automotive sales (Scherer, et al. 2016). However, numbers of challenges also exist which are come from technology, environment, and legal factor. The development of electric vehicle is strong sign for the continuity of automotive filtration system which won't be used by electric vehicle anymore (Anand 2017). Environment factor especially the trend of low emission engine, renewable energy, etc. will drive players within automotive industry value chain to taking into account those trend on their strategy and development plan. From legal perspective, strict emission compliance has been forced among developed countries and should be followed by the rest of developing countries in years to come.

Porter's 5 Forces analysis for PT. Selamat Sempurna, Tbk. provides additional insight about the company position among the industry ecosystem. SMSM has relatively strong pressure from threats of new entrants, threats of substitution, and bargaining power of buyer. New entrants potentially come from counterfeit products (PT. Selamat Sempurna, Tbk. 2018) and new technology advancement, while the substitution would come from the development of electric vehicle which threatening filtration system business. Buyers tend to prefer cheap products and there are numerous automotive parts suppliers in the market. However, since the automotive parts industry is highly fragmented, SMSM would still have confidence to pushing their filter products to both domestic and global market since they already has committed buyers and good range of quality products.

Internal Factors Analysis

Based on the industry value chain, SMSM is on the Parts Manufacturers chain especially on Automotive Suppliers, for all its products filter, radiator, etc. SMSM also has many subsidiaries who act as an Independent Distributors which support SMSM Vertical Integration strategy. By using Diamond Strategy framework, it seems that SMSM business arena is specific for automotive parts manufacturer, targeting both B2B and B2C customers. Their market geographic area is worldwide, compete with other global manufacturer everywhere. Their "vehicles" to compete globally are by continuously develop quality product,

including having technical assistance from industry expert. And to pursue vertical integration strategy, SMSM acquire distributor companies to distribute and sell their product, reduce their external transaction cost.

SPECIFIC PROBLEM

There are three main parts to address the problem in this case study: Financial Performance Analysis, Business Valuation, and Competitive Advantage Assessment. On Financial Performance Analysis, SMSM historical financial performance is compared (10 years financial data, 2008 – 2017) and comparing it with its peers, also Global Auto Parts industry. In Business Valuation section, deep valuation on SMSM using three valuation method of Greenwald's will be conducted. Third section will qualitatively assess SMSM Competitive Advantage.

Financial Performance Summary

SMSM Gross Profit and Operating Income consistently grow in the last 10 years (2008 – 2017). An indication that SMSM doing well on selling its product and capture market. Meanwhile, SMSM stock prices also consistently increase since 2008, an indication that the investors actually trust the company performance and management. SMSM profitability ratios in Year 2017 was superior than its peers and industry median. With higher Gross Margin means that they have lower COGS compare to the industry, thanks to its Vertical Integration business strategy that make them efficiently manage cost across industry value chain. High Operating Margin gives indication that they have efficient operating expenses, lower SG&A expense to sell their products. Low debt obligations also contribute to their high Net Profit Margin due to low interest expenses. Those leads to higher ROE relative to its peers.

Valuation of PT. Selamat Sempurna, Tbk.

In this section, SMSM is valued using three methods, all of them are based on Greenwald's valuation method. EPV and Total Value use same parameter such as Weighted Average Cost of Capital (WACC)*, 11.37% (with Debt / (Debt + Equity) ratio is 5.89%) and also calculated using general simple Cost of Capital 8%, 10%, and 12% for sensitivity analysis.

Valuation Based on Reproduction Value

To determine SMSM intrinsic value, Reproduction Value is used instead of Liquidation Value since SMSM is a company in going-concern which still productive for long-time in the future (result of external and internal factors analysis). Therefore, to determine this value, beside the Tangible Asset that appear in Balance Sheet, the Intangible Asset that make the company running, acquire customer, and getting profitable until now also has to be considered (Greenwald, Kahn and Sonkin, et al. 2001). In Reproduction Value, the cost R&D[†], Operating Expenses, and SG&A can be taken into account since those cost contribute to company ability to acquire customer and sell their product by the efforts of their product development, creating sustainable business process, also sales and marketing promotion couple of years back (common approach is to consider 3 years cost).

