INARI AMERTRON

(INRI MK EQUITY, INAR.KL)

BUY

(UPGRADED)

Price: RM2.17
Target Price (% return): RM3.25 (+52%)
52-week High/Low: RM2.67/RM1.21

Technology
Rationale for report: Company Update

The second engine ignites

Inari Amertron is entering a new growth cycle, driven by datacom, reversing four years of earnings decline. We forecast FY25–28F earnings CAGR of 15%, supported by a stabilising RF base and a fast-scaling new engine. The termination of the Lumileds deal removes a key overhang, while strong liquidity positions the stock as a key beta proxy. We raise our TP to RM3.25/share (from RM1.70), 30x CY27F PE, +1SD, a sweet spot reflecting improving visibility and a structural rerating story.

- **Upgrade to BUY at higher TP of RM3.25/share.** This is based on 30x CY27F EPS, pegged at +1SD above its 5-year average. We believe this is justified as the group enters a new growth cycle, led by datacom. The target multiple is in line with peer valuations such as Unisem and MPI. Inari remains one of Malaysia's most liquid tech stocks, with RM52.1mil 3-month ADTV, making it suitable for investors seeking large-cap tech exposure.
- **Datacom: The new growth engine**. We estimate datacom can eventually rival RF in size, driving earnings upgrades of 3%/30% for FY27F/28F, placing us at a 11%/29% premium to consensus. The key shift is the emergence of datacom, with revenues forecast to increase 7.5x between FY26F and FY28F. As AI and hyperscale data centres scale, this increases the demand for high-speed lasers, which enable data transmission.
- **RF provides stable base.** RF remains the group's bread and butter, supplying RF front-end components into smartphones. While the segment experienced a decline in FY26F, we expect a normalisation in FY27F, supported by increased circuit content in upcoming device cycles. That said, we do not expect a return to historical high growth rates. Instead, RF transitions into a stable, cash-generating base that anchors earnings.
- **Lumileds Termination: Clearing a Key Overhang.** The termination of the Lumileds acquisition removes a major source of uncertainty. Had it proceeded, FY27F earnings could have been diluted by approximately 25%. Its cancellation therefore improves earnings quality and simplifies the story for investors, shifting attention back to organic growth drivers rather than complex M&A outcomes.

YE to June	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	1,351.9	1,212.5	1,614.1	2,220.5
Core net profit (RM mil)	261.2	191.9	294.0	400.2
FD Core EPS (sen)	6.9	5.1	7.8	10.6
FD Core EPS growth (%)	(13.6)	(26.5)	53.2	36.1
Consensus Net Profit (RM mil)	-	198.6	264.2	309.1
DPS (sen)	6.3	5.1	7.8	10.6
PE (x)	31.6	43.0	28.1	20.6
EV/EBITDA (x)	18.3	19.4	14.4	11.4
Div yield (%)	3.0	2.4	3.7	5.0
ROE (%)	7.9	6.9	10.6	14.5
Net Gearing (%)	nm	nm	nm	nm

Source: Inari Amertron , AmInvestment Bank Bhd.

Analyst (s)

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Key Changes

Target Price:	⬆
EPS:	⬆

Stock and Financial Data

Shares Outstanding (million)	3,789.0
Market Cap (RMmil)	8,260.0
Book Value (RM/Share)	0.73
P/BV (x)	3.0
ROE (%)	7.9
Net Gearing (%)	-
Free Float	74.3
Avg Daily Value (RMmil)	52.1

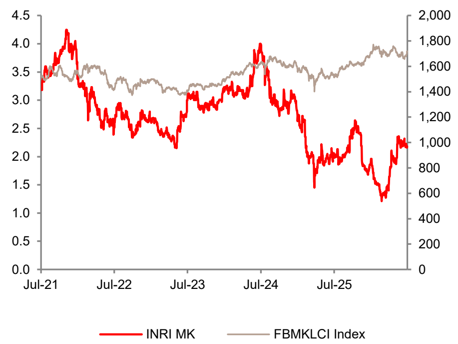
Major Shareholders

EPF	(15.0%)
Insas Bhd	(12.1%)
KWAP	(10.0%)

Price performance	3mth	6mth	12mth
Absolute(%)	42.5	12.4	5.8
Relative(%)	40.0	12.5	(5.8)

Source: Inari Amertron , AmInvestment Bank Bhd.

