

24 May 2021

Inari Amertron

Best Third Quarter Earnings Ever

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Inari recorded an all-time high third quarter earnings for 3QFY21 with CNP of RM74.1m (-21% QoQ; +111% YoY), bringing 9MFY21 CNP to RM238.9m, within expectations, representing 85%/82% of our/consensus full-year estimates. We expect earnings in 4QFY21 to remain satisfactory, on track to achieving our full-year forecast, driven by 5G adoption and consumer device replacement cycle. Maintain **OUTPERFORM** and Target Price of RM4.00.

Within expectation. 3QFY21 CNP of RM74.1m (-21% QoQ; +111% YoY), brings 9MFY21 CNP to RM238.9m which came in within expectations, representing 85% and 82% of our and consensus full-year estimates, respectively.

Results' highlight. **QoQ**, although 3QFY21 CNP was 21% lower at RM74.1m due to typical seasonality, it is the highest third quarter earnings ever achieved by Inari since its IPO in 2011. **YoY**, 3QFY21 CNP jumped 111% on a 41% increase in revenue to RM342.9m on the back of robust demand for the US flagship smartphone devices which recorded 50% YoY growth on shipment volume for the same period. Cumulatively, 9MFY21 CNP soared 99% to RM238.9m while revenue increased 29% to RM1,067.4m.

Outlook remains resilient. We expect subsequent quarterly earnings in 4QFY21 to remain satisfactory, on track to achieve our FY21E CNP of RM280.5m. The smartphone market continues to enjoy tailwinds, lifted by the overall demand surge in end-point devices among consumers amid the prolonged work-from-home trend. As a result, Inari continues to benefit from the smartphone replacement cycle and adoption of 5G connectivity, which requires higher radio frequency (RF) components to facilitate quicker speeds. Furthermore, the group has received earlier-than-usual indications from its key customer to lock in materials that will likely be used for the next-gen US flagship smartphone which is typically launched in the 3QCY.

Accelerating its revenue diversification initiative. As the chip shortage continues to send MNCs scrambling for floor space, Inari is thrust into the limelight as the group still has 480k sq. ft. of unutilised space in its P34 plant to welcome potential customers. Inari is currently in discussion with 3 potential MNC customers where 2 of them are exhibiting high probability of success. In addition, the group has proposed a 10% private placement of new shares to raise RM1b to accelerate its diversification plan which could involve potential M&A.

We maintain FY21E and FY22E CNP of RM280.5m and RM324.9m, representing growth of 80% and 16%, respectively.

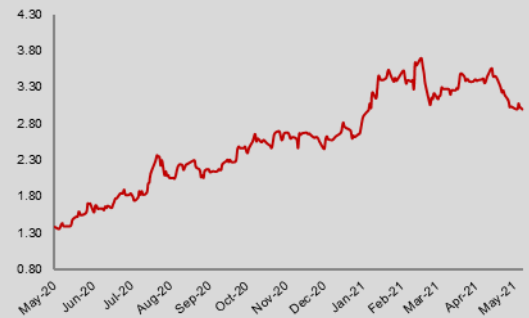
Maintain OUTPERFORM recommendation and Target Price of RM4.00 based on FY22E PER of 40x (representing +2SD above its 1-year mean), justified by a super technology cycle driven by 5G and prospects from potential new customers/M&A which are not priced-in yet.

Risks to our call include: (i) less aggressive orders from its key customer, (ii) delay in 5G roll-out, and (iii) higher-than-expected input costs.

