

# Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

## Maintain NEUTRAL

### Expecting earnings hiccup due to Covid-19 outbreak

**Revised Target Price: RM1.54**  
(Previously RM1.80)

#### KEY INVESTMENT HIGHLIGHTS

- Lower 2QFY20 normalised earnings of RM39.6m due to lower contribution from the optoelectronic segment
- 1HFY20 normalised earnings of RM86.4m (-20.5%yoy) failed to kept pace with ours and consensus expectations
- Expecting temporary earnings setback in view of the Covid-19 outbreak
- Nonetheless, concern on the optoelectronic segment to persist in the foreseeable term
- Maintain Neutral with a revised TP of RM1.54

**Sequential contraction in earnings.** Inari Amertron Bhd's (Inari) 2QFY20 normalised earnings contracted by -30.2%yoy to RM39.6m. This was mainly due to reduced sales volumes in the group's optoelectronic products.

**Below expectation.** Cumulatively, 1HFY20 normalised earnings amounted to RM86.4m, a decline of -20.5%yoy. This was in view of decreased demand of the factory output, changes in product mix and higher depreciation cost. All in, the group's 1HFY20 financial performance came in below ours and consensus expectations, accounting for 39.5% and 40.7% of full year FY20 earnings estimates respectively.

**Impact to earnings.** We are reducing FY21 and FY22 earnings estimates to RM173.2m and RM226.8m respectively as we are factoring: i) lower contribution from the optoelectronic segment and ii) impact from the Covid-19 outbreak.

**Target Price.** Post our earnings downgrade, we are revising our target price of **RM1.54** (previously RM1.80). This is premised on revised FY21 EPS of 7.0sen pegged to forward PER of 22.0x which is one standard deviation above its two-year average. We view that the premium is warranted, given its better earnings quality as compared to its peers.

**Maintain NEUTRAL.** We expect RF production volume to remain resilient. This is premised on an increase in global smartphone volume next year as well as the introduction of more 5G smartphones with higher chip complexity, especially from the top-tier smartphone manufacturers. However, we view that there could be temporary disruption caused by the Covid-19 outbreak. Meanwhile, we remain concern on the optoelectronics segment as seen in it's the latest quarterly performance. The group is also advocating Industry 4.0 to improve efficiencies. This will help to manage costs and profit margin. On a longer term horizon, we remain confident on the group's ability to win new projects which would further diversify its earnings base and thus, reduce group's dependency on its wireless RF segment. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock.

#### RETURN STATISTICS

Price @ 26 <sup>th</sup> Nov 2019 (RM)	1.64
Expected share price return (%)	-6.1
Expected dividend yield (%)	+4.1
<b>Expected total return (%)</b>	<b>-2.0</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-13.7	-9.5
3 months	-3.5	-11.2
12 months	3.1	18.1

#### KEY STATISTICS

FBM KLCI	1,500.88
Syariah compliant	Yes
Issue shares (m)	3,177.15
Estimated free float (%)	5149
Market Capitalisation (RM'm)	5,311.69
52-wk price range (RM)	1.27– 2.09
Beta vs FBM KLCI (x)	0.98
Monthly velocity (%)	211.62
Monthly volatility (%)	18.32
3-mth average daily volume (m)	15.42
3-mth average daily value (RM'm)	30.01
Top Shareholders (%)	
Insas Bhd	16.95
Kumpulan Wang Persaraan Diperbandan	14.44
Employees Provident Fund	7.48

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**INVESTMENT STATISTICS**

Financial year ending 30 <sup>th</sup> June (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
<b>Revenue</b>	1,376.0	1,152.9	1,081.8	1,310.3	1,440.3
EBIT	287.6	208.2	187.2	242.9	277.6
PBT	295.5	216.2	190.9	247.3	283.1
PATANCI	249.3	184.5	173.2	226.8	262.5
<b>Normalised PATANCI</b>	240.2	184.5	173.2	226.8	262.5
Normalised EPS (sen)	7.6	5.7	5.3	7.0	8.1
Normalised EPS Growth (%)	28.2	-25.0	-7.9	32.6	15.7
PER (x)	21.5	28.6	31.1	23.4	20.3
Dividend Per Share (sen)	8.5	5.2	4.8	6.7	7.7
Dividend yield (%)	5.2	3.2	2.9	4.1	4.7

Source: Company, MIDFR

**INARI AMERTRON BHD: 2QFY20 RESULTS SUMMARY**

Financial year ending 30 <sup>th</sup> June (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	2QFY20	% YoY	% QoQ	2020	2019	% YoY
Revenue	265.4	-11.6	-16.2	582.0	625.9	-7.0
EBITDA	66.1	-19.1	-14.6	143.6	166.9	-14.0
Depreciation and amortisation	-25.5	5.5	1.1	-50.7	-46.6	8.7
EBIT	40.6	-29.4	-22.2	92.9	120.3	-22.8
Finance costs	-0.1	-45.4	-17.9	-0.3	-0.6	-50.3
Interest income	2.1	0.0	-23.1	4.9	4.7	4.6
PBT	42.7	-28.3	-22.3	97.5	124.4	-21.6
Taxation	-5.2	19.3	-27.8	-12.3	-9.1	35.2
MI	0.0	-84.1	-178.6	0.0	0.0	-21.9
PATANCI	37.5	-32.0	-21.5	85.2	115.2	-26.1
Normalised PATANCI	39.6	-30.2	-14.1	86.4	108.6	-20.5
Normalised EPS (sen)	1.2	-30.2	-14.4	2.7	3.4	-20.4
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	24.9	-2.3	0.4	24.7	26.7	-2.0
EBIT margin (%)	15.3	-3.9	-1.2	16.0	19.2	-3.3
Normalised PATANCI margin (%)	14.9	-4.0	0.4	14.8	17.4	-2.5
Effective tax rate (%)	12.1	4.8	-0.9	12.6	7.3	5.3

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.