The other accounts that have to be considered are Spontaneous Liabilities (Non-Interest-Bearing Debt) and Cash in Excess. Spontaneous Liabilities usually consist of Accounts Payable, Current Accrued Expense, and Current Deferred Taxes Liabilities, meanwhile Cash in Excess is calculated by subtracting Cash & Cash Equivalents with Operating Cost.

Then Total Net Reproduction Value can be calculated by adding R&D, Operating Expenses and SG&A cost for three years and subtract with Spontaneous Liabilities and Cash in Excess. Total Net Reproduction Value arrive at **IDR3.150.441 million** which means that any investor that want to build similar company today with the same capability need to spend around ~IDR 3 trillion. it is also considered as SMSM's Brand Value. If investor want to purchase SMSM individual share, the value should be comparable with equity market value. Therefore, in order to refer to equity portion of SMSM, Reproduction Value should be subtracted by Total Debt and Minority Interest to arrive at the Asset Value. Divided by outstanding share 5,759 million, the Asset Value / Share is around **IDR488 / share**.

Valuation Based on Earning Power Value

The second Greenwald's valuation method is Earning Power Value which emphasize on Income Statement analysis. EPV calculation requires estimating adjusted Net Income by adding back R&D and SG&A to the Operating Income and add back Depreciation & Amortization to Operating Income after tax and then subtracting it with Maintenance CAPEX. The reason why R&D need to be added back to the Operating Income is because it could contribute to growth, as well as SG&A which also part of effort to acquire customers and revenue (Greenwald, Kahn and Sonkin, et al. 2001). But before that, the Operating Income should be adjusted for the calculation to filter out effect of business cycle and other transition effect, by finding the normalized

* Using Capital Asset Pricing Model (CAPM)

† SMSM don't have R&D expenses reported on their financial statement

Operating Income as percentage of Revenue. Using 5-year median, the operating income is near 20% of Revenue, these ratios then will be used to calculate normalized Operating Income.

The Earning Power Value (EPV) for Business Operations then can be calculated by multiply adjusted Net Income to WACC. From EPV Business Operations, EPV Enterprise is calculated by adding excess cash which represent the value of entire company as a whole which is appropriate figure for investor who want to buy company's entire business. For investor who want to buy individual share, EPV Equity is needed to compare it with market value. To arrive at EPV Equity, EPV should be assumed that all the capital is consist of Equity, therefore Debt and Minority Interest should be subtracted from EPV Enterprise. To get per share equity price, EPV Equity should be divided by outstanding share, which then can be compared directly with per share market price.

EPV Enterprise is **IDR4,987,375 million** in 2017 above previous Reproduction Value **IDR3.150.441 million**. The difference between the two indicate that SMSM has Franchise Value as consequences of having Competitive Advantage and / or superior management. This finding also provides additional prove from valuation side to the SMSM long-time outstanding Financial Performance. In other side, Franchise Value of IDR1,836,934 millions give signal for New Entrants that there is an opportunity to enter similar SMSM business and capture that value.

Valuation Based on Growth

Based on the two previous valuation method, SMSM has been proved to have Franchise Value supposed to be supported by strong Competitive Advantage and / or Superior Management. Therefore, the next valuation based on Greenwald's method should be continued. To be able to estimate Total Value, these variables are needed: Cost of Capital (WACC) 11.37%, Return on Invested Capital (ROIC) 29.08% from year 2017, and estimated long-run growth. For the growth, Prof. Greenwald suggests using long-run company growth, not short-term growth (Greenwald, Kahn and Sonkin, et al. 2001), and for this purpose author use median long-run of Indonesian GDP growth 5.78% with assumptions that company in the future growth will revert to the same level with GDP growth.

By using Greenwald's formula, SMSM Total Value is calculated around **IDR8,128,485 million** and above EPV Enterprise which means that SMSM grow within Franchise Value, the growth potential of SMSM eventually will add value to the company and worth to be considered by investors, due to higher ROIC compare to its WACC. The Growth for long-run also should not more than WACC, because every growth above WACC will need additional investment or Capital and it can destroy value as well. If Total Value less than EPV, investor should use EPV as their reference value. Comparing EPV with Reproduction Value will provide insight and estimation of company competitive advantage, and SMSM Total Value that is greater than its Earning Power Value give strong justification that taking into account the growth factor certainly worth to be considered since the value of growth is good for overall company valuation.

