

Malaysia

REDUCE (no change)

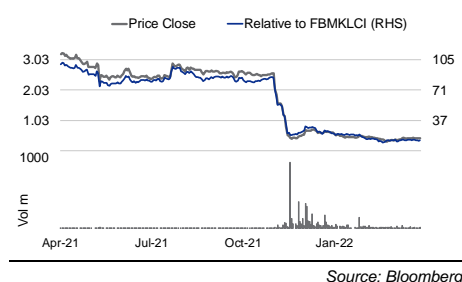
Consensus ratings*: Buy 0 Hold 0 Sell 5

Current price:	RM0.435
Target price:	RM0.362
Previous target:	RM0.29
Up/downside:	-16.7%
CGS-CIMB / Consensus:	14.6%
Reuters:	ATAI.KL
Bloomberg:	AIB MK
Market cap:	US\$123.7m RM523.2m
Average daily turnover:	US\$2.05m RM8.59m
Current shares o/s:	1,203m
Free float:	29.2%

*Source: Bloomberg

Key changes in this note

- TP lifted to RM0.37.



Price performance	1M	3M	12M
Absolute (%)	16	-29.8	-86.4
Relative (%)	13.7	-32.4	-85.9

Major shareholders	% held
Dato' Sri Foo Chee Juan	33.7
Dato' Fong Chiu Wan	26.1
OCBC Securities Pte Ltd	8.7

Analyst(s)



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ATA IMS Bhd

Not out of the woods yet

- An independent audit conducted on ATA's operations by a third-party auditor concluded that ATA adheres to both local and international labour standards.
- We view this as a positive development as it should alleviate some of the social risks present in its operations.
- Reiterate Reduce with a higher TP as we await clearer signs of a turnaround.

Independent auditor confirms ATA's adherence to labour standards

On 11 Apr, ATA IMS (ATA) announced in a press release that the group had appointed an independent professional services company (one of the Big 4) to conduct an independent assessment on its wholly-owned subsidiary, ATA Industrial (M) Sdn Bhd, mainly relating to its governance and risk management of human rights and labour management practices against the International Labour Organization's 11 indicators of forced labour. The findings of the third-party independent assessment, which was carried out over 9-25 Mar 2022, indicated that ATA adheres to both local and international labour standards at its Malaysian facilities in Johor Bahru. ATA was made aware by the third-party assessor of three main areas of improvement: i) providing education to workers about its Zero Cost Recruitment Fee Policy, ii) increasing awareness on confidentiality of using grievance channels, and iii) providing education on Occupational Safety and Health Administration (OSHA). ATA further stated that it remains committed to sharing details of the independent assessment transparently and at the proper time with Bursa Malaysia, the Ministry of Human Resources Malaysia, and the relevant local regulatory bodies.

Positive development but still awaiting clearer turnaround signs

We view this as a positive development as this should alleviate some of the social risks previously present in its operations following the loss of its key customer in Nov 2021, owing mainly to the forced labour allegations. We believe the audit findings should provide reassurance to ATA's existing/potential new customers of its adherence to international labour practices. While we now think ATA stands a relatively better chance on winning potential new customers/projects, we are still concerned given the lack of details on the audit findings, the auditor and timeline of sharing the details. We expect the negative sentiment surrounding ATA to ease slightly but linger until ATA is able to monetise its audit findings by securing new projects/customers.

Raise TP to reflect lower ESG risks but remain cautious

We raise our TP to RM0.36 as i) we reduce our ESG discount to 10% from 20% previously, mainly to reflect the alleviation of social risks present in the group, and ii) we raise our P/NTA valuation to 0.7x from 0.6x previously to reflect its relatively stronger footing in its ability to secure new customers/projects. We keep our Reduce call on the stock as we continue to forecast losses for ATA going into FY23-24F. We will turn more bullish on its earnings prospects once we see i) new customer wins, and ii) clearer signs of its cost-cutting measures bearing fruit going into FY23F.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (RMm)	3,352	4,222	2,504	1,524	2,020
Net Profit (RMm)	78.3	150.3	3.3	(47.2)	(22.2)
Core EPS (RM)	0.07	0.13	0.00	-0.04	-0.02
Core EPS Growth	(30%)	87%	(98%)	(1488%)	(53%)
FD Core P/E (x)	6.4	3.4	153.8	NA	NA
Price To Sales (x)	0.15	0.12	0.20	0.34	0.26
DPS (RM)	0.024	0.046	-	-	-
Dividend Yield	5.5%	10.5%	0.0%	0.0%	0.0%
EV/EBITDA (x)	3.98	2.92	11.18	NA	23.14
P/FCFE (x)	3.86	18.71	NA	5.29	NA
Net Gearing	15.6%	25.5%	24.8%	3.8%	13.0%
P/BV (x)	0.75	0.63	0.66	0.70	0.72
ROE	12.1%	20.1%	0.4%	(6.1%)	(3.0%)
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)				3.27	2.30

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Not out of the woods yet

Figure 1: Price to net tangible assets (P/NTA) valuation

P/NTA valuation	
Net tangible assets as at 31 Dec 2021 (RM m)	692.0
P/NTA target multiple (x)	0.70
Market cap (RM m)	484.4
ESG discount	10%
Adjusted market cap (RM m)	436
No of shares (m)	1,203
Target price (RM)	0.36

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

ATA is one of Malaysia's and Southeast Asia's largest vertically integrated electronic manufacturing services (EMS) providers, offering a full array of manufacturing capabilities from design and engineering to box-build assembly. As the EMS business is relatively labour-intensive compared with other industries, labour issues are a key focus for ATA as they could significantly impact its standing with customers and its ability to operate. ATA has recently been hit by forced labour allegations and has lost its key customer owing to these allegations.

Keep your eye on

The biggest controversy recently is claims by labour rights activist, Andy Hall, that ATA engages in forced labour practices following media reports citing the US Customs and Border Protection's (CBP) decision to initiate an investigation into the company. In the worst case scenario, the US CBP could impose a Withhold Release Order (WRO) on ATA, if it deems that the claims hold merit based on its investigation. ATA's key customer served ATA with a termination notice for its contract manufacturing agreements following the forced labour allegations. Following this, ATA recently underwent an audit conducted by an independent third party on its labour practices, and the findings verified that ATA adheres to international and local labour standards.

Implications

While ATA has refuted allegations of any sort of forced labour practices and/or unethical recruitment practices, the allegations have cast a negative light on ATA and the EMS industry as a whole from an ESG perspective. The current investigation by the US CBP is ongoing with no clear outcome as of now. While the findings of the audit were positive, we remain cautious and ascribe a 10% ESG discount to our valuations to reflect potential social and governance risks.

ESG highlights

ATA is ranked in the top 51-75% in ESG ratings among public-listed companies that have been assessed by FTSE Russell.

Implications

While we cannot conclude that there is a direct correlation between ESG ratings and share price performance, we think that improved ratings could be achieved by the successful addressing of material concerns, such as unethical labour practices, and more transparent disclosure. While not guaranteed, an improvement in ATA's ESG ratings could enhance perception of the company and re-rate its valuations.

Trends

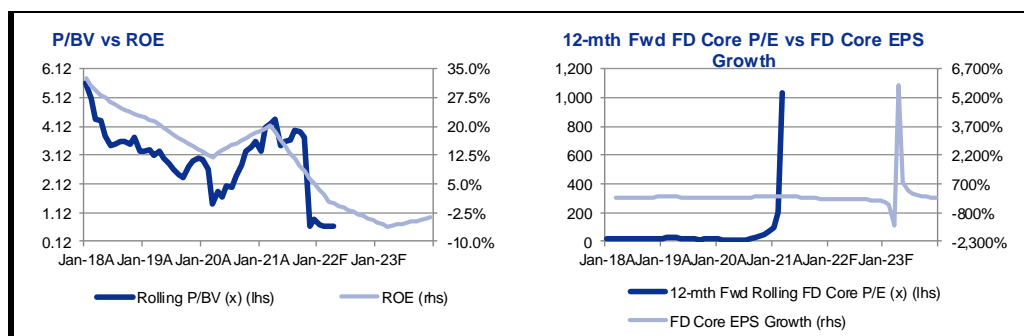
The group's proportion of female employees has gradually improved over the past three years. Currently, c.35% of its total operation employees are female vs. c.31% in FY20 and c.28% in FY19. The group has also increased its employment of locals, accelerated by the Covid-19 pandemic, which made it difficult to hire foreign workers amid the foreign worker recruitment freeze set by the government since Jun 2020. Local employees accounted for 49% of its total workforce as at Mar 2021 vs. 31% as of end-2019.

Implications

The improvement in workforce gender diversity and greater participation of local employees are positive for the group from an ESG standpoint, in our view.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(RMm)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	3,352	4,222	2,504	1,524	2,020
Gross Profit	201	305	107	30	51
Operating EBITDA	152	240	63	-6	27
Depreciation And Amortisation	-37	-43	-41	-41	-45
Operating EBIT	115	198	22	-48	-18
Financial Income/(Expense)	-8	-10	-18	-15	-11
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	107	187	4	-63	-30
Exceptional Items	-0	5	0	0	0
Pre-tax Profit	107	192	4	-63	-30
Taxation	-28	-42	-1	16	7
Exceptional Income - post-tax					
Profit After Tax	78	150	3	-47	-22
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	78	150	3	-47	-22
Recurring Net Profit	78	147	3	-47	-22
Fully Diluted Recurring Net Profit	78	147	3	-47	-22

Cash Flow

(RMm)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	151.7	240.3	63.4	(6.3)	26.7
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(15.3)	(207.0)	(9.9)	234.5	(28.5)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	8.5	(4.0)	0.0	0.0	0.0
Other Operating Cashflow					
Net Interest (Paid)/Received	(8.3)	(10.5)	(17.7)	(15.4)	(11.1)
Tax Paid	(38.2)	(35.6)	(1.1)	15.7	7.4
Cashflow From Operations	98.4	(16.8)	34.7	228.5	(5.5)
Capex	(36.5)	(9.7)	(30.0)	(60.0)	(60.0)
Disposals Of FAs/subsidiaries	0.0	1.2	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	(3.1)	9.3	0.0	0.0	0.0
Cash Flow From Investing	(39.6)	0.8	(30.0)	(60.0)	(60.0)
Debt Raised/(repaid)	70.5	42.7	(86.9)	(69.5)	(55.6)
Proceeds From Issue Of Shares	0.0	(1.9)	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(39.6)	(24.1)	0.0	0.0	0.0
Preferred Dividends					
Other Financing Cashflow	(3.1)	(3.2)	0.0	0.0	0.0
Cash Flow From Financing	27.7	13.5	(86.9)	(69.5)	(55.6)
Total Cash Generated	86.6	(2.5)	(82.2)	99.0	(121.1)
Free Cashflow To Equity	129.4	26.7	(82.2)	99.0	(121.1)
Free Cashflow To Firm	77.0	1.8	27.7	187.9	(48.9)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	360	351	269	368	247
Total Debtors	716	985	652	376	470
Inventories	369	458	427	246	297
Total Other Current Assets	40	89	89	89	89
Total Current Assets	1,485	1,883	1,437	1,079	1,103
Fixed Assets	337	369	358	376	391
Total Investments	0	0	0	0	0
Intangible Assets	76	76	76	76	76
Total Other Non-Current Assets	8	7	7	7	7
Total Non-current Assets	422	452	441	460	474
Short-term Debt	356	435	348	278	222
Current Portion of Long-Term Debt					
Total Creditors	753	966	591	369	486
Other Current Liabilities	2	2	2	2	2
Total Current Liabilities	1,111	1,402	941	649	710
Total Long-term Debt	108	118	118	118	118
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	7	5	5	5	5
Total Non-current Liabilities	114	123	123	123	123
Total Provisions	12	19	19	19	19
Total Liabilities	1,238	1,545	1,084	792	853
Shareholders' Equity	669	791	794	747	725
Minority Interests					
Total Equity	669	791	794	747	725

