

27 November 2018 | 1QFY19 Results Review

Inari Amertron Berhad

A slow start to FY19

INVESTMENT HIGHLIGHTS

- **Weaker 1QFY19 normalised earnings (-27.6%yoy) in view of lower demand of the group's product and high base effect**
- **As a result, Inari's 1QFY19 financial performance failed to keep pace with ours and consensus' expectations**
- **Lower 1QFY19 dividend announced in-tandem with the weaker earnings performance**
- **Maintain NEUTRAL with a revised target price of RM1.79**

Weaker 1FY19 normalised earnings. Inari Amertron Bhd's (Inari) normalised earnings amounted to RM52.0m, a reduction of -27.6%yoy. This was partly due to the disposal of 51%-owned subsidiary (Ceedtec) during the last financial year and comparatively lower volume loading on a major sensor product. In addition, 1QFY18 represents the group's historical peak quarter to-date. All in, the group's 1QFY18 financial performance trailed behind ours and consensus' expectations, both accounting for 17.2% of full year FY19 earnings forecasts.

Dividend. Inari announced lower 1QFY19 dividend of 1.6sen (1QFY18: 2.3sen), in-line with the lower earnings recorded during the quarter. This translates into a dividend payout of 83.8% in comparison with 102.2% seen in 1QFY18.

Impact on earnings. We are reducing our FY19 and FY20 earnings forecasts to RM260.5m and RM277.3m to be on the conservative end. This is obtained after adjusting downward our FY19 and FY20 revenue growth assumption and imputing lower profit margin to better reflect the results thus far.

Target Price. We are revising our target price to **RM1.79** (previously RM2.25). This is premised on FY20 EPS of 8.5sen pegged to an unchanged forward PER of 21x. Our target PER is based on its five year historical high rolling PER.


Maintain NEUTRAL. Inari's strategic positioning within the semiconductor value chain has proven to be in favour of the group. The group's various core business segments (i.e. wireless RF, optoelectronics and iris scan product) have been recording better financial performance due to healthier demand of its product. The favourable mix of the group's product offerings has also lead to healthier profit margin.

Maintain NEUTRAL

Revised Target Price (TP): RM1.79
(previously RM2.25)

RETURN STATS	
Price (26 th November 2018)	RM1.71
Target Price	RM1.79
Expected Share Price Return	+4.7%
Expected Dividend Yield	+4.7%
Expected Total Return	+9.4%

STOCK INFO	
KLCI	1,701.99
Bursa / Bloomberg	0166 / INRI MK
Board / Sector	Main / Technology
Syariah Compliant	Yes
Issued shares (mil)	2,032.4
Market cap. (RM'm)	5,751.6
Price over NA	5.7
52-wk price Range	RM1.57-RM2.91
Beta (against KLCI)	0.86
3-mth Avg Daily Vol	8.6m
3-mth Avg Daily Value	RM22.8m
Major Shareholders (%)	
Insas Bhd	18.95
Kumpulan Wang Persaraan	8.95
Norges Bank	5.83
Employees Provident Fund	5.23

