2QFY23 Results Review (Below)| Thursday, 01 December 2022

Asia File Corporation

(7129 | AF MK) Office Supplies

Softer demand for discretionary items ahead

Downgrade to NEUTRAL
(from BUY)

***Revised* Target Price: RM1.77**
(from RM1.96)

KEY INVESTMENT HIGHLIGHTS

- **Below expectation**
- **Lower revenue and earnings in 2QFY23**
- **1HFY23's core earnings slumped -33.2%yoy to RM19.7m**
- **Reduced earnings projections for FY23F-25F**
- **Downgrade to NEUTRAL (from BUY) with a lower target price of RM1.77 (previously RM1.96)**

Below expectation. Asia File (AFC) reported a core PATANCI of RM19.7m for 1HFY23, after deducting a one-time off item of +RM3.8m. The earnings fell short of our estimation, accounting for 41.4% of our full-year FY23 projection. This was primarily due to lower-than-expected revenue from both filing products and consumer & food ware product segments. No dividend was declared for this quarter.

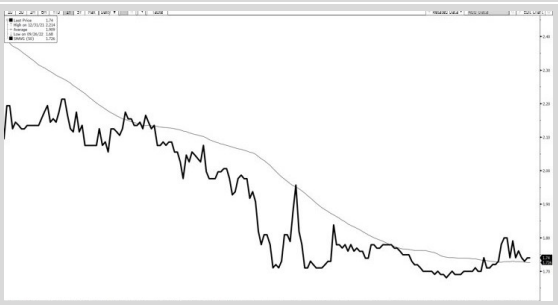
Lower revenue and earnings in 2QFY23. AFC's revenue fell -12.3%qoq to RM77m, owing to lower sales in the Filing product and Consumer and Food Ware Products segments. Operating profit tumbled -40.7%qoq to RM8m, primarily due to higher energy costs that impacted its overseas operation. However, after excluding an RM2.1m one-time item (mainly forex loss), core earnings increased marginally to RM9.9m from RM9.8m in 1QFY23. On yearly basis, the group's topline improved marginally by +0.4%yoy to RM77m, supported by Consumer and Food Ware Products segment. Nevertheless, PBT slipped from RM10.6m in 2QFY22 to RM9.5m in 2QFY23, owing primarily to the sharp declines in GBP/USD and EURO/USD. Note that the group imports raw materials in USD and a large portion of its export sales are in GBP and EURO. After adjusting for the forex loss and other one-time items, core PATANCI increased by +8.9%yoy to RM9.9m.

1HFY23's core earnings slumped -33.2%yoy to RM19.7m, despite higher sales of RM164.7m compared to RM157.6m in 1HFY22. This was mainly due to the higher raw material costs, which have compressed the operating profit margins for both the Filing product and Consumer and Food Ware Products segments. The poor performance was also due to a -RM1.1m of share of loss of an associate as compared to a share of profit of RM6.3m in 1HFY22.

Reduced earnings projections for FY23F-25F. Given that earnings were below expectation, we tweaked our earnings forecast for FY23F-25F lower by -13.3%/-9.8%/-5.5% to RM41.3m/RM43.6m/RM47.8m. This is after adjusting for lower filing product segment sales.

RETURN STATISTICS	
Price @ 30th Nov 2022 (RM)	1.74
Expected share price return (%)	1.7
Expected dividend yield (%)	1.2
Expected total return (%)	**+2.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.1	2.4
3 months	4.1	1.4
12 months	-16.0	-13.7

KEY STATISTICS	
FBM KLCI	1,488.80
Syariah compliant	No
Issue shares (m)	194.76
F4BGM Index	N.A.
ESG Grading Band (Star rating)	N.A.
Estimated free float (%)	23.44
Market Capitalisation (RM'm)	346.73
52-wk price range	RM1.69 - RM2.24
Beta vs FBM KLCI (x)	0.74
3-mth average daily volume (m)	0.08
3-mth average daily value (RM'm)	0.15
Top Shareholders (%)	
Prestige Elegance M Sdn	42.99
Amanah Saham Nasional	19.33
FMR LLC	5.07

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Downgrade to NEUTRAL (from BUY) with a lower target price of RM1.77 (previously RM1.96). Our TP is based on an unchanged PER of 7.9x (2-year historical mean) that is pegged to a lower FY24F EPS of 22.4sen (previously 24.8sen). In the current rising interest rates and inflation environment, we turned cautious that the demand for filing products and consumer & food ware products will soften ahead as the customer likely will reduce their spending on discretionary items. However, we believe that AFC's strong financial position, which includes a net cash position of RM163m, or equivalent to 48.1% of the market capitalization, could help to mitigate downside risk. **Downside risks** are (i) a further increase in input cost; and (ii) lower-than-expected demand for the products.

