MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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❖ Customer Concentration Risk: How over-reliance on one major customer can pose major threat to business

There are a few invaluable lessons that companies and investing public can learn from the recent downfall of ATA IMS Bhd.

From a solely business perspective, the Johor-based electronic manufacturing service provider (EMS) was operating amid an extremely high customer concentration risk so much so that the loss of one customer was capable of crippling most of its revenue stream.

Recently, the decision of high-tech home appliance maker Dyson Ltd to terminate its contract with ATA IMS on grounds of labour abuse allegations had caught the company and its shareholders off-guard. Sales to Dyson accounts for over 80% of ATA IMS' revenue.

In a bourse filing dated 25 November, ATA IMS announced that it had received three notices of contract termination on 24 November from Dyson Operations Pte Ltd and Dyson Manufacturing Sdn Bhd in respect of the following contracts with effect from 1 June 2022:

- A contract manufacturing agreement dated 15 October 2020 between Dyson Operations and its wholly owned subsidiary ATA Industrial (M) Sdn Bhd (ATAIM);
- An agreement for the supply of goods and services dated 1 March 2013 between Dyson Manufacturing and ATAIM; and
- The framework agreement for the supply of goods (tooling) dated 17 June 2009 between Dyson Manufacturing and ATAIM.

In response to queries by Bursa Malaysia on the financial and operational impact arising from the termination of Dyson's contracts, ATA IMS estimated that its turnover for the financial year ending 31 March 2022 will be reduced by about 30% compared to FY2021, with another 40% drop in revenue in FY2023. Cost cutting measures will be undertaken in response to the termination of contracts.

On top of that, ATA IMS expected to incur losses from the termination with respect to impairment of property, plant and equipment, write down of right-of-use assets, inventory for raw materials and components.

Losses abound

This is a double whammy given that ATA IMS had earlier posted a net loss of RM11.17 million for its second quarter ended 30 September 2021 for FY2022 from a net profit of RM52.29 million a year ago.

Over at an analyst briefing, however, ATA's management was cited by AmResearch for claiming that the company's order forecast remains high albeit limited by manpower constraints.

"ATA IMS 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 RM1.9 billion - RM2.1 billion after the contract termination with its main customer effective June 1, 2022," noted the research house.

"Moreover, ATA IMS further expects its operations to remain profitable even after the contract termination with Dyson by projecting a pre-tax profit margin of 5% (vs 1% in 1HFY2022), largely premised on significantly lower finance costs coupled with a relatively leaner operation."

However, AmResearch did not share the same optimistic guidance. Instead, the research house maintained its loss forecasts in FY2022, FY2023 and FY2024, reflecting only organic growth from the Group's existing remaining customers coupled with some small new orders to be secured in FY2023 and FY2024 at a gross profit margin of 2%–2.5% from diseconomies of scale.

"In our view, ATA IMS may not be in the most favourable position to negotiate with potential new customers," projected AmResearch. "Hence, we believe ATA's recovery from the current crisis will be bumpy, exacerbated by the ongoing labour shortage crisis."

All-in-all, AmResearch reiterated its "sell" rating on ATA IMS with a lower fair value of 30 sen (from 56 sen previously).

Lesson drawn from the past

At a glance, ATA IMS's over-dependency on a single major customer brings back to mind the predicament encountered by Tien Wah Press Holdings Bhd in 2016 when news broke out that British American Tobacco (M) Bhd (BAT) was shutting down its manufacturing plant in Petaling Jaya.

Like Dyson is to ATA IMS, BAT was a major customer of Tien Wah which specialises in printing services for tobacco packaging.

The Tien Wah-BAT deal dated back to 2008 when Tien Wah, together with its major shareholder New Toyo International Holdings Ltd successfully bid for a seven-year exclusive supply agreement with the right to extend for an additional three years to supply BAT's printed carton requirements in Australasia, Vietnam, Singapore and Malaysia.

This agreement was subsequently extended on 13 November 2014 for an additional one year from the existing period of seven years ending 31 October 2015 to 31 October 2016 and the continuing right to extend for an additional three years.

