Asia File Corporation Berhad

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

Spotlight on Online Presence

***Upgrade to* NEUTRAL**

(Previously SELL)

***Revised* Target Price: RM1.85**

(Previously RM1.60)

KEY INVESTMENT HIGHLIGHTS

- **Virtual meeting with Asia File**
- **Taking filing products online in the UK and Germany**
- **Expansion in consumer wares, normalization in food ware demand**
- **Resilient PBT margin ahead**
- **Revised earnings forecast for FY24-26F**
- **Upgrade to NEUTRAL (from SELL) with a Revised Target Price of RM1.85 (previously RM1.60)**

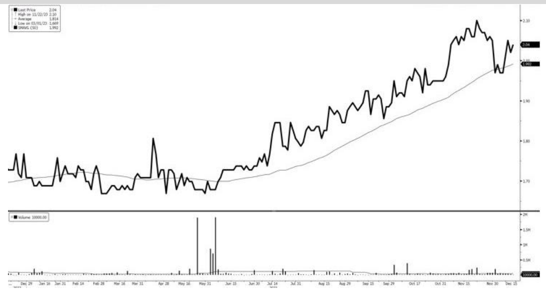
Virtual Meeting with Asia File. We recently had a virtual meeting with Asia File's management and turned cautiously optimistic about the company's outlook for FY24. The key highlights are as follows:

Taking Filing products online in the UK and Germany. Going forward, we anticipate that demand for filing goods will remain subdued due to digital transformation and environmental concerns, leading to a reduction in the usage of traditional physical filing products globally. This, however, presents an opportunity as it could result in the exit of small-scale competitors, enabling the group to potentially capture more market share in Malaysia. Notably, Asia File currently holds approximately 70% of the market share of filing suppliers in Malaysia. This is attributed to its economies of scale and lower unit costs, allowing the group to offer competitive prices. Additionally, the group plans to enter ecommerce platforms in the UK and Germany. This departure from traditional marketplaces allows the organization to reach out to individual clients directly and build its own brand.

Expansion in Consumer wares, normalization in Foodware Demand. Looking ahead, while consumer sentiment for consumer goods remains sluggish in traditional commerce, we expect an uptick in December 2023 sales on ecommerce platforms, driven by year-end sales. Recall that Asia File markets its consumer goods under the flagship brand "ABBAWARE." This brand offers premium quality and competitive pricing to end-users via online platforms like Shopee and Lazada in Malaysia. Meanwhile, the group also aims to expand the market share of consumer wares to 40% in the mid-to-long term from the current 1/3 market share. On the other hand, we foresee a continued normalization of demand for food ware, primarily due to more people preferring to dine out post-economy reopening, thereby reducing the demand for delivery food.

RETURN STATISTICS	
Price @ 15th Dec 2023 (RM)	2.04
Expected share price return (%)	-9.10
Expected dividend yield (%)	+3.50
Expected total return (%)	**-5.65**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.9	-2.0
3 months	6.3	3.8
12 months	15.9	17.2

INVESTMENT STATISTICS

FYE Mar	2024F	2025F	2026F
Revenue	310.0	319.5	330.0
EBITDA	60.2	62.3	64.4
Profit before tax (PBT)	54.5	56.1	57.8
Core PATANCI	39.4	40.6	41.9
Core EPS (sen)	20.2	20.8	21.5
DPS (sen)	7.1	7.3	7.5
Dividend Yield (%)	3.5	3.6	3.7

KEY STATISTICS	
FBM KLCI	1,462.45
Issue shares (m)	194.81
Estimated free float (%)	20.84
Market Capitalisation (RM'm)	396.86
52-wk price range	RM1.68-RM2.15
3-mth average daily volume (m)	0.05
3-mth average daily value (RM'm)	0.09
Top Shareholders (%)	
Prestige Elegance M Sdn	43.05
Amanah Saham Nasional	19.36
FMR LLC	5.07

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Resilient PBT margin ahead. Moving forward, the group will continue to emphasize operational efficiency and increase automation to reduce unit costs. This will ensure that the group remains cost and price competitive. Meanwhile, we expect that the normalized freight cost to further benefit the group, leading to a better PBT margin of above 14% in FY24.

Normalizing cash position and improved dividend outlook. The company's net cash increased from RM182.3m in 2QFY23 to RM294.8m in 2QFY24. This increase was attributed to necessary capital expenditures for improving production capacity in FY23 and the initiative to preserve cash during the year. Looking ahead, the group will persist in preserving cash to protect against potential downside risks. With a stronger net cash position, we now anticipate a better dividend payout going forward.

