3QFY23 Results Review (Below)| Wednesday, 01 March 2023

Asia File Corporation

(7129 | AF MK) Office Supplies

Maintain NEUTRAL

Softer demand ahead

***Revised* Target Price: RM1.60**
(from RM1.77)

KEY INVESTMENT HIGHLIGHTS

- **Below expectation**
- **Reduced revenue and earnings in 3QFY23**
- **Lower earnings for 9MFY23 despite slightly higher turnover**
- **Revised earnings projections for FY23F-25F**
- **Maintain NEUTRAL with a lower target price of RM1.60 (previously RM1.77)**

Below expectations. Asia File (AF) reported a core PATANCI of RM27.6m for 9MFY23, after excluding a one-time-off item of +RM5.3m. The earnings came in below our projection, which amounted to 66.9% of our full-year FY23F earnings estimate. This was primarily due to lower-than-expected revenue as well as a share of associate loss. During the quarter, no dividend was declared.

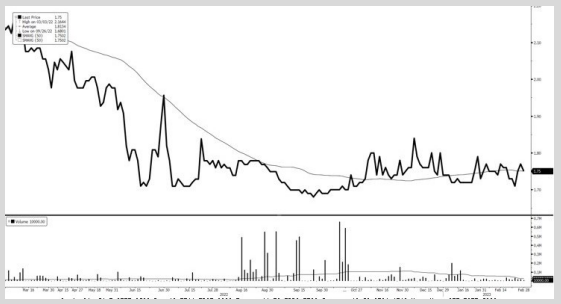
Reduced revenue and earnings in 3QFY23. On quarterly basis, the revenue fell -3.1%qoq to RM74.6m, owing to lower revenue from the Filing Products and Consumer (-3.2%qoq) and Food Ware Products (-2.9%qoq) divisions. As such, the core PATANCI dropped -19.8%qoq to RM7.9m in 3QFY23. On yearly basis, the revenue decreased from RM78.4m in 3QFY22 to RM74.6m in 3QFY23, owing primarily to lower domestic sales (-23.7%yoy) as a result of softer demand in the local market. Despite lower revenue, the core PATANCI increased by 2.2%yoy to RM7.9m in 3QFY23. This was primarily supported by higher operating profit due to lower cost absorption for the customer, which more than offset an associate's share of loss in this quarter. Recall that the group did not pass on the increased costs to the customer in 3QFY22.

Lower earnings for 9MFY23 despite slightly higher turnover. Cumulatively, the group's revenue increased marginally by +1.4%yoy to RM239.3m, owing to increased turnover in the Consumer and Food Ware Products division. Despite higher revenue, the core PATANCI for 9MFY23 tumbled -26.1%yoy to RM27.6m. This was primarily due to an associate share of loss of - RM4.7m in 9MFY23, compared to an associate share of profit of +RM9.8m in 9MFY22.

Revised earnings projection for FY23F-25F. Given that earnings came in below estimation, we reduced our earnings forecasts for FY23F by -13%, FY24F by -9.7%, and FY25F by -5.9%. This is after factoring in lower revenue for both Filing Products and Consumer and Food Ware Products divisions.

RETURN STATISTICS	
Price @ 28th Feb 2023 (RM)	1.75
Expected share price return (%)	-1.3
Expected dividend yield (%)	1.0
Expected total return (%)	**-0.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.2	3.4
3 months	0.6	3.0
12 months	-19.0	-10.4

KEY STATISTICS	
FBM KLCI	1,454.19
Syariah compliant	Yes
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)	340.92
52-wk price range	RM1.68 - RM2.2
Beta vs FBM KLCI (x)	0.66
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.04
Top Shareholders (%)	
Prestige Elegance M Sdn	42.98
Amanah Saham Nasional	19.33
FMR LLC	5.07

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Maintain NEUTRAL with a lower target price of RM1.60 (previously RM1.77). Our **TP** of **RM1.70** is based on an unchanged PER of 7.9x (2-year historical mean) that is pegged to a lower FY24F EPS of 20.2sen (previously 22.4sen). In the current rising interest rates and inflation environment, we are cautious that the demand for filing products and consumer & food ware products will soften in the near term, as customers will likely reduce their spending on discretionary items, resulting in lower sales. However, we believe that AFC's strong financial position, which includes a net cash position of RM236m, or equivalent to 45.7% of the market capitalization, could help to mitigate downside risk. Asia File is currently trading at an FY24F PER of 8.7x, which is higher than its 2-year historical average PER of 7.9x. **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)	2021A	2022A	2023E	2024E	2025E
Revenue	**258.1**	**323.0**	**308.5**	**311.0**	**317.2**
Total Operating Expenses	(230.8)	(290.1)	(274.9)	(273.1)	(272.2)
Other Operating Income	1.0	3.5	1.0	1.2	1.2
Profit from operations	**28.3**	**36.4**	**34.6**	**39.0**	**46.2**
Finance cost	(0.5)	(0.4)	(0.2)	(0.2)	(0.3)
Investing results	1.3	2.5	2.5	2.6	2.6
Share of results of associates	22.3	13.0	10.4	10.5	10.7
Profit before tax	**51.4**	**51.5**	**47.2**	**51.8**	**59.2**
Income tax expense	(4.7)	(8.1)	(11.3)	(12.4)	(14.2)
Profit after tax	**46.6**	**43.4**	**35.9**	**39.4**	**45.0**
PATANCI	46.6	43.4	35.9	39.4	45.0
Core PATANCI	**46.4**	**42.0**	**35.9**	**39.4**	**45.0**
Basic EPS (sen)	23.8	21.6	18.4	20.2	23.1
DPS (sen)	1.5	2.0	1.8	2.0	2.3
Growth & Margin (%)					
Revenue Growth	(12.0)	25.2	(4.5)	0.8	2.0
Core PATANCI Growth	35.5	(9.4)	(14.6)	9.7	14.3
Operating Profit Margin	11.0	11.3	11.2	12.6	14.6
PBT Margin	19.9	15.9	15.3	16.7	18.7
Core PATANCI Margin	18.0	13.0	11.6	12.7	14.2
Effective tax rate	9.2	15.7	24.0	24.0	24.0
Ratios & Valuation					
PER (x)	7.3	8.1	9.5	8.7	7.6
Net cash/Mkt Cap (%)	55.5	38.5	45.7	46.5	48.0
Dividend yield	0.9	1.3	1.2	1.3	1.4

Source: Company, MIDFR

TABLE 1: Asia File's 3QFY23 RESULTS SUMMARY

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	**74.6**	**77.0**	**78.4**	**(4.9)**	**(3.1)**	**239.3**	**236.0**	**1.4**
Total Operating Expenses	(63.4)	(69.2)	(74.7)	(15.0)	(8.3)	(207.2)	(212.1)	(2.3)
Other Operating Income	0.2	0.2	1.4	(85.1)	(0.5)	0.7	3.3	(78.3)
Profit from operations	**11.4**	**8.0**	**5.2**	**120.3**	**42.2**	**32.8**	**27.2**	**20.8**
Finance cost	(0.0)	(0.1)	(0.1)	(65.6)	(76.9)	(0.2)	(0.3)	(25.3)
Investing result	1.7	1.0	0.4	343.8	73.8	2.6	2.4	10.2
Share of results of associates	(3.6)	0.7	3.5	(202.5)	(624.6)	(4.7)	9.8	(148.1)
Profit before tax (PBT)	**9.4**	**9.5**	**9.0**	**3.9**	**(1.9)**	**30.5**	**39.1**	**(21.9)**
Income tax expense	(2.9)	(1.8)	(1.3)	132.6	67.1	(8.2)	(6.0)	36.0
Profit after tax (PAT)	1.5	2.1	0.0	9,475.0	(27.0)	5.3	4.2	27.7
Core PATANCI	**7.9**	**9.9**	**7.8**	**2.2**	**(19.8)**	**27.6**	**37.3**	**(26.1)**
Basic EPS (sen)	3.3	4.0	4.0	(18.1)	(18.3)	7.3	17.0	(57.4)
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 (%)	15.2	10.4	6.6	8.7	4.9	13.7	11.5	2.2
PBT margin (%)	12.6	12.4	11.5	1.1	0.2	12.8	16.6	(3.8)
Core PATANCI margin (%)	8.6	10.1	9.9	(1.3)	(1.5)	9.3	14.0	(4.7)
Effective tax rate (%)	10.6	12.8	9.9	0.7	(2.2)	11.5	15.8	(4.3)

Source: Company, MIDFR

Table 2: Asia File's Breakdown by Segment

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue (RM'm):								
Filing Products	63.0	65.0	65.4	(3.7)	(3.2)	201.3	200.5	0.4
Consumer and Food Ware Products	11.6	11.9	12.9	(10.6)	(2.9)	37.9	35.5	6.9
Others	0.1	0.0	0.0	16.3	733.3	0.1	0.1	7.0
Total	**74.6**	**77.0**	**78.4**	**(4.9)**	**(3.1)**	**239.3**	**236.0**	**1.4**
Operating Profit (RM'm):								
Filing Products	9.3	6.9	2.6	263.9	34.5	27.5	20.0	37.4
Consumer and Food Ware Products	1.9	1.3	2.9	(33.7)	52.6	5.6	7.4	(25.0)
Others	0.1	(0.2)	(0.3)	(136.3)	(156.2)	(0.3)	(0.3)	(5.4)
Total	**11.4**	**8.0**	**5.2**	**120.3**	**42.2**	**32.8**	**27.2**	**20.8**
Segmental Profit margin (%):								
Filing Products	14.8	10.7	3.9	10.9	4.1	13.7	10.0	3.7
Consumer and Food Ware Products	16.7	10.6	22.5	(5.8)	6.1	14.7	20.9	(6.2)
Others	228.0	(3,383.3)	(730.2)	958.2	3,611.3	(427.9)	(484.2)	56.3
Total	**15.2**	**10.4**	**6.6**	**8.7**	**4.9**	**13.7**	**11.5**	**2.2**

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