

# Inari Amertron

## Positioned for AI-Driven Growth

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INARI is positioned to capitalize on the roll-out of AI-capable smartphones and is expanding into China's recovering smartphone market through its YSIC-JV in Yiwu. The increasing demand for high-bandwidth optoelectronic devices in networks and data centers will further boost the group's prospects. Following its soft FY24 results, we have revised down FY25/FY26 net profit forecasts by 15%/8%. Consequently, our target price has been adjusted to RM4.05 (on an unchanged 35x PER), maintaining our OUTPERFORM call.

We recently engaged with INARI's management and are encouraged by the company's positive outlook. Key insights from the meeting include:

- INARI's FY25 outlook remains promising, driven by key trends in AI and trade-war tariffs that are reshaping the tech industry. The company is strategically positioned to capitalize on the roll-out of AI-powered smartphones and the increasing demand for high-bandwidth optoelectronic devices used in networks and data centers, which are critical to support the growing AI market.
- INARI's RF segment, expected to contribute 59%-63% of FY25F-FY26F revenue, will be a key driver, benefiting from the upgrade cycle sparked by AI-capable smartphones. Attractive trade-in deals are likely to further stimulate consumer demand and accelerate this cycle. Additionally, its 54.5%-owned YSIC-JV, with a 500k sq ft plant in Yiwu, is positioned to tap into China's growing smartphone market, which saw an 8.9% YoY increase in 2QCY24 shipments. The JV has passed the qualification for four chip-scale packaging products, though low-volume production has been delayed to 4QCY24 due to wafer structure changes for cost efficiency. Meanwhile, the system-in-package (SiP) sampling has been completed and is undergoing reliability testing. INARI is aiming for RMB1b revenue from its China unit based on our earlier understanding.
- INARI has installed four production lines for its memory customer in P34, with high-volume production expected to begin by 4QCY24. While the current product is a basic memory storage device, this initiative serves as a stepping stone for INARI to eventually tap into the AI market. Additionally, INARI's optical transceivers business has started high-volume production of 800G modules, driven by the growing demand from data centers for faster data transfer, in anticipation of increased AI adoption.

**Forecasts.** We have revised our FY25/FY26 net profit forecasts lower by 15%/8%, respectively, reflecting the impact of margins that were compressed due to higher input costs related to expansion and new product development as was seen in the soft FY24 results.

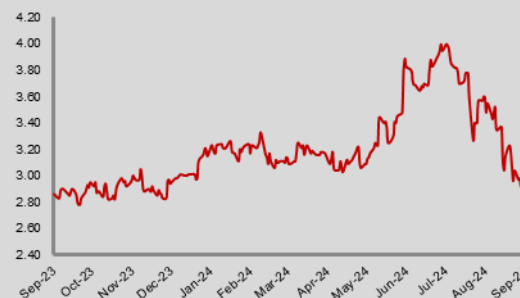
**Valuations.** We lowered our TP to RM4.05 (from RM4.60 previously) based on an unchanged CY25F PER of 35x. Our valuation reflects a 10% premium on peer's forward mean, justified by the company's superior net margins of >20%, (vs. peers of single digit). Our TP imputes a 5% premium to reflect its 4-star ESG rating as appraised by us (see Page 4).

**Investment case.** We like INARI for: (i) being the closest proxy to 5G adoption, (ii) 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. Maintain **OUTPERFORM**.

**OUTPERFORM** ↔

Price : **RM3.04**  
Target Price : **RM4.05** ↓

### Share Price Performance



KLCI	1,660.59
YTD KLCI chg	14.2%
YTD stock price chg	0.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	INRI MK EQUITY
Market Cap (RM m)	11,402.3
Shares Outstanding	3,788.1
52-week range (H)	4.03
52-week range (L)	2.75
3-mth avg. daily vol.	11,509,070
Free Float	78%
Beta	0.9

### Major Shareholders

Insas Bhd	13.3%
EPF	10.4%
KWAP	9.6%

### Summary Earnings Table

FYE Jun (RM m)	2024A	2025F	2026F
Turnover	1,479	1,697	1,968
EBIT	312	386	468
PBT	310	384	466
<b>Core Net Profit</b>	<b>307</b>	<b>374</b>	<b>454</b>
Consensus		404	454
Earnings Revision	-	-15%	-8%
Core EPS (sen)	8.0	10.0	12.1
EPS Growth (%)	-8	24	21
NDPS (sen)	7.7	7.5	7.5
BV/Share (RM)	0.75	0.77	0.81
Core PER (x)	37.6	30.3	24.9
P/BV (x)	4.0	3.9	3.7
Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	2.6	2.5	2.5



19 September 2024

### Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 18 Sept (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	2.18	2.64	21.1%	2,702.1	Y	12/2024	5.8	9.8	64.2%	67.4%	25.8	18.2	2.8	7.9%	1.0	0.5%
INARI AMERTRON BHD	OP	3.01	4.05	34.6%	11,402.3	Y	06/2025	10.0	12.1	22.0%	21.3%	32.0	25.4	3.9	13.2%	8.0	2.7%
KELINGTON GROUP BHD	OP	3.12	4.16	33.3%	2,145.4	Y	12/2024	16.8	19.8	5.1%	18.1%	19.3	16.0	5.2	30.1%	9.0	2.9%
LGMS BHD	OP	1.25	1.53	22.4%	570.0	Y	12/2024	3.6	5.1	46.4%	41.5%	27.0	19.7	5.8	17.7%	1.0	0.8%
M'SIAN PACIFIC INDUSTRIES BHD	OP	27.10	38.80	43.2%	5,117.2	Y	06/2025	118.4	149.0	87.1%	25.9%	36.4	19.6	2.4	10.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.72	2.30	33.7%	3,915.2	Y	12/2024	5.1	9.2	84.2%	86.6%	30.0	18.7	4.1	16.9%	1.0	0.6%
OPPSTAR BHD	MP	0.825	0.820	-0.6%	528.5	Y	03/2025	2.2	3.3	-11.0%	52.2%	14.6	12.6	3.3	9.0%	1.0	1.2%
P.I.E. INDUSTRIAL BHD	OP	5.20	6.35	22.1%	1,997.0	Y	12/2024	17.5	27.0	-9.4%	54.5%	23.4	18.1	3.0	10.5%	0.0	0.0%
SKP RESOURCES BHD	OP	1.11	1.35	21.6%	1,734.2	Y	03/2025	7.4	8.4	18.8%	14.5%	15.2	13.1	1.6	11.0%	0.0	0.0%
UNISEM (M) BHD	OP	3.16	3.70	17.1%	5,097.3	Y	12/2024	10.2	12.7	100.4%	25.2%	31.1	24.9	2.1	6.8%	8.0	2.5%
<b>Simple Average</b>					<b>35,209.3</b>					<b>39.0%</b>	<b>32.4%</b>	<b>27.5</b>	<b>20.8</b>	<b>3.4</b>	<b>13.4%</b>		<b>1.2%</b>

Source: Kenanga Research

**Stock ESG Ratings:**

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

- ☆ 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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