

## Asia File Corporation Bhd

### Integrated filing and consumer ware products manufacturer

- **Asia File Corporation Berhad (ASIAFLE) started off since 1980s and is now evolved into a leading file manufacturer with Europe being its core market, followed by Malaysia, leveraging on its manufacturing facilities in Malaysia and Europe as well as a series of reputable brand names and patented products.**
- **Its consumer ware division has grown from RM0.3m to RM48.6m in less than 5 years is eyeing for new products launch and overseas expansion.**
- **We initiate coverage on ASIAFLE with a HOLD call and fair value of RM1.86, based on 10.0x P/E pegged to its forward FY23f EPS of 18.6 sen.**

### Investment Highlights

- **Leading file manufacturer.** Over the years, ASIAFLE has built a strong foothold in the filing industry, leveraging on its (i) file manufacturing facilities and paper mill across Malaysia, UK, and Germany, which allows it to optimise resources across various plants and create high-quality products at lower costs, (ii) reputable brand "ABBA" and (iii) a series of high-quality patented products. As a market leader, ASIAFLE was able to secure its margin given little competition in the filing industry.
- **Expansion plan in consumer ware division.** The consumer ware division is armed with a pipeline of new product ranges to be launched, backed by ASIAFLE's expertise in product R&D and pricing strategy. Emulating the successful business model of its filing business, the group intends to expand the sales of the products overseas especially in the UK and Europe after the vigorous product testing locally since FY18. The expansion plan will leverage on its physical presence, good distribution network and ready manufacturing facilities in UK and Europe.
- **Capacity for additional output.** Without major capital expenditure, ASIAFLE has the capacity to cater for 2x-3x of its existing filing business and additional 50.0% turnover for its consumer ware division. Given the ample capacity capabilities, the group is well-positioned to take on more sales from both industry consolidation and recovering demand in a post-pandemic world.

### Financial highlights

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	258.1	323.0	340.4	364.7	395.2
EBITDA	38.0	45.6	54.9	59.9	65.7
PATMI - Core	45.9	40.3	36.3	42.6	47.3
PATMI - Reported	46.6	43.4	36.3	42.6	47.3
Revenue growth (%)	-12.0%	25.2%	5.4%	7.1%	8.4%
Core PATMI growth (%)	28.4%	-12.3%	-9.8%	17.4%	11.0%
Core EPS (sen)	23.6	20.7	18.6	21.9	24.3
P/E (x)	7.3	8.3	9.2	7.9	7.1
DPS (sen)	1.5	2.0	4.7	6.6	8.5
Dividend yield (%)	0.9%	1.2%	2.7%	3.8%	4.9%
P/B (x)	0.5	0.5	0.5	0.4	0.4
ROE (%)	7.0%	5.8%	5.0%	5.6%	6.0%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: ASIAFLE, M+ Online

### Initiation Coverage

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### HOLD

Share price	RM1.72
Target price	RM1.86
Previous TP	-
Capital upside	8.1%
Dividend return	2.7%
Total return	10.8%

### 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)	335.0
52W High/Low	2.56 / 1.70
Est. Free float	23.4
Beta	0.8
3-mth avg vol ('000)	68.2
Shariah compliant	No

### Major shareholders

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

### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-4.4	-0.6	-29.5
Relative	-1.6	-0.8	-26.2

### Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	40.3	36.3	42.6
EPS (sen)	20.7	18.6	21.9
P/E (x)	8.4	9.3	7.9