Price Chart



The second engine ignites

Supports assembly and testing of optical components

What does Inari do in Datacom?

Via Inari Semiconductor Labs (ISL), the group helps assemble and test optical components used in high-speed data transmission. It works on tiny laser and detector parts that allow data to move through fibre-optic networks. Its role covers checking wafers before production, assembling laser and detector components and testing them to make sure they work properly.

Lasers power AI, Cloud and DC connectivity

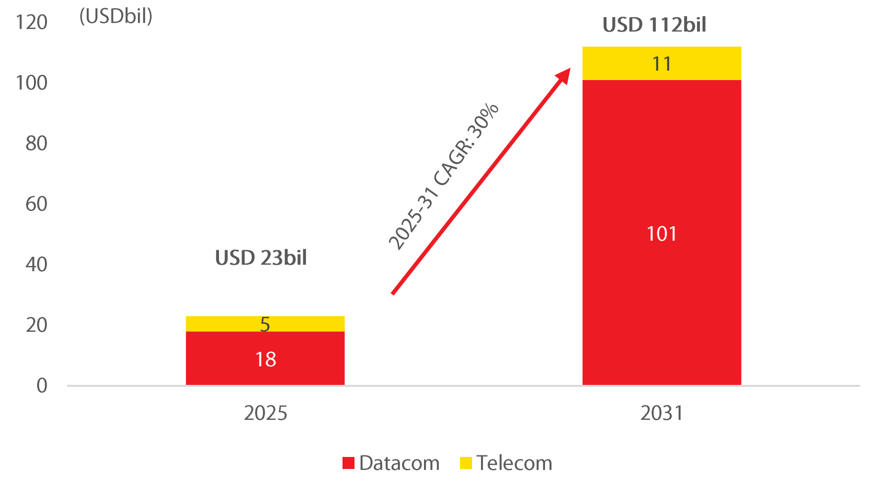
What is driving the growth for these lasers?

These lasers are ultimately used in optical transceivers, which are the modules that convert electrical signals into light so data can move through fibre-optic cables. Those transceivers sit inside data centres, AI server clusters, telecom networks, cloud infrastructure, enterprise networks, and high-speed interconnect systems. They help servers, switches, routers and storage systems talk to each other at very high speeds.

Strong growth driven by AI infrastructure

The growth is being driven mainly by AI and cloud data traffic. Yole forecasts the optical transceiver market to grow at a 2025-2031 CAGR of +30% YoY to US$112bil. As AI models get larger and data centres become more powerful, huge amounts of data need to move between GPUs, servers and switches with very low delay and high bandwidth.

EXHIBIT 1. Optical transceiver market size



Source: Yole Group

Shift toward optical networking

Traditional copper/electrical links struggle over longer distances and consume more power, so operators are shifting more workloads toward optical links. This increases demand for high-speed lasers such as EML (electro-absorption modulated laser), CWL (continuous wave laser) and VCSEL (vertical cavity surface emitting laser), especially in 400G, 800G and eventually 1.6T optical transceivers.

EXHIBIT 2. Technical comparison between type of lasers

Parameter	VCSEL	EML	CW Laser
Full Name	Vertical-Cavity Surface-Emitting Laser	Electro-absorption Modulated Laser	Continuous Wave Laser
Wavelength	850 nm (multimode fiber)	1470-1610 nm (C-band, ~1550 nm)	1310-1550 nm (single-mode)
Transmission Distance	Short-reach: Up to 300m at 10 Gbps	Long-reach: 10-80 km (up to 40 km typical for 100G)	Medium to long-reach: 10-40+ km with external modulation
Speed / Data	Up to 100G per lane (200G/lane emerging)	>25 Gbps, high-speed (>40 GHz capable, 200G/lane available)	Up to 200G per lane with silicon photonics modulation
Modulation Type	Direct modulation	Integrated electro-absorption modulator (EAM) with CW DFB laser	External modulation (silicon photonics or Mach-Zehnder)
Chromatic Dispersion	Minimal (multimode fiber)	Very low (stable wavelength, low chirp)	Minimal (chirp-free external modulation)
Relative Cost	Low	High	Medium
Power Consumption	Very low	Higher (can exceed 4.5W per module)	Moderate (depends on modulator type)

