



### INARI AMERTRON BERHAD

### Outperform

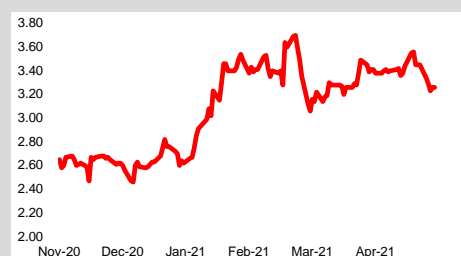
#### DESCRIPTION

Leading outsourced semiconductor assembly and test (OSAT) provider to well known multinational and local electronics product manufacturers in the region.

12-Month Target Price	RM4.40
Current Price	RM3.26
Expected Return	35.0%

Market	Main
Sector	Technology
Bursa Code	0266
Bloomberg Ticker	INRI MK
Shariah-Compliant	Yes

#### SHARE PRICE CHART



52 Week Range (RM)	RM1.35 – RM3.75
3-Month Average Vol ('000)	17,255.2

#### SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	-3.8	-5.9	23.6
Relative Returns	-3.1	-6.6	17.1

#### KEY STOCK DATA

Market Capitalisation (RMm)	10,894.1
No. of Shares (m)	3,341.8

#### MAJOR SHAREHOLDERS

	%
Insas Bhd	15.8
KWAP	10.4
EPF	9.0

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## Raising Fresh Funds

Inari has proposed to undertake a private placement of up to 10% of its total shares issued, which entails an issuance of up to 333m shares. This exercise could raise up to RM1.065bn, based on an indicative issue price of RM3.20 per share. The new shares are to be issued to third party investors. Bulk of the proceeds will be utilized for capex, investments as well as potential M&As. We are positive on this move, as the proceeds raised would put Inari in a better position to negotiate with potential clients and also allowing the Group to further expand and benefit from the current upcycle caused by global chip shortage. However, the exercise will have a dilutive effect on immediate year EPS forecast. On a fully-diluted basis (including ESOS options), the impact to EPS is expected to be about -11% while our TP would be lowered to RM3.88. We make no changes to our earnings forecasts at this moment, and we maintain our **Outperform** call on Inari with an unchanged TP of RM4.40, implying 45x PE on its CY21F EPS of 9.7sen.

§ **Fresh money of up to RM1.065bn.** Inari plans to issue 333m shares, approximately 10% of its issued share, to be placed out to third party investors, who will be identified on a later date. Based on the indicative price of RM3.20 per share, the exercise should raise up to RM1.065bn worth of gross proceeds. The placement is subjected to Bursa Securities' approval and is expected to complete in 2HCY21.

§ **Use of proceeds.** Out of the entire sum expected to be raised, RM1.049bn (c.94%) will be used for its capex, investment and future potential M&A needs, while the remaining RM16.8m will fund for the expenses related to this placement. Note that prior to securing new clients, Inari might be required to commit to certain investments like installing new equipment to cater for potential customer's needs. Hence the fresh funds raised would put Inari in a more advantageous position during negotiations. We understand that Inari is currently in talks with several MNCs. The proceeds could also be used to further expand its capacity, as well as to acquire or invest in suitable businesses to create strategic synergies.

§ **Our view.** We are positive on this exercise, as we believe this move is necessary for Inari to expand and grow at a faster pace. The current global chips shortage will boost the need for more assembly and testing services; therefore, any investments and capacity expansions will be timely, allowing Inari to ride on and better benefit from the upcycle.

§ **Earnings dilution.** The placement will have a dilutive effect on immediate year EPS forecast and on a fully diluted basis, based on an enlarged share base of 3.765bn shares (including ESOS options of 91.5m and assume fully exercised), the impact to EPS is estimated to be c.11%.

