

COMPANY RESULTS

Inari Amertron (INRI MK)

FY22: In Line; Commendable Profit Thanks To Forex Gains

Results are within expectations. Inari's core net profit recorded its eighth consecutive yoy earnings growth thanks to forex gains. Inari is trading at an attractive 19.6x ex-cash FY23F PE (-1SD below its five-year mean PE), notwithstanding the enormous growth potential from its new venture and M&A activities which could uplift its market cap to strengthen its FBMKLCI constituent position. We fine-tune our FY23-25 earnings by 1-2% after model updates. Maintain BUY. Target price: RM3.40.

4QFY22 RESULTS

Year to 30 Jun (RMm)	4QFY22	qoq % chg	yoy % chg	FY22	yoy % chg
Revenue	336.2	(6.7)	(7.0)	1,547.9	8.3
Gross profit	99.4	(9.7)	(11.0)	473.8	11.8
EBITDA	127.0	(3.8)	6.0	548.2	20.3
Operating profit	108.8	5.4	16.3	447.2	26.7
Pre-tax profit	108.0	4.8	15.6	446.1	26.6
Net Profit	86.2	(4.7)	(2.4)	390.9	18.3
Core Net Profit	89.7	(0.2)	1.0	393.7	19.8
Margins (%)	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
Gross	29.6	(1.0)	(1.4)	30.6	0.9
EBITDA	37.8	1.1	4.6	35.4	3.5
PBT	32.1	3.5	6.3	28.8	4.2
Core Net Profit	26.7	1.7	2.1	25.4	2.4

Source: Inari, UOB Kay Hian

RESULTS

- Within expectations.** Inari Amertron (Inari) reported 4QFY22 core net profit of RM89.7m (-1% qoq, +1% yoy) bringing FY22 core net profit to RM393.7m (+20%), which accounts for 102%/100% of our/consensus full-year forecasts. The ytd DPS of 10.0 sen (after the fourth DPS of 2.2sen) was also within expectations.
- FY22 sales rose 8% yoy**, predominantly driven by its radio frequency (RF) segment (+8% yoy) on higher utilisation of its system-in-package (SiP) assembly lines for RF. Meanwhile, sales in both the optoelectronics and generic chips segments also improved by 8% yoy and 17% yoy respectively. With a better product mix alongside higher forex gains (realised: FY22's +RM21m vs FY21's -RM13.0m), EBIT increased by a larger 27% yoy.
- For 4QFY22**, while revenue dropped 7% yoy (on slower growth across all segments) and qoq (on weaker seasonality), core net profit remained flat thanks to higher forex gains (realised: 4QFY22's RM16.1m vs 3QFY22's RM2.2m)

KEY FINANCIALS

Year to 30 Jun (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,429	1,548	1,753	1,934	2,159
EBITDA	456	550	597	659	735
Operating profit	353	447	486	541	612
Net profit (rep./act.)	330	391	445	495	560
Net profit (adj.)	325	392	445	495	560
EPS (sen)	9.7	10.6	12.0	13.3	15.1
PE (x)	29.4	26.9	23.9	21.5	19.0
P/B (x)	6.9	4.2	4.2	4.1	4.0
EV/EBITDA (x)	19.0	15.7	14.5	13.1	11.8
Dividend yield (%)	3.8	3.5	3.8	4.2	4.8
Net margin (%)	23.1	25.3	25.4	25.6	25.9
Net debt/(cash) to equity (%)	(65.8)	(78.7)	(74.5)	(72.8)	(71.2)
Interest cover (x)	871.3	531.8	n.a.	n.a.	n.a.
ROE (%)	25.6	20.2	17.6	19.2	21.3
Consensus net profit	-	-	447	494	486
UOBKH/Consensus (x)	-	-	0.99	1.00	1.15

Source: Inari Amertron, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.86
Target Price	RM3.40
Upside	+18.9%

