Asia File Corporation Berhad

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

Profit Crunch Amid Weak Demand

***Downgrade to* SELL**

(Previously NEUTRAL)

***Revised* Target Price: RM1.44**

(Previously RM2.05)

KEY INVESTMENT HIGHLIGHTS

- **Below expectations**
- **Revenue softened on weaker demand**
- **Subdued profitability**
- **Revising earnings estimate down**
- **Downgrade to SELL with lower TP of RM1.44**

Below expectations. Asia File's ("AF") chalked in 2QFY25 revenue of RM68.5m (-11.2%qoq; -13.3%yoy) and core PATANCI of RM4.5m (-56.3%qoq, +25.5%yoy) which brought 1HFY25 core PATANCI to RM14.8m (-13.9%yoy). This came in below our estimates, accounting for 36% of full-year estimates. The underperformance was primarily due to higher-than-expected input costs and increased associate losses. No dividend was declared for the quarter.

Revenue softened on weaker demand. For 1HFY25, revenue declined slightly by -5.8%yoy to RM145.7m. This was primarily due to lower contributions from Filing Products, which contracted by -8.9%yoy to RM121.7m, while Consumer & Foodware Products showed modest growth of +13.3%yoy to RM23.9m. On a sequential basis, AF's 2QFY25 revenue fell -11.2%qoq to RM68.5m, reflecting subdued demand across key segments amid a challenging macroeconomic environment.

Subdued profitability. Excluding a one-off forex loss of RM16.2m, 2QFY25 core PATANCI stood at RM4.5m, a sharp decline of 58.5%yoy. For 1HFY25, core PATANCI margins contracted to 10.2% (from 11.1% in 1HFY24), mainly due to elevated input and freight costs. Additionally, the group's share of associate losses widened to RM5.8m compared to RM3.3m in 1HFY24, further eroding profitability.

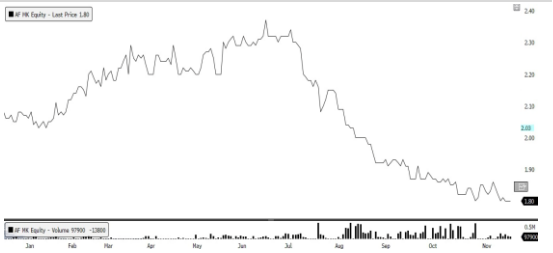
Revising earnings estimate down. In light of the weak results, we have revised our FY25-27F core earnings estimates downward by -28%, -30%, and -32%, respectively, to account for softer revenue from Filing Products and persistently high input costs.

Downgrade to SELL with lower TP of RM1.44. Post earnings revision, we lower our **TP** to **RM1.44** (from 2.05) based on revised FY26F core EPS of 15.3 sen and an unchanged PER of 9.4x, which aligns with AF's 3 years historical PER of 9.4x. Consequently, we downgraded our call to **SELL**, reflecting limited upside potential and heightened earnings risks.

Outlook. Looking ahead, we remain cautious about the near-term demand outlook for AF's Filing Products and Consumer & Foodware Products amid the ongoing global economic slowdown. However, the group's commitment to launching new products and expanding its online platforms could provide some relief.

RETURN STATISTICS	
Price @ 28th Nov 2024 (RM)	1.80
Expected share price return (%)	-20.2
Expected dividend yield (%)	+3.3
Expected total return (%)	**-16.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.2	-2.4
3 months	-5.8	-5.6
12 months	-12.2	-20.4

INVESTMENT STATISTICS

FYE Mar	2025F	2026F	2027F
Revenue	292.1	289.9	287.5
EBITDA	44.3	45.2	46.0
Profit before tax (PBT)	37.3	37.9	38.6
Core PATANCI	29.5	30.0	30.5
Core EPS (sen)	15.0	15.3	15.5
DPS (sen)	5.9	6.0	6.1
Dividend Yield (%)	3.3	3.3	3.4

