



Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

Building its Presence in the AI Realm

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**

Towards a more balanced portfolio. We are maintaining our **NEUTRAL** recommendation for Inari with an unchanged target price of **RM3.04** post the 2QFY24 results briefing. We applaud the group's effort to aggressively build its non-RF business, the recent one being the AI related product segment. Nonetheless, we do not expect to see a significant contribution from this segment at this juncture. The bulk of the earnings growth will still be dependent on the RF product segment.

Weaker quarterly performance. To recap, Inari's 2QFY24 normalised earnings were lower by -20.7%yoy to RM93.9m. This was in view of new upgrade costs for new products, new technology development setup and the increase in electricity rates.

The above, combined with losses in WIP items arising from unstable glitches electricity supply, has led to -11.7%yoy contraction in 1HFY24 normalised earnings. Note that the latter has cost the group approximately RM5m in loss. Fortunately, the issue has been rectified.

RF contribution inching up. During 2QFY24, the revenue contributed by the RF and Opto product segment improved by +4.5%yoy and +6.4%yoy respectively. Meanwhile, the revenue from the generic product segment declined by -22.8%yoy.

On another note, 1HFY24 revenue contribution from the smartphone/mobile devices segment remains stagnant at 64% of total revenue. However, we see a slight uptick in revenue emanating from the datacom segment to 14% from 12% comparatively.

Lower capital spending in 2HFY24. 1HFY24 capex amounted to RM75m. This is expected to taper off considerably in 2HFY24 to reach RM100m targeted capex plan for FY24.

Operation disruption could persist, albeit with lower risk. While the electricity disruption has passed, the management guided that there could be water issue moving forward. Though the risk could be low due to the larger water storage tank.

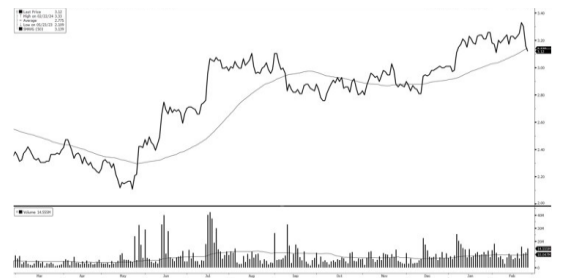
Maintain NEUTRAL

Unchanged Target Price: RM3.04

RETURN STATISTICS

Price @ 26 th February 2024 (RM)	3.14
Expected share price return (%)	-3.2
Expected dividend yield (%)	+2.7
Expected total return (%)	-1.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.1	-6.2
3 months	3.3	-0.2
12 months	28.5	20.2

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	1,558.80
Issue shares (m)	Yes
Estimated free float (%)	3732.9
Market Capitalisation (RM'm)	11,661.10
52-wk price range (RM)	2.15 -3.35
3-mth average daily volume (m)	9.8
3-mth average daily value (RM'm)	30.3
Top Shareholders (%)	
Insas Bhd	13.7
KWAP	9.41
EPF	9.12

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More emphasis on AI. The management guided that the RF segment will continue to be the main revenue growth generator, supported by higher content growth. Apart from this, the group also has a presence in the IoT, cloud computing, data centre, industrial electronics and automotive.

In addition to this, artificial intelligence has been identified as another new growth area. This is also supported by higher customer requests in this segment. Hence, we understand that the optoelectronic and memory business segment has been ramping up due to the emergence of AI.

YSIC is progressing well. Management shared that YSIC's plant is currently undergoing phase 1 which focuses on wafer level chip-scale packaging. This will be followed by System-In-Package in Phase by 2QCY24 and wafer level packaging (WLP) in Phase 4 by 4QCY24. Meanwhile, the last phase will involve ball grid array (BGA) packaging from 2025 onwards. Given the development. The contribution from YSIC can only be seen from FY25 onwards.

Space expansion remains a focus. To provide a sufficient production floor for the group's new products and/or higher production activity, management is seeking to increase the existing manufacturing capacity from 2.15m sqft to approximately 4m sqft. This will take place across Penang (Malaysia), Yiwu (China) and Clark (Philippines).



FINANCIAL SUMMARY

Financial year ending 30th June	2022A	2023A	2024E	2025F	2026F
Revenue	1,354.0	1,621.3	1,733.1	1,853.7	1,354.0
EBITDA	396.1	521.2	578.9	625.6	396.1
EBIT	414.1	469.3	514.1	0.0	414.1
PBT	355.8	446.6	504.6	551.0	355.8
Normalised PATANCI	308.2	391.5	442.6	483.4	308.2
Normalised EPS (sen)	8.3	10.5	11.9	13.0	8.3
EPS Growth (%)	-16.1	27.1	13.0	9.2	-16.1
PER (x)	38	30	26	24	38
Dividend Per Share (sen)	6.2	7.9	8.9	9.7	6.2
Dividend yield (%)	2.0	2.5	2.8	3.1	2.0
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