

Inari Amertron

Moving Up the Value Chain

By Samuel Tan | samueltan@kenanga.com.my

We are positive on the JV with MIT Semiconductor to develop OSAT equipment. Initial stage involves customising equipment for internal use followed by IP protection filing. This allows Inari to sell equipment to external OSAT as part of its effort to diversify revenue stream and move up the value chain. No guidance yet but we expect meaningful contribution to materialise only in 1-2 years owing to lengthy development process. Immediate drivers are: (i) c.75% increase in RF filters per handset, (ii) a long overdue (c. 4-5 years) phone replacement cycle, and (iii) broadening exposure in the data centre space. Maintain **OUTPERFORM** with an unchanged target price of RM2.50.

Forming JV with Singapore-based MIT Semiconductor. Inari Amertron (Inari) announced yesterday that it has via its wholly-owned subsidiary Inari Matrix Sdn Bhd (IMSB) entered into a subscription and shareholders' agreement with MIT Semiconductor Pte Ltd (MIT) to set up a joint venture (JV) entity.

Venturing into OSAT equipment. The JV allows for synergistic collaboration which Inari with its long history and broad experience in operating outsourced semiconductor test and assembly (OSAT) businesses will be able to tap into MIT's expertise and technical know-how in manufacturing OSAT equipment. For the initial stage, the JV will focus on developing customised equipment for Inari's consumption. Potential equipment includes handlers used in the OSAT space for processes such as flip chip, electromagnetic interference (EMI) shielding and copper pillar replacement.

JV to diversify revenue stream. Inari also plans to pursue intellectual property (IP) protection upon getting qualified by potential customers. This will allow the group to sell equipment to external OSATs. We are positive on this JV as it is in line with the group's long-term effort to diversify revenue stream and reduce reliance on current key customers. Management has yet to provide any guidance on the potential contribution but given the lengthy process of equipment development and IP registration process, we expect meaningful contribution only in 1-2 years.

The proposed capital injection by IMSB (51%) and MIT (49%) is RM16.8m. IMSB's investment commitment is RM8.6m which will be funded internally by Inari. Operations will be carried out in the P34 plant in Batu Kawan.

RF to drive immediate growth. Meanwhile, the radio frequency (RF) space is poised for a massive upcycle with the adoption of 5G in handsets. With the need for c.75% more RF filters per handset, Inari has added 8 more systems in package (SiP) assembly lines for RF in its P34 plant, in addition to the existing 8 lines in its P13 plant.

We keep our FY20E and FY21E NP of RM140.4m and RM240.9m, representing growth of -27% and +72%, respectively. We expect the softness in smartphone shipment to end in FY20, followed by a massive upcycle of 5G adoption in FY21.

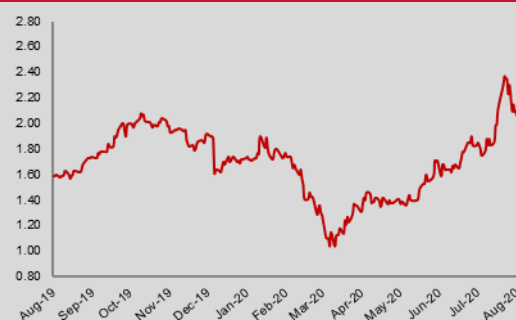
Maintain OUTPERFORM recommendation and Target Price of RM2.50 based on CY21 PER of 30x (representing +1SD above its 3-year mean) considering Inari being the purest proxy to 5G adoption in the US flagship smartphone.

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

OUTPERFORM ↔

Price : RM2.05
Target Price : RM2.50 ↔

Share Price Performance



KLCI 1,577.8
YTD KLCI chg -0.7%
YTD stock price chg 17.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	INRI MK Equity
Market Cap (RM m)	6,696.0
Shares Outstanding	3,255.8
52-week range (H)	2.40
52-week range (L)	0.90
3-mth avg daily vol:	12.168,073
Free Float	52%
Beta	1.2

