

INARI AMERTRON

(INRI MK EQUITY, INAR.KL)

26 Feb 2021

Making inroads into new areas

HOLD

(Maintained)

Company report

AmInvestment Bank

www.amequities.com.my

03-2036 2333

Rationale for report: Company update

Price **RM3.28**
 Fair Value **RM3.04**
 52-week High/Low **RM3.63/RM0.90**

Key Changes

Fair value **↑**
 EPS **↑**

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,058.0	1,562.8	1,880.0	2,086.7
Core net profit (RM mil)	154.3	272.1	346.4	373.9
FD Core EPS (sen)	4.8	8.2	10.5	11.3
FD Core EPS growth (%)	(28.6)	72.1	27.3	7.9
Consensus Net Profit (RM mil)	-	269.7	323.3	362.3
DPS (sen)	4.4	8.5	9.9	9.9
PE (x)	68.8	40.0	31.4	29.1
EV/EBITDA (x)	39.3	25.6	20.7	18.9
Div yield (%)	1.3	2.6	3.0	3.0
ROE (%)	13.4	22.2	27.0	27.2
Net Gearing (%)	nm	nm	nm	nm

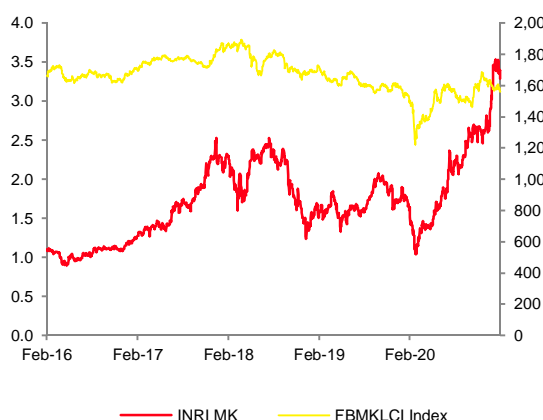
Stock and Financial Data

Shares Outstanding (million) 3,315.6
 Market Cap (RM mil) 10,875.3
 Book Value (RM/share) 0.38
 P/BV (x) 8.7
 ROE (%) 13.4
 Net Gearing (%) -

Major Shareholders
 Insas Bhd (15.9%)
 KWAP (11.4%)
 EPF (8.8%)

Free Float 58.2
 Avg Daily Value (RM mil) 56.0

Price performance	3mth	6mth	12mth
Absolute (%)	32.8	46.4	105.0
Relative (%)	34.6	47.5	96.1

