

COMPANY RESULTS

Inari Amertron (INRI MK)

1QFY23: In Line; Commendable Profit Thanks To Forex Gains

Results came in within expectations thanks to forex gains. Inari is trading at an attractive 19.1x ex-cash FY23F PE after the recent sell-down (-1SD below its five-year PE mean), notwithstanding the growth potential from its new venture and M&A activities which could lift its market cap to strengthen its FBMKLCI constituent position. Maintain BUY. Target price: RM3.10.

1QFY23 RESULTS

Year to 30 Jun (RMm)	1QFY23	qoq % chg	yoy % chg	1QFY23	yoy % chg
Revenue	377.0	12.1	(12.6)	377.0	(12.6)
Gross profit	109.7	10.3	(16.7)	109.7	(16.7)
EBITDA	147.6	16.3	1.9	147.6	1.9
Operating profit	120.7	10.9	1.9	120.7	1.9
Pre-tax profit	121.1	12.1	2.3	121.1	2.3
Net Profit	106.3	23.2	(0.6)	106.3	(0.6)
Core Net Profit	105.2	17.3	(2.6)	105.2	(2.6)
Margins (%)	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
Gross	29.1	(0.5)	(1.5)	29.1	(1.5)
EBITDA	39.2	1.4	5.6	39.2	5.6
PBT	32.1	(0.0)	4.7	32.1	4.7
Core Net Profit	27.9	1.2	2.8	27.9	2.8

Source: Inari, UOB Kay Hian

RESULTS

- **Within expectations.** Inari Amertron (Inari) reported 1QFY23 core net profit of RM105.2m (+17% qoq, -3% yoy) which accounts for 26%/24% of our/consensus' full-year forecasts. Meanwhile, a first DPS of 2.6 sen (1QFY22: 2.8sen) was also declared.
- **1QFY23 sales dropped 13% yoy**, which we believe was dragged by its radio frequency (RF) segment (-14% yoy) on lower loading volume due to ongoing inventory adjustment. Meanwhile, sales in both the optoelectronics and generic chips segments also dropped by 10% yoy and 13% yoy respectively. Despite a lower revenue, EBITDA inched up 2%, boosted by higher forex gains (realised: 1QFY23's +RM15.5m vs 1QFY22's +RM3.0m), **Qoq**, revenue increased 12% on stronger seasonality amid the new launching of US flagship smartphone. Core net profit expanded 17% thanks to higher forex gains (1QFY23's RM21.2m vs 4QFY22's RM16.4m)

KEY FINANCIALS

Year to 30 Jun (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,429	1,548	1,617	1,814	2,024
EBITDA	456	550	551	618	689
Operating profit	353	447	440	500	566
Net profit (rep./act.)	330	391	402	457	518
Net profit (adj.)	325	392	402	457	518
EPS (sen)	9.7	10.6	10.8	12.3	13.9
PE (x)	26.5	24.3	23.9	21.0	18.5
P/B (x)	6.2	3.8	3.8	3.7	3.6
EV/EBITDA (x)	16.8	13.9	13.9	12.4	11.1
Dividend yield (%)	4.3	3.9	3.8	4.3	4.9
Net margin (%)	23.1	25.3	24.9	25.2	25.6
Net debt/(cash) to equity (%)	(65.8)	(78.7)	(75.2)	(73.4)	(71.8)
Interest cover (x)	871.3	531.8	n.a.	n.a.	n.a.
ROE (%)	25.6	20.2	15.9	17.8	19.8
Consensus net profit	-	-	430	474	509
UOBKH/Consensus (x)	-	-	0.93	0.97	1.02

Source: Inari Amertron, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.58
Target Price	RM3.10
Upside	+20.2%

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):	3,732.8
Market cap (RMm):	9,630.6
Market cap (US\$m):	2,115.4
3-mth avg daily t'over (US\$m):	3.6

Price Performance (%)

52-week high/low	RM4.25/RM2.34
1mth	10.3
3mth	(11.0)
6mth	(1.5)
1yr	(36.8)
YTD	(35.5)

Major Shareholders

	%
Insas Berhad	13.9
Employees Provident Fund	10.3
Kumpulan Wang Persaraan Diperbadankan	9.4
FY23 NAV/Share (RM)	0.69
FY23 Net Cash/Share (RM)	0.52

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• First multi-pronged growth strategy; partnering with CFTC 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. We understand that the CJV will first look for a floorspace which is a few times bigger than Amertron Technology Kunshan's (ATK) floorspace (100,000sf) to cater for such a venture. Meanwhile, 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 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 expected to be completed in 2Q23. On 2 Nov 22, AIL has subscribed registered capital of Rmb284m in the JV company, representing 26.99% of the enlarged capital in the JV company, of which the registered capital had increased to Rmb1054.6m.

