

Asia File Corporation Berhad

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

Continuous Weaker Demand

KEY INVESTMENT HIGHLIGHTS

- **Below expectations**
- **Lower-than-expected 1QFY24 revenue**
- **Cut earnings projections for FY24F-25F and introduced earnings forecasts for FY26F**
- **Downgrade to SELL (from NEUTRAL) with a lower target price of RM1.50 (previously RM1.55)**

Below expectations. Asia File ("AF") reported a 3MFY24 core PATANCI of RM6.3m, after excluding one-time off items of -RM9.6m. The core PATANCI core PATANCI fell short of our and consensus' full-year FY24F estimates, making up only 19.3% of ours and 16.1% of the consensus. This was mainly due to lower-than-anticipated revenue. No dividend was declared in this quarter.

Lower-than-expected 1QFY24 revenue. The group's revenue for 1QFY24 came in weaker than expected, declining by -13.8%yoy to RM75.6m. This was mainly due to reduced demand for consumer products in the current challenging market conditions. Consequently, both the filling products and consumer & foodware product segments saw reduced sales. The core PATANCI dropped by -36.1%yoy to RM6.3m in 1QFY24, primarily because of lower revenue after excluding forex gains (one-time items). On a quarterly basis, the lower core PATANCI of RM6.3m represented a -1.9%qoq decrease, in line with the -3.3%qoq reduction in revenue to RM75.6m. Specifically, both filling products and consumer & foodware product segments continued to experience declining sales due to reduced demand caused by slower business activities.

Cut earnings projections for FY24F-25F and introduced earnings forecasts for FY26F. Given that earnings were below our expectations, we have lowered our earnings projections for FY24FY by -7.3% and FY25F by -10.9%. This adjustment accounts for lower revenue expectations for filing and consumer foodware products. We also introduce our earnings forecasts for FY26F.

Rolled-over valuation. We roll over our valuation to FY25F from FY24F. We shifted from a 5-year historical average PER to 5-year historical -0.5 standard deviations to better reflect the weaker outlook.

Downgrade to SELL

(from NEUTRAL)

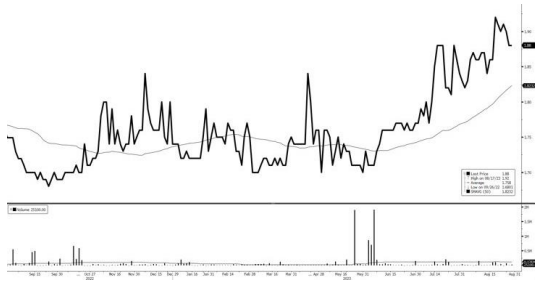
Revised Target Price: RM1.50

(From RM1.55)

RETURN STATISTICS

Price @ 30 th Aug 2023 (RM)	1.88
Expected share price return (%)	-20.0
Expected dividend yield (%)	+1.3
Expected total return (%)	-18.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.2	2.7
3 months	6.2	5.7
12 months	5.6	10.0

INVESTMENT STATISTICS

FYE Mar	2024F	2025F	2026F
Revenue	300.9	310.1	318.4
EBITDA	45.1	48.7	52.2
Profit before tax (PBT)	38.4	41.5	44.6
Core PATANCI	30.5	33.0	35.4
Core EPS (sen)	15.7	16.9	18.2
DPS (sen)	2.4	2.6	2.8
Dividend Yield (%)	1.3	1.4	1.5

KEY STATISTICS

FBM KLCI	1,451.94
Issue shares (m)	194.81
Estimated free float (%)	20.84
Market Capitalisation (RM'm)	364.92
52-wk price range	RM1.66-RM1.95
3-mth average daily volume (m)	0.09
3-mth average daily value (RM'm)	0.15
Top Shareholders (%)	
Prestige Elegance M Sdn	43.14
Amanah Saham Nasional	19.40
FMR LLC	5.08

Analyst

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Downgrade to SELL (from NEUTRAL) with a lower target price of RM1.50 (previously RM1.55). Our revised TP of RM1.50 is based on a revised PER of 8.9x (its 5-year historical -0.5SD PER), pegged at FY25F EPS of 16.8 sen. Given the current global slowdown in business activities, including Europe, we are cautious about near-term demand for filing products and consumer & foodware products. We anticipate that customers may reduce their spending on non-essential items and out-of-home consumption, potentially leading to lower orders and sales. Hence, we downgrade Asia File from NEUTRAL to **SELL**. **Re-rating catalysts** are (i) a further decrease in input cost; and (ii) better-than-expected demand for the products.

Asia File Corporation: 1QFY24 Results Summary

FYE MAR (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	75.6	78.3	87.7	(13.8)	(3.3)	75.6	87.7	(13.8)
Operating expenses	(57.8)	(63.5)	(74.6)	(22.4)	(8.9)	(57.8)	(74.6)	(22.4)
Other operating income	0.2	0.2	0.3	(20.5)	10.6	0.2	0.3	(20.5)
Operating profit (EBIT)	18.1	15.0	13.5	34.0	20.4	18.1	13.5	34.0
Net finance income/(cost)	(0.0)	(0.0)	(0.1)	(62.5)	(6.3)	(0.0)	(0.1)	(62.5)
Profit before tax (PBT)	18.2	13.3	11.6	56.1	36.7	18.2	11.6	56.1
Taxation	(2.1)	(3.9)	(3.5)	(38.8)	(45.6)	(2.1)	(3.5)	(38.8)
Profit After tax (PAT)	16.0	9.4	8.1	96.7	71.2	16.0	8.1	96.7
PATANCI	16.0	9.4	8.1	97.1	70.8	16.0	8.1	97.1
Core PATANCI	6.3	6.5	9.9	(36.1)	(1.9)	6.3	9.9	(36.1)
Basic EPS (sen)	8.2	4.8	4.2	98.1	71.7	8.2	4.2	98.1
DPS (sen)	0.0	3.5	0.0	n.m.	(100.0)	0.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Operating Profit Margin	23.9	19.2	15.4	8.5	4.7	23.9	15.4	8.5
PBT Margin	24.0	17.0	13.3	10.7	7.0	24.0	13.3	10.7
Core PATANCI Margin	8.4	8.3	11.3	(2.9)	0.1	8.4	11.3	(2.9)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	75.9	67.3	44.1	31.8	8.5	75.9	44.1	31.8
Effective tax rate (%)	11.8	29.5	30.0	(18.2)	(17.8)	11.8	30.0	(18.2)