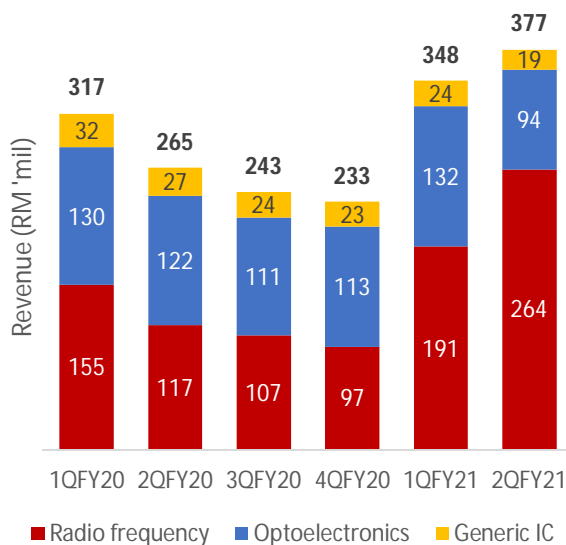


Investment Highlights

- We maintain our **HOLD** call on Inari Amertron (Inari) with a higher fair value of **RM3.04/share**, pegged to a **CY22F PE of 28x** (previously RM2.78/share). We have raised our **FY21F–FY23F forecasts by 6-10%** to account for: (i) higher radio frequency (RF) revenue after updating the number of RF testers; and (ii) adding contribution of its newly secured project to produce optical transceiver modules.
- Our target PE is in line with our benchmark target forward PE for outsourced semiconductor assembly and test (OSAT) companies with a 20% premium above 3-year historical forward PE of 23x. This is due to brightened prospects riding on innovations such as 5G, 3D sensors, and electric vehicles, which progress has been accelerated by Covid-19.
- **Key takeaways from Inari's 2QFY21 conference call:**
 - **Results summary:** 2QFY21's core profit was the group's highest ever quarterly results to date. On a YoY basis, 1HFY21 core profit more than doubled, largely driven by the stellar performance of its radio frequency (RF) division which rose approx. 67% due optimization of its production capacity running on 22 system-in-package (SiP) lines. The RF boost was able to offset revenue declines in optoelectronics and generic IC division which fell by 10% and 26% respectively.
 - **Expanding capabilities:** On top of wafer probing & processing, component & assembly, and packaging testing, Inari is expanding to include integrated module assembly & testing capabilities. For 2020 and beyond in advanced SiP, the group is developing electromagnetic interference (EMI) technology products which allow for enhanced heat dissipation, an important feature for 5G smartphones. The products can be used for RF but would be especially important in power devices for heat dissipation purposes.
 - **New confirmed project:** As at December 2020, the group signed a contract with Customer 1 which is based in China to assemble optical modules. From March 2021 onwards, the group will start qualification of its 1st optical transceiver modules production line and target mass production by May 2021. From June 2021 onwards, the group will start transferring its 2nd production line.
 - **Potential projects in discussion:** The group is also in the midst of discussion with two US-based customers, one for chip and module assembly and another for power module assembly. Both are in the "refer for quotation" (RFQ) stage, pending review by both customers.

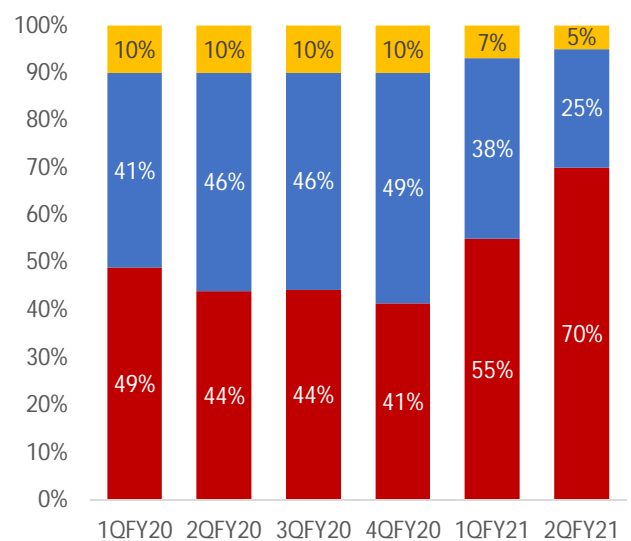
- **Updates on existing partnerships:** PCL Inari (PCLI) is entering into the 2nd phase of transfer to P34 where 26 engineers from China and Taiwan will facilitate the transfer and production. Meanwhile, Inari is also in discussion with its Hong-Kong-based customer in Clark on full turnkey assembly plan. For its Switzerland-based customer, the group is still working on a sub-module assembly pending discussion in person between both parties.
 - **Updates on other divisions:** The optoelectronic division is seeing a slight improvement in automotive and industrial orders. However, material lead time is longer than expected due to raw material shortages in certain sectors. Similarly, its generic ICs division has also been impacted due to a shortage of substrates.
- **We continue to like Inari due to its role as a proxy for the growth of 5G through its RF business. However, we deem the stock to be fairly valued.** The group's positive prospects arise due to: (i) the resilience of its RF earnings due to higher chip complexity in 5G phones; (ii) potential growth in laser devices from more biometric and AR applications; and (iii) its efforts to enhance and diversify revenue streams.