- **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 has planned for sample build in Jun 22. Meanwhile, for the abovementioned c), d) and e) points, which are the relatively newer programmes, the group is in the midst of machine setup and buy-off, with progression expected to be more apparent in 2H22.

EARNINGS REVISION/RISK

- No change to our earnings forecasts.

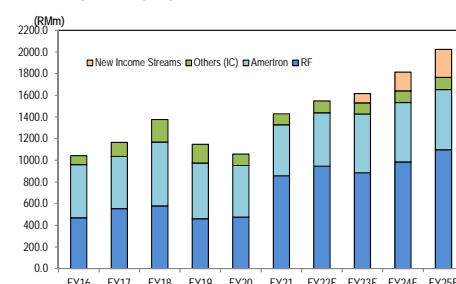
VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of RM3.10**, still based on 28.0x FY23F PE (near its five-year mean forward). Inari is trading at an attractive 19.1x ex-cash FY23F PE (-1SD to its five-year PE mean), notwithstanding the growth potential from its new venture and M&A activities which could lift its market cap to strengthen its FBMKLCI constituent position.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

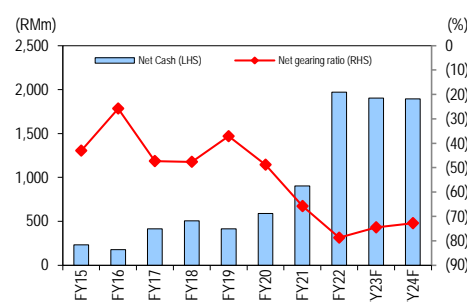
• Environmental	
- Inari has met the globally-recognised standards and has qualified for inclusion into the FTSE4Good Bursa Malaysia Index since 22 Jun 20.	
• Social	
- Only foreign workers with legal work permits are hired, while all employees receive at least minimum wages.	
• Governance	
- The company 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



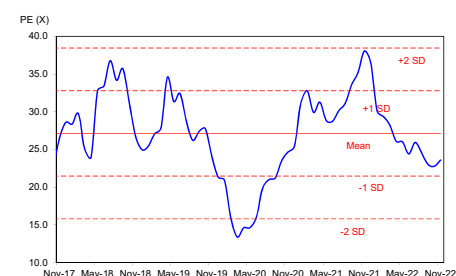
Source: UOB Kay Hian

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 PE mean	32.8x	RM3.55
Average 5-yr PE mean	27.1x	RM2.93
-1SD below 5-yr PE mean	21.5x	RM2.32

Source: Inari, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Net turnover	1,548	1,617	1,814	2,024
EBITDA	550	551	618	689
Deprec. & amort.	103	111	118	123
EBIT	447	440	500	566
Associate contributions	0	0	0	0
Net interest income/(expense)	(1)	0	0	0
Pre-tax profit	446	440	500	566
Tax	(55)	(37)	(42)	(48)
Minorities	0	0	0	0
Net profit	391	402	457	518
Net profit (adj.)	392	402	457	518

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	1,917	1,904	1,900
Other current assets	415	507	569	635
Total assets	2,895	2,963	3,044	3,133
ST debt	0	0	0	0
Other current liabilities	355	380	415	453
LT debt	0	0	0	0
Other LT liabilities	29	29	29	29
Shareholders' equity	2,505	2,548	2,595	2,647
Minority interest	6	6	5	5
Total liabilities & equity	2,895	2,963	3,044	3,134

CASH FLOW

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Operating	504	445	548	613
Pre-tax profit	446	440	500	566
Tax	(25)	(37)	(42)	(48)
Deprec. & amort.	103	111	118	123
Working capital changes	(32)	(68)	(27)	(29)
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	(362)	(411)	(466)
Dividend payments	(433)	(362)	(411)	(466)
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	(67)	(13)	(3)
Beginning cash & cash equivalent	897	1,983	1,917	1,904
Changes due to forex impact	10	0	0	0
Ending cash & cash equivalent	1,971	1,917	1,904	1,900

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	35.5	34.1	34.1	34.1
Pre-tax margin	28.8	27.2	27.6	28.0
Net margin	25.3	24.9	25.2	25.6
ROA	16.6	13.7	15.2	16.8
ROE	20.2	15.9	17.8	19.8
Growth				
Turnover	8.3	4.4	12.2	11.6
EBITDA	20.7	0.1	12.2	11.6
Pre-tax profit	26.6	(1.5)	13.7	13.2
Net profit	18.3	2.8	13.8	13.2
Net profit (adj.)	20.7	2.6	13.8	13.2
EPS	9.1	1.9	13.8	13.2
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)	(75.2)	(73.4)	(71.8)
Interest cover (x)	531.8	n.a.	n.a.	n.a.

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