

21 November 2022

Technology | Semiconductors

Inari Amertron (INRI MK)

Neutral (Maintained)

Showing Signs Of Slowing

- **Stay NEUTRAL with a new MYR2.60 TP from MYR2.78, c.1% upside and c.4% yield.** Inari Amertron's 1QFY22 (Jun) results were below expectations, given the lower-than-expected top line amid lower loadings while margins were boosted by favourable FX and higher interest income. We further trim our loadings assumptions resulting in lower earnings forecasts as we believe the sign of slowing in the demand for smartphone has started to affect the overall loadings and FY23 growth outlook for Inari looks more bleak.
- **Results were below expectations.** 1QFY23 revenue of MYR377.0m (+12.1% QoQ, -12.6% YoY) and core earnings of MYR100.5m (+17.2% QoQ, -4.8% YoY) came in at 24.5% and 23.4% of our and Street's full-year estimates. We deem the results as below because 1Q typically is the strongest quarter, it accounts for 27-30% of full year earnings, and the fact that demand is likely to moderate going into subsequent quarters. A first interim DPS of 2.6 sen was declared (1QFY22: 2.8 sen) and will go ex on 8 Dec.
- **Slower loadings.** YoY core earnings were weighed down by slowing topline amid a weakening demand for both its RF and optoelectronics products due to the wide-slowdown for the semiconductor space. The stronger QoQ performance was due to the seasonality effect given the ramp up for the launch of the US smartphone brand. EBITDA margin expanded 35.5% on favourable FX movement.
- **Expect a flat to weaker FY23F.** In view of global economic uncertainties arising from inflation, conflicts, and supply chain disruption due to COVID-19 lockdowns, management is cautious on growth in the existing radio frequency and optoelectronics business for the rest of FY23. However, potential contribution from new customers, as well as favourable FX movement would continue to cushion the slowdown.
- **Forecasts and ratings.** We lower our volume loadings assumptions, resulting in 7.8%, 6%, and 1% downward revisions of earnings for FY23F-25F. This results in a lower MYR2.60 TP (was MYR2.78) – inclusive of a 2% premium on its 3.1 ESG score, based on unchanged FY23F P/E (at 5-year mean) of 24x. Maintain NEUTRAL as the macro headwinds, risk of contract non-renewal, and slowdown in the semiconductor market will continue to weight in while the stronger USD/MYR to cushion any potential slowdown and decent dividend yield are the silver linings.
- **Key upside/downside risks** are stronger/weaker-than-expected 5G smartphone orders, renewal/non-renewal of contract, and favourable/unfavourable FX movements.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	1,429	1,548	1,483	1,622	1,830
Recurring net profit (MYRm)	324	388	378	413	471
Recurring net profit growth (%)	113.6	19.8	(2.6)	9.2	13.9
Recurring P/E (x)	29.67	24.77	25.42	23.28	20.44
P/B (x)	7.0	3.8	3.7	3.6	3.5
P/CF (x)	19.77	19.07	27.00	20.80	18.69
Dividend Yield (%)	3.2	3.4	3.3	3.7	4.2
EV/EBITDA (x)	20.57	16.16	15.88	14.23	12.61
Return on average equity (%)	24.8	19.3	14.8	15.6	17.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Target Price (Return):	MYR2.60 (0.7%)
Price (Market Cap):	MYR2.58 (USD2,115m)
ESG score:	3.10 (out of 4)
Avg Daily Turnover (MYR/USD)	15.1m/3.30m

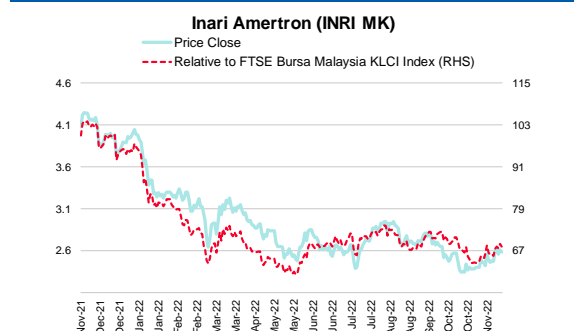
Analyst

Lee Meng Horng
+603 9280 8866
lee.meng.horng@rhbgroun.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(35.5)	10.3	(11.0)	(1.5)	(36.8)
Relative	(27.9)	5.8	(6.5)	4.9	(31.8)
52-wk Price low/high (MYR)				2.34 – 4.25	



Source: Bloomberg

Overall ESG Score: 3.10 (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 management efforts are done to reduce water usage. The group also practices the 3R programme "Recovery, Re-use and Recycle" in managing waste produced by the operations.

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.

