

Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

Limited Impact Despite Industry Downturn

KEY INVESTMENT HIGHLIGHTS

- **Downgrade to Neutral with a slight revision in target price to RM3.04**
- **Decent 4QFY23 results with normalised earnings declining only by -30%yoy to RM48.8m**
- **This led to full year FY23 normalised earnings of RM308.2m which is in-line with our expectation**
- **We expect sequential performance in the upcoming quarters to be lackluster**

Downgrade to Neutral. We are downgrading our recommendation for Inari to Neutral from Buy previously with a slight revision on target price to RM3.04 (previously RM3.06). This is despite a decent FY23 financial performance.

On a year-to-date basis, the stock has performed well, up by +15.6%ytd. Nonetheless, we view that limited improvement could be seen in the subsequent quarters in view of the unfavorable landscape at this juncture. This could translate into a lackluster 1HFY24 before a strong rebound in the second half of the financial period.


In addition, we do not discount the possibility that the ongoing China slowdown could potentially affect its China's venture with CFTC.

Decent 4QFY23. Inari's 4QFY23 normalised earnings came in at RM48.8m (-30%yoy) after adjusting for forex impact. This was mainly brought about by -11.1%yoy reduction in 4QFY23 revenue to RM298.8m. Comparatively, there was lower loading volume across all business segments in the current quarter as well as higher energy costs.

In-line with expectation. On a cumulative basis, full year FY23 normalised earnings amounted to RM308.2m, a decline of -16.1%yoy. This follows the -12.5%yoy contraction in revenue to RM1,354.0m. All in, Inari's FY23 financial performance came in within our expectation, making up 95% of our full year FY23 earnings estimate.

Finetune earnings forecasts. We made marginal changes to our FY24 and FY25 earnings estimates to RM391.5m and RM442.6m respectively as we incorporate the group's full year FY23 financial results. This led to slight amendment in our target price to RM3.04 from RM3.06 previously.

Similar dividend payout ratio. Inari announced 4QFY23 dividend of 2sen. This led to full year FY23 dividend of 8.2sen which translate to a dividend payout ratio of 94.5% which is similar to FY22 of 93.9%.

Resilient balance sheet. The group's 4QFY23 cash reserve remains steady at RM1,831.0m. This only represents a decline of -7.1%, which we believe was due to the slower business activities in FY23. 

Downgrade to NEUTRAL

(Previously Buy)

Revised Target Price: RM3.04

(Previously: RM3.06)

RETURN STATISTICS

Price @ 29 th August 2023 (RM)	3.03
Expected share price return (%)	+0.3
Expected dividend yield (%)	+2.8
Expected total return (%)	+3.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.7	-0.1
3 months	10.6	19.3
12 months	9.0	13.3

INVESTMENT STATISTICS

FYE June	2024E	2025F	2026F
Revenue	1,621.3	1,733.1	1,853.7
Operating Profit	469.3	514.1	0.0
Profit Before Tax	446.6	504.6	551.0
Core PATAMI	391.5	442.6	483.4
Core EPS	10.5	11.9	13.0
DPS	7.9	8.9	9.7
Dividend Yield	2.6	2.9	3.2

KEY STATISTICS

FBM KLCI	1,454.44
Issue shares (m)	3735.20
Estimated free float (%)	55.48
Market Capitalisation (RM'm)	11,317.66
52-wk price range	RM2.15-RM3.20
3-mth average daily volume (m)	11.73
3-mth average daily value (RM'm)	33.39
Top Shareholders (%)	
Insas Bhd	13.89
Employees provident fund board	10.11
Kumpulan Wang Persaraan	9.47

Foo Chuan Loong, Martin
martin.foo@midf.com.my

INARI AMERTRON BHD: 4QFY23 RESULTS SUMMARY

Financial year Ending 30 th June (All in RM'm unless stated otherwise)	Quarterly Results			Cumulative		
	2Q23	% YoY	% QoQ	2023	2022	% YoY
Revenue	298.8	-11.1	8.3	1,354.0	1,547.9	-12.5
EBITDA	83.6	-29.7	14.5	410.2	524.2	-21.8
Depreciation and amortisation	-27.3	51.1	5.3	-106.7	-100.9	5.7
EBIT	56.3	-44.2	19.6	303.5	423.3	-28.3
Finance costs	-0.9	-8.6	207.7	-1.9	-1.0	81.1
Interest income	16.7	109.3	14.8	52.9	23.9	121.3
Associate contribution	0.5	243.1	-9.5	1.3	-0.1	-1881.7
PBT	72.6	-32.8	17.3	355.8	446.1	-20.2
Taxation	-4.4	-80.1	-5.6	-30.8	-54.9	-44.0
Non controlling interest	-1.9	-866.9	-1987.3	-1.5	-0.3	439.9
PATANCI	66.3	-23.1	15.6	323.5	390.9	-17.2
Normalised PATANCI	48.8	-30.0	-13.0	308.2	367.5	-16.1
EPS (sen)	1.3	-30.4	-13.0	8.3	10.0	-17.0
EBITDA margin (%)	28.0	-7.4	1.5	30.3	33.9	-3.6
EBIT margin (%)	18.9	-11.2	1.8	22.4	27.3	-4.9
Normalised PATANCI margin (%)	16.3	-4.4	-4.0	22.8	23.7	-1.0
Effective tax rate (%)	6.0	-14.4	-1.5	8.6	12.3	-3.7

FINANCIAL SUMMARY

Financial year ending 30th June (in RM'm, unless otherwise)	2022A	2023A	2024E	2025F	2026F
Revenue	1,547.9	1,354.0	1,621.3	1,733.1	1,853.7
EBITDA	500.7	396.1	521.2	578.9	625.6
EBIT	289.4	414.1	469.3	514.1	0.0
PBT	446.1	355.8	446.6	504.6	551.0
Normalised PATANCI	367.5	308.2	391.5	442.6	483.4
Normalised EPS (sen)	9.9	8.3	10.5	11.9	13.0
EPS Growth (%)	7.8	-16.1	27.1	13.0	9.2
PER (x)	31	37	29	26	23
Dividend Per Share (sen)	7.8	6.2	7.9	8.9	9.7
Dividend yield (%)	2.6	2.0	2.6	2.9	3.2

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	499.5	509.0	521.9	532.4	540.9
Intangible assets	2.3	2.5	2.5	2.5	2.5
Others	7.1	16.6	16.6	16.6	16.6
Non-current assets	509.0	528.1	541.0	551.5	560.0
Cash	1,971.0	1,831.0	2,077.4	2,168.1	2,270.2
Trade debtors	266.6	411.0	279.2	298.5	319.3
Others	147.9	196.6	167.4	178.0	189.5
Current assets	2,385.6	2,438.6	2,524.0	2,644.7	2,779.0
Trade creditors	262.6	276.1	275.0	294.0	314.5
Short-term debt	0.0	1.0	2.0	3.0	4.0
Others	92.2	54.8	53.8	52.8	51.8
Current liabilities	354.8	331.9	330.8	349.8	370.2
Long-term debt	0.0	1.0	2.0	3.0	4.0
Others	28.7	28.0	27.0	26.0	25.0
Non-current liabilities	28.7	29.0	29.0	29.0	29.0

Share capital	1,977.2	2,033.4	2,033.4	2,033.4	2,033.4
Retained earnings	473.5	496.6	594.4	705.1	825.9
Reserve	54.4	72.7	72.7	72.7	72.7
Minority interest	6.0	3.2	4.7	6.2	7.7
Equity	2,511.0	2,605.8	2,705.2	2,817.4	2,939.7

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	446.1	355.8	446.6	504.6	551.0
Depreciation & amortisation	100.9	106.7	107.1	109.5	111.5
Changes in working capital	-34.0	-148.4	159.9	-10.9	-11.8
Others	-8.6	-58.2	-53.6	-60.6	-66.1
Operating cash flow	504.5	255.9	660.0	542.7	584.6
Capital expenditure	-111.5	-113.0	-120.0	-120.0	-120.0
Others	23.1	27.5	0.0	0.0	0.0
Investing cash flow	-88.4	-85.5	-120.0	-120.0	-120.0
Debt raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	-433.2	-342.4	-293.7	-331.9	-362.6
Others	1,081.2	41.7	0.0	0.0	0.0
Financing cash flow	648.1	-300.7	-293.7	-331.9	-362.6
Net cash flow	1,064.1	-130.4	246.4	90.7	102.1
Beginning cash flow	831.2	1,917.3	1,803.5	2,049.8	2,140.6
Ending cash flow	1,917.3	1,803.5	2,049.8	2,140.6	2,242.7

Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	32.3	29.3	32.1	33.4	33.7
PBT margin	28.8	26.3	27.5	29.1	29.7
PATAMI margin	23.7	22.8	24.2	25.5	26.1

Source: Bloomberg, 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology