

Stock Digest

Tuesday, 30 May, 2023

Asia File Corporation Bhd

FY23 ended within expectation

Summary

- Asia File Corporation Bhd (ASIAFLE) 4Q23 core net profit fell 8.7% YoY to RM9.4m, leading to a 27.1% YoY decline in FY23 core net profit at RM31.6m. The results came in largely in line with our expectations, amounting to 96.0% of our full year forecast at RM32.9. Meanwhile, a single-tier final dividend of 3.5 sen per ordinary share was declared.
- YoY, the decline in core net profit was due primarily to lower local sales arising from overall weaker consumer spending, as well as share of loss in associate of RM3.9m as compared to a share of profit of RM3.1m in the previous corresponding quarter. However, the group saw margin expansion YoY due to better cost control and lower freight rates incurred. QoQ, core net profit expanded 46.2% on the back of higher turnover and improved operation efficiency.
- For FY23, the lower core net profit was mainly stemmed from a drop in filing division revenue, coupled with the share of loss of associate of RM8.7m as compared to share of profit of RM13.0m in FY22. On the bright side, the recyclable food ware and consumer ware booked 1.7% increase in revenue, while operating margin surged by 31.3% driven by cost control measures such as effective procurement strategy and effort in improving operation efficiency.
- Moving forward, we expect the contribution from filing division to remain steady with opportunities arising from market consolidation activities in UK and Europe where sellers are expected to have increased market power and better pricing control. On the flipside, challenges could include reducing demand resulted from digitalization and higher energy cost in UK and Europe.
- Meanwhile, we continue to like the recyclable consumer and food ware division with potential to expand overseas. We expect a better margin in this division as the group is in a transition period of moving from lower margin items to bigger items such as storage box, furniture range, cabinets etc.
- The group's expansion plan will be backed by its solid net cash position that remained solid at RM249.1m (net cash per share: RM1.28) as at 4Q23. Nevertheless, the overall soft market sentiment amid inflationary pressure may continue to weigh on consumer spending.

Quarterly performance								
FYE Mar (RM m)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	12MFY22	12MFY23	YoY (%)
Revenue	87.0	74.6	78.3	4.9	(10.0)	323.0	317.6	(1.7)
EBITDA	15.2	11.1	13.9	25.2	(8.3)	59.9	50.7	(15.2)
PBT	12.4	9.4	13.3	41.8	7.4	51.5	43.8	(14.9)
PAT	10.3	6.4	9.4	45.5	(8.8)	43.4	31.7	(26.9)
Core PATMI	10.2	6.4	9.4	46.2	(8.7)	43.4	31.6	(27.1)
Reported PATMI	10.2	6.4	9.4	46.2	(8.7)	43.4	31.6	(27.1)
Core EPS (sen)	5.3	3.3	4.8	46.2	(8.7)	22.3	16.2	(27.1)
EBITDA margin (%)	17.4	14.9	17.8			18.5	16.0	
PBT margin (%)	14.2	12.6	17.0			15.9	13.8	
Core PATMI margin (%)	11.8	8.6	12.0			13.4	10.0	

Results Note – 4QFY23

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BUY (from HOLD)

Share price	RM1.71
Target price	RM1.98
Previous TP	RM1.69
Capital upside	15.8%
Dividend return	3.5%
Total return	19.3%

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)	333.1
52W High/Low	2.01 / 1.68
Est. Free float	22.0
Beta	0.7
3-mth avg vol ('000)	50.4
Shariah compliant	Yes

Major shareholders %

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

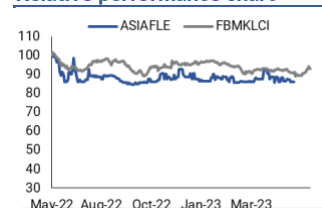
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-2.8	-2.3	-14.9
Relative	-1.7	1.6	-6.2

Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	31.6	38.6	42.5
EPS (sen)	16.1	19.7	21.7
P/E (x)	10.5	8.6	7.8

