

29 May 2023

Inari Amertron

Yet to Turn the Corner

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INARI expects an improvement in 4QFY23 performance as it initiates the production of RF filters for the up-coming US flagship smartphone. However, the same cannot be said for other business segments which are still grappling with order deferments, while contributions from new ventures will not turn meaningful anytime soon. We maintain our forecasts, TP of RM2.46 and MARKET PERFORM call.

We came away from INARI's post-3QFY23 results briefing with mixed feelings about its prospects. The key takeaways are as follows:

1. INARI anticipates its upcoming 4QFY23 to see QoQ improvements driven by the initial production ramp up of radio frequency (RF) filters in June for the upcoming US flagship smartphone. Furthermore, the group anticipates benefiting from a higher allocation by its Customer B, reflecting a c.15% increase in RF filter components per smartphone. This aligns with the announcement made by the US smartphone manufacturer that it will continue to source wireless components from Customer B which in turn signifies a continuation of RF business (c.62% of group revenue) for the group.
2. Meanwhile, the optical communication segment (c.14% of group revenue) is anticipated to face a further slowdown due to the delayed deployment of high-speed optical transceivers (100G - 400G) among hyperscalers. Consequently, there has been a decrease in order replenishment from customers at this juncture as they prioritise reducing existing inventories. Based on discussions with customers, INARI expects the orders to gradually recover in 1HFY24.
3. The group is currently in the process of establishing production lines for its new customer in the memory segment, with completion expected by August 2023. Simultaneously, the production of high-powered LEDs for another new customer is progressing well on schedule. In fact, it has garnered attention from the parent company, which is exploring the possibility of placing orders for silicon carbide (SiC) related LEDs and power modules. However, it's important to note that these discussions are still at the early negotiation stage.
4. INARI has hired 30 employees for the new incoming capacity in its 54.5%-owned Yiwu Semiconductor International Corp's (YSIC)'s plant in China which is scheduled for completion by 2QFY24, followed by customer audit.

Forecasts. Maintained.

We also maintain our **TP of RM2.46** based on 23x FY24F PER, 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).

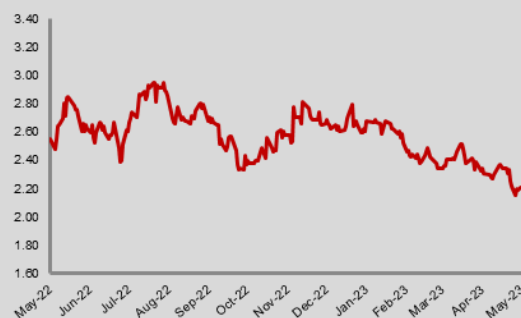
Investment thesis. We like INARI for: (i) it being the closest proxy to 5G adoption, (ii) it being highly responsive to the market demand with the rollout of new technologies such as double-sided moulding (DSM) and system-on-module (SOM), and (iii) its significant expansion in China, capitalising on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

Risks to our call include: (i) new offerings not well received by key customers, (ii) new supply-chain disruptions, and (iii) delays in its expansion in China.

MARKET PERFORM ↔

Price : RM2.47
Target Price : RM2.46 ↔

Share Price Performance



KLCI 1,402.9
YTD KLCI chg -6.2%
YTD stock price chg -5.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	INRI MK Equity
Market Cap (RM m)	9,220.4
Shares Outstanding	3,732.9
52-week range (H)	3.24
52-week range (L)	2.28
3-mth avg daily vol:	4,548,025
Free Float	56.7%
Beta	0.8

Major Shareholders

Insas Bhd	13.9%
KWAP	10.9%
EPF	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	390.9	335.7	379.7
Consensus	-	351.7	393.5
Earnings Revision	-	-	-
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)	3.7	3.7	3.6
PER (x)	23.6	27.5	24.3
Gearing (x)	0.0	0.0	0.0
ROA (%)	13.5	11.8	13.2
ROE (%)	15.6	13.3	15.0
Dividend Yield (%)	4.0	3.5	3.9



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Income Statement

FY Jun (RM m)	2019A	2020A	2021A	2022F	2023F
Revenue	1,058	1,429	1,548	1,330	1,503
EBITDA	274.1	455.7	548.2	487.1	537.1
Depre & Amor	-100	-102.7	-100.9	-102.9	-102.7
Operating Profit	173.7	353.0	447.2	384.2	434.3
Other Income	26.2	20.1	57.4	49.3	55.7
Interest Exp	-0.8	-0.5	-1.0	-1.0	-1.0
Associate	-0.6	-0.2	-0.1	0.0	0.0
PBT	172.4	352.2	446.1	383.2	433.3
Taxation	-15.9	-21.5	-54.9	-47.2	-53.3
Minority Interest	0.7	0.2	0.3	0.3	0.3
Net Profit	155.8	330.5	390.9	335.7	379.7
Core Net Profit	155.8	330.5	390.9	335.7	379.7

Balance Sheet

FY Jun (RM m)	2019A	2020A	2021A	2022F	2023F
Fixed Assets	478.4	473.4	499.5	492.4	497.8
Intangible Assets	2.3	2.2	2.3	2.3	2.3
Other FA	12.7	20.9	7.1	7.1	7.1
Inventories	145.9	157.5	147.0	123.9	142.0
Receivables	214.4	251.7	266.9	229.2	259.1
Other CA	15.9	9.6	0.9	0.9	0.9
Cash	594.6	904.9	1,971.0	1,983.1	1,966.2
Total Assets	1,464	1,820	2,895	2,839	2,875
Payables	199.2	288.6	262.6	221.2	253.6
ST Borrowings	5.0	1.1	1.0	1.0	1.0
Other ST Liability	35.9	136.9	91.2	66.6	54.2
LT Borrowings	1.1	0.0	0.0	0.0	0.0
Other LT Liability	14.0	16.2	29.0	29.0	29.0
Net Assets	1,209	1,377	2,511	2,521	2,538
Shr. Equity	1,205	1,373	2,505	2,520	2,537
Mnrt. Interest	4.2	4.5	6.0	0.9	0.4
Total Equity	1,209	1,377	2,511	2,521	2,538

