

Outthink. Outperform.

A solid quarter

3QFY17 results surprised positively with a better-than-expected EBITDA margin that was at its highest since 3Q13, likely driven by cost improvement. The impact from the new IRIS chip should have been minimal with full-quarter contribution in 4QFY17. We raise our FY17 EPS estimate by 11%. Maintain BUY and target price of RM2.60.

9MFY17 results – surprises positively with strong margin improvement

Inari's 9MFY17 core profit of RM135m (+22% yoy) was ahead of our expectations but in line with the street's, accounting for 84% and 70% of the respective FY17 estimates. Against our forecast, the variance was due to the better-than-expected EBITDA margin for the quarter that surged 6ppts qoq to 26.1%, the highest level since 3QFY13. For the 9 months, the EBITDA margin at 22.1% was above our FY17 estimate of 19.7%.

9MFY17 growth driven by revenue and margin gains

Overall, the better set of results was underpinned by a combination of stronger revenue and a firmer EBITDA margin. Note, however, that 3QFY16 revenue and earnings had been impacted by the inventory correction last year. The gradual improvement post that quarter has helped contribute to the better revenue and earnings. We note that 9MFY17 revenue and earnings are still fairly flat excluding that blip in 3QFY16. This is largely the result of a customer's transition from 6" to 8" wafers, in which Inari is seeing little incremental benefits. Nevertheless, it announced a quarterly DPS of 2.2 sen bringing the 9MFY17 DPS to 7 sen.

3QFY17 earnings surge 33% qoq

Sequentially, core earnings surged 33% on the strong margin improvement. We think that this could have been due to better contribution from its data server chip business. While the IRIS IR chip business also commenced operations in the latter part of 3QFY17, contribution would be more significant in 4QFY17, with a near full-quarter impact of 5m production units/month.

Maintain Buy and target price of RM2.60

We raise our 2017 EPS forecast by 11% to account for the better margins but leave FY18-19 estimates unchanged. We reiterate our Buy rating on Inari at an unchanged 12-month target price of RM2.60 (20x FY18E EPS). Key risks: a slowdown in global demand for smart devices, rapid ASP erosion and a loss of its customer base.

Earnings & Valuation Summary

| FYE 30 June | 2015 | 2016 | 2017E | 2018E | 2019E |
|-----------------------|-------|---------|---------|---------|---------|
| Revenue (RMm) | 933.1 | 1,040.9 | 1,152.7 | 1,575.9 | 1,816.6 |
| EBITDA (RMm) | 166.4 | 206.0 | 246.1 | 342.7 | 384.7 |
| Pretax profit (RMm) | 152.0 | 153.1 | 218.4 | 288.6 | 332.4 |
| Net profit (RMm) | 152.5 | 148.3 | 205.3 | 268.3 | 305.9 |
| EPS (sen) | 7.7 | 7.5 | 10.4 | 13.6 | 15.5 |
| PER (x) | 28.2 | 29.0 | 20.9 | 16.0 | 14.1 |
| Core net profit (RMm) | 132.7 | 153.2 | 178.2 | 268.3 | 305.9 |
| Core EPS (sen) | 6.7 | 7.8 | 9.0 | 13.6 | 15.5 |
| Core EPS growth (%) | 41.1 | 15.4 | 16.3 | 50.6 | 14.0 |
| Core PER (x) | 32.4 | 28.1 | 24.1 | 16.0 | 14.1 |
| Net DPS (sen) | 4.5 | 4.2 | 5.2 | 5.4 | 6.2 |
| Dividend Yield (%) | 2.0 | 1.9 | 2.4 | 2.5 | 2.8 |
| EV/EBITDA (x) | 24.4 | 20.0 | 16.8 | 11.8 | 10.1 |
| Chg in EPS (%) | | | 11.2 | - | - |
| Affin/Consensus (x) | | | 0.8 | 1.1 | 1.0 |

