

Inari Amertron (INRI MK)

3QFY22: Business as usual

Generic segment positively surprised; maintain BUY

Inari posted another set of strong results for 9MFY22, supported by steady growth for its RF/Opto products, and a surprise beat by its Generic segment. In line with our recent moderation of the sector's valuation pegs (given the Fed's aggressive monetary tightening), we lower Inari's to 28x FY23E PER, at +0.5SD to the LT mean (from 32x FY23 PER, at +1SD). Our TP is also lowered to MYR3.50 (-11%), but we maintain our BUY call/forecasts for now. Inari remains our top M'sian OSAT pick, premised upon its (i) RF division's sustained resilience, (ii) proven mgmt team, and (iii) solid fundamentals (net cash pile of c.MYR2b, or 53 sen/share).

Results within expectations

Excluding EIs of MYR1.9m, Inari's 3QFY22 core net profit came in at MYR88.6m (+14% YoY, -22% QoQ), bringing cumulative 9MFY22 core earnings to MYR314.6m (+29% YoY). At 78%/80% of ours/the streets full-year estimates, the results were largely in-line with expectations, as the second half of Inari's FYE-June tends to be seasonally weaker. An interim dividend of 2.8 sen was also declared (9MFY22: 7.8 sen; 9MFY21: 8.5 sen).

Key takeaways from 3QFY22 results

9MFY22 revenue grew 14% YoY to MYR1.2b, underpinned by segmental growth across all key products classes (RF/Opto/Generic respectively contributed 61%/32%/7% to total group turnover). The RF segment (+12% YoY) remains the group's key top-line driver, underpinned by stable volume loading by its key American customer. YTD growth in the optoelectronics segment was also healthy, at +14% YoY, but the generic segment outperformed with a strong 32% growth YoY, as demand for legacy components has unexpectedly picked-up in FY22. Group gross/net profit margins were also stable at c.30%/25% level, in-line with past guidance.

Resilient but not immune to downside risks

Inari has thus far been resilient and remained relatively insulated from ongoing supply chain disruptions via its prudent inventory mgmt. However, slowing Chinese economic growth (as highlighted in our last report [\[link\]](#)) and the Fed's aggressive monetary tightening poses key downside risks to its historical valuation premium. As such, we conservatively lower our valuation peg for Inari to 28x FY23 PER, at +0.5SD to LT mean (from 32x FY23 PER, at +1SD to Mean). Nonetheless, our BUY call and earnings assumptions are maintained for now, pending mgmt updates later today.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,058	1,429	2,010	2,147	2,291
EBITDA	264	449	550	602	669
Core net profit	161	345	406	467	529
Core EPS (sen)	4.8	10.0	10.7	12.3	13.9
Core EPS growth (%)	(20.9)	109.0	7.5	14.8	13.4
Net DPS (sen)	4.3	10.9	10.7	12.3	13.9
Core P/E (x)	35.5	31.8	23.9	20.8	18.4
P/BV (x)	4.7	8.0	4.0	4.0	3.9
Net dividend yield (%)	2.5	3.5	4.2	4.8	5.4
ROAE (%)	13.5	25.7	21.4	19.2	21.6
ROAA (%)	11.5	21.0	17.1	15.8	17.7
EV/EBITDA (x)	19.4	22.5	14.3	13.0	11.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	393	458	501
MKE vs. Consensus (%)	-	-	3.4	2.0	5.6

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BUY

Share Price	MYR 2.56
12m Price Target	MYR 3.50 (+42%)
Previous Price Target	MYR 4.00

Company Description

Inari Amertron is the biggest semiconductor player in M'sia and one of Broadcom's top OSAT providers in the thriving wireless division.

