

# Inari Amertron (INRI MK)

## 1QFY23: A relatively muted start

### Leaner ops, strong USD offset lower volume loading

Operational efficiencies and a strong USD offset weaker revenue in 1QFY23 as Inari's customers turned cautious on volume loading owing to a weak macro-climate outlook. Pending mgmt's briefing this Thursday, we maintain our BUY rating, TP and earnings forecast. With a potential upside of 45% to our TP (pegged to an unchanged 26x FY24 PER, at the LT mean), Inari remains our top MY tech hardware pick - premised on its strong mgmt team/operational resilience, proactive customer acquisition efforts, solid cash pile (MYR0.55 per share) and DY attraction; maintain BUY.

### Results in-line with forecasts

Excluding EIs of MYR6.7m (including a lumpy MYR5.7m unrealised FX gain), Inari registered a 1QFY23 core net profit of MYR99.6m (-12% YoY, +10% QoQ). The results were largely within expectations, coming in at 23%/24% of our/the street's FY23 estimates. Per usual, Q2 of Inari's FYE-June tends to be the strongest owing to the customary year-end holiday period. An interim dividend of 2.6 sen was also declared (3MFY22: 2.8 sen).

### CNP margins (ex-EI) held up relatively well

Despite the expected QoQ seasonality-driven increase of 12%, Inari's 3MFY23 turnover dragged YoY (-13%) as it experienced a slowdown from lower volume loading in all three key segments: RF, Optoelectronics and Generic. Revenue split between the segments was 60%/33%/7% respectively (vs. 61%/32%/7% in FY22). Lower plant utilisation meant GP margins fell below mgmt's 30%-threshold guidance for the first time in six quarters, although operating income was up 2% YoY, buoyed by leaner operations and higher realised FX translation gains (+MYR12.5m) from a strong USD. Reported NP margin was the highest on record (c.28%) but CNP ex-EI margin was flat YoY and marginally lower (-1 ppt) vs 4QFY22's 27%.

### A challenging year ahead, but more than priced in

As flagged in our last [report](#), 2023 is expected to be challenging for Inari as it may have to contend with slowing demand from a strong USD and decelerating global economic growth. Despite WSTS forecasting global semiconductor shipments to expand 4.6% to USD662b in 2023, mgmt has adopted a more cautious tone owing to the prolonged slowdown in the smartphone segment from supply chain bottlenecks in China. Nonetheless, with (i) mgmt's credible track record in navigating previous crunches (the group is proactively ramping-up RF production volumes of older models), (ii) aggressive opto customer onboarding efforts, (iii) undemanding valuations (trades at -1SD to the 5Y mean) and (iv) attractive yields (4.4%-6.1% in FY23-25), we maintain our BUY rating on Inari at this juncture.

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,429	1,548	1,965	2,227	2,452
EBITDA	449	524	567	658	748
Core net profit	345	405	435	517	600
Core EPS (sen)	10.0	10.6	11.4	13.5	15.6
Core EPS growth (%)	109.0	6.1	7.4	18.7	16.1
Net DPS (sen)	11.0	10.0	11.4	13.5	15.6
Core P/E (x)	31.8	25.0	22.7	19.2	16.5
P/BV (x)	8.0	4.0	3.9	3.9	3.8
Net dividend yield (%)	3.5	3.8	4.4	5.2	6.1
ROAE (%)	25.7	20.2	17.3	20.4	23.5
ROAA (%)	21.0	17.2	14.9	17.3	19.7
EV/EBITDA (x)	22.5	15.6	14.2	12.3	10.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	422	477	517
MKE vs. Consensus (%)	-	-	3.1	8.3	16.2

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# BUY

Share Price	MYR 2.58
12m Price Target	MYR 3.62 (+45%)
Previous Price Target	MYR 3.62

### 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.

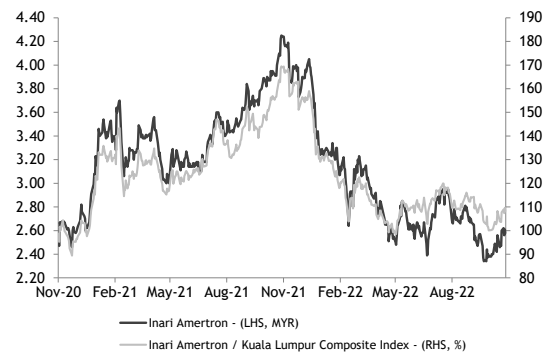
### Statistics

52w high/low (MYR)	4.25/2.34
3m avg turnover (USDm)	3.6
Free float (%)	70.5
Issued shares (m)	3,705
Market capitalisation	MYR9.6B
	USD2.1B

