



ATA IMS

(AIB MK EQUITY, ATAI.KL)

26 Nov 2021

Fundamental reversal from Dyson contract termination

SELL

(Downgraded)

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company update

Price **RM0.82**
 Fair Value **RM0.56**
 52-week High/Low RM3.48/RM0.82

Key Changes

Fair value
 EPS

YE to Mar	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	4,221.8	4,068.3	1,902.7	2,572.3
Core net profit (RM mil)	150.1	(15.8)	(75.4)	(64.2)
FD Core EPS (sen)	12.5	(1.3)	(6.3)	(5.3)
FD Core EPS growth (%)	79.6	(110.5)	nm	nm
Consensus Net Profit (RM mil)	-	61.1	174.2	213.5
DPS (sen)	3.9	-	-	-
PE (x)	9.4	nm	nm	nm
EV/EBITDA (x)	6.8	33.8	nm	nm
Div yield (%)	3.4	-	-	-
ROE (%)	20.6	nm	nm	nm
Net Gearing (%)	25.5	25.4	26.8	26.9

Stock and Financial Data

Shares Outstanding (million)	1,203.2
Market Cap (RMmil)	986.6
Book Value (RM/share)	0.66
P/BV (x)	1.2
ROE (%)	20.6
Net Gearing (%)	25.5
Major Shareholders	Oregon Tech Sdn Bhd (33.9%) Dato' Fong Chiu Wan (26.1%) OCBC Ltd (10.0%)
Free Float	30.0
Avg Daily Value (RMmil)	6.5

Price performance	3mth	6mth	12mth
Absolute (%)	(57.1)	(53.2)	(47.8)
Relative (%)	(56.3)	(51.7)	(45.8)



Investment Highlights

- We downgrade ATA to SELL from BUY with a lower fair value of RM0.56/share (from an earlier RM2.89/share). Our fair value is now based on its FY23F book value of RM0.58 from an earlier P/E benchmark. This also incorporates a 3% discount to reflect our lower ESG rating of 2 stars (from 3 stars earlier) given resurgent concerns over the group's labour practices.
- Our lower valuation stems from drastic cuts to our forecasts to reflect the loss of ATA's single largest customer Dyson, which contributes up to 80% of the group's revenue.
- We have reversed our earlier profit forecasts to losses of RM13mil for FY22F, RM64mil for FY23F and RM55mil for FY24F. Recall that the labour shortages incident has dragged ATA's 2QFY22 into losses.
- Following a major manpower shortage crisis and an audit of the company's labour practices, ATA has announced the receipt of termination notices by Dyson on 3 contracts effective 1 June 2022.
- ATA's obligations under the contracts include manufacturing and supplying products, components and tooling as well as providing services for and on behalf of Dyson. Until the termination date, Dyson and ATA continue to fully perform their obligations under the contracts.
- The company guided that management is now taking legal counsel on the validity of the notices of termination. However, assuming the realisation of the contract termination with Dyson, we expect the full impact of the withdrawal in FY23F, which would severely impact ATA's FY23F earnings and beyond.
- We believe that the 7-month notice period could give ATA enough time to replace some of its lost orders with other existing customers who could expand faster with the extra capacity.
- However, we also foresee challenges ahead for the company to secure new orders given its dented reputation and ongoing labour shortage crisis, which is being viewed as an operational risk until a concrete solution emerges.
- In our forecasts, we are reflecting a more conservative scenario with only organic growth from the group's existing remaining customers, coupled with some small new orders to be secured in FY23F and FY24F.

- We also assume a lower gross profit margin of 2.0–2.5% in FY23–24F (vs. 1HFY22 of 4.4%) from diseconomies of scale as the company’s current low utilisation rate is likely to affect productivity and cost efficiencies. In 2QFY22, ATA’s workforce size shrank by 20% with only a 50% utilisation rate.
- ATA may not be in the most favourable position to negotiate with potential new customers. Hence, we believe ATA’s recovery from the current crisis will be bumpy, exacerbated by the ongoing labour shortage crisis.

EXHIBIT 1: PB BAND CHART

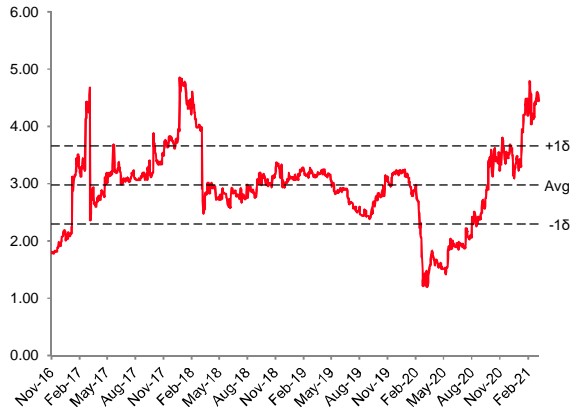


EXHIBIT 2: PE BAND CHART

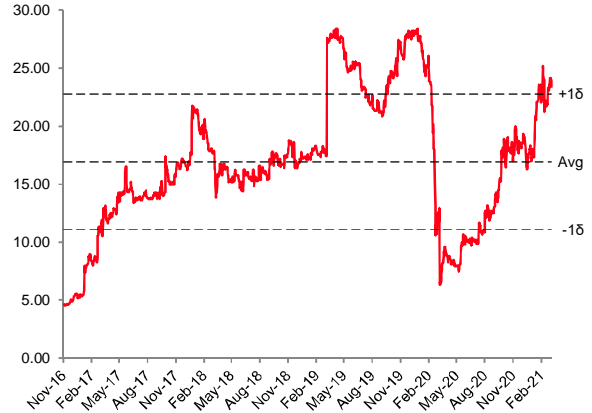


EXHIBIT 3: ESG RATING

Overall	★	★			
Energy efficiency	★	★	★		
Recycling & waste management	★	★	★		
Reliance on local suppliers	★	★	★		
Employee wellbeing	★	★			
Human capital development	★	★			
Corporate social responsibilities	★	★	★		
Board diversity	★	★			
Accessibility & transparency	★	★			

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Mar)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	3,352.2	4,221.8	4,068.3	1,902.7	2,572.3
EBITDA	155.8	236.3	36.7	(19.8)	(6.2)
Depreciation/Amortisation	(33.3)	(34.1)	(42.3)	(45.5)	(47.8)
Operating income (EBIT)	122.5	202.3	(5.6)	(65.3)	(54.0)
Other income & associates	-	-	-	-	-
Net interest	(8.3)	(10.5)	(10.2)	(10.2)	(10.2)
Exceptional items	(7.4)	0.2	-	-	-
Pretax profit	106.8	192.0	(15.8)	(75.4)	(64.2)
Taxation	(30.5)	(41.7)	-	-	-
Minorities/pref dividends	-	-	-	-	-
Net profit	76.3	150.3	(15.8)	(75.4)	(64.2)
Core net profit	83.6	150.1	(15.8)	(75.4)	(64.2)
Balance Sheet (RMmil, YE 31 Mar)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	337.1	368.9	381.1	364.2	355.0
Intangible assets	76.4	76.4	76.4	76.4	76.4
Other long-term assets	-	-	-	-	-
Total non-current assets	413.5	445.3	457.5	440.6	431.4
Cash & equivalent	359.6	351.2	184.7	263.4	167.1
Stock	369.2	459.9	344.2	163.5	219.9
Trade debtors	716.1	984.6	947.4	443.1	599.0
Other current assets	39.8	88.9	88.7	88.7	88.7
Total current assets	1,484.7	1,884.6	1,565.0	958.7	1,074.7
Trade creditors	752.8	966.4	1,043.3	495.5	666.5
Short-term borrowings	354.2	434.6	150.0	150.0	150.0
Other current liabilities	1.7	2.2	6.0	6.0	6.0
Total current liabilities	1,108.7	1,403.2	1,199.3	651.5	822.5
Long-term borrowings	109.6	118.3	50.0	50.0	50.0
Other long-term liabilities	14.4	19.4	19.4	19.4	19.4
Total long-term liabilities	124.0	137.7	69.4	69.4	69.4
Shareholders' funds	666.9	790.7	774.9	699.5	635.3
Minority interests	-	-	-	-	-
BV/share (RM)	0.55	0.66	0.64	0.58	0.53
Cash Flow (RMmil, YE 31 Mar)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	106.8	192.0	(15.8)	(75.4)	(64.2)
Depreciation/Amortisation	33.3	34.1	42.3	45.5	47.8
Net change in working capital	(15.3)	(205.8)	229.8	137.2	(41.4)
Others	(18.1)	(27.2)	10.2	10.2	10.2
Cash flow from operations	106.7	(6.9)	266.5	117.4	(47.6)
Capital expenditure	(36.5)	(13.9)	(61.0)	(28.5)	(38.6)
Net investments & sale of fixed assets	-	-	-	-	-
Others	6.7	16.6	2.5	2.5	2.5
Cash flow from investing	(29.8)	2.8	(58.5)	(26.0)	(36.1)
Debt raised/(repaid)	(26.2)	(40.0)	(352.9)	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(39.6)	(24.1)	-	-	-
Others	75.4	65.9	(12.7)	(12.7)	(12.7)
Cash flow from financing	9.6	1.8	(365.5)	(12.7)	(12.7)
Net cash flow	86.6	24.9	(157.5)	78.7	(96.3)
Net cash/(debt) b/f	254.1	340.6	342.2	184.7	263.4
Net cash/(debt) c/f	340.6	365.6	184.7	263.4	167.1
Key Ratios (YE 31 Mar)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	15.3	25.9	(3.6)	(53.2)	35.2
EBITDA growth (%)	(17.1)	51.7	(84.5)	(154.0)	nm
Pretax margin (%)	3.2	4.5	nm	nm	nm
Net profit margin (%)	2.3	3.6	nm	nm	nm
Interest cover (x)	14.7	19.3	(55.3%)	(642.3%)	(531.4%)
Effective tax rate (%)	28.6	21.7	nm	nm	nm
Dividend payout (%)	31.5	31.5	nm	nm	nm
Debtors turnover (days)	79	74	87	133	74
Stock turnover (days)	32	36	36	49	27
Creditors turnover (days)	76	74	90	148	82

Source: Company, AmInvestment Bank Bhd estimates

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