



AmInvestment Bank

Company report

INARI AMERTRON

(INRI MK EQUITY, INAR.KL)

7 May 2021

Proposes private placement of 10% shares

HOLD

(Maintained)

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Rationale for report: Company update

Price	RM3.26
Fair Value	RM3.13
52-week High/Low	RM3.75/RM1.35

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)	-	290.7	345.3	381.6
DPS (sen)	4.4	8.5	9.9	9.9
PE (x)	68.4	39.7	31.2	28.9
EV/EBITDA (x)	39.1	25.4	20.5	18.7
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 (RMmil)	10,809.0
Book Value (RM/share)	0.38
P/BV (x)	8.7
ROE (%)	13.4
Net Gearing (%)	-

Major Shareholders	Insas Bhd (15.8%)
	KWAP (10.4%)
	EPF (8.6%)

Free Float	59.3
Avg Daily Value (RMmil)	58.2

Price performance	3mth	6mth	12mth
Absolute (%)	(6.6)	21.6	136.2
Relative (%)	(6.6)	17.1	106.1



Investment Highlights

- We maintain our HOLD recommendation on Inari Amertron (Inari) with unchanged forecasts and fair value of RM3.13/share, pegged to a CY22F PE of 28x after reflecting our 4-star ESG rating on the group.
- Inari has proposed a private placement of 10% of its total issued shares (333mil ordinary shares) to an independent 3rd party investor at an indicative issue price of RM3.20 per share to raise RM1,049.0mil in net proceeds for its capex, acquisition and investments. The placement is expected to be completed in 2HCY21.
- According to its announcement in Bursa Malaysia, the rationale of the placement is to accelerate its plans to acquire semiconductor and OSAT-related companies without tapping into its net cash of RM755.3mil as at 31st Dec 2020. The placement, together with the full exercise of all its outstanding ESOS options, would increase net cash to RM2,021mil.
- The placement and full exercise of all its outstanding 91.5mil ESOS options with an average exercise price of RM2.37 each which would raise RM217.0mil in proceeds leading to a total of RM1,265.8mil raised from both exercises. Assuming an interest rate of 2%, interest income after tax of RM19.2mil would increase FY22F earnings by 5.6% with an adjusted EPS of 9.7 sen, which is a 7.6% dilution from our current forecasted EPS. This in turn would reduce our fair value to RM2.89/share.
- The group intends to expand its production capacity for RF lines in line with the growing demand for 5G and will continue to work on improving the utilization of its existing opto-electronics and other business units as well as increase investments in automation to improve its margins moving ahead.
- We continue to like Inari due to its role as a proxy for the growth of 5G through its radio frequency (RF) business which is set to benefit from the expected increase in demand for 5G smartphones, however we deem the stock to be fairly valued.

The group's positive prospects arise from: (i) resiliency in RF earnings due to higher chip complexity in 5G phones, (ii) potential growth in laser devices from more biometrics and augmented reality applications, and (iii) its efforts to enhance and diversify revenue streams.

EXHIBIT 1: PB BAND CHART



EXHIBIT 2: PE BAND CHART

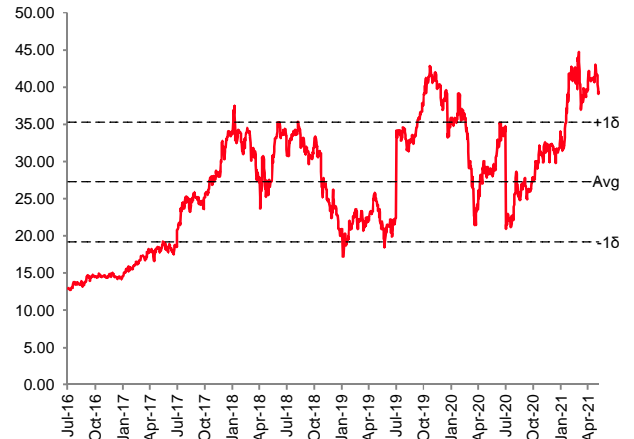


EXHIBIT 3: ESG RATING

Overall	★	★	★	★	
Energy efficiency	★	★	★	★	
Recycling & waste management	★	★	★	★	★
Supply chain management	★	★	★		
Industry 4.0 implementation	★	★	★	★	
Employee wellbeing	★	★	★	★	
Human capital development	★	★	★		
Corporate social responsibility	★	★	★	★	
Board diversity	★	★			
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star.

Source: AmInvestment Bank Bhd

EXHIBIT 4: 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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