INVESTMENT STATISTICS

FYE MAR (RM'm)	FY2021	FY2022	FY2023F	FY2024F	FY2025F
Revenue	**258.1**	**323.0**	**324.3**	**329.2**	**335.8**
Total Operating Expenses	(230.8)	(290.1)	(281.5)	(283.6)	(284.9)
Other Operating Income	1.0	3.5	1.0	1.2	1.2
Profit from operations	**28.3**	**36.4**	**43.8**	**46.7**	**52.0**
Finance cost	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
Investing results	1.3	2.5	0.0	0.0	0.0
Share of results of associates	22.3	13.0	10.9	11.1	11.3
Profit before tax	**51.4**	**51.5**	**54.3**	**57.4**	**62.9**
Income tax expense	(4.7)	(8.1)	(13.0)	(13.8)	(15.1)
Profit after tax	**46.6**	**43.4**	**41.3**	**43.6**	**47.8**
PATANCI	46.6	43.4	41.3	43.6	47.8
Core PATANCI	**46.4**	**42.0**	**41.3**	**43.6**	**47.8**
Basic EPS (sen)	23.8	21.6	21.2	22.4	24.5
DPS (sen)	1.5	2.0	2.1	2.2	2.5
Growth & Margin (%)					
Revenue Growth	(12.0)	25.2	0.4	1.5	2.0
Core PATANCI Growth	35.5	(9.4)	(1.8)	5.7	9.6
Operating Profit Margin	11.0	11.3	13.5	14.2	15.5
PBT Margin	19.9	15.9	16.7	17.4	18.7
Core PATANCI Margin	18.0	13.0	12.7	13.3	14.2
Effective tax rate	9.2	15.7	24.0	24.0	24.0
Ratios & Valuation					
PER (x)	7.3	8.1	8.2	7.8	7.1
Net cash/Mkt Cap (%)	55.8	38.7	48.1	49.3	50.8
Dividend yield	0.8	1.1	1.2	1.3	1.4

Source: Company, MIDFR

ASIA FILE CORPORATION: 2QFY23 RESULTS SUMMARY

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	**77.0**	**87.7**	**76.7**	**0.4**	**(12.3)**	**164.7**	**157.6**	**4.5**
Total Operating Expenses	(69.2)	(74.6)	(68.2)	1.5	(7.2)	(143.7)	(137.5)	4.6
Other Operating Income	0.2	0.3	0.5	(60.0)	(27.1)	0.5	1.9	(73.1)
Profit from operations	**8.0**	**13.5**	**9.0**	**(11.2)**	**(40.7)**	**21.5**	**22.0**	**(2.5)**
Finance cost	(0.1)	(0.1)	(0.1)	(5.2)	13.8	(0.2)	(0.2)	(12.8)
Investing result	1.0	0.0	0.8	18.3	3,418.5	1.0	2.0	(51.4)
Share of results of associates	0.7	(1.8)	0.9	(25.9)	(138.8)	(1.1)	6.3	(117.4)
Profit before tax (PBT)	**9.5**	**11.6**	**10.6**	**(10.3)**	**(17.9)**	**21.2**	**30.1**	**(29.7)**
Income tax expense	(1.8)	(3.5)	(2.1)	(15.8)	(49.6)	(5.2)	(4.8)	10.4
Profit after tax (PAT)	**7.8**	**8.1**	**8.6**	**(9.0)**	**(4.4)**	**15.9**	**25.4**	**(37.2)**
Core PATANCI	**9.9**	**9.8**	**9.1**	**8.9**	**0.9**	**19.7**	**29.5**	**(33.2)**
Basic EPS (sen)	4.0	4.2	4.4	(9.2)	(4.1)	8.2	13.0	(37.4)
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Ratios & Margins				**+/(-) ppts**	**+/(-) ppts**			**+/(-) ppts**
Operating profit margin (%)	10.4	15.4	11.7	(1.4)	(5.0)	13.0	14.0	(0.9)
PBT margin (%)	12.4	13.3	13.9	(1.5)	(0.9)	12.9	19.1	(6.2)
Core PATANCI margin (%)	12.8	11.2	11.8	1.0	1.7	12.0	18.7	(6.8)
Effective tax rate (%)	18.4	30.0	19.6	(1.2)	(11.6)	24.8	15.8	9.0
Segmental Breakdown								
Revenue (RM'm):								
Filing Products	65.0	73.3	65.0	0.0	(11.2)	138.3	135.1	2.4
Consumer and Food Ware Products	11.9	14.5	11.6	2.6	(17.6)	26.4	22.6	16.9
Others	0.0	0.0	0.0	(33.3)	20.0	0.0	0.0	(21.4)
Total	**77.0**	**87.7**	**76.7**	**0.4**	**(12.3)**	**164.7**	**157.6**	**4.5**
Operating Profit (RM'm):								
Filing Products	6.9	11.3	6.6	5.7	(38.5)	18.2	17.5	4.2
Consumer and Food Ware Products	1.3	2.4	2.5	(49.6)	(46.5)	3.6	4.5	(19.5)
Others	(0.2)	(0.2)	(0.1)	203.0	18.0	(0.4)	0.0	(1,086.8)
Total	**8.0**	**13.5**	**9.0**	**(11.2)**	**(40.7)**	**21.5**	**22.0**	**(2.5)**
Segmental Profit margin (%):								
Filing Products	10.7	15.4	10.1	0.6	(4.7)	13.2	12.9	0.2
Consumer and Food Ware Products	10.6	16.4	21.6	(11.0)	(5.8)	13.8	20.0	(6.2)
Others	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	**10.4**	**15.4**	**11.7**	**(1.4)**	**(5.0)**	**13.0**	**14.0**	**(0.9)**

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology