

21 November 2022

Inari Amertron

Christmas Has Not Come Early

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INARI's 1QFY23 results missed expectations. Its revenue dipped 12.6% on weaker RF and automotive segments. We expect the subsequent quarters to remain muted as the US smartphone company has warned of worsening supply chain struggles due to China's zero-Covid policy. We cut our FY23-24F net profit forecasts by 7.1-4.6%, reduce our TP by 17% to RM2.85 (from RM3.45) and downgrade our call to MARKET PERFORM from OUTPERFORM.

Below expectations. 1QFY23 net profit of RM100.5m (-4.8% YoY) represented 25% and 24% of our forecast and the consensus estimate, respectively. However, we deem the result to be below expectation given that 1Q should typically exhibit stronger earnings in conjunction with the start of the new US smartphone launch cycle.

Results' highlights. YoY, 1QFY23 revenue fell 12.6% on lower loading volume for its radio frequency (RF) filters segment as well as the prolonged supply chain challenge impacting its automotive business. The decline in the RF segment was in tandem with the latest results released from the US smartphone manufacturer in which sales fell short of market expectation. As a result, 1QFY23 net profit saw a 4.8% decline after stripping out unrealised foreign exchange gain of RM5.7m.

Doubtful Christmas season. Having started the new smartphone cycle on a subdued note, we expect the subsequent quarter's performance to remain muted owing to the challenging macro environment that is impacting consumer's appetite for premium goods. Not helping either is the fact that the US smartphone customer has also warned about longer-than-expected delivery time in the coming festive season due to on-going supply chain challenges resulting from China's zero-Covid policy.

Forecasts. Trim FY23F/FY24F CNP by 7.1%/4.6% to reflect the slower momentum in the US smartphone sales which will dampen the earnings in the group's RF segment that makes up c.63% of the total group revenue.

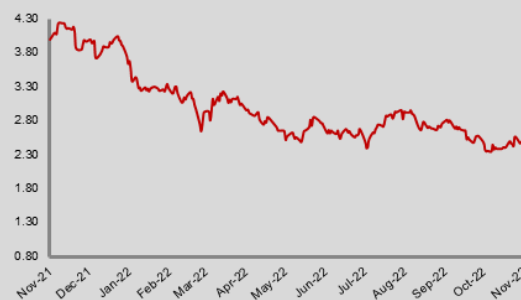
Downgrade to MARKET PERFORM with a lower TP of RM2.85 (previously RM3.45) based on a lower 25x CY23F PER (previously 28.5x), which is in line with peers' forward mean. We like INARI for: (i) it being the closest proxy to 5G adoption, (ii) it being highly responsive to the market demand with the rollout of new technologies such as double-sided moulding (DSM) and system-on-module (SOM) in the recent past, and (iii) its significant expansion in China, capitalising on the superpower's aggressive push for semiconductor self-sufficiency. However, we remain cautious due to the waning consumer demand in the smartphone market while its JV venture may only contribute meaningfully in 2HFY24. Our target price imputes a +5% adjustment based on its ESG rating of 4-star as appraised by us (see Page 4).

Risks to our call include: (i) better-than-expected response to new offerings by its key customer, (ii) easing in supply chain delays, and (iii) earlier-than-expected ramp-up in its China expansion.

MARKET PERFORM

Price : RM2.58
Target Price : RM2.85

Share Price Performance



KLCI 1,449.3
YTD KLCI chg -7.5%
YTD stock price chg -35.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	INRI MK Equity
Market Cap (RM m)	9,630.6
Shares Outstanding	3,732.8
52-week range (H)	4.30
52-week range (L)	2.28
3-mth avg daily vol:	6,290,440
Free Float	61%
Beta	0.50

Major Shareholders

Insas Bhd	13.9%
EPF	10.3%
KWAP	9.4%

Summary Earnings Table

FYE Jun (RM m)	2022A	2023F	2024F
Turnover	1,547.9	1,498.4	1,688.4
EBITDA	548.2	537.0	594.1
PBT	446.1	432.0	487.0
Net Profit (NP)	390.9	378.5	426.7
Consensus (NP)	n.a.	428.0	471.2
Earnings Revision	n.a.	-7.1%	-4.6%
EPS (sen)	10.5	10.2	11.5
EPS growth (%)	18.3	-3.2	12.7
NDPS (sen)	10.0	9.7	10.9
BVPS (RM)	0.68	0.68	0.69
Price/BV (x)	3.8	3.8	3.8
PER (x)	24.5	25.3	22.4
Gearing (x)	0.0	0.0	0.0
ROA (%)	13.5	13.2	14.7
ROE (%)	15.6	15.0	16.8
Dividend Yield (%)	3.9	3.8	4.2



