



Company report

ATA IMS

(AIB MK EQUITY, ATAI.KL)

30 June 2020

Disappointing FY20; uncertainties lie ahead

UNDERWEIGHT

(Downgraded)

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company results

Price	RM1.28
Fair Value	RM0.98
52-week High/Low	RM1.85/RM0.67

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Mar	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,352.3	3,676.1	4,313.9	4,991.9
Core net profit (RM mil)	78.8	92.1	126.8	147.9
FD Core EPS (sen)	6.5	7.6	10.5	12.3
FD Core EPS growth (%)	(33.4)	16.8	37.6	16.7
Consensus Net Profit (RM mil)	-	113.6	135.8	-
DPS (sen)	2.3	2.7	3.7	4.3
PE (x)	19.6	16.7	12.2	10.4
EV/EBITDA (x)	11.1	9.5	7.3	6.3
Div yield (%)	1.8	2.1	2.9	3.4
ROE (%)	12.1	13.2	16.5	17.2
Net Gearing (%)	15.6	nm	1.6	2.3

Stock and Financial Data

Shares Outstanding (million)	1,204.4
Market Cap (RM mil)	1,541.6
Book Value (RM/share)	0.56
P/BV (x)	2.3
ROE (%)	12.1
Net Gearing (%)	15.6

Major Shareholders	Oregon Tech Sdn Bhd (33.8%) Dato' Fong Chiu Wan (26.1%) OCBC Ltd (8.7%)
Free Float	28.8
Avg Daily Value (RM mil)	1.4

Price performance	3mth	6mth	12mth
Absolute (%)	61.0	(28.1)	(19.0)
Relative (%)	44.7	(22.5)	(9.4)



Investment Highlights

- We downgrade our recommendation on ATA IMS (ATA) to **UNDERWEIGHT** from **HOLD**, while our fair value is subsequently lowered to RM0.98/share (previously RM1.05/share), pegged to an unchanged CY21F PE of 10x.
- We are cutting our FY21F–FY22F forecasts by 4–16% to account for the gestation period for its new customers' products leading to margin impact.
- ATA's 4QFY20 core profit of RM10mill fell beneath expectations, bringing FY20 core profit to RM79mil. This is after excluding an exceptional loss of RM0.5mil mainly from net forex losses. The results missed ours and consensus' full-year forecasts by 16% and 15% respectively.
- YoY: FY20 core profit declined 31% due to: (i) lower margins due to higher material contents and expenses related to marketing and additional manpower recruitment for its new customers' projects; and (ii) higher effective tax rate of 27% (rose 0.7ppt) as some expenses were being disallowed for tax purposes. This was despite seeing a 15% rise in revenue due to higher sales orders from its key customer.
- QoQ: 4QFY20 core profit tumbled 22% in tandem with a 17% decline in revenue as the group's factories saw closures during the movement control order (MCO) effective 18 March 2020.
- Covid-19 impact: ATA's production was halted after the announcement of the MCO until mid-April 2020 where the group was allowed to resume operations at an initial limited capacity of 25% of its total workforce. The group expects the improvement in its earnings within the next two quarters after adjusting its operations in line with Covid-19 containment measures and cost controls.
- We expect to gather more updates on the group's key customer and new customers' order flow, progress of its vertical integration efforts as well as outlook from management from its upcoming results conference call.
- We continue to like ATA due to its longer-term prospects but we believe that weaker demand of its customers' end products due to Covid-19 affecting global sentiments will impact the group's short-term performance. ATA's positive prospects arise from: (i) it being the purest proxy to its key customer growth prospects; and (ii) its move towards being a vertically-integrated player which will put it in a better position to secure more orders and/or customers.

EXHIBIT 1: FINANCIAL RESULTS SUMMARY

YE 31 Mar (RM mil)	FY19	FY20	YoY (%)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)
Turnover	2,908.6	3,352.3	15.3	803.0	865.1	719.2	(16.9)	(10.4)
EBITDA	188.1	148.9	(20.8)	44.7	33.9	23.0	(32.0)	(48.6)
Depreciation/Amortisation	(25.3)	(33.3)	(31.3)	(6.9)	(9.2)	(9.1)	0.7	(33.4)
EBIT	162.7	115.6	(28.9)	37.9	24.7	13.9	(43.7)	(63.4)
Interest expense	(12.3)	(18.1)	(47.5)	(4.3)	(4.3)	(5.3)	(23.9)	(23.3)
Interest income	3.1	9.8	>100	1.0	2.7	2.4	(10.5)	>100
Pre-Associates profit	153.5	107.3	(30.1)	34.6	23.1	11.0	(52.4)	(68.3)
Associates	0.0	0.0	nm	0.0	0.0	0.0	nm	nm
Pre-Exceptionals profit	153.5	107.3	(30.1)	34.6	23.1	11.0	(52.4)	(68.3)
Exceptionals	(1.0)	(0.5)	48.1	2.1	7.1	(7.6)	nm	nm
Pre-tax profit	152.5	106.8	(30.0)	36.7	30.1	3.4	(88.7)	(90.7)
Taxation	(39.6)	(28.5)	28.0	(15.5)	(10.0)	(0.8)	92.1	94.9
Minority interest	0.0	0.0	nm	0.0	0.0	0.0	nm	nm
Net Profit	112.9	78.3	(30.6)	21.2	20.1	2.6	(87.0)	(87.7)
Core Net Profit	113.9	78.8	(30.8)	19.1	13.0	10.2	(21.9)	(46.7)
Basic EPS (sen)	9.8	6.5	(33.9)	1.8	1.7	0.2	(86.8)	(88.0)
DPS (sen)	3.3	0.0	nm	3.3	0.0	0.0	nm	nm
EBITDA margin (%)	6.5	4.4		5.6	3.9	3.2		
Pretax margin (%)	5.2	3.2		4.6	3.5	0.5		
Effective tax (%)	25.9	26.7		42.2	33.2	23.2		