OUTPERFORM ↔

Price : RM3.00
Target Price : RM4.00 ↔

Share Price Performance



KLCI	1,562.17
YTD KLCI chg	-4.0%
YTD stock price chg	8.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	INRI MK Equity
Market Cap (RM m)	10,033.9
Shares Outstanding	3,344.6
52-week range (H)	3.75
52-week range (L)	1.38
3-mth avg daily vol:	16,718,825
Free Float	58%
Beta	1.2

Major Shareholders

Insas Bhd	15.8%
KWAP	10.4%
EPF	9.0%

Summary Earnings Table

FYE Jun (RM m)	2020A	2021E	2022E
Turnover	1,058.0	1,453.2	1,815.7
EBITDA	275.9	409.8	454.7
PBT	172.4	309.8	358.7
Net Profit (NP)	155.8	280.5	324.9
Consensus (NP)	n.a	291.7	346.6
Earnings Revision	n.a	0%	0%
EPS (sen)	4.8	8.6	10.0
EPS growth (%)	-21.0	80.1	15.8
NDPS (sen)	4.4	9.6	8.4
BVPS (RM)	0.38	0.35	0.36
Price/BV (x)	8.1	8.7	8.3
PER (x)	62.7	34.8	30.1
Gearing (x)	0.0	0.0	0.0
ROA (%)	10.6	20.3	22.1
ROE (%)	12.9	24.9	27.6
Dividend Yield (%)	1.5	3.2	2.8



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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Jun (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	342.9	376.8	-9.0%	242.6	41.4%	1067.4	824.6	29.4%
EBIT	86.8	94.8	-8.4%	40.9	112.2%	259.1	138.8	86.7%
PBT	86.7	94.7	-8.4%	40.8	112.8%	258.9	138.3	87.2%
Taxation	-4.8	-4.6	-4.5%	-5.7	15.2%	-16.8	-18.0	6.6%
Net Profit (NP)	81.9	90.1	-9.0%	35.1	133.7%	242.1	120.3	101.3%
Core NP	74.1	94.1	-21.3%	35.1	111.3%	238.9	120.3	98.6%
EPS (sen)	2.2	2.9	-21.3%	1.1	107.8%	7.3	3.8	93.1%
DPS (sen)	4.0	2.5		1.0		8.5	3.3	
EBIT margin	25.3%	25.2%		16.9%		24.3%	16.8%	
Pretax margin	25.3%	25.1%		16.8%		24.3%	16.8%	
CNP margin	21.6%	25.0%		14.5%		22.4%	14.6%	
Effective tax rate	-5.6%	-4.9%		-14.0%		-6.5%	-13.0%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
D&O GREEN TECHNOLOGIES BHD	4.20	4,952.0	Y	12/2019	76.6%	10.8%	165%	11.0%	109.7	41.4	37.3	13.2	10.9	26.3%	0.8%	5.50	OP
INARI AMERTRON BHD	3.00	10,033.9	Y	06/2020	37.4%	24.9%	80.1%	15.8%	62.7	34.8	30.1	8.1	7.8	23.3	3.2%	4.00	OP
JHM CONSOLIDATION BHD	1.59	886.6	Y	12/2020	44.8%	13.3%	102.4%	13.9%	60.4	25.9	22.8	5.9	4.7	18.1%	0.6%	2.35	MP
KELINGTON GROUP BHD	1.99	639.6	Y	12/2020	9.5%	13.3%	42.7%	14.1%	30.6	21.5	18.8	4.0	3.5	16.2%	1.2%	2.60	OP
KESM INDUSTRIES BERHAD	11.68	502.4	Y	07/2020	-3.0%	18.7%	10633%	113%	5959	55.5	26.1	1.6	1.6	2.8%	0.7%	14.20	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	35.36	7,033.0	Y	06/2020	20.0%	12.0%	56.6%	13.2%	49.2	31.4	27.8	6.6	5.9	15.3%	0.7%	47.00	OP
P.I.E. INDUSTRIAL BERHAD	2.53	971.6	Y	12/2020	59.9%	7.5%	60.0%	15.8%	21.2	13.3	11.4	1.8	1.6	13.1%	3.6%	4.00	OP
SKP RESOURCES BHD	1.44	2,249.8	Y	03/2020	23.7%	2.4%	67.3%	32.2%	40.8	24.4	18.5	4.9	4.4	18.0%	2.7%	3.00	OP
UNISEM (M) BERHAD	6.91	5,526.6	Y	12/2020	18.5%	7.0%	64.3%	8.5%	45.7	27.8	25.6	3.7	3.4	7.8%	0.7%	10.00	OP

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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