

Malaysia Company Update

Inari Amertron Bhd

Bloomberg: INRI MK | Reuters: INAR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jan 2021

BUY (Upgrade from Hold)

Last Traded Price (19 Jan 2021): RM2.99 (KLCI : 1,601.88)

Price Target 12-mth: RM3.55 (19% upside) (Prev RM2.35)

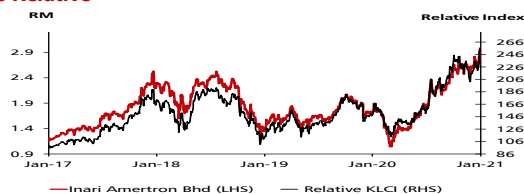
Analyst

Woo Kim TOH +60 32604 3917 wookim@alliancedbs.com

What's New

- We upgrade Inari to BUY with a higher RM3.55 TP
- RF segment utilisation remains strong with 5G ramp-up; packaging capacity still tight
- Raise FY21-23 EPS by 5-9%
- Valuation re-rating to continue amid secured earnings visibility and positive equity fund flows

Price Relative



Forecasts and Valuation

FY Jun (RMm)	2020A	2021F	2022F	2023F
Revenue	1,058	1,329	1,515	1,627
EBITDA	275	385	455	504
Pre-tax Profit	172	283	349	395
Net Profit	156	257	318	360
Net Pft (Pre Ex.)	156	257	318	360
Net Pft Gth (Pre-ex) (%)	(18.8)	65.3	23.4	13.3
EPS (sen)	4.80	8.27	10.2	11.6
EPS Pre Ex. (sen)	4.80	8.27	10.2	11.6
EPS Gth Pre Ex (%)	(20)	72	23	13
Diluted EPS (sen)	4.74	8.11	10.00	11.3
Net DPS (sen)	4.40	6.20	7.65	8.67
BV Per Share (sen)	37.3	40.9	43.4	46.3
PE (X)	62.3	36.2	29.3	25.9
PE Pre Ex. (X)	62.3	36.2	29.3	25.9
P/Cash Flow (X)	27.9	29.2	23.9	20.9
EV/EBITDA (X)	33.1	22.6	19.1	17.1
Net Div Yield (%)	1.5	2.1	2.6	2.9
P/Book Value (X)	8.0	7.3	6.9	6.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.4	20.7	24.2	25.8
Earnings Rev (%)		5	9	6
Consensus EPS (sen):		8.00	9.60	10.7
Other Broker Recs:		B: 15	S: 1	H: 4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Strong RF growth to sustain valuation re-rating

Investment Thesis:

Strong recovery in RF. We are optimistic that Inari's key RF segment will recover strongly in FY21-22 (20-52% y-o-y), driven by increased RF content in 5G smartphones, as well as rising penetration of 5G smartphones over time.

Secured visibility till 2023. Broadcom has signed multi-year agreements with a leading US smartphone manufacturer to supply RF chips up to 2023. This provides certainty that Broadcom (and hence, Inari's RF segment) will remain involved in the supply chain for 5G components.

Valuation re-rating to continue. We expect the valuation re-rating for Inari to continue given its secured earnings growth visibility, which would be the catalyst to push valuation higher amid positive equity fund flows into the tech sector.

Valuation:

Our RM3.55 TP is based on 35x FY22 EPS, which is +2 SD of its 5-year mean.

Where we differ:

FY21-23 EPS higher than consensus. Our FY21-23 earnings forecasts are slightly higher than consensus as we expect stronger growth for the RF segment.

Key Risks to Our View:

Slower smartphone sales, weaker USD. Key risks include: 1) Weaker-than-expected 5G smartphone sales, especially of the US end-customer; 2) Sharp depreciation in USD against MYR; and 3) Global economic slowdown.

At A Glance

Issued Capital (m shrs)	3,301
Mkt. Cap (RMm/US\$m)	9,869 / 2,437
Major Shareholders (%)	
Insas Berhad	27.8
KWAP	6.9
Employee Provident Fund	6.4
Free Float (%)	53.3
3m Avg. Daily Val (US\$m)	9.9

GIC Industry : Technology Hardware & Equipment



Live more, Bank less

Inari Amertron Bhd

WHAT'S NEW

Strong RF growth to sustain valuation re-rating

We hosted a virtual conference with Inari Amertron Bhd (Inari) last week. It was well-attended by more than 30 participants. We highlight the key takeaways, earnings revision, and valuation changes below.

Healthy utilisation rate. Inari's RF segment is operating at a healthy utilisation rate of 85-90%, amid capacity tightness in the sector and robust sales smartphone sales for its key US end-customer. The division had 16 SiP (System-in-Package) lines in production during 1QFY21 (FYE June), and added six new lines in October-December 2020, bringing the total to 22 lines now. On the testing side, we estimate that Inari currently houses close to 1,200 units of RF testers for Broadcom across various facilities in Penang.

Out of approximately 680k sq ft of floor space at its latest P34 plant, only 200k sq ft is currently being occupied by the RF division and a new customer (Comet Group, a Swiss technology firm). As such, there is still ample room for capacity expansion, if needed and required by key customers.

Better order visibility. We understand order visibility from its key customer, Broadcom has extended up to six months (3-month firm order + 3-month rolling forecast), compare to just 1-2 months of firm order in the past. Apart from robust smartphone sales by its US end-customer, we think several other factors contributed to this, including: 1) Inventory built-up to ensure consistent supply of 5G RF chips and to avoid any potential COVID-19 disruption; and 2) Broadcom might have secured new orders for 5G RF chips from a Korean smartphone manufacturer.

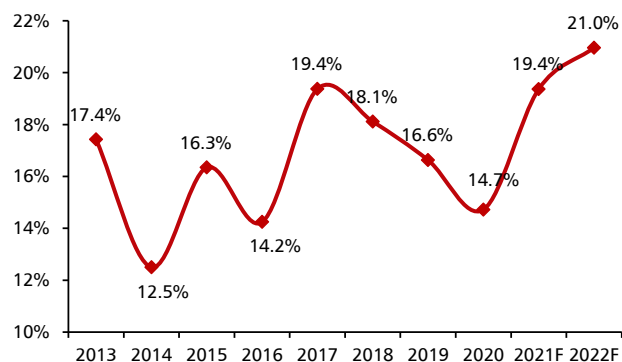
All in all, Inari appears likely to perform well above its seasonal trend in 2HFY21, especially with no major inventory adjustments in sight for the US smartphone manufacturer.

Commendable margins. Given capacity tightness in the sector, questions were raised on the possibility of increasing ASP. Inari does not intend to do so, provided there is sufficient volume from its customers to maintain a high capacity utilisation rate. Instead, Inari will continue to improve production yield and internal cost control in order to sustain its margins.

Among the OSAT (Outsourced Assembly & Test) companies in Malaysia, Inari has the highest net margins, which we note is partly due to tax incentives and its RF segment's unique business model (tester equipment are consigned by

Broadcom). Margins were weak in FY20 given a low capacity utilisation rate, but it is expected to rebound strongly in FY21 with the ramp-up in 5G RF chips (as seen in 1QFY21 results).

Net margin trend for Inari



Sources: Company, AllianceDBS

Valuation and recommendation

Raise FY21-23 EPS by 5-9%. We raise our FY21-23F earnings forecasts by 5-9% respectively, after adjusting our utilisation rate assumptions to 80-90% (from 75-85% previously).

Valuation re-rating to continue. The upwards earnings revision trend for Inari has not been steep, given that its 5G RF story and earnings drivers are well-understood, even going back beyond one year ago. However, its share price has done far better due to multiple expansions, with a 1-year return of +73%.

We expect Inari's valuation re-rating to continue based on several reasons. Firstly, its impressive 3-year earnings CAGR of 32% is solidly anchored by the 5G secular trend. Adding to that will be the existing multi-year agreement between Broadcom and a US smartphone manufacturer to supply RF chips to the latter up to 2023.

Secondly, equity fund flows into tech/semi sector remains strong globally. This is more pronounced in Malaysian equity given the lack of market depth. The current domestic political uncertainty also makes investors favour exporters such as glove and semiconductor companies. Inari is also the biggest semiconductor company in Malaysia by market capitalisation, and is more liquid than its peers by far.