### Major shareholders:

Insas Bhd.	14.4%
Employees Provident Fund	10.3%
Kumpulan Wang Persaraan	9.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	6	(11)	(39)
Relative to index (%)	2	(7)	(36)

Source: FactSet

Fig. 1: Inari's 1QFY23 Results summary table

FY Jun (MYR m)	Quarterly					Cumulative		
	1Q23	4Q22	%QoQ	1Q22	%YoY	3M23	3M22	%YoY
Turnover	377.0	336.2	12.1	431.1	(12.6)	377.0	431.1	(12.6)
EBIT ex E.I.	105.4	105.2	0.2	119.7	(12.0)	105.4	119.7	(12.0)
Interest expense	(0.4)	(1.0)	(64.2)	(0.0)	>100.0	(0.4)	(0.0)	>100.0
Pre-tax profit	121.1	108.0	12.1	118.3	2.3	121.1	118.3	2.3
Taxation	(14.7)	(22.0)	(33.3)	(11.4)	28.4	(14.7)	(11.4)	28.4
Minority interest	(0.1)	0.3	(>100.0)	0.0	(>100.0)	(0.1)	0.0	(>100.0)
Net profit	106.3	86.2	23.2	106.9	(0.6)	106.3	106.9	(0.6)
E.I.	(6.7)	4.3	(>100.0)	5.7	(>100.0)	(6.7)	5.7	(>100.0)
Core net profit	99.6	90.5	10.0	112.6	(11.6)	99.6	112.6	(11.6)
	1Q23	4Q22	+/- ppt	1Q22	+/- ppt	3M23	3M22	+/- ppt
EBIT (ex-EI) margin (%)	28.0	31.3	(3.3)	27.8	0.2	28.0	27.8	0.2
Core net profit margin (%)	26.4	26.9	(0.5)	26.1	0.3	26.4	26.1	0.3

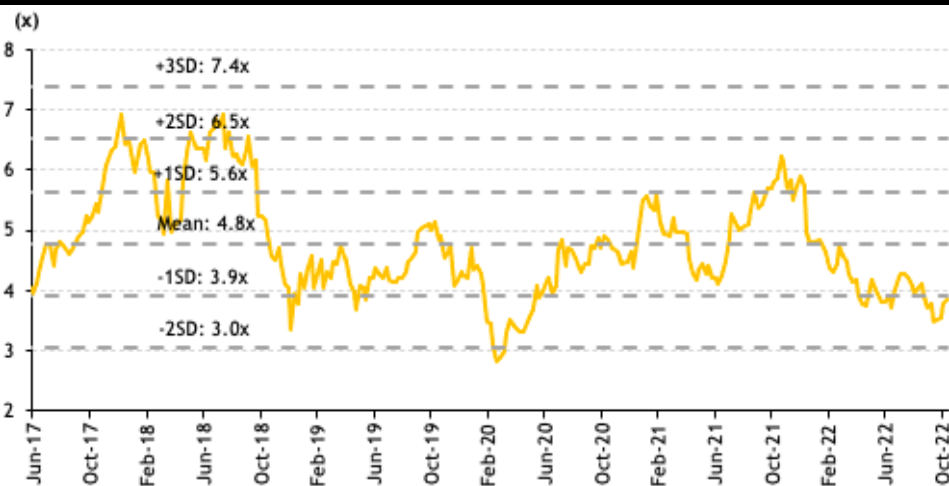
Source: Company, Maybank IBG Research

Fig. 2: Inari's 12M forward PER band (currently trading at 20.8x)



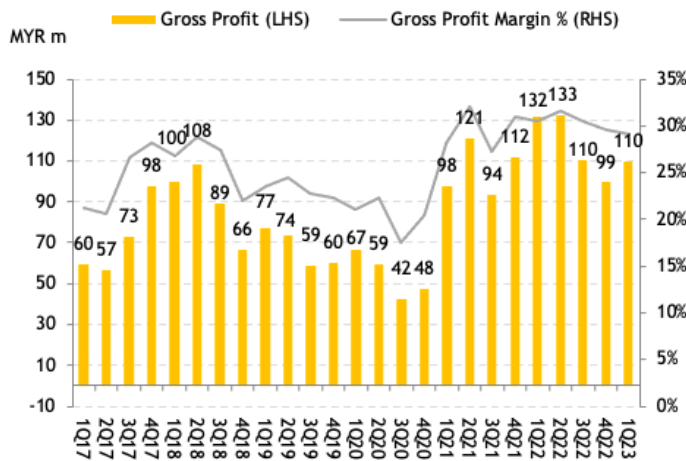
Source: Bloomberg, Maybank IBG Research

Fig. 3: Inari's 12M forward PBV band (currently trading at 3.8x)



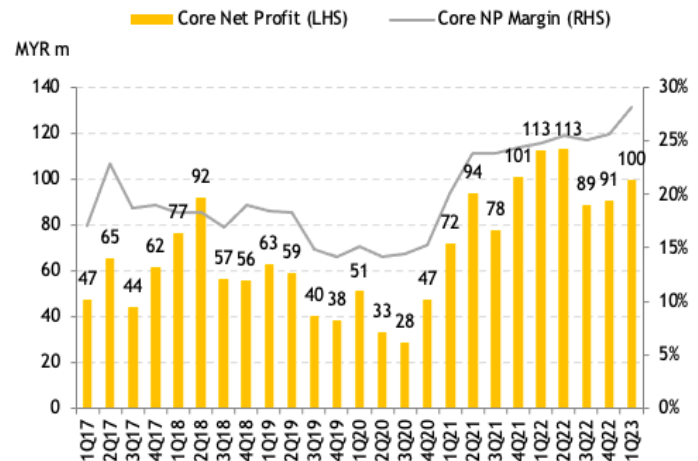
Source: Bloomberg, Maybank IBG Research

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 are USD-denominated.

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	29.1	32.8	22.7	19.2	16.5
Core P/E (x)	31.8	25.0	22.7	19.2	16.5
P/BV (x)	8.0	4.0	3.9	3.9	3.8
P/NTA (x)	8.0	4.0	3.9	3.9	3.8
Net dividend yield (%)	3.5	3.8	4.4	5.2	6.1
FCF yield (%)	3.5	3.9	2.9	4.7	5.7
EV/EBITDA (x)	22.5	15.6	14.2	12.3	10.8
EV/EBIT (x)	29.2	19.3	17.5	14.6	12.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	1,428.7	1,547.9	1,965.3	2,226.7	2,451.7
EBITDA	448.6	524.2	567.2	657.9	747.5
Depreciation	(102.7)	(100.9)	(107.0)	(105.5)	(104.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	345.9	423.3	460.2	552.4	643.2
Net interest income / (exp)	6.6	22.9	23.5	22.2	22.1
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	352.5	446.2	483.7	574.6	665.3
Income tax	(21.5)	(54.9)	(48.5)	(58.0)	(65.4)
Minorities	(0.2)	(0.3)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	330.7	391.0	435.2	516.5	599.9
Core net profit	345.0	405.2	435.2	516.5	599.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	904.9	1,971.0	1,834.5	1,829.2	1,834.2
Accounts receivable	251.7	266.9	371.6	416.9	455.8
Inventory	157.5	147.0	243.6	270.2	291.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	472.2	499.5	492.5	487.0	482.7
Intangible assets	2.2	2.3	2.3	2.3	2.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	30.7	8.0	8.0	8.0	8.0
<b>Total assets</b>	<b>1,819.3</b>	<b>2,894.8</b>	<b>2,952.5</b>	<b>3,013.6</b>	<b>3,074.1</b>
ST interest bearing debt	1.1	0.0	0.0	0.0	0.0
Accounts payable	287.7	262.6	303.8	322.9	338.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	153.0	121.0	119.0	140.0	160.0
<b>Total Liabilities</b>	<b>441.8</b>	<b>383.8</b>	<b>423.2</b>	<b>462.6</b>	<b>497.9</b>
Shareholders Equity	1,373.0	2,505.1	2,523.3	2,545.0	2,570.2
Minority Interest	4.5	6.0	6.0	6.0	6.0
<b>Total shareholder equity</b>	<b>1,377.4</b>	<b>2,511.0</b>	<b>2,529.3</b>	<b>2,551.0</b>	<b>2,576.2</b>
<b>Total liabilities and equity</b>	<b>1,819.3</b>	<b>2,894.8</b>	<b>2,952.5</b>	<b>3,013.6</b>	<b>3,074.1</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	352.5	446.2	483.7	574.6	665.3
Depreciation & amortisation	102.7	100.9	107.0	105.5	104.3
Adj net interest (income)/exp	(6.6)	(22.9)	(23.5)	(22.2)	(22.1)
Change in working capital	41.6	(32.2)	(160.0)	(52.8)	(44.8)
Cash taxes paid	(24.6)	(25.1)	(48.5)	(58.0)	(65.4)
Other operating cash flow	14.5	14.3	0.0	0.0	0.0
Cash flow from operations	486.7	504.1	382.3	569.3	659.4
Capex	(97.1)	(109.7)	(100.0)	(100.0)	(100.0)
Free cash flow	389.5	394.4	282.3	469.3	559.4
Dividends paid	(218.0)	(433.2)	(416.8)	(494.6)	(574.5)
Equity raised / (purchased)	0.5	(1.3)	0.0	0.0	0.0
Change in Debt	144.5	1,082.5	0.0	0.0	0.0
Other invest/financing cash flow	1.4	21.2	20.0	20.0	20.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>317.9</b>	<b>1,063.7</b>	<b>(114.5)</b>	<b>(5.3)</b>	<b>4.9</b>