Source: Edge Optical Solutions

Silicon photonics accelerate next generation connectivity

Another driver is silicon photonics, where optical components are integrated more closely with chips to improve speed, power efficiency and scalability. CWL and externally modulated laser architectures become important here because they provide the light source for these systems.

Why is there currently a shortage?

Number of optical links rises sharply as clusters get bigger

For AI data centres, the number of optical links rises sharply as clusters get bigger. Each server needs to connect to switches, other servers, storage and sometimes other data halls. As speeds move from 400G to 800G to 1.6T, each generation needs more advanced optical engines, tighter tolerances and better lasers, which lifts demand for EML and CWL.

InP based lasers rely on specialised supply chains

The supply issue is that many of these high-performance lasers are made from indium phosphide (InP), not ordinary silicon. InP is excellent for emitting light efficiently at telecom wavelengths, which is why it is used for datacom lasers. But the InP supply chain is much smaller than the silicon semiconductor supply chain. There are fewer wafer suppliers, fewer laser fabs, fewer qualified assembly/test houses and qualification cycles can be long. So when demand jumps, supply cannot respond instantly.

EXHIBIT 3. Global key supplier landscape: Laser light sources and PDs

Region	Key EML Suppliers
US	Broadcom (Avago)
	Lumentum
	Coherent (Finisar)
JP	Mitsubishi
	Sumitomo

Region	Key CW Laser Suppliers	
US	Broadcom (Avago)	
	Lumentum	
	Coherent (Finisar)	
JP	Mitsubishi	
	Sumitomo	
	Furukawa	
	CW Epitaxy	CW Chip Foundries
TW	Landmark	Luxnet, TrueLight

Region	Key PD Suppliers	
US	Broadcom (Avago)	
JP	Mitsubishi	
	Key PD Suppliers	PD Epitaxy Suppliers
US	Lumentum	iET
	Coherent (Finisar)	iET
	Macom	iET
TW	GCS	VPEC

Source: TrendForce

InP laser capacity has been identified as major bottleneck

Recent commentary from Coherent and Lumentum points to a clear shortage in high-performance optical laser chips, especially InP-based devices used in AI data-centre networks. Coherent has described InP laser capacity as one of the key industry constraints, while Lumentum has said its InP wafer fab is fully allocated and effectively sold out for the foreseeable future. Despite ongoing capacity additions, both companies indicate that demand continues to run ahead of supply.

Laser chip shortages have widened to over 30% in some segments

Lumentum has also quantified the gap, estimating a 25-30% shortfall versus customer demand in late 2025, later saying it was undershipping EML laser demand by around 30%. By May 2026, management suggested the laser-chip imbalance was likely above 30%, with pump lasers even more severely constrained. These shortages have affected transceiver shipments and data-centre interconnect components, with demand for narrow-linewidth laser assemblies continuing to outpace supply.

Supply scarcity is accelerating investments to expand capacity

The tight market is also changing industry economics. With supply constrained, laser suppliers are seeing stronger pricing power and more selective customer allocation. In response, Coherent is ramping 6-inch InP production lines in Texas and Sweden, while Lumentum is acquiring a new InP fab in North Carolina. Overall, the commentary supports the view that AI data-centre growth has turned InP lasers into a strategic bottleneck in the optical supply chain.

