



Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

New Product Carries Lower Profit Margin

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with an unchanged target price of RM3.04 post the 2QFY24 results announcement**
- **Weaker 2QFY24 normalised earnings due to higher set up cost for new products and higher electricity rates**
- **No surprise in the group's 1HFY24 financial performance**
- **The group is sacrificing profit margin of new products to drive future revenue growth**
- **Lower 1HFY24 dividend of 4.4sen reflective of performance**

Reiterate neutral stance at this juncture. We are maintaining our **NEUTRAL** recommendation for Inari with an unchanged **target price of RM3.04** post the 2QFY24 results announcement. Inari's 1HFY24 financial performance has been in-line with our expectations thus far. Nonetheless, we view that the group's has performed relatively well to minimize the impact of the slowdown in the industry. We also keep our recommendation at this juncture pending further progress in YSIC which would help to reduce the risk of dependency for the RF product.


Progressive quarterly performance. Inari's 2QFY24 normalised earnings contracted by -20.7%yoy. This was mainly attributable to set up costs incurred for new products as well as the increase in electricity rates.

However, on a sequential basis, the normalized earnings improved by +9.5%qoq. This was mainly supported by higher loading volume in RF and optoelectronic business segments.

No surprise thus far. On a cumulative basis, 1HFY24 normalised earnings amounted to RM179.5m, a reduction of -11.7%yoy. While 1HFY24 revenue improved slightly by +2.4%yoy to RM798.0m, there has been high electricity cost as well as losses in work-in-progress items arising from unstable glitches in electricity supply from the grid. In addition, the new products also carried a lower gross margin in the short term.

All in, Inari's 1HFY24 financial performance came in within our expectation, making up 45.8% of our full year FY24 earnings estimates.

Keeping our forecasts and target price. Given that the group performance was in-line with our expectation, we made no changes to our earnings estimates and target price of RM3.04.

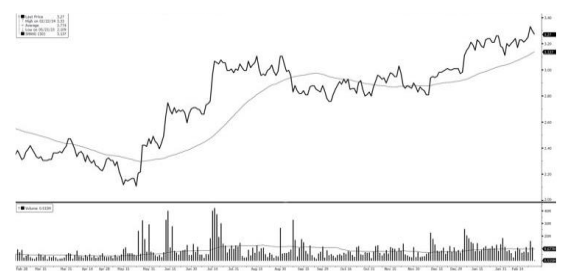
Lower cumulative dividend. Inari announced 2QFY24 dividend of 2.2sen per share, in-line with the previous year payout. This, however, led to a lower 1HFY24 dividend of 4.4sen as compared to 4.8sen a year ago. We view that this is reflective of the group's performance despite the inflated cash pile of RM1.8b. 

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

RETURN STATISTICS

Price @ 26 th February 2024 (RM)	3.16
Expected share price return (%)	-3.8
Expected dividend yield (%)	+2.7
Expected total return (%)	-1.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.2	-0.9
3 months	9.0	6.6
12 months	33.9	25.6

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	2.5	2.8	3.1

KEY STATISTICS

FBM KLCI	1,547.6
Issue shares (m)	Yes
Estimated free float (%)	3732.9
Market Capitalisation (RM'm)	12,298.5
52-wk price range (RM)	2.15 -3.35
3-mth average daily volume (m)	9.7
3-mth average daily value (RM'm)	30.1
Top Shareholders (%)	
Insas Bhd	13.7
Employees provident fund board	9.41
Kumpulan Wang Persaraan	9.14

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INARI AMERTRON BHD: 2QFY24 RESULTS SUMMARY

Financial year Ending 30thJune (All in RM'm unless stated otherwise)	Quarterly Results			Cumulative		
	2QFY24	% YoY	% QoQ	1HFY24	1HFY23	% YoY
Revenue	414.1	2.9	7.9	798.0	779.5	2.4
EBITDA	103.2	-9.9	-1.3	207.7	253.5	-18.0
Depreciation and amortisation	-28.9	9.1	-1.5	-58.3	-53.4	9.1
EBIT	74.3	-15.6	-1.2	149.5	200.1	-25.3
Finance costs	-0.3	9.7	-14.1	-0.7	-0.7	7.9
Interest income	16.2	25.1	6.6	31.5	21.6	45.5
Associate contribution	0.1	-126.7	-142.6	-0.2	0.2	-177.3
PBT	90.3	-9.9	0.7	180.0	221.3	-18.6
Taxation	-3.7	-47.2	-15.0	-8.1	-21.7	-62.7
Non controlling interest	0.2	-54.6	-159.5	-0.1	0.3	-142.6
PATANCI	86.8	-7.3	2.2	171.8	199.9	-14.0
Normalised PATANCI	93.8	-20.7	9.5	179.5	203.3	-11.7
Normalised EPS (sen)	2.5	-21.1	8.9	4.8	5.5	-12.3
EBITDA margin (%)	24.9	-3.5	-2.3	26.0	32.5	-6.5
EBIT margin (%)	17.9	-3.9	-1.6	18.7	25.7	-6.9
Normalised PATANCI margin (%)	22.7	-6.7	0.3	22.5	26.1	-3.6
Effective tax rate (%)	4.1	-2.9	-0.8	4.5	9.8	-5.3

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	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
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

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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