

Asia File Corporation Berhad

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

Maintain SELL

Challenging Near-Term Prospects

Revised Target Price: RM1.60
(previously RM1.50)

KEY INVESTMENT HIGHLIGHTS

- **Above expectation**
- **Improved 2QFY24 core PATANCI aligned with incremental revenue growth**
- **Lower revenue and core earnings in 1HFY24**
- **Revised earnings projections for FY24F-25F**
- **Maintain SELL with a revised target price of RM1.60 (previously RM1.50)**

Above expectation. Despite Asia File's 1HFY24 revenue accounted for 51.4% of our FY24F revenue, yet the core PATANCI of RM17.2m came in slightly above our FY24F earnings projection. It accounted for 56.4% of our full-year forecast. The deviation was largely due to the lower-than-expected operating cost on the back of the effective cost management. The group declared a single-tier first interim dividend of 3.5sen/share in 2QFY24, compared to none proposed in 2QFY23.

Improved 2QFY24 core PATANCI aligned with incremental revenue growth. On a yearly basis, Asia File's revenue increased marginally by +2.7%yoy to RM79m in 2QFY24, driven by better filling products revenue which offset the consumer & food ware division. The PBT increased +16.1%yoy to RM11.1m, primarily due to a healthy PBT margin of +1.6ppt to 14%, attributed to higher revenue, effective cost control measures, and improved investing results. Consequently, core PATANCI rose +3.4%yoy to RM10.8m. On a quarterly basis, core PATANCI increased +70.9%qoq to RM10.8m, in line with higher revenue of RM79m in 2QFY24 which up from RM75.6m in 1QFY24. This increase was after adding back the one-time off item of RM4m, along with higher investing results and a lower share of loss from associates during the quarter.

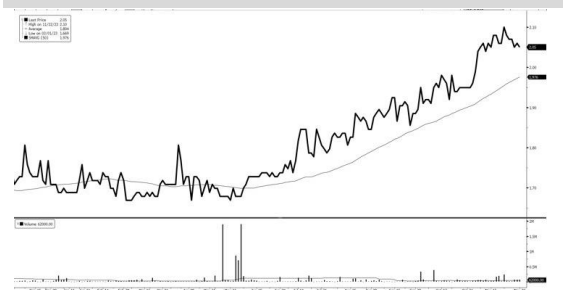
Lower revenue and core earnings in 1HFY24. Cumulatively, the revenue decreased by -6.1%yoy to RM154.7m, primarily attributed to lower sales in the filling products and consumer & food ware segments. After excluding a one-time item of -RM5.7m, the core PATANCI dropped -15.8%yoy to RM17.2m in 1HFY24.

Revised earnings projections for FY24F-25F. Given that earnings exceeded our expectations, we have raised our earnings projections for FY24-FY25F by +8.3%/+6.3%/+4.5%, respectively. This adjustment accounts for a better profit margin resulting from effective cost management, despite the revenue outlook remaining dull.

RETURN STATISTICS

Price @ 30 th Aug 2023 (RM)	2.05
Expected share price return (%)	-21.9
Expected dividend yield (%)	+1.3
Expected total return (%)	-20.65

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.1	4.4
3 months	6.8	9.0
12 months	17.8	20.7

INVESTMENT STATISTICS


FYE Mar	2024F	2025F	2026F
Revenue	300.9	310.1	318.4
EBITDA	48.3	51.4	54.2
Profit before tax (PBT)	41.6	44.1	46.6
Core PATANCI	33.0	35.0	37.0
Core EPS (sen)	16.9	18.0	19.0
DPS (sen)	2.6	2.8	2.9
Dividend Yield (%)	1.3	1.3	1.4

KEY STATISTICS

FBM KLCI	1,452.74
Issue shares (m)	194.81
Estimated free float (%)	20.84
Market Capitalisation (RM'm)	398.80
52-wk price range	RM1.68-RM2.15
3-mth average daily volume (m)	0.04
3-mth average daily value (RM'm)	0.08
Top Shareholders (%)	
Prestige Elegance M Sdn	43.05
Amanah Saham Nasional	19.36
FMR LLC	5.07

Analyst

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Maintain SELL with a revised target price of RM1.60 (previously RM1.50). Our revised **TP** of RM1.60 is based on an unchanged PER of 8.9x (its 5-year historical -0.5SD PER), pegged at FY25F EPS of 18.0sen (from 16.8sen). We remain cautious on outlook for near-term demand for filing products and consumer & foodware products considering the ongoing global slowdown in business activities, including Europe. We anticipate that end-customers may reduce spending on non-essential items, potentially resulting in lower orders and sales. Hence, maintain **SELL** on Asia File. **Re-rating catalysts** are (i) a further decrease in input cost; and (ii) better-than-expected demand for the products. 