Nvidia's investment highlights growing importance to secure long-term access

Nvidia's March 2026 investment in Coherent and Lumentum is a strong real-world signal that advanced optics and laser supply have become strategically important for AI infrastructure. Nvidia committed US$2bil each to Coherent and Lumentum, alongside multibillion-dollar purchase commitments and future capacity access rights for advanced laser components and optical networking products. The deal is aimed at supporting R&D, expanding U.S.-based manufacturing capacity and securing the optical interconnect technology needed to scale next-generation AI data centres.

How will this translate into Inari's earnings?

FY25-28F earnings CAGR of +15% YoY

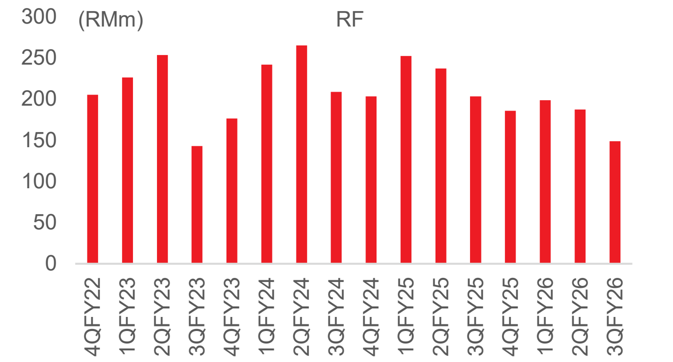
We raise our FY27F and FY28F earnings forecasts by 3% and 30%, respectively, driven by stronger Datacom growth assumptions. We now expect Datacom revenue to more than double annually over the next three years, ultimately approaching the scale of the group's core RF business. This is partly offset by a reduction in RF revenue forecasts, reflecting market share shifts within a key smartphone model. While we anticipate RF revenues to normalise in FY27F, the recovery may be tempered by higher memory costs, which could translate into elevated smartphone selling prices and softer end-market demand.

EXHIBIT 4. Change in earnings

		FY26F			FY27F			FY28F	
RMmil	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	1,382.5	1,212.5	*-12%*	1,513.5	1,614.1	*7%*	1,660.5	2,220.5	*34%*
Earnings	237.9	191.9	*-19%*	286.6	294.0	*3%*	307.9	400.2	*30%*
Revenue by segment									
RF	888.0	673.7	*-24%*	918.7	857.4	*-7%*	956.9	956.9	-
Datacom	36.3	80.7	*122%*	38.2	200.0	*424%*	40.1	600.0	*1,398%*

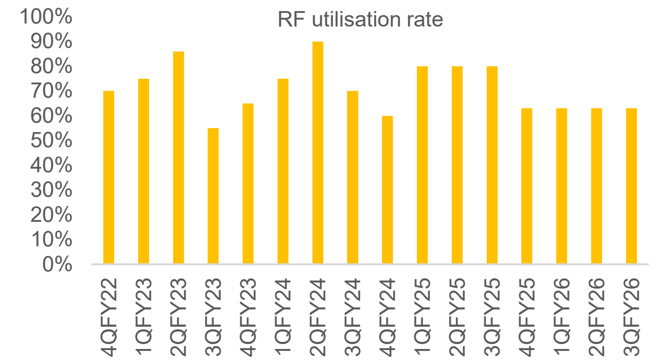
Source: AmInvestment Bank Bhd.

EXHIBIT 5. RF revenue



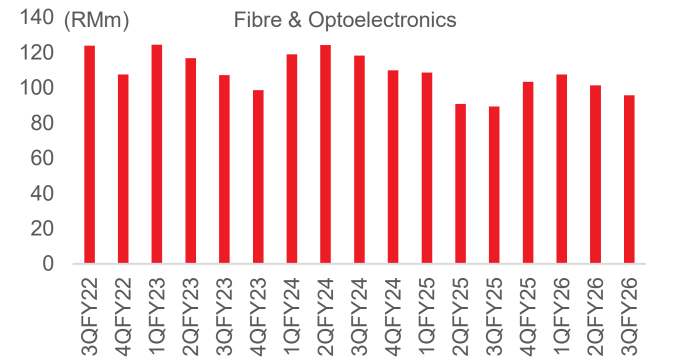
Source: Inari Amerton, AmInvestment Bank Bhd.

