KDN PP17686/03/2013(032117)

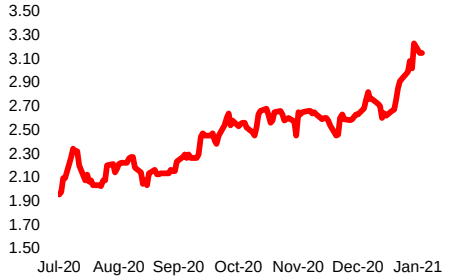
INARI AMERTRON BERHAD — *Outperform*

DESCRIPTION

Leading outsourced semiconductor assembly and test (OSAT) provider to well known multinational and local electronics product manufacturers in the region.

12-Month Target Price	RM3.80
Current Price	RM3.15
Expected Return	20.6%
Market	Main
Sector	Technology
Bursa Code	0166
Bloomberg Ticker	INRI MK
Shariah-Compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	RM0.90 – RM3.23
3-Month Average Vol ('000)	16,478.7

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	19.8	22.1	74.4
Relative Returns	24.7	17.1	73.5

KEY STOCK DATA

Market Capitalisation (RMm)	10,412.1
No. of Shares (m)	3,305.4

MAJOR SHAREHOLDERS

	%
Insas Bhd	16.0
KWAP	11.9
EPF	9.1

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Key Beneficiary of 5G Rollout

After two consecutive years of earnings decline, Inari is poised for a strong comeback in FY21, as we expect it to benefit from the deployment of 5G wireless technology with more RF contents to be included in 5G devices. Inari has recently increased its number of SiP lines to 22, from the initial 8 lines, in order to cater for the strong volume loading. Its new JV with PCL Technologies also serves as another prong of growth to the Group, underpinned by the adoption of 400G Ethernet ports. With that being said, we forecast a CAGR of 32.1% on Inari's FY20-23F earnings. We initiate Inari with an ***Outperform*** call, with a TP of RM3.80. We derive our TP based on a PE multiple of 42x, which is c.15% premium to its local peers' average. We deem the premium multiple justifiable, given its multiple prong growth strategy that will support the Group's near to medium term outlook.

- **Closest proxy to 5G.** We believe Inari will greatly benefit from the transition to the emerging 5G technology, given that the wireless technology evolution will result in higher number of frequency bands supported by 5G devices, which in turn, increases the need for more RF filters to be fitted. Inari provides assembly and testing services to its long-time customer, Broadcom for the latter's premium FBAR filters. We highlight that Inari has installed a total of 22 SiP lines currently, from 8 lines initially. Its RF segment is expected to flourish, considering the overwhelming demand for the US-based smartphone maker's latest 5G model. We opine that the wireless component supply agreement signed between Broadcom and the US phone smartphone maker also helps to provide clarity to Inari in the short to medium term.

- **New JV to start bearing fruit.** Inari's 30%-owned JV with the Taiwan-based PCL Technologies will be focused on producing optical transceivers with transfer speeds up to 400Gbps, which is 4x the speed of current optical transceivers used in data centers. The growth of the optical transceiver market will be underpinned by the adoption of 400G Ethernet ports as well as data center growth. The new venture has made its first shipment in June 2020 and we also expect to see positive contribution from this JV to the Group in FY21.

- **Valuation.** We initiate coverage on Inari with an ***Outperform*** call, ascribing a PE multiple of 42x on its CY21F EPS of 9.1sen per share. The 42x multiple implies c.15% premium to local peers' average. We deem the premium justifiable, considering (i) its strong 3-year earnings CAGR of 32.1%, (ii) closest proxy for 5G growth, and (iii) its exposure to the growing optical transceiver space.

KEY FORECAST TABLE

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F	CAGR
Revenue	1,152.9	1,058.0	1,545.7	1,752.8	1,856.1	20.6%
Gross Profit	269.4	216.3	371.0	429.4	464.0	29.0%
Pre-tax Profit	216.2	172.4	306.8	361.0	398.8	32.3%
Net Profit	191.7	156.4	277.6	326.7	360.9	32.1%
EPS (Sen)	5.8	4.7	8.4	9.9	10.9	
P/E (x)	54.3	66.5	37.5	31.9	28.8	
DPS (Sen)	5.2	4.4	7.1	8.4	9.3	
Dividend Yield	1.7	1.4	2.3	2.7	2.9	

Source: Company, PublicInvest Research estimates

Company Background

Inari is a leading outsourced semiconductor assembly and test (OSAT) provider in the ASEAN region, with exposure to many known multinational and local electronic manufacturers like Broadcom and Osram. It was incorporated in 2006 and commenced operations in its first plant (P1), offering surface-mount technology (SMT) assembly, printed circuit board assembly as well as box-build services for OEM customers in the EU.

In the same year, Inari entered into a manufacturing agreement with Avago (now known as Broadcom) and began semiconductor packaging operations for the latter. Since then, Inari has grown and expanded together with Avago. The longstanding business relationship between Inari and Avago is maintained up till this day, even after Avago's acquisition of Broadcom and renamed the combined entity as Broadcom Ltd.

To expand beyond its existing radio frequency (RF) filter business, Inari had in 2012, acquired a 51% stake in CEEDTec for c.RM3.6m. CEEDtec focuses on Original Design Manufacture (ODM) Product Development, as well as the Research and Development (R&D) of precision test and measurement products. Through this acquisition, Inari was able to venture into the space of electronic test and measurement equipment and it has also allowed Inari to be part of Agilent's supply chain.

