

28 February 2018 | 2QFY18 Results Review

Inari Amertron Berhad

Lower dividend payout

INVESTMENT HIGHLIGHTS

- **2QFY18 normalised earnings grew +48.5%yoy driven by strong demand of the group's products and improvement in net profit margin**
- **1HFY18 normalised earnings came in within ours and consensus expectations**
- **Dividend yield to hover around 3% in anticipation of intensive capital spending**
- **Valuation appears stretched at this juncture**
- **Downgrade to NEUTRAL with an unchanged target price of RM3.26**

Strong 2QFY18 performance. Inari Amertron Bhd's (Inari) 2QFY18 normalised earnings came in at RM76.7m. This represents an increase of +48.5%yoy. The increase in normalised earnings was mainly driven by overwhelming demand of the group's products and improvement in profit margin to 21.4%. Note that the group's revenue rose by +34.6%yoy to RM749.1m.

Earnings came in as expected. Driven by the improvement in 2QFY18 financial performance, the group's 1HFY18 normalised earnings amounted to RM148.7m. This represents an increase of +53.2yoy. This came in within ours and consensus expectations, accounting for 50.7% and 50.1% of full year FY18 earnings estimates respectively.

Dividend. Inari announced 2QFY18 dividend of 2.5sen per share. This led to 1HFY18 dividend of 4.8sen per share, in-tandem with that declared for 1FHY17. Despite recording better earnings, we view that the group is capping the dividend payout in order to allocate more cash to fund future capital expenditure (capex) needs. For 1HFY18, the group has acquired RM100.4m worth of property, plant and equipment as compared to RM52.8m spent in 1HFY17.

Impact. No change to our earnings estimate at this juncture. However, we are cutting FY18 and FY19 dividend assumption to 9.9sen and 11.5sen per share from 10.6sen and 12.7sen per share respectively in anticipation of higher capital spending.

Target Price. We maintain our target price of **RM3.26**. This is premised on FY19 EPS of 15.4sen pegged to unchanged FY19 forward PER of 21.2x. Our target PER is based on its five year historical high rolling PER.

Downgrade to NEUTRAL
(previously BUY)


Unchanged Target Price (TP): RM3.26

RETURN STATS

Price (27 th February 2018)	RM3.45
Target Price	RM3.26
Expected Share Price Return	-5.5%
Expected Dividend Yield	+3.3 %
Expected Total Return	-2.2%

STOCK INFO

KLCI	1,871.46
Bursa / Bloomberg	0166 / INRI MK
Board / Sector	Main / Technology
Syariah Compliant	Yes
Issued shares (mil)	2,065. 9
Market cap. (RM'm)	7,127.5
Price over NA	5.7
52-wk price Range	RM1.86-RM3.82
Beta (against KLCI)	0.71
3-mth Avg Daily Vol	8.9m
3-mth Avg Daily Value	RM30.0m
Major Shareholders (%)	
Insas Bhd	18.40
Kumpulan Wang Persaraan	12.43
Norges Bank	5.73
Employees Provident Fund	5.34

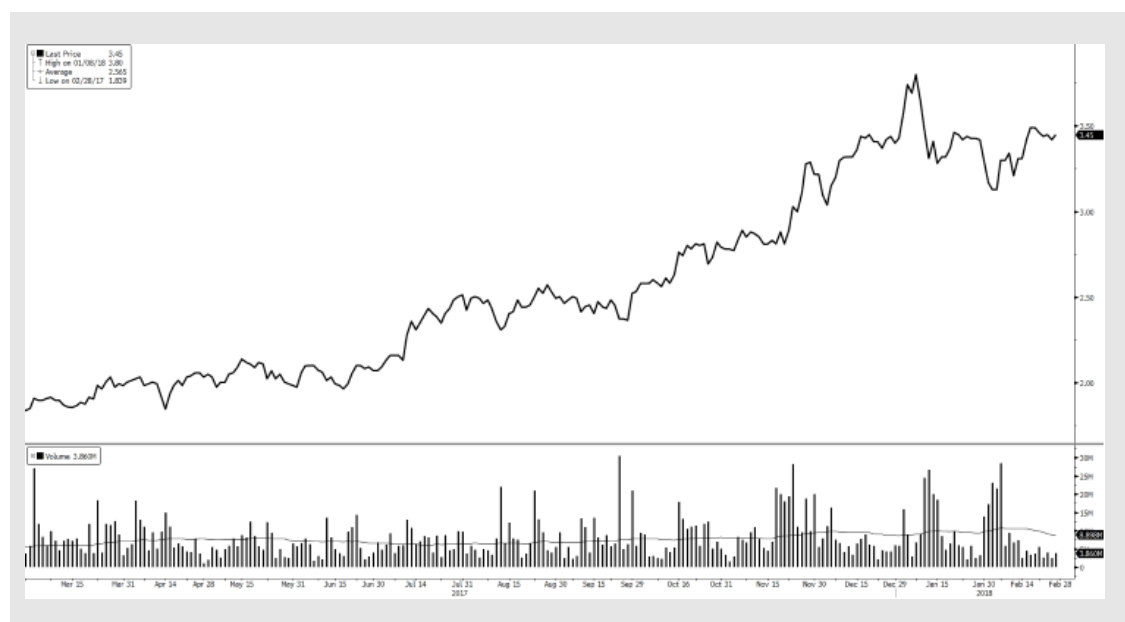
Downgrade to NEUTRAL. Inari's strategic positioning within the semiconductor value chain has proven to be in favour of the group. The group's various core business segments (i.e. wireless RF, optoelectronics and iris scan product) have been recording better financial performance due to healthier demand of its products. The favourable mix of the group's product offerings has also lead to healthier profit margin. Meanwhile, in anticipation of hefty future capital spending, we expect dividend yield to be approximately three percent. On another note, we view that the stock valuation of more than 20x is currently stretched at this juncture. All factors considered, we are downgrading the stock recommendation to **NEUTRAL** from BUY previously. 

INVESTMENT STATISTICS

FYE 30 th June (RM'm)	2016	2017	2018F	2019F
Revenue	1040.9	1176.3	1517.3	1787.4
Operating Profit	153.6	237.2	284.0	331.5
Profit before tax	153.1	240.8	287.2	334.9
Income tax expense	-6.0	-12.1	-14.4	-16.7
Profit after tax after non-controlling interest	148.3	227.9	275.0	320.7
Adjusted PATANCI	146.0	185.3	275.0	320.7
Adjusted PATANCI margin (%)	14.0	15.8	18.1	17.9
Adjusted EPS (sen)	7.6	8.9	13.2	15.4
PER (x)	45.5	38.6	26.1	22.4
DPS (sen)	8.4	9.8	9.9	11.5
Dividend yield (%)	2.4	2.8	2.9	3.3

Source: Company, MIDFR

DAILY PRICE CHART



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INARI AMERTRON BHD – 2QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
FYE 30 th June	2QFY18	% YoY	% QoQ	2018	2017	% YoY
Revenue	358.0	30.1	-4.1	749.1	556.6	34.6
EBITDA	98.0	24.9	2.8	193.4	141.6	36.6
Depreciation and amortisation	-21.5	44.9	-7.1	-44.7	-28.6	56.2
EBIT	76.5	20.3	5.9	148.7	113.0	31.6
Finance costs	-0.4	1.5	-10.7	-0.9	-0.8	12.4
Interest income	1.8	55.8	-5.7	3.7	2.1	75.5
PBT	77.9	21.0	5.7	151.6	114.3	32.6
Taxation	-8.8	339.8	77.7	-13.8	-3.8	261.3
MI	-0.5	-165.7	42.6	-0.8	0.5	-242.0
PATANCI	68.6	8.8	0.3	137.0	111.1	23.4
Normalised PATANCI	76.7	48.5	6.8	148.7	97.1	53.2
Normalised EPS (sen)	3.6	39.1	5.6	7.1	5.0	43.0
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	27.4	-1.1	1.8	25.8	25.4	0.4
EBIT margin (%)	21.4	-1.8	2.0	19.9	20.3	-0.4
Normalised PATANCI margin (%)	21.4	2.7	2.2	19.9	17.4	2.4
Effective tax rate (%)	11.3	8.2	4.6	9.1	3.3	5.8

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.