Asia File Corporation Berhad

(7129 | AF MK) Main | Consumer Products & Services | Office Supplies

Challenging Outlook Persists

***Maintain* NEUTRAL**

***Revised* Target Price: RM1.55**
(previously RM1.60)

KEY INVESTMENT HIGHLIGHTS

- **Below expectation**
- **Revenue and core PATANCI experienced a decline on a yearly basis in 4QFY23**
- **Lower FY23 earnings**
- **Cut earnings forecast for FY24F-25F**
- **Maintain NEUTRAL with a lower target price of RM1.55 (previously RM1.60)**

Below expectation. Asia File ("AF") reported a core PATANCI of RM31.8m for the FY23, which fell below our estimate after subtracting a one-time-off item of RM0.1m. The earnings accounted for 88.4% of our full-year FY23 forecast. The negative deviation was due to higher-than-anticipated input costs and an associate loss share during the year, as compared to an associate profit share in FY22. The group has proposed a final single-tier dividend of 3.5sen/share, pending shareholder approval.

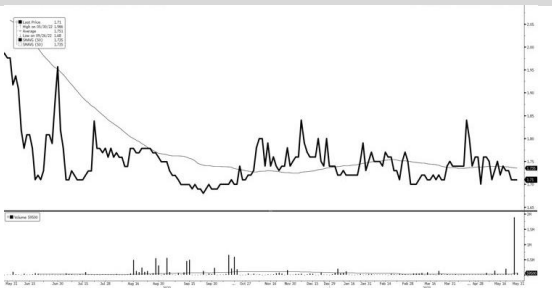
Revenue and core PATANCI experienced a decline on a yearly basis in 4QFY23. AF's 4QFY23 revenue dropped by -10.0%yoy to RM78.3m primarily due to weaker consumer spending, resulting in a contraction in local sales (-20%yoy). During the quarter, the group recorded a share of loss in associate of RM3.9m as compared with a share of profit of RM3.1m in 4QFY22, as well as higher taxation on the back of increased effective tax rate (+12.5ppt yoy) that caused the core PATANCI to plunge -41%yoy to RM6.5m. On a sequential basis, core PATANCI improved by +32.9%qoq to RM6.5m, in tandem with the increased revenue of +4.9%qoq to RM78.3m in 4QFY23. This positive outcome was driven by higher revenue and improved operational efficiency, resulting in a +1.7ppt qoq increase in the core PATANCI margin to 8.3%.

Lower FY23 earnings. Cumulatively, the FY23 revenue decreased -1.7%yoy to RM317.6m. This was mainly due to weaker demand for filing products (-2.3%yoy), which outweighed the improved sales from the Consumer & Food Ware Products division (+1.7%). The decline in revenue, along with a share of loss from associates and higher taxation, resulted in a reduction of core PATANCI from RM42.9m in 12MFY22 to RM31.8m in 12MFY23.

Cut earnings forecast for FY24F-25F. Given that the earnings came in below our estimation, we cut our projection for FY24FY by -16.4% and FY25F by -17.8%. This was after factoring in greater input costs.

RETURN STATISTICS	
Price @ 29th May 2023 (RM)	1.71
Expected share price return (%)	-9.60
Expected dividend yield (%)	+2.00
Expected total return (%)	**-7.58**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.8	-2.1
3 months	-2.3	1.1
12 months	-14.5	-5.9

INVESTMENT STATISTICS

FYE Mar	2023A	2024F	2025F
Revenue	317.6	304.5	313.5
EBITDA	54.8	48.8	54.5
Profit before tax (PBT)	43.8	42.0	47.3
Core PATANCI	31.8	32.9	37.0
Core EPS (sen)	16.2	16.8	18.9
DPS (sen)	3.5	2.6	2.9
Dividend Yield (%)	2.0	1.5	1.7