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

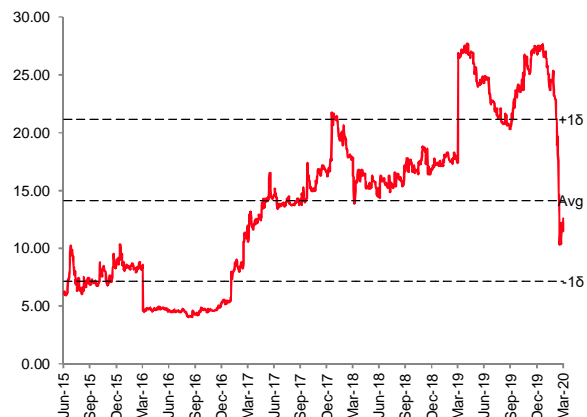


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Mar)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	2,908.6	3,352.3	3,676.1	4,313.9	4,991.9
EBITDA	187.1	148.9	162.8	212.7	246.1
Depreciation/Amortisation	(25.3)	(33.3)	(31.5)	(35.7)	(41.3)
Operating income (EBIT)	161.7	115.6	131.4	177.0	204.8
Other income & associates	-	-	-	-	-
Net interest	(9.2)	(8.3)	(10.2)	(10.2)	(10.2)
Exceptional items	-	(0.5)	-	-	-
Pretax profit	152.5	106.8	121.2	166.8	194.6
Taxation	(39.6)	(28.5)	(29.1)	(40.0)	(46.7)
Minorities/pref dividends	-	-	-	-	-
Net profit	112.9	78.3	92.1	126.8	147.9
Core net profit	112.9	78.8	92.1	126.8	147.9
Balance Sheet (RMmil, YE 31 Mar)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	296.7	337.1	342.1	392.6	451.2
Intangible assets	76.4	76.4	76.4	76.4	76.4
Other long-term assets	-	-	-	-	-
Total non-current assets	373.1	413.5	418.5	469.1	527.6
Cash & equivalent	270.6	359.6	201.5	187.2	179.2
Stock	217.9	369.2	301.3	351.7	407.0
Trade debtors	738.8	716.3	856.1	1,004.6	1,162.5
Other current assets	44.2	39.7	39.7	39.7	39.7
Total current assets	1,271.5	1,484.8	1,398.7	1,583.3	1,788.5
Trade creditors	634.0	753.0	913.4	1,066.2	1,233.8
Short-term borrowings	259.9	356.1	150.0	150.0	150.0
Other current liabilities	4.5	1.7	1.7	1.7	1.7
Total current liabilities	898.4	1,110.9	1,065.2	1,217.9	1,385.5
Long-term borrowings	101.9	107.6	50.0	50.0	50.0
Other long-term liabilities	14.2	12.3	12.3	12.3	12.3
Total long-term liabilities	116.1	119.9	62.3	62.3	62.3
Shareholders' funds	630.1	669.0	728.9	811.3	907.4
Minority interests	-	-	-	-	-
BV/share (RM)	0.55	0.56	0.61	0.67	0.75
Cash Flow (RMmil, YE 31 Mar)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	152.5	106.8	121.2	166.8	194.6
Depreciation/Amortisation	25.3	33.3	31.5	35.7	41.3
Net change in working capital	(205.4)	44.1	88.4	(46.2)	(45.6)
Others	(18.5)	(10.8)	(18.9)	(29.9)	(36.5)
Cash flow from operations	(46.1)	173.3	222.2	126.5	153.8
Capital expenditure	(62.1)	(39.7)	(55.1)	(86.3)	(99.8)
Net investments & sale of fixed assets	0.3	-	-	-	-
Others	12.5	6.7	2.5	2.5	2.5
Cash flow from investing	(49.2)	(33.0)	(52.6)	(83.8)	(97.3)
Debt raised/(repaid)	9.4	8.5	(263.7)	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	(39.6)	(32.2)	(44.4)	(51.8)
Others	210.8	(22.6)	(12.7)	(12.7)	(12.7)
Cash flow from financing	220.2	(53.7)	(308.6)	(57.0)	(64.4)
Net cash flow	129.2	86.6	24.9	(14.3)	(8.0)
Net cash/(debt) b/f	129.2	254.1	340.6	201.5	187.2
Net cash/(debt) c/f	254.1	340.6	365.6	187.2	179.2
Key Ratios (YE 31 Mar)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	26.1	15.3	9.7	17.3	15.7
EBITDA growth (%)	29.0	(20.4)	9.4	30.6	15.7
Pretax margin (%)	5.2	3.2	3.3	3.9	3.9
Net profit margin (%)	3.9	2.3	2.5	2.9	3.0
Interest cover (x)	17.5	13.9	12.9	17.4	20.2
Effective tax rate (%)	25.9	26.7	24.0	24.0	24.0
Dividend payout (%)	35.1	35.0	35.0	35.0	35.0
Debtors turnover (days)	78	79	78	79	79
Stock turnover (days)	22	32	33	28	28
Creditors turnover (days)	72	76	83	84	84

Source: Company, AmInvestment Bank Bhd estimates

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