For investors who convenience with modern approach that consider the growth, buying SMSM in its Total Value certainly worth to consider. If they want to buy entire business, refer to its Enterprise Value IDR8,128,485 million, and for who want to purchase individual share can refer to Equity Value per Share **IDR1,315 / share** which exclude the debt value.

Table 1. SMSM Valuation per Share Based on Various Method (WACC), 2017

IDR	Reproduction Value	EP Value	Total Value	DCF - FCFE
Enterprise Value (mn)	3,150,441	4,987,375	8,128,485	8,280,091
Equity Value (mn)	2,808,162	4,645,096	7,570,635	7,937,812
Equity Value per Share	488	807	1,315	1,378

Source: Internal Analysis, 2018

Competitive Advantage Assessment of PT. Selamat Sempurna. Tbk.

Based on Prof. Greenwald, there are only three sources of Competitive Advantage that company can possess: Supply Advantage, Demand Advantage, and Economics of Scale Advantage (Greenwald and Kahn, Competition Demystified: A Radically Simplified Approach to Business Strategy 2005). In Supply Advantage, SMSM has advantage on intangible assets and network economics, SMSM already has vast experience and knowledge for 45 years which also supported by special Technical Assistance from well-known company, while SMSM wide official distribution networks in many countries worldwide strengthening their network economics.

In the Demand Advantage, SMSM got advantage from high switching cost of their customers to find other complimentary

products, thanks to their high quality and very comprehensive lists of filter products and its parts. In the Economics of Scale Advantage, SMSM large product facility enable them to lower the cost of production and take the benefit of economics of scale since their fixed cost won't require necessary improvement if they increase their productions.

ALTERNATIVES

Greenwald's valuation framework is best to estimate the value of company which has stable and predictable business cycle, like SMSM. The other alternative to conduct valuation is using Discounted Cash Flow (DCF), see also on Table 1. The DCF which rely on growth assumptions can substitute Total Value formula from Greenwald. And for competitive advantage 'Moat' assessment there is other framework from Pat Dorsey on his book 'Little Book that Builds Wealth' that can be used as an alternative of Greenwald's method.

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EXHIBIT 1. SMSM Income Statement 2013 – 2017

in million IDR	2017	2016	2015	2014	2013
Revenue	3,339,964	2,879,876	2,802,924	2,632,860	2,381,889
Cost of Goods Sold	2,344,099	1,957,159	1,933,387	1,847,700	1,737,847
Gross Profit	995,865	922,717	869,537	785,160	644,042
SG&A Expense	47,240	49,926	288,833	236,213	220,331
Research & Development	-	-	-	-	-
Other Operating Expense	269,244	242,306	(84)	(2,117)	(68,589)
Operating Income	679,381	630,485	580,788	551,064	492,300
Interest Income	762	1,647	2,101	-	-
Interest Expense	(7,239)	(12,526)	(22,575)	(25,352)	(27,059)
Net Interest Income	(6,369)	(12,036)	(21,140)	(23,547)	(27,059)
Other Income (Expense)	47,626	39,759	24,069	14,511	(4,098)
Other Income (Minority Interest)	(55,958)	(49,307)	(33,679)	(30,392)	(12,555)
Pre-Tax Income	720,638	658,208	583,717	542,028	461,143
Tax Provision	(165,250)	(156,016)	(122,410)	(119,902)	(108,442)
Net Income (Continuing Ops.)	555,388	502,192	461,307	421,095	352,701
Net Income (Disc. Ops.)	-	-	-	-	-
Net Income	499,430	452,885	427,628	390,703	338,223
Preferred Dividends	-	-	-	-	-
EPS (Basic)	87	79	74	68	54
EPS (Diluted)	87	79	74	68	54
Shares Outs. (Diluted Avg.)	5,759	5,759	5,759	5,760	5,760
Depreciation. Depletion & Amortization	14,090	12,113	-	-	-
EBITDA	741,967	682,847	606,292	567,380	492,300

Source: *GuruFocus, 2018*

EXHIBIT 1 (continue). SMSM Income Statement 2008 – 2012

in million IDR	2012	2011	2010	2009	2008
Revenue	2,269,290	2,072,441	1,561,787	1,374,652	1,353,586
Cost of Goods Sold	1,669,290	1,570,274	1,192,997	1,058,387	1,024,832
Gross Profit	600,000	502,167	368,790	316,265	328,754
SG&A Expense	211,150	173,675	140,944	126,486	115,807
Research & Development	-	-	-	-	-
Other Operating Expense	(10,721)	(0)	-	-	-
Operating Income	399,571	328,493	227,845	189,779	212,947
Interest Income	2,293	1,831	1,603	1,948	1,523
Interest Expense	(29,597)	(31,469)	(23,830)	(9,206)	(59,177)
Net Interest Income	(28,751)	(21,196)	(26,952)	5,518	(49,418)
Other Income (Expense)	(1,133)	2,347	3,871	(9,436)	(19,906)
Other Income (Minority Interest)	(32,294)	(29,330)	14,429	(10,101)	10,034
Pre-Tax Income	369,688	309,644	204,765	185,861	143,624
Tax Provision	(82,758)	(68,068)	(39,915)	(42,910)	(42,118)
Net Income (Continuing Ops.)	286,929	241,576	150,420	142,952	91,472
Net Income (Disc. Ops.)	-	-	-	-	-
Net Income	254,635	212,246	164,850	132,850	101,505
Preferred Dividends	-	-	-	-	-
EPS (Basic)	44	37	26	23	16
EPS (Diluted)	44	37	26	23	16
Shares Outs. (Diluted Avg.)	5,759	5,759	5,759	5,759	5,759
Depreciation. Depletion & Amortization	-	-	-	-	-
EBITDA	399,571	341,112	228,594	195,068	202,800

Source: *GuruFocus, 2018*

EXHIBIT 2. SMSM Balance Sheet (Assets) 2013 – 2017

in million IDR	2017	2016	2015	2014	2013
Assets					
Cash And Cash Equivalents	71,000	96,510	122,963	75,860	94,808
Marketable Securities	-	-	-	-	-
Cash. Cash Equivalents. Marketable Securities	71,000	96,510	122,963	75,860	94,808
Accounts Receivable	767,169	728,221	599,855	561,344	546,502
Notes Receivable	-	-	-	-	-
Other Current Receivables	-	-	-	-	-
Total Receivables	767,169	728,221	599,855	561,344	546,502
Inventories. Raw Materials & Components	362,682	295,624	348,731	283,524	-
Inventories. Work In Process	35,026	29,133	22,781	25,825	-
Inventories. Inventories Adjustments	(10,770)	(6,411)	(4,729)	(3,851)	-
Inventories. Finished Goods	226,330	202,264	182,610	119,629	-
Inventories. Other	43,989	34,731	11,362	6,900	401,681
Total Inventories	657,257	555,341	560,755	432,027	401,681
Other Current Assets	74,684	74,315	84,985	64,499	65,066
Total Current Assets	1,570,110	1,454,387	1,368,558	1,133,730	1,108,057
Investments And Advances	-	-	-	-	-
Land And Improvements	226,721	215,914	221,048	92,899	92,341
Buildings And Improvements	265,936	253,828	257,074	171,057	170,689
Machinery. Furniture. Equipment	1,661,645	1,552,513	1,506,412	1,396,642	1,299,676
Construction In Progress	58,947	83,067	143,119	27,433	23,834
Other Gross PPE	-	-	-	-	-
Gross Property. Plant and Equipment	2,213,249	2,105,322	2,127,653	1,688,031	1,586,540
Accumulated Depreciation	(1,496,165)	(1,383,956)	(1,291,622)	(1,195,134)	(1,093,853)
Property. Plant and Equipment	717,084	721,366	836,031	492,897	492,687
Intangible Assets	5,874	-	-	-	-
Goodwill	-	-	-	-	-
Other Long Term Assets	150,273	78,987	15,519	131,007	117,113
Total Assets	2,443,341	2,254,740	2,220,108	1,757,634	1,717,857

