

## QES Group Bhd

### “Riding on the semiconductor industry growth”

Bloomberg: QES MK | Reuters: QESG.KL | Stock Code: 0196

#### Valuation / Recommendation

We recommend a BUY on QES with a TP of RM0.660 based on FY23F EPS 3.3 sen and peers average PE of 20.0x. We like the stock for its attractive growth prospects, strong presence in the Asean region, and stable recurring income.

#### Investment Highlights

**Factory expansion.** The company has completed the renovation of its Hicom-Glenmarie new factory at Shah Alam, running at 50% utilisation rate. We expect the factory to be fully utilised by end of FY22. The new factory has an overall space of 81,000 sq ft, an increase from 39,000 sq ft, where 35,000 sq ft is allocated for manufacturing. With the increased space, the company is able to increase its capacity from 50-80 machines to approximately 80-100 machines a year.

The company is also building another new factory in Batu Kawan, Penang to leverage on the existing matured supply chain within Penang. The factory will have a manufacturing space of approximately 100,000 sq ft to house a combined QES Mechatronics, QES Vision, AETM (JV between Applied Engineering Inc, USA (70%) and QES Group (30%)), and QES Distribution Penang operations. Construction of the factory is expected to begin from 2H22 onwards.

**Strong presence in the ASEAN market.** QES has a diversified base of more than 3,800 customers across the ASEAN region primarily from the semiconductor, E&E, Metal and Automotive sectors. The company’s revenue stream is also well-diversified where each customer does not contribute more than 10% of total revenue. Moving forward, the company plans to expand its regional presence in China via QES Hong Kong.

**Stable recurring income and strong financial position.** The company has a consistent annual recurring income of approximately RM40m via the maintenance and service of large equipment installed base which contributes approximately 25% to group revenue. Cash balance remain strong above RM79.4m as of 31-Dec 2021, consistent net cash since FY20.

**Experienced management team.** The Group is currently managed by MD Chew Ne Weng who has more than 30 years of experience in the engineering industry and is responsible for the Group’s success. The company has a long-standing management team with more than 10 years of experience in key operational and technical functions.

**Risk factor.** Key risks include material supply chain disruption, and slower-than-expected contract flows.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	155.2	222.8	243.7	266.9	292.6
EBITDA (RM m)	16.4	29.9	33.7	40.5	45.3
EBITDA Margin (%)	10.6	13.4	13.8	15.2	15.5
Pre-tax Profit (RM m)	11.7	25.4	28.9	35.8	40.2
PATMI	8.7	19.0	22.4	27.9	31.4
EPS (sen)	1.0	2.3	2.7	3.3	3.8
EPS Growth (%)	150.0	119.2	17.8	24.5	12.7
BV Per Share (sen)	14.2	16.5	16.7	17.0	17.4
PE (x)	57.8	26.4	22.4	18.0	15.9
Net Gearing (%)	Net	Net	Net	Net	Net
ROA (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	4.5	8.2	9.4	11.1	11.8
	7.3	13.8	16.1	19.6	21.6

Sources: Mercury Securities, Company

**Ace Board**  
**Industrial Products**  
**BUY**  
TP: RM0.660  
Price: RM0.595

#### Business Overview

QES Group Berhad manufactures and distributes inspection, test, measuring, analytical, and automated handling equipment. The Company offers glow discharge analyser, 3D laser scanner and radar, adhesive tester, measuring machine and microscope, profile projector, grinding wheel, mold cleaning, rubber sheet, optical inspection systems, wafer tape remover, and digital camera.

#### Stock Return Information

KLCI (pts)	1,594.25
Expected Share Return (%)	10.9
Expected Dividend Yield (%)	-
Expected Total Return (%)	10.9

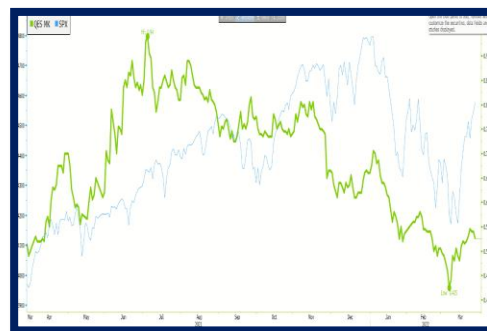
#### Share Information

Market Cap (RM m)	504.7
Issued Shares (m)	834.1
52W High (RM)	0.975
52W Low (RM)	0.400
Estimated Free Float (%)	15.6
Beta vs FBM KLCI	0.42
3-month Average Vol. (m)	89.0

#### Top 3 Shareholders (%)

Wong Chew Ne	30.12
Zhou Fu (L) Foundation	26.13
Keang Liew Soo	22.87

Price Performance	1M	3M	12M
Absolute (%)	15.4	3.5	-4.8
Relative to Index (%)	14.8	-1.0	-4.0



Source: Bloomberg

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(A participating organisation of Bursa Malaysia Securities Berhad)

RESULTS (RM m) FY Dec	4Q21	3Q21	qoq %	4Q20	yoy %	Comments
Revenue	64.3	51.7	24.4	40.6	58.4	
Cost of sales	51.7	39.7	30.2	30.2	71.2	
Gross profit	12.5	12.0	4.2	10.4	20.2	
Other operating income	1.8	0.5	260.0	0.7	157.1	
Administrative expenses	8.4	7.6	10.5	8.4	-	
Profit from operations	5.9	4.9	20.4	2.6	126.9	
Finance cost	0.2	0.2	-	0.2	-	
Pretax profit	5.7	5.3	7.5	2.5	128.0	
Tax	1.1	1.6	-31.3	0.6	83.3	
Profit after tax	4.4	3.8	15.8	2.0	120.0	
Minority interest	0.2	-0.1	-	-	-	
PATMI	4.4	3.8	15.8	2.0	120.0	
Extraordinary losses (gains)	0.7	0.1	600.0	0.02	3400.0	
Core net profit	3.7	3.7	-	2.0	85.0	
EPS (sen)	0.5	0.4	25.0	0.2	150.0	
Core EPS (sen)	0.5	0.4	25.0	0.2	150.0	

