

Inari Amertron (INRI MK)

2QFY22: Plain sailing

Results above expectations; maintain BUY

2QFY22 core NP of MYR113m was above expectations, as 1HFY22 core NP of MYR226m came in at 56%/58% of our/the street's FY22E estimates. We have raised our FY22-24E earnings assumptions by 17%/23%/24%, but lower our valuation peg to 35x FY23E PER, at +1.5SD to the LT mean (from 44x at +2.5SD), to account for the accelerated inflation-induced rate increase cycle. Imputing for both, our TP is nudged marginally higher to MYR4.77 (+1%). Inari remains our top OSAT pick, underpinned by its RF division's strength/robust volume loading and the potential onboarding of new customers as industry supply is likely to remain tight, at least until 1H23.

2QFY22 results takeaways

Excluding EIs of MYR6m, 2QFY22 core NP of MYR113m saw 21% YoY growth but was flat QoQ (+1%). Despite strong contribution from the RF division (63% of total turnover or c.MYR265m), growth was muted (+2%/1% YoY/QoQ) owing to the absence of the 2Q/3Q (Inari's 4Q/1Q) seasonal strength that usually precedes the customary year-end new flagship model launches. However, the OPTO division made up for shortfall in YoY RF growth and came in at c.MYR126m (+39% YoY), owing to higher volume loading from existing customers. On a QoQ basis, OPTO division revenues declined 9% as a result of acute component shortages affecting its smaller clients, but mgmt is cautiously optimistic of the issue being resolved.

Revised earnings estimates for FY22-24

Premised on Inari's strong showing in 1HFY22, we have nudged our FY22-24E estimates higher by 17%/23%/24% on the back of: (i) Improving gross margins at 29%/30%/30% (from c.26% previously) per mgmt's guidance and in-line with the last 4 quarters' average of 30%, (ii) improved blended RF division utilisation of 93% for FY22-24 (from 85%), and (iii) an increase in assembly/testing capacity from the 2 newly-added SiP lines in 2QFY22.

China to be the next growth driver?

Inari is hopeful of benefitting from the Biden administration's doubling down of Trump era anti-Sino policies and has already received enquiries from China-based MNCs to transfer their production bases to its facilities in MY and PH. The "China exodus" is also a blessing as it creates a vacuum in the local market that Inari is seeking to capitalise on via its SMIC-backed JV that will focus exclusively on China-based customers. With a net cash position of c.MYR1.9b (45 sen/share), it is well-positioned to leverage on further capacity expansion/M&A opportunities during the current upcycle.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,058	1,429	2,069	2,177	2,291
EBITDA	264	449	594	641	669
Core net profit	161	345	447	505	529
Core EPS (sen)	4.8	10.0	11.8	13.3	13.9
Core EPS growth (%)	(20.9)	109.0	18.4	12.8	4.9
Net DPS (sen)	4.3	10.9	11.8	13.3	13.9
Core P/E (x)	35.5	31.8	27.1	24.1	22.9
P/BV (x)	4.7	8.0	5.0	5.0	4.9
Net dividend yield (%)	2.5	3.5	3.7	4.2	4.4
ROAE (%)	13.5	25.7	23.6	20.7	21.5
ROAA (%)	11.5	21.0	18.8	17.1	17.7
EV/EBITDA (x)	19.4	22.5	17.3	16.0	15.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	393	449	500
MKE vs. Consensus (%)	-	-	13.8	12.4	5.8

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BUY

Share Price	MYR 3.20
12m Price Target	MYR 4.77 (+52%)
Previous Price Target	MYR 4.72

Company Description

Inari Amertron is the biggest semiconductor player in M'sia and one of Broadcom's top OSAT providers in the thriving wireless division.

