

26 July 2021

Inari Amertron

Biggest Upgrade Ever

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A US smartphone maker has raised production volume by 20% in anticipation of stronger demand for its upcoming model which will likely offer a high refresh rate display offering a whole new user experience never seen before. This innovation is strategically set to gain more market share as a Korean competitor is skipping the launch of its own flagship device this August in favour of a foldable phone series. Maintain **OUTPERFORM** with a higher Target Price of RM4.60.

Anticipating higher demand for 2021 flagship device. Recognising the current chip shortage environment, Inari has kick started the US smartphone program 1-2 months ahead of typical schedule to ensure meeting the timeline of its key customer's annual launch event in September. In addition, the US smartphone company has reportedly informed suppliers to increase production volume by 20%, suggesting strong confidence in the marketability of the upcoming 2021 flagship device.

Opportunity to gain market share. We observed that a Korean smartphone manufacturer is likely to skip the launch of its flagship device in the coming August event in favour of its foldable phone series. Leaving a group of users without a successor model to the existing Korean flagship device, this opens up a window of opportunity for the US smartphone maker to fill the void and gain market share from the Korean competitor.

A big upgrade to excite customers. From our channel checks, we have gathered that the upcoming US smartphone may potentially sport a high refresh rate display of up to 120Hz with always-on function, which we believe will be the biggest highlight among the new features offered this year. Having the first high refresh rate OLED display in its product line up would introduce a whole new immersive experience when interacting with the device. Users will be able to quickly notice the fluid animation transitions, particularly in fast action gameplays. Furthermore with easing lockdown restrictions, a hands-on experience in retail outlets would further amplify the attractiveness of the smartphone as its users have never experienced such a high refresh rate display before and are likely to be instantly captivated.

Benefiting from both ends for 5G adoption. Inari has already established a strong presence in the RF front-end segment (c. 70% of group revenue) and will continue to experience robust demand as the adoption of 5G among consumers has only begun. Meanwhile, the group is already preparing for the next phase of growth from data centre expansions by increasing its exposure into optical transceivers, memory and power modules.

We raise our FY21E and FY22E net profit forecasts by 7% and 16% to RM301.5m and RM375.3m, respectively, as we factor in higher production volume in anticipation of strong demand from end consumers.

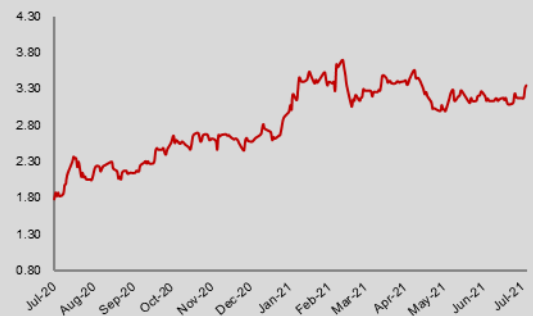
Maintain **OUTPERFORM call with a higher Target Price of RM4.60** (previously RM4.00), based on FY22E PER of 40x, at +2SD to its 1-year mean, justified by a super technology cycle driven by 5G and prospects from potential new customers/M&A which are not priced-in by the market yet.

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 : RM3.35
Target Price : RM4.60 ↑

Share Price Performance



| | |
|---------------------|---------|
| KLCI | 1,523.4 |
| YTD KLCI chg | -6.4% |
| YTD stock price chg | 21.4% |

Stock Information

| | |
|----------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | INRI MK Equity |
| Market Cap (RM m) | 11,210.6 |
| Shares Outstanding | 3,345.4 |
| 52-week range (H) | 3.73 |
| 52-week range (L) | 1.80 |
| 3-mth avg daily vol: | 16,549,042 |
| Free Float | 60% |
| Beta | 0.75 |

Major Shareholders

| | |
|-----------|-------|
| Insas Bhd | 15.8% |
| KWAP | 10.3% |
| EPF | 8.1% |

