

Inari Amertron

Weak Demand for RF Weighs

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INARI's 9MFY23 results disappointed. Its top line contracted by double digits on weaker demand across all segments, with the RF segment exhibiting a larger decline amidst a slowdown in the global smartphone shipment. INARI's operating environment will remain challenging given its high dependence on consumer electronics. We cut our FY23-24F earnings forecasts by 11% each, reduce our TP by 5% to RM2.46 (from 2.60) but maintain our MARKET PERFORM call.

Below expectations. 9MFY23 core net profit of RM255.5m (-15.6% YoY) came in below expectations, accounting for only 67% and 66% of our full-year forecast and the full-year consensus estimate, respectively. The weaker set of numbers was mainly due to lower loading volume from both the smartphone and opto-electronic segments.

Results' highlights. YoY, 9MFY23 revenue experienced a moderate decline of 12.9%, primarily due to a slowdown across all its business segments. The radio frequency (RF) segment (c.62% of group revenue) was particularly affected, with a 15.7% drop in revenue which can be attributable to the smartphone market's weakening condition and the ongoing inventory clearing and adjustment phase. This decline aligns with the global trend as reported by *International Data Corporation (IDC)*, showing a 14.6% YoY decrease in global smartphone shipments for 1QCY23.

Dim prospects. IDC noted that smartphone manufacturers globally have continued to exercise caution, adopting a prudent strategy instead of flooding the channel with excess stock in pursuit of short-term gains. Amidst the challenging macro environment, the group anticipates modest improvements in the upcoming quarter, supported by the very gradual recovery of China's economy and its affinity for the US smartphone brand.

Forecasts. We cut our FY23-24F net profit forecasts by 11% each as we factor in an overall weaker RF loading volume due to further softening in the smartphone space.

We reduce our TP by 5% to RM2.46 (previously RM2.60) on a rolled forward earnings base of FY24F, pegged to an unchanged PER of 23x (which is in line with peers' forward mean). Our TP imputes a 5% premium to reflect its 4-star ESG rating as appraised by us (see Page 4).

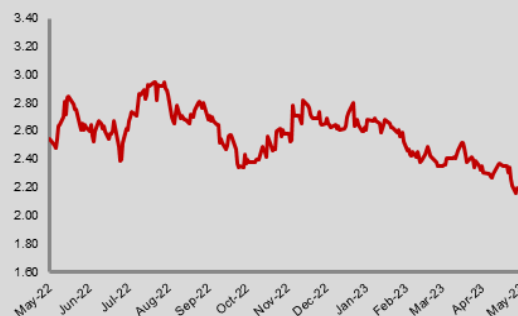
Investment thesis. We like INARI for: (i) it being the closest proxy to 5G adoption, (ii) it being highly responsive to the market demand with the roll-out of new technologies such as double-sided moulding (DSM) and system-on-module (SOM), and (iii) its significant expansion in China, capitalising on 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 not contribute soon enough. Maintain **MARKET PERFORM**.

Risks to our call include: (i) better-than-expected response to its new offerings by its key customer, (ii) easing in supply-chain disruptions, and (iii) expansion in China coming onstream sooner-than-expected.

MARKET PERFORM ↔

Price : RM2.26
Target Price : RM2.46 ↓

Share Price Performance



KLCI 1,402.9
YTD KLCI chg -6.2%
YTD stock price chg -13.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	INRI MK Equity
Market Cap (RM m)	8,436.4
Shares Outstanding	3,732.9
52-week range (H)	2.96
52-week range (L)	2.15
3-mth avg daily vol:	4,258,415
Free Float	56.7%
Beta	0.8

Major Shareholders

Insas Bhd	13.9%
EPF	10.7%
KWAP	9.2%

Summary Earnings Table

FYE Jun (RM m)	2022A	2023F	2024F
Turnover	1,547.9	1,329.5	1,502.7
EBITDA	548.2	487.1	537.1
PBT	446.1	383.2	433.3
Net Profit (NP)	390.9	335.7	379.7
Consensus (NP)	-	386.3	429.5
Earnings Revision	-	-11%	-11%
EPS (sen)	10.5	9.0	10.2
EPS growth (%)	18.3	-14.1	13.1
NDPS (sen)	10.0	8.6	9.7
BVPS (RM)	0.67	0.68	0.68
Price/BV (x)	3.4	3.3	3.3
PER (x)	21.6	25.1	22.2
Gearing (x)	0.0	0.0	0.0
ROA (%)	13.5	11.8	13.2
ROE (%)	15.6	13.3	15.0
Dividend Yield (%)	4.4	3.8	4.3