Marking its entry to the fiber-optics segment, Inari incorporated Inari South Keytech (ISK) SB in July 2012. The Johor-based subsidiary is essentially engaged in the provision of design and manufacturing services of fibre-optics component, to support the telecommunication components provider in the region.

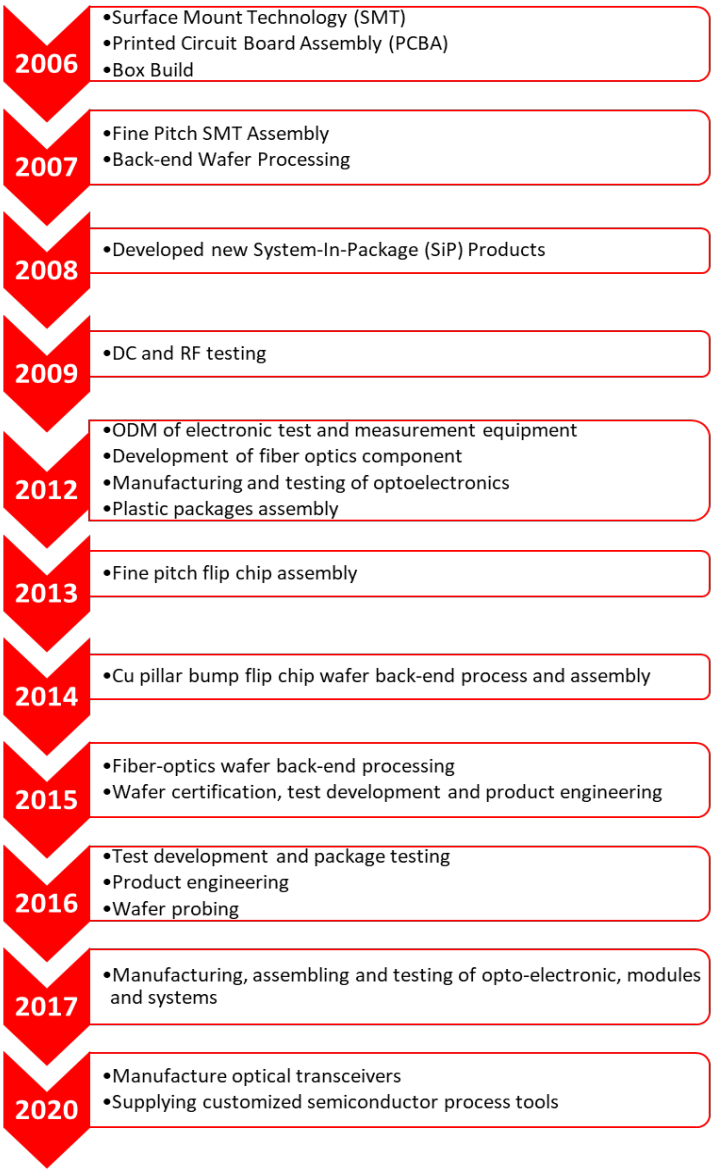
Later in 2013, Inari further expanded into the fiber business via the acquisition of a Philippines-based opto-electronics manufacturer, Amertron Global, for a total consideration of RM103m. The Amertron deal has opened more doors for Inari, as Avago has also acquired CyOptics in the same year for USD400m to strengthen its fiber optics product portfolio. Following the acquisition, Inari was able to secure additional packaging business and gained new multinational clients like Osram Opto Semiconductor.

In March 2016, Inari acquired a 9.7% stake PCL Technologies (PCL) for c.RM45m. PCL is a Taiwan-based listed entity on the Taiwan Stock Exchange and is primarily involved in the manufacture and sale of optical transceiver modules. We highlight that PCL is also a certified supplier to international companies like Brocade, Cisco and Google, to name a few. Inari had also entered into a memorandum of understanding (MoU) with PCL to form a joint venture (JV) to provide front-end OSAT services in China, with plans to list the JV on the stock market of China in 5 years' time. Regrettably, the said JV did not materialise and was terminated by both parties, citing that both parties were overwhelmed with high-priority jobs at that point.

However, Inari had later in September 2019 teamed up with PCL again to form a JV to manufacture optical transceiver and other related components in Penang. Inari owns 30% of the JV, while PCL holds the remaining 70% stake. This JV will allow Inari to have an alternative source of income, while tapping on PCL's expertise in the optoelectronics sector.

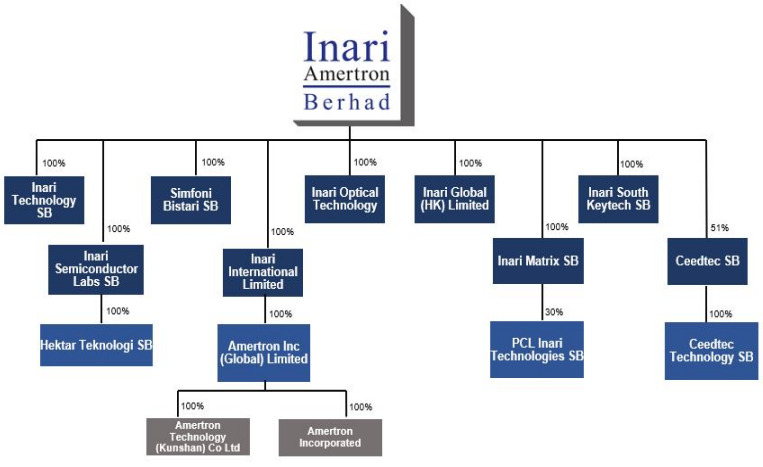
Inari recently announced another JV with Singapore-based MIT Semiconductor (MIT) to jointly develop OSAT equipment. Inari is expected to inject RM8.6m into the JV entity for its 51% stake. Remaining 49% stake is held by MIT. For a start, the JV entity will concentrate on developing customized equipment for Inari's in-house use.

Figure 1: Summary of Inari's Offerings from 2006 to 2020



Source: Company, PublicInvest Research

Figure 2: Group Structure



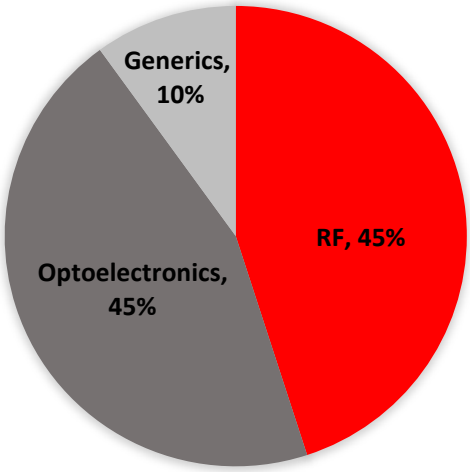
Source: Company, PublicInvest Research

Business Overview

Inari is essentially an OSAT service provider, serving the space of RF, optical transceiver and optoelectronics to name a few.

Inari's revenue stream can be segregated into three main categories, which are (i) RF, (ii) optoelectronics, and (iii) generic ICs. Inari's RF division and optoelectronics division have always been the major revenue contributor to the Group. In FY20, both the RF segment and optoelectronics segment contributed 45% each to the Group's revenue, while the generics division made up the remaining 10%. However, given the transition to 5G, we are of the view that the RF segment will be largest contributor to the Group's revenue in FY21F.

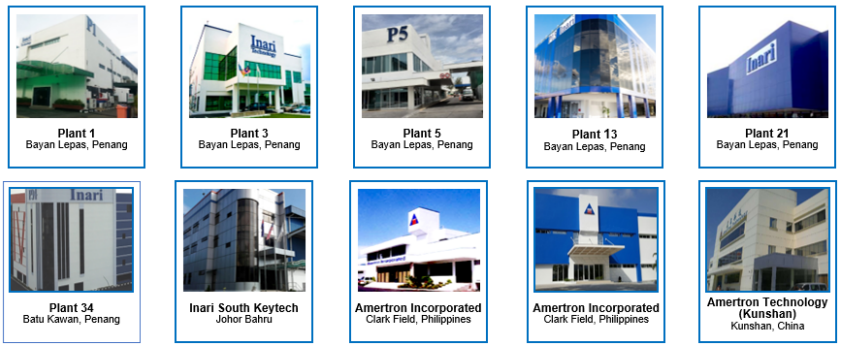
Figure 3: Revenue Breakdown by Segment, FY20



Source: Company, PublicInvest Research

The Group currently operates a total of 9 plants, situated in three different countries, namely Malaysia, Philippines and China. All 9 plants have a combined floor capacity of c.1,800,000 sqft, with the largest plant at this point being its new plant in Batu Kawan, P34, with a total floor space of 680,000 sqft. Construction for this plant was completed in May 2019, comprising three building of 6 stories each. Block A will cater to Osram, to support Osram's new LED business portfolio, while Block B is reserved for any spillover in additional RF testers, in preparation for the 5G boom. We gather that PCL is also located at Block B of P34, as it helps support the Inari's RF division. Block C is allocated for any new clients, which currently includes Comet. Thus far, 200k out of 680k sqft have been utilized, leaving 480k sqft worth of vacant space at this point.

Figure 4: Inari's Plants Located in Malaysia, Philippines and China



Source: Company, PublicInvest Research

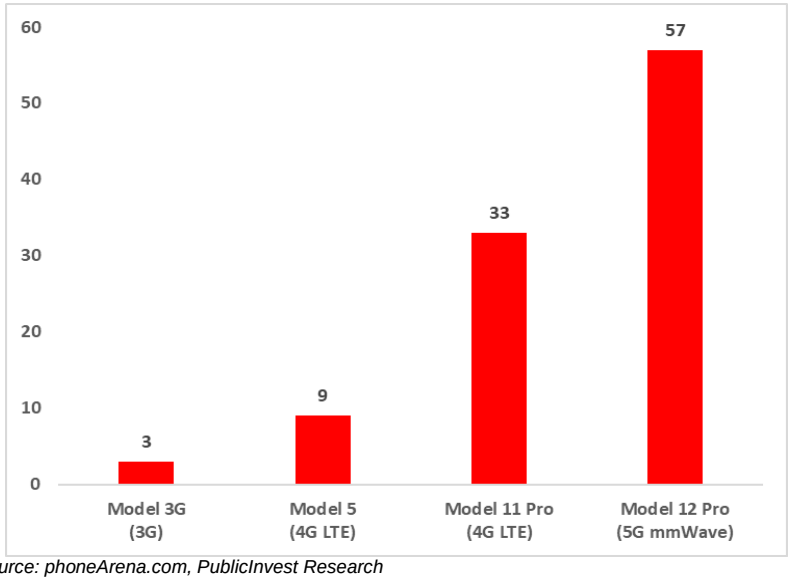
Investment Merits

Riding on the 5G wave. We have seen the gradual rollout of 5G-compatible mobile devices by the Chinese and South Korean smartphone makers since early 2019. However, the North American smartphone manufacturer only launched its first 5G-ready device in its 2020 new release lineup. This was in line with the trend observed during the transition to 3G and 4G cellular capabilities, where the North American smartphone maker was one generation behind its counterparts in adopting the emerging technology, as it waits for the kinks to get ironed out.

