

17 May 2022

Inari Amertron

Cautiously Positive

By Samuel Tan | samueltan@kenanga.com.my

Inari reported 3QFY22 CNP of RM89.0m (-17.6% QoQ; +20.0% YoY), bringing 9MFY22 CNP to RM302.6m (+26.7% YoY) which came in within expectations, representing 76% each of both our/street's forecast. 3QFY22 revenue inched 5% higher YoY as the leading US smartphone brand managed to eke out a 2.2% YoY shipment growth while global shipment as a whole declined for the second consecutive quarter. We opine that the tepid growth in the smartphone market will remain in the medium term. Maintain **OUTPERFORM** with a lower Target Price of RM3.30.

Within expectation. Inari registered 3QFY22 CNP of RM89.0m (-17.6% QoQ; +20.0% YoY), bringing 9MFY22 CNP to RM302.6m (+26.7% YoY) which came in within expectations, representing 76% each of both our and street's full-year estimates.

Results' highlight. QoQ, in line with the group's seasonal trend, 3QFY22 revenue fell 14.3% to RM360.3m as 1QCY22 shipment for the US smartphone client slid 33% QoQ, coming off a strong year-end shopping season. As a result, CNP fell 17.6% to RM89.0m as the group also experienced some inefficiencies on shorter production days due to the Chinese New Year break. **YoY,** 3QFY22 revenue saw a 5.1% increase despite 1QCY22 global smartphone shipment being down 8.9% YoY. This was possible as the US smartphone brand was able to navigate through the supply chain issue better than the competition, being the only brand to eke out a positive shipment growth of 2.2% YoY. Coupled with cost optimisation and improved efficiency, CNP grew at a quicker pace of 20.0%. Cumulatively, 9MFY22 CNP saw 26.7% growth to RM302.6m on a 13.5% increase in revenue to RM1,221.7m.

Plateauing smartphone demand. We are of the view that the growth in the smartphone market will likely remain tepid which is evident by the back-to-back decline in global smartphone shipment in 4QCY21 (-1.8% YoY) and 1QCY22 (-8.9% YoY). This is also the first time in the past seven quarters that management has toned down its comments in the prospect statement, indicating a "cautiously" positive stance as it braces for a "heavily clouded" outlook. We also noticed that the MOU with China Fortune-Tech Capital (CFTC) to expand into the Chinese market has expired on 17 April 2022 and both parties have agreed to extend it for another 2 months. While we are confident of the management's execution in diversifying into other industries over a longer term, we believe its large exposure to the smartphone segment in the immediate term may not bode well with investor's appetite.

We maintain our forecast for FY22E CNP but trim FY23E CNP by 6.6% to account for plateauing demand in the smartphone market.

Maintain OUTPERFORM with a lower Target Price of RM3.30 (previously RM4.60) on a lower FY23E PER of 28x (previously 40x), representing +0.5SD to its 5-year mean. We lowered our PER to account for Inari's potential deletion from the KLCI index in the upcoming June review and the slowing demand in the smartphone market. However, we believe the slight premium to its 5-year mean is justifiable by the group's superior profit margins compared to peers in the OSAT space.

Risks to our call include: (i) less aggressive orders from its key customer, (ii) delay in 5G roll-out, and (iii) higher input costs.

OUTPERFORM ↔

Price : RM2.56
Target Price : RM3.30 ↓

Share Price Performance



KLCI 1,544.41
YTD KLCI chg -1.5%
YTD stock price chg -36.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	INRI MK Equity
Market Cap (RM m)	9,489.13
Shares Outstanding	3,706.7
52-week range (H)	4.30
52-week range (L)	2.92
3-mth avg daily vol:	15,215,100
Free Float	64%
Beta	0.50

