2QFY23 Results Review (Below) | Monday, 27 February 2023

Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

Maintain BUY

Lower Volume Loadings

***Revised* Target Price: RM3.00**

(Previously: RM3.20)

KEY INVESTMENT HIGHLIGHTS

- **2QFY23 normalised earnings declined by -12.5%yoy to RM96.1m, attributed to lower volume loadings in the optoelectronics segment**
- **The Group's 1HFY23 financial performance missed our but met consensus expectations**
- **2QFY23 dividend payout was recorded at 2.2sen, lower than 1QFY23**
- **Maintain BUY with revised TP of RM3.00**

Lower volume loadings. Inari Amertron Bhd's (Inari) 2QFY23 normalised earnings declined by -12.5%yoy to RM96.1m. This was in tandem with lower revenue in 2QFY23 which dropped by -4.2%yoy to RM402.5m. This led to Inari's 1HFY23 normalised earnings of RM181.4m (-50.7%yoy), a decreased mainly contributed by lower cumulative revenue of RM779.5m (-49.6yoy), derived from lower volume loadings from the optoelectronics segment. The Group 1HFY23 financial performance came below our but met consensus expectations, accounting for 43% and 45% of full year FY23 earnings estimates respectively. The earnings miss could be attributed to greater than expected softening in the optoelectronics segment.

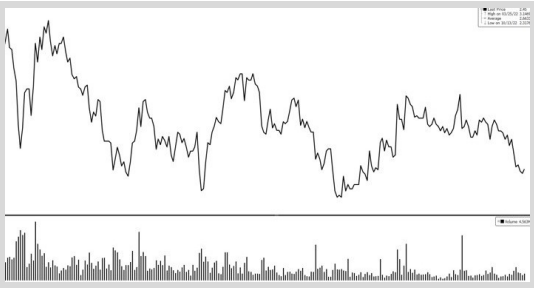
Dividend. The Group announced a lower 2QFY23 dividend of 2.2sen, compared to 1QFY23 payout of 2.6sen. The entitlement date and payment date are on 16 March 2023 and 6 April 2023 respectively.

Impact to earnings. As earnings came in below our expectation, we revised our revenue and earnings estimates downward by -8.7% and -7.7%. We derived a revised target price of RM3.00 (previously RM3.20), premised on new FY23 EPS of 12.1sen against forward PER of 24.4x which is in line with the Group's five-year historical average. We view that the valuation is justified due to an anticipation of prolonged upcycle in the semiconductor industry.

Maintain BUY. Despite the sluggish semiconductor market and poor macroeconomic environment, we opine that the Group's volume loadings will improve considering the positive outlook for both RF and optoelectronics segments due to their diverse applications in various industries. The RF segment is expected to continue its growth due to its essential role in wireless communication systems, radar systems, satellite communication systems, and navigation systems. Meanwhile, the optoelectronics market is also expected to grow due to its widespread adoption in industries such as telecommunications, medical devices, and automotive, driven by the increasing demand for high-speed internet and data transmission, diagnostic imaging, advanced driver assistance systems, and autonomous vehicles. Overall, both segments are crucial in modern communication and navigation systems and are expected to experience significant growth in the coming years. We maintain our **BUY** call with a revised target price of **RM3.00**.

RETURN STATISTICS	
Price @ 24th February 2023 (RM)	2.45
Expected share price return (%)	20.7
Expected dividend yield (%)	3.8
Expected total return (%)	24.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-8.2	-5.7
3 months	-6.1	-7.7
12 months	-22.5	-15.3

KEY STATISTICS	
FBM KLCI	1,456.80
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	3707.67
Estimated free float (%)	56.89
Market Capitalisation (RM'm)	9,145.69
52-wk price range (RM)	RM2.28 - RM3.24
Beta vs FBM KLCI (x)	0.76
3-mth average daily volume (m)	5.56
3-mth average daily value (RM'm)	14.82
Top Shareholders (%)	
Insas Bhd	12.12
Kumpulan Wang Persaraan Diperbandan	10.66
Employees Provident Fund	9.19

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INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm, unless otherwise	2020	2021A	2022A	2023F	2024F
Revenue	1,057.95	1,428.70	1,547.90	1,554.53	1,779.21
EBIT	184.20	360.10	471.13	408.84	438.24
PBT	172.36	352.20	446.11	436.93	466.32
PATANCI	157.13	331.00	391.50	392.96	419.39
Normalised PATANCI	148.32	337.80	367.90	392.96	419.39
Normalised EPS (sen)	4.62	10.20	12.05	12.12	12.93
Normalised EPS Growth (%)	(19.37)	120.72	18.16	0.56	6.69
PER (x)	53.02	24.02	20.33	20.21	18.95
Dividend Per Share (sen)	4.40	11.00	10.00	11.51	12.28
Dividend yield (%)	1.80	4.49	4.08	4.70	5.01

Source: Company, MIDFR

INARI AMERTRON BHD: 2QFY23 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	Quarterly Results			Cumulative		
FYE 30th June	**2Q23**	**% YoY**	**% QoQ**	**2023**	**2022**	**% YoY**
Revenue	402.5	-4.2	6.8	779.5	1547.9	-49.6
EBITDA	140.5	4.4	1.1	279.4	572.1	-51.2
Depreciation and amortisation	-53.4	123.2	98.6	-80.3	-100.9	-20.4
EBIT	87.1	-21.3	-22.3	199.1	471.1	-57.7
Finance costs	0.7	-2732.0	-283.3	0.3	-1.0	-128.9
Interest income	13.0	111.5	49.9	21.6	-23.9	-190.5
Share of loss of associate	-0.5	-4133.3	-168.3	0.2	-0.1	-416.9
PBT	100.2	-14.1	-17.2	221.3	446.1	-50.4
Taxation	-7.1	-18.6	-51.9	-21.7	-54.9	-60.4
MI	-0.5	-161.2	-462.2	-0.3	0.3	-220.7
PATANCI	92.7	-14.8	-13.0	199.2	391.5	-49.1
Normalised PATANCI	96.1	-12.5	12.6	181.4	367.9	-50.7
Normalised EPS (sen)	2.6	-13.4	12.0	4.9	10.0	-51.1
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	34.9	2.9	-2.0	35.8	37.0	-1.1
EBIT margin (%)	21.6	-4.7	-8.1	25.5	30.4	-4.9
Normalised PATANCI margin (%)	23.9	-2.2	1.2	23.3	23.8	-0.5
Effective tax rate (%)	7.0	-0.4	-5.1	9.8	12.3	-2.5

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology