

Inari Amertron

Back-to-back Record Earnings

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Inari charted back-to-back all-time high quarterly earnings with 2QFY21 CNP of RM90.1m (+27% QoQ; +140% YoY), inclusive of RM11.7 forex losses. 1HFY21 CNP of RM161m came in above expectations, representing 62%/61% of our/consensus full-year estimates. We expect strong RF demand to continue, driven by the replacement cycle of older smartphone models. The group's vacant floor space of 480k sq. ft. in P34 plant may potentially attract new MNC customers which are currently scrambling for capacity amid the chip shortage. **Maintain OUTPERFORM and Target Price of RM4.00.**

Above expectation. Inari Amertron (Inari) charted back-to-back all-time high quarterly earnings with 2QFY21 CNP of RM90.1m (+27% QoQ; +140% YoY), inclusive of RM11.7m forex losses. 1HFY21 CNP of RM161m came in above expectations, representing 62% and 61% of our and consensus full-year estimates, respectively.

Results' highlight. **QoQ**, 2QFY21 CNP jumped 27% to RM90.1m on the back of an 8.4% increase in revenue as the group continues to receive very strong radio frequency (RF) orders from its key customer. **YoY**, 2QFY21 CNP jumped 140% on a 42% increase in revenue as the adoption of 5G connectivity in the latest US flagship smartphone resulted in heightened demand for RF components. Cumulatively, 1HFY21 CNP soared 88% to RM161m while revenue increased 25% to RM724.5m.

Order flows will remain strong. Moving into 3QFY21, we anticipate the group to continue benefiting from such robust orders as the latest US flagship smartphone is still highly sought after by consumers. Unlike the previous models, this latest one supports 5G connectivity which is one of the main attractions for buyers. Hence, we believe this time around, the demand among consumers will not be limited to the tech enthusiasts who upgrade yearly but also the huge replacement cycle coming from existing users who are still using 4-5 year old models. Inari is currently running at 90% utilisation, defying the typical seasonality

Prime proxy for new customers. The semiconductor shortage we are seeing in the market now is mainly due to increased consumer spending on electronic gadgets. Firms which took a cautious approach on capex last year are now facing capacity constraint. To alleviate the bottleneck, many firms are scrambling for floor space which puts Inari in a sweet spot given it has recently completed its massive expansion in Batu Kawan with 680k sq. ft., of which 480k sq. ft. remain unutilised. This positions Inari perfectly to welcome multinational corporations (MNCs) as potential customers.

We raise our FY21E CNP by 8% to RM280.5m and maintain FY22E CNP at RM324.9m, representing growth of 80% and 16%, respectively.

Maintain OUTPERFORM recommendation and a higher Target Price of RM4.00 based on FY22 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 rollout, and (iii) higher-than-expected input costs.

OUTPERFORM ↔

Price : RM3.28
Target Price : RM4.00 ↔

Share Price Performance



KLCI	1,557.55
YTD KLCI chg	-4.3%
YTD stock price chg	18.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	INRI MK Equity
Market Cap (RM m)	10,875.3
Shares Outstanding	3,315.6
52-week range (H)	3.63
52-week range (L)	0.90
3-mth avg daily vol:	12,997,015
Free Float	58%
Beta	1.2

Major Shareholders

Insas Bhd	16.1%
KWAP	13.0%
EPF	8.9%

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	262.7	318.3
Earnings Revision	n.a	8%	0%
EPS (sen)	4.8	8.6	10.0
EPS growth (%)	-21.0	80.1	15.8
NDPS (sen)	4.4	7.2	8.4
BVPS (RM)	0.38	0.37	0.39
Price/BV (x)	8.9	8.9	8.5
PER (x)	68.6	38.1	32.9
Gearing (x)	0.0	0.0	0.0
ROA (%)	10.6	19.2	21.0
ROE (%)	12.9	23.3	25.9
Dividend Yield (%)	1.3	2.2	2.5

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Result Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE: Jun (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	376.8	347.6	8.4%	265.4	42.0%	724.5	582.0	24.5%
EBIT	94.8	77.5	22.3%	42.8	121.5%	172.3	97.9	76.0%
PBT	94.7	77.4	22.3%	42.7	122.1%	172.1	97.5	76.5%
Taxation	-4.6	-7.3	37.0%	-5.2	10.2%	-12.0	-12.3	2.6%
Net Profit (NP)	90.1	70.1	28.6%	37.5	140.4%	160.2	85.2	88.0%
Core NP	90.1	70.7	27.4%	37.5	140.4%	160.8	85.2	88.7%
EPS (sen)	2.7	2.2	27.2%	1.2	132.7%	4.9	2.7	82.6%
DPS (sen)	2.5	2.0		1.0		4.5	2.3	
EBIT margin	25.2%	22.3%		16.1%		23.8%	16.8%	
Pretax margin	25.1%	22.3%		16.1%		23.8%	16.8%	
CNP margin	23.9%	20.3%		14.1%		22.2%	14.6%	
Effective tax rate	-4.9%	-9.5%		-12.1%		-7.0%	-12.6%	

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	3.33	3,876.2	Y	12/2019	44.3%	21.9%	102.4%	21.3%	79.9	39.5	32.5	9.6	8.3	21.0%	0.9%	4.20	OP
INARI AMERTRON BHD	3.28	10,875.3	Y	06/2020	37.4%	24.9%	80.1%	15.8%	67.6	38.1	32.9	8.9	8.5	23.3	2.5%	4.00	OP
JHM CONSOLIDATION BHD	2.17	1,210.0	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.6%	2.35	MP
KELINGTON GROUP BHD	2.28	732.8	Y	12/2020	-8.2%	22.3%	-44.7%	130%	20.8	40.3	17.5	3.3	3.3	8.1%	0.6%	3.10	OP
KESM INDUSTRIES BERHAD	15.90	683.9	Y	07/2020	14.6%	5.3%	19158%	34.2%	3768	24.5	18.2	1.0	1.0	5.0%	1.1%	10.60	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	35.06	6,973.3	Y	06/2020	9.0%	9.0%	24.0%	12.0%	29.3	23.6	21.1	3.9	3.7	12.6%	1.2%	29.00	OP
P.I.E. INDUSTRIAL BERHAD	3.12	1,198.2	Y	12/2020	-6.0%	76.0%	-46.0%	185%	22.5	41.8	14.7	1.8	1.8	4.0%	1.4%	3.30	OP
SKP RESOURCES BHD	2.28	2,849.7	Y	03/2020	23.7%	9.7%	67.3%	20.7%	27.5	19.2	15.9	3.3	3.0	18.0%	3.0%	1.83	MP
UNISEM (M) BERHAD	8.76	6,878.2	Y	12/2020	9.0%	17.6%	71.9%	47.7%	49.7	28.9	19.6	2.4	2.2	7.8%	1.4%	5.15	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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