Major Shareholders

Insas Bhd	16.3%
KWAP	14.4%
EPF	10.6%

Summary Earnings Table

FYE Jun (RM m)	2019A	2020E	2021E
Turnover	1,152.9	1,036.8	1,416.5
EBITDA	312.3	264.2	372.0
PBT	216.2	158.6	271.5
Net Profit (NP)	191.7	140.4	240.9
Consensus (NP)	n.a	143.1	219.5
Earnings Revision	n.a	0%	0%
EPS (sen)	6.1	4.3	7.4
EPS growth (%)	-25.0	-26.7	71.6
NDPS (sen)	6.1	3.5	5.9
BVPS (RM)	0.35	0.36	0.42
Price/BV (x)	5.2	6.0	5.7
PER (x)	30.2	47.5	27.7
Gearing (x)	0.0	0.0	0.0
ROA (%)	14.3	10.8	17.5
ROE (%)	17.1	12.6	20.7
Dividend Yield (%)	3.3	1.7	2.9

19 August 2020

Income Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1,177	1,376	1,153	1,037	1,416
EBITDA	308.6	380.1	312.3	264.2	372.0
Depre & Amor	-65.4	-83.1	-94.9	-104.4	-99.2
Operating Profit	243.2	297.0	217.5	159.8	272.8
Other Income	49.6	42.5	21.8	19.6	26.8
Interest Exp	-2.2	-1.5	-1.3	-1.3	-1.3
Associate	0.0	0.0	0.0	0.0	0.0
PBT	241.0	295.5	216.2	158.6	271.5
Taxation	-12.4	-35.3	-23.9	-17.5	-30.0
Minority Interest	0.9	10.9	0.6	0.6	0.6
PATAMI	227.8	249.3	191.7	140.4	240.9
Core PATAMI	227.8	249.3	191.7	140.4	240.9

Balance Sheet

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	330.6	400.4	489.5	465.1	446.0
Intangible Assets	9.2	2.1	2.2	2.2	2.2
Other FA	6.1	5.1	2.2	2.2	2.2
Inventories	169.0	160.5	172.7	158.7	214.6
Receivables	213.0	202.4	202.9	182.5	249.3
Other CA	21.0	31.3	41.1	41.1	41.1
Cash	454.3	530.0	429.7	510.8	630.4
Total Assets	1,203	1,332	1,340	1,363	1,586
Payables	230.7	169.2	160.8	147.8	199.8
ST Borrowings	16.1	9.0	6.2	6.2	6.2
Other ST Liability	51.7	61.5	33.6	9.8	-10.9
LT Borrowings	24.8	14.5	8.7	8.7	8.7
Other LT Liability	6.7	6.7	9.2	9.2	9.2
Net Assets	873	1,071	1,122	1,181	1,373
Shr. Equity	876	1,062	1,118	1,180	1,372
Mnrt. Interest	-2.2	8.7	3.5	1.0	0.7
Total Equity	873	1,071	1,122	1,181	1,373

Cashflow Statement

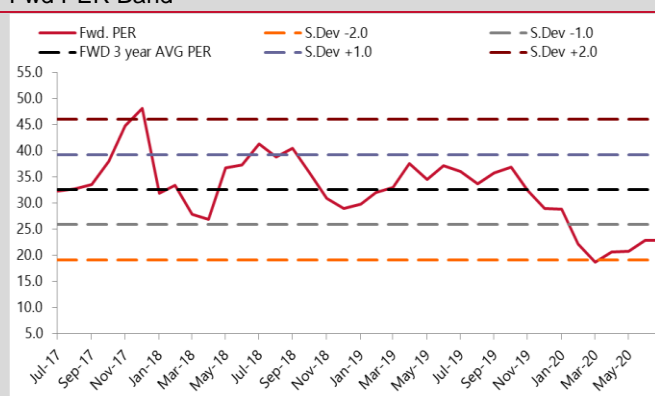
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	304.4	277.6	270.5	273.2	244.5
Investing CF	-53.8	-109.6	-185.2	-80.0	-80.0
Financing CF	-7.5	-87.4	-190.9	-43.2	-44.8