EXHIBIT 6. RF utilisation rate



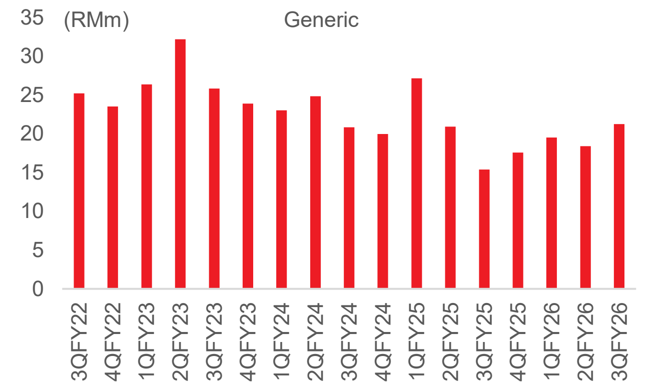
Source: Inari Amerton, AmInvestment Bank Bhd.

EXHIBIT 7. Fibre and optoelectronics revenue



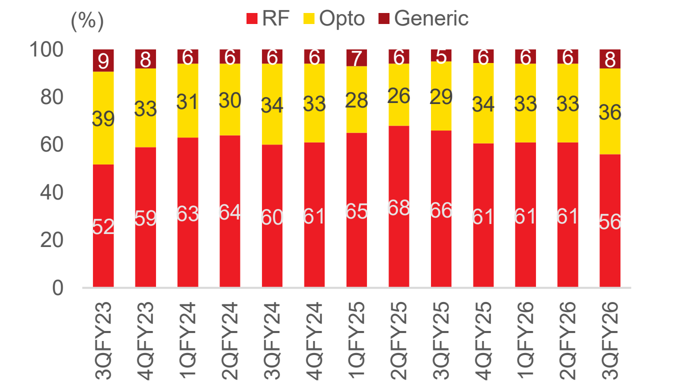
Source: Inari Amerton, AmInvestment Bank Bhd.

EXHIBIT 8. Generic revenue



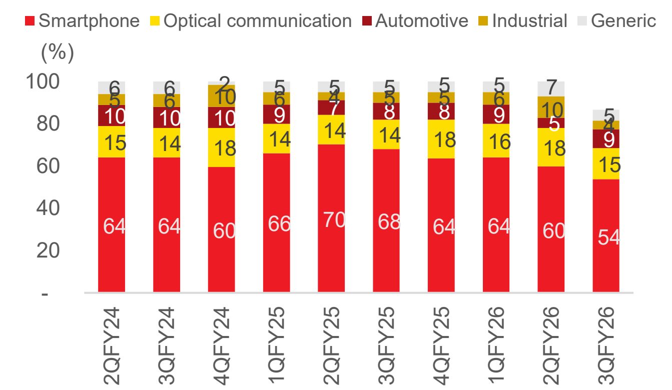
Source: Inari Amerton, AmInvestment Bank Bhd.

EXHIBIT 9. Revenue breakdown by product



Source: Inari Amerton, AmInvestment Bank Bhd.

EXHIBIT 10. Revenue breakdown by segment



Source: Inari Amerton, AmInvestment Bank Bhd.