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Inari Amertron

INRI MK

Sector: Technology

RM2.18 @ 16 May 2017

BUY (maintain)

Upside: 19%

Price Target: RM2.60

Previous Target: RM2.60



Price Performance

| | 1M | 3M | 12M |
|-------------|--------|--------|--------|
| Absolute | +14.7% | +17.8% | +63.0% |
| Rel to KLCI | +11.7% | +13.2% | +48.6% |

Stock Data

| | |
|-------------------------------|----------------|
| Issued shares (m) | 1,985.0 |
| Mkt cap (RMm)/(US\$m) | 4,328.8/1001.8 |
| Avg daily vol - 6mth (m) | 6.5 |
| 52-wk range (RM) | 1.28-2.23 |
| Est free float | 58.3% |
| BV per share (RM) | 0.41 |
| P/BV (x) | 5.29 |
| Net cash/ (debt) (RMm) (3Q17) | 334.7 |
| ROE (2017E) | 24.8% |
| Derivatives | Nil |
| (Warr A 06/18, EP RM0.132) | |
| (Warr B 02/20, EP RM0.80) | |
| Shariah Compliant | Yes |

Key Shareholders

| | |
|-----------|-------|
| Insas Bhd | 19.9% |
| KWAP | 6.6% |
| EPF | 6.4% |

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

| FYE 30 June (RMm) | 3QFY17 | QoQ % chg | YoY % chg | 9MFY17 | YoY % chg | Comments |
|------------------------|-------------|--------------|--------------|--------------|--------------|--|
| Revenue | 274.0 | (0.4) | 26.1 | 830.7 | 5.7 | Weak revenue qoq due to a combination of customer's transition from 6" to 8" wafers limiting Inari from charging more for its services. Gain yoy largely due to the low base in 3QFY16 |
| Op costs | (202.5) | (7.8) | 13.5 | (646.7) | 1.5 | |
| EBITDA | 71.5 | 29.2 | 84.2 | 183.9 | 23.5 | |
| EBITDA margin (%) | 26.1 | +6.0ppt | +8.2ppt | 22.1 | +3.2ppt | Increase driven by plant expansion |
| Depn and amort | (16.4) | 10.1 | 48.4 | (45.0) | 30.2 | |
| EBIT | 55.2 | 36.2 | 98.4 | 138.9 | 21.5 | |
| Int expense | (0.3) | (22.8) | (82.6) | (1.1) | (76.4) | Largely realised and unrealised forex loss in 3QFY17 including RM4m gain on disposal of shares in PCL |
| Int and other inc | 1.5 | 29.5 | (52.0) | 3.6 | (25.4) | |
| EI | (2.1) | >100 | (66.1) | 27.1 | >100 | |
| Pretax profit | 54.3 | (15.7) | 135.7 | 168.6 | 50.8 | |
| Core pretax | 56.3 | 36.6 | 93.4 | 141.5 | 23.4 | |
| Tax | (2.1) | 5.3 | 634.4 | (5.9) | 59.3 | |
| Tax rate (%) | 3.9 | n.m | n.m | 3.5 | n.m | Growth driven by forex gains and low base in 3QFY16 |
| MI | (1.0) | >100 | (26.6) | (0.4) | >100 | |
| Net profit | 51.2 | (18.8) | 139.1 | 162.2 | 49.7 | |
| EPS (sen) | 2.6 | (18.8) | 139.1 | 5.8 | 5.4 | Above our expectations but in line with street - accounts for 84% of our FY17 estimate (70% of street's) |
| Core net profit | 53.2 | 33.4 | 93.6 | 135.1 | 21.6 | |

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

| | |
|------------------|--|
| BUY | Total return is expected to exceed +10% over a 12-month period |
| HOLD | Total return is expected to be between -5% and +10% over a 12-month period |
| SELL | Total return is expected to be below -5% over a 12-month period |
| NOT RATED | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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