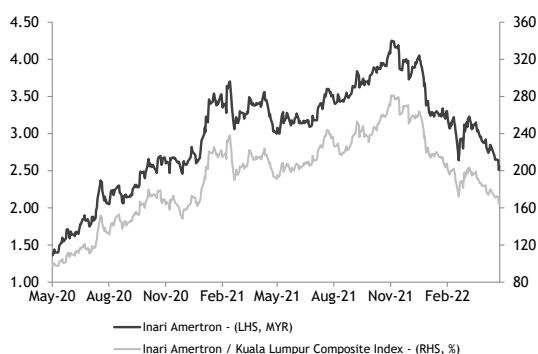
Statistics

52w high/low (MYR)	4.25/2.51
3m avg turnover (USDm)	10.2
Free float (%)	73.1
Issued shares (m)	3,705
Market capitalisation	MYR9.5B
	USD2.2B

Major shareholders:

Insas Bhd.	14.5%
Kumpulan Wang Persaraan	9.1%
Employees Provident Fund	7.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(12)	(22)	(16)
Relative to index (%)	(9)	(19)	(14)

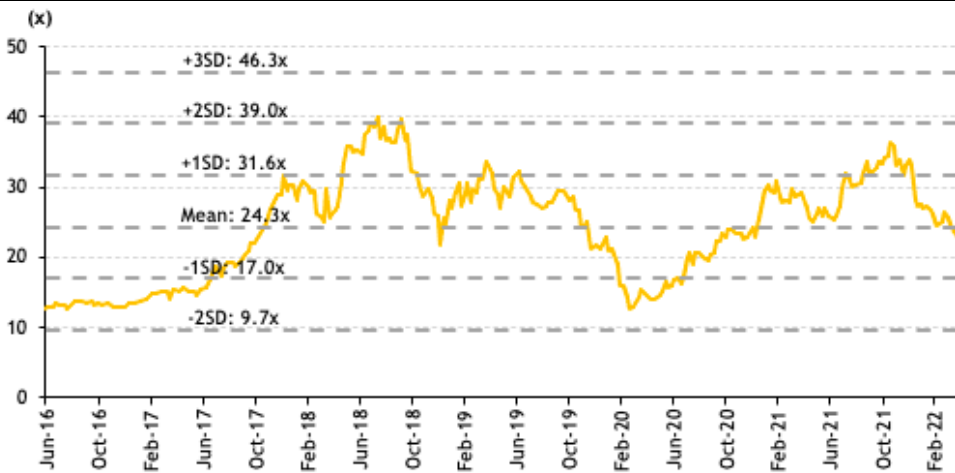
Source: FactSet

Fig. 1: Inari's 3QFY22 Results summary table

FY Jun (MYR m)	Quarterly					Cumulative		
	3Q22	2Q22	%QoQ	3Q21	%YoY	9M22	9M21	%YoY
Turnover	360.3	420.3	(14.3)	342.9	5.1	1,211.7	1,067.4	13.5
EBIT ex E.I.	96.0	116.7	(17.8)	82.9	15.8	332.3	261.1	27.3
Interest expense	0.0	(0.0)	n.m.	(0.1)	n.m.	(0.0)	(0.2)	n.m.
Pre-tax profit	103.1	116.7	(11.7)	86.7	18.9	338.1	258.9	30.6
Taxation	(12.8)	(8.7)	47.5	(4.8)	>100.0	(32.9)	(16.8)	95.7
Minority interest	0.2	(0.8)	n.m.	0.1	n.m.	(0.5)	0.1	n.m.
Net profit	90.5	107.3	(15.7)	81.9	10.4	304.7	242.1	25.9
E.I.	(1.9)	6.1	n.m.	(4.0)	n.m.	9.9	1.7	n.m.
Core net profit	88.6	113.4	(21.9)	77.9	13.6	314.6	243.9	29.0
	3Q22	2Q22	+/- ppt	3Q21	%YoY	9M22	9M21	+/- ppt
EBIT (ex-EI) margin (%)	26.6	27.8	(1.1)	24.2	2.5	27.4	24.5	3.0
Core net profit margin (%)	24.6	27.0	(2.4)	22.7	1.9	26.0	22.8	3.1