KEY STATISTICS	
FBM KLCI	1,597.49
Issue shares (m)	195.47
Estimated free float (%)	22.91
Market Capitalisation (RM'm)	340.84
52-wk price range	RM1.8 - RM2.37
3-mth average daily volume (m)	0.18
3-mth average daily value (RM'm)	0.34
Top Shareholders (%)	
CBG L PTE LTD	44.22
PELITA GLOBAL SDN BHD	13.39
Farsathy Holdings Sdn Bhd	5.21

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Asia File Corporation: 1QFY25 Results Summary

FYE MAR (RM'm)	Quarterly results					Cumulative results		
	2QFY25	1QFY25	2QFY24	YoY (%)	QoQ (%)	1HFY25	1HFY24	YoY (%)
Revenue	68.5	77.2	79.0	(13.3)	(11.2)	145.7	154.7	(5.8)
Operating expenses	(76.1)	(66.4)	(71.0)	7.2	14.6	(142.5)	(128.8)	10.6
Other operating income	0.8	0.2	0.2	228.5	246.2	1.0	0.5	114.4
Operating profit (EBIT)	**(6.8)**	**11.0**	**8.3**	**(181.6)**	**(161.7)**	**4.2**	**26.4**	**(84.0)**
Net finance income/(cost)	(0.0)	(0.0)	(0.0)	(77.6)	(26.7)	(0.0)	(0.1)	(67.1)
Profit before tax (PBT)	**(8.0)**	**13.8**	**11.1**	**(171.8)**	**(157.8)**	**5.8**	**29.2**	**(80.1)**
Taxation	(2.6)	(3.5)	(4.2)	(37.5)	(25.2)	(6.1)	(6.3)	(3.5)
Profit After tax (PAT)	**(10.6)**	**10.3**	**6.9**	**(252.4)**	**(202.5)**	**(0.3)**	**22.9**	**(101.1)**
PATANCI	(10.6)	10.3	6.9	(253.9)	(203.0)	(0.3)	22.9	(101.4)
Core PATANCI	**4.5**	**10.3**	**10.8**	**(58.5)**	**(56.3)**	**14.8**	**17.2**	**(13.9)**
Basic EPS (sen)	(5.4)	5.3	3.5	(254.1)	(203.2)	(0.2)	11.8	(101.4)
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Operating Profit Margin	(9.9)	14.3	10.5	(20.4)	(24.2)	2.9	17.0	(14.2)
PBT Margin	(11.6)	17.8	14.0	(25.6)	(29.5)	4.0	18.9	(14.9)
Core PATANCI Margin	6.6	13.3	13.7	(7.2)	(6.8)	10.2	11.1	(1.0)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	71.4	90.8	84.1	(12.7)	(19.4)	71.4	84.1	(12.7)
Effective tax rate (%)	(32.6)	25.2	37.5	(70.1)	(57.8)	104.4	21.5	82.9

