

Stock Digest

Wednesday, 01 Mar, 2023

Asia File Corporation Bhd

Share of losses from associate dragged the bottom line

Summary

- Asia File Corporation Bhd (ASIAFLE) 3Q23 core net profit fell 17.6% YoY to RM6.4m, leading to a 32.8% YoY decline in 9M23 core net profit to RM22.3m. The results came in below expectations, amounting to 67.8% of our previous full year forecast at RM32.9m and 54.0% of consensus forecast at RM41.3m. Key deviation was mainly due to the losses of an associate of RM3.6m in the current quarter.
- YoY, the decline in core net profit was due primarily to the losses on the associate level of RM3.6m, vs. a profit of RM3.5m in the previous corresponding quarter. The mild decline in revenue was mainly due to lower demand in the local market on the back of slowing economy growth.
- For 9M23, the lower core net profit was mainly due to the share of losses of associate at RM4.7m vs. a share of profit of RM9.8m in 9M22. The group saw an improvement in revenue as revenue contribution from the Consumer and Food ware division rose 6.9% for the period. Meanwhile, turnover from the filing division remained largely unchanged.
- QoQ, core net profit slipped 17.6% after taking into consideration the share of loss from associate. Do note that on the operating profit level, ASIAFLE registered a climb of 42.2% to RM11.4m, resulting from a foreign exchange gain of RM2.1m as compared to foreign exchange losses of RM2.1m booked in the 2Q23, as both GBP and EURO recovered from its weak level against MYR and USD.
- As at 3Q23, ASIAFLE's net cash position remained strong at RM244.7m (net cash per share: RM1.26), enabling the group to better manage the exposure to foreign currency risk on sales, purchases and borrowings.
- Moving forward, we expect the contribution from the filing products segment to remain steady while the Consumer and Food ware division should continue to grow. Nevertheless, heightened price awareness among consumers amid higher exposure to online marketing platforms may pose a risk to the group's performance. ASIAFLE remained committed to increase its sales and marketing activities on various E-commerce channel to reach a wider range of customers.

Results Note – 3QFY23

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HOLD

Share price	RM1.75
Target price	RM1.69
Previous TP	RM1.69
Capital upside	-3.4%
Dividend return	2.4%
Total return	-1.0%

Company profile

Principally involved in the manufacturing and trading of filing and consumer ware products.

Stock information

Bursa Code	7129
Bloomberg ticker	AF MK
Listing market	MAIN
Share issued (m)	194.8
Market Cap (m)	340.9
52W High/Low	2.20 / 1.68
Est. Free float	23.2
Beta	0.7
3-mth avg vol ('000)	19.8
Shariah compliant	Yes

Major shareholders

	%
Prestige Elegance M Sdn	43.0
Amanah Saham Nasional Bhd	19.3
FMR LLC	5.1

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	1.2	0.0	-19.4
Absolute	3.3	2.6	-11.5
Relative			

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	40.3	32.9	41.2
EPS (sen)	20.5	16.8	21.0
P/E (x)	8.4	10.3	8.2

Relative performance chart



Quarterly performance FYE Mar (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	78.4	77.0	74.6	(3.1)	(4.9)	236.0	239.3	1.4
EBITDA	11.3	11.5	11.1	(3.2)	(1.4)	44.7	36.8	(17.6)
PBT	9.0	9.5	9.4	(1.9)	3.9	39.1	30.5	(21.9)
PAT	7.7	7.8	6.4	(17.5)	(17.0)	33.1	22.4	(32.5)
Core PATMI	7.8	7.8	6.4	(17.6)	(17.6)	33.2	22.3	(32.8)
Reported PATMI	7.8	7.8	6.4	(17.6)	(17.6)	33.2	22.3	(32.8)
Core EPS (sen)	1.5	1.5	1.3	(17.6)	(17.6)	6.6	4.4	(32.8)
EBITDA margin (%)	14.4	14.9	14.9			18.9	15.4	
PBT margin (%)	11.5	12.4	12.6			16.6	12.8	
Core PATMI margin (%)	9.9	10.1	8.6			14.0	9.3	

