



INARI AMERTRON BERHAD

Outperform

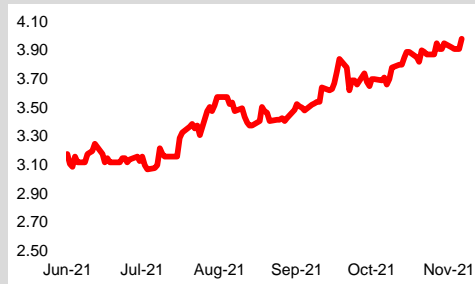
DESCRIPTION

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

12-Month Target Price	RM5.31
Previous Target Price	RM4.75
Current Price	RM4.00
Expected Return	32.7%

Market	Main
Sector	Technology
Bursa Code	0266
Bloomberg Ticker	INRI MK
Shariah-Compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	2.41 – 4.01
3-Month Average Vol ('000)	14,519.5

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	6.0	10.9	31.6
Relative Returns	11.2	9.9	36.4

KEY STOCK DATA

Market Capitalisation (RMm)	14,759.0
No. of Shares (m)	3,680.0

MAJOR SHAREHOLDERS

	%
Insas Bhd	14.4
KWAP	8.8
EPF	5.8

Research Team

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A Good Start

Inari Amertron (Inari) 1QFY22 core earnings surged 33% YoY to a new quarterly record high of RM102.6m after stripping out the FX movements. The results were in line with both our and consensus projections at 27.6% and 26.6% respectively. We raise our earnings forecast for FY22-23F by about 3%-4%, to account for better-than-expected earnings margin from its RF segment. We reiterate our **Outperform** call with a higher TP of RM5.31 as we roll-over our valuations to FY23F based on 45x EPS. We continue to like Inari for its role as a proxy to stronger 5G adoption globally and should also benefit from the US smartphone's supercycle. Meanwhile, Inari announced a higher DPS of 2.8sen for the quarter (vs 1QFY21: 2sen).

§ **Record quarterly sales.** Inari's 1QFY22 revenue rose 24% YoY to RM431.1m, due to growth across all business segments. Its radio frequency (RF) segment remained the key growth driver, attributed to stronger volume loading from primary RF customer, Broadcom following the launches of new generation 5G smartphones by its US end-customer. 1QFY22 core earnings jumped 33% YoY to RM102.6m, as gross margin expanded from 28.1% to 30.5%. The stronger results were also attributed to higher capacity utilization given that Penang has moved into Phase 2 of the national recovery plan since 7 July 2021, which allows the group to operate with a higher 80% workforce capacity.

§ **Upbeat outlook.** We gather that Inari is allocating RM100m capex in FY22F, mainly for three new System-in-Package (SiP) lines, eight electromagnetic shield system and wafer processing equipment. The Group is positive about the new integrated system for its module business at P55, a new 50k sq ft 5-storey building extension, located next to P13 in Bayan Lepas. The Group is preparing for the pilot line to qualify for assembly and testing of automotive power module for a new US customer. We think this could be a new growth engine for the company- contributing at least 15% for the group's topline in the next 3 years.

§ **Retaining Outperform call.** We raise our earnings forecast for FY22-23F by < 4%, to account for stronger contribution from its RF segment, considering that the US smartphone maker has requested its suppliers to boost production output for its next-generation model by 20%. Our TP is subsequently raised to RM5.31, after rolling over our valuations to FY23F. Maintain **Outperform**.