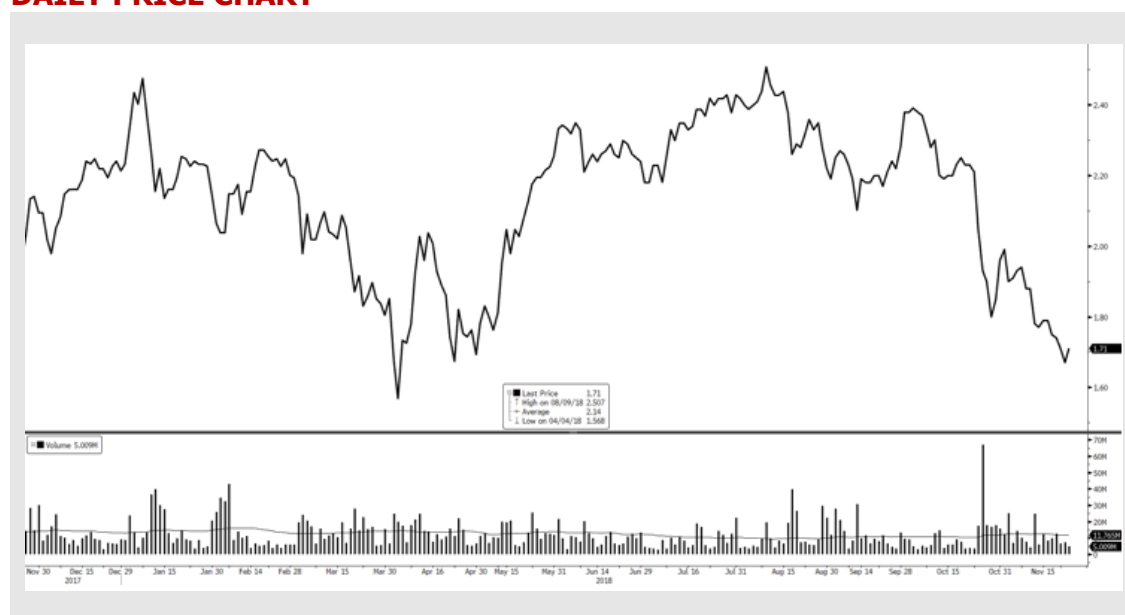
Moving forward, we anticipated growth in volume order from existing customer to be lackluster which could keep profit margin at current level. Couple with high base effect, we expect earnings growth rate to decelerate in the near term. Meanwhile, we view that the current share price weakness has led to attractive dividend yield of five percent, supported by healthy cash level of more than RM500m. Key rerating catalyst would includes winning of new projects which would further diversify its earnings base and thus reduce the group's dependency on its wireless RF segment. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

FYE 30 th June (RM'm)	2017	2018	2019F	2020F
Revenue	1,176.3	1,376.0	1,598.5	1,705.7
Operating Profit	237.2	287.6	274.5	292.1
Profit before tax	240.8	295.5	277.9	295.8
Income tax expense	-12.1	-35.3	-19.5	-20.7
Profit after tax after non-controlling interest	227.9	249.3	260.5	277.3
Adjusted PATANCI	185.3	242.8	260.5	277.3
Adjusted PATANCI margin (%)	15.8	17.6	16.3	16.3
Adjusted EPS (sen)	6.0	7.6	7.9	8.5
PER (x)	28.7	22.4	21.5	20.2
DPS (sen)	9.8	8.5	8.0	8.0
Dividend yield (%)	5.7	5.0	4.7	4.7

Source: Company, MIDFR

DAILY PRICE CHART



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INARI AMERTRON BHD – 1QFY19 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results				
FYE 30 th June	1QFY19	1QFY18	% YoY	4QFY18	% QoQ
Revenue	325.7	373.1	-12.7	301.2	8.2
EBITDA	85.2	95.4	-10.6	92.1	-7.4
Depreciation and amortisation	-22.5	-23.2	-3.0	-13.5	65.9
EBIT	62.8	72.2	-13.1	78.6	-20.1
Finance costs	-0.4	-0.5	-18.5	-0.3	38.0
Interest income	2.5	1.9	30.4	3.1	-19.8
PBT	64.9	73.7	-11.9	81.4	-20.3
Taxation	-4.8	-5.0	-3.9	-14.5	-67.1
MI	0.0	-0.3	n.m.	-9.8	n.m.
PATANCI	60.2	68.4	-12.0	57.1	5.3
Normalised PATANCI	52.0	71.8	-27.6	24.6	111.6
Normalised EPS (sen)	1.6	2.3	-31.0	0.8	108.5
			+/- ppts		+/- ppts
EBITDA margin (%)	26.2	25.6	0.6	30.6	-4.4
EBIT margin (%)	19.3	19.4	-0.1	26.1	-6.8
Normalised PATANCI margin (%)	16.0	19.2	-3.3	8.2	7.8
Effective tax rate (%)	7.4	6.8	0.6	17.9	-10.5

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.