



Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

Building its Centre of Excellence

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with an unchanged target price of RM3.11 post the group's analyst briefing**
- **RF business segments still made up the bulk of the revenue at more than 60% of 9MFY24 revenue**
- **More emphasis on investing for the future, despite near-term profit margin erosion**
- **Seeking to move up the value chain, in the area of advanced packaging and autonomous manufacturing**

Reiterate NEUTRAL stance at this juncture. We are maintaining our **NEUTRAL** recommendation for Inari with an unchanged **target price of RM3.11** post the briefing session on 3QFY23 results. Management alluded that profit margin could remain slightly depressed in the near term. Meanwhile, despite aggressive to improve all the business segment, the RF business segment would remain the main growth driver in the foreseeable term. This would make up more than half of the group's future revenue. In a grand scheme of things, the group is also preparing to move up the value chain, especially in advanced packaging and autonomous manufacturing.

Short-term sacrifice on margin for growth. To recall, Inari's 3QFY24 normalised earnings improved by +12.9%yoy to RM63.4m premised on higher loading volume in RF and optoelectronics business segments. However, on a cumulative basis, 9MFY24 normalised earnings contracted by -6.4%yoy to RM242.6m in view of contraction in profit margin to 21.2% from 24.6% a year ago.

Management guided that there is RM11m incremental investment spend for new technology development which are expensed. This has been the main reason for the variance in financial performance as compared to 9MFY23.

Dependency on RF business segment to remain high. As at 3QFY24, the RF product segment made up 60% of the group's total revenue. This was followed by opto (34%) and generic (6%). As a result, on a year-to-date basis, 9MFY24 revenue consisted of RF (63%), opto (33%) and generic (8%). Management alluded that the contribution from RF will still form a large chunk of the group revenue in the foreseeable future.

Notwithstanding this, the group is also actively growing its non-RF business segments, especially the industrial and automotive segments. The latter will be supported by the "China + 1" and "Taiwan + 1" strategies.

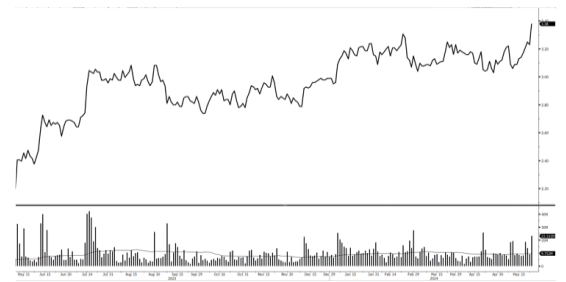
Setting up the platform for future growth. For 9MFY24, the group has invested RM137m in new technology and/or a new business stream. Bulk of the expenditure was spent on memory as well as addition of new SIP line. Pursuant to this, another RM20m is expected to be spent in 4QFY24.

Maintain NEUTRAL**Unchanged Target Price: RM3.11**

RETURN STATISTICS

Price @ 24 th May 2024 (RM)	3.44
Expected share price return (%)	-9.6
Expected dividend yield (%)	+2.5
Expected total return (%)	-7.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	9.0	5.8
3 months	5.0	-1.7
12 months	50.7	31.2

INVESTMENT STATISTICS

FYE June	2024E*	2025F	2026F
Revenue	1,559.9	1,668.6	1,786.0
Operating Profit	428.8	471.2	0.0
Profit Before Tax	374.3	463.8	507.7
Core PATAMI	327.9	406.7	445.3
Core EPS	8.8	10.9	11.9
DPS	6.6	8.2	9.0
Dividend Yield	1.9	2.4	2.6

KEY STATISTICS

FBM KLCI	1,619.40
Issue shares (m)	Yes
Estimated free float (%)	57.05
Market Capitalisation (RM'm)	12,752.85
52-wk price range (RM)	2.19 - 3.39
3-mth average daily volume (m)	9.54
3-mth average daily value (RM'm)	29.92
Top Shareholders (%)	
Insas Bhd	13.65
Employees provident fund board	10.31
Kumpulan Wang Persaraan	9.55

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The continuous capital spending was part of the group's plan to improve its capability to go up the value chain, especially in advanced packaging and autonomous manufacturing. These are further aided by its internally designed Inari manufacturing execution system which is base industry 4.0 philosophy.

Note that at this juncture, the group already has seven patents on manufacturing know-how, with another four patents has been submitted and one under draft.

Growing its manufacturing capacity further. To cater for the group's expansion plan, there is also a need to ensure that there is sufficient manufacturing capacity. At present, there is 2.15m sqft of manufacturing capacity. The expansion plan will spread across Malaysia, China and Phillipines which will contribute to an estimated total capacity of 4m sq ft. On top of this, the group also has another vacant land in the vicinity of P34 which has yet commence construction.



FINANCIAL SUMMARY

Financial year ending 30th June	2022A	2023A	2024E	2025F	2026F
Revenue	1,547.9	1,354.0	1,559.9	1,668.6	1,786.0
EBITDA	500.7	396.1	449.0	538.3	582.7
EBIT	289.4	341.9	428.8	471.2	0.0
PBT	446.1	355.8	374.3	463.8	507.7
Normalised PATANCI	367.5	308.2	327.9	406.7	445.3
Normalised EPS (sen)	9.9	8.3	8.8	10.9	11.9
EPS Growth (%)	7.8	-16.1	6.4	24.0	9.5
PER (x)	35	42	39	32	29
Dividend Per Share (sen)	7.8	6.2	6.6	8.2	9.0
Dividend yield (%)	2.3	1.8	1.9	2.4	2.6
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	2,067.5	2,149.5	2,242.4
Trade debtors	266.6	411.0	268.7	287.4	307.6
Others	147.9	196.6	161.6	171.9	183.1
Current assets	2,385.6	2,438.6	2,497.7	2,608.8	2,733.0
Trade creditors	262.6	276.1	264.6	283.0	303.0
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	320.4	338.8	358.7
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	578.5	680.2	791.5
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	2,689.3	2,792.5	2,905.3
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	446.1	355.8	374.3	463.8	507.7
Depreciation & amortisation	100.9	106.7	107.1	109.5	111.5
Changes in working capital	-34.0	-148.4	165.9	-10.6	-11.5
Others	-8.6	-58.2	-44.9	-55.7	-60.9
Operating cash flow	504.5	255.9	602.4	507.1	546.9
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	-245.9	-305.0	-334.0
Others	1,081.2	41.7	0.0	0.0	0.0
Financing cash flow	648.1	-300.7	-245.9	-305.0	-334.0
Net cash flow	1,064.1	-130.4	236.5	82.1	92.9
Beginning cash flow	831.2	1,917.3	1,803.5	2,039.9	2,122.0
Ending cash flow	1,917.3	1,803.5	2,039.9	2,122.0	2,214.9
Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	32.3	29.3	28.8	32.3	32.6
PBT margin	28.8	26.3	24.0	27.8	28.4
PATAMI margin	23.7	22.8	21.0	24.4	24.9

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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