

**HLIB Research**  
PP 9484/12/2012 (031413)

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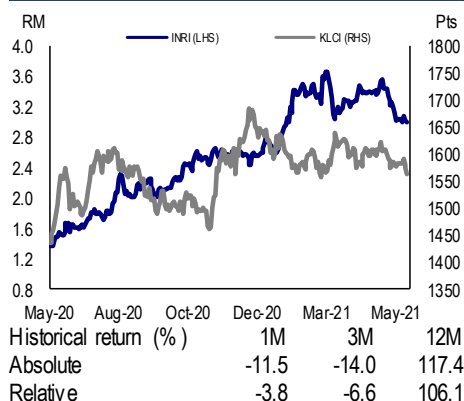
**BUY** (Maintain)

**Target Price:** **RM3.81**  
**Previously:** **RM3.88**  
**Current Price:** **RM3.00**

Capital upside 27.0%  
Dividend yield 2.8%  
Expected total return 29.8%

**Sector coverage:** Technology  
**Company description:** Inari Amertron is the largest OSAT in Malaysia.

**Share price**



**Stock information**

Bloomberg ticker	INRI MK
Bursa code	0166
Issued shares (m)	3,342
Market capitalisation (RM m)	10,894
3-mth average volume ('000)	17,303
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

**Major shareholders**

Insas	15.8%
KWAP	10.4%
EPF	9.0%

**Earnings summary**

	FY20	FY21f	FY22f
FYE (Jun)			
PATMI – core (RM m)	140.7	309.0	347.1
EPS – core (sen)	4.2	9.2	10.4
P/E (x)	71.3	32.5	28.9

# Inari Amertron

## Still a beat despite seasonal weakness

Inari's 9MFY21 core net profit of RM248m (+143% YoY) exceeded our and consensus expectations. The strong performance was mainly thanks to higher-than-expected EBITDA margin and lower-than-expected D&A. Proposed third interim single tier and a special DPS of 2.2 sen and 1.8 sen, which both go ex on 8 Jun. Inari will continue to expand capacity to meet the robust RF demand and prepared for new opportunities ahead. Reiterate BUY but with lower TP of RM3.81, pegged to 35x CY22 FD EPS. We strongly believe that iPhone 12 super cycle is likely to boost Inari back to its glory days while opto division is expected to improve with more customer diversifications and partnerships.

**Exceeded expectations.** 3QFY21 core net profit of RM73m (-27% QoQ, +233% YoY) brought 9MFY21 sum to RM248m (+143% YoY) which beat HLIB and consensus expectations at 83% and 85%, respectively. The outperformance was attributable to higher-than-expected EBITDA margin and lower-than-expected D&A. 9MFY21 one-off adjustments include reversal of inventories to net realisable value (-RM2.3m), forex loss (+RM9m) and others.

**Dividend.** Proposed third interim single tier and a special DPS of 2.2 sen and 1.8 sen, respectively (3QFY20: 1.0 sen), which goes ex on 8 Jun. YTD DPS amounted to 8.5 sen vs 9MFY20's 3.3 sen.

**QoQ.** Besides weaker USD (3QFY21: RM4.06/USD vs 2QFY21: RM4.11/USD), turnover eased 9% to RM343m due to lower volume loading in RF products, albeit this was partially cushioned by higher contributions from both optoelectronics and generic segments. In turn, core net profit fell by 27% to RM73m attributable to less favourable sales mix where contribution from higher-margin RF was lower and higher effective tax rate.

**YoY.** While forex was unfavourable (vs 3QFY20: RM4.17/USD), revenue leaped 41% due to higher volume loading of products, primarily RF products. Stripping off non-core items, core earnings more than doubled attributable to the favourable sales mix and reversal of deferred tax provision.

**YTD.** For the same reason as above, top and bottom lines increased by 29% and 143%, respectively.

**Outlook.** The recovery in global growth, the sustained strong global semiconductor demand coupled with 5G adoption are all positive catalysts for Inari. Barring further unfavourable pandemic developments (more restrictive containment measures) and worsening of part shortages, Inari expects positive growths in its top and bottom lines for FY21 and continuing into FY22. Looking ahead, the group will explore means to continue ramping up capacity for the strong 5G demand and to be well positioned for new growth opportunities ahead.

**Private placement.** Announced earlier to issue 333m new shares (circa 10% of total outstanding shares) to raise circa RM1bn. The listing application for the placement shares was submitted to Burs on 11 May.

**Forecast.** Based on the deviations mentioned above, we tweaked our FY21 estimate upward resulting core PATAMI higher by 3%, while FY22-23's are unchanged.

