

3 August 2023

Technology | Semiconductors

Inari Amertron (INRI MK)

Buy (from Neutral)

Portfolio Diversification To Bear Fruit; U/G To BUY

Target Price (Return):	MYR3.62 (+19%)
Price (Market Cap):	MYR3.04 (USD2,513m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	30.0m/6.54m

- **Upgrade to BUY from Neutral, with a higher MYR3.62 TP from MYR2.31, 19% upside and c.3% FY24F (Jun) yield.** While near-term challenges on lacklustre smartphone shipment should continue, a more hopeful FY24F will be driven by new programmes/customers and expansions in China. We lift FY24F-25F as we roll forward our valuation base year to CY24 and raise our P/E to 31x (+1.5SD from the 5-year mean) from 24x on Inari Amertron's portfolio diversification strategy and peaking of the Federal Funds Rate.
- **Earnings recap.** 9MFY23 core earnings of MYR255m (-15.7% YoY) missed estimates due to a more pronounced slowdown in volume loading and margin (-2.5ppts). Revenue dropped by 12.9% YoY to MYR1.06bn from the sector's slowdown amid lacklustre demand for consumer devices. 3QFY23 revenue and core profit fell 23.5% YoY and 41% YoY, with weaknesses seen in the radio frequency (RF) and optoelectronic businesses.
- **Challenging outlook on smartphone market.** IDC recently lowered worldwide smartphone shipments to a 3.2% decline from 1.1% decline in 2023, noting factors of the revision as major OEMs all point to a recovery being pushed further out and weaker second half of the year. While a seasonally stronger QoQ performance can be expected in 4Q/2HCY23, the smartphone market remains subdued on an uncertain outlook and a more pronounced sector slowdown.
- **New projects to drive FY24F.** New power module on the system-on-module platform, sensors, memory, and power LED are among the new programmes to drive growth in FY24. Besides, new opto-related products in optical transceiver and silicon photonics will drive Amertron Philippines' performance. Depending on volume loading and timing of mass production, these new programmes could contribute up to 10% of group revenue.
- **Updates on JVs.** Its 54.5%-owned Yiwu Semiconductor International Corp plant on an 11.5-acre land is on track for completion by 1HFY24, with customer audit by 2QFY24. Management expects a quick production ramp-up supported by local Chinese companies in the smartphone and automotive sectors. The 51%-owned Inari MIT has commenced operations at plant P21 with various new product launches in customised machining such as die attach, wire bonding AOI, moulding and laser marking system. All the core design for mechanical, electrical and software are done in-house.
- **Expansion plans.** With all the programmes taking up the space in P34, INRI is now constructing a new 11-storey building (seven production levels) at P34 Block D, which would bring the P34 plant to 1m sq ft in total. Besides, a new 5-acre land at close proximity to P34 is identified for a new plant construction. At Amertron Philippines, a new 4-storey building currently at the planning stage will cater for power module and optoelectronic products.
- **We raise FY24F-25F by 5.7-14% after factoring in the contribution from the new product portfolio and its China JV.** Our TP also includes a 2% ESG premium. Key downside risks are non-renewal of contract, unfavourable FX movements and weaker-than-expected orders.

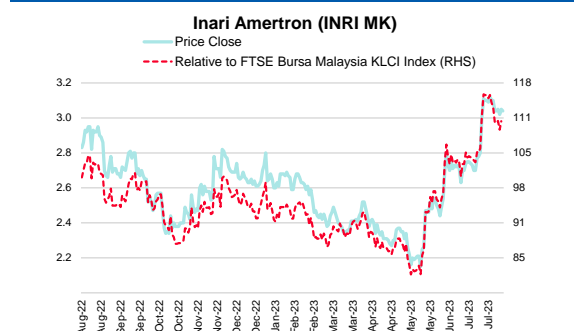
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.5	10.9	28.8	14.7	7.4
Relative	19.5	5.5	27.0	17.3	10.3
52-wk Price low/high (MYR)				2.15 – 3.12	