Source: *GuruFocus, 2018*

EXHIBIT 2 (continue). SMSM Balance Sheet (Assets) 2008 – 2012

in million IDR	2012	2011	2010	2009	2008
Assets					
Cash And Cash Equivalents	66,156	22,681	14,305	8,680	13,616
Marketable Securities	-	-	-	-	-
Cash. Cash Equivalents. Marketable Securities	66,156	22,681	14,305	8,680	13,616
Accounts Receivable	463,411	416,752	313,677	229,395	243,398
Notes Receivable	-	-	-	-	-
Other Current Receivables	-	-	-	-	-
Total Receivables	463,411	416,752	313,677	229,395	243,398
Inventories. Raw Materials & Components	315,337	299,945	229,962	195,619	220,982
Inventories. Work In Process	26,936	20,128	9,058	9,246	7,424
Inventories. Inventories Adjustments	(3,516)	(3,832)	(2,343)	(1,756)	(2,331)
Inventories. Finished Goods	90,332	99,562	70,366	51,821	60,295
Inventories. Other	-	10,950	(0)	-	0
Total Inventories	429,089	426,754	307,044	254,929	286,370
Other Current Assets	35,846	38,269	26,672	81,886	11,831
Total Current Assets	994,502	904,456	661,698	574,890	555,215
Investments And Advances	-	-	-	-	-
Land And Improvements	86,171	82,938	50,333	50,333	50,333
Buildings And Improvements	165,087	163,525	111,342	105,183	100,847
Machinery. Furniture. Equipment	1,231,402	1,128,293	886,707	793,354	731,521

Construction In Progress	30,937	17,919	13,406	4,585	13,273
Other Gross PPE	-	-	-	0	0
Gross Property. Plant and Equipment	1,513,597	1,392,675	1,061,788	953,455	895,973
Accumulated Depreciation	(991,106)	(874,493)	(684,993)	(612,091)	(537,478)
Property. Plant and Equipment	522,491	518,182	376,795	341,364	358,495
Intangible Assets	-	-	-	-	-
Goodwill	-	-	-	-	-
Other Long Term Assets	48,191	22,637	28,610	25,397	16,044
Total Assets	1,565,184	1,445,275	1,067,103	941,651	929,753

Source: *GuruFocus, 2018*

EXHIBIT 3. SMSM Cash Flow Statement, 2013 – 2017

in million IDR	2017	2016	2015	2014	2013
Receipts from Customers	3,637,062	3,042,662	2,955,753	2,881,339	2,530,116
Receipts from Government Grants	-	-	-	-	-
Other Cash Receipts from Operating Activities	3,815	-	17,304	19,640	38,848
Cash Receipts from Operating Activities	3,640,877	3,042,662	2,973,057	2,900,979	2,568,964
Payments to Suppliers for Goods and Services	(2,307,861)	(1,719,384)	(1,672,029)	(1,758,539)	(1,517,109)
Payments on Behalf of Employees	(569,550)	(498,439)	(432,109)	(387,886)	(352,070)
Other Cash Payments from Operating Activities	(144,056)	(94,563)	(163,028)	(144,415)	(130,164)
Cash Payments	(3,021,467)	(2,312,386)	(2,267,166)	(2,290,840)	(1,999,343)
Dividends Paid	-	-	-	-	-
Dividends Received	-	-	-	-	-
Interest Paid	(9,624)	(15,815)	(27,671)	(29,164)	(31,840)
Interest Received	3,247	3,402	4,280	4,922	3,252
Taxes Refund Paid	(167,001)	(135,020)	(150,513)	-	-
Cash Flow from Others	-	-	-	(136,033)	(93,001)
Cash Flow from Operations	446,032	582,843	531,987	449,864	448,032
Purchase Of Property. Plant. Equipment	(98,733)	(74,008)	(96,374)	(113,324)	(152,155)
Sale Of Property. Plant. Equipment	2,835	5,950	4,307	4,062	10,359
Purchase Of Business	-	(44,000)	(155,403)	(10,499)	-
Sale Of Business	-	-	-	-	-
Purchase Of Investment	-	-	(10,956)	-	(100,991)
Sale Of Investment	-	-	-	-	-
Net Intangibles Purchase And Sale	(5,874)	-	-	-	-
Cash From Discontinued Investing Activities	-	-	-	-	-
Cash From Other Investing Activities	(17)	(15,694)	(927)	(23,184)	35,775
Cash Flow from Investing	(101,789)	(127,752)	(259,353)	(142,945)	(207,012)
Issuance of Stock	-	-	-	-	-
Repurchase of Stock	-	-	-	-	-
Net Issuance of Preferred Stock	-	-	-	-	-
Net Issuance of Debt	(52,942)	(161,561)	(13,938)	(67,762)	25,610
Cash Flow for Dividends	(287,934)	(280,734)	(179,959)	(223,149)	(122,372)
Other Financing	(28,989)	(40,190)	(33,034)	(35,235)	(116,180)
Cash Flow from Financing	(369,865)	(482,485)	(226,931)	(326,146)	(212,942)
Net Change in Cash	(25,622)	(27,394)	45,703	(19,227)	28,078
Capital Expenditure	(104,607)	(74,008)	(96,374)	(113,324)	(152,155)
Free Cash Flow	341,425	508,835	435,613	336,540	295,877