With more frequency bands included in a smartphone, additional and higher performance RF filters are required to be fitted, to filter out unwanted signals from entering a system, ultimately minimizing interference and improving the signal quality, so that an efficient network can be maintained.

The following chart depicts the number of frequency bands that are supported by different model of smartphones launched by the US phone maker. It is evident that as the wireless network technology evolves over time, the number of frequency band supported by a mobile device also increases. This would lead to more RF filters required in the mobile devices to isolate signals from the large range of frequency band used by the smartphone. With that, Inari is poised to benefit from the adoption of 5G technology in the US phone maker's latest flagship smartphone.

Figure 5: Number of Frequency Bands in US Phone Maker's Smartphones



Source: phoneArena.com, PublicInvest Research

Supporting premium RF filter maker. Inari's involvement in the US phone maker's supply chain via Broadcom has allowed the Group to ride on this new wave of growth, led by the 5G transition. We highlight that Broadcom is known for its Film Bulk Acoustic Resonator (FBAR) filters, which is a form of bulk acoustic wave (BAW) filters that have superior performance as compared to surface acoustic wave (SAW) filters, given its steeper rejection curves. BAW filters can operate at higher frequencies and the filter size also reduces with higher frequencies, making it better suited for 5G applications.

Recall that in late-2019, Broadcom was reported to be looking to dispose its RF business unit, citing that it does not completely mesh with the company's other businesses. The commotion turns out to be a strategic move by Broadcom to obtain clarity from its customer, with regards to its long term plans. Both parties had subsequently signed a supply agreement worth USD15bn and Broadcom is expected to continue supplying wireless components to this specific client until mid-2023, providing the much needed certainty to Broadcom, that will have a trickle-down effect and benefitting Inari in the short to medium term.

Overwhelming demand for the brand-new model. The recent launch of Model 12 series by the US phone maker is experiencing stronger than expected demands. Despite the strong demand, the smartphone maker is currently facing a bottleneck in supply, given the shortage of vital components. The chip shortage is impacting not only the smartphone makers, but car manufacturers and electronic device makers as well. The dire shortage faced was a result of supply chain disruption due to the pandemic outbreak, stocking up activities by a Chinese smartphone maker and also growing demand for silicon across a wide range of product. The shortage could potentially last up until mid-CY21.

Despite the component shortage, the US phone maker is reportedly planning to increase its smartphone production by 30% in 1HCY21, producing up to 96m units of smartphones by June CY21, in order to cater for the surge in demand. We highlight that the smartphone maker is currently trying to replenish more supplies and the semiconductor manufacturers have also been allocating more capacity to meet the soaring demand of consumer products like smartphone.

More SIP lines installed. With the booming demand for RF components, Inari has installed 14 more System in Package (SiP) assembly lines in its latest plant, P34. The total number of SiP lines installed currently has reached 22 lines in total, from 8 lines previously (installed in P13). All the 14 new SiP assembly lines in P34 has commenced operations, with the latest 3 lines being commissioned in December CY20.

We remain optimistic over the prospect of Inari's RF division, given the strong volume loading, supported by robust demand for the US phone maker's latest range of 5G smartphones.

More RF components and higher build cost. Based on a device teardown analysis done by TechInsights, a total of 11 RF components were found within the 12 Pro model, an additional 6 components as compared to its predecessor.

The estimated build cost for this latest flagship model was higher by c.10% compared to its predecessor, at USD514, partly due to the inclusion of more RF components to support 5G networks, LiDAR camera system and etc. Among the total cost increase of USD45.05, a USD11.50 increase was contributed by the higher RF component cost, whereby it was up by 35% to USD44.50 in this latest model. The higher number of components fixed into a device, would mean more production steps and time required, resulting in higher assembly and test costs, ultimately benefitting OSATs like Inari.

Catching the growth in optical transceiver market. Recall that in September 2019, Inari has formed a JV with the Taiwan-based PCL Technologies to produce optical transceiver modules at Inari's newest plant P34. Optical transceivers are used to encode and decode electrical signals into light signals, so that data can be sent in the form of light pulses over optical fibres, at high speed and across long distance.

The formation of this JV was timely, as Inari could tap on PCL's expertise in the optoelectronics space to ride on the growth of the optical transceiver market. Yole Développement projects that the optical transceiver market will reach a size of USD17.7bn by the end of 2025, growing at a CAGR of 15% for the period of year 2019 to 2025. The demand for optical transceivers will be mainly supported by heavy investments in the data center industry and the transition to 400 Gigabit Ethernet (GE) ports, from the existing 100GE. We understand that the JV with PCL will focus on churning out 400Gbps optical transceiver, to capture the demand shift in the marketplace.

While the JV was formed in September 2019, the first shipment from this JV was only delivered in June 2020, one month late compared to its initial targeted timeline, as the implementation of Movement Control Order (MCO) has caused production delays. We expect more meaningful contribution from this business venture to kick in in FY2021.

New addition to P34. Inari's had recently, in mid-June, welcomed Swiss-based Comet Group as its new customer in P34. This move was in line with the management's plan to move up the value chain and play a part in the front-end space of the semiconductor industry. The Comet Group is a technology company, focusing mainly on the X-ray and RF field, mainly providing component and system solutions for materials testing and security inspection.