Given that fulfilling the demands spelt out in the agreement represented the group's core business, BAT Malaysia's decision to source tobacco products from its sister companies in the region instead of producing locally would have repercussions on Tien Wah's earnings.

Despite all the uncertainties, Tien Wah not only managed to wrangle out of such predicament but managed to safeguard its contract by successfully re-negotiating a future contract as evident in its success in securing a five-year extension to supply printed cartons to BAT on March 18, 2020.

While it was an 'all's well that ends well' situation for Tien Wah, nobody can vouch if ATA IMS will be as fortunate as Tien Wah considering the controversy surrounding Dyson's termination of ATA IMS' contract.

Litmus test on ESG

As an international brand, it is understandable that Dyson can ill-afford to be labelled as a company supporting forced labour – after all, reputation is more important than anything for a multinational company like Dyson.

In all fairness, ATA IMS is not the first Malaysian public listed company (PLC) to be penalised for allegation of labour abuses. There have already been numerous cases of Malaysian glove makers and plantation giants being slapped with Withhold Release Orders (WRO) by the US Customs and Border Protection (CBP) for forced labour practices.

However, the manner in which ATA IMS' stock plummeted from a four-week high of RM2.60 to a four-year low of 38 sen (intraday) on 30 November is quite alarming.

This was further compounded by the resignation of its independent non-executive director (INED) Wong Chin Chin with effect from 29 November due to "differences of opinion" with ATA IMS' board of directors.

For the record, Wong, 56, had served as a director of the company for almost five years since 21 March 2017, according to earlier stock exchange filings when the company was known as Denko Industrial Corp Bhd. Wong had also served as a member of ATA IMS' audit committee as well as a member of the nomination and remuneration committee.

Board resignation aside, ATA IMS' woes only got worse with the Human Resources Ministry contemplating to haul ATA IMS to court if there was evidence of forced labour practices at its premises.

Additionally, ATA IMS said it has also appointed a reputable and professional law firm in Malaysia to conduct an independent review of the allegations of physical abuse by a former worker who has since become a whistleblower.

As ATA IMS seeks to find a way out from its current predicament, there is one ultimate lesson that PLCs which rely on labour-intensive workforce in their business operations need to learn: ESG (environmental, social and governance) considerations are not only here to stay but they can adversely disrupt the operational and financial performance of a company overnight.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 6 – 10 December 2021

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
06.12.21 (Mon) 11.00 am	Tiger Synergy Bhd (AGM)	For the 18-month financial period ended 30 June 2021, the Group recorded a lower revenue of RM12.54 million as compared to RM19.85 million in FY 2019. The decrease in revenue was mainly due to lowers sales from the timber services segment and delay in launching of new projects which were both affected by the COVID-19 pandemic.
06.12.21 (Mon) 12.00 pm	Tiger Synergy Bhd (EGM)	It is proposing to establish an ESOS Scheme involving up to 15% of the total number of issued shares of the Company for eligible directors and employees of the Company and its subsidiaries.
07.12.21 (Tue) 09.30 am	YTL Power International Bhd (AGM)	YTL Power registered higher revenue of RM10.78 billion for FY2021 as compared to RM10.64 billion in previous year. Meanwhile, its PBT uncreased by 49.1% to RM633.8 million against RM425.2 million last year.

		However, net profit was impacted by a change in United Kingdom tax regulation, resulted a net loss of RM103.1 million. In addition, it is in the process of acquiring the power plant and associated assets of Tuaspring Pte Ltd and working towards the commercialization of APCO power generation project in Jordan.
07.12.21 (Tue) 10.30 am	MK Land Holdings Bhd (AGM)	Notwithstanding an 8% decrease in revenue, MK Land ended the FY2021 with net profit of RM19.4 million, which was more than double as compared to RM9.7 million in the previous year.
07.12.21 (Tue) 01.30 pm	YTL Corporation Bhd (AGM)	The Company has to undertake a strategic review of its hotel operations which suffered a pre-tax loss of RM153 million in FY2021 compared to a pretax profit of RM96 million in FY2020. Its hotel operation was the worst performing segment of its businesses in FY2021. The pandemic has seen travelling curbs imposed all around the world and the situation is not expected to turn the corner any time soon. It is envisaged that hotels will continue to perform poorly, and further losses can be expected unless the Company decides to exit the business altogether.
07.12.21 (Tue) 03.00 pm	MESB Bhd (AGM)	MESB had established its online sales portal to enhance sales during the pandemic. Constant lockdowns and restrictions in movements had turned many shoppers homebound and as result online sales are growing fast. The Company should allocate more resources to enhance its