TP based on target PE of 30x and FY28F EPS

Upgrade to BUY at higher TP of RM3.25/share

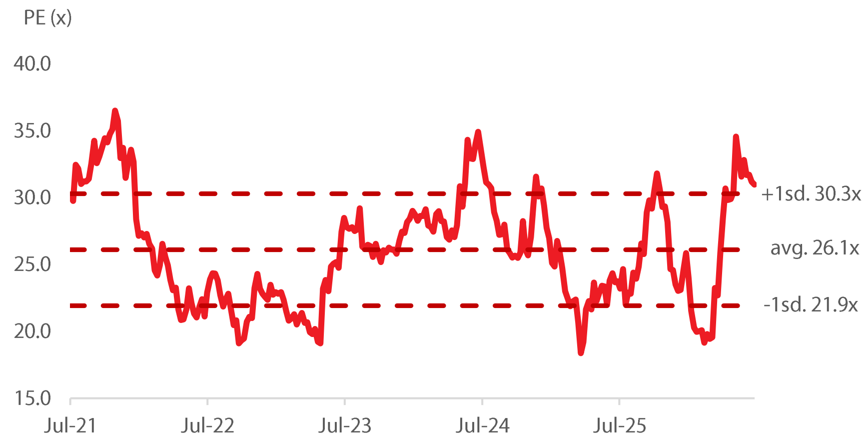
We upgrade Inari to BUY (from HOLD) at a higher TP of RM3.25/share (from RM1.70). This is based on a target PE of 30x and FY28F EPS, to capture a 12-month forward view. The target multiple is pegged to 1SD above Inari's five-year historical average, which we believe is justified as the group enters a new growth phase driven by its Datacom business. Following four consecutive years of earnings contraction, we forecast an FY25-28F earnings CAGR of 15%, underpinned by accelerating Datacom contributions. Our target PE also remains broadly in line with the forward valuation multiples of key peers, with Unisem and MPI trading at 38x and 33x, respectively.

EXHIBIT 11. Valuations

Target PE (x)	30x (from 21.5x)
FY28F EPS	10.6sen (from 7.6sen)
4-star ESG premium	x3% premium
Target price	RM3.25 (from RM1.70)

Source: AmInvestment Bank Bhd.

EXHIBIT 12. Inari 5-year forward PE



Source: Bloomberg, AmInvestment Bank Bhd.

Background

Inari is a professionally runned OSAT (outsourced semiconductor assembly and test) company. It has one of the largest RF (radio frequency) test sites in the world, with more than 1k testers. Its main customer contributed to 89% of FY25 revenues.

Apart from RF, some of the other products the group is involved in includes fibre optic transceivers, optoelectronics, memory modules, sensors and custom ICs (integrated circuits).

Total built-up production floor space stands at 1.8m sqft across its facilities in Malaysia, Philippines and China. Its capabilities include wafer probe & processing, assembly, package test and back end.

Investment thesis and catalysts

Datacom is emerging as key growth driver. We expect revenue to quadruple between FY26F and FY28F as AI and hyperscale data-centre demand boosts demand for high-speed optical lasers.

RF remains a stable earnings anchor. This is supported by smartphone RF front-end demand. While growth is likely to normalise rather than return to historical highs, the segment should continue to provide a resilient cash-generating base.

Most liquid Malaysia Technology name. Three-month average daily turnover stands at RM52mil. Due to this, the group is generally favoured as a quick way to build an exposure to Malaysia Technology.

Valuation methodology

We value Inari at a 30x FY28F PE, representing 1SD above its five-year historical average. We believe this premium is justified as the group emerges from four years of earnings contraction and enters a new growth cycle, underpinned by the rapid expansion of its Datacom business.

Risk factors

Given its high major customer and smartphone dependency, any order reduction or terminations could substantially hinder the group's performance.

The group is also susceptible to currency fluctuations, where every 1% increase/decrease in the USD/MYR rate, increases/decreases earnings by 3%.

Financial Summary

Income Statement (RMmil)

YE to June	FY24	FY25	FY26F	FY27F	FY28F
Revenue	1,478.7	1,351.9	1,212.5	1,614.1	2,220.5
EBITDA	370.8	334.9	316.1	431.0	551.3
Depreciation/Amortisation	(123.1)	(137.9)	(145.7)	(146.5)	(147.1)
Operating income (EBIT)	247.6	196.9	170.4	284.6	404.2
Other income & associates	(0.2)	-	-	-	-
Net interest	64.7	65.8	42.8	42.1	40.5
Exceptional items	(2.2)	(42.4)	-	-	-
Pretax profit	**310.1**	**220.3**	**213.3**	**326.7**	**444.6**
Taxation	(10.0)	(7.2)	(21.3)	(32.7)	(44.5)
Minorities/pref dividends	0.1	5.6	-	-	-
Net profit	**300.2**	**218.7**	**191.9**	**294.0**	**400.2**
Core net profit	302.4	261.2	191.9	294.0	400.2