Source: *GuruFocus, 2018*

EXHIBIT 3 (Continue). SMSM Cash Flow Statement, 2008 – 2012

in million IDR	2012	2011	2010	2009	2008
Receipts from Customers	2,457,220	2,011,301	1,520,803	1,339,705	1,317,591
Receipts from Government Grants	-	-	-	-	-
Other Cash Receipts from Operating Activities	41,346	2,278	308	(9,088)	(565)
Cash Receipts from Operating Activities	2,498,565	2,013,579	1,521,111	1,330,617	1,317,026
Payments to Suppliers for Goods and Services	(1,536,088)	(1,587,622)	(1,244,416)	(906,190)	(1,031,066)
Payments on Behalf of Employees	(328,411)	-	-	-	-
Other Cash Payments from Operating Activities	(111,461)	(128,190)	(80,716)	(87,150)	(52,130)
Cash Payments	(1,975,960)	(1,715,812)	(1,325,132)	(993,339)	(1,083,196)
Dividends Paid	-	-	-	-	-
Dividends Received	-	-	-	-	-
Interest Paid	(30,498)	(24,153)	(18,772)	(8,937)	(58,901)
Interest Received	2,355	1,831	1,603	1,948	1,523
Taxes Refund Paid	(84,836)	(56,080)	(33,715)	(62,218)	-
Cash Flow from Others	1,418	24,153	0	0	(45,757)
Cash Flow from Operations	411,045	243,517	145,095	268,070	130,695
Purchase Of Property. Plant. Equipment	(117,006)	(129,964)	(118,651)	(62,223)	(107,219)
Sale Of Property. Plant. Equipment	2,692	2,663	913	621	150
Purchase Of Business	-	-	-	-	-
Sale Of Business	-	-	-	-	-
Purchase Of Investment	(150,610)	-	(3,873)	-	-
Sale Of Investment	-	-	2,012	514	-
Net Intangibles Purchase And Sale	-	-	-	-	-
Cash From Discontinued Investing Activities	-	-	-	-	-
Cash From Other Investing Activities	(1,079)	(0)	(0)	0	-
Cash Flow from Investing	(266,004)	(127,301)	(119,599)	(61,088)	(107,069)
Issuance of Stock	60,051	-	-	-	-
Repurchase of Stock	-	-	-	-	-
Net Issuance of Preferred Stock	-	-	-	-	-
Net Issuance of Debt	62,427	(2,522)	115,192	(26,110)	9,875
Cash Flow for Dividends	(187,157)	(124,474)	(129,570)	(179,959)	(28,793)
Other Financing	(40,066)	6,000	(11,700)	(5,850)	-
Cash Flow from Financing	(104,746)	(120,996)	(26,078)	(211,919)	(18,918)
Net Change in Cash	40,295	(4,780)	(582)	(4,936)	4,708
Capital Expenditure	(117,006)	(129,964)	(118,651)	(62,223)	(107,219)
Free Cash Flow	294,039	113,553	26,443	205,847	23,476

Source: GuruFocus, 2018

EXHIBIT 4. SMSM Financial Performance Analysis vs Peers[‡], History, and Industry

Financial Liquidity				
SMSM	Year 2017	Peers Median	History Median	Industry Median
Current Ratio	3.74	1.38	2.14	1.52
Cash Ratio	0.17	0.21	0.14	N/A
Acid-test Ratio (Quick Ratio)	2.17	0.97	1.32	1.08
Operational Effectiveness				
SMSM	Year 2017	Peers Median	History Median	Industry Median
Days Sales of Inventory	94.41	86.87	93.34	61.24
Days Sales Outstanding	81.71	46.49	75.61	64.43

[‡] Peers on Auto Parts industry based on Gurufocus classification. consist of: SMSM. AUTO. ASII. INDS. MASA. and NIPS.