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Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Jun (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	377.0	336.2	12.1%	431.1	-12.6%	377.0	431.1	-12.6%
EBIT	121.4	109.0	11.4%	118.3	2.6%	121.4	118.3	2.6%
PBT	121.1	108.0	12.1%	118.3	2.3%	121.1	118.3	2.3%
Taxation	-14.7	-22.0	33.3%	-11.4	-28.4%	-14.7	-11.4	-28.4%
Net Profit (NP)	106.3	86.2	23.2%	106.9	-0.6%	106.3	106.9	-0.6%
Core NP	100.5	85.9	17.0%	105.6	-4.8%	100.5	105.6	-4.8%
EPS (sen)	2.7	2.3	17.0%	2.8	-4.8%	2.7	2.8	-4.8%
DPS (sen)	2.6	2.2		2.8		2.6	2.8	
EBIT margin	32.2%	32.4%		27.5%		32.2%	27.5%	
Pretax margin	32.1%	32.1%		27.4%		32.1%	27.4%	
CNP margin	26.7%	25.6%		24.5%		26.7%	24.5%	
Effective tax rate	-12.1%	-20.4%		-9.7%		-12.1%	-9.7%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	OP	3.77	4.45	18.04%	4,664.4	Y	12/2022	11.3	14.4	27.1%	26.6%	33.2	26.3	5.2	16.3%	1.9	0.5%
GHL SYSTEMS BHD	MP	0.700	1.10	57.14%	793.3	Y	12/2022	2.1	2.7	-16.4%	30.2%	34.0	26.1	1.5	4.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.58	2.85	10.47%	9,630.6	Y	06/2023	10.2	11.5	-3.2%	12.7%	25.3	22.4	3.8	15.0%	9.7	3.8%
JHM CONSOLIDATION BHD	MP	0.74	0.90	21.62%	412.6	Y	12/2022	5.7	6.7	15.8%	17.7%	13.0	11.1	1.4	11.6%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.30	1.80	38.46%	835.9	Y	12/2022	7.8	8.1	57.9%	4.0%	16.6	16.0	3.6	23.4%	2.0	1.4%
KESM INDUSTRIES BHD	MP	7.00	6.60	-5.71%	301.1	Y	07/2023	2.8	8.6	500.0%	208.3%	251.2	82.2	0.8	0.3%	7.5	1.1%
LGMS BHD	OP	1.20	1.50	25.00%	547.2	Y	12/2022	2.7	3.5	20.4%	29.0%	44.1	34.1	6.5	22.0%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	26.10	34.50	32.18%	5,191.2	Y	06/2023	173.0	182.5	4.1%	5.5%	15.1	14.3	2.3	16.0%	35.0	1.3%
P.I.E. INDUSTRIAL BHD	OP	2.56	3.15	23.05%	983.1	Y	12/2022	16.6	19.7	6.0%	18.5%	15.4	13.0	1.7	11.6%	7.0	2.7%
SKP RESOURCES BHD	OP	1.62	2.10	29.63%	2,531.0	Y	03/2023	11.6	12.4	6.3%	7.7%	14.0	13.1	2.8	21.1%	5.8	3.6%
UNISEM (M) BHD	MP	2.61	2.75	5.36%	4,210.1	Y	12/2022	14.4	15.3	17.7%	6.2%	18.1	17.0	1.8	10.4%	6.0	2.3%
Simple Average								23.5	25.9	57.8%	33.3%	43.6	25.1	2.8	13.9%		1.6%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Foreign Worker Welfare	★	★	★	★	
	Supply Chain Auditing	★	★	★	☆	
	Waste disposal / pollution control	★	★	★		
	Energy Efficiency	★	★	★	☆	
	Work Site Safety	★	★	★	★	
	Digital Transformation	★	★	★	☆	
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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