



Company report

ATA IMS

(AIB MK EQUITY, ATAI.KL)

30 Nov 2021

Elevated risks remain

SELL

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Company update

Price **RM0.52**
 Fair Value **RM0.30**
 52-week High/Low RM3.48/RM0.52

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)	-	15.7	45.9	63.1
DPS (sen)	3.9	-	-	-
PE (x)	4.2	nm	nm	nm
EV/EBITDA (x)	3.5	17.5	nm	nm
Div yield (%)	4.8	-	-	-
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 (RM mil) 625.7
 Book Value (RM/share) 0.66
 P/BV (x) 0.8
 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 (RM mil) 9.2

Price performance	3mth	6mth	12mth
Absolute (%)	(80.7)	(78.5)	(76.3)
Relative (%)	(79.7)	(77.3)	(74.7)



Investment Highlights

- We maintain SELL on ATA IMS (ATA) with a new fair value of RM0.30/share (from an earlier RM0.56/share). This is based on a 40% discount on FY24F net tangible assets of RM0.52/share as compared to 1x FY24F book value earlier. This also incorporates a 3% discount to reflect our unchanged ESG rating of 2 stars given the resurgent concerns over the group's labour practices.
- Our change in valuation largely stems from concerns of assets overhang after the loss of ATA's major customer (which accounts for 80% of the group's sales and has recently terminated its contract with the company), as well as potential goodwill impairment.
- The key takeaways from yesterday's analyst briefing and announcement are as follows:

1) As stated in the summary of the company's audit report on labour practices investigation conducted earlier, the report findings were non-conclusive. ATA has now engaged a professional advisor to review the findings.

The company has also registered with the Responsible Business Alliance (RBA) for Validated Assessment Programme (VAP) audit, which will encompass an onsite audit conducted by a third party, expected to take place in 1QCY22.

2) ATA's main customer (which accounts for 80% of the group's sales and recently terminated its contract with the company) has contractual obligations to buy back inventory for raw material, components and assembled parts, with an estimated amount of up to RM500mil. This however, does not include any capex incurred by ATA, which could eventually lead to potential impairment/write-down. The company is in the midst of identifying the related assets' amount.

ATA is expecting that certain excess stock arising from its buffer stock standby could be in dispute and result in a loss to the company. Assuming a stock loss of 5% of the total stock purchased, it will amount to RM25mil

3) Management claims that its order forecast remains high albeit limited by manpower constraints. ATA is in the midst of obtaining special approval from the government for 5,000 more workers by March 2022, while projecting an annualised revenue of RM1.9bil–RM2.1bil after the contract termination with its main customer effective 1 June 2022.

- 4) ATA expects the company to remain profitable even after the contract termination with its main customer. It is projecting a PBT margin of 5% (vs. 1% in 1HFY22), largely premised on significantly lower finance costs, coupled with a relatively leaner operation. However, we do not think that this is likely given the sharp drop in revenue that will catalyse diseconomies of scale.
 - 5) Moving forward, the company will continue to engage with the government in obtaining additional manpower while leveraging local recruitment programmes to overcome the current labour shortage issue. ATA also plans to increase its customer base and product mix while pursuing new projects with prospective customers. ATA is also evaluating a plan to partially relocate its operations overseas with new customers to mitigate the local labour shortage problems.
- We maintain our cautious stance on the outlook for ATA. While efforts have been made to mitigate the damage to its reputation and recoup investors/stakeholders’ confidence, we reckon any concrete progress/results from the proposed solutions can only be seen over the medium term (6–9 months), with no guarantee of a positive outcome.
As such, we opine that the company’s short-term operational risks remain high (largely stemming from the ongoing manpower shortage crisis, forced labour allegation, potential assets overhang, diseconomies of scales and dented reputation), which intensify the challenges in securing new customers and orders.
 - As such, we do not share the company’s optimistic post-June 2022 guidance of a PBT margin of 5%, and maintain our loss forecasts in FY22F–24F, reflecting only organic growth from the group’s existing remaining customers, coupled with some small new orders to be secured in FY23F and FY24F, at a gross profit margin of 2%–2.5% in FY23F–24F (vs. 1HFY22 of 4.4%) from diseconomies of scale.
 - In our view, 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

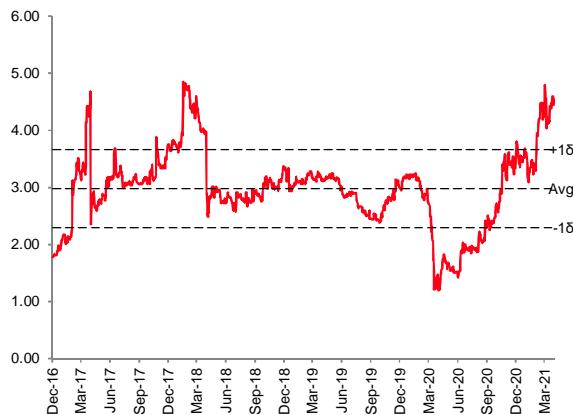


EXHIBIT 2: PE BAND CHART

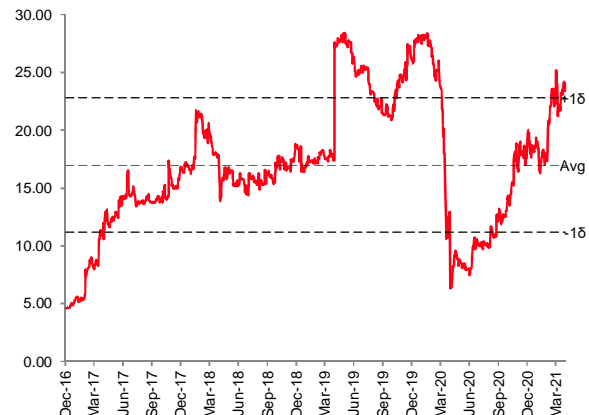


EXHIBIT 3: ESG RATING

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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