Financial Data & Ratios

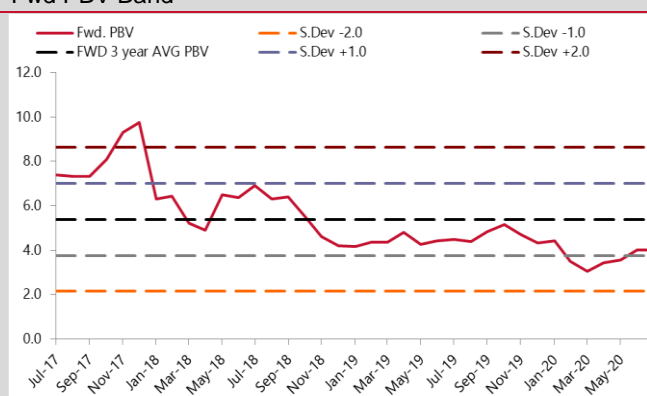
FY Dec	2017A	2018A	2019A	2020E	2021E
Growth (%)					
Turnover	173.6	16.9	-16.2	-10.1	36.6
EBITDA	421.9	23.2	-17.8	-15.4	40.8
Operating Profit	661.0	22.1	-26.8	-26.5	70.7
PBT	714.9	22.6	-26.8	-26.7	71.2
Adj Net Profit	1365	9.4	-23.1	-26.7	71.6
Profitability (%)					
EBITDA Margin	26.2	27.6	27.1	25.5	26.3
Operating Margin	20.7	21.6	18.9	15.4	19.3
PBT Margin	20.5	21.5	18.8	15.3	19.2
Core Net Margin	19.4	18.1	16.6	13.5	17.0
Effective Tax Rate	5.1	12.0	11.0	11.0	11.0
ROA	18.9	18.7	14.3	10.8	17.5
ROE	26.0	23.5	17.1	12.6	20.7
DuPont Analysis					
Net Margin (%)	19.4	18.1	16.6	13.5	17.0
Assets Turnover (x)	1.0	1.0	0.9	0.8	0.9
Leverage Factor (x)	1.4	1.2	1.2	1.2	1.2
ROE (%)	26.0	23.5	17.1	11.9	17.6
Leverage					
Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net (Cash)/Debt	(413)	(506)	(415)	(496)	(616)
Net Debt/Equity (x)	-0.5	-0.5	-0.4	-0.4	-0.4
Valuations					
Core EPS (sen)	11.7	8.1	6.1	4.3	7.4
DPS (sen)	6.6	6.7	6.1	3.5	5.9
BVPS (RM)	0.4	0.3	0.4	0.3	0.4
PER (x)	15.7	22.6	30.2	47.5	24.7
Div. Yield (%)	3.6	3.6	3.3	1.7	2.9
P/BV (x)	4.1	5.3	5.2	6.0	5.7
EV/EBITDA (x)	10.2	13.5	17.2	23.6	16.8

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

19 August 2020

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.	1-Yr. Fwd.		
D&O GREEN TECHNOLOGIES BHD	0.84	922.7	Y	12/2020	-5.7%	6.5%	-15.5%	43.5%	24.0	28.0	19.8	1.6	1.4	10.9%	2.0%	0.86	OP
INARI AMERTRON BHD	2.05	6,969.0	Y	06/2020	-10.1%	36.6%	-26.7%	71.6%	30.2	47.5	24.7	6.0	5.7	20.7%	1.7%	2.50	OP
JHM CONSOLIDATION BHD	1.61	897.7	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.2%	2.00	OP
KESM INDUSTRIES BHD	8.46	363.9	Y	07/2020	-23%	24.0%	-37.0%	366%	53.7	84.5	18.1	1.0	0.9	2.0%	1.1%	7.40	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	14.66	3,080.0	Y	06/2020	2.2%	9.0%	7.6%	29.0%	12.8	12.5	9.7	1.6	1.6	10.5%	3.0%	13.30	OP
P.I.E. INDUSTRIAL BHD	1.43	549.2	Y	12/2020	13.5%	13.5%	24.3%	15.0%	15.5	36.3	14.6	1.3	1.2	3.5%	1.4%	1.45	MP
SKP RESOURCES BHD	1.40	1,750.7	Y	03/2020	18.9%	24.2%	-30.4%	-0.8%	9.5	9.6	6.6	1.6	1.4	15.8%	5.2%	1.56	OP
UNISEM (M) BHD	3.34	2,450.0	Y	12/2020	-7.0%	15.9%	40.2%	28.0%	36.0	25.7	20.0	1.7	1.6	6.4%	1.9%	3.00	MP

Source: Kenanga Research

19 August 2020

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