To our knowledge, the first product outsourced by Comet to its Malaysian manufacturing facility is its impedance matching network and Inari would be responsible for the sub-module assembly. It is noteworthy that the end user for this module would be Lam Research in Penang, hence we believe that this partnership with Comet could help propel Inari into the front-end space of the semiconductor industry.

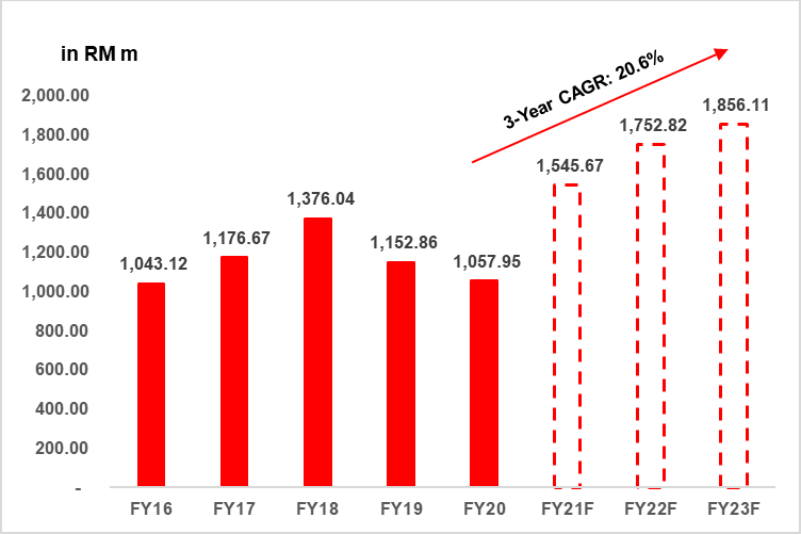
Financial Highlights

Promising topline growth. Inari's topline has recorded consistent growth from FY16 to FY18, achieving a record high revenue of RM1.38bn in FY18, underpinned by strong loading volume in the RF segment as well as more meaningful contribution from its iris scanner business.

However, Inari's revenue has slumped thereafter, for two consecutive years in FY19 and FY20, due to the removal of the iris scanning function in a South Korean phone maker's flagship model in CY18. The decline in FY19's revenue was also partly attributed to the absence of CEEDTec's contribution, following the disposal of its operating assets in 4QFY18. Topline erosion was further exacerbated in FY20 by weakness in both its RF and optooelectronics segment. Its sensor business continued to be hit by lower volume, while the RF segment was impacted by the lower smartphone shipment in FY20.

We believe that Inari will break the streak of declining revenue in FY21, given the strong recovery in its RF segment, supported by the adoption of 5G in the US premium smartphone makers' flagship models. Based on our estimates, Inari's revenue is expected to grow by a 3-year CAGR of 20.6%, reaching RM1.86bn by FY23F. We reiterate that Inari has 22 fully functional SiP lines installed currently, as opposed to 8 SiP lines as at 4QFY20. The heightened demand for the 5G-ready device would translate into higher RF volume for Inari, and we highlight that SiP lines are currently running at c.90%

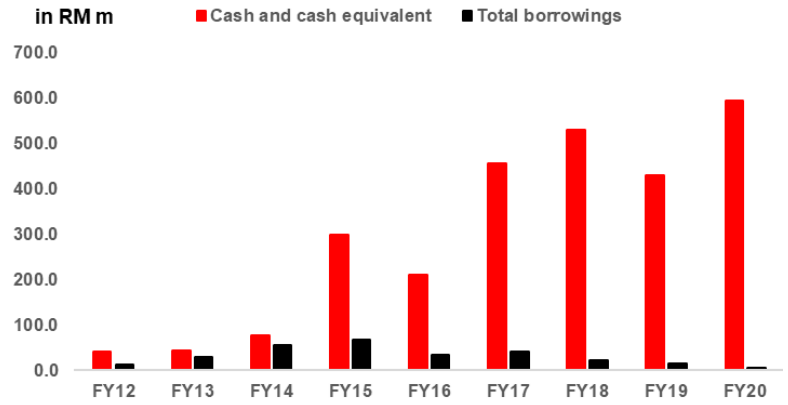
Figure 6: Inari's Revenue, Actual and Forecasts, FY16 – FY23F



Source: Company, PublicInvest Research

Healthy balance sheet. As its RF segment began to mature, Inari's net cash position has expanded notably in FY15 (see Figure 7) and has been sitting firmly on a large cash pile ever since. As at 1QFY21, Inari's net cash position stood at RM627.8m (with a cash balance of RM632.4m and total borrowings of RM4.6m), translating to 19sen per share. Its sturdy balance sheet will serve as a strong base to help the Group weather through uncertain times, considering the cyclical nature of the semiconductor industry. The huge cash pile also allows Inari to capitalize on potential M&As should the opportunity arises.

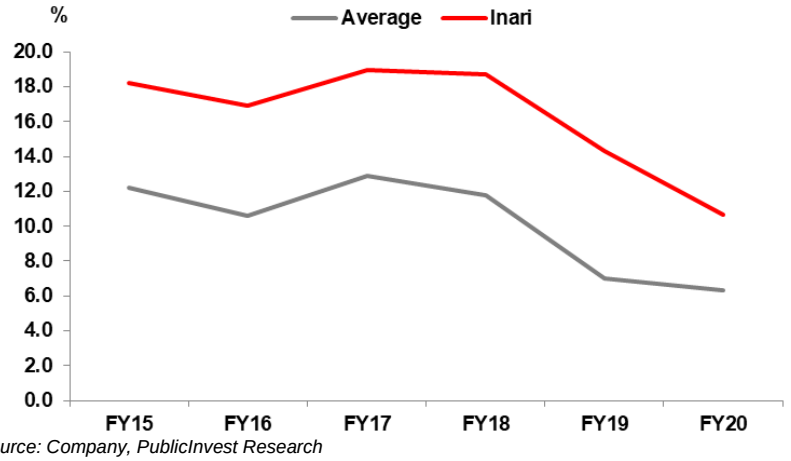
Figure 7: Inari's Revenue, Actual and Forecasts, FY16 – FY23F



Source: Company, PublicInvest Research

Asset light, relative to peers. Compared to its local peers, Inari has managed to stay asset light, generating a relatively higher return on assets (ROA) as compared to the local sector average. We attribute its higher ROA to its effort of sourcing locally made equipment when possible rather than procuring expensive tools from foreign suppliers. Apart from that, Broadcom also consign testers to Inari, contributing to the higher ROA.

Figure 8: Inari's ROA vs Local Peers' Average, FY15 – FY20

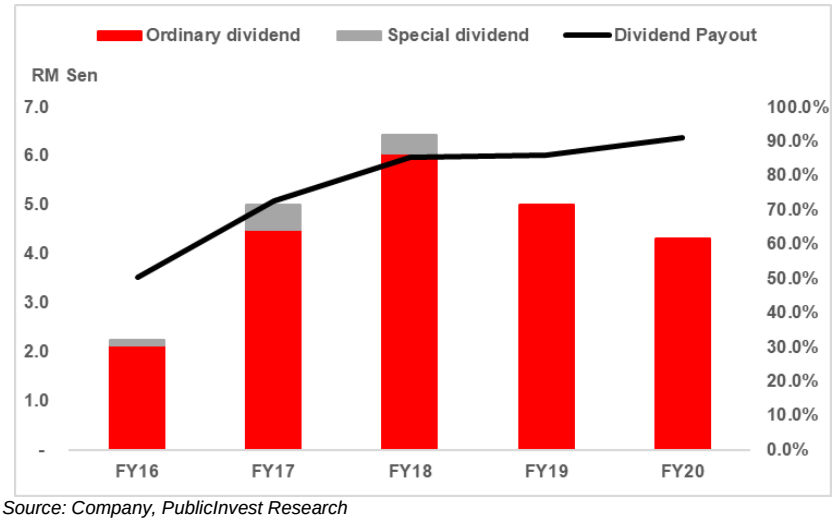


Source: Company, PublicInvest Research

Consistent dividend payouts. Inari has consistently declared and paid dividend to reward its shareholders since its listing back in FY21. Inari has an internal dividend policy of 40%, however, the Group has been distributing above its internal payout target in recent years, with the payout in FY20 hitting an all-time high of 91.1%. We believe the high payout by Inari was made possible by its huge cash coffers and the strong free cash flow generated yearly.

Going forward, we expect Inari to continue paying out dividend above its internal policy of 40%, considering the solid free cash flow that we project the Group to generate in the coming financial years. We expect the Group's free cash flow to expand by a 3-year CAGR of 12% to RM356.5m in FY23F.

Figure 9: Inari's Dividend Per Share & Dividend Payout, FY16 – FY20



Source: Company, PublicInvest Research

Industry Outlook

In the industry outlook assessment, we will be mainly discussing about the RF filter market and the optoelectronic market, considering that Inari has the largest exposure to these two market segments.

Radio Frequency Filter Market:

Technology has altered the way people consume media content, with mobile devices taking over as the preferred choice currently. In our view, this change of preference would support the adoption of 5G devices going forward. 5G-enabled smartphones phones were targeted to rollout on a large scale in 2020, with shipments expected to reached 190m units, accounting for 14% of the total smartphone shipment in 2020, according to the International Data Corporation (IDC). While the global pandemic outbreak has resulted in top smartphone vendors cutting down their 2020 production plans, however, we highlight that most of the cuts were directed at their 4G portfolios, signifying that 5G devices are still the vendors' priority.

With more 5G networks to be eventually rolled out globally, the frequency bands used could potentially grow to a range of 75 to 100 bands, as compared 4G networks' of c.50 frequency bands. More frequency bands used in 5G mobile devices would also mean that more RF front-end (RFFE) contents, like RF filters, amplifiers and switches are required to be integrated into a 5G mobile phone, in order to accommodate the global range of frequency bands used by 5G devices. We highlight that the latest 5G smartphone launched by the US-based smartphone maker supports a total of 57 frequency bands, up from 33 frequency bands supported by its predecessor.

According to Yole Développement, RF filters represent the largest business segment in the RFFE industry, and the value for this division is expected to grow by more than threefold from year 2016 to year 2022. The growth will be fueled by the increasing filtering needs given that each individual frequency band will require a single RF filter. ElectronicDesign.com also claims that a 5G device might require up to 100 RF filters, due to the increasing amount of antennas fitted into the device. The RF filter market is expected to reach a market size of USD16.3bn as by year 2022.