### Relative performance chart



## Company Background

- **History traces back to 1980s.** Established in 1987, Asia File Corporation Bhd (ASIAFLE) was then listed on Bursa Malaysia Securities Bhd in 1996. During the early days, ASIAFLE focused only supplying its filing products to the local market.
- **Acquisition spree.** During the economic downturn in European Union, ASIAFLE capitalised on the opportunities to expand into the European market. The group embarked an acquisition spree with the acquisition of the largest dividers and indices OEM player in Germany in 2008 which enabled ASIAFLE to establish its foothold in Europe. Subsequently, ASIAFLE acquired a UK paper mill and a manila file manufacturing plant in Manchester in 2011 and 2012, respectively. Capitalising on its long-standing market position and reliable product quality, the group took over manufacturing equipment from two leading manufacturers in French and Czech Republic in 2014 when both rivals wanted to close their plants and source supplies.
- **Manufacturing facilities in Malaysia and Europe.** To date, ASIAFLE's manufacturing facilities consist of six production and warehousing sites totalling 829,000 sq ft. in Malaysia. Meanwhile, its physical presence in Europe encompasses two files producing plants and one paper mill located in the UK as well as two production facilities in Germany.
- **Comprehensive distribution network.** ASIAFLE exports its products globally to Europe, USA, Asia Pacific, Australia, New Zealand, Middle East and Africa. Locally, the group remains as the leading files manufacturer in Malaysia with a comprehensive distribution network of more than 750 retailers, hypermarkets, wholesalers, and office suppliers.
- **Popular brand names.** Over the years, ASIAFLE's premier brand, "ABBA" has become the leading brand name in Malaysia for filing and stationery products which is well recognised for its excellent quality and durability. Products sold under "ABBA" brand name include lever arch files, ring files, dividers & indexes, paper products, office stationeries, etc. The group also owns other popular brand names such as "OPTION", "MEGA", and "GUNGYU".
- **Diversification into consumer ware.** In anticipation of the potential adverse impact on the demand for filing product over the long run throughout the era of digitalisation, ASIAFLE looked beyond its traditional filing products and ventured into consumer ware products in 2018. Leveraging on its expertise in paper and plastic manufacturing, the group has produced a series of paper and plastic food ware which are marketed under its flagship brand name "ABBAware", including lunch box, PP container, paper bowl, food tray, etc.
- **New marketing channel via digital platform.** Since 2019, ASIAFLE started a new marketing channel, by tapping into e-commerce to promote its products via digital marketing. The initiative opened up a new channel for the group to broaden its customer groups, to engage with customers more effectively, and to market its premium products with enhanced margin. Internet sales are currently the second largest source of revenue for its UK market.

## Business Model



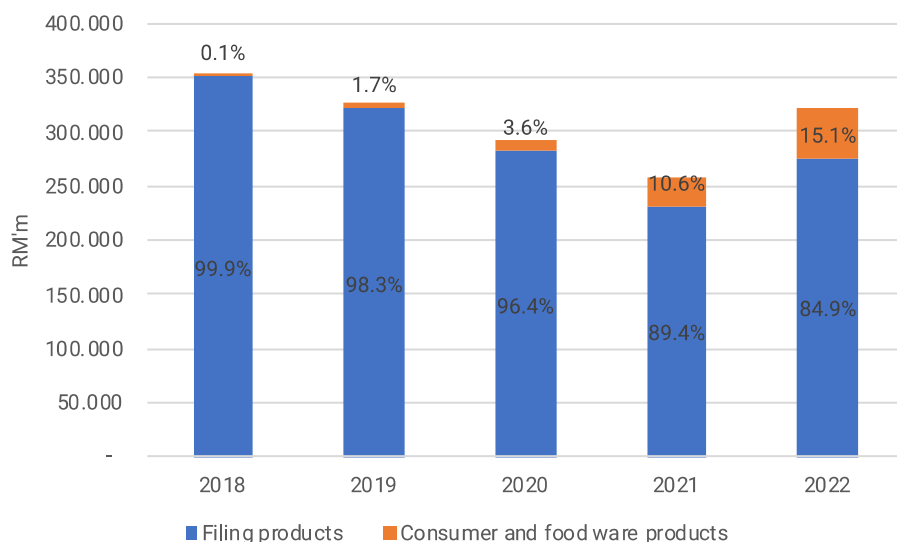
Source: ASIAFLE, M+ Online

- **Filing products.** As an integrated filing manufacturer, ASIAFLE manufactures its plastic files and file fittings from resin, paper files from pulp and waste paper, file fittings from metal and even produce the packaging materials internally from basic commodity. The integrated production improves efficiency and profitability, thereby strengthening the group's position as market leader in Malaysia's filing industry.
- ASIAFLE designed its supply chain in a way that domestic sales (mainly from Europe and Malaysia) accounts for over 80.0% of its revenue. In view of its large customer base in the European market, ASIAFLE set up manufacturing facilities in UK and Germany and delivered to customers via trucks. Only for countries with smaller customer base such as New Zealand and Australia, the group exports its products mainly from Malaysia via direct shipping.
- With the abovementioned supply chain setup, ASIAFLE gained competitive edge against its competitors on advantages from the East and West. In comparison to its competitors in the Western countries, the group benefited from greater sourcing options and competitive production costs from the East. Meanwhile, ASIAFLE picked up industrial know-how and advances in technology from the West. By optimising resources at various plants and achieving economy of scales with increased volume, the group can produce high-quality products at reduced costs, which will boost margin.
- In terms of distributorship, ASIAFLE prioritises quality over quantity. Instead of rapid expansion of its distribution network, the group's strategy is to focus on the collaborations high quality customers who may help ASIAFLE to gain market share which include hypermarkets, wholesalers and office suppliers.
- Underpinning ASIAFLE's strategy is its premier brand name, "ABBA" as well as various patents on products with improved features and enhanced functionality. The patents were developed to protect different categories of products so that the competitors are not able to match the quality of ASIAFLE's products, ensuring its product uniqueness in the market.
- **Consumer ware products.** In comparison to the filing segment whose volume growth has been stabilising, ASIAFLE recognised higher growth potential in the

consumer ware market. A decision was made by the group in 2018 to tap into Malaysia’s consumer ware industry and focus on the local market before expanding overseas.

- The diversification to consumer ware has yielded promising results, evidenced by the steep increase in segmental revenue at over 200.0% compound annual growth rate (CAGR) in less than 5 years (from RM0.3m in FY18 to RM48.7m in FY22). Contributing to its successful penetration are its (i) expertise in R&D and patent protection, (ii) strong manufacturing expertise, (iii) familiarity with plastic and paper materials, (iv) excellent sourcing and procurement skill, as well as (v) strong distribution network.
- In addition to recyclable food packaging, ASIAFLE has expanded its product categories to include new consumer goods such as storage boxes and other household products.
- Whereas the consumer ware segment has been growing over the years, the filing segment remained as ASIAFLE’s major revenue source, accounting for more than 80.0% of its total revenue.