Asia File Corporation: 2QFY24 Results Summary

FYE MAR (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	79.0	75.6	77.0	2.7	4.5	154.7	164.7	(6.1)
Operating expenses	(71.0)	(57.8)	(69.2)	2.6	22.7	(128.8)	(143.7)	(10.4)
Other operating income	0.2	0.2	0.2	11.9	2.6	0.5	0.5	(6.8)
Operating profit (EBIT)	8.3	18.1	8.0	4.0	(53.9)	26.4	21.5	22.9
Net finance income/(cost)	(0.0)	(0.0)	(0.1)	(46.2)	63.3	(0.1)	(0.2)	(53.8)
Profit before tax (PBT)	11.1	18.2	9.5	16.1	(39.0)	29.2	21.2	38.0
Taxation	(4.2)	(2.1)	(1.8)	136.2	94.5	(6.3)	(5.2)	19.8
Profit After tax (PAT)	6.9	16.0	7.8	(11.0)	(56.7)	22.9	15.9	44.0
PATANCI	6.9	16.0	7.8	(11.5)	(57.0)	22.9	15.9	43.9
Core PATANCI	10.8	6.3	10.5	3.4	70.9	17.2	20.4	(15.8)
Basic EPS (sen)	3.5	8.2	4.0	(11.5)	(57.2)	11.8	8.2	44.4
DPS (sen)	3.5	0.0	0.0	n.m.	n.m.	3.5	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Operating Profit Margin	10.5	23.9	10.4	0.1	(13.3)	17.0	13.0	4.0
PBT Margin	14.0	24.0	12.4	1.6	(10.0)	18.9	12.9	6.0
Core PATANCI Margin	13.7	8.4	13.6	0.1	5.3	11.1	12.4	(1.3)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	73.9	69.6	45.3	28.6	4.3	73.9	45.3	28.6
Effective tax rate (%)	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1

Source: Company, MIDFR

Asia File Corporation: Breakdown by operating segment

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue (External):								
Filing Products	68.1	65.5	65.0	4.7	4.0	133.6	138.3	(3.4)
Consumer & Food Ware Products	10.9	10.2	11.9	(8.2)	7.6	21.1	26.4	(20.0)
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.1
Total	79.0	75.6	77.0	2.7	4.5	154.7	164.7	(6.1)
Operating Profit:								
Filing Products	7.1	16.2	6.9	2.1	(56.3)	23.3	18.2	28.0
Consumer & Food Ware Products	1.4	1.5	1.3	13.0	(2.8)	2.9	3.6	(20.1)
Others	(0.2)	0.4	(0.2)	(3.9)	(153.4)	0.2	(0.4)	(145.3)
Total	8.3	18.1	8.0	4.0	(53.9)	26.4	21.5	22.9
Operating profit margin:				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Filing Products	10.4	24.8	10.7	(0.3)	(14.4)	17.4	13.2	4.3
Consumer & Food Ware Products	13.1	14.5	10.6	2.5	(1.4)	13.8	13.8	(0.0)
Others	(3,250.0)	6,083.3	(3,383.3)	133.3	(9,333.3)	1,416.7	(3,409.1)	4,825.8
Total	10.5	23.9	10.4	0.1	(13.3)	17.0	13.0	4.0

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)	(205.5)	(209.7)	(213.1)
Gross Profit	116.8	109.1	95.4	100.5	105.3
Other Income	6.8	4.5	4.3	4.5	4.7
Distribution costs	(23.8)	(26.7)	(25.4)	(26.6)	(27.9)
Administrative expenses	(60.2)	(36.3)	(35.1)	(36.7)	(38.1)
Other operating expenses	(1.3)	(2.3)	(2.4)	(2.4)	(2.4)
EBITDA	48.7	59.7	48.3	51.4	54.2
EBIT	38.3	48.3	36.9	39.3	41.6
Profit before tax (PBT)	51.5	43.8	41.6	44.1	46.6
Profit After tax (PAT)	43.4	31.7	33.0	35.0	37.0
Core PATANCI	43.0	38.8	33.0	35.0	37.0
Core EPS (sen)	22.1	19.9	16.9	18.0	19.0
DPS (sen)	3.5	2.0	2.6	2.8	2.9

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	105.6	107.8	109.6
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	409.8	421.3	431.3
Total Assets	777.9	801.7	788.7	808.3	825.7
Total Equity	717.1	748.7	731.1	749.4	765.6
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	36.2	36.9	37.5
ST Loans and borrowings	2.4	0.0	0.0	0.0	0.0
Total Current Liabilities	43.4	35.1	41.3	42.2	42.9
Total Liabilities	60.8	53.0	57.6	58.9	60.1

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	51.5	43.8	41.6	44.1	46.6
Cash flow from operations	14.1	61.6	26.6	27.8	30.5
Cash flow from investing	(64.8)	(27.7)	57.8	(14.9)	(18.0)
Cash flow from financing	(29.2)	(8.2)	(5.3)	(5.6)	(5.9)
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	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	15.8	27.6	20.6	20.6	20.6
PER (x)	9.0	12.6	12.1	11.4	10.8
Net Cash/Market Capitalisation (%)	53.1	62.1	60.6	62.5	64.1
Dividend Yield (%)	1.7	1.0	1.3	1.3	1.4

Profitability Margins	2021A	2022A	2023A	2024F	2025F
Gross Profit Margin (%)	36.1	34.3	31.7	32.4	33.1
EBIT Margin (%)	11.8	15.2	12.3	12.7	13.1
Core PATANCI Margin (%)	13.3	12.2	11.0	11.3	11.6

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 <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