Shariah Compliant

4 July 2024

Technology | Semiconductors

Inari Amertron (INRI MK)

Neutral (from Buy)

Fairly Valued For Now, Accumulate At Lower Levels

Target Price (Return):	MYR3.60 (-7.3%)
Price (Market Cap):	MYR3.88 (USD3,102m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	42.2m/8.87m

- **D/G to NEUTRAL from Buy, unchanged MYR3.60 TP, 7% downside and 3% FY25F (Jun) yield.** We expect subdued near-term earnings growth for Inari Amertron, with a brighter FY25F driven by anticipated contributions from new products and expansion. A 25% FY25 growth expectation is now stood against a peak forward P/E of 34x (+2SD above 5-year mean), which we believe the optimism from the new smartphone range with AI feature is in the price with risk on underscoring expectation. We still like INRI for its growth opportunities in the new upcycle, but prefer to accumulate at lower levels.
- **Earnings recap.** 9MFY24 core earnings missed expectations due to weaker-than-expected margin, despite higher revenue and favourable FX. Management attributed the additional fixed costs from new hiring and set up costs for future product development, alongside disruptions in electricity supply, to dampening the 9MFY24 EBITDA margin.
- **Downside risks.** Lacklustre volume growth in major smartphones amidst intense competition and trade tensions suggests limited near-term earnings potential, especially if new customers/project contributions fall short of expectations. Potential risks to the 25% growth forecast for FY25 include underperformance of the new major smartphone range with the hype built-in on embedded AI features but with little transformation changes to back it up. Besides this, the delays or lower contribution from its Yiwu expansion in China (we factored in a MYR150m revenue contribution in FY25), coupled with the slower-than-expected ramp up and margins for new memory and optoelectronics could pose other downside risks to expectation, while Edge AI and Solar-related ventures are still at infancy stage.
- **Upside risks.** Conversely, the upside risks could arise from a rebound in flagship smartphone sale in China due to the supply bottlenecks for national brand and aggressive discounts on various platforms. Additionally, stronger demand for new US-based flagship phone expected in Sept/Oct with new AI features could point to an upside risk to the consensus' 241m forecasted units in 2025 (from 210m-230m range in 2024). However, we caution that much of the anticipated 2025 volume growth is already factored into current prices given the 25% earnings growth projection.
- **NEUTRAL now.** The YTD rally (+29%) is driven by liquidity and sentiment, with expectations centred around new smartphone technologies, memory products, power management modules, high-power LED products, Edge AI, and China expansion are now built on a peak valuation range with less compelling risk-reward balance. We keep our MYR3.60 TP, based on an unchanged 31x P/E (+1.5SD from its 5-year mean), and a 2% ESG premium baked into our TP, given that the ESG score of 3.1 is above the country median. Key risks are stronger/weaker-than-expected smartphone sale, favourable/unfavourable FX movement, production yield, and cost pressure.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	1,548	1,354	1,506	1,735	1,976
Recurring net profit (MYRm)	387	320	327	424	471
Recurring net profit growth (%)	19.5	(17.3)	2.1	29.7	10.9
Recurring P/E (x)	37.34	45.18	44.24	34.10	30.74
P/B (x)	5.8	5.6	5.4	5.3	5.1
P/CF (x)	28.67	56.55	29.29	30.73	25.66
Dividend Yield (%)	2.3	1.9	1.9	2.5	2.8
EV/EBITDA (x)	26.60	31.55	29.98	21.99	19.08
Return on average equity (%)	19.1	12.1	12.4	15.6	16.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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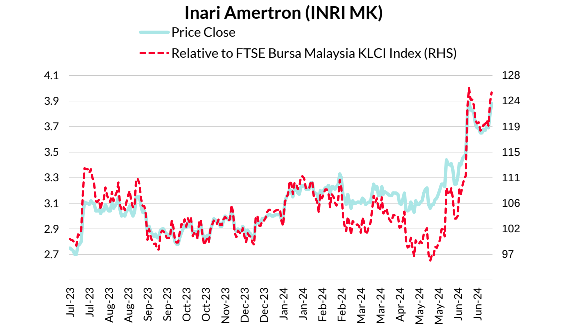
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	28.9	19.4	22.0	30.6	41.1
Relative	17.9	18.2	16.9	20.1	25.4
52-wk Price low/high (MYR)					2.70 –3.89



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
Malaysia
Technology
Inari Amertron
INRI MK
Neutral

Valuation basis

We use a target P/E of 31x to value Inari Amertron

Key drivers

i. New contract wins;
ii. Higher loadings.

Key risks

i. Weaker-than-expected 5G smartphone orders;
ii. Non-renewal of contract;
iii. Low production yield;
iv. Unfavourable FX movements.

Company Profile

Inari Amertron is 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 optoeletronic products.

Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Recurring EPS	0.10	0.09	0.09	0.11	0.13
DPS	0.09	0.07	0.07	0.10	0.11
BVPS	0.67	0.70	0.72	0.74	0.76
Return on average equity (%)	19.1	12.1	12.4	15.6	16.9

Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Recurring P/E (x)	37.34	45.18	44.24	34.10	30.74
P/B (x)	5.8	5.6	5.4	5.3	5.1
FCF Yield (%)	2.7	1.0	1.3	1.5	2.9
Dividend Yield (%)	2.3	1.9	1.9	2.5	2.8
EV/EBITDA (x)	26.60	31.55	29.98	21.99	19.08
EV/EBIT (x)	33.88	43.00	42.05	28.68	24.21

Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover	1,548	1,354	1,506	1,735	1,976
Gross profit	371	325	361	416	474
EBITDA	470	401	421	579	666
Depreciation and amortisation	(101)	(107)	(121)	(135)	(141)
Operating profit	369	294	300	444	525
Net interest	(1)	0	0	0	0
Pre-tax profit	425	341	354	493	572
Taxation	(55)	(31)	(25)	(55)	(63)
Reported net profit	370	309	327	424	471
Recurring net profit	387	320	327	424	471

Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Change in working capital	(32)	(148)	97	(53)	(39)
Cash flow from operations	505	256	494	471	564
Capex	(111)	(113)	(300)	(250)	(150)
Cash flow from investing activities	(86)	(86)	(247)	(201)	(103)
Dividends paid	(433)	(347)	(278)	(361)	(400)
Cash flow from financing activities	648	(301)	(238)	(361)	(400)
Cash at beginning of period	905	1,971	1,831	1,841	1,750
Net change in cash	1,067	(130)	10	(91)	61
Ending balance cash	1,991	1,857	1,841	1,750	1,811

Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total cash and equivalents	1,971	1,831	1,841	1,750	1,811
Tangible fixed assets	500	509	688	803	812
Total assets	2,895	2,967	3,010	3,102	3,243
Total liabilities	384	361	313	327	360
Total equity	2,511	2,606	2,697	2,774	2,884
Total liabilities & equity	2,895	2,967	3,010	3,102	3,243

Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Revenue growth (%)	8.3	(12.5)	11.2	15.2	13.9
Recurrent EPS growth (%)	19.5	(17.3)	2.1	29.7	10.9
Gross margin (%)	24.0	24.0	24.0	24.0	24.0
Operating EBITDA margin (%)	30.4	29.6	28.0	33.4	33.7
Net profit margin (%)	23.9	22.8	21.7	24.5	23.8
Dividend payout ratio (%)	89.0	88.2	85.0	85.0	85.0
Capex/sales (%)	7.1	8.3	19.9	14.4	7.6
Interest cover (x)	357				

Source: Company data, RHB

Emissions And ESG

Trend analysis

GHG Emissions Scope 1 reduced by 40% YoY due to lower diesel consumption in 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, but it was lower compared to FY19 level.

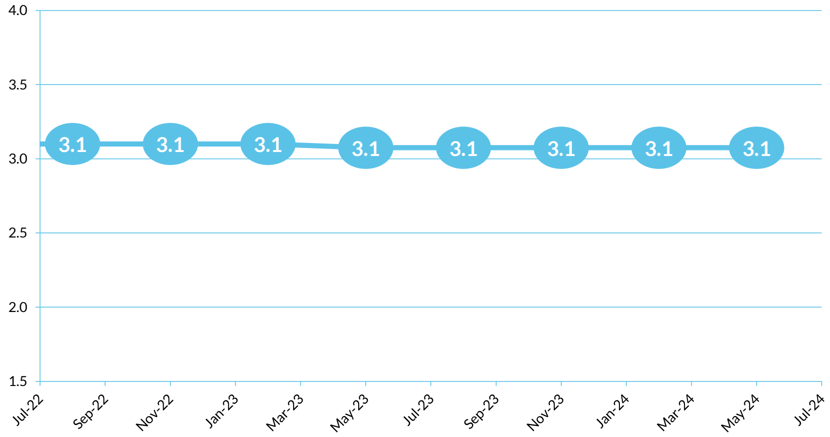
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	626	525	314
Scope 2	74,279	78,803	80,286
Scope 3	-	-	-
Total emissions	74,905	79,328	80,600

Source: Company data, RHB

Latest ESG-Related Developments

- Inari 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 installation of solar panel, LED lighting panel, conversion of compressor, AHU with Inverter, and upgrade of chilled water pump motor.
- Inari 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
2024-05-24	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
2021-11-14	Buy	4.63	4.00
2021-10-20	Buy	4.35	3.85
2021-08-08	Buy	4.27	3.60

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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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