



INARI AMERTRON

(INRI MK EQUITY, INAR.KL)

27 Oct 2020

SiP lines more than doubled on strong RF demand

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company update

Price RM2.55
Fair Value RM2.78
52-week High/Low RM2.70/RM0.90

Key Changes

Fair value
EPS

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,058.0	1,473.8	1,748.6	1,921.2
Core net profit (RM mil)	145.5	255.5	315.1	342.0
FD Core EPS (sen)	4.5	7.7	9.5	10.4
FD Core EPS growth (%)	(35.2)	71.9	23.3	8.5
Consensus Net Profit (RM mil)	-	229.3	283.8	316.0
DPS (sen)	4.4	8.5	9.9	9.9
PE (x)	57.8	33.6	27.3	25.1
EV/EBITDA (x)	30.8	20.6	17.1	15.6
Div yield (%)	1.7	3.3	3.8	3.8
ROE (%)	13.2	21.2	25.8	26.7
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	3,277.9
Market Cap (RM mil)	8,522.6
Book Value (RM/share)	0.38
P/BV (x)	6.9
ROE (%)	13.2
Net Gearing (%)	-
Major Shareholders	Insas Bhd (16.1%) KWAP (12.9%) EPF (9.7%)
Free Float	55.3
Avg Daily Value (RM mil)	35.8

Price performance	3mth	6mth	12mth
Absolute (%)	42.1	83.1	25.6
Relative (%)	51.1	67.8	31.9



Investment Highlights

- **We keep our BUY on Inari Amertron (Inari) with a higher fair value of RM2.78/share pegged to a higher CY22F PE of 28x** (previously RM2.45/share CY22F PE of 23.5x).
- The higher PE is in line with our benchmark target PE for outsourced semiconductor assembly and test (OSAT) companies of 28x, a 20% premium above the 3-year historical forward PE of 23x as prospects brighten due to innovations such as 5G, 3D sensors, and electric vehicles, which progress has been accelerated by Covid-19.
- **We raise our FY21F forecasts by 11%** to account for higher contribution for Inari's radio frequency (RF) division with the addition of more system-in-package (SiP) lines.
- **We came away from a recent engagement with Inari with the following key highlights:**
 - **Capacity expansion for RF division:** Inari's RF division has nine additional SiP lines running since 1QFY21, with the addition of five more lines slated from mid-October to early December 2020. This raises total SiP lines to 22, from eight lines in FY20 – an increase of 2.75x YoY. The strong RF demand is accredited to a key US smartphone maker's 5G-enabled releases, leading to expectations of a potential 5G-driven upgrade cycle for consumers.
 - **Higher orders for CoC products:** In its optoelectronics division, the outlook for industrial products has improved although the automotive segment outlook remains unchanged. Due to challenging market conditions, sales are still on a spot order basis. Meanwhile, fiber optic communication networks have seen increased demand, particularly for chip-on-carrier (CoC) solutions.
 - **Working on customized equipment partnership:** As for Inari's JV with MIT Semiconductor to provide customized semiconductor manufacturing solutions, the group is strategizing critical in-house developed processes and already started filing patents for their projects. Inari is working on realizing synergies to enhance its customer base and revenue streams.
 - **Update on new customers:** Inari's Hong Kong-based customer in Clark, the Philippines, completed setup for back-end testing in June 2020 and the front-end assembly lines are currently being set up. Mass production is slated for January 2021.

Meanwhile, its Swiss-based customer at P34 is working on a sub-module assembly after its production facility was installed and 1st product qualification was completed.

- **We continue to like Inari due to its role as a proxy for the growth of 5G through its RF business, despite caution relating to the Covid-19 pandemic.** The group's positive prospects arise due to: (i) the resilience of its RF earnings due to higher chip complexity in 5G phones; (ii) potential growth in laser devices from more biometric and AR applications; and (iii) its efforts to enhance and diversify revenue streams.