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-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.09	0.10	0.10	0.11	0.13
Technology	DPS	0.08	0.09	0.09	0.09	0.11
Inari Amertron	BVPS	0.37	0.67	0.70	0.73	0.74
INRI MK	Return on average equity (%)	24.8	19.3	14.8	15.6	17.2
Neutral						
	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Valuation basis	Recurring P/E (x)	29.67	24.77	25.42	23.28	20.44
We use a target P/E of 24x to value Inari Amertron	P/B (x)	7.0	3.8	3.7	3.6	3.5
	FCF Yield (%)	4.0	4.1	2.1	3.2	3.8
Key drivers	Dividend Yield (%)	3.2	3.4	3.3	3.7	4.2
i. New contract wins;	EV/EBITDA (x)	20.57	16.16	15.88	14.23	12.61
ii. Higher loadings.	EV/EBIT (x)	27.15	20.54	20.40	18.00	15.61
	Income statement (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Key risks	Total turnover	1,429	1,548	1,483	1,622	1,830
Upside risks:	Gross profit	343	371	356	389	439
i. Stronger-than-expected orders;	EBITDA	424	474	484	537	606
ii. Favourable FX movement.	Depreciation and amortisation	(103)	(101)	(107)	(112)	(117)
	Operating profit	321	373	377	425	489
Downside risks:	Net interest	(1)	(1)	0	0	0
i. Weaker-than-expected 5G smartphone orders	Pre-tax profit	341	429	425	464	529
ii. Non-renewal of contract;	Taxation	(22)	(55)	(47)	(51)	(58)
iii. Unfavourable FX movements.	Reported net profit	319	374	378	413	471
iv. Renewal of contract	Recurring net profit	324	388	378	413	471
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)	(81)	(23)	(33)
	Cash flow from operations	487	504	356	463	515
	Capex	(99)	(111)	(150)	(150)	(150)
	Cash flow from investing activities	(99)	(88)	(101)	(110)	(110)
	Dividends paid	(218)	(433)	(322)	(351)	(400)
	Cash flow from financing activities	(73)	648	(281)	(311)	(400)
	Cash at beginning of period	595	905	1,971	1,944	1,986
	Net change in cash	315	1,064	(27)	41	4
	Ending balance cash	906	1,991	1,944	1,986	1,990
	Balance sheet (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total cash and equivalents	905	1,971	1,944	1,986	1,990
	Tangible fixed assets	473	500	543	580	614
	Total assets	1,820	2,895	2,939	3,059	3,159
	Short-term debt	1	0	0	0	0
	Total liabilities	443	384	331	349	378
	Total equity	1,377	2,511	2,608	2,710	2,781
	Total liabilities & equity	1,820	2,895	2,939	3,059	3,159
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	35.0	8.3	(4.2)	9.4	12.8
	Recurrent EPS growth (%)	113.6	19.8	(2.6)	9.2	13.9
	Gross margin (%)	24.0	24.0	24.0	24.0	24.0
	Operating EBITDA margin (%)	29.7	30.6	32.6	33.1	33.1
	Net profit margin (%)	22.3	24.2	25.5	25.5	25.7
	Dividend payout ratio (%)	96.6	88.3	85.0	85.0	85.0
	Capex/sales (%)	6.9	7.2	10.1	9.2	8.2
	Interest cover (x)	604	361			

Source: Company data, RHB

Results At a Glance

Figure 1: 1QFY23 results review

FYE Jun (MYRm)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	Comments
Revenue	431.1	336.2	377.0	12.1	(12.6)	QoQ: Driven by higher loadings from all segments given the seasonally stronger quarter. YoY: Slowdown in loadings from all segments.
EBITDA	139.0	118.7	133.9	12.8	(3.6)	
<i>EBITDA margin (%)</i>	32.2	35.3	35.5			Helped by FX gain despite slower topline and GP.
Depreciation & amortisation	(26.4)	(18.1)	(26.9)	(48.4)	(1.8)	
EBIT	112.6	100.6	107.0	6.4	(4.9)	
<i>EBIT margin (%)</i>	26.1	29.9	28.4			
Interest expense	(0.0)	(1.0)	(0.4)	64.2	nmf	
Interest income	4.4	8.0	8.7	8.4	95.4	Higher interest from the placement proceed.
Associates	0.0	0.0	0.0	nmf	nmf	
El/others	1.4	0.4	5.7	nmf	nmd	Unrealised FX gain/loss.
Pre-tax profit	118.3	108.0	121.1	12.1	2.3	
<i>Pre-tax margin (%)</i>	27.4	32.1	32.1			
Tax	(11.4)	(22.0)	(14.7)	33.3	(28.4)	
<i>Effective tax rate (%)</i>	9.7	20.4	12.1			
Minority interest	0.0	0.3	(0.1)	150.6	473.5	
Net profit	106.9	86.2	106.3	23.2	(0.6)	
Core profit	105.6	85.8	100.5	17.2	(4.8)	Below expectation.
<i>Net margin (%)</i>	24.5	25.5	26.7			

Source: Company data, RHB

Recommendation Chart

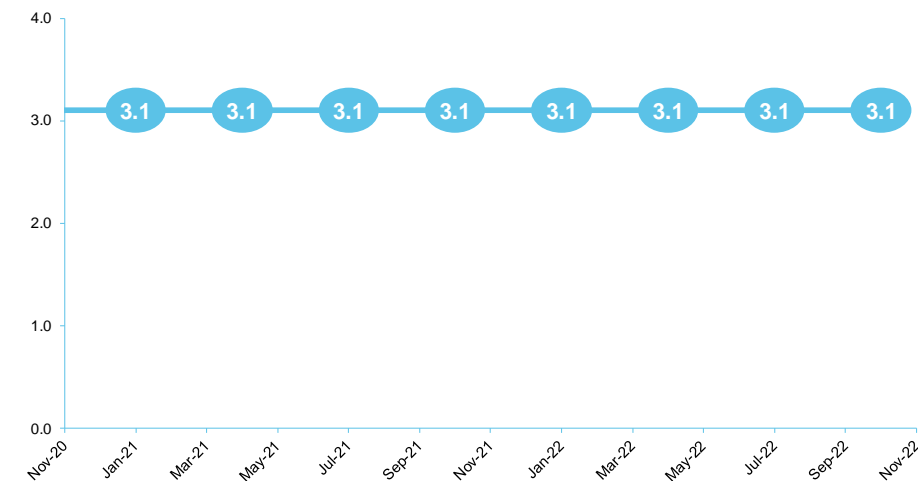


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-04-03	Buy	1.45	1.23
2019-11-27	Sell	1.54	1.87

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470