



Company report

INARI AMERTRON

(INRI MK EQUITY, INAR.KL)

25 May 2021

Exploring ways to continue RF ramp-up

BUY

(Maintained)

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Rationale for report: Company update

Price	RM3.17
Fair Value	RM3.31
52-week High/Low	RM3.75/RM1.38

Key Changes

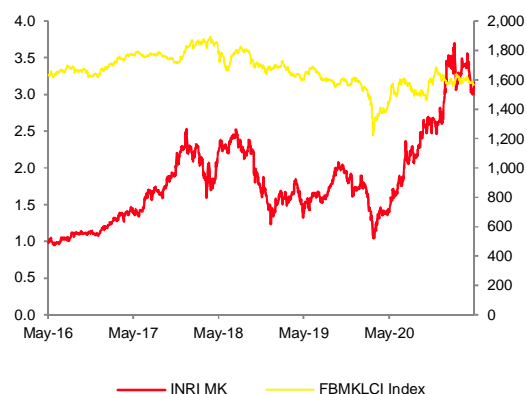
Fair value	↔
EPS	↓

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,058.0	1,555.4	1,880.0	2,086.7
Core net profit (RM mil)	154.3	316.8	373.0	393.7
FD Core EPS (sen)	4.8	9.5	11.2	11.8
FD Core EPS growth (%)	(28.6)	98.6	17.7	5.6
Consensus Net Profit (RM mil)	-	300.8	355.6	393.9
DPS (sen)	4.4	8.5	9.9	9.9
PE (x)	66.5	33.5	28.4	26.9
EV/EBITDA (x)	38.3	22.0	18.9	17.5
Div yield (%)	1.4	2.7	3.1	3.1
ROE (%)	13.4	25.4	27.8	27.0
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	3,344.6
Market Cap (RM mil)	10,602.4
Book Value (RM/share)	0.38
P/BV (x)	8.4
ROE (%)	13.4
Net Gearing (%)	-
Major Shareholders	Insas Bhd (15.8%) KWAP (10.4%) EPF (9.0%)
Free Float	59.0
Avg Daily Value (RM mil)	55.0

Price performance	3mth	6mth	12mth
Absolute (%)	(3.4)	28.3	126.4
Relative (%)	(4.2)	28.9	107.0



Investment Highlights

- We maintain our BUY recommendation on Inari Amertron (Inari) with unchanged fair value of RM3.31/share, pegged to a CY22F PE of 28x and make no changes to our 4-star ESG rating. We raise FY21F forecasts by 4% to account for the guidance provided for the group's radio frequency (RF) division which is expected to grow by 80% YoY.

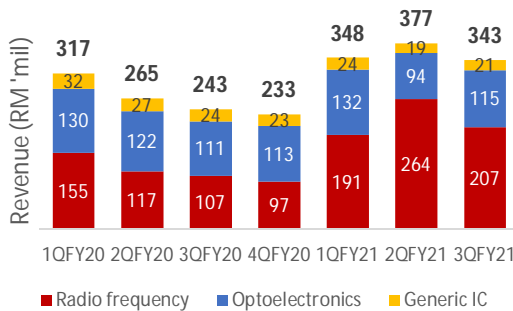
- Key takeaways from Inari's 3QFY21 online briefing:

- **Results summary:** 9MFY21 core profit surged 123% YoY mainly due to: (i) 29% YoY higher revenue as its RF product sales jumped 74% YoY, offsetting 6% and 22% YoY declines in sales of optoelectronics and generic products respectively; and (ii) optimization of production efficiency attributed to the group's RF line expansion. The group recorded its best 3Q earnings to date.
- **Updates by product segment:** **1) RF:** The group's 22 advanced system-in-package (SiP) lines were loaded well despite seasonally low periods; **2) Optoelectronics:** Inari is seeing improvement in the loading for its automotive and industrial divisions for up to 6 months. Despite longer material lead time for major materials, the group has managed to secure supplies ahead of time and will monitor the ongoing situation. Meanwhile, higher demand for fibre optic products especially chip-on-carrier (CoC) solutions continues; **3) Generic products:** This division is being impacted by shortages in substrates but expects improvement in the upcoming quarter.
- **Updates on new business line-ups:** Its project with Customer 1 to assemble optical transceiver modules targets product qualification by end-May and mass production to begin in June 2021 (1-month delay). The transferring of its 2nd product line is in progress. Meanwhile, discussions with US-based chip and module assembly Customer 2 is at the technical matching stage while progress with its US-based power module assembly Customer 3 is at a product readiness stage, having completed prototype building and is targeting pilot line set-up by end of June 2021.
- **Updates on existing partnerships:** PCL Inari's (PCLI) 2nd phase of transfer to P34 is pending movement control order (MCO) clarifications and will be hiring 90 more operators by June 2021.

Meanwhile, its Hong Kong-based customer in Clark is still in discussion for full turnkey assembly while its Switzerland-based customer is still working on sub-module assembly, pending next face-to-face discussion. Additionally, its customized equipment partnership with MIT Semiconductor has completed electromagnetic interference (EMI) shielding customization for 10 systems.

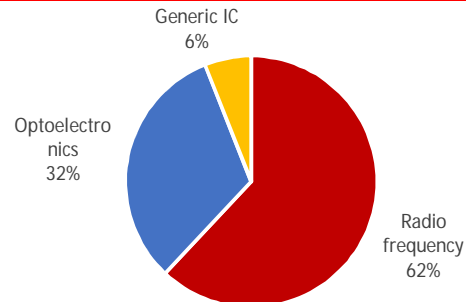
- **We continue to like Inari due to its role as a proxy for the growth of 5G through its radio frequency (RF) business which is set to benefit from the expected increase in demand for 5G smartphones going into FY22.** The group's positive prospects arise from: (i) resiliency in RF earnings due to higher 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: QUARTERLY REVENUE BY PRODUCT



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: 9MFY21 REVENUE BY PRODUCT



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

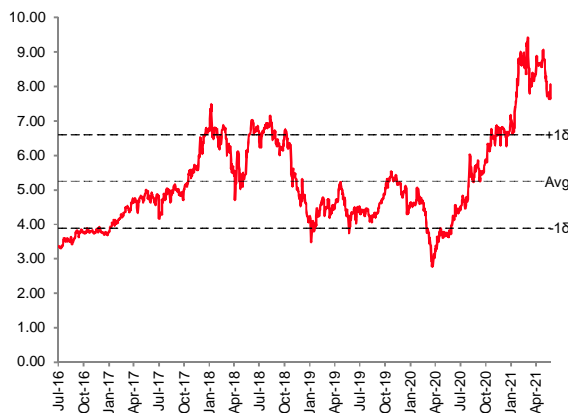


EXHIBIT 4: PE BAND CHART



EXHIBIT 5: 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: AmlInvestment Bank Bhd

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,152.1	1,058.0	1,555.4	1,880.0	2,086.7
EBITDA	348.5	262.0	453.3	526.9	563.2
Depreciation/Amortisation	(94.9)	(100.3)	(108.8)	(120.0)	(133.8)
Operating income (EBIT)	253.6	161.7	344.5	406.9	429.4
Other income & associates	-	(0.6)	-	-	-
Net interest	8.2	9.8	11.4	12.2	13.0
Exceptional items	(10.8)	1.4	-	-	-
Pretax profit	251.0	172.4	356.0	419.1	442.4
Taxation	(23.9)	(15.9)	(39.2)	(46.1)	(48.7)
Minorities/pref dividends	(0.6)	(0.7)	-	-	-
Net profit	226.5	155.8	316.8	373.0	393.7
Core net profit	215.7	154.3	316.8	373.0	393.7
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	625.3	662.8	745.4
Stock	172.7	145.9	222.4	267.7	297.2
Trade debtors	202.9	183.2	213.6	258.2	286.6
Other current assets	43.2	55.3	55.3	55.3	55.3
Total current assets	846.4	970.8	1,116.6	1,244.0	1,384.5
Trade creditors	81.8	70.4	109.1	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	278.7	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	1,290.7	1,395.2	1,521.2
Minority interests	3.5	4.2	4.2	4.2	4.2
BV/share (RM)	0.35	0.38	0.39	0.42	0.46
Cash Flow (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	251.0	172.4	356.0	419.1	442.4
Depreciation/Amortisation	94.9	100.3	108.8	120.0	133.8
Net change in working capital	(11.6)	89.6	(68.2)	(66.7)	(42.4)
Others	(37.2)	(24.9)	(39.2)	(46.1)	(48.7)
Cash flow from operations	297.1	337.3	357.4	426.3	485.2
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	13.5	14.3
Cash flow from investing	(175.8)	(82.7)	(88.3)	(117.1)	(130.8)
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	38.9	36.5	81.7
Net cash/(debt) b/f	530.2	427.6	586.3	625.3	662.8
Net cash/(debt) c/f	462.4	586.3	625.3	662.8	745.4
Key Ratios (YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(16.3)	(8.2)	47.0	20.9	11.0
EBITDA growth (%)	(1.2)	(24.8)	73.0	16.2	6.9
Pretax margin (%)	21.8	16.3	22.9	22.3	21.2
Net profit margin (%)	19.7	14.7	20.4	19.8	18.9
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	88.3	86.9	82.3
Debtors turnover (days)	64	63	50	50	50
Stock turnover (days)	67	-	-	-	-
Creditors turnover (days)	32	-	-	-	-

Source: Company, AmInvestment Bank Bhd estimates

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