



20 October 2021

research@rakutentrade.my

Company Update

Inari Amerton Bhd

Growing big in China

By Rakuten Trade Research Team

We are positive on the MoU with China Fortune-Tech Capital (a VC firm incorporated by SMIC) to set up a JV in China, offering OSAT related businesses. The new JV will utilise the existing facilities of Inari's wholly-owned subsidiary, Amertron Technology (Kunshan), to accelerate the qualification process for new customers before moving into a new plant when the need arises. Such a move is in tandem with Inari's goal to broaden its revenue stream and ride on China's ambitious plan to achieve self-sufficiency (currently 16% vs its 70% target) in the semiconductor industry. **BUY with TP of RM4.80 based on 40x FY22E PER**

Inari announced that the group has entered into a MoU with China Fortune-Tech Capital Co. Ltd. (CFTC) to carry out outsourced semiconductor assembly and test (OSAT) related businesses in China. The new JV company requires a total capital of RMB1.71bn (c.RM1.11bn) where Inari will contribute 100% equity shares of its wholly-owned subsidiary, Amertron Technology (Kunshan), and RMB463m (c.RM299m) cash while CFTC contributes RMB749m cash and RMB21m as 100% of equity shares of Yiwu Semiconductor International Corporation. Inari will have 55% stake of the new JV while CFTC holds the remaining 45%.

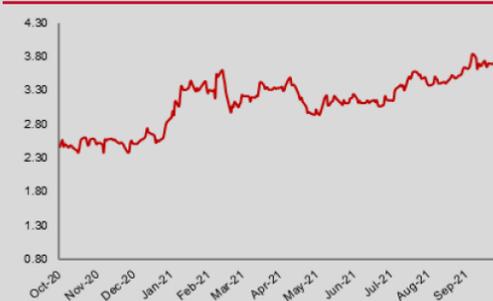
CFTC is a venture capital firm incorporated by China's largest pure play semiconductor foundry, Semiconductor Manufacturing International Corporation (SMIC), focusing on IC design, materials, equipment, and IP services. We believe that Inari was identified by CFTC due to its excellent track record in the OSAT space and its capabilities which often attracts large MNC customers.

While Inari has yet to provide further information on its potential customers and products involved in the new JV, we opine that it is likely related to the optoelectronic segment, mainly in the automotive space, in line with the expertise in its Kunshan plant. Amertron Technology (Kunshan) has a land area of 50k sq. ft. and contributes c.10% to the group's revenue.

BUY

Price: RM3.80
Target price: RM4.80

Share Price Performance



KLCI	1,605.97
YTD KLCI chg	-1.3%
YTD stock price chg	41.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	INRI MK Equity
Market Cap (RM m)	14,004.0
Shares Outstanding	3,685.3
52-week range (H)	3.88
52-week range (L)	2.41
3-mth avg daily vol:	13,832,844
Free Float	64%
Beta	0.67

Major Shareholders

Insas Bhd	14.4%
KWAP	9.1%
EPF	7.3%

Summary Earnings Table

FYE Jun (RM m)	2021A	2022E	2023E
Turnover	1,428.7	1,750.1	2,006.1
EBITDA	455.7	516.3	574.8
PBT	352.2	419.9	481.5
Net Profit (NP)	330.5	394.0	451.8
Consensus (NP)	n.a	383.9	431.7
Earnings Revision	n.a	0%	0%
EPS (sen)	10.0	11.9	13.7
EPS growth (%)	112.2	19.2	14.7
NDPS (sen)	11.0	8.4	9.6
BVPS (RM)	0.42	0.45	0.49
Price/BV (x)	9.1	8.4	7.7
PER (x)	38.0	31.8	27.8
Gearing (x)	0.0	0.0	0.0
ROA (%)	18.2	20.7	21.9
ROE (%)	24.1	26.4	27.8
Dividend Yield (%)	2.9	2.2	2.5

Source: Kenanga Research



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COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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Published:

Kenny Yee Shen Pin
Head of Research