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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Jun (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	275.8	402.5	-31.5%	360.3	-23.5%	1055.3	1211.7	-12.9%
EBIT	62.2	100.5	-38.1%	103.1	-39.7%	284.1	338.2	-16.0%
PBT	61.9	100.2	-38.2%	103.1	-40.0%	283.2	338.1	-16.3%
Taxation	-4.6	-7.1	34.4%	-12.8	63.8%	-26.4	-32.9	19.8%
Net Profit (NP)	57.4	93.6	-38.7%	90.5	-36.6%	257.2	304.7	-15.6%
Core NP (CNP)	52.2	102.8	-49.2%	93.9	-44.4%	255.5	302.6	-15.6%
EPS (sen)	1.4	2.8	-49.2%	2.5	-44.4%	6.8	8.1	-15.6%
DPS (sen)	1.4	2.2		2.2		6.2	7.8	
EBIT margin	22.6%	25.0%		28.6%		26.9%	27.9%	
Pretax margin	22.4%	24.9%		28.6%		26.8%	27.9%	
CNP margin	18.9%	25.5%		26.1%		24.2%	25.0%	
Effective tax rate	-7.5%	-7.0%		-12.4%		-9.3%	-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	UP	3.85	3.51	-8.83%	4,765.5	Y	12/2023	10.3	14.0	31.6%	35.5%	37.2	27.5	5.0	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.790	1.05	32.91%	896.1	Y	12/2023	3.0	3.4	21.3%	12.9%	26.3	23.4	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.26	2.46	8.85%	8,436.4	Y	06/2023	9.0	10.2	-14.1%	13.1%	25.1	22.2	3.3	13.3%	8.6	3.8%
JHM CONSOLIDATION BHD	MP	0.730	0.800	9.59%	439.4	Y	12/2023	5.3	5.9	40.0%	10.6%	13.7	12.4	1.3	9.8%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.36	1.92	41.18%	874.5	Y	12/2023	8.7	9.0	1.1%	3.2%	15.6	15.1	3.1	21.3%	2.4	1.8%
KESM INDUSTRIES BHD	MP	6.81	6.91	1.47%	292.9	Y	07/2023	(15.8)	1.2	-3500.0%	-92.6%	N.A.	549.6	0.8	-1.9%	7.5	1.1%
LGMS BHD	OP	1.09	1.50	37.61%	497.0	Y	12/2023	3.5	5.9	26.2%	69.8%	31.3	18.4	5.0	17.4%	0.0	0.0%
M'SIAN PACIFIC INDUSTRIES BHD	UP	25.72	15.26	-40.67%	5,115.6	Y	06/2023	41.8	105.8	-74.7%	153.3%	61.2	24.3	2.5	4.1%	35.0	1.4%
NATIONGATE HOLDINGS BHD	OP	1.21	1.40	15.70%	2,509.5	Y	12/2023	5.0	6.1	20.4%	22.8%	24.3	19.8	7.7	37.1%	0.3	0.2%
OPPSTAR BHD	UP	1.89	1.30	-31.22%	1,202.4	N	12/2023	3.1	4.0	18.1%	29.6%	61.4	47.4	41.8	90.7%	0.8	0.4%
P.I.E. INDUSTRIAL BHD	OP	3.35	4.05	20.90%	1,286.5	Y	12/2023	22.5	25.3	22.0%	12.5%	14.9	13.2	2.1	14.6%	7.0	2.1%
SKP RESOURCES BHD	UP	0.990	1.20	21.21%	1,546.7	Y	03/2023	9.7	7.9	-11.1%	-17.9%	10.2	12.5	1.7	17.8%	4.8	4.8%
UNISEM (M) BHD	MP	2.86	2.75	-3.85%	4,613.4	Y	12/2023	8.9	13.8	-41.2%	55.7%	18.6	16.7	1.9	5.9%	6.0	2.1%
Simple Average										-22.4%	28.6%	27.5	21.4	6.0	19.3%		1.5%

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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