Reiterate **BUY** but with lower TP of **RM3.81** (previously RM3.88) after factoring ESOS dilution. Our TP is pegged to unchanged 35x of CY22 FD EPS. We strongly believe that iPhone 12 super cycle is likely to boost Inari back to its glory days while opto division is expected to improve with more customer diversifications and partnerships.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Income statement

FYE Jun	FY19	FY20	FY21f	FY22f	FY23f
Revenue	1,152.9	1,058.0	1,467.2	1,636.4	1,766.4
COGS	(849.8)	(792.1)	(1,027.3)	(1,150.8)	(1,240.2)
EBITDA	303.0	265.8	439.9	485.7	526.2
D&A	(94.9)	(102.4)	(107.8)	(110.0)	(111.8)
EBIT	208.2	163.4	332.1	375.7	414.4
Net Interest Income	8.0	9.5	11.2	9.9	9.8
Associates	0.0	(0.6)	0.0	0.0	0.0
PBT	216.2	172.4	343.3	385.6	424.3
Tax	(23.9)	(15.9)	(34.3)	(38.6)	(42.4)
Net Profit	192.3	156.4	309.0	347.1	381.9
Minority Interests	0.6	(0.7)	0.0	0.0	0.0
PATAMI	193.0	155.8	309.0	347.1	381.9
Exceptionals	(9.8)	(15.1)	0.0	0.0	0.0
<b>Adjusted PATAMI</b>	<b>183.2</b>	<b>140.7</b>	<b>309.0</b>	<b>347.1</b>	<b>381.9</b>
Basic Shares (m)	3,344.0	3,344.0	3,344.0	3,344.0	3,344.0
Rep. EPS sen	5.8	4.7	9.2	10.4	11.4
Adj. EPS sen	5.5	4.2	9.2	10.4	11.4
Adj. FD EPS sen	5.5	4.2	9.2	10.4	11.4

### Balance sheet

FYE Jun	FY19	FY20	FY21f	FY22f	FY23f
Cash	429.7	594.6	529.7	526.4	534.5
Receivables	226.9	215.1	301.5	336.3	363.0
Inventories	172.7	145.9	197.0	220.7	237.8
Investments	0.0	5.7	5.7	5.7	5.7
Fixed Assets	489.5	478.8	491.0	501.0	509.2
Intangibles	2.2	2.3	2.3	2.3	2.3
Other Assets	13.2	21.5	21.5	21.5	21.5
<b>Ttl Assets</b>	<b>1,334.1</b>	<b>1,463.8</b>	<b>1,548.6</b>	<b>1,613.7</b>	<b>1,674.0</b>
Payables	154.6	199.4	253.3	283.7	305.8
Short Term Debt	6.2	5.0	5.0	5.0	5.0
Long Term Debt	8.7	1.1	1.1	1.1	1.1
Other Liabilities	42.7	49.3	49.3	49.3	49.3
<b>Ttl Liab</b>	<b>212.2</b>	<b>254.9</b>	<b>308.8</b>	<b>339.2</b>	<b>361.3</b>
Shareholders' Funds	1,118.4	1,204.7	1,235.6	1,270.3	1,308.5
Minority Interests	3.5	4.2	4.2	4.2	4.2
Total S/H Equity	1,122.0	1,208.9	1,239.8	1,274.5	1,312.7
<b>Ttl Liab&amp;S/H Funds</b>	<b>1,334.1</b>	<b>1,463.8</b>	<b>1,548.6</b>	<b>1,613.7</b>	<b>1,674.0</b>

### Cashflow Analysis

FYE Jun	FY19	FY20	FY21f	FY22f	FY23f
EBITDA	303.0	265.8	439.9	485.7	526.2
Tax Paid	(35.2)	(21.8)	(34.3)	(38.6)	(42.4)
Working Capital Chgs	(12.6)	89.6	(83.6)	(28.0)	(21.8)
Other	15.0	14.0	11.2	9.9	9.8
<b>Operating CF</b>	<b>270.3</b>	<b>347.6</b>	<b>333.2</b>	<b>429.0</b>	<b>471.8</b>
<b>FCF</b>	<b>86.5</b>	<b>256.0</b>	<b>213.2</b>	<b>309.0</b>	<b>351.8</b>
CAPEX	(183.7)	(91.6)	(120.0)	(120.0)	(120.0)
Asset Sales	1.0	8.6	0.0	0.0	0.0
Acquisitions	0.0	(6.3)	0.0	0.0	0.0
Other	0.0	(6.1)	0.0	0.0	0.0
<b>Investing CF</b>	<b>(182.7)</b>	<b>(95.4)</b>	<b>(120.0)</b>	<b>(120.0)</b>	<b>(120.0)</b>
Dividends	(211.6)	(140.8)	(278.1)	(312.3)	(343.7)
Debt Chgs	0.0	0.0	0.0	0.0	0.0
Other	20.8	41.1	0.0	0.0	0.0
<b>Financing CF</b>	<b>(190.8)</b>	<b>(99.7)</b>	<b>(278.1)</b>	<b>(312.3)</b>	<b>(343.7)</b>
<b>Net Cashflow</b>	<b>(103.2)</b>	<b>152.6</b>	<b>(64.9)</b>	<b>(3.3)</b>	<b>8.2</b>