Inari Amertron Bhd

Upgrade to BUY with RM3.55 TP. Post earnings adjustment, and after using a higher target PE of 35x (vs. 25x previously), we raise our TP for Inari to RM3.55. Our higher target PE factors in Inari's secured earnings growth visibility, which would be the catalyst to push valuation higher amid positive equity fund flows into the tech sector.

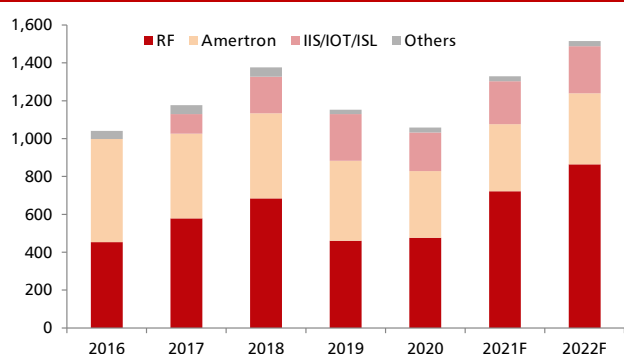
Key risks include: 1) Weaker-than-expected 5G smartphone sales, especially of the US end-customer; 2) Sharp

depreciation in USD against MYR; and 3) Global economic slowdown.

Company Background

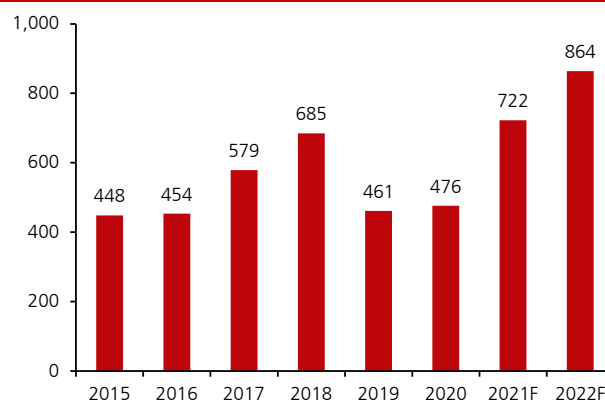
Inari Amertron Berhad (Inari) is principally involved in back-end semiconductor packaging services, which comprise mainly back-end wafer processing, package assembly and RF final testing.

Segmental revenue breakdown, in RM m



Source: Company, AllianceDBS estimate

Estimated RF segment revenue, in RM m



Source: Company, AllianceDBS estimate

Peers comparison

	Call	Target Price	Current Price	Market Cap (USD)	P/E (FD)		EPS (FD) Growth (YoY)		Dividend Yield		Price/ BVPS		ROAE	
					CY2020	CY2021	CY2020	CY2021	CY2020	CY2021	CY2020	CY2021	CY2020	CY2021
Inari Amertron	BUY	3.55	2.97	2,265.9	42.9x	32.8x	21%	41%	1.9%	2.3%	7.1x	7.0x	17%	23%
Vitrox Corporation	NR	NR	15.40	1,794.3	67.0x	-	36%	-	0.4%	-	13.1x	-	21%	-
Malaysian Pacific Industries	HOLD	25.00	30.20	1,284.3	30.5x	31.6x	20%	12%	1.0%	0.9%	3.6x	3.8x	12%	13%
Unisem	HOLD	4.25	7.83	1,197.0	33.1x	36.9x	87%	14%	1.3%	1.0%	3.2x	3.8x	10%	11%
Frontken	NR	NR	4.62	1,194.9	59.2x	45.3x	18%	31%	0.6%	0.8%	11.0x	9.5x	19%	21%
Pentamaster	NR	NR	6.12	1,075.9	63.1x	43.7x	(17%)	44%	0.2%	0.3%	8.7x	7.4x	15%	17%
MI Technovation	NR	NR	4.56	839.5	59.2x	40.4x	(3%)	47%	0.9%	0.9%	8.8x	7.6x	14%	17%
Globetronics Technology	HOLD	2.75	3.10	449.6	33.5x	28.3x	20%	36%	2.8%	3.2%	6.0x	6.7x	18%	24%
Uchi technologies	NR	NR	2.70	300.8	67.0x	15.9x	36%	6%	0.4%	5.7%	13.1x	7.1x	43%	45%
Semiconductor - Average					49.9x	38.9x	25%	32%	1.1%	1.3%	8.1x	7.7x	17%	19%