Relative performance chart



Valuation & Recommendation

- Although the reported earnings came largely in line with our expectations, we reduced our earnings forecasts by 6.3% and 6.8% to RM38.6m and RM42.6m for FY24f and FY25f respectively, taking into account the ongoing burden of associate losses.
- Despite the mild revision to our earnings forecasts, we upgrade our recommendation from **HOLD** to **BUY** as we rolled over to FY24f earnings forecast, with a revised target price of RM1.98. The target price is derived by ascribing a P/E of 10.0x to FY24f EPS of 19.7 sen.
- Risks to our recommendation include the possibility of heightened inflation caused by supply chain disruption, potentially leading to elevated operating costs. Besides, the group faces exposure to foreign currency risk as its export proceeds are primarily denominated in GBP and EURO while import is predominantly priced in USD. Any further depreciation of GBP/USD or EURO/USD could exert pressure to the group's margin.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f	FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Revenue	323.0	317.6	336.2	361.7	391.9	Cash	133.6	248.1	314.1	340.9	369.7
EBITDA	45.6	63.8	54.8	59.7	64.7	Receivables	68.1	60.9	68.2	73.3	79.5
EBIT	35.1	52.3	43.2	47.9	52.7	Inventories	109.4	97.6	108.0	115.8	125.5
Net finance income/ (cost)	0.3	0.2	(0.0)	(0.0)	(0.0)	PPE	114.0	110.4	101.9	99.6	95.5
Associates & JV	13.0	(8.7)	6.0	6.4	6.7	Others	352.7	284.7	246.3	239.3	232.5
Profit before tax	48.4	43.8	49.2	54.2	59.4	Assets	777.9	801.7	838.5	869.0	902.6
Tax	(8.1)	(12.1)	(10.6)	(11.7)	(12.8)	Debts	2.4	-	-	-	-
Net profit	40.2	31.7	38.6	42.6	46.6	Payables	36.7	29.8	39.8	42.7	46.2
Minority interest	0.0	(0.1)	(0.0)	(0.0)	(0.0)	Others	21.7	23.3	23.6	23.7	23.4
Core earnings	40.3	31.6	38.6	42.5	46.6	Liabilities	60.8	53.0	63.4	66.3	69.6
Exceptional items	(3.1)	(0.1)	-	-	-	Shareholder's equity	716.6	748.1	775.0	802.7	832.9
Reported earnings	43.4	31.7	38.6	42.5	46.6	Minority interest	0.5	0.5	-	-	-
						Equity	717.1	748.7	775.0	802.7	832.9
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f	FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Profit before taxation	48.4	43.8	49.2	54.2	59.4	Core EPS (sen)	20.6	16.1	19.7	21.7	23.8
Depreciation & amortisation	10.5	11.6	11.6	11.8	12.0	P/E (x)	8.3	10.5	8.6	7.8	7.2
Changes in working capital	(26.5)	12.1	(7.6)	(10.1)	(12.2)	DPS (sen)	2.0	2.0	5.9	7.6	8.4
Share of JV profits	(13.0)	8.7	(6.0)	(6.4)	(6.7)	Dividend yield	1.2%	1.2%	3.5%	4.5%	4.9%
Taxation	(8.1)	(12.1)	(10.6)	(11.7)	(12.8)	BVPS (RM)	3.68	3.84	3.98	4.12	4.28
Others	2.8	(2.4)	2.6	(3.5)	(3.5)	P/B (x)	0.46	0.45	0.43	0.41	0.40
Operating cash flow	14.1	61.6	39.2	34.4	36.1	EBITDA margin	14.1%	20.1%	16.3%	16.5%	16.5%
Net capex	(7.3)	-	(6.9)	(7.4)	(5.8)	EBIT margin	10.9%	16.5%	12.8%	13.2%	13.4%
Others	(57.6)	57.3	45.4	14.7	14.7	PBT margin	15.0%	13.8%	14.6%	15.0%	15.1%
Investing cash flow	(64.8)	57.3	38.6	7.3	8.9	PAT margin	12.5%	10.0%	11.5%	11.8%	11.9%
Changes in borrowings	(23.8)	(2.4)	-	-	-	Core PAT margin	12.5%	10.0%	11.5%	11.8%	11.9%
Issuance of shares	-	0.1	(0.1)	-	-	ROE	5.8%	4.3%	5.1%	5.4%	5.7%
Dividends paid	(2.3)	(3.9)	(11.6)	(14.9)	(16.3)	ROA	5.2%	4.0%	4.7%	5.0%	5.3%
Others	(3.1)	(2.0)	-	-	-	Net gearing	CASH	CASH	CASH	CASH	CASH
Financing cash flow	(29.2)	(8.2)	(11.7)	(14.9)	(16.3)						
Net cash flow	(81.6)	114.5	66.1	26.8	28.8						
Forex	(1.8)	-	-	-	-						
Others	1.8	-	-	-	-						
Beginning cash	215.2	133.6	248.1	314.1	340.9						
Ending cash	133.6	248.1	314.1	340.9	369.7						