

COMPANY RESULTS

Inari Amertron (INRI MK)

9MFY24: In Line With House Expectation; Gearing Up For Next Growth Engine

Inari's results were in line with our forecast but below consensus expectation. The group is back to growth trajectory again in 2024 predominantly driven by its RF segment (on new flagship programme) after a gestation year in 2023. In view of 27.3x ex-cash 2024F PE (-0.5SD below its five-year mean) with negative de-ratings being priced in, we see a balanced risk-reward ratio for a favourable entry point. Maintain BUY. Target price: RM3.60.

9MFY24 RESULTS

Year to 30 Jun (RMm)	3QFY24	qoq % chg	yoy % chg	9MFY24	yoy % chg
Revenue	347.6	(16.0)	26.0	1,145.6	8.6
Gross profit	69.8	(28.7)	12.3	260.1	(13.7)
EBITDA	107.1	(10.3)	22.3	346.4	(4.5)
Operating profit	77.3	(14.7)	25.3	258.2	(8.9)
Pre-tax profit	76.8	(15.0)	24.1	256.8	(9.3)
Net Profit	73.7	(15.1)	28.5	245.5	(4.6)
Core Net Profit	71.4	(20.5)	36.7	247.0	(2.9)
Margins (%)	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
Gross	20.1	(3.6)	(2.4)	22.7	(5.9)
EBITDA	30.8	2.0	(1.0)	30.2	(4.1)
PBT	22.1	0.3	(0.4)	22.4	(4.4)
Core Net Profit	20.5	(1.2)	1.6	21.6	(2.5)

Source: Inari, UOB Kay Hian

RESULTS

- **Within our forecast but below consensus expectation.** Inari Amertron (Inari) reported a stronger 3QFY24 core net profit of RM71.4m (-21% qoq, +37% yoy), bringing 9MFY24 core net profit to RM247.0m (-3%) which accounts for 73%/65% of our/consensus full-year forecasts. If not for the following one-off events of: a) electricity disruption (RM5m loss), b) startup cost (RM11m ytd) and c) yield loss of new products, the results could have fared better.
- **9MFY24 sales improved 9% yoy**, with a stronger loading volume in the Radio Frequency (+11%) and optoelectronics (+9%) segments. That said, with the incurrence of electricity disruption and startup costs totalling RM16m, core net profit dropped by 3%. Qoq, revenue/core net profit fell 16%/21% on a seasonally weaker quarter.

KEY FINANCIALS

Year to 30 Jun (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	1,548	1,354	1,519	1,832	2,060
EBITDA	550	463	468	564	634
Operating profit	447	356	355	445	510
Net profit (rep./act.)	391	324	338	413	473
Net profit (adj.)	392	320	338	413	473
EPS (sen)	10.6	8.6	9.1	11.1	12.7
PE (x)	30.4	37.7	35.6	29.2	25.5
P/B (x)	4.7	4.6	4.5	4.5	4.4
EV/EBITDA (x)	18.7	22.2	22.0	18.3	16.2
Dividend yield (%)	3.1	2.5	2.5	3.1	3.5
Net margin (%)	25.3	23.9	22.3	22.5	23.0
Net debt/(cash) to equity (%)	(78.7)	(70.4)	(69.9)	(66.7)	(64.5)
Interest cover (x)	531.8	247.2	n.a.	n.a.	n.a.
ROE (%)	20.2	12.7	12.9	15.4	17.4
Consensus net profit	-	-	356	412	475
UOBKH/Consensus (x)	-	-	0.95	1.00	1.00

Source: Inari Amertron, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	RM3.23
Target Price	RM3.60
Upside	+11.5%

COMPANY DESCRIPTION

Inari is the largest semiconductor company in Malaysia and a top OSAT supplier for Broadcom's Radio Frequency (RF) components. It also manufactures and assembles optoelectronics and fibre-optics related components.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	INRI MK
Shares issued (m):	3,761.9
Market cap (RMm):	12,150.9
Market cap (US\$m):	2,583.2
3-mth avg daily t'over (US\$m):	6.4

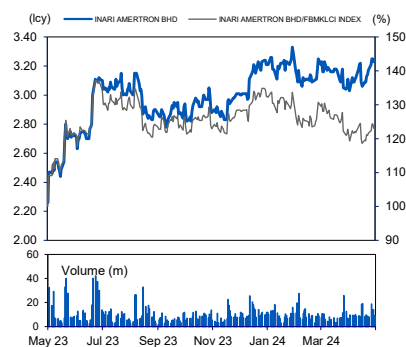
Price Performance (%)

52-week high/low	RM3.33/RM2.26			
1mth	3mth	6mth	1yr	YTD
5.9	(2.1)	11.4	50.2	7.3

Major Shareholders

	%
Insas Berhad	13.7
Employees Provident Fund	10.2
Kumpulan Wang Persaraan	9.5
FY24 NAV/Share (RM)	0.71
FY24 Net Cash/Share (RM)	0.50

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Bottoming out from cyclical weakness; poised for a strong rebound in 2024.** Inari ended its losing streak after the fifth consecutive yoy sales contraction in 4QFY23, thanks to higher loading volumes in RF after a series of inventory adjustment. If not for the one-off electricity disruption, utilisation rate could have been better than 75% in 1HFY24. We expect revenue growth to resume in 2024 (+17% yoy after accounting for an uneventful 1QFY24), predominantly driven by its RF segment (with the group gearing up for new flagship programme) after a gestation year in 2023. At 27.3x ex-cash 2024F PE (at its five-year forward mean) with negative de-ratings (FBMKLCI exclusion and cyclical bottom) being priced in, we see a balanced risk-reward ratio for a favourable entry point.
- First multi-pronged growth strategy; scouting for OSAT jobs in China.** Recall that Inari had on 18 Oct 21 entered into a non-binding MOU with China Fortune-Tech Capital Co (CFTC) with the intention to set up a JV company in China (CJV) to carry out OSAT manufacturing and related businesses in China for the China market. Amertron International Limited (AIL), an indirect wholly-owned subsidiary of the company, had on 28 Jun 22 entered into a JV contract with CFTC (Yiwu) Equity Investment Fund Partnership (Limited Partnership) and CFTC Equity Investment Management (Beijing) Co. This was done to bring together the strengths and expertise of all parties in carrying out OSAT manufacturing and related businesses in China for the China market under a JV company. The JV will enable Inari to expand and add onto Inari's existing operations in the China market.
- AIL becomes majority shareholder with 54.5%** of the enlarged capital in the JV company. The registered capital of the JV company has increased from Rmb770m to Rmb1,691m. As of end-Mar 24, AIL had subscribed for the registered capital amounting to Rmb430.7m by way of cash and Rmb491.0m by transferring 100% of the equity interest in Amertron Technology (Kunshan) Co to the CJV. With the completion of the cash and equity contribution, and the terms and conditions as stipulated in the JV contract and Equity Subscription Agreement having been fulfilled, the group has obtained control and the CJV became a 54.46% indirect owned subsidiary of the group.

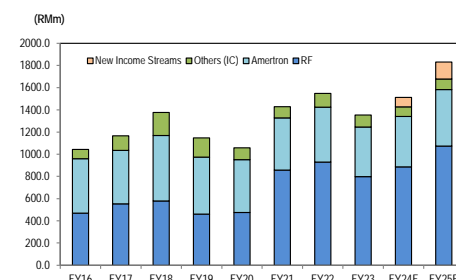
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM3.60**, based on 35.0x 2024F PE (+1SD above five-year mean forward). Inari is trading at 27.3x ex-cash 2024F PE (-0.5SD below its five-year mean PE), notwithstanding the growth potential from its new venture and M&A activities which could lift its earnings base