## ASIAFLE’s revenue in FY18-FY22



Source: ASIAFLE, M+ Online

## ABBA files & ABBAware



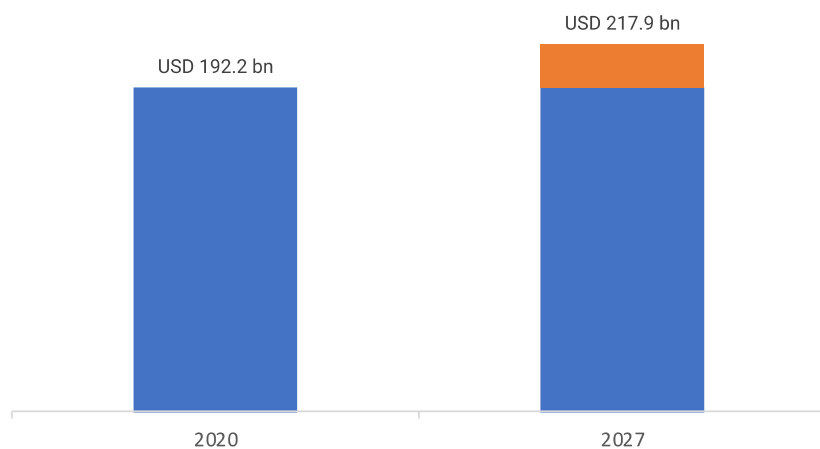
Source: ASIAFLE, M+ Online

## Outlook

- Growing consumer ware division.** We believe the enormous range of products in the pipeline will fuel the division's growth moving forward. Meanwhile, the synergistic acquisition of a local plastic ware manufacturer, Supportive Technology Sdn Bhd (Supportive Technology) in 2021 will provide a good base for the company to accelerate the growth in this area. The successful restructuring work following the acquisition has resulted in improvement in manpower utilisation of manpower by more than 30.0%. In addition, ASIAFLE intended to distribute its consumer ware worldwide in a very near future, particularly in the UK and Germany.
- Consolidation of market players.** Although the filing industry presents moderate to low entry barriers, smaller market players often struggle to sustain business growth without proven business strategies and eventually exit the market. ASIAFLE saw the consolidation in the office supplies segment in Europe and the UK as an opportunity to enlarge market share. A large-share business may benefit from economies of scales and greater market power, which could enhance the group's margin.
- Steady growth.** According to Global Industry Analysts' report on Research and Markets, the global market for stationery products estimated at USD192.2bn in 2020, is projected to reach USD217.9 bn by 2027, growing at a CAGR of 1.8% over 2020-2027. We reckon that the demand and margin for stationery products will recover to pre-pandemic level amid reopening of economic activities.

### Global market for stationery products

Market forecast to grow at CAGR of 1.8%



Source: Research and Market, M+ Online

## SWOT Analysis

Strength	Weakness
<ul style="list-style-type: none"> <li>Capacity for additional output</li> <li>In depth understanding of Malaysia and European market</li> <li>Sustainability – green energy generated from solar panel amounted to approximately 23.0% of total energy consumption</li> </ul>	<ul style="list-style-type: none"> <li>Relies on a few big customers especially in the European market</li> </ul>



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Opportunity	Threat
<ul style="list-style-type: none"> <li>Consolidation of market players in Europe and the UK</li> <li>Started selling products on Shopee which will be another sales channel moving forward</li> <li>Acquisition of Supportive Technology in 2021 provides a good base for future expansion</li> </ul>	<ul style="list-style-type: none"> <li>Potential adverse impact on filing product demand amid era of digitalisation</li> <li>Time lag in passing through the escalating raw material cost</li> </ul>

Source: M+ Online

## Financials

- ASIAFLE's bottom line recorded a dip in FY20 and FY21 as revenue was due to weakening demand for filing products amid worldwide office closure amid the lockdown measures implemented by most countries to combat Covid-19. Although revenue has seen improvement in FY22 on the back of higher contribution from both filing and consumer ware segments, ASIAFLE's core net profit declined 12.3% YoY to RM40.3m, largely due to the escalated operating cost such as raw material cost, energy prices and freight rates.
- For FY23f, we foresee an increase in revenue by 5.4% YoY to RM340.4m, backed by recovering demand for filing products and successful passing of the partial cost increase to customers which may help to reduce margin compression. However, we expect the group's net profit to decline 9.8% YoY to RM36.3m, mainly due to a lower contribution from its associate, Muda Holdings Bhd (MUDA) which recorded lower bottom line in current quarter ended 30 Jun 2022. Contributing factors include a higher operating cost, as well as a write off of machinery resulted from MUDA's planned upgrade of major machinery.
- Moving into FY24f and FY25f, we believe ASIAFLE's plan to expand its consumer ware division geographically to UK and Germany, as well as an improving margin resulted from the progressive reduction in operating cost will be the key drivers for growth. Meanwhile, the excess supply of capacity would likely be absorbed by the increase demand from the filling products towards the pre-pandemic level, coupled with the expansion of the consumer ware division in European market.
- As ASIAFLE has the capacity to cater for 2x-3x of its existing filing business and additional 50.0% turnover for its consumer and consumer ware division, we expect CAPEX to remain minimal over FY23f-FY25f. Besides, we like ASIAFLE's net cash position (RM161.3m in 1QFY23, net cash per share of 82.8sen).

## Valuations

- At RM1.72, ASIAFLE is trading at PERs for FY23f and FY24f of 9.2x and 7.9x, respectively. We assigned a P/E multiple of 10.0x to FY23f EPS of 18.6 sen, arriving at a fair value of RM1.86.
- We believe ASIAFLE should trade near the long-term P/E as the market unless there is (i) an increase in the margins for the filing segment, and (ii) stronger growth in the consumer ware division, which may position as further re-rating catalysts.

- The local peers' valuations are deemed irrelevant as compared to ASIAFLE due to their loss making operations, while the regional peers generally trade at a relatively higher P/E multiple may be inapplicable in our country.
- Whilst ASIAFLE does not have any formal dividend policy, the group has been committed to pay out dividend in FY16-FY19 with an average payout ratio of over 45.0%. After a pause in FY20 to conserve cash, the group has resumed paying dividend in FY21. A total dividend of 1.5 and 2.0 sen per share has been declared FY21 and FY22 respectively. Moving forward, we forecast that the dividend payout will be 4.7-8.5 sen over the next three years, representing a payout ratio of 25.0-35.0% from FY23f to FY25f.

## Peers comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM'm)	P/E (x)		P/E (x) 2y Avg	P/E (x) 5y Avg	Gross DY (%)	Revenue (RM'm)	Net Income (RM'm)
					FY22	FY23f					
Asia File Corporation Bhd	MAIN	Mar	1.720	335.0	8.3	9.2	9.4	9.7	1.2	323.0	40.3
<b>Local</b>											
Pelikan International Corporation Bhd	Main	Dec	0.265	159.8	NA*	NA*	20.8	22.8	75.5	1,000.5	(2.1)
CWG Holdings Bhd	Main	Jun	0.355	57.9	34.5	NA	150.9	48.5	NA	68.7	1.7
<b>International</b>											
Monami Co Ltd	-	Dec	3,475.0	65,677.5	85.3*	NA*	74.3	120.5	2.9	132,240.0	770.0
Nippecraft Ltd	-	Dec	0.077	27.1	58.8*	NA*	32.1	273.6	NA	188.3	0.5
DTC Industries PCL	-	Dec	29.25	292.5	44.5*	NA*	19.8	27.3	0.7	145.2	6.6
<b>Avgex-Asia File Corporation Bhd</b>					55.8	NA	59.6	98.5	26.35	NM	NM

\*FY21

^FY22f

Monami Co Ltd (Korea) metrics are based on KRW ('m)

Nippecraft Ltd (Singapore) metrics are based on SGD ('m)

DTC Industries PCL (Bangkok) metrics are based on THB ('m)

Source: Bloomberg, M+ Online

## Investment risks

- **Slowdown in demand growth for filing products.** As filing division remained as the main revenue source for ASIAFLE, accounting for over 80% of ASIAFLE turnover, a slower growth in demand amid digitalisation or any Covid-19 lockdown may hamper production volume.
- **Higher-than-pre-pandemic shipping cost.** As an export-oriented company whose materials are imported and goods are exported, a surge in freight cost will yield challenges to the group if the increased cost is unable to be completely passed through to its customers. Although shipping rates have subsided recently, it will likely to take some time before the rates returning to the pre-pandemic levels.
- **Exposure to foreign exchange risk.** Majority of imports are denominated in USD while export to the UK and Europe are mainly in GBP and EURO. Weakening of the pair currencies of GBP/USD and EUR/USD could impact the bottom line of the group.

