

28 November 2024

Technology | Semiconductors

Inari Amertron (INRI MK)

Neutral (Maintained)

Dragged By Margin Compression

- **Maintain NEUTRAL and MYR3.06 TP, 3% upside and c.3% FY25F (Jun) yield.** 1QFY25 core earnings of MY71.4m (-4.4% YoY) were below expectation, dragged by margin compression on FX and additional input costs from new product development despite a healthy revenue growth trend from content growth. A third interim DPS of MYR0.01 was declared (1QFY24: 2.2 sen). The current valuation is fair after weighing against the growth outlook and potential downside risk on margins and execution with contributions from new projects back-loaded to FY26.
- **Missed expectations.** 1QFY25 core profit of MY71.4m came in at 19.5% and 18% of our and Street's full-year estimates due to weaker-than-expected margins and unfavourable FX. This was despite the higher revenue of MYR388m (+16.5 YoY), which was supported by stronger volume loadings and content growth in the radio frequency (RF) segment. Meanwhile, the sequentially improvement in core profit (+21.3% QoQ) was driven by seasonally strong loadings for Inari Amertron's smartphone and RF segments. 1Q revenue comprised 65% of RF products, followed by optoelectronic products (28%), and legacy and generic integrated circuits (7%). However, EBITDA margin contracted to 22.8% (1QFY24: 29.4%) due to additional fixed costs from new hires and set-up costs for new products development in advanced packaging, coupled with the unfavourable FX.
- **Outlook.** Despite the unexciting volume growth for the new premium smartphone range, we believe INRI will be cushioned by content growth and longer testing time. Besides, there could be a potential upside from the staggered release of nascent artificial intelligence or AI features and new budget phone range to be launched in 1HCY25. A stronger 2HFY25 for the optoelectronic segment from both fibre optic and power LED products are expected with more significant contributions to come in FY26. On the Yiwu JV, the ramp-up is gradual, with small volume manufacturing for a customer. High volume manufacturing may only to begin in CY25, with volume commitments after certain changes in engineering processes are implemented.
- **Forecasts and TP.** We revised down our FY25F-27F earnings by 10.7%, 3%, and 2% after incorporating lower margins and latest in-house MYR/USD assumption to 4.30 from 4.20 previously. Our TP is unchanged at MYR3.06 as we roll forward our valuation base year to CY25, based on an unchanged 31x P/E (+1.5SD from its 5-year mean). Note: A 2% ESG premium has been baked into our TP, as INRI's ESG score of 3.1 is above the country median.
- **Downside/upside risks** to our call include slower-/stronger-than-expected orders and yields, and unfavourable/favourable FX movements. Non-renewal of contracts and technology obsolescence are also downside risks.

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	1,354	1,479	1,609	1,744	1,884
Recurring net profit (MYRm)	320	306	327	399	455
Recurring net profit growth (%)	(17.3)	(4.4)	6.7	22.3	13.9
Recurring P/E (x)	34.58	36.19	33.92	27.74	24.37
P/B (x)	4.3	4.0	3.9	3.8	3.7
P/CF (x)	43.28	21.47	33.98	23.87	20.88
Dividend Yield (%)	2.5	2.3	2.5	3.1	3.5
EV/EBITDA (x)	26.05	28.40	21.30	16.88	15.07
Return on average equity (%)	11.4	10.0	11.6	13.9	15.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Target Price (Return): MYR3.06 (3.1%)
 Price (Market Cap): MYR2.97 (USD2,532m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 26.8m/6.19m

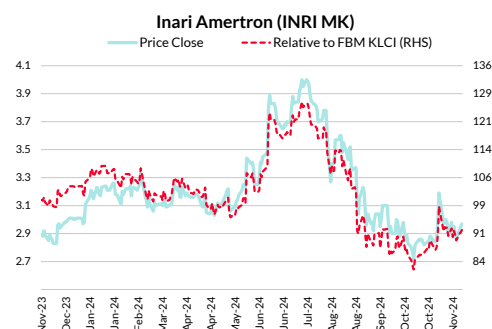
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.3)	5.3	(11.9)	(12.9)	2.4
Relative	(11.6)	6.2	(9.0)	(12.0)	(8.4)
52-wk Price low/high (MYR)				2.72	4.00



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

INRI has taken active steps in managing its environmental risks. INRI has implemented several energy efficiency projects to mitigate its greenhouse gas emission, water and waste management. The group has become a listed Task Force on Climate-Related Financial disclosures (TCFD) support and is adhering to the standards, guidelines and framework of the United Nations Sustainable Development Goals (UNSDGs) and Global Reporting Initiatives (GRI).

