Shariah Compliant

21 February 2025

Technology | Semiconductors

Inari Amertron (INRI MK)

Neutral (Maintained)

Uninspiring Volume Loadings

Target Price (Return):	MYR2.75 (+4%)
Price (Market Cap):	MYR2.65 (USD2,267m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	26.5m/5.93m

- **Maintain NEUTRAL, with new MYR2.75 TP from MYR3.06, 4% upside.** Inari Amertron's 1HFY25 (Jun) core earnings of MY140m (-20.3% YoY) were below expectations on slower revenue and margin compression amid unfavourable FX and additional costs from new product development. Second interim DPS of 2 sen was declared (2QFY24: 2.2 sen). We cut our forecasts and TP to factor in the slower loadings. Current valuation is fair considering the growth outlook and potential downside risk on margins and expectation on the contribution from the new projects, in our view.
- **Missed expectations.** 1HFY25 core profit only came in at 42.8% and 40.8% of our and Street's full-year estimates due to weaker-than-expected revenue and margin. Revenue declined by 7.6% YoY to MYR737m, dragged by lower volume loadings for all business segments. Radio frequency (RF) products made up 68% of 1HFY25 revenue, followed by optoelectronic products (30%), and legacy and generic integrated circuits (6%). EBITDA margin contracted to 24.4% (1HFY25: 26.5%) due to additional fixed costs for new products development in advanced packaging, product mix and unfavourable FX movement. 2QFY25 core profit dropped 4.1% QoQ and 23.8% YoY to MYR68.5m on weaker revenue of MYR349m (-10.1% QoQ and 15.7% YoY). This, in turn was affected by lower loadings amid uninspiring end-demand.
- **Outlook.** Despite the unexciting volume growth for the new premium smartphone range, 2HFY25 loadings could potentially be partially supported by the release of new budget artificial intelligence (AI)-enabled phone yesterday as opposed to the absence of a such launch in the previous year. We expect the optoelectronic segment from both fibre optic and power LED products as well as memory product to trend higher but more significant contributions should only reflect in FY26. On the Yiwu JV, the ramp-up is gradual given the competition is stiff in the Chinese OSATs market.
- **Forecasts and TP.** We revised down our FY25F-27F earnings by 11.3%, 9%, and 9% after incorporating lower revenue and margins assumptions. Consequently, our TP is now cut to MYR2.75 (was MYR3.06), based on an unchanged 31x P/E (+1.5SD from its 5-year mean), inclusive of a 2% ESG premium, 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.

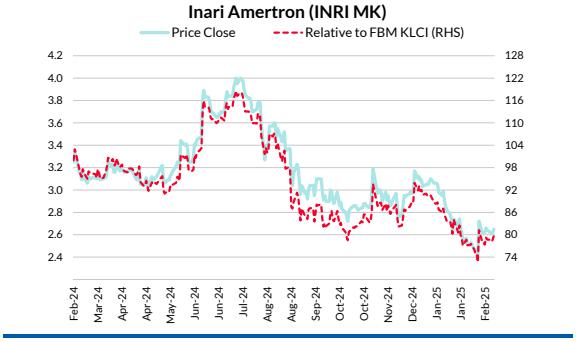
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.4)	(0.4)	(10.2)	(22.8)	(18.0)
Relative	(9.5)	(0.7)	(8.9)	(18.8)	(19.4)
52-wk Price low/high (MYR)					2.43 –4.00



Source: Bloomberg

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	1,354	1,479	1,493	1,668	1,849
Recurring net profit (MYRm)	320	306	290	362	414
Recurring net profit growth (%)	(17.3)	(4.4)	(5.4)	25.0	14.3
Recurring P/E (x)	30.86	32.29	34.12	27.30	23.90
P/B (x)	3.8	3.5	3.5	3.4	3.3
P/CF (x)	38.62	19.16	32.02	23.41	20.31
Dividend Yield (%)	2.8	2.6	2.5	3.1	3.6
EV/EBITDA (x)	22.69	24.72	20.78	15.92	14.20
Return on average equity (%)	11.4	10.0	10.3	12.6	14.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E Score: 3.0 (GOOD)
S Score: 3.3 (EXCELLENT)
G Score: 3.0 (GOOD)
Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis

In comparison to FY23, INRI recorded an increase in GHG emissions, which was mainly due to higher NPI activities from new and existing customers. However, GHG emissions intensity is on a decrease over five years. Utilisation of green energy has yielded noticeable reductions in greenhouse gas emissions by 1.4k tCO2e GHG emission in FY24.

Emissions (tCO2e)	Jun-22	Jun-23	Jun-24	Jun-25
Scope 1	525	314	339	-
Scope 2	78,803	80,286	87,030	-
Scope 3	-	-	-	-
Total emissions	79,328	80,600	87,369	na

Source: Company data, RHB

Latest ESG-Related Developments

Inari won Silver prize in The Edge ESG Awards (Technology Sector) and is a member of FTSE4Good Bursa Malaysia index. These put it among the companies with leading ESG practices and it is in compliance with the best practice disclosure. 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. The company has established a comprehensive set of actions to achieve its GHG reduction targets within the specified timeframe. These measures explicitly address the primary sources of GHG emissions, including Scope 3 emissions.

ESG Unbundled

Overall ESG Score: 3.1 (out of 4)

Last Updated: 20 February 2025

E Score: 3.0 (GOOD)

INRI advocates green development to reduce global warming and the Net ZERO carbon emission by year 2050 by implementing 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).

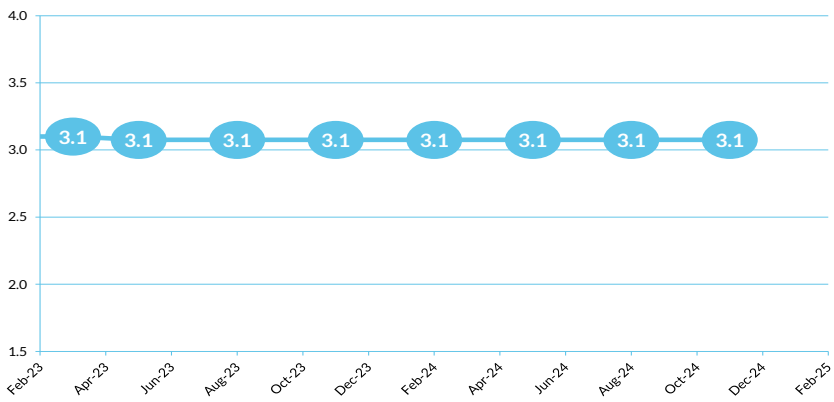
S Score: 3.3 (EXCELLENT)

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 Score: 3.0 (GOOD)

INRI is committed to the principles and best practices of corporate governance as laid out in the Bursa Malaysia Listing Requirements and MCCG. Inari has put in place a Whistleblowing Policy and Procedures to promote high standards of ethical conduct and has established proper channels for whistleblowing. Nevertheless, we note that independent directors comprise less than half of the board and has yet to achieve the target of having 30% of women on the board.

ESG Rating History



Source: RHB

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 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.

Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Recurring EPS	0.09	0.08	0.08	0.10	0.11
DPS	0.07	0.07	0.07	0.08	0.09
BVPS	0.70	0.75	0.76	0.78	0.79
Return on average equity (%)	11.4	10.0	10.3	12.6	14.1

Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Recurring P/E (x)	30.86	32.29	34.12	27.30	23.90
P/B (x)	3.8	3.5	3.5	3.4	3.3
FCF Yield (%)	1.4	3.4	0.6	2.8	3.4
Dividend Yield (%)	2.8	2.6	2.5	3.1	3.6
EV/EBITDA (x)	22.69	24.72	20.78	15.92	14.20
EV/EBIT (x)	32.44	39.89	32.71	22.44	19.19

Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover	1,354	1,479	1,493	1,668	1,849
Gross profit	325	324	358	400	444
EBITDA	355	324	391	509	569
Depreciation and amortisation	(107)	(123)	(142)	(148)	(148)
Operating profit	248	201	248	361	421
Net interest	(2)	(2)	0	0	0
Pre-tax profit	324	280	319	426	488
Taxation	(31)	(10)	(29)	(47)	(54)
Reported net profit	291	270	290	362	414
Recurring net profit	320	306	290	362	414