		online presence as this seems to be the way forward.
07.12.21 (Tue) 04.30 pm	Malayan Cement Bhd (AGM)	The Company had turned out a net profit of RM8.2 million in FY2021 compared to a pretax loss of RM316 million in FY2020 despite challenging conditions. The construction sector which was severely affected by the pandemic saw demand for cement to be tepid. Besides, the pandemic which has seen no end in sight will continue to cause weakness in the construction sector and demand for cement is expected to follow suit.
08.12.21 (Wed) 09.30 am	Multi-Usage Holdings Bhd (AGM)	The Group recorded revenue of RM20.393 million for FY2021, a leap of 394.62% as compared to RM4.123 million in FY2020. With the improvement in revenue, it recorded PBT of RM7.187 million for FY2021 as compared to loss of RM3.091 million for FY2020. The increase in revenue and profit before taxation was mainly contributed by the property development segment.
08.12.21 (Wed) 10.00 am	Gamuda Bhd (AGM)	Gamuda's full year earnings rose 56 percent to RM588.3 million from RM376.5 million last year due to stronger construction and property earnings and the absence of last year's one-off non-cash Industrialised Building System (IBS) assets impairment of RM148.1 million.
08.12.21 (Wed) 10.30 am	Top Glove Corporation Bhd (EGM)	Top Glove is mulling a Hong Kong Listing and the culmination of this Listing will mean that it will be listed in jurisdictions namely Malaysia, Singapore and Hong Kong. This potential listing will dilute the holdings of current shareholders as another 800

		million shares come onstream. The need for listing is also questionable as the Company has healthy cash balance to undertake its expansion plans.
08.12.21 (Wed) 11.00 am	Gamuda Bhd (EGM)	Gamuda has proposed the establishment of an ESOS of up to 10% of the total number of issued ordinary shares in Gamuda for the eligible employees and executive directors of Gamuda and its subsidiaries.
08.12.21 (Wed) 11.30 am	Scientex Bhd (AGM)	Scientex's revenue increased by 3.9% y-o-y to RM3.7 billion in FY2021 from RM3.5 billion in FY2020, while net profit rose significantly 17.2% to RM457.2 million in FY2021 from RM390.1 million in FY2020. The strong financial performance was driven by its property division with a 20.4% increase in revenue, and a 16.2% increase in operating profit. Meanwhile, its packaging division saw a marginal 2.3% decline in sales to RM2.49 billion while operating profit rose marginally 1% to RM253.56 million.
09.12.21 (Thur) 10.30 am	Jaycorp Bhd (AGM)	The Company had performed well during the pandemic as net profit rose to RM28 million in FY2021 compared to RM16 million in the previous year. Its furniture business which is largely for the export market had performed well. In the coming financial year, the Company may enhance its online presence to boost sales as many furniture exhibitions and trade shows were cancelled due to the pandemic.
09.12.21 (Thur) 03.00 pm	Kamdar Group (M) Bhd (AGM)	Kamdar recorded net loss of RM5.5 million for the financial

		period ended 30 June 2021 ("FPE 2021") compared to a loss of RM2.8 million in FY2020, mainly due to the lockdown restrictions. Moving forward, the Group's strategy is to streamline operations and undertake further cost reductions in view of the challenging outlook for the coming year.
10.12.21 (Fri) 10.00 am	Komarkcorp Bhd (EGM)	Komarkcorp will seek shareholders' approval for a rights issue of exercise of issuing up to 817.82 million shares with 272.6 million free warrants on the basis of three rights shares with one free warrant for every three shares in Komarkcorp held by shareholders.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Tiger Synergy Bhd (AGM)	Included in prepayments of the Group are turnkey advances amounted to RM39,301,374 (31.12.2019 RM39,301,374) paid to a contractor for construction projects pursuant to the turnkey agreements. The prepayments are to be recouped through the interim payment certificate in which the cumulative total certified value of the contractor's work executed (including the amount certified for materials on site) reaches 75% of the total contract value of the contract work. (Page 93 of AR) a) Why did the Group provide turnkey advances to the contractor prior to the construction as contractors are normally paid for the work completed on a progressive basis? b) Please name the contractor to whom the Group has advanced the money amounting to RM39,301.374? c) Please name the property projects the Group had awarded to the contractor. d) When are the expected completion dates of the property projects undertaken by the contractor?

