

# Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

**Maintain NEUTRAL**

## Still Heavily Dependent on the RF Business

**Unchanged Target Price: RM3.04**

### KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with an unchanged target price of RM3.04**
- **1QFY24 revenue contribution from RF remains high, which constitutes 63% of total group revenue (vs 1QFY23: 60%)**
- **High capital spending throughout FY24 and FY25 to increase production capacity**
- **Expansion in manufacturing capacity will be spread out across Malaysia, China and the Philippines**
- **Contribution from YSIC starts from FY25 onwards**

**Reiterate NEUTRAL stance at this juncture.** We are maintaining our NEUTRAL recommendation for Inari post the analyst briefing on the 1QFY24 results announcement. While we applaud the management's aggressive strategy to expand product and customer portfolio, we view that it has been largely factored in our earnings estimates and ultimately our call recommendation. Meanwhile, revenue contribution from YSIC which would only come in from FY25 onwards may not be material in the early stage.

**Larger RF contribution.** To recap, Inari's 1QFY24 normalised earnings of RM85.6m were mainly supported by the steady revenue of RM383.9m which bear a utilisation rate of 80%. Of this, the RF segment grew larger by +6.9%yoy which constitutes 63% of the total revenue (vs 1QFY22: 60%). However, contribution from the opto and generic segment contracted by -4.3%yoy and -12.7%yoy respectively.

Meanwhile, revenue breakdown by industrial segment indicated that there was no major shift. Smartphone/mobile devices still form bulk of the revenue at 64%. This was followed by datacom (13%), automotive (10%), industrial (7%) and generic (6%).

**Capex to intensify for the next two years.** 1QFY24 capex came in at RM40m. Of this, RM40m was spent on machinery and equipment while the remainder RM3m was spent on construction of buildings and facilities. This is expected to surge significantly for FY24 and FY25 with a combined forecasted capex of RM641.6m. This would surpass the group's highest annual capex of RM184m which was spent in 2019.

**Future growth remains intact.** Moving forward, we continue to expect successive quarters' earnings performance to remain on an expansionary mode. Notably, utilisation rate for the smartphone segment to go beyond 90%. This will also be supported by the higher production activities or the optical communication and automotive segments. The management also indicated that it is seeking to double the existing manufacturing capacity of 2.15m sq ft across Malaysia, China and Philippines which would be reflective of the upcoming high capex cycle.

**YSIC to contribute from FY25 onwards.** Management updated that the building construction has been completed. It would commence operation by the middle of CY2024. Hence, it will only contribute to the group's FY25 financial performance.

### RETURN STATISTICS

Price @ 23 <sup>rd</sup> November 2023 (RM)	2.91
Expected share price return (%)	+4.5
Expected dividend yield (%)	+2.5
Expected total return (%)	+7.0

### 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	1,453.29
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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Management targets the plant to contribute up to one million yuan (approx. RM650m) in three years' time once it starts operational. Based on simple average assumption, we anticipate the contribution from YSIC in the initial year (i.e., FY25), constitutes less than 10% of the group's total revenue. Nonetheless, we are keeping our earnings estimates unchanged at this juncture pending further details on the production timeline.



## FINANCIAL SUMMARY

Financial year ending 30th June	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
<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	-433.2	-342.4	-293.7	-331.9	-362.6
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: Bloomberg, MIDFR

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#### 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