

Inari Amertron Bhd

(0166 | INRI MK) Technology | Semiconductors

In cash-conservation mode

KEY INVESTMENT HIGHLIGHTS

- **Lower 3QFY20 normalised earnings of RM22.4m (-45.7%yoy) due to quieter production activities**
- **9MFY20 normalised earnings of RM109.0m (-27.2%yoy) failed to kept pace with ours and consensus expectations**
- **Expecting temporary earnings setback in view of the Covid-19 outbreak**
- **9MFY20 cumulative dividend remained commendable at 3.3sen despite being in a cash preservation mode**
- **Maintain Neutral with a revised TP of RM1.54**

Quieter production activities due to lockdown. Inari Amertron Bhd's (Inari) 3QFY20 normalised earnings contracted by -45.7%yoy to RM22.4m. This was mainly attributable to: i) lower sales volume in optoelectronic products, and ii) lower production volume at its Malaysia, China and Philippines plants which resulted from enforcement of lockdowns by the respective Governments. The decline was further exacerbated by higher depreciation charges and higher tax provision.

Below expectation. Cumulatively, 9MFY20 normalised earnings amounted to RM109.0m, a decline of -27.2%yoy. This came in below ours and consensus expectations, accounting for 62.9% and 65.6% of full year FY20 earnings estimates respectively.

Dividend. The group maintained 3QFY20 dividend payout at 1sen in comparison to 3QFY19. Nonetheless, this lead to cumulative 9MFY20 dividend of 3.3sen (vs 9MFY19: 4.1sen), in tandem with the weaker financial performance.

Impact to earnings. We are reducing FY20/21/22 earnings estimate to RM155.1m/RM202.2m/RM240.5m respectively as we are factoring: i) lower contribution from the optoelectronic segment and ii) slower production activities.

Target Price. Post our earnings downgrade, we are revising our target price of **RM1.36** (previously RM1.54). This is premised on revised FY21 EPS of 6.2sen pegged to forward PER of 22.0x which is one standard deviation above its two-year average.

Maintain NEUTRAL. Generally, we expect production activities to remain tepid owing to the Covid19 pandemic. Coupled with the change in product mix, we expect the profit margin to trend lower as compared to its historical track record. To partial mitigate this issue, the company is placing more emphasis on cost control and optimizing its capital spending. This has led to healthier cash reserve which would place the group in a favourable position should there be a clear sign of turnaround. We view that any positive development would start to be seen towards the end of CY20. In addition, the group remain committed in declaring dividend, albeit smaller quantum. Given the lack of rerating catalyst at this juncture, we are maintaining our **NEUTRAL** recommendation on the stock.

Maintain NEUTRAL

Revised Target Price: RM1.36
(Previously RM1.54)

RETURN STATISTICS

Price @ 21 st May 2020 (RM)	1.44
Expected share price return (%)	-5.6
Expected dividend yield (%)	+4.1
Expected total return (%)	-1.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.5	-4.9
3 months	7.1	20.8
12 months	16.8	24.3

KEY STATISTICS

FBM KLCI	1,605.31
Syariah compliant	Yes
Issue shares (m)	3,177.15
Estimated free float (%)	53.65
Market Capitalisation (RM'm)	6,213.64
52-wk price range (RM)	1.22– 2.09
Beta vs FBM KLCI (x)	1.04
Monthly velocity (%)	71.33
Monthly volatility (%)	17.56
3-mth average daily volume (m)	10.99
3-mth average daily value (RM'm)	20.82
Top Shareholders (%)	
Insas Bhd	16.74
Kumpulan Wang Persaraan Diperbandan	14.05
Employees Provident Fund	5.92

Analyst
Foo Chuan Loong, **MARTIN**
martin.foo@midf.com.my
03-21738354

INVESTMENT STATISTICS

Financial year ending 30 th June (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	1,376.0	1,152.9	1,081.8	1,212.2	1,332.4
EBIT	287.6	208.2	161.7	209.3	245.8
PBT	295.5	216.2	170.9	220.5	259.3
PATANCI	249.3	191.7	155.1	202.2	240.5
Normalised PATANCI	240.2	191.7	155.1	202.2	240.5
Normalised EPS (sen)	7.6	5.7	4.7	6.2	7.4
Normalised EPS Growth (%)	28.2	-25.0	-17.5	32.0	18.9
PER (x)	18.8	25.1	30.5	23.1	19.4
Dividend Per Share (sen)	8.5	5.2	4.3	5.9	7.0
Dividend yield (%)	5.9	3.6	3.0	4.1	4.9

Source: Company, MIDFR

INARI AMERTRON BHD: 3QFY20 RESULTS SUMMARY

Financial year ending 30 th June (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	3QFY20	% YoY	% QoQ	2020	2019	% YoY
Revenue	242.6	-5.4	-8.6	824.6	882.2	-6.5
EBITDA	63.9	-1.6	-3.3	207.5	231.8	-10.5
Depreciation and amortisation	-25.5	5.1	-0.1	-76.2	-70.8	7.5
EBIT	38.5	-5.5	-5.4	131.4	161.0	-18.4
Finance costs	-0.1	-46.0	3.5	-0.5	-0.9	-49.0
Interest income	2.4	14.8	14.0	7.4	6.9	7.8
PBT	40.8	-4.3	-4.4	138.3	166.9	-17.2
Taxation	-5.7	49.1	10.5	-18.0	-12.9	39.3
MI	0.0	-100.7	-136.4	0.0	-0.6	-103.6
PATANCI	35.1	-8.2	-6.5	120.3	153.4	-21.6
Normalised PATANCI	22.4	-45.7	-43.3	109.0	149.8	-27.2
Normalised EPS (sen)	0.7	-46.1	-43.7	3.4	4.6	-27.3
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	26.4	1.0	1.4	25.2	26.3	-1.1
EBIT margin (%)	15.9	0.0	0.5	15.9	18.3	-2.3
Normalised PATANCI margin (%)	9.2	-6.9	-5.7	13.2	17.0	-3.8
Effective tax rate (%)	14.0	5.0	1.9	13.0	7.7	5.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	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.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	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

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