Source: Company, MIDFR

Asia File Corporation: Breakdown by operating segment

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue (External):								
Filing Products	65.5	66.6	73.3	(10.7)	(1.7)	65.5	73.3	(10.7)
Consumer & Food Ware Products	10.2	11.6	14.5	(29.7)	(12.6)	10.2	14.5	(29.7)
Others	0.0	0.0	0.0	20.0	(64.7)	0.0	0.0	20.0
Total	75.6	78.3	87.7	(13.8)	(3.3)	75.6	87.7	(13.8)
Operating Profit:								
Filing Products	16.2	13.0	11.3	43.9	24.9	16.2	11.3	43.9
Consumer & Food Ware Products	1.5	1.9	2.4	(37.8)	(22.7)	1.5	2.4	(37.8)
Others	0.4	0.1	(0.2)	(312.2)	272.4	0.4	(0.2)	(312.2)
Total	18.1	15.0	13.5	34.0	20.4	18.1	13.5	34.0
Operating profit margin:				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Filing Products	24.8	19.5	15.4	9.4	5.3	24.8	15.4	9.4
Consumer & Food Ware Products	14.5	16.4	16.4	(1.9)	(1.9)	14.5	16.4	(1.9)
Others	6,083.3	576.5	(3,440.0)	9,523.3	5,506.9	6,083.3	(3,440.0)	9,523.3
Total	23.9	19.2	15.4	8.5	4.7	23.9	15.4	8.5

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	323.0	317.6	300.9	310.1	318.4
Cost of Sales	(206.3)	(208.5)	(203.5)	(208.9)	(213.6)
Gross Profit	116.8	109.1	97.4	101.2	104.8
Other Income	6.8	4.5	4.3	4.5	4.7
Distribution costs	(23.8)	(26.7)	(27.9)	(28.3)	(28.6)
Administrative expenses	(60.2)	(36.3)	(37.8)	(38.4)	(38.8)
Other operating expenses	(1.3)	(2.3)	(2.4)	(2.4)	(2.4)
EBITDA	48.7	59.7	45.1	48.7	52.2
EBIT	38.3	48.3	33.7	36.6	39.6
Profit before tax (PBT)	51.5	43.8	38.4	41.5	44.6
Profit After tax (PAT)	43.4	31.7	30.5	33.0	35.4
Core PATANCI	43.0	38.8	30.5	33.0	35.4
Core EPS (sen)	22.1	19.9	15.7	16.9	18.2
DPS (sen)	3.5	2.0	2.4	2.6	2.8

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	114.0	110.4	111.5	112.6	113.6
Intangible assets	30.2	30.2	30.5	30.5	30.5
Total Non-current assets	386.0	394.1	378.9	387.1	394.4
Inventories	109.4	97.6	104.6	107.4	109.8
ST - Trade and other receivables	68.1	60.9	61.7	63.6	65.3
Cash and cash equivalents	214.3	248.1	242.1	249.5	256.2
Total current assets	391.9	407.6	408.8	420.9	431.6
Total Assets	777.9	801.7	787.6	808.0	826.0
Total Equity	717.1	748.7	730.4	749.2	765.8
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	17.5	17.9	16.3	16.8	17.2
ST Trade and other payables	36.7	29.8	35.9	36.8	37.6
ST Loans and borrowings	2.4	0.0	0.0	0.0	0.0
Total Current Liabilities	43.4	35.1	40.9	42.0	43.0
Total Liabilities	60.8	53.0	57.2	58.8	60.2

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	51.5	43.8	38.4	41.5	44.6
Cash flow from operations	14.1	61.6	23.4	24.3	27.7
Cash flow from investing	(64.8)	(27.7)	60.6	(11.6)	(15.4)
Cash flow from financing	(29.2)	(8.2)	(5.0)	(5.2)	(5.6)
Net cash flow	(79.9)	25.6	79.1	7.4	6.6
(+/-) Adjustments	(1.8)	3.8	0.0	0.0	0.0
Net cash/(debt) b/f	215.2	133.6	163.0	242.1	249.5
Net cash/(debt) c/f	133.6	163.0	242.1	249.5	256.2

Key Metrics	2021A	2022A	2023A	2024F	2025F
Effective tax rate (%)	15.8	27.6	20.6	20.6	20.6
PER (x)	8.2	11.6	12.0	11.1	10.3
Net Cash/Market Capitalisation (%)	57.9	67.7	66.1	68.1	70.0
EV/EBITDA (x)	3.2	2.0	2.7	2.4	2.1

Profitability Margins	2021A	2022A	2023A	2024F	2025F
Gross Profit Margin (%)	36.1	34.3	32.4	32.6	32.9
EBITDA Margin (%)	15.1	18.8	15.0	15.7	16.4
Core PATANCI Margin (%)	13.3	12.2	10.1	10.6	11.1

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 <i>rise</i> 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 <i>fall</i> 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