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

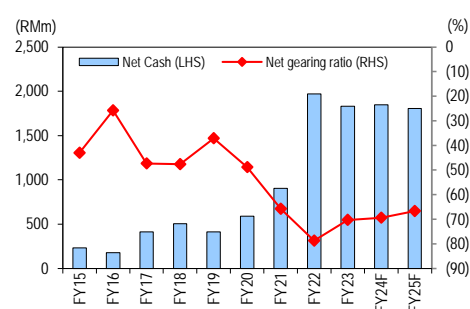
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - Inari has met globally recognised standards and has been qualified for inclusion into the FTSE4Good Bursa Malaysia Index since 22 Jun 20.
<ul style="list-style-type: none"> Social <ul style="list-style-type: none"> - Only foreign workers with legal work permits are hired, while all employees receive at least minimum wages.
<ul style="list-style-type: none"> Governance <ul style="list-style-type: none"> - The company has an Anti-Corruption and Bribery Policy in place which complies with all applicable laws, including the MACC Act 2009 (Amendment 2018). No reported incidents of corruption or breaches against policy in 2020.

REVENUE BY SEGMENT



Source: UOB Kay Hian

NET CASH AND NET GEARING



Source: Inari, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Net turnover	1,354	1,519	1,832	2,060
EBITDA	463	468	564	634
Deprec. & amort.	107	112	119	124
EBIT	356	355	445	510
Associate contributions	1	1	1	1
Net interest income/(expense)	(2)	0	0	0
Pre-tax profit	356	356	446	510
Tax	(31)	(16)	(31)	(36)
Minorities	(1)	(1)	(1)	(1)
Net profit	324	338	413	473
Net profit (adj.)	320	338	413	473

BALANCE SHEET

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Fixed assets	509	537	568	594
Other LT assets	19	19	19	19
Cash/ST investment	1,831	1,856	1,800	1,774
Other current assets	608	631	761	856
Total assets	2,967	3,043	3,148	3,242
ST debt	0	0	0	0
Other current liabilities	332	358	420	465
LT debt	0	0	0	0
Other LT liabilities	29	29	29	29
Shareholders' equity	2,603	2,655	2,699	2,749
Minority interest	3	2	0	(1)
Total liabilities & equity	2,967	3,043	3,148	3,242

CASH FLOW

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Operating	256	441	466	550
Pre-tax profit	356	356	446	510
Tax	(58)	(16)	(31)	(36)
Deprec. & amort.	104	112	119	124
Working capital changes	(148)	(11)	(68)	(49)
Other operating cashflows	2	0	0	0
Investing	(86)	(150)	(150)	(150)
Capex (growth)	(113)	(150)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	27	0	0	0
Financing	(301)	(305)	(372)	(426)
Dividend payments	(347)	(305)	(372)	(426)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	46	0	0	0
Net cash inflow (outflow)	(130)	(13)	(56)	(26)
Beginning cash & cash equivalent	1,983	1,869	1,856	1,800
Changes due to forex impact	(22)	0	0	0
Ending cash & cash equivalent	1,831	1,856	1,800	1,774

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	34.2	30.8	30.8	30.8
Pre-tax margin	26.3	23.4	24.3	24.8
Net margin	23.9	22.3	22.5	23.0
ROA	11.0	11.3	13.3	14.8
ROE	12.7	12.9	15.4	17.4
Growth				
Turnover	(12.5)	12.2	20.6	12.4
EBITDA	(15.8)	1.0	20.6	12.4
Pre-tax profit	(20.2)	0.1	25.2	14.5
Net profit	(17.2)	4.6	22.0	14.6
Net profit (adj.)	(18.4)	5.9	22.0	14.6
EPS	(19.3)	5.9	22.0	14.6
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(70.4)	(69.9)	(66.7)	(64.5)
Interest cover (x)	247.2	n.a.	n.a.	n.a.

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