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Valuation & Recommendation

- Although the reported earnings came in below our expectations, we believe the decline was due to the share of losses from associate. In anticipation of a better performance from associate, we maintain our earnings forecast for FY23f, FY24f, and FY25f at RM32.9m, RM41.2m, and RM45.6m. The earnings forecast will take into account the fluctuate GBP/USD and EURO/USD, as well as the potential higher operational costs.
- We maintained our **HOLD** recommendation on ASIAFLE, with an unchanged target price of RM1.69. The target price is derived by ascribing a P/E of 10.0x to FY23f EPS of 16.8 sen.
- Risks to our recommendation include potential supply chain disruption which could result in a variety of business costs. Besides, the group is exposed to foreign currency risk as its export proceeds are primarily denominated in GBP and EURO while import is mainly priced in USD. Any further decline in GBP/USD or EURO/USD may put pressure to the group's margin.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	258.1	323.0	333.7	356.3	384.7	Cash	215.2	133.6	151.0	160.8	168.8
EBITDA	38.0	45.6	50.5	58.1	63.5	Receivables	62.4	68.1	68.6	73.2	79.0
EBIT	27.6	35.1	38.9	46.3	51.5	Inventories	92.4	109.4	113.4	120.5	129.6
Net finance income/ (cost)	0.8	0.3	0.3	0.2	0.2	PPE	100.3	114.0	110.8	108.0	105.5
Associates & JV	22.3	13.0	2.7	6.0	6.4	Others	297.3	352.7	363.8	375.7	388.2
Profit before tax	50.6	48.4	41.9	52.5	58.1	Assets	767.7	777.9	807.5	838.2	871.2
Tax	(4.7)	(8.1)	(9.0)	(11.3)	(12.5)	Debts	26.2	2.4	2.1	2.2	2.4
Net profit	45.9	40.2	32.9	41.2	45.6	Payables	40.5	36.7	39.7	42.2	45.4
Minority interest	0.0	0.0	(0.0)	(0.0)	(0.0)	Others	20.8	21.7	24.5	23.7	23.8
Core earnings	45.9	40.3	32.9	41.2	45.6	Liabilities	87.5	60.8	66.3	68.1	71.5
Exceptional items	(0.7)	(3.1)	-	-	-	Shareholder's equity	679.7	716.6	741.2	770.1	799.7
Reported earnings	46.6	43.4	32.9	41.2	45.6	Minority interest	0.5	0.5	-	-	-
						Equity	680.2	717.1	741.2	770.1	799.7
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	50.6	48.4	41.9	52.5	58.1	Core EPS (sen)	23.4	20.5	16.8	21.0	23.2
Depreciation & amortisation	10.5	10.5	11.6	11.8	12.0	P/E (x)	7.4	8.4	10.3	8.2	7.4
Changes in working capital	11.3	(26.5)	(1.4)	(9.2)	(11.8)	DPS (sen)	1.5	2.0	4.22	6.3	8.2
Share of JV profits	(22.3)	(13.0)	(2.7)	(6.0)	(6.4)	Dividend yield	0.9%	1.1%	2.4%	3.6%	4.7%
Taxation	(4.7)	(8.1)	(9.0)	(11.3)	(12.5)	BVPS (RM)	3.49	3.68	3.81	3.95	4.11
Others	3.2	2.8	1.0	0.7	1.6	P/B (x)	0.50	0.47	0.46	0.44	0.42
Operating cash flow	48.7	14.1	41.4	38.4	41.1	EBITDA margin	14.7%	14.1%	15.1%	16.3%	16.5%
Net capex	(6.9)	(7.3)	(6.3)	(6.9)	(7.4)	EBIT margin	10.7%	10.9%	11.7%	13.0%	13.4%
Others	13.5	(57.6)	(9.2)	(9.5)	(9.9)	PBT margin	19.6%	15.0%	12.6%	14.7%	15.1%
Investing cash flow	6.7	(64.8)	(15.4)	(16.4)	(17.3)	PAT margin	17.8%	12.5%	9.9%	11.6%	11.9%
Changes in borrowings	1.4	(23.8)	(0.3)	0.1	0.2	Core PAT margin	17.8%	12.5%	9.9%	11.6%	11.8%
Issuance of shares	-	-	-	-	-	ROE	7.0%	5.8%	4.5%	5.4%	5.8%
Dividends paid	(2.9)	(3.9)	(8.2)	(12.4)	(15.9)	ROA	6.3%	5.2%	4.1%	5.0%	5.3%
Others	1.5	(1.5)	-	-	-	Net gearing	CASH	CASH	CASH	CASH	CASH
Financing cash flow	(0.0)	(29.2)	(8.5)	(12.2)	(15.8)						
Net cash flow	55.3	(81.6)	17.5	9.8	7.9						
Forex	2.2	(1.8)	-	-	-						
Others	(0.0)	1.8	-	-	-						
Beginning cash	157.7	215.2	133.6	151.0	160.8						
Ending cash	215.2	133.6	151.0	160.8	168.8						