Cash flow (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Change in working capital	(148)	123	(53)	(40)	(28)
Cash flow from operations	256	516	309	422	487
Capex	(113)	(181)	(250)	(150)	(150)
Cash flow from investing activities	(86)	(192)	(179)	(85)	(83)
Dividends paid	(347)	(293)	(246)	(308)	(351)
Cash flow from financing activities	(301)	(189)	(246)	(308)	(351)
Cash at beginning of period	1,971	1,831	2,261	2,144	2,174
Net change in cash	(130)	134	(117)	30	52
Ending balance cash	1,857	1,961	2,144	2,174	2,225

Balance sheet (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total cash and equivalents	1,831	2,261	2,144	2,174	2,225
Tangible fixed assets	509	779	887	889	891
Total assets	2,967	3,554	3,555	3,639	3,747
Total liabilities	361	380	337	349	374
Total equity	2,606	3,174	3,218	3,290	3,373
Total liabilities & equity	2,967	3,554	3,555	3,639	3,747

Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Revenue growth (%)	(12.5)	9.2	1.0	11.7	10.9
Recurrent EPS growth (%)	(17.3)	(4.4)	(5.4)	25.0	14.3
Gross margin (%)	24.0	21.9	24.0	24.0	24.0
Operating EBITDA margin (%)	26.2	21.9	26.2	30.5	30.8
Net profit margin (%)	21.5	18.3	19.4	21.7	22.4
Dividend payout ratio (%)	93.4	96.3	85.0	85.0	85.0
Capex/sales (%)	8.3	12.2	16.7	9.0	8.1
Interest cover (x)	139	103			

Source: Company data, RHB

Results At a Glance

Figure 1: 1HFY25 results review

FYE Jun (MYRm)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)	Comments
Revenue	**414.1**	**388.0**	**349.0**	**(10.1)**	**(15.7)**	**798.0**	**737.0**	**(7.6)**	YTD & YoY: Lower loadings for all products and delays in the ramp-up for its expansion and forex impact
EBITDA	**106.2**	**88.4**	**91.7**	**3.7**	**(13.7)**	**211.6**	**180.1**	**(14.9)**	
EBITDA margin (%)	*25.7*	*22.8*	*26.3*			*26.5*	*24.4*		Lower margin due to NPI, additional staff and development costs for new products ramp-up, expansion in Yiwu and FX impact
Depreciation & amortisation	(28.9)	(35.2)	(35.1)	0.4	(21.2)	(58.3)	(70.3)	(20.5)	
EBIT	**77.3**	**53.2**	**56.6**	**6.4**	**(26.7)**	**153.3**	**109.9**	**(28.3)**	
EBIT margin (%)	*18.7*	*13.7*	*16.2*			*19.2*	*14.9*		
Interest expense	(0.3)	(0.4)	(0.4)	4.5	(15.2)	(0.7)	(0.8)	(9.0)	
Interest income	16.2	18.4	15.9	(13.8)	(2.4)	31.5	34.2	8.8	
Associates	0.1	0.0	0.0	nm	nm	(0.2)	0.0	nm	
EI/others	(3.0)	(47.3)	21.5	nm	nm	(3.9)	(25.8)	570.0	Unrealised FX gains or losses, gains or losses from disposals and ESOS
Pre-tax profit	**90.3**	**23.9**	**93.6**	**291.7**	**3.6**	**180.0**	**117.5**	**(34.7)**	
Pre-tax margin (%)	*21.8*	*6.2*	*26.8*			*22.6*	*15.9*		
Tax	(3.7)	(1.9)	(5.5)	(198.3)	(48.5)	(8.1)	(7.4)	8.9	
Effective tax rate (%)	*4.1*	*7.8*	*5.9*			*4.5*	*6.3*		
Minority interest	0.2	2.1	1.9	8.5	(811.0)	(0.1)	4.0	nm	
Net profit	**86.8**	**24.1**	**90.0**	**273.0**	**3.6**	**171.8**	**114.1**	**(33.6)**	
Core profit	**89.8**	**71.4**	**68.5**	**(4.1)**	**(23.8)**	**175.6**	**139.9**	**(20.3)**	Below expectations
Net margin (%)	*21.7*	*18.4*	*19.6*			*22.0*	*19.0*		

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-28	Neutral	3.06	2.85
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

Source: RHB, Bloomberg

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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
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Not Rated:	Stock is not within regular research coverage

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