S: EXCELLENT

INRI complies with all applicable labour laws in countries it operates in. In terms of its employees health and safety, the company adopts a occupational safe and health policy to ensure its employees are protected from any occupational risks. Consistent effort in contributing to the wellbeing and living standard of surrounding communities.

G: GOOD

INRI has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that independent directors comprises less than half of the board and has yet to achieve the target of having 30% of women on the board.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Malaysia	Recurring EPS	0.09	0.08	0.09	0.11	0.12
Technology	DPS	0.07	0.07	0.07	0.09	0.10
Inari Amertron	BVPS	0.70	0.75	0.76	0.78	0.80
INRI MK	Return on average equity (%)	11.4	10.0	11.6	13.9	15.5
Neutral						
	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Valuation basis	Recurring P/E (x)	34.58	36.19	33.92	27.74	24.37
We use a target P/E of 31x to value Inari Amertron	P/B (x)	4.3	4.0	3.9	3.8	3.7
	FCF Yield (%)	1.3	3.0	0.7	2.8	3.4
Key drivers	Dividend Yield (%)	2.5	2.3	2.5	3.1	3.5
i. New contract wins;	EV/EBITDA (x)	26.05	28.40	21.30	16.88	15.07
ii. Higher loadings.	EV/EBIT (x)	37.25	45.84	31.58	23.07	19.85
Key risks	Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Downside/upside risks to our call include slower-/stronger-than-expected orders and yields, and unfavourable/favourable FX movements.	Total turnover	1,354	1,479	1,609	1,744	1,884
	Gross profit	325	324	386	418	452
	EBITDA	355	324	438	551	615
	Depreciation and amortisation	(107)	(123)	(142)	(148)	(148)
Non-renewal of contracts and technology obsolescence are also downside risks.	Operating profit	248	201	295	403	467
	Net interest	(2)	(2)	0	0	0
	Pre-tax profit	324	280	366	468	534
	Taxation	(31)	(10)	(38)	(52)	(59)
	Reported net profit	291	270	327	399	455
	Recurring net profit	320	306	327	399	455
Company Profile	Cash flow (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Inari Amertron is one of the largest OSAT player in Malaysia with manufacturing facilities in Malaysia, China and the Philippines. The company provides semiconductor packaging, assembly and testing in radio frequency (RF) and optoelectronic products.	Change in working capital	(148)	123	(73)	(36)	(26)
	Cash flow from operations	256	516	326	464	530
	Capex	(113)	(181)	(250)	(150)	(150)
	Cash flow from investing activities	(86)	(192)	(180)	(85)	(83)
	Dividends paid	(347)	(293)	(278)	(339)	(386)
	Cash flow from financing activities	(301)	(189)	(278)	(339)	(386)
	Cash at beginning of period	1,971	1,831	2,261	2,129	2,169
	Net change in cash	(130)	134	(131)	40	61
	Ending balance cash	1,857	1,961	2,129	2,169	2,230
	Balance sheet (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total cash and equivalents	1,831	2,261	2,129	2,169	2,230
	Tangible fixed assets	509	779	887	889	891
	Total assets	2,967	3,554	3,575	3,657	3,762
	Total liabilities	361	380	351	356	372
	Total equity	2,606	3,174	3,224	3,301	3,390
	Total liabilities & equity	2,967	3,554	3,575	3,657	3,762
	Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Revenue growth (%)	(12.5)	9.2	8.8	8.4	8.1
	Recurrent EPS growth (%)	(17.3)	(4.4)	6.7	22.3	13.9
	Gross margin (%)	24.0	21.9	24.0	24.0	24.0
	Operating EBITDA margin (%)	26.2	21.9	27.2	31.6	32.6
	Net profit margin (%)	21.5	18.3	20.3	22.9	24.1
	Dividend payout ratio (%)	93.4	96.3	85.0	85.0	85.0
	Capex/sales (%)	8.3	12.2	15.5	8.6	8.0
	Interest cover (x)	139	103			

