



Inari Amertron Berhad

(0166 | INRI MK) Technology | Semiconductors

Temporary Profit Margin Compression

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with a revised target price of RM3.11 post the 3QFY24 results announcement**
- **Cumulative 9MFY24 revenue was up by +8.6% to RM1.1b, mainly supported by the RF and optoelectronic segments**
- **However, weaker profit margin pushed down 9MFY24 earnings (-6.4%yoy) to RM242.6m**
- **The group is sacrificing near-term profit margin of new products to drive future revenue growth**

Reiterate NEUTRAL stance at this juncture. We are maintaining our **NEUTRAL** recommendation for Inari with a revised **target price of RM3.11** post the 3QFY24 results announcement. While the group posted an +8.6% growth in 9MFY24 revenue, there is concern about the contraction in profit margin. This was mainly due to higher running costs as well as initial lower margin from the new product. Meanwhile, the cash reserve has increased to RM2.3b as at 3QFY24 which may lead to a pressing need for M&A.

Better YoY performance. Inari's 3QFY24 normalised earnings improved by +12.9%yoy after excluding impact on forex and gain on disposal of PPE. This was mainly attributable to higher loading volume in RF and optoelectronics business segments. However, on a sequential basis, the normalized earnings were down by -32.5%yoy, premised on lower loading volume across all business segments.

Weaker-than-expected earnings. On a cumulative basis, 9MFY24 normalised earnings amounted to RM242.6m, a reduction of -6.4%yoy. While 9MFY24 revenue improved by +8.6%yoy to RM1.1b, there has been increase in electricity cost as well as losses in work-in-progress items arising from unstable glitches in electricity supply from the grid. In addition, the group is also experiencing short-term lower gross margins for new products.

All in, Inari's 9MFY24 financial performance came in below ours and consensus expectation, making up 62% and 68% of full year FY24 earnings estimates respectively.

Growing cash pile. We note that the group's cash balance has been increasing steadily. It hit RM2.3b as at 3QFY24, which was up by +20.6%yoy from a year ago. This has led to higher finance income (+32.7%yoy) for 9MFY24. A bigger cash reserve would usually denote a higher possibility of M&A in the foreseeable term. Otherwise, it may need to pay out a higher dividend.

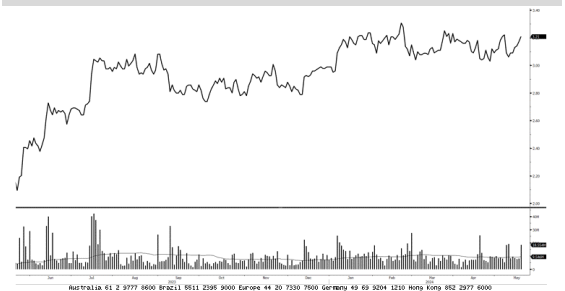
No let up in dividend. Inari announced a 3QFY24 dividend of 1.9sen per share which is higher as compared to 1.4sen declared for 3QFY23. This led to a slightly higher 9MFY24 cumulative dividend payment of 6.3sen per share (vs: 6.2sen) despite registering lower EPS.

Maintain NEUTRAL**Revised Target Price: RM3.11**
(Previously RM3.04)

RETURN STATISTICS

Price @ 23 rd May 2024 (RM)	3.23
Expected share price return (%)	-3.7
Expected dividend yield (%)	+2.7
Expected total return (%)	-1.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.2	0.1
3 months	-0.6	-5.8
12 months	45.2	27.5

INVESTMENT STATISTICS


FYE June	2024E*	2025F	2026F
Revenue	1,559.9	1,668.6	1,786.0
Operating Profit	428.8	471.2	0.0
Profit Before Tax	374.3	463.8	507.7
Core PATAMI	327.9	406.7	445.3
Core EPS	8.8	10.9	11.9
DPS	6.6	8.2	9.0
Dividend Yield	2.1	2.6	2.9

KEY STATISTICS

FBM KLCI	1,629.18
Issue shares (m)	Yes
Estimated free float (%)	57.2
Market Capitalisation (RM'm)	12,075.71
52-wk price range (RM)	2.15 -3.35
3-mth average daily volume (m)	9.6
3-mth average daily value (RM'm)	30.0
Top Shareholders (%)	
Insas Bhd	13.65
Employees provident fund board	10.23
Kumpulan Wang Persaraan	9.48

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Revision to earnings and target price. We input higher expenses to better reflect the group's current run-rate on profit margin. As a result, FY24 to FY26 earnings have been reduced by between -7.9% and -16.3%.

We also take this opportunity to roll forward our valuation-based year to CY25 and derived a new **target price of RM3.11**. This is based on an unchanged target PER of 27.2x. 