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## Financial Highlight

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
<b>Revenue</b>	<b>258.1</b>	<b>323.0</b>	<b>340.4</b>	<b>364.7</b>	<b>395.2</b>	Cash	215.2	133.6	150.8	160.9	169.1
EBITDA	38.0	45.6	54.9	59.9	65.7	Receivables	62.4	68.1	69.9	74.9	81.2
EBIT	27.6	35.1	43.3	48.1	53.8	Inventories	92.4	109.4	115.6	123.3	133.2
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
<b>Profit before tax</b>	<b>50.6</b>	<b>48.4</b>	<b>46.3</b>	<b>54.4</b>	<b>60.4</b>	<b>Assets</b>	<b>767.7</b>	<b>777.9</b>	<b>810.9</b>	<b>842.8</b>	<b>877.3</b>
Tax	(4.7)	(8.1)	(10.0)	(11.7)	(13.0)	Debts	26.2	2.4	2.1	2.2	2.4
<b>Net profit</b>	<b>45.9</b>	<b>40.2</b>	<b>36.3</b>	<b>42.7</b>	<b>47.4</b>	Payables	40.5	36.7	40.5	43.1	46.6
Minority interest	0.0	0.0	(0.0)	(0.0)	(0.0)	Others	20.8	21.7	24.5	23.7	23.8
<b>Core earnings</b>	<b>45.9</b>	<b>40.3</b>	<b>36.3</b>	<b>42.6</b>	<b>47.3</b>	<b>Liabilities</b>	<b>87.5</b>	<b>60.8</b>	<b>67.1</b>	<b>69.1</b>	<b>72.8</b>
Exceptional items	(0.7)	(3.1)	-	-	-	Shareholder's equity	679.7	716.6	743.8	773.7	804.4
Reported earnings	46.6	43.4	36.3	42.6	47.3	Minority interest	0.5	0.5	-	-	-
						<b>Equity</b>	<b>680.2</b>	<b>717.1</b>	<b>743.8</b>	<b>773.7</b>	<b>804.4</b>
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	46.3	54.4	60.4	Core EPS (sen)	23.6	20.7	18.6	21.9	24.3
Depreciation & amortisation	10.5	10.5	11.6	11.8	12.0	P/E (x)	7.3	8.3	9.2	7.9	7.1
Changes in working capital	11.3	(26.5)	(4.3)	(10.0)	(12.7)	DPS (sen)	1.5	2.0	4.66	6.6	8.5
Share of JV profits	(22.3)	(13.0)	(2.7)	(6.0)	(6.4)	Dividend yield	0.9%	1.2%	2.7%	3.8%	4.9%
Taxation	(4.7)	(8.1)	(10.0)	(11.7)	(13.0)	BVPS (RM)	3.49	3.68	3.82	3.97	4.13
Others	3.2	2.8	1.0	0.7	1.6	P/B (x)	0.49	0.47	0.45	0.43	0.42
<b>Operating cash flow</b>	<b>48.7</b>	<b>14.1</b>	<b>42.0</b>	<b>39.2</b>	<b>41.9</b>	EBITDA margin	14.7%	14.1%	16.1%	16.4%	16.6%
Net capex	(6.9)	(7.3)	(6.3)	(6.9)	(7.4)	EBIT margin	10.7%	10.9%	12.7%	13.2%	13.6%
Others	13.5	(57.6)	(9.2)	(9.5)	(9.9)	PBT margin	19.6%	15.0%	13.6%	14.9%	15.3%
<b>Investing cash flow</b>	<b>6.7</b>	<b>(64.8)</b>	<b>(15.4)</b>	<b>(16.4)</b>	<b>(17.3)</b>	PAT margin	17.8%	12.5%	10.7%	11.7%	12.0%
Changes in borrowings	1.4	(23.8)	(0.3)	0.1	0.2	Core PAT margin	17.8%	12.5%	10.7%	11.7%	12.0%
Issuance of shares	-	-	-	-	-	ROE	7.0%	5.8%	5.0%	5.6%	6.0%
Dividends paid	(2.9)	(3.9)	(9.1)	(12.8)	(16.6)	ROA	6.3%	5.2%	4.6%	5.2%	5.5%
Others	1.5	(1.5)	-	-	-	Net gearing	CASH	CASH	CASH	CASH	CASH
<b>Financing cash flow</b>	<b>(0.0)</b>	<b>(29.2)</b>	<b>(9.3)</b>	<b>(12.7)</b>	<b>(16.4)</b>						
<b>Net cash flow</b>	<b>55.3</b>	<b>(81.6)</b>	<b>17.2</b>	<b>10.1</b>	<b>8.2</b>						
Forex	2.2	(1.8)	-	-	-						
Others	(0.0)	1.8	-	-	-						
Beginning cash	157.7	215.2	133.6	150.8	160.9						
Ending cash	215.2	133.6	150.8	160.9	169.1						