

29 August 2018 | 4QFY18 Results Review

## Inari Amertron Berhad

*Lower dividend payout*

### INVESTMENT HIGHLIGHTS

- **4QFY18 normalised earnings (-35.4%yoy) impacted by seasonally lower demand of the group's product**
- **As a result, full year FY18 normalised earnings of RM242.8m came in slightly below ours and consensus' expectations**
- **Full year FY18 dividend came in lower at 8.4sen per share in anticipation of higher capital spending**
- **Maintain NEUTRAL with a revised target price of RM2.25**

**4QFY18 earnings contraction.** Inari Amertron Bhd's (Inari) reported 4QFY18 earnings of RM57.1m. After excluding exceptional items amounting to -RM19.8m, 4QFY18 normalised earnings came in at RM37.3m (-35.4%yoy). The bulk of the exceptional items pertained to gain on disposal of Ceedtec's project and asset amounting to RM11.0m. The reduction in earnings was mainly due to seasonally lower demand of the group's product and increase in effective income tax rate.

**Full year FY18 normalised earnings charted double digit growth.** Cumulatively, full year FY18 normalised earnings grew by +32.5%yoy to RM255.5m. This was mainly premised on increase in demand of factory output and changes in product mix. However, the group's FY18 financial performance trailed behind ours and consensus' expectations, accounting for 92.9% and 94.3% of respective full year FY18 earnings forecasts.

**Dividend.** As expected, Inari reduced its 4QFY18 dividend payment to 2.0sen from 2.8sen as at 4QFY17. This led to full year FY18 dividend payment of 8.4sen (FY17: 9.8sen). We view that the group is capping the dividend payout in order to allocate more cash to fund future capital expenditure (capex) needs. Note that during the quarter-in-review, Inari's cash balance expanded by +16.3%yoy to RM530.0m from RM455.3m recorded as at 4QFY17.

**Impact on earnings.** We are reducing FY19 earnings by -5.6% after adjusting downward our revenue growth assumption and imputing slightly higher effective tax rate to better reflect the results thus far.

**Target Price.** We are rolling forward our valuation base year to FY20 and derive a new target price of **RM2.25** (previously RM2.08). This is premised on FY20 EPS of 10.6sen pegged to an unchanged forward PER of 21.2x. Our target PER is based on its 5-year historical high rolling PER.

**Maintain NEUTRAL**


**Revised Target Price (TP): RM2.25**  
(previously RM2.08)

### RETURN STATS

Price (28 August 2018)	RM2.37
Target Price	RM2.25
Expected Share Price Return	-5.1%
Expected Dividend Yield	+3.8%
<b>Expected Total Return</b>	<b>-1.3%</b>

### STOCK INFO

KLCI	1,826.9
Bursa / Bloomberg	0166 / INRI MK
Board / Sector	Main / Technology
Syariah Compliant	Yes
Issued shares (mil)	3,152.2
Market cap. (RM'm)	7,470.8
Price over NA	7.0
52-wk price Range	RM1.54-RM2.56
Beta (against KLCI)	0.58
3-mth Avg Daily Vol	9.9m
3-mth Avg Daily Value	RM23.3m
Major Shareholders (%)	
Insas Bhd	17.62
Kumpulan Wang Persaraan	13.45
Employees Provident Fund	5.68

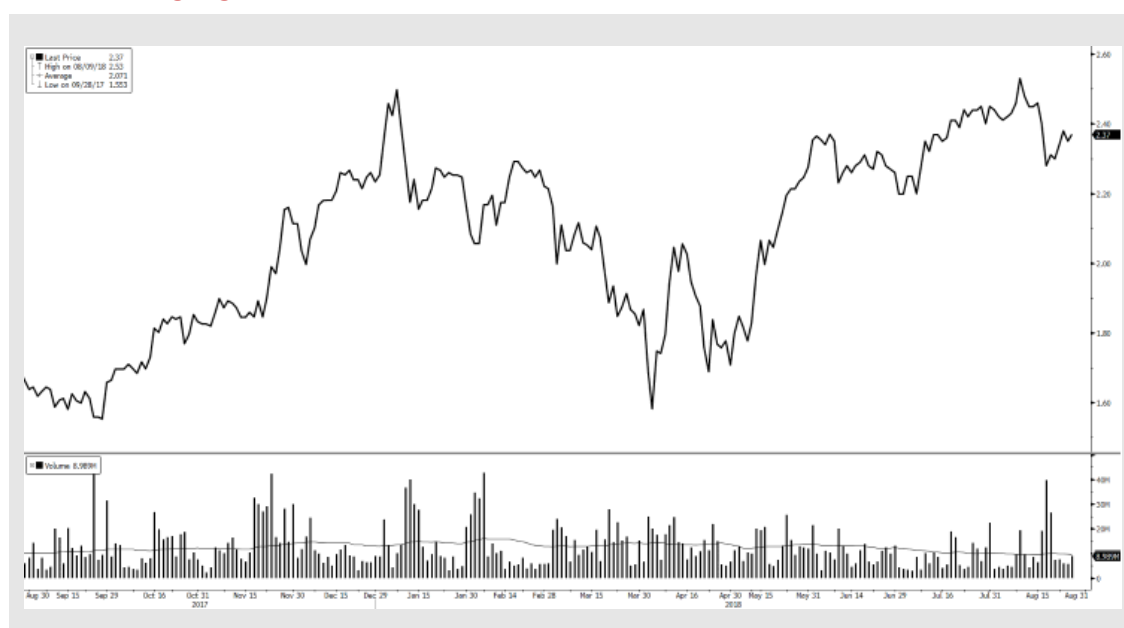
**Maintain NEUTRAL.** Inari's strategic positioning within the semiconductor value chain has proven to be in favour of the group. The group's various core business segments (i.e. wireless RF, optoelectronics and iris scan product) have been recording better financial performance due to healthier demand of its product. The favourable mix of the group's product offerings has also lead to healthier profit margin. However, we expect the earnings growth rate to decelerate in view of a high base effect. Meanwhile, in anticipation of hefty future capital spending, we expect dividend yield to remain below four percent. On another note, we view that the stock valuation of more than 22x is currently stretched. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock. 

## INVESTMENT STATISTICS

FYE 30 <sup>th</sup> June (RM'm)	2017	2018	2019F	2020F
Revenue	1176.3	1376.0	1651.7	1861.4
Operating Profit	237.2	287.6	319.8	367.7
Profit before tax	240.8	295.5	323.1	371.4
Income tax expense	-12.1	-35.3	-22.6	-26.0
Profit after tax after non-controlling interest	227.9	249.3	302.9	348.1
Adjusted PATANCI	185.3	242.8	302.9	348.1
Adjusted PATANCI margin (%)	15.8	17.6	18.3	18.7
Adjusted EPS (sen)	6.0	7.6	9.2	10.6
PER (x)	39.8	31.0	25.7	22.3
DPS (sen)	9.8	8.5	9.0	9.0
Dividend yield (%)	4.1	3.6	3.8	3.8

Source: Company, MIDFR

## DAILY PRICE CHART



Martin Foo Chuan Loong  
 martin.foo@midf.com.my  
 03-2173 8354

## INARI AMERTRON BHD – 4QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
<b>FYE 30<sup>th</sup> June</b>	<b>4QFY18</b>	<b>% YoY</b>	<b>% QoQ</b>	<b>2018</b>	<b>2017</b>	<b>% YoY</b>
Revenue	301.2	-13.0	-7.6	1376.0	1176.7	16.9
EBITDA	92.1	-0.6	11.3	368.3	303.7	21.3
Depreciation and amortisation	-13.5	-36.4	-39.7	-80.7	-66.3	21.8
EBIT	78.6	10.1	30.2	287.6	237.4	21.1
Finance costs	-0.3	-74.9	-32.4	-1.5	-2.2	-28.8
Interest income	3.1	46.7	21.6	9.4	5.8	63.6
PBT	81.4	12.4	30.3	295.5	241.0	22.6
Taxation	-14.5	125.9	108.3	-35.3	-12.4	185.5
MI	-9.8	n.m.	n.m.	-10.9	-0.9	n.m.
PATANCI	57.1	-12.9	3.5	249.3	227.8	9.4
Normalised PATANCI	37.3	-35.4	-34.8	255.5	192.8	32.5
Normalised EPS (sen)	1.1	-38.4	-35.8	8.0	6.3	27.7
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	30.6	3.8	5.2	26.8	25.8	1.0
EBIT margin (%)	26.1	5.5	7.6	20.9	20.2	0.7
Normalised PATANCI margin (%)	12.4	-4.3	-5.2	18.6	16.4	2.2
Effective tax rate (%)	17.9	9.0	6.7	12.0	5.1	6.8

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.