Summary Earnings Table

| FYE Jun (RM m) | 2020A | 2021E | 2022E |
|--------------------|---------|---------|---------|
| Turnover | 1,058.0 | 1,453.3 | 1,855.2 |
| EBITDA | 275.9 | 421.4 | 510.7 |
| PBT | 172.4 | 321.4 | 414.6 |
| Net Profit (NP) | 155.8 | 301.5 | 375.3 |
| Consensus (NP) | n.a | 310.0 | 361.9 |
| Earnings Revision | n.a | 7% | 16% |
| EPS (sen) | 4.9 | 9.3 | 11.5 |
| EPS growth (%) | -19.9 | 93.6 | 24.5 |
| NDPS (sen) | 4.4 | 9.6 | 9.7 |
| BVPS (RM) | 0.38 | 0.37 | 0.39 |
| Price/BV (x) | 8.6 | 9.1 | 8.7 |
| PER (x) | 66.6 | 36.2 | 29.1 |
| Gearing (x) | 0.0 | 0.0 | 0.0 |
| ROA (%) | 10.6 | 21.5 | 25.1 |
| ROE (%) | 12.9 | 25.3 | 29.9 |
| Dividend Yield (%) | 1.4 | 2.9 | 2.9 |

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Income Statement

| FY Jun (RM m) | 2018A | 2019A | 2020A | 2021E | 2022E |
|-------------------|-------|-------|--------|-------|-------|
| Revenue | 1,376 | 1,153 | 1,058 | 1,453 | 1,855 |
| EBITDA | 380.1 | 312.3 | 275.9 | 432.9 | 510.3 |
| Depre & Amor | -83.1 | -94.9 | -102.4 | -99.2 | -95.2 |
| Operating Profit | 297.0 | 217.5 | 173.5 | 333.8 | 415.1 |
| Other Income | 42.5 | 21.8 | 26.9 | 36.0 | 46.0 |
| Interest Exp | -1.5 | -1.3 | -0.6 | -0.8 | -0.8 |
| Associate | 0.0 | 0.0 | -0.6 | 0.0 | 0.0 |
| PBT | 295.5 | 216.2 | 172.4 | 333.0 | 414.3 |
| Taxation | -35.3 | -23.9 | -15.9 | -30.8 | -38.3 |
| Minority Interest | 10.9 | 0.6 | 0.7 | 0.7 | 0.7 |
| PATAMI | 249.3 | 191.7 | 155.8 | 301.5 | 375.3 |
| Core PATAMI | 249.3 | 191.7 | 155.8 | 301.5 | 375.3 |

Balance Sheet

| FY Jun (RM m) | 2018A | 2019A | 2020A | 2021E | 2022E |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| Fixed Assets | 400.4 | 489.5 | 478.8 | 459.2 | 444.0 |
| Intangible Assets | 2.1 | 2.2 | 2.3 | 2.3 | 2.3 |
| Other FA | 5.1 | 2.2 | 11.7 | 12.7 | 12.7 |
| Inventories | 160.5 | 172.7 | 145.9 | 189.9 | 250.3 |
| Receivables | 202.4 | 202.9 | 215.1 | 294.6 | 376.0 |
| Other CA | 31.3 | 41.1 | 15.4 | 15.9 | 15.9 |
| Cash | 530.0 | 429.7 | 594.6 | 429.5 | 396.6 |
| Total Assets | 1,332 | 1,340 | 1,464 | 1,404 | 1,498 |
| Payables | 169.2 | 160.8 | 199.4 | 259.2 | 341.7 |
| ST Borrowings | 9.0 | 6.2 | 5.0 | 5.0 | 5.0 |
| Other ST Liability | 61.5 | 33.6 | 35.8 | -70.2 | -119.5 |
| LT Borrowings | 14.5 | 8.7 | 1.1 | 1.1 | 1.1 |
| Other LT Liability | 6.7 | 9.2 | 13.5 | 14.0 | 14.0 |
| Net Assets | 1,071 | 1,122 | 1,209 | 1,195 | 1,255 |
| Shr. Equity | 1,062 | 1,118 | 1,205 | 1,194 | 1,255 |
| Mnrt. Interest | 8.7 | 3.5 | 4.2 | 1.1 | 0.8 |
| Total Equity | 1,071 | 1,122 | 1,209 | 1,195 | 1,255 |