Days Payable Outstanding	32.83	34.97	28.22	61.95
Cash Conversion Cycle	143.28	103.06	140.71	N/A

Financial Strength

SMSM	Year 2017	Peers Median	History Median	Industry Median
Cash to Debt	0.67	0.26	0.23	0.53
Equity to Asset	0.65	0.55	0.54	0.48
Debt to EBITDA	0.14	1.85	0.59	2.49
DER (Debt to Equity Ratio)	0.07	0.45	0.30	0.51
Interest Coverage Ratio	93.85	8.74	19.40	16.92

Profitability

SMSM	Year 2017	Peers Median	History Median	Industry Median
Gross Margin	29.82%	17.82%	26.74%	20.07%
EBITDA Margin	22.21%	12.00%	19.14%	N/A
Operating Margin	20.34%	9.49%	18.97%	5.90%
Net Profit Margin	14.95%	8.92%	12.71%	3.84%
ROE (Return on Equity)	33.64%	14.75%	33.92%	8.97%
ROA (Return on Assets)	21.49%	9.10%	20.66%	4.09%
ROIC	29.08%	9.63%	28.91%	N/A

Source: Gurufocus and Internal Analysis, 2018

*Industry Median from Gurufocus, accessed on 26 November 2018

EXHIBIT 4 (continue). SMSM Financial Performance Analysis vs Peers, History, and Industry

Company Growth

SMSM	Growth 10Y	Growth 5Y	Growth 3Y	Industry Growth 3Y
Revenue	10.56%	8.82%	9.16%	3.80%
Operating Income	13.76%	8.39%	8.16%	N/A
Net Income	19.37%	10.23%	8.07%	N/A
EPS (Diluted)	20.70%	12.93%	8.43%	N/A
EBITDA	15.50%	10.80%	10.62%	6.70%
Free Cash Flow	34.64%	3.64%	-11.47%	N/A

Market Ratio

SMSM	Year 2017	Peers Median	History Median	Industry Median
PER (Price to Earnings Ratio)	14.47	12.67	13.09	15.55
PBV (Price to Book Value Ratio)	4.54	1.43	4.32	1.45
Price-to-Sales Ratio	2.16	0.96	1.75	0.78
Price-to-FCF Ratio	21.17	3.95	17.02	17.77
EV/EBITDA	10.11	11.41	9.31	9.72

Return on Equity Analysis

SMSM	Year 2017	Peers Median	History Median	Industry Median
ROE	33.64%	14.75%	33.92%	8.97%
Net Profit Margin	14.95%	8.92%	12.71%	3.84%
Asset Turnover	142.18%	99.19%	146.91%	N/A
Financial Leverage Multiplier	1.58	1.80	1.91	N/A

ROE for Auto Parts Industry in Indonesia

Latest Year	ROE	Net Profit Margin	Asset Turnover	Financial Leverage
SMSM	33.64%	14.95%	142.18%	1.58
AUTO	5.72%	4.07%	92.26%	1.52
ASII	16.03%	9.16%	73.92%	2.37
INDS	5.42%	5.77%	80.13%	1.17