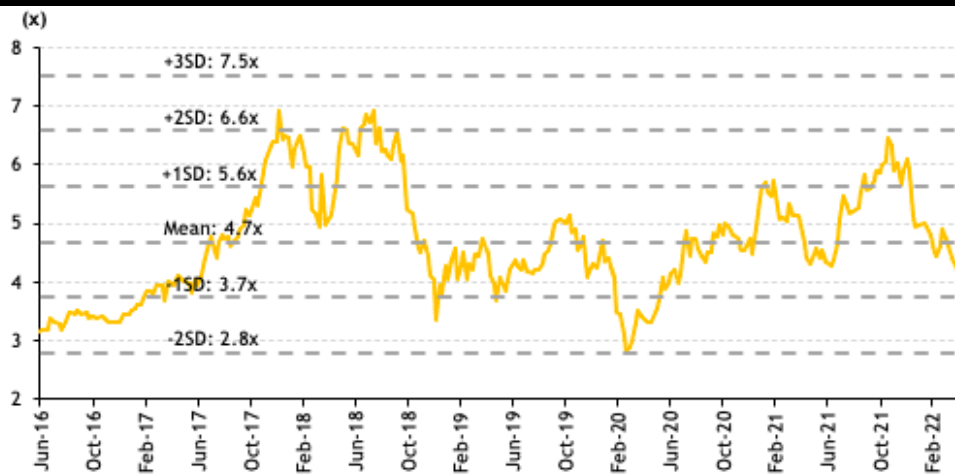
Source: Company, Maybank IBG Research

Fig. 2: Inari's 12M forward PER band (currently trading at 20.6x)



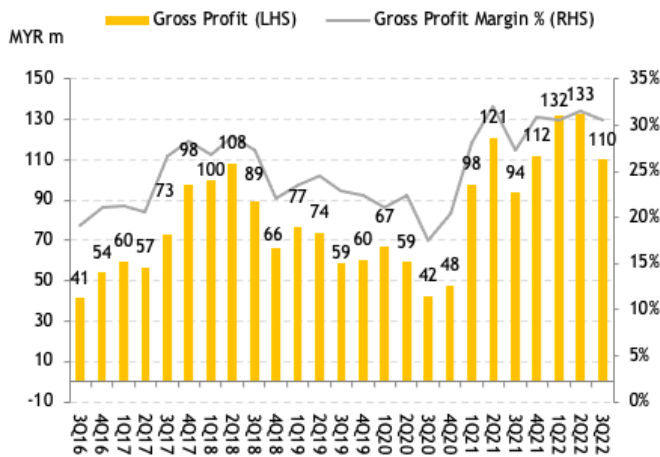
Source: Bloomberg, Maybank IBG Research

Fig. 3: Inari's 12M forward PBV band (currently trading at 3.9x)



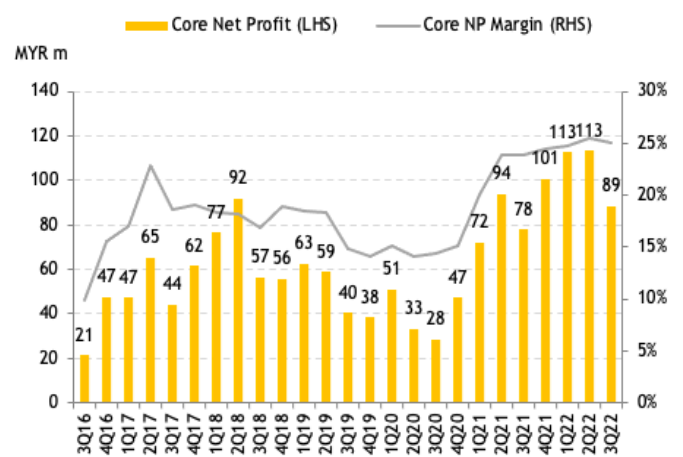
Source: Bloomberg, Maybank IBG Research

Fig. 4: Inari’s quarterly gross profit & GP margin



Source: Company, Maybank IBG Research

Fig. 5: Inari’s quarterly core net profit & NP margin



Source: Company, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Inari. A sharp downturn in the global markets for electronics, especially smartphones, will affect the demand for components that Inari produces for its key clients (i.e. Broadcom and OSRAM). Design-in and design-out of components related to Inari’s current production will also affect revenue and earnings. Additionally, forex volatility, especially USD/MYR, will affect Inari’s earnings, as over two-thirds of its revenue and COGS are denominated in USD.

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	35.6	29.1	23.9	20.8	18.4
Core P/E (x)	35.5	31.8	23.9	20.8	18.4
P/BV (x)	4.7	8.0	4.0	4.0	3.9
P/NTA (x)	4.7	8.0	4.0	4.0	3.9
Net dividend yield (%)	2.5	3.5	4.2	4.8	5.4
FCF yield (%)	4.7	3.5	3.3	4.6	5.2
EV/EBITDA (x)	19.4	22.5	14.3	13.0	11.7
EV/EBIT (x)	31.3	29.2	17.5	15.7	13.8
INCOME STATEMENT (MYR m)					
Revenue	1,058.0	1,428.7	2,010.2	2,146.8	2,291.1
EBITDA	263.6	448.6	550.4	601.9	668.6
Depreciation	(100.3)	(102.7)	(101.2)	(100.9)	(100.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	163.3	345.9	449.2	501.0	567.9
Net interest income / (exp)	9.7	6.6	10.8	22.3	22.3
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	172.9	352.5	460.0	523.4	590.2
Income tax	(15.9)	(21.5)	(53.6)	(56.7)	(61.0)
Minorities	(0.7)	(0.2)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	156.3	330.7	406.4	466.7	529.2
Core net profit	160.7	345.0	406.4	466.7	529.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	594.6	904.9	1,869.9	1,870.0	1,871.5
Accounts receivable	214.4	251.7	339.6	360.6	382.7
Inventory	145.9	157.5	227.6	239.7	250.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	479.4	472.2	471.0	470.1	469.4
Intangible assets	2.3	2.2	2.2	2.2	2.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	27.6	30.7	30.7	30.7	30.7
Total assets	1,464.2	1,819.3	2,941.0	2,973.4	3,007.0
ST interest bearing debt	5.0	1.1	0.0	0.0	0.0
Accounts payable	199.2	287.7	360.4	372.7	383.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1.1	0.0	0.0	0.0	0.0
Other liabilities	50.0	153.0	153.0	153.0	154.0
Total Liabilities	255.2	441.8	513.6	526.2	537.3
Shareholders Equity	1,204.7	1,373.0	2,422.9	2,442.7	2,465.2
Minority Interest	4.2	4.5	4.5	4.5	4.5
Total shareholder equity	1,208.9	1,377.4	2,427.4	2,447.2	2,469.7
Total liabilities and equity	1,464.2	1,819.3	2,941.0	2,973.4	3,007.0
CASH FLOW (MYR m)					
Pretax profit	172.9	352.5	460.0	523.4	590.2
Depreciation & amortisation	100.3	102.7	101.2	100.9	100.7
Adj net interest (income)/exp	(9.7)	(6.6)	(10.8)	(22.3)	(22.3)
Change in working capital	91.1	41.6	(85.3)	(20.7)	(21.9)
Cash taxes paid	(21.7)	(24.6)	(53.6)	(56.7)	(61.0)
Other operating cash flow	4.9	14.5	0.0	0.0	0.0
Cash flow from operations	347.6	486.7	422.3	546.8	608.0
Capex	(80.8)	(97.1)	(100.0)	(100.0)	(100.0)
Free cash flow	266.8	389.5	322.3	446.8	508.0
Dividends paid	(140.8)	(218.0)	(389.0)	(446.6)	(506.5)
Equity raised / (purchased)	(1.5)	0.5	1,032.7	0.0	0.0
Change in Debt	41.0	144.5	(1.1)	0.0	0.0
Other invest/financing cash flow	(12.4)	1.4	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	153.1	317.9	965.0	0.2	1.5

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.2)	35.0	40.7	6.8	6.7
EBITDA growth	(13.0)	70.2	22.7	9.4	11.1
EBIT growth	(21.6)	111.8	29.9	11.5	13.3
Pretax growth	(20.0)	103.8	30.5	13.8	12.8
Reported net profit growth	(18.5)	111.6	22.9	14.8	13.4
Core net profit growth	(19.8)	114.8	17.8	14.8	13.4
Profitability ratios (%)					
EBITDA margin	24.9	31.4	27.4	28.0	29.2
EBIT margin	15.4	24.2	22.3	23.3	24.8
Pretax profit margin	16.3	24.7	22.9	24.4	25.8
Payout ratio	92.9	114.6	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	14.8	23.1	20.2	21.7	23.1
Revenue/Assets (x)	0.7	0.8	0.7	0.7	0.8
Assets/Equity (x)	1.2	1.3	1.2	1.2	1.2
ROAE (%)	13.5	25.7	21.4	19.2	21.6
ROAA (%)	11.5	21.0	17.1	15.8	17.7
Liquidity & Efficiency					
Cash conversion cycle	67.3	25.9	20.5	27.5	28.5
Days receivable outstanding	76.1	58.7	53.0	58.7	58.4
Days inventory outstanding	68.1	54.4	47.6	54.8	55.0
Days payables outstanding	77.0	87.2	80.0	86.0	84.9
Dividend cover (x)	1.1	0.9	1.0	1.0	1.0
Current ratio (x)	4.0	3.1	4.9	4.9	4.8
Leverage & Expense Analysis					
Asset/Liability (x)	5.7	4.1	5.7	5.7	5.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	7.6	6.8	5.0	4.7	4.4
Net debt/ (net cash)	(588.4)	(903.8)	(1,869.8)	(1,870.0)	(1,871.5)

Source: Company; Maybank IBG Research

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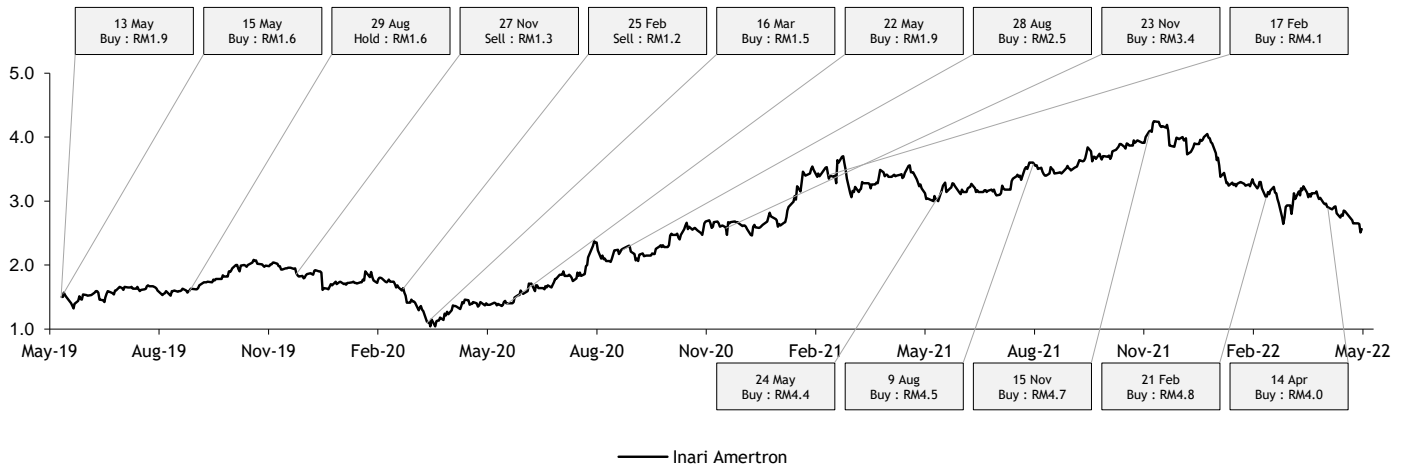
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