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 comprise less than half of the board and has yet to achieve the target of having 30% of women on the board.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	1,429	1,548	1,372	1,506	1,993
Recurring net profit (MYRm)	324	388	321	372	482
Recurring net profit growth (%)	113.6	19.8	(17.4)	16.0	29.4
Recurring P/E (x)	34.96	29.19	35.34	30.46	23.53
P/B (x)	8.3	4.5	4.4	4.2	4.1
P/CF (x)	23.30	22.47	35.20	27.14	21.77
Dividend Yield (%)	2.7	2.9	2.4	2.8	3.6
EV/EBITDA (x)	24.62	19.78	22.46	19.53	14.53
Return on average equity (%)	24.8	19.3	12.6	14.1	17.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.09	0.10	0.09	0.10	0.13
Technology	DPS	0.08	0.09	0.07	0.08	0.11
Inari Amertron	BVPS	0.37	0.67	0.70	0.72	0.74
INRI MK	Return on average equity (%)	24.8	19.3	12.6	14.1	17.7
Buy						
Valuation basis	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
We use a target P/E of 31x to value Inari Amertron	Recurring P/E (x)	34.96	29.19	35.34	30.46	23.53
	P/B (x)	8.3	4.5	4.4	4.2	4.1
	FCF Yield (%)	3.4	3.5	1.3	1.0	2.4
	Dividend Yield (%)	2.7	2.9	2.4	2.8	3.6
Key drivers	EV/EBITDA (x)	24.62	19.78	22.46	19.53	14.53
i. New contract wins;	EV/EBIT (x)	32.49	25.14	30.29	25.97	18.19
ii. Higher loadings.						
Key risks	Income statement (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Downside risks:	Total turnover	1,429	1,548	1,372	1,506	1,993
i. Weaker-than-expected 5G smartphone orders	Gross profit	343	371	329	361	478
ii. Non-renewal of contract;	EBITDA	424	474	419	487	664
iii. Unfavourable FX Movements.	Depreciation and amortisation	(103)	(101)	(108)	(121)	(134)
	Operating profit	321	373	311	367	530
	Net interest	(1)	(1)	0	0	0
	Pre-tax profit	341	429	360	416	577
	Taxation	(22)	(55)	(40)	(44)	(63)
	Reported net profit	319	374	321	372	482
	Recurring net profit	324	388	321	372	482
Company Profile	Cash flow (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
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 optoelectronic products.	Change in working capital	39	(32)	(57)	(26)	(80)
	Cash flow from operations	487	504	322	418	521
	Capex	(99)	(111)	(180)	(300)	(250)
	Cash flow from investing activities	(99)	(88)	(130)	(251)	(203)
	Dividends paid	(218)	(433)	(273)	(316)	(409)
	Cash flow from financing activities	(73)	648	(232)	(276)	(409)
	Cash at beginning of period	595	905	1,971	1,930	1,821
	Net change in cash	315	1,064	(41)	(109)	(92)
	Ending balance cash	906	1,991	1,930	1,821	1,729
	Balance sheet (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total cash and equivalents	905	1,971	1,930	1,821	1,729
	Tangible fixed assets	473	500	571	750	867
	Total assets	1,820	2,895	2,921	3,031	3,200
	Short-term debt	1	0	0	0	0
	Total liabilities	443	384	321	335	400
	Total equity	1,377	2,511	2,599	2,696	2,800
	Total liabilities & equity	1,820	2,895	2,921	3,031	3,200
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	35.0	8.3	(11.3)	9.7	32.3
	Recurrent EPS growth (%)	113.6	19.8	(17.4)	16.0	29.4
	Gross margin (%)	24.0	24.0	24.0	24.0	24.0
	Operating EBITDA margin (%)	29.7	30.6	30.5	32.4	33.3
	Net profit margin (%)	22.3	24.2	23.4	24.7	24.2
	Dividend payout ratio (%)	96.6	88.3	85.0	85.0	85.0
	Capex/sales (%)	6.9	7.2	13.1	19.9	12.5
	Interest cover (x)	604	361			

Source: Company data, RHB

Recommendation Chart

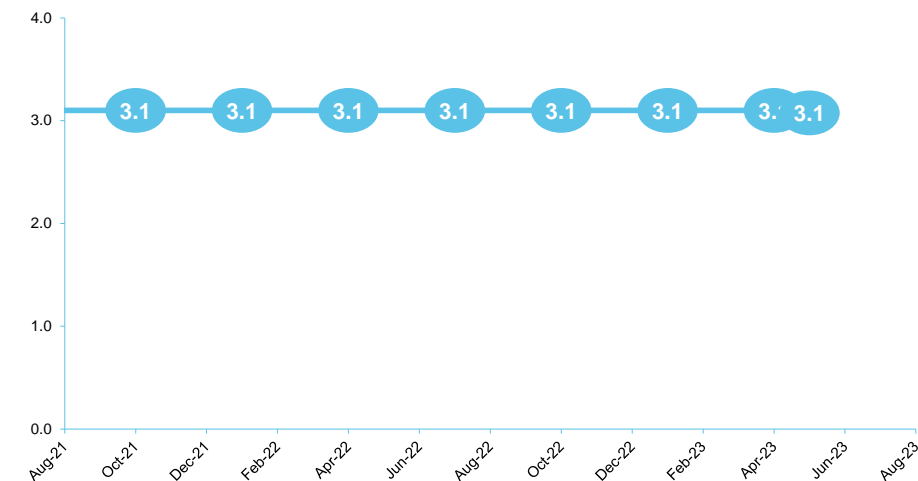


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-05-23	Buy	4.33	3.00
2021-02-25	Buy	4.00	3.64
2021-01-06	Buy	3.28	2.60
2020-11-25	Buy	2.87	2.67
2020-08-28	Neutral	2.35	2.25
2020-05-22	Take Profit	1.41	1.40

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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