Historical PE and PB band

Forward PE band (x)



Source: Bloomberg Finance L.P., AllianceDBS estimates

PB band (x)



Source: Bloomberg Finance L.P., AllianceDBS estimates

Inari Amertron Bhd

Key Assumptions

FY Jun	2019A	2020A	2021F	2022F	2023F
No. of testers (RF)	1,100	1,150	1,200	1,300	1,350
Utilisation rate (%)	60.0	55.0	80.0	90.0	90.0
Amertron (y-o-y growth)	(6.3)	(18.4)	3.00	6.00	6.00
RM vs. USD	4.10	4.20	4.10	4.10	4.10

Segmental Breakdown

FY Jun	2019A	2020A	2021F	2022F	2023F
Revenues (RMm)					
Inari RF	461	476	722	864	934
Inari Integrated System	247	204	227	248	266
Amertron & Others	445	378	380	403	427
Total	1,153	1,058	1,329	1,515	1,627

Strong growth in RF segment with 5G ramp-up

Income Statement (RM m)

FY Jun	2019A	2020A	2021F	2022F	2023F
Revenue	1,153	1,058	1,329	1,515	1,627
Cost of Goods Sold	(883)	(842)	(960)	(1,068)	(1,126)
Gross Profit	269	216	369	448	501
Other Opng (Exp)/Inc	(52.1)	(43.3)	(86.4)	(98.5)	(106)
Operating Profit	217	173	283	349	396
Other Non Opq (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.2)	(0.6)	(0.5)	(0.5)	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	216	172	283	349	395
Tax	(23.9)	(15.9)	(25.4)	(31.4)	(35.6)
Minority Interest	(0.6)	(0.7)	0.20	0.20	0.20
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	192	156	257	318	360
Net Profit before Except.	192	156	257	318	360
EBITDA	312	275	385	455	504
Growth					
Revenue Gth (%)	(16.2)	(8.2)	25.6	14.0	7.4
EBITDA Gth (%)	(15.2)	(11.8)	40.0	18.0	10.8
Opg Profit Gth (%)	(23.7)	(20.4)	63.7	23.4	13.3
Net Profit Gth (Pre-ex) (%)	(19.2)	(18.8)	65.3	23.4	13.3
Margins & Ratio					
Gross Margins (%)	23.4	20.4	27.8	29.5	30.8
Opg Profit Margin (%)	18.9	16.3	21.3	23.0	24.3
Net Profit Margin (%)	16.6	14.7	19.4	21.0	22.1
ROAE (%)	17.5	13.4	20.7	24.2	25.8
ROA (%)	14.4	11.1	17.1	20.0	21.3
ROCE (%)	17.2	13.2	20.4	23.8	25.4
Div Payout Ratio (%)	86.2	91.6	75.0	75.0	75.0
Net Interest Cover (x)	187.1	296.7	620.4	765.4	867.1

Source: Company, AllianceDBS

Inari Amertron Bhd

Quarterly Income Statement (RM m)

FY Jun	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021
Revenue	317	265	243	233	348
Cost of Goods Sold	(250)	(206)	(200)	(186)	(250)
Gross Profit	66.8	59.4	42.4	47.7	97.8
Other Oper. (Exp)/Inc	(11.8)	(16.6)	(1.3)	(16.7)	(20.3)
Operating Profit	55.1	42.8	41.1	31.0	77.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	(0.1)	(0.4)	(0.1)
Net Interest (Exp)/Inc	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	3.65	0.0
Pre-tax Profit	54.9	42.7	40.8	34.1	77.4
Tax	(7.2)	(5.2)	(5.7)	2.08	(7.4)
Minority Interest	0.0	0.0	0.0	(0.7)	0.0
Net Profit	47.7	37.5	35.1	35.5	70.1
Net profit bef Except.	47.7	37.5	35.1	31.8	70.1
EBITDA	79.2	67.0	65.1	54.7	102

