

18 May 2017 | Briefing Note

## Inari Amertron Berhad

### *Profit margin to increase steadily*

#### INVESTMENT HIGHLIGHTS

- Full quarterly contribution from the iris-scanning segment from 2QCY17 onwards
- Expecting profit margin to continue to improve
- Prudent spending on capex to uplift the cash reserve
- Maintain HOLD with a revised target price of RM2.29

**First round of contribution from the iris-scanning segment.** In 3QFY17, Inari Amertron Bhd (Inari) recorded its first round of earnings contribution from the provision of iris-recognition components. The production of the components started in February 2017. For the quarter-in-review, a total of 2.8m units has been produced. With the ongoing capacity expansion for this segment, we can see more meaningful contribution from this segment in FY18.

**Profit margin expected to improve further in FY18.** To recall, Inari's normalised profit margin widened to 16.1% for 9MFY17 (9MFY16: 14.3%). We are expecting stable profit margin improvement in the near term. This is mainly premised on the group's on-going initiatives to reduce operation and/or production costs. One of such initiative includes opting for local equipment providers. The group guided that such move can leads to double-digit reduction in costs which can be passed on to its customers.

**Prudent capital spending to conserve cash.** For 9MFY17, the group's capital expenditure amounted to RM70.4m. This represents a marginal increase of +1.7%yoy. Management is cautious in its capital spending in order to built-up its cash holdings. This can be utilise for future expansion and progressive dividend payment. As at 3QFY17, Inari's cash reserve has increased significantly by +81.4%yoy to RM380.1m.

**Impact on earnings.** We are increasing our FY17 and FY18 profit margins assumptions to better reflect the results thus far. As a result, we are revising upwards FY17 and FY18 earnings estimates by +1.3% and +2.9% respectively.


**Target Price.** We are increasing our target price slightly higher to **RM2.29** per share (previously RM2.23). This is premised on revised FY18 EPS of 10.8sen pegged to unchanged FY18 forward PER of 21.2x. Our target PER is based on its five year historical high rolling PER (i.e. since its listing in 2011).

**Maintain NEUTRAL**

**Revised Target Price (TP): RM2.29**  
(previously RM2.23)

RETURN STATS	
Price (17 <sup>th</sup> May 2017)	RM2.17
Target Price	RM2.29
Expected Share Price Return	+4.6%
Expected Dividend Yield	+5.9%
<b>Expected Total Return</b>	<b>+10.5%</b>

STOCK INFO	
KLCI	1,775.65
Bursa / Bloomberg	0166 / INRI MK
Board / Sector	Main / Technology
Syariah Compliant	Yes
Issued shares (mil)	1985.7
Par Value (RM)	0.10
Market cap. (RM'm)	4,308.9
Price over NA	4.61
52-wk price Range	RM1.28-RM2.23
Beta (against KLCI)	0.80
3-mth Avg Daily Vol	7.8m
3-mth Avg Daily Value	RM15.7m
Major Shareholders (%)	
Insas Bhd	19.71
Kumpulan Wang Persaraan	7.00
Norges Bank	5.85
Employees Provident Fund	5.34

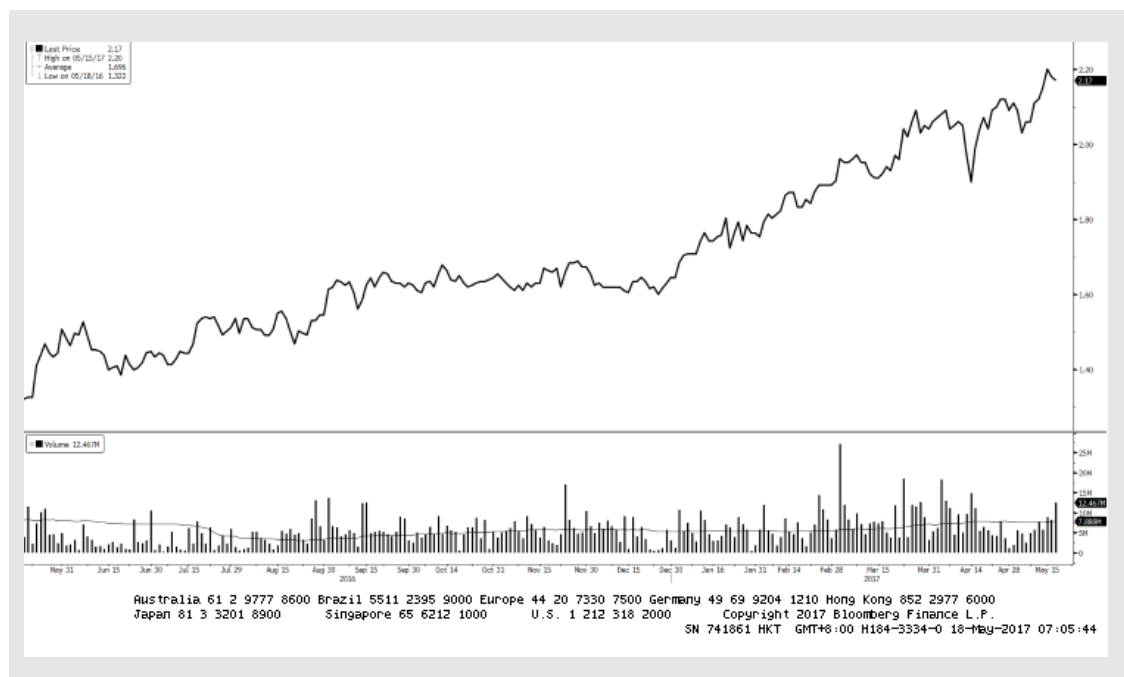
**Maintain NEUTRAL.** Inari's strategic positioning within the semiconductor value chain has proven to be in favour of the group. The group's various core business segments have been recording better financial performance due to healthier demand of its product. Coupled with financial advantages from MIDA, the group has healthy net cashflow which would be use for business expansion and for rewarding existing shareholders. Premised on these positive factors, the share price has since appreciated by more than +30% on a year-to-date basis. As such, we view that the potential upside is rather limited at this juncture. All factors considered, we are maintaining our **NEUTRAL** call on the stock. 

## INVESTMENT STATISTICS

FYE 30 <sup>th</sup> June (RM'm)	2015	2016	2017F	2018F
Revenue	933.1	1040.9	1238.6	1424.4
Operating Profit	154.3	153.6	186.5	220.0
Profit before tax	152.0	153.1	189.7	223.2
Income tax expense	-1.7	-6.0	-4.8	-7.2
Profit after tax after non-controlling interest	152.5	148.3	186.4	217.7
Adjusted PATANCI	134.4	146.0	186.4	217.7
Adjusted EPS (sen)	7.2	7.6	9.3	10.8
Operating profit margin (%)	14.8	15.1	15.4	15.7
PBT margin (%)	14.7	15.3	15.7	15.9
Adjusted PATANCI margin (%)	14.4	14.0	15.0	15.3
Effective income tax rate (%)	1.1	3.9	2.5	3.2
DPS (sen)	8.9	8.4	10.6	12.7
Dividend yield (%)	4.1	3.9	4.9	5.9

Source: Company, MIDFR

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.