EXHIBIT 1: QUARTERLY REVENUE BY PRODUCT



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: REVENUE CONTRIBUTION BY PRODUCT (%)



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART



EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,152.1	1,058.0	1,562.8	1,880.0	2,086.7
EBITDA	348.5	262.0	403.0	498.0	542.3
Depreciation/Amortisation	(94.9)	(100.3)	(108.8)	(120.0)	(133.8)
Operating income (EBIT)	253.6	161.7	294.3	378.0	408.5
Other income & associates	-	(0.6)	-	-	-
Net interest	8.2	9.8	11.4	11.3	11.5
Exceptional items	(10.8)	1.4	-	-	-
Pretax profit	251.0	172.4	305.7	389.2	420.1
Taxation	(23.9)	(15.9)	(33.6)	(42.8)	(46.2)
Minorities/pref dividends	(0.6)	(0.7)	-	-	-
Net profit	226.5	155.8	272.1	346.4	373.9
Core net profit	215.7	154.3	272.1	346.4	373.9
Balance Sheet (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	489.5	479.4	458.3	457.5	457.5
Intangible assets	2.2	2.3	2.3	2.3	2.3
Other long-term assets	2.2	11.7	11.7	11.7	11.7
Total non-current assets	493.9	493.4	472.3	471.5	471.5
Cash & equivalent	427.6	586.3	579.0	590.6	651.9
Stock	172.7	145.9	223.5	267.7	297.2
Trade debtors	202.9	183.2	214.6	258.2	286.6
Other current assets	43.2	55.3	55.3	55.3	55.3
Total current assets	846.4	970.8	1,072.4	1,171.8	1,291.0
Trade creditors	81.8	70.4	109.6	131.3	145.8
Short-term borrowings	7.7	8.6	8.6	8.6	8.6
Other current liabilities	111.1	161.1	161.1	161.1	161.1
Total current liabilities	200.5	240.0	279.3	301.0	315.4
Long-term borrowings	8.7	1.1	1.1	1.1	1.1
Other long-term liabilities	9.2	14.0	14.0	14.0	14.0
Total long-term liabilities	17.9	15.2	15.2	15.2	15.2
Shareholders' funds	1,118.4	1,204.7	1,246.0	1,323.0	1,427.6
Minority interests	3.5	4.2	4.2	4.2	4.2
BV/share (RM)	0.35	0.38	0.38	0.40	0.43
Cash Flow (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	251.0	172.4	305.7	389.2	420.1
Depreciation/Amortisation	94.9	100.3	108.8	120.0	133.8
Net change in working capital	(11.6)	89.6	(69.7)	(65.1)	(42.4)
Others	(37.2)	(24.9)	(33.6)	(42.8)	(46.2)
Cash flow from operations	297.1	337.3	311.1	401.3	465.3
Capital expenditure	(183.9)	(89.4)	(100.0)	(131.6)	(146.1)
Net investments & sale of fixed assets	1.1	8.6	-	1.0	1.0
Others	7.0	(1.9)	11.7	12.6	12.8
Cash flow from investing	(175.8)	(82.7)	(88.3)	(118.0)	(132.3)
Debt raised/(repaid)	(8.7)	(8.8)	-	1.0	1.0
Equity raised/(repaid)	37.6	49.8	49.8	49.8	49.8
Dividends paid	(211.6)	(140.8)	(279.6)	(324.1)	(324.1)
Others	(9.3)	(2.3)	(0.4)	0.6	0.6
Cash flow from financing	(192.1)	(102.1)	(230.2)	(272.7)	(272.7)
Net cash flow	(70.8)	152.6	(7.4)	10.6	60.3
Net cash/(debt) b/f	530.2	427.6	586.3	579.0	590.6
Net cash/(debt) c/f	462.4	586.3	579.0	590.6	651.9
Key Ratios (YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(16.3)	(8.2)	47.7	20.3	11.0
EBITDA growth (%)	(1.2)	(24.8)	53.8	23.6	8.9
Pretax margin (%)	21.8	16.3	19.6	20.7	20.1
Net profit margin (%)	19.7	14.7	17.4	18.4	17.9
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	9.5	9.2	11.0	11.0	11.0
Dividend payout (%)	72.1	89.8	102.8	93.5	86.7
Debtors turnover (days)	64	63	50	50	50
Stock turnover (days)	67	-	-	-	-
Creditors turnover (days)	32	-	-	-	-

Source: Company, AmlInvestment Bank Bhd estimates

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