Source: Company data, RHB

Results At a Glance

Figure 1: 1QFY25 results review

FYE Jun (MYRm)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	Comments
Revenue	383.9	333.1	388.0	16.5	1.1	QoQ & YoY: Driven by higher loadings from the RF segment, given the seasonally stronger quarter.
EBITDA	105.4	74.5	88.4	18.7	(16.1)	
<i>EBITDA margin (%)</i>	<i>27.4</i>	<i>22.4</i>	<i>22.8</i>			Margin was affected due to unfavourable FX, and additional hiring costs and expenses on new product developments.
Depreciation & amortisation	(29.4)	(34.9)	(35.2)	(0.7)	(19.9)	
EBIT	76.0	39.6	53.2	34.5	(30.0)	
<i>EBIT margin (%)</i>	<i>19.8</i>	<i>11.9</i>	<i>13.7</i>			
Interest expense	(0.4)	(0.8)	(0.4)	48.2	(3.7)	
Interest income	15.2	18.6	18.4	(1.4)	20.7	
Associates	(0.3)	0.0	0.0	Nm	Nm	
El/others	(0.8)	(4.2)	(47.3)	(1020.3)	(5520.0)	Unrealised FX gain/loss, gain/loss from disposal of PPE
Pre-tax profit	89.7	53.2	23.9	(55.1)	(73.4)	
<i>Pre-tax margin (%)</i>	<i>23.4</i>	<i>16.0</i>	<i>6.2</i>			
Tax	(4.4)	1.0	(1.9)	Nm	57.7	
<i>Effective tax rate (%)</i>	<i>4.9</i>	<i>(1.9)</i>	<i>7.8</i>			
Minority interest	(0.4)	0.4	2.1	(390.6)	Nm	
Net profit	85.0	54.7	24.1	(55.9)	(71.6)	
Core profit	85.8	58.9	71.4	21.3	(16.8)	Below expectations.
<i>Net margin (%)</i>	<i>22.4</i>	<i>17.7</i>	<i>18.4</i>			

Source: Company data, RHB

Emissions And ESG

Trend analysis

Greenhouse gas (GHG) emissions Scope 1 reduced by 40% YoY due to lower diesel consumption in the Philippines, having more efficient bus routes from improved road accessibility. However, GHG emissions Scope 2 increased by 2% YoY due to higher NPI activities from new and existing customers. Despite the GHG emissions intensity increasing compared to FY22, it was lower when compared to FY19 levels.

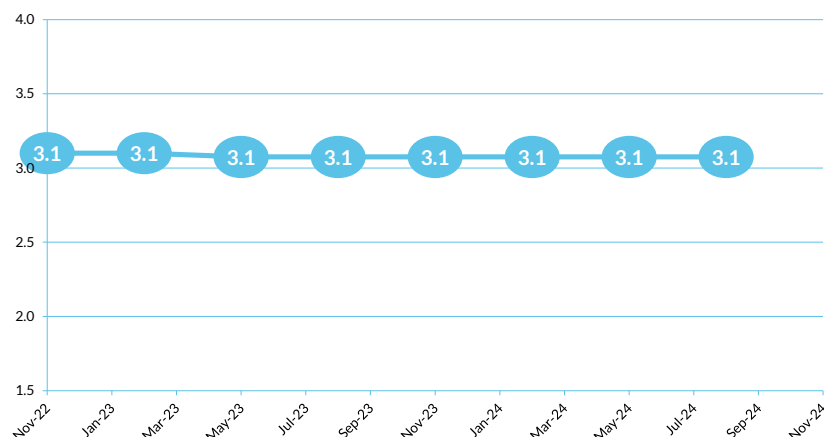
Emissions (tCO ₂ e)	Jun-22	Jun-23	Jun-24
Scope 1	525	314	-
Scope 2	78,803	80,286	-
Scope 3	-	-	-
Total emissions	79,328	80,600	na

Source: Company data, RHB

Latest ESG-Related Developments

- INRI is a member of FTSE4Good Bursa Malaysia index and became a listed Task Force on Climate-Related Financial Disclosures (TCFD) supporter. These put it among the companies with leading ESG practices and it is in compliance with the best practice disclosure.
- Various energy-efficient initiatives have been carried out, which include the installation of solar panels, LED lighting panels, conversion of compressors, AHU with inverters, and upgrade of the chilled water pump motor.
- INRI has set a reduction target of 3% and 2% for Scope 1 and Scope 2 emissions. It also advocates green development to align with the Climate Governance Malaysia target to reduce global warming and the Net ZERO carbon emission by year 2050.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-10-09	Neutral	3.06	2.86
2024-08-28	Neutral	3.60	3.10
2024-07-04	Neutral	3.60	3.83
2024-05-24	Buy	3.60	3.44
2024-02-27	Buy	3.58	3.14
2023-11-24	Buy	3.62	2.88
2023-11-23	Buy	3.62	2.90
2023-08-30	Buy	3.62	3.15
2023-08-03	Buy	3.62	3.09
2023-05-26	Neutral	2.31	2.47
2022-11-21	Neutral	2.60	2.58
2022-10-12	Neutral	2.78	2.37
2022-08-22	Buy	3.54	2.70
2022-03-21	Buy	3.59	3.15
2022-02-20	Buy	4.63	3.20

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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