Major Shareholders

Insas Bhd	14.0%
KWAP	9.1%
EPF	7.9%

Summary Earnings Table

FYE Jun (RM m)	2021A	2022E	2023E
Turnover	1,428.7	1,750.1	1,873.2
EBITDA	455.7	528.6	556.1
PBT	352.2	432.2	462.8
Net Profit (NP)	330.5	399.0	427.2
Consensus (NP)	n.a.	398.3	455.8
Earnings Revision	n.a.	0.0%	-6.6%
EPS (sen)	10.0	10.8	11.5
EPS growth (%)	112.2	7.6	7.1
NDPS (sen)	11.0	9.6	10.3
BVPS (RM)	0.42	0.38	0.39
Price/BV (x)	6.2	6.7	6.5
PER (x)	25.6	23.8	22.2
Gearing (x)	0.0	0.0	0.0
ROA (%)	18.2	21.9	22.7
ROE (%)	24.1	28.2	29.2
Dividend Yield (%)	4.3	3.8	4.0

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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Jun (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	360.3	420.3	-14.3%	342.9	5.1%	1211.7	1067.4	13.5%
EBIT	103.1	116.7	-11.7%	86.8	18.8%	338.2	259.1	30.5%
PBT	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	-164.6%	-32.9	-16.8	-95.7%
Net Profit (NP)	90.5	107.3	-15.7%	81.9	10.4%	304.7	242.1	25.9%
Core NP	89.0	108.1	-17.6%	74.1	20.1%	302.6	238.9	26.7%
EPS (sen)	2.4	2.9	-17.6%	2.0	20.1%	8.2	6.4	26.7%
DPS (sen)	2.2	2.8		4.0		7.8	8.5	
EBIT margin	28.6%	27.8%		25.3%		27.9%	24.3%	
Pretax margin	28.6%	27.8%		25.3%		27.9%	24.3%	
CNP margin	24.7%	25.7%		21.6%		25.0%	22.4%	
Effective tax rate	-12.4%	-7.4%		-5.6%		-9.7%	-6.5%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
D&O GREEN TECHNOLOGIES BHD	3.69	4,565.1	Y	12/2022	28.0%	15.3%	34.0%	15.5%	50.8	37.9	32.8	7.3	6.3	17.1%	0.4%	5.60	OP
GHL SYSTEMS BHD	1.51	1,723.7	Y	12/2022	31.9%	6.8%	67.5%	12.3%	58.8	35.1	31.3	3.3	3.0	8.4%	0.0%	1.90	OP
INARI AMERTRON BHD	2.56	9,489.1	Y	06/2022	22.5%	7.0%	20.7%	7.1%	25.6	23.8	22.2	6.2	6.7	28.2%	3.8%	3.30	OP
JHM CONSOLIDATION BHD	1.18	658.0	Y	12/2022	10.7%	15.2%	38.6%	15.8%	30.4	21.9	18.9	0.4	05	12.5%	0.3%	1.80	MP
KELINGTON GROUP BHD	1.16	745.9	Y	12/2022	35.6%	1.5%	39.3%	1.5%	25.7	18.4	18.1	4.2	3.6	19.4%	1.4%	1.90	OP
KESM INDUSTRIES BHD	7.71	331.6	Y	07/2022	1.8%	6.5%	31.1%	165%	97.7	74.5	28.1	1.1	1.1	1.4%	1.0%	8.50	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	31.76	6,317.0	Y	06/2022	10.0%	10.0%	11.3%	10.0%	26.2	23.6	24.4	7.1	8.0	15.6%	0.8%	48.10	OP
P.I.E. INDUSTRIAL BHD	2.75	1,056.1	Y	12/2022	18.3%	11.9%	28.2%	11.7%	17.2	13.4	12.0	1.3	1.5	13.5%	1.8%	3.70	OP
SKP RESOURCES BHD	1.43	2,234.2	Y	03/2022	12.3%	12.4%	21.7%	12.4%	18.3	15.0	13.4	3.4	3.1	21.0%	3.3%	1.90	OP
UNISEM (M) BHD	2.87	4,629.5	Y	12/2022	14.0%	10.0%	22.1%	11.3%	23.9	19.6	176	2.2	2.0	10.4%	2.0%	3.75	OP

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