Strong ramp-up in sales with the launch of 5G smartphones

Growth

Revenue Gth (%)	17.0	(16.2)	(8.6)	(3.8)	49.0
EBITDA Gth (%)	7.5	(15.5)	(2.8)	(15.9)	85.9
Opg Profit Gth (%)	11.2	(22.3)	(4.1)	(24.6)	150.5
Net Profit Gth (Pre-ex) (%)	24.5	(21.5)	(6.5)	(9.2)	120.2

Margins

Gross Margins (%)	21.1	22.4	17.5	20.4	28.1
Opg Profit Margins (%)	17.4	16.1	16.9	13.3	22.3
Net Profit Margins (%)	15.1	14.1	14.5	15.2	20.2

Uplift in margins due to better utilisation rate

Balance Sheet (RMm)

FY Jun	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	490	479	496	511	522
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	4.40	14.0	14.0	14.0	14.0
Cash & ST Invt	430	595	601	632	689
Inventory	173	146	190	216	232
Debtors	227	215	222	253	271
Other Current Assets	11.0	15.4	15.4	15.4	15.4
Total Assets	1,334	1,464	1,538	1,641	1,744
ST Debt	6.16	6.67	6.67	6.67	6.67
Creditor	155	199	209	233	246
Other Current Liab	33.6	34.2	34.2	34.2	34.2
LT Debt	8.71	2.45	2.45	2.45	2.45
Other LT Liabilities	9.18	12.2	12.2	12.2	12.2
Shareholder's Equity	1,122	1,209	1,273	1,352	1,442
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	1,334	1,464	1,538	1,641	1,744
Non-Cash Wkg. Capital	222	143	183	217	239
Net Cash/(Debt)	415	585	591	623	679
Debtors Turn (avg days)	73.1	76.2	60.0	57.1	58.7
Creditors Turn (avg days)	75.4	87.4	87.0	84.0	86.0
Inventory Turn (avg days)	77.1	78.6	71.5	77.1	80.5
Asset Turnover (x)	0.9	0.8	0.9	1.0	1.0
Current Ratio (x)	4.3	4.0	4.1	4.1	4.2
Quick Ratio (x)	3.4	3.4	3.3	3.2	3.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	1,228.5	909.8	1,315.1	1,315.1	1,315.1
Z-Score (X)	21.8	18.6	16.8	15.7	15.7

Strong balance sheet

Source: Company, AllianceDBS

Inari Amertron Bhd

Cash Flow Statement (RMm)

FY Jun	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	216	172	283	349	395
Dep. & Amort.	94.9	102	102	106	108
Tax Paid	(35.2)	(21.8)	(25.4)	(31.4)	(35.6)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkq.Cap.	(12.6)	89.6	(40.6)	(33.6)	(21.5)
Other Operating CF	6.98	5.01	0.0	0.0	0.0
Net Operating CF	270	348	319	389	447
Capital Exp.(net)	(183)	(83.0)	(120)	(120)	(120)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(6.3)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(6.1)	0.0	0.0	0.0
Net Investing CF	(183)	(95.4)	(120)	(120)	(120)
Div Paid	(212)	(141)	(193)	(238)	(270)
Chg in Gross Debt	(8.7)	(8.7)	0.0	0.0	0.0
Capital Issues	37.6	49.8	0.0	0.0	0.0
Other Financing CF	(8.1)	0.0	0.0	0.0	0.0
Net Financing CF	(191)	(99.7)	(193)	(238)	(270)
Currency Adjustments	2.94	6.21	0.0	0.0	0.0
Chg in Cash	(100)	159	5.94	31.3	56.7
Opq CFPS (sen)	8.90	7.96	11.5	13.6	15.0
Free CFPS (sen)	2.76	8.16	6.39	8.65	10.5

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Feb 20	1.57	1.55	HOLD
2:	08 Apr 20	1.36	1.50	BUY
3:	22 May 20	1.40	1.50	HOLD
4:	25 Nov 20	2.67	2.35	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Woo Kim TOH

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 20 Jan 2021 07:28:39 (MYT)

Dissemination Date: 20 Jan 2021 07:32:34 (MYT)

Sources for all charts and tables are AllianceDBS unless otherwise specified.

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Inari Amertron Bhd

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Inari Amertron Bhd

DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com
Co. Regn No. 198401015984(128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaesearch@dbs.com