	e) What is the progress of the property projects undertaken by the contractor? f) Is there any construction progress on the property project undertaken by the contractor as the turnkey advances to the contractor remain unchanged for the past two FYs? g) What are the remedies available to the Group if the contractor fails to complete the property projects awarded?
Tiger Synergy Bhd (EGM)	The Company's Employees Share Option Scheme ("ESOS") was first established on 29/5/2014.It was for a period of 5 years and subsequently extended by another 5 years and it will expire on 1 October 2024 as disclose on page 105 of the 2021 Annual Report. a) What is the reason the Company wants to implement another ESOS as there is an existing ESOS that will only expire on 1/10/2024? b) What is the number of ESOS that is still outstanding as of 30/6/2021? c) Please provide the names and quantity of ESOS shares granted to individual director and senior management of the Group from the inception of the ESOS till 30/6/2021?
YTL Power International Bhd (AGM)	Status of projects a) There is no update on the status of YTL Power's 80%-owned Tanjung Jati A 660MW coal-fired plant in Java on Annual Report 2021. Tanjung Jati Power has a 30-year power purchase agreement with PT PLN (Persero), Indonesia' national utility company. The PPA was signed in December 2015 with amended and restated version which was executed in March 2018. When can shareholders expect the commercialization and contribution from this project? Please provide the update and status of the project. b) YTL Power's 45% associate Attarat Power Company (APCO) is expected to commence commercial operation in the late second half of 2021 (page 20 of AR2021). However, the Jordan government and National Electric Power Company (NEPCO) has initiated arbitration proceedings with respect to the PPA signed with APCO in December 2020.

	What is the status of the arbitration proceedings? Will the ongoing legal issue delay the commencement of the project?
MK Land Holdings Bhd (AGM)	The Group was one of the successful bidders for the Development of Large-Scale Solar Photovoltaic Plants ("LSSPV"). (Page 3 of AR) a) What is the contract period of the LSSPV? b) What is the expected capital expenditure in building the LSSPV? c) What is the payback period in years from the LSSPV?
YTL Corporation Bhd (AGM)	The Company suffered its first after tax loss in 5 years for FYE 2021 of RM327.4 million compared to an after-tax profit of RM4.6 million in FYE 2020. This was attributed to the effects of the pandemic to some of its businesses. (Page 12 of AR 2021) What are the steps taken by the Company to return it back to the path of profitability in FYE 2021?
MESB Bhd (AGM)	The Company has embarked on E-Commerce through its online platform www.miroza.com.my. The pandemic has seen many customers pivot to online purchases due to constant lockdowns which restrict movements. a) What was the sales derived from the online platform compared to overall sales in FYE 2021? b) What was the cost of developing this platform? c) What are the Company's plans to further develop its online sales?
Malayan Cement Bhd (AGM)	During FYE 2021, the Company introduced its specialty concrete range with the launch of two new offerings, Aquabuild, a pervious concrete for effective storm water management, and Decobuild, an aesthetic concrete for pavements and floors. a) What has the response been in terms of the sales of these 2 products? b) What are the other products to be launched in FYE 2022 and their targeted sales?
Multi-Usage Holdings Bhd (AGM)	On 19 July 2021, MUCP entered a Sales and Purchase agreement with Muda Paper Mills Sdn. Bhd. for the disposal of fixed assets of MUCP for a total consideration of RM12.5 million. (Pages 9 & 73 and of AR)

