

## Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

### Potential Hiccup in Operation

#### KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL recommendation post the group's 4QFY23 results briefing**
- **RF segment to remain the major contributor for the group**
- **Aggressive effort to expand business and achieve a more favourable product mix**
- **Healthy war chest of RM1.8b to support future expansion**
- **Potential near-term disruption in operation due to ongoing power disruption**

**Maintain NEUTRAL.** We are keeping our **NEUTRAL** recommendation on Inari with an unchanged **target price of RM3.04**. We expect the group to record steady earnings growth due to higher production as activities for its RF business as well as active customer and product diversification strategy. Nonetheless, we expect there could be a temporary dent to the group's earnings performance as it is experiencing power disruption to its operation in Penang.

**Consistent product mix.** Inari's FY23 product mix remained consistent with the radio frequency (RF) product made up 59% of total revenue. This was followed by optoelectronics products (33%) and generic products (8%). For context, FY22 revenue breakdown was 60%, 32% and 8% respectively. Similar composition was seen in terms of industrial segment (refer to figure 1).

**Figure 1: Revenue breakdown by industrial segment**

RM m	FY23	FY22
Smartphone / mobile devices	62	63
Datacom	15	13
Automotive	10	11
Industrial	7	7
Generic	6	6
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Company, MIDFR

**Potential disruption in the group's operation.** Inari may suffer from temporary setback in its factory in 2HCY23. This is mainly due to ongoing electricity interruption. This translates into more downtime which may affect utilization rate and higher cost incurred to restore the machine into working condition. Nonetheless, we expect this issue to be short term in nature.

**Steady outlook ahead.** For FY24, we are forecasting revenue and profit to hit RM1.6b and RM391.5m respectively. Notwithstanding the above-mentioned issue, production activities in the smartphone segment is expected to hit utilization of more than 85% in 2HCY23 to cater for its customer demand. In addition, other segments are expected to record better performance as well. Looking beyond, the group is also seeking to onboard 4 sizeable customers.

**Maintain NEUTRAL**

**Unchanged Target Price: RM3.04**

#### RETURN STATISTICS

Price @ 30 <sup>th</sup> August 2023 (RM)	3.15
Expected share price return (%)	-3.5
Expected dividend yield (%)	+2.8
Expected total return (%)	-0.7

#### 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	20234*	2024F	2025F
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	2.5	2.8	3.1


#### KEY STATISTICS

FBM KLCI	1,451.94
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

Looking beyond, the group is also seeking to onboard four sizeable customers. This will help to provide a more favourable product mix. The onboarding of these potential customers will also involve the setting up of new production facilities in Batu Kawan, Penang.

**Unlocking of value in IMJV.** For context, in August 2020, Inari collaborate MIT Semiconductor Pte Ltd in the business of supplying customized semiconductor process tools. At this juncture, it has developed more than 10 platform. Notably it is launching new laser and 3D AOI machines which are AI enabled to increase production efficiency. Management shared that it is planning to unlock the value in the JV company in several years' time.

**Capex steady at around RM100m level.** FY23 capex came in at RM113m, a decrease of -12.4%yoy. This is in tandem with the slower business activities as compared to FY22. Management guided that FY24 capex should be at similar level. This could potentially come in higher should business conditions improve. To support its capex commitment, the group currently has a cash reserve amounting to RM1.8b. 

## 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)	32	38	30	27	24
Dividend Per Share (sen)	7.8	6.2	7.9	8.9	9.7
Dividend yield (%)	2.5	2.0	2.5	2.8	3.1
<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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
<b>Non-current assets</b>	<b>509.0</b>	<b>528.1</b>	<b>541.0</b>	<b>551.5</b>	<b>560.0</b>
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
<b>Current assets</b>	<b>2,385.6</b>	<b>2,438.6</b>	<b>2,524.0</b>	<b>2,644.7</b>	<b>2,779.0</b>
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
<b>Current liabilities</b>	<b>354.8</b>	<b>331.9</b>	<b>330.8</b>	<b>349.8</b>	<b>370.2</b>
Long-term debt	0.0	1.0	2.0	3.0	4.0
Others	28.7	28.0	27.0	26.0	25.0
<b>Non-current liabilities</b>	<b>28.7</b>	<b>29.0</b>	<b>29.0</b>	<b>29.0</b>	<b>29.0</b>
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
<b>Equity</b>	<b>2,511.0</b>	<b>2,605.8</b>	<b>2,705.2</b>	<b>2,817.4</b>	<b>2,939.7</b>
<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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
<b>Operating cash flow</b>	<b>504.5</b>	<b>255.9</b>	<b>660.0</b>	<b>542.7</b>	<b>584.6</b>
Capital expenditure	-111.5	-113.0	-120.0	-120.0	-120.0
Others	23.1	27.5	0.0	0.0	0.0

<b>Investing cash flow</b>	<b>-88.4</b>	<b>-85.5</b>	<b>-120.0</b>	<b>-120.0</b>	<b>-120.0</b>
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	<b>-433.2</b>	<b>-342.4</b>	<b>-293.7</b>	<b>-331.9</b>	<b>-362.6</b>
Others	1,081.2	41.7	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>648.1</b>	<b>-300.7</b>	<b>-293.7</b>	<b>-331.9</b>	<b>-362.6</b>
<b>Net cash flow</b>	<b>1,064.1</b>	<b>-130.4</b>	<b>246.4</b>	<b>90.7</b>	<b>102.1</b>
<b>Beginning cash flow</b>	<b>831.2</b>	<b>1,917.3</b>	<b>1,803.5</b>	<b>2,049.8</b>	<b>2,140.6</b>
<b>Ending cash flow</b>	<b>1,917.3</b>	<b>1,803.5</b>	<b>2,049.8</b>	<b>2,140.6</b>	<b>2,242.7</b>
<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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: 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.

#### 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