

## MTAG

### Results Update

## NEUTRAL

**Current Price** RM 0.50  
**Target Price** RM 0.51

#### Stock Return Information

KLCI	1,586.14
Expected share price return (%)	2.0
Expected dividend return (%)	4.8
Expected total return (%)	6.8

#### Key Statistics

Shariah Compliant	NO
Bloomberg Ticker	MTAG MK
Masa Ticker / Stock Code	MTAG/0213
Shares Issued (m)	682
Market Capitalisation (RM'm)	498
52 Week Hi/Lo Price (RM)	0.85/0.41
Avg Trading Volume (3-mth)	725,638
Est Free Float (%)	27.3
YTD Returns (%)	-2.0
Beta (x)	1.40

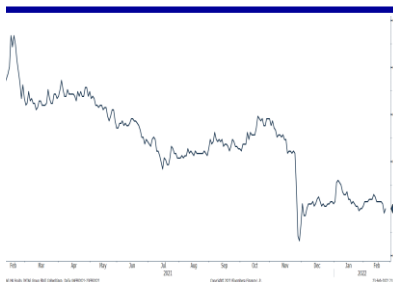
#### Share Price Performance (%)

Price change	Absolute	Relative
1 mth	-1.96	-6.18
3 mth	-21.26	-25.46
12 mth	-37.89	-39.72

#### Major Shareholders (%)

Cham Kam Shiang	50.8
Lau Cher Liang	14.6

#### 1-Year Share Price Performance



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## Margin Normalised But Outlook Remains Dim

We revised MTAG's recommendation to **NEUTRAL**, from Buy, and lower our TP to **RM0.51** (-RM0.16), pegged to a lower 13x target PER on our lower FY22 EPS forecast. The EMS industry continues to face challenges with labour shortages and alleged human rights issues. Once risk sentiments of product pullout and labor shortages are lifted, we believe the EMS industry's valuations will normalise. MTAG's investment merits include: 1) growth upside from the EMS sector, organically and via new sector players coming from the diversification of supply chain, and 2) re-rating catalyst from the transfer to the Main Board from the ACE Market. Risks to our call include: 1) slowdown in demand for consumer electronics, 2) customer-concentration risk, 3) contract order pullout by end customers.

**Earnings missed:** MTAG's 6MFY22 earnings came in lower-than-expected: PAT of RM14.1m accounts to 40.0% of our previous earnings estimate as an end customer was unable to scale up to fulfil order backlogs due to labor shortages.

**Y-o-Y comparison:** 2QFY22 PAT fell 20% Y-o-Y to RM8.3m, where both converting and distribution revenues fell 20% Y-o-Y and 22% Y-o-Y to RM35.5m and RM7.3m respectively. The lower revenue was due to labor shortages in the EMS industries, holding down the utilisation rate.

**Q-o-Q comparison:** PAT jumped 45.6% Q-o-Q, backed by upliftment of Covid related operating restrictions that were implemented from 1 June 2021 to 1 October 2021. GP margin has normalised to 19.5%, from 15.1% as the company succeeded in passing down higher raw material cost to its customers.

**Earnings revision:** We lowered FY22/23 earnings estimates by 20% respectively to RM28.1m and RM29.7m, on the back of lower product throughput.

**Outlook** MTAG's main customer, ATAIMS saw its contract terminated and we understand that shipment orders are now directed to other contract manufacturers. However, there is no guidance that orders will scale higher. If the foreign labor scrutiny continues and push back foreign labor recruitment schedule, it will pressurise the EMS industry's earnings outlook as well as demand for MTAG's products.

**Table 1: Investment Highlights & Earnings Forecast**

FYE June (RM m)	FY19	FY20	FY21	FY22(F)	FY23(F)
Revenue	190.0	166.1	193.6	157.2	177.1
EBITDA	41.6	40.3	44.8	36.6	39.0
EBITDA Margin (%)	21.9	24.2	23.1	23.3	22.0
PAT	33.0	30.2	33.6	28.1	29.9
PAT Margin (%)	17.3	18.2	17.4	17.8	16.9
Earnings Growth (%)	(30.6)	(8.4)	11.3	(16.6)	6.5
EPS (sen)	4.8	4.4	4.9	4.1	4.4
PER (x)	10.5	11.5	10.3	12.4	11.6
DPS (sen)	1.0	3.0	3.0	3.0	3.5
Dividend Yield (%)	2.0	5.9	5.9	5.9	6.9
ROE (%)	42.4	22.4	23.2	17.4	18.4
ROA (%)	31.8	20.0	20.9	16.0	16.8
Net Gearing Ratio (%)	NET CASH	NET CASH	NET CASH	NET CASH	NET CASH
Price/Book Ratio (x)	3.4	1.9	1.8	1.6	1.6

Sources: Inter-Pacific, Company

**Table 2: Quarterly Income Statement and Comparison**

FYE June (RM m)	2QFY22	2QFY21	YoY chg (%)	1QFY22	QoQ chg (%)	6MFY22	6MFY21	YTD chg (%)
Revenue	42.9	53.9	(20.5)	37.9	13.0	80.8	109.2	(26.0)
Gross Profit	14.1	15.4	(8.4)	9.8	43.4	24.0	31.7	(24.5)
GP margin	32.9	28.6	15.1	25.9	26.9	29.6	29.1	2.0
EBITDA	11.1	13.4	(17.4)	7.8	43.2	18.9	28.2	(33.0)
EBITDA margin (%)	25.9	24.9	3.9	20.4	26.7	23.3	25.8	(9.5)
PBT	10.9	13.6	(20.0)	7.7	41.0	18.6	28.0	(33.6)
PBT margin (%)	25.4	25.2	0.5	20.3	24.8	23.0	25.7	(10.3)
PAT	8.3	10.4	(20.0)	5.7	45.6	14.1	21.2	(33.7)
PAT margin (%)	19.5	19.3	0.6	15.1	28.8	17.4	19.4	(10.4)
EPS (sen)	1.2	1.5	(20.0)	0.8	45.6	2.1	3.1	(33.7)

Source: Inter-pacific, Company

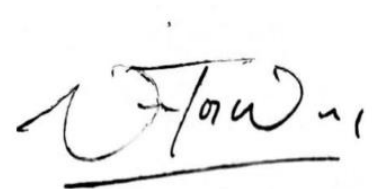
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Signed



Wan Kum Seng  
Head of Research  
Inter-Pacific Research Sdn Bhd

## Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months
TRADING SELL	Total return is expected to be below -10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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