EXHIBIT 1: PB BAND CHART

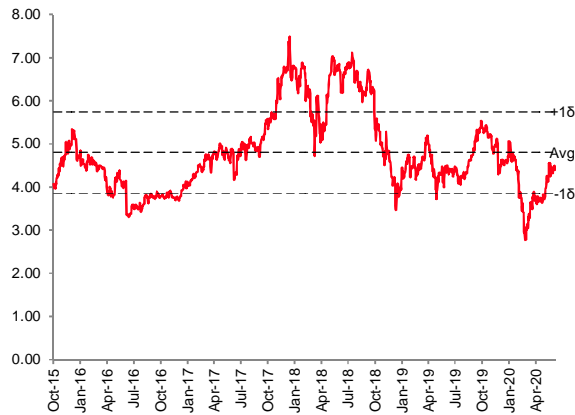


EXHIBIT 2: PE BAND CHART



EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,152.1	1,058.0	1,473.8	1,748.6	1,921.2
EBITDA	340.6	257.7	389.2	469.4	514.1
Depreciation/Amortisation	(94.9)	(102.4)	(112.7)	(125.4)	(139.7)
Operating income (EBIT)	245.7	155.3	276.6	344.0	374.4
Other income & associates	-	(0.6)	-	1.0	1.0
Net interest	8.2	7.4	10.5	9.1	8.9
Exceptional items	(2.9)	7.8	-	1.0	1.0
Pretax profit	251.0	170.0	287.1	355.1	385.3
Taxation	(23.9)	(15.9)	(31.6)	(39.1)	(42.4)
Minorities/pref dividends	(0.6)	(0.7)	-	-	-
Net profit	226.5	153.3	255.5	316.1	343.0
Core net profit	223.7	145.5	255.5	315.1	342.0
Balance Sheet (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	489.5	478.8	461.3	457.3	454.3
Intangible assets	2.2	2.3	2.2	2.2	2.2
Other long-term assets	2.2	11.2	11.2	11.2	11.2
Total non-current assets	493.9	492.3	474.7	470.8	467.8
Cash & equivalent	427.6	586.3	515.3	505.0	541.5
Stock	172.7	145.9	210.7	249.0	273.6
Trade debtors	202.9	145.3	202.4	240.2	263.9
Other current assets	43.2	93.5	93.5	93.5	93.5
Total current assets	846.4	971.0	1,021.9	1,087.6	1,172.4
Trade creditors	81.8	78.4	103.4	122.1	134.2
Short-term borrowings	7.7	7.7	7.7	7.7	7.7
Other current liabilities	104.9	154.2	154.2	154.2	154.2
Total current liabilities	194.3	240.2	265.2	284.0	296.0
Long-term borrowings	8.7	1.1	8.7	8.7	8.7
Other long-term liabilities	9.2	13.5	13.5	13.5	13.5
Total long-term liabilities	17.9	14.6	22.2	22.2	22.2
Shareholders' funds	1,124.6	1,204.2	1,205.0	1,248.0	1,317.7
Minority interests	3.5	4.2	4.2	4.2	4.2
BV/share (RM)	0.36	0.38	0.37	0.38	0.40
Cash Flow (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	251.0	170.0	287.1	355.1	385.3
Depreciation/Amortisation	94.9	102.4	112.7	125.4	139.7
Net change in working capital	(11.7)	89.6	(97.0)	(56.3)	(35.2)
Others	(37.1)	(26.6)	(31.6)	(39.1)	(42.4)
Cash flow from operations	297.1	335.4	271.2	385.2	447.4
Capital expenditure	(183.9)	(91.6)	(122.9)	(135.2)	(150.5)
Net investments & sale of fixed assets	1.0	-	-	1.0	1.0
Others	7.1	6.6	11.5	11.1	10.9
Cash flow from investing	(175.8)	(85.0)	(111.4)	(123.1)	(138.6)
Debt raised/(repaid)	(8.7)	(8.7)	-	1.0	1.0
Equity raised/(repaid)	37.6	49.8	49.8	49.8	49.8
Dividends paid	(211.6)	(140.8)	(279.6)	(324.1)	(324.1)
Others	(9.3)	(0.6)	(1.1)	(0.1)	(0.1)
Cash flow from financing	(192.1)	(100.2)	(230.9)	(273.3)	(273.3)
Net cash flow	(70.8)	150.2	(71.1)	(11.3)	35.5
Net cash/(debt) b/f	530.2	427.6	586.3	515.3	505.0
Net cash/(debt) c/f	462.3	583.9	515.3	505.0	541.5
Key Ratios (YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(16.3)	(8.2)	39.3	18.7	9.9
EBITDA growth (%)	(3.4)	(24.3)	51.0	20.6	9.5
Pretax margin (%)	21.8	16.1	19.5	20.3	20.1
Net profit margin (%)	19.7	14.5	17.3	18.1	17.9
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	9.5	9.4	11.0	11.0	11.0
Dividend payout (%)	72.1	92.1	109.4	102.5	94.5
Debtors turnover (days)	64	50	50	50	50
Stock turnover (days)	67	-	-	-	-
Creditors turnover (days)	32	-	-	-	-

Source: Company, AmInvestment Bank Bhd estimates

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