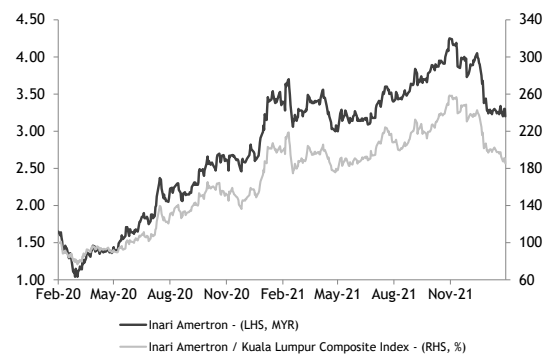
Statistics

52w high/low (MYR)	4.25/3.00
3m avg turnover (USDm)	22.8
Free float (%)	75.1
Issued shares (m)	3,702
Market capitalisation	MYR11.8B USD2.8B

Major shareholders:

Insas Bhd.	14.5%
Kumpulan Wang Persaraan	8.9%
Employees Provident Fund	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(24)	(4)
Relative to index (%)	(10)	(28)	(6)

Source: FactSet

Acronyms

OPTO - optoelectronics division
 OSAT - outsourced semiconductor assembly & test
 RF - radio frequency (wireless division)
 SiP - System in Package (multiple ICs enclosed within a single module; used in advanced packaging applications ie. smartphones)
 SMIC - Semiconductor Manufacturing Int'l Corp.

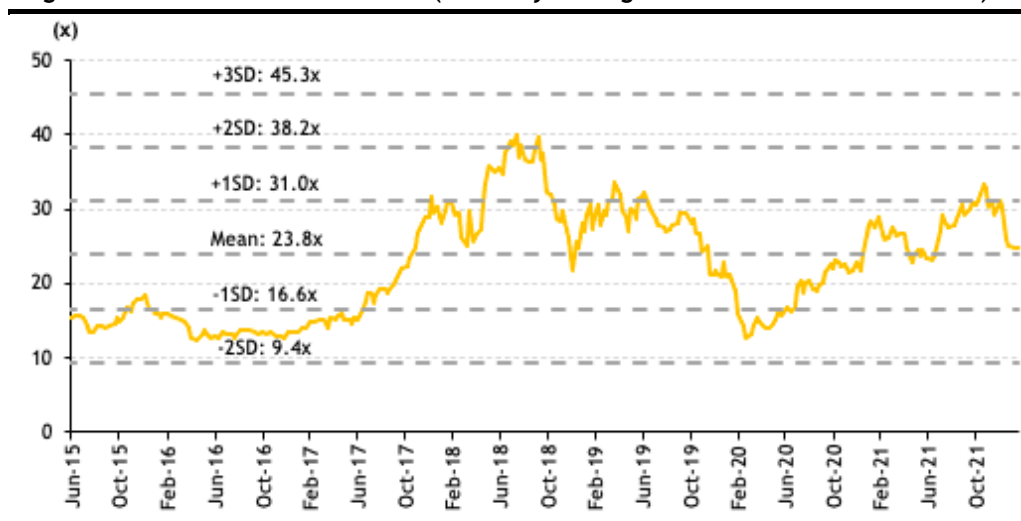
EI - exceptional items
 FY - financial year
 JV - joint venture
 LT - long-term
 MNC - multinational corporation
 MY - Malaysia
 NP - net profit
 PH - Philippines
 SD - standard deviation
 TP - target price

Fig. 1: 2QFY22 Results summary table

FY Jun (MYR m)	Quarterly					Cumulative		
	2Q22	1Q22	%QoQ	2Q21	%YoY	1H22	1H21	%YoY
Turnover	420.3	431.1	(2.5)	376.8	11.5	851.4	724.5	17.5
EBIT ex E.I.	116.7	119.7	(2.5)	98.8	18.1	236.4	178.2	32.6
Interest expense	(0.0)	(0.0)	(7.4)	(0.1)	(59.0)	(0.1)	(0.1)	(63.1)
Pre-tax profit	116.7	118.3	(1.4)	94.7	23.2	235.0	172.1	36.6
Taxation	(8.7)	(11.4)	(24.1)	(4.6)	87.4	(20.1)	(12.0)	67.8
Minority interest	(0.8)	0.0	n.m.	0.0	n.m.	(0.7)	0.0	n.m.
Net profit	107.3	106.9	0.3	90.1	19.1	214.2	160.2	33.8
E.I.	6.1	5.7	n.m.	3.8	n.m.	11.8	5.8	n.m.
Core net profit	113.4	112.6	0.7	93.9	20.7	226.0	165.9	36.2
	2Q22	1Q22	+/- ppt	2Q21	%YoY	1H22	1H21	+/- ppt
EBIT (ex-EI) margin (%)	27.8	27.8	0.0	26.2	1.6	27.8	24.6	3.2
Core net profit margin (%)	27.0	26.1	0.9	24.9	2.1	26.5	22.9	3.6

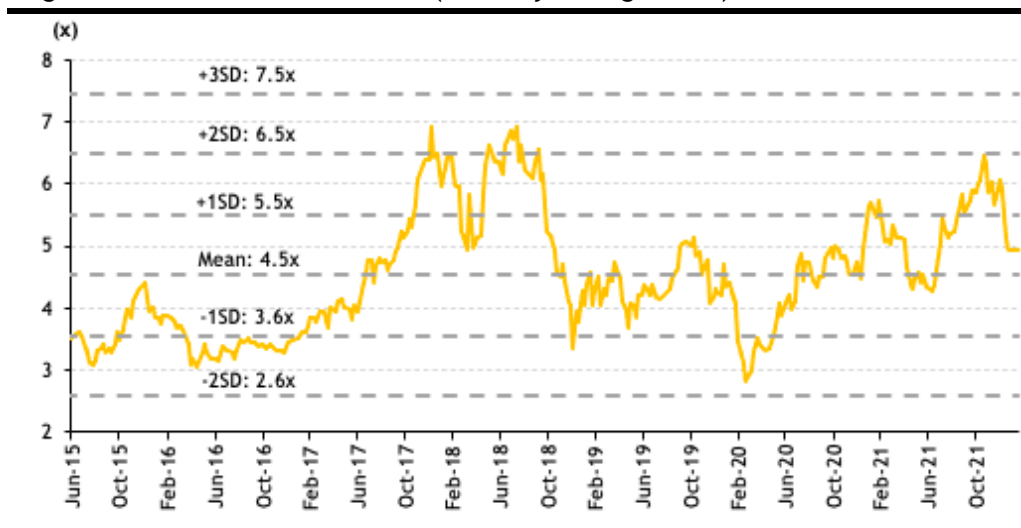
Source: Company, Maybank IBG Research

Fig. 2: Inari's 12M forward PER band (currently trading at about the LT mean @ 24.8x)



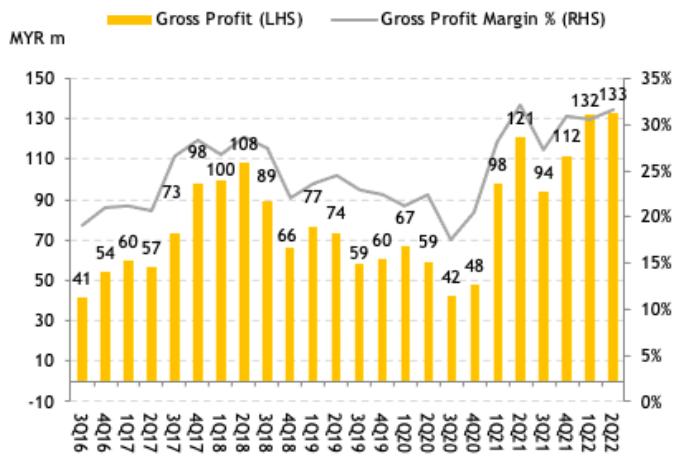
Source: Bloomberg, Maybank IBG Research

Fig. 3: Inari's 12M forward PBV band (currently trading at 4.9x)



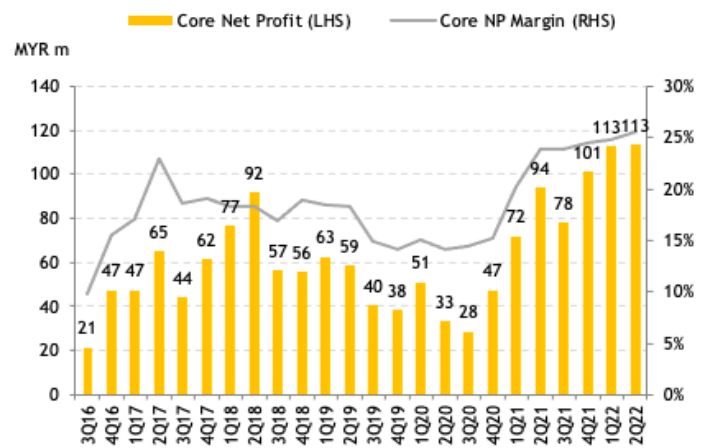
Source: Bloomberg, Maybank IBG Research

Fig. 4: Inari’s quarterly gross profit & GP margin



Source: Company, Maybank IBG Research

Fig. 5: Inari’s quarterly core net profit & NP margin



Source: Company, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Inari. A sharp downturn in the global markets for electronics, especially smartphones, will affect the demand for components that Inari produces for its key clients (i.e. Broadcom and OSRAM). Design-in and design-out of components related to Inari’s current production will also affect revenue and earnings. Additionally, forex volatility, especially USD/MYR, will affect Inari’s earnings, as over two-thirds of its revenue and COGS are denominated in USD.

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	35.6	29.1	27.1	24.1	22.9
Core P/E (x)	35.5	31.8	27.1	24.1	22.9
P/BV (x)	4.7	8.0	5.0	5.0	4.9
P/NTA (x)	4.7	8.0	5.0	5.0	4.9
Net dividend yield (%)	2.5	3.5	3.7	4.2	4.4
FCF yield (%)	4.7	3.5	2.9	4.0	4.2
EV/EBITDA (x)	19.4	22.5	17.3	16.0	15.4
EV/EBIT (x)	31.3	29.2	20.9	19.0	18.1
INCOME STATEMENT (MYR m)					
Revenue	1,058.0	1,428.7	2,068.7	2,177.1	2,291.1
EBITDA	263.6	448.6	594.0	641.4	668.6
Depreciation	(100.3)	(102.7)	(101.2)	(100.9)	(100.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	163.3	345.9	492.8	540.5	567.9
Net interest income / (exp)	9.7	6.6	10.8	22.3	22.3
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	172.9	352.5	503.6	562.8	590.2
Income tax	(15.9)	(21.5)	(56.3)	(58.1)	(61.0)
Minorities	(0.7)	(0.2)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	156.3	330.7	447.3	504.7	529.2
Core net profit	160.7	345.0	447.3	504.7	529.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	594.6	904.9	1,862.7	1,868.7	1,874.9
Accounts receivable	214.4	251.7	348.6	365.2	382.7
Inventory	145.9	157.5	229.4	238.0	250.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	479.4	472.2	471.0	470.1	469.4
Intangible assets	2.3	2.2	2.2	2.2	2.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	27.6	30.7	30.7	30.7	30.7
Total assets	1,464.2	1,819.3	2,944.6	2,975.0	3,010.4
ST interest bearing debt	5.0	1.1	0.0	0.0	0.0
Accounts payable	199.2	287.7	362.2	370.9	383.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1.1	0.0	0.0	0.0	0.0
Other liabilities	50.0	153.0	153.0	154.0	154.0
Total Liabilities	255.2	441.8	515.5	524.5	537.4
Shareholders Equity	1,204.7	1,373.0	2,424.7	2,446.1	2,468.6
Minority Interest	4.2	4.5	4.5	4.5	4.5
Total shareholder equity	1,208.9	1,377.4	2,429.1	2,450.6	2,473.0
Total liabilities and equity	1,464.2	1,819.3	2,944.6	2,975.0	3,010.4
CASH FLOW (MYR m)					
Pretax profit	172.9	352.5	503.6	562.8	590.2
Depreciation & amortisation	100.3	102.7	101.2	100.9	100.7
Adj net interest (income)/exp	(9.7)	(6.6)	(10.8)	(22.3)	(22.3)
Change in working capital	91.1	41.6	(94.2)	(16.5)	(17.3)
Cash taxes paid	(21.7)	(24.6)	(56.3)	(58.1)	(61.0)
Other operating cash flow	4.9	14.5	0.0	0.0	0.0
Cash flow from operations	347.6	486.7	454.3	589.1	612.7
Capex	(80.8)	(97.1)	(100.0)	(100.0)	(100.0)
Free cash flow	266.8	389.5	354.3	489.1	512.7
Dividends paid	(140.8)	(218.0)	(428.2)	(483.0)	(506.5)
Equity raised / (purchased)	(1.5)	0.5	1,032.7	0.0	0.0
Change in Debt	41.0	144.5	(1.1)	0.0	0.0
Other invest/financing cash flow	(12.4)	1.4	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	153.1	317.9	957.8	6.1	6.1

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.2)	35.0	44.8	5.2	5.2
EBITDA growth	(13.0)	70.2	32.4	8.0	4.2
EBIT growth	(21.6)	111.8	42.5	9.7	5.1
Pretax growth	(20.0)	103.8	42.9	11.7	4.9
Reported net profit growth	(18.5)	111.6	35.3	12.8	4.9
Core net profit growth	(19.8)	114.8	29.7	12.8	4.9
Profitability ratios (%)					
EBITDA margin	24.9	31.4	28.7	29.5	29.2
EBIT margin	15.4	24.2	23.8	24.8	24.8
Pretax profit margin	16.3	24.7	24.3	25.8	25.8
Payout ratio	92.9	114.6	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	14.8	23.1	21.6	23.2	23.1
Revenue/Assets (x)	0.7	0.8	0.7	0.7	0.8
Assets/Equity (x)	1.2	1.3	1.2	1.2	1.2
ROAE (%)	13.5	25.7	23.6	20.7	21.5
ROAA (%)	11.5	21.0	18.8	17.1	17.7
Liquidity & Efficiency					
Cash conversion cycle	67.3	25.9	20.0	27.6	28.9
Days receivable outstanding	76.1	58.7	52.2	59.0	58.8
Days inventory outstanding	68.1	54.4	47.4	55.2	54.8
Days payables outstanding	77.0	87.2	79.6	86.6	84.7
Dividend cover (x)	1.1	0.9	1.0	1.0	1.0
Current ratio (x)	4.0	3.1	4.9	4.9	4.8
Leverage & Expense Analysis					
Asset/Liability (x)	5.7	4.1	5.7	5.7	5.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	7.6	6.8	4.8	4.6	4.4
Net debt/ (net cash)	(588.4)	(903.8)	(1,862.7)	(1,868.7)	(1,874.9)

Source: Company; Maybank

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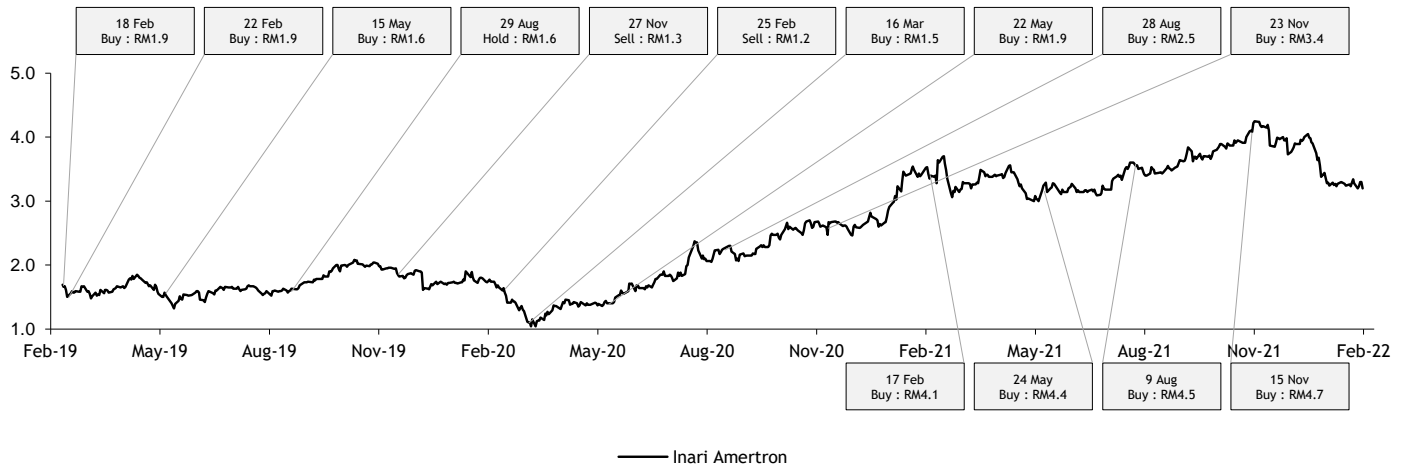
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