	a) What was the basis on which the disposal price of MUCP was arrived at? b) What is the financial impact of the disposal of MUCP to the Group's financial result? c) When is the disposal expected to be completed as the conditions precedent stipulated in the sale and purchase agreement has yet to be fulfilled on 30/6/2021? d) What is the Group's plan for the RM12.5 million cash received? Will the Company consider paying a dividend to reward its shareholders? e) Has the Group identified any new business ventures after the disposal of MUCP? If yes, please name the new business venture?
Gamuda Bhd (AGM)	1. Other operating expenses increased significantly from RM2,164,000 in FY2020 to RM71,648,000 in FY2021(Page 195 of the Annual Report 2021). What are the reasons for the significant increase in other operating expenses? 2. Engineering and Construction a) What is the current progress of the division's on-going projects? Are the projects on schedule? b) The Group is underpinned by its construction order book of RM4.5 billion, which will see the Group through the next two years (Page 15 of the Annual Report 2021). What is the targeted order book replenishment from the local and international markets in the next two financial years? c) MRT3 Project "Gamuda has proposed to the government that, for the MRT3 project, the funding for the first two years will be borne by Gamuda under a private finance initiative (PFI), given that the government's finances are currently limited. And after the two years are up, the project will then be handed over to the government once there is more fiscal space. Gamuda's proposal is to take on the role as project manager", the source tells The Edge. (Source: The Edge Markets dated 22 November 2021). What is the latest development on the abovementioned proposal?

	d) Australia will be a key market for Gamuda in the coming years and the Group expecting this market to contribute to half of Gamuda's new engineering and construction order book in the near future (Page 15 of the Annual Report 2021). i) Is the Group actively tendering for any projects in Australia? If so, what are the project tenders and how much contract value is expected to be awarded to the Group under the current project tenders? ii) What competitive advantages does the division have over its peers in the Australian market?
Scientex Bhd (AGM)	On 8 November 2021, Scientex's unconditional voluntary takeover offer of Daibochi Berhad had closed, however Scientex was unable to accumulate the required 90% stake to privatise Daibochi. As of now, Scientex holds 71.9% equity interest in Daibochi. a) What is Scientex's gameplan for Daibochi? b) When the Company launched a conditional mandatory take-over offer on Daibochi back in 2019, the plan was to maintain the listing status. But now, the Company plans to privatise Daibochi. Why is there a change in Scientex's strategy?
Jaycorp Bhd (AGM)	Revenue from the renewable energy segment decreased from RM8.9 million in FYE 2020 to RM8.5 million in FY21. (Page 19 of AR 2021) Renewable energy business has great potential as demand for sustainable energy is expected to rise exponentially in the future. What are the Company's plans to develop further its renewable energy business?
Kamdar Group (M) Bhd (AGM)	The Group has recognised in its financial statement, a write down of inventories amounting to RM3.9 million in FPE 2021 (FY2020: RM0.7 million) (Note 8, page 97 AR 2021). a) What type of inventories have been written down in FPE 2021? b) What factors had triggered the need to write down the value of the inventories? c) With the economic uncertainties resulting from the pandemic which may impact the saleability of

	inventories, are further write down of inventories expected in the FY2022? d) Has the Company adapted to any Covid 19 related changes in customer preferences and trend and further finetuned the Group's inventory policy?
Komarkcorp Bhd (EGM)	As at 1 November 2021, Komarkcorp had installed and is currently operating a total of 23 production lines for 3-ply face mask and 1 production line for the respirator face mask. With this, the face mask business has an annual production capacity of 276 million units of 3-ply face mask and 12 million units of respirator face mask. Moving forward, Komarkcorp intends to set up another 79 production lines for 3-ply face mask and 25 production lines for respirator face mask, bringing the total production lines to 102 and 26 respectively (page 13 of Circular dated 23 November 2021). a) What is the expected Internal Rate of Return (IRR) from the face mask business? b) Earlier, Komarkcorp had raised approximate RM47.78 million from two private placement exercises to fund the set-up of face mask business. How much of the raised proceeds been spent to establish and expand the business? c) What are the utilization rates of Komarkcorp's current face masks production lines? d) What is the estimated capital expenditure required to the 104 production lines for 3-ply face mask and respirator face mask?

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DISCLOSURE OF INTERESTS

•With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter.