Sources: Mercury Securities, Company

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM'm)	PE (x)		EPS (sen)		EPS Growth		P/BV (x)	
				FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Elsoft	ELSR MK	0.89	602.1	24.7	22.3	3.6	4.0	60.0%	11.1%	5.5	5.5
Aemulus	AMLS MK	0.69	460.6	23.8	17.7	2.9	3.9	67.6%	34.5%	3.1	2.5
Average				24.3	20.0						

Sources : Mercury Securities, Bloomberg

Source: Bloomberg



**MERCURY SECURITIES SDN BHD**  
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<b>PROFIT &amp; LOSS (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Net Revenue	155.2	222.8	243.7	266.9	292.6
Gross Profit	36.2	51.6	58.0	66.2	72.7
Other Operating Income	3.3	3.8	3.1	3.3	3.3
Depreciation & Amortisation	4.0	4.5	4.7	4.9	5.2
EBIT	12.5	25.4	29.0	35.6	40.1
Operating & Administrative Expenses	27.6	30.2	32.6	33.9	36.3
Interest Income	-	-	-	-	-
Profit from Operations	11.9	25.2	28.5	35.6	39.8
Interest Expense	0.7	0.7	0.9	0.6	0.7
<b>Profit Before Tax</b>	<b>11.7</b>	<b>25.4</b>	<b>28.9</b>	<b>35.8</b>	<b>39.8</b>
Exceptional Items	-	-	-	-	-
Taxation	3.1	5.8	5.8	7.2	8.0
Minority Interests	-	0.6	0.7	0.8	0.8
<b>Profit After Tax (PATMI)</b>	<b>8.7</b>	<b>19.0</b>	<b>22.4</b>	<b>27.9</b>	<b>31.4</b>
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	8.7	19.0	22.4	27.9	31.4
<b>BALANCE SHEET (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Cash & Equivalents	73.6	62.6	72.0	79.2	82.4
Trade Debtors	32.7	52.6	57.8	60.7	65.6
Inventories	18.9	19.2	21.1	21.7	22.8
Other Current Assets	8.6	10.9	12.0	12.2	12.5
<b>Current Assets</b>	<b>168.0</b>	<b>185.4</b>	<b>205.8</b>	<b>217.7</b>	<b>227.9</b>
Fixed Assets	-	-	-	-	-
Other Non-Current Assets	8.1	8.6	9.1	9.5	9.9
<b>Non-Current Assets</b>	<b>23.3</b>	<b>45.5</b>	<b>31.8</b>	<b>34.5</b>	<b>37.9</b>
Short-term Debt	12.9	11.0	11.5	13.9	15.2
Trade Payables	17.5	26.6	27.9	31.0	34.1
Other Current Liabilities	1.4	0.7	0.8	0.9	0.9
<b>Current Liabilities</b>	<b>52.6</b>	<b>74.6</b>	<b>78.4</b>	<b>87.6</b>	<b>96.4</b>
Lease Liabilities	-	-	-	-	-
Other Non-Current Liabilities	1.1	1.8	1.9	2.0	2.1
<b>Non-current Liabilities</b>	<b>21.5</b>	<b>19.1</b>	<b>20.1</b>	<b>22.1</b>	<b>24.2</b>
Other Reserves	1.4	2.2	2.3	2.4	2.5
Share Capital	80.8	80.8	80.8	80.8	80.8
<b>Total Equity</b>	<b>118.7</b>	<b>137.9</b>	<b>139.1</b>	<b>142.0</b>	<b>145.1</b>
<b>CASH FLOW (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Net income	8.7	19.0	22.4	27.9	31.4
Depreciation & amortization	4.0	4.5	4.7	4.9	5.2
Other non-cash adjustments	0.9	2.6	2.8	2.9	3.1
Changes in non-cash capital	-7.5	-1.3	-1.3	-1.4	-1.5
<b>Cashflow from operations</b>	<b>4.2</b>	<b>19.5</b>	<b>22.9</b>	<b>28.4</b>	<b>32.0</b>
Disposal of fixed & intangible assets	1.8	3.1	3.3	3.5	3.6
Capital expenditure	-3.4	-28.1	-29.5	-31.0	-32.6
Other investing activities	18.5	-2.9	-3.1	-3.2	-3.4
<b>Cashflow from investing</b>	<b>16.9</b>	<b>-27.9</b>	<b>-29.3</b>	<b>-30.8</b>	<b>-32.3</b>
Dividends paid	-	-	-	-	-
Increase in long term borrowings	18.2	-	-	-	-
Decrease in long term borrowings	-1.3	-1.5	-1.6	-1.7	-1.7
Increase in Capital Stocks	-	-	-	-	-
Decrease in Capital Stocks	-	-	-	-	-
Other financing activities	-0.1	-1.4	-1.4	-1.5	-1.6
<b>Cashflow from financing</b>	<b>16.8</b>	<b>-2.9</b>	<b>-1.6</b>	<b>-1.7</b>	<b>-1.7</b>

Sources : Mercury Securities, Company

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