#### KEY FORECAST TABLE

FYE June (RM m)	2019A	2020A	2021F	2022F	2023F	CAGR
Revenue	1,152.9	1,058.0	1,545.7	1,752.8	1,856.1	20.6%
Gross Profit	269.4	216.3	394.1	455.7	491.9	31.5%
Pre-tax Profit	216.2	172.4	330.0	387.3	426.7	35.3%
Net Profit	191.7	156.4	298.6	350.5	386.1	35.1%
EPS (Sen)	5.8	4.7	9.0	10.6	11.7	
P/E (x)	56.8	69.6	36.5	31.1	28.2	
DPS (Sen)	5.2	4.4	7.7	9.0	9.9	
Dividend Yield	1.6	1.3	2.3	2.7	3.0	

Source: Company, PublicInvest Research estimates

**KEY FINANCIAL DATA**
**INCOME STATEMENT DATA**

FYE June (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	1,152.9	1,058.0	1,545.7	1,752.8	1,856.1
Cost of sales	-883.4	-841.7	-1,151.5	-1,297.1	-1,364.2
Gross Profit	269.4	216.3	394.1	455.7	491.9
Other Gains / (Losses)	21.8	26.2	30.9	35.1	37.1
Finance Costs	-1.3	-0.8	-1.6	-1.8	-2.1
Pre-tax Profit	216.2	172.4	330.0	387.3	426.7
Income Tax	-23.9	-15.9	-31.3	-36.8	-40.5
Effective Tax Rate (%)	11.0	9.2	9.5	9.5	9.5
Minorities	-0.6	-0.7	0.0	0.0	0.0
Net Profit	191.7	156.4	298.6	350.5	386.1

**Growth**

Revenue	-16%	-8%	46%	13%	6%
Gross Profit	-26%	-20%	82%	16%	8%
Net Profit	-23%	-18%	91%	17%	10%

Source: Company, PublicInvest Research estimates

**BALANCE SHEET DATA**

FYE Aug (RM m)	2019A	2020A	2021F	2022F	2023F
Property, Plant & Equipment	489.5	479.4	464.5	447.8	428.1
Cash and Cash Equivalents	429.7	594.6	472.9	495.2	550.8
Receivables, deposits and prepayment	233.0	214.4	298.9	334.8	352.7
Other Assets	188.1	175.8	302.6	327.9	339.5
<b>Total Assets</b>	<b>1,340.3</b>	<b>1,464.2</b>	<b>1,539.0</b>	<b>1,605.7</b>	<b>1,671.1</b>
Payables	160.8	199.2	225.2	237.3	242.8
Borrowings	14.9	6.2	12.0	14.0	16.0
Deferred tax	8.6	11.3	11.3	11.3	11.3
Other Liabilities	34.1	38.6	36.8	36.8	36.8
<b>Total Liabilities</b>	<b>218.4</b>	<b>255.2</b>	<b>285.2</b>	<b>299.4</b>	<b>306.9</b>
Shareholders' Equity	1,122.0	1,208.9	1,253.7	1,306.3	1,364.2
<b>Total Equity and Liabilities</b>	<b>1,340.3</b>	<b>1,464.2</b>	<b>1,539.0</b>	<b>1,605.7</b>	<b>1,671.1</b>

Source: Company, PublicInvest Research estimates

**PER SHARE DATA & RATIOS**

FYE Aug	2019A	2020A	2021F	2022F	2023F
Book Value Per Share	0.3	0.3	0.4	0.4	0.4
NTA Per Share	0.3	0.3	0.4	0.4	0.4
EPS (Sen)	5.8	4.7	9.0	10.6	11.7
DPS (Sen)	5.2	4.4	7.7	9.0	9.9
Payout Ratio (%)	89.6	92.9	85.0	85.0	85.0
ROA (%)	14.3	10.7	19.4	21.8	23.1
ROE (%)	17.1	12.9	23.8	26.8	28.3

Source: Company, PublicInvest Research estimates

## **RATING CLASSIFICATION**

### **STOCKS**

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### **SECTOR**

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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