KEY FORECAST TABLE

FYE June (RM m)	2020A	2021A	2022F	2023F	2024F	CAGR
Revenue	1,058.0	1,428.7	1,787.7	1,953.2	2,056.1	18.1%
Gross Profit	216.3	423.9	509.5	566.4	596.3	28.9%
Pre-tax Profit	172.4	352.3	428.7	469.9	494.9	30.2%
Net Profit	155.8	331.0	386.0	423.1	445.6	30.1%
EPS (Sen)	4.7	9.0	10.5	11.5	12.1	
P/E (x)	85.5	44.3	38.0	34.6	32.9	
DPS (Sen)	4.3	7.7	8.9	9.8	10.3	
Dividend Yield	1.1	1.9	2.2	2.5	2.6	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE June (RM m)</u>	<u>1Q22</u>	<u>1Q21</u>	<u>4Q21</u>	<u>YoY Chg (%)</u>	<u>QoQ Chg (%)</u>	<u>YTD 22</u>	<u>YTD 21</u>	<u>YoY Chg (%)</u>	<u>Comments</u>
Revenue	431.1	347.6	361.3	24.0	19.3	431.1	347.6	24.0	Mainly led by radio frequency business
Cost of sales	-299.4	-	-249.6	19.9	20.0	-299.4	-249.8	19.9	
Gross profit	131.7	97.8	111.7	34.6	17.9	131.7	97.8	34.6	
Other income	10.9	3.0	7.3	>100	50.6	10.9	3.0	>100	Led by FX gain
Administrative expenses	-24.2	-23.3	-25.4	3.9	-4.5	-24.2	-23.3	3.9	
EBIT	118.4	77.6	93.6	52.7	26.5	118.4	77.6	52.7	
Finance cost	0.0	-0.1	-0.3	-66.3	-91.5	0.0	-0.1	-66.3	
Share of results of associates	-0.1	-0.1	0.1	-8.5	<-100	-0.1	-0.1	-8.5	
Pre-tax profit	118.3	77.4	93.4	52.8	26.7	118.3	77.4	52.8	
Taxation	-11.4	-7.3	-4.7	55.5	>100	-11.4	-7.3	55.5	
Minority interest	0.0	0.0	-0.3	-	-89.1	0.0	0.0	-	
Profit after tax	106.9	70.1	88.4	52.5	20.9	106.9	70.1	52.5	
Core earnings	102.6	77.1	86.6	33.1	18.5	102.6	77.1	33.1	After stripping out FX changes
Core EPS (sen)	2.8	2.1	2.4	33.1	18.5	2.8	2.1	33.1	
DPS (sen)	2.8	2.0	2.5	40.0	12.0	2.8	2.0	40.0	Ex-date: 09 Dec 21
Gross Margin (%)	30.5	28.1	30.9	-	-	30.5	28.1	-	
Pre-tax Margin (%)	27.4	22.3	25.8	-	-	27.4	22.3	-	
Net Margin (%)	24.8	20.2	24.5	-	-	24.8	20.2	-	
Effective tax rate (%)	9.7	9.5	5.1	-	-	9.7	9.5	-	

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE June (RM m)	2020A	2021A	2022F	2023F	2024F
Revenue	1,058.0	1,428.7	1,787.7	1,953.2	2,056.1
Cost of sales	-841.7	-1,004.8	-1,278.2	-1,386.8	-1,459.9
Gross Profit	216.3	423.9	509.5	566.4	596.3
Other Gains / (Losses)	26.2	20.1	33.9	28.6	30.9
Finance Costs	-0.8	-0.5	-0.8	-0.8	-1.3
Pre-tax Profit	172.4	352.3	428.7	469.9	494.9
Income Tax	-15.9	-21.5	-42.9	-47.0	-49.5
Effective Tax Rate (%)	9.2	6.1	10.0	10.0	10.0
Minorities	-0.7	0.2	0.2	0.3	0.3
Net Profit	155.8	331.0	386.0	423.1	445.6
Growth					
Revenue	-8%	35%	25%	9%	5%
Gross Profit	-20%	96%	20%	11%	5%
Net Profit	-19%	112%	17%	10%	5%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE June (RM m)	2020A	2021A	2022F	2023F	2024F
Property, Plant & Equipment	479.4	473.4	443.9	403.5	352.2
Cash and Cash Equivalents	594.6	904.9	943.0	1,031.0	1,124.6
Receivables, deposits and prepayment	214.4	251.5	311.1	338.6	355.6
Other Assets	175.8	190.5	233.3	250.3	261.8
Total Assets	1,464.2	1,820.2	1,931.3	2,023.4	2,094.2
Payables	199.2	288.6	323.1	337.0	346.3
Borrowings	6.2	1.1	20.0	35.0	30.0
Deferred tax	11.3	11.6	11.6	11.6	11.6
Other Liabilities	42.9	145.9	145.7	145.4	145.1
Total Liabilities	259.5	447.2	500.4	529.0	533.1
Shareholders' Equity	1,204.7	1,373.0	1,430.9	1,494.3	1,561.2
Total Equity and Liabilities	1,464.2	1,820.2	1,931.3	2,023.4	2,094.2

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE June	2020A	2021A	2022F	2023F	2024F
Book Value Per Share	0.3	0.4	0.4	0.4	0.5
NTA Per Share	0.3	0.4	0.4	0.4	0.5
EPS (Sen)	4.7	9.0	10.5	11.5	12.1
DPS (Sen)	4.3	7.7	8.9	9.8	10.3
Payout Ratio (%)	91.5	85.6	85.0	85.0	85.0
ROA (%)	10.6	18.2	20.0	20.9	21.3
ROE (%)	12.9	24.1	27.0	28.3	28.5

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 12 months.
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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