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	35.0	8.3	27.0	13.3	10.1
EBITDA growth	70.2	16.9	8.2	16.0	13.6
EBIT growth	111.8	22.4	8.7	20.0	16.4
Pretax growth	103.8	26.6	8.4	18.8	15.8
Reported net profit growth	111.6	18.2	11.3	18.7	16.1
Core net profit growth	114.8	17.4	7.4	18.7	16.1
<b>Profitability ratios (%)</b>					
EBITDA margin	31.4	33.9	28.9	29.5	30.5
EBIT margin	24.2	27.3	23.4	24.8	26.2
Pretax profit margin	24.7	28.8	24.6	25.8	27.1
Payout ratio	115.3	98.1	100.0	100.0	100.0
<b>DuPont analysis</b>					
Net profit margin (%)	23.1	25.3	22.1	23.2	24.5
Revenue/Assets (x)	0.8	0.5	0.7	0.7	0.8
Assets/Equity (x)	1.3	1.2	1.2	1.2	1.2
ROAE (%)	25.7	20.2	17.3	20.4	23.5
ROAA (%)	21.0	17.2	14.9	17.3	19.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	25.9	19.1	36.0	50.7	53.4
Days receivable outstanding	58.7	60.3	58.5	63.7	64.1
Days inventory outstanding	54.4	51.0	50.0	59.3	60.2
Days payables outstanding	87.2	92.2	72.6	72.4	70.8
Dividend cover (x)	0.9	1.0	1.0	1.0	1.0
Current ratio (x)	3.1	6.7	6.2	6.1	6.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.1	7.5	7.0	6.5	6.2
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 (%)	6.8	7.1	5.1	4.5	4.1
Net debt/ (net cash)	(903.8)	(1,971.0)	(1,834.5)	(1,829.2)	(1,834.2)

Source: Company; Maybank IBG Research

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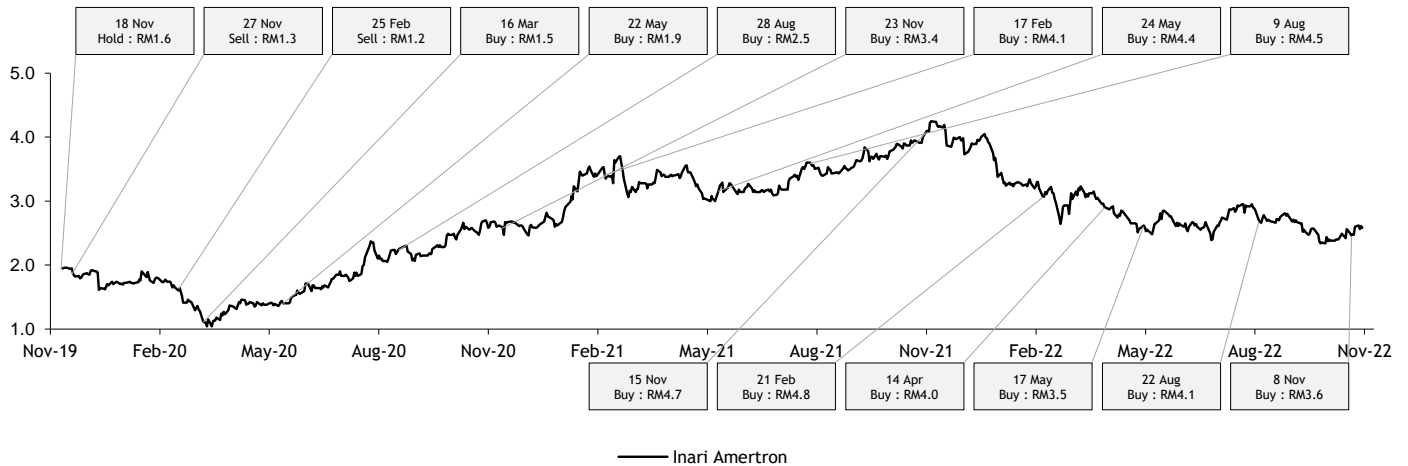
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