The RFFE supply chain is mainly dominated by notable legacy providers like Broadcom, Qorvo and Skyworks, with Qualcomm joining the bandwagon in the recent years, aggressively expanding its reach in the RFFE market, specifically for 5G products. These integrated device manufacturers (IDMs) outsources majority of their processes to third parties, and this is where OSATs like Inari will play a part.

The advancement in the communication sector will continue to drive the use of RF filters. Market Research Future estimates the RF filter market to grow to a size of USD20.5bn by CY23, implying a CAGR of 17.8%. Given Inari's long-standing relationship with Broadcom, we opine that the gradual rollout of 5G globally will be the catalyst for Inari's growth in the coming years.

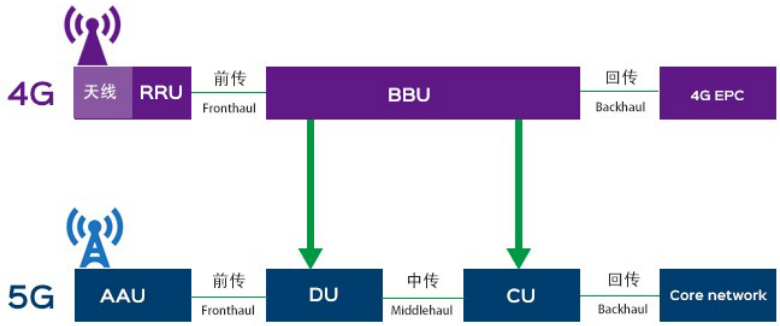
Optical Transceiver Market:

With the deployment 5G networks, higher adoption of smart devices and the rising data traffic would lead to the increasing need for more 5G base stations and data centers. More 5G base stations and data centers, will in turn, spur the growth of the optical transceiver market.

When placed in comparison with 4G, the 5G technology promotes ultra-high speed, massive connectivity as well as super low latency. To achieve this, smaller cells, rather than traditional large cell towers, are favored, especially in the urban setting, given the population and building density as well as 5G's shorter wavelengths.

The original baseband unit (BBU) and radio remote unit (RRU) found in 4G has been reconstructed into three separate functional units under the 5G technology, namely the centralized unit (CU), distributed unit (DU) and the active antenna unit (AAU). Therefore, a 5G network architecture can now be broken into three layers, which are the fronthaul, midhaul and backhaul (see figure 10), from two layers in a 4G network. These changes have given rise to new demand for optical transceivers, in order to meet the requirements related to the critical links in a 5G network.

Figure 10: 5G Structure vs 4G Structure



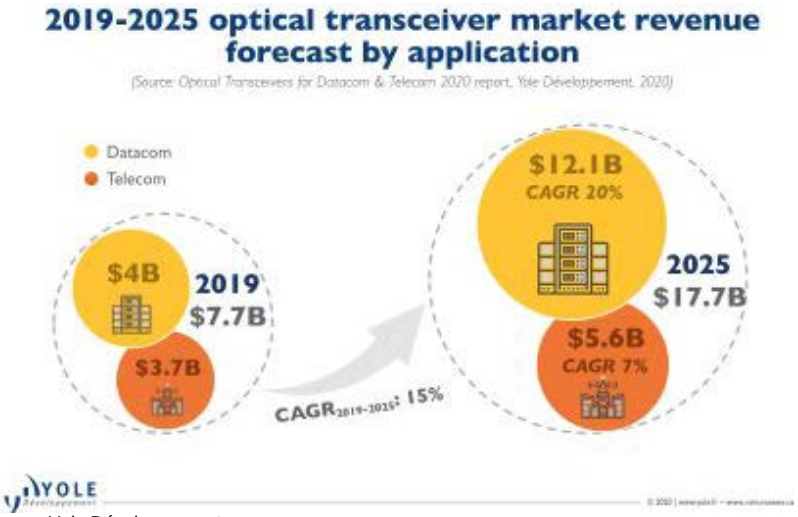
Source: HYC Co.

Under certain circumstances, micro data centres might also be installed at the base of cell towers in future, making it close enough to reduce latency, while providing certain level of computing power to process data, further improving the response time. This will help to facilitate applications such as autonomous driving, whereby the reaction time is key to the success of such novel technology.

As the pandemic hit businesses in 2020, many companies have prioritized on surviving and delayed spending on data center expansion until the market recovers. After a 10% decline in data center infrastructure spending in CY20, Gartner is expecting a bounce back in 2021 and believe that it will continue to grow year over year until 2024. It is also important to note that large public cloud providers like Google, Microsoft and the likes, have continued to invest heavily on data centres, with no major spending cuts despite the pandemic in 2020. In a separate report by Arizton, the global data centre market size is estimated to reach USD245bn in value by year 2026, implying a CAGR of 4.5% from year 2021 to 2026.

As addressed above, the growth in both the number of base stations and data centre will help promote the growth of the optical transceiver sector. According to Yole Développement, the optical transceiver market will reach a size of USD17.7bn by the end of year 2025, from USD7.7bn in 2019, registering a CAGR of 15% during the period. Note that the data transmission rate for 5G is 10 to 100x more than that of 4G's. Therefore, the number of optical transceivers being used in a single base station will increase greatly under the 5G technology and the demand for 5G optical transceivers will far exceed 4G optical transceivers.

Figure 11: Optical Transceiver Market Growth, CY19 – CY25



Source: Yole Développement

As we have highlighted earlier in this report, the JV between Inari and PCL will be focusing on producing optical transceivers that are capable of transferring data at a speed of up to 400Gbps. 400Gbps optical transceivers are 4x faster than the speed of optical transceivers being used in data centres currently. Dell'Oro's research has estimated that the deployment of 100GE switch ports is likely to peak in 2020, while 400G ports will start to ramp up concurrently. Shipments for 400G switch ports are also estimated to surpass 15m units by 2023.