INARI AMERTRON BHD: 3QFY24 RESULTS SUMMARY

Financial year Ending 30 th June (All in RM'm unless stated otherwise)	Quarterly Results			Cumulative		
	3QFY24	% YoY	% QoQ	9MFY24	9MFY23	% YoY
Revenue	347.6	26.0	-16.0	1,145.6	1,055.3	8.6
EBITDA	90.6	24.0	-12.3	298.3	326.5	-8.6
Depreciation and amortisation	-29.9	15.0	3.2	-88.2	-79.4	11.1
EBIT	60.7	28.9	-18.3	210.1	247.1	-15.0
Finance costs	-0.5	57.7	43.3	-1.2	-1.0	23.4
Interest income	16.6	13.8	2.0	48.0	36.2	32.7
Associate contribution	0.0	-100.0	-100.0	-0.2	0.8	-122.6
PBT	76.8	24.1	-15.0	256.8	283.2	-9.3
Taxation	-2.9	-37.2	-22.0	-11.0	-26.4	-58.2
Non controlling interest	-0.2	-248.0	-172.2	-0.3	0.4	-167.4
PATANCI	73.7	28.5	-15.1	245.5	257.2	-4.6
Normalised PATANCI	63.4	12.9	-32.5	242.6	259.1	-6.4
Normalised EPS (sen)	1.7	12.0	-32.6	6.5	7.0	-7.0
EBITDA margin (%)	26.0	-0.4	1.1	26.0	30.9	-4.9
EBIT margin (%)	17.5	0.4	-0.5	18.3	23.4	-5.1
Normalised PATANCI margin (%)	18.2	-2.1	-4.4	21.2	24.6	-3.4
Effective tax rate (%)	3.8	-3.7	-0.3	4.3	9.3	-5.0

FINANCIAL SUMMARY

Financial year ending 30th June	2022A	2023A	2024E	2025F	2026F
Revenue	1,547.9	1,354.0	1,559.9	1,668.6	1,786.0
EBITDA	500.7	396.1	449.0	538.3	582.7
EBIT	289.4	341.9	428.8	471.2	0.0
PBT	446.1	355.8	374.3	463.8	507.7
Normalised PATANCI	367.5	308.2	327.9	406.7	445.3
Normalised EPS (sen)	9.9	8.3	8.8	10.9	11.9
EPS Growth (%)	7.8	-16.1	6.4	24.0	9.5
PER (x)	33	39	37	30	27
Dividend Per Share (sen)	7.8	6.2	6.6	8.2	9.0
Dividend yield (%)	2.4	1.9	2.0	2.5	2.8
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	499.5	509.0	521.9	532.4	540.9
Intangible assets	2.3	2.5	2.5	2.5	2.5
Others	7.1	16.6	16.6	16.6	16.6
Non-current assets	509.0	528.1	541.0	551.5	560.0
Cash	1,971.0	1,831.0	2,067.5	2,149.5	2,242.4
Trade debtors	266.6	411.0	268.7	287.4	307.6
Others	147.9	196.6	161.6	171.9	183.1
Current assets	2,385.6	2,438.6	2,497.7	2,608.8	2,733.0
Trade creditors	262.6	276.1	264.6	283.0	303.0
Short-term debt	0.0	1.0	2.0	3.0	4.0
Others	92.2	54.8	53.8	52.8	51.8
Current liabilities	354.8	331.9	320.4	338.8	358.7
Long-term debt	0.0	1.0	2.0	3.0	4.0
Others	28.7	28.0	27.0	26.0	25.0
Non-current liabilities	28.7	29.0	29.0	29.0	29.0
Share capital	1,977.2	2,033.4	2,033.4	2,033.4	2,033.4
Retained earnings	473.5	496.6	578.5	680.2	791.5
Reserve	54.4	72.7	72.7	72.7	72.7
Minority interest	6.0	3.2	4.7	6.2	7.7
Equity	2,511.0	2,605.8	2,689.3	2,792.5	2,905.3
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	446.1	355.8	374.3	463.8	507.7
Depreciation & amortisation	100.9	106.7	107.1	109.5	111.5
Changes in working capital	-34.0	-148.4	165.9	-10.6	-11.5
Others	-8.6	-58.2	-44.9	-55.7	-60.9
Operating cash flow	504.5	255.9	602.4	507.1	546.9
Capital expenditure	-111.5	-113.0	-120.0	-120.0	-120.0
Others	23.1	27.5	0.0	0.0	0.0
Investing cash flow	-88.4	-85.5	-120.0	-120.0	-120.0
Debt raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	-433.2	-342.4	-245.9	-305.0	-334.0
Others	1,081.2	41.7	0.0	0.0	0.0
Financing cash flow	648.1	-300.7	-245.9	-305.0	-334.0
Net cash flow	1,064.1	-130.4	236.5	82.1	92.9
Beginning cash flow	831.2	1,917.3	1,803.5	2,039.9	2,122.0
Ending cash flow	1,917.3	1,803.5	2,039.9	2,122.0	2,214.9
Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	32.3	29.3	28.8	32.3	32.6
PBT margin	28.8	26.3	24.0	27.8	28.4
PATAMI margin	23.7	22.8	21.0	24.4	24.9

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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 <i>rise</i> 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 <i>fall</i> 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