MASA	-2.42%	-2.87%	44.34%	1.90
NIPS	5.12%	4.10%	58.60%	2.13

Source: Gurufocus and Internal Analysis, 2018

*Industry Median from Gurufocus, accessed on 26 November 2018

EXHIBIT 5. Financial Ratios Formula

Ratios	Description
PROFITABILITY RATIOS	
Gross margin	$(\text{Revenue} - \text{COGS}) / \text{Revenue}$
EBITDA margin	$\text{EBITDA} / \text{Revenue}$
Operating margin	$\text{Operating income} / \text{Revenue}$
Net profit margin	$\text{Net income} / \text{Revenue}$
ROE (Return on Equity)	$\text{Net income} / \text{Average Stockholder's Equity}$
ROA (Return on Assets)	$\text{EBIT} / \text{Average Total Assets}$
ROIC (Return on Invested Capital)	$(\text{EBIT} \times (1 - \text{Tax Rate})) / \text{Average Invested Capital}$ *Invested Capital = Operating Capital = Book Value of Debt + Book Value of Equity + Minority Interest - Goodwill - Cash
LIQUIDITY RATIOS	
Days Sales of Inventory (DSI)	$\text{Average Total Inventories} / \text{Cost of Goods Sold} * 365$
Days Sales Outstanding (DSO)	$\text{Average Account Receivables} / \text{Revenue} * 365$
Days Payable Outstanding (DPO)	$\text{Average Acct. Payable} / (\text{COGS} + \text{Change in Inventory}) * 365$
Cash Conversion Cycle	$\text{DSI} + \text{DSO} - \text{DPO}$
LIQUIDITY RATIOS	
Current ratio	$\text{Current Assets} / \text{Current Liabilities}$
Cash ratio	$(\text{Cash and Marketable Securities}) / \text{Current Liabilities}$
Quick ratio	$(\text{Current assets} - \text{Inventory}) / \text{Current Liabilities}$
DEBT RATIOS	
Cash to Debt	$(\text{Cash and Marketable Securities}) / \text{Total Debt}$
Equity to Asset	$\text{Total Stockholder's Equity} / \text{Total Assets}$
Debt to EBITDA	$\text{Total Debt} / \text{EBITDA}$
Debt to Equity	$\text{Total Debt} / \text{Stockholder's equity}$
Interest Coverage	$\text{Operating income} / \text{Interest expense}$
MARKET RATIOS	
P / E Ratio	$\text{Share Price} / \text{EPS or Market Cap} / \text{Net Income}$
P / BV Ratio	$\text{Share Price} / \text{Book Value per Share or Market Cap} / (\text{Total Stockholder's Equity} - \text{Preferred Stock})$
P / S Ratio	$\text{Share Price} / \text{Revenue per Share or Market Cap} / \text{Revenue}$
P / FCF Ratio	$\text{Share Price} / \text{Free Cash Flow per Share or Market Cap} / \text{Free Cash Flo}$
EV / EBITDA	$\text{Enterprise Value} / \text{EBITDA}$

Source: GuruFocus, FSA Note, and Corporate Finance Institute

EXHIBIT 6. Various Equity Value per Share and Enterprise Value

Various Equity Value per Share for Auto Parts Companies in Indonesia, 2017

	SMSM	AUTO	ASII	INDS	MASA	NIPS
WACC	11.37%	11.39%	11.13%	11.39%	14.97%	11.12%
Asset Value	488	3,143	4,826	3,702	510	782
EPV	807	1,272	3,531	1,759	(458)	5,666
Total Value	1,315	N/A	N/A	N/A	N/A	N/A
DCF - FCFF	1,378	(476)	3,961	1,025	89	(8,123)
Fair Value	1,315	3,143	4,826	3,702	510	5,666
Market Price [§]	1,430	1,475	8,550	2,410	715	398

Source: Gurufocus and Internal Analysis, 2018

Various Enterprise Value for Auto Parts Companies in Indonesia, 2017

in million IDR	SMSM	AUTO	ASII	INDS	MASA	NIPS
WACC	11.37%	11.39%	11.13%	11.39%	14.97%	11.12%
Asset Value	3,150,441	16,862,241	303,019,239	2,518,310	6,793,125	1,863,543
EPV	4,987,375	7,842,552	250,605,048	1,243,296	(2,094,468)	9,850,058
Total Value	8,128,485	N/A	N/A	N/A	N/A	N/A
DCF - FCFF	8,280,091	(580,756)	268,038,094	761,982	2,927,040	(12,699,794)
Fair Value (Greenwald's Method)	8,128,485	16,862,241	303,019,239	2,518,310	6,793,125	9,850,058

Source: Gurufocus and Internal Analysis, 2018

[§] Per November 30th, 2018