Cashflow Statement

FY Jun (RM m)	2019A	2020A	2021A	2022F	2023F
Operating CF	347.0	486.5	504.5	479.0	450.9
Investing CF	-93.2	-98.8	-88.4	-95.8	-108.2
Financing CF	-101	-73.2	648.1	-317.6	-359.6

Financial Data & Ratios

FY Jun	2019A	2020A	2021A	2022F	2023F
Growth (%)					
Turnover	-8.2	35.0	8.3	-14.1	13.0
EBITDA	-12.3	66.3	20.3	-11.1	10.3
Operating Profit	-20.1	103.2	26.7	-14.1	13.0
PBT	-20.3	104.4	26.6	-14.1	13.1
Adj Net Profit	-18.8	112.2	18.3	-14.1	13.1
Profitability (%)					
EBITDA Margin	25.9	31.9	35.4	36.6	35.7
Operating Margin	16.4	24.7	28.9	28.9	28.9
PBT Margin	16.3	24.7	28.8	28.8	28.8
Core Net Margin	14.7	23.1	25.3	25.3	25.3
Effective Tax Rate	9.2	6.1	12.3	12.3	12.3
ROA	18.9	10.6	18.2	13.5	11.8
ROE	12.9	24.1	15.6	13.3	15.0
DuPont Analysis					
Net Margin (%)	14.7	23.1	25.3	25.3	25.3
Assets Turnover (x)	0.7	0.8	0.5	0.5	0.5
Leverage Factor (x)	1.2	1.3	1.2	1.1	1.1
ROE (%)	12.9	24.1	15.6	13.3	15.0
Leverage					
Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net (Cash)/Debt	(588)	(904)	(1970)	(1982)	(1965)
Net Debt/Equity (x)	-0.5	-0.7	-0.8	-0.8	-0.8
Valuations					
Core EPS (sen)	4.2	8.9	10.5	9.0	10.2
DPS (sen)	4.4	11.0	10.0	8.6	9.7
BVPS (RM)	0.3	0.4	0.7	0.7	0.7
PER (x)	59.2	27.9	23.6	27.5	24.3
Div. Yield (%)	1.8	4.5	4.0	3.5	3.9
P/BV (x)	7.7	6.7	3.7	3.7	3.6
EV/EBITDA (x)	31.5	18.3	13.2	14.9	13.5

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	3.90	3.51	-10.00%	4,827.4	Y	12/2023	10.3	14.0	31.6%	35.5%	37.7	27.8	5.1	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.780	1.05	34.62%	890.4	Y	12/2023	3.0	3.4	21.3%	12.9%	26.0	23.1	1.6	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.47	2.46	-0.40%	9,220.3	Y	06/2023	9.0	10.2	-14.1%	13.1%	27.5	24.3	3.7	13.3%	8.6	3.5%
JHM CONSOLIDATION BHD	MP	0.740	0.800	8.11%	445.4	Y	12/2023	5.3	5.9	40.0%	10.6%	13.9	12.6	1.3	9.8%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.38	1.92	39.13%	887.3	Y	12/2023	8.7	9.0	1.1%	3.2%	15.8	15.4	3.1	21.3%	2.4	1.7%
KESM INDUSTRIES BHD	MP	7.01	6.91	-1.43%	301.5	Y	07/2023	(15.8)	1.2	-3500.0%	-92.6%	N.A.	565.8	0.9	-1.9%	7.5	1.1%
LGMS BHD	OP	1.10	1.50	36.36%	501.6	Y	12/2023	3.5	5.9	26.2%	69.8%	31.6	18.6	5.0	17.4%	0.0	0.0%
M'SIAN PACIFIC INDUSTRIES BHD	UP	26.24	15.26	-41.84%	5,219.0	Y	06/2023	41.8	105.8	-74.7%	153.3%	62.5	24.8	2.6	4.1%	35.0	1.3%
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	1.91	1.30	-31.94%	1,215.1	N	12/2023	3.1	4.0	18.1%	29.6%	62.0	47.9	42.2	90.7%	0.8	0.4%
P.I.E. INDUSTRIAL BHD	OP	3.34	4.05	21.26%	1,282.7	Y	12/2023	22.5	25.3	22.0%	12.5%	14.8	13.2	2.1	14.6%	7.0	2.1%
SKP RESOURCES BHD	UP	1.01	1.20	18.81%	1,578.0	Y	03/2023	9.7	7.9	-11.1%	-17.9%	10.4	12.8	1.8	17.8%	4.8	4.8%
UNISEM (M) BHD	MP	2.95	2.75	-6.78%	4,758.6	Y	12/2023	8.9	13.8	-41.2%	55.7%	19.1	17.2	1.9	5.9%	6.0	2.0%
Simple Average										-22.4%	28.6%	28.5	22.1	6.1	19.3%		1.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★	★	
	Emissions Management	★	★	★	☆	
SPECIFIC	Technology & Innovation	★	★	★	★	
	Supply Chain Management	★	★	★	☆	
	Energy Efficiency	★	★	★		
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★	★	
	Ethical Practices	★	★	★	☆	
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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