KEY STATISTICS	
FBM KLCI	1,404.93
Issue shares (m)	194.76
Estimated free float (%)	21.95
Market Capitalisation (RM'm)	333.13
52-wk price range	RM1.7 – RM2.0
3-mth average daily volume (m)	0.05
3-mth average daily value (RM'm)	0.09
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 RM1.55 (previously RM1.60). Our **TP** of **RM1.60** is based on a revised PER of 9.3x (slightly below 5-year historical mean) that is pegged to an FY24F EPS of 16.8sen (previously 20.2sen). In the current rising interest rates and inflationary 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 AF's strong financial position, which includes a net cash position of RM248m, or equivalent to 74% of the market capitalization, could help to mitigate downside risk. Asia File is currently trading at an FY24F PER of 10.2x, which is above its 2-year historical average PER of 9.3x. We believe this seems slightly overvalued given the challenging environment and the persistent softness in demand. **Downside risks** are (i) a further increase in input cost; and (ii) lower-than-expected demand for the products.

Asia File Corporation: 4QFY23 Results Summary

FYE MAR (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	78.3	74.6	87.0	(10.0)	4.9	317.6	323.0	(1.7)
Operating expenses	(63.5)	(63.4)	(78.0)	(18.6)	0.0	(270.7)	(290.1)	(6.7)
Other operating income	0.2	0.2	0.2	(12.3)	(1.0)	0.9	3.5	(73.8)
Operating profit (EBIT)	**15.0**	**11.4**	**9.2**	**63.1**	**31.9**	**47.8**	**36.4**	**31.5**
Net finance income/(cost)	(0.0)	(0.0)	(0.1)	(70.6)	52.4	(0.2)	(0.4)	(38.8)
Profit before tax (PBT)	**13.3**	**9.4**	**12.4**	**7.4**	**41.8**	**43.8**	**51.5**	**(14.9)**
Taxation	(3.9)	(2.9)	(2.1)	86.4	33.5	(12.1)	(8.1)	49.1
Profit After tax (PAT)	**9.4**	**6.4**	**10.3**	**(8.8)**	**45.5**	**31.7**	**43.4**	**(26.9)**
PATANCI	9.4	6.4	10.2	(8.7)	46.2	31.6	43.4	(27.1)
Core PATANCI	**6.5**	**4.9**	**11.0**	**(41.0)**	**32.9**	**31.8**	**42.9**	**(26.0)**
Basic EPS (sen)	4.8	3.3	5.3	(8.7)	45.9	16.2	22.3	(27.1)
DPS (sen)	3.5	0.0	2.0	75.0	n.m.	3.5	2.0	75.0
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Operating Profit Margin	19.2	15.2	10.6	8.6	3.9	15.1	11.3	3.8
PBT Margin	17.0	12.6	14.2	2.8	4.4	13.8	15.9	(2.1)
Core PATANCI Margin	8.3	6.5	12.6	(4.3)	1.7	10.0	13.3	(3.3)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	74.0	70.5	39.3	34.8	3.6	74.0	39.3	34.8
Cash per share (RM)	0.3	0.2	0.1	0.2	0.1	0.3	0.1	0.2