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	15.3%	25.9%	(40.7%)	(39.1%)	32.5%
Operating EBITDA Growth	(19%)	58%	(74%)	(110%)	N/A
Operating EBITDA Margin	4.52%	5.69%	2.53%	(0.42%)	1.32%
Net Cash Per Share (RM)	-0.09	-0.18	-0.16	-0.02	-0.08
BVPS (RM)	0.58	0.69	0.66	0.62	0.60
Gross Interest Cover	6.35	11.13	0.96	-2.45	-1.12
Effective Tax Rate	26.7%	21.7%	25.0%	0.0%	0.0%
Net Dividend Payout Ratio	35.1%	36.1%	NA	NA	NA
Accounts Receivables Days	79.4	73.5	119.3	123.0	76.7
Inventory Days	34.10	38.57	67.41	82.14	50.39
Accounts Payables Days	80.6	80.1	118.5	117.2	79.3
ROIC (%)	11.9%	19.0%	1.7%	(3.6%)	(1.8%)
ROCE (%)	11.6%	16.4%	2.1%	(3.6%)	(1.2%)
Return On Average Assets	4.77%	7.24%	0.79%	(2.08%)	(0.88%)

Key Drivers

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Largest customer	2,949.2	3,452.5	2,618.2	374.3	300.0
Non-largest customer	403.1	580.9	735.7	1,150.0	1,720.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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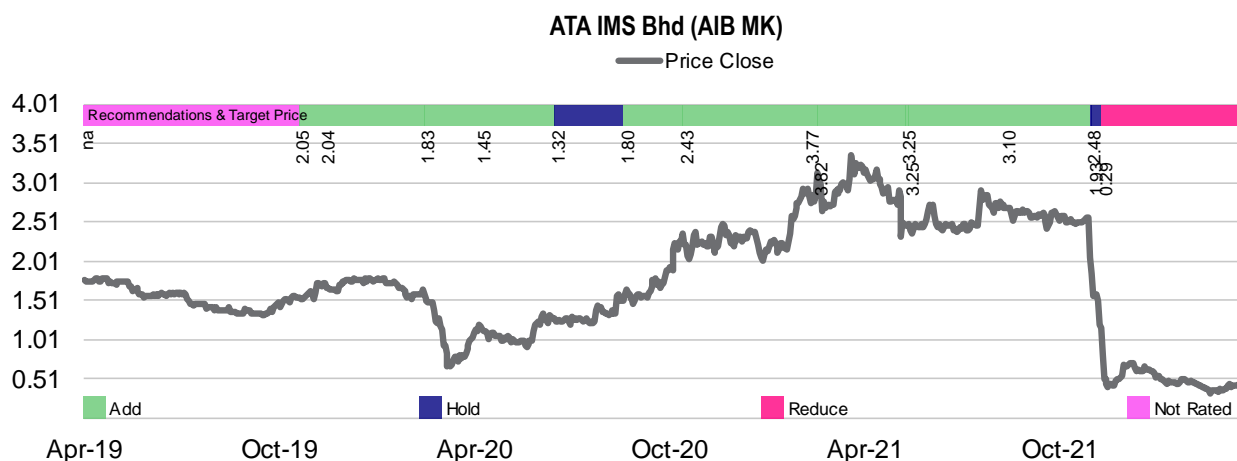
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021		
619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