Cashflow Statement

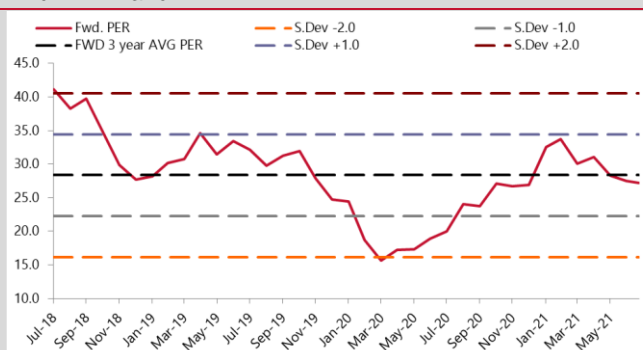
| FY Jun (RM m) | 2018A | 2019A | 2020A | 2021E | 2021E |
|---------------|--------|--------|-------|--------|--------|
| Operating CF | 277.6 | 270.5 | 347.6 | 298.5 | 358.5 |
| Investing CF | -109.6 | -185.2 | -95.4 | -80.0 | -80.0 |
| Financing CF | -87.4 | -190.9 | -99.7 | -308.6 | -311.4 |

Source: Kenanga Research

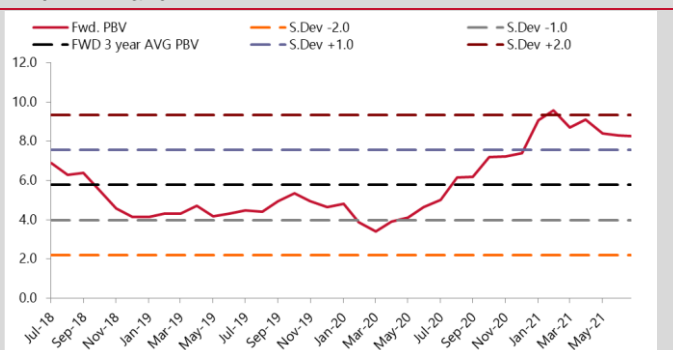
Financial Data & Ratios

| FY Jun | 2018A | 2019A | 2020A | 2021E | 2022E |
|--------------------------|-------|-------|-------|-------|-------|
| Growth (%) | | | | | |
| Turnover | 16.9 | -16.2 | -8.2 | 37.4 | 27.7 |
| EBITDA | 23.2 | -17.8 | -11.7 | 58.0 | 17.9 |
| Operating Profit | 22.1 | -26.8 | -20.2 | 92.1 | 24.4 |
| PBT | 22.6 | -26.8 | -20.3 | 93.2 | 24.4 |
| Adj Net Profit | 9.4 | -23.1 | -18.8 | 93.6 | 24.5 |
| Profitability (%) | | | | | |
| EBITDA Margin | 27.6 | 27.1 | 26.1 | 29.8 | 27.5 |
| Operating Margin | 21.6 | 18.9 | 16.4 | 23.0 | 22.4 |
| PBT Margin | 21.5 | 18.8 | 16.3 | 22.9 | 22.3 |
| Core Net Margin | 18.1 | 16.6 | 14.7 | 20.7 | 20.2 |
| Effective Tax Rate | 12.0 | 11.0 | 9.2 | 9.2 | 9.2 |
| ROA | 18.9 | 18.7 | 14.3 | 10.6 | 21.5 |
| ROE | 23.5 | 17.1 | 12.9 | 25.3 | 29.9 |
| DuPont Analysis | | | | | |
| Net Margin (%) | 18.1 | 16.6 | 14.7 | 20.7 | 20.2 |
| Assets Turnover (x) | 1.0 | 0.9 | 0.7 | 1.0 | 1.2 |
| Leverage Factor (x) | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| ROE (%) | 23.5 | 17.1 | 12.9 | 25.3 | 29.9 |
| 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 | (506) | (415) | (588) | (423) | (390) |
| Net Debt/Equity (x) | -0.5 | -0.4 | -0.5 | -0.4 | -0.3 |
| Valuations | | | | | |
| Core EPS (sen) | 8.1 | 6.1 | 4.8 | 8.9 | 11.5 |
| DPS (sen) | 6.7 | 6.1 | 4.4 | 9.6 | 9.7 |
| BVPS (RM) | 0.3 | 0.4 | 0.4 | 0.3 | 0.4 |
| PER (x) | 41.5 | 56.9 | 70.0 | 36.2 | 29.1 |
| Div. Yield (%) | 2.1 | 1.5 | 1.3 | 2.9 | 2.9 |
| P/BV (x) | 9.7 | 9.8 | 9.1 | 9.1 | 8.7 |
| EV/EBITDA (x) | 25.9 | 33.6 | 37.6 | 24.2 | 20.6 |

