

Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

Awaiting the Rerating Catalyst**KEY INVESTMENT HIGHLIGHTS**

- **Maintain NEUTRAL with an unchanged target price of RM3.04**
- **Commendable 1QFY23 earnings performance of RM85.6m which was in-line with our expectation**
- **RF remains the key revenue generator while contribution from other segments were resilient**
- **Potential earnings upside from YSIC, a re-rating catalyst to the stock**
- **1QFY24 cash reserve remains elevated at RM1.8b**

Keeping our NEUTRAL stance for now. We are maintaining our **NEUTRAL** recommendation for Inari at this juncture with an unchanged **target price of RM3.04** post the 1QFY23 results announcement. Inari's financial performance has been in-line with our expectations thus far. We anticipated that despite the industry downturn, the group has performed relatively well in comparison to its peers.

We also keep our recommendation at this juncture pending further divulgement on the development of its 54.5%-owned subsidiary Yiwu Semiconductor International Corporation (YSIC). This would also help to reduce the risk of dependency on its major customer for the RF product.

Decent 1QFY23. Inari's 1QFY23 normalised earnings came in at RM85.6m, an increase of +0.7%yoy and +75.4%yoy. The improvement primarily came from the higher revenue generated during the quarter-in-review of RM383.9m (+1.8%yoy; +28. % qoq). The growth in revenue was mainly contributed by the Radio Frequency (RF) product segment while the Opto segment was relatively resilient.

All in, Inari's 1QFY24 financial performance came in within ours and consensus expectation, making up 21.9% and 21.6% of full year FY24 earnings estimates respectively.

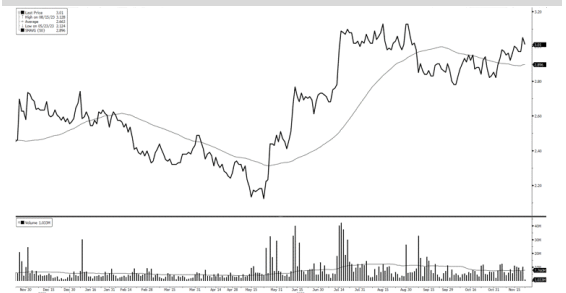
No change to earnings estimates. We view that our earnings assumptions remain realistic at this juncture. However, there could be potential upward revision to our estimates as we have yet to input the impending contribution from YSIC.

Higher dividend payout ratio. Inari announced 1QFY24 dividend of 2.2sen which translates to a dividend payout ratio of 96.9% (vs 1QFY23: 90.0%). Nonetheless, this is within our expectation, making up 27.8% of our FY24 dividend assumptions.

Resilient balance sheet. The group's 1QFY24 cash reserve remains steady at RM1,818.4m. This only represents a marginal decline of -.07%qoq, which we believe was due to the slower business activities in FY23.

**Maintain NEUTRAL****Unchanged Target Price: RM3.04****RETURN STATISTICS**

Price @ 22 nd November 2023 (RM)	3.00
Expected share price return (%)	+1.3
Expected dividend yield (%)	+2.5
Expected total return (%)	+3.8

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	4.2	3.0
3 months	3.4	-1.7
12 months	18.6	17.3

INVESTMENT STATISTICS

FYE June	2024E*	2025F	2026F
Revenue	1,621.3	1,733.1	1,853.7
Operating Profit	414.1	469.3	514.1
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	3.0	3.2

KEY STATISTICS

FBM KLCI	1,455.89
Issue shares (m)	Yes
Estimated free float (%)	3732.9
Market Capitalisation (RM'm)	11,234.4
52-wk price range (RM)	2.15 –3.20
3-mth average daily volume (m)	7.6
3-mth average daily value (RM'm)	22.3
Top Shareholders (%)	
Insas Bhd	12.81
Employees provident fund board	9.51
Kumpulan Wang Persaraan	9.27

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INARI AMERTRON BHD: 1QFY24 RESULTS SUMMARY

Financial year Ending 30 th June (All in RM'm unless stated otherwise)	1Q24	1Q23	% YoY	4Q23	% QoQ
Revenue	383.9	377.0	1.8	298.8	28.5
EBITDA	104.5	138.9	-24.8	83.6	25.0
Depreciation and amortisation	-29.4	-26.9	9.2	-27.3	7.4
EBIT	75.2	112.0	-32.9	56.3	33.5
Finance costs	-0.4	-0.4	6.4	-0.9	-58.3
Interest income	15.2	8.7	76.0	16.7	-8.8
Associate contribution	-0.3	0.7	-142.7	0.5	-161.3
PBT	89.7	121.1	-25.9	72.6	23.6
Taxation	-4.4	-14.7	-70.1	-4.4	0.3
Non-controlling interest	-0.4	-0.1	176.4	-1.9	-81.8
PATANCI	85.0	106.3	-20.0	66.3	28.1
Normalised PATANCI	85.6	85.0	0.7	48.8	75.4
EPS (sen)	2.3	2.3	-0.2	1.3	74.8
EBITDA margin (%)	27.2	36.9	-9.6	28.0	-0.8
EBIT margin (%)	19.6	29.7	-10.1	18.9	0.7
Normalised PATANCI margin (%)	22.3	22.6	-0.2	16.3	6.0
Effective tax rate (%)	4.9	12.1	-7.2	6.0	-1.1

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	399.8	289.4	414.1	469.3	514.1
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)	30	36	29	25	23
Dividend Per Share (sen)	7.8	6.2	7.9	8.9	9.7
Dividend yield (%)	2.6	2.1	2.6	3.0	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