

23 May 2018 | 3QFY18 Results Review

Inari Amertron Berhad

No let-up in earnings

Maintain NEUTRAL

Unchanged Target Price (TP): RM2.08

INVESTMENT HIGHLIGHTS


- **9MFY18 earnings kept pace with expectations, driven primarily by higher demand of the group's products**
- **Dividend yield expected to hover around 3% in anticipation of intensive capital spending**
- **Valuation appears stretched at this juncture**
- **Maintain NEUTRAL with an unchanged target price of RM2.08**

Steady earnings growth. Inari Amertron Bhd's (Inari) 3QFY18 normalised earnings came in at RM57.2m. This represents an increase of +14.8%yoy. The increase in normalised earnings was mainly driven by increase in demand of the group's output on a year-over-year basis and changes in product mix of demand. Note that the group's revenue rose by +18.9%yoy to RM325.8m. However, the expansion in earnings was partially impacted by higher depreciation cost and increase in taxation.

Earnings kept pace with expectation. Driven by the improvement in 3QFY18 financial performance, the group's 9MFY18 normalised earnings amounted to RM196.7m. This represents an increase of +40.4%yoy. This came in within ours and consensus expectations, accounting for 71.5% and 71.8% of full year FY18 earnings estimates respectively.

Dividend. As expected, Inari reduced its 3QFY18 dividend payment to 1.6sen from 2.2sen as at 3QFY17. This led to 9MFY18 cumulative dividend payment of 6.4sen (9MFY17: 7.0sen). We view that the group is limiting the dividend payout in order to allocate more cash to fund future capital expenditure (capex) needs.

Target Price. We are maintaining our target price of **RM2.08**. This is premised on FY19 EPS of 9.8sen pegged to unchanged FY19 forward PER of 21.2x. 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. Meanwhile, in anticipation of hefty future capital spending, we expect dividend yield to be approximately three percent. On another, we view that the stock valuation of more than 20x is currently stretched. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock. 

RETURN STATS	
Price (22 nd May 2018)	RM2.16
Target Price	RM2.08
Expected Share Price Return	-3.7%
Expected Dividend Yield	+3.4%
Expected Total Return	-0.3%

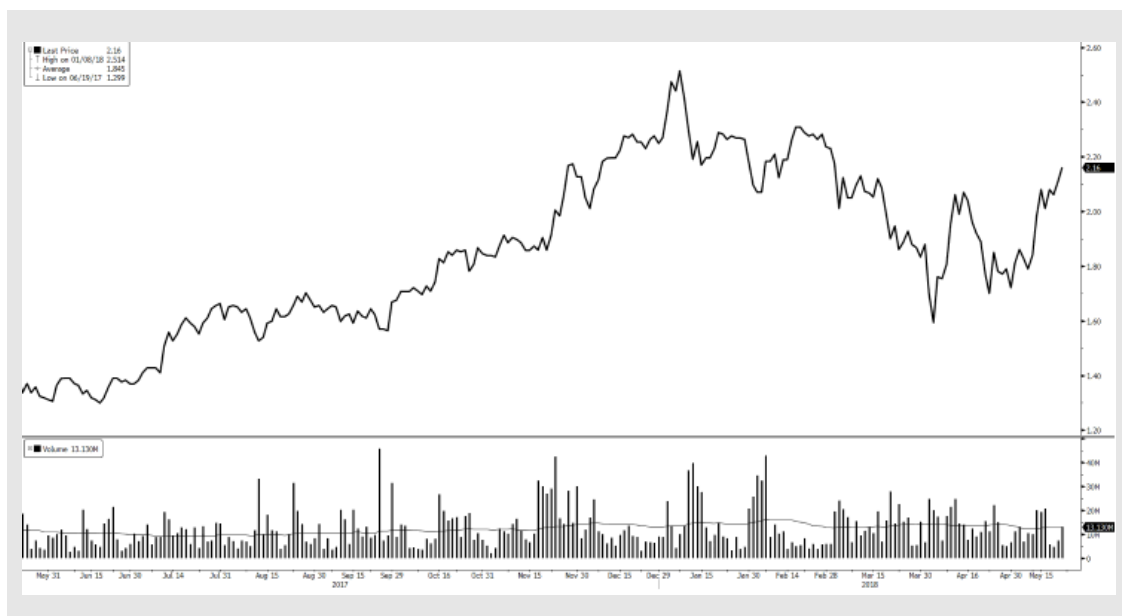
STOCK INFO	
KLCI	1,845.03
Bursa / Bloomberg	0166 / INRI MK
Board / Sector	Main / Technology
Syariah Compliant	Yes
Issued shares (mil)	3,115.5
Market cap. (RM'm)	6,729.5
52-wk price Range	RM1.317- RM2.547
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	13.1m
3-mth Avg Daily Value	RM25.7m
Major Shareholders (%)	
Insas Bhd	18.06
Kumpulan Wang Persaraan	14.06
Vanguard Group	2.19

INVESTMENT STATISTICS

FYE 30 th June (RM'm)	2016	2017	2018F	2019F
Revenue	1,040.9	1,176.3	1,517.3	1,787.4
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)	5.1	6.0	8.4	9.8
PER (x)	42.7	36.2	25.8	22.1
DPS (sen)	8.4	9.8	6.3	7.3
Dividend yield (%)	3.9	4.5	2.9	3.4

Source: Company, MIDFR

DAILY PRICE CHART



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INARI AMERTRON BHD – 3QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
FYE 30th June	3QFY18	% YoY	% QoQ	2018	2017	% YoY
Revenue	325.8	18.9	-9.0	1,074.9	830.7	29.4
EBITDA	82.8	19.2	-15.6	276.2	211.0	30.9
Depreciation and amortisation	-22.5	37.2	4.3	-67.2	-45.0	49.3
EBIT	60.3	13.6	-21.2	209.0	166.1	25.9
Finance costs	-0.4	28.5	-2.2	-1.3	-1.1	17.1
Interest income	2.6	70.7	41.9	6.3	3.6	73.5
PBT	62.5	15.1	-19.8	214.1	168.6	27.0
Taxation	-7.0	230.1	-21.0	-20.8	-5.9	250.2
MI	-0.3	-66.4	-27.3	-1.1	-0.4	151.7
PATANCI	55.2	7.8	-19.6	192.2	162.2	18.5
Normalised PATANCI	57.2	14.8	-19.8	196.7	140.1	40.4
Normalised EPS (sen)	1.8	6.6	-47.2	6.3	4.7	33.6
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	25.4	0.1	-2.0	25.7	25.4	0.3
EBIT margin (%)	18.5	-0.9	-2.9	19.4	20.0	-0.5
Normalised PATANCI margin (%)	17.6	-0.6	-2.4	18.3	16.9	1.4
Effective tax rate (%)	11.2	7.3	-0.2	9.7	3.5	6.2

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.