Investment Risks

i) **Customer concentration risk.** Broadcom has been a major contributor to Inari over the years and we estimate that Broadcom has contributed to more than 75% of Inari's topline in FY20, making the Group's performance highly correlated on Broadcom's success. High customer concentration exposes Inari to the risk of losing business should the relationship between both companies turn sour or should there be a change in strategy or management in Broadcom. However, we are not overly concerned on this matter, given the long-standing relationship between both companies as well as Inari's capabilities in the RF segment.

ii) **Semiconductor cycle risk.** Semiconductors have relatively short life span and become obsolete quickly when newer and faster technologies are developed. This poses as an inherent risk to Inari as a semiconductor assembly and test player. Inari's performance would also be negatively impacted should there be new technology that outperforms Broadcom's FBAR filters.

iii) **Weaker-than-expected demand for the US phone maker's products.** Significant slowdown in terms of smartphone demand or smartphone sales could negatively affect the performance of Inari's RF unit. A longer replacement cycle for smartphone in general also does not bode well for Inari.

Valuation

We like Inari for its exposure to the 5G technology transition, via its long-time customer Broadcom. The 5G revolution will underpin the increase of frequency bands supported by a 5G-ready mobile device, which in turn will require more RF filters to be fitted into the device. Bear in mind that Broadcom has also signed a supply agreement worth USD15bn with a US smartphone maker. We believe this supply agreement would also provide some clarity to Inari in the medium term.

We initiate coverage on Inari with an Outperform call, ascribing to a P/E multiple of 42x to its CY21F EPS of 9.1sen per share, with a TP of RM3.80. The multiple represents a c.15% premium to the local peers' average multiple, according to the Bloomberg consensus. We deem the premium justifiable, considering the (i) strong 3-year earnings CAGR of 32.1%, (ii) closest proxy for 5G growth, as well as (iii) its exposure to the growing optical transceiver space.

Table 1: Peer Comparison

Company	Share Price @ 25 Jan (RM)	Market Cap (RM m)	EPS (Sen)		P/E		ROE (%)	
			FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Inari Amertron	3.15	10,411	8.4	9.9	37.77	32.49	22.0%	24.7%
Globetronics Technology	3.20	2,042	10.8	11.8	29.63	27.12	19.6%	23.8%
Unisem	8.13	6,386	23.3	25.9	34.89	31.39	10.7%	11.3%
KESM Industries	16.82	724	26.7	42.3	63.00	39.76	5.4%	5.8%
Malaysian Pacific Industries	16.000	688	95.1	109.4	16.82	14.63	13.2%	13.2%

Source: Bloomberg, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Aug (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	1,152.9	1,058.0	1,545.7	1,752.8	1,856.1
Cost of sales	-883.4	-841.7	-1,174.7	-1,323.4	-1,392.1
Gross Profit	269.4	216.3	371.0	429.4	464.0
Other Gains / (Losses)	21.8	26.2	30.9	35.1	37.1
Finance Costs	-1.3	-0.8	-1.6	-1.8	-2.1
Pre-tax Profit	216.2	172.4	306.8	361.0	398.8
Income Tax	-23.9	-15.9	-29.1	-34.3	-37.9
Effective Tax Rate (%)	11.0	9.2	9.5	9.5	9.5
Minorities	-0.6	-0.7	0.0	0.0	0.0
Net Profit	191.7	156.4	277.6	326.7	360.9
Growth					
Revenue	-16%	-8%	46%	13%	6%
Gross Profit	-26%	-20%	72%	16%	8%
Net Profit	-23%	-18%	77%	18%	10%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Aug (RM m)	2019A	2020A	2021F	2022F	2023F
Property, Plant & Equipment	489.5	479.4	464.5	447.8	428.1
Cash and Cash Equivalents	429.7	594.6	467.5	486.0	537.7
Receivables, deposits and prepayment	233.0	214.4	298.9	334.8	352.7
Other Assets	188.1	175.8	306.7	332.4	344.3
Total Assets	**1,340.3**	**1,464.2**	**1,537.6**	**1,601.0**	**1,662.8**
Payables	160.8	199.2	227.0	239.3	245.0
Borrowings	14.9	6.2	12.0	14.0	16.0
Deferred tax	8.6	11.3	11.3	11.3	11.3
Other Liabilities	34.1	38.6	36.8	36.8	36.8
Total Liabilities	**218.4**	**255.2**	**287.0**	**301.4**	**309.0**
Shareholders' Equity	1,122.0	1,208.9	1,250.6	1,299.6	1,353.7
Total Equity and Liabilities	**1,340.3**	**1,464.2**	**1,537.6**	**1,601.0**	**1,662.8**

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Aug	2019A	2020A	2021F	2022F	2023F
Book Value Per Share	0.3	0.3	0.4	0.4	0.4
NTA Per Share	0.3	0.3	0.4	0.4	0.4
EPS (Sen)	5.8	4.7	8.4	9.9	10.9
DPS (Sen)	5.2	4.4	7.1	8.4	9.3
Payout Ratio (%)	89.6	92.9	85.0	85.0	85.0
ROA (%)	14.3	10.7	18.1	20.4	21.7
ROE (%)	17.1	12.9	22.2	25.1	26.7

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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