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, 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 | 5.41 | 6,407.3 | Y | 12/2021 | 76.6% | 10.8% | 165% | 11.0% | 101.6 | 38.4 | 34.6 | 12.2 | 10.6 | 26.3% | 0.9% | 5.50 | OP |
| GHL SYSTEMS BHD | 1.82 | 2,077.5 | Y | 12/2021 | 4.3% | 36.3% | 8.4% | 41.8% | 68.4 | 63.1 | 44.5 | 4.4 | 4.1 | 6.5% | 0.0% | 2.30 | OP |
| INARI AMERTRON BHD | 3.35 | 11,210.6 | Y | 06/2021 | 37.4% | 27.7% | 93.6% | 24.5% | 70.0 | 36.2 | 29.1 | 9.1 | 8.7 | 25.3% | 2.9% | 4.60 | OP |
| JHM CONSOLIDATION BHD | 2.19 | 1,221.1 | Y | 12/2020 | 29.8% | 10.7% | 72.2% | 11.1% | 41.9 | 24.3 | 21.9 | 4.7 | 3.8 | 15.8% | 0.8% | 2.00 | MP |
| KELINGTON GROUP BHD | 1.22 | 784.5 | Y | 12/2021 | 9.5% | 13.3% | 42.7% | 14.1% | 29.5 | 20.7 | 18.1 | 3.2 | 2.9 | 16.2% | 1.2% | 2.60 | OP |
| KESM INDUSTRIES BHD | 12.10 | 520.5 | Y | 07/2021 | -3.0% | 18.7% | 10633% | 113% | 5959 | 55.5 | 26.1 | 1.6 | 1.6 | 2.8% | 0.7% | 12.00 | MP |
| MALAYSIAN PACIFIC INDUSTRIES BHD | 42.50 | 8,453.1 | Y | 06/2021 | 20.0% | 12.0% | 65.4% | 13.1% | 46.2 | 29.2 | 25.8 | 6.2 | 5.8 | 16.1% | 0.8% | 47.50 | OP |
| P.I.E. INDUSTRIAL BHD | 3.10 | 1,190.5 | Y | 12/2021 | 59.9% | 7.5% | 31.2% | 27.0% | 24.0 | 18.3 | 14.4 | 2.3 | 2.0 | 11.1% | 2.5% | 3.30 | OP |
| SKP RESOURCES BHD | 1.78 | 2,781.0 | Y | 03/2022 | 20.0% | 3.9% | 25.9% | 7.3% | 20.0 | 15.9 | 14.8 | 3.6 | 3.3 | 19.9% | 3.1% | 2.40 | OP |
| UNISEM (M) BHD | 8.15 | 6,573.3 | Y | 12/2021 | 18.5% | 7.0% | 64.3% | 8.5% | 45.7 | 27.8 | 25.6 | 3.7 | 3.4 | 7.8% | 0.7% | 10.00 | 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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