Revised Earnings Forecast for FY24-26F. We have adjusted our earnings forecast for FY24F-26F upward by +19.4%/ +15.8%/+13.1% respectively. This adjustment is based on (1) higher revenue on the back of higher ecommerce sales for consumer and food ware products ahead, (2) improved margin due to better production efficiency and lower unit costs, and (3) a better dividend payout.

Upgrade to NEUTRAL (previously SELL) with a Revised Target Price of RM1.85 (previously RM1.60). Our revised **target price of RM1.85** is based on an unchanged PER of 8.9x (its 5-year historical -0.5SD PER), pegged at FY25F EPS of 20.8sen (up from 18sen). We maintain caution regarding the near-term outlook for demand in filing products and consumer & food ware products, considering the ongoing global slowdown in business activities. On a positive note, we are optimistic about its strong net cash position of RM294.8m as of 2QFY23, which could provide support against downside risks going forward. Hence, the upgrade to **NEUTRAL** on Asia File. **Re-rating catalysts** include (i) a further decrease in input costs and (ii) better-than-expected demand for the products.

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	**323.0**	**317.6**	**310.0**	**319.5**	**330.0**
Cost of Sales	(206.3)	(208.5)	(201.5)	(206.6)	(212.4)
Gross Profit	**116.8**	**109.1**	**108.5**	**112.8**	**117.6**
Other Income	6.8	4.5	4.8	4.9	5.0
Distribution costs	(23.8)	(26.7)	(26.2)	(27.6)	(29.2)
Administrative expenses	(60.2)	(36.3)	(36.1)	(37.8)	(39.4)
Other operating expenses	(1.3)	(2.3)	(2.5)	(2.5)	(2.5)
EBITDA	**48.7**	**59.7**	**60.2**	**62.3**	**64.4**
EBIT	**38.3**	**48.3**	**48.5**	**49.9**	**51.5**
Profit before tax (PBT)	**51.5**	**43.8**	**54.5**	**56.1**	**57.8**
Profit After tax (PAT)	43.4	31.7	39.4	40.6	41.9
Core PATANCI	**43.0**	**38.8**	**39.4**	**40.6**	**41.9**
Core EPS (sen)	22.1	19.9	20.2	20.8	21.5
DPS (sen)	3.5	2.0	7.1	7.3	7.5

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	114.0	110.4	111.6	112.9	114.0
Intangible assets	30.2	30.2	30.5	30.5	30.5
Total Non-current assets	**386.0**	**394.1**	**385.8**	**394.3**	**403.5**
Inventories	109.4	97.6	103.6	106.2	109.2
ST - Trade and other receivables	68.1	60.9	63.6	65.6	67.7
Cash and cash equivalents	214.3	248.1	302.7	311.9	322.2
Total current assets	**391.9**	**407.6**	**470.2**	**484.0**	**499.4**
Total Assets	**777.9**	**801.7**	**856.0**	**878.4**	**902.9**
Total Equity	**717.1**	**748.7**	**798.5**	**819.4**	**842.2**
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	**17.5**	**17.9**	**16.8**	**17.2**	**17.8**
ST Trade and other payables	36.7	29.8	35.5	36.4	37.4
ST Loans and borrowings	2.4	0.0	0.0	0.0	0.0
Total Current Liabilities	**43.4**	**35.1**	**40.7**	**41.8**	**43.0**
Total Liabilities	**60.8**	**53.0**	**57.5**	**59.0**	**60.7**

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	51.5	43.8	54.5	56.1	57.8
Cash flow from operations	14.1	61.6	42.7	43.0	43.8
Cash flow from investing	(64.8)	(27.7)	111.0	(19.3)	(18.7)
Cash flow from financing	(29.2)	(8.2)	(14.0)	(14.4)	(14.8)
Net cash flow	**(79.9)**	**25.6**	**139.6**	**9.3**	**10.3**
(+/-) Adjustments	(1.8)	3.8	0.0	0.0	0.0
Net cash/(debt) b/f	**215.2**	**133.6**	**163.0**	**302.7**	**311.9**
Net cash/(debt) c/f	**133.6**	**163.0**	**302.7**	**311.9**	**322.2**

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	15.8	27.6	27.6	27.6	27.6
PER (x)	8.9	12.6	10.1	9.8	9.5
Net Cash/Market Capitalisation (%)	53.3	62.4	76.2	78.5	81.1
Dividend Yield (%)	1.7	1.0	3.5	3.6	3.7

Profitability Margins	2021A	2022A	2023A	2024F	2025F
Gross Profit Margin (%)	36.1	34.3	35.0	35.3	35.6
EBIT Margin (%)	11.8	15.2	15.7	15.6	15.6
Core PATANCI Margin (%)	13.3	12.2	12.7	12.7	12.7

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