Source: Company, MIDFR

Asia File Corporation: Breakdown by operating segment

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	2QFY25	1QFY25	2QFY24	YoY (%)	QoQ (%)	1HFY25	1HFY24	YoY (%)
Revenue (External):								
Filing Products	56.7	65.1	68.1	(16.7)	(12.9)	121.7	133.6	(8.9)
Consumer & Food Ware Products	11.8	12.1	10.9	8.0	(2.4)	23.9	21.1	13.3
Total	**68.5**	**77.2**	**79.0**	**(13.3)**	**(11.2)**	**145.7**	**154.7**	**(5.8)**
Operating Profit:								
Filing Products	(7.8)	9.4	7.1	(210.0)	(183.1)	1.6	23.3	(93.2)
Consumer & Food Ware Products	1.5	1.7	1.4	6.1	(9.5)	3.2	2.9	10.1
Total	**(6.8)**	**11.0**	**8.3**	**(181.6)**	**(161.7)**	**4.2**	**26.4**	**(84.0)**
Operating profit margin:				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Filing Products	(13.7)	14.4	10.4	(24.1)	(28.2)	1.3	17.4	(16.1)
Consumer & Food Ware Products	12.8	13.9	13.1	(0.2)	(1.0)	13.4	13.8	(0.4)
Total	**(9.9)**	**14.3**	**10.5**	**(20.4)**	**(24.2)**	**2.9**	**17.0**	**(14.2)**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025F	2026F	2027F
Revenue	**317.6**	**294.2**	**292.1**	**289.9**	**287.5**
Cost of Sales	(208.5)	(188.3)	(201.4)	(199.6)	(197.8)
Gross Profit	**109.1**	**106.0**	**90.7**	**90.2**	**89.7**
Other Income	4.5	1.0	1.0	1.0	1.0
Distribution costs	(26.7)	(22.9)	(29.7)	(29.2)	(28.7)
Administrative expenses	(36.3)	(30.3)	(36.7)	(36.1)	(35.4)
Other operating expenses	(2.3)	8.2	8.3	8.3	8.3
EBITDA	**59.7**	**73.6**	**44.3**	**45.2**	**46.0**
EBIT	**48.3**	**62.1**	**33.5**	**34.2**	**34.9**
Profit before tax (PBT)	**43.8**	**64.7**	**37.3**	**37.9**	**38.6**
Profit After tax (PAT)	31.7	52.2	29.5	30.0	30.5
Core PATANCI	**38.8**	**40.2**	**29.5**	**30.0**	**30.5**
Core EPS (sen)	19.9	20.5	15.0	15.3	15.5
DPS (sen)	2.0	10.5	5.9	6.0	6.1

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
Property, plant and equipment	110.4	104.1	101.3	98.2	94.7
Intangible assets	30.2	30.2	30.2	30.2	30.2
Total Non-current assets	**394.1**	**363.4**	**372.3**	**402.0**	**484.5**
Inventories	97.6	90.7	97.5	96.7	95.8
ST - Trade and other receivables	60.9	52.0	51.9	51.5	51.1
Cash and cash equivalents	248.1	317.0	314.6	312.2	309.8
Total current assets	**407.6**	**489.6**	**464.0**	**460.4**	**456.6**
Total Assets	**801.7**	**853.0**	**836.3**	**862.4**	**941.2**
Total Equity	**748.7**	**792.7**	**780.9**	**807.5**	**886.7**
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	**17.9**	**16.2**	**15.9**	**15.7**	**15.6**
ST Trade and other payables	29.8	30.0	32.2	32.0	31.7
ST Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	**35.1**	**44.1**	**39.5**	**39.2**	**38.9**
Total Liabilities	**53.0**	**60.3**	**55.4**	**54.9**	**54.5**

Cash Flow (RM'm)	2023A	2024A	2025F	2026F	2027F
Pretax profit	43.8	64.7	37.3	37.9	38.6
Cash flow from operations	61.6	72.0	22.3	28.3	29.0
Cash flow from investing	57.3	5.9	(12.7)	(18.8)	(19.4)
Cash flow from financing	(8.2)	(15.8)	(11.8)	(11.9)	(12.1)
Net cash flow	**110.7**	**62.2**	**(2.3)**	**(2.4)**	**(2.5)**
(+/-) Adjustments	3.8	6.7	0.0	0.0	0.0
Net cash/(debt) b/f	**133.6**	**248.1**	**316.9**	**314.6**	**312.2**
Net cash/(debt) c/f	**248.1**	**316.9**	**314.6**	**312.2**	**309.8**

Key Metrics	2023A	2024A	2025F	2026F	2027F
Effective tax rate (%)	27.6	19.4	20.9	20.9	20.9
PER (x)	11.1	6.7	12.0	11.8	11.6
Net Cash/Market Capitalisation (%)	70.8	89.7	89.0	88.3	87.6
Dividend Yield (%)	1.1	5.8	3.3	3.3	3.4

Profitability Margins	2023A	2024A	2025F	2026F	2027F
Gross Profit Margin (%)	34.3	36.0	31.1	31.1	31.2
EBIT Margin (%)	15.2	21.1	11.5	11.8	12.1
Core PATANCI Margin (%)	12.2	13.7	10.1	10.4	10.6

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