Balance Sheet (RMmil)

YE to June	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	779.4	726.2	730.5	734.1	737.0
Intangible assets	10.9	9.9	9.9	9.9	9.9
Other long-term assets	19.9	24.0	24.0	24.0	24.0
Total non-current assets	**810.3**	**760.1**	**764.4**	**767.9**	**770.8**
Cash & equivalent	2,260.7	2,141.4	2,141.6	2,073.2	1,972.3
Stock	181.0	179.1	149.3	198.8	273.5
Trade debtors	253.6	254.5	272.5	362.7	499.0
Other current assets	48.5	66.9	66.9	66.9	66.9
Total current assets	**2,743.8**	**2,641.8**	**2,630.3**	**2,701.6**	**2,811.6**
Trade creditors	274.7	233.0	225.8	300.6	413.5
Short-term borrowings	-	-	-	-	-
Other current liabilities	73.4	50.5	50.5	50.5	50.5
Total current liabilities	**348.1**	**283.4**	**276.3**	**351.1**	**464.0**
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	31.8	28.1	28.1	28.1	28.1
Total long-term liabilities	**31.8**	**28.1**	**28.1**	**28.1**	**28.1**
Shareholders' funds	**2,793.8**	**2,763.7**	**2,763.7**	**2,763.7**	**2,763.7**
Minority interests	380.4	326.7	326.7	326.7	326.7
BV/share (RM)	0.74	0.73	0.73	0.73	0.73

Cash Flow (RMmil)

YE to June	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	310.1	220.3	213.3	326.7	444.6
Depreciation/Amortisation	123.1	137.9	145.7	146.5	147.1
Net change in working capital	122.6	(47.1)	4.5	(64.9)	(98.0)
Others	(40.0)	10.6	(21.3)	(32.7)	(44.5)
Cash flow from operations	**515.7**	**321.8**	**342.1**	**375.6**	**449.2**
Capital expenditure	(180.7)	(112.4)	(150.0)	(150.0)	(150.0)
Net investments & sale of fixed assets	287.5	-	-	-	-
Others	(299.0)	(117.6)	-	-	-
Cash flow from investing	**(192.3)**	**(230.1)**	**(150.0)**	**(150.0)**	**(150.0)**
Debt raised/(repaid)	(0.7)	(1.6)	-	-	-
Equity raised/(repaid)	103.3	39.7	-	-	-
Dividends paid	(292.1)	(238.3)	(191.9)	(294.0)	(400.2)
Others	299.3	80.8	-	-	-
Cash flow from financing	**109.9**	**(119.4)**	**(191.9)**	**(294.0)**	**(400.2)**
Net cash flow	**433.3**	**(27.7)**	**0.2**	**(68.5)**	**(100.9)**
Net cash/(debt) b/f	**1,831.0**	**2,260.7**	**2,141.4**	**2,141.6**	**2,073.2**
Net cash/(debt) c/f	**2,260.7**	**2,141.4**	**2,141.6**	**2,073.2**	**1,972.3**

Key Ratios

YE to June	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	9.2	(8.6)	(10.3)	33.1	37.6
EBITDA growth (%)	(6.1)	(9.7)	(5.6)	36.4	27.9
Pretax margin (%)	21.0	16.3	17.6	20.2	20.0
Net profit margin (%)	20.3	16.2	15.8	18.2	18.0
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	3.2	3.3	10.0	10.0	10.0
Dividend payout (%)	97.3	108.9	100.0	100.0	100.0
Debtors turnover (days)	82	69	79	72	71
Stock turnover (days)	45	49	49	39	39
Creditors turnover (days)	68	69	69	60	59

Source: Company, AmInvestment Bank Bhd.

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