### Quarterly financial summary

FYE Jun	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	242.6	233.3	347.6	376.8	342.9
COGS	(178.5)	(175.2)	(246.0)	(257.8)	(232.5)
EBITDA	64.1	58.1	101.6	119.0	110.4
D&A	(25.5)	(26.3)	(25.4)	(25.4)	(25.7)
EBIT	38.6	31.9	76.2	93.6	84.7
Net Interest Income	2.3	2.6	1.3	1.3	2.2
Associates	(0.1)	(0.4)	(0.1)	(0.2)	(0.1)
PBT	40.8	34.1	77.4	94.7	86.7
Tax	(5.7)	2.1	(7.3)	(4.6)	(4.8)
Net Profit	35.1	36.1	70.1	90.1	81.9
Minority Interests	0.0	(0.7)	0.0	0.0	0.1
PATAMI	35.1	35.5	70.1	90.1	81.9
Exceptionals	(13.3)	3.1	6.3	9.5	(9.5)
<b>Adjusted PATAMI</b>	<b>21.7</b>	<b>38.5</b>	<b>76.4</b>	<b>99.5</b>	<b>72.5</b>
Basic Shares (m)	3,344.0	3,344.0	3,344.0	3,344.0	3,344.0
Rep. EPS sen	1.0	1.1	2.1	2.7	2.5
Adj. EPS sen	0.7	1.2	2.3	3.0	2.2
Adj. FD EPS sen	0.7	1.2	2.3	3.0	2.2

### Valuation Ratios

FYE Jun	FY19	FY20	FY21f	FY22f	FY23f
PER (x)	52.0	64.4	32.5	28.9	26.3
Adj. PER (x)	54.8	71.3	32.5	28.9	26.3
FD PER (x)	54.8	71.3	32.5	28.9	26.3
Net DPS sen	5.2	4.4	8.3	9.3	10.3
Net DY (%)	1.7	1.5	2.8	3.1	3.4
Book/share sen	33.4	36.0	36.9	38.0	39.1
P/Book (x)	9.0	8.3	8.1	7.9	7.7
FCF/share sen	2.6	7.7	6.4	9.2	10.5
FCF yield (%)	0.9	2.6	2.1	3.1	3.5
Mkt Cap	10,032.0	10,032.0	10,032.0	10,032.0	10,032.0
Net Cash/(Debt)	414.8	588.4	523.6	520.2	528.4
EV	9,617.2	9,443.6	9,508.4	9,511.8	9,503.6
EV/EBITDA (x)	31.7	35.5	21.6	19.6	18.1
ROE (%)	16.4	11.7	25.0	27.3	29.2
Current Ratio (x)	5.2	4.7	4.0	3.8	3.7
Quick Ratio (x)	4.1	4.0	3.2	3.0	2.9
Interest Cover (x)	179.1	191.5	389.3	440.5	485.9

### Other Ratios

FYE Jun	FY19	FY20	FY21f	FY22f	FY23f
Sales Growth (%)		-8.2	38.7	11.5	7.9
EBITDA Growth (%)		-12.3	65.5	10.4	8.3
EBIT Growth (%)		-21.5	103.3	13.1	10.3
PBT Growth (%)		-20.3	99.2	12.3	10.0
Net Profit Growth (%)		-18.7	97.5	12.3	10.0
EBITDA Margin (%)	26.3	25.1	30.0	29.7	29.8
EBIT Margin (%)	18.1	15.4	22.6	23.0	23.5
PBT Margin (%)	18.8	16.3	23.4	23.6	24.0
Net Profit Margin (%)	16.7	14.8	21.1	21.2	21.6
Net Debt/Equity (%)	Cash	Cash	Cash	Cash	Cash
CAPEX/Sales (%)	15.9	8.7	8.2	7.3	6.8

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	242.6	376.8	342.9	(9.0)	41.4	824.6	1,067.4	29.4
EBITDA	64.1	119.0	110.4	(7.2)	72.3	207.7	331.0	59.4
EBITDA Margin (%)	26.4	31.6	32.2			25.2	31.0	
EBIT	38.6	93.6	84.7	(9.6)	119.3	131.5	254.5	93.5
PBT	40.8	94.7	86.7	(8.4)	112.8	138.3	258.9	87.2
PAT	35.1	90.1	81.9	(9.1)	133.6	120.3	242.0	101.2
Reported PATMI	35.1	90.1	81.9	(9.0)	133.7	120.3	242.1	101.3
Core PATMI	21.7	99.5	72.5	(27.2)	233.3	102.1	248.4	143.2
Basic EPS (sen)	1.0	2.7	2.5	(9.0)	133.7	3.6	7.2	101.3
Adj basic EPS (sen)	0.7	3.0	2.2	(27.2)	233.3	3.1	7.4	143.2

Bursa, HLIB Research

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
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