Source: Company, MIDFR

Asia File Corporation: Breakdown by operating segment

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue (External):								
Filing Products	66.6	63.0	73.7	(9.6)	5.8	267.9	274.2	(2.3)
Consumer & Food Ware Products	11.6	11.6	13.2	(12.1)	0.6	49.6	48.7	1.7
Others	0.0	0.1	0.0	(10.5)	(66.0)	0.1	0.1	2.6
Total	**78.3**	**74.6**	**87.0**	**(10.0)**	**4.9**	**317.6**	**323.0**	**(1.7)**
Operating Profit:								
Filing Products	13.0	9.3	5.5	135.3	39.4	40.5	25.6	58.5
Consumer & Food Ware Products	1.9	1.9	3.9	(51.2)	(1.4)	7.5	11.3	(34.1)
Others	0.1	0.1	(0.2)	(142.1)	(14.0)	(0.2)	(0.5)	(68.0)
Total	**15.0**	**11.4**	**9.2**	**63.1**	**31.9**	**47.8**	**36.4**	**31.5**
Operating profit margin:				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Filing Products	19.5	14.8	7.5	12.0	4.7	15.1	9.3	5.8
Consumer & Food Ware Products	16.4	16.7	29.5	(13.1)	(0.3)	15.1	23.2	(8.2)
Others	576.5	228.0	(1,226.3)	>100	>100	(209.0)	(669.7)	>100
Total	**19.2**	**15.2**	**10.6**	**8.6**	**3.9**	**15.1**	**11.3**	**3.8**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Revenue	**258.1**	**323.0**	**317.6**	**304.5**	**313.5**
Cost of Sales	(164.4)	(206.3)	(185.3)	(179.5)	(177.4)
Gross Profit	**93.7**	**116.8**	**132.2**	**125.0**	**136.1**
Other Income	9.0	6.8	0.9	0.9	1.0
Distribution costs	(19.0)	(23.8)	(23.8)	(22.6)	(23.0)
Administrative expenses	(52.8)	(60.2)	(60.2)	(60.6)	(66.2)
Other operating expenses	(2.5)	(1.3)	(5.7)	(5.5)	(5.6)
EBITDA	**39.0**	**48.7**	**54.8**	**48.8**	**54.5**
EBIT	**28.5**	**38.3**	**43.4**	**37.2**	**42.3**
Profit before tax (PBT)	**51.4**	**51.5**	**43.8**	**42.0**	**47.3**
Profit After tax (PAT)	46.6	43.4	31.7	32.9	37.0
Core PATANCI	**48.8**	**43.0**	**31.8**	**32.9**	**37.0**
Core EPS (sen)	25.1	22.1	16.2	16.8	18.9
DPS (sen)	0.0	3.5	3.5	2.6	2.9

Balance Sheet (RM'm)	2021A	2022A	2023A	2024F	2025F
Property, plant and equipment	100.3	114.0	110.4	111.6	112.7
Intangible assets	30.2	30.2	30.2	30.5	30.5
Total Non-current assets	**334.7**	**386.0**	**369.0**	**369.6**	**377.3**
Inventories	92.4	109.4	97.6	94.9	93.7
ST - Trade and other receivables	57.4	68.1	60.9	62.4	64.3
Cash and cash equivalents	282.4	214.3	248.1	245.0	252.2
Total current assets	**433.0**	**391.9**	**432.7**	**402.6**	**410.5**
Total Assets	**767.7**	**777.9**	**801.7**	**772.2**	**787.9**
Total Equity	**680.2**	**717.1**	**748.7**	**718.2**	**733.6**
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	**18.3**	**17.5**	**17.9**	**16.5**	**16.9**
ST Trade and other payables	40.5	36.7	29.8	32.4	32.0
ST Loans and borrowings	26.2	2.4	0.0	0.0	0.0
Total Current Liabilities	**69.2**	**43.4**	**35.1**	**37.5**	**37.3**
Total Liabilities	**87.5**	**60.8**	**53.0**	**54.0**	**54.2**

Cash Flow (RM'm)	2021A	2022A	2023A	2024F	2025F
Pretax profit	51.4	51.5	43.8	42.0	47.3
Cash flow from operations	48.7	14.1	47.9	33.7	34.1
Cash flow from investing	6.7	(64.8)	77.8	(31.4)	(21.1)
Cash flow from financing	(0.0)	(29.2)	(11.2)	(5.3)	(5.9)
Net cash flow	**55.3**	**(79.9)**	**114.5**	**(3.1)**	**7.2**
(+/-) Adjustments	2.2	(1.8)	0.0	0.0	0.0
Net cash/(debt) b/f	**157.7**	**215.2**	**133.6**	**248.1**	**245.0**
Net cash/(debt) c/f	**215.2**	**133.6**	**248.1**	**245.0**	**252.2**

Key Metrics	2021A	2022A	2023A	2024F	2025F
Effective tax rate (%)	9.2	15.8	27.6	21.7	21.7
Net Cash/Market Capitalisation (%)	76.9	63.6	74.0	73.1	75.3
Cash per share (RM)	0.2	0.1	0.2	0.2	0.2
PER (x)	7.1	7.5	10.5	10.2	9.1

Profitability Margins	2021A	2022A	2023A	2024F	2025F
Gross Profit Margin (%)	36.3	36.1	41.6	41.1	43.4
EBIT Margin (%)	11.1	11.8	13.7	12.2	13.5
Core PATANCI Margin (%)	18.9	13.3	10.0	10.8	11.8

Source: Bloomberg, 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