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):	3,709.5
Market cap (RMm):	10,609.3
Market cap (US\$m):	2,369.4
3-mth avg daily t'over (US\$m):	6.3

Price Performance (%)

52-week high/low		RM4.25/RM2.39		
1mth	3mth	6mth	1yr	YTD
9.6	13.0	(10.6)	(15.9)	(28.5)

Major Shareholders

	%
Insas Berhad	14.0
Kumpulan Wang Persaraan	9.5
Employees Provident Fund	8.9
FY23 NAV/Share (RM)	0.69
FY23 Net Cash/Share (RM)	0.51

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **First multi-pronged growth strategy; partnering CFTC for OSAT jobs in China.** 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. We understand that the CJV will first look for a floorspace which is a few times bigger than Amertron Technology Kunshan's (ATK) floorspace (ATK: 100,000sf) to cater for such a venture. Meanwhile, Amertron International Limited (AIL), an indirect wholly-owned subsidiary of the company, had on 28 June entered into a JV contract with CFTC (Yiwu) Equity Investment Fund Partnership (Limited Partnership) and CFTC Equity Investment Management (Beijing) Co., Ltd 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 and the JV will enable Inari to expand and add onto Inari existing operations in the China market.
- Note that the JV company will increase its registered capital from Rmb770m to Rmb1,691m and AIL will subscribe for such registered capital by utilising the proceeds from the private placement that was completed on 30 Jul 21 to become a majority shareholder with 54.5% of the enlarged capital in the JV company. The share subscription in the JV company is expected to take place progressively starting in the 3Q22 and is expected to be completed in 1Q23.
- **New business expansion underway at P55 and P34 plants.** The new business ventures on assembly services related to: a) system on module (SOM), b) transceiver module, c) high power LED package, d) new RF DSM SiP package technology and e) advanced embedded material are ongoing as planned. For the SOM programme, Inari has started production for its first customer, and is in discussions with its second customer for the mass production of two products in 2H22. It is also in discussion on design finalisation for its third customer. For the optical transceiver modules, the group is exploring the viability of 100Gbps module production post the success of 10Gbps and 20Gbps modules production. For its new Memory business, Inari has completed its Request For Quotation in Apr 22 and is planning for sample build in Jun22. Meanwhile for the abovementioned c), d), and e) points, which are the relatively newer programmes, the group is in midst of machine setup and buy-off, with progression expected to be more apparent in 2H22.

EARNINGS REVISION/RISK

- Post model updates, we fine-tune our FY23-FY25 earnings by 1-2%.

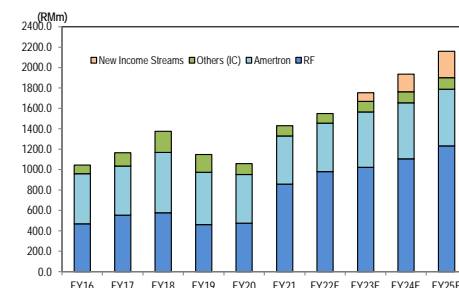
VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of RM3.40**, still based on 28.0x FY23F PE (near its five-year mean forward). Inari is trading at an attractive 19.6x ex-cash FY23F PE (-1SD below its five-year mean PE), notwithstanding the enormous growth potential from its new venture and M&A activities which could uplift its market cap to strengthen its FBMKLCI constituent position.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

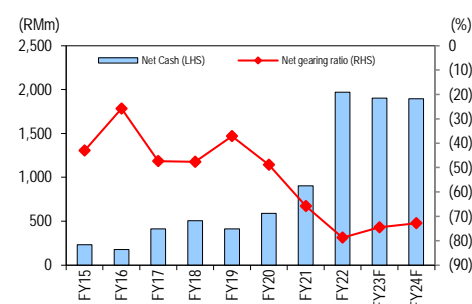
Environmental <ul style="list-style-type: none"> - Inari has met the globally recognised standards and has been qualified for inclusion into the FTSE4Good Bursa Malaysia Index since 22 Jun 20.
Social <ul style="list-style-type: none"> - Only foreign workers with legal work permits are hired, while all employees receive at least minimum wages.
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



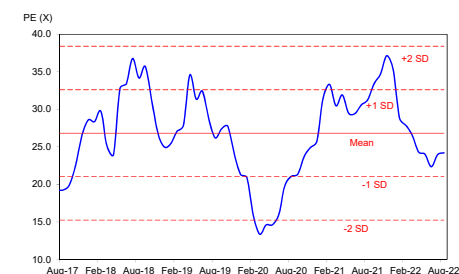
Source: UOB Kay Hian

NET CASH AND NET GEARING



Source: Inari, UOB Kay Hian

FIVE-YEAR FORWARD PE BAND



Source: Inari, UOB Kay Hian

TARGET PRICE SENSITIVITY ANALYSIS

Valuation	PE multiple	TP
+1SD above 5-yr mean PE	32.6x	RM3.85
Average 5-yr mean PE	26.8x	RM3.17
-1SD below 5-yr mean PE	21.0x	RM2.48

Source: Inari, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Net turnover	1,548	1,753	1,934	2,159
EBITDA	550	597	659	735
Deprec. & amort.	103	111	118	123
EBIT	447	486	541	612
Associate contributions	0	0	0	0
Net interest income/(expense)	(1)	0	0	0
Pre-tax profit	446	486	541	612
Tax	(55)	(41)	(46)	(52)
Minorities	0	0	0	0
Net profit	391	445	495	560
Net profit (adj.)	392	445	495	560

BALANCE SHEET

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Fixed assets	500	530	562	589
Other LT assets	9	9	9	9
Cash/ST investment	1,971	1,902	1,895	1,894
Other current assets	415	550	607	677
Total assets	2,895	2,991	3,073	3,170
ST debt	0	0	0	0
Other current liabilities	355	404	437	477
LT debt	0	0	0	0
Other LT liabilities	29	29	29	29
Shareholders' equity	2,505	2,552	2,602	2,659
Minority interest	6	6	5	5
Total liabilities & equity	2,895	2,991	3,073	3,170

CASH FLOW

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Operating	504	469	588	653
Pre-tax profit	446	486	541	612
Tax	(25)	(41)	(46)	(52)
Deprec. & amort.	103	111	118	123
Working capital changes	(32)	(86)	(25)	(31)
Other operating cashflows	13	0	0	0
Investing	(88)	(150)	(150)	(150)
Capex (growth)	(111)	(150)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	23	0	0	0
Financing	648	(400)	(445)	(504)
Dividend payments	(433)	(400)	(445)	(504)
Issue of shares	1,020	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(2)	0	0	0
Others/interest paid	63	0	0	0
Net cash inflow (outflow)	1,064	(81)	(7)	(1)
Beginning cash & cash equivalent	897	1,983	1,902	1,895
Changes due to forex impact	10	0	0	0
Ending cash & cash equivalent	1,971	1,902	1,895	1,894

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Growth				
Turnover	8.3	13.3	10.3	11.6
EBITDA	20.7	8.6	10.3	11.6
Pre-tax profit	26.6	9.0	11.3	13.1
Net profit	18.3	13.7	11.3	13.1
Net profit (adj.)	20.7	13.5	11.3	13.1
EPS	9.1	12.7	11.3	13.1
Profitability				
EBITDA margin	35.5	34.1	34.1	34.1
Pre-tax margin	28.8	27.7	28.0	28.3
Net margin	25.3	25.4	25.6	25.9
ROA	16.6	15.1	16.3	17.9
ROE	20.2	17.6	19.2	21.3
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	(78.7)	(74.5)	(72.8)	(71.2)
Interest cover (x)	531.8	n.a.	n.a.	n.a.

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