A solid quarter

3QFY17 results surprised positively with a better-than-expected EBITDA margin that was at its highest since 3Q13, likely driven by cost improvement. The impact from the new IRIS chip should have been minimal with full-quarter contribution in 4QFY17. We raise our FY17 EPS estimate by 11%. Maintain BUY and target price of RM2.60.

9MFY17 results – surprises positively with strong margin improvement

Inari's 9MFY17 core profit of RM135m (+22% yoy) was ahead of our expectations but in line with the street's, accounting for 84% and 70% of the respective FY17 estimates. Against our forecast, the variance was due to the better-than-expected EBITDA margin for the quarter that surged 6ppts qoq to 26.1%, the highest level since 3QFY13. For the 9 months, the EBITDA margin at 22.1% was above our FY17 estimate of 19.7%.

9MFY17 growth driven by revenue and margin gains

Overall, the better set of results was underpinned by a combination of stronger revenue and a firmer EBITDA margin. Note, however, that 3QFY16 revenue and earnings had been impacted by the inventory correction last year. The gradual improvement post that quarter has helped contribute to the better revenue and earnings. We note that 9MFY17 revenue and earnings are still fairly flat excluding that blip in 3QFY16. This is largely the result of a customer's transition from 6" to 8" wafers, in which Inari is seeing little incremental benefits. Nevertheless, it announced a quarterly DPS of 2.2 sen bringing the 9MFY17 DPS to 7 sen.

3QFY17 earnings surge 33% qoq

Sequentially, core earnings surged 33% on the strong margin improvement. We think that this could have been due to better contribution from its data server chip business. While the IRIS IR chip business also commenced operations in the latter part of 3QFY17, contribution would be more significant in 4QFY17, with a near full-quarter impact of 5m production units/month.

Maintain Buy and target price of RM2.60

We raise our 2017 EPS forecast by 11% to account for the better margins but leave FY18-19 estimates unchanged. We reiterate our Buy rating on Inari at an unchanged 12-month target price of RM2.60 (20x FY18E EPS). Key risks: a slowdown in global demand for smart devices, rapid ASP erosion and a loss of its customer base.

Earnings & Valuation Summary

FYE 30 June	2015	2016	2017E	2018E	2019E
Revenue (RMm)	933.1	1,040.9	1,152.7	1,575.9	1,816.6
EBITDA (RMm)	166.4	206.0	246.1	342.7	384.7
Pretax profit (RMm)	152.0	153.1	218.4	288.6	332.4
Net profit (RMm)	152.5	148.3	205.3	268.3	305.9
EPS (sen)	7.7	7.5	10.4	13.6	15.5
PER (x)	28.2	29.0	20.9	16.0	14.1
Core net profit (RMm)	132.7	153.2	178.2	268.3	305.9
Core EPS (sen)	6.7	7.8	9.0	13.6	15.5
Core EPS growth (%)	41.1	15.4	16.3	50.6	14.0
Core PER (x)	32.4	28.1	24.1	16.0	14.1
Net DPS (sen)	4.5	4.2	5.2	5.4	6.2
Dividend Yield (%)	2.0	1.9	2.4	2.5	2.8
EV/EBITDA (x)	24.4	20.0	16.8	11.8	10.1
Chg in EPS (%)			11.2	-	-
Affin/Consensus (x)			0.8	1.1	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Inari Amertron

INRI MK
Sector: Technology

RM2.18 @ 16 May 2017

BUY (maintain)

Upside: 19%

Price Target: RM2.60

Previous Target: RM2.60

Price Performance

	1M	3M	12M
Absolute	+14.7%	+17.8%	+63.0%
Rel to KLCI	+11.7%	+13.2%	+48.6%

Stock Data

Issued shares (m)	1,985.0
Mkt cap (RMm)/(US$m)	4,328.8/1001.8
Avg daily vol - 6mth (m)	6.5
52-wk range (RM)	1.28-2.23
Est free float	58.3%
BV per share (RM)	0.41
P/BV (x)	5.29
Net cash/ (debt) (RMm) (3Q17)	334.7
ROE (2017E)	24.8%
Derivatives	Nil
(Warr A 06/18, EP RM0.132)	
(Warr B 02/20, EP RM0.80)	
Shariah Compliant	Yes

Key Shareholders

Insas Bhd	19.9%
KWAP	6.6%
EPF	6.4%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 30 June (RMm)	3QFY17	QoQ % chg	YoY % chg	9MFY17	YoY % chg	Comments
Revenue	274.0	*(0.4)*	*26.1*	830.7	*5.7*	Weak revenue qoq due to a combination of customer's transition from 6" to 8' wafers limiting Inari from charging more for its services. Gain yoy largely due to the low base in 3QFY16
Op costs	(202.5)	*(7.8)*	*13.5*	(646.7)	*1.5*	
EBITDA	71.5	*29.2*	*84.2*	183.9	*23.5*	
EBITDA margin (%)	*26.1*	*+6.0ppt*	*+8.2ppt*	*22.1*	*+3.2ppt*	
Depn and amort	(16.4)	*10.1*	*48.4*	(45.0)	*30.2*	Increase driven by plant expansion
EBIT	55.2	*36.2*	*98.4*	138.9	*21.5*	
Int expense	(0.3)	*(22.8)*	*(82.6)*	(1.1)	*(76.4)*	
Int and other inc	1.5	*29.5*	*(52.0)*	3.6	*(25.4)*	
EI	(2.1)	*>100*	*(66.1)*	27.1	*>100*	Largely realised and unrealised forex loss in 3QFY17 including RM4m gain on disposal of shares in PCL
Pretax profit	**54.3**	*(15.7)*	*135.7*	**168.6**	*50.8*	
Core pretax	**56.3**	*36.6*	*93.4*	**141.5**	*23.4*	
Tax	(2.1)	*5.3*	*634.4*	(5.9)	*59.3*	
Tax rate (%)	*3.9*	*n.m*	*n.m*	*3.5*	*n.m*	
MI	(1.0)	*>100*	*(26.6)*	(0.4)	*>100*	
Net profit	**51.2**	*(18.8)*	*139.1*	**162.2**	*49.7*	Growth driven by forex gains and low base in 3QFY16
EPS (sen)	2.6	*(18.8)*	*139.1*	5.8	*5.4*	
Core net profit	**53.2**	*33.4*	*93.6*	**135.1**	*21.6*	Above our expectations but in line with street - accounts for 84% of our FY17 estimate (70% of street's)

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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